

**Response to the
DWP consultation document:
*21st Century Welfare***

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Summary

The proposals in '21st Century Welfare' are the product of two inconsistent philosophical perspectives: one that stresses 'welfare rights' and another that focuses on 'mutual obligation'. As a result, the proposals are unlikely to achieve the significant reduction in welfare dependency that is hoped for. Moreover, there is a strong risk of repeating the mistakes of American welfare reforms before the mid-1990s. In particular, the report makes assumptions about human behaviour that are heavily influenced by 'economism', the view that monetary incentives are the dominant driver of human behaviour. Insufficient weight is attached to moral and cultural influences on human conduct. In reality the sense of duty to other people, feelings of reciprocity, ties of personal affection, the desire to achieve one's personal best and the belief that it is wrong to take advantage of other people's generosity weigh heavily in determining how individuals lead their lives.

The DWP's proposals also fall short of the fiscal and economic realism now urgently needed. Welfare dependency is a problem because if we are to escape our current economic predicament we need all able-bodied people of working age to add their bit to economic output. Welfare beneficiaries do not make a net contribution to output. Instead they receive transfers from other people's earnings. In recent times there has been a large growth in partial welfare dependency—that is people doing some part-time work to which in-work benefits are attached. The DWP's proposals are likely to lead to an increase in this trend, when the aim should be self-sufficiency through work for everyone capable of it.

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Vital though it is, self-sufficiency is not a purely economic consideration. A central aim of a free society should be to enable everyone to develop their abilities to the full, whether in their capacity as family members, or at work, or in the wider community. We all need the chance to put something back and a government that encourages a lifestyle of welfare dependency is failing to provide conditions for the full personal development of its citizens.

The main thrust of the DWP's report is to 'make work pay'. There is also a significant emphasis on 'conditionality' but it is discussed in a chapter entitled 'Other areas of reform', when it should be the primary concern. The most successful welfare strategy to date has been Wisconsin-style workfare. It was based on a rejection of the 'make work pay' policies of the previous twenty years of American welfare reform and aimed at self-support through work.

It could be adapted for the UK, where there are two main reasons for welfare dependency: insufficient work effort, either as a result of not working at all or working too few hours for self-sufficiency; or raising children with only one adult even though the second parent is alive and capable of helping. The consultation document has very little to say about the latter problem even though finding a solution is central to success in reducing welfare dependency. Personal affection is most prevalent in decisions about whether or not to raise children as a couple or alone. Despite the substantial monetary 'couple penalty' many young parents make their lives together under the same roof, presumably because love triumphs over financial calculation. A wise policy should encourage self-sufficiency through full-time work and reward people who raise their children in intact families.

Making Work Pay—a failed strategy

Two rival philosophies seem to be influencing policy. The first may be called ‘pure altruism’, a doctrine that has led to the idea that welfare is a right. It assumes that kindly people should help poor people. It has been known for a very long time that when public policies are based on pure altruism the end result tends to be the payment of benefits to people who could be working. The alternative is the ‘mutual’ approach. It assumes that ‘we are all in it together’, that all of us have an obligation to work if we can and that help will always be there when needed. Most important of all, the mutual view does not begin with an analysis of whether or not particular people have enough money. The primary aim is to enable everyone to play their part in improving our civilisation. A free society should appeal to the best in people. Work should be a vocation—for the rank and file and not only the most highly educated minority. We should demand much of one another. Everyone should work not only to avoid being a burden, but also to be able to help other people. It implies equality between the giver and receiver—not a one-way transfer, which creates a relationship of superiority.

Reflecting these perspectives, the DWP’s proposals simultaneously pursue two mutually inconsistent objectives. It has a policy of expecting welfare recipients who are capable of working to take a job. It also aims to ‘make work pay’ by allowing people to keep more of their benefits when they take the initial steps from unemployment to work; and to lose fewer benefits if they increase their earnings once in work.

Iain Duncan Smith, Work and Pensions Secretary, has said that the benefit system has ‘trapped generation after

generation in a spiral of dependency and poverty'. He blames the complexity of the system and plans to simplify it so that work will always pay. When individuals on benefits take a job the new policy will ensure that they will be at least 25 pence better off for every pound they earn. But, in practice the policy will mean that part-time work could pay as much as some full-time jobs. As a result, it is likely to be very costly without achieving its intended effects. Work should be a personal and civic obligation, not something we will only do if we are incentivised by the government. The consultation document acknowledges that the government is aware of the problem but offers no effective solution.

Imagine that the only help available for a person losing his job was from a family member. Your brother or sister says 'OK I will pay you £300 a week until you get back on your feet'. A month later you are asked how the job search is going and reply, 'Well I found a job for £310 a week but it's not worth taking because I will lose the £300 you give me. In effect I will be working for only £10 a week.' The kindest of siblings might find this a little selfish. But this is exactly the attitude being taken by people on benefits who will not work because it does not pay. The fact that the money comes from the anonymous taxpayer seems to suspend the normal moral obligations we feel. But it should not do so and benefit recipients should be expected to take the first available job.

This view is widely shared and yet the DWP's plans disregard the fact that many people on low incomes are working right now because they have too much self-respect and too strong a sense of public duty to claim benefits. Many simply think it is wrong to go on benefits

merely because they could make just as much money without the trouble of going to work.

As they stand, the DWP's policies are not compatible with the ideal of mutual obligation. The department assumes that poverty is the result of worklessness caused by barriers outside individual control. Chris Grayling, minister of state in the DWP, in his Merseyside speech of 1 July 2010 said: 'Just a short journey from the prosperous centres there are whole areas, whole streets, whole families out of work. It is like a glass wall has been put up around them and they can't get out. On the other side is a decent education, training, jobs but they can't reach it.' This approach implies that the solution is to remove the barriers and create incentives to work—to make work pay. In Iain Duncan Smith's first speech as secretary of state he explained how he could understand why work was not 'the most financially sensible option' and the consultation paper says that working 'is not a rational choice for many poor people'.

A major disadvantage of 'making work pay' is that there will be an initial increase in the costs of welfare, which the DWP thinks will be recovered in future years. The Centre for Social Justice's report of September 2009, which inspired the DWP scheme, estimated that an additional £2.7bn would have to be spent. There is a grave danger that the initial cost will merely add to the welfare bill without achieving any corresponding reduction.

A better starting point would be to understand why some people have low incomes today. There are two main reasons: a low work effort (not working at all or only working part-time) and raising children with only one parent taking responsibility.

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The problem of low work effort can be seen by looking at the Government report, *Households Below Average Incomes 2008-09*, which shows the proportion of each economic group in poverty on the Government's definition. Some 54 per cent of lone parents not in work at all fall below the line; compared with only 19 per cent of those in part-time work and 12 per cent in full-time work. For couples, if both are out of work, 64 per cent are classified as poor; if one or both work part-time 53 per cent are poor; whereas if both work full-time only one per cent are poor.

These realities explain why political leaders have insisted on the importance of work for many years, but so far policies have not fully reflected the facts. The consultation paper repeats the threat, voiced often enough in the last decade, that those who fail to meet work obligations may have their benefits withdrawn. But the consultation document does not recommend policies that will allow conditionality to be effective.

The second major cause of poverty is the result of family breakdown, that is one adult trying to do the work of two. The solution is to ensure that both parents take responsibility. Low income is the almost inevitable result when biological parents do not share the costs of bringing up children they have created. Without a strong policy to require both parents to share the expense of raising their own children progress will be slow. At present, the aim of policy is to provide tax credits so that lone parents need only to work part time (16 hours) in order to earn a full week's wages. As a result, many people on tax credits are receiving more in benefits and credits than they earn, allowing for any income tax and NI they pay. A lone parent in 2008-09 with two children under 11, paying

childcare of £50, and earning £175 a week, took home £387, of which £230 was benefits and tax credits, allowing for income tax and NI.¹ In their current form, tax credits discourage recipients from increasing their hours of work; improving their earnings per hour by acquiring skills; or living as a couple.

The Institute for Fiscal Studies (IFS) identified a 'couple penalty' and gave the example of a lone mother who earns nothing and a potential partner who earns £20,000. They are £4,500 better off if they live separately. (23 per cent of the potential partner's income.) As a result, potential couples on low incomes (precisely those who can only make ends meet by combining their efforts) are discouraged from living with a partner. The IFS reported in March 2006 that the Government was paying tax credits or out-of-work benefits to about 200,000 more lone parents than the Office for National Statistics estimated to be living in the UK. The IFS concluded that it was highly likely that fraud explained much of the disparity. The Coalition Agreement said: 'We will bring forward plans to reduce the couple penalty in the tax credit system as we make savings from our welfare reform plans.' But there is no timetable and the consultation document leaves the problem unresolved.

*From welfare rights to mutual obligation –
a better alternative*

In the post-war years the initial focus was on establishing a system of welfare support, but it became obvious from the 1960s that many people who could work were not doing so. As a result, in the early 1970s in America and Britain the term 'poverty trap' began to be widely used.

Willingness to work had decreased because work did not pay, which was the fault of policies that withdrew benefits when work was found or as earnings increased. It became common to refer to the withdrawal rate of benefits as a 'tax' rate and to point out that it was higher than the top rate of income tax. Numerous methods of making work pay were introduced, including some carefully evaluated experiments like negative income tax, but by the early 1990s it was widely accepted that they had made little difference to work effort.

As a result an alternative approach evolved in some American states, led by Wisconsin. Work was required as a condition of receiving welfare support.² It was extended after the 1996 Personal Responsibility and Work Opportunity Reconciliation Act and brought about huge changes in welfare dependency and a vast increase in independence.³ The total number of recipients of Aid To Families With Dependent Children (AFDC) in 1995 was 13.7m. By 1999 there were only 6.8m recipients of the successor benefit, Temporary Assistance For Needy Families (TANF), and by early 2010 only 4.3m. Work was no longer a choice but an obligation, and refusing to work because benefits were too generous compared with earnings was no longer acceptable.

Supporters of the previous regime saw themselves as philanthropists whose commitment to the poor led them to demand generous benefits. But they did not like to portray state benefits as philanthropy and defined them as rights, without altering their real character. They were inclined to denounce their opponents as uncaring or even as hostile to the poor, but by the 1990s such accusations were wearing thin. Supporters of workfare saw their view as based on mutual obligation. The society represented by

the state should always guarantee help, but those being helped must play their part by working when they could. The Wisconsin scheme aimed at self-sufficiency. Welfare recipients were offered a market job as the first priority. If no employer was willing to take on a particular person, then subsidised jobs were found for them so that they could acquire workplace skills. If there were no market or subsidised jobs then work on a government task force was required. If an individual was not ready to take on a full-time job, then job-preparation programmes were provided. Training was not a substitute for a job; earning a living was the first priority.

Policies to incentivise claimants by adjusting the marginal rewards of work had failed to make a major impact on work effort because they were not based on respect for people. To be human is to face challenges. Without difficulties to overcome some people will settle down to an easy life in which their basic material wants are met but their abilities go undeveloped. J.S. Mill had written about the dilemma in the nineteenth century. He did not argue for abolishing welfare altogether but warned against over-reliance on it:

‘in all cases of helping, there are two sets of consequences to be considered; the consequences of the *assistance itself*, and the consequences of *relying* on the assistance. The former are generally beneficial, but the latter, for the most part, injurious; so much so, in many cases, as greatly to outweigh the value of the benefit.’

Help for people ‘paralysed by discouragement’, he said, could serve as a ‘tonic’ and not a ‘sedative’, and he recommended the general maxim:

'that if assistance is given in such a manner that the condition of the person helped is as desirable as that of the person who succeeds in doing the same thing without help, the assistance, if capable of being previously calculated on, is mischievous: but if, while available to everybody, it leaves to everyone a strong motive to do without it if he can, it is then for the most part beneficial.'⁴

When the number of people claiming benefits in America fell dramatically after 1996, it left a core of people facing genuine difficulties in becoming self-sufficient, including those with a criminal record, or with an alcohol or drug problem, or who had not kept up with child-support requirements, or who simply lacked the personal capacities needed in the workplace. By removing people from welfare who were perfectly capable of working, American workfare reforms allowed agencies to focus on individuals with genuine problems.

What should the government do?

1. Work should be seen as a civic obligation. Using financial incentives to induce people to go off benefits involves trying to persuade people to do something they should be required to do. It is an inescapable reality that for people who are currently capable of earning only a low income, work will never pay so long as out-of-work benefits are generous. If the policy is 'If you can work, you should' then when you go to the Jobcentre you should leave with a job. Refusal of job offers should lead to cancellation of cash benefits. In keeping with American experience, public sector taskforces will be necessary to provide transitional jobs until alternatives become available. In current economic conditions, similar schemes will

inevitably be needed. When we draw lessons from America it is also important not to forget that the cancellation of cash benefits there still leaves claimants with food stamps, which can be used to buy necessities. If we are to cancel benefits for the most recalcitrant benefit claimants, some alternative support, perhaps in the form of food vouchers, should always be provided.

2. There should be no adjustment of incentives at the margin. However, some in-work benefits can be justified. The guiding moral principle of reform should *not* be that 'No one should ever be poor' but rather that 'No one who works hard should ever be poor'.

If a person works full time and is still not able to command a 'living wage', an in-work benefit is defensible. Working tax credit has damaging side-effects. It requires only 16 hours work a week, with the result that many people reduce their work effort. The consultation document proposes a single benefit or 'universal credit' in return for carrying out some hours of work per week. It recognises that it would 'increase the temptation for some people to remain working for just a few hours', thus increasing welfare dependency. But it suggests no effective solution. The reality is that it is not economically useful to subsidise people to take a few hours work. We should aim to ensure that they work enough hours to make a net positive contribution to the economy.

The sentiment behind the wish to 'make work pay' is understandable. Virtue should have its reward. But the benefit system should only reward

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full-time work, defined as a 35-hour week for 47 weeks of the year. Parents with dependent children, whose income was still very low after putting in that amount of effort, would be considered by most people as deserving of assistance. Such a system would reward hard work.⁵

3. Enforce child support. Until the Child Support Agency began in 1993 efforts to obtain support from 'liable relatives' were more effective. Under the 1966 Ministry of Social Security Act individuals could be prosecuted for 'persistent refusal or neglect to maintain themselves and their families where they had dependants'. In the 1970s there were about 500 prosecutions of liable relatives in most years leading to about 50 jail sentences per year. The power was used less and less during the 1980s. The Government can't make people become good parents, but it can make them pay for the upkeep of their own children.⁶
4. To be in poverty is not just to lack money. It is misleading to speak of barriers, but people may suffer from 'avoidable incapacities'. Programmes should help people to develop their capacities and a great many personal programmes to help with their workplace skills and self-confidence are already under way. The Government rightly plans many more.

The purpose of a free society is to create the conditions in which every individual can give of their best. The primary purpose of work is not just income, but also to discover one's vocation and to fulfil family and civic

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obligations. A policy of manipulating the 'marginal deduction rate' of benefits to 'make work pay' misses the point.

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Notes

- 1 Tax-Benefit Model Tables, 2008-09.
- 2 Jason Turner in *Europe's Welfare Burden*:
<http://www.civitas.org.uk/pdf/cs21.pdf>
- 3 http://www.acf.hhs.gov/programs/ofa/data-reports/caseload/caseload_current.htm
- 4 Mill, *Principles of Political Economy*, pp. 967-68.
- 5 David Green, *Individualists Who Cooperate*, p. 69:
<http://www.civitas.org.uk/pdf/IndividualistsWhoCooperate.pdf>
- 6 David Green, *An End to Welfare Rights*:
<http://www.civitas.org.uk/pdf/cw49.pdf>