PERSONNEL TODAY

How will the cost of living crisis impact the ‘real’ Living Wage?

By Adam McCulloch

August 26, 2022

With the cost of living crisis set to worsen amid fast rising energy prices, many are predicting that employers will face difficult choices in the months ahead, as they prioritise surviving over prospering.

With a rise in the “real” Living Wage due on 22 September, will companies feel unable to implement rises as they come to terms with mounting costs? The national living wage, meanwhile, is not due to increase from its current £9.50 per hour until April 2023 when, based on forecasts published by the Low Pay Commission way back in March, it is expected to rise to around £10.32.

The real Living Wage is currently £9.90 in the UK and £11.05 in London. As the Bank of England has forecast that inflation could reach 13.3% this autumn, the new rates when they are announced could be as high as £11.20 outside the capital, possibly reaching £12.50 within it.

Given that lower paid workers will see a larger proportion of their earnings swallowed up by fuel and food costs, the cost of living analysis used by the Resolution Foundation to determine the new rate, may well translate to even higher inflationary pressures. Understandably the Living Wage Foundation would not comment on its upcoming announcement.

The new Ofgem price cap means consumers will need to plan for an 80% rise in energy bills from October – with an average family paying about £300 a month. This will inevitably focus employees’ minds on earnings, but organisations will inevitably be under pressure to keep pay rises to a minimum. The government has not as yet announced any plans to help businesses or consumers.

Charles Cotton, senior reward and performance adviser at the CIPD, urged companies to continue to pay the real Living Wage despite the dire economic outlook: “The increase in the living wage comes at a time when many employers are also struggling with increased costs. However, there can be benefits from paying the living wage. Not only can it benefit employees, such as improving their financial wellbeing, it can also result in benefits for the business, such as improved brand reputation, reduced employee turnover, or higher staff commitment.

“However, in the long-term, the only way to increase pay sustainably is to improve employee productivity, such as through job or work redesign, or investment in training and development.”

Minimum wage
[TUC aims at £15 minimum wage target]

[Six findings from the national living wage review]

[‘Real’ living wage announcement to be brought forward]

Andrew Harrop, general secretary of left-leaning think tank the Fabian Society, agreed that the only way was to go forward with pay rises: “The real Living Wage is designed to reflect the cost of a basic but acceptable standard of living so this year we can expect it to rise significantly in line with food and energy prices.

“Large businesses and public bodies who are members of the scheme will need to raise wages for their low-paid employees but also increase what they pay contractors so the new Living Wage can be adopted by their suppliers.”

Harrop concedes that SMEs will face difficulties, however: “Some accredited small employers may struggle to pay the new rate immediately. But they should stick with the scheme and remember that there is a breathing space after the new living wage rate is announced, with rises not required until May next year.”

What is unspoken in these comments, however, is the possibility that some companies will simply fold, rather than attempt to pay higher rates. Companies could be faced with having to completely restructure their operations and salaries at a time when recruitment is slow and productivity uncertain. Many will surely take the option of ceasing to operate and go into liquidation.

Many of a libertarian and Conservative persuasion have often argued against “wage controls” and have dusted down and rehashed some of the arguments from the late 1990s when the advent of Labour’s national minimum wage was predicted to lead to the decimation of the UK’s economic prospects.

Forcing companies to pretend this isn’t happening and to keep real pay unchanged, above market levels, is a surefire route to mass layoffs or firms going under” – Ryan Bourne, Cato Institute (writing in The Times)

Ryan Bourne of US libertarian think tank the Cato Institute [points out in The Times this week] that energy price rises means workers become less productive and production more expensive. This, he says “makes cuts in real pay inevitable”.

He adds: “Forcing companies to pretend this isn’t happening and to keep real pay unchanged, above market levels, is a surefire route to mass layoffs or firms going under.”

But what of the employees? Are they expected to face enormous energy and food bills without any assistance, and accept their lot without complaint? Bourne surprisingly calls for state intervention, an unusual position for a libertarian small-government mindset. He says: “This is not to deny the real pain that workers will feel. The energy shock will require substantial government relief to many households. Average real weekly earnings have been stagnating since early 2008.

“Clearly, though, minimum wage rises are no route to salvation. The wage floor has risen in real terms from about £8 an hour in 2010 to £9.50 this year, a 19% increase. It’s the mere 7% rise in productivity over those 12 years that’s really done for the average worker.”

Bourne argues that sustainable ways to improve most workers' financial lot are limited to faster productivity growth.

But achieving higher productivity is a complex and elusive goal; a never-ending battle for the UK in particular and so is hardly likely to resolve the country's current problems.

For Ben Harrison, director of the Work Foundation at Lancaster University, the real Living Wage does not play a central role in the crisis as most of the employers that pay it are generally profitable or are well funded and can afford increases.

He believes, unlike Bourne, that it needs to rise: "As cost of living pressures intensify, it is vital for those on the lowest incomes that the real Living Wage is increased. But we will also need to see additional measures from the new Prime Minister to support those in low paid and insecure jobs afford soaring energy bills."

Crucially, "Employers too will need support – especially small and medium sized enterprises who stand to see their energy costs go up, and may see revenue drop as all of us reduce our spending to make ends meet."

The new Prime Minister must grasp the severity of this situation and bring forward an Emergency Budget" – Ben Harrison, Work Foundation, Lancaster University

Harrison believes the missing Employment Bill would have played a major role in protecting employees and employers. He says: "Over the longer term, it isn't just about seeing increases in the real Living Wage, but also that key employment rights are strengthened and enforced. A new Employment Bill is needed if we are to properly tackle low pay and worker insecurity."

He also points to the fact there has been a 3% fall in real wages and rejects the argument that productivity can provide a short-term answer: "During the Conservative leadership election, much has been made of the idea that people in this situation need to work harder. But the reality is those in low paid, insecure jobs are often working all of the hours they can and have few options to reduce their spending without cutting back on basic necessities like food and heating."

Agreeing with stated Labour Party policy, Harrison adds: "The new Prime Minister must grasp the severity of this situation and bring forward an Emergency Budget to give workers across the country support as we head for a living standards crisis that without intervention, will only get worse."

Whether or not emergency measures are conjured up in time to blunt the impact of the looming crisis, it appears that, as with the Covid pandemic, the UK is in for a shock this winter.