

Wage top-up schemes are an attractive way for policy makers to address income inequalities, but they may well be corrosive to those they are aiming to help.

As the global economic crisis continues, global wage inequalities have become even starker. While the government is keen to reduce these inequalities through its Working Tax Credit wage top-up, [Hartley Dean](#) argues that these schemes may be counter-productive, stigmatising some recipients and locking others into the low-paid periphery of a polarised labour market.



Recent research conducted at the LSE has investigated the perceptions of low-paid workers who have been receiving the UK government's Working Tax Credit (WTC). The WTC is the latest version of a means-tested state benefit or 'credit' that tops-up the wages of low paid workers. Similar schemes have been introduced in at least a dozen other countries around the world and have in recent years been growing in significance. Global trends have fuelled wage inequality and, in richer countries, governments of all political persuasions have been seeking ways to 'make work pay' for those workers at the bottom of the labour market who must live at sub-subsistence wage levels. In the UK the current WTC scheme is soon to be absorbed into a new 'Universal Credit', which - for low paid workers - will fulfil the same function.

The aim of our research, which was funded by the UK's Economic and Social Research Council, was to explore just how WTC recipients feel about having their wages topped up in this way. To do this, we conducted in-depth interviews with 52 WTC recipients (36 women and 16 men) drawn from across the whole of England. Although a high proportion had no or low-level qualifications, some had been educated to degree level. Their employment experiences reflected the extent to which so many jobs can now be low-paid and insecure. Characteristically, their working lives had involved a series of short term jobs, often interspersed with periods of full-time child care or unemployment.

There was clear popular support for the WTC. Despite this, there was confusion as to the purposes of the scheme. A lot of recipients failed to understand the distinction between WTC and the Child Tax Credit (a benefit for low to middle-income families with children). Recipients generally understood that WTC provided an incentive for recipients to go to work, though by and large this was regarded as an incentive that applied not to them (they said they needed no incentive) but to 'other' people:

So um, obviously I think it was an incentive for people hopefully to try at least do something, you know, to go back to work. 'Cause I think a lot of mums who I know from school, it's so easy for them not to work at all and they earn just about the same amount of money as what I take home without doing anything at all really. So, uh, I mean I could never, never do that at all. I've always got to do something so and what they do all day, I don't know... but I think once the kids are a bit older, I probably will work full-time and not hopefully try and rely on this anyway, so, it's um, I try to be honest. I know a lot of people won't do but I cannot do that. I have to try and make me own way if I can but obviously this money does help. [38 year old lone parent]

Most recipients acknowledged that WTC functioned to lift people out of poverty, and however helpful this might be, there was, for some, an element of stigma associated with the benefit. None of the recipients properly understood how their entitlement was calculated and this could leave them feeling quite powerless.

The recipients' motivations to work were far more complex and varied than a simple response to a financial incentive. Recipients wanted by and large to work, and often felt good that they could, but sometimes the value they placed on work had little to do with money, or else the jobs they were doing failed to meet their aspirations or undermined their sense of self-worth:

I work on a chicken counter at [supermarket], so I mean, I could, you know, I don't want to be doing that the rest of my life because there are things I'd rather be doing than that, you know,

Although the WTC scheme was generally viewed positively and most of the people we talked to were grateful for the additional income, there were still some important undercurrents of resentment. WTC does not of itself compensate for the injustices or adverse effects of a precarious and inadequately paid work. Paradoxically, hardly any of the people who took part in this research explicitly recognised that schemes like WTC are in effect a subsidy to low paying employers, but a lot of them felt devalued at work or locked in to menial jobs.

Our findings suggest that wage top-up schemes may not always be conducive to sustaining a morally meaningful work ethic among those workers who are systematically confined to the low-paid periphery of a polarised labour market. In the UK, incidentally, it seems likely that some low paid workers may feel less good about having their wages topped up by the state, because the proposed Universal Credit will abolish the distinction between 'credits' for workers and 'benefits' for people out of work. More generally, however, schemes of this nature might assist in accommodating workers to a flexible and competitive low-wage labour market but there will still be circumstances in which workers may feel in various ways aggrieved.

It is worth remembering that the Universal Declaration of Human Rights holds that everyone has the right to work that is freely chosen and subject to just and favourable conditions. Whether wage top-up schemes serve to mitigate or perpetuate the violation of that right is a moot point.

The preliminary report – *Wage Top-ups and Work Incentives: the implications of the UK's Working Tax Credit scheme* by Hartley Dean and Gerry Mitchell – [is now available.](#)