

# What should be done about the scourge of in-work poverty

 [blogs.lse.ac.uk/politicsandpolicy/poverty-no-longer-problem-of-workless-and-work-shy-says-alan-milburn/](http://blogs.lse.ac.uk/politicsandpolicy/poverty-no-longer-problem-of-workless-and-work-shy-says-alan-milburn/)

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*Alan Milburn, the government's social mobility 'tsar', last week released a report into child poverty and social mobility in which it was warned that, because work can no longer guarantee a way out of poverty, Britain risks seeing social mobility 'go backwards'. **David Binder** looks at the findings of the report and examines some of the potential policy responses.*



'Poverty no longer problem of workless and work shy'. This statement, coming from Alan Milburn as the first [State of the Nation annual report](#) into social mobility was launched last week, challenges predominant views about who is in poverty and what the causes are (i.e. the unemployed on benefits who are lazy).

The figures in Milburn's report show us that [two thirds of](#) poor children in the UK come from households where at least one person is in paid work (6.1 million people, 4.1 million being adults and 2 million being children, 1 million more than those in workless households). In addition, research relating to the 'minimum income standard' – an income considered appropriate to reach a '[socially acceptable standard of living](#)' – tells us that a household with a couple and two children where both spouses/partners are working full time on the UK minimum wage would fall well short of this standard. [They would in fact need to be both earning £9.91 per hour](#), more than £3 greater than the current minimum wage.

Having families where one or both parents are working full time but whose children are still mired in poverty is rather embarrassing for David Cameron, who has declared his desire for Britain to become an '[Aspiration Nation](#)'. But what should be done about the scourge of in-work poverty? An adequate education for all of the UK's children is massively important in helping all Britons have a chance. So are potential policy solutions through the UK tax and benefits system, which this article will concentrate on.

Taking the current tax credits system first. Whilst ([internationally speaking](#) at least) it supports the lowest earners relatively generously, the comparatively sharp rate at which this is withdrawn means that for a family where one spouse is in work and the other is not means that the reward from any increase in earnings from the minimum wage to the living wage for example ([£6.31 to £8.55 per hour in London](#)) or what economists call the Marginal Effective Tax Rate, will be 73%. This means that for every extra £1 earned, the family will only see 27p come into the household.

If we are going to focus in on the benefits system, we should look at ways in which withdrawal rates can be reduced for lower end of incomes. The government would then be supporting people in work and not just at very low incomes, but as they progress up the income distribution. This as a result could have a positive impact in terms of social mobility, through not only lifting more children out of poverty as their parents see more financial reward through employment. Critics will say lessening withdrawal rates is expensive, but in the context of the [billions spent increasing the income tax allowance](#), is it really, especially given its potential long term benefits?

What can be done in terms of our tax system? [David Cameron recently announced a transferable allowance for married couples](#), which due to having a positive effect in reducing the tax burden of one-earner couples with children will reduce the METRs faced by these families. No one is pretending however that at the level currently proposed (benefiting families by about £3.85 per week) the effects of in work poverty or social mobility are going to be significant. However if substantially bolstered they certainly could be, and this should be something all parties consider in the run up to 2015 and beyond.

Other things worth considering in terms of the tax system include reintroducing the married couples allowance (MCA) and additional person's allowance (APA.) Like the transferable allowance, this would maintain independent

taxation, but would also benefit two-earner couple and single parent families. A couple more radical options would be to introduce joint taxation, [as is the case in a number of OECD nations](#), or move support for families currently present the benefits system back in the tax system. Doing so could have really positive effects on work incentives, whilst maintaining financial support for families who need it.

In summing up, it's great to see that Alan Milburn has flagged up in-work poverty as a key issue. Whilst there are many reasons why social mobility has remained stubbornly hard to combat for decades, the current tax and benefits surely has to feature in the mix. A tax and benefits system that promotes social mobility should not only promote work, but also support earners within families (and the responsibility they have for non-earning spouses and children) as they aspire and progress up the earnings ladder.

*Note: This article gives the views of the author, and not the position of the British Politics and Policy blog, nor of the London School of Economics. Please read our [comments policy](#) before posting.*

### **About the Author**

**David Binder** is a Family Fiscal policy Consultant for the Christian social policy charity, CARE, where he conducts in- depth research on Family Tax, Welfare and Benefits. As well as also writing extensively on these issues, David explores other areas relating to society and culture, evangelical christianity (of which he is a believer) and criminal justice. David's blog can be read at [www.thoughtsofbinder.wordpress.com](http://www.thoughtsofbinder.wordpress.com).