

Welfare Benefits

- A necessity not a lifestyle choice

Executive Summary

This paper makes the case in defence of the benefits system and addresses the counter arguments by drawing on the latest research. Any discussion on welfare benefits cannot be separated from the current political and economic climate, with politicians, commentators and pressure groups increasingly identifying cuts in benefits as a strategy for reducing the public deficit; in this context restating the case for welfare benefits becomes even more essential.

Poverty and inequality in the UK

Over the last three decades the level of inequality has increased in the UK. Despite the UK being one of the richest countries in the world 13.2 million, (22%) of the population live in poverty.

Child poverty has begun to rise again in the last few years, having been in decline since 1998/9. The Joseph Rowntree Foundation in 2009 estimated that the Government would have to invest an estimated £4.2 billion a year in benefits and tax credits above its present plans to meet its interim child poverty target.

Since the General Election the picture for children in poverty has become even worse.

What is wrong with poverty and inequality?

The experience of poverty is not just about having a low income; it affects the everyday experiences of families and communities. Poverty is associated with shame and stigma. Poverty is socially harmful, as individuals and families feel socially excluded as low income limits their ability to integrate into the community. The experience of living in poverty has a negative effect on physical and mental health.

Research also shows that: ill health; lack of community life; poorer social relations and levels of trust; violence; drugs and alcohol abuse; obesity; mental illness; larger prison populations; and shorter life expectancy are more likely to occur in a less equal society.

The value of UK benefits

Benefits in the UK are comparatively lower than other industrialised countries; with one of the lowest benefit rates relative to earnings. In addition the actual value of benefits in the UK has declined over the last thirty years due to a change in the policy of up-rating benefits. In the 1970s, benefits were increased in line with earnings or prices whichever was higher, over the last 30 years they have increased each year in line with prices only. Prices usually rise by less than earnings, since 1978 average earnings have grown about 1.6 percent a year faster on average than prices.

The effect of this, as Peter Kenway (2009) shows us, is that while real consumption per head has risen to a level that is now more than double what it was in 1978, the real value of unemployment benefit has remained fixed at or

around its 1978 level. Numerous studies show that the current level of benefits are too low to meet current expenditure levels and what the general public think is needed to afford an acceptable minimum standard of living. The consequence of benefits not rising as fast as other forms of income is that the income of benefit recipients will fall further behind those in employment. This inevitably contributes to a widening of income inequalities.

The role of benefits in fighting poverty and inequality

Research shows us that a country's level of social security spending is clearly associated with levels of poverty; countries with more generous social security protection have lower rates of poverty.

The nature and design of a tax, benefit and tax credit system can ensure a more redistributive outcome, limiting the growth of inequality and improving outcomes across society.

Economic arguments for a decent social security system

Poverty also has an economic cost. The Joseph Rowntree Foundation estimates that child poverty costs £25 billion each year in costs to the Exchequer and in reduced GDP.

Answering objections to increasing the value of benefits

Any discussion about raising the value of benefit levels always raises the notion that a more generous welfare state will undermine people's commitment to paid work; however this paper provides evidence contrary to this.

A further objection to the benefits system is the cost particularly given the pressure on public finances. The issue is also of relevance given that many anti poverty groups including the TUC support an increase in JSA to address many of the issues presented in this paper. Any potential rise in the social security budget needs to be put into context. As such rises are relatively small when compared to the cost of not acting to reduce poverty which includes the financial cost to the economy of allowing high levels of poverty to continue, and the wider costs of inequality to society.

Conclusion

This paper makes a strong case for why we need to defend benefits; a good benefits system redistributes wealth to those in need, limits the growth of inequality and improves outcomes across society.

1) Introduction

Most industrialised countries provide social protection for their citizens to support them through periods of illness and unemployment. Protection is also widely used to boost the income of low earners. Furthermore, social protection plays a key role in achieving greater equity and fairness in market economies which can tend towards high levels of inequality. Importantly, as this paper will explain, such social protection is not provided purely for the well-being of individuals but also has wider economic benefits.

Social protection is, however, controversial. A number of arguments are regularly made against higher levels of welfare provision, or even against the concept of social protection itself. In particular, it is often claimed that social protection can lead to dependency on benefits, can impose too high a cost on the economy and public finances, and can limit economic growth.

Many of these concerns feed into the negative media portrayal of benefit claimants as work-shy scroungers living a comfortable life on over-generous state handouts – a recurrent theme in the right-wing tabloid press. This is a perception that can also influence mainstream commentators and politicians. For example, Michael Portillo called for benefits to be used purely to help people through misfortune rather than being handed out as a “matter of right” to “subsidise slobery”.¹ The Chancellor George Osborne recently said he wanted to tackle those who saw claiming out-of-work benefits as a “lifestyle choice”.²

Rarely however are the real life stories of those living in poverty and on benefits presented. The negative myths are given far too much prominence. A stronger case must be made in defence of the welfare state and the positive role that benefits play in reducing poverty and inequality in the UK. This paper will make this case and address the counter-arguments by drawing on the latest research.

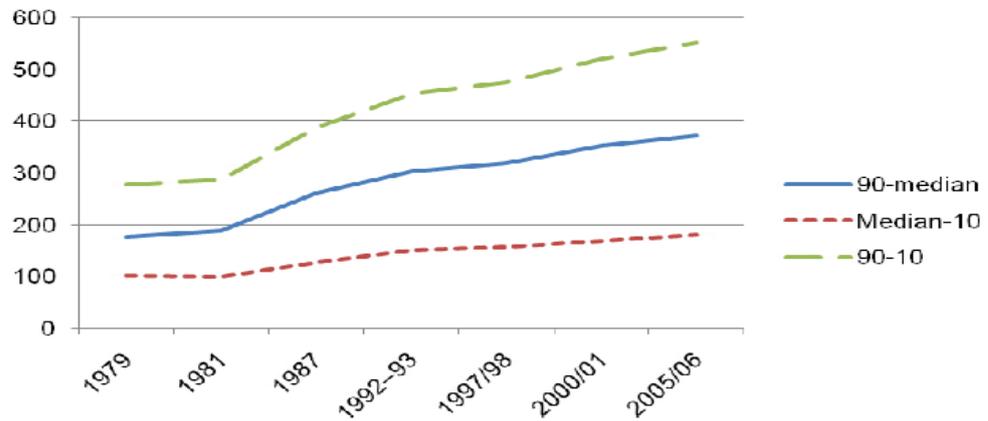
It is particularly important to make this case now given that some politicians, commentators and pressure groups are increasingly identifying cuts in benefits as a strategy for reducing the public deficit.

2) Poverty/inequality in the UK

Over the last three decades the level of inequality has increased in the UK. The Chart below shows the rising income gaps between the poor and people in the middle (the lower dashed line) and between people in the middle and the rich (the unbroken line). The gap between the rich and the poor combines the first two, and shows the gap between the top tenth of the population and the bottom has roughly doubled since 1979.

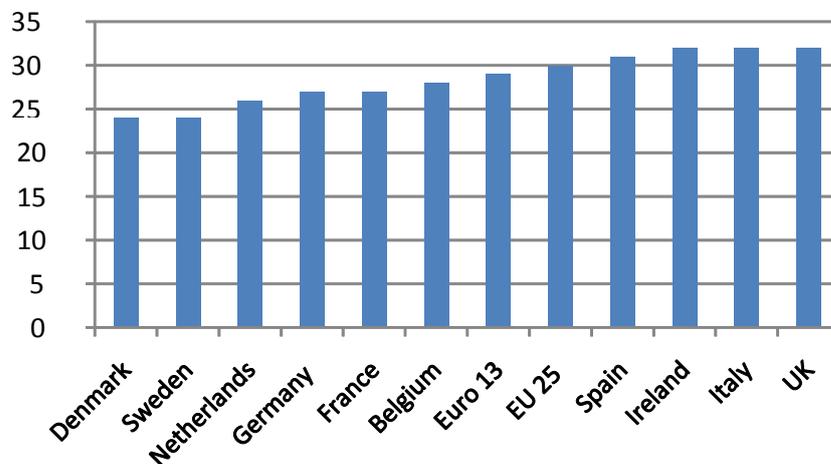
¹ www.timesonline.co.uk/tol/comment/columnists/guest_contributors/article6814986.ece

² <http://www.mirror.co.uk/news/latest/2010/09/10/osborne-targets-benefits-lifestyle-115875-22550101/>



Inequality 1979-2005/6³

Inequality in the UK is also high when we compare the Gini coefficient with other European countries:



Inequality across Europe, 2006⁴

The independent National Equality Panel reported that income inequality is high in Britain compared with thirty years ago. The report states that over the last decade, earnings inequality has narrowed a little and income inequality has stabilised on some measures, but has increased on measures affected by the share going to the very top. At the very top, the after-tax income share of the top one in every two thousand fell from 2.4 percent in 1937 to under 0.5 percent in 1969. By 2000, it had returned to 2.5 percent.⁵

³ Poverty and inequality and children, TUC 2008, (pg 2), calculated from data for *Social Trends* 38, ONS, 2008, fig 5.3. Data is for real, (£ p.w. at 2005/6 prices) disposable, equivalised (using OECD scale) household income. The comparisons are between the average incomes of those in the 90th and 10th percentiles of the income distribution and the median (the point in the distribution with half the population above and half below.) 1997/8 and 2000/01 are GB only, other years are United Kingdom.

⁴ Poverty and inequality and children, (pg2), TUC 2008 from eurostat data

⁵ Report of the National Equality Panel – Executive Summary, Government Equalities Office, 2010, (pg2).

The UK is one of the richest countries in the world, yet 13.2 million people in the UK live in poverty, 22% of the population, when using the UK Government definition of poverty as having an income of 60 percent or less of the median.⁶ In addition despite more than 15 consecutive years of economic growth, in which average earnings have gone up 80 percent, the numbers living in poverty dropped by only 7 percent, and have begun to rise again.⁷

Child poverty

It is now just over ten years since the Government made its commitment to end child poverty. Targets were set; child poverty to be reduced by a quarter by 2005, halved by 2010 and eliminated by 2020.

Since 1999, under the previous Government, child benefit increased in real terms and tax credits did provide more generous support than the system they replaced. However, levels of child poverty began to rise again since 2007/8, having been in decline since 1998/9. The Joseph Rowntree Foundation estimated in February 2009, that the Government would have to invest an “estimated £4.2 billion a year in benefits and tax credits above its present plans to meet the interim child poverty target”.⁸

The Government’s strategy emphasised employment as the key route to reducing child poverty, by reducing the numbers on incapacity benefits and increasing the number of lone parents in employment. The TUC supports the policy of emphasising employment as the main vehicle for progress to this goal, however this strategy is not enough by itself. The DWP recognised this in a publication of the policies needed to end child poverty; this detailed measures that would help more parents to enter employment, and added that, “such changes will not be sufficient on their own to enable the Government to reach its child poverty targets. The Government will need to provide adequate financial support for families as well as help to support parents into work.”⁹

A successful welfare to work strategy will not reach all children who need to be lifted out of poverty. It is time for a discussion of the role that increasing adult benefits might play in reducing child poverty. Children in workless families suffer from the family’s low overall level of benefits. “Seventy percent of children in families that receive Jobseeker’s Allowance are poor; this is a higher risk of poverty than any other group of children.”¹⁰ With the rise in unemployment, more children will find themselves in poverty as a result of their parents losing their jobs. It is also important not to forget in-work poverty: 57% of working age people in poverty and 57% of children in poverty live in families where at least one person has a job.¹¹

⁶ Poverty and Inequality in the UK, Institute for Fiscal Studies, 2008 cited in Close to Home, UK poverty and the economic downturn, Oxfam Briefing Paper, 2009, (pg5).

⁷ Source: Households Below Average Income, DWP, cited in Close to Home, UK poverty and the economic downturn, Oxfam Briefing Paper, 2009, (pg5).

⁸ Ending child poverty in a changing economy, Joseph Rowntree Foundation, February 2009, (pg1).

⁹ Delivering on Child Poverty: what would it take? Lisa Harker for DWP, 2006, cited in TUC, Cutting the costs of child poverty, September 2007, (pg 11)

¹⁰ http://www.dwp.gov.uk/asd/hbai/hbai2008/pdf_files/chapters/chapter_4_hbai09.pdf

¹¹ <http://www.touchstoneblog.org.uk/2009/05/child-poverty-and-unemployment/>

Since the General Election the picture for children in poverty has become even worse. The Coalition Government claims that its reforms in the 2010 Spending Review will have no measurable impact on child poverty in 2012–13, however projections by the IFS¹² are at odds with this claim. They point out the Government’s tax and benefit reforms will act to increase relative poverty in 2012–13 among children, working-age parents and working-age adults without children by about 100,000 in each group, and increase absolute poverty in 2012–13 by about 200,000 children, about 100,000 working-age parents and about 100,000 working-age adults without children. The discrepancy is accounted for by the fact that IFS researchers considered the impact of all of the Government’s planned reforms, including changes to Local Housing Allowance and Housing Benefit, on poverty rates, whereas the Treasury’s distributional analysis did not. The IFS analysis also looks at how poverty levels look set to change beyond 2012–13 – and forecasts that absolute and relative child poverty levels will continue to rise by a 100,000 and 200,000 respectively.

The Child Poverty Act, passed into law last year with cross party support, commits current and future governments to reducing relative child poverty to 10% and absolute child poverty to 5% by 2020–21. The IFS state in their report that "meeting the legally-binding child poverty targets in 2020 would require the biggest fall in relative child poverty after 2013-14 since at least 1961."¹³ Given recent benefit cuts, it is hard to see how the Government can even hope to meet this target.

Perhaps this is why the Government has also questioned how poverty should be measured, stating in its recently published child poverty consultation that “an over-reliance upon short term measures, such as cash transfers, has contributed to trapping some of the poorest families in welfare dependency”.¹⁴

The Government will announce its new child poverty strategy in Spring 2011. The TUC is strongly urging the Government to retain the income-based targets set out in the Child Poverty Act, and to develop a strategy that will reduce children’s chances of living in low income households as well as seeking to address wider disadvantages that children living in poverty can face.

3) What’s wrong with poverty and inequality?

The consequences for individuals and families living in poverty who don’t have the resources to participate in everyday life, are far reaching. Poverty is associated with shame and stigma. Poverty is socially harmful, as individuals and families feel socially excluded as low income limits their ability to integrate in to the community. The experience of living in poverty has a negative effect on physical and mental health. Children’s experiences of growing up in poverty have shown this can harm their well being and development, and limit their future opportunities.

¹² http://www.ifs.org.uk/pr/child_poverty2013.pdf

¹³ http://www.ifs.org.uk/pr/child_poverty2013.pdf

¹⁴ <http://www.education.gov.uk/consultations/index.cfm?action=consultationDetails&consultationId=1737&external=no&menu=1>

Poverty also has an economic cost. The Joseph Rowntree Foundation estimates that child poverty costs £25 billion each year in costs to the Exchequer and in reduced GDP. As they explain,

- Public spending to deal with the fallout of child poverty is about £12 billion a year, about 60 per cent of which goes on personal social services, school education and police and criminal justice.
- The annual cost of below-average employment rates and earning levels among adults who grew up in poverty is about £13 billion, of which £5 billion represents extra benefit payments and lower tax revenues; the remaining £8 billion is lost earnings to individuals, affecting GDP.¹⁵

In this context a benefits system not only prevents the very poorest falling into absolute poverty, it also provides a key means to improve outcomes across society and the economy.

Furthermore a benefits system limits inequality. Richard Wilkinson and Kate Pickett in their book, 'The Spirit level: Why More Equal Societies Almost Always Do Better' (2009),¹⁶ conclude that at almost any level of income, it is better to live in a more equal place. More unequal societies are bad for almost everyone within them.

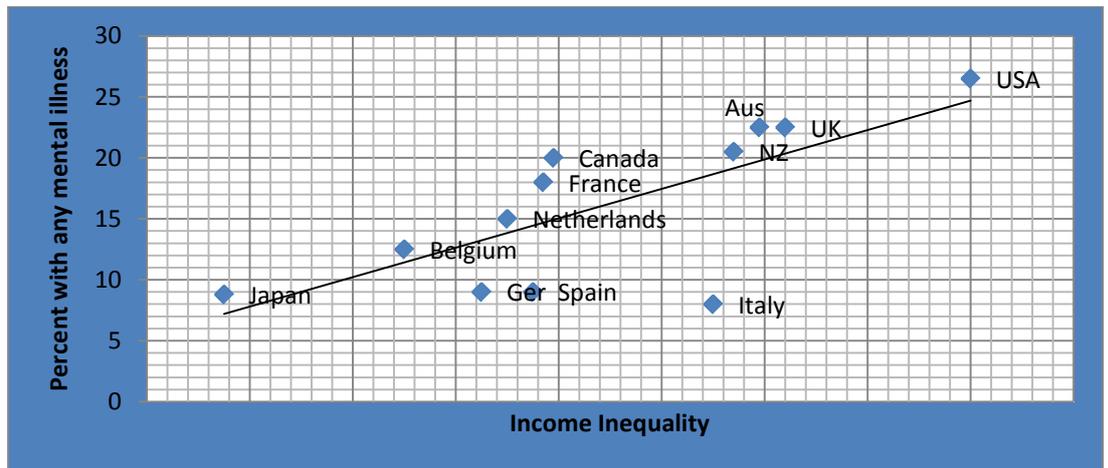
Wilkinson and Pickett looked at the levels of income inequality in twenty of the world's richest nations, and in each of the fifty US States. The cost of inequality is strikingly clear: ill health; lack of community life; poorer social relations and levels of trust; violence; drugs and alcohol abuse; obesity; mental illness; larger prison populations; shorter life expectancy; and teenage pregnancy are all more likely to occur in a less equal society.

One striking example is the relationship between mental illness and inequality. Wilkinson and Pickett stress that such a close relationship between income inequality and rates of mental health as displayed in the chart below cannot be due to chance¹⁷. Overall the rate of mental illness is five times higher across the whole population in the most unequal than the least unequal societies, suggesting that inequality increases stress right across society, not just among the least advantaged.

¹⁵ Estimating the costs of child poverty, round-up, reviewing the evidence, Joseph Rowntree Foundation, October 2008, (pg 1).

¹⁶ Richard Wilkinson and Kate Pickett, 'The Spirit level: Why More Equal Societies Almost Always Do Better' 2009, Penguin Books.

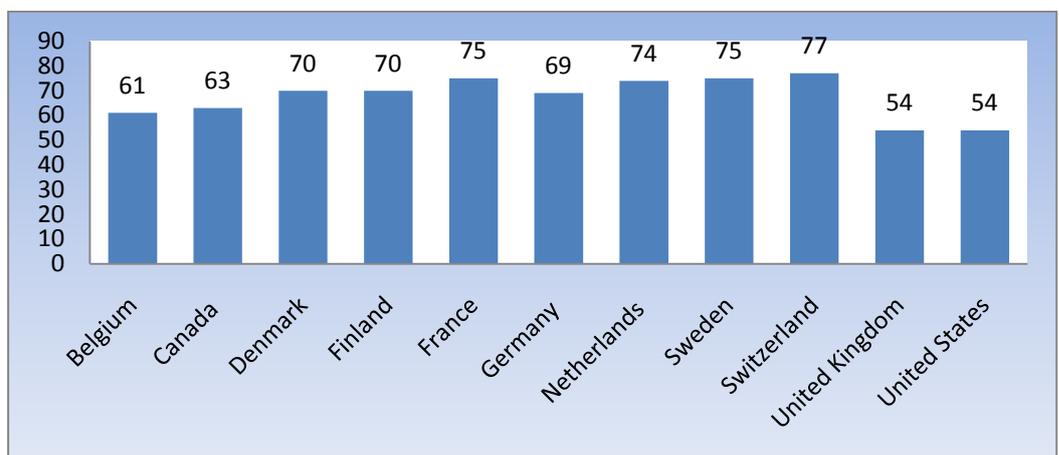
¹⁷ Richard Wilkinson and Kate Pickett, 'The Spirit level: Why More Equal Societies Almost Always Do Better' 2009, (pg 67), Penguin Books.



Scandinavian countries and Japan were found to have the smallest differences between higher and lower incomes and the best record of psycho-social health. By contrast the biggest gap between rich and poor and the highest incidence of mental problems are in Britain, America and Portugal. Similar correlations between inequality and other negative social outcomes were found across the World. Kate Pickett states, “If the UK were to shift from being one of the most unequal societies in the developed world to being one of the most equal then, for example, rates of mental illness would be five times lower...”¹⁸

4) Benefits in the UK

Benefits in the UK are comparatively low by international standards with one of the lowest benefit rates relative to earnings. The following table from the OECD illustrates this, the UK net replacement level is lower than other Western European countries and is at a level equal to the United States.



Initial net replacement rate (% of earnings in work), OECD 2004 ¹⁹

¹⁸ <http://www.touchstoneblog.org.uk/2009/09/building-a-more-equal-society-the-role-of-economic-democracy/>

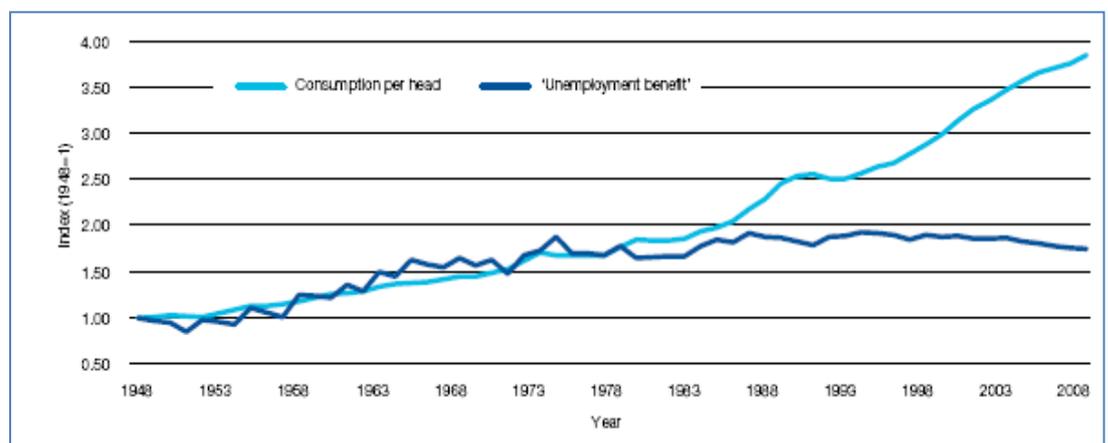
¹⁹ Net replacement rates 2004, OECD Employment Outlook 2006, (pg60).

The value of UK benefits has declined over the last thirty years due to a change in the policy of up-rating benefits. In the 1970s, benefits were increased in line with earnings or prices whichever was higher. Since 1980 they have increased each year in line with prices only. Prices usually rise by less than earnings, since 1978 average earnings have grown about 1.6 percent a year faster on average than prices²⁰. The net effect of the change in up-rating policy is that over time the relative value of benefits has declined significantly.

If Jobseekers Allowance had been increased in line with earnings over the last 30 years, the rate for a single person over twenty-five years of age would have been £113.26 in 2007, as opposed to £59.15. Increasing JSA in line with earnings just since 1997 would have meant JSA would have been £75 a week in 2007.²¹ The current rate of JSA for an adult is £65.45. When wages rise faster than benefits, the incomes of individuals and families on benefits will fall further and further behind those in employment. This inevitably contributes to a widening of income inequalities.

The policy of benefits up-rating has a major implication for the rate and depth of poverty. Despite this, there is a lack of political discussion on up-rating policy. There needs to be a recognition that the relative value of benefits have eroded, and a serious discussion needs to take place on whether current benefit rates are sufficient to live on.

At the current level of income on benefits what kind of living standard can individuals and families expect? Peter Kenway (2009) compares the real consumption per head and the level of unemployment benefit. The graph below covers the 60 year period from 1948 to 2007. He displays clearly how the two indices follow very different paths after 1978, with real consumption per head rising to a level that is now more than double the level in 1978, while the real value of unemployment benefit has remained fixed around its 1978 level.



*Real unemployment benefit, and real consumption per head, 1948-2007*²²

²⁰ Should Adult benefit for unemployment now be raised? Peter Kenway, Joseph Rowntree Foundation, April 2009, (pg 13).

²¹ Source, Abstract of statistics for benefits, National Insurance Contributions, and indices of Prices and Earnings, 2007 Edition, Department for Work and Pensions (2008), cited in Close to Home, UK poverty and the economic downturn, Oxfam Briefing Paper, 2009, (pg17).

²² Should Adult benefit for unemployment now be raised? Peter Kenway, Joseph Rowntree Foundation, April 2009, (pg 12).

Kenway concludes that the current value of JSA is not sufficient for the essentials of life, such as food, bills and travel. The amount is inconsistent with current expenditure levels and with a consensual view of a minimum standard. JSA (£64.30) represents roughly:

- a fifth of the actual, average expenditure of single adults;
- half of the actual, average expenditure of single adults in the poorest households;
- half of the Government's (income) poverty line for single adults;
- two fifths of what a consensual view among members of the public (ratified by experts) say is needed to reach a minimum standard of living;
- half the Pension Credit and two-thirds of the State Retirement Pension.²³

In 1999, the London School of Hygiene and Tropical Medicine estimated that the minimum income needed for healthy living by a single working man aged 18-30 in the UK was £131.86 per week. The cost of a healthy diet was seen to be between £25.47 and £32.58 depending on access to competitively priced food outlets.²⁴ At the time, the relevant rates of Income Support and Jobseeker's Allowance were £40.70 for young people and £51.40 for over 25s.

More recent research carried out for the Joseph Rowntree Foundation, '*A minimum income standard for Britain: what people think*', aimed to find out what level of income people think is needed to afford a socially acceptable standard of living in Britain today. According to the findings, in order to maintain a minimum, socially acceptable quality of life in 2008, a single working age adult needs a budget of £158 a week (excluding housing costs) and a couple with two children needs £370. The researchers confirm that most people relying on basic out of work benefits do not reach this standard. A single person on Income Support gets less than half. Out of work families with children typically get two thirds.²⁵

Since 2008, the Joseph Rowntree Foundation has published annual updates on a 'minimum income standard', its most recent one being in July 2010, *A Minimum Income Standard for the UK*²⁶. According to this report a single person in the UK needs to earn at least £14,400 a year before tax in 2010, to afford a basic but acceptable standard of living. A couple with two children needs £29,200. These have increased from £13,400 and £26,900 in the past two years.

The report further shows that people on low incomes face a much higher inflation rate than shown in the official Consumer Prices Index, which the emergency budget announced as the future basis for up-rating benefits. As new calculations show that over the past decade, the rising cost of food, public transport and other essentials means that a minimum budget costs 38 per cent more, despite general

²³ Should Adult benefit for unemployment now be raised? Peter Kenway, Joseph Rowntree Foundation, April 2009, (pg 4).

²⁴ A minimum income for healthy living, June 2000. Health Promotion Research Unit, London School of Hygiene and Tropical Medicine, in journal of Epidemiology and Community Health, (pg 886).

²⁵ A Minimum income standard for Britain: what people think, Joseph Rowntree Foundation, 2008, (pg1).

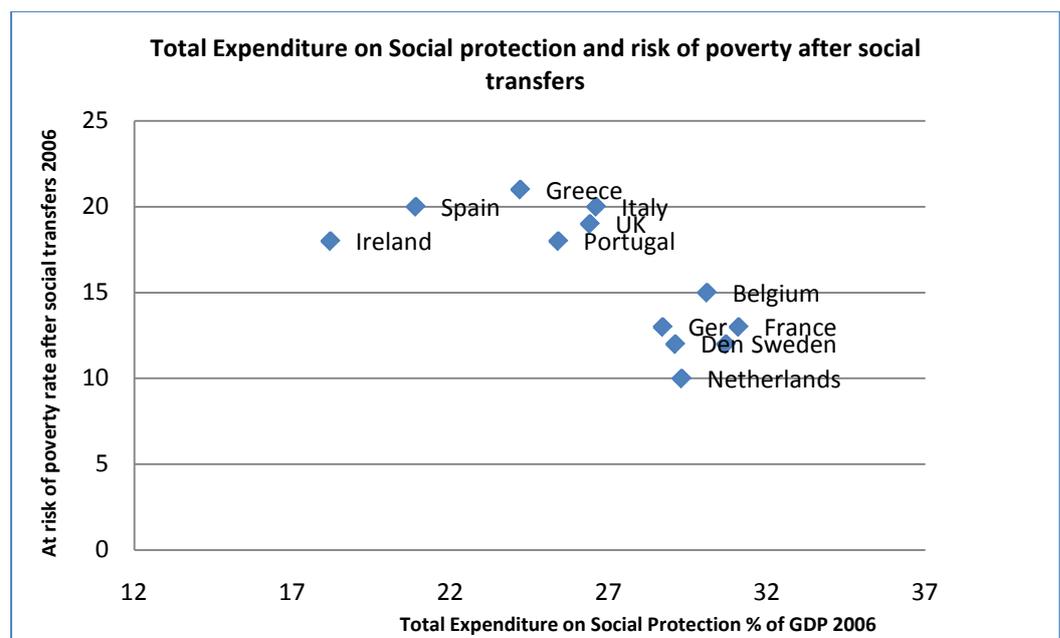
²⁶ A minimum income standard for the UK, Joseph Rowntree Foundation, 2010

inflation at just 23 per cent. As a result, a single person who in 2000 could afford a minimum basket of goods and services, but whose income had just risen by the official inflation rate, would be £19 a week short of being able to afford the same basket in 2010 – a fall in living standard of over 10 per cent.

Other studies confirm similar findings that current levels of benefits are too low to meet current expenditure levels. There clearly needs to be a debate on the ability of out of work benefits to meet a certain standard of living and allowing individuals and families to participate fully in society.

5) Role of benefits in fighting poverty and inequality

There is a clear link between the level of social security spending and the level of poverty within a country. Countries with a more generous social security protection system have shown lower rates of poverty. The chart below (from Eurostat data) confirms this: a clear correlation exists between levels of social protection and poverty rates in twelve Western European countries, the higher the expenditure on social protection the lower the ‘at risk of poverty’ rate. The UK has the fourth highest risk of poverty out of the twelve European countries, and spends less on social security spending than many of its European counterparts.

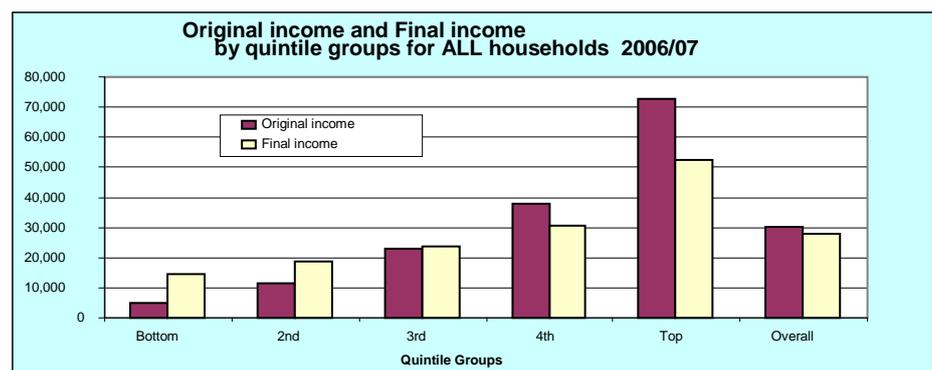


Ger – Germany, Den- Denmark ²⁷

²⁷ Data from Eurostat 2006-

http://epp.eurostat.ec.europa.eu/portal/page/portal/living_conditions_and_social_protection/data/main_tables32

Within households, Government intervention through taxes, benefits and tax credits has the effect of altering incomes. The table below illustrates how taxes and benefits redistribute income between households in the UK. In 2006/07, original income (before taxes and benefits) of the top fifth of households in the UK was fifteen times greater than that for the bottom fifth, £72,900 per household per year compared with £4,900. After redistribution through taxes and benefits, the ratio between the top and bottom fifths was reduced to four-to-one, with an average final income of £52,400 compared with £14,400.²⁸



The effects of taxes and benefits on Household income 2006/7²⁹

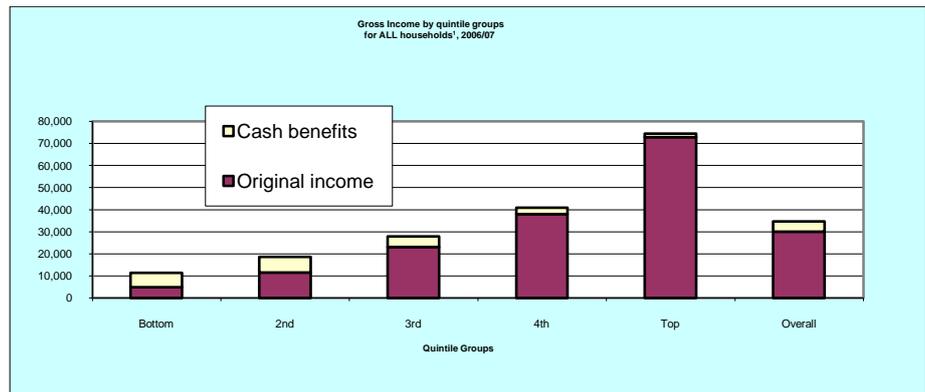
The key point is that the nature and design of a taxes and benefits system can ensure a more redistributive outcome. The progressivity of taxes and levels of benefits and tax credits relative to other forms of incomes are central to addressing inequality in income.

Cash benefits are particularly powerful in reducing inequality in income. Direct taxes (except for Council Tax) are progressive as they take a larger proportion of income from those who have higher earnings; as such they also contribute to a reduction in inequality, although not to the same extent as cash benefits.

The table below (*Gross Income by quintile groups for ALL households 2006/07*) illustrates gross income broken down into original income and cash benefits, by income quintile group. This shows how cash benefits reduce inequality in income. The amount received from cash benefits is higher for households lower down the income distribution than for those at the top, and for the poorest fifth of households cash benefits provide 57% of gross income.

²⁸ The effect of taxes and benefits on household income 2006/07 in Economic Labour Market Review, vol 2, no 7, July 2008, (pg 37).

²⁹ The effect of taxes and benefits on household income 2006/07 in Economic Labour Market Review, vol 2, no 7, July 2008, (pg 38).



The effects of taxes and benefits on Household income 2006/7³⁰.

As cash benefits play such a fundamental role in reducing poverty and inequality, they need to be updated with the aim of ensuring that the incomes of the poorest do not fall further and further behind the rest of society and result in widening economic inequality.

6) Economic Arguments

Social protection has key economic functions. The OECD (1999) summarised these positive economic aspects:

“Social protection ...helps bind economies and societies together in the following ways:

- Social benefits are often conditional on job search activity; social benefits can support families in their balancing of caring and paid work;.. by insuring against events which lead to loss of earnings, social insurance makes work in general more attractive.
- There are costs to exclusion. If people are excluded from society, they cannot fully contribute either in the labour market or in systems of family and social support.
- Change is resisted. Taking advantage of new opportunities requires risk-taking. But most people are risk-averse. Some form of income security can, for example, help in making the risk attached to long-term investments in lifelong learning attractive. Social protection helps limit the potential downside risks of change, thereby promoting development.
- Inequality can have costs...wide disparities in income and high rates of poverty impose costs on society in terms of threats to property and the measures taken to contain these threats. Furthermore, trust in personal and economic relationships, dense networks of community organisations and wide participation by citizens have been identified as factors potentially contributing to economic growth. Growth in disparities in incomes can threaten this consensus.”³¹

³⁰ The effect of taxes and benefits on household income 2006/07 in Economic Labour Market Review, vol 2, no 7, July 2008, (pg 38).

³¹ OECD (1999) cited in TUC report- Social Security and the changing labour market by David Piachaud and Jo Webb 2001, (pg 3).

There is a clear argument that there is cost to the economy of allowing high levels of poverty to exist. For example, child poverty affects health (physical and mental); education; future employment; and children in poverty are more likely to face pressures that help to explain an association with anti social behaviours and criminality. In addition the consequences of child poverty are long lasting: for example the long term damage to health resulting from child poverty increases healthcare costs while there are economic costs associated with a lower capacity to work as adults which could be for time off for sickness.

For young people not in education, employment or training ('NEETs') there are costs in support in dealing with issues such as homelessness, addictions and potentially the costs of anti-social behaviour and crime.³²

As well as leading to disaffection among young people, poverty leads to lower earnings prospects, with implications for the nation's overall economic output. As stated previously the Joseph Rowntree Foundation has estimated that child poverty costs £25 billion each year in costs to the Exchequer and in reduced GDP.

A major report in the USA (2007) carefully estimated some costs of childhood poverty for wider society. The author's calculations for the impacts on the US economy which are deliberately conservative, add up to four percent of GDP.³³

7) Answering Objections

In any discussion about raising the value of benefits, the notion that a more generous welfare state will undermine people's commitment to paid work is commonly raised. Is this argument decisive?

David Piachaud and Jo Webb (2001), showed that there is no noticeable link between the level of spending on social protection and GDP growth rate in EU member states. Nor is there an association with unemployment levels.³⁴

Peter Kenway (2009) concludes that nearly 20 years ago, a review of the evidence concluded that "there may be adverse effects (from benefits) on the incentive for the unemployed to leave unemployment but that these are typically found to be small".³⁵ For him the most sensible conclusion is that disincentives are hard to find and when they can be reliably quantified they are usually small and restricted in scope.

Ingrid Esser (2009), reports that broader comparative studies have either found no clear relationship between employment commitment and welfare provision, or have found stronger employment commitment in countries known to have more

³² Hirsch 2008 cited in Estimating the costs of child poverty, round-up, reviewing the evidence, Joseph Rowntree Foundation, October 2008, (pg 5).

³³ The Economic Costs of Poverty in the United States, Harry Holzer et al, Centre for American Progress, 2007 cited in TUC, Cutting the costs of child poverty, September 2007, (pg 7).

³⁴ TUC report- Social Security and the changing labour market by David Piachaud and Jo Webb, 2001, (pg8).

³⁵ Should Adult benefit for unemployment now be raised? Peter Kenway, Joseph Rowntree Foundation, April 2009, (pg 19).

generous welfare³⁶. Ingrid Esser (2009) examined employment commitment in thirteen different countries (Norway, Sweden, Denmark, Germany, Belgium, Japan, Switzerland, Canada, Ireland, Australia, New Zealand, United Kingdom, and United States).³⁷ The findings confirmed that among both men and women, the strongest employment commitment is found in the more generous welfare states. Overall the conclusion from the study was that: there is no support for the proposition that employment commitment is weaker in more generous welfare states; work morale cannot be described as being undermined by generous welfare states; and that it is possible to maintain work morale within a generous welfare state.

David R. Howell and Miriam Rehm (2009), sum up possible reasons why the orthodox view that generous unemployment benefits explain higher unemployment levels does not hold true.

- Workers get substantial utility from employment and disutility from unemployment, independent of income.
- They refer to studies which cite the wellbeing of the unemployed being inferior to the employed.
- Most benefit systems offer income replacement at levels well below the average income, which result in a considerable reduction compared to previous earnings.
- Workers also know that they face scarring effects of unemployment spells on future wages and employment.³⁸

A further objection to the benefits system is the cost, particularly given the current pressure on public finances. The issue is also of relevance given that many anti poverty groups including the TUC support an increase in JSA to address many of the issues presented in this paper. Any potential rise in the welfare budget needs to be put in to context, an increase of JSA to £75 would cost under a billion, although this rise is significant this is comparatively small when compared to the cost of not acting to reduce poverty. As was discussed earlier in detail, the financial cost to the economy of allowing high levels of poverty to continue, and the wider costs of inequality to society, can simply no longer be afforded.

8) Conclusion

In the UK, 13.2 million people live in poverty, the level of inequality also remains high. Danny Dorling in his new book, *'Injustice: Why Social Inequality Persists'*,³⁹ calculates that the richest 10% of people in London are 273 times as wealthy as the bottom 10%. The richest tenth of people have an average wealth of £933,563, the lowest 10 percent have an average wealth of £3,420. He found only the US,

³⁶ British Social Attitudes, the 25th report, 2008/2009, chapter 4, Employment Commitment in different welfare states, (pg 81).

³⁷ British Social Attitudes, the 25th report, 2008/2009, chapter 4, Employment Commitment in different welfare states, (pg85).

³⁸ Unemployment Compensation and high European unemployment: a reassessment with new benefit indicators, David R. Howell and Miriam Rehm in Oxford Review of Economic policy, Volume 25, Number 1, (pg 63).

³⁹ Danny Dorling, *'Injustice: Why Social Inequality Persists'*, 2010, Policy Press

Portugal and Singapore out of the 25 affluent states he analysed to be more unequal than Britain.

The consequence of this inequality is that millions of people in the UK are being excluded from the benefits of living in this rich country. Numerous studies reveal that the rates at which many welfare benefits are paid are too low to protect families and individuals from poverty. The UK has comparatively lower benefit replacement rates than many other industrialised countries, today Jobseekers Allowance for a single person is worth 10% of average earnings.

For those arguing that raising benefits encourages idleness, this paper provides evidence contrary to this. The vast majority of individuals are committed to finding work, and it is important to note that unemployment is caused by structural factors outside the control of the individual. This paper shows us that there is a wide gap between the negative portrayal of benefit claimants in the popular tabloids and the independent academic research on living on current benefit levels.

Politicians, commentators and pressure groups are increasingly identifying cuts in benefits as a strategy for reducing the public deficit. We strongly oppose this. We believe the current levels of benefits are too low and any further reduction in the value of benefits will result in further widening of income inequality, as the incomes of individuals and families on benefits falls further and further behind those in employment. The spending cuts of the early 1980's resulted in benefits losing their value as a result of the change in up-rating policy, which linked benefits to rises in prices rather than earnings. Since then inequality has risen, the reduction in the value of benefits is not the only explanation for this, however this has contributed towards this growing inequality. We believe that we cannot afford to repeat this mistake – but already the Government has taken action to further reduce the value of benefits, by linking benefits to the CPI measure of inflation rather than the generally higher RPI.

This paper makes a strong case for why we need to defend benefits. A good benefits system not only prevents the very poorest falling in to absolute poverty, it redistributes wealth to those in need, limits the growth of inequality and improves outcomes across society.