

**Response from:**

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## **Poverty in Wales: Making the economy work for people on low incomes**

### **Introduction**

1. This response draws primarily on the findings from a research project funded by the Economic and Social Research Council (ESRC) on 'Harnessing Growth Sectors for Poverty Reduction: What Works to Reduce Poverty through Sustainable Employment with Opportunities for Progression' (grant reference: ES/M007111/1). The project involved analysis of secondary data sources, international evidence reviews relating to employment entry, progression and job quality; case studies and workshops with stakeholders (led by the Bevan Foundation) to help inform and test policy messages.

### **Which sectors have highest rates of low pay and in-work poverty?**

2. **Low pay and poverty are related but distinct.** Low pay relates to individual earnings in the labour market, poverty is determined by incomes at a household level.
3. **Low-pay is a problem across the economy, but most of the low paid are in a few large sectors.** The sectors with the highest rates of low-pay are Accommodation and Food Services (59.1%), Residential Care (40.0%) and Wholesale and Retail (39.1%). Almost half of those in low paid work in these three sectors<sup>2</sup>. Employment projections suggest that some of the greatest employment growth over the medium-term will be in low-paid occupations in sectors such as accommodation & food services and in care.
4. **In-work poverty also exists in all sectors.** However the risk of poverty is much higher in some sectors than others. After housing costs, 36.5% of workers in Accommodation and Food were in poverty, 21.9% in Residential Care, 21.1% in Admin and Support Services, and 20.1% in Wholesale and Retail.<sup>3</sup>

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<sup>2</sup> Estimates from the Labour Force Survey (LFS), 2009-2014.

<sup>3</sup> Estimates from the Family Resources Survey, 2009-2012.

5. Because poverty depends on household income, rather than individual earnings, the **number of workers in a family plays an important role in mediating the relationship between low pay and poverty**. At the household level the risk of poverty reflects both the combinations of individuals' labour market experiences and family characteristics. There is an association between employment in some low-paid sectors and an increased risk of household poverty.
6. **Individual characteristics matter** for both poverty and low-pay. Factors such as sex, age and qualifications influence the likelihood of low-pay and poverty.
7. **There is a 'sector effect' of being in low pay, in poverty and escaping low pay** which is independent of the individual characteristics of workers in different sectors. This is significant as it demonstrates the importance of the structural characteristics of the labour market. Controlling for individual characteristics the highest probabilities of low pay are in accommodation and food services, residential care, wholesale and retail, and agriculture, forestry and fishing.
8. **Local growth matters for individual wage increases**. Employment growth at a local level has a positive effect on individuals' wage growth. This underlines the importance of the level of the overall demand for labour locally for poverty reduction. Local employment growth is more important than employment growth in specific sectors in influencing individuals' wage growth.
9. The existence of specific 'sectoral effects' in determining patterns of low pay/in-work poverty once other individual and household factors have been taken into account, suggests that **a sectoral approach is a useful way to target low pay and in-work poverty**. Such a focus resonates with how the economy operates in practice and the current policy focus on key sectors. Yet the fact that it is the aggregate level of local labour demand change which is the key determining factor in wage increase indicates that a sector policy needs to be considered in a broader local ecosystem perspective and needs to be sensitive to place-specific factors.

### **Policy needs to consider retention and progression in employment as well as job entry**

10. Active labour market policy has focused on getting people into work, but there is increasing recognition that **sustainable employment and career progression matter** if the prospects of people on low incomes are to be improved. Social care and hospitality are examples of sectors that have low barriers to entry but are characterised by low pay and limited opportunity for progression.<sup>4</sup> Policies focused on these sectors need to focus on progression in work as well as job entry.

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<sup>4</sup> Green A., Sissons P. and Lee N. (2017) *Employment entry in growth sectors*, PPIW, Cardiff. <http://ppiwi.org.uk/files/2017/04/ESRC-Evidence-Review-Paper-Employment-Entry.pdf>

11. Even though a sizeable proportion of low-paid workers experience limited pay growth (as measured by increases in pay rates), generally **progression has received limited attention as a focus for employment policy**. However, this is changing with the introduction of Universal Credit, which includes a progression dimension. The UK Futures Programme which was run by the UK Commission for Employment and Skills (UKCES) also explored initiatives to enhance progression in two sectors characterised by low pay: retail and hospitality.
12. An international evidence review<sup>5</sup> revealed relatively little evidence relating to initiatives targeting progression (that have been robustly assessed). The most robust evaluation studies come largely from the US. The US evidence is primarily from localised targeted initiatives which target entry into good quality employment opportunities, which are more likely to offer chances for career advancement. These are often designed as a **'dual customer' approach**, which involves tackling the needs and objectives of employers and employees through the same programme. These studies demonstrate that initiatives can be designed to support worker retention and progression.
13. The US evidence points to a **potential benefit of a sector-focused approach to progression**. However, there is insufficient evidence to identify the 'best' sectors to target. In some sectors, such as hospitality, the context to supporting progression tends to be more challenging than in other sectors.
14. To develop evidence to inform initiatives to support progression there is a **need to trial different types of activities**. Opportunities to do this include the introduction of Universal Credit, and the potential for local projects and pilot activities as part of devolution settlements with cities and local areas. Sector-focused initiatives appear a good place to start (e.g. the integration of health and social care offers opportunities), although they are not the only approach. Experimentation which includes testing across different sectors and sub-sectors would provide valuable learning about which approaches offer most value in tackling low pay.
15. Local provision of **careers advice** has an important role to play in raising awareness of opportunities for workers to move between jobs to increase their earnings.
16. Issues around the limited progression for workers on low incomes also highlights the importance of **considering employers' business models** alongside other elements of employment policy.

### **Policymakers should put greater emphasis on job quality**

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<sup>5</sup> Sissons P., Green A. and Lee N. (2017) Supporting progression in growth sectors: a Review of the International Evidence, PPIW, Cardiff. <http://ppiwi.org.uk/files/2016/10/PPIW-Report-ESRC-Evidence-Review-Paper-Progression.pdf>

17. Tackling low incomes is not just an issue of supply-side policies to improve skills, etc.; rather **the nature of work available is important for both earnings and worker well-being**. Job quality should be a critical issue for policymakers. The nature of work exerts an important influence on individual well-being. Pay and conditions of employment affect overall household incomes and influence the likelihood of poverty. Opportunities for career development shape longer-term earnings. While flexibility and family friendly employment practices can be an important facilitator of dual household earning.
18. An international evidence review on approaches to job quality<sup>6</sup> in growth sectors emphasises that **job quality is the outcome of a range of influences** at different levels. These influences include national level and other regulations, economic conditions, the role of institutions such as trade unions, individual employer practices and the characteristics of individual workers. There are gendered patterns of job quality, with women in part-time jobs tending to be amongst the most disadvantaged.
19. While some aspects of job quality have been the subject of significant policy consideration and action, such as **minimum wages**, other aspects such as job design have seen less attention. There is limited evidence on programmatic approaches to job quality in growth sectors. Where there is some evidence at sector level these studies highlight **the importance of staff training, development activities, the establishment of clear career pathways**, as well the importance of employer business models and job design.
20. Policy initiatives focused on job quality have tend to focus on seeking ways of linking job quality for workers with service improvement for employers; using procurement to improve job quality; encouraging changes in business models as a precursor to improving job quality; implementing voluntary living wages and, developing the potential of employer cooperatives to deliver worker empowerment and job quality.
21. The limited nature of the available evidence base suggests that there is a **need to pilot and trial different forms of activities aimed at driving improvements to jobs quality**. This includes placing an importance on linking local economic development policy with employment and skills policy.

### **Different stakeholders play important roles**

22. Making the economy work for people on low incomes needs to involve **a multiplicity of stakeholders** (including employers, employers' organisations, trade unions, education and training providers, careers delivery organisations, local authorities, local economic development agencies and partnerships, third sector organisations, etc.)

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<sup>6</sup> Sissons P., Green A. and Lee N. (2017) *Improving job quality in growth sectors: a review of the international evidence*, PPIW, Cardiff. <http://ppiwi.org.uk/files/2016/11/Improving-Job-Quality-in-Growth-Sectors.pdf>

23. These stakeholders work at different geographical levels. Local stakeholders have an important role to play in working together to develop place-based industrial policy in large employment but low-wage sectors. However, it is crucial not to neglect the critical role of wider national factors in influencing job quality, so emphasising an important role for Government.