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The ‘living wage’ and low income: can adequate pay contribute to adequate family living standards?

Abstract

The success of the contemporary ‘living wage’ movement has been highlighted by the UK government’s decision to increase the statutory minimum wage for over-25s sharply, in the name of improving living standards. This breaks with neo-liberal reluctance to intervene in labour markets, yet raises difficult issues centring around whether minimum hourly pay rates are suited to promoting adequate household incomes. At worst, ‘living wages’ could distract from other policies with this objective. This article acknowledges recent critiques of the living wage as an anti-poverty measure, but demonstrates that in combination with other policies, wage floors can play a crucial role. It shows that low pay and inadequate working incomes overlap substantially. The article argues that governments promising that work will deliver adequate living standards need a clearer narrative in which pay, public transfers/subsidies and sufficient levels of employment combine to deliver minimum acceptable living standards for working families.

Key words

Living wage, Minimum incomes, Working poverty

'…from a low-wage, high-tax, high-welfare society to a higher-wage, lower-tax, lower-welfare economy' – George Osborne (2015), announcing 'national living wage' and cuts to tax credits.

The 2015 announcement by George Osborne of plans to raise minimum wages for over 25-year-olds by nearly 40% over five years marked a profound reversal in the policy stance of successive UK governments. For nearly half a century, policies to supplement wages in low-income households have been motivated largely by the desire to 'make work pay' while accepting limits to wage and earnings levels in a competitive economy. The decision to raise wages can at one level be seen as merely a political smokescreen for the simultaneous decision to cut tax credits, which had to be partially abandoned when it became clear that most low income working families would suffer severe net losses (Author 2015a; Grover 2016a). However, the willingness of a Conservative government to make such a significant intervention in labour markets in the name of improving living standards potentially opens up a new front in policies seeking to tackle economic disadvantage.

The background to this change has been a major revival in the notion of a living wage (Bennett, 2014) and the emergence of an argument that 'predistribution' should be employed alongside 'redistribution': that a better distribution of earnings can contribute significantly to tacking low income (Miliband, 2012). The potential role of wage floors in this process has drawn scepticism both from those who point out that low pay and low income only partially overlap (Bennett and Lister, 2010; Grover, 2016a) and by those arguing that truly effective predistribution would require much wider, structural changes, including in labour power in relation to capital, and the distribution of skills (Lansley, 2014, Kenworthy, 2013). However, this article argues that substantial rather than marginal increases in pay floors can at least make an important start in complementing redistributive measures addressing low income, which have struggled to be effective in a low-wage economy.

The article starts by putting this change in the context of the wider social policy discourse, in which governments have sought to make work pay while maintaining a broadly neoliberal approach to the labour market. It shows how the contradictions of this approach became particularly apparent once New Labour extended the 'welfare to work' objective to include systematic poverty reduction. The article then considers the re-emergence of the old concept of the living wage, which implies a link between pay and living standards, and considers the extent to which such a link is now valid. The next section considers how income transfers and higher wage floors could become complementary rather than competing features of public policy. It argues that a clearer political narrative about adequate family living standards could rest on improving both earned income and state support –in combination with other measures affecting disposable incomes and workers' rights. The article concludes that while the raising of pay floors cannot therefore be seen in isolation, it can make a useful contribution towards improving low working incomes.

Making work pay and tackling in-work poverty

New Labour aimed to 'transform the culture of our welfare system', mainly by bringing a much wider range of people into the workforce, and 'making work pay' (Blair, 2002). This approach, as part of the 'Third Way', sought to tackle the 'risk society' (Beck, 2000) with focus on opportunity and personal responsibility (Giddens, 2013), in particular by encouraging paid work.

In contrast to the original Beveridge post-war settlement promising enough work to provide full employment, governments since the 1970s have increasingly emphasised improving the 'supply side' of the labour market, whether through schemes that help groups into work (from the Youth Opportunities Programme to New Deals and the Work Programme) or through wage subsidies that make it worth taking jobs (from Family Income Supplement (FIS) to tax credits and Universal Credit). This approach has been driven partly by the breakdown of the male full-time provider model assumed by Beveridge, and the perceived need to bring new groups into the labour market. It also represents a neo-liberal approach to a changing labour market (Grover, 2016b, 205-6), promoting labour competitiveness by enabling workers to accept relatively low paid jobs and/or to be flexible in their working hours, For example in the 1980s, the Thatcher government's desire to encourage jobs growth in the low-paid service-sector, while still maintaining work incentives, posed a challenge that eventually contributed to the introduction of Family Credit (Grover, 2016b: 110-121).

While New Labour's 1999 introduction of the National Minimum Wage (NMW) represented a modest intervention in the labour market itself, the Low Pay Commission was designed to keep the NMW at an extremely cautious level (Bain Review, 2014, p.40). Moreover, Gordon Brown made it clear that tax credits were playing a major part in substituting for adequate wages. In Budget speeches, he suggested that the effective minimum hourly rate included not just wages but tax credits. For example, he stated in the 2002 Budget:

> *'Building on the increase in the minimum wage [to £4.20 an hour] from October, working families with children will now have a guaranteed minimum income of £237 a week, more than £6 an hour for a 35-hour week—£97 more than income support'* HC Deb 17 April 2002 vol. 383 Col 585

The pervasive narrative of in-work support has been of 'making work pay', i.e. ensuring that families are better off in work than on benefits. A second narrative, tackling in-work poverty, has waned and waxed. The original introduction of FIS was stimulated partly by concerns in the late 1960s that families on the lowest wages could not escape poverty helped by universal benefits alone, but its scope was too limited to remedy this (Grover 2016b: 88, 106). While New Labour retained a 'welfare to work' approach, Tony Blair's 1999 pledge to end child poverty was followed by an important structural change when new tax credits were introduced in 2003. For the first time a major means-tested benefit, the Child Tax Credit, was paid at the same rate for working and non-working households. Brown's focus on increasing the child element of CTC in successive budgets reflected a shift in emphasis from work incentives to living standards, since any increase its rate did not alter the gap between working and non-working entitlements for most families.

The New Labour government made significant inroads in reducing child poverty from 3.4 million in 1998/99 to 2.3 million in 2010/11, but in the same period the number in poverty who had at least one parent in work fell only from 1.6 to 1.4 million on the official "before housing cost" measure, and remained unchanged at 2.1 million on an after housing cost measure (author calculations based on DWP, 2017, Tables 4.1ts and 4.14ts). Projections during this period clearly showed that even with more parents entering work, progress in reducing child poverty would become increasingly and prohibitively expensive without an improvement in parental earnings (Author, 2006).

From 2010 onwards, this lesson has been made more salient both by fiscal austerity and by economic stagnation. On the one hand, while the Universal Credit (UC) reform started off from a broadly neutral fiscal stance, in-work benefits under both the tax credit and UC regimes have been the target of repeated cuts (Grover, 2016a). On the other, the fall and stagnation of family living standards has become established as a significant political issue, originally introduced by Labour but now also taken up by the Conservatives – as underlined by Theresa May's (2016) acknowledgement that many working families are only 'just managing', and not thriving. The acknowledgement that this group needs to do better, combined with ongoing cuts in the value of in-work benefits, help explain why the National Living Wage (NLW) projects a form of 'predistribution' without using that term. The neo-liberal stance that caused the Conservatives to oppose any minimum wage until 2001 has softened partly because it has become clear from research that the predicted jobs losses caused by minimum wages in the United Kingdom and the United States have not materialised, although there is some evidence of selected effects on prices and profits, bringing modest redistribution between groups (Authors 2017: 49-76).

In terms of Lansley and Reed's (2013: 43-45) classification of weaker and stronger categories of predistribution, the NLW can at the very least be considered to be of medium strength. They point out (pp 43-45) that small increases in the minimum wage, affecting about a million workers, do little to address the wider issue of low pay, relative to more fundamental changes such as reduced unemployment and improving collective bargaining. Their scenario for applying the voluntary living wage to half the population paid below it had a larger, but still modest effect on low pay, affecting about 2.5 million workers. The NLW is projected to affect three million jobs directly and a further three million benefiting from a 'ripple effect' by 2020 (Low Pay Commission, 2016: 65). While any new 'bunching' of wages at or close to the new NLW would limit the effect on low pay, even in its first year the Low Pay Commission (2016) detected significant ripple effects up to the 25th percentile of hourly earnings. This suggests that the policy has the potential to have a transformative, not just a marginal impact on Britain's low pay culture.

Living wages and the link between pay and living standards

The concept of a 'living wage' assumes in its very language a linkage between the hourly pay rate of a worker and the living standard attained by a worker or by his or her household. The term emerged over a century ago, when it was associated largely with the idea of a working man earning enough to support his family (Authors, 2017). However today, hourly pay is a relatively weak guide to the adequacy of household income (Cooke and Lawton, 2008). The wages of others in the household, along with household working hours, household size and the support received from the state can each be at least as important (Millar and Gardiner, 2004). Considering low pay mainly through a poverty lens risks distracting from a critique of low pay as representing an unfair distribution of reward to different categories of workers (Bennett and Lister, 2010), or from other measures needed to address low income, including the quantity and stability of work in a household and the contribution made by non-pay transfers such as family benefits (Grover, 2005; Weldon and Targ, 2004). Self-evidently, reduced emphasis on these benefits will particularly damage non-working families who gain nothing from higher wages.

It is, however, hard to dismiss living wages as a potential tool in combating inequalities. At a time when other forces such as globalisation and the decline in union power have helped weaken the protection of workers against low pay (Brown et al. 2008), movements for a living wage have gained significant ground (Authors, 2017). In the United States, living wage ordinances have enforced pay floors among public contractors in over 100 cities, while the two largest states are implementing a $15 minimum wage, over twice the federal rate. In the United Kingdom, over 3,000 employers have gained accreditation for adopting a voluntary Living Wage (Living Wage Foundation, n.d.).

The remainder of this section considers in turn the positioning of the living wage in relation to living standards, the extent to which low pay and low income do overlap, the potential disadvantage of seeking to address low income by addressing low pay and conversely the risks in seeking to tackle low income with no reference to pay floors.

The positioning of living wages in relation to living standards

On the one hand, the prominence and successes of living wage movements can be seen as being largely detached from their ability to raise living standards. A ‘living wage’ is a powerful slogan in times of anger against the inequalities generated by capitalism – regardless of whether it is really capable of bringing its recipients out of poverty. Metcalf (2007:50) concludes that ‘essentially … the living wage is best viewed as a rallying cry to boost the pay of those towards the bottom of the wage league table’. In this respect, the statutory NLW, whose level is not based on any calculation of living costs or household income effects, can be seen as being only rhetorically linked to the task of tackling low income.

On the other hand, it is important to acknowledge the extent to which the power of the rallying cry derives from wages being seen as low relative to living standards, as defined by contemporary norms. The systematic development of a UK-wide accredited living wage from 2011 (Authors, 2011) drew on research on the Minimum Income Standard (MIS), a benchmark based on budget standards research in which members of the public identify what different types of household require in order to meet essential needs and participate in society (Bradshaw et al. 2008; Davis et al. 2016). A key finding has been that even a single person working full time on the NMW cannot reach a socially defined minimum acceptable standard of living (Author, 2015a 21-22). This finding can be interpreted in terms of low-paid workers’ living standards having fallen behind social expectations, as a result of their limited gains from long-term growth. Lansley (2014:3) links growing inequality of income before tax and benefits with a near-doubling of low pay over thirty years, as the bottom half of earners bear the brunt of a decline in the wage share of income. One broad objective of a living wage can be to set a pay standard designed to keep pace with changing social expectations and living costs.

This can never be a precise process. The UK calculation today uses an average of wage requirements for a range of household types, weighted by their representation in the population (Authors, 2011, D'Arcy and Kelly, 2016). It assumes full-time work by adult members of the household, even though household working patterns now vary greatly with no single model prevailing – on the basis that an hourly wage rate should at least have the *potential* for supporting a household at an adequate level. As a consequence, a living wage cannot ensure that each of its recipients will achieve a minimum acceptable living standard. Rather, it is a single hourly rate referenced on the average full-time wage that households of different sizes would need to reach this level. It takes account of in-work benefits and tax credits, meaning that if governments raise or lower support for working households, this will be reflected in a lower or higher living wage required to reach a given standard.

The ability of a living wage to contribute meaningfully to reducing low income depends crucially on the extent to which low pay and low household income overlap. A priori, if all low paid workers were in comfortable or affluent households (for example because they had high-earning partners), there would be little connection between low pay and low living standards, although insofar as income flows are not always pooled within households (Goode et al. 1998), low pay could still have consequences for the living standards of individuals. Conversely, as long as some households depend wholly or mainly on the pay of people on low wages, the level of these wages will affect whether households' incomes are adequate.

The overlap between low pay and low income

Relatively few workers on relatively low wages are in households below the relative poverty line (below 60 per cent of median wages and incomes respectively): Cooke and Lawton (2008) estimated that this was true of seven per cent of low-paid UK workers. Nevertheless, low-paid workers' incomes skew strongly towards the bottom end of the distribution. Brewer et al. (2009:20-29) showed that while few workers receiving the NMW were in households in income decile group 1 (which is dominated by non-working households), over six in ten were in the bottom four decile groups, with the greatest number in decile group 3. Moreover, nearly half of those on the NMW were in the bottom 20 per cent of *working* households by income and nearly three quarters in the bottom 40 per cent.

Accurate and up-to-date mapping of the low pay/low income overlap is elusive, because of the difficulty in identifying individual hourly wage rates within income surveys. However, Figure 1, calculated from the Family Resources Survey, illustrates the shape of this overlap by using the earnings of full-time workers as a proxy for hourly wages (something that is not possible for part-timers because their working hours are not reported). The first graph shows that full-time workers on low pay are slightly more likely to be found around the middle than near the bottom of the income distribution – since the half of working-age adults who do not work full time, regardless of wage rates, are unsurprisingly four times as likely to be in the bottom income quintile than full-time workers. Nevertheless, those full-time workers who do fall into the bottom quintile are almost all low paid. One would expect the distribution among part-time workers on low pay to be more skewed towards the bottom, making these findings compatible with Brewer's evidence that low-paid workers are most commonly found in income decile group 3. The second graph shows among the fifth of full-time workers with the lowest incomes, nearly two thirds are low paid.

Insert Figure 1a here

Insert Figure 1b here

Different groups of low-paid workers face considerably different risks of low household income. The six in ten NMW families for whom the NMW is the most important single source of earnings are concentrated in decile groups two to four, whereas those for whom the NMW is paid only for a second job or secondary earner are concentrated in decile groups four to six (Brewer et al. 2009:28-29). As a consequence, single people and lone parents, who do not have partners contributing to household income, are particularly likely to have low incomes if on the NMW: for both these groups nearly six in ten are in the bottom 30 per cent of the population by household income.

In sum, three conclusions can be drawn from this evidence. First, while most people near the bottom of the wage distribution are not very near the bottom of the income distribution, most are in its bottom half, and most commonly are just above the poverty line, between the 20th and 30th percentile. This still puts them at high risk of being in the roughly one household in four that does not achieve a minimum acceptable standard of living as measured by the Minimum Income Standard (Authors, 2016). Second, this also puts them close to the bottom of the income distribution of working households. And third, low income is a particular risk for some groups of low-paid workers, most clearly those with only one adult in the family. Thus, policies aiming to enhance the income of low paid workers, through wages or otherwise, will most commonly reach households that despite having someone in work remain well below average income.

Problems with using low pay to address low income

While the above evidence shows that low pay and low income do overlap significantly, scholars have identified a number of risks that arise from using low pay as an anti-poverty measure, as is implied by the term 'living wage'.

The first, incontrovertible risk is that it could offer a false solution by treating low pay and low income as though they were the same phenomenon (Bennett, 2012). If a 'living wage' becomes the sole or principal means of tackling poverty, it will fail because it cannot do so on its own. Most particularly, a wage level that does not distinguish between the circumstances of different households cannot substitute for benefits that are sensitive to characteristics such as the number of children in a family or (in the case of means-tested support) in terms of the family's overall financial means. In the United Kingdom, for example, a couple with two children, where both parents work full time and therefore require childcare, would in 2016 each need to earn nearly £13 an hour to reach a minimum acceptable standard of living, measured by the Minimum Income Standard (author calculation based on

Davis et al. 2016). This was around £1 an hour above the median wage for all workers (ONS, 2015, Table 1).

This risk of a 'false solution' was brought into sharp focus by George Osborne's (2015) mantra of 'higher wage, lower tax, lower welfare', referred to at the start of this article. Following projections that Osborne's proposed cuts to in-work benefits combined with a higher minimum wage would cause net losses for low income families (Author, 2015b; Elming et al. 2015), some but not all of the cuts were abandoned (Grover, 2016a). This episode was the result not just of clumsy political arithmetic, but of the impossibility of adequately compensating substantial cuts in family benefits with a higher wage floor – both because many families receiving such benefits do not have hourly wages low enough to be affected, and because those low-income families who do have low-paid members make only modest income gains when pay increases, because of the sharp claw-back of means-tested benefits. Better pay may complement in-work transfer income, but is unlikely to compensate cuts in its generosity.

A second criticism of representing wages as a means of addressing low income is that it may make unhelpful assumptions about family working patterns, for example by assuming that one wage should be adequate to support a couple and their family, potentially projecting a women's pay as supplementary (TURU 1981, Grover, 2005). In fact, the opposite is the case in the present UK Living Wage calculations (Authors, 2011; D'Arcy and Kelly, 2016): they assume that both members of the couple work full time; yet this could create a different risk in not providing adequately for families choosing non-full-time hours to help balance work and family responsibilities. Hence no one assumption about working patterns can accurately represent families and the varied choices they take about paid work. As argued below, however, this does not prevent policy from seeking to use wages as part of a strategy to make certain choices possible.

A third strand of criticism is that representing a living wage as a fair level of pay because of its ability to address low income undermines other arguments for fair pay based on valuing workers fairly for the job that they do. A living wage perspective 'does not place inadequate wage levels in the context of the unequal structure of labour market rewards and the persistent under-valuation of certain forms of paid (and unpaid) work' (Bennett and Lister, 2010:16). A particular concern from a feminist perspective is that despite fair pay legislation, work associated with female labour is systematically undervalued – including in particular for jobs associated with social care.

Some opponents of a generalised wage floor have in the past feared that a statutory minimum will become a norm or a ceiling as well as a floor for many workers (Coats, 2007:16). More recently, trade unions and other campaigners against low pay have come round to the idea of a single national floor (Coats, 2007), influenced perhaps by the fact that 96% of adult workers were paid more than the NMW in 2015 - although this percentage is projected to fall with the higher NLW (Low Pay Commission, 2016). A clear dilemma for those who fear that a single wage floor may distract from more fundamental, structural arguments about the distribution of pay rewards is that however imperfect in its justification as an anti-poverty measure, the concept of a living wage as a fair wage has enjoyed more obvious success in raising low pay than wider arguments about fair pay in recent years (although laws securing equal pay for men and women have had an obvious impact).

The risk of addressing low working incomes separately from pay floors

Wages have become more unequally distributed in recent years, influenced by a weakening of collective bargaining, associated in part with the decline of manufacturing employment but also with more competitive product markets (Brown et al. 2008). For example, the ratio of the 90th to the 10th percentile of earnings has grown sharply since the 1970s in the United States (from about 3.5 to 4.8) and the United Kingdom (from 2.8 to 3.7) (Author calculations from ONS 2014, Figure 8; Bivens, 2014, Table 1). Pay inequality has combined with a diversification in working patterns – with more families having two full-time workers, and more having no workers or only a part-time worker (Cribb, 2013) – to contribute to a long-term growth in relative poverty, particularly among families with children.

As discussed earlier in this article, successive governments since the 1970s have broadly responded to the consequent inequalities by encouraging people to work and by topping up low working incomes, rather than by addressing pay or earnings levels. One obvious risk of such an approach is that it further entrenches low pay or low earnings, by allowing firms to hire at low wages or disincentivising additional hours of work. There is evidence that modern tax credits have in some cases depressed wages (e.g. Azmat, 2015; Gregg and Harkness, 2003), although the extent to which they have done so is hard to establish (Paul, 2016). What is much clearer is that the growing fiscal burden resulting from means-tested wage top-ups being relied on by an increasing number of households in place of earned incomes has eventually been perceived as unsustainable, and that support levels have been cut as a consequence, leaving working families poorer (Grover 2016a).

The existence of a minimum wage during this period has prevented employers from exploiting tax credits by paying wages close to zero, but its low level has contributed to the dependence on means-tested top-ups. Cooke and Lawton (2008:44) found that even among low paid single people without children in the UK, only a minority (45 per cent) were able to escape poverty through their pay alone. For lone parents it was just nine per cent. At a time of public austerity, even marginal reductions in this dependence through improved pay rates can produce better outcomes at a given fiscal cost. For example, where a worker in a low income household gets a pay increase, the consequent reduction in means-tested support through tax credits can either reduce public spending or allow tax credit rates to be increased without increasing spending. For this reason alone, the affordability of measures to improve working incomes cannot be divorced from pay policy.

Combining pay floors and top-ups: a new narrative

The debate about the respective roles of pay floors and income transfers in addressing low household income risks becoming highly polarised. Living wage advocates sometimes make their case not just by arguing for a fair rate of pay but also by claiming that low pay is costing taxpayers billions of pounds in tax-credit top-ups (e.g. Cox, 2015). This risks implying that wages could or should be set at a level that makes such top-ups unnecessary. As shown above, this is an unrealistic prospect for many families. Those arguing on the contrary that it is right to use public transfers rather than pay to address working poverty include not just those whose priority is an adequate family income (e.g. Weldon and Targ, 2004) but also right-of-centre commentators who condemn interference in a free labour market (e.g. Bourne, 2015). Yet it is hard to argue for in-work benefits that pay no heed at all to wage levels – implying that no wage floor is needed, potentially allowing employers to pay close to nothing and allow the state to provide most of working families' incomes.

A more balanced approach is to continue to use tax credits, and the Universal Credit which is replacing them, to support families on low income, but in explicit combination with improved wages. This would involve constructing a clearer public narrative around what it means to 'make work pay', drawing on both wage and transfer income to improve working incomes.

A first requirement is to clarify as an objective what basic living standard policy should be helping working families to attain. In emphasising work as the principal solution to low income, politicians have repeatedly projected the promise that work will be rewarded with an acceptable standard of living. Theresa May's (2016) reference to helping working families who are only 'just about managing' suggests that this should go beyond meeting the most basic material needs, with the expectation that work should yield some reasonable living standard. The consensual Minimum Income Standard for the United Kingdom is arguably a more appropriate benchmark than a poverty line, representing a consensually researched minimum according to the following definition:

> *'A minimum standard of living in the UK today includes, but is more than just, food, clothes and shelter. It is about having what you need in order to have the opportunities and choices necessary to participate in society.'* (Davis et al. 2016)

The combination of wage levels and in-work support allowing households to meet such a standard depends on multiple characteristics particular to each household, including its composition and the number of hours per week that its members work. It also depends on some costs that vary across households, even of the same composition, notably the local cost of an acceptable level of accommodation and the cost to each family of the childcare required to allow parents to work. Nevertheless, a narrative about how work on a 'living wage' has the capacity to help people reach an acceptable living standard can usefully start by considering whether it can at least do so under relatively favourable conditions.

A first test is whether a living wage is adequate at least to ensure that a single person working full time has enough to live on, at a minimum standard. Figure 2 shows that in the United Kingdom, this condition has not been met by the NMW in the past, and indeed that the shortfall has grown over time; but that future projections, under the NLW, suggest that wages could move close to being adequate in these terms by the end of this decade, for workers over 25. Were this to occur, it would mark a significant development in wages policy, moving to a statutory minimum that for the first time is not systematically too low for a worker to make ends meet.

Insert Figure 2 here

Moving from a single person case to a family, the interaction between wages and tax credits comes into play. Considering first of all the case of families where parents work full time, it is possible to regard state support as an ‘equivaliser’: topping up working incomes to ensure that a family with children can make ends meet on approximately the same wage rate as a single person. To a large degree, the tax credit system at its most generous, around the end of the last decade, achieved this (at least for families with up to two children) (Author, 2013). The hourly wage required by a couple with two children, both working full time, to reach the Minimum Income Standard was £7.14, only 5p higher than the £7.09 needed by a single person. By 2015, this gap had widened greatly to £1.47. For a lone parent with a young child, the gap widened to an even greater degree (Davis et al. 2016: 27). The growing cost of childcare, a decline in support for childcare through tax credits and a reduction in the real level of tax credits and Child Benefit all contributed to this result. A potential policy objective is to restore a greater degree of equivalisation: to give more effective subsidies to families that help create an acceptable living standard at a similar wage as is the case for single people.

It is important to note that actual wage levels have an important effect on the cost of such a policy. In recent years, despite real-terms cuts in entitlement levels, the cost of working tax credits has risen substantially, because of falling real wages, which increase entitlement to means-tested top-ups. Conversely, the plan to increase the NLW steeply up to 2020 will save money, and in principle make higher entitlements more affordable. Lawton and Pennycook (2013:5) estimated that if all employers paid the accredited living wage in full, £3.6 billion of the additional £6.5 billion wage bill would be realised by the Treasury in lower tax credits.

Thus, a higher minimum wage makes it feasible for the tax credit system and it successor, Universal Credit, to become better at enabling working parents to reach similar living standards as working single people, particularly in a scenario where both parents work full time. A tougher issue, however, concerns low-income working families where at least one parent does not work full time. This is the situation for two thirds of all children with at least one employed parent (Department for Work and Pensions, 2017: Table 4.3db). One view might be that since working less than full time contributes to the risk of low family income, the solution should be to enable and encourage full time work. However, this potentially conflicts with parents’ choices about balancing time spent earning and time spent raising children. An important part of social discourse is therefore, when governments promise to reward ‘hard working families; what length hours it is reasonable to expect them to work in order to attain an acceptable living standard. In its anti-poverty strategy, Joseph Rowntree Foundation (2016: 185) proposes an answer, supported by its research on social attitudes: families with children headed both by lone parents and by couples should be able to have one parent who works half rather than full time when children are young, without having to live in poverty as a consequence. Achieving this would require a balanced policy including adequate wages, in-work benefits and measures to make childcare more affordable to low income families.

On present plans, under Universal Credit and the NLW, some groups will be brought closer to reaching a minimum income standard through work, while others will get further away. Author (2015b: 17-20) showed that the changes are most favourable for couples working full time: a couple with two children in this situation, earning the minimum, was projected to fall only £37 a week short of the standard (even after paying for full-time childcare) by 2020, down from £70 in 2015. Where one partner works full time and the other half time, the trend is more neutral, with the shortfall rising from £84 to £89 a week. For lone parents, on the other hand, planned cuts are projected to cause a deterioration, with the shortfall rising from £62 to £86 a week for someone working full time who has one child requiring childcare. Lone parents inevitably come out worse than dual-earner couples when cuts in family benefits are offset by higher hourly pay, because of the fewer working hours in a lone-parent household. Since the vast majority of lone parents are female, such a policy harms women more than men overall.

Thus, current UK policy on wages and income transfers is moving towards income adequacy for families in the most favourable working circumstances – with two parents, both working full time - but not for the majority who are not in this situation. A more balanced policy would seek to improve the living standards of the majority of families where someone does not work full time, seeking as a minimum to ensure that couple parents who work full and half time, and lone parents who work half time (the working requirements identified by Joseph Rowntree Foundation, referred to above) could reach the Minimum Income Standard.

Figure 3 illustrates this with the couple parent example. It shows how disposable income can be affected by a combination of higher and low wages, combined with higher or lower state support. The wage rates contrast those before and after the increases projected in 2015; the rates of state support contrast the cuts announced in 2015 with a full cancellation of those cuts and the implementation of announced plans for more generous help with childcare. Given that the family shown requires disposable income, net of rent, childcare and taxes, of around £430 a week, the highest shortfall of £72 leaves them about 17% short of what they need. Note that in the final, most favourable scenario in this graph, the family's income shortfall is less than a third as high as in the first, least favourable scenario, yet the public subsidy, through Universal Credit and free childcare, is no higher. This illustrates the importance that a higher wage floor can play, in making public policies to address low incomes more affordable.

Insert Figure 3 here

The above type of calculation can be important in providing an account of how the combination of pay and in-work support has the *potential* to help working families attain acceptable living standards. However, to achieve this goal in practice other conditions will need to be met – notably, that families find stable work for a sufficient number of hours, and that housing and childcare costs are kept affordable.

The rise of the 'gig' economy, the growth of zero hours contracts and the growing precarity of work for many people on low incomes mean that a greater willingness to intervene in labour markets has limited effects if it addresses only hourly wage rates and not the conditions under which people are hired, as well as worker rights more broadly. Specific ideas around regulating the gig economy have been centred on achieving standard employment protection and labour rights for its workers (de

Stefano, 2016). This is part of a wider agenda around tackling work precarity, for which policy solutions remain in their infancy (Kalleberg, 2009). Moreover, the issue of pay, on which this article has focused, must be seen alongside other issues such as work intensification that affect workers' standard of life.

Even a combination of sufficient working hours at a given pay rate supported by public transfers will fail to generate an adequate living standard if a housing and childcare costs are high, reducing disposable family income. Calculations of the living wage assume access to affordable housing (D'Arcy and Kelly, 2016; Authors, 2011), and without it, wage requirements would be far higher. Conversely, if childcare were provided free or at much lower cost, current policies combined with the NLW would get families much closer to reaching adequate living standards (Davis et al. 2016: 34-35).

Conclusion

This article has noted the limitations and risks of making a 'Living Wage' a central part of policy to secure adequate household income. It has argued, however, that as long as it is recognised as being only one instrument in the policy toolkit, it can play a constructive role. More than this, the article has suggested that a new discourse is needed that more directly considers the interaction of pay floors with other policies to improve the incomes of working families. It is only in the context of such a discourse that a narrative of how public policy can create adequate incomes for working families can be made coherent.

The introduction of the NLW in the United Kingdom is important in reversing the neo-liberal reluctance to intervene in labour markets for social purposes, at least in terms of hourly pay. However, the linking of higher wages with a 'lower welfare society' (Osborne, 2015) suggests the linking of this policy with declining social protection, thus increasing the degree to which risks are shifted onto individuals, making them responsible for their own welfare. Other policies such as the limiting of means-tested support to allow for a maximum of two children for those born after April 2017 further emphasise the 'personal responsibility' theme. Yet this article has shown that higher hourly wages will not be adequate to compensate working families for cuts in means-tested support, nor to overcome the consequences of precarious employment. The alternative is to combine a strong commitment to maintaining adequate means-tested support for working incomes with the adoption of greater intervention to promote adequate earnings – if possible extending from pay regulation to measures that reduce precarity.

Considering transfer policies and wages in tandem inevitably makes the living wage a slippery concept. It would be possible, on any given wage level, to develop transfer policies to ensure that overall income is adequate. However, the higher the wage floor, the more likely it is that such a policy is affordable. This opens up a new discourse about how opportunities to earn can be improved, without undermining the benefits of such policies by withdrawing social protection against low family income.

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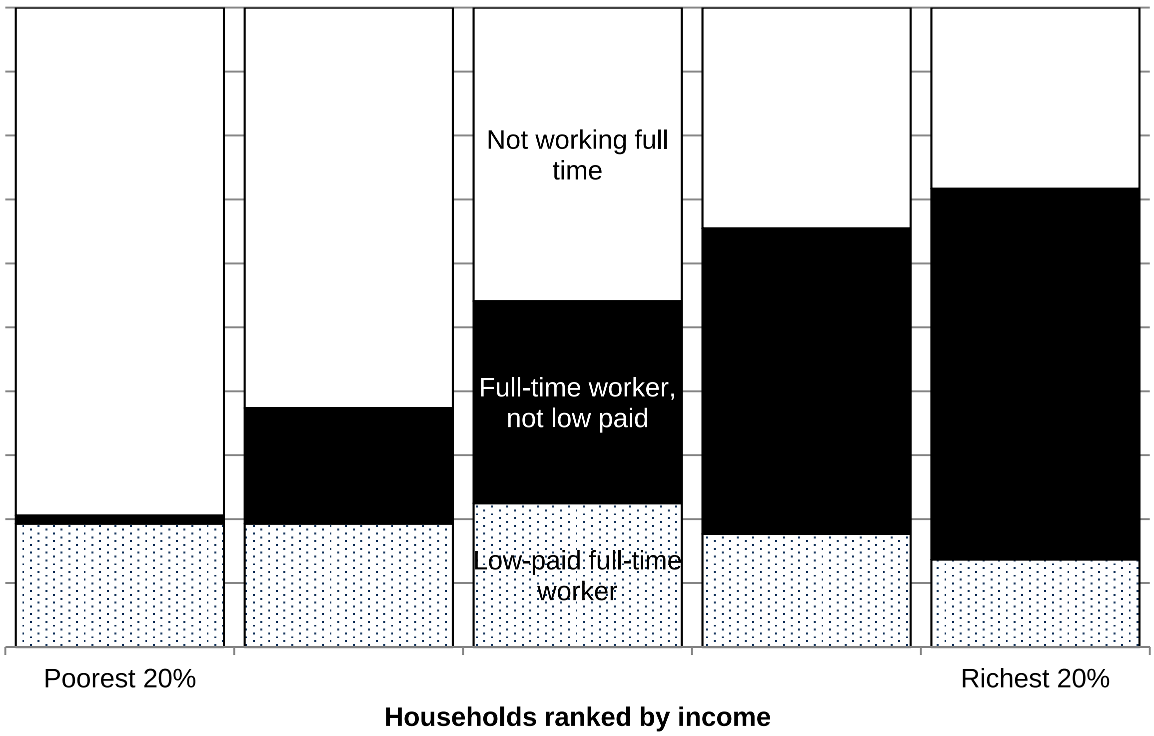
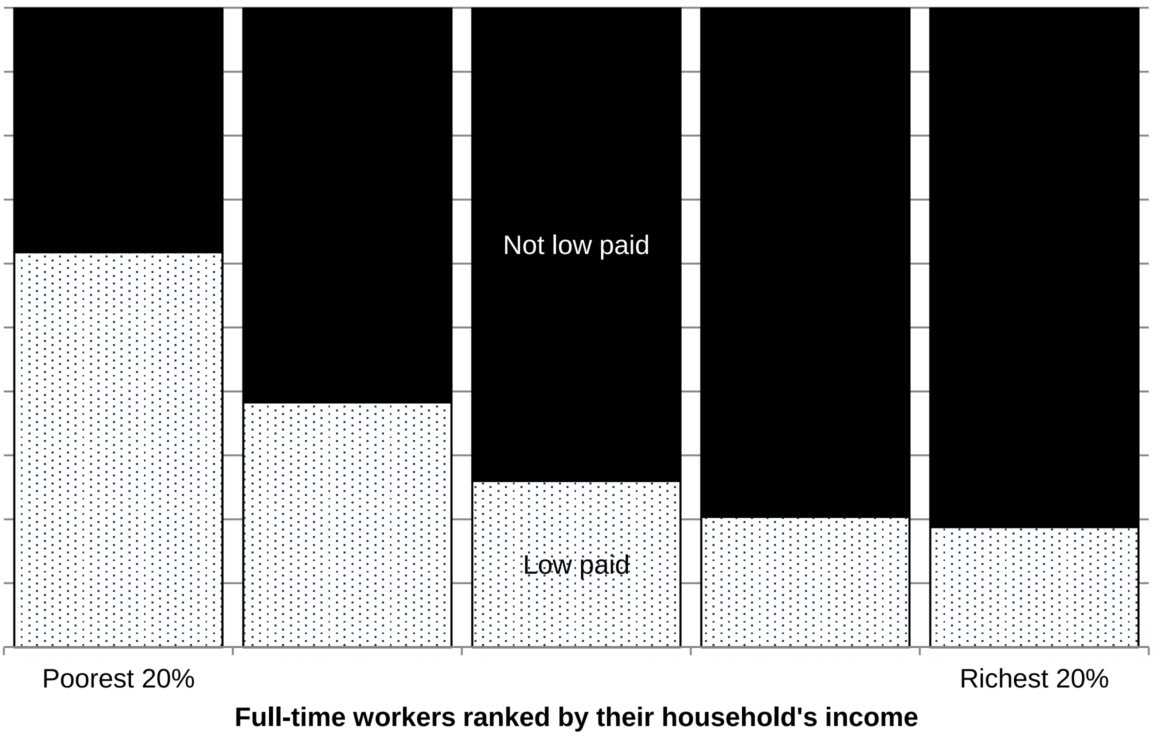
Figure 1 Household income status of individuals by work and pay status, 2014/15

a) All working age adults, relative income distribution across households



b) Only full-time workers



Note: Low paid = below 2/3 median earnings. Source: Author calculations from Family Resources Survey

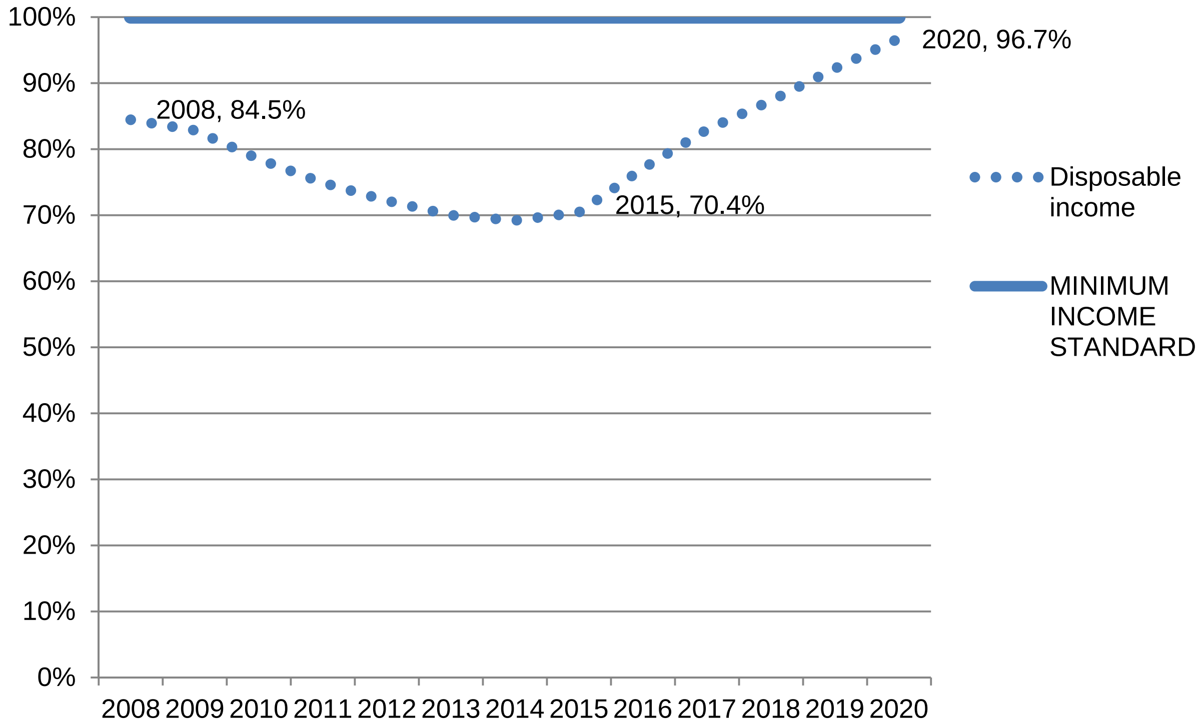
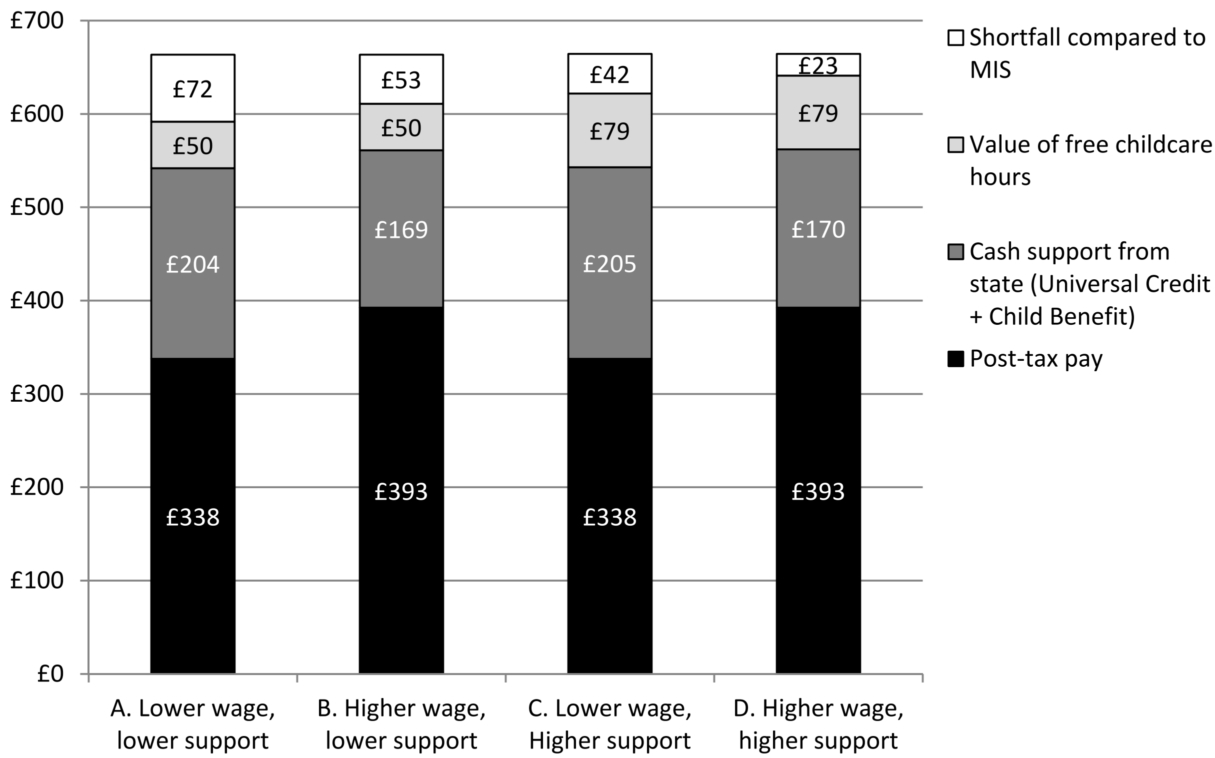


Figure 2 Disposable income for single person over 25 on statutory minimum wage, as a percentage of Minimum Income Standard requirement. Actual 2008-2016; projected 2017-2020.

Sources: Author 2015a: 22; Author, 2015b: 10; author calculations.

Figure 3 Income relative to Minimum Income Standard under different scenarios, 2016
Couple with two children, aged 3 and 7. One parent works full time, one works part time. Assumptions: see note



Notes: Author calculations, based on Davis (2016) and background MIS data

Assumptions: Wage scenarios use minimum wage without NLW supplement (lower) and £9 NLW target deflated by projected CPI to 2016 (higher). Support scenarios, under Universal Credit system, based on least favourable policies from 2015-2020 for lower (including cuts in Work Allowance and first child premium to UC). Higher scenario does not apply these cuts, and includes higher (85%) rate for UC and 30 hours free childcare. Reduction in childcare costs due to free hours for 3 year old is shown as 'value of free childcare hours'.