

## **Employment Pathways and Wage Progression for Mothers in Low-Skilled Work: Evidence from Three British Datasets**

### **Introduction**

This CASEbrief reports on the findings of recent research examining the employment pathways followed by mothers entering low-skilled work. The project was originally framed under a Labour Government which placed considerable emphasis on encouraging women back into work when their children were relatively young (pre-school age), first through tax credits and childcare subsidies and subsequently with greater compulsion. A central justification underlying the provision of greater financial support to mothers in employment than to those staying at home was the assumption – frequently expressed in government documents – that even a low-skilled job was a stepping-stone to improved prospects, with a long-run pay-off both for mothers and for the Treasury. We wanted to know how justified this assumption was: how often did mothers' low-skilled work result in stable employment and progression up the earnings distribution out of low pay?

### **The Data**

We examined the evidence on mothers' employment and wage trajectories in three longitudinal datasets: the British Lone Parent Cohort (BLPC, 1991-2001), the British Household Panel Survey (BHPS, 1991-2007) and the Families and Children Study (FACS, 2001-2005). Each dataset offered different strengths and advantages. In the BLPC, we could track a sample of 560 lone parents across a six to twelve year period from the birth of their youngest child, but had incomplete data on wages and no comparison group of higher skilled mothers. The BHPS sample was larger (969), covered a full decade after the birth of the youngest child, and allowed comparisons between lower and higher skilled women, but wage data were also incomplete. The FACS data covered a much shorter time-span but gave us more reliable data on jobs and wages and a considerably larger sample – 4,192 women in total, although this included mothers of children of all ages.

### **How stable are mothers' employment pathways?**

In all three datasets, a significant minority of women were found to be following unconventional employment pathways, rather than a smooth one-way movement into work. In the BLPC, among lone parents who had entered work by the time their youngest child turned 6.5, roughly 60% stayed in work for as long as we could follow them in the dataset while 40% were observed moving in and out of work at least once. (We focus on youngest children to avoid the inevitable interruptions that accompany subsequent births.) In the BHPS, one third of mothers are found moving in and out of work during the decade after the birth of their youngest child. The FACS analysis covers a much shorter time-frame and includes mothers of older children, but instability is still common: 45% of the panel are observed in work in each of five annual observations while 22% are observed exiting employment or moving in and out of work.

In the BHPS we did find evidence that an earlier return is a strong predictor for employment when a child is ten, other things equal, especially among women with fewer qualifications

and those renting (not home-owners). This may reflect underlying unobserved characteristics (such as work-orientation) but it may also point to the role of labour market experience in fostering work attachment and employment networks.

### **What are the characteristics associated with an unstable employment history?**

Perhaps not surprisingly, there are characteristics associated with an unstable as opposed to a stable work history: women with lower qualifications and renters (especially social tenants) are more likely to follow unstable pathways in both the BLPC and the FACS. (Interestingly, the BHPS analysis showed something rather different here: movement in and out of work across a decade was just as prevalent for higher-skilled women.) In the FACS, where children's ages varied, mothers of younger children were more likely to be unstable in work. Some aspects of initial employment also showed up as correlated with later pathway in the BLPC and FACS: controlling for other characteristics, lower wage jobs, part-time jobs and jobs in sales and elementary occupations appeared more likely to be interrupted.

### **Does going back to work in the pre-school years pay off in higher wages later on?**

*Consistent employment* does appear to carry a long term pay-off in higher wage growth. In the BLPC, wage progression varied greatly within both stable and unstable employment groups, but was on average greater for those consistently employed. The BHPS analysis identified wage "penalties" at ten attached to both unstable pathways and a later return (after age five), compared to women returning to work before a youngest child's third birthday. The shorter-term FACS analysis also pointed to penalties associated with part-time and unstable work histories.

This indicates that an early return to work does pay off, *if* mothers are able to sustain their employment over time. However, the payoff for lower-skilled mothers was found to be significantly smaller than for the higher-skilled. In the BHPS, skilled wages at ten were 32% lower for women who had returned to stable employment after the child turned five than for those who returned before the child's third birthday, and 33% lower for those observed moving in and out of work over the period; for the lower skilled the penalties were 21% and 14% respectively. Across the four-year FACS period, part-time and unstable pathways are associated with a final wage penalty of 13-14% for the skilled mothers (controlling for initial wage) compared to 5-10% for the lower-skilled. (Interestingly, higher-skilled women pay as high a penalty for consistent part-time employment as for movement in and out of work, while for lower-skilled women, the consistent part-time penalty is lower (5%) than the penalty for instability (10%).)

Furthermore, the payoff for lower-skilled workers is not always sufficient to keep up with average wage growth. Thus in the BLPC, median wages among the consistently employed grew just below the rate of growth of the male median hourly pay, meaning more women were observed moving into than out of a standard definition of "low pay" over the period.

### **What are the characteristics associated with wage progression?**

In addition to employment stability and full-time work status, qualification levels were found across all three datasets to be consistently powerful predictors of wages and wage growth. This applied both to qualifications held at the start of the analysis period and to those gained along the way.

### **Limitations**

The main limitation of the analysis is that it is impossible to control fully for problems of selection and endogeneity, and therefore estimates of wage gains must be considered upper bounds: it would be wrong to assume that women who left employment would have achieved the same wage growth as women who stayed had they only done so. The size of

the returns to stable employment are thus likely to be somewhat smaller in reality than the coefficients suggest.

## Policy Implications

The study's policy lessons remain highly topical despite a changing policy context. Under Labour, there was a clear shift towards encouraging employment among low-skilled mothers of pre-schoolers in otherwise workless households, and we were interested in whether this was justified in terms of some of the rhetoric being used, with low-paid work presented as a stepping-stone to better things. In these terms, the study's results are somewhat mixed. Positive pay-offs in future wages are apparent in the study, lending support to policies such as tax credits and childcare subsidies which encourage and facilitate early employment for those who want it. But these pay-offs are fairly modest, and – importantly – rely on women remaining employed. In practice it is clear that many do not stay in work, and this is particularly true of the more disadvantaged. This points to the need for much greater focus on sustainability and progression, rather than increases in the conditionality surrounding an initial move into a job. Sustainability and progression issues did in fact rise up the government agenda in the later years of the Labour administration.

The situation in early 2012 is somewhat different. Pressure to work in the pre-school years has been reduced under the Coalition, reflecting ambivalence in the Conservative Party about a mother's role during this period. But subsidies for childcare have also been reduced, resulting not in a broadening of choice for mothers of pre-schoolers but rather in a shift in emphasis back towards the home. When a child reaches five, short-term benefit conditionality is being further increased, and little or no attention is being paid to issues of progression and sustainability.

Wage progression is arguably of less obvious interest to the Coalition government than it was to its predecessor. Where, previously, low-paid work for mothers was emphasised in part as a route to better-paid work, today's rhetoric focuses on work as the only option, stepping-stone or not; benefits are not considered an alternative. However, the extent of employment churning among low-skilled mothers should be of immediate interest and concern: if the government is worried about levels of benefit dependency it needs to focus on how to improve employment sustainability, not just on moving women across an initial threshold. At the same time, wage progression remains in the long-term interests of the Treasury as well as the individuals involved, and requires renewed policy attention.

## Further information

This CASEbrief summarises findings from a research project, "Employment trajectories for mothers in low-skilled work", which was generously funded by the Nuffield Foundation. For further information, see the following project papers: (1) Kitty Stewart (2009) "Employment and wage trajectories for mothers entering low-skilled work: Evidence from the British Lone Parent Cohort", *Social Policy and Administration*, Vol 43, No 5: 483-507. (2) Kitty Stewart (2011) "Employment trajectories and later employment outcomes for mothers in the British Household Panel Survey: An analysis by skill level", CASEpaper 144. (3) Francesca Bastagli and Kitty Stewart (2011) "Pathways and penalties: Mothers' employment trajectories and wage growth in the Families and Children Study", CASEpaper 157.