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June 19th, 2025

The role of “good jobs” in tackling in-work poverty

In the recent past, governments aimed to reduce unemployment by trying to get people “any job”, and at the same time increase the hourly wages of the lowest paying jobs. But that strategy led to people getting stuck in jobs that offered few hours, little flexibility and no potential for advancement. Labour is right to focus on “good jobs” as way out of that trap but, Thomas Stephens warns, this Government ambition needs to be coupled with its Industrial Strategy and deeper reforms to the welfare system.



The past decade has seen a mixed picture as far as UK job quality is concerned. The previous Government only adopted a narrow range of public policy interventions in the labour market. It focussed, first, on improving hourly wages at the bottom of the pay distribution through successive increases in the National Living Wage. Second, it attempted to increase the quantity of jobs by pursuing increasingly conditional welfare policies in an effort to drive people into paid work and reduce inequalities in employment rates between sub-groups of workers.

The latter was manifested in the Department for Work and Pensions’ “ABC” approach to getting people on Universal Credit into work – “**Any job first, Better job next, and then into a Career.**” It rested on an implicit – and contestable – assumption is that *any* paid employment will naturally improve job quality over time.



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Since its election last July, Labour has shown a welcome recognition of the importance of “good work” as a policy goal in its own right – committing **in its Manifesto** to delivering “good jobs and productivity growth in every part of the country”; and taking early action to improve non-pecuniary aspects of work with its planned Employment Rights Bill and “**Make Work Pay**” strategy.

But the Government's new approach to “good work” risks being undermined unless it is combined with more fundamental social policy interventions – departing more forcefully from the regressive and ineffective system of welfare support which they inherited; and providing person-centred and place-based employment support.

Better hourly wages, yet worse or stagnating in-work poverty

Due to a political consensus on high wages, the past decade has seen an improvement in the position of workers at the bottom of the wage distribution. The proportion of paid workers with hourly wages below two-thirds of the median has fallen dramatically (see Figure 1). The Resolution Foundation's **Economy 2030 Inquiry** arrived at similar findings with other data.

Yet curiously, the success in improving hourly wages has failed to tackle in-work poverty (Figure 2), which has at best risen or at worst stagnated. Workers at the bottom of the labour market may be earning at a relatively higher *rate*, but this does not appear to have translated into an improvement in their living standards.

As I argued in a **previous blog post**, this apparent paradox can be resolved if we shift our focus to looking at a widely-discussed concept in the job quality literature, but one that is neglected in the current UK policy debate: “Earnings Sufficiency”, which I define as the ability of workers to meet a minimum societally-agreed standard of living from their earnings alone.

One useful way of measuring Earnings Sufficiency is to compare whether workers' overall net earnings with the **Joseph Rowntree Foundation's Minimum Income Standards** (MIS). These are

agreed through deliberations with members of the public, and set out the amount of money people in various individual and family circumstances need to live an acceptable standard of living.

Even though hourly wages have improved, the proportion of workers with net earnings above the lowest MIS – that for a single person living alone – has changed relatively little over the past decade. Indeed, for self-employed workers, things have gotten worse.

Figure 1. Proportion of paid workers earning below two-thirds of the median wage using two thresholds (the median wage of full-time workers, and the median wage of all workers).

Calculations made using a large-scale representative UK household survey (*Understanding Society*).

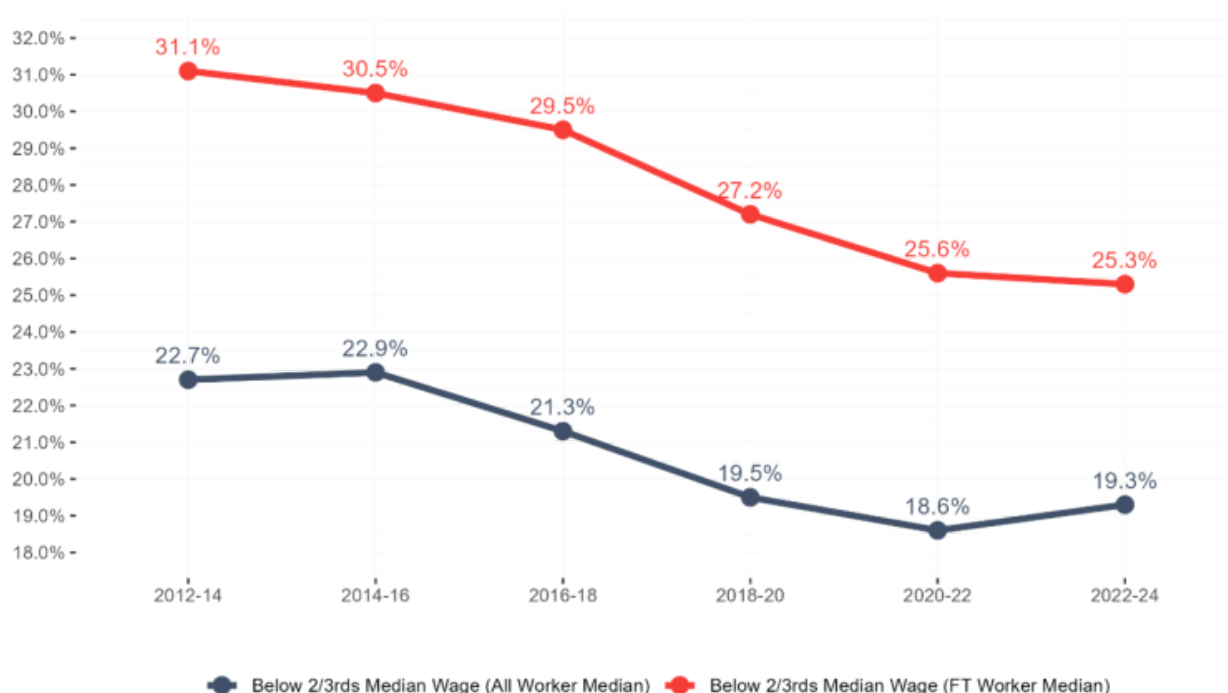


Figure 2. Proportion of households with at least one person in paid work in poverty (below 60 per cent median). Own calculations using a large-scale representative UK family survey (*Households Below Average Income*).

Note that 2020-21 (Covid-19) is excluded from the time series due to the different HBAI survey method that year. Further note that analysis on a more restricted sample of households with all adults in work shows a very similar trend.

Wider job quality: a bottleneck in improving workers' living standards?

Whilst the Coalition and Conservative Governments had initial success in improving the employment rate, a large part of this rise was due to a rise in lower-quality and more precarious forms of solo self-employment. **In previous research** using a multidimensional "UK Quality of Work index", I found this led to increased polarisation in job quality between employees and the self-employed, led particularly by rises in employee but not self-employed pension coverage, as well as falls in self-employed job security and perceived job prospects.

Workers with low Earnings Sufficiency possess markedly fewer employee-oriented flexible working opportunities in their workplaces, yet also work fewer hours. This implies that they may struggle to obtain flexible work opportunities which enable them to manage commitments – opting instead for jobs with fewer hours. This certainly seems to be the case for the rising cadre of solo self-employed workers in the UK, with **IFS research suggesting** these are disproportionately more likely to be underemployed and to want to work more hours.



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These same workers are in jobs with significantly worse long-term growth prospects. In short, the most marginalised workers are not concentrated in the growing jobs of the future – a far cry from the “ABC” mantra of the previous Government.

Weak local labour markets and the risks for welfare conditionality

Despite initial success in raising the employment rate, the UK's post-Covid labour market experience has been pretty dismal. **The employment rate** has not recovered from its all-time high on the eve of the pandemic, which is mirrored by a rise in **working-age economic inactivity** – again, this has yet to recover from its all-time low before Covid-19. Perhaps unsurprisingly, there has been a rise in working-age **long-term sickness** over this same period.

As academic evidence in the European public policy sphere suggests, the temptation of governments is to respond such challenges by dropping any commitment to job quality and pushing for “more jobs” at any cost – driving up welfare conditionality under an assumption that supply-side labour market interventions are needed to incentivise workers into jobs.

Estimates of job quality at a local labour market level in England, produced in partnership with **the New Economics Foundation**, suggest this over-simplifies the challenge. Initial results suggest a significant proportion of local labour markets in England are faced with *both* low vacancies *and* low job quality. Around a quarter of Universal Credit recipients – disproportionately concentrated in northern England and Wales – live in labour markets in the bottom third of both distributions.

In the absence of demand-side interventions, it is difficult to see what welfare conditionality will achieve except hardship for these populations.

What to do about it?

The Government has an opportunity to address these issues by taking a broader-based set of policy interventions to improve the living standards of workers.

As mentioned earlier, there are signs that they recognise this with respect to job quality – with some real attempts to address one-sided flexibility and strengthening workers’ hands when requesting flexible working. There are also signs that they recognise the importance of a place-based approach. The new **Industrial Strategy** promises to “create good jobs in Britain’s industrial heartlands.” **Locally-led growth plans** are intended to be key to this. So too is the proposed “**National Jobs and Careers Service**”, which has the potential to mark a radical shift away from the previous conditionality-heavy regime.

What is currently up in the air are more fundamental questions about the link to broader social policy. There is a real potential for the state to be used as a tool to drive up the quality of jobs locally, but only if it pursues what I would term “muscular jobs brokerage”: working with local employers and workers to deliver high-quality careers, with person-centred employment support backed by demand-side investment in local labour markets.

But this requires a departure from the welfare system of the past decade. Without such a departure, there is a risk that the real potential to improve living standards through work could be lost – and with it, any meaningful improvement in the job quality of the most marginalised.

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