



IN-WORK POVERTY IN THE UK: TRENDS, TAX CREDITS AND TRANSITIONS

Dr Rod Hick (based on joint work with Dr Alba Lanau)
Presentation at CHASM, University of Birmingham
12th December 2018

Cardiff University
e: hickr@cardiff.ac.uk



**IN-WORK POVERTY IN THE UK:
Problem, policy analysis and platform for action**

Rod Hick and Alba Lanau
Cardiff University

Final Report, May 2017



Contents

- Measuring in-work poverty and why it matters
- Background to the project and research questions
- Findings
 - Trends
 - Influence of tax credits
 - Transitions
- Reflections on in-work progression and what works
- Conclusions

Measuring in-work poverty

- Need to define ‘work’ and ‘poverty’

| | Bureau of Labor Statistics (USA) | Eurostat (EU) | ILO |
|--------------------------------|-------------------------------------|------------------------------|----------------------------|
| Definition of working | | | |
| 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 |
| Definition of poverty | | | |
| 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 counts individuals living in working households

Motivations for the study

- “For the first time on record, the majority of people in poverty are in working families” (MacInnes *et al.*, 2013: 26).



More than half of people living in poverty have a job

The report by the Joseph Rowntree Foundation has found working families are the worst off for the first time ever

Britain can be better

The Labour Party Manifesto 2015



Questions that the project sought to answer

- 1) What is the extent of in-work poverty, and who experiences it?

Households Below Average Income/Family Resources Survey

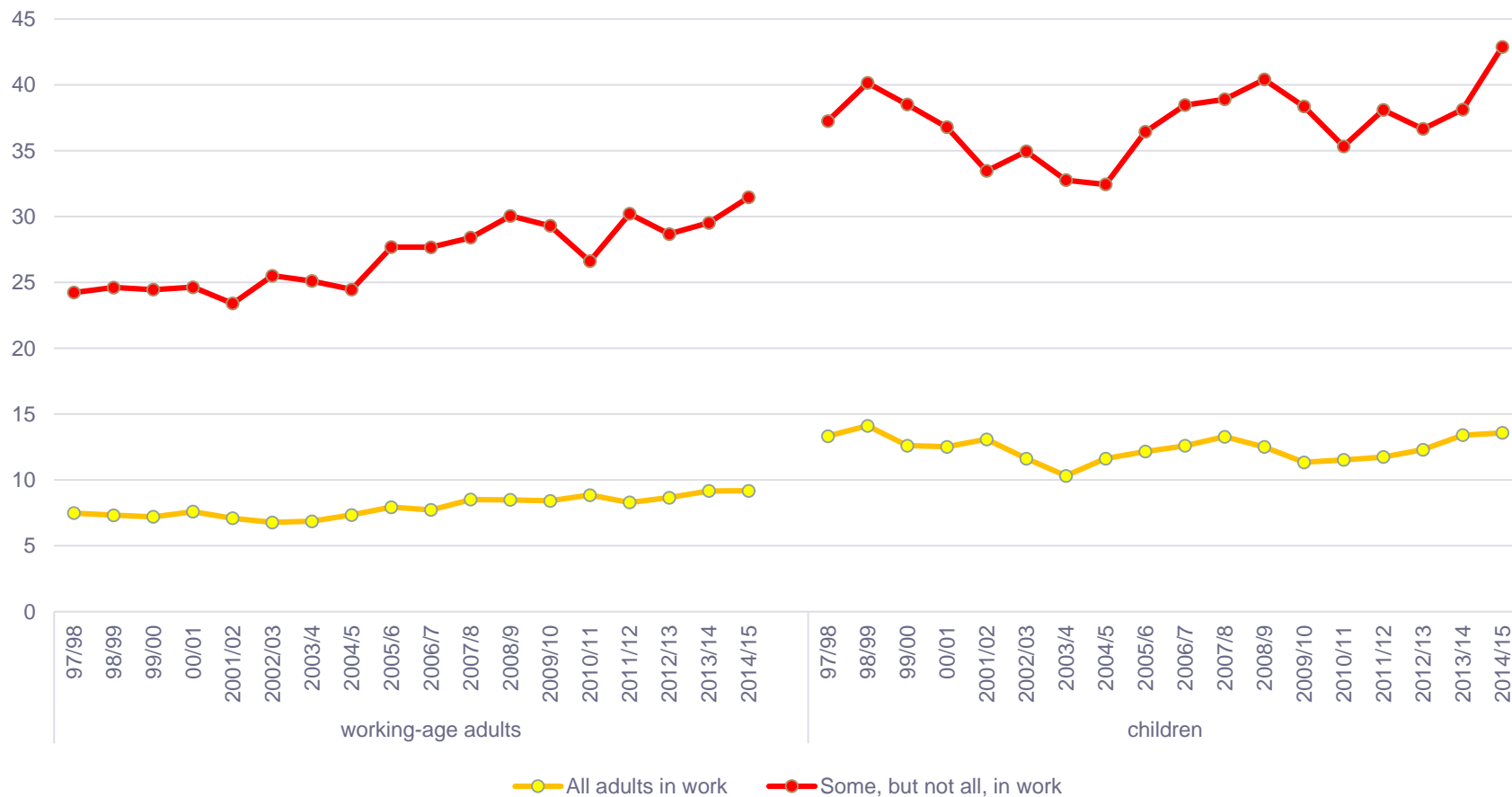
- 2) What is the relationship between tax credits & social security and in-work poverty, and how has this changed over time?

Households Below Average Income/Family Resources Survey

- 3) How common are entries to and exits from in-work poverty, and what events are associated with such transitions?

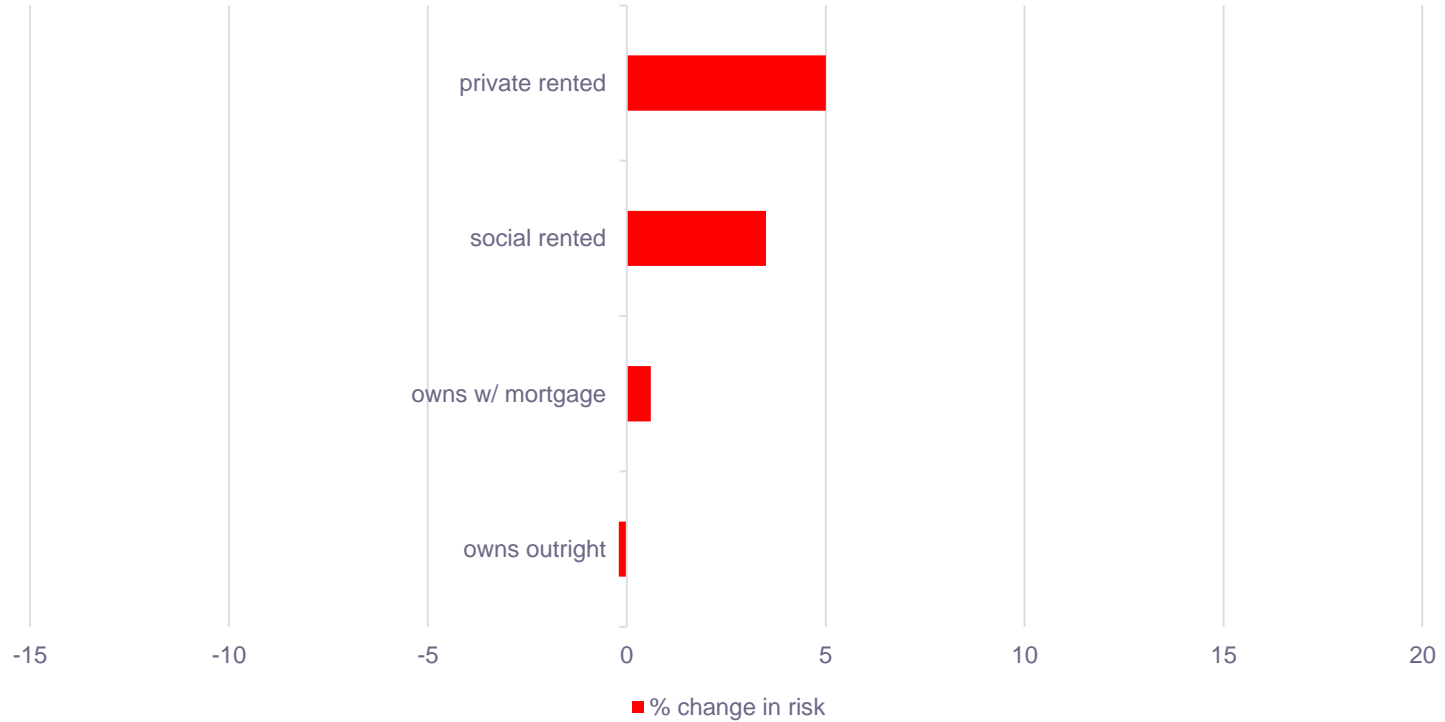
Understanding Society

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

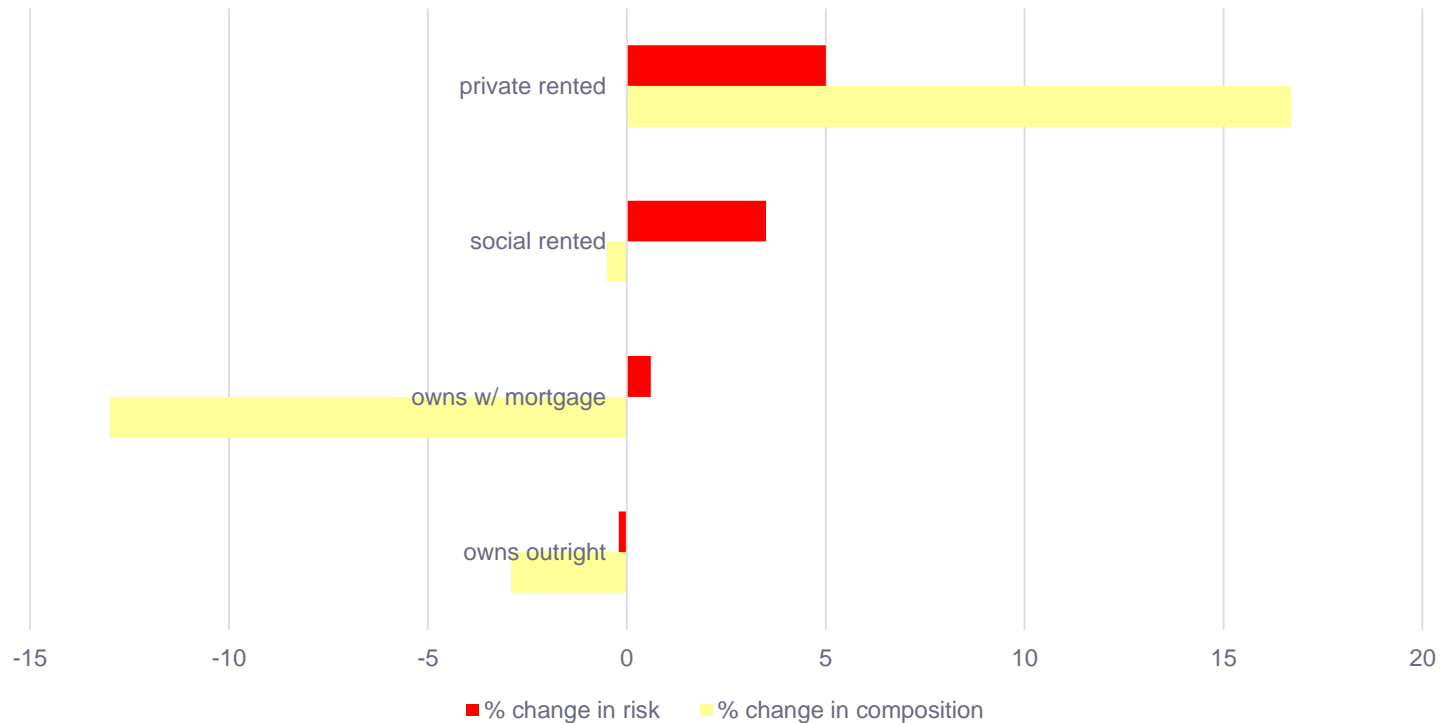


• *It's not about the poverty measure!*

Changes in in-work poverty by housing tenure, 2004/5 to 2014/15



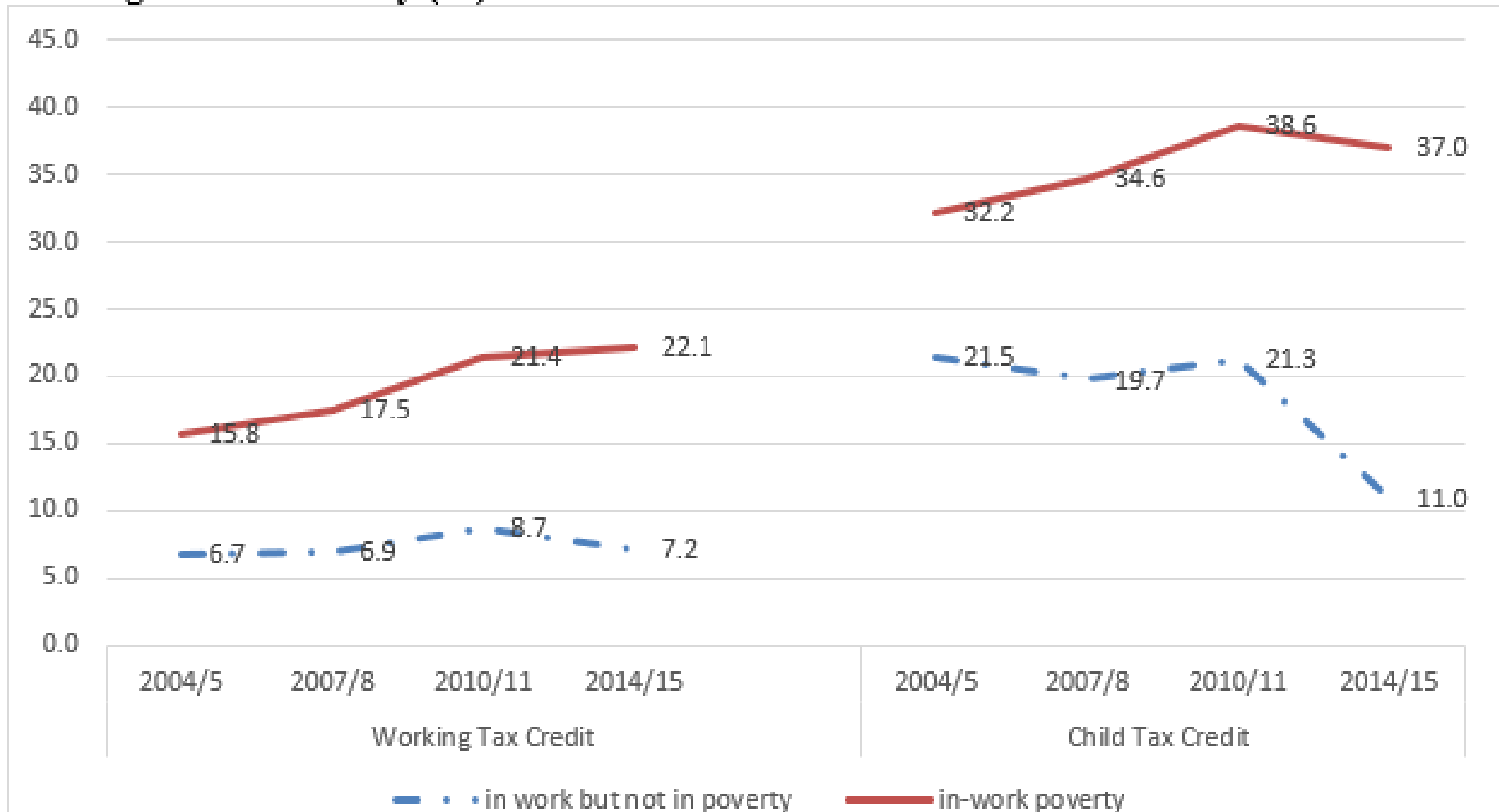
Changes in in-work poverty by housing tenure, 2004/5 to 2014/15



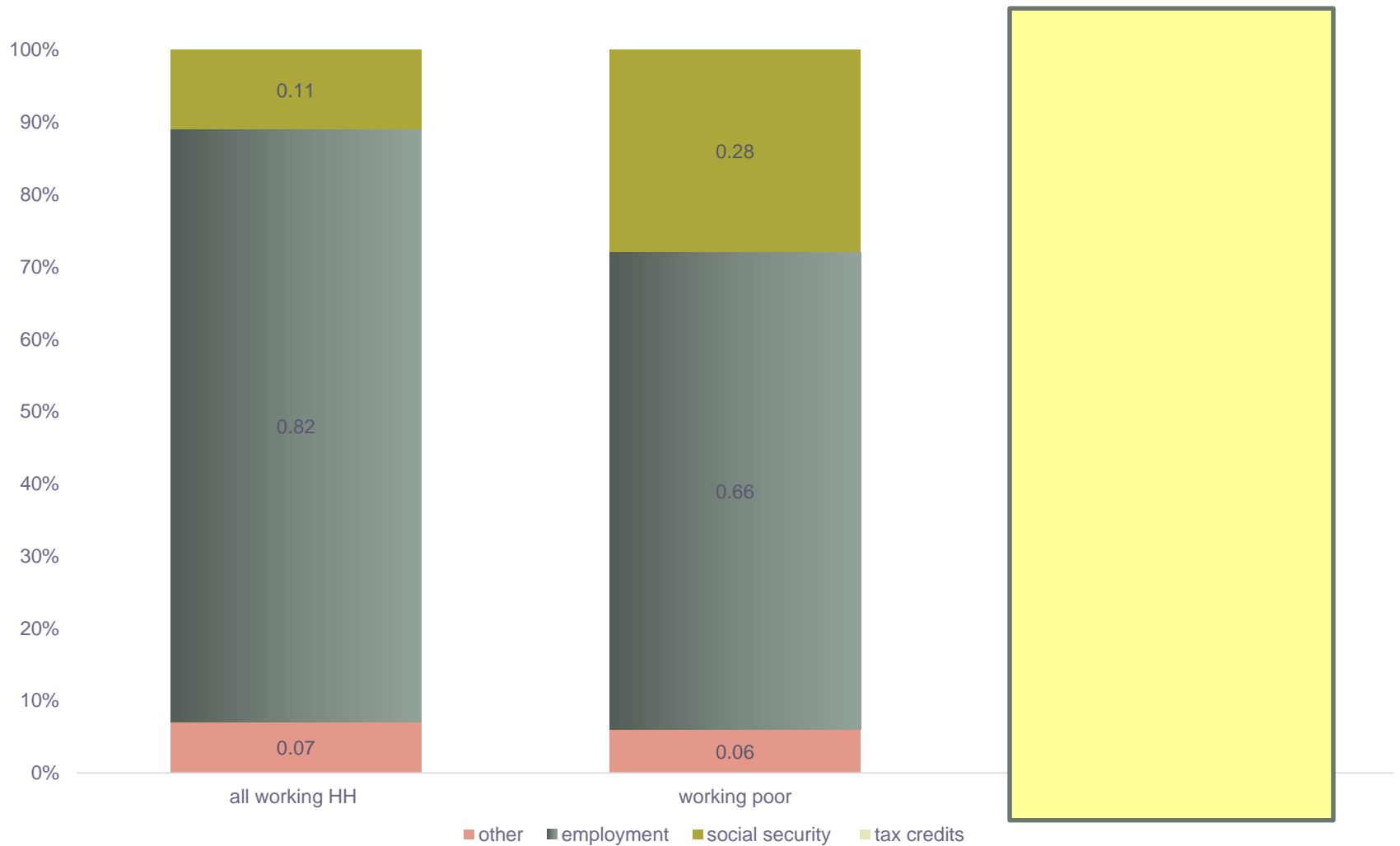
- Two things are happening:
 - General shift to private rented sector, away from owner-occupation
 - Rising in-work poverty risks for rented

Tax credit coverage over time

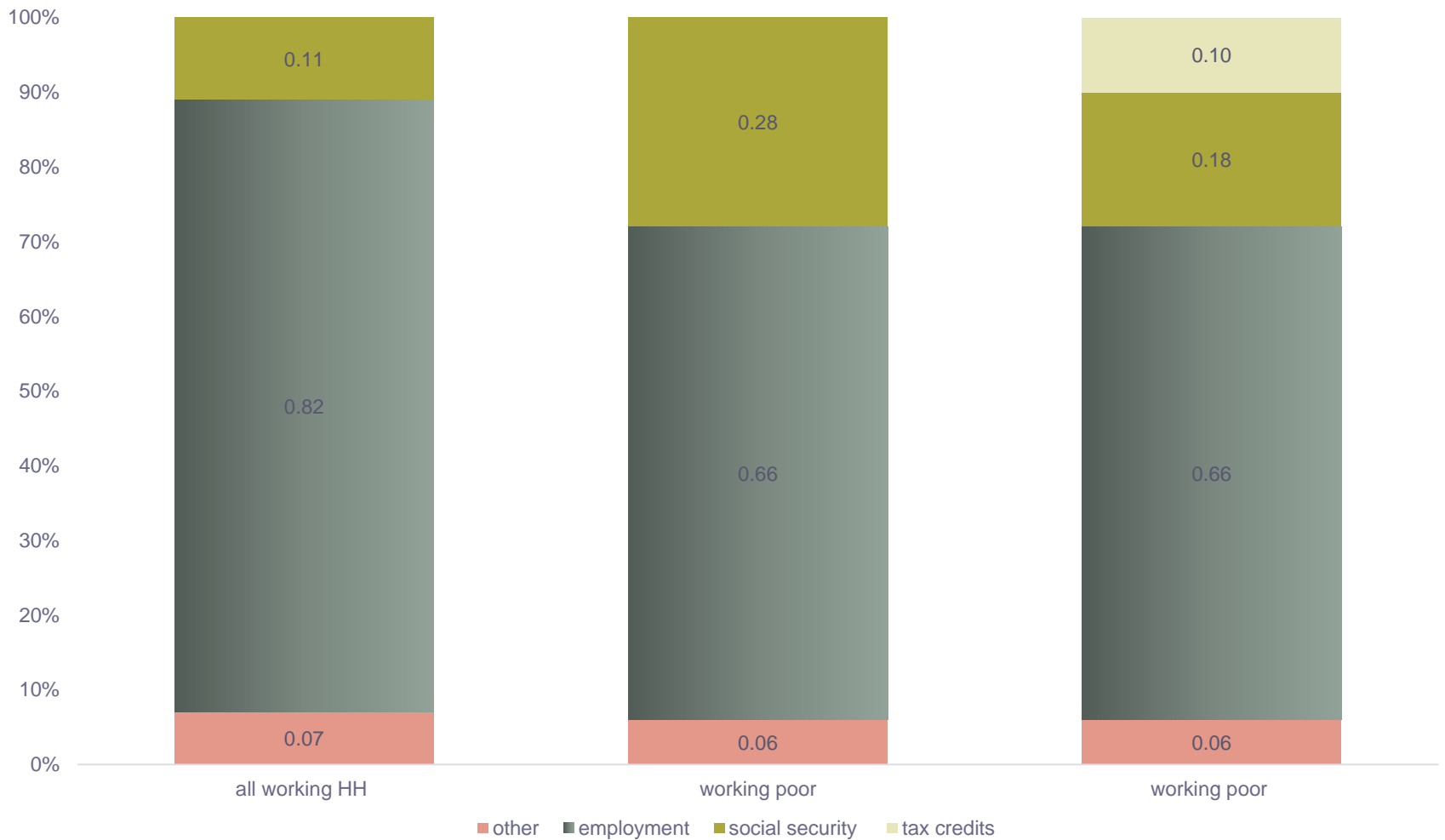
Figure 2. Coverage of Working Tax Credit and Child Tax Credit by poverty status, working households only (%)



Income packages by working HH type



Income packages by working HH type



Tax credit effectiveness

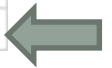
- Working poor households rely on a mix of payments
 - About 1/3 tax credits, 1/3 Housing and Child Benefit, 1/3 other payments
- BUT – A payment accounting for a small prop of total income can be v important in raising a hh above the poverty line
- Poverty reduction effectiveness
 - Poverty gap for all working hh reduced by 10-15% by WTC, by 20-30% by CTC
 - By ~50% for recipient households of WTC and CTC separately
 - And by 64% for both WTC and CTC jointly for recipient hh
- Difference in effectiveness for all working hh and recipient hh due to coverage

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

- In-work poverty associated with more complex transitions

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

From in-work progression to progression from in-work poverty

- Current discussion on in-work progression largely focussed on increasing earnings of low paid workers
- A worthy aim, though neglects that many hh experiencing in-work poverty don't have a low paid member in their hh
- Progression from in-work poverty will require attention to wider range of policy levers

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
 - And the need to avoid thinking that we can move to a high wage, low welfare society

Conclusions

- In-work poverty is a growing problem in the UK, and much of the rise is being driven by housing costs
- Tax credits have been cut significantly, despite being highly effective at reducing poverty for recipient households.
- There is a greater degree of interdependence between in- and out-of-work benefits and in-work poverty than is often assumed.
- Most transitions from in-work poverty are “positive”, but working poor households face elevated risk of becoming workless & ¼ of those leaving worklessness enter IWP

Thank you for listening!

References

- Hick, R. and Lanau, A. (2017), 'In-work poverty in the UK: Problem, policy analysis and platform for action', Cardiff, Cardiff University.
- 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*.

All available open access at www.rodhick.com