

From wage supplements to a ‘living wage’?

A commentary on the problems of ‘predistribution’ in Britain’s summer budget of 2015

Abstract

This commentary focuses upon two developments – cuts to wages supplements and an increase in the National Minimum Wage – announced in the first full Conservative government budget in Britain for 18 years. The commentary analyses these through the concept of predistribution and critiques of it. The commentary argues that the two developments can be understood as a weak version of predistribution that will reproduce and deepen class and gender inequalities because of their basis in retrenching collective provision for households living in wage poverty, while increasing the emphasis upon market mechanisms (wages) as the predominate means of supporting such households.

Keywords: class, gender, predistribution, redistribution, universal credit, wage supplements

Word count: 4395

Introduction

The focus in this commentary is upon the changes to state-sponsored wage supplements for low paid and under-employed workers announced in the 2015 summer budget in Britain and the introduction of what was argued in it to be a ‘national living wage’ (rather than using this term, however, this commentary refers to an increased or increasing National Minimum Wage [NMW]). Conceptually, the commentary locates these developments in the idea of predistribution and is divided into three sections. The first section outlines and discusses predistribution. The second section examines the developments – a residualising of wage supplements and increases in NMW – and the third section critically engages with these developments. It focuses upon two issues: relationships between wage poverty and the summer budget announcements and gender dimensions of the announcements. The commentary argues that rather than being the positive development portrayed by the government, the shifting nature of support for wage workers from distributive to predistributive mechanisms means that in the future the poorest wage workers will face even more precarious times because the subsistence basis of redistributive wage supplements cannot be replaced by predistributive increases in the NMW, which has no relationship to notions of household need.

Predistribution

While it is thought that the concept of predistribution was conceived by the American political scientist, Jacob Hacker, in Britain it has been most closely linked with a speech made by the then Leader of the Labour Party, Ed Miliband (2012). In it, and by comparing predistribution to redistribution, Miliband highlighted the former’s potential to the British wage structure. ‘Think about somebody working in a call centre, a supermarket, or in an old peoples’ home,’ Miliband (2012, p. 6) said, ‘[r]edistribution offers a top-up to their wages.

Predistribution seeks to offer them more: Higher skills. With higher wages. An economy that works for working people.’ He went on: ‘Centre-left governments of the past tried to make work pay better by spending more on transfer payments. Centre-left governments of the future will have to also make work pay better by making work itself pay’ (Miliband, 2012, p. 6).

Miliband’s comments were important because they hinted that in the future wage work would have to be made to ‘pay better’ through the wage system, rather than through the payment of wage supplements (‘income transfers’) to people in low paid wage work. Hence, Labour’s 2015 general election manifesto argued that, if elected a Labour government would increase the NMW to more than £8 per hour by 2019 and through Making Work Pay Contracts it would encourage employers to pay a ‘living wage’ (Labour Party, 2015). In this context, Miliband’s comments suggested a need to rebalance the means of ‘making work pay’ away from state provision to the private sector via higher minimum wages and, if employers could be suitably incentivised, a ‘living wage’.

Given such developments, it is not surprising that predistribution has been criticised as being a means of justifying austerity (Lansley, 2014). In addition, it is argued that there are several conceptualisations of predistribution. Ussher (2012), for example, describes two – ‘important but limiting’ and ‘empowerment’ – interpretations of it. The ‘important but limiting’ version relates to action or interventions before the event as a means of softening the consequences of the operation of markets. In contrast, the ‘empowerment’ approach to predistribution would, Ussher (2012) suggests, allow individuals to react more positively and confidently to contemporary uncertainties. For Lansley (2014), a weak version of

predistribution would do little to address contemporary inequalities, while a ‘radical’ version would challenge and seek to change such inequalities.

The arguments of both Ussher (2012) and Lansley (2014) raise issues related to minimum regulated wages. In Ussher’s (2012) account they are part of the limited version of predistribution, for they at least attempt to deal with ‘exploitation’ while not increasing wage worklessness, while for Lansley (2014) the weak version of predistribution ‘might aim merely to raise the floor by a little, by boosting wages at the bottom.’ In contrast, a ‘radical’ approach would seek to destroy disparities in income and wealth. Such an approach would involve more than just an increase in regulated minimum wages. That, however, was the approach taken by the Conservative government in the 2015 summer budget, for while it announced increases in the NMW, this was accompanied by a retrenchment of wage supplements which horizontally and vertically redistribute financial resources, and it did nothing to address wages at the upper end through, for example, the introduction of a maximum wage.

From wage supplements to a ‘National Living wage’?

The Chancellor of the Exchequer argued that the summer budget would help to move ‘Britain from a low-wage, high-tax, high-welfare society to a higher-wage, lower-tax, lower-welfare economy’ (House of Commons Debates, 2015, col. 332). To do this, he suggested three developments were required – to reduce spending on social security benefits, particularly those which act to supplement the wages of low paid workers, to reduce the amount of income tax paid by people in wage work and to increase the NMW so that by 2020 it would be the equivalent to 60 per cent of the median hourly wage (estimated to be £9.35 per hour – Office for Budget Responsibility [OBR], 2015a).

The first two of these were not particularly surprising as they denoted an extension of the 2010-15 Conservative/Liberal Democrat Coalition government's approach. Within months of being constructed it had announced cuts to wage supplements (then tax credits) of £3.2 billion per annum and it substantially increased (by 64 percent, from £6,745 in 2010/11 to £10,600 in 2015/16) the amount wage workers could earn before paying income tax. It was an adherence to economic liberalism by both the partners of the Coalition government that informed its desire to retrench collectively provided tax credits and to reduce personal taxation which it perceived as being coercively co-opted from wage working people to pay for engorged state benefits and services (HM Government, 2010).

The most surprising aspect of the summer budget was the third development – a substantial increase (about 40 percent between 2015 and 2020) in the NMW. While senior members of the Conservative Party had expressed support for a 'living wage' before the summer budget – David Cameron, for example, described it in 2010 “as an idea ‘whose time has come’” (cited in Lawton and Pennycook, 2013, p. 8) – it was less than two decades ago that Conservative governments opposed minimum wage regulation. With the exception of the Agricultural Wages Board, Conservative governments abolished the Wages Councils which still existed in the 1990s. Conservative politicians argued regulated wages were an unnecessary interference in free markets and were of more benefit to higher paid workers through their encouragement of the re-setting of wage differentials (for example, comments of Michael Portillo, then Secretary of State for Employment, Employment Committee, 1995, question 17).

In contrast, at the time Conservative governments preferred the payment of selective wage supplements (then family credit) to individual wage workers as an alternative to regulated minimum wages. Such an approach was held to be a means of ‘creating jobs, attracting inward investment and winning plaudits from foreign firms moving here [to Britain]’ (Peter Lilley, then Secretary of State for Social Security, House of Commons Debates, 1997, col. 931). Nearly two decades later there has been a volte-face in approach of Conservative governments, for in addition to the increase in NMW announced in the summer budget it also outlined savings of £3.8 billion per annum by 2020 from tax credits that specifically subsidise low wages (calculated from HM Treasury, 2015).

The two main observations of the summer budget were that it was overly political and that the reduction in tax credits would disincentivise wage workless people from taking entry-level jobs. The first observation was related to the fact that, as we have seen, in the run up to the 2015 General Election the Labour Party had claimed the ‘living wage’ as its policy. The announcement in the summer budget to increase the NMW to a higher rate than that pledged in the Labour Party’s 2015 election manifesto and the inclusion of ‘living wage’ in its new title was widely seen as a means of wrong-footing Labour. This was certainly the impression given by the Chancellor of the Exchequer, who, while ignoring the social costs of his previous budgets – for instance, the increasing use of food banks, particularly by people in wage work (Cooper *et al.* 2014) – argued that the summer budget denoted the Conservative Party as ‘the party for the working people of Britain’ (House of Commons Debates, 2015, col. 338).

The second observation related to the fact that the budget retrenched tax credits by attempting to focus them upon the poorest of wage poor families – by, for example, reducing

the level of earnings (the 'earnings threshold') after which tax credits are withdrawn by 40 percent (from £6,420 to £3,850), reducing tax credits at a faster rate by increasing the taper (the rate at which they are withdrawn from recipients) by nearly a fifth, from 41 to 48 percent, and halving the increase in amount by which income can rise without it having to be declared. The retrenchment of tax credits, however, provoked an unlikely alliance of resistance, including, for example, the Labour Opposition, some backbench Conservative MPs, the House of Commons Work and Pensions Committee (2015), the right-wing *The Sun* newspaper¹ and the Resolution Foundation which produced data that suggested 3.3 million working households would lose an average of £1,100 in April 2016 because of the changes announced in the 2015 summer budget².

As a consequence of this pressure and a revised economic and fiscal forecast that suggested by 2020 revenues would be £27 billion higher than previously expected (OBR, 2015b), Osborne was able to announce in the 2015 Autumn Statement that households would be given 'longer to adjust to the transition to a higher wage, lower tax, lower welfare society' (Chancellor of the Exchequer, 2015, p. 35). The victory though, was somewhat hollow, because only some of the changes to tax credits announced in the summer budget (the reduction in the earnings threshold and the increase in the earnings taper) were revoked; equivalent changes to universal credit, which, with the exception of the North of Ireland, is currently being rolled out in Britain, made in the summer budget were not changed in the Autumn Statement and changes to other social welfare benefits for working age people were not revoked. Hence, the OBR's (2015, p. 6) conclusion that by 2020 the 'tax credit reversal is more than offset by cuts to a variety of other benefits'.

The main observations of the summer budget, however, arguably underestimate the importance of, and potential problems with, the changes to wage supplements and regulated wages announced in the summer budget. Such issues are considered in the following section.

Increasing the NMW, retrenching tax credits and wage poverty

The idea of a ‘living wage’ is superficially attractive, for it holds the impression that it will deliver to working people an income that has at least some relationship to their subsistence needs (the ‘living’ element of it) and the way it has been calculated relating wages to a Basic Living Costs approach in London and a Minimum Income Standard outside of it for living wage campaigns in Britain supports this notion. However, because in these two instances the ‘living wage’ is calculated for different configurations of households and then reduced to an average, they are not particularly sensitive to household need (Grover, 2005; Bennett, 2014).

What is described by the government as the ‘National Living Wage’ does not suffer from such problems because it is not related to even an average notion of subsistence, but to an arbitrary proportion (60 percent) of median wages. The reason this target was chosen is linked to the politics of the summer budget. The Chancellor of the Exchequer, for example, told parliament (House of Commons Debates, 2015, col. 338), it ‘is the minimum level of pay recommended in the report to the Resolution Foundation by Sir George Bain, the man the last Labour Government appointed as the first chair of the Low Pay Commission’. In accepting a measure of the ‘living wage’ as a proportion of median hourly earnings, however, the government obfuscated matters by conflating the notion of a subsistence wage (the ‘living wage’) with the Bain committee’s focus upon what was essentially a low pay threshold approach (Resolution Foundation, 2014). The Bain committee’s suggestion of increasing the NMW to an internationally accepted measure of low pay was estimated to have the likely

effect of reducing the proportion of employees receiving low wages from 21 to 17 percent (Resolution Foundation, 2014). Reducing the proportion of wage workers who can be considered to be low paid, however, is a very different exercise to developing a 'living wage', which, in contemporary configurations has some (albeit distant) relationship to notions of subsistence. The low pay threshold approach does not, and, therefore, it is even more difficult to see how the 'National Living Wage' can be understood as a 'living wage' compared, for example, to those described as such by the Living Wage Commission (2014) and Greater London Economics (2014).

As a consequence, increases in the minimum wage will be a poor replacement for the loss of collectively provided wage supplements that attempted to relate income to subsistence needs by taking into account in their calculation the number of household members as a proxy for need (Grover, 2005). In this sense, while tax credits (and their replacement universal credit) are arguably more concerned with economic issues (such as the supply of labour) than social issues (such as poverty), they are nonetheless redistributive, although not necessarily to the poorest (Piachaud and Sutherland, 2000). As noted, however, the increase in the NMW is to be accompanied by a significant retrenchment of wage supplements for people in low paid wage work. In addition to the changes outlined above, this includes for families with more than two dependent children the decoupling of universal credit from household need by restricting its payment to only two children even if they have more than two. In this context, it is clear that the predistributive approach of increasing the NMW will be even more inadequate than the previous redistributive approach of using tax credits to deliver higher incomes to households where wage workers are in low paid work. The Conservative government's approach of increasing the NMW while retrenching wage supplements is a particularly weak version of predistribution which entrenches, rather than

challenges, economic inequality. Through the increasing emphasis it places upon wages as income, it helps to reproduce exploitative class relationships, and also, as we shall see in the following section, unequal gender relations.

Wage supplements, regulated minimum wages and the breadwinner wage model

In the previous section the focus was upon the implications of the summer budget changes to wage supplements and the NMW in relation to horizontal redistribution. It is also the case, however, that the shifting nature of policy for wage poor households from wage supplements to an increased NMW has implications for the vertical redistribution of financial resources, most notably between men and women. This section suggests that the announcements in the summer budget are also important as a means of illuminating policy elite perceptions of gender relations in couple households and, in turn, of their relationship to wage work.

There have been concerns for many years about the gender implications of what is generically known as the male breadwinner model, which through various policy actors has had several incarnations, for instance, the ‘living wage’ and the ‘family wage’ (Land, 1980; Bennett, 2014). What these approaches to understanding the level at which wages should be set have in common is the view that full time wages should be adequate enough to fulfil the subsistence needs of two adults and at least two children. While in more recent years notions of the ‘living wage’ have been gender-neutral in tone, even they cannot get away from the fact that they are premised upon there being at least one full time wage earner in couple households who, on current practice in Britain, is likely to be male. As Bennett (2014, p. 5) notes, the ‘living wage’ is unable to ‘deal adequately with economic dependence within the family.’

In this context, the announcements in the summer budget have potentially contradictory consequences for understanding relationships of economic dependency between men and women in couple households. As women are paid less than men they tend to be the main beneficiaries of increases in regulated minimum wages. This was the case when Trade Boards were introduced in Britain in 1909 and when the NMW was introduced there nine decades later (Grover, forthcoming, 2016). It will also be the case when the NMW is increased between 2016 and 2020. The implication is that not only will women wage workers be financially better off after the increases in the NMW, but that more women should be encouraged to take wage work because they will earn more than they would have done in previous years. In the context of retrenched wage supplements, which at least for children in the case of tax credits, are paid to women in couple households, this might be the only way in which women in such households gain some control over financial resources. It also potentially acts against the argument, used by governments of both the left and right since the 1970s, that the payment of wage supplements to mothers can act as a means of discouraging them from doing wage work (Grover, forthcoming, 2016). In this interpretation, rather than limiting the supply of female labour, the changes to tax credits and the NMW can be understood as seeking to widen the wage relationship to a larger pool of female labour.

A difficulty with this argument is that for a range of moral (such as notions of ‘good’ mothering) and pragmatic reasons (for instance, accessing affordable childcare, the number and age of their children) many women do not do wage work (Duncan and Edwards, 1999). For such women in wage poor couple households wage supplements are an important source of income over which they have control, even if they do not represent an independent income for those women. In this sense, wage supplements were an important source of vertical redistribution – a collective payment via the ‘purse’, rather than via the ‘wallet’. The problem

is, as seen above, the summer budget can be understood as being influenced by predistribution rather than redistribution. This means the increase in the NMW, along with the contemporaneous retrenchment of wage supplements, will shift resources within many wage poor households from women to men, thereby reinforcing patterns of patriarchal dependency via the male breadwinner model of wages and the unequal intra-household distribution of economic resources.

In addition, in England and Wales at least, the new wage supplement, universal credit breaks with the principle, which had to be fought for in the 1940s, that women should receive state financial support for children³. Under universal credit households will have to nominate its recipient. Concern has been expressed that in many households men will unilaterally make the decision to receive any payments, leaving women with control over few household financial resources and less money being spent on children, an issue, it is argued, exacerbated by it not being made clear that at least part of the universal credit payment is for children (Annesley and Bennett, 2011).

Conclusion

The summer budget was described by the Chancellor of the Exchequer as a budget for the working people of Britain. However, despite, and more probably because of, these developments many low paid workers will be impoverished by the summer budget. This is because the increase in the NMW bears no relation to household need and involves severe cuts to the mechanism (universal credit) which is replacing tax credits as the means of adjusting income from wage work to such need.

Both the parliamentary left and right subscribe to the view that the best means of tackling poverty is for people to take wage work. This is especially so in the case of the Conservative Party which since being in government from 2010 (albeit in a Coalition between 2010 and 2015) has consistently argued that poverty can only be reduced by tackling its causes (primarily wage worklessness), rather than its consequences (a lack of income). The summer budget is consistent with such arguments, but it also demonstrates their vacuousness. The logic of the argument – expressed, for example, in the government’s proposal to effectively abolish the Child Poverty Act 2010 and replace it with ‘reporting obligations’, one of which is focused upon the proportion of people in wage work (Kennedy, 2015) – is that people in wage work can never be poor. Histories of the capitalist labour process demonstrate this is not the case, and in this context the summer budget can be understood as a reincarnation of the classic liberal economic argument that individuals must be responsible for their own and, if they have one, their family’s subsistence. Hence, it can be argued that the adoption of the redistributive increase in the NMW, alongside the cuts to wage supplements, goes further than suggesting that redistribution is merely a means of justifying austerity. In contrast, in the concerns discussed in this commentary redistribution can be understood as being part of an ideological assault upon the size and scope of collective state provision, the consequences of which the poorest wage working (and workless) people will have to live with for generations to come.

The problem with the idea of redistribution is its attractiveness to policy elites because of its reliance upon markets as a distributor of ‘its rewards’, primarily via wage work⁴. While the emphasis in redistribution may be upon increasing the ‘reward’ from wage work, it does little to challenge the exploitative and economically unequal social relations

upon which capitalism is premised. These need to be challenged if policies, such as those in Britain's 2015 summer budget, are not to reproduce class and gender inequalities.

Notes

1. <http://www.thesun.co.uk/sol/homepage/news/politics/6674334/Government-tax-credit-cuts-to-affect-three-million-Brits.html> (accessed 10 February 2016).
2. <http://www.resolutionfoundation.org/wp-content/uploads/2015/11/Tax-credit-event-slides-Full.pdf> (accessed 10 February 2016).
3. In the North of Ireland it has been agreed that when universal credit is introduced there will be no default position on its payment, allowing for split payments between couples. In the case of Scotland, while universal credit remains a reserved benefit, the Smith Commission proposed that the Scottish parliament should have the power to split payments between couples (Wilson and Kennedy, 2015).
4. Joseph Hacker, for instance, is quoted as saying that predistribution denotes 'the way in which the market distributes its rewards in the first place' (<http://www.progressonline.org.uk/2012/09/14/from-redistribution-to-predistribution/>, accessed 10 February 2016).

References

- Annesley, C. and Bennett, F (2011) *Universal Credit and gender equality*, London, Women's Budget Group.
- Bennett, F. (2014) "The 'living wage', low pay and in work poverty: Rethinking the relationships, *Critical Social Policy*, vol. 34, no. 1, pp. 46-65.
- Chancellor of the Exchequer (2015) *Spending Review and Autumn Statement 2015*, CM 9162, London, HMSO.

- Cooper, N., Purcell, S. and Jackson, R. (2014) *Below the breadline. The relentless rise of food poverty in Britain*, London, Church Action on Poverty.
- Duncan, S. and Edwards, R. (1999) *Lone Mothers, Paid Work and Gendered Moral Rationalities*, London, Macmillan.
- Employment Committee (1995) *The Work of the Employment Department*, minutes of evidence, 23 May, HCP 458-i, London, HMSO.
- Greater London Economics (2014) *A fairer London: the 2014 living wage in London*, London, Greater London Authority.
- Grover, C. (2005) "Living Wages and the 'Making Work Pay' Strategy", *Critical Social Policy*, vol. 25, no. 1, pp. 5-27.
- Grover, C. (2015) *Social Security and Wage Poverty: historical and policy aspects of supplementing wages*, Basingstoke, Palgrave Macmillan.
- HM Government (2010) *The coalition: our programme for government*, London, Cabinet Office.
- HM Treasury (2015) *Summer Budget 2015*, HC 264, London, HM Treasury.
- House of Commons Debates (1997) *Social Security*, 19 February, vol. 290, cols. 930-1018.
- House of Commons Debates (2015) *Financial Statement*, cols. 321-338,
<http://www.publications.parliament.uk/pa/cm201516/cmhansrd/cm150708/debtext/150708-0001.htm> (accessed 31 July 2015).
- House of Commons Work and Pensions Committee (2015) *A reconsideration of tax credit cuts*, Third report of Session 2015-16, HC 548, London, The Stationery Office.
- Kennedy, S. (2015) *Welfare reform and Work Bill*, Briefing Paper No. 07252, London, House of Commons Library.
- Labour Party (2015) *Britain can be better. The Labour Party Manifesto 2015*, London, Labour Party.
- Land, H. (1980) 'The Family Wage', *Feminist Review*, no. 5, pp. 55-77.

Lansley, S. (2014) “Britain’s wages crisis – is ‘predistribution’ or ‘redistribution’ the Way Forward?”, *Political Quarterly*, vol. 85, no. 1 pp. 3-10.

Lawton K. and Pennycook, M. (2013) *Beyond the Bottom Line. The challenges and opportunities of a living wage*, London, IPPR and Resolution Foundation.

Living Wage Commission (2014) *Work that pays. The final report of the Living Wage Commission*, London, Living Wage Commission.

Miliband, E. (2012) *Labour’s New Agenda*, Speech delivered to Policy Network, London, 6th September 2012, London, Policy Network.

OBR (Office for Budget Responsibility) (2015a) *Economic and Fiscal Outlook 2015*, Cm 9088, London, HMSO.

OBR (Office for Budget Responsibility) (2015b), *Economic and Fiscal Outlook November 2015*, Cm 9153, London, HMSO.

Piachaud, D and Sutherland, H. (2000) *How effective is the British Government’s Attempt to Reduce Child Poverty?*, CASE paper 38, London, Centre for Analysis of Social Exclusion.

Resolution Foundation (2014) *More than a minimum. The Resolution Foundation review of the future of the National Minimum Wage: the final report*, London, Resolution Foundation.

Ussher, K. (2012) *What is pre-distribution?*, http://www.policy-network.net/pno_detail.aspx?ID=4272&title=What-is-pre-distribution (accessed 10 September 2015).

Wilson, W. and Kennedy, S. (2015) *Further devolution of powers to Scotland: Universal Credit housing element and payment arrangement*, Standard Note SN07095, London, House of Commons Library.