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## **Welfare Reform Bill – 2<sup>nd</sup> reading briefing**

### **Introduction**

The Welfare Reform Bill is being presented to Parliament in the context of a massive £18 billion cuts programme to welfare benefits, as outlined in the June 2010 Emergency Budget and in the Comprehensive Spending Review of October 2010.

David Cameron has said, “we face a choice – make cuts in welfare or cuts elsewhere”. This is a false choice and is a smokescreen to hide the abject failure of this coalition government to have any strategy for growth and job creation. The costs of welfare can most effectively be cut by investing to create jobs. Instead this government is attacking those on benefits, persecuting the sick and disabled with dubious assessments, and cutting the already low level of benefits.

At the same time that the £18 billion of welfare cuts was announced, this government announced a package of measures amounting to a £24 billion tax break for businesses. That is the choice this government of millionaires has made: to feather the nests of the rich, while attacking the poor.

While this government emphasises the cost of benefit fraud (£1.5 billion, DWP statistics), it does little to close the tax gap, estimated by the Tax Justice Network to be over £120 billion.

The rest of this briefing looks at the main themes of the Bill and highlights the arguments against the government’s direction of travel. We are happy to work with Labour MPs on amendments for later stages of the Bill.

### **Welfare and Work – the myth of incentives**

#### **Understanding welfare and work incentives**

The government claims the purpose of the Bill is “to simplify the benefits system in order to improve incentives to work”<sup>i</sup>. The Government advances the proposition that the benefit system through “sheer complexity and the perverse incentives” makes people decide not to take work.

Research by the British Social Attitudes Survey<sup>ii</sup> shows that “work morale is actually *stronger* in countries with more generous welfare states” [emphasis in original]. The study of 13 countries in Europe, North America and Australasia found that “Britain has the weakest

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work commitment of all these countries". Norway had the highest level of work commitment, it also had the most generous welfare state, along with Sweden.

Research author, Ingrid Esser states: "it is clear that work morale has not been undermined by generous welfare states. Given the political controversy that has raged about this issue, this is an important finding . . . it appears to be quite possible to maintain strong work morale within a generous welfare state."

The UK therefore has a system of low benefit levels and low work morale. This should not be surprising. As Professor Richard Wilkinson, co-author of *The Spirit Level* has said:

*"We can see then that increased social hierarchy and inequality substantially raises the stakes and anxieties about personal worth. We all want to feel valued and appreciated, but a society which makes large numbers of people feel they are looked down on, regarded as inferior, stupid and failures, not only causes suffering and wastage, but also incurs the costs of antisocial reactions to the structures which demean them".<sup>iii</sup>*

In other words, if people feel like the welfare system demeans them and signifies failure they will experience low personal worth and react against the system that oppresses them. It is therefore entirely logical that more conditionality, more stigma, and a low financial reward will decrease work morale.

The Coalition government's plans will exacerbate rather than resolve disincentives to work by further stigmatising and degrading those on benefits. This will have an even greater negative impact on those already more marginalised from, and discriminated against in, the workplace, e.g. those with disabilities.

### **Real barriers to work**

However, there are real barriers to work, and these are neither addressed in the Bill nor in other government policies:

- **Childcare:** the lack of affordable childcare is a real barrier for many parents, and is being exacerbated by the cuts to Sure Start across the country
- **Low pay:** in the last three years the national minimum wage has risen below the rate of inflation, while transport costs (to get to work) are soaring. Labour should argue for a living wage, and for public ownership of bus and rail to curtail profiteering
- **Employer discrimination:** from lack of awareness of intermittent health conditions to outright discrimination, employers see those with disabilities as a burden. Despite legislation, enforcement is currently insufficient – and changes to tribunals and legal aid cuts will make it harder to tackle

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- **Skills:** by cutting ESOL funding specifically – and the cuts to education funding generally (as well as increased user fees) – the government is reducing the availability of training opportunities

### **No jobs, benefit fraud and the blame game**

The other problem with the coalition government's thesis is that there is currently insufficient work available. George Osborne announced in the CSR that his plans would cut 490,000 jobs from the public sector. Previously, the Office for Budget Responsibility estimated that coalition cuts would mean 600,000 public sector job cuts with a knock-on effect of 700,000 private sector job cuts (taking a total 1.3 million jobs out of the economy).

Already there are 2.5 million people unemployed by the ILO measure, and less than 500,000 vacancies in the economy. Even if there was a perfect match between the skills, pay, and geographic location of these jobs (which there is not) then that would mean only enough jobs for 1 in 5 of the unemployed. This also neither accounts for the usual 'labour churn' (people in work switching jobs) nor the fact that there are hundreds of thousands of people involuntarily working part-time or temporary jobs, who are seeking full-time employment.

The coalition government has no strategy for job creation or economic growth – and is instead blaming the victims of government and economic failure, rather than addressing the causes.

Built into this blame game is the unrelenting obsession, propagandised by the tabloid press, with benefit fraud. DWP statistics show that £1.5 billion is lost annually to fraud, but this figure is dwarfed by the £16 billion in benefits that goes unclaimed every year<sup>iv</sup>.

The argument reaches its perverse extreme in the proposal to cut Disability Living Allowance – a benefit without which many disabled people would not be able to sustain work.

### **The Universal Credit – universally low**

We have no objection to the concept of a universal credit in principle, but in the context of reduced eligibility, reduced benefit levels and reduced staffing we believe that it is destined to succeed only in producing universal misery for those on benefits.

Benefit levels in this country are appalling low – the lowest in western Europe, from unemployment benefit to pensions. The universal principle appeals to Beveridgian ideals. Indeed, when first introduced by the post-war Labour government, unemployment benefit was paid at the same rate as the state pension, then 26 shillings.

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Beveridge believed in abolishing the means-test and replacing it with universal entitlement. These principles were incorporated into the welfare state founded by the Attlee government, but have been eroded over the last thirty years, creating a welfare state of means-testing, stigma, private profiteering, poverty and despair.

From April 2011, the basic state pension is £102.15 per week – 56% more than JSA of just £65.45 per week. In 1946, in an economy ravaged by war, the level of unemployment benefit was worth almost double what it is today, relative to average wages. ). If unemployment benefit had kept pace with earnings since 1979, it would be worth about £110 per week today.

Without addressing poverty levels of benefits, we cannot hope to create a fair welfare state, and to restore dignity to those out of work through joblessness, ill-health, or caring responsibilities.

Despite being touted as a ‘Universal Credit’, there is additional means-testing and conditionality – increasing the complexity in the system. Claimants will also have the added stress of dealing with shortfalls in living costs, due to benefit cuts (especially to housing benefit) in a period of rising inflation, which is seriously underestimated by the CPI measure.

## **Delivering welfare**

There is a welter of evidence to show that UK delivery of welfare has been most effective when carried out by public sector staff, who have the experience, skills and ethos to support people back into work. Research conducted by Cardiff University in 2008 found that:

*“whenever Jobcentre Plus has been allowed the same flexibilities and funding as private sector companies or charitable organisations it has been able to match, if not surpass, the performance of contractors”*

This was reinforced by the NAO report on the Pathways to Work scheme<sup>v</sup> which found:

*“contractors have universally underperformed against targets set by the department which had to make concessions as part of contractual renegotiations to support the continuation of businesses and services”*

*“Jobcentre Plus achieved better job outcomes rates for mandatory customers compared to external providers in areas led by them”.*

This is backed up by the Child Poverty Action Group’s research into contracting-out of employment services in Australia, Denmark, Germany and the Netherlands, which found

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limited evidence to suggest efficiency gains or cost savings and little evidence that the large-scale involvement of voluntary and private sectors leads to innovation in service delivery.

Despite the consistent and independently evaluated failure by contractors and the relative success by in-house staff, the coalition government's Work Programme will be wholly outsourced to "social enterprises, charities and businesses".

This is dogma over-riding evidence. Labour MPs should refute this dogma too which drove the reforms proposed by former investment banker Lord Freud who described welfare as "an annual multi-billion market".

This 'market' is already making considerable profits for companies such as A4e and ATOS, that have yet to demonstrate any beneficial impact for claimants, and which are instead under increasing scrutiny for their (mal)practices<sup>vi</sup>.

**We urge Labour MPs to raise these issues in the second reading debate and to vote down the Welfare Reform Bill.**

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<sup>i</sup> 21<sup>st</sup> Century welfare White Paper, p.12

<sup>ii</sup> Esser, I. 'Has Welfare made us lazy? Employment commitment in different welfare states' in: *British Social Attitudes Survey: the 25<sup>th</sup> Report*, published by SAGE for NatCen, January 2009

<sup>iii</sup> Wilkinson, R. 'The Impact of Inequality' in LEAP Red Papers 2007

<sup>iv</sup> See CAB press release, 3 Feb 2010, 'Charities challenge government over £16bn unclaimed benefits'.  
[http://www.citizensadvice.org.uk/press\\_office201022](http://www.citizensadvice.org.uk/press_office201022)

<sup>v</sup> NAO. May 2010. 'Support to incapacity benefits claimants through Pathways to Work'

<sup>vi</sup> See Daily Mirror. 16/02/11. 'Sick? Who gives ATOS?'. <http://blogs.mirror.co.uk/investigations/2011/02/sick-who-gives-atos.html> or Guardian. 23/02/11 'The medical was an absolute joke'.

<http://www.guardian.co.uk/politics/2011/feb/23/government-reform-disability-benefits> and for A4e. Manchester Evening News. 24/03/08. 'Jobseekers treated like cattle'.  
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