

An open memo to the next government

Improving outcomes for low earners



Low earners: an agenda for the next government

The Resolution Foundation is an independent research and policy organisation. Our goal is to improve outcomes for low earners by delivering change in areas where this income group is currently disadvantaged. This memo draws upon our most recent [Low Earners Audit](#) to set out an agenda for the next government. In brief, we are calling for:

- A recovery that is fair for all
- A focus on building financial health
- A housing policy that is realistic for all
- An inclusive industrial strategy for the 21st century
- A welfare system that reflects modern life

This document sets out these priorities and proposes some long-term goals as well as immediate action we would like the next government to take.

Who are low earners?

A century ago, Maud Pember Reeves chronicled the hardships of what she called 'ordinary working class life' in *Round About a Pound a Week*. Her study, which took place between 1909 and 1913, deliberately set out to study not the poorest or the most needy, but rather the families of manual working men at ordinary levels of pay.

Today much has changed. The pound that families lived off in 1913 is roughly £370 a week now, or £19,250 a year. There is a complex infrastructure of tax credits and benefits designed to supplement low earnings, and a National Minimum Wage that has had a material impact on the wellbeing of poorer households. Homeownership and access to credit are facts of life for the vast majority of the population. Women's place in the labour market has been transformed in the last generation.

Nevertheless, there remains a sizeable group of 'low earners' in the UK – the 7.2 million households who are not dependent on benefits, but who nevertheless struggle to get by on an average household wage of £15,800. There are 9.4 million working age adults living on below median income but who remain too rich to qualify for substantial state support.

Defined in this way, low earners make up a third of the electorate and so it is not surprising that this is a diverse group. For some, low hourly wages means that whatever hours they work they struggle to achieve even the median income. For others, caring responsibilities or ill-health limit earning potential through low hours as well as low wages.

It is also a dynamic group: many young people quickly progress, while others find their low skills hold them back and they remain stuck in this group over their life. Changes in circumstance, such as a break-up or retirement, put people at risk of falling into the group. The recession has highlighted this dynamism, with some better-off households becoming low earners for the first time, and other low earners hitting an exhausting cycle between low-paid, insecure jobs and unemployment.

Despite this diversity of experience, there are some common truths for low earners. These people are the real 'squeezed middle'. They are the hard-working households that have been overlooked by politicians and poorly served by private markets. They are squeezed between state support and private markets when it comes to housing, training and social care. And their already vulnerable financial positions have been exposed by the double whammy of a credit crunch and recession of an unprecedented scale.

A snapshot: squeezed, exposed and overlooked

Regardless of the economic cycle, low earners are more at risk of losing their jobs by virtue of the industries and occupations and where they are concentrated. And during the recession, a sizeable proportion of those low earners who do lose their jobs will find it harder to re-enter the labour market due to their low skills levels.

Those low earners who do hold on to their jobs are equally vulnerable. **Underemployment is as much of a risk as unemployment for this group**, when total weekly spending exactly matches total weekly disposable income. Given how small the margins are for these kinds of household budgets, reductions in working hours will hit this group hard: indeed **56 per cent of low earners – 4 million households – reported a fall in their net income between 2008 and 2009**.

Tax credits and the National Minimum Wage have made a positive difference to this group over the last decade. 59 per cent of all low earners aged 30-54 were in receipt of the credits in 2008, and the Treasury estimate that tax credit awards have increased for 400,000 families experiencing a drop in income over the last 12 months. However the success of the policy has been undermined by a simultaneous growth in the number of working families who need tax credits in the first place in order to escape poverty due to low pay.

So, poor wages and income adequacy continue to be an issue for the group. This has been particularly pronounced since the recession. During this period average earnings growth has hit a historical low, and since the latter half of 2008, wages have not kept up with rises in the cost of living, and in particular food and fuel costs: **low earners have faced substantially higher rates of inflation than better-off households for the last 12 months**. As a consequence, debt is an issue, with one in five low earners spending a quarter of their monthly income on repayments. 17 per cent of those reporting difficulties said it was because of reduced working hours, and a further 27 per cent cited a lack of cash flow.

Despite having very little to work with, **low earners are slightly better financial managers than the rest of the population**. However there is evidence to suggest that problems are being stored up for the future: even before the downturn, 78 per cent of low earners were in poor financial health.

Today, **over half of low earners have less than a months' savings in the bank**. Even when they are offered them, low earners are less likely to take up occupational pensions. A lack of appropriate savings products or affordable credit makes it extremely difficult for low earners to build assets for their futures and this will extend the already sizeable wealth gap in the UK.

Constrained housing choice compounds this situation. While many older low earners own their homes, younger workers who have bought in the last ten years are over-stretched, with **one in ten low earners reporting mortgage repayment problems even while interest rates are low**. Many are unable to step on to the property ladder at all. This, combined with a lack of social housing supply, is driving the group to the private rented sector, which brings issues around security, rights and conditions, as well as limiting asset-building potential while the tax system continues to favour home owners.



Improving their outcomes: an agenda for low earners

Our research and analysis shows that there is much that can be done to support low earners. Improving wellbeing for the group, and ensuring that they do not lose out as the UK moves towards a period of recovery and a public spending squeeze, will require action by government but also by employers and business more widely.

That is because across housing, employment, skills and financial health there are mixed markets in play. How public value is created through private vehicles is just as important as getting the right mix of fiscal, monetary, regulatory and legislative policy when it comes to protecting low earners and improving outcomes for this group.

This document proposes five broad priorities for the next government. In addition we make a series of more focused and tangible proposals for how the needs of low earners could be better met, based on our own analysis and that of other experts. We will use these as a basis to assess the progress of the next government at the end of the year.

1 A recovery that is fair for all

Most important and immediate is the need to ensure a **recovery that is fair for all**. Unemployment and underemployment rates will lag behind the technical recovery; as the public sector introduces pay freezes and makes job cuts, this will hit the 1.8 million low earners working in public administration, health and education. Rises in interest rates will put the 1.3 million low earners who have bought their homes in the last decade at greater risk of repossession.



In particular, **careful scrutiny will be needed to ensure cuts do not fall disproportionately on this group**, who have benefited, particularly since 2001, from the increased investment in benefits-in-kind such as health and education, and the tax credits system. In 1997, working age low earners received 97 pence in benefits for every pound they paid in tax. By 2007, for the first time in a generation, low earners were net gainers from the tax and benefits system, receiving £1.06 in benefits for every pound of tax. In this context we agree with the National Equality Panel's view that the way in which cuts are made are likely to have the biggest impact on how existing inequalities evolve.

For example, the next government could deliver this by:

- Committing to publishing a distributional analysis of any proposals to cut spending. This includes proposals to sharpen the taper on existing means-tested benefits. More aggressive tapers risk creating 'cliff-edges' in their place, with all the unintended consequences and behavioural effects these bring.
- We are also calling for greater scrutiny of the tax regime around unearned income to be prioritised when it comes to decisions about cuts, ahead of means-testing benefits that are currently universal, or cutting programmes entirely.

2 A focus on building financial health

Having an extra £200 wouldn't make much difference, there are always unexpected costs... like last month, I got a speeding fine and had to pay £200 for a crown at the dentists.

I wouldn't go to a financial adviser, I don't trust them as they gave me bad advice before, like getting an endowment mortgage. I think you always need a plan B and a plan C in case things don't work out.

I only take a certain amount out with me per day, £5 or so, I don't carry a card with me. If I haven't got it, I can't spend it. I've learned to be shrewd, cutting corners, that kind of thing

I would like to have a pension, life insurance, but I can't afford it.

I've got to sell my house, move into rented accommodation to turn my asset into a liquid so I can pay off my debts

It doesn't matter whether it is £200 or £20,000 you owe, if you've not got any money to pay it back, it can still make you ill with the worry

Before the global financial crisis, credit had become a part of people's lives, an everyday mechanism by which to manage monthly expenditure. However not all credit is a fair deal for consumers, with low earners often paying more to access it than better-off households. The failure of wages to keep up with the cost of living means that credit is now being used by some low income households to cover essential expenditure, hinting at deeper financial vulnerability. Debt repayments and managing household bills consume large chunks of monthly income, and this is compounded by low levels of saving activity across the low earning group.

While the market for appropriate products and services for low earners remains under-developed, it is also the case that historically there has been a gap in the market for financial advice for this group. The cross-party commitment to Money Guidance, a generic financial advice service, is an excellent start, but more can and must be done. **The next government must take action, both directly and via the mixed economy, to build the financial health of low earning households.** This will require the active engagement of mainstream banks and lenders as well as third sector organisations working in this field.

- The next government should prioritise the development of a diverse market for fair credit that draws in the capital required to build a sustainable model.
- Alongside this the next government must ensure that low earners are supported in building their assets through the provision of appropriately incentivised savings products. We are calling for the maintenance of existing savings programmes and further work to expand them sustainably.
- Finally we want the next government to deliver on the existing commitment to roll out Money Guidance this year, supported by a financial services industry levy. This generic money advice service must be properly integrated with existing debt support, which also needs to be put on a more sustainable footing.

3 A realistic housing policy

Compared to 1990, there are now more homeowners from low income groups. This development has been supported since the 1980s by a policy agenda and tax environment that has sought to promote home ownership and to expand it. Those low earners who do not own their homes are now struggling to get on to the property ladder, at the same time as being too rich to qualify in most cases for the limited supply of public housing. This is driving low earners into the private rented sector, which brings with it issues around security of tenure and quality of housing, as well as making it much harder to build assets for later life.

The expansion and subsequent collapse of the mortgage market, combined with historically high house prices, has left the 1.3 million low earners who have bought their houses in the last decade exposed. The low earners who do not own have effectively been priced out of the market by continuing high prices, coupled with a more constrained lending environment. At the same time affordable housing supply is not meeting low earner demand and existing models to build affordable public and private housing are at risk. **The next government should ensure low earners have a genuine choice between different tenures**, in order to maximise their chances of accessing the best possible housing for their needs.

- The next government should develop the private rental market and in particular they should seek to increase the supply of landlords letting to the lower end of the sector, in order to increase choice and weed out poor landlords.
- There needs to be an increase of investment in affordable rents, social housing and home purchase options, and as part of this, we are calling for a review of existing Low Cost Ownership schemes, in order to ensure they are meeting the needs of the low earners for whom they were designed.
- We want to see close work between the next government and the mortgage market, to ensure that existing recessionary measures are maintained while low earners remain vulnerable to unemployment and loss of income. We are calling for the introduction of lower-cost, out-of-court remedies for repossession as a last resort.



4 An inclusive industrial strategy for the 21st century

David Blanchflower, Stephen Machin and others have charted the 'stratification' of the UK economy, particularly during the latter half of the 20th century, where wage differentials grew dramatically and where opportunities for progression diverged between highly-skilled and lowly-skilled workers. These changes were made more pronounced first by advances in technology, which automated many semi-skilled jobs; and second by the decline in industrial activism and the emergence of a flexible labour market. The current recession has reinforced the spatial dimension of these developments, with different cities across the UK faring very differently.

Most analysts now agree that there will be some degree of restructuring as the UK emerges from recession. Much has been made of the importance of investing in new growth industries such as high tech and green jobs. The next government must **craft an inclusive industrial strategy that does not leave low-paid and low-skilled workers behind, particularly those who are currently in declining industries**. This will require close work with both local area-based economies and employers, as well as on the global and international front.

- The next government should put quality and stability of work alongside increased productivity and global competitiveness when it comes to industrial policy. It should ensure that part-time work does not mean dead-end work, and that the reward for employment is enhanced access to useful training, not a reduction in opportunities.
- We want to see a specific emphasis on re-skilling and lifelong learning opportunities, as part of an overhaul of the current skills system.
- In particular we are calling for the next government to do more to understand and create the right incentives for employers to invest in their low-skilled and low-paid staff in order to help them progress in the workplace.

I have to work in two jobs, and I'm employed by three different companies, my tax is so high it's hardly worth working the overtime once I've paid it

I work in a small company and they keep on telling me that they can't take me out of the office to do the training I want, and they can't afford to pay for the temp to cover for my time.

After I got made redundant I set up my own window cleaning business. It's much harder being self-employed, I was used to getting regular wages and now I have to make do with whatever work I can pick up

I lost my job and can't find a new one. You get to the point where you are so ground down you think, life is against me, no one is going to give me opportunities, nobody is going to give me a chance.

We don't get the support we need. In Germany or France the unions are stronger and I think they are better off for it.

They pass everyone on these courses so employers don't think the qualification is worth anything.

I did an NVQ in Childcare but I had to pay for that myself. I had to struggle to find that. Companies won't pay and if they do they take it out of your wages

5 A welfare system that reflects modern life

Since the birth of the welfare state, successive reforms have extended its original intent to act as an insurance-based safety net for when individuals and families fell on hard times. The UK's current welfare system provides crucial support to many poorer households, but it does so via a complex mixture of insurance-based, means-tested and universal benefits, which can interact in unpredictable ways with the tax and more recently tax credit system. While acknowledging the positive difference that benefits and tax credits can make to their households, low earners also describe the multiple, overlapping and sometimes conflicting goals of state support for which they are eligible.

Tax credits have made a huge and vital difference to low earners since their introduction in 1999 and we applaud the vision behind them. But it is also true that the interaction between tax credits and other parts of the tax and benefits system can undermine their impact. **The next government should conduct a fundamental review of the policy goals and delivery mechanisms for in-work support to low income households. This review must cover not only benefits and tax credits, but also the tax system itself.** Reforms to the welfare system need to take account of the complexities of modern families and the flexible labour market. The risks of causing crisis in low earning households through reforms that are introduced too quickly are significant, so this work must be undertaken with great care.

- As an immediate step, the next government should prioritise increasing the take-up of existing benefits, particularly for low income households who are in work and eligible. It should consider whether to offer short periods of fixed-rate tax credits to those families trapped in a 'low-pay, no-pay' cycle in order to provide them with greater financial security.
- We are calling on the next government to publish analysis of the distributional impact of any changes made to current tapers or eligibility requirements. We propose that the next government makes a commitment to ensuring that everyone is genuinely better off in work than they are on benefits.
- Finally the next government should openly consult on the terms of reference for the fundamental review we are calling for here.

I like the credits, I feel like I help myself to earn it, and they definitely make life easier

I still could get my tax credits but now I pay full tax and rent because I got stitched up by being overpaid again and again, I can't afford to give it back

When I am old I am going to sell my house, spend all the money on the world trip, and then come back and say 'help me'.

It doesn't feel like they want you to have it, I can't deal with those huge great forms

We're considering my wife going back to work part-time. But if you earn over a certain amount you have to pay for the school bus and that's really expensive. It would affect our child tax credits too, I think we'd lose half of them. We are right at the threshold.

We learnt more about what we were entitled to from other people than from government trained advisers

Communicating with low earners

Low earners tell us they feel alienated and ignored by politicians, and our analysis of previous elections shows that this frustration has translated into two key voting patterns over recent years. Firstly, low earners are less likely to vote than their better-off neighbours. And secondly, those who do vote are more likely than other groups to vote for non-mainstream parties.

Personally we don't get a say in anything that happens in this country

Our qualitative work shows that low earners are fiercely proud of their ability to maintain their economic independence. They believe that a pound earned is worth far more than a pound that is handed out. They want to feel that it pays to work, and that it's worth the effort to save.

I was told by an official that I would be better off giving up work [when my husband became ill], I was told that probably 3 or 4 times, and a lot of people on benefits said that as well, but I thought why? I'm able to work

Many feel that they have lost out in recent years, squeezed on the one hand by people living on benefits who are perceived to have an easier life; and on the other by wealthier households who have enjoyed the fruits of a booming economy without being hit as hard by the downsides of higher inflation and more expensive food, fuel and housing.

It must appear that we have a comfortable life, but we are frugal with it. Your brain is working overtime, I spend hours finding bargains and saving money

The twin messages of independence and fairness need to be reflected at every opportunity to appeal to this group.

