

# Raising the Floor?

## Evaluating the National Living Wage at the Wage/In-Work Welfare Interface



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Thanks!

**My thanks to Mark Simpson and Ciara Fitzpatrick for our excellent stream!**

This paper evaluates the NLW, and its interaction with State social security/support.

**First**, some conceptual/historical perspectives.

Then....

- (1) The NLW scheme and rhetoric at its launch
- (2) Positives/*not* so positives
- (3) Continuing issues at the interface of wages and welfare, going forward

## Conceptual/Historical Aspects

**Welfare is a ‘mosaic’ with a mix of sources (Barr: 6)**

**The biggest source? Still a job.**

However, for a large (and growing) section of the labour market a job is increasingly unable to meet the needs of participants without State support.

So, the interdependence of labour/social security systems is ‘obvious, but never more so than at times of crisis’ (Sinzheimer: 1907; 1927): my theme at two recent Labour Law Congresses (Puttick, 2014; 2015)

**Is there still a crisis?** The ILO thinks so: growth in precarious work, short-term work, casualisation, underemployment, and dwindling wages’.

## ILO: 'Dwindling Wages'

**'Recent labour market and employment trends have increased the pressure on social security systems to ensure income security for persons of working age...**

These trends also include higher risks of unemployment, *underemployment* and *informality*; increasing prevalence of *precarious forms of work*; and declining wage shares, *dwindling real wages* and *inadequate wages*, leading to *persistently high proportions of working poor* (ILO, 2014: 26).

# Mutualisation/Demutualisation of Risk

**Much of the risk and costs associated with employment has been transferring away from employers - particularly to the State and the community (wage subsidies, in-work support, etc to make work viable)**

Such trends can cut *both* ways, with responsibilities also going back to employers and employees (Countouris and Freedland, 2013). How should we characterise the NLW??

**Minimum wage systems & ‘floors’**. NMWs play a key role in maintaining a minimum wage ‘floor’ on which tax credits and other support builds (Simpson, 2004; 2009).

A vital tool, as well, in maintaining aggregate demand; Bonnet, F, Saget, C, Weber, A (2012); Stiglitz (2010; 2015)

# A Major Change of Direction?

## Chancellor of the Exchequer:

‘The government wants to move from a *low wage, high tax, high welfare society* to a *higher wage, lower tax, lower welfare society*... With record employment, the highest GDP growth in the G7 ... now is the right time to take action to ensure low wage workers can take a greater share of the gains from growth’

**The political rhetoric:** NLW ‘will help to ensure that *work pays*, and *reduces reliance on the State* ie *topping up wages* through the benefits system’  
[emphases added]

**National Living Wage Policy Paper, HMG, 24 August 2015**

## And Still Yet *More* Rhetoric...

**‘Britain deserves a pay rise and it’s called the National Living Wage!’** Isn’t that the NLW Foundation’s brand?  
The detail?

**‘The National Living Wage - A Step Up for Britain’**

[https://www.livingwage.gov.uk/?gclid=CL3Qv7P68csCFdMV0wod2T4G\\_Q](https://www.livingwage.gov.uk/?gclid=CL3Qv7P68csCFdMV0wod2T4G_Q) The main advice guide.

**Then the speeches and press releases...** ‘This one-nation government is making sure Britain gets one, *helping more people have the security of a higher wage* and to *provide for themselves* and their families’ (Sajid Javid/DBI, 2016). 70% of workers already ‘feel happier’ (ibid).

## Other Measures?

**The NLW is not HMG's *only* measure aimed at achieving a 'higher wage, lower welfare society' Eg closing the 'gender pay gap'**

- Equalities rights. 'Naming and shaming' companies for non-compliance. Originally in the Equality Act 2010
- Tax measures, eg improved tax allowances

**Tax measures are sound, in principle and assist: but ultimately ineffectual say the IFS and RF: better to raise minimum wage thresholds and withdraw freezes to in-work benefits.**

**Other limitations? Critique of US approaches including EITC (Alstott, 1995; 2010)**



## A Major Policy Shift?

**Undoubtedly!** It was always assumed that if only the labour market could start to deliver more support through better wages, improved occupational benefits, the need for State support would at least be *reduced*.

Eg Poor Law assistance built on modest regulatory interventions like Speenhamland - but ended by 1834  
Family Credit and Earnings Top-Up in 1990s also assumed help would be *temporary* in response to labour market disincentives to welfare-to-work transitions - but such in-work aid is still with us: now on a much bigger scale!

**A £30 billion annual wage subsidy (just tax credits)**

## Comparable Shifts in Europe?

A number of jurisdictions are *also* seeing a roll-back of in-work support - as in the UK dressed up by limited moves on the *Labour* side to make work pay...

*Italy*: new regulatory requirements to improve in-work conditions using model contracts (Pizzoferrato, 2015)

*France* (Panyerre, 2014): cuts justified by perceived 'failure' of in-work systems like RSA but tempered by promises of better work conditions (March 2016)

**In the UK.** We're also seeing measures to 'close the gender gap' to reduce State welfare costs. **But how adequate is this in response to *structural* problems: wage stagnation, low productivity, etc...?**

# NMW-Social Security Interaction

## Arguably two big realities remain

- As January 2016 ONS figures, we're seeing continuing wage stagnation (despite brief post-2009 growth)
- Dwindling revenues mean HMG is struggling to maintain current levels of spending: and has used soft targets like welfare, tax credits, disability benefits for savings

**The impact of what's happening cannot be overestimated.** Freezes in upratings, tougher eligibility for UC, removal of elements like disability element, etc undermine this approach and are hitting groups like women and children (Fawcett, 2015; 2016).

**Let's consider some specifics!**

# The NLW Scheme

## Key points? The minimum floor is rising...

- Over 25s: £7.20 an hour (pre-1/4/16 £6.50 for over 21s)
- 21-24s: £6.70 an hour
- 18-20: £5.30 an hour
- Under 18: £3.87 an hour
- Apprentice: £3.20 an hour

LPC responsible for implementing further 'rises', and a £9 'target', by 2020

**In practice, lower-paid regions get more:** one in four employees in the Midlands, Wales, Yorkshire and Humber benefit compared to one-in-seven in London (RF, 2015b).

# Other Positives?

## SMEs are Assisted

These are the main 'aids':

- Corporation tax is reduced by 2% to 18% to offset the predicted 1% 'impact' on profits
- Small firms will see an increase to the new Employment Allowance, rising by 50% to £3,000

**According to the Chancellor (Summer Budget 2015):**

'A firm will be able to employ four people full time on the new National Living Wage and pay no national insurance at all'.

However, this does not appear to satisfy everyone...

## The Not So Positives...On-Costs

Apart from the results of the official impact assessment of 60,000 job losses, sections of the business community have been wary, and in some cases outright hostile

Josh Hardie, CBI: 'For wage increases to be sustainable they must go hand-in-hand with *productivity growth*'

Dr Adam Marshall, Acting Director General, British Chambers of Commerce (BCC): 'The Government's new living wage will apply *a ratchet effect to all companies' pay bills*, and sits alongside a *raft of other high employment-related costs...*

## Concerns from the CBI, BCC & CLA

...While many companies have the ability to increase pay, others will struggle to do so alongside pensions auto-enrolment, the apprenticeship levy, employer National Insurance contributions, and other up-front costs.'

'Some will have to divert money from training and investment to increase pay, which could hurt their productivity. **Others may stop hiring altogether.'**

**CLA and rural businesses, don't like the NLW, either.**

President Henry Robinson: 'Farmers and other rural businesses are presented with significant inflation in their wage costs ...cuts in corporation tax to pay for it will not benefit them' (DT, 8 July 2015)

# How are NLW Costs Being Met?

## **B & Q's Quest for Productivity Gains**

<http://money.aol.co.uk/2016/04/04/bandq-backlash-after-cutting-perks-to-pay-for-national-living-wage/>

‘The National Living Wage was hailed as a breakthrough for fairer pay for two million people on low incomes. However, unsurprisingly, not all businesses have simply taken the extra costs of higher pay on the chin.’

Some have reportedly been cutting costs elsewhere in the wage bargain to pay for the higher hourly wage.

**The changes? Cuts to Sunday working premia and Bank Holiday pay (*The Guardian* 5<sup>th</sup> April)**



## Specific Negatives

**Resolution Foundation Briefings** Like the IFS, RF have focused on the *social security* side of the interface...

- A ***single parent*** with one child working 20 hours pw on £9.35 ph will see an overall income cut of £1000 pa
- ***Couple with two children*** working the minimum hours to be eligible for tax credits will have a cut of £850 pa
- A ‘middle earning’ couple, both working and getting £15 an hour, will be £350 pa better off as a result of rises in the personal tax allowance - but ***a couple with three children*** paid the NLW after April 2017 would be £3450 pa ***worse*** off.

## Other Negative Impacts

### **Some other specific points (and warnings)**

- Young workers under 25 will be ‘left behind’
- Job applicants over-25, and those looking to increase their hours, could find they are discriminated against by under-25s
- Giving a pay rise to the 25+ group may require employers to maintain differentials for groups *above* them, eg supervisors.

How they fund that rise will be a key question  
(TUC, 5 Nov 2015)

## Winners & Losers?

- ‘The biggest losers from these changes will be *low-income households with children*. Better-off households and pensioners will be less affected, or even gain from these changes’ (IFS, 2015)
- Since around five out of six workers are paid more than the NLW already, tax/benefit changes have *a larger impact on average replacement rate for all workers*.
- Among the group currently paid below than the NLW, it will strengthen incentives the least for those with the weakest incentives in the first place: for these individuals, *most of the increased earnings are lost in withdrawn benefits and tax credits* (IFS, 2015c)

## Women, Children & Welfare as a Public Patriarchy

The changes will certainly trigger debate about the role of social security. As the State's contribution to household income reduces will it still be, as a 'public patriarchy', as significant as private sources of support: and will it still offer the same source of 'independence' (Iris Young, *Women & the Welfare State*).

As the Fawcett Society note (2016; 2016), there is also a decidedly more *hostile* edge to much of the policy changes...

# Compliance & Enforcement

## **Compliance with Minimum Wage Interventions**

Already looking set to be a problem since the arrival of the NLW as employers look to avoid the full costs and on-costs.

Are these an acceptable substitute for the promised real ‘productivity gains’ and a high(er) wage economy’.

South African studies highlight the issues around NMW schemes, including enforcement.

## Can Wages Fill the Income ‘Gaps’?

The likely answer is ‘no’ The government’s set-back in the Lords re up-ratings highlighted public awareness of the problems: but... HMG may have lost the battle on cuts to in-work support - but by no means the *war*.

After Lords defeat on WTC/CTC HMG said savings will be sought in *other* cut-backs - eg Universal Credit.

In theory, if the economy and productivity grows, pay rises could close the gap - but completely?? Unlikely according to Gavin Kelly, Resolution Foundation: ‘Will Wages Fill the Tax Credits Gap? Don’t Budget for It’

<http://www.resolutionfoundation.org/media/blog/will-wages-fill-the-tax-credit-gap-dont-budget-for-it/>

## UC & Support for Wages

### **Already problems with Universal Credit design**

Initial limitations (Puttick, 2012a; 2012b)  
exacerbated by more recent impacts:

Among other things:

- Freezes to value, and less attractive taper rate
- Childcare costs not as valuable as hoped
- Negative inter-actions with Council Tax support
- The prospect of new forms of conditionality and sanctioning to accompany expectations of 'in-work progression' (IFS, 2015b)

# A Job as ‘Welfare’. The Challenges?

## A Job is No Longer the Best Form of Welfare

A lower wage floor, coupled with austerity and social security systems’ inability to make up the deficit, has meant a rise in Europeans ‘at risk of poverty’

- Now one in four EU households (Eurostat, 2015).
- That statistic varies significantly between EU countries 15% in most Nordic States, but up to 35% in countries like Latvia, Greece, Bulgaria: FTimes, 2015.
- ***The Working Poor***. Increasingly, those ‘at risk’ are *employed* citizens. ‘In-work’ poverty is now a significant challenge (EU Employment Plan, 2014: 4).

**The UK is no different!**



## Expectations on the 'Labour' Side

At present, employers are undoubtedly major beneficiaries, even *dependants*, of the in-work social security system. At one time they were expected to assist staff with their claims.

Now, the availability of in-work support has become an integral part of the wage of a large and growing section of the UK workforce. That *should* bring with it commensurate *responsibilities*: training, support for progression to better pay: but will it...?

Also an expectation that aspects like employment status are not abused eg transfer of staff to less advantageous pay and reward terms, eg casuals.

# MWP: A Variety of Positive Aims, but Problematic Inter-Actions!

## Making work pay aims:

- Retention: France's SA (Bourgeois & Tavan, 2009; Denis & L'Horty, 2012; Vlandas, 2013)
- Flexible working: Austria's BM (Steiner & Wakolbinger 2010); UK's 'real time' UC (Puttick, 2012a)
- USA's support for disabled, war veterans, older workers
- Empowerment of under-represented groups: Canada's Lone Parents Project (OECD, 2013: 120); UK's empowerment groups; 'returnees', disabled (DWP2006)
- Guarantees re. employment/poverty reduction: India (MGNRES, 2015; RSBY, 2015)

# Welfare-to-Work, Work-to-Welfare

## Could the Changes Impact on Vulnerable Groups?

Jobseeking Help, Cash, Housing etc

Empowerment: Older 'Returnees'



# Support for New Entrants and Starters

## Welfare-to-Work Transitions



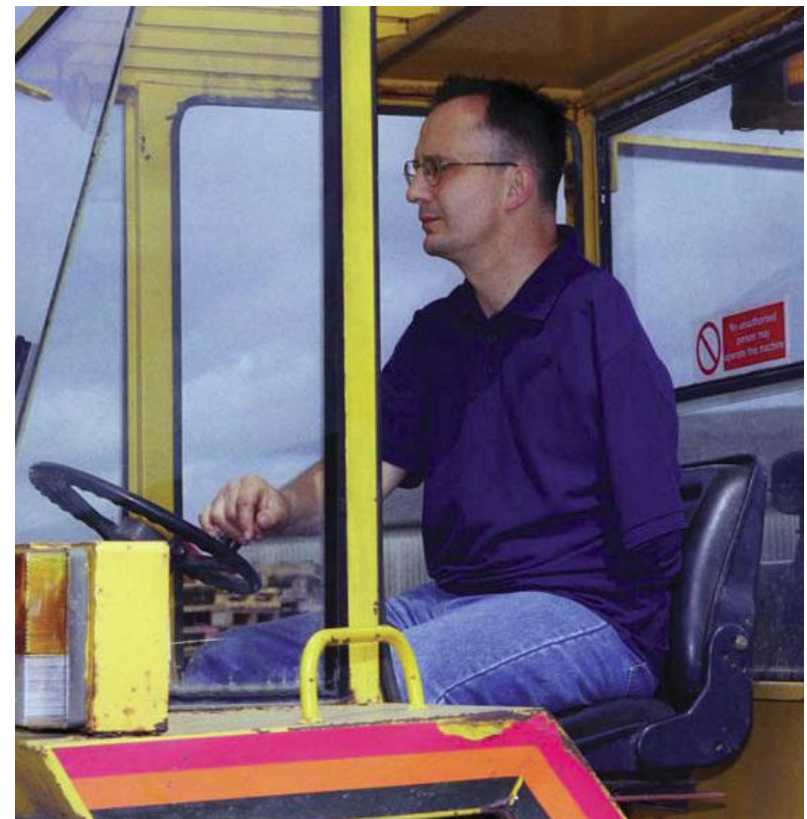


# The Wider 'Enabling' Agenda

Lone Parents, Flexibility, Childcare



Assistance for Disabled Workers



## Let's Assume We're Seeing a Genuine Strategy to Return to a Job as the Best Source of 'Welfare'

Shortcomings in mechanisms to support wage growth? Plenty! The NMW/NLW only offers a very basic *safety-net* - but that's it. Worse it has become a ceiling in some sectors (Bain, 2013; RF, 2014)

In many sectors low-paying employers could pay more but redistributive mechanisms are missing:

- Sectoral and enterprise level dialogue
- Bargaining and wage-setting focused on payability??

A return to wages councils, or newer variants? (Puttick 2014; 2016)

## Newer Models for Wage-Setting?

**Both 'sides' have expressed interest in new models and approaches: particularly unions (TUC, 2013)**

ICE Regs provide a model for non-union settings at the **enterprise level** - eg in smaller organisations based on information and consultation duties.

At **sectoral level**, a progressive return to forms of regulated dialogue, and then bargaining seems desirable for a range of reasons

**UK and RoI models to assist this.** Eg Agricultural Wages Boards in Scotland, Wales, N. Ireland maintained by devolved governments worried about the costs to the rural economy of deregulation - and Irish JICs.

# Thank You!

## Thanks for your kind attention!



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