

Benefit levels in the UK: a response to the call for evidence

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Summary of the key points

There are some common confusions in the discussion of adequacy, which this submission seeks to clarify.

- *The purposes and functions of benefits are complex. [paras 1-2]*
- *The adequacy of benefits depends on how they work in combination with each other, and with other sources of income. [3-4, 7-9]*
- *Benefits have not been set at a level that reflects the costs of subsistence. Universal Credit in particular is not designed to provide a basic minimum income and does not do so.[5-6]*
- *Most benefits are designed to be delivered regardless of work status. The emphasis on the centrality of work is a major distortion of their role and purpose.[10-13]*
- *The operation of the benefits system is frequently penal and fails to provide adequate avenues of redress.[14-15]*
- *Assessments of people's financial position which attempt to identify all possible income streams and household circumstances are unavoidably complex, difficult to administer and liable to error. The alternative is to offer a range of less comprehensive benefits which can be combined in different ways. [9, 16]*

Designing benefits policy

The purpose of working-age benefits

1. The benefits system is complex, and benefits serve a wide range of purposes. Those purposes include

- *The relief of poverty.* Some benefits are designed to specifically to help poor people. Social assistance is sometimes just about money; sometimes it is tied in with social work to integrate poor people with the rest of society.
- *Meeting need.* Meeting needs is not just about poverty. There are benefits for people with disabilities, which try to meet the extra costs of disability. There are benefits for health and education, to make sure that people are able to use these services without suffering financial penalties.
- *Social protection.* Social protection is an extension of the insurance principle. Benefits systems commonly provide protection against common social contingencies. Anyone can become sick, disabled or unemployed, or suffer an interruption of income because of caring responsibilities or divorce.
- *Income smoothing.* Social security can act to transfer income from one part of a person's life to another - for example, to help young families with children.
- *Redistribution.* Social security is sometimes seen as a way of taking money

from one group of people to move it to another - from workers to pensioners, from people with no children to people who do have children, from richer people to poorer people, and so on.

- *Compensation.* Some schemes, such as Industrial Injury Benefits and War Pensions, offer compensation for damage suffered.
- *Social inclusion.* There are social security schemes which try to find a place for people in society, partly through money, and partly through education, training and creating opportunities for people to participate in society.
- *Behaviour change.* Social security schemes are used to offer 'incentives' or inducements, to reward people for good things (like marriage) and to punish disapproved ones (like idleness). Some benefits for mothers are intended to promote public health.
- *Economic management.* Public spending on social security schemes is an important instrument of economic management. Temporary unemployment assistance improves the efficiency of the labour market by giving people time for job searches. Schemes for invalidity and early retirement help the functioning of the labour market by making it possible for people to withdraw from it.
- *Solidarity.* Social security is often seen as promoting a sense of mutual responsibility, of shared rights and obligations, and social cohesion.
- *Financing particular activities.* Social security has been used, for example, to put money into the provision of residential care and to support the development of low cost housing.

Slogans such 'work for those who can, support for those who cannot' are misconceived. In so far as they encourage a disregard for other principles, they are not just ill-informed, but harmful.

2. The contingencies that 'working-age' benefits cover need to include

- disability
- sickness and incapacity for work (not the same thing as disability)
- public health contingencies
- unemployment
- responsibility for children
- caring responsibilities
- housing costs
- support for low incomes
- minimum subsistence levels
- bereavement
- emergencies and crises, and
- a range of special cases (such as leaving care, leaving prison, migrants and asylum seekers) for whom different regulations and approaches may be required.

Universal Credit attempts to deal with at least eight of these categories in one common regime. That has led to the imposition of rules on categories (such as the carers of very young children, or those suffering from long term sickness) for whom those rules are wildly, madly inappropriate.

Adequacy

Income packages

3. The literature on comparative social policy points us towards the importance of the ‘income package’, rather than rules applying to individual benefits. The central task for social security is to provide different elements of income that can be received in different combinations, according to circumstances. Cash support is said to be ‘fungible’: when money is mixed together from different sources, various combinations of income from different sources are possible. This is the principle behind Child Benefit, which provides an element of income rather than a sufficient income in itself; it was also the rationale behind the original, non-means-tested Attendance Allowance and Mobility Allowance, later rolled into the Disability Living Allowance (DLA) and then to Personal Independence Payment (PIP).

4. The Committee asks, in the context of ‘work incentives’, what the role of contributory benefits should be. This is a much more general issue. Contributory benefits are a proven way of responding to several of the purposes of benefit systems - social protection, income smoothing, social inclusion, compensation and economic management. More broadly, contributory benefits have a major role as part of the income package - pensions offer an example of how this can work in practice. A benefit system which provides a range of benefits, both contributory and non-contributory, offers greater security and adaptation to personal circumstances than is possible with a single, over-stretched core benefit.

Providing minimum incomes

5. The assumption that any single benefit will provide an income for ‘essential needs’ applies only to the provision of a minimal basic income benefit - the role taken in the past by National Assistance, Supplementary Benefit and Income Support. At no stage in the history of these benefits have the rates ever been determined by an objective test of living expenses. (See F Hobson et al, 2022, *How benefit levels are set*, House of Commons Library CBP 9498: “There isn’t a scientific basis [for benefit rates], there never has been, and no one has ever succeeded in establishing one.”)

6. The role of these forerunners is now subsumed in the system of Universal Credit, which has been developed to meet other criteria. Universal Credit does not, however, provide a secure minimum income, for several reasons. It falls short of a minimum income because of the long waiting period, the two-child rule, the limits on housing support, repayment of loans, permitted deductions, and the heavy financial penalties imposed through sanctions, often for minor infractions of the rules such as late attendance for a meeting.

7. It is implicit in the provision of benefits that people receive cash to pay for services in a private market. This is not necessarily the best way to distribute resources: health and education in schools are distributed in other ways, and there is a strong case to provide (for example) for child care, medical goods, social care, water, basic energy or tertiary education without reference to the benefits system.

8. The Committee asks whether “additional components of benefits, such as Personal

Independence Payments, [are] sufficient to cover the costs they are intended to cover.” PIP, and DLA before it, have been described in these terms in official documents since DLA was introduced in 1992. This, for example, comes from the DWP’s 2017 Equality Assessment of criteria for PIP: “PIP is a payment that is intended to be broadly proportionate to the overall need of a claimant. The greater someone’s need, all else being equal, the greater the cost they will face as they go about their daily lives.” This was, and continues to be, a misunderstanding of the purpose of the benefit, which is not based on an assessment of costs and has never attempted to reflect them. The costs of disability are hugely variable and the primary system designed for their support is not PIP, but the provision of social care by local authorities. DLA and PIP were the successor benefits to Attendance Allowance (which was retained for older claimants) and Mobility Allowance. Research had shown that people with disabilities suffered reduced income throughout their lives, regardless of their employment status. The case made for not means-testing those benefits was that they would then act as a long-term supplement to income - or, in the terminology used in this submission, part of the income package. This was explained in Parliament by Alf Morris, then the responsible minister: (10th and 15th Jul, 1970):

“This provision must be seen as only part – a very minor part – of an entirely new financial deal for the severely disabled. ... This is only one stage towards improving the financial status, and therefore the dignity, of every one of our severely disabled fellow citizens.”

9. Most benefits provide a part of income, not the whole of it. The appropriate test of adequacy is not then whether any single benefit is enough to live on, but whether the resulting income package is. Assessments of people’s financial position which attempt to identify all possible income streams and household circumstances are unavoidably complex, difficult to administer and liable to error. Contrast the current estimates of fraud and error in Universal Credit (14.7%) with the record of Jobseekers Allowance (4.6%) and Employment and Support Allowance (4%). A proven, and more rational, alternative is to offer a range of less comprehensive benefits which can be combined in different ways.

Work incentives

10. The focus in policy on participation in work bears little direct relationship to the purpose and functions of benefits, as outlined in para 1. Some benefits - Child Benefit, PIP - are available to people both in and out of work. Others, notably ESA and carers benefits, are directed to people who (in the words of the statute) it is ‘not reasonable’ to expect to work. Universal Credit has muddied the waters by absorbing Housing Benefit (an example of the first category) and ESA along with Severe Disablement Allowance (examples of the second), but that should not be allowed to extinguish the principles represented by the legacy benefits. Most unemployed claimants return to work within a year. Policy has been driven, and distorted, by the relatively small number of cases that fall outwith these categories.

11. There is very little evidence to support the contention that working age benefits constitute a disincentive to work. The so-called ‘rational choice’ theory which asserts this takes it for granted that work is undesirable and that people would prefer leisure instead. In the vast majority of cases, this is simply not true. First, unemployment provision is so far below the level of wages that it can only have minimal marginal impacts on economic activity. On the [OECD’s figures](#), the UK has one of the lowest replacement ratios of any developed country.

Second, unemployment and participation in the labour market is not primarily a reflection of individual choice, but of economic and social conditions. Third, as Tony Atkinson argued in *Incomes and the welfare state*, unemployment benefits do not work that way, anywhere. They are subject to sanctions, conditionality and in many countries some degree of earnings-relation.

12. An incentive depends on there being a potential gain, and an influence on motivation. Where people are able to make decisions about work, there are many other factors besides benefits that influence decisions - typically financial rewards in employment, social status, social pressure and the desirability of roles related to work.

There is only an incentive to become unemployed if:

(i) *Not working is an eligible outcome.* This view dismisses issues of stigma, boredom, lack of direction, and the consequences of unemployment for ill health, exclusion and poverty. There is some evidence of detachment from the labour market for a minority of older men, and within that group, some people - mainly more affluent people choosing to take early retirement - do consider not working desirable. Most, however, do not.

(ii) *Benefits have a discernable effect on the motivation to work.* Benefits are limited both in financial terms and through conditionality. Systems are designed to limit their relative attractiveness, and if there is a potential to tip the balance, it has never been realised in practice.

(iii) *The influence of unemployment benefit outweighs other factors.* Unemployment is structured and conditioned by a range of economic factors. The forms of non-voluntary unemployment include, amongst others, frictional, seasonal, casual, demand-deficient, structural and exclusionary unemployment. Much of this is beyond the immediate control of any individual.

Individual choices, where they are made, are necessarily a matter of balancing costs and benefits. It makes no sense to look at the level of social assistance as if it was the only deciding factor.

13. The main discourse of 'work incentives' in the UK is not really about work incentives at all. It continues rather to reflect the arguments of the 1834 Poor Law for 'less eligibility': that the condition of the person receiving benefit must be worse than the condition of any independent labourer. This approach was supposed to have been jettisoned 75 years ago. If the discussion was actually to focus on individual choices between benefit receipt and work, it would need at least to consider the replacement ratio (income in and out of work) for the individual affected; the test would be that he or she stood to gain from returning to employment, and that must depend on that person's earning power. This is not done in the UK, but it has been the system in France, where unemployment benefits operated by Unédic are earnings-related in the first instance but subject to reduction for longer duration. (It remains the case, while this does fairly address the issue of incentives to work, that the structure of those benefits does not determine participation in the labour market.)

Policy and administration

14. The DWP is poorly organised to deliver individualised, personal support: officials complain that they are given little scope to respond to queries and are not permitted to follow through to resolve problems (my research is reported in PCS, 2017, *The future of social security in Scotland: views from within the system*). The emphasis on compliance has been extremely

negative. It has not improved, and may slow, the return of unemployed claimants to work. The imposition of sanctions has subjected hundreds of thousands of claimants to deprivation of their sole income, often for extremely petty infractions, and at times in error. The regime has jeopardised claimants' health as well as their finances.

15. The process of appeal and obtaining redress has suffered from the deliberate obstruction of access to justice, in the form of Mandatory Reconsideration. Mandatory Reconsideration was introduced explicitly to limit the number of cases being considered on appeal. The Supreme Court has emphasised the importance of locating such decisions in the courts, rather than administrative processes: "Access to the courts is not ... of value only to the particular individuals involved." Sanctions have become, Dr David Webster has told the Work and Pensions Committee in evidence, a "secret penal system". No person should be subject to a penalty without having had the opportunity to hear the evidence against them and state their case. Current law and practice are incompatible with the centuries-old principle of natural justice: *audi alteram partem*.

16. In my 2017 book, *What's wrong with social security benefits?*, I describe the main themes of current policy in these terms:

- *simplification*: the belief that the system can be stripped down, rationalised and streamlined;
- *personalisation*: the focus on the individual characteristics and needs of the claimant;
- *selectivity*: the attempt to develop benefits that focus resources on those in need and deny benefits to others;
- *'activation'*: the focus on work; and
- *conditionality*: the attempt to change behaviour through the conditions imposed on benefit receipt.

I argue instead for four quite different principles:

- *managed complexity*, permitting smaller benefits to be combined in different ways;
- *rights*, to permit the benefits system to operate impersonally in ways that are consistent, predictable and reliable;
- recognition of *the diverse role of benefits*; and
- *minimal presumption*. No system can operate effectively for millions of people while attempting to subject the individuals within it to a detailed scrutiny of their circumstances, conduct and merits. Benefits need to assume less, demand less and work with less.

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