



THE LONDON SCHOOL
OF ECONOMICS AND
POLITICAL SCIENCE ■

Understanding the Links between Inequalities and Poverty (LIP)

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Understanding the relationship between inequalities and poverty: policy toolkit

CASereport 125/LIPpaper 11



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Acknowledgements

Understanding the Links between Inequalities and Poverty is a research programme funded by the Joseph Rowntree Foundation (JRF). It is a collaboration between researchers in the Centre for Analysis of Social Exclusion and the LSE's International Inequalities Institute. The Joseph Rowntree Foundation has supported this project as part of its programme of research and innovative development projects, which it hopes will be of value to policy-makers, practitioners and service users. The conclusions presented in the toolkit are, however, those of the authors and not necessarily those of JRF.

The authors would like to express their thanks to JRF for the funding of this research programme and especially to Chris Goulden for his role in managing the programme on behalf of JRF and for providing such extensive and constructive support, ideas, comments and challenge throughout the programme.

Lin Yang made an important contribution to the policy toolkit and in particular the authors would like to thank her for the initial scoping she did for two of the mechanisms (Political economy and public awareness and Resource constraints). Other members of the research team provided helpful comments on the design and content of the toolkit: a special thank you goes to John Hills, Tania Burchardt and Polly Vizard. In addition, the authors would like to thank the members of the programme Advisory Group for providing generous guidance on numerous aspects of the research programme: Francesca Bastagli, Verena Brähler, Nida Broughton, Philomena Cullen, Richard Dickens, Ieuan Ferrer, Emma Gordon, Steve Hughes, Omar Khan, Paul Johnston, Peter Matejic, Emran Mian, Dave Perfect, Aaron Reeves, Ryan Shorthouse, David Soskice, Liz Speed, Mark Stephens, Imogen Tyler, Graham Witham and Jonathan Wolff. All remaining errors and ambiguities remain the authors' responsibility.

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About the toolkit

This toolkit examines policies with a potential 'double dividend': policies that could lead to reductions in both poverty and inequality in the UK. The selection of policies has been informed by a larger research programme which has explored the relationship between inequalities and poverty. This research not only identified a positive empirical relationship between poverty and inequality it also reviewed evidence on potential mechanisms that might drive this relationship. To find out more about the statistical relationship and the mechanisms you can read the [Overview Report](#), or download the working papers from the [project page](#).

The toolkit can be accessed online

http://sticerd.lse.ac.uk/case/_new/research/Inequalities_and_Poverty/policy-toolkit/default.asp

Who is it for?

The toolkit has been designed to be a useful aid to anyone interested in policies which reduce poverty and inequality and in particular policies with the potential to have a 'double dividend'. It has been created with a wide audience in mind, including practitioners, policy-makers, academics and students.

What will it tell me?

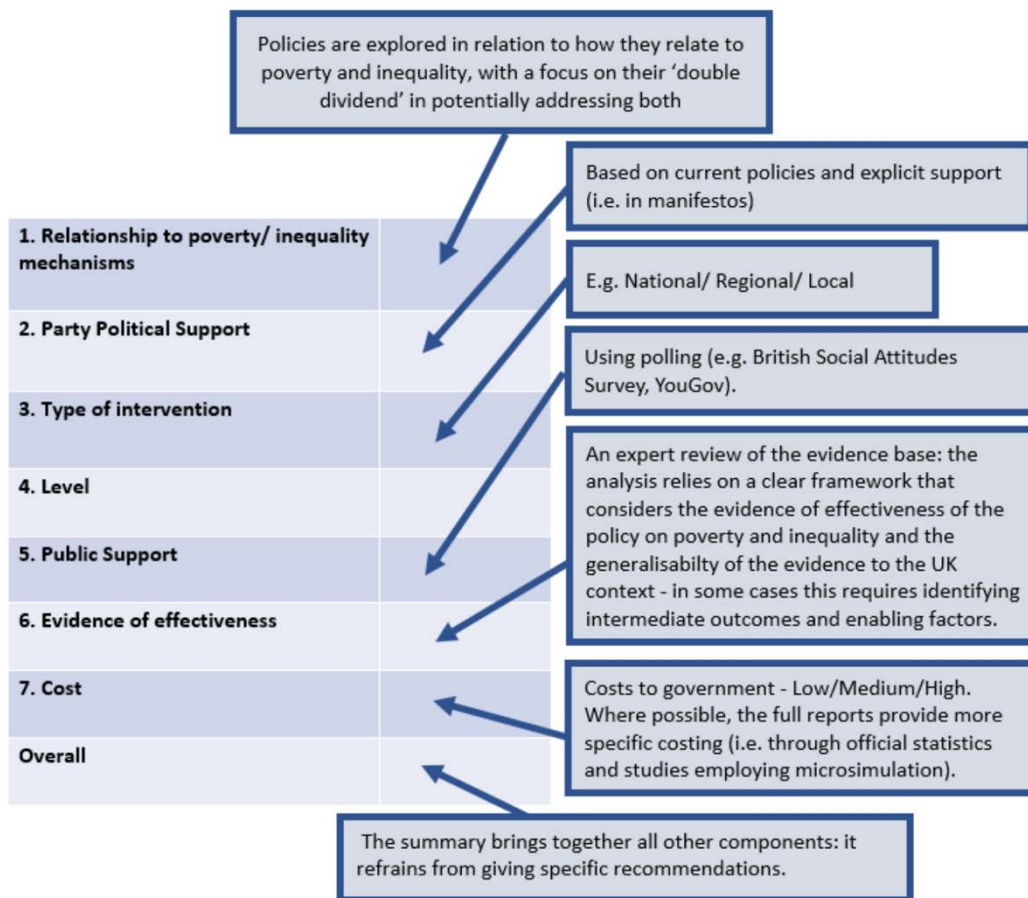
The toolkit presents policy options, not recommendations. It analyses policies in terms of their relationship to poverty and inequality, public and political support, type and level of intervention, evidence of effectiveness and cost to government.

How do I use it?

The policies presented in this toolkit are organised in relation to the mechanisms identified in this project as well as by policy area and type of intervention. In total seven mechanisms were identified: (1) Political economy and public awareness; (2) Resource constraints; (3) Spatial disparities; (4) Housing; (5) Life-cycle and intergenerational mechanisms; (6) Crime and the legal system; (7) Labour market mechanisms. Each section of the toolkit examines a selection of policies in relation to drivers within each mechanism. For each policy the toolkit produces a short summary table followed by more detailed information behind each summary.

The structure of each policy review can be found in Figure 1.

Figure 1: Structure of the policy reviews



About the authors

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About the project

This policy toolkit is part of a wider programme of research designed to improve the evidence base for understanding the links between inequalities and poverty, which was funded by the Joseph Rowntree Foundation. In this research programme we explored the relationship between inequality and poverty by:

1. Examining philosophical concerns for poverty and inequality and how they may overlap
2. Estimating the empirical relationship between income inequality and a variety of poverty measures
3. Reviewing the existing evidence base on potential mechanisms that may drive any relationship
4. Conducting case study research to explore in more detail one of the key mechanisms identified in the evidence reviews
5. Investigating potential policy options

In addition to this policy toolkit, other outputs from the programme are listed below (abstracts are included in Appendix B).

Understanding the Relationship between Poverty and Inequality: Overview Report

[LIP Paper 10](#) by John Hills, Abigail McKnight, Irene Bucelli, Eleni Karagiannaki, Polly Vizard, and Lin Yang with Magali Duque and Mark Rucci.

The evidence we present suggests that for those whose primary concern is with tackling poverty, it is hard to do this in countries such as the UK without simultaneously reducing inequalities, given the strong associations we see between them empirically, and the ways in which inequality can itself act as driver of poverty. At the same time, for those for whom both poverty and inequality are concerns, the links between them suggest that policies to tackle either can have a double dividend.

Inequality, poverty and the grounds of our normative concerns

[LIPpaper 1](#) by Irene Bucelli

The relationship between poverty and inequality: Concepts and measurement

[LIPpaper 2](#) by Lin Yang

The empirical relationship between income poverty and income inequality in rich and middle income countries

[LIPpaper 3](#) by Eleni Karagiannaki

Multidimensional poverty and income inequality in the EU

[LIPpaper 4](#) by Lin Yang and Polly Vizard

Understanding the relationship between inequalities and poverty: resource constraint mechanisms

[LIPpaper 5](#) by Lin Yang

Understanding the relationship between inequalities and poverty: mechanisms associated with crime, the legal system and punitive sanctions

[LIPpaper 6](#) by Magali Duque and Abigail McKnight

Understanding the relationship between inequalities and poverty: dynamic mechanisms

[LIPpaper 7](#) by Magali Duque and Abigail McKnight

Understanding the relationship between poverty, inequality and growth: a review of existing evidence

[LIPpaper 8](#) by Abigail McKnight

The net effect of housing-related costs and advantages on the relationship between inequality and poverty

[LIPpaper 9](#) by Lin Yang

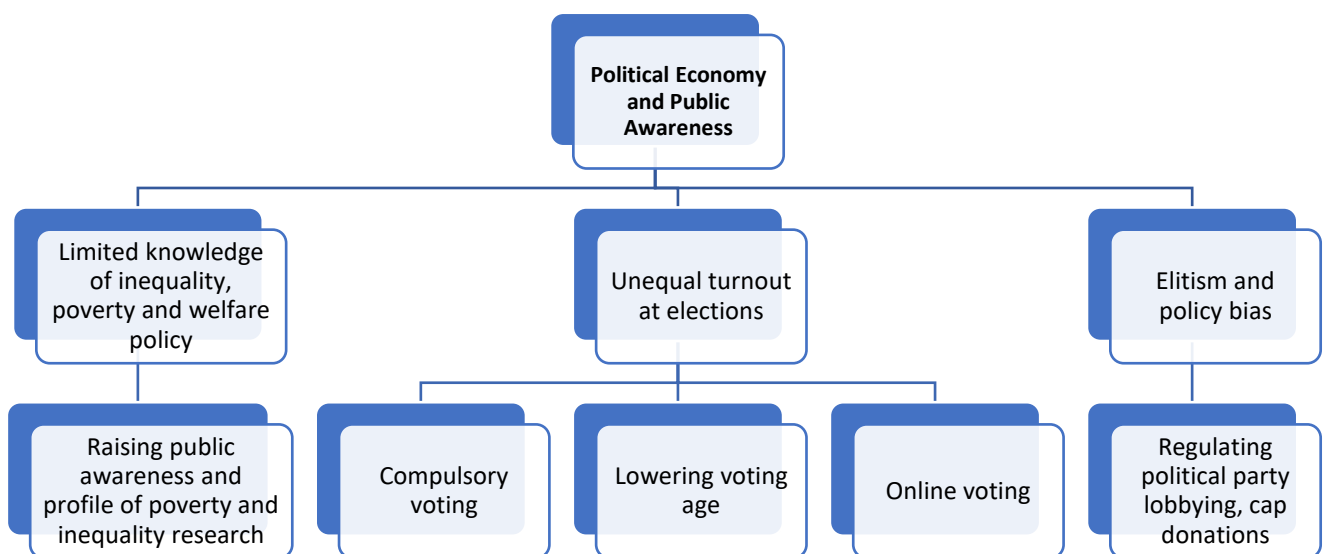
Poverty and Inequality Policy Toolkit

1. Political Economy and Public Awareness

Both public awareness and political participation bear on the effective mobilization of tax resources, redistribution and public action to reduce poverty. On the one hand, the public’s knowledge and perceptions of the level of poverty and inequality can shape policy. For instance, limited awareness of the extent and nature of inequality may lead to limited support and demand for measures reducing poverty and inequality. Effective policies in this area would aim to correct misperceptions about the state of poverty and inequality (§1.1.).

On the other hand, voter turnout falls disproportionately among the least well-off, resulting in “unequal and socioeconomically biased turnout” (Lijphart, 1997, 2). Policy-making might in turn fail to adopt policy approaches responsive to the needs and preferences of the least advantaged. Research has shown that higher inequality is associated with lower voter turnout (Solt, 2008; Horn, 2011). This has been found to be due to voter turnout falling disproportionately among the least well-off, leading to a steepening in the social gradient in voter turnout (Dempsey and Johnston, 2019; Bartle et al 2017). Armingeon and Schädel (2015) taking level of education as indicator of social position, find that the participatory gap in elections between those with the lowest and highest level of education has widened in Western European countries since the 1970s. Mahler (2008) shows that this difference in reported turnout between the highest and lowest quintiles is particularly high in lower-turnout countries. Lower income groups are more averse to poverty and inequality and therefore falling participation among lower-income groups is likely to have a negative effect on policies targeted at poverty and inequality. If the disadvantaged are less involved in political participation, policy-making is inclined to be less responsive to the preferences of the disadvantaged, and public policy fails to address the needs of the disadvantaged (Dubrow, 2007). Policies promoting higher voter turnout are likely to result in increased representation of low-income households’ interests and consequently policy approaches that better reflect this. Policies evaluated here in terms of their potential to increase political representation of the less well-off are compulsory voting (§1.2.), lowering the voting age (§1.3.) and online voting (§1.4.).

Figure 1. Overview of drivers and policies related to political economy and public awareness



Finally, high inequality can generate concentrations of political power among the well-off, influencing the political agenda in ways that leads to policy capture and generally to focus less attention to policies that would tackle poverty and inequality: in this sense, the danger is that economic and political inequality are mutually reinforcing. Christiano (2012) identifies four mechanisms that turn money into political power. These are: (1) the ultra-wealthy buying support for self-interested causes by funding political parties and individuals through campaign financing; (2) political agendas representing upper-middle and upper-class interests who are more likely to be donors to political candidates; (3) influencing opinion through buying media outlets and providing financial backing for lobbyists and ideology-driven think tank research; and (4) using financial power to influence the behaviour of corporations to circumvent policies of democratically elected government.

One explanation of limited responsiveness to median voter preferences involves the extent to which special interests capture a disproportionate share of goods coming from government (Golden and Min, 2013). Elitism and policy bias bear on redistributive consequences of government policy and affect the equitable allocation of goods and services. Bardhan & Mookherjee (2006) explore whether poor voters experience disadvantages in allocations of government services and the extent to which these are diverted by wealthier groups. While lack of political information amongst the poorest segments of the population plays a role, they also find that these outcomes are connected to how local elites provide campaign contributions or other resources to local political candidates that the poor cannot. In the US Campante (2011) finds that income inequality increases the share of campaign contributions originating from wealthy individuals. In turn, this explains further why median-voter predictions (which would see more inequality call for more redistribution) fail, as the advantage of wealthier individuals in providing contributions encourages parties to move their platforms away from redistribution and closer to wealthy individuals' preferred positions. Policies considered here are the regulation of party lobbying, of donations and of the movement of individuals between the government, lobbying groups industry (§1.5).

1.1. Raising public awareness and profile of poverty and inequality research

1. Relationship to poverty/ inequality mechanisms	Raising awareness and mobilising support for redistribution appear essential in generating the resources needed to tackle poverty through the tax and transfer system. Misconceptions about level of inequality, own place within the distribution and overestimation of social mobility can lead to low support for redistribution policies, which would also enable to tackle poverty. Correcting these misconceptions can foster support for policies reducing both poverty and inequality.
2. Party Political Support	Potentially cross-partisan. However, political support is strongly dependent on how inequality and poverty are defined and their relationship understood. It is clear that political parties hold different views when it comes to the aspects of poverty and inequality which are of concern and the kind of policies required to tackle these.
3. Type of intervention	Advocacy and Knowledge exchange
4. Level	All levels
5. Public Support	While there seems to be no opposition to awareness and information campaigns, there are disagreements on how to interpret current evidence. It is also less clear how different communication strategies are received by the public.
6. Evidence of effectiveness	Mixed evidence does not allow to draw definite conclusions. Key factors that shape attitudes are the kind of information provided (e.g. whether it relates to inequality levels, or to perceptions of people's own position) and how it is conveyed (e.g. using concrete real-world settings). Policy preference also need to be better understood in relation to differences in the preferred areas of spending, targets of intervention and forms of assistance. The relationship between inequality, poverty and barriers to opportunity also bears on people's perceptions and preferences and might be a promising area mobilise public support.
7. Cost	Low
Overall	This is an approach that would encounter few barriers in terms of costs and public and political support. However, there is mixed evidence of the effectiveness of information on redistributive preferences, which requires a greater focus on the factors that appear to shape these attitudes.

1. Relationship to poverty / inequality mechanisms

Standard median voter theories would predict that income inequality and redistribution should be positively related (Romer, 1975; Meltzer and Richard, 1981). Where inequality is high and the median voter is below the mean level of income in society, this voter would benefit from a more progressive tax and transfer system: in the context of high inequality, then, the electorate would be expected to favour greater redistribution and put pressure on governments to reduce inequality. Through this mechanism, more resources would also be expected to be available for tackling poverty. For this mechanism to work, however, the electorate need to be well-informed

Evidence contradicts this standard model. For instance, Georgiadis and Manning (2012) found evidence that increasing inequality in the UK from 1986–2004 did not lead to greater redistribution. In explaining

these results, the literature has emphasised that it is *perceived*, rather than *actual*, inequality that matters for public demand for redistribution (Windsteiger, 2017). Niehues (2014) finds that beliefs and perceptions of inequality, rather than the actual level of inequality, are more important in understating support for redistribution. The author shows that a large proportion of Europeans, especially in former socialist countries, perceive inequality to be higher than actual inequality in their countries, justifying the need for redistributive policies. Those in the US substantially underestimate the extent of inequality and are more likely than in many European countries to believe they live in a society where most people are middle-class (a distribution with most people in the middle, few at the bottom and a long tail at the top), even though income inequality in the US is significantly higher. In this study, perceived inequality explains 56% of the cross-country variation in redistributive preferences. This is a way of understanding the empirical deviation from the median voter theorem's predicted outcome.

In general, perceptions of inequality do not tend to align with the true level of inequality and people substantially underestimate the extent of inequality (Norton and Ariely, 2011, Osberg and Smeeding, 2006; Clery et al 2013). In the UK, Hills (2005) and Pahl et al. (2007) have shown that the extent of wage inequality at the top is much greater than perceived.

Two biases appear to be particularly important to explain this phenomenon. On the one hand, individuals tend to subjectively place themselves in the middle of the distribution (Evans and Kelley, 2004). The structure of inequality (for example, whether this is understood as the gap between top and middle, or between bottom and middle) matters for people's beliefs and preferences. Bamfield and Horton (2009) find that not only people misrepresent their place in the income distribution but also interpret questions about inequality as referring to the space between them and the top, maintaining negative attitudes towards the bottom.

Moreover, several studies have pointed at how people's expectations about their future economic prospects shape their attitudes towards inequality and redistributive policies (Alesina and Giuliano, 2011; Benabou and Ok, 2001). Overly optimistic perceptions of life chances and opportunities available affect people's preferences in regards to tackling inequality: people appear to overestimate social mobility (Bjørnskov et al 2013) and may fail to support redistributive policies that would be beneficial to them, because they believe that they or their children will move up the distribution in the future, when progressive taxation will hurt them (Piketty, 1995; Bénabou and Ok, 2001). As an example, low support for inheritance tax may stem from overestimations of the fortunes that individuals may leave to their children, whereas in reality few people are wealthy enough to pay inheritance tax but many would benefit from it (Maxwell, 2004).

If people are unaware of how unequal and immobile their society is, then it is likely that public support for policies tackling inequality is reduced. If those at the bottom and those at the top end of the distribution perceive themselves as closer to the middle, neither will view inequality to be as urgent as the actual situation might warrant.

This might help explain why there is a mismatch between people agreeing that differences in income are too large and their supporting redistribution (Orton and Rowlingson, 2007; Bamfield and Horton 2009; Toth, Horn and Medgvesi 2014). Examining UK evidence from the early 1980s to early 2000s, Orton and Rowlingson (2007) found that people thought that those on higher incomes were overpaid, rather than those on low income being underpaid. They find less explicit support for the principle of redistribution but there was no clear evidence for why, and people seemed to have limited knowledge of the tax system and its redistributive impact. Georgiadis and Manning (2012) highlighted that fall in

demand for redistribution was led by rapid changes in preferences and beliefs: in particular, a greater belief in the importance of incentives, as proxied by attitudes about the disincentives to work associated with the welfare state. They are unable to explain what led to this shift, though it is consistent with political rhetoric at the time and a continuing programme of reforms in welfare to work programmes which included greater means-testing and conditionality.

Bamfield and Horton (2009) use deliberative focus groups and large-scale opinion surveys between July 2008 and February 2009 to examine UK public attitudes. They find widespread beliefs in fair inequality (concept of 'desert') and the perspective that those in the 'middle' are under most pressure. They find positive assessment of strategies employing progressive universalism – where those in the middle get something, if less than those at the bottom of the income spectrum – including suggestions that people would be more willing to contribute to benefits that have wider coverage. Participants were often found to hold negative beliefs, assumptions and stereotypes concerning those experiencing poverty and those in receipt of benefits. "Failure attribution arguments" (Toth, Horn and Medgvesi 2014) refer to the fact that disadvantage might be explained by private failures (e.g. laziness) or by failures of the social system (e.g. injustices, exclusion tendencies). Behavioural and individualistic explanations can shape people's views of both poverty and inequality. Shall people associate poverty and disadvantage with lack of effort, rather than attributing weight to structural constraints and background conditions, their views of what constitutes a justified or acceptable level of inequality in society would vary, as would their approach to poverty reduction. Meritocratic views stressing the role of choice and effort and potentially overestimating social mobility would tend to separate inequality of outcome and inequality of opportunity (Brunori et al, 2013). The risk here is misunderstanding and oversimplifying the relationship between the two (Atkinson, 2015).

Sands (2017) questions how visible economic inequality affects well-off individuals' support for redistribution in the US. She finds through a field experiment that exposing the affluent to those in poverty (played by actors) makes them less likely to support redistribution, concluding that inequality begets inequality. Passers-by were asked to sign a petition calling for greater redistribution through a "millionaire's tax". Subjects were shown to interpret images of the poor in affluent settings as depicting inequality. Results from 2,591 solicitations show that in a real-world-setting, exposure to inequality in this way, *decreases* affluent individuals' willingness for redistribution through a millionaire's tax.

Côté et al. (2015) investigate claims in recent research that higher-income individuals are less generous than lower-income individuals, focusing on the role of economic inequality. Using a nationally representative US survey study and experiment, they find that higher-income individuals are only less generous if they reside in a highly unequal area or when inequality is (experimentally) portrayed as relatively high. This corroborates the finding in Sands (2017) about the association between income, inequality and generosity, i.e. that the social impact of unequal resource distribution is self-reinforcing.

Finally, the types of policies used to tackle inequality matter for people's preferences (Toth, Horn and Medgvesi 2014): in terms of the area of spending (health, education, social security), of the targets of intervention (poor/middle, unemployed, ethnic minorities etc.) and of the form of assistance (cash/in-kind, assistance/insurance, targeted/universal). For example, Kenworthy and Smeeding (2014, 709) find that in the US there is increased support for government spending for programmes perceived to enhance opportunity (e.g. education and healthcare), while there is little or no support for strategies addressing income inequality directly. Bartels (2008) finds that Americans have simultaneous antipathies toward inequality and taxation, implying contradictory attitudes. He also points to evidence that public perceptions of economic inequality bear little relationship to actual trends in inequality.

While most Americans think the rich should bear a larger share of the tax burden, two of the largest tax cuts in history in 2001 and 2003 under President Bush, resulting in a large upward transfer of wealth, attracted widespread support and little opposition from ordinary Americans. Surveys conducted in 2002 and 2004 found 40% of the public saying they had not thought about whether they favoured or opposed the 2001 tax cut. Most of the people who recognised and regretted the fact that economic inequality has been increasing nevertheless supported President Bush's tax cuts. People who wanted to spend more money on a variety of government programs were *more* likely to support tax cuts than those who did not, other things being equal.

2. Party political support

Political parties broadly support increasing awareness and knowledge among the general public in support active citizenship. Support for citizenship education has seen changes to the National Curriculum in 2002 under Labour and was maintained by subsequent governments (Keating et al 2010; DfE, 2013). However, these programmes focus on equipping pupils with knowledge and skills and to prepare them to play a full and active part in society, rather than necessarily focusing in depth on poverty and inequality. The salience of these issues is more controversial, as for instance shown by reactions to the UN 2018 country report on poverty and human rights (Alston, 2018).

The attribution of political support is strongly dependent on how inequality and poverty are defined and their relationship understood. While there seems to be cross-party support when it comes to concerns about in-work poverty or unequal life chances connected to low social mobility, it is clear that political parties hold different views when it comes to the aspects of poverty and inequality which are of concern and the kind of policies required to tackle these.

For instance, the Welfare Reform and Work Act 2016 effectively abolished the 2010 Child Poverty Act and removed its four child poverty targets relating to income and material deprivation indicators. Instead, it introduced two statutory 'life chances' indicators which related to children in workless households and educational attainment. This and the following policy document 'Improving Lives: Helping Workless Families' (DWP, 2017) signal a shift in focus from structural factors to individual behavioural causes (Stewart and Roberts, 2018). This approach, as noted in 1.1., relies on "failure attribution arguments" that can significantly decrease concerns with poverty but might also oversimplify the relationship between inequality of outcome and opportunity.

3. Type of intervention

Advocacy – knowledge exchange

4. Level

All

5. Public Support

There seems to be no reason to think that the public would oppose campaigns raising awareness on issues of poverty and inequality. However, the importance of framing messages that reach and speak to the public should not be understated. In this sense, current work trying to understand how people talk

about poverty, for instance, is essential for campaigns raising awareness and promoting support for policies in these areas (O'Neill, 2018).

The extent to which messengers are trusted matters for advocacy campaigns and strategies. A 2017 YouGov survey explored public trust in different types of experts when they talked about their own fields of expertise. The results showed that nurses, doctors and GPs were the most trusted categories, all reporting levels of trust above 80%. Civil servants, economists and Local MPs scored 26%, 25% and 20% respectively, while trust in politicians was remarkably low (5%). Scientists (generically defined) were trusted by 71% of overall respondents, but there was a remarkable difference between those who voted remain at the 2016 referendum (83%) and those who voted leave (63%). This difference did not match one in party lines and was not as stark for other groups (e.g. GPs, doctors and nurses).

6. Evidence of effectiveness

There appears to be **mixed evidence** about whether correcting misperceptions of the level of inequality, and changes to inequality, providing individuals with accurate information on their position in the income distribution increases or decreases preferences for redistribution.

Among evidence that providing accurate information on inequality is associated with **preferences for more redistribution** are the following:

- Gimpelson and Treisman (2018), who look at over 40 countries using the International Social Survey Project 2009 (cross-country analysis using aggregated data).
- Georgiadis and Manning (2012) who analyse the British Social Attitudes Survey - however the effect on preferences does not hold for changes over time (individual-level analysis, pooled 1983–2004).
- Niehues (2014) use the International Social Survey Project (cross-country analysis using aggregated data).
- Norton and Ariely (2011) use a representative US online panel, and while all individuals preferred a more equal distribution, wealthier respondents tend to underestimate the actual level of inequality less.
- Cruces et al. (2013) use Argentinian survey data and experimental design. The study finds that those who underestimated their income ranking did not change their attitudes toward redistribution when provided with accurate information about their income ranking. Those who had overestimated their relative position and thought that they were relatively richer than they were tend to demand higher levels of redistribution when informed of their true ranking.
- McCall et al. (2017) find that research concluding that Americans are largely unconcerned about rising inequality may be premature. Their results from three experiments testing the opportunity model of beliefs about inequality suggest that perceptions of rising economic inequality spark scepticism about the existence of economic opportunity in society that, in turn, may motivate support for equity-enhancing policies.
- Kuziemko, Norton, Saez and Stantacheva (2015) US context, randomized survey experiments, looking at both factual and emotional appeals. Greater information can increase respondents' sense of concern about poverty and inequality, but not necessarily their support for policies that might ameliorate it through higher income taxes on the well-off and transfers to the disadvantaged. This might be explained by distrust in government. Only when explicitly showing concrete effects of government poverty policies, consistent and statistically significant increases in support for such policies can be

observed. These effects are small (the largest being for indirect transfer programs such as the minimum wage, not involving the government collecting and redistributing taxes).

Evidence that correcting underestimations of inequality associated with **preferences for less redistribution**:

- Zilinsky (2014) using evidence from 1,300 random online survey respondents found that they did not support use of higher taxes after being informed about level of inequality, but believed that government should do something to address income inequality

The following research finds **mixed evidence of the effect of correcting misperceptions about inequality**:

- Osberg and Smeeding (2006) compare American attitudes to inequality to those in other countries and find evidence for: (1) Less awareness concerning the extent of inequality at the top of the income distribution in America than in other countries; (2) More polarization in attitudes among Americans; (3) Similar preferences for “levelling down” at the top of the earnings distribution in the US; but also (4) Less concern for reducing differentials at the bottom of the distribution.
- Hoy and Mager (2018), using randomised controlled trials, find that in general people with undecided political preference have more elastic attitudes about inequality and redistribution after information about the true level of inequality or about their actual place in the income distribution. However, they find that Republicans in the US are always less supportive of government redistribution after information about inequality, no matter whether they initially under or over-estimated their own position in the distribution.

While this mixed evidence does not allow drawing definite conclusions in relation to the contemporary UK context, it highlights specific areas of concern which are important to consider when raising public awareness in relation to poverty and inequality. These issues resonate with the UK literature (e.g. Bamfield and Horton, 2009). For instance, it seems essential to be mindful of the kind of information provided (e.g. whether it relates to inequality levels, or to perceptions of people’s own position) and how it is conveyed (e.g. using concrete real-world settings). At the same time, a fine-grained understanding of policy preferences needs to explore differences in terms of preferred areas of spending, targets of intervention and forms of assistance. Finally, the way in which people understand the relationship between inequality, poverty and barriers to opportunity also bears on people’s perceptions and preferences and might be a promising area mobilise public support.

7. Cost

Low

Overall

This is an approach that would encounter few barriers in terms of costs and public and political support. However, there is mixed evidence of the effectiveness of information on redistributive preferences, which requires a greater focus on the factors that appear to shape these attitudes.

1.2. Compulsory voting

1. Relationship to poverty/ inequality mechanisms	The quasi-universal turnout that can be achieved through the system can ensure more equal turnout. However, since the cost structure of voting can affect the poorest segments of the population disproportionately, attention must be paid to the specific set up of sanctions.
2. Party Political Support	None of the main parties officially support the policy, but there appears to be some support from individuals and think-tanks on the left side of the political spectrum, especially in relation to first-time compulsory voting.
3. Type of intervention	Legislative change
4. Level	National
5. Public Support	The public seems largely undecided on the issue, with responses seemingly conditional on the specific question asked. A recent YouGov poll would hint positive support, but its results remain ambiguous.
6. Evidence of effectiveness	Strong evidence of the effect of the policy in increasing turnout, together with evidence of its correcting the social-gradient. The latter, however, must be further understood in relation to the specific system of registration and the different enforcement and sanctioning systems adopted in different countries.
7. Cost	High
Overall	The policy would seem generally effective in achieving more equal turnout, but in practice this must be understood in the specific context of particular registration processes, enforcement and sanctioning systems. It also faces barriers of high costs, limited political appetite and ambiguous public support.

1. Relationship to poverty / inequality mechanisms

Since turnout is skewed by low participation at the bottom of the distribution, compulsory voting would reduce inequalities because under this system quasi-universal turnout can be achieved. The literature highlights two potential mechanisms: an indirect one sees non-voters approach a random selection of the population. A direct mechanism would also exist because compulsory voting alters the cost structure of voting. Even small penalties would have a greater effect on the participation of lower-income citizens, as they are less able to bear the costs of not voting. This means that in considering compulsory voting as a strategy to ensure more equal turnout, one has to be mindful of the details of the system in terms of sanctions and enforcement, and their potential effects disproportionately affecting the poor.

2. Party political support

No party has compulsory voting in the agenda. An Electoral Commission report (2006) made no recommendation in regards to its introduction. It stressed how there had not been a serious debate about the merits of compulsory voting in the UK, but this was revived after low turnouts in the 2001 and 2005 general elections.

In 2014 and 2015, the House of Commons Political and Constitutional Reform Committee conducted an inquiry on compulsory voting but did not reach an agreement. The recommendation to conduct further research on the topic was not taken up by the Coalition Government (Armstrong, 2015).

Some individual members of the Labour party have examined the idea in personal capacity (e.g. Gareth Thomas with the 2001 Compulsory Voting Bill, which did not progress beyond first reading). Some left-wing think-tanks have considered compulsory voting in relation to tackling unequal turnout: for instance, in a 2015 report, the Institute for Public Policy Research “recommends compelling first-time voters to turn out to vote, in order to address this political inequality and to try to help kick-start voting as a habit of a life-time”(Lawrence, 2015).

3. Type of intervention

Legislative Change

4. Level

National

5. Public Support

Polls of public opinion conducted over the last three decades find the public largely undecided on the issue. A 1991 MORI/Joseph Rowntree Trust survey found 49% in favour of the introduction of compulsory voting and 41% against. In 2000, 30% were in favour, 49% against. In 2001, a MORI/Electoral Commission survey immediately after the general election found 49% in favour and 47% opposed. In 2005, a MORI poll found 36% of the public supporting voting being made compulsory with fines for people who don't take part, and the majority (57%) opposing this. The Electoral commission finds these responses conditional on the particular question asked. A more recent 2015 YouGov poll found 55% of respondents supporting compulsory voting. However, these results appear contradicting others in the same poll, with 53% of respondents agreeing that it is an individual's responsibility to decide whether or not to vote (contra 39% agreeing that the government should work to get more people to vote) and only 32% considering mandatory voting as a way to increase participation.

6. Evidence of effectiveness

The effect of compulsory voting on turnout has long been studied and documented (Blais and Dobrzynska, 1998; Franklin, 2004) Many studies find that **compulsory voting increases turnout, but this tends to change quickly after compulsory voting is no longer in place.**

Bechtel et al (2018) use federal administrative and referendum data from 1900 to 1970, using synthetic control method to impute a counterfactual for the treated canton. They find that compulsory voting increases turnout in federal referendums by 30 percentage points on average. However, despite its magnitude, the effect returns to zero quickly after voting is no longer compulsory. This appears to be the case for first-time voters as well. These result question the idea that compulsory voting induces the evolution of voting habits.

Funk (2007) confirms that abolishing compulsory voting significantly decreased turnout in Switzerland despite the fact that fines were small and not enforced. Her results highlight the expressive value of the system: in the sense that the law had an effect independent of the actual sanction imposed, for instance by shaping people's beliefs about which actions are approved/disapproved. The removal of the law updated and changed the value people attached to voting.

The literature has discussed strong evidence of the equalizing effect of compulsory voting in the past decades. Irwin (1974) studied the impact of removing compulsory voting in the Netherlands after 1967. With compulsory voting turnout was above 90% for all socio-demographic groups, while turnout variations between subgroups immediately increased after its removal. In more recent years, scholars have reached competing conclusions on whether compulsory voting mitigates stratification of participation. Quintelier et al (2011) conduct a cross-national analysis in 36 countries through International Social Survey Programme (ISSP) data and find that while compulsory voting is associated with higher turnout rates, no significant differences are observed in terms of gender or educational differences in electoral participation. Instead, Gallego (2007) using data from both the ISSP and the European Social Survey in 20 Western European and Anglo-Saxon OECD countries finds that compulsory voting is able to reduce unequal turnout, at least in the case of educational gaps. Using multilevel modelling with data from 28 advanced industrial democracy, Gallego (2010) confirms these results but also finds that strong left-wing parties and trade unions are not associated with more equal turnout. Louth and Hill (2005) offer a critique of international comparisons pointing at how these have the tendency of insufficiently disaggregate data and stress how, in well-administered system such as Australia or Belgium, compulsory voting proves to be the most effective means to guarantee high turnout across all socio-demographic groups.

What the literature points at is generally the importance to consider **how compulsory voting operates in detail, in relation to both the system of registration, voting process and its sanction and enforcement strategies**. Gonzalez and Snell (2015) using multivariate hierarchical analysis on America's Barometer survey data find that, while reduced considerably, unequal turnout persist even under strict compulsory voting systems. Even when 91% of survey respondents report having voted in the most recent national election, voter participation vary and the better-off in society remain more likely to vote. They highlight that one factor underlying the persistence of class bias in turnout is the prevalence of structural barriers that disproportionately affect the poor. Where the poor more likely cite the lack of identity documents as reasons for not voting, the better-off are more likely to cite lack of interest.

The **type of sanctions used matters**: in a study using individual-level data on 140 million Brazilian citizens Cepaluni and Hidalgo (2016) find that non-monetary sanctions (which might prevent citizens from obtaining official identification documents, travel abroad or carry out financial transactions in banks) can make compulsory voting increase inequality turnout because these penalties primarily affect middle and upper class voters who rely more on these services.

There is some **evidence of the effect of compulsory voting and party preference**, but this is not univocal. Using the differential adoption of compulsory voting across Australian states, Fowler (2013) finds that increasing voter turnout by 24 percentage points increased the vote shares and seat shares of the Labour Party by 7 to 10 percentage points. A comparison across OECD countries, showed that Australia's adoption of compulsory voting significantly increased turnout. This appeared to be associated with an increase in pension spending at the national level. This suggests that democracies

with voluntary voting do not represent the preferences of all citizens. Increased voter turnout can change election outcomes and resulting public policies.

Bechtel et al. (2015) research of a Swiss canton, found that compulsory voting significantly increased electoral support for left wing policy positions in referenda, by up to 20 percentage points.

However, Hoffman et al (2017) use quasi-experimental design in Austria offer a different picture. They find that compulsory voting increases turnout by 10 percentage points (confirming an earlier study by Hirczy, 1994). However, while the composition of the electorate is also affected (as the impact of compulsory voter is larger for gender, educational attainment, and income) these changes do not reflect much on government spending. The fact that significant changes in the electorate are not necessarily accompanied by changes in policy outcomes is important to consider, since it suggests that more equal participation might not necessarily always translate in tackling poverty and inequality. Hoffman et al (2017) explain these results indicating that increased and more equal turnout that it may not have shifted the median voter's political preferences. The authors find that the individuals swayed to vote by compulsory voting tend to be generally non-partisan and less informed. Leon (2015) in Peru also found that reduction in fines enforced decreases turnout, and that this reduction is driven by uninformed, uninterested, and centrist voters.

Similarly, Loewen, Milner and Hick (2008) use an experimental design in Canada and find that while the financial incentives of compulsory voting appear to be a **sufficient motivator for getting uninformed young voters to the polls, they do not increase citizen knowledge**, discussion, and media consumption. If compulsory voting increases turnout by drawing uninterested voters, one can expect the proportion of invalid ballots to rise. Hoffman et al (2017) find that this is the case, but the effect is smaller than expected. In their study, for every 10 people who are driven to vote due to compulsory voting, only 1.5–3 of them issue an invalid ballot.

External Validity: Evidence from well-administered systems such as Belgium or Australia would suggest that compulsory voting would increase and equalise turnout in a country like Britain. However, these effects need to be considered in conjunction with other aspects of the system, such as the interface between the system of registration and the operation of compulsory voting.

7. Cost

Administration costs could be high, and while fines could, on the one hand, recover all or part of the cost, they also would require mechanisms for follow-up and enforcement. In some countries penalty fines have been phased out since the cost of enforcement was shown to exceed the total receipt from the fines. Moreover, fines would have a negative impact on poverty and inequality, if the least well-off were those most likely to received them (EC, 2006).

Overall

The policy would seem generally effective in achieving more equal turnout, but in practice this must be understood in the specific context of particular registration processes, enforcement and sanctioning systems. It also faces barriers of high costs, limited political appetite and ambiguous public support.

1.3. Lowering voting age

1. Relationship to poverty/ inequality mechanisms	Increasing youth participation is important to achieve a more equal representation, in light of inequalities across the life cycle. Lowering voting age could have a positive effect on making turnout more equal since young people would be exposed to a first election in a more stable and sheltered environment, prone to increase participation. In this, schools play a key role, by compensating for differential effects of social background.
2. Party Political Support	Lowering voting age to 16 is party policy for all the main political parties apart from the Conservative party. There appears to be, however, some Tory support.
3. Type of intervention	Legislative Change
4. Level	National
5. Public Support	While the public display mildly more positive attitudes than in the past, there is still a clear opposition to lowering voting age.
6. Evidence of effectiveness	Research focuses on the effects on turnout more generally and less on participation gaps.
7. Cost	Medium
Overall	The policy could ameliorate inequalities across the life cycle and potentially compensate, through schools, differential effects of social background; at the same time turnout appears to be more unequal among younger cohorts. As research focuses on turnout more generally, questions about the equalising effects of the policy remain. This is in a context of growing political interest but still little public support.

1. Relationship to poverty / inequality mechanisms

Economic advantage and disadvantage have been shown to reinforce themselves across the life cycle (Hills et al, 2010). In this sense, increasing youth participation is important to achieve a more equal representation. Trends of increasing generational gaps are common, and they have been shown to be greater in the UK than among several other industrialised democracies (Wattenberg, 2003). However, unequal turnout appears to be higher in younger groups, and young people from affluent and more highly educated households tend to be more politically engaged than those from less well-off and less highly educated households (Park et al 2004). This might suggest that lowering voting age would not improve turnout gaps. In the literature, the act of voting is explored as self-reinforcing, as a habit that can be acquired (Franklin, 2004; Dinas 2012). If this is the case, abstention at the first election could lead to detrimental long-term effects on voter turnout (although, as we have seen for compulsory voting, the effects of voting habits is not entirely clear). Individual social networks matter for voting and young people face their first election in different social context, relying on different resources and social networks. For many young people, the family constitutes an important social network that can promote voting, but voting can also be promoted by friends, other students at school, colleagues at work and fellow members of different types of social groups (Bhatti and Hansen 2012). Franklin (2004) finds that 18 as a particularly ill-suited voting age, as some young people are likely to be still living with their parents and attending school, while those who are slightly older will have entered a more disruptive

phase of life. If the first election is of such crucial importance, then lowering the voting age from 18 might help to increase turnout and make youth turnout more equal, since it would mean that most young people would be exposed to their first election while they are still in school and living with their family. Schools could compensate for students' differing socio-economic backgrounds and thereby level the playing field for political participation.

2. Party political support

The Labour Party, the SNP, the Green Party and the Liberal Democrats all support voting at 16 for all elections. The latter have included the proposal in their manifestos since 2001, but this was not included in the Coalition Agreement agreed with the Conservative Party. Historically the Conservative Party has been opposed to reducing the voting age and the Government currently has no plans to lower the voting age. However, prominent conservative party figures, including Ruth Davidson, Justine Greening and Nicky Morgan, support the lowering of the voting age to 16. The Scottish conservative supported lowering the voting age in Scotland ahead of the referendum on Scottish independence. In July 2018, the Electoral Reform Society published a new pamphlet on the case for votes at 16 backed by the Tory Reform Group.

3. Type of intervention

Legislative Change

4. Level

National

5. Public Support

In 2018, YouGov asked about giving 16 and 17 year olds the *right* to vote: they find that 34% of respondents support the idea and 45% oppose it. When it comes to *reducing* the voting age, 24% believe it should come down while over half (51%) think it should not.

These results confirm but are also lower than those found in a previous 2013 poll: in this, 60% of British adults were found against 'reducing the voting age to 16 for all UK elections.' Only 20% supported the idea. Even amongst 18-24 year olds, 57% opposed the move, compared to around 51% of 25-59 year olds and 78% of those over 60.

6. Evidence of effectiveness

Eichorn et al (2018) uses survey data to compare 16- to 17-year-old Scottish respondents with their peers in the rest of the UK. Young Scottish respondents are substantially more likely to show higher levels of engagement. These differences are partially moderated when taking into account how important the referendum was perceived to be, but referendum impacts cannot explain all the differences and they are substantially more pronounced than the general differences we could observe for the adult population.

Zeglovits and Aichholzer (2014) examine turnout among 16- and 17-year-olds using electoral lists in Austria, the first European country that lowered the general voting age to 16. They find evidence of “first time voting boost” phenomenon at the beginning of one’s voting career, electoral turnout of 16- and 17-year-olds was significantly higher than turnout of older first-time voters (18 to 20). The study extends previous findings from Norwegian trial elections (Bergh, 2013) to a case study of “real” elections.

Schwarzer and Zeglovits (2013) earlier research in Austria confirm the assumption that 16-17 year olds living at home and attending school are prepared for the first election in a more sheltered environment. Schools’ impact on political interest increased after lowering the voting age. Accompanying measures, often organised via schools, help to increase turnout. The authors note the importance of civic education and preparation in schools to boost political interest and knowledge.

7. Cost

Medium

Overall

The policy could ameliorate inequalities across the life cycle and potentially compensate, through schools, differential effects of social background; at the same time turnout appears to be more unequal among younger cohorts. As research focuses on turnout more generally, questions about the equalising effects of the policy remain. This is in a context of growing political interest but still little public support.

1.4. Online voting

1. Relationship to poverty/ inequality mechanisms	Online voting could lead to a more equal turnout because of its reduced voting costs, which could be particularly significant for those who have fewer resources to meet them. It could further improve generational gaps by potentially attracting younger cohorts.
2. Party Political Support	There has been growing cross-party interest. However, currently online voting doesn't appear on the agenda of the three main parties and is explicitly rejected in the Conservative manifesto.
3. Type of intervention	Legislative Change
4. Level	National
5. Public Support	Mixed, skewed along age lines
6. Evidence of effectiveness	Currently weak, this is due to the impact of a digital divide that reinforces unequal turnout. Evidence of "stickiness" of online voting and high levels of satisfaction
7. Cost	High short-term investment costs, with long-term cost-efficient prospects
Overall	Online voting has the potential to positively impact turn out by making voting more convenient and less costly for voters, and also by improving retention thanks to high satisfaction rates. However, at present, security concerns need to be addressed to make it a feasible option, while a persistent digital divide limits its equalizing effects.

1. Relationship to poverty / inequality mechanisms

Online voting can boost more equal turn out, as it has the potential of reducing voting costs and improving the convenience of the process. Online voting would diminish transportation costs, facilitate voting for people with reduced mobility and be less time consuming. This could be significant especially for those who have fewer resources to bear these costs. It could further improve generational gaps by potentially attracting younger cohorts.

Internet voting also carries the potential to reduce information costs, by making relevant information available to voters on the Internet voting platform (Trechsel et al 2016). Better quality of information on candidates, parties and their platforms, or issues at stake would be available without much additional costs, with potential equalizing effects as this could compensate for differential resources and social capital relevant to acquire information.

2. Party political support

Online voting does not appear on any of the manifestos of the three main political parties. The conservative manifesto explicitly endorses retaining method of voting by pencil and paper.

Some left-wing think tanks (such as the [Resolution Foundation](#) and the [Fabian Society](#)) have been exploring the idea. The latter have discussed online voting as a way to facilitate reaching voters abroad and voters with disabilities.

The Digital Democracy Commission, set up by Commons speaker John Bercow, made recommendations to incorporate secure online voting as an option at the 2020 election.

3. Type of intervention

Legislative Change

4. Level

National

5. Public Support

A YouGov survey from 2015 found that 35% of voters opposed introducing smartphone/tablet voting, while 41% support it and 18% remain neutral. 51% claimed they would trust the result of any election that included smartphone and tablet voting less due to security and safety reasons. The biggest fear of 40% of respondents was that smartphone/tablet voting would lead to elections being rigged/fixed, with voters unable to watch the counting process. Voters aged 60+ have the strongest opposition to the introduction of smartphone/tablet voting (46%), but 52% of this age group still believed it would lead to increased turnout. 63% of respondents overall believed that smartphone and tablet voting would increase voter turnout.

6. Evidence of effectiveness

Few studies have relied on methods other than surveys to analyse the effect of online voting on turnout. Survey data offers weak prospects to establish causality because of overdetermination: many variables may be correlated with higher or lower turnout and internet voting is just one aspect.

In the UK, five waves of pilot electoral schemes took place between 2000 and 2007. Three of these waves, incorporating 68 individual pilots, included variations on electronic voting in binding local elections. For pilots using electronic voting, the Electoral Commission noted 'there is no strong pattern of improved turnout' (2002: 45). While Henry (2003) found an increase in turnout of 3.5 per cent, it was not possible to state conclusively that this was due to the availability of the Internet voting option. In general, turnout rose in some areas using electronic voting but fell in others (see also Norris 2005; 76-85). Norris (2005) where online voting was allowed in selected locations as an alternative to polling stations, it was found to attract voters with higher educational levels. Norris suggests that online voting increases social selectivity and concludes that online voting is unlikely to provide a digital panacea and have a significant effect on turnout rates. In the short-term online voting could worsen the existing socioeconomic 'voting gap'.

Bochsler (2010) uses individual and aggregated data to analyse voting behaviour in the 2007 Estonian elections, as compared to previous Estonian national elections, when the option of choosing to vote online was not available. The research confirms that a digital divide reinforces educational, income and ethnic inequalities and that the online vote drew a disproportionate share of voters with a high formal

education, and who resided in affluent areas. Moreover, instead of attracting new voters the Internet mostly substituted for existing votes at the polls.

Serdült et al (2015) reviewed the current state of research in 22 empirical studies confirmed the importance of socio-economic factors such as education and income levels: voters with higher education levels and higher income tend to use online voting more often. These factors are strongly moderated by knowledge and use of the internet and the authors are optimistic that these gaps could be addressed through growing affinity to the internet.

In 2016 the European Parliament's Committee on Constitutional Affairs recognized that parts of the population remain excluded from these technologies and that a gap persists between European countries regarding computer literacy and household Internet usage and availability. Acknowledging the digital divide is far from close and its effect on unequal turnout when using online voting, while also expecting that this will 'normalise' across the population in many affluent countries, the Committee has recommended the careful implementation of online voting systems, albeit not as the sole method of voting.

Goodman and Smith (2017) analyse sub-national electoral commission reports and other government documents, news media reports, and survey, interview and focus group data following over 200 examples of online voting in Canada and Australia. They find that online voting does not achieve hoped-for goals such as increased turnout, but that it is accompanied by a high rate of satisfaction, which might create new informal forces for retention and expansion. Citizens who have experienced the convenience of remote online voting, for example, may be reluctant to give it up. This follows a previous study, for which Goodman and Pyman (2016) surveyed Internet voters, Paper Voters, Candidates, and Election Administration in 47 municipalities in Ontario. They find that internet voting has a modest potential to engage non-voters. Reasons many indicated as their basis for not voting had to do with the accessibility or convenience of the voting, including mobility and transportation issues.

Solvak and Vassil (2018) use five post election cross-sectional surveys conducted in Estonia between 2009 and 2015. This confirms findings from an earlier comprehensive report for the Estonian Electoral Committee (Solvak and Vassil, 2016) which highlighted that online voting effects on voter turnout were negligible and participation problems were unlikely to be met by technology alone. However, the study also confirms online voting to be very "sticky"; a first time e-voter is very likely to stay e-voting in subsequent elections at consistently higher rates than a typical paper voter is to stay paper voting, or a nonvoter to remain a nonvoter.

7. Cost

Electronic voting cuts costs significantly once the system is set up and reduces the risk of human error (Alvarez and Hall, 2010). However, while more cost-efficient in the long-run, the initial investment associated with the development of the system, security procedures, trials, promotion, voter education campaigns, etc. is expected to be substantial (Trechsel et al 2016).

Overall

Online voting has the potential to positively impact turn out by making voting more convenient and less costly for voters, and also by improving retention thanks to high satisfaction rates. However, at present, security concerns need to be addressed to make it a feasible option, while a persistent digital divide limits its equalizing effects.

1.5. Regulating political party lobbying and cap donations

1. Relationship to poverty/ inequality mechanisms	These measures would attempt to prevent policy capture and the cycle that sees economic and political inequality as mutually reinforcing, which bears on poverty and inequality reduction strategies.
2. Party Political Support	All parties support regulation of lobbying, but propose different strategies to achieve this. Capping donations has been explicitly advocated for by Liberal Democrats.
3. Type of intervention	Legislative Change
4. Level	National
5. Public Support	Strong level of support, but also a certain level of distrust in politicians bringing reforms about.
6. Evidence of effectiveness	The literature confirms the distortions in terms of voices represented and public good allocation. However, it also stresses the complexity of evaluating measures tackling these issues, and the importance of focusing on non-reactive measures not relying solely on transparency regulations to tackle lobbying inequalities.
7. Cost	Low
Overall	There is good evidence of the incidence of lobbying and how it can entrench political and economic inequality. In the UK, while the public strongly support actions regulating lobbying, the overall political support is fragmented when it comes to specific strategies. The evidence suggests that measures should not rely solely on transparency regulations, but for instance focus on actively transferring resources and supporting groups with lower capacity.

1. Relationship to poverty / inequality mechanisms

This literature suggests that economic and political inequality are mutually reinforcing (Bonica et al, 2013), with consequences for poverty reduction strategies. High inequality can generate concentrations of political power among the well-off, influencing the political agenda in ways that disregard the interests of the poor and provide a double standard for the wealthy elite. Elites and businesses are bound to states through a myriad of social, professional and institutional relations which make policy bias more likely: they can make resource allocation more likely to be guided by particular, as opposed to public, interests. These dynamics have consequences for both inequality and poverty because the extent to which special interests capture a disproportionate share of goods coming from the government bears on their redistributive and progressive allocation.

Moreover, where resources shape the extent to which different groups have voice and influence, unequal resources and material deprivation can create a vicious cycle: ‘the greater the inequality, the less the participation; the less the participation, the greater the inequality’ (Carmona, 2013). Economic, social and spatial inequalities also reinforce political inequalities, not solely because the most disadvantaged lack the resources to exert influence, but because they reduce capacity for collective action and mobilisation (Gaventa and Martorano, 2016). Moreover, the perception of regulatory

capture, unfair competition, opaque political processes, dubious integrity and policy decisions driven by private, rather than public, interests, all bear on public trust in government (OECD, 2014). Both lack of trust in government institutions and internalised acceptance of the status quo and powerlessness reduce subjective incentives to participation.

Importantly, one is not to assume that this kind of institutional capture is solely the result of corruption. Esteban and Ray (2006) point at how inequalities in lobbying matter in how they affect decision-making even in honest, efficiency-seeking governments. This is the case because the process of decision-making by governments is faced by severe informational gaps, and lobbying serves as a generator of vital information. In this sense, for instance, growth of corporate lobbying can bear severely on problem-solving capacities of the political system necessary (Drutman, 2015).

Finally, interest has recently emerged in connection to the 'revolving door' and the movement of individuals between the government and industry, but also between government and lobbying groups (and vice versa). In 2009, the OECD stressed the role of this mechanisms in the 2008 financial crisis and called for rules controlling the conflicts of interest generated by this phenomenon (OECD, 2009). The phenomenon raises worries as it can exacerbate corruption and produce economic distortions, leading to unfair competition, lowering efficiency and supporting unproductive rent-seeking activities, while also diverting state resources and reducing public good provision (Cingano and Pinotti, 2013). These considerations are important in the British context as, for instance, the OECD (2009) found the UK (together with New Zealand and Ireland) to display the most numerous links between regulators and the banking and finance industries amongst OECD countries. It also showed that companies based in the United Kingdom had more than double the average number of revolving door connections in comparison to mainland Europe.

2. Party political support

All parties support regulation of lobbying and rules of transparency. There is, however, debate as to how these goals are to be achieved. In 2014, the Coalition government passed Transparency of Lobbying, Non-party Campaigning and Trade Union Administration Act. Despite this, individual representatives from all the three main parties voiced criticisms of the Act, together with many experts consulted on the Act (for instance citing inadequacy of measures in relation to in-house lobbying, Dinan and Miller, 2013). In 2015 conservative peer Lord Hodgson published an independent review of the act, proposing reforms. These were rejected by the Conservative government in 2017. In the 2017 election, the Labour party included repealing of the 2014 Act amongst its manifesto pledges, promising "tougher regulation".

In 2012, Ed Miliband called for a £5,000 cap on donations to political parties, including those from trade unions, changing the direction previously taken by the Labour government. This pledge did not appear in the 2017 Manifesto. Of the three main parties, only the Liberal Democrats included capping donations to political parties (at £10,000 per person each year) in their pledges.

3. Type of intervention

Legislative change

4. Level

National

5. Public Support

The origins of the 2014 Lobbying Act can be seen in the 2010 Conservative Manifesto's pledges to "clean up Westminster" and put in check "sleazy lobbying practices" (Conservatives.com, 2010, 65). In 2013, [YouGov](#) asked in a poll about both support for regulating lobbying and trust in the reforms proposed by David Cameron. With 73% supporting a register for lobbyists and only 5% opposing it, public opinion showed strong support for regulating lobbying (on par with a previous 2011 poll). However, only 35% trusted David Cameron to reform lobbying, with 53% claiming no trust (showing an overall more negative attitude than in 2011, when the split was 40 to 44).

In regards to regulation of donations and spending, qualitative research conducted by the Electoral Commission (Stood and Hollings, 2018) found that the public assumed that there would be a cap for campaign spending, and thought current limits too high. Some suggested that all parties should be given a set budget to ensure fairness. There was also demand for greater transparency and real-time information about donations.

6. Evidence of effectiveness

In the US Schlotzman et al (2012) use an impressive database of more than thirty-five thousand organizations over a twenty-five-year period, together with in-depth surveys of members of the public, to explore the link between interest group organizations and entrenched inequalities. They stress the cumulative and durable advantages of political voice enjoyed by affluent and well-educated groups, especially when it comes to the number of organisations speaking for different interest groups and the money they spend. These results show that 72% of the billions spent annually on lobbying flows from organizations representing businesses, contra the 2% is spent by public interest advocates, 1% by unions, and less than 1% by organizations advocating for the poor or social welfare programs. Moreover, in looking at the policy advocacy of national organizations that represent marginalized groups, Strolovich (2006) mixed-method study finds that it is the voices of the most privileged that tend to be amplified. This means that even in groups claiming to speak for the least privileged, the interests and policy issues addressed are those that are relevant to the experiences of the more privileged within the group. This leads, for instance, to low levels of activity on welfare reform.

These issues are also relevant in Europe. For instance, Klüver (2018) uses longitudinal analysis to study the responsiveness of German parties to interest groups across eleven issue areas and seven elections from 1987 until 2009, relying on obligatory interest groups registers available since the 1970s. It is shown that parties adjust their policy agendas in response to interest group mobilization but also that interest groups are more successful in shaping party policy when their priorities coincide with those of the electorate.

With growing demand for lobbying regulation (Holman and Luneberg, 2012), substantial questions remain in terms of the best practices to address lobbying inequalities. Emphasis on transparency and accountability does not automatically translate in tackling these inequalities (Davidson, 2017). For instance, while the principle of transparency regulations is that the public should have insight and oversight over mechanisms through which lobbyists influence policy outputs (Chari, Hogan, & Murphy, 2010), there is a lack of clarity in regard to how specific measures such as national registers effectively address lobbying inequality. As Davidson (2017) or Holman and Luneburg (2012) note, lobbying

transparency reforms might not be designed to address lobbying inequalities but rather encourage interaction between business and legislators, formalising special rights and privileged access of the former to the latter. This leads to worries that too stringent regulations on lobbying will create barriers that prevent low-resource groups from lobbying. More generally, this area of regulation has to cope with actors that strategically adapt to lobbying laws, thus requiring policy-makers to be mindful of trade-offs and adaptive effects of regulation (Strickland, 2018). Regulating the campaign finance activities of registered interest groups may simply drive more of them to lobby in an unregistered, shadow capacity.

In this context, tackling lobbying inequalities might require non-reactive measures (OECD, 2009), not relying solely on transparency regulations, but for instance focusing on subsidising or transferring resources to groups with lower capacity, as well as exploring new forms of social partnerships.

Aviz et al (2017) exploit a natural experiment induced by an electoral reform in Brazil, which set a lower spending cap for some municipalities compared to others. They use rich census and election data, including data on all candidates that ran for mayor in 2012 and 2016. They find that a more stringent limit on campaign spending increases political competition, reduces the chances of richer candidates getting elected, and reduces incumbency advantage, allowing for new entrants into politics. Where there is no public funding for and limits on campaign spending, wealthy people are more likely to run for office than poorer people because they are better able to finance their campaigns. These findings confirm the idea that setting spending limits can reduce the concentration of political power in the hands of political elites, where these come disproportionately from richer families. The internal validity of the study does not obviously translate in external validity outside the Brazilian context, and the authors are mindful to stress how these findings seem particularly relevant for countries with high levels of spending, due to corruption or the influence of special interests. More generally, though, this study can be seen as stressing the importance of checks and balances that might prevent these outcomes in other contexts.

Literature focused mostly on the US context finds contradicting pictures in of the role of contribution in swaying legislation (Ansolabehere et al, 2003; Stratman, 2005). Powell (2013) discusses the methodological difficulties in statistically modelling the effect of money on votes and the difficulties of determining causality, with the influence of many donors not necessarily leaving a clear data trail. She uses survey perceptual measures of influence and finds that institutional features matter greatly and produce wide variation in donor influence, with some donors having considerable influence in some chambers and little in others, or different magnitude of effects in different legislatures. Institutional structures, laws and political context shape the types of campaign finance laws can reduce the influence of donations.

Finally, costs of the 'revolving door' can be significant. Cingano and Pinotti (2013) use Italian panel data from firm-level balance sheets, individual-level social security archives and administrative registries on local politicians and find that private returns to political connections are obtained by distorting the allocation of public expenditure. The reallocation of market shares in favour of connected firms is associated to a reduction of around 20% in the provision of public goods, compared to a scenario with no or ineffective political connections.

7. Cost

Low.

Overall

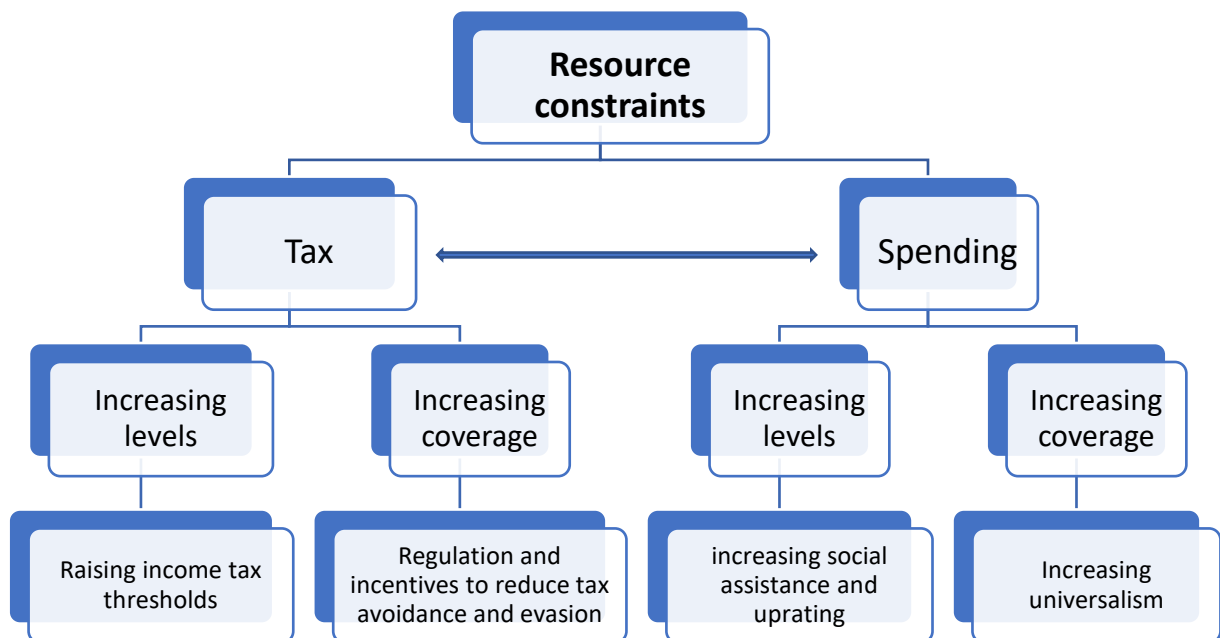
There is good evidence of the incidence of lobbying and how it can entrench political and economic inequality. In the UK, while the public strongly support actions regulating lobbying, the overall political support is fragmented when it comes to specific strategies. The evidence suggests that measures should not rely solely on transparency regulations, but for instance focus on actively transferring resources and supporting groups with lower capacity.

2. Resource Constraints

Constraints on the resources available affect governments' ability to tackle poverty and inequality. Decoupling the link between market inequality and poverty through redistribution is both expensive and not always effective. Even if market incomes, before state transfers, are unequal, cash transfers financed by income taxation can break the link between market inequality and poverty. However, on the one hand, there are limits to what states can achieve by way of redistribution. On the other hand, higher market inequality will also make it more difficult to achieve the redistribution that would be needed to keep current poverty in check. Where economic inequality is high, a greater amount of redistribution is required to reduce poverty if poverty reduction is achieved through redistribution via the tax and cash transfer system. Highly redistributive tax and benefits systems will be hard to achieve in practice. This is because the finance of generous benefits requires high marginal tax rates, which might struggle to find political support – this is particularly the case where recipients are stigmatized as underserving of support.

Policies addressing these resource constraints (Figure 1) focus on a) raising revenue necessary for redistribution and poverty reduction, both in terms of the level of tax rates and allowances (§2.1), and in terms of coverage, through disincentives for tax evasion and avoidance that would allow a better retention of the tax base (§2.2); b) on spending revenue effectively through social assistance schemes (§2.3) or by supporting welfare policies characterized by a greater universalistic, rather than means-tested, element (§2.4).

Figure 1. Policies concerned with resource constraints



2.1. Raising income tax thresholds

1. Relationship to poverty/ inequality mechanisms	Taxation provides resources that can be used for poverty reduction, while, through a progressive system, it can make post-tax income distribution less unequal. Depending on the relationship between tax and poverty thresholds, the interaction with the benefit system and the focus on individual or household income, raising the income level at which people become liable for income tax may be a way of increasing net income among the people on lower incomes.
2. Party Political Support	The conservative party is increasing the allowance's threshold to £12,500 as well as the higher rate (to £50,000). Labour would focus on raising income taxes only for top earners. The Lib Dem support the increasing tax allowance, but want to reverse a range of tax cuts.
3. Type of intervention	Fiscal Reform / Revenue raising
4. Level	National
5. Public Support	Support for more tax and public spending is at a 15-year high, but this seems to be very much connected to the services on which the tax revenue is spent.
6. Evidence of effectiveness	In comparison to other countries, the UK's middle ranked position would suggest scope for altering tax thresholds. Even an increase of income tax by 1% of the national income would put total government revenue at its highest level as a share of national income since the mid 1980s. Simulations suggest a limited impact of increases on poverty, but point to negative effects of reductions and to the positive potential of combining further progressivity with other key aspects of the tax and benefits system.
7. Cost	Revenue Raising
Overall	Some often discussed elements such as increases to the personal income tax allowance are not in fact promising in relation to either poverty or inequality. Instead, the effects of tax thresholds are less clear and need to be alongside other elements of the tax and benefits system. Greater progressivity could be backed by generally high levels of public support, but the political spectrum is more fragmented.

1. Relationship to poverty/inequality mechanisms

Taxation provides resources that can be used for poverty reduction. A progressive system would make post-tax income distribution less unequal, reducing inequality at top as well as at the bottom, while raising revenue that could be used to tackle poverty, finance public expenditure on transfers and on services. Raising the income level at which people become liable for income tax can be a way of increasing net income among the people on lower incomes, but its potential for poverty reduction will depend on the interaction with the benefit system and the relationship between individual and household gains. Moreover, while this could in principle lift their income above the policy threshold, or reduce the extent to which their income is below the threshold, if the tax threshold is already high there may be few people in low income households who are liable for income tax (e.g. single earners in large households).

2. Party political support

Conservatives pledged to increase the personal allowance to £12,500 and the higher rate to £50,000.

Labour pledged to raise taxes for top earners: this would raise Income Tax only for those earning over £80,000 a year. Lower the threshold for the 45p additional rate to £80,000 and reintroduce the 50p rate on earnings above £123,000. Some left-wing think tanks, such as IPPR, have suggested changes to the system to increase its progressivity: these would envisage combining income tax and employee national insurance and the replacement of current income tax bands with a gradual increase depending on their own precise level of income.

The Liberal Democrats are supportive on increasing the personal allowance, and would raise the employee national insurance threshold to the Income Tax threshold. They would also reverse some tax cuts introduced by the conservative government: for the corporation tax, the capital gains tax, the capital tax extended relief, while also lowering threshold for Inheritance Tax.

3. Type of intervention

Revenue raising

4. Level

National

5. Public Support

In terms of public attitudes, it seems that the way in which money is spent matters: in a recent 2018 YouGov poll, 54% of respondent said they would support increasing the basic rate of income tax from 20% to 21% in order to give more money to the NHS. This is up from 42% in January 2017. However, a larger proportion, 62%, supported increasing the basic rate of employees' national insurance from 12% to 13%.

The most recent BSA also finds support for more tax and public spending at a 15-year high, 60% overall up from 49% in 2016 and 31% in 2010. 67% of Labour supporters and 53% of Conservative supporters think the government should increase taxes and spending on public services. The latter group has seen an increase of 18% from 35% in 2015). Older people more supportive of more tax and spend than young. Again, the public has clear priorities in areas of spending: majority of respondents say they would like to see government spend more on health (54%), followed by education (26%) and housing (7%), and only 2% on social security and 1% on public transport.

In 2018 YouGov also asked opinions about which policies were seen as more progressive by the public, in the sense that they would benefit the less well-off the most. Lowering the basic rate of income tax was considered to help the less well-off (48%, with 27% saying that it would help both the less well-off and the more well-off equally).

6. Evidence of effectiveness

According to HMRC (2019), changes to various tax rates, allowances and thresholds would increase revenue by the following amounts:

- Increase in base rate of income tax by 1p: £4.4bn.
- Increase in higher rate of income tax by 1p: £0.94bn.
- Change income tax personal allowances by 10%: £7.55bn.
- Increase National Insurance Class 1 employee main rate by 1% point: £4.2bn.
- Increase National Insurance Class 1 employer rate by 1% point: £6.15bn.

The IFS Green Budget (2018) shows that the main difference between the UK and OECD countries that get considerably more tax revenue is that the UK gets considerably less revenue from social security (National Insurance) contributions (SSCs), especially employer contributions, than other advanced economies; in fact, this difference accounts for almost the entirety of the gap in the tax burden between the UK and the EU-15 average¹. Unexplored in the report, but worth noting, is the fact that following funding reforms to higher education in 2012, higher earning (>£25,000) graduates now pay 9% of their income on top of any tax paid for up to 30 years in order to pay back graduate loans (McKnight and Obolenskaya, 2020). This does put a limit on how high tax rates can increase as these individuals face already very high tax rates.

The report further looks at the major differences in source of tax revenue between the UK and Scandinavian countries, finding that this lies in the level of income tax – the UK government gets 9.1% of national income in income tax, compared with an average of 16.0% in Denmark, Norway and Sweden. Thus, if the UK increased income tax by 1% of national income (approximately £20 billion), it would still be a long way below the levels seen in Scandinavia. Notably, a £20 billion rise in taxes would leave the total tax burden as a share of national income at around the highest levels seen in the post-war era, while not taking it at a high level by international standards – a £20 billion tax increase would do little to change the relative position of the UK, which would still be around the middle of OECD countries, well below countries like Germany, France or Italy, but pushing the tax burden further above countries such as Ireland, Japan and the US. It would also put total government revenue at its highest level as a share of national income since the mid 1980s, but still below the levels seen for much of the 20 years before that.

Moreover, the report evaluates Labour proposals for substantial rises to income tax rates on those with incomes over £80,000, suggesting that, despite substantial uncertainty, this rise would likely raise a lot less than these 1ppt increases. These estimates need to be understood in a context of uncertainty, especially in terms of the behavioural responses. Were there no response at all, the policy would raise around £7 billion a year. Labour expected that behavioural response would reduce this to £4.5 billion. IFS research at the time of the election indicated that this was within the range of plausibility, but that a central estimate of responsiveness would suggest revenues of £2.5 billion.

Leventi et al (2019), using EUROMOD microsimulations in seven countries, find that increasing the tax threshold in the UK has very low cost-effectiveness in regards to poverty reduction (both in terms of headcount and poverty gap). This is because the budgetary cost is relatively large: spending 1% of GDP on increasing the tax threshold would reduce the poverty headcount by less than 0.5 percentage in the UK, since most people paying income tax and benefiting from this policy change are in households that

¹ However, it should be noted that there are important differences in the way that pensions are provided, with SSCs in many countries more directly related to pension provision than they are in the UK and playing a role more like private pension contributions do here (IFS, 2018, 157).

are above the poverty threshold. However, the effect is not symmetrical when looking at reductions in the tax threshold. This does have an effect on increasing poverty. The extra tax paid increases the numbers below the poverty threshold and the size of the poverty gap. Reducing the tax free income allowance by 90% would increase the poverty headcount by 4 percentage points in the UK.

Atkinson (2017) already cited EUROMOD study in the UK finds major tax/transfer reforms could reduce income inequality and poverty substantially, supporting the importance of traditional levers of direct redistribution to tackle both phenomena. Their results, however, also stress the complex interactions between taxes, benefits and earnings underpinning the impact of reforms. The proposed reforms all include increasing income tax progressively and increasing Child Benefit substantially for all families, while combining these elements with either strengthening social insurance or, alternatively, with a participation income. A central element in Atkinson's proposals is thus to move to a more progressive rate structure for the personal income tax, with an initial rate of 25%, intermediate rates of 35-55%, and a top rate of 65%, much higher than the current 45% in the UK. The simulations show that each of the tax and transfer reform packages have a substantial impact on summary measures of inequality and poverty. Importantly, when one uses alternative summary measures to the conventional Gini and poverty headcount, that are more sensitive to the tails of the distribution and to poverty gaps, the effects of the tax/transfer reforms are considerably larger. These need to be understood in relation to the different elements considered in the packages: the package strengthening Social Insurance reduces the Atkinson or Theil inequality measures by one-fifth and the poverty gap by one-quarter. The Participation Income package would reduce these reductions further (one-third and three-fifths respectively.) According to these estimates, direct redistribution can be a major element in a broader strategy aimed at tackling inequality. The two packages also see relative poverty reductions: under the social insurance package the percentage of persons in households below 60% of median equivalised disposable income goes from 15.2% to 12.2%, while the poverty gap is reduced by 25%. The participation income package has a considerably larger impact, bringing the poverty headcount down by 38% and the poverty gap by almost 60%. As noted in §3, this is due to the fact that the package based on participation income directs resources towards those below the threshold not in receipt of insurance-based payments (e.g. because they are not taking up their means-tested entitlements), who cannot benefit from those being increased.

Finally, there is convincing evidence that increases in the income tax allowance would not have progressive effects. Brewer and Kanabar (2016) show that increases in the Income Tax personal allowance are an ineffective anti-poverty strategy. The policy, in fact, is poorly-targeted, as those who would see an income boost are people not in poverty, and, of those in poverty, the revenue foregone goes to the not-so-poor rather than the very-poor. Increasing the personal allowance is thus shown to increase the gap in income between the bottom and the middle of the income distribution.

7. Cost

Revenue Raising – with the caveats explored above (§2).

Overall

Some often discussed elements such as increases to the personal income tax allowance are not in fact promising in relation to either poverty or inequality. Instead, the effects of tax thresholds are less clear and need to be alongside other elements of the tax and benefits system. Greater progressivity could be backed by generally high levels of public support, but the political spectrum is more fragmented.

2.2. Regulation and incentives to reduce tax avoidance and evasion

1. Relationship to poverty/ inequality mechanisms	By restricting the ability of concealing assets, these measures would tackle inequality and ensure the capacity of governments to retrieve resources otherwise unavailable for redistributive purposes. A larger redistributive budget could be used to tackle poverty.
2. Party Political Support	All parties
3. Type of intervention	Revenue raising and regulatory change
4. Level	National
5. Public Support	The public holds generally strong negative views on both tax evasion and tax avoidance, on grounds of fairness and reciprocity. These views suggest strong support for measures tackling these phenomena. However, these views appear to also a) have a social gradient, with higher income groups showing less negative attitude than lower income groups, and b) suggest a double standard, with people generally displaying tougher views towards benefit fraud than tax evasion.
6. Evidence of effectiveness	Different interventions affect different kinds of taxpayers. Where digitalization and audits seem most effective for smaller players, they might not function as well when it comes to tax avoidance by large businesses and high net worth individuals. There is evidence that international sharing agreements are effective, but that users of tax havens respond very strategically, making a more comprehensive and demanding approach necessary.
7. Cost	Low/medium
Overall	These policies are popular, with both cross-party political support and generally strong negative public views about tax evasion and avoidance. However, different interventions target different groups and a more complex, comprehensive approach mindful of strategic behaviour is essential to succeed when it comes to large businesses and high net worth individuals.

1. Relationship to poverty/inequality mechanisms

With greater inequality and higher concentrations of top incomes and wealth, the rich also gain greater means of concealing their assets, reducing the potential for governments to tackle poverty due to the impact on government revenues. There is evidence that the probability of hiding wealth offshore rises very steeply within the top 1% of the income distribution, with the ultra-wealthy evading on average nearly a third of their due tax (Alstadsaeter et al., 2019). The richest 0.01 percent of households, including those who hold over £31 million in assets, evade paying 30 percent of their taxes on average. Zucman (2015) estimates that 80 percent of assets are undeclared globally, and that the annual losses to governments from uncollected income, inheritance and wealth taxes are close to \$200 billion. The expectation of a larger redistributive budget to tackle poverty may therefore not materialise in comparison to a counterfactual scenario with the same redistributive system but lower concentrations of wealth and evasive power at the top of the distribution.

By restricting or discouraging the ability of concealing assets, these measures would tackle inequality and ensure the capacity of governments to retrieve resources otherwise unavailable for redistributive purposes. A larger redistributive budget could be used to tackle poverty.

Moreover, tax avoidance and evasion lead to distorted information available to governments when it comes to poverty and inequality. Pashardes and Polycarpou (2008)'s study in Cyprus finds that richer individuals under-report their income more than those with low income. Under-reporting of income causes an under-estimation of the poverty rate in Cyprus by about 2 percentage points. The ratio of the 90th to 10th percentile also increases, indicating that the income gap between the poorest and the richest widens. Similarly, the ratio of the 90th percentile to the median income increases, albeit to a lesser degree. Gini increases of just over 1 point. These findings suggest that, when tackling poverty and inequality, tax avoidance and evasion distort the information available to governments, underestimating the true extent of these problems. More generous anti-poverty policies to compensate for this fact are an option, but effective measures to tackle the phenomenon are also necessary.

There is an argument that individuals are more likely to increase evasion after a tax rise when they feel that public goods and services are under-provided (Cowell and Gordon, 1988). With government provision beginning from a low baseline, attempts to fund expansions in services through tax increases will be hampered by higher tax evasion, to the detriment of the poor who rely more on such services. Individuals may also be more likely to increase evasion if these goods and services are not seen as representing good value for tax contributions. When inequality is such that there are very high concentrations of wealth, as is currently the case in the UK, the ultra-wealthy are unlikely to take account of the provision of public goods and services in their tax evasion decisions if they prefer to use private alternatives. Therefore, while quality of public service provision matters for tackling poverty, it is unlikely to affect the constraints on financing from tax evasion by the ultra-wealthy.

2. Party political support

All parties support tougher measures against tax evasion and avoidance.

The conservative manifesto addresses tax evasion and avoidance, seemingly in continuity with the current strategy, which has focused on the tax gap. This would see continuous investment to transform into a digital tax administration (OECD, 2017a), but the manifesto now also suggests that the Conservative government will take more proactive approach to transparency and misuse of trusts (Conservative.com, 17). Some right-wing think tanks (like the [Centre for Policy Studies](#)) support the view of lowering taxes to reduce incentives to evade, with the idea that this would increase GDP per capita.

Labour, critiquing the progress made, launched its own Tax Transparency and Enforcement programme, while also emphasising international collaborations and focus on the 'golden visa system'. This would include creating a specialised Tax Enforcement Unit within HMRC and pledge to double the number of HMRC staff that scrutinise the tax affairs of High Net Worth individuals and companies. Focus on tax avoidance schemes used by temp recruitment agencies, on the 'golden visa system' and on international collaboration regarding tax heavens, while requiring the repatriation of public contracts awarded to contractors under the Private Finance Initiative (PFI) that have been relocated to tax havens.

The Liberal Democrats stress the importance of reducing tax gaps, to be included in HMRC targets; but also of investing in staff to enable HMRC to meet these. They also have a clear focus on distinguishing between small and big multinational businesses, favouring measures that would facilitate digital transformation for smaller businesses while reforming Corporation Tax to favour them.

3. Type of intervention

Revenue raising and legislative change

4. Level

National

5. Public Support

A 2013 YouGov poll saw the British public displaying **strong negative views on tax avoidance**, with 62% claiming that it is not acceptable to legally avoid tax. This contrasted with views in Germany, France and Denmark, where only 35%, 32% and 43% of respondents respectively held this view. A 2017 YouGov poll which had found 21% of respondents having boycotted a brand following a scandal or negative press, ascertained that tax avoidance and evasion was the number one reason for boycotting a brand (55% of those who have stopped using a brand).

An ONS survey in 2015 ([HMRC, 2016](#)) saw the 63% of respondents claiming that tax avoidance is widespread, while 61% stated that the practice is never acceptable. Of these, 64% thought that this was unfair on other people that pay their taxes (Table 4). Social responsibility and morality also featured in the responses with 33% suggesting that paying tax was a social responsibility, 28% thought tax paying was important to fund public services. For the small proportion of respondents that thought tax avoidance was acceptable (2%), the main reason provided was that these legal schemes were there to be used. 37% of respondents felt that HMRC was not doing enough and 30% felt that HMRC was doing about the right amount. 29% said they didn't know.

In 2017, the British Social Attitudes found what they called a “**double standard**”, with people generally displaying tougher views on benefit fraud than on tax evasion. 68% think it is wrong to not declare casual work to the benefit office to gain £500, while 56% think it is wrong to gain £500 by not declaring casual work for tax purposes. These numbers are lower than when considering a gain of £3000 (80% and 68% respectively), but the trends remain similar. Moreover, while nearly everyone (91%) thinks that using false information to support a claim is wrong, this figure falls when the person uses a legal loophole. Where 61% think it is wrong for benefit claimants to use legal loopholes to increase their payments, 48% think it is wrong to use legal loopholes to pay less tax.

In relation to tax avoidance, the highest and lowest income groups display somewhat different views, with the highest income group displaying the least likelihood to think that using legal tax loopholes is wrong (42%, compared with 53% among those in the lowest income quartile). In relation to benefits, these groups do not display significant differences.

6. Evidence of effectiveness

In dealing with tax evasion and avoidance there is an expansive literature on the measures for effective compliance interventions across the spectrum of taxpayers, including a) small and medium sized enterprises, and b) large businesses and high net worth individuals.

a) In regards to the former, many have focused on how the tax system can enforce the **formalisation of business activities**. A recent World Bank review (Awasthi and Engelschalk, 2018) has considered the effectiveness of several measures: from cash payment restrictions, point-of-sale (POS) electronic tracking, the withholding of taxes (e.g. limited to payments to nonregistered businesses, or applied more broadly to transactions in segments with high risk of noncompliance), targeting tax incentives for noncash payments, devising strategies to influence customers' attitudes.

Digitalisation has been at the forefront of the agenda of many countries (with the UK ranking very high in the extent of the digitalization achieved). Immordino and Russo (2018) use panel data in Europe from 2000 to 2012 find that 10 more card transactions per capita per year reduce the VAT gap over GDP between 0.08 and 0.2 percentage points on average, confirming that cashless payments hinder tax evasion. Countries vary greatly in the use of card payments (with the UK and Luxemburg reporting the biggest average numbers). The authors also consider the effectiveness and costs of two policy instruments: a tax on cash withdrawals and a tax rebate, conditional on having the receipt from a transaction. They find that the former reduces evasion only if it is set at a sufficiently high rate and that its rate must grow with the prevalence of cash payments. It can also have adverse consequences as it can foster a cash economy and affect some vulnerable group disproportionately. They also find that tax rebate for buyers who keep the receipt can reduce evasion and that the rebate must increase with the level of tax evasion. This policy, however, would entail a high cost for the government when tax evasion is already low, suggesting that such a policy is best used in the context of high levels of evasion.

Alm (2019) offers a review theoretical, empirical, and experimental studies. The review identifies two approaches to tackle tax evasion, which can be used together. On the one hand, there is scope for an improvement in policies to increase detection and punishment (e.g., the **"enforcement paradigm"**). Traditionally, there are three main aspects of tax administration: taxpayer registration, taxpayer audit, and collections. In relation to audits, in particular, the review shows how they affect compliance, but in a non-linear way, so that the deterrent effect diminishes with higher audit rates. The spillover effect from audits is significantly larger than their direct deterrent. They are a greater deterrent effect than fines. Strategic audit selection is far better than random selection, but some random selection seems necessary for strategic audit schemes to work. According to Mascagni's (2018) comprehensive review of experimental evidence on tax evasion, deterrence factors seem to be the most effective method to increase compliance in the short run, particularly regarding those taxpayers with self-reported income (Kleven *et al.*, 2011). These effect may not be sustainable over time and in presence of weak follow-up enforcement. Finally, individuals misperceive audit rates, typically overweighting a (low) probability of audit, pointing at the importance of psychological and behavioural economics factors.

In fact, there seems to be a **"social norm" of compliance**, and this social norm can be affected by the institutions that face individuals, by individuals' attitudes toward these institutions, and by individual participation in the selection of those institutions. Hallsworth *et al.* (2017) confirm the importance of these behavioural factors. In a large field experiment in the UK, they find that social norms and public goods messages increase the likelihood of individuals paying their declared tax liabilities. Bernasconi *et al.* (2014) experimental evidence shows the importance of a nuanced understanding of changes to tax

rates in the context of people's beliefs and expectations. Changes to the tax rate produce complex behavioural effects: this study shows that, once taxpayers completely adapt their reference to the new fiscal conditions, the level of tax evasion is independent of the tax burden. It also finds that subjects tend to adjust faster to tax cuts than to an increase in the tax rate.

A second approach tries to improve services through "carrots" instead of "sticks". Positive rewards improve compliance, whether individual (e.g., lotteries, social insurance benefits) or aggregate (e.g., public goods). Along the lines of the "**service paradigm**", the tax administration attempts to become more consumer-friendly. Such policies include promoting taxpayer education, providing taxpayer services to assist taxpayers in filing returns and paying taxes, improving phone advice service, improving the tax agency website, simplifying taxes and tax forms, and simplifying the payment of taxes. These measures would seem to apply more directly to smaller players in tax evasion than to bigger schemes of tax avoidance. The review also suggests that there may be scope for a governmental-induced change in the culture of paying taxes, by using the mass media to reinforce tax compliance as the ethical form of behaviour, publicizing cheaters, emphasizing the link between payment of taxes and the receipt of government services, avoiding actions that lead individuals to think cheating is "okay" (e.g. a tax amnesty).

Experimental evidence from Denmark (Kleven et al, 2011) shows that there is a **significant difference between self-reporting and reporting from third parties**. A higher marginal tax rate increases tax evasion for self-reported income, but has no effect on evasion for third-party reported income. They also find that threat-of-audit letters have positive effects on reporting, as does the experience of prior auditing. However, audits are actually generating large revenue losses for the self-employed despite the large evasion in this group. Given the very costly nature of tax audits and their limited effectiveness in detecting hidden income, the authors suggest to spend enforcement resources protecting third-party tax bases and extending third-party reporting rather than on traditional audits of self-reported items. These are important considerations in light of the growth of self-employment: e.g. in the UK, the self-employed were 3.3 million – 12.0% of the labour force – in 2001 and were 4.8 million – 15.1% of the labour force – in 2017 (ONS, 2018).

b) To deal with **large business taxpayers or High Net Worth Individuals** there is broad agreement that it is necessary to develop of risk management capabilities and ensure effective international cooperation (OECD, 2017a), it in this direction that recent years saw the development and commitment to a global standard for automatic exchange of financial account information (such as the Common Reporting Standard).

Alstadsæter et al (2019) focus on very wealthy. Firstly, they note how **tax audits are not well suited** to describe tax evasion by the very wealthy because they generally fail to detect sophisticated forms of evasion involving shell companies and hidden offshore accounts. Secondly, they use microdata leaked in Swiss Leaks and Panama Papers and find that around 50% of offshore assets belong to the wealthiest 0.01% and around 80% belong to the wealthiest 0.1%. They find that the evasion rate is low in the aggregate: most types of income are reported by third parties and subject to very limited evasion. However, when considering tax evasion through offshore accounts, tax evasion is very high among the wealthiest, plausibly in the range 25%-30%. Finally, they show that tax evasion has important implications for measured wealth inequality because of its highly uneven distribution across wealth groups. In Norway, for instance, the wealth share of the top 0.01% increases by around 25% when accounting for unreported assets on offshore accounts.

A few studies look at evasion strategies and the role of tax heavens. Johannesen (2014) uses data from International Settlements to evaluate the effectiveness of measures such as the EU Savings Directive and find that large decrease in Swiss deposits was driven by substitution toward untaxed alternatives to Swiss deposits rather than increased compliance. This suggests that **substitution between evasion strategies can severely limit the effectiveness** of policy measures with a narrow scope and thus suggests that governments should adopt anti-evasion measures with as broad a scope as possible.

Evidence also stresses the key role of **information sharing agreements** (e.g. OECD Common Reporting Standard) to generate tax revenue (Hanlon et al, 2015; Omartian, 2016). Johannesen and Stolper (2017) also stress the effect of “whistleblowing” in the context of offshore tax evasion and an environment in which data leaks were thought to be impossible or at least very unlikely. They argue that the first leak of customer files induced a shock to the detection risk as perceived by offshore account holders and banks, which curbed the use of offshore services.

At the same time, more needs to be done in this realm. Johannesen and Zucman (2014), exploiting a unique panel dataset (the OECD, Exchange of Tax Information Portal), assess how the treaties affected bank deposits in tax havens. Rather than repatriating funds, their results suggest that tax evaders shifted deposits to havens not covered by a treaty with their home country. The crackdown thus caused a **relocation of deposits** at the benefit of the least compliant havens. This shows the importance of comprehensive and demanding multilateral agreement would prevent tax evaders from transferring their funds from haven to haven. A comprehensive network of treaties providing for automatic exchange of information would put an end to bank secrecy and could make tax evasion impossible. Moreover, another key element to reduce top-end evasion significantly is the shrinking the supply of wealth concealment services. Ways of doing this are the application of trade tariffs to non-cooperative tax havens and steep financial sanctions to firms found abetting tax dodging (Zucman, 2015). However, these actions require international cooperation and agreement and cannot be achieved unilaterally by any single nation.

7. Cost

Low to medium, depending upon the extent to which regulation and incentives are used. Investment in digitalization of services requires substantial short-term investment but promises long-term effective returns. Some measures (e.g. extensive auditing) are very costly and, as evidenced above, might not be as efficient as, say, extending and protecting third-party reporting. At the same time there are behavioural costs to consider (as is the case for amnesties, for example).

Overall

These policies are popular, with both cross-party political support and generally strong negative public views about tax evasion and avoidance. However, different interventions target different groups and a more complex, comprehensive approach mindful of strategic behaviour is essential to succeed when it comes to large businesses and high net worth individuals.

2.3. Increasing social assistance and uprating

<p>1. Relationship to poverty/ inequality mechanisms</p>	<p>Policies that boost welfare benefits through progressive taxation would directly act to reduce poverty while reducing inequality at both the top and the bottom of the distribution.</p> <p>The reduction of child poverty has been central to this discussion in light of its particularly high rate in the UK and in other European countries, but also because of its bearing on inequality in the life course and its relation to intergenerational inequality.</p> <p>Uprating monetary levels and thresholds of the tax-benefits system is important to maintain its effectiveness and would eliminate the erosion of benefit levels relative to average incomes and will tend to minimise effects on inequality.</p>
<p>2. Party Political Support</p>	<p>While the Conservative government plans do not envisage changes to the current austerity measures in relation to welfare benefits, both Labour and Liberal Democrats would support more generous provision, reversing many of the current and planned cuts. They also both renew focus on child poverty, which has progressively decreased as a key policy area from 2010.</p>
<p>3. Type of intervention</p>	<p>Cash transfer</p>
<p>4. Level</p>	<p>National</p>
<p>5. Public Support</p>	<p>Current attitudes show a “backlash against austerity” but tax increases are mainly justified in relation to spending on services (particularly on the NHS). At the same time, there is a display of more positive attitudes towards welfare recipients. These attitudes are generally more positive when it comes to benefits for families and children. The public remains divided in relation to the causes of poverty.</p>
<p>6. Evidence of effectiveness</p>	<p>Evidence shows that expanding generosity of cash social assistance schemes is important to tackle poverty. However, this is not guaranteed and depends much on the design of the system.</p> <p>Evidence confirms the effect of under-indexation in relation to poverty. Progressive indexation can offset regressive structural reforms of the benefit system. Failing to index cash transfers implies higher poverty unless there are structural reforms to compensate on a regular basis.</p> <p>Transfers for children are effective measures of poverty reduction, and reductions in this area of spending appear to be particularly damaging. While service provision is important, the role of cash transfers should not be downplayed in relation to improving children outcomes across a number of domains.</p>
<p>7. Cost</p>	<p>High</p>
<p>Overall</p>	<p>Despite high costs, welfare benefits have a double dividend and are particularly important in relation to children because of how they bear on life course and intergenerational inequality. The generosity of social assistance and minimum income benefits is essential to poverty reduction, but its potential must be understood in the context of other aspects the system (e.g. coverage, conditionality arrangements) which affect distributional outcomes. Under-indexation and reductions to benefits for children are to be avoided in order to improve the progressivity of the system and achieve greater poverty reduction. This is in conjunction with growing public concern with poverty, and with children in particular, and a ‘backlash against austerity’.</p>

1. Relationship to poverty/inequality mechanisms

Policies that boost welfare benefits would directly act to reduce poverty and may, as a by-product reduce income inequality, depending on where and how it is measured. This may be because society's resources are mobilized through progressive taxation, with a consequent inequality reduction. Moreover, social security benefits can also improve 'horizontal' equity (in the sense of helping compensate for particular needs, such as disability or having a larger family), and smooth income over the life cycle. In this respect, policies focusing on children or pensioners can play a key part. The reduction of child poverty has been particularly central to the discussion around social assistance. There are many reasons for this: on the one hand, the child poverty rate is higher than the overall poverty rate in most European countries (Bradshaw, 2009; Atkinson and Marlier, 2010), it bears on outcomes in later life and restricts opportunity. Moreover, it is connected to the dynamic mechanisms (§4) that see advantage and disadvantage transmitted between generations.

The extent of the effect of increasing child benefits on reducing poverty depends on the design of the benefit, e.g. whether or not benefit entitlements depend on the age and number of children, and how it impacts on households with children below the poverty line (Bradshaw, 2006). If the benefit is universal it may appear to be less cost effective in terms of poverty reduction than a benefit targeted at low income families, but it will have the advantages of high take-up and political support (Levy et al., 2013).

An often overlooked aspect is that of "indexation", which refers to the uprating of monetary levels and thresholds in the tax-benefit system, typically to keep pace with inflation or growth in the economy. If this happens regularly and across all tax-benefit instruments then the system will maintain its effectiveness in terms of keeping living standards constant, in the case of indexation for inflation. Alternatively indexing by growth in market incomes will eliminate the erosion of benefit levels relative to average incomes and will tend to minimise effects on inequality.

2. Party political support

The Conservative government has claimed a changed of course which would put "an end to austerity". Effectively, the focus of this approach has been increases to NHS funding, implying spending elsewhere would be flat in real terms, or actually potentially leading to further cuts. This is in line with the 2017 election pledges, that saw "no plans for further radical welfare reform in this parliament and will continue the roll-out of Universal Credit" (54).

Both the Liberal Democrats and Labour propose increases to benefits. But those proposed by the Liberal Democrats are much larger – reversing nearly all of the cuts planned for the next few years.

The extent to which children's needs are prioritized can be assessed in relation to other social groups. While pensioner incomes have been protected via the triple lock, the incomes of families with children have diminished and legislation designed to protect them (such as the Child Poverty Act) have been weakened. Bradshaw (2018) points out how low-income families with children also suffered from cuts to local services, with reductions in central government grants falling most heavily on local authority areas with the highest levels of child poverty. Together with real constraints, these actions also reveal choices about priorities.

In 2015 Social Mobility and Child Poverty Commission, whose responsibilities included monitoring progress on the 2010 Child Poverty Targets, stressed that tackling child poverty would need to “acknowledge the resources this would require, and commit to an ambitious programme to, among other things, recouple earnings to economic growth, prioritise children in fiscal policy, close gaps in educational attainment, improve labour market opportunities for young people, and tackle the UK's dysfunctional housing market”. In outlining party lines at the time, only the SNP declared to vote to increase benefits at least in line with CPI inflation.

However, since 2016 the Commission was renamed the Social Mobility Commission, with no further mention of Child Poverty. The Welfare Reform and Work Act 2016 also renamed the Child Poverty Act 2010 to the Life Chances Act 2010. This has happened in conjunction with contested scrapping targets for income poverty and material deprivation (Stewart and Roberts, 2018) and focusing on worklessness and educational attainment ([HC Deb 15 December 2016](#))

The Liberal Democrats aim at taking “13,000 children out of poverty”, this would be achieved through reversing cuts to work allowances in Universal Credit but also to the Family Element. They will reinstate the legally binding poverty targets of the Child Poverty Act (Libdem.org.uk, 2017, 58-59). Labour would also revise Universal Credit, and in particular the decision to limit tax credit and UC payments to the first two children in a family. Labour aims at proposing a new Child Poverty Strategy (labour.org.uk, 2017, 56-58).

3. Type of intervention

Cash transfer

4. Level

National

5. Public Support

The BSA 2017 report speaks of a “backlash against austerity”, finding, for the first time in 10 years, that more people (48%) want taxation increased to allow greater spending, than want tax and spend levels to stay as they are (44%). More people (42%) agree than disagree (28%) that government should redistribute income from the better off to those who are less well-off. Shortly before the financial crisis fewer people supported redistribution than opposed it (34% and 38% respectively in 2006). These trends are confirmed in the 2018 BSA, with the majority of the public (61%) ready to support higher taxation. This is the case for both Labour supporters (67%) and Conservative supporters (53%). Importantly, though, these increases are thought justified in relation to spending on public services

A [2014 YouGov Poll](#) shows that the public is sensitive to how information on social assistance is presented. When asking whether the government spent too much on welfare, results varied depending on how the amount spent was described: 40% thought the government spent too much when faced with the umbrella term “welfare”, while 31% thought the same when this figure was broken down to show the level of unemployment benefits, benefits for the sick and disabled and those aimed at families with children.

Moreover, there are changes in how favourably people view benefit recipients. First, the proportion who say most 'dole claimants' are "fiddling" has dropped from 35% in 2014 to 22% in 2016 – its lowest level since the question was first asked on the survey in 1986. This decline is in spite of media coverage which is seen as critical rather than sympathetic. 72% of people say they remember seeing at least one TV programme, newspaper or online article about benefit recipients within the last 6 months. Of these, 71% say the programme or article was somewhat or very critical.

The public are divided in their opinion of whether people on social security deserve financial help, but attitudes appear to be changing: 21% of people agree that 'many people who get social security don't really deserve any help'; this is a record low in the last 30 years and down from 32% in 2014. Just over a third believe that this group deserve support (38%), the same as the proportion who 'neither agree nor disagree'. While income remains an important driver of whether respondents feel that people on social security deserve help, it emerges that men, UKIP supporters and people with no qualifications are more likely than other groups to believe that people on social security do not really deserve any help.

Benefits for children

The [2017 British Social Attitudes](#) survey finds one-fifth of the public saying that poverty was one of the most important issues facing Britain today; the highest level of concern reported in the UK in the past 40 years. Although overall concern about poverty has increased, recognition of child poverty has not changed since 2012, when the question was first asked. Overall the majority of people (84%) say there is at least some child poverty in Britain today, with 39% saying there is 'quite a lot' and 45% saying there is 'some'. Only 11% say there is very little, and 3% say 'there is no child poverty'. Those in the poorest group are no more likely than other income groups to say that there is at least some child poverty in the Britain today.

The public has generally more positive attitudes about benefits targeting children and families: for instance, the BSA 2017 finds that 58% think that the government should top up wages of couples with children, contra 31% for couples without children. Support goes up to 70% for lone parents. Moreover, the BSA shows that attitudes are changing in relation to benefits. While in 2010 55% of respondents saw the generosity of welfare benefits as creating dependence, this number is now down to 43%; now 55% of respondents believes that cutting welfare benefits would damage too many people's lives (up from 42% in 2010).

YouGov, asking in 2012 about opinions on the withdrawal of child benefit from families in which one or both parents are higher-rate taxpayers, found that 68% believe the new rules are unfair, suggesting that a more universal approach to child benefits is supported by the public.

The [BSA 2017 report](#) finds the public split in regards to the causes of child poverty. 26% mention reasons that fall into the 'personal responsibility' category (parental addiction, too many children in the family, parents do not want to work). 35% mention more systemic causes (social benefits not high enough, work doesn't pay enough, long term illness or disability, discrimination, no access to affordable housing, and inequalities in society). 32% which mention causes that are seen in the BSA report as combining both societal structure and personal responsibility explanations (family break-up or loss of a family member, parents have been out of work for a long time, they live in a poor-quality area, their parents lack education, their parents do not work enough hours, their grandparents were also poor). People in the highest quintile are less likely than people in other quintiles to mention 'personal responsibility' reasons (19%), and are more likely than people in the other quintiles to identify one of

the reasons that combine personal responsibility and systemic causes as the main causes of child poverty (44%).

6. Evidence of effectiveness

It has been established that there is generally a positive relationship between levels of spending on cash transfers and poverty risks (Cantillon et al, 2013): this is not surprising as successful anti-poverty measures clearly require important distributional efforts.

Expanding the generosity of cash social assistance schemes is an effective way of increasing the income of existing recipients, and may also draw in more people who have incomes that previously made them ineligible. Using EUROMOD data, Leventi et al (2018) disentangle the part of poverty change which is related to changes in eligibility (i.e. fewer/more benefit recipients) and the part related to changes in benefit levels for those already in receipt. The findings show that both changes in the benefit levels and in coverage drive changes in poverty headcount in four of the country considered, including the UK. In these countries, increasing social assistance levels not only increases the income of current recipients but extends entitlement to those with higher income. Based on the poverty headcount, increasing social assistance is the most cost-effective approach of those considered in Belgium and the UK, while its effectiveness for the poverty gap reduces with the size of the benefit, as larger shares of recipients are lifted above the poverty threshold.

Exploring the anti-poverty effect of taxes and transfers in eight high-income countries using LIS data, Smeeding (2005) finds that higher social spending contributes to lower poverty incidence. The study shows, for instance, that the U.S., while ranking highest of all countries considered in terms of relative poverty after taxes and transfers, has relative poverty rate before taxes and transfers that is actually below average for these countries. Smeeding argues that these results can be explained by the fact that the United States devotes by far the smallest share of its resources to antipoverty income transfer programs. Similarly, Cantillon et al. (2003) find a strong negative correlation between social expenditure and the incidence of poverty among the working-age population in 12 OECD countries. However, the literature also stresses how simply increasing social spending without altering existing institutional arrangements will not automatically result in less poverty. Projections for nine European countries show that small negative effects are possible.

This means that social assistance and minimum income benefits do not always succeed in protecting against poverty for a number of reasons. Levels of benefit may be insufficient to raise receiving households' incomes above the poverty threshold and conditionality may exclude certain people (Figari et al., 2013). Those who meet the entitlement conditions may not claim their entitlements due to stigma or lack of information, and some who claim may not receive their entitlement due to administrative errors or delays. In addition there may be a mismatch between the unit of income aggregation for poverty measurement (the household) and that used for the assessment of social assistance entitlement, which may be smaller (e.g. the immediate family) or sometimes larger, taking account of incomes of non-resident family members (Figari et al., 2013).

Moreover, social budgets are clearly not always deployed efficiently, and some countries achieve much lower poverty rates despite similar social spending levels (Vandenbroucke and Cantillon, 2013). Kenworthy (1999) stresses how pretransfer levels of poverty remain the greatest predictor of poverty rate, showing the limits faced by welfare states in what they can achieve through reactive measures. At

the same time, his results show that social welfare policies are effective in reducing absolute and relative poverty: social-welfare policy extensiveness accounts for two-thirds or more of the variation in posttax/posttransfer absolute poverty, for instance (p. 1129). Moreover, an analysis of countries with similar pretax/pretransfer poverty levels and similar spending shows that some countries achieve different results by being more generous in areas that are more effective for poverty reduction. A comparison between the US and Canada, nations with similar transfer levels, shows that redistributive policies tend to do a better job at reducing poverty.

Cantillon (2011) evaluates the EU Lisbon Strategy in light of evidence that poverty rates stagnated or even increased in Europe, despite growth of average incomes and of employment. A key contributory trend, she argues, is that new work-related spending – which tends to be less pro-poor – has increased, while the generosity of traditional ‘passive’ income support has declined. In this sense, prioritizing adequate minimum income protection and the reinforcement of the redistributive capacity of social programmes should take the forefront. Collado et al (2016)’s analysis of EUROMOD data suggest that social investment strategies and employment policies are important but not sufficient. In order to reduce the number of people below the relative at-risk-of-poverty threshold of the EU, countries must develop not only effective employment policies but also ensure adequate social protection. At the same time, there are limits to the extent to which social assistance can be increased without damaging the incentive to work among recipients (Collado et al., 2016).

In 2016, the European Commission (Frazer and Marlier, 2016; Bradshaw and Bennett, 2015) published a review of minimum income schemes in Europe. The report stressed the necessity of minimum income support alongside activation strategies and explored the heterogeneity of approaches, pointing to how the adequacy of these schemes – e.g. in terms of their level - could often be improved. They identified five main approaches (Table 1). They found that only a few schemes (in Switzerland, Cyprus, Island, Lichtenstein and the Netherlands) achieve a level of income support adequate to ensure a decent life. Their assessment saw the UK falling somewhat short of this level, while also achieving partial coverage because of restrictive eligibility conditions. The minimum income scheme impact was still high in the UK, albeit decreasing in light of changes that deteriorated its adequacy since 2009. Their overall analysis points at the lack of adequate payments coupled with limited coverage and poor take-up to explain the limited success of these schemes in achieving poverty reduction.

Table 1. Types of minimum income schemes in Europe

Type of scheme	Countries
Simple and comprehensive schemes open to all with insufficient means to support themselves	Belgium, Switzerland, Cyprus, Czech Republic, Denmark, Estonia, Spain (Basque country), Finland (Basic Social Assistance), Island Italy ² , Lichtenstein, Luxembourg, Netherlands, Sweden, Slovenia, Slovakia
Simple and non-categorical schemes but with rather restricted eligibility and coverage	Austria, Greece, Spain ³ , Croatia, Hungary, Lithuania, Portugal, Serbia
General schemes of last resort with additional categorical benefits which cover most people in need of support	Germany, Finland (Additional Social Assistance), Italy ⁴ , Latvia, MK, Poland, United Kingdom
Complex networks of different, often categorical and sometimes overlapping schemes which cover most people in need of support	France, Ireland, Malta, Romania
Very limited, partial or piecemeal schemes which are restricted to narrow categories of people and fail to cover many of those in need of support	Bulgaria

Based on Frazer and Marlier (2016)

The European Commission report recommended putting universal social protection and an adequate income for all at the centre of EU policy-making, increasing coverage, providing regular uprating (see below), designing policy that avoid disincentives and poverty traps, improve take-up and integration with activation policies through an approach that does not narrowly focus on employment measures and on increasing conditionality and sanctions. The latter element was judged as weak in the UK (Crepaldi et al 2017), with low effectiveness for the long-term unemployed and weak coordination between employment, social assistance and social services. Notably, these reports refer to the period before the rolling out of Universal Credit, which, while attempting so simplify the system (something that would promise increased take-up) also introduced further cuts and increased conditionality which stand in sharp contrast to the above recommendations.

Benefits for children

Nolan et al (2017) offering in-depth analysis of child poverty trends before, during, and after the crisis point to the failure of policy mixes. They stress how, in order to reduce poverty, countries must not only develop effective employment policies but also ensure adequate protection as employment policies, while important, are not sufficient.

There is strong evidence of the importance of benefits for children to poverty reduction. Using EU-SILC 2010 data, Gãbos (2013) estimates the effectiveness on poverty reduction of social transfers for children: about two-fifths of children in the European Union as a whole would be at risk of poverty if social transfers were not in place. The impact of income supports varies greatly from country to country, from 11% in Greece to 62% in Finland. Leventi et al (2019) using EUROMOD combined with household survey data evaluate the cost-effectiveness of several policy in relation to poverty reduction, both in terms of headcount and poverty gap. They find that a 20% increase of child benefits would have a

² In these regions: Bolzano, Friuli Venezia Giulia, Molise, Sardegna, Valle d'Aosta

³ In these regions: Asturias, Cantabria, Castile-Leon, Navarre, Rioja

⁴ In these regions: Basilicata, Puglia, Sicilia, Trento

modest effect in the UK, lowering the headcount by 1.3% (pp), while an increase of 90% would result in a 3.5% reduction. Similar trends apply to reduction of the poverty rate. On the other hand, reducing child benefits emerges as a particularly damaging way to make budgetary cuts, with significant increase in the poverty headcount. In the UK a decrease of 20% would see the headcount rising by 2%, this would go up to 7.9% for a 90% reduction. From this analysis, child benefits are the most damaging to reduce of the instruments considered in the UK. This is important because of recent trends that saw spending on family benefits shrink in absolute terms in many European countries during the economic crisis and austerity, while spending on pensioners increased. Chzhen et al (2017) analyse these trends across 41 countries and find that per capita spending on family benefits fell in real terms between 2008 and 2013 in twenty countries, including the UK.

Bradshaw et al (2017) outline how several analyses of the distributional consequences of austerity in the UK up to 2015 (Cribb et al., 2013; Office of the Children's Commissioner, 2013; Reed and Portes, 2014) show that it is the poorest families with children who have suffered the biggest losses in income, and that it is families with children who have suffered the largest cuts in services. These cuts have also been spatially regressive, with the largest cuts in central government grants falling most heavily on local authority areas with the highest levels of child poverty. This presents a starkly different picture from that of Bradshaw and Finch's (2002) earlier work, which saw the UK in the 2000s improving its position, in international comparisons, in terms of child benefit packages: the change was driven by an increase in spending that was broadly redistributive. The 2015 Conservative Government strategy had set expenditure to fall to 36.5% by 2020, making the UK expenditure as a proportion of GDP below Japan's and to US-type levels.

According to the latest Children's Commissioner report (Kelly, 2018), real-terms cuts to benefit rates have reduced levels of benefit spending going to families with children since 2010. Reforms implemented since 2015 (e.g. rollout of universal credit) will, when fully in place, further reduce the incomes of low-income families with children by between 10% and 15% relative to a situation where no reforms are made. While spending on children's services and education has been relatively protected from real-term cuts since 2010, families with children have faced large cuts in benefit spending. This is important because there is strong evidence showing that money is important in itself when considering drivers of poor outcomes for children.

In the US, an OECD (2009) review found evidence of a causal relationship between income and child well-being. In the UK, Cooper and Stewart's (2013, 2017) systematic review examines the relationship between household financial resources and children's outcomes, highlighting the significant positive effects of income on cognitive development and school achievement, social and behavioural development and children's health. The relationship is shown to be a causal one, where effects are significant. For instance, they show that income increases have effect sizes comparable to those identified for spending on early childhood programmes or education, but that income influences many different outcomes at the same time. From this standpoint, reductions in household income, and increases in income poverty, are likely to have wide-ranging negative effects which can undermine efforts of governments to promote children's opportunities and life chances.

Indexation policy

Hills et al. (2014) show how indexation practice in seven countries varied considerably over the decade 2001-11 and how not keeping pace with growth in the economy has distributional implications. Failing to index cash transfers implies higher poverty unless there are structural reforms to compensate on a regular basis. This was the case in the UK between 2001-2007; in the period between 2007-2011, while

structural reforms (especially to means-tested benefits) had regressive effects, indexation of benefits and pensions above the rate of income growth had progressive effects which offset these.

In the UK, most elements of the tax benefit system are indexed in a statutory or customary way. However, this has been suspended in recent years in the UK, and framed as a policy response to the crisis. In fact, as Hills et al (2016) note at the end of their comprehensive assessment of Coalition government's policies, selective austerity framed in terms of deficit reduction effectively saw direct tax and benefit changes that benefited the top half of the population, with elements such as Income Tax allowances outweighing the savings from 'welfare cuts', increasing the deficit and the need for savings in other spending and for other tax rises.

Sutherland et al. (2008) showed that in the UK, benefit erosion, through not keeping up with average incomes, has clear distributional implications when left without compensating interventions, as this reduces the relative incomes of benefit recipients. De Agostini et al (2015), using EUROMOD and Family Resource Survey data, find that in the period of 2013-2014 income losses experienced by UK households were mostly driven by non-pension benefits and tax thresholds not being regularly indexed and lagging behind growth in prices. This resulted in erosion of the real benefit values or increased tax liability due to fiscal drag. According to Leventi (2019) the UK is relatively vulnerable in the poverty effects of policies to comprehensive under-indexation. The larger the benefit system and the greater the prevalence of thresholds and monetary amounts, the larger the effect of not indexing. The extent to which low income households are more subject to monetary thresholds than other households (through means-testing, for example) will play a role in their particular vulnerability to lack of indexation.

7. Cost

High

Overall

Despite high costs, welfare benefits have a double dividend and are particularly important in relation to children because of how they bear on life course and intergenerational inequality. The generosity of social assistance and minimum income benefits is essential to poverty reduction, but its potential must be understood in the context of other aspects the system (e.g. coverage, conditionality arrangements) which affect distributional outcomes. Under-indexation and reductions to benefits for children are to be avoided in order to improve the progressivity of the system and achieve greater poverty reduction. This is in conjunction with growing public concern with poverty, and with children in particular, and a 'backlash against austerity'.

2.4. Increasing universalism

1. Relationship to poverty/ inequality mechanisms	Increased universalism may appear to be less cost effective in terms of poverty reduction than a benefit targeted at low income families; however, increasing the universal element of welfare policies would eliminate targeting gaps, reduce stigma and increase take-up.
2. Party Political Support	Labour and the Liberal Democrats favour a move toward reducing means-testing, whereas the Conservatives favour a larger means-testing element. Labour is the only one of the three main parties actively considering Universal Basic Income (UBI), though the Liberal Democrats have previously proposed a citizens' income as party policy.
3. Type of intervention	Social security reform
4. Level	National
5. Public Support	Public opinion shows conflicting views, with potential support for progressive universalism, in particular for child benefits. There is some growing support for UBI, but this is much lower when considering how UBI would be funded.
6. Evidence of effectiveness	While not entirely settled, the debate around universalism and means-testing seems to suggest that universal approaches are associated with more public spending, greater redistribution and greater poverty reduction. At the same time, different types of benefits might benefit from a more targeted approach, while others would not. A combination of targeting and universalism might be most promising strategy. Evidence about the effectiveness of UBI suggests that to have positive impact on poverty and inequality reduction, its cost would have to be very high.
7. Cost	High
Overall	There is a complex academic debate around universalism, which does not allow clear prescriptions. Universalism also faces important barriers – with split political support, public opinion showing conflicting views and high costs. A combination of targeting and universalism might be most effective to achieve greater redistribution and greater poverty reduction.

1. Relationship to poverty/inequality mechanisms

Increased universalism may appear to be less cost effective in terms of poverty reduction than a benefit targeted on low income families: the diffused spread of transfer payments means that the degree of poverty alleviation is constrained. With a limited or shrinking budget it is often argued that this is better spent targeting the least well-off. This is based on the assumption that the amount spent on subsidies remains the same after introducing strict targeting, and that the targeted groups will therefore receive more (Mkandawire, 2007). However, in most cases the total allocation to subsidies is reduced, and in the long run the switch to targeting leads to reduced effort and reduced budgets devoted to poverty and welfare (ibid). Moreover, while means-testing may aid budget control, it is claimed to remain a short-term solution as it generates poverty traps, stigmatisation and non-take-up problems (Van Oorschot, 2002, Baumberg, 2016). Complexity and the rapid withdrawal of benefits with rising earnings in means-tested systems can create a disincentive to work longer hours or increase wages, as the extra income earned would be taken away in lost benefits and higher taxes. Moreover, there is evidence that the

shame of poverty is globally universal (Walker *et al*, 2013), and that benefits stigma itself has been found to contribute to it (Walker *et al.*, 2013, 226). Universalism might therefore not just prevent gaps in social provision but also better fulfil its role of social integration.

Through stronger conditionality measures, means-tested welfare generally implies stronger and more intrusive controls over personal circumstances and activities, fewer opportunities to become better off and a greater chance to fail to help those who are the most insecure. Moving to a more selective system might prove difficult to reverse, even in a favourable economic landscape meaning that cost-saving is unnecessary. Selective policies receive less support from society, so welfare states may fall into a 'selectivity trap' of ever stronger selective policies with ever declining support.

Increasing the universal element of welfare policies would reduce any stigma and increase take-up. Moreover, especially in highly unequal societies, where public attitudes may be divided into "them" and "us" (Hills, 2015), a more universalistic cash transfer system with a wider set of beneficiaries may attract more support and a more generous tax base, emphasising the role of redistribution as insurance required by everyone at different stages of life against periods of income vulnerability (Esping-Anderson and Myles, 2009; Kenworthy, 2011).

The debate surrounding a Universal Basic Income (UBI) can be understood in continuity with some of these themes. Supporters of a UBI have a variety of reasons to justify its institution: next to arguments related to dignity and human rights, there are arguments related to the simplicity the system, but also an emphasis on how UBI would allow to avoidance features of means-tested support – including stigma, disincentives and barriers to worker flexibility (Hirsch, 2015). A libertarian argument sees UBI as potentially reducing the government involvement in people's lives. The latter arguments would seem to face a substantial trade-off in terms of the higher marginal tax rates needed to finance the system as well as attributing a role to the state in giving some baseline level of financial support, even if recipients choose not to do anything to try to earn money for themselves. Moreover, there are concerns that UBI would reduce the progressivity of the current system.

2. Party political support

Conservatives favour increases in means-testing, and have long voiced opposition to universal welfare programmes for several reasons: from their cost and their potential for increasing dependency, to their potential regressive effects and inefficiency in targeting resources to the poor, alongside a preference for smaller government. Labour and the Liberal Democrats favour a move toward reducing means-testing. From the left, the [Fabian Society](#) has actively critiqued the approach to targeting advocated by the 2010 government.

In regards to the UBI, the Shadow Chancellor has set up a working group to investigate the feasibility of a basic income and declared to be keen on including a pilot of the policy in the next manifesto. The Liberal Democrats did not include a Citizen Income in their latest manifesto but this has been widely discussed within the party, including in [relation to UBI](#).

On the conservative side, arguments against UBI have been raised (for instance by Nick Boles) not solely in terms of efficiency, but also on "moral grounds", as fundamentally clashing with the idea that "mankind is hard-wired to work".

3. Type of intervention

Social security reform

4. Level

National

5. Public Support

Bamfield and Horton (2009) found that strategies of progressive universalism – where those in the middle get something, if less than those at the bottom – attracted positive assessments in terms of fairness, with occasional signs that people would be more willing to contribute to benefits that had wider coverage. YouGov, asking in 2012 about opinions on the withdrawal of child benefit from families in which one or both parents are higher-rate taxpayers, found that 68% believe the new rules are unfair, suggesting that a more universal approach to child benefits is supported by the public.

However, public opinion has not very clearly pointed to either a more selective or a more universal approach across the board. On the one hand, the public is critical of some measures that appear to ‘waste’ public money on transfers to people who do not need them; on the other, they can be critical of means-tested help that might deter effort, and protective of some benefits that give a stake in the welfare system to a wide section of the population (Gugushvili and Hirsch, 2014).

UBI

An IPSOS Mori poll carried out for the Institute for Policy Research at the University of Bath in 2017 showed that half of all adults aged 18-75 in the UK (49%) would support the UK Government introducing a universal basic income (UBI) at the level to cover basic needs in principle, while a quarter (26%) would oppose it. Support drops if introducing a basic income meant increases in taxes or cuts in welfare benefits spending from their current levels. If it meant an increase in taxes, 30% would support the introduction of a UBI, while 40% would be opposed. If it meant cuts in welfare benefits spending, 37% would support its introduction, while 30% would be opposed. If it meant both an increase in taxes and cuts in welfare benefits spending, 22% would support its introduction, while 47% would be opposed. However, elements of targeting remained salient for many (with 57% supporting UBI only for people on low income), thus effectively undermining the unconditional element that defines UBI.

The most convincing justification for introducing UBI (79%) saw it as a way of rewarding and encouraging people doing “very important unpaid work, such as caring or other voluntary work”. 67% thought it would provide income security to all who feel insecure about their job, but also reverse negative effects of conditionality (63%). 63% saw it as relevant in relation to threats of automation. 62% saw it as reducing bureaucracy and make the system more transparent.

6. Evidence of effectiveness

Korpi and Palme (1998) found that across 11 countries, universal approaches are associated with more public spending, greater redistribution and greater poverty reduction. They concluded that ‘The more we target benefits at the poor only and the more concerned we are with creating equality via equal public transfers to all, the less likely we are to reduce poverty and inequality’ (pp.681-682). The amount

of resources allocated for redistribution is not fixed – more inclusive welfare states generate larger budgets, since middle and upper income groups are more willing to finance schemes that they participate in and benefit from. Where the better-off opt for private welfare arrangements, the overall outcomes tend to be much more unequal than under earning-related public schemes.

These findings have been recently disputed by studies claiming that while there was a clear correlation between universalism and redistribution in the 1980s and early 1990s, this relationship fades out and disappears in recent years. In the 2000s, the size of the redistributive budget is actually correlated with low-income targeting, which goes against Korpi and Palme's core argument (Kenworthy, 2011; Marx et al 2013). Moreover, Brady and Bostic (2015), by including public opinion data in their model, find that income targeting reduces public support for redistribution, but universalism, which they measure differently, does not seem to boost support significantly. However, Jordan's (2013) assessment of public support for specific programmes in 17 OECD countries finds indeed that, as Korpi and Palme predicted, citizens express stronger support for universal programmes than for targeted measures. Jaques and Noël (2018), using OECD data and measures of institutional design, find that countries where social programmes are less anchored in universality have less generous redistributive budgets and are less effective in redistributing income and reducing poverty; countries with more encompassing welfare states spend more on transfers and services and do more to redistribute and reduce poverty.

Marx et al. (2013) re-examine Korpi and Palme's (1998) influential claims, adding 14 to the 11 countries originally studied. They find a mixed picture, suggesting that relationships have changed since the previous analysis. Most importantly, their findings point at how outcomes are sensitive to operationalisation, data source and, especially, country selection. For instance, the weak positive relationship between targeting and redistributive impact is driven mostly by the inclusion of Southern European countries (Greece, Spain and Italy). On the other hand, strong targeting produces strong redistributive outcomes in some countries (e.g. Denmark) but not in others (UK and Australia). Moreover, the relationship between targeting and redistribution is different for family transfers as compared to old-age benefits, or other benefits for the working aged, where a negative relationship between targeting and redistributive impact is found only for family benefits. Overall this analysis stresses how the nature of targeting has changed in terms of segments of the population covered or in terms of conditionality applied. The importance of focusing on within country across time evidence is stressed in McKnight's (2015) analysis of four EU countries (the UK, Italy, Sweden and France) over a period spanning four decades. Within country analysis finds a negative relationship between greater concentration of net cash transfers on lower income households and inequality and poverty reduction. In order to understand this relationship, the progressivity of direct taxation needs to be considered.

Gugushvili and Hirsch (2014) present a review of the literature on the effectiveness of targeting versus universalism on distributional outcomes. They suggest looking at cash transfers from a functional prism: targeting of family benefits may lead to more redistribution, but the same is not true for old-age pensions or other active age transfers, such as sickness or unemployment transfers. Moreover, they stress the importance of looking at the interaction between size and coverage. In their assessment, while the UK displays a better-than-average targeting of poor households, the cash transfer system manages to lift only four out of ten above the poverty line.

Along these lines, Van Lancker and Van Mechelen (2015) use EU-SILC data in 26 countries and find that redistributive budget is strongly and consistently associated with higher levels of child poverty reduction, and that universal systems tend to have the highest budgets; however, they also find that targeting is associated with more generous benefit levels for low income families, and that generosity is

related to higher levels of child poverty reduction as well. What emerges from this study is that the best performing countries are actually countries with a system of targeting within universalism. In these countries, two channels of poverty reduction are simultaneously at play: they combine high redistributive budgets with higher benefit levels for low income families.

Mkandawire (2007) points out that stigma, along with complex and invasive means-testing procedures discourages many potential beneficiaries from applying for benefits that they are entitled to claim. If the barrier of social stigma results in benefits being left unclaimed, then the ability of targeted programmes to reduce poverty is hampered for any given level of available resources. Oakley (2014) found that almost a third of eligible recipients in the UK were not claiming the means-tested benefits to which they were entitled. Consistently with the previous decade, 17% of those eligible for Child Tax Credits and 35% of those eligible for Working Tax Credit had not claimed (DWP, 2018).

UBI

The OECD (2017b) has evaluated costs and distributional effects of UBI using EUROMOD. In the UK, expanding coverage by replacing the existing systems with a UBI would result in a very large reduction in progressivity and losses in the size of benefits for many poor households. In a budget-neutral scenario, poverty rates would increase significantly and would require significant tax increases to offset some of the losses (OECD, 2017b).

These conclusions also emerge in Martinelli (2017), which, using microsimulation for a revenue-neutral UBI set at the level of existing benefits, finds increased numbers of households living below the poverty line (approximately 11% to 15%) and higher levels of inequality. Offsetting the cost with a progressive tax model performs better than a flat rate model since low-earning individuals, who are more likely to live in households at risk of poverty, pay an income tax rate of 23% as opposed to 28% under the flat rate model. Without modelling revenue-neutrality, a model generating the least adverse distributional effects would cost an additional £36bn a year. (This model assumes UBI set at the level of the tax saving implied by personal income tax allowance (PITA), combined with the withdrawal of PITA and Child Benefit⁵)

Overall, Martinelli (2017) finds a clear relationship between the fiscal cost of full UBI schemes and their effectiveness at combating poverty and inequality, giving rise to concerns about whether UBI is really the most effective way to achieve these goals. Moreover, Martinelli discusses the UBI option deemed as the most feasible by Torry (2016) and Reed and Lansley (2016): namely, that of retaining means-tested benefits, taking UBI payments into account in their recalculation. However, this solution sacrifices administrative simplicity, while also retaining high marginal withdrawal rates which cause poverty and unemployment traps. What seems to emerge is thus a three-way trade-off, between designing a UBI scheme which is fiscally feasible, has no adverse distributional consequences, and is sufficiently generous to eliminate the need for means-testing.

⁵ Suggested ways of raising this revenue include tax revenues from income, wealth, consumption goods (e.g. VAT), environmental pollution (e.g. a carbon tax) and financial transactions. Alternatively, Torry (2016) notes alternative sources of funding from dividends on publically-owned assets ('sovereign wealth funds'). However, models of 'costed' proposals assume that schemes would be funded through taxes on employment income, partly because tax/benefit microsimulation require comprehensive, representative data on the tax base, such as that provided through e.g. the Family Resources Survey for employment income; data allowing equivalent analysis of the distributional consequences of wealth taxes are not available.

In a recent study by Hoynes and Rothstein (2019) focuses on advanced economies and uses the 2017 Current Population Survey (CPS) Annual Social and Economic Supplement to compare various UBIs to existing programs in the US. They find UBI would direct much larger shares of transfers to childless, non-elderly, non-disabled households than existing programs, and much more to middle-income rather than poor households. At the same time, “pure” UBI (providing a set benefit to all regardless of income, age, etc.) funded to meet basic needs for low-income households would be extremely expensive, about twice the cost of all existing transfers in the U.S. They also confirm that replacing existing anti-poverty programs with a UBI would be highly regressive, unless substantial additional funds were put in.

Atkinson et al. (2017) use EUROMOD for a static simulation approach modelling the effects of tax and transfer reforms along the lines put forward by Atkinson (2015). They analyse the first round impact of revenue-neutral tax and transfer reforms including a partial UBI, or ‘participation income’. These reforms move towards a more universalistic approach, and entail increasing income tax in a progressive way, raising universal Child Benefit, either strengthening social insurance or implementing a ‘participation income’ variant of basic income, and increasing the minimum wage. Their EUROMOD simulations show that each of the tax and transfer reform packages have a substantial impact on reducing summary measures of inequality and poverty. For the same overall cost, the participation income reform produces a larger immediate impact on both inequality and poverty because it directs resources towards low-income households not in receipt of the insurance-based payments that are the focus of the social insurance package. The reform would see bring the poverty headcount down by 38% and the poverty gap by almost 60%. The impacts on child poverty are considerably greater.

7. Cost

High despite offsetting the high administration costs of means-testing, which considerably exceed those of universal programmes

Overall

There is a complex academic debate around universalism, which does not allow clear prescriptions. Universalism also faces important barriers – with split political support, public opinion showing conflicting views and high costs. A combination of targeting and universalism might be most effective to achieve greater redistribution and greater poverty reduction.

3. Spatial Disparities

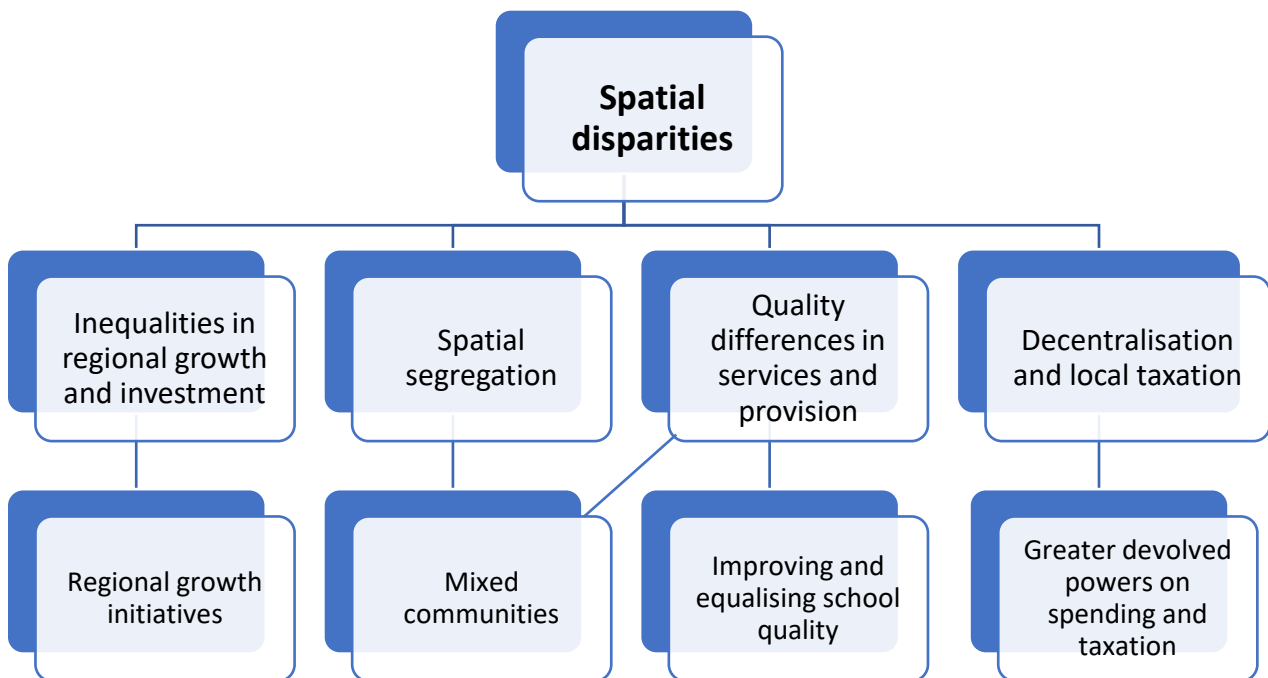
Research examining the geography of income, poverty and wealth has consistently shown unequal distributions across the UK and growing income inequality in the latter part of the twentieth century was accompanied by increasing social and geographical segregation (Dorling et al, 2007). Geographical polarisation may reinforce each of the mechanisms discussed in this work: opportunities for poor people will be reduced, if they are distant from work and access to higher education institutions; if local resources in part determine the quality of local public services, while geographical segregation erodes reciprocity and empathy, increasing stigma, potentially making mobilising support for redistribution and poverty alleviation harder.

Regional inequalities in individual average annual earnings have widened since the end of the 1990s and have continued since the financial crisis (McKnight et al, 2017). This was driven by greater increases in average annual earnings in England and Scotland than in Wales and Northern Ireland. Within England, annual average earnings have grown much more in London than in other English regions. At the same time, within London, considerable inequalities by population groups exist and are higher than elsewhere in England for a range of indicators (Vizard et al, 2015; Lee, et al, 2015).

Housing costs are an important factor for regional inequalities. Income poverty rates (before-housing costs) are higher in Wales and Northern Ireland than in England or Scotland. This gap has widened since the financial crisis but lower housing costs in Scotland for low-income households has meant that relative income poverty rates after-housing costs are lower in Scotland than in England and Wales. Higher housing costs in London have meant that a large gap in relative income poverty rates has emerged between London and other English regions after accounting for housing costs. Rising house prices and wealth inequalities have been transmitted into higher rents, but then greater shortfalls between those rents and maximum benefits have led directly to greater poverty – one of the most obvious direct links between inequality and growing poverty.

Public spending also varies considerably across regions. Some of that may reduce regional inequalities, for instance, with higher spending in Northern Ireland, Scotland and Northern England, but lower spending in the South East and East of England. In this respect residents in the East of England, the East Midlands and the South West are particularly disadvantaged. At the same time, higher spending in London, particularly on infrastructure, pushes in the other direction. This is important because infrastructure spending is an important determinant of economic growth and therefore spatial disparities have implications for long-term economic disparities. Figure 1 gives an overview of the policies and related drivers considered in this section.

Figure 1. Overview of drivers and policies related to spatial inequalities



Regional initiatives attempt to build new, stronger networks, spread best practice, design strategies and also provide new funding (or re-focus existing funding) to promote innovation in lagging regions (§3.1). Mixed communities approaches have been developed to focus neighbourhood regeneration strategies on creating a social mix and decrease spatial segregation (§3.2). Strategies equalizing school quality are explored in relation to their key role in improving quality differences in services and provision (§3.3). Finally, devolution and decentralisation strategies, both in terms of taxation and spending, are considered at different levels (§3.4.) because of their potential impact in producing improved social outcomes, for instance thanks to services that reflect local preferences and meet local conditions more effectively.

3.1. Regional Growth Initiatives – e.g. the Northern Powerhouse

1. Relationship to poverty/ inequality mechanisms	Attempts to rebalance the economy can have a positive effect on poverty and inequality by addressing disparities in regional growth and investment
2. Party Political Support	The “Northern Powerhouse” is a Conservative project, but all parties have developed or propose regional initiatives, while the Inclusive Growth agenda has cross-party support
3. Type of intervention	Regional Investment
4. Level	National and Regional
5. Public Support	There is general support for investing in economic development outside London. While the public may not be fully aware of the Northern Powerhouse initiative, this is not the case for businesses, who display high degrees of support for the initiatives but also voice confusion about what it entails in practice.
6. Evidence of effectiveness	In general, evidence is mixed and not enough is understood, not just in terms of <i>what</i> works, but also in terms of <i>where, why</i> and <i>for whom</i> it works. It is particularly unclear whether these strategies to boost productivity effectively have a positive impact on poverty. The relationship between economic and social outcomes is not to be taken for granted. There is a general fuzziness, in terms of the effects of policies, but also of their goals and costs. This is also the case for the Northern Powerhouse, which must be understood in the broader context, characterised by large cuts to local government spending, which can substantially affect its impact on social outcomes.
7. Cost	Medium-High
Overall	Backed by both public and cross-party political support, regional growth initiatives have potential, but many questions remain in terms of effective approaches, enabling factors and the relationship between economic and social outcomes. In particular, these initiatives should not be thought about in isolation from the national policy context.

1. Relationship to poverty/inequality mechanisms

In spite of predictions that the financial crisis would have starker effects in London and the South East, the ensuing recession has widened spatial inequalities, with ongoing decline in volume manufacturing and traditional industries and growth in so-called ‘knowledge intensive’ sectors. The lesson of the last ten years is that the market, if left alone, will concentrate growth in newer knowledge-intensive sectors – and those sectors are concentrated geographically in London and the South (Lee, 2010). Moreover, higher spending in London, particularly on infrastructure, has been suggested by some researchers as a factor behind the much higher growth rates in London relative to other English regions since 2009 (Cox and Hunter, 2015). Additionally, the legacy of the recession has been increased problems with access to finance, making it harder for firms to obtain funding to smooth cash-flow, make productive investments and grow. Emerging evidence suggests that there is a geographical bias to this, with firms in London and the south-east finding it easier to obtain funding than those elsewhere (Lee and Brown, 2017).

Focus on the North of England to address the gap in growth rates has been consistently linked to its

effect on the UK economy as a whole, as these regions are seen as not fulfilling their potential. Initiatives such as the 'Northern Powerhouse' can be seen as attempts to rebalance the economy, and while not explicitly linked to improving social outcomes and tackle inequality and poverty, they can result in positive effects, especially if linked to the growing 'Inclusive Growth' agenda.

2. Party political support

Since the economic crisis, increasing political attention has been given to economic disparities across regions, with the Coalition government launching new policies and funds, largely focused on Northern cities. The 'Northern Powerhouse' is a proposal envisioning the "joining up the North's great towns, cities and counties, pooling their strengths, and tackling major barriers to productivity to unleash the full economic potential of the North" (HM Treasury, 2016).

This project shows some continuity with Labour's concerns and recognition of disparities which had led to a wave of 'regional policies' during the 2000s (e.g. the "Northern way") with the general aim of bringing more opportunities for economic growth to the North. The Coalition's strategy abolished the Regional Development Areas in each region, and established 39 business-led Local Enterprise Partnerships (LEPs) at the level of the functional economic area. The establishment of a Local Growth Fund aimed at housing and infrastructure, together with "City Deals" in 28 cities, complemented the LEPs, and aimed to attract private investment in return for pledges on innovation and efficiency. The 'Northern Powerhouse', included investments in road and rail infrastructure, science and innovation and the devolution of certain powers to some major cities. The now Conservative administration has continued in this direction forming a new government-funded board called the 'NP11', involving 11 LEPs.

The Liberal Democrats' manifesto stresses continued commitment to champion the Northern Powerhouse, together with Midlands Engine initiatives and investment in infrastructure projects across the north of England and the Midlands. In 2015, the Jeremy Corbyn's campaign [criticized the Northern Powerhouse](#), for instance lamenting its shortcomings with regards to the kind of devolution it envisages.

3. Type of intervention

Regional Investment

4. Level

National / Regional

5. Public Support

In 2015 the BBC commissioned a ComRes opinion poll on public awareness of the Northern Powerhouse, to find that 44% of those asked had never heard of the term, and 20% had heard of it, but knew nothing about it (ComRes, 2015). However, 82% agreed that local politicians in the North of England, rather than MPs at Westminster, should have control over services such as health and transport. In a 2013 [YouGov Poll](#), 55% of respondents thought it would be good for Britain's economy if there was less economic development in London, and more in other parts of the country, while 12% thought it would be bad. Breaking down these data regionally, 68% and 61% of respondents from the North and the Midlands

respectively thought it would be good, and only 9% bad. 34% of Londoners thought it would be good, and 27% thought it would be bad. 55% also thought this shift in economic development away from London was unlikely.

The Institute of Public Policy Research North conducted a study to explore businesses' attitudes towards the Northern Powerhouse, comprising of two roundtables in Manchester and Newcastle, interviews and an online survey (Cox and Hunter, 2015). They found a very strong "brand penetration", with 90% of survey respondents having heard of the 'northern powerhouse', and roughly 70% indicated that they would consider that their company was contributing to it. A similar proportion agreed that it made sense to create an overarching brand for the north of England, with just over 50% agreeing that the concept of the 'northern powerhouse' would help to attract investment to the region. At the same time, despite the high degree of sympathy with the initiative's objectives, 80% thought current plans on devolution were not being communicated effectively and voiced frustration and confusion about what it meant in practice.

6. Evidence of effectiveness⁶

In 2014, Chancellor George Osborne launched the "Northern Powerhouse": an initiative that had four main elements – the first and most significant was transport, the second science and innovation, including the new Sir Henry Royce Materials Research Institute (based in Manchester but with branches in Leeds, Liverpool and Sheffield) as well as investments such as an Innovation Ageing Centre in Newcastle. The third component was devolution, with devolution agreements between individual city-regions and central government, the election of so-called 'metro mayors'. A Greater Manchester deal was signed in November 2014, while deals with other eight areas had been agreed by September 2016. The fourth component dealt with culture, through a Great Exhibition of the North to be held in Newcastle-Gateshead in 2018, and funding for a new theatre and exhibition space in Manchester. More recently, the government renewed its objective of raising productivity and growth across the North. In addition to the previous emphasis on improving connectivity, the government is prioritising skills investment and the promotion of the North to foreign markets and investors.

Lee (2016) evaluates the initiative in relation to its policy strategy, empirical basis and finances. He finds that there is a geographical fuzziness, with other areas attempting to secure similar deals (e.g. Cornwall, the Midlands). Lee notes that the spreading of devolution deals undermines the idea that they are specific to the Northern Powerhouse. The geographic focus has appeared impossible to sustain: for instance, in 2015's Summer Budget, the Northern Powerhouse was accompanied by measures to support growth in the Midlands, East of England, South West and even London. Gray et al (2018) echo Lee's (2016) assessment of a disorderly and unclear package with, in practice, a focus on core cities/city regions as 'drivers' of growth, and Manchester in particular (p. 158). The danger is one of creating an asymmetric, intensely political process where evaluation criteria are unclear and territorial competition is encouraged.

6. In evaluating evidence related to place-based initiatives, such as the Northern Powerhouse, it is important to stress that it is very difficult to establish generalizability and causality, with a small number of studies effectively exploring this relationship through counterfactuals (Neumark and Simpson, 2015; WWCLEG, 2016) and with heterogeneous programmes, fuzzy boundaries and complex interactions between different policies.

Lee (2016) identifies transport as the main area of investment which may have positive long-lasting impact. However, he notes that the benefits will not be large on a per capita basis, but that they need to be balanced against the costs and give no guarantee benefit for existing residents. In fact, on the one hand, while significant, gains would be far from effective at reducing disparities between the north and south. For instance, Gibbons (2015) undertakes some 'back of the envelope calculations' for Greater Manchester, where he suggests a new transport scheme increasing Manchester's labour market by 60,000 workers would add around £2.9 billion to gross value added. On the other hand, the major impact of transport improvements would work through long term structural change (i.e. upgrading sectors), but might deliver no wage growth to people who do not change education or skills levels. In this sense, the focus on transport might struggle to clearly address the main determinants of disparities, such as education and skills levels of the population (Gibbons, Overman, & Pelkonen, 2014). The omission of policy measures around education and skills in early Northern Powerhouse announcements was rectified in the 2016 budget (e.g. as through measures outlined in the North East Devolution Agreement with emphasis on human capital development and the move towards devolution of adults skills funding). Finally, Lee (2016) stresses that it is not always clear what is new money as opposed to finances already committed. Spending as part of the Northern Powerhouse is a mixture of new (e.g. £235 million for the Sir Henry Royce Institute for Materials Research), refocused and rebadged funding. Some funding has simply been branded as a 'Powerhouse' initiative even though it pre-existed the initiative. Without including High Speed 2 or 3 and excluding money already committed and obviously relabelled, around £6.7 billion has been committed as transport spending, representing the bulk of around £7.8 billion committed. Yet even here, the very charitable upper bound estimate of £6.7 billion new money is less than half the £14.8 billion finance spent on Crossrail in London and is dwarfed by the £27 billion–£32 billion cost of the proposed follow-up, Crossrail 2. In this sense, the Northern Powerhouse provides small sums as large cuts are simultaneously made to local government spending, which will reduce its chances of success. Overall, this shows how regional initiatives, which require strategy and investment in a variety of areas, can suffer of not well-defined plans and related institutions, unclear aims and insufficient funding; all while playing a pivotal role in the political rhetoric surrounding regional economic development.

Innovative aspects of the Northern Powerhouse stress the need of supporting high tech industries in the North, which is already home of 27 key tech clusters (HM Treasury, 2016). Attracting skilled workers in the knowledge-intensive high-tech sector can have positive spillover effects. Moretti (2010) found large 'tech multipliers' relative to other industries, equivalent to almost 5 new jobs for each additional high-tech job in a local economy. However, using panel data of 295 Metropolitan Statistical Areas (MSAs) in the United States between 2005 and 2011, Lee and Rodriguez-Pose (2016) set out to explore these 'multiplier' effects or cross-sectoral knowledge spillovers. They find that high-technology industries are associated with rising wages for low skilled and non-degree educated workers, but that there is no evidence that they reduce poverty. Whether measured by the official US poverty line or by an indicator of 'extreme' poverty, tech-employment alone is not be enough to reduce poverty. In this sense, benefits of generating or attracting high-tech employment do not trickle down and are not enough reduce poverty and may come at the price of increased inequality.

Neumark and Simpson (2015) review of evidence in the US and Europe of the impact of place-based policies, including regional selective assistance, enterprise zones, infrastructure investment and the promotion of clusters and universities. They highlight the difficulties in evaluating the causal effects of place-based policies. They conclude that the evidence is mixed and not enough is understood not just in terms of *what* works, but also in terms of *where*, *why* and *for whom* it works. The most positive evidence points towards the benefit of infrastructure expenditure, and expenditure for higher education.

However, they also stress that even in case of the programmes proving to be effective it is not clear that they create self-sustaining economic gains. In this sense, it is not clear that these policies succeed at kick-starting economic development through public finance giving way for private-sector activities to blossom and boost social returns.

A What Works Centre for Local Economic Growth systematic review (WWCLEG, 2016) evaluates evidence on the impact of Enterprise Zones in Europe and the US, with a focus on lessons for UK schemes⁷. They consider the effects for a range of outcomes, including employment and poverty rates. They find positive effects, particularly for employment in more developed regions. But also find that positive effects may be driven by displacement from nearby areas, with little evidence on whether overall effects at the wider area level are positive, or whether displacement is the main effect of these types of schemes. They also stress that generalisation is problematic, while it is also hard to identify differences across programmes, given the small number of studies matching quality criteria (e.g. considering impact on poverty).

Moretti's (2010) review stresses how the economic rationale of place-based policies is often misunderstood by public and policy-makers alike, for instance in terms of their impact on equity. Where these policies aim at narrowing gaps between regions, for instance by contributing to redistributing income from areas with high levels of economic activity to areas with low levels of economic activity, they are unlikely to be effective (p. 1242).

More generally, it is important to stress that the relationship between economic and social outcomes is not to be taken for granted. Efforts in rebalancing the economy do not necessarily address the wide disparities in social outcomes that exist between regions (Obolenskaya et al 2016) and there is no guarantee that economic growth will reduce poverty. In fact, Lee et al (2012) show that in some economically expanding cities poverty has stayed the same or increased. Growth in economic output did not necessarily produce employment growth and risked worsening poverty via increases in the cost of living. Obolenskaya et al (2016) find that some indicators of social outcomes (such as employment and qualifications, general health and education) are better in London compared to the North of England and most generally show the most improvement in line with economic conditions recovering or even improving compared to pre-recession levels. However, some indicators of the outcomes of the least advantaged (such as levels of poverty and homelessness) are less good in London since the recession. Moreover, inequalities are growing within London, and are as large within the capital as between the capital and the North. They conclude that London displays a story of 'growth with poverty' in London, at the same time as outcomes for Londoners overall are increasingly diverging from those of the population in the Northern regions.

In this perspective, it is worth briefly considering 'inclusive growth' initiatives that have been flourishing in several countries, including the UK, particularly at the city-level. In the UK, Inclusive Growth has been at the centre of a series published reports, by Inclusive Growth Commission of the Royal Society of Arts (RSA) and the Joseph Rowntree Foundation (JRF); as well as newly launched research centres, such as the Inclusive Growth Analysis Unit (IGAU) at the University of Manchester. 'Inclusive Growth' is one of the Scottish government's goals in its Agenda for Cities (Scottish

⁷ Of the 1300 studies that were seriously considered, 198 covered Enterprise Zone policies, 168 were discarded as they did not fit evaluation criteria which allowed a credible causal inference. Of the remaining, the majority used difference-in-difference and panel methods, and none was from the UK. In order to understand the UK context comparisons were drawn between the US and, in particular, the French context.

Government, 2015), and cities such as Leeds have introduced Inclusive Growth strategies (Leeds City Council, 2017). Interest in inclusive growth in cities (Lee, 2018) can be defined as a concern with both the pace and pattern of growth and is linked to two main issues: one is the scale and consequences of inequality, the other growing economic and political importance of cities. They are often where local governments are given new powers and responsibilities to drive economic growth, but while cities are seen as 'drivers of growth', rewards from growth are not shared equally and the most successful cities are often the most unequal (Lee et al, 2014), with growth failing to trickle down to the poorest (Lee and Sissons, 2016; Lupton et al 2016).

The main instrument for sustainable and inclusive growth is assumed to be productive employment, understood to entail not just employment growth, but also productivity growth. Productive employment is seen as the means of increasing incomes for excluded groups, rather than direct income redistribution (Ianchovichina et al, 2009, 12). Lee (2018) warns against the fuzziness of the concept, which leads to the danger of becoming 'a label for doing things which were not done particularly well or would have been done anyway' (7). For example, in the UK, Lee points out how Greater Birmingham and Solihull LEP has the goal of achieving 'smarter, more sustainable and more inclusive growth' in the region (Greater Birmingham and Solihull LEP, 2016, p. 5). Despite this, its strategy has a narrow focus on the traditional unemployment reduction, suggesting that reference to Inclusive Growth does not necessarily translate in substantial shifts in policy approaches. At the same time the Inclusive Growth agenda can help shape pre-existing policies in a way that means they now consider the importance of distribution (Green et al, 2017). It highlights the trade-offs between equity and efficiency that can often characterize policy making (OECD, 2014) and the different dimension of inclusiveness that would need to be considered for policies to succeed (OECD, 2018a).

Beatty, Crisp, and Gore (2016) develop an 'Inclusive Growth monitor' for the 39 local enterprise partnership (LEP) areas of England and find a positive relationship between prosperity and inclusion. While they cannot establish the direction of this relationship, they suggest that raising levels of prosperity is an important part of any anti-poverty strategy. However, by measuring changes in scores between 2010 and 2014, they stress that growth in prosperity over time will not necessarily translate into higher levels of inclusion. This is clearly shown in the extreme case of London where strong economic growth has occurred without concurrent reductions in high levels of poverty and disadvantage. At the same time, some LEP areas have seen a relatively high degree of positive change in poverty but less economic growth. A key limitation of the Inclusive Growth agenda is that cities have a limited ability to shape either growth or inclusion in their local area, and national intervention is necessary to succeed, especially in low-growth areas. Devolution (§3.4) is no guarantee of economic success (Pike et al, 2012), especially at times of significant reductions in public spending (Pike et al, 2018).

7. Cost

Estimated costs for the Northern Powerhouse are around £7.8 billion (Lee, 2017), transport being the key spending commitment with £6.7 billion. These costs are much lower than the investment in London just for Crossrail. Funding arrangements are opaque, making it difficult to distinguish between new, refocused and rebadged money.

In general, Inclusive Growth initiatives require increased investment and social spending but justify these in relation to the resulting sustainable growth and long-term benefits. In laying out its Policy Action framework, the OECD considers that any short-term costs from reforms may be lower and

shorter-lived when demand and job creation are stronger (2018a). In this sense, Inclusive Growth in lagging regions can attract and maintain investment, with the spending offset by their reductions of social cost. It would be essential to consider the effective impact on social outcomes when justifying these costs.

Overall

Backed by both public and cross-party political support, regional growth initiatives have potential, but many questions remain in terms of effective approaches, enabling factors and the relationship between economic and social outcomes. In particular, these initiatives should not be thought about in isolation from the national policy context.

3.2. Mixed Communities

1. Relationship to poverty/ inequality mechanisms	Mixed communities approaches could have a double dividend, with impacts for both inequality and poverty, through the reduction of segregation and the effect this has on attitudes, as well as via increased resources and improved service provision.
2. Party Political Support	All, but recent years have seen a largely diminished focus and investment in neighbourhoods.
3. Type of intervention	Housing planning and investment
4. Level	National/regional
5. Public Support	Generally, it appears that there is support for improved services, housing and neighbourhood regeneration, and mixed communities approaches are accepted instrumentally to these outcomes, rather than per se. People interpret the “mixed” element as referring to ethnicity, and not in terms of income or tenure mix.
6. Evidence of effectiveness	There is weak/mixed evidence on the impact of mixed communities that cannot really be considered in isolation. ‘Limited mixed communities approaches’, undertaken carefully as part of broader regeneration projects, could better balance positive outcomes and costs.
7. Cost	High
Overall	Segregation entrenches poverty and inequality has far reaching consequences, connecting spatial disparities to social attitudes and political economy. Policy focus on neighbourhoods has decreased in recent years, in spite of generally supportive attitudes among the public and political parties. Mixed communities might have limited impact but could be more promisingly integrated in broader regeneration projects.

1. Relationship to poverty/inequality mechanisms

We have seen (§1.1.) that people tend to underestimate the true level of inequality and overestimate rates of social mobility. This may be linked to spatial segregation. Where economic segregation occurs, it can alter people’s perceptions and affect preferences for redistribution. It can affect empathy, as where the wealthy are segregated from lower income households this can limit the extent to which they feel inclined to understand the circumstances of individuals living on lower incomes and support policies designed to improve their lives. People can also fail to directly observe the circumstances of people living on incomes different from their own: the rich might not feel as wealthy when surrounded by others enjoying the same level of wealth and privilege, while the poor might underestimate their disadvantage when surrounded by people managing on the same low income. In this sense, the logic here is not dissimilar to that of theories developed in relation to ethnic segregation. For instance, ‘contact theory’ advances the argument that positive intergroup contact improves groups’ perceptions of each other, reducing prejudice and social distance – a view confirmed by considerable experimental evidence (e.g. Barlow et al, 2009; Pettigrew and Tropp, 2006). In particular, diversity is associated with reduced perceived threat at certain, lower-middle scale, geographic levels (Kaufman and Goodwin 2018).

Mixed communities approaches are policies promoting social mixing through regenerating existing estates or planning policies for new housing developments, which transform certain low-income areas by accommodating more middle class settlement or provide ‘affordable housing’ in higher priced housing developments. In the UK, such projects normally involved rebuilding social housing estates at higher densities, with the extra homes being built for sale and profits on these sales generating subsidy for new or refurbished social housing and community facilities. These developments signalled a ‘new localism’ in which responsibilities for identifying and addressing the problems of the most deprived neighbourhoods moved more firmly to the local level (Lupton, 2013; Lupton et al, 2013). Mixed communities could have a positive effect in relation to poverty and inequality as they diminish segregation and increase the exposure to otherwise isolated groups; but they can also bring benefits arising from more resources (Table 1), attracting money to improve quality and provision of services, particularly schools, improve the reputation of an area and reduce stigma.

Table 1. Hoped-for benefits of mixed communities

Assumed area effects of concentrations of poverty	Assumed benefits of living in a more mixed community and/or creating more mixed communities
<p>(i) Arising from lack of resources:</p> <ul style="list-style-type: none"> ○ absence of private sector facilities like shops or banks ○ high demands on public services, and poor quality ○ a poor reputation ○ high crime and anti-social behaviour 	<p>(ii) Arising from more resources:</p> <ul style="list-style-type: none"> ○ more money to support facilities ○ fewer demands on services, particularly schools. More cultural and social capital to shape improved provision ○ improved reputation ○ fewer residents with motivation for crime and anti-social behaviour
<p>(iii) Arising from limited interaction between social groups:</p> <ul style="list-style-type: none"> ○ exposure to disaffected peer groups ○ isolation from job-finding or health-promoting networks for adults 	<p>(iv) Arising from greater interaction between social groups:</p> <ul style="list-style-type: none"> ○ exposure to aspirational peer groups ○ access to more advantaged and aspirational social networks

Source: Tunstall and Lupton (2010, 16)

2. Party political support

Under the previous Labour government, ideological commitments were made to the notion of mixed communities as it was claimed they would reduce social and educational segregation and bring new resources and social networks into low income areas. The Sustainable Communities Plan, specifically the Housing Market Renewal Pathfinder programme introduced by it, was designed to tackle problems of low housing demand and abandonment in certain neighbourhoods of the Midlands and North through the demolition and refurbishment of housing deemed obsolete and the creation of mixed tenure sustainable communities.

In the mid-2000s there seemed to be widespread consensus on the merits of mixed communities: the Guardian (2012) noted that “everybody wanted them” and Boris Johnson included them in the London plan. This agreement across the political spectrum might be rooted in what Lupton and Fuller (2009) consider neoliberal ideological grounds underpinning the mixed communities approach to urban policy. This adopts the thesis that “concentrated poverty” (or in some iterations, concentrated social housing tenure) is the problem and “de-concentration” the solution, legitimizing policies that change the spatial

structures of cities through market forces; its emphasis therefore is on restoring market functionality for both consumers and producers – consumers can choose within a diverse housing stock, while producers see new construction markets opening up. Moreover, neighbourhood change is aligned with the strategic needs of the city, reflecting a new urban entrepreneurialism in which city leaders move away from service delivery roles to envision and promote economic growth and competitiveness, and creating the conditions for capital accumulation and investment (one such condition being the presence of the middle classes).

While all parties might be seen as considering socially mixed communities desirable, recent years have seen investment in area regeneration and local renewal severely curtailed. Programmes inherited were dismissed as ‘unsustainable’ and ‘unaffordable’, legacy programmes have been allowed to expire without replacement or, in the case of Housing Market Renewal, simply terminated (Fitzgerald and Lupton, 2015). In fact, shifting focus from neighbourhoods to individuals, moved away from ideas of reducing social segregation (Fitzgerald and Lupton, 2015). The effects of reforms to Local Housing Allowance and the benefits cap (Hills 2015) are expected to result in lower income households having to move out of richer neighbourhoods to lower rent areas (Fenton 2011).

None of the three main parties mentioned mixed communities and neighbourhood strategies in their 2017 manifestos. Affordable housing and building affordable homes as a proportion of larger developments is on the current agenda. However, this puts greater emphasis on housing stock availability and affordability (§6.4), as opposed to being explicitly about mixed communities.

3. Type of intervention

Housing planning and investment

4. Level

National/regional

5. Public Support

Support for Mixed Communities is not a topic much investigated in opinion surveys, but there is some evidence of residents’ perceptions and attitudes in the final report for the Evaluation of the Mixed Communities Initiative Demonstration Projects (CLG, 2010). What emerges from these findings is that people did not have very detailed perceptions of existing mix, particularly in relation to income mix. Residents primarily interpreted ‘mix’ as referring to ethnic mix and did not necessarily understand the terms ‘mix’ and ‘mixed’ communities in terms of income or tenure mix. They also referred to a mix of household types, generations, and places of origin around the UK. In these terms, a majority of people already felt that their areas were mixed, while between 20% and 60% of people in each area found it hard to identify characteristics of other residents.

Views about the mixed communities approach to regeneration were varied and generally did not show a strong endorsement. When asked directly whether bringing people with more money into the area would “improve it overall”, between 33% and 40% of residents agreed and a similar number disagreed. More disadvantaged households tended to be more sceptical. However, most respondents said that they did mix socially with people from different backgrounds (probably defined in terms of ethnicity), particularly in shops and workplaces (although nurseries, schools, pubs, cafes and restaurants were also

mentioned). This was more common the more mixed the area, suggesting that increased mix does lead to increased integration to a certain extent.

Residents doubted that better off people moving in would improve the area or that they would benefit directly from the new housing – and would have generally preferred new social housing. However, the evaluation report also stresses that residents did notice improvements to the areas that had been made. The mixed communities approach was accepted in order to deliver neighbourhood improvements, but residents would not necessarily see it as the best or necessary approach to neighbourhood regeneration or housing improvements.

6. Evidence of effectiveness

Segregation can be driven – but can also further entrench – inequality. Mixed communities seek to act on the social mixing, altering this process and potentially mitigating inequality and poverty.

In relation to the first dynamic, evidence in many developed countries shows that changes in social segregation are strongly positively associated with changes in inequality (OECD, 1998). The relative rather than absolute position in the income distribution is also stressed in Cheshire et al (2003), in showing that income distribution is a driver of residential segregation and ultimately social exclusion. This is more important in determining access to limited and locationally fixed desirable amenities in urban housing markets (including the socio-economic composition of the neighbourhood itself). As the distribution of incomes becomes more unequal, social segregation will tend to become more intense.

Watson (2009) uses metropolitan area fixed-effects regression models to estimate the causal effect of metropolitan area income inequality on income segregation in the US. She demonstrates that income inequality has a strong effect on income segregation, measured through the centile gap index. She also finds that income inequality leads to increases in the segregation of both poverty and affluence (though the effect is slightly larger on the segregation of affluence). Reardon and Bischoff (2011) use US census data between 1970 and 2000 and confirm this robust relationship at least for large metropolitan areas: increasing income inequality was responsible for 40%– 80% of the changes in income segregation. However, in their findings, income inequality affects income segregation primarily by affecting the segregation of affluence rather than the segregation of poverty. This literature also explores the relationship between economic inequality, social segregation and racial segregation. Reardon and Bischoff (2011) find that the relationship between income inequality and income segregation differs for black and white families: while in 1970, income segregation among black families was lower than among white families, it rose steeply from 1970 to 1990.

Barube (2006), drawing on a US-UK comparison, stresses three key drivers contributing to rising economic segregation. One is rising income inequality, as the polarization of incomes generally has made the places where poor individuals live relatively poorer, even as high-income areas have grown relatively richer. Another is residential sorting, with low-income households and high-income seeking out contrasting communities, in terms of the social spending and cost of housing. In addition, household movements to maintain or strengthen social ties may contribute to economic segregation, to the degree that these ties exist mainly within – and not across – income groups. Finally, these individual and household choices are shaped by housing policy, strengthening the links between housing and deprivation.

Mixed communities seek to act on the social mixing, altering the dynamics just described and potentially mitigating inequality and poverty. Galster (2013) reviews US and European evidence and looks at the effects of social mixing on a range of social outcomes (e.g. income, labour force participation, educational attainments). The review finds that three dimensions of the social mix are to be considered: 1) Composition (e.g. the basis for mixing people, including ethnicity, race, religion, immigrant status, income, housing tenure), the review finds that economic status is more important to improve social outcomes than immigrant status; 2) Concentration (e.g. the amount of mixing), finding that while evidence in the US indicates that the mix should not exceed roughly 15-20% poverty populations, evidence is less clear for Europe; 3) Scale (e.g. the level of geography to measure), which points to the benefits accomplished at the spatial scale of multiple hundreds of households. Overall, Galster concludes that there is some evidence that disadvantaged groups can benefit from social mix, but this is most likely in cases where the social gulf between neighbours is not too large.

In the UK, Bailey et al. (2013) use a multilevel approach on 2009 British Social Attitudes survey data and find support for the mechanism linking segregation to poverty and inequality. They find that, in England, increasing spatial segregation appears to have eroded support for redistribution, which may in turn further increase levels of inequality in a feedback loop. Residential segregation and income inequality are linked through the operation of the housing market – the rise in geographical segregation reflects the increased ability of higher income groups to outbid lower income groups to compete for more 'desirable' neighbourhoods as the income differential between these groups increases with increasing inequality. Moreover, a racial dimension can intersect with these dynamics. For instance, Luttmer (2001) explores interpersonal preferences through the General Social Survey in the US and finds that among the least advantaged, people are less likely to support redistribution if they live around disadvantaged people of a different race.

The use of tenure mix (either through regeneration existing estates or planning policies for new housing developments) has been proposed in the UK to prevent concentrations of poverty that can arise for the spatial concentration of public housing. Cheshire (2007) argues that there is weak evidence on poorer people benefiting from mixed communities other than from the general improvements to their homes, the environment, and schools, which could be made without mixing communities. Monk et al (2011) review evidence for the Scottish Government Social Research unit and find that evidence in the UK points to successful implementation of mixed tenure in new developments, whereas the effect on existing estates in low income areas is less clear. Most empirical literature on mixed communities is based on cross-sectional case studies, however, and therefore cannot be generalised. The evidence on financial, social and economic costs in the literature is also very limited. The authors conclude that the introduction of mixed communities *can* be successful if it is undertaken carefully as part of broader regeneration schemes, and in a way that generates minimal disruption to existing residents.

Cheshire (2007) finds limited evidence for claiming that making communities more mixed improves the life-chances of the poor. Debates around policies of social mixing also suggest the importance to pay critical attention to their ability to produce an inclusive urban renewal and the potentially detrimental gentrifying effects they may inflict on the communities they are trying to help (Lees et al, 2008; Atkinson, 2004; Bridge et al, 2012). Lees (2008) reviews evidence in this sense. In the UK, Lyons (1996) and Atkinson (2000) both found evidence suggesting gentrification-induced displacement in London. Davidson and Lees (2005) also found evidence of gentrification-induced displacement in riverside wards along the Thames that had experienced new-build gentrification. As a result, spatially based mechanisms designed as a positive solution to segregation had been ineffective in increasing social mixing and in fact could foster polarization – gentrification – at the neighbourhood/community level. In

the same direction,

Overall, evidence from the UK, other European countries (e.g. Netherlands and France), the US, and Australia does not offer strong support for benefits from a mixed communities approach above and beyond the benefits from traditional renewal: when involving substantial tenure and social change these may be justifiable in a very small minority of neighbourhoods and they are unlikely to be achievable in many more, particularly with public finance in short supply (Tunstall and Lupton, 2010). Moreover, some of their positive effects have little to do with the mixed communities approach per se. For instance, the designation as a 'demonstration project' had been useful in establishing areas as priorities for wider regeneration activity, and there is also some evidence that Mixed Communities Initiative acted as a catalyst for long-term planning and strategy. This helped to provide a critical mass for other developments (e.g. new schools and leisure centres) and to secure buy-in from other agencies and residents. These benefits, however, could not be attributed to the distinctive features of the approach, making it hard to identify any added value of the 'mix' element of the mixed communities approach (CLG, 2010). Tunstall and Lupton (2010) conclude that "it is hard to argue that evidence of the benefits of creating more mixed communities in existing areas and advantages over traditional neighbourhood renewal is strong enough to justify substantial economic and social costs of demolition and rebuilding" (p. 27).

However, they also warn that the agreement that mixed communities approaches do not offer a quick or dramatic fix for the problems of disadvantaged areas does not automatically imply that these policies have no role to play. In practice, mixed communities approaches cannot be considered in isolation, as the only policy option, and they seldom are. This consideration supports a key element of traditional neighbourhood renewal – multi-faceted area regeneration, sometimes involving mixed communities approaches, with other place-based and people-based policies, for instance on worklessness, educational achievement, that can have more effect when applied together. This means that neighbourhood effects are important to consider for policy design, in the balance of the multiple goals pursued by policy-makers. In this sense, a 'limited mixed communities approach' (Tunstall and Lupton, 2010), involving tenure and/or population change in residential areas, with limited changes to the pre- or post-existing homes, has lower costs than more radical change and is already a well-established element of traditional neighbourhood renewal. Moreover, substantial or limited mixed communities approaches have a role to play a) as a precaution, to prevent segregation getting worse and reaching tipping points where neighbourhood effects might be generated; b) to increase the supply of housing, improve its quality and the surrounding environment; c) to change the reputation of the area, and the stigma associated with it.

7. Cost

Monk et al (2009) note that the evidence on costs – financial, social and economic – in the literature is very limited. Where mixed communities are part of regeneration of existing estates costs are very difficult to obtain, not least because most schemes involve the sale of land to private developers and issues of confidentiality prevents disclosure of prices. The disruption to communities and families or loss of local services (e.g. shops or schools) during redevelopment are social costs that might be inherently difficult to measure. Economic, or opportunity, costs are also hard to measure in financial terms because they require information not only on the financial costs of a mixed scheme but also of the alternatives on which those funds might have been spent.

In the UK, the Evaluation of the Mixed Communities Initiative Demonstration Projects argues that the approach has large up-front costs to the public sector (CLG, 2010): including direct financial costs (such as for housing renewal projects), imputed economic costs (e.g. opportunity costs) and social costs, which, as noted, are harder to assess. Demonstration projects had not developed approaches to appraise programmes that included this complex range of costs, and offset these against benefits. The main financial costs are related to land, including decanting tenants and acquiring properties, demolition and remediation of the sites. These substantial costs saw physical regeneration progressing mainly where there was access to major sources of public funding to meet the up-front costs, including New Deal for Communities funds, the Urban Development Corporation or the Regional Development Agency (e.g. Hackney, Knowsley, Leeds).

Overall

Segregation entrenches poverty and inequality has far reaching consequences, connecting spatial disparities to social attitudes and political economy. Policy focus on neighbourhoods has decreased in recent years, in spite of generally supportive attitudes among the public and political parties. Mixed communities might have limited impact but could be more promisingly integrated in broader regeneration projects.

3.3. Improve and equalise school quality

1. Relationship to poverty/ inequality mechanisms	Improved and more equal quality of education can ameliorate educational inequalities and affect the pre-distribution of income with positive effects for both poverty and inequality.
2. Party Political Support	All parties want to improve quality of education and equalize outcomes, for instance addressing the achievement gap. However, parties have different strategies to meet these goals. Where conservatives prioritise academisation and proposed new selective schools, both of these are challenged by both Labour and Liberal Democrats.
3. Type of intervention	Educational reform
4. Level	National
5. Public Support	There is consistent support for spending on education, while views on academies have become progressively negative. More positive views are held about grammar schools.
6. Evidence of effectiveness	Choice mechanisms in education do not guarantee quality and equity gains, and control is needed (e.g. in admissions) to avoid fostering social segregation. Academisation does not appear to have substantial results, and the literature generally casts doubts that self-improving strategies can fully address quality problems, particularly in disadvantaged areas. The literature offers strong support to the idea that a more selective system would produce little or no gains but would substantially hinder equity.
7. Cost	High
Overall	Education provision of greater and more equal quality can be very important in relation to both poverty and inequality, and is a goal that enjoys consistently high public support. However, the approach undertaken in the last decade, and its focus on academisation, has not led to hoped-for results and has seen decreasing levels of public support. This, in conjunction with strong evidence pointing to unequitable effects of greater selectivity, suggests limitations of the current approach which could in fact foster segregation and educational inequalities.

1. Relationship to poverty/inequality mechanisms

Social investment and in-kind provision of education can lead to poverty and inequality reduction. These types of policies aim at equalising opportunities and affect the pre-distribution of income, as opposed to cash transfers which aim at changing poverty rates and the distribution of income post-taxes and transfers.

Schools, particularly at the secondary stage, show a north south divide, with underperforming schools disproportionately located in the North and Midlands (Ofsted, 2018). Of the 490 that are rated as 'stuck schools', the proportion varies considerably across regions (from 2% in London to 10% in the North and East Midlands). In these 'stuck schools', the proportion of pupils who are eligible for free school meals, and those who are White British and eligible for free school meals, are well above the national average. Moreover, spatial disparities have seemingly widened: comparing the performance of 11-year olds born in 2000 with those born in 1970, research by the Social Market Foundation (Clegg et al, 2017) reveals that the geographic area a child comes from has become a more powerful predictive factor for

those born in 2000 compared to 1970. Schools serving more highly deprived areas also show higher staff turnover, are more likely to have teachers without an academic degree in a relevant subject and have lower percentages of teachers with more than 10 years' experience. The OECD (2015; 2017) has stressed as a key goal for the UK to ameliorate educational disparities and in particular "monitor the impact of previous reforms such as the Education Act 2011 on the average quality of education outcomes and equity across social groups" (OECD, 2015, 304).

Schools struggle to educate overwhelmingly poor populations and schools located in and around deprived areas have predominantly low-income student populations from their surrounding neighbourhoods. Concentrations of low-income pupils at the school level present several potential obstacles to student achievement, some acting through individual student background and others through environmental influences. Low-performing schools may lack resources for lower-ability pupils, may find it difficult to attract the best teachers and managers; and may exert downward pressure on school processes and quality, as staff must operate additional systems to manage student behaviour and attendance, spending less time on curriculum development and finding greater difficulties to plan and finance extra-curricular activities and parents' engagement (Lupton, 2005). Equalising and improving school quality would seem necessary to bridge disparities in skills that bear on both economic growth and life chances. Education inequalities relate to a range of other social and economic outcomes (income and standard of living, social support networks, unemployment risks, health and mortality risks, etc).

At the same time, there are limits to what higher educational standards can achieve in relation to poverty and inequality reduction. Education may create equality of opportunity but can do little to reduce inequality of outcome in the absence of re-distributive economic and fiscal policies. In light of the positional value of education (Goldthorpe, 2013), a 'race' exists between the state seeking to increase equality of opportunity and wealthy families responding to increased absolute attainment by seeking to protect the advantages that their families enjoy. These families may have more resources (e.g. in terms of finances, networks and cultural capital) to assist their children than the state has to assist low-income children, placing limits on the extent to which the state can reduce educational inequalities (McKnight, 2017) and fund successful 'pre-distribution' strategies. Moreover, researchers have long argued that school improvement strategies make only a limited contribution to combating inequality of attainment: for instance, only around 10% of variance in academic attainment at age 16 is explained by schools (Mortimore and Whitty, 1997). Recognizing the limits of what schools can do in terms of tackling inequality does not eliminate the need for exploring how educational systems can be designed to reduce, rather than exacerbate, disparities.

2. Party political support

The Conservative Manifesto (2017) brings forward the explicit goal of making Britain "the world's greatest meritocracy" (p. 47). Improving and equalizing educational quality is asserted to be central to this goal, while spatial disparities are recognized. The conservative strategy puts emphasis on scientific and technical institutions, with a focus on school-led innovation, and stressing schools' role and responsibility to be creative and provide new opportunities for local people (p. 25). Commitment to academisation and free schools is renewed, explicitly linking these to improving quality in underperforming areas. In order to "create more good school places" (p. 50), the ban on selective schools is lifted and further partnerships with universities and independent schools sought. Overall schools budget is said to increase by £4 billion by 2022, the commitment to protect the Pupil Premium is renewed.

The Liberal Democrats proposed to invest nearly £7bn extra for school and college budgets, reverse all cuts to school and college budgets and protect per-pupil funding in real terms, protect the pupil premium and increase the Early Years Pupil Premium to £1000 per pupil per year.

Both Labour and Liberal Democrats do not support lifting the ban on selective schools. They both also propose to reverse trends in relation to academisation, repealing the rule that all new state-funded schools must be free schools or academies and restoring links with local authorities and their role in relation to democratic accountability, working together with local head teachers, and their responsibility for school places planning. The Liberal Democrats would also divert money to local authorities that was previously allocated for selective schools. They proposed to rule out state-funded profit-making schools and regulate the construction of new schools in areas where there is a need for new school places. Labour proposed to reduce class sizes for 5/6/7 year-olds, introduce free school meals for all primary school children (using the money resulting from removing the VAT exemption on private school fees) and scrap the apprenticeship levy and spend the resulting £150 million in schools.

In terms of measures related to teachers, both the Liberal Democrats and Labour proposed to end the 1% cap on teachers' pay rises. The Liberal Democrats proposed to introduce funded entitlement to professional development with the aim of aligning with the OECD average and ensure all teachers in state-funded schools will be fully qualified or working towards qualified teacher status (QTS). Labour would propose to give teachers more direct involvement in the curriculum, and reduce monitoring and bureaucracy to improve teachers' workloads.

3. Type of intervention

Educational reform

4. Level

National

5. Public Support

The 2016 British Social Attitudes found that 80% of respondents reported having at least some confidence in the British school system, of whom those reporting 'a great deal' or 'complete' confidence rose to 28% from 23% in 2011. While there is growing support for public spending (§2.2), people's top priorities for more spending have proved stable and remain health and education. The 2017 British Social Attitudes finds that around 7 in 10 think the government should spend more or much more on education (71%).

However, a [2016 YouGov poll](#) found that there was a strong tendency amongst teachers to say turning more schools into academies will make standards worse (48%) rather than better (17%), while 28% say this will not change standards. The public was less negative but still divided over whether the process will make standards better (28%), worse (31%) or won't make much difference (25%). This is in a context of declining support for turning existing schools into academies: this was at 40% in 2011, and declined to 25% in 2016. While those opposing the process went from 32% to 39%. However, already in 2013, [YouGov](#) had found that only 14% of parents believed that academy status improves educational standards, while 55% thought it does not. 44% thought the Coalition

government had had a negative impact on the education system, with 8% attributing a positive impact and 33% thinking it made no difference. 19% thought that the Coalition Government's academies and free schools programme was taking education in England in the right direction, 45% thought it did not and 35% stated they did not know. 84% opposed the idea that state schools would be run for profit and only 9% agreed with the Government's policy to allow academies and free schools to employ unqualified teachers. At the same time, satisfaction with teachers was over 70%, while 60% opposed moving from a national pay system to one set by individual schools, which was favoured by 25%.

[In 2015, YouGov](#) also found that the public opposed creating new free schools: while 21% thought that existing ones should be kept but no new ones should be opened, 29% thought that the government should also put existing ones under the control of local councils. 29% was not sure and 21% thought the government should open more.

The [2012 British Social Attitudes survey](#) found that 67% agree that parents should have a basic right to choose their children's schools, but an even larger proportion think parents in general should send their children to the nearest state school. 63% support this idea outright and a further 22%, who do not support this idea outright, would do so if schools were more equal in their quality and their mix of pupils. 61% think the quality of education should be the same for all children, while 38% think parents who can afford it should be able to pay for better education.

In relation to grammar schools, [views are mixed](#), with 34% saying that the government should build more grammar schools, 20% wanting to allow current grammar schools to stay open without adding more and 25% opposing grammar schools and saying existing ones should be scrapped. A [2016 YouGov](#) found that 62% of respondents would get their child to sit the entrance exam for a grammar school if there was one locally, whilst two thirds (67%) would send their child to a grammar school if they passed the exam. The single most widely held view is that grammars improve social mobility (35%), whilst only 19% think they damage social mobility. A further 27% believe they make no difference at all, and another 20% don't know. The proportion of those who support building more grammar schools and having more schools selecting by academic ability in this poll was 38%, while 23% thought that all existing grammar schools should be forced to accept children of all abilities, and 17% backed retaining existing grammar schools but not allowing any more. [YouGov](#) also found a broadly urban/rural divide on the popularity of grammar schools as well as a North/South split. The ten areas most anti-grammar schools are all urban areas, seven of which are in the North/Yorkshire. Nine out of the ten most pro-grammar areas, by contrast, are in London and the South East.

6. Evidence of effectiveness

Educational reforms in the late 1980s have introduced choice and competition in the UK education system, creating a quasi-market with the goals of increasing responsiveness to users, improving efficiency, quality and equity (Le Grand 2007). For instance, the system would give less well-off parents a choice that wealthy parents, with resources to buy properties in catchment areas of high quality schools, always had. Catchment areas and zones are likely to be inequitable given residential segregation. At the same time, for these results to occur, key conditions would need to be in place, for instance to ensure that structural barriers and inelasticity of both supply and demand do not effectively restrict people's choices.

Overall, the evidence suggests that choice mechanisms do not automatically lead to a higher quality and more equal system. Waslander et al (2010) review of the effect of market mechanisms on equity and quality in OECD countries. Lamenting measurement limitations – with many studies reducing quality to student achievement, but also displaying great heterogeneity in terms of research methods, subjects, subgroups, contexts and research methods – the review finds that market mechanisms bear potentially positive effects, but even in cases where positive effects are found, they are very modest in size. Evidence on the effects for equity are even less positive: findings on segregation as a result of market mechanisms in education indicate a risk of increased segregation. For all the outcomes considered (quality, equality, efficiency and innovation) findings point to differential effects: some students and schools may experience positive effects, while others face negative effects. Moreover, on the demand side, choice is related to socio-economic background, with more affluent and well-educated parents exercising choice options more frequently. The study also confirms the inelasticity of the system; children in underperforming schools leave these schools only in small numbers, and a large majority of parents convey good levels of satisfaction. The authors suggest that this indicates that market mechanisms by themselves are unlikely to provide the strong forces needed at the demand side of the market which could improve the quality of education in a substantial way.

In practice, school segregation largely reflects neighbourhood segregation i.e. areas with higher residential segregation have more segregated schools. This is the case for instance in Lupton and Thomson's (2017) in-depth multi case studies in extremely disadvantaged areas of England. If the link between residential and school segregation is strong, and the government's goal is to promote more socially mixed schools, changes to the school system may not suffice: infrastructure investment as well as mechanisms to create more mixed housing may be required. Moreover, potential equitable outcomes resulting from school choice are offset by the fact that admission criteria used for pupils to be allocated to schools often give priority to distance or catchment areas (Allen et al, 2010; West, 2006); but also, by evidence of cream-skimming through which schools covertly 'select out' hard-to-teach pupils (West, 2004; West, 2003). The OECD (2012) also stresses the need to manage school choice to avoid segregation and increased inequalities, noting that controlled choice schemes appear necessary to prevent segregating students by ability and socio-economic background and ensuring a more diverse distribution of students. Incentives can also be used to make disadvantaged students attractive to high quality schools. In the UK, the Pupil Premium would appear to operate in this direction. However, while the Pupil Premium is an important instrument to promote the 'progressivity' in the school funding system, it is unlikely to significantly reduce social segregation. Chowdry et al (2010) study for the IFS, using data on financial resources and spending of all state schools in England, combined with the National Pupil Database argue that the premium would need to be very high to sufficiently reduce the disincentive for schools to attract disadvantaged pupils, while also finding that revenue-neutral or low-net- cost options would have been likely to lead to significant numbers of schools experiencing large losses in per-pupil funding.

Academisation

The 2010 Academies Act dramatically accelerated the spread of Academy Schools, which were originally introduced by the Labour Government in 2000, as a measure to raise educational standards in areas characterized by high disadvantage and low school performance. It also introduced Free Schools, which could be set up by groups of parents, education providers and teachers if they felt their local school provision was inadequate. These reforms resulted in a significant accountability change, with over half of secondary schools now turned into academies and 'controlled' from central government. The White Paper 'Educational Excellence Everywhere' (DfE, 2016) pushed the academisation agenda further for

both primary and secondary schools, setting as a goal the transformation of all UK secondary schools into academies by 2022. Academisation is the key government strategy oriented to drive up quality standards of the UK school system in the past 10 years, fundamentally oriented to create a “self-improving system”. This has led to the promotion of multi-academy trusts (MATs), the roll back of local authorities from school oversight and the development of new school-to-school support models, with the stated aim of simplifying bureaucratic compliance systems and “moving control to the frontline” (DfE 2016, p. 6).

Bernardinelli et al (2018) matched a sample of schools in multi-academy trusts (MATs) with schools that have equivalent characteristics on a number of dimensions and analysed differences in pupil level outcomes at Key Stage 2 (KS2) and Key Stage 4 (KS4) over three years (2013–15). They find no positive impact from MAT status overall, a result that is largely consistent with other recent studies (Hutchings and Francis, 2017). Their report shows that, in terms of MAT size, pupils in small and mid-sized MATs tend to perform better than their peers in comparable maintained schools in both phases and, in the primary phase, than comparable standalone academies. Conversely, secondary school pupils in larger MATs tend to do worse compared to those in both stand-alone academies and maintained schools. These findings suggest that the economic drive for MAT growth promoted in contemporary policy may well be in tension with an educational argument for smaller groupings of schools

Hutchings et al. (2014), which focused on the attainment of disadvantaged pupils in secondary sponsored academies in 2012 and 2013, showed that there was significant variability in outcomes both within and between academy chains. While there were some chains that showed positive results, many showed the opposite, and the overall effect is limited. Andrews (2016) also compared the performance of MATs and local authorities at both KS2 and KS4. The results show few differences between local authorities and MATs on aggregate, and wide variation between different MATs and different local authorities with no substantial evidence for MATs being more effective than local authorities or vice versa.

Greany and Higham (2018) use Ofsted data together with 47 case studies to gain insight into leadership decision-making and agency, which show complex and at times conflicting motivations. They find scope for new entrepreneurial agency and point to how a minority of schools and school leaders substantially influence local landscapes – in particular, nationally designated ‘system leaders’. In general, though, rather than ‘moving control to the frontline’, hierarchical governance and central intervention were intensified, constraining the professionalism of school staff and steering the system. The importance of Ofsted and the wider accountability framework in influencing the behaviour of schools suggests that hierarchical governance is more influential than market accountability or network co-ordination in England. By exploring the relationship between Ofsted inspection outcomes and levels of socio-economic stratification between schools, they find some selection effects, as schools with higher inspection grades had become relatively less deprived during the period 2010–15, while the reverse was true for schools judged as Requires Improvement or Inadequate. Ofsted seems then to shape both parental choice and competitive practices by schools. Moreover, as MATs get larger, the number of managerial levels often increases, meaning that the ‘bureaucracy’ of the LA is replaced by another, potentially more complex and less accountable bureaucratic form – which develops hierarchical authority without a local democratic mandate. Most importantly, while a minority of our respondents were optimistic about the potential for their local school system to become ‘self-improving’, the majority view was that the agenda was creating a fragmented system of ‘winners and losers’. The tensions produced by these hierarchical pressures raised worries in regards to equity: on the one hand, as noted in relation to the Ofsted data, local school systems remain highly stratified by socioeconomic status; secondly, there was concern for the level of challenge facing more deprived schools as LA services for

specialist educational support services to vulnerable children were being cut back. Finally, the accountability framework can encourage school leaders to place the needs of the school ahead of the needs of vulnerable students, with risks of off-rolling (the removal of children from the school roll) and exclusion – notably off-rolling and exclusion have risen in recent years and, following the Timpson Review of school exclusion (DfE, 2019), the Government announced a consultation on how to improve schools' accountability and tackle off-rolling (Long and Danechi, 2019).

This literature casts doubts on the potential of self-improving strategies to fully address quality problems, particularly in disadvantaged areas. The risk is that emphasis on school level initiatives, managerialist approaches, consider quality differences between schools as primarily the responsibility of the schools and as fundamentally staff problems, in need of better management, better training and better monitoring. Lupton (2005) had critiqued this approach at earlier stages of the academisation process: in her study of four secondary schools in extremely disadvantaged areas, she shows that pressures on quality arise not just through the underperformance of staff and the need to make trade-offs between teaching, management and pastoral care, but because of contextual pressures that pose systemic constraints. When resources for individual aspects of schooling are simply too low relative to demand, it emerges clearly that quality will not be consistently achieved in these circumstances by concentrating solely on upskilling and motivating staff. The OECD (2012) also stresses the importance of funding strategies that responsive to students' and schools' needs, for instance by taking into consideration that the instructional costs of disadvantaged students may be higher and by recognizing how different these schools' jobs on the ground are.

Blanden et al (2015) use combination of administrative and survey data to explore why the performance of disadvantaged pupils in London has improved as much as it did, making London stand out from the rest of the UK. The Millennium Cohort Study shows that disadvantaged pupils in London have no advantage compared to those in the rest of England at age 5, but then show faster improvements between age 5 and 11 once they have started school. Improvements in London's schools seem to be mainly attributable to gradual improvements in school quality, particularly at the primary school level, rather than differences or changes in the effects of pupil and family characteristics. Most importantly, they show that London advantage for poor children was present in primary and secondary schools from the mid-1990s, well before the London Challenge or Academies programme, something that might invite to closer examination of policies and practice in London from mid to late 1990s.

Moreover, in the UK, as in the international literature (Crawford et al, 2015; Bradbury et al, 2015) attainment of initially high achieving children from the most deprived families and lower-achieving affluent children have been shown to converge. Crawford et al (2015) use longitudinal data linking together the National Pupil Database (NPD), Individual Learner Records (ILR) and Higher Education Statistics Agency (HESA) data, and the Longitudinal Study of Young People in England. They find that school sorting and segregation explain some of the patterns observed: there is less convergence when those children attend the same secondary school, suggesting that part of the reason why high achieving poor children fall behind their better-off peers may be because they attend lower performing schools. Moreover, differences in aspirations and expectations appear to play an important role, although it is difficult to establish the direction of causality. Differences in attitudes and aspirations may be the consequence of these pupils attending different schools and having different levels of attainment, rather than the cause.

Grammar Schools

These are important considerations to keep in mind as selective schools have been recently proposed in relation to improving school quality and achieving greater equity. There are three main arguments underpinning this idea (Gorard and Siddiqui, 2018; Burgess et al, 2018): that pupils generally performs better at grammar schools than they do at non-selective schools; that these results are even more pronounced for the poorest children, thus reducing the poverty attainment gap and promoting social mobility; that there are little or no harmful consequences for the other pupils in the rest of the schools. However, there is strong evidence that grammar schools are not promising in producing better results, while they present serious risks in terms of segregation and effects on the overall system. Gorard and Siddiqui (2018) show that pupils attending grammar schools are stratified in terms of chronic poverty, ethnicity, language, special educational needs and even precise age within their year group. Once these differences are taken into account, grammar schools do not obtaining better results with equivalent pupils. This seems to confirm prior research that has shown that the purported grammar school effect is in fact a form of unmeasured pre-selection (Manning and Pischke 2006). In fact, all designs which do not use robust comparators cannot account for the fact that pupils who attend grammar schools may differ by more than the surface variables that are taken into account in the analysis (e.g. in terms of motivation or parental engagement). Such missing values could create an illusory 'grammar school effect'. Moreover, grammar schools do have consequences for other pupils and schools as they drive social economic segregation in the area in which they operate. They create a much larger number of schools around them that cannot be comprehensive in intake, because they are denied a supply of so many of the most high-attaining children.

Andrews et al (2016) also find that very high prior attainment and demographic features of pupils attending grammar schools are the main drivers of high grammar school scores in raw attainment terms and narrower disadvantaged attainment gap. They model different quota systems for increasing the proportion of poorer students and suggest in the most selective areas, the government would need to expand the number of selective school places by a fifth and move 1,600 additional FSM pupils into grammar schools to try and offset the negative effect experienced by these pupils. They also find that there are five times as many high quality non-selective secondary schools in England as there are grammar schools, measured by schools that are in the top 25 per cent based on value added progress measures. Compared with these high-performing non-selective schools, the study suggests that there is no benefit to attending a grammar school for high attaining pupils, and that comprehensive schools are far more socially representative than grammar schools.

7. Cost

High

Overall

Education provision of greater and more equal quality can be very important in relation to both poverty and inequality, and is a goal that enjoys consistently high public support. However, the approach undertaken in the last decade, and its focus on academisation, has not led to hoped-for results and has seen decreasing levels of public support. This, in conjunction with strong evidence pointing to unequitable effects of greater selectivity, suggests limitations of the current approach which could in fact foster segregation and educational inequalities.

3.4. Greater devolved powers through control of spending decisions and tax raising powers

1. Relationship to poverty/ inequality mechanisms	Decentralisation of taxation and public expenditures can lead to more efficient decisions at the local level, with welfare gains that can ameliorate poverty and inequality. However, on the one hand, these would occur only where there is effective policy deviation oriented towards improving distributional outcomes, while, on the other hand, there are fears that the process could lead to adverse consequences (e.g. amounting to little more than delegation, it can lead to further expenditure cuts; producing tax competition and increasing spatial disparities).
2. Party Political Support	All parties support greater devolution and recent reforms saw increased, albeit still limited, powers in relation to both spending and revenue raising. Labour and the Liberal Democrats opposition has stressed the importance of equalization and sees these powers undermined by concurrent cuts, especially to local authorities.
3. Type of intervention	Revenue raising and spending policy
4. Level	National
5. Public Support	There is general support for greater devolved powers, coupled with higher level of trust in local government over other levels.
6. Evidence of effectiveness	At the country-level, there are appears to be room for policy deviation and Scotland in particular appears to have set clear social justice goals. At other levels, the international evidence shows that spending and revenue decentralisation have a weak impact on inequality, with differential effects mostly benefitting middle income groups. Greater fiscal decentralization might even increase poverty, making equalization efforts necessary.
7. Cost	Medium
Overall	Decentralisation can lead to welfare gains through more efficient deployment of resources at the local level, and it can count on greater levels of public trust in local government. In spite of the political momentum supporting decentralisation, the effects of these reforms on poverty and inequality are less clear and could be negative, especially if isolated from national policy and if coupled with reduced equalization efforts.

1. Relationship to poverty/inequality mechanisms

Potentially, decentralisation of decisions over taxation and public expenditures brings these "closer to the people" (Oates, 1999, 1123), providing a better match with the preferences of constituents, and therefore efficiency gains to society. It can thus improve social welfare and help in reducing poverty, for instance through more effective targeting of policies towards need. Moreover, the larger the share of local expenditure that is financed through local revenue collection, the more accountable local authorities will become, leading to more responsible and efficient tax and spending decisions. It appears, then, that devolution offers new possibilities for addressing social inequalities: potential to tackle social issues through integrating policies and services at sub-national levels, while allowing for different political priorities, with greater focus on inequalities. For instance, in Greater Manchester, the focus on social justice and equality issues has been explicit and has led to increased effort to address problems

such as homelessness, 'school readiness' and to take a 'lifecourse approach' that sets out a vision encompassing a wide spectrum of aspects of urban life across the life-cycle (Lupton et al, 2018, 23).

However, in the context of austerity policies and small-government approaches, there are concerns that decentralisation may serve as a vehicle for making spending cuts to public service provision, since devolved spending cuts tend to happen faster than ones administered centrally (Yang, 2018). Moreover, in conditions of austerity, devolution may lead to a fragmented and diminished welfare state, effectively delegating responsibilities and 'dumping policy' (Lupton, 2018, 10) on organisations with dwindling resources and with little capacity to innovate. In this sense, the limitations of austerity may eclipse the benefits of devolution (Etherington and Jones, 2016) and might increase inequalities as already-advantaged areas are able to capitalise on their greater assets and capacities to the benefit of their citizens while less well-favoured areas cannot. There is a danger that spatial inequalities increase with fiscal devolution, entrenching concentrations of poverty and wealth. In the presence of high inequality, attempts to redistribute locally by increasing tax rates for the rich may see these individuals migrating outwards to areas with lower taxes while less well-off individuals from neighbouring jurisdictions migrate inwards. On the one hand, as lower taxes are used to attract higher income households to an area, local governments may engage in tax competition, a 'race to the bottom' to avoid further erosion of the tax base. On the other hand, more deprived areas, typically less able to attract wealthy tax-payers, are the least able to raise local tax revenue. As a result, the costs of redistributive programmes may increase while the local tax base decreases, making poverty reduction through such redistributive policies unsustainable.

Moreover, for decentralisation mechanisms to work in favour of inequality and poverty reduction, decision-makers in local government need to be made responsive to the demands of their constituents. This underscores an interaction with the mechanisms explored in §1. As political influence of wealthier constituents is often greater than that of the poor, the demands of the economically vulnerable may not ultimately be met.

2. Party political support

Conservatives have renewed support for devolution settlements at several levels, stressing that "no decision-making that has been devolved will be taken back to Westminster". Powers to devolved administrations in the UK nations is promised to be strengthened, for instance with some fiscal devolution in Scotland and Wales. In England the government will continue with its approach in relation to city mayors and combined authorities for urban areas. Devolution deals are predicated upon economic growth (e.g. through rebalancing the economy by creating a Northern powerhouse, §3.1). Manchester also offers an example of public sector reform, e.g. integrating health and social care. Elements absent from the discussion are democratic renewal and fiscal devolution (Lupton et al 2018). The Government has made some recent concessions: for instance, local authorities will be able to retain their business rates and councils will also be allowed to raise council tax by 2% to fill the gap in social care funding.

Labour sees the Conservatives' approach to devolving power at the local level as undermined by the cuts to local government. The Liberal Democrats propose to devolve further revenue-raising powers (e.g. to regions such as Cornwall and the north-east), matching these powers with needs-based funding. They also propose greater devolution of financial responsibility to English local authorities and new devolved regions, while balancing autonomy and equalization.

3. Type of intervention

Revenue raising and spending policy

4. Level

National

5. Public Support

The 2017 British Social Attitudes Survey highlighted an increasing discontent among English respondents with the powers being given to Scotland and the asymmetrical nature of the devolution settlement, not least concerning Scotland's spending power. However, there was also no immediate or growing appetite for England to be governed by anything other than a UK-wide parliament. The crucial limitation with the BSA survey, however, is that it only presents respondents with one genuinely devolved 'English option': regional assemblies. In the 2012 Future of England Survey 28% thought that some kind of subnational institution should have the most influence over how England is run, only slightly fewer than those favouring the UK parliament (30%). Limited survey instruments presenting respondents with what are considered unattractive models of devolution, might mask actual support for decentralization.

80% of respondents in the Future of England Survey (Cox and Jeffrey, 2014) said that they felt strong attachment to their 'local area' (5% higher than to England, and 14% higher than to the UK). Local authorities also fared better than the UK government in terms of people's sense of local efficacy and people's trust. These views are held particularly strongly by northerners and by younger people and they build upon previous studies, such as [the government's Citizenship Survey](#), which demonstrates that trust in local councils is almost twice as high as trust in the Westminster parliament. At the same time respondents were overall negative about their own sense of "efficacy", with 68% saying that their local authority "didn't care much about what people like me think". This was nevertheless more positive than people's attitudes towards the UK government (74%) and the European Union (84%). Interestingly, it was the London assembly (54%) and London mayor (45%) that fared best on this measure, something that Cox and Jeffrey believe speaks for the link between defined local powers and perceived effectiveness and democratic accountability.

However, only 3% of people felt that councils currently have the most influence over the way England is run, but around 18% thought that councils should have the *most* influence. 39% of respondents said that they believe local authorities should have more powers. These results confirm the picture emerging in another [2014 IPPR study](#): asked whether the current balance of power between central and local government is about right, only 18% of the general population agreed. In the West Midlands and Yorkshire and the Humber, this falls below 15% and it is only in London where more than one in five people think the balance is right (21.6%). When asked whether ministers should have less power over local services and local government should have more, nearly half agree (46%), with only 17% disagreeing.

There was less enthusiasm, however, for policy variation at the local level. This was particularly true as regards education, childcare and social care, where less than 20% of people thought that these should be matters for each local authority to decide. In other areas such as housing, planning and public

transport, respondents were less concerned about local policy variation. Cox and Jeffrey (2014) question the extent to which these results support the status quo, and whether this preference for consistency does not reflect instead dissatisfaction and the sense that there is already too much variation between places. In 2014, YouGov asked which areas of policy should be mainly decided at the regional level: 51% cited education, 45% the NHS, 43% welfare, 33% environment and 30% income tax rates. Defence and foreign policy reported lowest support at 5%. 48% thought that devolution and the direction taken by the government in these respects was a good thing while 27% disagreed.

The [IPPR](#) also surveyed northern businesses, finding that the overwhelming majority thought that England is overly centralized with just over 10% of respondents agreeing that the balance of power between central and local government is about right, over a quarter 'completely disagreeing' and none 'completely agreeing'. When asked what government should do to deliver most benefit to individual companies, devolution was the third most popular answer, supported by approximately one in four, behind improvements in education and skills policy, and investments in infrastructure. The most popular functions that northern businesses felt should be devolved concerned training and the skills system.

Decentralisation is not the preferred approach in all policy areas, of course. Immigration, income tax and corporation tax were the functions where there was least appetite for devolution, and where businesses felt things would be best organised at the national level.

6. Evidence of effectiveness

In general, whether devolution leads to spatial inequalities narrowing or not depends on a number of factors, most obviously whether policies actually vary in significant ways and whether they are better policies than those produced by central government. Country-level devolution has the potential for policy variation necessary for it to have an impact on distributional outcomes. For instance, unlike the UK government, the Scottish government has an explicit target to reduce income inequality in Scotland and set out the ambition for Scotland to rank in the top performing quartile of OECD countries in terms of levels of inequality (Scottish Government, 2015). Scotland and Wales also display a divergent path from the UK strategy in terms of policy discussion around their Child Poverty targets and measurement assessments.

Scotland can offer a good example of policy diversification supported by substantial devolved powers. Stephens and Fitzpatrick (2018) offer an overview of 10 exemplar policies in the areas of taxation, housing and social security to evaluate how funding has been diverted in order to finance priority areas. Their aspirations are progressive and display an effort to emphasise 'entitlement' and change the ethos surrounding the provision of social security. This sees, for example, attempts to use devolved powers to protect households from cuts applied elsewhere in the UK. At the same time, these policies were imbued with caution, for instance in terms of taxation, with the government having to balance its goals, the need to offset losses due to the reduction of the Block Grant received by the UK and concerns over competitiveness and tax flight.

At the sub-national level, Lupton et al (2018) examine the case of Greater Manchester, as an example of an area in which the UK city-devolution plans are most advanced, but devolution is also broadly understood as providing opportunity for wide-ranging social policy reform, despite it being formally and generally confined mainly to economic development, transport and planning powers and tied to

economic growth ambitions. They evaluate social outcomes in three policy areas (health and social care, employment, crime and policing). On the one hand, the Great Manchester experience points to the potential for policy variation, as the current devolution experiment has produced interesting pilots and innovations addressing problems that seem intractable to national policy-makers. On the other hand, the study stresses that present devolution remains a fragile settlement of piecemeal arrangements: the powers devolved are patchy and limited to a small range of social policy areas, which are mostly not the big spenders and levers of economic and social outcomes. The conditions in which these reforms operate are also very challenging, given the pressures imposed by shrinking budgets and centrally imposed cuts to the benefit system. In these respects, much of what is labelled as devolution amounts to selective delegation. Etherington and Jones (2016) study in the Sheffield city-region echoes some of these concerns and devolution strategies exacerbate and reinforce uneven development, while growth is undermined by austerity driven cuts to welfare and employment. Current reforms appear unable to sufficiently coordinate effective responses to address a legacy of de-industrialisation, and deep-rooted labour market and social inequalities.

An Stossberg et al (2016) study explores the relationship between spending and revenue decentralization and several indicators of national income inequality, drawing on a dataset of 20 OECD countries over a period from 1996 to 2011. The results indicate a weak and unstable inequality-reducing relationship between decentralisation and income inequality, as measured by the Gini coefficient. Spending and revenue decentralisation tend to reduce disposable income inequality, but the impact is rather weak in magnitude and significance. An increase in spending decentralisation by ten percentage points leads to a reduction of the (between 0 and 1 ranging) Gini coefficient of roughly 0.01. Revenue decentralisation has a similarly sized effect. The effect is also not uniform across policy areas, for instance with decentralisation of education spending displaying an inequality-increasing impact. Other spending areas – e.g. health and social protection spending – show no effect. Decentralisation of property taxes is found as inequality-increasing, while income tax decentralisation shows no effect. Analysing income percentile ratios produces more significant and stable results, showing that the effects of fiscal decentralisation are not the same along the income distribution and mainly benefit middle income earners. In fact, while decentralisation tends to be associated with a reduction in income inequality between high incomes and the median, it is linked to a divergence of low-income groups from the median, in particular in relation to tax autonomy. Transfers between levels of government also tend to increase the gap between lower and middle incomes. The report suggests that when spending decisions are taken locally, preferences of the middle class are taken more strongly into account. In explaining why low income groups seem not to benefit from revenue and spending decentralisation, the report explores the progressivity of decentralised tax and social security systems. The results suggest that progressivity for low-income groups declines first with rising decentralisation but rises again slightly in very decentralised settings.

The OECD (2018b) points to how socio-economic geographic variation – e.g. in terms of income of residents, the value of property and the distribution of business activity – bears significantly on the capacity of different local governments to raise their own revenue via taxes. Sub-national units with the highest tax-raising capacity had a capacity 650% greater than the lowest capacity in Australia, 200% greater in Spain, 140% greater in Canada, 70% greater in Germany and 50% greater in Sweden. These socio-economic conditions also lead to different spending needs, with the result that low tax revenue capacity/high needs areas see geographical inequalities exacerbated in the absence of intervention. Fiscal equalization can be achieved through transfers from the central government, contributing to greater horizontal and vertical equity via the redistribution of financial resources from high tax revenue capacity/low spending needs areas and implementing comparable levels of public service provision.

Fiscal equalization eliminates all variation in tax revenue capacity in Australia and addresses the majority of initial variation in Germany, Italy and Norway, but only a around a third in Canada and Switzerland. However, grants may create distortions that might hinder incentives to boost local economies. For instance, there is evidence that fiscal equalization leads to sub-national tax rates being set higher than they otherwise would be in Germany and Canada. The OECD (2018b) generally stresses the trade-offs between promoting growth and ensuring that benefits of that growth, in the form of additional resources for local public services, are inclusively shared across jurisdictions. This is important as the UK government move towards 100% retention of business rates and abolishing of grant funding, which represent further moves towards emphasizing fiscal incentives to grow local tax bases over fiscal equalization (p. 163). The OECD modelling explores the outcomes of the reforms if the system had been in place between 2006-07 and 2013-14. While for most councils, relative levels of funding would have remained close to assessed relative levels of spending needs, some councils would have experienced significant divergences. While current safety nets would be able to compensate for falls in business rates revenues – albeit reducing fiscal incentives to grow business tax rates – divergences in funding due to changes in council tax bases and relative spending needs would not be addressed by these safety nets and would require periodic full or partial re-equalisation.

However, regional transfers do not necessarily decrease inequality, a result corroborated by evidence showing a positive relationship between regional transfer dependency and income inequality (Stossberg et al, 2016; Goerl and Seiferling, 2014). This is in part due to the fact that regional transfers, as opposed to individual transfers, are not directly aimed at reducing interpersonal income inequality, but also because regional transfer systems can come with negative side effects if they are poorly designed.

del Granado et al (2005) examine the way in which fiscal decentralisation alters the composition of public expenditures using panel data for 45 developed and developing countries over a 28-year period. They find strong evidence that decentralisation increases the share of education and health expenditures in total government expenditures, but also note that this may be greater in developing rather than developed countries. Higher emphasis on education and health may not increase allocative efficiency or overall welfare, but may support poverty alleviation and economic growth. However, higher fiscal decentralisation, measured as the share of subnational expenditures over total government expenditures, is not in general associated with lower poverty. In fact, Sepulveda and Martinez-Vazquez (2011), using panel data of panel 56 countries (34 developing countries and 22 developed countries) show that it might even increase poverty, a finding they find is robust for different measures of poverty.

7. Cost

Medium

Overall

Decentralisation can lead to welfare gains through more efficient deployment of resources at the local level, and it can count on greater levels of public trust in local government. In spite of the political momentum supporting decentralisation, the effects of these reforms on poverty and inequality are less clear and could be negative, especially if isolated from national policy and if coupled with reduced equalization efforts.

4. Housing

Housing tenure patterns can exacerbate existing inequalities and poverty through unequal housing costs and wealth accumulation. Unequal ownership of properties generates income flows for certain households but not others, while inequalities also exist in the value of these flows. Housing policy can help to mitigate poverty, but the extent to which this is possible is undermined by failures of housing supply to meet demand, reductions in the supply of social housing, reliance on a poorly regulated and increasingly unaffordable renting sector, together with welfare reforms that reduce housing benefit in the face of increased housing costs. These costs can tip households into poverty and, together with lack of security of tenure, they can lead to damaging frequent moves and make it harder to sustain education, employment and training. Rising housing costs among low-income households have also led to a widening gap between before- and after-housing costs measures of income poverty and income inequality (McKnight et al, 2017; Yang, 2018). In conjunction with labour market factors, household composition and changes to social security benefits, rising housing costs are part of the picture that sees income from employment as not sufficient to lift household income above the poverty line for many. In conjunction with cuts to social security payments experienced in recent years (e.g. freezing of Local Housing Allowance), this means that housing benefit does not cover rent and leads tenants to use money attached to other benefits to cover housing expenses, shrinking household resources. These cuts interact with others, including the increasingly conditional nature of social security benefits: for instance, sanctions imposed on tenants for failing to comply with job-seeking agreements also commonly cause gaps with LHA payments, in turn causing arrears. Administrative errors and delays can cause further problems and overall these pressures bear on landlords' willingness to let to low-income tenants who, they fear, are unable to pay their rents. Restrictions imposed by mortgage lenders can further limit low income households' access to housing.

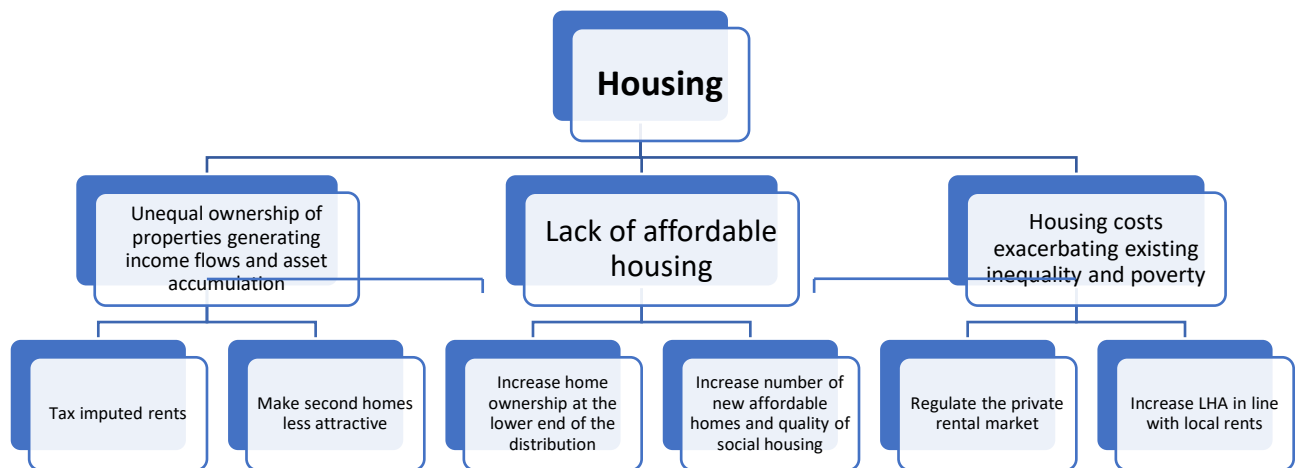
Moreover, recent years saw wealth inequality increase, an opposing trend to the decade that preceded the crisis, where relative measures of wealth inequality fell, in part driven by a house price boom and increases in home ownership benefiting households with modest levels of wealth (Hills et al, 2013). Over-accumulation of housing by some groups (e.g. through second homes) not only further entrenches wealth inequalities, but also bears on the stock available to others, while raising questions of under-occupation and resource misallocation. Current trends see an accumulation of wealth at the top of the distribution and younger households being priced out of the housing market due to a combination of falling real incomes, house price inflation and limited access to credit. The current generational divide may diminish by the transfer of assets between generations or in light of positive macroeconomic conditions. The first phenomenon might increase the intergenerational transmission of advantage and further entrench inequalities: intergenerational transfers of wealth through the transfer of homeownership can be one of the ways in which wealth inequality in a society builds up over time. The second phenomenon calls for considering the role of economic inequality in relation to growth. Inequality has been shown to have negative effects on growth (Ostry et al, 2014; Bénabou, 1996). On the one hand, concentration of income and wealth, coupled with a financial system pursuing shorter term rewards, can result in a concentration of investments in unproductive assets (Turner, 2016), limiting productivity-led recovery and growth. On the other hand, economic inequality, through its effect on rising house prices, contributes to housing inequality and this, as noted above, affects house resources – undermining consumption-led recovery. Relatedly, Bank of England research has shown that large falls in expenditure among highly indebted households following the financial crisis increased the depth and length of the economic recession and contributed to the sluggish nature of the recovery (Bunn and Rostom, 2015).

Box 1. Britain's Housing Outlook

Recent years have seen a withdrawal from the housing ladder, which is driven by younger cohorts and those on low and middle incomes. Successive generations are facing changed housing landscapes: Corlett et al (2016) find that ownership among those born after 1981, is some 16% lower than among generation born between 1965-1980 at the same ages. In 2016 one-third of homeowners were aged over-64 – up from one-quarter at the beginning of the century. In contrast, 16-34-year olds account for just 10 per cent of owners, down from 19 per cent in 1998. In 2018, the English Housing Survey reported home ownership at 64%. The proportion of households in owner occupation increased steadily from the 1980s to 2003 when it reached its peak of 71%. Since then, owner occupation gradually declined to its current level. Since 2013-14, there have been more outright owners than mortgagors (the gap has now increased to a 6% difference – 34% versus 28%). In 2017-18 57% of those aged 35-44 were owner occupiers, up from 52% in 2016-17, but still far from 71% recorded in 2007-08. 28% of this group is now in the private rented sector (13% in 2007-08). The overall proportion in the private rented sector is 19%, stable from 2013-14 (it was 10% until the 1990s) – its growth has slowed down from 8% in 2014 to 2% in 2016, while the number of new buy to let mortgages has also fallen. The social rented sector has stabilised over the last decade after a period of shrinking (from 31% in 1979) and is the smallest tenure (17%). The composition of the social rented sector has changed in recent years: in 2008-09, the social rented sector accounted for 18% of households with 9% renting from housing associations and 9% renting from local authorities. In 2017-18, 10% (2.4 million) rented from housing associations, 7% (1.6 million) from local authorities. In 1979 tenants were more evenly spread over income groups, so that even 20% of the highest-earning group lived in social rented housing (Hills, 2007). By the 1990s tenants were overwhelmingly concentrated in the bottom half of income distribution. While the concentration of low-income groups in social housing has continued, private renting is also now more significant for these groups, while buying with a mortgage has in the last decade become almost impossible for those in the lowest quintile. 25% of social renters expected to buy a property at some point in the future, down from 30% in 2016-17. 13% of dwellings in the social rented sector failed to meet the Decent Homes Standard. This is lower than the proportion of private rented (25%) and owner occupied (19%) homes. Over the last decade, the proportion of non-decent homes has declined from 35% of the stock in 2007 to 19% in 2017. This decrease was observed across all tenures but has stalled in recent years. However, the social rented sector had the highest rate of overcrowding (8%), the highest it has been since 1995-96. It also had the lowest rate of under-occupation: 10%, against the 54% for owner-occupied homes and 15% for homes in the private rented sector.

Figure 1 provides an overview of policies and drivers considered in relation to housing. Importantly, these drivers are interconnected and indeed their interplay makes housing a complex area of research. We look at the role of policies increasing affordable and high-quality housing (§4.4) as paying a double dividend in relation to poverty and inequality. We then look at policies which attempt to balance the unequal ownership generating income flows and asset accumulation: here we focus on fiscal instruments – e.g. taxing imputed rents (§4.1.) and making second home less attractive (§4.2.), but also on policies that attempt to increase home ownership at the lower end of the distribution - e.g. Right to Buy (§4.3). We also look at revisions in the access to mortgages. Finally, we look at the possible role of regulation (§4.5) – and rent control in particular – as well as to the way in which demand-side subsidies in the private rental sector mitigate the effects of housing costs exacerbating inequality and poverty (§4.6).

Figure 1. Overview of drivers and policies related to housing



It is important to stress the connection between housing mechanisms explored here and other mechanisms in the Toolkit. Housing is very much connected to spatial disparities, for instance because residential segregation and income inequality are linked through the operation of the housing market – the rise in geographical segregation reflects the increased ability of higher income groups to outbid lower income groups to compete for more 'desirable' neighbourhoods as the income differential between these groups increases with greater inequality. Economic inequality is thus a driver of housing inequality and residential segregation. The different housing options that the rich and poor can afford have in fact contributed to increasing economic segregation in many European cities and regions (Musterd, et al. 2015). In turn, increasing spatial segregation erodes support for redistribution, which may in turn further increase levels of inequality in a feedback loop. Segregation, together with the hardship experienced by low income families overburdened with housing costs and living in low quality environment entrenches disadvantage and inequalities in the life-course and across generations (§5).

4.1. Tax imputed rents

1. Relationship to poverty/ inequality mechanisms	This form of taxation would ameliorate current biases in the fiscal system and have progressive effects because the propensity to own a house rises with income. It could in turn provide additional resources that can be used for poverty reduction.
2. Party Political Support	In line with the historical political priority of boosting homeownership in the UK, none of the parties plans to introduce taxes on imputed rents.
3. Type of intervention	Revenue raising
4. Level	National
5. Public Support	Because of strong preferences towards homeownership and general aversion for taxes on property, the policy would likely be unpopular. However, because of the potential effect of the tax on prices, there might be some support from those who would want to, but currently cannot, become homeowners. However, by making homeownership less attractive and advantageous – preferences towards the tenure could be altered.
6. Evidence of effectiveness	Simulations show that these taxes can raise substantial revenue, but could have significant behavioural effects and, depending on the design and balance with other taxes, could be progressive (e.g. in conjunction with council tax reforms, or increases of tax exemptions) or regressive (e.g. in conjunction of income tax rate reductions). These taxes seem to be a play key role in relation to lower homeownership rates in countries that levy them. Taxing imputed rents into account also has implications for measurement of poverty and inequality.
7. Cost	Revenue raising / revenue neutral
Overall	While in conjunction with other tax reforms, the policy can have progressive effects, it would unlikely be designed so to raise substantial revenue and would face substantial opposition, both in terms of political backing and public support.

1. Relationship to poverty/inequality mechanisms

Owners are net beneficiaries of government support compared with tenants: this is, on the one hand, because of exemption from capital gains tax on owner-occupiers' main homes, while on the other hand because of the flow of benefits owner-occupiers get from living in their homes – described by economists as 'imputed rent' (the rent that would be charged and paid if owners and occupiers were separate entities). Imputed rental income on principal homes is not subject to income tax, except in a few countries (Iceland, Luxembourg, the Netherlands, Slovenia and Switzerland), and the rental value is often substantially under-estimated (Johansson 2011). In the UK, Wilcox and Williams (2018) show that imputed rental returns for 2016/17 amounted to £21,300 million, over half of the total net tax reliefs for homeowners (£39,978) and exceeding the capital gains (£18,678).

Tax reliefs tend to be regressive, since they are implemented as deductions from the tax bases rather than tax credits and, more generally, because the propensity to own a house rises with income. On the one hand, then, taxing imputed rents would raise considerable revenue, which could ameliorate the resource constraints (§2) essential for effective poverty and inequality reduction. On the other hand,

this form of taxation would ameliorate current biases in the fiscal system and have progressive effects – potentially ameliorating or substituting regressive measures such as council tax. However, there is a concern that this might not be the case: asset-rich households might be cash-poor (for instance, older people who have lower cash flow but high imputed rents having paid off their mortgages) and have limited ability to cover the costs of income tax on imputed rents. 49.3 % of owner-occupiers are in the top two quintiles, while 13% are in the lowest household income quintile (English Housing Survey, 2016/17). Outright-owners – 7.9m households (34.1 per cent of all households) – currently comprise England’s most populous group by housing situation and are generally older. 2.8m of these are also in the top two quintiles by income, while 1.6m are in the bottom quintile.

2. Party Political Support

Since 1963, with the abolition of Schedule A income tax, owner-occupiers are no longer required to declare or pay tax on the notional rental income they would receive from the property in which they live. This reflects the political priority historically attached to boosting home ownership in the UK. None of the parties plans to introduce taxes on imputed rents. In general, such taxes would be inconsistent with politicians’ desire to promote and incentivise owner-occupation.

3. Type of intervention

Revenue rising

4. Level

National

5. Public Support

There are no current polls exploring public support for taxing imputed rents. Schedule A tax (a tax on the imputed rental income of their home) was abolished in 1963. However, taxes on property are generally deeply unloved and might be further unpopular because, as presumptive taxes based on estimated value, they may remain contentious (Blöchliger, 2015). Policy support for the home-ownership bias that characterises the UK fiscal system can typically be justified in terms of responding to widespread aspiration to own. At the same time, the fact that government tax and subsidy policy play a role in shaping these aspirations should not be overlooked (O’Sullivan and Gibb, 2012).

In Britain, with about 64% of homes owner-occupied, these taxes could prove particularly unpopular both because of imposing new costs and because of its potential effects on house prices. According to the English Housing Survey (2016/2017) homeownership is still largely the preferred housing tenure: over 70% of all private renters preferred homeownership in the short term (2 years) and 80% in the long term (10 years), 52% expected to be owner-occupiers in the long term. On the one hand, because of the potential effect of the tax on prices, there might be some support from those who would want to, but currently cannot, become homeowners. At the same time, this would make homeownership less attractive and advantageous – potentially altering these preferences.

YouGov (2018) found 49% of Britons say they would back the government attempting to bring house prices down *a lot* in their local area, compared to over a third (36%) who would reject such

a move. This result conceals differences amongst homeowners and non-homeowners: the former oppose the idea by 51% to 35%, while non-homeowners would support such a move by 68% to 14%. Some higher support for attempting to bring down house prices *by a moderate amount* can be found in the aggregate (52% versus 31%), with 68% of non-homeowners favouring it, but with greater support among homeowners, up to 41% (and 45% opposing it). There is strong opposition to house prices increasing, even by a little and even amongst homeowners (24% back prices going up and 60% oppose).

6. Evidence of effectiveness

Frick et al (2010) examine the differential effects of including imputed rents and its impact on income inequality and poverty. They draw a cross-national comparison and look at five European countries (Belgium, Germany, Greece, Italy and the UK). The results suggest that in almost all cases, the inclusion of imputed rents in the concept of resources leads to a decline in measured levels of inequality and poverty. The main beneficiaries are outright homeowners and households living in rent-free (or heavily subsidised) accommodation — most often older persons. These results are in line with previous cross-country research: for instance, Smeeding et al. (1993) show a levelling effect on inequality in Germany, Sweden, Canada and the Netherlands; Frick and Grabka (2003) show declining poverty and inequality in Germany, USA, and the UK and show two conflicting changes: on the one hand, there is increasing inequality between the groups of owner-occupiers and renters and, on the other hand, inequality decreases within the group of owner occupiers who own outright. When focusing on imputed rent as a means of old age provision, results in all countries show an income advantage and a poverty reducing effect among the elderly. Eurostat (2013) examines these effects in the period of 2007–2010. Net imputed rents tend to decrease inequality, reduce poverty among the elderly, and improve consistency of poverty and deprivation measures. In fact, these studies also stress the methodological importance of understanding how imputed rents bear on the measurement of inequality and poverty (Maestri, 2015). This is the case also in Brewer and O’Dea’s (2012) analysis of the UK context for IFS: their study confirms these trends in relation to poverty and inequality but also shows cohort effects amongst the elderly when imputed rents are taken into account in considering broad income and consumption. What emerges is that each successive cohort of adults aged 65 is less likely to be in the bottom decile group of living standards than their predecessors, but these cohort effects are not present when considering before housing income. Mullan et al. (2011) use Family Resources Survey data and compare child and pensioner poverty estimates for the UK under actual policies and under policy reform scenarios, based on the traditional Before Housing Cost (BHC) and After Housing Cost (AHC) measures and also following an alternative ‘imputed rent’ approach. They find that accounting for the net value of housing income does not significantly reduce child poverty risk compared to the standard BHC income measure, although the composition of children counted as poor is different. In contrast, they find that three-quarters of pensioner poverty and much of home-owner poverty would disappear.

In the UK, Belfield et al (2015) finds that housing costs have risen, on average, more for low-income households relative to high-income ones, as higher-earning households who are owner-occupiers have benefited from sharp falls in mortgage rates. Moreover, Figari and Paulus (2015) assess the distributional effects of the main types of tax-benefit instruments under different income concepts, namely the standard disposable income concept and an extended income concept that includes indirect taxes, imputed rent, and in-kind benefits. Using EUROMOD in Belgium, Greece, and the United Kingdom, they show that the common use of the narrower concept of disposable income can lead to the overestimation of the redistributive effect of the cash tax-benefit instruments.

The OECD has done substantial work in this area (Andrews et al, 2011; Johansson, 2011; Blöchliger, 2015) and has been critical of current prevalent arrangements in regard to the treatment of imputed rents, on grounds of their adverse efficiency effects on housing and other markets by distorting the allocation of saving and investment, as well as distributional implications. Fiscal policy is a key driver of different housing regimes, and taxation of imputed rents play a key role in this. For instance, Bourassa and Hoesli (2009) explored the reasons underpinning Switzerland extremely low homeownership rate and show that taxing imputed rents is of pivotal importance. Owner-occupied homes are heavily taxed in Switzerland, as they are subject to transfer, property, wealth, imputed rent, and capital gains taxes. Despite the fact that in practice imputed rents are under valued, they find that simulating the effects of eliminating the tax on imputed rent would, while retaining deductions for mortgage interest, increase the ownership rate by 9%. They also simulate a combination of changes, making the Swiss system more similar to the US system and find that the combination would increase home-ownership by 23%, to reach nearly 50%. Elimination of the tax on imputed rent emerges is responsible for most of the balance of the change.

Taxation of imputed rents has long been debated in the UK academic literature, on both equity and efficiency grounds, with taxing imputed rents being seen as a way of increasing the tax base and permit a reduction of income tax rates or other taxes (Welham, 1982). Within this literature, which largely uses microsimulation techniques and modelling, various scenarios have been evaluated. For instance, Callan (1992) modelled the impact of a tax on imputed income from owner-occupation, showing that this would depend crucially on the use to which such revenue would be put. If an imputed income tax were to replace revenues gained the UK-style council tax, the package would tend to favour low- and middle-income groups. However, a revenue-neutral solution – combining a reduction in national income tax rates with the inclusion of imputed rents would favour upper income groups: the reduction in progressivity associated with the reductions in income tax rates would outweigh the increase in progressivity associated with the inclusion of imputed income in the tax base.

More recently, Paetzold and Tiefenbacher (2018) come to similar conclusions using EUROMOD microsimulation for Germany. They find that taxing imputed rents generate considerable increase in property tax revenues, which would allow to reduce the implicit tax rate on labour from 37.2 to 36.5%. They find that gainers would mostly be situated amongst middle-income households, whereas low- and high-income households slightly suffer. Redistributive effects would depend on the design of social insurance contributions.

Figari et al (2017) use EUROMOD microsimulation to analyse the distributional consequences of including net imputed rent in the taxable income definition in Belgium, Germany, Greece, Italy, the Netherlands and the United Kingdom. The specific interest of the study is establishing whether taxing imputed rents and removing homeownership bias from fiscal policy has consequences for inequality, as consequences of this reform might not be progressive – for instance in countries where older people have higher net imputed rents but lower cash incomes than the rest of population. In all countries, when net imputed rent is treated as taxable income, horizontal inequities between homeowners and tenants, as residence occupiers, are removed, thus making the tax system more horizontally equitable. Moreover, there is an inequality-reducing effect: the effect is bigger in the Netherlands (- 2.6% of the GINI) and smallest in the UK (-0.6% for the GINI). However, in this scenario, the net imputed rent in the tax base reduces labour market incentives and also implies increases in personal income tax revenues: the proportional change in personal income tax revenue is lowest in Germany (5%) and highest in the Netherlands (27%), and 9.5% in the UK. This scenario would see losses in terms extended disposable income for all quintiles, with greater reductions for higher income group (apart from the UK were losses

would be around 1% for the bottom quintile, and rather flat at just below 2% for other income groups). The study also assesses two alternative scenarios, where additional tax revenues are returned to taxpayers either through a tax rate reduction for all taxpayers or through a tax exemption increase. These have opposite distributional outcomes: assuming revenue neutrality through a tax rate reduction, inequality rises as the benefits accrue mainly to population members belonging to the top quintile. Instead, revenue neutrality through a tax exemption increase sees inequality decline in all indices for all countries. But while the decline is large in some countries (e.g. in the Netherlands), it is small in others, like the UK. In general, considering changes in average disposable extended income, in this scenario are the middle quintiles that would gain the most and the effects are very small in the bottom quintile. In general, though, the study shows that solutions to improve the homeownership bias inherent in personal income taxation can be a promising avenue for raising additional revenues, with no adverse inequality side effects depending on the design. Reforms to council tax, such as those proposed in the Mirrlees review (2011), to make it more closely resemble a genuine tax on the consumption value of housing would go in this direction.

7. Cost

Taxes on imputed rents would raise substantial revenue but, as noted by Figari et al (2017), in light of negative work incentives and potential income losses, revenue-neutral scenarios – e.g. with taxes on imputed rents substituting current property taxes – would be more likely.

Overall

While in conjunction with other tax reforms, the policy can have progressive effects, it would unlikely be designed so to raise substantial revenue and would face substantial opposition, both in terms of political backing and public support.

4.2. Make second homes less attractive – e.g. by increasing council tax on empty homes

1. Relationship to poverty/ inequality mechanisms	Over-accumulation of housing by some groups bears on housing affordability, with implications for under-occupation and resource misallocation. In conjunction with fiscal bias towards homeownership it can further reinforce the advantages accumulated by these groups.
2. Party Political Support	There is growing concerns with empty property, tax rules on second homes and business rates loopholes. The Conservatives have recently undertaken a consultation on these issues, while Liberal Democrats and Labour have more explicitly proposed increased taxation on these properties in their manifestos.
3. Type of intervention	Fiscal reform
4. Level	National
5. Public Support	Concerns with empty homes seem to resonate with the public, making increased taxation more attractive. Concerns with stamp duty also seem to be decreasing and more people support the 3% stamp duty surcharge than oppose it.
6. Evidence of effectiveness	There is good evidence that current arrangements are regressive and that property taxation represents a small but significant component of house price change. Evidence from international cities experimenting with different taxation and regulation models does not offer a clear picture, with some positive effects, but also questions about long-term effects and variation depending on area characteristics. Empty homes emerge as a small element of an inefficient and wasteful use of housing in which several other issues affect affordability. However, reforms on their taxation could raise resources (varying greatly across areas) and have a progressive effect, given the unequal distribution of these properties, particularly if coupled with reforms to current regressive and distorting system.
7. Cost	Low
Overall	There seem to be increasing public support and political concern in this area. The policy focuses on a small element of the system, and while the evidence offers a mixed picture, it has some potential, especially through an approach that combines them to reforms of the current regressive and distorting system and is mindful of great area-variation.

1. Relationship to poverty/inequality mechanisms

Over-accumulation of housing by some groups could have implications for under-occupation by others raising questions of resource misallocation, progressivity and inequality, the distribution of the existing housing stock and tenure choices. Fiscal bias towards homeownership (already discussed in §6.2.) could further reinforce the advantages accumulated by these groups. Moreover, measures tackling these mechanisms related to inequality bear on poverty, for instance because of the consequences of these dynamics for house prices, and their role in reinforcing spatial disparities – e.g. through social segregation, gentrification (Butler and Lees, 2006). In general, these dynamics bear on housing affordability, both because of the pressures it entails for housing stock use, and because – by boosting demand for high-end residential units – it stimulates builders and developers to focus their attention on

“high-value developments while ignoring the undersupply at lower levels of the market” (Green and Bentley, 2014).

2. Party Political Support

Local authorities currently have the power to increase council tax on properties which have been unoccupied and substantially unfurnished for over two years. This ‘empty homes premium’ is 150% in England and 200% in Scotland and Wales, where the ‘unoccupied period’ is one year. The ‘reset period’ is 6 weeks in England and Wales and 3 months in Scotland.

The Liberal Democrat manifesto proposed to target “buy to leave” empty homes with a 200% council tax. With the goal of provide local government with extra funding, the Labour manifesto suggested a review into reforming council tax, business rates and the consideration of new options such as a land value tax. Labour has recently proposed to introduce [a levy doubling council taxes on second properties used as holiday homes](#). This approach is in contrast with that of the Conservatives. However, a [consultation](#) took place between November 2018 and January 2019 reviewing tax rules on second homes and business rates loopholes. As a [result](#), some options were proposed to strengthen the criteria for a holiday let to be liable for business rates.

3. Type of intervention

Fiscal Reform

4. Level

National

5. Public Support

In relation to taxation of vacant properties and empty homes premiums, council leaders – e.g. from [the Local Government Association](#) – have been supporting changes that gave more powers to Local Authorities in relation to council tax premium charges. Some councils ran consultations that found generally widespread support – for instance, [Leicester Council](#) consulted all charge payers liable for the Empty Homes Premium and found that most respondents (60%) supported introducing additional premiums, 55% supported doubling the tax for properties empty for 2 or more years, and 42% and 40% supported a charge three or four times greater for properties empty for 5 or more years and 10 or more years respectively. Similarly, [IPPR](#) found through focus groups of Londoners that, unlike with single person discounts, there was no support for the discounts offered for empty homes and second homes, while there was support for the current policy of levying empty homes premiums. In 2016, a [Home owner alliance/YouGov poll](#) found that more than twice as many people (47%) support the 3% stamp duty surcharge than oppose it (18%). Concerns over stamp duties saw a decline: in 2014, two-thirds of UK adults (64%) said stamp duty was a serious problem, compared to half of UK adults (52%) in 2016.

6. Evidence of effectiveness

Discussion around property taxes has long attempted to suggest reforms that would make them both fairer and less distortive (European Commission, 2015). The Mirrlees Review (2011) – also discussed in §4.2 – suggested that an annual tax on the ‘consumption of housing services’ could be beneficial for a number of reasons. One of the benefits of an annual tax on the consumption of housing would be providing an incentive to use housing efficiently. That is, households are encouraged to use housing so that the value they attach to the consumption of housing services is proportionate to the tax paid. Therefore, with an annual tax on the consumption of housing, there would be an incentive against keeping property empty or even under-occupied or under-used.

Along similar lines, Leihman et al (2014) use PROPTAXMOD based on the 2011 Census to simulate the impact of tax reform between different parts of the country and the impacts of property taxation on house price volatility. Next to confirming the regressive effects of current arrangements, the study finds that property taxation represents a small, but statistically significant, component of house price change. The analysis suggests that changes in the distribution of prices are an important aspect of volatility, and that the relatively lower rates of property tax on expensive properties may contribute to this. Hilber and Lyytikäinen (2017) build on these economic critiques of property-related taxes such as the council tax and the stamp duty land tax (Jones et al, 2006; Hilber, 2015; Mirlees, 2011). Where the former is regressive, the latter is shown to affect mobility. By using data from the British Household Panel Survey (BHPS), they find that increases in stamp duty have an adverse effect that suggests substantial misallocation of dwellings. Inefficient use of housing stock contributes to housing and affordability crisis. These are some of the reasons considered in the Intergenerational Commission’s final report (IC, 2018), which, however, also notes that complete abolition of stamp duty would benefit predominantly higher-income households and areas of the countries such as London and the South East. From the perspective of affordability there would be little impact, as stamp duty varies by value of property and envisages discounts for first-time buyers. Moreover, property prices would also be offset by lower stamp duty and, since mortgages cannot be used to cover taxes, the amount of the overall cost of purchase to be paid upfront would be reduced. The Commission differentiates between first and additional properties, maintaining the current increased rates for those seeking additional property.

Judge and Tomlison (2018) contribute to the Intergenerational Commission’s report (IC, 2018) and refer to the Wealth and Asset Survey 2014/2016 in estimating the number of empty homes in England at 340,000 and that of second homes at 590,000. Together they account for 3% of the overall housing stock. Ownership of these houses is skewed, particularly in relation to second homes, with high proportions of owners born between 1946 and 1965 owning 61% of second homes and 42% of empty homes. Those born between 1966 and 1980 emerge as owning 17% of second homes and 23% of empty homes, while 8% of owners of second homes and 20% of empty homes owners is from the younger generation.

There is a growing literature on the effects of the measures adopted in several countries to treat non-resident buyers differently from domestic buyers: for instance, Australia, New Zealand and Switzerland have been experimenting with tighter regulation – ranging from overseas investors only able to purchase property that would add to the housing stock, while being banned from purchasing existing residential property (Australia); to regulating the purchases of holiday homes through a strict permit system. Instead, higher taxes can be found in Vancouver, where any non-Canadian citizen or permanent resident pays an additional property transfer tax which is now 20% (up from 15% when first instituted in the 2016). Toronto implemented a similar tax in 2017. Vancouver has also recently introduced an

annual 'speculation tax' (0.5% of property value, now increased to 2%) on all residential property owned by those who are not income tax payers in the province. In both Australia and Canada vacant property taxes with a reference period of 6 months have been introduced, particularly in regard to designated urban areas (Barrett, 2018). It has to be noted that the evidence base emerging from evaluations of these experiments is still weak at present.

However, in Switzerland, Hilber and Schöni (2018) use a robust natural experiment design to investigate the effects of the 'Swiss Second Home Initiative', which banned the construction of new second homes in desirable tourist locations. They find that the ban on the construction of new second homes lowered the price of primary homes, adversely affecting local homeowners, but increased the price of second homes, further raising the wealth of existing second homeowners. It also had negative employment consequences, increasing the growth of unemployment rates. These results suggest that constraining the construction of new second homes reinforces rather than reduces wealth inequality in settings where primary and secondary homes are imperfect substitute and high-amenity places (such as highly touristy places). Hilber (2018) considers the significance of these findings in relation to the ban on the construction of new second homes, in St. Ives, Cornwall. According to the model tested in Hilber and Schöni (2018), if primary and second homes are reasonably close substitutes and the effect of preserving the amenity value of surroundings positively impact both the value of both primary and second homes, outweighing negative effects on the local economy, the ban on new-build second homes may actually cause the price of both primary and second homes to increase. This might further crowd out new younger buyers, increase costs of younger renters, while also bearing local economy effects on younger groups who work locally, typically in the adversely affected industries. Overall, their discussion suggests that policies other than outright bans (e.g. annual local taxes on the value of second home or of their land) would be preferable in order to make housing more affordable, prevent vacant homes, generate more local tax revenue and reduce local wealth inequality.

In both Toronto and Vancouver Judge and Tomlison (2018) show, through an analysis of official statistics, that house prices fell in the months immediately following the introduction of additional taxes, but raised again in Vancouver after 6 months. In Vancouver, recent studies – e.g. Hu (2018), who uses difference-in-difference estimation to evaluate the effect of the Vacancy Tax and Foreign-buyer Tax Act for the supply of new residential buildings – seem to suggest some positive outcomes. The new taxes are found to have a positive relationship with the supply of new residential housing: the tax act has a strong positive causal impact on the number of housing starts, but no significant impact on the value of residential housing building permits. This suggests that the tax changes did not suppress the supply or building of new residential housing and in fact more have been built, with no increases in value of property building permits, which might be significant in relation to housing affordability.

In the UK, there is also growing attention paid to the proportion of new homes sold to non-resident overseas buyers and the proportion of this that is left empty. For instance, Wallace et al (2017) use Land Registry Price Paid data and Property based commercial transactional data to identify vacant or little used homes. They find that rates of sales to overseas buyers by certain international estates agents are high, particularly in Central London, but since many developers hardly sell units to overseas buyers at all, the share of new market housing sold to overseas residents across London as a whole is 13%. Around half of all overseas investors bought properties between £200,000 and £500,000 and hence did not concentrate on high-value homes alone. The estimated under-occupancy rate was 10.2% overall, with great variation in terms of areas and value of properties. Where all new properties in outer London are fully occupied, around 50% of new build properties in prime areas of London are not. This rate is 14.8% in areas of new growth and around 19.4% in inner London. Higher vacancy rates also grow with the

value of properties, to reach 63.8% for properties over £5 million. Overseas owners are more likely to hold property that is under-used (42.3% compared to 5.6% of UK owners). However, because sales of higher value properties, in prime areas and among overseas investors represent a smaller portion of the new build housing market, UK and overseas owners hold similar numbers of homes that are under-used or under-occupied. Scanlon et al (2017) use secondary data analysis, individual sales data (covering approximately 10% of new private units for sale between 2014-2016) and interviews with developers, agents, managers and other stakeholders. They confirm the trends seen in Wallace et al (2017), in terms of the proportions of overseas buyers and trends with this proportion declining with distance from the centre and increasing with higher unit prices. Purchases were motivated by mainly three reasons: as an investment to let out; to accommodate family (e.g. students) and/or as a London home to be used for holiday or work visits. There was almost no evidence of units being left entirely empty. At the same time, the study finds that sales to overseas buyers accelerate development, and for instance play a key role in pre-sales that ensure a pipeline of development. In this sense, international investment and finance have helped to bring stalled sites into use and speed up development especially on larger sites, contributing to the increase in Build to Rent output. This might suggest a positive net effect on the availability to Londoners of new housing (while affordability would likely be connected to planning obligations, discussed in §6.1).

Bourne (2019) uses a dataset of domestic properties unoccupied by a permanent resident from 112 local authorities and covers 23 million residents and 340,000 low-use properties (3.4% of all properties). These are generally foreign ownership of properties in cities like London or second home ownership properties by British citizens in rural areas. The study finds that 39–47% of the population lives in an area where low-use property is more expensive than property occupied by a full-time resident. Low-use properties were found to be worth £363,000 on average, which is 18.5% more than the average home (£306,000) and very concentrated in small numbers of desirable areas. While the model does not demonstrate causality, this might suggest that low-use properties do increase prices in some areas. Notably, this is also what emerges from Sá (2016) study, which used a dataset of all property purchases by foreign-owned companies to directly measure the impact of foreign investment on the housing market in England and Wales. The study finds that foreign investment increases house prices, this is the case in areas where housing supply is particularly constrained and less elastic. Foreign investment also appears to reduce home ownership rates, suggesting that some residents may be priced out of the market in areas where foreign investors are more active. The study finds no evidence that foreign investment has encouraged construction of new housing, but also no evidence that more homes are left vacant in local areas where foreign buyers are more active.

It should also be noted the varying capacity of different buyers to navigate the housing market and deal with the fiscal environment. Fernandez et al (2016) explored how transnational wealth elites buy residential properties in New York and London as 'safe deposit box' investment. They use secondary data analysis from OECD and US data for foreign direct investment stock and industry report data, combined with 69 interviews with real estate and finance professionals in the two cities. They find that these groups use a variety of strategies to secure tax benefits and reducing transaction costs. For instance, by structuring the transaction in such a way that it is considered to be in the interest of the holding company, transforming it into an intangible asset exempted from all stamp duties on real estate acquisitions in the UK and estate taxes in the US.

Bourne (2019) also investigated the potential effectiveness of measures that reduce the demand for low-use properties (such as increased taxes). The study also estimates how much tax would be generated in the considered areas by implementing the 1% value tax as was enacted in Vancouver and compares

this to the local authorities' total income from domestic council tax. The effect of the 1% value tax would see a rise of an additional £1.2 billion, 11% of the council tax currently collected. This proportion would vary greatly: where the City of London or the Borough of Kensington and Chelsea would see a gain equivalent to over 200% of current council tax, Barking and Dagenham would only see a 1% gain.

These differential effects across local authorities also emerge in Wingham (2017), which uses DCLG Council Tax Base statistics and models the effects of different changes to council tax in London for the Greater London Authority. According to this analysis recorded number of empty homes in London is at an historically low level of 0.6% of total housing stock, with substantial differences across boroughs (e.g. 28% in the City of London, 9.8% in Kensington and Chelsea but 0.0% in Haringey, Harrow or Bexley). One of the options considered is removing tax discounts and implementing the premiums available as part of the Council Tax Support system. Removing the empty and second homes discount would result in an increase in total tax take of £7.5 million over a total council tax revenue to £3,537 million. The overall increase would be 0.2% with some boroughs gaining more than others (the largest gain would be in Hillingdon with 2.0% increase). If instead all empty homes – regardless of how long the properties have been empty and irrespective as to whether they are ‘furnished’ or not – are charged a 150% premium providing an incentive to use housing more efficiently, it would raise an additional £90.1 million on top of the current empty homes premium. If instead, long-term empty homes are charged a higher 200% premium and all other empty dwellings are charged the 150% premium, this raises a further £4.9 million (or £95 million in total). While the overall increase would be 2.7%, this would be 3.8% in Inner London, with gains in some boroughs as high as 10.3% in the City of London, 7.9% in Southwark, 6.0% in Camden and 5.6% in Islington.

In general, empty homes appear to represent just a small element of an inefficient and wasteful use of housing in which affordability are issues related to supply-side investment (and lack of thereof, see §6.1), regulatory constraints (Hilber and Vermeulen, 2016) and land market challenges – e.g. Cheshire (2014) shows that this longstanding problems shows that, discounting inflation, land prices have increased three times more than house prices, which themselves gone up fivefold since 1955. There is, however, room to argue that reforms using the tax systems to diminish biases that can stimulate accumulation of property, could have progressive effects particularly if coupled with reforms to the current regressive and distorting system. In general, though, it is important to understand their differential impact in different localities.

7. Cost

Low

Overall

There seem to be increasing public support and political concern in this area. The policy focuses on a small element of the system, and while the evidence offers a mixed picture, it has some potential, especially through an approach that combines them to reforms of the current regressive and distorting system and is mindful of great area-variation.

4.3. Increase home ownership at the lower end of the distribution

1. Relationship to poverty/ inequality mechanisms	Owner occupation provides a way of smoothing incomes across the life course, but its advantages are often precluded from the poorest in society. Increasing homeownership amongst those at the lower end of the distribution can smooth existing disparities, which also have intergenerational consequences. Policy instruments in this area would reduce the costs of acquiring property, but also improve access to financing for those on low income.
2. Party Political Support	Action to promote home ownership is a cross party policy, but parties have different stances in relation to different schemes. While Shared Ownership has seen increased support and Help to Buy is pledged to continue in both Conservative and Labour manifestos, policies such as Right to Buy display greater differences, with the Conservatives relaunching it in recent years, Labour proposed restrictions and the Lib Dem planned to allow councils to end the policy.
3. Type of intervention	Public investment
4. Level	All
5. Public Support	Preferences towards homeownership are strong across income groups, which emerges as a shared aspiration. Affordability and financial constraints are the main barriers to buying.
6. Evidence of effectiveness	Different current schemes have different potential in this area. Right to Buy has had historical importance, but extensive literature stresses its adverse effect exacerbating affordability, reducing the stock of public housing and its quality, while also remaining less accessible to the poorest. Help to Buy amounts to a large proportion of housing public investment, but it lacks the reach to expand homeownership to new groups on low income, with also some evidence of its effect on overvaluation and house prices. Shared Ownership provides a more affordable route into homeownership, but this tenure is still small and faces challenges (e.g. in terms of staircasing). Overall, it is also important not to overlook that gaining an asset through home ownership is no guarantee of being lifted out of poverty.
7. Cost	High
Overall	The public maintains strong preferences for homeownership, which remains high among housing political priorities for all parties. Despite this, it is important to understand the limits of homeownership in ameliorating poverty. Moreover, most of the policies promoted in this area have adverse distributional consequences, and can further reduce affordability and exclude those on lower incomes.

1. Relationship to poverty/inequality mechanisms

Owner occupation has traditionally been seen as providing a way of smoothing incomes across the life course, and a tax-advantaged investment vehicle that is traditionally retained until at, or near, the end of life (Wood et al 2015). This can constitute an advantage that is often precluded from the poorest in society. Increasing home-ownership amongst those at the lower end of the distribution can smoothen existing disparities, which also have intergenerational consequences. Given the high cost of housing,

income differences reflect differences in housing characteristics. However, these are also determined by an individual's access (or lack of access) to financing – and lower income individuals have less access. Banks are more likely to offer financing to those who already owned high equity (e.g. those who already have housing of some sort and are looking to upgrade) and, thanks to higher incomes, have greater repayment capacities. On the other hand, as seen at the end of de-regulatory era (from the mid-1980s up to the 2008 financial crisis), easier access to mortgage debts, can also lead lower income households taking on large and unsustainable debt burdens, which reduced wealth among the bottom income groups, increased poverty and further exasperated inequalities.

2. Party Political Support

Action to promote home ownership, particularly for first time buyers, is a cross party policy in the UK (Provan et al, 2017).

The Conservatives have relaunched Right to Buy in England. In 2015, the Conservative Manifesto set out an intention to extend the Right to Buy to housing association tenants – on the grounds that it is unfair for their tenants to miss out on a right enjoyed by others. Pilots have been devised in 2017. Instead, Labour pledged to suspend it, with councils only able to resume sales if they could prove they had a plan to replace homes sold like-for-like. The Liberal Democrats manifesto planned to allow councils to end the Right to Buy.

Meanwhile, Scotland and Wales have scrapped Right to Buy, following consultation with councils, housing associations and social housing tenants and in virtue of concerns with losses of housing stock, particularly for the most valuable properties.

Conservatives remain committed to Help to Buy, and Labour set out in their manifesto plans to continue the policy till 2027. In general, Low Cost Ownership – including shared-ownership and rent to buy homes – is part of the party's priority to increase affordable housing. The Liberal Democrats also focused on “people who cannot afford a deposit by introducing a new Rent to Own model where rent payments give tenants an increasing stake in the property, owning it outright after 30 years”.

3. Type of intervention

Reduction of the cost of buying for individual households through a range of public investment schemes – e.g. subsidised savings schemes, government guarantees, grants to reduce the price, discounted sale of public housing.

4. Level

All

5. Public Support

Preference for home ownership remains strong (88%, said they would choose to buy and 11 per cent would choose to rent) and has changed little in the last thirty years. Respondents in the highest income category were more likely to have a preference for buying (95%) compared to households in the lowest

income category (79%). Respondents who are currently renting privately are more likely to show a preference for buying (81%) compared with those who are renting from a housing association (64%) or local authority (69%).

From a [First-time buyers survey](#) conducted by NatCen in 2016, the importance of home ownership is confirmed, with a majority of respondents (77%) said that, longer term, they would prefer to own their own home, although it is lower amongst non-owners (just above 60%), among whom, one in six wanted to rent privately, and one in ten preferred social housing. Those who did not want their own home were people who were satisfied with their current tenure – for example social renters wanting to continue to rent from a housing association or local authority. The importance of home ownership was considered essential to feelings of having succeeded in life (69%) and being grown-up (73%). 81% of respondents also felt that owning their home was or would be a good financial investment for the future. Not being able to afford a mortgage (46%), high deposits (38%) and not earning enough money (45%) were the most significant barriers cited. 43% of people who said they were not currently saving for a home felt that they were unable to do so, rather than making a conscious decision not to. These results are in line with the [English Housing Survey results \(2016\)](#), which identified affordability as the most common reason among all renters for not expecting to buy.

While less than 5% stated that they 23% said that they would be willing to buy a property using the shared ownership scheme in order to afford to buy a home: over 25% of potential first-time buyers willing to do this in order to buy a home, but less than 10% of owners had done this in order to afford their first home.

From the English Housing Survey results (2016) a similar picture emerges in terms of the impact of Help to Buy on renters' buying expectations: for both private and social renters who expected to buy, 56% said that Help to Buy made no difference to their buying expectations and 39% said it made them more likely to buy.

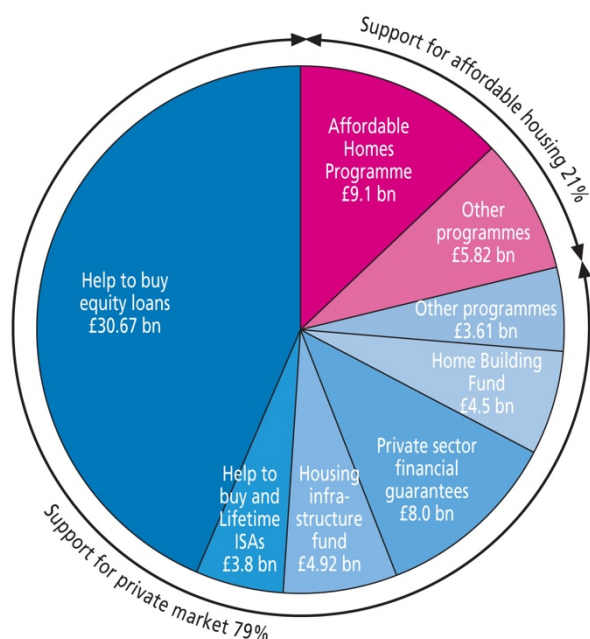
6. Evidence of effectiveness

Across OECD countries, homeowners often benefit from tax reliefs for the purchase of housing – notably mortgage tax relief – and favourable taxation of residential property. These instruments are typically not targeted to low-income households and actually tend to be regressive and favour better-off households, while also introducing distortions in investment incentives in other tenures and actually often putting pressure on housing prices (Salvi del Pero, et al, 2016). Analysis by Fatica (2015) in the Euro area uses EUROMOD microsimulation to estimate fiscal and distributional consequences of a series of instruments and finds tax subsidies for mortgage debt likely to be a regressive instrument in all countries considered (albeit with different degrees of severity). Tax breaks exacerbate existing discrepancies as high-income households tend to have a higher propensity to borrow, borrow greater amounts and have easier access to bank credit. In this scenario, we look at evidence of the effects of policy instruments that might increase home ownership at the lower end of the distribution.

Help to buy

Stephens et al (2018) points at how distinctions between sectors and tenures are becoming more blurred, with products such as shared ownership and Rent to Buy crossing the divide by combining features of both tenures. However, the current investment picture (Perry, 2019) shows the overwhelming emphasis on support for the private market, taking 79% of the total (Figure 5).

Figure 5. Overview of housing public investment



Source: Perry (2019)

Provan et al (2017) offer a review of Low-Cost Home Ownership Schemes for the Social Mobility Commission which allows to evaluate the progressivity of programmes such as Help to Buy. Their analysis suggests that these schemes assist some first time buyers but lack the reach to be able to assist people on low incomes or those who would not in all probability buy at some point anyway. For instance, Finlay et al (2016) produced the most prominent review of the Help to Buy Equity loan scheme and their findings estimated that it produced 43% additional new homes, contributing to 14% of total new build output to June 2015. This suggests that the scheme elicited increase in the supply of houses. However, the average (mean) gross household income at the time of purchase emerged to be £47,050 and the median income £41,323. These figures are close to those of owner-occupiers with a mortgage in England who were first-time buyers (/£47,528 and £39,834 respectively), indicating that the schemes are not expanding the base of homeownership to new groups of lower income. There are also seems to be some deadweight attached to the policy, as it emerges that 35% of recipients could have bought a similar home without the subsidy (Finlay et al, 2016). This assessment is further supported by a 2016 evaluation by the Department for Communities and Local Government which indicated that the median income of beneficiaries as well above the working-age median income in England (£42,000, in line with the median income of first-time buyers overall. The most recent report of the Intergenerational Commission (2018) shows that one quarter of those who have purchased a home with an HTB equity loan have an annual household income of £60,000 or more. These results suggest a dynamic that, rather than bridging gaps that would increase home ownership amongst lower income groups, would instead further leave these groups behind. Moreover, while the scheme is limited to properties worth £600,000 and under, only 19% of Help to Buy Equity loan completions were homes worth less than £150,000, while 48% paid over £200,000 – with associated mortgage payments exceeding the 40% limit of affordability for median-income households. As house prices remain a substantial barrier to home ownership (Oxford Economics, 2016), these schemes do not expand the home ownership base to lower income groups as the gap between prices and incomes is too great.

Moreover, analysis by the OECD (2015), the Office of Budget Responsibility (2013) and Shelter (2015) point to the scheme contributing to increases and overvaluation of house prices. This would entail worsening overall affordability. Along these lines, a recent paper by Carozzi et al (2018) exploits differences in timing of implementation, spatial and price discontinuities in the Equity Loan Scheme of Help to Buy in England and Wales and estimates the effect of the scheme on construction volumes and prices. Their results suggest that the implementation of the scheme led to a significant shift in housing construction away from larger properties above the price threshold towards smaller units. The price of newly built homes saw an increase between 2.3% and 3.9%, but with an insignificant price effect on existing homes and a larger price effect in less supply elastic areas (e.g. in GLA).

Crisp et al (2017) report concerns with programmes such as Help to Buy amongst stakeholders involved in housing and planning across city regions in England. Concerns were that these programmes were seen as diverting resources away from the delivery of affordable housing by supporting homebuyers who would have bought homes anyway. Something which aligned with the findings discussed so far, but also with findings from a 2012 IFS report which found that low cost homeownership schemes may forward already likely home ownership, rather than enabling ownership amongst groups who would not otherwise ever be able to own. In this analysis, Bottazzi et al (2012) examined two birth cohorts at age 22 (born in 1967 and 1975) looking at patterns over the last forty years and over three housing booms and two housing busts: they found that an 'ownership gap' existed between cohorts who were not able to buy homes by age 30 but that 80% of this gap was closed by age 40.

Shared ownership

Shared ownership allows incremental purchase of an ownership share in a property while continuing to pay rent for the part owned by the landlord, usually a Registered Social Landlord, who often charge a subsidised rent for the remaining part of the equity. There is an income ceiling- currently around £90,000 in London and £80,000 elsewhere in England. Shared-ownership homes make up 0.4% of English housing stock and around 1.3% of mortgages currently held, and, while a niche market for lenders, the sector is expected to grow as a result of the increased government backing since 2015. Shared ownership provides a more affordable route to home ownership (Provan et al, 2017). National Housing Federation data shows that - with £26,264 - the average incomes of shared ownership buyers are very near the median income for working age families in England. Even including the cost of renting the remaining share of the property, the overall housing costs of shared ownership are considerably more affordable than those of 100% first-time buyers (Provan et al, 2017).

Cowan et al (2015) use qualitative methods to clarify how various actors understand the hybrid ownership model that characterises shared ownership. On the one hand, they clarify how there appears to be a small minority of owners who could have bought without shared ownership, but that they would not have obtained the quality of property or location achieved with the scheme. Amongst the key weaknesses they identify are with service charges, evident in all residential leases, which are exacerbated within shared ownership, both in terms of responsibilities for all repairs, in the apportionment of charges and in notably managing the installation of health and safety features. These constraints impinge on shared owners' sense of control over their home, environment and costs. Moreover, they stress difficulties in staircasing (the process of buying more shares of the property), due to the growing disconnect between earnings and house prices. Once people have part-bought a property this presents some challenges to further progress beyond this initial part-asset ownership. Barriers to onward mobility, include: not being able to afford to purchase a larger share of their home; being unable to increase mortgage borrowing to move to another property; and not having access to local low-cost housing markets (Tunstall et al, 2013). This is important because shared ownership is nearly always

described as a step on the path to full homeownership, but the latter may in fact be unattainable. This does not detract from the value offered by shared ownership in terms of security, stability and the acquisition of a valuable asset, but it requires understanding the structural limitations of the scheme as well as the need to improve communication channels amongst the relevant stakeholders.

These challenges are echoed in an overview of this tenure type by Orbit (Davies and Sinn, 2016), and they can affect the potential of the scheme to provide greater flexibility that can allow households to adjust to their changing circumstances, through greater mobility within the tenure and across local boundaries, as well as greater diversity of size and types of properties. They note how some providers are trialling methods to try to overcome staircasing barriers, which are affected by the costs the process entails in terms of valuations, legal fees and other expenses. At the same time, shared ownership is seen as complex and potentially higher risk by lenders, and mortgages on these properties may attract higher interest rates. As a result of this unfavourable capital weighting, housing associations limit the percentage of their portfolio offered in shared ownership. The scaling up of shared ownership has been also traditionally further constrained by the fact that it is included in developments primarily to discharge a Section 106 obligation - a mechanism that can produce only a limited supply.

Right to Buy

The reductions in social housing (§6.1) have occurred alongside government support for increasing home ownership; in fact, Right to Buy was one of the main vehicles for increasing the ownership rate amongst social housing tenants. Annual Right to Buy and other sales peaked at 167,000 in 1982/83, and by 2009-10, they had fallen to 6,000 per year. Following more recent rise in discounts, sales have increased almost fivefold to just over 18,000 in 2016/17 (Stephens et al, 2018). The literature has emphasised this trade off (Jones and Murie, 2006, Searle and Köppe, 2014, Power and Provan, 2018, Disney and Luo, 2016, Stephens et al, 2018) and fundamentally converged on the assessment of the pressures the scheme has had on social housing: it led to reduction of the stock of public housing relative to private housing, but also to a change in the distribution of 'quality' of housing units within the private sector (Disney and Luo, 2016). Provan and Power (2018) for instance note that the policy both reduced the amount of more desirable properties available (as these are more likely to be purchased) and increased the stigma attached to being a social housing tenant. The assessment of the 2018 Housing Review (Stephens, 2018) describes this process as one that affect the social housing sector negatively through three elements: it siphoned off into owner-occupation both its better-off tenants and its better-quality homes; and little of the £54 billion eventually accumulated from sales was used to replace the homes sold. In fact, in the past two years the replacement rate has been under 40%. Analysis for the Department of Communities and Local government in relation to the extension of the discount to housing association tenants (NAO, 2017) found that while the Department was able to meet its commitment in respect of the first year of sales, the rate of replacements would need to increase five-fold to meet the commitment in subsequent years.

While the Right to Buy scheme has seen the loss of considerable amounts of local authority stock in some areas, a large proportion of this has subsequently been converted into private rented property. It would be important to establish the consequences of this on the levels of Housing Benefit expenditure, which would increase if these properties were rented at higher prices than equivalent properties in the social rented sector. While these effects are difficult to establish, Sprigings and Smith in Renfrewshire (2012) match a range of data including Right to Buy and Housing Benefit to the entire housing stock in a local authority area, tracking the latest destination of Right to Buy stock in the overall housing market. They find that 43% of Housing Benefit claimants in the private rented sector were living in properties

purchased under Right to Buy. The authors calculated that the higher cost of accommodation within private renting led to an additional cost of £3.2 million per annum compared to the equivalent within social renting. If this pattern were to be replicated elsewhere, it would need to be considered in relation to the pressures explored in §6.5 as it would result in major increase in annual Housing Benefit expenditure.

Searle and Köppe (2014) give an overview of the scheme and show that, initially, purchasers were generally older owners who had lived in their home for several years, were not poor at the point of purchase, or had at least one person in employment. These characteristics have shifted slightly over time towards younger households, people on low incomes and benefit claimants – e.g. Jones (2003) shows that 38% of purchasers had incomes below the national average and 7% were on income support or in receipt of housing benefit. Overall the scheme remains less accessible for those with very low income, while purchasers are also older – 52 years of age on average – than those buying Shared Ownership properties – who are 35 on average (DCLG, 2017). Searle and Köppe (2014) also stress the uneven rewards following home ownership: those who sell their homes were found more likely to be among younger people, non-poor households and those in professional or managerial occupations. This is relevant for evaluating the relationship of the policy to poverty and inequality, since it points different barriers people face in treating housing as an asset and to the differential benefits that can exacerbate, rather than ameliorate, existing inequalities.

Home ownership and poverty

Recently, Clair et al (2019) use the 2012 EU-SILC to investigate the level of housing precariousness in 31 European countries. To measure housing precariousness, they integrate four dimensions: security, affordability, quality and access to services. Precariousness is also consistently higher among renters than owners in all countries. In the UK the mean precariousness score is double for renters what it is for owners. This does not mean that there is no housing precariousness among owners, or that ownership is a panacea for precariousness. Cross-country variation demonstrates that precariousness among renters in some countries is lower than precariousness among owners in others. In general, the incidence of poverty amongst home owners is often overlooked. For instance, the presence of owner-occupiers among food bank users, although small, highlights that ownership does not preclude people from experiencing financial difficulty and food insecurity (Searle and Köppe, 2014, Clair et al, 2019), though severe food insecurity was less common among these households.

In the UK half of all households in poverty are headed by home-owners – a third once housing costs are considered. This is equivalent to between 1.8 million and 2 million households before housing costs (BHC), and between 1.7 million and 1.8 million households once housing costs are considered (Wallace et al, 2018). Poverty among home-owners has reduced significantly over time, but less so for mortgaged households. In fact, home-owners in poverty were twice as likely to report arrears (14%) than other mortgaged households (7%), and were overwhelmingly led by someone in work. Those in work are excluded from the current system of mortgage safety nets. The welfare ‘safety net’ for owner-occupiers’ mortgage costs has always been more limited than that for social rented tenants’ and private rented tenants’ rental costs (Tunstall et al, 2013).

Wallace et al (2018) combine an evidence review, key informant interviews and an analysis of cross-sectional and longitudinal household panel data, stressing that home-owners have more frequent but shorter spells of poverty than renters, but that their homes are more likely to be in poor condition than those of social housing tenants. The pattern that emerges is one in which home-owners’ invest in repairs to the fabric of their homes at the outset of ownership, but this declines over time and with age and

income: over time their investment falls below that required to remedy disrepair or property defects. As a result, home-owners have generally poorer housing conditions than those of social renters, but better conditions than private renters. Wallace et al (2018) report a total of 19% of outright-owned homes and 18% of mortgaged homes failed to meet the Decent Homes Standard, compared to 14% of social rented homes. Poverty amplified the intensity of non-decent homes across all housing tenures, maintaining a similar pattern. A total of 26% of mortgaged households in poverty BHC had a home that failed to meet the Decent Homes Standard (23% AHC), and 23% of outright owners in poverty BHC (22% AHC). Mortgaged households in poverty with children also had a greater incidence of non-decent homes. For example, the proportion of lone parents with dependent children in poverty who lived in non-decent homes was 39% (compared to 11% in social rented homes); the figure was 25% for couples with children (compared to 16% in social housing), but only 14% for couples without children (compared to 22% in social housing).

As noted above (§6.6.1), the rationale for policies aiming at increasing home ownership amongst those on lower incomes is connected to a 'life-cycle model' that sees savings, assets and wealth helping smooth consumption and provide a buffer against economic shocks over the life course. In this sense, the push towards home ownership has been interpreted as one towards 'asset-based welfare' (Lowe et al., 2012; Searle and Köppe, 2014). Equity release can be an option for poverty alleviation, especially in old age, for people who are asset rich but income poor. In their review, Searle and Köppe (2014) show that the number of pensioners who could be lifted out of income poverty through housing equity release (considering the period 2012 to 2014) is substantial – over one million. However, they also note that very few pensioner households release equity, and only one per cent of total net housing wealth of UK pensioners is released. In fact, they find that next to evidence showing that equity release can be used to supplement incomes, nevertheless, this is more likely by those on middle incomes to enhance consumption, and hence does not play much of a role in lifting pensioners out of poverty. Tunstall et al (2013) evidence review also points to similar conclusions, showing that housing equity tends to be associated with higher incomes, and there are significant regional variations based on the performance of local housing markets. In this sense, equity release provides some support for incomes but appears to be of little help to people living in poverty, because owners on the lowest incomes have least equity and often cannot release it. It can also put lower income owners at greater risk of mortgage arrears and repossession. Moreover, Searle and Köppe (2014) also note that people who withdraw equity are 1.4 times more likely to experience mortgage arrears or repossession (also, Searle, 2012). Overall, this discussion points to how gaining an asset through home ownership is no guarantee of being lifted out of poverty.

7. Cost

High

Overall

The public maintains strong preferences for homeownership, which remains high among housing political priorities for all parties. Despite this, it is important to understand the limits of home-ownership in ameliorating poverty. Moreover, most of the policies promoted in this area have adverse distributional consequences, and can further reduce affordability and exclude those on lower income.

4.4. Increase number of new affordable homes and the quality of social housing

1. Relationship to poverty/ inequality mechanisms	Increasing housing affordability would ameliorate the financial overburdening that affects households in poverty disproportionately. At the same time, by mitigating housing inequalities, it bears on the economic inequality that these entrench, while also affecting intergenerational and spatial inequalities.
2. Party Political Support	All parties have made increasing the number of affordable home and housing quality party policy, but with different strategies (e.g.in terms of numbers, emphasis on social housing, relaunching/constraining the right to buy etc.).
3. Type of intervention	Regulation and Social Investment
4. Level	National
5. Public Support	Recent years have seen increased public support for building more housing, which is connected to the increased concern with a “housing crisis”.
6. Evidence of effectiveness	The UK housing system used to constitute an effective progressive element of the welfare state and functioned as a safety net. Its capacity to do so is now reduced by a residualisation of the social renting sector. This shift has been in favour of products that are not quite as ‘affordable’. At the same time, the UK’s housing regime centered around homeownership is itself associated with greater inequalities that supply-side elements used to counterbalance.
7. Cost	High
Overall	While there is strong political and public support for increasing the number and the quality of affordable homes, there are also several interpretations of what counts as ‘affordable’. Housing policy also operates within a home-ownership regime which is itself associated with greater inequality: while there is strong evidence that the public housing system used to mitigate poverty and inequality in the past, its potential is currently reduced by the residualisation of the social renting sector, the increased emphasis on demand-side elements and a shift towards less affordable products.

1. Relationship to poverty/inequality mechanisms

Housing is affordable when households are able to access housing of decent quality (with respect to internal and external condition, space standards and the presence of adequate internal amenities for heating, cooking, sleeping etc.) at a price which leaves sufficient income for other necessary non-housing related expenditure. Affordability encompasses a wide range of housing provision: from social renting, to low-cost home ownership as well as subsidised rented housing nearer to market levels but yet still below commercial rent levels. Households can be said to be “overburdened” with housing costs if these are too high relative to income, with the likely effect that they suffer deprivation in other areas of their lives (e.g. purchasing living essentials, food or adequately heating their home). Both Eurostat and OECD deem households to be “overburdened” where 40% or more of disposable housing income is spent on housing. Overburdening affects households in poverty disproportionately. In 2013 the “overburden rate” for the 28 EU members was 11%, rising to 37.4% among the population with an income below

60% of the national median income (Gibb and Hayton, 2017). Fuel poverty is also a major challenge, with between 50 million and 125 million people in Europe unable to achieve adequate thermal comfort at home. In 2012, almost 11% of the EU population was unable adequately to heat their home, rising to 24.4% in relation to low income households.

Low income households face housing inequalities that manifest themselves through both high housing costs as well as quality and location issues. Housing inequality is distinctive in that it can be affected by income inequality at the same time as contributing to it. Growing wealth at the top can result in those at the bottom facing higher housing costs. With these households unable to afford decent homes or maintain the ones they have due to the financial burden, poorer households end up in lower quality or crowded housing in more deprived neighbourhoods, which results in spatial segregation between income groups. This connects to issues (discussed in §3) related to unequal access to quality services, and neighbourhoods characterised by fewer employment opportunities with potentially other undesirable qualities (e.g. high crime rates, pollution). These limitations can exacerbate existing inequalities between income groups. These housing inequalities have spill-over effects that can exasperate other inequality issues. For instance, it can entrench intergenerational inequalities: good quality affordable housing can contribute to the health and educational development of children who can be affected by neighbourhood exposure effects and by living in (or moving to) safe and warm housing in which to grow up.

2. Party Political Support

All parties stated plans to increase the number of affordable homes. The Conservatives would do so in line with 2015 pledges to build 1 million affordable homes by the end of 2020. They promised to enter “Council Housing Deals” to build more social housing, freeing up land to build homes “in the right places”. They also planned to build new fixed-term social houses to be sold privately after 10-15 years with Right to Buy for tenants. Labour pledges went further, promising to build over one million more affordable homes, with 100,000 council and housing association homes a year. These plans would have envisaged to transform the Homes and Communities Agency into a centralised housing delivery body with a new Department of Housing and dedicated minister. Amongst the pledges was also the plan to suspend the right-to-buy policy, with councils only able to resume sales if they could prove they had a plan to replace homes sold like-for-like. The Liberal Democrats pledged to establish a new Housing and Infrastructure Development bank to increase the rate of housebuilding to 300,000 a year, through a government commissioning programme to build homes for sale and rent. Half a million of affordable homes would be built by the end of the mandate. They would also allow councils to end the right to buy, lifting the borrowing cap to get them building again.

All parties also refer to quality of housing. The Labour manifesto connects this to energy-efficient, zero-carbon homes, but also to rules on minimum space standards. They also promise to avoid urban sprawl, protect the Green Belt and prioritise brownfield sites. The Conservative manifesto speaks of supporting high-quality, high-density housing, together with protections on designated land like the Green Belt, National Parks and Areas of Outstanding Natural Beauty. These developments would include the government building 160,000 houses on its own land and avoiding concentration in the South East. The Liberal Democrats pledged to create at least 10 new garden cities in England, with high-quality, zero-carbon homes, with gardens and shared green space, jobs, schools and public transport.

3. Type of intervention

Regulation and social investment

4. Level

National

5. Public Support

A [2018 YouGov poll](#) found that 55% of respondents would support building more housing in their local area, but 59% would oppose this if it involved building on green space. Protecting green space was the most relevant factor that would make respondents supportive of building new housing (52%) together with providing affordable homes (52%). These results appear show differences across party lines, with conservative voters generally more negative in regard to building new homes (48% in support, contra Labour respondents at 64% and Liberal Democrats supporters at 54%). Both Liberal Democrats voters and Conservative voters emerged as less influenced by the issue of building affordable homes (46% and 43% respectively, contra Labour 65%).

When asked about the best way to tackle the housing crisis, 70% preferred building smaller scale urban developments on brownfield land. Party affiliation was less pronounced on this issue, but support emerged as particularly high amongst Liberal Democrat voters (85%). The main benefits of building new housing in respondents' local areas were allowing local people to afford to stay in the local community (41%) and providing affordable housing (40%). Around 16% stated they didn't think there were any benefits to building new housing. Conservative voters generally attributed less importance to the two mentioned benefits (37% and 31% contra Labour voters' 46% and 51%) and were more likely to see no benefits (23% contra Labour voters' 11%). Older voters were also more likely to see no benefits (21%) than younger voters, particularly the youngest cohort (5%).

These results are in line with the 2017 BSA survey in which 55% of respondents were found to support building more houses in their local area, a percentage that has seen increased support in recent years, as it was only 28% in 2010. More homeowners (25 %) were opposed to new homes being built in their local area compared to renters (with little difference between social and private renters). Respondents aged 65 and over emerge as most opposed to new homes being built in the local area were (27%), while there also is an urban/rural divide, with those living in a 'farm or home in the country' or in a 'country village' more opposed (36% and 30% respectively) than those living in a 'big city' (14%).

6. Evidence of effectiveness

The effects of low-cost, good quality housing on poverty and inequality

Evidence suggests that low-cost, decent-quality housing, in a healthy job market could make a substantial contribution to increasing disposable income, preventing material deprivation and maintaining work incentives. Tunstall et al (2013) offer a comprehensive evidence review that shows, for instance, how housing costs constitute the most important and most direct impact of housing on poverty and material deprivation. Overall, 5 percentage points more of the UK population experienced

poverty in 2010/11 when the impact of housing costs on income is taken into account. Moreover, the number of people in 'housing-cost-induced poverty' has increased over the past two decades. More recently, Crisp et al (2017) confirm these trends, which as seen in §3 also have a spatial dimension: for instance, levels of relative poverty in London rise from 15 to 27% once housing costs are taken into account; this compares with Northern Ireland where housing costs cause poverty levels to increase by just 1%. Low-cost housing, such as council and housing association housing below-market rents, makes it easier to 'make work pay', removing some of the barriers to employment but also because net gains from working more will often be greater as a household pays lower rent, whereas the higher someone's rent is, the steeper the poverty trap. Hills (2007) shows that this effect has the most potential to impact high-demand and high-cost areas: for example, the poverty trap facing private tenants on Housing Benefit is far wider in London than in the North of England.

Stephens and Leishman (2017) use 18 waves of the British Household Panel Survey up to 2008 to understand the long-term relationship between individuals' housing pathways and their experience of poverty. Although this approach does not allow to establish the extent to which the specific elements of the housing system (social rented housing targeted on low-income groups, legal protection for homeless households, Housing Benefit, and high levels of outright ownership) protect people from poverty, housing policy emerged as offering protection to even the most chronically poor households over a long period, meaning that it serves its safety-net function. This study confirms evidence from the literature suggesting that the housing system in the UK had helped to mitigate the impacts of high levels of income poverty and was a particularly effective element of the British welfare state (Bradshaw, 2008; Tunstall et al, 2013). This literature emphasizes that the large social rented sector – the largest in the European Union – was a key element of the 'safety net', reinforced by the legally-enforceable duty of local authorities to find settled accommodation for non-intentionally homeless households in priority need and providing protection some to the most vulnerable households (Fitzpatrick and Pawson, 2014). The extent to which this is still the case is discussed below.

Housing was also found to reduce inequality, in conjunction to its effect on poverty. Here a key role is played by "housing income" – as measured by the value of home-owners' net imputed rent, the value of below market rents to tenants, and housing allowances. Those who do not pay full market rents (e.g. social housing residents) could be described as receiving an imputed rent from the difference between their rent levels and market levels. Hills (2007) shows that in 2001 those in the bottom income quintile received eight times the benefit from social housing of those in the top quintile (measured here as the difference between rent levels and landlord costs). This was by far the most 'pro-poor' and redistributive aspect of the entire welfare state. Stephens and van Steen (2011) found that housing income reduced both poverty and inequality in England: the poverty rate is reduced by 30% and the GINI by 5 points. This effect was caused by net housing income being highly unequally distributed in favour of low-income households. Even when home-owners' anticipated annual capital gains were added to their housing income, the inequality and poverty rate still fell, although not by as much. Housing institutions can, therefore, perform a valuable role in mitigating income inequality.

Fuel poverty contributes to these trends. The Hills (2012) Fuel Poverty Review identifies three drivers of fuel poverty: 1) different dwellings characteristics (with different levels of thermal efficiency depending on housing quality); 2) different household characteristics (e.g. pensioners or disabled people spend more time at home and therefore need more energy); 3) different prices paid for energy, with best tariffs available for those who shop around and pay by Direct Debit – and particularly out of reach for some particularly low-income households. The households with high energy costs living in poverty or on its margins in 2009 faced extra costs to keep warm, above those for typical households

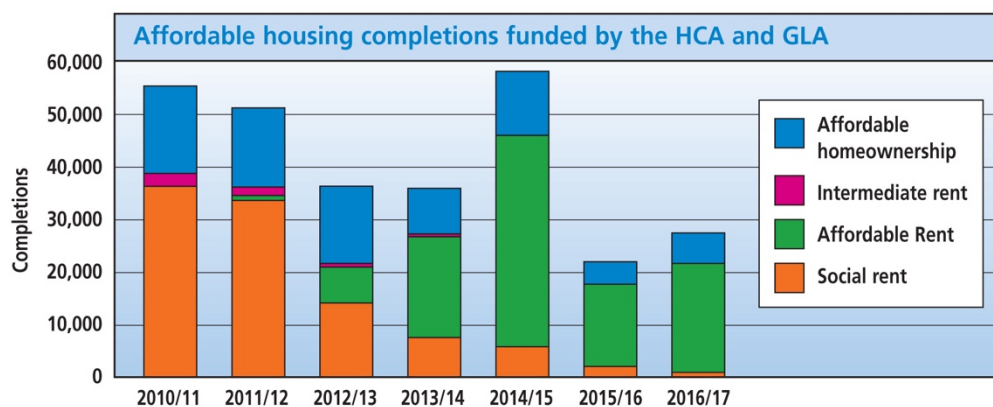
with much higher incomes, adding up to £1.1 billion. These costs are largely outside the control of those households – given the capital investment that would be required to reduce them – except through trading off the temperatures at which they live against other necessities, exacerbating the difficulties faced by all on such low incomes. This so called ‘heat or eat’ trade-off is well documented in the literature (Beatty et al, 2011).

Health and well-being impacts, together with increased costs for the NHS are the most pressing concerns. In the analysis of policy packages to tackle fuel poverty, the review stresses that policy both have positive and negative impacts, reflecting the balance of the type of policy concerned, who pays and who benefits. Where beneficiaries are on low incomes, the net effect is likely to be positive. The distributional effect of the analysed Energy Company Obligation (ECO) package, with one quarter of the policy going to ‘Affordable Warmth’ would be regressive. While tentatively, the analysis suggests that over half of ECO should go towards this element for the package to be progressive.

‘Affordable’ housing

While, as seen in relation to both political and public support, there are widespread concerns over the concept of ‘affordability’, the definition of affordability is often not clear. Shifting policies and definitions are making it difficult to use the term ‘affordable housing’ in a way which has a consistent meaning (Wilcox et al, 2017, 9). This means, for instance, that there is a variety of ‘affordable’ products envisaged, and this variety sees shifts in trends over time. Figure 2 shows these in relation to grant-funded housing completions. For the 2016/17 period, including homes produced without a grant would change picture slightly and see social renting comprising 15% of the total (as these are no longer grant-aided).

Figure 2. Affordable housing completions 2010-2017



Source: Wilcox (2017)

Crisp et al (2017) note that these trends followed government guidance that some housing association homes should be let at higher rates as ‘affordable rent’, while the 1% a year reduction in social housing rents between 2016 and 2020 would further reduce the numbers of homes built by registered providers. A recent report by the Joseph Rowntree Foundation (JRF, 2018) uses Homes and Communities data set and shows that ‘affordable rents’ are 30% more expensive than social rents. On average this is £1,400 a year, but there are considerable spatial disparities. The difference between levels of rents is £650 in Yorkshire and Humber and £2,000 in the South East. In London it is £3,500 but it goes up to £5,000 in some boroughs.

Stephens et al (2018), looking at static and dynamic models, consider a wide range of key outcome measures relating to affordability, poverty, housing need and homelessness. The report offers regional

estimates, finding the total level of new housebuilding required is estimated at around 340,000 per year for England (380,000 for GB), a number which includes significant allowances for suppressed household formation by younger adults resulting from previous inadequate supply and unaffordability, as well as necessary provision for more demolitions and vacancies. The estimated level of new social housebuilding required is approximately 90,000 (GB 100,000), with an additional 28,000 for shared ownership (or equivalent) and 32,000 for intermediate rent (GB 32,000 and 36,000). These estimates, based on affordability and need, suggest that the share of social rent in overall new provision should be substantial, ranging from 13-21% in the North, Midlands and Scotland, up to 44% in Greater London. The overall share of affordable housing – including intermediate tenures – would range between 38% (Scotland) to 62% (Greater London plus). On the basis of these data, the 2018 Housing Review produced by the Chartered Institute of Housing (Stephens et al 2018) and Joseph Rowntree Foundation (JRF, 2018) find that the plans laid out in the government green paper *A New Deal for Social Housing* modest in terms of the proposals in terms of increasing the supply of low-cost homes and well below the level now required, and with few specific measures to ensure a large proportion are built for letting at social rents. In this sense, these analyses offer a negative picture in relation to delivering affordability, for instance because of many new lettings being at higher market-linked 'Affordable Rents'. In 2017, of the 192,748 homes let through Affordable Rents by housing associations, the majority (102,004) resulted from conversions of (mainly) social rented properties to Affordable Rents. This phenomenon that further increases the pressure on housing stock, as between 2012 and 2017 the net loss of social rented stock across the sector for various reasons reached 151,000 units, despite the building of over 50,000 new social rented homes over the same period. Other reforms have contributed to pressures on the housing stock: following the rise in discounts for the Right to Buy scheme, sales have increased almost fivefold to just over 18,000 in 2016/17 (Stephens et al, 2018), subverting a trend that had seen these rates fall dramatically in the past decades. Meanwhile, commitment to fully replace all additional properties sold have not been met. Meanwhile, help-to-buy policies (explored in §6.6) have the effect of pushing up demand, and in setting with unresponsive supply, increasing house prices further

In general, this discussion enables us to understand that increases in housebuilding does not automatically extend to the development of genuinely affordable homes. In turn, it is important to clarify definitions of affordability and the variety of products connected to its delivery.

Supply-side and demand-side explanations for the decline of housing affordability are not mutually exclusive. Indeed, they are complementary. Inelastic supply need not lead to price increases if demand is stable or declining. Similarly, the impact of demand growth on prices depends on the elasticity of supply.

Barriers to increasing supply are many, including land market failures, lack of or inadequate public funding available to drive programmes to meet unmet housing needs, limiting planning systems and regulation (e.g. not-in-my-back-yard forces), low capacity of the building sector to deliver (e.g. planning delays). In regard to the latter, it is important to also consider the limitations for the role of private housing developers, who – in line with business logic – will not release homes at a rate which undermines prices. Archer and Cole (2016) point to a shift away from increasing volume, while gaining greater profit, together with a process of consolidation in recent years. Moreover, increased emphasis on viability assessment in relation to planning arrangements. Since 1990 planning obligations (s106 agreements) have been a vital delivery mechanism for new affordable homes (Brownill et al., 2015). These are agreements with developers to secure financial and in-kind contributions to provide essential infrastructure such as affordable housing and transport and local employment and training opportunities for people in poverty. Supplementary planning documents and s106 agreements could

also set conditions and specify rent levels that are affordable to those on the lowest incomes (Brownill et al., 2015). However, the role of planning obligations in delivering affordable housing is reduced because of the strengthened emphasis on viability assessment. Crisp et al (2017) document, through a consultation with stakeholders involved in housing and planning across city regions in England how some local authorities with lower-value housing markets choose to forego or substantially lower their Section 106 requirements in order to stimulate development. Stakeholders in London suggested that rising land values and strong housing markets meant that downward negotiations of affordable housing requirements should no longer be possible. Moreover, planning obligations could be scaled back further with the introduction of the Community Infrastructure Levy (CIL). The CIL was introduced as a flat-rate charge for non-site-specific infrastructure but cannot be used for affordable housing or employment and training obligations. As Brownill et al. (2015) point out, 'this makes s106 the only negotiable element of planning obligations and could increase its vulnerability to viability assessments depending on how CIL levels are set'.

Focusing on another potential barrier to supply, Hilber and Vermeulen (2016) identify a substantial causal role of regulatory constraints in generating high house prices and volatility. They use a panel data spanning 35 years and covering 353 English Local Planning Authorities and separate causal effect of regulatory constraints. They distinguish the effect of these regulatory constraints from physical constraints and topography and show that the effect of constraints due to local scarcity of developable land emerges as largely confined to highly urbanised areas such as the Greater London area. In turn, there is plenty of evidence in several settings that has shown the importance of considering the importance of community opposition to the development of affordable housing (Davidson et al, 2013; Scally and Tighe, 2015). This connects to both issues of segregation related to spatial disparities (§3) and to the issues of political economy and democratic participation addressed in §1, as these can further skew processes opposing affordable developments.

At the same time, inequality plays an important role in relation to housing affordability. Exploring how it can cause of housing affordability problems in the US, Rodda (1994) uses data from the Census 1970 – 1980 and finds a positive and significant relationship. Using American Housing Survey data between 1984 and 1991, he also finds that when demand for higher quality housing increases, the best quality units from the low-cost unit pool filter up and out of the low-rent category. Still in the US, Matlack and Vigdor (2008) use census data for the years 1970, 1980, 1990 and 2000 with rich controls to measure the impact of changes in income inequality on housing cost burdens, measured using either residual income or the more traditional rent-to-income ratio. They find that the answer depends critically on the elasticity of housing supply. In the period studied, housing markets characterised by low elasticity tend to be those where incomes are rising rapidly at the high end of the distribution, while incomes at the low-end trend upward only slowly if at all. In these areas, the poor have experienced greater crowding, and there is evidence that their expenditures on housing increase as well. In more elastic markets, or where increased inequality reflects declines at the low end more than increases at the high end, the impact of inequality appears more benign. This evidence can be particularly relevant for settings characterised by less elastic supply, like the UK (Leishman, 2015). Increases at the top end of the income distribution can drive higher rents, putting upward pressure on the existing stock of housing, and crowding out for those at the lower end of the income distribution.

Homeownership

In order to understand current reforms and strategies, it is useful here to understand current reforms and strategies to deliver affordable housing within a broader framework of housing regimes. This literature relies largely on comparative studies. While conducting comparative housing research is

challenging, because of complex differences in national housing systems, legal arrangements, historical trajectories, policy settings and broader approaches to social policy (e.g. Stephens, 2017a; Gibb, et al, 2013), this literature is substantial and particularly relevant in relation to poverty and inequality. This literature refers largely to Kemeny's (1995; 2006) distinction between unitary and dualist regimes. Unitary housing systems (e.g. Netherlands, Germany, Sweden, Austria) see each tenure afforded similar levels of government support and tenancies are not allocated strictly on the basis of means – the private rental sector is highly regulated, but also subsidized and home-ownership rates are lower than the norm. The UK is characterised instead by a dualist system – where home-ownership is supported via subsidies and favourable legal treatment, while the private rental sector is both unsubsidised and unregulated, with the social rental sector has access restricted to disadvantaged groups and its size controlled by the government with limits on borrowing and public subsidies. Norris and Winston (2012a) use the 2007 European Quality of Life Survey to conduct a cross-country analysis to examine patterns of housing inequality in various housing regimes. Macro-level analysis shows a convergence in home-ownership rates across EU15 countries, as growth of homeownership stalled or reversed since 2000. Burdensome housing debt is common among low-income owners in some dual countries (UK and Ireland), while in others (e.g. Southern countries) familialist methods of provision mean that home-ownership functions as largely decommodified tenure and is more evenly distributed between income groups. Since in the UK government support for home-ownership is generally lower than in Southern Europe and mortgage debt and holding rates higher, the system is more strongly commodified and, as a result, low-income households in these countries are less likely to live in this tenure. However, many households, mainly headed by older people, have amortised their housing debt and for outright home-owners tenure is a decommodifying force.

In another study for the GINI project and using a similar research design, the authors (Norris and Winston, 2012b) show that of all the European countries considered, the UK saw the greatest decline of affordable housing and low-income ownership affordability in 2007 compared to 1997. More generally, homeownership is higher in more unequal countries and tends to expand with rising income inequality. This is in line with previous literature that has shown unequal incomes and high poverty are associated with high national homeownership (Kemeny, 1995; 2006; Castles, 1998). Less generous welfare systems, including less generous pension systems, are associated with countries with higher rates of home-ownership. However, Norris and Winston also show that home ownership is less affordable for low income households in more unequal countries and, in most cases, affordability increases in line with greater equality and vice versa. These results confirm and add to previous analysis (Castles, 1998): in 1997, homeownership counterbalanced wider inequalities in the income distribution – as a form of private insurance that balanced inter-country differences in public welfare provision. In 2007, however, home ownership played a less significant role in this sense: for instance, in the UK and Ireland, more widespread mortgage indebtedness meant that homeownership played less of a role in counterbalancing inequality.

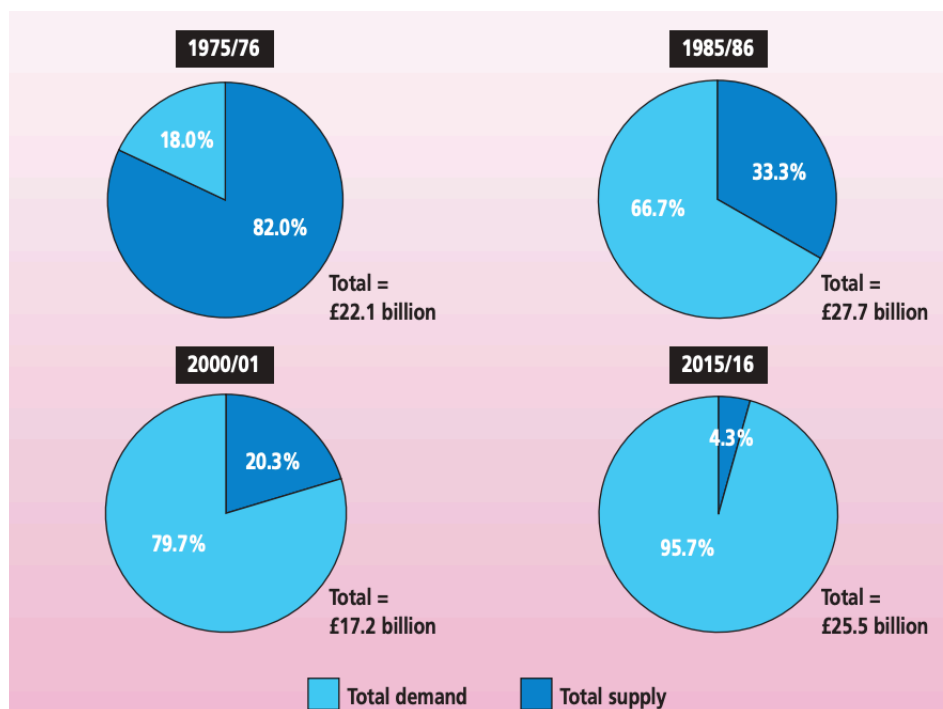
At the same time, relying on a taxonomy of housing regimes does not imply overlooking the way in which housing systems have been changing in recent years. Unitary systems have undergone a “dualization” to different degrees: Stephens (2017a) shows that Germany has been drifting from the Kemeny model, but it retained characteristics that make its rental sector retain its capacity to compete with home-ownership. Meanwhile the dualization of the housing system has been more dramatic in countries like Sweden. van Duijne and Ronald (2018) show the effects of the “dualisation” of traditionally unitary regimes such as that in the Netherlands. They focus on Amsterdam to show the effects of transitioning of unitary to dualist systems on particular social outcomes. They show that it led to distinct spatial outcomes, deepened class differences and segregation, with greater polarization of social and private

housing. In turn the private and social sectors are playing increasingly different roles. Social rental housing is being residualised in terms of size and the profile of its tenants, with increasing socio-economic gaps. As the system shifts, they show the emergence of issues of access in the social housing sector and rising costs of private renting and homeownership. In the UK, the increased importance of the private rented sector has been interpreted by some scholars as potentially shifting away from dualist regime (Blessing, 2016) with new forms of subsidised housing, moving from social housing investment towards support for the private sector. Others see these developments as a trend towards a more residualised model of social renting, and recent subsidies targeted on subsidising “starter homes” would seem to attempt reviving the home-ownership sector (Stephens, 2017b).

Social Housing

In this sector, it is essential to appreciate the shift that occurred since the 1970s from supply subsidies to demand subsidies (e.g. income related personal housing allowances and tax expenditures), which has long been documented in different countries (Hills et al 1990). Perry and Stephens (2018) show how supply-side subsidies for housing in England went from 82% of the total social housing subsidy in 1975 to 4.3% in 2015/16. The further stress how this shift has been accompanied by a fragmentation of the policies pursued.

Figure 3. Change in balance of government housing subsidies in England, 1975-2016



Source: Perry and Stephens, 2018

These trends, together with the broader discussion of ‘affordability’ above, can be understood in relation to recent literature suggesting a shift from a safety-net model to an ‘ambulance service’ of housing (Stephens, 2017b; Fitzpatrick and Pawson, 2014) – particularly in relation to the shrinking role of the social rented sector, the phasing out of open-ended security of tenure, phasing-in of near market rents and ‘pay to stay’ regimes. In this sense, social housing is seen as a ‘temporary refuge’ (Hills, 2015, 133) – in turn this could create potent disincentives (‘get a job, lose your home’) and negate one of the advantages of social housing mentioned above; namely, the fact that poverty traps extend much less far in social housing compared to paying private rents. Moreover, not unlike in the discussion of

universalist/highly targeted social assistance schemes (§3.3), an ambulance system might contribute to a narrative that stigmatises recipients.

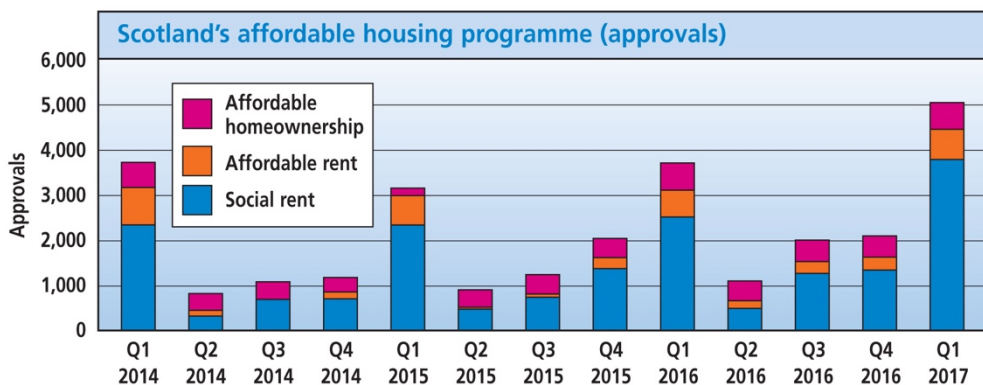
However, Power and Provan (2018), building on Hills (2007), show that social rented housing has the lowest share of non-decent homes compared to other tenures – with less than 10% rated in the worst categories, compared to almost 25% in the owner-occupied and private rented sector; and with a larger proportion falling in the three best categories (close to 50%), as opposed to less than 30% which can be found in other sectors (in both cases this is driven by dwellings rated C, rather than A and B). Overall, the proportion of non-decent homes in the private rented sector went down from around 46% in 2005 to 28.5% in 2015, from 35% of owner-occupied homes to 18.3% and from just below 30% to 13% in social rented sector. However, tenants in the social rented sector are more dissatisfied than private renters. In particular, neighbourhood and local area is one of the main perceived disadvantages of social housing. Despite some recent rises, social renters are the least likely of any tenure to be satisfied with their local area.

In connection to the role played by different forms of tenure within housing regimes, Norris and Byrne (2017) provide an analysis of the impact of Austria and Ireland's social housing systems on their different experience of the global financial crisis. In both countries the social housing sector is shown to have played a pivotal role, but while in Ireland the social housing system was pro-cyclical in the sense that it helped to intensify the housing boom and amplify the bust, in Austria social housing had the opposite effect – it played a counter-cyclical role in the housing market because increased social house building helped to mitigate the impact of falling private housing output during the global financial crisis. The authors suggest that the dualist/unitary nature of these regimes explains these phenomena – thus giving potentially relevant insights for Britain, which, like Ireland, is considered a dualist regime. In the Austrian unitary regime characterised by a “wider affordability” model (Stephens, 2017a) the social rented sector is large in size and 80% of households qualify for entry: this leads to competition between the social and private renting, which helps depressing rents and raise standards. Affordability and attractiveness of rented housing in Austria means that households are not pushed into marginal home ownership which helps prevent boom/busts market cycles. In contrast, Ireland's residualised housing sector drove volatility within the private housing market. Here, low levels of social housing provision necessitated extensive public spending on housing allowances for private renting households which further fuelled demand and inflated rents and house prices. Another aspect the authors highlight is the role of private finance in funding the social housing sector: while generally assumed to undermine welfare state, it is shown to have bolstered the resilience of the sector in Austria, while in Ireland, where funding for social housing was almost entirely derived from central government grants, large cuts of around 80% in the social housing output in the late 2000s increased the fragility of the sector. Finally, the authors suggest increasing the use of supply-side subsidies and reducing reliance on demand-side subsidies, while also increasing new build social housing and reducing the use of purchasing existing dwellings and other mechanisms through which social housing stimulates demand for private housing development.

At the same time, it is important to note that there is also a growing divergence between policies in different parts of the UK. Already in England, Crisp et al (2017) highlight the variety of approaches adopted by local authorities, through which devolution might provide opportunities for city regions to secure further flexibility around funding: for instance, devolution deals have the potential to secure some funding for local authority housebuilding (e.g. in the case of Cambridgeshire and Peterborough), or negotiating waivers or softer rules around the 1% rent reduction policy. The report, however, also stresses how the various approaches are not always focused on, or provide different interpretations of,

affordability. In the other UK nations, a ‘safety net’ model is being maintained (Stephens, 2016, 2017b), for instance through the retention of traditional model of social rented housing or the abolition of right to buy in Scotland, with Wales and Northern Ireland to follow. While in England local authorities can discharge their homelessness responsibilities via private tenancies, Scotland continues to use social housing. Scotland has abolished the ‘priority need’ category, extending full assistance to all households that are unintentionally homeless. England’s Affordable Rent model has not been replicated and only England has introduced fixed-term social tenancies. In each of the devolved administrations, housing investment has been increased. The Scottish Government aims to deliver 50,000 affordable housing units in the current parliament (35,000 of them social rented). Figure 4 below shows the upswing recorded in social sector starts in 2016/17.

Figure 4. Affordable Housing Approvals 2014-2017



Wilcox, 2017

Local authorities enjoy more borrowing freedom than in the rest of the UK, and indeed provided more social rented homes in the last five years than all the English authorities. The Welsh Government has a target of 20,000 affordable homes over the same period and Northern Ireland one of over 13,000. However, with few powers with which to influence the wider welfare regime, there are limits for the devolved administrations to create more than this distinctive regime sub-type, e.g. by moving to a ‘social market’ performing a ‘wider affordability’ role. With new devolved social security powers (§3) – e.g. altering the housing cost element of universal credit – it will be important to observe future developments. There currently is not sufficient robust evidence exploiting the divergent paths emerging from the UK as different devolved nations undertake increasingly divergent affordable housing within a broadly similar fiscal, monetary and social security union.

7. Cost

High

Overall

While there is strong political and public support for increasing the number and the quality of affordable homes, there are also several interpretations of what counts as ‘affordable’. Housing policy also operates within a home-ownership regime which is itself associated with greater inequality: while there is strong evidence that the public housing system used to mitigate poverty and inequality in the past, its potential is currently reduced by the residualisation of the social renting sector, the increased emphasis on demand-side elements and a shift towards less affordable products.

4.5. Regulate the private rental market introducing rent control

1. Relationship to poverty/ inequality mechanisms	Increased regulation around rents or tenure security might have a double dividend in relation to poverty and inequality, protecting tenants and preventing entrenching advantage of those who are already asset rich while exacerbating tenants' disadvantage. However, it might also create disincentives to supply rented accommodation, generating exclusion of potential tenants from the sector, and increasing poor quality housing.
2. Party Political Support	While Labour and the Liberal Democrats have included some regulatory instruments (e.g. inflation cap on rent rises) in their pledges, the Conservatives have so far excluded changes to licencing and altered legislation.
3. Type of intervention	Regulatory change
4. Level	National
5. Public Support	The public, particularly in cities like London, seems to view rent controls favourably; landlords are less positive, but there might be some support to try longer tenancies.
6. Evidence of effectiveness	The literature around rent control is hotly debated, in terms of its effects and distributional gains, with some suggestions of regressive effects and outsider/insider dynamics. Overall, regulation needs to be understood in the context of behavioural responses and of other instruments that might support the role of the private rented sector in improving quality, access and security of tenure.
7. Cost	Low
Overall	There are differences in support across political parties, but also among the public, largely depending on where people live. The resistance of landlords is important to consider as behavioural responses greatly affect the potential of regulatory policies, whose evidence of effectiveness in relation to poverty and inequality remains mixed.

1. Relationship to poverty/inequality mechanisms

Regulating rents, tenure security, quality and evictions in the private rented sector can even be playing field, protect tenants, and prevent exacerbating of their disadvantage: in this sense, it can pay a double dividend in relation to poverty and inequality. For instance, in conditions of high demand (as is the case in the UK, where more households rely on the private rented sector in face of higher housing prices that crowd out many buyers) rents see large rises, boosting the profits of those who are asset-rich and already more advantaged. In fact, depending on its design, regulation could benefit both landlords and tenants, providing a more secure investment for landlords and investors and offering greater security and better-quality housing to tenants. Regulation, however, could also result in disincentives to supply rented accommodation, generating exclusion of potential tenants from the sector, increasing poor quality housing and ultimately worse conditions for everyone. It can also incentivise landlords to transfer to other tenures and generate inefficient allocation of housing by generating immobility – thus putting further pressures on the housing stock.

2. Party Political Support

Labour included in their manifesto a series of reforms making three-year tenancies the norm, with an inflation cap on rent rises, a licensing programme for landlords, new consumer rights, new legal minimum standards to ensure the standards of rented properties and a ban on letting agency fees.

The Liberal Democrats also campaigned to link rents to inflation and presented a series of reforms increasing the regulation of the renting market: these envisage licensing and access for tenants to the database of “rogue” landlords and property agents.

While the 2017 Conservative manifesto pledges to “improve protections for those who rent” (p. 59), this is envisaged through an approach that rather than been based on licencing and altered legislation, would “encourage landlords to offer longer tenancies as standard” (ibid). Notably, since housing policy is a devolved matter, the devolved nations have different approaches to rent regulation in the private rented sector: where in England the system was deregulated through the *1988 Housing Act*, in Scotland, the *Private Housing (Tenancies) (Scotland) Act 2016* introduced a new tenancy regime, with open-ended private residential tenancies, rent-increase notices, and rent pressure zone local authorities can apply for in order to introduce regulation in areas where rents are rising too much, causing problems for tenants and producing pressures on local councils.

3. Type of intervention

Regulatory change

4. Level

National

5. Public Support

In a recent [YouGov 2018](#) poll amongst Londoners, 68% favoured the introduction of rent controls, with support being lower amongst Conservative voters (59%) and highest amongst Labour voters (75%). Differences across age groups showed less support (53%) in the younger cohorts: rather than opposing rent controls, this group was more likely to answer, “don’t know” (31%). In general, there appear to be growing public and political pressure for increased controls in many European countries, particularly in high demand urban areas (Scanlon and Whitehead, 2014)

In 2016, Shelter and YouGov surveyed a sample of 1,071 UK landlords. Most landlords surveyed only let one home (59%) and nine out of ten were letting out less than five homes. Only 4% describe it as their fulltime job and only 12% are registered as a business. As many as a quarter could be described as ‘accidental landlords’ in that they inherited property or are letting out somewhere they ideally wanted to sell and did not plan to become a landlord. A substantial proportion (38%) were not, or didn’t know if they were, complying with the law on Energy Performance certificates, and smaller proportions seem not to be complying with more serious legal requirements such as gas safety checks (8%) and not always protecting deposits (5%). In general, more than a fifth of landlords surveyed (21%) reported to sometimes struggle to keep their properties in a good state of repair.

Over eight in ten landlords want tougher penalties for rogue landlords. Nearly two thirds (64%) are at least willing to try longer tenancies if they see them in action, 42% agreed that there are too many laws and regulations covering private landlords already, with 38% neither agreeing nor disagreeing and 17% disagreeing.

6. Evidence of effectiveness

Recent years have seen several countries experiment with different forms of rent control. As a result, there is a growing literature reviewing the evidence-base in this area of policy. Comparisons should be approached cautiously, as rent regulation differs greatly between different countries – and the impact of these regulations varies depending on circumstances in other tenures in the different contexts (Wilson and Barton, 2019). Whitehead and Williams (2018) produced an expert review of the evidence-base in relation to rent control, stressing the importance – when conducting comparative analysis in this area of policy – of reflecting on history, wider fiscal and policy arrangements, differing market contexts and timings. They find that stabilisation based on market rents at the beginning of the tenancy, indefinite tenancies and rent indexation within a tenancy have been core elements in the movement towards sustainable private rental sectors particularly in Europe. Notably, however, many of these countries belong to housing regimes (§6.1) which are rather different from the UK's and are characterised by a larger role played by the private rented sector. An important element across countries has been the identification of pressure zones characterised by tighter regulation. While in some countries (e.g. France), these have remained defined and limited zones, in others (e.g. Germany and Ireland) the numbers of identified pressure zones appear to have extended into less pressured areas. In the UK context, future research might be enriched by evaluating changes occurring in Scotland; currently, though, there is little evidence to rely upon, in part because important data collection and quality issues need to be solved (Robertson and Young, 2018); but also because many policy changes are still to take effect on the ground – e.g. rent pressure zones are yet to be identified (Whitehead and Williams, 2018).

Wilson and Barton (2019) and Whitehead and Williams (2018) stress the hotly contested debate that can be found in the literature on rent control. Jenkins (2009) reviews sixty different studies on various forms of rent control and finds a generally negative assessment of rent controls in the economics literature, with emphasis on inefficiencies rent controls introduce and little evidence of purported distributional gains: there appears to be great variance in regard to the latter and benefits seem to be failing to materialise in light of poor targeting or generally very weak effects. For instance, in the US, Diamond et al (2017) use a quasi-experimental design in San Francisco and show that rent control has the potential of creating both winners and losers – even among renters. Rent control prevents displacement of incumbent renters in the short run, the lost rental housing supply likely drove up market rents in the long run. Landlords treated by rent control reduced rental housing supply by 15%, substituting to other types of real estates, converting to owner occupancy, or using measures that would secure exemption from rent control (e.g. redeveloping buildings). In turn this decrease led to a 7% city-wide rent increase.

In the UK, Rugg and Rhodes (2018), while not focusing specifically on rent control, offer a useful overview of the sector. Between 2001 and 2011, it has seen a substantial growth (65%), which was geographically uneven: with strongest growth in the West Midlands region (83%) and weakest in the South West (49%). The sector is smaller in locations classified as largely rural (14%) and largest in Greater London, which alone accounts for 22% of the entire private rented sector in England. Despite

improvement in quality, a higher proportion of private rented properties fail to meet the Decent Homes Standard – the number of non-decent homes has remained relatively stable since 2006, at between 1.29m and 1.35m. At the same time the authors stress the lack of an overarching private rented sector strategy, with a current approach that is fragmented in addressing different aspects of the sector in isolation – current issues related to regulation would be a central part of this strategic sector focus.

In relation to rent-control proposals specifically, Clarke et al (2015) used the English Housing Survey in conjunction with a survey of London landlords to explore how landlords might respond to six different scenarios of rent stabilisation in London. Three of these set initial tenancy rents according to the market, but regulate increases within a tenancy; two seek instead to hold rents at (or close to) their current level; one proposes immediate reductions in rents from their current level. They find that only in the latter scenario the size of the sector would decline. In the first three, average fall in affected rents would be between 0% and 15%, with an aggregate loss of rental income to the sector of between 0% and 10%. These scenarios still see growth of the sector of over 40% over the next ten years. However, there is a clear gulf between these estimates and the stated responses of landlords, suggesting that many would nevertheless look to sell some or all of their stock immediately. A large majority were averse to rent controls, not just because they could reduce their rental incomes, but also because they resented the intrusion into what they saw as a market-based transaction. Rent controls may have some additional impact arising from the landlords' aversion to the bureaucracy involved, regardless of the actual reduction of rent that may arise. The discrepancy between the modelled impact and landlords' stated responses creates a high degree of uncertainty over actual responses.

In a review produced to provide specific recommendation to the borough of Camden, Scanlon and Whitehead (2014) draw on cross country evidence and confirm some of the drawbacks of rent controls. Drawing specifically on the New York experience, they show that controls that generate below-market rents inherently lead to insider/outsider issues. Those who live in rent-stabilised properties below market rents stay for much longer than those in market rented properties. But they also tend to have higher than average incomes: if rent regulation ends up benefitting well-off households it would not achieve the distributional goals that suggested its implementation. Instead, putting in place a system which allows indefinite tenancies, and which imposes a degree of rent stabilisation alongside a much better enforcement system which tackles both poor landlords and tenant, might be a more promising path in Britain. The scheme would also be more acceptable and desirable to landlords. It would create greater security and would provide greater predictability for both landlords and tenants. However, rent stabilisation, if it is to provide adequately for the landlord, will often result in higher initial rents for the tenant; and new entrant might find it more difficult to secure accommodation, as landlords have incentives to look for those who are perceived as 'good' tenants, identified by accepted signals. These reviews (Whitehead and Williams, 2018; Scanlon and Whitehead, 2014) also stress that rent control is no substitute for an affordable rents policy.

In general, there appear to be a need to understand how to develop an approach towards the private rented sector that genuinely supports its role in improving affordability, housing quality, security of tenure and access to housing for households in poverty. This means, for instance, understanding behavioural effects produced by policy-changes. In this area, Clarke and Oxley's international review (2017) has focused, for instance, on identifying incentives for landlords that could improve rents, allocations and quality conditions. For instance, allowing greater deductions for repair and maintenance for accredited landlords than from nonaccredited ones; capital gains taxation reductions for long term holding of properties, with the objective of promoting longer term tenancies; reinvigorating the disbanded Green Deal to promote energy efficiency improvements; while increasing tenancy support

services to tenants at high risk of tenancy failure and generally reinforcing appropriate safeguards that could make longer tenancy lengths more desirable. In general, these considerations point to the fact that regulation needs to be part of a holistic approach to the sector, which is in need of a clearer strategic focus.

7. Cost

Low

Overall

There are differences in support across political parties, but also among the public, largely depending on where people live. The resistance of landlords is important to consider as behavioural responses greatly affect the potential of regulatory policies, whose evidence of effectiveness in relation to poverty and inequality remains mixed.

4.6. Increase LHA in line with local rents

1. Relationship to poverty/ inequality mechanisms	Housing Benefit has a large impact on both poverty and inequality. Caps and freezing of this benefit together with increasing housing costs limit this impact. If tenants are bearing the costs of the changes the result would be to increase social segregation and access to poor quality housing, while also exacerbating poverty and inequality.
2. Party Political Support	No changes are currently envisaged to the current LHA arrangements. While Labour pledged a review of the adequacy of support for housing costs, the Liberal Democrats explicitly propose increasing LHA in line with average rents in the local area.
3. Type of intervention	Welfare reform
4. Level	National
5. Public Support	An emerging concern with the 'affordability crisis', a 'backlash against austerity' and more positive attitudes towards welfare recipients may suggest positive support, but it is also known that the public generally shows greater supports for spending in other areas, such health and education. Among landlords, risk-averse attitudes as well as constraints imposed by lenders seem to discourage letting to LHA recipients.
6. Evidence of effectiveness	Reforms to LHA did not have the hoped-for benefits and substantially fell on tenants, exacerbating hardship while increasing pressures on landlords that can exacerbate exclusion of the most disadvantaged. These dynamics have important spatial dimension but must also raise questions about the limitations and the sustainability of demand-side solutions.
7. Cost	Medium/High
Overall	When housing benefits do not cover rent, poor households can experience great hardship and utilise the resources supposedly allocated to cover other expenses for housing. Cuts to LHA have increased these phenomena, and have also affected behaviours of landlords and lending companies, exacerbating exclusion and increasing spatial disparities. This is against a background that sees a divided political spectrum, but also potentially more positive public attitudes, characterised by concern with housing affordability and austerity. The costs of these demand-side solutions present limitations in the face of substantial sustainability concerns.

1. Relationship to poverty/inequality mechanisms

Housing Benefit for tenants makes a major contribution to reducing income inequality measured after housing costs (Ward, et al., 2009) as well as mitigating housing-cost-induced poverty and preventing material deprivation (Tunstall 2013). In these respects, it is second in importance only to housing costs themselves. This is in spite of imperfect take-up of these benefits. In fact, research conducted across the 34-member countries of the OECD showed that cash benefits (including Housing Benefit) had the biggest impact on the reduction of overall income inequality (OECD 2011). Moreover, adequate benefits have broader consequences, for instance because housing security is an important determinant of mental ill health (Reeves et al, 2016).

Rising rents increased the cost of Housing Benefit and became a matter of interest for those concerned about public expenditure. Housing Benefit spending had grown particularly rapidly: from under £4bn in 2000-01 to over £9bn in 2010-11 in real terms (total spending up from £15bn to £23bn) – a 70% increase explained by rising claimant count. Welfare reforms have imposed limits on housing benefit payments, the LHA cap was introduced in 2008, and was set at the median of local rents in 2010. Their level was reduced to the 30th percentile of rents in 2011 and has been frozen since April 2016. This is within a context that also saw reductions in the overall welfare cap. These reforms had been designed to reduce overall welfare spending while also inducing landlords to reduce rent prices and providing incentives for benefit recipients to take up employment or find more suitable housing (e.g. through downsizing or shared accommodation). If these effects do not materialize, for instance because tenants are found to disproportionately bear the costs of these changes or because the moves induced lead to increased social segregation and skewed access to poor quality housing, the effect would be exacerbating poverty and inequality. Undoing current freezing and increasing LHA in line with current rents would mitigate these effects.

2. Party Political Support

The Local Housing Allowance (LHA) is amongst the benefits which have been frozen since April 2016. In 2017, the government dropped plans to cap housing benefit for social housing, which would have applied the local housing allowance cap to supported housing. Labour’s manifesto places greater emphasis on supply side measures, but also suggests a review of the adequacy of support for housing costs through the social security system. The Liberal Democrats included in their 2017 manifesto (p. 59) the pledge of “ensuring that LHA is enough for a family to pay their housing costs no matter where they live” and increase it in line with average rents in the local area. Both Liberal Democrats and Labour proposed to scrap the bedroom tax.

3. Type of intervention

Welfare reform

4. Level

National

5. Public Support

As seen in relation to social assistance and child benefits in §2.2. the 2017 BSA found what they deemed a “backlash against austerity”. Albeit the public prioritises spending in areas such as health and education, the BSA also found more positive attitudes towards welfare recipients. In turn, we have seen in §6.1. that concerns with the “affordability crisis” have been growing and have led to more positive attitudes towards government intervention in this area.

A 2017 YouGov/Shelter poll found that nearly two thirds of landlords surveyed would prefer not to let to households claiming Housing Benefits. Of these, 42% of landlords surveyed had an outright bar and a further 21% preferred not to let to them. [Of those who expressed a preference not to let](#) to tenants who are receiving Housing Benefit/ Local Housing Allowance, around 15% reported having let them in

the past and having had a bad experience with the rent not being paid, with administrative delays or with damages to the property. 18% reported they had heard it was not a good idea to do so in the media or from other landlords. 24% stated that their letting agent advised against it, with 28% stated 'other reasons'.

6. Evidence of effectiveness

In §6.1 it was noted the dramatic shift from supply-side to demand-side subsidies that characterised housing subsidies in England in the last few decades. With a growing reliance on the private rented sector at the lower end of the distribution, reforms to the LHA are particularly important.

Brewer et al (2014) estimate the causal impacts of the reforms on existing claimants. They exploit the fact that the dates at which particular claimants were affected by the reforms were linked to their annual claim reassessment dates. This meant that otherwise-identical individuals observed at the same time in the same area could face different LHA systems. They follow the effects for up to 11 months after being rolled onto the reformed system, using administrative data. Eleven months after being rolled onto the reformed system, the LHA reforms had reduced existing claimants' maximum entitlements in given property types by an estimated average of £6.84 per week. Of this, 89% of the incidence of reduced LHA entitlements was on tenants (with a reduced LHA relative to contractual rent of £6.06) and 11% on landlords (£0.79 with an average contractual rent reduction of £0.79). This number conceals variations across claimant groups: e.g. reductions had been higher for those who had higher entitlements (e.g. Londoners, lone parents). There were also geographical variations, for instance with reductions in rental values in the suburbs of London and in the East Midlands, where the majority of the estimated incidence of LHA reductions fell on landlords rather than tenants. They found no clear pattern in how the estimated incidence of the LHA reductions varies with the density of LHA claimants in local private rental markets. Property choices responded to reform changes, e.g. with moves outside capped areas in inner London, moves to smaller properties and with those affected by Shared Accommodation Rate changes (typically younger and single) being more likely to share accommodation after 11 months. Other studies from IFS (Emmerson and Joyce, 2014; Hood and Joyce, 2016) looked at people responses to tighter benefit caps, showing that about 5% of those affected by the previous cap responded starting to work, with an even smaller proportion moving to a new house. While others started claiming disability benefits, the majority did not fall in any of these categories, with an open question as to how they adjusted to what were, in many cases, very large reductions in their income.

Beatty et al (2014) provide a review of a series of studies examining the impacts of the LHA – albeit prior to the 2016 freeze. The review includes two longitudinal analyses using surveys of both landlords and tenants between 2011 and 2013, combined with case studies; an econometric analysis of the impacts on housing benefits and an analysis of spatial effects in Britain both from 2010 to 2013. 94% of the reduced entitlements fell on tenants in terms of reduced LHA relative to contractual rents, and 6% fell on landlords in terms of contractual rent reductions. In this sense, if the LHA measures were meant to serve as 'informal rent control', inducing landlords to reduce rents, these results show that this was largely not the case. To make up for the reduced LHA relative to their rents, nearly half of claimants said they cut down on household essentials and non-essentials and nearly a third resorted to borrowing money from family or friends. The proportions of tenants that found it was difficult to afford to pay the rent increased, as did the proportion of reported arrears. This matched with landlords' results, which also saw an increase in actions to evict, not renew or end tenancies of LHA tenants. The number of households in England giving the end of an assured shorthold tenancy as the main reason for

homelessness almost doubled between 2011 and 2013. 59% of this increase could be attributed to London, where an additional 3,880 households gave the end of a tenancy as the main reason. While LHA results would only be a contributory factor, just over half the increase in all homelessness acceptances in London Suburbs over the period between 2011 and 2013 was accounted for by assured tenancy non-renewals. This proportion increased to around 70% of the increase in London Cosmopolitan areas and in London Centre.

In fact, Wilson and Barton (2019) also report that, in giving evidence to the Communities and Local Government (CLG) Select Committee 2016-17, several local authorities identified the disparity between LHA rates and actual rent levels as a significant contributor to the ending of private sector tenancies and, as a result, homelessness. Analysis by the National Audit Office (NOA, 2017), using both quantitative and qualitative methods, addresses the drivers of the substantial increases in homelessness. Reforms to the LHA are an element of these, as cost of property at the 30th percentile has increased faster than the Local Housing Allowance rate, with an increased resulting shortfall between the 30th percentile and LHA. Two-thirds of households where Local Housing Allowance applies had a shortfall of some size. In this sense, LHA reforms are one of the factors contributing to private rented properties becoming less affordable for claimants, which in turn is likely to be contributing to homelessness caused by the ending of an assured shorthold tenancies. The report finds that ending of private sector tenancies has overtaken all other causes to become the biggest single driver of statutory homelessness in England. In turn, this leads to increases in local authority spending in real terms (from £940 million in 2010-11 to £1,148 million in 2015-16). This is in conjunction to annual local authority spending on housing services falling from £3.73 billion to £2.94 billion. Homelessness services now make up 39% of housing services spending, up from 25% in 2010-11. The report also highlights how the proportion of temporary accommodation placements that are outside the local authority's area has increased from 11% to 28%, with 9 in 10 households that are in an out of area temporary accommodation placement have been placed there by a London borough. Local authorities in central London are therefore able to reduce their spending on temporary accommodation, but these placements further reduce supply for the local authorities that receive these households, who can in turn seek to place their own homeless households out of borough.

In terms of spatial considerations, Beatty et al (2014) found that the LHA sub-market in the centre of London shrank – but the scale of the decline was markedly different amongst some sub-groups of claimants. On-flows of LHA claimants in the centre of London fell sharply in the year immediately after the reforms began to be introduced (2011/12) and then stabilised during 2013 – perhaps suggesting that a 'core' housing benefit sub-market remained. On-flows in London suburbs possibly indicated some displacement from the 'inner ring' around the central core to outer London.

In terms of tenants' responses, there appeared to be work-incentives to make up for decreased support, and increased residential mobility, albeit largely short-distance, with the cost of moving home – particularly the need to pay a deposit and high charges levied by lettings agents – as an important reason why many respondents had not moved. LHA reforms were not the most significant reason why claimants moved, but they were becoming more important over time.

Cuts make tenancies more insecure and add further pressures on landlords, who in turn can cope with risks by resorting to further exclusionary practices. The roll-out of Universal Credit can contribute to these dynamics: produce increasing rent arrears as Housing Benefit payments are made direct to tenants rather than to landlords, and payments diverted to meet other essential needs such as food and bills. In terms of landlords' lettings priorities, the proportion of landlords who were letting to out-of-

work benefit claimants decreased. This is not solely due to landlords' preferences. In fact, landlords with mortgages must comply with any restrictions their lender places on letting out their property. These sometimes include a ban on letting to tenants dependent on benefits, and a requirement that the property is let on a six to twelve month assured shorthold tenancy. Clarke and Oxley's (2017) review of the private rented sector Recent research highlights that a substantial portion of the buy-to-let market (90% according to the Residential Landlord Association) is covered by lenders who currently prohibit landlords from letting to tenants who receive benefits. This can prevent landlords from offering longer tenancies or housing tenants in poverty; note that delays in evicting tenants and with the court system cause risks for landlords, which are exacerbated by policies in some local authorities requiring tenants to remain in a property after notice has expired in order to be eligible for rehousing.

The Beatty et al (2014) final report also finds that a smaller proportion of landlords in 'LHA Dominant' areas no longer let to LHA tenants than in other areas. Often this was simply because of the absence of alternative sources of demand for their properties. These landlords came under further pressures due to spatial segregation: the reductions in LHA rates had placed particular pressure on landlords' margins due to the lack of other sources of demand outside the LHA market. Unable to compensate with increased rents, many landlords said they had little option but to reduce their rents in line with the reduced LHA rate; or reduce maintenance expenditure, raising concerns (echoed by housing advisers) in these areas about the future quality of property being offered to LHA claimants.

Overall these results seem to suggest that reforms to LHA placed differential pressures on landlords in different areas, but overall have not driven stabilisation of rents. Instead, they imposed substantial hardship on tenants which do not seem accompanied by substantial work-related responses. These changes should also be understood in relation to their effect on areas, such as homelessness, which can see not only increases in spending, but responses which might further contribute to pressures on the housing stock. In general, reforms did not have the hoped-for benefits and these results suggest limitations of demand-side solutions in face of substantial sustainability concerns.

7. Cost

Medium/High

Overall

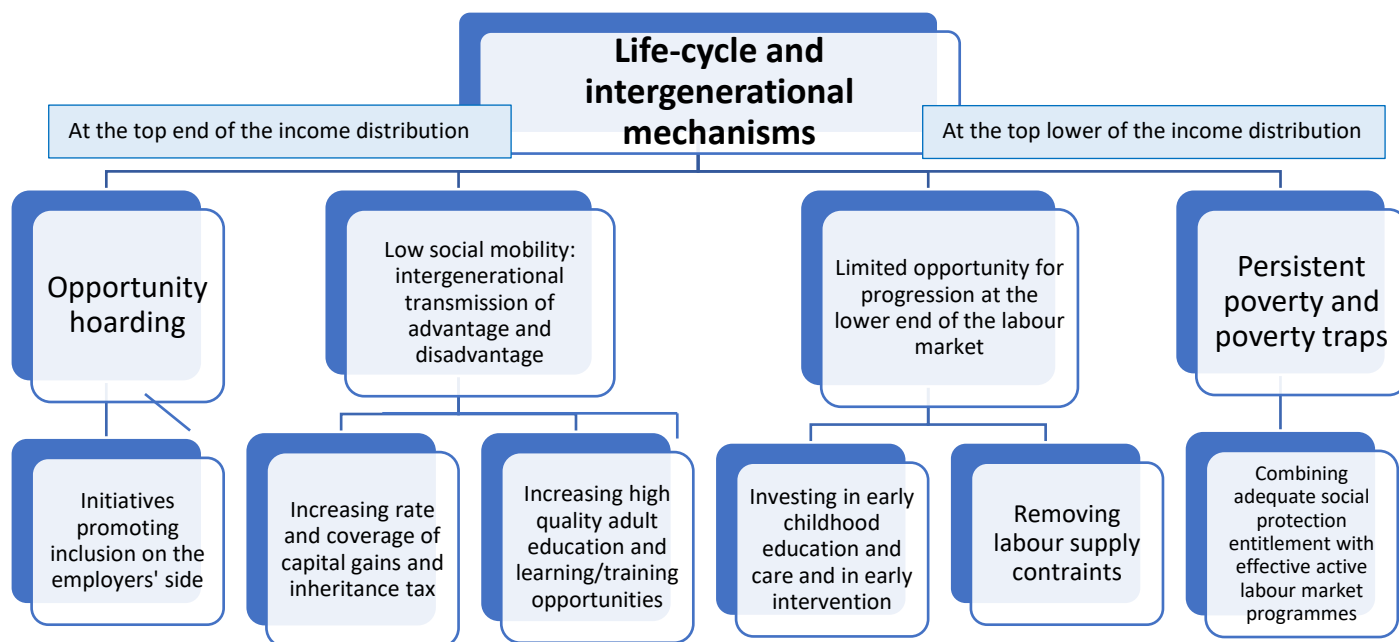
When housing benefits do not cover rent, poor households can experience great hardship and utilise the resources supposedly allocated to cover other expenses for housing. Cuts to LHA have increased these phenomena, and have also affected behaviours of landlords and lending companies, exacerbating exclusion and increasing spatial disparities. This is against a background that sees a divided political spectrum, but also potentially more positive public attitudes, characterised by concern with housing affordability and austerity. The costs of these demand-side solutions present limitations in the face of substantial sustainability concerns.

5. Life-cycle and Intergenerational Mechanisms

Looking at life-cycle and intergenerational dynamics reveals further links between inequalities and poverty. Taking this longer-term perspective allows us to understand factors associated with the accumulation and transmission of advantage and disadvantage. In this perspective two seemingly contradictory explanations of poverty emerge as complementary: on the one hand, hierarchical stratification perpetuates unequal social positions; on the other hand, horizontal life course events are also poverty triggers. Their complementarity can help us understand, for instance, how the likelihood of a life event triggering poverty is mediated by someone's social position (Vandecasteele, 2011). Socio-economic status heavily influences employment prospects, job quality, health outcomes, education, and the other opportunities (including access to relevant networks) that matter to people's well-being. Gaps in cognitive skill development open up between children from advantaged and disadvantaged families at a young age, even before they attended primary school and have far-reaching consequences for individual educational and professional pathways. At the same time, more advantaged families are able to protect early low-attaining children from downward mobility in a variety of ways, while high-attaining children from less advantaged family backgrounds are less able to, or at least less successful, at converting this early high potential into later labour market success (McKnight, 2015a). This means that dynamics both at the top and at the lower end of the distribution need to be considered, because where "room at the top" is increasing only slowly, it is not possible to increase upward mobility without a commensurate rise of downward mobility. Opportunity hoarding and lack of mobility at the top translate into persistent rents for a few at the expense of the many, due to unequal access to educational, economic and financial opportunities. Moreover, these phenomena at the opposite ends of the distribution contribute to inefficiencies, affecting productivity and undermining economic growth (OECD, 2018a).

In what follows we consider a variety of policies that are relevant to these drivers (Figure 1), starting with employers' initiatives that promote inclusion of those from disadvantaged backgrounds (§5.1.). These initiatives stress the importance of employers' contribution in shaping processes of access and progression and how these bear on curbing opportunity hoarding at the top and increasing social mobility. We then look at a range of policies that affect the intergenerational transmission of advantage and disadvantage: from those addressing the accumulation and transmission of wealth (§5.2), to early years education, care and interventions strategies compensating for early disadvantage (§5.4.), to adult education and training, which attempts to increase opportunities for progression at the lower end of the labour market, remedying skill gaps and offering second chances (§5.3.). Another way of removing barriers that limit opportunities at the lower end of the distribution is removing the labour supply constraints that hinder employment participation and career prospects (e.g. increasing free quality childcare, paid parental leave) (§5.5.). Fewer opportunities to escape poverty, in conjunction with poverty traps in the system, can entrench both its depth and its persistence. In light of this we consider the design of cash transfer entitlements, for instance in conjunction with active labour market programmes (§5.6).

Figure 1. Overview of drivers and policies related to dynamic mechanisms



While tackled individually, it is important to stress the relationships among these different policies and the drivers they are addressing: for instance, limited opportunities at the lower end of the labour market must be understood in a context of opportunity hoarding and limited downward mobility. Similarly, policies aiming at increasing labour market participation are important in relation to drivers of persistent poverty and inequalities in the life-course, with intergenerational consequences. Moreover, dynamic mechanisms intersect with other mechanisms explored in other sections: for instance spatial disparities (§3) are particularly relevant as social prospects for those from disadvantaged backgrounds vary greatly across the country, with a large and growing gap between those places that offer good opportunities and those that do not – what can be called social mobility cold spots (SMC, 2019). Moreover, low mobility, entrenched poverty and inequality all affect not just individual wellbeing but also social cohesion and participation in society, increasing the likelihood of democratic deficits explored in §1.

5.1. Initiatives promoting inclusion on the employers' side

1. Relationship to poverty/ inequality mechanisms	By generating pressures that actively promote recruitment and progression of those from disadvantaged backgrounds, these initiatives tackle the processes through which employers are found to favour/penalize those from more/less advantaged backgrounds. This bears on both poverty and market inequality and is also connected to public awareness mechanisms.
2. Party Political Support	All
3. Type of intervention	Nudge
4. Level	All
5. Public Support	There is increasing concern about social mobility and opportunity hoarding, together with some support for an active role of employers
6. Evidence of effectiveness	Corporate Social Responsibility (CSR) is a growing concern for businesses, with reputation as a main driver. While social mobility is currently not figured prominently among the issues CSR normally focuses on, initiatives like the Social Mobility Index promise to guide employers' actions in this area. Some of these actions emerge as more effective than others, and there are clear areas currently in need of improvement.
7. Cost	Low
Overall	Initiatives promoting inclusion on the employers' side affects processes that contribute to opportunity hoarding, and that matter for both poverty and market inequality. Evidence can currently point only highlight drivers that could make the policy effective; however, these kinds of initiatives do not encounter many barriers in terms of political backing and costs, making the approach promising.

1. Relationship to poverty/inequality mechanisms

The stickiness between generations in high level occupations represents opportunity hoarding; allowing less room for the upwardly mobile to fill these positions. Initiatives that tackle the processes through which employers are found to favour those with more advantaged backgrounds bear on both poverty and market income inequality, inasmuch as they can improve opportunities of those at the bottom to access higher paid occupations and address so called "class gaps". The Social Mobility Index is an initiative of the Social Mobility Foundation that ranks Britain's employers on the action they are taking to ensure they are open to accessing and progressing talent from all backgrounds. It benchmarks employers' efforts in seven domains that are considered relevant to reduce opportunity hoarding and, as a result, can favour social mobility. This kind of initiative can generate pressures that can actively favour the recruitment of applicants from more disadvantaged backgrounds, but also promote their career progression within firms and in the public sector. At the same time, it interacts with mechanisms explored in §1.1., making concerns with opportunity hoarding and social mobility publicly more salient. It would further emphasise the role that employers can take in relation to these phenomena. This in turn contributes to the pressures instilled by the initiative, and can thus increase employers' participation.

2. Party political support

While these policies are not explicitly addressed in the manifestos, initiatives like the Social Mobility Employers Index promise to have widespread support. This is likely the case even where formal regulation has been opposed – e.g. through the removal of socio-economic status as a protected category from the Equality Act. For instance, the Conservative manifesto explicitly speaks of diverse recruitment in public services in relation to social class.

3. Type of intervention

Nudge

4. Level

All

5. Public Support

A range of public opinion polls show growing concerns with social mobility and unequal life chances, which are connected to the broad justifications underpinning this kind of policy. For instance, a Sutton Trust/Ipsos Mori poll finds that 40% of people agree that ‘people have equal opportunities to get ahead’, with 42% disagreeing. This presents a rather different picture compared to 2008, when 53% agreed and 35% disagreed, showing a greater perception of the lack of a level playing field. The 2017 British Social Attitudes Survey can be used to look at factors people consider most important “to get ahead in life”. The two factors regarded as most important are a good education (72%) and ambition (76%), which have remained stable over the past 30 years. However, the value of ‘coming from a wealthy family’ declined from 21% in 1987 to 14% in 2009, but has since increased to 26%, following a pattern similar to ‘knowing the right people’, which fell between 1987 and 2009 from around 40% to 33% in 2009, but in 2017 is perceived as very important or essential by over half of respondents (54%). The latter result varies with age, with those aged under 34 more likely to emphasise the importance of connections than older age groups.

The 2018 [Social Mobility Barometer](#) reported that 46% of respondents think that where you end up in society is largely determined by who your parents are – compared with a third (33%) who say that everyone has a fair chance to get on regardless of their background. Younger people reportedly feel more acutely that background determines where you end up, with almost half (48%) of 25-49 year-olds agreeing with this statement compared with 38% of those aged 65 and over. Only a fifth (20%) of 18-24 year-olds believe they have a better level of job security compared to their parents and only 18% say they have better job satisfaction. 75% say there is a large gap between social classes in Britain today – just 14% believe the gap is small while 30% believe this gap is ‘very large’. Three quarters of people (75%) say poorer people are less likely to go to a top university and 64% say they have less opportunity to get into a professional career. 40% of people think that it is becoming harder for people from disadvantaged backgrounds to move up in society.

In terms of action to tackle these growing concerns with life chances, the 2018 Social Mobility Barometer also shows that 52% think that central government should be doing more on social mobility, and 36% think that employers should be doing more. Just 5% think enough is being done. 46% of people think

that schools are best equipped to tackle social mobility, followed by employers (37%) and central government (34%). A 2017 YouGov poll conducted by the [Sutton Trust and Deutsche Bank](#) investigated the opinions of managers working in finance and accounting. In response to the question about factors preventing the employment of candidates from disadvantaged backgrounds, 82% mentioned “an unprofessional appearance”, 72% the lack of work experience, 68% the lack of understanding of the profession, 62% thinking that they would not fit in the work culture and 50% the status of the university attended. When assessing who bears the responsibility for increasing representation of those from disadvantaged backgrounds, 25% of finance and accounting leaders believed that it lies in the government, compared to 15% of respondents overall. 30% thought it was a responsibility of all the businesses in their sector. Around 1 in 5 thought that none of the groups listed (which included not just the government and businesses, but also universities and schools) had responsibility.

6. Evidence of Effectiveness

The Social Mobility Employers Index is an initiative of the Social Mobility Foundation and is used to rank Britain’s employers on the action they are taking to ensure they are open to accessing and progressing talent from all backgrounds. Participating organisations are assessed across seven domains: 1) outreach at “social mobility cold spots” and apprenticeship programmes, covering travel costs for work experience placements as well continued interaction with young people tracking their outcomes; 2) routes into employment, e.g. assessing apprenticeship progression plans offered; 3) attraction, e.g. through visits to institutions other than Russell Group universities; 4) recruitment and selection processes, e.g. using blind or contextualized recruitment as part of the assessment process, or reducing requirements or the weight of candidate’s degree, as well as not scoring of students based on work experience and extra-curricular activities (as these are often easier to access for applicants from higher socio-economic backgrounds); 5) data collection, e.g. in terms of providing a rigorous socio-economic profile of the workforce and of the measures taken to improve diversity; 6) progression for current employees (strategies helping those from lower socio-economic groups “to get on” not just “to get in”; 7) advocacy, e.g. strategies to engage staff and suppliers/clients in the organisation’s efforts to improve social mobility. A ranking of the top 50 employers is published on the Social Mobility Foundation website alongside key records of key findings (SMF, 2018).⁸

The Index can be understood within the growing debate calling business organisations to practice “social responsibility” and “corporate citizenship”, accepting some accountability for societal welfare (Lantos, 2001). Emphasis on “corporate social responsibility” has become more prominent as a response to market and redistributive failures (Bénabou and Tirole, 2009). Corporate social responsibility (CSR) is defined by the European Commission as “a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis” (COM, 2002). CSR is a multi-faceted concept, encompassing an array of domains of action, ranging from sustainability and environmental concerns to anti-corruption, workers’ and consumers’ rights. On the one hand, this has meant that amidst a proliferation of CSR reports with no coherent framework, firms have been bringing forward uncoordinated initiatives demonstrating the company’s social sensitivity. Largely, reputation and publicity pressures have not necessarily converted into explicit commitments and performance targets are even rarer. The Global Reporting Initiative represents an influential example of a tool that, like the Social Mobility Index, has

⁸ In the 2018 Index an employee survey was introduced, which included socio-economic background data to provide a cultural context to the data in submissions. Due to low response rates, data from this element of the Index is not discussed further.

enabled alignment and comparability. Moreover, it has offered a way to frame priorities amongst the social issues companies can address, with indicators that serve as clear, measurable goals to track results over time. However, as most CSR initiatives, its standards focused on anti-corruption, environmental issues and a range of social issues covering, among others, training and education, labour/management relations, rights, health and safety and non-discrimination. In this sense the Social Mobility Employers Index fills a gap by focusing on a area often overlooked in CSR initiatives. However, it is important to stress that there is general agreement about the difficulties in assessing CSR's impact on social outcomes (Maas and Liket, 2011; Katz, 2005; CEP, 2002). This variety of issues, often tackled through disconnected and fragmented business strategies, makes it particularly hard to assess their effectiveness or establish direct causal links. This means that it is more promising to focus on intermediate outcomes – in this case, changes in employers' practices.

The relevance of CSR has been growing in the past 20 years and companies have come under pressure from governments, activists and the media using rankings to evaluate the performance of their CSR, making it increasingly an “inescapable priority” (Porter and Kramer, 2006) for business leaders, who are held accountable for the social consequences of their activities. The main business driver for social responsibility, at least for large companies, is reputation – amongst investors, customers, procurement managers of government agencies and departments, and with their own employees (Porter and Kramer, 2006). Reputation – good or bad – makes it costlier for companies to do harm and is beneficial to them if they make a positive contribution. Raising information about companies' performance in relation to certain social outcomes is an essential step in this process. Companies adopt a new practice/innovation for normative, mimetic, coercive reasons. A voluntary Initiative such as the Social Mobility Employers Index leverages on both normative and mimetic reasons (Bhimani, 2016): either managers internally push for its adoption, or companies join the initiative because other companies, and competitors, have. The Index stimulates these dynamics, provides a coherent framework that makes comparisons possible, but also offers guidance in terms of what are the actions to mimic, the actions expected and valued. This is an area where the intersection with dynamics stimulating public awareness and public concern can generate a virtuous circle. However, the literature (Bénabou and Tirole, 2009) has been wary in regards to businesses responses to reputation concerns and publicity pressures as these can lead to the adoption of visible, ‘symbolic’ interventions’, window-dressing, as a reaction to critical stakeholders rather than authentic efforts.

The Index tries to promote a series of actions that are often considered within different approaches to diversity management and have focused on both widening access to disadvantaged groups and promote career development. Kalev et al (2006) use federal data and organizational survey data in a longitudinal fixed-effects analysis between 1971 and 2002 for 708 US establishments to assess changes in managerial composition after the adoption of different diversity practices. These fall within three broad approaches to promoting diversity: 1) programmes designed to establish organisational responsibility for diversity (e.g. through affirmative action, oversight by diversity committees or appointment of monitoring staff or departments); 2) education, training and feedback to moderate managerial bias; 3) programmes reducing social isolation of socially disadvantaged workers, e.g. through networking and mentoring programmes. While the study focuses on gender, race and their intersection, it finds clear evidence that the first approach (organisational responsibility) is the most effective at increasing the proportions of white women, black women, and black men in private sector management. Responsibility structures also catalyse the impact of the other diversity programmes, rendering each a bit more effective (Kalev et al, 2006: 611); on their own, mentoring only has modest effects, while networking strategies or those targeting managerial bias through education and feedback show virtually no effect in the aggregate.

Personnel policies are also not the only thing to consider. Kalev (2009) uses a life history approach in a national sample of more than 800 organisations in the US between 1980 and 2002 and finds that reorganizing work around cross-functional work teams and more porous job boundaries improves career outcomes for women and minorities and increases the shares of women and minorities in management. The restructuring of work alters the type of intergroup contact and interaction, from segregated to collaborative, leading to new promotion opportunities. This can be effective in weakening stereotypes and group boundaries, for instance fostering networking with higher-status workers. The networking and visibility opportunities afforded by cross-functional work environments can help employees learning of these opportunities. This is particularly important because performance rewards bias can favour workers with prior network ties and reinforce workplace inequality, translating network membership in in-group favouritism unrelated to actual performance, fostering insider-versus-outsider divisions (Shwed and Kalev, 2013).

The Index promotes a “normative innovation” and the way in which organisations respond to normative innovations is debated: it is important to understand the drivers of potential resistance to these kinds of initiative. Also in the US, Dobbin et al (2011) look at the forces promoting different diversity programmes in a national sample of 816 firms over 23 years. They consider the interplay between external pressure and internal advocacy and find that industry norms are not always reinforcing internal advocacy. They also find that regulatory interventions do not appear to encourage firms to adopt programmes designed to promote equality of opportunity. Patchy adoption of diversity programmes can be explained by organisations’ resistance to normative innovations that are not immediately connected to material corporate success. Firms with a progressive culture, internal advocates, or progressive industry peers adopt diversity programmes regardless of regulatory enforcement – but while they sometimes adopt effective strategies (e.g. formal personnel systems and diversity taskforces) they also often choose programmes that do not actually promote workforce diversity (e.g. diversity training).

In a series of articles exploring the class pay gap and the “class ceiling”, Laurison and Friedman (2016, 2017) use UK Labour Force Survey (LFS) data in a large-scale, representative study of social mobility *into* and *within* Britain’s higher professional and managerial occupations. They find a divide in terms of relative openness between professions, such as law, medicine, and finance that tend to be dominated by children of higher managers and professionals and technical occupations such as engineering and IT, that tend to recruit more widely. Moreover, they find that those from working-class backgrounds who entered high-status occupations faced a substantial class-origin pay gap – estimated at 16% and with up to £7,350 lower annual earnings. There is also a spatial dimension to the class ceiling faced by working-class entrants and it is especially marked in London, estimated at £10,660 in 2014/15. Overall, these findings emphasise differences in mobility rates *between* individual occupations as well as the need of focusing, beyond entry, on the factors and drivers that underpin the “class ceiling” faced by the mobile population *within* high-status occupations.

Qualitative literature can offer significant insights in understanding the barriers faced by the Social Mobility agenda. Friedman and Laurison (2019) conducted a large qualitative study covering four different elite occupations in the UK (television broadcasting, accounting, architecture and acting). This work reveals that explanations relying on purported greater ‘self-confidence’ are used to justify advancement of those from more privileged backgrounds. Confidence is here understood as devoid of its situational determinants, ignoring the way in which the privileged are most comfortable adopting, mastering and playing with dominant behavioural codes. Informal processes, for instance of

sponsorship, are also prevalent, and essentially grounded in relationships mediated by a shared cultural capital that tends to privilege those from already advantaged backgrounds. In a series of studies in UK law firms Ashley and Empson (2010, 2013) look at diversity strategies as a means for widening access to the legal profession on the basis of social class through in-depth case studies in elite organisations. This is important as many diversity strategies prioritise ethnicity over social class and might conceal the fact that even where law firms try to boast improved diversity outcomes, they have continued to recruit using the same types of class privilege as in the past. The evidence suggests that the impact of diversity strategies in relation to social class has been limited. They find that resistance is not rooted in the fact that individuals are unsupportive of equality or social mobility, but rather in their belief that the law firm should not be the prime site for the realisation of these egalitarian goals. On the one hand, in these knowledge intensive firms, clients find it difficult to judge the relative or absolute quality of work. This leads to presenting an 'upmarket' image as a proxy for 'quality', and it is achieved by appointing graduates with particular forms of cultural capital. Ashley and Empson (2013) find that class-based discrimination is positioned within a business case: it is perceived as a rational commercial strategy by law firms wishing to charge the very highest fees. The value attached to these cultural capital signifiers (e.g. dress, speech and manner) fosters informal barriers and benchmarks erected by the legal profession. In addition to the range of professional qualifications and hard skills a candidate must bring to a firm, they are also expected to have a more subjective range of attributes, many of which are tacit and involve insider knowledge. Judgements are based on assessing new candidates on the basis of whether they would 'fit in' to that firm's culture. Ashley and Empson (2017) also explored these issues in other UK professional service firms (e.g. accounting, investment banking and consulting firms). They find that all firms amongst their case studies privilege more advantaged candidates, while acknowledging that this contradicts their professed commitment to social inclusion and recruiting the best 'talent'. These findings echo others that stress the role of normative evaluations of what makes a 'successful' and 'employable' candidate in other sectors. Allen et al (2013), for instance, draw similar conclusion in relation to the creative sector. They also identify work placements as key 'filtering site' in which students are classified as being the 'right' subjects. Overall, this literature is important because it shows the motivations and processes that lead social exclusion to be considered central to competitive advantage by many professionals in elite firms; doing otherwise represents a perceived risk to their image and brand. This is relevant because of the potential of initiatives to alter public awareness, public accountability and the consumers' demand to which firms respond.

In this context, the Social Mobility Index is an instrument to transfer actions to promote social mobility onto the organisational agendas of employers. It is an instrument that attempts to boost transparency, and encourage the collection, publication and use of comprehensive workforce data to better inform diversity and inclusion strategies. In terms of the picture provided by the Social Mobility Employers Index, the first point to notice is its growing popularity, with currently 138 organisations participating, with around 1 million 400 thousand employees across 18 sectors. Table 1 summarises some of the 2018 findings. Certain areas are particularly in need of improvement.

Table 1. Key results from the 2018 Social Mobility Employers Index

Work with young people	65% of organisations cover travel costs 50% target school outreach at social mobility cold spots 35% target work experience at social mobility cold spots 31% track student outcomes after they interact with them 20% judged to have a very strong link between outreach activity and recruitment pipeline
Routes into the organisation	84% of the apprenticeship are at Levels 2 and 3 14% of the apprenticeships are at Level 4 or higher 50% all applications were from students in Russell Group universities 66% of all successful candidates were from Russell Group universities
Attraction (e.g. university visits)	56% of all university visits were to Russell Group institutions
Recruitment and selection	25% remove candidate's name from the screening stage 20% score a candidates' degree 30% score the amount of work experience 13% score extra-curricular activities
Data collection	Around 50% collects background data, 27% publish it
Progression and experienced hires	11% able to show that their recruitment process was closely linked to in-work performance 5% tracks class pay gap
Advocacy	60% engaged in external advocacy 66% engaged in internal advocacy

Source: SMF (2018)

For instance, advocacy activities – e.g. activities engaging staff, suppliers or clients in the organisation's efforts to improve social mobility – were positive, with 60% engaged in external advocacy, and 66% in internal advocacy. 74% stated that their clients now care about socio-economic diversity (a result close to those saying race (77%) and gender (86%). Outreach activities and work with young people scored the highest across the seven domains. Even within this domain not all indicators scored highly: only a small percentage (20%) of organisations were judged to have a very strong link between their outreach activity and recruitment pipeline.

Other domains offer a much more mixed picture: for instance, only 14% of the apprenticeships were at Level 4 or higher – this is problematic (see §5.3) and symptomatic of the fact that often the options for young people not going to university are restricted to qualifications that are equivalent to GCSEs or A-levels, with limited options for progressing to a higher qualification. Moreover, 56% of all university visits were to Russell Group institutions, and successful candidates come disproportionately from these universities particularly in professional service firms and law firms (where more than 8 in 10 hires come from Russell Group universities, even where only half of their applicants come from these institution). In terms of selection processes, a smaller proportion of the organisations involved were now scoring a candidates' degree, the amount of work experience they've undertake or the extra-curricular activities. 1 in 4 now remove the candidate's name from the application/screening stage of recruitment and 1 in 5 remove the university attended.

These results in the area of recruitment, together with those in the area of progression are particularly problematic, in light of the evidence discussed above showing that these are key areas to effectively increase diversity of the work force – e.g. 11% of organisations able to show that their recruitment process was closely linked to in-work performance or that they are in the process of creating that link; 5% tracked their 'class gap' (measured through self-reported socio-economic background data, such as the type of school attended, parents' educational levels, having been a recipient of free school meals, or having parent who received income support, or being in receipt of income or housing benefits).

7. Cost

Low

Overall

Initiatives promoting inclusion on the employers' side affects processes that contribute to opportunity hoarding, and that matter for both poverty and market inequality. Evidence can currently point only highlight drivers that could make the policy effective; however, these kinds of initiatives do not encounter many barriers in terms of political backing and costs, making the approach promising.

5.2. Increase rate and coverage of capital gains and inheritance tax

1. Relationship to poverty/ inequality mechanisms	Wealth inequality is considerably higher than income inequality and plays a key role in transmitting advantages across generations. Taxes targeting the accumulation and transmission of wealth can have important distributive effects and raise revenue that can be used to tackle poverty.
2. Party Political Support	Labour and the Liberal Democrats have been considering different types of wealth taxes, including changes to capital gains and inheritance. The Conservatives have moved in an opposite direction, maintaining current arrangements but also introducing new cuts and exemptions in relation to both capital gains and inheritance tax.
3. Type of intervention	Tax policy
4. Level	National
5. Public Support	The public is very hostile to inheritance taxes in particular, with a strong emphasis on their perceived (un)fairness but also on how they would differentially affect the moderately wealthy and the very wealthy by virtue of the design of the system and rising house prices.
6. Evidence of effectiveness	Wealth has grown in value relative to income and is far more unequally distributed than income or earnings. Despite this, its taxation has become much less important as share of national income (e.g. inheritance taxes particularly fell to just 0.2% of GDP). The link to wealth inequality is complex: for instance, because inheritances can be seen as widening <i>absolute</i> gaps but also have an equalising effect on <i>relative</i> wealth inequalities. The current system emerges as profoundly inconsistent, with sharp differences in treatment between people, and tending to reinforce wealth inequalities. In face of this, there is substantial room for reforming its design and remove its preferential treatment of certain forms of wealth.
7. Cost	Low
Overall	In light of the evidence of wealth inequality trends and their consequences, as well as of the inconsistencies and distortions characterising the UK system, reform of fiscal policy is important. However, this faces barriers with a divided political scene and longstanding negative public attitudes, particularly with regards to inheritance taxes.

1. Relationship to poverty/inequality mechanisms

Household net wealth (i.e. the sum of net financial assets and real estate minus mortgage debt) has increased substantially over the last four decades in advanced countries (Brys et al, 2016). In all OECD countries, wealth is much more unequally distributed than income and plays a key role in people's life trajectories and in the transmission of advantage and disadvantage across generations. In fact, assets play an important role in shaping individuals' life chances, both in economic and noneconomic ways: access to wealth can determine where people live, the schools children attend, the ability to improve employment prospects – e.g. taking unpaid work experiences, taking business risks etc. In this sense, disparities among the asset-rich and the asset-poor can reinforce opportunity hoarding, which in turn affects social mobility.

In this scenario, gifts and inheritances contribute to wealth accumulation, are highly unequally distributed (Karagiannaki, 2011; Rowlingson and Kay, 2012) and could thus further perpetuate wealth inequality. They are also connected to asset-effects. These refer to the relationship between holding a financial asset in young adult life on outcomes in later life: inheritance and lifetime transfers facilitate early asset-holding, associated with later better later employment prospects and higher earnings. Meanwhile, preferential fiscal treatment of capital gains, which are concentrated among the wealthy, leaves an open door to tax avoidance and creates incentives to converting income into capital gains. Forgiveness of capital gains tax at death also contributes to these practices. Taxes targeting the accumulation and transmission of wealth can have important distributive effect, raise revenue that can be used to tackle poverty but also bear on these dynamic processes of transmission of advantage and disadvantage.

2. Party political support

The Conservatives have no plans to substantially alter current arrangements: in fact rates on capital gains are due to remain unchanged (while the annual exemption is being increased from £11,700 in 2018/2019 to £12,000). A new Transferable Main Residence Allowance was introduced in 2017 to help people pass on property to their children and grandchildren, set initially to £100,000, then at £125,000 in 2018/19, and £175,000 by 2020/21. Added to the inheritance tax threshold of £325,000, it will allow each individual to pass on £450,000 in 2018/19 and by 2021, the tax-free limit will be £500,000 each, or £1m for married or civil partners.

While Labour did not address these points specifically in its manifesto, an [IPPR report](#) received much praise at the 2018 Labour Conference. The report envisages taxing all income, whether from work or from wealth, in the same way, abolishing inheritance tax, and replacing it with a lifetime gifts tax levied on the recipient, with a lifetime allowance of around £125,000; abolishing capital gains tax (CGT) and the separate rates of tax on dividends, and incorporating income from dividends and capital gains into the income tax schedule (though retaining the exemption from CGT for first homes).

These proposals were not far from some of those presented by the Liberal Democrats leader Vince Cable at the 2018 Liberal Democrat party conference. In their 2017 manifesto, the Liberal Democrats had expressed a general desire to reverse capital gains tax cuts and extended reliefs, and raise the inheritance tax threshold.

3. Type of intervention

Tax policy and revenue raising

4. Level

National

5. Public Support

Inheritance tax emerged in [2015 Yougov](#) poll as the tax considered most unfair, with 22% of respondents finding it fair against 59% finding it unfair. The poll also found support (65%) for raising

the inheritance tax threshold to £1 million. 55% of respondents also believed that the increased threshold would be easy to achieve as “very few people would be affected”. However, this needs to be put in the context that the public displays very poor knowledge of the tax and its impact (Rowlingson and McKay, 2005). A 2018 Survey by the Office of Tax Simplification (OTS, 2018) found more positive results in relation to people’s knowledge in this area, but the survey was not representative and results might have been influenced by selection bias. It still generally found that people perceive an administrative burden, and consider the system complex and hard to navigate.

These results confirm long-standing negative public attitudes towards inheritance tax (Prabhakar, 2008). These are mostly grounded in the perceived unfairness of the tax, which is seen as ‘double taxation’ on wealth that was already taxed as income. Further concerns are related to rising house prices, with people worried that house price inflation would increase numbers of ‘ordinary’ people liable for the tax. However, as noted in relation to public attitudes towards redistribution (§1.1.) people are also influenced by the way taxes are spent (Rowlingson and McKay, 2005): for instance, with more positive opinions on taxes in general, if they are connected to spending on services (e.g. education and healthcare).

6. Evidence of Effectiveness

Despite the growing value of personal wealth relative to incomes, its taxation has become much less important as proportions both of overall tax revenue and of national income in many countries in the past 50 years. Revenues from inheritance, estate, interest earned on savings and gift taxes have been very low and have declined over time, from an average across the OECD of 1.1% of total taxation in 1965 to 0.4% today (Perret, 2018; OECD, 2018c). This trend is present in the UK taxation system, where, despite increases in average household wealth, inheritance taxes in particular fell from 1.5% of GDP in 1948 to 0.2% by 2010-11 (Hills et al, 2013). They were 0.25% in 2018 (HMRC, 2018). Low revenues reflect the fact that inheritance, estate, and gift tax bases are often narrowed by numerous exemptions and deductions, and avoidance opportunities are widely available, especially for families with high levels of income and wealth. This also means that, as taxes and benefits are largely income-related, welfare states are less redistributive than is normally considered when their effect is evaluated against the joint distribution of income and wealth, instead of against income only (Kuypers et al, 2018).

Favourable tax rates on capital gains and tax expenditures (revenue losses attributable to provisions of special exclusions, exemptions, preferential rate of tax, or a deferral of tax liability) typically provide disproportionate benefits to the most advantaged and the large share of benefits received from preferences for capital gains and dividends is particularly important in relation to what the top 1% receives compared with other groups (Bauger, 2014, Toder et al, 2016). In the UK the cost of the two main tax expenditures in relation to Capital Gains Tax (CGT) – the exemption for primary residences and entrepreneurs’ relief – was £16.3 billion in 2015, well exceeding the total revenue raised from CGT, £5.1 billion (Corlett, 2015). In the US, Baneman and Toder (2012) found that if all individual income tax expenditures had been eliminated for 2011, the outcome would have been broadly progressive, with a 19.8% decline in after-tax income for the top 1% of the income distribution, compared to only a 7.5% decrease for the bottom quintile, with additional revenue available for pro-inclusive tax and expenditure changes. High-income taxpayers would lose the most, relative to the population as a whole, from eliminating special rates for capital gains and dividends, and also bear disproportionate costs as a share of after-tax income from eliminating exclusions and itemised deductions. However, high capital gains

taxes may prevent the efficient reallocation of capital and affect the demand for venture capital (Brys et al, 2016).

Waldenström (2018) reviews a series of studies looking at distributional consequences of inherited wealth in Sweden, through high-quality microdata on individuals linked across generations from Swedish population registers. These Swedish studies suggest that inherited wealth has clear effects on how important the family background is for a person's economic life chances. Bequests seem to increase intergenerational correlations, especially at the top of the distribution, while mattering relatively more for less wealthy heirs. In the UK, using data from the British Household Panel Survey and the Attitudes to Inheritance Survey between 1995 and 2005, Karagiannaki and Hills (2013) find that both the chances of inheritance and the amounts received by those inheriting are greater for more advantaged groups, with inheritance thus reinforcing advantage. Moreover, while accumulated flow of lifetime receipts is not as large as that of inheritance, it is the more advantaged parents who can make transfers, a process that again reinforces intergenerational links.

However, attempts to quantify the effect of inheritances on the observed levels of wealth inequality face complexities, because of two contrasting drivers: on the one hand, inheritances are both highly unequal and greater for those who are already more advantaged in other ways – such as through educational attainment, home-ownership and pre-existing wealth – thus widening *absolute* gaps in the wealth distribution. On the other hand, with an opposite equalizing effect on *relative* wealth inequalities, some inheritors with little or no prior wealth move up the distribution by inheritance. Because of there being few large inheritances and a large number of smaller ones, inheritance has mixed effects on wealth inequality (Hills, 2013; Karagiannaki, 2011). These effects are confirmed in the international literature, for instance in Sweden (Elinder et al, 2018). However, it must be stressed that this is partly because the pre-inheritance distribution of wealth is so unequal already that inheritance in recent years tended to maintain the inequality of wealth, rather than to change it hugely in either direction (Hills, 2013). Moreover, for instance, in relation to the period between 1995-2005, Karagiannaki and Hills (2013) find that changes in wealth dominated by the house price boom explain why inheritance did not have a larger effect on wealth inequality and this could be larger in a period of more stable house prices.

Overall, the literature emphasizes the importance of understanding taxes on these elements of wealth in the broader context the design of the tax system. For instance, the Mirrlees Review (Mirrlees et al 2011) raises questions about the non-neutrality introduced in the tax system (e.g. by reliefs in relation to business assets and agricultural land, or in relation to marriage). With current arrangements envisaging preferential tax treatment for assets transferred seven years before death, only those with large amounts of wealth can afford to give most of it away several years before they die. On the other hand, those who are moderately wealthy tend to have capital tied up in their house, and it is harder to organise their affairs so as to avoid paying tax when the main asset they own is the house in which they lives. In fact, concentration of wealth in housing among those with more modest estates, alongside rapid house price increases, was largely responsible for the increase in the number of estates taxed on death from 18,000 to 34,000 (from 3% to 6% of estates) between 1998–99 and 2006–07 (Mirrlees et al, 2011, 360). The fall in the subsequent period to 15,000 in 2009-10 had the introduction of transferable allowances between spouses as primary cause, but it also reflected the cooling of the housing market after 2007 and above-inflation increases in the inheritance tax threshold.

By adopting this 'system view', critiques moved to the UK current arrangements (Corlett, 2018; Hills and Glennerster, 2013; Mirrlees et al 2011) make a case for reconsidering specific elements of the system, but also emphasize the political and public opinion difficulties that system reforms face.

Assessments are complicated by uncertain behavioural responses - e.g. in relations to savings and investment but also of the timing of transactions - and by avoidance and evasion strategies. Despite these difficulties, and in face of a diminished role of personal wealth taxation in face of his growing value relative to incomes, the system inconsistencies and distortions suggest substantial room for reform, from ending the forgiveness of CGT at death - whose cost is estimated at £1.2 billion in 2018-19 (Corlett,2018) while it leads to assets, including non-main homes, being held onto until death to avoid tax - to reconsidering the relative importance of taxes on wealth and those on income. A range of changes have been suggested in the last decade, from reintegrating CGT rates with income tax to reintroducing inflation indexation for CGT, charging from lower threshold with progressive rate structure (Hills and Glennerster, 2013) to using a progressive Lifetime Receipts Tax while lowering current rates (Corlett, 2018) and generally tightening up on avoidance. The system is characterised by an inconsistent treatment of wealth and savings, with different principles applied in each area and with some being strongly encouraged by the tax system to accumulate wealth in particular forms, while others face strong disincentives from means-testing to do so. As a result, while most personal wealth is held in forms that are either tax-favoured or largely outside the tax system, means-tested income support and access to assistance for long-term care are subject to sharp reductions for those with assets. Hills and Glennerster (2013) note that the combination of these policies can mean very sharp differences in treatment between people, resulting in a system whose features often tend to reinforce wealth inequalities, rather than to narrow them. Current arrangements and recent reforms go in the opposite direction of these suggestions and do not promise to remove the favourable treatment of returns on wealth.

7. Cost

Low, especially in face of the limited revenue raised by the current system. For instance, current arrangements see inheritance tax raise £5.2 billion (in the 2017-18 tax year), which makes up less than 1% of the overall tax revenue. Receipts have been steadily increasing (these were £2.38 billion in 2009-10), while a substantial tax gap - the difference between the tax that should be paid to HMRC and the actual tax that has been paid - is estimated at £600 million (OTS, 2018).

Overall

In light of the evidence of wealth inequality trends and their consequences, as well as of the inconsistencies and distortions characterising the UK system, reform of fiscal policy is important. However, this faces barriers with a divided political scene and longstanding negative public attitudes, particularly with regards to inheritance taxes.

5.3. Increase high quality adult education and learning/training opportunities

1. Relationship to poverty/ inequality mechanisms	Effective adult and lifelong learning can have a double dividend, by improving people's opportunities across the life-course, helping people out of low-skills/low-income traps and improving career progression prospects.
2. Party Political Support	All, but with rather different focus and approaches
3. Type of intervention	Education policy reform
4. Level	All levels
5. Public Support	There seems to be growing belief that practical skills and training, rather than academic skills, provide more opportunities. This is coupled with positive opinions of the role played by vocational education and life-long learning and apprenticeships are particularly valued as a progression route. At the same time funding for FE colleges is not considered a priority.
6. Evidence of effectiveness	Higher Education encounters some limits in mitigating skills inequalities, and in this regard adult and further education can play an important role. These skills are important not just for improving economic returns, but because they have wider implications (e.g. on financial or health literacy). However, the current system seems to be actually increasing skills inequalities rather than reducing them and VET graduates in the UK face lower employment premiums than in most European countries. There are several elements that emerge as necessary to improve the sector: strengthening quality assurance mechanisms, offering higher levels of qualification and longer education and training cycles, a broader approach to skills and skill development in VET and greater parity between vocational and academic track. At the same time, the sector has faced substantial cuts in recent years.
7. Cost	High
Overall	Reforming the FE sector can have positive effects, particularly given the current shortcomings of the system. Public attitudes also seem to place greater importance on the sector than in the past. However, this encounters barriers in the lack of a coherent and comprehensive vision that could foster connections with the labour market, a funding strategy that has imposed large cuts and a generally fragmented approach that has characterised the sector in the UK.

1. Relationship to poverty/inequality mechanisms

Adult learning covers the entire spectrum of what we learn after leaving initial education and training. This includes work- and career-oriented learning, obtaining new qualifications, up-skilling or re-skilling for employment. Adult education is relevant to poverty and inequality because of its potential impact on work prospects and income. People with higher levels of skills are more likely to be in work and more likely to earn more. Next to higher education, remedial and vocational education have an important role to play in improving career progression prospects and offering second chances. Effective adult and lifelong learning can thus improve people's opportunities across the life-course. These programmes can contribute to help people out of low-skills/low-income traps. This, however, largely depends on the level of qualifications programmes target, as well as the range of skills they develop. Secondly, adult learning

intersects with other mechanisms explored in this Toolkit. Next to employability skills, adult learning can foster literacy, numeracy, digital, health, and civic and financial capabilities. These can lead to more active citizenship and can be linked to mechanisms explored in §1, as there are links between levels of qualification, participating in learning, and participation in society (from voting to community engagement). Moreover, there is an intergenerational aspect to consider, in light of the close link between parents and children's educational achievement.

2. Party political support

The Conservative party has committed to establish new institutes of technology, backed by leading employers and linked to leading universities and offering higher-level apprenticeships and courses at degree level. They also committed to establish T-levels (A-level equivalent technical qualifications), increasing teaching hours (from 600 to 900 for young people on technical education routes) and including a three-months work placement. They promised investment in further education colleges. They also plan to introduce a new right to request leave for training for all employees seeking to develop their skills in their existing jobs, whose cost would be met by the government, giving employers access to the Apprenticeship Levy. There are further plans to introduce a right to lifelong learning in digital skills, on a par with literacy and numeracy.

Pledges made by the Liberal Democrats remained more generic and contained, with a commitment to improving the quality of vocational education, and focusing on creating degree level apprenticeships and increasing the number of apprentices from BAME backgrounds and women.

In this area, Labour's manifesto presented several proposals. For instance, reversing cuts to Unionlearn and to Further Education (FE) colleges, they envisaged the introduction of free, lifelong education in FE colleges. They reference the Sainsbury Review (the main output of the Independent Panel on Technical Education Established by the Minister of Skills in 2015) but also stress vocational routes to incorporate the service sector as well as traditional manufacturing. They pledged restoring the Education Maintenance Allowance for 16 to 18-year-olds from lower and middle income backgrounds, replacing Advanced Learner Loans and upfront course fees with direct funding, making FE courses free at the point of use, and setting targets to have an all qualified teaching staff within five years. They further planned to maintain the apprenticeship levy, protecting the funding for small-and medium-sized employers who don't pay it, while introducing new reporting measures to the Secretary of State with the goal of improving quality and setting up a commission on Lifelong Learning tasked with integrating further and higher education. They further pledged targets to increase apprenticeships for people with disabilities, care leavers and veterans, and women; introduce incentives to promote for large employers in regards to training.

3. Type of intervention

Education policy reform

4. Level

All levels

5. Public Support

The [Social Mobility Barometer \(2018\)](#) finds that people think that apprenticeships offer the best route to progression (30%), more so than university (26%). Albeit limited by the sole focus on apprenticeships, this seems to suggest some support for life-long learning as a possible solution to social mobility barriers. Older people are more likely to think that apprenticeships offer the best route (41%), contra 20% of 18-24 year olds. Respondents also thought that people from different backgrounds had equal opportunities to access apprenticeships (54%), as opposed to going to university (24%) and in particular to top universities (15%).

The 2017 British Social Attitudes Survey finds that asked what respondents' two highest priorities would be for extra government spending on education. Secondary school children emerged as the highest priority (29%), followed by primary school children (21%), and children with special educational needs (21%). Students in Further Education were in last place at 4%. When asked whether they thought vocational or academic learning provided more life opportunities and choices in the long run, 50% said that having good practical skills and training provided more opportunities and choices in life than good academic results, while only 13% thought having good academic results was more important. 34% said it was important to have a mixture of the two types of learning. These attitudes had a socio-economic gradient, with respondents with lower educational qualifications and incomes more likely to value practical skills over good academic results. There was also a significant association between socioeconomic status and valuing practical skills and training: practical skills were favoured by small employers or self-employed and those in lower supervisory and technical occupations (60% and 57% respectively). By contrast, people in managerial and intermediate occupations (40% and 35% respectively) were the most likely to favour a mixture of good academic results and practical training. These attitudes have changed over time since the question was first asked in 2002: differences in attitudes towards vocational and academic learning were far less marked then than in 2017. While views on the various types of learning have remained broadly stable from 2014, the perceived importance of good academic results has declined over time. The proportion of people saying that it provides the most opportunities in life in 2017 (15%) has halved since 2012 (30%).

6. Evidence of Effectiveness

Higher education provision encounters limits in mitigating skills inequality. In fact, stratification theory suggests that as participation grows in higher education, social inequality in access will be initially maintained as higher social groups gain disproportionately from the increasing number of available places (Raftery and Hout 1993). As participation amongst children from higher social classes reaches saturation levels, further expansion will favour children from lower social groups more. However the equalising effects from this are likely to be partially offset by the increasing heterogeneity of higher education (Carnoy 2011, Marginson 2016) with higher status students being disproportionately represented in the more prestigious institutions and study programmes (Lucas 2001). Moreover, despite the fact that changes in the UK HE funding system are not necessarily regressive, it is important to consider differential behavioural responses. Callender and Mason (2017) explore prospective students' higher education intentions and attitudes toward debt using cross-sectional surveys, comparing student attitudes in 2002 and 2015. They found that in 2015, as was the case in 2002, lower-class students were more likely than students from other social classes to be deterred from planning to enter higher education because of fear of debt. However, debt aversion emerged as more likely to deter anticipated higher education participation among lower-class students in 2015 than in 2002. An

explanation of the growth of social class differences in debt aversion and planned higher education participation may be related to the fact that there are now greater risks and uncertainty concerning the returns to higher education (Green and Zhu 2010) for students who do not attend the most prestigious institutions and are not from the highest social classes. In fact, while graduates are much more likely to be employed and earn considerably more than non-graduates, graduate earnings vary depending on the university attended and graduates from poorer backgrounds earn significantly less than graduates from wealthier backgrounds even after completing the same degrees from the same universities (Britton et al, 2015). Moreover, when social inequality is very high, people from lower socio-economic backgrounds invest less in education and skills, because of their differential capacity in meeting educational costs and differential prospects of entering high-value institutions or matching educational qualifications and careers (Marginson, 2016). Finally, lack of participation among the least skilled poses constraints to the equalising effects of higher education. It is particularly for this group that further education plays a key role in relation to skill development and subsequently in increasing or reducing skills inequality.

This is an important problem in England, where inequalities in adult skills are high by comparison with other OECD countries especially in numeracy and literacy (Green et al. 2014; Green et al, 2015). This matters because poor numeracy undermines personal skill formation and skills inequalities are one of the drivers of wage inequalities. OECD research (Kuczera et al. 2016) shows that low basic skills are more common among young people in England than in many other countries. At 15, they have similar literacy and numeracy levels to their counterparts in countries such as Germany, Denmark, Austria and Japan but by age 20-22 their literacy and numeracy skills have fallen behind. There are several factors to consider in order to understand these findings. One reason for this limited progress is the fact that many young people opt out of education and training relatively early in England, having a relatively low completion rate for upper secondary education. At the same time, some countries are considerably better than others in mitigating skills inequality. Research from the Centre for Research on Learning and Life Chances in Knowledge Economies and Societies (LLAKES) focused on the issue of skill inequality by using data from the OECD *Survey of Adult Skills* and other sources (Green et al. 2014). They find that when measuring such proxies as parental occupation and educational background, the UK seems to be actually increasing inequalities rather than reducing them. For England, major barriers appear to be a high dropout rate, short courses and low normative expectations. They find that Higher Education participation rates have little impact on this form of inequality. Skills inequality would be reduced by emphasis on mathematics and national language learning, and completion rates of upper secondary education and training with standardized long cycle tracks (2 or more years) leading to International Standard Classification of Education (ISCED) level 3 qualifications.

Green et al (2014)'s findings further support previous research on upper secondary education and training (Lasonen and Young 1998, Raffe et al. 2001) suggesting that where there is greater parity of esteem between academic and vocational tracks this is likely to reduce skills inequality (Green and Pensiero, 2016). Countries with strong traditions of vocational education are more likely to achieve this through differentiated dual systems of high quality apprenticeships. In contrast countries with weak vocational traditions are more likely to achieve this by developing more integrated school-based systems which combine general and vocational programmes in a single institution with integrated examination frameworks. An academic drift, that tends to position the Vocational Education and training (VET) system as the second-best choice, is widespread in Europe (Kersh and Juul, 2015). For instance, qualitative evidence comparing the attitudes of students in Denmark and England shows that Danish students maintain a conception of VET as inferior to the academic track, despite favourable job opportunities to which the system gives access. The Danish VET system is highly regarded by employers as wage levels and employment rates indicate. The deep involvement of the social partners in the

decision-making and daily running of the VET system further underlines the engagement and support of employers in the system. In England public perceptions of VET programmes frames them as being suitable specifically for those from a disadvantaged background, unemployed young people or those who did not succeed at school. Emphasis on transferable skills, which are more strongly associated to academic and general courses than with occupationally or vocationally specific qualifications, affect low levels of take-up. This issue is also related to employers' and other stakeholders' concerns about the relevance, quality and transferability of vocational qualifications. Importantly, this reflects an approach to vocational education that understands skills in a narrower sense than is the case in other systems, particularly dual systems, which focus on the development of broader project management capacities within VET (Winch, 2010).

A European Centre for the Development of Vocational Training report (CEDEFOP, 2013) shows the substantial variation amongst European countries in terms of the returns to VET qualifications. The probability of being employed (as opposed to being inactive) for VET graduates appears to be somewhat low in the UK, compared to most other European countries. In most countries, the difference between VET and general education returns is generally positive, with VET graduates enjoying an employment premium and faster transition to work, especially in systems characterized by a close connection between school- and the work-based components. This role in smoothing school-to-work transitions is essential to promote intergenerational mobility. In order to succeed in this, programmes need to be designed in a way that they encourage the participation of different age groups, disadvantaged youth and women, and cover multiple sectors and occupations. In particular, they need to attract and retain "at-risk" youth for whom securing internship programmes might be harder (OECD, 2018a). For countries where the work-based component of VET is less developed, there is a lower employment premium and greater difficulties in labour market integration. Negative VET premiums are present only in Estonia, France, Malta and the UK.

In their OECD country review for England, Musset and Field (2013, 28) argue that the confusing and rapidly changing array of sometimes low quality vocational programmes suggests that workplace training lacks sufficient quality assurance mechanisms. This deficiency results from the fact that there is no general framework for the placement of students in workplaces; quality assurance mechanisms are discretionary and depend on the approach of individual institutions (ibid, 80). Musset and Field claim that when quality standards are not clearly set out and links between workplace and classroom training are not explicitly made, it is harder to realise the full advantages of workplace training. Foundation degrees appear not to have established themselves in the way that was initially hoped. It requires time to establish qualifications in the minds of students, employers and providers. Taking this into account a strategic expansion of postsecondary vocational provision would recommend making good use of existing qualifications rather than inventing new ones (Musset and Field 2013, 50). There is a significant space which is yet to be mapped around technical qualifications and unaccredited expertise (Musset and Field 2013, Fazekas and Field 2013a and 2013b). For example, in Switzerland expertise can be developed over periods ranging from 6 months to 2 years, and in Germany it could lead to professional examinations such as those conferring Meister status. However, in the UK there appear to be major obstacles to developing high quality VET and large numbers of adults between 20 and 45 have short cycle professional education and training as their highest qualification.

Sabates (2008) reviews the evidence base of the impact of adult learning on poverty. This shows that basic skills have important economic returns and their improvement during adulthood can subsequently improve earnings. Moreover, while individuals with intermediate levels of qualifications are less likely to receive training, work-related training can have a significant impact on their wage

prospects. However, training leading to lower or middle vocational qualifications, as is the case in England, appears not to increase earnings for those individuals already in employment. Sabates (2008) also stresses that adult learning has wider implications, for instance when it includes provisions for financial literacy: it plays a role in informing people's financial judgements and facilitates taking effective decisions regarding the use and management of money, understanding access to financial services and consumers' rights. All of these are particularly salient to ameliorate differential financial literacy across the population, and can particularly serve to support use of private financial services and planning for future social security, but also for accessing the welfare state. Individual participation in learning is also related to health benefits, for instance by improving health literacy, but also improving understanding of how the health service sector works, and of the rights and responsibilities for patients and practitioners. The review suggests a multiplier effect in learning along with other interventions to alleviate poverty.

Finally, weaknesses of the English system need also to be understood within a difficult context in terms of financial investment. A report by the Institute of Fiscal Studies on education spending in England (Belfield et al, 2018) shows that this area of education has undergone a very substantial squeeze. Total funding for adult education and apprenticeships has fallen by 45% since 2009–10. The number of adult learners in further education or apprenticeships has fallen by 29% since 2010–11, from 3.2 million to 2.2 million. However, most of the fall has been in learners studying for qualifications at GCSE level or below, which often deliver low economic returns. Even so, more than three-quarters of qualifications that adult learners are studying for are at this level. While public funding has fallen, employer and individual investment has not yet risen to fill the gap: employer investment has remained flat at best in recent years, with already highly-skilled employees four times more likely to be trained by their employers than low-skilled employees. Advanced Learner Loans similar to loans for people studying higher education have been introduced in England. Since the introduction of loans, the number of people learning at Level 3 has fallen by 35%.

7. Cost

The OECD (2018a) points out that large-scale roll-out of learning programmes in this area of education is very costly. To be successful, well-trained and highly motivated staff able to provide intensive support and supervision. Despite their high immediate costs, these programmes have proven cost-effective for specific groups in the medium and long run.

Overall

Reforming the FE sector can have positive effects, particularly given the current shortcomings of the system. Public attitudes also seem to place greater importance on the sector than in the past. However, this encounters barriers in the lack of a coherent and comprehensive vision that could foster connections with the labour market, a funding strategy that has imposed large cuts and a generally fragmented approach that has characterised the sector in the UK.

5.4. Invest in Early Childhood Education and care and in early intervention

1. Relationship to poverty/ inequality mechanisms	Early childhood education and care (ECEC) can have a double dividend: it can help to level the playing field for all children by compensating for disadvantages at home, with positive effects on poverty in the short term, while mediating the transmission of disadvantage, improving children's life chances and preparing them for future learning.
2. Party Political Support	While support for ECEC has been growing amongst all political parties in the last decade, there are important differences in terms of approaches and priorities, for instance in relation to staff qualifications, funding or provision of parenting support services.
3. Type of intervention	Social investment
4. Level	National and local
5. Public Support	Generally the public has positive attitudes towards spending on services. While in relation to education the strongest support seems to be around secondary and primary levels of schooling, ECEC policies are seen as particularly progressive. Families see their value in terms of promoting children's socialization, rather than development, and see them primarily as playing a role in increasing parents' participation in the labour market.
6. Evidence of effectiveness	Strong evidence of positive outcomes, which are linked to quality both in relation to centre-based care and education (in terms of quality of processes, of staffing and of social mix) and parenting support. A holistic approach is necessary to concretely achieve gains in relation to both poverty and improved life chances.
7. Cost	High
Overall	While expensive, ECEC policies enjoy positive public attitudes and growing political interest. The choice of a specific strategy in this area can rely on strong evidence - not just on the positive effects of ECEC, but specifically on the importance of a holistic approach and of quality of provision.

1. Relationship to poverty/inequality mechanisms

Early childhood education and care can help level the playing fields for all children by compensating for disadvantages at home where they exist and mediating the transmission disadvantages. The importance of the early years has been emphasized by evidence demonstrating that gaps in cognitive skill development open up between children from advantaged and disadvantaged families at a young age, even before they attend primary school. Moreover, children's development may be less amenable to change after they enter school. ECEC can thus have a double dividend: compensating for disadvantage, while improving children's life chances by preparing them for future learning, by fostering both cognitive and non-cognitive skills.

2. Party political support

The Conservative manifesto shows continuity with previous Coalition and Conservative governments, and essentially confirms commitment to follow through on the 30 hours entitlement to free childcare

for working parents. They also preserve a commitment to a 'diverse sector' with a large place for market provision – in line with a desire to promote a growing market sector as a policy goal in and of itself which has characterised conservative policy in recent years (Lewis and West, 2016). In the maintained sector, with capital funding for school nursery expansion, there is also a commitment to allowing maintained nursery schools to become academies, either independently or as part of a MAT (Maintained Academy Trust). At the same time, the Coalition and subsequent Conservative Governments had seen the increased targeting and diminished funding for Sure Start Centres in England, combined with cuts to local authorities (Bate and Foster, 2017).

Labour and the Liberal Democrats have a more extensive set of commitments, including to extension of the amount of fully funded childcare provision. Labour's plan included moving from the current mixed model to supply-side funding, as well as a commitment to further capital funding. Other commitments included improving qualifications and pay in the workforce and halt closures of Sure Start children's centres. The Liberal Democrats, are the only party to commit to increasing funding for disadvantaged children, by tripling Early Years Pupil Premium to £1000 per child. They also set a challenging target to have all early years provision led by an early years qualified teacher by 2022.

3. Type of intervention

Social investment

4. Level

National and local

5. Public Support

In [2018 a YouGov poll](#) asked which policies would help the less well off the most, and the increasing availability of free childcare came in third place (49%) amongst the most progressive policies, after the reduction of transport fares and unemployment benefits. 31% thought it would help the less well-off and the affluent equally.

The 2016 BSA found that the most commonly cited main advantage for a child under three to attend nursery was that it is good for children to interact and socialise with others (41% of respondents), while only 11% thought it was because it helps a child's education development. Other main advantages included enabling parents to work (cited by 12% of respondents). Asked about the main reason for using childcare among parents of children under five, 86% of respondents thought that it was so that parents could work, and only 12% said it was because it is of benefit to the child.

A NatCen study commissioned by Save the Children (Roberts and Speight, 2017) looked at attitudes towards formal childcare and early years education. It was found that the extent to which parents felt childcare was accessible had a social gradient. The cost of childcare was also perceived to be a factor which naturally prohibited more disadvantaged families in their ability to access and make choices about what provision they used. Costs of childcare also factored into decisions parents made about returning to work, as the research highlighted that taking up low-paid employment might not be perceived as financially worthwhile for some parents. Finally, structural barriers (e.g. proximity to

work/home, travel costs) to accessing formal childcare also mattered. Parents primarily seemed to make decisions based on practical and rational considerations, such as for example, whether they could afford it and the proximity of provision to their home. At the same time, a significant proportion of families reported their personal preference as the main reason for not using formal childcare. For example, 48% of families with two year olds who were not using any formal childcare reported that this was due to the personal preference. Parents seemed to be generally positive about the quality of care available to them, but the more disadvantaged a family was, the more likely they were to hold negative views on the quality of care they experienced (Roberts and Speight, 2017, 16).

6. Evidence of Effectiveness

The key lesson in this area is that quality matters (Sylva, 2011). Here quality is understood as quality of process, of the relationships between adults and children, associated, for instance with staff qualifications and staff-to-child ratios. If care is low quality the expected effects do not materialise and some provision may even be damaging to children's prospects. Research finds that ECEC makes the most difference for children from disadvantaged financial backgrounds (Ruhm and Waldfogel, 2012). In an extensive review of US evidence, Waldfogel (2004) finds that high-quality preschool programmes for disadvantaged children produces substantial cognitive and non-cognitive gains. They have no adverse effects on child behaviour outcomes and indeed have been found to reduce later problems such as crime (Carneiro and Heckman, 2003). In turn, for children age 3 to 5 no adverse effects are found between maternal employment and cognitive development, but some negative effects on child behaviour are observed if children are in poor quality care for long hours. Waldfogel (2004) also finds that evidence from experimental studies in the U.S. highlights that high-quality child care for children at age 1 or 2 produces cognitive gains, with no adverse effects on behaviours. In fact, many of the programme's most lasting gains – reductions in delinquency and crime, reductions in teen births – were in the area of social and emotional development (Carneiro and Heckman, 2003). These experimental programmes were mainly targeted at disadvantaged children, and produced the largest effects for the most disadvantaged. Findings from small scale trials (e.g. the Perry School project) support this view of the benefits of ECEC – when investigated using experimental evaluations – and give confidence that differences are causal. However, while they offer solid guidance for the impact of small high-quality interventions on very disadvantaged children, they are less helpful in relation to universal or large-scale programmes. Much current research has focused on defining the successful characteristics of high-quality programmes (Weiland et al 2018, Morris et al, 2018; Yoshikawa et al, 2016) especially in the context of scaling up programmes when there is substantial variation in effectiveness. European evidence is important to estimate the effects of the expansion of preschool programmes and shows benefits in attainment and later labour market participation (Ruhm and Waldfogel 2012), but more robust research in the UK context is needed. Overall, while currently there is robust evidence on the effectiveness of programmes or interventions in terms of improvements to children's outcomes in ECEC, there isn't a clear picture of the specific pedagogical practices that work for improving outcomes (Sim et al, 2018).

Child development or mothers' employment are distinct policy goals. In the UK, since 2010, priority has shifted in favour of increasing mothers' employment, in keeping with the economic goals dictated by austerity politics (e.g. as can be seen in the treatment of working families or the very labelling of the entitlement as 'childcare'). Importantly, the priority accorded to this policy goal tips the balance between availability, affordability and quality in ECEC provision (Lewis and West, 2016). Loosening regulations has been viewed as a way of securing a more efficient childcare market - which is taken to be the best way to make more provision available and reduce the fees paid by parents. In this sense,

regulations designed to secure quality have increasingly been seen primarily as an impediment to availability and affordability, rather than as a means of securing better outcomes for children.

A key study to consider is the Effective Preschool Provision (EPPE), which followed a large sample of children from preschool to school entry, and beyond (Sylva et al 2004). Analyses show that children who attend preschool enter school with a cognitive advantage. The longer children had been in preschool, the greater the advantage. Children who began preschool at age 2 were ahead of children who began at age 3, and maintained that gain at school entry. But this was not true for the small number of children who began before age 2. Sylva et al (2012) found that only high-quality provision leads to lasting gains which can be measured at age 14. The EPPE researchers have also found that children who attend preschool enter school with better social and behavioural development, except on the dimension of antisocial or worried behaviour where they score slightly worse. More detailed analyses indicate that both the type of care and time in care mattered. For instance, centres that integrated care and education provision and nursery schools were found to be particularly effective, with especially beneficial effects for children from low-socioeconomic status families. So too were programmes that had more highly qualified staff and managers (i.e. level 5 professional teaching qualifications, PGCE and degree level). EPPE also found some indications that there may be composition effects. For instance, children were found to make more progress in pre-reading if they attended centres with more children from highly educated families. With regard to hours per day, in contrast to the findings for prekindergarten in the US but similar to the findings for other types of preschool programmes, the EPPE study found no added cognitive benefits of attending full-day rather than half-day. Thus, the cognitive benefits of preschool were evident even if children only attended part-time. This is important, as it shows that focusing solely on availability and affordability of ECEC is not adequate if we are interested in fostering child development.

Moreover, entitlement does not ensure that there are no differences in terms of take-up. In a study of these phenomena in relation to the Entitlement to Free Early Education in England, Campbell et al (2018) find that children who claim free school meals (FSM) for all three years of early primary school are 13.3 percentage points less likely to attend for the full five terms to which they are entitled than children who never claim FSM. Next to household language and ethnicity, which are strongly associated with non-take-up, local area factors are significant. A high proportion of maintained-sector provision is associated with lower early take-up overall, which may reflect limited flexibility to offer places in January in maintained nursery classes in comparison to the voluntary sector. Yet the maintained sector is also associated with lower inequality in take-up, suggesting that school places are popular with—and generally accessible to—low-income families. The study also finds despite roll-out of free places for disadvantaged two-year-olds, there has been little movement in overall indicators of take-up among three-year-olds since the two-year-old places were introduced (DfE, 2016). This may be because the children most at risk of non-take-up at age three are also not taking up their places at age two.

Gambaro et al (2014) use three administrative datasets for 2010-11 to explore how the quality of early childhood education and care accessed by 3- and 4-year olds in England varies by children's background. They find that children from more disadvantaged areas have access to better qualified staff, largely because they are more likely than children from richer areas to attend maintained nursery classes staffed by teachers, and less likely to attend services in the private, voluntary and independent (PVI) sectors. However, within both maintained and PVI sectors, services catering for more disadvantaged children receive poorer quality ratings from Ofsted, with a higher concentration of children from disadvantaged areas itself appearing to reduce the likelihood of top Ofsted grades. This may be in part because Ofsted ratings reflect levels of child development, and therefore reward settings where children

enter at a more advanced starting point, but it may also be that it is genuinely harder to deliver an outstanding service to a more disadvantaged intake.

So far, we have shown the importance of early years policy developments. However, in order to understand how these can effectively translate into improved life-chances, these services should not be considered in isolation. For instance, it has been shown (Feinstein, 2003) that when considering children's attainment at age 5, initially high attaining children from disadvantaged families went on to perform less well than their peers from advantaged families; similarly, amongst low attaining children, those from advantaged families went on to perform better than their less advantaged peers. This shows that even when showing early signs of low ability, children from better-off families largely avoid downward social mobility (McKnight, 2015a). In general, the literature underscores the importance of adopting a holistic approach that encompasses the broader circumstances of children's lives. Settings do not operate in a vacuum and investment in early education will be most effective if it takes place in a context of support for children's services more generally, and, crucially, against a backdrop of falling household poverty (Gambaro et al, 2014). Stewart and Obolenskaya (2015) raise concerns in this sense, and pointed at how tax-benefit reforms hit families with children under five harder than any other household type. The role of cash for children's outcomes has been discussed more in detail in §2.2. **This is important because while spending on the 3- and 4-year-old free entitlement to early education has risen from almost nothing in the early 1990s to about £3 billion in 2017-18 (Belfield, 2018). Early years spending in other areas has fallen.** Childcare subsidies fell by 13% between 2009-10 and 2017-18, and spending on Sure Start children's centres fell by 67%.

In regard to the latter, the National Evaluation of Sure Start (NESS) produced a report every year from 2002 to 2012 (Bate and Foster, 2017). Though no difference could be found in children's developmental outcomes compared to areas without an SSLP, family functioning and maternal well-being saw small but significant improvements, together with reductions in harsh parenting alongside improvements in children's home environment. Smoking in pregnancy declined and breastfeeding increased, while social class gaps in both measures narrowed. Considerable inequalities in all measures remained at the end of the period, but there were also improvements overall and a narrowing social class (or area disadvantage) gap in rates of low birth weight and infant mortality. The importance of parenting is well recognized in the literature in relation to child development and life chances (Washbrook et al 2014) and policies in this area are key to reducing risk factors.

These considerations are relevant to a more holistic approach to care, one which can help tackle income poverty in the short term while improving children's life chances: policies should aim to support parents in providing good quality care themselves, and in arranging good quality child care. In order to achieve this, it is difficult to disentangle the contribution made by particular factors – improvements in income poverty, effective parenting support, more exposure to better quality childcare and early education.

7. Cost

Building a better system of childcare and early years education is costly (Waldfogel, 2004; Magnuson and Duncan, 2016) – it will require more money for the salaries of the directors and teachers, subsidies for the lowest income families, and staff to coordinate provision. There are suggestions that targeting such care to low-income children will save money and also reach the group likely to gain the largest benefits (Sylva, 2004), but if other children do not use the care, it could become segregated or stigmatized and its quality could suffer. In the UK, the EPPE study found that disadvantaged children

make more progress in pre-reading if they attended centres with more children from highly educated families. Thus, there is a need for creative policies that bring in a mix of children. Measuring process quality is also difficult and expensive. In light of the strong evidence in regards to its effectiveness in terms of cognitive and non-cognitive gains, however, there is strong support for the idea that better quality care pays dividends (Camilli et al. 2010). On the other hand, there is also a case to be made for spending on early intervention, particularly in face of high costs associated with late intervention measures, which were, for instance, estimated at around £17 billion a year for England and Wales in 2016 (Chowdry and Fitzsimons, 2016).

Overall

While expensive, ECEC policies enjoy positive public attitudes and growing political interest. The choice of a specific strategy in this area can rely on strong evidence – not just on the positive effects of ECEC, but specifically on the importance of a holistic approach and of quality of provision.

5.5. Removing labour supply constraints – such as increasing free quality childcare, and paid maternity/paternity leave

1. Relationship to poverty/ inequality mechanisms	Labour supply constraints limit participation in the labour market, with consequences for employment and earning prospects, limiting upwards income mobility. They have a significant gender dimension, particularly for lone-parents. Removing these constraints would protect people from increased risk of poverty and poverty traps in the short term and, in the long term, by preventing loss of labour market experience, which affects earnings in the longer term. At the same time, it would bear on life-course and intergenerational inequalities.
2. Party Political Support	This is an area in which it seems all parties are active in discussing new policy options, with the Liberal Democrats and Labour looking at extending free childcare entitlements to younger cohorts and the Conservatives discussing new leave rights for workers not currently covered and for carers.
3. Type of intervention	Childcare subsidies, legal regulation of employee benefits and working arrangements.
4. Level	National.
5. Public Support	In contrast with a few decades ago, in recent years the public has expressed consistent views favouring mothers' participation in the labour market, either part-time or full-time and especially as children start school. There is also some support for some shared parental leave, although mothers are still seen as preferably taking more. Employers emerge positive about current arrangements on paternal leave and resistant to change them.
6. Evidence of effectiveness	There is good evidence of the effects of some of these policies (e.g. childcare provision, parental leave, flexible working) in relation to increased participation in the labour market. However, the design of these policies is also connected to adverse consequences as 'new welfare' policies are much more successful at achieving higher employment than at reducing poverty.
7. Cost	High
Overall	These policies have seen greater political interest and public support, in spite of their high costs. While there is evidence of their effectiveness in increasing participation, neither the provision of services, nor gaining access to a job, necessarily automatically translate into significant moves up the income ladder and out of poverty. This means that the role of these policies needs to be coupled with adequate protection and understood in relation to measures tackling the social stratification of employment.

1. Relationship to poverty/inequality mechanisms

Labour supply constraints limit participation in the labour market, with consequences for employment and earning prospects, which in turn limit upwards income mobility. Individuals can be constrained in the type and amount of work they can do as a result of caring responsibilities, their health, by how far they can travel to work and by their need to work flexible hours. Moreover, unequal capacity and resources to meet these constraints leads to increased vulnerability, with repercussions on inequalities

over the life-cycle, higher risk of poverty and poverty traps, and in higher risks of working – and being trapped – in low paying jobs. These phenomena have a gender dimension, and are particularly significant for women, especially in lone-parent families. Removing these labour supply constraints, for instance through the provision of childcare, paid family leave, carer’s leave or flexible working, could thus protect people from increased risk of poverty in the short term and, in the long term, by preventing loss of labour market experience, which bears on earnings in the longer term. This would in turn translate in protecting against exacerbating inequalities over the life course and would have significant consequences for future generations too: for instance, access and affordability of childcare affects parents’ employment decisions and their income, and we have seen that income matters for children’s outcomes (§2.2.).

2. Party political support

In the 2017 manifesto, the Liberal Democrats pledged to extend free childcare to all two-year-olds and to the children of working families from the end of paid parental leave, introducing an additional month of paternity leave. Labour also pledged to extend the 30 free hours to all two-year-olds, move towards making some childcare available for one-year-olds and extending maternity pay to 12 months.

In their manifesto, the Conservative party has renewed their commitment to 30 hours of free childcare for three and four-year-olds for working parents. They pledged a consultation for rights such as maternity leave for “gig economy” workers, or unpaid care leave to look after sick relatives.

3. Type of intervention

Childcare subsidies, legal regulation of employee benefits and working arrangements

4. Level

National

5. Public Support

Findings from the British Social Attitudes 2017 survey show that there is now little public consensus on whether mothers of young children should work or stay at home: 33% say mothers of pre-school children should stay at home, 38% say mothers should work part-time, and 7% full time. Thirty years ago 64% said mothers of preschool children should stay at home. Much of this change happened before 2012, and views have remained relatively static since then. However, once the youngest child has started school, a majority believe a mother should work either part-time (49% down from 68% in 1989) or full-time (27% up from 13% in 1989), with only 2% saying she should stay at home (down from 11% in 1989). For both scenarios, a 20% of respondents cannot choose a response. As noted in §5.4, the BSA 2016 survey found that the main reason respondents gave for parents of children under five to use childcare was so that parents could work (86%), and only 12% said it was because it is of benefit to the child.

In terms of paternal leave, the BSA 2017 finds that 39% of respondents say that the mother should take most of the paid leave and the father some, while 30% think the mother and father should each take half

of the paid leave. Only 15% think the mother should take the entire paid parental leave period and the father none. A relatively high proportion of people – 14% – say they “can’t choose” an option. There is an age gradient, with older people more likely to say the mother should take all of the leave (34%) compared to 18-34-year-olds (10%). Just 17% of the older age group thinks the leave should be shared equally between the parents, compared with 38% of the youngest.

There is some evidence of businesses’ views in regard to flexible work and parental leave. A 2012 qualitative survey for the British Department for Business, Innovation and Skills (BIS) found that employers found dealing with paternity leave straightforward, and much more informal than for maternity leave, primarily because leave was for a shorter period and required less advance planning. As such the impact of paternity leave on businesses was perceived as limited, with no support required to return to work. There was no experience of additional paternity leave (i.e. over the 10 statutory days) across the sample. When the concept was introduced, employers were extremely resistant. This was in part due to cultural attitudes, as whilst maternity leave was embedded in working culture, paternity leave was not; it was not taken by all fathers and employees did not always take the full period, or took annual leave as opposed to paternity leave so that they received full pay.

The 2013 Work-Life Balance Employee Survey published by the UK Department of Business, Innovation and Skills found that 48% of those working flexibly did not feel that there were any negative consequences of doing so. Lower pay was the most frequently cited negative consequence (18%). However, the perception that flexible working may negatively impact career advancement and pay is one of the barriers to employee take-up. 32% believed that people working flexibly were less likely to get promoted (the view was held by 38% of those not working flexibly; 37% of men, 36% of those in routine and manual occupations, 33% of those in managerial and profession occupations and 35% of those in the private sector.

6. Evidence of Effectiveness

Flexible Working

Flexible work includes multiple practices that allow employees to have flexibility in working location (such as homeworking) and time (such as flexible hours, part-time, compressed work week, job sharing, annualized hours). These flexible working arrangements need to be distinguished from atypical or precarious contracts and the reduction of employment protection which appear to respond to employers’ demand for flexibility. Instead, they refer to arrangements that facilitate flexibility sought *by employees* and their ability to make choices influencing when, where, and for how long they engage in work-related tasks. Flexible practices can encourage labour force participation among those workers that would otherwise find it too “costly” to work or that might not be able to work otherwise, because of disability or care giving responsibilities.

On the one hand, better paid employment and higher educational qualifications are significant predictors for flexible working practices such as telecommuting, compressed work weeks and flexitime: extending their availability to lower paid and less skilled workers can have equalizing effects (Brewer, 2000; Vaganay et al, 2016). There are also positive personal outcomes resulting from some of these arrangements: in a meta-analysis exploring these outcomes in relation to telecommuting, Gajendran and Harrison (2007) find evidence of increased perceived autonomy, lower work– family conflict, increased job satisfaction and reduced levels of stress.

On the other hand, in many countries where part-time opportunities are available, they are concentrated in jobs that are lower skilled and lower paid per hour than full-time work (McKnight et al, 2016). On the one hand, availability of part-time work, for instance after childbirth can prevent women from withdrawing completely from the labour market (OECD, 2018b). On the other hand, it might not eliminate barriers to career progression and might not prevent missing key career opportunities, resulting in a 'career trap'. The OECD 2018 Employment Outlook supports the evidence of these phenomena, for instance connecting them to the fact that part-time employment status becomes permanent for many women, while it usually remains transitory for men. As a result, women working part-time experience significantly fewer subsequent positive professional transitions than men working part-time (for whom this form of work is also less common, especially for prime age group workers – between 25-49 years old).

Making it possible for good jobs to be done flexibly and part-time is crucial to overcome labour market supply constraints. At the same time, flexibilisation can be accompanied increasing rates of low wage employment and strategies pursuing it need to be focused on linking the removal of labour market supply constraints to increased opportunities at the lower end of the labour market. This means improving the quality of low paying jobs and the types of work opportunities available for those requiring flexibility and/or shorter hour. Otherwise the potential of these policies to tackle poverty and inequality would be reduced.

Carers' leave

Psychological distress, strain and overall health deterioration associated with informal care are well established (Vaganay et al, 2016). They are connected to isolation and lack of support that might prove a high burden and result in mental health problems. Carers are also two to three more times more likely to have long-standing limiting illnesses (Hills, 2010). Caring reinforces other types of social inequalities and carers are more likely to be on low incomes – with wage penalties resulting from career interruptions, depreciation of skills and loss of opportunities for career advancement. Caring for disabled or sick relatives is unpredictable, it can be sustained or sporadic and may take place over a long or short period of time. These elements make policy response difficult. In a comprehensive review for the European Commission, Vaganay et al (2016) find that provision of carer's leave is very limited: where it is available, it is limited to terminal illnesses or to less than one month. The evidence base is also not rich, as evaluation of these kinds of policies is often not rigorous and is often confined to examples of good practice within multi-component interventions: as a result, while there are many initiatives developed to support carers, there is little understanding of what works, why it works, for whom and what the effects of these initiatives are. Vaganay et al (2016) do report some positive effects on labour-market outcomes. They note that even workers who report to have access to unpaid family leave appear more likely to remain in the labour force or maintain or increase their hours of employment.

Childcare provision and paid parental leave

There has long been strong evidence that paid parental leave increases employment rates – as emerging, for instance from Ruhm (1998) cross-country comparison of nine European countries between 1969 and 1993; or Jaumotte's (2003) analysis using panel data, covering 17 OECD countries between 1985-1999. However, positive effects decrease as leave duration increases, with a deterioration of labour

market skills, career prospects and earnings, particularly for low-skilled mothers. Buligiescu et al (2008) use panel data in Germany and find some negative effects of paid leave take-up on wages in the short term, these are minimal or inexistent in the long term, and wages rebound faster for parental leave than for other types of career interruptions. The OECD 2018 Employment Outlook confirms these trends, noting that parental leave is associated with higher female labour force participation, in light of incentives to be employed to ensure paid leave eligibility while also giving women post-birth job security. It also confirms that a loosened connection with the labour market may be detrimental when leave durations are overly long (ibid., 247). In relation to paternity leave, there is a growing literature pointing to positive effects. In the UK, the Workplace Employment Relations Study (WERS) provides high quality data and finds that parental leave has positive effects on partners, with lower risk of post-partum depression, a more equal division of parental tasks but only a weak effect on the division of parental tasks (Vaganay, 2016).

However, McKay et al (2016) use national survey data to compare individual level outcomes for two different parental leave benefit programme in two Canadian regions, to find that 25 % more mothers in Quebec received benefits than mothers in the other provinces and that the key explanation for the differences was programme design. Low income workers, engaged in part-time, short-term contracts and precarious work, were disproportionately more likely not to meet eligibility criteria, based on minimum working hours, in comparison to the programme in Quebec, characterised by lower eligibility criteria. NatCen (O'Brien et al, 2018) research using the 2017 Labour Force Survey and the 2015 Understanding Society survey find similar trends, also based on policy design, for maternal and paternity leave and flexible working arrangements. For fathers, who are much less likely to have flexible working arrangements, characteristics such as age, ethnicity, qualifications, socio-economic class, industry, sector of employment and trade union representation explained the variation. In particular, fathers with qualifications below degree level are less likely to have access to flexible working, as do fathers in lower supervisory and technical or routine occupations, compared to fathers in professional and managerial occupations. The majority of men ineligible for statutory paternity pay are self-employed, who, unlike self-employed mothers, have no alternative allowance. Discontinuous employment also bears on eligibility because of a 26-week qualifying period.

Similar trends also are found in relation to childcare. There is evidence that childcare services have short-term positive effects for parents, particularly for mothers, and facilitate employment, thus intensifying labour-market participation rates (Marx and Verbist, 2014). However, there is also strong evidence of differential use of Early childhood education and care services, which, as a result are socially stratified in many countries. This means that simply increasing spending on these services will not be enough to fulfil their role in ameliorating poverty and inequality. Marx and Verbist (2014) in their study for the GINI project find that in most countries, children in higher-income households are more likely to be enrolled than those in lower-income households. This is the case in the UK, ECEC take-up is lower among children from more disadvantaged areas and families, especially among three-year-olds (Waldfoegel and Stewart, 2017). Campbell et al (2018) use the National Pupil Database and find quite large differences according to low income, ethnicity and those with English as an Additional Language (EAL). For instance, 29% of autumn-born children consistently eligible for Free School Meals (FSM) between reception and Year 2 did not enrol in early education as soon as they could and did not benefit from the five terms they were entitled to, this is much higher than the percentage of non-FSM-eligible children (15%).

Childcare subsidies are important here, because if formal provision is not affordable, children of working mothers are likely to be looked after in informal settings. While there is mixed evidence that

this may be less good for their development (Waldfogel and Stewart, 2017), lack of affordability constrains choice for most disadvantaged parents, meaning that some parents have to settle for informal care as a last resort, rather than choosing a carer in the child's best interest. In the UK, investment in recent expansions of the entitlement would improve affordability (Waldfogel and Stewart, 2017). However, it is important to note that by virtue of connecting eligibility criteria of the latter to employment status, there is a risk of disadvantaging low-income families who are most likely to have at least one parent out of work or working intermittently or irregularly. This poses challenges in terms of effectively closing the gaps and points at the multiple goals childcare strategies strive to balance – child development, narrowing gaps and supporting working parents. Notably, recent changes appear to prioritise affordability, with consequences for the quality of provision, given the struggle of particularly PVI providers to effectively deliver even the 15 hour entitlement (ibid, 30-31). As we noted in §5.4 this is extremely important if the goal is levelling the playing field and supporting child development.

Public resources spent on childcare and parental leave tend to flow to higher income families, and as a result they do not fulfil their progressive potential. This is the picture confirmed in the literature comparing “new” approaches to welfare to “old”, passive programmes of social assistance: for instance, in cross-national studies such as Wang et al (2012), using Luxembourg Income Study data in 28 OECD countries, and van Vliet and Wang (2015), in a study covering 15 European countries between 1997 and 2007. Cantillon (2011) shows that in all nine European countries she considers this is the case because mothers (and fathers) with a low educational level make less use of formal childcare services because at least one of the parents is not working. The differences between the low- and the high-skilled range from nearly 30% in Austria to 10% in Denmark. She considers that the shift in expenditure from traditional cash transfers to ‘new policies budgets’ can explain declining redistributive social outcomes in the face of high social spending and increased employment. This is because they are work-related and thus strongly income-related, and secondly, because they make welfare states more service-oriented, and services are considered to be less redistributive than cash transfers. Taylor-Gooby et al (2015) come to a similar conclusion in their study of seventeen European countries over the period 2001 to 2007, they stress how ‘new welfare’, including labour mobilisation policies such as parental leave are much more successful at achieving higher employment than at reducing poverty. Using data from the Labour Force Survey, Ghysels and Van Lancker (2010) support this view in relation to parental leave, which is used less by more disadvantaged households: for instance those with a low-educated mother use parental leave opportunities to a lesser extent than other households do across most countries. This would appear to be the cumulated outcome of unequal labour force participation and inequalities in the effective access to parental leave within the working population.

Work and family life policies, introduced to increase labour force participation, would first benefit those already participating to the labour market, but the assumption underpinning these policies is that participation amongst the poorer would then improve, with pro-poor longer term consequences. This seems to be the case in Nordic countries, where mothers' labour force participation is high, and is correlated with lower poverty (Cantillon, 2011). If, however, there is no adequate support for those facing constraints in combining work and family life and social stratification of employment remains entrenched, these policies won't have hoped-for effects in relation to poverty and inequality. Overall, this literature also stresses that neither the provision of services, nor gaining access to a job necessarily imply a significant move up the income ladder and out of poverty. This points to the key role of direct income-support policies, including for those in work. This does not mean that the potential for these policies to bear positive outcomes in relation to poverty and inequality should be discounted. Instead, it means that their role needs to be balanced in relation to adequate protection and understood in relation

to labour market dynamics, for instance enhancing job opportunities for low-skilled women, in order for these policies to play their social investment role adequately (Vandenbroucke and Vleminckx, 2011).

7. Cost

High

Overall

These policies have seen greater political interest and public support, in spite of their high costs. While there is evidence of their effectiveness in increasing participation, neither the provision of services, nor gaining access to a job, necessarily automatically translate into significant moves up the income ladder and out of poverty. This means that the role of these policies needs to be coupled with adequate protection and understood in relation to measures tackling the social stratification of employment.

5.6. Combining adequate social protection entitlement with effective active labour market programmes

1. Relationship to poverty/ inequality mechanisms	Combining adequate welfare entitlement and effective labour market programmes (ALMP) is essential in relation to both poverty and inequality at the bottom of the distribution. Facilitating employment and earnings growth that benefits those on low-incomes is necessary to increase incomes at the bottom. This requires avoiding system designs – both in terms of social protection entitlement and activation strategies – that create poverty traps and make it difficult to escape poverty or near poverty: in fact, these programmes may be ineffective in lifting people out of poverty and lead to low pay/no pay cycles, with great scarring effects and greater risks of persistent poverty.
2. Party Political Support	Universal Credit (UC) remains the central approach to the Conservatives’ strategy: this attempts to simplify the system and smoothen employment transitions, but also envisages less generous levels of welfare entitlements and stricter conditionality. Labour and the Liberal Democrats propose strategies repelling the cuts and increased conditionality of UC.
3. Type of intervention	Combination of cash transfers, employment services and subsidies, fiscal incentives and sanctioning/monitoring mechanisms.
4. Level	National and local
5. Public Support	There is a growing concern with in-work poverty, and overall, while views about unemployment benefits remain the most negative when it comes to government spending, they have softened in comparison to the past. There appears to be some support for conditionality, even in relation to those with disabilities, but the public seems to support much less harsh sanctions than those in place.
6. Evidence of effectiveness	The evidence stresses, on the one hand, the importance to make assessments of ALMP in the medium- and long-term as well as the short-term. Some interventions can be more effective at increasing exits from unemployment in the short-term, but less effective in terms of reducing unemployment recurrence and increasing earnings growth. In turn, this means designing interventions that successfully identify those at risk of experiencing low-pay/no-pay cycles (beyond the long-term unemployed) while also focusing on the complementarity of income support coverage/generosity and activation strategies.
7. Cost	High
Overall	Divisions across the political spectrum, especially around certain elements of UC, parallel complex public attitudes. The evidence suggests not to overlook the importance of the generosity of the system, and of the distinction between short-term strategies such as sanctions and longer-term strategies better suited to promote progression and reduce unemployment recurrence.

1. Relationship to poverty/inequality mechanisms

Combining adequate welfare entitlement and effective labour market programmes (ALMP) is essential to have both sufficient income support and boost employment stability, progression and reduce periods of unemployment. Facilitating employment and earnings growth that benefits those on low-incomes is necessary to increase incomes at the bottom of the distribution. The design of cash entitlements and

labour market programmes can thus play an important role in relation to both poverty and inequality at the bottom. A key challenge in this sense is avoiding system designs – both in terms of benefit entitlement and activation strategies – that create poverty traps and make it difficult to escape poverty or near poverty. Recipients who are activated to take low-wage jobs do not face great career prospects, and can in fact face fewer opportunities to invest in training to raise their skills. As a result, activation programmes may be ineffective in lifting people out of poverty and may in fact lead to low pay/no pay cycles, with great scarring effects and greater risks of persistent poverty. Combined with inadequate welfare entitlement, these effects can be further augmented. These phenomena can also exacerbate poverty and inequality by creating a labour market in which there is a proliferation of low paid jobs – undermining the potential of work to be a route out of poverty. This limits and imposes further pressures on governments in terms of the resources needed to tackle poverty (§2).

2. Party political support

Conservatives have stressed their belief that employment is the best route out of poverty, and this goes hand in hand with the strategy underpinning Universal Credit (UC) – UC sees the entrenchment of strict conditionality, increasing work search demands and the severity of sanctions (introduced under Job Seeker Allowance)

Labour’s approach envisages a more generous social security system, particularly in relation to work-related activities, and repealing cuts associated with Universal Credit. There is also a generic mention of ‘ending the punitive sanctions regime’ associated with the current system. The Liberal Democrats also talk about increasing basic needs support, and reform Work Allowances, with the goal of ‘encourage people into work’ and ‘work for longer before their benefits are cut’. In both manifestos there is emphasis on policies for people with disabilities. For instance, the Liberal Democrats pledged to expand, Access to Work and improve links between Jobcentres and Work Programme providers and the local NHS.

3. Type of intervention

Combination of cash transfers, employment services and subsidies, fiscal incentives and sanctioning/monitoring mechanisms.

4. Level

National and local

5. Public Support

Despite somewhat positive attitudes towards welfare recipients and a backlash against austerity (§2.2), benefits for unemployed people are considered a priority for additional spending by only 13% of respondents in the 2015 British Social Attitudes survey. However, the 2018 BSA survey shows some evidence that traditionally sterner attitudes towards unemployment benefits are softening; at 20%, the percentage of those who feel that the government should spend more on welfare benefits for the unemployed is at the highest level in 15 years.

The 2015 BSA survey also asked about people’s motivations to work: 62% of respondents said they would enjoy having a job even if they didn’t need the money, up from 49% in 2005. Social class and

education make a difference to financial motivations to work, with 63% of those in professional or managerial occupations disagreeing a job is solely about earning money, and 34% of those in routine or semi-routine occupations.

In [2013 the Social Mobility and Child Poverty Commission](#) ran a survey of the UK population, with questions regarding social mobility and in-work poverty: it emerged that the majority (66%) thought the government had a role in tackling in-work poverty and should top up the incomes of in-work poor (75%). 84 % agreed that employers should provide more opportunities for people to progress in work so they can earn more. Only 4% disagreed. Respondents were also reluctant to blame people’s lack of effort in education: 65 % disagreed that those who are in work and living in poverty should have worked harder at school (17% agreed and 18% neither agreed nor disagreed with the statement).

In [2017 YouGov surveyed people’s](#) attitudes towards disability benefit and conditionality: the results, which encompassed a variety of conditions, show that people overall think the government should impose some sanctions if recipients refuse to undertake suitable training, education or rehabilitation, but these preferred sanctions are not as harsh as those in place, with little support for sanctioning minor non-compliance. This is in line with previous findings in the 2011 British Social Attitudes survey, where many people supported conditionality, though believed sanctions should be less severe than currently exist.

6. Evidence of Effectiveness

The literature on activation programmes is extensive. McKnight and Vaganay (2016) evidence review for the European Commission is helpful here as it evaluates both macro-level and micro-level evidence, which includes some high-quality meta-analysis reviews (Card et al., 2010; Kluge, 2010; Bratu et al., 2014). These consider a range of different activation programme types (training, public sector employment, private sector employment incentives and labour market services) and a range of impact estimates. McKnight and Vaganay employ a framework developed by Eichhorst and Konle-Seidl (2008) dividing types of intervention between ‘demanding’ and ‘enabling’ (Figure 1).

Figure 1. Two sides of activation

Demanding	Enabling
1. Duration and level of benefits <ul style="list-style-type: none"> • Lowering insurance or assistance benefits • Reduction of maximum benefit duration 	1. “Classical” active labour market policies <ul style="list-style-type: none"> • Job search assistance and counselling • Job-related training schemes • Start-up grants • Subsidised employment • Mobility grants
2. Stricter availability criteria and sanctioning clauses <ul style="list-style-type: none"> • More restrictive definition of suitable job offers • Punitive sanctions for non-compliance 	2. Fiscal incentives/make work pay <ul style="list-style-type: none"> • Earnings disregard clauses • Wage supplements granted in case of taking up low-paid jobs (“in-work benefits”).

<p>3. Individual activity requirements</p> <ul style="list-style-type: none"> • Integration contracts • Monitoring of individual job search effort • Mandatory participation in active labour market policy schemes 	<p>4. Social services</p> <ul style="list-style-type: none"> • Case management, personalised support • Psychological and social assistance • Childcare support etc.
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Source: derived from Eichhorst and Konle-Seidl (2008)

In practice, activation programmes contain a mixture of these approaches so that for instance, when examining the impact of job search assistance, job search conditionality and monitoring for income support claimants are typically introduced as a package. This makes it difficult to find estimates that are able to isolate the impact of one intervention. In general, the case for job search assistance is strong and shown to have favourable impacts, especially in the short run (Card et al 2010). Some evidence points to job search skills and knowledge of current employment opportunities decaying with the length of time individuals are unemployed, justifying the need to boost these skills and provide extra assistance for longer-term unemployed. Job search assistance normally involves counselling, job search training and in some cases job-brokering, these programmes can be delivered by public employment services or under contract via private and voluntary sector organisations. Job search assistance is widely used and introduced early in a claim for income support, often as part of an introduction to what is expected of income support claimants. Recent years have seen an increase in both the requirement for income support claimants to search for work as a condition of benefit eligibility (for instance, in the UK, in relation to UC or Job Seeker Allowance) and the extent to which job search activity is monitored. However, research which has considered different time scales for assessing outcomes suggests that while job search assistance can be effective at getting claimants into work fairly quickly and faster than many other forms of activation, in the longer term other forms of activation (such as training) are more likely to have a positive impact on employment outcomes (Card et al 2010; Bratu et al 2014).

This is important as training may appear less attractive a strategy for multiple reasons: on the one hand the heterogeneity of training programmes makes it harder to determine which types of training to fund. Moreover, programme costs are typically much higher than interventions such as job search assistance and can have displacement, substitution and deadweight effects which are hard to measure. Moreover, unlike job search assistance, programme “lock-in” effects reduce initial outflow rates from unemployment and can imply important indirect costs of activation programmes, e.g. because of higher or prolonged unemployment benefit payments. The considerable variation in the needs of job-seekers, and differential rates of return across groups of participants, all contribute to the considerable variation in the impact estimates for this form of activation. Despite these concerns, what emerges from this evidence is the fact that ‘demanding’ elements of job search assistance which are typically grouped under this activation type in reviews are effective at matching job seekers to job opportunities; however, the quality of the matches is inferior to that of other activation interventions that increase human capital, raise productivity in the longer-run and lead to more sustainable employment outcomes (McKnight and Vaganay, 2016).

In relation to sanctions, only estimates of short-term effects are available and so, while it appears that they are effective in reducing current spells of unemployment, in the longer term they may have a negative or insignificant impact on employment outcomes. Such outcomes would be consistent with findings from other ‘demanding’ activation interventions which tend to push claimants into work and take on precarious jobs or jobs for which are not a good match. Notably, sanctions operate also through

'threat effects', resulting for instance from a notification of the start of a compulsory activation programme, rather than actual participation in the programme. Threat effects can lead to more intensive job search, applying for more jobs, being prepared to drop reservation wages or considering types of work previously ruled out, all of which in turn increase flows off unemployment. There is evidence of these effects (Rosholm and Svarer, 2008; Amilon, 2010), but they are also shown to be more significant for highly educated workers – something that can be explained by the differences between lower educated and higher educated workers in terms of their potential for lowering reservation wages. This is worrying because if job-matches are weak and/or the jobs found more precarious, these types of intervention risk increasing exit rates from unemployment but also the likelihood of returning to unemployment in the longer term. Moreover, rich qualitative research from the *Welfare conditionality: sanctions support and behaviour change* project (WelCond, 2018) conducted between 2013 and 2018 across England and Scotland not only confirms a general lack of significant and sustained change in employment status and progression and short-term movements between various insecure jobs; it also stresses how sanctions trigger and exacerbate negative personal, financial, health and behavioural outcomes. For instance, by generating considerable distress they are found to push some very vulnerable people out of the social security safety net altogether. Finally, while many low paid workers do progress into higher paid jobs, there is evidence that mobility out of low pay has been overstated. This is what Pavlopoulos et al (2012) find using British, German and Dutch panel data. They also confirm that training has a positive effect on the probability of a low-to-higher pay transition in the UK.

There is strong evidence in the literature of the existence of a low-pay/no-pay cycle characterised by individuals cycling between unemployment/low paid precarious work, with workers becoming trapped in low paying jobs or scarred by the experience of unemployment, low pay or the underutilisation of skills (McKnight et al, 2016; Stewart, 2007; Cappellari, 2007). As a result of these dynamics, while most spells of unemployment are short – e.g. in the UK around 90% of Job Seeker's Allowance claimants leave unemployment within a year of starting a claim, with the majority leaving within the first three months (McKnight, 2015b) - there is a significant group who experience multiple spells of unemployment or remain unemployed for long periods of time. For this group most at risk of experiencing low pay/no pay cycles and effectively spending significant proportions of their working lives unemployed, active labour market programmes offering training and skills development could have the greatest impact if they improve long-run prospects. One problem is that the types of programmes, such as education and training, that could be most beneficial for those in this group are restricted to long-term unemployed jobseekers and therefore exclude workers who are cycling between low paid jobs and unemployment. Since restricted access to these services can make economic sense – in light of their cost and of deadweight losses – a key concern is designing interventions that can successfully identify this target group.

At the same time, low-pay/no-pay cycles and 'low wage careers' point to the fact that simply the proportions of people in work does not automatically translate into significant moves up the income ladder and out of poverty. This means that the complementarity between income support coverage/generosity and activation strategies should not be overlooked. Lack of adequate social assistance through income support, even where activation programme are available, creates social problems - such as poverty, homelessness and social exclusion - and can move these vulnerable groups further from being able to secure good employment outcomes (McKnight and Vaganay, 2016). This is relevant as, on the one hand, focus on activation and demanding interventions has seen unemployment benefit programmes becoming less generous (Paetzold and Van Vliet, 2014), while take-up effects, associated with the stricter conditionality and use of sanctions (Griggs and Evans, 2010), affect coverage. The complexity of balancing these elements can be seen in practice, for instance in relation to

the UK's reforms around Universal Credit (UC). Two analyses from the Resolution Foundation and the Institute of Fiscal Studies (Brewer et al, 2017; Browne et al, 2016) concur on the picture they present: on the one hand, UC's design has helped reduce the very highest marginal withdrawal rates of the benefit and tax credits system. While the previous system left 800,000 people with less than 20p, and in many cases less than 10p, of every additional pound they earned, the new single taper system would see these people keeping a least 23p (Browne et al, 2016) or 25p (Brewer et al, 2017). However, this remains worse than that which currently applies to taxpayers on tax credits and no other benefits and is significantly affected by other costs: for instance the returns fall to 6p when including childcare costs (Brewer et al, 2017, 11). Browne et al (2016) and Brewer et al (2017) use microsimulation (TAXBEN and the IPPR tax-benefit model respectively) and highlight the gainers and losers in the system: the combination of a low work allowance and a high taper rate of 63% mean most single parents will be worse off than under the current system, while second earners in couples with children have little financial incentives. In fact, the increase in support for one-earner couples with children strengthens the incentive to have one adult in work rather than none, but weakens the incentive for both parents to work. Renters also emerge as far more likely than home owners to gain: of the 2.2 million gainers, 1.6 million are renters, while of the total 3.2 million losers, 2.5 million are homeowners. Browne et al (2016) also show that UC arrangements are focusing more support on those with long-term rather than temporary low incomes than the current system, and will impose very high effective tax rates on saving for some claimants. UC's overall impact hinges on the extent to which it increases benefit take-up (De Agostini et al 2014). If the full take-up gain assumed by the Office for Budget Responsibility (OBR) is achieved, then the new system is set to be £1.6 billion more generous than the legacy system would have been by 2023-24, with gains for 700,000 families. However, if this take-up boost isn't forthcoming, then UC will be £1.5 billion less generous than the current system (Brewer et al, 2017).

As noted, evidence also suggests that activation has been less successful in terms of promoting career progression in work. Aspects of in-work conditionality which are present in UC proposals connect to these issues of job progression and post-employment support. This is an area often missing in ALMP programmes. In the UK there have been trials, such as the Employment Advancement and Retention pilots. Hendra et al. (2015) provide a detailed review of the experimental evaluations of this programme, based on large-scale randomised control trial. Participants in ERA had access to a distinctive set of 'post-employment' job coaching and financial incentives, which were added to the job placement services that unemployed people could normally receive through Jobcentre Plus. The ERA findings underscore the difficulty of achieving long-term improvement in employment retention and advancement. The study shows that, for some groups, short-term improvements do not necessarily grow into longer-term gains, and, for them, ERA would not be a worthwhile Government investment. At the same time, the evaluation found that, for specific populations, gains can be achieved, even for some of the most disadvantaged job seekers, and that those gains can be sustained over a five-year period.

Finally, it must be noted that in many countries, including the UK, there has been a shift to extend conditionality and reinforce links between income support and activation programmes to groups who were previously exempted- e.g. lone parents, or people with disabilities. On the one hand, their prior exclusion, meant that they were also deprived of the benefits that ALMPs can provide, something which impacted on their chances of moving back into work. On the other hand, welfare-to-work policies involve elements of compulsion to ensure that individuals make the transition to paid employment, and this requires support services to help welfare recipients in making the transition. The OECD (2013) comparative study in seven countries, including the UK, stresses that welfare recipients who were not previously subject to employment related conditionality 'require care' not to overload the employment services, and it may take time and result in higher unemployment rates. Sanctions are likely to affect the

most disadvantaged, and lone parents who experience multiple barriers are the group most likely not to adhere due to their caring responsibilities and commitments (Millar and Evans, 2003).

In regards to lone parents, many experience severe and multiple barriers to employment, including little work experience, low skills, lack of confidence, and health problems (Millar and Crosse, 2016). These parents will require significant supports to take up employment and remain in it but also to cope with the shocks brought by changing family structures. Policy measures need to be flexible and diverse to recognise and deal with the varied circumstances and needs of lone parents. It might be difficult to isolate the independent effect of specific measures (e.g. assistance with job search, access to suitable education and training, in-work cash transfers, individual advice and support, access to affordable good quality childcare, availability of secure employment) as it is their combination which is necessary to make an impact (Millar and Evans, 2003; Millar and Crosse, 2016).

McKnight and Vaganay (2016) note how, for disabled people, evidence on the success of activation policies is disappointing: changes to benefit entitlement, increases in support and assistance as well as changes to workplaces and anti-discrimination legislation have not been enough to have a significant effect on reducing high inactivity rates among members of this group, even those deemed to be capable of work in a limited capacity. In the UK, experience with the Work programmes has also been disappointing: the programme was delivered by contracted private providers paid according to results, with payments graduated reflecting of the degree to which groups of claimants were considered hard/easier to help. The higher payments for disabled people do not appear to be enough to create a sufficient financial incentive for these providers to provide adequate assistance to this group. Evaluations have found evidence of “creaming” and “parking”; focusing resources on easier to help groups who are most likely to find work while doing little to assist the harder to help groups (McKnight, 2016). Lindsay et al (2015) stress that one factor that appears to be largely missing from the providers’ offers to disabled people is occupational health services and in particular condition management. Moreover, criticism of Employment and Support Allowance (ESA) system, in particular relating to the Work Capability Assessment (WCA), have been brought to the forefront of discussion following the 2016 UN Committee on the Rights of Persons with Disabilities report. This has emphasised not only the number of wrong ‘fit for work’ decisions – and their consequences in causing hardship and increasing the risk of poverty – but also how WCA is focused on a “functional evaluation of skills and capabilities” and, in spite several adjustments, it does not fully take into account individual circumstances and requirements (Jones et al, 2017).

Overall, this evidence stresses the importance of a policy mix encompassing the generosity of income support, the link between income support and jobseekers’ activity and the scale and suitability of active labour market programmes (Martin, 2015). While the impact of individual activation programmes can be fairly modest at an aggregate level, the effect of individual policies is strengthened if they are part of a coherent activation strategy in which adequate income support is combined with effective re-employment services tailored to meet the needs of different beneficiaries (Immervoll and Scarpetta, 2012). However, it is important to also note the methodological difficulties attached to much of the literature, especially when examining active labour market programmes cross-nationally (Clasen et al, 2016). Problems with reliability, validity and generally with the quality of the available data should not be underestimated – e.g. due to the fact that as a result of decentralization sub-national expenditures go under-reported in comparative data, or that the marketisation of delivery systems often does not result in the availability of detailed information of types of services available. In general, it might be hard to provide clear guidance for policy makers, because of the high degree of heterogeneity within activation types, their mix over time and across countries. The relationship between ALMP and income support

entitlement also varies across countries and population groups, their outcomes are assessed in different ways, and they operate within different contexts in terms of labour market opportunities, labour market flexibility, employment protection, wage-setting, social norms and enabling services which have different role and significance (McKnight and Vaganay, 2016: 51).

7. Cost

High. The provision of adequate support is costly. In regards to active labour market programmes, while there are varying costs attached to different types to programmes, even low cost interventions such as job assistance are often coupled with monitoring and sanctioning systems that are costly in terms of staff resources and time, organising interviews, dealing with non-participation and applying sanctions. As noted, training is expensive, both in terms of direct costs and indirect costs through lock-in effects.

Overall

Divisions across the political spectrum, especially around certain elements of UC, parallel complex public attitudes. The evidence suggests not to overlook the importance of the generosity of the system, and of the distinction between short-term strategies such a sanctions and longer-term strategies better suited to promote progression and reduce unemployment recurrence.

6. Crime and the Legal System

There are a number of ways in which crime, the legal system and punitive sanctions are related to economic inequality and poverty. In relation to poverty, the incentive to commit crime is greater among the least well-off who have lower opportunity costs or whose relative deprivation creates social tensions. However, it is important to note that although a high proportion of offenders have experienced poverty, only a low proportion of people living in poverty commit crime (Webster and Kingston, 2014 and Bagaric, 2014). People living in poverty are also more likely to be victims of crime (Webster and Kingston, 2014). In addition, there is evidence of discrimination with economically disadvantaged groups much more likely than others to receive custodial sentences and longer custodial sentences. Such sentencing disparities can arise from risk assessment tools (algorithms) being used to determine sentences by predicting the likelihood of reoffending and danger to the public (van Eijk, 2017). Some have argued that a fairer system would allow for poverty and deprivation to be considered as mitigating factors in sentencing decisions for some types of crime (Bagaric, 2014). An independent review commissioned by the UK government (Lammy Review, 2017) highlighted the fact that sentencing inequalities negatively affect Black, Asian and Minority Ethnic people. Some of these inequalities have been attributed to higher exposure to poverty and disadvantage, and cannot be solved by solely focusing on reforming the criminal justice system.

Economic theory on the determinants of criminal behaviour predicts that an increase in economic inequality will lead to an increase in crime, particularly crimes that have the potential for economic gain (for example, burglary, robbery and theft). Inequality has also been linked to violent crime (see, for example, Kelly, 200). However, international empirical evidence from testing these theories has sometimes been disputed (see, for example, both Fajnzylber, Lederman and Loayza, 2002 and Neumayer, 2005). For England and Wales, there is some evidence that increases in income inequality in the 1980s and early 1990s was associated with an increase in property crime (Farrell et al., 2014), but aggregate trends in crime rates in England and Wales are also shaped by a range of other factors.

It is not only the case that poverty and inequality can increase the incentive for some to engage in criminal activity but through being drawn into crime, criminal conviction and incarceration effects can have long-lasting negative impacts on people's lives (Wheelock and Uggen, 2008). Having a criminal record places individuals at an even greater risk of economic disadvantage in the future due to its impact on employment prospects (Western, 2002; Bagaric, 2014). Greater risks of poverty, and limited investments in rehabilitation no doubt contribute to high rates of recidivism: around 30% of offenders reoffend within one year and nearly 50% of those completing a custodial sentence (MoJ, 2019a). Reoffending rates among those who have served a short custodial sentence are even higher at 64.8% (MoJ, 2019a). The link to poverty is exacerbated not just through the poorer longer-term economic prospects for those drawn into criminal activity or high rates of recidivism, but intergenerational effects mean that offenders' children are at greater risk of poverty (Smith et al., 2007). Despite recent reforms which were meant to refocus efforts on rehabilitation, there remains limited investment in rehabilitation services, particularly for those serving short prison sentences among whom recidivism rates are very high. Reoffending not only means that offenders are stuck in a cycle of crime and punishment, but it has negative consequences for victims of crime. With victimisation and re-victimisation unequally distributed this could be an additional contributory factor to the relationship between inequality and poverty.

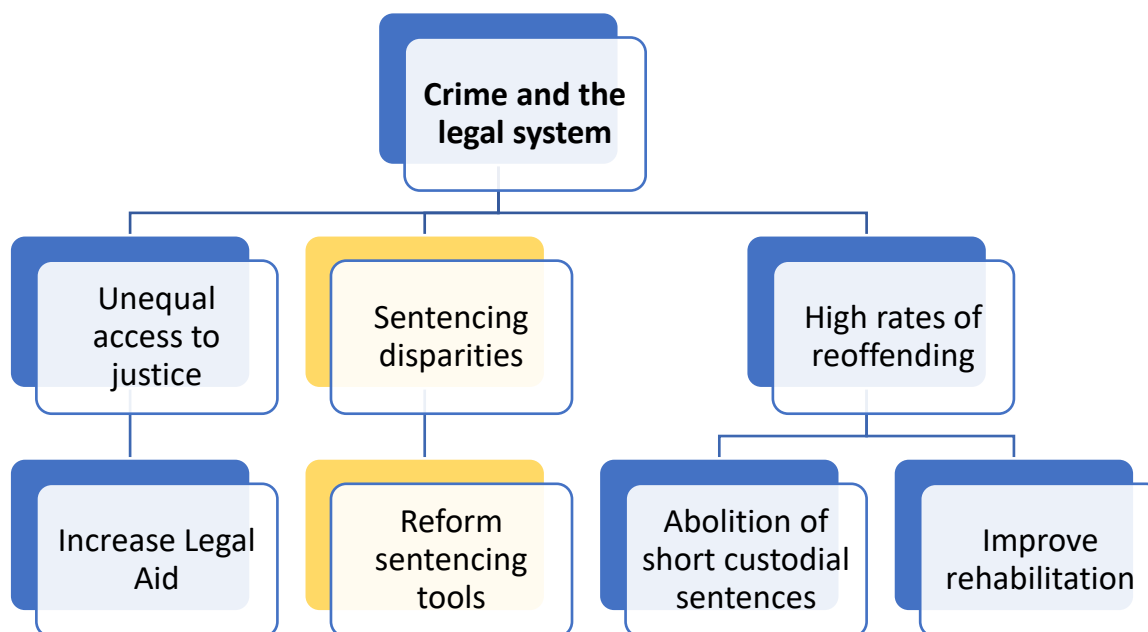
Evidence suggests that increases in economic inequality are linked with preferences for greater punitive sanctions for those found guilty of committing a crime. Hardening of punitive preferences in the UK as

economic inequality increased was accompanied by a change in government policy from the early 1990s towards a stiffer sentencing regime. The result has been increases in the use of custodial sentences and longer custodial sentences. The UK now has one of the highest rates of imprisonment across high income countries, with little evidence that this has markedly contributed to falling crime rates.

Unequal access to justice drives some of these wider inequalities. Economic inequalities mean that financially advantaged individuals can afford to pay for the highest quality legal advice and representation while the economically disadvantaged have to rely on legal aid and pro-bono legal assistance. In recent times means-tests for legal aid have been tightened and the scope of areas of law which qualify for legal aid has narrowed. This is likely to have exacerbated existing unequal access to justice.

Within this mechanism high rates of reoffending is a key driver (Figure 1). Two policies which are designed to reduce high rates of reoffending are reviewed: (1) the abolition of short custodial sentences: (2) improving rehabilitation. Sentencing disparities are also an important driver and reforming sentencing tools a potential policy area but the evidence required to include this policy in the toolkit was not available. This is a policy that could be included in a future version of the toolkit.

Figure 1. Overview of drivers and policies related to crime and the legal system



6.1. Increase legal aid

1. Relationship to poverty/ inequality mechanisms	Financially advantaged individuals can afford to pay for the highest quality legal advice and representation. Legal aid provides the financial means for low income individuals to pay for legal advice and representation. Without sufficient access to legal aid, low income individuals will be forced to litigate in person or unable to challenge rulings and are at risk of unequal access to justice and potential miscarriages of justice.
2. Party Political Support	Cuts to legal aid were introduced in England and Wales by the Conservative and Liberal Democrat coalition government through the Legal Aid, Sentencing and Punishment of Offenders (LASPO) Act 2012. The Labour party opposed these cuts and have subsequently pledged to restore some of the cuts when they win a general election. In Scotland and Northern Ireland (law and order is a devolved matter) LASPO does not apply and legal aid is more widely available.
3. Type of intervention	Public expenditure/legislation
4. Level	Sub-national (law and order is a devolved matter so different rules apply in England and Wales; and Scotland and Northern Ireland)
5. Public Support	In general, public opinion polls find support for free legal advice services, particularly for those on a low income. The vast majority agree that legal aid is very or fairly important and there has been a decline in support for government cuts to legal aid, with less than one quarter of respondents to a poll in 2014 agreeing with the cuts resulting from LASPO reforms.
6. Evidence of effectiveness	Legal aid provides the means for economically disadvantaged individuals to secure access to justice. Concern about the growing cost of legal aid and its use to bring 'unnecessary' litigation combined with the Conservative party's desire to reduce the scope and scale of legal aid in England and Wales, led to cuts. These cuts to the legal aid budget have led to increases in the number of individuals litigating in person. This is costly (false economy) and raises concerns about the impact on justice and the risk of miscarriages of justice.
7. Cost	Medium
Overall	Increasing legal aid would help to increase access to justice for low income individuals. Recent cuts to legal aid have exacerbated inequalities through increasing the number of litigants in person (the cost of which is borne elsewhere) and the risk of miscarriages of justice. There is strong public support for legal aid and a growing objection to recent cuts. This support could be an important facilitation factor in increasing legal aid for the least advantaged. The Labour party has pledged to restore some of the cuts and the Conservative government is conducting post implementation assessments of LASPO reforms. The Bach Commission recommended a number of important reforms such as removing the capital means-test for benefit recipients and widening the scope of legal aid. All of which would reduce unequal access to justice.

1. Relationship to poverty/ inequality mechanisms

High levels of economic inequality means that financially advantaged individuals can afford to pay for the highest quality legal advice and representation. Without the financial means to pay for legal advice and representation, individuals on low incomes who have been charged with committing an offence, or do not agree with a ruling made against them (for example, in relation to eligibility for welfare benefits, immigration or housing), or are unable to reach an agreement in relation to dependent children, have unequal access to justice. In the UK low income individuals can apply for financial assistance in the form of legal aid and qualifying individuals will have some or all of their legal costs covered. Different rules apply for civil legal aid and criminal legal aid (see more below). As law and order is a devolved matter, different rules apply in England and Wales, Scotland, and Northern Ireland. Here we mainly concentrate on England and Wales; legal aid in Scotland and Northern Ireland is available for more types of cases and different means-tests apply (see Scottish Legal Aid Board, 2018 for more information for civil legal aid in Scotland and for Northern Ireland see the [Law Society of Northern Ireland](#)).

In recent times financial cuts have been imposed on legal aid, with some types of cases no longer qualifying for legal aid and fixed fees for other types of cases. In addition, changes have been made to means-tests and capital tests apply to cases which previously qualified through 'passport' benefit receipt. These changes have led to an increase in the number of cases where low income individuals do not qualify for legal aid and consequently are unable to benefit from a legal professional. This has led to an increase in the number of people litigating in person which has resulted in knock on costs.

Where economic inequality is high (as in the UK) there are very unequal resources available for individuals to fund legal advice and representation. This is likely to lead to unequal outcomes in legal cases. Legal aid provides access to justice for those who qualify, but will not address all inequalities. Increasing legal aid and reforming the means-test can reduce the impact of economic inequality on access to justice.

2. Party Political Support

Legal aid was first introduced by a Labour government in 1949 through the Legal Aid and Advice Act and has been subject to many changes over the years. Here we concentrate on changes to legal aid in England and Wales since the early 2000s. Originally 80% of the population qualified for legal aid (although the areas of law covered were more limited) but that proportion declined as means testing became progressively tougher in an attempt to reduce public expenditure (Bowcott, 2018). Around 45% were eligible for legal aid in the early 1990s and some estimate that now only around 20% are eligible (Bowcott, 2018). Concerns were raised about the size of the legal aid budget, the level of fees legal professionals were charging and that generous legal aid was encouraging unnecessary and adversarial litigation at public expense. Under the previous Labour government (1997-2010), a new fixed fee regime was introduced from 2006, whereby legal professionals are paid a fixed fee for their services depending on the type of case. Under the Conservative and Liberal Democrat coalition government, this was followed in 2011 by a 10% cut in fee rates across all legal aid services. By far the largest reforms are included in the Legal Aid, Sentencing and Punishment of Offenders (LASPO) Act 2012, which came into force in April 2013. The aim of the changes introduced in this Act was to cut the legal aid budget by £350 million. In relation to legal aid, the Act:

- removed financial support for most cases involving housing, welfare, medical negligence, employment, debt and immigration;

- removed financial support for most private family law cases, other than in situations involving domestic abuse allegations which have to meet strict qualifying criteria;
- changes to the means test (gross income cap and capital means test, which is more stringent than other thresholds in the welfare system and includes some home equity);
- further reduction to legal fee rates.

The Labour party commissioned a review of LASPO in autumn 2015 which was led by the former justice minister Lord Bach (the Bach Commission). The Commission focused on how the LASBO Act had severely restricted eligibility and scope of legal support. It recommended widening the scope of legal aid, with a focus on early legal help and reforming the eligibility requirements for legal aid (Bach Commission, 2017). The commission called on the government and other political parties to ensure minimum standards on access to justice are upheld through a new Right to Justice Act. The new Act would codify existing rights to justice and “reasonable legal assistance”, accompanied by a new justice commission which would monitor and enforce those rights.

In Labour’s 2017 general election manifesto they committed to:

- Re-establish early advice entitlements in the Family Courts.
- Reintroduce funding for the preparation of judicial review cases.
- Review the legal aid means tests, including the capital test for those on income-related benefits.

Since the 2017 election Labour has committed to restoring legal advice in all housing and welfare benefit cases, which they assessed would help around 90,000 claimants each year. In addition, they have made a commitment to automatically make legal aid available for deaths that occur in state custody (around 500 each year). In September 2019, Labour’s Shadow Justice Secretary announced that Labour would reverse all of the cuts to legal aid-funded Early Legal Advice within the first 100 days of a Labour government.

In 2015, in their general election manifesto, the Conservative Party said it would “...continue to review our legal aid systems, so they can continue to provide access to justice in an efficient way.” (p.60). The only mention of legal aid in the Conservative’s 2017 general election manifesto was: “*We will strengthen legal services regulation and restrict legal aid for unscrupulous law firms that issue vexatious legal claims against the armed forces*” (p.41).

The Conservative government has made some further changes since LASPO was introduced such as broadening the evidence requirements for claimants suffering domestic violence for certain family proceedings and expanding legal aid scope for prisoners (MoJ, 2019b). A post-implementation review of LASPO was published in 2019 (MoJ, 2019b).

3. Type of intervention

Public expenditure/legislation

4. Level

Sub-national. Different rules for legal aid apply across UK countries as law and order is a devolved matter outside England and Wales. In Scotland and Northern Ireland, legal aid is more generous and LASPO changes do not apply.

5. Public Support

Prior to 2013, legal aid was available for almost all areas of law, with a few specified exceptions. LASPO transformed this system by making legal aid available for a much smaller and more specific list of legal areas. These changes were widely criticised by many individuals and organisations, including the law profession and led to industrial action. For example, in January 2014 thousands of criminal case lawyers protested against planned cuts to legal aid by not participating in cases. This was the first such protest in the history of the UK criminal bar.

Concern was raised about the impact of LASPO changes on the supply of legal services, the impact on litigants and potential miscarriages of justice. As the Law Society put it, for those with legal issues outside the scope for legal aid “people now have a stark choice: to pay for their own legal advice, represent themselves, or be excluded from the justice system altogether.” (Law Society, 2017, p.6). Other criticism focused on the uneven playing field that it creates as wealthy individuals are able to spend more on fees and expert advice (for them fee rates are not fixed), with the outcome of these cases now being influenced by bank balances, as well as the relevant facts.

In national opinion polls conducted in 2010 and 2012 by GfK NOP on behalf of the Legal Action Group (LAG), respondents were asked their views on civil legal advice services. 84% of respondents in 2010 and 82% in 2012 believed that free advice on common civil legal problems should be available to everyone, or at least to those who earn less than average national income (LAG, 2012).

Support for State funding for legal advice

	2010 opinion poll survey	2012 opinion poll survey
Everyone should be entitled to free advice regardless of how much they earn	41%	45%
Advice should be free only to those people who earn less than the average national income (£25,000)	44%	37%
These services should only be free to those people on benefits	9%	10%
These services should not be free to anyone	5%	6%
Do not know	2%	2%

Source: LAG (2012), reproduced from Table 6, page 5

Note: survey question “Good legal advice is very important to anyone in a court case, but it can be very expensive. When people cannot afford to cover the cost it is mainly paid for by legal aid and other government funding, but as you may be aware there is pressure on legal aid and other public services due to budget cuts. Please tell me which one of the following you agree with?”

In 2014 Ipsos-Mori conducted a public opinion poll (1,000 people), funded by the Law Society for charity Legal Action Group, which found a decline in public support for the government’s cuts to legal aid. Less than one quarter (23%) of respondents agreed with the cuts, which was down from a third (33%) in the same poll carried out in April 2013 (at the time the LASPO Act 2012 came into force). In 2013, 44% of respondents disagreed with the statement that legal aid should be cut to reduce the spending deficit, compared with 49% in 2014 (Law Society Gazette, 2014). A 2015 public opinion poll conducted by YouGov on behalf of the Criminal Law Solicitors’ Association (CLSA) found that 84% of people saw

access to justice as a fundamental right of all British Citizens. In addition, 89% of respondents agreed that legal aid was either very or fairly important.

A Populus public poll conducted in 2018, on behalf of the Law Society, Bar Council and Chartered Institute of Legal Executives (CILEx), found that:

- 78% agreed that 'Justice is just as important as health or education'
- 76% agreed that 'People on low incomes should be able to get free legal advice'
- 63% said they would feel uncomfortable dealing with the law and legal processes themselves if they were accused of a crime for which a judge could impose a custodial sentence
- Only 13% agreed that 'the state should not have to pay for people's legal expenses if they are accused of an offence that could earn jail time'
- 60% agreed that 'people on low incomes are more likely to be convicted of crimes than wealthy people'.

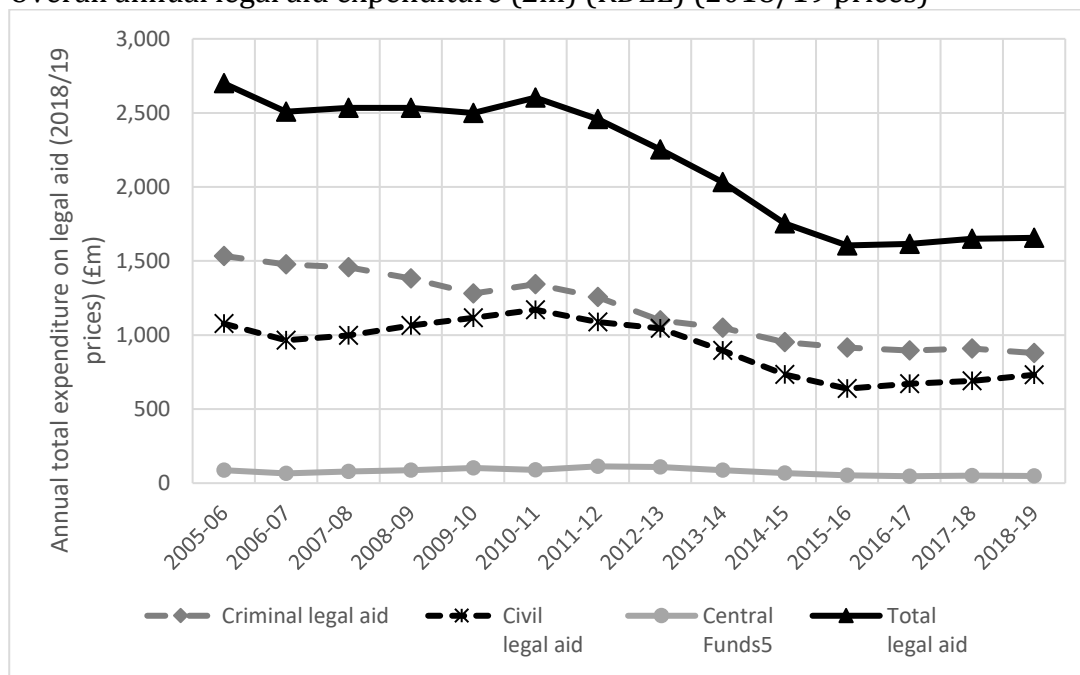
(Law Society, 2018)

6. Evidence of effectiveness

As legal aid has been available in England and Wales since 1949, it is hard to find good evidence on the impact of legal aid on providing access to justice for those on a low income. Here we focus on evidence of the impact of cuts to legal aid resulting from the LASPO Act since 2013/14. Evidence that these cuts have had a negative impact can be interpreted as evidence that increasing legal aid will be effective in improving access to justice for those on a low income.

The recent reforms (along with falls in crime rates – see, for example, Duque and McKnight, 2019) have led to a large reduction in legal aid expenditure from around 2010/11 to 2015/16 (see Figure below). This reduction is shaped by changes to the scope of civil legal aid introduced by LASPO Act from 2013/14 and prior changes to fixed fee rates. LASPO reforms led to reductions in criminal legal aid workloads and reductions in the fees payable to legal aid providers. Expenditure has increased slightly over the last year.

Overall annual legal aid expenditure (£m) (RDEL) (2018/19 prices)



Source: Ministry of Justice (2019) Legal Aid Statistics quarterly, England and Wales (April to June 2019)

Note: RDEL stands for Resource Departmental Expenditure Limit and relates to current expenditure from within the annual Departmental Expenditure Limits that are set by the Treasury for each government department. RDEL excludes Annually-Managed Expenditure which broadly covers unpredictable or uncontrollable expenditure.

As a consequence of the LASPO reforms there has been an increase in the number of people representing themselves because they no longer qualify for legal aid and cannot afford to pay legal fees. This has implications for justice as the fact that rising numbers of litigants in person create a substantial burden on the courts, and a lack of early advice can result in minor problems escalating quickly, particularly in relation to debt, housing and health (Law Society, 2017, p.24). Litigants in person often struggle to understand their legal entitlements and the complexities of court procedures (Law Society, 2017, p.25). As the House of Commons Justice Committee noted, Litigants in Person (LIPs) had previously chosen to represent themselves but now many were forced to do so because they could not get legal aid (House of Commons Justice Committee, 2015).

The National Audit Office has conducted an assessment of legal aid reforms and finds that although it was difficult to estimate the impact on civil law court cases due to limited available data, they were able to ascertain an overall increase in the number of LIP in family courts:

- Across all family court cases there was a 30% increase in cases in which neither party had legal representation (2013-14 compared with 2012-13).
- 80% of all family court cases starting in the January–March quarter of 2013-14, included at least one party that did not have legal representation.
- For cases involving contact with children (Children’s Act private law matters), 8,110 more court cases started with neither party represented; an increase of 22 percentage points from January–March 2012-13 to January–March 2013-14.
- An increase in the number of cases involving contact with children that were contested. In the final quarter of 2012-13, 64% of cases starting in this area of law were contested. This rose to 89% in the corresponding quarter of 2013-14. NAO (2014, p.15).

They also found that Litigants In Person are:

- Less likely to settle cases outside of court hearings;

- Likely to have more court orders and interventions in their cases;
- Likely to lack the knowledge and skills required to conduct their case efficiently;
- Create additional work for judges/court staff, which can make court listing processes less efficient.

The Law Society conducted a review of LASPO in 2017, finding that: (1) Legal aid is no longer available for many of those who need it; (2) Those eligible for legal aid find it hard to access it; (3) Wide gaps in provision are not being addressed (so-called legal aid deserts); (4) LASPO has had a wider and detrimental impact on the state and society.

The report makes 25 recommendations to government, which include increasing children's access to legal aid, reintroducing legal aid for early advice, and improving Exceptional Case Funding and making changes to the legal aid means-test. They cite evidence that changes to civil legal aid has wider implications whereby unresolved civil legal problems for young people have been shown to be linked to increased likelihood of criminal behaviour (Law Society, 2017, p.10).

7. Cost

Estimates of the cost of restoring some of the legal aid entitlements which were available prior to LASPO have been made. As part of the Bach Commission, the Fabian Society estimated the costs of recommendations made by the Commission which proposed that some but not all of the LASPO cuts to legal aid should be reversed (Bach Commission, 2017). The recommendations included: a “more generous assessment scheme” for civil legal aid; all benefit recipients automatically qualifying for legal aid; all cases relating to children being brought back into the scope of legal aid; capital assessments for legal aid entitlement, which include the values of homes, being scrapped; entitlement to early legal help being restored in all areas cut by LASPO, including debt, employment, welfare benefits, immigration and housing, family law, and for certain prisoners’ cases. They estimate that the cost will be around £400m per year (Bach Commission, 2017). The main elements of the extra costs are £120m for widening the scope of early legal help, £110m for extending eligibility for civil legal aid, £60m for limited widening of the scope of civil legal representation and £50m for a national fund for advice services (Bach Commission, 2017). However, they identified that there will be some cost savings as a result of early legal advice often preventing disputes escalating into costly court cases and fewer litigants in person. The National Audit Office estimated that in 2013-14, the increase in Litigants in Person in family law courts had cost the MoJ £3.4m (the NAO were unable to estimate the additional cost due LIPs in civil law courts due to lack of data (NAO, 2014).

Overall assessment of cost: Medium

Overall

Increasing legal aid would help to increase access to justice for low income individuals. Recent cuts to legal aid have exacerbated inequalities through increasing the number of litigants in person (the cost of which is borne elsewhere) and the risk of miscarriages of justice. There is strong public support for legal aid and a growing objection to the cuts that have been introduced as a result of LASPO. This support could be an important facilitation factor in increasing legal aid for the least advantaged. The Labour party has pledged to restore some of the cuts and the Conservative government is conducting post implementation assessments of LASPO reforms. The Bach Commission recommended a number of important reforms such as removing the capital means-test for benefit recipients, widening the scope of legal aid. All of which would reduce unequal access to justice.

6.2. Abolition of short custodial sentences

1. Relationship to poverty/ inequality mechanisms	<p>Increases in punitive preferences linked with rising economic inequality has led to an increase in more offenders serving short custodial sentences. High reoffending rates, and the disruption these sentences cause to individuals' lives elevate the risk of poverty in the long term.</p>
2. Party Political Support	<p>There has been a shift away from support for short custodial sentences by the main political parties. In Scotland there is now a presumption against their use. The Conservatives, under previous Prisons and Justice ministers, have indicated that they would support replacing short custodial sentences with alternative forms of punishment but have not progressed further, apart from reforms included under the Female Offender Strategy. The Labour party has announced that it would introduce the assumption against short custodial sentences, except in for cases involving sexual abuse and violence.</p>
3. Type of intervention	<p>Legislation</p>
4. Level	<p>Sub-national (Law and order is a devolved matter outside England and Wales)</p>
5. Public Support	<p>In general, public opinion polls find that people hold what appear to be conflicting opinions. On the one hand, they report a desire for very punitive sanctions and think that the current regime is too lenient. On the other hand, they put emphasis on sanctions which rehabilitate (particularly concerning young people). In a recent poll, nearly three-quarters of the public expressed the opinion that people with drug or alcohol addictions belong in treatment programmes instead of prison. 80% thought think that theft of daily essentials such as food, sanitary products and nappies does not warrant a prison sentence (this was true for voters across all the major parties). Although the public have expressed doubts about the effectiveness of Community Orders, convincing some sections of the media that abolishing short custodial sentences may be harder than convincing the general public.</p>
6. Evidence of effectiveness	<p>Short custodial sentences are still widely used in England and Wales; one in three offenders who are given a custodial sentence are sentenced to less than three months in prison, half receive a custodial sentence of less than six months. Rates are even higher for women. Many serving short custodial sentences are vulnerable people with complex needs which include poor mental health, personality disorders, addiction and substance abuse, special educational needs, care leavers and exclusion from school. Many have received a custodial sentence for committing non-violent crimes.</p> <p>The proven reoffending rate among adults who were released from a custodial sentence of less than six-months between July and September 2017 was 64.8%. These rates are higher than reoffending rates to those given community orders or a suspended sentence for the same offence. Despite extending rehabilitation and supervision to those released from short-custodial sentences, reoffending rates remain high and the model of contracting out these services to Community Rehabilitation Companies has not proved to be a success. The Ministry of Justice own estimates show that there would be over 30,000 fewer crimes each year by replacing short custodial sentences of less than six months with community orders.</p>
7. Cost	<p>Potential for cost savings</p>
Overall	<p>Short-custodial sentences are associated with very high reoffending rates. These rates are much higher than rates for different forms of sentencing used for the same offence (for example, community</p>

	<p>orders). This means that the claim that incarceration keeps the public safe is largely a fallacy in these cases. Prison places are expensive and reoffending costs are high. Short-custodial sentences have long-term negative impacts on prisoners’ lives, increasing the risk of long-term poverty.</p> <p>In Scotland there is now a presumption against custodial sentences of less than 12 months, except in exceptional cases. Despite support for introducing similar legislation in England and Wales, expressed by previous Prisons and Justice Ministers, no change in policy has been made and short-custodial sentences are still widely used.</p>
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1. Relationship to poverty/ inequality mechanisms

Higher economic inequality has been found to be associated with increases in punitive preferences, leading to greater use of prison sentences including the use of short custodial sentences (up to one year) for minor offences (Duque and McKnight). Concern has been raised about the effectiveness of short custodial sentences for minor convictions and their long term impact. Custodial sentences negatively affect ex-offenders’ employment prospects, families and psychological well-being. Evidence shows that they have long-run negative effects, both for the individuals concerned and for society more broadly (see for example evidence reviewed in (House of Commons Justice Committee, 2019)). Short custodial sentences, with or without supervision on release, have the highest reconviction rates among adult prisoners (MoJ, 2013a) and higher rates of reoffending than sentences served in the community via ‘court orders’ (community orders and suspended sentence orders) (Mews et al., 2015; Eaton and Mews, 2019). These high rates of reoffending increase the risk of a vicious circle of offending and long term poverty.

If short custodial sentences lead to higher rates of reoffending than community sentences served for the same crime, then the idea that custodial sentences will keep the public ‘safe’ is misplaced. One of the factors here is that those serving short custodial sentences often suffer from addiction, homelessness, poor mental health and debt problems (HMI Probation, 2016). Despite recent reforms to rehabilitation, prisoners serving short sentences face on their release the same challenges, if not more due to the impact of imprisonment on family relationships, employment and finances, i.e. factors that contributed to them committing crime in the first place.

Overall, the increase in punitive preferences linked with economic inequality has led to an increase in more offenders serving short custodial sentences. High reoffending rates, and the disruption of short sentences to individuals’ lives elevates the risk of poverty in the long term.

2. Party Political Support

As a result of sentencing reforms in England and Wales, there have been increases in the use of short custodial sentences since the 1990s, under both Labour and Conservative governments, reflecting a shift towards a harsher penal policy (see, for example, Duque and McKnight, 2019).

As more evidence has become available on the high reoffending rates associated with short custodial sentences, reforms have been introduced in Scotland. These reforms have meant that since 2011 judges have been instructed not to impose sentences of three months or less, unless no other punishment is deemed “appropriate”. In 2019 the Scottish government extended this presumption to sentences of 12

months or less, a move that was opposed by Scottish Conservatives claiming that the government was "taking a risk with the safety of the public" (BBC, 2019).

In 2019, the then, Conservative Prisons Minister Rory Stewart told the House of Commons Justice Committee that he wished to see a reduction in the use of short prison sentences of 12 months or less in England and Wales *"in recognition of research evidence that they make people more likely to commit crime"*. He said he saw a *"very strong argument both on public protection and on the economic benefits"* and concluded that community sentences are more effective and cheaper. He also indicated that he would like to consider abolishing sentences of less than six months, except in exceptional circumstances, through legislative means, if necessary (House of Commons Justice Committee, 2019, p.93).

In a speech in February 2019, the then Minister of Justice David Guake said *"In the last five years, just over a quarter of a million custodial sentences have been given to offenders for six months or less; over 300,000 sentences were for 12 months or less. [...] For the offenders completing these short sentences whose lives are destabilised, and for society which incurs a heavy financial and social cost, prison simply isn't working."* (David Guake, 2019).

The Conservative government is exploring alternative approaches to short sentencing. For example, the Female Offender Strategy seeks to reduce the use of short sentences for women through using a more preventative, community based approach. In addition, a 2-year £6 million pilot scheme was launched in 2018 under which prisoners serving very short sentences receive support to ensure that they are signed up to benefits, given employment support and have bank accounts before they leave prison (Through the Gate Resettlement Services). However, so far, the Conservatives have stopped short of abolishing short sentences.

In March 2019 Labour launched a consultation on "Building an Effective Criminal Justice System" to explore justice reforms (The Labour Party, 2019a). That review concluded with the recommendation that Labour adopt a Scottish-style presumption against short sentences and develop alternatives to custody. This led to an announcement at Labour's party conference in 2019 that it plans to end short prison sentences by legislating for a presumption against custodial sentences of less than six months. This would not apply to those who have committed violent or sexual offences. A commitment which was included in Labour's 2019 General Election manifesto (The Labour Party, 2019b). The Labour party also committed to invest in alternatives to custodial sentences that have been proven to reduce reoffending, including further funding for the Female Offender Strategy, women's centres and problem-solving courts designed to tackle the root causes of offending.

3. Type of intervention

Legislation

4. Level

Sub-national (Law and order is a devolved matter outside England and Wales)

5. Public Support

No opinion polls asking the public directly what they think about abolishing short custodial sentences were found during the course of this review. We therefore review more general evidence on the public opinions on sentencing and the use of custodial sentences.

In general, public opinion polls find that people hold what appear to be conflicting opinions. On the one hand, they report a desire for very punitive sanctions and think that the current regime is too lenient. On the other hand, they put emphasis on sanctions which rehabilitate (particularly concerning young people).

For example, Ipsos MORI Scotland surveyed a representative sample of 1000 Scottish adults in 2019 to better understand public knowledge of and attitudes to sentencing in criminal cases (Ipsos MORI Scotland, 2019). They found that the majority of the public (56%) think that sentences handed out by the Scottish Courts are too lenient and the public is sceptical about the effectiveness of community sentences as a deterrent measure (48% think they do not reduce reoffending). However, when asked about the sentence they thought ought to be given in a number of specific cases, the most common answers tended to be broadly in line with the sentences likely to be imposed in practice. In addition, they found that people tend to over-estimate the proportion of sentences that result in a prison term (the average estimate was 30%, compared with the actual 2017-18 figure of 14%) (Ipsos MORI Scotland, 2019). Respondents felt that the single most important aspect of sentencing was public protection (50%), with a quarter reported that rehabilitation of the offender was the most important. Over half of respondents (53%) reported that they knew a little or nothing at all about the sentences given to people convicted of crimes in Scotland (Ipsos MORI Scotland, 2019).

Results from an IPSOS Mori Poll conducted in Great Britain in 2019 on moral issues were contrasted with results from a similar poll conducted in 1989. The analysis of these two polls finds that capital punishment is the only issue in the survey that saw a significant increase in 'moral disapproval' (Duffy, 2019). In 1989 only 22% thought that capital punishment was morally wrong but by 2019 this share had increased to 37% (Duffy, 2019). However, it is striking to note that in 2019 nearly two-thirds of the population (63%) do not think that capital punishment is morally wrong.

A Populus Poll of 944 adults in England and Wales in 2018, commissioned by Revolving Doors Agency found that:

- 80% of the public think that theft of daily essentials such as food, sanitary products and nappies does not warrant a prison sentence (this was true for voters across all the major parties);
- 74% of the public think people with drug or alcohol addictions belong in treatment programmes instead of prison;
- A majority of voters said they were likely to vote for an MP candidate that supported reducing prison populations and using the savings to invest in drug treatment and mental health programmes (only 16% said they were unlikely to do so). Each of the major parties had more people likely to support this policy than unlikely to do so.

(Revolving Doors Agency, 2018)

The opinions of some sections of the media may be harder to shift than the general public. As the former Chair of the Sentencing Council reported to the House of Commons Justice Committee:

"Using less prison may be "a very hard sell," observing "[t]he very difficult part of that is the attitude of large sections of the media, which are very critical of sentencing and see most of it as overlenient."
(House of Commons Justice Committee, 2019)

The Committee reported the example of an article in the Daily Mail following their discussion with the Prisons Minister about his proposals for reducing the use of short-prison sentences, carried the headline *'A green light for criminals': Anger as justice minister calls for most sentences of less than a year to be axed to cut jail population*, despite the content of the article being more balanced. In response to the Committee, Rory Stewart agreed that the Ministry of Justice had a "role in leading, shaping and making powerful arguments for why an ever-growing prison population is not in the interests of the public, including victims and wider society". Nevertheless, "he believed that the public were likely to become more punitive over the next 15 years, making that argument more difficult." (House of Commons Justice Committee, 2019).

6. Evidence of effectiveness

Over the past 25 years, the prison population in England and Wales has almost doubled in size; from 44,246 in 1993 to 82,384 in December 2018 (House of Commons Justice Committee, 2019). Short custodial sentences are still widely used in England and Wales; one in three offenders who are given a custodial sentence are sentenced to less than three months in prison, half receive a custodial sentence of less than six months (Parliament, 2018). The rates are even higher among women offenders, with half receiving a three-month custodial sentence or less, and two-thirds receiving a custodial sentence of six months or less (Parliament, 2018).

Many serving short custodial sentences are vulnerable people with complex needs which include poor mental health, personality disorders, addiction and substance abuse, special educational needs, care leavers and exclusion from school (HMI Probate, 2019). Many have received a custodial sentence for committing non-violent crimes. For example, almost half (47%) of women sentenced to a short custodial sentence have committed shoplifting (MoJ, 2018a). Examples of imprisonment for non-payment of council tax, fines, and children not attending school are still being reported (House of Commons Justice Committee, 2019). In giving evidence to the House of Commons Justice Committee, Nacro (a national social justice charity) explained that family relationships, employment and accommodation may be put in jeopardy or lost as a result of serving a short sentence, and these sentences are too short for the delivery of meaningful work to address the triggers to reoffending (House of Commons Justice Committee, 2019, p.93).

Steps have been taken to address rehabilitation of short-sentence prisoners. Following the *Offender Rehabilitation Act 2014*, all prison leavers in England and Wales, who serve more than one day in prison, should be provided with a minimum of 12 months statutory supervision. Prior to this, only prisoners who received sentences of a year or more were supervised on release by probation staff. As part of the *Transforming Rehabilitation* strategy, the government also restructured the probation service including the introduction of private providers to "encourage innovation and creativity". A new National Probation Service (NPS) which handled high risk of serious harm cases and those subject to Multi-Agency Public Protection Arrangements (MAPPA). 21 Community Rehabilitation Companies (CRCs) were contracted to manage most other medium and low risk of serious harm offenders with most short sentence prisoners fitting under this category. The CRCs were tasked with offering a resettlement service for short-term prisoners which was meant to start from the point these individuals entered prison. CRCs are paid a service fee and an additional payment by results which depend on future reoffending. Under their contracts, CRCs must (1) prepare a resettlement plan, within five working days of the screening being completed by prison staff; (2) help prisoners find post-release accommodation; (3) help prisoners retain employment held pre-custody and gain employment or training opportunities post-release; (4) provide help with finance, benefits and debt; (5) provide support for victims of

domestic abuse and sex workers; (6) undertake pre-release coordination. However, an official inspection of *Through the Gate Resettlement Services* for short-term prisoners in 2016 found little evidence of creativity or innovation, the needs (commonly complex needs) of individual prisoners were not being properly identified and planned for and too much emphasis was put on process, not enough was being done to help prisoners to get ready for release or to manage risks (for example, resolving debt issues, housing and risk of harm) (HMI Probate, 2016). The House of Commons Justice Committee examined the *Transforming Rehabilitation* reforms and concluded that the introduction of post-release supervision for prisoners who have served short prison sentences has failed to impact on reoffending rates and has diminished the level of service provided to those who were already eligible (House of Commons Justice Committee, 2018).

Ministry of Justice statistics show that reoffending rates remain very high among ex-offenders released from short custodial sentences. The proven reoffending rate among adults who were released from a custodial sentence of less than six-months between July and September 2017 was 64.8% (MoJ, 2019a). This is higher than the overall proven reoffending rate of 37.2% among adults released from custody or starting court orders. Most strikingly, reoffending rates, and the average number of reoffences, are higher for people who serve a short custodial sentence (with or without supervision on release), compared to those given community orders or a suspended sentence (Mews et al., 2015; Eaton and Mews, 2019). High rates of reoffending, creates further victims of crime. An official criminal justice joint inspection report published in 2016 found that among short-sentence prisoners included in the inspection sample, the average number of previous offences was 33 (HMI Probation, 2016). The Ministry of Justice estimates that there would be over 30,000 fewer crimes each year by replacing short custodial sentences of less than six months with community orders (Hansard, 2019).

The House of Commons Justice Select Committee has said that it supports the move to abolish “short, ineffective prison sentences” and has called on the government to “introduce a presumption against short custodial sentences” (p.98)(House of Commons Justice Committee, 2019).

7. Cost

There is considerable potential for cost savings as a result of abolishing most short sentences (only to be used in exceptional cases). Prison places are expensive with the average annual cost per prisoner £38,636 (MoJ, 2018b). Although there are costs associated with community rehabilitation and monitoring, these costs are considerably lower than the cost of prison places. Lower reoffending rates associated with community or suspended sentences than for short custodial sentences means that there are additional cost savings to be made. The Ministry of Justice estimates that the economic and social costs of reoffending is £18bn a year (MoJ, 2019b). The National Audit Office estimated in 2010 that that the economic and social cost of reoffending among people who serve short custodial sentences was between £7 billion to £10 billion a year (NAO, 2010).

A custodial sentence is the more costly option. In 2010, the National Audit Office estimated that a six-week stay in prison cost, on average, £4,500 (NAO, 2010, p.12). In contrast, a highly intensive two-year community order, involving twice-weekly contact with a probation officer, 80 hours of unpaid work and mandatory completion of accredited programmes was estimated to cost £4,200 per offender in 2008 (NAO, 2008). The estimated cost of a more typical one-year order involving probation supervision and drug treatment was estimated to be £1,400 (NAO, 2008).

Overall

Short-custodial sentences are associated with very high reoffending rates. These rates are much higher than rates for different forms of sentencing used for the same offence (for example, community orders). This means that the claim that incarceration keeps the public safe is largely a fallacy in these cases. Prison places are expensive and reoffending costs are high. Short-custodial sentences have long-term negative impacts on prisoners' lives, increasing the risk of long-term poverty.

In Scotland there is now a presumption against custodial sentences of less than 12 months, except in exceptional cases. Despite support for introducing similar legislation in England and Wales, expressed by previous Prisons and Justice Ministers, no change in policy has been made and short-custodial sentences are still widely used.

6.3. Improve rehabilitation

1. Relationship to poverty/ inequality mechanisms	<p>High rates of economic inequality have been found to be linked to harsher punitive preferences (punishment rather than rehabilitation). Lack of rehabilitation which contributes to high rates of reoffending and increases the long-run risk of poverty among ex-offenders, negatively impacts victims of crime and leads to high social and economic costs to society.</p>
2. Party Political Support	<p>All main political parties have expressed support for improved rehabilitation to reduce reoffending. A desire to portray themselves to the electorate as “tough on crime” is likely to be a factor limited progress.</p>
3. Type of intervention	<p>Public expenditure</p>
4. Level	<p>Sub-national (Law and order is a devolved matter outside England and Wales)</p>
5. Public Support	<p>Research on public attitudes has found that although the public’s opinions on punishment and rehabilitation are complex and sometimes contradictory, they are in general much less punitive than is often thought to be the case. Over half have expressed the view that extending rehabilitation is important because it reduces reoffending and nearly 40% because prisoners deserve a second-chance.</p>
6. Evidence of effectiveness	<p>International evidence suggests that penal systems which place a greater emphasis on rehabilitation rather than punishment manage to achieve much lower reoffending rates. Moving to a similar system would involve a wholesale restructuring and would require public support. Reducing reoffending is likely to involve more than improving rehabilitation in prisons, with better support for prison leavers. Although some have expressed the view that prisons aren’t suitable places for rehabilitation and others have pointed out that addressing the causes of crime are often outside of the remit of prisons, there is a growing evidence base on forms of rehabilitation which are associated with lower reoffending rates. Helping to increase the chance of prisoners finding work on release through increasing participation on education and training activities, or engaging in work activities in prison or on temporary release have been shown to be effective. In addition, helping prisoners on their release with accommodation, claiming benefit entitlements and engaging with appropriate services also help to reduce reoffending.</p>
7. Cost	<p>Medium – but would need to take into account any reduction in the costs associated with lower reoffending</p>
Overall	<p>Effective improvements to rehabilitation are likely to require a better understanding of what causes crime and how best to reduce reoffending while respecting the suffering of victims. Some forms of rehabilitation are already known to be effective: improving prisoners’ education and skills, engaging them in work activities both inside the prison and while on temporary release, and sending those addicted to drugs and alcohol on tailored programmes. Assisting prisoners on their release to secure accommodation, find work or claim benefits and engage with the appropriate services all help reduce reoffending. Official inspection reports are critical of the lack of rehabilitation that is happening in prisons and the governments model of contracting out rehabilitation to private providers for low risk prisoners, has so far failed to be effective. All political parties support rehabilitation to reduce reoffending and the public attitudes, although complex and sometimes contradictory, are in general much less punitive than is</p>

	often thought to be the case, expressing support for rehabilitation and giving prisoners a second chance.
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1. Relationship to poverty/ inequality mechanisms

High rates of economic inequality have been found to be linked to harsher punitive preferences with a focus on punishment rather than rehabilitation. Cross-country research on differences in punitiveness finds that income inequality has significant explanatory power, with tougher attitudes towards sentencing in the English speaking/common law countries fully explained by higher levels of income inequality in these countries (Van Kesteren, 2009). Since the 1990s overall crime rates in England and Wales have declined while prison populations have soared, which some see as proof that ‘prison works’ (Duque and McKnight, 2019). However, evidence disputes the claim that increasing incarceration is the main cause of falling crime rates and a review of the relationship between incarceration and crime levels estimated that the 22% increase in the prison population in England and Wales between 1997 and 2002 only contributed to a 5% reduction in crime over the same period even though overall crime fell by 30% (Carter, 2003). In 2012, the National Audit Office, in a comparison of international criminal justice systems across a number of advanced democratic nations, reported that there is no consistent correlation between prison numbers and levels of crime (NAO, 2012).

Effective rehabilitation could reduce existing high rates of reoffending and thereby reduce crime rates and the long-run risk of poverty among ex-offenders. Improved rehabilitation would reduce the high social and economic costs to society of high rates of reoffending.

Better investment in rehabilitation that led to lower reoffending rates would reduce these costs. Improving rehabilitation and reducing reoffending not only has benefits for societies (cost and impact on victims) but has the potential to reduce the long-run risk of poverty among ex-offenders.

2. Party Political Support

In 2014/15 the Conservative-Liberal Democrat coalition government introduced major structural reforms to the probation system in a set of reforms known as *Transforming Rehabilitation*. These included changes to who delivers probation services, who receives the services and when, and what is delivered as part of probation. The reforms also extended statutory rehabilitation to offenders serving custodial sentences of less than 12 months.

The delivery of probation services was split between the National Probation Service (offenders at high risk of harm) and Community Rehabilitation Companies (CRCs) (low and medium risk offenders). Outsourced probation services to private and voluntary sector providers was on the basis of a payment-by-results model (which included service fees). The hope was that the private and voluntary sector providers would introduce innovative rehabilitation services and be incentivised to reduce reoffending rates through a payment-by-results model (which included service fees).

The Labour Party, in their 2019 general election manifesto, said that they would consider the evidence on effective rehabilitation, particularly for prolific offenders. They pledged to reunify probation and guaranteed a publicly run, locally accountable probation service.

3. Type of intervention

Legislation/Public expenditure

4. Level

Sub-national (Law and order is a devolved matter outside England and Wales)

5. Public Support

Research on public attitudes has found that although the public's opinions on punishment and rehabilitation are complex and sometimes contradictory, they are in general much less punitive than is often thought to be the case (Esmée Fairbairn, 2005). In opinion polls and focus groups the public has been found to express support for drug rehabilitation and education programmes for young offenders.

In a 2001 Ipsos MORI poll the majority of respondents reported that they thought better parenting 60% would do most to reduce crime, 55% thought more police, 45% thought better school discipline and 41% thought more constructive activities for young people and more police on the beat, with only 8% suggesting more offenders in prison as the answer (Ipsos MORI, 2001). 53% strongly/tend to agree that people come out of prison worse than they go in (Ipsos MORI, 2001).

In 2015 an opinion poll conducted by OnePoll found that 83% of respondents supported the government's plan to provide statutory rehabilitation on release for all offenders sentenced to less than 12 months in custody; 54% supported the policy because they believed it would reduce reoffending and 38% supported it because they believed that ex-prisoners deserve another chance (OnePoll, 2015).

6. Evidence of effectiveness

In broad terms there is strong evidence that a country's approach to offender rehabilitation can be effective at reducing reoffending. Scandinavian countries which have a much stronger focus on rehabilitation of prisoners rather than punishment, manage to achieve much lower rates of reoffending. For example, the reported two-year reconviction rate in Norway is just 20% (SCCJR, 2012). In the UK and the US, rehabilitation is much more limited and reoffending rates are much higher (Deady, 2014).

In recent years, with increases in overcrowding in prisons in England and Wales, it has been harder for the prison service to deliver effective rehabilitation services. With increased overcrowding and budget cuts rehabilitation services are often the first to be pared back (HoC, 2012). In addition, despite attempts to 'transform rehabilitation', recent reforms have not always been successful (for example, reforms to the delivery of probation services) and a positive transformation of rehabilitation services is still missing.

Sir Martin Narey, a former director general of the Prison Service, has said rehabilitation of offenders in prisons does not work and should be scrapped: "*research to establish a causal link between rehabilitation and reduced reoffending is lacking and short courses cannot fix problems caused by difficult childhoods*" (The Guardian, 2019). Instead, he says, prisoners should be held in decent and safe prisons and be treated with decency and dignity. Others also support the view that to reduce crime and reoffending, many of the most effective solutions lie outside the criminal justice system (see, for example, Moore, 2016). In 2018, the Justice Committee highlighted the fact that issues facing offenders on probation are

not all within the gift of probation services to resolve, and therefore a cross-Government approach is needed and organisations need to work together (House of Commons Justice Committee, 2018).

The view that prisons do not have a role to play in the rehabilitation of prisoners is not shared by everyone and the Ministry of Justice has reviewed some of the evidence on what types of rehabilitation are effective at reducing reoffending (MoJ, 2013b). They found good evidence that a wide range of drug interventions, and cognitive skills programmes have a positive impact on reducing reoffending. They also found evidence that violence can be reduced through psychosocial interventions, such as anger and emotional management, developing interpersonal skills, and social problem solving. However, a lot of the evidence on interventions, although in some cases promising, was mixed or there was insufficient evidence.

Some of the most promising forms of rehabilitation include education and skills programmes, and work activities. Prisoners enter prison with very low levels of educational attainment (Prison Reform Trust, 2019). Improving their levels of education and skill can help increase their chances of finding work on release and thereby reduce reoffending rates. However, the share of ex-offenders who find employment upon release is very low. Research using longitudinal data collected from a cohort of longer-sentenced prisoners (sentenced to between 18 months and four years) found that the biggest predictor of a prisoner finding employment shortly after release (31% had found work) was whether they were employed prior to going into custody (Brunton-Smith and Hopkins, 2014). Other factors directly associated with a greater likelihood of being in employment after release were identified:

- *Participation in paid work in custody.* Prisoners who had worked while in prison were more likely to be in employment shortly after release.
- *Vocational training in custody.* Prisoners who had attended vocational training in prison were more likely to securing employment shortly after release.
- *Accredited programmes to address offending behaviour and reduce drug or alcohol use in custody.* Prisoners enrolled on accredited programmes to address offending behaviour and to reduce drug or alcohol use were more likely to be in employment shortly after release.
- *Prisoners' living arrangements after custody* were associated with employment on release, with those who reported being homeless shortly after release less likely to be in employment compared with those who were in more stable accommodation.
- *Qualifications before custody.* Prisoners who had reported holding school-level qualifications (GCSE and A levels) were more likely to be in employment shortly after release (compared with those with no qualifications).
(Brunton-Smith and Hopkins, 2014).

Joint research by the Ministry of Justice and the Department of Education finds that taking part in a further education learning activity in prison reduces reoffending rates by nearly 10 percentage points (MoJ and DfE, 2017). The most common course taken (round 70%) were at entry or NVQ level 1, equivalent to an entry level certificate or a D-G grade at GCSE. Around one half took a course in the subject 'Preparation for Life and Work', which includes basic skills. Suggesting that education courses do not need to be at an advanced level to have an impact on reoffending rates. One group that didn't have a lower reoffending rate as a result of participating in learning was drug users. For this group, other forms of rehabilitation, such as specific drug use interventions, are likely to be more effective at reducing reoffending as it is the dependency on drugs that causes this group to offend in the first place. This joint research uses linked administrative data and propensity score matching to help control for the possibility that selection into participation can bias the results. For example, if prisoners with a

lower propensity to reoffend chose to engage in learning activities than simple descriptive statistics comparing 'learners' with 'non-learners' would show a spurious correlation between learning events and reoffending. Although learners and non-learners can be matched on many characteristics (for example, gender, age, type of offence, sentence, employment and benefit claiming history) one factor which the analysts were not able to take into account was motivation or determination. It could well be the case that prisoners with a determination to seek a life on release that doesn't involve offending will choose to participate in learning activities. It is also likely to be the case that voluntary participation is important and that making these activities compulsory would be counter-productive.

What is concerning is evidence from the DfE, cited by the Prison Reform Trust (2019), that there has been a decline in the number of prisoners participating in learning activities (a drop of 12% between 2016-17 and 2017-18) and in the number who achieve a qualification (a drop of 13% over the same period). The number of English and maths qualifications achieved at level 1 or 2 (GCSE equivalent) has also declined—numbers have fallen by 29% between the 2011-12 and 2017-18 academic years. Only 200 achieved a level 3 qualification (AS and A Level equivalent) in the 2017-18 academic year via mainstream prison learning - a tenth of the number in 2011-12 (Prison Reform Trust, 2019).

Some reforms have tried to take an holistic approach. For example, the Aberdeen Problem-Solving Approach (PSA) aims to reduce the use of custodial sentences, and cut reoffending, by addressing the underlying problems linked with persistent offending. Rather than being given a custodial sentence, participants are given a deferred sentence while they engage with social workers and support workers to address the underlying problems linked to their offending (Eunson, 2018). These approaches are promising but the challenge of balancing the public and political desire for punishment with sufficient investment in rehabilitation remains. What is clear is that the media and the public need to be better informed about the structural causes of crime and the most effective forms of punishment and rehabilitation. The point Sir Martin Narey makes about the challenges of fixing 'problems caused by difficult childhoods' through short courses is a good one. Clearly structural causes of crime and reoffending cannot be solved through 'quick fixes' but need greater investment.

In 2016 the RSA and Transition Spaces collaborated on a project designed to explore how prisons in England and Wales could better support rehabilitation (the Future Prison project). They conclude that the potential impact that prisons could have on reducing reoffending has been undermined by a lack of consistent political leadership and clear purpose (O'Brien and Robson, 2016). Among the recommendations they make is a rehabilitation requirement (a legal duty) that requires prisons and probation to track individual and institutional progress in relation to rehabilitation. They also recommend the development of community-based rehabilitative prisons, with greater devolution for prison governors and Police and Crime Commissioners, integrated health services, more consideration given to the location of prisons and their built environment, and greater engagement from local authorities, communities and employers (O'Brien and Robson, 2016).

The model of contracting out rehabilitation services on the basis of a payment-by-results model to CRCs has been beset with problems. In 2018 the House of Commons Justice Committee published a report assessing how the CRC model was working in practice. They concluded that they were unconvinced that the *Transforming Rehabilitation* (TR) model can ever deliver an effective or viable probation service. (House of Commons Justice Committee, 2018). A number of CRCs got into financial difficulty due to not hitting performance targets and because of the number of referrals were lower than expected. This forced the government to make contractual changes which the National Audit Office estimate will cost the government £342m in additional payments (NAO, 2017). With costs rising and only very small

reductions in reoffending rates but increases in the number of offences, the government announced in 2018 that it will end CRC contracts early (in 2020) but plans to go ahead with 10 new contracts.

The official inspection of prisons in 2018/19 found that *“Too many prisons continued to be plagued by drugs, violence, appalling living conditions and a lack of access to meaningful rehabilitative activity.”* (HM Chief Inspector of Prisons, 2019). Among the inspections key findings were:

- **Men’s prisons:** Too many prisoners were still being held in prisons that were unsafe. Levels of violence had increased in more than half the prisons inspected.
- **Respectful detention and living conditions:** Inspectors noted the positive impact of in-cell phones and electronic kiosks for prisoners to make applications, health care appointments, arrange visits and make complaints. However, far too many prisoners still endured very poor and overcrowded living conditions. Although around two-thirds of prisoners overall were positive about the way they were treated by staff, inspectors frequently found that prisoners from black and minority ethnic backgrounds had less positive views of their treatment and conditions. In addition, they found no clear strategy for older prisoners despite the growing share of this group in the prison population.
- **Purposeful activity:** Only a third of the adult male prisons inspected provided purposeful activity, which includes the provision of education, work and training, which was judged to be good or reasonably good.
- **Rehabilitation and release planning:** Overall, the inspectors found some progress but felt that much remained to be done, particularly around prisoners who presented a potentially high risk of harm to the public being released without a full risk assessment. Inspectors saw large cohorts of sex offenders in prisons where specialist interventions were not available.
(HM Chief Inspector of Prisons, 2019)

7. Cost

Initially high if good quality services are introduced. There is the potential for cost savings in the future from reduced crime and reoffending rates.

Overall

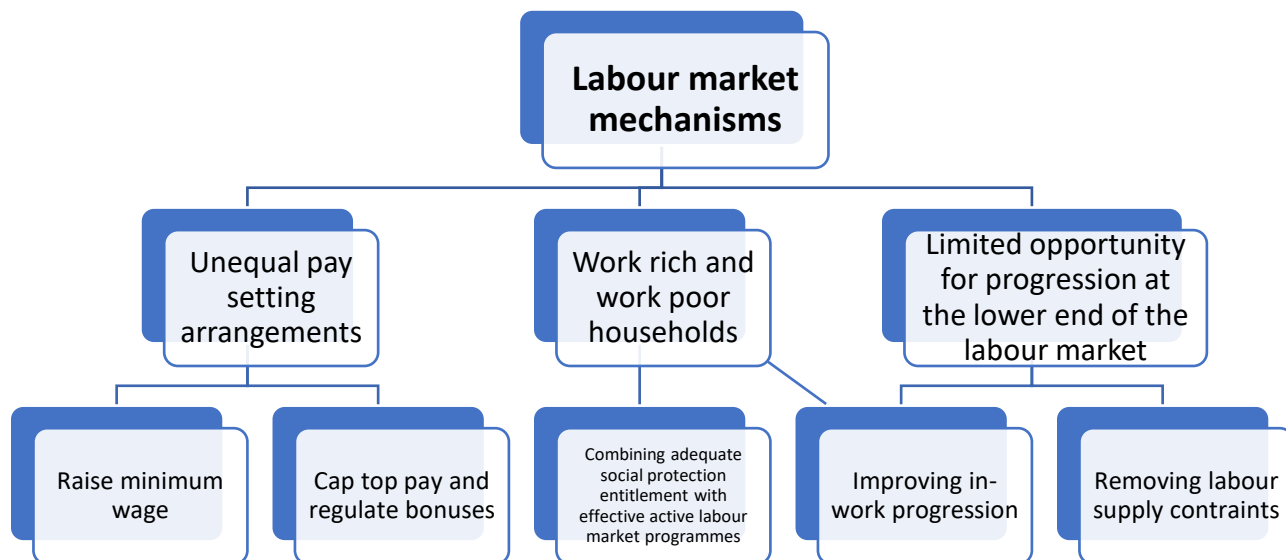
Effective improvements to rehabilitation are likely to require a better understanding of what causes crime and how best to reduce reoffending while respecting the suffering of victims. This is likely to vary across different types of crime and the characteristics of those who have committed the crime. Some forms of rehabilitation are already known to be effective: improving prisoners’ education and skills, engaging them in work activities both inside the prison and while on temporary release, and sending those addicted to drugs and alcohol on tailored programmes. Assisting prisoners on their release to secure accommodation, find work or claim benefits and engage with the appropriate services all help reduce reoffending. Official inspection reports are critical of the lack of rehabilitation that is happening in prisons and the governments model of contracting out rehabilitation to private providers for low risk prisoners, has so far failed to be effective.

7. Labour Market Mechanisms

People's position in the labour market and the market income they receive from their work contribute to determining their position in the income distribution and their risk of being in poverty. Different factors shape the labour market: globalisation and technological change are among the forces altering labour demand across countries, in terms of the types of jobs and skills required and in terms of the opportunities available in different places. These structural factors shape the economy and may favour different groups of people. The distributional consequences of these changes, however, depend on the country specific institutions and regulatory structures as well as on the welfare state. For instance, these institutional factors are invoked to explain cross-country differences that have seen inequality at the top of the earnings distribution increase more in countries such as the US and the UK than in continental Europe (Piketty, 2014; Atkinson, 2015). Individual factors, such as skills, health, family circumstances, and one's relative position of advantage and disadvantage – which for instance bears on social networks and resources available to navigate the labour market – interact with these structural and institutional factors with consequences for the opportunities and barriers to work that people face. Moreover, whether we take individuals or households as the relevant unit of analysis bears greatly on the picture that results from these factors – with significant consequences when it comes to researching and tackling poverty and inequality.

Both poverty and inequality are shaped by common factors such as level of pay, work intensity, stability of employment, family structure as well as the way in which these interact with the tax-benefit system. An unequal labour market drives rising wage inequality and higher market income inequality which in turn will require greater levels of redistribution if those at the bottom are not to lose out and fall into poverty. Indeed, Atkinson (2015) argues that it is not feasible to achieve substantial inequality reduction just through taxes and spending, and action on market rewards in terms of earnings and capital income is necessary. Hills et al (2019) also stress the limits of redistribution, as while there is considerable variance across countries in terms of the effects of taxes, benefits and other transfers, many countries with high levels of market income inequality also end up with high levels of inequality in disposable incomes and with them higher poverty risks. The discussion of resource constraints (§2) has emphasised how difficult it is to compensate for higher levels of market income inequality and achieve highly redistributive tax and benefit systems in practice. In turn, these mechanisms fuel life-cycle and intergenerational dynamics (§5) that see the increasingly unequal labour market outcomes shaped by the opportunities hoarded by the most advantaged, building up into wealth differences within generations and consequences for the intergenerational transmission of advantage and disadvantage. Labour market mechanisms also intersect with spatial disparities (§3) as, for instance, growth will concentrate in certain sectors and regions, presenting people with different opportunities (or lack thereof) with different capacities and resources to meet the challenges this presents.

Figure 1. Overview of drivers and policies related to labour market mechanisms.



Policy responses (Figure 1) can attempt to build more effective labour market institutions, for instance setting higher wage floors through minimum wage policy (§7.1): by affecting individual wage levels and the incidence of low pay, these measures could have an effect on both poverty and inequality. Other pre-distribution policies could redress power and wage imbalances between workers through regulation, for instance focusing on the top end and altering the dynamics that have seen a disproportionate rise in compensation for top executives and in certain sectors (§7.5). At the other end, policies could address the limited opportunity for progression, removing the labour supply constraints that hinder employment participation and career prospects (§7.2). In-work progression (§7.3) would break down barriers to better paid, higher quality employment, while also addressing the significant role that differences across households, in terms of work intensity, play in relation to both poverty and inequality. The design of cash transfer entitlements in conjunction with active labour market programmes (§7.4) also affect the prospects of work-poor households. Throughout, it will be important to understand individual and household dynamics – as many policy responses directly concern individual earnings, which can be related in complex ways to poverty and inequality at the household level.

Note: Policies §7.4 (Combining adequate social protection entitlement with effective active labour market programmes) and §7.5 (Removing labour supply constraints) are discussed in §5.6 and §5.5. respectively.

7.1. Raise minimum wage to 'living wage'

1. Relationship to poverty/ inequality mechanisms	Raising of minimum wages has the potential to have a double dividend – by reducing inequality at the lower end of the labour market and by tackling low pay, which can increase the risk of poverty and financial hardship.
2. Party Political Support	Minimum wage policies have gained popularity across the political spectrum – increases to minimum wages are a current trend that are likely to continue, at least until they reach 60% of the median wage.
3. Type of intervention	Employment regulation
4. Level	National
5. Public Support	Strong public support and, thus far, no strong opposition from employers – but large sectoral differences in terms of impact.
6. Evidence of effectiveness	Increases in minimum wages have limited impact on poverty and inequality, in spite of their in role in relation to extreme low pay and wage inequality at lower end of wage distribution.
7. Cost	Low/Medium
Overall	Despite public support and increasing popularity across the political spectrum, raising minimum wages would not solve all low pay problems and their effect on poverty and inequality is limited. Tackling in-work poverty also requires a focus on the role of household composition and work intensity, reflecting the fact that the cost of 'living' varies between households and therefore a very high minimum would be required to truly be a 'living wage'. In addition, minimum wages should not be considered in isolation from the tax and benefit system and are not substitutes for cash transfers because of their very different – and less progressive – distributional impact.

1. Relationship to poverty / inequality mechanisms

Low wage employment can increase the risk of poverty and financial hardship. Moreover, in light of rising concerns about in-work poverty in many countries, tackling low pay appears to be essential in an anti-poverty strategy. Statutory minimum wages have filled the void left by declining collective bargaining in many countries through protecting the lowest paid workers from exploitation and extreme low pay. They have the potential of reducing inequality at the lower end of the wage distribution and to nudge employers to higher-skill, higher-wage and higher-productivity strategies.

2. Party Political Support

The Conservatives aim to continue to increase the National Living Wage for adults aged 25 and over to 60% of the median wage by 2020 and then in line with any changes to the median, such that it remains at the 60% threshold. From April 2019 the NLW rate is £8.21 and is forecast to be £8.75 in 2020–21 according to the Office for Budget Responsibility (OBR). Smaller employers have had their employer National Insurance discounts increased to mitigate the higher costs of the National Living Wage, while penalties for employer non-compliance have been strengthened. The policy uses the term “living wage”, but this is calculated differently compared to the “real living wage” proposed by the Living Wage

Foundation and uses median UK wage rates rather than the cost of living. In the 2019 Spring statement the chancellor renewed the ambitious “ultimate objective of ending low pay in the UK”, intimating of a desire to increase the living wage further after 2020 and commissioned a [review](#) of the international evidence on the impacts of minimum wages (Dube, 2019).

Labour’s proposals in its 2017 and 2019 general election manifestos went further – aiming to raise the minimum wage to the ‘Real Living Wage’ at £10 per hour by 2020 for all workers aged 18 or over. The Conservatives, in continuity with the previous government, pledged further increases, albeit more gradual and smaller than in Labour’s proposals. Their 2019 manifesto pledged to extend the National Living Wage (NLW) to 21-24 year olds and raise it to two thirds of median wages by 2024. Both parties are moving away from the previous model of minimum wage setting in which the independent Low Pay Commission recommended minimum wage levels following considerations of potential negative consequences for employment levels.

The Liberal Democrats have presented a less committal strategy and suggested an independent review to consult on how to set a genuine living wage across all sectors as well as forcing employers to reveal “the number of people paid less than the Living Wage and the ratio between top and median pay”.

3. Type of intervention

Employment Regulation

4. Level

National

5. Public Support

Polls ahead of the 2015 reforms to increase the National Minimum Wage (NMW) (e.g. by [YouGov in 2013](#) - for the London Living wage - [and 2014](#)) reported significant support for a substantial increase: e.g. in the latter poll, 73% were in favour of raising it, 18% opposing it. While Labour supporters were the most supportive (95%), Liberal Democrat and Conservative voters also largely agreed with the policy (with over 70% and 60% supporting an increase respectively). 75% believed the minimum wage should have been at least at the rate recommended by the Low Pay Commission, while 35% believed it should have been higher, at the level suggested by the Living Wage Campaign. The [2018 British Social Attitudes Survey](#) finds that 71% support further increases in the national minimum wage.

[In November 2015](#) the Resolution Foundation and the Chartered Institute of Personnel and Development surveyed 561 employers (from private, public sector and voluntary sectors) in relation to the National Living Wage (NLW) – the minimum wage payable to workers aged 25 and over that was to come into effect in April 2016. They found that 54% of all employers surveyed believed that the NLW would have an effect on their wage bill, while 41% thought it would not. When asked how large the impact would be, 18% expected to be affected to ‘a large extent’ by the NLW, 22% predicted they would be affected to ‘some extent’ and 14% to a ‘small extent’. Surprisingly, the proportion of smaller organisations foreseeing to be affected was lower than the share of organisations with 250 employees or more (44% compared to 62%). However, the survey also indicated that smaller organisations also had a lower level of awareness of the NLW. These results also presented large sectoral differences, with the NLW emerging as likely to disproportionately affect the wages of those in hospitality, retail and other

low-paid sectors. More than three-quarters of employers in the retail (79%), hospitality (77%) and health and social care (68%) sectors reported that the higher wage floor would have an impact on them. In these sectors the proportion of employers saying they expected to be affected to a large extent increased from 18% overall, 33% in retail, 32% in hospitality and 25% in health and social care sectors. This contrasts with professional, scientific and technical services (3%), education (4%) and information and communication (6%) sectors.

The survey also asked about their planned actions in response to new higher wage floor. The most common response (30%) was to raise productivity (32% for larger organisations and 25% for smaller organisations). There were also differences across organisations of different sizes: for small firms, taking lower profits (26% contra 20% for larger firms) and raising prices (24% contra 10% for larger firm) were also mentioned as common strategies. These smaller organisations emerged as less likely to adopt reductions in overtime and bonuses (14% vs 18% for larger firms), reductions in the basic rate for the rest of the work force (6% vs 10% for larger firms), reductions in the number of employees through redundancies or limiting recruiting (10% vs 17% for larger firms). Smaller organisations were however more likely to say they would reduce the hours worked by staff (13% vs 7% for larger firms). With the NLW affecting those workers aged 25 and over, employers could report an increased preference for younger, cheaper workers. The survey did not find this to be the case: this was seen as short-sighted response, but there were concerns that rival firms might be tempted to hire younger workers.

6. Evidence of effectiveness

[In 2018](#), the National Living Wage (NLW) was 59% of the hourly rate of £14 per hour earned by full-time employees on the median wage, which represented an increase from 54% in 2017. In only four industrialised countries - France, Portugal, New Zealand and Australia - had a higher minimum hourly wage (as a proportion of average wages). Since the introduction of the NLW in April 2016, there has been strong wage growth for lower earners, and the largest fall in the number of workers in low pay in decades – at 18%, the share of employees is the lowest proportion since 1982, while the number of employees that are low paid fell for the first time since 2003 below 5 million (D’Arcy, 2018). At the same time, differentials between the lowest-paid employees and those on the next rung up the wage ladder have been maintained thus far. Despite this generally positive picture, there is little evidence of a strong effect of minimum wages on poverty and inequality.

McKnight et al’s (2016) evidence review covers a large literature addressing the relationship of minimum wages and both poverty and inequality. In relation to the latter, the review stresses, on the one hand, that minimum wages can reduce inequality in the lower part of the wage distribution particularly in the context of collective wage bargaining systems. Moreover, where minimum wage values have declined, wage inequality has increased (Piketty, 2014). However, in a reassessment of the US evidence for the period 1979-2012, Autor et al (2016) find that a declining minimum wage had only a modest effect on inequality, suggesting a substantially smaller role than previously thought: they conclude that while the minimum wage was certainly a contributing factor to widening lower tail inequality – particularly for women – it was not the primary one.

On the other hand, in order to have effects on wage inequality, minimum wages need to be set relatively high in relation to median pay (Dolton et al, 2012); they also need to raise the wages of a large enough group of workers, have spillover effects (with higher paid workers maintaining pay differentials) and

not be set so high as to lead to increases in unemployment. Evidence on spillover effects presents conflicting findings – in the UK context, these are not identified by Dickens and Manning (2004) or Stewart (2012), while Butcher et al (2012) find spillover effects up to the 25th percentile of the wage distribution. The timeframe of these assessments and the different assumptions about counterfactuals may explain these conflicting results.

In general, the literature finds a positive effect of minimum wages on inequality reduction in the lower tail of the wage distribution – minimum wages can be particularly effective at compressing the wage distribution for women in countries where women are concentrated in low pay jobs (Butcher et al, 2012). In the UK, Manning (2016) also confirms this dynamic, showing a clear impact of the 1999 NMW on wages – wage growth was stronger in low-wage segments of the UK labour market and consistent with the fall in wage inequality in the bottom half of the distribution in this period (Butcher, et al, 2012). McKnight et al (2017) show that, looking at hourly earnings inequality between 1997 and 2016, the 90th percentile of the ranked wage distribution earned around four times more than employees at the 10th percentile and this ratio remained stable between 1997 and 2011. Since 2011 the ratio has been falling (down to 3.6 in 2016), driven by a compression in the lower half of the distribution. The stronger wage growth among the lowest paid employees has likely been helped by the minimum wage creating a floor over a period marked by limited wage growth in real and absolute wages (McKnight and Gardener, 2015). However, the literature also emphasises the importance of understanding the relationship between income inequality and individual wage inequality. For instance, McKnight and Salverda (forthcoming) use EU-SILC data from the 2006-2013 period to examine the role of the labour market in shaping inequality trends in European countries since the financial crisis. They find that variation in income inequality is not directly determined by individual wage or annual earnings inequality or employment rates, but inequality in total household earnings. This means that income inequality reduction among the working age population requires more than reducing wage inequality and unemployment rates.

Microsimulation modelling, for instance in Atkinson et al (2017), support these findings. They use EUROMOD in the UK to evaluate the effects of a series of reforms, including raising the minimum wage to the, so-called, 'Living Wage', on its own or together with tax/transfer reform packages. They find only a modest effect of the minimum wage rise on its own: while 22% of households would see some income gain (with one third increasing their disposable income by 5% or more), the Gini coefficient would only see a marginal reduction, from 31.9 to 31.7. The impact of tax/transfer packages is also marginally greater when they are combined with the increase in the Minimum Wage. These modest effects on inequality also emerge in relation to poverty, with a reduction of the baseline poverty headcount by 0.4 percentage points. The modest reduction in poverty rates as well as that in poverty gaps is even lower for women and children than the average impact. This reflects the fact that whilst women earners are more likely to be low paid than men, male low earners are more likely to be in households below the income poverty threshold. The limited impact of such a substantial increase in the minimum wage on income inequality and poverty reflects a) the fact that low paid employees are widely spread across the household income distribution rather than concentrated in low income households, and b) the offsetting effects on household income of the withdrawal of means-tested cash transfers.

This is consistent with findings in other countries (Marx and Nolan, 2014) and with other UK microsimulation studies. For instance, Cribb et al (2017) confirm that recent reforms to the NLW increase the share of employees aged 25 and over covered by the NLW (from 4% under the NMW in 2015 to 8%, with the forecast to rise to 12% under current plans by 2020 – 22% under Labour plans). The increases were projected to have the greatest impact on those in part-time work, female and private

sector employees and those in the North of England, the Midlands and Wales. However, they find that the benefit from minimum wage increases is concentrated among middle-income households, not the lowest-income households. Many individuals on low wages are in middle- or high-income households as a result of the earnings of their partner; many of the lowest-income households have no-one in work at all; and low-income households that do gain are likely to see significant reductions in means-tested benefits as a result of higher wages, offsetting some of the gains. This is in line with Brewer and De Agostini's (2015) analysis using the TAXBEN microsimulation model for Wales: while average gains to households in Wales are larger than in the rest of the UK as a whole, the largest cash gains are in the middle of the household income distribution, with the largest gain as a percentage of net income in the third income decile. Comparing the gains from the introduction of the NLW with the losses from the introduction of Universal Credit, the average gains from the introduction of the NLW emerged as significantly smaller than the losses the poorer half of households faced from tax and benefit changes. As a result, in this scenario, gains from the NLW would have offset 27% overall of the losses from tax and benefit changes, but this figure is lower for the bottom four income deciles and only 8% for both of the bottom two deciles.

Matsaganis et al (2015) explore these dynamics across countries and examine the relationship between low wages and poverty, looking at the individual characteristics and household circumstances of those workers earning less than 50% of average (mean) hourly wages. Microsimulation using EUROMOD simulates the effects on poverty of raising national minimum wages to that threshold (i.e. 50% of average (mean) hourly wages), taking into account interactions with social assistance and other tax-benefit policies, and assuming no negative impact on employment or behavioural effects. The main finding is that raising minimum wages to that level would have at best modest effects on poverty reduction, though better coordination of minimum wages with other tax-benefit policies, and in particular with in-work benefits, could improve overall anti-poverty performance. These results are also confirmed by studies using quasi-experimental designs. For example, Caliendo et al (2018) show that while minimum wages are effective in raising hourly wages for low-income earners in Germany, their alleviating effect on poverty (both in terms of incidence and depth) is not readily apparent.

In relation to poverty, McKnight et al.'s (2016) evidence review stresses that 1) minimum wages improve the pay of the lowest paid but they don't necessarily reduce the incidence of low pay as the low pay threshold (two-thirds median pay) is typically above minimum wage rates. The UK National Minimum Wage introduced in 1999 had a positive effect in terms of increasing the wages of a large number of employees and eradicating extreme low pay; however, the share of employees with earnings below the low pay thresholds has not diminished (Bain et al., 2014). 2) Minimum wages with a higher 'bite' are more likely to be associated with compression in the lower tail of the wage distribution and a higher bite is also correlated with a lower incidence of low wage employment. However, especially where minimum wages are not associated with collective wage bargaining, there is a risk for minimum wages to be used as a "going-rate" by many employers, limiting wage progression. Moreover, the review stresses the importance of distinguishing between low pay and in-work poverty, where the latter has the former as a potential contributory factor, but is also driven by low work intensity at household level, household structure and the characteristics of the benefits system. Workers are most at risk of poverty where these factors overlap. For instance, poverty rates are highest in households where work intensity is lowest: in the UK, the risk of poverty in such households is around four in ten or higher. Part-time work is particularly associated with higher risk of poverty and less likelihood to exit poverty. In terms of the role of household structure, the presence of children and the ratio of children to adults significantly increase the risk of poverty, while also interacting with work intensity dynamics. While low rates of pay seem the first and most obvious place to look for a solution to in-work poverty, low wages

alone are seldom the cause. Even generous minimum wages will not be sufficient to meet the needs of households with children, while the interaction between wages and other benefits received by low income households can leave households gaining little in practice from a minimum wage rise. This points to the fact that minimum wage policy should be formulated alongside coordinated policy action across areas such as child benefits, income taxation and in-work top-ups.

Overall, the literature provides strong evidence that the impact of increasing the level of minimum wages on poverty depends on two factors. First, those in low-pay are not necessarily located in households with income below the poverty threshold – so the benefits these workers enjoy will not translate to reductions in poverty. Second, the gain from an increase in minimum wages may be reduced by needing to pay tax and social contributions on the extra income and by reductions in entitlements to means-tested benefits.

Even in terms of improving household earnings, strategies beyond wage setting are necessary, for instance by addressing continued wage progression as well as low work intensity within the low income household, including unstable employment and involuntary part-time work. Joyce and Norris Keiller (2018) analyse data from the UK Family Resources Survey, 1994-95 and 2015-16. The study highlights the main changes that characterise the evolving picture of UK poverty: in 2015 compared to 1994 those in poverty after housing costs in non-pensioners workless households decreased from 45% to 29%. In 2015 almost 60% of those in poverty were non-pensioners in working households, up from 35% in 1994. Within this picture, understanding low-pay is important. However, the distributional impact of minimum wages is very different from that of cash transfers and it is unhelpful to think of them as substitutes.

Taking a lifecycle view of wages tells us that low pay is highly related to lack of pay progression. The wages of the low- and high- educated, and of men and women, end up much further apart by age 40 than they were at the start of their careers. Different sources of wage growth tend to go together and to be complementary to each other. For example, work experience and education are both positively associated with higher wages, but the association with work experience is much stronger for the high-educated than the low-educated. We also see the lower-educated getting far less job-related training than the higher-educated. The fact that women's wages fall behind their male counterparts over the lifecycle is, in part, related to the negative effects of career breaks (e.g. taken to care for children), but also to a remarkable lack of wage progression in part-time work: with very little premium attached to past experience when this is in part-time work (also in Costa Dias et al, 2018). A more in-depth discussion of in-work progression can be found in §7.3.

As emerged from the literature, the design of welfare support can also constitute a barrier for wage reforms to be effective. These need to be understood in relation to factors driving in-work poverty, such as household composition and work intensity. In the UK, Universal Credit (UC) has been shown to offer weak incentives for second earners (Alakeson et al, 2015, Brewer et al, 2017) – as for instance they face a 65% marginal effective tax rate through the UC taper, increasing to 76% when tax and national insurance are paid. Moreover, wage setting interacts with the UC system, for instance by determining the minimum income floor – equivalent to 35 hours a week at the NLW rate. Brewer et al (2019) use microsimulation modelling to assess the short- and long-term impact of UC to find that the minimum income floor looks very regressive, with the poorest decile losing the most. For instance, the UC award for self-employed people is calculated on the assumption that they earn an amount equal to the minimum income floor even if their earnings are below it – leaving low-income self-employed people often worse off than they would have been under the legacy system. In this context, increases in NLW

can drive rising gaps between actual earnings and the minimum income floor for this group. While the system is found to be less regressive in the longer-run, 64% of the saving to the government from the minimum income floor comes from those in the bottom fifth of the income distribution (compared to 88% in the short-run).

Overall, the evidence suggest that despite the important role that minimum wages play in relation to extreme low pay, it is important to understand the relationship between hourly wages and how these translate in weekly/monthly/annual earnings and in overall household incomes. In this sense minimum wages are important but do not solve all low pay 'problems' – factors such as work intensity and progression are also essential. On the other hand, it is important to understand the role of low pay in relation to in-work poverty, which is often overlooked. In this context, minimum wages must not be considered in isolation from the tax and benefit system, and they should not be thought of as substitutes for cash transfers because of their different distributional impact. In fact, the limited effect of minimum wages on inequality and poverty can be explained by the fact that minimum wage increases tend to benefit middle-income households, not the lowest-income households.

7. Cost

Increasing the minimum wage with no change to employment or hours worked would have a significant positive impact on the government's finances via the extra income tax and social insurance contributions employees would pay on the additional earnings, as well as lower expenditure on social transfers. In the microsimulation analysis conducted by Atkinson et al (2017), which simulated increasing the NMW to the 'so-called' Real Living Wage, the net gain to the Exchequer from lower spending and increased revenue would be of the order of £3.7bn (the extra revenue generated from income tax would be £1.6bn, employee social insurance contributions would go up by £1.1bn and in-work benefits also falling by £1bn). However, increases in minimum wages leads to increases in the costs of employing workers, which would be a cost to government in the form of public sector wage bills and public contracts. Cribb et al (2017) point to how the Conservative 2017 plan raises the cost of employing at least 2.8 million workers by 4% on average, and the Labour plan raises the cost of employing 7.1 million workers by almost 15% on average.

Overall

Despite public support and increasing popularity across the political spectrum, raising minimum wages would not solve all low pay problems and their effect on poverty and inequality is limited. Tackling in-work poverty also requires a focus on the role of household composition and work intensity, reflecting the fact that the cost of 'living' varies between households and therefore a very high minimum would be required to truly be a 'living wage'. In addition, minimum wages should not be considered in isolation from the tax and benefit system and are not substitutes for cash transfers because of their very different – and less progressive – distributional impact.

7.2. Cap on top pay and regulation of bonuses

1. Relationship to poverty/ inequality mechanisms	Regulation of compensation practices can limit the rise of executives' pay that contributes to wage inequality, one of the drivers of income inequality. High levels of inequality can negatively affect overall growth. Executive pay can also curb broader-based wage growth for other workers.
2. Party Political Support	Labour and the Liberal Democrats support some policies tackling inequalities in earnings and requiring greater transparency on remuneration. EU rules on bonus caps have been fiercely opposed by past UK governments.
3. Type of intervention	Employment Regulation
4. Level	National
5. Public Support	The public has mixed/negative views with regards to the idea of a maximum wage, but show support for capping of bonuses along the EU law lines, with little concern for a potential "banking exodus".
6. Evidence of effectiveness	There is strong evidence on how rising executive and financial sector remuneration reinforces inequality, but also of how such increases lead to negative effects on growth, particularly affecting the middle to lower part of the income distribution. However, evidence of the effectiveness of specific instruments designed to regulate corporate governance and remuneration is less straightforward and points to the importance of regulatory requirements that are sensitive to how firms shape and define remuneration.
7. Cost	Low
Overall	There is room to explore solutions regulating executive and financial sector pay, in light of the negative effects of increasing executive and financial pay on inequality and growth. While costs to government would be low, it is less clear which specific instruments to use. This is in a context where the public seems more positive towards regulating bonuses in particular sectors, rather than towards a more general 'maximum wage' but the political spectrum remains divided.

1. Relationship to poverty / inequality mechanisms

The rise in executives' pay and compensation as well as the expansion of high compensation in some sectors (e.g. in finance) increase wage inequality, a factor that can contribute to income inequality. In many countries where inequality has risen, income is concentrated increasingly at the very top of the distribution ladder (UN, 2013). Measures trying to regulate these compensation practices can reduce wage dispersion and inequality at the top-end of the distribution. In turn, this could bear on poverty, through the negative effects of inequality on overall growth. Inequality leads to a less stable, less efficient economic system that stifles economic growth and the participation of all members of society in the labour market (Stiglitz, 2012). Moreover, a possible implication of rising executive pay is that it affects income that otherwise would have accrued to others: for instance because what the executives earned was not available for broader-based wage growth for other workers. In this sense, it also contributes to polarisation within firms.

2. Party Political Support

Labour has been the most active party in discussing measures related to these strategies, such as a roll out of maximum pay ratios of 20:1 in the public sector and in companies bidding for public contracts. An interest in closing the gap between top incomes and “everyone else’s stagnating wages” was also accompanied by an announced consultation on strategies tackling inequalities in earnings. This followed 2015 pledges that spoke of improving the link between executive pay and performance, simplifying pay packages, requiring disclosure of how committees vote on top pay and aim for greater employee involvement – e.g. through employee representation on remuneration committees.

In their 2017 manifesto, the Liberal Democrats also emphasised worker participation in decision-making and staff representation on remuneration committees, with the right for employees of a listed company to be represented on the board. They also pledged to extend transparency requirements for larger employers: these relate to both publishing the number of people paid less than the so-called real Living Wage and the ratio between top and median pay.

David Cameron expressed interest in limiting the ratio of high to low pay in the public sector – this led to the [Hutton Review of Fair Pay](#) in the public sector, which encouraged increased transparency over pay multiples rather than compliance with a pay cap. Under both the Coalition and subsequent Conservative governments, the UK opposed the so called "EU banker bonus cap" passed as part of the EU Capital Requirements Directive IV, which limits bonuses for senior staff to 100% of salary or 200% if shareholders approve. In 2013, the UK sued over the cap but withdrew the legal challenge in 2014 after the Advocate General of the European Court of Justice declared the cap legitimate and in 2016 the UK resisted its application to smaller financial institutions. It is not clear how Brexit will affect these regulations.

3. Type of intervention

Employment regulation

4. Level

National

5. Public Support

A [2017 YouGov poll](#) asked the public’s opinion on a potential maximum wage, set in the poll at £1 million a year. 31% of respondents said it was a good idea, while 44% thought the policy would be a bad idea. Among the most opposed to the idea were Conservative voters (59% considering it a bad idea compared to 23% a good one), Londoners (50% vs 32%) and those with higher socio-economic status (50% vs 29%). Most positive responses came from Labour voters (39% vs 39%) and those with lower socio-economic status (36% vs 34%), and SNP supporters (33% vs 40%) – the only group thinking a maximum wage cap a good rather than bad idea. These results are largely in line with previous results from a poll by [YouGov in 2015](#) asking about the support for a maximum wage (44% of respondents opposing the idea vs 39% supporting it) although support appeared stronger from both Labour voters (33% vs 49%) and those with lower socio-economic status (35% vs 44%) compared to the more recent opinion poll.

In 2014 the UK government withdrew the legal challenge to the European Union legislation capping bankers' bonuses at 100% of their pay, or 200% with shareholder approval. A [YouGov poll](#) found a large majority (73%), support capping the size of bonuses that banks can pay to their employees at 100% of their salaries. This was consistent across all demographics. More differences emerged in relation to the loss of talent that could result from the bonus cap: 47% of Conservative voters believed it would result in lots or some bankers leaving Britain, compared to 37% of Labour voters. Overall 31% thought that some would leave, 44% that only few would and 9% that a great deal would. This potential "banking exodus" was believed to be a bad thing by 23%, with 48% thinking that it would make no difference and 14% saying it would be a good thing.

6. Evidence of effectiveness

There is a growing literature stressing increases in the concentration of earnings, income and wealth among a small group of people at the very top of the distribution in many countries (Piketty, 2014). This literature highlights cross-country differences which suggest that rather than general causes (e.g. associated with technological change) institutional differences might play a central role (p.315). In Anglo-Saxon countries in particular these phenomena appear to be driven by large increases in pay and bonuses paid to top executives. CEO compensation levels vary across countries and higher levels of compensation in the US, UK and Ireland emerge even when controlling for firm size and industry (Fernandez et al, 2012). Changes in executive pay over the 1970s and 1980s are shown to explain the widening in the top half (90:50 ratio) of the weekly earnings distribution. Guy (2005), using UK panel data of 191 firms between 1970 and 1990, identifies a structural break in 1984, which broke the relationship between executive and lower management pay differentials and saw the widespread adoption of executive share option schemes. This coincides with a sharp increase in CEO pay reshaping the earnings distribution; in turn, it can be seen as a revolution in corporate governance that abandons a rule of proportionality in the pay differences between ranks throughout the management hierarchy.

Using data on individual income tax returns in the US between 1979 and 2005, Bakija et al (2012) consider three measures of income: gross income, and gross income excluding capital gains, and labor and business income (adding wages and salaries, income from proprietorships, and partnerships). They find that incomes of top earners (executives, managers, supervisors and financial professionals) account for around 60% of the increase in the share of national income going to the top 1% of the income distribution and an even larger proportion for the 0.1%. Households headed by executives had roughly average income growth relative to others in the top 1%, while those headed by someone in the financial sector had above average income growth and the remaining households (non-executive, non-finance) had slower than average income growth.

Plenty of research has focused on the financial sector in particular and identified a clear wage premium associated with finance, while financial sector employees are highly concentrated at the top of the income distribution. For instance, Denk (2015) estimates that financial sector workers make up 19% of the top 1% of earners even though the employment share in finance is 4%. In the UK the share of financial sector employees in the 0.1% is the highest, at nearly 70%, and 44% of all incomes in finance accrue to the top 10% in the sector. He uses micro-level EU data controlling for the impact of factors such as education, age, years of work experience, occupation, overtime hours, as well as firm size and firm location in explaining wage premia, which on average are 65% higher in finance than elsewhere. Financial institutions pay their employees well above the levels that workers in other sectors with

similar observable characteristics, and the average wage premium in finance sees financial sector employees earning on average 28% more than these relevant characteristics can explain. Observable characteristics explain a little more than half of the pay difference between finance and other sectors. There is considerable variation across countries: the highest wage premia are found in the UK and Italy (around 50%) and the lowest in Belgium and the Netherlands (7% and -0.5% respectively). This wage premium is also more than twice as high for financial sector workers at the top of the distribution than at the bottom. Denk (2015) also looks at the contribution of the financial sector to labour income inequality and finds a small but noticeable amount that can be explained by wage premia. In all countries, financial sector employment contributes to higher labour income inequality, on average raising the Gini coefficient by 0.8 points, which however masks cross-country differences: in the UK the difference between the Gini coefficients with and without financial sector employees is 2.6 points, from 0.344 to 0.318. Removing financial sector wage premia would reduce the negative role of financial sector employment on labour income inequality: while on average this would reduce the Gini coefficient by 0.6-0.7 points, in the United Kingdom there would be a reduction of 1.8 points (from 0.344 to 0.326).

Denk and Cournède (2015) use data from OECD countries between 1974 and 2011 to look at the relationship between finance and income inequality, and between finance and income growth of households at different levels of income. More finance (measured as more credit by banks and other financial institutions to the non-financial private sector and stock market capitalisation) is found to be associated with higher income inequality, on average, across countries. Results from Denk and Cournède (2015) rule out financial crises as the main explanatory factor of these relationships as well as reverse causality that would see financial expansion result from higher income inequality. Higher income inequality associated with financial expansion may not reduce the welfare of those at the bottom of the distribution if their income growth is not negatively affected: however, simulations suggest that financial expansion has adverse consequences for households at the lower end of the income distribution. Their disposable income growth slows the most, their resources for the consumption of goods and services are most severely affected. This contrasts with high-income households, who are the primary beneficiaries of expanding intermediated credit and stock market capitalisation, as their income growth tends to rise the most.

In general, there appears to be a non-linear relationship between financial development and economic growth, with the positive effects of finance on growth getting weaker (Masten et al., 2008) or turning negative at higher levels of financial development. Using a sample of 50 advanced and emerging market economies between 1980–2009, Cecchetti and Kharrouni (2012) assess the impact of financial sector size and of the growth in the financial system on real productivity growth. In relation to the former, they find a relationship that is non-linear, so that that at low levels, a larger financial system correlates to higher productivity growth, but beyond a certain point - when private credit grows to the point where it exceeds GDP - more banking and more credit are associated with lower growth. When it comes to growth in finance, measured as growth in either employment or value added, they find that when the financial sector represents more than 3.5% of total employment, further increases in financial sector size tend to be detrimental to aggregate real growth.

Cournède and Denk (2015) confirm this dynamic, and also find that further expansion of a well-developed financial sector usually results in slow long-term growth. They show that financial expansion fuels greater income inequality because higher income people can benefit more from the greater availability of credit and because the sector pays high wages. For instance, estimating the size of the direct effect of financial sector compensation, they find that remuneration of financial sector employees

explains about half of the aggregate link between the size of credit intermediation and inequality, suggesting a flow of causality that sees a larger financial sector leading to greater income inequality.

Misallocation of talent is also a factor explored in relation to these effects of financial expansion on growth. The financial industry competes for resources with the rest of the economy, diverting human resources into finance – through high levels of remuneration finance attracts highly skilled workers who could have contributed to sectors boosting real growth, with productivity declining in the non-financial industries. US state-level experience provides evidence that labour productivity falls when finance absorbs skilled people (Kneer, 2013). This study uses a quasi-experimental design to explore the causal impact of increased use of skilled labour in finance on labour productivity in manufacturing industries. The study finds that bank expansion across US states disproportionately reduces labour productivity in skill- and R&D-intensive industries, suggesting that banking sector absorbs talent at the cost of productivity declines in the non-financial industries. Effects on R&D intensive industries are also found in Cecchetti and Kharroubi (2015), showing that higher growth in the financial sector harms these sectors using sectoral data on productivity from 15 advanced OECD countries between 2000 and 2008.

Overall, this evidence points to the role played by executive and financial sector pay in relation to inequality, which is shown to have broader distributional consequences connected to its impact on growth. In fact, as the result is lower income growth for many households in the middle to lower part of the income distribution, these phenomena limit the inclusiveness of growth that would matter to ameliorating poverty.

The presence of wage premia implies that reforms to improve compensation practices and restrict asymmetric pay in the financial sector are unlikely to hurt growth. These measures should not prevent the financial sector from attracting sufficiently skilled workers, even when implying lower compensation levels. In relation to CEO compensation, Bivens and Mishel (2013) review evidence showing that there are substantial rents embedded in executive pay (where rents are understood as income received in excess of what was needed to induce the person to supply labour), something that does not indicate a growth of executives' individual contribution to raising output. As a consequence, pay could be reduced without harming growth and rents could be redistributed without introducing economic distortions.

Evidence of the impact of specific policies is growing, as a variety of strategies have been adopted in the past decade in different countries. In the US, the Dodd-Frank Act, passed in 2010, was implemented August 5, 2015 (but has been subject to changes loosening regulations since 2017 and was rolled back in 2018). The Act required public companies to publish the ratio of the pay of their chief executive to their median employee from 2017, with more stringent clawback policies, disclosure of executive hedging policy as well as Say-on-Pay measures. These required all public companies to give their shareholders the opportunity to make a nonbinding advisory vote on their top executives pay. In 2014 the EU introduced the Capital Requirements Directive IV (CRD IV) and while the bulk of the legislation is to do with regulating capital requirements of financial institutions (banks, building societies and investment firms) to improve financial stability in Europe, it also includes new rules on corporate governance and remuneration. The new regulations include a variety of elements, such as capped ratios on the fixed and variable component of remuneration for staff whose activities have a material impact on the risk profile of their institution, disclosure and transparency requirements, regulation of the share of variable remuneration in the form of share based awards and of the share of variable remuneration to be deferred in order to align incentives with the longer-term interests of the institution. Assessment of European CRC IV are still at early stages, pointing to a potential for strengthening of bank stability but

also a contraction in the funding capacity (Moloney, 2016). Moreover, a series of challenges (e.g. by the UK government), reviews on potential exemptions and uneven implementation across countries prevent current assessment of the impact of these on wage or income inequality.

Edmans et al (2017) offer a comprehensive review of the theoretical and empirical literature on a range of specific policies as well as on the drivers of executive pay.

- The evidence on the effects of **disclosure on executive pay** is mixed: some studies find that CEO pay tends to become more closely linked to performance following improved disclosure, but also that pay levels rise. This might be the result of greater awareness of compensation levels among peers.
- In relation to **say-on-pay votes**, they note evidence – largely from the US – that shows improvement in certain areas (reducing salaries and golden parachutes) but a worsening for more hidden dimensions, causing overall pay to be higher. These practices can also divert monitoring away from other firm policies (e.g. innovation and corporate social responsibility) and unintentionally increase pay levels to compensate for the risk that shareholders overturn the contract that executives have agreed with the board. There are also dynamics, such as shareholders outsourcing their say-on-pay voting decisions to proxy advisory firms, with potentially negative consequences for shareholder value. In spite of this, there is evidence that say-on-pay supports shareholder value. However, increases in market value and improvements in profitability and labour productivity do not come about with substantial changes on the level nor structure of pay. This may suggest that the effect of a positive vote may be to make executives aware that their future behaviour will be subject to discipline, rather than resulting in votes actually constraining pay.

Next to these observational, single-country studies with no clear control group, there is also emerging quasi-experimental evidence (Correa and Lel, 2016) that shows laws associated with CEO pay levels falling and pay-performance sensitivity rising. While the line between “binding” laws and “advisory” say-on-pay is blurred and differs across countries, “advisory” say-on-pay is associated with greater pay reductions and increases in pay-performance sensitivity than binding laws – something which might suggest that investors are more reticent to vote against a pay package if a negative vote is binding and causing greater disruptions to firms.

As noted, the Dodd-Frank Act included requirements for all public companies to afford their shareholders a nonbinding advisory vote on the compensation they pay to their top officials. Despite this, only in a few firms the majority of shareholders disapproved of their executives’ pay packages. Murphy (2013) finds no discernible impact on pay levels disclosure of executive hedging policy. However, Morrissey (2013) shows how negative Say-on-Pay votes were used as prime evidence of breach of fiduciary duty in legal cases, showing a renewed judicial willingness to find boards of directors liable if they have granted overly generous pay hikes to top officials. In this sense, these regulations can be seen as having consequences beyond their direct effect on compensation. Reforms may play an important role in shifting culture norms even if they require other reforms to result in meaningful change.

The literature on **pay-ratios** focuses on concerns with distortions connected to the fact that the ratio's denominator – median employee pay – varies considerably between firms and industries so that, for instance, the pay ratio is lower in investment banks than in supermarkets. Calculating the pay of the median employee is also difficult for firms with many business units and no centralized payroll system. The denominator can be artificially increased by substituting capital for labour, outsourcing low-wage

workers, or hiring part-time rather than full-time employees if only the latter are considered in the ratio. Firms may also shift employee compensation towards salary and away from non-pecuniary forms which are important both in relation to progression (e.g. training), participation (e.g. flextime working policies,) and improvement of working conditions. Moreover, the numerator - CEO pay – is sometimes hard to clearly define as remuneration usually comes in a package including stock options, bonuses and expense accounts. It also can be lowered while preserving the CEO's expected utility by, e.g., shortening vesting periods. There is also a potential of reducing shareholder value and further curtail CEO pay-performance sensitivities as median employee pay does not vary much with firm performance. Edmans et al (2017) also stresses knowledge gaps in our understanding of how pay practices vary across industries, firms of different sizes, firms at different stages of their life cycle, and firms with different technologies or organizational structures.

Strategies attempting to restrict specific forms of executive compensation, such as **bonuses or stock-based pay**, face challenges as boards can always substitute a different form of pay with the potential to increase inefficiencies. At the same time, as various experiments with these strategies take place, evidence needs to be closely monitored. For instance, Abudy et al (2017), in a quasi-experiment conducted in Israel, looked at the effects of a 2016 law restricting executive compensation in banks, insurance companies, and investment managers to 35 times the salary of the lowest paid employee. The average return for the 20 affected firms emerged as positive, consistent with the law reigning in rent extraction. There are studies which find that the aggressiveness of managerial compensation does increase risk-taking in corporations (Bhagat and Bolton, 2013; Jokivuolle et al, 2015). Reducing risk-taking incentives by measures such as bonus caps would thus have a protective effect for the stability of the economy. Curbing excessive remuneration in the financial sector is of wider benefit than inequality reduction as previous freedoms were seen to have encouraged excessive risk-taking behaviour which posed a threat to credit institutions and investment firms as well as the wider economy. However, it is important to note that because compensation arrangements are endogenous and correlated with many unobservables, measuring their causal effects on behaviour and firm value is extremely difficult and poses challenges to research on executive pay.

IMF research by Asai (2016) suggests that that bonus caps are only effective when bank executives' mobility is restricted, but also shows that irrespective of mobility levels, bonus caps simultaneously reduce risk shifting by bank executives and aggravate underinvestment (so that effective gains would depend on initial conditions, including the relative importance of risk shifting versus underinvestment). Korinek and Kreamer (2014) explore the effects of the bonus cap rule on UK banks to assess its impact on incentives faced by senior managers to make risky decisions. On the one hand, the ratio of variable to fixed remuneration emerges as only one of the factors that determine the intensity of financial incentives to make risky decisions. On the other hand, banks adopt strategies that allow them to evade the effects of the cap by introducing fixed pay allowances paid in shares but legally structured as fixed remuneration, which create additional risk-taking incentives. As a result, the cap faces challenges in improving incentives and pay in shares can drive risk-taking.

Fixed remuneration and inflexible regulatory rules risk neglecting the role of variable remuneration in ensuring that senior bank managers stand to suffer a personal financial loss for poor productivity. But also suggests that for these instruments to be effective, it is important to have a greater focus on making regulatory requirements sensitive to how firms shape and define remuneration.

7. Cost

Low

Overall

There is room to explore solutions regulating executive and financial sector pay, in light of the negative effects of increasing executive and financial pay on inequality and growth. While costs to government would be low, it is less clear which specific instruments to use. This is in a context where the public seems more positive towards regulating bonuses in particular sectors, rather than towards a more general 'maximum wage' but the political spectrum remains divided.

7.3. Improve in-work progression

1. Relationship to poverty/ inequality mechanisms	Improving progression would have a double dividend and it would particularly improve prospects for certain groups that are currently facing disproportionately limited opportunities, particularly at the lower end of the labour market. Improved progression would not just address low pay, but help households to optimize, if not maximize, their work intensity.
2. Party Political Support	There is greater policy emphasis on progression and all parties show greater interest – albeit focusing on different aspects.
3. Type of intervention	Combination of employment services and subsidies, employment regulation and reform of the tax and benefit system
4. Level	All
5. Public Support	While progression is considered important, there is growing reported work insecurity, particularly for younger workers and those on lower incomes, with negative perceptions of progression opportunities.
6. Evidence of effectiveness	Lack of progression contributes to ‘low pay, no pay’ cycles for many workers at the lower end of the labour market. In relation to the different barriers to progression, for instance part-time work arrangements, evidence points to the importance of standardizing this form of work, both through employment regulation and through partnerships and initiatives involving employers. Tackling sectoral challenges also sees different levels of government working with employers on supply-side measures –e.g. promoting ‘high road’ employment strategies - in connection to regulation - particularly because of a link between labour market segmentation and non-standard work arrangements. Finally, in-work benefits play an important role in relation to poverty and inequality but have only recently started addressing progression. However, evidence from the evaluation of interventions such as ERA or UC in-work conditionality is less clear - because of difficulties in assessing specific elements and a focus on earnings rather than on their relationship to poverty and inequality. In UC, the in-work support element saw a reduction and appears to have further weakened incentives for lone parents and second earners to increase their earnings.
7. Cost	High
Overall	Improving in-work progression can have a double dividend effect on poverty and inequality reduction. There is growing interest in policies that enhance progression across the political spectrum – while public interest shows awareness of current barriers. Evidence points to the importance of adopting a multi-faceted – and likely expensive – strategy to promote progression, one that involves actors at different levels to tackle issues facing workers in non-standard working arrangements and in certain sectors of the labour market, as well as considering the interaction with the tax and benefits system.

1. Relationship to poverty / inequality mechanisms

Level of pay, work intensity at household level, and household structure are key determinants of people’s position in the income distribution. Policies attempting to improve household earnings need to address continued wage progression as well as low work intensity within the household. Limited

progression affects certain groups disproportionately (e.g. women, part-timers, those with lower skill and qualifications levels), entrenching earnings inequalities. As chances of progression are lower for many of those in low pay, particularly in certain sectors and for workers with non-standard work arrangements (e.g. part-time, on-call work and temporary employment), improvements in this sense would afford greater opportunities for those at the lower end of the labour market. Improving progression would bear on poverty by decreasing the likelihood of people becoming trapped in low paid work. Without progression, many can become stuck in what have been described as 'low wage careers' (McKnight, 2002; Clark and Kanellopoulos, 2013) and have a greater chance to cycle between low paid work and unemployment. This in turn can have 'scarring effects'. Limited progression constitutes a further barrier towards higher-quality, higher-salary employment for those households whose work-intensity capacity is limited – thus reinforcing the role work intensity plays in relation to poverty. Improved progression would thus help households to optimize their work intensity, changing the way in which it is rewarded. As work intensity is connected to household structure, these measures are not solely addressing low pay, but bear on the other key factors determining distributional outcomes.

2. Party Political Support

UK activation policies have been long characterised by a 'work first' approach, but greater focus on the quality of employment outcomes and employment progression can be seen in some elements of Universal Credit; the UK Futures Programme which was run by the UK Commission for Employment and Skills (UKCES); and progression initiatives which have been agreed as part of 'City Deals' (Sissons et al, 2016). However, parties do not agree on the best strategies to pursue this, particularly in relation to Universal Credit. The Conservatives have reduced the generosity of in-work support and for the first time made in-work conditionality central to their approach. The government is also currently examining how to incorporate in-work progression into the design of Universal Credit, with initial research investigating the efficacy of in-work conditionality and increased support. Labour and the Liberal Democrats have both criticised cuts to work allowances and the decision to limit tax credits and UC payments to the first two children in a family. In the most recent 2017 and 2019 manifestos, the Liberal Democrats pledged to stamp out abuse of zero-hours contracts and create a formal right to request a fixed contract. They proposed a consultation on introducing a right to make regular patterns of work contractual after a period of time. Labour pledged a ban of zero hours contracts but also a strengthening of the laws guaranteeing a regular contract for those who work regular hours for more than 12 weeks.

3. Type of intervention

Combination of employment services and subsidies, employment regulation and reform of the tax and benefit system.

4. Level

National for some elements – e.g. in relation to the tax and benefit system and employment regulation; regional and local for others – e.g. employment initiatives.

5. Public Support

A [2014 survey by CIPD](#) looked at both employers' and employees' attitudes related to Universal Credit and at opportunities for progression in particular, as these are connected to the new element of in-work

conditionality introduced by the system. They find limited perceived opportunities for many low-paid staff to increase their working hours, career progression or skills. 20% of employers reported a high opportunity for low-paid staff to change their job role within the organization and achieve higher earnings but nearly two-thirds said there is limited opportunity or no opportunity. Just 6% of low-paid staff identified getting promotion as a good opportunity to earn more money in the next 12 months - moving to a higher paying job with a different employer is what respondents considered most likely (41%). Potential for training and development appeared limited both from the perspective of employers and employees. While the majority of employers said low-paid staff are eligible for company training and development, three-quarters said that this is relative to their current job rather than to help them progress to a higher-paid job. Those who offer this kind of opportunity say that 60% of eligible employees take it, but that another obstacle faced by low-paid staff in accessing training is that many employers (45%) reserve their training budget for senior or high-potential staff.

A [2018 YouGov survey for Business in the Community](#) was used for a report monitoring the performance of UK employers against the recommendations outlined in the McGregor-Smith review in relation to actions taken by businesses to remove barriers to ethnic minorities. The report shows that 70% of BAME employees consider career progression important, compared to 42% of White British employees. Over half of BAME employees (52%) believe that they will have to leave their current organisation to progress in their career, in contrast with 38% among White British employees.

The [latest British Social Attitudes survey](#) explores attitude on a range of factors connected to progression – for instance in relation to the tax and benefits system. It shows that there are different attitudes in relation to wage top-ups for low earners: 71% support them for lone parents, 58% support them for working couples with children and only 31% support them for working couples without children. The proportion saying the government should spend more on benefits for parents that work on very low incomes has been increasing to nearly 70%. Precarious or insecure work has grown to nearly a fifth (17%) for workers aged 18-25 - while only 5% of those aged 36-65 say they have changing working hours given at short notice. Of those in the bottom income group, only 50% said they knew the hours they would be working next month, while 29% said they don't - this is more than four times the proportion of those in the highest income group (7%). A [2018 YouGov](#) survey also shows the public split on the introduction of Universal Credit: 38% opposing it, 27% supporting it and 37% saying they don't know. This proportion climbs even higher when asked whether Universal Credit is fair – with 43% saying they don't know and 38% saying it is not (and 19% saying it is fair).

6. Evidence of effectiveness

In many EU countries in-work poverty has grown during the recent economic crisis and recovery period, pointing to the fact that employment growth is not always enough to avoid poverty (McKnight et al, 2016). One of the explanations of this phenomenon is that employment growth in Europe has been accompanied by a relative expansion of low quality jobs (Fraser et al. 2011). In their evidence review looking at the relationship between employment, pay and poverty, Ray et al. (2014) argue that a key factor is also played by 'low pay, no pay' cycles that characterise the working lives of many in low paid work – this is often 'poor work', of low-quality, insecure conditions and failing to provide labour market security or progress. In turn, lack of progression can further exacerbate polarisation and contribute to market income inequality.

D'Arcy and Finch (2017) analyse the trajectory of low-paid employees in the UK across a decade (2006-2016). They use the ONS's New Earnings Survey Panel Dataset (NESPD), the panel version of the Annual Survey of Hours and Earnings (ASHE) and its predecessor the New Earnings Survey, a large survey of employers about a sample of their employees. They find that of all those in low pay, by 2016 just 17% had escaped low-paid employment and sustained a move onto higher wage employment. 48% moved onto higher wages at some point during the decade but had cycled back to low pay by the end of the period. 25% remained stuck in low-pay throughout the period. While the share of low-paid employees escaping has risen slightly over the past quarter of century (from 11% for the 1981- 91 cohort), the falling share of people becoming stuck appears to have been replaced by a greater proportion cycling back to low-pay. They find some differences between regions or nations: for instance Scotland sees a higher a proportion of "escapers" than the average across Britain, the North East has the highest proportion of people stuck in the low pay trap, and higher paying parts of the UK, like the East and South East and London, see a higher share of people cycling back to low pay (in London, this is almost 8 percentage points higher than average). The study also finds a shift over the 10-year period: while in the earlier part of the decade the proportion of full-time and part-time workers escaping low pay saw relative balance, by 2016 71% of these were working full-time. This suggests a lack of well-paid part-time roles. In fact, the number of years working part-time is negatively linked to progression, together with other factors such as being older, being female, having been stuck in low pay in the previous decade. The number of years spent in employment over the following decade is positively and significantly linked to escaping from low pay. Differences between the public and private sector see the latter negatively linked with escaping from low pay while the percentage of "escapers" employed by the public sector grew from 8% in 2006 to 17% in 2016, suggesting that employer type is also important as these jobs are generally higher-paying and can often offer more structured progression routes than in the private sector. The largest effect sizes are visible when conducting an analysis by industry. Compared to all those who didn't remain working in accommodation and food services, employees who stayed in this sector were significantly less likely to escape low pay. There is evidence of a changing role among industries: for some - e.g. manufacturing, mining and quarrying - a more negative link to escaping low pay over time may be linked to the shrinking size of the industry offering a limited number of positions that people can move up into.

A series of evidence reviews (Ray et al, 2014; McKnight et al, 2016; Webb et al, 2018) find a number of reasons why individuals can be in low pay, such as low skills, labour supply constraints (e.g. connected to caring responsibility but also location and available transport), mismatches between supply of skills and demand for skills, low labour demand, discrimination in the labour market (e.g. in terms of gender, ethnicity, disability, criminal record) as well as the already mentioned churning effects associated with low pay and unemployment. A segmented labour market, with limited career ladders out of low pay, offers little opportunity for progression, so that workers can become trapped in low paid work. When it comes to progression specifically, it is important to understand the interplay of potential barriers (Webb et al, 2018) which can be understood under broad categories: a) employment conditions, including working part-time hours, permanent and casual, temporary or zero hours employment contracts; b) lack of job ladders (e.g. because of flat employment structures and limited number of management roles); c) the design of welfare support can support or hinder progression; d) management practices – these can produce arrangements denying employees the autonomy and flexibility to pursue job progression but can also privilege nonmeasurable attributes (e.g. being the 'right fit') which can lead to progression more than in-work training. In this sense, up-skilling does not necessarily lead to job progression, when employers don't recognise it and reward it accordingly; e) relatedly, employees' attitudes to progression also play a role. Webb et al (2018), in their evidence review of in-work progression in Wales, stress how in sectors such as retail, hospitality and tourism, employees are

reluctant to engage in job progression if it requires significant time investment for slight financial gain, reduced flexibility, worse work-life balance or additional responsibilities with the expectation of working unpaid hours (Green et al, 2016; Lloyd and Payne, 2011; Ussher, 2016).

The next sections focus on sectoral challenges, types of work arrangements, and the interaction with the tax and benefits system, which are crucial in understanding obstacles to progression.

Part-time work

The stark differences between the poverty risks faced by those working full- and part-time is well-documented in the literature in many countries (OECD, 2010; Heyes and Lewis, 2014; Ray et al, 2014; McKnight et al, 2016; Horesman and Marx, 2013). This literature stresses the income penalty faced by these workers. Importantly, the income penalty is particularly high at the bottom of the income distribution. Part-time workers have lower hourly wages, on average, than full-time workers in almost all OECD countries; they tend to have less job security than full-time workers, whether measured objectively (whether they have a permanent contract) or subjectively (whether they feel that their job is secure). They are also less optimistic about promotion prospects and less likely to participate in training than full-time workers.

Moreover, only a small proportion of part-timers move to full-time employment each year, notably fewer in countries where part-time work is widespread among working poor, who move out of work more frequently than other part-time workers. In fact, only a very small proportion of workers use part-time work as a stepping stone into full-time employment. The literature stresses differences between voluntary and non-voluntary part-time work: women work part-time mainly for caring reasons, while men are more often involuntarily working part time (Horemans and Marx, 2013). Horemans et al (2016) show through an analysis of the EU Labour Force Survey between 2007-2013 that involuntary part-time employment increased in most countries during the crisis – in the UK this went from 10.6% of total employment to 20.3%. Compared to voluntary part-time workers, involuntary part-time workers are more likely to be poor in most countries – in the UK, the risk of poverty is higher for those working part-time involuntarily, 27.1 versus 12.4 for those in voluntary part-time. However, in many other countries the difference is not statistically significant and in most the poverty risk of voluntary part-time workers remains higher than for those working full-time (in the UK, this is 3.5). Therefore the problem of in-work poverty among part-time workers is not solely confined to those working part-time involuntarily. However, in many countries part-time working is a way for parents in particular (and usually mothers) to balance work and family responsibilities and a few studies show that women working part-time are much less likely than men to say that they would prefer a full-time job (McKnight et al, 2016; Frazer and Marlier, 2010) – something that is also reflected in the qualitative evidence, for instance in relation to lone mothers managing work and care within their family lives (Millar and Ridge, 2013). In order to address in-work poverty, it is important to understand that while many would like to increase their hours, many others would not. For these people, policies improving the quality and pay of part-time work, ensuring that part-time work is available in high level occupations and that workers are not excluded from longer-term progression prospects are all essential in order to reduce poverty risks, particularly for lone parent households, where earnings are potentially the primary income. Since, as we have seen above, low household work intensity plays a key role in relation to poverty, from a policy perspective it is important to consider ways of reducing poverty risks when increasing working intensity is not an option. These considerations are in contrast with the approach adopted by Universal Credit, discussed below.

Several studies (Ray et al, 2014; Fagan, 2014; Horemans and Marx, 2013; Horemans et al, 2016) look across European countries and stress important differences in patterns of working arrangements and how they relate to poverty and inequality. Grzegorzewska and Thevenot (2014) highlight differences in the extent to which temporary or part-time jobs serve as stepping. In some countries the poverty risks associated with female part-time employment are not significantly different from those of full-time workers (e.g. the Netherlands or Denmark) and part-time work is generally more prevalent where part-time jobs are better quality. In these countries women working part-time are spread across occupations, while in other, such as the UK – where the relative earnings disadvantage for women working part-time is one of the largest – they are concentrated in the lower level manual/elementary and clerical/service occupations (Warren, 2008). It is important to identify the factors that operate in these countries in order to understand potential conditions mitigating the impact of work intensity on poverty and inequality.

Fagan et al (2014) reviewed research on part-time employment in a range of countries, including the UK. They stress the difficulty of building a career part-time in most countries, but also that the quality of part-time work is very different – for instance, while countries like Sweden and the Netherlands have high level of part-time work and better quality, countries like the UK, Australia, the US and Japan have high rates of part-time work, but much of it is of poor quality. Part-time jobs in most countries are disproportionately concentrated in parts of the economy with the least regulatory protection of working conditions and in the lower-paid and lower-grade occupations (e.g. in a narrow range of low-paid female-dominated service jobs and certain intermediate clerical positions). Part-time work is more limited in professional and managerial positions, especially at higher grades, and in most countries companies generally do not employ part-time workers in highly qualified positions or in supervisory roles, while it is also more difficult for part-time workers to be promoted (McCormack, 2012). Next to issues of access to training, it is also the case that certain aspects of jobs which are more likely to lead to career advancement (e.g. solving problems, dealing with complex tasks, planning and supervisory responsibilities, self-assessment of work quality) are more prevalent in full- rather than part-time jobs. Part-time employees are also less likely to be employed in occupations offering bonuses and premiums. For instance, part-time employees receive overtime premiums only in Germany and the Netherlands.

The Netherlands very much stands out in this literature, not only because it sees no difference between the average hourly pay rate for part- and full-timers, but in general because of its implementation of equal treatment, the penetration into higher occupational levels and organizational hierarchies; and greater regulations enhancing employees' rights. In the Netherlands both prevalence and quality of part-time work is striking, to the extent that this can hardly be considered a non-standard or atypical form of employment. With numbers of part-time employment above 70% for women and 25% for men (a much greater share than in other countries), part-time work is said to be the preferred working arrangement as it is 'standardised' by unions, employers and governments and narrowing the differences with full-time work in terms of rights, benefits and earnings (Booth & van Ours, 2010). In their cross-country study cited above, Horemans et al (2016) find the Netherlands boasts the lowest poverty rates for part-time working men and women alike. Ray et al. (2014) suggest that cross-country differences in earnings disadvantage may be linked to better regulation and protection for short-time workers, but also policies that allow workers to step up from part-time to full-time in due course (rather than entailing a completely different track), for instance including an entitlement to increase as well as reduce their hours. The Dutch example shows that several institutions and policies need to be in place simultaneously for part-time jobs to be good quality jobs. This is not just a matter of having the right government policies in place; it is a process of institutional and cultural innovation that requires the

cooperation of many actors in the field of industrial relations and welfare. Yerkes and Visser (2006) define this as a process through which the social partners and government supported the diffusion and normalization of part-time jobs towards a standard of “decent work” in terms of choice, rights, earnings and equality.

Next to employment regulation and measures to improve protection of part-time workers, then, there is a role to play at sub-national and local levels to support initiatives promoting partnerships with employers. Recently, Timewise UK has engaged employers in sectors such as retail to develop initiatives creating flexible pathways and comprising five stages: (i) business case, (ii) capacity of an organisation, (iii) prioritisation of job options, (iv) piloting, and (v) measuring the change of flexibility initiatives. While these small pilots, run without comparators, they reported positive outcomes for flexible job designs — such as job share partnerships and part-time — which allowed employees new opportunities for progression for women and others on non-standard employment contracts. They also saw increased productivity and led employers to implement changes, such as offering management roles on a part-time basis.

At the same time, it is important to recognise that the majority of those who are working poor are single earner households, whereas many part-time workers are in dual earner households; moreover, measures aimed at second earners may end up increasing income in households that were already above the poverty line: this can lead to an increase in median income, and hence in the relative poverty line. The increasing numbers of two-earner households shift living standards norms, making it more difficult for households with a single earner to be above the poverty line without help from the state. This suggests that, as we have seen in §7.1. in relation to minimum wage policies, effects on inequality and poverty might not materialise as these depend on the household structure and household work intensity, together with level of household income. However, the fact that part-time jobs are often concentrated among women with caring responsibilities also means that the households affected are more likely to include child and elderly dependants. Work intensity is connected to household structures and increasing the availability of high quality part-time jobs would lead to better progression which in turn would change how work intensity is compensated within the household income ‘package’. Measures improving part-time work, support in-work progression and work retention, which are particularly significant in mitigating the risk of poverty for lone parents (Browne and Paul, 2010), as they improve earnings and security of employment without requiring full work intensity.

Sectoral challenges

The quality and quantity of jobs is shaped in large part by structural and technological factors, mediated by national institutional characteristics – e.g. in terms of labour rights and collective bargaining (Findlay et al, 2017). As noted above in relation to D’Arcy and Finch’s (2017) research, differences across industries and sectors are important when considering the opportunities of escaping low pay and the risks remaining/cycling back to low wage employment. Lucifora et al (2005) review patterns of low pay in Europe through a cross-country study using panel survey data and national microdata with a particular focus on the UK, US, France, Germany and the Netherlands. They find that low-paying industries are the same across countries: retail, hospitality, personal services and agriculture. Overall, the study finds that the institutional and sectoral structure of the economy may be more relevant than demographic characteristics in explaining both the incidence and evolution of low pay. Taking a longer run perspective and focusing on Britain, the study also finds that low-wage employees experience barriers to progression and little earnings growth over their working lives without substantial upwards

occupational mobility. Mobility is found to reduce inequality overtime in a number of OECD countries, but the effects found in the study are small and have fallen over time in Britain, where 'lifetime' inequality in earnings increased. Wage progression appears to vary by social class and occupation, with big gains for managerial and professional employees, while low skilled (low paid) occupations face little prospect of progression.

Evidence of these phenomena point to the limits of classic explanations connecting outcomes to returns to skills when it comes to understanding low pay segments of the labour market. Assuring that people enter the job market with the appropriate skills is an important component of any strategy aimed at reducing labour market disparities; however, on the one hand, this relates to skill content – how it is recognised, by whom, and how different forms of work are valued and rewarded (Gatta, 2009). On the other hand, strategies focused on education and human capital investment address supply-side issues but can do little to the level of demand for higher skills and design of better jobs. For instance, Sissons et al (2018) use the Family Resources Survey (FRS) and Households Below Average Incomes (HBAI) to look at the relationship between individual labour market experiences and household poverty outcomes. They find that even in dual-earning households poverty rates exceed 8% when the main earner is employed in a number of low-paid sectors. Overall, they show that the sector of employment of both main and second household earners matters for the poverty outcomes, even when controlling for household characteristics. This suggests the limits of individual deficit models, as sector effects point to wider concerns with labour market structures shaping patterns of poverty and inequality.

On the other hand, demand-side strategies also face challenges. The fact that low pay is widespread in the economy but mainly concentrated in some sectors and types of organisation creates a dilemma for policymakers. There is evidence that a small group of companies holds huge influence over the low-paid workforce. Low-paid workers are more likely to find themselves concentrated in just a handful of firms – the 2018 Resolution Foundation report on Low Pay (D'Arcy, 2018) finds that they are 80% more concentrated than high-paid employees and that concentration is much higher than average in some cities (e.g. Nottingham or Liverpool) and industries, such as retail (with five firms employing 27% of all low-paid staff working in the sector). Concentration adversely affects wages, especially in the context of weaker labour market institutions and collective bargaining (Manning, 2003; Azar et al, 2017). At the same time, concentration can be an opportunity as targeting these biggest players can have a great impact on the prospects of many low-paid workers. However, while changes would be of little consequence for these organisations in terms of costs or profits, they would likely produce a significant profit squeeze for many low-paying organisations who may be unable to absorb costs through increased efficiency. This can result in cuts to the number that these organisations employ or to the hours of work offered, to the detriment of low-paid workers themselves.

Here it is essential to understand why a sizeable segment of the labour market is characterised by poor progression, low pay and poor quality work. There are two main discussions in the economics and social policy literature related to this: one that focuses on polarisation and one that stresses structural changes in the conditions for labour which have led, through waves of reforms reducing regulation and striving for flexibility, to increase the prevalence of non-standard employment. On the one hand, the literature stresses how the employment structure in European economies has seen a pervasive job polarization with rising employment shares for high-paid professionals and managers as well as low-paid personal service workers and some low-paid elementary occupations (Goos and Manning, 2007). This emerges for instance in Goos et al (2014) study using the EU Labour Force Survey between 1993-2010 in 16 European countries, including the UK. They find that the employment shares for jobs paying around the median occupational wage (such as office clerks, trades workers and plant and machine operators) have

fallen. The paper also stresses that job polarization has both within-industry and between-industry components. The importance of within-industry polarisation has been emphasised by several studies (Breemersch et al 2017). In the US, Tüzemen and Willis (2013) confirm this, as shifts in employment between industries, toward expanding industries and away from contracting industries (such as manufacturing) accounted for only a small portion of job polarization.

The discussion of polarisation and that of work conditions intersect. For instance, Adams and Prassl (2018) have recently conducted an in-depth study of zero-hour contract arrangements in the UK. There are stark differences across sectors: so that for instance workers on these kinds of contracts account for over 20% of all workers in the hospitality and the health and social care sectors, but remain below 5% in sectors such as finance and IT, construction and public administration. Adams and Prassl address historical problems with the recording of zero-hours work in the official Labour Force Survey; they also find evidence that these workers face a 10% 'precarity pay gap', limited control over their work and income insecurity and, most importantly, little evidence that these arrangements function as a stepping-stone to 'better' employment. This is in line with research that has shown that the link between forms of temporary and casual work and positive future labour market outcomes is weak and these arrangements might even harm subsequent employment and earnings (Autor and Houseman, 2010). Zero hours contract workers are 20% less likely to have been offered training by their employer and when this is offered, it is more likely for them to have to pay for it.

Overall, labour market segmentation is reinforced by increased reliance on non-standard employment (ILO, 2016; George, and Chattopadhyay, 2015). ILO research (2016) includes a variety of temporary, on-call, part-time and multi-party working arrangements in its definition of non-standard employment. Relying on cross-country comparative analysis, this research shows that widespread use of non-standard employment has also increased workers' insecurities in different areas, especially when non-voluntary. These workers face substantial wage penalties, greater volatility in employment with consequences for their stability. A core-periphery model of labour market division contributes to labour market segmentation, by supplanting low-paid permanent staff with the peripheral use of temporary workers. This model works to exclude temporary workers from accessing job progression initiatives because training and upskilling is reserved for the core workforce (George and Chattopadhyay, 2015). In light of this connection between non-standard work arrangements, polarisation and labour market segmentation, employment regulation measures have an important part to play within progression strategies.

Moreover, these phenomena bear on firm performance. In fact, while the use of workers with non-standard arrangements appears to produce some short-term gains for organisation (e.g. because of improved employee screening and numerical flexibility), in the long run, these may be outweighed by productivity losses. This is because it produces firm-specific skills erosion, limiting the organisation's ability to respond to changing market demand. Moreover, firms that use more non-standard employment tend to underinvest in training, both for temporary and permanent employees, as well as in productivity-enhancing technologies and innovation. This dynamic suggests that these firms opt for a 'low road' rather than a 'high road' strategy, focusing more on reducing costs than on productivity. 'High Road' strategies can be promising to improve progression, particularly when several countries and organisations now focus on improving work conditions (Findlay et al, 2017; Eurofund, 2016) as a route towards greater economic performance and sustainability. There is a substantial debate on what makes a good job and on what the level of intervention should be and what specific actors can contribute to job quality interventions. The literature agrees on the positive role that can be played by collective bargaining (McKnight, et al 2016; Fagan, 2014). In terms of employers' practices, a commitment to

increase work-related training and the development of associated progression pathways appears to be an important step towards a 'high road' to improved performance, which could in turn secure improved levels of pay and security for employees experiencing poverty or at risk of poverty. High Road strategies attempt to find ways to incentivise employers to upgrade their human resource practices and quality of the jobs they offer. However, it is also important to note that this entails a substantial degree of choice about their employment and wage policies, while different organisations are likely to face different barriers and constraints.

In a comprehensive review of a range of human resources and development (HRM/D) practices supporting higher quality of employment and progression, Philpott (2014) looks at how these could help tackle in-work poverty, and assesses the business case for their adoption. This revolves around higher productivity, better organisational performance, lower labour costs and absenteeism, retention, improved job satisfaction and well-being. Overall, he finds convincing statistical evidence to underpin the business case for organisations to adopt these HRM/D practices. There is also evidence of the potential for these practices to improve the quality of working life for low-paid employees. However, he also stresses that it is not clear that this holds true for all organisations: particularly for some low-paying organisation, the strongest pressures will derive from the specific markets in which they operate and on the balance of consumer preference for quality over price. Benefits for employees are also depending on the specific practices involved, how these are implemented, and the degree of choice and involvement. The review also stresses the limits and uphill struggle of strategies focused on promoting voluntary change of employers' practices in bringing about genuine change in the conditions of employment at the bottom end of the labour market to help combat in-work poverty.

Sissons et al (2016) provide a comprehensive review of the evidence relating to initiatives targeting progression, as well as an assessment of the factors characterizing specific sectors in the UK. Through experimental evidence, mostly from the US, and evaluating a range of localised targeted initiatives, there is support for a sector-focused approach to progression. This essentially entails programmes that target industries characterized by good quality employment opportunities, which are more likely to offer chances for career advancement and in which there is scope for integration with place-based economic development. These sector-focused initiatives adopt what is called a 'dual customer' approach, where providers seek to help both employers and jobseekers/low-wage workers through the same programme, for instance integrating the training and skills needs of individuals with the demand-side needs of particular employers or sectors (Schaberg, 2017). This literature shows that targeting the right sector matters, but so does the quality of delivery by the organisations providing services and the strength of the employer links. Lessons around partnership working, the importance of understanding sector needs and aligning training effectively are applicable across sectors; however, the review finds insufficient evidence to identify the 'best' sectors to target. In the analysis of the six sectors it assesses (manufacturing, construction, energy and environment, finance and professional services, hospitality and social care) different promising factors and challenges emerge.

Sectoral challenges point, on the one hand, to the limits of supply-side solutions focusing on upskilling and increasing individual human capital. On the other hand, demand-side strategies require a complex mix of employment regulation – in light of the role that non-standard employment has in relation to polarisation and labour market segmentation – and the development of 'high road' strategies with programmes and initiative at national, sub-national and local levels and involving a range of actors.

The role of the tax and benefits system

In the previous two sections we have seen that the government has a role to play in improving job quality and progression, in relation to both sectoral challenges and work arrangement, through employment regulation and through more localised initiatives, partnerships, incentives and nudges to employers – e.g. promoting ‘high road’ strategies and flexible job designs. The government also contributes directly through the tax and benefits system – for instance through the design of in-work benefits. In-work benefits are cash-transfers or tax-credits paid to low paid workers. The entitlement depends on individual earnings but can also be means-tested on the basis of family income, size and composition. They are typically designed to increase the incentive for the unemployed to take-up available job opportunities, while they also increase the incomes of households depending on low levels of earnings. In the UK, Universal Credit (UC) brings six existing means-tested benefits and tax credits under one single payment and it includes an element of in-work conditionality – this aims at ‘reducing welfare dependency’ (DWP, 2010, p. 2) but also shows increased focus on in-work progression, rather than solely on getting people into work.

Before addressing specific aspects of UC, it is important to note the key role played by in-work benefits in Anglo-Saxon countries especially. There is convincing evidence (McKnight et al, 2016; Kenworthy, 2015) of the positive impact of in-work benefits – such as previous UK in-work benefits (Working Tax Credit (WTC) and Working Families Tax Credit (WFTC)) and the Earned Income Tax Credit (EITC) in the US – on employment, particularly through increased retention rates and for particular segments of the population (e.g. single mothers). For instance, Dickens and McKnight (2008) find that WFTC increased employment retention among male recipients using a quasi-experimental design. However, they also find no evidence that they improved wage progression, in terms of annual earnings growth in the first year after the start of a claim, in comparison to other systems of in work support such as the Family Credit (FC).

In both the US and the UK, in-work benefits have been shown to be particularly effective in boosting the incomes of low-earning households and reducing poverty among some segments of the population, especially lone parents (Brewer et al, 2006; Bennett and Daly, 2014). Brewer et al (2010) used microsimulation to show the important impact of tax benefit reforms of the early 2000s on child poverty. Levell et al (2017) show that the progressivity of in-work benefits might be underestimated in snapshot analyses. Through simulations using the British Household Panel Survey and the Living Costs and Food Survey they find that in the long run increases to in-work benefits have progressive effects comparable to those of out-of-work benefits – this is because the lifetime poor spend the majority of their working lives actually in work. However, several studies (Figari, 2011; Bargain and Orsini, 2007; Marx et al, 2012) show that these effects depend on some contextual conditions and would not be replicable in other European countries with different characteristics in terms of dispersion in earnings, family composition and family income structures.

In general, targeting households rather than individuals makes benefits more effective in achieving redistributive goals and reducing poverty (in §7.1 we saw how individual versus household dynamics bear on the potential of minimum wages to have an impact on poverty and inequality). However, this also means that they generally produce disincentives: since in-work benefits are withdrawn as earnings rise, people may receive only a fraction of any additional earnings due to the high effective marginal tax rate. This creates a disincentive to increase hours or pursue higher paid work opportunities. These disincentives are particularly relevant for second earners (McKnight, et al 2016; Knabe and Schöb,

2011): in fact, the withdrawal of benefits as income rises inevitably creates high marginal effective tax rates for second earners. As these are almost always women, the system can reinforce gendered working patterns, contract types and occupations chosen, undermining chances of progression. The fact that these disincentives are common to UK-style tax credits emerges strongly in a systematic review conducted by Tripney et al (2009). Recent analysis of UC shows that under the new system disincentives for second earners are in fact even stronger, in virtue of sharper withdrawal rates (Alkeson et al 2015; Brewer et al, 2017). This can create further obstacles to progression for a group that already enjoys limited prospects.

Moreover, perverse effects of in-work benefits would see them play a role in increasing the incidence of low pay. In fact, they can make it viable for workers to accept jobs offering wage rates below reservation wages, with the prospects of topping these up through in-work benefits. This can lead to a supply of workers willing to take up low paid work, producing the incentive for employers to adopt a business model that takes advantage to this supply, potentially crowding out more productive, higher paying work and increasing the size of low wage labour market with fewer opportunities for progression. As noted above, adopting this 'low road' has consequences not just on individuals but on productivity, inequality and economic growth. However, the evidence on the direct impact of in-work benefits on the incidence of low-wage employment is inconclusive (Ray et al, 2014). McKnight et al (2016) note that the US and UK, with extensive in-work benefit systems, also have among the highest rates of low wage employment in the OECD, but this does not establish a causal link – as these measures are adopted in response to the incidence of low pay. However, the emphasis on creating higher wage floors in the past years can be interpreted as addressing the fact that low paid jobs can end up being subsidised by tax payers through in-work benefits and indeed it is essential to understand the inter-relationship between these instruments to design a coordinated policy action.

The UK Employment Retention and Advancement (ERA) pilot initiative exemplifies an approach which combined financial incentives for staying in work and increasing hours, in-work training, childcare assistance and one-to-one advice and support. ERA represents a form of time-limited in-work support focused on improving retention, an essential precursor to progression, and targeted the long-term unemployed and lone parents. An evaluation of the pilot finds positive outcomes during the programme period, but mixed results over the longer-term, with effects fading once extra financial support ends (Hendra et al, 2011). Brewer and Cribb (2017) use administrative data on lone parents and compare the effectiveness of ERA and that of 'In Work Credit' (IWC) another programme using time-limited in-work benefits. They show that while both present positive impacts and effects not necessarily limited to the period in which the benefits was paid, ERA emerge as more effective. Potential factors explaining this could be ERA's focus on full-time work, the combination of financial incentives and incentives to undertake training and the personalised support and advice offered. However, in this case as in the evaluations of most of the programmes addressing retention, the focus is mostly on work duration and changes in earnings, rather than in terms of poverty or inequality directly. Work retention is often operationalized as the cumulative spells of an individual's employment over time, and work progression tends to be measured as increases in earnings. It is also often not possible to determine whether increased earnings were due to increased hours or work at higher wages. Moreover, distinguishing the specific contribution of different elements is complex. In the UK ERA there was an increase in training participation, but this did not seem to result in an increase of qualification or rise in earnings. Ray et al (2014) argue that drawing from both UK and US evidence, it appears that financial supplements play an important role and in-work support might be necessary for the effectiveness of programmes but not sufficient.

As noted above, in-work benefits are successful at providing low wage families with higher average awards and improved employment retention (Dickens and McKnight, 2008), particularly when in conjunction with wage floor policies (Torsney, 2013). They appear less successful in boosting in-work progression. In this sense, elements of UC which attempt to improve the focus on progression would be addressing a particular challenge faced by the previous system. The introduction of in-work conditionality can be seen as an alternative way to push workers to increase hours or find higher paid work, replacing the 'carrot' of higher disposable income with the 'stick' of the threat of sanctions.

Everyone who claims UC is placed in a conditionality group based on their circumstances and work capability. This involves signing a 'claimant commitment' based on four categories (ranging from one with no work-related requirements to full conditionality). Work conditions apply to people who are in work, and different levels of conditionality apply depending on how their income relates to the Conditionality Earnings Threshold (CET), based on earnings equivalent to 35 hours a week at the level of the National Living Wage, and the Administrative Earnings Threshold (AET), which sets an earnings threshold currently at £338 per month for an individual and £541 for a household. Claimants below the AET threshold are subject to full work requirements (depending on their circumstances and caring responsibilities), while claimants above the AET threshold but below the CET experience a 'light touch' regime that has been recently under trial. Both are required to seek additional hours or higher paid work to meet the CET threshold and classify as "working enough". The conditionality threshold thus replaces the hours threshold that characterized the legacy system. Underpinning this strategy is the aim of helping people to focus on, and achieve, 'in-work progression' – which effectively means achieving earnings above the set threshold. The Department for Work and Pensions (DWP) has run an In-Work Progression Randomised Controlled Trial (DWP, 2018a; DWP, 2018b) between 2015 and 2018. It aimed to test the effectiveness of offering differing levels of support and conditionality and to be eligible to participate in the trial, claimants had to be in the "light touch" regime. The RCT assessed the difference emerging from groups facing different levels of support and mandatory activities: Frequent, Moderate and Minimal. After 52 weeks, a small impact on earnings progression was found. Frequent and Moderate Support participants earned £5.25 and £4.43 per week more respectively than Minimal Support participants. These groups also saw a 2.9 and 2.4 percentage point difference in the proportion of participants who had increased their earnings by 10 per cent or more compared to the Minimal Support group. While these effects were not significant in the smaller scale external evaluation conducted by Ipsos Mori, this evaluation elucidated a number of key factors that could impact claimants' chances of increasing their earnings. For instance, undertaking in-work training led to statistically significant positive impacts on progression outcomes. Frequent Support group participants, for example, undertook more actions to improve their chances of progression (including job-related training) than participants in other groups and reported fewer barriers to progression. On the one hand, it is not possible to distinguish between the effect of specific elements of the intervention, and particularly between in-work support and the conditionality elements connected to sanctions. While the overall incidence of sanctions was 2.4% and mostly low level, in §4.5 we have discussed the potent threat effects of these measures, while other outcomes – e.g. in relation to wellbeing – were not evaluated. On the other hand, it is important to note that these results, not unlike those of other programmes discussed above, do not connect individual earnings to poverty and inequality.

Finally, this element of UC must be evaluated within the overall system. For instance, a successive series of cuts to in-work support provided by UC – a £4 billion a year reduction in the generosity – affects its potential to improve financial incentives and to provide an effective safety net. Brewer et al (2017) find that work incentives are particularly weak among lone parents and second earners in couples with children. They also suggest a range of solutions, from lower tapers to time-limited conditional payments

for achieving progression. In general, it would seem important to explore the tensions and contradictions that can undermine the system's overall impact (Millar and Bennett, 2017).

Overall, this section has emphasised the importance of adopting a multi-faceted strategy to promote progression, one that attempts to tackle key issues facing workers in non-standard working arrangements and in certain sectors of the labour market whose progression prospects are particularly limited. This strategy also needs to consider the interaction with the tax and benefits system in order to counter adverse consequences, particularly for certain vulnerable groups.

7. Cost

High. While certain elements – e.g. initiatives involving employers or employment regulation – may not have a high cost to government, the overall approach, which, for instance, includes in-work benefits, would be considered expensive.

Overall

Improving in-work progression can have a double dividend effect on poverty and inequality reduction. There is growing interest in policies that enhance progression across the political spectrum – while public interest shows awareness of current barriers. Evidence points to the importance of adopting a multi-faceted – and likely expensive – strategy to promote progression, one that involves actors at different levels to tackle issues facing workers in non-standard working arrangements and in certain sectors of the labour market, as well as considering the interaction with the tax and benefits system.

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Appendix A: Methodology

Here we outline the methodological approach we have taken when reviewing the evidence in the “evidence of effectiveness” sections of the Toolkit. These reviews of the evidence are not in themselves systematic reviews, instead they adopt a transparent and multifaceted approach in order to suggest how effective a given policy might be, while acknowledging that establishing ‘effectiveness’ in social policy is a difficult and controversial task (Cartwright and Hardie, 2012).

Types of Evidence

Overall the toolkit takes a holistic and transparent approach to assessing evidence of effectiveness, underpinned by a critical interpretation of the quality and robustness of different types of evidence. Where possible, meta-analyses or systematic reviews are drawn on in the first instance as reliable summaries of evidence of efficacy.

It is common for evidence evaluation methods to work on the basis of a hierarchical grading scheme (see, for example, the Maryland Scientific Method Scale, or the Oxford ECBM). These approaches tend to place randomised controlled trials (RCTs) as the ‘gold standard’ of evidence, with other approaches ranked below RCTs by the extent to which they are experimental. Due to the random assignment of subjects into treatment and control groups, RCTs are uniquely strong in isolating the effect of a policy intervention from other potential confounding factors.

In the policy toolkit, RCT and quasi-experimental evidence is drawn on where possible. However, issues of external validity in particular are considered when understanding what this evidence tells us about the policy’s potential in the UK context.

However, experimental and quasi-experimental evidence is not all that informs our evaluation of evidence of effectiveness for a given policy. Due to ethical reasons, the way in which aspects of a policy and its outcomes can be measured (or not), and the complexity of some interventions, experimental approaches can be inappropriate or ineffective. Other forms of evidence are important too: for instance, observational studies with rich controls, ex-post evaluation of time-trends or simple monitoring. Microsimulations are also considered and are particularly relevant in relation to assessing the potential costs of policies. Qualitative evidence can also play an important role here, illuminating processes, revealing contextual factors, and essentially contributing to the understanding of why policies have the consequences they have.

External Validity and a Focus on the UK

As the toolkit has a UK focus, studies that are specific to the UK context are prioritised. However, this does not mean that non-UK studies are discounted, or that evidence from the UK is accepted without question. There are difficulties in understanding and measuring causality, especially when policy interventions are complex and multifaceted.

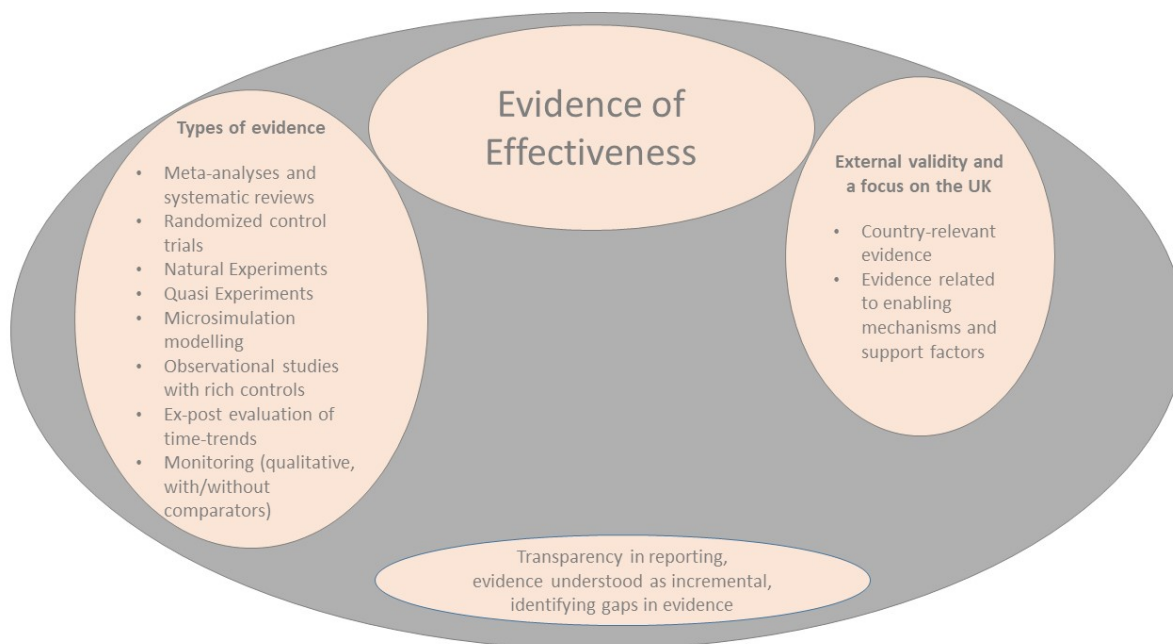
In order to incorporate judgements of the extent to which a policy is feasible and would work in the UK context the toolkit identifies (if possible) the processes through which an intervention works, looking for evidence that explains whether, how and why intended mechanisms are activated, or unintended or unanticipated outcomes emerge, for instance because of the intervention’s interaction with other policies or because of behavioural responses. This then allows a judgement to be made as to the likely efficacy of the policy in the UK context.

Transparency, incrementalism, and pointing out the gaps

An overarching principle of transparency guides the presentation of the ‘evidence of effectiveness’ section. This involves presenting not just a summary of the evidence, but also the underlying supporting detail that lead to the construction of a summary. This way the reader can retrace the incorporated evidence and the way in which it was evaluated for themselves.

Further, the toolkit works from the understanding that evidence is incremental. It is not possible for one study to confirm or reject the efficacy of a given policy intervention. In particular, it is made clear in the toolkit when there are substantial gaps in the evidence, and more research is needed to better understand a given policy area.

The toolkit's "evidence of effectiveness" sections thus makes explicit the kind of study and research design from which evidence is drawn – in order to make the judgements about the robustness of these findings in relation to efficacy transparent. It is then also noted when it is only possible to assess intermediate outcomes, stress relevance to the UK context and limitations in terms of external validity.



Reference

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Appendix B: Research papers and abstracts

Inequality, poverty and the grounds of our normative concerns

[LIPpaper 1](#) by Irene Bucelli

Abstract Policy debates surrounding poverty and inequality try to find practical solutions to what we should do to tackle these phenomena. But what are the grounds for being concerned about poverty or about inequality? To what extent do these overlap? These questions invite us to explore the conceptual links between the two notions from the standpoint of their normative justifications. This paper clarifies the normative debate surrounding poverty and inequality, highlighting both moral and non-moral reasons that ground our concerns. The result is a clear map of the key philosophical positions, connected to current empirical debates in social policy. What emerges from this analysis is the possibility of endorsing a broader social justice justification for which poverty and inequality do not generate competing concerns, but see, instead, our normative reasons to care about both overlap.

Bucelli, I. (2019) "Why we should care about poverty and inequality: exploring the grounds for a pluralist approach", *Critical Review of International Social and Political Philosophy*. pp. 1-28

The relationship between poverty and inequality: Concepts and measurement

[LIPpaper 2](#) by Lin Yang

Abstract This paper defines and maps the variety of different concepts and measures of poverty and inequality that have been developed and used in research. These reflect differing views of what constitutes a minimum acceptable quality of life and how the disparity between the least and most well-off in society should be defined. Since the analytical conclusions of poverty and inequality research can depend on the concepts and measures chosen, it is worth laying out their underlying rationales. In this paper we discuss the concepts of poverty and inequality in broad terms; the focal variables of poverty and inequality that have been proposed in the literature, from unidimensional monetary indicators to broader multidimensional and subjective concepts; the issues in conducting comparative analyses of poverty and inequality over subgroups of individuals, households, countries and over time; and the properties of measures proposed for summarising levels of poverty and inequality over the population. While there are overlapping features between approaches to both poverty and inequality measurement, such as the focus of traditional approaches on income and the use of indices for the summarisation of income poverty and inequality, there are also distinct challenges for both. The variety of proposals and abundance of debate shows that there is little consensus on how these challenges should be met. However, this paper has attempted to present the salient points among some of the most prominent issues and approaches. In doing so, it is hoped that the analysis of poverty and inequality, and the relationship between the two, can be better understood within the context of the menu of concepts and measures currently available.

The empirical relationship between income poverty and income inequality in rich and middle income countries

[LIPpaper 3](#) by Eleni Karagiannaki

Abstract This research draws on inequality and poverty statistics from various databases including the European Union Statistics on Incomes and Living Conditions (EU-SILC), the OECD

Income Distribution Database (IDD) and the World Wealth and Income Database (WID) to investigate the relationship between inequality and poverty in rich and middle income countries. The analysis is supplemented with detailed case studies for the UK, US, Sweden and Denmark (using in addition distributional statistics from national databases) in order to gain a better understanding of the driving forces behind the correlation between poverty and inequality trends. Analysis of cross-country variation in the levels of inequality and poverty reveals that there is a very strong positive and statistically significant cross-country correlation between levels of inequality and levels of poverty. The estimated correlation is stronger when inequality is measured by the Gini coefficient and the P90:P10 and the P50:P10 ratios by the P90:P50 ratio and when poverty is measured by relative poverty rates than by poverty gaps. Evidence from cross-country analysis of changes in poverty and inequality suggests that there is strong cross-country correlation between changes in poverty (both anchored and relative) and inequality. Although the correlation between changes in income poverty and changes in income inequality remain strong and statistically significant in terms of most inequality measures (except from the P90:P50 ratio) it is weaker than the one identified by exploiting cross-country variation in the levels of inequality and poverty.

Multidimensional poverty and income inequality in the EU

[LIPpaper 4](#) by Lin Yang and Polly Vizard

Abstract This paper examines the link between the way a country's most deprived individuals experience disadvantage across multiple dimensions of life and how this may relate to its level of income inequality. By expanding the definition of disadvantage beyond income poverty, we overcome some of the limitations presented by the mechanical link between strictly income-based measures of poverty and inequality. We consider whether – and if so, how – three measures of material deprivation and multidimensional poverty relate to income inequality, focusing our analysis on European Union countries. We have also added to the only previous analysis looking at macro-level covariates of multidimensional poverty across Europe using a Multidimensional Poverty Index (MPI) and in particular we have focused on its relationship with income inequality. The over-time multilevel analysis presents a further important extension, allowing for the contributions of both cross-country and within-country variation in inequality to variation in material deprivation and multidimensional poverty to be analysed in a multivariate setting. Our findings reinforce the analysis of the relationship between income poverty and income inequality in other papers from this project. Positive associations between MPI poverty and Gini inequality are observed in descriptive cross-sectional analysis of correlations. In multivariate analysis, after controlling for a set of individual-level variables, GDP per capita & welfare regime, positive associations between MPI poverty and Gini inequality are also observed. However, this relationship weakens when looking at change within countries over the 2007-11 in both descriptive and multivariate analysis. The findings also highlight the role of social and public policy, with democratic welfare regimes found to be play an important protective role in relation to MPI poverty.

Understanding the relationship between inequalities and poverty: resource constraint mechanisms

[LIPpaper 5](#) by Lin Yang

Abstract This paper reviews the evidence of how resource constraints may limit the welfare state's ability to tackle inequality and poverty. In particular, it examines how the quantity, and to some extent the quality, of resources that can be raised to tackle poverty may be influenced

or constrained by high levels of inequality. Through raising taxes for the government to spend, the welfare state is by definition redistributive. However, social and political pressures can constrain the extent to which it reduces poverty and inequality. In particular, a variety of channels exist through which economic inequality may generate pressures on the resources available to tackle poverty. Some of these channels have a subjective basis, such as subconscious biases in how people perceive the economic distribution and their place in it, and conscious beliefs and attitudes towards the poor and towards redistribution. Other channels work through observed decisions and behaviour, in particular those of governments and wealthy individuals. The level of inequality is reflected in the power of those at the top of the economic distribution to influence these government decisions in ways that constrain its capacity to redistribute. This could be directly through funding particular political agendas, and indirectly through withholding government revenue through tax evasion. In this way, the political economy effects of high levels of inequality in society can influence the resource constraints on government decisions regarding welfare targeting, decentralisation, budget cuts, and representation of voter interests. These in turn can all impact on the effectiveness of poverty alleviation. While the net effect of these channels on efforts to tackle poverty are not clear-cut, it seems on balance that high inequality tips many of these channels in a direction that constrains the redistributive powers of governments and their poverty alleviation efforts.

Understanding the relationship between inequalities and poverty: mechanisms associated with crime, the legal system and punitive sanctions

[LIPpaper 6](#) by Magali Duque and Abigail McKnight

Abstract This paper outlines the various issues pertaining to how crime, the legal system and punitive sanctions may provide a mechanism through which inequality is positively related to poverty. Overall we conclude that the evidence suggests that crime, the legal system and punitive sanctions is one of the mechanisms that contribute to the positive link between economic inequality and poverty. Although we do not find consistent evidence that a rise in economic inequality leads directly to an overall increase in crime rates (most likely due to other stronger forces shaping crime trends), a deteriorating relative position of the least advantaged increases their incentives to commit crimes which involve an economic gain. Once drawn into a crime, these individuals fall into a cycle of disadvantage from which it is difficult to escape. Evidence of discrimination in the criminal justice system and sentencing disparities means that social and economic inequalities are further exacerbated. What is clear is that increasing inequality is linked with a preference for greater punitive sanctions. This has meant that even though crime rates have fallen since the 1990s, prison populations have soared. Increases in the use of custodial sentences and longer sentences are the main contributory factors. In an environment with limited effective rehabilitation and very high rates of re-offending a 'prison-to-poverty' pipeline contributes further to the inequality-poverty relationship.

Understanding the relationship between inequalities and poverty: dynamic mechanisms

[LIPpaper 7](#) by Magali Duque and Abigail McKnight

Abstract In this paper we examine the evidence on how dynamic mechanisms, which include earnings and income mobility, poverty dynamics, social mobility and the accumulation of risk and advantage over the lifecycle, may be a contributory factor behind the estimated positive correlation between income inequality and poverty. We find evidence that higher income

inequality is related to greater income volatility, lower equalising mobility and lower social mobility. Cross-sectional estimates of poverty risk miss important information on poverty persistence, poverty traps and recurrent episodes of poverty. The evidence suggests that income and poverty dynamics is likely to be a contributory mechanisms behind to observed positive correlation in cross-sectional measures of income inequality and poverty.

Understanding the relationship between poverty, inequality and growth: a review of existing evidence

[LIPpaper 8](#) by Abigail McKnight

Abstract In this paper we review the theoretical literature and empirical evidence on the relationships between economic inequality, poverty and economic growth. In the early literature the focus was on examining the relationship between economic growth and economic inequality. Simon Kuznets' influential 1955 paper set out a hypothesis that as countries advance through the stages of development, inequality will first rise and then fall (the Kuznets curve). Kuznets provided some estimates of this relationship but lamented at the time about the lack of good quality data. Later studies, with higher quality data, suggest that this relationship does not hold. In more recent times, interest has shifted to examining the opposite relationship: whether inequality is good or bad for growth. There is now an extensive literature covering the theoretical relationship and providing empirical evidence supporting both hypotheses. Results seem to hinge on data quality, differences in measures used, choice of control variables and statistical estimation techniques. Although it is possible to pick holes in some of these studies, one way in which the ambiguity in the results and the opposing positions can be aligned is through considering that the relationship between inequality and growth is non-linear. In this non-linear model, at lower levels of inequality, growth first rises as inequality increases, and at very high levels of inequality, growth falls with further increase in inequality. Between these two levels there exists a range where the relationship between inequality and growth is ambiguous. Research has also examined the three way relationship between poverty, inequality and growth. Bourguignon (2004) shows that a country's change in absolute poverty can be fully determined by the change in income growth and income inequality. However, this identity does not hold for poverty measured in relative terms. While growth may be a key factor in reducing absolute poverty in low income countries, the idea held by some that inequality will promote growth and this growth will mean that the benefits from growth will 'trickle-down' and thus reduce poverty, is disproved in the literature. Evidence suggests that in many cases growth benefits the already well-off and that poverty, in fact, has a negative impact on the prospects of growth.

The net effect of housing-related costs and advantages on the relationship between inequality and poverty

[LIPpaper 9](#) by Lin Yang

Abstract This paper examines how we account for the cost of housing changes the relative position of households in the income distribution, and influences the incidence and socio-demographic profile of those in housing-induced poverty. Three measures of income are used – the standard Before Housing Costs (BHC) measure, and the After Housing Costs (AHC) and With Housing Income (WHI) measures which adjust for housing in two different ways – to analyse the net effect of housing costs and advantages on poverty and inequality, and the underlying distributional changes linking the two. Inequality according to the WHI measure is

much more similar to BHC inequality; however, this hides substantial re-ranking of households within the distribution, such that private tenants are at greater risk of relative poverty. The smaller difference in WHI inequality relative to BHC inequality is due to the improved positions of social tenants lower down the income distribution accompanied by improved positions homeowners higher up the distribution, so that the overall income distribution does not become more or less dispersed. Accounting for housing costs and advantages using the AHC or WHI measure, lone parents are disproportionately worse-off relative to the BHC baseline compared to the other family types.

Understanding the Relationship between Poverty and Inequality: Overview Report

[LIP Paper 10](#) by John Hills, Abigail McKnight, Irene Bucelli, Eleni Karagiannaki, Polly Vizard, and Lin Yang with Magali Duque and Mark Rucci.

Summary

In this report we summarise the findings from a series of papers that explore the relationships between poverty measured in various ways and inequalities in people's incomes. This programme of research was motivated by the question of whether it is possible to separate concerns between poverty and inequality – is it in fact possible to be concerned about poverty but to be indifferent to inequality? As a corollary, does tackling poverty also require policies to reduce inequality?

We review the philosophical debate, identifying a number of different standpoints. For some, inequality between people is the prime concern, with poverty one of its consequences. For others, poverty and ensuring that everyone meets some kind of minimum standard is the starting point. Inequality for some from these points of view would be of concern just for instrumental reasons, if in some way it leads to or exacerbates poverty, but not in its own right. In many cases, though, our concerns with poverty and inequality are not mutually exclusive. We can hold that both poverty and inequality are relevant for human deprivation, and that whether you start with a concern for poverty or a concern for inequality, they are both violating human dignity. They can also stand in mutually reinforcing relationships and hinder other social goals. A pluralist approach incorporates different justifications: one can prioritise poverty (as the most important determinant of deprivation, or reflecting human rights or humanitarian concerns) while also allowing that inequality matters, both in itself and instrumentally, because it worsens poverty.

This implies that for some perspectives at least there is a core empirical issue: whatever the underlying reasons for our concerns, is there empirical evidence that in practice poverty and inequality are linked? Here there are two competing propositions:

- i. That high inequality is associated with high rates of poverty, in a way that suggests either that there is a causal relationship of some kind, with higher inequality *leading to* greater poverty, or that the same factors drive both, so that tackling one is likely to mean reducing the other.
- ii. That high inequality is good for poverty reduction, measured against a fixed standard, at least, through the beneficial effects of the incentives it creates leading to economic growth, benefiting poor people in *absolute* terms, even if they are left behind *relative* to others.

In all of this, precise definitions matter. In the empirical analysis summarised in the report we look at a variety of ways in which one can measure income inequality, using measures which put more or less weight on inequalities in different parts of the distribution, and at different ways of measuring the extent of poverty, both monetary measures and those which incorporate wider measures of deprivation. We also test some of the relationships found by examining whether changes in poverty are associated with changes in inequality, a stronger test than just looking at associations at one moment.

Using a variety of inequality measures matters, because any observed relationship *could* simply be the mechanical result of the definition used. In particular, the main measure of relative poverty published by the UK government and used widely in international comparisons, is a count of how many people have incomes below a certain proportion (60 per cent commonly) of the median, or middle, income. There is, in fact, no necessity for this measure to be linked to *overall* income inequality – there could be no-one with an income very far below the national median, for instance, at the same time as there being considerable inequality in the top half. But it would be unsurprising to see a close relationship between relative poverty measured this way and measures of inequality in the bottom half of the income distribution.

That said, what the empirical evidence shows is an association between higher income inequality and higher poverty that is *not* the result of a mechanical or arithmetical link of this kind. In headline terms, looking first at income-based measures of relative poverty:

- Over the last fifty years in the UK there is a clear positive empirical association between income inequality and relative income poverty. Years with comparatively low inequality had lower relative poverty, and those with high inequality had higher poverty rates.
- This is true using a variety of inequality measures, looking at the UK over time. Overall there is even a (weak) positive correlation between inequality at the very top of the income distribution, measured by the share of income received by the top 1 per cent, and relative income poverty.
- However, the patterns of association have not been constant over time. During the 1970s and the 1980s the different series for income inequality and relative poverty did move closely together. But the falls in relative poverty from the early 1990s to 2010 were not matched by similar falls in income inequality. Whatever the underlying long-term relationships between inequality and poverty rates, policies and other factors can make a difference from year to year.
- Looking across European Union and other industrialised countries, higher income inequality, measured in a variety of ways, is associated with higher relative poverty. We simply do not observe countries with high income inequality and low relative poverty: achieving that seems to have eluded the policy-makers in many countries.
- Furthermore, *changes* in inequality over time in a country are associated with changes in relative poverty, although the relationship is weaker than when comparing levels in a single year, and in some countries the two have moved in opposite directions. This relationship remains strong and statistically significant, even controlling for factors such as initial inequality and the rate of income growth.

- However, looking across industrialised countries we found no consistent pattern in how the income shares of the very top of the distribution (top 1, 5 and 10 per cent) relate to relative poverty rates.

We also look at aspects of poverty beyond income-based measures to examine the link between a country's level of income inequality and how this may relate to the way its most deprived individuals experience poverty across multiple dimensions of life:

- Using indicators of material deprivation and multi-dimensional poverty also shows significant associations between levels of poverty and income inequality in different European Union countries, suggesting that these are not the result simply of measuring poverty in only monetary terms.
- These results apply controlling for a wide range of micro- and macro-level variables and differences between countries. The relationships we found are not simply the result of the other underlying factors which are separately associated with both poverty and income inequality, thus creating an apparent association between them.
- However, this analysis does not show a statistically significant relationship between changes in inequality and changes in material deprivation or multi-dimensional poverty measures, looking at the narrow period between 2007 and 2011 for which we have data. This does not necessarily contradict the observation that material deprivation and multi-dimensional poverty are linked to income inequality at a point in time, as there may be longer lags than four years (or less) between the two (and this particular period overlapped the onset of economic crisis).

We also look at the evidence for the competing proposition – that income inequality may be good for poverty reduction, at least against fixed standards, for instance through increasing growth.

- However, looking at recent European experience we found that changes in inequality are positively associated with changes in poverty against an anchored standard – increasing inequality implies a slower reduction (or faster increase) in poverty even against a fixed standard. High initial inequality and growing inequality appear to hold back reductions in poverty rates against a fixed line. This goes against the prediction that greater inequality would help speed poverty reduction against a fixed line.
- One tradition in economics suggests that there is a trade-off between equality and growth, stressing the positive effects of the incentives for work, investment and risk-taking that go with wider inequalities. However, other economists have suggested a series of ways in which inequality can damage growth.
- The competing theoretical relationships between poverty, inequality and growth suggest that this is an empirical question. But here the evidence is also divided, with some studies suggesting that inequality helps growth, but many finding the opposite, depending on the precise models, selection of countries, and measurements used. The equivocal nature of the evidence suggests that the positive links we find between greater inequality and greater poverty should remain the main focus, rather than concerns that lower inequality would hold back growth.

- The evidence supports the idea that the relationship between inequality may be non-linear, with very low levels and high levels of inequality both damaging growth, but for a wide range in between the effect of changes in inequality being roughly neutral. This implies that the positive links between greater inequality and greater poverty would remain the main concern in most countries, rather than dangers that lower inequality would hold back growth and so the real incomes of those in poverty.

Given that the evidence does suggest that higher inequality *is* often associated with higher poverty, we therefore examine why there should be such a relationship, examining evidence put forward in the literatures from different fields. We find a variety of proposed mechanisms, which we explore under seven headings:

- a. **Linked drivers:** especially in the labour market, including discrimination: the same factors may lead to both poverty and inequality, even though the relationship is not causal.
- b. **Inequality at one time – and especially in one generation – may reinforce both inequality and poverty in the next,** as unequal life chances make it harder for some to build their livelihoods than others. If higher income inequality leads to lower income mobility, poverty becomes more entrenched and persistent.
- c. **Limits to redistribution:** even if market incomes, before state transfers, are unequal, tax-financed welfare states can break the link between that and poverty, but there may be limits to what redistribution can achieve.
- d. **Perceptions and attitudes:** what drives policy responses to poverty and inequality will ultimately depend on the public's perceptions and knowledge of them. If inequality is associated with less knowledge of how others live, popular demands for something to be done about poverty may be reduced.
- e. **Geographical polarisation** may reinforce all three of the previous mechanisms. Opportunities for poor people will be reduced, if they are distant from work or have access to lower-quality education. Local resources in part determine the quality of local public services, and the more so as national equalisation systems are reduced. Geographical polarisation or even segregation between groups will further limit knowledge of how others are living, increasing stigma and reducing empathy.
- f. **Politics and the influence of the affluent:** both media control and political party funding are often dominated by those with the greatest resources; the greater the resources of the richest, the more the political agenda may reflect their interests, acting against effective action to reduce poverty. High inequality and feelings of lack of involvement and connection may lead to lower turnout amongst those who have most to gain from redistributive policies. Also important will be who sets the agenda for the legal institutions that constrain markets, and people's ability to exercise the rights that such institutions give them.
- g. **Crime, punishment and criminal justice** have also been put forward as routes through which inequality may worsen problems of poverty and its persistence. Increased inequality affects incentives to commit crimes, and punitive preferences of the public and politicians, with reduced resources for rehabilitation.

The range of potential drivers of the observed relationship imply that public policies matter and that this is not just the obvious ones, such as social security, taxation and within the labour market including anti-discrimination legislation. What happens across education, housing, regional investment, policy rhetoric, and factors that affect culture and social norms, and democratic safeguards will also be important. However, the relative importance of different items within such an agenda for tackling poverty would reflect what we have seen empirically, notably the apparent importance of inequalities across the income distribution as a whole, rather than specifically inequalities right at the top (although there may, of course, be other reasons for worrying about them).

The evidence we present suggests that for those whose primary concern is with tackling poverty, it is hard to do this in countries such as the UK without simultaneously reducing inequalities, given the strong associations we see between them empirically, and the ways in which inequality can itself act as driver of poverty. At the same time, for those for whom both poverty and inequality are concerns, the links between them suggest that policies to tackle either can have a double dividend.