Income in Later Life

As working lives shorten and time spent in retirement lengthens, are people and governments making adequate provision to avoid poverty in old age? A new ISER study by Elena Bardasi and Stephen Jenkins examines the relationship between people’s lifetime employment histories and the risk of having a low income in later life.

Early retirement or redundancy can sharply increase the likelihood that men in their fifties will spend their old age in poverty. But the long-term effects on income of leaving the labour market before reaching the age of 60 vary widely between different occupational groups, according to ISER research for the Joseph Rowntree Foundation.

The study suggests that men who have spent most of their working lives in occupations such as clerical or sales, skilled crafts, and personal or protective services (ranging from private security guards to police constables, ambulance drivers to waiters) may be especially vulnerable if they stop work early. By contrast, low rates of participation in the labour market between the ages of 50 and 60 appear to make little difference to the chances of being poor in old age for either women or men who worked in managerial, professional or manual occupations.

The research analyses data gathered throughout the 1990s as part of the British Household Panel Survey. These show that there was a rise in employment rates among women aged 50–54, while rates among men stabilised after falling steeply during the 1980s. But the income gap between older people retiring on occupational and personal pensions and those who had to rely on state pensions and benefits remained substantial.

The study finds that the risks of having a low income after 60 (defined as being among the poorest third of the population aged 60 plus) were strongly related to occupational group and continuity of employment between the ages of 20 and 60. Not surprisingly, women who had worked in managerial,
professional, and clerical occupations were less likely to be poor, as were men from professional and clerical backgrounds.

But further analysis reveals that the advantage enjoyed by men in some white-collar occupations could be substantially reduced by an early exit from the labour market. For example, the probability that men who had worked for 30 years or more in personal and protective services would have a low income when aged 60 plus was only 9% if they worked throughout their fifties. But for those who worked for fewer than five years during their fifties, the probability was as high as 67%.

The authors argue that reduced opportunities to amass savings and pension rights were unlikely to have been the only reason that stopping work in their fifties led to a low income when aged 60 plus. Many of the men affected may also have been low earners within their occupational group and, as such, more likely to lose their jobs.

The income gap between older people retiring on occupational and personal pensions and those who had to rely on state pensions and benefits remained substantial.

Bardasi and Jenkins also suggest that the lack of association between women’s poverty in old age and early labour market exit in their fifties was because intermittent labour attachment was a characteristic feature of their whole working life not only in their fifties – for example, breaks from paid work for child care. By contrast, work attachment for most men only became intermittent in their fifties.

What was particularly relevant for the chances that a woman over 60 would be relatively poor was her household type and marital status. Women without a partner, especially those who were divorced, had a substantially higher risk of low incomes than those who were married or cohabiting. This suggests that, for many women, having a partner with a good working history still makes more difference to their income after retirement than their own working histories.

The findings also underline the importance of measures to enable men and women to make better provision for their old age and accumulate assets during their working lives in the form of savings or pension rights. The issue of reducing income inequalities in later life may really be an issue of reducing inequalities in earlier life, both in terms of paid work and the treatment of those whose family responsibilities compel them to leave employment. While women’s participation in the labour market over their whole working lives will affect the adequacy of their retirement incomes, the study shows that policy measures to tackle pensioner poverty that focus on early withdrawal from the labour market will be chiefly relevant to men.

The Economics of Labour Unions

In the last 25 years, there has been a tremendous blossoming of economic research on unions, in part reflecting the development of new data sets and sophisticated new econometric techniques with which to analyse them. A new publication edited by Alison Booth of ISER brings together many of the most influential papers in the field, providing a broad survey of such key issues as bargaining power, strikes and the effects of unions on pay, working hours, economic efficiency and the macroeconomy.

Booth notes that while research on unions has boomed, there has been a decline in union density and power in many industrialised countries, leading some researchers to talk about ‘de-unionisation’ of the labour market. Yet it is premature to dismiss unions as moribund organisations, she argues: first, because they remain very powerful in the majority of OECD countries; and second, because they are growing stronger in many other parts of the world. It is therefore important for researchers working on the economics of unions to consider the costs and benefits of unionism for workers and employers in a modern economy.

The Economics of Labour Unions, edited by Alison Booth, is published by Edward Elgar Publishing. For a more detailed summary or to order a copy see: www.iser.essex.ac.uk/pubs/books/1-84064-526-1.php
Ethnic Diversity and Inequality

Membership of an ethnic minority in Britain no longer implies an automatically higher risk of financial hardship: there is now enormous variation in household income both within and between specific groups. Richard Berthoud surveys the research evidence about poverty and prosperity among the country’s black and Asian communities.

There is a very wide range of economic positions among Britain’s ethnic groups. The chart, which draws on the Family Resources Survey, illustrates the full distribution of income for each ethnic group.

Among whites, for example, the 10th percentile (the income of the 10th from the bottom in a representative group of 100 households ranked by income) is 56% below the national average; the 25th percentile is 43% below average; the 75th percentile is 21% above average; and the 90th percentile is 68% above average. These figures for whites provide a benchmark against which other ethnic groups can be compared.

There is good as well as bad news. A striking point is that better-off Chinese households tend to have higher incomes than those in any other ethnic group, including whites – the 90th percentile in the Chinese community is 20 percentage points above the white figure. At the same time, the Chinese income distribution is more widely stretched than any other; this group also features strongly among the poor.

These findings suggest that ‘ethnic minority’ (as a single category) is not a helpful way of summarising variations in the income distribution. Specific minorities face high risks of poverty. Other specific minorities are remarkable more for the range of inequality within the group than for the difference between their average and either whites or other minorities.

At the bottom of the scale, all minority groups have higher poverty rates than the white majority. But Pakistanis and Bangladeshis face three times the poverty risk of Caribbeans.

Africans remain among the poorest groups, despite being among the most highly educated.

By the same token, combinations of minorities based on skin colour are not helpful either. It is by now well established that the position of Indians is too far removed from that of Pakistanis and Bangladeshis to cover all three groups under the heading ‘South Asian’. As new evidence about the small African community emerges, it is becoming clear that they...
cannot be combined with Caribbeans under the heading ‘black’ either; Africans are significantly more likely to experience unemployment and poverty, in spite of their much higher levels of education.

The diversity of experiences even among men and women with the same skin colour also raises complex questions about the role of racial discrimination. It is known that employers continued to discriminate after it was made illegal, although no objective tests have been carried out for many years now. ‘Ethnic penalties’ in the labour market remain an important issue, but it would a sophisticated form of discrimination that could distinguish so effectively between Caribbeans and Africans, or between Indians (on the one hand) and Pakistanis or Bangladeshis (on the other).

The number of young people of Chinese or Indian origin now achieving university degrees may be associated with the successful economic trajectories of those communities. This has led to some optimism about the potential role of education as a counter to racial disadvantage. But other evidence may suggest less hopeful conclusions. Caribbeans (especially men) continue to experience disadvantages in the education system, which inevitably hinder their progress in employment. And Africans remain among the poorest groups, despite being among the most highly educated.

Some minority ethnic groups have reached higher levels of income than might have been feared 10 or 20 years ago. But that should not obscure the serious poverty experienced by two groups: Pakistanis and Bangladeshis. An astonishing 60% of them live below the poverty line – four times as many as among the white community. Part of the problem is that far too few families from those communities have any wage earner. But even among working families, no less than half are in poverty. The disadvantages faced by other ethnic groups are overshadowed by these shocking findings.

Analysis of the position of ethnic minorities often provides an acid test of the overall effectiveness of policy. If there are any weaknesses in the system, they will show up most clearly in disadvantaged minority communities. As much as a third of the tiny incomes received by Pakistanis and Bangladeshis is derived from means-tested benefits. This statistic illustrates their role perfectly. Thank God, perhaps, for the means-tested benefits: Pakistanis and Bangladeshis would be even poorer without them. Or perhaps this statistic is more a measure of the failure of the labour market and of rights-based benefits to enable Britons to escape poverty.

Poverty and Prosperity among Britain’s Ethnic Minorities, by Richard Berthoud, was published recently in Benefits. The full version is at www.iser.essex.ac.uk/pubs/other/pdf/benefits-berthoud.pdf

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**Keeping Track**

The UK Longitudinal Studies Centre at ISER, in partnership with the Office for National Statistics, has developed a new, free, website publication called *Keeping Track*, an electronic reference guide to major longitudinal data sources.

The central purpose of the site is to encourage greater use of longitudinal data. Indeed, its development stems in part from growing recognition of the analytical and explanatory power of longitudinal or cohort studies among policy-makers and government and academic researchers. Keeping track of cohorts of people as they travel through life enables detailed analysis of different experiences in their lives, and of the impact of government policies such as those designed to improve their education, build their work skills and maintain their health.

The site covers data sets collected by government agencies, academia, private social research organisations, and medical and private industrial sources. They include household panel surveys, studies following the health of individuals, birth cohort studies, studies tracking the quality of a product design, and administrative records.

To access *Keeping Track*, see: www.iser.essex.ac.uk/ulsc/projects/ldr4ss/index.php
At a time of record low turnouts in British elections, it is important to understand what influences people’s willingness to engage with politics, especially younger voters. An ISER study by Muriel Egerton examines the impact of social class, gender and education on young people’s voting intentions.

At only 59% of the electorate, the last British General Election had the lowest turnout since 1918. Although political partisanship, in the sense of party identification or preference, has fallen gradually since the 1950s, turnout at elections had held up until 2001. British citizens have seen it as a duty to vote whatever their social class, gender or education, the only exception being the very youngest voters.

There are several reasons for voting abstention, including long working hours, ‘safe’ constituencies and out-of-date voting registers. But data from the British Election Study at Essex University suggest that none of these was the predominant factor in the last election. Instead, the problem seems to have been high levels of dissatisfaction with both main parties. This contrasts with the 1997 election when trust in the Labour Party was high; in 2001, it is widely believed, the problem was dissatisfaction with Labour’s management of the public services.

In other countries with traditionally low electoral turnouts – such as the United States – turnout is higher among the better educated. This has been attributed to their greater political knowledge and interest. But the relationship of the highly educated to the state is different in Europe to that in the United States, which has a less developed welfare state.

For example, until recently, a majority of UK graduates worked in the public sector, and in the early 1990s, it was still the case that about 50% of new graduates entered public sector employment. Therefore, two disparate groups of people might be expected to be particularly sensitive to Labour’s handling of public services: the most economically vulnerable, particularly women; and the professionals who staff the health, education and welfare services.

Are the responses of these two groups likely to differ in terms of their voting behaviour? Muriel Egerton explores this question using data from the British Household Panel Survey on the changes in the stated political preferences of around 500 young people between the early 1990s when they were aged 18 and the later 1990s when they were aged 22 to 23. This age group was selected in order to assess most accurately the effects of university education, with about one third going through university and the rest in the labour market.

Egerton’s hypothesis was that where the two main parties were rejected, graduates would change preferences to third parties, while less educated young people would state that they would not vote for any party. Universities have traditionally been a nursery for new social movements and a training ground for aspirant politicians. But the main sources of organisation and training for non-graduates – the trade unions and local government – have lost membership, finance and/or authority since the late 1970s and the beginning of the long period of Conservative government.

The analysis focused on the two largest groups of young people – students and those with qualifications below NVQ3 (A-Level equivalent vocational qualifications) –and two types of preference – third party preferences (Liberal Democrats, Greens, nationalists, etc.) or rejection of all parties.

Low turnout in British elections is concentrated among the least educated

Before looking at the effects of education, Egerton explored the impact of gender and family background. The results show little difference in the political preferences of boys by social class. Boys from manual families were slightly less likely to endorse no party than middle-class boys from managerial families. The largest difference was among the sons of professionals who were least likely to endorse no party.

But there were large differences by social class among girls. Girls from managerial families were most likely to support the Conservatives, while girls from manual families had very high rates of endorsing no party. Like their male counterparts, the daughters of professionals had the lowest rates of endorsing no party. Adolescent girls have very low rates of political interest, knowledge or partisanship, but those who do are strongly influenced by family, and abstention is closely related to manual origins.

So what about the impact of education? The results reveal that the least qualified 18-year-olds were about 10 percentage points more likely to endorse no party than the most qualified 18-year-olds. But this difference had doubled by early adulthood in the late 1990s. Endorsement of no party decreased slightly for the most educated boys, while endorsement of third parties almost doubled – from 14% to 28%.
Among young women, the strongest effect was the decline in endorsing no party – from over 45% to about 30% – for the least educated. It seems likely that this arises from the achievement of adult status, though their lack of enthusiasm for any party was still markedly higher than that of graduate women (16%). Both groups of young women increased their support somewhat for the Liberal Democrats, a party that is likely to appeal to women because of their support for welfare and education spending.

Overall, it is clear that voting abstention is concentrated among the least educated youth. This may be only a moment in a general realignment of British politics. But it may signal the effective disenfranchisement of the least fortunate section of the British population.

Political Partisanship, Voting Abstention and Higher Education: Changing Preferences in a British Youth Cohort in the 1990s, by Muriel Egerton, will be published soon in Higher Education Quarterly.

Tackling Poverty: Measurement Matters

Has the number of poor children in the UK fallen by as much as the government promised? Whatever the outcome, this debate highlights the significance of how poverty is measured. An ISER report by Lars Osberg explains why poverty intensity, rather than the simple poverty rate, provides a better guide for policy-makers.

The measure of trends in poverty used most commonly in policy analysis is the poverty rate – the percentage of the population whose incomes lie below the poverty line. But this measure fails to reflect the depth of poverty, as indicated by the average poverty gap ratio – the average percentage shortfall of poor individuals’ incomes below the poverty line. Poverty intensity – a measure that includes both the poverty rate and the poverty gap – delivers a far clearer picture of what is happening over time, helping policy-makers to make better decisions about how to reduce poverty.

The danger of ignoring the depth of poverty is that policymakers who want to demonstrate ‘success’ in tackling poverty by cutting the poverty rate will be tempted by the option of ‘creaming’ the poverty population. Redistributing benefits or services away from the very poorest (who are so far below the poverty line they are likely to stay poor anyway) to those just below the poverty line (who have the greatest chance of being moved over the line) can reduce the poverty rate even while deepening the deprivation of the worst off, which is surely not a socially desirable outcome.

Since poverty intensity can often increase even when the poverty rate falls, the choice of indicator of poverty trends is extremely important. Indeed, data for the UK covering four periods spanning more than 20 years in total reveal that for absolute poverty the poverty rate and poverty intensity change in opposite directions every time. While this not always the case in other countries, it does imply that the crude poverty rate is a wholly misleading index of poverty trends in the UK. A better index is essential.

The figure presents the ‘poverty box’ for the UK for five years, a graphical representation of changes in the components of poverty intensity between these years. It is clear from the increased volume of the box that in the periods 1974-9 and 1979-86 there was a rise in poverty intensity despite a stable or declining poverty rate. And although the average poverty gap ratio fell between 1986 and 1991, the increase in the poverty rate was so large that poverty clearly increased in aggregate. Between 1991 and 1995, the decline in the poverty rate was again dominated by an increase in the poverty gap so that poverty intensity rose, although not by much.

So how can the measure of poverty intensity be used to inform policy analysis? One of the most important issues surrounding poverty is employment, notably the impact of the proportion of households with zero earnings on the upward trend in poverty. Compared with similar trends in Canada, Sweden and the United States over the 20-year period, the UK stands out both for the size of its increase in poverty intensity and for the substantial increase in the number of workless households. Examining changing poverty rates and poverty gaps in the populations of working and workless households can illuminate what is driving the growth in poverty and what might be done to tackle it.
For example, although the rate of poverty among workless households actually fell between 1974-86 (from 66% to 53%), the workless population rose so dramatically (by more than three times) that the number of workless poor increased substantially. At the same time, although the poverty gap rose for both working and workless households, the increase was significantly greater for the working poor. In contrast, the continuing rise in UK poverty intensity between 1986-95 was not primarily due to changes in the poverty gap, which remained fairly steady. The big action came in an increase in the poverty rate, which was quite substantial for workless households (from 31% to 47.4%) and smaller for the working poor (from 4.1% to 4.6%).

The crude poverty rate is a wholly misleading index of poverty trends in the UK. A better index is essential.

Of course, one way of reducing poverty intensity is to redistribute from the rich to the poor, a policy that is currently unfashionable in the UK. Osberg concludes his study with a thought experiment about the top 10% of the income distribution in the UK. These people have done extremely well between 1979-95, enjoying an extra £13,992 per person in real equivalent income after tax, an increase that is more than twice the total average disposable equivalent income of the bottom 20%.

Suppose that the tax and transfer system in the UK had been marginally more redistributive and 10% of the gains of the top decile had been transferred to the bottom decile: what difference would this have made to poverty? Had the already affluent shared only 10% of their gains (roughly 3% of their total income), the poverty rate in the UK would have dropped from 13.2% to 8.1% and poverty intensity would have more than halved. By any measure, poverty in the UK would have fallen dramatically – from its actual 1995 levels to levels well below those of 1979.

This article summarises Trends in Poverty: The UK in International Perspective - How Rates Mislead and Intensity Matters, ISER Working Paper 2002-10, by Lars Osberg. Osberg is McCulloch Professor of Economics at Dalhousie University in Canada, and visiting ISER for the academic year 2001/2. For the full paper, see www.iser.essex.ac.uk/pubs/workpaps/2002-10.php


ISER wins five ESRC Centre Linked Studentships for PhD research

ISER won five Centre Linked Studentships for PhD research (beginning October 2002) in the ESRC’s latest competition, nearly half of those available. The studentships are linked to research projects: the changing value of education in the labour market; interviewer effects on panel surveys; the dynamics of work and income in later life; the dynamics of daily life; and changing patterns of childbearing in Britain. Students will benefit from full participation in ISER’s research and training activities, working with its experienced research, survey and IT staff, and unparalleled access to national and cross-national longitudinal data holdings and other research resources.

ISER already offers extended study visits to PhD students from Europe, under the Marie Curie Fellowships. Further details of both schemes, including how to apply, are at www.iser.essex.ac.uk/opportunities
Recent books by ISER researchers

The Dynamics of Child Poverty in Industrialised Countries
Edited by Bruce Bradbury, Stephen Jenkins and John Micklewright.
Published by Cambridge University Press

‘We still know surprisingly little about the dynamics of childhood poverty and hence about the nature, causes and consequences of the deprivations suffered by so many of the world’s youngest generation. This volume is an exceedingly valuable contribution to our understanding – at long last the gaps in our knowledge are being filled, and in some cases with unanticipated results. All that is needed now is the political courage to respond.’
Robert Walker, University of Nottingham

Researching Social and Economic Change
Edited by David Rose. Published by Routledge

Household panel studies provide one of the most significant national and international resources for analysing social and economic change. In this introduction, European and American experts in the field join forces to explain what panel studies can achieve and to illustrate some of the potential pitfalls in the construction and analysis of panel data.

‘The most accessible introduction to household panel data available - an invaluable reference tool.’ Mark Wooden, Australian Social Policy

Seven Years in the Lives of British Families: Evidence on the Dynamics of Social Change from the British Household Panel Survey
Edited by Richard Berthoud and Jonathan Gershuny
Published by The Policy Press

‘Seven Years in the Lives of British Families is a fascinating read, not just mapping changes in individual lives, but also providing important new insights into the meaning and impact of these. It is of theoretical, empirical and policy interest and will be indispensable to anyone with an interest in understanding the dynamics of British society today.’
Jane Millar, University of Bath

Changing Times: Work and Leisure in Postindustrial Society
Jonathan Gershuny. Published by Oxford University Press

Are our lives more congested with work than they used to be? Is society polarising into groups which, on one side, have too much work and too little leisure time to spend their money in, and on the other have no paid work, and hence no money to pay for the goods and services they might wish to use during their leisure? There is surprisingly little substantive evidence of how individuals and societies spend their time, and of how this has changed in the developed world over the recent past. This book brings together, for the first time, data gathered in some 40 national scale ‘time diary’ studies, from 20 countries, and covering the last third of the 20th century.

‘ Entirely accessible to the general reader with many of the key ideas graphically illustrated.’ AJ Veal, Annals of Leisure Research

For further information on these books, see: www.iser.essex.ac.uk/pubs/index.php