

Trades Union Congress

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CHILD
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COALITION



second edition

employment and poverty

Introduction

Do European countries face a choice between low levels of poverty and high levels of employment? Or is it possible to reduce unemployment and poverty at the same time? This briefing looks at some recent studies of what is happening around the world, and concludes:

- It is possible to have it all - high employment and low poverty rates.
- But it is equally possible to have high employment combined with high poverty.
- There is a much clearer link between the level of poverty in a country and the amount it spends on its welfare state.

These studies have implications for the Government's anti-poverty policies:

- The Government has got a lot right –
 - Putting employment at the heart of its poverty plans;
 - Targeting workless families for special help;
 - And the Government's tax and benefit changes will help hundreds of thousands of people escape poverty.
- But these plans risk leaving many of the poor behind unless they are combined with above inflation benefit increases.

Background

There is a debate about whether Britain should adopt the 'European social model', with strong social partnership between Government, employers and unions, and high levels of social security. The alternative we are usually invited to support is provided by the USA: hire and fire labour markets and low levels of social protection.

One of the strongest arguments for this alternative is that the US approach creates more jobs. It is certainly possible to over-state this case, but it remains true that US unemployment rates are much lower, and employment rates higher:

Table 1: Unemployment and employment rates in 1998, EU and USA

	Unemployment rate	Employment/population ratio
European Union	9.9%	61.1%
United States	4.5%	73.8%

Source: OECD, statistical annex, table B.

A natural response to this argument has been to claim that the US paid for this with higher levels of poverty, and again, a quick comparison bears this out:

Table 2: Low incomes in EU and USA, mid-1990s

	Proportion with low incomes
European Union	8.4%
United States	17.3%

Source: LIS data.

The EU figure is an average (not weighted by population) of the most recent figure available for 10 EU member states. The US figure is for 1997.

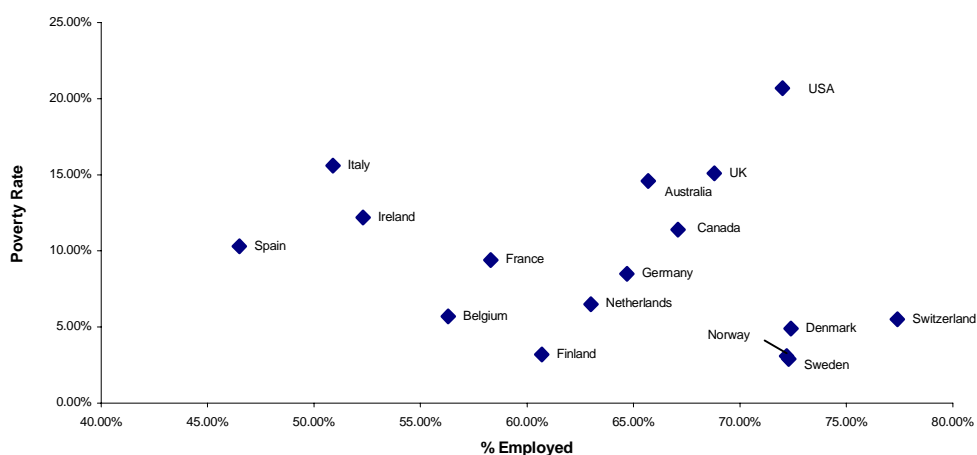
Low income = below 50% of the equivalent median household disposable income for that country.

This comparison has led many people to assume that there is a trade-off between poverty and unemployment. The less one has of one, it is asserted, the more one has of the other: either you can have American levels of poverty, with high employment, in which case you should reduce social spending and de-regulate the labour market, or you can have low levels of poverty, but high unemployment, in which case the American prescription is unnecessary.

Employment and poverty

In fact, this trade off is simply the result of comparing the USA on the one hand and the EU on the other. As a significant article by Ive Marx for the Employment Policy Institute showed, when the EU is broken down into its member states the trade off disappears.

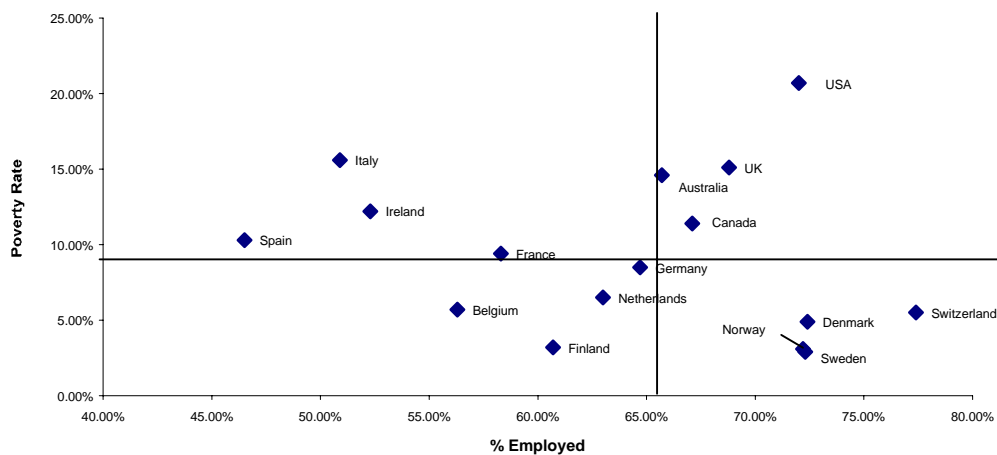
Fig 1: Poverty and employment



Source: after Marx, fig 1. For data, see annex.

If we divide the countries with higher employment rates from those with lower, and those with higher poverty rates from those with lower, we can see that there are countries in each quarter: countries with high poverty rates and high levels of employment, low poverty and low employment, etc.:

Fig 2: No trade-off



The iron law of social protection

Plainly it **is** possible to combine high employment with low poverty. And critics are wrong to claim that Governments that seek to raise employment levels have abandoned the fight against poverty. But, equally, employment levels **by themselves** cannot explain poverty. So what are the causes?

An important paper for UNICEF (Bradbury and Jantti) looked at the variation in child poverty rates from one industrialised country to another. At 21.3%, the UK had the third worst record of the 25 countries studied:

Table 3: Child poverty rates

Country	Year	Child poverty rate
Russia	1995	26.6%
USA	1994	26.3%
UK	1995	21.3%
Italy	1995	21.2%
Australia	1994	17.1%
Canada	1994	16.0%
Ireland	1987	14.8%
Israel	1992	14.7%
Poland	1992	14.2%
Spain	1990	13.1%
Germany	1994	11.6%
Hungary	1994	11.5%
France	1989	9.8%
Netherlands	1991	8.4%
Switzerland	1982	6.3%
Taiwan	1995	6.3%
Luxembourg	1994	6.3%
Belgium	1992	6.1%
Denmark	1992	5.9%
Austria	1987	5.6%
Norway	1995	4.5%
Sweden	1992	3.7%
Finland	1991	3.4%
Slovakia	1992	2.2%
Czech Republic	1992	1.8%

Source: Bradbury and Jantti, table 3.3.

Figures are Bradbury and Jantti's calculations, using LIS data.

Children poverty rate = proportion living in households with equivalent disposable income below 50% of the local median.

Why does the proportion of poor children in these countries vary so much?

Bradbury and Jantti identify two main causes. Firstly, while employment is not the **only** factor, it **is** important, and particularly so in the English-speaking countries.

In the UK, Ireland, Australia and Canada poor children's families have to rely on benefits to a far greater extent than in other countries:

Table 4: Income sources of the poorest fifth of children in each country

Country	Year	Market income share	Net social transfers
Taiwan	1995	88%	12%
Italy	1995	(78%)	(22%)
Finland	1991	77%	23%
Spain	1990	(72%)	28%
Germany	1994	71%	29%
Netherlands	1991	68%	32%
Norway	1995	67%	33%
Luxembourg	1994	(67%)	(33%)
Czech Republic	1992	66%	34%
Poland	1992	(62%)	(38%)
Denmark	1992	62%	38%
Sweden	1992	57%	43%
Israel	1992	56%	44%
Belgium	1992	55%	45%
Russia	1995	(54%)	(46%)
Slovakia	1992	53%	47%
France	1989	(49%)	(51%)
USA	1994	48%	52%
Canada	1994	43%	57%
Australia	1994	35%	65%
Hungary	1994	(30%)	(70%)
Ireland	1987	29%	71%
UK	1995	25%	75%

Source: taken from Bradbury and Jantti, table 5.2.

'Market income share' = wages and other market incomes.

'Net social transfers' = net of taxes and social transfers.

Incomes are equivalised, and expressed as a fraction of the adjusted disposable income. Figures in brackets are not fully comparable, as wages and some other sources of income are recorded in these countries on an after tax basis, which tends to bias market income components downwards and net social transfers upwards.

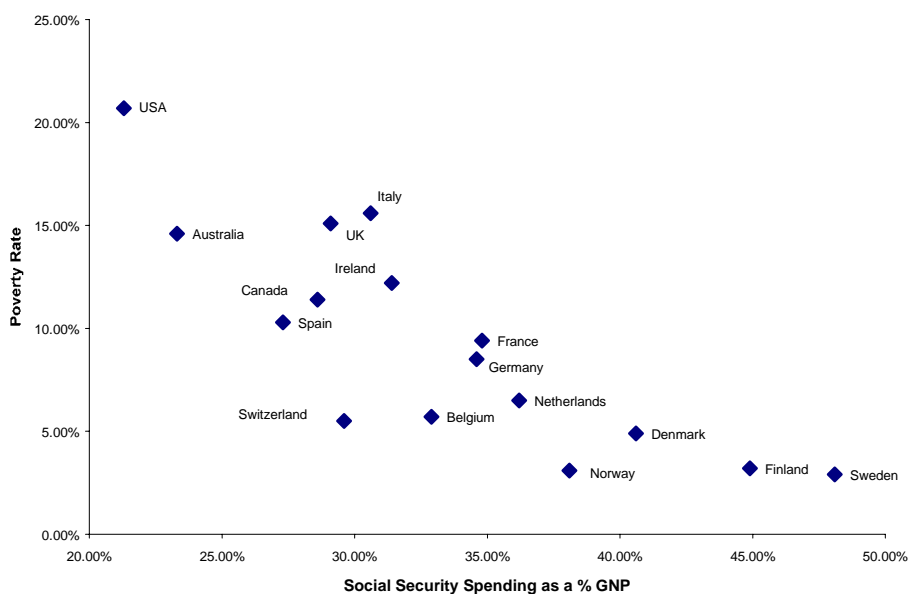
Bradbury and Jantti suggest that low wages may help explain why the UK is at the bottom of this league, but this country's large number of workless families may be an equally (or even more) important factor. This issue is looked at in more detail below. Secondly, the level of social protection in each country is vitally important:

"Clearly, income transfers and the other services of the welfare state are very important for the living standards of poor children, and these have been the focus of much previous research on child (and adult) poverty. Those countries which are

‘welfare leaders’ tend to have low poverty rates, while the ‘welfare laggards’ have much higher child poverty rates.” (Bradbury and Jantti, p. 71)

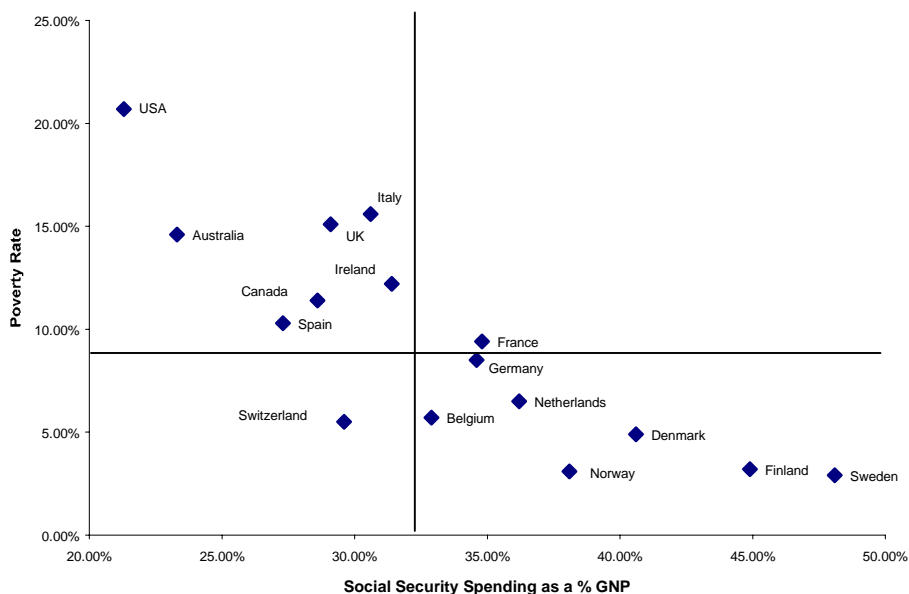
Bradbury and Jantti’s demonstration of the correlation between the extent of child poverty in a country and the level of social protection spending has been very influential. Bea Cantillon, of Antwerp University, has shown that a similar relationship also applies between the level of social protection spending and the poverty rate for people of **all** ages. (Cantillon, p. 11, for data see annex)

Fig 3: Poverty and social protection spending



If we carry out the same exercise as in Fig 2, and divide the countries with higher levels of social protection spending from those with lower, and those with higher poverty rates from those with lower, we get a remarkable result:

Fig 4: The iron law of social policy



The clear link between social protection spending and poverty rates has been called the “iron law of social policy” by Frank Vandebroucke, the Belgian minister for social affairs. The contrast with Fig 2 is very noticeable. France is just inside the high poverty – high spending quarter, and Switzerland is very successful at getting more poverty reduction bangs per buck spent, but the other 14 countries are all in either the high poverty/low spending quarter or low poverty/high spending. The Bradbury and Jantti research indicates that it would be going too far to argue that welfare spending is the only factor that counts, and that employment is unimportant. But the least we must conclude is that welfare-to-work policies, however effective, cannot **substitute** for adequate social protection spending.

The government's policies

The Government has made a clear commitment to cutting poverty, setting itself the goal of reducing child poverty by half in 10 years and abolishing it in a generation. (Brown, p. 3) The production of an annual poverty report, with the first, *Opportunity for All*, published in September 1999, shows that the Government is actually helping the public to hold them accountable on this issue. No one should deny the Government's anti-poverty credentials.

The Government has made employment the centrepiece of their anti-poverty strategy. An important 1999 paper by the Treasury argued that “work is the most

important route to increased prosperity, and most people who are trapped on low income are without work.” (HMT, para 2.29)

Table 5: Proportion of people with persistently low incomes by employment status

	In the bottom 20 per cent	In the bottom 30 per cent
Pensioner	37%	32%
Fully employed	5%	8%
Partially employed	13%	15%
Workless	39%	34%
Self-employed	7%	10%
Total	100%	100%

Source: HMT, Para.s 2.22 – 3.

“Bottom 20/30 per cent” = income in the poorest 20/30 per cent for at least 4 years of the study and the poorest 40% for the remaining 2 years.

It is this analysis that lies behind the announcement in the 1999 pre-Budget statement that the Government has set itself the goal of 75% of the working age population being in employment. It also informs the Government’s welfare reform strategy of ‘work for those who can, security for those who cannot’, of ‘making work pay’ through the tax credits and the New Deal programmes.

This briefing provides powerful support for that strategic decision. Those who claim that higher employment and lower poverty cannot be pursued at the same time are, quite simply, wrong. Not only can both objectives be pursued at the same time, they can be mutually re-enforcing:

- Many people move out of poverty as they take up jobs.
- Adequate benefits give people the confidence to take the risk of moving into a job.

A particular focus for the Government has been the problem of *workless households*: families where none of the adults are in paid employment. 39% of the people in the bottom fifth of the income distribution live in workless families, (HMT, para 2.23) and nine out of ten children in workless households are poor. One child in five lives in a workless household – twice the rate of France or Spain, four times the rate in Germany. (Macpherson, p. 3)

Clearly, Bradbury and Jantti’s work indicates that the Government is right to emphasise employment, and also right to address the problem of workless households: the exceptionally low proportion of the incomes of poor people in this

country which is derived from wages is obviously a serious problem. I've Marx's work supports this emphasis as well, showing that over half of workless working age households are poor, and that three quarters of poor working age households are workless:

Table 6: Poverty rates for different household types, working age population

All households	Single adult households		Two adult households		
	In work	Not in work	Double earner	Single earner	No earner
17.5%	7.0%	57.7%	1.0%	12.7%	52.3%

Source: Marx, table 3.

Table 7: Distribution of poor households with a working age head

All households	Single adult households		Two adult households		
	In work	Not in work	Double earner	Single earner	No earner
100%	7.8%	49.2%	2.1%	13.6%	27.2%

Source: Marx, table 4.

However, the clear correlation between a country's social protection spending and its poverty rate, and the lack of a correlation between poverty rates and employment rates indicates equally clearly that employment cannot be the whole answer to poverty. Workless families in the UK are far more likely to be poor than their counterparts in other European countries, and this must be related to the level of social protection in different countries:

Table 8: Poverty rates for workless households, working age population

Country	Poverty rate for workless single adult households	Poverty rate for workless two adult households
USA	72.8%	48.9%
Australia	65.6%	47.5%
Canada	63.7%	46.5%
UK	57.7%	52.3%
Germany	44.2%	32.4%
France	32.5%	25.6%
Spain	28.7%	27.3%
Italy	27.1%	23.5%
Sweden	32.4%	13.6%
Netherlands	27.8%	17.1%
Norway	28.3%	11.2%
Finland	30.3%	8.9%
Belgium	16.1%	18.0%
Denmark	20.1%	7.9%

Source: taken from Marx, table 3

The TUC is particularly concerned that the Government's policy of uprating most benefits in line with increases in prices, not earnings must inevitably exacerbate the poverty of people at the bottom of the income distribution:

- As Bradbury and Jantti revealed, for the very poorest British people, benefits account for a high proportion of their income - a much higher proportion than for those with average incomes.
- When benefits do not rise as quickly as wages (the most important form of income other than benefits) their relative position will therefore worsen. In fact, wages nearly always rise faster than prices.
- As the people who rely on benefits are already the poorest households the policy of uprating most benefits in line with inflation therefore means that the gap between the richest and poorest must widen.

If everyone of working age who is poor were to get paid employment this would not be such a problem, but the TUC believes that even a successful welfare-to-work policy will still leave a significant number of working age people **not** in employment. If their benefits are only uprated in line with inflation their relative position will continue to deteriorate.

The Government does have another answer to this criticism. While they have set their face against above inflation benefit increases across the board, the policy of “work for those who can, security for those who cannot” allows for higher benefits for those not expected to look for jobs.

The Government **has** increased some benefits by more than inflation. Increases in benefits for children have been particularly generous, and significantly redistributive:

- The Working Families Tax Credit is much more generous than Family Credit.
- Child Benefit for first children has been raised from £11.05 to £15.50 – much more than the increase that would have been produced even rating in line with earnings. For other children, CB has been raised to £10.35 - more than the increase that would have been produced by normal uprating policy.
- Children's premiums in means-tested benefits have also been increased by more than inflation, especially the premiums for children under 11, which have been raised to the level paid in respect of 11 – 15 year olds.

- The Child Tax Credit, worth up to £520 a year for taxpayers with children, and tapered away for higher rate taxpayers.

David Piachaud and Holly Sutherland have pointed out that these measures, which will cost £6 billion p.a., **will** take substantial numbers of people (especially children) out of poverty:

Table 9: Poverty rates before and after Labour policies

	All people	All children
Proportion poor, assuming continuance of pre-May 1997 policies	19.1%	26.3%
Proportion poor under Labour policy	16.0%	19.9%
Per centage points reduction	3.1	6.4

Source: Piachaud and Sutherland, table 5

Poverty = income below 50% of mean equivalised disposable income.

Piachaud and Sutherland predict that there will be a net movement out of poverty of 1,770,000, including 840,000 children. (Ibid, table 5) In addition, substantial numbers will be helped out of poverty by the welfare-to-work strategy. Piachaud and Sutherland estimate that this *could* lead to as many as a million children escaping poverty, though 160,000 is a more likely figure.

No one should deny that this would be a substantial achievement, but it would still leave huge numbers in poverty:

“It should be noted that this scenario, which combines entry into employment for both lone parents and couples, involves a major expansion of employment by nearly 1.5 million jobs.... Even then, overall child poverty is reduced by 1,850,000: roughly halved, not reduced to zero. The explanation mainly lies in the fact that not all children have a parent that is available to work for 16 hours or more. The children of parents who we assume to be potentially available for work make up just 49% of poor children (using the standard line). Those that remain are the sick and disabled, parents of very young children and people already working for low earnings. These families may be helped by tax and benefit policy, but not – at least in the short-term – by employment strategies.” (Ibid, p. 29)

Families still relying on benefits will gain from the increased provision for children, but the rest of their benefit income will have been uprated in line with inflation. Under current policies, many of these families will continue to be poor, and their relative position will deteriorate. Families without children will be even worse off.

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Annex: Sources for the charts

Figs 1 – 4 are taken from *Child Poverty Across Industrialized Nations*, Bruce Bradbury and Markus Jantti, Innocenti Occasional Papers, Economic and Social Policy series no 71, September 1999, which use data from the Luxembourg Income Study (data for poverty rates and social protection spending) and *Employment Outlook*, OECD, June 1999 (data on employment/population ratios).

Figure 1 essentially recreates figure 1 in “Low Pay and Poverty in OECD Countries”, Ive Marx, *Employment Audit*, EPI, Winter 1999, while figure 3 takes Bradbury and Jantti’s figure 5.1, which applies only to child poverty, and extends it to cover all ages.

The actual data on which the charts in this briefing are based is as follows:

Poverty in mid-1990s

Country	Year	Poverty rate
Sweden	1992	2.9%
Norway	1995	3.1%
Finland	1991	3.2%
Denmark	1992	4.9%
Switzerland	1982	5.5%
Belgium	1992	5.7%
Netherlands	1991	6.5%
Germany	1994	8.5%
France	1989	9.4%
Spain	1990	10.3%
Canada	1994	11.4%
Ireland	1987	12.2%
Australia	1994	14.6%
UK	1995	15.1%
Italy	1995	15.6%
USA	1994	20.7%

Notes

- 1 Source: Bradbury and Jantti, Table 3.6, using Luxembourg Income Study data.
- 2 Poverty is defined as an equivalised household income below 50% of the overall median.

Employment/population ratios in 1994

Country	Employment/population ratio
Spain	46.5%
Italy	50.9%
Ireland	52.3%
Belgium	56.3%
France	58.3%
Finland	60.7%
Netherlands	63.0%
Germany	64.7%
Australia	65.7%
Canada	67.1%
UK	68.8%
USA	72.0%
Norway	72.2%
Sweden	72.3%
Denmark	72.4%
Switzerland	77.4%

Notes

- 1 Source: Employment Outlook, OECD, June 1999, Table B
- 2 The OECD table includes data for up to 1998, but the 1994 figures have been preferred as being nearer the time covered by the poverty and social spending data.
- 3 The ratio is the population aged 15 – 64 who are in employment, divided by the working age population. (Except in Iceland, Norway, Spain, Sweden, the UK and the USA, where working age is taken as 16 – 64)

Social spending as a proportion of GNP in 1993

Country	Social spending as a proportion of GNP
USA	21.3%
Australia	23.3%
Spain	27.3%
Canada	28.6%
UK	29.1%
Switzerland	29.6%
Italy	30.6%
Ireland	31.4%
Belgium	32.9%
Germany	34.6%
France	34.8%
Netherlands	36.2%
Norway	38.1%
Denmark	40.6%
Finland	44.9%
Sweden	48.1%

Notes

- 1 Source: Bradbury and Jantti, Table 5.1, using OECD and UNICEF data.
- 2 Social spending includes most Government expenditure on cash and non-cash social benefits, but not social aspects of taxation systems or spending by employers.

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Contact R Exell 020 7467 1319 rexell@tuc.org.uk