

IMPROVING LIVES had been intended to be a green paper on social justice, but the change of leadership in the government turned it into a much more limited document focused yet again on workless families. It concluded that there were 1.8 million children living in workless families and that in over eight in 10 cases the child was in a long-term workless family – unemployed or inactive for at least 12 months. We have analysed the same data. In fact, the Department for Work and Pensions only takes account of ‘benefit units’ – up to two parental figures. Roughly 12 per cent of ‘families’ with no working parent were in households in which at least one adult was in employment. The household was not workless.

Sixty-seven per cent of the ‘long-term workless’ were lone-parent families. Of these, 58 per cent were caring for a sick/disabled/elderly person in the household; and/or had a long-standing illness or disability; and/or received disability-related benefits. An additional 23 per cent classified their current economic situation as ‘family care or home’ (perhaps indicating child-care responsibilities) and around 4 per cent were in other situations, such as being a full-time student. So only around 15 per cent of long-term workless lone-parent families were unemployed and apparently available for work.

Thirty-three per cent of the ‘long-term workless’ were two-parent families. In 52 per cent of these families, the current economic status of at least one of the parents was ‘unemployed’, suggesting they were available for work. This includes 9 per cent of families in which both parents were classified as ‘unemployed’. This suggests that in 48 per cent of long-term workless two-parent families neither parent was available for or able to work. However, the figure will be higher than this because some parents classified as ‘unemployed’ met one of the three criteria of: caring for a sick/disabled/elderly person in the household; and/or having a long-standing illness or disability; and/or receiving disability-related benefits. For example, in around 42 per cent of cases in which one parent had a long-standing illness or disability, the other parent’s current economic status was defined as ‘family care or home’. So, excluding parents who were ‘unemployed’ but who met one of these three criteria, around 22 per cent of long-term workless two-parent families have at least one parent who is unemployed and apparently available to work.

In summary, in total, around 17 per cent of families defined as ‘long-term workless’ using the Department for Work and Pensions’ definitions

It’s poverty, not worklessness

For the last 20 years there has been a mantra among the UK political classes that work is the best solution to poverty. It was the background to the welfare-to-work New Deal programmes in the 2000s. Since 2010, it has been reinforced with more benefit conditionality and punitive sanctions and it has been used to justify many of the austerity measures: the freezing of working-age benefits, the benefit cap, the two-child policy, cuts to employment and support allowance, the bedroom tax and rent limits in housing benefit. And perhaps it reached its apotheosis (or nadir) in the 2017 Department for Work and Pensions paper *Improving Lives: helping workless families*.¹ Jonathan Bradshaw, Oleksandr Movshuk and Gwyther Rees unpick the data to reveal that all these work-related measures have instead contributed to undermining living standards and increasing poverty, and have distracted us from the bigger problem of in-work poverty.

had at least one parent who was unemployed and apparently available to work. Around one in eight of these families were nested within households in which other adults, such as an adult child or a member of the extended family, had been in paid work at at least one of the two points in time.

We have undertaken analysis of the Millennium Cohort Survey from sweeps 1 to 6 when the cohort members were age 14 – effectively most of a childhood. We found only 3.9 per cent were in persistently workless households at all sweeps (though they might have worked in between). This compares with 8.9 per cent who were persistently poor in all sweeps. Of the persistently workless, 63.7 per cent were lone mothers and

52.6 per cent were receiving disability benefits. In sweep 6, 85 per cent were disabled or lone parents – which means 0.59 per cent² of families may have been persistently unemployed over that 14-year period. So long-term worklessness is a tiny problem.

In fact, the obsession with long-term worklessness really distracts us, possibly deliberately, from the much larger problem of in-work poverty.

Poverty and work

There are two ways of exploring the current association between poverty and work. The first

is to explore the poverty rates and composition of those currently poor by their employment status. One major driver of the reduction in child poverty in recent years has been the increased labour supply of lone parents. As a result, the proportion of children in poverty in a lone-parent household fell from 37 per cent in 2006/07 to 27 per cent in 2015/16. At the same time, there has been an increase in the proportion of children living in working poor households – from 54 per cent to 67 per cent over the same period. According to *Households Below Average Income* (HBAI) 2015/16, Table 4.5db, the poverty rate of lone parents working full time is 15 per cent before housing costs (BHC) and 29 per cent after housing costs (AHC). The child poverty rate of couple families where both work full time is only 3 per cent (BHC) and 5 per cent (AHC). But if only one parent is able to work, it is 26 per cent (BHC) and 37 per cent (AHC). Work is not necessarily a solution to child poverty. According to HBAI 2015/16 Table 4.3db, 68 per cent of poor children are living in poor working households before housing costs and 69 per cent after housing costs.

The other method is to use model families and calculate their net incomes, given the existing tax and benefit rules, and then compare them with the poverty thresholds. In Table 1, the York Welfare Benefits Unit has taken the rules for universal credit and simulated the composition of the income of a tenant working 40 hours a week for the post-April 2017 minimum wage.

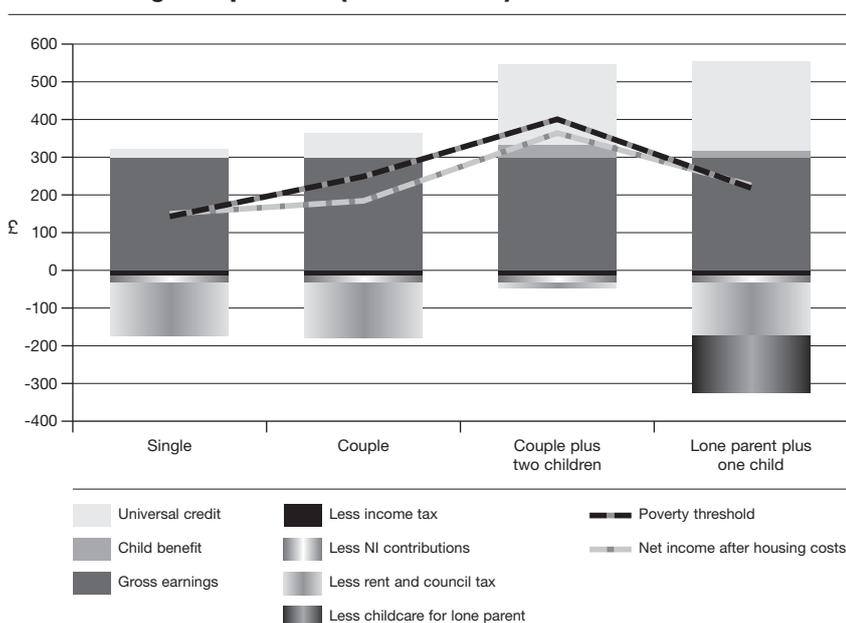
It is worth noting two factors: first, all these low-paid household types are losing some of their earnings in income tax and national insurance contributions; second, benefits make up a substantial proportion of their net income. In the case of the couple with two children, it is 48 per cent of net income (BHC), and in the case of the lone parent with one child needing childcare it is 49 per cent of net income (BHC).

The issue that concerns us is how this relates to poverty. In Figure 1 we have shown this. We do not know what median income is going to be in 2017/18, so we have taken the 2015/16 poverty thresholds. Even using this threshold, the net incomes of a couple and a couple with two children do not reach the poverty threshold, and those of a single person and a single parent only just do. If we had used the higher threshold for two years later, and given the freeze in working-age benefits, there would certainly be a poverty gap for all these household types – all of them working full time on the minimum wage, receiving all the benefits to which they are entitled, would still be in poverty.

Table 1: **Model families, one earner working 40 hours a week on the minimum wage in April 2017 (£7.50 an hour)**

	Single £	Couple £	Couple plus two children £	Lone parent plus one child £
Gross earnings	300.00	300.00	300.00	300.00
Less income tax	-16.00	-16.00	-16.00	-16.00
Less NI contributions	-17.00	-17.00	-17.00	-17.00
Child benefit	-	-	34.40	20.70
Universal credit ³	25.06	66.74	211.65	235.06 ⁴
Council tax reduction	-	-	-	-
Total before housing costs and council tax	292.06	313.00	513.05	522.76
Total after housing costs and council tax	149.56	163.00	363.05	380.26
Total after housing costs, council tax and any childcare costs				228.26

Figure 1: **Model families, one earner working 40 hours a week on the minimum wage in April 2017 (£7.50 an hour)**



Source: Valuation Office Agency, *UK Housing Review*, author calculations

When the effects of worklessness turn out to be the effects of income

In claiming the importance of parental work for child outcomes, the government reports as evidence estimates from statistical models. After closer scrutiny, quite often this evidence turns out to be hardly convincing. Typically, worklessness matters for child outcomes only in the most basic of models, particularly the ones where income differences are not accounted for. But when they are accounted for, the effect of worklessness often gets much smaller, and it is income differences that frequently end up having the largest effect on child outcomes. *Improving Lives: helping workless families* provides a telling example.

To demonstrate the negative effect of worklessness on children, the paper considered four child outcome measures at age 11 years: a measure of cognitive ability (from the British Ability Scales) and three behavioural measures (internalising problems, externalising problems, and pro-social behaviour). In each outcome, the paper estimated three models, with an increasing number of explanatory variables. Model 1 included just the effect of being in a workless household and the child's gender. Model 2 added various child and household characteristics, while Model 3 also included the effect of income differences.

For differences in cognitive development, the most basic Model 1 indicated that children in workless households had worse outcomes, in agreement with the government's claim that parental worklessness is detrimental for children. The size of the negative effect was also significant in statistical terms.⁵ With more explanatory variables in Model 2, the negative effect of worklessness became smaller (by around one half), but still remained statistically significant. Most tellingly, with added income differences in Model 3, children in workless households no longer showed a significant difference in cognitive outcomes. In other words, once Model 3 accounted for differences by incomes, children in workless households had comparable cognitive outcomes to those in households where parents worked, directly contradicting the government's claim in the paper that it is worklessness that is detrimental for child outcomes.

Moreover, not only was the effect of being in a workless household insignificant, it was income differences that showed significant effects on child outcomes.⁶ Evidently, the initial findings in Models 1 and 2 reflected their failure to account properly for income, rather than the importance of worklessness *per se*.

The pattern remained the same for the remaining three child outcomes, with workless households no longer showing significant differences in child outcomes after income differences were added in Model 3. The paper, however, claimed a 'significant effect' on pro-social behaviour,⁷ but was able to do so only after changing the threshold of statistical significance from 0.05 (the most conventional level) to a more lenient level of 0.10.⁸ The 0.10 threshold is rarely used in applied work and, if used, mostly as a last refuge to claim significant results after tests of 0.05 significance level have failed to produce desired results. In consequence, this custom-based selection of significance levels does not indicate a sound scientific practice, but rather extensive data mining to get results that fit the paper's agenda, after the conventional statistical analysis have failed to do so.

The pattern did not change much after the paper separated households into persistent and episodic worklessness. Once again, the effect of persistent worklessness was greatly alleviated after income differences were accounted for in Model 3. Moreover, persistent worklessness became insignificant in two out of four child outcomes, including, in particular, child cognitive ability.

In our current work, we have also examined the persistent effects of income poverty and worklessness, using five sweeps of the Millennium Cohort Study. We examined both direct and indirect effects on cognitive outcomes from nine months to age 11, using the approach of structural equation modelling (SEM). The direct effects in this are the easiest ones to visualise; they are just estimates for included explanatory variables (such as the effect of poverty at age 11 on test scores at age 11). Indirect effects are not estimated, but derived from various associations within SEM models. For example, imagine the two following associations between test scores and poverty: first, test scores at age 11 depend on test scores at age nine, and second, test scores at age nine depend on poverty at age nine. Then the effect of poverty (at age nine) on test scores (at age 11) would be an indirect effect. It is not directly estimated, but could be derived from the effect of poverty on test scores at age nine, and the effect of test scores at age nine on test scores at age 11.

Most of previous studies focused only on direct effects, but we found that indirect effects of past experience of poverty (such as the effect of poverty at nine months on test scores at age 11) is more detrimental to the cognitive development

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of children. For worklessness, indirect effects were also more important than direct effects.

When we summed up direct and indirect effects across five sweeps of the Millennium Cohort Study, and compared the total effect of poverty and worklessness, we found that the negative effect from poverty was more than eight times larger compared with worklessness. To visualise the magnitude of this difference, it is useful to divide children into 100 groups (or technically speaking, percentiles) by cognitive development. Then poverty experience by age 11 reduced the percentile ranking of children by around 30 positions, while the corresponding reduction for worklessness was just four positions. This means that for the brightest children in the first percentile, persistent poverty gives them no chance to succeed in cognitive development, and places them at the 31 percentile rank, or almost a third of other children. In contrast, the detrimental effect from worklessness is less dramatic, with the brightest children moving their rank from the first to the fifth percentile.

Conclusion

The living standards of most working-age households is determined by wages, and those wages have tended to become a better solution to poverty as they have been regulated by equal pay legislation and the statutory minimum wage. But earning wages is not, by itself, a solution to poverty. It depends on how wages are taxed and it depends crucially on the value of cash benefits, especially those paid in respect of families with children. Cash benefits have been cut by huge amounts in recent years and that is why poverty is now mainly a problem for those in employment. George Osborne claimed his higher minimum wage for those over 25 pegged to 60 per cent median earnings by 2020 was a 'new settlement' – a large-scale shift from being a 'low wage, high tax, high welfare economy to a higher wage, lower tax, lower welfare' economy.

But the impact of increased wages is being undermined by frozen, and cuts to, in-work benefits. The cumulative loss from these cuts since 2010 is £27 billion a year. Just the post-2015 cuts will, by 2021, result in couples with two or more dependent children losing £1,450 a year and lone parents with two or more children losing £1,750 a year.⁹ CPAG is due to publish modelling estimates of the impact of the cuts in in-work benefits between 2010 and 2016 on eight families. Only one would be consistently better off after the cuts – a couple with two children with a second earner working more than

six hours a week living in a high housing costs area and with no childcare.

The consequence of these cuts is that the Institute for Fiscal Studies expects UK relative child poverty to increase from 19 per cent in 2014/15 to 27 per cent in 2021/22 before housing costs and from 29 per cent to 36 per cent after housing costs. ■

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- 1 Department for Work and Pensions, *Improving Lives: helping workless families*, 2017, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/621364/improving-lives-helping-workless-families-web-version.pdf
- 2 That is, 16 per cent of 2.8 per cent who were persistently unemployed for any reason.
- 3 Assumed rent = £120 per week in the social housing sector.
- 4 This includes an amount towards childcare for the lone parent, £152 per week assumed. Childcare is not usually paid in a couple claim unless both work.
- 5 Department for Work and Pensions, *Improving Lives: helping workless families*. Supporting Methodology Document, 2017, Table 1, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/605808/improving-lives-helping-workless-families-background-methodology.pdf
- 6 See note 5, p13
- 7 See note 5, p24, Table 11
- 8 Department for Work and Pensions, *Improving Lives: helping workless families*. Analysis and Research Pack, 2017, p14, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/605989/analysis-research-pack-improving-lives-helping-workless-families-web-version.pdf
- 9 C Beatty and S Fothergill, *The Uneven Impact of Welfare Reform: the financial losses to places and people*, Centre for Regional Economic and Social Research, Sheffield Hallam University, 2016, http://www4.shu.ac.uk/research/cresr/sites/shu.ac.uk/files/welfare-reform-2016_1.pdf

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