



# Nice Work If You Can Get It

Achieving a sustainable solution  
to low pay and in-work poverty

Executive Summary

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Challenging ideas – Changing policy

Persistently high levels of low pay and in-work poverty in the UK reveal a blind spot in the Government's otherwise impressive record on employment and poverty. This report makes the case for a coherent strategy to deal with the twin challenges of low pay and in-work poverty that emphasises job quality and career progression and recognises the needs of different families.

A society of full and fulfilling employment, in which working people and their families do not live in poverty, represents a basic aspiration for shared economic prosperity and social justice.

The Labour government has used policies such as the minimum wage, tax credits, and the new deals to increase employment and 'make work pay'. It has also focused on improving workforce skills to ensure that the UK is well placed to take advantage of the opportunities created by the 'knowledge economy'. Yet in the UK six in ten poor households have someone at work, while over half of poor children now live in a working household. Five million employees, a fifth of the workforce, are 'low paid', earning less than 60 per cent of average earnings.

Our vision is for a society in which work offers a genuine route out of poverty, low pay is transitory and kept to a minimum and both men and women are able to avoid a trade-off between higher wages and engaging in family life.

We argue that without a coherent strategy for improving the quality of jobs available in the UK labour market, current policy will have only a limited impact on reducing the extent of low pay and working poverty. Further action is also required to ensure that workers who are most at risk of low pay access high quality jobs.

The economic environment in the UK at the beginning of 2009 makes achieving our vision all the more challenging. One of the dangers is that some firms and sectors will feel under pressure to retain or revert to low cost, low value, low skill business models. This would further constrain opportunities to increase the supply of high quality jobs. It is therefore important that government maintains a strategic focus on key priorities, including poverty, skills, innovation and supporting businesses.

As well as dealing with the impacts of recession, government must also prepare for the recovery when it comes. Focusing on higher value economic development and improving productivity and economic performance as a way of driving up wages offers a sustainable, longer term strategy for economic success. Employers will need to be supported by government to make the necessary investments and will need to see improvements in productivity and workplace performance before they can increase wages.

This is the third paper in ippr's 'Working Out of Poverty' series, a project to develop proposals to end the injustice of in-work poverty, through promoting greater fairness and opportunity to progress in the labour market.

Below we summarise the findings of our analysis of in-work poverty, low pay and progression in the UK, and consider the implications of trends in jobs and workforce skills. We then set out seven areas in which government could take action to create a long-term and sustainable response to low pay and working poverty.

## **In-work poverty, low pay and progression**

### **In-work poverty**

Moving into work does not necessarily mean moving out of poverty, especially for families with children. Over half of poor children now live in households in which an adult is working and the number of poor children in working households – 1.5 million – has not changed since 1997. Without a strategy to tackle low pay and in-work poverty, the Government will struggle to meet its target of ending child poverty by 2020.

In-work poverty is a particular problem among couple households. Almost 80 per cent of working poor households with children contain a couple and couples with just one earner, or in which neither is working full-time, face a particularly high risk of in-work poverty.

### Low pay

In April 2006, more than a fifth of all employees in the UK – 5.3 million people – were low paid (definition based on gross earnings below 60 per cent of full-time median adult earnings). Cross-national analysis reveals that there is nothing inevitable about the UK's relatively high rate of low pay. The drivers of low pay are complex – the highest qualification held by an individual is important in determining their risk of low pay, but the job they do and the industry they work in are just as important. The relationship between pay and poverty is complex – most low paid workers are not poor but low paid workers face a much higher risk of poverty than workers who are not low paid.

### Retention and progression in the low wage labour market

Low wage, entry-level jobs can be important for those trying to enter or re-enter the labour market. However, it becomes problematic when low paying jobs stop being a stepping-stone and workers get stuck at the bottom of the labour market.

Low wage workers are less likely to stay in employment than employees on higher wages. This feeds into 'low pay-no pay' cycles which act to keep individuals and families on low, insecure incomes, whether in work or on state benefits. A lack of secure employment opportunities, particularly in low paying sectors such as catering, security and retail, is often the cause of poor employment retention. Staying in work can be particularly difficult for low wage workers with a disability and among individuals who develop a disability or health condition while at work.

Opportunities to escape low pay exist but are often limited. The probability of an employee moving out of low pay varies considerably depending on individual characteristics but also the nature of the job and the employer. This indicates that some occupations and firms offer better advancement opportunities for low wage workers than others. However, over half of low paid employees experienced no significant improvement in their income between 2002 and 2005, either because they remained low paid or left employment.

Workers who are low paid in one period are much more likely to be low paid later in life, regardless of other factors like skill level or gender. This suggests that the nature of the first job held by labour market (re)entrants is a key predictor of future earnings.

## Trends in jobs and workforce skills

### Labour market trends

Projected industrial and occupational change suggests that the UK labour market will undergo a gradual evolution to 2020 rather than a dramatic change. Importantly, it is projected that, without significant changes in policy, there will be a relatively similar number of low paying jobs in 2020 as in 2004. This trend will be driven by an expansion of employment in sectors and occupations where the incidence of low pay is currently high – such as retail and catering, and lower level service sector occupations.

However, there will also be considerable job growth in sectors and occupations with a low incidence of low pay – such as management and professional occupations, and education and health. Job losses are projected in 'intermediate' occupations where the incidence of low pay is just below the national average – including administration and skilled trades.

### Trends in workforce skills

Although higher level workforce skills have significant benefits for individuals, businesses and the wider economy, there are doubts about the ability of a general 'upskilling' of the workforce to significantly reduce the incidence of low pay in the UK. The supply of workforce skills has risen faster than demand since the early 1980s. In 2006, there were 2.5 million economically active adults with no qualifications, but 7.4 million jobs requiring no qualifications for entry. By 2020, there are projected to be just 585,000 economically active adults with no qualifications – but a similar number of jobs as in 2006 requiring no entry qualifications.

Although most qualifications continue to provide considerable wage returns, there is some evidence

that wage returns for lower level vocational qualifications are weak and decreasing. This raises questions about the Government's focus on Level 2 qualifications within its workplace training strategy.

The UK's relatively poor skills base is estimated to account for around a fifth of the productivity gap with countries such as France and Germany. This suggests that steps to enhance workforce skills will only have a limited effect on the country's productivity and economic performance. Improvements in workforce skills need to be matched by increases in investment, innovation and skill utilisation and demand. Where progress on productivity and economic performance is achieved, it is necessary to ensure that a reasonable proportion of the gains are passed on to workers in the form of higher wages.

### **Policy implications**

Three major policy implications emerge from the analysis presented in this report, and our recommendations seek to address each of these challenges.

1. **Action is needed to increase the supply of well-paid, good quality jobs:** Under current policy, the evolution of the labour market and continued improvements in workforce skills will not lead to a significant reduction in employer demand for low wage, low skill workers by 2020. This represents a considerable challenge to current government policy, which prioritises improvements in workforce skills as a response to the changing global economic context. These improvements are undoubtedly important, but need to be complemented with action to increase employer demand for, and utilisation of, higher level skills. This requires a greater focus on high-value, high-skill economic development and improvements in productivity and economic performance.
2. **Low wage workers need support to stay in work and progress:** By themselves, low wage jobs do not necessarily provide a stepping-stone to higher wages and better job quality. Workers need better information and support to help them access opportunities for progression and action is also required to increase routes out of low pay in some sectors. Some workers on low pay also need extra help to stay in work.
3. **Strategies to tackle low pay need to be combined with a family-based response to in-work poverty:** The complex relationship between pay and poverty means that tackling one will not necessarily have a significant impact on the other. Complementary action is needed to address both low pay and in-work poverty together.

### **Recommendations**

The complexity of the UK labour market militates against a single solution to the challenges of low pay and in-work poverty. Some of the proposals we set out below will be more appropriate for particular sectors, workers, firms and places than others. The key is to develop tailored packages of support that reflect the UK's economic and spatial diversity.

#### **Employment, skills and economic development functions should be integrated and decentralised across the UK**

- This would ensure that efforts to increase both employment and workforce skills are joined up with strategies for enterprise and economic development, helping to increase investment, innovation and skill utilisation alongside improvements in workforce skills.
- Greater integration should be based on existing frameworks for partnership working at the local level.
- Decentralisation of objectives, targets and funding related to employment, skills and economic development would enable local agencies to make decisions based on their knowledge of the local labour market.
- Integration and decentralisation would also allow local agencies to negotiate bargains with employers to ensure that improvements in workforce skills are matched by steps to raise skill

demand and utilisation.

**The UK Commission for Employment and Skills should roll out a national UK Programme for Workplace Performance**

- Workplace performance – which refers to factors such as job quality and design, work organisation, human resource policies and management quality – can be a crucial element of strategies to raise productivity and wages.
- Many European countries operate successful state-backed programmes to help employers drive up workplace performance, in partnership with trade unions and government, but this approach is lacking in the UK.
- The programme’s mission should be to help firms adapt their product strategies so they can operate in higher value markets, boost productivity and raise job quality.
- This should be achieved by increasing the profile of workplace performance in the UK, collating and disseminating evidence, providing a consultancy service to firms and reporting to government on the performance of UK firms.

**Workers and employers need a more strategic system of workplace training, which addresses the needs of the whole workforce**

- A sliding scale for the public funding of intermediate and higher level qualifications should be implemented to increase access to training beyond Level 2 (given the relatively poor returns to qualifications at this level).
- Skills Accounts, which will operate in England from 2010, should offer flexible funding for intermediate and higher level qualifications, rather than a simple entitlement to a first Level 2 qualification.
- Low wage workers should also be able to use Skills Accounts to borrow and save so that they have access to the resources to co-fund higher qualifications.

**Jobcentre Plus should develop and roll-out a package of personalised in-work support targeted at vulnerable workers**

- This should include post-employment advisory support and financial support, building on current government initiatives.
- Support should be targeted at those deemed most likely to drop out of employment or get trapped in low wage work, using sophisticated screening tools and the discretion of personal advisers.
- To provide particular support to workers who develop a health condition, the Government should continue to build on the key recommendations from Dame Carol Black’s report on work and health, and extend and reform the Access to Work programme.

**Workers and jobseekers need better access to information about pay and progression opportunities**

- Sector Skills Councils and adult careers advice services should work together to develop sectoral career pathways to help low wage workers identify career advancement routes.
- Adult careers services in the four countries of the UK should develop accessible, sophisticated labour market information systems to help jobseekers and workers choose sectors, occupations and firms with good pay and progression prospects.

**The welfare and tax credit systems should better reflect the needs of different families**

- The value of the Working Tax Credit for couple families should be increased by a third to reflect their additional financial needs.
- A Personal Tax Credit Allowance should be introduced into the Working Tax Credit to increase work incentives for a second earner.

- Jobseekers should receive a commitment from the welfare system that a job will lift the whole family out of poverty, with tailored support to make sure this happens.

**Further action is needed to help families avoid a negative trade-off between 'time poverty' and income poverty**

- The right to request flexible working should be extended to all workers.
- The Government, employers and unions should continue to take forward the recommendations of the Women and Work Commission to increase the supply of high quality flexible jobs, for both men and women.