

# End of a Faustian pact: workfare and riots

## The Faustian pact

As globalisation took off in the 1980s, two trends were unleashed. By opening up to 'emerging market economies', governments of rich countries launched a process that increased the bargaining position of capital, reinforced by a trebling of the global labour supply that made the functional distribution of income much more unequal. It also began a process of convergence. Wages in low-income countries would rise only slowly because of their huge labour surplus and vast scope for increases in productivity. This exerted strong pressure on wages and benefits in rich countries, pushing them towards a global mean well below what workers in the UK had come to expect.

But while labour costs had to come down to stay 'competitive' and to retain jobs, sharp falls in workers' living standards would have been politically and socially intolerable. Under pressure from employers, from orthodox economists and from international financial agencies, successive governments opted for a strategy of 'labour market flexibility', by which they hoped to make labour cheaper in Britain, so attracting investment to generate jobs. But flexibility meant making a growing number of workers and their families more economically insecure and more likely to experience declining wages and shrinking benefits.

Flexibility spelled social danger. So, a Faustian bargain was made, by which government would top up declining wages and shrinking benefits through subsidies and tax credits, while it redirected social protection from an emphasis on social solidarity and social insurance, unsustainable in a flexible labour market, to means-tested social assistance directed at the deserving poor. Access to cheap credit further cushioned the underlying decline in living standards among the emerging '*precariat*', a class in the making, not an underclass – a multitude of people living bits-and-pieces lives, having short-term or casual jobs interspersed with periods of unemployment or labour force withdrawal, with

**During the past three decades, Guy Standing argues, politicians struck a Faustian pact. In return for 'labour market flexibility', government would top up declining wages through subsidies and tax credits and redirect social protection from an emphasis on social solidarity and social insurance to means-tested social assistance. In the aftermath of rioting, they must now face the following fact: it is the economic policies they have supported that are a major cause of the underlying malaise. If they do not, they will find themselves acceding to an increasingly coercive and punitive social policy, epitomised by workfare and the vogue term of 'conditional welfare'. Politicians must step back from the utilitarian direction in which they have taken us during the past thirty years and consider an alternative road.**

insecure incomes, few assured enterprise or state benefits, and a lack of occupational careers.<sup>1</sup>

The result was a consumption binge. But when the financial crisis came in 2008, the reality of huge deficits the bargain had allowed to build up became clear, and inequalities were greater than at any time in recorded history.

To appreciate the extent of what has happened, it is useful to think of the idea of *social income* – or income from all sources – which varies by group and over time. Social income comprises: wages or other money earnings, enterprise non-wage benefits (including bonuses, paid holidays,

subsidised housing, occupational pensions and parental leave), state benefits, community benefits (support from family and local and occupational communities) and private benefits (from savings and investments). During the welfare state era (between 1944 and 1975), state and enterprise benefits rose sharply, reducing the wage share of social income, and displacing informal community benefits, which withered as most people came to rely on employers and government.

Then the era of labour market flexibility ushered in a restructuring of social income. Corporations and government facilitated a shift from money wages to enterprise benefits for the *salariat* (those receiving salaries rather than wages), while making labour in the lower echelons more flexible, stripping enterprise benefits from the emerging *precariat*, converting part into money wages in concession bargains, removing others without compensation. Meanwhile, because of the financial markets, private benefits surged for the *salariat* and the rich.

credits, which moderated poverty and unemployment traps but encouraged the decline in wages they were ostensibly meant to top up. They also encouraged collusion between employers and workers: it mattered less if wages were cut, since they could be topped up.

The loss of non-wage benefits as well as money wages generated a further deterioration in social income. Thus, the incentives to take jobs continued to decline for the *precariat*. More people became demoralised and experienced social illnesses, contributing to the popular image of 'broken Britain'. A combination of lower wages, fewer enterprise benefits, more conditional state benefits and a shrinkage of social mobility through occupational dismantling created a recipe for social discord and petty criminality in deprived communities, watching the conspicuous consumption of celebrities and the *salariat*. Under New Labour, more of the losers in the flexible economy were criminalised, and the incarceration rate rose to unprecedented levels.

In sum, the Faustian pact enabled government to oversee the growth of a *precariat*, while it constructed the pillars of workfare to deal with the inevitable failings of means testing. Politically, the strategy could satisfy the underlying utilitarian ethos as long as there was economic growth and low unemployment, with only a small minority on the receiving end of compulsion and benefit cuts. But the growth model was unsustainable. Budget deficits were building up and too many people were living on the edge. By 2008, while the elite and *salariat* were wallowing in unparalleled affluence, the *precariat*'s debt and insecurity were also unparalleled. The fact that a rising number of children living in poverty had parents in jobs epitomised the flexibility agenda's failure. Jobs were not the route out of poverty for a growing number of people. The Faustian pact had run its course.

### The collapse of the bargain

The financial crash revealed that British society was teetering on economic insecurity without policies to protect the vulnerable in a downturn. For those on the bottom rungs, there were no incentives to seek jobs: wages were low, jobs were scarce, temporary or dead end in character, and poverty traps were as strong as ever. The austerity regime that followed further reduced social income alongside a savage shrinking of the public sphere.

The rising number in poverty traps, combined with a bewildering array of complex rules, rendered it financially disadvantageous to do what

The growth of wage inequality concealed a *greater* growth in social income inequality. In addition, commercialisation, privatisation and fees to access public amenities and services turned aspects of ordinary living from being part of 'community benefits' to being costs that lowered social income for the *precariat*.

Two other aspects should also be emphasised. First, flexibility expanded the *precariat*, resulting in millions more in precarious jobs and housing, living a life of constant change, exhorted to be flexible but denied social mobility through an occupational career, and stripped of elements of social income that had given some economic security. Second, social policy became an instrument of the market, focusing on promoting labour and 'employability' rather than strengthening social solidarity and curbing inequality.

The language shifted from rights to 'entitlements' and 'responsibilities'. But the trend to means testing guaranteed a drift to workfare. If labour markets were made more flexible, wages and benefits in the less 'skilled' segments would fall, which meant the 'income replacement rate' of benefits would rise. This led to a rationalisation for cutting benefits and restricting 'entitlement' to them. Influential economists used it to argue that government should reduce 'the generosity of benefits'. This was deceitful. Of course the replacement rate would rise if wages were falling.

As flexibility and means testing spread, government used subsidies and means-tested tax

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most would have liked – work for an income – and created powerful incentives to work in the shadow economy, earning a little on top of benefits. This allowed the government to depict claimants as ‘lazy’, ‘scroungers’ and accuse them of having a ‘worklessness culture’.

The only way the strategy could be preserved was to make conditions for entitlement to state benefits even tighter, make the coercion even stronger and make the punitive character even clearer. But by this stage, there was something else: the ‘*precarity* trap’.

### **The *precarity* trap**

The *precarity* trap arises because a system that is increasingly interventionist, ‘active’ and directive involves ‘clients’ having to do a rising amount of ‘work-for-labour’, at considerable cost, with low returns and in stigmatising discomfort.

Flexible labour markets have vastly expanded the *precariat*. The value of state benefits has dropped, egged on by the media and others outraged at their ‘generosity’. The stripping of social income has meant that the real poverty traps have grown, in spite of tax credits, leaving the average member of the *precariat* with an effective marginal income tax rate of at least double that faced by the *salaris* and the supposedly squeezed middle.

But because successive governments have increased the system’s complexity, a nasty set of *precarity* traps has been erected. Imagine you are in a low-wage job, with modest ‘in-work’ benefits. You lose the job, or it comes to an end. You have financial obligations and debts start piling up. You apply for benefits, commute to offices, queue, find you do not have the correct documents, answer inquisitive questions; you answer some of them incorrectly, perhaps out of fear of breaching some condition for entitlement. You must return the next day; you wait, you fill out more forms. Meanwhile, you must prove you are searching for a job, even though you are convinced none are available. All this uses up a lot of time, a lot of scarce money and a lot of scarce morale and energy. At the end, after weeks, suppose you obtain entitlement to benefits. You have used up credit with friends and relatives, debts have grown, morale has ebbed. If you are a normal person, you will be seething with resentment and shame. Suddenly, you are told there is a job on the other side of town. You anticipate it being a temporary minimum-wage job, with no prospect of it being a stepping stone into a long-term ‘career’. The cost of the bus and the strain of the application process add to the unattractive

prospect. And then there is a *precarity* trap. Suppose you took the job, and your expectation that it would not last proved correct. You would have to start all over again, applying for benefits, proving diligence and being obsequious to officials, who are paid to be suspicious and to ask tricky questions. Once again you would be in an impoverishing situation.

The *precarity* trap involves zig-zagging between temporary jobs and applying for benefits with heavy costs in between that may be a greater deterrent to labour force activity than the poverty trap, meaning that many moving from benefits into temporary jobs lose substantially.

In that situation, is it rational to opt for that low-wage temporary job? Would you?

### **Workfare and ‘conditional welfare’**

While *precarity* traps grew before the financial crash, they have become endemic, and should be crucial to what is the most striking outcome of the collapse of the Faustian bargain, which goes under the misleading name of ‘workfare’.

The steps to workfare have been well summarised by Sharon Wright in *Poverty* 139. Near equivalents have been the resort of political establishments in previous eras of structural transformation, such as the Speenhamland system, designed to keep down wages and oblige the poor to labour, which gave way to the Poor Law of 1834, and the mix of coercion and therapy to deal with women’s ‘nerves’ at the end of the nineteenth century.

Workfare was the inevitable outcome of labour flexibility policies combined with means-tested assistance. As wages fell and as the poverty trap spread, more people had no incentive to take the jobs available. They had to be driven into them. But tighter conditionality, with more demands placed on claimants, seems to have no limit. The drift from conditions supposed to favour claimants to conditions that are punitive is inexorable. A utilitarian ethos drives the process. For the happiness of the ‘middle class’, the perceived majority, misery of a minority can be tolerated. Gradually, the drift to workfare is turning social policy towards *social engineering*. Instead of providing security and economic freedom, benefits are being used to reform people, ostensibly for their own good and long-term happiness.

Conditional welfare has become popular with all main political parties. It is linked to a school of thought known as libertarian paternalism, an oxymoron that claims that people need to be

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'nudged' to behave in ways that are for their own good. Even on its own terms, there is no evidence that workfare succeeds. It is presented as a means of saving public funds. This is a lie. The 'saving' in cutting the benefits of a few people and putting them in unproductive jobs is dwarfed by the administrative costs. It does not offer a road of social integration and skill creation.

Policymakers should step back and ask what ethical criteria should be used to evaluate the steps on the road to workfare. Start with the basic liberal principle. Clearly, a punitive workfare policy cannot improve the security of the most insecure groups in society. It increases their insecurity and the pressures under which they have to live.

Second, if one believes that, *a priori*, paternalistic social policy is an infringement on liberty, then if controls are placed on some groups that are not placed on others, it cannot be called socially just.

Third, if civil servants and commercial agencies are given discretionary power to decide whether someone receives benefits or not, that is socially unjust. This is what is happening. Politicians might say claimants have a right of appeal. But the power relationship usually precludes this, while the prospective cost and low likelihood of success in a system designed to curb benefit expenditure and penalise claimants will deter many from appealing, even if they have a legitimate grievance.

If governments create complex systems with conditionalities and punitive measures, they will create more scope for errors. It is characteristic of the cosy consensus of the political mainstream that errors by claimants are typically depicted as fraud. Henceforth, all errors are to be penalised, on the dubious ground that this will promote a sense of 'responsibility for public funds'. In fact, there is no evidence of extensive fraud; it is mainly errors resulting in overpayments and underpayments, most committed by officials, not claimants. And according to the government's statistics, tax fraud by the rich is ten times as much as benefit fraud by the poor. Rough justice without due process for the poor and insecure; rather less attention to the bigger problem caused by the rich.

One of the worst features of the road to workfare is how governments have turned selected citizens into social policy agents. For instance, encouraging GPs to provide 'wellness notes' alters the doctor-patient relationship of confidentiality. Encouraging neighbours to report on

suspected 'cheats' chips away at community solidarity. Allowing a commercial company to determine whether someone is eligible for benefits empowers a corporation at the expense of the low-income person.

However, it is mainly because of the combination of poverty and *precarity* traps that workfare will become more punitive. For workfare sets out to overcome claimants' rational behaviour and attitudes. The irony does not stop there.

A consequence of the traps is an expansion of the 'transgressing poor', those to be denied benefits and forced to do onerous labour because they are deemed to have behaved irresponsibly and broken the law. Once categorised as deviant, claims about giving them a 'second chance' become bogus. In today's panopticon society, data on past miscreant behaviour becomes credentialist criteria blocking off avenues into society's mainstream. At best, the transgressing poor will remain on the lower rungs of the *precariat*; at worst, they will drift into a *lumpen precariat*, surviving on the streets, with social illnesses beckoning. Some will lash out 'mindlessly'. Mephistopheles might smile at that.

### Conclusions

Workfare and the recent riots are the endgame of the collapse of the Faustian pact entered into by both New Labour and its predecessors. The logic of workfare and conditionality will lead to more coercion and punitive 'prisonfare', with society permanently on the edge of outbreaks from the growing army of the insecure. Another road must be taken. We need a social protection system that has as its base a genuine universal credit in the form of a basic income, without conditionality or the punitive garb of workfare.

Meanwhile, there should be an independent assessment of workfare. In August, after the riots, there were calls by politicians for a public enquiry. But because successive governments have agreed on the direction of social and labour policies, it would be a whitewash if such an enquiry was dominated by politicians or their representatives. Ideally, an independent commission should be set up by one or several foundations, with a wider range of backgrounds than one encompassing the three main political parties. In that regard, the *precariat* itself should be represented from within its ranks, to give credence to the notion of 'active' participation by all groups in society. ■

<sup>1</sup> G Standing, *The Precariat: the new dangerous class*, Bloomsbury, 2011

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