

# Welfare State, Wages & Work Disintegration or Renewal?

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## *Speaker*

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# Thanks!

My thanks to the Nevin Economic Research Institute for my invitation to speak.

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# ABSTRACT

## **The paper draws on research for two publications:**

- 'From Mini to Maxi Jobs? Low Pay, 'Progression', and the Duty to Work (Harder)' *Industrial Law Journal* (on-line 2018; hard copy July 2019):
- A monograph just published by the Institute of Employment Rights: *The Welfare State, Wages & Work: Disintegration or Renewal* (March 2019)

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# ABSTRACT

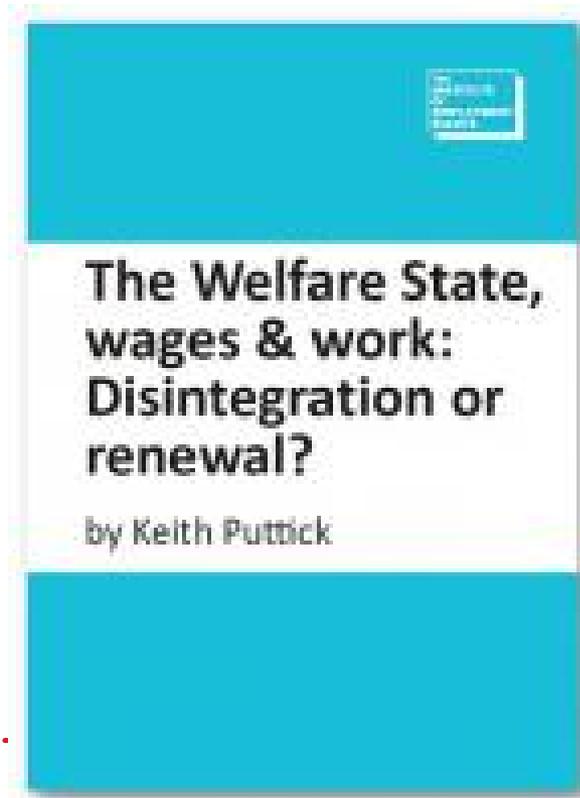
**The ILJ article concluded with a rather gloomy prognosis: the UK is in the grip of a 3-faceted crisis** (mirrored to some extent in other countries which have had comparable experience of neo-liberal, deregulatory policies and cuts to welfare funding):

- A *crisis of coverage* as more people in the labour market become more dependent on State support
- A *fiscal crisis*, evidenced by the 2015 cuts to in-work support
- A *political crisis* which posed an existential crisis to the Welfare State itself

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# ABSTRACT

**The IER asked me to develop these themes,** particularly in the wake of shocking Joseph Rowntree Foundation, TUC, Child Poverty Action Group, and Institute of Fiscal Studies stats on poverty



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# THE CONTEXT?

## **Welfare programmes under attack for nearly a decade:**

- 2010 'the current Welfare State is unsustainable' (*21<sup>st</sup> Century Welfare*, 2010)
- Local social services became a key target: chronic underfunding, with up to 60% cuts in funding since 2010 (LGA, 2019)
- On-going crises in NHS, services, and regulation (rail, pensions etc)
- Universal Credit (Larkin, 2018): my own take is that UC, re. in-work support, is now seen as an essential element in the mini-jobs revolution that is facilitating the government's 'jobs boom'

**This has weakened the floor of social protection.** That 'floor' includes the labour market as a purveyor of waged income to households – but the floor also extends to aspects like State support for housing costs: in the UK it's now a *huge* and expensive component.

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# RISING POVERTY

**These are among the contributory factors in the rise of poverty** despite some quick fixes in response to the crisis: eg with Universal Credit (interim loans, discretionary help, reworked housing costs element, etc)

**In the bigger context**, other initiatives by devolved governments, such as:

- Northern Ireland's 'mitigations' (Fitzpatrick, McCauley, Higgins, 2019: 18).
- Scotland's Social Security (Scotland) Act 2018: an important element in defusing the political crisis? But with some accusations of 'welfare nationalism'.

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# TARGETS & ADVICE SERVICES

**A further dimension is the urgent need for improved support for advice services** (Machin et al, 2018). There is not much doubt, there is a huge crisis affecting the advice sector as UC is rolled out (Machin et al, 2018)

Going forward, valuable recommendations for duties on public bodies to facilitate access to social security entitlements surely depends on effective services, in Northern Ireland as in the rest of the UK (McKeever, Simpson, Fitzpatrick, 2018).

**My remaining focus is on working poverty.**



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# WORKING POVERTY

## **The central argument of the monograph (and this paper)**

If a job is central to 'welfare', and a job that 'pays' is the 'best form of welfare', then policy makers' attention should start to focus more sharply on what is going wrong in the labour market: not just welfare systems.

## **Major problems on *both* sides of the work-welfare interface**

- On the 'work' side, in particular, an inadequate minimum wage scheme and weak collective bargaining institutions are major factors in low pay/working poverty in the bottom 3 deciles/30% of the wage distribution: this dictates a need for reconstruction of regulated collective bargaining (Ewing et al/IER, 2018).
- On the 'welfare' side an already problematic in-work tax credits system has now been made worse by Universal Credit.

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# IN-WORK POVERTY

## THE SCALE OF THE PROBLEM

### **It cannot be exaggerated...**

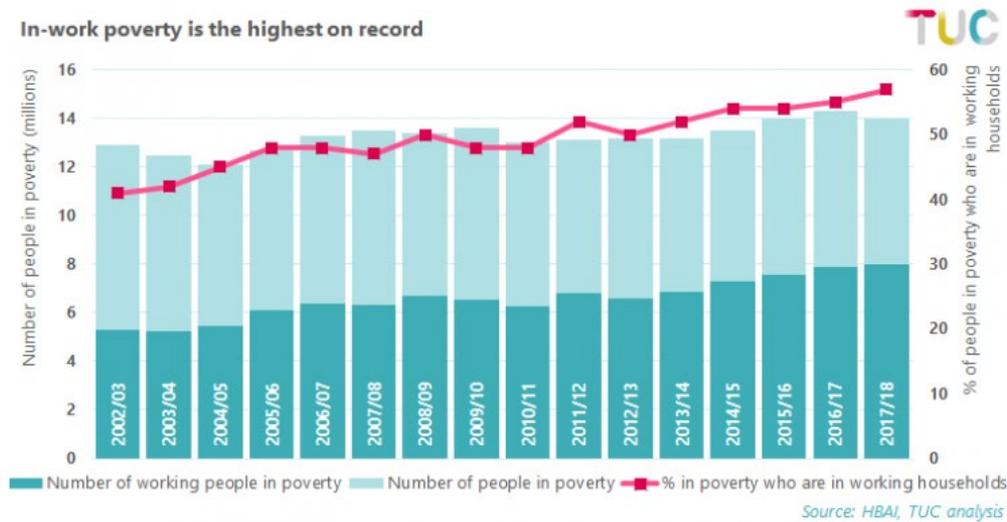
- The Joseph Rowntree Foundation described as the 'rising tide' of in-work poverty: the 'problem of our times' (JRF, Nov 2018).
- A headline statistic from the Institute for Fiscal Studies is that 57% of people in poverty are children or working-age adults in households with someone in paid work (Joyce, 2018).

**Causal factors on the work side?** Labour market transformations have, among other things, seen the rapid rise in under-employment, part-time, 'flexible' work (SSAC, 2017), and 'self-employment' – often accompanied by the challenging kinds of employment and wage conditions associated with casualisation and the gig economy (Broughton and Richards, 2016; De Stefano, 2016).

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# RISING IN-WORK POVERTY

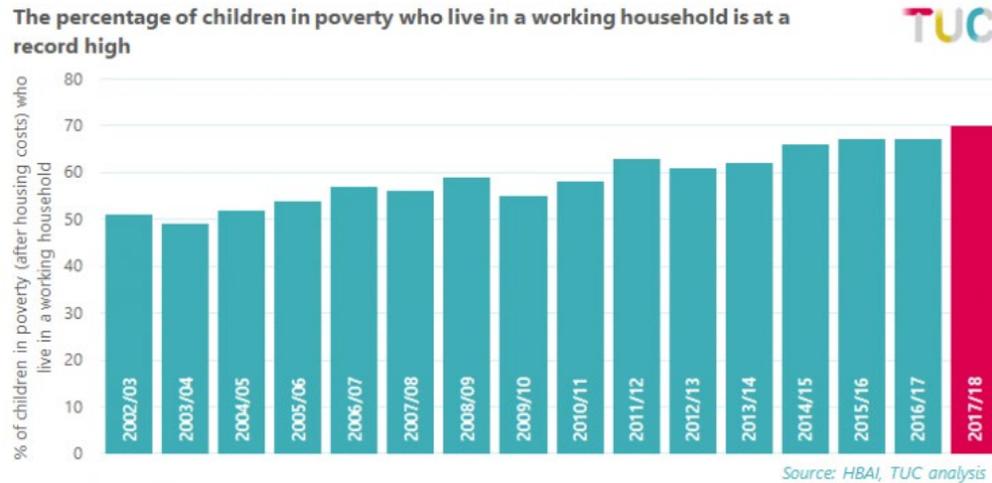
TUC Stats, Jan 2019 are tracking the trends:



# RISING CHILD POVERTY

## Most of it now in Working Households...

TUC



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# THE WORK-WELFARE ANALYSIS

**'Work' side issues** Ineffective distributive mechanisms:

- Weakened collective bargaining and unions
- A failing minimum wage system (NMW/NLW) offering just a basic safety-net, with little incentive on employers to pay above it: in effect the floor is now the ceiling, especially in 10 low pay sectors.
- Time now for the Real Living Wage to displace the NLW?



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# THE 'WORK' SIDE

## **In the 10 low pay sectors...**

- There is no system comparable to the Wages Councils which can set a secondary (higher) minimum wage to reflect what employers can afford: some of them are among the richest corporations in the world.

## **Lessons from remaining WCs, eg Wales' and NI's Agricultural Wages Board or Irish JICs are useful.**

- Rather than the NLW being a minimum it has become a going rate.  
**The floor has become the ceiling!**

In general, a low pay floor means increasing fiscal pressure on the in-benefits system: particularly in a system pervaded by means testing

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# THE 'WELFARE' SIDE

**The Welfare State delivers a vital social wage which should be defended,** but the system needs renewal.

Changes are needed...

- Austerity-driven cuts need to be reversed
- In its fastest-growing area since the impact of neo-liberal reforms and deregulation - in-work support, schemes have multiple failings
- The biggest scheme for in-work support needs to be re-designed: its role in promoting the government's mini-jobs boom (with a massive subsidy for low-hours, low-paid, often insecure mini jobs) needs reviewing.

**Comparisons with Ireland's WFP are apposite**

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# IRELAND'S WORKING FAMILY PAYMENT

**WFP, formerly Family Income Supplement delivers State financial support to people on low pay. Comparisons with UC:**

- Employee status is required. It does not facilitate (or incentivise) 'self-employment'.
  - Like earlier UK schemes (FIS, Family Credit, WFTC, WTC, etc) it maintains a family focus. By contrast, UC is now delivering a general wage subsidy for **all** groups.
  - To qualify for WFP, weekly family income must be below a certain amount for your family size. The payment is then 60% of the difference between average weekly family income and the income limit which applies to the family. Your Working Family
  - WFP is a passport to other State support, eg Back to School benefits like clothing and footwear allowances. AS part of the cuts programme UC 'extras' are now separate, means-tested benefits – eg Free School Meals are no longer automatically paid to UC claimants' families. WFP income is not aggregated with wages or other income sources to inform benefits like the Irish medical card.
  - Back to Work incentives like the Back to Work Family Dividend is paid with WFP, and BTWFD is not aggregated with other resources in the income test for WFP. BTWFD is taken into account in the income test for WFP.
  - Above all, WFP is not designed to incentivise the new generation of UK 'mini jobs'.
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# GROUPS ON THE MARGINS

Groups like lone parents have long been on the margins of the labour market, but also now feel the full impact of benefits cuts and freezes year-on-year:

- It was predicted at the start of UC that this would be a group that could *really* feel the impact of austerity
- CPAG, Gingerbread, and IFS now confirm this...



Staffordshire University Institute of Industrial Law:

21<sup>st</sup> Century Welfare & Work: Single Parents Workshop



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# THE 'WELFARE' SIDE

## **The system is clearly unable to cope ...**

Not least with the rapid expansion of part-time work, zero hours contracts, and other forms of flexible working where work no longer 'pays': the fiscal challenges are huge, and are now likely to inform major cuts as these intensify

- There is no reciprocity from employers who enjoy what is, in effect, a sizeable wage subsidy – eg by investing in training, progression opportunities, etc
- Since 2015 cuts to work allowances, freezes in benefits up-ratings, etc have reduced the value of support
- A proliferation in secondary poverty 'traps' – eg means-tested free school meals vouchers

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# CONCLUSIONS

## **Renewal is essential**

Among other things:

- Establishing a stable wages and conditions floor achieved by work-side reforms: regulated collective bargaining; a second-tier minimum wage system to fill the lacuna left by abolition of the wages councils, with sectorally-focused wages and conditions minima wage: informed by evidence from the Low Pay Commission about what is happening in the low pay sectors and 'affordability'.
- Retention of a NMW/NLW safety-net but linked to the Real Living Wage, and informed by the Minimum Income Standard (Hirsch).

In the meantime, a pause to the national roll-out of UC pending a full review of the objectives and operation of in-work support.

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# CONCLUSIONS

## **Wider policy priorities:**

- Reduced reliance on means-testing as the centre-piece of the in-work system (with all its baggage of conditionality, sanctioning, and poverty traps)
- A review of the potential for a return of rent controls, abolished in 1980: currently JRF research shows how in many areas a third of net pay goes on rent, and in some areas a *half*.
- Effective measures to facilitate access to better-paid work such as universal childcare.
- Adequately funded advice services to secure maximum take-up of both labour rights and welfare advice
- Going forward, a universal basic income needs to be kept under review

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# Thanks!

Thank you for your kind attention!

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