



**Wales Institute of Social & Economic
Research, Data & Methods**

Sefydliad Ymchwil Gymdeithasol ac
Economaid, Data a Dulliau Cymru

WISERD & Welsh Government Evidence Symposium: Poverty & Economic Inequalities in Wales

Report on Symposium

June 2013



Welcome, Introduction & Setting the Scene

Attendees were welcomed to the event. It was explained that the purpose of the event was to consider what can be done to tackle poverty and inequality in Wales. Who should we be targeting? How can we tap into the issue? Is the Welsh Government's current focus right?

The Changing Shape of the UK Job Market and its Implications for the Bottom Half of Earners

From the 1970's, after a long period of relative stability, there was an explosion of earnings dispersion. Until recently the view had been that from the mid 1990's this had settled down and, apart from at the bottom of the earnings ladder, there was little further movement. We now see this view as too simplistic, with evidence demonstrating that bottom earners have done better relative to medium earners, whilst the top decile has shot up.

Some economists claim that social mobility has diminished, this view is misleading and is based on two cohort studies which compare the earnings of sons with fathers. This research demonstrated greater correlation in later cohorts, suggesting that family can, in a sense, drag you down. However, occupational data indicates that in actual fact, not a lot has changed in the last fifty to seventy years.

Like most other developed economies the UK has a high skills vision – in the modern global economy a wealthy country needs to move as much of its production up-market as possible, if it is to flourish in international trade and maintain a reasonable distribution of earnings. It is generally believed that such a move up-market would need a more skilled workforce. Too often, however, it seems to be assumed that more skills are a sufficient, as opposed to a necessary, condition for this.

This assumption is reflected in some of the work produced by or for official bodies. For example, research was carried out for the predecessor of BIS, who were keen to demonstrate that the number of graduate jobs had increased and would continue to do so in future. The research used five definitions of jobs, four were graduate jobs whilst the other was not. The definition of what constituted a graduate job was problematic. To give another example, the OECD adopted a definition of over-education that stated that workers were over-educated if they were overqualified compared to the modal person in the job. This definition is equally problematic

Two key pieces of research related to under-utilisation of skills were discussed: The Russell Sage Project, which was an enquiry into low wage work in a number of countries; and the ESRC Centre on Skills, Knowledge and Organisational Performance (SKOPE) Labour Market Segmentation Project.

The project was commissioned by the Russell Sage Foundation in New York. The foundation had commissioned similar work in the US and wanted international comparators. Research was carried out in five European countries: the UK, France, Germany, Denmark and the Netherlands. For the workers studied, increasing their skills and /or qualifications had relatively little impact on their labour market prospects.

Research was conducted for the Resolution Foundation on labour market segmentation and mobility. The basic message was that middle occupational jobs have been reducing in relative numbers. Nevertheless the earnings distribution has been much less affected. There has been a lot of growth in jobs at top but some of these occupations have been receiving lower relative pay - being a manager isn't what it used to be. The research demonstrated that the dispersion of earnings within high end occupations was getting greater.

A big issue here is education. Study of the graduate premium over time is interesting. What is the advantage of going to university and has it changed over time? In actual fact there is not much change over time except for at the top end of the occupational hierarchy. BIS states that the graduate earnings premium is £100k on average, however, this reflects a wide dispersion. Graduates penetrate a long way down the earnings distribution. Interestingly, more people from the lower classes go to post 1992 universities and get jobs earning less than graduates from the pre-1992 universities.

Key Issues

If we think about bottom half of labour market over time, have we moved into world where relative mobility may be in danger of declining? Important here is the class distribution of education and of soft skills.

The UK Government places a great deal of emphasis on returns to higher education, but this area needs further research. There are issues around the quality of production processes and of the jobs which accompany them. Will the resurrection of industrial policy help to provide a solution? It has long been thought that higher quality production requires more skilled workers. Are ICT developments threatening this assumption?

Phil Brown and his colleagues have written on the war for talent. They argue that many graduates going into seemingly high skill jobs are, in actual fact, going into tailored jobs with little discretion and routinised by ICT. Are we moving into age of mass customisation?

Competition in complex labour market for better jobs isn't just about education, but is more and more about soft skills. This changes the nature of competition in a class sense and could be more of a problem in future.

A key issue requiring further research is what will the quality of jobs be like at the bottom and top of the occupational hierarchy? There are big changes in relative pay for high end jobs and the changing nature of competition for better jobs is also interesting.

Employment Inequalities in Wales

This presentation was based on research completed by economists at Swansea University, as part of a report completed by WISERD for the Equality and Human Rights Commission (EHRC). The report brought together a consortium of researchers from Cardiff and Swansea Universities, looking at inequality in Wales, and was a follow up to a report by John Hill's work on inequality in the UK as a whole.

The research demonstrated that Wales is traditionally below the UK in terms of the share of the population that are working, there are not huge differences but the difference is persistent. Gender differences are marked in Wales compared to the rest of the UK. Wales also has more part time workers and people on long term sickness benefits. Job quality is lower in Wales but not dramatically so. The chance of being employed in Wales increases up to the age of 45. Ethnicity matters, but religion makes more of a difference, particularly for women.

A large proportion of females in Wales are involved in part time work. Self-employment is more common in males than females. There is an increase in long term sickness benefits for women, whilst this is reducing for males. There is generally less employment in Wales for males and females than UK wide.

In Wales, Males aged 70 and over are mostly retired. Age 30-40 is peak in terms of full time employment for males in Wales, for rest of the UK, full time employment is at its peak at age 35. At the higher end of the age distribution, full time employment holds up longer UK wide compared to Wales. Long term sickness also increases more within Wales over time.

Hopefully this is a characteristic of the current cohort but it does flag up health as a determinant of employment. There is also a higher incidence of student related inactivity in Wales. More women than men in Wales are in part time work. There is a 5% higher chance of long term sick for women in Wales 50-59.

In terms of ethnicity in Wales, males of Pakistani origin are more likely to be self-employed than other ethnic groups. For females, there is a lower incidence of Chinese females in full-time employment in Wales, self-employment is also higher amongst those of Chinese and Asian origin compared to white females.

There is more inactivity for the severely disabled in Wales. There is less chance of the disabled being in low paid occupations in Wales compared to the rest of UK.

There is a perception that Wales has bigger public sector than the rest of the UK, this was evidenced. Class also has a noticeable impact on employment.

Poverty and Economic Inequality in the UK

The percentage of income held by the top 1% in the UK has increased since the 1970's, from 6% in 1979 to 14-15% in 2001. If we compare Wales and the North of England with the East and London, earnings were 8% lower in 1979 and 25% lower in 2007. From 1970-2012 there has been a widening of earnings distribution, with the top decile moving furthest from the median. In 1979 average earnings were 90% of the median, by 2009 this has altered to 80%.

There are wide levels of inequality in amongst different groups in the labour market. The difference within groups (e.g. among women) is often greater than the difference between groups (e.g. men versus women). For instance, there is a wide distribution in earnings amongst graduates, some do well, some not. Women in Wales exhibit particularly low earnings. The average earnings of woman in Wales employed in the private sector places in the 25th percentile of earnings in the UK. In London it's in the 46th percentile.

Poverty doesn't vary greatly regionally. When looking at poverty it is important to take into account housing costs. Overall 21% of people in Wales are in poverty. There is little regional variation in the incidence of poverty due to the interventions of the welfare state. Lone parents are at the greatest disadvantage, with 48% in Wales in poverty, these are mainly women. Couples with no children do best, only 11-12% are in poverty. The welfare state works harder in Wales to keep people out of poverty. Across the UK there was an increase in contribution of benefits to household income in the 1980's due to deindustrialisation. In the 1980's, 20% of household income in Wales came from benefits, this has declined over time but benefits still make up a higher proportion of household income in Wales than London and the South East.

WISERD has carried out research into European Social Fund (ESF) leavers. This involved investigating the difficulties ESF leavers faced when looking for work. 70% said the main difficulty was a lack of appropriate jobs available in the area they lived. Lack of qualification and skills was the second most common difficulty, followed by lack of experience. The research looked at the effectiveness of participating in ESF programmes in getting into work, comparing ESF leavers with similar non ESF people. For example, among participants in interventions aimed at those who have recently been made redundant, during the 12 months after leaving ESF, three quarters of leavers gained employment. Among comparable people drawn from the Labour Force Survey who have also recently been made redundant, just under two thirds found jobs during a similar follow-up period. Thus the possible effectiveness of such ESF interventions is to increase employment by about 10-12 percentage points.

Widening income inequality is accompanied by widening geographical inequality and widening earnings inequality. Approximately 1 in 5 people in Wales live in poverty, although there is a high turnover, with 40% exiting poverty each year. Being in work does not necessarily provide a route out of poverty - 13% of those in in-work households live in poverty. There is little regional variation in poverty, larger differences are observed in terms of importance of benefit income. 'Lack of jobs' is reported as main barrier to finding work.

A Living Wage

The living wage is set to be higher than the minimum wage. It is currently £1.26 per hour higher. Employers voluntarily sign up currently. 23% of employees in Wales earn less than living wage of £7.45hr. Around 7% of the public sector and 24% of employees in the private sector earn less than the living wage.

Work undertaken by WISERD suggests that the impact of the living wage depends on coverage. Most significant areas of impact are realised in improved wages among low paid workers and marginal improvements in relatively deprived communities.

Having a job is important for avoiding poverty and also for wellbeing. However, in terms of wellbeing, health is the most important determinant. It is interesting to consider the impact of the living wage if it were to be applied to all households. The biggest effects would be the middle of the income distribution. For those at the lower end, most aren't at work, in the richest families, both partners are in work. If the living wage was introduced it would reduce benefits and increase taxes, this would be a financial benefit.

Relative poverty predicted to fall by 2.4% if the UK 2020 skills distribution ambition is met. Higher skills are better but does lead to more competition in labour market.

The perception currently is that lots of jobs growth has been at the lower end of the wage differential. However, statistics from 2001-2012 demonstrate that growth has been concentrated at the higher end, with a fall occurring at the lower end.

Since 1999 the private sector has grown more than public sector. Pre-recession there was a 7% increase in Wales the public sector in Wales compared with 12% in the private sector. Post-recession there is still a greater difference in growth of private sector jobs in Wales compared to public, but not as distinct.

On average, public sector workers earn 30% more than their private sector counterparts. However, pay distribution is important, with private sector workers doing worse at the bottom end, but earning more at the top end.

ONS data suggests that on average, public sector workers are older, more qualified, more likely to be female, more likely to work part time and less likely to receive a bonus. When you adjust for this bias, public sector workers earn 12% more in Wales. Size of business also has a big impact, when you adjust for this, the difference falls to 6%. The gap has increased during the recession, it was 2% in 2008 and had increased to 6% by 2011. The figures also don't include benefits such as company cars.

Since the introduction of the national minimum wage in Wales, those at the lower end of the earnings distribution have had greater increases in pay compared to those at the top. In Wales those at the lower end have benefitted more compared to the UK as a whole.

To summarise, being in work offers the most protection from deep and persistent poverty. For a lone parent not working, the chances of being in relative poverty are much higher than a couple in full time work.

Discussion

The Welsh government have carried out research into where jobs have been created in last five years and where they are needed. These two things are not particularly the same. Key questions for the Welsh Government are: where should we create jobs; what else should we focus on; and what are the barriers for getting people into work?

It was suggested that the Welsh Government were creating jobs in the wrong places from a tackling-poverty point of view. There is currently a lot of debate about where the Welsh Government should be doing this, but it was noted that it was an expensive thing to do and didn't always lead to sustainability.

It was suggested that the issue about location of jobs could be a red herring. There is a problem of poverty in Wales overall, a shortfall of jobs in Wales overall, this is evident in both prosperous and non-prosperous areas of Wales. There has been a massive decline in the number of full time jobs, and a growth in part time jobs in the last twenty years. There is an association between lack of availability of full time work and poverty. The question was raised of whether part time jobs were bad, and if so, how can the Welsh Government create a wider distribution of full time jobs?

It was noted that lone parents are more likely to be in poverty, when you put this together with welfare reform, part time work may be suitable as an initial step out of poverty. It was suggested that consideration be given to what sort of jobs were needed and where they could be created to target those types of people.

It was noted that there was an increase in the balance of jobs towards part-time recently, and notably amongst men. It was agreed that there was a need to ensure that research focused on the household rather than individuals – i.e. a part time worker in a household with another earner is in a different financial situation to a lone part-time worker.

It was suggested that the Welsh Government should be realistic about their ability to create jobs. It was noted that their ability is marginal. It was stated that the challenge is understanding where the public sector has leverage over jobs (marginal) and understanding where and how the job market is changing and where by intervening the Welsh Government can have impact - i.e. skills and education.

It was noted that there were a number of reasons for unemployment, including: job location, skills and accessibility, it was suggested that the Welsh Government needed to consider how it could affect all of these.

It was agreed that lower achievers improve much slower when the system improves, therefore there will be a 3-4 year lag where those who need the most help won't be seeing the benefits when the system is improved.

It was noted that, in England cities buck the trend. The London Challenge and the Manchester Challenge etc. The reason that London has narrowed the gap in educational achievement is improvement in the achievements of those in ethnic minority groups. This suggests that gaps can be closed quickly if you target the right groups. One thing to address in Wales would be levels of parental education compared to child education. This has a huge, huge effect in Wales, with knock on effects on children, and can't just be tackled at school level.

It was noted that there was currently a trial in a Swansea school where they are using technology to proxy for parents, using iPads to enable children to practice literacy and numeracy out of school. This makes it seem like a game. Initial findings suggest about two

years of improvement in literacy and numeracy. It was noted that as illiteracy is often hidden, such schemes can help address the issue as parents learn at the same time as children.

It was noted that at a different school in Swansea, when pupils come in for the first time they get an aspirational attainment target for study, this is logged and reviewed quarterly. If they fall behind there is remedial activity. This has led to significant improvements and is seen as a substitute for parental ambition.

It was agreed that teacher quality was important for deprived children. The Teach First Programme aims to get high quality teachers into challenging situations. However, it was noted that overall, teachers and school effectiveness contribute only about 30% to attainment, 70% of the effect is family and peer pressure. Tiger economies have tiger educational systems.

It was noted that in terms of education, the Welsh Government was putting in place programmes to introduce far more accountability into the system. Over the next three years support would be prevalent, with MA programmes for newly qualified teachers and the introduction of a national support programme looking at school training needs. The English approach was to create academies, with large salaries attracting talented head teachers to lead schools out of poor performance.

It was suggested that one of problems was how performance was measured. It is far from clear that the English policy, even if it works, will be measurable relative to the metrics discussed today. It was suggested that current metrics for school effectiveness are inadequate and possibly destructive. It is also far from clear that bringing in more teachers for training will be effective. The question was raised as to whether departments of education are the right place to teach much needed skills to teachers.

It was noted that the Welsh Government were keen on peer to peer learning - pairing up schools. Typically both schools that cooperate improve. It was noted that a University in England had been looking at pairing up one of its colleges with a hub school. The idea was to send University colleagues to the school to teach weekly. A scheme has been set up in the North West of England and one in Hackney. This has had quite a big effect. At the school in Hackney, five years ago no pupils went on to attend a Russell Group University, now fifteen students have achieved this. It was agreed that getting different stages of education structure together has an impact.

It was suggested that the Welsh Government needs to be clear on what it is trying to achieve in tackling poverty. There are challenges ahead for the economy in terms of issues in relation to higher education. The living wage helps those in the middle but doesn't reach those at bottom. The Welsh Government need more sophisticated approach. There are questions around those in short time poverty, do you want to focus on them? The real challenge is found in targeting those at the real bottom, long term deep poverty across generations, translating into health effects. This presents a challenge in terms of skills and the labour market, there is a marked difference between this group and those in the median range. Measures to lift them up ladder will be different too.

It was suggested that there are a large stock of people in Wales with no prospect of working and consideration needed to be given to the most effective ways of raising ambitions. It was suggested that what was most likely to work were intensive interventions, tailored towards individual circumstances and empathic. Job Centre Plus doesn't fulfil these criteria in the main and often causes alienation. We know all this from small scale interventions. People need to feel supported. There also isn't a great deal of evidence that any intervention has been hugely effective.

It was noted that there is a pervasive urban myth which states that working class children and parents have no ambition. Study after study say that this is rubbish. They have huge aspirations but don't know how to achieve them.

It was agreed that there was a need to evaluate interventions, with WISERD's work on the ESF programmes providing a start. It was noted that in general, Wales was not hugely dissimilar to the UK. The determinants are not vastly different from place to place, what is different are the devolved powers of the Welsh Government.

It was noted that the Welsh Government have done a number of evaluations and know in principle what will work – tailored approaches, focusing on different types of skills etc. The issue is the scale of interventions is not commensurate to the problem, the Welsh Government are not able to do enough. Structural funds are poorly targeted. In terms of interventions, retention rates are low and sustainability is not great.

It was suggested that it was misleading to talk about entry level jobs, it's not necessarily a ladder. There are still benefits to getting a job and staying in it, even at the bottom, in terms of wellbeing. The older people get the harder it is to change them, there is often little you can do for older people.

It was stated that there was an issue in terms of where the Welsh Government should focus their efforts in a time of diminishing budgets. It was noted that currently, the focus was on developing skills in younger people and tackling unemployment. Should we continue this? If so do we consign those over certain age to remaining in poverty whilst we effect the fundamentals? It was noted that this approach was problematic. When looking at the bottom rung of the employment ladder, youths who receive Welsh Government help tend to fall off and will then end up being neglected later. There is also no legal retirement age now which exacerbates the effect of ignoring the older group. It was agreed that the big challenge is catching people early and retaining them.

It was agreed that there was a need to be realistic when engaging and intervening in this field. Headline impacts are not huge. In general, it is best to focus on the things we know work rather than adopting a scattergun approach. It was suggested that 3-4 programmes should be developed and sustained. Literacy and numeracy, intervening at any time. It was agreed that there was a need to do parental education as parents need to be engaged in the education process to support children and move themselves forward. There is a need to build confidence through baby steps. We can't just invest in the early years. It was noted however, that scale and cost are an issue as this is expensive. It is unclear that there are resources for this type of approach. It was agreed that there was a need to understand the scale of potential impacts on the issue before committing funding.

It was agreed that there was a need to look at fundamentals and understand the risks involved in not focusing on certain areas. It is important to understand the issues involved in focusing on youth rather than older people. This is a cross-government issue.