



# **The Modernisation of Britain's Tax and Benefit System**

## **Number Four**

### **Tackling Poverty and Extending Opportunity**

**March 1999**

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# FOREWORD

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The Government's aim is to raise the rate of sustainable growth, and achieve rising prosperity, through creating economic and employment opportunities for all. To do this it has pledged itself to improving fairness and opportunity. The seeds of poverty and lack of opportunity are sown in childhood. Children who grow up in poverty are much less likely to succeed as adults. The Prime Minister has set out the Government's aim of ending child poverty over the next twenty years. To achieve this the Government is committed to a new approach to the problems of poverty and inequality of opportunity which tackles them at source.

Tackling the causes of inequality of opportunity requires a clear understanding of the processes and events which increase opportunity and those which prevent people fulfilling their potential. It was difficult to develop a clear understanding of these relationships when the available data was based on snap-shop pictures of where people are at a particular point in time. But with the advent of new panel datasets which follow the same people over time, we have the potential to gain new and important insights into the causes of inequality of opportunity.

This paper sets out an analysis of inequality of opportunity. It is the fourth in a series of Treasury papers marking the staging posts of reform of the tax and benefit system. It draws heavily on the results of research into the dynamics of opportunity using the newly available panel data. This research was presented at a workshop organised by the Treasury and chaired by Professor John Hills from the Centre for the Analysis of Social Exclusion (CASE) in November 1998. The workshop brought together leading academics and policy makers to review the evidence on persistent poverty and lifetime inequality. Full proceedings from the workshop are being published alongside this paper.<sup>1</sup>

<sup>1</sup> 'Persistent Poverty and Lifetime Inequality: The Evidence' HM Treasury Occasional Paper No.10 and CASereport No. 5.



# INTRODUCTION AND SUMMARY

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## Opportunity today

**1.01** Economic prosperity depends on people having the chance to fulfill their potential. Yet in Britain access to opportunity is unequal, and over the last twenty years the poorest groups in society have been largely excluded from the general rise in prosperity. Since the late 1970s average incomes have risen by more than 40 per cent in real terms but for those on the very lowest incomes they have remained broadly static. Almost eight million more people now have incomes below half the national average. Other OECD countries have not experienced this rise in inequality to the same extent.

**1.02** Over the last twenty years not only has the gap between the richest and poorest increased, but the amount of movement between income groups has been limited. What is more, damaged life chances perpetuate across the generations. Children who grow up in disadvantaged families do less well at school, and are more likely to be disadvantaged as adults. Their own children's chances of prosperity are also affected.

**1.03** The increased concentration of opportunity reflects the fact that many people have been denied access to work opportunities. The proportion of households where no-one has a job has doubled over the last twenty years. Many of these people are trapped on low incomes and have become cut off from the labour market mainstream. However, the problem is wider than unemployment. Many people who have work have become trapped on low pay. It has become more difficult for people in low-paid work to climb the earnings ladder and improve their life chances and those of their family.

## A new approach

**1.04** In the past, analysis of these factors has focused on static, snapshot pictures of where people are at a particular point in time. Snapshot data can lead people to focus on the symptoms of the problem rather than addressing the underlying processes which lead people to have or be denied opportunities. To understand why people's life chances differ, it is important to look for the events and experiences which create opportunity and those which create barriers, and to use this as a focus for policy action.

**1.05** By understanding the factors which influence people's trajectories through life, it is possible to develop strategies to reduce the incidence, duration and severity of events which place people at greater risk of economic disadvantage. Equally important, Government can also work to promote those factors which help people climb the ladder of opportunity.

**1.06** Family life and the world of work have changed out of all recognition since the foundation of the welfare state. But the system has not kept pace with these changes - it has focused on the consequences of inequality of opportunity and given too little attention to the underlying causes. The Government is committed to a new approach which tackles both - by extending work opportunities to all those who can work and providing security to those who can't.

## Putting the framework in place

**1.07** Critical to people's life-chances are their opportunities to succeed in the labour market. The Government has already embarked upon a programme to:

- Modernise the **Tax and Benefit System** to remove the extra barriers created by the poverty and unemployment traps and improve rewards from work.
- Extend work opportunities with the **New Deal programme** to help more people move from welfare to work.
- Make work pay with the introduction of the **National Minimum Wage** to promote fairness in the workplace.
- Direct resources to services which extend opportunity. The Government undertook a root and branch review of public expenditure in the **Comprehensive Spending Review** (CSR). The CSR has refocused public spending. The additional investment in education and health, particularly for children, and new resources to regenerate the poorest communities will enhance opportunity and increase fairness.
- Spend £800 million on the **New Deal for Communities** (NDC) over the next three years. This will be used for the intensive regeneration of small neighbourhoods. Getting people into jobs is a key objective of the NDC, along with bringing together investment in capital and investment in people and improving neighbourhood management and the delivery of local services.

**1.08** As background to these ongoing reforms this paper sets out an analysis of the causes and dynamics of inequality of opportunity. This draws on new research into the dynamics of opportunity, and how people's experiences change over their lifetimes. It particularly reflects contributions to a workshop hosted by the Treasury and chaired by Professor John Hills, Director of the Centre for the Analysis of Social Exclusion (CASE) in November 1998<sup>1</sup>.

**1.09** The paper:

- Shows how work and the chance to progress in work are the key routes to opportunity. Chapter two looks at how differences in people's access to work and chance to progress up the earnings' ladder are major sources of inequality;
- Identifies how opportunity in childhood shapes life chances. Chapter three examines the critical role of education in shaping people's adult opportunities, the impact of childhood disadvantage on children's educational opportunities and the pattern of childhood disadvantage in Britain today;
- Looks at the events which can occur during people's working lives to constrain their future opportunity. Chapter four shows how unemployment, low pay and changes in people's family life can affect people's subsequent success in the labour market and the importance of early intervention after these scarring events to keep people connected with the labour market.

**1.10** The main findings of the paper are as follows.

<sup>1</sup> Workshop on Persistent Poverty and Lifetime Inequality 17 & 18 November 1998. Treasury Occasional Paper No. 10, CASEREport No. 5.

**Chapter Two:  
Work as the  
route to  
opportunity**

**1.11** Income inequality has risen sharply over the last twenty years. Earnings are the largest component of income. The rising gap between the high and low paid, and the increasing polarisation between workless households and those with two earners, have been the driving forces behind the rise in inequality of income from employment. More than half of the people below retirement age who are living on low incomes live in households where no-one has a job. Getting a job and moving up the earnings ladder are the most important routes to improved living standards. But for most people, income and earnings mobility is limited, and for earnings mobility the situation has, if anything, been getting worse.

**1.12** The evidence shows that:

- Earnings and income inequality have increased: the earnings of men in the top decile rose at double the rate of the bottom decile over the past two decades - the gap for women was even higher. Incomes in the top decile grew by at least five times as much as those in the bottom decile.
- Most people who are trapped on low income are living in a workless household. More than three-quarters of people below retirement age who have persistently low incomes live in a household which is either workless or only partially employed. And the number of workless households has doubled over the last twenty years, from nine per cent to twenty per cent of all working-age households.
- Getting a job lifts people out of low incomes - for eight out of ten people in the bottom fifth of the income distribution getting a job moved them out of low income. And over two-thirds of all the escapes from low income are the result of someone getting a job or moving up the earnings ladder.
- Work-related changes are the main reason people fall into low income but changes in people's family life are also important. Between ten and fifteen per cent of families fall into the bottom fifth of the income distribution when they have a child.
- People at the bottom have limited chances to move up the income distribution. Half of the people who were in the poorest group in 1991 were also there in 1996 and just eleven per cent had made it to the top 40 per cent of the income distribution.
- People at the bottom have limited chances to climb up the earnings ladder over their working lives. Over 60 per cent of people who were at the bottom of the earnings distribution in their mid-twenties are likely to be low-paid or no longer an employee fifteen years later, at forty. Just fourteen per cent will have made it to the top two-fifths of the earnings distribution.

**Chapter three:  
Opportunity in  
childhood and  
life chances**

**1.13** The seed of inequality in adulthood is denial of opportunity in childhood. Education is the most important transmission mechanism - people with few skills and qualifications are much less likely to succeed in the labour market. Childhood disadvantage frequently leads to low educational attainment, low educational attainments leads to low pay and low employment, which in turn leads to low income and denial of opportunity for the next generation. There are strong links between people's own life chances and those of their parents and possibly even grand-parents. The number of children who are growing up in relatively disadvantaged families has grown dramatically over the last twenty years. Many of these children will spend a large part of their childhood in poverty.

**1.14** The evidence shows that:

- The number of children growing up in relative poverty has increased over the last twenty years. Four million children, a third, were living in households with less than half average in incomes by 1995-96. This is more than three times the rate twenty years ago. Most of these families are without full employment.
- Children's life chances are linked to those of their parents. A child's chance of ending up in the top quarter of the earnings distribution as an adult are four times higher if their father was also in the top quarter of the distribution rather than the bottom.
- Education drives life chances and the link between education and wages is getting stronger. In the late 1970s people who stayed on at school beyond sixteen had earnings which were, on average, 40 per cent higher than those who had left school by this age. In 1990 this had increased to 60 per cent.
- Children from disadvantaged backgrounds are much less likely to succeed in education. They are less likely to stay on at school and are more likely to have poor literacy and numeracy skills.
- The differences between advantaged and disadvantaged children are apparent from a very early age. At 22 months children whose parents are in social classes one or two are already fourteen percentage points higher up the educational-development distribution than children whose parents are in social classes four or five.

**Chapter 4:  
Opportunity  
and events in  
adulthood**

**1.15** Opportunity in adulthood is closely linked to opportunity in childhood because of the critical importance of skills in the modern labour market. But the events and experiences which occur in people's adult lives can also have a strong influence on their subsequent labour market opportunities.

**1.16** Unemployment and low pay can have long-term effects which damage people's subsequent chance of getting work and moving up the earnings distribution. There are particular problems for older workers. Those over 50 are much less likely to be in work than in the past, particularly if they lack qualifications or have been in low paid jobs. This premature displacement from the labour market reduces their opportunity to save and plan for retirement and puts many of them at risk of poverty in old age. Events in people's family lives can also affect subsequent labour market opportunities, particularly for women. Lone parents and women without qualifications find it particularly difficult to combine their work and family responsibilities.

**1.17** The evidence shows that:

- People who have been unemployed or low paid are at much higher risk of subsequent unemployment and low pay, even after taking account of differences in their education and skills. In the mid 1990s about half of those leaving unemployment were unemployed again within the year.

- Education and training reduce people's risk of becoming unemployed or low paid but do not protect people from the scarring effect of these experiences, for the minority of the more educated who lose their job.
- Displacement hits older workers particularly hard. In 1979 eight out of ten men aged between 55 and 65 were in employment. By 1997 this had fallen to less than six out of ten.
- Once people lose their job after age 55, it is very difficult for them to get back into the labour market. Only eleven per cent of them manage to do so. People who had prolonged spells out of work are at high risk of poverty in old age.
- Balancing work and family is often difficult. Over half of the gender gap in pay is due to the effect of having children on women's subsequent earnings. But having a child has little long-term impact on lifetime earnings for mothers who have access to maternity leave and return to work.
- The impact of having a family on women's employment and earnings depends on their circumstances. The employment rates for lone parents and women with non-working partners are typically 30 percentage points lower than for women with working partners.

# 2

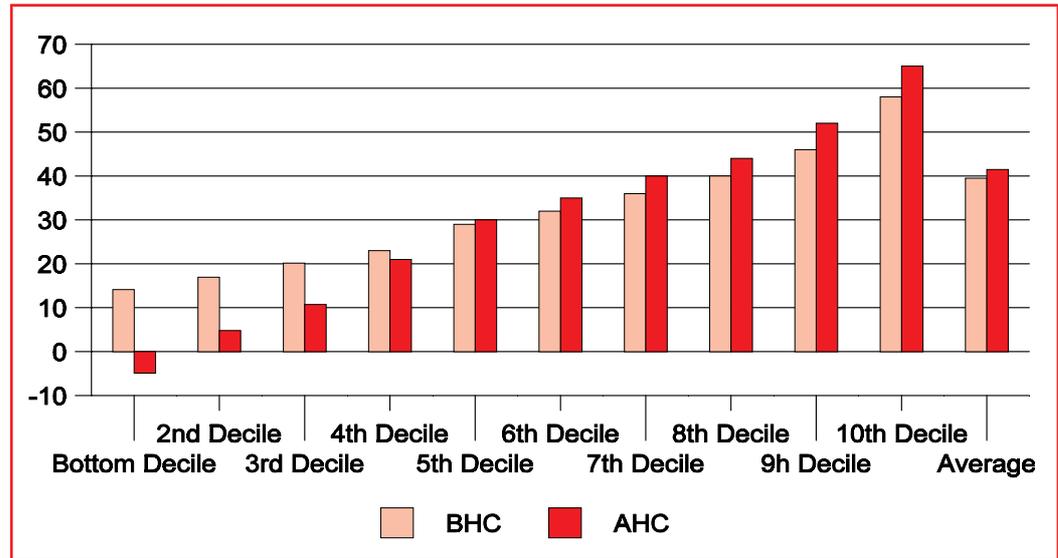
## WORK AS THE ROUTE TO OPPORTUNITY

This chapter looks at the importance of work and earnings as the routes to opportunity. It shows that:

- The benefits of rising economic prosperity have not been evenly shared. Britain has experienced a much greater increase in inequality than almost all other developed countries. The number of people living on very low incomes has remained unchanged since the late 1970s, while the number living in relative poverty has more than doubled.
- Income and earnings mobility are limited. People on low incomes have little chance to improve their position over their lifetime. The mobility which does occur is usually short-range and differences become entrenched early in adulthood. Less than twenty per cent of the men in the bottom fifth of the earnings distribution for their age group at 25 make it into the top half of the earnings distribution fifteen years later at age 40.
- One of the defining features of households trapped on low incomes is lack of work - around two-thirds of working-age, low-income households are workless. Getting a job, keeping a job and having the chance to progress up the earnings distribution out of low-paid work are the key to improving life chances. Almost two-thirds of people move out of low income through someone in their household either getting a job or increasing their earnings.
- Although work-related events are the most important factors associated with movements into and out of low income, changes in people's family lives can also have an impact. Ten to fifteen per cent of people move into low income with the birth of a child.
- Access to work opportunities has become more unequal: over the last twenty years the gap between the highest and the lowest paid has increased and people are finding it more difficult to progress up the earnings ladder.
- The distribution of work has also changed. The number of workless households has doubled.
- National, or even regional averages can hide extreme variations in levels of worklessness and deprivation.

**2.01** Income inequality has increased sharply over the last twenty years. Incomes in the top decile of the distribution have grown at a much faster rate than those at the lower end. (see chart 2.1). So that there has been a substantial increase in the number of people living on relatively low incomes. Twelve million people, nearly a quarter of the population, live on a household income below half the national average. This is almost three times the number in 1979. For a couple with no children it means living on less than £129 a week<sup>1</sup>.

**Chart 2.1: Change in real incomes 1979 to 1995-96<sup>2</sup>**



**2.02** The rapid rise in inequality started in around 1977. In the five years preceding this inequality had fallen, although unemployment almost doubled. Prior to this inequality had increased between the late 1960s and early 1970s after having fallen slightly through most of the 1960s. Although the changes in inequality over the 1960s and 1970s were very modest compared to those seen in the 1980s<sup>3</sup>.

**2.03** The rapid rise in inequality between late 70's and the 1990's is not representative of a world-wide trend. Britain's experience appears almost unique among developed countries. The only country which has experienced widening inequality on a similar scale over this period is New Zealand. Inequality in Britain grew at a faster rate than in the US and Australia. Canada, Ireland, Italy and Portugal all experienced falls in inequality, while France, West Germany and the Netherlands had a relatively stable pattern.

**2.04** Many people will experience low income at some point in their life. Over half spent at least one year in the bottom 30 per cent of the income distribution between 1991 and 1996. For most people this was transitory i.e. it lasted for no more than a year. But for some people it was a long-term experience, indicative of a persistent lack of opportunity and constrained life chances. Between 1991 and 1996 five percent of people had incomes in the poorest 20 per cent of the income distribution for all six years and one in ten had incomes in the poorest 30 per cent for all six years<sup>4</sup>. (See chart 2.2)

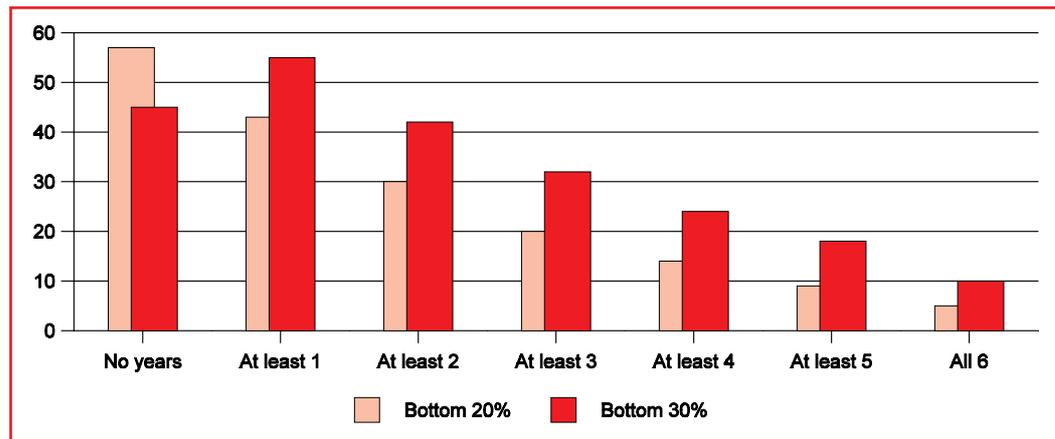
<sup>1</sup> This figure is after housing costs. The equivalent amount before housing costs is £150 a week. April 1998 prices.

<sup>2</sup> Source: Households Below Average Income. BHC measures incomes before housing costs, AHC measures income after housing costs have been taken into account.

<sup>3</sup> Goodman, A., Johnson, P., Webb, S. 'Inequality in the UK' Oxford University Press 1997.

<sup>4</sup> These data are from ESRC's British Household Panel Survey (BHPS). The BHPS is the main source of information on income dynamics. It has interviewed the same nationally representative sample of individuals living in private households annually since 1991. The BHPS is still new and can only hint at long-term trends.

Chart 2.2: Number of years in the bottom of income distribution<sup>5</sup>



**2.05** Although most people move out of the lowest income groups, and persistent low income is highly concentrated, many people experience repeated spells of low income. They move between spells of very low income and periods when they are slightly better off. However, their life chances and opportunities are fundamentally different to people further up the income distribution. Looking at the first four years of the British Household Panel Survey, from 1991, Jarvis and Jenkins<sup>6</sup> found that:

- After two years just under a third of the people who started out in the poorest fifth of the income distribution remained there.
- But after two years almost half of those who left the poorest group had fallen back into the bottom fifth.
- Much of the income mobility is short range. Overall, more than 70 per cent of people either remained in the same decile throughout, or shifted one decile higher or lower.

**2.06** The table below compares individuals' positions on the income distribution in 1991 and 1996. The first row of the table shows that 52 per cent of the people who were in the bottom fifth of the income distribution in 1991 were also at the bottom in 1996. Of the people who moved out of the bottom fifth, most moved up one fifth (26 per cent). Very few (eleven per cent) made it to the top two-fifths by 1996.<sup>7</sup>

1991 Income Group	Income Group in 1996				
	Bottom fifth	Next fifth	Middle fifth	Next fifth	Top fifth
Bottom fifth	<b>52%</b>	26%	12%	7%	4%
Next fifth	25%	<b>35%</b>	22%	12%	6%
Middle fifth	11%	21%	<b>33%</b>	23%	12%
Next fifth	7%	12%	20%	<b>37%</b>	23%
Top fifth	4%	6%	11%	21%	<b>59%</b>

<sup>5</sup> Source HBAI 1979-1996/7 DSS Table 4.4.

<sup>6</sup> Jarvis, S. & Jenkins, S., 'Low Income dynamics in 1990s Britain' Fiscal Studies Vol. 18, No 2, May 1997.

<sup>7</sup> Source Social Trends 29, 1999 edition, table 5.21 ONS, based on equivalised gross income.

**2.07** We can also get an indication of the amount of mobility by looking at income inequality over people's lifetimes. Unfortunately we do not have access to information on lifetime income. But from the British Household Panel Survey, we can look at people's income over the six year period from 1991-1996. If we look at people's position on the income distribution across these six years, we see that whilst inequality is reduced, most of the difference in people's income in any one year, reflects long-term differences in their position on the income distribution. Jenkins estimates that long-term inequality accounts for around 88 per cent of the income inequality observed in an average year.<sup>8</sup>

**Box 2.1: The impact of area based deprivation on opportunity**

Looking at national or even regional data can disguise the true picture of unemployment and worklessness. In reality within regions there are often small pockets of much higher levels of unemployment and worklessness.

Great Britain:- Long term unemployment, by NUTS 4 area<sup>2</sup>

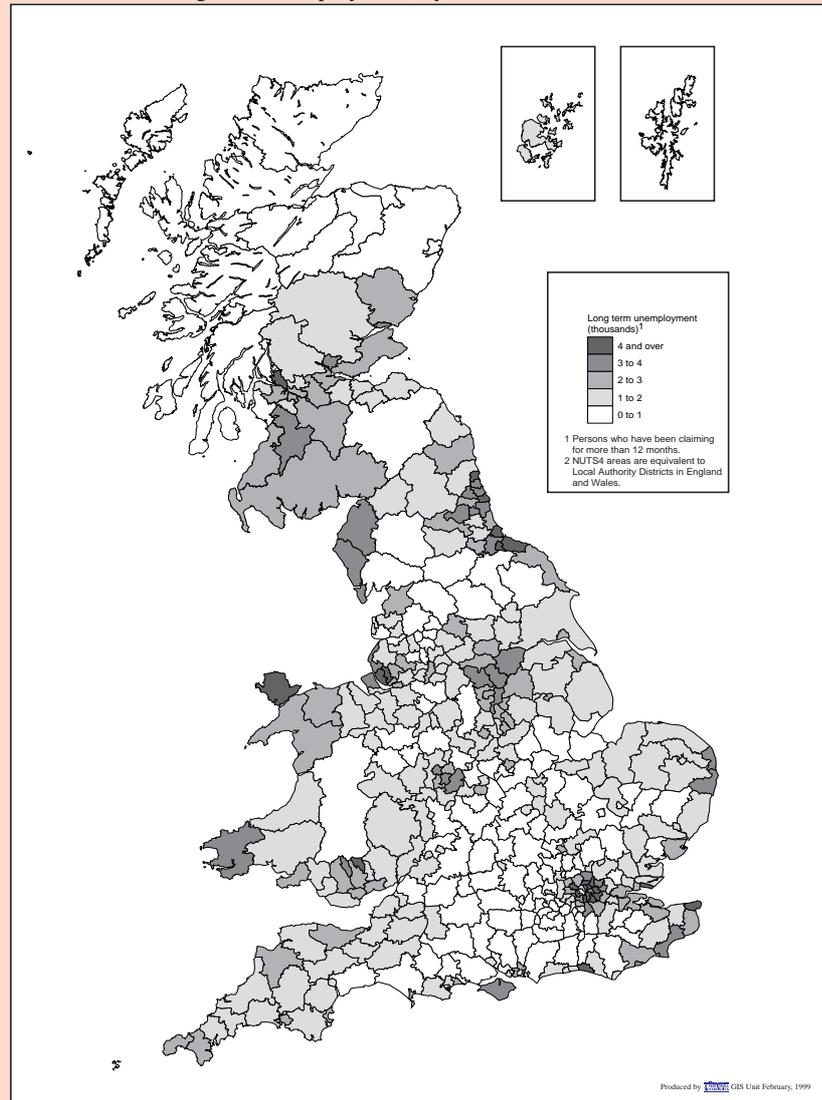
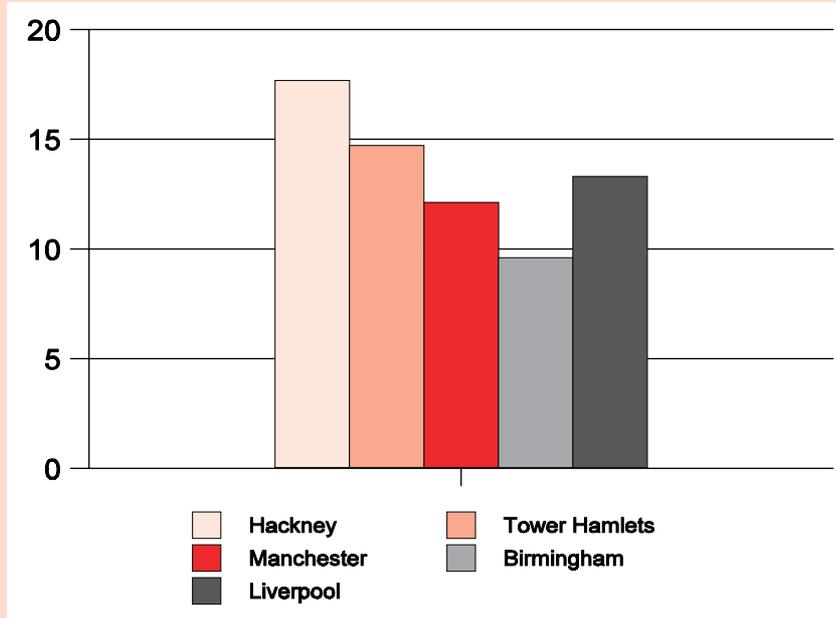


Chart 2.3 shows that in 1997, when unemployment in the UK was 5.6 per cent, the rates in some of the most deprived local authority areas of the UK were much higher - ranging from around one in ten in Birmingham to nearly double that in Hackney<sup>9</sup>. Moreover, within these Local Authority areas there are smaller pockets of even higher unemployment, which may be localised to one estate or neighbourhood of just a few thousand households.

<sup>8</sup> Jenkins, S. Presentation to the HM Treasury workshop on Persistent Poverty and Lifetime Inequality, based on data from 1991-1996 from the British Household Panel Survey.

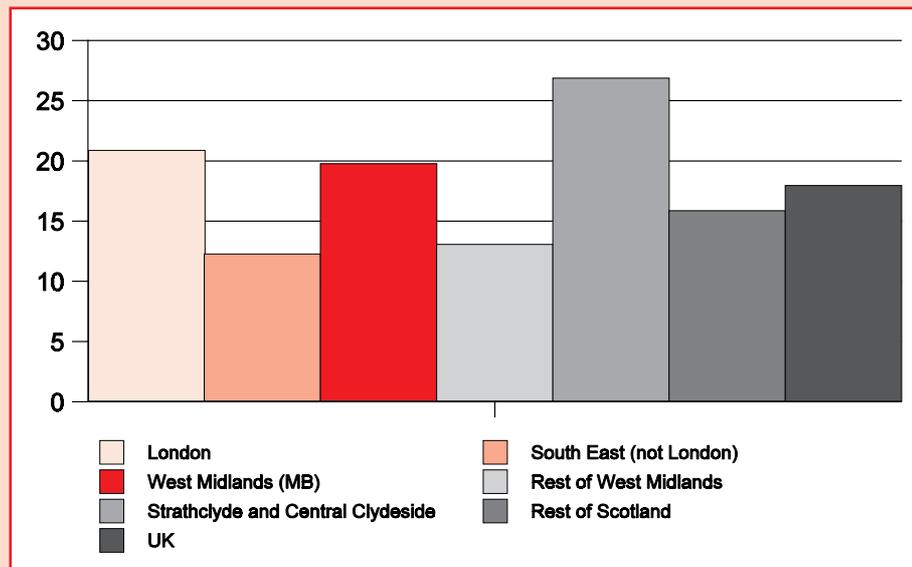
<sup>9</sup> DETR Index of Local Deprivation.

**Chart 2.3: The proportion of the economically active population who are unemployed, 1997<sup>10</sup>**



As discussed elsewhere in this chapter, the level of workless households is perhaps a better indicator than unemployment of long-term deprivation and lack of opportunity. Again, looking at overall averages disguises the true picture, as chart 2.4 illustrates. In 1998 eighteen per cent of the population lived in a workless household - this ranged from thirteen per cent in the Midlands (excluding the metropolitan boroughs) to 28 per cent in Merseyside.<sup>11</sup> In general, inner-city and urban areas have much higher rates of worklessness than non-urban areas.

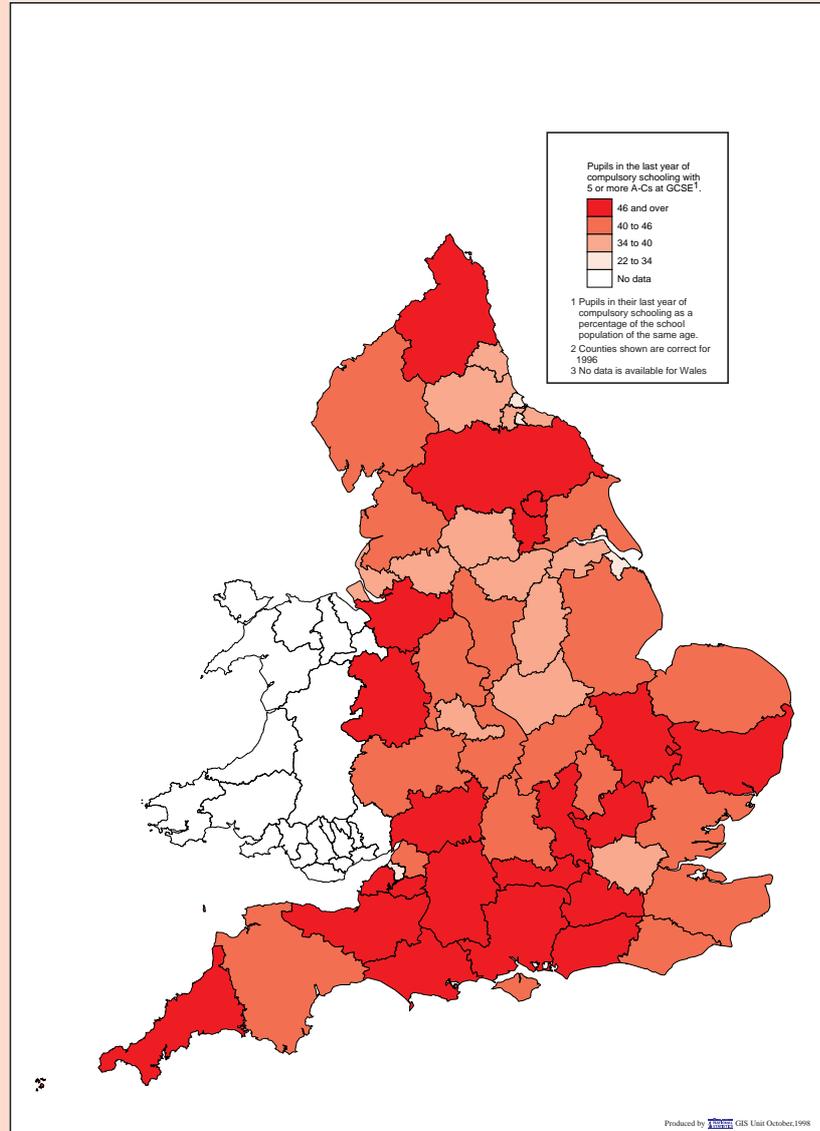
**Chart 2.4: The Proportion of people living in workless households in the UK, 1998**



<sup>10</sup> Source: Claimant count unemployment, Labour Market Trends.

<sup>11</sup> Labour Force Survey, 1998.

People living in the most deprived areas are more likely than average to have no qualifications. This makes them much less likely to be able to take advantage of work opportunities. On “difficult to let” estates, one in four children gain no GCSEs (the national average is one in twenty)<sup>12</sup>, and rates of truancy are four times the national average.

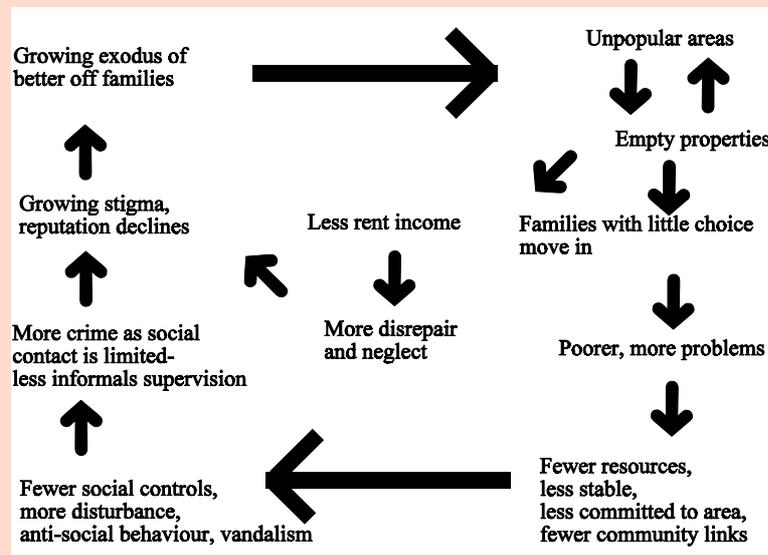


There are also characteristics of deprived areas themselves that mean people who live there have fewer opportunities than those in better off areas. Physical isolation can mean that there are few work or training opportunities locally, and transport links may be poor. High levels of worklessness in the area mean that people are less likely to have contacts in work, so a frequent source of information about jobs is denied them. One survey has found that 42 per cent of employed people knew someone who would help them find a job whereas only 29 per cent of unemployed people knew someone who would help them.<sup>15</sup> Anecdotal evidence suggests that employers are reluctant to even consider job applications from particular postcodes and areas, in effect blacklisting the entire population and further restricting the opportunities available to people living in these areas.

<sup>12</sup> M. Taylor, *Unleashing the potential the potential: bringing residents to the centre of regeneration*, 1995.

<sup>15</sup> D. Gallie, *The Household and Community Survey*, 1987.

Deprived areas can slide into a cycles of decline, making it more and more difficult for people who live there to take advantage of opportunities. As neighbourhoods become less desirable, those who can move out do. This leaves empty property, which is likely to be filled by those on low incomes who can exercise little choice about where they live. The result is a community made up almost entirely of households with low incomes, with few people in employment meaning local job networks are virtually non existent. Fewer resources in the neighbourhood will mean that businesses close and others are unwilling to invest, removing potential employment opportunities and decreasing the availability of services to people who still live there. For people who live in these areas, prolonged unemployment can lead to disaffection and exclusion, and a subsequent lack of commitment to the area. This may result in anti-social behaviour and vandalism, by a minority, which fuels the spiral of decline in opportunity further. The area become stigmatised and few people choose to live there if they have the choice (see diagram<sup>14</sup>).



In order to break this spiral, Government policies need to address the multiple problems faced by deprived areas. This means broadening the scope of regeneration spending from what we have seen in the past - improving housing alone is not enough to turn these areas around.

To bring about sustainable neighbourhoods, people need to have the opportunity to get back into work. The New Deal for Communities (NDC) is designed to take such a rounded approach to turning round some of the country's most deprived areas. Funding of £800 million over the next three years will provide for the intensive regeneration of small neighbourhoods. The programme has been launched in seventeen pathfinder areas, selected because their problems are very severe. Central to the NDC is the aim of getting local communities to own and drive the programme, through deciding what they think are the priorities for their area.

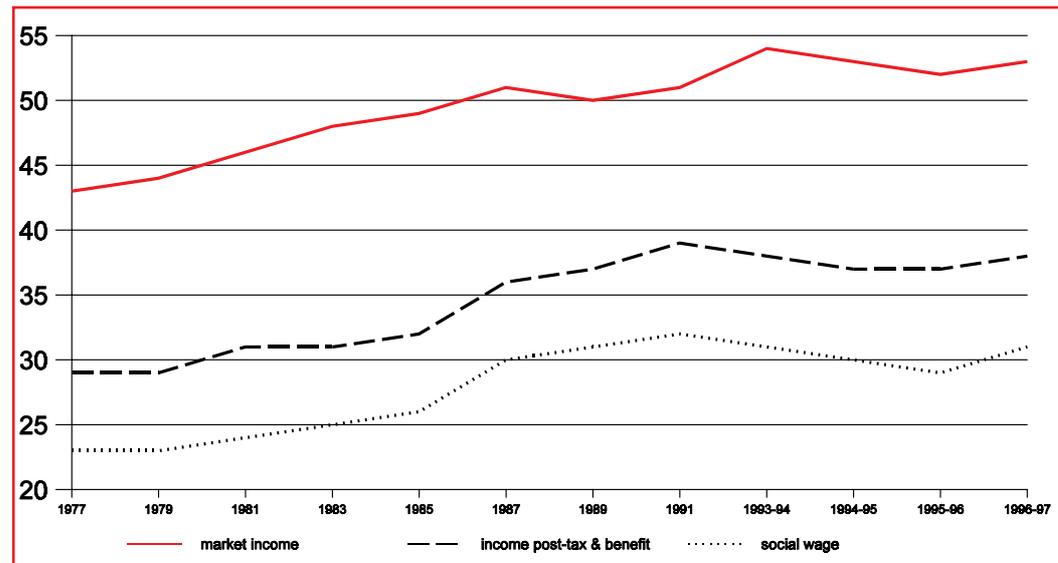
<sup>14</sup> A. Power, Area based poverty and resident empowerment, 1996.

### Work, equality and mobility

**2.08** Lack of access to work and limited progress in work are the driving forces behind the rise in inequality and the problems facing people who are trapped in long-term or repeated low income.

**2.09** Between 1977 and 1996-97 inequality rose by a third<sup>15</sup>. As chart 2.5 shows, this reflects the rising inequality in incomes from work, occupational pensions and investment income. Earnings are the most important component of income, accounting for over 60 per cent of the total, although this has fallen from more than 70 per cent in the 1970s.

**Chart 2.5: Gini coefficients for the distribution of income<sup>16</sup>**



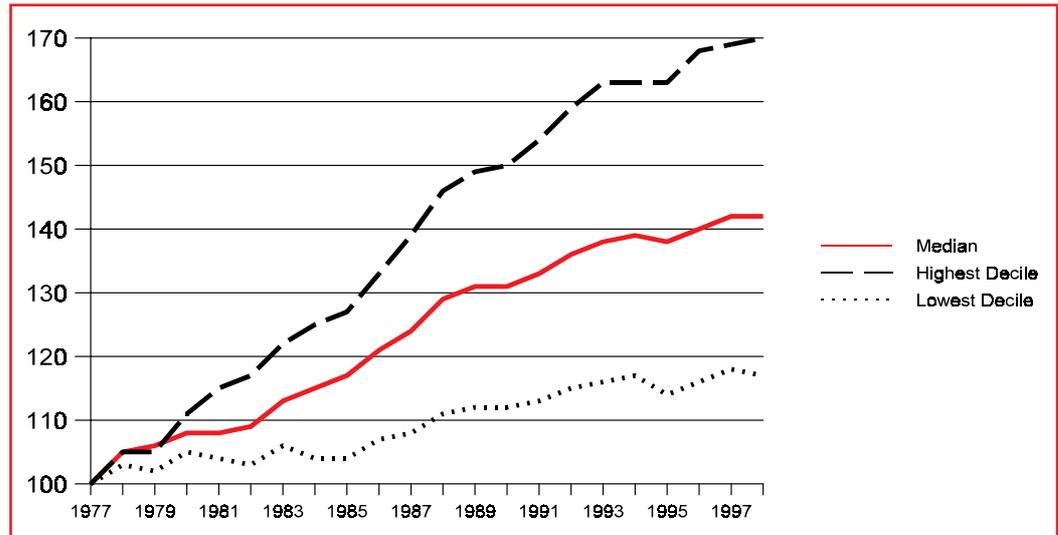
**2.10** The increased inequality in income from wages reflects:

- increased inequality among people in work - the earnings distribution has widened over the past two decades for both men and women. The earnings of men in the top decile rose at double the rate of those in the bottom decile. For women the difference was even more marked: the earnings of the highest paid increased at over four times the rate of the lowest paid group. (See charts 2.6 and 2.7)
- changes in the distribution of work - the number of households without any work has increased, alongside a rise in the number of two-earner households. The number of workless households increased from nine per cent in 1979 to twenty per cent in 1995-96. (See chart 2.8). At the same time, the number of two-earner households has increased while the number of single-earner households has fallen. (See table on page 19).

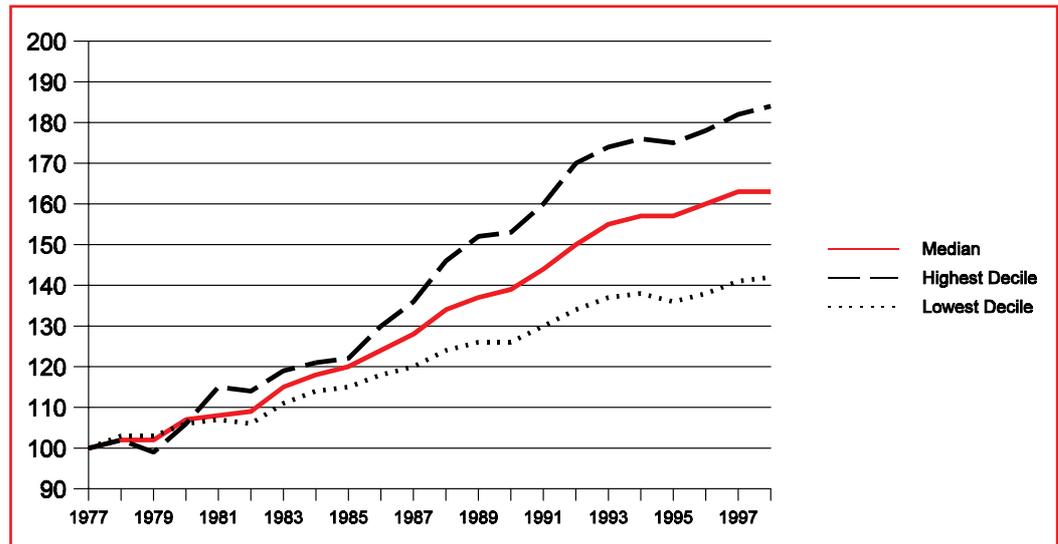
<sup>15</sup> Measured by the Gini coefficient. This is the most widely used measure of inequality. It measures the difference between the actual distribution of income and a distribution where everyone has exactly the same income. It takes values in the range 0-100 per cent (where 0 shows no inequality i.e. everyone has the same income, and 100 complete inequality i.e. one person has all the income).

<sup>16</sup> Source, Economics Trends, No 553 April 1998. Market Income measures income from employment and investment before any government intervention. Income post-tax and benefit measures market income, plus cash benefits minus direct taxes and employee NICs. The social wage measures income post-tax (direct and indirect) and cash benefits, plus the value of benefits in kind such as education and health. See footnote 15 for the explanation of the Gini coefficient.

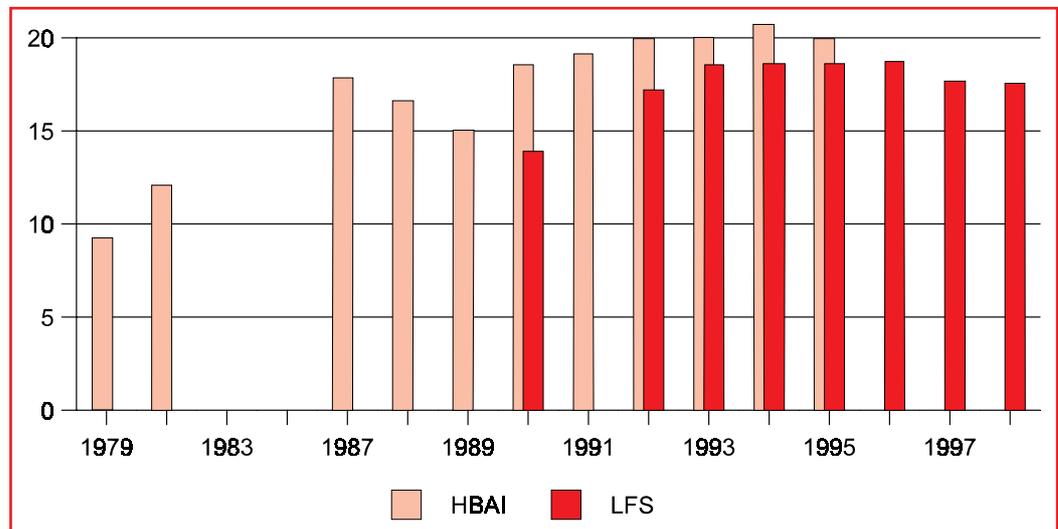
**Chart 2.6: Dispersion of male wages 1977=100<sup>17</sup>**



**Chart 2.7: Dispersion of female wages 1977=100<sup>18</sup>**



**Chart 2.8: The number of workless households 1979-1998<sup>19</sup>**



<sup>17</sup> Source: New Earnings Survey 1977-98.

<sup>18</sup> Source: New Earnings Survey 1977-98.

<sup>19</sup> Source Households Below Average Income 1979-1996/97, Labour Market Trends, January 1999 LFS household data: Spring 1998 analyses.

**2.11** The table below uses data from the ONS Longitudinal Study from the census to show how the rates of single, earner, multiple-earner and workless households has changed among couples of working age.<sup>20</sup>

	1971	1981	1991
<b>No earner</b>	<b>3%</b>	<b>7%</b>	<b>9%</b>
<b>One earner</b>	<b>51%</b>	<b>42%</b>	<b>31%</b>
<b>Two earners</b>	<b>46%</b>	<b>51%</b>	<b>60%</b>
<i>in which:</i>			
<b>woman part-time</b>	21%	26%	28%
<b>woman full-time</b>	24%	25%	32%

**2.12** Part of the increase in the number of workless households is explained by the decline in household size. Over the last two decades the number of single adult households has increased. But, although the numbers of unemployed claimants almost halved between 1993 and 1998, the impact on workless households was much less. The number of working-age, workless households fell by less than one percentage point.

**Characteristics of the rise in earnings inequality**

**2.13** The widening of earnings differentials has been characterised by various features:

- Increased occupational differentials. A rise in the earnings of professional and managerial workers, and to a lesser extent clerical and skilled-manual workers, relative to semi-skilled and unskilled workers.
- Increased educational differentials. In the late 1970s, staying on at school beyond sixteen was associated with 40 per cent higher earnings but this rose to 60 per cent in the early 1990s.
- There is some evidence that the importance of experience for earnings i.e. the number of years in employment, has increased.<sup>21</sup>
- The widening of the earnings distribution was more marked in the private sector than in the public sector, and particularly among those groups not covered by collective agreements.
- The increase in earnings inequality was not peculiar to the UK. There were particularly marked increases in earnings inequality in the USA, Canada, Australia and New Zealand. Increases in continental Europe were less marked.

**Explanations of rising earnings inequality**

**2.14** Three major causes have been suggested to explain the rise in earnings inequality:

- Technological change;** this is almost certainly the most important factor. As noted above there has been an increase in the earnings and employment of skilled workers relative to unskilled workers. Part of the reason for this may be that technological change, particularly the introduction of computers, has favoured skilled workers compared to unskilled workers. So far, computers have been best at routine tasks such as data analysis and poor at tasks in which judgement and face to face communications are required.
- Changing labour market institutions;** such as the weakening and subsequent abolition of the Wages Councils, decline in the real value of minimum wages and the decline of trade union membership.

<sup>20</sup> Source: Davies, H., Joshi, H. & Peronaci, R. 'Dual and Zero Earner Couples in Britain: Longitudinal Evidence on Polarization and Persistence' Birkbeck College Department of Economics Discussion paper 8/98.

<sup>21</sup> But other commentators have suggested that this may be due to cohort effects, attributable to either the quality of pre-labour market education and training, or to the absolute size of the cohorts. For evidence of the former (experience) hypothesis, see J Schmitt, "The Changing Structure of male Earnings in Britain, 1974-88", in R Freeman and L Katz (eds), Differences and Changes in Wage Structure, Chicago, 1994. For the latter (cohort effects) hypothesis, see A Gosling, S Machin & C Meghir, "The Changing Distribution of male Wages in the UK" CEP Discussion Paper, No 271, January 1996.

**Earnings mobility**

iii. To a lesser extent, **competition from the developing world**. This may have increased competition for goods involving more labour-intensive and less skill-intensive processes.

**2.15** This widening distribution of earnings has been a key element in the rise in inequality over the last twenty years. But it is based on snap-shot data which provides an insight into where workers are within the wage distribution at a given point in time. It does not tell us about the amount of movement up and down the earnings distribution. If it were true that the low paid of today become the high-paid of tomorrow a widening gap would be of less concern on grounds of fairness and opportunity. Earnings mobility gives people the opportunity to progress up the earnings distribution over their lifetime.

**2.16** The data from panel surveys are new but give us some feel for this question. They show that there is limited earnings mobility over short time periods. Almost half of all men in the bottom decile of the earnings distribution in one year will remain there in the next, and only a fifth will move up the earnings distribution between one year and the next<sup>22</sup>.

**2.17** Low pay is frequently persistent for longer periods too. Slightly fewer than half of the low paid will move out of low pay between any two years, and the chances of remaining low paid increase with the duration of low pay. Over three quarters of the people who have been low paid for 2 years, will be low paid in the third year<sup>23</sup>.

**2.18** However, there is more earnings mobility over peoples' lifetimes. Data from the Lifetime Labour Market Database shows that among men who were 25 in 1978, less than a fifth were in the same decile 15 years later (except for those who started at the top who were more likely to stay there). However, whilst there is a lot of longer-term earnings mobility much of it is still short-range.

**2.19** The table below looks at how many of the men who were 25 in 1978 and in work had moved up or down the earnings ladder fifteen years later<sup>24</sup>. The first row of the table shows that 27 per cent of the men who were in the bottom-fifth of the income distribution at 25 were also at the bottom in 1992-93 when they were 40 years old. Of the people who moved out of the bottom-fifth the largest group were no longer in a job where they were paying class 1 National Insurance contributions, either because they were self-employed or, more commonly, because they were unemployed or registered as incapable of work<sup>25</sup>. Most of those who moved up the earnings ladder moved up one fifth (18 per cent). Very few (14 per cent) made it to the top two-fifths by 1992-93.

Earnings group in 1978 at age 25	Earnings group in 1992-93 at age 40					No longer in class 1 employment
	Bottom fifth	Next fifth	Middle fifth	Next fifth	Top fifth	
Bottom fifth	<b>27%</b>	18%	9%	7%	7%	33%
Next fifth	15%	<b>17%</b>	22%	15%	6%	26%
Middle fifth	11%	17%	<b>19%</b>	16%	11%	26%
Next fifth	9%	14%	15%	<b>20%</b>	19%	22%
Top fifth	4%	7%	12%	20%	<b>37%</b>	19%

<sup>22</sup> Dickens, R., Presentation to the Treasury workshop on poverty and inequality.

<sup>23</sup> Stewart, M. Presentation to the Treasury workshop on poverty and inequality.

<sup>24</sup> Nicolls et al, In Jobs, Wages and Poverty 1997 ed P. Gregg.

<sup>25</sup> This is the not in class 1 employment category in the table.

**2.20** For men who were ten years older, earnings mobility over the same fifteen years was even lower; less than one in five moved more than a fifth up the earnings distribution.

**2.21** The short-range nature of much earnings mobility suggests a strong permanent element to earnings inequality. At least half of the rise in inequality described above is the result of increases in permanent differences between employees<sup>26</sup>. Also this analysis suggests that, alongside rising inequality, immobility has been increasing. Over the short term the proportion of workers who remain in the same earnings decile has increased and there has been a fall in longer-term mobility - over five years - for men.

**Work and low income**

**2.22** Lack of work is the main risk factor for short-term and persistent low income.

- Two-thirds of working-age households on low incomes are workless and eight out of ten are not fully employed.
- Among those on persistently low incomes of working age, 60 per cent are in workless households compared to just thirteen per cent who are fully employed<sup>27</sup>.

**2.23** The table below shows the percentage of people who are on persistently low incomes by employment status<sup>28</sup>.

	In the Bottom 20% <sup>29</sup>	In the Bottom 30% <sup>30</sup>
Pensioner	37%	32%
Fully Employed	5%	8%
Partially Employed	13%	15%
Workless	39%	34%
Self-employed	7%	10%
Total	100%	100%

**Family changes and income mobility**

**2.24** Employment and/or earnings changes are the most important events associated with entry and escape from low income. But changes in family life - divorce, bereavement and childbirth - also feature heavily in relation to entries into low income. For a significant minority of people - one in three - the birth of a child results in a fall in their relative living standards as they fall one or more quintile group down the income distribution.<sup>31</sup> And for some - between ten and fifteen per cent - it leads the family into poverty<sup>32</sup>. Having a child is more likely to push a family into low income in the UK than in either the US or Germany<sup>33</sup>.

**2.25** A tenth of all entries into low income are associated with separation or divorce. Separation or divorce is much more likely to affect the family's income adversely if it also leads to a change in economic status. If divorce or separation results in the family becoming a workless household the odds of becoming a low-income household are greatly increased - they are over four times higher if the mother does not subsequently work<sup>34</sup>.

<sup>26</sup> Dickens, R., 'The Evolution of individual male earnings in Great Britain: 1975-94 Centre for Economic performance Discussion paper 306.

<sup>27</sup> A household is fully employed if all the adult are in employment (either full or part-time) A household is partially employed if at least one adult has a job but at least one adult is not in work.

<sup>28</sup> Source: HBAI 1979-1996/7 DSS Table 4.8.

<sup>29</sup> Income in the poorest 20 per cent of the income distribution for at least 4 years and the remaining 2 years in the poorest 40 per cent.

<sup>30</sup> Income in the poorest 30 per cent of the income distribution for at least 4 years and the remaining 2 years in the poorest 40 per cent.

<sup>31</sup> Social trends 29, 1999 Table 5.23.

<sup>32</sup> Source: DSS analysis of the British Household Panel Survey 1991-1996.

<sup>33</sup> Howard Oxley, OECD - Presentation to the HM Treasury workshop on Persistent Poverty and Lifetime Inequality.

<sup>34</sup> Howard Oxley ob cit.

**Getting a job lifts people out of low income**

**2.26** Work is clearly the most important route out of low income. Around two-thirds of movements out of low income occur through people gaining work or increasing their earnings.

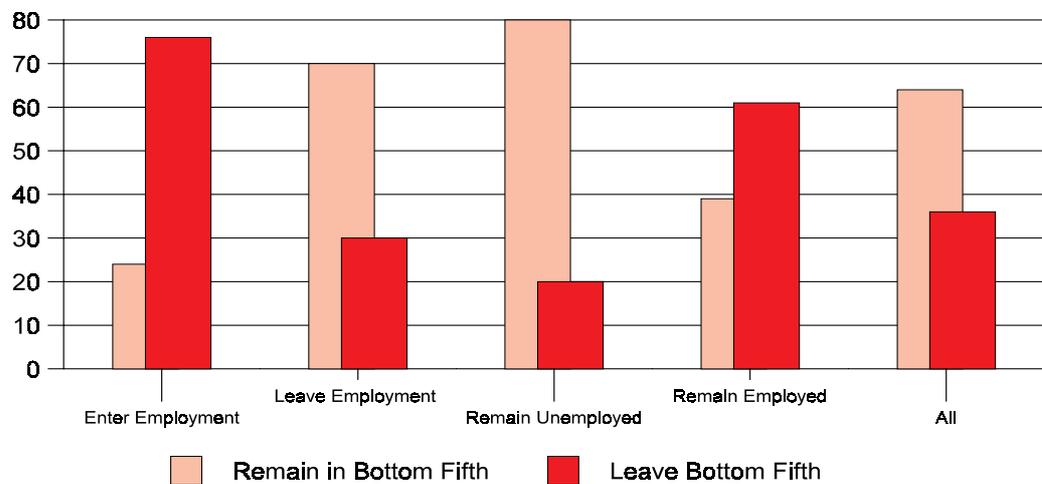
- About a third of all the people who ‘escape’ from poverty do so when someone in their household gets a job and a further third when someone in their household increases their earnings in work.
- These labour market related escapes are equally likely to come from the main breadwinner or a second earner. In part this may reflect the low earnings available to many heads of household. But it also indicates that second earners are an important target group for programmes to move households from welfare to work and to make work pay.

**2.27** The table below shows the types of events associated with entry and escape from low income.<sup>55</sup>

	Entry	Escape
<b>Work &amp; Wages</b>	<b>46%</b>	<b>63%</b>
Head of household	31%	34%
Spouse	16%	29%
<b>Non labour-market income</b>	16%	20%
<b>Change in family structure</b>	<b>38%</b>	<b>18%</b>

**2.28** Chart 2.9 shows the links between changing economic status and movements in and out of low income. When people in the bottom fifth gain work, the chances of them moving out of low income are very high. Almost eight out of ten who had moved from worklessness to work between 1991 and 1995 had moved up the income distribution out of the bottom fifth. In contrast, people on low incomes who remain unemployed are very unlikely to move up the income distribution. Just twenty per cent of those who were unemployed in both 1991 and 1995 had managed to climb out of the bottom fifth of the income distribution.<sup>56</sup>

**Chart 2.9: Movement out of the bottom fifth and economic status 1991-95**



<sup>55</sup> Stephen Jenkins Presentation to HMT workshop on Persistent Poverty and Lifetime Inequality.

<sup>56</sup> Social Trends, 28 1998 Table 5.25 - analysis of BHPS. People who remain retired or inactive have comparably low rates of exits from the poorest fifths.

### Box 2.2: Raising productivity and expanding Opportunity

In the long run productivity growth is the key driver of growth. So raising productivity is central to rising living standards and increasing opportunity for all. The UK has a productivity gap with the US of around 40 per cent and around 20 per cent with France and Germany. The Government's strategy is to tackle this productivity gap; some UK companies and sectors produce world class performance.

The Government is determined to move the UK in the direction of a high-productivity, high-wage economy. There is no future in trying to compete on cost alone. In terms of opportunity this will lead to a more vibrant and dynamic business environment in which firms will be able to create jobs. This needs to be underpinned by significant investment, by Government and business, in education and training. People need to receive a high quality education so that they are equipped with the skills that employers want and are willing to pay for. So along with supporting education, the Government is looking at ways to improve the links between businesses and schools. The challenge is to drive this top quality performance to all parts of the economy, making the UK as productive as other leading economies.

More specifically the productivity agenda is focussed around improving the UK's performance in five key areas :

- education and skills;
- investment in physical capital;
- enterprise and innovation;
- competition and regulation.
- public sector productivity

### Work and earnings mobility - The policy agenda

**2.29** *As this chapter has shown, work is the most important route to increased prosperity and most people who are trapped on low income are without work. The Government is committed to high and stable levels of employment, supported by:*

- *A macroeconomic framework which promotes stability to provide a platform for long-term sustained growth. This will help prevent the large swings in output which destroy jobs and create pools of long-term unemployment which have a scarring effect on people's subsequent employment opportunities.*
- *Addressing the productivity challenge to narrow the productivity gap between the UK and our main competitors, and creating new and better employment opportunities for more people. (See box 2.2)*
- *A labour market which helps more people move from welfare to work, makes work pay and equips people with the skills they need.*

**2.30** *These policies have been reflected in Budget 99 and the previous two budgets. Box 2.3 outlines the policies to promote work opportunities. The National Minimum Wage will increase the wages of those currently earning below £3.60 an hour by an average of 30 per cent. The National Minimum Wage is part of the Government's programme to make work pay. In Budget 99 the Government set out a further series of reforms to the tax and benefit system to improve work incentives and provide more support to low-income working families. The programme of tax and benefit reform announced in Budget 99 and the last Budget includes:*

<sup>57</sup> Dickens, R. & Machin, S. 'Minimum Wage: Maximum impact?' CentrePiece Autumn 1998. The National Minimum Wage is £3.60 for people over 21 and £3.20 an hour for 18-21 year olds.

- *The introduction of the 10 pence starting rate of income tax – reducing the marginal rate of tax from 20 pence to 10 pence for 1.8 million low paid workers.*
- *The reduction in the basic rate of tax to 22 pence.*
- *The new Working Families Tax Credit and Childcare Tax Credit – providing a guaranteed minimum income of £200 a week from April 1999.*
- *The new Disabled Person’s Tax Credit – providing a guaranteed minimum income of at least £155 a week for a single disabled person who moves from benefit to full-time work and £230 a week for a couple with one child under 11.*
- *Replacing the married couple’s allowance with a new Children’s Tax Credit of up to £8 per week for families with children.*
- *Reform of National Insurance contributions to abolish the “entry fee” and alignment of the tax and NIC systems recommended by Martin Taylor.*

*Budget 99 and the last Budget will increase the incomes of all working households by an average of £450 a year. Overall 580,000 adults will be lifted out of poverty as a result of these measures.*

**Box 2.3:**  
**Promoting**  
**work**  
**opportunities**  
**for all**

The key measures to promote work opportunities include:

- Helping people from Welfare to Work with the New Deal programme to provide new work opportunities for people who have become detached from the labour market. The New Deal for young people, the New Deal for the long-term unemployed and the lone-parents’ New Deal are already underway. In November 1998 the pilots to extend the New Deal for the long-term unemployed over 25 started. The Government has also extended the options to receive help to the partners of the unemployed and to the disabled with programmes to help them overcome the specific obstacles they face to work. The New Deal for the partners of the long-term unemployed will be available nationally from April 1999. Budget 99 builds on and extends the New Deal with:
  - a New Deal for the over 50s; and
  - intensifying the gateway for 18-24s to ensure that all young people take advantage of the options available, with no option of simply remaining on benefit.
- Establishing employment zones to develop innovative approaches in areas with high concentrations of long-term unemployment and Rapid Response Units for people who lose their jobs through major redundancies. The Government aims to have at least fourteen Employment Zones up and running for two years from the year 2000, helping around 48,000 long term unemployed people aged 25 and over find and keep work.
- Establishing a Single Work-Focused Gateway which will be piloted in four areas from June 1999 and in a further eight areas from November 1999. The Single Work-Focused Gateway will bring together the different agencies providing services to benefit system claimants and provide a personal adviser to help claimants become more independent.

# 3

## CHILDHOOD OPPORTUNITY AND LIFE CHANCES

This chapter looks at how opportunity in childhood affects people's life chances. It shows that disadvantage in childhood frequently leads to disadvantage in adult life and that increasing numbers of children are growing up in disadvantaged families.

### **The importance of education -**

- Educational attainment has a significant impact on people's chance of success in the labour market. It is the most important transmission mechanism for cycles of disadvantage.
- Those with few or no formal qualifications are more likely to move into low-paid employment, are likely to see their wages rise by less than their peers, and are more likely to be caught in the low-pay, no-pay cycle.
- Children from disadvantaged backgrounds who succeed in education are more likely to move up the earnings and income distribution.

### **Childhood disadvantage damages life chances -**

- Differences in educational attainment between advantaged and disadvantaged children are apparent from a very early age. At 22 months children whose parents are in social classes one or two are already fourteen percent higher up the educational development distribution than children whose parents are in social classes four or five.
- Children from disadvantaged backgrounds are less likely to succeed in education. Childhood disadvantage has long-term scarring effects: children from poor backgrounds are less likely to stay on in school, have more contact with the police, lower educational attainment and lower incomes as adults.

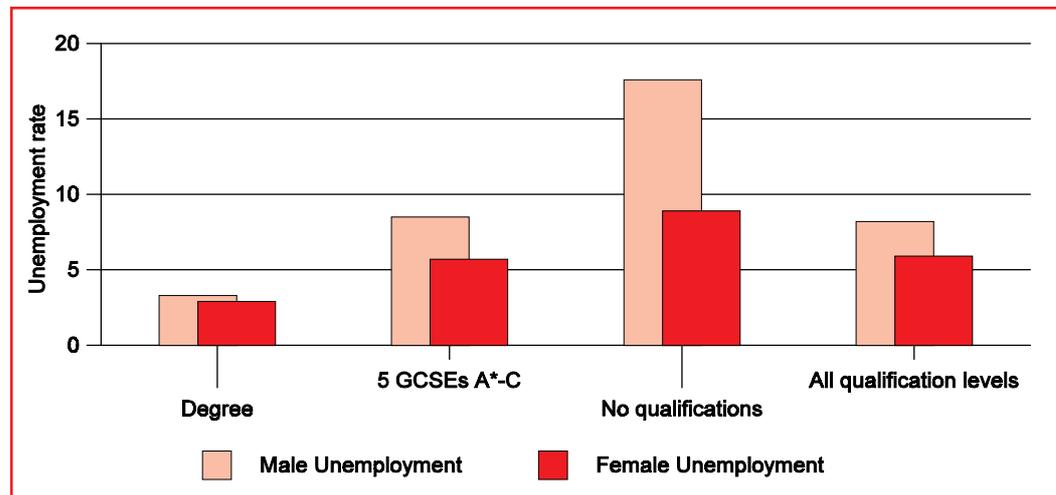
### **Increasing numbers of children are growing up in disadvantaged families -**

- A third of all children live in households with incomes below half the national average. The number of children living on low incomes has increased dramatically over the last two decades.
- Many children will spend a large part of their childhood in poverty. Up to a quarter of all children live in persistent poverty.
- Childhood poverty is frequently caused by lack of employment: the majority of low income children live in families without work.

**3.01** Levels of educational attainment have been shown in a number of studies to have a significant impact on future life chances. Childhood disadvantage frequently leads to low educational attainment, low educational attainment leads to low pay and low employment, which in turn leads to low income and denial of opportunity for the next generation.

- Educational attainment reduces the risk of being unemployed. In 1997 the rate of unemployment for people with no qualifications was double that for people with level two qualifications<sup>1</sup>. For those educated to degree level, the unemployment rate was less than a quarter of the rate for people with no qualifications. (See chart 3.1)
- Educational attainment increases the chance of getting a job as an adult. In 1998 the average employment rate for all men and women was 73.4 per cent, and higher for people with degrees. But for those with no qualifications at all it was only 51.8 per cent. Fewer than half of women with no qualifications are in employment.
- People with higher education and training tend to have higher wages, and this link is getting stronger. In the late 1970's people who stayed on at school beyond sixteen had earnings which were on average 40 per cent higher than those who had left school by this age. In the 1990s this had increased to 60 per cent.
- Average wage growth increases as the level of qualification rises. For women the return to education is even greater than for men; for those with degree level qualifications, average real, annual wage growth was seventeen times higher than for those with no qualifications. (see chart 3.2)

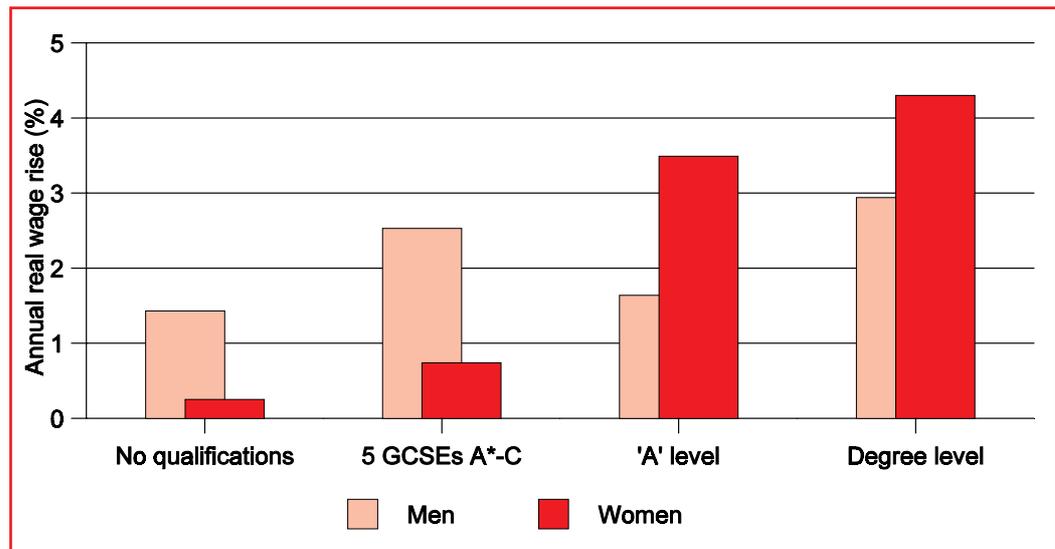
**Chart 3.1: Unemployment rates by education level<sup>2</sup>**



<sup>1</sup> Level 2 qualifications are 5 or more GCSE passes at grades A\*-C or their vocational equivalent.

<sup>2</sup> ILO Unemployment Rates 1997. Source: Robinson, P. 'Employment Audit No. 5'. Employment Policy Institute.

**Chart 3.2: Real earnings growth within work by educational level 1991-1994<sup>3</sup>**



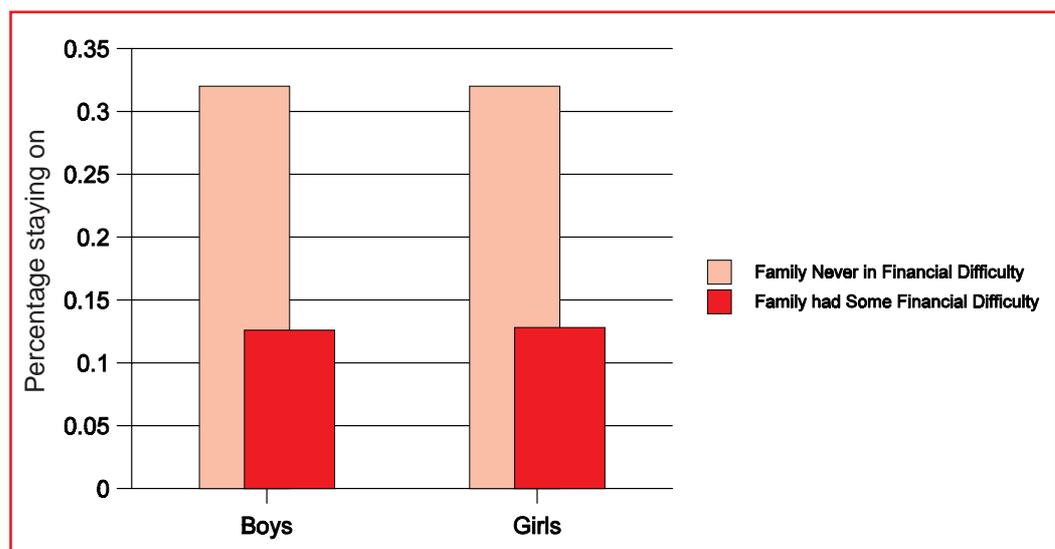
**Access to educational opportunities**

**3.02** Not all children have the same chance to achieve their potential at school. There is considerable evidence that growing up in a family which has experienced financial difficulties damages children’s educational performance. Of the children born in 1958 who have been monitored in the National Child Development Survey, fewer than one in twenty who grew up in a family with financial problems went on to get a degree. This is a quarter of the rate for children who grew up in families without financial problems<sup>4</sup>.

**3.03** Children growing up in families which have experienced financial difficulties are, on average:

- Less likely to stay on in school.
- Have poorer school attendance records.
- Are up to ten percentage points more likely to have no qualifications at 23.

**Chart 3.3: Staying on at school after 16 and family history of financial problems<sup>5</sup>**



<sup>3</sup> Gosling, A., Johnson, P., McCrae, J. & Paull, G. ‘The dynamics of low pay and unemployment in early 1990s Britain’ IFS 1997 using data from the BHPS.

<sup>4</sup> Hobcraft, J., ‘Intergenerational transmission and life course transmission of social exclusion: influences of childhood poverty, family disruption and contact with the police. CASE paper 15 1998.

<sup>5</sup> Gregg, P. & Machin, S. ‘Child Development and Success or Failure in the Youth Labour Market’ Centre for Economic Performance Discussion paper 397 July 1998.

### The importance of pre-school experience

**3.04** Children from disadvantaged backgrounds are likely to have poorer literacy and numeracy skills in adulthood - with knock-on implications for their chances of gaining work, and their risk of low pay.

**3.05** Differences in children's educational attainment are apparent from a very early age. The data from the National Child Development Survey show that there is a strong relationship between children's performance in maths and readings tests between the ages of six and eight and their parents' earnings, with the children of higher earning parents performing better<sup>6</sup>.

**3.06** Looking at the experience of children followed in the more recent Birth Cohort Study<sup>7</sup> it is clear that differences in educational development are apparent from an even earlier age. At 22 months the children of parents in social classes one or two and with higher education levels are already fourteen percentage points higher up the educational-development distribution than children whose parents are in social classes four or five or have low educational attainment.

**3.07** Differences in children's maths and reading performance in these early years feed through into poorer outcomes at the age of 16. Children with test scores in the top twenty per cent at age six-eight are almost twice as likely to stay on at school at sixteen<sup>8</sup>.

**3.08** Going to school does not reduce the differences in early development between advantaged and disadvantaged children. In fact, the differences between advantaged and disadvantaged children grow once they start school at five. Clearly the very early years of a child's life are important for their subsequent educational development<sup>9</sup>.

**3.09** Parental social class or earnings influences children's attainment levels through a range of factors. The research evidence shows that educational development over the first ten years of a child's life is linked to a series of factors which are more likely to occur in disadvantaged families. These include:

- **Family size** - children from large families do less well.
- **Mother's education** - children whose mother had a degree do better.
- **Over-crowding** - children in poor, over-crowded housing do less well.
- **Birth-weight and subsequent nutrition** - children with higher birth weight and better nutrition do better.
- **Mother's mental health** - children whose mother had poor mental health do less well.
- **Father's unemployment** - children whose fathers are out of work do less well.

**3.10** Once children have started school, the level of parental interest in the child's education is also an important factor. However, for school age children, even allowing for all these factors, children from lower income families do less well.

<sup>6</sup> Machin, S Presentation at the Treasury Workshop on persistent Poverty and Lifetime inequality.

<sup>7</sup> The Birth Cohort Study has followed the development of all children born in one week in April 1970. It tracked their educational, emotional and personal development at 22, 42, 60 and 120 months old.

<sup>8</sup> Gregg, P. Machin, S., Child development and success or failure in the youth labour market. Centre for Economic Performance Discussion Paper 397 July 1998.

<sup>9</sup> Feinstein, L. 'Pre-school Educational Inequality? British Children in the 1970 Cohort' Centre for Economic Performance Discussion Paper 404. September 1998.

#### Box 3.1: Sure Start - A new approach

Evidence taken by the Cross-Departmental Review of Young Children in the Comprehensive Spending Review convinced the Government that resources should be devoted to a new programme to pioneer a coordinated approach to services for families with children aged under four. The evidence to the young children's review showed that:

\* **The earliest years of life (including pregnancy) are most important in terms of child development.** During the first year of life brain development is rapid and extensive and much more vulnerable to environmental influence than previously realised.

\* **There are several "risk factors" affecting young children which can lead to social exclusion.** These include material factors (eg poverty), child factors (eg disability), family factors (eg poor parental education, conflict) and school factors (eg lack of pre-school / playgroup). Each of these factors affect educational performance, which is a good predictor of later success in the labour market and more widely.

\* **Having multiple risk factors (eg multiple deprivation) greatly increases the likelihood of later social exclusion.**

\* **There are several 'protective factors' which can act to counter risk.** These include strong early attachments to adults and parental interest. Protective factors are important in explaining how children from apparently similar backgrounds may differ in their achievements.

\* **Up to half the most disadvantaged children are concentrated in the most deprived areas.** But an approach focussed only on those areas would miss a substantial proportion of children at risk.

\* **There are effective early interventions:** Evidence on "what works" shows well targeted effective early intervention can enhance educational and social development for individual children, and lead in turn to significant long term net benefits to society. Effective interventions are:

- **Two generational:** as they involve parents as well as children.
- **Non-stigmatising:** they avoid labelling "problem families".
- **Multifaceted:** they target a number of factors, not just for example education, health or "parenting".
- **Persistent:** they last long enough to make a real difference.
- **Locally driven:** they are based on consultation with and the involvement of parents and local communities.
- **Culturally appropriate** and **sensitive** to the needs of children and parents.

The Review found that services for children aged seven and under cost around £10 billion a year. The current system of service provision is driven by vertically separated agencies - each of which deals with a fragment of children's lives - rather than by the needs of children as whole individuals. Fragmentation and lack of coordination appeared particularly severe for those aged under four, when children are most vulnerable but can benefit most from appropriate support.

Sure Start aims to ‘join-up’ provision for families with children under four. Working with parents, Sure Start aims to promote the physical, intellectual, social and emotional development of children to make sure that they are ready to thrive when they go to school. In Sure Start areas - located in some of the most disadvantaged parts of the country - all local providers of services - voluntary, statutory and private - will combine with the local community to improve opportunities for families in ways that cut across old professional and agency boundaries and focus more on community needs. Sure Start local programmes will form a universal and open access “gateway” to core services for all young children and their families in the area, covering childcare, early education and play, health services and family support.

**Persistence between generations**

**3.11** Lack of opportunity is of most concern when it persists between generations: when people’s life chances are determined by who their parents were rather than their own talents and efforts. There is evidence of strong links between people’s own economic position and that of their parents and possibly even their grandparents. Statistical research suggests that between 40 and 70 per cent of a child’s earnings in adulthood can be related to their parents’ earnings<sup>10</sup>.

**3.12** Although children frequently do end up in a different economic position to their parents, for most people the movement is short-range. This is particularly true of children from advantaged backgrounds. Children with advantaged parents are very unlikely to end up disadvantaged themselves. As the table below shows<sup>11</sup>, around 80 per cent of boys whose fathers were in the top quarter of the earnings distribution end up in the top half of the earnings distribution. But the chances of ending up in the top half of the earnings distribution are much lower for boys whose fathers were in the poorest quarter. Just over a third of the boys with parents in the bottom quarter manage to move up to the top half of the earnings distribution. The pattern of mobility is not significantly different for girls.

	Son’s earnings group			
Father’s earnings group	Bottom quarter	Second quarter	Third quarter	Top quarter
Bottom quarter	34%	30%	24%	13%
Second quarter	29%	31%	25%	14%
Third quarter	30%	24%	24%	21%
Top quarter	6%	15%	27%	52%

**3.13** There are also intergenerational links in the risk of unemployment. Men whose fathers were unemployed are twice as likely to be unemployed for a year or more between the ages of 25 and 35<sup>12</sup>.

**3.14** People’s chances of being in a manual social class, having no access to a car and living in rented accommodation are also higher if their parents were in the same socio-economic position<sup>15</sup>. Chart 3.4 shows how people’s own economic circumstances in the 1981 and 1991 census was related to their parents socio-economic position in 1971.

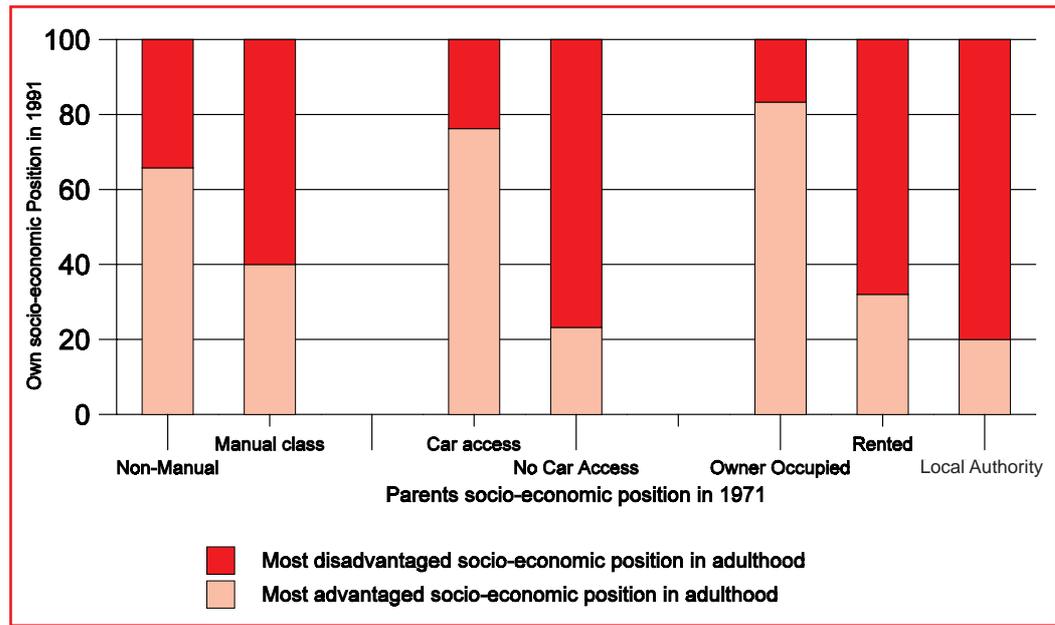
<sup>10</sup> Machin, S. Presentation to HM Treasury workshop on Persistent Poverty and Lifetime Inequality.

<sup>11</sup> Source: Machin, S. ob cit.

<sup>12</sup> Johnson, P. & Reed, H. ‘Intergenerational mobility among the rich and poor: Results from the National Child Development Survey’ Oxford Review of Economic Policy, Vol 12, No 1. 1996.

<sup>15</sup> ONS Longitudinal Survey Analysis.

Chart 3.4: Intergenerational mobility of children aged 6-15 in 1971<sup>14</sup>



**3.15** Children’s educational performance is also statistically linked to their parents’ earnings:

- if one father’s earnings are double the level of another, his son’s maths test score is on average five percentile points higher than the other’s and 2.7 percentile points higher up the reading test distribution.
- for a daughter the gain is five percentile points up the distribution of both maths and reading test scores.

**3.16** Children who achieve in education are more likely to move up the earnings and income distributions compared to their parents. The table below compares the educational attainment levels of disadvantaged sons who have moved up the income distribution relative to their parents<sup>15</sup>. The table shows that fewer than one in twenty of the non-movers had ‘A’ level or equivalent qualifications, compared to almost two out of five of the big movers.

	Level of educational achievement			
	No qualifications	Less than 5 ‘O’ levels or equivalent	5 or more ‘O’ levels or equivalent	‘A’ level or equivalent
Non-movers	53%	24%	19%	5%
Slight movers	27%	33%	24%	16%
Big movers	11%	28%	24%	37%

<sup>14</sup> Source: The Longitudinal Survey Analysis by ONS. Socio-economic position was measured using the indicators of occupational based social class, housing tenure and access to cars reported at the census.

<sup>15</sup> Source: Johnson & Reed 1996 ob cit. Disadvantaged children are those whose fathers were either unemployed or in the lowest fifth of the income distribution in 1974 when the children were 16. Big movers are sons who at age 33 have moved to the top 40 per cent of the income distribution. Slight movers are sons who moved to the second and third fifths of the income distribution. Non-movers are sons who are also in the bottom fifth of the income distribution.

## Childhood disadvantage and adult outcomes

**3.17** The cycle between generations is further strengthened since children who grow up in disadvantaged families are also more likely as adults to:

- be a teenage mother;
- live in social housing;
- be dependent on benefit; and
- have a low income.

**3.18** Although other childhood factors have stronger associations with each of these outcomes - particularly education performance, parental interest in schooling and contact with the police - growing up in a disadvantaged family increases the odds of misfortune across a range of outcomes.<sup>16</sup>

**3.19** Poorer children's lower educational attainment explains much of the disadvantage they take with them into adulthood. However, statistical research shows that financial disadvantage has a further, distinct effect, over and above its impact on education.

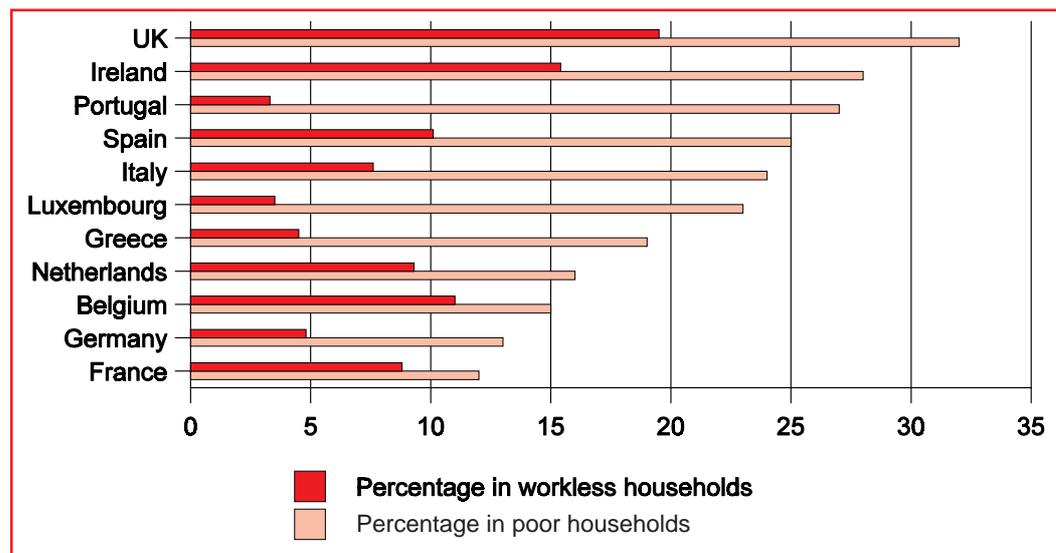
## Children growing up in poverty

**3.20** Against this background, it is of concern that the number of children growing up in poverty has increased dramatically since the 1970s.

- Four million children - a third - were living in households with less than half average income in 1995-96. This is almost three and a half times the number in 1979 - 1.2 million children, or just under a tenth<sup>17</sup>.
- Almost 40 per cent of children are born into households which are poor (in the bottom three deciles of the income distribution)
- Nearly all of the increase reflects families with children not keeping up with the general rise in prosperity rather than actual falls in living standards. However the incomes of the poorest children were no higher in 1995-96 than they were in 1979.

**3.21** The proportion of British children growing up in households with less than half average income is well above others in Europe. (See chart 3.5)

**Chart 3.5: Children in workless households & below half average income<sup>18</sup>**



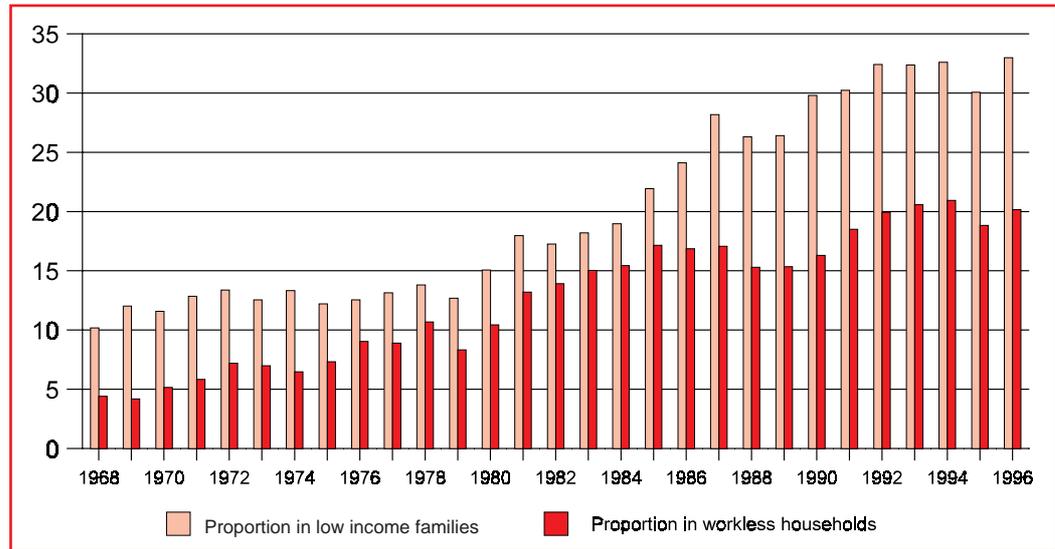
<sup>16</sup> Source: Hobcraft, J. 1998 ob cit.

<sup>17</sup> Ranked by equivalised income after housing costs. Source: Households Below Average income 1979-1996/7 DSS.

<sup>18</sup> A poor household is one with an income below 50% of the median. Source: ECHP first wave 1995. Workless households data is from 1996 Source: Employment Outlook, OECD, Paris 1998.

**3.22** The great majority of children living in poor families live in a household which is either partially employed or workless; eight out of ten poor children live in a household which is not fully employed<sup>19</sup>; and more than half in entirely workless households (see chart 3.6). As chart 3.5 shows, once again this is higher than the rest of Europe.

**Chart 3.6: Children in low income families and children in workless households 1979 - 1996<sup>20</sup>**



**3.23** For many of the children living in a low-income household, low income is persistent; they will spend a large part of their childhood in a household with low income.

- Surveys suggest that more than 1.5 million children - one in eight - were growing up in families suffering persistently low income in the first half of the 1990s.<sup>21</sup>
- Children are over-represented among the persistently poor. Children are more likely to be persistently poor than those of working age

**Childhood opportunity and life chances - The policy agenda**

**3.24** *The Government attaches the highest priority to supporting families with children, tackling the causes of childhood poverty and ensuring that all children have the opportunity to succeed. It is investing an additional £19 billion in education over the next three years and increasing the financial support available for families with children. By the end of this parliament the Government will be providing an additional £6 billion a year in financial support for children. Box 3.2 sets out the Government's programme to improve education opportunities.*

**3.25** *Children from disadvantaged backgrounds can fall behind from a very early age. The Government recognises the need for early intervention and is therefore investing £540 million in the new Sure Start programme which works with families with very young children to coordinate and improve services, so children are ready to thrive when they go to school. Budget 99 recognised the importance of the period before and immediately after birth for a child's development. It announced the introduction of a New Sure Start Maternity Grant to replace the Maternity Payment with payments doubled to*

<sup>19</sup> Source: Households Below Average Income 1979-1996/7 DSS. Low income is below half average equivalised income after housing costs.

<sup>20</sup> Low income is defined as below half average income after housing costs. Source: Gregg, P., Harness, S. & Machin, S forthcoming.

<sup>21</sup> This is defined as being in the bottom 20 per cent of the income distribution for at least 4 years and not above the poorest 40 per cent in any period. Source: Households Below Average Income 1979-1996/7. DSS.

*£200 and the increased payment linked to contact with a healthcare professional to provide expert advice on child development and services.*

**3.26** *Childhood disadvantage is firmly intertwined with the problems of workless households and low pay. The Taylor Report<sup>22</sup> recognised that families with children face particular barriers to employment as the returns to work tend to be lower for those with children. The Working Families Tax Credit, to be introduced in October 1999, will reduce the barriers to work for families with children and provides a minimum income guarantee of £200 a week, or £10,400 a year, for every family with children with a full time worker<sup>23</sup>.*

**3.27** *The Government is increasing the amount of support available to children. It is targetting extra support on families when they need it most when their children are young, thereby ensuring that the financial support available for families with children is fairer. It is:*

- *Increasing Child benefit to £15 for the first child and £10 for subsequent children from April 2000.*
- *Replacing the married couple's allowance with a new Children's Tax Credit from 2001, which will be tapered away for families with a higher rate tax payer.*
- *Increasing the under 11 child credit in WFTC and income related benefit by £4.70 a week from October 1999, with a further £1.05 in April 2000 over and above indexation.*

**3.28** *The introduction of the WFTC, the new Children's Tax Credit and increases in child benefit and child support within income related benefits, combined with the reforms of NICs and introduction of the national minimum wage will provide a significant boost in income for families with children. The combination of the measures announced in Budget 99 and Budget 98 will mean that families with children will be on average £740 a year better off.*

**3.29** *The introduction of the WFTC together with the other measures announced in Budget 99 and the last Budget will lift some 700,000 children out of poverty. This is only the first round effect of the WFTC - it does not capture effect on families who are now able to take up employment opportunities as a result the improvement in their potential in-work income.*

**Box 3.2:  
Extending  
opportunity  
through  
education**

Poor basic skills make participation in the modern economy increasingly difficult, putting people at greater risk of low pay, unemployment and persistent poverty. The Government is working to tackle inequality of opportunity at its roots by investing an additional £19 billion in education over the next three years to:

- raise standards in education, increasing the number of children who reach the target standard in literacy and numeracy by age 11 to 80 and 75 per cent respectively in 2002 and reduce by between a quarter and a third, the proportion of those aged 16 who achieve no qualifications at all;
- narrow the gap in performance between schools, through intervention in underperforming schools, establishing Education Action Zones and cutting truancy and exclusions from school by a third by 2002.

<sup>22</sup> Work Incentives: A Report by Martin Taylor. The Modernisation of Britain's Tax and Benefit System, Number 2. HM Treasury.

<sup>23</sup> The minimum income guarantee applies to families with at least one adult working 35 hours or more on the National Minimum Wage.

Partly to help teenagers for whom early prevention measures are already too late, the Government is piloting Educational Maintenance Allowances (EMAs) for sixteen – nineteens. The highest rates of EMA will be concentrated on the poorest families, where the scope for increasing participation, retention and achievement in post-compulsory education is greatest. As the CSR made clear, if successful, EMAs will replace Child Benefit for this age group.

People need to continue to develop their skills through their working life if they are to succeed in the modern labour market. The Government's goal is to achieve a step change in the number of adults participating in lifelong learning by:

- increasing the help available to adults to gain literacy and numeracy skills;
- launching Individual Learning Accounts, giving initial priority to people with no qualifications, in low skilled jobs or seeking to return to work;
- incorporating a significant emphasis on training in the New Deal for young people.

**Box 3.3:  
Education  
Action Zones  
(EAZs)**

EAZs will use innovative and radical solutions to raise pupil attainments and tackle disadvantage, beginning with the basics of literacy and numeracy. Each Zone covers three-four secondary and special schools together with their feeder primaries. Partners include business, parents, voluntary and community groups as well as schools and local education authorities. Twenty-five EAZs are already operational. And a second-round of bidding for further zones started in January 1999. EAZs will provide tailored support to families and pupils. For example, by changing the school day or school year to establish before and after school clubs, weekend and holiday classes, reading clubs and nursery facilities. They will work better with other local services to tackle social exclusion. For example, by linking with health or employment zones, and by providing access to health or social services for children within a school. Business and other organisations will offer new management and leadership expertise as well as opportunities for work related learning. New incentives for teachers and additional non-teaching staff will also play a part in transforming the skills and lifetime employment opportunities of pupils in our most disadvantaged areas.



# 4

## OPPORTUNITY AND EVENTS IN ADULTHOOD

Although childhood opportunity has a powerful influence over life chances, this does not mean that subsequent experiences are unimportant. Labour-market experiences: unemployment, low pay and displacement for older workers can all damage people's subsequent labour-market opportunities.

### Labour market experience:

- People who have been unemployed or low paid are likely to be at much greater risk of subsequent unemployment and low pay, even after taking account of differences in their underlying characteristics.
- The number of men who are stuck in a low-pay, no-pay cycle has increased over the last two decades.
- Education and training reduce people's risk of being unemployed or low paid but they do not protect people from the long-term effects of these negative experiences once they happen.
- Displacement hits older workers particularly hard. Labour-market participation is falling among older workers. People with lower qualification levels, in low-paid jobs and declining industries are most likely to be affected by involuntary job loss in their 50's and 60's.
- Once they have lost their job the chances of getting back into the labour market are small and wages on return are much lower: on average 23 per cent less than their previous wage.
- This has implications for opportunities in retirement. The vast majority of people with occupational pensions are on salary related schemes where benefits are related to earnings and numbers of years of service.

### Family change and labour market opportunity:

- Balancing family responsibilities and work is often difficult. Women who choose to re-enter the labour market after taking time out to care for their children experience a long-term earnings penalty.
- Mothers with no qualifications, and lone parents, are much less likely to work than married or cohabiting mothers and those with degrees.
- But having a child has little long-term impact on lifetime earnings for mothers who have access to maternity leave and return to work.

**4.01** As chapter three has shown, childhood opportunities shape people's life chances, principally through the importance of educational attainment for success in work. Although childhood opportunities set people on particular trajectories through life, events in adulthood - particularly sudden shocks - also have a significant impact on people's subsequent labour-market opportunities. The most important events are:

- Unemployment.
- Working in a low paid job.
- Premature displacement from the labour market as an older worker.

**4.02** In addition changes in people's family circumstances - the birth of a child or family breakdown - can have an impact on people's subsequent work opportunities.

### Unemployment and subsequent life chances

**4.03** Once people have been unemployed they are at increased risk of subsequent unemployment and have less opportunity to move up the earnings ladder.

- Re-entry rates to unemployment for those leaving claimant unemployment are high: in the mid 1990s about half of those leaving unemployment were unemployed again within the year.
- Four out of ten of those who experienced unemployment between 1992 and 1996 were unemployed for over a year, mostly through a series of repeat spells. Fewer than a quarter of those spending more than a year without a job had just one spell of unemployment<sup>1</sup>.

**4.04** Part of this effect may reflect the relationship between involuntary job loss - displacement - and length of service. The length of time people have been with their employer is the most important predictor of job loss. On average, 6.5 percent of employees lose their jobs involuntarily each year, depending on the economic cycle. But workers who have been with their employer for less than a year are more than three times as likely to be displaced as workers with a tenure of five years or more<sup>2</sup>. The scarring impact of unemployment may also occur because employers take a spell of unemployment - and particularly long-term unemployment - as a signal of characteristics which they believe mean lower productivity. Furthermore, entry jobs are more likely to be temporary. Less than half of all entry jobs are permanent.

**4.05** Although many people will experience a spell of unemployment at some point in the life, the burden of unemployment is concentrated on a much smaller group of people who experience repeat spells over their lifetimes. This may be because there are certain characteristics which lead people to be not just at greater risk of unemployment, but also of repeat spells of unemployment. Data from the National Child Development Survey has been analysed to examine how far having been unemployed, of itself, increases the subsequent risk of unemployment, regardless of people's other characteristics<sup>3</sup>. This study finds that:

- Men who had never experienced unemployment by the age of 23 were unlikely to be unemployed between 23 and 33 - on average they spent 1.6 per cent of months unemployed in this ten year period.
- In contrast, men who had spent at least a year unemployed before age 23, spent around 23 per cent of the ten years between age 23 and 33 unemployed (this is approximately two years).

<sup>1</sup> Teasdale, P. Labour Market Trends Nov 1998. These data are taken from a period of high unemployment since the war. This may affect their generalisability.

<sup>2</sup> Gregg, P., Presentation to HMT workshop on Persistent Poverty and Lifetime Inequality.

<sup>3</sup> Gregg, P. ob cit.

**4.06** Controlling for factors such as parental background, ability, education and region of the country has very little impact on this relationship: people who have been unemployed before age 23 are at much greater risk of unemployment in the next ten years.

### Unemployment affects wages

**4.07** Recent unemployment also has a negative impact on wages. The recently unemployed earn on average 60 per cent of the typical hourly wage of people with no recent unemployment, though this effect does reduce with time. A spell of unemployment in the previous nine months reduces earnings by ten per cent. The earnings loss is greater - approximately double - for people who have experienced long-term unemployment<sup>4</sup>. After two years in employment those with a spell of long-term unemployment still have earnings around thirteen per cent lower.

**4.08** The impact also varies by age. For young people a short spell of unemployment does much less damage to subsequent earnings potential than for older workers.

**4.09** Entry wages are less well paid and less secure than for work in general. The typical hourly wage rate in 1997 was £6.70 but for entry jobs it was £4. This gap has been rising throughout the 1980s and 90s.

**4.10** Although higher educational qualifications help protect people against the risk of unemployment, once people have fallen into unemployment they do not protect people from the damage to subsequent employment prospects. In fact, the earnings set back is greatest for those who are in managerial occupations and who were higher up the earnings distribution prior to their unemployment.

### Box: 4.1 Disabled people and opportunity

The interconnections between disability and opportunity are very complex, and beyond the scope of this paper. The term “disability” covers such a broad spectrum of conditions - physical, mental, temporary, permanent, intermittent - that it is hard to generalise.

However, disabled people are twice as likely to be unemployed as people without disabilities. Of the 5.2 million people of working age with a work-limiting disability, 2.3 million (44 per cent) participate in the labour market compared with 86 per cent for the rest of the population. Once unemployed, they find it harder to get work and face longer durations of dependency on income-related benefits. When disabled people are employed, they are more likely to be in jobs with low skill levels and low pay rates. Although the rates of benefit and other forms of state assistance paid to disabled people are higher than for other groups of working age, disabled people can face significantly higher day to day living costs. As a result many disabled people live on low incomes.

Creating opportunity for disabled people means ensuring work is seen as a realistic option and a route out of low income for those who can work, and at the same time offering security for those who do not or who cannot work. One million disabled people who are not in work say they want to work. Over half of the disabled people aged under 50 are already working or looking for work. Yet people with disabilities are still at a disadvantage in the labour market. Remedying this means working on two fronts: first, to reconnect disabled people with the labour market; and second, to tackle prejudice and discrimination - to encourage employers to see what a disabled person can do, rather than automatically assuming that employing a disabled person means extra costs and lower productivity.

<sup>4</sup> Gregory, M. & Jukes, R. The effects of unemployment on subsequent earnings: a study of British Men, 1984-94 Centre for Economic Performance 1997.

The Government is acting to deliver opportunity for disabled people on several fronts:

- **The New Deal For Disabled People** is offering individually-tailored support and advice to disabled people who want to move back into work. In twelve pilot areas, covering just under a quarter of a million people, a Personal Advisor service is running or will shortly start up. Innovative projects, ten of which are already running, will tap into the private and voluntary sectors to try new approaches and share best practice.
- **The Disabled Person's Tax Credit**, which will provide a minimum income guarantee of £155 for single people who move from benefit to full time work at the national minimum wage, and £230 for a couple with one earner moving from benefit to full-time work and one child under 11. Budget 99 announced new Fast-Track would be available from October 2000 to help people who become sick or disabled while working.
- **A Disability Income Guarantee for the poorest and more severely disabled people** of at least £128 a week for single people and £169 for couples;
- **The Disability Rights Task Force and Disability Rights Commission**, which build on the Disability Discrimination Act to create comprehensive and enforceable civil rights for disabled people, to work towards equality of opportunity for disabled people, and to provide advice and information for disabled people, employers and service providers.

### The low-pay, no-pay cycle

**4.11** Chapter 2 showed that although for most people work helps them move up the income distribution, both income and earnings mobility remain highly constrained. This may be explained by the growing body of evidence to suggest that some people are stuck in a low-pay, no-pay cycle. This arises where people move between unemployment and low-paid jobs and are not able to use new employment opportunities as a stepping-stone up the earnings distribution.

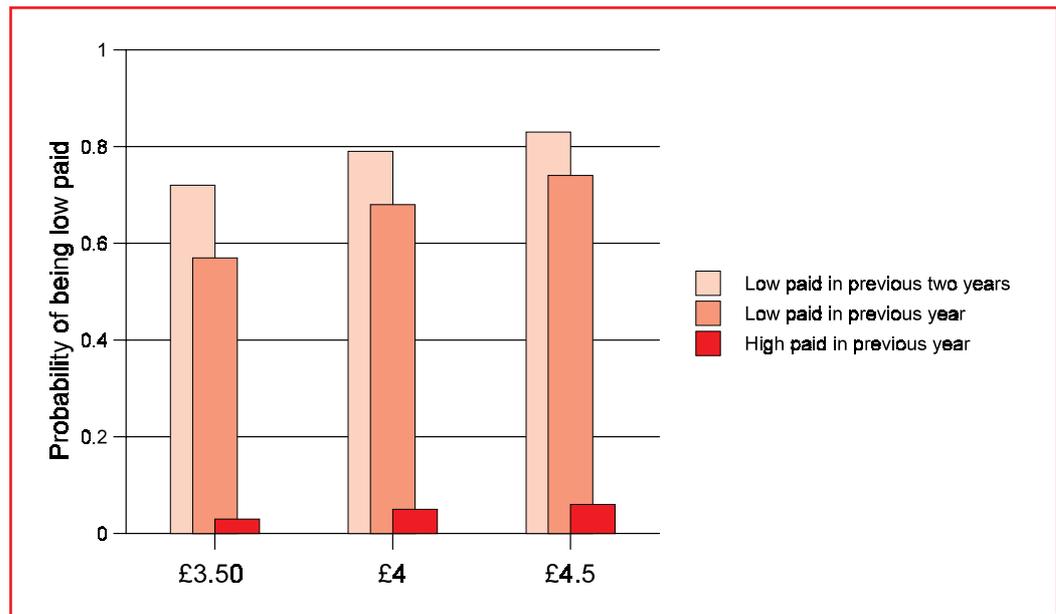
**4.12** Low-paid jobs are much less likely to last. Men in the bottom of the earnings distribution are nearly three times as likely to leave work within a year as men in the top quarter<sup>5</sup>. Women in the bottom quarter are twice as likely as those at the top. The low-pay, no-pay cycle is, not surprisingly, most likely to affect people who have few or no formal qualifications.

**4.13** Analysis of the British Household Panel Survey shows that people with a prior experience of low pay are more likely to return to it. The longer they remain on higher pay, the more secure they get and the lower the risk of returning to low pay. These data suggest that low pay has a scarring impact on its own, so that if two people have the same characteristics in terms of age, qualifications, experience etc, but one has been low paid and the other has not, the risk of a subsequent spell of low pay will be higher for the person who has experienced this before<sup>6</sup>.

<sup>5</sup> Gosling, M., Johnson, P., McCrae, J. and Paull, G, The Dynamics of Low Pay and Unemployment in early 1990s Britain, IFS 1997.

<sup>6</sup> Stewart, M. Presentation to HM Treasury workshop on Persistent Poverty and Lifetime Inequality. Low pay 'scars' people if being low paid in itself increases the probability of being low paid in the future. This is also known as structural dependence.

**Chart 4.1: Probability of being low paid<sup>7</sup>**



**4.14** There are a number of possible reasons why experience of low pay may increase people's subsequent risk of low pay in itself. These include:

- New employers may take the fact that someone has had a low paid job as indicative of low productivity.
- People may not have an opportunity to develop and use their skills while doing a low-paid job, so that their skill levels fall.
- Being in a low paid job may reduce people's perceptions of their earning potential and so they may not apply for better paid jobs.

**4.15** There is some evidence that the number of people on low pay and in the low-pay, no-pay cycle has increased over the last two decades. The table below compares the number of people in different pay categories between two periods: 1979-83 and 1990-94. Low pay is defined as earnings of less than £3,000 a year in 1979. This is then held constant relative to the rise in average earnings so that by 1994 it is worth £9,500 a year. As the table shows women are much more likely than men to experience low pay or the low-pay, no-pay cycle. But for men the percentage experiencing either have increased since the early 1980's.<sup>8</sup>

<sup>7</sup> Source: Stewart, M. 06 cit. This analysis uses 3 different measures of low pay: less than £3.50, less than £4 and less than £4.50.

<sup>8</sup> Source: Endean, R. Presentation to the HM Treasury Workshop on Persistent Poverty and Lifetime Inequality.

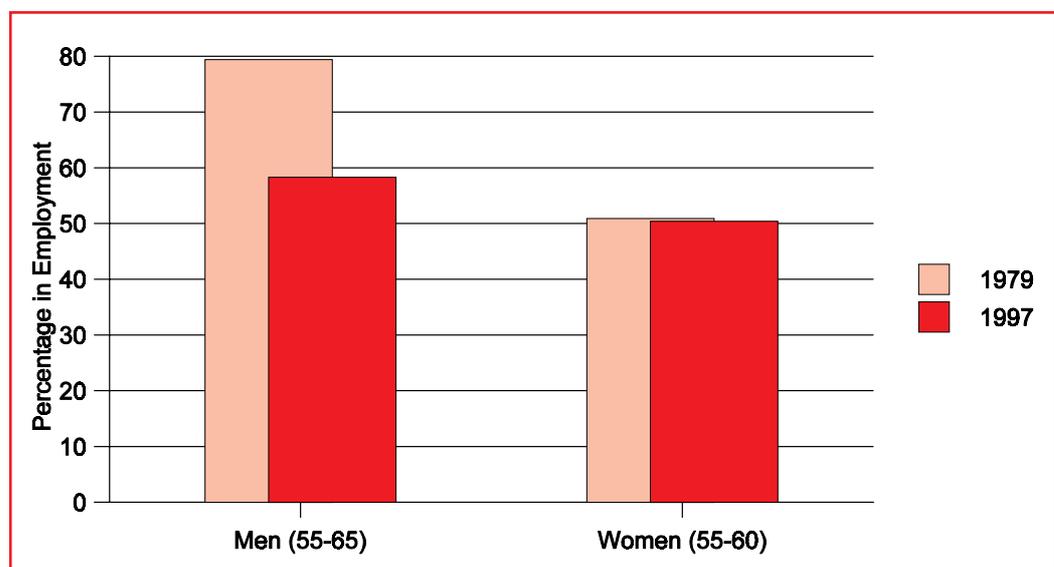
	All of working age		Men aged 16-59		Women aged 16-54	
	79-83	90-94	79-83	90-94	79-83	90-94
<b>High pay in every year</b>	32%	26%	47%	35%	13%	16%
<b>Low pay in every year</b>	<b>8%</b>	<b>12%</b>	<b>1%</b>	<b>4%</b>	<b>17%</b>	<b>21%</b>
<b>No pay in every year</b>	11%	13%	5%	11%	18%	14%
<b>Low-pay, no-pay cycle</b>	<b>15%</b>	<b>17%</b>	<b>6%</b>	<b>10%</b>	<b>27%</b>	<b>25%</b>
<b>Other combinations</b>	33%	34%	40%	41%	26%	24%

## Older workers and opportunity

**4.16** Older workers are much less likely to be in work than in the past. Early retirement is becoming more common. For many people this reflects greater opportunity: occupational pensions have given people more choices. But there is growing evidence to show that much of the decline in participation is involuntary and has profound implications for their subsequent opportunities, particularly their risk of poverty as pensioners.

**4.17** In 1979 around a fifth of men aged 55-65 were not working<sup>9</sup>. By 1997, this proportion had doubled (see chart 4.2). This fall in employment was accompanied by a corresponding increase not in unemployment, but in inactivity and long-term sickness. Male employment has fallen across all age groups, but the decline is most marked among older workers. Employment rates of older women have not declined in the same way, though this is partly due to cohort effects - women in the younger generations are more likely to work throughout their lifetimes. Women over 50 have not seen the large increases in participation that are so marked among younger women.

**Chart 4.2: Employment rates for older men and women 1979 & 1997**



<sup>9</sup> N. Campbell CASE report 1999.

**Whose participation rates are falling?**

**4.18** The figures show that certain groups are more likely to leave employment as older workers. These are:

- **People with no qualifications.** Over the last twenty years the employment rate for men between 58 and 60 fell by just over a fifth overall. For men with no qualifications, employment rates fell by a third.
- **The low paid.** People in the bottom of the hourly wage distribution are at the greatest risk of displacement from the labour market. Almost two-thirds of the men and half of the women in the bottom fifth of the income distribution who have an occupational pension will be displaced in the five years before retirement age;<sup>10</sup>
- **People in declining industries.** Data from the British Household Panel Survey for 1991-1996 shows that displacement was highest for people working in industries whose overall employment level fell by twice the national average over this first half of the 1990s.
- **People with occupational/personal pensions.** The British Household Panel Survey shows that access to an occupational pension is one of the most significant indicators of early retirement from the labour market. In part this may reflect the increased opportunities to enjoy leisure that the growth in occupational and private pensions provide. But there is some concern that the growth in occupation and private-pension provision has also changed the incentives for companies, since employer pension contributions increase as employees get older.

**The impact of displacement**

**4.19** When older workers lose their jobs they find it much more difficult to get back into the labour market. The table below shows the proportion of men and women who return to employment after being displaced by age. If men and women get displaced in the five years before retirement age fewer than one in seven will re-enter the labour market<sup>11</sup>.

Age	45-49	50-54	55-59	60-64
Return rate for men	49%	35%	11%	11%
Return rate for women	32%	23%	13%	-

**4.20** When older workers become unemployed they are more likely to retire or become long-term sick than they are to return to work. Evidence from the Lifetime Labour Market Database<sup>12</sup> shows that older men are more likely to leave full-time employment and move into either unemployment or partial employment. Once in either of these states, the probability that they will stay there is high, and higher than for younger men. This suggests that the ability of older workers to make their own provision for retirement drops dramatically on leaving full-time employment.

**4.21** If older displaced workers do find a new job, they suffer an earnings penalty from displacement. For those over 50 the entry wage in their new job is on average 23 per cent lower than the wage in their previous job.<sup>15</sup>

<sup>10</sup> N. Campbell 06 cit.

<sup>11</sup> Campbell, N. Presentation to HM Treasury Workshop on Persistent Poverty and Lifetime inequality.

<sup>12</sup> Ball, J., Marland, M. 'Male earnings mobility in the Lifetime Labour Market database' DSS 1996.

<sup>15</sup> Gregg, P. Presentation to HMT Workshop on Persistent Poverty and Lifetime Inequality.

### The impact of falling participation rates on opportunities in old age

**4.22** Leaving the labour market, whether voluntarily or not, has an adverse effect on future pensions. Non-state pension provision is an increasingly important component of retirement income. In 1996-97<sup>14</sup>, occupational pensions accounted for almost a quarter of pensioners' incomes. The average occupational pension in 1996-97 was around £120 a week and is growing. This increase in private income has made a significant contribution to the fall in the proportion of pensioners living on low incomes.

**4.23** But, many pensioners' occupational pensions are small. Most occupational pension schemes are defined benefit schemes where the pension is determined by earnings and years of service. Although almost everyone of working age builds up rights to a basic state pension, people's ability to make provision for a second tier pension is tied to being in work.

### Motherhood and economic opportunity

**4.24** The Government believes that all women should be able to choose the balance of work and family life which best suits them, whether they decide to care for their children full-time or continue in paid work after the birth of their children. But for a long time the lack of decent and affordable childcare, weak employment protection and rigidities in the tax and benefit system have combined to erect barriers to women who wanted to combine motherhood and work. Although the number of women choosing to combine work and motherhood has increased dramatically, mothers with lower levels of education have faced greater obstacles. As a result:

- Women with degrees are three times more likely to be in work when they have very young children than women with no qualifications<sup>15</sup>.
- These differences persist for women with school age children. Higher educated women will on average have higher net wages - after childcare costs - than women without qualifications and the benefits of remaining in work will be higher. Women with higher levels of education are also more likely to be covered by statutory, maternity provisions, increasing their chance of remaining in the labour market after the birth of their child.

**4.25** Women who choose to combine work and motherhood have previously found their opportunity to progress up the earnings ladder at the same rate as men constrained. Studies have found that having children reduces women's earnings at age 33 by one fifth. Almost half of the gender gap in pay found at 33 can be statistically explained simply by having children reducing women's wages. This is more than can be statistically explained by the effect of lost work experience as women care for children, or by their previous educational attainment<sup>16</sup>.

**4.26** The development of statutory maternity rights and pay has greatly improved the opportunities for the women who are covered by its provisions, though it doesn't provide help to all groups. Women with maternity cover are more likely to return to their previous employer. The negative impact on earnings for women who have access to maternity leave and who return to work with the same employer post childbirth is considerably reduced.<sup>17</sup>

### Employment and lone parents

**4.27** Lone parents are less likely to be in work than mothers with working partners. As the table below shows, lone parents' participation is lower regardless of the age of their child<sup>18</sup>. Although lone parents' participation rates are much lower than those for women with working partners, women who are married or cohabiting with a non-working partner are also much less likely to be in employment.

<sup>14</sup> Pensioners' Income Series 1996-97, DSS, July 1996 prices.

<sup>15</sup> Waldfogel, J., 'Maternity Leave policies and Womens's employment after Childbirth'.

<sup>16</sup> Waldfogel ob cit.

<sup>17</sup> Waldfogel ob cit.

<sup>18</sup> Source: Labour Force Survey 1998. The chart shows employment rates.

Age of youngest child	Lone Mothers	Married/Cohabiting Mothers	
		With working partners	With non-working partners
0-1	20.2%	55.7%	26.0%
2-4	32.8%	64.3%	27.9%
5-10	49.3%	78.1%	34.3%
11-15	59.3%	83.6%	42.3%
16-18	73.4%	85.1%	58.5%
All	44.5%	72.5%	35.3%

**4.28** The problems which lone parents experience in combining work and parenthood put them and their children at greater risk of growing up on low incomes and with fewer opportunities.

- Lone-parent households are more than three times as likely to be without work as couples with children<sup>19</sup>.
- This lower participation puts lone parents and their family at greater risk of low income. Eight of out ten low-income, lone parents are out of work<sup>20</sup>.
- The UK has one of the lowest rates of employment among lone parents in the developed world. In the UK around 40 per cent of lone parents work compared to 60 per cent in the US, 70 per cent in Sweden and over 80 per cent in France<sup>21</sup>.

### Opportunity and events in adulthood - The policy agenda

**4.29** *The Government is modernising the tax and benefit system to ensure that it keeps pace with changes in the world of work and people's family lives. This is important to ensure that people have access to employment opportunities and are able to continue up the earnings ladder throughout their working life. Minimising the scarring effects of unemployment, low pay and displacement as an older worker requires early intervention to ensure that people do not get cut off from the mainstream. The Government's New Deal programme will provide new opportunities for the long-term unemployed. The Government is working to improve the skills and employability of all the workforce to help people break out of the low-pay, no-pay cycle and progress up the earnings ladder. Box 2.3 in chapter two set out the details of these programmes.*

**4.30** *These programmes will help the unemployed and low-paid of all ages. However, it is becoming increasingly clear that older workers often face specific problems in remaining connected with the labour market after they lose a job. This is a significant problem as around one third of men between 50 and 65 have no job and exclusion from the labour market damages their opportunities in retirement. Recognising the strong case for further, specific attention on the employment needs of this group, Budget 99 announced measures to extend work opportunities to more people over 50 and make work pay. The Government will introduce a New Deal for the over 50s to provide personalised advice for people and their partners who have been on benefits for more than six months. This will be complemented by a new Employment Credit for the over 50's providing £60 a week for the first year back in full-time work and £40 a week for part-time work.*

**4.31** *Changes in people's family lives can also affect subsequent labour market opportunity, particularly for women. The development of statutory maternity rights and pay has greatly improved the opportunities for women but at the moment women in low-paid, part-time work do not qualify for paid*

<sup>19</sup> Source: Households Below Average Income 1979-1996/97 DSS.

<sup>20</sup> Source: Households Below Average Income 1979-1996/97 DSS.

<sup>21</sup> Bradshaw et al 'The employment of lone parents: A comparison of policy in 20 countries' York FPSC 1996.

*maternity leave. Budget 99 announced that entitlement to the Maternity Allowance will be extended to women earning less than the lower earnings limit (£66 pw) but at least £30 a week. Women who are self-employed will become entitled to the full rate of Maternity Allowance. Around one million extra women will now be eligible for the Maternity Allowance. As a result over 90 per cent of women in work will qualify for maternity pay. The Government has also put in place a programme of action to help families balance their work and family commitments and deal with family breakdown. This is set out in box 4.2.*

### Box 4.2: A family friendly labour market

The Government places a high priority on policies designed to enable parents and people with caring responsibilities to balance family and working life, and it has introduced new rights to combat excessive working hours and new rights to parental leave.

#### New legislation includes:

- The Working Time Regulation which came into force on 1 October 1998 and provides new rights for workers to not have to work excessive hours, and sets basic standards for paid leave;
- The Part-time Work Directive will ensure that part-time workers are not treated less favourably than full-time colleagues;
- the Parental Leave Directive will provide new rights to three months parental leave on the birth or adoption of a child and time off work for urgent family reasons. Employees will be protected against dismissal, or other action, if they exercise these rights.

The childcare tax credit within the WFTC will ensure that childcare is affordable to working families. The Government's Childcare Strategy also aims to ensure an increase in supply of childcare to meet the increased demand, by tackling systematically the barriers to supply of good quality provisions, and by ensuring that all relevant partners are able to play a role in delivering this shared vision. £300 million is being invested in out-of-school childcare provision as part of the National Childcare Strategy.

Although many lone parents in the UK say that they do want to work, they often face barriers which makes it difficult for them to find work. The **New Deal for lone parents** provides help for lone parents on income support to overcome barriers to work. It offers a personalised service combining job search help, advice and training. It was launched nationwide on 26 October 1998 with a budget of £190m.

**Partners of the unemployed**, mainly women, are themselves disproportionately likely to be unemployed. In the past, the benefit system has assumed that partners of the unemployed cannot or do not want to work, denying them help and opportunities. The New Deal for the long-term unemployed now provides new opportunities for partners aged over 25 to receive the help they need to get back to work. For the under 25's partners of the 18-24's without children will in future be brought into the New Deal for young people.

The Government is currently consulting about proposals for a radical reform of **child support**. The changes proposed will ensure that children come first for parents who live apart. The Government wants to create a system which is simple to understand and to operate and to improve the accuracy and speed with which cases are processed. The proposed child maintenance disregard will mean that the first £10 of maintenance paid will provide additional income towards the needs of the child and will not be deducted from the parent's income support. Working parents who qualify for the WFTC, will in future have their maintenance payments disregarded in full. Average maintenance payments for lone parents are around £32 per week.

# APPENDIX I:

## MAIN DATA SOURCES

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### **Households Below Average Income (HBAI)**

HBAI provides information on the distribution of personal disposable income in Great Britain and changes over time in the United Kingdom. It covers the years 1979 to 1996/97 using data from the Family Expenditure Survey and for the period from 1993/94 the Family Resources Survey. These data provide information on the characteristics of individuals and their families at various points in the income distribution in a given year. It also provides information on income mobility using the British Household Panel Survey for the period 1991-1996. The HBAI analyses the distribution of disposable income: principally earnings, benefits, occupational and private pension and investment income. It is net of tax, National Insurance contributions, Council Tax, contributions to occupational pension schemes and maintenance payments. It reports two different measures of disposable income: income before housing costs are deducted and income after housing costs have been deducted. Housing costs consist of rent, water rates, community charges, mortgage interest payments, structural insurance, ground rent and services charges. All income data is equivalised to adjust for differences in household size and composition using the McClements equivalence scales. The scale takes a couple as the reference point with an equivalence value of one.

### **Family Expenditure Survey (FES)**

The FES is an annual survey of private households' income and expenditure in the United Kingdom. The main purpose of the survey is to provide information on expenditure patterns to derive the weights for the index of retail prices but since its inception in 1957 it has been developed over time to gather detailed information about the income of household members. In 1996-97 almost 7,000 households responded, covering around one in 3,000 households. Data on the trends in the distribution of income are available from 1977.

### **British Household Panel Survey (BHPS)**

The BHPS is a panel survey which is administered by the ESCR Research Centre on Micro-Social Change, Institute for Social and Economic Research, University of Essex. A random sample of people living in private households were selected in 1991 and are reinterviewed annually to provide a picture of income mobility in the Great Britain. In 1991 5,538 households were interviewed. The latest available data are for the first six waves up to 1996 when 5,066 households responded.

### **Lifetime Labour Market Database (LLMDB)**

The LLMDB is a one per cent sample of National Insurance Recording System records. It contains details of people over sixteen, residing in the UK who are either an employed earner, self-employed earner or who require a social security benefit. It covers each tax year from 1975/76.

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<b>Labour Force Survey (LFS)</b>	The LFS is a quarterly survey of the personal circumstances and labour market status of a sample of households in Great Britain. The LFS covers approximately 120,000 people aged sixteen and over living in 60,000 households.
<b>New Earnings Survey Panel Data (NESP)</b>	The NES is a sample of people whose NI numbers end with a specified pair of digits. The same pair of digits have been used since 1975 allowing employees' earnings to be tracked over time. The sample includes 500,000 individuals in Great Britain between 1975 and 1997. The NESP includes data on earnings, occupation, industry, hours worked, sex, age, place of work and job tenure.
<b>National Child Development Survey (NCDS)</b>	The NCDS is the responsibility of the Centre for Longitudinal Studies at the Institute of Education. The NCDS is a sample of all the children born in the week of 3-9 March 1958. The children have been followed-up in 1965, 1969, 1974, 1978, 1981 and 1991. The sample was 17,414 children in 1958, 11,407 of these were successfully followed-up in 1991. The NCDS provides information on social and economic change and human development, covering, health, social and economic circumstances, material and psychological well-being and their inter-relationship within and between generations.