

FINDINGS

AN INTERNATIONAL REVIEW OF SKILLS, JOBS AND POVERTY

This study examines the international evidence on the links between skills, labour market inequalities and poverty, and considers how policy and practice affect these relationships. It draws out key themes for reducing income inequality and poverty in the UK.

Key points

- Countries with higher inequality in educational attainment tend to have higher income inequality and poverty. Reducing inequalities in educational achievement in the UK could impact considerably on reducing income inequality and poverty.
- The evidence indicates that differences in earnings are the important link between education inequality and income inequality and poverty; greater attention could be given to addressing earnings inequality in the UK while maintaining a focus on reducing unemployment.
- UK labour market outcomes and income are more unequal and poverty higher than expected for the distribution of educational attainment (compared with nine other countries). Yet several UK labour market factors are conducive to lower income inequality and poverty: high labour market flexibility, high work incentives, and the moderate impact of trade unions and the minimum wage policy for raising lower earnings.
- Several key factors explain why other countries achieve lower poverty:
 - higher levels of work skills among those with lower educational attainment;
 - higher minimum wages;
 - stronger trade unions and greater collective bargaining;
 - higher unemployment benefits and more active labour market policies;
 - greater female participation in employment and a higher proportion of women in full-time rather than part-time work; and
 - greater spending on cash benefits.

The research

By Gillian Paull and Tara Patel,
Frontier Economics

JUNE 2012

BACKGROUND

Recent UK policy has focused on employment to reduce poverty but success in the labour market is heavily dependent on individual skill. Those with lower levels of education and training are least likely to be able to obtain work, remain in a job, or command sufficient earnings to raise their income above the poverty threshold.

The links between skills, employment and household income need to be better understood and this study highlights international lessons for the UK on how poverty relates to labour market and educational differences.

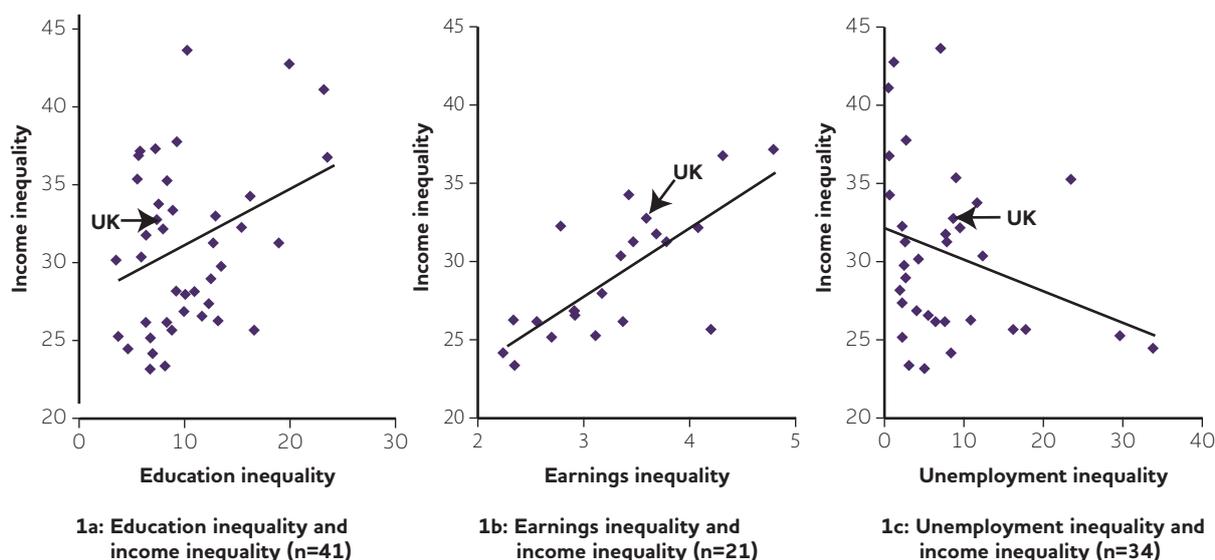
International comparisons

Countries with higher inequality in educational attainment tend to have higher income inequality and poverty. Countries with higher levels of education inequality might also be expected to have greater dispersion in earnings and differences in unemployment risk across education levels, and that these greater labour market inequalities would feed through to higher income inequality and poverty. However:

- There is no evidence of a strong link between education inequality and earnings inequality, although countries with higher earnings inequality tend to have higher income inequality.
- Countries with higher education inequality tend to have *less* inequality in unemployment risk, while countries with higher inequality in unemployment risk tend to have *lower* income inequality.

These relationships between inequality in education, earnings, unemployment and income are evident both globally and within European and North American countries more comparable to the UK (see Figure 1 for the latter).

Figure 1 – Links between income inequality and education, earnings and unemployment inequality (Europe and North America)



Notes: Education inequality is measured on a Theil index based on the proportions of the population aged 25 and older in seven educational attainment categories. Unemployment inequality is measured as a Theil index based on the unemployment rate for three education levels. Both Theil indexes have a value of zero for complete equality and 100 per cent for complete inequality. Earnings inequality is measured as the 90/10 earnings decile ratio which captures the difference between the ninetieth highest and the tenth lowest earners. Income inequality is measured as the Gini coefficient (Table 1) which captures inequality across the income distribution based on net income per person.

Each graph point represents a country. The upwards sloping lines highlight how income inequality tends to be higher in countries with higher education 1a and earnings inequality 1b, while the downward sloping line in graph 1c shows how countries with higher inequality in unemployment risk tend to have

lower income inequality. These relationships are not explained by differences in countries' backgrounds such as gross domestic product per capita.

Case studies

Compared with nine other countries (Denmark, Netherlands, Belgium, France, Germany, Switzerland, US, Portugal and Brazil), labour market outcomes and income are more unequal and poverty higher in the UK than expected for the distribution of educational attainment. Table 1 presents the degree of education inequality for the countries (first column); it also shows the *differences* between actual inequality or poverty levels and those that would be expected for the level of education inequality. Countries are ranked from lowest to highest inequality/difference in each column. If the UK's links between education inequality and labour market outcomes and income were the same on average as in these case-study countries, poverty would be 1.9 percentage points lower with no change to the distribution of educational attainment in the workforce.

Table 1 – Labour market and income inequality relative to education inequality (case-study countries)

Inequality in educational attainment (Theil index)		Relative inequality: the figures show the <i>difference</i> between actual inequality/poverty and that predicted by inequality in educational attainment							
		Inequality in unemployment risk (Theil index points)		Earnings (90/10 earnings decile ratio)		Income (Gini coefficient)		Poverty (Percentage)	
Switzerland	3.5	Denmark	-4.6	Belgium	-1.7	Belgium	-7.8	Netherlands	-5.3
US	5.7	Switzerland	-3.5	Portugal	-1.3	France	-6.4	Portugal	-4.4
Germany	5.9	Portugal	-1.9	France	-0.9	Portugal	-4.8	France	-4.4
Denmark	6.7	US	-1.5	Netherlands	-0.7	Denmark	-4.3	Belgium	-3.8
UK	7.3	Brazil	-0.7	Denmark	-0.4	Netherlands	-4.2	Denmark	-3.3
Netherlands	9.9	Netherlands	-0.6	Switzerland	0.0	Germany	1.5	Germany	0.7
France	11.6	France	-0.1	Germany	0.3	UK	2.9	Switzerland	1.1
Belgium	13.1	UK	1.9	UK	0.4	Switzerland	3.1	UK	1.9
Brazil	23.3	Germany	5.3	US	1.8	US	8.4	US	8.4
Portugal	23.5	Belgium	5.6	Brazil	2.5	Brazil	11.6	Brazil	8.9

Notes: Poverty relates to the percentage of individuals living in households with net income below 50% of median. Case-study comparisons also suggest links between education inequality and poverty which could reduce poverty further. For example, if the links were the same as in the Netherlands, UK poverty would be 7.2 percentage points lower (the -5.3 percentage points below that expected for the Netherlands combined with the 1.9 above that expected for the UK).

Several factors in the UK serve to reduce labour market and income inequalities and poverty: high labour market flexibility, high work incentives and the moderate impact of trade unions and the minimum wage on reducing earnings inequality.

The case-study evidence, listed in relative order of importance below, suggests why other countries achieve lower poverty than the UK:

- 1 Higher skills levels among those of lower education attainment.** Compared with other countries those of low educational attainment in the UK have low literacy and work skills. Differences in unemployment risk across education groups and earnings inequality are higher than expected for the level of education inequality. Internationally, work skills among those of low education level are enhanced by public support for training, lifelong learning for the entire workforce, and support for vocational training to meet labour market needs. Current skills policy in England stresses the further development of apprenticeships and vocational qualifications and promoting a strong training market, as well as greater support for basic literacy and numeracy training. However, support is focused on unemployed or young people rather than the entire workforce. The strategy's ability to deliver better training for low-skilled workers depends on the take-up of schemes which evidence suggests is not certain.

- 2 Higher minimum wage.** The evidence suggests that higher minimum wages can substantially reduce earnings inequality. As low pay is a key driver of earnings inequality in the UK particularly among women working part-time, this suggests scope for a higher minimum wage to reduce income inequality and poverty. But this could raise inflation or affect employment adversely.
- 3 Strong trade unions and collective bargaining.** Stronger trade unions and greater collective bargaining seem to reduce earnings inequality, and can also promote employment if flexible and focused on long-term workforce goals. However, precise policy measures to strengthen trade unions for these roles in the UK are not clear.
- 4 Higher unemployment benefits and stronger active labour market policies.** High unemployment benefits lower poverty by protecting out-of-work income, particularly when combined with strong active labour market policies which maintain work incentives and employment flexibility. However, this 'flexicurity' model can be expensive. Its success in other countries has been attributed to longstanding acceptance of employers' rights to hire and fire and recognition that workers have duties as well as rights.
- 5 Greater participation of women in employment.** Greater female participation in employment and a higher proportion in full-time rather than part-time work is an important element of lower poverty in many countries. Women's enhanced employment position is aided by strong public support for childcare and tax incentives for secondary earners in some countries. Although UK policy provides some support, a much stronger approach would be needed to accomplish the female participation rates achieved in some countries.
- 6 Higher cash benefits.** High levels of targeted spending on cash benefits can substantially reduce poverty. However, this is expensive, and means-tested benefits may create work disincentives for those with low skills.

Conclusion

Key reasons why other countries achieve lower poverty than the UK tend to concern broad labour market structure and fiscal approach rather than detailed policy. This raises greater challenges for identifying specific lessons applicable to the UK, but supports including these wider issues in discussions on how to further reduce poverty.

About the project

Internationally comparable data from over 100 countries was used to analyse global patterns and relationships within a smaller group of European and North American countries. Ten country specific case-studies were also examined.

FOR FURTHER INFORMATION

The full report, **An international review of skills, jobs and poverty: implications for the UK** by Gillian Paull and Tara Patel, is published by the Joseph Rowntree Foundation. It is available as a free PDF at www.jrf.org.uk

Read more Findings at www.jrf.org.uk
Other formats available
ISSN 0958-3084

Joseph Rowntree Foundation
The Homestead
40 Water End
York YO30 6WP

Tel: 01904 615905
email: publications@jrf.org.uk
www.jrf.org.uk
Ref: 2769