LOW-INCOME FAMILIES ARE NOW MORE ABLE TO WORK THEIR WAY OUT OF POVERTY

After over two decades of falling mobility people are now more able to work their way out of poverty, according to a new report.

Researchers at the Centre for Economic Performance and Centre for the Analysis of Social Exclusion (at the London School of Economics and Political Science) have found that wage mobility – how much a person’s earnings change from year to year – has risen since 2000. Long-run inequality – the difference between how much the poorest and richest people earn over a number of years – has fallen.

The study, ‘The Changing Pattern of Earnings: employees, migrants and low-paid families’, analyses the earnings of a large group of people over 30 years.

It finds that since the late 1970s, inequality of annual earnings – the difference in the amount individuals earn – grew considerably, which contributed to large increases in child poverty, so that by 1997 about a third of all British children lived in relative poverty.

Important contributory factors were low skill levels, high unemployment, and benefit levels which were insufficient to lift families out of poverty.

However, the report concludes that since 2000, wage mobility has risen and wage inequality has fallen. And since the late 1980s, women earners have overtaken men in achieving higher wage mobility.

The study, for the Joseph Rowntree Foundation, also concludes that the introduction of Working Families Tax Credit in 1999 seems to have increased employment and job retention, increasing the incomes of many low-income families.

There is also no evidence that employers have used WFTC to keep pay increases down. This may have been helped by the simultaneous introduction of the National Minimum Wage.

Richard Dickens of the Centre for Economic Performance and the University of Sussex, comments:

‘After a very long period of increase, there is some evidence that inequality is finally falling due to increases in employment among women in particular.

‘Earnings mobility also appears to be on the increase after a long period of decline.

‘Tax credits have led to increases in employment and job retention, increasing the incomes of many low-income families.’
Examining migrant pay, the study also finds that when migrants first find work in Britain they earn significantly less than their British-born counterparts. Male migrants experience, on average, a 30% pay gap and women are paid 15% less.

Different nationalities experience different rates of wage parity, with Europeans catching up fastest and Asian men showing little sign of catching up at all. More recent groups of migrants have fared better, but this is largely due to smaller pay gaps on entry into Britain, rather than faster wage growth.

There is a marked difference between the rates that migrant women and men achieve parity with native workers. For migrant men it takes, on average, 20 years to close this gap. For migrant women, it takes just six years. The researchers believe that migrant women may be closing the pay gap faster partly because they work relatively longer hours than their British-born counterparts.

‘Women migrants catch up faster than men because the initial pay gap for migrant women is lower and it would appear that they are more likely to work full-time rather than part-time. It could also be that some migrant women are, on average, more educated than their native counterparts and take fewer breaks from work to have children,’ said Abigail McKnight of the Centre for Analysis of Social Exclusion.

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Notes to Editors:
1. Three background papers by Richard Dickens and Abigail McKnight, are published by the Centre for Economic Performance and the Centre for Analysis of Social Exclusion at the London School of Economics and can be downloaded from: [http://cep.lse.ac.uk/](http://cep.lse.ac.uk/) or [http://sticerd.lse.ac.uk/case](http://sticerd.lse.ac.uk/case)
   - Paper 1: Changes in Earnings Inequality and Mobility in Great Britain 1978/9-2005/6
   - Paper 2: Assimilation of Migrants into the British Labour Market
   - Paper 3: The Impact of Policy Change on Job Retention and Advancement

   The Findings are published by the [Joseph Rowntree Foundation](http://www.jrf.org.uk) and are available to download for free at [www.jrf.org.uk](http://www.jrf.org.uk)

2. Richard Dickens is a Senior Research Fellow with the Labour Markets Programme at the Centre for Economic Performance, London School of Economics. He is also Professor of Economics at the University of Sussex, Brighton, UK. Abigail McKnight is Toyota Research Fellow at the Centre for Analysis of Social Exclusion, London School of Economics.

3. The Centre for Economic Performance ([http://cep.lse.ac.uk](http://cep.lse.ac.uk)) is an independent ESRC funded research centre based at the London School of Economics. Its members are from the LSE and a wide range of universities within the UK and around the world.

4. For further information: contact Professor Richard Dickens on +44 (0)1274 678461 (email: r.f.dickens@sussex.ac.uk or r.f.dickens@googlemail.com); or Helen Durrant on +44 (0)20 7955 7395 (email: h.durrant@lse.ac.uk).