



Nice Work If You Can Get It

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

by Kayte Lawton

January 2009

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This paper was first published in January 2009. © ippr 2009

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Acknowledgements

ippr would like to thank the Commission for Rural Communities, the East of England Development Agency, the Learning and Skills Council, Leonard Cheshire Disability, Remploy and Scottish Enterprise Glasgow (now part of Skills Development Scotland) for their generous financial support, which made this paper and the wider *Working Out of Poverty* project possible.

Special thanks to Graeme Cooke for detailed input on earlier drafts. The author would also like to thank Georgina Kyriacou, Kate Stanley, Lisa Harker, Mike Kenny, Dalia Ben-Galim, Charlotte Beckford, Katerina Lagoudaki, Roger Turner, Mary Hough, Guy Parckar, John Knight, Ken Wardrop, Stephanie Young, Steve Scott, Howard Reed, Katie Schmuecker, Peter Robinson, Ewart Keep and David Coats.

This is the third and final report from ippr's *Working Out of Poverty* series, which is investigating the causes of low pay and poverty among working families, and developing potential solutions to these injustices. The first paper in this series, *Working Out of Poverty: A study of the low paid and the 'working poor'*, was published in January 2008. The second paper, *For Love or Money: Pay, progression and professionalisation in the 'early years' sector*, was published in April 2008.

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Executive summary

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.

1. Introduction

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. Yet, in the UK, six in 10 poor households¹ 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.² Despite meeting their responsibility to contribute to society through work, too many working adults do not receive in return an income adequate to lift their families out of poverty.

This report sets out a vision for a more equal Britain, in which work ensures a pathway out of poverty, low pay is transitory and kept to a minimum, and everyone is able to balance work with caring responsibilities.

The report is the third and final in ippr’s *Working Out of Poverty* series. In the first paper, *Working Out of Poverty: A study of the low paid and the ‘working poor’* (Cooke and Lawton 2008a), we examined the extent and nature of low pay and in-work poverty in the UK, and made some recommendations for the minimum wage and tax credits. Our second report, *For Love or Money: Pay, progression and professionalisation in the ‘early years’ sector* (Cooke and Lawton 2008b) drew on focus group research with workers in the ‘early years’ children’s services sector.

In this final report, we consider the implications of changing patterns of pay, progression, employment and skills for the UK labour market, and make some broader recommendations about what needs to change to realise our vision for work as a genuine and reliable route out of poverty.

The Labour Government has used policies like the National Minimum Wage, tax credits, and the New Deals to increase employment and ‘make work pay’. These have been the central planks of its strategy to deliver on two core goals: an 80 per cent employment rate, and the eradication of child poverty by 2020. The existing policy mix has delivered high employment (until mid-2008 at least) and 600,000 fewer poor children. Yet the Government’s current approach has failed to adequately tackle the twin injustices of low pay and in-work poverty.

The Government is increasingly recognising the importance of job quality, alongside job entry, and has set out ‘not just jobs, but jobs that pay and offer retention and progression’ as one of its five principles of welfare reform (Department for Universities, Innovation and Skills [DIUS] and Department for Work and Pensions [DWP] 2007: 8). In Europe, the Lisbon Strategy for employment expansion places equal emphasis on job creation and job quality (Eurofound 2008). Yet the UK’s current policy approach remains focused on supply-side interventions – primarily, increasing the supply of skilled labour and subsidising low wages. Without a complementary coherent framework for improving the quality of jobs available in the UK labour market, this approach will have only a limited impact on reducing the extent of low pay and working poverty.

1. A poor household is one whose total net income is less than 60 per cent of median household income, before housing costs. This is the main measure adopted by the UK Government and the OECD. See annex 1 for more detail on calculating household poverty.

2. The analysis and recommendations in this report are limited to questions of earnings and incomes, to enable us to retain sufficient focus. Low-income households face additional pressures in the form of expenditure, which has a major impact on households’ disposable income, and, therefore, on their experience of poverty. There is evidence that under-consumption is one of the ways in which households attempt to cope with a low income, and studies have also shown that low-income consumers often pay more for essential goods and services than those who are better off (Kenway and Winkler 2006, O’Reilly 2008, National Consumer Council 2004). ippr is also currently engaged in a major project looking at the consumption pressures on low-income households.

There is both a moral and economic argument for government to intervene to tackle both low pay and in-work poverty. Low pay often reflects poor economic performance, with low productivity and workplace performance reducing the rewards available to workers. It is also often associated with the ineffective utilisation of workforce skills and knowledge, suggesting that the UK is failing to make the most of its talents. Tax credits and other transfers to households relying on low wages represent a considerable commitment in terms of public spending.

In-work poverty also undermines the aims of social justice to create a fairer distribution of resources, and threatens the delicate balance of rights and responsibilities that operate across society. If individuals are making a contribution to society by working, then their family's income should be sufficient to lift them out of poverty. The persistence of low pay, particularly among certain disadvantaged groups, represents a significant limit on social mobility, both for the individual and their children.

Low pay and in-work poverty can occur together, but often do not. We object to both phenomena in their own right, both on grounds of social justice and economic prosperity. Therefore, this report is concerned with the causes of and solutions to both low pay and in-work poverty.

The economic environment in the UK at the beginning of 2009 makes achieving our vision 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 the 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.

Achieving our vision for work in 21st-century Britain will not be a simple or straightforward process, and cannot transform the nature of work for all people in all places. It will require a new commitment to partnerships among workers, firms and the Government, and a new role for the state and other public agencies in helping to solve collective action problems in the context of an open international economy. Our proposed vision may not be realised for every worker, in every firm, in every part of the country; but it is clear we could be doing much better than we are currently.

Structure of the report

In Chapter 2 we set out new analysis on the risk factors for low pay and the labour market prospects of low-wage workers, supplemented by data from the first report in our *Working Out of Poverty* series (Cooke and Lawton 2008a). In Chapter 3, we outline future trends in employment and skills to establish how projected labour market change will impact on the extent of low-wage work. Using the analysis in Chapters 2 and 3, in Chapter 4 we draw out the main policy implications, and make recommendations in four key areas, which we believe will set us on the path to realising our vision for work that offers a sure route out of poverty and low pay.

2. In-work poverty, low pay and progression

Summary

In-work poverty in the UK

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 where an adult is working.
- Almost 80 per cent of working poor families with children are couple families. Couple families with just one earner, or that do not include anyone working full time, face a particularly high risk of in-work poverty.

Low pay in the UK

In April 2006, more than a fifth of all employees in the UK – 5.3 million people – were low paid.

- The incidence of low pay is relatively high in the UK, although it has declined slightly since the late 1990s, having increased sharply from the late 1970s.
- The level of human capital held by an individual is important in determining their risk of low pay, but the job they do and the industry they work in can be just as important.
- Most low-paid workers are not poor, but low-paid workers face a much higher risk of poverty than higher-paid workers.

Retention and progression in the low-wage labour market

Low-wage workers are less likely to stay in employment than higher-paid workers:

- This feeds into 'low pay-no pay' cycles, which act to keep individuals and families on low, insecure incomes, whether in work or on benefits.
- Employment retention is particularly poor among low-paid workers with a disability, and among individuals who develop a disability or health condition while at work.

Opportunities for wage progression exist, but are often limited:

- Over half of low-wage workers experienced no significant improvement in their income between 2002 and 2005, either because they remained low paid or left the labour market.
- The probability of an employee moving out of low pay varies quite considerably depending on individual characteristics, but also on the nature of the job and the employer. This indicates that some occupations and firms offer better advancement opportunities than others for low-wage workers.
- Job mobility can be an important route out of low pay, particularly where low-paid workers move to another, slightly better, employer to do a similar job.
- Workers who are low paid in one period are much more likely to be low paid later in life, independent of all other factors. This suggests that the nature of the first job held by labour market (re)entrants is key for future earnings.

The extent of in-work poverty and low pay in the UK was set out in the first paper in this series (Cooke and Lawton 2008a). We found a persistently high rate of in-work poverty, and highlighted the UK’s poor record on low pay compared to many of our European neighbours. In this chapter, we begin by summarising the findings presented in the first paper, and complement our previous analysis with new regression analysis, to gain a better understanding of the most important factors associated with low pay. We then go on to assess the labour market prospects of low-wage workers, in terms of both wage increases and employment retention.

In-work poverty in the UK

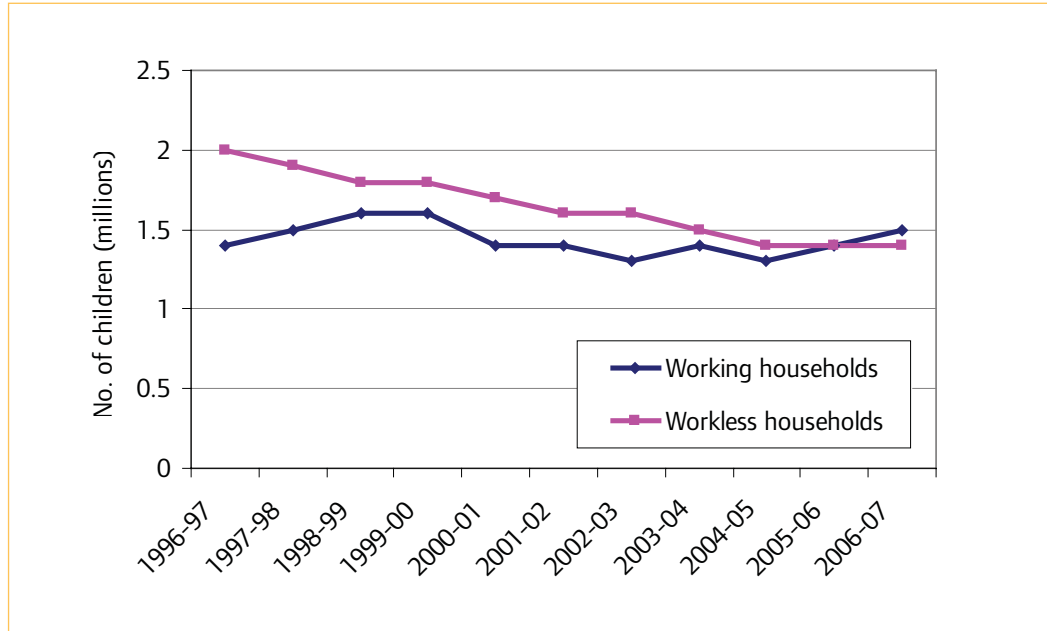
There is much truth in the Government’s claim that work is the best route out of poverty. However, the relationship between work and poverty is neither certain nor straightforward, and too many families in the UK today simply swap one kind of poverty for another when they move into work.

Poverty occurs where total household income is less than 60 per cent of median household income (see Annex 1 for more details on how the poverty line is calculated). We consider any household containing at least one adult doing any paid work to be a ‘working household’. Just over 85 per cent of all households in the UK contain a working adult (Office for National Statistics 2008a). Almost six in 10 poor households (57 per cent) contained a working adult in 2005/06, compared with 47 per cent a decade earlier, a trend that is not fully explained by increasing employment rates.

In-work poverty represents a particular challenge to the Government’s ambitious target to halve child poverty by 2010 and eradicate it entirely by 2020. The Government has been successful in removing 600,000 children from poverty, but almost all of this reduction has occurred among workless households. In fact, by 2006/07 there were more poor children in working households than in workless ones, as Figure 2.1 demonstrates. There are now 1.5 million poor children in working households, which is the same as in 1997/98.

Figure 2.1: Child poverty in working and workless households, 1996/97 to 2006/07

Source: DWP 2008a



Families with children face twice the risk of working poverty as those without. However, rates of working poverty vary considerably according to family type and working patterns.

Figure 2.2 shows that almost 80 per cent of working poor households with children are headed by couples. In-work poverty is a particular problem among couples because they are more likely to have someone in work, whereas workless poverty affects a greater proportion of lone-parent households. Couple households where only one adult works or where no one is working full time face particularly high risks of in-work poverty, as Figure 2.3 shows. However, Figure 2.3 also shows that for those lone parents who do work, the risk of poverty is still high, at 15 per cent for those working full time and 30 per cent for part-time workers.

Figure 2.2:
Composition of working poor families with children

Source: Authors' calculations using data from Households Below Average Income 2005/06

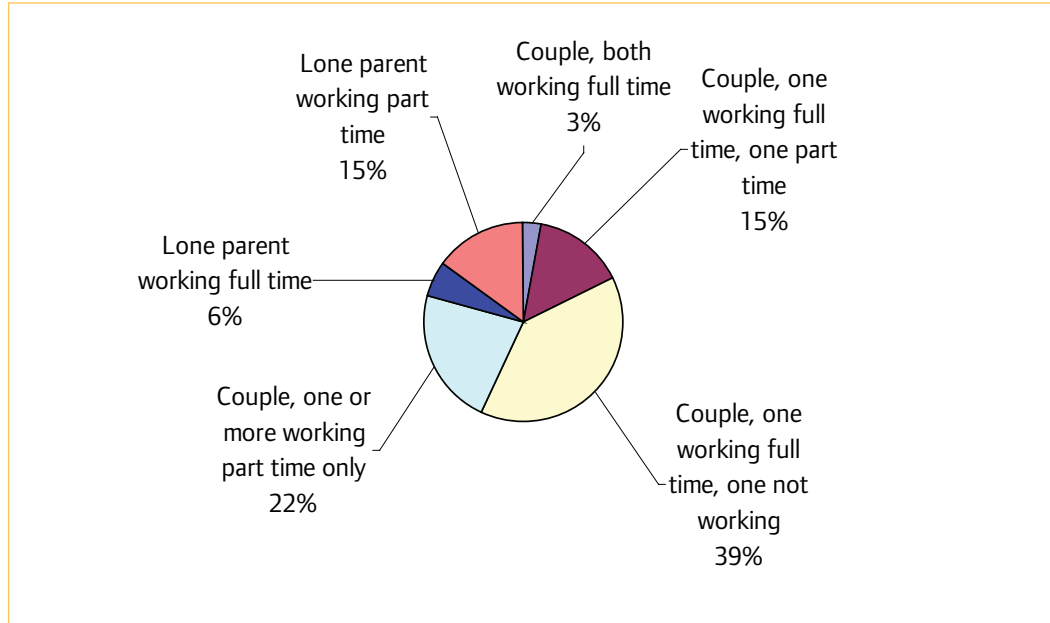
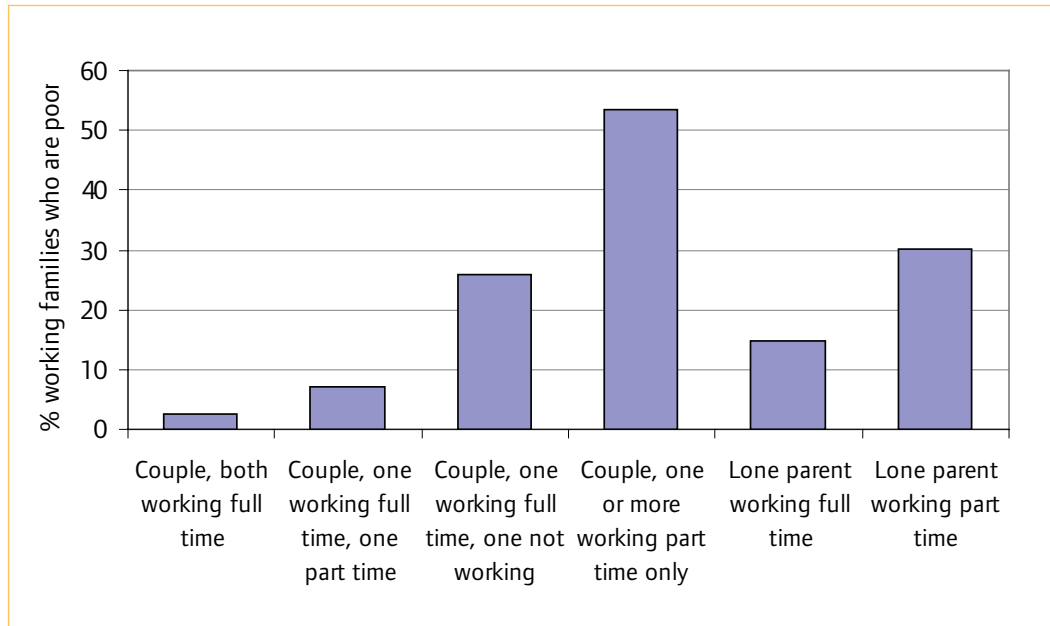


Figure 2.3: Risk of in-work poverty for families with children

Source: Authors' calculations using data from Households Below Average Income 2005/06



Despite the high number of children in poor working families, in-work poverty is also a real challenge for single people and couples without children, who accounted for just over 40 per cent of all working poor families in 2005/06. Single people made up just over 70 per cent of all working poor households without children, with a particularly high risk of poverty experienced by single adults working part time.

Our findings also demonstrate that young people, disabled workers and members of some ethnic minorities face a higher risk of in-work poverty. This is particularly true for workers aged 18-21 (35 per cent of whom lived in poverty), and people from a Pakistani or Bangladeshi background (whose risk of in-work poverty was 53 per cent and 63 per cent respectively). Finally, we found especially high levels of working poverty in London, partly as a result of higher housing costs there.

Low pay in the UK

Previous analysis presented in Cooke and Lawton (2008a) revealed that more than a fifth of the UK workforce³ was low paid in April 2006. In this section, we summarise the key findings from that paper about who these low-paid workers are, where they work and what kinds of jobs they do. This analysis is based on data from the Annual Survey of Hours and Earnings (ASHE) 2006.

We also supplement our previous analysis with new data drawn from regression analysis (see Annex 1 for details). This enables us to examine the relative importance of different factors associated with low pay in the UK. The regression analysis discussed in this section uses pooled data from the Labour Force Survey (LFS) between 2006 and 2007.

We begin this section by briefly considering trends in low pay in the UK, and comparing low-pay rates in the UK with those experienced by other Western economies.

There is no standard national or international definition of low pay, but we have chosen to use 60 per cent of median full-time hourly earnings as the low-pay threshold – anyone whose hourly earnings are below that level is classified as low paid (see Cooke and Lawton 2008a for a discussion of the various ways of defining low pay). Our definition is, therefore, a relative one, which recognises the impact of low pay in the context of the earnings of the workforce as a whole.

Since two different datasets are used for the analysis in this section, and the data in these surveys are collected in different ways, each dataset produces slightly different low-pay rates when our low pay measure is applied. In the Annual Survey of Hours and Earnings the low-pay rate was £6.67 in April 2006; in the Labour Force Survey the average low-pay rate was £6.38 in 2006/07. Our measure of low pay is clearly distinct from, and higher than, the National Minimum Wage, which sets a legal wage floor.

Low pay in historical and international contexts

Evidence from the New Policy Institute (NPI) suggests that the proportion of workers who are low paid in the UK has declined slightly over the last decade, reversing the trend of the previous two decades, which also saw wage inequality rise sharply (NPI 2008, McKnight 2000). Over the last 10 years the lowest paid have seen strong wage growth, largely thanks to a series of minimum wage rises above the rate of average earnings growth. This has slightly narrowed the gap between the bottom and the middle of the wage distribution, while keeping pay inequality in check.

Figure 2.4 sets out rates of low pay in five European countries and the US. This data, drawn from a cross-country study undertaken on behalf of the Russell Sage Foundation, reveals the relatively high incidence of low pay in the UK (Solow 2008). It is important to note that there is no necessary trade-off between high employment and a low incidence of low pay: countries such as Denmark and the Netherlands are able to achieve lower levels of low pay without sacrificing job creation (OECD 1996, Solow 2008).

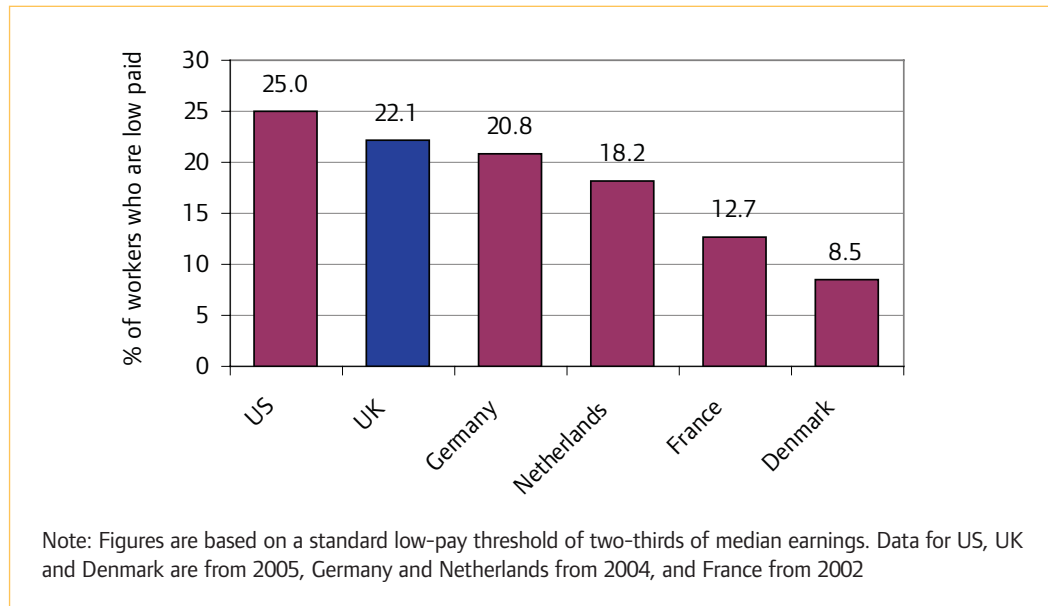
A 2008 study of employment growth in the EU 15 states between 1996 and 2006 found that a number of countries, including Ireland, Finland, Denmark, Luxemburg and Sweden, had been able to create large numbers of new jobs, the majority of which were of above average quality, as measured by median hourly earnings in each sector/occupational group (Eurofound 2008). However, the UK, France and the Netherlands experienced a more polarised expansion of employment, with growth at the top and the bottom of the labour market.

3. The analysis throughout this report refers only to employees, and excludes self-employed people. This is partly due to data limitations and the fact that the earnings of self-employed people are often recorded inaccurately. Low pay and in-work poverty are likely to be features of self-employment, and this phenomenon requires further investigation, but is outside the scope of this report.

This variation in patterns of job growth within Europe demonstrates that the extent of low pay in a modern economy is dependent on a range of economic and institutional factors, and is not simply the inevitable result of globalisation and technological change. This suggests an important role for policy.

Figure 2.4:
Incidence of low pay in five European countries and the United States

Source: Solow 2008



Which factors are most important in explaining low pay?

We now turn to more a detailed consideration of the particular risk factors associated with low pay in the UK, and look at four sets of factors: those relating to the individual worker; the characteristics of the job; factors associated with the firm; and the effect of place.

Worker characteristics: gender, age, health status and qualifications

In our first paper we found a strong gender dimension to low pay, underpinned by the 'gender pay gap', which stood at 22 per cent (Cooke and Lawton 2008a). In 2006, nearly two-thirds (64 per cent) of low-paid workers were women, and over two-thirds (41 per cent) were women working part time. Younger workers also faced a much greater risk of low pay, perhaps unsurprisingly. Nearly 70 per cent of employees aged 18 to 21 were low paid, compared to around 15 per cent of workers in their thirties and forties.

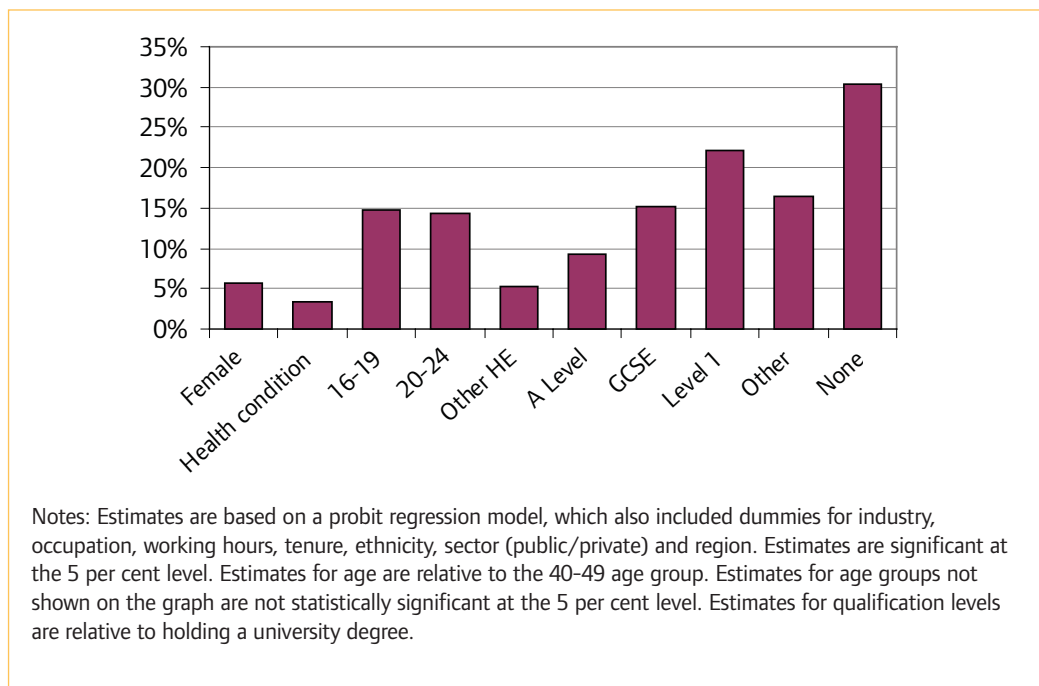
Analysis by the New Policy Institute has also found that people with a work-limiting disability have a higher risk of low pay, as do some ethnic minority workers, especially those from Bangladeshi, Pakistani and Black African backgrounds (NPI 2008).

Figure 2.5 (next page) shows the effect of various personal characteristics on the probability of an employee being low paid, independent of the kind of job they were doing or where they worked. This is based on the results of our regression analysis, using data from the Labour Force Survey in 2006 and 2007. Gender has a small but statistically significant impact on the probability of being low paid. Independent of all other factors, women were 6 per cent more likely to be low paid than men. This highlights the importance of gendered occupational segregation and the nature of part-time work in explaining the gender pay gap.

Employees' health status also appears to have a relatively small impact on the chances of them being low paid. Again, this would suggest that the higher risk of low pay experienced by people with a disability or health condition is largely explained by the kind of work available to them, rather than differences in pay between disabled and non-disabled people doing similar work. Evidence from other studies suggests that disabled people are more likely to work in lower occupational groups and in part-time jobs (Parckar 2008). There are also significant variations in the labour market status of disabled people depending on their condition, with individuals with mental health issues having a particularly high risk of low pay (Sainsbury *et al* 2008).

Figure 2.5: Effect of personal characteristics on the probability of low pay

Source: Authors' calculations using Labour Force Survey 2006-07



The effect of qualification level on the likelihood of an employee being low paid is substantial. Figure 2.5 gives estimates for the risk of low pay at various qualification levels relative to holding a degree: employees who have no qualifications are 30 per cent more likely to be low paid, and those whose highest qualification is at GCSE level are 15 per cent more likely to be low paid than workers with a degree. Age is also an important determinant of low pay for those aged under 25 relative to employees in the 40-49 age group, but not for older workers.

Ethnicity was also included in the regression model, but statistically significant effects were only found for certain ethnic groups: relative to white British workers, only workers identifying as 'Other Asian' (which does not include people of Indian, Pakistani or Bangladeshi origin), 'Other Black' (which does not include Black African and Black Caribbean) and 'Other' were more likely to be low paid, although the effects for these workers were large – between 15 and 30 per cent.

Job characteristics: working patterns, contract type and occupation

The analysis in our first paper showed that the type of work people do has an important influence on their risk of being low paid (Cooke and Lawton 2008a). Over 60 per cent of people employed in elementary,⁴ and sales and customer service jobs were low paid, accounting for over half of all low-paid workers. Employees working in personal services also had a high risk of low pay, at just under 40 per cent. Almost half (46 per cent) of part-time employees were low paid, compared to just 14 per cent of full-time workers.

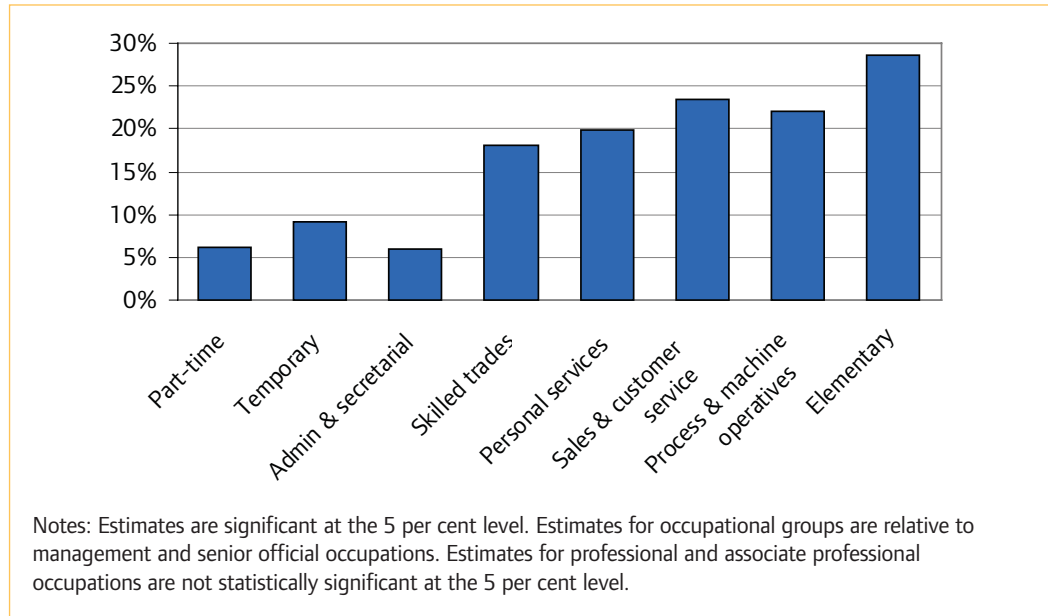
Drawing on results from our regression analysis, Figure 2.6 shows that occupation is a particularly important predictor of low pay, and the effect is of a similar magnitude to that of qualification level. Estimates for low pay in different occupational groups are given relative to management and senior official occupations.

The risk of low pay in semi-skilled manual occupations, semi-skilled service occupations and elementary occupations is particularly high compared with management jobs – between 20 and 28 per cent higher. The effect of working part-time or on a temporary contract independent of all other

4. Elementary occupations generally require no entry qualifications or substantial prior knowledge or skills. Occupations in this group include agricultural labour, construction labour, routine office jobs, waiting and bar work, and unskilled manual jobs.

Figure 2.6:
Effect of job
characteristics on
the probability of
low pay

Source: Authors' calculations using Labour Force Survey 2006-07



factors is significant but small, indicating the higher risk of low pay in this kind of work is, in part, a function of the nature of the part-time and temporary work available. Job tenure was also included in the regression model, and had a small effect on reducing the likelihood of low pay for workers who had remained in their job for more than 10 years.

Firm characteristics: industry and sector

Our previous analysis revealed that nearly 70 per cent of workers in the hotel and restaurant industry were low paid in 2006 (Cooke and Lawton 2008a). We also found that 44 per cent of employees working in wholesale and retail were low paid, and, because this sector accounts for 15 per cent of the UK labour market, nearly a third of low-paid workers are found in the retail industry.

Table 2.1: Low-pay rates and exposure to international competition by industry

Industry	Productivity	Exposure to international competition	Incidence of low pay (%)
All employees	-	-	22.5
Hotels and restaurants	Low	Low	69.2
Wholesale and retail	Low	Low	43.6
Agriculture	Low	High	42.0
Other services	Medium	Zero	31.1
Real estate and business services	High	Medium	20.6
Health	Low	Low	19.2
Education	Low	Low	17.4
Manufacturing	High	Medium/high	14.6
Construction	Medium	Low	11.3
Transport and communications	High	Low/medium	10.8
Public administration	Medium	Zero	5.8
Financial services	High	Medium	5.4
Primary production	Very high	High	-

Source: Wilson *et al* (2006); authors' estimates using data from Beavan *et al* (2005); authors' calculations using data from the Annual Survey of Hours and Earnings 2006

Notes: Productivity is measured by gross value added per worker, and should be taken as an indicative estimate only. Productivity in each sector is measured relative to overall productivity in the UK and cannot be used for international comparisons.

Table 2.1 gives the rate of low pay by industry, and also highlights the broad exposure to international competition and level of productivity of each sector of the UK economy. It is interesting to note that three of the four industry sectors with an above average incidence of low pay have either a low or zero exposure to international competition.

There is some evidence that global competitive pressures provide firms with incentives to compete on higher value products and services, and increase productivity, which often feeds through into higher wages (Mason 2004). However, external competitive pressures are clearly only one element of the relationship between industry sector and low pay. Sectors such as construction and public administration also face low or zero international competition, but still have relatively low levels of low pay. Furthermore, global competition is not the only source of competitive pressure that companies face, and firms in low paying sectors can face significant domestic competition, which helps some move into higher value markets.

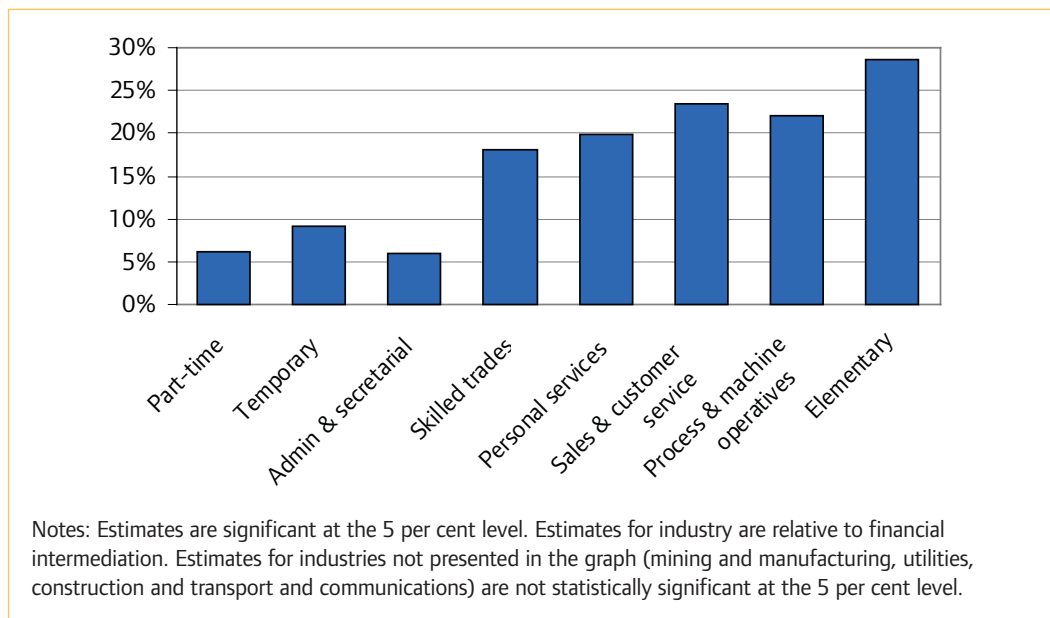
Figure 2.7 confirms our previous analysis of low pay across different industry sectors, showing the risk of low pay by industry relative to the risk in the financial services sector. Workers in hotels and restaurants are 24 per cent and workers in retail 17 per cent more likely to be low paid than employees in financial services. People working in ‘other services’ (which includes waste disposal, leisure and recreation, and hairdressing) are also 22 per cent more likely to be low paid.

Overall, the effect of industry type on the probability of an employee being low paid is of similar importance to the effect of qualification level and occupational group. However, Andersson *et al* (2005) found that, even within the same industry, different firms can have very different levels of low-wage work, suggesting that internal variations in hiring and human resources (HR) practices are also important.

Workers in the private sector are 8 per cent more likely to be low paid than those in the public sector, which, in part, reflects the greater wage inequality in the private sector.

Figure 2.7:
Effect of firm characteristics on the probability of low pay

Source: Authors’ calculations using Labour Force Survey 2006-07



The effect of place

In our first report on low pay and in-work poverty, we found little difference in the risk of low pay between the regions and nations of the UK, except in London, where only 11.1 per cent of employees were low paid compared with a national average of 22.5 per cent (Cooke and Lawton 2008a). However, London also had the largest gap between the highest and lowest paid workers.

Our new regression analysis supports our previous findings, and, as Figure 2.8 shows, working outside London is a good predictor of low pay. Workers in the northern regions are between 11 and 15 per

cent more likely to be low paid compared to similar workers in London. Employees in Wales are also significantly more likely to be low paid than their counterparts in London. However, although workers in London are less likely to be low-paid than elsewhere in the UK, those individuals who are on a low wage face particular hardship in London. Analysis in the first report found that the impact of the minimum wage has been weakest in London, because of slower wage growth for low-paid workers and higher living costs and rates of poverty (Cooke and Lawton 2008a).

Figure 2.8: The effect of region on probability of being low paid, relative to London

Source: Authors' calculations using Labour Force Survey 2006-07.

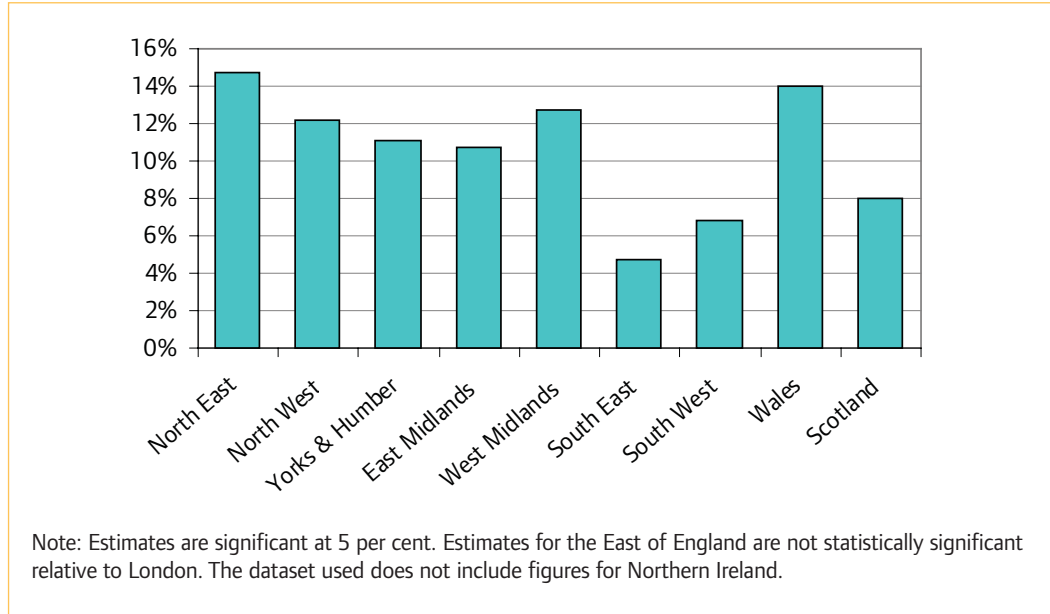
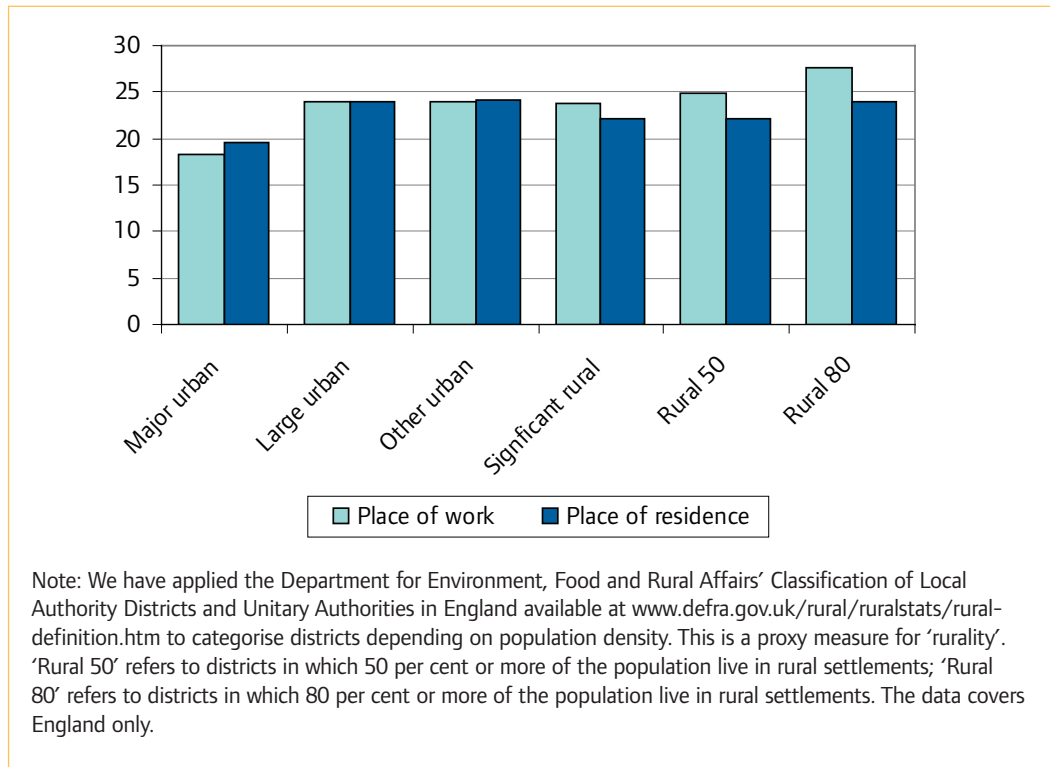


Figure 2.9 highlights the particularly high incidence of low pay in the most sparsely populated parts of England, if earnings are measured by place of work. The rate of low pay in local authority districts in which over 80 per cent of the population live in rural settlements ('Rural 80') stands at 28 per cent, compared with an average 22 per cent in England.

Figure 2.9: Average incidence of low pay in rural and urban areas in England

Source: Authors' calculations using data from the Annual Survey of Hours and Earnings 2006



The rate of low pay by place of residence is more consistent across district types, except for ‘major urban’ districts. This suggests that workers who depend on the local rural economy for employment are more likely to experience low pay. Those who are able to commute to more densely populated areas face a lower risk of low pay. The particularly low rates of low pay in major urban districts reflects the low incidence of low pay in most London boroughs.

The relationship between low pay and poverty

There is no straightforward relationship between pay and poverty. Different family types require different amounts of money to enjoy a similar standard of living, and an individual’s pay is only one source of income on which households can draw. Low-paid individuals may live with other working adults, who collectively avoid household poverty by virtue of their combined earnings and additional income. Employees earning a low hourly wage may work long hours, and help their household avoid poverty in this way. Conversely, someone who earns above our low-pay threshold may, nevertheless, live in a household in which the combined household income is not sufficient to lift it above the poverty line.

Although the link between pay and poverty is not clear-cut, low-paid workers certainly have a greater risk of living in a poor household. Cooke and Lawton (2008a) found that 7.2 per cent of low-wage workers lived in poor households in 2004/05, compared to just 0.4 per cent of employees with earnings above the low-pay threshold. Less than a fifth of low-paid adults earned enough to lift their household out of poverty through their own wages alone, compared with more than three-quarters of non-low-paid adults. Additional earnings from others in the household, and, to a lesser extent, benefits and tax credits, helped a further 74 per cent of low-wage workers to avoid poverty (ibid).

Retention and progression in the low-wage labour market

Having examined the relative risks of low pay in different jobs, firms and places, and for different groups of workers, we now consider the fate of low-paid employees. Are workers able to use their low-paid jobs as a stepping stone to better-paid, better-quality work? And how easy is it for low-paid workers to stay in employment at all?

In this section we will address both of these questions using data from the Annual Survey of Hours and Earnings (ASHE) and the British Household Panel Survey (BHPS). Both are longitudinal datasets, which allows us to track the employment status and pay of large numbers of employees, between 1997 and 2006 in the case of ASHE, and between 1991 and 2005 in the case of BHPS. We supplement the ASHE data with analysis from BHPS because it allows us to track low-paid workers who move out of work. (ASHE is a survey of employees only.)

The rest of this section is divided into two parts: we start by considering retention rates among low-paid workers, and then move on to look at which low-paid workers are able to escape low pay.

Employment retention among low-paid workers

For a significant minority of low-paid workers, it is a struggle simply to remain in employment, let alone seek out opportunities for advancement. Low retention rates among some groups of disadvantaged workers seriously limit the likelihood of low-paid workers making the transition to better pay.

Using data from the BHPS, we identified employees who were low paid in 2000, 2002, or 2004, and then examined their employment status in 2005. We also did the same for the higher paid workers. This analysis compares two ‘snapshots’ in time rather than providing a continuous analysis of employment status. An individual who was in employment at the time of the survey in both 2002 and 2005 may, nevertheless, have experienced a period of unemployment between these two points. The results are shown in Table 2.2.

For all workers, the likelihood of being in employment in 2005 decreases as the length of time under consideration increases. This is partly because a greater number of workers will have retired when a longer time period is considered. However, over each period of time, workers who were low paid at the start of our period of analysis face a greater risk of unemployment or inactivity in 2005:

- Only 76 per cent of employees who were low paid in 2000 were in employment in 2005, compared with 83 per cent of higher-paid employees.
- 87 per cent of workers who were low paid in 2004 were also in employment in 2005, compared with 93 per cent of the workforce as a whole.
- Workers who were low paid in 2000 were twice as likely to be unemployed by 2005, and three times as likely to be economically inactive.

Table 2.2: Employment status in 2005 of employees identified as low paid in 2000, 2002 or 2004

Year	Pay status	Employment status in 2005					Total
		Employed	Self-employed	Unemployed	Inactive	Retired	
2004	Higher paid	93.1%	1.1%	1.5%	2.4%	1.9%	100.0%
	Low paid	86.5%	0.6%	3.7%	7.2%	2.0%	100.0%
2002	Higher paid	87.3%	3.8%	1.2%	3.5%	4.1%	100.0%
	Low paid	78.6%	3.2%	4.1%	9.8%	4.4%	100.0%
2000	Higher paid	83.4%	4.3%	1.4%	4.1%	6.8%	100.0%
	Low paid	74.0%	3.6%	3.8%	11.3%	7.3%	100.0%

Source: Authors' calculations using British Household Panel Survey

Note: Low-paid employees are those earning less than 60 per cent of median full-time earnings and more than £3 an hour in either 2000, or 2002 or 2004. A cut-off hourly wage of £3 was chosen to exclude workers who did not accurately report their earnings, as this was just below the lowest level (the 'development rate') of the National Minimum Wage in each of the years in question. Workers earning more than £100 an hour were excluded from the analysis, as these values may not be accurate. 'Missing' refers to individuals where data is not available for 2005. See Annex 2 for further details.

Our findings on retention rates among low-paid workers are supported by previous research, from both UK and international studies:

- Gosling *et al* (1997) found that 30 per cent of men in the bottom earnings quartile in 1991 spent some time out of work over the following three years, compared to just 12 per cent of male employees in the top quartile.
- A study of low-paid workers in the US found that 20 per cent of employees who were low paid in 1999 were out of work in 2001 (Poppe *et al* 2003).
- Stewart (2006) demonstrated that low-wage jobs in the UK 'act as the main conduit for repeat unemployment'.

Poor employment retention among low-paid workers feeds into 'low pay-no pay' cycles, which act to keep individuals and families on low, insecure income, either in work or on benefits. Previous research has established the poor retention rates and low pay-no pay cycles experienced by benefit leavers, and by other groups of disadvantaged workers:

- Four out of ten people who move from Jobseeker's Allowance (JSA) to work return to benefits within six months, and of the 2.4 million JSA claims made each year, two-thirds are repeat claims. This rate of churn has remained at similar levels since the 1980s (Harker 2006, National Audit Office 2007).

- A fifth of repeat JSA claimants report a serious health problem or disability that has a direct impact on their ability to work, and 23 per cent have no qualifications (Carpenter 2006).
- A 2004 study found that approximately 20 per cent of lone parents moving from the New Deal to work return to benefits within six months, and nearly a third return to benefits within a year (Evans *et al* 2004).

Employees with a disability or health condition experience a particular risk of poor employment retention:

- Workers with a disability or health condition are on average three times more likely to leave employment than those without (Rigg 2005).
- Less than 60 per cent of people who started work through the New Deal for Disabled People remained in work for more than 13 weeks (Stafford 2007).
- Many disabled people acquire their impairment while in work, and one in six will lose their job, with those with a mental health condition facing double the risk of losing their job (Evans 2007).

A range of factors appears to combine to make staying in work difficult for some low-paid workers. A study by Graham *et al* (2005) found that employment retention in the first few weeks of a job is significantly affected by the availability of childcare, support from family and friends, as well as perceptions of the financial and emotional benefits of work. Once the initial phase of employment has been successfully passed, retention then appears to depend on factors related to the job itself, such as the nature of the work, relationships with colleagues and opportunities for progression.

It is important to recognise that poor employment retention among low-paid workers often derives from the nature of the UK labour market, rather than being a matter of ‘choice’.

In a study of repeat JSA claimants, Carpenter (2006) found that most people returning to JSA after a period in work did so because they were unable to find permanent employment: 41 per cent of participants said the main reason for returning to JSA was that they had only been able to find temporary work, 16 per cent had been made redundant and 10 per cent had been sacked. Trends in some industries – especially those with a high concentration of low-paying, entry-level jobs – towards more temporary, casual and/or seasonal working can make it particularly difficult to promote employment retention among low-wage workers (Kellard *et al* 2002).

Moves out of low pay

Despite experiencing relatively low employment retention, most low-wage workers do manage to stay in work from one year to the next. We now consider whether this work offers opportunities to move out of low pay.

Using data from the British Household Panel Survey, we took a sample of employees in 2002 and divided them into three groups depending on their hourly earnings: ‘high paid’; ‘medium paid’ and ‘low paid’. We then tracked the employment and pay status of these employees to establish whether they were still in employment in 2005, and which pay bracket they fell into.

The group was categorised as follows:

- ‘Low-paid’ workers earned less than 60 per cent of median full-time earnings in 2002
- ‘Medium-paid’ employees earned more than 60 per cent of median full-time earnings but less than 150 per cent
- ‘High-paid’ employees earn more than 150 per cent of median full-time earnings.

It is important to consider the labour market prospects of low-paid workers as a whole. Simply considering their potential pay status would ignore their greater chance of exiting the labour market, and overestimate the extent to which low-wage workers are able to increase their income (Stewart and Swaffield 1999).

Table 2.3 expands the findings set out in Table 2.2 above to examine the pay status in 2005 of employees identified as low, medium or high paid in 2002, as well as considering their overall employment status. It shows that:

- Low-paid workers appear to have the greatest wage mobility: after three years, 40 per cent were in higher-paying jobs, although a similar number remained in low pay.
- However, combining those workers who remain in low pay with those who become unemployed or inactive, we find that over half (53 per cent) of low-paid workers had experienced no significant improvement in their income from 2002 to 2005.

Table 2.3: Employment and pay status in 2005 for high-, medium- and low-paid employees in 2002

Pay in 2002	Employment and pay status in 2005 (%)						Total
	Self-employed	Unemployed or inactive	Retired	High paid	Medium paid	Low paid	
High	7.4	3.2	5.3	63.4	16.6	3.9	100
Medium	2.8	4.9	3.8	7.8	73.7	6.9	100
Low	3.2	13.9	4.4	1.1	38.0	39.4	100

Source: Authors' calculations using data from the British Household Panel Survey

Notes: Employees earning less than £3 or more than £100 an hour in either 2002 or 2005 are excluded from the sample.

We also carried out additional analysis of the 38 per cent of low-paid workers who had found 'medium'-paid work in 2005. Although this indicates that a significant proportion of low-paid workers is able to escape low pay, we found that only 17 per cent had earnings that were above the median, while 65 per cent had earnings below 80 per cent of median earnings. While these workers are no longer technically 'low paid', their earnings were not substantially higher, and the vast majority had not achieved above-average earnings after three years.

These results are supported by evidence from the US, which shows that although substantial proportions of workers appear able to escape low pay from one year to the next, they either do not do so consistently over a number of years, or they do not increase their earnings very much (Andersson *et al* 2005). This suggests that the pattern for many low-wage workers is of fluctuating earnings around a relatively low average, rather than permanent moves out of low pay.

To understand more about which workers are able to find ways out of low pay, we carried out some regression analysis using data from the Annual Survey of Hours and Earnings. This helped to identify the most important factors associated with moves out of low pay.

We selected a sample of employees who were low paid in both 2000 and 2001, and considered the factors associated with those workers not being low paid in both 2005 and 2006. Looking at pay status over a two-year period helps to exclude employees who have fluctuating earnings but are not consistently low paid. The range of variables we use for this analysis is similar to those used above in our analysis of low pay. However, ASHE contains fewer variables (although the sample size is much larger), so we supplement our analysis with findings from previous studies where appropriate.

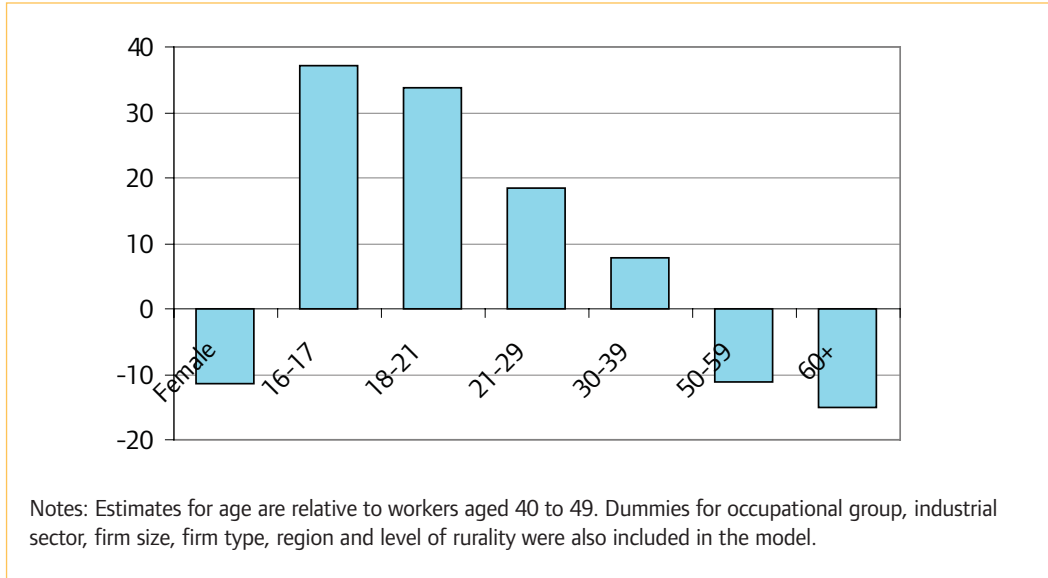
Worker characteristics

We have already established that personal characteristics have an important impact on the likelihood of an employee being low paid, particularly age and qualification level. Figure 2.10 shows that age is also strongly associated with moves out of low pay. The graph gives estimates for the likelihood of escaping low pay for different age groups, compared with people aged 40 to 49, and for women compared with men.

As we would expect, young people, particularly those aged 16 to 21, had a good chance of moving out of low pay over the period in question, compared to middle-aged workers. Holding everything else constant, women are 11 per cent less likely than men to move out of low-wage work.

Figure 2.10:
Personal characteristics associated with moves out of low pay, between 2000/01 and 2005/06

Source: Authors' calculations using Annual Survey of Hours and Earnings



ASHE does not contain data on employee disability or health status, but other evidence suggests that disabled workers experience less wage progression. Rigg (2005) found that the median annual change in earnings was 1.4 per cent lower for disabled men and 0.6 per cent lower for disabled women than for able-bodied workers. Evidence from the US indicates that ethnic minority workers, migrants and employees with lower levels of education are also less likely to escape low pay than people who do not fall into these categories (Andersson *et al* 2005).

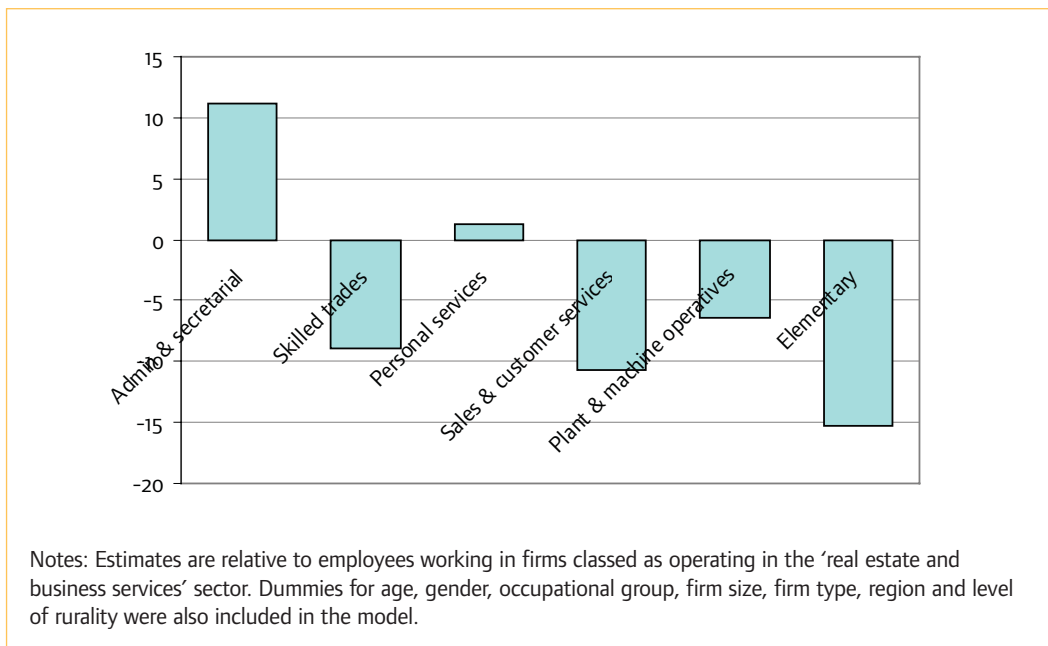
Job characteristics

Figure 2.11 compares the likelihood of employees in different occupations escaping low pay with those in managerial occupations. Low-paid professionals and associate professionals are significantly more likely to move out of low pay than managerial workers, but are not included on the graph because there are relatively small numbers of low-paid workers in these occupational groups.

Among the remaining occupations, administrative workers were nearly 12 per cent more likely to escape low pay than managers, perhaps reflecting the tiny number of low-paid managers. However, this does indicate that significant opportunities for wage progression exist in administrative occupations.

Figure 2.11:
Likelihood of moving out of low pay between 2000/01 and 2005/06 in selected occupations, compared with managerial occupations

Source: Authors' calculations using Annual Survey of Hours and Earnings



Moves out of low pay are less likely for workers who start out in skilled trades, customer service, semi-skilled manual occupations and in entry-level jobs. This indicates that, compared to managerial, professional and associate professional occupations, there are fewer progression opportunities in these occupations, perhaps because of lack of career ladders or training opportunities.

Firm characteristics

Previous studies have found that both retention and progression are higher in higher paying sectors, in large firms and in firms with a lower staff turnover (Engel and Sodha with Johnson 2007, Blazquez Cuesta 2006, Andersson *et al* 2005).

In our regression analysis, we compared low-paid workers in different industrial sectors with those working in business services. We found that employees in manufacturing, transport and 'other services' had a particularly high chance of moving out of low pay. We also found that workers in hotels and restaurants, retail and construction were more likely to move out of low pay than those in business services, but this effect was smaller.

Our findings are supported to some extent by other studies, which show that the manufacturing, construction and transport sectors have particularly strong routes out of low pay (Andersson *et al* 2005, Poppe *et al* 2003, Pavlopoulos and Fouarge 2006). Our analysis also found that firm size only had a small impact on the likelihood of escaping low pay.

The role of job mobility

There is an important question about whether low-paid employees are more likely to escape low pay if they stay with their existing employer or if they seek better work elsewhere.

Two opposing theories on the relationship between low pay and job mobility exist: on the one hand, job mobility is thought to increase moves out of low pay because it allows for better 'job matching'; on the other hand, staying with an existing employer is felt to be beneficial because it allows low-paid, low-skilled employees to build up firm-specific human capital, which, in turn, is felt to be the major determinant of wage increases (Blazquez Cuesta 2006).

On balance, the evidence appears to support the former theory, indicating that moving jobs is often a useful tactic for low-wage employees (Engel and Sodha with Johnson 2007, Kellard *et al* 2002, Blazquez Cuesta 2006). This suggests *employment* retention is of greater importance to low-paid employees than job retention.

However, Blazquez Cuesta (2006) found that this effect begins to diminish after a certain point, suggesting that there is a limit to the number of job moves that low-wage workers can successfully make. Job mobility can also be problematic if it derives from necessity, such as redundancy, rather than choice, and if periods of employment are interspersed with periods of unemployment, as discussed above. Furthermore, the wage gains from moving to a 'better' job or firm are often relatively small for low-wage workers (Atkinson and Williams 2003). Overall, although job mobility often offers the best chance for upward wage mobility, it is far from a guaranteed route out of low pay.

The effect of low pay and unemployment on future labour market prospects

The impact of a period of unemployment on future labour market prospects is well documented, but there is also evidence that low pay can have a significant effect on future pay and employment prospects (Stewart 2006, Stewart and Swaffield 1999).

Evidence from a number of studies suggests that previous experiences of low pay and unemployment are in fact among the most important predictors of low pay (Stewart 2006, Stewart and Swaffield 1999, Gosling *et al* 1999, Carpenter 2006). Using data from the British Household Panel Survey between 1991 and 1996, Stewart (2006) found that low-wage jobs had a negative impact on employment prospects of almost identical magnitude to unemployment, and concluded that low pay was little better than unemployment in helping people move into higher-wage work. This effect was independent of other factors such as occupational group, industrial sector, age, gender or qualification level.

Explanations for the effect of low pay on future prospects include:

- Evidence of low-paid work on an employee's CV may send 'signals' to employers about ability or motivation
- Low-wage workers may fail to keep up with other workers in terms of human capital development, or doing low-wage, unskilled work may actually cause human capital to diminish
- A period of low pay may affect the motivation or self-confidence of an employee, preventing them from seeking higher-paid work.
(Stewart and Swaffield 1999)

This indicates the limitations of assuming that taking low-wage work tends to lead to a better-paid, better-quality job in the end. It also suggests that the quality of the first job that labour market (re)entrants take has an important role in determining their future pay and employment prospects.

3. Trends in jobs and skills

Summary

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:

- It is projected that 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 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 high-level 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 people 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 premiums, there is some evidence that wage returns for lower-level vocational qualifications are weak and decreasing.
- The UK's relatively poor performance on some measures of skills explains around a fifth of the country's lower productivity relative to France and Germany. This means that four-fifths is explained by other factors, suggesting that increasing the supply of workforce skills may not, on its own, contribute significantly to improving economic performance in the UK.

We have demonstrated in the previous chapter that a significant proportion of the UK workforce is low paid, and that for many, this is not a short, transitional step on the way to a better-paid career. The purpose of this chapter is to examine projected trends in employment and skills over the coming years that are likely to have an impact on the extent and nature of low-wage work in the future.

Labour market trends

In this section we consider projections of industrial and occupational change between 2004 and 2020 taken from the *Alternative Skills Scenarios for 2020* report (Beavan *et al* 2005) prepared for the Leitch Review of Skills. The results are set out in Tables 3.1 and 3.2. Beavan *et al* (ibid) present three sets of projections, based on alternative scenarios of skill demand and labour market change. The projections outlined here are based on the report's 'baseline' projections, which assume a continuation of current labour market trends and policy.

These projections were made before the global economic downturn, which began in mid-2007, and so will need revising in light of the changing economic circumstances in the UK. Some sectors, such as financial services and construction, will face particular difficulties over the coming years, which is likely to affect the projections for changes in job demand in these sectors.

Reduced growth in household income could also have repercussions for employment in consumer services, which has expanded significantly in recent years. Overall growth in employment is likely to be curtailed over the next two to three years at least. Therefore, the projections presented in this section should be regarded as very general estimates. However, the overall direction of change in the labour market predicted by Beavan *et al* (2005) is unlikely to change significantly over the years to 2020, and the projections remain important indicators of the future evolution of the labour market.

Projected industrial change

Three key trends emerge from Beavan *et al*'s projections of industrial change: the continued importance of manufacturing, despite continued decline; the growth of jobs in low-paying sectors; and, conversely, the expansion of employment in sectors with a low incidence of low pay.

Industry	No. of jobs, 2004 ('000s)	Projected no. of jobs, 2020 ('000s)	Projected change in no. of jobs 2004-2020 (%)	Incidence of low pay, 2006 (%)
Agriculture	426	335	-21.4	42.0
Primary production	183	136	-25.7	-
Manufacturing	3,552	2,965	-16.5	14.6
Construction	2,090	1,934	-7.5	11.3
Wholesale and retail	5,055	5,637	+11.5	43.6
Hotels and restaurants	1,962	2,086	+6.3	69.2
Transport and communications	1,813	1,926	+6.2	10.8
Business and professional services	4,783	6,253	+30.7	20.6
Financial intermediation	1,162	1,136	-2.2	5.4
Public administration and defence	1,741	1,162	-6.7	5.8
Education	2,443	2,640	+8.1	17.4
Health and social work	3,224	3,695	+14.6	19.2
Other services	1,871	2,148	+14.8	31.1
All employees	30,305	32,515	+7.3	22.5

Source: Beavan *et al* 2005; Authors' calculations using Annual Survey of Hours and Earnings 2006

By the end of the next decade there will still be just under three million manufacturing jobs in the UK, representing 9.1 per cent of all employment, as Table 3.1, above, highlights. Between 1984 and 2004, the number of manufacturing jobs fell from 5.3 million to 3.6 million (Wilson *et al* 2006). However, this decline is expected to slow between 2004 and 2020, with a fall of just 1.7 per cent.

Low value-added manufacturing, operating in low-price, low-specification markets, will continue to face intense international competitive pressures and subsequent job losses. However, in other areas (such as pharmaceuticals, aerospace and, potentially, low-carbon technologies) the UK has scope to further develop a competitive advantage in specialist product markets, based on high value-added, high-specification strategies. This should be a priority, given that only 14.6 per cent of manufacturing jobs are low paid, compared with 22.5 per cent across the labour market as a whole, with an even lower incidence in high value-added subsectors.

Nearly one million new jobs are set to be created in industries that currently have relatively high levels of low pay. As Table 3.1 shows, nearly 45 per cent of jobs in wholesale and retail were low paid in 2006, and an extra 582,000 jobs are projected in this sector by 2020. In hotels and restaurants, just under 70 per cent of jobs were low paid in 2006, and employment in this sector is expected to grow by 124,000. Just under a third of workers in 'other services' are low paid, and this sector is expected to add 277,000 jobs.

This could mean an extra 420,000 low-wage jobs in these three sectors alone, assuming that low-pay rates in these industries remain broadly similar. It is important to note that these sectors face little exposure to international competition.

There will be an estimated 2.25 million new jobs in sectors with a low incidence of low pay. The expansion of business services alone is expected to see the creation of an extra 1.47 million jobs in the decade to 2020. Although the rate of low pay is just below the national average in this sector, the greatest growth is expected to come from computer services, where the incidence of low pay is very low (Beavan *et al* 2005). Employment in education and health, where low-pay rates are below the UK average, is projected to grow by 668,000 jobs. A further 113,000 jobs are predicted in transport and communications, a sector where the rate of low pay is less than half the national average.

Ensuring sufficient supply of the necessary skills to fill these positions is clearly the priority here. These sectors are also prime candidates for targeting efforts to develop career ladders for those currently in low-wage work.

Projected occupational change

Beavan *et al*'s projections highlight three major trends in terms of the future occupational composition of the UK labour market: job growth in occupations with a very low incidence of low pay; job losses in occupations where low pay is just below the national average; and an expansion of employment in occupations where low pay is prevalent.

By 2020 it is expected that just over 45 per cent of all jobs, nearly 15 million, will be in occupations where the current incidence of low pay is less than five per cent, as Table 3.2 demonstrates (next page). Overall, there is projected to be an extra 2.5 million jobs among managers and senior officials, professional occupations, and associate professional occupations. Over the same period, the number of jobs in elementary occupations will fall by a quarter, down to 2.6 million. Over 60 per cent of elementary jobs are currently low paid.

More than half a million jobs are set to be lost in occupations where the incidence of low pay is just below the national average. These occupational groups – administrative and clerical occupations (down 357,000 jobs) and skilled trade occupations (down 177,000 jobs) – are under pressure from technological advances and international competition.

The projected contraction in these so-called 'intermediate' sectors is consistent with the 'polarisation' thesis of labour market change (Goos and Manning 2003). This thesis suggests that growth in so-called 'high-end' jobs is being accompanied by a hollowing out of the 'middle' of the UK labour market and an expansion of so-called 'low-end' jobs. However, it is worth noting that, even by 2020, a fifth of all jobs (6.7 million) will still be in these two 'intermediate' occupational groups.

Table 3.2: Projected occupational change in the context of low pay, 2004-2020

Occupational group	No. of jobs, 2004 ('000s)	Projected no. of jobs, 2020 ('000s)	Projected change in no. of jobs, 2004-20 ('000s) (expansion demand)	Net requirement, 2014-20 (expansion demand + replacement demand)	Incidence of low pay, 2006 (%)	No. of job openings 2004-20 which will be low paid ('000s)
Managers and senior officials	4,609	5,499	+890	+3,325	4.0	133
Professional	3,539	4,518	+979	+2,861	1.6	46
Associate prof'l and technical	4,302	4,978	+676	+2,764	4.8	133
Administrative and secretarial	3,790	3,433	-357	+1,791	17.2	308
Skilled trades	3,433	3,256	-177	+1,476	17.2	254
Personal service	2,244	2,881	+637	+1,904	38.9	741
Sales and customer service	2,412	2,972	+560	+1,747	63.7	1,113
Machine and transp. operatives	2,367	2,234	-133	+1,070	24.0	257
Elementary	3,403	2,559	-844	+887	60.7	538
All employees	30,099	32,330	+2,231	+17,825	22.5	3,522

Source: Beavan *et al* 2005; Authors' calculations using Annual Survey of Hours and Earnings 2006

An extra 1.2 million jobs are projected to be created in service sector occupations where the incidence of low pay is currently significantly above the national average. The number of jobs in personal service occupations (which includes caring professions) is set to grow by 637,000 by 2020. Almost two-fifths of jobs in these occupations are currently low paid. In sales and customer service occupations, it is expected that 560,000 jobs will be added between 2014 and 2020. Nearly two-thirds of jobs in these occupations are currently low paid. Significantly, these are not sectors where there is much scope for tasks to be either outsourced or replaced by technology.

The projections given so far in this section have referred to 'expansion demand': the number of additional jobs created (or lost) in different industries and occupations – 2.2 million overall to 2020. However, combining this with estimates of retirements, mortality and other exits from work ('replacement demand') suggests that there will be 17.8 million job openings overall between 2004 and 2020. The scale of replacement demand means that even occupational groups set to see negative expansion demand (such as elementary occupations) will still see a positive net requirement for job openings.

Our calculations suggest that, by 2020, 3.5 million of the additional jobs created by a combination of expansion and replacement demand – 20 per cent of the total – will be low paid, assuming that low-pay rates in each occupational group remain broadly stable. Given that a just over a fifth of jobs in the UK labour market are currently low paid, this would suggest that there will be very little change in the proportion of jobs that are low paid by 2020.

Trends in workforce skills

In this section we examine the evidence linking skills to workers' pay and firms' productivity in the context of likely future patterns of skills supply and demand. Note that there is no perfect measure of skills, but qualifications are the most common proxy measure. However, people often have many skills that are not recognised by the holding of formal qualifications (Leitch 2005).

Skills undoubtedly have an important role in the UK economy, and weaknesses in the UK's skills base have clear consequences for workers, businesses and the economy as a whole. Individuals with higher-level skills are more likely to be in employment and enjoy a considerable wage premium (Leitch 2005).

The UK has a poor record on basic skills compared with many OECD countries, and lags behind Finland, Sweden, Canada, Japan and the US when it comes to higher-level skills (ibid). Lower-level workforce skills offer a partial explanation for the UK’s productivity gap with France and Germany.

However, there are three factors, on which we elaborate below, that raise doubts about the ability of a general ‘upskilling’ of the workforce to create the returns in productivity and economic performance needed to reduce the incidence of low pay in the UK: the changing balance between skill supply and demand; trends in returns to skills; and the relationship between skills and productivity.

Skill supply and demand⁵

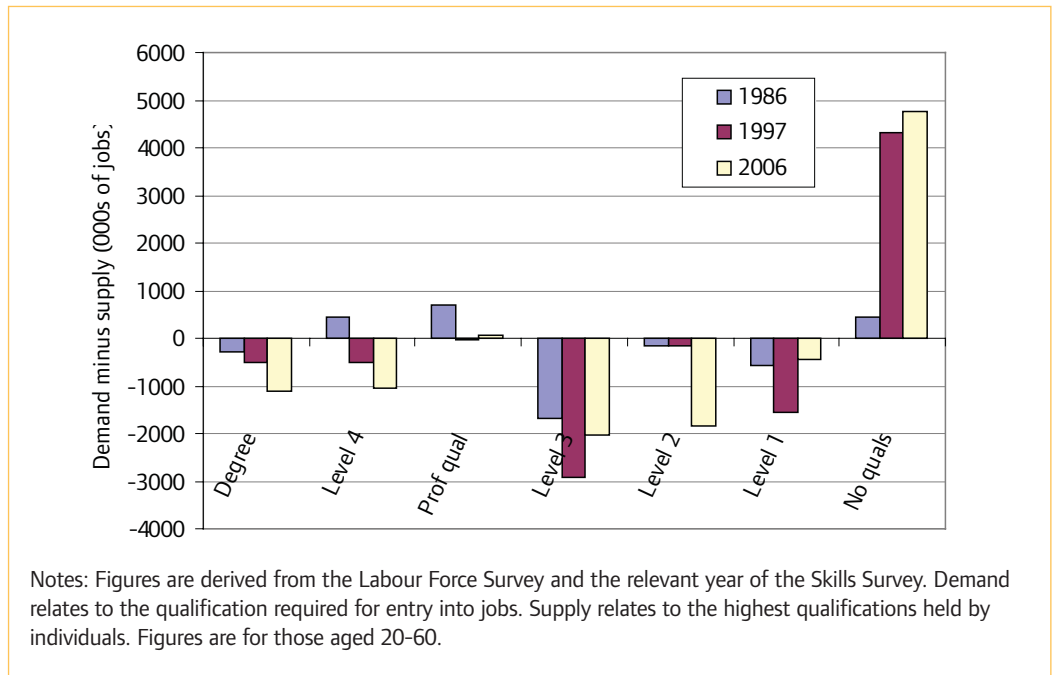
Despite continued skills weaknesses, there has been significant growth in the proportion of the population with intermediate and higher skills and a concomitant decline in the number of people with low or no skills in recent years.

The proportion of men in employment with no qualifications fell from 50 per cent in 1975 to 21 per cent in 1995, while the proportion of men with degrees or higher rose from six per cent to 16 per cent (Machin 2003). This pattern of rapid upskilling has continued in the recent period. Between 1994 and 2004 the proportion of the working-age population with a degree-level qualification increased from 19 per cent to 26 per cent. The proportion holding no qualifications fell from 21 per cent to 14 per cent, and the proportion lacking a Level 2 qualification (equivalent to five good GCSEs) dropped from 43 per cent to 23 per cent (Leitch 2005).

However, analysis of trends in workforce skills and job requirements, carried out by the Centre on Skills, Knowledge and Organisational Performance (SKOPE), suggests that the demand for skills has not risen as quickly as supply. Figure 3.1 shows the gap between the number of jobs requiring various levels of qualifications and the number of workers holding such qualifications. The graph highlights the gap between skills demand and supply for 1986, 1997 and 2006 to allow an analysis of trends over the last two decades.

Demand for skills has risen over the last two decades, due to both changing occupational profiles and improvements in skill levels within occupations (Beaven *et al* 2005). For example, only 20 per cent of

Figure 3.1:
Qualifications demand and supply 1986-2006
Source: Felstead *et al* 2007



5. Patterns of future demand for workers are difficult to project, both because they are subject to the agency of workers and employers, and because measures based on formal qualifications required for jobs are an imperfect proxy for skills demand. Also, the supply-side data used by Felstead *et al* does not include the economically inactive, who are more likely to have low or no qualifications. Therefore, this data should be taken as an indication of trends, rather than a precise measure of skills supply and demand.

jobs required a qualification at Level 4 (degree or professional qualification) or above in 1986, increasing to 30 per cent by 2006. Over the same period, the proportion of jobs with no qualification requirements on entry fell from 39 per cent to 28 per cent (Felstead *et al* 2007). Beyond formal qualifications, rising skill demands can be seen in significant increases in the proportion of jobs requiring at least two years' training, taking longer than a month to pick up and continually needing new things to be learned (*ibid*).

However, Figure 3.1 suggests that between 1986 and 2006 growth in skills supply (at intermediate and higher levels) comfortably outpaced rising demand:

- In 1986 there were 440,000 more jobs requiring at least a Level 4 qualification than there were workers qualified to that level. In 2006, there were over one million more workers than jobs at Level 4 and beyond.
- At the other end of the labour market, there were 453,000 more jobs requiring no qualifications than unqualified workers in 1986. However, by 2006 there were 4.6 million fewer unqualified workers than jobs with no qualification requirements on entry.
- In 1986, 29 per cent of workers held a qualification at a higher level than was required for entry into their job. This proportion had risen to 40 per cent by 2006. (Felstead *et al* 2007)

There is also evidence that there was a relatively rapid rise in demand for skills from 1986 to 2001, but this stagnated in the years to 2006. For example, demand for workers with qualifications at Level 4 or above barely grew between 2001 and 2006, following a 20 per cent surge between 1997 and 2001. There was no rise in the proportion of jobs that take at least a month to learn to do well between 2001 and 2006, and following strong growth across the board between 1997 and 2001, little growth in the use of skills across 10 domains identified in the Skills at Work survey (Felstead *et al* 2007). These 10 domains are generic skills and include: literacy, numeracy, technical know-how, high-level communication, planning, client communication, horizontal communication, problem-solving, checking, and physical skills.

Three-quarters of jobs now require the use of computers and other advanced technology, but growth slowed markedly between 2001 and 2006 (Felstead *et al* 2007).

Based on a slightly wider age group (those between 20 and 65), Figure 3.2 summarises the balance between qualifications held and required in 2006 (Felstead *et al* 2007):

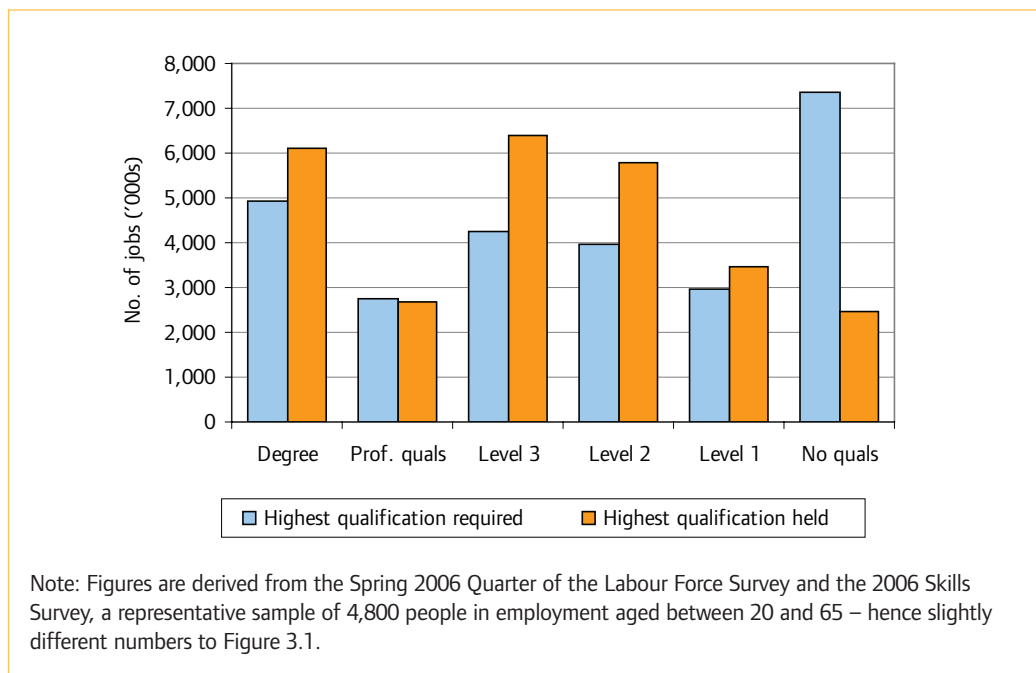
- There are 8.8 million economically-active people – that is, those working-age adults in employment and also those actively seeking work – (aged 20–65) who hold a qualification at Level 4 or above, but only 7.7 million jobs require a qualification at that level for entry.
- 2.5 million economically-active people have no qualifications, but around 7.4 million jobs have no entry qualification requirements.
- There are significantly more economically-active people with qualifications at Levels 2 and 3 than there are jobs that require these levels of qualifications for entry.
- Still less than a third of jobs require a graduate level qualification for entry.

Felstead *et al* also found that half of those with Level 2 and 3 qualifications are in jobs that do not require that level of qualification for entry – a higher proportion than those holding a qualification at Level 4 or above.

Looking ahead to 2020, projections produced for the Leitch Review of Skills show a fall in the proportion of those in employment with no qualifications from 10.5 per cent in 2004 to 1.8 per cent in 2020 (down from 3.2 million to 585,000 workers) (Beaven *et al* 2005, Leitch 2005); these figures represent the 'baseline' scenario presented in the Leitch Review's interim report. Under a 'high-skill' scenario, the number of economically-active adults with no qualifications could fall to under 500,000 (Leitch 2005). Broadening this out to include the whole working-age population (rather than just economically-active adults) reveals that the proportion of all adults with no qualifications is set to fall from 13 per cent in 2005 to just 4 per cent by 2020.

Figure 3.2:
Qualifications demand and supply, 2006 (for adults aged 20-65)

Source: Felstead *et al* 2007



Returns to skills

Over the final quarter of the 20th century, the wage premium associated with holding qualifications rose, despite a rapid increase in the supply of more highly skilled workers (Felstead *et al* 2007). For example, while the proportion of working men with at least a degree increased from 5.8 per cent to 16.3 per cent between 1975 and 1998, degree-educated men earned 71 per cent more than unqualified men in 1998, compared with 54.2 per cent more in 1975. A similar, though less marked, pattern occurred for degree-educated women, and among both genders with higher vocational and intermediate qualifications (Machin 2003).

Analysis presented in the Leitch Review also confirmed significant positive wage returns to A Levels, GCSEs and some higher-level vocational qualifications (Leitch 2005). In addition to formal qualifications, other generic skills are associated with a significant wage advantage. Felstead *et al* (2007) found that jobs requiring influencing skills and IT skills pay significantly more than those that do not.

However, there is consistent evidence that wage returns from some qualifications (particularly vocational ones) are negligible, and some evidence that returns are weakening for some other qualifications, which is consistent with a slackening in demand for skills:

- **Degrees:** while a degree still offers a good return (especially a degree in a science subject), there is evidence that the wage premium enjoyed by graduates may be weakening (Purcell *et al* 2005).
- **Level 2 qualifications:** overall, the wage return for Level 2 qualifications appears to be falling. For instance, the wage premium for women with jobs requiring a Level 2 qualification was 15 per cent in 1986 (relative to a job requiring no qualifications), falling to just 5 per cent in 2006, with a particular fall between 2001 and 2006 (Felstead *et al* 2007).
- **Level 2 vocational qualifications:** studies continue to show little or no positive wage return for Level 2 vocational qualifications (such as National Vocational Qualifications/NVQs) (Leitch 2005, Tamkin *et al* 2004), though these can be important in providing a route into employment and a stepping stone to higher qualifications. There is some evidence that vocational Level 2 qualifications often simply certify existing skills rather than building new ones, which is reflected in the lower value given to these qualifications by employers (Delorenzi 2007).
- **Workplace training:** analysis of the 2006 Skills Survey also found that only 18 per cent of people who had undertaken work-based training had received a pay increase, while only 17 per cent had subsequently got a better job (Felstead *et al* 2007).

Skills and productivity

There is strong evidence linking improvements in skills to increased productivity (Leitch 2005, Beaven *et al* 2005). This impact is both *direct*, through increases in ‘value added’ per worker or per hour worked, and *indirect*, through ‘spillover’ effects on innovation and workplace performance. In the context of a high incidence of low pay in the UK, the aim of increases in productivity, profitability and economic performance should be to pass on some of these gains to workers in the form of higher wages. This is an important part of a strategy designed to reduce the number of low-paying jobs in the labour market.

One study found that increasing the literacy score of a country by 1 per cent leads to a 2.5 per cent rise in labour productivity (Coulombe *et al* 2004). Another study identified a 10 per cent rise in net sales per worker among those who had received over three years’ training (Kling 1995). A third study found that 87 per cent of workers who had undergone training said it had improved their job performance (Felstead *et al* 2007). Skills also affect the capacity of firms to identify and capture high-value markets (Beaven *et al* 2005), which is increasingly significant given the global pressures on low-cost, standardised goods and services (Learning and Skills Council 2007).

However, there is also evidence to suggest that there is no direct relationship between the ‘stock’ of qualifications held by individuals in a particular country, and that country’s economic performance, or the extent of low pay (Keep 2008). While there have been very significant improvements in skills supply in the UK over the last two decades, productivity growth has been modest,⁶ and the incidence of low pay has actually increased (Cooke and Lawton 2008a).

Calculations for the Leitch Review suggest that improvements in qualification levels between 1994 and 2004 contributed only an additional 0.2 percentage points to annual productivity growth in the UK. This is over a period during which the proportion of the workforce with at least a degree-level qualification rose from 19 to 27 per cent, and the proportion with no qualifications fell from 22 per cent to 13 per cent (Leitch 2005).

In 2006, productivity in the UK – measured by GDP per worker – was lower than the G7 average, and the UK performed particularly poorly compared to the US and France (Office for National Statistics 2008b). Productivity in the UK increases slightly when measured on a per-hour-worked basis, although, on this measure, it remains significantly lower than in a number of European economies, including France, Germany, Norway, Ireland and the Netherlands (OECD 2008). Within the EU15, productivity growth in the UK is only ahead of Portugal, Greece and Spain (Chartered Institute of Personnel and Development 2008).

The Leitch Review emphasises that up to a fifth of the productivity gap with France and Germany can be explained by the UK’s comparatively poor skills base. However, this means that four-fifths of the reason for the gap is rooted in other productivity drivers, and, even if the skills gaps were closed, the majority of the productivity gap would remain (Keep *et al* 2006, Porter and Ketels 2003).

Scotland has consistently invested more per head on skills than England, yet productivity per worker has consistently lagged behind, suggesting the cause of the gap lies in demand-side rather than supply-side weaknesses (Keep *et al* 2006). In fact, evidence seems to suggest that other drivers of productivity have not kept pace with the improved supply of skills, and that the UK continues to lag behind some of its European competitors on key productivity indicators

6. Keep *et al* highlight ambiguity over the UK’s relative productivity performance, which has improved on an output-per-hour basis but remains well behind France, Germany and the US on an output-per-worker basis. They question the resonance of productivity as a measure of performance among employers, as opposed to profitability, returns on capital investment, share price, and so on (Keep *et al* 2006, Learning and Skills Council 2007).

(Keep *et al* 2006, Learning and Skills Council 2007). Important drivers of productivity beyond skills include:

Product market strategies:

- A number of studies indicate that a higher proportion of UK firms operate in lower quality niches of the market, producing low-specification products and services, than our European competitors (Beaven *et al* 2005, Porter and Ketels 2003, Lloyd *et al* 2008). This weakens demand for higher skills.

Investment:

- Corporate investment as a proportion of GDP in the UK is just 17 per cent, the lowest in the G7 (Leitch 2005).
- The UK's weak record on investment in physical capital, R&D and infrastructure is central to the productivity gap with Germany, France and the US (O'Mahoney and Boer 2002, Department for Trade and Industry [DTI] 2006a, Porter and Ketels 2003).
- Analysis by the former DTI found that the UK's weak record on R&D reflects the fact that the bulk of UK companies are currently clustered in sectors of low or no R&D intensity, and that lack of appropriate skills is not seen as a major factor hampering innovation (DTI 2005a, 2006a, 2006b).

Application of innovation:

- The Learning and Skills Council points to evidence that UK industry has been less effective at reaping the productivity gains from Information and Communications Technology (ICT) than the US (Learning and Skills Council 2007). It suggests that there is a greater propensity for US managers to embrace organisational change in tandem with the application of new ICT.

Integrated training and business strategies:

- Studies show that productivity growth is enhanced by the joint introduction of training and innovation, ensuring that higher-skilled workers are put to good use (Leitch 2005).
- However, a Skills for Business Network survey of employers reported that 26 per cent of employers said their human resource strategy was not linked to their business strategy (Learning and Skills Council 2007).

Despite the need to focus on reducing the UK's 'productivity problem', it is also important to recognise that productivity gains do not necessarily feed through into higher wages. For instance, studies have found that a 5 per cent increase in the proportion of workers trained in an industry leads to a 1.6 per cent increase in wages, but a 4 per cent increase in value added per worker (Dearden *et al* 2000a). A further study found that the impact of training on wages may be only half as large as the productivity effect (*ibid* 2000b). This suggests that the benefits of higher skills can be 'captured' by firms, rather than passed on in a fair proportion to workers.

4. Policy implications and recommendations

The analysis presented in Chapters 2 and 3 presents a real challenge to the Government's current strategy for tackling low pay and in-work poverty. A lack of progression opportunities and the concentration of UK firms in low-value, low-specification markets raises questions about the likely success of a strategy focused on increasing the level of skills held by individuals. In this chapter, we examine in more detail the implications of our analysis for policy on welfare, skills, the labour market and economic development. We also make some recommendations for the achievement of our vision for full employment that does not rely on high rates of low pay and in-work poverty.

Raising skill demand and utilisation

Summary

Policy implications

- Under the current policy framework, there are not projected to be significantly fewer low-wage jobs in the UK by 2020, despite the fact that there will be very few adults with no qualifications by 2020.
- This does not mean there is an oversupply of skills in the UK workforce, but it does indicate that more needs to be done to improve the skill demand and utilisation, so that low-paid workers can add more value to firms and enjoy wage increases in return.
- Greater priority should be given to shifting key sectors of the UK economy towards higher-value, higher-skill, higher-wage business models.
- This potentially represents a long-term and sustainable response to the problem of low pay and in-work poverty in the UK that does not rely on substantially larger cash transfers to low-wage workers or unsustainable increases in the minimum wage. There could also be additional benefits in the form of improved productivity and economic performance.

Recommendations

- Employment, skills and economic development functions should be integrated and decentralised. This would ensure that efforts to increase both employment and workforce skills are joined up with strategies for enterprise and economic development.
- Decentralising these functions will enable local agencies with a knowledge of the local labour market to make decisions about objectives and funding.
- It will also allow them to negotiate bargains with employers that ensure that improvements in workforce skills are matched by steps to raise skill demand and utilisation.

Three critical conclusions emerge from the analysis presented in Chapters 2 and 3 of this report:

- There will not be significantly fewer low-wage jobs in the UK by 2020.
- There will be very few economically-active adults with no qualifications by 2020.
- The level of skills held by an individual is only one indicator of their risk of being low-paid. The kind of job they do and the kind of organisation they work for can be just as important.

The prevailing narrative about UK labour market trends over the last two decades has emphasised the growing dominance of the 'knowledge economy'. According to this thesis, a combination of global competition and technological progress is fundamentally reshaping the patterns and organisation of work (Leadbetter 2000, Giddens 1998). This contention rests primarily on the decline of Britain's manufacturing base, the growth of key service sectors and a shift in demand towards professional and managerial occupations and away from elementary jobs, which are replaced by either technology or cheaper overseas labour.

The ‘knowledge economy’ thesis also implies an increase in the significance of skills. This is because technological progress (‘skill-biased technological change’) and shifts in the structure of the labour market (driven by globalisation) are acting to increase both the benefits of holding high-level skills and the penalties for holding low-level skills.

The ‘knowledge economy’ narrative has been important in framing Labour’s policy approach in government. In particular, it has underpinned the emphasis on supply-side measures that have sought to boost international competitiveness and enable as many people as possible to prosper in the global economy. Increasing labour market participation and raising the level of skills held by individuals have been particularly important elements of the Government’s strategy. Government policy deriving from the ‘knowledge economy’ thesis has delivered impressive employment and poverty outcomes, although it has not delivered similar progress on tackling low pay and in-work poverty.

However, the data presented in Chapter 3 poses a considerable challenge to the central message of the ‘knowledge economy’ thesis: that there will be a dramatic reduction in the number of low-paid, low-skilled jobs by 2020.

Our analysis suggests that there will be a very similar number of low-paid jobs by 2020 if the current policy focus is maintained. While there will continue to be important shifts in both industrial and occupational structure, these are projected to be far less dramatic than those that took place during the 1980s and 1990s (Wilson *et al* 2006). Also by 2020, there will be very few economically-active adults – just 585,000 – who have no qualifications, yet a similar number of jobs as in 2004 requiring no qualifications.

The analysis contained in Chapter 2 further supports the argument that the response to low pay and in-work poverty cannot simply rest on supply-side interventions. Our findings demonstrate that low pay is not simply the result of poor human capital held by individuals. The incidence of low pay varies significantly by occupation and industrial sector, even when qualification level, gender and age are held constant, indicating that low pay is as much a feature of the job as it is of the worker. This suggests that policy should be as concerned about the quality of jobs as it is about the attributes of individual workers.

Our analysis demonstrates that the policy response to low pay going forward cannot be based on an assumption that the problem of low-wage work will largely resolve itself through the evolution of the UK labour market. Active policy intervention is required to ensure that the UK economy is capable of providing a large number of high-quality, high-wage jobs.

The conclusion of this analysis is not that the UK has an oversupply of skills, less still that efforts to improve individuals’ skills are unimportant or misplaced. In fact, Britain still lags behind many of its European competitors in terms of the quality of skills in the workforce, particularly basic level skills, and efforts must continue to improve skills supply. However, our analysis does draw attention to the centrality of raising employer demand for skills, and ensuring that the types of skills (not just qualifications) gained and held are closely aligned with those required by employers both today and to improve productivity and performance in the future.

Without policy interventions to increase the demand and utilisation of higher skills, we risk constraining the impact of the increasingly limited public resources directed at improving skills supply.

Reorientating economic development in the UK

Increasing the number of good quality jobs in the UK labour market is a crucial part of tackling low pay. This requires a reorientation of economic development, so that greater priority is given to competing on quality and value, which tends to increase the demand for higher skills and support higher wages.

Broadly, there are two potential categories of firm-level strategies to achieve this: changing the product market strategies and business models of low-paying firms, so that they compete in higher-quality, higher-value markets; and improving workplace performance in order to enhance firm productivity (Learning and Skills Council 2007, Keep *et al* 2006, Porter and Campbell 2006). In both

cases, our aim is to increase skill demand and utilisation, in the process creating gains that can be shared with workers in the form of higher wages. In the long term, this should start to increase the balance of good quality, high-paying jobs relative to poor quality, low-paying jobs.

These approaches are often referred to as ‘high-road’ strategies, particularly in the US literature (Luria and Rogers 1999). To stay competitive, firms with a ‘high-road’ approach must continually improve the quality of their output, which requires continual innovation and the application of higher skills. In contrast, ‘low-road’ business strategies lead firms to compete on price, which means keeping costs down and relying on low-skill, low-wage labour (ibid). Innovation and workplace performance are not priorities if costs can be kept low, and if the supply of labour remains at an adequate level.

However, the reality for businesses operating in the UK is that there are many different strategies, or ‘roads’, available to them, and many different ways of increasing their use of higher-level skills, and improving performance and productivity.

The ‘high-road’/‘low-road’ dichotomy oversimplifies what businesses do, and can obscure complexity within firms and sectors. However, some of the arguments around ‘high-road’ economic development can be useful for thinking about the kind of changes that might need to take place in the UK in order to increase the supply of higher-quality jobs. These changes should be seen as a gradual shift towards higher-value markets and enhanced workplace performance across a range of firms, sectors and places.

An important point is that a range of different business strategies can be profitable, including those that rely on low-wage workers and require firms to compete more on price than on value. Short-term pressures can also reduce the incentives for firms to make the kinds of investments that might lead to an increase in demand for higher-level skills and longer-term productivity gains: requirements for efficiency savings in the short term can lead to an underinvestment in R&D and innovation, a reluctance to release staff for training, and a lack of time for staff to pass on skills and knowledge to colleagues (Keep *et al* 2006).

However, the cost to workers and society – through low pay, in-work poverty, long working hours, and public spending on tax credits – of profitable business strategies that require low-level skills, low investment and little innovation is significant. This indicates a need for policy intervention.

Government cannot and should not instruct or direct private sector employers in their business strategy. However, the agency of the state can and should be used to support and encourage workers, firms and places to compete on high quality, high value and high-level skills.

This kind of economic development requires significant upfront investment – in education and training systems linked to employer demand, in improving the operation of the labour market, in new equipment and processes, and in the application of R&D and scientific research (Luria and Rogers 1999). It also requires the application of minimum standards to protect workers and firms, such as maintaining a wage floor and ensuring minimum standards of labour rights and environmental protection, much of which the current Government has implemented.

Very little of this can be done by individual firms. Government must step in to provide the infrastructure and support for firms to adopt higher-value business strategies, and to reduce incentives for business models that compete aggressively on price at the expense of workers and society. Trade unions, civil society organisations and consumers also have an important role in encouraging firms to adopt higher-value strategies, and in ensuring that workers receive a share of productivity gains in the form of higher wages.

A modern strategy for ‘high-road’ economic development is not about ‘picking winners’ or ‘propping up losers’. In fact, the analysis in Chapter 2 suggests that sectors facing global competitive pressures are those most likely to have successfully adapted to compete in high-value markets and to deliver higher productivity. International competition can create a spur to firms and sectors to raise their game, but, left to its own devices, the pace of globalisation risks overtaking them.

This is where the state and other public agencies have a crucial role in helping workers, firms and places to shift up the value chain and improve workplace performance, to maximise the impact of improvements in workforce skills. In particular, this requires greater consideration of other drivers of productivity growth beyond skills, where the UK has traditionally been weak.

Government cannot legislate for, or directly fund, the kind of changes we argue are necessary to shift a greater proportion of the UK labour market towards high-value, high-skill, high-pay employment. In most areas, further legislation and regulation would be ineffective. However, this does not mean that the state has no power to address some of the structural weaknesses in the labour market that contribute to high levels of low pay. Rather, the state needs to use its considerable power and resources to lever in action and commitments from individuals and organisations across the country.

In some of the countries and sectors where attempts to help employers raise their game have been particularly successful, social partnership arrangements have been stronger than they are in the UK, with trade unions playing an important role in bargaining with employers. However, the lack of strong social partnership arrangements in the UK should not deter us from making some attempt to improve the supply of good quality, high-wage jobs.

It may be useful to begin some of these steps in sectors where unionisation is still relatively high. Government could also do more to set out a positive role for trade unions in a modern economy and to appeal to moderate elements of the union movement. It may also be the case that a strategy for increasing job quality and wages will be more effective in some sectors than in others.

The purpose of this paper is to set out a range of policy responses to the persistently high levels of low pay and in-work poverty that we have identified in the UK. It is clearly the case that some approaches will be more suitable for particular sectors, firms and places than others. The diversity of local labour markets and firms militates against a single solution.

In those sectors where improving job quality and competing more on value than on price is more challenging, we set out further responses that may be more appropriate. These include better post-employment support for vulnerable workers, rebuilding career ladders and improving access to higher-level work-related training.

These strategies may be more suitable for sectors such as retail and hospitality, where the incidence of low pay is high, but opportunities for innovation and investment to improve job quality are fewer. However, this is not to say that there are no opportunities to improve wages and job quality in these sectors. Technological change, for example, could drive up demand for skills in sectors such as retail, through increasing automation and online sales.

Integrating and decentralising employment, skills and economic development

In moving towards 'high-road' economic development, skills supply in the UK needs to be much more firmly linked 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, which our analysis in Chapter 3 highlighted as being important in ensuring that workforce skills are effectively exploited. 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.

In a number of English-speaking and European countries, this is the approach already being taken. Countries including New Zealand, Australia, Ireland and Finland have developed policies that are designed to improve skills supply, demand and utilisation in a holistic way (Keep 2008). In 2008, a New Zealand report on the country's skills strategy, issued by a tripartite group of government, business and labour, emphasised the need to build the capacity of firms and managers to effectively utilise new and existing workforce skills (Business NZ *et al* 2008).

In Australia, projects in Queensland and New South Wales have combined skill development with efforts to improve job design, employee relations and career progression routes, so that new workforce skills can be effectively applied within the firm (Keep 2008). Within the UK, the Scottish Government's skills strategy outlines the importance of improving job design and workplace performance in tandem with developing skills, and recognises the need to understand how skills interact with other drivers of productivity (Scottish Government 2007).

This integrated approach to skills, business development and workplace performance is often lacking from the UK Government's policymaking. This provides a crucial explanation for the preponderance of low-wage, low-skill, low-value work in the UK labour market. In order to start to reorientate key sectors of the UK labour market towards a higher-value, higher-skill, higher-wage business model, the UK will need to follow the lead of countries like New Zealand and Australia, and develop an integrated approach to recruitment, skill formation, workplace performance and economic development.

Following the publication of the Leitch Review of Skills in 2006, there was a new determination to join up employment and skills functions across the UK, in order to better align skills provision with employer demand. The Department for Work and Pensions (DWP) and the Department for Innovation, Universities and Skills (DIUS) produced a series of strategic documents from 2007, outlining how the two departments will work together to deliver the workforce skills required by business (DWP and DIUS 2008a, 2008b, DIUS and DWP 2007).

DWP and DIUS are also developing a shared measure of success in employment and skills, linking job entry, retention and progression (National Audit Office 2007). However, these plans have tended not to include important departments that have a crucial role in promoting enterprise and economic development, such as the Department for Business, Enterprise and Regulatory Reform (BERR) and HM Treasury.

On the ground, the Government is piloting the joint commissioning of employment and skills services between the Learning and Skills Council and Jobcentre Plus, designed to promote better joint working through shared goals and incentives (DWP and DIUS 2008a). Other steps to integrate employment and skills include 'skills screenings' and 'skills health checks' for people claiming some out-of-work benefits, to identify the potential 'skills gaps' that stop them getting back to work (ibid). The UK Commission on Employment and Skills has also been established to ensure that the welfare and skills landscape is capable of delivering employment and productivity gains for the UK.

Although this process of integrating welfare and skills is an important step, by failing to include economic development and business support functions, it does not allow the potential benefits of integration to be maximised.

Current steps to integrate the work of DWP and DIUS should be extended to link this work with other agendas across central Government.

- Most importantly, this will include the economic development strategies of the Department for Business, Enterprise and Regulatory Reform, the English Regional Development Agencies (RDAs), and economic development agencies in Wales, Scotland and Northern Ireland.
- Steps should also be taken to draw together the work of several other departments, including the Treasury's enterprise strategy, the Department for Children, Schools and Families' 14-19 education and training agenda, the Department for Environment, Food and Rural Affairs' departmental strategic objectives around rural economic development, and the Government's Public Service Agreement on regional economic performance.
- The aim should be to ensure that current and developing departmental strategies explicitly reflect a cross-governmental agenda designed to promote full and fulfilling employment, greater workplace innovation, increased demand for skills, and better utilisation of skills.

At the local level, the greater integration of objectives and targets around employment, skills and economic development is already happening to some extent, through partnership working based around Local Area Agreements (LAAs)⁷ and Sub-Regional Strategic Partnerships (SSPs)⁸ in England, and Single Outcome Agreements⁹ in Scotland. These structures have the potential to facilitate greater partnership working between local Jobcentre Plus offices, regional skills agencies (including the Learning and Skills Council), and regional economic development agencies.

The local level is the right level for much of this integration because of the significant spatial differences in productivity and demand for skills across the UK (Learning and Skills Council 2007). As a result, local areas face different labour market challenges requiring different solutions, and local areas should benefit from more decision-making about employment, skills and economic development taking place by agencies with an understanding of the specific local challenges.

Local partnerships were strengthened by the Treasury's 2007 Sub-National Economic Development and Regeneration Review, which recommended that Regional Development Agencies (RDAs) should channel a significant proportion of their economic development funding through LAAs and SSPs (HM Treasury *et al* 2007).

There is also scope to bolster existing partnerships through a number of other changes to the skills and employment landscape. Steps are underway to create local employment and skills boards, to ensure that adult skills and employment goals are pursued in tandem at the local level. The London Employment and Skills Board is already active, and has responsibility for the strategic direction of the Learning and Skills Council's budget for London. The restructuring of skills funding in England, which will take place through the abolition of the Learning and Skills Council and the creation of the Skills Funding Agency to fund adult skills, also provides new opportunities to structure and incentivise joint working.

Sub-Regional Strategic Partnerships tend to be aligned quite closely with local labour markets, which, in some cases, make them ideal vehicles for the greater integration of skills, employment and economic development. However, the effectiveness of SSPs varies quite considerably across England, and SSPs are also absent in areas where the sub-region is covered by a single local authority.

Local Area Agreements can have a particularly important role in integrating employment, skills and economic development functions, given that Jobcentre Plus, Learning and Skills Councils and RDAs all have a 'duty to cooperate' in LSPs, and to help deliver the targets agreed under the LAA¹⁰ (Improvement and Development Agency [IDeA] 2008a). LSPs can choose 30 priorities from 180 indicators set out by central Government, although some priorities are mandatory.

New LAAs were signed in 2008 and will run until 2011. The voluntary indicators include references to pay and to business performance: there are indicators for median adult earnings, the proportion of small businesses showing growth, and employer-reported skills gaps in the current workforce (IDeA 2008b). However, the adoption of these indicators by LSPs is relatively low. Only 30 LSPs out of 150 adopted the earnings indicator, and only 26 adopted the indicator on small business growth.

7. Local Area Agreements are three-year agreements between a local area and central Government, setting out priorities for the local area and how they will be met. They are led by local authorities, and include other members of the Local Strategic Partnership, such as police and fire authorities, and the Primary Care Trust.

8. Sub-regional Strategic Partnerships are cross-border partnerships involving businesses, the public sector and third sector organisations, primarily concerned with economic development and regeneration. SSPs are funded through Regional Development Agencies.

9. Single Outcome Agreements are agreements between local areas in Scotland and the Scottish Government, setting out priorities for the local area and how they will be met.

10. The Local Government and Public Involvement in Health Act 2007 places a 'duty to collaborate' in Local Strategic Partnerships and the LAAs they agree on a number of statutory agencies.

More broadly, the current range of indicators lacks a particular focus on low pay, productivity and workplace performance at the local level. This is also the case for the draft indicators for Single Outcome Agreements in Scotland, despite the Scottish Government's clearer focus on improving economic performance and reducing income and spatial inequalities (Audit Scotland *et al* 2008).

Both urban and rural districts across the UK contain great diversity, which should be recognised throughout the development of policy on low pay and in-work poverty. Specific attention should be paid to ensuring that local partnerships work for rural economies.

It is important to ensure that the particular needs of both rural commuter areas and distinct rural economies are not overwhelmed by nearby major urban centres. However, locally organised and delivered services around employment, skills and business support should be better placed to find solutions to the particular challenges faced by rural communities. For example, some of the major innovations from central Government, such as Local Employment Partnerships (which tend to attract only large employers) and the increasing emphasis on delivering services through personal advisors (which can be difficult to access in dispersed rural areas) can seem inappropriate for rural communities.

Decentralisation of some key objectives and functions may help rural economies develop more appropriate solutions.

Within a general move towards greater decentralisation of funding and decision-making, there will still be a need to have a regional-level focus on regional economic development and some other strategic issues. These functions should be retained by Regional Development Agencies and the appropriate organisations in Wales, Scotland and Northern Ireland.

Current structures for partnership working at the local level should be used to integrate and decentralise the objectives, targets and funding of local and regional agencies responsible for delivering employment, skills and economic development.

- Whichever framework is deemed most appropriate, the crucial point about joint working at the local level is that it explicitly includes the integration of objectives, functions and funding, rather than simply greater coordination.
- The aim should be to create powerful local partnerships that are capable of setting out and delivering a clear vision for shifting the local labour market towards higher-value economic development. In order to achieve this, agencies will require:
 - The right incentives to work together – usually in the form of greater power and/or control over devolved funding from central Government.
 - Sufficient authority to make decisions, based on an understanding of local labour markets and business need.
 - Adequate resources and expertise.
 - Clear structures for accountability and management.
- A crucial precondition for the development of powerful local partnerships will be the relinquishment of significant powers and funding by central Government in return for more effective delivery of employment, skills and economic development outcomes.
- This will require DWP and DIUS, in particular, to re-affirm their commitment to devolving key powers and responsibilities to agencies operating at the local level, a requirement that will be given further impetus by the personalisation agenda in welfare and skills.
- Pay and business performance should feature more heavily in the targets and objectives as these partnerships develop. For example, the new Local Area Agreements to be agreed in 2011 should include a specific indicator for the incidence of low pay in the local area, and central Government should signal to LSPs that this is an indicator to be prioritised.

Strengthened local partnerships should seek to enter into ‘bargains’ with local employers, demonstrating the business case for higher-value business models and providing employers with the help they need to move towards a high-value, high-performance, high-skills business strategy.

- The remit of Business Link to target extra support at ‘high-growth firms’ should be expanded to include firms that make commitments on the pay and progression of their lowest-paid staff.
- Commitments would be individually negotiated but could include: flexible working rights; the creation of internal career ladders linked to sectoral pathways; and elements of the existing Local Employment Partnership package.
- Local partnerships will only be able to enter into these negotiations if they can demonstrate to employers that they have the budgets, authority and capacity to deliver an integrated service.
- It will be important to make a strong business case about the improved offer that the integration of employment, skills and business support functions could create, and ensure that the bargaining process is not regarded as a further burden on business.
- Local partnerships should continue to focus on increasing the participation of businesses, especially small and medium enterprises (SMEs) and rural firms, in business support programmes, alongside developing this bargaining role.

Improving workplace performance

Summary

Policy implications

- Workplace performance covers issues such as job quality and design; work organisation; HR policies; employee relations; and management quality.
- There is little focus in UK policy on workplace performance, although it is recognised in many European countries as a crucial ingredient of strategies to raise productivity and wages.

Recommendations

- The UK Commission for Employment and Skills should roll out a national UK Programme for Workplace Performance.
- The programme’s mission should be to help firms adapt their product strategies, boost productivity and raise job quality.
- This should be achieved by increasing the profile of workplace performance, collating and disseminating evidence, providing a consultancy service to firms and reporting to Government on the performance of UK firms.
- The programme should provide tailored advice and support that reflects the diversity of firms, sectors and places in the UK.

Workplace performance refers to the way in which work is organised and performed within an organisation. It covers issues such as job quality and design, work organisation, HR policies, employee relations and voice, and management quality. Beyond some recent consideration of health and wellbeing at work (see Black 2008), there is little significant policy focus on improving workplace performance in the UK (with some exceptions; see for example Hogarth and Wilson 2003).

The purpose of improving workplace performance is to create a highly skilled, highly motivated, highly committed workforce that operates in an environment where skills are effectively utilised and where work is performed as efficiently as possible. This should create two major gains for employers: higher productivity and profitability; and lower staff turnover and absence. The goal is to use workplace performance as one tool to improve the quality and wages of existing jobs, and, in the long term, to increase the supply of high-quality, high-wage jobs.

The role of workplace performance in this process is recognised in many European countries, where state-led workplace development programmes have been in operation for many years. Germany, Norway and Sweden have run such programmes since the 1970s, with Ireland and Finland developing similar schemes in the 1990s (Keep *et al* 2006, Ashton *et al* 2003).

Some modest experiments in improving workplace performance have been developed in the UK, including the Work Research Unit in the 1970s, the Partnership at Work Fund, launched in 1999, and the UK Work Organisation Network. However, all of these schemes were either too modest in their ambition or lacked credibility, profile and strong government backing (Keep *et al* 2006).

The evidence in support of workplace performance as a contributing factor in firm productivity and profitability is complex and debated (Tamkin *et al* 2004, Guest 2006, Department of Trade and Industry 2005b). Nevertheless, there is substantial evidence that the application of 'high performance working' (HPW) practices is associated with higher productivity and profitability, and decreases in staff turnover:

- The Investors in People scheme, which helps firms to develop a strategic training and development programme, has been shown to add £176 per employee to firms' annual gross profits (Tamkin *et al* 2008).
- Data from the Workplace Employee Relations Survey has shown that high levels of employee involvement and strong management-employee relations increase the rate of productivity growth in a firm (Tamkin *et al* 2004).
- Patterson *et al* (1998) found that differences in HR practices across firms accounted for nearly a fifth of the variation in productivity and profitability.
- A study by Guest *et al* (2003) of 366 firms found that firms who adopted between 11 and 18 of a set of 18 HPW practices had a per-employee profit that was double that of firms who adopted fewer than four practices. These firms also had higher staff turnover. However, there were also significant gains for firms who adopted fewer than 11 out of 18 practices.

However, studies consistently show that the adoption of HPW practices in the UK is significantly lower than in many other European countries (Chartered Institute of Personnel and Development [CIPD] 2006, Guest 2006, Tamkin *et al* 2004). Data from the Workplace Employee Relations Survey shows only a modest application of HPW practices in 2004, with almost no improvement from 1998 (Guest 2006).

According to Guest (2006: 9), one important explanation for this lies in the fact that there is 'no powerful championing of high performance working' in the UK. As a result, awareness among managers is relatively low, with many failing to understand how workplace performance may influence productivity and profitability in their own firm. More broadly, firm growth in the UK is more reliant on mergers and acquisitions, rather than on 'organic' growth, which would require improvements in workplace performance and greater investment and innovation (Keep *et al* 2006).

HR and management quality, which are essential for effective skill utilisation, appear to be particularly weak in the UK, relative to the US and some European countries (Learning and Skills Council 2007, Coats 2005). This is particularly important given the significant increases in management-level jobs projected to 2020, as noted in Chapter 3 of this report.

Support and training for management and senior professionals should draw on the substantial body of evidence available about what constitutes effective management practices, the difference this makes to firm performance, and how such practices can be successfully adopted (Bloom *et al* 2007). Support needs to be particularly targeted at SMEs as these are more likely to lack HR and management capacity (CIPD 2006).

This is not to deny that there are many innovative, highly productive, high performance workplaces in the UK, but there is significant potential to increase the number of such employers.

The lack of government focus on workplace performance has emerged precisely because the relevant processes and relationships are worked out within the workplace and are difficult for the state to

influence. Nevertheless, evidence from other successful European economies shows that it is possible to improve workplace performance with a strategic, focused approach from government. What distinguishes the UK from many European economies is the failure to develop a high-profile, state-backed programme designed to support high performance working that can claim the genuine support and collaboration of a wide range of stakeholders, including employers, trade unions, academics, consultants and development agencies.

The UK Commission for Employment and Skills (UKCES), in conjunction with Business Link, should develop a high-profile UK Programme for Workplace Performance.

- The programme's mission should be to help firms adapt their product strategies, boost productivity and raise job quality. This should be achieved by effectively demonstrating the business case for sharing the gains from increased productivity and workplace performance with their employees.
- This would build on the UKCES's existing programme of work on skills utilisation and workplace performance, and ensure that the programme was closely linked to the Government's employment and skills strategy.
- Employers should be involved at every stage of the programme (and not simply be the recipients of the programme's services), and the UKCES should seek advice from a board of employers as it develops the programme. The programme would also need to develop wide networks with trade unions, academia and Government.
- Important activities for the programme would include:
 - Raising the profile of HPW practices in the UK, among managers, employees, trade unions, RDAs and other public agencies.
 - Collating and disseminating the extensive existing research and analysis on workplace performance, which currently lacks a clear institutional or practical policy avenue.
 - Providing a consultancy service to firms or groups of firms to help employers benchmark and improve innovation and performance.
 - Providing a spur to the creation of sector forums between Government, employers and unions, to compensate for the lack of significant social partnership arrangements in the UK.
 - Providing an annual report to Government on the state of UK workplace performance. Such a report would benchmark UK workplace performance relative to our global competitors, and make recommendations to help address remaining weaknesses.

In his 2008 report on rural economies, the Prime Minister's rural advocate identified a considerable 'unfulfilled potential' among businesses operating in rural areas (Commission for Rural Communities [CRC] 2008). This derives, in part, from relatively poor productivity in some rural districts, and led the advocate to conclude that 'the average performance of rural firms falls below that of the average for English firms, especially their equivalents in principal urban areas and major cities' (CRC 2008: 19). This may be one of the explanations for the finding in Chapter 2 that the incidence of low pay is particularly high for people who work in the most scarcely populated rural districts.

The extent of low pay in the most rural districts is also partly the result of the composition of rural economies, which tend to have above-average employment in sectors such as hotels and restaurants, tourism and agriculture, all of which have an incidence of low pay substantially above the national average. Rural economies are also often characterised by relatively large numbers of SMEs and 'micro-businesses', in which the extent of low pay can be higher, and opportunities for progression can be limited. However, partly due to a lack of data at a sufficiently localised level, the distinct needs of the most rural districts in terms of additional support to tackle low pay and poor economic performance can be overlooked.

There is some evidence to suggest that steps to enhance workplace performance and innovation can have an 'urban bias', which derives, in part, from an emphasis on the role of technology (CRC 2008). Misconceptions about the extent of dynamism and innovation in rural economies can also feed into an urban bias in policymaking.

There is also a particular issue around the quality of infrastructure in rural economies, including transport, some utilities and internet connectivity, which can limit economic performance. A new UK Programme for Workplace Performance would need to ensure that it provides tailored support to firms operating in rural economies, and to small employers in particular. Offering shared services to groups of firms in similar sectors and places could be a cost-effective way of ensuring that SMEs and firms operating in rural areas have sufficient access to tailored support. This would build on the Government's shared HR services pilot scheme (CIPD 2008).

A UK-wide programme would also need to recognise the diversity of labour markets, sectors and firms across the UK. In areas that depend on rural businesses, greater emphasis will need to be placed on demand-side strategies to increase skill demand and utilisation, and on finding ways of translating improved economic performance into higher wages. However, these issues will be less important in commuter areas, where workers rely on jobs in more urban areas. In these districts, enabling more rural dwellers to access high quality jobs in urban areas is key, and the focus will need to be on improving local transport and access to childcare, in-work support, careers advice and suitable training opportunities.

A more strategic approach to skills

Summary

Policy implications

- Public funding for adult skills remains focused on basic skills and Level 2 qualifications, with some focus on Level 3 skills, despite evidence that returns to qualifications at this level are negligible.
- As a result, the impact of workforce training on wages and productivity is likely to be constrained.
- Given the higher returns associated with higher skills, there is a strong argument for co-funding of these qualifications by workers and employers.
- Workforce skills are also only one way that businesses can retain a competitive advantage, which raises questions about the effectiveness of the Government's efforts to increase employer investment in skills.

Recommendations

- Workers and employers need a more sophisticated 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.
- 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.

The Government has embarked on a major programme of reform to the adult skills system, with the aim of creating a world-class skills base by 2020 (Department for Innovation, Universities and Skills [DIUS] 2007). This process involves the establishment of the UK Commission on Employment and Skills, the relicensing of Sector Skills Councils, the creation of the Qualification and Curriculum

Framework, the further expansion of Train to Gain, the introduction of Skills Accounts, steps to integrate the employment and skills systems (as discussed above), and the expansion of Apprenticeships.

The aim of these reforms is to improve adult skills at all levels – but particularly basic skills and Level 2 skills – and create a ‘demand-led’ skills system that is much more aligned to the needs of employers. These innovations are designed to meet ambitious targets for the UK to be a world leader in skills by 2020, benchmarked against the top quartile of OECD countries (DIUS 2007). Targets include increasing the proportion of adults with basic literacy from 85 to 95 per cent; increasing the proportion of adults with a Level 2 qualification from 69 to over 90 per cent; and increasing the number of adults with a Level 3 qualification from 2.1 million to four million (ibid).

The Leitch Review projected that achieving progress on this scale would deliver significant gains through increased productivity and a higher employment rate (contributing to stronger economic growth). It is important to recognise that the projections and assumptions employed by the Leitch Review were based, in part, on economic forecasts developed before the global economic downturn, which began in mid-2007, and which is expected to lead to recession towards the end of 2008.

It is very likely that the projections on employment, earnings, productivity and skills contained in the Leitch Review will need to be revised in light of the changing economic context. Nevertheless, the analysis in Chapter 3 casts doubt on the ability of the improvement in the supply of skills set out in the Government’s 2020 targets to significantly reduce the incidence of low pay or drive up productivity in the UK.

In part, this is due to the lack of emphasis on the complementary action needed to effectively increase skill demand and utilisation, as set out above. It also reflects a relatively unsophisticated approach to skills supply. The post-Leitch skills targets take a ‘stocktaking’ approach, which seeks to raise the proportion of adults who have a qualification at a particular level (Keep 2008). Yet the analysis in Chapter 3 found that this is a poor indicator of a country’s economic performance.

Tackling the UK’s poor performance in basic skills, and in some other areas, such as higher-level Science, Technology, Engineering and Maths (STEM) qualifications, is crucial for the prosperity of individuals and of the UK. However, since skills are only one aspect of business performance, and operate in a complex relationship with other drivers of productivity and performance, it is important to ensure that the supply of skills operates in a highly targeted way (Keep 2008).

This requires questions to be asked about which particular skills, at which level, are needed in which particular firms, and for which particular workers, rather than an assumption that more skills of any kind are inherently beneficial. A simple blanket approach to skills supply, which merely compares ‘stocks’ of skills in the UK with those held elsewhere in the OECD, fails to recognise the particular economic and institutional environments that operate in different countries.

Workplace training beyond Level 2

In England, workplace training is delivered through the Train to Gain service, funded by the Learning and Skills Council.¹¹ Through Train to Gain, employees can access funding for a first Level 2 qualification, some further Level 2 and 3 courses, basic skills certificates, Apprenticeships and higher-level leadership and management qualifications. Train to Gain skills brokers work with employers to develop training programmes that aim to address the training needs of the whole workforce. The availability of public funding for each qualification is based on the employee’s age and prior qualifications.

The Government is committed to the expansion of Train to Gain, with a doubling of the programme’s funding to £1 billion a year by 2010 (DIUS and DWP 2007).

11. Workplace training in Scotland is delivered through learndirect Scotland for Business, part of Skills Development Scotland. In Wales, the Welsh Assembly Government runs a number of workplace training programmes, and in Northern Ireland, the Department for Employment and Learning runs programmes for basic skills and management qualifications.

Despite the availability of funding for higher-level qualifications, Train to Gain is focused on helping employees achieve a first Level 2 qualification, with a target to train half a million employees to a first Level 2 qualification by 2010. While for the individuals involved, a Level 2 qualification may be the first step towards gaining further qualifications, our analysis in Chapter 3 highlighted falling wage premiums associated with Level 2 qualifications.

Returns to vocational Level 2 qualifications are almost non-existent, as highlighted in Chapter 3. In many cases a Level 2 qualification simply certifies existing skills rather than building new ones, raising questions over the benefits of Level 2 qualifications. There are also issues about the flexibility allowed by the current system, which is important for individuals trying to balance work, study and family life (Delorenzi 2007).

This indicates that Train to Gain in its current form is unlikely to generate significant increases in pay for low-wage, low-skilled workers, and raises doubts about its ability to deliver significant productivity gains for employers. The new Skills Accounts, which will be rolled out to adults in England from 2010/11, also seem likely to continue the current focus on Level 2 qualifications.

Skills Accounts are designed to give more control to learners and encourage competition between learning providers (DWP and DIUS 2007). Under current plans, learners will receive a voucher, which they will be able to use to fund a first Level 2 qualification, or a first Level 3 qualification for people under 25. As a result, public funding for learning and skills will continue to be focused on Level 2 qualifications, rather than providing a new way of funding the particular skills needed by individuals and their employers.

The Leitch Review emphasised the need to shift the balance of skills in the UK workforce from Level 2 to Level 3 qualifications, and the ambitious targets that the Review set out are partly designed to achieve this. Leitch also argues that for training that results in a qualification above Level 2, there is a strong argument for co-funding – from both employers and workers – since it is at this level that the real gains in terms of wages and productivity start to kick in (Leitch 2005). However, government policy and funding post-Leitch has failed to fully implement Leitch’s recommendations around co-funding higher-level qualifications.

The UK Commission on Employment and Skills has proposed a co-funding model for workplace training as part of its work on skills simplification (UKCES 2008). It proposes that basic skills and Level 2 qualifications should be fully funded by Government; priority intermediate skills (Level 3) would be funded at 40 per cent; priority higher-level skills at 25 per cent; and other higher-level skills would be funded by negotiation between employers and Train to Gain.

Access to workplace training beyond Level 2 through Train to Gain should be extended, using a system of co-funding to ensure the training needs of the whole workforce are addressed.

- Building on the recommendations of the UKCES, a sliding scale for the public funding of intermediate and higher-level qualifications should be implemented.
- Such a system would aim to use public money to lever in funding from firms and tie employers into funding higher-level qualifications where appropriate to business need.
- Within this system, Government could choose to vary the level of public funding for each type of qualification, depending on its particular sectoral or place-based priorities.
- For example, in order to ensure that all early years practitioners have a Level 3 qualification by 2015, Government might decide to fund 100 per cent of all relevant course costs. Small businesses in priority sectors or places could also receive extra subsidies.
- Train to Gain brokers should work with employers to draw up a training plan that is properly integrated with an employer’s business strategy, to ensure that training matches their business objectives.
- Train to Gain brokers will be integrated with the Business Link brokerage service from Spring 2009. This should be used as an opportunity to assess wider business needs while developing a

training plan, and to connect employers with support for innovation and investment, which could help firms match improvements in workforce skills with increases in skill utilisation.

The new Skills Accounts should be redesigned so that they can have a greater role in helping low-wage workers to co-fund intermediate and higher-level qualifications.

- An alternative model for Skills Accounts could involve learners receiving ‘credits’, which they could use to part-fund intermediate and higher-level skills, with the remaining costs being met by themselves and/or their employer.
- Skills Accounts should be endowed with a ‘saving’ function, allowing employees to save for a course that could help them progress in work.
- Most importantly for low-wage workers, Skills Accounts should allow employees to borrow funding for intermediate and higher-level qualifications.
- Skills Account loans should open up the favourable terms currently enjoyed by students in Higher Education to those for whom university education is not appropriate or feasible. This would reduce the risk for borrowers, and would be a better offer than Career Development Loans.
- Borrowing and saving functions could be particularly important for workers in firms who have not committed to Train to Gain, or where employees wish to undertake training related to a change in career, which their current employer would not be prepared to fund.
- Priority access to Skills Account loans and to ‘credits’ should be given to individuals without a Level 4 qualification, to ensure that subsidies are targeted at workers most in need of higher-level qualifications.

Increasing retention and progression

Summary

Policy implications

- Routes out of low pay do exist, but they are limited and often inaccessible to those who are most likely to be low paid.
- Most jobseekers will be able to find sustainable employment with advancement opportunities by themselves; resources should be targeted at those groups most at risk of leaving employment or becoming trapped in low-wage work.
- The persistence of low pay and the link between low pay and unemployment means that the welfare system should give greater attention to the nature of jobs taken by benefit leavers.

Recommendations

- Jobcentre Plus should develop and roll out a package of personalised in-work support targeted at vulnerable workers.
- The Government should continue to build on the recommendations from Carol Black’s report on work and health to improve retention among workers with a health condition.
- The Access to Work programme, which covers the additional costs of employing a disabled person, should be extended and made more flexible.
- Sector Skills Councils and career advice services should work together to develop sectoral career pathways to help low-wage workers identify career advancement routes.
- Adult careers services should develop sophisticated labour market information systems to help jobseekers and workers choose sectors, occupations and firms with good pay and progression prospects.

In Chapter 2, we saw that low-wage work remains a 'dead end' for too many workers. We also found lower rates of employment retention among low-wage workers, particularly among disabled workers and those moving into work from benefits. Shifting the UK labour market towards higher value, higher skills and higher wages should be the long-term aim of policy. However, where low pay persists, low-wage workers will continue to need accessible career progression routes that guide them into higher-wage, higher-quality work. Some will also need additional support to remain in employment in order to take advantage of progression opportunities further down the track.

Analysis in Chapter 2 shows that routes out of low pay do exist, but they are limited and often inaccessible to those who face the greatest risk of low pay. There is an important role for policy in widening the accessibility of career ladders and helping workers move into firms and sectors with higher wages and better advancement prospects.

In Chapter 2, we also found that low pay in one period greatly increases the risk of unemployment, and low pay, at a later date. If benefit leavers are able to find relatively well-paid work, then their risk of experiencing a further period of unemployment is significantly reduced. This suggests that the welfare system should be concerned about both the quality and the sustainability of job placements.

Orientating the welfare system towards sustainable, career track employment

Government is increasingly recognising the need to move the welfare system beyond simple job placement, and towards a service that prioritises employment retention and progression. Policy documents including the 2008 Welfare Reform Green Paper, *No One Written Off*, explicitly refer to the need to provide higher quality job placement and post-employment support for priority groups such as lone parents and disabled people (DWP 2008b, 2007b). Commissioning of employment support services is increasingly taking account of job sustainability, with bonuses paid if previous benefit claimants stay in work for a certain number of weeks. This will be an important part of the commissioning process for the Flexible New Deal and Pathways to Work.

For many, a 'work first' approach can be successful, as long as some basic consideration is given to the suitability of a job. This is generally true for people who are closer to the labour market, who perhaps have been in work relatively recently, and face no obvious disadvantage, such as poor basic skills or a disability that affects their ability to work. In fact, the majority of jobseekers will require only limited support to find work that is relatively well paid or offers opportunities for progression.

However, a minority of jobseekers will require much greater support to find suitable work that offers a real route out of poverty. For this group of clients, the welfare system will need to create an increasingly sophisticated system of job preparation and placement, combined with seamless in-work support. This will be particularly important as changes to the operation of Incapacity Benefit and Income Support begin to increase the number of disabled people and lone parents actively seeking work.

There is a range of evidence about what may be effective in post-employment support, based on evaluations of programmes in the UK and elsewhere (see, for example, Riccio *et al* 2008, National Audit Office 2007, Minoff *et al* 2006, Meadows 2008, Lewis *et al* 2008). Although it can be difficult to ascertain which elements are most important for aiding retention and progression, factors that appear to be important are:

- Post-employment support is most effective when it is integrated with pre-employment support, so that individuals receive a seamless service.¹²
- Individuals tend to need a combination of financial support (mainly through tax credits and in-work bonuses) and one-to-one advisory support.
- Access to discretionary emergency funds through a Personal Adviser can be particularly important in helping people remain in work.

12. Plans to join up Train to Gain with Jobcentre Plus and Local Employment Partnerships should help to move towards a more integrated system of pre- and post-employment support (DWP and DIUS 2007).

It is important to recognise that providing retention and advancement support can be complex, and the results of such support, in terms of higher wages and better job quality, may not become evident for many years.

Identifying those individuals who are likely to need particular support to move into, remain and progress in sustainable employment requires sophisticated early needs' assessments to be carried out by skilled Personal Advisers. In particular, Personal Advisers will need the flexibility to decide if a person should take the first available job, continue searching for a more suitable job, or do some full-time training (Harker 2006). This is essential if the deadweight costs associated with providing intensive support for those who would succeed on their own are to be avoided.

Providing in-work support, and delivering the Government's agenda of integrated welfare and skills services, will require different systems, targets and ways of working. More broadly, Personal Advisers will also increasingly need greater flexibility and discretion in order to deliver personalised support that responds to the individual needs of each client. It is crucial that frontline staff and delivery agencies are sufficiently supported and skilled to respond to these new demands. Work currently being undertaken by ippr is considering what skills, support and partnerships Personal Advisers will need to develop to enable them to deliver the Government's vision, and careful thought should be given to this as we move forward.

There is a particular question about the ability of the current welfare and skills service to provide appropriate retention and advancement support for low-wage individuals already in work. These workers are likely to have very little contact with existing services if they have not claimed an out-of-work benefit recently. Although many of these individuals will receive tax credits, claims for tax credits are not made in person and are not handled by Jobcentre Plus.

Studies also suggest a reluctance among benefit leavers to remain engaged with welfare services after finding work, as they tend to want to dissociate themselves from what could have been a negative experience (Meadows 2008). The greater provision of effective post-employment support is likely to require a significant change in the way in which welfare and skills services are perceived and accessed.

There is a danger that the policy focus on delivering welfare services, including post-employment support, through Personal Advisers can be problematic for rural areas, as regular access can be difficult in more sparsely populated areas. Given the higher incidence of low pay among workers in the most rural districts, policy will need to ensure that these workers are able to access sufficient retention and progression support. Innovative ways of delivering this support will need to be developed, which should include exploring online and telephone support, and the development of 'district' or mobile Personal Advisers.

Jobcentre Plus, in partnership with voluntary and private sector welfare providers where appropriate, should develop a package of in-work support, targeted at those thought likely to be at greatest risk of leaving employment or becoming trapped in low-wage jobs.

- This is already being rolled out for lone parents, but needs to be made accessible to other vulnerable workers.
- For those already in work, eligibility for Working Tax Credit could be used as a gateway for in-work support and priority access to training and careers advice.
- Packages of in-work support should be tailored to the particular needs of the individual and their family, but could include financial assistance, advisory support, access to discretionary funds, advice on training and advancement opportunities, and support from a mentor.
- Innovative ways of delivering post-employment support should be developed, particularly for workers in rural areas and those who have not had recent contact with the welfare system.
- Programmes delivering post-employment support should continue to be independently evaluated to provide further evidence about the most effective forms of support.

Additional support for people with a disability or work-limiting health condition

In Chapter 2, individuals with a disability or health condition that affected their ability to work were found to have particularly poor employment retention and progression prospects. There is a growing recognition that work can be part of the rehabilitation process for many individuals with an impairment, and that firms have much to gain if effective rehabilitation programmes can help reduce sickness absence and staff turnover (Black 2008). However, gaining access to the right support can be difficult for both employees and employers, which limits the retention and progression opportunities of disabled workers.

Workplaces themselves can contribute to employee health. Rewarding jobs that offer a degree of autonomy, where stress is kept to a minimum, and where people are supported by high quality line management can be important for helping workers avoid some mental health conditions. They can also be crucial in helping individuals stay in work when a health condition develops or worsens. This link between health and the workplace makes it all the more important that sufficient attention is paid to workplace performance, as outlined above.

While many employees who develop a health condition, or whose condition worsens, will require professional medical rehabilitation or condition management, rehabilitation should be seen as a holistic process that also involves adjustment to the working environment and the nature and/or hours of work. This requires the active participation of employers in the rehabilitation process. Workers may also need a period of 'rehabilitation leave' when a condition is first diagnosed or if an existing condition worsens (Parckar 2008).

Under the Disability Discrimination Act, employers have a duty to make 'reasonable adjustments' to the work environment to help individuals remain in work. However, awareness of the DDA in the context of employment, particularly in relation to some conditions such as mental health issues, is patchy among both employees and employers (Sainsbury *et al* 2008). High-quality occupational health and vocational rehabilitation services are also lacking in most UK workplaces, so employees often do not have access to professional, holistic support (Black 2008). SMEs find it particularly difficult to access occupational health services (*ibid*).

The Government should continue to build on two of the key recommendations made by Dame Carol Black in her report on work and wellbeing: an employer-led health and wellbeing consultancy service targeted at SMEs; and a 'Fit for Work' service offering case-managed multidisciplinary support for people in the early stages of sickness absence.

- Government has recently announced pilots of the Fit for Work service to start in 2009 and extra support for occupational health for small businesses (Health, Work and Wellbeing Programme 2008).
- A national employer-led health and wellbeing consultancy would build on existing programmes, such as the Health and Safety Executive's Workplace Health Connect service and Remploy's Healthy Minds at Work scheme.
- The service should have a particular focus on providing advisory support on mental health conditions, as employers are often unclear about how best to support workers with these conditions.
- The 'Fit for Work' pilots will offer a case-managed, multidisciplinary service providing a range of medical and non-medical services, to support for employees in the early stages of sickness absence. A national service should be rolled out as a priority after the completion of pilots in 2011.
- Centres for Independent Living, government-funded centres that operate in every local area, could also have a role in supporting workers with a disability or health condition by offering information, advice and peer support.

The Government's Access to Work programme provides financial support to cover the additional costs of employing a disabled person, and can pay for items such as equipment, adjustments to the work

environment and audio-visual assistance for people with sensory disabilities. In June 2008, the Government committed to increasing the funding of Access to Work from £69 million in 2008/09 to £138 million by 2013/14, at which point the programme will be able to support 48,000 people a year (DWP 2008b).

Access to Work can also be instrumental in helping people to stay in work, as it ensures they have the necessary support to do their job effectively. Broadly, the programme is popular with both employers and employees, and is a crucial part of the Government's package of support for disabled workers.

However, one of the key challenges for Access to Work is that it remains relatively unknown among many employers, employees and jobseekers. The British Chambers of Commerce describes it as 'the best kept secret in government', and a 2007 survey found that 74 per cent of employers had not come across the programme before (Evans 2007, Parckar 2008).

This lack of awareness reduces take-up of the support available and does little to reduce employers' concerns about the potential costs of hiring disabled people. While this can limit the effectiveness of employment support programmes for disabled people, it can also mean that people who develop a health condition do not always have access to the support they need to stay in work.

Recipients of Access to Work funds can also be subject to a relatively arduous reassessment process when moving to a new employer, which can create uncertainty for disabled workers moving between jobs. Given that job mobility can be an important route for wage progression for low-paid workers, as discussed in Chapter 2, it is important that Access to Work is able to support moves between employers. There is also a need for Access to Work to respond more effectively to the needs of workers with fluctuating conditions.

Access to funding through the Access to Work programme should continue to be expanded and promoted to both employers and employees.

- All jobseekers with a health condition should be given information about the funding available through Access to Work.
- The Government should develop an awareness-raising campaign targeted at employers, so that they are ready to discuss options with employees who develop a health condition while at work.
- The needs of workers with fluctuating health conditions should be addressed by the introduction of relatively small discretionary Access to Work payments, which could be accessed quickly and without having to undergo a full reassessment process.
- The extent of the reassessment process for Access to Work should be greatly reduced to make funding more 'portable'. This would help ensure that low-paid disabled workers have greater access to the potential career advancement opportunities generated by job mobility.

Career pathways: opening up progression routes

Our research has demonstrated that career progression routes do exist in the UK labour market, but are limited and often inaccessible. Low-paid, low-skilled workers tend to lack the promotion, training and professional development opportunities available to higher-wage workers (Engel and Sodha with Johnson 2007). They therefore tend to rely either on internal promotion structures that allow them to progress without formal qualifications, or on moving to a similar job with a 'better' employer (Atkinson and Williams 2003).

We have seen in Chapter 2 that job mobility does offer some opportunities for increasing wages. However, the lack of 'career ladders' in many firms and sectors acts as an important constraint on the upward wage mobility of low-paid workers.

This is, in part, the result of changes in the nature of modern labour markets, which have undermined career pathways in some important ways. These changes included the decline of manufacturing, weaker trade unions, and the increased complexity and fragmentation of work organisation, which partly arises from the greater use of outsourcing and supply chains. The increasing prevalence of small firms and flatter organisational structures are also important (Atkinson and Williams 2003).

The effect of these shifts has often been to diminish transparency for those seeking to navigate their way up the labour market and to reduce the number of clear and consistent ladders within firms or across sectors (Dresser and Rogers 1997, 1999).

As a result, it has become more difficult for workers to understand where they sit in the labour market hierarchy, and what action they need to take to get to the next stage, thereby improving their pay and job quality. In this context, it becomes more challenging to maximise the benefits of attempts to increase the levels of skills and qualifications held by individuals.

Focus group research conducted with workers in the early years sector as part of this project highlighted this problem. Higher qualifications did not seem to automatically equate to higher pay or status, since clear career ladders were absent in many settings (Cooke and Lawton 2008b).

A number of individuals were keen to move into jobs within the wider children's workforce, such as teaching or social work, where pay and status was felt to be better. Their experience in an early years setting could have been usefully applied in these occupations. Yet, participants were generally unclear about the broader sectoral career pathways that could help direct them towards the particular qualifications or experience that would be needed to access potential opportunities in higher paying professions.

Drawing on this evidence, in our last report we proposed an Integrated Career Structure for the children's workforce, which would complement the Integrated Qualifications Framework being developed by the Children's Workforce Development Council (Cooke and Lawton 2008b). This would not only provide a clear career ladder within the early years sector, but also enable early years workers to 'read across' to other occupations within the children's workforce.

We also proposed a streamlined career ladder within the early years sector, replacing the large number of job titles in the sector with just four: Early Years Professional, Senior Early Years Practitioner, Early Years Practitioner and Early Years Assistant. Each grade would be closely aligned to specific responsibilities, required qualifications and pay brackets, so individuals could understand where a particular qualification would take them.

Some cities and states in the US have been at the forefront of developing sectoral career ladders, and their experience is particularly relevant for the UK, given the similar structural labour market changes that have taken place in both countries (Dresser 2007, Dresser and Rogers 1997, 1999). Examples from the US include:

- *The Kentucky Careers Pathway Initiative*: community colleges and local employers collaboratively developed career ladders in sectors including health, manufacturing and construction. The pathways set out a sequence of connected training and job opportunities, and include multiple entry points and 'remedial bridges' to enable workers lacking formal education to enrol in training courses beyond basic skills. Early evaluation of the initiative emphasised the need to strike a balance between worker and employer needs and the importance of flexible, modular study for low-wage workers.
- *The Massachusetts Extended Care Career Ladder Initiative*: designed to contribute to state-wide efforts to increase the quality of private long-term care. The programme focuses on entry-level jobs, and particularly low-wage Certified Nursing Assistants, helping them to move through a series of stages and eventually into fully fledged nursing roles. Workers automatically receive a set wage increase when they move to the next rung of the ladder. Evaluations showed that the majority of low-wage workers received a wage increase, vacancy rates fell and retention increased. It was also found that initiatives should focus on creating 'rungs' at the bottom first. (Duke *et al* 2006)

In the UK, Skills for Health, the Sector Skills Council for the health sector, has been particularly successful in developing a sector-wide integrated career ladder. Box 4.1 on the next page sets out the nine stages of the ladder.

Box 4.1: Key elements of the Health Sector Career Framework

- | | |
|---|---|
| 1 | <i>Initial entry-level job</i>
Requires very little formal education or previous experience. Includes general domestics, porters. |
| 2 | <i>Support workers</i>
Such as healthcare assistants. Usually either studying for or already has a Level 2 qualification. |
| 3 | <i>Senior healthcare assistants/technicians</i>
Usually studying for or already achieved a Level 3 qualification. |
| 4 | <i>Assistant practitioners</i>
Some responsibilities for delivering clinical care, under the supervision of a registered professional. Usually studying for a foundation degree or equivalent (Level 4). |
| 5 | <i>Practitioners</i>
Registered practitioners in their first or second role or non-clinical staff assisting with service management. |
| 6 | <i>Senior/specialist practitioners</i>
Either managing a non-clinical service or delivering clinical care with a high degree of autonomy. |
| 7 | <i>Advanced practitioners</i>
Experienced clinical professionals, often with their own caseload, or non-clinical staff managing a number of services. |
| 8 | <i>Consultant practitioners</i>
Professionals with a very high level of expertise, with some responsibility for planning services. |
| 9 | <i>More senior staff</i>
Those with the ultimate responsibility for decision-making. |

Source: Skills for Health 2008

One interesting element of the Skills for Health ladder is that it includes both clinical and non-clinical roles, opening up additional opportunities on the ladder to non-clinical entry-level workers. Sectors such as health, which have concentrations of both low-paying and higher-paying occupations, are likely to offer the best prospects for the development of effective pathways. Sectors identified in Chapter 2 as offering stronger career advancement opportunities, such as manufacturing, construction, transport and social/personal services, are also good places to start strengthening career ladders.

Although flexibility is required when developing career pathways, to take account of differences between and within sectors, firms and places, there are some general principles that can be applied to the process. Career pathways should go from entry-level positions to the top, showing workers at every level what opportunities there are for progression and what steps they need to take to get there. At each stage in the pathway, generic job descriptions should be aligned with prevailing wages and with the skills and qualifications required. This will help workers understand what they can expect to gain from embarking on a particular training course or gaining a specific qualification.

Wherever possible, job titles and roles should be rationalised, where this would help to simplify career pathways and provide workers with more clarity about where their current job sits and what the next stages are. This was an important finding from our study of the early years sector, where we found 18 different job titles among just 53 employees (Cooke and Lawton 2008b). As a priority, career pathways should be developed that are appropriate for SMEs and for sparsely populated areas, where obvious career advancement opportunities may be lacking. Making links across places, sub-sectors and sectors will be important.

Sector Skills Councils, as part of their relicensing process,¹³ should be required to work with the appropriate adult careers services operating in England, Wales, Scotland and Northern Ireland to map out career pathways in their sector.

- Sector Skills Councils have close relationships with employers, and, as such, will have access to the kind of information that will be required, as well as an understanding of what businesses need.
- Careers advice services, on the other hand, will be experts in translating complex labour market information into a form that workers and jobseekers can understand.
- The different careers advice services operating in the UK will need to find ways of working together to ensure they can work effectively with the Sector Skills Councils.
- Both partners will also need to work closely with employers, and will need to engage unions, training providers and economic development agencies.
- The UKCES should have responsibility for driving forward and overseeing this process, and should also provide advice to the SSCs based on its own research and evidence gathering.

Sophisticated labour market information for workers and jobseekers

To maximise their practical impact, mapped career pathways will need to be complemented by far more sophisticated labour market information for current and future workers.

Individuals should be able to access information on prevailing wage brackets, employment benefits (including workplace training), skill and qualification requirements, advancement opportunities, union representation, and current and future patterns of job growth. This information should be tailored to particular industries, occupations and locations, and should include information on sector-specific career pathways. Information would be most useful if it related to local labour markets and was targeted at those who are currently unable to access existing career advancement opportunities.

There is already a significant amount of labour market information held by public agencies such as Jobcentre Plus, the Learning and Skills Council and the Regional Development Agencies. High quality survey data is also available from sources such as the Labour Force Survey and Working Futures. However, this information is rarely available to individuals in an accessible form.

The benefits of developing such information systems would be:

- To enable workers to make more informed long-term career and training choices, so that they could choose to enter the sectors and occupations with better pay and conditions, better growth prospects and better progression routes.
- To enable public agencies such as Jobcentre Plus and Train to Gain to offer 'smarter' advice and assistance to individuals and firms, based on a solid understanding of their local labour market.
- To encourage firms, sectors and places to compete on good jobs, decent wages and advancement prospects.

Improved information and labour market transparency could also help to break down the occupational segregation that is often at the route of gendered differences in pay. If developed as a web resource, this information bank could also include feedback from workers on different firms, sector, places (within fair and legal rules), shaping a form of 'open source' solidarity between 21st-century workers.

The introduction of Skills Accounts in England from 2010/11 provides a further opportunity to support the development of sector-specific career pathways and labour market information. Everyone who opens a Skills Account will be able to create a learning and progression plan and record their progress. Learners should be supported to ensure their individual career paths match the relevant

13. The relicensing process uses employer feedback and analysis by the National Audit Office to assess the performance of existing Sector Skills Councils. The process should be completed by Autumn 2009.

sector-level pathways, and the internal pathways at the worker's firm, as far as possible, while remaining tailored to the individual's needs.

Individual progression plans will be most effective if they are supported by high quality labour market information so that learners can make informed decisions about the kind of training they undertake and the kind of employment goals they set.

The new Adult Advancement and Careers Service for England,¹⁴ and adult careers advice services in Scotland, Wales and Northern Ireland, should take a lead in developing a new system of labour market information for current and future workers.

- Careers services will need to actively support potential users, who may lack the confidence, motivation, time or knowledge to access and use relevant information without assistance.
- Low-paid workers who have little contact with existing welfare and advice services should be targeted. This could include the use of visible high street offices, workplace advice sessions, information in public places, such as GP waiting rooms, and outreach services in SureStart Centres and other community-based organisations.
- Innovative delivery tools will need to be developed to ensure workers in the most sparsely populated areas, where low pay is relatively high, can access advice. More high-quality online resources will be important for these workers, alongside the targeting of rural workers in low-paying sectors and remote settlements by careers services.

A 'whole family' approach to tackling in-work poverty

Summary

Policy implications

- The relationship between pay and poverty is complex, and strategies to tackle low pay must be combined with a family-focused approach to tackling in-work poverty.
- In particular, the welfare and tax credit systems should better reflect the family factors that contribute to working poverty.
- Further steps are also needed to enable both men and women to avoid the trade-off between higher pay and meeting their caring responsibilities.

Recommendations

- The value of the Working Tax Credit for couple families should increase by a third to reflect their additional needs.
- A Personal Tax Credit Allowance should be introduced into the Working Tax Credit to increase work incentives for a second earner.
- The right to request flexible working should be extended to all workers.
- The Government, employers and unions should take forward the recommendations of the Women and Work Commission to increase the supply of high-quality flexible jobs.

14. The AACS will operate in England from 2010/11 and will replace both the 'nextstep' careers service and learndirect's career advice service. The service will take a 'no wrong door' approach, so that contact with Jobcentre Plus, a training provider or the AACS should enable a customer to quickly access all the relevant employment and skills support, including advice on childcare, housing and debt (DWP and DIUS 2007). AACS will form part of the new Skills Funding Agency, which will take over the adult skills functions of the Learning and Skills Council from 2010.

Individuals are the recipients of earnings, but those earnings go into a ‘household pot’, together with income from a range of other sources. As we saw in Chapter 2, the relationship between individual earnings and household poverty is not clear-cut: low pay does not automatically create poverty, and poverty among working families is not always the result of low pay. It follows that simply addressing low pay, although important in its own right, will not necessarily have a knock-on effect on in-work poverty. Strategies to tackle low pay must, therefore, be combined with a family-focused approach to poverty.

Our vision is of work that enables families to avoid poverty and make the right choices for them about how to care for their family. This means that the needs of the whole family must be recognised when considering the employment and pay prospects of the individual.

Many of the barriers to sustainable work, and to efforts to increase wages, lie inside the family, particularly those linked to the care needs of children, partners or relatives. Growing expectations for parental involvement in children’s education and the increasing care needs of older relatives mean that working parents and carers will need sufficient time to devote to family life. Moving towards greater gender equality in the labour market will require further steps to enable both men and women to balance work and family responsibilities.

Family focus in the welfare and tax credit system

Both the welfare and tax credit systems need to better reflect the family-level factors that influence poverty. In Chapter 2, we outlined the extent of in-work poverty among couple families. This reflects, in part, the higher rates of employment within couple families, but also the additional income required by couples relative to single adults to avoid poverty. In the first paper of this series (Cooke and Lawton 2008a) we argued that the current tax credit system fails to adequately recognise the additional financial needs of couple families. We also argued that the current system can create weaker work incentives for out-of-work partners, which may contribute to the higher risk of poverty for families with only one earner.

The Working Tax Credit should better reflect the greater risk of in-work poverty among families headed by couples.

- The value of the Working Tax Credit for couple families should be increased by a third. We calculate that this would lift a further 200,000 children out of poverty.
- A Personal Tax Credit Allowance should be introduced to effectively individualise entitlement to part of the Working Tax Credit. This would mean that a second earner could earn up £100 a week before their entitlement to Working Tax Credit started to be withdrawn.

When taking on a new job, individuals should receive a commitment from welfare-to-work providers that the job provides a realistic route out of poverty for the whole family.

- Personal Advisers should carry out an extended ‘better off in work’ calculation, to assess whether a job lifts a family out of poverty. The calculation should be based on standard poverty lines for different family types to avoid the need to extract extensive personal information from jobseekers.
- Where a job does not provide an immediate route out of poverty, an adviser should make an assessment of whether the available progression opportunities associated with the job offer a realistic prospect of lifting the family out of poverty in a reasonable period of time.
- Where an individual takes up a job on this basis, they should receive support from an adviser to develop a retention and progression action plan, and receive priority access to the packages of in-work support outlined above.
- This plan should include milestones indicating when an individual can realistically expect family income to increase if they carry out the activities specified in the action plan.

Balancing work and family life

Women, especially those with children, continue to face significant disadvantage in the workplace (Equalities Review 2007). Our analysis has highlighted the greater risk of low pay experienced by women, and suggests that gendered occupational segregation and poor quality opportunities in part-time work are central causes.

Making a greater range of jobs accessible to women with caring responsibilities would open up new opportunities in higher paying jobs with adequate progression routes. More high-quality, flexible jobs could also enable more men to play a greater role in family life, allowing both men and women to make genuine choices about work and care. Such opportunities could help to ensure that higher pay is not achieved at the expense of family life, and that family commitments are not met at the expense of higher wages that could lift a family out of poverty.

The Women and Work Commission put forward a series of recommendations that could help improve the supply of high quality flexible jobs (Women and Work Commission 2006). Third sector organisations such as Women Like Us are already engaged in some of these activities, such as job matching and mentoring.

The right to request flexible working should be extended to all workers.

- The Government plans to extend the right to request flexible working to parents with children aged 16 and under in April 2009. However, extending this right to *all* workers could help to embed a culture of flexible working across the labour market, for both men and women.
- Limiting the right to request to particular groups of workers risks creating tensions in the workplace and complexity for employers and fails to recognise the needs of everyone to balance work with other activities.
- A fully embedded culture of flexible working could also help some workers with a disability or health condition move into employment and potentially improve their retention and advancement prospects.

The proposals put forward by the Women and Work Commission for expanding good quality part-time employment should be taken forward by Government and employers.

- These included the use of senior role models in part-time and job-sharing roles; brokerage services for people looking for high quality part-time and job-sharing roles; support networks for women returning to work and for fathers wanting to take a more active role in family life; and networks between employers to help them share best practice.

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Annex 1: Data sources, method and detailed results

Data sources

In-work poverty in the UK (Chapter 2)

Poverty is defined as household income below 60 per cent of median household earnings. The median is found by dividing the incomes of all households in the UK into 100 equal parts (called percentiles) and lining them up from the lowest to the highest – the median is the figure at the 50th percentile. The report uses a ‘before housing costs’ measure of income throughout, in line with the Government’s preferred measure, although there are also advantages to the use of an ‘after housing costs’ measure.

The analysis in this section is based on the Households Below Average Income (HBAI) 2005/06 dataset, which is produced by the Department for Work and Pensions using the Family Resources Survey (FRS). The FRS collects data on the incomes and circumstances of private households in the UK. All income figures in this section have been equivalised using OECD equivalence scales. We assume that household income is shared equally by all members of a household, although this may well not be the case in practice.

Low pay in the UK (Chapter 2)

The measure of low pay used in this report is 60 per cent of median full-time hourly earnings. We relate low pay to full-time earnings to recognise the significance of the ‘full-time/part-time pay gap’. A median measure is used so that extreme values do not skew the overall earnings distribution. The median is found by dividing the earnings of all employees in the UK into 100 equal parts (called percentiles) and lining them up from the lowest to the highest – the median is the figure at the 50th percentile.

The low-pay analysis in this section is based on analysis of two datasets: the Annual Survey of Hours and Earnings (ASHE) and the Labour Force Survey (LFS). ASHE is based on a 1 per cent sample of employee jobs derived from National Insurance records and covers the whole of the UK. Information on earnings and hours is obtained in confidence from employers. It does not cover the self-employed, employees not paid in the reference period, those not on adult rates of pay or those whose pay during the fieldwork period was affected by absence. Earnings information relates to gross pay before tax, National Insurance or other deductions, and excludes payments in kind.

The LFS is a comprehensive quarterly survey of households living at private addresses and covers the whole of the UK. The analysis in Chapter 2 excludes self-employed individuals, individuals whose hourly earnings are below £3, and those whose hourly earnings are greater than £100. This helps to exclude cases with very high or very low reported earnings, which may be inaccurate and have a distorting effect on the analysis. Excluding individuals with hourly earnings above £100 is in line with the methodology used to produce the official Labour Force Survey reports.

The dataset used for this analysis was constructed from Labour Force Survey data collected between January 2006 and September 2007. We used a probit regression model to investigate the relative importance of various factors associated with low pay in 2006/07. The results are shown in Table A.1, next page.

Table A.1. Factors associated with an employee being low paid in 2006/07 (derived from probit regression model)

Variable	Probability of low pay compared to reference category
<i>Age</i>	
16-19	0.148*
20-24	0.143*
25-29	0.010
30-39	-
40-49	0.000
50-59	0.001
60-64	0.006
<i>Highest qualification</i>	
Degree	-
Other HE	0.054*
A level	0.093*
GCSE	0.151*
Level 1	0.223*
Other	0.163*
None	0.303*
<i>Industry</i>	
Agriculture and fishing	0.132*
Mining and manufacturing	0.022
Utilities	-0.037
Construction	-0.007
Wholesale and retail	0.180*
Hotels and restaurants	0.236*
Transport and communications	0.005
Financial intermediation	-
Real estate and business services	0.084*
Public administration	0.086*
Education	0.111*
Health and social work	0.134*
Other community/social services	0.218*
<i>Gender</i>	
Female	0.056*
Male	-
<i>Occupation</i>	
Managers and senior officials	-
Professional occupations	-0.017
Associate professional and technical	-0.013
Administration and secretarial	0.060*
Skilled trades	0.180*
Personal services	0.198*
Sales and customer services	0.234*
Process, plant and machine	0.220*
Elementary	0.286*
<i>Working hours</i>	
Full-time	-
Part-time	0.062*

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<i>Region</i>	
North East	0.148*
North West	0.122*
Yorks & Humber	0.111*
East Midlands	0.107*
West Midlands	0.128*
East of England	0.039*
London	-
South East	0.047*
South West	0.068*
Wales	0.140*
Scotland	0.080*
Northern Ireland	0.337
<i>Ethnicity</i>	
White British	-
Other White	-0.018
Mixed	0.001
Indian	0.009
Pakistani	0.013
Bangladeshi	-0.031
Other Asian	0.280*
Black Caribbean	-0.053
Black African	-0.009
Other Black	0.140*
Chinese	-0.046
Other	0.155*
Not given	-0.055
<i>Tenure</i>	
<3 months	0.019
3-6 months	0.009
6-12 months	-0.006
1-2 years	0.020*
2-5 years	-
5-10 years	-0.016*
10-20 years	-0.038*
20 years>	-0.065*
<i>Health condition</i>	
Yes	0.034*
No	-
<i>Training offered</i>	
Yes	-0.034*
No	-
Missing	-0.036*
<i>Contract type</i>	
Permanent	-
Temporary	0.091*
<i>Sector</i>	
Private sector	0.084*
Public sector	-

Source: Authors' calculations using data from the Labour Force Survey 2006/07

Notes: Unweighted sample size = 14,427. Estimates marked * indicate significance at the 5 per cent level. The reference category is denoted by -.

Retention and progression in the low-wage labour market (Chapter 2)

The analysis in this section uses data from the Annual Survey of Hours and Earnings between 2000 and 2006, and from the British Household Panel Survey (BHPS) between 2000 and 2005. The BHPS is a longitudinal survey of British households, which began in 1991. The analysis in this section includes employees only.

In this section, we use a probit regression model to investigate the relative importance of factors associated with transitions out of low pay between 2000/01 and 2005/06. The results are shown in Table A.2, on the next page.

In modelling transition probabilities of this nature, it is important to consider the 'initial conditions problem', as set out by Heckman (1981). Previous analysis has found that being low paid in one period increases the probability of being low paid in a later period, even once other factors such as education level or gender have been taken into account (Stewart and Swaffield 1999). This 'state dependence' makes it difficult to determine the relative importance of the effect of characteristics associated with low pay and the effect of the experience of low pay.

Stewart and Swaffield (1999) use dummy variables for parental socio-economic class at age 14 in their model to adjust for the 'initial conditions problem'. This is because parental occupation is known to affect the initial state of low pay, but is thought to have little effect on the probability of moving out of low pay once the initial pay status has been taken into account.

Stewart and Swaffield (ibid) find that incorporating parental social class at age 14 as instruments for endogenous selection in the initial state significantly reduces the influence of other factors (worker, job and firm characteristics) on the probability of remaining in low pay. However, the data available in ASHE does not allow us to use endogenous selection in this way, so the estimates presented in Table A.2 should be treated with caution, as they overestimate the importance of each factor in explaining transitions out of low pay. We have tried to partially compensate for this by including the maximum possible range of variables in the regression model.

Table A.2. Factors associated with an employee who is low-paid in 2000/01 not being low paid in 2005/06

Variable	Probability of not being low-paid in 2005/06 if low-paid in 2000/01 relative to the reference category
<i>Age</i>	
16-17	0.372*
18-21	0.338*
22-29	0.183*
30-39	0.077*
40-49	-
50-59	-0.112*
60+	-0.151*
<i>Gender</i>	
Female	-0.116*
Male	-
<i>Industry</i>	
Agriculture	0.006*
Mining	-0.024*
Manufacturing	0.077*
Utilities	-0.012*
Construction	0.059*
Transport	0.201*
Financial services	-
Retail	0.053*
Hotels	0.063*
Public admin	-0.013*
Education	0.035*
Health	-0.029*
Other social services	0.246*
<i>Firm type</i>	
Private company	-0.101*
Sole proprietor	-0.092*
Partnership	-0.119*
Public corporation	0.036*
Central Government	-
Local authority	-0.017*
Non-profit organisation	-0.076*
<i>Firm size</i>	
1 – 2	-0.049*
2 – 10	-0.028*
10 – 100	-0.023*
100 – 500	-0.013*
500 – 1,000	-0.006*
1,000 – 10,000	-0.024*
10,000 – 50,000	-
50,000+	0.001*
<i>Occupation</i>	
Managerial and senior	-
Professional occupations	0.282*
Associate professional	0.194*
Administrative and secretarial	0.112*

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Skilled trade	-0.089*
Personal service	0.013*
Sales and customer service	-0.107*
Plant and machine operative	-0.065*
Elementary	-0.154*
<i>Working hours</i>	
Full-time	-
Part-time	-0.056*
<i>Region</i>	
North East	-0.112*
North West	-0.065*
Yorkshire and Humberside	-0.092*
East Midlands	-0.104*
West Midlands	-0.086*
South West	-0.054*
East of England	0.025*
London	-
South East	-0.057*
Wales	-0.109*
Scotland	-0.047*
<i>Rural/urban classification by place of work</i>	
Major urban	-
Large urban	-0.024*
Other urban	-0.003*
Significant rural	0.006*
Rural 50	-0.038*
Rural 80	0.008*

Source: Authors' calculations using data from the Annual Survey of Hours and Earnings 2000-2006. Estimates marked * indicate significance at the 5 per cent level. The reference category is denoted by -.

Annex 2: National Qualifications Framework

The National Qualifications Framework (NQF) sets out an integrated framework for all approved qualifications in England, Northern Ireland and Wales.

The Scottish Qualifications Framework has 12 levels, but the framework is very similar to the NQF, with the addition of additional levels at the bottom for basic skills qualifications.

NQF Level	Types of qualification
Entry	Skills for Life entry-level qualification
1	GCSE at grades D to G NVQ Level 1 BTEC Introductory Diploma Skills for Life
2	GCSE at grades A* to C NVQ Level 2 BTEC First Diploma Skills for Life
3	A and AS Level International Baccalaureate NVQ Level 3 BTEC Diploma
4	NVQ Level 4 BTEC Professional Diploma Certificate of Higher Education
5	HNC and HND NVQ Level 5 BTEC Professional Diploma Foundation Degree Diploma of Higher Education
6	BTEC Advanced Professional Diplomas Professional qualifications Bachelor Degree with Honours Graduate Diplomas
7	BTEC Advanced Professional Diplomas Professional qualifications Masters Degrees Postgraduate Diplomas
8	Professional qualifications Doctorates