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# **Employment, Pay and Poverty:**

## Evidence and policy review

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for the Joseph Rowntree Foundation**

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# EXECUTIVE SUMMARY

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## Background

This report examines the relationship between employment, pay and poverty. It is one of a number of evidence reviews commissioned by the Joseph Rowntree Foundation (JRF) to support their development of an anti-poverty strategy for the UK. More information can be found at <http://www.jrf.org.uk/work/workarea/anti-poverty-strategy>.

Employment is fundamental to the causes and solutions to poverty, and policy in the UK and elsewhere has focused on promoting employment as the key to tackling poverty. However, this approach now faces a number of challenges, including the increasing prevalence of 'in-work poverty', the current climate of fiscal constraint and low earnings growth as Britain emerges from recession. This review takes stock of what has been learnt about the relationship between employment, pay and poverty over the last twenty years, and examines the impact of employment-related interventions on poverty reduction.

The review had four key aims:

- To review the evidence on the links between employment, pay and poverty in the UK and to examine how this compares to other countries;
- To review evidence on the impact of employment-related policy and practice interventions to address poverty;
- To identify gaps in the evidence base; and
- To identify the policy and practice implications of the evidence.

## The relationship between employment, pay and poverty

Employment status has a strong bearing on poverty outcomes since earnings from paid work are the single largest source of income for most households in the UK. However, the relationship between employment status - the level of earnings from paid employment - and poverty outcomes is not straightforward. This is because employment participation is an individual characteristic while poverty is most commonly measured at the household level. Therefore whether someone with low earnings will be in (household) poverty or not depends on both household needs and on the level of other sources of income available to the household.

Worklessness is strongly associated with poverty in the UK. Workless unemployed families have by far the highest relative poverty rate, at 54 per cent, while workless inactive families have a rate of 37 per cent, compared to an all-working age rate of 15 per cent. If using a material deprivation measure of poverty rather than an income-based measure, workless families fare even worse in comparison to working families.

The UK has a higher poverty rate for unemployed individuals compared to the EU as a whole, although the two rates have converged since 2007. In the UK, median income dropped following the recession, thus lowering the poverty line. A poverty line which takes account of living costs, such as the Minimum Income Standard, in contrast, shows rising poverty rates in the UK since 2008/9.

Over the last 20 years, the association between work status and poverty in the UK has changed, as the proportion of those in poverty who are in work has increased. Adults in non-working families now make up just less than half of all working-age individuals in relative poverty. This reflects a fall in the poverty rate for workless families, especially those with children, which is due to the targeting of benefit and tax credit expenditure towards these families, particularly between 1999 and 2005. In-work poverty rates are highest among families with part-time workers only, with self-employed workers only and couple families with single earners (especially where the earner is a woman).

A number of characteristics of employment are associated with higher rates of poverty, including part-time work and low hourly pay. Other characteristics of work such as temporary and precarious employment are also related to poverty because they reduce work duration. Low pay is associated with poverty and is particularly prevalent in the UK, affecting one in five employees in 2012. Women are over-represented in both low pay and part-time work, although the poverty consequences of this are only apparent in households reliant on women's wages only. Low-paid women are more reliant than men on a partner's wages to lift them out of poverty, which also makes them more vulnerable to poverty resulting from family break-up.

Elementary, sales, caring, process and administrative occupations are most closely associated with in-work poverty, as are hospitality and catering, personal services, retail and residential care sectors. These sectors and occupations are also closely associated with low pay and persistent low pay.

### **The number and quality of jobs and poverty**

Anti-poverty strategies often emphasise growth in the labour market as a core requirement because those in employment have a lower poverty risk than those out of work. However, there are a number of factors which will influence the extent to which an employment-led policy reduces poverty. The distribution of jobs is important; for poverty to decline, employment growth needs to reach poor households.

Job creation schemes targeted at disadvantaged areas are one possible response to addressing poverty. However the evidence on the employment effects of such schemes is mixed. The evidence from Enterprise Zones suggests that, on balance, they do not function particularly well for disadvantaged communities. The evidence on wage subsidies to employers is somewhat more positive, however, and suggests that they may work for some disadvantaged groups, especially if combined with other interventions.

The National Minimum Wage (NMW) is frequently discussed as a tool to address in-work poverty. However, the evidence suggests that minimum wages represent a somewhat blunt instrument to tackle poverty because increases are relatively poorly targeted at households in poverty. Rises in the NMW do help boost household incomes for lower earning families, but do so in a way that means they have only a limited impact on (relative income) poverty. There is no evidence currently on what introducing a Living Wage might do for poverty; estimates suggest that it would raise household incomes for a large number of low earners, but may also reduce the labour demand for some groups, notably low-skilled young workers.

Other institutional factors also influence the links between employment and poverty. For example, there are a range of studies which link the declining importance of collective bargaining and union membership to the increased prevalence of low pay. Work-family reconciliation policies also have a potentially important role to play in anti-poverty, because they can help to alleviate the labour market disadvantage of those with caring responsibilities. However, there is very limited evidence currently available about their effects on poverty outcomes.

### **The evidence on active labour market policies and poverty**

Active labour market policies have been an important area of focus of employment policy over the past two decades and there is a large international evidence base on their effects. However this is most often focused on (short-term) employment rather than poverty outcomes. Broadly speaking, the UK approach, which is mirrored in many other countries, has been to combine initiatives which 'pull' more people into the labour market, by 'making work pay', and those which 'push' people into work by a strategy of 'activating' benefit systems.

Analyses for the UK, US, and simulations for European countries, show that wage supplements have a direct positive effect on poverty reduction. This is because they are generally family or household means tested and thus well targeted at families in low income. The poverty effect of tax credits varies for different household types, however, related to how the benefits are designed. Wage supplements also generally have a positive employment incentive effect, although these effects vary cross-nationally and for different household types. Notably, wage supplements that are family/household means-tested tend to impose work disincentives on second earners, since the rate at which the benefit is withdrawn as earnings rise is increased for second earners in a couple.

There is an extensive evidence base on the effects of welfare reform in the US, which refers to a major reform to the benefit claimed by lone parent families in 1996, introducing work requirements and time limits on benefit receipt. Overall, this evidence shows broadly positive impacts on reducing welfare use and increasing employment, but the effects on poverty are less well-established. One negative outcome has been a decline in the take-up of welfare and an increase in the population 'disconnected' from welfare *and* work. Job sustainability and quality for welfare leavers is also generally poor.

The evidence base is not as extensive in the UK and conditionality continues to be progressively strengthened. Recent changes in conditionality for lone parents have seen employment rates substantially increased, relative to previous 'weaker' requirements, although a positive impact on income (and poverty) for those in work is not yet proven. Changes to conditionality for those claiming an incapacity benefit are still being rolled out, while recent changes to the JSA sanctions regime have yet to be evaluated. International evidence on sanctions suggests that they can increase short-term work outcomes but possibly at the expense of longer-term work duration and earnings.

The evidence on the effectiveness of different types of active labour market programmes is fairly consistent, showing, broadly, that programmes based on job search services and sanctions and private sector incentive programmes (e.g. wage subsidies) have predominantly positive impacts on employment, albeit wage subsidies can have high substitution and deadweight effects. An emphasis on finding work quickly within job search and sanctions programmes appears to be especially effective, although personalisation and tailoring of services and activities to individual need also appears more effective than mandating standardised activities. Training programmes have shown mixed results depending upon the nature of the programme and appear to work best where they are small-scale, well-targeted and delivered in conjunction with employers or in a workplace setting. Some reviews suggest that longer-term impacts from training programmes are more positive but this evidence is not wholly consistent. Poverty outcomes tend to be missing from this literature and the employment outcomes measured are often short-term.

The evidence on what types of programmes work best for whom is not very robust. A mix of sanctions and support, tailored according to need, is thought to be one of the most effective approaches for young people. More generally, systems which smooth the transition between education and work (such as vocational education systems) are important to prevent youth unemployment and inactivity. People at a greater distance from the labour market, such as the long-term unemployed or inactive, require more intensive support and there is some evidence that intermediate labour market programmes can have positive outcomes for this group. People with health conditions need more specialist support; poor outcomes from the Work Programme for this group may reflect a lack of specialist provision.

There is also a robust evidence base evaluating post-employment interventions to promote retention and progression, however it is almost exclusively from the US and interventions mainly target lone parents. Most interventions include a bundle of supports, all including some element of time-limited financial incentives. The evaluation findings show that these interventions can be effective, at least in the short-term, in promoting earnings gains but effects often fade over the longer-term. However, a longer term positive effect was found for the ERA programme targeting long-term unemployed people in the UK, suggesting that financial incentives can promote work retention for this group. Findings on what type of support works best are less robust, but reviews of the US ERA and similar evaluations suggest that:

- financial incentives can be effective for improving earnings, but advisory support alone seems insufficient to achieve this;

- job mobility is often a more successful strategy for progression in low-wage labour markets so adviser strategies facilitating this can be productive;
- a strategy of fostering links with good quality employers (with higher wages and progression opportunities) and making individualised job placements seems productive;
- financial incentives can increase uptake of training and education courses but these need to be closely linked to realistic progression pathways to have an impact on earnings.

While poverty is rarely measured directly in this literature, evaluators caution that while some positive programme effects have been found, the impacts observed are not transformational and often families remain in poverty despite modest earnings increases. Therefore, to date, post-employment programmes have been unable to make significant inroads on in-work poverty reduction.

### **Policy and practice implications**

There are several major challenges to distilling policy messages from the evidence reviewed. While there is a large amount of evidence about some interventions relevant to poverty reduction, the evidence base is also quite uneven and in many areas, evaluations are focused on employment rather than poverty outcomes. Policies selected will also depend on the timescale of interest and the extent to which initiatives are feasible in the current political and/or economic context. Finally, and importantly, the definition of poverty used is also significant. Policymakers, and much of the UK evidence reviewed, has adopted a relative income threshold to measure poverty rates. This has a number of advantages – it anchors poverty measures to a societal average, and is straightforward and easy to monitor. The drawback is that being too wedded to one measure risks ignoring or not prioritising interventions which influence other measures of poverty.

The review highlights a number of policy areas that are likely to be core to an anti-poverty strategy. Of the evidence included in the review, the strongest and most positive evidence on poverty reduction, at least in the short-term, is for wage supplements. Given the strength of evidence, and the well-targeted nature of wage supplements, any future anti-poverty strategy would need to include some form of in-work income transfer.

A second area with a strong evidence base is the minimum wage. Rises in the NMW would help boost household incomes for lower earning families, although they would only have a small impact on relative income poverty. The minimum wage, though, can help support the workings of the income transfers system by limiting the extent to which very low pay by employers is subsidised through tax credits. There is also the potential to create a 'virtuous circle' of higher wages leading to higher productivity and thus higher wages, but this potential is yet to be realised in the UK, and would require a wider low pay strategy than is currently embodied in the Low Pay Commission's remit. There is scope to increase employer incentives to pay the Living Wage, although evidence suggests that not all sectors could afford to pay this rate currently without it costing jobs.

Evidence from the reform of lone parent benefits in the US and the UK suggests that greater conditionality attached to benefit receipt has the desired effect of increasing employment rates, however the effects on poverty are less well-proven, and are dependent on the quality of employment obtained by welfare leavers, and the adequacy of the safety net for those unable to take up work requirements. The impact of current and planned benefit cuts in the UK, and increased conditionality with tougher sanctions, requires monitoring in this regard.

The evidence on the relative effectiveness of different types of ALMP suggests that programmes based on job search and sanctions, that convey a strong work-first message, but which also emphasise personalisation of support according to individual need are the most effective. The recent approach in the UK of combining programmes for different claimant groups (e.g. in the Flexible New Deal and subsequently the Work Programme) intends to facilitate this more personalised approach. However recent poor outcomes for groups requiring the most specialist support (e.g. ESA claimants) suggests that the contracting model requires reconsideration for this group.

Another key area of weakness of UK programmes – and their evaluation - is an inadequate emphasis on the quality and sustainability of employment. The evidence base for what works in promoting sustained employment and, especially, wage progression in the UK is weak. Suggestive evidence from the US is that financial incentives can be successful in promoting retention and upskilling – although the latter needs to be linked closely to career pathways to have an earnings impact. Other promising approaches include targeting job placements in higher wage employers and/or supporting job mobility to better-paying employers. However the evidence base required to robustly assess the relative merits of each of these strategies in terms of anti-poverty needs to be further developed. With the introduction of Universal Credit and the availability of ‘real-time’ earnings data, there is the potential to develop and test a range of approaches to promoting earnings progression. The next round of contracting for the Work Programme (or its successor) could further stimulate provider activity in this area by including clearer incentives (e.g. outcome payments) based on measures of wage or earnings growth.

Over the longer-term, policy should be focused on wider improvements in the labour market and stimulating growth in better quality jobs. To do this requires tackling the long-tail of low-wage employment in the UK through policy across a range of areas, including economic development, skills, business support and broader innovation approaches.

# 1 Introduction

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## 1.1 Introduction

This report examines the relationship between employment, pay and poverty. It is one of a number of evidence reviews commissioned by the Joseph Rowntree Foundation (JRF) to support their development of a set of anti-poverty strategies for the UK. (More information can be found at <http://www.jrf.org.uk/work/workarea/anti-poverty-strategy>.)

Employment is fundamental to the causes and solutions to poverty, since earnings from paid work are the single largest source of income for households in the UK. Policy in the UK and elsewhere has also largely focused on employment as the key to tackling poverty, for example through tax and benefit changes that have aimed to ‘make work pay’ and through ‘activation’ strategies linking access to welfare benefits to labour market participation. However, while considerable headway has been made in tackling child poverty since the 1990s, this approach, which focused on work as the best route out of poverty, now faces a number of challenges. These include the increasing prevalence of ‘in-work poverty’ – i.e. poverty among families with at least one person in work, and the current climate of fiscal constraint which means that increased spending on wage supplements to address in-work poverty is seen as less tenable (Social Mobility and Child Poverty Commission, 2013). The current economic conditions, as Britain comes out of recession, are an additional challenge – while employment has held up during the recession, real wages have fallen to an unprecedented degree putting a squeeze on living standards for low and middle income families (Cribb et al, 2013).

In this context, it is useful to take stock of what has been learnt about the relationship between employment, pay and poverty over the last twenty years, and to examine what the evidence shows about the impact of employment-related interventions on poverty reduction and about their limitations. This review therefore has four key aims:

- to review the evidence on the links between employment, pay and poverty in the UK and examine how this compares to other countries;
- to review evidence on the impact of employment-related policy and practice interventions to address poverty;
- to identify gaps in the evidence base; and
- to identify the policy and practice implications of the evidence.

## 1.2 Review methods

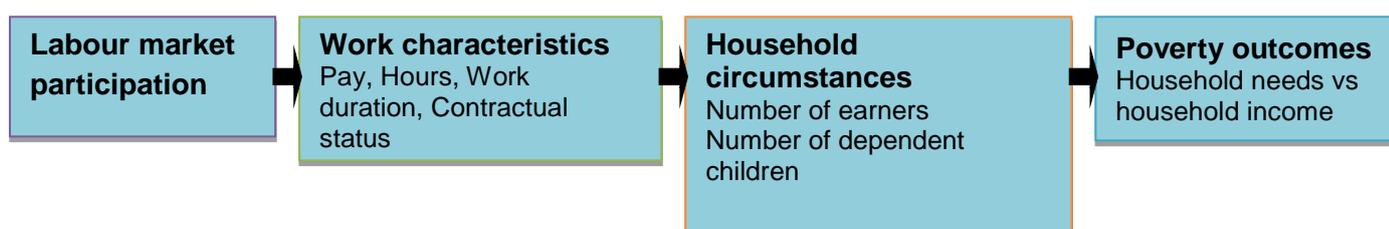
The review took place in three stages. First, we reviewed the literature on the relationship between employment and poverty, examining how employment status and various characteristics of employment relate to poverty outcomes. Secondly, drawing on the insights from stage one, we identified a range of employment-related initiatives with the potential to

impact upon poverty, and collated and reviewed the available evidence on their impact. Finally, we presented the results of the evidence review to a workshop of policy and practitioner stakeholders to discuss the findings and their implications for anti-poverty policy and practice.

### Stage 1: The relationship between employment and poverty

The first stage of the review examined the relationship between employment and poverty. This is not straightforward because while employment status is an individual characteristic, poverty is most commonly measured at the household level. Thus who else lives in the household and what other income sources are available mediate the relationship between employment status and poverty. In addition, the characteristics of employment, such as pay, hours and work duration, also have a bearing on the amount of income that is gained from employment and hence mediate the relationship also. This is illustrated in Figure 1.1.

**Figure 1.1: Factors mediating the relationship between employment and poverty**



This stage of the review focused on the question:

**How does employment status (at the household and individual level), and the characteristics of employment (hours, pay, work duration, contractual status), relate to poverty in the UK?**

- How have these relationships changed over time?
- How do these relationships differ in other European countries?

The relationship between employment and poverty is also complicated by the fact that poverty can be defined and measured in a number of different ways. See Box 1.1. for details of our approach to this issue.

This first stage of the review focused on rapidly appraising key texts and findings, rather than using full systematic methods. To expedite the process, we began by mapping the research contained in other reviews on the subject (for example, Tripney et al, 2009). Relevant texts from this review provided a starting point which was supplemented by targeted searches to fill specific gaps in the evidence, particularly with regard to more recent studies and international comparisons. The aim was to document, synthesise and appraise what is already known on the topic, in order to provide background context and to help refine the research questions for the second stage of the review.

### **Box 1.1: Defining and measuring poverty**

The definition of poverty that JRF has adopted for its anti-poverty strategy is:

*When a person's resources (mainly their material resources) are not sufficient to meet their minimum needs (including social participation).*

There are a number of important aspects of this definition that have implications for the measurement of poverty:

- a) It implies that poverty changes over time, since the cost of a minimum standard of living will change according to the price of food and other goods, and to social norms regarding what is a minimum reasonable standard of living.
- b) While it places primacy on financial resources, such as income, assets and material goods, it also includes in-kind goods and services and informal resources garnered through social networks.
- c) It suggests that both individuals and households can be poor – since individuals may, but do not necessarily, meet their needs through pooling resources within a household or family.

Given that our review focused on examining the existing evidence on employment and poverty, it was necessary to use the definitions and measures of poverty that were available in the literature. However, these often differ from the above definition in important ways, which it is important to be aware of in drawing conclusions from the research evidence. Measurements of poverty tend to focus exclusively on either financial resources (e.g. income measures of poverty) or on material goods (e.g. material deprivation measures). They do not generally include in-kind goods and services or informal resources. Subjective measures, which ask people directly whether they feel that they have enough resources to get by or manage are sometimes used in poverty measurement (e.g. financial strain measures), although because they are based on individual perceptions, rather than objective measurement of resources, they are usually only used in combination with other measures. It is notable that almost all poverty measures in the research literature are focused on resources and needs at the *household* level. This assumes that the resources available to the household are equally available to all, which has been questioned on account of gender disparities in resource-access within households (Millar and Glendinning, 1989). This approach can under-estimate the extent of women's poverty.

An income-based measure of poverty can also be relative or absolute. The former measures income against some form of societal average, and so the poverty level changes as incomes in society changes, while an absolute measure sets a fixed minimum level as the yardstick (although the reference point or benchmark does change over time). The most commonly used measure of poverty in the European

literature is a relative income-based measure, in which each household's income, equivalised (i.e. adjusted for family size), is compared to the median income in society. Those with income lower than some threshold - most commonly 60 per cent of median income - are classified as poor. In US literature, an absolute poverty measure tends to be used. The official poverty line in the US is a fixed threshold, below which families or individuals are considered to be lacking the resources to meet their basic needs. The line is lower, relative to median income, than the European relative poverty measure, largely due to the higher median wage in the US (and this is an important distinction to consider where findings from the US are reported in this paper). UK and EU official statistics primarily use the relative income measure of poverty, but also produce statistics using an absolute income measure and a combined income and material deprivation measure.

The approach we have taken in this review is to report the findings using the measures of poverty that have been used in the research literature, while noting when different measures produce different results or findings. The key point to bear in mind for this study is that when using a relative income measure, the poverty line changes as median incomes change. This means that employment-related initiatives targeted at poverty may have unexpected (or counter-intuitive) effects if they also raise societal median income – since this will raise the poverty line and make it more difficult for households to move out of poverty.

## Stage 2: Review of the impact of policy and practice interventions

The second stage of the review sought to identify and assess the evidence on the impacts of employment-related initiatives on poverty outcomes. A full systematic review was not possible within the timescale or resources and so a rapid evidence appraisal was conducted using transparent review methods. This included:

- searching for literature using agreed search terms and parameters;
- screening documents for relevance to the review;
- quality assessing the evidence; and
- completing a standardised evidence template for each included study.

The search terms used in initial searches were:

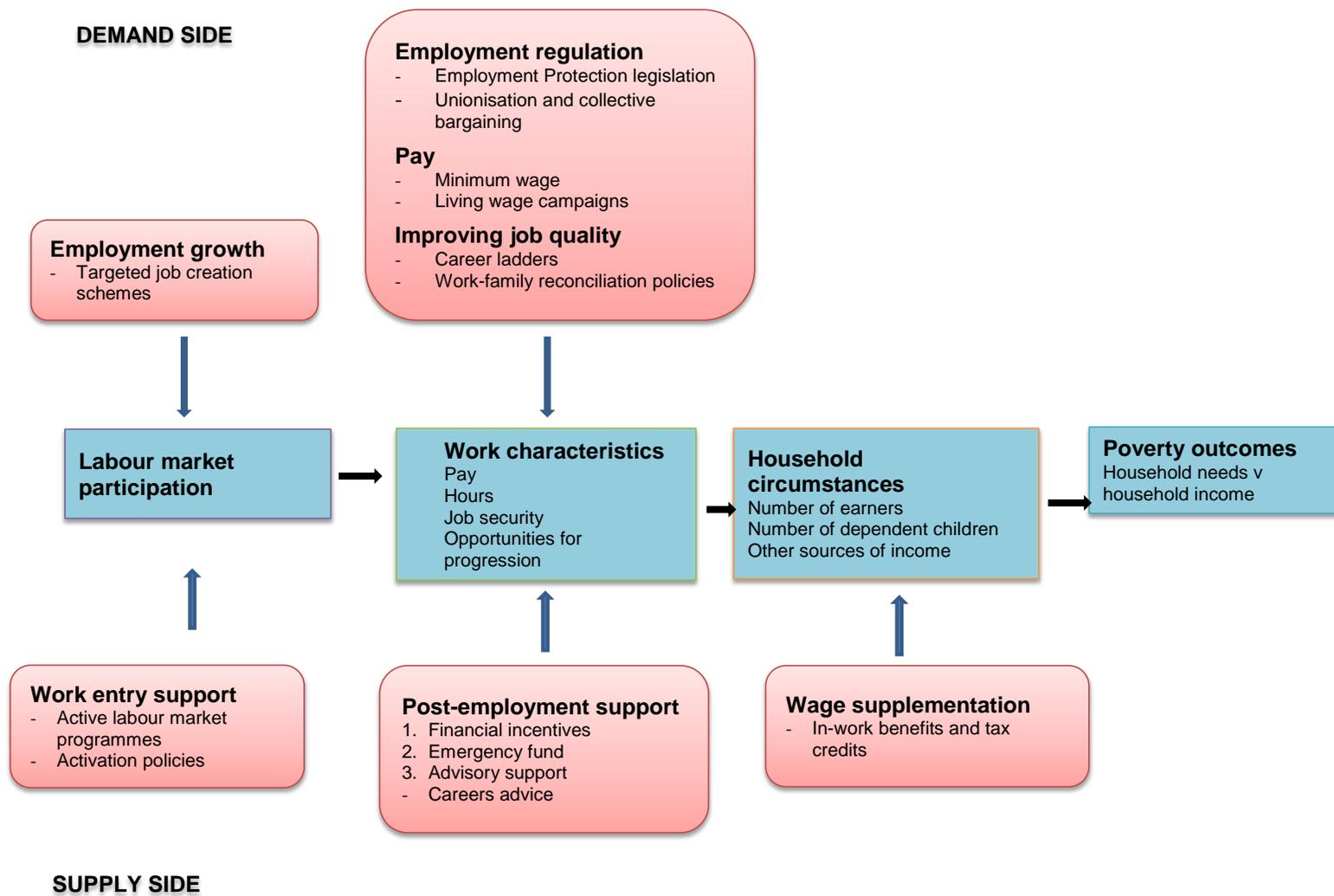
**Thematic terms:** *employment/job\*/work + poverty + pay/wage\*/income/earnings*

+ **Intervention terms:** *intervention/policy/program\**

+ **Evidence terms:** *evaluation/evidence/impact*

The parameters were set as: English language publications; post-2000 publication date; from Europe, North America and Australasia.

Searching was conducted online, using indexing and abstracting databases, such as Web of Science, COPAC, Econlit, Economists Online, Google Scholar, National Bureau of Economic Research and Open Doar. The initial searches were supplemented by further targeted searching, cited reference searching and a call for evidence that sought unpublished sources and research under development across the UK, EU and internationally.



**Figure 1.2 Interventions within scope of the review**

## *Scope of the review*

The references retrieved were screened for relevance in an ongoing iterative process. An initial mapping of the available evidence generated a range of potential employment-related initiatives. The list of initiatives to include was then refined in consultation with JRF, to minimise repetition with other anti-poverty evidence reviews and other JRF programmes of work.<sup>1</sup> Figure 1.2 shows the interventions that were included in the review, divided broadly into ‘supply’ and ‘demand’ side initiatives, and mapped against their main target, e.g. either labour market participation, work characteristics or household income.

While the main aim of the review was to document evidence on the poverty implications of employment-related initiatives, an early scan of the literature suggested that evidence on direct poverty outcomes for many of the initiatives within scope was limited. So, drawing on insights about the relationship between employment and poverty from stage 1, we also included literature that studied employment outcomes related to poverty, namely employment participation/status, hours of work, pay, work duration and contractual status.

Primary data from empirical research and evaluation (including modelling), was the main type of evidence sought, while reviews, syntheses of evidence and discussion papers were used as secondary sources to inform the analysis.

An evidence template was completed for each included study, which recorded the reference details, the nature of the intervention, the evidence type, the outcome measures used, the effects of intervention on poverty, the effects on other relevant outcomes, policy and practice recommendations of authors, details of methodology and a quality assessment of the evidence.

## *Review synthesis*

Evidence from the review was synthesised for each category of intervention (e.g. job creation, wage supplements, post-employment initiatives, etc.), taking account of the strength of the findings. The latter was assessed according to the quantity and quality of the evidence, the national policy context of the source and the relevance of the outcome measures used. The analysis sought patterns across the evidence to identify the strongest (and weakest) intervention-poverty alleviation links as well as gaps in the evidence base.

## **1.3 Report outline**

The remainder of the report presents the findings from the evidence review. Chapter 2 provides the results from the first stage of the research, which examined the relationship between employment and poverty. Chapters 3 and 4 present evidence from stage 2 of the

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<sup>1</sup> For example, the JRF future UK labour market programme is exploring how employment and skills policy and practice can help with poverty alleviation, and another review in the anti-poverty programme will examine the role of employers in reducing poverty among staff.

research: the impact of employment-related interventions on poverty. Chapter 3 focuses on 'demand-side' factors and Chapter 4 on 'supply-side' initiatives. Chapter 5 concludes by drawing together the evidence and presenting implications for policy and practice.

## Chapter 2: The relationship between employment, pay and poverty

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Employment status has a strong bearing on poverty outcomes since earnings from paid work are the single largest source of income for most households in the UK. However, the relationship between employment status - the level of earnings from paid employment - and poverty outcomes is not straightforward. This is because employment participation is an individual characteristic while poverty is most commonly measured at the household level. Therefore whether someone with low earnings will be in (household) poverty or not depends on both household needs (critically household size) and on the level of other sources of income available to the household (through partner earnings, benefits and so on).

This chapter investigates the relationships between, firstly, employment status and poverty outcomes, and, secondly, between various characteristics of employment and poverty outcomes.<sup>2</sup> In each case, the evidence is presented firstly for the current picture in the UK, along with change over time where data are available, followed by evidence on how the UK compares to other countries for which there are comparable data. This enables an assessment of which aspects of employment participation (such as number of earners, work hours, levels of pay, job quality) are the most salient in influencing poverty outcomes. This provides the context for the subsequent chapters of the report, which investigate the impact of various employment-related policies and initiatives on poverty reduction.

### 2.1 Employment status and poverty

#### 2.1.1 Employment status and poverty in the UK

##### *Family economic status and poverty*

Evidence in the UK consistently shows that households which are workless are more likely to be in poverty. However, households where some – but not all – adults are working also have a relatively high poverty risk compared to households where all adults are in work. As shown in Chart 2.1, using the most recent Households Below Average Income (HBAI) data, adults in workless families<sup>3</sup> currently make up just less than half (47 per cent) of all working age adults in poverty, while those with at least one person in work make up just over half (53 per cent). Of the latter, families with only part-time workers, those with only self-employed workers, and couple families with only one earner make up the largest proportion (13 to 15

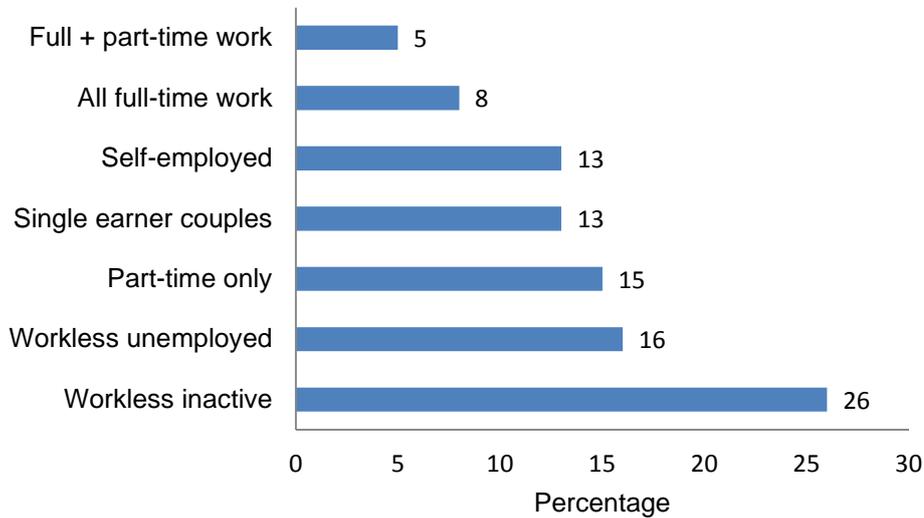
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<sup>2</sup> In line with the majority of the evidence, poverty is usually defined as below 60 per cent of median equivalised household income before housing costs (BHC). If not otherwise stated, this is the measure used in the chapter. Where available, other poverty measures are cited if they shed further light on the evidence.

<sup>3</sup> The definition of ‘families’ used in HBAI is the benefit unit, which is defined as ‘a single adult or a couple living as married and any dependent children’. ‘Workless families’ include those where working age adults are unemployed or inactive or workless and aged 60+ (the latter group are not shown in Chart 2.1).

per cent of the total each). Those in families with all full-time earners or one full-time and one part-time earner together make up another 13 per cent.

**Chart 2.1: Share of poverty by family economic status**

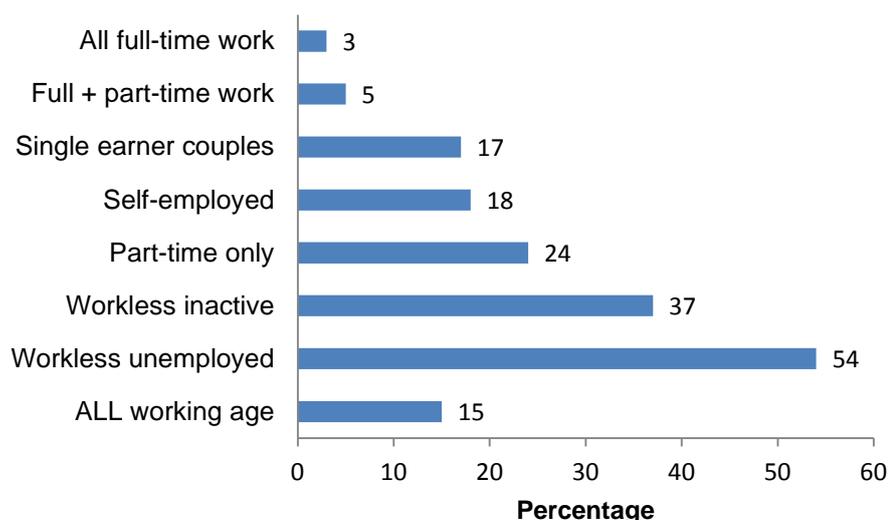


Source: HBAI 2011-12 Table 5.4

While workless families no longer account for the majority of households in poverty, they remain the families with the highest poverty risk. As seen in Chart 2.2, those in workless unemployed families had by far the highest poverty rate, at 54 per cent, while workless inactive families had a rate of 37 per cent. This compares to a rate for all working-age adults of just 15 per cent. Part-time, self-employed and single-earner couple families all had poverty rates slightly above the average (at 24, 18 and 17 per cent, respectively), while full-time worker and one-and-a-half earner families had poverty rates well below the average (at 3 and 5 per cent, respectively).

Further analysis of poverty rates for single-earner couple families shows that these rates are substantially higher if the single earner is the mother rather than the father (Browne and Paull, 2010), although the latter are much more numerous. This is a consequence of women's lower (hourly and weekly) wages relative to men.

**Chart 2.2 – Poverty rates by family economic status**



Source: HBAI 2011-12 Table 7

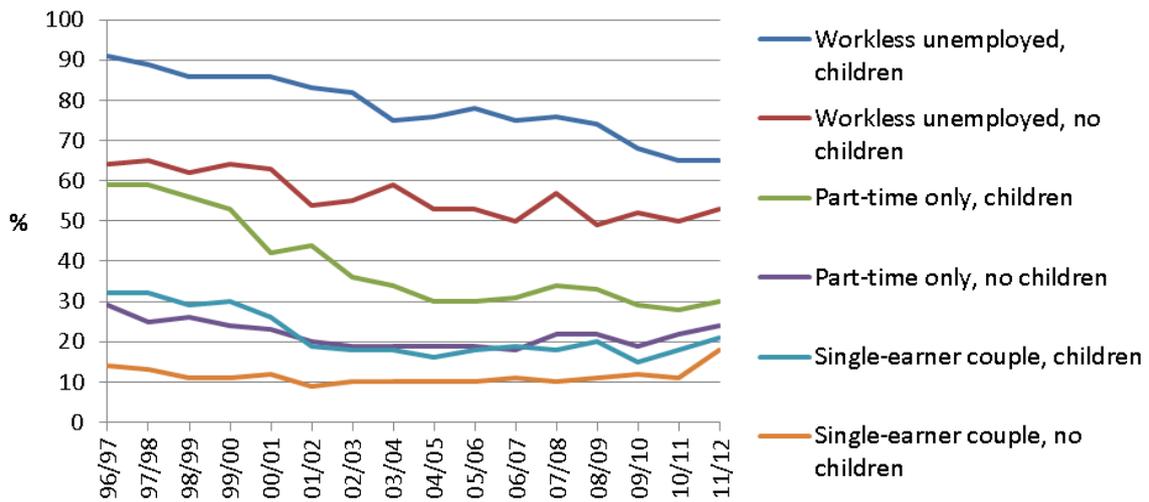
#### *Trends in work status and poverty over time*

Trend data shows that the association between work status and poverty has changed over time. Since 1996/7, workless families have become a smaller proportion of all working-age people in poverty, dropping from 56 per cent of the total in 1996/7 to 47 per cent in 2011/12. This is partly because their share in the population has reduced: the percentage of working-age workless households has dropped from 21 per cent in 1996 to 17 per cent in 2013 (after rising to 19 per cent during the recession) (ONS, 2013). However it also reflects their reduced risk of poverty over this period, especially for workless families with children. This is illustrated in Charts 2.3 and 2.4, which show trends in poverty risk between 1996/7 and 2011/12 for all the family types identified above as at a relatively high risk of poverty. Both absolute and relative measures of poverty are shown, since relative measures are affected by changes in median income, which have fallen substantially in real terms since the recession. Charts 2.3 and 2.4 show:

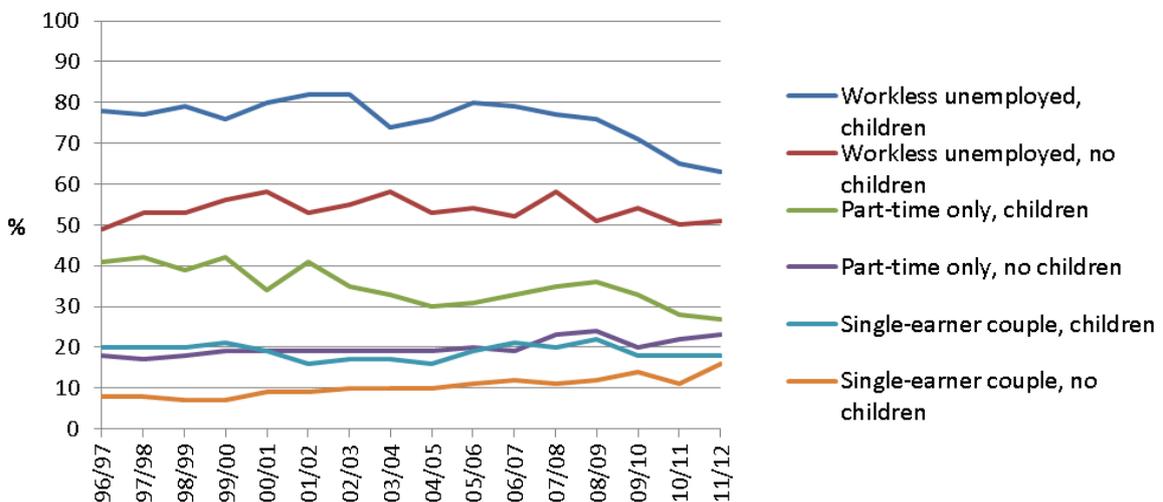
- **For workless and part-time working families with children**, poverty rates fell substantially, using both absolute and relative measures of poverty. For this group real incomes rose over the period and also rose relative to median incomes.
- **For workless and part-time working families without children**, poverty rates fell using an absolute measure but stayed level using a relative measure. This means that real incomes rose for this group, although not at a greater rate than median incomes.
- **For single earner couples with children**, poverty rates reduced slightly on an absolute measure but rose somewhat using a relative measure. Thus their incomes rose slightly in real terms over the whole period, but did not keep pace with median incomes.

- **For single earner couples without children**, poverty rates rose slightly on an absolute measure and more so using a relative measure. This means that their incomes fell over the period and also fell more substantially than median incomes over the same period.

**Chart 2.3: Absolute poverty rates (2010/11 constant)<sup>4</sup> by family economic status – HBAI statistics**



**Chart 2.4: Relative poverty rates (contemporary) by family economic status – HBAI statistics**



<sup>4</sup> It should be noted that in 2013, the measure of absolute poverty was changed to 'households with less than 60 per cent of 2010/11 median household income, held constant in real terms'. Previously the measure used was less than 60 per cent of 1998/99 median income. Using the previous (lower) absolute poverty line shows much smaller proportions of individuals below the poverty line, albeit the downward trend over time is not so marked – only workless families with children saw their poverty rates fall (1996/7 to 2010/11) using this measure.

There are two important points to make about these figures. Firstly, trends in the risk of poverty have varied across groups, with workless and part-time worker families with children seeing particularly large reductions in their poverty risk compared to other groups.

Secondly, the two different measures of poverty produce a different picture regarding the magnitude of poverty risks within groups (although the relative position of the different groups is similar on both measures).

With regard to the differential trends in poverty risk across groups, analysis shows that the substantial reductions in poverty among workless and part-time working families with children over this period are related to changes to benefit and tax credit entitlements (Brewer et al, 2010). Between 1999 and 2005, increased expenditure (in real terms and as a share of national income) on benefits and tax credits was targeted disproportionately at families with children.<sup>5</sup> This meant that the level of benefit and tax credit payments for low-income families with children rose faster than inflation and more quickly than median income during much of this period (Brewer, 2012). In contrast, the level of benefit payments for those out of work without dependant children rarely rose above the increase in median income over the period. In particular, increases in the generosity of benefit payments to families with children were particularly marked during the 1999/00 to 2004/05 period and in the early recession (2007/08 - 2009/10)<sup>6</sup>, which corresponds to the most substantial falls in poverty for workless families with children. The recent declines in poverty rates amongst those out of work in the UK is likely to be a fairly poor guide to future trends, however, in the context of recent changes to the benefits system. These changes will see real terms cuts to some benefits and projections that benefits will grow more slowly than wages. The net result of these changes is that poverty is projected to increase between 2009/10 and 2020/21 (Brewer et al, 2012).

Brewer et al's (2010) analysis also suggests that strong real-terms earnings growth for lone parents between 1998 and 2003 also helps to explain the substantial reduction in poverty among part-time earner families (many of whom are lone parents) during this period. Further, slow growth up to 2002/3 and then real terms reductions in earnings for single earner fathers partly explains the increase in poverty rates for single-earner families without children over the period.

To understand the different results obtained by using the two different measures of poverty, it is necessary to look at the trends in median income over the period. Median income rose between 2003/04 and 2009/10 (although more slowly than in the late 1990s) but then fell by 5.8 per cent between 2009/10 and 2011/12<sup>7</sup> (Cribb et al, 2013). This affects the position of

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<sup>5</sup> This included the over-indexation of the child element of child tax credit from 2003 (which is paid to low-income families with children both in and out of work) and *ad hoc* increases to tax credits and child benefit (a universal benefit with near complete coverage among families with children).

<sup>6</sup> From 2010/11 tax credit and benefit income then fell, due to welfare cuts implemented as part of the Government's fiscal consolidation measures.

<sup>7</sup> In the early recession median income held up, even as GDP fell, but then dropped substantially from 2009/10, constituting the largest cumulative fall in average incomes since the mid-1970s (Cribb et al, 2013).

the relative poverty line (since it is measured as a proportion of the median) and thus the proportion of different groups which fall below or above the line<sup>8</sup>. The reductions in poverty between 1996/7 and 2009/10 were less substantial using a relative measure of poverty compared to an absolute measure as median income was rising during this period. In fact, for all groups except for the workless with children and part-time workers, poverty rates actually rose slightly using a relative measure. From 2009/10, when median incomes were falling, poverty rates for all groups (except for single earner couples) fell, as their incomes did not drop as sharply as the median, but using an absolute measure poverty rates for all groups (except workless families with children) rose somewhat.

This can be illustrated further by using a different measure of poverty, the minimum income standard (MIS), which provides a threshold of income adequacy, based on what things members of the public think households need for an acceptable standard of living (Padley and Hirsch, 2014). It is thus responsive to changes in the cost of living, unlike income measures alone. Analysis shows that the proportion of households living below the MIS rose by about a fifth over the recession (2008/9 to 2011/12), at the same time as poverty measured by the relative income threshold fell by about a tenth. The increase in households below the MIS was sharpest for single person households, but also affected couples with children, especially after 2010/11 due to reductions in benefit and tax credit income. The latter were a fifth more likely to be living below the MIS in 2011/12 than in 2008/09 (Padley and Hirsch, 2014).

#### *Worklessness and non-income measures of poverty*

The HBAI series (DWP, 2013a) also records two alternative measures of poverty for children (but not for working-age adults), which combine relative income measures with a measure of material deprivation, assessing the extent to which families are lacking in goods and services.<sup>9</sup> These figures show that, in general, workless families are more likely to be in poverty, relative to working families, on the material deprivation measure than on the relative income measure. For example, children in workless families made up a third (34 per cent) of those in relative income poverty in 2011/12, but over half (53 per cent) of those in material deprivation plus low income. Conversely, poverty rates for children in working families are slightly lower using the combined material deprivation and low income measure compared to the low income only measure.

Looking more closely at family type shows that this disparity between the two measures is larger for children in workless lone parent families, who are 5 percentage points more likely to be in poverty using the combined material deprivation measure compared to the income-only measure. Children in self-employed couple families, on the other hand, who, as we saw above, have relatively high poverty rates on the income measure, have much lower rates

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<sup>8</sup> MacInnes et al (2013) calculate that there are 2 million people who are not considered to be in poverty today, using the 2011/12 relative poverty threshold, but who would be in poverty if the 2008/09 poverty threshold were used.

<sup>9</sup> The material deprivation measure is combined with a measure of low income (below 70 per cent of the median) and a measure of severe low income (below 50 per cent of the median).

using the combined material deprivation measure – 23 per cent were in poverty on the income measure compared to just 6 per cent on the combined material deprivation measure.<sup>10</sup>

The finding that workless families, relative to those in work, and lone parent families, relative to couple families, are more disadvantaged when using material deprivation measures of poverty is also supported by analyses of Families and Children Study (FACS) data which measures material deprivation and hardship among parents (see Maplethorpe et al, 2010; Barnes et al, 2008; Hoxhallari et al, 2007). Barnes et al (2008) show that among non-working families, 63 per cent of lone parent families and 52 per cent of couple families were experiencing hardship<sup>11</sup>. Maplethorpe et al (2010) also show that workless families<sup>12</sup> were, on average, more likely to be materially deprived than other families. A more systematic examination of the effects of different measures of poverty (Brewer et al, 2009a) also found that compared with children in income poverty, children in hardship were more likely to come from a workless family, and that workless families with children had lower living standards than employed families with children even where they had similar incomes.

Qualitative research with families moving into work (Graham et al, 2005) suggests that one reason for this may be because households who move into work can find their material circumstances improved by, for example, better access to credit and debit agreements, even where they do not experience any significant rise in disposable income. On the other hand, research on poverty dynamics also shows that while work entry is associated with poverty exit using an income-based measure, measures based on hardship tend to show a lag time between movement into work and movement out of poverty (Barnes et al, 2008).

### 2.1.2 Employment status and poverty in the EU

Data on overall and in-work poverty rates are compiled by the European Commission to monitor the European Employment Strategy, using data from the EU-Statistics on Income and Living Conditions (EU-SILC)<sup>13</sup>. Analysis of this data by Eurofound (2010) and the EU Network of Independent Experts on Social Inclusion (Frazer and Marlier, 2010) shows that across Europe as a whole, unemployment greatly increases the risk of poverty, but that those who are in work and poor nonetheless make up a significant proportion of all those in poverty.

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<sup>10</sup> Note that this is measuring poverty for all children in these family types, as opposed to the figures presented earlier which were for all working age adults, hence the slightly different figures. Material deprivation-based poverty measures are not available in HBAI for working-age adults.

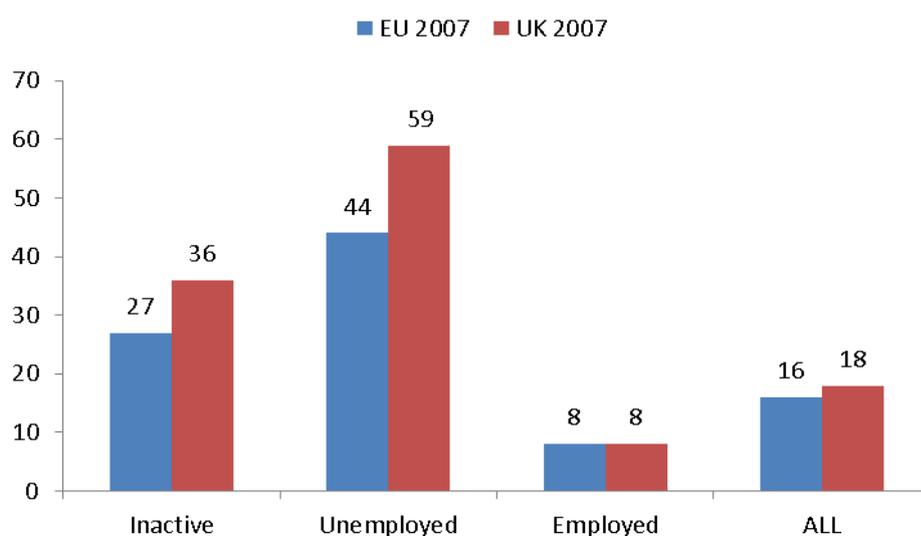
<sup>11</sup> The hardship measure is based on a living standards index that combines information on material well-being, accommodation and housing conditions, and the state of family finances.

<sup>12</sup> Note that in this analysis, families working fewer than 16 hours a week are not differentiated from those that are workless.

<sup>13</sup> This is available on the Eurostat website, see: [http://epp.eurostat.ec.europa.eu/portal/page/portal/income\\_social\\_inclusion\\_living\\_conditions/data/main\\_tables](http://epp.eurostat.ec.europa.eu/portal/page/portal/income_social_inclusion_living_conditions/data/main_tables)

The latest data available (2012) show that the UK's overall poverty rate<sup>14</sup> is similar to the average for the EU (15.5 per cent for the UK; 15.8 per cent for the EU27), although the UK has a higher poverty rate for unemployed and inactive individuals than the EU average. However, comparisons such as these are complicated by the fact that poverty rates have changed significantly in recent years as a result of the recession, and these changes have taken different directions in different countries (because of different patterns of employment and wage growth). For example, the poverty rate has fallen in the UK, by 2 percentage points between 2008 and 2012 using the EU-SILC statistics, due to falling median income in the recession as discussed previously, but the poverty rate for the EU27 as a whole has remained stable. This can be illustrated further in Charts 2.4 and 2.5, which present poverty rates by individual economic status for the UK and the EU27 as a whole in 2007 and 2012. This shows that while poverty rates for employed people remained stable at 8 per cent in 2007 and 9 per cent in 2012 for the EU27 and for the UK, the poverty rates of inactive and unemployed people rose among the EU as a whole, but fell in the UK, between 2007 and 2012, so that the rates in the UK converged with those of the EU as a whole.

**Chart 2.4: Poverty rates by employment status for UK and EU27, 2007**

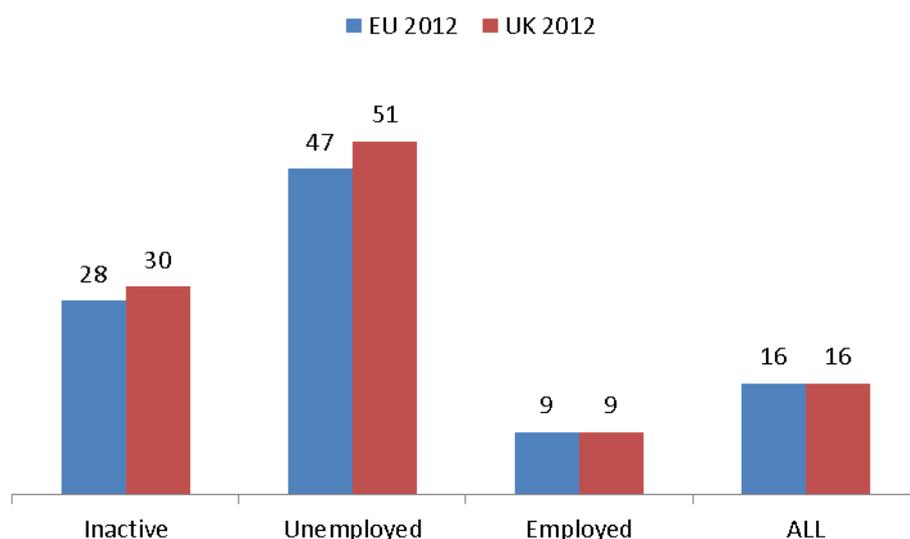


Source: EU-SILC At-risk-of poverty rate by most frequent activity status (tessi124)

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<sup>14</sup> The measure used in EU-SILC is the 'at-risk-of-poverty-rate', which is defined as 'the share of people with an equivalised disposable income (after social transfers) below the at-risk-of-poverty threshold, which is set at 60 per cent of the national median equivalised disposable income after social transfers' ([http://epp.eurostat.ec.europa.eu/cache/ITY\\_SDDS/en/t2020\\_50\\_esmsip.htm](http://epp.eurostat.ec.europa.eu/cache/ITY_SDDS/en/t2020_50_esmsip.htm)). This is the same relative poverty measure as used in the UK HBAI and is referred to in the text for simplicity as 'the poverty rate'.

**Chart 2.5: Poverty rates by employment status for UK and EU27, 2012**



Source: EU-SILC At-risk-of poverty rate by most frequent activity status (tessi124)

The reason for this change in the comparative position of the UK is related to the trends described earlier, in which the risk of poverty for workless households (especially those with children) has been decreasing, while trends across the EU have been inconsistent; hence the change in the comparative position of the UK.

In general, across the EU, people who are unemployed have a five times greater likelihood of being in poverty than those who are employed (Chart 2.4). In the UK, the odds are slightly higher - the likelihood of being in poverty for an unemployed person is 5.7 times greater than that for an employed person. Cross-national differences in poverty rates for the unemployed are strongly related to the generosity of social transfers, in particular the wage replacement rate of unemployment benefits.<sup>15</sup> Cross-national analysis of European and North American countries (Paull and Patel, 2012) shows that countries with higher benefit rates for the unemployed tend to have lower income inequality and poverty, because they 'raise the lower tail of the income distribution'. This analysis suggested that a higher replacement rate for unemployment benefit of 10 percentage points was associated with a lower poverty rate of roughly 1.6 percentage points.<sup>16</sup> The analysis showed that expenditure

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<sup>15</sup> There is a large literature on social transfers and poverty which we are not able to review in detail in this study, but see, e.g. Dewilde, 2008; Backman, 2009; Caminada et al, 2012. Another JRF review examines the effects on poverty of universalism versus means testing of social transfers (see Gugushvili and Hirsch, 2014).

<sup>16</sup> Poverty defined as below 50 per cent of median income.

on cash benefits<sup>17</sup> (as a proportion of GDP) was also associated with lower income inequality and poverty.

### 2.1.3 Poverty dynamics and employment status

Dynamic analyses of poverty in Britain also show that employment status is an important factor in poverty entries and exits (Smith and Middleton, 2007; Browne and Paull, 2010; DWP, 2010). DWP analysis of the 'events' which caused movements into or out of poverty, in the Low-Income Dynamics series (2010) (using BHPS data for 1991 to 2008), showed that, in general, work events had the highest poverty exit rate associated with them, particularly an increase in the number of workers in the household or an increase in the household head's earnings. A rise in the household head's earnings, being a comparatively frequent event, also comprised the greatest share of poverty exits overall (at 39 per cent of total exits), while a fall in the household head's earnings accounted for by far the greatest share of poverty entries (42 per cent of the total). This evidence also shows that the link between work events and poverty is greater for 'full-time work events' e.g. if an additional member of the household entered work, the poverty exit rate was greater if this was entry into full-time work (DWP, 2010).

Layte and Whelan (2003) examined the role of earnings in poverty transitions cross-nationally, using European Community Household Panel (EHCP) data from 1994-8.<sup>18</sup> This analysis showed that earnings are relatively more important and social welfare transfers less important in 'sub-protective' Southern European states compared to social democratic (Scandinavian) or corporatist regimes, however this varied somewhat for poverty entries and exits. The data for the UK showed that for poverty exits, changes in earnings were very important (40 per cent of all transitions) and social welfare transfers played a very small role (2 per cent of all transitions), although a combination of earnings and social welfare increases played a prominent role (24 per cent). This was similar to the picture for Germany and Portugal. However, for poverty entries, a smaller proportion of transitions were earnings-related (22 per cent to the loss of earnings and 16 per cent to combined earnings and welfare loss) and a larger proportion were due to a loss of social welfare payments (13 per cent).

Evidence also shows that the relative importance of various triggers for poverty transitions differs by gender. A review of evidence on poverty dynamics (Smith and Middleton, 2007) reported that while labour market events were the predominant poverty triggers for men, both labour market and demographic change were equally important for women. In particular, divorce and separation figured more strongly in triggering poverty for women than for men. They also reported that a fall in a man's income was more likely to trigger poverty

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<sup>17</sup> includes all spending for in-work and out-of-work benefits, such as for unemployed people, families, disabled people and pensioners.

<sup>18</sup> This analysis examined the type of income change that triggered a poverty transition – comparing changes in income from earnings, social welfare, pensions and private income – rather than looking at the 'event' that triggered transitions per se. Thus the findings cannot be directly compared to those in the DWP Low-Income Dynamics study. We are not aware of a more recent update of this analysis using EU data.

for his spouse than a fall in a woman's income would for her spouse. This is related to the continued prevalence of 'male breadwinner' households – i.e. where women in couples tend to be the 'secondary' earner in the household, earning less and working fewer hours than men, due to caring responsibilities (Letablier et al, 2009). Similarly, Layte and Whelan's (2003) analysis found that poverty transitions were more likely to be due solely to a change in the household head's earnings where the head was male. The difference between male and female heads, in terms of the effect of their earnings on poverty transitions, was particularly apparent for the UK, as well as for Italy, Greece and Spain. The disparity was very small in Denmark, the Netherlands, Belgium and Germany.

Another study examining the effects of work transitions on poverty for mothers and fathers in Britain (Browne and Paull, 2010<sup>19</sup>), found that work entry was strongly associated with poverty exit for both fathers and mothers, but more so for fathers, while work exit was strongly associated with poverty entry for fathers and for lone mothers, but not for partnered mothers. Again this is for similar reasons of women often being the 'secondary' earner in couple households.

#### **Summary: Employment status and poverty**

In the UK, worklessness is strongly associated with poverty, although other partly working households have an above-average poverty risk as well. Adults in non-working families make up just less than half of all working-age individuals in poverty. Among working families in poverty, those with part-time workers only, with self-employed workers only and couple families with single earners figure strongly. Single earner couple families are much more likely to be in poverty if the woman is the wage earner rather than the man, although these families are less numerous. This is a consequence of women's lower (hourly and weekly) wages relative to men.

Analyses of poverty dynamics also confirm the importance of 'work events' in poverty transitions; an increase in the number of workers in the household or in the household head's earnings (especially where the household head is male) are especially associated with poverty exit.

Workless families fare worse, in comparison to working families, if using a material deprivation measure of poverty rather than an income-based measure. That is, there is a stronger association between worklessness and poverty when using a material deprivation measure. The relative disadvantage of workless households on this measure seems to be particularly pronounced for lone parent households.

Over time, the association between work status and poverty in the UK has changed. Between 1996/7 and 2011/12, the proportion of those in poverty who are in work has increased, which reflects a fall in the poverty rate for workless families, especially those with

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<sup>19</sup> The study was based on a pooled sample from the Families and Children Study (FACS) over a six-year period, 2001 to 2006.

children. This is due to the targeting of benefit and tax credit expenditure towards these families, particularly between 1999 and 2005. In contrast, poverty rates have risen for single earner couple families over this period, especially those without children.

The UK has a higher poverty rate for unemployed individuals compared to the EU as a whole, although the two rates have converged since 2007, as the poverty rate for unemployed people in the UK has dropped and that for the EU risen. This is related to differential effects of the recession across countries which have affected median incomes. In the UK, median income has dropped thus lowering the poverty line. A poverty line which takes account of living costs, such as the Minimum Income Standard, in contrast, shows rising poverty rates in the UK since 2008/9.

## 2.2 Employment characteristics and poverty

In this section, we look in more detail at in-work poverty, examining the relationship between work characteristics and poverty. For income-based measures of poverty, the level of earnings is a crucial determinant of poverty outcomes, and the key work characteristics affecting this are the number of hours worked and the hourly rate of pay. Thus we start by looking at the relative significance of these two factors for poverty outcomes. Then we also look at other characteristics of work which may affect wages or hours, for example work duration and its links to contractual status. Finally, we also provide a descriptive picture of the types of sectors and occupations that are associated with low hourly wages or low working hours in order to give more insight into where work-focused initiatives might be targeted.

### 2.2.1 Part-time work

In the UK and cross-nationally part-time work is associated with increased poverty, however the magnitude of the association varies, and in many EU countries the majority of the working poor are in full-time employment (Frazer and Marlier, 2010). Across the EU as a whole, the poverty rate for part-time workers is around one and three quarter times the rate for full-time workers (13.7 per cent, compared to 7.7 per cent). However, the gap varies significantly and is generally higher in the newer Member States (those that joined the EU in 2004). For instance, in the Netherlands, where part-time work is very common, the poverty rates for part-time and full-time workers are very similar (4.5 per cent and 4.1 per cent respectively). In the UK in 2012, 14.1 per cent of part-time workers were in poverty, which was just higher than the EU average, and more than double the poverty rate for full-time workers in the UK (6.5 per cent). As noted earlier (section 1.1), individuals in families with *only* part-time workers<sup>20</sup> faced a higher poverty risk (at 24 per cent) than all other working households.

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<sup>20</sup> The category used in the HBAI series is 'No full-time, one or more in part-time work'. Analysis of this group using the BHPS by Cooke and Lawton (2008) suggests that these families are

Research on work and poverty transitions for parents in the UK also reinforces the association between part-time work and poverty. Analysis of poverty transitions in the first three years after entering work (Browne and Paull, 2010) shows that those in full-time work were more likely to exit poverty over this period than those in part-time work<sup>21</sup>, while those in part-time work were more likely to enter poverty than those working full-time. The relative effects on poverty of moving into a part-time job compared to a full-time job were more substantial for fathers and for lone parents, than for couple mothers, again because the latter are more likely to be the secondary earners in a household. Increasing and decreasing work hours were also associated with poverty transitions: the likelihood of poverty exit rose where weekly working hours increased and fell where weekly working hours decreased.

The UK has one of the highest rates of part-time working in the EU, with more dispersed weekly hours (i.e. more long and more short hours) (Warren, 2008; Bradshaw et al, 2010). Part-time work has also risen during the economic downturn, and the numbers of involuntary part-time workers has grown substantially (reaching 18.5 per cent of part-time workers in 2013). Women part-timers are much less likely than men to say that they would prefer a full-time job, but given that women's over-representation in part-time work is strongly related to caring responsibilities, it is not an 'unconstrained choice' in any simple sense (Bradshaw et al, 2010; Frazer and Marlier, 2010).

While women are over-represented in the part-time workforce across Europe, there are considerable differences in their relative economic position. Analysis of the female part-time workforce by Warren (2008)<sup>22</sup> shows that in the UK and in Austria, women working part-time are concentrated in lower-level manual/elementary and clerical/service occupations, whilst in countries such as France, Germany, Ireland, Luxemburg and the Netherlands, they are spread across the occupational structure. In Greece and Portugal, with an 'exit or work full-time' model of maternal employment, women part-time workers are much less prevalent overall, but more likely to be at senior levels.

Warren's (2008) analysis does not consider poverty rates, but examines various measures of economic wellbeing for low-level part-time workers (i.e. those in clerical and manual occupations) compared to women workers overall. This analysis finds that the relative earnings disadvantage<sup>23</sup> of female low-level part-timers was greatest in Finland and Portugal – where part-time working is rare, followed by the UK and Ireland – both with high levels of part-time work. The smallest disadvantage was seen in Denmark and the Netherlands. This is likely to be related to the regulation of wage rates and working hours and better protection for short-time workers in the latter countries, compared with a weaker regulation of working time and more wage dispersion in the UK and Ireland. Subjective measures of economic

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predominantly comprised of one (rather than multiple) part-time earners, hence their relatively high poverty risk.

<sup>21</sup> Interestingly, those in part-time work (16-29 hours) were less likely to exit poverty than those in mini-jobs (0-15 hours), which was explained by the higher hourly earnings for those in mini-jobs compared to those in part-time work.

<sup>22</sup> Note that this analysis is quite dated since it uses EHCP data from 2000

<sup>23</sup> Based on gross monthly earnings

wellbeing (satisfaction with wages) however did not map onto this economic disadvantage in a simple way. Low level part-timers in the UK and Ireland were among the most satisfied, along with those in Denmark and the Netherlands, while those in Greece and Spain (who were also more disadvantaged in earnings terms) expressed most dissatisfaction.

### 2.2.2 Low pay

As with part-time work, while low pay is in general associated with in-work poverty, the significance of low (hourly) wages to poverty varies across the EU, and in many countries, the correlation between low wages and in-work poverty is not very strong (Frazer and Marlier, 2010). This is because the key issue for in-work poverty is not just low hourly wages, but low *net* wages, which are influenced by the interaction between several different factors (including hourly wage levels, the number of hours worked, the level of direct taxation and the level of in-work benefits). However, even if those in low pay do not live in poor households, low pay may still have implications for low income (and poverty) later in the lifecycle, because, for example, low earners may make inadequate contributions to social security and/or savings (Bradshaw et al, 2010).

Comparative European analysis (Maitre et al, 2012, using 2006 EU-SILC data<sup>24</sup>) shows that the association between low pay (for full-time, full-year employees) and poverty varies across the EU, ranging from 4 to 9 per cent in the Netherlands, Belgium, Ireland, and Slovenia, to 18 to 25 per cent in Luxembourg, Austria and Lithuania. The UK had a comparatively low rate at 9.6 per cent. The countries with the lowest poverty rates for low-paid employees tended to have low poverty rates overall, but did not necessarily have a lower poverty risk for low-paid employees *relative* to other employees. The odds of being poor for the low-paid, relative to the non-low-paid, were lowest in the Netherlands, Spain, Cyprus and Slovakia, where the low paid were 4 to 6 times more likely to be poor than the non-low-paid. The highest odds of being poor for the low-paid were in the Nordic countries of Denmark, Finland, Iceland and Sweden, where the odds of being poor for the low-paid, relative to the non-low-paid, ranged from 16 in Sweden to 38 in Denmark. These countries, however (with the exception of Iceland) all had below average levels of low pay among the population. In the UK, the odds ratio of being poor for the low-paid, compared to the non-low-paid, was comparatively low at 8.8, but there was a greater proportion of low-paid employees overall – at 19.4 per cent<sup>25</sup>. It should also be noted that this analysis excluded low-paid *part-time* employees (and self-employed workers), which is significant given that the overlap between low pay and part-time work is very high in the UK.

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<sup>24</sup> 22 EU countries were included for which data was available. The low pay measure was based on annual earnings for full-time, full-year employees.

<sup>25</sup> It should be noted that this analysis excludes low-paid part-time employees and self-employed workers which is a significant exception.

Other evidence for the UK demonstrates that low pay<sup>26</sup> is associated with poverty, but the magnitude of the association between the two varies somewhat with different measures and datasets. More recent EU-SILC data (from 2008) showed that 14.9 per cent of low-paid (full-time, full-year) employees in the UK were in poverty, compared to a poverty rate for all employees of 7 per cent (Eurofound, 2010). This suggests that low-paid employees are about twice as likely to be in poverty as all employees, although again it should be noted that these figures only include full-time, full-year employees. An earlier analysis of in-work poverty in the UK (Cooke and Lawton, 2008) based on analysis of the Family Resources Survey (FRS) for 2005/6, which looked at all workers (including part-time and self-employed workers) reported that the poverty rate was 7.2 per cent for low-paid adults, compared to 1.9 per cent for all working adults and 0.4 per cent for non-low-paid workers. This suggested that the low-paid were almost four times as likely as workers in general to be living in poverty. Finally, an earlier study (Millar and Gardiner, 2004), using the Family Expenditure Survey (FES) for 2000/1, which looked just at employees, reported that 14 per cent of low-paid employees experienced household poverty, compared to 5 per cent of all employees and 2 per cent of non-low-paid employees. In this study the risk of poverty was therefore estimated to be almost three times higher for the low-paid than for all employees. It is difficult to directly compare these studies due to their different data sources and definitions (e.g. employees, full-time employees or workers), but it seems likely that low-paid full-time year-round employees have approximately double the poverty risk of all workers, while all low-paid workers (including those working short hours) have three to four times the rate of poverty of all workers.

Analysis of work and poverty transitions for parents in the UK (Browne and Paull, 2010) also highlights the association between hourly pay and poverty. This analysis showed that having higher hourly earnings on entering work was associated with a greater likelihood of poverty exit (and a smaller risk of poverty entry), both initially and over the first three years in work. The analysis also suggested that a rise in pay over the first three years in work prompted movements out of poverty.

#### *How the low-paid avoid poverty*

Analyses by Cooke and Lawton (2008) and Millar and Gardiner (2004) (using a similar methodology) have examined what helps low-paid workers to avoid household poverty<sup>27</sup>. These analyses find that comparatively small numbers of low-paid workers can avoid poverty by their own wages alone, but most can do so through a combination of their own and others' wages and/or benefits and tax credits. In Millar and Gardiner's study (using 2000/1 FES data), 8 per cent of low-paid employees were able to avoid poverty through their own wages, a figure that was similar to an earlier 1994/5 study. In Cooke and Lawton's study (using 2005/6 FRS data), 19 per cent of workers were able to avoid poverty through

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<sup>26</sup> In all the studies cited, this is defined as less than 60 per cent of full-time, median hourly pay, excluding overtime.

<sup>27</sup> See Millar and Gardiner, 2004, pp28-30 for a detailed description of how this analysis was carried out.

their own wages. It is unclear whether this reflects a real increase in the ability of low-paid workers to avoid poverty through wages over time, or is simply an artefact of different sources and measures.

Low-paid men were much more likely than low-paid women to avoid poverty by their own wages alone (29 per cent compared with 11 per cent<sup>28</sup>) and were consequently less likely to rely on a partner's earnings. Low-paid women were particularly reliant on their partner's earnings to lift them out of poverty and were also more reliant than their male counterparts on benefits and tax credits. Cooke and Lawton report that the overall risk of household poverty for low-paid men and women was similar, at 8 per cent and 7 per cent, respectively, although their strategies for avoiding poverty were quite different. However, Millar and Gardiner (2004) (using earlier data) report that low-paid men had a higher risk of household poverty than low-paid women (17 per cent compared with 13 per cent).

The ways in which households avoided poverty also varied by family type: low-paid single people without children were much more likely than others to be able to rely on their own earnings to lift them out of poverty, but this group were also heavily reliant on the income of other household members (given the association between age and low pay, many of this group were young single people living with their parents). Individuals in couple families (with and without children) were very unlikely to be lifted out of poverty by their own wages alone and were heavily reliant on a partner's earnings. Lone parents were very heavily reliant on tax credits and other benefits to lift them out of poverty, and they were also the group with the largest proportion in poverty.

Gardiner and Miller (2006) extend their analysis to look at household 'strategies'<sup>29</sup> for poverty avoidance over time<sup>30</sup>. A similar picture is presented to that for 'point in time' poverty, described above. For all employees, having a working partner (i.e. being in a dual-earner household) is the most effective<sup>31</sup> strategy for avoiding poverty over time, whilst for the low paid the earnings of other adults play an equally important role. Working long hours (over 41 a week) is a relatively less successful strategy in avoiding poverty over time for the low-paid, compared to living with partners or other adults with earnings, while a high receipt of benefits or tax credits has a negative association with the chances of avoiding poverty over time. However the low-paid who use the long hours strategy in year one are more likely to be higher paid (not in low pay) in year two, than those using other strategies. This

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<sup>28</sup> All the remaining figures cited in the next two paragraphs are from Cooke and Lawton (2008) unless otherwise stated.

<sup>29</sup> A 'household strategy' is the circumstances of the household at the time they avoid poverty which are likely to have enhanced their ability to do so. Four main 'strategies' are identified: working long hours (over 41 a week) or having a subsidiary job; living with a partner; being in receipt of tax credits and benefits which constitute at least 7 per cent of household income; and living with other adults. For full discussion see Gardiner and Millar 2006, pp22-25.

<sup>30</sup> Poverty avoidance is defined as staying out of poverty for two consecutive years.

<sup>31</sup> The success rate of each strategy is the probability of continued poverty avoidance associated with having used each strategy, for all the cases where individuals avoid poverty in the first period.

indicates that those working long hours or having a second job are more likely to 'escape' low pay than other non-poor low-paid individuals.

### 2.2.3 Work duration

While at any single point in time, work hours and hourly wages will determine earnings and hence poverty outcomes, looking at poverty outcomes over a longer period of time also necessitates paying attention to work duration. There is a variety of evidence linking intermittent work to poverty outcomes. Eurostat data from EU-SILC, for example, measures the poverty rate for people working for a full year compared to those working less than a full year. Data from 2012 shows that for the EU as a whole, the poverty rate for those working less than a year is twice that for those working for the full year (17.5 per cent, compared to 8.4 per cent). In the UK, however the disparity between the two was higher, with people working for less than a full year 2.8 times more likely to be in poverty than those working for a full year (22.9 per cent compared to 8.3 per cent). The ratio between the two rates had reduced slightly between 2007 and 2011, as the poverty rate for those working for less than a year fell slightly, however the UK still had one of the highest poverty rates in the EU for less-than-full-year workers.<sup>32</sup>

An association between intermittent work and persistent poverty has also been found in earlier EU studies. For example, Muffels and Fouarge (2000), examining the relationship between employment profile and persistent poverty<sup>33</sup> in the UK, Ireland and Denmark<sup>34</sup>, found that 2 per cent of people in continuous employment were persistently poor over two years, while someone in intermittent employment (in work between 50 and 100 per cent of the time over the two years) faced double the risk at 5 per cent. Poverty rates more than doubled to over 13 per cent for those working some but less than 50 per cent of the time, and rose again to 32 per cent for those fully unemployed for all of the two years.

Qualitative research in the UK with individuals experiencing intermittent work (Ray et al, 2010; Shildrick et al, 2012) has suggested that even where movements in and out of work map onto movements in and out of income poverty, the experience of those concerned is often one of persistent hardship. Debts built up when out of work plus costs accrued from working (such as transport, childcare and loss of benefits) can undermine the potential gains from earnings, while delays in benefit payments on moving out of work can exacerbate hardship. This experience of persistent hardship is reflected in the lag between exits from income poverty and exits from hardship which is seen in survey data (Barnes et al, 2008). This is also reinforced by other studies which show that problem debt is especially apparent amongst those intermittently in work (Carpenter, 2006; Dorsett and Kasparova, 2004).

#### *Insecure and temporary work*

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<sup>32</sup> This could be due to the overall amount of time spent in work among these workers, or to the level of income received when in or out of work, or to their household circumstances.

<sup>33</sup> Defined as below 50 per cent of median income for over two years

<sup>34</sup> Using European Community Household Panel (ECHP) data from 1994–95.

Short work duration can be affected by a variety of factors – including both individual characteristics and the characteristics of jobs. However the chances of repeat spells of unemployment are much higher for those in low-paid work (Cappellari and Jenkins, 2008), resulting in what has become termed the ‘low-pay, no-pay cycle’. A key factor driving this is the insecurity of low-paid work – which includes both formal contractual status as well as other aspects of work quality (Shildrick et al, 2012). Examining British data on recurrent poverty<sup>35</sup>, Tomlinson and Walker (2010) found that ‘good-quality employment’ could help protect people from recurring episodes of poverty. Jobs in the ‘core labour market’ (defined as those with permanent contracts, incremental pay rises and prospects for promotion) helped significantly to explain the distribution of recurrent poverty (defined in terms of income, financial strain and material deprivation), while taking a job without these qualities brought less protection against recurrent poverty (albeit more protection than being out of work).

Comparative European research shows a significant association between poverty rates and contractual work status. A study using 2008 EU-SILC data (Wim Van Lancker, 2012) showed that the odds of being in poverty for temporary workers was 2.3 times that for permanent workers. Logistic regression showed that this disparity was largely explained by the difference in wages between temporary and permanent workers, rather than by the individual and household characteristics of those in temporary work. The characteristics predisposing temporary workers to poverty were the same as those for workers in general, namely being young, having low skills, and living in a single-earner household or a household with greater needs (e.g. with dependant children or with a non-working spouse). While, overall, women were slightly more likely to be temporarily employed, they were less likely than men temporarily employed to be in poverty. Again, this is because men are more likely to be primary earners in single-earner households.

Further analysis by regime type showed that Anglo-Saxon regimes (represented by the UK and Ireland) had both the lowest levels of temporary work and also the lowest levels of poverty among temporary workers (relative to permanent workers) (Wim Van Lancker, 2012). This is explained by the low level of employment protection legislation in the UK, which means that ‘core workers’ are less well protected relative to non-standard workers than in other regime types, and by the high level of employment opportunities due to labour market flexibility which can enable ‘multi-earnings’ among low-skilled workers to mitigate the effects of low pay. Indeed, the analysis showed that a low level of education is not a significant predictor of poverty among temporary workers in the UK, unlike in other regime types. Being young (aged 16-29) was a risk factor for poverty among the temporarily employed in the UK, while being in a dual-earner household was a factor protecting against poverty.

More recent EU-SILC data (from 2012) reinforce this picture of the comparative UK position. Across the EU as a whole in 2012, having a temporary contract increased the poverty risk

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<sup>35</sup> The study used the British Household Panel Survey (BHPS) 1991-2005. Recurrent poverty is defined as being poor in more than one non-consecutive year of a five-year window.

two and a half times compared with having a permanent contract (14.0 per cent for temporary employees, compared with 5.5 per cent for permanent employees), while in the UK poverty rates were lower for temporary and slightly higher for permanent employees than the EU average, so UK temporary workers had one and half times the poverty rate of permanent workers (9.5 per cent compared to 6.3 per cent).

### *Self-employment*

Finally, people who are self-employed also tend to have a higher poverty risk than those working for an employer. As noted earlier (section 1.1), in the UK, individuals in families with only self-employed earners<sup>36</sup> have relatively high poverty rates - 18 per cent in 2011/12. Across the EU, the risk of poverty among self-employed people is also three times higher than among the employed: 18 per cent compared to 6 per cent (Eurofound, 2010, using 2007 EU-SILC data).

Data regarding poverty rates for self-employed people are thought to be less reliable than for employees, however, due to under-reporting of income and income fluctuations from one year to the next. This is borne out to some extent in data on poverty transitions which shows comparatively high rates of poverty entry and exit for self-employed households, suggesting a high level of volatility in income (DWP, 2010). Data also shows that comparatively high levels of income poverty among the self-employed are not necessarily reflected in other non-income-based measures of living standards (as described previously).

Although income is difficult to measure reliably for the self-employed, it is known that self-employed people are found at both ends of the labour market – both in higher paid work but also in very low paid work (Bradshaw et al, 2010). Rates of self-employment have been increasing steadily for a number of years, and seem to have played an important role in keeping unemployment down during the economic downturn. The number of people classified as self-employed increased by around 1 million (or 26 per cent) between 2002 and 2013, with a 10 per cent increase occurring *after* the onset of the economic downturn (Whittaker and Hurrell, 2013). However, the median annual income reported by self-employed workers fell between 2001-02 and 2010-11, with a 15 per cent decline between 2007-08 and 2010-11 (*ibid*). In terms of vulnerability to poverty risk, self-employed people can also be more precariously employed since they have fewer employment rights compared to employees, as they are subject to civil/commercial rather than labour law, and are excluded from some statutory social security schemes (Bradshaw et al, 2010).

### 2.2.Types of jobs which are associated with in- work poverty

Cribb et al (2013) analyse the sectors and occupational groups that are most closely associated with household poverty in the UK<sup>37</sup>. Workers in the hospitality and catering sector had the highest rates of poverty (23 per cent), followed by other personal services (18

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<sup>36</sup> The definition is families with 'one or more full-time self-employed'

<sup>37</sup> Using an AHC relative income poverty measure.

per cent), retail (15 per cent) and residential care (13 per cent). However only around three in ten poor employed adults worked in these sectors. Occupational group has a closer association with poverty: workers in elementary, sales, caring, process and administrative occupations together made up 70 per cent of all poor employed adults. Rates of poverty for workers in these occupations ranged from 21 per cent for elementary to 8 per cent for administrative occupations. As would be expected, where the workers in these occupations were the main earner in the household, the incidence of poverty was increased: for example 27 per cent of main earners in elementary or sales occupations were in poverty.

Unsurprisingly, analysis of the sectors and occupations where low pay predominates presents a similar picture (Whittaker and Hurrell, 2013). Low pay<sup>38</sup> is most prevalent in elementary occupations, sales and customer services and personal services, which together make up three quarters (73 per cent) of the low-paid workforce. Sectors with the highest incidence of low pay include hotels and restaurants (68 per cent had low pay), wholesale and retail (41 per cent); and administrative and support services (36 per cent). Health and social work and education have lower rates of low pay, but as they employ large numbers of people, still constitute over a fifth (22 per cent) of all those in low pay. The sectoral distribution of low-paid jobs also varies by age: low-paid jobs for those under 30 are primarily in the hospitality sector (hotels and restaurants), while low-paid jobs in the wholesale, retail and transport sectors are more evenly distributed across the age range. Low-paid public sector jobs are more concentrated amongst over-40-year-olds (MacInnes et al, 2013).

Further analysis of the persistence of low pay (Hurrell, 2013) shows that remaining 'stuck' in low pay (over a ten year period) is associated with staying in these same industries and occupations – workers staying in elementary occupations, sales and customer services, personal services, and process, plant and machine operative occupations were less likely to leave low pay, as were those in the hotel and restaurants, wholesale and retail and manufacturing sectors. Workers in the public sector and those working for larger employers were more likely to leave low pay, as were workers in education and in health. Part-time work is also associated with low pay and with being stuck in low pay (Hurrell, 2013).

Cribb et al (2013) show that having a low hourly wage is a stronger predictor of poverty than working part-time. For example, the poverty rate for those in the top quartile of wages working less than 16 hours a week is 17 per cent, whereas it is higher (at 21 per cent) for those in the bottom quartile working full-time (30 hours a week). In practice, however, there is a strong overlap between low pay and part-time work and those in part-time work with a low hourly wage are the most likely to be in poverty (e.g. 28 per cent of those in the bottom quartile of wages working less than 30 hours a week are in poverty).

There is also a strong overlap between low pay and intermittent work, resulting in 'work-benefit cycling'. The proportion of low paid workers employed on a temporary or casual basis increased from 8 per cent in 2000 to 13 per cent in 2012 (Whittaker and Hurrell, 2013). More recently there has been a significant amount of debate over the role of 'zero hours'

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<sup>38</sup> Defined as hourly wages below two-thirds of gross median hourly pay for all employees.

contracts (ZHCs) in the UK economy. The evidence base on these is relatively weak as their incidence appears to be poorly captured in official statistics. Even accounting for this under-representation in official sources they appear to cover a relatively small, though possibly growing, number of workers (CIPD, 2013). Evidence from the CIPD's Labour Market Outlook estimates just over 1 million workers (around 3 per cent of the workforce) are on ZHCs, while estimates from the Labour Force Survey are significantly lower than this (Brinkley, 2013). ZHCs are more likely to be used for lower skilled roles such as cleaning, parts of the hospitality sector, social care and call centre work, although they are also found in higher skilled jobs as well, for example in the NHS and in universities (Brinkley, 2013; CIPD, 2013). The CIPD evidence suggests that it is difficult to characterise an 'average' zero hours contract experience for employees, but highlights a number of areas of concern, for example that underemployment is relatively high in ZHCs. On pay, the evidence available suggests that for the most part ZHC workers are paid in line with other staff doing comparable jobs. Overall, the evidence on ZHCs is relatively new and certainly not comprehensive.

### **Summary: Employment characteristics and poverty**

A number of characteristics of employment are associated with higher rates of poverty, including primarily part-time work and low hourly pay. Other characteristics of work such as temporary and precarious employment are also related to poverty because they reduce work duration.

Part-time work is associated with poverty, although to an uneven extent across countries. On average, part-time workers face almost double the poverty rate of full-timers and are at a slightly greater relative disadvantage in the UK. The UK also has one of the highest levels of part-time working in Europe.

Low pay is also associated with poverty. For full-time, full-year employees, the low-paid were twice as likely to be in poverty in the UK as all employees (in 2008). Other UK analyses suggest that rates are higher by a factor of three (based on FES, 2000-1, all employees) or four (based on FRS, 2005-6, all working adults). Low pay is particularly prevalent in the UK, affecting one in five employees in 2012. Low pay is a stronger predictor of being in poverty than is working part-time, although there is a considerable overlap between low pay and part-time work, and such workers have high rates of poverty.

Women are strongly over-represented in both low pay and part-time work but have a similar poverty rate to men because poverty is measured at the household level and both partners' income (in couple families) is assumed to be shared equally. Low paid women are less likely than low-paid men to be able to avoid poverty by their own wages alone, and are consequently more reliant on either a partner's earnings or on tax credits and benefits to lift them out of poverty. This makes women particularly vulnerable to poverty if family relationships break down. While labour market events (e.g. work entry and work exit) are the predominant poverty triggers for men, both labour market and demographic change (e.g. divorce, separation) are equally important for women.

Work duration also affects poverty over the longer term, and 'cycling' in and out of work has a strong association with poverty (both recurrent and persistent). In the EU, those not working a full year had double the rate of poverty to those working a full year and in the UK it was nearly three times higher. This is partly related to contractual status; having a temporary rather than a permanent contract increases the risk of poverty among employees. However, comparative research shows the UK to have fewer temporary workers than other 'regime types' and for these workers to have a lower poverty risk vis-à-vis permanent workers. This is likely due to the lower employment protection regulation for all workers in the UK, thus contractual status alone is less relevant than in some other countries.

The self-employed also have higher rates of poverty than employed people, which is thought to be related in part to the volatility in their income. Non-income measures of poverty show lower levels of material deprivation for self-employed in the UK.

Elementary, sales, caring, process and administrative occupations were most closely associated with in-work poverty, as were hospitality and catering, personal services, retail and residential care sectors. These sectors and occupations were also closely associated with low pay and persistent low pay. The public sector and health and education sectors saw increased chances of escaping low pay.

## Chapter 3: Increasing employment and improving jobs: 'Demand-side' initiatives

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In this chapter we examine institutional features, policies and initiatives that relate to the 'demand-side' of the labour market – i.e. those that influence the quantity of jobs or their quality. In chapter four we turn to 'supply-side' policies that focus on individuals, aiming to influence their behaviour with respect to labour market participation.

This chapter begins by looking at the *quantity* of employment. We examine the relationship between the national employment rate and poverty rates and then look at the effect of initiatives to increase the number of jobs on poverty reduction. Following this, we go on to examine a number of features relating to the characteristics or *quality* of employment. First, we examine policies to improve wage levels for low-wage workers: minimum wages and living wages; then we examine unionisation and collective bargaining; thirdly, we turn to employment protection legislation; finally, we discuss work-family reconciliation policies, including care leave and family friendly working practices.

In each section we present the evidence on the effect of policies and initiatives in that area on poverty, or where such evidence is not available, we present the evidence of effects on various employment outcomes and discuss how this might relate to poverty reduction.

### 3.1 Employment rates and poverty

The assumption which underpins much policy aimed at tackling poverty is that growth in employment and increasing labour market participation will translate into poverty reduction. The rationale is that employment reduces the risk of individuals being in poverty, and - as shown in chapter two - the evidence is clear that those in work are less likely to be in poverty than those outside the labour market. However, the international evidence shows that the relationship between rising employment rates within a country and (relative) poverty reduction is not clear cut.

The reason that employment growth does not necessarily reduce poverty is because the benefits of this growth may not go to those (households) who are in poverty. Where poverty is measured as a relative concept the picture is further complicated as what matters is the distribution of the income gains to poor households *relative* to other households. In some cases employment growth can increase the number of households in relative poverty by raising the median household income, while a fall in employment can have the opposite effect. An important factor in influencing the relationship between employment growth and poverty reduction, then, is the extent to which the benefits of job creation accrue to a particular group – namely, individuals within households in poverty.

*Does a higher employment rate mean less poverty?*

There are a number of cross-national studies which question the perceived over-reliance on growth in the labour market as a tool for poverty reduction. These studies adopt a relative

measure of poverty, in which the poverty rate is benchmarked relative to the average household income. As described above, this means that poverty is a moving target, influenced by changes elsewhere in the income distribution.

De Beer's (2007) analysis of the working-age population of EU15 countries and the US over the period 1980/04 – 2001/05<sup>39</sup> uses a decomposition analysis to estimate the impact of increases to the employment rate on the poverty rate. For the UK, both the employment and the poverty rate increased over the period of study. The increase in poverty in the analysis is explained by a growth in poverty among work-rich households (defined as those with at least one working member), by a smaller growth in poverty among work-poor households, and by the employment gains being concentrated among individuals in households which already had someone in work.

A more recent descriptive analysis of European experiences, drawing on EU-SILC data, demonstrates that while employment rates across the European Union grew by around 3 percentage points over the period 2004-2008, rates of relative poverty did not decline (Cantillon, 2011). Cantillon (2011) argues that this was because, first, over this period there was a continuing polarisation between 'work-rich' and 'work-poor' households, with the number and proportion of dual-earner households increasing while the number of workless households remained largely unchanged. Secondly, there was also some increase in the poverty rates for workless households as well as for other low-work intensity households. Marx (2007) studies in greater detail the case of the Netherlands, which has experienced strong employment growth over the past three decades at the same time as a growth in the incidence of relative poverty.<sup>40</sup> Over this period the poverty risk increased significantly both for workless households (of working-age) and for households with a single earner. The analysis highlights the particular difficulties faced by single parents who, whether in employment or not, are disadvantaged where dual-earning households are a growing social norm.

Other comparative analysis suggests that it is inequality in earnings, rather than employment/unemployment rates, which is important in explaining international differences in poverty. Paull and Patel (2012) examine the links between the distribution of skills and labour market and income inequalities across a broad range of countries.<sup>41</sup> This analysis shows that income inequality and poverty (using a relative measure, of below 50 per cent of median income) are closely related, and that there is a very strong link, cross-nationally, between earnings inequality and income inequality; countries with higher earnings inequality are very likely to have higher income inequality (and poverty).

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<sup>39</sup> Which adopts a poverty definition based on 50 per cent of below median income

<sup>40</sup> Absolute poverty also appears to have declined more slowly in the Netherlands than in other countries

<sup>41</sup> Information was obtained for 101 countries, drawn from a broad range of data sources. Most of the data is from 2007.

Future employment growth and poverty in Europe is examined by Marx et al (2011), who use regression based simulations which estimate that employment growth will not necessarily reduce relative poverty among the working-age population in a number of European countries. In some countries it will in fact increase poverty across the entire age population as a result of the deteriorating relative position of households who do not benefit from employment growth (most significantly, pensioners). Brewer et al (2012) also simulate changes in poverty in the UK up to 2020, showing that relative poverty will rise as a result of ongoing changes to the employment structure, within a broader pattern of employment growth, and future changes in the tax and benefits system. Their projections suggest that most of the increase in poverty will be the result of real-terms earnings growth alongside stagnation in benefit and tax credit rates (which are a disproportionately important source of income for low-income households). Changes to the employment structure are also likely to increase median household incomes but have less impact towards the bottom of the distribution, which is also likely to increase relative poverty. The authors also examine a number of alternative scenarios<sup>42</sup>, which show that neither a general increase in qualifications across the workforce or increasing the female share of employment would have much effect on poverty. An important implication of these findings, which is echoed elsewhere, is that policies to address poverty need to be effectively targeted (for example Brewer et al, 2012; Sutherland, 2001).

#### **Summary: Employment rates**

Anti-poverty strategies often emphasise growth in the labour market as a core requirement because those in employment have a lower poverty risk than those out of work. However, there are a number of factors which will influence the extent to which an employment-led policy reduces poverty. The distribution of jobs is important; for poverty to decline, employment growth needs to reach poor households. When poverty is measured using a relative definition, employment growth can in some circumstances increase the rate of poverty as a result of the deteriorating relative position of households who do not benefit from employment growth. On other measures of poverty, such as material deprivation, the evidence suggests that the impact of employment growth on poverty is likely to be stronger. In short, growth in employment rates can be an important part of addressing poverty, particularly among those of working-age and if employment growth is well-targeted, but it is not a 'silver bullet'.

### **3.2 Job creation schemes**

Job creation schemes have the potential to tackle poverty more directly than general employment growth, since they can be targeted at particular (deprived) localities or workless individuals or households, either via area- or industry sector-targeting or by allocating the jobs created directly to target groups, e.g. through employer-hire agreements. There is, however, relatively little evidence directly linking job creation to poverty reduction. There is some relevant evidence on job creation targeted at disadvantaged groups (who are more

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<sup>42</sup> although the level of overall jobs growth remains fixed

likely to live in households in poverty) and there is also some evidence from the US on Enterprise Zones and poverty. In this section, we focus on national level policies and exclude area-based regeneration schemes which are the subject of a separate review (see Crisp et al, 2014).

Job creation programmes have a long history in the UK (and elsewhere) but their adoption has been much reduced in the past 30 years or so. This shift was in response to evidence which suggested that they suffered from lock-in<sup>43</sup>, and were often subject to high levels of deadweight, substitution and displacement (Gregg, 2009). More recently job creation programmes have to some extent been reconsidered in response to the 2008 recession – with the Future Jobs Fund (FJF) and subsequently the Youth Contract providing subsidies for jobs created for, and filled by, young people (with FJF focused on the public and third sectors, and the Youth Contract on the private sector). In addition Enterprise Zones (EZs) have been re-introduced. EZs have been a policy tool used before in the UK and the US (as well as a number of other countries) which aim to attract or grow the number of jobs in less-buoyant labour markets. This has relevance for poverty because zones are often targeted at areas of high unemployment which also tend to have a significantly higher-than-average incidence of poverty.

In the UK, Enterprise Zone policies were previously adopted between 1986 and 1996 in small areas of a number of cities. More recently a new Enterprise Zone policy was introduced in 2011, with a policy package consisting of tax and planning concessions, improved ‘superfast’ broadband and enhanced capital allowances in 24 assisted areas (Mellows-Facer, 2012). The evaluation evidence from the earlier period of EZs suggests that net new job creation in EZs was both limited and expensive, with the policy suffering from a large degree of job displacement (Sissons, 2011). It should be noted that the evidence base is hampered somewhat, however, by limitations in the methodologies for estimating impact.

The experiences in the US are more recent and are also somewhat better evaluated, using a range of different methodologies. In the US, there are a number of different iterations of EZ models, and the package of measures varies from state to state. This means caution should be used when inferring what the findings might mean for the UK, where the design of schemes and local circumstances might be significantly different. However, on balance, the evidence from the US, across a number of states, suggests that EZs have been largely unsuccessful, both in creating additional jobs and in improving the employment rates of local residents (Bondonio and Engberg, 2000; Elvery, 2009; Neumark and Kolko, 2010). Studies looking at the link between EZs and poverty reduction are rarer. Ham et al (2011) report positive effects of EZs, Empowerment Zones (EMPZs) and Enterprise Communities

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<sup>43</sup> Where participation in job creation schemes reduces outflows into non-subsidised jobs during the period individuals are on the scheme.

(ENTCs) on poverty and unemployment reduction<sup>44</sup>. On the other hand, Hanson (2009), using his preferred method (instrumental variable regressions), finds no effect of EZs on employment creation or poverty reduction. Recent evidence from EZ policy in France (Gobillion et al, 2012) finds a modest and temporary impact of EZs on unemployment exit rates, with the chance of workers finding a job increasing by around 3 per cent, but with the effect reducing with time so that there is no positive medium-term effect (between 3 and 6 years).

Overall, the bulk of the evidence therefore suggests that EZs, at least in their implemented format, have not been a very effective policy at generating additional local employment opportunities for disadvantaged residents. It should be noted that the evaluations of EZs described above largely measure the average effect across multiple zones. However, EZs in the US are relatively heterogeneous; they have different focuses and different incentive structures. The sources of variation in performance between EZs, and the potential to refine approaches based on good practice, is an under-developed area of research (Kolko and Neumark, 2009). (For a more detailed examination of the evidence on different types of support in EZs, see Crisp et al, 2014.)

EZs are not the only approach to targeting job creation towards those disadvantaged in the labour market; various forms of job subsidies and hiring credits have also been used. The aim of these, when operating in the private sector, is to reduce the cost to an employer of hiring a worker who may be less productive in the short-term to the extent to which it is compensatory to the additional cost. In the public sector, such schemes may also pursue social aims in addition to job creation.

An overview of the evidence on the use of 'hiring credits' in the US to create jobs in the private sector is provided in Neumark (2013). He finds the evidence on hiring credits improving outcomes for disadvantaged workers to be mixed. Some studies find no employment impact on disadvantaged workers and identify problems such as the typically low participation by firms and their apparent 'stigmatizing' effects on eligible workers which can make firms less likely to recruit them. The results from hiring credit programmes, on balance, appear to be stronger for disadvantaged youths (Katz, 1996); and the evidence also suggests that more positive results can be achieved when hiring credits are combined with other interventions or support, such as training (Katz, 1996; Neumark, 2013). In relation to poverty, it should be noted that the typically low earnings of disadvantaged workers supported by hiring credits might substitute out-of-work for in-work poverty (Neumark, 2013).

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<sup>44</sup> Empowerment Zones and Enterprise Communities are similar to Enterprise Zones in terms of the kinds of subsidies provided to companies, but there is more emphasis placed on providing funds for training funds and other services to support working families and on community participation (<http://www.goodjobsfirst.org/accountable-development/enterprise-zones>).

Recent work, in particular drawing on the evaluation of the New Jobs Tax Credit (NJTC)<sup>45</sup>, has suggested that hiring credits may be designed to function relatively well as a counter-cyclical tool, increasing the demand for workers when the economy is weak (Bartik and Bishop, 2009; Neumark, 2013). Other recent theoretical work suggests that targeted local hiring subsidies may help improve labour market efficiency (Kline and Moretti, 2013).

Public sector job creation schemes are another way in which policymakers can target improved labour market outcomes for disadvantaged workers. While much of the evidence suggests that these tend to be relatively inefficient at supporting the unemployed (see Chapter 4), an OECD review of the evidence suggested that while this may be true in general, these types of programmes appear to play an important role for those who are most difficult to help (Brodsky, 2000). The review also notes that refinements to public sector job creation programmes, based on the lessons of evaluation evidence, saw the introduction of more targeted and tailored approaches in a number of European countries. In the UK, in response to the 2008 recession, the previous Government introduced a variant on public sector job creation targeted specifically at unemployed young people (aged 16-24). The Future Jobs Fund (FJF) created subsidised jobs primarily in the public and third sectors, and in total created around 105,000 jobs (DWP, 2012). The programme was discontinued by the Coalition Government in 2011. The evaluation evidence suggests that FJF was an effective programme. It had a large positive impact, with participants estimated to be 11 percentage points more likely to be in unsubsidised employment two years after the start of their participation and 7 percentage points less likely to be on benefits (DWP, 2012)<sup>46</sup>. Overall, the cost-benefit analysis of the programme showed that the net benefits for society (the sum of benefits to participants, employers and the Exchequer) are positive, ranging from +£1,100 to +£15,350 (under different scenarios) (see Appendix 2 for further details.)

#### **Summary: Job creation schemes**

The evidence on the employment effects of job creation schemes is mixed. In general, research (particularly from the US) suggests Enterprise Zones may not function particularly well for disadvantaged communities. The evidence on hiring credits suggests they may work for some disadvantaged groups, and that they work best when combined with other interventions. The central challenges which appear to limit the effect of hiring credits are low take-up and stigmatisation of recipients. The most recent evidence on demand-side interventions in the UK, from the Future Jobs Fund which was targeted at young people, is positive in terms of programme impact.

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<sup>45</sup> The NJTC was a non- targeted hiring credit, established in response to the recession in the US in the mid-1970s.

<sup>46</sup> The evidence on which the impact assessment draws does not allow for further disaggregation of type and sector of employment

### 3.3 Minimum wages

Minimum wages may help to protect individuals from poverty in a number of ways. They can improve earnings through raising the hourly wage rate for low-paid workers, and can also protect earnings in situations (such as recession) where there is downward pressure on wages. Minimum wages can also provide a financial incentive for individuals to move into employment, by raising the extent to which work 'pays' relative to not working. A higher minimum wage may also incentivise employers to seek to increase productivity, which could increase workers' earnings in the longer-term. On the other hand, there is a concern that a minimum wage which is set too high will hamper job growth and thus damage the employment prospects of lower skilled workers.

In the UK, the Low Pay Commission (LPC) is the body charged with making recommendations about the level of the National Minimum Wage (NMW). The work of the LPC has created a large evidence base on the impact of the NMW on a range of areas, including employment, earnings, hours, profits, prices, productivity and inequality. The balance of this evidence strongly suggests that since its introduction in 1999, the NMW has had little or no impact on aggregate employment (LPC, 2013). The evidence base on the direct link between minimum wages and poverty in the UK is relatively sparse, but that which is available suggests that it has had a small impact on reducing poverty. Other international studies, for example in the US, also find small effects of the minimum wage on poverty reduction.

#### *Impact of the NMW on poverty*

There is only one available study in the UK looking directly at the effect of the NMW on poverty. Sutherland (2001) used micro-simulation to estimate the impact of tax and benefit changes in 2001<sup>47</sup>, in combination with the introduction of the NMW, on poverty. Using a 60 per cent of median household income measure, the study showed a reduction in the overall poverty rate from 18.7 to 14.4 per cent as a result of these changes. However, isolating the effect of the NMW showed it to have a much smaller, though still positive, impact – accounting for 1.2 percentage points of the fall in the proportion of people in poverty. The study also concluded that poverty rates are not very sensitive to changes in the level of the national minimum wage. Sutherland estimated that even a sizeable increase to the minimum wage (to £5 from the actual level of £3.80 in 2001) would have only a weak impact, reducing poverty rates from 16.2 per cent to 15.6 per cent for single people, and from 14.1 per cent to 13.1 per cent among couples with children.

Other more recent work on the NMW by Brewer et al (2009b) presents a similar picture. The study does not directly look at the impact of the NMW on poverty rates, but examines its effect on households at different income deciles. The authors simulate a 10 per cent

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<sup>47</sup> These included Child Benefit increases, the abolition of Lone Parent Benefit, the introduction of the Working Families Tax Credit (WFTC), changes to Income Support, Housing Benefit and Council Tax Benefits, and changes to National Insurance contributions.

increase in the NMW (from the 2007 rate)<sup>48</sup> and find the largest proportional income gains tend to accrue to those households in the bottom decile, who see on average a 6-7 per cent increase in net incomes. However, this decile only contains a minority of households with a NMW-earner. In deciles 2-4, the increase is around 3-4 per cent, but the biggest *aggregate* gains accrue at deciles 3 and 4, because this is where the largest proportion of NMW workers are concentrated. As such, the simulated 10 per cent increase in the NMW benefits more families in deciles 3 and 4 (who are above the poverty line) than in deciles 1 and 2 (who are below the poverty line).<sup>49</sup>

An updated analysis, modelling a 10 per cent increase in the NMW under Universal Credit, presents a similar picture in terms of the scale of benefits, although the increase in net income is estimated to be slightly less than under the previous modelling for decile 1 and slightly more for decile 2 (Brewer and De Agostini, 2013). This updated modelling also estimates the average weekly change in net income for different family types after a 10 per cent increase in the NMW. These are presented below in Table 3.1.

**Table 3.1: Average change in net income (£/per week) for different NMW families after modelled 10 per cent increase in NMW (under Universal Credit)**

	Single	Lone parent	Couples with children	Couples without children	All
NMW main job	13.62	6.17	9.25	15.55	12.26
NMW (second job)	6.12	2.81	10.96	13.84	11.83

(Source: Brewer and De Agostini, 2013)

An additional effect of the NMW which Brewer et al (2009b) estimate is the benefit to the exchequer of a higher NMW, which derives from higher tax and national insurance payments and lower benefits and tax credits. For their simulated 10 per cent increase in the NMW, they estimate a benefit to the government of around £560-£680 million<sup>50</sup>.

The international evidence also tends to find a weak impact of minimum wages on poverty. Müller and Steiner (2008) and Knabe and Schob (2011) (using a threshold of 50 per cent and 60 per cent of median household income, respectively) both estimate that the introduction of a minimum wage in Germany (equivalent to EUR7.50 an hour) would have very little effect on either the incidence or depth of poverty. In Canada, Mascella et al's

<sup>48</sup> It should be noted that the tax and benefit system has undergone some change in the period between the study and the present, and will change again once Universal Credit is introduced.

<sup>49</sup> The poverty line falls between the 2<sup>nd</sup> and 3<sup>rd</sup> deciles.

<sup>50</sup> Estimated excluding any general equilibrium effects

(2009) simulation of increases in Ontario's minimum wage<sup>51</sup> estimated that the proportion of poor households (defined as below 50 per cent of the median) would decrease by less than a percentage point. A review of 12 major studies of the effect of minimum wages on poverty in the US found a modest impact on the overall poverty rate. The average 'poverty rate elasticity' across the studies was between -0.15 and -0.20, which means that a 10 per cent increase in the minimum wage would reduce poverty by 1.5 to 2 per cent (Dube, 2013).

In general, these findings from the UK and internationally suggest that, on balance, increases to the NMW are relatively poorly targeted at reducing poverty. This is because, as discussed in chapter two, many of those earning at or around the minimum wage are not living in poor households, thus minimum wage changes will affect people who are not poor also. According to Sutherland's (2001) analysis, the introduction of the NMW benefited roughly the same proportion of working age families in poor as non-poor households (5 and 4 per cent respectively). Similarly, in the US, Campolieti et al (2012) found that only about 30 per cent of the net earnings gain from minimum wage increases went to the poor, while around 70 per cent went to the non-poor.<sup>52</sup> Sabia and Burkhauser (2010), in their simulation of a federal minimum wage increase in the US (to \$9.50 an hour) found that only just over 11 per cent of workers who would benefit lived in poor households. In Canada, Mascella et al's (2009) simulation of increases in Ontario's minimum wage similarly found that most workers benefiting did not live in poor households – only just over 10 per cent of the increase in wages would go to workers living in poor households.

This does not mean that increases to the NMW in the UK are not necessarily a good policy. Families at all lower deciles benefit from an increase of net income, whether below the poverty line or not. The poorest families on NMW also tend to benefit the most, but this group is relatively small and are significantly below the poverty line. Rises in NMW therefore do help boost household incomes for lower earning families, but do so in a way that means they have only a limited impact on poverty rates, if using a relative income measure of poverty. It is also possible that while not directly affecting poverty in the short-run, increasing the pay of low-paid workers in non-poor households (e.g. through the NMW) could have a longer-term impact on poverty, since low-paid workers have a reduced amount of income available for savings and/or social insurance contributions, which can result in poverty at a later stage in the lifecourse (Bradshaw et al, 2010). Raising incomes of those in low pay could therefore have a future poverty-prevention effect.

### *Impact of the NMW on employment*

In the UK, despite concerns preceding its introduction, the introduction and presence of the National Minimum Wage has been found to have had little or no impact on total employment. The evidence is summarised in the most recent Low Pay Commission report (LPC, 2013),

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<sup>51</sup> They simulated an increase in Ontario's minimum wage from between \$5.95 and \$9.09, to \$9.10 an hour across the board, for 2004.

<sup>52</sup> Two measures of poverty were used: the Low Income Cut-off (LICO) and a Low Income Measure (LIM), calculated as 50 per cent of median family income, adjusted for family size and composition. The data source was the Survey of Labor and Income Dynamics, 1997-2007.

which concludes that the NMW has had little adverse effect on total employment, the share of employment in the low-paying sectors or in particular regions; or the probabilities of unemployment for individuals. The LPC research evidence suggests that rather than reducing employment, employers have coped with the minimum wage in a number of other ways. For example, there is some evidence that pay structures have been adjusted, non-wage costs of workers reduced, hours worked reduced, productivity increased, prices increased, profits reduced, and business creation slowed. All of these effects are small in magnitude, however.

The international evidence on the employment effects of minimum wages is somewhat more mixed than in the UK. A meta-analysis of 64 US studies (Doucouliagos and Stanley, 2009) found a range of estimates – both positive and negative - of the effect of the minimum wage on employment demand, but with a clustering around zero, suggesting no overall effect. More recent studies have also shown mixed results. One study by Schmitt and Rosnick (2011) of the employment impacts of three city-specific minimum wages found no impact on employment. However, Sabia's (2009) investigation of the effects of minimum wage increases on the retail sector, in particular, did find evidence of adverse effects – with a 10 per cent increase in the minimum wage associated with a 1 per cent decline in retail trade employment and weekly hours worked. They also observed larger negative employment and hours effects for the least experienced workers in this sector.

Regarding the potential for the NMW to increase productivity in low-paid work and to create a 'virtuous cycle' of higher pay - better incentives for skill development - higher productivity - and higher pay, cited as a potential consequence of minimum wages (Grimshaw, 2011), the effects of the NMW in Britain seem limited. The evidence on productivity is mixed, with some studies showing small improvements in productivity following the introduction of the NMW and others showing no effect. The balance of evidence is that it has had a small positive effect on the productivity of businesses in the UK. However, the effect of the NMW on training provision is unclear<sup>53</sup>, and its 'ripple' effect in raising wages higher up the earnings distribution has been limited, reflected in a rising share of workers paid at the NMW or near to it over time (Resolution Foundation, 2014).

### *Living Wages*

More recently in the UK and elsewhere there has been growing impetus behind campaigns for the introduction of a so-called 'Living Wage'. In the UK, a Living Wage is an hourly rate calculated according to the basic cost of living which is set independently and updated annually<sup>54</sup>. The Living Wage is voluntary for employers and there are no direct financial incentives to pay it. In 2013, the Living Wage in the UK was set at a national rate of £7.45 an hour and £8.55 an hour in London. The London Living Wage has been updated rapidly in

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<sup>53</sup> One study found a positive effect of the introduction of the NMW on both the incidence and intensity of training, but another found no relationship between the NMW and training.

<sup>54</sup> The methods used to calculate the wage generally involve research into the cost of living, including everyday items, adjusted for household characteristics e.g. presence of working partner and number of children. <http://www.livingwage.org.uk/what-living-wage>

the last few years, to reflect the rising cost of living. With earnings stagnating since the economic downturn, the Living Wage has become significantly more generous in relation to median earnings (Whittaker and Hurrell, 2013).

There is no evidence on the potential impact of implementing a Living Wage on poverty in the UK, although there is some evidence of its potential impact on household earnings. Wills and Linneker (2012) estimate that introducing the London Living Wage would lead to a significant increase in earnings for some low-wage workers. For those households not claiming benefits (whether unable or unwilling), it would lead to significant net income increases. For example, adults working 16 hours on the NMW (not claiming benefits) would see a net gain of £35.52 per week if they were moved onto the Living Wage; for full time workers (35 hours) the net weekly gain would be £52.84. This amounts to an annual increase of £2,748 for single full-time workers, and a net increase of £5,495 a year for couple households where both members of the couple are working full-time. However, this increase is considerably lower if individuals and households are already claiming their full benefit entitlement (see examples in Box 3.1 in Appendix I). Once Universal Credit is introduced, the impact of the Living Wage on the incomes of households claiming in-work benefits would be greater (see Box 3.1).

Riley (2013) has used industry sector panel data to estimate the potential labour demand impacts of the introduction of a Living Wage in the UK. This analysis estimates that, conditional on the level of output and worker effort, the cost increases resulting from an increased wage bill would reduce aggregate labour demand by around 160,000. However, the impact is projected to be much greater on young people and low-skilled workers – with a mandatory Living Wage estimated to reduce employer demand for low-skilled young workers in the private sector by around 300,000 (as employers substitute younger workers for more experienced ones). On the other hand, the paper also estimates that some 4 million employees would benefit from the introduction of a Living Wage, with an average wage increase for these employees of 15 per cent.

Several studies in the US and Canada have attempted to simulate the impact of a 'Living Wage' on in-work poverty, finding that the introduction of a living wage would reduce the prevalence of in-work poverty and lead to net increases in earnings for low wage earners (Stone and Kuperberg, 2006; Schenk, 2001). It should be noted here that poverty is measured in absolute terms so the likely (relative) impact would be lower than that suggested from this evidence.

### **Summary: Minimum wages and living wages**

The balance of evidence suggests that the introduction and subsequent upratings of the National Minimum Wage have not cost jobs in the UK, while the evidence from elsewhere suggests small negative effects in some countries. The most recent, although dated, evidence also suggests that the NMW has had a positive, though relatively modest, impact on poverty in the UK. However, minimum wages represent a somewhat blunt instrument to tackle household poverty because increases are relatively poorly targeted at households in poverty. Recent work demonstrates that rises in the NMW would help boost household incomes for some lower earning families, but would do so in a way that means they have only a limited impact on (relative) poverty. There is no evidence currently on what introducing a Living Wage might do for poverty. It seems likely it would benefit a very large number of low earners but may also reduce the labour demand for some groups, notably low-skilled young workers.

## **3.4 Unionisation and collective bargaining**

Research has found a positive association between various elements of wage setting institutions (such as union density, union coverage and the centralisation of collective bargaining) and a reduced proportion of workers in low-wage employment (see Lucifora et al, 2005; Grimshaw, 2011; Schmitt, 2012). Studies have also linked the growth of low-pay in the UK since the late 1970s to the decline of unionisation and collective bargaining (see Lloyd et al, 2008). There is limited direct evidence of the impact of wage setting institutions on poverty, but as an important driver of low pay the comparative weakness of wage setting institutions in the UK is likely to be a contributing factor to in-work poverty.

There are two hypothesised reasons for the link between collective bargaining coverage and low-wage employment. First, there may be a spillover effect, whereby wages set through collective bargaining influence wages elsewhere. Secondly, collective bargaining may “take wages out of competition” and encourage firms to compete on quality rather than price (Grimshaw, 2011).

One study which looked directly at the effects of unionisation on poverty rates cross-nationally (Paull and Patel, 2012) found that within European and North American countries, higher unionisation rates (i.e. the proportion of employees in trade unions) were associated with lower earnings inequality, lower income inequality and lower poverty, after allowing for background factors. The estimates indicated that a higher unionisation rate of 10 percentage points was associated with a lower poverty rate of almost 1 percentage point<sup>55</sup>. The authors suggest that this is because a higher degree of unionisation compresses the earnings distribution, thus resulting in lower income inequality and hence lower (relative) poverty.

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<sup>55</sup> Defined as below 50 per cent of median income

Other studies have also shown that union membership suppresses earnings inequality between union members through limiting dispersion in pay between the top and the bottom (relative to non-unionised employees), known as the ‘sword of justice’ effect (Metcalf, Hanson and Charlwood, 2001). This can be seen in the UK where the (adjusted) wage dispersion is around 16 per cent larger among non-union members.

At the level of individual wages, there is evidence from a number of countries suggesting that unionisation raises wage rates, and that this effect is particularly pronounced for low-wage workers, women and young workers. In the US, Schmitt (2008a; 2008b; 2008c) found that unionisation (defined as being a member of a union or represented by a union in the workplace) raises the wage of the typical low-wage worker, (at the 10<sup>th</sup> percentile) by 21 per cent, for women in low-paid occupations by just over 14 per cent, and for young workers by around 10 per cent. Looking at workers over a three year period in the US, Boushey (2005) also found that those who have at some point been in a unionised job were much less likely to remain in low-wage work, and that this positive effect was maintained over the period even if they subsequently moved on to a non-union job (this research covers each worker for a three-year period and covers the overall period 1992-2003).

In the UK, studies have suggested that while there remains a union premium for individuals this is significantly smaller once adjusting for individual and employer characteristics and has fallen over time (BIS, 2013; Bryson, 2002; Blanchflower and Bryson, 2004). The most recent estimates suggest that the adjusted union wage premium stands at around 5-6 per cent (the unadjusted premium is around 20 per cent) (Bryson and Forth, 2010). These estimates differ for men and women; for women the average adjusted wage premium of a union member is estimated to be around 9 per cent, while for men it is around 3 per cent.

There is also evidence to suggest that there are other union effects that might be important for poverty that aren’t directly linked to higher pay (in the short-term), for example better access to training (Green et al, 1996; Stuart and Robinson, 2007).

#### **Summary: unionisation and collective bargaining**

There are a range of studies which link the declining importance of collective bargaining and union membership to the growth in the prevalence of low pay. There is also evidence which suggests that union members in the UK receive a wage premium (although this appears to be relatively modest). One cross-national study of the direct link between unionisation and poverty showed that the level of unionisation limited earnings inequality, income inequality and poverty. There are also other areas where unions might also affect low pay and poverty, in particular around better access to training and to family friendly working practices, which might help improve individual earnings over the longer-term.

### **3.5 Employment protection regulation**

The impact of Employment Protection Legislation (EPL) on labour markets is a widely debated topic. There is an absence of evidence directly linking labour market regulation and poverty, however a range of comparative international studies have tried to assess the

employment and other effects associated with higher and lower levels of employment protection, which are of relevance to poverty outcomes. EPL is a set of regulations which govern practice about how firms can hire and fire workers. It also includes regulation of contractual relationships between employers and workers, such as temporary contracts. EPL in the UK is weak by international standards<sup>56</sup>, for example, the UK has comparatively weak regulation around individual dismissal (in terms of the required notice period and severance payment) and regulations on the use of temporary work and the conditions of agency work are also relatively weak (OECD, 2013).

The evidence on what, if any, impact higher levels of EPL have on aggregate levels of employment is ambiguous. Many studies have found no evidence of a link between stricter EPL and levels of either employment or unemployment, although there are some studies which have suggested that higher levels of EPL are related to lower employment and/or higher unemployment (for reviews see Howell, 2007; OECD, 2013). However, there is also some evidence to suggest that groups of workers are differentially affected by EPL. For example, a number of cross-country studies have suggested a negative link between strict EPL and employment rates for young people, women and low-skilled workers (OECD, 2004; Siebert, 2005). The reason for this is that the costs associated with dismissing workers makes employers less likely to recruit those perceived to be a greater risk.

While the overall aggregate impact of EPL is ambiguous, its effects will tend to vary across the economic cycle. It is in some senses a 'dual-edged sword', in that in periods of growth, stricter EPL may reduce firm hiring, but in periods of recession it can have a protective effect by restricting flows out of employment (Amable and Mayhew, 2011). This is demonstrated by O'Higgins' (2012) study of the effects of the recent recession on young people's labour market experiences across the EU. Through applying both cross-section and time series rolling regression models, he finds that the stronger the employment protection, the more young people were protected from the adverse effects of the recent downturn (although the influence observed is relatively weak). A similar trend is described for the wider workforce in OECD countries by Amable and Mayhew (2011).

There are a number of other areas where EPL might have an impact which is relevant to poverty. The coverage of EPL is likely to be important. In some cases, strict EPL helps protect workers in the primary labour market but excludes workers in the secondary labour market, making it more difficult for 'outsiders' to access stable employment opportunities (European Commission, 2007). In the UK, however, the weak levels of EPL affecting permanent and temporary workers make this much less of a salient issue.

EPL also has an importance in protecting workers from discrimination and unfair treatment, as well as improving or safeguarding employment conditions around areas such as health

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<sup>56</sup> The OECD publishes an index of EPL which consists of two groups of indicators, one concerned with dismissal of permanent workers and one with the regulation of temporary contracts. These are informed by four sub-groups of indicators covering regulation of individual dismissals, collective dismissals, standard fixed-term contracts and temporary work agency employment. A further 21 indicators inform these measures.

and safety. However, there is a lack of evidence on how these factors might influence poverty.

There are also debates about the level (and application) of employment protection for agency workers who are at the sharp end of the flexible labour market (EHRC, 2010). In 2011, the Agency Workers Directive was introduced in the UK which increases the rights of agency workers around equal access to facilities (on starting work) and equal entitlements around pay and other basic working conditions (at 12 weeks) (BIS, 2011). However, the impact of this is currently unknown.

#### **Summary: Employment Protection Legislation**

There has been a long debate about the extent to which strict EPL reduces employment growth. Taken together, the evidence is ambiguous as to whether this is the case overall (and across the economic cycle). There is, however, some evidence which suggests that strict EPL may damage the employment probabilities of some groups of vulnerable workers. On the other hand, EPL can play an important role in protecting vulnerable workers from unfair treatment and poor working conditions, however there is no direct evidence on how this impacts poverty.

### **3.6 Work-family reconciliation policies**

Work-family reconciliation policies include a range of policies and practices to enable parents to better combine family life with paid employment, including care-related leave schemes, policies that increase the quality or prevalence of flexible working time arrangements and public financing and/or delivery of out-of-home childcare (Hegewisch and Gornick, 2011). There is a potential for such policies to impact on poverty, since they can enable parents (as well as others whose work capacity is reduced through caring responsibilities or ill health) to enter, remain in or progress in work. There is a relatively large body of literature examining the effects of such policies on mothers' labour supply, although there is scant available literature looking directly at poverty effects. The available literature mainly focuses on the employment effects of care-related leave schemes and public support for childcare. We include only the former here, since a separate review is considering the evidence on childcare and poverty. Flexible working time arrangements are the subject of a separate body of literature, but this has mainly focused on the costs and benefits to businesses. An exception to this is a small literature examining the link between the availability of part-time work and mothers' labour supply.

#### **3.6.1 Care-related leave**

There is a relatively large body of literature examining the effect of parental leave on women's labour supply, which is reviewed in OECD (2007 and 2011), Letablier et al (2009), Hegewisch and Gornick (2011) and Smeaton et al (2014). There is considerable variation in leave policies across countries; the UK stands out in having the longest maternity leave

entitlement of any OECD country (at 52 weeks) albeit with a very small proportion of this paid at wage replacement rates, combined with a short period of (unpaid) parental leave.<sup>57</sup>

The available evidence suggests that maternity leave entitlement (even if unpaid), promotes women's labour market attachment post-birth, but that longer leave periods seem to have more negative effects on women's future labour supply and longer-term career prospects. Evidence from France and Germany shows longer leave periods are associated with more precarious employment and reduced wage growth. In the UK, maternity leave was extended from 29 to 52 weeks in 2003 (with 26 weeks of paid leave, extended to 39 weeks in 2007). Survey evidence suggests that labour market attachment post-birth has remained stable over this period (at between 76 and 80 per cent), while the proportion of women returning to the same employer has increased – from 59 per cent of those returning in 2002, to 80 per cent in 2005, and to 84 per cent in 2009/10 (Smeaton et al, 2014).<sup>58</sup>

In countries where income support payments for caring for children at home ('home care payments') are of longer duration than entitlement to employment-protected leave, this appears to have negative consequences for women's return to the labour market. There is also evidence to suggest that where these entitlements are available, lower income and lower-educated women are more likely to take them up, resulting in more detrimental consequences for this group.

### 3.6.2 Family friendly working practices

It is generally acknowledged that the availability of family-friendly working practices is important for mothers' labour market participation. However, the evidence demonstrating the connection between such practices and employment outcomes is limited.

#### *Potential of flexible working*

There is evidence which suggests that an inability to combine work and care in an appropriate way can result in labour market withdrawal or non-participation. Surveys have shown a significant amount of non-employment and under-employment (i.e. working below potential) is related to caring responsibilities, especially among women (Holmes et al, 2007;

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<sup>57</sup> Steps are being taken to make the system of parental leave in the UK more flexible (see HM Government, 2012). Following a consultation in 2011, the government intends to enable couples to convert the majority of the mother's maternity leave and pay to 'flexible parental leave', which can be taken by either partner, consecutively or concurrently (in blocks of no less than one week) over the first year of the child's life. This will take effect from 2015. Unpaid parental leave was increased from 13 to 18 weeks in 2013 in response to the EU Parental Leave Directive, and the government also plans to extend eligibility to parents of children up to age 18 (currently only parents of children aged up to 5 years are included). The leave will remain unpaid.

<sup>58</sup> The most recent survey monitors trends between 2006 and 2008 to see if there is any discernible effect of the recent extension to 52 weeks leave. It concludes that rates of return and return to the same employer remained stable, but notes that given the recession, one might have expected a fall in women's labour market participation rates and that the policy change may have protected against a fall in retention (Chanfreau et al, 2011). Certainly no negative effects of the longer leave period have been identified.

Hurrell et al 2007; Ellison et al, 2009; Chanfreau et al, 2011). Previous research suggests that middle level supervisory posts in particular can erect barriers to progression due to a lack of flexibility (Tomlinson, 2006; Hegewisch, 2009).

### *Flexible working and retention*

There is a relatively large literature on the relationship between flexible working and staff retention, which suggests that, on balance, flexibility has positive outcomes for staff retention, although this can vary according to the type of flexibility in question (see the reviews in Hegewisch and Gornick, 2011 and Smeaton et al, 2014). However much of this literature focuses on the benefits for businesses, rather than the effects for employees in terms of labour market outcomes. The effects of flexible working arrangements on mothers' retention rates following maternity leave are significant here, since switching employers after maternity leave is associated with lower earnings (Hegewisch, 2009). The most recent maternity and paternity rights survey (Chanfreau et al, 2011) showed that returning to work following maternity leave was related to the availability of family friendly practices, although once other workplace characteristics were controlled for (e.g. size and sector) this relationship became insignificant.<sup>59</sup> When non-returners were asked about whether changes in working arrangements would have made a return to work more likely, the changes felt most likely to make a difference were: help with childcare, availability of suitable working hours, flexible working hours, homeworking and part-time hours. However over two fifths (43 per cent) said that no changes to work arrangements would have made a difference, suggesting a relatively limited role for flexible working arrangements in promoting work retention for mothers post-birth.

### *Part-time working and employment outcomes*

Part-time work is the most commonly available and most widely used form of flexible working in the UK (Smeaton et al, 2014), and it is clear that part-time work forms an important part of the work-family reconciliation strategies of mothers in the UK (as well as many other countries) (Letablier et al, 2009; OECD, 2007). A cross national study utilising a multi-level analysis of institutional and micro-level variables (Del Boca et al, 2009) showed that the availability of part-time work was positively associated with mothers' workforce participation, and that this was particularly the case for lower educated mothers. However, this relationship only held if the part-time work available was of good quality (defined as where the hourly pay is equal to or greater than full-time pay).

While part-time work is associated with maintaining labour market attachment for women, the evidence presented in Chapter Two showed that part-time work was also associated with poverty (in households with only part-time workers) due to lower earnings. Part-time work is also associated with lower wages, fewer training and development opportunities and less job

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<sup>59</sup> One difficulty in establishing a relationship between the availability of flexibility and employment behaviour is the wide range of practices under this umbrella, which have different implications for work-family reconciliation, as well as the gap between availability in theory and in practice (Smeaton et al 2014).

security (Lyonette and Baldauf, 2010; OECD, 2011). This suggests that either better quality part-time work opportunities are required, in order to ensure that those with caring responsibilities who need to reduce their hours of work do not have to sacrifice earnings and job quality (Women and Work Commission, 2006; Stewart et al, 2012), and/or that pathways from part-time to full-time work need to be facilitated in order for movement to full-time work to be possible once caring responsibilities lessen. Analysis of mothers in poverty in London estimated that around a quarter of those working in jobs below their earnings potential would be lifted out of poverty through a quality part-time job (paid at their earnings potential) (Stewart et al, 2012)<sup>60</sup>. The types of family with the greatest potential to be lifted out of poverty were lone parents who were either workless or earning a low wage.

### *Initiatives to promote family friendly working practices*

Legislation exists in a range of countries to enable parents of young children to alter their working hours to enable work-family reconciliation. In the UK, this comprises the 'right to request' legislation, introduced in 2003, which gave parents of children up to the age of six a right to request flexible working arrangements. In 2009, this was extended to parents of children under 17, and the government has committed to extending this to all workers in 2014. No robust attempt has been made to estimate the impact of this but some descriptive data suggests an increase in more flexible work arrangements in the period since introduction (Smeaton et al, 2014).

In a comparative analysis, Hegewisch (2009) concluded that the UK legislation was well-designed, as it includes all forms of flexibility rather than just reduced hours, but that it lacks 'bite' since it only provides employees with the right to request which employers must seriously consider; UK legislation does not enable courts to challenge the business reasons given by employers. Hegewisch (2009) also noted that in some EU countries (notably Germany and the Netherlands) workers have an entitlement to increasing their hours as well as reducing hours. Moreover, in the Nordic countries and Belgium, parental leave can be taken as a period of reduced hours working, with a guaranteed return to previous working hours.

Other, non-legislative, initiatives to promote family friendly working practices have included promotional campaigns and consultancy initiatives (examples in the UK include the Work-life Balance Campaign, the Work-Life Balance Challenge Fund and the Quality Part-time Work Fund) but the quantitative impact of these has not been assessed (Nelson et al, 2003; Lyonette and Baldauf, 2010). The importance of senior management commitment and buy-in was cited as a key factor in the success of both the WLB Challenge Fund and the Quality

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<sup>60</sup> This was done by determining the total number of mothers in London currently not earning £20,000+ FTE a year but with the *potential* for earning this (including both those out of work and those in work but employed at a salary level below their skill level) and then determining how many of these mothers were currently in poverty and how many would be lifted out of poverty if they were employed in a £20,000+ FTE job. In this case, the analysis was not restricted to those who said that flexibility was a barrier to their employment behaviour, so those out of work/under-employed 'by choice' would also be included here.

Part-Time Work Fund. Hegewisch (2009) draws attention to promising initiatives in other countries (described in Box 3.2, Appendix 1), although there is to date no robust evidence associated with these initiatives.

**Summary: Work-family reconciliation policies**

Work-family reconciliation policies have a potentially important role to play in anti-poverty because they can help to alleviate the labour market disadvantage of those with caring responsibilities. However, there is very limited evidence available about their effects on poverty outcomes. Some evidence is available on employment effects, particularly for care-related leave schemes (e.g. maternity/ paternity/ parental leave). These have been shown to have a positive impact on women's labour market attachment, although the design of schemes is important. If leave is too long, this may depress future wages.

It is fairly well established in the literature that a lack of flexibility at work can result in under-employment of those with caring responsibilities (primarily women). However, evidence linking flexible working practices with positive employment outcomes is limited – aside from the availability of part-time work, which is positively associated with women's labour market participation. Part-time work in the UK tends to be lower quality (in terms of pay and promotion prospects). Increasing the availability of quality part-time work and creating better pathways between part-time and full-time work (e.g. by making temporary part-time work a standard option for parental leave) could be helpful.

## **Chapter 4: Influencing individuals' labour market behaviour: 'Supply-side' initiatives**

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This chapter moves from policies and initiatives focusing directly on employment and jobs, to those that focus primarily on individuals, aiming to influence their behaviour with respect to labour market participation. These initiatives have been at the centre of government policy to tackle poverty (although they have other aims too) in recent decades. Broadly, policy in the UK, and in many other OECD countries, has comprised initiatives to 'pull' more people into the labour market, by 'making work pay' relative to not working. This includes developing a system of in-work benefits that 'top up' low wages. The second element has been to 'push' people into work by a strategy of 'activating' benefit systems. This involves introducing (or strengthening) the work requirements that people have to fulfil as a condition of claiming benefits.

In this chapter, we firstly examine wage supplementation and its impact on poverty. Then we turn to the evidence on activation strategies. We start off looking broadly at reforms to benefit systems and then look in more detail at active labour market programmes for the non-working population. These programmes can be seen as the principal way in which activation has been implemented in many countries, and consist of a varied suite of support and conditions, designed to promote work entry. We finish by looking at more recent initiatives to promote work retention and progression out of low-wage work. This includes extensions to active labour market programmes that provide 'post-employment support', as well as schemes that work more closely with employers to promote work progression.

Appendix 2 provides a table comparing impact estimates and cost-benefit assessments for the various initiatives included in this chapter, where the evidence is available.

### **4.1 Wage supplementation**

Policies aimed at 'making work pay' through directly subsidising the wages of low paid workers have been introduced both in the UK (e.g. tax credits) and in other countries (e.g. the Earned Income Tax Credit (EITC) in the US). Wage supplements can make taking a low paid job financially more worthwhile, encouraging both labour market entry and attachment. They can also enhance the income of those unable to work full time hours due to, for example, caring responsibilities or a health condition or disability. The UK is currently in a transition period between the earlier generation of tax credits and the new Universal Credit (UC), which is being phased in from October 2013, as part of a wide-ranging package of welfare reform (see Box 4.1). In this section, we review the evidence on the poverty and

employment effects of the past generations of tax credits in the UK, and internationally, and then briefly present projections regarding the estimated impact of UC on poverty.<sup>61</sup>

#### **Box 4.1: Wage supplementation policy in the UK**

In the UK, tax credits were a key part of the Labour Government's policies to 'make work pay'. In 1999, the Working Families Tax Credit (WFTC) was introduced to replace the previous Family Credit (FC). WFTC was more generous than its predecessor with a more gradual taper (allowing recipients to keep more of their earnings), and was paid through the Inland Revenue (now HMRC) rather than the Department of Social Security.

In 2003, the WFTC was replaced by the Working Tax Credit (WTC) and the Child Tax Credit (CTC). This reform widened eligibility for tax credits, extending coverage to all of the bottom half of earners (Gregg et al, 2012). The Child Tax Credit was available to all low-income families with children, regardless of work status, designed to directly support families and reduce child poverty. The Working Tax Credit, designed to 'make work pay', was available for low-income adults with children working at least 16 hours per week (with a higher rate for working 30+ hours) and childless adults working at least 30 hours per week. There was also a childcare element of WTC which paid for a percentage of eligible childcare costs, as long as both partners in a couple were in work for more than 16 hours (Millar, 2008).

Changes to the tax credit system, announced by the Coalition Government in 2010, were primarily designed to reduce the entitlement of higher-income claimants. Most importantly, the 'second threshold' for receipt of the family element of CTC (previously at £40,000) was removed, which meant that higher earning families who received only the family element were no longer eligible for support. Other changes included an increase in the taper rate, a reduction in the childcare element of WTC and a new working hours condition for couples with children claiming WTC, all of which reduced entitlements.

The new Universal Credit (UC), which is being phased in between 2013 and 2017, is a single, integrated benefit which will replace all of the current means-tested benefits and tax credits for those of working age. It thus reduces the distinction between in-work and out-of-work support, while (re)targeting support more narrowly on low-income families (Gregg et al, 2012). UC comprises a monthly sum, based on family composition plus allowances for rent and any eligible childcare costs, paid in full to those who are not working and to those earning less than a set level, and reduced by 65p in the pound for post-tax income above that level (Hirsch and Hartfree, 2013). The design of Universal Credit responds to some of the weaknesses of the previous

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<sup>61</sup> Note that Universal Credit is the subject of a separate study (Ghelani and Stidle, 2014), which will review studies of the impact of UC in more detail, and assess policy levers within UC that could enhance its poverty reduction effect.

tax credit system, such as the disincentive to take a 'mini-job' (of less than 16 hours) or to improve earnings, but also reinforces some of them, such as the work disincentives for second earners in couples.

### *The impact of wage supplements on poverty*

There is a substantial amount of evidence which looks at the relationship between wage supplements and poverty reduction in the UK and the US. In the UK, the evidence shows a direct positive impact of wage supplements on poverty reduction. Analysis in Hills (2013), for example, shows that tax credits had a considerable impact on low-earning parents. Following the introduction of the WFTC, the average net income of a couple with two children rose from 80 per cent of the poverty line<sup>62</sup> to 100 per cent of it, and for a lone parent from 120 to 140 per cent of the poverty line.<sup>63</sup> Brewer et al (2010) look at the impact of tax and benefit reforms (of which the introduction and extension of tax credits was a major part) between 1998 and 2010 on child poverty, by simulating what child poverty rates would be in 2010 if the system had not been reformed. This analysis suggests that the number of children in poverty in 2010 was between 1.3 and 1.9 million lower than it would have been if the system had not been reformed, with most of the reduction occurring between 1998 and 2004 (when the major tax credit changes occurred).<sup>64</sup>

The positive impact of wage supplements on poverty levels is also reflected in the international evidence base. For example, Nagle and Johnson (2006) found that the EITC in the US lifted 4.4 million people out of poverty in 2003. Before the federal EITC, a full-time minimum-wage worker with one child in the US had an after-tax income of \$9,881, below the federal poverty line of \$12,830. With EITC, this rose to \$13,362, about \$532 above the poverty line. However, the impact of the EITC on poverty varies across household types and the federal EITC does not bring all families above the poverty line. For example, Tiefenthaler et al's (2008) examination of the impact of federal and New York-state EITC in Madison County found that whilst the poverty rate of their sample overall was reduced from 57 to 49 per cent as a result of the credits, single parents benefited most, reducing their poverty rate by just over 11 percentage points, whereas childless households saw the smallest reductions in poverty, despite having the highest poverty rate in the sample.

Overall, studies find that wage supplements are an effective anti-poverty measure and compare favourably to other policy options, such as increasing minimum wage levels. For example, Knabe and Schoeb (2011) simulate the effects of minimum wages, wage subsidies, and combinations of these, on the German labour market and argue that wage subsidies are the most favourable from a poverty reduction perspective (see also Muller and Steiner, 2008). In large part, the success of wage supplements is attributed to effective targeting

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<sup>62</sup> Defined as 60 per cent of median household income after housing costs

<sup>63</sup> Tax credits are more generous for lone parents than for couples (referred to as 'the couple penalty') because couple families have the same basic credit in WTC as lone parents, whereas their equivalised poverty line is higher (Bradshaw et al, 2010).

<sup>64</sup> Note that this includes all reforms and does not isolate the impact of tax credits.

since they are based on family means testing, so more of their benefit goes to families in poverty. For example, in the US, those with incomes less than \$15,000 received 69 per cent of the benefits of the EITC (Chadwick and Volkert, 2003).

### *The impact of wage supplements on employment*

Wage supplements have also been found to have a positive impact on employment participation. Several studies have identified positive employment effects at the aggregate level, however the size of the effect varies both for different groups and internationally. Grogger's (2003) analysis for the US finds that the EITC explained around a third of the total rise in employment among lone mothers between 1993 and 1999 (a considerably larger effect than welfare reform – considered later in the chapter). EITC expansion also had a positive effect on weeks worked and on earnings for lone parents.

In the UK, the largest employment effects of tax credits have also been for lone parents. Brewer and Browne (2006) review the evidence from five studies and find consensus that the WFTC increased employment amongst lone parents by around 5 percentage points between 1999 and 2002. There was also a positive impact on lone parents' participation in full-time work and an increase in the overall hours worked. This is also reflected in qualitative research conducted with lone mothers before and after a move from out-of-work benefits to paid employment, which provides support for the positive effect of wage supplements, both in terms of entering and sustaining work (Millar, 2008).

The effects of WFTC on couple families with children, however, are less certain. Brewer and Browne (2006) cite impacts ranging from -0.57 to 1.6 percentage points across the various studies and conclude that this represents little or no impact on average. For couple families, impacts tend to be more negative for second earners (i.e. where the partner in a couple is already in work). A systematic review of interventions to reduce in-work poverty (Tripney et al, 2009), for example, found that of five studies of WFTC or WTC in the UK, four showed negative impacts on the employment participation of second earners in couples. This was mostly due to a negative effect on women's rather than men's employment – four of the five studies showed a negative employment impact for mothers, while three of five studies showed a positive impact for fathers' employment. The magnitude of the effects was fairly small, however. For example, one study found a 0.6 percentage point reduction in the proportion of mothers (with an employed partner) in work following the introduction of WFTC.<sup>65</sup>

In Europe, Bargain and Orsini's (2006) micro-simulation of two types of in-work benefits - means-tested on family income and individualised policies - in Finland, France and Germany, found that the employment effects varied considerably by design of the benefit, by family structure and by country. For example, neither type of in-work subsidy had a

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<sup>65</sup> The study which showed a positive impact for both male and female second earners was Francesconi et al (2007) which examined the effects of the introduction of WFTC using BHPS panel data from 1991-2002. The authors of the review state that they can find no reason why the results of this study should be different to the others.

significant impact on overall employment participation in France or Finland, but in Germany there was a strong employment incentive effect on lone mothers. The simulation also suggested negative employment effects for second earners across all three countries when using a household means tested subsidy, while an individual wage subsidy had a positive effect on female employment in all three countries. Both types of policy led to a similar-sized reduction in in-work poverty, for example in France, poverty reduced from 7.03 per cent to 6.38 per cent with a family means tested system and to 6.48 per cent with an individualised system. The reduction was smaller in Germany and Finland, but still positive in both cases.

### *The impact of wage supplements on retention, progression and wage levels*

In terms of the impact of wage supplements on retention and progression, studies in the UK show mixed results. Using Labour Force Survey panel data, Lydon and Walker (2005) compared (hourly) wage growth for individuals both before and after WFTC replaced Family Credit. The study did not produce definitive findings and concluded that 'at worst' average wage growth was similar for recipients and non-recipients of WFTC. The effect on wage growth for mothers with low qualification levels (NVQ level 2 and below), however, was positive. Another study, which compared individuals entering work and claiming WFTC with their counterparts who had claimed FC (Dickens and McKnight, 2008), found that WFTC increased job retention among male recipients (after controlling for differences in age and entry wage), but did not appear to have an effect on earnings, based on an analysis of wage growth a year after work entry.

Another possible effect of tax credits is on wage levels in general. A concern is that tax credits enable people to work for lower wages, which could depress wage growth for either tax credit beneficiaries and/or for low-wage workers more generally. The evidence on the impact of wage supplements on wage levels is somewhat mixed and there is limited evidence in the UK context. Studies in the US found that the expansion of EITC in the mid-1990s depressed wages for both eligible and similar non-eligible workers, resulting in a net transfer to low-wage families of only \$0.28 for each dollar spent (Rothstein, 2008). Gregg et al (2012) argue that this effect is less likely in the UK as tax credits cover a larger proportion of the population (especially after the replacement of WFTC with WTC), meaning that the effects of the wage supplement on labour supply are spread across a broader group of workers. Indeed, Gregg et al's (2012) analysis<sup>66</sup> finds no impact on wage growth among either low earners in general, or low-earning parents, as a result of the introduction of WFTC and WTC. However, studies which have looked at the impact on individual (rather than aggregate) wage growth have shown mixed results. For example, Azmat (2006) found that the introduction of WFTC resulted in a 17 per cent fall in gross weekly wages for married men but a 6 per cent rise for married women, compared to matched non-eligible workers. Overall, the evidence on the effect of tax credits on wages is inconclusive, and as the

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<sup>66</sup> The analysis used a difference in difference analysis, comparing annual wage growth for low-earning parents (who are more likely to receive tax credits) versus non-parents, and for high-earning parents versus non-parents (who are not eligible for tax credits), over the periods before and after the introduction of WFTC and WTC.

system of tax credits is reformed, with the introduction of Universal Credit, further research would be useful to monitor wage trends.

### *Universal Credit*

Projections of the impact of the forthcoming Universal Credit on household income and poverty have been conducted by the Institute for Fiscal Studies (IFS). Analysis by Brewer et al (2011a) estimates that in terms of disposable income, 2.5 million working-age families will gain from the move to Universal Credit, while 1.4 million will lose, and 2.5 million will see no change.<sup>67</sup> Those gaining the most from the reform are couples with children, followed by couples without children, then single adults without children. Lone parents are forecasted to be negatively affected in the long run. Further IFS analysis (Brewer et al, 2011b; Browne and Roantree, 2013) also provides forecasts of the impact of the new system on poverty levels. This analysis indicates that, as a standalone measure, Universal Credit should reduce relative poverty in the UK significantly, by 2.7 percentage points (or 450,000 children and 600,000 working-age adults) by 2016<sup>68</sup>. However, they find that the effect of Universal Credit is outweighed by the effects of other tax and benefit reforms, for example, recent changes which have indexed benefits in line with the consumer prices index (CPI), rather than the retail prices index (RPI).

Brewer et al (2011a) also find that, overall, the new Universal Credit will provide stronger work incentives for more people than the current system, although they estimate that it will weaken incentives to work for (potential) second earners in couples, because they will see UC withdrawn more quickly if they enter work than currently happens with tax credits. This is significant in terms of poverty, since single earner households make up a significant proportion of those in in-work poverty (see chapter 2).

#### **Summary: Wage supplementation**

There is an extensive international evidence base on the impact of wage supplementation on both employment and on poverty. Analysis for the UK (WFTC, WTC), US (EITC), and simulations for European countries, show that wage supplements have a direct positive

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<sup>67</sup> This analysis assumes full take-up and ignores any behavioural impacts

<sup>68</sup> 1.3 percentage points in Northern Ireland

impact on poverty reduction. This is because wage supplements – since they are family or household means tested - are well targeted at families in low income. The poverty effect of tax credits varies for different household types, however, related to how the benefits are designed. In the UK and US, lone parents benefit most from tax credits in terms of poverty reduction.

Wage supplements have also been shown to have a positive employment incentive effect, although the effects vary cross-nationally. In the UK, WFTC increased employment the most for lone parents but has decreased it slightly for second earners in couple families. Evidence is more limited, but there have also been positive retention effects of WFTC in the UK.

The tax credit system in the UK is currently being overhauled with the phased introduction of Universal Credit, a single, integrated benefit payment to those both in and out of work. Recent simulations suggest that the transition from WTC to UC will increase work incentives for more people and will reduce poverty, although the poverty reduction effect may be cancelled out by other changes to benefit uprating. UC is likely to decrease work incentives (further) for second earners.

## **4.2 Activation**

Activation policies encompass a series of reforms to the benefits system, entailing a shift from ‘passive’ policies – which provide income replacement during periods of unemployment or inactivity – to ‘active’ policies which encourage labour market participation. For the unemployed, activation policies have typically included strengthening requirements regarding work availability, active job search, and engagement in employability activities, enforced through sanctions, whilst for those on ‘inactive’ benefits, work availability requirements have been introduced, alongside tighter ‘gatekeeping’ of access to benefits, and the provision of employment services to assist with labour market (re-)entry (Tergeist and Grubb, 2006).

In this section we start by examining evidence which has tried to assess the effects of this wider set of reforms to ‘activate’ benefit systems, before moving on to look at the evidence on which types of Active Labour Market Programmes (ALMPs) are most effective. It should be noted that activation policies have varied cross-nationally and over time, making it difficult to directly compare the outcomes from different studies. Much of the evidence base comes from the US, in the form of a large body of evidence about the effects of ‘welfare reform’, which refers to a major reform to activate lone parent benefits in 1996. In the UK, in contrast, there has been a gradual process of activation, encompassing multiple changes over time for different groups of benefit recipients (see Box 4.3). This makes it difficult to assess the impact of ‘activation’ per se, as it takes a very different form in different national contexts.

*The effects of US welfare reform*

'Welfare reform' in the US refers primarily to the 1996 structural reform of the Aid to Families with Dependent Children (AFDC) programme, a benefit received almost exclusively by lone parents. Hence the US literature on the poverty effects of welfare reform applies primarily to this group. The 1996 reform 'activated' AFDC, which became Temporary Assistance to Needy Families (TANF), by introducing work requirements, backed up by sanctions, and a five-year fixed lifetime limit on welfare use.<sup>69</sup> The evidence base on the effects of this reform is extensive and includes analysis of the impact on welfare use, employment outcomes and, to a lesser extent, on family income and poverty<sup>70</sup>. In general, the evidence shows an overall positive impact on all of these measures, although the evidence is less consistent on income and poverty effects. There is also evidence that the positive effects were not evenly distributed and that some – particularly more disadvantaged lone parents - were poorer following the reforms (Moffitt, 2008).

The impact of welfare reform on **welfare use** has been the aspect most extensively studied, and the evidence overwhelmingly suggests that the reform had a strong impact on this measure. Summarising from four impact studies, Grogger and Karoly (2005) cite the mean impact as a 19 per cent reduction in the size of the welfare caseload as a result of the reform. Earlier reforms prior to 1996<sup>71</sup>, achieved a smaller reduction of about 8 per cent. This is likely to be partly because the earlier reforms were less stringent (e.g. they were less likely to include time limits and strict sanctions) but also because the earlier studies did not measure the impact on entry to welfare. Evidence suggests that about half of the decline in welfare use as a result of the TANF reform stemmed from reductions in entry to welfare, especially reductions in first time entries to welfare, with the other half resulting from increases in exits from welfare (Grogger and Karoly, 2005; Moffitt, 2008).

The impact of the reform was also positive overall on **employment** outcomes. Grogger and Karoly's (2005) synthesis of impact studies suggests that the TANF reform increased employment among single mothers by between 3 and 4 per cent. The reform also had a positive impact on labour supply (i.e. hours worked), of between 4 and 8 per cent, and on earnings, of between 5 and 10 per cent (although the positive earnings effects are found less consistently across studies). The smaller effect of the reform on employment, relative to its effect on caseload size, reflects the fact that not all welfare leavers entered or remained in work. Studies of leavers show that the majority entered work - around three fifths were employed at some point over the year following welfare exit (Acs and Loprest, 2004). Of

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<sup>69</sup> See Grogger and Karoly (2005) and Moffitt (2008) for more detail on the reform process. Other reforms to 'make work pay' were introduced over the same period, including expansion of the EITC, an increase in the value of the minimum wage, and expansions in childcare subsidies and child health insurance programmes.

<sup>70</sup> In the US, poverty is measured on an absolute, rather than a relative, basis. For 2013, the federal poverty guideline is an annual income of \$23,550 for a family of four (<http://aspe.hhs.gov/poverty/13poverty.cfm>). The level is lower (in relation to median earnings) than the absolute poverty measure used in Britain.

<sup>71</sup> In the early 1990s, US states began making changes to their welfare programmes under 'waivers' from the federal government. These included different combinations of strengthened work requirements, financial incentives and time limits on welfare receipt. These 'waiver programmes' were extensively evaluated using random assignment methods.

those that did not enter work, around a third were reliant on a partner's income or on other (e.g. disability) benefits, however the remainder (19 per cent of all leavers) were not working and not claiming TANF or other benefits<sup>72</sup>. While some were between jobs, over half had never worked since leaving TANF (Acs and Loprest, 2004). The size of this group of 'disconnected' single mothers rose substantially between the mid-1990s and the mid-2000s (Blank, 2007b; Parrott and Sherman, 2009). Thus, one of the effects of the reform has been a substantial reduction in TANF take-up among the eligible population – participation rates among those eligible dropped from 84 per cent in 1995 to 42 per cent in 2004 (Parrott and Sherman, 2009; Moffitt, 2008). Parrott and Sherman (2009) estimate that just over half the decline in welfare use between 1996 and 2003 was due to a decline in take-up rather than a reduction in the size of the eligible population. Declining take-up is likely to be due to a combination of recipients being 'sanctioned off' welfare<sup>73</sup>, eligible families being discouraged from applying because of the stricter requirements, and applicants failing to meet the new eligibility criteria (Moffitt, 2008).

The impact of the reform on **income** and **poverty** has been less extensively evaluated and the results are therefore less robust. Grogger and Karoly (2005) report three studies looking at the impact of either TANF or earlier waiver reforms on family income, which suggest that family income increased by between 3 and 6 per cent as a result of the reforms. Poverty was reduced by 8 per cent (although this was based on one study only and so is less reliable). Again, evidence suggests that any impact on poverty was stronger among those deterred from entering, than among those leaving, welfare (Moffitt, 2008). Moreover, the poorest lone mothers (those in the bottom quintile of the income distribution) saw a drop in income following welfare reform (Bavier, 2001). The relatively modest impact of welfare reform on poverty is explained partly by the rise in the non-working, non-claiming population, as described above (who have very high poverty rates), but also by the small earnings gains among those who entered employment, which were not always enough to offset the amount of income lost from benefits. Working patterns among those leaving welfare showed considerable instability; for example, seven in ten leavers were in work at some point over the first year, but only four out of ten worked in every quarter, with earnings much higher among those who worked consistently (Acs and Loprest, 2004).

Leaver studies show that 6 to 18 months after welfare exit, between 10 and 20 per cent of welfare leavers had household incomes that enabled them to be 'self-sufficient'<sup>74</sup>, while around half of all leavers remained below the poverty line (Acs and Loprest, 2004). How much of an improvement this represents over being on welfare is difficult to assess, since

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<sup>72</sup> Based on a national survey in 1999; proportions are of those leaving welfare in the previous two years.

<sup>73</sup> Sanctions became more stringent following the 1996 reform. 'Partial sanctions' decreased welfare assistance by a fixed proportion or by removing the adult component of a family benefit, however 'full family sanctions' removed all entitlement to welfare, either temporarily or permanently, in some cases also reducing future eligibility. A review of the evidence on sanctions (Griggs and Evans, 2010) showed that full-family sanctions had a high impact on caseload reduction.

<sup>74</sup> This is defined as above 185 per cent of the federal poverty line, which is around the cut off point for EITC eligibility and most other in-work benefits.

studies report different results. Based on a national panel study, Bavier (2001) reports that less than half (44 per cent) of welfare leavers saw an increase in household income over the first year on leaving welfare. Increased earnings disregards in TANF over this period however meant that the share of welfare recipients with earnings was higher than previously, which would reduce the income gains to leaving welfare. Separating out mothers who were 'welfare reliant', 'wage reliant' and 'combiners' three years after welfare exit<sup>75</sup>, another study found that those consistently in work had double the household income of those consistently on welfare and much lower poverty rates (49 per cent compared to 88 per cent) (Danziger et al, 2009). This was a study in one state only though, and other studies elsewhere have found the income gains to be much lower (Moffitt and Winder, 2009). Summarising the evidence, Moffitt (2008) suggests that welfare leavers experienced, on average, a rise in family income of around 10 per cent on leaving welfare.<sup>76</sup> More generally, studies have highlighted the critical role of other family members' income in lifting working welfare leavers out of poverty<sup>77</sup> (Moffitt and Winder, 2009; Moffitt, 2008).

Alternative measures of poverty, such as hardship studies, show that about a quarter or more of all welfare leavers experienced some food and housing related hardships, but findings differ as to whether this increased or decreased following welfare exit (Acs and Loprest, 2004). One consistent finding is that difficulties affording or accessing medical care tended to increase after welfare exit, because Medicaid coverage dropped but only around a quarter of working leavers had employer-sponsored health insurance (Acs and Loprest, 2004). When asked directly about changes in wellbeing, the majority of welfare leavers surveyed said that their wellbeing had improved since leaving welfare and only around a fifth report that it had declined (Acs and Loprest, 2004). Finally, some studies looked at the impact of welfare reform on expenditure patterns<sup>78</sup>. The most extensive analysis of this type (Meyer and Sullivan, 2006) showed that average total expenditure rose, albeit only slightly, for most single mothers following welfare reform, leading the authors to conclude that the material wellbeing of lone mother families improved modestly across the board (i.e. at all levels of income) between 1993 and 2003. However, the increased expenditure was mostly focused on work-related costs, including transport, housing and childcare. Another study (Kaushal et al, 2007) looking at expenditure just among low-educated lone mothers found

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<sup>75</sup> 'Wage-reliant' mothers reported earnings and no receipt of welfare for the majority of the year (at least 7 out of 12 months); 'welfare-reliant' mothers received welfare and no earnings for the majority of the year; and 'combiners' were earning and in receipt of welfare for most of the year. 'Mixers' switched between categories across the year with no dominant state.

<sup>76</sup> This is the combined amount for all those leaving welfare, regardless of whether or not they entered work.

<sup>77</sup> No studies were found that broke this down by type of household member.

<sup>78</sup> Patterns of expenditure are sometimes preferred to income levels as a measure of wellbeing, because they can better capture the resources available to a family. For example, families may have savings to draw on during periods of low income, they may be able to borrow money from family and friends, or they may be able to go into debt to pay unexpected costs (Grogger and Karoly, 2005). Moreover, income measures cannot account for the increased work-related expenditure that may result from entering work (Blank, 2007a).

that overall expenditure stayed stable following the reforms, but saw a shift towards employment-focused rather than other types of spending.

### *The effects of different elements of activation*

In addition to studies examining the overall effects of US welfare reform, there are some studies which attempt to look at the effect of its different components, such as sanctions and welfare time limits, which is synthesised by Grogger and Karoly (2005).

Studies of the effects of **sanctions** show a strong and consistent pattern of reduced welfare use as a result of sanctions (Grogger and Karoly, 2005). These effects were stronger where 'full-family' rather than 'partial' sanctions were in place. There are fewer studies examining the effects of sanctions on employment outcomes and their results are mixed. Two studies on the direct impact of receiving a sanction found lower employment and earnings among sanctioned claimants, especially in the case of full-family sanctions, and consequently higher rates of hardship among those sanctioned (Griggs and Evans, 2010). However, a third study – using a different methodology<sup>79</sup> - found that the effects were positive in terms of employment and earnings outcomes over a five-year period, but that the impact on household income was zero, because the rise in earnings was offset by the reduction in welfare payments (Griggs and Evans, 2010). These mixed results are likely due to differences in sanctioning practices across studies, and the difficulty of isolating the effect of sanctions net of other programme elements.

The main effect of **welfare time limits**, again, is a strong and consistent reduction in welfare use (Grogger and Karoly, 2005). This impact is partly a 'behavioural' effect – the result of recipients reducing welfare use in anticipation of time limits, an effect which is stronger for those with younger children<sup>80</sup> - as well as a 'mechanical' effect of caseloads reducing as recipients reach the limits of their eligibility. The effects on employment and income are less positive. Studies show a small behavioural impact, in terms of an increase in employment rates, in anticipation of time limits, but no significant effect on hours worked, earnings or income. The effect of reaching time limits had no impact on employment rates and thus a negative impact on income, given the reduction in welfare receipt (Grogger and Karoly, 2005).

### *The role of the economy*

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<sup>79</sup> This study was based on data from the National Evaluation of Welfare to Work Strategies (NEWWS), a series of tests of welfare reform that began in 1991. Sanctions in these programmes were 'partial', entailing the reduction of the adult component of the grant, rather than 'full-family' sanctions. The study examined the effect of sanctions by comparing the overall programme impact on a sub-group of people at high risk of being sanctioned, compared to those at lower risk. The results showed employment impacts for both groups, but they were much stronger and more persistent for the at-high-risk-of-sanctions group, leading to the study's conclusion that the sanctions threat drove the impact (Peck, 2007). This finding is in line with findings from European studies on the effects of sanctions (discussed later).

<sup>80</sup> Presumably because they have a longer period over which to use their 'fixed stock' of welfare entitlement and therefore more incentive to 'preserve' it (Grogger, 2003)

Another complicating factor in assessing the effect of welfare reform is the role of macroeconomic factors, such as the wider economy and employment demand, in influencing outcomes. Welfare reform was implemented during a period of economic growth and studies suggest that the improving economy was responsible for around a quarter of the substantial decline in welfare caseloads and the increase in employment rates of single mothers between 1993 and 1999 (Grogger and Karoly, 2005). Studies which try to estimate the effect of changes in the economy on the impact of welfare reform have shown mixed results: of two US studies, one showed higher unemployment levels to weaken the effect of welfare-to-work programmes, while another showed no effect (Grogger and Karoly, 2005). More recent research suggests that the effect of the economy may differ for different components of welfare reform (see Box 4.2 for detail), although this research suggests that a favourable economic situation generally improves impact (Herbst, 2008).

**Box 4.2: Effect of economic conditions on different elements of activation**

- Policy ‘carrots’, like wage supplements, child care subsidies, disregarded earnings and health insurance schemes have a stronger impact on ‘low intensity’ work (i.e. not full-time, year-round work) and when the economy is strong, although EITC has positive (low intensity) employment impacts in most economic environments.
- Soft policy ‘sticks’, like mandatory job search and cash diversion grants require strong economic conditions to produce any positive employment impacts.
- Strong policy ‘sticks’ like work requirements and benefit time limits have a greater impact on ‘high intensity’ work (i.e. full-time, year-round work) and larger effects in more favourable economic conditions.

Source: Herbst (2008)

Overall, then, the US evidence on the TANF reform of 1996 shows broadly positive impacts on reducing welfare use and increasing employment, but the effects on poverty are less convincing. Poverty effects are concentrated among those deterred from entering welfare, who are likely to be less disadvantaged than welfare leavers. The impact of leaving welfare on family incomes is ambiguous. Household incomes have improved only modestly and rely on the earnings of more than one household member to offset welfare losses. Moreover, employment experiences are characterised in the main by instability and a lack of wage progression (Acs and Loprest, 2004; Johnson and Corcoran, 2004), thus increasing the risk of repeat poverty episodes in the longer term. In addition, a major part of the ‘success’ of the reform in terms of reducing welfare caseloads stems from a decline in uptake among eligible people, rather than a reduction in the size of the population eligible. This is reflected in an increase in the size of the ‘disconnected’ population, receiving neither welfare payments nor earnings from work, with inevitable negative consequences for family income and poverty.

*The effects of ‘activation’ in the UK*

In the decades following the TANF reform in the US, the UK has also implemented a series of activation reforms, introducing greater conditionality to the receipt of various out-of-work benefits (see Box 4.3 for details). This has been an uneven process, proceeding at a different pace for different claimant groups. Below we present the evidence on three areas: firstly the series of ALMPs introduced under the Labour Government in the late 1990s and early 2000s – the New Deal programmes; secondly, the greater conditionality introduced more recently for ‘inactive’ benefit claimants, e.g. lone parents and those with health conditions; and thirdly the evidence on sanctions, which have been progressively strengthened over this whole period.

#### **Box 4.3: Activation of benefits in the UK**

‘Mutual obligation requirements’ have been successively brought into social security benefits in the UK since the 1990s. These applied initially to people claiming unemployment benefits and subsequently were expanded to those on ‘inactive’ benefits.

##### Unemployment benefits

The introduction of Jobseekers’ Allowance in 1996 required claimants to prove that they were actively seeking work in order to claim unemployment benefit, and a progressively stricter sanctions regime has been introduced since then to encourage compliance with rules. Most recently (since October 2012), the Government has introduced a system of fixed period sanctions, which impose cumulative penalties for successive infringements of the rules. From 1998, the Government introduced a series of active labour market programmes – the New Deal schemes, comprising a mix of job search support services – participation in which was compulsory after a certain period on benefits, with sanctions for non-compliance. More recently, programmes for different groups of claimants have been combined (in the Flexible New Deal, and subsequently the Work Programme (WP)), which is intended to provide more tailored and personalised support, as well as progressively greater conditionality as a claim proceeds. Many services have been transferred out of the public employment service and delivered by the private and third sectors, through a process of competitive tendering, in an attempt to stimulate innovation in service delivery. Most recently, emphasis has been placed on longer-term job outcome targets for providers to attempt to address the problem of ‘work-benefit cycling’. (For more information on reforms to the delivery of public employment services see the review by Finn (2014))

##### ‘Inactive benefits’

###### *Lone parents*

Compared to the US welfare reform, work requirements for lone parents were brought in only gradually in the UK. In 1998, the New Deal for Lone Parents (NDLP) introduced targeted back-to-work support on a voluntary basis, while in 2001

mandatory 'work-focused interviews' (WFIs) at the public employment service were phased in, intending to promote the benefits of work and encourage participation in NDLP. It was only in 2008, however, that 'Lone Parent Obligations' (LPO) were introduced, requiring lone parents with successively younger children to seek work as a condition of receiving benefit (bringing the UK into line with the rest of the OECD (OECD, 2011)). From May 2012, lone parents with a youngest child aged five or older were no longer entitled to receive Income Support (with no work requirements) solely on the basis of being a lone parent, and must instead claim JSA which requires proof of active work search, backed up by sanctions.

#### *People claiming ill-health and disability benefits*

In order to reduce the number of people claiming sickness benefits, which has risen rapidly over the last 30 years, the government has made changes to tighten up eligibility criteria and to introduce activation (Barnes and Sissons, 2013). The Pathways to Work programme was introduced from 2003, initially for new claimants only, entailing mandatory WFIs, support to manage health conditions and an in-work supplement for the first year in work. The Pathways to Work programme was subsumed into the more generic Work Programme in 2011.

A major change took place in October 2008, when Employment and Support Allowance (ESA) replaced Incapacity Benefit. This affected new claimants initially, but since April 2011 has been gradually rolled out to existing claimants. The new regime involves a more stringent Work Capability Assessment (WCA) to test eligibility for the benefit. There are three possible outcomes:

- ◆ Those found 'Fit for Work' are no longer eligible for ESA and must instead claim JSA, with active work search requirements backed up by sanctions.
- ◆ Those found to have limited capability for work are assigned to a Work-Related Activity Group and required to prepare for work by attending mandatory WFIs.
- ◆ Those found to have limited capability for work-related activity (i.e. those with the most severe work-limiting health problems) are placed in the Support Group and not subject to activation requirements.

#### In-work benefits

One feature of the current introduction of Universal Credit, which combines out of work and in-work benefits into a single payment, is that conditionality is being introduced for *in-work claimants* in Britain for the first time. The intention is that this will apply to claimants earning less than the equivalent of a 35-hour a week job at the national minimum wage (with a lower threshold for those with caring responsibilities or work-limiting health problems). Claimants earning below this threshold would be expected to undertake steps to earn more, either by increasing hours or pay in their current job or by finding new or additional employment. This requirement would

apply to both partners in a single-earner couple, if the worker earned below the threshold amount. This has particular relevance for poverty reduction, since it brings within the remit of 'activation' low-income working families. The Government acknowledges that there is limited evidence currently available regarding what works best in supporting low-income working families to improve their incomes and is therefore currently trialling a range of ideas (DWP, 2013b).

### *Welfare reform under New Labour: The New Deals*

Several assessments have been made of the package of activation measures and other reforms to 'make work pay' implemented under New Labour (see Hills and Stewart, 2005; Gregg et al, 2006; Hills et al, 2009; Waldfogel, 2010). These conclude that employment rates for all of the groups targeted by active labour market programmes improved significantly over the early period of New Labour's term (1997-2004), although the extent to which this was directly attributable to activation measures has not been reliably assessed. Employment rates were rising for most groups prior to the introduction of the programmes and a strong economy over this period clearly played a key role (as in the US) (McKnight, 2005). Evaluations of the individual New Deal programmes were largely favourable, but employment impacts often modest (see section 4.3 and Appendix 2 for more detail). Moreover, for both young people and for the long-term unemployed, unemployment rates began to rise after 2004/5, suggesting that the effectiveness of these programmes was tailing off (McKnight, 2009).

The largest reduction in worklessness over this period was seen among families with children, and the largest rise in employment rates among lone parents (McKnight, 2005). This is likely to be attributable at least partly to the effect of New Deal support, plus the introduction of more generous in-work benefits (tax credits) (Sefton and Sutherland, 2005). Reviewing the evidence, Gregg et al (2006) conclude that policy reform between 1999 and 2002 was responsible for five percentage points of the 14 percentage point rise in lone parent employment that occurred between 1992 and 2005, thus accounting for around a third of the total rise. However, it appears that tax credits were responsible for most of this policy impact, since analysis of the effect of tax credits (WFTC) alone suggested that this accounted for just under four percentage points of the rise. The evaluation of the NDLP programme showed that it was very effective for those lone parents who took part, but since only a very small proportion of those eligible did so, the impact on lone parent employment rates as a whole was low (Cebulla et al, 2008), estimated by Gregg et al (2006) to be one percentage point at most.<sup>81</sup>

Comparing the effects on child poverty in the UK under New Labour to those in the US following welfare reform, Waldfogel (2010) demonstrates that the UK was comparatively more successful at bringing down the child poverty rate. In the UK, this fell from 27 per cent

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<sup>81</sup> Gregg et al (2006) also note that the combined package of tax credits and activation is likely to be more effective than either undertaken separately, so attributing differential effects to elements of the reform package may be missing important interactions between the elements.

in 1998-99 to 23 per cent in 2007-8 using a relative measure, and from 26 per cent to 13 per cent using an absolute measure<sup>82</sup>, a reduction of 50 per cent, compared to a reduction of a third in the US between 1992 and 2001. Looking at other measures of poverty, material deprivation in the UK also fell over this period (from 21 to 17 per cent), while expenditure rose among low-income families with young children (most affected by the reforms) and, compared to the US, more of this rise was dedicated to spending related to children. Waldfogel argues that this was because in the UK, the activation reforms were introduced alongside a series of additional measures to make work pay (e.g. tax credits which reached a much larger proportion of the population than in the US) and to increase financial support to families with children, including those out of work (through CTC), as part of a package of measures aimed at reducing child poverty. Thus the UK reforms – at least during this period - were broader and less employment-focused than those in the US, and did more to protect the incomes of those most disadvantaged (Waldfogel, 2010).

#### *Activation of 'inactive' benefits: lone parents and people with health conditions*

Recent evaluation evidence from the reform of lone parent benefits and Incapacity Benefits can shed some light on the effects of the strengthened conditionality for groups of claimants on previous 'inactive' benefits, although it should be noted that the poverty outcomes of these changes have not so far been systematically assessed. The evaluation evidence also predates the more recent changes in the sanctions regime for JSA claimants (discussed in the next section), which have further strengthened conditionality for those no longer eligible for inactive benefits.

#### *Lone parent benefit reforms*

A recent evaluation of the Lone Parent Obligations (LPO) benefit reform, introduced from 2008, which removed entitlement to a 'passive' benefit (Income Support) solely on the basis of being a lone parent, thus requiring lone parents to find work or switch to JSA (an 'active' benefit)<sup>83</sup>, showed that this reform increased the share of lone parents who were in work 12 months after their entitlement ended by between eight and 10 percentage points (Avram et al, 2013). This is a much greater impact than that achieved both by the previous WFI regime and by the voluntary NDLP scheme, thus suggesting that a mandatory scheme with greater conditionality (i.e. active work search) has a larger impact on employment rates.

The study did not look at the impact of LPO on earnings or income, but descriptive data from a survey of lone parents subject to LPO (Coleman and Riley, 2012) found that almost half of respondents had worked at some point since the end of their IS claim. Most of those in work at the time of the Wave 2 interview (approximately one year after entitlement ended) had been in their job for at least six months, and almost half had been in work for a year or more. Nonetheless, incomes tended to be low. While lone parents in work had higher average

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<sup>82</sup> Defined as below 60 per cent of median income fixed at 1998/99 levels.

<sup>83</sup> unless they had a health condition, or other circumstances, which entitled them to ESA, Carers' Allowance or IS.

incomes than those out of work and were less likely to experience a range of financial problems, still two in five households in work were in material deprivation and with a low income at Wave 2<sup>84</sup>.

The LPO reform was also estimated to have increased the proportion of lone parents out of work and *not* claiming benefits by 2-3 percentage points (Avram et al, 2013). Twelve months after the end of their entitlement to IS, 15 per cent of lone parents were in this position. The survey (Coleman and Riley, 2012) found that five per cent of lone parents had neither worked nor claimed a benefit at all in the year since they left IS, around half of whom had re-partnered. Levels of deprivation were not considered for this group separately, but the report noted that the income of these respondents was similar to others in the survey, often because of the presence of a partner or someone else in the household who was in work. Qualitative work also attempted to follow up lone parents potentially 'disconnected' from benefits as a result of the reform (Casebourne et al, 2010) but concluded that there was little evidence of this.<sup>85</sup>

### *Incapacity Benefit reforms*

The evidence from the reform of incapacity benefits is more uncertain, given that the reforms are still unfolding (see Box 4.3). Assessments of the success of the Pathways to Work programme were somewhat inconclusive. The evaluation of the early pilot areas found a small but significant impact on rates of leaving benefit (and to a lesser extent on returns to work), however this was not sustained in the later expansion areas or at national roll-out (Bewley et al, 2009; Knight, 2013). A National Audit Office (2010) review of the programme found that most of the impact derived from the introduction of greater conditionality rather than from the support provided. Evaluation findings showed that Pathways reduced the length of claims by around 5 per cent, and around 80 per cent of this reduction was as a result of Pathways areas bringing forward the medical assessment for the benefit, thus resulting in claimants leaving benefits at an earlier stage.

The introduction of the Work Capability Assessment (WCA) under ESA has subsequently strengthened this conditionality further. Recent data on the outcomes of the WCA show that around two fifths (39 per cent) of new claims and 16 per cent of existing IB claims fail the new assessment and are found Fit for Work (DWP, 2013c)<sup>86</sup>. The employment (and

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<sup>84</sup> This uses the same definition as in HBAI, i.e. a deprivation score of greater than 22 and a household income less than 70 per cent of the median household income before housing costs. Poverty rates are not provided in the report.

<sup>85</sup> The study suggested that of those lone parents reported as going to an 'other' or 'unknown' destination in the administrative data, some had re-partnered or claimed another benefit. Of those who were neither working nor claiming, this was either because they were ineligible due to other income sources, they were in a transition period between benefits, or had chosen not to make a claim. Some evidence of hardship was found for the latter two categories but the numbers are unknown and thought to be very small.

<sup>86</sup> Failed claims were much higher when ESA was first introduced – at around 65 per cent in 2008-9. The reduction in numbers may be due to changes to the WCA following internal and independent reviews (see DWP, 2013c).

income) outcomes for this group are unclear. One survey that followed up claimants at approximately 9 months and 15 months after their initial claim (Barnes et al, 2011a), found that of those whose claim had ended<sup>87</sup>, around a quarter (26 per cent) were in work at wave 1, and around a third (35 per cent) at wave 2. However those who had closed their claim themselves were much more likely to be in work than those who had failed the WCA and been found Fit for Work. Statistics from the Work Programme (which replaced Pathways to Work in 2011) show that job outcome rates for JSA claimants who had formerly claimed Incapacity Benefit were at 19 per cent after 2 years, which was only slightly lower than the rate for other JSA customers aged over 25, and much higher than for ESA customers, although payments for sustained work were low<sup>88</sup> (and below DWP expectations) (CESI, 2013).

Those neither claiming nor working reported that they had either retired, were sick or unemployed without receiving benefit, were relying on savings or a partner's income, or had moved into education. Follow-up qualitative research (Barnes et al, 2011b) found that many of these people with ended claims were under financial pressure, although the research was unable to quantify the extent of hardship experienced.

#### *Evidence on benefit sanctions*

The benefit sanctions regime in the UK has been progressively strengthened over time. Data up to 2012 show a large increase in the rate of sanctioning for JSA claimants since 2010, the result of stricter interpretation of the existing rules (MacInnes et al, 2013). Sanctions disproportionately affect younger JSA claimants. From 2012, a new system of fixed period penalties was also introduced which is likely to increase the rate of sanctioning further. There is no evidence yet on the employment or poverty effects of this, but there is a wider body of evidence on sanctions in European benefit regimes which was reviewed by Griggs and Evans (2010) and is summarised below.

The review found consistent evidence that benefit sanctions had a positive impact on employment outcomes. This included both studies which looked at the effects of a sanction being imposed and those which looked at the impact of the threat of sanctions within a benefits regime. However, most of these studies only considered short term employment outcomes, and the one study to examine longer-term outcomes (over two years) found that the threat of sanctions reduced earnings and the imposition of sanctions reduced both earnings and employment duration. Thus while the evidence is limited, it is possible that increased employment outcomes as a result of sanctioning lead to poorer job matches and a longer-term negative effect.

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<sup>87</sup> This includes those found Fit for Work and those whose claim was closed by Jobcentre Plus or withdrawn before a decision on it was made.

<sup>88</sup> For this customer group, sustained work payments are made for every 4 weeks spent in work after an initial 3 month period.

None of the studies in the Griggs and Evans review considered the income or poverty effects of sanctions directly. However, a survey of JSA claimants in the UK in 2005 (Peters and Joyce, 2006) found that over two thirds (68 per cent) of claimants who had been sanctioned said that they had experienced financial hardship as a result of the sanction. Thus a short-term result of the increased frequency of sanctioning in the UK system is likely to be an increase in financial hardship, although in the medium term this may be counter-balanced by increased entry to employment.

#### **Summary: Activation**

There is an extensive evidence base on the effects of welfare reform in the US, which refers to a major reform to the benefit claimed by lone parent families in 1996, introducing work requirements and time limits on benefit receipt. Overall, this evidence shows broadly positive impacts on reducing welfare use and increasing employment, but the effects on poverty are less convincing. Welfare reform reduced poverty more through prevention - by preventing some people from moving onto welfare, than through exit – by people on welfare moving into work. Leaving welfare and entering work did not always result in poverty exit: overall household incomes improved only modestly and the earnings of more than one household member were needed to exit poverty. In addition, welfare reform resulted in a decline in welfare take-up among those eligible, resulting in a sizeable ‘disconnected’ population with a high poverty risk.

The evidence base is not as extensive in the UK, given that reforms have taken place more recently and more incrementally. Assessments of the New Labour package of reforms show that they played a substantial role in reducing child poverty, but tax and benefit changes, as well as activation measures, played a key role in this. Recent changes in conditionality for lone parents have increased employment rates substantially, relative to previous ‘weaker’ conditionality requirements, without an increase in the ‘disconnected’ population seen in the US, although a positive impact on income (and poverty) for those in work is not yet proven. The evidence on Incapacity Benefit reforms also shows a reduction in benefit receipt as a result of greater conditionality, although employment and poverty outcomes have not yet been systematically assessed. There is little evidence as yet to assess the effects of the progressively more stringent JSA sanctions regime. There is some evidence to suggest short-term financial hardship as a direct result of experiencing a sanction, although there is also a body of European evidence which shows that both threatened and imposed sanctions increase employment outcomes. However one study that looks at longer-term outcomes raises caution, suggesting negative earnings effects over the longer-term, possibly as a result of a poorer job match.

### **4.3 Effectiveness of different types of Active Labour Market Programmes (ALMPs)**

There is a relatively well-established and robust international evidence base examining the effectiveness of different types of active labour market programmes. Some of this evidence is from European countries and primarily applies to recipients of unemployment benefits,

while some is from the US and is primarily focused on lone parents subject to welfare reform. The outcomes measured in this literature, however, are primarily employment effects and there is limited evidence on poverty outcomes (although some US studies consider income effects). This section presents the results from this evidence base, focusing on the content of active labour market programmes, in terms of the types of services delivered, rather than the mode of delivery, which is covered by a separate review (see Finn, 2014).

### Effects by programme type

There have been several reviews examining the effectiveness of different types of active labour market programmes (e.g. Martin, 1998; Greenberg et al, 2005; Kluve, 2005; De Koning, 2007; Card et al, 2009), which are summarised in Finn (2012). Two meta-analyses of ALMPs by Kluve (2005) and Card et al (2009), based on European and international evaluations, respectively, compared impacts across four programme types:

- Job search services and sanctions (e.g. job search assistance, counselling and monitoring);
- Public training programmes;
- Private sector incentive programmes (e.g. wage subsidies and business start-up grants); and
- Public sector job creation schemes

Both of the analyses showed programme type to have an important effect on outcomes, and both report very similar findings. Kluve (2005), analysing results from 137 European programme evaluations, reports that training programmes have a modest likelihood of recording a positive impact on employment outcomes (around half of the included evaluations showed a positive impact). Relative to training programmes, 'services and sanctions' approaches and private sector incentive schemes are 40 to 50 per cent more likely to have a positive impact, whilst public sector employment schemes are 30 to 40 per cent less likely to have a positive impact. Card et al's (2009) results are similar, but also compare short-term and medium-term effects (one year and two years post-programme completion, respectively). They find that job search assistance programmes performed much better than other types of programmes in the short-term, while in the medium-term, both job search and training programmes performed well, and subsidised private sector employment schemes performed modestly well. Subsidised public sector job creation schemes performed least well in both the short- and medium-term.

Descriptive reviews of the evidence base present a similar picture (see summary in Finn, 2012). The main findings are presented below.

### *Job services and sanctions*

In general, ALMPs based on job search services and sanctions show positive impacts on employment. Some studies show that these programmes are more effective for those with better labour market prospects but this is not consistently found (Kluve, 2005). Programmes

with a comprehensive mix of support and sanctions appear to perform particularly well. A US analysis of three welfare to work evaluations, which sought to link programme impacts to implementation practices (Greenberg et al, 2005) found that the extent of job search activity per se had no impact on client outcomes, but that the approach taken by staff was important. The extent to which staff emphasised entering work quickly had by far the largest and most robust positive impact on outcomes (measured in terms of earnings over a two-year period). The emphasis staff placed on personalisation, i.e. understanding client needs and tailoring services accordingly, was the second most important factor determining positive outcomes.

### *Private sector incentive programmes*

The findings on private sector incentive programmes (predominantly wage subsidies) are also generally positive in terms of employment outcomes, but many evaluations have not taken account of displacement and substitution effects, or deadweight loss<sup>89</sup>, which can be high (Kluve, 2005). The wage subsidy under the New Deal for Young People in the UK, for example, was shown to be very effective in raising employment outcomes, but also had a high deadweight loss - it was estimated that 69 per cent of the jobs taken up would have existed in the absence of the programme (Hales et al, 2000). Evaluation of the wage subsidy under the current Youth Contract<sup>90</sup> suggested similarly that 80 per cent of the subsidised jobs would have existed without the programme (although just over half of employers said their behaviour had been influenced in some way by the incentive, e.g. they had retained the worker or had offered additional hours). Deadweight can be reduced with careful targeting of programmes on the most disadvantaged job seekers and controls on employer behaviour, but this can also inhibit take-up (Martin, 1998). In general, wage subsidy schemes in the UK have tended to have very low take-up (Bivand et al, 2011).

Evaluations of business start-up grants, as part of ALMPs, are fewer in number and the evidence is mixed. Kluve (2005) reports some positive results from start-up grants in Europe, but such programmes have limited scope because of low take-up. High deadweight levels (of 60-70 per cent) have also been reported (Perry, 2006). Some studies in the US show subsidies for self-employment start-up to be effective, but only for adult men with higher education levels, while recent studies in Germany have reported positive results for long-term (5 year) income and employment outcomes, with the highest impact for the most disadvantaged (Caliendo and Kunn, 2011). A study of the Prince's Trust start-up scheme in the UK, however, showed it to have no significant impact on young people's future employment outcomes (Meager et al, 2003).

### *Public sector job creation schemes*

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<sup>89</sup> Displacement occurs when a programme crowds out regular employment, eg subsidised firms increase output at the expense of non-subsidised firms; substitution is displacement within a firm, where subsidised workers are hired at the expense of non-subsidised workers; and deadweight loss is where the new jobs created would have been created anyway with other funds.

<sup>90</sup> Employers can receive payments of up to £2,275 when they recruit an 18–24-year-old who has been claiming JSA for six months or more.

The findings on public sector job creation schemes are more negative than for other types of programmes. The evidence from meta-analyses (Kluve, 2005; Card et al, 2009) shows that the impact of these schemes on employment outcomes is usually either negative or insignificant. This is primarily because of their lock-in effects – i.e. they extend the duration of time before participants start to look for work, where equivalent non-participants may be job searching. Some studies show a positive effect for some groups, but there is no consistent evidence on who benefits from such programmes. In contrast to this evidence, one recent scheme in the UK, the Future Jobs Fund, which created subsidised jobs in the public and voluntary sectors, was found to have a large positive impact on the employment outcomes of young people (see Chapter 3).

While the evidence from meta-analyses has largely been negative, there is some evidence that such schemes can play an important role for those who are more difficult to help (Brodsky, 2000). Marshall and Macfarlane (2000) review the evidence on intermediate labour markets, arguing that while robust impact studies are lacking, ILM outcomes compare favourably with outcomes from comparable programmes. For example, based on a comparison with Training for Work (TfW) and Work Based Learning for Adults (WBLA), they found that ILM programmes delivered better job outcome rates, more sustainable employment, and higher long term earnings<sup>91</sup>. Nevertheless, because ILMs are typically small scale interventions, positive impacts are likely to be realised on a relatively small scale. For example, based on an analysis of Incapacity Benefit claims in Glasgow, analysis by Webster et al (2010) suggested that the small scale nature of ILM interventions (e.g. Glasgow Works) had little impact on overall levels of benefit receipt.

### *Training programmes*

The findings on training programmes are quite mixed, with different studies showing either negative, insignificant or modestly positive impacts, depending on the programme concerned. Some studies suggest that the effects are stronger for adult women than for men and particularly ineffective for young people; others show that effects are stronger for those with better labour market prospects. The evidence is insufficiently consistent to draw conclusions about which groups are best helped by training interventions. The evidence does, though, suggest that the impacts depend upon the type of training and how it is delivered. Reviews have concluded that training programmes work best when they are small-scale; targeted (e.g. at particular disadvantaged groups or particular occupations); where they are combined with interventions to address other work barriers; and where they take place in a ‘real world’ environment, e.g. training in a workplace, in combination with a job placement or work trial, rather than in a classroom or vocational college (Martin, 1998; Meager, 2008). Several studies have also found evidence that training has more positive

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<sup>91</sup> For example, 57 per cent of participants recorded job outcomes for surveyed ILMs compared to 37 per cent for long term unemployed participants of Training for Work in Scotland in 1998; a Glasgow Works evaluation found that after 6 months, 90 per cent of those who entered work were still in work, compared to 38 per cent of long term unemployed participants leaving Training for Work; the average net earnings for a first job following participation in Glasgow Works were 45 per cent above the entry level job rate in Glasgow, while Training for Work had no impact on the level of wages.

effects over the longer-term, compared to short-term results. For example, Card et al's (2009) meta-analysis showed that training programmes had unfavourable results in the short term but more positive impacts after two years. Some US training interventions also showed positive results over a nine-year period. However these longer-term follow-ups are rare, and some studies show contrary results, making it difficult to draw firm conclusions (Meager, 2008).

While the majority of these evaluations looked at employment outcomes only, one US study analysed cost-benefit data from a range of welfare-to-work programmes to consider impacts on participant income and on government budgets (Greenberg et al, 2009). Twenty-eight welfare-to-work programmes targeted at lone parents in the US and Canada were included in the study, classified into six types:

- Mandatory work experience programmes,
- Mandatory job search-first programmes,
- Mandatory education-first programmes,
- Mandatory mixed initial activity programmes,
- Earnings supplements programmes, and
- Time-limit mix programmes (combining welfare time limits with job search activity and earnings supplements once in work).

The analysis found that the programme types with the most likelihood of positive effects on participant incomes (earnings net of taxes and benefits over a five year period) were earnings supplements, mandatory mixed initial activity programmes and time-limit mix programmes. However, while earnings supplements produced by far the largest income gains for participants, they represented a net cost to the government. Time-limit mix programmes had different effects on the government budget depending on the individual programme, but mandatory mixed initial activity programmes – which allocated participants to education / training or job search activity according to individual needs - produced a small positive net gain to government as well as a boost to participant incomes.<sup>92</sup> Mandatory job search-first programmes, in contrast, produced a net gain for government but not for participants.

### *Effects of ALMPs for sub-groups*

#### *Young people*

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<sup>92</sup> Looking at individual programmes within this category, the largest positive impacts on participants' earnings were seen for the GAIN programmes, which assigned participants to either basic education or job search activity depending upon prior level of education. The majority of these programmes had positive impacts on participant income. The one that had the largest benefit for government was Riverside GAIN which had a strong work-first emphasis, encouraging participants to take work quickly regardless of wage level. The two GAIN programmes targeting long-term welfare recipients both had a negative impact on government budgets.

A number of the reviews discussed above report that the impact of ALMPs on young people is less positive than for older adults. The meta-analyses by Kluve (2005) and Card et al (2009) both showed that programmes targeted at young people performed less well than those targeted at adults (or untargeted programmes). Kluve (2005) reported some evidence of positive impacts for young people from wage subsidies (especially for people with better labour market prospects), from training programmes and from ‘services and sanctions’ approaches, but also reported contrary evidence in all cases, making it difficult to draw conclusions.

A US review of programmes for ‘high school dropouts’ (which included paid work experience or training and education programmes) (Bloom, 2010) found that some programmes, especially those that offered paid work opportunities, generated significant increases in employment or earnings in the short term, but in most cases these effects did not last. However programmes in the UK have seen more success. The New Deal for Young People (NDYP), which comprised an initial period of job search services and sanctions, followed by more targeted options such as training and wage subsidies for those who had not gained work, was found to be effective – it was estimated to raise the re-employment probability of young men by five per cent 12 months after programme entry (Di Giorgi, 2005). It is suggested that the programme’s effectiveness was related to a good balance of elements, including support and conditionality, tailored to young people’s individual needs (Kluve, 2005; Hasluck and Green, 2007). An analysis of which of the four NDYP options<sup>93</sup> worked best (Dorsett, 2006) found that full-time employment with a wage subsidy was the most effective in terms of subsequent employment probabilities, suggesting that young people can benefit from wage subsidy schemes. A subsequent scheme, the Future Jobs Fund, which created subsidised jobs in the public and voluntary sectors, also produced a positive impact on participants’ employment outcomes, with net benefits to individuals and employers (see Chapter 3).

An OECD (2010) review of the evidence on ALMPs and young people concluded that:

- Job-search assistance programmes are the most cost-effective for young people who are ready to work.
- Apprenticeship and other vocational education and training (VET) programmes are efficient school-to-work pathways, and play a role in keeping youth unemployment, and young people not in education employment or training (NEET), low.
- For school drop-outs, the focus should be on acquiring job-relevant skills. Training programmes taught outside traditional schools, combined with regular exposure to work experience and adult mentoring, are more effective than classroom methods.
- Subsidies to encourage employers to hire low-skilled unemployed youth can be affective, but need to avoid deadweight effects by targeting them on priority SMEs and on apprenticeship contracts.

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<sup>93</sup> Full-time employment, subsidised by a payment to the employer; full-time education or training; work placement with a voluntary sector organisation; voluntary work with an environmental organisation

### *Women & caring responsibilities*

The evidence on the effects of ALMPs by gender is mixed. One review of European ALMPs (Bergemann and Van den Berg, 2006) found that a number of programmes had more positive effects for women than for men. This was particularly the case for skills training programmes and, to a lesser extent, for job search assistance and hiring subsidies. Results for monitoring and sanctions and job creation schemes were inconclusive, with one study on sanctions showing that women had lower rates of exit to employment and higher rates to inactivity. Several of the studies in this review were from economies with relatively low rates of female labour force participation, and the authors suggest that the relative effectiveness of ALMPs for women may be expected to decrease as women's labour market participation rates grow. A later meta-analysis of ALMPs by Card et al (2009) showed no significant differences in impacts by gender.

As discussed previously, the New Deal for Lone Parents programme in the UK was very effective in its employment outcomes among those who took part in the scheme, and had larger impacts for more disadvantaged lone parents (those out of work for longer), which has been attributed to its flexible and customised package of support (Hasluck and Green, 2007; Cebulla et al, 2008). While the recent extension of activation to all lone parents on a mandatory basis has raised overall employment rates among lone parents, there are also signs that the support received by lone parents under the new regime is not as customised as that received under NDLP. For example, a survey of lone parents showed that less than half of respondents felt that their individual circumstances were taken into account on JSA or ESA (Coleman and Riley, 2012).

Efforts to activate the partners of benefit claimants (the majority of whom are women living with an unemployed male partner) have been relatively limited in the UK and there is little robust evidence regarding what works. Evaluation evidence suggests that this is a diverse customer group, often with multiple barriers to employment, such as caring responsibilities and health conditions, as well as cultural barriers to employment in some cases (Hasluck and Green, 2007). New Deal for Partners, offering similar back to work help as the NDLP programme but for partners of benefit claimants, had a good success rate, with around half of participants finding work, although only very small numbers of people took part in the programme (NAO, 2007). A recent programme (Partners Outreach for Ethnic Minorities) targeted at non-working partners in low-income ethnic minority families (primarily from the Bangladeshi, Pakistani and Somali communities) who were some way from the labour market reported some success in engaging clients and reached 85 per cent of programme outcome targets. The importance of a tailored, flexible and culturally-aware service was emphasised.

### *Long-term unemployed*

Job search assistance alone is unlikely to be effective for the long-term unemployed because of their more substantial barriers to work, however there is little reliable evidence on what type of support is the most effective. The New Deal 25+ programme in the UK (for long-term unemployed adults), which had a similar structure to the NDYP, with an initial

phase of job search followed by a mandatory phase of activity, such as education and training, work experience or subsidised employment, was found to have a modest positive impact on employment outcomes, although overall, work outcomes from the programme were poor (Wilkinson, 2003). The National Employment Panel (NEP) (2004) raised concerns about the sustainability of the work obtained, reporting that between 2001 and 2003, only a third of leavers had moved into unsubsidised work and only a quarter obtained sustained employment, while a third of clients who joined the programme had been through it at least once before. The evaluation of the programme did not assess impact by type of provision, but a review of the evidence on the effectiveness of delivery suggested that the personal adviser role was crucial in rebuilding motivation and confidence, while evidence from Work Trials and Employment Zones suggested that exposure to work was one of the most important elements for positive employment outcomes (Hasluck and Green, 2007). The NEP (2004) reported that outcomes for the subsidised employment option were higher than for other options, although there was a similar level of deadweight as for the wage subsidy in the NDYP (Hales et al, 2000).

A more recent programme in the UK for the very long-term unemployed (those leaving the Work Programme after two years without finding work<sup>94</sup>) allocated participants to different options based on random assignment, in order to compare outcomes. It found that compared to a control group who received the standard Jobcentre Plus offer (fortnightly job search reviews plus additional discretionary advisory appointments), a group receiving ongoing case management (a more intensive offer of flexible and personalised adviser support), and a group receiving a six month work placement for community benefit, both experienced improved outcomes, although these diminished over time. People in these groups spent shorter periods on benefit and longer periods in work over a 21-month follow-up, with an impact on employment of 4 percentage points at the highest point (around 9 to 12 months after random assignment), although this had declined to zero after 21 months. Overall employment outcomes were again quite poor, however: employment rates started to level off after about 15 months, and only reached 18-19 per cent by the end of the follow-up period<sup>95</sup>. The 'treated' groups also had a higher number of employment and benefit spells over the follow-up period suggesting that the work obtained was not necessarily stable, although they spent a greater amount of time in work overall. In terms of which approach worked best, the case management approach was found to be effective for all sub-groups, whereas the work placement option was ineffective for young people and for those with a disability. The evaluation suggested that this may have been because this offer was most suitable for those lacking recent work experience, motivation or work ethic, rather than other barriers to employment (DWP, 2013d).

### *People with health conditions*

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<sup>94</sup> This equates to 3 years out of work for JSA recipients aged over 25, since they join the Work Programme after 12 months unemployment.

<sup>95</sup> The analysis of employment outcomes is based on P45 data from HMRC, which excludes self-employment and earnings below the PAYE threshold. Thus overall employment rates may be higher than those reported here, although this is unlikely to affect the size of the impact.

Again there is little robust evidence on what works best in active labour market programmes for people with health conditions and disabilities. (This issue is addressed in greater depth in a separate review on disability, long-term conditions and poverty, see MacInnes et al (2014)). Kluve's (2005) meta-analysis found few evaluations of programmes for the disabled and those that were included suggested that vocational rehabilitation programmes had little positive impact on employment.

In the UK, the voluntary New Deal for Disabled People (NDDP) programme, which provided support and advice for people with health conditions and disabilities to move into employment through a national network of Job Brokers, had a large positive impact on the employment rates of participants (increasing employment rates by 7-11 percentage points after 24 months) (Orr et al, 2007). Like the voluntary NDLP programme, however, only a small proportion (around 2 per cent) of the total eligible population<sup>96</sup> took part in the scheme, and, as volunteers, they were more job ready and motivated than the remainder. It is not necessarily the case that the same type of programme would be effective for people further from the labour market. Indeed, the mandatory Pathways to Work programme has had much less success in terms of its employment impact (see earlier discussion, section 4.2). Client motivation to return to work, and their perception of their health condition, are key factors influencing work outcomes on the programme (Hasluck and Green, 2007; Barnes and Sissons, 2013).

Given the heterogeneous support needs of this population, the individual tailoring of services to client needs is particularly important, and the ability of the job broker to match clients with appropriate services and support was crucial in the NDDP programme (Hasluck and Green, 2007). Since the Pathways to Work programme was subsumed into the more generic Work Programme in 2011, outcomes for clients on Employment and Support Allowance have been poor. After two years on the programme job outcomes stood at around 10 per cent for ESA customers mandated to the programme (compared to 17-18 per cent for ESA/IB volunteers). Both job outcome payments and sustained work payments<sup>97</sup> were well below expectations for this group. Evidence from the process evaluation so far suggests that this may be to do with problems in the subcontracting process, with financial constraints limiting the use of more specialist provision and providers prioritising more 'job-ready' participants (see Newton et al, 2012).

### **Summary: Active Labour Market Programmes**

An extensive evidence base has examined the effectiveness of different types of active labour market programmes, albeit primarily in relation to (usually short-term) employment outcomes rather than poverty. The evidence on type of programme is fairly consistent, showing, broadly, that programmes based on job search services and sanctions and private sector incentive programmes (e.g. wage subsidies) have predominantly positive impacts on

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<sup>96</sup> people claiming Incapacity Benefit (IB) and other disability-related benefits

<sup>97</sup> Job outcome payments are made for this group after 13 weeks in work and sustained work payments for every 4 weeks in work thereafter.

employment, although wage subsidies can have high substitution and deadweight effects. Public sector job creation programmes, on the other hand, have tended to have little or a negative impact, while training programmes have had mixed results, depending upon the nature of the programme.

An emphasis on finding work quickly within job search and sanctions programmes appears to be especially effective, although personalisation and tailoring of services and activities to individual need also appears more effective than mandation to standardised activities. Training programmes appear to work best where they are small-scale, well-targeted and delivered in conjunction with employers or in a workplace setting. Some reviews suggest that longer-term impacts from training programmes are more positive but this evidence is not consistent.

The evidence on what types of programmes work best for whom is not particularly robust. Some reviews show that ALMPs generally work less well for younger people, although a mix of sanctions and support, tailored according to need, is thought to be one of the most effective approaches. This is the approach tried in the NDYP in the UK, which had positive results. Wage incentive schemes and public sector job creation programmes have also shown positive results for this group in the UK context. More generally, systems which smooth the transition between education and work are important to prevent youth unemployment and inactivity, such as well-functioning apprenticeships and vocational education systems.

People at a greater distance from the labour market, with less recent work experience, such as the long-term unemployed or inactive, tend to require more intensive support. There is some evidence (not very robust) that intermediate labour market programmes can have positive outcomes for this group, and a recent pilot in the UK showed a positive, albeit small, employment impact of a 6-month work placement scheme for the very long-term unemployed (3 years out of work). However intensive support through a personal adviser was shown to be more effective for a greater range of clients, while the positive impact of both options (relative to a control group) wore off after a couple of years of tracking. People with health conditions appear to need more specialist support; poor outcomes from the Work Programme for this group may reflect a lack of targeted and specialist provision.

#### **4.4 'Post-employment' programmes to support work retention and progression**

Over recent years, ALMPs have increasingly focused on providing post-employment support to participants once in work, in order to help promote work retention and progression. This has been driven partly by a recognition of 'work-benefit cycling', that is, intermittent work punctuated by spells on benefits. This has been a longstanding challenge in UK active labour market programmes. In the first quarter of 2013, nearly half of men and a third of women making a claim for JSA were doing so within 6 months of a previous claim. This proportion has remained more or less stable since the mid-1990s (apart from dropping sharply in 2009, when the number of new claims went up rapidly as a result of the recession)

(MacInnes et al, 2013). In recognition of this issue, the current Government changed the outcome targets for welfare to work providers in the Work Programme, to place an increased emphasis on longer-term 'sustained work' outcomes. The effectiveness of delivery mechanisms such as these is addressed in a separate review (Finn, 2014). However, there is little evidence so far of significant innovation in Work Programme provider practices around post-employment support and no incentives for providers to address progression directly (Ben-Galim et al, 2011; Wilson et al; 2013).

Most of the available evidence on the impact of work retention and progression support comes from the US, where post-employment programmes have been trialled more extensively, using randomised control designs, during the 1990s and 2000s. These post-employment interventions consist of various combinations of support, including:

- financial incentives for staying in work or increasing work hours;
- in-work training;
- targeted financial help (e.g. for unanticipated costs that may threaten continuity of employment);
- one-to-one case management (including advisory support and re-employment services);
- career counselling; and
- childcare subsidies.

The majority of the evidence investigates the effects of programmes that included time limited in-work supplements/ incentives, either alone or in combination with other forms of support. The populations targeted were primarily families with children (mainly lone parents). Exceptions were the UK Employment Retention and Advancement (ERA) demonstration, where the programme included long-term unemployed (primarily comprised of single men) as well as lone parents, and the Milwaukee New Hope Project, where eligibility was open to low-income men and women, regardless of family structure.

It is anticipated that work retention and work progression can help lift working families out of poverty through regular and improved earnings over time. However, the evaluations mainly assessed programmes in terms of work duration and changes in earnings, rather than in terms of poverty directly. Work retention was operationalized as the cumulative spells of an individual's employment over time, and work progression tended to be measured as increases in earnings. Since progression is often measured using government administrative data, it is often not possible to determine whether increased earnings were due to increased hours or work at higher wages (Hendra et al, 2010).

#### *Effects on poverty outcomes*

There is very little evidence focused on direct measures of poverty from post-employment programmes, which may be due to the nature of the data. Often administrative databases of individual earnings are used, which do not record household income. There was only one instance of an evaluation where poverty was measured as a direct outcome. This was the evaluation of the New Hope Project that was implemented in Milwaukee, USA, during 1994-

1997 (Duncan et al, 2008; Miller et al, 2008). Participants who worked at least 30 hours a week were eligible for an earnings supplement to raise their income above the poverty level. The evaluation found significantly lower rates of poverty, on average, in the treatment group compared to the control group for up to five years post-random assignment. However, it should be noted that this was measured using a poverty threshold established for the study, which was based on individual rather than household income and so is not directly comparable to the official US poverty line. It should also be noted that the significant earnings gain for participants from the programme was not sufficient to lift *most* participating families out of poverty, even with the inclusion of the programme's supplements and tax credits (Bos et al, 1999). More specifically, the proportion of participants with income below the poverty threshold used remained similar, at about 60 per cent, throughout the eight year period that the evaluation covered (Duncan et al, 2008).

This evidence on poverty outcomes is backed by Hendra et al (2010), in a synthesis of evaluation findings from the US ERA demonstrations. Commenting on the low rates of pay among working programme participants, the authors state: '*even among the programs that produced improvements in retention and advancement outcomes, wages remained very low, and many of these families remained in poverty at the end of the follow-up period.*' Therefore, the minimal evidence that has assessed poverty outcomes directly suggests that, to date, post-employment programmes have been unable to make significant inroads on in-work poverty reduction.

### *Effects on employment outcomes*

Most of the evaluations of post-employment programmes focus on employment and earnings outcomes rather than poverty directly. These findings show that results from this type of intervention are largely positive *while the service is available*, showing, for example, increased employment and/or increased earnings. In other words, programme participants who had taken up financial incentives experienced significant gains in job retention and advancement (earnings), compared to non-participating groups. Examples of successful projects include UK ERA, US ERA (where 3 of 12 projects showed positive impacts)<sup>98</sup>; the Canadian Self Sufficiency Project (SSP) and the Minnesota Family Investment Program (MFIP).

There is also evidence showing that the conditions of the financial support shape employment behaviour. For example, longer term analysis of the New Hope Project by Dunifon (2005) found that the earnings impact was primarily due to a large increase in earnings occurring immediately after random assignment – when participants increased their work hours in order to become eligible – and that earnings reached a plateau after this initial increase. Dunifon suggested that participants may have been responding to the New Hope

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<sup>98</sup> Whereas UK ERA comprised a single national programme delivered by Jobcentre Plus; in the US, ERA comprised a series of 16 different interventions, across eight states, delivering a range of different services.

incentives and doing the minimal amount of work necessary to become eligible for project benefits.

Results on the longer-term impacts of in-work earnings supplements/ incentives, however, are less promising. Syntheses of follow-up studies generally conclude that positive effects on work entry, work spells, earnings and income do not persist (or fade) after the extra financial support ends (Hamilton & Scrivener, 2012; Hendra et al, 2010; Michalopoulos, 2005). Nonetheless, four ERA programmes, the one in the UK and three in the US, have demonstrated employment and earnings impacts that have extended beyond the period that in-work support was offered (Dorsett, 2013; Hendra et al, 2010; Hamilton et al, 2012). The support offered in these programmes included extra in-work services, such as advisory support, re-employment support and in-work training, alongside an earnings supplement. In the UK ERA, these positive effects endured only for the long-term unemployed group, while the lone parent groups showed a short-term earnings gain, driven by changes to working hours in response to the financial incentives, which did not last over the five-year follow-up period (Hendra et al, 2011).

In their reviews of US ERA programmes, Hendra et al (2010) and Hamilton and Scrivener (2012) show that the positive economic impacts of the programmes were mainly attributable to *job entry* as opposed to *job stability* effects. The impacts were driven by new or repeated job starts, either right after leaving another job or after a period of unemployment. However, Dorsett (2013) shows that the longer-term effects for the long-term unemployed group in UK ERA were due to increased work retention as opposed to more individuals moving off unemployment and into work. This suggests that financial incentives can be effective in promoting work retention for this sub-group of long-term unemployed. Hamilton and Scrivener (2012) also show that in all three of the US ERA programmes with longer-term impacts, there was evidence that the programme led to increases in earnings. This suggests that the programmes increased hours or weeks of work or wage rates, relative to the control group levels, although it was not possible to assess which of these changes was responsible for the impact. In addition, one of the programmes (Chicago) showed a direct progression impact, in that it increased the proportion of individuals who received a wage rise and/or a promotion in the fourth follow-up year. This effect was not found for the other two programmes (or for UK ERA), however.

### *Effects by programme type*

The post-employment programmes studied tend to provide a holistic and personalised approach to retention and progression, offering different types of support in combination according to individuals' needs. This makes it difficult to identify which support services are driving the effects. There is therefore less evidence, and less conclusive evidence, on the separate contributions of the various types of post-employment services (and what combinations work for whom). By comparing different combinations of services offered against the effectiveness of the different programmes, however, Hamilton and Scrivener (2012) have been able to shed some light on this issue. Their study included the 12 ERA programmes that ran in various locations in the United States during 2000-2004, looking at employment and earnings impacts over a three to four year period, supplemented by

evidence from other related evaluations. This review considered the effectiveness of a number of elements of service provision, including pre-employment and in-work support, financial incentives and training provision.

### *Provision of support*

The results suggested that an 'enhanced job club' approach, in which participants were encouraged to apply for a job of their preference rather than the more usual work-first approach, did not appear to be effective in enhancing retention, progression or job quality over the follow-up period. Surveys with clients suggested that while the advisers may have delivered a different message about job search, clients' recall of messages (at a later date) was not substantially different from those in a typical work-first job club, which may suggest that the approach was not distinctive enough to have an effect.

In the ERA sites where in-work advisory support (in the form of job coaching, referrals to support services, assistance in developing career plans, and advice on education and training) was the only service offered to clients, no impacts were recorded on employment and earnings. In contrast, in sites where in-work support from an adviser was combined with other services, such as financial supplements, or where specialised advisory support was delivered (e.g. re-employment services, close links with employers to facilitate job placements), impacts were recorded. This leads Hamilton and Scrivener (2012) to conclude that in-work support is a necessary but insufficient condition for retention and advancement. Evidence from the Work Advancement and Support Center (WASC) evaluation also suggested that career coaching alone did not impact positively on retention and advancement (Miller et al, 2012). Implementation findings suggested that this may have been related to the quality of the coaching, in particular the limited labour market expertise and employer connections of the coaches. A similar limitation was found with respect to the advancement coaching provided through UK ERA (Hendra et al, 2010).

Several of the ERA sites showed that positive retention and earnings impacts were driven by clients changing jobs, which supports the broader evidence on job mobility being an effective strategy for wage progression within the low-wage labour market (Andersson et al, 2005; Hurrell, 2013). One site where advisers focused on encouraging progression within the workplace (a nursing home) through, for example, counselling, peer support groups and supervisory training, did not show any impacts. This does not mean that these types of support would not be effective in a different workplace, but that they were unable to overcome the limitations of progression within that setting, highlighting the importance of workplace factors. Participation in the services offered was also low in this programme.

One ERA site, as well as sites in the Sectoral Employment Impact Study (see section 4.5), highlight the importance of advisers' links with good quality employers. In one successful EEA site, which showed positive earnings effects, the programme was operated by a private sector provider with strong links to firms in a variety of industries. Based on their knowledge of employers' requirements, likely job openings, and job characteristics, the programme's strategy was to help individuals move fairly quickly to jobs at different employers that paid

more than their current jobs. Staff identified appropriate job openings and then helped clients with job applications and to prepare for interviews.

### *Financial incentives*

Financial incentives or earnings supplements for employment retention can be effective, although positive earnings effects often fade over the longer term.

### *Training support*

Some of the ERA sites were successful in increasing participation in adult basic education among individuals who did not possess a General Educational Development certificate (GED). However this did not lead to employment and earnings gains. This may have been because the basic education undertaken did not lead on to further vocational or college-based training which is more highly valued in the labour market. Other US studies have also shown poor outcomes from programmes mandating participants to attend GED classes (e.g. Greenberg et al, 2009). Other evaluations e.g. UK ERA and WASC also showed an increase in training participation, which was thought to be related to the provision of financial support to cover training fees and bonuses payable on training completion. In UK ERA, this training uptake was not complemented by an increase in qualifications and did not result in any earnings gains. However in the WASC evaluation, two sites, which increased training uptake and qualifications, did see earnings gains over a three year period, with the gains continuing into the 4<sup>th</sup> year in one of the sites (Miller et al, 2012). Implementation findings suggest that the lack of sustained results may have been because individuals were not well-directed to training recognised by employers or which led to jobs in higher-paying industries, or that progression in the types of jobs they were in (typically the healthcare sector) may have required additional training beyond that available through the programme. As Miller et al (2012) state '*The Certified Nurse Assistant (CNA) certificate, for example, is certainly one step on the way to a higher-paying nursing position, but it is just the first step of a ladder on which the rungs are quite far apart*'.

### **Summary: Post-employment interventions**

A relatively extensive and robust evidence base is available evaluating post-employment interventions to promote retention and progression, albeit it is almost exclusively from the US and interventions mainly target lone parents. Evaluations tend to measure employment and earnings outcomes, but not poverty impacts directly. Most interventions include a bundle of supports, all including some element of time-limited wage supplements/financial incentives.

The evaluation findings show that these interventions can be effective, at least in the short-term in promoting earnings gains. Often effects faded over the longer-term, however, once the programme (and the financial supplements) ended. However some programmes have

shown longer-term earnings impacts, including UK ERA which showed an earnings gain for the long-term unemployed group (but not for the lone parent group) over a five-year period. This was shown to be the result of both a work entry and a retention effect. However while some positive programme effects have been found, the impacts observed are not transformational and often families remain in poverty despite modest earnings increases over control group members.

Findings on what works for whom are less robust, but reviews of the US ERA and similar evaluations suggest that:

- \* Financial incentives can be effective for improving earnings but advisory support alone seems insufficient to achieve this
- \* Job mobility is often a more successful strategy for progression in low-wage labour markets so adviser strategies facilitating this can be productive
- \* A strategy of fostering links with good quality employers (with higher wages, progression opportunities) and making individualised job placements seems productive
- \* Financial incentives can increase uptake of training and education courses but these need to be closely linked to realistic progression pathways to have an impact on earnings.

## 4.5 Career ladders

Career ladders are part of a group of initiatives that have been developed mainly in the US to aid low-paid workers' progression in the labour market. We have termed these 'employer-focused progression initiatives', see Box 4.5. Such initiatives usually provide education or job training for the unemployed, or low-wage workers, targeted to local employment opportunities, alongside the provision of various support services, such as job placement assistance and help with childcare and transport (Holzer, 2007). They are usually delivered through a partnership between voluntary and community sector (VCS) organisations, training providers, workforce development experts and employers, and are characterised by giving businesses a lead role in identifying skills needs, which differentiates them from the post-employment programmes discussed previously.

While there are many initiatives, the evidence base on their effectiveness in terms of employment outcomes remains extremely limited. The review found one random assignment-based study of three sector-based initiatives (Maguire et al, 2010), and two other robust evaluations currently underway: one national evaluation of career pathways programmes (Fein, 2012), and an evaluation of a sector-based initiative called WorkAdvance, conducted by MDRC (Tessler, 2013), both of which are based on random assignment methods. Otherwise, the US evidence base comprises a number of case study-based analyses of either a single or multiple initiatives, which detail implementation and operational issues and highlight elements of good practice. This literature is useful for identifying lessons for designing and implementing initiatives in the future but does not provide evidence of policy impact. It is summarised in Box 4.6 in Appendix 1.

#### **Box 4.5: Employer-focused progression initiatives**

##### *US initiatives*

A multitude of employer-focused progression initiatives have been developed in the US over the last several years, including both small-scale local partnership initiatives and larger state-wide initiatives. These tend to be of three types:

**Sectoral training initiatives** provide training for either incumbent workers or the unemployed, targeting one or more sectors of the local economy that have a good supply of jobs and reasonable opportunities for progression. Intermediary organisations work with trainers and employers to ensure that the training supplied equips workers for the jobs available, and may also provide a range of supports to help workers. In the US, these schemes have usually been developed in sectors such as healthcare, construction and skilled manufacturing where skills shortages have been apparent. A variation on this includes **state skills certificates**, in which employers within a sector convene to identify skills needs and to design credentials that are portable across the sector.

**Career ladder schemes** are a type of sectoral training initiative that map out a sequence of jobs within organisations or sectors with progressively higher pay and responsibilities – a ‘career ladder’; identify the skills and abilities needed at each stage; and identify or design linked training and education courses to equip workers for those jobs. The process may involve simply making more transparent an existing career ladder within a firm/industry or may encompass the creation of additional rungs on the ladder (i.e. new intermediate positions) to facilitate progression.

**Career pathways schemes** involve the linking of a range of training/education opportunities, usually at community colleges in the US, into a clearly defined sequence of steps which enable gradual upskilling from adult literacy and basic education, through career and technical education, to associate degree programmes. They are designed in collaboration with employers and are often sector-based, equipping workers for jobs in sectors that have good opportunities locally.

##### *UK initiatives*

Aside from the US, there is scant evidence of such initiatives being developed elsewhere. In the UK, the only example of a career ladders programme being implemented on a large-scale is the Skills Escalator in the NHS. This was introduced in 2001 as part of a range of HR policies implemented by the government which sought to reform and expand the NHS workforce. The Skills Escalator encouraged NHS employers to develop schemes to promote worker progression, by making explicit the means of career progression between different levels in the organisation and providing funds for training (targeted at discrete elements of the Escalator). It was left to individual NHS employers to decide whether to take part in the scheme and how to implement it. The national evaluation (McBride et al, 2006) entailed a

process study (surveys and case studies) that identified operational issues and highlighted good practice and lessons learned, but did not provide a robust assessment of the scheme's impact (in terms of additionality). These findings are summarised briefly in Box 4.6, Appendix 1.

In the welfare-to-work field, a career ladders pilot was planned by the London Development Agency (LDA) in 2011, to trial models supporting worker progression within the retail and hospitality sectors (Barron, 2011). However the LDA was abolished before the pilot was commissioned and the scheme was not subsequently taken forward. More recent sector-based training initiatives in the UK include the Employer Ownership of Skills pilot, a scheme providing matched funding to employers for investment in workforce skills. Round 2 of the pilot, recently commissioned, includes schemes which will 'take "end to end" responsibility for skills through sector-wide or local area-based industrial partnerships' (<http://www.ukces.org.uk/employeroownership>).

One robust impact study was found of sectoral training schemes. This study (Maguire et al, 2010) aimed to assess whether sector-focused programmes could improve the employment prospects of disadvantaged workers and job seekers. Three existing programmes were selected; each differed in focus, but had in common the delivery of sector-focused pre-employment training programmes in collaboration with local employers (for more detail on the schemes, see Maguire et al, 2010). The study was based on random assignment and employment outcomes were measured over a two-year period, including entering employment, hours worked, total earnings, wages, and fringe benefits. However, the impact on family incomes (and poverty) were not examined. The results showed positive impacts for all of the employment outcomes: the programme group were more likely to find a job and stay in work; they earned more, on average, across the two years; they were more likely to find a higher paid job and were more likely to be in a job with fringe benefits.

Career ladder schemes therefore seem to offer a promising approach for increasing wages, which could have positive implications for poverty, but the evidence base is not currently available to assess their effectiveness in this. Like other initiatives to increase employment and improve employment quality, the impact on poverty would be dependent upon the distribution of any gains, i.e. who takes the higher quality jobs or progression opportunities. One of the pitfalls is that those already relatively advantaged in the labour market are more able to take up such opportunities (Duke et al, 2006; Holzer, 2007). There may also be substitution issues if career ladders simply redistribute the number of good jobs rather than grow them (Mitnik and Zeidenberg, 2007). It is also possible that some industries have internal structures likely to be inappropriate for career ladder initiatives. Mitnik and Zeidenberg's (2007) analysis of service sector industries in the US, for example, suggests that only hospitals and banking have the right kind of occupational structure for career ladder initiatives to work effectively for low earners, since others either have too few higher level jobs or only have higher level jobs which require a very high level of education. We do not have evidence on the extent to which occupational structures in UK sectors are similar or different to those observed in the US. It is also the case that career ladders and other employer-focused progression schemes can seek to influence the structure and the

distribution of positions at different levels in order to improve the prospects of such schemes. This is potentially an important area for future research.

**Summary: Career ladders**

Career ladder schemes and other employer-focused progression initiatives appear to offer promise in promoting wage progression among low-wage workers, however the evidence-base assessing their effectiveness – in terms of employment and earnings outcomes - is currently extremely limited. One small-scale initiative in the US appears promising and several other evaluations are under way, however robust evaluations are difficult to design, given the long-term follow-up needed. Some initiatives of this nature have been tried or are underway in the UK, but evaluation evidence is scant. There is scope to develop trials to test and evaluate these approaches.

## 5 Conclusions

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### 5.1 Evidence synthesis

#### 5.1.1 The relationship between employment and poverty

There is a strong relationship between worklessness and poverty both in the UK and internationally. While individuals in workless families now form a smaller share of all those in poverty than 15 years ago (47 per cent of the total), worklessness remains a major risk factor for poverty. Individuals in workless families have much higher poverty rates than all other household types (54 per cent for working age individuals in unemployed families, compared to an average for all working-age of 15 per cent). If a material deprivation measure is used rather than an income-based measure of poverty, the disadvantage of workless families is even greater. The number of working age individuals in workless families is now almost the same as it was in 1996/7, partly due to the effects of the recession. The UK also compares unfavourably to the European average in terms of the poverty risk of unemployed households. Clearly, then, workless households remain a key priority for anti-poverty policy.

In addition to workless families, 'partly working families', including single-earner couple families and those with only part-time earners also make up a substantial proportion of all those in poverty (13 to 15 per cent of the total each) and have a relatively high poverty risk (17 to 24 per cent compared to the working-age average of 15 per cent). The poverty risk of individuals in 'low work intensity' households is also relatively high, while periods out of the labour market (not-full-year-round work) carries a high poverty risk in the UK (almost three times that for full-year workers) compared to the EU average. Thus, families with low work intensity – either in terms of work hours, number of earners or work duration – are another important focus for anti-poverty policy.

The characteristics of employment are also important in understanding poverty risk. Low hours of work and low pay directly influence earnings and hence poverty risk, while other characteristics of work such as contractual status and security affect poverty through influencing work duration. These characteristics also interplay with and reinforce the poverty risks associated with low work intensity at the household level – since single-earner and low-work-hours households are more likely to be working in low-paid jobs. Low pay is shown to be a more significant predictor of poverty than part-time hours, although in practice the two overlap and the UK has a comparatively high share of both. Persistent low pay, concentrated in occupations such as elementary, sales and customer services, personal services, and machine operatives, and in sectors such as hotels and restaurants, wholesale and retail and manufacturing, are therefore another priority area for anti-poverty policy.

Both low pay and, to a greater extent, part-time work, are gendered, dominated by women due to their continuing role in providing the majority of informal care (although the share of low-paid work accounted for by men has increased over recent decades). Despite this, men and women have a similar poverty risk because poverty is measured at the household level

and both partners' income (in couple families) is assumed to be shared equally. The poverty consequences of women's lower earnings are therefore more apparent in households reliant only on a woman's wages - single earner couple families are much more likely to be in poverty if the woman is the wage earner rather than the man, although these families are less numerous. Low paid women are also less likely than low-paid men to be able to avoid poverty by their own wages alone, and are consequently more reliant on either a partner's earnings or on tax credits and benefits to lift them out of poverty. This makes women particularly vulnerable to poverty if family relationships break down. While labour market events (e.g. work entry and work exit) are the predominant poverty triggers for men, both labour market and demographic change (e.g. divorce, separation) are equally important for women.

The review of employment and poverty relationships therefore suggests three priority areas for anti-poverty initiatives: workless households; low work intensity households (either in terms of number of earners or hours); and households reliant on low-paid jobs.

### 5.1.2 Review of employment-related interventions

#### *Demand-side*

We have reviewed a range of demand-side interventions which mediate the links between employment and poverty. The strongest evidence, in terms of robust studies, was found for employment growth and minimum wages. Both have a relatively large body of associated evidence, some of which focuses directly on poverty outcomes. The evidence on national employment growth - both from studies of past effects and future projections - suggests that employment growth per se has a limited or even a negative impact on relative poverty rates because of the distributional effects, as the gains often go to households who are not in poverty. The evidence on minimum wages suggests that they can have a positive impact on poverty outcomes (and this has been the case in the UK), although the effect is limited because minimum wage policy is not well-targeted on the poor (at the household level). Minimum wages set too high can also have a depressing effect on employment demand, although this has not been the case in the UK. The findings from these themes of the review highlight the significance of targeting interventions at households in poverty to generate the most impact – at least if this is measured in terms of a household-based relative income threshold.

A reasonable amount of high quality evidence was found for a number of other initiatives and factors, although the studies rarely examined poverty outcomes directly, instead focusing on employment participation or wages. This included evidence on job creation schemes, unionisation and collective bargaining, employment protection legislation and care-related leave schemes. The international evidence on collective bargaining suggests greater coverage is associated with a smaller amount of low-paid work; while union membership is associated with a modest wage premium in the UK. Care-related leave schemes (maternity, paternity and parental leave) have also been found to have an overall positive impact on mothers' labour supply; although results suggest that this is sensitive to the design of the leave and longer leave periods can have detrimental effects for women's economic position

in the longer-term. The UK has a relatively long period of maternity leave, that is also paid at low replacement rates, but recent extensions to this leave do not appear to have had detrimental effects on women's employment outcomes.

The evidence on job creation schemes and on employment protection legislation is more inconclusive. The evidence from Enterprise Zones suggests that, on balance, they have relatively little impact on employment prospects for local workers (see Crisp et al (2014) for further detail on this). The evidence on hiring credits is more mixed and there is some evidence to suggest they work better for some groups of workers and/or when integrated with other interventions. Recent evidence from the Future Jobs Fund in the UK, which was locally designed and delivered and targeted at out-of-work young people during the current recession, showed a relatively strong positive impact on employment outcomes. Evidence on EPL shows contradictory effects, suggesting that this may differ depending upon the type of worker and the timing in the economic cycle.

Flexible and family friendly working practices are widely assumed in the literature to play an important role in promoting women's – more specifically mothers' – employment and there is much evidence linking women's non-employment and under-employment to an inability to reconcile work and care. This is an important issue for poverty reduction, given high levels of poverty among non-working and part-time lone mothers and among single-earner (male breadwinner) families. However, robust evidence on the effects of such initiatives on either poverty or employment outcomes is lacking.

There are a number of important evidence gaps which the review has found. These include:

- Little robust evidence about the poverty-reducing potential of targeted job creation programmes in the UK context.
- Evidence about the role that unions could play in supporting anti-poverty strategies, around areas such as access to training and supporting progression.
- Robust evidence on the anti-poverty effects of flexible and family friendly working practices.

### *Supply-side*

In terms of supply-side interventions, wage supplements and policies of 'activation' had the strongest associated evidence, in terms of the quality and the relevance to poverty.

There is an extensive amount of evidence on wage supplements, which shows positive impacts on poverty, since they are targeted directly at low-income households (i.e. using household-means testing). Impacts on employment are also broadly positive, albeit more so for lone parents than for other groups, and small negative effects have been found for second earners. The evidence on the effects of wage supplements on retention and progression is less conclusive, as is evidence on the effect on wages overall - some studies have found detrimental effects of tax credits on individual wage growth, but there is no apparent effect on aggregate wage growth in the UK. A limitation of this evidence base is that in the UK it mostly relates to the earlier WFTC, with limited evidence available on the

more recent WTC (which covered a much larger proportion of the population). Cost-benefit evidence is also unavailable.

The effects of activation on poverty are more difficult to assess because this refers to a range of different policies and initiatives cross-nationally. The most robust and extensive evidence base is from the US, which showed that the main activation reform to lone parent benefits in 1996 had a positive impact on reducing welfare use and on employment rates, although poverty impacts are less robust. Reviews of the evidence suggest a small positive impact on poverty overall, but mostly through welfare prevention rather than welfare exit. Many of those who exited welfare to work remained in low income, with unstable work patterns, while a decline in welfare take-up as a result of the reform also increased the numbers of lone parents 'disconnected' from work *and* welfare.

In the UK, activation reforms have been quite different in scale and pace. The most recent changes to lone parent benefits, with more stringent conditionality, have raised employment rates significantly, without the increase in 'disconnected' lone parents seen in the US. Early indications though are that poverty rates among working lone parents remain relatively high. Assessments of Incapacity Benefit reform on employment and poverty are so far inconclusive. These assessments also predate the more stringent sanctions regime recently introduced for JSA claimants. International evidence suggests mixed results regarding the effect of benefit sanctions. There is some evidence of short-term hardship but also of improved employment outcomes. Meanwhile longer term follow-up suggests that this may come at the expense of job quality and earnings.

There is also a robust and relatively extensive evidence base on which types of active labour market programmes are most effective, although this literature rarely focuses on poverty directly and the employment outcomes measured are often short-term. Meta-analyses and syntheses of international evaluations of ALMPs suggest that, in terms of broad types of programme, 'services and sanctions' approaches and private sector incentive schemes are the most effective; training programmes vary in impact depending on their design; while public sector subsidised jobs schemes are less effective. Looking at the effectiveness of different programme strategies in more detail, US evidence suggests that a strong work-first message conveyed by advisers is important for work outcomes, but so is personalisation and tailoring of support to individual needs. Programmes that allocated participants to different initial activities depending on need were more effective at raising participant income over five years than either mandatory work-first or mandatory education-first programmes.

Post-employment initiatives have mostly been implemented and tested in the US, often on a random assignment basis. Thus the evidence is high quality but limited in scope (for example it is mainly limited to US and Canadian lone parent populations). Several initiatives have been promising, although the evidence is somewhat limited regarding which elements of these initiatives work best and to what ends (e.g. work duration, increased hours, wage progression, job quality, etc.) Financial incentives seem to be effective, although in many cases treatment effects fade after the scheme ends and do not translate to longer-term labour market gains. Interestingly, the UK-ERA was one exception, where the evaluation found positive long-term results but only for the long-term unemployed group (primarily

men), while the effect for lone parents was only transitory. This might suggest that time-limited financial incentives are more effective for groups who need to build up recent work experience, such as the long-term unemployed or inactive, while increasing the generosity of wage supplements (e.g. in the form of tax credits) is a more suitable strategy for groups whose main barrier to work is making work pay (such as some lone parents).

Finally, there has been much interest in post-employment initiatives that work more directly with employers in order to help advance low-paid workers in the labour market, such as schemes that attempt to build career ladders within an industry or sector. However, despite interest, and a considerable number of schemes in the US, there is as yet little robust evidence on their success in terms of employment or poverty outcomes. This, therefore, represents a promising approach where the evidence base needs to be built.

The review has found a number of important evidence gaps which will be important to address in the future. These include:

- the poverty effects of increasing conditionality for recipients of formerly ‘inactive’ benefits such as IS and IB (that is lone parents and people with a disability or health condition);
- the effectiveness of various types of ALMP services and support for people with a health condition, for the long-term unemployed and for non-working partners of those on low-incomes;
- the relative effectiveness of ‘work first’ versus ‘job quality’ strategies in terms of longer-term employment outcomes and poverty reduction;
- the effectiveness of various types of ALMP services and support in promoting work retention, increased hours of work (for part-timers), wage progression and improvements in job quality;
- the effectiveness of employer-focused (or led) initiatives on progression outcomes for unemployed/low-paid workers.

## **5.2 Policy and practice implications**

In drawing out the policy and practice implications from these findings, there are a number of challenges. Firstly, the evidence base is uneven; the amount of evidence for some types of intervention far outweighs that for others, while a range of different outcome measures are routinely used. This makes it difficult to make a simple comparison between the effectiveness of different approaches in reducing poverty. The extent and quality of the evidence available for the respective initiatives and approaches largely reflects the policy priorities of the recent past – most obviously newer policy tools have had less time to be implemented and evaluated. The quality of the evidence base also reflects the approach to evaluation of different government departments and agencies. Much of the more robust research evidence comes from the US, where the approach to experimental evaluation methods is better established, however the transferability of these results across national contexts is not certain, given the different configuration of institutional factors affecting outcomes, in addition to the different definitions of poverty adopted.

Secondly, there are challenges around the target or focus of initiatives to be included within an anti-poverty strategy. For example, a focus on short-term or more immediate poverty reduction may necessitate different policies to a longer-term perspective. For example, income transfers can have an immediate and direct effect on poverty reduction, since they directly supplement incomes in poor households; however a longer-term perspective might focus more on approaches to reduce low pay or promote wage progression for low-paid workers. Another issue is the extent to which initiatives are feasible in the current political and/or economic context. Most obviously, the current climate of fiscal constraint places restrictions on certain types of initiatives, particularly public-sector led initiatives. In this context, it has been argued that tax credits, which were a major element in reducing child poverty between 1998 and 2004, are less relevant and tenable for the future (Gregg et al, 2012).

Finally, the definition of poverty which is used, and which is being targeted, is clearly significant. Policymakers, and much of the UK evidence we have reviewed, have adopted a measure of poverty based on a relative income threshold. The precise definition (and measure) of poverty adopted has important implications for the types of interventions likely to be effective in meeting poverty reduction goals. The attraction of having a relatively straightforward definition, such as below 60 per cent of median income, is that it is easy to monitor progress on a consistent basis. The drawback is that being too wedded to such a measure risks ignoring or not prioritising other interventions which impact on other definitions of poverty but which have limited effect on rates of relative poverty.

In what follows we draw out the implications of the evidence gathered, and make suggestions for ways in which policy might be developed, drawing attention to any trade-offs between different goals.

### *Wage supplements*

Of the evidence included in the review, the strongest and most positive evidence on poverty reduction in the short-term is for wage supplements. Evidence for WFTC in the UK, and the EITC in the US, shows positive outcomes on poverty reduction. Given the strength of evidence, and the well-targeted nature of wage supplements, any future strategy to reduce poverty will need to include some form of in-work income transfer, at least in the short-term. One disadvantage of wage supplements is their disincentive effect for second earners through high marginal effective tax rates (although evaluation evidence on the substantive effect of this on employment rates for second earners shows that it has been fairly minimal). Second earner disincentives are set to increase under Universal Credit, however, due to a steeper taper rate (for withdrawal of the benefit as incomes rise) and, given the prominence of single-earner couple families among those in poverty, it will be important to look again at whether this effect can be reduced through the design of UC. It is also important to monitor the impact of UC on wage progression, given some (limited) evidence that tax credits can reduce individual wage growth.

A separate study within the JRF anti-poverty programme (see Ghelani and Stidle, 2014) is looking at Universal Credit in more detail, examining which aspects of its design might

reduce poverty (including the withdrawal rate, the work allowances, the amount of out of work support and the savings threshold). It would be premature to pre-judge the findings of that review, however it is worth noting that one study reviewed here (Bargain and Orsini, 2006), which simulated both household-means tested and individualised wage supplements in three European countries (though not in the UK), found that both designs had a similar sized (positive) effect on poverty reduction, but that while household means tested supplements decreased employment among second earners (married women), an individualised system increased it.

### *Minimum wages*

A second area with a strong evidence base is the minimum wage. The NMW in the UK is generally considered a success story, since it has raised the wages of the very low-paid without costing jobs. However, more recently, there have been calls for more to be done to increase the level of minimum wage (Plunkett et al, 2014). The evidence base suggests that modest increases to the minimum wage are likely to have only a limited direct impact on relative poverty in the short-term because they are relatively poorly targeted. That does not mean that increases to the NMW would not benefit some households in poverty. Families at all lower income deciles would benefit from NMW rises through an increase in net income, although not all are currently below the poverty line. Thus rises in the NMW do help boost household incomes for lower earning families but do so in a way that has only a limited impact on (relative income) poverty.

The minimum wage also helps to support the workings of the income transfers system by limiting the extent to which very low pay by employers is subsidised through tax credits (and subsequently Universal Credit). A higher minimum wage also has the potential to encourage a 'virtuous circle' of higher pay, leading to greater investment in skills and higher productivity, leading to higher wages, but the extent to which this has occurred in the UK to date remains limited. While the evidence suggests that the NMW may have led to small improvements in productivity, it has had limited 'ripple effects' on low pay in general, with an increasingly larger share of workers paid at or around the NMW over time. This potential of the NMW would require a wider low pay strategy than is currently embodied in the Low Pay Commission's remit (see Resolution Foundation, 2014).

Another area of focus has been on Living Wages. The poverty impacts of a Living Wage are unknown, but economic assessments suggest that wider payment of a Living Wage would have the potential to raise the wages of large numbers of low-paid workers but may also reduce the labour demand for some groups, notably low-skilled young workers. More could be done, however, to encourage the adoption of the Living Wage in those industries that could afford to do so without causing job loss.

### *Active labour market policies*

Activation and active labour market programmes are another area where the evidence base is relatively strong. Evidence from the reform of lone parent benefits in the US and the UK suggests that greater conditionality attached to benefit receipt has the effect of increasing

employment rates but the effects on poverty are less certain. Suggestive evidence from the US that welfare reform has increased the size of those disconnected from both welfare and work reinforces the need to strike a balance and not make the conditions for benefit receipt so punitive that take-up is reduced without a corresponding improvement in income through employment. There is also a need to ensure an adequate safety net for those remaining on benefits. The UK fares better than the US in this respect in terms of the generosity of benefit payments to out of work families (e.g. through Child Tax Credit), however the impact of current and planned benefit cuts and increased conditionality with tougher sanctions requires monitoring in this regard.

The evidence on the relative effectiveness of different types of ALMP suggests that programmes based on job search and sanctions, that convey a strong work-first message, but which also emphasise personalisation of support according to individual need are the most effective. This is, broadly, the model which has been pursued in recent programmes in the UK, such as the Flexible New Deal and the Work Programme, which have moved away from provision based on benefit type, towards an ethos of more personalised support. However the extent to which the current contracting model enables providers to offer an individually tailored service, especially for groups requiring more extensive support, such as ESA claimants, is open to question, given very low employment outcomes for this group. Changes to the contracting model are likely to be required to meet the needs of this group, such as reconsidering the relative balance between process and outcome payments and/or redefining the types of outcomes measured. This is considered in more detail in the separate review of welfare to work delivery (Finn, 2104).

While the introduction of the Work Programme re-oriented welfare to work providers towards work retention as well as job entry, there is still limited focus on the quality of jobs obtained and longer-term earnings outcomes. A recent survey of welfare to work providers (Wilson et al, 2013), for example, confirmed that while most providers offered some form of in-work support, this tended to be light touch, and there was almost no focus on earnings progression. Programme evaluations in the UK have also tended to be limited to measuring relatively short-term employment outcomes with little attention to income or poverty measures, which means that the evidence base required to robustly assess the relative merits of different provider strategies (e.g. a 'work-first' versus a 'job quality' approach) is lacking. There is scope for further testing of different provider strategies<sup>99</sup>, drawing on suggestive evidence from the US, that:

- While a 'work first' ethos is generally associated with positive outcomes, a strategy of fostering links with good quality employers (paying higher wages and with progression opportunities) in order to make high quality job placements also seems profitable

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<sup>99</sup> as is happening to some extent with the Government's Universal Credit pilots, see: <https://www.gov.uk/government/publications/developing-in-work-support-for-people-claiming-universal-credit>

- The payment of financial incentives can be effective in promoting work retention and in promoting upskilling, although effects differ for different groups and are not always long-lasting
- A strategy of upskilling needs to ensure that the training undertaken is closely linked to realistic progression pathways to have an impact on earnings
- Given limited progression prospects in many low-wage jobs, job mobility is often required, thus adviser strategies facilitating this can be productive.

Alongside the development of the evidence base, the next round of contracting for the Work Programme (or its successor) could stimulate provider activity in this area by including clearer incentives (e.g. outcome payments) based on a measure of wage or earnings growth. The future availability of 'real-time' earnings data, with the roll out of Universal Credit, would provide a means of facilitating this.

### *Family friendly practices*

Given the association between part-time work and poverty and single-earner families and poverty, it is clear that addressing the problems of work-family reconciliation for women, who continue to shoulder the majority of the burden of childcare, should be a priority for an anti-poverty strategy. However, the review has not uncovered substantial evidence of successful initiatives in this area. Childcare is likely to play a key role, since childcare costs contribute to high marginal effective tax rates for second earners in couple families. However, this is the subject of a separate review in the anti-poverty programme and so is not covered here. There is evidence to show that care-related leave enhances mothers' employment participation, providing it is well designed, although the evidence on the employment (or poverty) effects of flexible working initiatives is under-developed. Suggestions that have been made for ways of improving current practice in the UK include enabling parental leave to be taken as reduced hours of work (as is available in many European countries); promoting movements between full and part-time hours as part of the right to request flexible working; and working with employers to promote flexible work as a recruitment as well as a retention tool.

### *Longer-term policy focus*

Over the longer-term, policy should be focused on wider improvements in the labour market and facilitating growth in better quality and more highly paid jobs. This is, of course, easier said than done, since the 'long tail' of low-wage jobs has proved a stubborn feature of the UK labour market. Policy also needs to seek to improve the prospects for progression for low-wage workers both within employers' internal labour markets and by promoting job mobility. Career ladders schemes seem to offer promise but their effects are under-researched. These things may also be supported by institutional mechanisms and actors, such as union coverage and collective bargaining. However, more evidence needs to be built regarding what could work best here in the specific context of the UK.

Interventions on education and skills have not been discussed in this report, since they are the subject of a separate review (see Raffo et al, 2014), however these policies are clearly

an important part of the picture for addressing poverty in the longer-term. The UK has a relatively large number of lower-skilled workers compared to other similar countries (although this has fallen significantly over the past decade) (OECD, 2013) and there are also concerns about the performance of young people in the UK in comparative international tests of literacy and numeracy (OECD, 2013). However, it is not just policies which focus on the skills of individuals which should be a concern, there is also a need to better integrate skills policy with wider economic development, business support and broader innovation approaches, as well as to balance policies which focus on the supply of skills with those which seek to stimulate greater demand for and improve the use of skills in the workplace (see Sissons and Jones, 2014; Mayhew and Keep, 2014).

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## Appendix I: Additional descriptive evidence from evaluations of interventions

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### **Box 3.1: Examples of household income gains from the implementation of the Living Wage**

#### Under the current tax/benefit regime:

- A single adult in a shared room in the private sector, working 24 hours a week, gained £5.43 per week if working at the Living Wage (LW) rather than the NMW. When working full-time, they gained £26.94 a week or £1,400 a year.
- A single parent with 2 children (not in childcare), in a 2-bedroom property owned by a Registered Social Landlord (RSL), working 6 hours a week at the LW rather than the NMW, gained nothing, and if working 16 hours a week, gained £4.76 a week. If working full time, they gained £3.42 a week or £178 a year.
- A single parent with 2 children (one in childcare), in a 2-bedroom private rented property, working full-time at the LW rather than the NMW gained £3.15 a week or £164 a year.
- A couple with 3 children, in a 3-bedroom private rented property, where one adult worked full-time at the LW rather than the NMW, gained £3.14 a week or £163 a year.

#### Under Universal Credit:

- A single adult aged over 35 in a 1-bedroom private rented flat, working full-time, gained £12.30 a week from moving on to the LW in 2011. The new benefit rules would increase this gain to £17.40 a week (a net gain of £5.10).
- A lone parent of two children without childcare costs, living in a 2-bedroom private rented property, working 16 hours a week, gained £4.75 a week from moving on to the LW in 2011. The new benefit rules would increase this gain to £6.73 a week (a net gain of £1.98).
- A couple with two children with one in childcare, living in private rented accommodation with 2 bedrooms, working full-time, gained £14.69 a week from moving on to the LW in 2011. The new benefit rules would increase this gain to £36.98 a week (a net gain of £22.29 a week).
- A couple with three children, none in childcare, living in private rented accommodation with 3 bedrooms, working 24 hours a week, gained £10.07 a week from moving on to the LW in 2011. The new benefits rules would increase this gain to £25.37 a week (a net gain of £15.30 a week).

*Source: Wills and Linneker (2012)*

### **Box 3.2: Initiatives to promote family friendly working practices internationally**

- The New Zealand and German governments both target flexible working advice at SMEs. The New Zealand Ministry of Labour sponsored extensive case study research on problems – and potential solutions - experienced by smaller employers with requests for flexible working and made the findings easily accessible on a government-maintained website.
- The German Chamber of Commerce, in co-operation with local governments, jointly supports advice centres on work-family issues. These advice centres provide consulting services and sessions for employers who want to introduce flexible working and advice to employees or returners to the labour market who are seeking information about flexible work options and possibilities for upgrading their skills. They are reported to be especially important for human resource managers in medium-sized companies who often have little time to dedicate to the development of new work options.
- The German Ministry for Women, Seniors, Families and Youth (BMFSFJ) has developed the 'Alliance for Families', which brings together employer associations, research institutions, trade unions and foundations, each agreeing to specific targets and work programmes in relation to work-family reconciliation. For example, participating employers have set targets to increase the proportion of job adverts mentioning family-friendly work arrangements. The Ministry also coordinates 'Local Pacts for Families' to encourage co-operation at local level, designed to make work-family policies a key factor in local economic development initiatives.

*Source: Hegewisch (2009)*

### **Box 4.6: Implementation findings on career ladders**

#### Working with employers

- Organisational capacity (resources, staffing, relationships, institutional memory) is vitally important for the lead organisation, to enable it to develop/leverage partnerships, understand employer needs, target appropriate candidates, source funding and devise an appropriate intervention. The involvement of all key partners from the outset, and the establishment of clear expectations, are important for the sustainability of interventions. Adequate planning time is necessary to establish partnerships and develop programme design.
- Involvement of local industries or employers in all aspects of programme design is especially critical, to ensure that training is relevant to their needs

and to increase employer investment in the programme. Creating training partnerships, where businesses within a sector collectively identify common training needs and plan provision is helpful because it ensures that the skills gained by workers are portable across employers and reduces the competitive risks for employers of investing in training.

- It is also important for intermediaries to be selective in the employers they partner with, for example focusing on occupational pathways with the most opportunity for advancement, targeting higher wage sectors, and choosing firms with lower turnover, with internal career ladders or those providing support for training. Some industries which lack internal mobility structures are likely to be inappropriate for career ladder initiatives.<sup>100</sup>
- One study (Combes Taylor and Rubin, 2005) showed that high quality intermediaries could help upgrade employer HR and work organisation practices, if the employers felt that the intermediaries listened and responded to their concerns and understood the requirements of their particular industry. However, these organisations were often characterised by an ethic of civic responsibility (e.g. a desire to benefit the local community) which motivated their involvement, and were only willing to make changes if the associated costs made business sense. Examples of new practices adopted included subsidising travel and childcare costs, adopting mentoring programmes, putting supervisors and managers through scheme training, and implementing workforce retention initiatives.

#### Training provision

- Incremental pathways, with a range of intermediate employment opportunities requiring shorter or longer-term training, are helpful as they provide multiple entry and exit points and facilitate more rapid job placement. Modularising training courses so that they result in cumulative credentials, recognised by employers, can be helpful.
- Training courses should be as accessible and flexible as possible, through varying training sites and schedules, reducing or accommodating language and learning barriers, and developing services or policies to prevent drop-out. To promote inclusion for lower-paid workers, requiring/encouraging employers to provide paid release time for training is important.
- The provision of ESOL and Adult Basic Education were especially important in a number of schemes to make the training accessible to lower-skilled workers. It was found to be important to integrate this type of basic educational content, and other 'soft skills' training, with technical skills and vocationally-specific course content, in order to maintain participant

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<sup>100</sup> Mitnik and Zeidenberg's (2007) analysis of service sector industries in the US suggests that only hospitals and banking have the right kind of occupational structure for career ladder initiatives, since others either have too few higher level jobs or these higher level jobs require a very high level of education (e.g. schools).

engagement and to aid programme completion.

### Support services

- The involvement of organisations that have experience of working with disadvantaged job seekers are crucial, to facilitate recruitment of the 'harder to reach' onto schemes, to ensure a good match between candidates and jobs, and to provide appropriate services to facilitate programme completion.
- Training and case management should be integrated. This is important to ensure that training is appropriate and embedded within individuals' career plans.
- Support services for participants are often critical to help them stay in training and/or retain work, e.g. help with housing, transport, childcare or legal services. Study support services such as career and academic counselling, tutoring, study skills training and peer networking are important to improve training retention.

### NHS Skills Escalator findings

- Reconciling individual and organisational objectives for the scheme was a key tension. Satisfying worker aspirations for skills acquisition and balancing these with organisational demand in a climate of growing financial constraints was a key issue for managers.
- The availability of funding was critical to the way in which the scheme was implemented. In general, escalator activities had been taken up only for specific staff groups, where central funding was available and in response to capacity demands. Given limited funding for pre-employment training, the majority of NHS employers had not implemented levels 1 and 2 of the Skills Escalator (for the socially excluded or unemployed).
- Access to career development for lower skilled staff was dependent on management strategies for responding to skills needs in the organisation. For example, progression for ancillary staff was de-prioritised in a number of trusts as it was seen as less central to organisational needs. Senior management commitment was critical to the escalator concept being embedded across the whole organisation.
- The role of supervisors was also key to the success of schemes. Pressures of service delivery and staffing constraints affected line manager willingness to release staff from work for training. Line manager commitment was also crucial to enable staff to use their new skills in the workplace.
- Staff commitment was challenged where career progression and financial rewards did not accompany increased job responsibilities. For example, skills upgrading did not automatically result in upgraded pay, since this depended upon higher-level posts becoming available. However in some cases, new intermediate posts (e.g. junior doctor's assistant, assistant practitioner) had been developed. In the case of some staff groupings, ease of access to

career routes was affected by the fragmentation of organisational structures (for example, progression routes for ancillary staff were complicated by various outsourcing arrangements).

*Based on: Combes Taylor and Rubin (2005); Duke et al (2006); McBride et al (2006); Bragg et al (2007); Singh (2007); Cox et al (2008); Gash and Mack (2010); Maguire et al (2010); McBride and Mustchin (2013)*

## Appendix 2: Size of impacts and cost-effectiveness of initiatives

Study	Effect size	Cost-benefit
<b><u>Wage supplements</u></b>		
Working Families Tax Credit (Brewer and Browne, 2006; Tripney et al, 2009))	<p><u>Impact on lone mother's labour market participation:</u> estimates range from 3.7 to 5.0 pts</p> <p><u>Impact on lone mothers' full-time work:</u> estimates range from 3 to 4 pts</p> <p><u>Impact on lone mothers' working hours:</u> estimates range from an increase of 0.43 to 1.7 hrs a week for those already in work.</p> <p><u>Impact on labour market participation of couples with children:</u> estimates range from -0.57 to 1.6pts. This suggests little or no impact on average.</p> <p><u>Impact on female second earners:</u> estimates range from a 0.6% increase to a 0.75% decrease in labour market participation. (3 of 4 studies showed a negative effect.)</p> <p><u>Impact on male second earners:</u> 1% decrease in labour market participation (reported in one study only)</p>	
Working Tax Credit (Blundell et al, 2004 – simulation study)	<p><u>Impact on female second earners:</u> 0.75% decrease in labour market participation</p> <p><u>Impact on male second earners:</u> 0.22% increase in labour market participation.</p>	
<b><u>US welfare reform</u></b>		
Source: Grogger and Karoly (2005) synthesis of US welfare reform impact studies.		

<p><u>Welfare reform overall</u></p> <p>In most cases the impact is on 'welfare-prone populations', i.e. single mothers or women with low level of education.</p>	<p><u>Impact on welfare use</u><sup>101</sup>: reduced welfare use by 18.5 per cent (average from four impact studies) (pp127-9)</p> <p><u>Impact on employment</u>*: increased employment by between 2.9 and 3.9 per cent (pp149-150)</p> <p><u>Impact on labour supply (hours worked)</u>*: increased labour supply by between 4.0 and 8.0 per cent (pp149-150)</p> <p><u>Impact on earnings</u>*: increased earnings by between 5.0 and 10.2 per cent (only two studies showed significant impact) (pp149-150)</p> <p><u>Impact on family income</u>*: increased income by between 3 and 6 per cent (only 2 studies showed significant impact) (pp 166; 169-170)</p> <p><u>Impact on poverty</u>*: reduced poverty by 8 per cent (based on one study only) (pp 166; 170)</p>	
<p><u>Financial incentives</u></p> <p>Impacts are based on experimental studies of waiver reforms. Impact is on single mothers 2 years</p>	<p><u>Impact on welfare use:</u></p> <p>Strong incentives<sup>102</sup> increased welfare use by 10.3-10.5 percentage points;</p>	

<sup>101</sup> Some of these studies look at the impact on the entire population, others focus on single mothers or women with low education

<sup>102</sup> Strong incentives were unambiguously more generous for the group receiving them at any hours of work, while weak financial incentives were dependent upon work duration and hours.

<p>after programme entry</p>	<p>No effect of weak incentives (pp106-109)</p> <p><u>Impact on employment</u>: increased employment by 3.6 percentage points, only where incentives were strong (pp136-137)</p> <p><u>Impact on earnings</u>: no impact (pp136-139)</p> <p><u>Impact on family income</u>: mixed findings, one programme with strong financial incentives had positive impact on recipient income of \$81 a month (pp159-162)</p> <p><u>Impact on poverty</u>: strong incentives programme reduced poverty by between 4.0 and 8.3 percentage points (based on one study only) (pp159-162)</p>	
<p><u>Work requirements</u></p> <p>Impacts are based on experimental studies of waiver reforms. Impact is on single mothers 2 years after programme entry</p>	<p><u>Impact on welfare use</u>:</p> <p>Decreased welfare use by an average of 5.1 percentage points (pp107; 110-111)</p> <p><u>Impact on employment</u>: increased employment by 5.6 percentage points on average (pp137-139)</p> <p><u>Impact on earnings</u>: consistent positive impact on earnings, average of \$700 per year over first 2 years (pp138-139)</p> <p><u>Impact on family income*</u>: mixed results, 3 studies showed negative impact on recipient income, one study showed positive impact on household income, others showed no significant effects (pp160-162)</p>	

	<p><u>Impact on poverty</u>: most results insignificant, 2 positive impacts of 4.0 and 9.7 percentage points for those programmes that saw income gains (pp160-162)</p>	
<p><u>Financial incentives + work requirements</u></p> <p>Impacts are based on experimental studies of waiver reforms. Impact is on single mothers 2 years after programme entry</p>	<p><u>Impact on welfare use</u>:</p> <p>Strong incentives increased welfare use by 6.4 to 7.6 percentage points;</p> <p>Weak incentives decreased welfare use by 1.5 to 1.9 percentage points (pp107; 111-113)</p> <p><u>Impact on employment</u>: consistent positive impact on employment, but size of effect varies (from 1.6 to 11.5 percentage points) across programmes with different rules (pp137; 142-143)</p> <p><u>Impact on earnings</u>: consistent positive impact on earnings, but size of effect varies across programmes (pp137; 142-143)</p> <p><u>Impact on family income*</u>: Strong incentives increased recipient income by between \$54 and \$99 per month. No significant impact on household income.</p> <p>No effect for weak financial incentives (pp160; 164-165)</p> <p><u>Impact on poverty</u>: strong incentives programme reduced poverty by between 6.9 and 12.4 percentage points (based on one study only) (pp161; 164-165)</p>	

<u>Sanctions</u>  Impact is on total caseload size	<u>Impact on welfare use:</u>  Reduced welfare use by between 9.7 and 24.8 per cent (pp119-121)	
<u>Time limits</u>  Impacts on welfare use are for total caseload size. Impacts on employment are for 'welfare-prone populations', i.e. single mothers or women with low level of education.	<u>Impact on welfare use:</u>  Behavioural impacts <sup>103</sup> - reduced welfare use by between 4.0 and 19.1 per cent <sup>104</sup>  Mechanical impacts – reduced welfare use by between 8.3 and 23 per cent (pp119-123)  <u>Impact on employment*</u> : Behavioural impacts increased employment by between 2.3 and 4.0 per cent  No significant mechanical impact (pp145-148)  <u>Impact on labour supply (hours worked)</u> : no significant effects (pp145-147)  <u>Impact on earnings</u> : no significant effects (pp145-147)  <u>Impact on family income</u> : No significant behavioural impact (one study only); mechanical effects were negative (not quantified) (pp166-168)	
<b><u>UK Active Labour Market Programmes</u></b>		
New Deal for Young People (De Giorgi, 2005; Riley and	<u>Impact on employment</u> : Increased the re-employment probability of participating young men by 4.6 per cent in	<u>Total cost</u> : £2,596 million

<sup>103</sup> behavioural impacts are those that occur before time limits are reached, in anticipation of the time limit; mechanical impacts represent the effect of recipients reaching time limits and losing eligibility.

<sup>104</sup> larger impacts are seen for mothers with younger children (< age 2)

Young, 2000; NAO, 2007)	12 months after programme entry.	<u>Cost per job:</u> £2,620 (2005-6)  <u>Economic benefit to whole economy:</u> £0.5 billion
Future Jobs Fund	<u>Impact on benefit receipt:</u> participants estimated to be 7 percentage points less likely to be on benefits two years after the start of their participation  <u>Impact on employment:</u> participants estimated to be 11 percentage points more likely to be in unsubsidised employment two years after the start of their participation	<u>Cost per job:</u> £4,300 (under the most conservative estimates) or £950 (under the most optimistic)  <u>Cost-benefit:</u> Net benefit to society estimates range from £1,100 to £15,350 (£7,750 under baseline assumptions). This includes the sum of benefits to participants, employers and the Exchequer
New Deal 25 Plus (Wilkinson, 2003; NAO, 2007)	<u>Impact on benefit receipt:</u> 8 percentage points (ppts) more pilot participants had left JSA 18 months after entering ND25 plus than members of the comparison group.  <u>Impact on employment:</u> 4-5 ppts more pilot participants had left JSA to enter work than members of the comparison group, but this was only weakly significant (i.e. at the 10% level but not the 5% level).	<u>Total cost:</u> 1,279 million  <u>Cost per job:</u> £3,530 (2005-6)
Support for the Very Long-Term Unemployed (SVLTU) (DWP, 2013d)	<u>Impact on benefit receipt:</u> Reduced benefit receipt (any benefit) by 21 days for Community Action Programme (CAP) group and 26 days for Ongoing Case Management (OCM) group over a 21 month period.  <u>Impact on employment:</u> Increased number of days in employment by 9 days for CAP group and 10 days for OCM group. Impact peaked at 9-12 months post-programme entry (where the impact on employment rates was 4 ppts), but had reduced to zero by 21 months.	
New Deal for Lone Parents (Cebulla et al, 2008; NAO, 2007)	<u>Impact on benefit receipt:</u> Increased IS exit rate by 18.3	<u>Total cost:</u> £322 million in total

	<p>ppts at 24 mths for programme participants;</p> <p>Increased IS exit rate by 1.4 ppts at 24 mths for all lone parents on IS</p> <p><u>Impact on employment:</u> Two separate impact estimates based on different samples and methodologies<sup>105</sup>:</p> <p>1. (Lessof et al, 2003) Increased work entry by 26.4 ppts after 9 mths</p> <p>2. (Dolton et al, 2006) Increased employment by 10.2 ppts after 9 mths and by 4.3 ppts after 24 months.</p>	<p><u>Cost per job:</u> £840 per job (2005-6)</p>
Lone Parent Obligations (Avram et al, 2013)	<p><u>Impact on benefit receipt:</u> Reduced the share of affected lone parents receiving any out-of-work benefit by between 11 and 13 ppts (across the three phases) after 3 months, and by 13 to 16 ppts (in phase 1 and 2) after 12 months</p> <p><u>Impact on employment:</u> Increased the share of affected lone parents in work by 7 ppts after 3 months, and by 8 to 10 ppts (in phases 1 and 2) after 12 months.</p>	
New Deal for Disabled People (Orr et al, 2007; Greenberg and Davis, 2007; NAO, 2007)	<p><u>Impact on benefit receipt:</u> Reduced benefit receipt by 16 (existing claimants) and 13 (new claimants) ppts in month 24</p> <p>For existing claimants, this rose to 18 ppts by month 36<sup>106</sup>, while for new claimants it dropped to 11 ppts.</p>	<p><u>Total cost:</u> £312 million in total</p> <p><u>Cost per job:</u> £2,370 per job (2005-6)</p> <p><u>Cost-benefit:</u> Reduced government spend by £2,500 per participant (for existing claimants) or by £750 (new claimants)</p>

<sup>105</sup> Cebulla et al (2008) conclude that the difference in impact is a result of a) a stricter criterion of 'sustained work' rather than 'job entry' being applied by Dolton et al, and Lessof et al using a more disadvantaged lone parent population. NB NDLP appears to have a greater impact for more disadvantaged lone parents.

	<p><u>Impact on employment:</u> Increased employment by 11 (existing claimants) and 7 (new claimants) ppts in month 24. This represents gains of 29 and 13 per cent of the comparison group mean, respectively. The impacts remained the same at month 36.</p>	<p>Net benefit to society of £2,915 to £3,163 for existing claimants and £613 to £861 for new claimants.</p>
<p>Pathways to Work (Knight et al, 2013: 48; NAO, 2010)</p>	<p><u>Impact on benefit receipt:</u> Reduced receipt of IB by average of 6.2 ppts (averaged across the various programme phases)</p> <p>Reduced receipt of any benefit by 1.8 ppts (measured for Provider-Led Pathways (PLP) only).</p> <p><u>Impact on employment:</u> Increased employment by 7.4 ppts in pilot areas (based on 18 mth follow-up survey<sup>107</sup>)</p> <p>Increased employment by 3.1 ppts (using survey data) or 1.0 ppts (using HMRC data) in PLP areas<sup>108</sup></p>	<p><u>Programme cost:</u> £451 per programme start</p> <p><u>Cost per job:</u> £2,942</p>
<p><b>Post-employment interventions</b></p>		
<p>UK ERA (long-term unemployed)</p> <p>Hendra et al (2011)</p>	<p><u>Sustained impact on employment:</u> 2.2 percentage points more likely to be working during the 5 year follow-up compared to control group (p169)</p> <p><u>Earnings impact:</u> intervention group earned £1,481 more than controls over the 4 year follow-up reflecting a 12 per cent gain (p175)</p>	<p>Total net cost of ERA for a typical person in this intervention group was £1,261 (p197).</p> <p>The key finding is that ERA resulted in average net gains of about £725 for each ND25+ participant it served and a little over £1,800 for each participant for the Exchequer. This yields a net gain of over £2,500 per participant for society as a whole. (p208)</p>

<sup>106</sup> The 3 year data was only available for an early cohort.

<sup>107</sup> the impact estimate was calculated for those who enquired about IB, rather than those who went on to make a claim, who may be a more advantaged group (NAO, 2010)

<sup>108</sup> although this was not significant at the 95 per cent level, meaning we cannot be reliably sure that the effect was not zero (Knight et al, 2013).

<p>Texas ERA (unemployed TANF applicants and recipients)</p> <p>Hamilton &amp; Scrivener (2012 pp 13-16)</p>	<p><u>Sustained impact on employment:</u> (Corpus Christi site only) ERA increased quarterly employment by 3.7 percentage points over the four year follow-up period.</p> <p><u>Earnings impact:</u> increased average earnings by \$640 (15 per cent) over the four year follow-up period.</p>	<p>Pooled estimates showed that programme participants were better off financially than the controls. The benefit-cost analysis found that for every government dollar, participants' income (average) increased by more than a dollar – participants gained between \$1.00 and \$3.50, depending on the programme.</p> <p>See Redcross et al (2010) for more details.</p>
<p>Chicago ERA (employed TANF recipients)</p> <p>ditto</p>	<p><u>Sustained impact on employment:</u> The programme increased quarterly employment by 2.6 percentage points over the four year follow-up period.</p> <p><u>Earnings impact:</u> increased average earnings by \$500 (7 per cent) over the four year follow-up period.</p>	
<p>Riverside PASS ERA (employed former welfare recipients)</p> <p>ditto</p>	<p><u>Sustained impact on employment:</u> The programme increased quarterly employment by 3.4 percentage points over the four year follow-up period.</p> <p><u>Earnings impact:</u> increased average earnings by \$870 (10 per cent) over the four year follow-up period.</p>	

\* combines studies looking at earlier waiver reforms and the 1996 TANF reform