

Welfare Myths and Welfare Facts

Diarmid Weir

diarmid@futureeconomics.org

Introduction - The Two Purposes of Welfare

One of the biggest problems confronting a sensible discussion on welfare – in the narrow sense here of cash payments made by the state to working-age individuals with low resources – is that it exists to serve two rather different purposes.

Firstly, it is there to help those whose income has been *temporarily* removed or reduced by illness, unemployment or other adverse events. Over their working years, the majority of this group will pay their way in National Insurance (NI) contributions and tax. The economic purpose of this ‘rescue welfare’, as we might term it, is to maintain these productive workers in good condition for their anticipated return to work. This is apart from any moral and social rationale for welfare of this form.

The second mode of working-age benefits we might call ‘support welfare’. It exists to ensure a long-term income that is adequate to maintain a specified standard of living to those who are of working age, but are ‘unable’ to earn enough to provide this themselves. (I put ‘unable’ in quotes, not to imply scepticism, but because the definition of this word here is contested, and is critical to the issue at hand.) Individuals and families may receive this income because of long-term illness or disability, caring responsibilities or long-term worklessness/unemployability.

Welfare Opinion and Welfare Facts

In general, recipients of ‘support welfare’ will not pay their way in NI and tax. They are by definition the ‘something for nothing’ group singled out not only by Conservative politicians and commentators, but frequently Liberal Democrat and Labour ones too. That this group are generally ‘beyond the pale’ also seems a view shared by the British population. In [a recent YouGov poll](#) carried out for ‘Prospect’ magazine, 74% agreed with the statement: ‘The government pays out too much in benefits; welfare levels overall should be reduced.’ Moreover, close to one third (29%) of the population believe that at least half of welfare claimants “lie about their circumstances in order to obtain higher welfare benefits...or deliberately refuse to take work where suitable jobs are available.”

The Prime Minister falls in with this view. In [a speech ostensibly calling for a 'debate'](#) on welfare, David Cameron recently stated that 'working-age benefits' cost 'around £84 billion a year'. But it's instructive to see how that figure must have been arrived at. Looking at [official government figures](#), it appears that he simply added up all benefits and credits actually paid to those between the ages of 16-64 years, irrespective of whether eligibility for those benefits has anything to do with finding work. So to £13 billion of non-contributory out-of-work 'support' benefits, he added £8 billion of 'rescue' benefits qualified for by prior National Insurance payments, the £12 billion of Disability Living Allowance (DLA), which is paid irrespective of employment status to offset the additional costs of a disability or long-term illness, the £23 billion of Working and Child Tax Credits, whose qualifications are transparent; the £23 billion of Housing Benefit, of which [only 15% is paid to people who are unemployed](#); and the £5 billion of Council Tax Benefit which is also available to working people on low incomes.

Let's look at those benefits received in 2010-11 specifically for being out of work. Receipts in 2010-11 of Job Seeker's Allowance (JSA), which is the benefit for those without work seeking full-time employment, were around £5bn. Around £1bn of this amount was paid on the basis of NI contributions, implying a maximum of six months unemployment and at least 2 years prior NI payments. Receipts of the ill-health and disability benefits, Incapacity Benefit (IB) and Employment and Support Allowance (ESA) which are now subject to work capability assessment, were around £13bn. Of this, around £7bn went to those who had paid in the qualifying amount of NI contributions during prior employment. Lone parents (of children under 7 years, reduced to 5 years from 2012) and carers, exempt from seeking work, received Income Support (IS) of just around £3bn.

Total welfare receipts paid on the basis of an absence of work were therefore around £21bn. Yet, we should really exclude the £8bn based on previous NI contributions from our 'something-for-nothing' group. These benefits belong primarily to the 'rescue welfare' category. Since they are largely funded by recipients' own previous contributions and/or represent an investment in workers' productivity (and future tax-paying ability) we should not regard this £8bn as a burden on the state or tax-payers as a whole. This leaves the net burden of long-term 'support welfare' specifically for those without work as something around £13bn. This represents around 7% of the total social security and tax credits bill, only 2% of total public spending - and since this was a comparison the PM made – less

than one third of the defence bill.

The Logic of Unemployment

The argument for 'rescuing' those temporarily unable to work or to find work was made above, and should be clear enough. But what is the justification for providing support for the more long-term unemployed or disabled whose 'economic value' may never be positive? Few would deny that *some* at least are disabled enough to warrant long-term support – the debate here tends to be how many are in this category and the nature of the support they should receive. I will come back to this topic later.

For those, who at least ostensibly, are unemployed because they cannot *find* work, there is less tolerance. At present, however, the total number of Job-Seeker's Allowance claimants exceeds the number of [vacancies open to all of them by around 3 or 4 to 1](#). Furthermore, given that not all seekers will be suitable for all jobs and that there are large regional variations in the mismatch between seekers and vacancies, there is inevitably a large baseline level of able-bodied workless. Adding in those seeking work but not claiming benefits, and those whom the government hope to get into work but are currently claiming IB, IS or ESA – increases yet further the number of genuine seekers who remain without work. As a matter of logic, this does not necessarily imply the existence of individuals who spend long periods with *no* work, since the available work could be spread more widely. Instead of a relatively small number of long-term unemployed, we would have a larger number of those in and out of work but spending shorter periods of time in unemployment. I discuss further the implication of this logic below.

By lumping in together all working-age benefits and their recipients, the Prime Minister is guilty of simplifying beyond recognition a highly complex issue. In his speech he compounds this by presenting contrasting examples purporting to demonstrate the 'unfairness' and 'incentive' problems associated with welfare benefits. The reality is that there is no welfare system that does not involve these problems, and so to show hypothetical, or even genuine, unsatisfactory examples tells us nothing about the merits of any particular arrangements.

Welfare Dilemmas

For genuine but failing job-seekers whose incentives to find work are not the problem, an absence of support provides no benefit to the individual and may well be harmful to society in forcing such individuals into crime, ill-health or self-destructive behaviour. The difficulty we then have in a large population of unemployed, is to establish who are those that fall into this category and should presumably be helped, and who are those who *could* be incentivised to be more successful in finding work by lower benefits or the credible threat of their withdrawal. It is difficult to imagine that there is an infallible test for this distinction since it is largely internal and psychological, although no doubt attitudes, behaviour and interview feedback can give some guide. Let's call the first group 'workers'. They generally score highly on our test, (as illustrated in Figure 1 below) and we award benefits to this group. The second group are 'shirkers' and they achieve a low score, and we withhold benefits from this group. The following diagram shows the situation when our test is accurate enough to correctly identify around 90% of the 'workers' and 90% of the 'shirkers'.

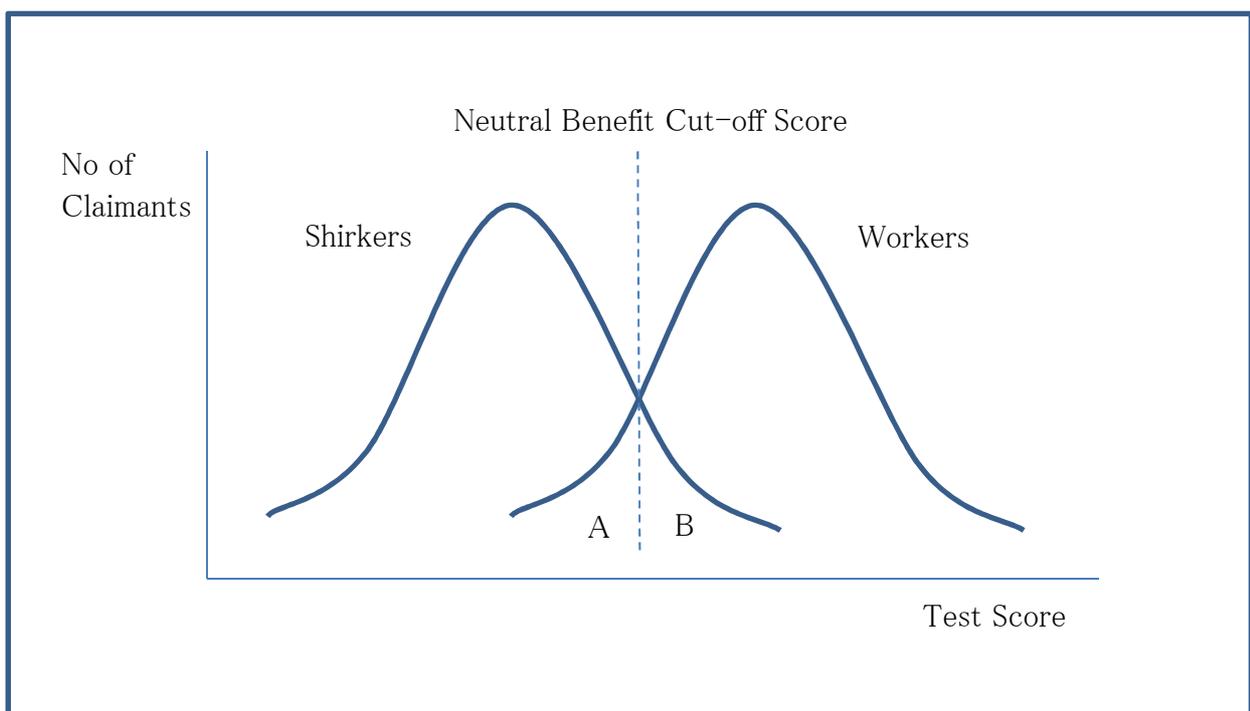


Figure 1 The Punishment Dilemma

Setting the point at which benefit is withdrawn at the 'neutral' point means that roughly the same number of 'shirkers' get benefit unnecessarily (group B) as unlucky 'workers' are deprived of benefits through no fault of their own beyond failing a less-than 100% accurate test (group A). Should we now lower the benefit cut-off score or raise it? There seems no

obvious answer. Any *lowering* of the benefit cut-off will meet the approval of those who think too many shirkers are receiving benefits, but it will be rejected by those who do not wish to see destitution visited on those who have tried their utmost to find employment. Any *increase* in the cut-off will reduce the undeserved destitution rate but increase the resentment of those seeking and finding work against those less diligent.

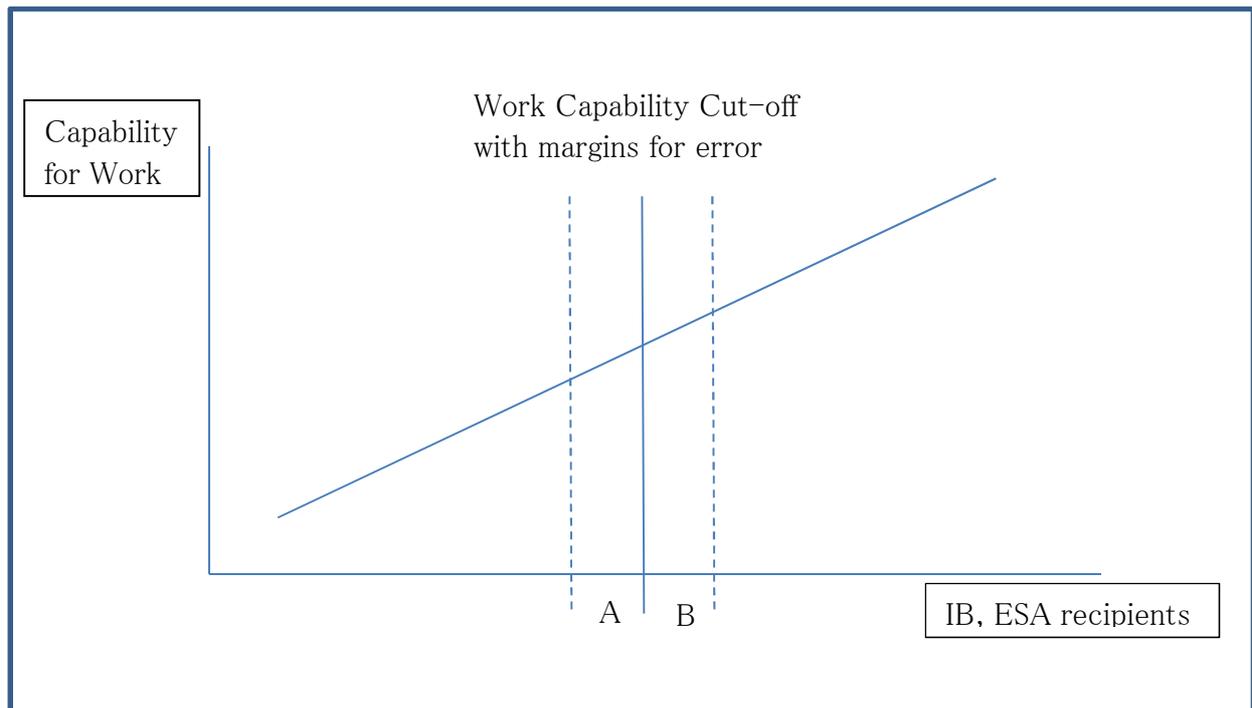


Figure 2 The Capability Dilemma

There is a similar argument to be made in the case of those with long-term illness or disability. Even if *all* were capable of *some* work if pushed, there is a gradient as to the difficulty involved for the individual. How do we place the cut-off point above which we insist that someone is capable of work, and how accurately can we determine whether someone is just over or just under that cut-off point? As illustrated by Figure 2 above, even if we place the cut-off correctly, without 100% accuracy in these determinations there will always be some who could just work but do not (within group B), and some whom we have pushed into a situation with which they cannot cope (within group A).

Given a limited number of jobs, 'incentivising' the 'job-shy' has in any case uncertain benefit, since it actually *reduces* the opportunities for those *already* actively seeking work. If the total number of hours worked is unchanged there will be little or no reduction in out-of-work payments made. It can however be argued, that if having more people in *some*

work *some* of the time does more good for them, for society and for the economy, than it does harm through reducing the numbers in full-time work, then this may still be worth attempting. In fact the reality is there is a spectrum of employability and those at the bottom of that spectrum are likely to be those remaining unemployed in the long-term.

A Word on Fraud

The [National Fraud Authority](#) estimates that benefit and tax credits fraud accounts for a £1.6 billion loss to the taxpayer annually. That's a lot of money, but only 8% of the £20 billion total annual defrauding of the public sector, of which £14 billion is tax fraud. In his welfare speech David Cameron remarked of DLA that 'half of new claimants never had to provide medical evidence'. Yet there is no evidence that DLA is claimed inappropriately on a systematic basis. A [survey for the DWP](#) found that only 0.5% of this benefit was fraudulently claimed, less than the 0.8% overpaid due to official error and much less than the total estimate of 2.5% underpaid. In fact most payment errors occur due to changes in circumstances that the DWP accepts would be difficult for claimants to know should affect their benefit level. Clearly this problem could only be rectified by regular re-assessments – an *initial* medical assessment would have no impact on this figure. Again the Prime Minister's analysis is evidence-free.

Benefit Levels and Benefit Recipients

What about the level of benefits received? In general, the benefit level for a single person over 18, whether they are out of work because they cannot find work, are ill or disabled or have caring commitments, is set at £71 per week. This is 38.5% of the '[Minimum Income Standard](#)' (MIS) of £185 (excluding rent and childcare costs) estimated by a panel of members of the public set up by Loughborough University. (Incomes below the MIS are generally also below the widely accepted poverty standard of 60% of the median income.) Those receiving IB or ESA are likely to be relatively poorer because illness and disability are themselves expensive. This low level of income has some moral implications, as well as having implications for the nature of the decisions apparently being taken by those who are not in work. We'll turn to the morality aspect at the end of this essay, but first I want to explore the findings of [a fascinating survey](#) carried out in 2011 for the Department of Work and Pensions, which gives considerable insights into the decision-making processes of those without work.

This study, which interviewed those out of work in depth and on more than one occasion to ensure as far as possible that genuine attitudes were being elicited, attempted to categorise unemployed people according to their thinking about work and benefits. We start by considering those groups whose unemployment might be regarded as at least in part a matter of choice. There was a group, 11% of the survey sample, that 'feel fully justified being on benefits', but in fact only 12% of this group were receiving JSA, and only 6% IB or ESA. Fully 46% of this group were lone parents. There was also a group (also 11% of the sample) who were 'home-focused' and did not feel 'out-of-work'. Only 8% of this group were receiving JSA, although 26% were receiving IB or ESA. There was also a third group, making up 9% of the sample, who 'feel that to work or to claim benefits is simply a choice individuals should be free to make'. Of this group 29% were receiving JSA and 30% IB or ESA. It should be noted, however, that only 12% of this group had 'never worked', and despite their apparent ambivalence about work only 26% had 'spent most of their time not working' and on average they were devoting 12 hours per week to looking for work.

The groups of whom a high proportion are receiving JSA are those determined to find work (17%) and spending an average 24 hours per week doing so (46% of this group are receiving JSA); those 14% feeling 'powerless and disheartened' by their inability to find work despite active seeking (45% receiving JSA); and a third group (11%) who are fully intending to work again but are to some extent reconciled to their temporary situation although they are spending an average 13 hours per week searching (39% receiving JSA).

Finally there are two groups who feel either 'constrained by circumstance' (13%) or 'defeated by circumstance' (11%) so that 'normal' work is impractical for them. Of the former, only 14% are receiving JSA, but 51% are receiving IB or ESA. Of this group 22% are lone parents. Of the latter group 13% are receiving JSA, and 67% IB or ESA.

This research shows a pattern far removed from the characterisation of out-of-work benefit recipients as 'work-shy scroungers'. Those that have a real preference for not working are rarely receiving benefits purely on the basis of their lack of work. Those that feel negatively about their prospects of gaining work usually have good reasons to do so. Either they are suffering an illness or disability disadvantage or their best job-seeking efforts have gone for some time unrewarded.

Should Everyone Work?

The final point to be made is one of fairness. The common assumption is that a UK citizen should be obliged to seek paid employment if he or she is to benefit from the (limited, as we have seen) largesse of the state. Is this as obvious as it seems? The root of the position is presumably that if an individual makes no effort to meet their own basic requirements for life then that is essentially an act of voluntary self-destruction. Where resources for sustenance are freely at hand, and directly obtainable by the fruits of our labour, this may be a reasonable if not compassionate position. But modern capitalist society has concentrated life-sustaining resources in the hands of a few, forcing all others to serve them according to their desires (or at least to serve the desires of those that serve their desires, and so on...). Given that the majority, who more or less happily fit in with this system, gain much from its division of labour, it seems there may be a moral case for compensating those who cannot, or do not wish to.

Conclusion – More and Better Employment, Intensive Support

The total cost of out-of-work benefits is much smaller than is frequently claimed, including by those who are in a position to know better. The bulk (perhaps 70%) of benefits paid to working-age people are paid not because they are failing to find work, but because they are ill, disabled, caring for others unable to look after their own daily needs, or are already working for low wages. A significant proportion of out-of-work benefits are ultimately paid for by their recipients through their lifetime NI and tax contributions.

The large majority of those actually receiving JSA are intent on finding work and actively seeking it, but a proportion of them are currently doomed to failure – some probably permanently – through no conscious decision of their own.

As a result, the lowering of benefits and the threat of benefit withdrawal is increasing hardship for many, while probably doing little more than increasing 'churn' in a sluggish labour market. Given the current low level of benefits in relation to a generally acceptable minimum income and the dubious fairness of an absolute obligation to work for others for a breadline wage, further downward pressure on benefits seems to have little justification morally, socially or even economically.

Yet, this conclusion is clearly greatly at odds with the YouGov poll findings noted earlier. We should note, however, that the belief, held by nearly one third of the population, that at

least half of welfare claimants are either fraudulent or are refusing suitable work when offered, is demonstrably wrong and is clearly fuelled by misleading and misrepresentative information fed to us not only by most media outlets but by our own leaders, probably as a 'divide and rule' strategy. There is considerable [international variation in attitudes toward welfare](#) and there is no necessity for these attitudes to be fixed for ever. If we are genuine about building a society to which more of us can make a fair contribution then we are going to have to challenge them. The only real way to see more of the long-term unemployed improve their own lives and their contribution to society is the provision of more and better-paid employment opportunities. Along with this will have to go resource-intensive engagement with those who are poorly equipped to support themselves, never mind to play a productive role in society.