

Poverty Reduction and Inclusive Growth

Key Points

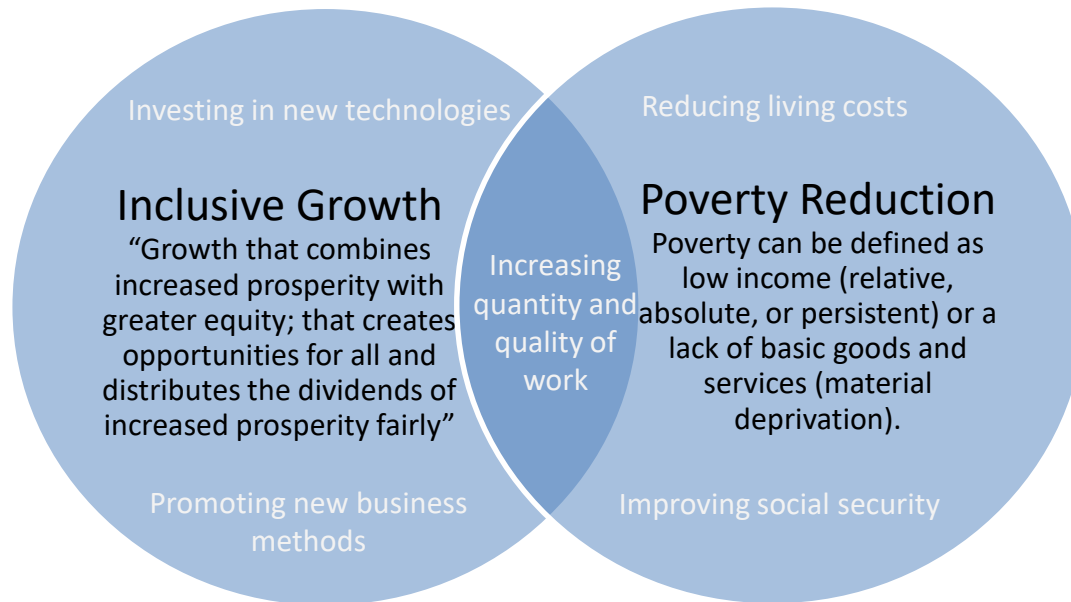
Work is central to both poverty reduction and inclusive growth, but the quality of work matters as well as the quantity

The impact of inclusive growth on social security and living costs, which also matter for poverty, is less clear

Whether inclusive growth and poverty reduction support each other depends on which policies are pursued and how

Note: there is some overlap in definitions:

- poverty reduction is an inclusive-growth outcome
- poverty (especially relative poverty) is intrinsically related to inequality.



Note: the diagram is intended to show direct overlaps between inclusive growth and poverty reduction. In practice there will be indirect effects which are not shown here. The diagram is not ‘to scale’.

Martin Ravallion, then Director of World Bank Research, summarising the empirical literature on the relationship between poverty, inequality, and growth:

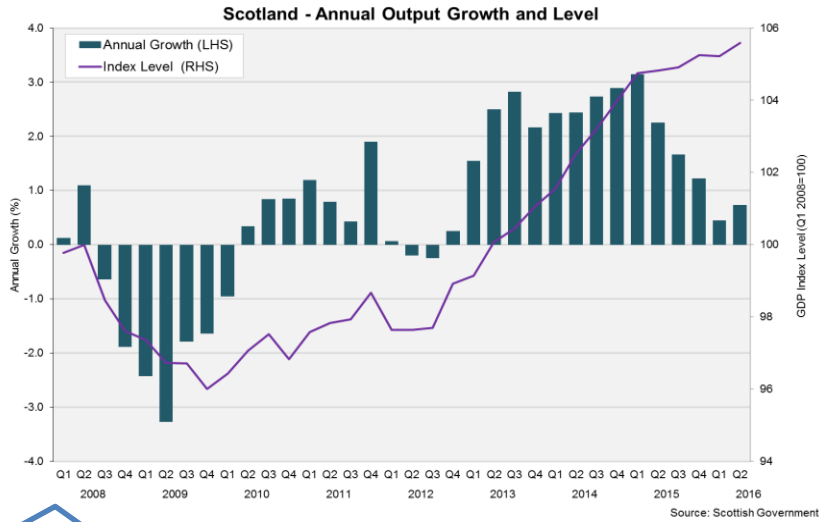
“growth will be quite a blunt instrument against poverty unless that growth comes with falling inequality” (2003)

Inclusive growth *can* facilitate poverty reduction

“countries with a higher initial incidence of poverty tend to experience a lower rate of growth” (2012)

Poverty reduction *can* facilitate inclusive growth

Trends in poverty and inclusive growth are mixed

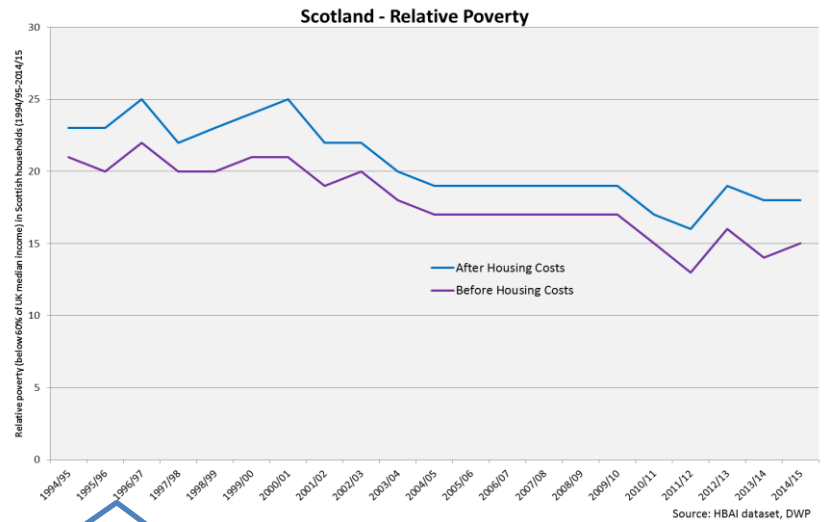


Output is back above pre-recession levels, but growth remains weak.

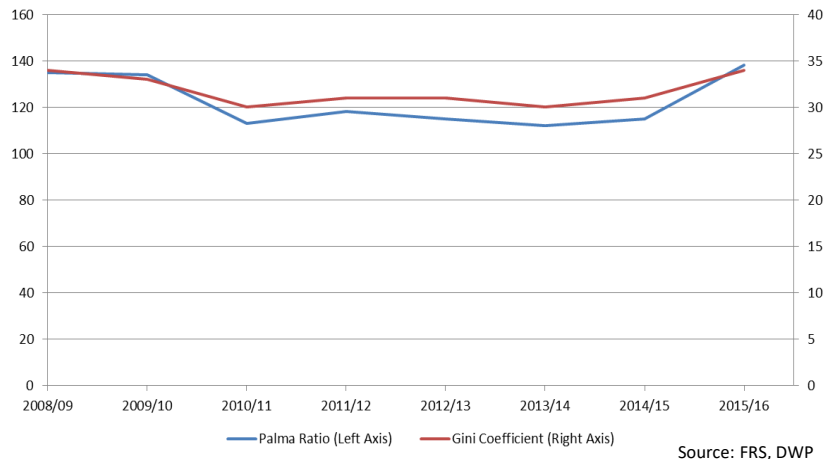
Inequality has remained high in recent years.

Poverty has gradually declined over the long term...

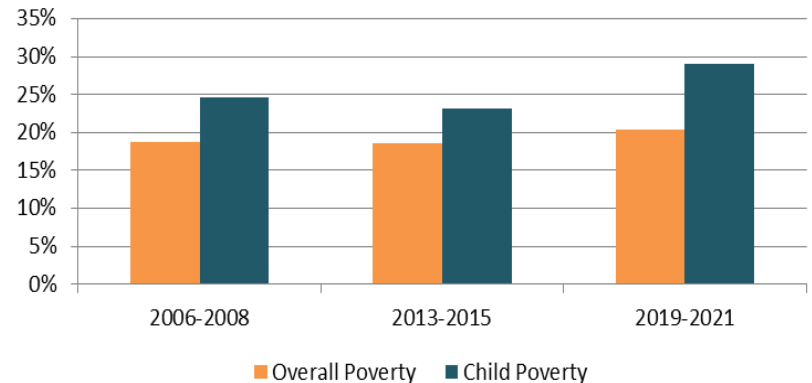
...but is projected to rise, particularly among households with children.



Scotland - Palma Ratio and Gini Coefficient



Scotland - Poverty Projections



Source: IFS

Work is central to both **poverty** and **inclusive growth**

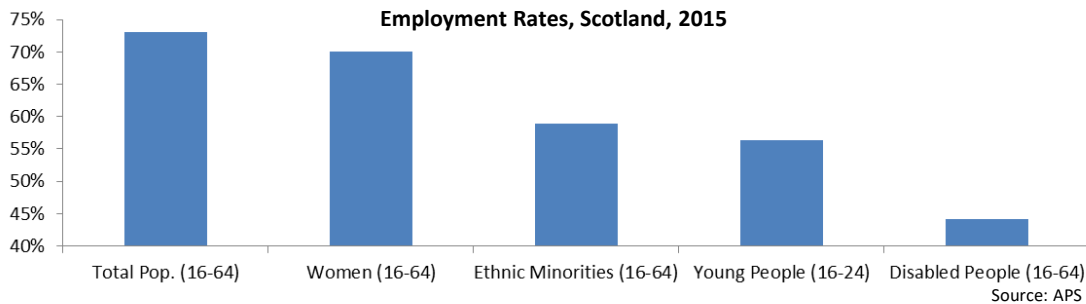
“Having a steady, reliable income is fundamental to how secure people feel and is key if the government wants to achieve its ambition of a high wage, low welfare economy. Offering people a secure income is also in the interest of employers, as it boosts staff morale and productivity.” – Gillian Guy, Citizens Advice, 2017

Increasing employment will help tackle poverty/inequality and boost economic growth.

- Income from work is key to tackling **poverty**. Work also provides additional benefits, such as engagement with society, a sense of purpose, and improved health outcomes.
- **Inclusive growth** aims to “improve access to labour markets and jobs, address inequality of opportunity to access work, and ensure that everyone is able to maximise their potential”.

Certain groups face larger barriers to employment.

- Groups such as women, ethnic minorities, young people, and disabled people face particular constraints to accessing work and thus exiting **poverty**.



Barriers to employment include caring responsibilities, inflexible or inaccessible work conditions, and discrimination...

...as well as lack of local jobs, affordable transport, and physical/digital infrastructure.

- **Inclusive growth** focuses on groups excluded from the labour market.

Certain regions face larger barriers to employment.

- Rural and remote regions face particular constraints to accessing work and thus exiting **poverty**.
- **Inclusive growth** aims to promote “more equal economic opportunities across Scotland’s cities, towns, regions and rural areas, ensuring sustainable communities”.

Gap in employment rates between top and bottom three local authorities



The quality of work matters, not just the quantity

Although employment has risen since 2008, work is often insufficient in terms of hours, wages, security, and progression.

More than 20% of Scottish workers are in **low-paid jobs** [1] and more than 8% are **underemployed** [2].

Over 3 million people in the UK (1 in 10 workers) now work in **insecure jobs** – an increase of 27% over the last 5 years [3].

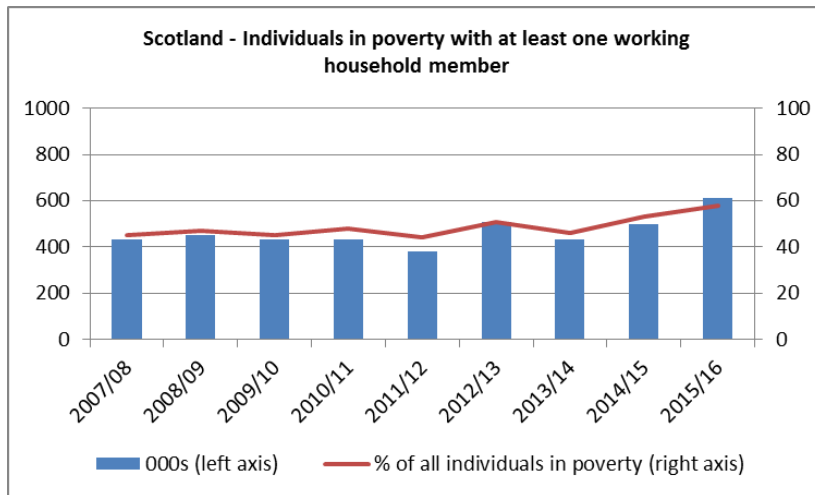
2.3 million people in the UK are working **variable shift patterns**, with an additional 1.1 million on **temporary contracts** and a further 800 thousand on either **zero-hour or agency contracts** [4].

[1] ASHE. [2] APS. [3] TUC. [4] Citizens Advice.

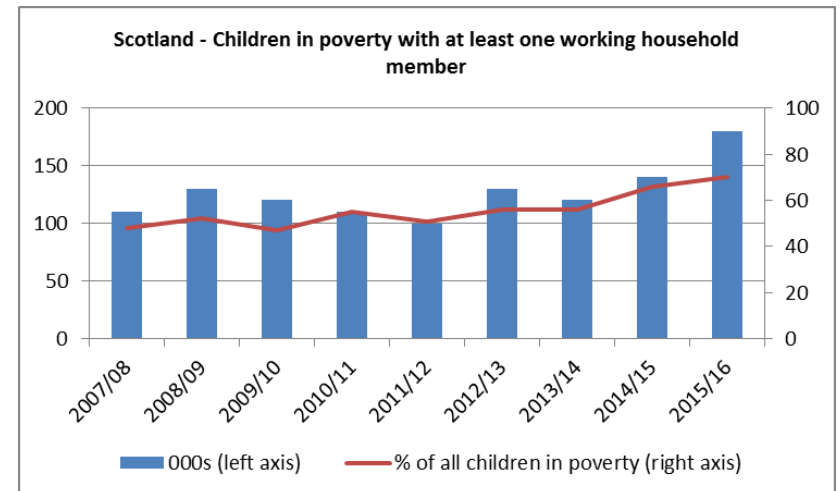
As a result, in-work **poverty** is a major problem.

After increasing steadily in recent years, more than half of people in poverty are now in working households.

Children have been especially affected, with 70% of children in poverty living in working households.



Source: FRS



Source: FRS

Inclusive growth can help by promoting “fulfilling, secure and well-paid jobs”.

Fair Work

Living Wage

Business Pledge

We cannot expect everyone to be in work, all the time

Social security is important for reducing poverty.

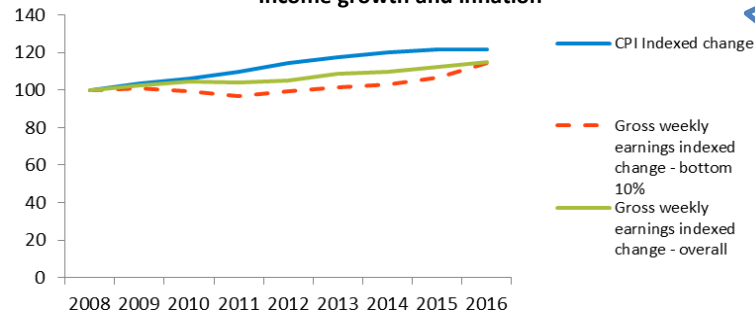
- Some people will not be able to enter the labour force, e.g. due to severe disability or caring responsibilities.
- Others will be unemployed temporarily when they enter the labour force or switch jobs.
- If designed appropriately, social security can help people move into work and convey values of dignity and respect.
- It can also help mitigate the disadvantage faced by children growing up in poverty, which affects their life prospects.

The relationship with inclusive growth is unclear.

- “Distributing the dividends of increased prosperity” implies redistribution, but focus is on employability (proxy for inclusion).
- Raising employment and incomes could increase affordability by increasing tax receipts and reducing reliance on benefits.
- In the long term, the relationship between work and income may be less straightforward, e.g. due to automation

Living costs also matter for poverty, not just income

Income growth and inflation

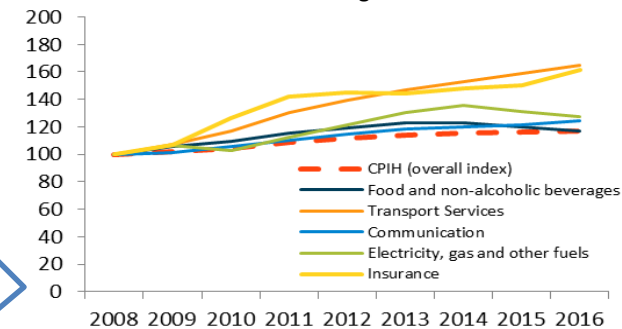


Source: ONS - Scottish Government analysis

Incomes have not kept up with prices in recent years, particularly for those in poverty.

The prices of basic goods and services, which disproportionately impact those in poverty, have risen disproportionately.

Inflation and essential goods and services



ONS - CPI, UK

Higher incomes and employment may increase living costs.

Some inclusive growth policies may help reduce living costs.

E.g. Housing - in 2015/16, people in relative poverty AHC spent 38% of their household income on housing versus 21% spent by those not in poverty (FRS).

Economic growth may raise housing costs due to higher demand and speculation.

Affordable housing policies may reduce housing costs.

The relationship between poverty and inclusive growth depends on which policies are pursued, and how

Rank	Inclusive Growth Driver	Potential Poverty Impact
1	Digital and new business methods take up	Depends on effects on labour market
2=	Inequality of caring responsibilities	Improve ability to take/keep work, reduce living costs
2=	Health and wellbeing for excluded groups	Improve ability to take/keep work, reduce living costs
4=	Unequal Distribution of Wealth	Direct impact on material deprivation
4=	Migration	Depends on effects on labour market, social security, and living costs
6	Job design and flexibility	Improve ability to take/keep work
7	Unequal distribution of wages	Direct impact on absolute/relative poverty and material deprivation
8	Quality of employment and mental health	Increase income from work, reduce living costs
9=	Quality and cost of housing	Reduce living costs
9=	Gender segregation in education & training	Improve access to / increase income from work
9=	Digital connectivity	Improve ability to take / increase income from work, reduce living costs
9=	Employee representation and union membership	Improve ability to keep / increase income from work
9=	Transport infrastructure	Depends on effect on living costs
9=	Educational mobility	Improve ability to take / increase income from work

Policies to reduce poverty and promote inclusive growth

Fair Work – improve pay, progression, security, and quality of employment

Connectivity – improve physical and digital infrastructure

Community initiatives – local procurement, community-benefit clauses, community energy, etc.

City region deals – improve infrastructure and employment, including in more remote regions

Manufacturing – increase quantity/quality of employment

Caring – provide flexible, affordable solutions to facilitate employment

Young Workforce – enhance links between education and employment

Digital Skills – improve employability, attenuate geographic disadvantages

Food Initiatives – tackle material deprivation

Industrial Strategy – increase quantity/quality of employment

National Planning Review – joined-up approach to poverty reduction