

# Work, labour markets and welfare: a literature review

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## Introduction

This review of the existing literature – commissioned by the IPPR Commission on Economic Justice – on work, labour markets and welfare covers three distinct aspects of economic activity, which occur both within and outside of formal labour markets. While separate, the review attempts to highlight how each aspect covered is both a product of, and helps to perpetuate, underlying core features of the UK’s economic growth model, which relies currently upon highly liberalised labour markets. First, the review looks into the nature and scale of *unpaid work* and how this impacts upon society. It covers the core issue of how (predominantly) women’s unpaid work in the household shapes labour market outcomes for women and the wider economy, as well as how unpaid work in various other guises, including unpaid internships and overtime, continue to prop up the UK economy.

The review then looks at the issue of *low pay and insecure work*, which has in recent years become central to the debate on economic justice – not least, with the Taylor Review (2017) being the latest major intervention in this area. The review looks at how low pay and insecure work are unevenly distributed within the UK economy, what helps to drive these trends and, indeed, what can be done to improve the situation.

The third chapter discusses the nature of *the UK welfare regime and unemployment* in the UK. As well as looking to understand what drives unemployment and its distributional impact, the review seeks to better understand how shifts towards ‘welfare to work’ policies over the past two decades or so have fared in reshaping the relationship between welfare and employment. A final chapter looks to pull together these three major aspects of the review, and outlines a progressive policy agenda by way of summarising key lessons identified in the literature.

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## 1. Unpaid work

Unpaid work constitutes a sizable proportion of the productive activity in our economy, and yet, by virtue of the fact it remains unpaid, it remains under-accounted for when considering what our economy is and how it truly operates. So what is unpaid work? The Office for National Statistics (ONS 2016a) defines unpaid work as, ‘unpaid service work which households perform for themselves but which they could pay someone else to do for them.’ This is largely divided up between routine household work (cleaning, cooking, etc.), taking care of household members, shopping, and travel (see McKinsey 2015). Yet, whilst this definition covers the bulk of *domestic* unpaid work, as we will see below, the literature reveals the importance of understanding other types of unpaid work. Most importantly, there is a need to bring in to our conception of unpaid work the role of unpaid volunteering and internships, as well as unpaid overtime done within the formal economy. This review begins by looking at domestic unpaid work and moves on to these latter aspects. For each aspect of unpaid work, the review will look to understand the distribution of unpaid work, its consequences at both a micro and a macro level, and consider relevant policy recommendations.

### 1.1 Domestic labour

#### *1.1.1 Distribution of unpaid domestic labour*

Globally, McKinsey (2015) estimate that women’s unpaid work amounts to as much as \$10 trillion of output per year, or 13 per cent of global GDP. They note that in Western Europe, women still do between 60 and 70 per cent of unpaid care work, and that high levels of unpaid care work has a strong negative correlation with labour force participation, and is ‘a significant barrier to enhancing the role of women in the world economy’. In the UK, the ONS (2016a) calculate that total unpaid work has a value of £1.01 trillion, equivalent to approximately 56 per cent of GDP. Women contribute around 26 hours of unpaid work a week, compared to 16 hours on average for men, with those on lower incomes carrying out more, on average, than those in higher income brackets. We know this because although such work is excluded from official GDP figures, as it is seen to fall outside of the ‘core production boundary’ by the UN’s System of National Accounts (SNA), it is recorded by the UK government in its ‘Household satellite account’ data (see ONS 2016b).

Whilst research on unpaid work has generally been ‘ethnicity blind’, Kan and Laurie (2016) analyse data from the UK Household Longitudinal Study, which contains sufficient sample sizes of ethnic minority groups, to address this issue. Their research, which focuses on ‘the extent to which domestic arrangements are egalitarian as measured by the number of hours and share of time spent on domestic tasks by men and women’, reveals significant variations in patterns of domestic labour at the intersection between ethnic group and gender, education and employment status. They show that whilst all groups of women

engage in more unpaid domestic labour, there are ‘significant differences between ethnic groups in how couples organise their domestic labour’. Hours spent by women on housework range from a low of 13 hours per week for Chinese background women to a high of almost 24 hours per week for Pakistani and Bangladeshi background women. Furthermore, the authors find that men whose spouses have a university degree increased their housework hours by around 43 minutes a week and having an employed spouse increased men’s housework hours by 1.2 hours a week (Kan and Laurie 2016).

### *1.1.2 Drivers and consequences of unpaid domestic labour*

Feminist scholarship has revealed the inherent prejudices embedded within mainstream economic analyses, which have contributed to the perpetuation of unpaid work being performed by women within the domestic sphere. Whilst mainstream economic analyses have often viewed the household as distinct from the productive part of the economy, feminist analyses have shown how the domestic sector is crucial in producing a labour force, playing ‘a foundational role in the production of people who possess not only the capacity to work but also to acquire other more intangible social assets’ necessary for the functioning of society (Elson 1998). Rather than view the household as separate from the traditional state-market dualism, in order to properly conceptualise how our economy operates, it is essential to see the public (state), the private (capital) and the domestic (household) as necessarily interconnected (Hoskyns and Rai 2007; Elson 1998).

Feminist scholars have, therefore, long sought to bring unpaid productive work into mainstream economic accounts (see Waring 1990; Hoskyns and Rai 2007). Although there are certainly methodological issues associated with producing comparable data on unpaid domestic work, Hoskyns and Rai (2007) have contrasted the weak efforts to incorporate such inputs within the UN’s SNA with the efforts put in to other ‘invisibles’, such as ‘environmental-economic accounting’. Hoskyns and Rai (2007) argue for a reframing of the constitution of the economy so that the public (state), the private (capital) and the domestic (household) appear as equally important sectors. Indeed, the high-profile Stiglitz-Sen-Fitoussi (2009) report on the measurement of economic performance, conducted on behalf of the French government, argued that unpaid productive activity should be measured and accounted for because it ‘directly feeds in to household living standards’. Calls to incorporate unpaid domestic work into mainstream economic accounting are backed also by the International Labour Organisation (ILO) (see Antonopoulos 2009).

There is, however, a range of institutional structures and government policies that shape the role played by unpaid work in the economy. In a comparative study of working time and work–life balance, a Eurofond (2012) report found women in Norway, Sweden, Denmark, Netherlands and Finland reported much less difficulty in balancing paid work and family life, due to the great proliferation of family-friendly, flexible and reversible working time options in these countries. The institutional design of these countries was not simply about pushing women into paid work, but about ‘promoting a more equal time allocation across gender’. The UK, on the other hand, was seen to promote women’s

employment but with the consequence of women engaging in shorter working hours in order to balance caring commitments (Eurofond 2012). This tells us that smarter policy design can both promote female employment whilst ensuring a more equitable balance in the distribution of unpaid work between men and women.

The goal of moving a greater proportion of women into paid employment is promoted by a range of institutions, including the EU and ILO. There are, of course, a number of significant benefits that arise from increased female labour force participation, for both the macroeconomy and for women's empowerment. Whilst that much is not in doubt, it is important to recognise the ways in which unpaid work relates to paid work and the issues created by increasing female employment. As the OECD (Ferrant et al. 2014) argue, 'gender inequality in unpaid care work is the missing link in the analysis of gender gaps in labour outcomes, such as labour force participation, wages and job quality', noting that across OECD countries, a greater role for women in unpaid work is associated with increased earning disparities between men and women. The ILO (2009) also argue that levels of unpaid work shape 'the ability, duration, and types of paid work that can be undertaken'. The gendered dynamic of this meaning that women are 'concentrated in economic activities with low earnings, insecure and irregular jobs, and where there is little protection through labour laws'.

When women do enter the paid labour force, it can create additional problems within the unpaid domestic sphere, including the development of the 'double burden'. As Lewis et al (2008) make clear, outside the Scandinavian enclave, the 'dual-earner model' does not characterise the labour market. Rather, the rest of Western Europe is rather more accurately characterised by a 'one-and-a-half' or 'one-and-three-quarters' earner model, wherein women work part-time and a large proportion of care work remains informal and unpaid. Whether one interprets the continuing dominance of women in the unpaid care sector as a result of their 'preference' for such work (Hakim 2010), or the legacy of 'gender norms' (Lyonette and Crompton 2015), the reality of women's continued prevalence in the unpaid domestic sphere must be recognised and its implications considered. As the ILO (2009) note, on average, when paid and unpaid work are combined, women work longer hours than men.

Kitterød and Pettersen (2006) have shown that in Norway, for example, full-time employment for the mother 'does not increase the father's contribution in any types of family-work'. They suggest that Norway's comprehensive public childcare facilities have enabled mothers to expand their paid work, but without necessarily challenging fathers' time use. Dual-earner parents thus 'rely mostly on external childcare to substitute for the mother's absence'. Kan (2008) finds much the same in the UK and US, showing that although increased pay relative to their partners' does reduce housework hours for both men and women, this effect is mediated by gender-role attitudes. As such, Kan (2008) notes that housework 'has remained largely "women's work"', despite women's increased labour force participation. Lyonette and Crompton (2015) also find that, 'as a general rule,

women still carry out more housework than men, irrespective of their working hours or earnings'. Indeed, the British Social Attitudes survey (Scott and Clery 2013) has shown that there has been 'there has been little change in the gender division of unpaid work across the past decade', and that 'men's uptake of unpaid domestic work is slow'. These works demonstrate that though moving women into paid employment must still be the target, the legacy of gendered norms continues to shape both women's and men's interaction with unpaid and paid work.

## 1.2 Unpaid volunteering, internships and overtime

### 1.2.1 Internships

Research by the IPPR (Roberts 2017) shows that internships have increased dramatically in the post-financial crisis economy, and that even after a pick-up in employment rates, internships have become a permanent feature of the UK graduate labour market. The number of unpaid internships in the UK was thought to be around 22,000 in 2014 (Sutton Trust 2014), although the figure could be far higher given that many unpaid internships are not advertised formally. What's more, the impact of these unpaid internships falls unevenly across the UK's employment sectors, with professions in the cultural and creative industries, media, journalism and finance amongst the likely to offer internship placements. The competition to enter these sectors is high, as they tend to be well-paid, influential industries or sectors seen as 'glamorous' in some way (Lawton and Potter 2010).

Research by the European Youth Forum (2011) on internships in Europe has shown that only half of those interns surveyed had been paid at all, with only a quarter able to make ends meet with the compensation they did receive from their internship. Given that the cost of an unpaid internship in London to the worker is thought to be in the region of £1,000 a month, such arrangements are extremely prohibitive, particularly for those without family living in London (Sutton Trust 2014). As such, unpaid internships, which also often rely upon 'networks' and informal recruitment processes, are widely recognised to be highly exclusionary for the lower paid and BAME communities, thus contributing to stalling social mobility (Lawton and Potter 2010; Social Mobility Commission 2016).

This sees access to internships restricted to more privileged groups in society. However, as recent research by Holford (2017) shows, the distribution of unpaid internships is more fragmented than straightforward segregation. Holford uses the Destination of Leavers from Higher Education Survey (DLHE) to 'estimate the socio-economic gradient in access to unpaid internships among English and Welsh graduates six months after completing their first degree, and the return to this internship experience 3 years later in terms of salary, occupation, contract type and career satisfaction'. Holford shows that not only is *access* to internships differentially distributed according to socio-economic status, but that this has an impact upon post-internship labour market outcomes. Building on the idea that

internships can exclude some groups, Holford shows that internships *are* in fact prevalent amongst several disadvantaged groups ‘including those from ethnic minority groups, with disabilities, or who entered university via a vocational track’. However, he also shows that, compared to more privileged graduates, these underprivileged groups tend to take up ‘less desirable or potentially exploitative positions’.

This two-tier internship system thus stratifies young workers according to already established labour market advantages and disadvantages. Moreover, whilst internships are often viewed as a kind of ‘necessary evil’, needed for a young worker to get his or her ‘foot in the door’, Holford shows evidence of a ‘significant salary penalty’ of £3,500 at 3.5 years after graduation for those who had taken an unpaid internship compared to those that had gone straight into paid work. This salary scar effect is, however, significantly mitigated for privileged graduates, indicating the advantages of accessing ‘good’ internships. Rather than act as vehicles of social mobility, unpaid internships thus exclude some groups and then serve to entrench existing labour market inequalities.

The literature shows us that the rise of the internship as a key component of our labour market must be theorised as part of wider structural shifts in the economy, and not simply the result of the desire for individual workers to gain experience of the labour market. That is, the ‘intern’ has emerged as part of a wider shift towards ‘precarious’ forms of labour propping up the economy, with interns a form of ‘cheap dispensable labour’ (Standing 2011). As Perlin (2011) argues, in the absence of proper regulatory frameworks, such as those that were built up around apprenticeships, internships are a key component in the structure of neoliberal labour markets and feature across global labour markets as a form of cheap and flexible labour. Whilst regulatory frameworks were built up around apprenticeships, as an earlier form of in-work learning within trades predominantly, white-collar in-work learning in the form of internships has gone severely under-regulated (Frenette 2015). As the European Youth Forum (2011) state, ‘young interns are, to an increasing extent, acting as extensions of, or replacements for, regular staff’. Leonard et al. (2016) illustrate this point by showing how, in the context of UK government cuts and the contracting-out of many public services to third-sector organisations, internships have boomed within the third-sector. The authors note that those seeking work in the third-sector were more liable to take up unpaid internships due to an emotional, political and moral connection with the type of work they hoped to conduct.

Yet, part of the problem with the lack of regulation around internships is a lack of clarity around what they are for and what type of work and learning can be expected. Frenette (2013), for instance, suggests that ‘ambiguity’ around the role and responsibilities of an intern, as well as a vagueness around what the intern will achieve and the potential employment outcomes, helps to explain their increasing prevalence given it benefits host organisations. Perlin (2011), furthermore, draws our attention to the way in which internships can negatively impact upon the labour force, given that precarious workers such as interns often feel unable to refuse even inappropriate or poor quality work. The

way in which the distinction between cheap, flexible labour and (often poor quality) internships has blurred can be witnessed in the recent unsettling instance of the coffee chain 'Pret a Manger', which initially proposed unpaid summer work experience placements for 16-18-year olds to fill the potential gaps in its labour force as a consequence of the Brexit vote. This feature of the labour market extends beyond 'internships', however, into the other areas of unpaid work, including volunteering and unpaid overtime, which have become increasingly prevalent in the context of the financial crisis since 2008.

### 1.2.2 Volunteering

Bach (2012) has demonstrated the way in which the Coalition government's 'Big Society' initiative promoted unpaid volunteer work as a more 'user-centred and cost-effective way of delivering public services in tough times'. His study is supported by work conducted in Canada by Baines (2004; Baines et al. 2017), which has shown how paid labour in the care sector has been heavily supplemented by unpaid 'volunteer' labour in the context of performance-based models of public management and cuts to funding. Baines (2004) reveals how precarious workers within the care sector are effectively coerced into 'volunteering' through a fear that their employment will be jeopardised if they refuse to perform unpaid labour. As with the eager and politically motivated interns willing to work for free to 'get their foot in the door', Baines identifies an element of emotional attachment of carers to their work, with workers' identities and knowledge base 'tied to notions of altruism and caring'. This clearly renders certain sectors with high levels of 'emotional' labour and high rates of precarious employment contracts more vulnerable to the rise of unpaid internships and 'coerced' volunteering than others. Cunningham (2015) has, moreover, built upon Baines' work in the UK case, and demonstrates evidence of 'austerity *blurring the boundaries between paid and unpaid work*' as cuts by authorities meant that there was little or no resource left for care activities such as social outings, meaning volunteers were taking over this responsibility from paid staff.

Bach argues that not only have these processes shifted conceptions of what it means to 'volunteer', in 'providing a justification for organisations to use volunteers for jobs that are unpaid', but they have led to tension with the existing paid workforce. Bach cites the case of a strike at Southampton City Council in 2010 by library staff who were critical of increased 'volunteers' being used at the same time the council were reducing employment and wages (Bach 2012). Seibert and Wilson (2013) develop this argument, and note that often accounts of unpaid internships are viewed from an individual perspective, in relation to their perceived benefit to the inexperienced worker looking to 'get their foot in the door' and build social capital within the workplace, often missing the impact such work has on the existing workforce. Their research on the creative industries in the UK suggests that unpaid 'intern' labour has the effect of undermining the existing workforce, and contributes to their own feeling of precariousness.

### *1.2.3 Overtime*

Finally, there is the issue of unpaid overtime. This is of course connected to the issue of ‘coerced volunteering’ already discussed, but also has much wider implications for the economy. The TUC (2017) have utilised time survey data to suggest that in 2016, British workers worked 2.1 billion hours of unpaid overtime (the average employee doing 7.7 hours of free labour per week), with the public sector relying on more unpaid overtime than the private sector. This amounts to, the TUC calculate, £33.6 billion worth of unpaid but productive labour. Academic research has shown, moreover, that unpaid overtime has a differential impact across society, with part-time workers found to work significantly more unpaid overtime than full-time workers. This was particularly true in professional/managerial roles and within organisations that were not seen to offer good flexible working arrangements (Conway and Sturges 2014).

### *1.2.4 Unpaid work and precariousness*

As the above discussion demonstrates, the proliferation of unpaid working practices within the labour market (internships, coerced volunteering and overtime) is the result of a mix of longer-term issues associated with the UK’s economic model, as well as the impact of the economic crisis and contemporary austerity policies that have reshaped the labour market. In this context, we have seen an increase in the use of unpaid internships and the growth of ‘coerced volunteering’. Similarly, heightened precariousness in employment, the result of the economic downturn and job losses, has increased the incidence of unpaid overtime as workers look to secure their employment through signalling their commitment. These issues emerge not as the result of any one policy in particular, but as the consequence of decades of labour market deregulation, trade union decline and absence of collective bargaining, as well as the decisions of successive governments since 2010 to squeeze public sector workers’ pay and conditions.

## 2. Low pay and insecure work in the UK

The British labour is marked by conditions of low pay and insecure work which are prevalent in many industries and sectors. Despite the economic recovery being ‘jobs rich’, with a record high of employment level today, the nature of this work is all too often of poor quality and pay. According to research carried out for *The Guardian* (Booth 2016), more than one in five workers (over 7 million people), are now believed to be in precarious employment conditions that mean they are vulnerable to losing their job. Precarious work comes in many different forms, including zero-hours contracts, agency work, part-time contracts, and ‘bogus’ self-employment. The period between 2008 and the end of 2016 saw a boom in the level of precarious employment in the UK labour market, including a dramatic rise in the number of zero hours contracts to over 900,000 in 2016 from 168,000 in 2010<sup>1</sup>, and a ‘massive surge’ in the number of self-employed workers within the ‘gig economy’ (Devlin 2016). Precarious work has significant negative impacts on the health of workers and their engagement with the wider community. For instance, the way in which ‘gig economy’ workers are required to remain ‘on call’ to pick up work can lead to workers to work long hours for little pay, leaving little time to engage in positive leisure activities (see Ahuja 2017), whilst workers on temporary contracts have been found to rely more heavily on medication for mental health conditions such as depression (Moscone 2016).

Alongside the issue of insecure work is the problem of low pay. After years of wage stagnation, the modest growth in real wages seen in 2015 and 2016 has once again receded in 2017 (Blanchflower et al 2017). Low pay, which is taken here to mean pay below two thirds of median hourly pay, has a varied distributional impact. 21 per cent of all UK employees are ‘low paid’, with women making up 61 per cent of this group. 33 per cent of all low paid workers are aged between 16 and 24, with 77 per cent of workers aged 16-20 in this group. Regionally, there is large disparities. Whilst just 11 per cent of workers in London are low paid, 26 per cent of workers in the East Midlands are, and in Wales and Yorkshire the figure is 25 per cent. Low pay is naturally more prevalent in some sectors, with 55 per cent of sales and customer service workers being low paid, compared to 5 per cent of managers. Part-time workers are also significantly more likely than their full-time counterparts to be low paid (see Clarke and D’Arcy 2016 for all statistics).

This chapter looks first at the drivers of low pay and insecure work, divided between macro- and meso-level factors, and then explores policies which seek to address this problem. It then considers, as requested by the Commission, the specific and slightly distinct issue of ‘pay gaps’. This second section includes reflection on the distribution of low pay and insecure work among different groups, and a discussion of the national minimum wage.

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<sup>1</sup> See <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/articles/contractsthatdonotguaranteeaminimumnumberofhours/mar2017>

## 2.1 Drivers of low pay and insecure work

It is no mere accident that the UK economy is today marked by such characteristics. Rather, such features are the product of underlying trends at both the international and national level. In a recent National Institute of Economic and Social Research report, Hudson-Sharp and Runge (2017) argue that macro-level issues of economic globalisation and technological developments combine with meso-level trends at the national level to drive the growth of insecure work. This section seeks to set out an account of what is driving low pay and insecure work in the UK by exploring both macro- and meso-level issues.

### *2.1.1 Macro-level trends*

Economic globalisation is seen to be a fundamental driver of low pay and insecure work. The conditions of increased international competition on the basis of cost and enhanced capital mobility has given firms an enhanced bargaining power over labour that has allowed for wages and conditions of employment to be suppressed or stripped back (see Hudson-Sharp and Runge 2017; Vidal 2012). Capital mobility has, moreover, helped to sustain a ‘shareholder value’ form of organisational governance focused on short-term profit making over longer-term investment strategies. This has helped to push ‘cut-throat wage-based competition’ and deunionisation, ultimately leading to job polarisation and economic inequality (Vidal 2012; see also Grady 2017).

Alongside globalisation, there is the emerging issue of technological change which has fuelled growth in the ‘collaborative’ or ‘gig’ economy, which may involve platform work that mediates physical services (such as a taxi service) via the internet or mobile app technology, or ‘crowdwork’ such as online accounting or translation services (European Parliament 2016). The rise of platform work has been considerable in recent years, with estimates suggesting that nearly half of all US workers will be ‘contingent workers’ and 11 per cent of these will be working for on-demand platforms by 2020 (Huws 2016). One of the critical factors of technology-driven work is that it operates on the fringes of regulation, with technology developing faster than labour market regulation can adapt (Maselli et al 2016). A report by the European Parliament (2016) last year ‘could not identify any legal framework specifically addressing crowd employment in Europe’. It argues that a review of the current literature shows that current labour laws are ill-equipped to deal with the rise of such forms of employment, and particularly the issue of the employment status of such workers. The report found that platform based work was particularly attractive to the ‘underemployed’ (those with insufficient work hours). This is likely to be a significant factor in the growth of such work in the UK, which since the crisis is marked by increased underemployment levels (Blanchflower 2015).

Though of course some forms of platform work may be beneficial to some workers, it helps to drive precariousness and insecurity for many. Drahokoupil and Fabo (2016) discusses some of the negative effects. These include: a lowering of barriers into these new

self-employed markets which pushes potential earnings down, the use of ratings mechanisms which increase ‘begging and bragging’ to land the next job, heightened exposure to the risks of demand, sickness, and other fluctuations in working patterns. The European Parliament report also points to a range of other factors, including being required to work at very short notice, being paid only for small tasks with no guarantee of further work, the isolation of such workers, and the externalisation of insurance costs on to the worker (European Parliament 2016).

### *2.1.2 Meso-level trends*

Globalisation and technological change are clearly important drivers of trends towards low pay and insecure work. Yet, in order to understand why these trends are not producing the same effects in each economy around the world, it is important to consider a range of domestic factors that combine with macro-trends to reinforce the low pay/insecure work character of the UK economy. These include: a lack of demand in the UK economy for higher-paying jobs; a skills ‘bump down’ since the economic crisis began, with higher-skilled workers accepting lower-skill and paid jobs; the weakening of trade unions; the impact of the UK’s welfare model; the costs incurred through the recession and subsequent austerity policies; and the UK’s productivity weakness.

At the broadest level, the UK has been characterised historically as a ‘liberal market economy’ (LME), rather than a ‘coordinated market economy’ (CME) such as Germany (Hall and Soskice 2001). LMEs, compared to CMEs, are characterised by liberalised labour markets, with low union density, ease of firing workers, weak worker representation, and firms and workers reliant upon the market relationship to organise wage negotiations, rather than collective agreements. Education and training systems in LMEs are geared towards complementing these highly fluid labour markets, with highly generalised skills offered, seen as ‘transferable’ across firms and sectors. The differential outcomes that we see between, for example, the UK and the Nordic countries, despite similar macro-trends affecting both economies exemplifies the importance of understanding how wider global trends interact with more specific national-level institutions (weak/strong trade unions, light/heavy labour market regulation, et c) to produce conditions of low pay and insecure work (Bosch 2009).

Understanding these historical characteristics of the UK economy’s institutional make-up are important for understanding the way in which the economy is moving today. In this sense, there is something to be learned from the case of the USA, which alongside the UK is considered the archetypal LME, and also possesses high levels of low pay and insecure work. Vidal (2012) argues that whilst the post-War Fordist model of growth was based upon ‘a system of employment relations that allowed the growth of middle class consumption patterns’, the erosion of such a model has led to a new era of low pay, precarious employment (which he characterises as a new ‘Waltonist’ model, named after the Walton family who founded the supermarket chain Walmart). Vidal suggests that the Fordist model eroded under the pressure of globalisation (which pushed cost

competitiveness, driving down wages) and growing financialisation (which ushered in a short-termist shareholder value model of capitalism, focused on generating profits).

As Prosser (2016) demonstrates in an eight-country comparative investigation, which draws upon one hundred interviews with industrial relations and legal experts in the eight countries to better understand the specifics of each case, no one factor is shaping the UK's precarious work issue. The research found that the UK economic model, like that of the US, is characterised by decades' worth of liberalisation practices which are now 'rooted in the business system' of the country, driving precarious employment as a permanent and necessary feature of its current growth model. Indeed, compared with other countries in the study, Prosser remarks that the UK is characterised by 'its apparent stability' – that is, its institutional structure has been characterised by highly liberalised labour markets for a comparably long time, meaning that 'no factors emerged as particularly forceful drivers of precarity [sic]' in recent decades.

Prosser's research points to the dominance of a neoliberal paradigm in the UK which has shaped labour market outcomes for decades. This neoliberal paradigm has led to a bipolarising labour market, or the 'hourglass economy' (Sissons 2011), characterised by income inequality and labour market insecurity for those at the bottom. The hourglass economy is also associated with the shift towards the 'knowledge intensive economy', which has created a large number of highly skilled-high wage jobs, but also seen a shift towards low-skill low wage work (Sissons 2011). Indeed, high-skill-high-wage occupations can themselves increase the demand for lower-skill jobs, particularly in personal services such as cleaning (Sissons 2011). The middle-class jobs of the Fordist era have been 'hollowed out' under the weight of globalisation, technological change, financialisation and a shift towards the knowledge economy. These shifts in the occupational structure of the labour market is why the UK economy is characterised as having a persistent low-pay, insecure work problem. This has led to the characterisation of a growing class of workers, for whom there is little escape from low-pay, low-skill work other than unemployment (Shildrick et al. 2012). The impact of these conditions has been critical, Standing (2011) argues, to the production of a new 'precarariat' grouping in society, defined not just by poor wages and work conditions, but by their lack of a secure and meaningful work-based identity.

For many years, British governments have seen skills and training as a panacea for labour market mobility, yet, as Keep and Mayhew (2010) argue, the UK economy simply does not produce enough demand for higher skilled, higher paying jobs. Indeed, research by the Resolution Foundation (D'Arcy & Hurrell 2014) finds that in the UK over a decade only one in four people 'escaped' low pay, with single parents and disabled people most unlikely to do so. Indeed, the economic recession suffered in the UK since 2008 has had the effect of a downwards occupation shift, resulting in increasing pressure on the pay and conditions of the low-skilled. With rising unemployment and the creation of more low-paid jobs since the crisis, those previously better paid have been forced to take lower-paid

work, resulting in a ‘skills “bump-down” in the labour market’ (Sissons 2011). Labour market mobility for those lower-skilled workers is thus increasingly constrained, meaning a lifetime of low-paid work is more and more likely.

The impact of the decline of organised labour on UK labour market outcomes has been clear for many years. Union density in the UK has fallen from around 50 per cent in the late 1970s and early 1980s, to less than 25 per cent today.<sup>2</sup> Union members continue to earn higher wages than non-members controlling for other factors, though this impact has diminished in recent years (Blanchflower and Bryson, 2008). In workplaces with 25 employees or more, the union membership premium is around 8 per cent, though this drops to around 5-6 per cent with the inclusion of detailed individual job and workplace controls (see also Millward et al. 2001). There are significant disparities between who is unionised and who is not: union density in the public sector is still over 50 per cent, but around 13 per cent in the private sector, whilst around 25 per cent of UK-born employees are unionised, only 16.2 per cent of non-UK born employees are.<sup>3</sup> The unionised disparity between a non-UK born employee in the private sector and a UK-born public sector employee is thus stark, and helps to explain the growth of low-pay work and growing pay gaps, an issue which will be discussed further below.

The impact of welfare is explored more in the subsequent section, but it is important to recognise its effect here. The welfare systems of different political economies are also seen to either restrict or enable the abundance of low paid work. In a comparative study of the institutional structures (minimum wage and active labour market policies, trade union density, social security systems, etc.) of five European countries and the US, Bosch (2009) found that the UK’s welfare model serves to actively support low paid work. The research allows us to compare the impact of the UK model with other welfare regimes in European countries. For example, Bosch (2009) notes how Denmark’s welfare system acts to ‘empower’ unemployed workers, through high replacement benefit rates attached to high-value active labour market policies such as training programmes. In contrast, the UK is described as having a ‘work first’ model, that pushes unemployed workers in to needing to accept any job given the very low level of benefits paid and training offered (Bosch 2009). This model thus sustains demand for lower-paying work through providing a constant stream of job seekers, a trend which has only been reinforced in the post-crisis period. This is an issue we will return to later in this document.

The impact of the recession and the subsequent austerity measures implemented by the Coalition and Conservative governments since 2010 must also be taken in to account when considering the rise of precarious employment and the persistence of low pay. As Green and Lavery (2015) argue, the UK’s economic recovery has been ‘regressive’, driven by

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<sup>2</sup> See [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/616966/trade-union-membership-statistical-bulletin-2016-rev.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/616966/trade-union-membership-statistical-bulletin-2016-rev.pdf)

<sup>3</sup> See [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/616966/trade-union-membership-statistical-bulletin-2016-rev.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/616966/trade-union-membership-statistical-bulletin-2016-rev.pdf)

state-led labour market restructuring that has provoked wage deflation, involving wage freeze strategies and the increase of ‘workfare’ strategies designed to ensure the flow of labour market participations, resulting in downward wage pressure in low pay industries. These policies have been legitimised with reference to the perceived need to pursue rapid fiscal consolidation, with real wage repression amounting to 8 per cent between 2008 and 2014 (Lavery 2017). Cunningham et al (2016) have shown how austerity has directly heightened precariousness within front-line care services. Funding cuts to these services have resulted in not just wage-freezes, but the expansion of management power and attendant need for greater labour force flexibility and intensification of working time, heightening feelings of job insecurity.

Heightened precariousness in light of the crisis conditions has, moreover, had a visible impact on the health and wellbeing of employees. Heyes et al (2017) analyse data from the 2006 and 2012 Employment and Skills Surveys to assess how the crisis has affected relationships between different dimensions of underemployment and employee well-being. Underemployment is defined not merely as having too few contracted weekly hours, but also workers’ dissatisfaction with being unable to fully utilise their skills and abilities in their current jobs. This problem has been exacerbated by the downwards occupational shift in the UK labour market since the crisis, as discussed earlier. Their research (Heyes et al 2017) shows that ‘workers’ dissatisfaction with opportunities to make use of their skills and abilities became more substantial during the recession, as did the consequences of being “hours constrained” and having an unsatisfactory workload’. Moreover, their findings show that increased unpaid overtime and very long hours worked (which may also reflect increased precariousness) has similarly decreased the well-being of workers in the post-crisis period.

The nature of the UK’s low-skill, low-pay economy has contributed to a productivity issue which is itself holding back pay levels, particularly in the post-crisis period. The UK has a widely reported productivity issue, with output per hour in the UK 18 per cent lower than the G7 average in 2016.<sup>4</sup> Raising productivity is one way to raise real wages. Yet, in the post-crisis period, productivity levels have stalled as capital investment has fallen. As Dolphin and Hatfield (2015) show, because of falls in real wages and the overall supply of low-paid labour in the UK, there has been a shift in the capital–labour ratio, with firms preferring to take on more staff than invest in capital. The UK’s shift over the past four decades towards labour-intensive service sector work, and away from capital-intensive manufacturing, has thus had the effect of driving low capital investment, which underlies slow real wage growth despite high and increasing employment levels.

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<sup>4</sup>See <https://www.ons.gov.uk/economy/economicoutputandproductivity/productivitymeasures/bulletins/internationalcomparisonsofproductivityfinalestimates/2014>

## 2.2 Policies to improve low pay and insecure work

Clearly, the task of improving conditions and low pay is no simple task. As the above analysis has sought to highlight, such conditions are not merely the product of any one particular piece of legislation, the economic recession, or any other individual variable. Rather, decades' worth of liberalisation has shaped the institutional context of the British economy, leading towards the 'hourglass' labour market we see today. This will not disappear overnight and will require a broad range of institutional shifts to bring about a more even balance of power between labour and business. Clearly, as we have seen in the earlier discussion, an enhanced role for trade unions must be at the heart of this process. The weakening of trade unions and their increasingly segmented dispersion across the labour market is increasing low pay and pay gaps. Indeed, an enhanced role for trade unions is one recommendation of Hacker's (2011) concept of 'pre-distribution', which involves seeking to improve labour's share of output *before* redistribution. Hacker recommends pursuing a range of institutional reforms, including financial regulation, a workers' bill of rights, better corporate governance and worker representation, as well as greater investment in skills. This kind of growth model can be conceptualised as the need to grow the economy from the 'middle-out'.

Greater regulation of the labour market is a factor highlighted both in the academic literature and has been shown within comparative analyses to produce higher quality employment outcomes. Whilst the recent review of modern employment by Mathew Taylor (2017) suggested that the UK's light touch regulatory model is largely beneficial, academic work suggests otherwise. As Heyes and Lewis (2014) argue, despite the lack of evidence, there is a dominant belief that strong employment protection legislation (EPL) is harmful to the labour market. Drawing on official EU and OECD statistics, Heyes and Lewis (2014) analyse the relationship between EPL and employment rates across the EU in the period since 2008, and find that EPL served to cushion the impact of the crisis on employment levels. The authors suggest, moreover, that there is little evidence that any further liberalisation of EPL is likely to deliver an increase in good quality jobs. This finding is also supported by Posner's (2017) analysis of Chile, a country famous for its liberal economy and flexible labour markets. In his analysis of labour market outcomes both before and after the democratic transition in the country, Posner (2017) shows that there is little evidence that highly liberalised EPL helps generate employment amongst the low-skilled, or that it can help to generate high quality jobs. Instead, Posner (2017) argues, the Chilean case 'suggests that the appropriate remedy to precarious employment and inequality in the region is the establishment of institutional reforms which strengthen labour's bargaining power relative to capital'. Concentration of improving the condition of work and labour's position vis-à-vis capital, through enhancing the role and weight of trade unions for example, can thus help to move away from a bipolarised labour market, putting emphasis on increasing the wage-share.

Focus can also be placed on improving the quality of jobs that currently exist within the UK labour market. In a detailed analysis of the Canadian labour market, Lewchuck et al (2015) outline 28 policy recommendations which they suggest can help to shift labour markets away from rising precariousness. Their suggestions revolve building a more dynamic labour market that supports workers in precarious employment through building better training opportunities and designing a workforce-development plan to shift the labour market away from such jobs; ensuring jobs are a pathway to income and employment security through improving employment standards, and reducing the impact of irregular work schedules; and, enhancing social and community supports, through creating more flexible working arrangements and improving community services. Precise policy recommendations include government improving the flexibility and accessibility of parental benefits to better support workers in precarious employment, requiring companies to adhere to a minimum notice periods when giving notice of shift patterns, and the encouragement of sector leaders to develop ‘business cases’ to show employers how more secure employment can actually benefit businesses within those sectors.

As Shildrick et al’s (2012) account of low-pay work in Tyneside demonstrates, successive British government’s attempts to ‘up-skill’ the workforce, in order to enable workers to more fluidly move through the labour market and on to better jobs, has failed to have an impact, particularly in areas dominated by low-pay, low-skill work. Indeed, as noted earlier, the Resolution Foundation (2014) show that over a decade only one in four people ‘escaped’ low pay. This is partly due to employers’ lack of need for a higher-skill workforce. As Keep and Mayhew (2014) find, the number of jobs requiring little or no qualification is growing rather than shrinking, and employers generally find little difficulty filling such roles. As such, little training was even offered in low-paid industries, and where it is to be found, it tends to be ‘in house’ rather than accredited, rendering it difficult for employees to carry their qualifications elsewhere. Shildrick et al (2012) suggest that it is possible to counter this low-pay, low-skill cycle through a range of ‘carrot and stick’ policies, in order to *make bad jobs better*. Such policies might include higher minimum wages, an encouragement of greater unionisation rates, investment in human resource training for firms to promote better progression routes, thereby creating career ladders that do not currently exist.

A number of policies from around Europe reveal the way in which states can act to delimit the growth of insecure work forms. In a number of countries, such as France and Brazil, a fixed-term contract cannot be used for a job that relates to an organization’s core business activities (Eurofond 2015; ILO 2016). French employers must have a justification for hiring employees on fixed-term contracts, such as a temporary increase in economic activity or seasonal work, to avoid temporary contracts being used instead of normal permanent contracts. Norway and Italy both impose a limitation of between 15 and 20 percent of a firm’s workforce that can be employed on non-standard contracts (ILO 2016). In France, Austria, Finland and parts of Germany, ‘strategic employee sharing’ networks have been set up to counter the precariousness of workers attached to a single firm but

stuck on short-hours contracts. Workers regularly rotate between a set of firms and exclusively work for these firms, providing flexibility to firms but greater security to workers (ILO 2016).

On the issue of zero-hours contracts, there are a range of different policy options taken up by governments around the world. In New Zealand in 2016, the government essentially banned zero-hours contracts, legislating that employers must give a minimum number of hours of work each week, they cannot cancel shifts without reasonable notice and compensation, and workers can refuse extra hours without repercussion. In Italy, on certain contracts employers must pay a so-called “availability indemnity” to workers expected to be ‘on-call’ in between jobs (ILO 2016). In the Netherlands, under all ‘on call’ contracts, the employer is obliged to offer shifts of at least three hours to those employees with fewer than 15 weekly hours. For zero-hours contracts, after 6 months, the employer must pay workers at least the average number of hours that they have worked in the previous three months for as long as the contract remains active (Hudson-Sharp and Runge 2017). France utilises legislation to oblige employers to pay a 10 per cent wage premium after the first hour of work carried out on some non-standard employment contracts (Grimshaw et al. 2016). Indeed, a wage premium for non-contracted hours is a policy proposal backed by the Taylor review (2017), and which has heritage in the UK context within the old Wage Councils (see Kelly 2017).

## 2.3 Pay gaps

### 2.3.1 *The persistence of pay gaps*

Pay gaps exist across the UK labour market and are a key factor in why pay remains low for certain groups. This section explores this issue with reference to three important characteristics: gender, class and ethnicity.

Most prominently, the gender pay gap continues to plague the British economy, with a 9.4 per cent disparity between the median earning of full-time male and female workers. When part-time workers are included, the gap jumps to over 18 per cent in favour of men.<sup>5</sup> A range of factors helps to drive this. In their comprehensive report to the Department of Trade and Industry in 2002, Walby and Olsen (2002) point also to a host of other labour market failures concerning gender segregation. These include interruptions to employment for the purposes of child birth and familial care, the lack of flexible working arrangements to facilitate this, the higher proportion of women in low paid work and part-time work (which also tends to be low paid) (see also Smithson et al. 2004). They find, however, that gender discrimination was the main factor explaining gendered pay differentials. Alongside these labour market failures, they cite women’s weaker educational qualifications as a major factor. Although Walby and Olsen (2002) note that this issue is

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<sup>5</sup><https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/annualsurveyofhoursandearnings/2016provisionalresults#gender-pay-differences>

narrowing in younger cohorts of workers, who tend to be better educated, research by the TUC (2016) shows how the intersection of class and gender still matters: young women with vocational qualifications earn 15 per cent less than men with comparable qualifications, compared to the average of around 9 per cent for the population as a whole.

Time off from work to give birth and the subsequent familial care provided by women is a major issue that is more easily documented than others, such as workplace discrimination. A report by the IFS (2016) last year found that the pay gap consistently widened from around 10 per cent before the birth of a first child, reaching about 33 per cent after 12 years. This trend is also observable elsewhere in Europe. Even in Sweden, which is seen to promote better family-oriented employment practices, the issue of parenthood clearly impacts on gendered wage differentials, with the male-female gender income and pay gaps increasing by 32 and 10 percentage points respectively (Angelov et al. 2016). Practices within the workplace can also shape the gender pay gap. Research by Davies et al. (2015) found that the adoption of so-called 'high performance work systems' (HPWS), associated with new 'total quality management' forms of employee management and performance related pay, have not been gender-neutral. Whilst both men and women in workplaces characterised by HPWS earn more on average, there is evidence that their implementation negatively affects women more than men.

Gender is not the only issue where pay gaps are concerned. Friedman and Laurison (2016) provide a recent analysis of the 'class ceiling' in the UK. Using data from the Labour Force Survey, they show a problem of both access and fair pay. Traditional professions, such as law, medicine, and finance, are dominated by the middle-classes, whilst even when working class workers enter these professions they earn on average 17 per cent less than those from privileged backgrounds. Their analysis of this issue on a regional basis further highlights how this issue is geographically determined. Challenging a perception of London as an engine-room for social mobility, they show this class pay differential is most significant in the capital, whilst in cities such as Manchester, there is no discernible class pay gap (Friedman and Laurison 2017).

Alongside class and gender, the issue of ethnicity is flagged as a major factor shaping pay gaps. Recent analysis by Adam Corlett (2017) at the Resolution Foundation shows 'huge gaps' in living standards between different ethnicities in the UK. His analysis reveals that Bangladeshi and Pakistani households earn almost £9,000 less per year on average than white British households, whilst a typical black African household earns £5,6000 less. The Joseph Rowntree Foundation (Hughes 2015) argue that the association between ethnicity and labour market disadvantage is shaped by a range of factors, including differences in social background, social networks and how they are used, geographical location and discrimination. In an article focused on the ethnic pay gap in the UK, Brynin and Güveli (2012) argue that there are two elements of discrimination: job discrimination (getting into certain jobs) and in-work discrimination (being paid less to do same jobs). They find that in-work discrimination between white British workers and other ethnicities is relatively

low, and thus the key aspect of the ethnicity pay gap is found in job segregation. That is, ethnic minorities are over-represented in low-paying sectors, including healthcare, hotel and restaurant work.

### *2.3.2 Closing pay gaps*

When considering the issue of pay gaps, it is clear that discrimination plays a significant role in shaping pay gap outcomes. Such attitudinal problems inevitably take time to erode. Nevertheless, there are a range of institutional forms and policy options that can ameliorate the disparities seen. Triventi (2013), in a comparative analysis of the gender wage gap amongst graduates within 11 European countries, found that the institutional context matters considerably. Triventi's analysis shows that wage discrimination is lower in countries with a high trade union density and centralized collective bargaining, as well as high levels of women's empowerment across other areas of society, and family-friendly policies within the workplace. There is widespread acceptance that 'family-friendly' workplace policies, particularly flexible working arrangements, will reduce the pay gap through softening women's disconnection from the labour market during periods of child birth and childcare. Indeed, in 2016 the Women and Equalities Select Committee recommended to the government all jobs should be made 'flexible by default', with exemptions made only where there is a strong case for them to not be.<sup>6</sup> This would, the Committee argued, make it easier for women to take up work again after childbirth instead of looking for work within low-paid, part-time employment.

Nevertheless, Smithson et al. (2004) find evidence to suggest that even flexible working arrangements bring problems of their own. Indeed, they suggest flexible working arrangements can often merely accommodate existing patterns of inequality, and end up reinforcing disparity between women and men, particularly in organisations where long hours working cultures exist. They show men, on average, take up flexible working arrangements much later in their career, once their position is more established, whereas women take up such arrangements earlier, hampering their career progression. Smithson et al. (2004) point to the need for approaches aimed at changing the working patterns for both men and women, in order to break down the breadwinner/carer dichotomy underlying the pay gap (see also Crompton, 1999). Emphasis being placed on changing men's relationship to work is growing. Whilst the UK has moved towards a more balanced shared parental leave system, Sweden leads the way in this area. Since 2016, 90 days of the shared parental leave is solely for fathers to use on a use-it-or-lose-it basis.<sup>7</sup> In Norway, fathers have 10 weeks of parental leave reserved, whilst Germany introduced a parental leave allowance based on the preceding income level which is extended from 12 to 14 months if both parents take leave for at least two months, encouraging men to take up more parental leave in the future (Eurofound 2010).

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<sup>6</sup> <https://www.theguardian.com/world/2016/mar/22/gender-pay-gap-has-barely-shrunk-in-four-years-say-mps>

<sup>7</sup> <http://www.bbc.co.uk/news/magazine-35225982>

Eurofound (2010) have produced a detailed report on the gender pay gap which contains examples of policies from around the world designed to tackle the gender pay gap, as well as social partner initiatives and other forms of ‘good practice’. It details how in Denmark, Sweden and Italy, companies are obliged to publicly report on their gender pay gaps. Norway legislates on gender representation on company boards, stipulating a minimum proportion of both genders on these boards of approximately 40 per cent. In order to avoid ‘horizontal segregation’ – that is, women choosing ‘typical female’ jobs – Austria has introduced specific education and training policies. In Lower Austria, for example, all prospective apprentices have to undergo an aptitude test, to measure their abilities with the aim of preventing women from choosing traditional female occupations, such as those of hairdressers and shop assistants.

Initiatives can be taken to tackle deep-seated discrimination, which may or may not be overt, that has a significant impact on ethnic minorities in particular. Research from the US found that applicants with ‘white names’ sent around 10 applications per interview, whilst those with African-American names needed to send 15 applications per call back (Bertrand and Mullainathan 2004). Research from France shows similar findings, with ‘all non-French applicants equally discriminated against when compared to French applicants’ (Edo et al. 2013). As such, the idea of ‘name blind’ CVs has found support from David Cameron, Jeremy Corbyn and has been recommended by the CBI.<sup>8</sup> There are, moreover, a range of supply-side policy options that are important for opening up access to higher-paying employment, which is particularly an issue for some ethnic groups. In their analysis of the ethnic pay gap, the JRF (Hughes 2015) argue that ethnic minority groups need greater governmental help in overcoming barriers to certain employment types. They recommend providing high quality careers advice to improve knowledge about the labour market, setting up a strategic cross-departmental monitoring group designed to more effectively tackle ethnic disparities in labour market outcomes, and the creation of more high-quality apprenticeships with a view to encouraging ethnic minorities to take up such roles (where they are currently under-represented).

### *2.3.3 A rising minimum wage: what impact?*

One of the most direct ways that governments can intervene to ameliorate low pay conditions is, of course, through implementing and raising the wage floor through minimum wage laws. The National Living Wage (NLW) was introduced in April 2016 and is set to rise relative to typical pay until 2020. The Resolution Foundation have suggested that this will ‘boost the pay of millions of lower paid workers’ (Clarke and D’Arcy 2016). The NLW could reach £9 per hour and will benefit 6 million workers (23 per cent of the workforce) by 2020, including three-in-ten women and four-in-ten part-time workers (D’Arcy and Corlett 2015), and as such, ‘it represents the most significant step forward in the battle against low pay since the introduction of the National Minimum Wage (NMW)

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<sup>8</sup> <http://www.cbi.org.uk/news/companies-must-take-action-and-show-leadership-to-make-workplaces-more-inclusive/>

in 1999' (Clarke and D'Arcy 2016). Despite these progressive movements in the minimum wage legislation, however, there is a need to consider *income* alongside pay. The Resolution Foundation (2017) argue that despite the increasing pay levels associated with the NLW, planned government reforms to taxes and benefits 'are likely to ensure that the proceeds of growth are shared unequally and that many families are made worse off' (Corlett and Clarke 2017). This argument reminds us that, in the battle for economic justice, a rising minimum wage is but one policy initiative amongst a complex web of government actions. There is a need to continue to analyse a whole range of government policies to understand living standards more widely.

On the other hand, two reviews of the literature produced by IZA World of Labor (see Neumark 2014; Sabia 2015) both highlight the potentially damaging consequences of NMW levels. Neumark (2014), for instance, suggests that whilst some studies do not find minimum wages lead to fewer jobs, evidence suggests that they do reduce available jobs to low-skill workers in particular. Moreover, Neumark (2014) makes the argument that higher minimum wage levels (i.e. better *pay*) does not necessarily mean reduced poverty, as only 12.7 per cent of low-pay workers in the US were from 'poor households'. That is, a disproportionate number of workers in low-pay workers were 'secondary earners' (such as teenagers from otherwise well-off families, or partners of better-paid individuals), meaning only a small proportion of the benefits of an increased NMW would accrue to poor households. He suggests tax credit type arrangements are more effective redistributive tools than increased wage floors. Sabia (2015) concludes that the literature provides little evidence that higher minimum wages will serve to produce economic growth by redistributing to poorer workers or alleviate poverty. Nevertheless, recent empirical analysis on the case of the introduction of the NMW in the UK in 1998 shows that the introduction of this wage floor did not have a detrimental impact on the labour market, and 'has not cost jobs, either in the aggregate economy or in the low wage industries and occupations' (Metcalf 2007; 2008; D'Arcy and Corlett 2015).

On the issue of the impact of minimum wages on productivity, the literature offers a similar picture. Whilst Sabia (2015) argues the extant literature shows there to be no real correlation between a rising minimum wage and rising productivity, recent analyses of the UK case show this to be untrue. Metcalf (2008), for instance, notes that one reason explaining the NMW's lack of employment effects is improvements in productivity. He argues that these productivity improvements could either be the result of employment-reducing capital deepening or employment-neutral work intensification and better organisation, with the evidence pointing towards the latter given that the NMW has led to more workers receiving more training. Metcalf's arguments have been further reinforced by more detailed analysis of the relationship between the NMW and productivity within low-paying sectors in the UK.

In their report for the Low Pay Commission, Rizov and Croucher (2011) show that, with some exceptions, productivity in low pay employment has been 'significantly positively

affected by the NMW over a ten-year period', with the impact more marked in larger firms. Building upon this, Rizov et al (2016) provide further evidence of the NMW-productivity link, showing that 'the minimum wage impact is strongest in service sectors such as retail, cleaning and security services where labour input is relatively important and in larger organisations where wage differentials are usually greater'. They note 'total factor productivity' (TFP), which refers to the proportion of output not explained by the *number* of inputs but by *how efficiently* those inputs are used, improved by 11 per cent in larger firms and up to 25 per cent in cleaning and security services. These conclusions are supported by a National Institute of Economic and Social Research (NIESR) paper (Riley and Bondibene 2015), which found that companies responded to the increased labour costs associated with the NMW through raising productivity and that the NMW did not result in a reduction of workforce or capital-labour substitution. Indeed, they similarly note that the NMW resulted in increases to TFP, consistent with changes in organisational structure, training and other efficiencies designed to boost the productivity of the existing workforce. Thus, whilst weak UK productivity levels are normally cited as a factor holding back real wage growth, these studies have shown how raising the minimum wage level in the UK has benefited productivity itself.

Despite these achievements for the NMW, as D'Arcy and Corlett (2015) note, the new NLW 'represents a new departure for the UK's wage floor, taking it into uncharted territory'. Yet, although the more rapid escalation of wage floor represents the unknown, further work by the Resolution Foundation and the CIPD has attempted to develop an understanding of how business is likely to react. Largely, the findings of their survey of 1,037 employers show that we can expect similar positive developments, comparable to those experienced after the introduction of the NMW in the late 1990s. Indeed, the most popular response of employers (30 per cent of respondents) was to suggest that they will seek to improve efficiency and productivity of their existing workforce in order to handle rising wage bills. The second most common response was to absorb higher costs through lowered profits. Only 15 per cent suggested they would cut employee numbers, and fewer than one-in-ten suggests that they would reduce pay rises, cut hours, or hire cheaper labour (apprentices, under-25s) (D'Arcy and Davies 2016). Despite the limitations of a rising minimum wage, and the need to consider its impact amongst a wider set of policies impacting upon living standards, it seems clear from the UK-based literature that a higher minimum wage is a key tool that governments can use, both to achieve enhanced productivity and drive economic justice in society.

### 3. Welfare and unemployment in the UK

This chapter moves our attention away from the those employed in the labour market, towards the issue of unemployment and the welfare state. Nevertheless, as the analysis below demonstrates, the labour market, welfare and the level of unemployment should not be thought of as separate institutions or spheres of activity. Rather, they overlap and interact, with the combined effect serving to entrench patterns of economic behaviour within the UK economy. The following section looks first at unemployment in the UK, and seeks to both understand what factors are driving it, as well as the impact and distribution of joblessness. Following this, we turn to the UK's welfare regime, and look to better understand how this serves to actively shape labour market outcomes (rather than serving as a passive 'safety net') and consider studies within the literature that evaluate the success of so-called 'welfare to work' policies in particular.

#### 3.1 Drivers of unemployment

First, it is important to seek to understand what the structural drivers of unemployment in the UK are. This question takes us back to our earlier discussion on the nature of the UK's political economic model. As we have seen already, the UK is characterised as an LME, defined by its flexible labour market, weak trade union representation, and a highly-generalised education and training systems. The orthodox view has been that labour institutions, such as trade unions, employment protection legislation (EPL), benefit replacement rates and tax rates, shape unemployment levels - with more encompassing institutions causing higher unemployment (see, for example, Pissarides 2003 on trade unions). The UK's liberalised labour markets have thus been credited with achieving high levels of employment (Pissarides 2003), an idea that has persisted through to today and is represented in the Taylor review's (2017) conception of 'the British way'.

Indeed, the Taylor Review (2017) cites CBI research which argues 'flexible labour markets tend to enjoy higher employment rates and lower unemployment than those with more rigid approaches'. However, Blanchard and Bell (2010) observe that this 'flexibility' argument finds little empirical support, with recent econometric testing calling in to question the validity of the empirical results supporting this view. Howell et al (2007) similarly note that the effects of what they describe as 'protective labour market institutions' on unemployment 'is distinctly unrobust'. They argue that there is 'little evidence to suggest that 1990s reforms of core protective labor market institutions can explain much of either the success of the "success stories" or the continued high unemployment of the large continental European countries' (as in Pissarides 2003). In a study of Chile, recognised for its flexible labour markets, Posner (2017) finds that the rate of unemployment among least skilled workers has remained unchanged since the country's democratic transition, despite a persistent high degree of labour market flexibility.

One idea that persists within discussions over unemployment is the idea that unemployment breeds unemployment. That is, workers afflicted with a period out of work makes them less employable and are more likely find it difficult to get work again in the future. Long-term unemployment is not a problem independent of unemployment itself (see also Bell and Blanchflower 2010). This idea has been central to policy programmes centred around up-skilling the workforce, to enable the long-term unemployed to once again re-enter the labour market. Whilst clearly such supply-side issues are necessary to address for some individuals, Webster (2005) describes the focus on this explanation for unemployment levels as ‘hysteria’. He argues that, ‘There is a straightforward explanation for the persistence of high unemployment in Britain ... it arose mainly from loss of employment in manufacturing and mining, which was concentrated in particular places, [and thus] *it is structural.*’ Webster (2005) shows that, ‘there never has been any problem of irreversibility in long-term unemployment in the aggregate’, and that policies designed to ‘up-skill’ workers have merely had the effect of reducing focus on necessary demand-side policies needed for sectoral and geographical readjustments.

Viewing the UK’s unemployment through a political economy lens helps us to appreciate unemployment as a structural issue, associated with sectoral and geographic readjustments over the last four decades. These sectoral and geographical shifts, driven initially by the Thatcher governments, have seen a move away from the traditional forms of mass employment in manufacturing and mining found predominantly in areas outside of London and the South East, as the economy shifted towards finance and service-based employment and the role of finance grew. The impact of these liberal market policies on unemployment do not compare favourably with the decades preceding 1979, with average unemployment since being 7.8 per cent, two and a half times higher than for the period 1950-79 (Gudgin and Coutts 2015).

Although unemployment did not reach the levels predicted by some as a result of the crisis, by late 2011 it peaked at 8.5 per cent, a level not seen since 1995.<sup>9</sup> Blanchard and Bell (2010) find that increases in unemployment in the post-crisis period were largely the result in ‘a collapse in the demand for labour as product demand has fallen, which in turn reflects severe credit rationing, falling consumer confidence, responses to transitory shocks in raw materials prices and delayed response by monetary authorities to these developments’. Alongside an understanding of the demand deficiency brought about by the crisis, there is also a need to recognise the political nature of austerity policies and their influence of unemployment and the shifting occupational structure since 2010. Fiscal consolidation measures pursued since 2010 have seen public sector employment drop by over 15 per cent<sup>10</sup> as part of the government’s overt attempt to shift workers in to the private sector. Though total employment levels have picked up in recent years, as we have

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<sup>9</sup>See <https://www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/unemployment/-timeseries/mgsx/lms>

<sup>10</sup>See <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/publicsectorpersonnel/bulletins/publicsectoremployment/2015-06-17#total-uk-public-sector-employment>

seen already, a high proportion of new employment created in this period is precarious, low-paid and self-employed. This shift away from public sector employment can thus be seen as part of an ongoing ‘regressive recovery’ marked not by a shift away from the neoliberal growth model, but by its entrenchment (Green and Lavery 2015; Berry 2016).

### 3.2 Impact and distribution of unemployment and inactivity

We have already seen that ethnicity, class and gender shape labour market outcomes for those in work. However, it is equally apparent that such factors also shape the entry of different groups into the labour market in the first place. As a House of Commons Briefing Paper (Brown 2017) from this year shows, at the start of 2017 unemployment was 4.1 per cent for white people compared to 7.9 per cent for people from a BAME (Black, Asian, and Minority Ethnic) background. These rates have, however, declined and even converged slightly since the start of the crisis. At their highest respective levels, unemployment for white people was 7.8 per cent, whilst for BAME groups it averaged 14.7 per cent. Yet, even BAME figures, which cluster all non-white groups, hide the reality of labour market disparities. For instance, the unemployment rate today for those of an Indian background at 5 per cent is only slightly above the level for white people, whilst for those of Black/African/Caribbean, Black British background the figure is 10 per cent, and for those of Bangladeshi background it is 13 per cent. In particular, Pakistani and Bangladeshi women suffer unemployment at a higher rate than men from the same ethnic groups, with the rates 15 per cent and 9 per cent respectively for women and men.

Differential labour market engagement between women and men is marked, despite rising employment for women and falling employment for men for over four decades. As ONS data shows, men have consistently higher employment rates than women above the age of 22, whilst men with children are more likely to work than men without children, with the exact opposite true of women.<sup>11</sup> Though women’s official unemployment rate may at times be lower than men’s, this is a product of the fact that ‘unemployment’ is calculated by the number of those without a job who have been *actively seeking work* – many women, for a number of reasons such as childcare, may not be actively seeking work.

As Leaker (2009) notes, unemployment rates for younger age groups have been consistently higher than those in older age groups since the 1970s, whilst the long-term disabled also experience higher unemployment rates compared to the rest of the population. Class and educational attainment also impact on one’s likelihood of being unemployed: as Leaker (2009) shows, in 2008 the unemployment rate for people below state pension age with no qualifications was 13.4 per cent, compared to 5 per cent for those educated to A level or equivalent and 3.7 per cent for graduates. Unemployment rates among those who have previously worked in elementary occupations (hospital porters, bar

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<sup>11</sup>See <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/womeninthelabourmarket/2013-09-25>

staff, etc.) at 9.7 per cent were substantially higher than those who had previously worked in professional and managerial jobs (1.6 per cent and 2.2 per cent respectively) (Leaker 2009).

Unemployment impacts upon individual workers and the whole economy in a number of ways beyond a loss of earning/taxation revenue, many of which are not immediately visible. As Bell and Blanchflower (2009) note, there are a range of ways in which unemployment affects society and the economy: it causes lost output in the economy; leads to a loss of human capital and skills in unemployed workers; it causes stress and makes people unhappy; leads to increased likelihood of malnutrition, illness and mental stress and suicide; reduces life expectancy and increases the likelihood of poor physical health; and longer-term unemployment increasing disadvantages those looking for work. Analysis of high rates of unemployment in Cyprus in the post-crisis era found over one-third of respondents suffered deep depression, extreme social isolation and confinement to their homes, as a result of their unemployment status. Moreover, the impact of unemployment was mediated by existing socio-economic status: with low socio-economic status and unemployment associated with a high risk of depression, suicidal ideation, and alcohol abuse (Georgiades 2015). As has already been discussed, Heyes et al (2017) show that it is not just unemployment which impacts upon workers, but underemployment (which can include being 'hours constrained') has had noted effects on the well-being of workers and satisfaction with their employment.

### 3.3 Varieties of welfare: the UK welfare state's effect on employment

As with our earlier discussion of different varieties of capitalism, it is important to recognise that there are varieties of welfare regimes. Esping-Andersen's (1990) *Three Worlds of Welfare Capitalism* has been a definitive text on this issue, identifying three distinct welfare regime types which are seen to explain variants of the labour-capital compromise. The UK is seen to operate close to a 'liberal' welfare state type, which are generally characterised by means-tested assistance, modest universal transfers, and the minimisation of so-called 'de-commodification' effects (policies which protect workers from the full effect of the market force through wage replacement). However, as Hay and Wincott (2012) note, there are a number of aspects of the UK welfare model which do not fit the liberal welfare regime Esping-Andersen articulates. Conservative-corporatist and social democratic welfare regimes make up the other two welfare types, and are defined by differing labour-capital relationships. The social democratic variety, for instance, has historically promoted equality to higher standards and used de-commodification strategies through generous welfare regimes to ensure power is more equally distributed between labour and capital. Esping-Andersen's *Worlds of welfare* classifications overlap to some extent with Hall and Soskice's (2001) *Varieties of Capitalism* approach (see Schelkle 2012), which sees the UK as a 'liberal market economy', characterised by liberalised

labour markets, low union density, and the use of the market relationship to organise wage negotiations.

In a comparative analysis of unemployment and health dynamics across different welfare regime types, Shahidi et al (2016) find that welfare state policies play an important role in maintaining the health of individuals exposed to unemployment, with unemployment related health inequalities narrower in countries ‘characterized by greater levels of social protection for the unemployed’. Nevertheless, they find this is mediated by stigma attributable to the experience of unemployment, which varies across national contexts. The mediation of unemployment effects is also picked up by Bambra and Eikemo (2008) who highlight the significance of more traditional family models in Southern and Eastern Europe, which acts to ‘buffer the impact of unemployment on health’. In the case of the UK, their analysis shows that inequalities between the employed and unemployed were stark, as a result of an ungenerous and punitive welfare regime, with low wage replacement rates and means-tested benefits which are heavily associated with social stigma. Welfare state policies can also enhance job satisfaction for those in work. In a comparative analysis of welfare state outcomes, Westover (2012) found that in countries with relative high levels of welfare and low economic inequality, intrinsic work characteristics (non-material, including whether the work is ‘interesting’) ‘provide greater overall predictability in overall perceived job satisfaction’. On the other hand, extrinsic work characteristics (pay, job security, etc) are more important to perceived job satisfaction in countries with high economic inequality and low welfare spending.

When considering how particular welfare dynamics shape employment, the liberal and social democratic regimes are seen to open the path to female employment, whereas conservative welfare regimes are seen to reinforce the traditional ‘breadwinner-homemaker’ domestic model (Hay and Wincott 2012). In a 2008 paper, Ngai and Pissarides (2008) draw on empirical data to understand how different welfare regimes impact upon women’s employment. They show that the Anglo-Saxon system encourages market activity by women, ‘especially when compared to the continental European policy of encouraging the family to look after dependents at home, through a more extensive unconditional system of social transfers’. This has the advantage of moving women in to work, and increasing the tax base available through the marketisation of otherwise unpaid work, but incurs significant costs related to the subsidies required to move women in to the labour market, and diminishes welfare support for familial arrangements.

Whilst within public debate in the UK, the welfare state is often seen as a drag on economic competitiveness (and thus job creation), as Hay and Wincott (2012) argue, ‘the nonwage labour costs that businesses bear will have less of an impact on competitiveness in economies that compete primarily in capital-intensive and quality competitive sectors’. They note that low-skill, labour-intensive economies will feel a welfare-state burden on competitiveness, whilst ‘for those seeking to pave a high-tech, high-skill route to competitiveness in capital-intensive sectors, any such negative externalities are

significantly attenuated' and can even enhance competitiveness. Welfare can do this through inducing a range of positive externalities, including macroeconomic stabilisation, public housing provision, support for women's employment, reduced costs of ill health to employment, enhanced human capital, et c. Such policies may act as a drag on economies dependent on a race to the bottom on *cost*-competitiveness, but high-skill, high-wage economies often compete on a number of factors other than cost.

### 3.4 'Welfare to work' policies: what impact?

Whilst certain aspects of the UK's welfare regime are universal and encompassing (the NHS, for example), many aspects of it represent the liberal ideal type, especially in relation to unemployment: low wage replacement rates, harsh conditionality, minimal education and training attached to unemployment welfare. Yet, these liberal characteristics of the UK's welfare model have been subject to adaptation over the past three decades or so. Jessop (1993), for example, has described the shift across political economies in the post-Fordist era, away from the traditional Keynesian welfare state, which pursues full employment and redistributive welfare rights in order to promote mass consumption, towards the post-Fordist 'Schumpeterian workfare state' (SWS). The SWS model demotes the goal of full employment 'in favour of promoting structural competitiveness', with its major concern being 'to provide welfare services that benefit business with the result that individual needs take second place'. Whether or not we accept Jessop's SWS concept fully, it undoubtedly holds value in describing the shift in welfare states across the board towards the 'welfare to work' policy regime. Conditionality and sanctioning of benefits has become a more prominent feature of the UK welfare state in recent years: monthly sanction rates for Jobseeker's Allowance (JSA) claimants were between 2 and 2.5 per cent in 2000-06, but jumped to around 5 per cent in 2010-11, and up to 7.3 per cent in 2013, under the Coalition government which actively sought to pursue a tougher line on benefits (JRF 2014).

Often this can involve increasing re-entry into work, but the 'welfare to work' regimes and their differential impacts they have on employment types must be critically analysed. Whilst, for example, Denmark's 'empowerment' welfare strategy, involving high wage replacement rates and good quality training, gives workers the chance to find decent quality work, the UK's 'work first' model pushes unemployed workers in to accepting any job, sustaining a low-pay low-skill labour market (Bosch 2009). As Green and Lavery (2015) argue, fiscal consolidation strategies have promoted an increase of 'workfare' strategies within the UK welfare state, which have had the effect of ensuring a flow of labour market participants, resulting in downward wage pressure in low pay industries. This argument is reinforced by evidence from Arni et al. (2009), that shows earlier exits from unemployment benefit prompted by benefit sanction regimes result in poorer quality employment, including lower earnings. Griggs and Evans (2010), in a review of the literature from the UK and internationally, find that whilst benefit sanctions raise exits

from benefits, they ‘have generally unfavourable effects on longer-term outcomes (earnings over time, child welfare, job quality)’. This argument is repeated again by the Joseph Rowntree Foundation (JRF) (2014) in a wide-ranging review of international evidence on ‘welfare to work’ regimes of conditionality.

The literature also reveals a need to understand the impact of ‘welfare to work’ policies on shaping consequences outside of immediate engagement with labour market. For example, evidence points towards ‘welfare to work’ policies pushing people off the radar, rather than in to employment. As the JRF (2014) shows, indirect evidence of this is seen in comparing the claimant-based unemployment count with the ‘official’ survey-based unemployment measure. They find, ‘In 1995, claimant unemployment was nearly as high as the survey-based rate (94 per cent). Following the introduction of JSA [which imposed greater conditionality around attempts to find work], it fell to 75 per cent in 1998 and continued to fall to 62 per cent in 2002 and to 51 per cent by 2008.’ One explanation behind this could be that sanctions produce counter-productive ‘scar effects’, leading to hostility towards services and more negative views about work (JRF 2014). The JRF (2014) argue that increasing conditionality is likely driving people off JSA or discouraging them from applying in the first place, echoing US studies which discuss ‘deliberate “diversion” from welfare via the “hassle” associated with making benefit claims’.

Sanctioning systems are also liable to fail with severe consequences, with Miscampbell (2014) showing ‘each year as many as 68,000 people on Jobseeker’s Allowance have their benefits taken away by mistake and face unnecessary hardship as a result’. Analysis by Lambie-Mumford (2014) finds a direct link between sanctions and the rise of food banks, with increased use of sanctions (sometimes unfairly or arbitrarily) as well as their increasing length serving to fuel demand for such services. A Public Accounts Committee report (2017) into the use of sanctions in early 2017 found ‘unacceptable’ unexplained variations in the use of benefit sanctions. It also found that sanctioning benefit payments ‘can lead to rent arrears and homelessness’, which can ‘undermine efforts to find work’.

Workfare policies, which actively require individuals to work in return for benefit payments, have been more controversial. The UK government’s most recent workfare scheme, the Work Programme, attracted high profile criticism in 2012 when the government lost a number of cases which challenged the legality of the scheme. In one famous example, Cait Reilly was made to work unpaid in a Poundland discount store whilst she looked for a permanent job, or face losing her JSA payment, despite the fact she had already proven that she was actively seeking working.<sup>12</sup> The Work Programme has since been discontinued, but it was largely found to be ineffective. The programme, which paid contractors who move unemployed people into permanent jobs, was found by the Public Accounts Committee (2014) to focus on those groups who are generally easier to move in to work, whilst side-lining ‘harder-to-help groups’, entrenching existing labour market inequalities rather than reducing them.

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<sup>12</sup> See <https://www.theguardian.com/commentisfree/2012/jan/15/unemployed-young-people-need-jobs>

### 3.5 Universal basic income: what impact?

The Danish labour market model of ‘flexicurity’ is seen to operate through balancing a flexible labour market with a strong social security net, that helps bounce people back into good jobs through both empowering them to take work suited to their skillset, and providing them with education and training. Whilst this ‘spring board’ approach was enthusiastically adopted by New Labour in the 1990s, the UK model has always been characterised much more by flexibility than security. Following the governments’ austerity policies since 2010, the welfare state has been pruned back even further. The combination of flexible labour markets, heightened unemployment and minimal unemployment benefits in the post-crisis context (alongside the growing threats posed by technological change and other secular trends) have prompted renewed discussion over the idea of a universal basic income (UBI) as a radical overhaul of the welfare system. The Labour Party under Jeremy Corbyn has expressed enthusiasm for the idea of a UBI, for instance.<sup>13</sup> In its most basic formulation, a UBI is a scheme wherein ‘every individual citizen should receive an income from the state which goes to all without any conditions, is not related to contributions, not withdrawn as earnings change, not means-tested’ (Piachaud 2016). There have been detailed discussions around how forms of the UBI could be implemented in a relatively ‘cost neutral’ way. The Green Party, which supports a UBI scheme in principle, estimates that it would save £8bn per year in administrative costs, for example.<sup>14</sup> Torry (2016), moreover, attempts to demonstrate how a UBI scheme could be implemented in the UK, with no additional public expenditure and income tax rate rises of just 3 per cent.

There are a number of reasons why a UBI could help to reshape the relationship between welfare and (un)employment. For one, some argue that it would almost instantly rid society of the precariousness caused by their employment conditions and/or low pay. Guy Standing, who diagnosed the emerging ‘precarariat’ problem, has been an avid proponent of a UBI scheme for the UK. Standing (2013) argues that in a globalised market place, which demands labour market flexibility, ‘good jobs’ cannot be the only solution and that a UBI is needed to provide basic security. The security that a UBI would provide would, it has been theorised, lead to the destruction of undesirable ‘bad jobs’ – a positive phenomenon for those workers who are in jobs badly paid and with low job satisfaction, and a development that could push the economy towards creating new higher-skill, higher-paid work (see Kay 2017). In addition to this, Standing (2017) points to a pilot UBI scheme in India, wherein the basic income was seen to improve productivity and output, reduce inequality and also lead to a growth in secondary, self-employed work.

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<sup>13</sup> See <http://www.independent.co.uk/news/uk/politics/universal-basic-income-labour-uk-john-mcdonnell-welfare-jeremy-corbyn-a7068221.html>

<sup>14</sup> See

<https://policy.greenparty.org.uk/assets/files/Policy%20files/Basic%20Income%20Consultation%20Paper.pdf>

UBI schemes would seemingly, therefore, have great potential to alter the relationship between welfare and employment and have enormously positive outcomes in relation to economic justice for society's poorest. Yet, debate must also focus on the practical limitations and the feasibility of implementation in the UK context. As John Kay (2017) notes, alongside arguments associated with moral principle and the rise of robot technology, one of the key arguments behind a UBI scheme is as an antidote to increasingly complex welfare regimes. In the UK case, a UBI might be seen to benefit unemployed citizens and those in low-paid work who currently receives in-work benefits, through removing both the administrative strain of benefit and the stigma associated with doing so. However, Kay's (2017) analysis suggests that this might be somewhat optimistic. He argues that unless a comprehensive UBI scheme could be funded through significant new revenue streams (closing in on mass corporate tax avoidance, for example), its viability would rest upon tiers of conditionality – restricting its availability to some groups only, or giving some groups less of an income. The outcome of this, he suggests, 'is a welfare system which resembles those that already exist' (Kay 2017).

In terms of providing economic justice for the poorest in society, it is not clear cut that a UBI is the most efficient form of redistribution either. A significant study into UBI by the OECD (2016), which modelled the outcome of a 'cost-neutral' UBI scheme (that is, based on the existing costs of benefits and tax-free allowances) in a range of countries. It found that income gains from a UBI would be 'most common in middle-income households', given that they do not qualify for existing means-tested benefits, but would gain the new basic income whilst losing less than top earners from the abolition of tax free allowances. The report does find that many of the poorest people in the UK are not currently covered by means-tested benefits (for a range of reasons) and would gain substantially from a basic income. Yet, low-income families who are currently covered by means-tested benefits would 'be worse off under a BI', the report suggests, and the scheme could even increase poverty rates significantly. This leads the OECD (2017) to suggest that a UBI scheme, 'is not necessarily an effective poverty-alleviation tool'.

Piachaud (2016) looks to analyse UBI schemes in the UK case in relation to four key aspects: the justice of unconditionality, individualised simplicity, economic efficiency and political feasibility. He suggests that in each area the UBI scheme has significant defects which compromise its viability. For example, he argues that there are a range of political problems associated with UBI schemes, including that many do not believe unconditional benefits are fair, the increased taxation is hard to sell, and that people feel priority should be given to policies that are seen to actively *invest* in others. Whilst proponents of the UBI scheme would suggest that these are political perspectives that can and should be overcome, the argument remains that, particularly within a political economy like the UK which is characterised by weak welfare arrangements and low taxation levels already, the UBI scheme would be incredibly hard to legitimise. Moreover, once implemented, a monolithic scheme such as the UBI could quickly be dismantled through incremental reform.

For these reasons, UBI schemes are seen by authors such as Kay (2017) and Piachaud (2016) as ‘a distraction from sensible, feasible and necessary welfare reforms.’

## 4. Labour market change and economic justice

### 4.1 Review summary

The purpose of the Commission on Economic Justice is to help develop a vision of a new economic model for the UK wherein abundance is combined with justice. Economic justice must mean a dynamic, competitive and sustainable economy which leads to a fairer distribution of rewards. The issue of the British labour market is just one aspect of this vision, but as we have seen, it has enormous significance to how people around the country, whether in work or not, get to lead their lives. In the first section, we looked at the issue of unpaid work, an issue which disproportionately impacts upon women in society. Unpaid domestic work, which if marketized has an approximate value of £1tn, is largely performed by women. As a result, women's relationship to paid work and the freedoms this brings is either shaped by their ties to unpaid domestic labour or circumscribed altogether. Where women do enter the labour force, their work is concentrated in low-pay, insecure and irregular jobs, whilst often this only increases the overall work burden on women. The above review highlighted, however, that there are no easy answers when addressing the issue of women's unpaid work. Clearly, for many, domestic work around raising a family, for example, is a choice. In order to enhance economic justice for all, it is necessary that policy and the wider debate properly address the relationship between paid and unpaid work. This means recognising both how greater paid work in the marketplace for women is an economic opportunity, but simultaneously that unpaid work in the home (performed by both men and women) can be an essential good in society. Addressing this relationship, and ensuring a more equitable balance of responsibilities between men and women, is essential to building a new sustainable model of work for all.

Unpaid work is, however, having a significant impact on the contemporary British economy in other emerging ways too. Particularly in the post-economic crisis era, unpaid work in various forms is serving to prop up economic growth and boost business' bottom lines. Tens of thousands of graduates continue to perform unpaid internships, which have been proven to entrench existing labour market inequalities and not act as a stepping stone to social mobility. Moreover, in the context of heightened precariousness for many workers (often caused directly by punitive cuts to frontline services), workers are performing more and more unpaid overtime to help secure their employment status. At the cost of around 7 hours per week deducted from workers' leisure time, British employees are adding over £33 billion to the UK economy, yet feeling increasingly hard done by and increasingly precarious in their jobs.

The second chapter sought to understand conditions of low pay and insecure work. Our review of the literature revealed the way in which the macro-level global trends of economic globalisation and technological developments combine with the liberal market economy institutions of the UK economy to perpetuate job polarisation, and conditions of low pay and insecure work. Whilst the Taylor Review (2017) hailed the success of what it

called ‘the British Way’, our review of the literature finds little evidence that the UK’s flexible labour markets are the right path to securing economic justice. Highly liberalised labour markets are unlikely to generate significant numbers of ‘good jobs’ and were rather more likely to perpetuate a system based on low quality, low pay work. There is a need to rebalance the British economy, both in terms of a sectoral shift (away from finance and services towards high skill manufacturing) and geographically (away from London and the South East towards the UK’s other regions), in order to once again produce the kind of good quality jobs that will support growth ‘from the middle’, necessary for building an economy which matches abundance with justice for ordinary working people. Despite years of government policy focused on ‘upskilling’ the workforce, the British economy produces too many low pay, low skill jobs. The downwards ‘skills shift’ since the crisis has, moreover, seen many workers ‘underemployed’ with attendant ill effects on their wellbeing and job satisfaction. For many groups in society, it appears that the cards are stacked against them. Both pay gaps and ‘jobs gaps’ are highly visible in the British economy, with detrimental consequences for pay and access to good jobs for women, ethnic minorities and the working classes.

Finally, the review turned to the issue of the welfare state and unemployment, demonstrating the interaction of the labour market, welfare and unemployment, before turning to analyse the effectiveness of welfare to work policies and how they have shaped labour market outcomes. Moreover, the UK’s punitive welfare regime was found to be a contributing factor in the continuation of an economic model that does not work for ordinary people. Whilst aspects of the welfare state in the UK are both generous and highly regarded, such as the NHS, in relation to employment, welfare in the UK serves to disempower unemployed workers and creates a continuous supply of workers desperate to take any job, fuelling the low-pay labour market. Economic justice must be built both within the labour market and beyond it, covering both those who have jobs and those who are looking for work. When we compare the UK’s model of welfare to that of a country like Denmark, which actively empowers workers through its high wage replacement rates and training, the relationship between welfare and good work becomes clear. Radically reimagining the welfare state (as with a UBI) from within the confines of the UK’s liberal market economic model is, however, extremely optimistic.

## 4.2 A progressive policy agenda

There are a number of policy lessons which can be discerned from the preceding review, especially when considered from the perspective of economic justice.

### *Unpaid domestic work*

- It is important that employment law ‘nudges’ men into taking responsibility for domestic labour, as well as women. It should be the norm for both parents to have substantial leave and flexibility entitlements.

- Countries that have a lifecourse approach to leave and flexible working are generally a more equal gender distribution of domestic work (and lower pay gaps) but the rise of precariousness in the UK context makes a lifecourse approach more difficult. This is a market failure that the state should correct.
- Clearly, we need much more sophisticated ways in which to account for the economic value of domestic work. It is absurd and self-defeating to, for instance, compel people to move into employment where the productivity of other household members, or the development of their children, would suffer as a result.

### *Unpaid labour*

- The prevalence of unpaid labour within formal employment models represents a toxic abdication of social justice and individual rights by employers – it is particularly disappointing to see evidence of this practice in the public and third sectors.
- Paradoxically, however, it may be that the rise of insecure forms of paid employment offers an opportunity to eradicate these practices without a severe impact on employers. Workers should be paid for every hour they work, except in highly-regulated exceptional circumstances, but gig-style employment could be used effectively to help people at the very beginning of their careers to gain experience without employers having to commit to untested education leavers for a significant period of time.

### *Insecure work*

- The Taylor Review's central assumption that the UK's dominant employment model forgoes security in order to gain higher employment is wrong. The UK's apparent success in increasing employment is deceptive, and other economies with stronger employment protection have demonstrated comparable success.
- There should be no assumption that the UK's existing framework for regulating employment is correct, but needs out-dating. Changes in technology, industrial composition and ownership models means that employment protection in the UK has to be reconceived from first principles.
- As a corollary of this, trade unionism should also be reconceived from first principles. The evidence that existing unions are failing to reach precarious workers is mounting.
- We believe that a new approach to employment protection should start from the assumption that workers build up an entitlement to higher security (and higher pay) every single day. For the sake of economic justice and productivity, companies must be compelled to recognise the value of experience.
- Employment must be the default arrangement. Individuals should have to climb over a very high bar to prove that they are in fact self-employed. Self-employment

should be the exception not the norm, and only adopted as an employment model by firms in highly regulated circumstances.

- Employment protection should play greater attention to the psychological and emotional burdens of many jobs. For example, employees should never be rated like companies or products.
- The technologies through which workers are monitored should be controlled by workers, and they should own all data that relates to their performance.
- Corporate governance reforms that recommend worker representation on company boards should be adopted, but they are far from a panacea. There should be additional requirements for firms to report on the development of their workforce, with standards regulated by the state.
- It is not possible for this review to adjudicate on the issue of whether the UK's labour market problems result ultimately from a lack of demand for high-skilled labour, or whether the UK would adopt a 'high road' development model if firms were forced to train their workers more thoroughly. However, it is clear that changes to employment law would be more effective if taken in tandem with the adoption of an industrial strategy.

### *Pay gaps*

- The measures explored here in relation to unpaid insecure work would also help to address pay gaps.
- We would also suggest stronger regulations around returning to work after maternity leave should be significantly strengthened. Motherhood should be celebrated as something that may enhance rather than detract an employee's contributions – the state should enable firms to establish this norm by insuring firms against all financial penalties related to maternity leave.
- There should be much stronger reporting requirements around pay gaps at the company level.
- Recruitment practice should be more tightly regulated, including measures such as blind applications and restrictions on the use of interviews.

### *National minimum wage*

- There is no evidence that the minimum wage, even if raised to a significantly higher level, would harm levels of employment.
- Equally, the minimum wage is not a particularly effective way of substantially increasing pay for the worst-off workers.
- The most progressive dimension of the minimum wage is the principle it establishes around the basic worth of an individual's labour. The Taylor Review's recommendations on the minimum wage challenge this principle in a way this would be entirely incompatible with economic justice.

### *Welfare to work*

- Benefit conditionality is not necessarily unjust from the perspective of fairness. But it has been operated in the UK recently in ways that are unjust for individuals, and economically counter-productive.
- Recent welfare-to-work programmes should be understood in terms of the moral imperatives to work that they create, given their limited scope and impact on the labour market. It is this normative element, rather than the practices per se, that progressives should seek to challenge.
- The UK should move back towards a contributions-based benefit system. This would be the most just way of incentivising work by the welfare state.
- Job guarantees, operated by local authorities, should be explored for people in unemployment. Recipients would not necessarily get paid substantially more than the level of out-of-work benefits, but the work would count as a contribution for contributory benefits.
- Progressives should also think creatively about gig-style and platform work could be utilised to help the long-term unemployed and under-employed for short periods. This would give gig employers the flexibility workforce they apparently crave, while delivering a public good, and not exploiting experienced workers.

### *Universal basic income*

- It has not been possible to rehearse all of the arguments around UBI in this review. Clearly, however, it is hard to justify UBI from a fairness perspective. Seeking to make UBI ‘fair’ in practice would in all likelihood lead to the re-establishment of a regressive conditionality regime.
- It is not clear how UBI supports justice in terms of building individual capabilities and resilience. Freedom from the compulsion to work is valuable, but UBI appears to replace this compulsion with the valorisation of consumption.
- Progressive welfare states should be based on the principle of decommodifying public goods – UBI does not prevent this, but does not assist this agenda either.
- We should be thinking instead about ‘universal basic infrastructure’, that is, universal entitlements to certain public goods. Insofar as these goods would be defined more expansively than public goods are at present, such an approach would also achieve help to achieve the central aim of UBI, that is, removing the compulsion to work (at any cost).

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