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21st century enlightenment

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**Addressing  
Economic  
Insecurity**

*by Atif Shafique*

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Nottingham  
Civic Exchange

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# Contents

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About this report	3
Foreword	4
1. Introduction	7
2. Economic insecurity in the UK	10
3. What we mean by economic insecurity	17
4. Economic insecurity and the 'just about managing'	26
5. The political economy of insecurity	32
6. Addressing economic insecurity through public policy	45
7. Conclusion	62
Appendices	63

# About this report

The RSA has published this report as part of a programme of work undertaken in partnership with Nottingham Civic Exchange. This programme – *Out of the Ordinary* – involves assessing, analysing and planning collaborative action to address the contemporary challenges of ordinary working families. The programme has a focus on Nottingham and Nottinghamshire, and a broader objective to influence policy at a national level.

This report is based on primary and secondary research undertaken by the RSA, including a survey of 2000 UK adults. The analysis draws on the RSA's wider programme of work which aims to encourage a shift in power to people, to places, and within public services, securing a fairer distribution of economic power in society. The RSA published the Inclusive Growth Commission final report in March 2017, and the Citizens' Economic Council – a major programme of public engagement and citizen deliberation – concludes in spring 2018.

Nottingham Civic Exchange has been established by Nottingham Trent University (NTU) to maximise research, policy and practical impact by bringing together university expertise with partners seeking to address the needs of local communities. Nottingham Civic Exchange acts as a resource to look at social and economic issues in new ways. This means facilitating debate, acting as a bridge between research and policy debates, and developing practical projects on a citizen, city and regional level.

NTU has a particular accountability to families who are 'just about managing' – 21 percent of their 2015 full time undergraduate intake was estimated to come from this background. In 2017, Nottingham Civic Exchange and the RSA recently outlined the case for inclusive growth within the Strategic Economic Plan for the city-region, on behalf of the D2N2 Local Enterprise Partnership.

Atif Shafique is the principal author. Jonathan Schifferes and Jack Robson contributed in drafting, and Hetal Jani and Charlie Young helped with case studies. Thanks are due to those who commented on drafts: Matthew Taylor, Anthony Painter, Tony Greenham and Benedict Dellot at the RSA; Paula Black and Rich Pickford at Nottingham Civic Exchange; and Cillian Ryan and Di Bailey at Nottingham Trent University.

# Foreword

There are two distinct stories that are commonly told about the UK economy as it enters 2018. One is an optimistic narrative of record levels of employment, increasing full time work in the past year or so, low numbers on out-of-work benefits, and diminishing levels of inequality as measured by the Gini coefficient. With the goals of the modern early 21st century welfare state in mind, underpinned by tax credits and Universal Credit, expanding flexible and widely distributed work opportunities, this all looks like a resounding success. It is one the current Government readily claims, as previous Governments would have done.

Yet the pessimistic counter-narrative would appear to be just as strong. Alongside record employment rates, so-called ‘atypical’ contracts have grown (essentially, non-full time employment). Wage levels have stagnated – albeit with some growth at the lower level due to the new National Living Wage. In part, this reflects low overall productivity growth. In-work poverty has grown to the extent that it is now more common than out-of-work poverty. Social mobility is stagnant or even sliding backwards. Inequality within the UK remains high compared to other similar societies. And the experience of the modern welfare state is often a harsh one.

The post-war settlement relied on economic security supported by individual action underpinned by full employment, contributory welfare and universal public services. Over the past fifty years this settlement has in many ways been eroded. In the UK, we lost confidence and faith in the economic role of the state beyond market regulation, the erosion of the contributory principle saw a separation between public services for all (health, education, policing etc) and ‘welfare’ seen largely as handouts to the poor (despite the distributional reality of tax credits and pensions). Large swathes of the population – particularly in areas left behind by economic change – no longer believe either in their own family’s prospects or those of the country as a whole. Security was to be re-established through work.

And yet, now we know that work alone is not enough; we can’t fully understand a person and household’s well-being just by knowing what work arrangements someone has. So both the optimists and the pessimists have an incomplete picture.

This paper gathers together convincing evidence that economic security is far broader and the challenges, for individuals, communities, firms and policy-makers far greater. The impacts on the individual of insecurity are greater in terms of their opportunity, health and well-being. And the economic costs can be great as individuals can become stuck in low pay and precarious forms of work. So we pay a heavy price for failing to confront economic security where it causes most harm.

We define economic security as:

**“The degree of confidence that a person can have in maintaining a decent quality of life, now and in the future, given their economic and financial circumstances.”**

This definition adds understanding of the subjective experience of insecurity to more traditional measures that focus on job security alone. So, for example, when someone is in work with insufficient ability to meet their family's care and income needs, with little prospect of developing and progressing, with a disempowering working life, they could be seen as experiencing insecurity when narrow measures such as 'job security' might miss the reality of the situation they face.

The evidence within this report establishes that economic security matters alongside more traditional policy goals around employment, inequality and poverty. Furthermore, a focus on these other goals, whilst very important, is insufficient. Economic security itself should become a prime focus of national debate, policy and institutions. There are a number of reasons why:

- Unlike poverty, or even inequality, the idea of economic security and insecurity is one to which most people – including many families with above average incomes – can relate.
- Economic security, and hence a person or households opportunity and prospective well-being, cannot be understood purely as a data-based designation but as something which combines objective factors and subjective experience and expectation. Two people with the same jobs and the same income can both have, and feel they have, very different prospects.
- The economic price to be paid as a result of economic security results in a vicious circle. Unless there is security, progression in work and life becomes difficult, and this in turn has a cost in terms of economic growth and productivity. That then makes it difficult to ensure further policy measures to support economic security through investment in people, places and services are sustained.

Ultimately, economic security is not just about income but about assets, resilience, adaptability, confidence, support - from the family to the state. The state can create the conditions for economic security but individuals and families must make the right choices too. Community, place and identity as well as personal finances are key factors shaping life chances and wellbeing. So policy can only go so far.

However, policy makers have a fundamental role in shaping people's life chances, and the trajectory of different parts of the country. There are political and policy choices to be made. At times when the economy is systematically failing to provide economic security for a majority, politicians have used the power of the state to respond. In 2018, 10 years after the crash and with significant political upheaval, we argue that those shaping the future of policy and public services must orient their work to addressing economic insecurity.

**Anthony Painter, Director of the Action and Research Centre, RSA**

## **Collaboration between the RSA and Nottingham Civic Exchange**

The Out of the Ordinary programme, led by Nottingham Civic Exchange, has shown that the 'ordinary working families' and the 'just about managing' are particularly concentrated in Nottingham and Nottinghamshire: making the city and county fertile ground on which to trial new policy.

So what can policymakers and the key institutions in a place do about this? Nottingham Civic Exchange represents an illustration of a potentially valuable contribution. The next phase of work for Nottingham Civic Exchange will look in more detail at the lives of ordinary working families through research, policy development and working with local communities to identify important issues from lived experience, and recommend changes which have real life impact. They will also link students and staff at NTU with wider communities through research scholarships, work placements, and research projects.

The RSA's focus on economic security will be picked up in our wider programme on the future of work, inclusive growth, the future social contract and revitalising economic democracy and a renewal of public services fit for the challenges of the 21st century . We look forward to continuing a rich engagement with Nottingham Civic Exchange to explore how these ideas can help places to be thriving and just, in the face of relentless change.

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# 1. Introduction

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The vote to leave the European Union sparked serious soul searching among public leaders who had expected a straightforward victory for Remain. The outgoing Chancellor, George Osborne, captured the mix of social, economic and cultural forces that had propelled the Leave vote in ‘left behind’ places.

“I don’t think I properly understood the alienation that many people felt, not just from the European Union, but from the establishment, the system of government. That economic insecurity and that loss of identity in many of our communities was something that we had not properly addressed.”<sup>1</sup>

This explanation was significant for two reasons. First, it underscored the longevity and structural nature of our economic problems, and the way that they had penetrated particular communities, leading not only to economic decline but even more fundamentally to a related process whereby the social fabric of places is being reshaped. Second, it recognised economic insecurity as a neglected policy goal and acknowledged the scale of insecurity as a major policy failure. In other words, the issues we face result at least in part from policy choices, not invisible and inevitable macro-economic forces.

As Theresa May became Prime Minister, she re-asserted the role of the state in stewarding the economy and supporting ‘ordinary working families’. A renewed focus on industrial strategy and ‘good work’ crystallised this new approach. But the party of government subsequently lost considerable support among working-age people – including those considered to be part of the ‘just about managing’ or ‘ordinary working families’ – in the 2017 general election.

Although policymakers and public leaders increasingly reference the importance of economic insecurity, they tend to lack a coherent account of what it means and who it impacts, including how it is different to related but distinct challenges such as inequality, poverty and social exclusion. This makes the implications for policy less clear, and the misdiagnosis of problems (and solutions) all too common.

This report seeks to address this gap by providing an account of economic insecurity, based on RSA research and engagement. It will:

- Establish economic insecurity as a critical challenge facing the UK and define its key features (Chapters 2 and 3).

1. Bulman, A. (2016) ‘George Osborne admits he ‘did not get it right’ on Brexit’, *The Independent* 16.09.2016. [Online] Available at: [www.independent.co.uk/news/uk/politics/brexit-george-osborne-bbc-today-interview-i-did-not-get-it-right-eu-referendum-a7310836.html](http://www.independent.co.uk/news/uk/politics/brexit-george-osborne-bbc-today-interview-i-did-not-get-it-right-eu-referendum-a7310836.html)

- Frame economic insecurity as a key distinguishing feature of the challenges faced by ‘ordinary working families’ (OWFs), building on conceptual and empirical work by Nottingham Civic Exchange (Chapter 4).
- Examine the unique challenges faced by OWFs – as well as others who consider themselves to be ‘just about managing’ (JAM) – and explore the political economic of insecurity: how and why policy has sometimes neglected, sometimes attempted, but frequently failed to meet their evolving needs (Chapter 5).
- Present possibilities for policy and practice to address economic insecurity, including an illustration of what an agenda for tackling economic insecurity could look like in three areas of policy – health, housing, and welfare and labour markets (Chapter 6).

## Methodology

This policy paper draws insights from a range of original research conducted by the RSA as well as Nottingham Civic Exchange. This includes: where they lived and have since been asked to become ‘ambassadors’ for the centre:

- **Authors’ analysis of data from an RSA commissioned Populus survey.** This survey was commissioned as part of a companion RSA report on the *Thriving, striving or just about surviving?* (forthcoming), which examines people’s experience of work and insecurity. Populus interviewed a nationally representative sample of 2,083 British adults, online. Quotas were set on age, gender and region and the data was weighted to the known profile of GB. The questionnaire design involved compiling a list of relevant questions adapted from major social surveys such as the Labour Force Survey (LFS), Family Resources Survey (FRS) and the Workplace Employment Relations Survey (WERS), which help understand how people experience work and the current state of economic security in the UK. Additional variables were added, based on insights from recent RSA research on self-employment, gig work, and the Taylor review of modern working practices. This paper’s authors’ analysis of the survey data primarily involved isolating the responses of respondents that identified as ‘just about manage to make ends meet each month’ financially, and comparing their experiences to the wider population.
- **Authors’ analysis of insights from Nottingham Civic Exchange research on ‘just about managing’ and ‘ordinary working families’.**<sup>2</sup> This research involved a number of elements. Nottingham Civic Exchange published an analysis of Understanding Society, a UK-wide longitudinal survey.<sup>3</sup> Several annual accounts of the survey were

2. Black, P. et al. (2017) *Out of the Ordinary: Exploring the lives of Ordinary Working Families from a Local Perspective*. Nottingham Civic Exchange: Nottingham. Available at: [www.ntu.ac.uk/about-us/nottingham-civic-exchange/out-of-the-ordinary](http://www.ntu.ac.uk/about-us/nottingham-civic-exchange/out-of-the-ordinary)

3. Analysis of Understanding Society was conducted by Chris Lawton, Economic Strategy Research Bureau, Nottingham Trent University Business School and Dr. Daniel Wheatley, Department of Management, University of Birmingham; Burton, S., Lawton, C., Pickford, R. and Wheatley, D. (2017) *Ordinary Working Families in Nottingham and the UK: Technical Working Paper: Objective and Subjective Measures of Income and Earnings*. Nottingham Civic Exchange: Nottingham. Available at: [www.ntu.ac.uk/\\_data/assets/pdf\\_file/0027/424908/out-of-the-ordinary-technical-working-paper-august-2017.pdf](http://www.ntu.ac.uk/_data/assets/pdf_file/0027/424908/out-of-the-ordinary-technical-working-paper-august-2017.pdf)

analysed to explore the differences between households' objectively recorded income and their subjective perceptions of their financial standing. Nottingham Civic Exchange also explored official estimates of household income, after housing costs, for the financial year ending 2014 at the level of individual neighbourhoods, comparing Nottingham and Nottinghamshire to the East Midlands and the UK. Additional analysis and modelling was conducted to better understand job patterns (including job types related to earnings and income) and housing affordability. This helped to paint a picture of 'just about managing' and 'ordinary working families' and their experiences of work, living standards and insecurity.

- **A rapid review of key texts exploring the definitional and conceptual aspects of economic insecurity.** A summary of key findings can be found in the appendix. This involved a search of both academic and grey literature, and texts were prioritised for analysis based on their prominence and influence (for example based on how frequently they are cited and appear in reviews) as well as relevance to the current paper. An original analysis of major UK public policies (since 1997) that have impacted 'just about managing' families has informed our analysis, and will be published separately, later in 2018.

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## 2. Economic insecurity in the UK

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This report defines economic insecurity as:

**Harmful volatility in people’s economic circumstances. This includes their exposure to objective and perceived risks to their economic well-being, and their capacity to prepare for, respond to and recover from shocks or adverse events.**

There is a growing sense that our socio-economic model is in urgent need of reform. The ‘recovery’ from recession is alone in its failure to improve living standards. Rather than providing the basis for full and flourishing lives, for too many people our economy is inducing anxiety and uncertainty. We may be set for the worst decade of pay growth since the Napoleonic wars.<sup>4</sup> Productivity continues to flatline, hampered by historically low levels of investment, with aggregate growth driven overwhelmingly by rising employment rates and a growing workforce. Despite previously falling, inequality is set to rise - largely as a result of regressive tax and spending decisions - while our record on social mobility continues to be dire, with the notable exception of London (though only on educational outcomes – the capital scores poorly on work related outcomes).<sup>5</sup>

Economic insecurity is most commonly considered with reference to changing patterns of work. When asked to take a long-term view, many workers feel insecure because they perceive technological change and automation as threats, and have seen the growing presence of non-standard work such as zero-hour contracts and the gig economy (which the RSA defines as work found through online platforms or apps).<sup>6</sup> A forthcoming RSA report, *Thriving, striving or just about surviving?*, explores how employment and self-employment shape economic security: the degree of confidence that a person can have in maintaining a decent quality of life, now and in the future, given their economic and financial circumstances.

4. Resolution Foundation (2017) *Public and family finances squeezes extended well into the 2020s* by grim Budget forecasts. [Online] Available at: [www.resolutionfoundation.org](http://www.resolutionfoundation.org)

5. On forecasts about the rise in inequality, see Waters, T. and Hood, A. (2017) *Living standards, poverty and inequality in the UK: 2017-18 to 2021-22*. Institute for Fiscal Studies: London. Available at: [www.ifs.org.uk](http://www.ifs.org.uk). On social mobility, see Social Mobility Commission (2017) *State of the nation 2017: Social Mobility in Great Britain*. Available at: [www.gov.uk](http://www.gov.uk)

6. Balaram, B., Warden, J. and Wallace-Stephens, F. (2017) *Good Gigs: A fairer future for the UK’s gig economy*. The RSA. Available at: [www.thersa.org](http://www.thersa.org). Also Dellot, B. and Wallace-Stephens, F. (2017) *The Age of Automation: Artificial intelligence, robotics and the future of low-skilled work*. The RSA: London. Available at: [www.thersa.org](http://www.thersa.org)

The novelty of the current debate is that economic insecurity is not linked to the scale or immediate threat of unemployment per se – in fact, the UK has experienced a jobs boom in recent years<sup>7</sup> – but to the deteriorating quality of work and a resulting volatility in living standards and growing household debt.

### A snapshot of Britain's imbalanced economy

- **The gig economy:** An estimated 1.1 million people work in the gig economy, with 8 million people saying they would consider some form of gig work in the future.
- **Rising in-work poverty:** 55 percent of people in poverty are in a working family. Work alone is no longer a route out of poverty for many families.
- **High inequality, low social mobility:** The level of income inequality in the UK is high relative to comparable economies, although by several measures it has shrunk in the present decade.<sup>8</sup> The persistent low levels of social mobility evident in the UK are unique among Europe's richest economies.<sup>9</sup>
- **Low pay economy:** 21 percent of all employee jobs pay less than the real Living Wage (a way of calculating the amount of money that employees and their families need to live) - 5.5 million jobs. Forty-six percent of part time jobs pay less than the real Living Wage.<sup>10</sup>
- **Unfulfilled potential:** 51 percent of UK employees report that their skills are being under-utilised, among the highest levels in the EU. This compares to 33 percent in France, 36 percent in Netherlands, 37 percent in Sweden, 38 percent in Denmark and 45 percent in Germany<sup>11</sup>. Two-thirds of the UK's workforce are employed in firms with productivity levels below their industry average.<sup>12</sup>
- **Cycle of low pay, low value and insecurity:** More than a fifth (21 percent) of employees earning below the Living Wage reported a drop in self-evaluated job security in 2017.<sup>13</sup>
- **Weak productivity and pay growth:** 2007-2017 was Britain's worst

8. OECD (2017) *Understanding the socio-economic divide in Europe*, op cit.

9. Eurofound (2017) *Social mobility in the EU*. Publications Office of the European Union: Luxembourg

10. IHS Markit (2017) *Living Wage Research* for KPMG. IHS Market. Available at: [www.kpmg.com](http://www.kpmg.com). It should be noted that the proportion of employee jobs offering less than the real Living Wage is even higher when apprenticeships are included. In addition, these statistics do not include self-employment

11. Data from Skills Panorama, European Centre for the Development of Vocational Education. [Online] Available at: [skillspanorama.cedefop.europa.eu/en](http://skillspanorama.cedefop.europa.eu/en)

12. Inclusive Growth Commission (2017) *Making the Economy Work for Everyone: Final Report of the Inclusive Growth Commission*. The RSA: London. Available at: [www.thersa.org/inclusivegrowthcommission](http://www.thersa.org/inclusivegrowthcommission)

13. HIS Markit (2017) *Living Wage Research*, op cit.

7. It should be noted, however, that the social distribution of employment is unequal. Certain groups, including those with disabilities and people from certain black and minority ethnic groups, still experience high levels of unemployment in comparison to the wider population. Indeed, the disability employment gap has persisted despite the boom in jobs. Recent evidence also suggests that the jobs boom is beginning to cool. See for example Office for National Statistics (2017) *Monthly economic commentary: December 2017*. [Online] Available at: [www.ons.gov.uk](http://www.ons.gov.uk)

However, economic insecurity relates to more than an individuals' experience of work. It can impact and be impacted by a broad range of factors, from health through to family relationships and financial wealth. Insecurity is mediated through our household circumstances – including shared housing and finances; and the premise of many public services is to in effect moderate insecurity through both service provision and financial transfers.

10-year period for productivity growth since 1822.<sup>14</sup> Pay growth in the current decade is set to be the lowest for 210 years.<sup>15</sup> Economic growth in the UK since the last recession has largely relied on additional workers in the workforce<sup>16</sup>, and on debt-enabled consumer spending (see below).

- **Cost of living pressures:** Rising costs have made the impact of low pay growth more challenging for household finances. Across the UK economy, the spending power of the average wage fell for six years consecutively between 2008 and 2013. While rising in 2014 and 2015, it has fallen in both 2016 and 2017.<sup>17</sup> However, the cost of living pressures on households below average wage levels was more significant: since 2010, rises in welfare payments (which alongside wages contribute to household income) have been restrained to levels below inflation, and because low income households spend a higher proportion of income on energy, food and housing, which have experienced higher price rises than overall inflation since 2003.<sup>18</sup>
- **Growing household debt:** Unsecured consumer debt amassed by British households is projected to reach 47 percent of household income by 2021, eclipsing the pre-crisis level of 45 percent of income in 2007. By December 2017, British households had been net borrowers for four successive quarters – the first time since records began in 1987.<sup>19</sup> GDP growth in the UK is being driven by consumer spending enabled by borrowing, rather than business investment, stronger productivity and higher wages.<sup>20</sup>

14. Resolution Foundation (2017) *Freshly Squeezed: Autumn Budget 2017 response*. Briefing. [Online] Available at: [www.resolutionfoundation.org/publications/freshly-squeezed-autumn-budget-2017-response/](http://www.resolutionfoundation.org/publications/freshly-squeezed-autumn-budget-2017-response/)

15. Clarke, S. et al. (2017) *Are we nearly there yet? Spring Budget 2017 and the 15 year squeeze on family and public finances*. Resolution Foundation. Available at: [www.resolutionfoundation.org](http://www.resolutionfoundation.org)

16. Schifferes, J. (2017) *How to plan for Brexit*. [Blog] Available at: [www.thersa.org/discover/publications-and-articles/rsa-blogs/2017/01/how-to-plan-for-brexit](http://www.thersa.org/discover/publications-and-articles/rsa-blogs/2017/01/how-to-plan-for-brexit)

17. See Office for National Statistics (2017) *Analysis of real earnings: December 2017*. [Online] Available at: [www.ons.gov.uk](http://www.ons.gov.uk). Note that using experimental methodologies for equivalised household level average wage earnings, a similar pattern is evident, though 2014 is a year of further decline rather than growth, while 2016 is a year of growth rather than decline. See: Office for National Statistics (2017) *Nowcasting household income in the UK: financial year ending 2017*. [Online] Available at: [www.ons.gov.uk](http://www.ons.gov.uk)

18. Average annual inflation (RPI) for the bottom income quintile households was 3.4 percent between 2003 and 2014 – compared to the official headline rate of 3.1 percent. See Adams, A. and Levell, P. (2014) *Measuring poverty when inflation varies across households*. Joseph Rowntree Foundation: York. Available at: [www.jrf.org.uk](http://www.jrf.org.uk)

19. Financial Times (2017) *British households become net borrowers for longest period on record*. 22 December 2017. [Online] Available at: [www.ft.com](http://www.ft.com)

20. See analysis by The Guardian (2017) *The UK's debt crisis – in figures*. 18 September 2017. [Article] Available at: [www.theguardian.com/business/2017/sep/18/uk-debt-crisis-credit-cards-car-loans](http://www.theguardian.com/business/2017/sep/18/uk-debt-crisis-credit-cards-car-loans)

## Why focus on economic insecurity?

Economic insecurity is important, alongside poverty, inequality and social mobility, in understanding the challenges faced by citizens in Britain today. In comparison it receives little policy attention. It is not specifically tracked or measured by official statistics, nor are there any official commissions, committees or parliamentary groups that focus on it. It is, in short, an under-researched and neglected area for policy intervention.

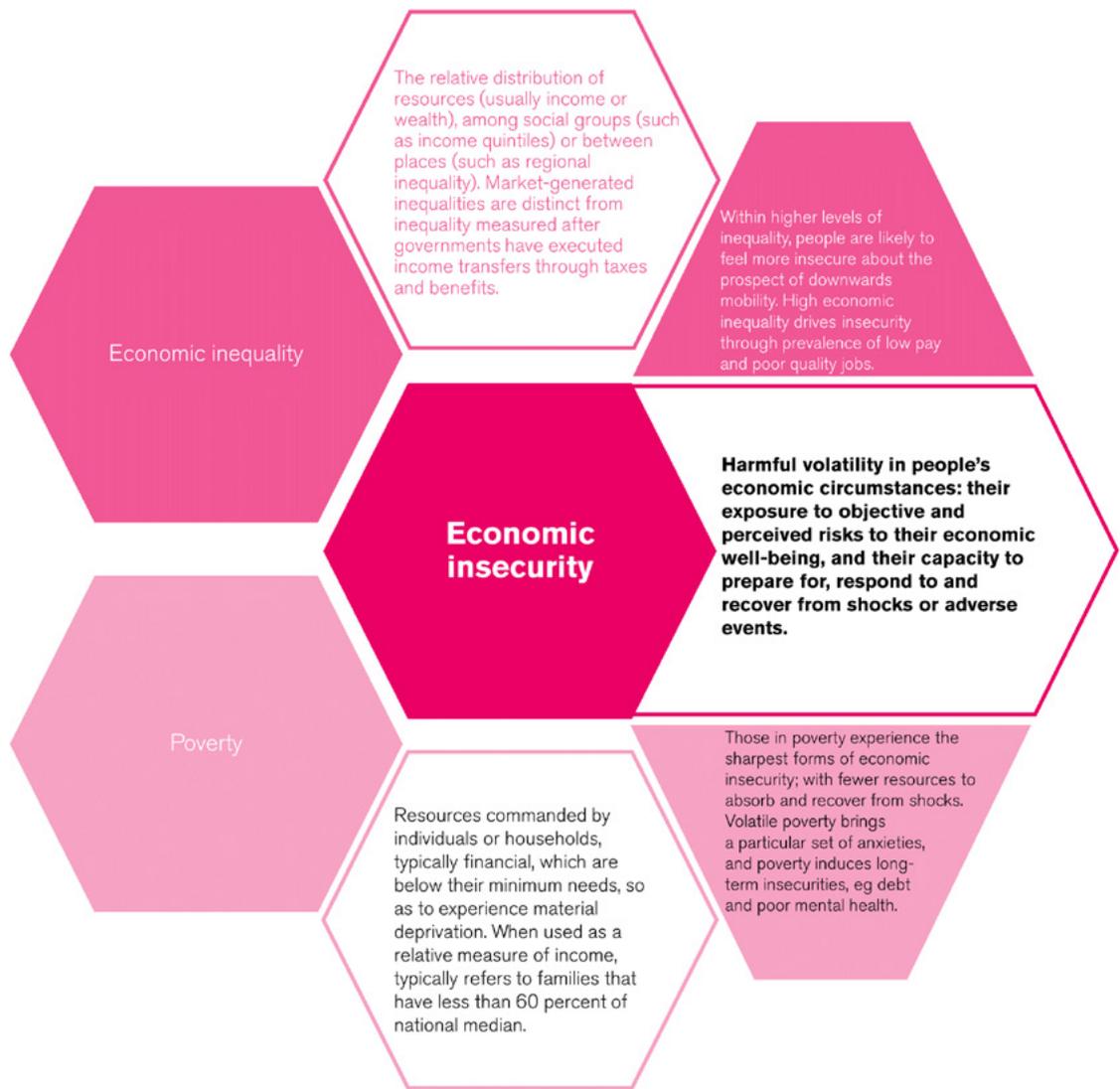
Because it captures the subjective, felt experience of the economy, and is related to expectations and anxieties about the future, and because it implicates the role of public services and consumer expenditure at household scale, we believe that economic insecurity is an illuminating lens through which to understand UK society today, and that analysis using this lens can inform better policymaking and public service design.

As well as being important to study in its own right, economic insecurity intersects with poverty and inequality to form a critical triangle for analysis of society's key challenges. It can deepen our understanding of the ways in which poverty and inequality are experienced in Britain today, and the impact that they have. It can offer insights into how and why people cycle in and out of poverty, or how the past experience of hardship influences current well-being, behaviour and decision-making. For example, people may move out of poverty but the residue of insecurity (the fear of returning to poverty) will remain. This sense of insecurity will be most pervasive in societies where inequality is sharp, where the 'drop' to the lower ends of the income distribution is steepest, where support from government, charity and community is lacking and where economic opportunity is not broadly spread. This could in turn lead people to avoid positive risks, for example remaining in poorly paid work rather than investing in training to progress.

As the nature of work changes and society's challenges deepen and become more stubborn, it is crucial to understand the specific role played by economic insecurity and the impact that it has. There is growing evidence that economic insecurity has serious implications at a number of levels, including for:

- **Productivity and the changing nature of work:** Employment insecurity can undermine the well-being of workers, which can impact the performance and potential of individuals, organisations and the wider economy.<sup>21</sup> When economic insecurity is associated with labour market exclusion or under-utilisation, it can lead to wasted potential and act as a drag on growth and productivity. Economic insecurity is vital to understanding changing economic and work-related trends - from automation to the rise of the gig economy - and the major implications they have for society and policy.
- **Creativity and economic dynamism:** Economic insecurity and resulting 'scarring' can lead people to be risk averse, which can undermine their capacity to take positive risks, such as investing

21. Adekiya, A.A. (2015) Perceived job insecurity: Its individual, organisational and societal effects. *European Scientific Journal*, Dec 2015 Special Edition Vol. 1



in upskilling, seeking out progression opportunities or starting a business. In practice it means large parts of society lack what the RSA calls “the power to create” - the capacity to turn their ideas into reality.<sup>22</sup>

- **Families and communities:** Negative experiences associated with economic insecurity - such as job loss, skills obsolescence and poor quality work - can have a detrimental long-term effect on workers, families and communities.<sup>23</sup> The loss of identity and community associated with economic insecurity and ‘left behind’ places is considered by many to have contributed to the EU referendum result.<sup>24</sup>

22. This is also one of the arguments made by those in favour of introducing a universal basic income (UBI) – it can provide the basic security to take positive risks. On UBI, see Painter, A. and Thong, C. (2016) *Creative citizen, creative state: the principled and pragmatic case for a Universal Basic Income*. The RSA: London. Available at: [www.thersa.org](http://www.thersa.org)

23. On the ‘scarring’ of past experiences and their relationship to economic insecurity, see Knabe, A. and Ratzel, S. (2011) Scarring or Scaring? The Psychological Impact of Past Unemployment and Future Unemployment Risk. *Economica*, Vol. 78, pp. 283-293

24. For example see Vlandas, T. and Halikiopoulou (2017) ‘Voting to Leave: Economic insecurity and the Brexit vote’ in Leruth, B., Startin, N. and Usherwood, S. (eds.), *The Routledge handbook of Euroscepticism*. Routledge Handbooks: Routledge, Abindon

- **Public health:** Studies suggest that economic insecurity could be contributing to major health problems such as obesity, depression and anxiety, and risky or harmful behaviours such as substance misuse.<sup>25</sup> These issues not only have negative consequences for families and communities, but they also place a significant demand on public finances.

This report will suggest that economic insecurity is a major feature of the lives of ‘ordinary working families.’ As policymakers increasingly focus on how to support ordinary working families, it is important they understand the way that economic insecurity impacts their lives. Although we examine macro-economic trends, our analysis starts from the perspective of households and communities and their ability to improve and secure their economic well-being.

### **Distinguishing economic insecurity from inequality and poverty**

Economic insecurity is often conflated with related but distinct issues such as poverty and inequality. In developing effective policy responses to economic insecurity, it is important to recognise the ways in which it interacts with but is also distinct from these challenges.

**Poverty** is commonly understood as a situation in which people’s resources are below their minimum needs, and where they experience material deprivation. When used as a relative measure of income, it typically refers to families that have less than 60 percent of national median income.

**Inequality** examines the relative distribution of resources (usually income or wealth), among social identifiers (such as ethnic groups) or between places (such as regions or neighbourhoods).

**Economic insecurity** describes harmful volatility in people’s economic circumstances. This includes their exposure to objective and perceived risks to their economic well-being, and their capacity to prepare for, respond to and recover from shocks or adverse events.

There are important ways in which economic insecurity relates to poverty and inequality. Families and households in poverty are often the most likely to be affected by the sharpest forms of economic insecurity, because they tend to lack the resources to absorb and recover from shocks. Economic insecurity can compound poverty and be compounded by poverty. While poverty is inherently an insecure experience, volatile poverty induces a different set of anxieties from relatively stable experiences of poverty. And poverty induces new insecurities over the future life course, for many, such as challenges of accumulated debt, poverty-related poor health and poor mental health.

People’s perceptions of their insecurity are also influenced by the levels of inequality in society. Within higher levels of inequality, people are likely to feel

25. See Chou, E.Y., Parmar, B.L., and Galinski, A.D. (2016) Economic Insecurity Increases Physical Pain. *Psychological Science*, Vol. 27, No. 4, pp. 443-54. See also Ulijaszek, S. (2014) Do adult obesity rates in England vary by insecurity as well as inequality? An ecological cross-sectional study. *BMJ Open*, Vol. 4, Issue 5. Also see Kopasker, D., Montagna, C. and Bender, K. (2016) *Economic Insecurity as a Socioeconomic Determinant of Mental Health*. IARIW Dresden 2016. Available at: [www.iariw.org/dresden/kopasker.pdf](http://www.iariw.org/dresden/kopasker.pdf)

more insecure about the prospect of downwards mobility.<sup>26</sup> There are also shared factors that tend to be associated with inequality and insecurity, such as low pay, poor quality jobs and relatively weak state support.

There are a number of important distinguishing features of economic insecurity; in particular:

- **Economic insecurity can affect a wide range of people, not just those in poverty.** This can include those just above the poverty line to those in middle-income households experiencing financial strain, indebtedness and the risk that their skills may become obsolete in the face of economic change. Longitudinal research by Ranci and colleagues found around 50 percent of the population was affected by at least one spell of insecurity in a five-year period following the Great Recession of 2008-9.
- **Economic insecurity is dynamic, and captures the fluctuations in people's circumstances and exposure to risks,** seen for example in the churn of families in and out of poverty or hardship. In contrast, inequality and poverty are usually measured in essentially static ways, for example by looking at a sample of people's circumstances at a single point in any given year.
- **The subjective dimensions of economic insecurity are critical to understanding the way that it is experienced and the impact it has.** In contrast, commonly deployed poverty and inequality measures typically prioritise 'objective', material factors.

While the concept of resilience has been applied to understand a similar set of qualities – in individuals and communities (eg enduring recession and austerity<sup>27</sup>) and in relation to national economies (eg enduring banking and currency crises<sup>28</sup>) – the notion of economic insecurity warrants consideration of the long-term interactions and risk-sharing between citizens, their governments, and the businesses and institutions that structure the economy and enable it to function.

26. See for example Pickett, K. and Wilkinson, R. (2009) *The Spirit Level: Why More Equal Societies Almost Always Do Better*. Bloomsbury Press: New York

27. See for example Slay, J. and Penny, J. (2013) 'Surviving Austerity', New Economics Foundation: London. [neweconomics.org/2013/08/surviving-austerity/](http://neweconomics.org/2013/08/surviving-austerity/)

28. See for example Caldera Sánchez, A. and Gori, F. (2016) 'Can Reforms Promoting Growth Increase Financial Fragility?: An Empirical Assessment', *OECD Economics Department Working Papers*, No. 1340, OECD Publishing, Paris. Available at: [dx.doi.org/10.1787/5jlno421d25-en](https://dx.doi.org/10.1787/5jlno421d25-en)

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# 3. What we mean by economic insecurity

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One of the challenges of examining economic insecurity through a policy lens is that there is little consensus about what it means, how it's measured and who it affects. Some relate it to the nature of work; some to income; and others to factors ranging from housing through to financial inclusion. In this sense, it contrasts with poverty and inequality, which have several definitions and metrics which are commonly deployed. Estimates of the scale of insecurity in Britain vary widely. For example:

- Will Hutton's oft-cited characterisation of a '30-30-40' society describes 30 percent of the working age population as being in structurally insecure work.<sup>29</sup>
- Think tank Compass, in contrast, argue that we are in a '5-75-20' society - a 5 percent elite, 75 percent who are the 'new insecure' and 20 percent who are poor and marginalised.<sup>30</sup>

For this work, we have developed a multi-dimensional understanding of economic insecurity that draws on RSA and Nottingham Civic Exchange research as well as a literature review of existing frameworks and definitions (see the appendix for a summary of findings).

**Economic insecurity describes harmful volatility in people's economic circumstances. This includes their exposure to objective and perceived risks to their economic well-being, and their capacity to prepare for, respond to and recover from shocks or adverse events.**

This account of economic insecurity accommodates both 'objective' factors such as patterns of income and finances, and 'subjective' factors including personal perceptions of the degree of security and future risks. It incorporates factors beyond income or employment status, and describes economic insecurity as affecting most people and families to some extent, varying across different points in the life course.

29. Hutton, W. (1995) 'The 30-30-40 Society'. *Regional Studies*, Vol. 29

30. Orton M. (2016) *Secure and Free: 5+ steps to make the desirable, feasible*. Compass: London. Available at: [www.compassonline.org.uk](http://www.compassonline.org.uk)

## Thriving, striving or just about surviving? Seven portraits of economic security and modern work in the UK.

The RSA commissioned Populus to undertake a national survey to explore people's experiences with work, in order to better understand the nature of modern work and its link to economic security. A sample of 2000 UK adults was achieved – of which 1,150 were in work.

The survey gathered both 'objective' data about respondents' economic circumstances as well as their subjective interpretations. The variables used in the data analysis included: income, employment, savings, personal debt, financial support, and perceived ability to make ends meet or 'just about manage.'

A segmentation analysis was undertaken to develop seven pen-portraits of modern work. This analysis, to be released in January 2018, allows for a more nuanced understanding of security, good work and the precarious nature of work within the contemporary UK labour market.

When interpreting the findings, the researchers defined 'empowered economic security' as:

1. Decent work - a living wage, predictable patterns of income, and decent conditions.
2. Financial protection - elements of lifetime financial security also traditionally attached to an employment contract such as pensions, parental leave, sick pay and life insurance.

This definition is underpinned by five key dimensions of economic insecurity.

### 5 key dimensions of economic insecurity

1. **It is both objective and 'subjective.'** Objective factors such as the actual experience of unemployment or income loss combine with 'subjective' perceptions of risks to living standards, status, identity and meaning – now and in the future.
2. **It is experienced across members of households, not just by workers.** Household characteristics, such as whether there is a single income stream or a lone parent, matter greatly for how economic insecurity is experienced and managed.
3. **It relates to the broad experience of work, not just the risk of unemployment.** Threats to job status and quality matter as much as the probability of unemployment. The demand for your skills in your local economy is as relevant as the security of tenure of your current job.
4. **It is dynamic and multi-faceted.** Social and economic risks can shift rapidly across different stages of the life course; as do our aspirations and expectations for how secure we feel. Economic insecurity can affect a wide range of people, experienced across a spectrum of different factors, from income volatility and indebtedness to identity, status and self-image.
5. **It is influenced by 'buffers' and 'stressors'.** Buffers, such as wealth, community institutions and family and community support, protect against risks. Stressors, such as price inflation or erratic and volatile actions taken by employers, landlords or public services, intensify insecurity.

### **Economic insecurity is both objective and subjective**

People's perceptions of the risks that they face and their prospects for managing or recovering from them - 'subjective' economic insecurity - is critical. This doesn't mean subjective insecurity is merely psychosocial and divorced from objective circumstances: it is closely linked to past (objective) experiences, associated with material factors, and mediated through identities such as social class.<sup>31</sup>

A growing body of research evidence suggests that subjective economic insecurity can have significant and detrimental impacts on social outcomes such as health and well-being, as well as economic outcomes including organisational performance and productivity.<sup>32</sup> One review of six studies, using different research methods, concluded that perceived economic insecurity produces physical pain and reduces pain tolerance, and is causally linked to the rise in consumption of painkillers. These effects are linked to the psychological experience of lacking control – in other words, the economically insecure often feel that they have little control over their lives.<sup>33</sup> Another study found that economic insecurity was associated with higher adult obesity rates, helping to explain local variations in England.<sup>34</sup> Other research has shown the negative impact of deprivation on communities' ability to come together to withstand the shared challenges of deprivation.<sup>35</sup>

As well as perceptions of losing control, subjective insecurity is associated with the social effects of a loss of status, identity and community. The stigma associated with a loss of status and financial hardship can also deter individuals from seeking the help and services they need.<sup>36</sup> The 'status anxiety' of those that face the prospect of downward mobility is a driver of subjective economic insecurity. This may help explain the more acute sense of insecurity among working class men - especially in previously prosperous communities impacted by de-industrialisation and technological change - relative to women, despite the latter being relatively more likely to be in structurally insecure employment.<sup>37</sup> Similar issues can affect people that arrive in Britain as refugees and migrants. Recent research has shown that many of them experience acute frustration and struggle to gain recognition of their previous skills and experience.<sup>38</sup>

A number of studies have revealed the 'scarring' effects of past unemployment, and in particular how this can lead to a loss of important

31. Mau, S. and Chung, H. (2014) 'Subjective insecurity and the role of institutions'. *Journal of European Social Policy*, Vol. 24 Issue 4

32. Ibid.

33. Chou, E.Y., Parmar, B.L. and Galinski, A.D. (2016) Economic Insecurity Increases Physical Pain, op cit.

34. Ulijaszek, S. (2014) *Do adult obesity rates vary by insecurity?* Op cit.

35. McNamara, N., Stevenson, C. and Muldoon, O. (2013) 'Community Identity as Resource and Context: A mixed method investigation of coping and collective action in a disadvantaged community.' *European Journal of Social Psychology*. Vol. 43, No. 5, pp. 493-503

36. Stevenson, C., McNamara, N. and Muldoon, O. (2014) 'Stigmatised identity and service usage in disadvantaged communities: Residents', community workers' and service providers' perspectives.' *Journal of Community & Applied Social Psychology*, Vol. 24, No. 6, pp. 453-466

37. Roberts, C., Lawrence, M. and King, L. (2017) 'Managing automation: Employment, inequality and ethics in the digital age'. Institute for Public Policy Research: London. Available at: [www.ippr.org/publications/managing-automation](http://www.ippr.org/publications/managing-automation)

38. Vickers, T. et al. (2016) *New migrants' in the North East workforce: final report*. Working Paper. Nottingham: Nottingham Trent University

factors that contribute to identity.<sup>39</sup> These effects often last beyond a particular spell of unemployment or crisis, highlighting the deep long-term effects of economic insecurity, and how a loss of identity can precipitate reduced life chances and future economic prospects. A 15-year longitudinal study following 24,000 Germans found that, on average, even after they recovered from unemployment their life satisfaction did not bounce back to former levels.<sup>40</sup>

### **Economic insecurity is best understood by looking at households not just individual circumstances**

Household and family composition help determine the extent to which people are exposed to economic risks, and how they manage them. Household structures today are substantially different to those that were prevalent in the two post-war decades, when family incomes tended to primarily derive from earnings of adult men. There is now a lot more variation – with some household compositions much more vulnerable to risks than others.

Particular types of households – such as homes with two earners – are better able to pool risks, which helps to smooth income flows, absorb shocks and “stabilise economic well-being.”<sup>41</sup> Households such as those with lone parents, or people with disabilities or in need of care, tend to experience a higher risk of hardship.<sup>42</sup>

The economic security of individual workers is important, but it is influenced by household characteristics and not just the type of employment that they are in. A majority of the in-work poor are low-paid, but a majority of the low-paid are not poor because they are in households with other income.<sup>43</sup> A part-time worker earning less than the Living Wage is likely to be much more economically insecure if they are a lone parent than if they live with a partner, earning a high income, with no dependents. Housing and childcare costs (for households with children) are typically the largest spending categories,<sup>44</sup> and consumption is dependent on the needs and contributions of all members of a household; changes to housing and childcare costs therefore make the biggest difference to managing living standards.

39. See for example Association for Psychological Science (2017) *How Job Insecurity Impacts Personal Identity*. [Online] Available at: [www.psychologicalscience.org/news/minds-business/how-job-insecurity-impacts-personal-identity.html](http://www.psychologicalscience.org/news/minds-business/how-job-insecurity-impacts-personal-identity.html)

40. Lucas, R. E., Clark, A. E., Georgellis, Y., & Diener, E. (2004) ‘Unemployment alters the set point for life satisfaction.’ *Psychological Science*, Vol. 15, No. 1, pp. 8-13

41. Western, B. et al. (2012) Economic Insecurity and Social Stratification. *Annual Review of Sociology*, Vol. 38, pp. 341-59

42. See for example Black, P. et al. (2017) *Out of the Ordinary*, op cit.

43. Hick, R. and Lanau, A. (2017) *In-work poverty in the UK: Problem, policy analysis and platform for action*. Cardiff University. Available at: [rodhick.com/wp-content/uploads/2017/05/Hick-and-Lanau\\_-\\_In-Work-Poverty-in-the-UK.pdf](http://rodhick.com/wp-content/uploads/2017/05/Hick-and-Lanau_-_In-Work-Poverty-in-the-UK.pdf)

44. Weir, G. (2014) *Consumer Spending Classification: An alternative grouping of household expenditures using the Living Costs and Food Survey*. [Online] Available at: <https://www.ukdataservice.ac.uk/media/455447/weir.pdf>

## How economic insecurity is felt by citizens: Insights from the RSA's Citizens' Economic Council

From 2016-2017, the RSA led a programme of work to better understand the social and economic challenges facing communities, and how we can strengthen citizens' influence over and contributions to policy and economic decision-making. The programme included two key elements:

- **A Citizens' Economic Council**, which engaged with 54 citizens on national economic policy over a period of five days in five months. This used a model akin to an extended period of 'jury service.'
- **An Economic Inclusion Roadshow**, which engaged with 190 citizens from socially and economically excluded groups in some of Britain's most "left behind" communities. The roadshow sought to understand their perspectives on the economy and examine the disconnect between citizens and experts.

The experience of economic insecurity and factors associated with it was an important thread that ran through the insights gathered from citizens. Reinforcing existing evidence about the relationship between poverty, social exclusion and economic insecurity, the economic inclusion roadshow found that:

- Many participants felt their lives were insecure and precarious, and that their economic status is a constant source of concern, stress and anxiety.
- The pressure of a lack of money, lack of good quality housing and security of tenure, and of reduced access to important public services, placed significant strain on individuals, families and community relationships.
- For many participants, these experiences contributed directly to health and well-being concerns: impacting on either their own or on family members' well-being, leading to poor health and depression.
- These experiences also created a deep sense of disempowerment and undermined the trust they had in the political and economic system.
- A lack of agency and respect were commonly cited factors. For many there was a strong sense that economic exclusion and insecurity was perpetuated by the inability to access, influence and engage with the economy.

Supporting this report's argument that economic insecurity relates to the broad experience of work and not just security of tenure, the roadshow found that the nature of work was a key driver of insecurity: especially anxiety about losing the features of the job that they valued.

For example, participants working in the care sector spoke of increasing workplace insecurity with shifts towards more agency and short-term work, relating this back to public sector cuts. Cost-minimisation strategies by their employers were negatively impacting their own sense of professionalism, well-being and pride in the work they did. These participants also expressed strong concern about what they saw as the de-professionalisation of care work across the UK, and how their lack of voice and influence over decisions contributed to declining standards of employment terms and conditions, and poorer service provision. They were keen to emphasise the importance of job status and the security of the quality of work: they wanted better regulation of the profession, more training, and recognition of their experiences and expertise.

During the course of the Citizens' Economic Council, participants were also asked to identify key themes and values by which they thought the economy

should be governed. This resulted in the co-production of a Citizens' Economic Charter. A key part of the charter - 'A socially just society' - relates directly to the provision of basic economic security to all. The themes of citizen voice, empowerment and participation, which are important for creating a sense of economic security, were also key elements of the charter.<sup>45</sup>

The final report of the Citizens' Economic Council is published in spring 2018.

45. Patel, R. and Gibbon, K. (2017) *Citizens, Participation and the Economy: Interim Report of the RSA's Citizens' Economic Council*. The RSA. Available at: [www.thersa.org](http://www.thersa.org)

### **Economic insecurity relates to the broad experience of work, not just the risk of unemployment**

Work insecurity is often associated with the risk of people losing their current job. However, to understand the dynamics of insecurity it is important to reflect on modern economic trends and the distinct ways in which people interact with labour markets today – and are likely to in the future. This has two implications.

First, work related insecurity is as much about the demand for one's skills as it is the likelihood of losing one's job. If someone possesses skills and know-how that are valued by the economy, they are more likely to be able to quickly find alternative employment in the event of job loss. Conversely, someone whose role with a particular employer is secure may nevertheless experience insecurity if the sector in which they are employed is at risk of future decline, or if they possess a skill set that could become obsolete.<sup>46</sup>

Second, work insecurity is as much about threats to job status or quality as it is about the security of tenure. In a highly influential article in the 1980s, Leonard Greenhalgh and Zehava Rosenblatt argued that there are forms of work-related economic insecurity that don't involve job loss, but rather threats to "valued job features."<sup>47</sup> Valued job features encapsulate what constitutes good quality work, and research has shown there is a high degree of consensus among British workers on what this entails. It includes personal treatment by one's colleagues; the ability to utilise one's skills; the interest and choices over work tasks; and pay levels.<sup>48</sup> Relatively recent developments such as much closer monitoring of workers have heightened work related insecurity, especially for workers from lower socioeconomic occupations who have experienced increased managerial control coupled with low participation in workplace decisions.

Recent research by sociologist Duncan Gallie and colleagues suggests that both job tenure insecurity and job status insecurity have risen significantly since the turn of 21st century, the latter especially so. Significantly, it is status insecurity that is now the great class divider: while class matters

46. On this distinction between job security and broader labour market security, see Chung, H. and Mau, S. (2014), *Subjective insecurity and the role of institutions*, op cit.

47. Greenhalgh, L. and Rosenblatt, Z. (1984) 'Job Insecurity: Towards Conceptual Clarity.' *The Academy of Management Review*, Vol. 9, No. 3, pp. 438-448

48. Gallie, D. et al. (2017) 'The hidden face of job insecurity.' *Work, employment and society*, Vol. 11, No. 1, pp. 36-53

little for job tenure security, routine, semi-routine and lower supervisory and technical employees experience significantly greater job status insecurity than those in managerial or professional occupations.<sup>49</sup> Applied at a broad labour market level, this supports arguments that the most potent threats to economic security resulting from technological change and automation are not necessarily related to job destruction or long-term mass unemployment, but rather to dramatic and socially unequal shifts in the distribution of valued skills and good quality work.<sup>50</sup> This can itself lead to poorer employment outcomes, but often because those who lose status and identity in work withdraw from the labour market entirely.<sup>51</sup> The drop in labour market participation resulting from voluntary inactivity among non-college educated working class men following de-industrialisation and trade liberalisation in the US - where decent quality jobs in traditional industries were replaced by low quality service sector jobs - is one such example.<sup>52</sup>

### **Economic insecurity is dynamic and multi-faceted**

One of the major features of economic insecurity that distinguishes it from conditions such as poverty or inequality is that it is dynamic and includes both short-term, temporary shocks and risks, and longer term patterns and entrenched risks. Static analyses that look at material conditions at a point in time do not account the volatility that characterises economic insecurity, nor account for the way in which many families cycle in and out of insecure conditions.<sup>53</sup>

This dynamic and longitudinal quality relates to another key feature: Economic insecurity is multi-faceted and impacts a wide spectrum of households in distinct ways. RSA research into modern work identifies a number of key elements in addition to income and job security, including savings and assets, personal debt, financial support; perceived ability to make ends meet, and perceived agency.<sup>54</sup> Research by Costanzo Ranci and colleagues shows that aspects of economic insecurity are experienced across the income and class distribution, but to different degrees. Financial strain and over-indebtedness are experienced at relatively similar levels across the lower and middle classes, while those at the bottom of the distribution are most acutely affected by chronic insecurity stemming from absolute deprivation and multiple poverty-based hardships. Interestingly, it finds that in the wake of the Great Recession of 2007-2012

49. Ibid.

50. See for example Dellot, B. and Wallace-Stephens, F. (2017) *The Age of Automation*, op cit.

51. See for example Akerlof, G. and Yellen, J. (1990) 'The Fair Wage-Effort Hypothesis and Unemployment.' *Quarterly Journal of Economics*, Vol. 105, No. 2, pp. 255-283; The authors argue that perceptions about the unfairness of wages – which are related to status - can contribute to voluntary unemployment.

52. On the fall in labour market participation among working age men (particularly the least educated), see for example Eberstadt, N. (2016) *Men Without Work: America's Invisible Crisis*. Templeton Press: West Conshohocken, PA. See also Krause, E. and Sawhill, I.V. (2017) *What we know – and don't know – about the declining labor force participation rate*. Brookings Institute [Online] Available at: [www.brookings.edu](http://www.brookings.edu)

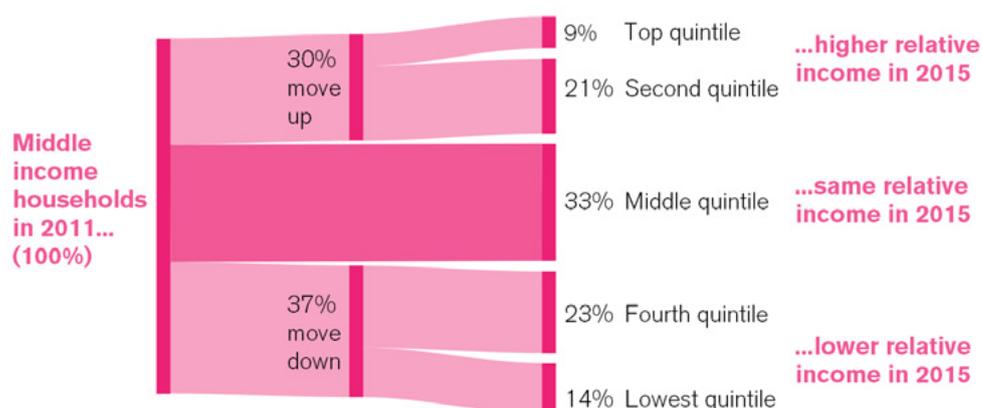
53. Ranci, C. et al. (2017) 'The rise of economic insecurity in the EU: Concepts and measures.' *Lives Working Paper*, Vol. 62. Available at: [www.lives-nccr.ch/sites/default/files/pdf/publication/lives\\_wp\\_62\\_ranci\\_et\\_al\\_2017.pdf](http://www.lives-nccr.ch/sites/default/files/pdf/publication/lives_wp_62_ranci_et_al_2017.pdf)

54. Balaram, B. (2018, forthcoming) *Thriving, striving or just about surviving?*, London: The RSA

it is the lower middle class that has experienced the highest transitory poverty, reinforcing concerns about ‘just about managing’ families and their risk of falling into hardship and poverty.<sup>55</sup>

Experimental statistics in the UK, based on data from the Understanding Society survey, have estimated how household income changes over time (see Figure 1 below). Notably, the middle quintile of households by income in 2011 were more likely to have incomes featuring in the lower two quartiles of households by 2015, rather than move into the upper quintiles. Of 5.28m middle-income households in 2011, 1.95m were in lower-income quintiles by 2015 (37 percent), compared to 1.58m who were in upper-income quintiles by 2015 (30 percent). 1.74m remained in the middle-income quintile between 2011 and 2015 (33 percent).<sup>56</sup>

**Figure 1 – Upward and downward economic mobility: distribution of middle-income households in 2011, by their 2015 household income (quintiles), after housing costs.**



Source: Department for Work and Pensions, Income Dynamics (2017)

55. Ranci, C. et al. (2017) The rise of economic insecurity in the EU, op cit. The authors used a simplified version of the European Socio-Economic Classification (ESeC) to develop class groupings. These included: ‘Routine’, ‘Low technicians’, ‘Small employer and lower middle class’, ‘Intermediate’, ‘Lower salariat’, and ‘High salariat’.

56. Department for Work and Pensions (2017) ‘Income Dynamics: Income movements and the persistence of low incomes’. [Online] Available at [www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/599733/income-dynamics-income-movements-and-the-persistence-of-low-incomes-report.pdf](http://www.gov.uk/government/uploads/system/uploads/attachment_data/file/599733/income-dynamics-income-movements-and-the-persistence-of-low-incomes-report.pdf)

### **‘Buffers’ protect us from economic insecurity; ‘stressors’ expose us to economic insecurity**

There is a range of individual, social and institutional resources that can act as effective buffers against economic insecurity. At an individual or family level, private wealth plays a key role in stabilising economic well-being in the event of shocks or adverse events – although volatility in the levels of wealth can itself create anxiety and insecurity.<sup>57</sup> Institutions also play a key role in buffering against risks. The welfare state tends to be the area of focus, but there is a range of social, civic and economic institutions that play a critical role, including social and community networks, third sector organisations, formal and informal learning institutions, and employers and unions or employee representatives.<sup>58</sup>

Economic insecurity can also be worsened by ‘stressors’ – factors that increase risks to economic well-being. These can include major or sudden economic and policy changes; weakening institutional and social support; or changes in individual characteristics and circumstances, such as a breakup in a relationship, or the development of personal health problems or care needs among family members.<sup>59</sup>

57. Bossert, W. and D’Ambrosio, C. (2009) ‘Measuring Economic Insecurity’, Working Paper, April 14. Also see Bossert, W. and D’Ambrosio, C. (2013) ‘Measuring Economic Insecurity’, *International Economic Review*, Vol. 54, No. 3, pp. 1017-1030

58. Western, B. et al. (2012) *Economic Insecurity and Social Stratification*, op cit.

59. Ibid

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## 4. Economic insecurity and the ‘just about managing’

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According to research by Nottingham Civic Exchange, economic insecurity is a key feature of households described as ‘just about managing’ (JAM). Policy focus on the so-called JAMs has grown as a response to the government’s concerns, made sharper by Brexit, that the economy is not working for everyone despite growing employment. A significant subset of JAM households are those that are characterised as ‘ordinary working families’. ‘Ordinary working families’ are generally understood to be working families with dependent children that are seen as just about managing to get by day to day, but with significant challenges and risks to their economic circumstances and well-being (see below).

While definitions of who falls within the JAM category vary widely, Nottingham Civic Exchange has developed a two-part framework that includes an objective, income-based measure and a subjective measure based on people’s perceptions of how they’re getting by, drawn from the longitudinal household based survey Understanding Society (see below).

**A key finding from the Nottingham Civic Exchange analysis is that there are differences between those that fall within the income-based measure, and those that identify themselves as JAMs on the basis of subjective perceptions.** Nationally, the average (net) household income for those that see themselves as ‘just getting by’ is £34,500, and 40 percent of this group have incomes above the income-based threshold. There are estimated to be 6 million adults in the UK who self-identify as ‘just about managing’ despite being in working households with income above the national average.<sup>60</sup>

The Nottingham Civic Exchange analysis reinforces points made earlier in the chapter. In particular:

- The need to look at economic well-being at a household level.
- The significance of people’s subjective perceptions about their economic well-being, and how this should complement conventional ‘objective’ measures in order to create policy which

60. Burton, S., Lawton, C., Pickford, R. and Wheatley, D. (2017) *Ordinary Working Families in Nottingham and the UK: Technical Working Paper: Objective and Subjective Measures of Income and Earnings*. Nottingham Civic Exchange: Nottingham. Available at: [www.ntu.ac.uk/\\_data/assets/pdf\\_file/0027/424908/out-of-the-ordinary-technical-working-paper-august-2017.pdf](http://www.ntu.ac.uk/_data/assets/pdf_file/0027/424908/out-of-the-ordinary-technical-working-paper-august-2017.pdf)

effectively supports those at risk of experiencing economic insecurity.

- The dynamic nature of people's circumstances and experiences of insecurity, such as transitions in and out of poverty.

### Who are the 'just about managing'?

There is no single, universally recognised definition of 'just about managing' (JAM) households and the term is used loosely by politicians and commentators. Nottingham Civic Exchange's recent research features both an 'objective' income-based measure alongside a 'subjective' measure involving self-reporting of financial stability.

The income-based measure is drawn from a definition proposed by the Resolution Foundation. They define JAMs as "low to middle income households comprising those in the bottom half of the income distribution who are above the bottom 10 percent and who receive less than one-fifth of their income from means-tested benefits". They have found that 5.8 million working-age households in the UK sit in this category, receiving the majority of their income from employment and having net household income between £12,000 and £34,000 per year (this is net income after tax and benefits and is equivalised to account for different household sizes).

The 'subjective' measures drew national data from the UK Understanding Society survey to identify the characteristics of those who consider themselves as financially 'just getting by.'

Nottingham Civic Exchange describe 'ordinary working families' as a significant sub-set of JAM households. 'Ordinary working families' have at least one person in work with a net (equivalised) household income between £12,000 to £34,000. They also have at least one dependent child in the household.<sup>61</sup>

61. Black, P. et al. (2017) *Out of the Ordinary*, op cit.

The Nottingham Civic Exchange analysis also identifies economic insecurity as a key defining characteristic of JAMs and 'ordinary working families' across the UK<sup>62</sup>. In particular:

- **JAMs, in particular 'ordinary working families' tend to experience economic precariousness and volatility**, with many households living close to the poverty line or cycling in and out of poverty. According to analysis by the Joseph Rowntree Foundation (JRF), they also tend to be more financially unstable (for example, having less control over their finances and being less able to save for a rainy day) and less able to manage adverse events or shocks, such as falling ill.<sup>63</sup>

62. Ibid. Also see the technical paper: Burton, S. et al. (2017) *Ordinary Working Families in Nottingham and the UK: Technical Working Paper: Objective and Subjective Measures of Income and Earnings*. Nottingham Civic Exchange: Nottingham. Available at: [www.ntu.ac.uk/about-us/nottingham-civic-exchange](http://www.ntu.ac.uk/about-us/nottingham-civic-exchange)

63. This is based on research by the JRF, which describes JAMs as those that are living on incomes that are just enough to meet the Minimum Income Standard, which is a measure of income adequacy based on what the public thinks enables people to have the opportunities and choices to participate in the society they live in. See Schmuecker, K. (2016) *Who are Prime Minister May's 'just about managing' and what would help them?* [Blog]. Available at: [www.jrf.org.uk/blog/who-are-prime-minister-mays-just-about-managing-and-what-would-help-them](http://www.jrf.org.uk/blog/who-are-prime-minister-mays-just-about-managing-and-what-would-help-them)

- **JAMs, including ‘ordinary working families’ are more likely to be affected by low pay, income volatility and insecure work,** which makes them especially susceptible to changing circumstances and cost of living pressures. They are more likely to be in part-time employment, including 49 percent of those objectively defined as JAMs and 45 percent of those that reported ‘just getting by’). Those that fall within the objective definition are also more likely to be in elementary occupations (16.7 percent) and lower-skilled service roles.
- **There are nevertheless work-related differences between those that are objectively categorised as JAMs and those that report themselves as such.** For example, while the objective group are most likely to be in elementary occupations (16.7 percent, as above), the subjective group are most likely to be associate professionals (14.9 percent). This underscores the point that economic insecurity can be experienced across the income and class distribution.
- **JAMs, including ‘ordinary working families’ tend to have fewer ‘buffers’ and have more of the ‘stressors’ associated with economic insecurity and risk of poverty or hardship.** For example, those that fall within the objective income-based definition are more likely to be unmarried or divorced/widowed; more likely to provide care for ill or elderly relatives and friends; and more likely to have children or dependents under the age of four. People with disabilities are also over-represented among ‘ordinary working families’.<sup>64</sup>

These findings also reinforce longitudinal research on post-recession (2008) insecurity across Europe, which found that it was the low income as well as the low-middle social class that experienced the highest levels of insecurity.<sup>65</sup> In the UK, it found the latter group was most impacted by transitory poverty<sup>66</sup>, supporting common narratives about the precariousness of ‘ordinary working families’ and their movements in and out of poverty.<sup>67</sup>

64. Black, P. et al. (2017) *Out of the Ordinary*, op cit.

65. It should be noted that there are differences between income-based and social class based categorisations. The former is based on people’s incomes and the income quintiles they occupy, while social class incorporates income but also employment relations. Sociologists such as John H. Goldthorpe argue that social class is more useful to analyse than income groups, because it captures richer detail about the lives that people lead. See for example: Goldthorpe, J.H. (2016) ‘Social class mobility in modern Britain: changing structure, constant process.’ *Journal of the British Academy*, Vol. 4, pp. 89-111

66. Ranci, C. et al. (2017) *The rise of economic insecurity in the EU*, op cit.

67. See for example, Schmuecker, K. (2016) *Who are Prime Minister May’s ‘just about managing’*, op cit.

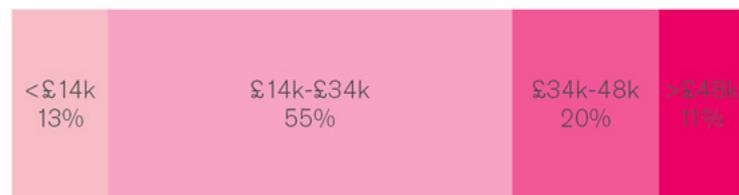
## What does the Populus survey tell us about economic insecurity for those 'just about managing'? \*\*

The RSA created a survey with questions covering people's experience of work and their sense of economic security within their future more generally (see p.18 for more). We gathered responses from a representative UK sample of over 2000 adults. Of the 1,150 who said they were in work, 34% described their current financial position as 'just about manage to make ends meet each month'. The results therefore create the opportunity for original primary data analysis on how those who are 'just about managing financially'<sup>68</sup> may differ from those in other self-defined financial circumstances in how they experience economic insecurity in work and in their wider household circumstances.

### People's subjective interpretations of 'just about managing' do not fit neatly with income measures:

As Figure 2 illustrates below, 31% of JAMs in our sample lived in households with gross incomes above £34,000, including 11% with incomes above £48,000. 13% had incomes below £14,000, while the majority (55%) were in the low-middle-income range of £14,000 - £34,000. This reinforces Nottingham Civic Exchange's analysis showing how subjective interpretations of 'just about managing' are not wholly consistent with income brackets.<sup>69</sup>

**Figure 2 – Annual gross household income of those identifying as 'just about managing' financially**



Source: RSA/Populus survey (2017)

### Financial and income insecurity:

Our other categories of self-defined financial management were 'unable to make ends meet each month', and 'comfortably make ends meet'. Among the comfortable, we asked respondents to distinguish as to whether they had 'extra money to save, invest or spend' each month. For the purpose of our description here, we refer to these groups as 'not managing', 'comfortable monthly' and 'comfortable savers' – as well as 'just about managing'.

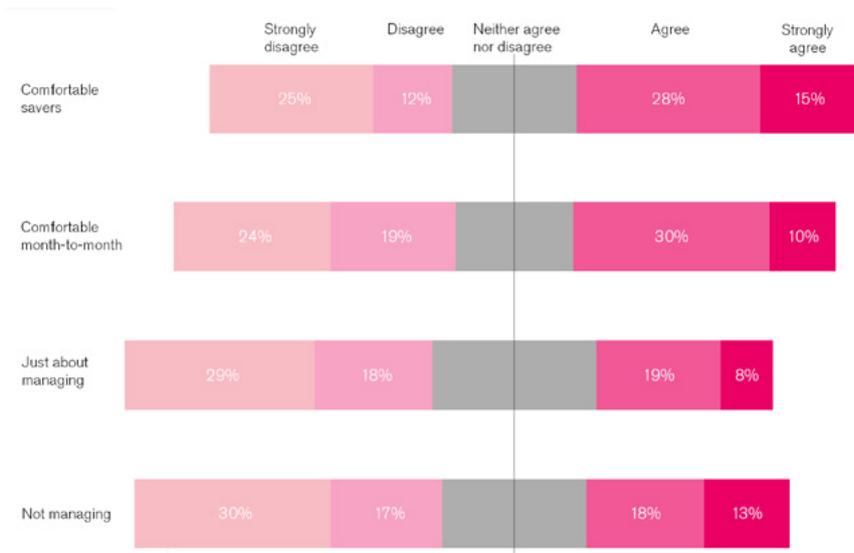
- 50% of JAMs were concerned about the amount of debt they were in – compared to 21% of 'comfortable monthly' and 4% of 'comfortable savers'.

68. It should be noted that the survey obtained responses for individuals; several questions asked individuals about household circumstances

69. Households in higher income brackets are more likely to be larger, including multiple earners. Figures quoted from our data have not been equalised, which is a statistical adjustment often made to reflect the differential financial circumstances faced by households of different sizes including dependents as well as earners.

- 49% of JAMs reported having had a pay rise in the last 5 years – compared to 61% of ‘comfortable monthly’ and 74% of ‘comfortable savers’.
- 28% of JAMs said they could rely on others in their household to support them financially if needed, – compared to 40% of ‘comfortable monthly’ and 43% of ‘comfortable savers’. For the ‘not managing’, the figure is 31% (see Figure 3).

**Figure 3 – Proportion who agree “I can depend on others in my household to support me financially should I need to”, by self-defined financial position**



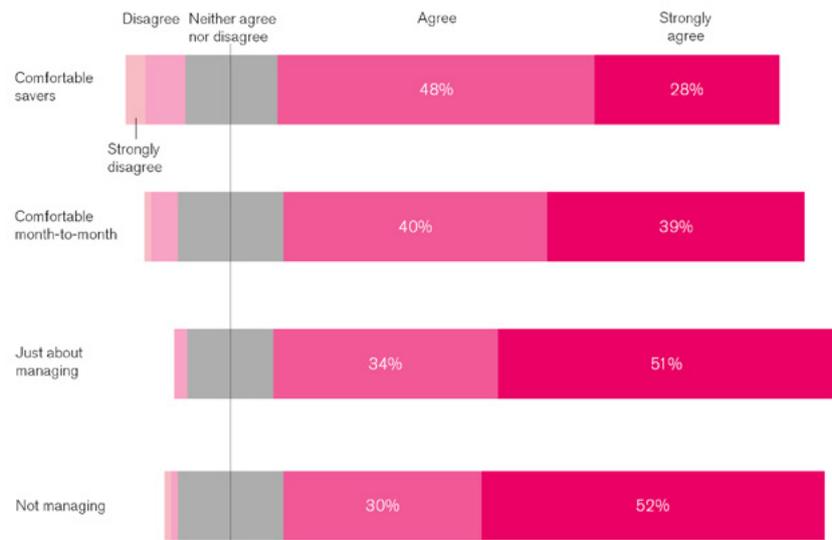
Source: RSA/Populus survey (2017)

#### Concerns about living standards:

- Notably, in our sample, **educational qualifications** achieved were remarkably consistent across all four self-defined financial circumstances. Overall, our sample had educational qualifications which matched the UK national average.
- 55% of JAMs were **homeowners** (40% had a mortgage, 15% did not). 24% rented from a social landlord and 21% rented privately. The comfortably off were more commonly homeowners, while the ‘not managing’ were more likely to rent privately than from a social landlord.
- 47% of JAMs were concerned that **rising housing costs would force them to relocate** – compared to 33% of ‘comfortable monthly’ and 20% of ‘comfortable savers’. For the ‘not managing’, the figure is 59%. A clear majority in all categories (between 71% and 87%) agreed that ‘housing costs in the UK are too expensive and the government should do more to ensure that housing is affordable for people in work’.
- At least 75% among all groups are concerned that the **cost of living would continue to outpace wages**, but this figure was highest (85%) among JAMs (see Figure 4). When asked about improving the quality of

people's jobs and job prospects, JAMs were most likely to agree (71%) 'it is wrong that many working people are in poverty' but least likely to agree (26%) that 'poor quality work is unproductive and damages the economy'.

**Figure 4 – Proportion who agree “I am concerned that the cost of living will continue to outpace wages”, by self-defined financial position**



Source: RSA/Populus survey (2017)

#### Work-related security, quality and progression

- Proxy measures suggest JAMs are worried about the quality of their own job. One third are worried about being treated fairly and the same proportion say they often feel depressed at work – compared to roughly one fifth of respondents who reported being comfortably off.
- While there was a majority among all categories, **JAMs were the most likely to agree (69%) that ‘there is a shortage of jobs with good working conditions and fair pay in the UK’** and 83% agreed that ‘as a country we should do more to improve the quality of the jobs people do’. 32% of JAMs felt they were **paid a fair wage** for the work that they did – compared to 51% of ‘comfortable monthly’ and 68% of ‘comfortable savers’.
- 37% of JAMs felt they had **made progress in their career in the previous 5 years** – the lowest among all categories. 53% of JAMs felt **secure in their job** at present– compared to 62% of ‘comfortable monthly’ and 71% of ‘comfortable savers’. For the ‘not managing’, the figure is 42%. 25% of JAMs felt worried they would be dismissed from their job without a good reason – double the rate among the comfortably off and similar to the rate (27%) among the ‘not managing’.
- 24% of JAMs agreed ‘there is a **high likelihood that I will experience a period of unemployment** in the next 2 years’ – compared to 16% of ‘comfortable monthly’ and 13% of ‘comfortable savers’. For the ‘not managing’, the figure is 34%. 55% of JAMs expected to receive a pay rise in the next 5 years, while 35% felt there was a good opportunity for progress in their career.

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# 5. The political economy of insecurity

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Rising economic insecurity isn't accounted for solely by changes in the global economy. While the social impact of new advanced technologies, globalisation of production and consumption markets, and associated economic restructuring has been dramatic, its form has been heavily influenced by the policy choices over the past four decades. These policies and the priorities and actions of key institutions (most notably government and firms) have combined – not necessarily by design – to produce a political economy in which low value, low pay work, and high insecurity and inequality are more prevalent than in comparator countries in northern and western Europe. Individuals and households with certain demographic characteristics, and places with particular economic profiles, have experienced heightened economic insecurity

There are three key overlapping features that characterise the political economy of insecurity in the UK:

1. **At a broad level, the weakening of capitalism's social contract**, rooted in the social policy, economic and political reforms of the 1980s, with significant consequences for workers and families.
2. **Economic restructuring characterised in many sectors by weak investment rates, cost-minimising business strategies, relatively low pay and productivity, and deficient demand for good work.** The net result is that a relatively high and persistent proportion of people are unable to access or sustain good work<sup>70</sup> and decent standards of living, or are at increased risk of downward mobility and hardship.
3. **Social policy, welfare and work support institutions that deepen a culture of insecurity.** This can be seen in the growing focus on 'personal responsibility' and behavioural requirements for accessing conditional (and less generous) state support, as well as the 'job first' orientation of our labour market policies and programmes.

## The breakdown of capitalism's social contract

In a 2014 speech, Bank of England Governor Mark Carney argued that the "social contract" underpinning capitalism had broken down in many advanced economies, which he attributed to the "market

<sup>70</sup>. The Taylor Review into Modern Employment (2017) defines good work as 'fair and decent with scope for fulfilment and development'

fundamentalism” that had taken hold and created a disconnect between society and the economy. He argued for an “inclusive capitalism” that could deliver a “basic social contract comprised of relative equality of outcomes; equality of opportunity; and fairness across generations.”<sup>71</sup> The RSA’s Inclusive Growth Commission identified a similar set of problems, rooted in the social and economic policy dominance of the failed model of ‘trickle-down.’ The Commission criticised this model for the resulting inequality in the social and spatial distribution of growth and its benefits.<sup>72</sup>

The “market fundamentalism” Carney questioned - often described as ‘neo-liberalism’ – has played a key role since the 1980s in driving increased economic insecurity. Viewed as a package of policies and reforms, it has done so primarily through transferring economic, financial and social risk from employers and government to workers and families.<sup>73</sup> This has included:

- **Significant labour market deregulation, weakening of collective bargaining, and worker voice and participation.** This has transformed the relationship between firms and workers.<sup>74</sup> Some employers and sectors have taken advantage of deregulation to promote ‘one-sided flexibility’, which involves transferring significant risk to workers. Exploitative zero hour contracts are an example of this. But the effects extend beyond non-standard work and include a general rise in ‘job status insecurity’ – where workers feel valued features of their job – such as task discretion, pay and autonomy – are being reduced or are at risk.<sup>75</sup> The British Social Attitudes survey recorded that between 2005 and 2015 falling job security, rising stress at work and a diminished sense of control at work were trends evident among routine and semi-routine workers.<sup>76</sup>

71. Carney, M. (2014) *Inclusive capitalism – creating a sense of the systemic*. Speech delivered at the Conference on Inclusive Capitalism, London, 27 May 2014. Available at: [www.bis.org/review/r140528b.htm](http://www.bis.org/review/r140528b.htm)

72. Inclusive Growth Commission (2017) *Making the Economy Work for Everyone: Final Report of the Inclusive Growth Commission*. The RSA: London. Available at: [www.thersa.org/inclusivegrowthcommission](http://www.thersa.org/inclusivegrowthcommission)

73. Hacker, J. (2008) *The Great Risk Shift: The New Economic Insecurity and the Decline of the American Dream*, rev. and exp. Ed., New York: Oxford University Press

74. Taylor, M. (2017) *Good Work: The Taylor Review of Modern Working Practices*. Available at: [www.gov.uk/](http://www.gov.uk/)

75. Gallie, D. et al. (2017) *The hidden face of job insecurity*, op cit.

76. Painter, A. (2016) Insecurity and the new world of work. [Blog] Available at: [www.thersa.org/discover/publications-and-articles/rsa-blogs/2016/07/insecurity-and-new-world-of-work](http://www.thersa.org/discover/publications-and-articles/rsa-blogs/2016/07/insecurity-and-new-world-of-work)

## How can we create more Good Work?

The Independent Review of Employment Practices in the Modern Economy was commissioned by the Prime Minister in October 2016. Led by the RSA's Chief Executive, Matthew Taylor, the review looked in depth at how employment practices should be adapted in order to keep up with modern business models, such as those driven by digital platforms.

The review recommended that a national strategy for work be explicitly directed toward the goal of **good work for all**, which was defined as fair and decent work with realistic scope for development and fulfilment. Proposals included:

- A new role for the Low Pay Commission exploring how to improve quality and progression in sectors with a high proportion of low paid workers.
- A national framework for employability skills to develop the kind of transferable capabilities that can be acquired in formal education and also informal and on the job learning.
- Recognising and supporting the role that employers can play in promoting health and wellbeing at work.
- Making it much easier for employees to access rights to independent representation, information and consultation.
- A higher minimum wage level for those hours which people are asked to work but which are not guaranteed to them.
- Primary legislation to define the boundary between self-employment and worker status.
- Moving towards aligning the categories used in tax regulation and employment regulation.
- That the employment status boundary should be defined – as is the tax boundary – in terms of the level of control and supervision experienced by individuals.<sup>77</sup>

<sup>77</sup> Taylor, M. (2017) *Good Work: The Taylor Review of Modern Working Practices*. [Online] Available at: [thersa.org/globalassets/pdfs/reports/good-work-taylor-review-into-modern-working-practices.pdf](https://thersa.org/globalassets/pdfs/reports/good-work-taylor-review-into-modern-working-practices.pdf)

- **Increased labour market flexibility; part of a broader trend towards 'flexible accumulation'**. This includes increased flexibility in work but also in production processes and consumption patterns as a source of raising productivity; constant skills restructuring to serve new markets; and a relative weakening of trade unions and wider social movements. One of the consequences is that many firms have more fluid occupational and organisational structures, which has eroded the attachment between employers and workers (and indeed between firms and communities).<sup>78</sup>
- **The financialisation of a greater proportion of the economy.** This relates, firstly, to corporate activity whereby a narrow focus on shareholder value orientates corporate strategies to maximise short-term profits and share prices over long-term productivity, and to focus on mergers and acquisitions as a primary growth strategy. These have impacts on employer practices, relegating

<sup>78</sup> See for example Knudsen, D.C., ed. (1996) *The Transition to Flexibility*. Kluwer Academic Publishers: Norwell, Massachusetts

workforce skills development as a strategy for long-term productivity, profit and growth. Secondly, the allocation of financial resources to derivative instruments and non-productive assets – principally residential property – further substitutes potential productive investment in physical capital and human capital. Thirdly, financial deregulation has created new markets with detrimental impacts through the growth of unsecured household debt, and through the impact of financial speculation in triggering macroeconomic shocks.

- **The framing of individual risk and uncertainty as conditions for economic success.** The transfer of risk to individuals (or the ‘privatisation of risk’) is viewed by some as an important condition for prosperity, based on the argument that personal uncertainty and risk can stimulate entrepreneurial behaviour which contributes to productivity gains through innovation and market-based competition. Evidence challenging this view suggests that insecurity in income and savings, and high levels of individualised risk, can actually deter positive risk taking such as starting a business. For example, the high levels of start-up activity in Sweden are attributed in part to the significant safety net and public support provided by the state.<sup>79</sup>
- **An assumption that the negative ‘externalities’ to the economy – such as household insecurity, social and regional inequalities – are best addressed through market mechanisms or through compensation.** Economic regeneration has tended to be driven either by ‘trickle down’ approaches, or has relied on government income transfers to people and places that have not benefited from growth.<sup>80</sup> In failing to address the structural factors which perpetuate disadvantage over the long-term, unfulfilled expectations have increased mistrust between citizens and government, particularly in disadvantaged localities.
- **The extension of market principles into public life.** One of Mark Carney’s chief criticisms of ‘market fundamentalism’ is that its underlying principles have been inappropriately applied to society, weakening social capital. The deep influence of market-based principles can be seen not only in economic reforms, but also in fundamental and enduring shifts in social policy that have weakened the social contract between citizens and the state. This includes the prevalence of ‘new public management’ in public services, with an associated set of relationships: citizens as ‘customers’ making choices, responding to incentives and ultimately signalling the virtue of ‘personal responsibility.’<sup>81</sup>

79. On this point, see for example Davies, W. (2017) *The Limits of Neoliberalism*, rev. ed., SAGE: London. See also Semuels, A. (2017) ‘Why Does Sweden Have So Many Start-Ups?’, *The Atlantic*, 28 September 2017. [Article] Available at: [www.theatlantic.com/business/archive/2017/09/sweden-startups/541413/](http://www.theatlantic.com/business/archive/2017/09/sweden-startups/541413/). See also The Baroness Mone OBE (2016) *Boosting enterprise in more deprived communities*. Independent report. Available at: [www.gov.uk](http://www.gov.uk). The review identifies income insecurity as a key barrier to enterprise

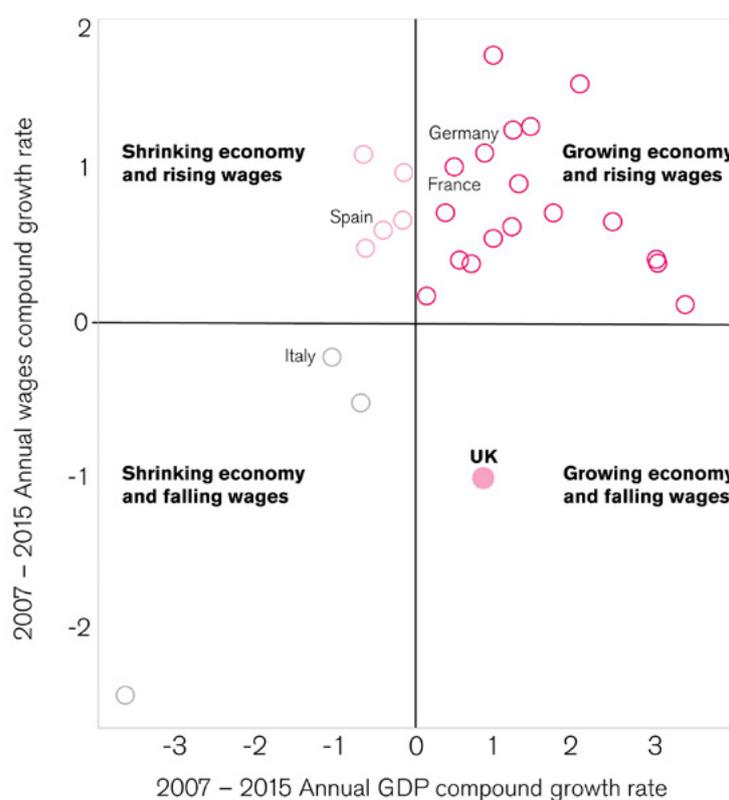
80. See for example OECD (2012) *Promoting Growth in All Regions: Lessons from across the OECD*. Available at: [www.oecd.org](http://www.oecd.org)

81. For a further discussion see *What Money Can’t Buy: The Moral Limits of Markets*. (2012) New York: Farrar, Straus and Giroux.

## The emerging UK value proposition: growth, jobs and stagnant productivity

Notwithstanding important caveats<sup>82</sup>, Britain is by some measures in an ‘employment boom’. The Chancellor Phillip Hammond has described the UK as a “jobs factory.”<sup>83</sup> Post-recession Britain is characterised by high employment and modest economic growth alongside an unprecedented stagnation in productivity and pay growth relative to inflation. As Figure 5 below shows, the decoupling of real wage growth from GDP growth makes the UK an outlier among the world’s richest economies (members of the OECD).

**Figure 5 - Economic growth and wage growth in OECD countries, 2007-2015**



Source: OECD data/Financial Times analysis

Economic insecurity – and the forces that drive it – are key factors in making sense of this. At the heart of this, the UK has a serious productivity problem. Productivity has flatlined since 2007, making the last 10 years the worst decade for productivity growth in over two

82. For example, in addition to the 1.4 million unemployed people; there are also the significant numbers of ‘hidden unemployed’ that aren’t counted as part of the unemployment statistics. Employment levels of specific groups, especially within particular regions and places, are also significantly lower than national averages. This includes people with disabilities, and those from particular ethnic minority backgrounds, for example

83. See The City (2017) *Chancellor Philip Hammond sets tone for 2017 budget*. [Blog] Available at: [blogs.city.ac.uk/cityfinancenews/2017/11/21/chancellor-philip-hammond-sets-tone-for-2017-budget/](https://blogs.city.ac.uk/cityfinancenews/2017/11/21/chancellor-philip-hammond-sets-tone-for-2017-budget/)

centuries.<sup>84</sup> Productivity in the UK is also deeply unequally distributed regionally as well as socially. Many towns and cities outside London and the South East have productivity levels well below their counterparts across Europe.<sup>85</sup> A significant portion of this ‘productivity gap’ is accounted for by the low-wage sectors that tend to employ workers most affected by economic insecurity.<sup>86</sup>

Productivity matters for families affected by economic insecurity because of its link to pay growth and living standards. For local economies such as Nottingham, with extensive low pay employment and low pay growth in recent years, raising the productive output of existing workers and existing businesses – in all sectors and industries – matters in addition to long-term industrial strategy and economic development plans to attract and retain high productivity businesses in highly productive sectors, employing highly skilled and productive well-paid workers.<sup>87</sup>

**These productivity problems are partly driven by businesses pursuing ‘low road’ strategies.** There is a long-tail of business underperformance in the UK, with two-thirds of employees working in companies with below-industry average levels of productivity.<sup>88</sup> Much of the problem is not just an under-supply of skills, but rather skills under-utilisation driven by companies pursuing a ‘low skill equilibrium’ and deploying cost-minimisation strategies as a way of pursuing short-term performance targets. By organising work to obtain value using the minimum necessary skill from their workforce, a relatively high proportion of UK firms are failing to invest in training, progression and workforce development: UK firms invest half as much in training per worker as the EU average.<sup>89</sup> Not only does this hold back productivity growth, but in low-wage sectors it sustains a high demand for poor quality jobs, a low demand for skills utilisation and development, and an entrenchment of low pay and job status insecurity.<sup>90</sup>

According to the Social Mobility Commission, over the last decade only one in six workers experiencing low pay were able to make it up the pay ladder and stay there, with a quarter permanently stuck on low pay and almost half cycling in and out of it.<sup>91</sup> Policy has failed to respond effectively. The focus of successive governments has been on increasing

84. Resolution Foundation (2017) *Freshly Squeezed*, op cit.

85. See for example Core Cities (2016) *Delivering Place-based Productivity*. Available at: [www.corecities.com](http://www.corecities.com)

86. See Inclusive Growth Commission (2017) *Making the Economy Work for Everyone*, op cit.

87. For further discussion, see Black, P., Schifferes, J. and Rossier, W. (2017) *Refreshing the D2N2 Strategic Economic Plan: The case for inclusive growth*, Nottingham Civic Exchange: Nottingham

88. Mayfield, C. (2016) *How good is your business really? Raising our ambitions for business performance*. Productivity Leadership Group. Available at: [www.bethebusiness.com/wp-content/uploads/2017/09/how-good-is-your-business-really.pdf](http://www.bethebusiness.com/wp-content/uploads/2017/09/how-good-is-your-business-really.pdf)

89. Eurostat statistics, cited in analysis by Partington, R. (2017) *The Brexit clock is ticking – time for Hammond to boost apprenticeships*. [Blog, Exec Review] Available at: [www.execreview.com/2017/11/hammond-under-pressure-on-apprenticeships-as-brexit-clock-ticks/](http://www.execreview.com/2017/11/hammond-under-pressure-on-apprenticeships-as-brexit-clock-ticks/)

90. Keep, E. and James, S. (2012) A Bermuda triangle of policy? ‘Bad jobs’, skills policy and incentives to learn at the bottom end of the labour market. *Journal of Education Policy*, Vol. 27, No. 2, pp. 211-230

91. D’Arcy, C. and Finch, D. (2017) *The Great Escape? Low pay and progression in the UK’s labour market*. Social Mobility Commission. Available at: [www.gov.uk](http://www.gov.uk)

the supply of skills so that more people can enter employment, especially with anticipated growth in knowledge-intensive business sectors. This did not ‘magic away’ dull, routine, poorly paid and insecure jobs.<sup>92</sup>

**This ‘low road’ approach to economic restructuring is facilitated by labour market flexibility and insecurity.** High labour market flexibility and a relatively low cost of labour<sup>93</sup> is regarded by both businesses and policymakers as a key source of Britain’s competitive advantage, even more so than skills.<sup>94</sup> But as well as reducing job tenure security, this unwavering commitment to this particular form of flexibility has driven many companies to reduce or maintain low investment in training and productivity-enhancing activities and technologies (which have a longer term pay off, but a higher short-term cost in comparison to labour). This ultimately reduces the scope for workers to develop, progress and move out of the sort of low quality work that is unable to provide economic security and well-being. When too many firms rely on too few other firms to invest in skills development, the overall productive potential of the labour force weakens. It should be noted that approaches to labour market flexibility differ significantly between countries. In Denmark, low employment protection is balanced out by high levels of spending on welfare and labour market support, significant public and private investment in the economy, as well as strong social partnership between industry, trade unions and government – a system often referred to as flexisecurity. Recent reform proposals in France combine some deregulation of labour relations (moving bargaining from sector to enterprise level) with expanding employment benefit entitlement to include those who have chosen to leave work and also development of individual learning accounts.

**One of the peculiarities of post-recession Britain is that there has been significant employment growth without a corresponding growth in pay.**

While the relationship between pay and productivity is clearly relevant, a further possible factor in this is the extent of hidden ‘slack’ or unused labour in the economy, partly driven by the growing reserve labour of those in non-standard (often insecure) work, such as the self-employed and over one million people on zero-hour contracts. This makes it relatively easy for companies to add or replace workers to meet production goals, and difficult for workers to request more pay, thereby depressing wages.

Analysing the composition of recent jobs growth, traditionally low-paying sectors with poor wage growth (accommodation and food, and transport and storage) contributed the largest number of additional

92. Lawton, K. (2009) *Nice work if you can get it*. Institute for Public Policy Research: London. Available at: [www.ippr.org](http://www.ippr.org)

93. Eurostat data shows that the hourly cost of labour in the UK is significantly lower than many of its competitors in Europe - including Germany, France and the Netherlands. Indeed, all of the relatively high performing and advanced economies of Western Europe have higher labour costs. See Eurostat (2017) *Estimated hourly labour costs for the whole economy in euros, 2016 Enterprises with 10 or more employees*. Available at: [ec.europa.eu/eurostat/statistics-explained/index.php/File:Estimated\\_hourly\\_labour\\_costs\\_for\\_the\\_whole\\_economy\\_in\\_euros\\_2016\\_Enterprises\\_with\\_10\\_or\\_more\\_employees\\_F1.png](http://ec.europa.eu/eurostat/statistics-explained/index.php/File:Estimated_hourly_labour_costs_for_the_whole_economy_in_euros_2016_Enterprises_with_10_or_more_employees_F1.png)

94. Keep, E. and James, S. (2012) *A Bermuda triangle of policy?* op cit.

employee jobs in the past year.<sup>95</sup> Since 2008 the UK has seen significant employment growth in low paying and very low paying sectors, with very little growth in all other sectors (see Figure 6). Free movement of people within the EU means that the notion of slack or spare labour market capacity extends across Europe. Of the UK's employment growth of 2.77 million since 2004, 1.24 million (45 percent) is accounted for by EU nationals.<sup>96</sup> Immigration has been essential to the recent UK economic growth model.

### The rise of low pay and non-standard work

The growth of low-paid employment and the rise of non-standard work have become key features of the UK labour market and its "recovery" from the 2007-2012 recession.

- The number of self-employed workers grew from 3.23 million in the final quarter of 2000 to 4.81 million by August-October 2017. Fifteen percent of the UK workforce is now self-employed.<sup>97</sup>
- There were 865,000 agency workers in 2016, an increase of 30 percent since 2011. This accounts for 3 percent of the workforce, comparable to the number on zero-hour contracts.<sup>98</sup>
- The number of full-time employees as a percentage of the total number in work is around two percentage points lower than the 1998-2017 average (see Bank of England analysis below).
- Employment in low pay (70-85 percent of average earnings), and very low pay sectors (below 70 percent of average earnings) in particular, has grown steadily since 2000 and dramatically since 2012 (see analysis from Bank of England below). By contrast, employment in all other sectors in 2016 was only modestly higher than 2000. (See Figure 6)

According to analysis by Michael Saunders, while some of this may stem from workers' preferences for flexibility, it is also likely to reflect the erosion of secure, well-paid jobs and a greater emphasis from employers on cost control. This is also influenced by insecurity arising from the growing financial cost of unemployment as a result of 'wage scarring,' seen in the disparity in wage levels (controlled for education, demographics, occupation, etc.) between people in work now but unemployed a year earlier, and those that were consistently in work. The disparity was beginning to slow by 2010 but rose to over 12 percent in 2016. Reduced work security and the higher financial cost of unemployment may be weakening workers' bargaining power and increasing risk averseness – meaning many people are settling with limited or no wage growth rather than pushing for higher wages if it risks job loss.<sup>99</sup>

97. See Office for National Statistics (2017) *UK labour market: December 2017*. Also see ONS (2016) Article: Trends in self-employment in the UK: 2001 to 2015. Both available at: [www.ons.gov.uk](http://www.ons.gov.uk)

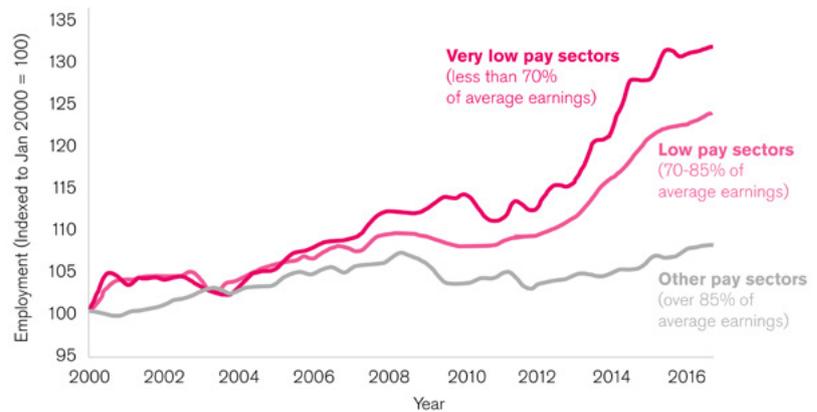
98. Judge, L. and Tomlinson, D. (2016) *Secret Agents: Agency workers in the new world of work*. Resolution Foundation. Available at: [www.resolutionfoundation.org](http://www.resolutionfoundation.org)

99. Saunders. (2017) The labour market. Speech given by Michael Saunders, External MPC Member, Bank of England, at the Resolution Foundation, London, 13 January 2017. Bank of England. Available at: [www.bankofengland.co.uk](http://www.bankofengland.co.uk)

95. See Office for National Statistics (2017) *Labour market economic commentary: November 2017*. [Online] Available at: [www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/labourmarketeconomiccommentary/15november2017](http://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/labourmarketeconomiccommentary/15november2017). See also December 2017 commentary, available at [www.ons.gov.uk](http://www.ons.gov.uk)

96. Schifferes, J. (2017) *How to plan for Brexit*, op cit.

**Figure 6 – UK employment in low pay sectors, compared to all other sectors, 2000 – 2016 (indexed to Jan 2000 = 100).**



Source: Saunders, M. (2017); Bank of England analysis of ONS data.

Taken together, the new value proposition of low-productivity and high employment economic growth exposes low-paid workers to greater insecurity in the face of future technological change. High flexibility, low labour costs, under-investment and skills under-utilisation and under-development mean that those on low and middle incomes face some of the most significant future threats of job and skills displacement.<sup>100</sup> This may be being heightened by efficiency-driven restructuring in sectors such as distribution; as retail goes online, the low wage workforce and under-employed labour see work further ‘routinised’ at lower skill levels. The ideal response to these challenges is investing in productivity-enhancing technologies alongside strong workforce development and demand-creation for good jobs (for example, see case study box on the following page), so that the gains from future automation and technological change are shared more equitably. At present, the potential application of artificial intelligence technologies is heightening anxieties about the future of work.

100. See for example Dellot, B. and Wallace-Stephens, F. (2017) *Age of Automation*, op cit. See also Manikya, J. et al. (2017) *Jobs lost, jobs gained: Workforce transitions in a time of automation*. McKinsey Global Institute. Available at: [www.mckinsey.com](http://www.mckinsey.com)

## Good policy can turn automation anxiety into inclusive automation

Artificial intelligence (AI) and robotics are frequently presented as the most significant threats to employment security. In a landmark study, the University of Oxford predicted that 35 percent of UK jobs could be made obsolete by new technology. But analysis by the RSA suggests that jobs are more likely to evolve than be eliminated, and that new occupations could emerge in the long run, often of a more valuable and 'human-centric' nature.<sup>101</sup>

The question of whether AI and robotics will destroy jobs or offer the possibility of creating new and better ones for all, will depend to a large extent on the choices we make as a society, and the decisions taken by policymakers and businesses. If we fail to recognise economic security as a key societal goal, there is every chance that the next wave of technological change will entrench or worsen social and geographic inequalities and anxieties, deepening the political economy of insecurity. But if we orient our policies and collective actions towards economic security, the deployment of AI and robotics could forge a path towards a better world of work. New technologies could phase out mundane jobs, raise productivity levels, open up the door to higher wages, and allow workers to concentrate on more human-centric roles that are beyond the technical reach of machines.

The RSA's analysis suggests a number of ways this might be achieved through smart policy, including the encouragement of investment into new technologies (especially those that enrich people's working lives), the creation of personal training accounts to support lifelong learning, and shifting the burden of tax away from labour and towards capital. An open inclusive debate about the future of AI and ethics is crucial: there will inevitably be jobs, especially in public services, in which humans are preferable to automated solutions, even if by some metrics human labour was measured to be less efficient or cost-effective.

101. Dellot, B. and Wallace-Stephens, F. (2017) *Age of Automation*, op cit.

## The impact of welfare policy

The UK's public services and welfare system play an important role in mitigating the risks that individuals and families face in the course of their lives, particularly for those in poor health, facing unemployment or low incomes in older age. But there is evidence to suggest that social security and welfare protections are not providing effective buffers against economic insecurity – even in countries with generous welfare settlements.<sup>102</sup>

Part of the explanation may be that public sector support is primarily reactive rather than preventative. As evidenced by the International Labour Organisation (ILO), the most effective risk-reducing policies and institutions are preventative: those that help people prepare for shocks and hazards, rather than just offering them 'relief' after shocks have taken place.<sup>103</sup> Preventative approaches have been identified as critical to addressing the challenges associated with low pay and employment insecurity.<sup>104</sup>

102. Ranci, C. et al. (2017) *The rise of economic insecurity in the EU*, op cit.

103. International Labour Organization (2004) *Economic Security for a Better World. Programme on Socio-economic Security*. ILO. Available at: [www.ilo.org](http://www.ilo.org)

104. McKnight, A. et al. (2016) *Low pay and in-work poverty: preventative measures and preventative approaches*. European Commission: Brussels

On this count, the British welfare state has fallen short by some way, and increasingly so since 2010. It plays a part in sustaining a political economy of insecurity in two principal ways. First, imposing increasingly strict behavioural requirements for accessing conditional state support including punitive penalties<sup>105</sup>, and, second, by sustaining a welfare and work support system that is structurally designed to move people into any sort of jobs, even if they are insecure, low paying and offer little progression potential.

### **Conditionality and economic insecurity**

There is growing evidence to suggest that the intensification of work-related conditionality in the past few decades, but especially since 2010 - including constant monitoring and the threat or use of sanctions - is failing in its stated aim of 'incentivising work' or promoting positive behaviour change. Rather, it may be contributing to widespread anxiety and uncertainty among people in low income households; increasing financial volatility; and weakening basic security against threats of material hardship.<sup>106</sup> The increased tightening of eligibility criteria for accessing benefits, as well as the general experience of receiving Job Centre support and perhaps the associated stigma of being on benefits, appears to have had a dramatic effect on the number of unemployed people receiving income support. Only around half of unemployed people currently receive jobless benefits, compared to 80 percent in the early 1990s. This may add to the financial penalty of becoming unemployed, increasing financial insecurity. It may also encourage risk averseness for those in insecure and low paid jobs: they may see their current work as more desirable than pushing for progression or alternative jobs if it risks unemployment and interaction with a tough benefits regime.<sup>107</sup>

Despite the merits of a simpler benefits system, the specific design and delivery of Universal Credit risks exacerbating economic insecurity. For example, pilot areas for the scheme have seen significant increases in rent arrears and debt as a result of the long waiting period for first payment, as well as the complexities of the system and the switch to a monthly payment of all benefits (including housing benefits, which were previously paid directly to landlords). The changes were a key cause of stress, anxiety and depression among claimants.<sup>108</sup> Universal Credit also extended conditionality to recipients of in-work benefits, creating an expectation that low-paid workers increase their hours or earn more.<sup>109</sup> This reflects a broad extension of conditionality within social security

105. See for example the research conducted by the Welfare Conditionality: Sanctions, Support and Behaviour Change Project. Available at: [www.welfareconditionality.ac.uk](http://www.welfareconditionality.ac.uk)

106. See *ibid.* In particular, see research presented in *Social (in)security? Exploring the impacts of welfare conditionality*, Social Policy Association conference, July 2017. Also see *First wave research findings* (2016) Available at: [www.welfareconditionality.ac.uk](http://www.welfareconditionality.ac.uk)

107. Saunders, M. (2017) *The labour market*, *op cit.*

108. See Wright, S. et al. (2016) *First wave findings: Universal Credit*. Welfare Conditionality Project. Available at: [www.welfareconditionality.ac.uk](http://www.welfareconditionality.ac.uk). Also see the Guardian (2017) *Universal Credit sending rent arrears and food bank use soaring, councils say*. [Article] Available at: [www.theguardian.com/society/2017/oct/23/universal-credit-sending-rent-arrears-and-food-bank-use-soaring-councils-say](http://www.theguardian.com/society/2017/oct/23/universal-credit-sending-rent-arrears-and-food-bank-use-soaring-councils-say)

109. Stott, E. (2017) *Impact of Universal Credit on Claimants: Debate on 16 November 2017*. House of Lords Library Briefing. Available at: [researchbriefings.parliament.uk/ResearchBriefing/Summary/LLN-2017-0080#fullreport](http://researchbriefings.parliament.uk/ResearchBriefing/Summary/LLN-2017-0080#fullreport)

delivery, to groups for whom such conditions may not be appropriate, such as single parents with young children, those working but on low pay, and people with disabilities but deemed able to work. Peter Dwyer and Sharon Wright, contributors to the ESRC Welfare Conditionality project, describe this as “ubiquitous conditionality.”<sup>110</sup>

### **Moving people into employment, (any employment)**

The UK’s ‘low road’ economic strategy is given form by a combination of labour market deregulation, insufficient investment and cost-driven business strategies. But it is also influenced by a welfare system that helps to ensure a large supply of low cost labour by pressuring the unemployed into low wage work, while also failing to provide in-work support (beyond welfare payments) to those that are in low-wage employment, or cycling between low pay work and unemployment or inactivity.<sup>111</sup> Gerhard Bosch identifies two models of labour market activation. One, seen in Denmark, is preventative and helps job seekers avoid accepting low wage work. The other, seen in the UK and the US, ultimately pressures the unemployed into accepting low wage (often insecure or short-term) work, with a narrow focus on job search assistance, monitoring and moving people into work as quickly as possible.<sup>112</sup> Although there are wider economic and institutional differences between the UK and Denmark, it is instructive that in Denmark low low-wage employment is less prevalent than in the UK.

Evidence suggests that active labour market programmes based on promoting entry into quality employment and wider long-term outcomes can play a crucial role in preventing low-wage employment, addressing the under-utilisation of skills and promoting progression and upwards mobility.<sup>113</sup> This would include those – often ‘just about managing’ financially – that aren’t currently supported by work programmes because they’re not long-term unemployed, but instead in low wage work or cycling between insecure jobs.<sup>114</sup> As things stand, the UK’s ‘job first’ labour market programmes and low wage, low productivity economy are mutually reinforcing.

110. Dwyer, P. and Wright, S. (2014) Universal Credit, ubiquitous conditionality and its implications for social citizenship. *Journal of Poverty and Social Justice*, Vol. 22, No. 1, pp. 27-35

111. McKnight, A. et al. (2016) *Low pay and in-work poverty*, op cit.

112. Bosch, G. (2009) Low-Wage Work in Five European Countries and the United States. *International Labour Review*, Vol. 148, No. 4, pp. 337-56

113. McKnight, A. et al. (2016) *Low pay and in-work poverty*, op cit.

114. It should, however, be noted that there has been piloting of approaches that provide in-work support, for example the Employment Retention and Advancement demonstration programme, and more recently the West London Alliance’s (on behalf of the London Boroughs of Hounslow and Harrow) Skills Escalator pilot, supported by the government’s Transformation Challenge Award

## How have major policies impacted 'ordinary working families'?

A descriptive policy analysis was undertaken to assess whether major policy interventions (since 1997) were aiming to benefit people likely to identify as 'just about managing' financially, including 'ordinary working families'; and whether subsequent evaluation has assessed that they in fact did.

We assessed a breadth of policies: those explicitly targeted at people and households on low and middle incomes, and policies which were relevant to JAMs but where the target group might have been unarticulated, with impact on JAMs incidental. Our analysis focused on the government's largest spending areas: the labour market, social security, health, education and skills, and housing.

A number of key themes emerged, including:

- The introduction of the National Minimum Wage (and later the National Living Wage) and in-work tax credits has played an important role in raising and smoothing the incomes of those affected by low pay, but they have done little in addressing the challenges associated with low waged, insecure work. They have helped to set a pay 'floor', but policy has not complemented this with effective action on progression thereafter. This has meant that many 'ordinary working families' are 'benefit reliant', and therefore susceptible to the impact of welfare cuts.
- Public sector cuts – to welfare and to public services – have had a detrimental impact on JAMs. They had led to reduced access to increasingly rationed or reduced services, as well as volatility in household incomes. Major reforms to services, especially a sharpening of conditionality requirements, have driven increased anxiety and insecurity.
- There are significant inter-generational differences in insecurity affecting JAMs. Older people have benefited from 'triple-lock' guarantees on the rising value of pensions, additional benefits such as winter fuel allowance and free travel, and rising house prices following a period of low interest rates. In contrast, younger people lost out through tuition fees, the scarring impact of the recession (including on pay growth and progression), reliance on insecure work, and housing policies that did little to address housing affordability. Households with children have been more negatively impacted, financially, from tax and spending decisions since 2010 than working-age households without children or pensioner households.<sup>115</sup>
- Major skills and labour market activation programmes have had limited impact on promoting economic security in terms of access or progression into good quality work. The generally poor access to quality vocational education and significant cuts to adult skills since 2010 have disadvantaged OWFs. The focus of welfare to work support has too frequently been on job entry, rather than in-work support (which would especially benefit OWFs).

115. Child Poverty Action Group (2016) '10 years of austerity: the impact on low-income households and women', [cpag.org.uk/sites/default/files/CPAG-Poverty154-10-years-austerity-summer2016.pdf](http://cpag.org.uk/sites/default/files/CPAG-Poverty154-10-years-austerity-summer2016.pdf)

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# 6. Addressing economic insecurity through public policy

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In order to illustrate how policymakers and civic leaders can respond to economic insecurity, this chapter proposes **three long-term aims for policy**. We then present **three strategic approaches to policy** design to address economic insecurity. Finally, we describe how applying these approaches to achieving these aims could be **put into practice for three illustrative policy areas**: diagnosing problems through the lens of economic insecurity, highlighting potential interventions and the associated re-profiling of public investment.

## Policy aims to address economic insecurity

In the preceding chapter, we identified three broad features of what we described as a political economy of insecurity: a weakening of capitalism's social contract; a new value proposition for the economy underpinned by insecure work; and a social policy, welfare and work support system that serves to increasingly heighten rather than mitigate economic insecurity – acting as a stressor as well as a buffer.

In order to transform our political economy so that it promotes economic *security*, we propose three broad inter-related policy aims:

- Pursuing an economy based on a renewed social contract.
- Creating a virtuous cycle between economic security, good work and economic competitiveness.
- Establishing economic security as a shared mission for social and economic policy.

## Renewing the social contract

As the previous chapter argued, there is a strong case for replacing socially fractious 'market fundamentalism' with a new 'social contract' that cements the link between social and economic goals, within the UK and within devolved nations. This means stronger relationships between business, policymakers, civil society and workers and their representatives, as well as an institutional, regulatory and cultural architecture that supports economic activity to re-orient towards civic goals. As the RSA Inclusive Growth Commission highlighted, there is not necessarily a trade-off between social goals, such as inclusion, and the goals of industry and economic policy, such as productivity and growth. An approach to the economy rooted in a renewed social contract can help to align social and

economic priorities in practice. This may include, for example:

- An approach to labour market flexibility that better balances the preferences of employers with the needs and aspirations of workers.
- Stronger forms of worker voice, influence and ownership, including the prospect of ‘inclusive automation’ in which workers share in the benefits of productivity growth.
- A stronger role for citizens and communities in making the decisions which shape the economy, matched by enhanced commitment from businesses and other anchor institutions to positively impact the places in which they operate and rely upon.
- A focus on economic and business goals including improved productivity, skills utilisation and employee retention.

### **Creating a virtuous cycle between economic security, good work and economic competitiveness**

The low value model dominant in current economic restructuring, poor job quality and progression, and economic insecurity can be mutually reinforcing. A better understanding and recognition of the links between them could unlock more effective ways of achieving a virtuous cycle of greater economic security, opportunity and fulfilment at work, alongside improved economic performance and competitiveness. National government’s renewed interest in industrial strategy as well as growing local leadership on the good work agenda provide promising platforms to build on.<sup>116</sup>

An important part of this would also include better understanding the links between the ‘macro’ arenas of aggregate economic trends and national policy, and the ‘micro’ experiences of workers, families and communities. Policymakers and economists often rely on aggregate data and models that are unable to account for distributional impact and the ‘felt’ experience of economic phenomena. As Bank of England chief economist Andrew Haldane highlighted, this is why in recent years it has been difficult to reconcile national aggregate data showing recovery from recession with the feelings articulated by many people and communities across the country do not feel they are recovering at all.<sup>117</sup> Economic insecurity can have highly localised impacts, and is as much about subjective factors and non-material resources as it is about material economic circumstances. It is therefore important to understand both the macro and the micro; and objective trends, but also how they are interpreted and experienced differently by individuals, communities and places. New data metrics should

<sup>116</sup>. A number of local authorities, for example, have developed or are developing local employment charters that seek to promote good quality work locally. See for example Hurrell, D.L., Hughes, C. and Ball, E. (2017) *Local employment charters: case studies from the UK*. University of Manchester, Joseph Rowntree Foundation and Oxfam. Available at: [www.oxfamlibrary.openrepository.com](http://www.oxfamlibrary.openrepository.com). Also see RSA analysis of the economic strategies of Local Enterprise Partnerships within Black, P., Schifferes, J. and Rossier, W. (2017) *Refreshing the D2N2 Strategic Economic Plan*, op cit.

<sup>117</sup>. Haldane, A.G. (2016) *Whose recovery? Speech by Mr Andrew G Haldane, Executive Director and Chief Economist of Bank of England, in Port Talbot, Wales, 30 June 2016*. Available at: [www.bis.org/review/r160719e.pdf](http://www.bis.org/review/r160719e.pdf)

be matched with, and informed by, greater citizen involvement in shaping economic policy at local and national scale.

### **Establishing economic security as a shared mission for social and economic policy**

As the previous chapter argued, the last few decades have seen a broad transfer of risk from government and collective institutions to individuals, families and communities. The welfare system has increasingly prioritised promoting individual responsibility and behaviour change over collective insurance against social risks. Nevertheless, social policy, public services and other key institutions play a critical role in promoting economic security alongside efforts to reduce poverty and inequality.

An integrated approach across broad areas of social policy and public services could involve:

- The development of alternatives to conditionality-based support, such as Universal Basic Income at a national scale, or the combination of alternative and localised welfare provision alongside intense supportive coaching to support citizens in navigating the contemporary labour market, as the RSA is currently exploring alongside Rochdale Boroughwide Housing and Greater Manchester Combined Authority.
- A greater emphasis on preventative support to help people avoid or better manage exposure to economic risks (see below). This requires a broader understanding of welfare, beyond income transfers, so as to consider assets (such as housing, savings and investments) and resources accessible through family and social networks; such resources play an important role in ‘buffering’ families against economic insecurity.
- Recognising that empowering citizens and building people’s capabilities are key drivers of human welfare, security and fulfilment. This might include a strong promotion of lifelong learning, interventions to support in-work progression and worker voice, and local institutions that facilitate distributed social investment or local ownership of economic assets through community businesses, as a means of greater economic power.

### **Strategic approaches to designing policy**

Achieving the aims set out above will demand a concerted, long-term effort that draws on a combination of alleviative mitigation measures, innovative experiments, and transformative system-wide interventions.

Below we set out a number of possible policy interventions that policy-makers, public services and civic leaders could take, drawing on the RSA’s wider programme of research on economic security, work and public services. We organize these potential actions under three approaches within policy design:

- Tactical and technical cross-cutting approaches to public policy design.
- Preventative policy design, reducing people’s exposure to the

risks associated with economic insecurity.

- Effective collaboration between place-based institutions, to better enable people, households and communities respond to economic insecurity.
- Effective collaboration between place-based institutions, to better enable people, households and communities respond to economic insecurity.

First and foremost, financial resources reduce economic insecurity: including earned income from work, accumulated wealth, inherited wealth, and income from wider social networks and from the government. Among these, income from paid work is the most important factor in the finances of most households, and a forthcoming RSA report, *Thriving, striving or just about surviving?*, will identify directions for policy to better promote good work. Work-related insecurity covers issues such as pay, conditions, progression, skills development, representation and the demand of employers in the wider labour market.

Understanding economic insecurity requires looking beyond the workplace. Addressing it will require the same. Here, options are explored in relation to wider public policy: what the International Labour Organisation terms ‘basic social security’. We assess that these interventions would be likely to provide the foundation for households on low and middle incomes to reduce economic insecurity; objectively, and subjectively, in terms of their felt experience and anxieties.

### **Tactical and technical cross-cutting approaches to more strategic public policy design**

The way that public policy is typically made in the UK constrains policy design from confronting dynamic, multi-faceted challenges such as economic insecurity. Policymaking is often too slow, too centralised, too inflexible and path-dependent, and too closely aligned with political cycles. It may not always measure or evaluate the right things. And too often, a policy initiative is conceived as having a singular objective without reference to or understanding of the impacts of policy change that ripple through the complex system of policy interventions, public services and public finances. Because it is dynamic and multi-faceted, reframing policy so as to orient towards addressing economic insecurity as a shared, common mission can help prompt a reappraisal of policy impact; recognising the context of complex existing systems, and interrogating interaction effects between new and existing policy.<sup>118</sup>

There are a number of ways in which this might be addressed and more strategic approaches to policymaking might be developed.

Economic insecurity is a dynamic concept, connected to people’s assessment of the risks and opportunities they feel they will face in the future, which itself is influenced by past events and experiences. **Policies and interventions could be more effective if they were premised on**

<sup>118</sup>. See discussion within Thorold, J. (2017) *Policy with impact: New approaches to policymaking*. The RSA: London and Mazzucato, M. (2017) *Mission-oriented Innovation Policy: Challenges and opportunities*. The RSA: London

**‘moments of change’, which can be identified in order to target recipients at greatest risk of economic insecurity.** For example, the RSA City Growth Commission recommended particular targeted interventions for individuals who have been made redundant, following positive evaluation of similar schemes which have been trialled in Wales.

While state interventions are well established for individuals facing unemployment, other key intervention points potentially include housing moves, job moves, diagnosis of major illness, relationship breakup, the birth of new children and schooling milestones. Many small-scale local services do not have the resources to refer people on, following contact premised on a specific issue. Investment in capacity-building front-line staff to focus on economic insecurity could be trialled.

A significant proportion of public sector investment is subject to predictive impact evaluation. **Policy evaluation frameworks could be extended beyond aggregate economic impact to include the distribution of such impact for groups facing high levels or high risk of economic insecurity.** Economic impact should ideally be quantified and qualified with reference to household-level impact and consider longitudinal impact across the life course.

It is likely that **devolving certain regulatory and policymaking powers to regional or local level will allow for local government and combined authorities to better customise policy to respond to the dynamics of their local economy,** ultimately identifying and scaling up successes from policy experiments more rapidly. The work of Nottingham Civic Exchange within its Out of the Ordinary programme creates a useful precedent for how local economic intelligence could potentially inform policy design at the scale of cities and city-regions.

**Policymaking should be informed by practice and by the lived experience of people those policy measures are designed to benefit,** as well as those on the front-line implementing policy and working in public services. Citizen involvement, going deeper than traditional consultation and engagement, will require well-resourced and skilfully delivered processes of deliberation, policy design and experimentation, such as those which form part of the RSA’s Citizens’ Economic Council.

### A policy diagnostic for employment strategy

The following questions have been adapted from work undertaken in partnership by the RSA and Nottingham Civic Exchange, commissioned by the D2N2 Local Enterprise Partnership. The questions help policymakers appraise potential policy interventions for relevant or likely impact on the employment dimensions of economic insecurity.

- How will the project/programme actively involve citizens in design and governance, to ensure the inclusion of those facing economic insecurity?
- Does the project/programme relate to a workforce with high numbers of households facing high or heightening economic insecurity  
*eg low and middle-income households with £12,000 to £34,000 net annual household income.*
- Will the project/programme result in quality job creation?  
*...above Living Wage pay rates.  
...within a workplace or organisation with skills and training development and progression routes.*
- Will the project improve access to quality employment for groups at risk or experiencing high levels of economic insecurity.  
*eg people with disabilities or poor health, single-earner households with dependents, people without access to a private car.*
- Will the project/programme improve progression for workers in elementary/low paying jobs/sectors?  
*For physical development/infrastructure, will the infrastructure improve access to quality employment for disadvantaged groups?*
- Is the project/programme able to identify key 'moments of change' at which point the exposure to or awareness of personal and household economic insecurity is heightened?

### Preventative action to reduce people's exposure to the risks associated with economic insecurity

Shifting the profile of public spending to preventative programmes, which minimise people's exposure to economic insecurity, and early intervention approaches, which build the long-term capabilities to lead fulfilling and secure lives, is crucial: the social and economic case for this well-established.<sup>119</sup> The scale of many promising policy approaches is local and city-regional, rather than national.

Specific to economic insecurity, **potentially effective interventions start with better information**: including housing advice, careers advice, and better labour market information to inform people's skills training and qualification choices. The public sector could also encourage better public information through the creation of umbrella accreditation and recognition schemes for specific local geographies. For example, the Inclusive Growth Charter created by the Worcestershire LEP, or the Workplace Wellbeing Charter created by Coventry City Council, each focus on achieving outcomes for people at particular risk of economic insecurity.

RSA-commissioned survey data shows that insecure housing and anxiety about future housing costs are associated with high levels of anxiety

<sup>119</sup> See for example the publications of the Early Action Task Force, available online at: <http://comlinks.beepweb.co.uk/earlyaction>

about economic security. Government, including bodies such as the Homes and Communities Agency, in collaboration with councils and city regions, could explore regulatory options so as to ensure greater security in the provision of housing. This includes promoting or requiring longer tenancy agreements be offered to tenants, and funding the construction of social rent homes with more secure social tenancies. (See the following section for further discussion of housing policy).

A further priority area for preventative investment is in experiments to design **new public service models of welfare provision and labour market support that promote economic security**. The RSA has recently explored the potential operation of a transformational intervention: a Universal Basic Income<sup>120</sup>, and will be working alongside the Scottish Government to design experiments in coming years. The RSA will publish, later in 2018, a discussion paper on a further potential alternative scheme, designed as a Universal Basic Opportunities Fund. Interventions such as West London's Skills Escalator, various Work and Health employment support programmes and in-work progression pilots, provide a strong platform to develop and test new approaches which complement and capitalise upon the opportunities presented by new models of financial support.

Fundamentally, the public sector should capitalise on **directing the power of public sector procurement and public sector employment, to achieve greater provision of jobs that meet defined local quality criteria** such as pay, working practices, progression routes, and flexible working arrangements. The expansion of the Nottingham Express Tram Phase 2 provides strong evidence of the impact on securing employment outcomes<sup>121</sup> as does the example of Preston City Council redirecting spending to businesses based in the city.<sup>122</sup> The West Yorkshire Combined Authority has, as a starting point for change, acknowledgement that while there are no silver bullets, the six local authority members together represent the largest employer of those in low pay employment in the city-region. Corporate commitments need to progress from ethical charters to pay measures to non-pay factors such as skills development and progression pathways.

120. Painter, A. and Thoun, C. (2015) *Creative Citizen, Creative State – The principled and pragmatic case for a Universal Basic Income*

121. Rossiter, W., Bickerton, C., Canavan, R., Lawton, C. and Murphy, P., (2016) *NET phase two local economic evaluation: report 2: impact evaluation findings: final report*. Tramlink Nottingham: Nottingham

122. CLES (2017) *Community Wealth Building through Anchor Institutions*. Available at: [https://cles.org.uk/wp-content/uploads/2017/02/Community-Wealth-Building-through-Anchor-Institutions\\_01\\_02\\_17.pdf](https://cles.org.uk/wp-content/uploads/2017/02/Community-Wealth-Building-through-Anchor-Institutions_01_02_17.pdf)

## The value of exploring Universal Basic Income to address economic insecurity

One of the core objectives in Basic Income schemes is reducing the economic insecurity in the material *and* psychological sense. A basic income, in its purest form, is a regular, unconditional payment made to every adult and child. It is not dependent on income, is not means-tested and is not withdrawn as earnings rise. The stabilising effects of a regular income stream, as well as removed stigma, are likely very significant for those in the grips of economic insecurity.

The recently announced Stockton Economic Empowerment Demonstration in California received its first round of funding from the *Economic Security Project*.<sup>123</sup> In Alaska where a basic income of sorts has been paid out since the 1970s, only 25 percent of recipients report spending all the money they receive in a year, with the rest going towards savings, assets, investments, and lending to others.<sup>124</sup>

An experiment currently underway in Kenya explicitly aims to increase economic security, and their initial findings are extremely positive. These include an increased sense of independence and notable decreases in stress.<sup>125</sup> The results mirror those produced in previous pilots including those in India<sup>126</sup> and Canada.<sup>127</sup>

Throughout the 1970s, millions of Canadian dollars were given to thousands in and around Dauphin, a small town in Manitoba.<sup>128</sup> For many the Canadian experiment, the Manitoba Basic Annual Income Experiment (Mincome), is the closest to a 'pure' basic income in the western world to date. Academics David Calnitsky and Jonathan Latner recently carried out a fine-grained study of labour market response.<sup>129</sup> Over the course of the experiment, the authors found that the overall reduction in work hours was small, a result consistent with other experiments in the US<sup>130</sup> and beyond. Yet, a considerable proportion of this time was replaced not by idleness, but education and caring, with a reduction in over-employment and increase in hours worked by the under-employed. The authors point to one significant factor contributing to work reduction – that of increased time spent *between* jobs in order to find good work, rather than simply taking the first available position.<sup>131</sup> Participants also reported considerable increases in feelings of security, both financial and otherwise.<sup>132</sup> Another Mincome study, Evelyn Forget's paper *The Town with No Poverty*, even showed a significant improvement in mental health, including fewer referrals to psychiatric hospitals.<sup>133</sup>

123. Office of the Stockton Mayor, Michael Tubbs (2017) FACT SHEET The Stockton Economic Empowerment Demonstration

124. Harstad, P. (2017) *Executive Summary of Findings from a Statistical Survey of Alaska Voters on the PFD*. The Economic Security Project

125. GiveDirectly; Research on cash transfers. Available at: <https://www.givedirectly.org/research-on-cash-transfers>

126. Standing, G. (2013) *Unconditional Basic Income: Two pilots in Madhya Pradesh*. A Background Note prepared for the Delhi Conference

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131. Calnitsky, D., and Latner, J. P. (2017) *Basic Income in a Small Town*, op cit.

132. Calnitsky, D. (2016) "More Normal than Welfare": The Mincome Experiment, Stigma, and Community Experience.' *Canadian Review of Sociology/Revue Canadienne De Sociologie*. 53

133. Forget, E. L. (2011). *The Town with No Poverty*, op cit.

### Effective collaboration between place-based institutions

The policy design response to addressing economic insecurity should include approaches which better enable people, households and communities respond to economic insecurity. The dynamic nature of living with economic insecurity in the long-term should prompt networks of institutions to better coordinate to ensure that the assets which are anchored in place are fully mobilised around the shared mission of reducing economic insecurity. Several cities have established ‘collective impact’ initiatives which coalesce public, private and charity organisations around a shared programme of action, supported by a ‘backbone’ governance and accountability structures, rooted in place.<sup>134</sup>

**From a local perspective, a reasonable starting point is recognising the value of using resources already in place, and investing in outreach to increase access to entitlements.** For example, in Nottingham, among two-year olds eligible for free childcare, 56 percent access this provision compared to an England average of 71 percent.<sup>135</sup> Childcare costs and flexibility represent a key challenges for parents entering or re-entering work, or increasing their working hours. This therefore represents a powerful but indirect avenue to address economic insecurity. Using another example of the value offered by integration – financial inclusion – ensuring that debt advice and counselling is free, accessible and well-used might also mean promoting the integration of more equitable banking and lending institutions within public service provision: for example, through promotional campaigns or default registrations among social housing tenants and private sector workers providing public services (such as those in transport and caring occupations).

**Anchor institutions** such as major local employers, hospitals and universities could maximise the particular role they play in shaping the local economy and social outcomes. While this has traditionally focused on supply chain initiatives and procurement policy, there remain significant unrealised impacts in the mobilisation of valuable interventions among core resources and service functions, aligned so as to mitigate, navigate and reduce vulnerability to economic insecurity.

- **Universities** play a key role in providing young adults with a learning experience and social network that enhances employability. Universities and further education institutions could ensure that their education is accessible to those who face economic insecurity because of personal or family circumstances, such as disability or caring responsibilities.
- Coventry University College, which opened in 2015 and offers highly flexible degrees combined with an architecture of support to ensure that they play an active role in making higher education more inclusive, and in developing the education and work potential of people in challenging or atypical circumstances.

<sup>134</sup>. See for example Collective Impact Forum publications available at [www.collectiveimpactforum.org](http://www.collectiveimpactforum.org)

<sup>135</sup>. Department for Education (2017) ‘National Statistic: Education provision: children under 5 years of age, January 2017’ [www.gov.uk/government/statistics/education-provision-children-under-5-years-of-age-january-2017](http://www.gov.uk/government/statistics/education-provision-children-under-5-years-of-age-january-2017)

- Nottingham Trent University is committed to offering every student on every course a work experience opportunity, and outreach to local schools includes a Children’s University for children as young as seven, and CHEMWORKS – focused on chemistry and funded by the Royal Society of Chemists.
- **Networks of healthcare services** support individuals to achieve good health, but they also communicate – explicitly or implicitly – powerful messages about the relationship between work and health: the potential positive and negative impacts of different kinds of work on different kinds of health. While occupational health practice is at the front line, health professionals across the system can play an important support role in promoting employment security; general practitioners, community nurses and clinical specialists are more likely to have strong, trusting long-term relationships with people – such as those with disabilities – that may be most affected by or at risk of economic insecurity.

**Finally, public sector agencies have tended to neglect investment in creating and support programmes across industries, sectors and occupations.** Such programmes can prove effective in strengthening economic security for those with particular (at risk) skills, or for workers who more commonly face heightened insecurity due to personal or household characteristics such as caring responsibilities. In each case, typical progression pathways, premised on full-time employment, promotion and increasing seniority tend to be more challenging. Focused on a city or region, such programmes can be mutually beneficial by developing, attracting and retaining skilled and talented workers in a shared labour market for the sector. The Hospitality Skills Toolkit in Cornwall – funded by a mix of public and private sector – includes advice on business leadership, staff voice and engagement, customer journey mapping, job design, performance management, training needs, and Continued Professional Development (CPD) and progression pathways. This sort of information and advice is often ‘below the radar’ for the smaller employers who dominate this sector.

### **An illustrative policy agenda for economic insecurity in practice**

Recognising economic insecurity as a policy and public service priority can strengthen our response to the major challenges we face. To illustrate what this might look like in practice, we briefly look at three areas of policy: Health, Housing, and Welfare and labour markets. Applying an economic insecurity lens can inform three key dimensions of public policy:

- Diagnosing problems
- Developing interventions
- Shaping the profile and pattern of public spending

## Health

As preceding chapters highlighted, economic insecurity has significant implications for public health.

### Diagnosing problems

Having a stronger account of economic insecurity can deepen our understanding of the wider determinants of health, the risks associated with ill-health and the nature of health inequalities. Public Health England has found that workers that report insecurity in their jobs have higher self-reported ill-health, and that deep job insecurity can act as a ‘chronic stressor.’ Because economic insecurity tends to overlap with poor job quality and lower socioeconomic positions, it contributes to the social gradient of poor health.<sup>136</sup> Economic insecurity can impact individual and public health through three main pathways:

- **Material:** Volatility of resources can reduce individuals’ and families’ ability to afford healthy lifestyles.
- **Psychosocial:** Volatility in income, status and other ‘positional’ resources can impact stress and anxiety levels.
- **Behavioural:** The material and psychosocial effects of insecurity can lead to maladaptive coping strategies such as substance misuse.<sup>137</sup> Some argue that the opioid crisis in the US is related in part to coping strategies for economic insecurity and status loss.<sup>138</sup>

Accounts of economic insecurity can add greater depth to our understanding of health by capturing the ways in which volatility in economic circumstances (eg income, wealth, status), and not just the presence or persistence of inequality and poverty per se, links to poor health; which population groups or places are most at risk, and how these risks change over the life course or in response to events (such as recession) or economic trends (eg de-industrialisation, automation).

### Developing interventions

Economic insecurity can provide a more nuanced understanding of people’s circumstances and needs across the life course, which can allow for more tailored, fine-tuned interventions and targeting of resources, in a way that is sensitive to the day-to-day household economics and dynamics. This can include:

- Recognition of resources and institutions that provide economic security as key health assets.
- More sophisticated assessment of needs, ensuring flexible support is available for those whose circumstances (and eligibility

<sup>136</sup> Public Health England (2015) *Local action on health inequalities: Promoting good quality jobs to reduce health inequalities*. Available at: [www.gov.uk](http://www.gov.uk)

<sup>137</sup> The presentation of these three pathways (material, psychosocial and behavioural) is adapted from a Public Health England resource, which applies it to the relationship between income and health. See Public Health England (2015) *Promoting good quality jobs to reduce health inequalities* [Online] Available at: [www.gov.uk](http://www.gov.uk)

<sup>138</sup> See for example some of the arguments covered in Blumenthal, D. and Seervai, S. (2017) ‘To Combat the Opioid Epidemic, We Must Be Honest About All Its Causes.’ *Harvard Business Review*. Available at: [www.hbr.org](http://www.hbr.org)

for service support) can shift rapidly.

- More effective and targeted preventative support to help those at risk of falling into hardship.
- More effective integrated approaches, for example between health, welfare and labour market support programmes with a focus on lifelong learning and job progression as much as job entry. In the RSA's work with Rochdale Boroughwide Housing, this type of approach builds on initiatives such as Greater Manchester's Working Well,<sup>139</sup> extending beyond the long-term unemployed to also help others in work affected by economic insecurity. Developed at a neighbourhood scale, this is linked to a wider regeneration programme at Lower Falinge and College Bank, Rochdale Borough Council's public service integration team, and with Greater Manchester Combined Authority.

### **Shaping the profile and pattern of public spending**

Recognising economic insecurity as a major health challenge would strengthen the case for shifting the profile of health spending. Reducing and managing the economic risks associated with ill-health would demand higher levels of preventative spending, aimed at helping people before needs (or risks) escalate to points of crises. Over the long-term this may reduce demand for more expensive, acute and emergency services.

### **Housing**

As preceding chapters highlight, economic insecurity is closely related to the operation of the housing system. The characteristics of the housing market vary significantly between localities in the UK. There are also significant differences in how UK governments, compared to those of other European nations, have acted to regulate the housing market in various ways, build new homes, provide housing for those without means to do so directly themselves, and subsidise home ownership.

At the most fundamental level, widespread home ownership is widely considered a desirable model to support long-term economic security. By implication, the decline of home ownership must represent growing economic insecurity. Across the EU, the UK has experienced the biggest fall in home ownership rates since 2009. Home ownership peaked before the financial crash of 2007-8; in London it peaked in the year of the Black Monday crash, 1987, and has declined steadily since. Historically unprecedented rises in house prices in the last two decades have meant that property ownership has become a much more significant driver of wealth inequality across generations and between UK regions.

### **Diagnosing problems**

Insecurity is a useful descriptor for the anxieties felt in many households about not only the cost of renting or buying a home, but the quality of

<sup>139</sup>. The Working Well model involves intensive personalised support coordinated by a key worker - designed to help address multiple barriers to work. See more at: [www.greatermanchester-ca.gov.uk/info/20003/skills\\_employment\\_and\\_apprenticeships/83/working\\_well](http://www.greatermanchester-ca.gov.uk/info/20003/skills_employment_and_apprenticeships/83/working_well)

the home environment and the ability to predict whether the home will be affordable or suitable or available in the future.

RSA data indicates that among the economically insecure, half fear that rising housing costs will force them to relocate. There is an important divide among the ‘just about managing’, including ordinary working families, between those who own homes, those who rent from social sector providers, and those who rent privately. Changes in regulations of local and central government in relation to affordable housing have accentuated economic insecurity; for example changes to benefit payments and entitlements, and changes which have generally narrowed the eligibility criteria in the allocation of social housing tenancies. The most economically insecure tend to have the most insecure housing, and the most economically secure tend to derive a high degree of financial security from residential property wealth. However, there are an increasing number of ‘in-betweeners’ for whom home ownership feels unaffordable and unattainable, and who do not come close to qualifying for the security of a social tenancy, who rent privately. Those renting privately face insecure tenancies and potential rent rises, even in places where it is cheaper to rent privately than from the social housing sector. And owning a home is not an immunity to economic insecurity; of those ‘just about managing’ financially, 55 percent own their home.

The challenges of housing affordability are concentrated among those on low and middle incomes and those in particular places and communities. Housing challenges intersect with other potential drivers of security and insecurity: principally, because the location of residence greatly constrains the potential work an individual can do, and because the choice to establish, maintain or dissolve different types of household at different stages of the life course changes often changes the size, form and location of housing required or desired.

A hugely important consideration is that people don’t just choose where to live as a response to work; they are born into places as well as families concentrated in place; they inherit identity from the place as well as the family, and they rely on friends, family, local institutions and organisations and public services – just as others rely on them for care, work, voluntary time and friendship. The home is not just the place where values and behaviours and skills are taught and absorbed, it transmits life chances financially too: the total value of the annual transfer of private property wealth down the generations in the UK is roughly equal to the government’s annual budget for paying state pensions through taxation. This was less significant when house prices were more stable, and lower – relative to incomes – as for most of the 20th century.

Major long-term challenges from the insecurity of private rental contracts include rising homelessness at the point of tenancies being terminated, the disruption to schooling of resultant in-year moves between schools, and the potential housing costs people incur in older age when their income depends solely on pensions and savings. Anxiety about the retention of accumulated housing wealth as potential payment for care cost requirements have proved politically contentious.

### Developing interventions

There are several clearly evidenced mechanisms through which housing impacts on economic insecurity, and vice versa. There are multiple potential responses to improve the economic security offered by the housing market. These could include:

- Recognition of resources and institutions that provide secure housing as key assets to a productive workforce and productive economy.
- The expansion and improvement of independent housing advice for those unlikely to be allocated social housing, with proactive and targeted support at the point of life course changes such as the birth of a new child, family breakup, or a worsening long-term health condition.
- More effective integrated approaches, for example between landlords and health and care providers, in order to plan for adaptations to the home or relocation at a time that makes the most effective use of health and care resources and causes the least disruption.
- For homeowners especially, advice relating to retirement planning, financial planning, estate planning and end-of-life care should include a comprehensive understanding of housing assets, ‘rightsizing’ for potential future housing needs, and systemic risks in concentrated housing equity.
- New investment models in the physical quality of housing stock which broker both private and public investment, in order to realise financial value for citizens alongside broader public policy goals. The principal interventions could include:
  - Better insulation for energy efficiency, lower heating costs and reduced carbon emissions.
  - Resolution of serious health and safety hazards which affect 4 million UK homes, in order to reduce anxiety, physical harm and long-term conditions, resulting in savings to the NHS and a more productive workforce.<sup>140</sup>
- New ‘community shared ownership’ investment models in the ownership of shared and collective resources in the residential built environment, which allow for the accumulation of housing wealth among local residents without ownership of an individual residential property.

### Shaping the profile and pattern of public spending

Public spending and public policy play a major role in the UK housing system. The National Audit Office estimates annual net government

<sup>140</sup> Four million homes in the UK are estimated to have pose a serious risk to the health and safety of those who live there; these unsafe homes are more common among private renters than social tenants. See Nicol, S., Roys, M. and Garrett, H. (n.d.) *Briefing Paper: The cost of poor housing to the NHS*. BRE. Available at: [www.bre.co.uk/filelibrary/pdf/87741-Cost-of-Poor-Housing-Briefing-Paper-v3.pdf](http://www.bre.co.uk/filelibrary/pdf/87741-Cost-of-Poor-Housing-Briefing-Paper-v3.pdf)

spending on housing at £28bn.<sup>141</sup> The major expenditure is housing benefit, at £21bn annually – which subsidises rent for households on low incomes. Beyond this, government funding to subsidise home ownership for individuals and couples has grown and now far exceeds investment in the building of new homes (primarily channelled through social housing providers).<sup>142</sup>

Public spending has been reprofiled to favour those with moderate incomes and savings, but who feel economically insecure because home ownership (and associated wealth accumulation) is less accessible than recent decades in which housing costs were closer to their long-term average. Several policies are poorly targeted: for example, of new homes built with access to Help2Buy equity loans, 57 percent are assessed as being likely to have been built without government assistance.<sup>143</sup> 22% of households benefiting from government loans had household incomes above £60,000 annually.<sup>144</sup>

At the same time, the contribution of housing insecurity to the most economically insecure has increased. Welfare reforms have meant that ‘local authorities have increased their spending on homelessness while simultaneously reducing spending on preventing it’, according to the National Audit Office.<sup>145</sup> The number of households in temporary accommodation has risen since 2011, after falling between 2004 and 2011.<sup>146</sup>

Local authority spending cuts have also fallen on planning departments particularly hard. They have inevitably maintained their statutory obligations relating to planning applications while reducing the capacity to undertake the strategic planning that best supports long-term growth in house building, place-shaping and working to secure socially and economically sustainable new communities and regeneration initiatives.

In short, housing is a clear example of where government resources and policies are not effectively deployed to address economic insecurity, both in aggregate terms and when assessed for distributional impact across society. Trying to achieve goals defined in different terms, certain housing policies inadvertently create additional strains for other aspects of housing policy: economic insecurity could provide a useful framework to unite dissonant housing policy.

141. Birch, J. (2017) *An unambitious ambition*. [Blog] Available at: <https://julesbirch.com/2017/01/19/an-unambitious-ambition/>

142. Birch, J. (2017) ‘Comment: What a way to run a housing system’. *Inside Housing*. [Online] Available at: [www.insidehousing.co.uk/comment/comment/what-a-way-to-run-a-housing-system-52393](http://www.insidehousing.co.uk/comment/comment/what-a-way-to-run-a-housing-system-52393)

143. Finlay, S. et al. (2016) *Evaluation of the Help to Buy Equity Loan Scheme*. Department for Communities and Local Government. Available at: [www.gov.uk](http://www.gov.uk)

144. Department for Communities and Local Government (2017) ‘Help to Buy (Equity Loan scheme) and Help to Buy: NewBuy statistics: Data to 30 June 2017, England’. [Online] Available at: [www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/647605/20170928\\_HTB\\_EL\\_and\\_HTB\\_NewBuy\\_statistical\\_release.pdf](http://www.gov.uk/government/uploads/system/uploads/attachment_data/file/647605/20170928_HTB_EL_and_HTB_NewBuy_statistical_release.pdf)

145. Barnes, S. (2017) ‘NAO: government failed to look at impact of welfare reforms on homelessness.’ *Inside Housing*, 13 September 2017. [Article] Available at: [www.insidehousing.co.uk/news/nao-government-failed-to-look-at-impact-of-welfare-reforms-on-homelessness-52370](http://www.insidehousing.co.uk/news/nao-government-failed-to-look-at-impact-of-welfare-reforms-on-homelessness-52370)

146. Wilson, W., Barton, C. and Jackson, L. (2017) Households in temporary accommodation (England). *House of Commons Library Briefing Paper*, 23 October 2017. Available at: [researchbriefings.parliament.uk/ResearchBriefing/Summary/SN02110](http://researchbriefings.parliament.uk/ResearchBriefing/Summary/SN02110)

## **Welfare and labour markets**

The modern welfare state was created as a form of collective insurance – ‘social security’ – against major social and economic risks, from the threat of unemployment to the impact of poor health or family breakup. But as earlier chapters have shown, in recent decades its focus has increasingly shifted (for working age people at least) towards tighter conditionality and ‘behaviour change,’ with a core aim of keeping people off benefits. This is representative of a broad individualisation of risk and responsibility. Re-introducing economic security as a central organising principle, but in a 21st century context, would have major significance for our system of welfare and labour market support.

### **Diagnosing problems**

Economic security could provide a more useful framing than ‘work incentives’ for understanding the challenges of modern employment and how they relate to benefit, tax and spending decisions and policies. This can include:

- How patterns of unemployment, insecure work and financial insecurity impact the flow of people in and out of the welfare system, and the fiscal costs associated with preventable economic insecurity.
- The underlying drivers of unemployment, under-employment and reliance on in-work benefits. This is more likely to reflect factors such as poor demand for labour, low investment or lack of skills than personal behaviour or individual incentives to work.
- The role that welfare policies and labour market programmes can play in contributing to people’s experiences of insecurity. For example, the impact that strict conditionality, welfare sanctions and reforms such as Universal Credit may have on employment and financial security.
- The way in which the welfare system interacts with the labour market. For example, the degree to which it either supports demand for good and secure jobs or reinforces low quality, insecure work (by pressuring people into ‘bad’ jobs).
- A better understanding of the conditions, incentives and enabling factors that support people into financially sustainable, secure and good quality work.

### **Developing interventions**

Anchoring the welfare system in the promotion of economic security and good work may encourage the welfare state to play a more active, empowering and preventative role in anticipating and managing economic risks, instead of simply cushioning the impact of unemployment or low pay. This could include:

- Piloting radically new models of provision such as Universal Basic Income, which explicitly promotes economic security by ‘designing out’ the harmful features of conditionality-based welfare.

- Exploring the possibility of asset-based welfare as a way of stabilising living standards and smoothing transitions throughout life, building on past schemes such as the Child Trust Fund.
- Re-thinking labour market activation and support, extending the focus beyond ‘job entry’ to include personalised in-work support, lifelong learning and progression-based workforce development. This can build on pilot schemes such as the Skills Escalator.<sup>147</sup>
- Integrated approaches to promoting good work, combining welfare support with labour market policies and regulations, employer engagement, health support and economic and community development.

### **Shaping the pattern and profile of public spending**

Public spending and investment would undergo major shifts if promoting economic security in the broadest sense, beyond just the risk of unemployment, became the overarching goal of our welfare system.

- Long-term labour market support programmes, for those in as well as out of work, would command a higher share of expenditure. More would be spent on personalised support to help people find fulfilling and secure work, and relatively less on narrow job search and entry support.
- Over the long-term, the shift towards promoting job quality and security could see a reduced need to top up the incomes of people in low paid jobs (in-work tax credits currently account for a high proportion of working age benefits). In other words, there would be more direct investment in people and less on subsidising low-wage work.
- Welfare spending would be much more integrated with other areas of public spending - in particular health, education and skills, and industrial strategy. The UK’s institutional arrangement may move closer to the ‘flexicurity’ model practiced in Denmark and promoted by the European Commission, which ensures strong alignment between labour market policies and regulations, and welfare support.
- The welfare system would evolve towards the provision of long-term assets as well as short-term income-based benefits.

Because economic insecurity is experienced differently by different places and communities, spending may also benefit from becoming more localised, enabling combined authorities or local authorities to develop tailored programmes.

<sup>147</sup>. See Colechin, J. et al. (2017) *Evaluation of the Skills Escalator Pilot: Final Report*. Learning and Work Institute. Available at: [www.learningandwork.org](http://www.learningandwork.org)

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# 7. Conclusion

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This paper has presented economic insecurity as a major societal challenge and has argued that it is being driven in part by the nature of the UK's political economy. Economic insecurity impacts a broad spectrum of society – not only those in persistent and structural poverty and precarious economic circumstances, but also low and middle income groups: those who self-identify as ‘just about managing’ and those whom government labels as ‘ordinary working families’. Economic insecurity relates closely to issues in the workplace and the labour market, but encompasses wider material as well as psychosocial elements experienced by households, communities and places.

Importantly, economic insecurity is not simply an inevitable feature of globalisation and technological change. It is influenced by the policy and spending choices we make and the social, economic and political institutions that we choose to develop and invest in. Considering economic insecurity alongside overlapping but distinct challenges such as poverty, inequality and social mobility can help us to better understand and respond to the issues facing families and communities across the UK.

## **Further work to address economic insecurity in 2018**

In 2018, the RSA will undertake a series of investigations, providing insight and action fit to tackle 21st century insecurities. This includes *Thriving, striving or just about surviving?*, exploring the labour market dimensions of economic insecurity, and a report scoping out the potential form and function of a Universal Basic Opportunities Fund. The RSA will launch the Future Work Centre, with four research themes: technology and automation; rights and responsibilities; lifelong learning; worker voice and employee engagement

In 2018, Nottingham Civic Exchange will launch the third phase of the *Out of the Ordinary Programme*; this will include representations of the lived experience of ‘ordinary working families’ in Nottingham and Nottinghamshire, and research into the nature, scale and impact of local housing market issues. The RSA is a strategic partner to Nottingham Civic Exchange.

# Appendix

Summary of key literature and studies that offer a definition or measurement framework for economic insecurity.

Key themes:

- Economic insecurity as a psychosocial as well as material experience
- Household/family composition has significant implications for how economic insecurity is experienced.
- Economic insecurity is alleviated by social and financial assets such as wealth and social capital
- Economic insecurity has a strong labour market dimension, but it relates to more than just the security of job tenure
- Economic insecurity has a ‘life course’ dimension, with past events playing an important role in shaping current and future risks
- Economic insecurity describes the experience of harmful volatility in economic circumstances. It is a dynamic concept.
- Economic insecurity can impact a broad section of the income and class distribution

Report / study	Definition and framework
Hutton, W. (1995) <i>The 30-30-40 Society. Regional Studies</i> , Vol. 29.	<p>Focuses on labour markets and characterises society as divided into three groups:</p> <ul style="list-style-type: none"> <li>• 30 percent are <b>disadvantaged</b> and on subsistence incomes (50 percent of the median)</li> <li>• 30 percent (and growing) are in <b>insecure employment</b>, defined as non-standard or “non-tenured” jobs that are casual, temporary, contract-based and involuntarily part-time.</li> <li>• 40 percent are <b>privileged</b>, having full-time or part-time tenured jobs or are in comfortable self-employment.</li> </ul>
Orton, M. (2015) <i>Something's Not Right: Insecurity and an Anxious Nation</i> . Compass.	<p>Describes Britain as a ‘5-75-20’ society:</p> <ul style="list-style-type: none"> <li>• 5 percent (top) are the <b>elite</b> who are enjoying ‘runaway’ rewards at the top, in terms of income but also asset wealth.</li> <li>• 75 percent (middle) who are either in work or have retirement income, but experience <b>insecurity</b> and <b>anxiety</b>.</li> <li>• 20 percent (bottom) who struggle with <b>everyday insecurity</b> and tend to be trapped in a cycle of low wage, irregular work and unemployment.</li> </ul> <p>Economic insecurity is described as both a reflection of material circumstances (including income, wealth, housing and work) but also a psychological state characterised by anxiety.</p>

Report / study	Definition and framework
<p>International Labour Organization (2004) <i>Economic Security for a Better World. Programme on Socio-economic Security</i>. ILO.</p>	<p>The ILO has developed a multi-dimensional definition of economic security, rather than insecurity. It looks at <b>work related security</b> along the following dimensions:</p> <ul style="list-style-type: none"> <li>• <b>Labour market security</b>, adequate and full employment guaranteed by the state</li> <li>• <b>Employment security</b>, related to employee protections and employer regulations</li> <li>• <b>Job security</b>, or being able to pursue a career or occupation</li> <li>• <b>Work security</b>, or security against accidents or illness at work</li> <li>• <b>Skills reproduction security</b>, widespread opportunities to gain and retail skills</li> <li>• <b>Income security</b>, protection of income for example through social security and minimum wage machinery</li> <li>• <b>Representation security</b>, protection of collective voice in the labour market, through trade unions and employer associations.</li> </ul>
<p>Jacob Hacker and colleagues, <i>The Economic Security Index</i> (2010, 2014)</p>	<p>This framework looks at economic security, and defines it as <b>“the degree to which individuals are protected against hardship causing economic loss.”</b> It does this by measuring the share of individuals that experience a 25 percent decline in their (inflation-adjusted) household income from one year to the next, restricted to those that experience this income loss without having an adequate financial safety net to replace the lost income. Wealth is therefore seen as a “buffer” or protective resource. Because it is a US-based measure, the framework includes out-of-pocket medical expenses as well as income.</p> <p>The index looks specifically at material factors and does not seek to measure subjective insecurity.</p>
<p>Bossert, W. and D’Ambrosio, C., <i>Private Wealth as a Buffer</i> (2009, 2013)</p>	<p>Economic insecurity is defined as <b>“the anxiety produced by the potential exposure to adverse events and by the anticipation of the difficulty in recovering from them.”</b></p> <p>The framework looks specifically at the role that private wealth plays in buffering people from adverse events, and in particular how past changes in wealth affect people’s sense of economic security today.</p>
<p>Rohde, Tang and Rao, <i>Downside Income Volatility</i> (2014)</p>	<p>The authors note that economic insecurity “is used broadly to refer to a state of stress or anxiety concerning one’s financial future.” Similarly to Hacker and colleagues, their framework examines volatility of incomes, but distinguishes between “volatile” and “predictable” variations of income over time. It therefore looks at income volatility relative to trend, and similarity to D’Ambrosio and colleagues examines individuals’ past experiences, but related to income rather than wealth volatility.</p>
<p>Osberg and Sharp (2002, 2005) <i>The IEWB Index of Economic Well-being</i></p>	<p>This framework incorporates both objective material factors and subjective anxiety. It looks at <b>four economic hazards</b>, based on hazards mentioned in Article 25 of the Universal Declaration of Human Rights:</p> <ul style="list-style-type: none"> <li>• The probability of unemployment and the financial risk this presents</li> <li>• The financial risk resulting from illness</li> <li>• The risk of becoming poor due to family breakup</li> <li>• The “poverty intensity” experienced by households that are led by someone 65 and over</li> </ul>

Report / study	Definition and framework
<p>Osberg, L. (2015) How Should One Measure Economic Insecurity? <i>OECD Statistics Working Papers</i>, 2015/01.</p>	<p>This report draws on Osberg and Sharp’s work (see above) by recommendation that economic insecurity is measured by looking at a limited number of economic hazards. In analysing and measuring economic insecurity, it emphasises the importance of:</p> <ul style="list-style-type: none"> <li>• Assessing how insecurity is experienced by households not just individuals</li> <li>• Complementing analyses of objective factors of insecurity (such as income loss) with subjective factors such as people’s perceptions of risk and the anxiety this produces.</li> </ul>
<p>Ranci, C. et al. (2017) The rise of economic insecurity in the EU: Concepts and measures. <i>Lives Working Paper</i>, Vol. 62.</p>	<p>The paper defines economic insecurity as “a high probability of experiencing either a loss of income or a temporary difficult economic situation severe enough to threaten the material independence of individuals/households in the short to medium term.” This understanding involves two main aspects:</p> <ol style="list-style-type: none"> <li>1. Exposure to risks endangering the financial sustainability of households;</li> <li>2. An acute and severe short-term disruption</li> </ol> <p>Similarly to other frameworks, it considers both subjective and objective elements; seeks to capture the fluidity and dynamism of insecurity and looks at households as well as individuals.</p> <p>The analysis identifies six key factors in its typology of economic insecurity. Three of these factors are short-term and one-dimensional forms of insecurity; one is an intermediate form; and another two are long-term and multiple forms of hardship.</p> <p>The short-term and one-dimensional forms comprise:</p> <ul style="list-style-type: none"> <li>• Households that experience economic insecurity but not absolute deprivation or permanent poverty. This includes: <ul style="list-style-type: none"> <li>• Financial strain, related to households’ inability to afford key items and goods and make ends meet</li> <li>• Over-indebtedness, related to arrears and heavy financial burden of repayment of debts from hire purchases or loans.</li> <li>• Transitory poverty, when households temporarily fall below the poverty threshold.</li> </ul> </li> </ul> <p>The intermediate dimension involves households that experience both financial strain and over-indebtedness, but not any poverty spells. This is typically those in the middle to upper end of the income distribution.</p> <p>The long-term and multiple forms of hardship include:</p> <ul style="list-style-type: none"> <li>• Multiple poverty-based hardship, which involve fluctuations under the poverty line combined with financial strain or indebtedness.</li> <li>• Absolute deprivation, related to households’ ability to afford durable goods, such as a car, PC, washing machine, and TV.</li> </ul>
<p>Gallie, D. et al. (2017) The hidden face of job insecurity. <i>Work, employment and society</i>, Vol. 11, No. 1, pp. 36-53.</p>	<p>The paper distinguishes between two types of insecurity:</p> <ul style="list-style-type: none"> <li>• Job tenure security relates to the risk or threat of becoming unemployed.</li> <li>• Job status insecurity relates to threat of losing valued features of a job – such as treatment by senior colleagues, skills utilisation, task discretion and pay levels.</li> </ul> <p>The study measures these dimensions of insecurity subjectively – i.e. through self-evaluation by survey respondents.</p>

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