



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

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

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Final Report, May 2017
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- Background to the project and research questions
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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).

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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

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Most people classed as being in poverty 'have job'

08 December 2013 | [UK](#) | [P](#)

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Researchers said the number of people in low-paid jobs had risen, with average incomes falling by 8% since their peak in 2008

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

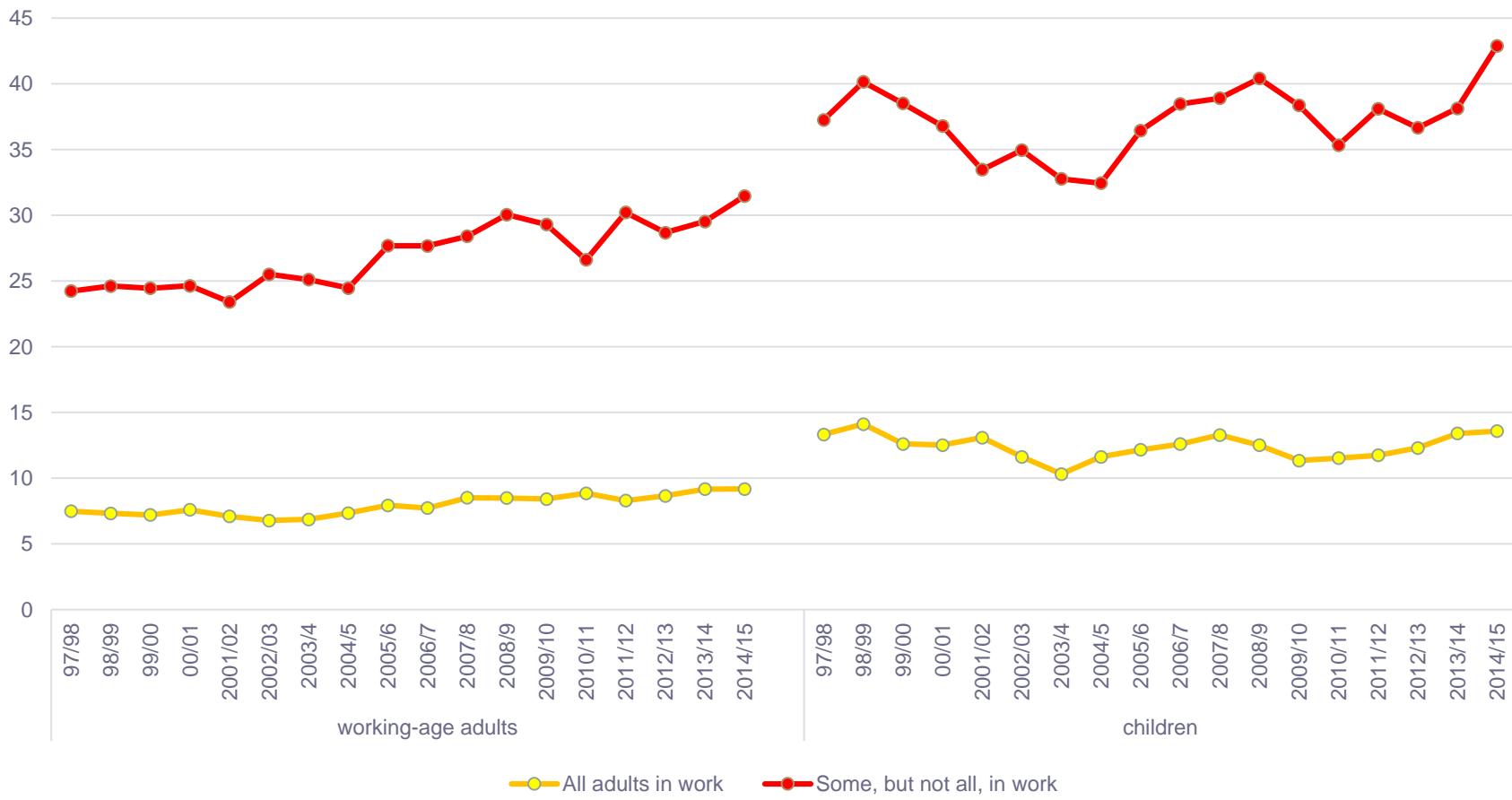
- 2) What is the relationship between tax credits & social security and in-work poverty, and how has this changed over time?

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?

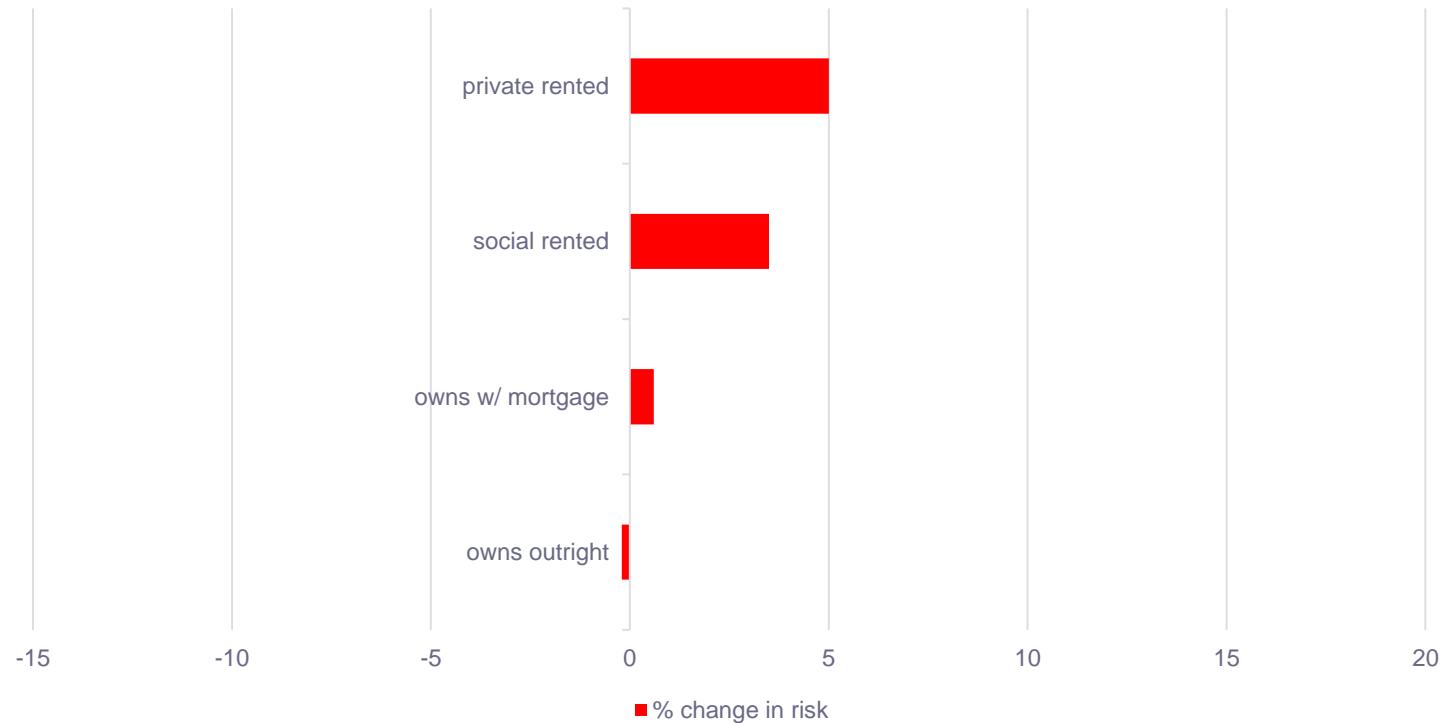
Understanding Society

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



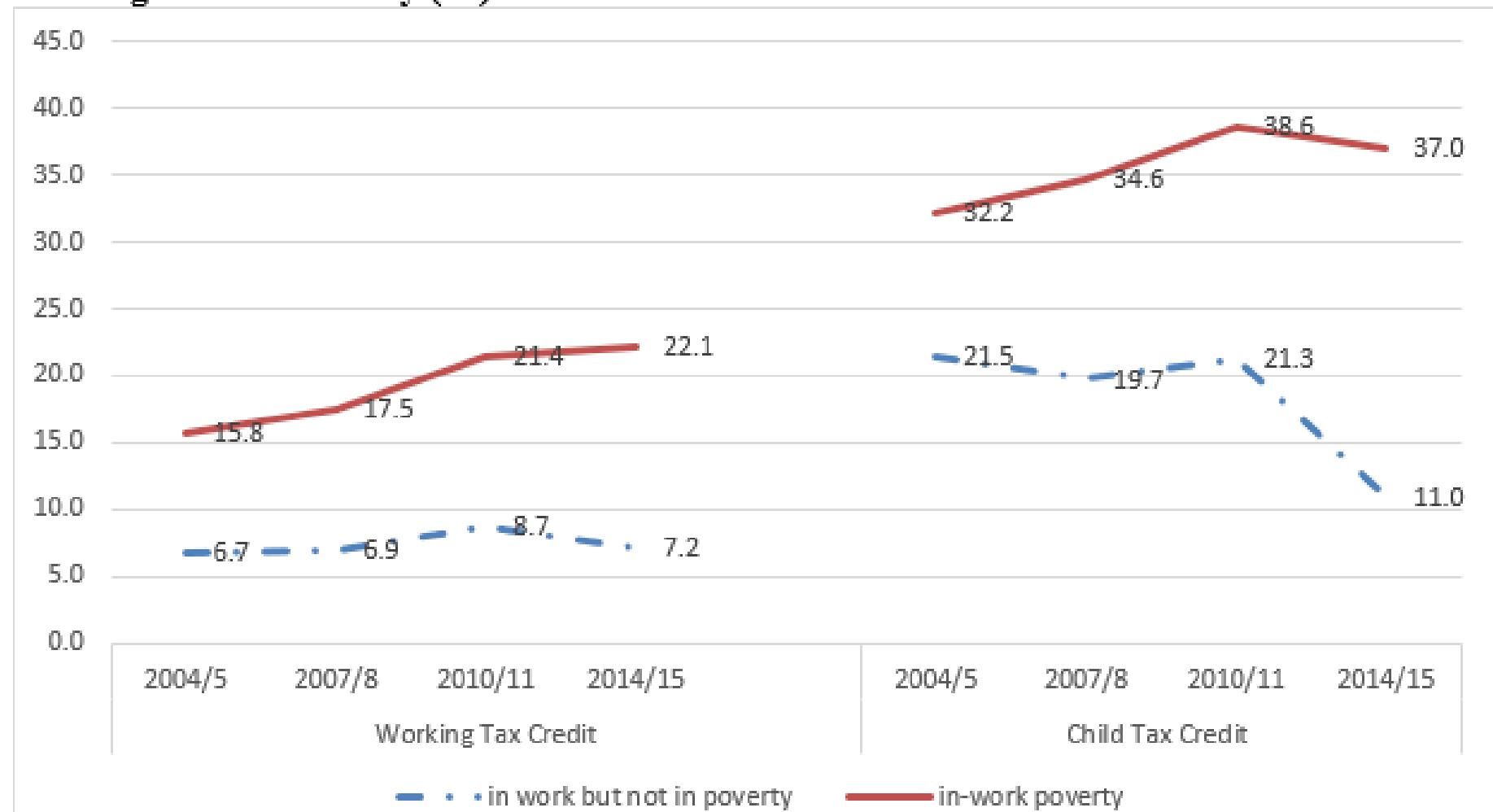
Changes in in-work poverty by housing tenure, 2004/5 to 2014/15



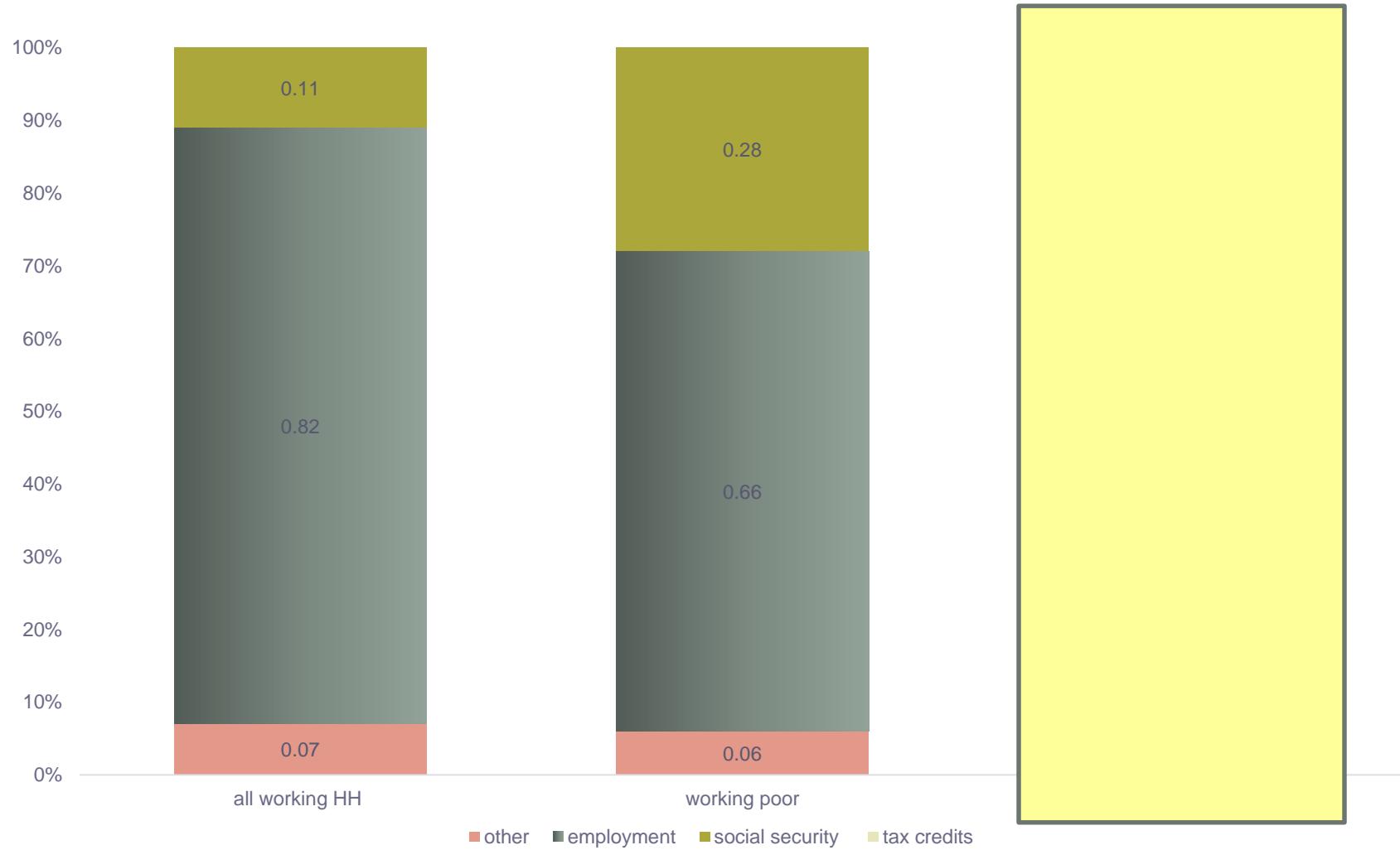
- Two things are happening:
 - General shift to private rented sector, away from owner-occupation
 - Rising in-work poverty risks for rented

Tax credit coverage over time

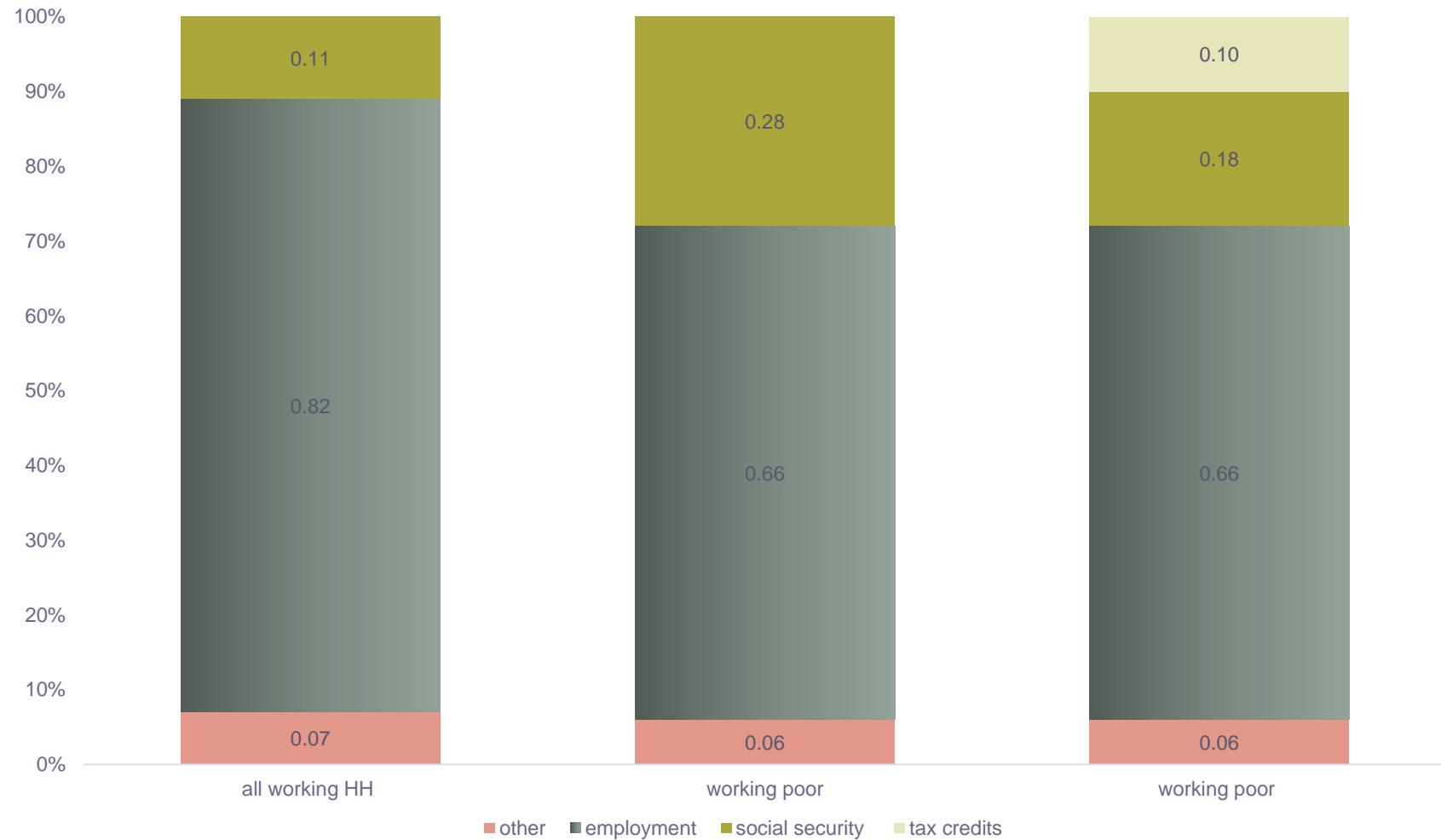
Figure 2. Coverage of Working Tax Credit and Child Tax Credit by poverty status, working households only (%)



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 very 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

		<i>t</i>			
		neither poor nor working	poor but not working	working but not poor	working poor
t-1		neither poor nor working	14.56	11.25	1.49
<i>t</i>	poor but not working	24.66	53.71	16.06	5.56
	working but not poor	1.48	1.05	93.21	4.27
	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 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 & $\frac{1}{4}$ of those leaving worklessness enter IWP

Thank you for listening!

References

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