Third class rating for welfare reforms: Mike Tomlinson responds to the Welfare Reform Bill

On 27th February, Owen Patterson MP, Secretary of State for Northern Ireland visited Queen's and to debate the implications of the Welfare Reform Bill for Northern Ireland. Mike Tomlinson, Head of the School of Sociology, Social Policy and Social Work was the respondent and here is the text of his speech:

Secretary of State, Dean, guests and colleagues. As we have just heard, the Welfare Reform Bill is part of a broader set of changes designed to address sovereign debt, the role of the public sector and an economy in or on the verge of recession. I have ten minutes so will be selective in my comments. I will concentrate on Welfare Reform but I also want to make a few comments about 'rebalancing the economy'. Most of what I have to say is not about N Ireland as such but perhaps we can focus on this during the questions.

The Coalition is committed to a major restructuring of welfare benefits and public services that takes the UK in a new direction. Within the space of a few years, the role of the state is to be pegged back to a level of intervention below that in the United States. This unprecedented development involves new models of privatization in which the users of welfare services become a commercially exploitable business opportunity. In this new world the emphasis is on individual responsibility and changing individual behaviours to achieve a place in the labour market, good health and overall well-being. Surrounding this transformation is a climate of ideas that is generally hostile to working age people who do not or cannot work. But it celebrates the enterprise of employers whose businesses depend almost exclusively on government contracts or who are dependent on tax credits to subsidise their wage bills, and celebrates the enterprise of landlords dependent on housing benefits.

The Welfare Reform Bill has some laudable objectives but it is constructed around the idea that people, especially the sick and disabled, need to be hassled rather that helped into employment and that once there, that's the end of the story. One critic has described this as incentivizing the lame by kicking away the crutches. If the financial incentives are right, so the argument goes, then there is no excuse not to work, even if work will not necessarily lift individuals and families out of poverty.

[The research evidence surrounding the transition from welfare to work paints a much more complicated picture of motives, barriers and incentives. Research on the recession of the 1990s showed that the long-term unemployed remained remarkably active in job search and job applications, were flexible in the type of work they were prepared to take, and were prepared to work for modest wages. The biggest problems were the risks to income security of moving from benefits to work, as well as other barriers – lack of flexible and affordable child care being the major one. People risk punishment rather than reward for showing the initiative to get some albeit casual work when unemployed. The idea that the *main* barrier in the transition from welfare to work is one of a lack of work motivation, especially financial motivation is simply not borne out by the research. In areas of high unemployment the evidence is that people generally have a low 'reservation wage' (the minimum they will work for).]

Having said that, there remains a classic problem within all welfare systems concerning high effective marginal tax rates – the rate at which credits and benefits are withdrawn for every extra pound of income.   For decades, many within the social policy academic community have argued for a smoother and more supported transition from unemployment to work, and a lowering of punitive marginal tax rates as high as 100% (and historically even more than this) – the so-called poverty trap. In this regard we treat people on low incomes much more harshly than we treat middle or high earners. The Welfare Reform Bill's strength is that it aims to tackle the problem of high marginal tax rates at the lowest end of the income spectrum so that, in theory, most (but not all) Universal Credit claimants will gain by taking on varying amounts of work [– the marginal effective tax rate is to be 65% (above the highest income tax and Nat Insurance rates). Some currently in work will find their marginal effective tax rate going up slightly from 72 to 76%. {The Government's plan to withdraw Child Benefit from families containing a higher rate taxpayer will introduce a 'cliff-edge' resulting in marginal tax rates in excess of 100% for some families. Families with one earner above the threshold will lose Child Benefit but families with two earners each earning below the threshold but with a higher total household income will keep Child Benefit. As it stands the proposal is clearly unfair.} A preliminary analysis by the Institute for Fiscal Studies suggests that 2.5 million working age families gain, 2.5 million stay the same and 1.4 million lose. Lone parents will lose on average in the long run.]

Whether economic security and overall well-being of the bottom half of the income spectrum will improve as a result is a matter for debate and empirical analysis, but certainly poverty reduction is not the principal objective. Some of the practical issues are ongoing – such as the treatment of carers allowance and child care costs, [the interaction of locally-based benefits and credits such as housing benefit and rates/council tax credits, the treatment of mortgage costs, the impact of housing benefit caps, and the phasing in of Universal Credit, being the major ones].

If lowering marginal tax rates is one important objective for Universal Credit, another is to "cut a swathe through the massive complexity of the existing benefit system and make it less bureaucratic to run" (to quote Ian Duncan Smith). One objective is to cut down on fraud and error within the tax credit and benefits systems through the use of HM Revenue and Customs' proposed real-time PAYE system and through the use of private companies to 'prevent, detect, correct and punish' fraud. £1.4billion will be saved by 2015. When we hear the tough rhetoric around claimant fraud we should bear in mind that twice as much is lost through error than through fraud. And benefit underpayments exceed estimates of fraud. Losses through tax fraud are estimated to be 15 times those through benefit fraud.

The price of simplicity is that more groups of claimants will be brought into the sort of regime previously reserved for the unemployed only. The Welfare Reform Bill introduces a 'claimant commitment' or contract, setting out the responsibilities to seek work alongside the penalties for not doing so. Although anti-claimant sentiment continues to run high according to opinion polls, compulsion has its limits and there are clear sensitivities around supermarket chains and others providing no-pay work experience placements. It is hardly credible to take a hard line against the unemployed when there are two people chasing every vacancy in the economically most buoyant areas, 35 per vacancy in the worst area and 6 per vacancy across GB as a whole (we don't have comparable vacancy data for Northern Ireland).

Effectively, what happened in the 1990s was that activation and benefit policies diverted sizeable numbers of claimants from unemployment to incapacity – from the 'active' to the 'inactive' category. What we are doing now is to question the inactive status of the long-term sick and disabled, transferring a proportion back to the 'active' (unemployed) category. This has nothing to do with a change in the characteristics of individuals but everything to do with a change in policy and the treatment of individuals. This project is underpinned by Employment Support Allowance (introduced by the Labour Government in 2008). Employment Support Allowance applies a Work Capability Assessment to new claimants and eventually to 2 million existing claimants of Incapacity Benefit across the UK. The Work Capability Assessment either finds that people are fit for work or that they have 'limited work capability' in which case they are placed in a Work Related Activity Group or, because of the severity of a disability, a Support Group. This sifting process to date has attracted serious criticisms. As the Daily Telegraph commented a couple of weeks ago (15th Feb 2012) among Whitehall's 'hidden scandals' are last year's 197,000 appeals against the Department for Work and Pensions over employment support allowance decisions… 39 per cent of which were successful. Limiting contributory Employment Support Allowance to one year only is designed to save £2 billion by 2014. A similar sifting process for Disability Living Allowance ~~(~~soon to become Personal Independent Payments~~)~~ will yield a further £1 billion in cuts by 2014. Thus one sixth of the total benefit and tax credit cuts to be realized by 2014 will come from the long-term sick and disabled (and that's not counting their share of inflation indexation cuts). These reforms will impact disproportionately in Northern Ireland given that long-term sick and disabled claimants are a relatively high proportion of all working age claimants (66%) and that Disability Living Allowances run at 103 per 1,000 of the population compared to 53 per 1,000 for Great Britain.

So – what we have here is a reform that delivers £18 billion in cuts across the

UK (£600m in N Ireland) while aligning the benefits/tax credit systems to a more unpredictable and flexible labour market. This is a labour market increasingly characterized by more short-time working, more part-time working, a feminization of unemployment, more jobs effectively de-regulated to precarious self-employed sub-contracting, and wider extremes of income inequality. Welfare Reform is raising fundamental questions about the distribution of costs and benefits within the labour market: are tax credits to be seen as support for the low paid (1 million of whom work in supermarkets) or as a way of subsidizing corporate profits and bonuses? Welfare Reform may spell the final death knell of national insurance given that many are arguing for a merger between income tax and national insurance contributions: can/should National Insurance be rehabilitated? As one of the early sites of 'payment by results'-style contracts to the private sector, is Welfare Reform the proving ground for a policy that puts a price on a whole range of non-employed people, or an experiment floundering on fraudulent results, poor service and profiteering, as appears to be the case with A4E? With all the emphasis on moving people into work, the Welfare Reform agenda does not speak to the poverty line or statutory child poverty targets: child poverty will increase as a result of welfare reform – by 400k in relative terms and 500k in absolute terms (Child Poverty Act 2010 definitions).

We have limited power to address such questions in N Ireland. If we choose to break with parity of benefit rates or we choose not to copy the Westminster legislation on welfare reform, the Treasury will most likely make an equivalent deduction from N Ireland's block grant for Departmental expenditure. So our fortunes on this and on the economy more generally are very much tied to Britain, for the foreseeable future and until the Executive persuades the Treasury otherwise. So the question of rebalancing the economy is one we should ask of the UK Government, as well as of ourselves.

Secretary of State, you have laid out one vision of rebalancing – but I suggest there are other challenges – reducing the financialisation of the economy relative to services and manufacturing; changing the regional dominance of the South East of England; revaluing sectoral growth in manufacturing, the knowledge economy, education and cultural industries; gender proofing policies to rebalance the economic roles of men and women; shifting business practice and accounting towards reduced or zero carbon emissions; and, perhaps the biggest challenge of all, rebalancing the rewards for work from the richest to the low paid.

So it's time conclude in time-honoured university style. Secretary of State, I'm afraid your Government is only awarded a third class honours mark for its contribution to social justice and child poverty eradication (a fail was debated); a 2.2 for simplification promised through an untried and untested real time computer system – though the external examiner might have something to say about that; a 2.1 for the reduction of effective marginal tax rates at the lowest end of the income spectrum and a first class honours for the Welfare Reform Bill's achievement of being voted down 8 times in the House of Lords – which must be close to a record (second only to Labour's Identity Card Bill).

Owen Patterson's speech on Welfare Reforms (given at Fisherwick Place on 1st March is available here).