Risk and Resilience

The nature of risk
The politics of risk

3rd July 2006
Dominic Maxwell
Coming up…

Does “risk” shed new light on the politics of social justice?

1. Where we start: narratives of poverty
   Wife swap and welfare cheats

2. Introducing risk
   Politics and academia: parallel tracks?

3. Choosing our horn
Prior to a revolution in support, do we need a revolution in empathy?

• Support for the welfare state depends on perceptions of the causes of poverty
  Picketty 1995

But current stereotypes are strongly negative

• ‘Daytime TV, beer and fags and scratchcards’
• Attitudes to work, money and children
  Fabian Commission on Life Chances 2006
Narratives of poverty
Perceptions of poverty are a barrier to SJ

Government should redistribute incomes from the better-off to those who are less well off...

Source: Sefton 2005
Introducing risk
Definitions

• “Risk”: uncertainty over future events and conditions, especially material.

• But not pinning ourselves down - interested in exploring different perspectives.
Introducing risk
Parallel tracks

Academia

“Risk society”

Rise and concentration of risk
Taylor Gooby 2000

Politics

National risks: climate change, terrorism, competition from China and India

But decline in sense of risk pooling?
Introducing risk
Does it change conceptions of poverty?

- Risk has been criticised as individualising

- But it needn’t be:

Costs of poverty
Exhausting costs of coping strategies make it more difficult to “get out”.

Majoritarian
The constituency is bigger: both those in poverty and those at risk of poverty.
Introducing risk
Choosing our horn

Shared risk
→ Self-interest in maintaining the welfare state

But
Doesn’t address misconceptions of poverty.

Different risks
→ Increase support for others, i.e. vulnerable individuals

But
Could be otherising, undermining a sense of shared interests.
Finally.. are we in danger of just scaring people?
References


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The nature of risk

Income Instability

3rd July 2006

Graeme Cooke
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Section One

A History of Research
## A History of Research

**Income Instability and Poverty**
- *BHPS enables analysis of income trends...*
  - *...and poverty dynamics.*
  - *Plus new data on short term income instability*

**Labour Market Risks**
- *New attention given to wage instability...*
- *...increased job insecurity*
  - Gregg & Wadsworth (2002)
- *...and ‘low pay/no pay’ cycles*

*Drawing on BHPS and the Labour Force Survey*

**Benefit Income Risks**
- *Along with risks associated with transitions btw benefits and work*
- *Evidence emerging about the risks faced by those on benefits*
  - Preston (2005), Graham *et al* (2005), Barton (2006)
Section Two

Income Instability and Poverty
Evidence suggests that income instability is problematic in two main ways...

- Most incomes - 60-70% - are generally stable when measured over yearly intervals (Rigg & Sefton, 2004, Gardiner & Hills, 1999)

But...

1. Measured over shorter intervals, only around a third of incomes are stable (Hills et al 2006)

2. Instability affects the poorest most: those on less than £10,000 face variation of 40% around their yearly mean (Hills et al 2006)
This instability is pushing people into and out of poverty

• Experiences of poverty are often cyclical: Between 1991-1994, 14% of people fell below poverty line once, 8% twice, 7% three times, 5% poor across all 4 years (Hills, 2004)

• Many who escape poverty, quickly return: 30% of those leaving poverty return the following year, rising to 60% for particular ‘at risk’ groups (Jenkins & Rigg, 2001, in Hills, 2004)

• People on lower incomes face a much greater risk of poverty: 21% on low incomes (60-80% median) enter poverty the following year, compared to just 1.5% of those on high incomes 150% median) (Cappellari & Jenkins, 2003)
Section Three

Labour Market Income Risks
Labour market factors cause the majority of income instability, increasing poverty risks

- Work is important in accounting for both exits out of and entries into poverty: Changes in labour income accounts for 62% of exits from poverty, but also 44% of entries (Jenkins & Rigg, 2001)

- Low paid workers face greatest wage instability: Over a year, 40% of workers experience a real wage fall of over 30%, with the low skilled affected most (Nickell et al, 2002)

- Jobs are less stable: Median job tenure for men has fallen by 20% since 1975 (Gregg & Wandsworth, 2002)

- Low paid work exposes people to greater risks of future unemployment (‘Low pay/no pay’ cycles): low-paid workers are 3 times more likely to face unemployment than those on high pay (Cappellari & Jenkins, 2003)
The state can be both a help & a hindrance in experiences of labour market risks...

Since 1997:

- Union recognition legislation
- Limited adult skills + re-training agenda
- Some labour market interventions: Job Retention & Rehabilitation Pilots (for those on long term sick leave) & Employment Retention and Advancement (for New Deal graduates)

But:

- Overall, a much stronger focus on ‘welfare to work’, with less attention on job progression and retention (esp low pay/low skill sectors)
Labour Market: Research Gaps and Policy Options...

- **Research**: Are ‘low pay/no pay’ cycles the result of individual choice, lack of employment protection, or wider labour market forces?

- **Research**: What impact do these cycles have on those affected - financially & psychologically?

- **Policy**: Repeated transitions btw low paid jobs & benefits highlight limitations of ‘welfare to work’ agenda. Would this labour market risk be reduced by...
  a) boosting in-work **incomes** (eg tax credits/NMW);
  b) better **employment protection** for temporary, low paid, low skilled workers?
  c) promoting **skills** & job progression?

*And how could these be achieved?*
Section Four

Benefit Income Risk
Those receiving benefit income also face instability: with real human consequences

- **Changes in tax credit awards:** in one sample, over ½ of awards changed during a year, with over ¼ facing cuts of on average of £1,700 (Hills et al, 2006)

- **Payment delays and overpayments:** For example, Housing Benefit claims take on average 33 days to process (over 100 days in the worst LAs) (DWP, 2004/5). Evidence that such problems cause considerable financial hardship (and disincentives to work) (Graham et al, 2005, Griggs et al, 2005). **Benefit Recalculations:** a lone parent on Income Support whose child loses DLA + associated benefits can see her income halve from £200 to £100 per week (Preston, 2005)

- **Poor official decision making:** 60% of appeals against decisions on IB and DLA are upheld (Barton, 2006)
The state can be both a help & a hindrance in experiences of benefit income risk...

- Incomes transfers reduce the level of instability in net pay: the impact differs internationally (McManus and DiPrete, 2000) and in the UK, social security benefits are more effective than tax credits (Hills et al, 2006)

But, there are two key problems:

- *Benefit and Tax Credit (re)calculations* - means testing & poor official decision making
- *System (mal)administration* - payment errors (delays & repayments) and appeals
Benefit Income: Research Gaps and Policy Options...

• **Research**: To what extent does the tax & benefit system stabilise initial labour market incomes and which interventions are most effective? Building on BHPS data and drawing on Hills et al, 2006 and international research (McManus & DiPrete, 2000)

• **Policy**: Stabilising benefit income requires greater predictability in calculations & payments, and better administrative decision making. Would any of these measures help?
  
  a) increased *income disregard* for benefit reassessments  
  b) reduced *means testing* overall  
  c) simplifying *applications* by reducing individual tailoring  
  c) *training* for benefit officials & a simplified *appeals* process

*And how could these be achieved?*
Section Five

Transitional Risks
Transitions between benefits and work can expose people to short term but severe income instability

- Of children suffering ‘severe & persistent’ poverty, a greater proportion experienced transitions than remained on benefits: 49% experienced a move from one worker to no worker households, compared to 19% living in a workless households throughout (Adelman et al, 2003)

- Transitional costs create barriers to work: in one study, 48% of benefit recipients ‘ready for work’ were deterred by transitional risks to their incomes (Woodland et al, 2003)

- Reducing transitional costs can change work incentives/behaviour: 36% with worries about transitional income risk said either a £100 grant or a benefit run-on would change their feelings about work (benefit run on more popular) (Woodland et al, 2003)
The state can be both a help & a hindrance in experiences of transitional risk...

- Increasing transitional support available:
  - Housing Benefit, Council Tax Benefit and Lone Parent run-on
  - Job Grant (£100 or £250)
  - Employment on Trial (rapid benefit return)
  - Child Maintenance Bonus/Premium (up to £1000)
  - Advisor’s Discretionary Fund (£100 - cut from £300)

But:

- Awareness, take up and scope of transitional support still appears to be limited (for example, Woodland et al, 2003)
- Relative stability of income makes benefits attractive (Woodland et al, 2003, & CPAG, 2005))
- Complexity and uncertainty of benefit reclaim if job falls through cited as key barrier to work (Woodland et al, 2003)
Transitional Risks: Research Gaps and Policy Ideas…

• **Research:** What has been the *overall* impact of New Labour’s constellation of initiatives aimed at reducing transitional risks?

• **Policy:** For many, the risks of leaving benefits for work constitute too high a barrier. Would the following better enable positive risk taking?
  
  a) Enhanced *benefit run-ons*
  
  b) Wider access to *work taster* schemes
  
  c) Options for ‘*rapid return*’ to benefits
  
  d) Improved personal *advice & support* - eg financial advice, such as help calculating potential in-work support
  
  e) Removing wider barriers, such as availability of *childcare*

**And how could these be achieved?**
Section Six

Conclusions
Conclusions...

• The key priorities are to:
  
i) develop a **better understanding** of the barriers and (dis)incentives that shape individual’s decision making, so as to...  
ii) **re-balance** the complex, rigid & often unappealing choice between the stability but poverty of benefit income & the (current) vulnerability and uncertainty of work

• In addition, does this story suggests that a future anti-poverty agenda must focus on two distinct groups?
  
a) those with **stable but very low incomes** (living predominantly on benefit income)

  b) those with **variable and intermittently extremely low incomes** (making regular transitions between low paid work & benefit income)
Section Seven

References
References (i)


Cappellari and Jenkins (2003), ‘Transitions Between Unemployment and Low Pay’, (Universita del Piemonte Orientale and University of Essex)


DWP (2004/5), ‘Housing Benefit Quarterly Performance Stats 2004/5, Quarter 4’

References (ii)

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McManus and DiPrete (2000), ‘Market, Family and State Sources of Income Instability in Germany and the United States’, Social Science Research 29
Stewart (2005), ‘The Inter-Related Dynamics of Unemployment and Low-Wage Employment’, Journal of Applied Econometrics (University of Warwick)
Woodland, Mandy and Miller (2003), ‘Easing the Transition into Work (Part Two - Client Survey)’, DWP Research Report No. 186
Research Gaps and Policy Options...

- **Labour Market:**
  Causes, consequences and measures to tackle low pay/no pay’ cycles...

- **Benefits:**
  Impact of taxes & transfers and levers to improve stability in the system...

- **Transitions:**
  Assessment of interventions, and options to enable positive risk taking...
Risk and Resilience

The Nature of Risk
Spending needs

3rd July 2006
Dominic Maxwell
Coming up...

A review of unexpected changes to income needs:

1. How important are consumption shocks?
2. Who suffers from what?
3. Impact of the state
4. Unexplored gaps
How important are consumption shocks?

- Less important than income shocks
  - 5-13% of households in arrears attributed debt to increased/unexpected expenses (Kempson et al 2004)

- The literature is less well developed
  - Partly because it is harder to distinguish between planned, lumpy expenditure and unanticipated changes in needs.
<table>
<thead>
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<th>Risk</th>
<th>Low income?</th>
<th>Poor area?</th>
<th>Lone parent?</th>
<th>Other</th>
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<tbody>
<tr>
<td>&lt;£2,500</td>
<td></td>
<td>Disorder in local area</td>
<td>Yes</td>
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<tr>
<td>&lt;£5,000</td>
<td></td>
<td>Disorder in local area</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Lowest quintile</td>
<td></td>
<td>-</td>
<td>-</td>
<td>More likely to hire contractors</td>
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<tr>
<td>As % of income</td>
<td></td>
<td>-</td>
<td>-</td>
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<td>Receipt of state benefits, unemployment</td>
<td></td>
<td>-</td>
<td>n/a</td>
<td>Disability</td>
</tr>
</tbody>
</table>

For sources and details, please see subsequent slides.
Impact of the state

- Consumer regulation and protection
- Fewer state-imposed spending risks compared to income risks:
  - Cost of starting school
- *But*: there is a failure to protect
  - Crime
Next steps for research

- Each area of risk still suffers from large research gaps:
  - Is the retirement-consumption puzzle matched by a children-consumption puzzle? How can it be explained/prevented?

- Overall, there is much more need to see how different spending risks cross-correlate.
  - Low earners and those in run-down areas (according to different definitions) appear to suffer most from most types of risk.

- But the *cause* of the risk can not be traced back to the state to the same extent that risks to income can.