

## Inclusive Growth Analysis Unit

## How could inclusive growth policies reduce poverty at local level?

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## Key points

- City regions must develop a systemic approach to tackling poverty which recognises the role of both economic and social policy;
- Most poor households contain someone in paid work: 60% of poor working-age households in Greater Manchester;
- Inclusive growth policies could help to reduce poverty by reducing barriers to work; growing the number of good jobs; developing better infrastructure to support employment; and reducing the risks and costs faced by poor residents;
- These policies will need to be backed up by enabling policies, including an effective tax and benefits system;
- Poverty impacts must be designed into inclusive growth policies from the start, drawing on a clear logic model and reviewed through distributional impact assessments.

High levels of poverty are found in many of the UK's cities, including those which have experienced strong economic growth.<sup>1</sup> This paper explores the potential for inclusive growth policies to address this problem. Inclusive growth has been described as the 'new orthodoxy' in urban policy, with growing interest in the potential to move away from a 'grow now, distribute later' approach to achieve a socially and spatially fairer approach to city region development.<sup>2</sup> But the concept has been defined in different ways, affecting the kinds of policies, mechanisms and aims that might be in view.

To what extent could inclusive growth contribute to poverty reduction? This paper takes the case of Greater Manchester, describing the extent and nature of poverty in the city region as seen through wider poverty trends, before considering how inclusive growth policies might help to address these. The paper draws on data analysis, a literature review and a consultation exercise.

<sup>1</sup> Lee, N. et al. (2016) Cities, growth and poverty: evidence review, Joseph Rowntree Foundation.

<sup>2</sup> RSA Inclusive Growth Commission (2017) Making our economy work for everyone; Lee (2019) Inclusive Growth in cities: a sympathetic critique. *Regional Studies*, 53(3):424-434

# 1 Poverty in Greater Manchester

Overall, in 2016/17 620,000 people (22%) were estimated to be living in income poverty across the Greater Manchester city region (see Figure 1). These estimates are for 2016/17. National projections suggest poverty will increase in coming years.<sup>3</sup>

In Greater Manchester, the scale of poverty varies across the city region, reflecting in part the legacy of de-industrialisation, and availability of cheaper housing. A relatively high proportion (21%) of Greater Manchester neighbourhoods are among the most deprived in England.<sup>4</sup>

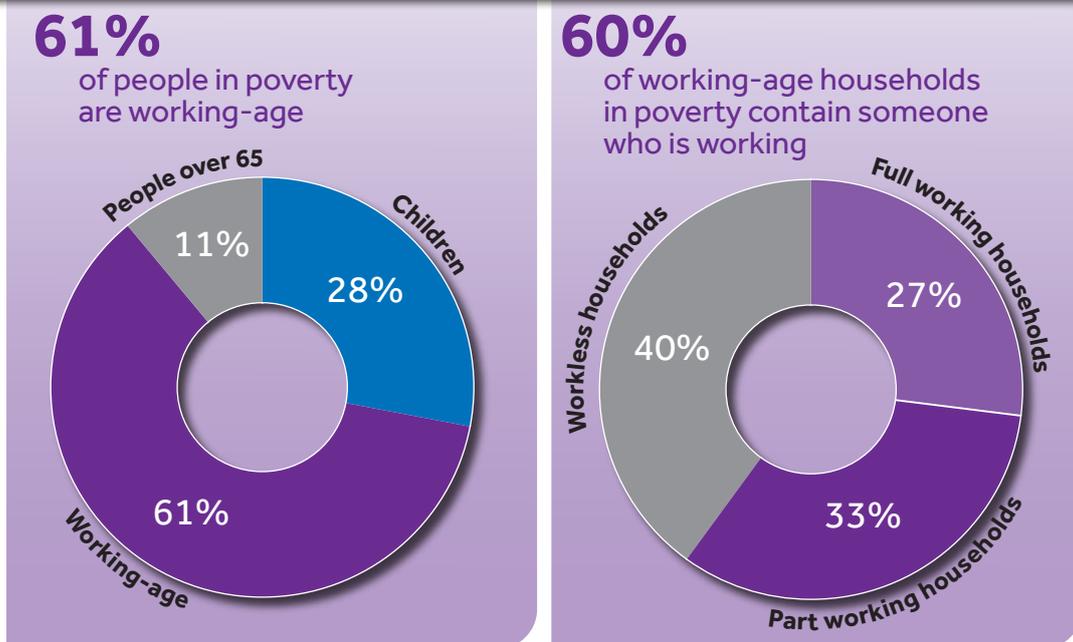
Most people in poverty are in working-age families. In 2016/17, more than half of people in poverty (380,000) were working-age adults, 170,000 were children, and 70,000 were people over 65.<sup>5</sup>

The majority of people in poverty in the UK also now live in a household where someone is in work. The amount of paid work undertaken by people in the household, and how much they are paid are key factors in understanding in-work poverty.<sup>6</sup> We might therefore expect the share of poor households that are working to vary with the share of households that have little work, and/or are in low pay.

## Figure 1: Measuring poverty

The main poverty measure in the UK describes the proportion, or number, of people with household incomes below 60% of the median income, whether before or after housing costs. Estimates are based on national survey data, but the sample is not sufficient to produce reliable sub-regional estimates. This paper estimates how many people would be in poverty in Greater Manchester if the national poverty rate is applied to local data. This is far from perfect but gives an indication of the likely scale of the problem.

## 620,000 people in poverty in Greater Manchester



Source: Annual Population Survey and Households Below Average Income estimates.

<sup>3</sup> Hood, A. & Waters, T. (2017) Living Standards, Poverty and Inequality in the UK: 2016–17 to 2021–2. IFS

<sup>4</sup> Lupton et al. (2016) Inclusive Growth: Opportunities and Challenges for Greater Manchester

<sup>5</sup> These figures describe the composition of people in poverty, rather than the risk of poverty: 30% of children, 21% of working-age people and 16% of those aged over 65 were in poverty in 2016/17. See JRF (2018) UK Poverty 2018: A comprehensive analysis of poverty trends and figures, Joseph Rowntree Foundation.

<sup>6</sup> Hicks, R. & Lanau, A. (2017) In-work poverty in the UK: problem, policy analysis and platform for action: Goerne, A., (2011). 'A comparative analysis of in-work poverty in the European Union', in Fraser, N., Gutiérrez, R., and Peña-Casas, R. (eds), Working Poverty in Europe: A comparative approach, Basingstoke, Palgrave Macmillan.

A brief review of the data suggests that poverty in Greater Manchester has a strong in-work dimension, as is the case nationally. The city region faces many of the same labour market challenges seen in other parts of the UK, with many low paid roles and limited opportunities to progress out of this work. Some issues also disproportionately affect residents. A higher share of people in work receive tax credits – equivalent to 7.9% of full-time and 21.1% of part-time workers in 2013 – compared to the UK average.<sup>7</sup> While full-time work remains the norm, some types of non-standard employment have also been growing (including self-employment, agency workers and people on zero hour contracts). Meanwhile hourly pay has tended to lag behind the UK, particularly among higher earners (minimum wages limit inequalities toward the bottom of the earnings distribution).<sup>8</sup> Working lone parents are also more likely to be lower paid in Greater Manchester than in other city regions (42%, compared to e.g. 28% in London),<sup>9</sup> potentially increasing the poverty risk for this group.

Turning to the work status of households, a similar proportion of working-age households in Greater Manchester were 'full' or 'part working' in 2016/17 (56% and 27% respectively) compared to the rest of the UK (see columns A and B, Figure 2). Applying the relevant (national) poverty risk to household work estimates for Greater Manchester, it is estimated that the majority of households in poverty contain someone in paid work (60%) in 2016/17. In 27% of poor households all the adults in the household were in work, and in 33% at least one adult was working and one was out of work.

In-work poverty also needs to be understood in light of recent welfare reforms and the uneven, gendered distribution of unpaid care.<sup>10</sup> Further analysis could be undertaken to develop a more nuanced understanding of the drivers of income poverty at city region level, including assessing whether the characteristics of working and workless households in Greater Manchester differ significantly from the UK average or other city regions.

**Figure 2: Household work composition and poverty rates for working-age households in Greater Manchester and the UK in 2016/17<sup>11</sup>**

|                         | A<br>GM<br>households<br>by type | B<br>Proportion<br>of GM<br>households<br>(compared<br>to UK) | C<br>UK<br>household<br>poverty risk | D<br>Households<br>in poverty in<br>GM<br>(A*C) | E<br>Share of GM<br>households<br>in poverty |
|-------------------------|----------------------------------|---|--------------------------------------|---|--|
| Full working households | 500,000                          | 56% (57%)   | 12%                                  | 62,000  | 27%  |
| Part-working households | 244,000                          | 27% (28%)   | 31%                                  | 76,000  | 33%  |
| Workless households     | 157,000                          | 17% (15%)   | 57%                                  | 90,000  | 40%  |
| <b>Total</b>            | <b>901,000</b>                   | <b>100%</b>   | <b>24%</b>                           | <b>215,000</b>                                  | <b>100%</b>                                  |

Source: Annual Population Survey 2017, Households by combined economic activity status; and analysis of HBAI and FRS data for 2016/17. Figures are rounded and may not sum to column totals.

<sup>7</sup> Similar to the metropolitan average, but higher than in London. See Overall, S. et al (2016) Low Pay and Productivity in Greater Manchester, New Economy report; Grimshaw et al. (2017) Just Work in Greater Manchester, FairWRC, European Work and Employment Research Centre.

<sup>8</sup> Rubery et al. (2017) Human Development Report for Greater Manchester: Human Development Across the Life Course

<sup>9</sup> D'Arcy, C., Gardiner, L. & Rahman, F. (2019) Low Pay in Greater Manchester, a technical report for the research on productivity for GM Independent Prosperity Review

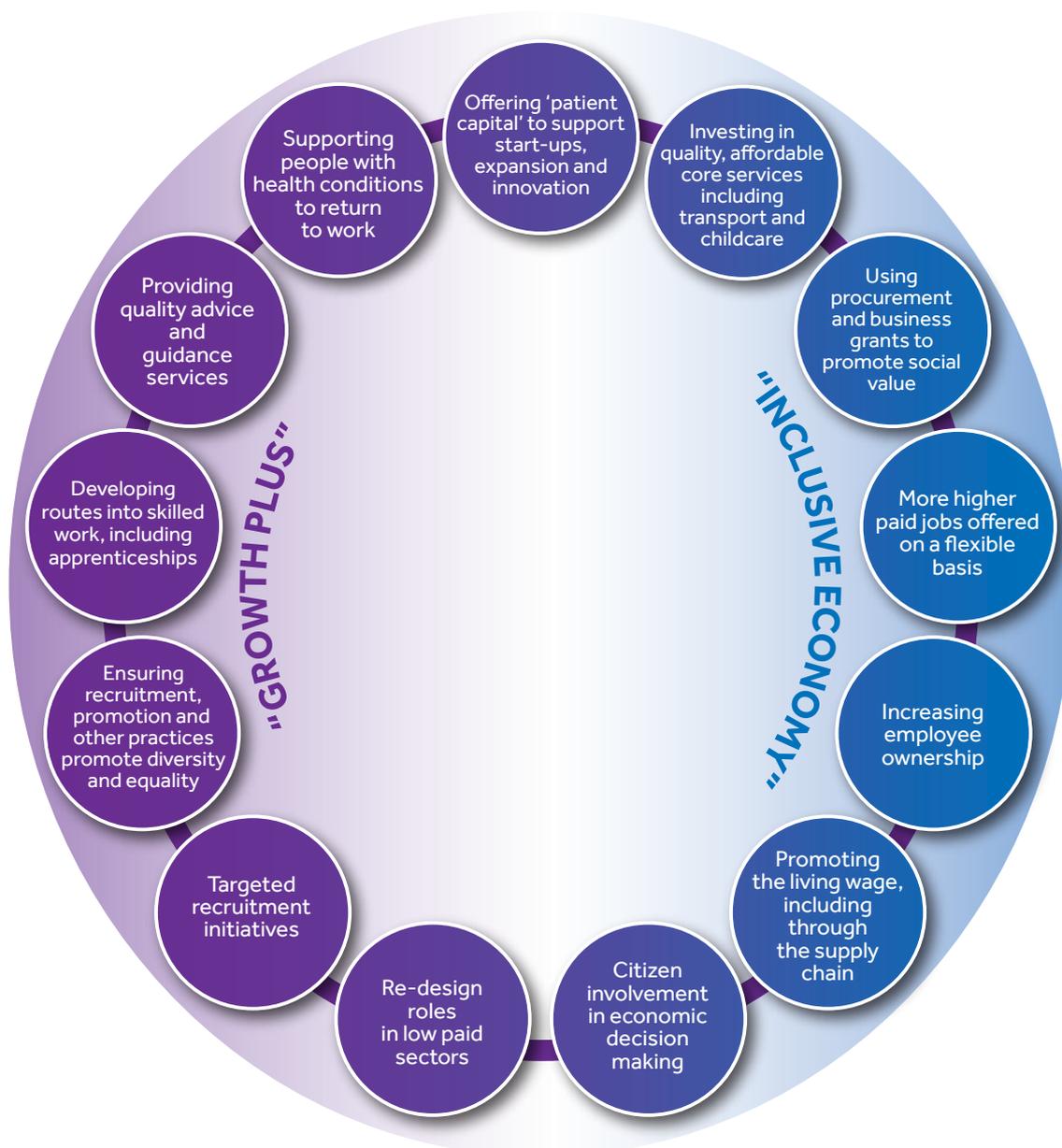
<sup>10</sup> Bennett, F. (2010) The 'living wage', low pay and in work poverty: Rethinking the relationships, *Critical Social Policy*, 34(1): 46–65.

<sup>11</sup> Household estimates and poverty rates are calculated only for households that contain a working-age person. Full-working households are households where all adults (16+) are in work, part-working households contain at least one person who is in work and at least one person who is either unemployed or inactive

## 2 How can inclusive growth policies contribute to poverty reduction?

Inclusive growth is concerned broadly with achieving a fairer distribution of the benefits of growth, including between population groups and across areas.<sup>12</sup> There is no single definition, and different people, and places, emphasise different aspects.<sup>13</sup> Figure 3 outlines some of the most common proposals, encompassing initiatives to increase employability and help to connect people to jobs ('growth plus'), as well as more fundamental interventions in the economy, aiming to affect how assets are used and owned ('inclusive economy').

**Figure 3: Identifying inclusive growth policies**



<sup>12</sup> RSA (2017) Making Our Economy Work For Everyone. Inclusive Growth Commission.

<sup>13</sup> Hawking, M. (2019) How Local Industrial Strategies can deliver inclusive growth. JRF; Shafique, A. et al (2019) Inclusive growth in action: Snapshots of a new economy, RSA

## Linking inclusive growth policies and poverty reduction

A full assessment of the potential of a suite of inclusive growth policies to affect poverty cannot be made here, particularly as the evidence base is quite limited in places. However, some of the logics linking inclusive growth policies and poverty can be described.

Inclusive growth policies have the potential to reduce poverty at the individual or household-level. For example **employment support policies** available to people both in- and out-of-work could help more people to move into good jobs that will provide secure and adequate incomes. Employment support might include initiatives to tackle supply-side barriers to work and enhance individual capabilities, as well as efforts to increase the opportunities available to residents, perhaps by working with employers on targeted recruitment initiatives. An impact on poverty could be achieved where policies are targeted at those facing barriers to employment or poorer work outcomes, provided people are likely to be able to work. However, the types of support available and the groups targeted will determine the success of these policies: services that effectively hassle people into work could just lead people to sign-off from benefits and disengage, potentially worsening the circumstances of those on low incomes.<sup>14</sup> The broader view of employment support discussed here also acknowledges the importance of taking a demand-side approach to supporting people into work.

Influencing the **design of work in low paid sectors** could also have an impact on poverty. Initiatives in this area respond to the fact that people in low paid work tend not to move into better paid work.<sup>15</sup> There are different dimensions to this. Roles that offer opportunities for people to develop skills and gain experience, or interventions that increase employer demand for skills could increase both pay and progression chances for workers in lower paid roles. While the evidence base for supporting in-work progression is still developing, a mixed strategy combining job design, with support for skill development, and job brokerage is recommended.<sup>16</sup> Increasing employee ownership could also promote job stability.<sup>17</sup>

It is also argued that **supporting local and/or small business activity** could help to reduce poverty, including through increasing local procurement by large organisations, and promoting collective ownership models such as co-operatives. Often when this is discussed in the context of community wealth building, the main interest is in spatial redistribution of wealth and investment. Where this enables the development of a diverse and more resilient local economy, it could be argued that it will make local jobs and services more resilient in the face of economic change.<sup>18</sup> It is sometimes less clear whether people on low incomes are expected to benefit specifically, and directly, from support to set up and sustain local businesses: small businesses employ local people, but not necessarily those in poverty and policies aiming to support people to work for themselves need to factor in the risks of self-employment, as many people who are self-employed are also low-paid.<sup>19</sup> Employment support services, discussed above, could help support targeted recruitment of people in poverty.

<sup>14</sup> Ray et al. (2016) Employment, pay and poverty: evidence and policy review, JRF

<sup>15</sup> D'Arcy, C. and Finch, D. (2017) The great escape? Low pay and progression in the UK's labour market, Resolution Foundation

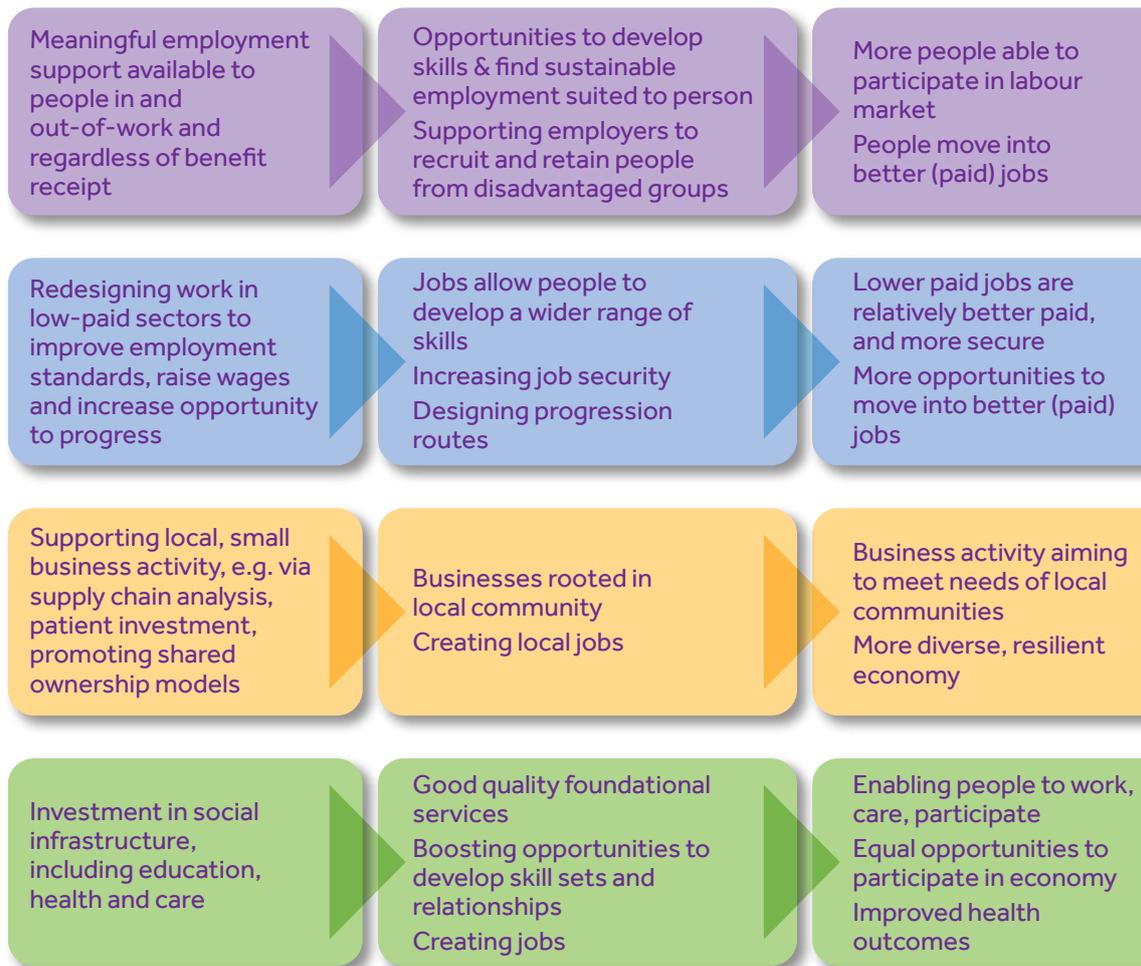
<sup>16</sup> Green, A. et al. (2016) Improving progression from low-paid jobs at city region level, JRF; Tessler, B. (2013) 'WorkAdvance: testing a new approach to increase employment advancement for low-skilled adults', MDRC Policy Brief

<sup>17</sup> Kruse, D. (2016) Does employee ownership improve performance?, IZA, issue 311.

<sup>18</sup> Goff, C. (2016) Creating Good City Economies in the UK, CLES and NEF

<sup>19</sup> Broughton, N. (2015) Self-employment and ethnicity: an escape from poverty? JRF

**Figure 4:** Tracing how a selection of inclusive growth policies could help to reduce poverty



**Improving social infrastructure**, often defined in terms of education, care and health services, could also help to reduce systemic disadvantages, and equalise employment chances. While these investments should benefit people across the income distribution, they could be particularly valuable for people on low incomes, particularly if they would find it difficult to pay for replacement services. Investment in this area may be vital to the success of some of the other logics discussed, e.g. by strengthening collective provision, reducing the risks faced by those who cannot work, and creating community resources and space for other policy interventions.<sup>20</sup>

Figure 4 details some of the potential logics linking inclusive growth policies to poverty reduction. Others might include initiatives to increase the number of higher paid roles offered on a flexible basis, which would increase the number of higher paid roles available to people who cannot work full-time, and potentially the number of 'full-working' households. Or, using business grants and employment charter initiatives to promote and grow good employment.

Rather than viewing policies in isolation, they could be designed to reinforce one another. For example, employment support programmes might work with local businesses to engage and recruit people from disadvantaged backgrounds enabling businesses to fulfil their social value commitments. This could be facilitated by low cost and reliable transport and childcare services.

<sup>20</sup> De Henau et al (2016) Investing in the care economy, ITUC

### 3 Reflecting on the potential and limitations of inclusive growth policies

Inclusive growth policies have the potential to help to reduce poverty by focussing on some of the economic conditions that can cause poverty, particularly for working-age people and their families. This includes policies that aim to improve job security, tackle low pay, and provide targeted services that support employment. This is significant given that the majority of people in poverty are in working-age families (380,000 working-age people, and 170,000 children in Greater Manchester).<sup>21</sup> Some policies target poverty risk factors more directly, perhaps by improving job security and pay, while others might help to prevent poverty in the future, for example by supporting the development of businesses which offer sustainable, quality employment. This could also lower pensioner poverty in the future, through providing working-age people with a sustained, secure income that enables them to save for retirement.

But poverty impacts cannot be assumed. Growth in economic output or employment *could* help to reduce poverty, particularly by increasing wages and/or demand for labour in a local area, but it is by no means guaranteed to do so.<sup>22</sup> The relationship between employment and pay-related policies and poverty is not direct and processes to mitigate the effects of poverty and redistribute income will still be needed, particularly for people who are unable to participate in paid employment. Tackling poverty effectively will require sustained attention to the nature and drivers of poverty. This paper has highlighted some of the additional analysis that might be done to begin to build up this picture.

In addition to developing a better understanding of poverty, a clearer focus on the potential links between inclusive growth policies and poverty is needed. Discussions of inclusive growth, both at national and local-level, tend to lack this explicit focus.<sup>23</sup> For example, poverty is not a major focus of either the Greater Manchester Strategy, or the Independent Prosperity Review, which is providing the evidence base for the development of the Local Industrial Strategy.<sup>24</sup> Moreover, a policy vacuum around tackling poverty exists. Local authorities are no longer required to produce child poverty strategies, while city regions are exhorted to focus on generating economic growth, and national leadership on poverty has all but disappeared.<sup>25</sup>

Mechanisms to ensure poverty is a priority in economic and social policy thinking are currently lacking. Many local authorities conduct analysis of the causes and nature of poverty, but this is often not a focus at city region level. In Greater Manchester, none of the Greater Manchester Combined Authority's leaders are directly responsible for tackling poverty and consideration of the impact that policies have on low income residents is not an explicit part of the policy development and scrutiny process. A clearer focus on poverty is needed, bringing together activity at local- and city region level.

<sup>21</sup> For UK analysis see JRF (2018) UK Poverty 2018: A comprehensive analysis of poverty trends and figures, Joseph Rowntree Foundation.

<sup>22</sup> Lee, N. & Sissons, P. (2016) Inclusive growth? The relationship between economic growth and poverty in British cities. *Environment and Planning A*, 48(11), 2317–2339.

<sup>23</sup> RSA Inclusive Growth Commission (2017)

<sup>24</sup> GMCA (2018) Greater Manchester Evidence Review, GM Independent Prosperity Review Background Paper.

<sup>25</sup> GMPA (2018) Local child and family poverty strategies, GMPA briefing.

## What can be done

Ensuring economic strategies include policies with the potential to reduce poverty, including, among others, measures that:

- Strengthen basic skills provision, map routes into skilled work and develop initiatives to support progression for those in low paid work;
- Ensure that public policy decisions promote 'good work', including through procurement, commissioning and recruitment practices. Employer charters, especially as promoted by local anchor institutions, could play a role here;
- Prioritise the development of social infrastructure, including provision of affordable and quality care, transport and housing;

## Improving our understanding of poverty and its drivers

- Developing and testing a logic model for reducing poverty. This should include inclusive growth policies and be based on careful analysis of the causes of poverty, perhaps trialled across a few pilot areas;
- Strengthening leadership and governance relating to poverty across the city region. Assessment of the distributional impact of policies on low income people and families could be part of the remit for all GMCA scrutiny committees;
- Developing poverty reduction targets and outcomes measures to track progress, based on careful analysis of the causes of poverty, particularly in relation to in-work poverty. This could be coordinated by GMCA, drawing on analysis undertaken by local authorities.

## Find out more

The Inclusive Growth Analysis Unit is an independent analytic resource set up in 2016 to help make poverty reduction central to processes of economic growth and devolution in Greater Manchester, and to provide research, analysis and insight on inclusive growth in other UK cities. Our work can be found at: [www.manchester.ac.uk/inclusivegrowth](http://www.manchester.ac.uk/inclusivegrowth).

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