

MEW 14

Gwneud i'r economi weithio i'r rheini sydd ag incwm isel

Making the economy work for people on low incomes

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Caerdydd

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## Introduction

1. This submission draws primarily on findings from a recent Nuffield Foundation-funded study which I led on in-work poverty in the UK.<sup>1</sup>

## The nature of in-work poverty

2. In-work poverty occurs when a working household's total net income is insufficient to meet their needs.
3. In-work poverty is commonly, but mistakenly, assumed to be identical to low pay. Low pay is where the earnings of an individual worker fall below a certain threshold (typically, where their hourly earnings are below two-thirds of the median) while in-work poverty is about the balance between total resources and needs of working households.
4. This is significant because it means that the circumstances of the whole household matter and therefore the policy responses that can be used to try to tackle in-work poverty can be quite varied.
5. Effective policy responses to in-work poverty might include increasing levels of pay, especially for low paid workers, incentivising or enabling workers to take up additional hours of employment, or for additional adults within a household to take up employment.
6. Effective actions may also include increasing the non-labour market incomes of working poor households. This might include increasing the generosity of supports for low-paid workers (e.g. Working Tax Credit), supports for larger families (e.g. through Child Tax Credit or Child Benefit) or out-of-work payments for non-employed household members.
7. In addition, actions might be taken to reduce levels of need for working poor households. An example of the former would be action

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<sup>1</sup> Hick, R. and Lanau, A. (2017). 'In-work poverty in the UK: Problem, policy analysis and platform for action', Cardiff, Cardiff University & Nuffield Foundation.

[http://www.cardiff.ac.uk/\\_data/assets/pdf\\_file/0009/758169/Hick-and-Lanau-In-work-poverty-in-the-UK.pdf](http://www.cardiff.ac.uk/_data/assets/pdf_file/0009/758169/Hick-and-Lanau-In-work-poverty-in-the-UK.pdf)

to reduce housing costs, especially for families living in rented accommodation.

### **In-work poverty is a growing problem in the UK**

8. The risk of poverty amongst working-age adults living in households where someone is in employment in the UK has risen from 12.4% to 15.7% between 2004/5 and 2014/15 – that is, by 26.5%.
9. In 2014-15, 60% of people of all ages in poverty were living in households where someone is in paid employment. This is the highest figure observed in the Households Below Average Income data series.
10. In-work poverty is particularly associated with households with only one person in employment, people living in private and social rented accommodation, and those working in service-sector employment. Each of these groups have pronounced rates of in-work poverty and also account for a large share of people experiencing in-work poverty.
11. It is, to a lesser extent, associated with being a migrant, living in households with 3 or more children, and being a single parent. These groups all experience an elevated risk of in-work poverty, but they account for a reasonably small proportion of the total.
12. The rise in in-work poverty over the last decade has a distinctive tenancy pattern in that it is concentrated amongst renters.
13. Adults living in social housing face a greater risk of in-work poverty than those living in other tenures, with a risk of in-work poverty of one-third (33.9%). The risk of in-work poverty amongst private rented sector tenants is 27.3% - lower than for people living in social housing, but still substantial.
14. However, the risk of poverty for people in the private rented sector has been growing faster than for those in the social rented sector (+5 percentage points between 2004 and 2014, compared with +3.5 percentage points for social housing tenants).
15. There has also been a dramatic change in tenancy patterns amongst the whole population over the same period, with a ten percentage point shift from owner occupiers with a mortgage to

tenants in the private rented sector. The growth of the private rented sector is problematic because it is a high poverty risk tenancy.

16. The combination of this shift towards private rented tenancy, and growing in-work poverty risk for these groups, means in-work poverty is associated with living in the private rented sector to a considerably greater degree than was the case a decade ago.
17. The continued growth of the private sector, and high housing costs more generally, is likely to generate upward pressure on poverty rates in the years to come.
18. Of the variables we considered, the number of workers in the household was consistently the strongest predictor of in-work poverty rates. Increasing household employment, in terms of encouraging additional workers, or facilitating additional hours of work, should be seen as the most effective way to reduce in-work poverty.

#### In-work poverty in Wales

19. A Wales-level analysis was not the central focus of our study. However, analysis we conducted showed that in-work poverty affected a somewhat smaller proportion of working-age adults in Wales than in the UK as a whole. Partly, this is the result of greater rates of worklessness in Wales. However, the rates of poverty for those in employment are also lower than might have been expected, which may be due to lower housing costs in Wales than in other parts of the UK, especially the South East of England.
20. However, while the rate of in-work poverty is somewhat lower in Wales than in the UK as a whole, it has been rising over the period post-2004/5. Moreover, this rise is associated, as elsewhere, with the growth of the private rented sector with the high housing costs this often entails. Thus, the incidence is somewhat lower, but the general trajectory is reasonably similar.

#### **The relationship between low pay and in-work poverty**

21. Low pay and in-work poverty are often assumed to be identical. However, most low paid workers are not poor. When we look at the distribution of low paid workers across the income distribution, we find that, far from the majority being poor, they are weakly concentrated in the middle of the income distribution.

22. The reason why most low paid workers are not poor is because most are second earners within their families. Low pay is a risk factor for in-work poverty, but it is a secondary factor behind the number of workers in the household.
23. Just under one half of people experiencing in-work poverty have a low paid member in their household. Increasing pay levels for this group can thus help to improve the position of this subset of people experiencing in-work poverty.
24. There are of course good reasons to want to tackle low pay besides its impact on poverty. One such reason is out of a sense of fairness – that a fair day’s work is worth a certain amount. A second important reason is that low pay is highly gendered – most people on low pay are women, and increasing pay levels at the lower end of the earnings distribution is likely to make a positive contribution to gender equality.

### **The role that social security plays in supporting people in in-work poverty**

25. People experiencing in-work poverty rely on quite a complex mix of income from work and welfare. Our research found that 28% of household income of those in in-work poverty came from social security, with 66% coming from work. This contrasted with 11% and 82% for all working households (the remainders are from other sources, including pension incomes).
26. Tax credits make up only a minority of the social security income of working poor households. Of the social security income received by households experiencing in-work poverty, about one-third comes in the form of tax credits, one third is comprised of Housing Benefit and Child Benefit, with a final third made up of a wide range of other payments, including out-of-work payments, such as Jobseeker’s Allowance and Employment and Support Allowance.
27. These figures are significant as they demonstrate that reductions in support for people out of work (e.g. cuts to Employment and Support Allowance) will also impact on working poor families.
28. More could be done to encourage take-up of tax credits. HMRC estimates that take-up of Working Tax Credit amongst entitled persons

without children is just one-third.<sup>2</sup> For all entitled persons in working families, take-up for Child Tax Credit and Working Tax Credit is 80% and 65% respectively.

### **Moving in and out of in-work poverty**

29. Our study also explored how people enter and exit in-work poverty. In-work poverty transitions are more complex because a person can 'exit' in-work poverty by leaving poverty or by leaving work. The goal of policy should be to maximise poverty exits while minimising employment exits.
30. The headline finding from the longitudinal analysis we conducted is positive: people who experience working poverty in a given year are more likely to exit in the following year than to remain, and most exits are 'positive' ones (exiting poverty and still working).
31. But there are other trends which are more troubling. People in working poverty are three times more likely to become workless than those living in non-poor working households, illustrating, perhaps, their marginal attachment to the labour market even when in work.
32. Also, of people living in workless households where someone finds work, 25% will only go so far as to enter working poverty. Finding work does not always lead to exiting poverty.
33. If we examine who this group are we find that lone parents and families with three or more children are over-represented, suggesting the importance of developing policies which enable parents to reconcile work and family life.

### **Actions the Welsh Government might take to tackle in-work poverty**

34. The action that the Welsh Government can take are of course limited by the lack of powers in relation to key levers (e.g. ability to set minimum wage rates; control over most aspects of social security, etc) as well the current funding arrangements from the UK government. Nonetheless, there are actions that could be taken to tackle working poverty in Wales.

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<sup>2</sup> HMRC (2016), 'Child Benefit, Child Tax Credit and Working Tax Credit: Take-up rates 2014-15', London, HMRC.

35. Supporting the voluntary Living Wage is one way that the Welsh Government could help to tackle in-work poverty. The success of the voluntary Living Wage relies heavily on the esteem employers receive from being recognised as living wage employers. Celebrating employers who decide to pay the living wage, and publicly encouraging others who do not currently do so, can contribute to a public expectation that, wherever possible, employers should pay the living wage.
36. The Welsh Government has attempted to maximise take-up rates of social security benefits through investment in advice services. I have not seen estimates of whether this investment delivered the expected returns, but increasing social security take-up rates would contribute positively to the incomes of working households. As noted above, UK-wide take-up of Working Tax Credit in particular, especially for families without children, is not high.
37. As noted above, housing costs in the social rented and especially in the private rented sector are likely to lead to upward pressures on in-work poverty rates in the years to come. Without being too prescriptive about the nature of possible actions, policies which reduce housing costs for renters might at least offset some of the increase in in-work poverty than may otherwise occur.