

# **The policy con is on**

## ***Welfare and workfare in Cameron's Britain***



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## About the author

Alex Marsh started his blog – *Alex's Archives* – in October 2010. The blog's audience has grown steadily. Since June 2012 it has regularly featured among the Top 100 politics blogs in the UK on the ebuzzing.com monthly ranking.

The blog covers a wide range of topics, but its focus is issues relating to housing and social policy, economics and public policy, and political processes under the Coalition government.

Alex's posts have also appeared on group blogs including Dale&Co., Liberal Democrat Voice, the Guardian Housing Network blog, LSE British Politics and Policy blog, and LSE Impact of Social Sciences blog.

Outside the blogosphere Alex's day job is as Professor of Public Policy at the University of Bristol, where he is currently Head of the School for Policy Studies. He has published academic articles in a variety of housing and policy journals. His most recent book is the *Sage Library in Housing Economics*, which he edited with Ken Gibb of Glasgow University.

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## Contents

Preamble	1
“Us” and “them”. Yes, them over there. The benefit scroungers.	2
The requirement to work looks imminent – why not locate it all in one place?	3
The great unmentionable: in-work poverty	5
Tricky business down at the job centre	6
Compassionate, careless or conniving?	7
The Work Programme isn’t working ... and that raises bigger issues	10
Humanising welfare reform	13
In praise of absolute poverty	15
Creating division, sowing discord	16
Is the quiet man about to turn up the volume?	18
Cameron’s war on welfare	20
On the woeful Work Programme	22
There’s money to be made from “responsibilizing” the poor	24
Social security reform: populist or progressive?	25
Refreshing Beveridge	28
Policy challenges around welfare reform	32
Osbo’s poverty trap and pinging the elastic of reality	37
The gathering storm	39
The politics of the bedroom tax	42
Curbing the welfare hate	44
Messing with the minimum wage	47

## **Preamble**

My blog covers quite a wide range of topics. I write about whatever happens to be interesting or preoccupying me at the time. Posts are often triggered by an issue currently in the news or by something I've read. If a piece in the mainstream media or a post on someone else's blog is my starting point, then I may well try to link my discussion, explicitly or implicitly, to an argument or a concept from a relevant academic literature. This is always done informally.

I have returned regularly to the Government's "welfare" reform agenda. I have been particularly interested in the use and abuse of language and the disconnection between policy discourses and available evidence.

This collection brings together a selection of my posts discussing social security reform, housing benefit changes, workfare, poverty, the minimum wage, and the divisiveness of the Government's policy narratives around "welfare". My aim in putting the collection together is to make the arguments available to readers who prefer to digest their reading material in more conventional form. I am making the arguments accessible to those who have little interest in rummaging around in my blog archive.

I have presented the posts in chronological order, primarily because they have been generated in response to developing policy agendas and hence they have, to an extent, their own sense of forward momentum.

For this collection I've edited the posts slightly for grammar and punctuation. Otherwise, the posts are presented pretty much as they can be found on the blog.

*Alex Marsh, Swansea  
April 2013*

## **“Us” and “them”. Yes, them over there. The benefit scroungers.**

*16<sup>th</sup> November 2010*

We have yet to feel the full force of the Coalition's welfare cuts. But we are perhaps now starting to get an inkling of the reaction they will elicit when they finally arrive. One of the puzzling characteristics of much of the discussion of the agenda so far is the relative absence of effective and vocal opposition. The Coalition has had a relatively easy ride in the press and in Parliament.

The Tories have very successfully pursued a divide and conquer strategy based on deservingness. Consequently a theme dominating the public discussion of welfare cuts is that the Government is right to think that 'something needs to be done' about 'them' [choose preferred target] – they are clearly taking the rest of us for a ride and are an unjustified drain on resources. This has been perhaps most effective in relation to the restriction of housing benefit. The Government has focused on the most egregious examples of high levels of financial support going to individual households in expensive parts of London in order to justify the restriction of housing benefit for hundreds of thousands of poor households.

Housing benefit is an interesting case. If the argument is that the housing benefit system is overgenerous and allows landlords to inflate rents in line with available support – which it is, at least in part – then the issue is a transfer from taxpayer to landlord, rather than taxpayer to tenant. If we accept the premise then the culprit is the landlord, who is playing the system, not the tenant. We should be directing our ire at those landlords who are fleecing us. Yet the tenant has been constructed as the wrongdoer for living in areas where hard-working low income households cannot afford to live, and doing so supported by the taxes of those very same hard-working households.

This sort of “us and them” strategy allows us to dehumanise “them” and then proceed to impair their standard of living and life chances without feeling too bad about it. It's a strategy we would fully expect from the Tories. But not from the Liberal Democrats. It's a strategy that rests on a lot of people believing that they'll always be “us” and never be “them”. If we thought we might end up being one of “them” then we might take a rather different view of the levels of support that should be available to those in need (as John Rawls argued at rather greater length).

Yet, an adverse life event such as long term limiting illness or unemployment can happen to anyone. And in recessionary times more people will inevitably be affected, if only temporarily.

A [recent report](#) for the Department of Work and Pensions by Bruce Walker and Pat Niner of Birmingham University makes the point clearly in relation to housing benefit (HB) in the private rented sector (PRS). The authors argue that:

One of the main themes of this research project and report is to compare LIWH [Low Income Working Household] tenants and HB claimants in the PRS. A clear message from the in-depth interviews is that it would be a mistake to see 'HB claimants' and 'low income working families' as totally

distinct categories. Many interviewees had moved between these categories, sometimes several times, so the same household could one day be a LIWH and the next a claimant. Further, where HB is claimed as an in-work benefit, households are essentially both low income working households and claimants at the same time. (2010, p3)

Hence, among low income households the boundary between “us” and “them” dissolves.

We need to hold on tight to the rationale for social safety nets. They are there for everyone in case they suffer an adverse life event.

Many who are fortunate enough not to have ever experienced what it is like to be one of “them” can empathise. They can recognise the value of an adequate safety net (and arguable the British safety net is barely adequate by international standards) and the dehumanising and divisive effect of inadequate social provision. But in a harsher economic and financial climate these views can be sorely challenged. We need to retain a strong sense of empathy.

If empathy were somewhat more widespread then the idea of large cohorts of benefit recipients receiving tens of thousands of pounds from the taxpayer as a lifestyle choice would be recognised for what it is – a creation of the political right and the right wing media to advance an agenda of vilification.

Most people need to call on social safety nets for limited periods to cope with temporary setbacks. The main reason that the welfare bill has increased dramatically in the last few years is that there are a lot more people claiming, not that it is massively generous to individual claimants. That shouldn't come as a surprise in a recession.

That isn't to deny that it is impossible to find people who receive a lot of money in housing benefit. Of course you can. Or that there are not people who are choosing to live on benefit. Clearly there are. And it isn't an argument against reform. But it is an argument that those few households who do not take their responsibilities to society seriously should not be used as an excuse for pursuing spiteful policies that inflict great hardship on many who are simply unfortunate.

## **The requirement to work looks imminent – why not locate it all in one place?**

*7<sup>th</sup> November 2010*

We are starting to get strong indications of the shape of the Coalition's proposals on welfare. Today's papers are trailing the core idea of requiring unemployed people to participate in 30-hours per week of unpaid manual work in the community for four week periods. It appears that if claimants decline to do so then they can expect to lose their benefit entitlement for up to three months. The aim is apparently to refamiliarise individuals who've been out of the labour market for a while with the routines and rhythms of work. It is likely to be prescribed for those who need “experience of the habits and routines of

working life". Of course we have to be cautious in jumping to conclusions before the formal policy announcement is made, but the suggestion that policy is moving in this direction – under the malign influence of US academics Mead and Murray – shouldn't surprise anyone. Nor should it surprise anyone that something very similar was proposed by Labour in 2008 (as discussed [here](#)).

This policy is going to represent yet another challenge for the Liberal Democrats.

While the issues of personal responsibility and self-determination are clearly vital for liberals, the authoritarianism, coercion and stigmatisation inherent in these proposals are deeply problematic. Any suggestion that such an approach could be compatible with respecting human rights and promoting human dignity is utterly implausible.

Any argument that Labour were planning to do something similar to the approach the Conservatives are now peddling, and that somehow that makes it ok, should be treated with deep suspicion. The course of action favoured by the other parties is entirely irrelevant to assessing whether a policy proposal is acceptable from a Liberal Democrat perspective. Two wrongs don't make a right. It may be a cliché, but it seems highly relevant at the moment.

That shouldn't be taken to mean that existing systems of support for working age adults who are out of the labour market are unproblematic. Or that they aren't in need of reform. But we should be considering reform from a more compassionate position than the Tories will ever offer. And without the authoritarianism inherent in the approaches characteristic of both the other parties.

It would seem from comments made by Danny Alexander today that he is trying to do just that. He stated on the BBC that the purpose was "emphatically not to punish and it's not to humiliate", rather the aim is to "support and encourage". But he's shackled to such a right wing mob that his comments are going to have next to no credibility at the moment. If it turns out, for example, that people are not coerced into participation in such schemes by the threat of losing their benefit then perhaps such arguments would start to look more credible. If, in fact, they are not forced to work for nothing but instead are paid over and above their benefits – why not up to the equivalent of the minimum wage? – then perhaps it would shake off the suspicion that this isn't just a "cheap" way of replacing work previously done by paid public and voluntary sector employees that has disappeared as a result of the public sector budget cuts.

Such vital details are likely to – indeed really should – be crucial to shaping the response to these proposals from the Liberal Democrats. But I'm not holding my breath that the proposals are going to be anything other than extremely unpalatable.

Liberal Democrat members of the Coalition may try to give the proposals a more positive reading. But most people will assume the changes are punitive. Some will think that is a good thing, some will think it is awful. Few will see it as in any way supportive of those outside of the labour market. Until the Coalition addresses in a plausible fashion the criticism that there are currently five people out of work for every one job vacancy (and that ratio is presumably about to deteriorate), then all claims that this initiative is not punitive will sound hollow.



The New Victorians in the Coalition seem determined to dismantle many of the key institutions of the welfare state as fast as they can. They seem intent on winding the clock back to a harsher, darker age when it was every man, woman and child for themselves. Of course, as people of significant independent means they are personally rather well placed to survive, indeed thrive, in such a society.

We would appear to be revisiting the notion of forced labour as the price for the rather meagre assistance on offer from the state. But it seems to me the government is missing a trick. Providing assistance to people who are living all around the place is surely an inefficient way to organise things. Wouldn't it be better if we brought them all together? In some form of institutional setting? Then we can efficiently supervise the indigent to ensure they are exerting themselves adequately in return for the largesse of those hard-pressed middle-income taxpayers. That makes a lot of sense in these times of austerity. And there seems no particular reason why such supervision need be carried out by the public sector. Then perhaps the New Victorians' vision will be complete. We will truly be back in the world of indoor relief and the Workhouse.

## **The great unmentionable: in-work poverty**

*6<sup>th</sup> December 2010*

The Government's strategy for addressing poverty and inequality is geared towards tackling benefit dependency and making the transition into work easier. In this respect there is a great deal of continuity with the rhetoric, if not the practice, of the previous Labour administration.

The publication today of this year's [Monitoring Poverty and Social Exclusion](#) by the Joseph Rowntree Foundation ought to give anyone convinced by the Government's strategy pause for thought. The report shows that the overall number of children living in poverty has fallen (to, a still pretty shocking, 3.7m) and the number of children in workless households has fallen to 1.6m. This is most likely because of the rises in tax credits and child benefit under Labour. At the same time it shows that the number of children in poverty who are living in working families rose slightly. They now account for 58% of the total.

One of the authors of the report, Tom MacInnes, comments that "it is simply not possible to base anti-poverty policies on the idea that work alone is a route out of poverty".

In many ways this should not come as news at all. The policy fixation with getting people into work – any work – as a means of dealing with a social problem took hold in the mid-1990s. On the back of discussions about social exclusion/social inclusion, policy came to see 'social inclusion' as meaning paid employment. Yet, as my good friend Professor Levitas argued a decade and a half ago in *Critical Social Policy* (available [here](#) for those with access) and at greater length in *The Inclusive Society*, the equation of being 'in work' with having dealt with the problem of social exclusion is to draw a veil over the massive inequalities in the labour market. It is to fail to recognise exploitation and discrimination. It also devalues



unpaid work. While moving from inactivity to employment may well have considerable benefits in a number of areas – including more active engagement with society, contribution to public finances, better mental health – it is not by definition a cure for the problems of poverty and lack of social participation.

For policy makers to make even slightly plausible claims that work does represent a cure for poverty they would need to hold tight to the idea of a minimum wage that delivers an acceptable standard of living. Will this particular government be inclined to adopt a positive orientation towards the minimum wage, given that those on the Right are typically hostile to the idea? Can the country 'afford' a minimum wage, in the context of a narrative of cut-throat global competition? When that battle finally commences, as it undoubtedly will, perhaps the fact the minimum wage was recently voted the [most successful policy of the last 30 years](#) will provide those seeking to ensure that work really does pay with some much needed ammunition.

## **Tricky business down at the job centre**

*9<sup>th</sup> April 2011*

So it appears that the Department of Work and Pensions may not have been entirely correct. The Department initially denied that Jobcentre Plus employees were tricking vulnerable people in order to sanction them and stop their benefits, as reported in the Guardian last weekend. The Guardian yesterday [continued the story](#) with the news that:

The DWP has backtracked and released a statement confirming the practice had been going on in some offices due to a misunderstanding between the department and some jobcentre managers. It insisted this was no longer the case.

Some offices? That's a relief. At least it's not a systemic and endemic problem. A misunderstanding? That's good. At least it's not a question of policy. But given how far the Department's position has shifted in the last week, perhaps it would be wise to reserve judgement on whether we now have an accurate diagnosis of the problem. Who knows what might emerge in the coming days.

The Government is looking to save money in the welfare field, as much as anywhere else. The costs of welfare policy are not so much the costs of providing welfare services as those associated with the sheer volume of the benefits paid out. The options for making savings in the short term are limited:

- Moving people off benefit into work at a faster rate would help, but the economic circumstances are not hugely advantageous for doing so.

- Cutting the amount of benefit paid to each claimant would help, but the political cost of brazenly doing that in the short term are considerable. A less overt and contentious strategy might be to link the uprating of benefits to CPI rather than RPI, which will typically mean that over time their real value declines. That policy's in place.
- Similarly contentious would be the third option: implementing more restrictive criteria for entry to the welfare system. The problem with this option is that it looks a lot like abandoning the unfortunate to penury. That might not sit too comfortably on the news grid.
- So that leaves only one other strategy to save money: to sanction claimants for failing to conform to the rules and as a consequence remove their entitlement to benefit. This is a less visible approach to constraining the welfare bill and, conveniently, talk of "sanctioning" carries with it the implication that the claimant is somehow at fault.

So, if there is pressure coming down from the top to save money, and targets are set for delivering savings, what is going to happen? If your job hangs on meeting those targets – and the very nature of your job makes it only too clear the consequences and conditions of unemployment – what are you going to do? Even if you know it is immoral to look to sanction easy targets, might not your instinct to self-preservation kick in at some point and you make the decision to take the low road? The Conservatives, being firm believers in self-interest as the wellspring of human motivation, should not only expect this but, presumably, find it unexceptional.

The Department might argue that this isn't what they intended at all. No one has been directed to pick on the vulnerable. There was no intention to create a climate of fear. Arguments will no doubt be made about an unfortunate uncoupling of policy and implementation: with the DWP setting policy and Jobcentre Plus as the Executive Agency not quite taking forward the spirit of that policy.

But if the imperative to save money is perceived to be absolutely overriding, and the consequences for individual members of staff of failing to do so are dire, then such arguments lack credibility. Ian Duncan Smith and the DWP may not be pulling the trigger, but it doesn't mean they didn't load the gun. And the consequences for the vulnerable stand as an indictment of current policy positions.

## **Compassionate, careless or conniving?<sup>1</sup>**

*31<sup>st</sup> July 2011*

In the run up to the Parliamentary recess the country was transfixed by a scandal involving the Conservative contingent of the Government, the media, powerful private companies and

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<sup>1</sup> This post first appeared at Dale&Co. It is no longer available online.

a Select Committee exerting itself. The scandal gained momentum when it was clear that particularly vulnerable people were being affected by unacceptable or underhand practice.

There is another scandal brewing which has the same cocktail of ingredients. I am talking about the changes to Incapacity Benefit and the implementation of Employment Support Allowance.

The rhetoric of reform here is positive. Some might even say unexceptional. But the practice is, by comparison, looking decidedly ropery. As so often turns out to be the case.

David Cameron has made many of the right sorts of noises. A welfare system shouldn't abandon people to live on benefit for year after year. People who could, with assistance, work should be expected to work. And assistance should be available. He suggested the Government would "really put people through their paces" to establish whether they are able to work.

Try to make sure no one is neglected and left on the scrapheap? Try to make sure that everyone takes responsibility and realizes their potential to contribute to society to the best of their ability? Surely this sounds like Compassionate Conservatism at work.

Of course, some would disagree with the premise that the UK has a welfare system that leaves people on benefit year after year. But that's not really the issue. More important is the way the reforms are being implemented and how that process is being represented to the public.

The assessments of fitness to work are being conducted by a private contractor, ATOS. Statistics released this week indicated that in the two years to November 2010 only 7% of applicants were found to be too ill to work and entitled for the full welfare benefit. Four out of ten applicants were found fully fit to work and moved on to Jobseeker's Allowance. Another 17% are assessed as being able to work at some point in the future, and able to take steps in that direction now. More than a third of applicants withdrew from the assessment process.

Evidence is accumulating that the new work capability assessments (WCA) being applied are generating an alarming number of false positives. Seriously sick people and people with significant impairments are being declared fit to work on the basis of tests that lack subtlety and fail to take account of existing medical evidence. The proportion of successful appeals against these decisions is high. The cost of appeals is estimated to be £50m a year. There are several cases of people dying while waiting for an appeal or having recently been declared fit to work.

It has also been suggested that unreasonable barriers to participation are being erected - some of the assessment centres are not, for example, easily accessible for disabled people. And it has been alleged that assessors are incentivised to come to the conclusion that claimants are fit to work. The more applicants declared fit to work the more money the Government saves, in the short term at least. Whether or not such allegations can be substantiated, they contribute to the perception of unfairness at the heart of this system.

And while more people are being declared fit to work, the funding available to assist them to access work is being cut.

The issue of representation is equally problematic. Here the Department for Work and Pensions stands accused. Either it has been carelessness in the way the policy implementation is being publicised. Or it has connived with the tabloid media to create a narrative that the new policy has exposed large numbers of benefit cheats.

An earlier round of statistics from the WCA was released in April. The tabloid press reporting at the time focused on the low proportion of claimants found to be too ill to work, and proceeded to label all those who had 'failed' the test as workshy benefit scroungers.

This overlooks the fact that a further proportion of claimants were assessed as being able to work at some point, following assistance – that is, they won't be in a position to work without it. It assumes that work-capable is the same as work-ready, when it isn't. It also assumes that all those who drop out the assessment process were trying it on – when there are all sorts of reasons for withdrawing, including being too ill to face being "really put through their paces".

The Work and Pensions Select Committee reported this week on its concerns about the way these issues have been reported. The Committee was concerned that tabloid vitriol directed at claimants is being translated into routinized abuse of people facing genuine difficulties and impairments. The Committee concluded that the DWP needed to take more care in the way in which it disseminated information in order to reduce the risk of the wrong messages being received and vulnerable people being negatively stereotyped.

This is where the story starts to gather momentum. The release of the Select Committee report coincided with the publication of the latest tranche of WCA statistics. The tabloid response to these statistics was equally sensationalist and equally negative. The focus was again almost entirely on the figure of 7% of claimants being too ill to work and the large proportion of claimants who were assumed to be trying to cheat the system.

This led the Chair of the Select Committee, Dame Anne Begg, taking the relatively unusual step of writing a public letter to Chris Grayling, the Employment Minister, condemning the media coverage of this statistical release in the strongest possible terms (available [here](#)). Not only that, but the Disability Benefits Consortium – representing 50 charities and campaigning organisations – issued a statement condemning the way in which Government has not sought to ensure fair reporting of these statistics. There is concern that this led to misleading reports that a high proportion of benefit claimants are faking. This in turn "may be contributing to stigmatisation, victimisation and exclusion".

The ingredients for this to go badly wrong for the Government are all there. The media are trying to construct this as a case of dealing with the "undeserving" poor. Whether that is with the Government's implicit support is contested. But the policy is walking a fine line. There is more than a suspicion that what it is in fact doing is penalising the "deserving" poor: those who find themselves in a bad way through no fault of their own are being propelled further into poverty. Layered on top of this is the fact that these injustices are being perpetrated by a foreign-owned private company through the kind of contractual arrangement this government not only favours but is seeking to promote. The risks to the broader *Open Public Services* agenda are evident.

The situation as yet hasn't quite gathered the momentum to become a full blown scandal. But Conservative Ministers need to handle this with great care. A lot of time and energy has been spent trying to detoxify the brand. But the evolving situation here could rapidly demonstrate that Compassionate Conservatism was – when set alongside what's actually happening on the ground - just so much cant.

## **The Work Programme isn't working ... and that raises bigger issues**

*2<sup>nd</sup> September 2011*

The Work Programme (WP) is the Coalition Government's £5bn replacement for the range of programmes – including the Flexible New Deal – designed to assist unemployed people back into work. While the WP learns from and builds upon previous initiatives it also represents a departure. Its key characteristic is a more thorough-going application of the Payment by Results approach.

Last week the Social Market Foundation published a [brief report](#) on the Work Programme, which got a fair bit of coverage in the mainstream media. The headline conclusion is that all is very much not well with the new approach, as currently structured. The programme is, as they put it, at risk of “financial collapse”.

Even if assistance for the unemployed isn't particularly your interest, this debate is important. It has much broader resonance in the light of current directions for public service reform.

The SMF argument revolves around a combination of three things: the demanding performance expectations DWP has placed upon contractors; the reduced financial resources available to support each unemployed client; and the deterioration in the economic environment.

The SMF has crunched some numbers, using recently available data from the Flexible New Deal, and projected forward the likely levels of performance under the WP. It arrived at the conclusion that the vast majority of contractors are unlikely to be able to meet the expectations placed upon them, which could trigger widespread contract default. Even if the Government do not consider poor contractor performance to have voided the contracts, the likely level of performance will not generate sufficient resources to make the activities financially viable for the contractors.

The SMF identifies the arrival of the recession – with the consequent increase in the number people needing help and the reduction in the number of vacancies – as pushing already challenging targets for successful work placements even further out of reach. The SMF argues that this is all likely to be particularly problematic for small voluntary sector and not-for-profit providers of specialist secondary services to the primary contractors. The extent to which that is the main issue perhaps needs further exploration. Today's [Inside Housing](#) notes that some housing associations have already turned their back on WP because either it didn't make financial sense from the start or they are not getting referrals

from primary contractors at the anticipated rates – which is a rather different problem from not being able to secure a successful placement for the people who are referred. Some are setting up alternative local schemes to help the unemployed.

The core of the solution to these problems, from the SMF perspective, is to reduce performance expectations in general and change the nature of the contracts under the WP so that performance expectations can vary over time in systematic ways related to the economic cycle. As the economy enters recession expectations around rates of successful work placement can be scaled back, whereas in times of strong economic performance and labour shortages the Government could reasonably press for more ambitious targets to be met. A number of other proposals are advanced, including the need to consider increasing the outcome payments per placement during recession in order to ensure the viability of WP providers. The argument here is that “widespread financial failure among providers will ultimately be more costly for taxpayers and jobseekers”.

The Government response to the SMF report is predictably negative. The principal line of argument is methodological: it is to rubbish the idea that you can use data from the Flexible New Deal to make any inferences about the WP because they are not the same. It is clearly true that the programmes are not the same. It is equally true that forecasting of any type is a challenge, and that challenge is magnified in periods of economic turbulence. But, with all the usual caveats in place, I would have said that the SMF has been pretty fair in its assessment. If anything, it has been relatively optimistic. Therefore the conclusion that the WP is going to miss its targets so spectacularly is even more of a challenge to the approach.

The Social Market Foundation can rightly claim to have strongly influenced the development of the approach embodied in the Work Programme. And it is happy to make the claim. Its 2009 publication [Vicious Cycles](#) made proposals for reforming active labour market policy in ways that are very similar to those subsequently used in the WP.

It is therefore, perhaps, all the more striking that it is the SMF that is raising these concerns about the programme.

On the other hand, it means that the extent of the critique of the WP offered by the SMF is limited. It is largely technical. It is about tweaking the system to make it more viable, rather than questioning whether the approach adopted is the right one.

But I think there are some more fundamental questions that should be asked about the WP.

The programme was established in the face of a recession. How is it that no one involved in structuring the contracts apparently considered that performance might be correlated to the state of the economy? If you accept the premise that the WP is a good approach, then that would appear a fairly elementary oversight.

When you study public economics one of the starting points is that markets are not good at dealing with systemic risks. Indeed, this is often identified in the general economic textbooks as one of the key market failures. That is why private insurance markets do not cope well with things like unemployment or mortgage payment protection. If the volume of claims is correlated to the economic cycle then that's problematic for the financial viability of the insurance scheme. This argument – in combination with others – can be used as a

justification for mechanisms of social protection. The analogy with the WP is clear. The service being provided is critically dependent upon the economic cycle – both in terms of the rate of inflow of clients and the rate of outflow – so performance is inevitably going to vary significantly. And, arguably, at the times the service is most urgently or extensively required, it is going to be least able to deliver. It is therefore obvious from the outset that contracting with the private sector for the service is going to need to be flexible. But flexibility changes incentives. It might well be possible to argue that the level of flexibility required is such as to render the whole approach problematic.

The SMF modelling work was based upon performance under the Flexible New Deal and the WP was found wanting. Yet, the whole argument for switching to the WP was that it should be more effective and efficient than the preceding system. Otherwise, what was the point? If we consider that the levels of outcome performance achieved under FND are as good as we're going to get then the WP had better be cheaper. If, on the other hand, we are paying the same as under the FND then we should reasonably expect better outcomes. Otherwise, again, what's the point? If the only way for the WP to remain viable would be to expect the same level of performance as the FND and to pay the same for it then all the policy has achieved is the privatisation of policy delivery.

The argument that it may be necessary to increase outcome payments in order to avoid the financial failure of contractors, because it would work out to be more costly for taxpayers and jobseekers, is one that needs closer scrutiny. The whole point of moving to the WP is to sharpen incentives. If you move to a system is designed to ensure that contractors do not fail then you have largely removed those incentives. If you don't think that allowing providers to fail for underperformance is acceptable because it impacts negatively upon jobseekers and the taxpayers then maybe, just maybe, the whole premise of the payment by results/contracting out approach is flawed. Or, rather, it works in theory but the practical politics of it mean that it cannot be made to work in practice.

Why is this important? Well it is important because the Government is considering applying the Payment by Results regime to a policy area near you. It is an integral part of the agenda set out in the [Open Public Services](#) white paper. The Work Programme is one of two areas of activity – the other being projects under the Ministry of Justice aimed to reduce reoffending – held out as successfully blazing a trail for this approach. If the WP is deeply flawed – and the SMF is not the only organisation to raise concerns – then that is an issue of much broader significance.

The management consultants and market fundamentalists are gung-ho for Payment by Results. It is seen as a mechanism of wide applicability for delivering better public sector performance. It may well work in some spheres. In areas that are not cyclical or where contract failure does not impose unacceptable or disproportionate costs, for example, it may be possible to write appropriate contracts. But the suggestion that it can be applied all over the place needs very careful scrutiny. The absence of detailed critical engagement with these arguments is worrying.



## Humanising welfare reform

8<sup>th</sup> November 2011

Earlier today I was reading a piece about the financial crisis which argued that part of the problem with the financial system is a greater reliance on the technology, quants and trading over distance. There are fewer regular face to face meetings with counterparts in the market. This led to an erosion of trust and any sense of mutual obligation. Market actors were tempted to pursue the incentives they faced to put one over on others – or to act fraudulently – because they weren't doing it to people they knew. It's not going to hurt anyone, but it may make me rich(er). Just playing with numbers on a screen. Impersonal.

The argument is plausible, given the work in economic sociology and cultural economy on the role of trust and social norms in successful market functioning. Perhaps rehumanising the market is a necessary step to remoralising it.

It seems to me that there is a parallel here with the current programme of government welfare reform, particularly in relation to the reform of Incapacity Benefit.

In the context of austerity the policy focus is upon curbing the budget. The strategy is to tighten the eligibility criteria and make the route to access benefits harder to negotiate. I have written about this in *Compassionate, caring or conniving?*

Today newspapers published reports drawing on [work by Christina Beatty and Steve Fothergill](#) at Sheffield Hallam University which sought to produce independent estimates of the impacts of the reform. Beatty and Fothergill highlight the fact that the numbers involved are big. They estimate that 800,000 people will lose their entitlement to Incapacity Benefit. It is likely that there will be nearly 300,000 additional claimants of Jobseeker's Allowance, while nearly 600,000 people are likely to drop out of the benefit system entirely. That's getting towards a million additional people looking for work. At a time when the labour market is already fragile and unemployment high. As Beatty and Fothergill observe:

The loss of entitlement is entirely the result of new benefit rules. It does not necessarily indicate that the health problems or disabilities that previously gave entitlement are anything other than genuine.

Few of these people will be work-ready and well prepared to compete in a buyers' market.

When we're dealing with numbers on this scale it can be dehumanising. The government talks in terms of the hundreds of millions of pounds that will be saved from the budget as if that is a good thing by definition. It is a good thing if we are talking about removing benefits from those who are not entitled to them. If there are thousands of people who are receiving assistance when they are not eligible then dealing with that would increase the legitimacy of the system. It is a bad thing if we are removing vital assistance from those who genuinely need it – simply by denying that they do. To perpetrate policy change that, when looked at dispassionately, would appear nothing other than spiteful, it is useful to construct a discourse of scrounging, of exploitation of the hard-working taxpayer, of widespread abuse of the system. Whether or not there is evidence of such systemic abuse

is irrelevant. The discourse helps the mass of people – those who neither rely on the benefit nor have members of their family that do – view the reform as justified. Altogether less troubling to the conscience.

So it is important here also to rehumanise the debate. Lest we forget.

Sue Marsh, of the brilliant [Diary of a Benefit Scrounger](#) blog, popped up on Channel4 this evening to make an articulate and impassioned plea for valuing welfare safety nets, whether or not you are a current beneficiary. The whole point about risks around illness and disability is that no one is immune. Sue has been making that case on her blog for a while now, as she is witnessing first-hand and through correspondents the sorts of negative impacts new systems of appraisal and exclusion are having. It was good to bring it to a broader audience. If you did not see the brief programme then I would encourage you to [watch it here](#).

Sue is articulate in making the case. But not all of those who will be subject to these reforms are well-placed to make representations on their own behalf. Today saw an absolutely shocking report in the [Coventry Evening Telegraph](#) of the case of Mark and Helen, a couple from Bedworth, who appear to have died after entering a suicide pact following an extended period living hand to mouth. It appeared that Helen had been deemed by the Job Centre to be incapable of work, but she had not been assessed for Incapacity Benefit.

The pair made the 6 mile round trip into Coventry weekly. The Telegraph reports that they then:

made a broth from the weekly handouts of vegetables given to them at the Coventry soup kitchen and lived on it for the entire week ... They cooked the food on a single gas ring and kept the produce outside as they did not have a fridge.

There is no doubt a significant back story to this case. But, on the face of it, it appears that here is a couple who had fallen through the gaps in the safety net and ended up living in conditions that should shame anyone who would like to consider Britain a civilised country.

It is not clear that this situation arose because of the cuts to welfare benefits and frontline services that are a consequence of the Government's austerity programme. Let's assume that it didn't. So with a level of resource that the government has deemed unacceptably lavish this situation still arose. What chance that it will happen once those resources are pared back further and the safety nets are even more threadbare?

There is a deficit to deal with. No argument. But in trying to address those big scary numbers we must remember to rehumanise the finances and the economics. To fully grasp the effects on people's lives of what is being proposed. Then maybe the strategies for dealing with the deficit would look rather different.

## **In praise of absolute poverty**

*9<sup>th</sup> November 2011*

It strikes me that we may need to rewind the clock and recapture something a bit simpler. It might help some members of the political elite talk more sense.

There is a continuing academic debate over how to measure poverty. Broadly speaking, thinking on poverty has moved away from using absolute poverty measures – such as the \$/day that has been frequently used to assess the extent of global poverty. Emphasis is now much more on the use of relative poverty measures, such as those who fall below 60% of median income, or consensual measures, which, crudely speaking, identify what constitutes an acceptable standard of living within a particular society and work backwards to the level of resources needed to achieve it. Relative and consensual measures of poverty get at an important additional dimension to the problem of poverty – it is not only that lack of income leaves people hungry or cold but the absence of income also frustrates meaningful social participation.

Those on the political Right tend to favour a return to absolute measures of poverty. It is only when using an absolute measure that it is possible to declare poverty to have been banished or to deny the existence of poverty, as was so publicly attempted by the Thatcher government.

While that move was criticised as statistical shenanigans, there may be a need to reintegrate a concern with absolute poverty into the debate. For two reasons.

Yesterday David Cameron spent some time in front of the House of Commons Liaison Committee for a wide-ranging discussion on the theme of the Big Society. The discussion touched on the summer riots and the Government's response. When discussing appropriate punishment for rioters, or benefit recipients who break the law more generally, [it is reported](#) that Cameron:

defended plans to increase the amount of benefit that can be withdrawn from a claimant if they break the law and are fined. The government has announced it intends to increase the maximum benefit withdrawal from £5 a week to £25 from 2013, the point at which universal credit is introduced.

He said “otherwise the man in work is forced to pay a fine whilst the person next door who is living on benefits gets off much more lightly”.

This statement is constructing the issue as addressing one type of injustice. Yet, we can look at it from the other direction. A single person over 25 on benefit currently receives £67.50. So £25 will represent 37% of their income. We might say that they have broken the law so they deserve it. But if a more punitive stance on fines reduces their income below the level required to survive then what is the likely result? Further criminality, in order to survive, can hardly be ruled out. The punitive response would be counterproductive, as is so often the case.

Of course, we don't yet know what benefit levels in 2013 will look like. But it is doubtful they will be more generous. Particularly if the moves George Osborne appears to be contemplating come to fruition. Over the weekend, a number of newspapers reported that he was exploring possibilities for not uprating benefits by September's rate of inflation because of the aggregate cost. Reference was made to the mantra "we're all in it together". It appears that these proposals are [creating tensions](#) within the Coalition, and not entirely along party lines.

Leaving aside the fact that we're clearly not all in it together to the same degree, we need to remember what the uprating of benefits represents. It isn't some sort of unearned bonus given to poor people. It is an adjustment made to recognise that as a result of inflation benefits are no longer sufficient to secure a given standard of living. Without the uprating people reliant on benefit will get poorer. They will be forced to make even more difficult compromises between eating and heating.

Now, if Britain possessed one of the most lavish welfare states in the world then perhaps we might argue that there is a bit of latitude. That there is sufficient headroom for us to restrain increases this time around and no one will suffer unduly. But this is just not the situation. Out of work benefits in Britain are low by international standards and current levels are below some measures of the poverty line.

The welfare benefit bill in Britain is high because there are a lot of people receiving benefit, not because benefits are extravagantly generous. There are a lot of people on benefit because large chunks of the British economy have underperformed for many years and the country has been kept afloat by the financial sector and unsustainable borrowing. The solution lies in strategies to rebalance the economy and enhance the competitiveness, quality and innovation of its productive sectors. It shouldn't lie in screwing the poor.

£67.50. That's one mid-price dinner if you're a Westminster MP dining out in London. Every publicity stunt I can think of over the years where an MP has tried to live on benefits for a week – to demonstrate that people are whinging about nothing – has ended in failure. Admittedly I may have forgotten a success. Benefits are barely enough to manage on for one week – without any major one-off item of expenditure cropping up – let alone to live on for months or years.

If we were to reintroduce the notion of absolute poverty into these discussions then it would clarify how low is unsustainably low. How poor is too poor in twenty-first century Britain. And it might curtail some of the less humane and counterproductive proposals regarding who bears the cost of austerity.

## **Creating division, sowing discord**

*28<sup>th</sup> January 2012*

One of the Government's most cunning tactics in the debate over welfare reform is the way it has shaped the discourse and carried people with it. As [Jonathan Freedland observes](#) in

today's Guardian, the tactic has encouraged poorer people to turn on each other. At the same time, it has distracted from the Government's failures to deliver on economic policy, effectively tackle the much bigger problem of tax evasion, or propose serious reform for a dysfunctional economic and financial system.

The Government has constructed a particular type of moral argument by saying things like: Should hard-working low-income taxpayers in Sheffield subsidise workless families to live in Kensington? That's got to be unfair. Something must be done.

But does that even make sense? That is not a hypothecated transfer that actually exists. It is notional. Taxes collected in Sheffield effectively go into a big pot and are then spent on all sorts of things, most of which have nothing to do with welfare benefits. But it's a useful narrative for stoking up indignation.

You might as well say that the rich residents of Kensington pay a higher rate of tax which is then transferred to their neighbours to allow some poorer people to reside in the poorest accommodation available locally. That means some people are available to take on the low paying jobs in the service industries that keep the London economy running, without having to incur crippling commuting costs. As a practical matter the poorer people in Kensington will quite likely be living in poorer quality accommodation than the family in Sheffield, albeit possibly in a nicer area.

That's an argument about vertical equity rather than horizontal inequity. That sounds fair to me. It's no less plausible than the Government's version.

And it is a myth that housing benefit only goes to those out of work. A substantial proportion of claimants are in work. And as rents have increased their numbers have increased.

Also, we need to think about it dynamically. The Tories have constructed the change narrative around the stereotype of long term benefit-dependent households with multiple children, quite possibly in some way 'foreign' and hence by implication less eligible. Such households exist, of course, but for most people poverty is dynamic. They move in and out of work, on and off of benefit. Many recent housing benefit claimants are those who have lost their jobs because of the recession or are trying to get by on low paid and part-time work.

Yesterday they were the "hard working families" that politicians are so concerned about and so in favour of. Then their luck changed. They haven't suddenly become benefit-scrounging pondlife overnight. Yet the Government proposes to penalise many of them further for their misfortune by rendering them unable to afford to stay in their homes.

It wouldn't be unreasonable to provide them with some stability while they try to get back on their feet. Rather than pulling the rug out from under them. Not in perpetuity, of course, but to give them some breathing space. Who knows, next year it might be me that needs the help. Or you. How would we want to be treated? What sort of support might we expect, given we've been dutifully paying our taxes all these years?

Creating division. Sowing discord. You know it's the right way to do things.

I'm not suggesting that the welfare system doesn't need to change. Just that we need always to be reflexive about how politicians seek to shape the discourse in particular directions to serve their own particular purposes.

They're trying to mess with our heads.

## **Is the quiet man about to turn up the volume?**

29<sup>th</sup> May 2012

... no one shall be enslaved by poverty, ignorance or conformity.

I have always taken the use of the term "enslaved" in the Preamble to the Liberal Democrat Federal Constitution to be figurative, given that slavery was formally abolished in England in 1833. But while reading yesterday's Observer I was struck by the thought that perhaps we need to revisit the issue rather more literally.

Under the headline [Coalition to step up its work-for-free programme](#) Daniel Boffey and Toby Helm report that in the next fortnight Iain Duncan Smith is planning to launch an expansion of his mandatory work programme for long-term unemployed people. This plan is perhaps curious, given that there are signs that the current mandatory scheme is not delivering the expected outcomes. And this is occurring at a time when it appears that welfare to work more broadly is floundering in the face of the recession. Boffey and Helm report that:

Critics ... claim the move is an indication of panic within government over the failure of ministers' various schemes to tackle long-term unemployment, which is at its highest level for 16 years.

It wouldn't surprise me if it was. Panic would seem a plausible – quite possibly understandable – reaction to the current situation.

It should also not come as surprise that a mandatory work scheme isn't delivering on the outcomes claimed for it. The Department for Work and Pensions' own research demonstrated the serious limitations of the approach [a while ago](#).

The IDS approach to welfare reform is rooted in a narrative of personal responsibility. That narrative appears to be taking ever firmer hold. The piece on last week's Newsnight in which Allegra Stratton questioned a young mother about her choices would have sat very comfortably alongside the US Republican onslaught against "welfare mothers" in the run up to Clinton signing into law the rather Orwellian *Personal Responsibility and Work Opportunities Reconciliation Act 1996*.

We can all agree that personal responsibility is a good thing. And if everyone were both willing and able to take responsibility for themselves and their family then that would no doubt significantly reduce the burden upon the state. But, as Robert Goodin observed a while ago:

The question is not whether to praise those individuals who are shouldering responsibility for themselves and their families. The question is instead what we collectively should do, as a matter of public policy, when individuals fail to live up to that ideal. Simply reiterating the ideal cannot, in and of itself, resolve that question.

The question is whether a carrot or stick approach to labour market re-engagement is likely to be more effective.

The Government favours the stick: you are prescribed a period of working for no pay under the threat of having your benefit entitlement suspended. The Observer reports that the Government is looking to run a national pilot with the period in question being increased to six months.

The carrot might, perhaps, be to incentivise the long-term unemployed by deploying another of IDS's favoured mantras: why not make work pay? The standard rate of JSA for a single person under 25 is £56.25 per week and for those 25 and over it is £71.00. A couple get to live like royalty on the princely sum of £111.45 per week. Someone over 21 working a 30 hour week at minimum wage would earn just over £180 per week. If the Government is going to force people to work in order to receive support from the welfare system then perhaps it would be appropriate for them to be paid the equivalent of the minimum hourly rate deemed to be socially acceptable. Or, indeed, legal.

If we are genuinely concerned that there is a generation of people languishing for life on welfare, then wouldn't it do even more to fire their enthusiasm for employment to find out that they can be significantly better off as a consequence of participating in the labour market? It would represent an opportunity not an imposition.

Form an orderly queue ...

Now, of course, there are all sorts of arguments about whether they would be likely to take home the minimum wage, if they were to enter the wonderful world of work full time, given the complexities of the tax and benefit system. But that is a question of calibration rather than principle.

In addition, our aspirations for labour market re-engagement need to be tempered by an understanding of the context. At the moment long-term unemployed people are likely to be out-competed for jobs by those who are recently unemployed and therefore job-ready. In a period of high unemployment beating unemployed people around the head with a stick may give some form of sadistic pleasure, but it is unlikely to do a great deal for either their self-worth or the unemployment statistics.

The British welfare system is decidedly ungenerous by international standards. It continues to operate with the principle of [less eligibility](#) not far beneath the surface, long after the Poor Law has been forgotten.

But in other ways the system has been transformed.



In the eighteenth and nineteenth century local merchants and tradespeople complained that they were being undercut and out-competed by the paupers put to work in the [Workhouses](#).

In the twenty-first century it is more likely that some canny employer will see an opportunity to access free labour, provided under compulsion by the Government, in order to reduce the employee headcount and increase profits.

Unless, of course, an organisation has a reputation to protect, and [someone is willing to make enough of a noise](#) about the injustice of the situation.

I am curious as to how the Liberal Democrats will respond to these developments. Perhaps Ministerial moves to expand the scheme will shake the party out of its torpor. Without wishing to trivialise the term, it seems to me that forcing someone to work for six months at threat of having their entitlement to benefit suspended comes perilously close to being enslaved by poverty.

And I thought we were against that sort of thing.

## **Cameron's war on welfare**

*26<sup>th</sup> June 2012*

I was considering blogging in detail about [David Cameron's speech yesterday on welfare](#). But I decided against it. There are already several very good critiques of the substance of the speech. Plenty of people, including [IPPR's Nick Pearce](#), have pointed out that the speech was primarily about politics rather than policy. It was about "throwing some red meat" to the pack of feral dogs that apparently prowl the Tory backbenches. [Tim Leunig](#) of CentreForum has pointed out that the proposals pertaining to the removal of housing benefit for the under 25s are – how should we put it? – a little ill-thought out. CentreForum were also one of the first commentators to [point out](#) that David Cameron seemed to be criticising one of the Coalition's own policies. We know Cameron isn't a detail man, but that is pretty inept.

So I just wanted to make a couple of comments.

Various of this Government's ministers have already run into flak for their habit of being rather careless in the use of statistics. Pickles, Shapps, Grayling, Duncan Smith – they've all been criticised for misusing or misrepresenting key statistics in pursue of their policy agenda.

But Cameron's speech takes us to a whole new level. We seem to have broken entirely free of any mooring in reality. We are now in the realms of policy by hypothetical case study. Cameron presents a number of scenarios in which families who "work hard and do the right thing" are outraged to discover that they are living near feckless benefit-scrounging households who are in a better financial position as a result of the unrestrained largesse of the state. These scenarios are, of course, primarily intended to stoke indignation and

division. We need to vilify the disadvantaged in order to withdraw assistance from them without compunction.

But we also need to stop and ask – if we have any aspirations at all to rational policy making – how realistic these scenarios are. And how frequently they occur.

[Declan Gaffney](#) has provided an extremely important corrective to Cameron's piece at *L'Art Social*. He demonstrates that if you compare families like-for-like and apply the benefit rules as they actually are, rather than how Cameron appears to imagine they are, then it turns out that the hard pressed family in work also gets assistance from the state and is financially better off than the family on benefit. So the inequity that Cameron has manufactured in order to justify the policy does not actually exist. Quelle surprise.

The second point I would make is that when the speech does venturing into something approaching concrete analysis it can be shockingly shaky on the detail. The speech seems to conflate policy in the private rented sector with policy in the social housing sector. It states that "There are currently 210,000 people aged 16-24 who are social housing tenants". I'm perfectly willing to believe that is the case – I've not checked the numbers recently. But Cameron omits to mention that single young people without dependants have relatively low priority in most allocation schemes unless they have significant vulnerabilities, and he's willing to concede that those with significant vulnerabilities may be worthy of assistance. Few will be walking breezily out of the parental home and straight in to a council flat, unless they face some very significant issues. So in practice how big is this "problem" of undeserving young people we need to address so urgently?

Finally, the whole speech constructs "hard working families" and the benefit scroungers as two different groups of people. The implication is that most of those on benefit are totally disengaged from the labour market and have been for years. Not only disengaged, but contemptuously turning their backs on the world of work to enjoy a life of state-funded luxury. Lazy blighters. *Something must be done about them.*

It's a classic tactic. It's one of the issues I blogged about very early on, in "*Us*" and "*Them*". *Yes them over there. The benefit scroungers*, and have returned to several times. It conveniently neglects the dynamic nature of poverty and the fact that the boundary between "in work" and "out of work" is rather more uncertain and fluid than it might first appear. It overlooks the fact that many of those who claim benefit are in work: they are precisely the hard working families that Cameron is so pleased are doing the right thing; not some parasitic alien species.

The speech is entirely silent on the issue of how much current unemployment might in fact be the product of adverse economic circumstances. Or, indeed, inept government policy. Of course it's silent. Recognising such structural considerations wouldn't allow us to lay the blame where it is most appropriately laid.

It just wouldn't fit a narrative of failings in personal morality and responsibility. Nor would it assist a critique of counterproductive welfare interventions by the well-intentioned but ultimately malign state.

And that's the familiar refrain that the nasty party is reprising with gusto.

## On the woeful Work Programme

3<sup>rd</sup> July 2012

Information on the performance of the private contractors responsible for delivering the Government's Work Programme is beginning to leak out, seemingly despite the best efforts of the Department for Work and Pensions to keep us all in the dark.

And the news is not good. It appears that A4e is seriously undershooting on the targets set for it, failing to achieve even the lowest level of performance anticipated by the DWP. Only 3.5% of the jobseekers referred to it were found sustained employment. Is A4e a particularly bad performer? [Ian Mulheirn in his piece in yesterday's Guardian](#) thinks this unlikely: it is more likely that all the other providers are performing similarly badly.

The question then becomes: what should be done about the woeful Work Programme?

Mulheirn notes that its "design is flawed". Providers' contracts were based on forecast levels of economic performance that haven't materialised. Shortfalls in placing unemployed people in jobs result in reduced cashflow, which results in cutbacks in staffing in order to make the books balance, which results in less help available for those seeking work. The whole system could end up in a vicious spiral of decline.

Mulheirn identifies what he sees as the fundamental issue:

At the root of these problems is the fact that providers are on the hook for something they can't control – the labour market. A scheme that was supposed to hold providers accountable for their performance has ended up holding them accountable – and penalising their customers – for the performance of the economy. The programme was designed in a boom. Is it any wonder that it can't cope with economic stagnation on a scale not seen for 80 years?

Just think about that statement for a moment. The scheme designers were apparently unfamiliar with basic contract theory. A scheme to help unemployed people was designed during a boom, which explains why it doesn't work in a recession? This is undoubtedly a very bad recession. But would it not be the height of incompetence not to design in the possibility that people are most likely to need help when there are a lot of unemployed people looking for work? That is, during some sort of recession.

Mulheirn goes on to argue that:

Many of the principles behind the Work Programme are sound. Paying for sustained employment success, holding poor providers to account and encouraging innovation are welcome parts of the government's policy. But these features can be retained in a Work Programme reformed to cope with recession.

He outlines a three point plan:

- tone down the proportion of payments made for achieving job outcomes. In the depths of recession, the priority must be to make sure jobseekers get the help they need.
- reassess expectations of what's achievable in a recession, and formally link minimum performance levels to the latest OBR forecast.
- look at re-engineering the Work Programme so that a large proportion of the payment to providers is based on their performance compared with those of other providers, rather than judging them on inflexible targets and crucifying them when the economy falters.

These points resonate with the conclusions of a report produced by the Social Market Foundation, the organisation of which Mulheirn is the director, back last September. I looked at the arguments in more detail in *The Work Programme isn't working ... and that raises bigger issues*. It raises bigger issues because the Work Programme is seen as a pioneer for the Payment by Results system. The Government wants to roll out PbR to many more public services.

My objective here is simply to query the statement: "many of the principles behind the Work Programme are sound".

A more critical reading of the experience of the Work Programme is possible. It would argue that dismantling the system of publicly provided assistance to the unemployed that developed nationwide following the Liberal Government's Labour Exchanges Act 1909 and trying to replace it with private providers contracted on a PbR basis was an act of utter folly. Unemployment as a social problem is strongly pro-cyclical, which makes it near impossible to write effective incentive contracts for private providers. Contracts that provide high powered incentives to providers mean they risk failure in recessions because work placement becomes very difficult and cashflow dries up. But we can't allow that to happen because people need help. Yet, the alternative approach of designing contracts that make funding counter-cyclical, so that providers do not go out of business, do not provide high powered incentives. And high powered incentives which deliver greater efficiency and innovation were ostensibly the reason for privatising delivery in the first place.

So my question is: in what circumstances, facing what sorts of scenarios, or following what set of adverse outcomes would those who advocate the PbR system conclude that it is inappropriate to apply it to this policy area? It transpires that the principles are, in fact, not sound.

After all, the publicly funded and organised system of assistance to unemployed people served the country for a century. Public funding meant that the system wasn't automatically thrown into a crisis in a recession, just when it was most needed. This system has been abandoned in pursuit of a claimed – but so far chimerical – more efficient private sector alternative. What would need to happen to lead advocates to concede that this change was a mistake and we've been sent up a blind alley?

I've no idea.

If the answer is that there are no plausible scenarios in which this would happen then we should perhaps drop the pretence that this is anything to do with the pursuit of efficiency, or finding innovative and more effective ways of helping people back in to work. We should just call it what it is: privatisation first and foremost, whatever the financial and social cost.

## **There's money to be made from “responsibilizing” the poor**

17<sup>th</sup> September 2012

This morning the Social Market Foundation launched their report [Sink or Swim?](#) which highlights some of the likely problems to follow if the Government pursues Universal Credit in its current form. Jules Birch [blogged today](#) over at *Inside Housing* on some of the many problems that have already been identified with Universal Credit (UC). There is much more to say on the issue. UC has all the makings of a multidimensional policy fiasco.

One area of concern is the plan under UC to change the mechanics of benefit delivery. In particular, the plan is to move to paying benefits monthly in arrears. Concerns have, rightly, been expressed that vulnerable households will struggle to budget effectively over these longer periods.

The more hardcore liberal/libertarian would no doubt argue that this is the sort of shock therapy required to shift people out of dependency. These scroungers need to be forced to take responsibility for themselves.

The more compassionate among us might bridle at such a simplistic position and have a concern for those who will not have the skills – literacy and numeracy, if nothing else – to be able to manage meagre budgets over extended period. While we might agree that independence for all is the position we ultimately want to reach, we would disagree that shock therapy is an effective means of reaching it. Rather we might expect the most likely outcome to be many people falling through the welfare safety net into abject poverty.

But perhaps we have misread the Government's intentions. It transpires that we may be looking at callousness of a different kind.

It has been drawn to my attention that also [released today](#) was the following statement from the Department for Work and Pensions and Lord Freud, your friendly neighbourhood Minister for Welfare Reform:

Ministers are calling for a range of suppliers to explore the feasibility of new financial products to help benefit claimants budget and manage their money.

The Government is seeking providers who can supply products with extra budgeting functions to support claimants as they move to the new benefit Universal Credit.

The Government expects interest from a wide range of financial providers, including high street banks, mobile phone operators and pre pay card providers.

Lord Freud, Minister for Welfare Reform, said:

*"Accounts that provide people with extra budgeting services could help to ensure people's essential bills are covered – helping them to build up their credit rating and break the cycle of financial exclusion. ... We are anticipating the call for new financial products may open up a new market place, where competition is strong. And we are looking for a range of diverse providers to step forward to express an interest, as we work towards the introduction of Universal Credit in October 2013."*

So, you see, the proposed UC clearly removes some of the supports designed into the existing system to assist those who struggle to manage. But it appears that the problem is not so much that support is provided, but that it is provided by the state.

Products developed by the private sector to manage budgeting problems, to fill the gaping hole the Government has created, will be positively welcomed.

Of course, the fact that the consumers who might have need of such products are by definition ill-suited to the informed purchase and consumption of them seems to have escaped someone.

Similarly, we continue to unpick the mess created by a succession of mis-selling scandals perpetrated by just about every major high street financial institution. A thoughtful person might feel that a degree of scepticism is required if anyone were to claim that the financial services industry are in the business of assisting the vulnerable.

We are heading for a collision between a rapacious industry selling complex products and vulnerable consumers in a context of asymmetric information. What could possibly go wrong?

Conservatives in policy change designed to line the pockets of their backers by taking money from the poor? I'm shocked I tell you. Shocked.

## **Social security reform: populist or progressive?**

*4<sup>th</sup> October 2012*

For there are only two ways of doing politics: by following opinion, to get yourself on the populist side of each issue, or by leading opinion, and standing on the future side of each issue. The first brings short-term rewards, of course it does. But the big prizes are for those with the courage and vision to get out in front, set the agenda and point the way.

*Nick Clegg, 26/09/12*

Standing on the future side of the issue? No, me neither. But leaving that to one side the point Clegg is making here is an important one. What stance should politicians take toward public opinion when framing policy? This is an issue of profound significance. But it's one that is less well explored than it might be.

We live in an era of populist politics because populism is seen as what you have to offer to win elections. Senior politicians frequently nod to a nobler cause and an aspiration to lead. But that's what's expected of someone in their position. Often as not they don't mean anything by it.

We know that everything they say, or might say, has been focus grouped, opinion polled, and triangulated. It then has all the wholesome fibre removed so that it can be easily digested by the media. Anything else risks being condemned as "wonkish" or unnecessarily intellectual. Perish the thought. It then needs to be packaged to provide pithy soundbites for the news at the top of the hour.

So of course it will be populist. And it will most likely be vapid. And we know that it'll all sound pretty much the same, regardless of who is saying it.

Hence modern politics becomes a complex and largely pointless quadrille around the mythical centre ground. Doesn't matter who you vote for the blue Tories/red Tories/yellow Tories always get in.

I was reminded of the issue of populism versus leadership when reading recent comments by Liam Byrne, the Shadow Work and Pensions Secretary, [reported in the Guardian](#). Byrne signalled that Labour was likely to be making further welfare cuts if elected in 2015. Given the fuss being made about the Coalition cuts at the moment you would have thought that admission would be bigger news.

Two further substantive points he made were reported in the article.

First, he reasserted the argument that the Government was wrong to impose a national cap on welfare benefits and it should have gone for regional caps instead. While a regional cap might conceivably be an improvement, he would have been better to argue that most welfare benefits are pegged at or below subsistence levels already and the only thing that varies dramatically across space is the price of housing. As long as the housing market is borked then the primary consequence of the welfare reforms is going to be chaos and misery, whichever fashion of cap is adopted.

Second, and more pertinently for now, he offers some thoughts on public views on welfare:

Pointing to the growing resentment of benefit claimants by some sections of society, the shadow work and pensions secretary said he believed the fact that social security no longer enjoyed "widespread support" was linked to the fact it did not offer the same level of security as it once did.

He said in an era in which "jobs for life" had gone, the system needed to work differently to reflect the fact that different things were needed from social security, with a "much bigger push" to get people back into work, new



0investment in areas such as childcare, and being “much smarter” about how the system set up to help disabled people worked.

He told the BBC Radio 4 Today programme: “The truth is the world of work has changed very radically since social security was set up back in the 1940s and for many people in work they don’t actually feel they get much out for the pressures they have to contend with in everyday life, so I think that fractures support and I think that’s why we do have to reinvent social security for modern times and the world today.”

I have to confess that I’m not entirely clear what he’s trying to say here. There’s a strong continuation of the sort of workfare thinking that characterises the Coalition agenda, as it did the previous Labour government’s thinking. There is a sense that the world of work has changed and become a more hostile place. That isn’t a hugely contentious statement, although some contest the extent of the change.

But the main point is that because benefit recipients have been stigmatised and demonised for many years, and that process has intensified in recent years, this has undermined support for social security. The second point would seem to be saying that people’s support for out of work benefits has been undermined because they’ve discovered that the safety net is now rather threadbare, following years of assault from politicians.

From this Byrne has concluded that social security has to change. More specifically, it needs to involve spending less money and focus more on more active workfare measures – a much bigger push back into work.

Returning people to work is indisputably a good thing, as long as it is supportive and compassionate. We only have to think of the sick and disabled people who have died having been declared fit by ATOS over the last year to see how not to do it.

But I suppose I might have expected a progressive politician of the left to argue something rather different alongside this. To make a vigorous case for the value of social protection, especially now. To argue that Labour should be setting a different agenda – to stand on the future side of the issue, if you will – and to challenge the stigmatisation of benefit recipients as feckless scroungers. To acknowledge that a more precarious labour market demands a more comprehensive response from the welfare system. Smarter and more flexible, certainly, but there to catch all those who fall on hard times. And I might expect them to temper their enthusiasm for getting people back in to work with an acknowledgement that there needs to be work for them to get back into, otherwise the risk of punishing the victim is high.

It isn’t clear that Byrne is doing any of these things. But then I’m not entirely sure he’s in the relevant category – that is, a progressive politician of the left – so perhaps it would be unfair of me to expect him to.

What is clear, though, is that he is a populist politician of the highest order. Where the people are perceived to lead, however unenlightened and illiberal, we will follow.

This was captured concisely, if harshly, in a tweet I saw this morning:

*Liam Byrne walks into a pub and the barman says "I resent Jews, gypsies and trade unionists" And Liam says "I'll get to work on a policy"*

— Levi Creasey (@hoodedman1187), October 2, 2012

In the social security debate the balance between populism and leadership is being struck entirely in the wrong place.

Now, in no way do I underestimate the challenge of striking the balance anywhere else, in the face of an unremittingly hostile rightwing press and a volatile international economic environment. But surely that would represent genuine political leadership. Rather than the pusillanimous faux leadership pervasive among today's cadre of professional politicians.

## **Refreshing Beveridge**

*12<sup>th</sup> October 2012*

Squalor. Ignorance. Want. Idleness. Disease. William Beveridge's five gaint evils encapsulated the enemies the welfare state was designed to combat. They signalled the battles that needed to continue once the military action of World War II had ended. Yet 70 years on from the publication of the Beveridge report there have been a number of suggestions that we need to move on. That we need to refresh Beveridge for the twenty first century.

At the turn of the year Liam Byrne [had a crack at it](#). He delivered the Beveridge lecture at LSE in which he offered an interpretation of Beveridge that focused on welfare responsibility, conditionality, workfare. Byrne suggested that Beveridge would be broadly behind a move towards more stringent workfare policies. This argument was subsequently strongly and publicly contested by a number of social policy scholars. If nothing else it unhelpfully decontextualizes Beveridge, who was viewing conditionality in the light of a state commitment to full employment.

Lord Warner [offered a brief analysis](#) which focuses upon the unravelling of the social contract established by the postwar welfare state in the face of the government's weak fiscal position, global competition, an ageing society and a breakdown in social consensus. He identifies several questions that Beveridge's welfare state is ill-suited to addressing. Warner argues that a new Beveridge would need to be able to tell us:

How can we ensure that the relatively well-off in the older reaches of our society avoid overburdening a shrinking working population? How do we enable our people to secure the education and skills to compete in a fast-changing global economy? Are only the children of the middle classes to access higher education? How can we shift wealth and income from the prosperous South-East northwards, without over-reliance on public sector

makework jobs? How do lower-income groups obtain affordable housing that maintains labour mobility and incentives to work? How can we ensure it is easier for those under 40 both to save for their old age and handle their current family responsibilities? How are we to ensure that the cost of bringing up children as the next working generation is fairly borne across the society?

These are all sensible questions to pose. And as yet we have no good answers to them.

This week our dear leader invoked Beveridge in [his conference speech](#). It appears he considers that the 5 giants needed supplementing. So what did he offer us by way of additions?

First, he identified “unfairness”.

Now that sounds promising. Clearly the outrageous widening of income disparities in recent years due to stagnating wages in the lower half of the income distribution and obscene remuneration packages among the best paid executives is something that needs to be addressed in the name of social cohesion.

Perhaps the Government is, at last, going to step in and address this manifest unfairness.

Oh no. My mistake. He was thinking of something else:

What are the hard-working people who travel long distances to get into work and pay their taxes meant to think when they see families – individual families – getting 40, 50, 60 thousand pounds of housing benefit to live in homes that these hard working people could never afford themselves?

It is an outrage. And we are ending it by capping housing benefit.

One thing hard-working people might think if they see such a family is that they have experienced a very rare event. There are very few households, almost all of whom live in London, who have ever received housing benefit at anything like the level cited.

These hard working people might also think the Government has been somewhat disingenuous. They will no doubt discover that restraints on housing benefit also affect them, given that more than nine out of ten new housing benefit claimants in the last year have been people in work. While a handful of households will be stopped from receiving very large payments, hundreds of thousands of households receiving modest payments will find life that bit harder as their housing benefit is reduced.

Cameron's second new evil is “injustice”.

Again, that looks promising. Perhaps he's had a change of heart. Perhaps he's concluded that it is an outrage that the richest receive an income tax cut while the number of households dependant for their survival on handouts from food banks is rocketing. Perhaps he's decided that the Government's policies designed to prop up house prices, raise rents, and curtail benefits have some sort of relationship with the increasing number of households being accepted as statutorily homeless.

There is injustice here that needs to be addressed.

But no. Again, this isn't quite the sort of social problem he had in mind:

Here is the choice we give our young people today.

Choice one: Work hard. Go to college. Get a job. Live at home. Save up for a flat. .... Or: Don't get a job. Sign on. Don't even need to produce a CV when you do sign on. Get housing benefit. Get a flat. And then don't ever get a job or you'll lose a load of housing benefit.

We must be crazy. So ... Now you have to sign a contract that says: you do your bit and we'll do ours ... And we're going to look at ending automatic access to housing benefit for people under 25 too.

The fact that the second of the choices he identifies here does not, in fact, exist seems almost incidental.

The final evil he offers us is "bureaucracy".

We live in an age where bureaucracy, like "red tape", has come to be an all-purpose pejorative that signifies little more than disapproval of an existing set of arrangements. There are rules with which you are expected to comply that you would rather not have to bother with, regardless of the purpose or value of those rules.

But there are serious issues that can sensibly fall under the heading "bureaucracy". A political commitment to tackle them would be welcome.

Perhaps Cameron is scandalised that a young child recently starved to death largely as a result of a breakdown in communication between the immigration system and the benefit system which left the family destitute? Or perhaps he has realised that the way in which the DWP has designed the Work Capability Assessment is the worst type of insensitive Kafkaesque bureaucratic nightmare which is depriving thousands of sick and disabled people of income. It is sending people not back to work but to their death.

But no, this isn't quite what Cameron has in mind. Rather he goes on to stereotype unemployed people as "the guy who's been out of work for years, playing computer games all day, living out a fantasy because he hates real life" and to extol the virtues of the Work Programme. This conveniently overlooks the problems with the Work Programme that are already manifest.

He also offers us the following thought: "Work isn't slavery, it's poverty that is slavery". We might want to qualify the first component of this assertion with the observation that it depends on what he means by "work". But many will happily sign up to the second part.

The puzzle is why he said it. Given that his Government is presiding over a fairly systematic deterioration in the living standards of the poorest households it seems rather to offer a hostage to fortune.

He finishes his discussion of welfare with the claim:

The modern compassionate Conservative party, who are the real champions of fighting poverty in Britain today.

You have to admire the audacity, if nothing else.

And that brings me to a broader point. Does Beveridge need refreshing?

Clearly Cameron was invoking Beveridge as a convenient rhetorical route in to some welfare-bashing. The points he makes don't really stand a moment's scrutiny. As others have pointed out, they are based upon a range of subtle and not so subtle misunderstandings, misrepresentations, and stereotypes. He did the same in his speech on welfare back in June. One of the best tweets I saw in initial response to the Conference speech was:

*So much of Cameron's speech needs a '[citation needed]' bubble to flash up on the screen behind him.*

— Nick Barlow (@nickjbarlow), October 10, 2012

The speech was a fine example of the way in which “post-truth politics” is infecting British political discourse.

The broader point is that we are clearly not beyond the five giants. We may need to come up with new and creative ways of dealing with them. We may well need a new Beveridge to emerge to forge a new social contract. But we cannot sensibly argue that squalor, ignorance, want, idleness and disease have all been banished to history. Indeed, as the austerity politics of the Coalition take an ever firmer grip the giants are all forcefully reasserting themselves.

The aspirations behind Beveridge's great initiative remain just as valid and important as ever. They may well need to be updated to recognise that society is more diverse and less patriarchal than it was in the 1940s. But that's not the type of refreshment that politicians are fixated on.

The biggest question is not whether the five giants are still abroad. They clearly are. The biggest question is whether as a society we have the commitment to deal with them collectively rather than individually. Because that is the only way they will be effectively dealt with. That was Beveridge's crucial insight. That is the insight that has been lost.

We live in an era where there is an insatiable craving for the new. But we will have to relearn an old lesson before we can find our way out of the current predicament.

## **Policy challenges around welfare reform<sup>2</sup>**

*13<sup>th</sup> November 2012*

Where to start?

Politicians are prone to hyperbole. The most minor modification to a relatively peripheral policy is portrayed as a ground-breaking initiative. However, in the case of welfare reform a hugely ambitious agenda is being pursued in the name of making work pay. Nothing like it has been attempted for decades. The challenges are therefore enormous. There is a huge amount at stake. The well-being of the most vulnerable members of society depends on its successful delivery.

We should begin by distinguishing politics from policy, although there is not such a bright dividing line between the two as is sometimes assumed.

The Coalition's political agenda invites analysis. Indeed, I've blogged about aspects of it a number of times in the past. From an academic perspective several topics cry out for interrogation:

- The discourse around welfare reform
- The – how should we put it – “innovative” use of statistics in support of the case for reform
- The models of society underpinning the reforms: the understandings of household structures; the presumed or asserted behaviours of benefit recipients, landlords and employers; the presumed incentive effects of the welfare system on the housing market and the labour market.

At an event a few months ago I was speaking to a Whitehall civil servant – not from DWP I hasten to add – and I asked – with what might be described as faux innocence – how the evidence-based policy agenda was going. The response was that we were beyond the era of evidence-based policy. We are now in the era of “commitment-based policy”. I enquired whether that was a polite euphemism for ideologically-driven policy. The civil servant diplomatically declined to be drawn on the matter.

But it is clear that the welfare reform agenda flows from belief rather than evidence. Iain Duncan Smith and Lord Freud believe they know the right way to go. It doesn't really matter what the evidence says.

That isn't to say that evidence isn't being collected. Clearly there is plenty of piloting going on and data being collected. But those exercises are not to determine whether the policy is a good idea or whether it will go ahead, it is to examine what sort of effects welfare reform will have and to try to mitigate some of the more damaging consequences. The aim is to understand the positive or perverse effects on the labour market and housing market and the impact on levels of poverty.

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<sup>2</sup> This is the text to accompany my presentation to open the South West Observatory seminar “Welfare reform: challenges, impacts and evidence”, 13/11/12.

We are already seeing the emergence of a range of circumstantial evidence. Increasing numbers of homeless households, increasing numbers living in temporary accommodation, increasing overcrowding, and higher rates of new LHA claims in outer rather than inner London would all seem to be predictable consequences of taking financial resources away from already poor people.

However, we are not really here today to talk about the politics of the issue but the policy. I will, nonetheless, mention just two issues that may play an important role in the politics of welfare reform in the near future, which may in turn fold back in to policy.

The first is the arrival of the council tax benefit changes in April 2013. I don't think these changes have really been grasped yet. Some of the poorest households will be asked to contribute a significant chunk of their limited resources where previously they have fallen outside of the system. It is possible that this will turn out to be the Coalition's mini-Poll Tax.

Perhaps more importantly, the arrival under Universal Credit of conditionality to in-work benefits could potentially change the terms of the debate. Households who are doing their best, taking on part-time work because there is no full-time work available – the strivers not the skivers – will suddenly find themselves subject to the full panoply of disciplinary techniques associated with the benefit system. Suddenly they are reconstituted as part of the problem. This could turn rather nasty politically.

When we turn to policy challenges it can be helpful to think in terms of three levels: principles, design and implementation.

## **Principles**

I don't know anyone who thinks the tangle of benefits that currently operate is optimal. So the case for some sort of reform is not hard to make.

The principle of Universal Credit is one that is generally positively received, although it should be recognised that introducing Universal Credit while the economy is in good health is a rather different – and easier – proposition than introducing it in a period of fiscal retrenchment.

Similarly, the idea of improving work incentives and removing dysfunctionally large effective marginal tax rates is not, as far as I am aware, seriously contested.

The issue of an overall benefit cap is a little more contentious. There are those who retain the belief that benefits should be proportionate to need. There should therefore be no theoretical upper limit on what an individual household might receive. However, there would appear to be a political consensus in Westminster that a cap is appropriate. The only area of dispute is whether a national cap is too blunt an instrument and whether regional caps would be more appropriate.

## **Design**

The challenges start to come more clearly in to view as we move to consider how the Government has gone about implementing those broad principles. How is the system going



to be calibrated – for example in terms of the tapers applied as earned income increases – and how will it operate in practice?

A key question is whether policy design has taken sufficient account of the context in which the new system will be implemented. One illustration of the way that it appears not to have done so is in relation to underoccupation. Social tenants below retirement age will be subject to a “bedroom tax” if they are deemed to be underoccupying their property. The options they face are to make up the shortfall in the rent from their own pocket or to trade down to a smaller, cheaper property more aligned to their current needs. Alternatively they could take in a lodger. The logic of the policy – couched in terms of making best use of social housing – is that trading down is the preferred option from a central policy perspective. Housing organisations have repeatedly pointed out that there are not sufficient smaller properties available to make the trading down option realistic for most of the households subject to the bedroom tax. Yet this does not appear to have significantly altered the trajectory of policy.

Four characteristics of the coming reforms have attracted particular note:

- The Universal Credit system will be predominantly online (“Digital by default”). This approach rests on benefit recipients holding bank accounts. It relies on them being sufficiently ICT literate, or indeed literate in any language. And it requires that they have regular access to appropriate networked hardware. All these conditions are not fulfilled at present and there is a risk that they won’t be much better fulfilled by the time Universal Credit arrives.
- Payments will be made to the benefit recipient directly. This is a particular concern in relation to housing benefit, which has typically gone directly to the landlord. Switching to direct payment inevitably increases the risk associated with landlords’ primary income stream. The question is by how much.
- Larger payments will be made monthly to households rather than smaller payments at more frequent intervals. This raises issues about budgeting skills and support for budgeting. This is being explored in the Direct Payments pilots that are currently under way. The Government is clearly not against providing support for budgeting, but it appears to be against providing it in the forms that have been conventionally used. DWP are looking to work with financial services providers to see if appropriate new products can be developed.
- Payments to a single designated individual within each households, typically the household head. There are reasons why benefits are paid to different members of households at the moment. The move to a single payment rests on the assumption that each household is able to sort out the most appropriate payee strategy for themselves. This is based on a particularly optimistic view of intra-household relations that certainly won’t apply to all households receiving benefit (as I noted [here](#)).

## **Implementation**

We can distinguish three phases of implementation that raise different issues: transitional, short term and longer term. We can also think about implementation from the perspective of households and public and voluntary sector organisations.

### *Transitional*

The dominant issue here is readiness. Are organisations and households ready for the changes that are rapidly approaching. At a minimum, is information getting out the right people? And is it being taken on board?

Perhaps the elephant in the room on readiness is the question of whether the new ICT needed to deliver Universal Credit will be up and running in time. The DWP's public pronouncements state that the project is on track. However, there are persistent reports in the newspapers that the project is in trouble. Most recently, on the weekend the Independent suggested that it was likely that the launch will be delayed. My experience of these things – across various sectors – is that public pronouncements on progress will continue to be positive right up to the point at which it is finally conceded that a project's timetable will have to slip substantially or a project collapses completely.

### *Short term*

In the short term, following the introduction of the new system, looming large are the issues of households' budgeting capacity and the trade-offs that they are going to have to make in the face of declining real income. Is rent going to be traded off against new obligations to pay council tax, for example? How many households are going to stay in situ and poverty deepen? How will households who want to trade down react when they find that they are unable to do so because there is a lack of suitable stock?

Press releases from the DWP are making positive noises about the findings from the Direct Payments pilots, in terms of households' ability to cope with the new regime. The reports in the housing press are rather different. The limited information from pilot landlords emerging through channels other than the DWP suggests a large increase in arrears and landlords putting a lot of effort into arrears management.

So for organisations there is a pressing question of how well they know their tenants, who will be affected by the welfare reforms and who will be affected most severely. Are the arrears and debt management services in place going to be sufficiently robust to deal with this new world? Are there new types of support that could be put in place that would have a significant positive impact on tenant well-being and/or income recovery? And how can this support be achieved given public organisations are themselves facing cuts in funding?

Are there new types of collaboration with other RPs or private landlords that could be put in place to make trading down a more realistic option for more tenants?

And, given that many tenants are going to face a reduction in income post-housing costs, is this going to spill over into negative impacts on other services the organisation provides on the basis of user charging?

### *Longer term*

In the longer term organisations are going to face a host of questions. For some there may be questions of financial viability. There are almost certainly going to be questions of creditworthiness. Financial institutions have been willing to lend large volumes to RPs on the basis that they have a guaranteed income stream underpinned by housing benefit. That is no longer quite so clearly the case. Risk premia are no doubt being recalculated accordingly.

What are the implications of welfare reform for who gets allocated social housing? If arrears turn out to be a significant problem then one can envisage some RPs feeling driven to try to change the profile of their tenants towards those who are more reliable payers. This is happening in the private rented sector as landlords seek to let more properties to those who are not in receipt of the LHA. It isn't entirely implausible that RPs move in a similar direction in order to shore up their business plans.

If so then that could place strains on inter-organisational relations. Local authorities have legal obligations to fulfil under allocations and homelessness legislation and they look to RPs to assist in meeting those obligations. Yet, RPs are under a legal duty to co-operate only to the extent that is reasonable. In the face of the prospect of being expected to house large numbers of tenants who cannot pay, at what point does co-operation become unreasonable?

On the other hand, the signals coming from CLG are that the Government is looking [to break the link between statutory homelessness and allocation of a social housing tenancy](#). Instead they are encouraging local authorities to direct homeless households to the private rented sector. Given that the risk of rent arrears may be greater among this group, it may be that the two agendas intersect in a way that mitigates tensions between landlords. But not necessarily to the advantage of those households in the most vulnerable position.

From the perspective of households, the overall benefit cap is going to be a key issue in the longer term. In the short term it doesn't affect a large number of households. However, if the cap is fixed in nominal terms and benefits are uprated, even if only by CPI, then over time the cap will tighten and more people will be affected. If, on the other hand, benefits are not uprated for inflation for a number of years, as part of the policy of fiscal retrenchment, then the cap will not affect more people. However, the real value of benefits will be progressively eroded. Under either scenario the incidence of poverty increases.

In concluding [his recent overview](#) of the way welfare policy is likely to evolve up to 2020 Jonathan Bradshaw noted: "This review paints a very bleak picture. But there is a risk it is not bleak enough". He describes aspects of welfare reform as "nightmarish". I don't think that is hyperbole. The current system of multiple benefits may not be streamlined but if there is a problem with one benefit then at least households can fall back on the other

benefits in the short term. Bringing all the key benefits together under Universal Credit may well result in a more streamlined system. If it works. But if the system malfunctions, for whatever reason, then it is perfectly possible that many households will be left without any money. Or they'll inadvertently find that they've been overpaid as a consequence of some error in information provided or flaw in calculation and face unmanageable demands for repayment. Either way the term "nightmarish" would seem entirely appropriate.

## **Osbo's poverty trap and ping-pong the elastic of reality**

*16<sup>th</sup> December 2012*

Since they entered office the blue-tinged contingent of the Coalition has been engaged in a systematic process of stigmatising those in receipt of social security benefits. Great emphasis has been placed upon the undeserving and the fraudulent. There is support for the hard working strivers, but condemnation for the skivers. The spotlight has been on the most extreme cases of households receiving substantial financial support from social security in order to create a smoke screen for cuts in benefits to the poorest. The Tories are convinced that welfare "reform" – particularly the overall weekly benefit cap – is their most popular policy. Yet many of the components of this policy have yet to be fully implemented. The general public has yet to grasp their full impact. It may transpire that once they do, the Tories will feel they acted precipitately in drawing such a positive conclusion.

In this year's Autumn Statement the Chancellor proposed to hold increases in benefits to 1%. This implies the erosion of the real value of benefits if price inflation is above 1%. Which it is.

The justification for this proposal is that the welfare budget is unaffordable and "out of control". Everyone needs to share the burden of returning the government finances to health, and this year that includes those who are out of work. It has been portrayed simply as one further outworking of the mantra "we're all in it together". The policy, and the accompanying rhetoric, has certainly been cast from the same mould as much that has emanated from the Treasury and the Department for Work and Pensions over the last two and a half years.

Yet, this is a policy proposal that many of those in the yellow contingent of the Coalition are uncomfortable with. Many see it as a step too far. Certainly, the welfare budget is not out of control, and most of that money goes to pensioners and those in work, not to those who are out of work. A key problem is tax credits subsidising poverty wages, rather than unemployed people living a life of pampered leisure. As [Jonathan Portes has argued](#), uprating by inflation would not be an unsustainable policy. It is a political choice not to do it.

But more interesting has been the reaction from Labour.

Several commentators quickly noted that Osborne was laying quite a careful trap for Labour, particularly as the proposed restriction in benefit uprating runs beyond the date of

the next election ([Hopi Sen](#) was characteristically quick off the mark). If Labour reject Osborne's proposal then they can be portrayed as soft on scroungers, soft on deficit reduction, and against "making work pay". On the other hand, if they go with Osborne's proposal then they are going to be condemning the already poor to even greater poverty. Some on the left, such as [Rob Marchant at Labour Uncut](#), suggest that short term political calculation should prevail. That implies that Labour should resist the temptation to oppose Osborne's policy because otherwise Labour would be giving up the middle ground. Others on the left argue that if Labour didn't oppose a policy so callously and calculatedly designed to punish the poorest then you might have to start asking what the point of the Labour party actually is.

It feels to me like if the Labour party are going to oppose this proposal then they need to go big on it. Only if they do will they be able to break through Osbo's inevitable taunts of fecklessness. They need to get away from rather broad brush responses of indignation and anchor their opposition in some very concrete examples of what sort of negative impact Osbo's policy will have on the lives of the poorest. They don't just need to challenge a prevailing discourse of mass fraud – when fraud is in fact rare – and a discourse of undeservingness – when many people are keen to work more, if the opportunities were available. They need to make the issue come alive. They need to get people to rediscover some empathy. They need to make the case that no one in Britain in 2012 should be expected to subsist on such meagre rations. Everyone and anyone who is a citizen should be entitled to something better.

How the formal political opposition to this policy develops over the next few weeks will be interesting, as well as vitally important.

And it will be made more interesting by the fact that Osbo's premise – that the people are behind him on this one – is being challenged. As [Mark Thompson noted](#) the other day, Osborne thinks he can win by appealing to people's mean-spiritedness. Everyone will be happy to see money taken away from the poorest, as long as the Tories keep shouting "scroungers" often enough and loudly enough.

But the Government's agenda is beginning to test our understanding of what type of country we are. Thompson notes that recent survey evidence, *contra* Osbo, suggests that the majority of people feel benefits should be uprated by inflation or above (although [Hopi Sen](#) points out the evidence is a little ambiguous).

And that is before we recognise, as a number of commentators have already pointed out, that six out of ten of those affected by Osbo's 1% limit are working. The Conservatives have argued that raising the tax threshold will mean that on balance no one in work will be worse off, but, as [Declan Gaffney](#) notes, that can't possibly be true.

Yet today the Conservatives are having another go. They have unveiled their new attack ad campaign. The ads pose the question "Who do you think the government should be giving help to?". The only options available in response are "hard working families..." or "... people who won't work?". The implication being that everyone who is not in work is choosing not to work. The campaign has all the hallmarks of Mr Shapps and his tenuous relationship with facts and fair reporting.

And here we might be coming up against the limits of [“post-truth” politics](#). The Government may keep asserting that everyone who isn't working is a skiver and therefore undeserving. Or everyone who is receiving assistance isn't really disabled but a fraud. But at some point this becomes so detached from reality as to be absurd. People will say enough is enough.

There hasn't been a mass outbreak of skiving in the last two years. There are a lot of people underemployed because they can't find full time work. They are trying their best. Starving them won't be an additional spur. As research published by JRF indicated this week, the [culture of worklessness](#) the Tories rail against is rather elusive in reality. The newspapers are starting to fill with stories of masses relying on food banks, teachers buying food for children turning up to school hungry, and rapid rises in shoplifting of basic foodstuffs. The credibility of the claim that all the Government is doing is curbing the lives of luxury that all these benefit scroungers were living rapidly dissolves.

And that is before we account for the increasingly desperate situation of many disabled people, including those who die or commit suicide as a result of being declared fit to work. This week we had news that the Government proposes to redefine eligibility for Motability in a way that will most likely result in something like a 100,000 disabled people becoming trapped in their homes. The money saved is peanuts, in the grand scheme of things. Is that change anything other than spiteful?

I think Osbo has overplayed his hand. Mark Thompson is, I hope, right. This is not an agenda most people are happy to go along with. Enough people are going to be saying that even if the deficit needs dealing with, reducing the poorest to absolute penury is not the way to do it.

Perhaps encouragingly, if you look at the Conservative Home post that introduces the Conservatives' new attack ad many of the most highly rated comments below the line are condemning the ad. They are condemning it on the grounds that it is based on an untruth – not everyone who is unemployed is choosing not to work – and that the Conservatives shouldn't be stooping to using such tactics. It's almost as if the British sense of fair play has been affronted. Even in the unpleasant business of politics there are some depths that shouldn't be plumbed.

So maybe there is hope that there will be pressure for a change of direction from within, as well as without.

## **The gathering storm**

*19<sup>th</sup> December 2012*

A storm is heading our way. That's the only conclusion you can sensibly draw from reading the second annual independent [Homelessness Monitor](#), funded by Crisis and published this month.

Homelessness is a complex phenomenon, with its roots in the interaction of structural, social and individual factors. Broad economic and labour market trends can contribute to homelessness, but the housing market acts as the more direct driver. Social capital and individual resilience can reduce the risks of homelessness, while persistent structural weaknesses can slowly erode those personal protective factors and increase risks.

The English social safety net is conventionally seen as having a rather different structure to those of many other developed industrial countries. Our mainstream social security benefits are rather meagre by international standards, and their real value has been significantly eroded over the last couple of decades. But this is counterbalanced by a stronger housing safety net and stronger statutory homelessness provision for many types of household, although typically not for single people. It is the housing safety net, not the social security system, that breaks the link between low income and poor housing conditions. As a consequence, while the UK doesn't do terribly well in terms of poverty rates, when looked at comparatively and cross-nationally it does rather better in terms of housing conditions.

This model is being severely challenged by the current Government's austerity agenda.

In respect of social security we are in the midst of a debate over the Chancellor's Autumn Statement proposal to uprate benefits by only 1%, which represents a real terms cut.

On the housing side, the Coalition has been very active. And in all cases the change has been towards weakening the protections available. More specifically, the authors of the Homelessness Monitor note that:

Three key housing policy instruments appear to contribute to these relatively good housing outcomes for low income households in the UK: Housing Benefit; a substantial social housing sector, which acts as a relatively broad, and stable, 'safety net' for a large proportion of low income households; and the statutory homelessness system, which protects some categories of those in the most acute need.

The Localism Act (2011) together with the Coalition Government's broader welfare reform agenda seems likely to undermine this protective national 'housing settlement' (p. xv)

I have discussed most of these changes in more detail in previous posts.

The authors go on to argue that the statistical traces of a deterioration in housing circumstances for the poorest are already evident. Both visible and concealed homelessness is on the rise. Some of this rise predates the arrival of the Coalition, after a decade of deteriorating affordability and the 2007 crash, but some of the trajectories appear to be accelerating. For example:

After falling for six years, statutory homelessness numbers bottomed out in late 2009. In the following two and a half years the quarterly total has risen by 34%. This means that the number of households accepted as statutorily homeless in England rose from 40,020 in 2009/10 to 50,290 in 2011/12. This recent increase in statutory homelessness has disproportionately affected families with children. Temporary accommodation placements have also started to rise, with overall Bed and Breakfast hotel placements almost doubling in the two years to March 2012 (from a snapshot total of 2,050 at end 2010/11 to 3,960 at end 2011/12). Rising numbers of households with children in Bed and Breakfast hotels have been even more alarming, from 630 at end March 2010 to 1,660 at end March 2012. Moreover, a substantial proportion of families with children living in Bed and Breakfasts hotels now staying there for longer than the six weeks maximum prescribed by law

After a long-term decline, there was an increase in the number of *sharing households* in the period 2007/2010, which appears consistent with constrained access to housing in the recession following the 2007 credit crunch.

*Overcrowding* has increased markedly since 2003, from 2.4% to 3.0% of all households, reversing previous declining trends. On the most recent figures 670,000 households were overcrowded in England.

The authors identify the private rented sector as being key to much of the increase in homelessness. The ending of assured shorthold tenancies is a key reason for households finding themselves homeless, particularly in London and the South East.

And they point out that these increases in the indicators of housing stress and homelessness have occurred before the full force of the Coalition's welfare agenda has kicked in. Over this last year all sorts of transitional arrangements, reliefs and wheezes have been in play. These will be exhausted soon. Next year we have the bedroom tax, the cut in council tax benefit, the overall limit on benefit payments and – possibly – the arrival of Universal Credit. Each of these will increase the stresses on households trying to remain in their current accommodation and avoid arrears. Each will undoubtedly lead to some households no longer being able to afford their current accommodation and finding themselves homeless. Take all the changes together – and recognising that it will often be the same households who are affected by each of them – and the affordability pressures will inevitably become intense. More homelessness is inevitable.

Some of the displaced households may be able to find alternative accommodation locally. It may be cheaper. It may be more overcrowded or poorer quality. But it would be local.

Others will not. They are already living in the poorest quality, cheapest accommodation in the area.



We then move in to the debate over whether people have a right to carry on living in or near their current area of residence, near their family and social networks, near their current employer. Or whether they should be expected or obliged to engage in inter-regional migration in order to find suitable affordable accommodation.

That isn't a debate for today. Even if we fervently believe it is right – or mere reluctantly accept – that forced internal migration is the best outcome, it has to be acknowledged that it is a policy response that carries significant costs both to the households concerned and to the public purse.

Who do we expect to be affected by the current policy agendas? There is some talk of middle class homelessness. Of housing stress among the squeezed middle. This may well have increased. But these are the people who have the social capital and individual resilience to cope. When we look at who is likely to find themselves at risk in the near future the authors of the Homelessness Monitor are unambiguous:

all of the indications are that the expanding risk of homelessness is heavily concentrated, as always, on the poorest and most disadvantaged sections of the community, who lack the financial and/or social 'equity' that enables most people to deal with work or relationship crises without becoming homeless. The sort of direct relationship between loss of income and homelessness implied ... is to be found much more readily in those countries (such as the United States) and amongst those groups (such as recent migrants) where very weak welfare protection applies. Such a scenario may, however, be brought closer for the UK by the current significant cuts in welfare benefits being implemented by the Coalition Government.

It looks like 2013 is shaping up to be a pretty rough year.

## **The politics of the bedroom tax**

*9<sup>th</sup> February 2013*

Let's start with the most important point. The Coalition's proposal to cut the housing benefit to social housing tenants who are deemed to be underoccupying is going to cause further hardship for households who are already poor and vulnerable. Reflecting on the experience of the WCA regime administered by ATOS, it is not beyond the realms of possibility that the changes will make life intolerable for some.

The second most important point about the bedroom tax is that it is likely to lead to some housing associations going out of business as a consequence of rising rent arrears. This could spread the misery and uncertainty to a much wider group of households who are not directly affected by the changes to the rules on underoccupancy.

And this story is going to begin to unfold for real in less than two months' time, unless the government has a major rethink.

But stepping back and looked at the issue from a more detached position the politics of the underoccupancy changes are interesting.

The welfare reform agenda is made up of several distinct policy changes. Some of them are genuine reforms of the system – such as the move to Universal Credit. Some are simply cuts. All of these changes have been criticised heavily by those close to the social security system. But only the changes to the rules on underoccupancy – the so-called “bedroom tax” – seem to have gathered any political traction. And even here the momentum behind opposition is gathering rather late in the day.

One reason for the failure of opposition to these reforms is the fact that the Government's reworking of language – its version of fairness and its crude division of the world into skivers and strivers – strikes a populist note. It goes down well with the tabloids.

The Government has done a good job of boiling their agenda down to a few simple, divisive messages that can secure majority support.

It has been largely irrelevant that if more people better understood the detail of the changes they'd realise they are going to be affected directly. If they'd realised that then perhaps their support would have been less enthusiastic.

The underoccupancy changes are pressed from the same template. The overarching message is plausible and seductive: the government shouldn't waste money subsidizing people to live in accommodation that is more generous than is necessary to meet their needs. And the structure of financial support in the social sector should be better aligned with the structure of support in the private rented sector.

One must assume that a proportion of the MPs who waved the policy into law didn't get beyond those broad headline messages or examine precisely who would be affected. They presumed that the detail of the law embodies this principle. If they had dug a little deeper and discovered who was going to be affected then they might have been a little more circumspect.

Because the way the new rules are going to work has been clear for a long time. For example, a report by the [Cambridge Centre for Housing and Property Research](#) back in 2011 set out research evidence that indicated disabled people were the largest group affected. Cases such as foster carers or those with shared custody of children have been raised repeatedly. Organisations like [We are Spartacus](#) have been making the case that the policy is inequitable in its impact and will violate the human rights of disabled people. And bloggers like [Joe Halewood](#) have done sterling work in documenting the financial folly and detrimental consequences of the policy. Joe makes an important argument that the Government's pursuit of parity between assistance in the private and social renting is fundamentally misconceived because private renting doesn't do adaptations – so it is unable to accommodate people with impairments satisfactorily.

But the messages have failed to get through.

One interpretation of this is that while the overall purpose of the policy is plausible, the drafting of the rules has been incompetent because insufficiently sensitive to the exemption of deserving cases.

But that sort of argument implies inadvertence or inattention on the part of legislators. Rather than explicit rejection of the case for a more sophisticated approach. Yet, that would be to let the Commons off too lightly. The Lords pointed out many of the problems, but were ignored.

What has changed in recent weeks is that the mainstream media have brought the policy to life with a plethora of individual case studies demonstrating the injustice of the changes. This gives the policy a clearer emotional resonance and starkly lays bare its more horrendous consequences. It increases identification and empathy. These stories have broken through a generalised rhetoric about skivers and rekindled the idea of the deserving poor in a way that has not occurred with other components of welfare reform.

Case study information from [social landlords](#) documenting the impact upon their tenants has also circulated more widely, as have [refutations](#) of some of the Government's more glib statements about how households can cope with the reduction in benefit entitlement.

One interesting aspect of the politics here is the use of the term "bedroom tax". Clearly, the policy is not a tax, in the sense that it is reduction in the level of a subsidy rather than an increase in tax on household income. The use of the word "tax" is presumably intended to signal that this income rightfully belongs to the household and the government is illegitimately taking it away. Not dissimilar to the arguments used by the libertarian right.

However, I'm not sure the premise – that this is income to which households have a right, and the Government is therefore unjustified in removing it – is as well-founded as the "bedroom tax" argument assumes. From the Government's view it would presumably be seen as begging the question.

Personally I agree with the premise. But, [as I blogged the other day](#), I think we need to remake the case for access to adequate housing based on concepts such as human dignity, human capabilities, and human flourishing.

But that isn't a case founded on exceptions or focused specifically on households with disabilities. It is a case that needs to reaffirm the value of adequate housing as a fundamental building block of life for everyone.

## **Curbing the welfare hate**

*6<sup>th</sup> April 2013*

We've now had three years of the blue-tinged contingent of the Coalition perpetrating a sustained attack on social security recipients – those slugabed skivers – in the name of curbing the deficit. Yesterday's post at the Guardian again [maps the profoundly negative tone](#) of the language that has accompanied the agenda. This has had serious consequences. It has further poisoned the debate and eroded empathy. In moving the agenda forward the

Conservatives have been aided and abetted by their junior Coalition partners, at the cost to the party of many members and supporters.

Resistance to this agenda has gained limited traction. In part this is because the Government believes that when it seeks to curb the generosity of social security it has the majority of popular opinion on its side. In part it is because the mainstream media has done a feeble job in engaging critically with the Government's agenda, or even holding the Government to basic standards of honesty. There has been very limited scrutiny of the way the high-flown rhetoric of "making work pay" and ensuring "fairness" has been matched by the squalid detail of policy implementation. And in part it is because Her Majesty's Loyal Opposition has been unutterably useless at actually opposing anything.

But are there signs that the complexion of the debate is changing?

There are a couple of reasons for thinking that it might be.

The first is that policy changes that have been abstract prospects for so long are now moving to be much more concrete as they are implemented. The human cost will soon become apparent. And if we ever get to the implementation of Universal Credit that is only going to become more apparent.

This week there were rumblings in the media about those receiving in-work benefits become subject to conditionality under UC. The Government has plans to force them into extensive job search to increase their hours or else be sanctioned. This shouldn't come as a surprise. It has been part of the proposals from the outset. Some of us have been warning for a while that this could be a flashpoint. Those who thought they were doing the best they could for their families in difficult circumstances suddenly find themselves labelled as scroungers by the Government. Given we're talking about more than a million households, the political fallout could be substantial.

The fact that this issue is now being talked about at all indicates the media are taking a bit of a closer and more critical interest in the agenda. The implementation of the new underoccupancy rules for housing benefit has generated considerable coverage, although to what effect is not at all clear. And given the inequities that this change has thrown up, people are starting to probe some of the other components of the Government's agenda.

At the same time, [more evidence is emerging](#) that large companies are using workfare as a means of accessing cheap or free labour, rather than employing workers. This is a possibility the Government has rather dismissed. There has been organised campaigns against workfare for a while, but the more evidence there is that it is being abused by employers to deny people jobs the more those campaigns will draw strength.

The Government's case hasn't been helped by Iain Duncan Smith's apparently spontaneous claim that he could live on £53 a week, if he had to, and that he could empathize with those who are currently suffering because he too has experienced unemployment. This was an invitation for increased scrutiny of his current income, his living arrangements, his history of claiming generous expenses, and the details of his experiences of unemployment. Not all of the criticism has been entirely fair. But much of it is. And the key point is that it stretches credulity to think that IDS's own experiences mean

that he's well placed to pronounce on what low income households are going through at the moment.

The second reason for thinking that the complexion of the debate is changing is the Government's position on the horrific Philpott case. In her comment piece in today's Independent [Grace Dent forcefully argues](#) that key to understanding the case is Philpott's extensive history of violence against vulnerable women. Yet, the Government – in the form of George Osborne, but backed by David Cameron – has argued that the tragic death of six children can be traced directly to the nature and generosity of the welfare system.

The reaction to these recent developments has been fascinating. It is not so much the response of the political left that has been interesting. That has been predictably outraged. And the popular response to IDS's claims triggered an extraordinary burst of clicktivism, with over 400,000 people signing a petition to see IDS make good his claim that he can live on £53 a week. It's almost certainly an utterly pointless gesture, but it says something about the extent to which people see his claims as credible. We've also seen the [Liberal Democrats distance themselves](#) from the Chancellor's position.

A few months ago, commenting on a previous episode in the saga of social security reform, [I noted](#) that at some point the Government would come unstuck:

... here we might be coming up against the limits of ["post-truth" politics](#). The Government may keep asserting that everyone who isn't working is a skiver and therefore undeserving. Or everyone who is receiving assistance isn't really disabled but a fraud. But at some point this becomes so detached from reality as to be absurd. People will say enough is enough

I think we've pretty much reached that point. Perhaps the most interesting and important development over the last few days has been the response in the right-wing press. It suggests that the Conservatives have seriously overplayed their hand. Beyond the rabid right they are finding little support. For example, following up an [excellent post yesterday by Alex Massie](#), [Fraser Nelson has a post today at the Spectator](#) in which he observes that George Osborne has been behaving oddly and needs to calm down. Osbo's focus on social security as culpable in Philpott's horrific crime is misplaced. Even *The Telegraph* felt sufficiently exercised today by these issues to give its readers some feel for [what it was actually like to have to live on £53 a week](#) not just for one week but for the long-term. A small step toward rehumanising the debate, perhaps.

One outstanding question is where the Labour party have been all this while. Keeping a pretty low profile, it seems. That doesn't mean to say that there is no opposition from the left. Labour bloggers have had [sensible and measured things to say](#). While most of the media defence of the welfare state against Osborne's onslaught has come from Owen Jones. I couldn't help but agree with a tweet from Iain Dale the other day:

*'sright > RT @iaindale: I genuinely think @owenjones84 has more influence on politics nowadays than any Labour frontbencher. He's EVERYwhere!*

— Alex Marsh (@ShodanAlexM), April 4, 2013

Good for him. But what on earth are Labour up to? Perhaps the relevant frontbenchers wouldn't have been able or willing to come out and make the case against Osborne's position. If that's the case then they really are in a jam.

There is surely a debate to be had about welfare. No one should be complacent enough to assume that existing systems are perfect. And no one can sensibly dispute that it would be better if there were fewer people reliant upon state assistance to achieve an acceptable standard of living. But the starting point for debate is that there are insufficient jobs available at the moment and trying to starve people into work is not a civilized or humane way to help them. It isn't even hugely effective. We need a debate about how to get from where we are to where we would like to be without the rancour and victim-blaming that currently infuses the agenda.

## **Messing with the minimum wage**

*11<sup>th</sup> April 2013*

Making work pay.

Few sensible people would object to this as a policy aspiration. It's at the core of the Coalition Government's justification for its reforms to the social security system. So that's got to be good.

The cracks begin to appear when we move on to consider quite how we're going to make work pay.

The Government has broadly three options, in the short run. It can try to mandate an increase in low wages. Increasing the gap between income in work and income out of work should incentivise people to (re)join the active labour force. It can reduce the amount people are paid when out of work, thereby increasing their incentive to take up employment at prevailing wage rates. This is what we might call the "starve them back to work" strategy. Or it can tackle the tangle of rules and regulations in the tax and benefit system that interact to create perverse incentives and high marginal tax rates. Or it can combine these options.

The Government's strategy so far has largely focused on options two and three. The introduction of Universal Credit is an attempt to address the perversities of the tax and benefit system. The restrictions in the uprating of out of work benefits so their real value declines, and arguably the changes to disability benefits, are a case of option two.

So how's it going in relation to increasing low wages? No so good.

There is plenty of talk around of the need for a Living Wage, on the basis that the minimum wage is quite a way short of the level required to secure an acceptable minimum

level of consumption. But that isn't exactly the prevailing direction of travel for policy. Indeed, we could argue that the Government is adopting a rather perverse strategy on this front, if it is genuinely committed to making work pay. Policies such as more extensive use of workfare place downward pressure on wages, reinforcing the impact of high levels of unemployment. And there have been more focused changes in the wrong direction, such as the abolition of the Agricultural Wages Board.

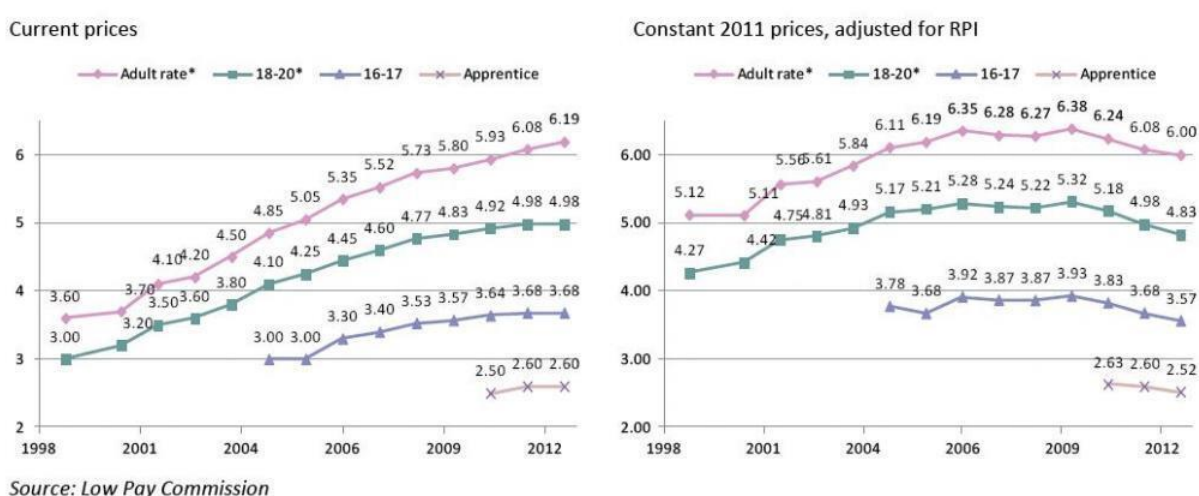
The Government's latest move is to suggest that the remit of the Low Pay Commission, which sets the National Minimum Wage, needs to be modified so as to require it to take into account the [impact of the minimum wage on the economy and employment](#). There is a concern that further increases in the level of the minimum wage could have a disemployment effect. As far as I can tell this concern is being raised most frequently by lobby groups for employers in low pay industries, which is, I guess, what one might expect.

It is no great surprise that the Government is going after the minimum wage. The argument is based on a concern that it hinders competitiveness – indeed, it may threaten the viability of some companies. And poorly paying jobs are better than no jobs. But the way the case has been raised seems a bit odd.

For one thing, it would tend to imply that the Low Pay Commission was currently indifferent to the impact of the minimum wage on employment. Yet, that is far from the case. As is clear from the Figure below, while the nominal value of the minimum wage continues to rise, the real terms increases have been moderated to the point that the minimum wage has lost purchasing power in recent years.

There is little doubt that the LPC already takes considerable care in setting the minimum wage, including considering its impact upon the economy and employment. So the Government's case would appear to be founded on a rather weak premise.

**Figure 1: Historic rates of the National Minimum Wage**  
£ per hour



(Source: Manning, A. (2012) [Minimum wage: maximum impact](#), Resolution Foundation. Image via @jamestplunkett)



The second issue is that there isn't much evidence that the minimum wage has had a substantial disemployment effect. [Quite the contrary](#). That isn't to say that there have been no negative impacts – it has had some impact on hours worked and there has been some substitution away from low wage labour as a factor of production – but they are not of a magnitude to suggest that alarm bells should be ringing.

In fact, there is a bit of an academic debate over why the minimum wage hasn't had a bigger negative effect, because [it is a bit of a puzzle](#). Labour market theory – at least some versions of theory – says it should, but the evidence says it hasn't. The academic debate on the minimum wage is fascinating. But a post about that will have to wait for another day.

The Government's overtures in the direction of the minimum wage have been given, it would be fair to say, a mixed reception. Even [commentators on the Right](#) are not entirely convinced it would be a sensible move.

But that presumes that reducing the minimum wage would deliver the objective that the Government seeks – reductions in real wages at the bottom end of the labour market.

One of the arguments in the experimental literature on the [behavioural economics of the labour market](#) is that imposing a minimum wage can create new expectations of appropriate levels of remuneration and resets reservation wages. And these changes persist. So even if the minimum wage is abolished entirely it doesn't necessarily lead to wages returning to their previous levels. How long it takes for such norms to be revised downwards is less clear. And there isn't much in the way of field data, in part because Government's aren't generally in the habit of going around abolishing minimum wage legislation.

The Government's recent pronouncements on the minimum wage are clearly no more than the opening salvos in a battle that is going to be played out over the coming months. How that battle plays out is going to be crucial for the welfare of many thousands of households.

Back in December 2010 I blogged:

For policy makers to make even slightly plausible claims that work does represent a cure for poverty they would need to hold tight to the idea of a minimum wage that delivers an acceptable standard of living. Will this particular government be inclined to adopt a positive orientation towards the minimum wage, given that those on the Right are typically hostile to the idea? Can the country 'afford' a minimum wage, in the context of a narrative of cut-throat global competition? When that battle finally commences, as it undoubtedly will, perhaps the fact the minimum wage was recently voted the [most successful policy of the last 30 years](#) will provide those seeking to ensure that work really does pay with some much needed ammunition.

The only thing that is, perhaps, a little surprising is that the battle has taken so long to commence.



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