

No Rights Without Responsibility



Rebalancing the welfare state

Matthew Oakley and Peter Saunders



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Executive Summary

This is the first in a series of Policy Exchange reports that will show how a new approach to welfare reform can finally make inroads into welfare dependency in Britain. It will focus on the welfare system regarding ‘jobseekers’, leaving future reports to discuss whether and how the principles might be applied to those inactive due to disability or caring responsibilities.

Over the last 65 years the role of personal responsibility and self-reliance has been diminished in the British welfare state. In its place welfare dependency and the concept of a right to welfare have grown. A recent DWP report clearly demonstrated this. It found that 11% of benefit claimants ‘feel fully justified being on benefits and believe they have discovered that life without the added complication of work has much to recommend it’. Another 9% felt that ‘to work or claim benefits is simply a choice individuals should be free to make – there is no right or wrong about it’. A further 11% felt that ‘job search is less urgent as they make the most of the benefits of not working’.

This belief in a right to welfare has, in part, been driven by government policy. There is no longer a clear link between the National Insurance Contributions people make and the benefits they can receive and the last 15 years of welfare reform has placed more and more emphasis on the state ‘making work pay’. While this makes economic sense, there are limits to how far this approach can go in a fundamentally means tested system. Furthermore it has the downside that it has put responsibility on the state to provide incentives to work rather than making it the responsibility of the individual to move off benefits and take work where it is available.

Even before the recession, four million working age people were dependent on benefits and three-quarters of these benefit claimants were not actively looking for work or participating in any employment support programme. Now with 3.9 million workless households, 5.4 million working age individuals living in these households and the welfare bill rising steadily, policy makers have accepted that something needs to be done.^{1,2} The approach of the Coalition, through the introduction of Universal Credit and the Work Programme, is likely to make some progress in helping some families into work. In particular, the increased simplicity that the Universal Credit will bring will help people to see the extent to which work pays and reduce opportunities for fraud and error.

While these steps are positive they will not, on their own, drive the change in attitudes and reduction in worklessness that is necessary. Universal Credit is expected to bring 300,000 workless households into work.³ However, this leaves another 3.6 million households still workless. Even in those cases where households move into work, it is expected that many will only be doing a small number of hours per week and will still be largely dependent on benefits for their income. For this reason, a plan for the next steps in welfare reform is needed.

1 ONS, (2010), *Work and worklessness amongst households*. <http://www.statistics.gov.uk/pdf/dir/work0910.pdf>

2 DWP, (2010), *21st Century Welfare*. <http://www.dwp.gov.uk/docs/21st-century-welfare.pdf>

3 DWP, (2011), *Universal Credit Impact Assessment*. <http://www.dwp.gov.uk/docs/universal-credit-wr2011-ia.pdf>

A key problem of the reforms set out by the Coalition is that they do not recognise the limits of making work pay and do not really tackle the underlying attitude of a right to welfare. To really start to change attitudes, the balance between the conditions claimants need to fulfil to claim benefits (often called ‘conditionality’) and the support they receive needs to be changed. International evidence also suggests that the application of such conditions is the most successful and cost effective way of increasing the chances of the unemployed moving into work. However, the current set of reforms does little to increase what is required of claimants. Iain Duncan Smith has recently stated that ‘...the principles behind that conditionality haven’t really changed, and won’t change as we go forward’.

This is in spite of the fact that recent research has suggested that Jobseekers Allowance (JSA) claimants spend as little as eight minutes a day searching for work. With such little time spent looking for work, it is not surprising that the DWP research found that a large portion of claimants were happy to live a life on

benefits: the prospect of low wage work and a full working week is unattractive compared to the receipt of benefits and little effort to find work.

Other research has shown that while sanctions are notionally applied when conditionality requirements are not adhered to, these sanctions can be so

small that claimants sometimes do not realise that they have been sanctioned. Overall, the bark of the current sanctions regime is a lot worse than its bite. In such circumstances, we cannot expect the system to have a genuine effect on behaviour.⁴ Overall, this means that in practice, very little is required of benefit claimants in return for the benefit they receive and, over time, this has led to the growth of the belief in a right to welfare highlighted above.

For these reasons, if we are to be successful in tackling the growing problem of welfare dependency in Britain, the next steps in welfare reform need to adopt a new approach. We believe there are five areas where urgent reforms are needed in order to address the failings of the welfare state and to deliver a modern welfare system with personal responsibility and self-reliance at its heart:

- 1) Doing more for benefit:** Conditions on claimants should be increased so that more time each week has to be spent engaging in job search. The ambition should be that job search becomes more like the typical 35 hour week of those in employment. This should apply for all of those in receipt of state benefits (including in-work recipients). This means that conditionality should be about helping people move to become totally self-reliant and free from state support, not just moving people into 16 hour jobs. For some groups this might involve a workfare placement.
- 2) Work-first and ‘preferred work’:** The length of time some claimants can spend searching for their ‘preferred work’ should be reduced. Those claimants who do not qualify for contribution-based JSA should be required to search for any work from day one of their claim, rather than the current situation where they are allowed to turn down non-preferred jobs for the first 12

“ A key problem of the reforms set out by the Coalition is that they do not recognise the limits of making work pay and do not tackle the underlying attitude of a right to welfare ”

⁴ Gregg, P., (2008), *Realising Potential*. Department for Work and Pensions, London.

weeks. As a general rule, where people claiming welfare are capable of working, they should be required to look for work and to accept employment when it is offered, even if it pays no more than their welfare benefit.

- 3) Effective sanctions:** Sanctions need to become a stronger tool for influencing the behaviour of those who fail to fulfil activity conditions. Instead of impacting on only one part of one benefit, they should be more closely related to total benefit eligibility. They should not necessarily be topped up by other government payments. To ensure that dependents are not negatively affected, innovative solutions need to be developed. For instance claimants who are sanctioned might have their benefits paid through smart cards that limit the sorts of goods that can be bought. Managed payments for rent and bills and the use of non-financial sanctions might also be considered.
- 4) Reinstating a link between contributions and benefit receipt:** In order to re-establish a 'something for something' approach, a stronger link needs to be created between the National Insurance Contributions (NICs) individuals make and the benefits they can receive if they fall on hard times. This could include stronger conditionality for those without a contribution record and higher benefit levels for those who have contributed. The Government should widen their consultation on NICs and income tax to investigate this area. This should explore innovative solutions like the creation of a personal welfare account, funded from NICs, that could replace contributory JSA and sit above Universal Credit.
- 5) Segmentation and early referral:** To ensure that claimants who are unlikely to find work on their own are not left on benefit for extended periods of time, we need to find better ways of segmenting and fast-tracking claimants to the Work Programme. Doing this would ensure that those who need the most help are transferred to the Work Programme quickly and receive intensive support to get back to work. Ways in which contracts can incentivise Work Programme providers not to 'park' hard-to-help claimants should also be explored.

Some of the areas of reform we suggest will not be popular with some groups. They would increase links between contribution history and benefit receipt; require claimants to do more in order to be eligible for benefit; and place tougher sanctions on those claimants that choose not to comply with the requirements placed on them.

However, while they will be unpopular with some, evidence from two polls commissioned by Policy Exchange shows that the approach is strongly supported by the British public. In particular the public are supportive of increased requirements on jobseekers. Half of people thought that benefit claimants should spend in excess of three hours a day engaged in job seeking activities, and this support for stronger conditionality also extends to workfare. Nearly 80% of people thought that 'people who have been out of work for 12 months or more, who are physically and mentally capable of undertaking a job, should be required to do community work in order to keep their state benefits'.

Our survey found support for a contribution-based welfare system: 51% of people (compared to 44% against) thought that 'state benefits should only be provided to those in need, and who have previously paid national insurance and taxes'.

People also believe that returning to work should be an obligation for benefit claimants, even if the financial incentives are weak. Our poll found that 70% of Britons thought that ‘jobseekers should lose their unemployment benefits if they turn down job offers ... even if it means the job offers the same or less than the unemployment benefits they receive’. This support spread across all sections of society and across the political spectrum.

People also thought that those who do not comply with conditions placed on them should be more heavily sanctioned. When asked about the appropriate size for the sanction, one in five of those interviewed thought that claimants subject to a sanction ‘should lose all their benefits, regardless of what hardship it causes’. Nearly half of people interviewed thought that claimants who were subject to a sanction should receive a ‘substantial (50%) cut in benefit income’. This would be a far larger sanction than most people experience at present.

Our proposals for a new direction in welfare reform address these problems and are supported by the British public. If taken forward they would re-introduce self-reliance at the centre of the welfare system, while still protecting the most vulnerable and providing the intensive support they need. This Research Report outlines the basis of this new approach to welfare. Future reports in this series will outline in more detail both how our approach should be used to reduce welfare dependency and why it is fair.

Introduction

‘As soon as no physical or other compulsion exists, labour is shunned like the plague’

Karl Marx (1844)⁵

The UK has now had nearly 15 years of Government trying to ‘make work pay’ through a system of in-work financial support (tax credits). This makes economic sense: making work pay ensures that benefit claimants get more money in work than they can receive from out-of-work state support and therefore have the incentive to go to work. However, the approach has the significant side-effect that as well as providing out-of-work support to unemployed or inactive families, the state must now also provide in-work support to many families, thereby increasing vastly the numbers of families dependent on the welfare state. This has raised the cost of the welfare system to levels never seen before and has shifted the terms of the debate on ‘rights and responsibilities’ by committing the Government to ensure that jobs pay for benefit claimants, rather than requiring claimants to take any available work.

There is also a question mark over both the success of these policies in delivering significant reductions in worklessness and the likely sustainability of the approach in the future. There are currently 5.4 million working age people living in workless households in Britain,⁶ and 1.9 million children live in these workless households.⁷ Over 2.6 million people have been on out-of-work benefits for over half of the last decade⁸ and there are now 6.4 million families in receipt of tax credits.⁹ Despite tens of billions of pounds of expenditure, improvement in employment rates have been disappointing for those that tax credits are aimed at: employment rates for lone parents now stand at around 55% and for those with relatively low qualifications the rate is 61% (compared to nearly 80% for those with 5 A*-C GCSEs or above). A recent OECD study shows that despite relatively high expenditure, child poverty rates in the UK are still relatively high.¹⁰

With these figures in mind, the time has come to assess whether the current approach to welfare is working, or whether this shift in responsibilities has contributed to a declining work ethic in the UK work force.

Recent press coverage certainly suggests that the latter is the case. The Sunday Times recently highlighted the views of one well known celebrity chef who thought that young British people were ‘too wet to work’.¹¹ The article quoted him as saying that ‘...physical graft and grunt is something this [British] generation is struggling with’. The same article quoted a young unemployed man as saying that ‘our generation is lazy. We don’t put the effort into getting the job we should’ and that after several weeks of unemployment he was no longer applying for jobs because he was ‘not motivated enough’.

This sort of attitude was also reflected in a recent BBC documentary that highlighted the trend of immigrant workers filling jobs that the British unemployed refused to do:

5 The Economic and Philosophic Manuscripts of 1844 (ed D. Struik) New York, International Publishers, 1964, p.111

6 ONS, (2010), *Work and worklessness amongst households*. <http://www.statistics.gov.uk/pdf/dir/work0910.pdf>

7 <http://www.poverty.org.uk/18/index.shtml?2>

8 DWP, (2010), *Universal Credit: welfare that works*. <http://www.dwp.gov.uk/policy/welfare-reform/legislation-and-key-documents/universal-credit/>

9 HMRC, (2011), *Child and working tax credits statistics*, April 2011.

10 <http://www.hmrc.gov.uk/stats/personal-tax-credits/cwtc-apr11.pdf>
<http://www.guardian.co.uk/politics/2011/apr/27/uk-spends-more-families-oecd>
<http://www.jrf.org.uk/blog/2011/04/what-oecd-child-poverty-report-really-means>

11 *The Sunday Times*, 20 February 2011.

‘A squash farmer called Cam Allen, when asked why he had employed only three Englishmen as pickers among the hundreds of east Europeans, said: “We’ve a job to get anyone else to do the work. The rates of pay are above the minimum wage. It’s just finding the people to do this type of work we’ve got.”

Cut to a group of strapping lads leaving the Peterborough dole office, being asked by the same reporter why they wouldn’t go for the £7 an hour offered by Farmer Allen: “No, mate, I’d rather sign on than do that”; “I don’t want to work in, like, no cornfield”; “I don’t want to work with a load of foreigners.”¹²

While the acceptance of available work remains a condition of receipt of unemployment benefit, these young men in Peterborough clearly believed they had a right to stay on welfare rather than pick crops in nearby farms. Another recent BBC documentary¹³ focussed explicitly on long-term youth unemployed and highlighted on more than one occasion the claimants stating that, although jobs were available, ‘they weren’t the kind of jobs’ they wanted.

While not true of all claimants – many still find work quickly and do everything they can to leave benefit – these accounts point to an attitude that seems to be becoming a more common theme. Evidence from a recent Department of Work and Pensions report reinforces this conclusion. It found that 11% of benefit claimants ‘feel fully justified being on benefits and believe they have discovered that life without the added complication of work has much to recommend it’. Another 9% felt that ‘to work or claim benefits is simply a choice individuals should be free to make – there is no right or wrong about it’. A further 11% felt that ‘job search is less urgent as they make the most of the benefits of not working.’¹⁴ In short, nearly a third of claimants feel relatively happy being on benefits and have little motivation to find work.

It seems that there is a significant segment of individuals in receipt of unemployment benefits who feel they have the right to stay on benefit until they find a job that fits their expectations of both job type and pay. This attitude is damaging. Researchers state that it is in people’s interest to accept work rather than stay on benefits. Not only does employment increase their income, but it brings them into contact with other people, raises their self-esteem, makes them happier and provides their children with positive role models. All of this is true. But even if none of it were true, the state should still require those who are capable of working to do so when jobs are available. There is a basic moral principle that you should do whatever you can to support yourself and your dependents, rather than relying on support from other people.

This means that the concept of ‘an acceptable job’ or of signing on being an alternative to supporting yourself when you are able to, should not exist. This view is supported by the British public. New evidence from an Ipsos MORI poll commissioned by Policy Exchange shows that nearly 70% of Britons thought that ‘jobseekers should lose their unemployment benefits if they turn down job offers...even if it means the job offers the same or less than the unemployment benefits they receive’.

However, over time, the principle of taking any available job has been neglected, as the ‘making work pay’ principle has grown and job seekers have started to feel able to pick and choose what jobs they should go for. This is most obviously highlighted by a recent YouGov poll for the Sunday Times that found

12 *The Sunday Times* 29 August 2010, ‘How Tories regret the immigration promise’. The Daily Telegraph 26th August 2010, ‘People on benefits should pick fruit’.

13 BBC3 – Young, Jobless and Living at Home. <http://www.bbc.co.uk/programmes/b00yk311>

14 DWP, (2011), *Beliefs about work: an attitudinal segmentation of out-of-work people in Great Britain*. <http://www.dwp.gov.uk/docs/cires-beliefs-about-work0311.pdf>

that 62% of people thought that ‘most young people in Britain are not willing to work hard’.¹⁵ In short, a belief of a right to welfare has grown over time and we are in danger of seeing this attitude being passed down from generation to generation.

Reforms of the welfare state currently going through Parliament will attempt to iron out some of the problems of the making work pay approach (making sure that all jobs pay, and making the system simpler). However, they will continue with the theme of the last 15 years. We think that these reforms will be successful in pushing those on the margins of work towards work, but they are unlikely to bring about the change in attitude needed to really start to tackle the problems of worklessness that the UK is facing.

This is the first in a new series of reports on welfare reform from Policy Exchange. The series will focus on the welfare system regarding ‘jobseekers’, leaving future reports to discuss whether and how the principles might be applied to those inactive due to disability or caring responsibilities. We will argue that this is the right place to focus to begin to tackle welfare dependency and that the next steps in welfare reform will need a new approach to welfare. This must bring about a change in attitude that begins with jobseekers and spreads more widely. The approach must challenge the growing perception of a ‘right to welfare’. In Chapter 4 we set out five areas where urgent reforms are needed.

Tackling these areas would bring policy closer to a modern version of the underlying principles upon which the welfare state was founded. It would reduce the reliance on ‘making work pay’ and strengthen the role of personal responsibility in the welfare state. But it would also recognise the new challenges and risks that people face and provide support and assistance to those in need. Future reports in the series will outline our proposals in more detail, show how they can be effective in reducing welfare dependency and set out why they are fair.

15 *The Sunday Times*, 3 October 2010

1

Three Core Principles of Welfare Reform

Any attempt to reform the welfare state needs to be led by the principles upon which it is based. We propose three basic principles for a modern welfare state.

The principle of self-reliance

Imagine you fall on hard times and need financial assistance. You approach your friends and family who offer to help you out until you get on your feet again. A short while later you are offered work, but the job pays no more than you are currently receiving from your family and friends. You explain to them that although you have been offered this work, you have decided not to take it since it will leave you no better off than you are currently, living on their donations and it is not the kind of thing you are looking for.

They would, of course, be furious if you made such a decision and it is unlikely that you would ever act in this way. Rather, living off the support of family and friends, you would do everything possible to regain your self-reliance as quickly as possible. Not because it makes you better off, nor because it boosts your self-esteem, or brushes up your skills, or gets you out of the house, or sets a good example to your kids. You would do it because you know it is wrong to continue to exploit their goodwill once you are in a position to help yourself. Accepting work is the right thing to do.

If this is the right thing to do when you know the people who are supporting you, how much more compelling is this principle when the people supporting you are complete strangers? If living off voluntary donations from family and friends when work is available is unacceptable, how much more unacceptable is it to choose to live off tax revenues levied compulsorily from people you do not know?

Public opinion certainly recognises an obligation of those people accepting welfare benefits to work if they can. We have already highlighted evidence from our poll that showed that the vast majority of Britons thought jobseekers should be required to take jobs even if it paid the same or less than benefits. This is supported by previous evidence from a YouGov poll at the end of September 2010 that found that 82% of Britons support cutting benefits for claimants who refuse jobs, while only 8% oppose it.¹⁶ An Ipsos MORI poll in May 2010 also found that 60% of respondents thought that ‘people who refuse the offer of a job should not be allowed state benefits, regardless of their personal circumstances.’ Only 29% disagree with this.¹⁷

¹⁶ *The Sunday Times*, 3 October 2010

¹⁷ Ipsos MORI, *Employment, welfare, skills and the economy: public perceptions and expectations*. August 2010, emphasis added.

This highlights striking support for the principle of self reliance: people who are capable of working and looking after themselves and their dependents should do so, even if the financial rewards are weak.

The principle of less eligibility

Some people feel uncomfortable about making requirements of welfare claimants. We all share disturbing folk memories about the history of conditional welfare relief in this country. We shudder at the image of the Victorian workhouse, with strict work discipline as a condition of receiving food and lodging, and many of us have heard stories from the 1920s of claimants being required to tramp the streets searching for non-existent jobs in order to qualify for the dole. These experiences make us worry about stigmatising claimants by linking poverty relief to work requirements. It is more comfortable and less confrontational to provide an unconditional system of aid where anybody in need of support gets help as a right.

There is, however, a problem with paying welfare as an unconditional right. The OECD have highlighted that such an approach inevitably encourages some degree of fraud and/or voluntary inactivity, which can persist for generations. They argued that ‘a simple income guarantee with no conditions attached could result in very high rates of benefit dependency and the possibility of a downward spiral of weak work incentives and declining employability’.¹⁸ In essence, because an unconditional, rights-based welfare system pays people to do nothing, it encourages the very dependency it is meant to be solving.

To counter this, the welfare system must be such that being in work is always more attractive than being on benefits. This is referred to as the principle of ‘less eligibility.’ The approaches of the 1920s and the Victorians are clearly outdated and no-one would recommend the re-introduction of such measures. However, a modern version of the principle of ‘less eligibility’ is sound: it should not be possible to live a better life on benefits than others in work who would also be eligible for the same benefits.

“It should not be possible to live a better life on benefits than others in work who would also be eligible for the same benefits”

The principle of genuine need

The principle of less eligibility makes sense but it also creates its own problems insofar as it deters those in genuine need from seeking help. The whole point of a welfare system is to protect vulnerable people from deprivation – this is the principle of ‘genuine need’. However, the more focus that is placed on ‘less eligibility’, the more unattractive welfare becomes, and the more difficult it is to claim it. This might mean that more people with genuine need may be dissuaded from asking for it.

Significant numbers of genuinely needy people were undoubtedly deterred from seeking help in the mid-Victorian period because of the ‘fear and contempt’ with which they regarded the system of poor relief.¹⁹ Similarly in the 1920s, the ‘genuinely seeking work’ condition was bitterly resented by men who felt they

¹⁸ Herwig Immervoll, ‘Minimum income benefits in OECD countries’ *Social Employment and Migration Working Papers*, no.100, OECD Paris, 2010

¹⁹ Rose, M., (1986). *The Relief of Poverty 1834-1914* 2nd edn, Macmillan, p.18.

were being punished when there were no jobs for them to do. In our own time, critics of welfare reforms in the USA worry that, while they have resulted in a dramatic fall in the number of claimants, some needy families have been pushed off benefit and have been left with no form of assistance and disconnected from contact with the state and wider society.²⁰

This has been the enduring dilemma of welfare policy since the inception of the welfare state. On the one hand, we want to ensure that people who cannot look after themselves get the help they need; on the other, we want to limit assistance to those who genuinely need it and to reward those who work. The problem with unconditional welfare is that it encourages people who could work to claim benefits instead, making the problem of joblessness and poverty worse rather than better. The problem with making welfare conditional, on the other hand, is that it may deter those who really need help from applying for it.

Striking a balance

Any attempt to reconcile this tension needs to embrace and balance the three core principles outlined above:

- People who are incapable of looking after themselves should be cared for at a decent level (the ‘genuine need’ principle);
- People who are capable of working and looking after themselves and their dependents should do so, even if the financial rewards are weak (the ‘self-reliance’ principle); and
- People who work should normally enjoy a more desirable lifestyle than those who are able to work but rely on welfare benefits (the ‘less eligibility’ principle).

There is nothing new or startling about these three principles. They have underpinned every attempt to develop or reform the state welfare system in England since Elizabethan times. Balancing them, however, has proved to be a recurring problem. Since World War II, the need principle has been strengthened while the less eligibility principle has grown weaker and the ‘self reliance’ principle has been consumed by ‘state reliance’ in making work pay. The result has been the growth of mass dependency reflecting a failure to balance these three principles and the growth of a rights-based welfare system where the emphasis is on Government having to make work pay. The next chapter provides more detail on the drivers of this growth in the ‘rights-based’ welfare system.

²⁰ Finn, D., & Gloster, R., (2010). ‘Lone Parent Obligations’ DWP Research Report No.632.

2

The Evolution of a ‘Right’ to Welfare

This chapter documents the growth of the rights-based welfare system up to 2010. Reforms recently announced by the Coalition are then assessed in Chapter 3.

The erosion of the contributory principle

During the 19th century, it was common for working class families to make their own welfare arrangements. Millions of workers voluntarily insured themselves and their families against loss of earnings either by buying commercial insurance policies or by joining mutual, friendly societies. Claims for assistance were closely monitored by company assessors, in the case of the former or by fellow lodge members in the case of the latter. This decentralised and personalised surveillance system generally ensured that aid was limited to those who really needed it.²¹

When David Lloyd George introduced a compulsory state health and unemployment insurance scheme in 1911, he modelled it on these existing voluntary schemes by explicitly tying benefit entitlements to contributions. People in need could seek help but only if they had been working and paying into the system. Government officials would ensure that any claims were legitimate. But this state insurance system fell apart in the 1920s under the burden of mass unemployment. Many unemployed people either ran out of entitlements, or were never covered by the national insurance scheme and had to be bailed out by doles from the old Poor Law boards of guardians.

Despite this failure, William Beveridge resurrected the insurance principle in his plans for the post-war welfare state in the 1940s. Like Lloyd George, he thought it was important that people should not come to expect something for nothing and insisted that benefits should be earned through national insurance contributions. Basic subsistence payments (‘national assistance,’ which had replaced Poor Law doles in 1934) would be made available as a last resort for those who had not paid in or had run out of entitlement. Beveridge wanted these back-up payments kept at subsistence level, so they would not undermine the desire to work, and he thought behavioural conditions should be attached to them, so claimants would make every effort to return to self-reliance as quickly as possible.²²

But just as Lloyd George’s system failed, so Beveridge’s revamp never worked in the way he had intended. Over the last 65 years, under governments from across the political spectrum, the distinction between earned benefits and unearned

21 Green, D., (1993). *Reinventing Civil Society*. London, Institute of Economic Affairs.

22 Boys-Smith, N., (2006). *Reforming welfare*. Reform, p.14

welfare payments has been eroded and what is effectively a universal and largely unconditional right to assistance has taken its place. The cultural legacy of the insurance principle has survived, however, as people still believe they have ‘paid in’ for benefits to which they are ‘entitled’. Britain also notionally still has contributory and income-based benefits. This suggests potential differences in eligibility for those who have made sufficient national insurance contributions, and those who have not. However, in practice, the levels of benefit for contributory and income-based benefits are the same.

This means that Britain is one of a very few OECD countries today where claimants with no record of work-based contributions receive the same value of cash benefits as those who have built up insurance entitlements.²³ Recent reforms, including changes to contributory ESA and the new single level state pension, have continued to erode the contributory principle.

This situation undermines the notion of personal responsibility and emphasises reliance on state support rather than self-reliance. It is also not how the majority of the British public believe the welfare state should be run. New evidence from an Ipsos MORI poll commissioned by Policy Exchange shows that 51% of people (compared to 44% against) thought that ‘state benefits should only be provided to those in need, and who have previously paid national insurance and taxes’.

The use of time limits, conditionality and activation

One implication of the erosion of insurance-based benefits is that there is no time limit built into our system of working-age benefits. This means that in Britain, the amount of time somebody spends on benefits makes little difference to the amount of money they receive. Although contributory benefits for jobseekers end after six months, these are simply replaced by income-based benefits, paid at the same rate. The only difference is that income-based benefits are subject to a means test, whereas contributory benefits are not.

This is not the case in other countries. For instance, in the USA, federal Unemployment Insurance runs out after 26 weeks (although this was extended during the recession), and those who are still without work after that must rely on federal food stamps and a patchwork system of state and voluntary sector aid. Not surprisingly, job search activity intensifies as the 26 week deadline approaches.²⁴ Through much of Europe too, insured benefits run out after a certain time, after which claimants revert to what is usually a less generous, non-contributory, alternative payment. Evidence from Europe showing an increase in job-finding when benefits run out is also compelling. For example, Katz and Meyer²⁵ find that exit rates from unemployment are about 80% higher in the week preceding benefit expiration and Card and Levine²⁶ find the exit rate to be about twice the size. Another recent study by van Ours and Boone²⁷ found that ‘the spike in the job finding rate suggests that workers exploit unemployment insurance benefits for subsidized leisure’. The lack of an effective time limit in the UK means that claimants can continue to exploit the system in this way indefinitely.

In order to try to prevent people from remaining indefinitely on benefits and in the absence of such time limits, the British system imposes activity conditions – ‘conditionality’ – progressively as claim periods lengthen. These conditions have

23 Immervoll, H., (2009) ‘Minimum income benefits in OECD countries’, Table 4. IZA Discussion Paper No. 4627

24 For a review of US and European evidence on time limits see Saunders, P., (2004), *Australia’s Welfare Habit*, Centre for Independent Studies, Sydney, chapter 8

25 Katz, L.F. and B.D. Meyer (1990) The Impact of the Potential Duration of Unemployment Benefits on the Duration of Unemployment, *Journal of Public Economics*, 41, 45-72.

26 Card, D.E. and P.B. Levine (2000) Extended Benefits and the Duration of UI Spells: Evidence from the New Jersey Extended Benefit Program, *Journal of Public Economics*, 78, 107-138

27 van Ours, J.C., & Boone, J., (2009). *Why is there a spike in the job finding rate at benefit exhaustion?* IZA Discussion Paper No.4523.

been gradually introduced into our benefits system over the last 25 years. For jobseekers the introduction of Jobseekers Allowance (JSA) in 1996 signalled the clearest increase in conditionality as it introduced a specific requirement on claimants to be both available for, and actively seeking work and to undertake at least three 'job-related activities' each week (e.g. speaking to employers, obtaining information about job vacancies, writing a CV, or making job applications).

Evidence from pilots changing the rules in JSA suggests that, compared to a system that relaxes some of these requirements, the JSA system is effective at removing large numbers of claimants from benefits very quickly.²⁸ For instance, not requiring claimants to sign on at Jobcentres for the first 13 weeks of their claim was associated with an increase in expected duration on benefit of over six days. International evidence also suggests that systems that monitor jobsearch activity of claimants are effective at increasing flows off benefit.²⁹ This result is also echoed by recent academic research.³⁰

However, this evidence does not mean that we cannot go further. In practice, JSA claimants only have to attend a Jobcentre Plus once every fortnight, and demonstrate to an advisor that they have been seeking work. These interviews tend to last around 15 minutes and follow a standard script – there is neither the time nor the resources to effectively challenge the claimants claims to have been seeking work. Policy Exchange has previously cited evidence that job search conditions are also not always imposed vigorously or consistently and that few claimants believe their benefit will be stopped if they do not search diligently for a job. It concluded that job search requirements are not properly enforced and that there is no effective mechanism to check whether claimants are actually looking for work.³¹ Little has changed since then and recent evidence finds that job seekers spend as little as eight minutes a day searching for work, clearly underlining the lack of conditionality that they face in practice.³²

The current system also allows all claimants to restrict the types of work that they look for in the first 12 weeks of their claim. It is only from week 13 that claimants are required to accept any available work. By then the average claimant will have received almost £2000 of financial support in a combination of benefits from the state.³³

Following the 13th week of a JSA claim, claimants are required to open up their job search to consider a wider range of jobs. Aside from this, as length of claim increases, little extra conditionality is applied until claimants are passed onto more intensive job search support of the Labour government's flexible New Deal programme or, from now on, the new Work Programme. The New Deals meant that JSA claimants who had been on benefits for 12 months could be required to attend courses on writing job applications and preparing CVs, undertake short periods of work experience, or engage in other work-related or training activities designed to increase their employability. Those under 25 were required to join the Community Task Force for up to 25 hours of work experience per week.

Although evidence on the direct impact of participation in these programmes on job-finding is mixed, the indirect effects are much larger since imposition of activity conditions has reduced welfare dependency by discouraging other people from claiming. Judged by this criterion the compulsory New Deal programmes

28 For example see: Middlemas, J., (2006), 'Jobseekers Allowance intervention pilots: quantitative evaluation' DWP Research Report No. 382 <http://research.dwp.gov.uk/asd/asd5/rports2005-2006/rrep382.pdf>.

29 OECD Employment Outlook – 2007, chapter 5: <http://www.oecd.org/dataoecd/2/10/40777063.pdf>

30 Boone, J., Fredriksson, P., Holmlund, B., & van Ours, J., (2007) 'Optimal Unemployment Insurance with Monitoring and Sanctions,' *Economic Journal, Royal Economic Society*, vol. 117(518), pages 399-421, 03.

31 Bogdanor, A., (2004). *Not Working: Why welfare should replace the New Deal*. Policy Exchange. pp.35,38

32 Krueger, Alan B., and Andreas Mueller. Job Search and Unemployment Insurance: New Evidence from Time Use Data. *Forschungsinstitut zur Zukunft der Arbeit (IZA)*, p. 33.

33 Based on average amounts of Housing Benefit and Council Tax Benefit from <http://research.dwp.gov.uk/asd/index.php?page=hbctb> and Jobseekers Allowance of £64.30 per week.

have had some impact.³⁴ They are also conditions that the British public agree with. In fact, new evidence from an Ipsos MORI poll commissioned by Policy Exchange shows that the public think that these conditions should go further. A total of 79% of people think that ‘people who have been out of work for 12 months or more, who are physically and mentally capable of undertaking a job, should be required to do community work in order to keep their state benefits’. This support spread across all sections of society and across the political spectrum

“While conditions have been introduced in an attempt to move these groups closer the labour market, in practice these conditions are still very weak and require very little of the claimant”

and shows a striking level of support for workfare type arrangements for claimants who have been long-term unemployed.

There have also been attempts over the last 15 years to ‘activate’ those further from the labour market (e.g. lone parents and those claiming benefits due to disability or ill health). Lone parents with younger children must now attend regular ‘Work-Focused Interviews’ (WFI) and agree to an ‘Action Plan’ that anticipates their return to the labour force, and once their youngest child is aged seven, lone parents must transfer to JSA and start looking for suitable part-time work.³⁵

People claiming Employment and Support Allowance (ESA, the replacement for Incapacity Benefit) also now have conditions attached to their claim. They must attend work capability and health assessments at the start of their claim, and those deemed capable of working at some point in the future are required to attend work-focused interviews as a condition of continuing to claim benefits.³⁶

However, neither lone parents with young children nor those claiming ESA are obliged to look for work and, in practice, nothing happens if they fail to abide by their agreed Activity Plan. They can choose whether or not to participate in the various support programmes available to them.³⁷ Evidence from evaluations of the WFI regime regularly reported limited direct impacts on employment for the majority of lone parents³⁸ and the flagship ‘Pathways’ policy for Incapacity Benefit claimants was found to have no impact at all.³⁹ Evidence also suggests that although many of those on benefits say that they want to work, when it comes to taking positive steps to move towards employment they do not make the effort. For instance, although 80% of lone parents say that they want to work, only around 7% volunteered to participate in the New Deal for Lone Parents in order to get support to find work.⁴⁰

So while conditions have been introduced in an attempt to move these groups closer the labour market, in practice these conditions are still very weak and require very little of the claimant. The looser conditions for these groups may even act to increase the incentive for claimants to try to move themselves further from the labour market and claim these benefits rather than JSA.

Overall, despite the extension of conditionality since JSA was introduced, most people who approach the state for financial assistance today are still not required to work or do much else in return for their payments. Before the recession, Paul Gregg reported that dependency on benefits by working-age people stood at four million and that three-quarters of these were not actively looking for work or participating in any employment support programme.⁴¹ We will see later that recently announced welfare reforms do little to change this situation.

34 Gregg, P., (2008), *Realising Potential*. Department for Work and Pensions, London. p.31-2

35 2009 Welfare Reform Bill *Analysis and Evidence* p.15, Gregg, P., (2008), *Realising Potential*. Department for Work and Pensions, London. p.35

36 Department for Work and Pensions, (2010). 21st Century Welfare, Cm 7913, p.29.

37 Griggs, J., & Evans, M., (2010). *Sanctions within conditional benefit systems*, Joseph Rowntree Foundation.

38 <http://www.dwp.gov.uk/docs/realisingpotential.pdf>

39 <http://www.publications.parliament.uk/pa/cm201011/cms/elect/cmpubacc/404/40407.htm>

40 Cebulla et al., (2008). *The New Deal for Lone Parents, Lone Parent Work Focused Interviews and Working Families’ Tax Credit: A review of impacts*. DWP, London.

41 Gregg, P., (2008), *Realising Potential*. Department for Work and Pensions, London. p.5

Failures of enforcement

All rules cease to have meaning if they are not backed up by sanctions, for if nothing happens when a rule is broken, it can and will be ignored with impunity. For the welfare system, this means that the conditionality regime will only be successful in driving behaviour if it is backed up with an effective sanctioning system that punishes individuals when they do not stick to the rules.

Critics say the use of sanctions is undermining the principal purpose of welfare, which is to protect people from poverty (the 'genuine need' principle). The typical complaint is that sanctions make poor people even poorer (two-thirds of JSA claimants who have been sanctioned say it resulted in financial hardship),⁴² that they are undermining the emotional wellbeing of the most vulnerable people in society and even that they are driving welfare claimants into crime.⁴³ But this argument misses the point that people will only have benefit removed or reduced if they do not take part in the activities that they agree to as part of the condition of benefit receipt. In short – they have a choice of whether or not to comply with the conditions of the benefit that they receive.

This is a concept supported by most people in Britain. We highlighted earlier that a recent poll commissioned by Policy Exchange found that nearly 70% of people thought that 'jobseekers should lose their unemployment benefit if they turn down job offers...'. This agreement with the principle of sanctions is not restricted to considering jobseekers. A 2007 survey found that 54% of the British public thought lone parents should have their benefit cut, and another 25% wanted it stopped altogether, if they failed to attend a Work Focused Interview.⁴⁴ Claimants themselves also tend to see sanctions as fair: 75% of JSA claimants think sanctions are fair, and even two-fifths of those who have been penalised agree with this.⁴⁵

To some extent this is reflected in the existing UK welfare system, which already imposes sanctions on claimants who fail to meet their benefit conditions. For instance, JSA claimants who make themselves deliberately jobless or who refuse the offer of employment can be cut off unemployment benefit for up to six months. Those who refuse to attend a meeting or a prescribed activity can have their benefits suspended for variable periods (normally two weeks). Lone parents and Incapacity Benefit claimants may also get sanctioned for failing to attend a Work-Focused Interview, but they lose only part of their benefit.

This leads to a general observation that, in reality, the bark of the current sanctions regime appears a lot worse than its bite. For example, most of those 12,000 JSA claimants who have a claim closed down each month after failing to attend a Job Centre interview or appointment simply make a new claim. The average loss of benefit they suffer is just two days. This is more a symbolic rap over the knuckles (albeit one that is very expensive to administer) than an effective financial penalty.⁴⁶ Similarly, Frank Field reports that only 38,000 young people on the New Deal for under-25s have been sanctioned since 1998, and in the vast majority of cases, the loss of benefits lasted no more than two weeks.⁴⁷ DWP research finds that many young people are indifferent to the threat or application of sanctions.⁴⁸ Clearly demonstrating that sanctions like these are often not taken seriously.

The lack of 'bite' in the sanctions regime leads from a worry that it could inflict financial hardship on those who refuse to comply, their partners and (in particular) their children. This has led to the current system leaving dependents'

42 Two-fifths of them say it led them to intensify their search for employment. See Peters, M., and Joyce, L., (2006). *A review of the JSA sanctions regime: Summary research findings*. Department for Work and Pensions Research Report No.313, p.6. See also Griggs, J., & Evans, M., (2010), *A review of benefit sanctions*. Joseph Rowntree Foundation.

43 Deacon and Patrick; Griggs, J., & Evans, M., (2010), *A review of benefit sanctions*. Joseph Rowntree Foundation.

44 Barnes, M., and Tomaszewski, W., (2010) 'Lone parents and benefits' In Alison Park et al, eds, *British Social Attitudes 2009-2010* Sage 2010, Table 9.5.

45 Peters, M., and Joyce, L., (2006). *A review of the JSA sanctions regime: summary research findings*. Department for Work and Pensions Research Report No.313. p.5

46 Welfare Reform Bill 2009 *Analysis and Evidence* p.96. The Act imposes a one-week fixed sanction for failure to attend an interview.

47 Field, F., & White, P., (2009). *Help! Refashioning welfare reform to help fight the recession*. Reform.

48 Peters, M., and Joyce, L., (2006). *A review of the JSA sanctions regime: summary research findings*. Department for Work and Pensions Research Report No.313. p.2

supplements intact when benefits are cut. For instance, so-called ‘passport benefits’ (such as Housing Benefit and Council Tax Benefit) are left in place, as is Child Benefit and Child Tax Credit (CTC). These payments regularly dwarf the size of the unemployment benefit (particularly since CTC has seen dramatic increases since its introduction) and so the net impact of a sanction on total household income is usually very small. Indeed some JSA claimants who are sanctioned do not even realise that their benefit has been reduced.⁴⁹ This is also the case among single parents, where a failure to attend a Work Focused Interview results, at worst, in a loss of 20% of unemployment benefit. Illustrative modelling shows that when considered as a proportion of total benefit (including CTC, Housing Benefit, Child Benefit and others) this amounts to around only 9%⁵⁰ of disposable income. It is no surprise that many apparently do not notice when they receive a penalty.⁵¹

All these factors point towards a sanction system that is ineffective in driving behaviour and that undermines the system of conditionality. How can sanctions expect to impact on behaviour and promote personal responsibility when people do not realise they are being sanctioned or see little or no change in the amounts of benefit they receive?

The growth of ‘making work pay’

For many people on benefits there is little to be gained financially from accepting a job. By the time they lose their Jobseeker’s Allowance and their Housing Benefit and they start paying income tax and National Insurance, they are only a few pounds a week better off. The Department of Work and Pensions suggests that this means that ‘working legitimately is not a rational choice for many poor people to make’.⁵² Over the last 15 years, this view has led to an attempt to tackle this situation and to ensure that those looking to move from unemployment into work see their incomes rise. The previous Government introduced the tax credit system in 1999 and subsequently extended it in 2003.

By 2010 over six million families were receiving financial support through tax credits. This dramatic increase in the Government’s role in ‘making work pay’ is the final aspect leading to the growth of a rights-based system.

We highlighted earlier that the public support the idea that those claiming out-of-work benefits should face an obligation to enter work where it is available rather than continuing to rely on benefits. However, the making work pay agenda undermines that approach. This is because while the use of in-work financial support is one way of achieving the ‘less eligibility’ principle (ensuring that work is more attractive than benefits), it also works against the other principles of the welfare state. Rather than building on the principle of self reliance it puts the emphasis on Government to provide incentives to enter work. It is no longer the case that claimants should enter work even if it pays the same as benefits. Instead the making-work-pay approach lends implicit support to those waiting on benefits looking for the ‘right type of job’ or a job that pays well enough.

The move towards ‘making work pay’ is also in stark contrast to a large body of evidence that shows that, for the majority of individuals, labour market responses to changes in financial incentives tend to be relatively small. This literature is summarised by a recent IFS paper.⁵³

49 Gregg, P., (2008), *Realising Potential*. Department for Work and Pensions, London. p.75; Griggs and Evans, p.15

50 Gregg, P., (2008), *Realising Potential*. Department for Work and Pensions, London. p.76

51 Goodwin, V., (2008). *The effects of benefit sanctions on lone parents’ employment decisions and moves into employment*. DWP Research Report No. 511.

52 Department for Work and Pensions, (2010). *21st Century Welfare*, Cm 7913, chapter 2, para 22

53 Meghir, C., & Phillips, D., (2010). *Labour Supply and Taxes*. IFS, London. <http://www.ifs.org.uk/mirrleesreview/dimensions/ch3.pdf>

Most groups tend to respond most strongly to incentives to enter work (compared to incentives to increase hours) and some groups, like lone parents, have been highlighted as groups that respond relatively strongly to financial incentives. But, although tax credits increased employment for lone parents, their employment rate is still at a relatively low figure of around 55% in the UK. This compares to other European countries that have rates of lone parent employment nearer 70%, suggesting that there are much wider influences at play here than just financial incentives.

For the wider population, responses to financial incentives are lower. This means that it is unlikely that relatively small changes in financial incentives will have large aggregate impacts on labour supply. This is what we have seen in the UK, where despite billions of pounds of expenditure and Minimum Income Guarantees⁵⁴ that show how much people can expect to earn in work, tax credits have failed to make a large dent in the vast numbers of workless households. Thus, while financial incentives can be successful in moving marginal groups into work, they are likely to be a costly and relatively blunt tool for moving large groups of claimants into work.

In summary, the last 65 years of welfare reform have seen some stark trends:

- the contributory principle has been eroded to the point that there is no real distinction between those who have a strong history of contributions and those who do not;
- the use of conditionality and activation has been increased but in a piecemeal fashion that means that many claimants do very little in return for the benefits they receive;
- where conditions do exist and are not met by the claimant, the application of the sanctions regime means that it does not drive behaviour effectively; and
- the recent reliance on making work pay has resulted in a very expensive shift of focus away from personal responsibility and onto the Government providing incentives to work.

In combination these trends have led to the growth of a welfare dependency culture and a rise in the concept of the 'right to welfare'.

54 For instance see: HM-Treasury, (2010), *Budget 2010: securing the recovery*. TSO London. p.68.

3

The Approach of the Coalition So Far

In an attempt to tackle some of these problems and to attempt to stem the rising level of welfare dependency, the Coalition Government has taken bold steps.

Firstly, it has announced⁵⁵ reforms that will take around £18 billion out of the welfare budget. These include measures that remove entitlements from those families with higher incomes; that change the way in which benefits are adjusted each year to take account of inflation; and that reform the system of extra cost and income replacement disability benefits to ensure they are more clearly focussed on those with the greatest needs.

Second, the new Work Programme has replaced the previous flexible New Deal system. The Work Programme will provide intensive support for the long-term unemployed and disadvantaged to find work, will be run by private and third sector providers and will be based on a payment-by-results framework. This builds on the New Deals, but shifts the balance of funding towards payment for successful outcomes. For some groups, referral to the work programme will come at an earlier stage of their claim than would have been the case under the New Deal.

Lastly, a fundamental remodelling of the personal tax and benefits systems has been announced. On personal tax, rises in the income tax personal allowance to meet the ambition of a £10,000 allowance in this Parliament (so workers earn more before paying income tax) have been announced and the 2011 Budget announced a consultation on how income tax and national insurance contributions might be brought together. This consultation could have wide ranging implications for personal taxation and the contributory principle, but little will be known about this until after the consultation and the Government's response. The final announcement is that the Universal Credit, a new benefit that will replace the majority of income-replacement benefits, Housing Benefit and tax credits, will begin to be introduced gradually from 2013. It is this new benefit that forms the centre of the government's welfare reform agenda.

The Universal Credit will have three key components. First it will go some way towards simplifying the welfare system by combining some of the bewildering array of separate benefits and entitlements into a single payment. It will remove the distinction between out-of-work and in-work financial support, increase 'earnings disregards' (the amount a family can earn before their welfare benefit starts to be withdrawn) and reduce benefit by a set amount per pound (the 'single taper')⁵⁶ once earnings rise above the disregard. By doing so, it will increase incentives to work in part-time or 'mini-jobs'. Finally, the new benefit will be delivered in

55 At Budget 2010 and Spending Review 2010 – available at <http://www.hm-treasury.gsi.gov.uk>

56 Department for Work and Pensions, (2010). *21st Century Welfare*, Cm 7913.

real-time and linked in to HMRC's PAYE system. This means that levels of benefit will be adjusted automatically as earnings change and this should simplify the claims process and remove a great deal of fraud and error from the system.

These are positive steps, which should be welcomed. Any attempt to simplify the system and allow the making-work-pay approach to function more effectively should be applauded. But, while this will no doubt improve the current system, there are questions over the extent to which these reforms will really tackle the dependency culture that has built up in the UK and deliver the change in attitudes and increase in personal responsibility that are needed to drive a significant reduction in worklessness.

In the Impact Assessment published alongside the Welfare Reform Bill, the Department for Work and Pensions claims that it expects a 'reduction in the number of workless households of around 300,000...within two to three years of implementation'. This will only make a small inroad into the total workless household stock of almost 3.9 million⁵⁷ and, in fact, most of these 300,000 households will not actually leave welfare but will continue to claim some welfare payment, along with some part-time earnings.

This raises a key question over what we mean when we say we want to reduce welfare dependency. Is the aim to get more welfare claimants into part-time employment (while still claiming reduced levels of benefit)? Or should we be looking to move people off welfare altogether? To be ambitious we should aim at the latter. But the Coalition has adopted the first and this raises the question of whether the outcomes warrant the £2.6 billion price tag.

It is argued that by encouraging people to take 'mini jobs' now, more people will be likely to step up into longer hours jobs in the future. But the evidence for this is, at best, mixed. For instance, while some research finds positive impacts,⁵⁸ other work finds that people choose mini jobs as a distinct way of life, rather than as a route to longer-hours jobs.⁵⁹ Other research finds the expected impacts to be small or outweighed by other people reducing their hours to take on mini jobs.⁶⁰ Professor Paul Gregg effectively summarises these worries in his evidence to the Public Committee for the Welfare Reform Bill. When asked about the role of mini jobs in helping people back into work he stated that 'there is a fear that we are creating a system and a design for people to take mini-jobs, but to stay there instead of progressing and becoming more independent of the tax and benefits system' and that 'we are creating an incentive to work a little...but people will tend to stick there'.⁶¹ This leaves questions over whether we can expect any real reduction in welfare dependency.

To an extent, these reforms are also just a continuation of the trend of the last 15 years – with governments spending successively more money to target work incentives. It is estimated that when fully up and running, Universal Credit will increase welfare expenditure by £2.6 billion a year.⁶² Critics will argue that this estimate is likely to be on the low side: the figure relies on the new IT system delivering £2 billion of reductions in fraud and error in order to offset the increase in expenditure of £4.6 billion. Government also has a knack for underestimating costs and overestimating savings. This means that the final costs could well be over £3 billion. With these associated costs, and the relatively small impact they are likely to have on dependency, we are left questioning whether the making-work-pay approach can ever be the key tool to ensuring a dramatic reduction in welfare dependency.

57 ONS, (2010), *Work and worklessness amongst households*. <http://www.statistics.gov.uk/pdf/dir/work0910.pdf>

58 Bell, K., Brewer, M., & Phillips, D., (2007). *Lone parents and mini-jobs*. The Joseph Rowntree Foundation. York.

59 Hales, J., Tipping, S., Lyon, N., (2007). *The Rate of Mothers' Participation in Paid Work: The Role of 'mini-jobs'*. Department for Work and Pensions Research Report No. 467. Or Booth, A., & van Ours, J., (2010). *Part time jobs: what women want?* CentER Discussion Paper No. 2010-05.

60 Steiner, V., & Wrohlich, K., (2004). *Work incentives and labour supply effects of the mini-jobs reform in Germany*. <http://userpage.fu-berlin.de/~vsteiner/forschung/Minijobs.pdf> or Bargain, O., Calliendo, M., Haan, P., & Orsini K., (2005). *Making work pay in a rationed labour market: the mini job reform in Germany*. *Journal of Population Economics* 23 (2009) No.1, 323-351.

61 <http://www.publications.parliament.uk/pa/cm201011/cmpublic/welfare/110324/am/110324s01.pdf>

62 Universal Credit impact assessment, available at: <http://www.dwp.gov.uk/docs/universal-credit-wr2011-ia.pdf>

Chapter 2 highlighted both the desire of government to ‘make work pay’ and the erosion of the contributory principle as drivers of the rise in welfare dependency in Britain. It explained that there was no longer a clear link between contributions and entitlement to benefit and that the shift of focus away from self-reliance to government having to incentivise individuals to work had led to a shift in attitudes and a rise in the concept of the ‘right to welfare’. The reforms announced by the Coalition so far do little to address these trends. So the next steps in welfare reform need to focus on these areas.

A need for a renewed link between contributions and benefit

Contributory JSA and ESA are going to be retained and perched alongside the Universal Credit system but the links between contributions and benefits have not been strengthened as conditions and rates will not change. This brings into question the Coalition’s long-term plans for the contributory principle. This question is also raised by the announcement of the consultation into how income tax and national insurance contributions could be brought together.

The welfare reforms mean that the only real advantage for those claiming contributory JSA or ESA is that they are able to claim while retaining their savings. However, in future they will have to claim two separate benefits to gain this advantage (JSA/ESA and Universal Credit). This leaves complexity in the system without delivering any greater link between contribution records and the benefits received.

As noted above, a majority of British people think that state benefits should only be paid to people who have previously paid national insurance and taxes. This would be a very strongly contributory system. But in fact the current UK system is one of the least contributory in the developed world. Whatever its other merits, Universal Credit does nothing to build a greater distinction between these claimants with and without a contribution record. Renewing the contributory principle would re-establish a stronger link between rights and responsibilities and re-emphasise individual responsibility rather than a reliance on state support.

A need for a strengthened conditionality regime

The Coalition has discussed reforms to conditionality and the sanctions regime and laid out plans for reform in the Welfare Reform Bill. Before that they appeared in the welfare reform White Paper. When this was published, the proposals for tightening conditions and sanctions led to strong opposition from pressure groups committed to unconditional welfare rights. Oxfam, for example, warned that ‘punishing [non-compliant claimants] as if they are criminals repaying a debt to society is not a fair way to treat someone entitled to support’. Save the Children complained about ‘sanctions creating a climate of fear’.⁶³ But, in reality, the proposed reforms do very little to extend the principles beyond where the previous Government had taken them. Indeed, Iain Duncan Smith has recently stated that ‘...the principles behind that conditionality haven’t really changed, and won’t change as we go forward’.⁶⁴

The Government has introduced four-week Work Activity Placements, but these are intended primarily as an anti-fraud device to prevent people claiming and

63 *The Guardian* 12 November 2010. ‘Work and pensions secretary faces backlash over reforms’.

64 Uncorrected transcript of oral evidence on Universal Credit to Work and Pensions Committee: HC 743-ii (9th February 2011). Available at: <http://www.parliament.uk/business/committees/committees-a-z/commons-select/work-and-pensions-committee/publications/>

working at the same time, rather than as a form of ‘workfare’. Advisors in jobcentres will be able to refer a small number of claimants into a workfare-type scheme if they believe they are consistently non-compliant with the requirements placed on them. However, when we compare the requirements in Britain with some other countries, we see that claimants are not being asked to fulfil particularly onerous conditions. A number of countries have a much stronger role for workfare type arrangements (USA, Australia and Germany) and in some (Sweden and Australia) unemployed are expected to be able to move regions in order to find employment.

The Department for Work and Pensions research⁶⁵ also suggests that the average JSA claimant spends only seven hours a week searching for work. Other recent work suggests that this could in fact be even lower. A study by Krueger and Mueller suggests that JSA

claimants spend on average as little as eight minutes per day searching for work.⁶⁶ With such little time spent looking for work, it is apparent why the prospect of low wage work and a full working week can be unattractive to some people.

This lack of progress on conditionality is driven by the belief that it is ‘almost impossible’ to encourage welfare claimants back to work through activity conditions while they can ‘justifiably claim they are financially better off out of work’.⁶⁷ Iain Duncan Smith, takes this further by suggesting that the principal lever shifting people from welfare into work must be financial, not moral. He says: ‘It’s no good teaching [claimants] about moral purpose, or lecturing them about their obligations, or telling them how good work is for the condition of man. That is never going to be understood by them. The one factor that governs decisions at that level is money.’⁶⁸

While the political point being made here is understandable, there are two objections to it. Firstly, many people do leave welfare for work in low wage jobs, when on this analysis, it is not really ‘rational’ for them to do so. Other factors, including a sense of responsibility, are in fact influencing them – and powerfully so.

Secondly, the majority of voters disagree with the moral point being expressed. As noted above 70% believe that people should be made to accept jobs that pay the same or less than they would receive in benefits. People do believe that there is an obligation to support yourself if you can and only 14% of those interviewed thought that low rewards to work were the main cause of long-term unemployment.

Evidence also suggests that strengthening requirements on benefit claimants is the most effective way of moving people into work more quickly. The increased conditionality in the UK system signalled by the introduction of Jobseekers Allowance has been shown to have increased the off-flow rate from benefit by around nine percentage points.⁶⁹ International evidence also suggests that increased conditionality has been effective at reducing unemployment in many OECD countries. One report suggests that job-search reporting and regular interviews with advisors increase the probability of

“The Department for Work and Pensions research also suggests that the average JSA claimant spends only seven hours a week searching for work...With such little time spent looking for work, it is apparent why the prospect of low wage work and a full working week can be unattractive to some people”

65 McKay, S., Smith, A., Youngs, R., and Walker, R., (199), *Unemployment and jobseeking after the introduction of Jobseekers Allowance*. DWP Research Report no.99.

66 Krueger, Alan B., and Andreas Mueller. *Job Search and Unemployment Insurance: New Evidence from Time Use Data*. Forschungsinstitut zur Zukunft der Arbeit (IZA), p. 33.

67 *The Sunday Times* 3 October 2010. ‘Millions lose out in child benefit cut’.

68 *The Sunday Times* 3 October 2010. ‘How to get benefit Britain working’.

69 Manning, A., (2005), *You can’t always get what you want: The impact of UK Jobseekers allowance*. Centre for Economic Performance, LSE.

exiting benefit by between 15% and 30%.⁷⁰ These measures are both relatively cheap and very successful and more should be done to strengthen them in the UK system.

The effectiveness of ‘work for benefit’ schemes

Conditionality can also go further than just requiring claimants to prove that they are actively seeking work. For many years there has been a debate around the merits of ‘workfare’ or work-for-your-benefit type schemes. These require claimants to work in return for their benefit and have most famously been used in the United States. In the US the use of workfare has been part of a series of reforms that have dramatically cut benefit caseloads, but it is not the only country where workfare has been used. Other countries such as Australia, Denmark, Germany and Switzerland all have requirements based on workfare or participation in other formal schemes. Evidence suggests that the requirement to move onto these schemes has been effective in increasing exits from benefits. A summary of the results from these schemes suggests that they can increase exit rates from benefit by up to 65% in the weeks before the scheme starts.⁷¹

Surprisingly, such an approach has also been tested for some claimants who had been on benefit for more than two years in the UK. Just before the 1997 election the Department for Work and Pensions published the results of these workfare trials in Hull and Medway. These showed that claimants in the pilot areas were ‘more likely to get a job than similar clients in the comparison offices’.⁷² In fact, just under half of the 6,800 participants signed off before workfare conditions kicked in.⁷³ This result astonished administrators and commentators. At the time, in an article titled ‘Workfare really works’, Polly Toynbee wrote in the Independent:

What became of the 3,100 who have signed off? Only 920 announced that they had got jobs. Where are the others? Did they find the prospect of three months’ compulsory work so terrible that they chose to starve instead? Have they been frightened by bullying interrogators out of drawing the dole rightfully due to them? Opponents of workfare put these propositions forward, but rather sheepishly.

More likely, many were claiming falsely. Either they already had full-time jobs paying them above benefit levels (we are not talking here about earning a little extra on the side) or they were well able to get jobs once pushed. The Low Pay Unit complains that many have been pushed into unsuitable work, but after two years, is that so unreasonable?

International experience has shown that workfare policies are effective, primarily because they create a strong motivation for people to find other jobs. As Polly Toynbee noted above, the off-flow rates associated with workfare do not happen during the claim, as people are ground down by the rigour of a working week; but rather on day one, before they’ve even showed up.

Again, as well as being effective, measures such as these are supported by the British public. Earlier we highlighted new evidence from a poll commissioned by Policy Exchange that demonstrated that 79% of people think that some long-term benefit claimants should have to engage in community work in order to keep their state benefits.

70 Martin, J.P., and Grubb, D., (2001), *What works for whom: a review of OECD countries experience with active labour market policies*. Office of Labour Market Policy Evaluation Working Paper No.14.

71 Martin, J.P., and Grubb, D., (2001), *What works for whom: a review of OECD countries experience with active labour market policies*. Office of Labour Market Policy Evaluation Working Paper No.14.

72 Bryson, A., Lissenburgh, S., & Payne, J., (1998). *The first project work pilots: a quantitative evaluation*. Policy Studies Institute, London. http://research.dwp.gov.uk/asd/asd5/working_age/wa1999/esr10rep.pdf

73 <http://www.independent.co.uk/opinion/the-tories-were-right-workfare-really-works-1280874.html>

Overall, a great deal of both British and international evidence shows that placing conditions on benefit receipt is a successful and cost-effective way of moving claimants back into work.⁷⁴ Much more needs to be done to increase the requirements on jobseekers to ensure they spend more time seeking work and to ensure that those on unemployment benefits cannot enjoy a better quality of life than their working peers might expect. Evidence shows that this approach would be effective in ensuring that they move back to work more quickly.

A need to back up conditions with an effective sanctions regime

While taking steps to simplify the welfare system and increase the returns to work, the Coalition is not taking significantly firmer action on those who deliberately flout their responsibilities. We support the Coalition's proposals to adopt a staged approach to sanctioning, where the size of sanction increases with the severity of the behaviour that instigated the sanction and number of times a claimant has not complied with the conditions. But we do not feel that this goes far enough to make the sanctioning system effective in changing behaviour. At a recent Work and Pensions Select Committee evidence session,⁷⁵ Iain Duncan Smith assured the members that

child benefit would not be caught up [in a sanction], and other child-related matters such as housing, council tax benefit and disability premia will not be caught up in the sanctioning process. They already aren't, and they won't be; there is no plan for that to change.

We noted earlier that this sort of approach can lead to the sanctions system being ineffective at driving behaviour, since these other benefits dwarf the size of JSA. This means that households are unlikely to see dramatic changes to take-home income if JSA (for instance) were sanctioned, but these benefits protected.

We realise that withholding money from families with children poses serious dilemmas. Allowing children to suffer cannot be an option, but it is absurd for people in breach of activity conditions to see little change in their benefits or be given hardship payments to ameliorate the impact of the penalty. This view is shared by the British public. Policy Exchange's recent report, *Just Deserts?*, reported that one in five of those interviewed thought that claimants subject to a sanction 'should lose all their benefits, regardless of what hardship it causes'. Furthermore, nearly half of people interviewed thought that claimants who were subject to a sanction should receive a 'substantial (50%) cut in benefit income'. This would be a far larger sanction than most people experience at present.

Research into sanctioning systems also suggest that sanctions are effective. For instance, over half of JSA claimants report that the threat of sanctions makes them more likely to look for work.⁷⁶ UK evidence also suggests that most of those who have been sanctioned say that they would not repeat the behaviour that led them to being sanctioned.⁷⁷ International evidence also shows wide ranging support for welfare sanctions, even amongst those who have been sanctioned themselves.⁷⁸

These findings are backed up by academic research, which tends to show that sanctions are effective at increasing the likelihood of claimants moving off benefit and into work. For example, van Ours and van der Klaauw investigate the impacts

74 Daguette, A., & Etherington D., (2009). *Active labour market policies in international context: what works best? Lessons for the UK*. DWP, London. <http://research.dwp.gov.uk/asd/asd5/WP59.pdf>

75 Uncorrected transcript of oral evidence on Universal Credit to Work and Pensions Committee: HC 743-ii (9th February 2011). Available at: <http://www.parliament.uk/business/committees/committees-a-z/commons-select/work-and-pensions-committee/publications/>

76 Gregg, P., (2008), *Realising Potential*. Department for Work and Pensions, London.

77 Peters, M., and Joyce, L., (2006), *A review of the JSA sanctions regime: Summary research findings*. Department for Work and Pensions Research Report No.313.

78 Zandvliet, K., et al (2006), *Effectiviteit van sancties bij Arbeidsmarkt – en Reintegratiebeleid: lessen uit her Buitenland*, SEOR for the Dutch Ministry of Social Affairs and Employment.

of reforms in Rotterdam and find that while benefit sanctions were effective in increasing job finding rates, increased financial incentives through re-employment bonuses were not.⁷⁹ A range of other studies also show that conditionality requirements are most effective when backed up by sanctions and that sanctions increase job-finding rates.^{80,81,82} Other research looks at the optimal size of sanctions. In line with the views of the public, this tends to suggest that they should be larger than currently seen in the EU,⁸³ with one recent paper suggesting that the most effective sanction is for 100% of benefit income.⁸⁴

This wide-spread support for sanctioning and the conclusions on the size of sanctions are clearly at odds with the current system of sanctions in the UK and with where the Government's reforms are heading. For this reason we need to be more imaginative in finding a way to make the sanctions system work better. It must be reformed to more effectively penalise claimants who do not comply with requirements placed on them so that it drives behaviour. However, while doing this, it must also be aware of the less positive aspects of sanctions that might also occur. A recent Joseph Rowntree Foundation⁸⁵ paper and another by Arni, Lalive and Ours⁸⁶ both highlight some of these aspects (including poverty, outcomes for children and crime), while confirming that there is positive evidence on the success of sanctions systems in increasing benefit exit rates.

Helping the hardest to help

The question of sanctions and conditionality also brings about wider questions for people who in principle could work (i.e. they are not placed in the work-related-activity or support group from the ESA assessment, and they have no young children to look after), but who in practice seem incapable of achieving or sustaining self-reliance.

The Work Programme will now begin to provide the kind of intensive support that these groups will need to move back to the labour market, but these reforms need to go further. To really tackle this problem, more must be done to identify these problem groups who are at risk of spending extended periods on benefit and refer them more quickly to providers in the Work Programme.

This criticism is not new. In his review of conditionality for the previous Government, Paul Gregg suggested that because of the 'potential importance of finding a more sophisticated mechanism to identify [those with greater disadvantages] ... the Government should ... assess whether it is possible to develop a more accurate and individualised screening tool'.⁸⁷ However, because of worries of cost-effectiveness and deadweight, we do not see enough of this approach in the Work Programme. This means that by the time some of these groups reach the private sector provider, they will have spent a year on benefits and may be so far from the labour market that they end up requiring interventions that are too costly for providers to make it profitable to help them. This is known as 'parking'.

This sort of parking is damaging to the support for the welfare state. If we are to ask more of claimants in return for the benefits they receive, then this must go hand in hand with consistent and fairly applied support for those who need a helping hand in getting back to work. This means that we need to do more to ensure that those with the greatest needs are properly supported towards work

79 Van der Klaauw, B., & van Ours, J.C., (2010) *Carrot and Stick: How Reemployment Bonuses and Benefit Sanctions Affect Job Finding Rates*. IZA Discussion Paper No.5055. <http://ideas.repec.org/p/iza/izadps/dp5055.html>

80 Abbring, J.H., van den Berg, G.J., van Ours, J.C., (2005), The Effect of Unemployment Insurance Sanctions on the Transition Rate from Unemployment to Employment, *The Economic Journal*. 115: 505 pp.602-630.

81 van den Berg D.J., van der Klaauw, B., and van Ours, J.C., (2004), Punitive Sanctions and the Transition Rate from Welfare to Work, *Journal of Labour Economics* 22:1, pp.211-241.

82 Wilke, R.A., (2003), Eine empirische Analyse von Sanktionen für Arbeitslose in Westdeutschland während der 1980er und 1990er Jahre, Zentrum für Europäische Wirtschaftsforschung, Discussion Paper No.03-71.

83 Boone, J., Fredriksson, P., Holmlund, B., van Ours, J., (2001) *Optimal Unemployment Insurance with Monitoring and Sanctions*. <http://www.nek.uu.se/pdf/2001wp20.pdf>

84 Wunsch, C., (2010), *Optimal Monitoring and Sanctioning Systems*. <http://cep.lse.ac.uk/seminarpapers/16-02-09-WUN.pdf>

85 Griggs, J., & Evans, M., (2010), A review of benefit sanctions. Joseph Rowntree Foundation. <http://www.jrf.org.uk/publication/s/review-of-benefit-sanctions>.

86 Arni, P., Lalive, R., & van Ours, J., (2010). *How Effective are Unemployment Benefit Sanctions: looking beyond unemployment exit*. http://www.eale.nl/Conference2010/Programme/Papers/contributedsessionsC/add128164_d7uk4fki9Z.pdf

87 Gregg, P., (2008), *Realising Potential*. Department for Work and Pensions, London.

and that the service provided by both Jobcentre Plus and private providers give support which is proportional and appropriate to claimants with greatly differing requirements and barriers to work.

A new approach is needed

We have argued that the current welfare system is in need of reform to reinstate personal responsibility and to reduce benefit dependency. The Coalition's approach is based on good intentions: the change to earnings disregards and taper rates may encourage some people to pick up a few hours per week of work to combine with their benefit. However, DWP's projections suggest that the current approach on its own will not be enough to lead to a more substantial shift out of welfare dependency into full-time employment and self-sufficiency.

This leads to our argument that the Government needs to recognise the limits to making work pay. If we are serious about reducing benefit dependency, tweaking taper rates and disregards will not be enough: incentivising work is important, but it should not be the sole or driving focus of welfare reform. We need a shift in emphasis. Both the views of the British people and our analysis suggest that there are four major failings in the welfare state that will not be tackled by the proposed reforms:

1. The system lacks a clear contributory principle that would re-instate the link between the national insurance contributions people make and the benefits that they can receive;
2. The conditionality regime is not strong enough to impact upon the culture of welfare dependency that has developed in the UK and to ensure that people are targeting a move from benefits to self sufficiency;
3. When individuals do not comply with the conditionality system, the sanctions regime is not always acting to drive changes in behaviour; and
4. Reforms to support for the hardest to help groups are unlikely to be effective in helping the very hardest to help.

Without bold steps to tackle each of these areas it seems unlikely that we will make real progress in reducing welfare dependency and re-introducing personal responsibility and self-reliance at the heart of the welfare system. The next chapter highlights five areas where urgent reform is needed to do just that.

4

Reinstating Personal Responsibility

We have highlighted that a new approach to welfare reform is needed, and that we believe that there are five areas where urgent reforms are needed in order to really tackle, and not further encourage, welfare dependency.

- 1) Doing more for benefit:** Conditions on claimants should be increased so that more time each week has to be spent engaging in job search. The ambition should be that job search becomes more like the typical 35 hour week of those in full time employment. This should apply for all of those in receipt of state benefits (including in-work recipients). This means that conditionality should be about helping people move to become totally self-reliant and free from state support, not just moving people into 16 hour jobs. For some groups this might involve a workfare placement.
- 2) Work-first and 'preferred work':** The length of time some claimants can spend searching for their 'preferred work' should be reduced. Those claimants who do not qualify for contribution-based JSA should be required to search for any work from day one of their claim, rather than the current situation where they are allowed to turn down non-preferred jobs for the first 12 weeks. As a general rule, where people claiming welfare are capable of working, they should be required to look for work and to accept employment when it is offered, even if it pays no more than their welfare benefit.
- 3) Effective sanctions:** Sanctions need to become a stronger tool for influencing the behaviour of those who fail to fulfil activity conditions. Instead of impacting on only one part of one benefit, they should be more closely related to total benefit eligibility. They should not necessarily be topped up by other government payments. To ensure that dependents are not negatively affected, innovative solutions need to be developed. For instance claimants who are sanctioned might have their benefits paid through smart cards that limit the sorts of goods that can be bought. Managed payments for rent and bills and the use of non-financial sanctions might also be considered.
- 4) Reinstating a link between contributions and benefit receipt:** In order to re-establish a 'something for something' approach, a stronger link needs to be created between the National Insurance Contributions (NICs) individuals make and the benefits they can receive if they fall on hard times. This could include stronger conditionality for those without a contribution record and higher benefit levels for those who have contributed. The Government should

widen their consultation on NICs and income tax to investigate this area. This should explore innovative solutions like the creation of a personal welfare account, funded from NICs, that could replace contributory JSA and sit above Universal Credit.

- 5) Segmentation and early referral:** To ensure that claimants who are unlikely to find work on their own are not left on benefit for extended periods of time, we need to find better ways of segmenting and fast-tracking claimants to the Work Programme. Doing this would ensure that those who need the most help are transferred to the Work Programme quickly and receive intensive support to get back to work. Ways in which contracts can incentivise Work Programme providers not to ‘park’ hard-to-help claimants should also be explored.

Why this approach is right

These proposals will strengthen the welfare system. They will require more of claimants; toughen up sanctions; and re-establish the link between contributions and benefit. They will re-instate self-reliance and personal responsibility at the heart of the welfare system.

As such they are likely to be fiercely resisted by critics of conditional welfare who feel that the demands made on welfare claimants and the sanctions imposed against those who do not comply have already gone too far. But, these arguments will defend an unconditional welfare rights system by emphasising the principle of need while ignoring the other two principles of self-reliance and less eligibility.

For example, some commentators will argue: that requiring claimants to spend longer each week undertaking work-related activity is wrong if it does not directly benefit them; that low wage employment does not guarantee that people are lifted out of poverty; that minimum wage work is ‘menial, badly-paid and repetitive’⁸⁸ and does not necessarily raise self-esteem.

All of this is true, but such considerations are misguided and patronising. Many people work all their lives in jobs that others view as badly-paid and unattractive but they do not expect to be offered welfare as an alternative. If there are legitimate jobs that need doing and there are people on welfare capable of doing them, they should be expected to accept this work rather than staying on benefits, regardless of the quality of the experience it may offer them. This is the underlying principle of ‘rights and responsibilities’.

Other commentators will say that imposing activity conditions on welfare claimants stops them looking for work and that time spent on the activity could be better spent on job search.⁸⁹ This argument might be more compelling if JSA claimants were spending more than eight minutes per day looking for work. The less eligibility principle again applies here: people in jobs commonly look for new employment while holding down an existing full-time position, so similar things should be expected of welfare claimants. The underlying presumption is that it is not unreasonable to ask a claimant to undertake a similar length of work-related activity each week as a person working full time.

Another critical argument is that people on welfare make a ‘contribution to society’ in some way other than by working and that this establishes their right

⁸⁸ <http://www.social-policy.org.uk/lincoln/Deacon.pdf> .

⁸⁹ Crisp, R. and Fletcher, D.R. (2008). *A Comparative Review of Welfare Programmes in the United States, Canada and Australia*. Department for Work and Pensions Research Report No.533. p.9 .

to financial support. In the case of full-time carers (e.g. people caring for disabled partners, or parents caring for infants) this is a strong argument. They are currently exempt from activity conditions in our welfare system and will continue to be so in the reformed system too.

There is also the argument that welfare conditionality undermines basic human rights by requiring claimants to work in return for benefits.⁹⁰ The Coalition's conditional welfare proposals have been attacked by one journalist for 'creating a class of chain-gang conscripts'⁹¹ and Australia's system of mutual obligation has been attacked as 'exploitative', 'unjust' and in breach of the International Covenant on Civil and Political Rights' prohibition of 'forced or compulsory labour'.⁹² But how can it be 'exploitative' to offer somebody financial assistance on condition that they do something in return? On this logic, human rights are violated every time an employer issues an instruction in the workplace.

“ If there are legitimate jobs that need doing and there are people on welfare capable of doing them, they should be expected to accept this work rather than staying on benefits, regardless of the quality of the experience it may offer them ”

Another worry is that there are not enough jobs for people on welfare to

do. The Institute for Public Policy Research, for example, has claimed that with unemployment at 8%, and more than five unemployed people for every notified vacancy, it is unrealistic for the Coalition government to demand that welfare claimants find jobs: 'UK businesses lack the capacity to absorb our swollen unemployed workforce'.⁹³ But this is an unconvincing argument. Many vacancies are never officially notified (e.g. they are advertised internally, or people get to hear about them through informal networks), so the demand for labour is much higher than the official statistics indicate. And even in a tight labour market, new jobs come on stream every day. It has been calculated that the average jobseeker could still expect to get a job within six months even if there were 16 unemployed people for every official vacancy.⁹⁴ The Office For National Statistics most recently reported that there were around 500,000 vacancies in the economy, meaning that the current figure is around five unemployed people for every official vacancy.⁹⁵

Obviously, in tighter economic circumstances, it will be harder for people on welfare to find employment, but we still need to ensure (a) that when jobs do come up, people on welfare are pushed into applying for them, and (b) that until they get a job, claimants remain actively engaged in tasks roughly comparable to working.

Finally, there is the worry that more demanding welfare conditions will deter genuinely needy people from applying for help. We have already seen there is some evidence from America that the radical welfare reforms introduced there may have kept some single parents off benefits even though they have no other source of income. There is obviously a risk that people with multiple problems who need help (e.g. substance abusers, or people with severe emotional or psychological problems) may drop out of the system if too much is demanded of them.

There is clearly a legitimate concern. We should not assume that when jobless people are prompted by activity conditions to avoid welfare, they are always left in a vulnerable situation with no source of income. Nevertheless, some

90 Amir Paz-Fuchs, (2008). *Conditional Rights in Social Policy* Oxford University Press.

91 *Daily Telegraph*, 9 November 2010. 'The man in chains who seeks to liberate the poor and needy'.

92 See Saunders, P., (2004). *Australia's Welfare Habit*. Centre for Independent Studies. chapter 5.

93 Lanning, T., 'Forgotten demand? Welfare-to-work and the UK's missing jobs' in Ben-Galim & Sachrajda, op cit, p.35.

94 Dawkins, P., (2000) 'Labour market issues in welfare reform' in Peter Saunders (ed), *Reforming the Australian Welfare State* Australian Institute of Family Studies, p.245.

95 <http://www.statistics.gov.uk/pdffdir/lmsuk0311.pdf>

able-bodied people of working-age do obviously have problems that make it more difficult for them to hold down a regular job and if they are deterred from claiming benefits, they may not be able to cope unaided. The real question we need to ask, therefore, is this: once we have deterred those who can look after themselves from staying on benefits, what should be done for those who remain? Better targeting and tailored support available within the Work Programme and greater incentives for providers to avoid 'parking' could be used to address these concerns.

There are clearly more detailed areas to consider. This is the first in a series of reports on welfare reform from Policy Exchange. Future reports will build on the areas for reform that we have laid out here and explain how specific reforms can fit with both the Universal Credit and the Work Programme, and finally start to reduce welfare dependency in Britain.

Conclusion

The last 15 years of welfare reform has focussed on making work pay and rights and responsibilities. It has failed to make a dent in the 5.4 million working age individuals living in workless households, and has focused responsibilities on the state rather than the individual. It is time to rebalance the welfare system.

Iain Duncan Smith says the Coalition's reform proposals represent 'the most exciting thing to have come out of a government in forty years'.⁹⁶ It is certainly true that the Work Programme and the Universal Credit represent important and significant reforms. However, they simply extend the approach of the last 15 years of trying to make work pay and shifting responsibility from the claimant to the state. They do not provide the radical change in direction needed.

Iain Duncan Smith is right that the opportunity to radically overhaul our welfare system only comes around once in a generation. So to be successful in reducing benefit dependency bolder steps must be taken to drive through changes that reinstate personal responsibility into the welfare system. This report has laid out where the next steps in welfare reform should be. We have argued that the Government must rebalance its approach across the three principles of reform we have highlighted. In particular, it must ensure that people do not claim benefits if they do not need to (the self-reliance principle) and that welfare dependency does not come to be seen as more desirable than low-paid work (the 'less eligibility' principle).

This is the first of a series of Policy Exchange reports that will show how a new approach to welfare reform can finally make inroads into welfare dependency in Britain. We have proposed five areas that should form the next steps in welfare reform. Some of the areas of reform we suggest will not be popular with some commentators and interest groups. They would increase links between contribution history and benefit receipt; require claimants to do more in order to be eligible for benefit; and place tougher sanctions on those claimants that choose not to comply with the requirements placed on them. They will re-introduce self-reliance at the centre of the welfare system, while protecting and providing intensive support for the most vulnerable.

While unpopular with some, the approach is supported by the British public and future reports in this series will outline in more detail both how they can be used to reduce welfare dependency and why they are fair.

⁹⁶ *The Sunday Times* 3 October 2010. 'This is serious'.

The UK has now had nearly 15 years of government trying to ‘make work pay’ through a system of in-work financial support (tax credits). But despite tens of billions of pounds of expenditure there are currently 5.4 million working age people and 1.9 million children living in workless households in Britain. Over 2.6 million people have been on out-of-work benefits for over half of the last decade and there are now 6.4 million families in receipt of tax credits. The government has accepted that the welfare system is broken. Welfare dependency and a belief in the right to welfare has grown in the UK and there is now a significant segment of unemployment benefit claimants who feel they have the right to stay on benefit until they find a job that fits their expectations of both job type and pay.

The introduction of Universal Credit and the Work Programme is likely to make some progress in helping some families into work. But on their own, these measures are unlikely to drive the change in attitudes and reduction in worklessness that is necessary. To really start to tackle the problems of worklessness and benefit dependency a new approach is needed.

This report argues that the balance between rights and responsibilities in the welfare state is wrong. The government is now committed to ensuring that jobs pay for benefit claimants, rather than requiring claimants to take any available work. To tackle this, conditions on benefit claimants should be increased and this should be backed up with more effective sanctions. In return, claimants will start to see stronger links between the National Insurance Contributions they have paid in and what they can get out and those with the greatest needs will get greater support. This would be a fair deal between the state and the individual that delivers a welfare system with personal responsibility at its core.

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