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

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Incomes in low paid employment

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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.

...but increasing earnings inequality among men

Growth in hourly wages and weekly earnings since 1994-95

Notes: Sample is employees in Great Britain.

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.
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.

Real spending on tax credits and equivalents

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 uprated 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.
...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!
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
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.

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

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

![Graph showing the proportion of male employees receiving job-related training over the past year, grouped by education level (GCSEs, A levels, Degree), and age (20 to 50 years). The graph indicates that those with higher levels of education (A levels and Degree) are more likely to receive job-related training than those with lower levels of education (GCSEs), especially among younger age groups.]

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

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

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.

...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.

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.

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

- **Part-time (%)**
- **Full-time (%)**
- **Variable hours/other (%)**

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.

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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