

# THE MEASUREMENT OF IN-WORK POVERTY AND WHY IT MATTERS: INTERNATIONAL APPROACHES AND UK EVIDENCE

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# Background

- There is growing concern about in-work poverty in many countries
- Measurement matters
  - It relates to substantive issues and not just technical concerns
- In-work poverty is poorly understood
  - And communication between academics and policy-makers has, thus far at least, not been terribly fruitful

# Background



# Measuring in-work poverty

- Need to define 'work' and 'poverty'

	Bureau of Labor Statistics (USA)	Eurostat (EU)	ILO
<b><i>Definition of working</i></b>			
activity status	working or looking for work	worker	worker
amount of work	> 6 months per year	> 6 months per year	at least one hour per week
<b><i>Definition of poverty</i></b>			
Income concept	Income before taxes and tax credits	Net income	expenditure
Thresholds	Anchored (US Official Poverty Line)	Relative (60% median income)	Absolute (\$1.25 / day)
<i>Based on Lohmann (2018)</i>			

- One exception:
  - work is defined on the basis of the individual but poverty is always and everywhere defined on the basis of households.

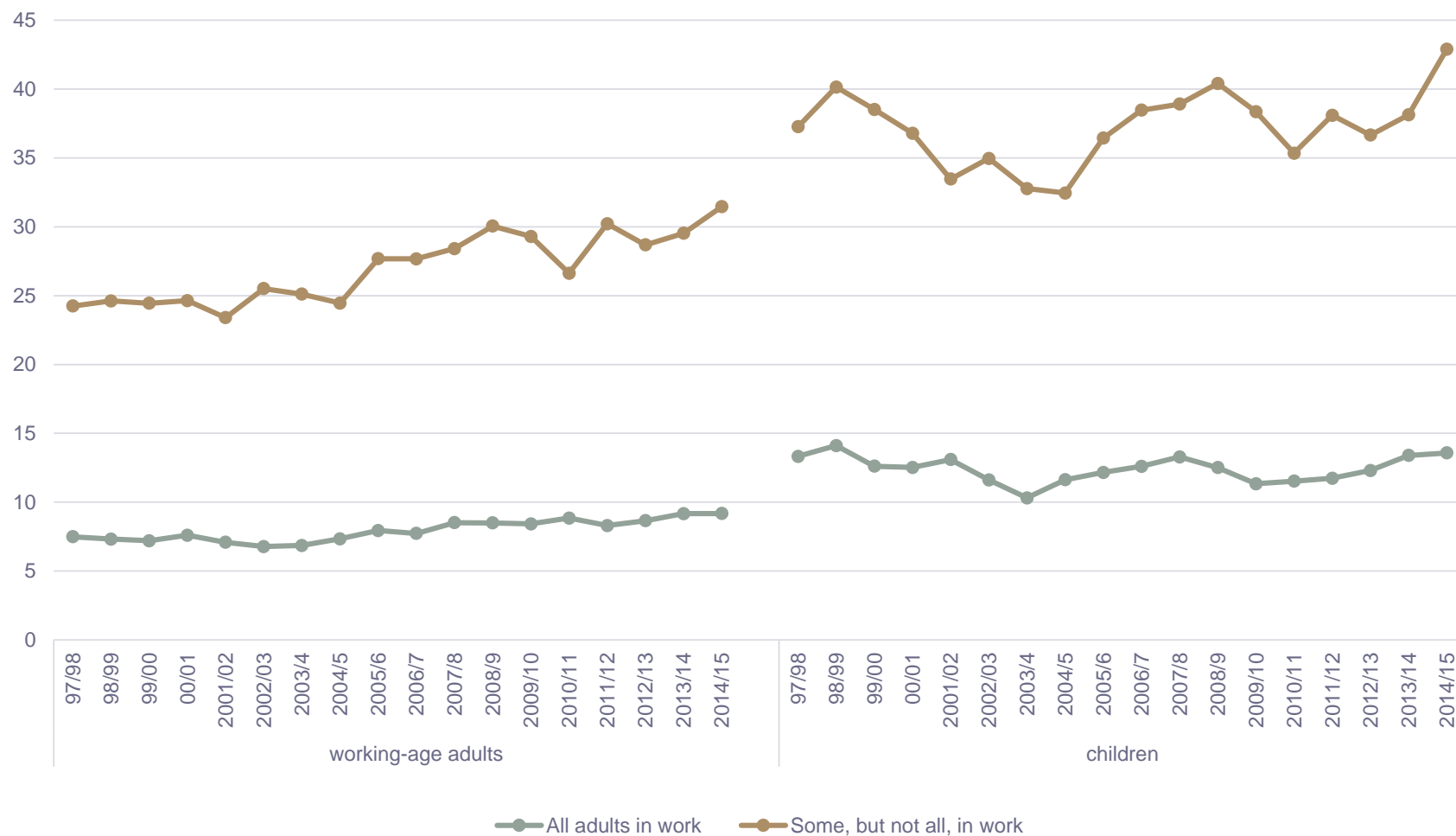
# Measuring in-work poverty

- Inconsistent units of analysis



- Potentially misleading policy implications
- Alternative tradition, more popular in UK, which we follow in our ongoing study of in-work poverty in NZ

# Risk of poverty for working-age adults and children in working households, 1997/8 – 2014/15

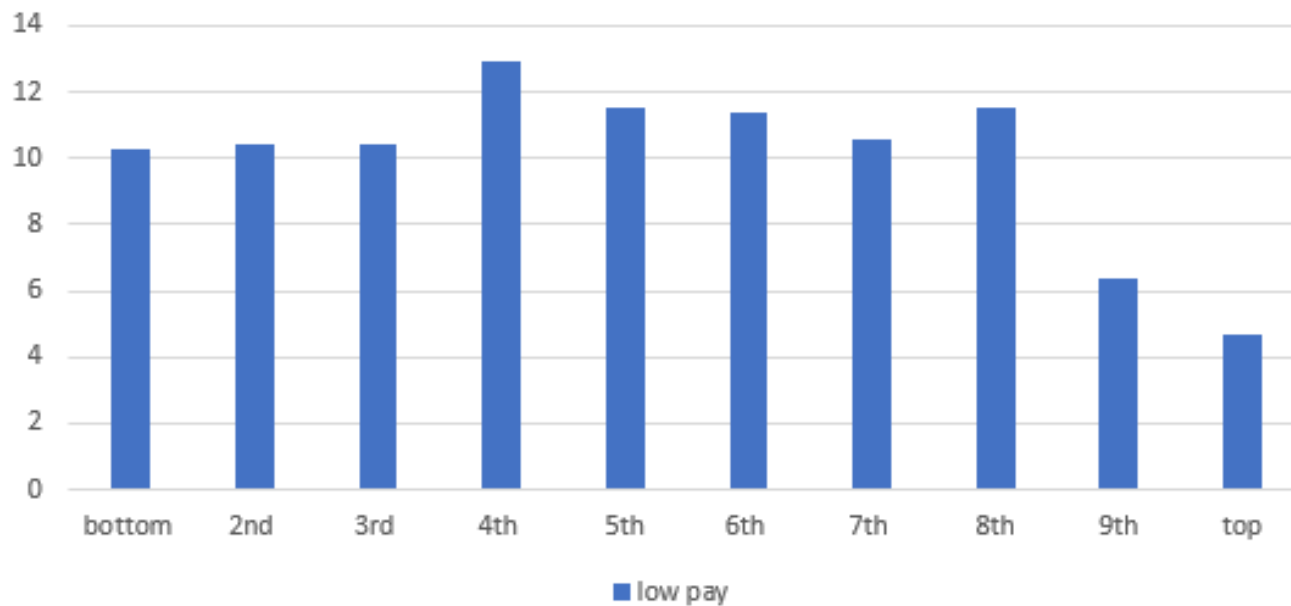


# Low pay and in-work poverty

*Proportion of people experiencing in-work poverty where at least one household member is low paid*

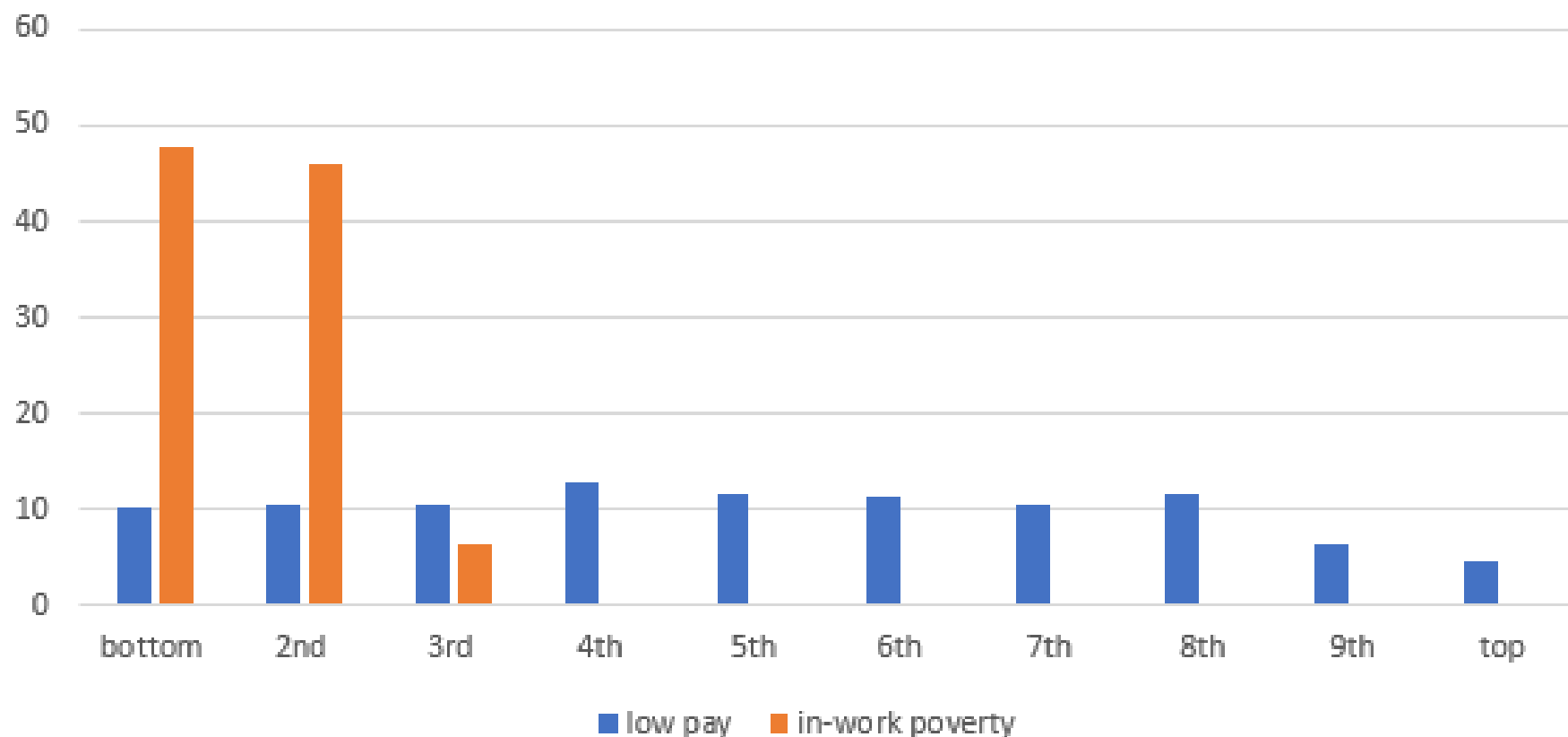
**48%**

Low paid workers across the income distribution



# Low pay and in-work poverty

Low pay and in-work poverty across the income distribution





# Groups at risk

- Groups with elevated poverty risks *and* which account for a large share of people in poverty
  - Where there is only one worker in the household
  - Living in rented accommodation
  - Service sector employment
- Groups with elevated risks which account for a small share of adults experiencing in-work poverty
  - Being a migrant
  - Living in a household with 3+ children
  - Single parent households

# Trends in IWP between 2004/5 and 2014/15 by housing tenure

	% change in risk		% change in composition
owns outright	-0.2	owns outright	-2.9
owns w/ mortgage	0.6	owns w/ mortgage	-13.0
social rented	3.5	social rented	-0.5
private rented	5.0	private rented	16.7

- Two things are happening:
  - General shift to private rented sector, away from owner-occupation
  - Rising in-work poverty risks for rented


# Most transitions from in-work poverty are positive, but some more concerning

- In-work poverty associated with more complex transitions

# Most transitions from in-work poverty are positive, but some more concerning

Table 3. Four way in-work poverty transition matrix

		t				
		neither poor nor working	poor but not working	working but not poor	working poor	
t-1	neither poor nor working	72.7	14.56	11.25	1.49	100
	poor but not working	24.66	53.71	16.06	5.56	100
	working but not poor	1.48	1.05	93.21	4.27	100
	working poor	1.59	3.04	55.13	40.23	100



- Grounds for optimism: Most exits are ‘positive’ ones
- However,
  - In work poverty is associated with increased risk of worklessness:
  - One in four respondents living in workless households who find work remain poor

# In-work poverty and UK politics

***"I think work is the best route out of poverty"***

Theresa May



## ***The reality***

- The number of workers in a household *is* a very strong predictor of poverty
- Working families *are*, on average, better off than those where someone doesn't work
- But work fails to lift substantial numbers of people from poverty, and policy needs to reflect this reality

# In-work poverty and UK politics

22 June 2015 at 1:24pm

## **PM: I want a 'higher wage, lower welfare society' in UK**

David Cameron has defended the Government's plans to cut a further £12 billion from the welfare bill, saying he was determined to transform Britain into "a higher wage, lower tax, lower welfare society".



2.5m of 4.5m tax credit recipients will be worse off after cuts, even allowing for increases in minimum wage and tax-free allowance (Finch, 2016)

# So what works?

- We can look to how people, do, in fact exit in-work poverty
- In 7 out of 10 exits, there was an increase in earnings from employment
  - Split about equally between # of workers and increasing hourly pay or hours worked
- In about 45% of cases, exiting in-work poverty coincides with an increase in social security
- Emphasises the need to take a 'whole household' approach

# Conclusion

- There is growing concern about in-work poverty, but confusion about the nature of the problem and how best to tackle it
- How we measure in-work poverty matters
- In-work poverty is a whole household problem requiring whole household solutions
  - Need to look beyond low pay as the sole factor & consider all reasons working households experience poverty
- Need more research, and better communication between academics and policy-makers



# Thank you for listening!

## Research on this topic

- Hick, R. and Lanau, A. (2017), 'In-work poverty in the UK: Problem, policy analysis and platform for action', Cardiff, Cardiff University/Nuffield Foundation.
- Hick, R. and Lanau, A. (2018), 'Tax credits and in-work poverty in the UK: An analysis of income packages and anti-poverty performance', *Social Policy & Society*.
- Hick, R. and Lanau, A. (2018), 'Moving in and out of in-work poverty in the UK: An analysis of transitions, trajectories and trigger events', *Journal of Social Policy*.

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