

# Poverty and low pay in the UK: the state of play and the big challenges ahead

Robert Joyce

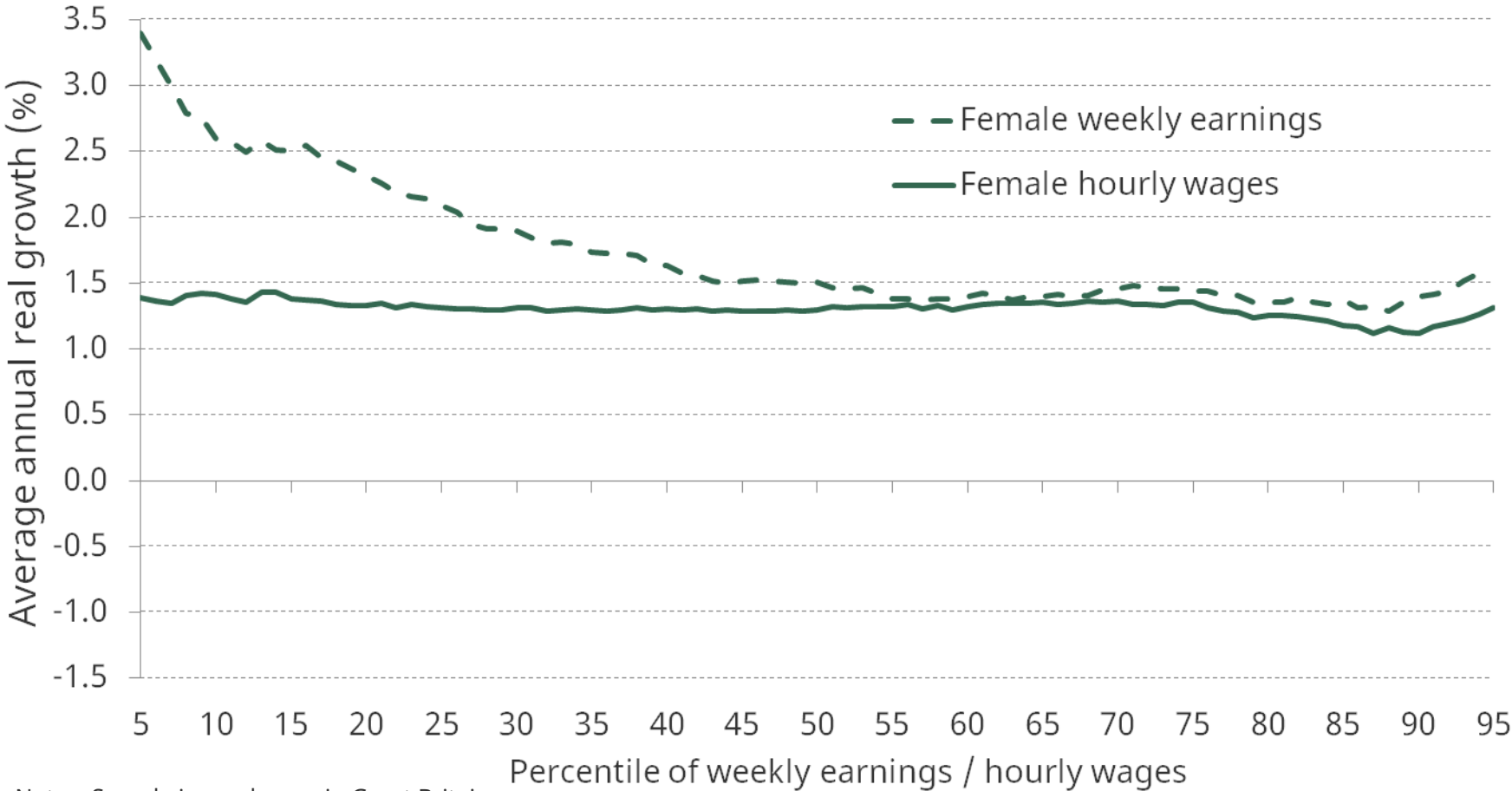
Agnes Norris Keiller

# Incomes in low paid employment

Robert Joyce

# Hours of work have been changing - narrowing earnings inequalities between women...

**Growth in hourly wages and weekly earnings since 1994-95 (women)**

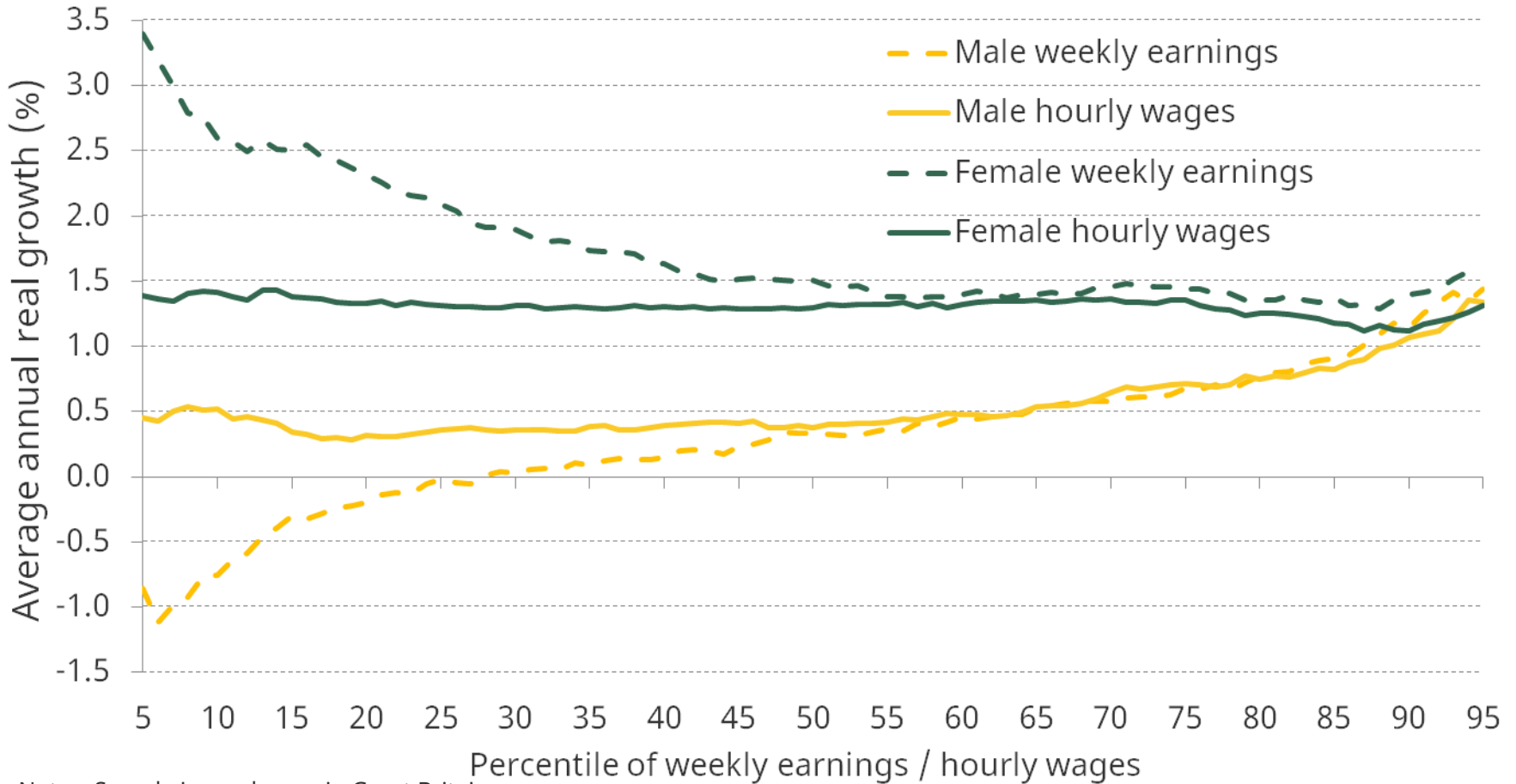


Notes: Sample is employees in Great Britain.

Source: Blundell, Joyce, Norris Keiller and Ziliak (2017): [www.ifs.org.uk/publications/10031](http://www.ifs.org.uk/publications/10031). Data used is FRS 1994-95 to 2015-16.

# ...but increasing earnings inequality among men

## Growth in hourly wages and weekly earnings since 1994-95

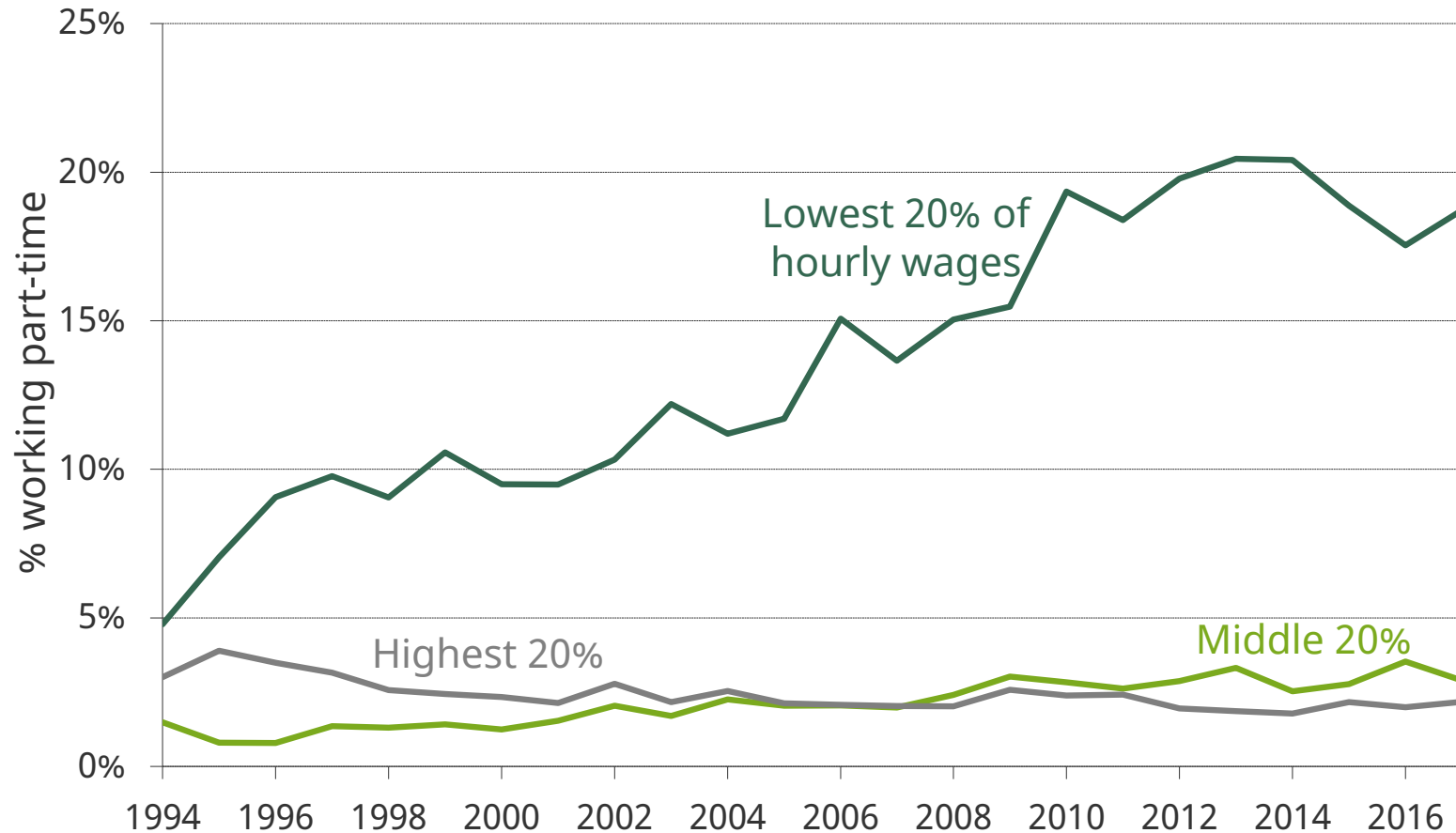


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# Part-time work among men steadily creeping into bottom end of labour market

## Prevalence of part-time work among men aged 25-55, by hourly wage level

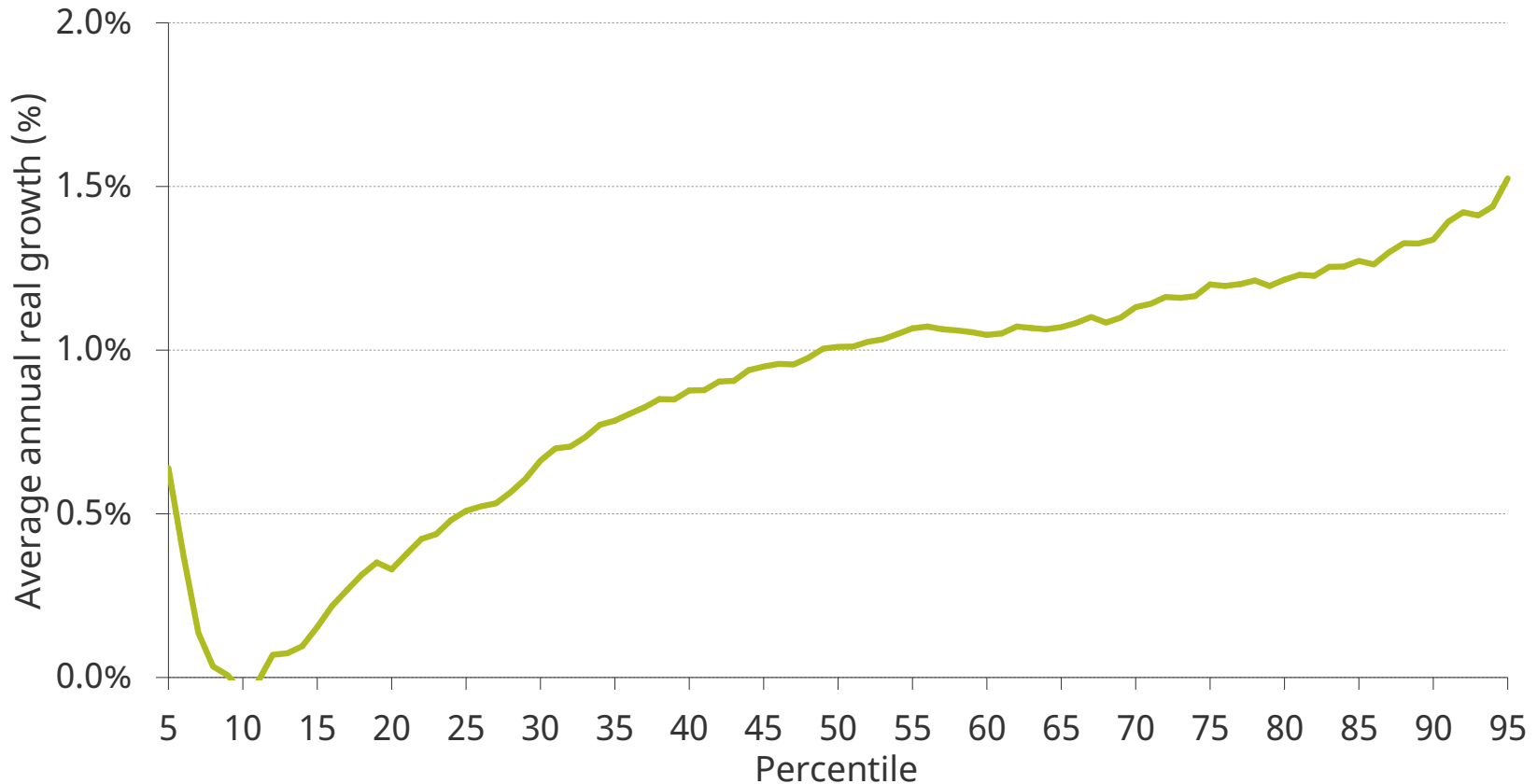


Notes: Sample is men aged 25 to 55 in Great Britain who are employees in their main job. Part-time work defined as working less than 30 hours per week.

Source: Labour Force Survey.

# At household level, earnings inequality has been trending up (driven by men)

## Growth in pre-tax weekly earnings among working households since 1994-95

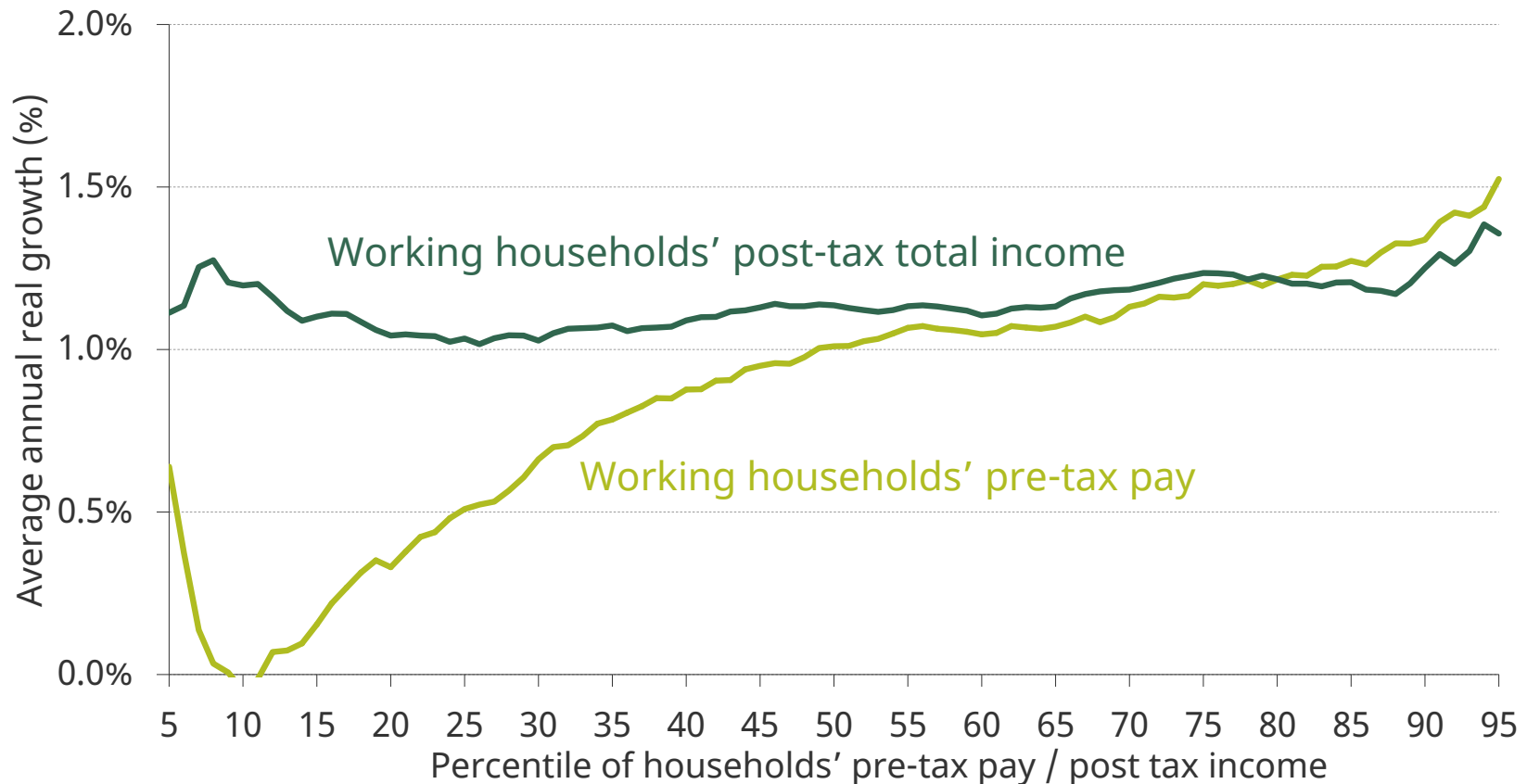


Notes: Sample is employees in Great Britain.

Source: Blundell, Joyce, Norris Keiller and Ziliak (2017): [www.ifs.org.uk/publications/10031](http://www.ifs.org.uk/publications/10031). Data used is FRS 1994-95 to 2015-16.

# The state has been swimming against this tide to stabilise household income inequality

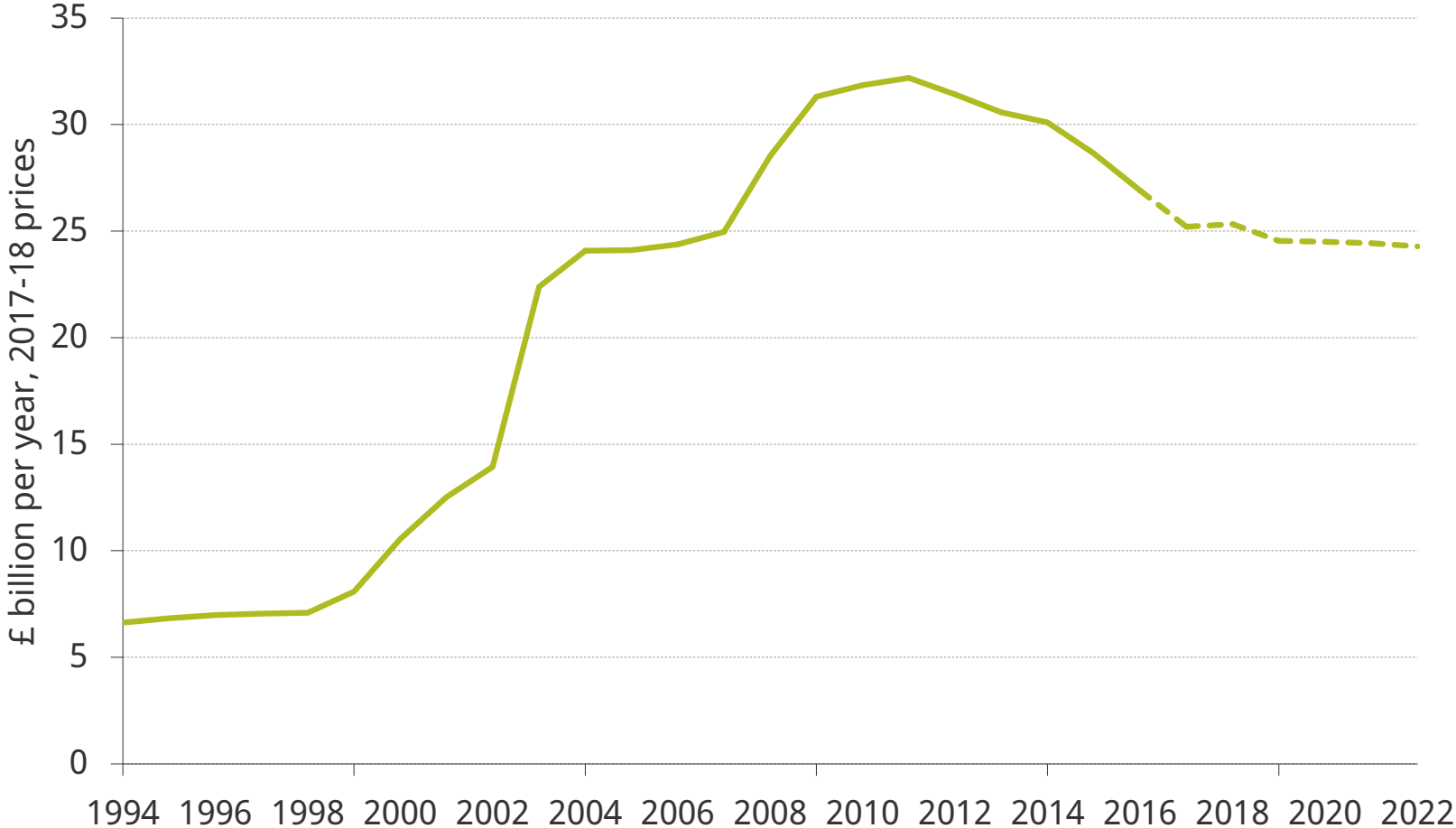
## Growth in incomes among working households since 1994-95



Notes: Sample is employees in Great Britain.

Source: Blundell, Joyce, Norris Keiller and Ziliak (2017): [www.ifs.org.uk/publications/10031](http://www.ifs.org.uk/publications/10031) Data used is FRS 1994-95 to 2015-16.

# Real spending on tax credits and equivalents

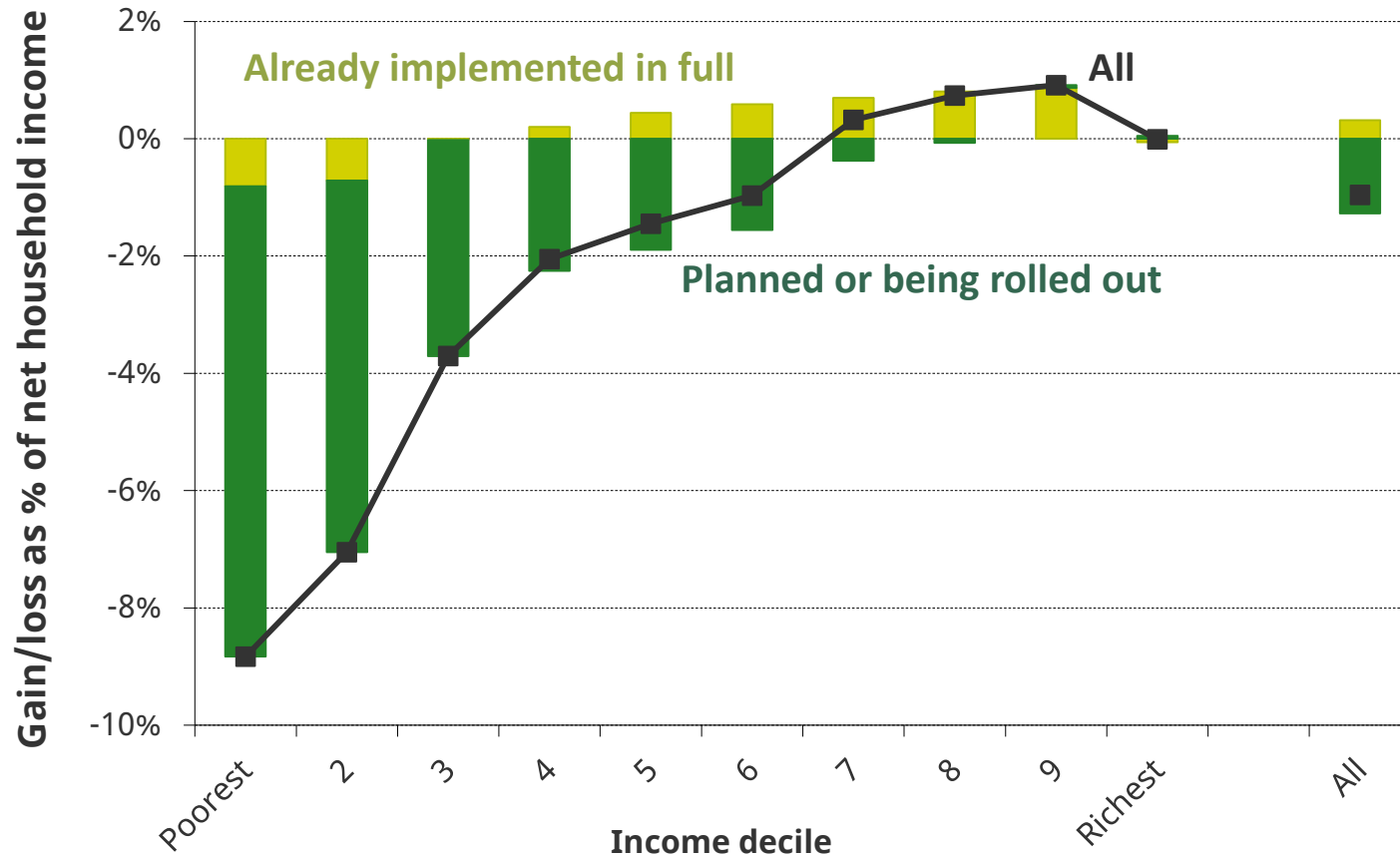


Source: DWP benefit expenditure tables (<https://www.gov.uk/government/publications/benefit-expenditure-and-caseload-tables-2017>).



# Current policy direction is very different

## Long run distributional impact of personal tax/benefit reforms since 2015

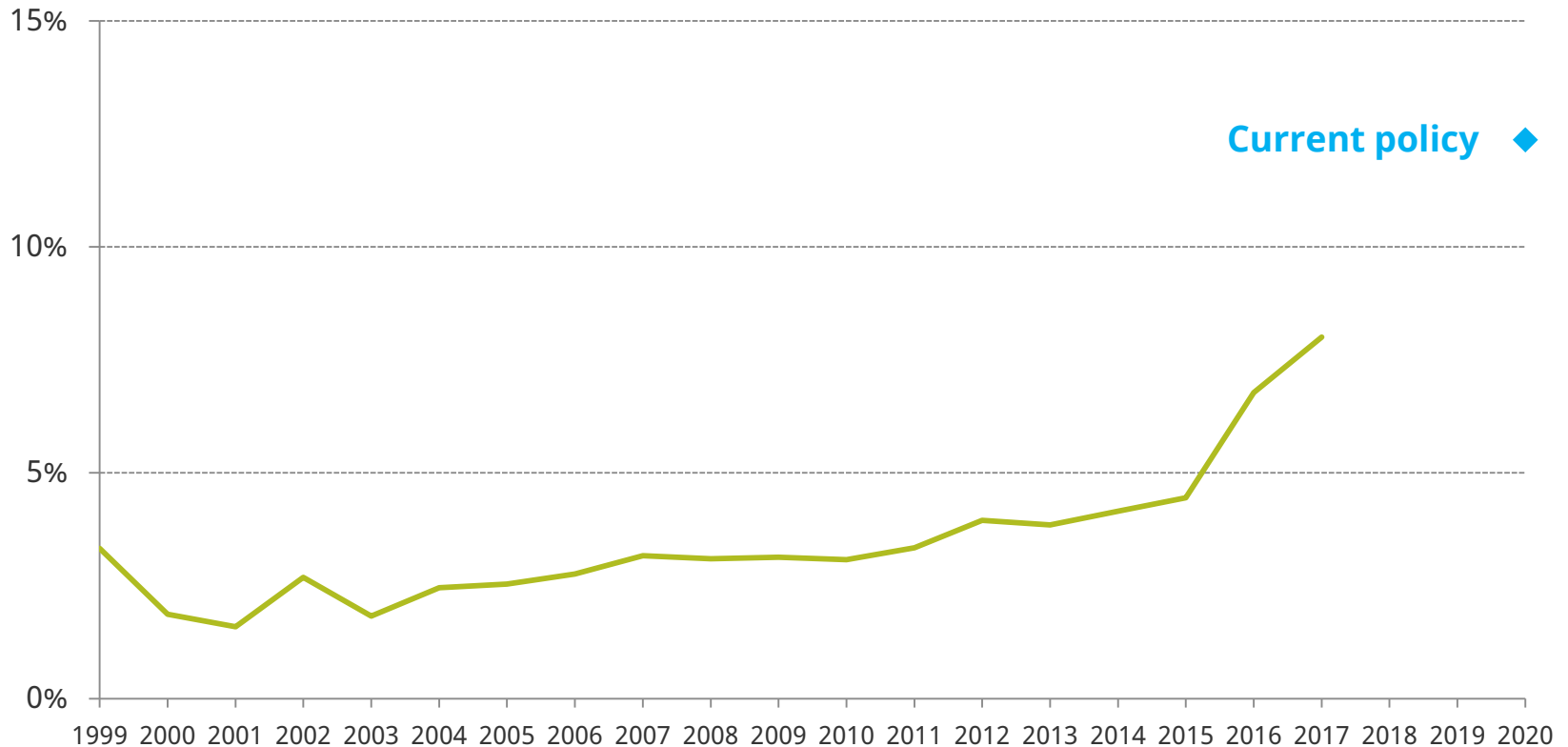


Note: Assumes full take-up of means-tested benefits and tax-credits. Policies partially rolled are Universal Credit, the 2-child limits, the replacement of DLA with PIP and the abolition of the WRAG premium in ESA.

Source: Authors' calculations using the IFS micro-simulation model run on updated data from the 2015-16 FRS and 2014 LCFS.

# Instead the flagship policy aimed at helping low paid is a higher minimum wage...

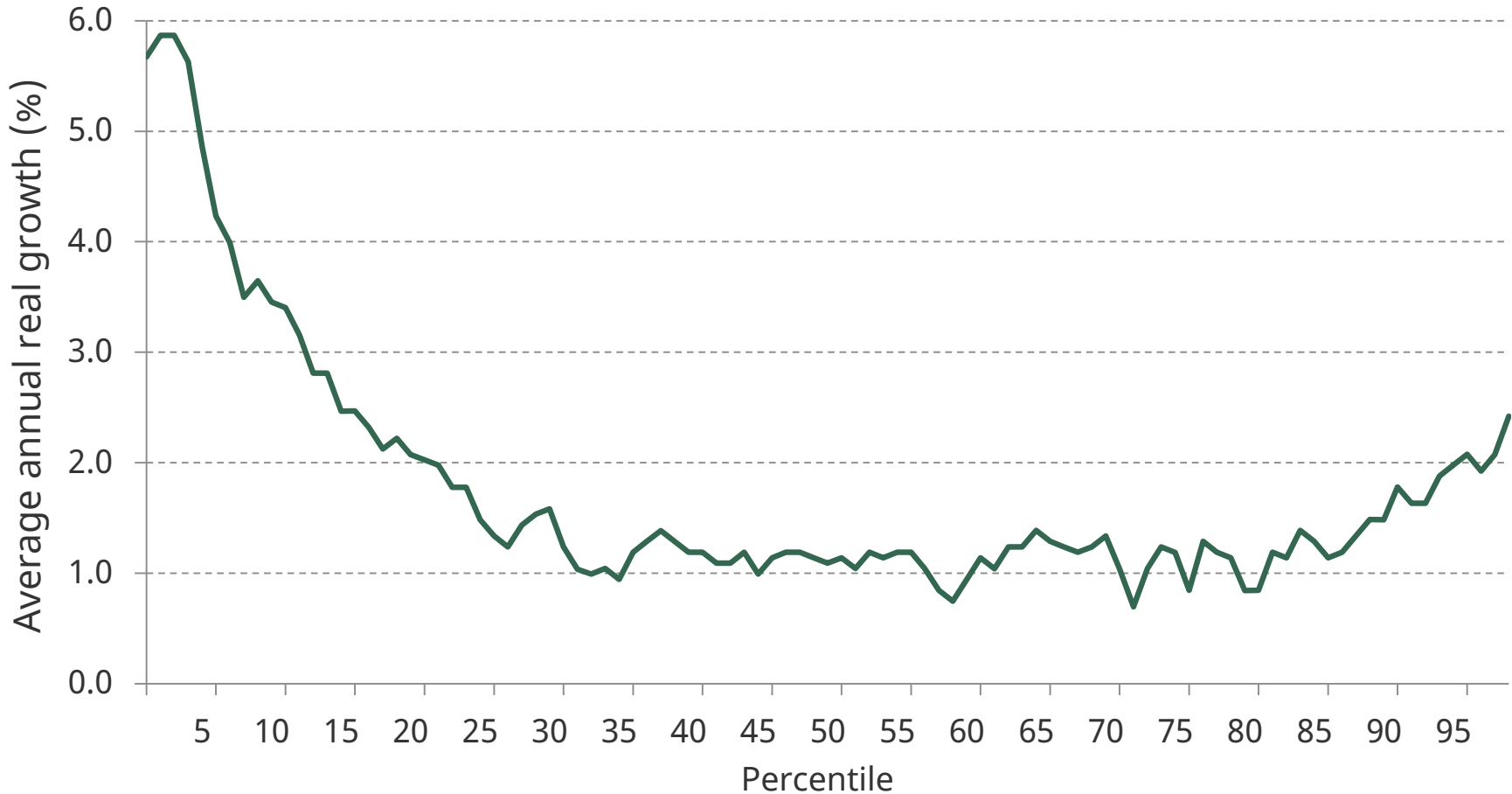
## % of employees aged 25+ paid the minimum wage



Source: Figure 5 of Cribb, Joyce and Norris Keiller (2017): [www.ifs.org.uk/publications/9205](http://www.ifs.org.uk/publications/9205).

# ...which is having clear effects on hourly wages at bottom end

## Real growth in hourly wages by percentile, April 2015-April 2017



Source: Calculations using Figure 2.11 of Low Pay Commission 2017 Report (<https://www.gov.uk/government/publications/national-minimum-wage-low-pay-commission-report-2017>), deflating figures using CPI. Underlying data used is ASHE.

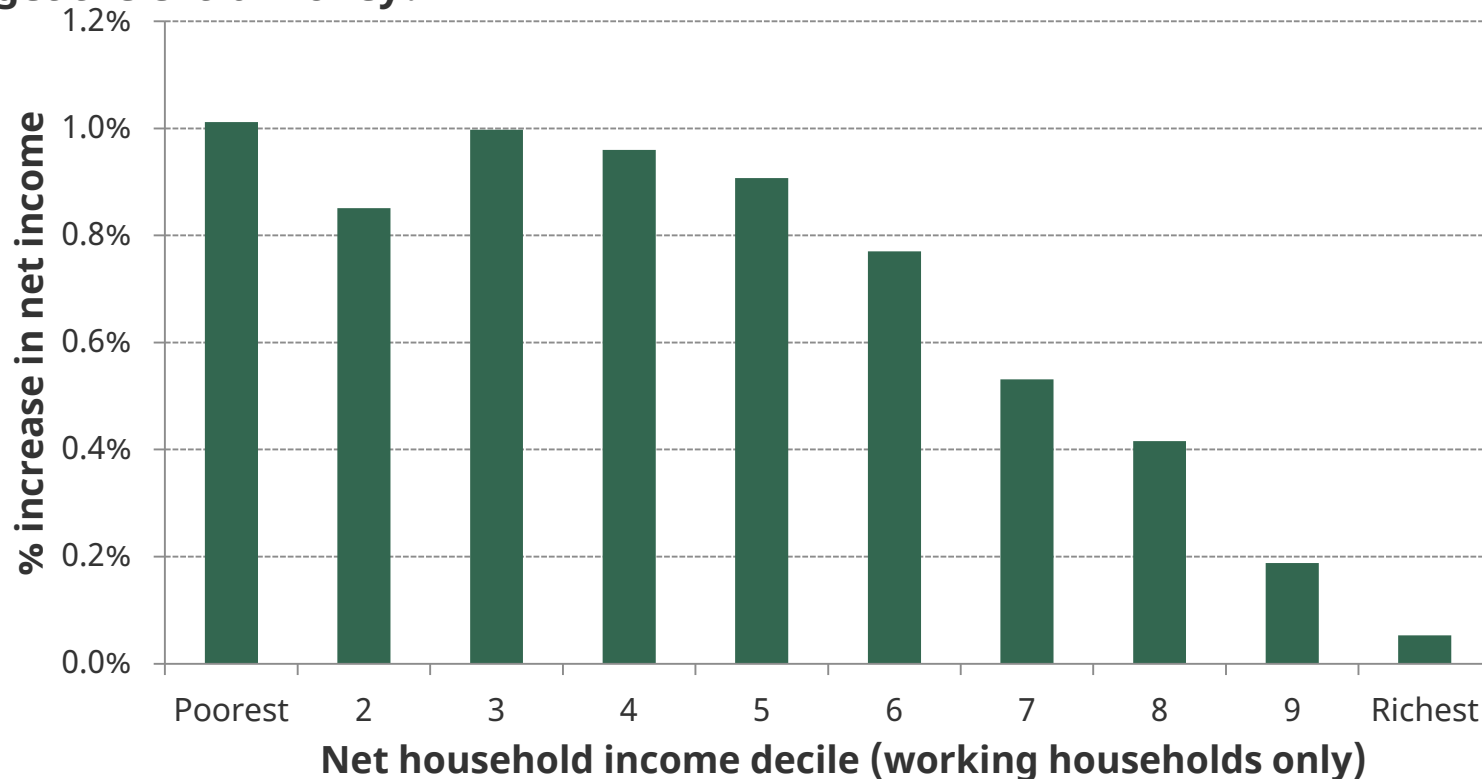
# Higher minimum wages

**Distributional impact very different from cash transfers: one reason why it is unhelpful to think of them as substitutes**

- Hourly wages and household incomes are not the same!

# Higher minimum wage targets the lowest-wage people, not the lowest-earning households

The increase in the NLW between now and 2020: which working households get the extra money?



Note: Shows mechanical increase in net income arising from minimum wage rises planned between now and 2020. Ignores all knock-on effects of higher minimum wages, such as impacts on company profits, the wages of other workers, employment and hours worked. Does account for interaction with tax payments and benefit entitlements.

Source: Calculations using data underlying Figure 9 of Cribb, Joyce and Norris Keiller (2017): [www.ifs.org.uk/publications/9205](http://www.ifs.org.uk/publications/9205)

# Higher minimum wages

**Distributional impact very different from cash transfers: one reason why it is unhelpful to think of them as substitutes**

**Clearly a reasonable case for a higher minimum**

- Up to 2015, it seems to have raised wages at the bottom end without having big negative effects on employment or hours of work

# Higher minimum wages

**Distributional impact very different from cash transfers: one reason why it is unhelpful to think of them as substitutes**

**Clearly a reasonable case for a higher minimum**

**Like cash transfers, there will be limit to how far we can push the minimum before tradeoffs become bigger than we want to accept**

- An ever-higher minimum must affect employment of low skilled beyond some point
- We do not know where that point is

## Higher minimum wages

**Distributional impact very different from cash transfers: one reason why it is unhelpful to think of them as substitutes**

**Clearly a reasonable case for a higher minimum**

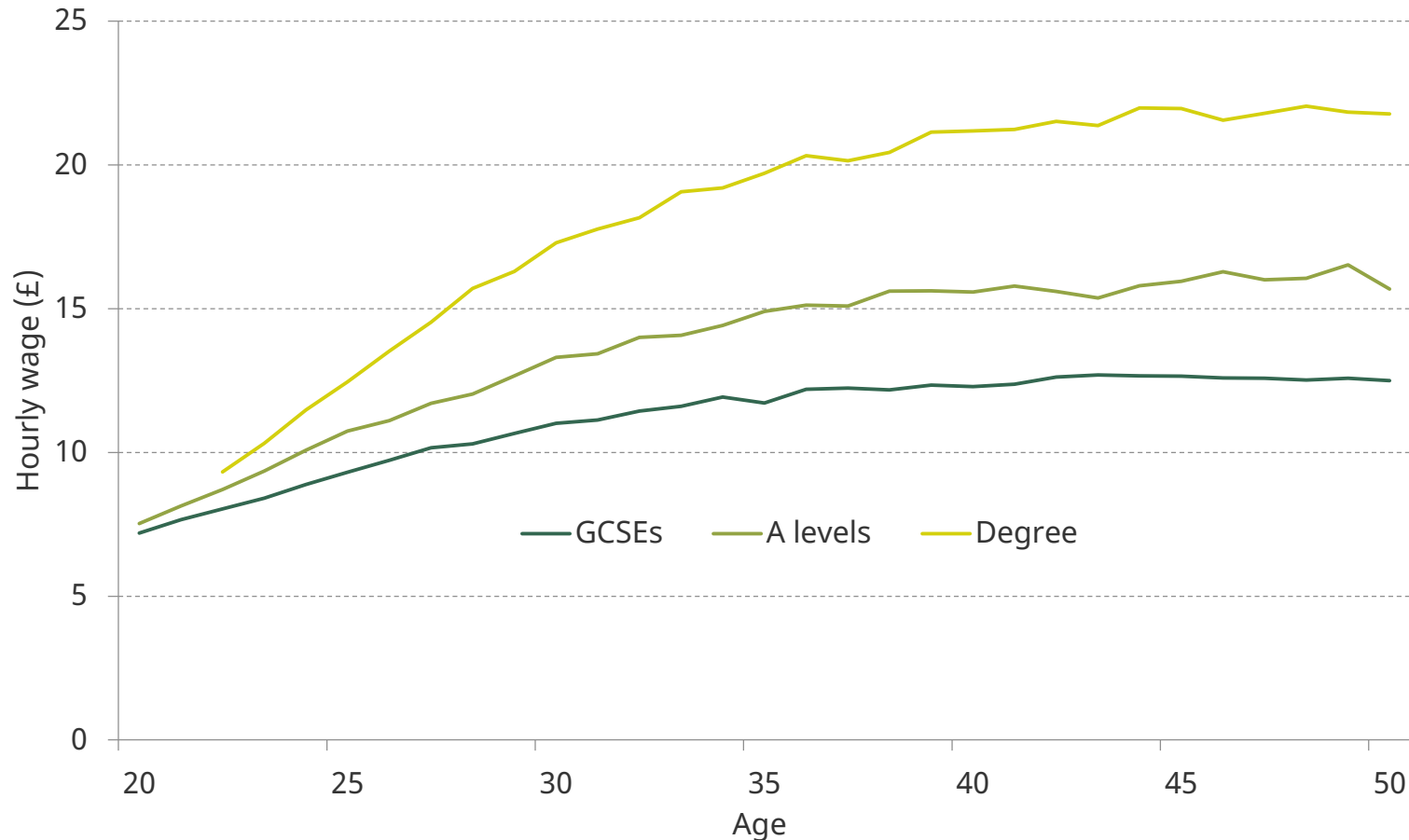
**Like cash transfers, there will be limit to how far we can push the minimum before tradeoffs become bigger than we want to accept**

**In the end, to keep a lid on earnings inequalities there may be no substitute for better tackling the underlying drivers...**



# Low wages often driven by lack of progression

## A lifecycle view of male hourly wages, by level of education

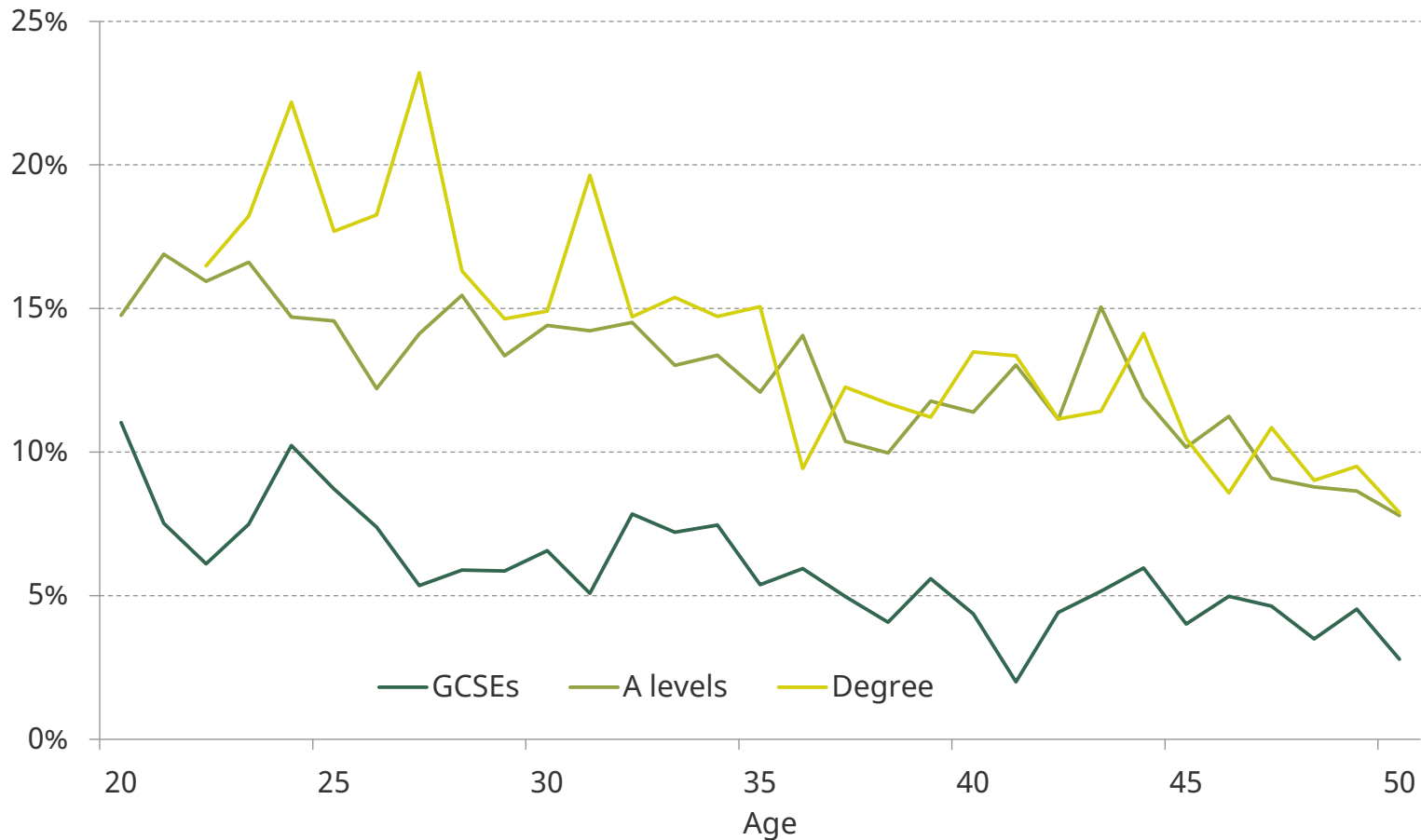


Notes: Wages are shown in 2016 constant-wage terms (population-wide wage growth over time is effectively stripped out). People in the bottom two and top one percentiles of the gender- and year- specific hourly wage distributions are excluded.

Source: Figure 4 of Costa Dias, Joyce and Parodi (2018): [www.ifs.org.uk/publications/10358](http://www.ifs.org.uk/publications/10358). Data used is LFS 1993Q1-2017Q2.

# Those without education typically gain less from other sources of wage growth as well

## Proportion receiving job-related training over past year (male employees)



Notes: Training defined as at least 50 hours of formal training over the past year.

Source: British Household Panel Survey 1991-2008.

# Progression also key to understanding wage differences between men and women...

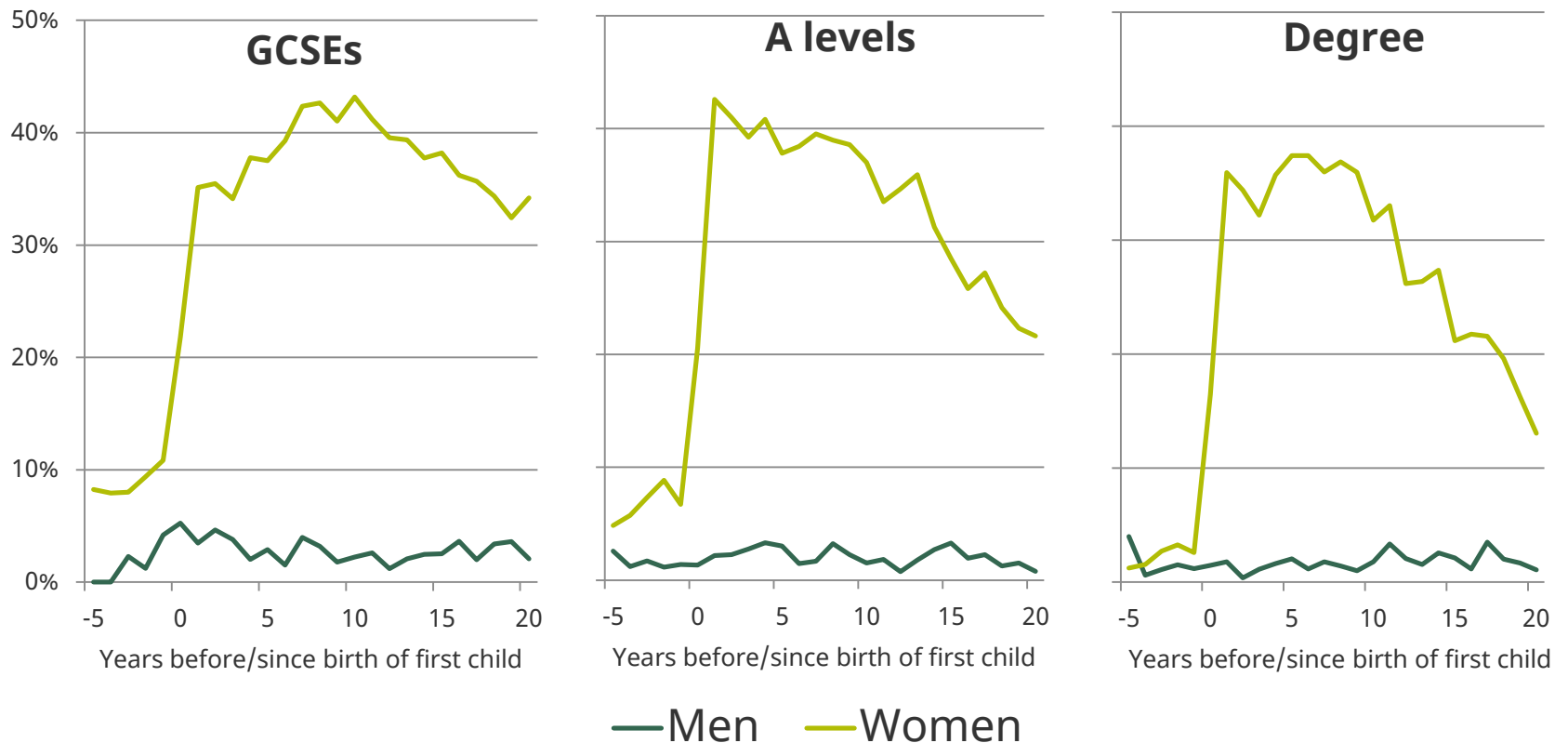


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Source: Figure 4 of Costa Dias, Joyce and Parodi (2018): [www.ifs.org.uk/publications/10358](http://www.ifs.org.uk/publications/10358). Data used is LFS 1993Q1-2017Q2.

# ...which brings us to another key determinant of wage progression: hours of work

## Proportion of men and women in part-time paid work

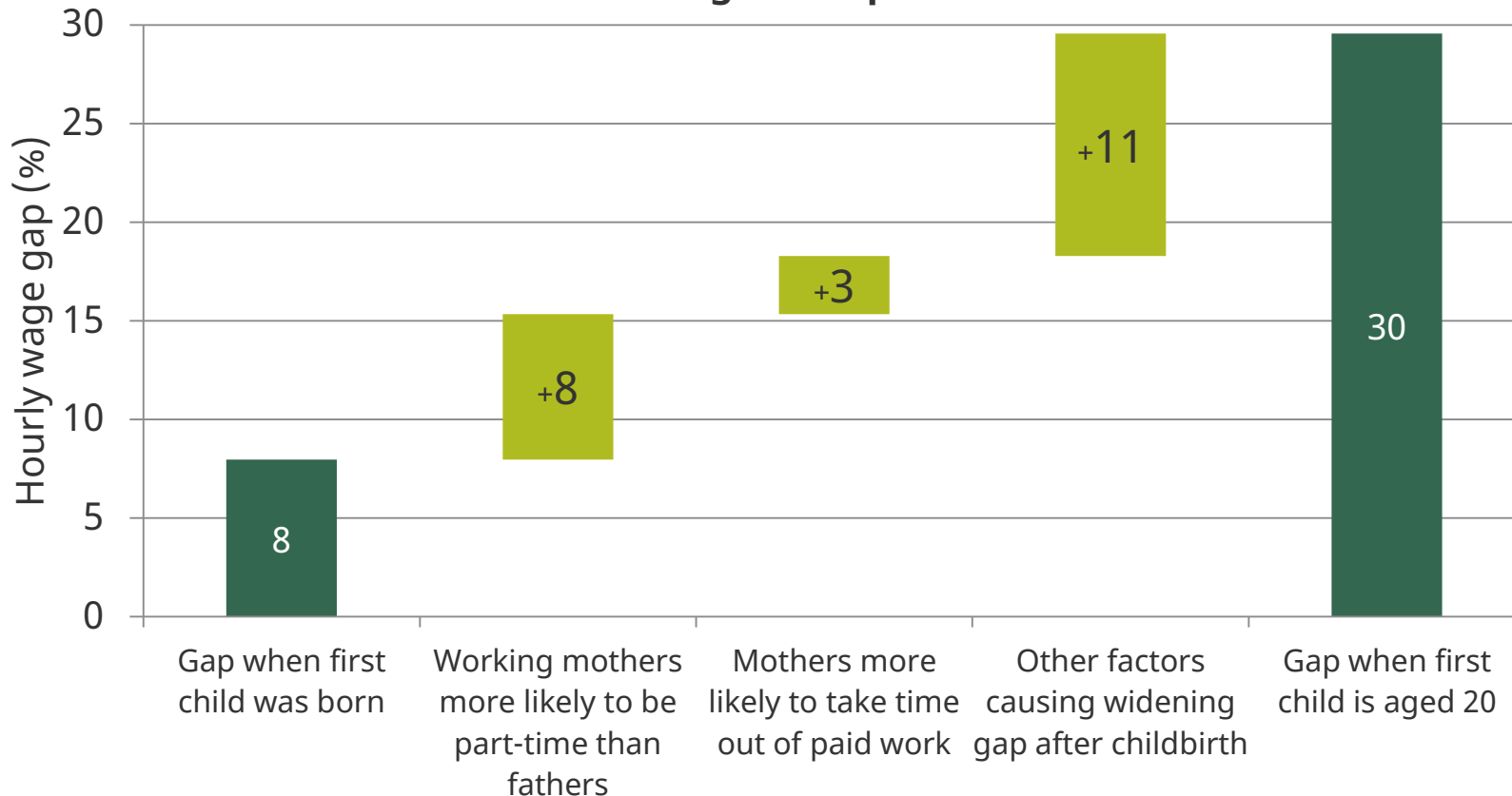


Notes: Part-time work is defined as no more than 25 hours per week.

Source: Figure 7 of Costa Dias, Joyce and Parodi (2018): [www.ifs.org.uk/publications/10358](http://www.ifs.org.uk/publications/10358). Data used is BHPS 1991-2008 and Understanding Society 2009-15.

# Part-time experience does not lift hourly wages: one significant driver of gender wage gap

## Decomposing the difference in hourly wages between mothers and fathers once the first-born child is grown up



Notes: Part-time work is defined as no more than 25 hours per week.

Source: Costa Dias, Joyce and Parodi (2018): [www.ifs.org.uk/publications/10358](http://www.ifs.org.uk/publications/10358).

# Should be priority to understand why part time experience brings such little wage uplift

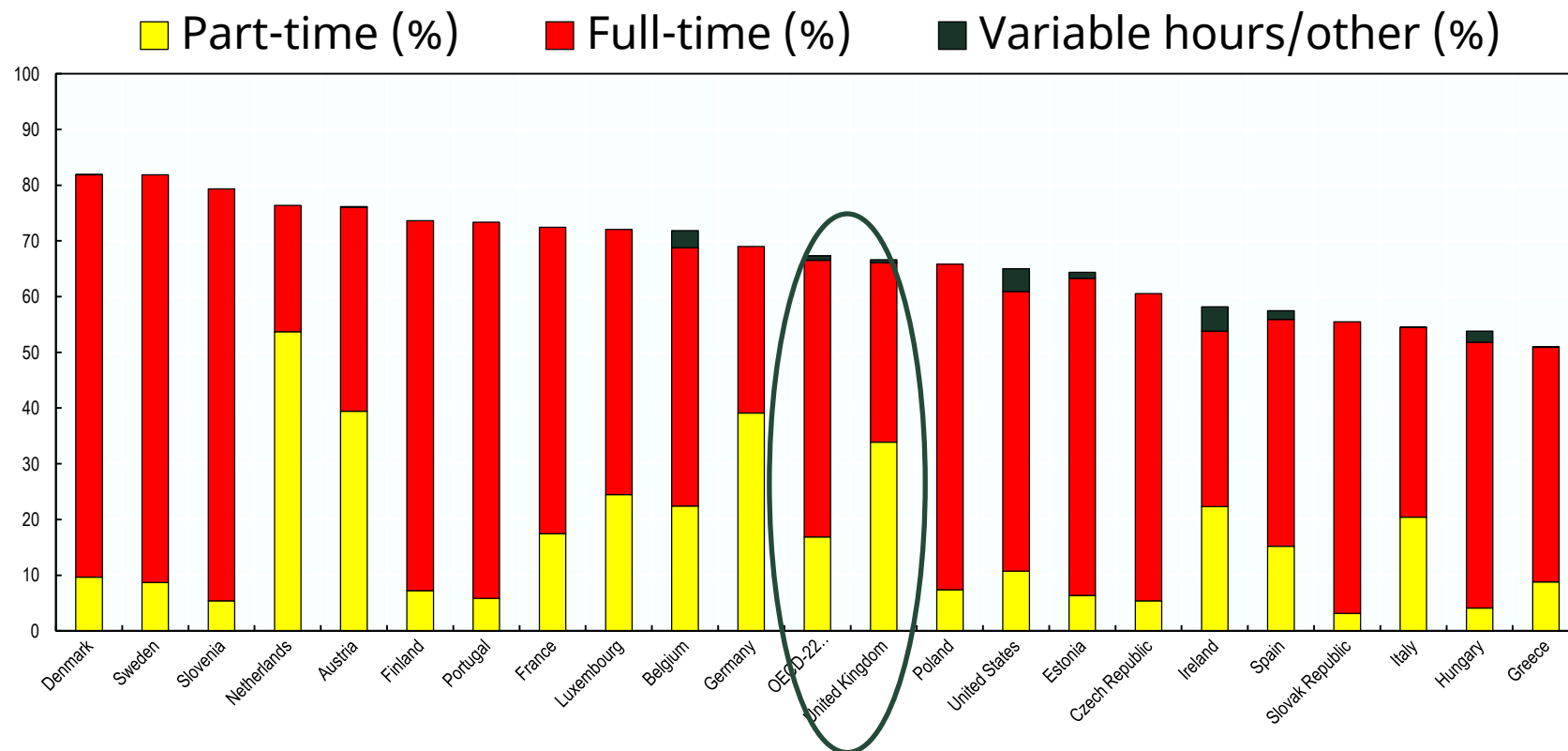
## Many possible reasons, including:

- Lack of training
- Less opportunity for informal interaction / networking
- Genuine constraints on build-up of skill in low-hours jobs
- Labour market for part-time workers less competitive

**Appropriate policy response will depend on the underlying drivers**

# The extent to which mothers work part-time in the first place appears malleable

## Maternal employment rates across OECD countries



Notes: Shows employment rates for women aged 15-64 with a dependent child under 15 (or under 18 in the US). Part-time employment defined as less than 30 usual hours per week in main job.

Source: OECD (2017), "Dare to Share: Germany's Experience Promoting Equal Partnership in Families", <https://tinyurl.com/yvcvtcpw>

# Conclusions

**General lack of wage growth, underpinned by lack of productivity growth, is a major underlying problem**

**Over a number of years trends in household earnings have been even weaker at bottom end**

- Changes in hours of work key to this – need to understand them better

**We have spent lots on cash transfers, and are now aggressively raising minimum wages, to prop up the bottom end – but both can only go so far**

- Must also focus on underlying drivers of low pay

**Low wages are often about a lack of progression**

- Policy design should factor this in
- What effects will conditionality for in-work claimants in universal credit have?



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