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The Wrong Way to Tackle Poverty

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Everyone, from advocates of Universal Credit (1) to the authors of the EU 2020 Growth Strategy (2) believes that the best way forward for unemployment and poverty is to get more people into paid work. This is a big mistake. Very few of the policy-makers pay any attention to the quality of the jobs people end up in, or the pay rates. The new poor live more stressful lives and *they earn* their poverty. We must stop thinking of the work-first world as automatically social progress.

The Coalition's flagship reform of the welfare state for those of working age is the Universal Credit programme, currently being rolled out. This brings together the six main means-tested benefits into a simpler system intended to have clearer and more obvious work incentives. The idea that mobilising the poor into paid work is the best way to deal with poverty pervades welfare state policy across the developed world. It underlies the US life-time capping of benefit entitlement,(3) the Australian Work First programme (4) and the German Hartz IV (5) cutbacks of insurance benefits. It is reflected in the EU's current 'Europe 2020' programme with its goals of 'smart, sustainable and inclusive growth', in which 'progress in increasing the employment rate helps to reduce poverty'.

There is some truth in this. In general, people in paid work are less likely to be poor than unemployed people. At the same time, employment rates are rising with the most striking changes are among women. The proportion of women in European countries paid work rose by between a quarter and a third between the 1960s and the onset of the crisis in 2007. The work first programme can claim to be working with the grain of social change.

The idea that jobs solve poverty misses a bigger picture. Through the developed world the share of GDP growth that goes to the working population in earnings has been falling steadily for about 40 years. Whether calculated as percentage of Gross Value Added, as in the work of the Resolution Foundation,(6) or of GDP growth as in recent ILO studies,(7) the 'wage share' has fallen. Put simply, workers receive somewhere between a sixth and a twelfth less of what they produce than their counterparts did in the 1950s and 1960s and their share is continuing to decline.

Within the context of a falling wage share, inequalities in market incomes have been steadily rising. The work of Atkinson shows that this is not simply the runaway escalation of top end incomes.(8) The rich have done very well and those in the middle have certainly improved their position during the stable growth of the 15 years before the 2007 crisis. What is striking is that the incomes of the bottom ten per cent have stagnated or fallen while other groups have moved away from them.

The UK is at the most unequal end of a general pattern. In terms of declining wage share, precipitate growth in top one per cent incomes and flat-lining at the bottom end, its performance has been much closer to that of the US than of any of the larger European countries.(9) Current government policies bear particularly heavily on the poor. Cautious Treasury estimates in Table T2C of the 2013 Budget suggest that the poorest fifth of the population lose about twice as much from the impact of current cuts to benefits and services and tax changes as do those in the middle.(10) Independent IFS calculations put the ratio for those without children at more than double that.(11)

Most of those in poverty live in working households. Among families the proportion in households with at least one member in work has risen from 50 to 68 per cent since 1996 according to DWP statistics (Households below Average Incomes 1995-6 to 2011-12, Table 5.5ts).(12) A further indicator of low quality work at the bottom is the extent to which jobs require training.

New data from a careful study by the Centre for Learning Life Chances in Knowledge Economies and Societies shows that over the past 30 years of time spent in in-work training shows an interesting pattern.(13) Participation in training in Britain rose in the late 1990s and flat-lined in the early 2000s. After 2006 it fell back to roughly the 1995 level. Training is weakest at the bottom end of the labour market. No progress is being made in improving the quality of work or the opportunities for those who enter.

The work-first welfare state is seen as the answer to poverty across Europe. This may reflect the difficulties governments face in developing traditional tax-and-spend welfare in a more globalised and ruthlessly competitive world. Many of those who are keenest on this approach ignore the fact that the share of GDP going to workers is falling, market incomes are becoming steadily more unequal and the working lives of those at the bottom are less satisfying and meaningful than in the past.

The UK Coalition is at the forefront of the work-first welfare state. The trends to falling wage share and inequality are reinforced by government policies that cut benefits and impose tougher conditions on the working poor. We should perhaps be more honest. The new job-centred welfare state is not about reducing poverty or improving the lives of those at the bottom. It is about mobilising them into paid work regardless of stress level or the impact on family life. It is also about ensuring that they contribute to the rising living standards of more advantaged groups.

*These issues are discussed in more detail in Peter Taylor-Gooby (2013) *The Double Crisis of the Welfare State and What We Can Do About It,* Palgrave Macmillan, Basingstoke.

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