

31st Annual Attlee Lecture

Worklessness in Britain Today: Challenges and New Directions

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I am honoured to be invited to deliver the 2103 Attlee Foundation lecture. In fact I'm more humbled than honoured. I looked up who had done it before and can I make it plain, I am only a humble OBE not a Knight, a Lord or an MP.

I was further humbled when I read Tony Benn's lecture from 1998. He started it by saying (and I quote) "I met Clem Attlee 61 years ago this month in the House of Commons. He was then leader of the opposition and I was enormously proud, as any 12-year-old would be, to meet such a distinguished man." Now, nobody can beat that as an opening to an Attlee Lecture!

Recently I was described as the "grandfather of welfare to work" – I was initially appalled that someone should insult me on a public platform but then reflected that actually it was meant as a compliment and I should take it as one.

I am proud to be associated with what the Labour Party called 'welfare to work' because it sums up what our welfare system should be doing for the vast majority of benefit recipients. There are, of course, those for which the welfare system is a critical safety net because they cannot work. But for everyone else the simple objective should be to get people into jobs at a decent wage and with prospects to move on and up. This is what 'welfare to work' is all about. But the term has now been written out of the political lexicon by the Coalition who prefer a different language – one that blames the individual claimant and pitches them in competition rather than solidarity with the taxpayer.

Let me start by briefly summarising my main arguments I want to make.

First, we are in grave danger of our benefits system losing the trust of, and legitimacy with, voters. There needs to be a fundamental reform of what the settlement is between the State and the individual.

Second, that trust can only be restored if people can see a direct link between what they pay and what they get if unemployed.

Third, how we deliver support to find a job and improve employability needs a new approach – one that is delivering a service to a customer rather than a tick-box for the benefit system.

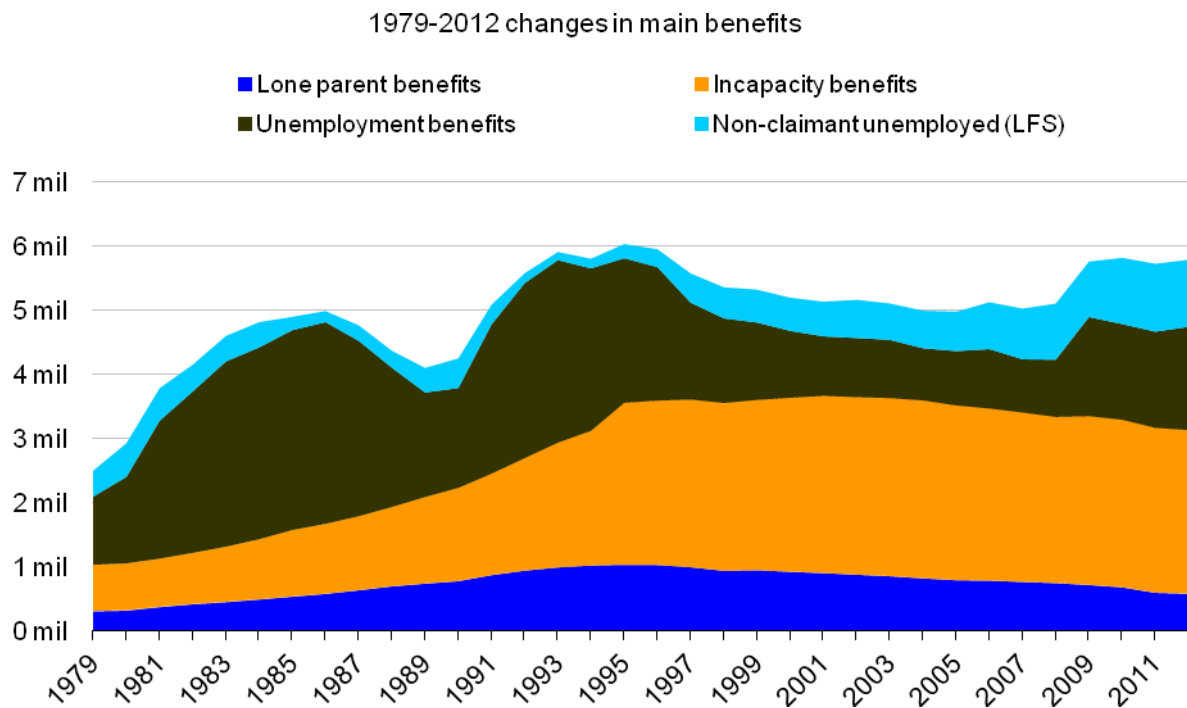
Fourth, localism needs to be the heart of welfare but we still need a strong national head.

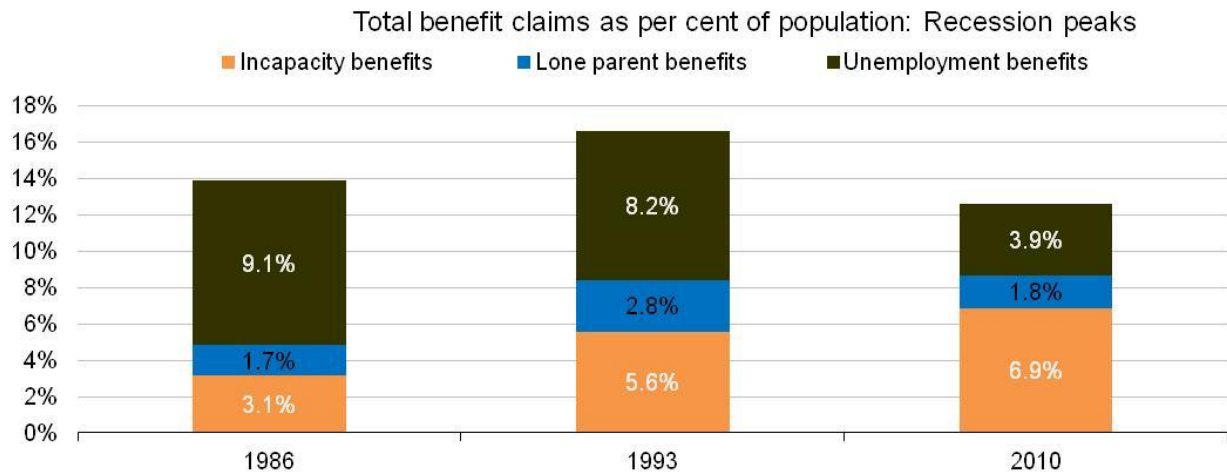
Fifth, reform is needed to the benefits system for young people to aid rather than hinder the transition to work.

The speech was called 'Worklessness in Britain Today' so I had better start by saying something how we come to be where we are.

The chart shows the increase since the late 1970's of the numbers of unemployed people and those on working age welfare payments. It was the 1980's recession that saw the first dramatic increase in unemployment and the first real test of Attlee's and Beveridge's new welfare state. At the time it felt that every aspect of the system was in crisis mode – desperately trying to respond to the thousands signing on every week. Relative to the levels of worklessness over the last 30 years, 1979 was a golden age but it certainly did not feel like it. The deep structural changes in Britain's economy that Margaret Thatcher had put in train was about to send the labour market into a trauma that it still has not recovered from.

However, if all you are interested in is the headline number of unemployed people who are claiming (as most politicians have been) then it has been convenient to ignore the growing numbers who are on 'inactive' benefits and therefore not counted as unemployed.





So there have been two clear trends since the 1970's both with significant and long-term implications. How did these come about and what are implications?

First, the rise in people on sickness and disabled benefits.

It was no coincidence that those on sickness benefits trebled over the '80's and '90's recession. We did not get sicker as a nation but we did deliberately tell thousands of former industrial workers that they were 'sick' and should be on sickness benefits rather than unemployment benefits. At a stroke hundreds of thousands were taken off the monthly unemployment figures and hidden away, very often in communities that had very bleak jobs prospects. Since the end of '90's recession the increase stopped and remained flat until reforms in late 2000's. Again this was no accident, central government at the time was turning the tap on and off to manage the news on unemployment – the only reason why unemployment was able to fall so quickly from 1995 was because we had put people on sickness benefits – and kept them there.

At same time, there was a further dynamic that exacerbated the increase. Invalidity Benefit (as Employment Support Allowance was called at the time) was worth more than Unemployment Benefit, so it was an economically rational decision to *want* to move on to Invalidity Benefit, especially if you lived somewhere with few jobs. Some have said this was the main reason for the increase in sickness benefits and blamed the individual claimant. But the claimant should not be blamed – individuals were responding rationally as behavioural economics would now predict.

Finally, the increase in sickness benefits also coincided with an increase in the reporting of mental health problems. Mental health problems have increased from 15.5% in 1993 to 17% of adults in 2010 and in total we spend £14 billion on mental health according to a London School of Economics study. This also showed that of the poorest 20% of individuals, 25%

reported mental health problems compared to 13% for the top 20% of earners. Mental health accounts for 45% of all Employment Support Allowance claimants.

However, we are not alone. Other countries have also seen similar increases in people on sickness benefits but the UK has more than other countries (admittedly not by that much), and the employment rate for people with disabilities is amongst the lowest.

So before this rise in the numbers on sickness benefits there was a clear and neat relationship between claimants and the economic cycle – recession, claimants up, upturn, claimants down. Not any more – people stay on sickness benefits for much longer and people were joining as fast as they were leaving.

The second trend has been the rise in people who are saying they are unemployed and *not* claiming benefits. Today unemployment stands at just over 2.4 million but those that are claiming JSA is just 1.3 million.

45% of all unemployed are not claiming benefits. Even at the peak of the recent recession over 33% were not claiming.

This is in stark contrast to previous recessions where pretty much everyone who said they were unemployed was also claiming. But since the mid-1990's the non-claimant unemployed has been growing steadily. So what's going on? A number of reasons:

- An increase in the number of students who also want some work
- The rise in the participation of women in labour market and who are therefore more likely to say they are unemployed
- The increase rose steeply with introduction of Jobseekers Allowance (JSA) in 1997 which brought with it stricter requirements on jobseeking
- Getting benefits was no longer a matter of just signing on – you had to be actively jobseeking and participating on programmes such as Labour's New Deal. If benefits were seen as "something for nothing" this was no longer the case.

Furthermore recently we have seen a dramatic increase in claimants who are being sanctioned – having their benefits reduced for not meeting a requirement laid down by Jocentre Plus. The Coalition Government introduced tougher new sanctions one year ago and the figures have just been released.

This shows that sanctions have doubled since the Coalition came to power. Up from 6% of JSA claimants to 12% of claimants now. 50,000 a month are dropping their claim after having been referred for sanction - this was 10,000 a month in 2007. This does not happen

by accident, it is a deliberate policy and there has been evidence of internal Jobcentre Plus targets to sanction people. But does this mean that Labour was too weak or the Coalition is too tough?

The Sunday Express has one answer. Their investigation “has uncovered scores of cases in which people need charity handouts after being denied benefits because of administration errors and punitive sanctions.” Employment Minister Esther McVey MP said the sanctions, or cuts to benefits are used only against those who were “wilfully rejecting support for no good reason”.

However, the Sunday Express research “reveals some sanctions are unfair”. They found:

- A blind woman whose benefits were removed because she did not apply for a cleaning job.
- A woman refused benefits because she forgot to sign on on the day of her younger brother’s funeral.
- A 33-year-old man with severe dyslexia who had his benefits removed because he could not fill in his claim form correctly.
- A mother of three denied benefits because her husband mistakenly filled in a claim form with the wrong date of birth for one of their children.

These may be the unintended casualties of tougher sanctions but I suspect there are many similar stories, especially from those increasing numbers that visit their local Food Bank.

So lets just conclude where we are up to:

- 1) Sickness benefits rocketed and haven’t come down, and there are 1 million more on ESA than JSA
- 2) We haven’t become sicker but mental health problems have increased
- 3) There are many more who say they are unemployed but not claiming benefits for a mix of reasons.

In retrospect I would say that this lays the conditions for a toughening in the public attitudes towards claimants and this is exactly what has happened.

The war of words against claimants has increased significantly under the current government, with Ministers feeling they have the strong backing of public opinion. Research by Natcen showed that, since the 1980’s, there has always been around one-third of the population who believed that claimants were “fiddling” or were “undeserving” but that this proportion had not changed that much. However, there has been a significant rise in those

who believe that “most unemployed could find a job” – rising from 33% in the 1990’s recession to 70% under Labour, dipping in the recession but still standing at 56%. One of the drivers of this change is the perception that “benefits are too generous” with 54% now thinking this, compared to 33% in the 1980’s.

The British Attitudes Survey has also shown a hardening of attitudes over the decades but in the latest results “support for additional spending on welfare benefits for the poor” increased from 28% to 34% in 2012, however back in 1988 this stood at 60%. So overall the public has become much less sympathetic to welfare spending, whilst the latest increase in support may just be temporary or a signal that the government is going too far for some people. Much of the hardening of attitudes happened when Labour was in power, but it is the Conservatives who have made political capital out of Labour being “soft on welfare”. This was underlined by the leaked polling for Labour that showed swing voters were significantly more attracted by Conservatives policies. This then prompted Rachel Reeves MP on taking up her new role as Shadow Secretary of State for Work and Pensions to say that Labour would be tougher on the welfare bill.

But is the UK really that generous when it comes to benefit payments? The OECD tracks what they call ‘replacement rates’ – the average amount some gets in unemployment benefits compared to their previous income. On this measure the UK comes below mid-table on generosity.

However, this sort of comparison is likely to cut little ice with the public. As Mark Wallace put it on the website ‘ConservativeHome’: “The public are far more strongly moved by the case that welfare reform is about fairness and morality. This is significant, because moral cases – politics from the gut and the heart – are far harder to persuade people to abandon, and far more likely to motivate them to vote, than arguments based on statistics or spreadsheets.”

The consequence of decades of hardening public attitudes has led to the welfare debate being dominated by politics of the “gut and heart” rather than the “head” (where evidence would reasonably be expected to play a role). What goes with this shift seems to be a political license to disparage claimants and to tar all claimants with the ‘shirkers’ tag.

It seems, no matter what the evidence, some politicians and some parts of the media are intent on entrenching the belief that claimants are locked in “cultures of worklessness” with generations of the same family claiming benefits as a life-style choice. Yes, some exist but they are a tiny proportion of claimants. A JRF report earlier this year showed that just 0.09% of all households have two generations where neither has ever worked. It is just not current Ministers using this language – back in 2008 The Sun heralded “Labour’s blitz on scroungers”.

The vast majority of claimants want work and want to be taxpayers. Indeed, the only difference between an unemployed person and a taxpayer is that the former wants to be the latter. But the benefit system is in danger of reducing legitimacy – by this I mean a declining belief that it is an adequate source of income in hard times and provides the support people want to get back to work. The more this legitimacy declines the less people are likely to engage with the benefits system. Which brings us to the wider point that an active benefits system has a macro-economic purpose – namely to maintain a high level of labour supply by keeping people attached to the labour market through active jobsearch and increasing their employability.

A possible consequence of the ‘shirkers’ label is that it scars long-term unemployed people in the eyes of employers and therefore making it even tougher for them to find a job. This might be difficult to quantify but one sign was a survey by the CIPD which showed that 4% of employers in 2010 would exclude the long-term unemployed and this has grown to 11% in Spring 2013 – a trebling over the period.

So, there is little doubt that there are large forces at play that are toughening up the public’s attitude to welfare but the political narrative around welfare is undoubtedly pushing the trend. We need to think carefully about the consequences of encouraging further negative attitudes. Many of the consequences fall on individual unemployed people, exacerbating their exclusion.

But we should all be worried about any reduction in the legitimacy of the benefits system (as well as Jobcentre Plus and employment programmes) because reducing legitimacy will, more than likely, be mirrored in declining budgets to provide the positive support unemployed people still need.

One further long-term trend that has affected attitudes. We have lost the connection with the notion of ‘social insurance’ as paid through our National Insurance contributions. Instead it has become the ‘taxpayer’ who pay taxes to support the claimant. Our National Insurance has become a tax like any other tax. Back in 1942, William Beveridge understood all this. He wrote: "Benefits in return for contributions, rather than free allowances from the state, is what the people of Britain desire".

However, maintaining an enduring contributory welfare system means restricting more generous entitlements to those who have very clearly paid in and this has often run counter to the broader social objectives of both Labour and Conservative governments. No Government has wanted to be seen to cut off support because the contributions pot has run out.

So the challenge is to establish a closer relationship between what people pay in and what they can expect to get out. Benefits systems have to be more than private insurance policies, they also need to “reflect the need for a degree of social solidarity” as the Social

Market Foundation put it. We want to foster some societal tolerance for less fortunate people getting slightly more out than they paid in. But there will be limits to that tolerance and the toughening up of attitudes I talked about earlier is evidence.

This is why I agree with the advocates of a renewed emphasis on contributory benefits. Frank Field MP is one of those advocates and who has proposed “... a new deal between government and people. National Insurance contributors should own and control their National Insurance funds through new mutuals acting on their behalf.” He believes that voters “are willing to enter into a new contract... [to finance] national insurance benefits – in particular pensions, unemployment pay, and to cover care”.

Moving on to how we deliver support to find a job and improve employability – this also needs fundamental reform.

I have been a big supporter of Jobcentre Plus since it was formed out of a merger between the old Employment Service and the Benefits Agency in 2001. Bringing together job placement services and benefits administration was the right decision at the right time. Jobcentre Plus has done a great job in holding down long-term unemployment – during the recession it was running at almost half the rate of the 1990’s recession. However, I am now of the view that Jobcentre Plus should again be split.

Jobcentre Plus is now essentially a hard-pressed benefits administration with dedicated Personal Advisors who have excessively high caseloads. Overall there is too much emphasis on policing a benefits system and not enough on providing a personalised job placement service. David Lammy MP recently said “It [Jobcentre Plus] is a mechanism that is tired, clunking, and poorly placed to meet the changing needs not only of young people, but of a fast-changing labour market.” I’m afraid that too many people these days would agree with this description despite the hard work of front-line staff in jobcentres.

So what should be done? Jobcentre Plus should remain a national system administering benefits. It should be fully exploiting the use of the internet to transfer more processes on-line and aim to be a highly efficient ‘mechanism’ for processing claims and making payments. I shall not dwell tonight on the current grief surrounding the introduction of Universal Credit, but clearly it will have a significant impact on how people claim and are paid ... eventually.

The responsibility for job placement should be transferred to a new national network of local providers, as well as an enhanced online presence for careers advice and access to training, volunteering and work experience. Universal Jobmatch (the government’s jobsearch site) has made a start in providing easier access to thousands of vacancies but more investment will be needed to make it a comprehensive on-line service to jobseekers.

We need to remember that many people, especially the most disadvantaged claimants, will need to meet face-to-face with jobs and careers advisors. This service should be commissioned locally with local government or Local Enterprise Partnerships (LEPs) making sure that providers are integrated with other provision (such as FE Colleges) and know the local area and the needs of local employers. The task is to localise and personalise and local government needs to be galvanising all local partners into a simpler and more effective service for claimants. This should include the voluntary sector, private recruitment agencies, and housing associations – coming together to reduce unemployment and to reduce employment rate deficits for disadvantaged groups.

But we should go further. This service should not shut its doors on unemployed non-claimants – or even people seeking to change jobs and to progress in their careers. Somebody's benefit status should be irrelevant – this is about helping local labour markets work better and be more responsive to changing employer requirements.

I believe this can be done through what I call Local Labour Market Agreements between national government and local government and/or LEPs. These would clearly set out the responsibilities of the national and local levels with agreed devolved budgets which would include an element of 'payment by results'. This would also include the budget for the Work Programme which should be devolved when the current contracts end.

In splitting benefit administration and job placement services we would need to be careful not end up with 'good cop, bad cop' services. Strong job seeking requirements and sanctions will still be needed and the local network for job placement must be prepared to play its part in enforcing requirements.

My final reform is about young people. We are in a scandalous position in how we treat our young people in their transition from education to work. This is not the government's entire making – there has been a long-term trend in the underlying levels of youth unemployment. But current policies have not helped. The Educational Maintenance Allowance has been scrapped; Information Advice and Guidance on careers is in a woeful position; and too many adults and not enough young people have been taking up the expansion of Apprenticeships. And the organisation and delivery of services to young people are hopelessly fragmented between different government departments and agencies.

It is not just about services but also about how young people have access to benefits. At 18 young people can claim JSA and have to abide by a regime that is primarily designed for adult jobseekers. It is time to design a youth allowance that is fit for purpose in aiding the transition of young people into sustained employment. IPPR recently proposed a new Youth Allowance for 18-24 year olds which I would fully support. It is designed to financially support young people that need it in pursuing training, work experience and finding a

Traineeship, an Apprenticeship, or a job. It wraps up financial support with streamlined and simplified pathways and all commissioned locally, starting in London and our larger cities.

But some young people will still fail to find a job and become long-term unemployed and we know the scarring effect this has on their future careers and prospects for earnings. This is why Stephen Timms is right to propose a Job Guarantee for young people – providing support to employers to employ young people in a waged job for at least six months. This will give many young people their first job and (hopefully) a good reference. We know this worked from the Future Jobs Fund run by the Labour Government and scrapped by the Coalition but subsequently found to be cost-effective by DWP's own evaluation.

So in conclusion, we have major challenges ahead of us to reform welfare system that is in danger of losing legitimacy and the support of the public. We need to re-build trust by creating a stronger link with contributions, we need to do better at helping people on ESA into work and invest in effective mental health services, we need to reform how Jobcentre Plus is organised and provide a re-invigorated job placement service, and we need to do better by our young people. I know Clement Attlee would have risen to these challenges, we should not let his legacy down.