

Tackling in-work poverty

IT IS CLEAR why Labour focused so much of its efforts on getting people into work, with little thought about what might happen once they were there. The Government inherited high levels of unemployment left over from the previous recession and a mandate to do something about it. It was right to pour millions into the New Deal programmes that helped get thousands back into work. It is also right to continue to reform welfare-to-work programmes so that they offer an increasingly flexible and personalised service.

This is because we know that work has considerable benefits – both in terms of the income it provides but also the positive effects on self-esteem, health and wellbeing. The exclusion of large numbers of people from these benefits – be they lone parents, people with a disability, or others – is inexcusable. Both Labour and the Conservatives are fond of saying that we are not doing anyone any favours by helping some live a life on benefits, and they are right.

The problem is that work is seen as a positive in itself, rather than as a route to something else – the chance to live a fulfilling, poverty-free life. We need to start with a vision for society where everyone has the opportunity to realise their aspirations in a way that is mutually beneficial for society and where no one has to live in poverty. Clearly, work has a central role in achieving this vision, but it is not the end point. That means two things: firstly, paid work is not a suitable option for everyone, and those people should not be consigned to poverty or social exclusion; and secondly, we need to do more to ensure that work really does offer a route out of poverty.

Low pay and in-work poverty in the UK

The most recent government figures show that there are now 1.6 million children in living poor families where someone works, a figure which has steadily increased over the last decade. In-work poverty represents a particular challenge to the Government's ambitious child poverty targets. The Government has been successful in removing 500,000 children from poverty, but almost all of this reduction has occurred among workless households, although the recession is likely to change this picture.

The rise in in-work poverty can be partly explained by rising employment levels, until

A few years ago, the concept of 'in-work poverty' was relatively unheard of. When the Institute for Public Policy Research (IPPR) first report on the subject was published in early 2007, the simple statistic that nearly half of all poor children lived in working families was enough to make headlines in nearly every national newspaper. Since then, further work by IPPR, the Joseph Rowntree Foundation and others has pushed in-work poverty up the agenda and it is now firmly recognised as a key piece in the poverty puzzle. In fact, it has become almost cliché to question the rhetoric that work is the best route out of poverty. To be sure, it still is – but we also know that it has failed for too many people and that the Government has done too little to address this. Kayte Lawton argues that the current recession provides an opportunity to rebuild a labour market that not only gets people into work, but which delivers fair pay and a real route out of poverty.



Tim Sonnenschein/Reportdigital

recently, which meant that many families simply swapped poverty on benefits for poverty in work. It is also linked to the UK's relatively high incidence of low pay.

About a fifth of the UK workforce is low paid,¹ which equates to over 5 million workers. This compares to a low pay rate of 18 per cent in the Netherlands, 13 per cent in France and 9 per cent in Denmark, although a quarter of US workers are low paid.² This puts the UK at the higher end of the scale and suggests there is nothing inevitable about the UK experience of

low pay; nor is there any necessary trade-off between low pay and high employment.

The majority of low-paid workers are not poor – they can avoid poverty by living with other working adults, working long hours or drawing on benefits and tax credits. Nevertheless, a low-paid employee is 18 times more likely to live in a poor household than someone on a higher wage.³

Low pay is not just problematic because it feeds into high levels of in-work poverty. Low pay is an injustice in its own right – it signals the low value attached to some kinds of work (work which is often very socially useful) and is a source of social injustice in the context of high levels of pay inequality.

Some low pay can be tolerated – low-paying jobs can provide a route into the labour market for people with low skills or little work experience, and there may always be some jobs that cannot support higher wages. However, the extent and distribution of low pay in the UK is a serious challenge to social justice. As well as having a higher incidence of low pay than many OECD countries, the risk of low pay in the UK is also distributed unevenly across the population – women, people with low-level qualifications and workers in certain occupations face a disproportionate risk of low pay.

Work at any cost?

With work currently in such short supply, it would be easy to assume that any job is better than no job. Now is not the time to worry about low pay or in-work poverty, some might say – let's get people working again and worry about what happens next, once the worst of the recession is over. In many ways, this is a convincing argument. The evidence against unemployment is overwhelming – it is bad for our health, our chances of working again and our future earnings. Better to be in work than out, and then you can work your way up out of poverty.

However, this argument assumes that you can work your way up, when the evidence suggests this is very difficult. Analysis by the IPPR and others shows that both retention and progression is more difficult for low-paid workers. Using data from the British Household Panel Survey, we found that only 78 per cent of workers who were low paid in 2000 were still in employment in 2005, compared with 88 per cent of higher-paid workers.⁴ Over this period, low-paid workers were twice as likely to become unemployed and three times as likely to become

inactive. Poor employment retention among low-paid workers is often the result of the functioning of the low-wage labour market, rather than being a matter of 'choice'. One study of repeat job-seeker's allowance claimants found that most people returning to jobseeker's allowance after a period of employment did so because they were unable to find permanent employment.⁵

Beyond the struggle to stay in work, low earners can also find it difficult to improve their earnings over time. Our analysis found that, between 2002 and 2005, 40 per cent of low-wage workers remained low paid, although 40 per cent moved up into our 'medium pay' bracket (more than 60 per cent of median earnings but less than 150 per cent).

However, we also found that 65 per cent of this group ended up with earnings below 80 per cent of median earnings, and only 17 per cent made it over the median line. So although 40 per cent could be classified as no longer low paid, their earnings had not increased very significantly over the three-year period. When we combined those workers who remained in low pay with those who left employment, we found that over half the people who were low paid in 2002 had experienced no significant improvement in their earnings by 2005.

Our findings are supported by evidence from a study by Stewart,⁶ who found that low-wage jobs had a negative impact on employment prospects of almost identical magnitude to unemployment. Stewart concluded that low pay was little better than unemployment in helping people move into higher-wage work.

This evidence provides a serious challenge to the idea that any job is better than none. However, rather than writing off the role of low-paying and entry-level jobs altogether, we should be doing more to ensure that people are supported to move up into better jobs. It also suggests that the nature of the first job held by labour market (re)entrants is key for future earnings, and that there may be an argument for the welfare system to do more to respond to this.

What causes low pay?

It is often assumed that low pay is caused by low skills and this assumption has been behind most of New Labour's 'supply-side' reforms to welfare and skills policy. Of course, there is a relationship between the two – for example, our analysis found that the risk of low pay for individuals with no qualifications was 30 per cent higher than for people with a degree. However, we also found that occupation and industry are just as

important in explaining low pay. This means that the kinds of jobs available in the labour market are a major influence on the extent of low pay.

The skills argument essentially lays the blame on the unemployed or low-paid individual for lacking the desired skills and ignores the reality of the labour market in which they find themselves. Where there are people with poor basic skills or who lack the qualification that would enable them to take a particular job, then clearly that needs to be addressed. However, we need a more integrated approach which also looks at what employers are doing and what kinds of jobs are available for people who are out of work or on low wages.

In fact, skills are a bit like work, because we assume they are always beneficial in their own right. But like work, they are in fact just one tool for achieving our vision of a fairer, more equal society free of poverty. Skills or qualifications are only useful in achieving our vision if they can be put to good use performing activities that society values.

Workforce skills have actually improved dramatically over the last few decades. In fact, they have been improving faster than demand for skills since the early 1980s. That means that we now have an imbalance between the supply of, and demand for, skills. For example, in 2006 there were 2.5 million economically active adults with no qualifications, but 7.4 million jobs requiring no qualifications.⁷ Projections show that there is likely to be a similar number of low-paying jobs in 2020 as there is now, although qualification levels will continue to increase.⁸ This trend will be driven by an expansion in sectors and occupations where the incidence of low pay is currently high, like social care, catering and other lower-level service occupations.

This contradicts what we are often told about skills in the UK – that we should be concerned about a comparatively weak skills base in the context of the ‘knowledge economy’ in which employers will require higher and higher level skills. It is true that the UK does relatively poorly on skills compared with other OECD figures. However, employers have not capitalised on the improvements in skill levels that we have seen over the last few decades and still require large numbers of workers with no qualifications. This suggests that at least part of the problem lies in what businesses are doing.

The real magic bullet

Skills are sometimes discussed as if they are the ‘magic bullet’ for addressing low pay and

poor productivity. In fact, the real magic bullet lies in improving the quality of jobs in the UK labour market, so that we have fewer jobs offering low pay and more jobs that make full use of the UK’s growing skills base. The problem is that this is much more difficult to achieve than tackling ‘supply-side’ issues around skills and employability. It requires us to look at the kinds of products and services that firms are offering and how the workplace operates. There are also lots of different ways of improving job quality, some of which will be more appropriate for particular sectors or places, rather than a single way forward.

The first thing that the Government could do is set out its own vision for a competitive, well-balanced and stable UK economy that provides full employment and offers ‘fair rewards’ without relying on low pay or in-work poverty. In the current climate, that vision may seem a long way off, but it is worth having this ambitious goal. In the context of welfare to work and achieving full employment, low pay and job quality have often been absent from political rhetoric, so this vision would be the first step to recognising that the labour market has to deliver fair pay as well as full employment.

Realising this vision would require subtle changes to the way we approach key social policy challenges. The goals of the welfare and skills system, and of economic development, will need to be shifted so that they focus on the end result: reducing poverty, low pay and inequality.

In the area of economic development, this means starting to re-orientate economic development so that greater priority is given to competing on quality and value, which tends to increase demand for higher skills and support higher wages. A central part of this process is to link skills supply and welfare reform much more firmly to economic development, business support and policies designed to improve workplace innovation and performance.

This allows skills to be applied in tandem with new working practices and new investment and innovation, so that employers get the maximum benefit from improvements in skills and can pass some of the gains on to workers in the form of higher wages. It also enables public agencies to make the case for firms to increase their demand for skills as part of a broader rethink of their business strategy, in conjunction with a targeted approach to skill provision.

This is the approach taken in a number of developed world countries, including New Zealand,

Australia, Finland and the Netherlands, as well as Scotland. For example, projects in Queensland and New South Wales have combined skill development with efforts to improve job design, employee relations and career progression routes.⁹ The rest of the UK could start to follow the lead of these countries by doing more to bring together efforts to integrate employment and skills with some of the economic development functions of the new Department for Business, Innovation and Skills.

At the local level, the greater integration of objectives and targets around employment, skills and economic development is already happening to some extent. However, sub-regional partnerships need more powers and responsibilities to deliver economic development in a way that benefits the most excluded in their communities by creating good-quality employment opportunities. The aim of further integration and decentralisation should be to create local partnerships capable of setting out and delivering a clear vision for shifting their local labour markets towards higher value economic development.

.....
**Sub-regional
 partnerships need
 more power and
 responsibilities to
 deliver economic
 development**

The Government's new-found acceptance of 'industrial activism' – whereby government takes a more active role in shaping the economy and supporting key sectors – provides a real opportunity to support those sectors that offer the best prospects for creating high-quality jobs. Research by IPPR has found that many jobs in low-carbon industries – like high-tech manufacturing, energy-efficiency programmes and renewable energy – offer strong prospects for creating well-paid jobs with good career progression opportunities.

The Government's Low Carbon Industrial Strategy sets out how key low-carbon industries will be supported, and the Government should look to develop a comprehensive strategy for supporting other sectors which offer similar prospects for growth, like social care, creative industries and some business services. More work is also needed to link these economic development plans with what is happening in the welfare and skills system so that employment opportunities can be maximised, especially for people who tend to do less well in the labour market.

The welfare and skills system also has a vital role to play in supporting efforts to tackle low pay and in-work poverty. Crucially, it must recognise that work and qualifications do not automatically take a family out of poverty. Its

goal must be to reduce poverty both in and out of work, and to take whatever steps are necessary to support families to achieve this. The new flexibilities in the Flexible New Deal reflect this – personal advisers will have more power to take whatever action they think will help their clients get back into work. This approach needs to be extended so that the goal is getting families out of poverty through work rather than simply getting them back into work.

Anyone looking for work within the welfare system should have a formal commitment from the Government that work will lift them and their families out of poverty. Such a commitment would fit neatly with the 'rights and responsibilities' agenda so popular with both Labour and the Conservatives. In return for a commitment from jobseekers to do whatever it takes to find work, the welfare system would promise to provide real help for individuals to find a route out of poverty. Advisers would work with a jobseeker to develop a personalised retention and progression action plan, with realistic milestones and priority access to in-work support and training.

The recession provides a real opportunity to rebuild a labour market which delivers fair pay and full employment. This article has set out just a few of the ways that this could be achieved, but there are many others. Government, employers, trade unions, charities, workers and consumers all have their part to play and working together we could start to create a fairer labour market. ■

Kayte Lawton is Research Fellow at the Institute for Public Policy Research

- 1 We define low pay as hourly earnings below 60 per cent of median full-time earnings.
- 2 R Solow, 'Introduction: The United Kingdom story', in C Lloyd, G Mason and K Mayhew (eds), *Low-Wage Work in the United Kingdom*, Russell Sage Foundation, 2008
- 3 G Cooke and K Lawton, *Working Out of Poverty: a study of the low paid and the 'working poor'*, Institute for Public Policy Research, 2007
- 4 K Lawton, *Nice Work If You Can Get It: Achieving a sustainable solution to low pay and in-work poverty*, Institute for Public Policy Research, 2009
- 5 H Carpenter, *Repeat Jobseeker's Allowance Spells*, Corporate Document Services, 2006
- 6 M Stewart, *The Inter-related Dynamics of Unemployment and Low-wage Employment*, *Warwick Economic Research Papers No. 741*, University of Warwick, 2006
- 7 A Felstead, D Gallie, F Green and Y Zhou, *Skills at Work 1986-2006*, SKOPE, University of Oxford, 2007
- 8 R Beavan, D Bosworth, R Lewney and R Wilson, *Alternative Skills Scenarios to 2020 for the UK Economy: a report for the Sector Skills Development Agency, as a contribution to the Leitch Review of Skills*, Cambridge Econometrics and Warwick Institute for Employment Research, 2005
- 9 E Keep, *From Competence and Competition to the Leitch Review: the utility of comparative analyses of skills and performance*, IES Working Paper WP17, Institute of Employment Studies, 2008