Should adult benefit for unemployment now be raised?

Peter Kenway

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A review of arguments for and against raising the value of Job Seeker's Allowance (JSA).

With unemployment rising steadily for the first time since the early 1990s, the adequacy of JSA (the social security benefit paid to people who are unemployed and looking for work) is a matter of acute importance. Taking account of inflation, its value has not changed in thirty years.

The report covers three main questions:

- What JSA is worth, and why – a comparison of JSA against various measures, and a review of its progress over the 60 years of the Welfare State.
- Why increase JSA – an examination of the case for (such as social security, anti-poverty) and against (including disincentives to work) increasing JSA.
- Whether the recession alters the argument – and if so, how far it is supported by the evidence.

JOSEPH ROWNTREE FOUNDATION

www.jrf.org.uk

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A serious question

This report asks whether the value of the social security benefit for people who are unemployed, namely Job Seeker's Allowance (JSA), should now be substantially increased. There are several parts to this question. By what criteria can the current value of JSA be deemed to be 'low'? Has JSA always been low or was it once worth much more? Even if it is low, what are the arguments for and against raising it, and how strong are they? What difference does it make that 'JSA' is really two benefits distinguished by their grounds of entitlement, namely a record of National Insurance contributions as opposed to the level of family income?

Although the question is prompted by the recession that began in 2008, this report is guided by the view that answers are needed whose validity does not expire once the recession is over. If JSA is to change, an argument needs to be made for a permanent change. The aim of this report is to demonstrate that the question is a pertinent one which deserves serious attention and a serious answer.

How generous is JSA?

In April 2009, the value of JSA went up by 6 per cent to £64.30 a week for an adult aged 25 or over. Although this was twice the size of any previous annual increase in JSA (since 1996), it was only that large to compensate for price inflation in the previous year.

In selecting yardsticks against which to compare JSA, it must be remembered that someone with no income other than that benefit would not have to pay any council tax and would have their rent, or the interest on the mortgage, met by other benefits. Taking this into account, JSA 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.

On the basis of these comparisons, it can be concluded that the current value of JSA is low, or very low, by any reasonable standard. In particular, any suggestion that it is sufficient for the essentials of life, such as food, bills and travel, is inconsistent with both revealed expenditure levels even among the poorest households and with a consensual view of a minimum standard.

The real value (that is, after allowing for price inflation) of JSA and its predecessors has not changed for at least 30 years. Yet over the same period, the real value of per-capita household consumption in the UK has doubled. Put another way, relative to the average level of consumption, JSA is only worth half what it was 30 years ago. By contrast, over the previous 30 years (that is, from the foundation of the welfare state in 1948 up to 1978), JSA's predecessor maintained its value relative to the average level of consumption.

Arguments for and against an increase in JSA

In order to move from the conclusion that 'JSA is low' to the proposition that it should be substantially increased, two things are needed: a benchmark to say what it ought to be worth and an institution whose job it is to ensure that that benchmark is met. The social security system is that institution, and its role in providing support for people who cannot support themselves does not seem to be in doubt. The single most compelling benchmark by which to judge what JSA 'ought' to be remains the Government's income poverty line. Alternatively, the consensual 'minimum income standard' provides a slightly higher benchmark that is free of the poverty line's weaknesses.

So why has JSA not been raised already? The answer must be that one or more of the counter-arguments are thought to be strong. Two in particular that may fit this bill are:

- that the Government's anti-poverty imperative is not general but refers specifically to children; and
- that raising JSA and other benefits for working-age adults harms work incentives and is therefore counterproductive.

In response to the first of these, the focus on child poverty is not the decisive argument against raising adult benefits, including JSA, that it would have been even a few years ago. In particular, thanks to the sustained rises in the value of Child Benefit and Child Tax Credits over a decade now, children under 14 in unemployed households are no longer in poverty because the value of benefits for children are too low but because the value of *adult benefits* are too low.

In response to the second counter-argument, while it may be widely believed, evidence for the extent of the effect of benefits on work rates is fragmentary. Recent statistical studies that have tried to measure it show that subtlety and finesse are needed in order to find a connection. The trouble with such approaches, however, is that the results are delicate rather than robust. So while arguments about work disincentives should certainly not be ignored, neither should they be thought to be in any way decisive. They should be considered alongside other incentive effects of higher JSA, including possible positive ones (e.g. to encourage people out of work to remain close to the labour market and active in their search for work). Somewhat different arguments are needed in order to make a specific case for raising the value of the National Insurance version of JSA. However, as what is nowadays an individualised, rather than family, benefit, the contribution version of JSA has several distinctive features including the ability to lessen the extent of *in-work* poverty in two-adult families. Given the scale of the projected surplus in the National Insurance Fund, and the very low proportion of that fund paid out in contribution-based JSA, concerns over the cost of increasing that version of JSA should be very small indeed.

A precise estimate of the long-run cost to the public purse of increasing JSA is quite small, even when allowing for the possibility that a rise in the value of the benefit will increase the numbers claiming it. Prior to the recession, the number of JSA claimants averaged around 800,000, at an annual cost somewhat in excess of £2 billion. By way of illustration, if JSA were to rise in value by 50 per cent, an upper estimate (based on the estimates of the work disincentive effect) of the rise in the total JSA bill points to a further £2 billion plus. This cannot, of course, be dismissed as unimportant; again, though, neither should it be thought to be prohibitively large.

The significance of the recession

The recession adds to these arguments in the following ways:

- Sharply rising unemployment should destroy the idea (which opinion polls suggest the public may have believed too) that unemployment is a problem of the past, the only real issue with which was how to get people out of unemployment into work.

- With public concern about unemployment rising rapidly, coupled with the return of the idea that private problems should be shouldered collectively, the recession may be a good time to increase the value of JSA.

- The involuntary nature of the unemployment created by the recession further reduces the importance to be attached to any work disincentive effects that might accompany an increase in JSA.

However, it should also be noted that although an increase to JSA in a recession makes economic sense on timing grounds, there is no evidence for the widely held view that such an increase could be justified on the grounds that the resulting boost to the economy through increased consumer spending would be that much larger than if public money were disbursed in other ways.

Conclusion

Although the balance of the argument is clearly in favour of an increase in JSA, this report does not recommend what the value of the increase should be. The main reason for this is that the aim of the report is to open the debate on a subject which has hardly been discussed for the best part of a generation, rather than to close it. One clear conclusion, however, is that while economic arguments for or against an increase in JSA are highly suggestive and should always be taken into account, they are far from decisive. Ultimately, the case has to be made on social and, indeed, political grounds.

The rise in unemployment due to the recession is unequivocally a bad thing. But given that unemployment is rising, rising numbers of people claiming JSA is a symptom of the problem, not the problem itself. Since entitlement to JSA depends on a person actively seeking work, a JSA claimant is acting as the Government wants him or her to act. Rather than ignoring JSA, the right response to rising unemployment is to promote JSA as the social security benefit that the Government *wants* people who have lost their job to be claiming. Arguments for an increase in the value of JSA might usefully be set in that context.

1 Introduction

The return of unemployment as a political issue

Until very recently, few people with a job are likely to have worried about how much social security they would get if they became unemployed. According to the pollster Ipsos MORI, public concern about unemployment has been at a historically low level throughout most of the last decade.[1] This is despite the fact that unemployment itself never fell below 1.4 million during this period, a number on a par with the worst of the 1970s.[2]

From 2002 onwards, the proportion of respondents in MORI's monthly poll who identified unemployment as an 'important issue facing Britain today' never rose above 10 per cent. By contrast, 80 per cent of respondents saw unemployment as an important issue in 1992, while for several years during the early 1980s, the proportion rarely fell below that level. As recently as June 2008, just 6 per cent told the organisation that unemployment was a concern, even though unemployment itself, at 1.7 million by then, had already gone up by a third of a million since its low point in 2004.

During the second half of 2008, however, public perceptions of unemployment changed completely. By January 2009, 24 per cent were telling MORI that unemployment was an important issue facing Britain, a fourfold rise in barely half a year, showing a level of concern not seen since the late 1990s. In view of the gloomy economic prospects, concern is likely to continue rising for the foreseeable future.

The return of unemployment as a political issue is also bound to provoke public interest in what happens to someone who becomes unemployed, one aspect of which is the financial support that they might get in the form of social security. In line with this, the benefit in question has been the subject of several fairly sympathetic articles in newspapers not usually noted for their concern over these matters.[3]

The focus of the report

Against the background of renewed interest in a subject that has long been neglected, this report focuses on Job Seeker's Allowance (JSA). The report is divided into three main parts:

- The first examines what JSA is worth and why. To do this, the value of JSA is compared with various yardsticks, some to do with 'low' income and others reflecting the levels of income and expenditure which an unemployed person might previously have enjoyed. The history of JSA is also considered, to see how its value has changed – not just over the last decade or two, but back to the start of the welfare state in 1948.

- The second part considers various arguments for increasing the value of JSA, assessing the strengths and weaknesses of each as well as considering counter-arguments. These arguments, though not timeless, do not take account of the recession.

- The third part looks at how the recession affects the story, both to strengthen and add to the arguments, as well as to consider how the very fact of a recession alters the fundamental way in which the problem of unemployment is viewed.

Job Seeker's Allowance

Before turning to the main discussion, a brief overview of JSA itself is presented. Although they share the same name, there are in fact two very different varieties of JSA, distinguished by their history, their basis for entitlement and their implications for 'family' finances.[4] They are referred to here as *contribution-based* JSA (JSA-C) and *income-based* JSA (JSA-I). In both cases, the fundamental requirement for a valid claim is that the person is capable of work, actively seeking it and available for full-time work.

Looked at from the viewpoint of a person who meets these criteria, therefore, it makes sense to use the same name for both varieties of JSA. But, as Table 1 makes clear, the differences between JSA-C and JSA-I outnumber the features they have in common. This reflects the fact that until the introduction of JSA in 1996, their predecessors were, indeed, distinct benefits.

Table 1 The two types of JSA compared

	Contribution-based (JSA-C)	**Income-based (JSA-I)**
Type of benefit:	Insurance	Means-tested
Grounds for entitlement:	National Insurance contribution record during last two years	A low family ('benefit unit') income
Fundamental condition that claimant must meet:	Able to work, working less than 16 hours per week and actively seeking, and available for, full-time work	Able to work, working less than 16 hours per week and actively seeking, and available for, full-time work
Can individual adults claim?	Yes	Only if living without a partner
Can both adults in a couple claim separately?	Yes	No
Can couples claim?	No	Yes
Supplement (premium) for children?	No	No (for new claimants post- 2004)
Maximum amount for individual/single adult aged 25 or over:	£64.30 per week	£64.30 per week
Additional maximum amount for couple:	Not applicable	£36.65 per week
Maximum amount for individual/single adult aged under 25:	£50.95 per week	£50.95 per week
Reduction in maximum amount payable as a result of:	Claimant earnings	Other family (i.e. claimant and/or partner) income
Reduction in maximum amount due to savings?	No	Yes
Maximum period of claim:	26 weeks	No limit (other conditions attached)
Benefit paid for out of:	National Insurance Fund	General taxation
Previous names:	Unemployment Benefit (1948–1996)	Income Support (1988–96); Supplementary Benefit (1966–88); National Assistance (1948–66)

Before looking at the differences, it is important to note another point the two varieties of JSA have in common, namely, that neither any longer includes additional amounts for dependent children. These disappeared from JSA-C as long ago as 1988. Their disappearance from JSA-I, by contrast, only happened in 2004 when support for children in non-working as well as working families was switched to Child Tax Credits. Except for claimants of JSA-I with dependent children whose claim pre-dates 2004, JSA in both its varieties is now an adult-only benefit.

The root of the difference between JSA-C and JSA-I lies in the grounds that confer entitlement to the benefit. In the case of JSA-I, a means-tested benefit, entitlement depends on having a low enough income. By contrast, JSA-C is a form of insurance which, as with any other kind of insurance, pays out provided the necessary premiums have been paid. The fact that it is social insurance, which any employee is compelled to pay for (through their, and their employer's, National Insurance contributions), is immaterial here.[5]

The contrasting grounds for entitlement mean JSA-C and JSA-I have very different impacts on other income coming into the family, and on saving. Although JSA-C is reduced if the claimant is earning anything from some part-time work (while looking for a full-time job), no other source of income, for the claimant or their partner, affects it, nor do savings. By contrast, the amount of JSA-I payable is affected by all kinds of income accruing to the claimant or their partner. Savings, too, can reduce, or even eliminate, entitlement altogether.[6] As a result, with JSA-I, the net gain to family income of small amounts of partner earnings may be minimal because the JSA-I payment is lowered by the earnings. This greatly reduces the incentive for the claimant to take small amounts of work and his or her capacity to bring in small amounts of extra money.

Being a contribution-based benefit, it has always been perfectly possible for both members of a couple to qualify for JSA-C in their own right. Since there is no longer any 'couple' version of the benefit (this disappeared after 48 years with the introduction of JSA in 1996), this is now the only way that both members of a couple can get the benefit. As a result, JSA-C is now an entirely individual, adult benefit. By contrast, JSA-I is a benefit that is only available for the (one or two) adults in a family together. As a result, the adults in a family can only make one claim for JSA-I, and so there are two rates for it, for a single adult (that is, someone living without a partner) and for a couple.

The last two points of difference worth mentioning here are, first, the fact that receipt of JSA-C can only continue for six months and, second, the fact that it is paid for out of the National Insurance Fund rather than general taxation. Although there is no reason why receipt of JSA-C should be limited to precisely six months, the idea that it should be time-limited is part of the original 1948 design. It can therefore properly be described as a benefit to deal with short-term unemployment only. These two points of difference will be returned to below when considering possible arguments for increasing JSA.

In conclusion, the changes to JSA in 1996 and 2004 (and its predecessors in 1988) certainly simplified the system. In particular, the values of JSA-C, and JSA-I for a single adult, are the same. Moreover, with the 60 per cent couple supplement in JSA-I having been in place since the start of the welfare state, it is reasonable to assume that it will continue to exist – and so can safely be ignored. As a result, in considering the value of JSA, attention can be focused on the one amount for a single adult (JSA-I) or individual (JSA-C).

2 What JSA is worth – and why

How generous is JSA?

In April 2009, the value of JSA went up by 6 per cent to £64.30 a week for an adult aged 25 or over. Although this was twice as large as any previous annual increase in JSA (since 1996), it was only that large to compensate for *past* price inflation, the index for which went up by 6.3 per cent in the year to the previous September (this being the month customarily used to determine benefit up-rating).[1]

So how generous is JSA of £64.30 a week? Table 2 presents a number of yardsticks by which to judge this matter. The table is divided into three parts, with information on average expenditure for single, working-age adult households, average post-tax incomes for such households and various other social security benefits. It should be noted that the figures do not all relate to the same date and are invariably older than the value of the JSA against which they are being compared. As a result, all such comparisons err in favour of JSA, rather than against.

Starting with expenditure, £64.30 represents just 21 per cent of what the average working-age single-adult household spends in total each week, with 'spend' here excluding payment of mortgage interest, council tax and Northern Ireland rates. Within that total, £64.30 is £16 a week less than the average spend on food, clothing, fuel, power and 'other' housing costs (including water rates, repairs and rent net of benefit). And it only exceeds by £8 what that household spends each week on recreation, culture and eating out. Quite clearly, for anyone who was previously spending near what the average single-adult household spends each week, the standard of living which could be supported by JSA alone would represent a dramatic fall. Even for a single adult whose expenditure was previously equal to the average for single adults in the poorest fifth of

Table 2 Yardsticks against which to measure the adequacy of £64.30

Average expenditure:
- Total average weekly expenditure (excluding mortgage interest, council tax and Northern Ireland rates) for a single working-age adult household (2007): £307[2]
- of which spending on food, clothing and fuel, power and 'other' housing: £81[3]
- of which spending on culture, recreation, restaurants, hotels: £56

Low expenditure:
- Total weekly expenditure (excluding mortgage interest, council tax and Northern Ireland rates) for a single working-age adult household in the poorest fifth of the population (2007): £150[4]

Average earnings:
- Post-tax pay from median gross weekly earnings (2008): £365[5]

Low income:
- 60 per cent of median household income for a single adult – the 'poverty line' (2006/07): £112[6]
- 'Minimum Income Standard' for a single working-age adult household (2008): £145[7]

Other social security benefits:
- State Retirement Pension for a single adult (2009): £95
- 'Guarantee' Pension Credit for a single adult aged over 60 (2009): £130
- Child Benefit plus Child Tax Credit for eldest child (2009): £73
- Ditto for second/subsequent child (2009): £56

the population (£150 a week), expenditure at the JSA level would represent a cut of more than half.

Turning to income, £64.30 represents just 18 per cent of the post-tax pay (£365 a week) of someone whose gross earnings are equal to the median. This, however, is not a fair comparison because someone entirely dependent on JSA could expect to get their council tax and rent/mortgage interest covered by social security too. In order to take account of this, the average expenditure on these three items by non-retired, single-adult households (about £40 a week in 2007) needs to be added to £64.30 to produce a more comparable 'total' income. When this is done, the resulting figure (something over £100 a week) is still less than a third of £365. Once again, the decline in the standard of living for anyone moving from the one income level to the other would be precipitous.

What about the comparison with recognised yardsticks of 'low' income? JSA of £64.30 is only 57 per cent of what is in effect the official poverty line (60 per cent of median household income) as it applies to single-adult households, namely £112 a week after housing costs. It is also just 40 per cent of what a recent, independent study published by the Joseph Rowntree Foundation (Bradshaw *et al.*, 2008) found to be a popular view of the cost (£145) of a minimum acceptable standard of living for a single adult in 2008.

Finally, £64.30 is also low in comparison with what social security provides for both pensioners and children. JSA of £64.30 represents two-thirds of the value of the State Retirement Pension (£95) and just half of the guaranteed minimum provided via Pension Credit (£130). And while it is still worth £7 more than the maximum amount provided for second and subsequent children (£57) via Child Tax Credit and Child Benefit, it falls short, by £9, of what is in effect provided for the eldest child (thanks to the additional 'family' element of Child Tax Credit triggered by the eldest child, as well as their higher rate of Child Benefit).

While almost all the evidence presented here supports the contention that JSA is low, it is not all saying so in the same way. By way of conclusion to this section, the following is a summary of the various different messages.

- When compared with the *actual, average expenditure of single adults*, JSA is very low (representing just one-fifth of average expenditure amounts). Compared with post-tax earnings, and after other likely forms of benefit income to cover rent, mortgage and council tax are included, the total still only adds up to about one-third of the actual average – still very low. And even when compared with actual average expenditure for single adults in the poorest fifth of all households (where it is around half), JSA is still low.

- When compared with the *Government's (income) poverty line*, JSA is low (being worth only around half).

- When compared with a *consensual view among members of the public* (and ratified by experts) of what is needed for a minimum standard of living, JSA is also very low (around 40 per cent).

- Finally, when compared with *other social security benefits*, JSA is low in comparison with the Pension Credit (around half) and the State Retirement Pension (around two-thirds). It is now comparable with the value of benefits for children.

A 60-year review

So has it always been the case that JSA has been worth as little as Table 2 shows it to be now? The answer is emphatically 'no'. Figure 1, which covers the 60-year period from the start of the welfare state in 1948 to 2007, shows two indices:

- The real value of JSA-C and its predecessor (Unemployment Benefit) each year (that is, the monetary amount adjusted to reflect the level of retail prices measured by the Retail Prices Index (RPI)), relative to its value in 1948. It should be noted that although this graph only shows the value of the contribution-based benefit, the values of the two JSA variants moved in line with one another for several decades prior to 1996.[8]

- The real value of household consumption expenditure per head of population across the economy as a whole, also relative to its value in 1948.

Both of these indices are set to 1 in 1948 – nothing therefore can be deduced from the graph about the absolute value of the social security benefit relative to the absolute value of average consumption per head. But what can be inferred is the extent to which the two have moved together, or moved apart.

This graph has several very interesting features. The first is the way that over the first 30 years, from 1948 to 1978, the two series remain intertwined. Indeed, by 1978 the two series take almost identical values, *both* being about 75 per cent higher than they were in 1948. In other words, Unemployment Benefit stood in the same relation to average consumption in 1978 as it did in 1948. In proportional terms, therefore, there was no sustained falling behind.

Second, the fluctuations in those two series over the first 30 years certainly seem to have a political dimension to them, with the value of Unemployment Benefit advancing quickly during the Labour years in the second half of the 1960s, having fallen behind during the Conservative years of the 1950s.

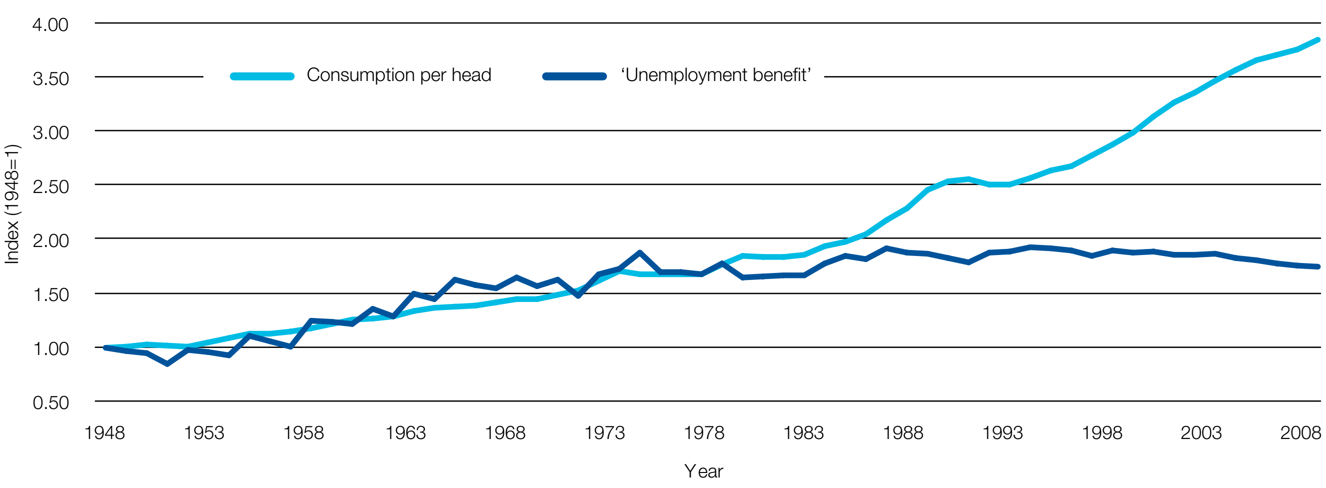
As already noted, this graph says nothing about the adequacy of the value of Unemployment Benefit in 1948. Although Beveridge's original (1942) calculations were based on independent estimates of what a minimum necessary income would need to be, the actual values introduced in 1948 fell short of this, for reasons that remain disputed (Kenway, 2009). Whatever the original shortfall, however, Figure 1 is indisputable proof that the relationship between benefits and average consumption per head in 1948 was essentially preserved through to the end of the 1970s.[9]

Third, and most striking of all, however, is the way in which the behaviour of the graph in the 30 years since 1978 differs so completely from the behaviour in the first 30 years. Instead of remaining entwined as they had before, the two indices follow quite different paths after 1978, with real consumption per head rising inexorably to a level that is now more than double what it was in 1978, while the real value of unemployment benefit has simply remained fixed at or around its 1978 level. And unlike 1964 and (perhaps) 1974, there is no sign in this graph that anything of particular political significance took place in 1997.[11]

The 30-year consensus

The immediate explanation for the divergence between the value of benefit and the value of consumption per head lies in the policies pursued to up-rate benefits to take account of inflation and economic growth. Since 1980, benefits have been up-rated in line with prices rather than earnings. Between 1974 and 1980, they were up-rated in line with whichever of prices and earnings had gone up faster in the previous year. Before that, there had been no general policy but, as the Government Actuary noted several

Figure 1 Real unemployment benefit, and real consumption per head, 1948–2007[10]



years ago, the cumulative effect has been to keep them broadly constant relative to earnings (Stationery Office, 2000). Over the period since 1978, average earnings have grown about 1.6 per cent a year faster on average than prices.[12] This is sufficient to account for most, although by no means all, of the growth in consumption relative to the value of benefit shown in Figure 1.[13]

While the past record of a Labour government taking office might have led to the expectation that this policy would be altered, the continuity of the effect within the statistics is testimony to the fact that this Labour Government has been perfectly happy to continue with the policies laid down by its predecessor. For example, the legislation which governs up-rating dates from 1992.[14] Save for occasional remarks, there has been virtually no debate in the last ten years either in Parliament or in the media on the ability of out-of-work benefits to meet a certain standard of living.

What this absence surely reflects is that neither the main aim of the Government's policies on poverty, namely the reduction and elimination of *child* poverty, nor its preferred means for bringing it about, namely that the parent or parents should go out to work, would seem to be well served by increasing the value of benefits for working-age adults. As far as child poverty is concerned, the seemingly 'efficient' route would be to increase benefits for children. With benefits for children having gone up in value by about 75 per cent since 1997, compared with about 30 per cent for (adult) JSA, this is indeed the course that the Government has followed.[15] As far as work is concerned, any increase in adult benefit would reduce the financial return from entering work (that is, the amount by which a person is better off in work than out of work), thereby supposedly reducing the incentive to enter work in the first place.

A recent report published by the Joseph Rowntree Foundation (Sutherland, *et al.*, 2008) has considered future up-rating policy in the light of the Government's poverty targets. While this is certainly an important long-term question, a switch now to – say – the policy that prevailed between 1974 and 1980 would make next to no difference for several years to the value of benefit received by people who had lost their job. Up-rating policies are only decisive if they are continued, without interruption, not just for several years but for several decades. Both halves of the 60-year history illustrate that point in different ways. Irrespective of what future up-rating policy is, there will only be a significant change in the value of benefit if a decision is taken to do that directly.

3 Why increase JSA?

Two value judgements

To conclude that JSA is low does not mean automatically that it ought to be higher. It is perfectly possible to agree that it is low and believe that it *should* be low. To argue for a higher JSA, therefore, a value judgement is needed. The argument for higher JSA must rest on the belief that a civilised society should have a 'safety net' to provide financial support that allows everyone to live at a minimum standard of living. With this in place, the argument then goes: (i) the current value of JSA is well below any reasonable measure of a 'minimum standard'; (ii) it is the job of social security – the safety net – to provide that minimum standard; therefore (iii) the value of JSA (and indeed other benefits) should be higher. The task of this section of the report is to elaborate and defend propositions (ii) and (iii), which includes an evaluation of the counter-arguments.

It is not clear, however, that this line of argument can be used for JSA-C. It is a very strong convention that the appropriate measure of income to use is family, or household, income rather than individual income. Since JSA-C is an individualised benefit, there is therefore no necessary connection between it and the relevant measure of income. For example, a level of JSA-C that would be enough for a single adult living alone would be more than enough for two, separately entitled, adults living together.[1] While it is possible to resort to the pragmatic rule that the two varieties of JSA should always be worth the same, thereby leaving JSA-C to be dragged along by whatever arguments can be made for JSA-I, the question is whether any independent case can be made for increasing JSA-C in its own right. Although it is weaker, the best candidate may be one that relies on the belief that, as a contributory benefit, the value of the benefit should have kept up with the value of the contributions, something which has not happened. This argument will be developed further below; it is, however, very much a secondary point.

The social security argument

As already stated, the social security argument says that a civilised society needs a system to provide a minimum acceptable level of financial support for people who are not in a position to support themselves. How well supported is this proposition? A recent report (Hall, 2009), undertaken by Ipsos MORI for the Department for Work and Pensions (DWP) and aimed at helping understand the public's attitudes towards working-age benefits, appears to show very firm support. Based on six focus groups held in cities (and one town) across Britain, the report states that:

> *All participants strongly supported the provision of State support and financial benefits for those in need. This was because they recognised that there will always be people in society in need of help, yet have no other means of acquiring this other than by State intervention.*

Although this is only one study, the degree of support expressed there, coupled with the fact that no political party is arguing that the system should be withdrawn or even scaled down, suggests that it is reasonable to assume that there is, and has long been, widespread support for the principle, and the institution, of social security. In which case, what are the objections that mean that the current level of JSA comes nowhere near what the evidence presented in Table 2 would suggest was a minimum acceptable level of support? It would seem there are two, namely:

- that despite agreement to the principle of social security, there is still deep disagreement about whether the public believes current levels of JSA to be too low; and
- that there is more to social security than just providing a minimum level of financial support, for example, the need to ensure that there are incentives to take work.

On the latter point, the idea that social security is wholly, or even primarily, there to provide a minimum level of support has been lost. In its place two other ideas have established themselves. The first is that the system is an instrument of economic policy, holding the value of benefits down so as to increase the financial return from entering work, thereby increasing the supply of labour. To this idea, which took firm hold in the 1980s, New Labour added a second after 1997, namely, to use the benefit and tax credit systems as an instrument to help achieve its child poverty objectives. To the old task of getting adults into work was added a new one of increasing the value of benefits given for children. Labour's decision to change the name of the department responsible for the benefit system from 'Social Security' to 'Work and Pensions' sums up the marginalisation of the idea that benefits were there to provide financial security. Before dealing with this, however, the more fundamental point of whether the value of JSA is believed by the public to be too low needs to be addressed.

Is JSA enough after all?

The Loughborough and York Universities' report *A minimum income standard for Britain: what people think* (Bradshaw, *et al.*, 2008), published by the Joseph Rowntree Foundation (JRF), set out to provide a properly researched, yet popular answer to the question of how much money is needed to reach a minimum acceptable standard of living.

> *Ordinary people, through group discussion, define the minimum … Their definitions go beyond having enough food, warmth and shelter [to] include having sufficient resources to participate in society and to maintain human dignity. However, the minimum seeks to exclude items that may be regarded as 'aspirational' – it is about fulfilling needs and not wants.*

The report is also quite explicit that its findings can be used as a benchmark for benefits, the relevant figure for a single adult (as per Table 2) being £145 a week. But if this is one view of what people think is an acceptable minimum standard, the MORI study for the DWP produced a completely different conclusion when participants were asked about what they thought the value of JSA ought to be. With an overall average of £59 (just £1.50 less than the actual rate of JSA prevailing at the time), suggestions ranged between £47 (for the group in York) and £68 (Coventry). What was this supposed to cover? York's low figure reflected a view that the benefit should be cut so as 'to motivate those out of work to find employment', this amount being thought sufficient to 'cover the weekly amounts needed for food, travel and bills'. More generally (Hall, 2009), the

> *amount was seen as being a necessary sum to cover the essentials for life and it was not believed that much would be left over for 'wants' or to cover unexpected demands on income.*

Certainly, there are grounds for suspecting that the method adopted had a very strong influence on the conclusion that was reached here. In particular, the closeness of the answers to the current value of JSA suggests that this served to anchor people's answers. Unless participants had other points of reference (such as those shown in Table 2) to hand, it is hard to imagine that they could have sustained an argument for a value much different from where they began. Yet given the similarities between the language used here to describe what the amount was supposed to represent (e.g. 'essentials of life', nothing for 'wants') and the language used by the JRF report, two completely different answers – £59 and £145 – are given to what looks like a very similar question.

These two answers are best assessed on the basis of the *actual* levels of expenditure disclosed in the official Expenditure and Food Survey (EFS). These results, especially the figure for the level of expenditure for single adults in the *poorest fifth* of the population (£150 a week, as per Table 2), indicate that the MORI conclusions on this point are unrealistic (and therefore any assertion based on them that JSA is worth enough after all must be rejected). Table 3, which provides a breakdown of the total, verifies that. In particular, even excluding all expenditure under the headings of recreation, culture, hotels and restaurants, miscellaneous goods and services, and other expenditure leaves a total of £98.[2]

Table 3 Average weekly expenditure for a single adult in the poorest fifth of households (2007) (Office for National Statistics, 2008b)

Food & non-alcoholic drinks	£18.60
Alcoholic drinks, tobacco & narcotics	£6.10
Clothing & footwear	£5.20
Fuel, power and 'other' housing[3]	£39.30
Household goods & services	£8.80
Health	£1.10
Transport	£13.60
Communication	£5.60
Sub-total	£98.30
Other items[4]	£52.00
Total	£150.30

While actual data can help judge how realistic a supposed benchmark is, it cannot say what it *ought* to be without the help of some auxiliary assumption. In short, this is both its strength compared with the stated preference/deliberative studies of the MORI/Rowntree variety, and its weakness.

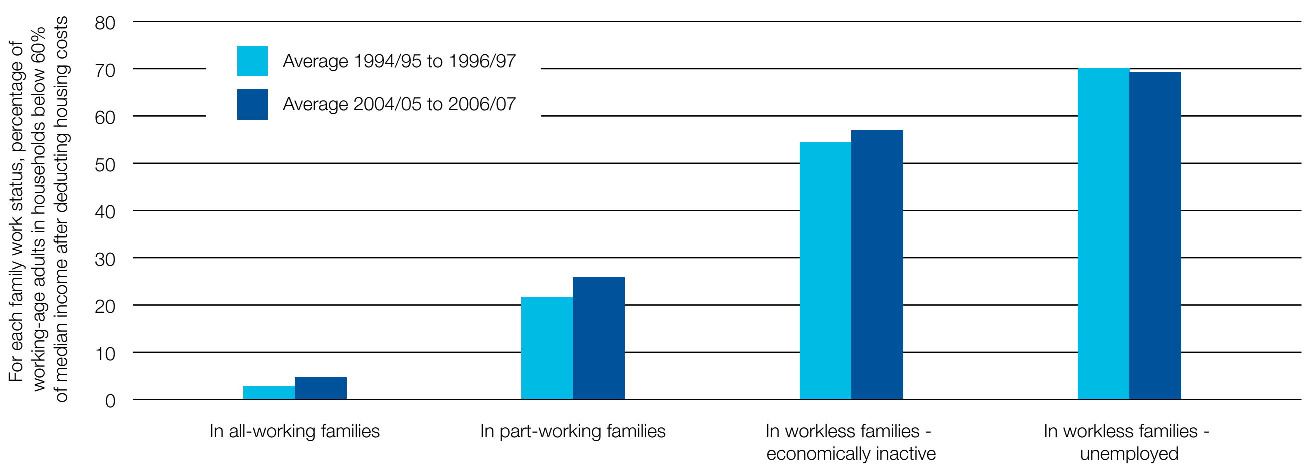
In these circumstances, the one standard to draw upon that is authoritative is the poverty line as used and promoted by the Government in its two-decade-long campaign to end child poverty. There are flaws in both the way it is measured and the way it is used. On the other hand, it is based on official data, produced by the Office for National Statistics and open to inspection. Thresholds other than the headline 'below 60 per cent of median income' can be used. Although the latest data is always at least a year old, it is updated on a regular basis. According to Table 2, the value of JSA, at £64.30 in 2009/10, is worth barely more than half what the poverty line for a single adult would have been in 2006/07; that is, £112. That, it seems, is the soundest basis on which to conclude not only that JSA is low but also that it ought to be higher.

As a direct result of this low level of JSA, Figure 2 shows that fully 70 per cent of all the adults in workless, unemployed families are in poverty on this measure. This proportion is considerably higher than that for adults in other workless families, chiefly lone parents and those who are sick and disabled. One consequence of this is that an increase in JSA on the grounds of poverty would be well targeted in the sense that a substantial majority of those who would get it would be in poverty.

If the anti-poverty argument in favour of raising JSA is strong but it has not been raised, it must be presumed that the counter-arguments are stronger. There are three counter-arguments, of which it will be noted that the last two are really an elaboration of the previously mentioned objection to do with the multiple roles of the social security system. The three are:

- that there is little public support for the anti-poverty argument in general;
- that the Government's anti-poverty imperative is not general but refers specifically to children; and

Figure 2 Poverty risks for working-age adults by family work status



Source: Households Below Average Income, DWP; Great Britain; updated Sep 2008

- that anti-poverty measures of this kind harm work incentives and are therefore counter-productive.

Poverty or child poverty?

According to MORI's monthly poll, between 5 per cent and 10 per cent of the population have identified poverty (and inequality) as an 'important issue facing Britain today' over the last decade.[5] Levels of concern were slightly higher for a while at the end of the 1990s and were at their lowest in 2007, but unlike unemployment, there has so far been no pick-up in concern about poverty as the recession has gathered pace. However, while there is nothing here to suggest strong public support for anti-poverty measures, that has not diminished the Government's professions of determination to end *child* poverty. It is therefore concluded that the absence of strong public support is not decisive.

Turning to the Government, it has never been clear whether the commitment to ending *child* poverty, as opposed to poverty in general, reflects a view that while children are not responsible for their own poverty, adults are (in other words, a version of the Victorian distinction between the deserving and the undeserving poor). But whether it does or not, there are always various 'practical' arguments that allow it to pursue such a policy without having to disclose what it really thinks. One of the most powerful of these – not least because it seems to be common sense – is that a given amount of social security has the biggest impact on child poverty if it is concentrated on the benefits that are attached to children, rather than spread more thinly across adult benefits as well. With the value of benefits for children having gone up by about 75 per cent since 1997, compared with 30 per cent (equal to inflation) for adult JSA, this line of thinking has clearly been very influential.

However, the steady pursuit of this policy has meant that further increases in benefits for *children* can no longer automatically be justified by reference to the poverty framework. This is because the maximum value of these benefits – as per Table 2, £73 a week for the first child and £56 for the second – now comfortably exceeds the £45 a week by which the poverty line rises if another child under 14 is added to the family. Even allowing for the fact that this last figure is slightly out of date, there is now a marked difference between what is given and what is necessary – although it should be noted that the extra required according to the poverty framework for a child aged over 14 is, at £75, still slightly above what is given.[6] Two things follow from this. First, children in workless families (including where the adults are unemployed) are in poverty not because the benefits that they attract are too low but because the benefits for the *adults* are too low. Second, it can now no longer simply be assumed that increasing benefits for children rather than adults achieves the biggest 'bang for the buck' as measured by falls in *child* poverty. To put it at its mildest, the priority attached to child poverty is no longer the compelling argument against raising JSA and other adult benefits that it was in the early years of New Labour.[7]

Dis-incentives to work?

What about the effects of raising benefit on the incentive to work? The incentives and disincentives arising from a proposal to increase social security benefits are central to any economic assessment of it. The most obvious disincentive is that a higher level of income while unemployed will, all else equal, reduce someone's willingness to take a job. Put like this in its most abstract form, this idea seems like no more than common sense. Given the importance attached to work, any disincentive arising from higher JSA is bound to weigh against it. The question, though, is how heavily it should weigh – which turns into two more questions about the size of the effect and the strength of the evidence for it. A third question is whether this exhausts the possible incentive/disincentive effects of higher JSA, or whether there might be others, including one which might weigh in its favour.

One attempt to measure the effect on work incentives of raising out-of-work adult benefits (JSA and others) has been made by economists at the Institute for Fiscal Studies (IFS), using what is called the 'replacement rate'. This expresses net family income out of work as a proportion of net family income in work, with the interpretation being that the lower the rate, the stronger the incentive to enter work – and vice versa. The researchers looked at an 18.6 per cent increase in these benefits that would take JSA today to just over £75 a week – coincidentally a level of JSA which the Trades Union Congress (TUC) has been calling for since the autumn of 2008. They found two things: first, that such an increase would be 'extremely progressive' (in the sense that the greatest gains are made by those with the lowest incomes); and second, that it 'greatly damages the incentive to work', the mean and median replacement rates rising by 1.9 and 1.2 percentage points respectively – 'far bigger rises than for any other reform we consider' (Adam *et al.*, 2006).

These are strong words – but strong words do not necessarily mean strong conclusions. There are two problems. First, the researchers have had to make several key assumptions in order to turn a common-sense idea into something that can be measured. One of these is the decision to use the *ratio* of incomes in and out of work rather than the *difference* between them as the proxy for the work incentive. One consequence of this is that increases in universal benefits like Child Benefit *inevitably* reduce work incentives – which may or may not be right.

Another key assumption is that the link between this ratio and the incentive to work is the same whatever the value of the benefit may be. But this might not be so, for example, if the deepening poverty associated with lower benefits renders someone *less* able to search for work, *less* likely to be seen by potential employers as fit for work and ultimately *less* able, for example on health grounds, to hold down a job for any length of time. Some evidence in support of this possibility can be found in a European study which emphasised the mutually reinforcing effect of unemployment on poverty and poverty on unemployment (Gallie *et al.*, 2002). It should also be noted here that there is a strand in the research literature which, drawing usually on qualitative studies, challenges the very idea that households and individuals actually make decisions about whether to take a job in the way that economists assume they do and should.[8]

Second, even if the replacement rate is accepted as an adequate 'model' of the work incentive, it is still not known how big a difference changes in the measure actually make to the things that really matter like unemployment and wage rates. Two studies published in 2008, one again from the IFS and another one from the Treasury, attempt to do this. The Treasury study (Mulheirn and Pisani, 2008) looked at whether the 2003 introduction of Working Tax Credit (WTC), which boosts the money coming into low-income, working households, had had any effect on employment. Besides showing that WTC had indeed had a small positive effect among those with low qualifications, the researchers also concluded that WTC had removed what was previously a disincentive to work arising from the fact that certain benefits, including JSA, go up in value at the age of 25. Using a decade's worth of data (1994 to 2004), the IFS paper (Meghir and Phillips, 2008) sought to quantify the separate effects of in-work and out-of-work income on the probability of employment among men. Commenting on their results, the authors concluded that they showed that 'welfare benefits can have substantial effects on the work behaviour of unskilled and even for men with high school education'.

So do these reports not constitute precisely the type of hard evidence which, at the very least, should give pause for thought before proposing any increase in JSA? While there is no doubt they can be used in that way, close inspection reveals that they are nowhere near as robust as those who would rely on them would want. For example, the crucial Treasury paper finding that the introduction of WTC had removed the previous disincentive to work due to higher out-of-work benefits at age 25 appears unwarranted once the relevant piece of graphical evidence is studied closely.[9] The IFS report, meanwhile, not only has a completely different pattern of results for married men as opposed to single men but actually shows that in-work income is actually not significant as a factor in explaining employment among men with low levels of education. This point, to which the IFS researchers do not draw attention, places it at odds with the Treasury paper.[10]

One commentator on an earlier version of this report cautioned against trying to 'overturn microeconomic orthodoxy'. That point is well taken, but it is not what this report is trying to do. By going into such detail about what are surely the best recent attempts to investigate the problem of work incentives, this report aims to expose the fragility of what would be crucial *evidence* against raising JSA. The subtle and delicate nature of some of these attempts is itself testimony to the difficulty of finding that evidence. By contrast, a newly published and altogether more direct approach to the problem of measuring the impact of labour market 'institutions' (including the replacement rate) concludes that the inflexibility that such institutions are supposed to introduce contributes nothing towards the explanation of unemployment: 'the "flexibility" explanation of unemployment is wrong'.[11] One of the authors of this report, it should be noted, belongs to the Bank of England's Monetary Policy Committee.

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' (Atkinson and Micklewright, 1991). Pragmatically, this seems like the most sensible conclusion – in effect, that disincentives are hard to find and, when they can be reliably quantified, are usually small and restricted in scope. That would imply two things: on the one hand, such disincentives should not be forgotten about altogether, especially if large changes in benefits are contemplated; but on the other, those advocating increases should not allow themselves to be cowed by the misplaced fear of large, adverse effects.

Those authors also pointed out that 'a richer view of the relationship between unemployment and the labour market' enables recognition of 'some of the ways in which [benefits] may have a positive, rather than a negative, impact'. This is surely a crucial point. For example, exits from unemployment (JSA) need not be into work but could instead be away from the world of work altogether, for example, into a state of chronic sickness and disability. A connected idea is that up to a point, a longer time spent on JSA could allow an unemployed person more time to find a job that is better suited to them. Of course, all the difficulties associated with quantifying the disincentive effects of higher JSA also apply to possible incentive effects too. But once the idea that there may be good side effects as well as bad ones, the incentive/disincentive aspect of the matter can be properly seen for what it is, namely, as something that has to be navigated carefully but which is by no means an insuperable obstacle.

How easily can it be afforded?

The number of recipients of JSA (both varieties combined) halved over the first six years of JSA's existence, from 1.7 million in 1996/97 to 840,000 in 2001/02. Over the next six years, to 2007/08, it averaged about 800,000, with little variation either side (DWP, 2009). About 80 per cent of these were JSA-I claimants. If it is assumed that this number represents the long-run level of JSA recipiency (that is, excluding the increase arising from the recession which, though not necessarily all that short term, is nevertheless temporary), then the total amount paid out in JSA-I (JSA-C will be dealt with below) is about £2.2 billion a year.

So what would happen to this amount if JSA were to be increased in value, say by 50 per cent? Obviously, the money paid out to those already receiving the benefit would go up, more or less by 50 per cent. This can be called the primary effect. But the increase in the value of the benefit would have several secondary effects too. For example, the work disincentive argument would imply that some people who are currently employed would become unemployed and start claiming JSA. In addition, some of those who are now out of work but not currently claiming JSA would start to claim it.

Coming up with a figure for how much these secondary effects would add to the JSA bill is really no more than an exercise in guesswork. Certainly, the estimates of the work disincentive effect provided by the IFS *appear* relevant (Meghir and Phillips, 2008), but whether they can be used in this crude way, to analyse a situation which never arose during the decade in which the estimates were obtained (because JSA never went up in real terms), is very doubtful indeed. As for the effect of increased JSA on new claimants who were already out of work, nothing is known. Therefore, taking a very deep breath, if it is assumed that the IFS estimates accurately capture the lion's share of the secondary effects, back-of-envelope calculations suggest that the secondary effects could be worth as much as the primary effect. Taking this as an upper estimate, a 50 per cent increase in JSA would lead to an increase of the total amount paid out for JSA of between 50 per cent (the primary effect) and 100 per cent (the primary and secondary effects together). If it is right at all, this 2 to 1 rule relating the total increase to the primary increase can be assumed to apply over the range of any likely JSA increase.

If JSA went up in value by 50 per cent, say, the total annual amount paid out would go up from £2.2 billion to somewhere between £3.3 billion and £4.4 billion. The £4.4 billion figure means that about 0.3 per cent of national income would be being to used to the direct benefit of about 1 per cent of the population (excluding their dependents who would in practice gain too). These figures – an *extra* £2.2 billion or a *total* of £4.4 billion – are 0.5 per cent and 1 per cent of central government expenditure. If it wanted to, therefore, the Government could increase JSA by a very substantial amount.

In summary, the value of JSA is low when measured against a range of objective and subjective yardsticks for income and expenditure. None of the obvious counter-arguments are all that strong. In particular, the priority attached to child poverty is no longer the decisive argument against raising adult benefits that it would have been a few years ago. Evidence for the adverse impacts on work incentives is sparse and fragile. The long-run budgetary implications are small. However, in the real world a good argument is never enough to spur action on its own; rather, circumstances must require it. With that in mind, this report is ready to turn to the recession and its implications for JSA. Before doing so, however, the separate and distinct arguments surrounding the contribution-based version of the benefit have to be considered.

Arguments for raising JSA-C

As already observed, minimum standards/ poverty-type arguments cannot be used to justify an increase in JSA-C for the simple reason that whereas these arguments are conventionally assessed on a family (or household) basis, JSA-C is an individual benefit. While the two varieties of JSA can have identical effects for a single adult, they can have very different effects in other circumstances. One of these is where both adults in a couple are receiving JSA-C, in which case the combined amount (twice the single rate) is worth more than the couple rate in JSA-I (the single rate plus 60 per cent). Another is where the partner of the JSA-C recipient is working, even full-time, in which case the combined, family income can be at any level. As a result, it can be argued that JSA-C should be less than JSA-I, the higher level of the latter providing a safety net for those unemployed people who do not have other sources of income (e.g. from a working partner). But it can also be argued that JSA-C should be more than JSA-I.

The argument for raising JSA-C substantially is this. First, as per Table 2, its current value represents a big drop in income for anyone who is employed full time (even a worker on the minimum wage would gross £64.30 in less than two days). Second, JSA-C (unlike JSA-I) is paid for out of National Insurance (NI) contributions which themselves are levied as a percentage on wages and salaries. Since the contributions (in aggregate) have therefore risen in proportion to earnings, the value of the benefits that are paid out from them should also have risen. As seen in Figure 1, however, this is far from having been the case, the benefit having been frozen in real terms since the late 1970s. If the path followed over the first 30 years of the welfare state had continued, JSA-C would be worth about twice as much now (£130 a week) as it actually is. If, alternatively, it had continued to grow in line with wages, it would now be worth just over £100 a week.

Yet relying on a link between average earnings and JSA-C to justify a substantial increase rise is a rather weak argument given that there is no such link at the individual level, for while NI contributions are related to income (via a uniform percentage rate), the benefit received is flat. The need to rely on a weak argument reflects the way that the original rationale for JSA-C, which was to provide a sufficient income for a family, disappeared once the benefit was individualised.

One possible response to this is that while it is all very well to insist that JSA-C should rise in proportion to earnings, there are other benefits that have to be paid for from the fund built up from the NI contributions, notably the State Retirement Pension (SRP). Would a substantial increase in the value of JSA-C jeopardise the funding of the SRP? The answer to that is very clearly 'no', since the payments from the NI Fund for JSA-C are not just a small proportion of its total outgoings but a *tiny* one: according to the Government Actuary, *less than 1 per cent* of all payments projected to be made from the NI Fund in 2008/09. While this projection pre-dates the recession, this proportion – £400 million out of a total of over £70 billion – means that even a substantial increase in both rates and numbers would be quite easy to absorb, particularly since the fund is projected by the Actuary to have a surplus at the end of 2008/09 of £57 billion (Report by Government Actuary, 2008).

The contribution, or insurance, version of JSA is part of the continuing legacy of Beveridge within the modern social security system. As is evident from the title of his 1942 report ('Social Insurance and Allied Services'), the insurance principle was at the heart of his plan for what would nowadays be called 'welfare reform'. The first reason he gave for this was that the principle commanded popular support.

> *Benefit in return for contributions, rather than free allowances from the State, is what the people of Britain desire. This desire is shown both by the established popularity of compulsory insurance, and by the phenomenal growth of voluntary insurance against sickness, against death and for endowment, and most recently for hospital treatment.*

Since the creation of JSA, the application of the insurance principle to working-age benefits has been obscured. One cannot therefore be sure whether the modern-day public would agree. MORI/DWP suggests that people are torn, with both the traditional argument in favour of contribution-based benefits ('those who have funded the system should be entitled to a better level of help and support') and the counter to it ('that it should be there to provide help for everyone regardless of whether they have 'paid' for it') finding support. This last view is closely related to the alternative principle to the contributory one and which underlies means-testing, namely that the benefit system should focus support on 'those who need it most'.[12]

To argue in favour of raising JSA-C is not to argue against JSA-I. Since there is a contribution benefit for unemployment, it can only help with that part of the audience that attaches importance to the contributory principle to stress the fact. In addition, it is by its very nature explicitly a short-term benefit (receipt being limited to 26 weeks). Last but not least, the fact that it is a contribution-based benefit means that it can help sustain the income of part-working families (usually where one adult is working and one not) while the non-working member looks for a job to replace the one which they lost when they became unemployed. In its effects as well as the principle on which it rests, it is therefore a very different kind of benefit from JSA-I. At a time when unemployment is rising rapidly, it is a very good idea to have a range of different measures to help address the problem.

4 The effects of the recession

Rising unemployment

Up to this point, the argument for raising JSA has deliberately ignored the financial and economic crisis which exploded in the last quarter of 2008. Even if the report could not have been written five years ago (the arguments about the relative value of benefits for adults and children then being somewhat different), it certainly could have been written one year ago. But the economic recession, especially its consequences for unemployment, gives any argument for raising JSA a relevancy and immediacy that it previously lacked. In this section, therefore, the report considers how the recession alters the argument for increasing JSA.

As Figure 3 shows, even before the recession, there were some 3.7 million people lacking but wanting work. Of these, some 1.6 million were unemployed while a further 2.1 million (mainly made up of lone parents and sick or disabled people), though wanting work, were classed as 'economically inactive'. As already observed, unemployment itself actually began rising as long ago as 2004, although compared with where it stood in the early 1990s, it was still at a low level in 2008. Even a cautious forecaster such as the OECD sees unemployment approaching to 2.5 million by the end of 2009, a level last seen in 1996.[1]

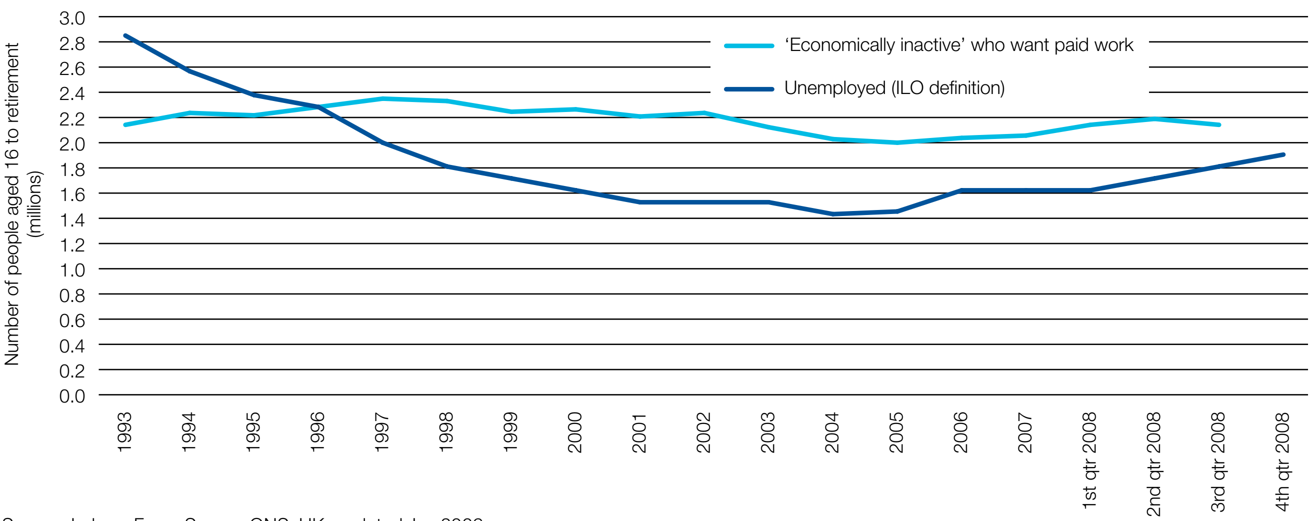
The end of the end to boom and bust

At the beginning of this report it was seen that public concern about unemployment had been at historically low levels throughout most of this decade, up until summer 2008. The idea that the cycle of boom and bust had been brought to an end is bound to be part of the explanation for this. Instead of boom and bust, steady economic growth would allow employment to carry on rising to unprecedented levels, the Government's target for this being 80 per cent.

In this way of looking at the world, unemployment is yesterday's problem. The challenge was to persuade people (with a combination of carrot and stick) to move from 'welfare' to 'work'. For many years, the slow but steady decline in unemployment and worklessness made it possible to believe this story. If policies continued, albeit applied perhaps with added vim (especially, per Figure 3, once progress gave way to stagnation after 2004), then much higher levels of employment and lower levels of unemployment would eventually result.

In reality, the idea that it is a one-way street from 'welfare' to 'work' but never back was not borne out by the facts, even in the good times. Rather,

Figure 3 Adults lacking but wanting work



Source: Labour Force Survey, ONS; UK; updated Jan 2009 the picture was one of a jobs merry-go-round at the bottom of the labour market, with people moving from unemployment to employment and back again. The evidence for this is to be found in the statistics which show – and have shown for at least a decade – that among those making a new claim for JSA, around half of the men and a third of the women were last making such a claim less than six months ago. The implication here is that, in the time between, they were employed on (what at least turned out to be) a temporary basis only.[2]

In the recession, the flow has gone into reverse, overwhelmingly from 'work' to 'welfare' rather than the other way about. What this should do is bury the myth that unemployment is a problem of the past but not one of the future. Instead of just being a condition from which people should be 'helped' to escape as soon as possible, it must now be publicly accepted that people can become (and indeed have always become) unemployed through no fault of their own and that, depending on the length of the recession and the pace of economic recovery, some of them will remain unemployed for some time, despite their best efforts. One aspect of this acceptance is to address the question of how much financial support society ought to give to people who are in this situation.

A collective shouldering of problems

Another thing that the recession has done is show that it is acceptable to resort to the type of argument that calls for the collective shouldering of responsibility in order to solve private problems. The Prime Minister's justification for the autumn 2008 bank rescue package is an example:

> *The banking system is fundamental to everything we do. Every family and every business in Britain depends upon it. That is why, when threatened by the global financial turmoil that started in America and has now spread across the world, we in Britain took action to secure our banks and financial system.*[3]

If 'welfare' for banks can be justified in these kind of terms, then so too can 'welfare' for people who are unemployed. If the banking problem began overseas, then so too did the recession. While only a small minority will be directly affected by high and rising unemployment, fear of it will be widespread. The consequences of doing nothing are unpredictable while the costs of doing nothing may be greater than the costs of pre-emptive action.

It has already seen how the MORI/DWP research showed that people supported the idea of a social safety net to provide financial help to those who need it. One of the arguments reported there *against* an over-reliance on the contributory principle was that some people would be unable to contribute.

> *Typically mentioned in this regard were disabled people and carers. However, more generally, participants also spoke of the unemployed in this instance and discussed how location can affect an individual's ability to find work; for example, if someone grows up in a former manufacturing area then there simply may not be jobs available, no matter how hard someone looks for them. (Hall, 2009)*

If that is what people were saying then, in the early summer of 2008, when (as per the other MORI survey), concern about unemployment was at an all-time low, they will surely be saying it now. Public support for raising JSA is never likely to be higher than in a recession.

Involuntary unemployment

This report has already argued that the conventional economic argument against raising JSA based on the disincentive to enter work that it would represent is merely suggestive rather than decisive. But in a recession, even that is conceding too much to it. For the growth in unemployment that is now being experienced is unequivocally of what economists call the 'involuntary' variety. In other words, unemployment is not rising because previously employed workers have decided that the pleasures of life on £64.30 a week are more appealing than the trouble of going to work. Rather, people have lost their jobs because the market for their products or services has shrunk drastically.

This market shrinkage is what economists would call a fall in *effective demand*, that is, not just want or need in the abstract but this demand backed up by the money to make a reality of it. The idea that the economy is pulled along by the level of effective demand, and that at certain times it can be far below what is required for full employment, was Keynes' key insight in the 1930s. Since the autumn of 2008, when the Government announced an economic stimulus package (that is, a temporary cut in VAT) in the Pre-Budget Report, this theory has, for the time being at least, regained its status as official orthodoxy.

The point here is that Keynes' theory of employment is a different theory from the one that lies behind the work disincentives argument. That does not mean that they are necessarily incompatible – one response from economists is to try to tie different theories like this together. But an alternative approach is to see economics as consisting not of one, universal and timeless theory but rather of a series of partial and contingent theories, whose validity as an explanation of what is going on (and therefore as a guide to policy) varies according to conditions. On that basis, it can be argued that in the present circumstances, where employment levels are dominated by what is happening to effective demand, economics itself suggests that work disincentive effects should be a minor cause for concern at the moment.

JSA as a counter-cyclical measure?

But can one go beyond this, to use economic arguments to give positive support to increases in JSA? One such argument that does stand up is to do with the idea that any economic stimulus should be temporary.[4] That, presumably, is the reason why the cut in VAT was restricted to a fixed period (of just over a year). The thing about JSA is that being directly related to unemployment, the total amount paid out in JSA will go down as the economy begins to recover from the recession and unemployment falls. As a result, a permanent increase in the value of JSA paid per person will mean that the size of the boost to the economy will be large to begin with but will – a key point – shrink back *automatically* later.

It is true that a permanent increase in the JSA rate will leave the overall level of JSA paid out higher over the longer run (assuming unemployment goes no lower than it was before the recession began). This report has already argued why that should not be seen as a large problem. The point that the recession contributes to this argument is that *now* would be a very good time to raise JSA.

More bang for the JSA buck?

Is it possible to go further still, not just to argue that the recession is a good time to raise JSA but also that raising JSA, perhaps along with other social security benefits, is a powerful – and therefore desirable – way for the Government to administer any further economic stimulus that may be judged necessary?[5]

The basic economic argument is this. A stimulus can begin with a cut in taxes (e.g. the VAT cut), an increase in transfer payments (e.g. a rise in JSA) or an increase in public spending (e.g. building a new bridge, or hiring some more teachers).[6] However, the pounds that are spent in these ways do not stop there: the construction worker, the teacher or the JSA recipient go and spend the extra money that they now have on something else, which in turn gets spent by the recipient of that extra spending, and so on. Each time, the amount goes down as savings and tax take a bite. Even so, the size of the eventual effect of the boost is different from the initial effect. For example, economists working on the Obama plan in the USA have estimated that a permanent 1 per cent stimulus would end up boosting US GDP 1.55 per cent if delivered via public spending or 0.98 per cent if delivered by tax cuts (Romer and Bernstein, 2009). The bigger this 'multiplier', the bigger is the eventual bang for the buck. The question, therefore, is whether the bang for the buck delivered via an increase in JSA is the biggest of all. If it is, then that would add another economic argument to the case for raising JSA.

There is certainly no doubt that economists believe this to be so. Two contributions by eminent economists to the *Financial Times* on the same day said exactly the same thing: 'cash transfers to the poor are indeed among the best ways of stimulating the economy as the recipients are more likely to spend them than the rich or the middle class' in one case, and 'increased unemployment benefits have the largest multiplier effects – cash-strapped families spend every cent given' in the other.[7] And a recent academic report (Devereux and Fuest,

2008) which looked at this specific question of how such an economic boost should best be structured concluded that increases in Working and Child Tax Credits should feature on the grounds that low-income households were likely to spend a larger share of any extra income than other households (this being a key determinant of how big the eventual boost is) (Devereux and Fuest, 2008).

As with the arguments about the work disincentive effect of higher benefits, the argument that low-income households save less – and are taxed less – than other households seem like common sense, but no evidence is advanced to support the claim. As with the work disincentive argument too, it is necessary to know the scale of the resulting effect in order to assess whether, given all the uncertainties involved, it should be seen as decisive. Even if all this information were available, it would still be reasonable to wonder if, at a time of high indebtedness, low-income households may behave differently from normal, saving more (to reduce debts) than is usual. From an anti-poverty or inequality perspective there would be nothing wrong with that – but it would undermine any economic argument for an increase in JSA based on the scale of the resulting effect.

5 Conclusion: time to rehabilitate JSA

This review of JSA leads to the conclusion that the long period of neglect of this benefit should end. Even without the recession, the time has come to look at what role increasing adult benefits might play in reducing child poverty. One novel feature that has emerged here from the analysis of JSA-C is how contribution-based out-of-work benefits can nevertheless provide support for two-adult families where only one adult is working. The individualisation of JSA-C which this reflects took place in the 1980s and the 1990s. The preoccupation with means-tested benefits, both in and out of work, over the last decade has left the potential of this modernisation of the original Beveridge benefit both unrecognised and unexplored.

More generally, this report asserts that the time has come to rehabilitate JSA. It is crucial to remember that at a time of rising unemployment, a rising number of JSA claimants is not the problem itself but merely a symptom of the problem. Moreover, since entitlement to JSA depends on a person actively seeking work, receipt of JSA is a clear sign that an unemployed person is acting as the Government wants, namely, keeping close to the labour market and looking for work. Rather than carrying on ignoring JSA, the right response to the recession and the associated increase in unemployment is to promote JSA as the social security benefit that the Government wants people who have lost their job to be claiming.

Notes

Chapter 1

1 The source for the individual statistics quoted in the first three paragraphs is: www.ipsos-mori.com/content/the-most-important-issues-facing-britain-today.ashx

2 Throughout this report, 'unemployment' refers to ILO (International Labour Organization) unemployment, the figures given being from *National Statistics'* seasonally adjusted series (MGSC). The worst monthly figure at any point in the 1970s was 1.5 million, recorded in October 1977. The low point in the current decade of 1.4 million happens to be almost exactly the same as the level in May 1979, the month when Mrs Thatcher became Prime Minister.

3 See, for example: www.dailymail.co.uk/news/article-1086175/For-time-35-years-Im-work-I-didnt-expect-sympathy-Jobcentre--just-well.html or www.telegraph.co.uk/finance/personalfinance/consumertips/3445492/Life-on-the-dole-in-Henley-on-Thames.html. At the end of 2008 the BBC carried a series of articles about unemployment, again generally very sympathetic in tone: news.bbc.co.uk/1/hi/uk/7736303.stm.

4 In this report, the term 'family' includes both single adults and cohabiting couples, whether or not they have dependent children (in other words, what the Department for Work and Pensions (DWP) would call a 'benefit unit').

5 Though it is certainly not immaterial to the fact that while contributions are proportional to income, benefits are flat.

6 Savings above £6,000 cause the amount of benefit to be reduced while savings above £16,000 remove eligibility entirely.

Chapter 2

1 See: www.statistics.gov.uk/cci/nugget.asp?id=204

2 Office for National Statistics (2008b), Table 3.4E. It should be noted that all these spending figures are for 2007 and are therefore several percentage points below what would be the properly comparable figures for 2009.

3 'Other' housing costs exclude mortgage interest payments, council tax and Northern Ireland rates but include rent (net of Housing Benefit or Housing Allowance), water rates, repair of dwellings (for owner-occupiers) and the cost of other miscellaneous services related to the dwelling.

4 Office for National Statistics (2008b), Table 3.4E.

5 The Office for National Statistics (2008a) reports weekly gross median earnings in 2008 of £479. This net figure excludes National Insurance and income tax.

6 DWP (2008b), Table 2.4ts. Poverty lines are adjusted (equivalised) to allow for family size. The sum of £112 is the weekly amount for a single-adult household (after housing costs). This table also shows what that line was worth (in 2006/07 prices) in past years. In particular, its value in 1998/99, the baseline year from which the Government measures progress on child poverty, was £91. Although the choice of year – this year or any year – is entirely arbitrary, such a fixed line can be given a spurious aura of importance by being dubbed an 'absolute' poverty standard.

7 Bradshaw, *et al.* (2008), Table 4. The quoted figure is the total excluding rent/mortgage and net of the amount shown in that table for council tax.

8 Prior to 1996, the value of Unemployment Benefit (JSA-C) was usually slightly higher than the value of Supplementary Benefit (IS, JSA-I) but, since the end of the 1960s, never by more than 5 per cent. Though it should be noted that once someone was in receipt of the benefit for more than two years, the value of Supplementary Benefit rose substantially (e.g. by more than a quarter, to £38.65 in 1987).

9 Labour's Prime Minister during the 1960s and 1970s, Harold Wilson, had worked as a research assistant to Beveridge before 1945.

10 Sources: Nominal value of unemployment benefit: IFS. Retail Price Index: ONS (series CDKO). Household final consumption expenditure at 2003 prices: ONS, (series ABPF). Resident population mid-year estimates: ONS, (series DYAY).

11 High inflation in the mid- and late-1970s makes interpretation of this graph in that period a little uncertain. In particular, the Labour Government's commitment at that time to up-rating was to match price inflation for short-term benefits, including Unemployment Benefit, and to match the higher of prices or earnings only for long-term benefits and pensions.

12 From a comparison of the indices for July 1978 and July 2007 for (i) all employee average earnings (Table 3.1) and (ii) the retail price index (Table 1.1), both in DWP (2008a).

13 The extent to which consumption per head has grown relative not just to prices but to earnings too over the period since 1978 is itself likely to be an important part of the explanation for the rise in poverty seen since then. Though worth noting here, however, that subject is beyond the scope of this report.

14 Hansard reference (Social Security Administration Act 1992) at www.publications.parliament.uk/pa/cm200708/cmhansrd/cm080508/text/80508w0005.htm

15 This calculation includes Child Benefit for the eldest child, and compares this plus the value of the child allowances within JSA for 11- to 16-year-olds in 1997 with the £73 figure given in Table 2. It should be noted that a comparison with the amount for a child aged under 11 would have shown a still larger increase.

Chapter 3

1 Due to the well-established convention that a couple needs about 1.6 times as much money as a single person, rather than twice as much.

2 When comparing this with the Bradshaw *et al.* (2008) Minimum Income Standard figure, it should be noted that since actual spending is constrained by the money that is available, it may underestimate what is needed.

3 'Other' housing costs exclude mortgage interest payments, council tax and Northern Ireland rates but include rent (net of Housing Benefit or Housing Allowance), water rates, repair of dwellings (for owner-occupiers) and the cost of other miscellaneous services related to the dwelling.

4 Items under the headings of recreation, culture, hotels and restaurants, miscellaneous goods and services and other expenditure.

5 The source for the individual statistics quoted in these paragraphs is: www.ipsos-mori.com/content/the-most-important-issues-facing-britain-today.ashx

6 The figures of £45 and £75 a week are for 2006/07, for children aged under 14, and 14 and over respectively, on the 'before housing cost' measure (which is the appropriate one to use for this particular comparison).

7 The single-minded pursuit of increases in the *maximum* amount of support provided for children via Child Benefit and Child Tax Credits (CTC) has not only overlooked the part that increases in adult benefits might play but also the contribution that a slower rate of reduction in

CTC (as earnings rise) might make to reducing poverty among children in working families. See Kenway (2008), www.jrf.org.uk/sites/files/jrf/2269-poverty-employment-income.pdf

8 See, for example, McLaughlin, *et al.* (1989), Kempson, *et al.* (1997). Although this literature is more than ten years old, the rise in behavioural economics (a rise strengthened by the failure of conventional, 'rational' models of economics to foresee the 2008 financial crash) which challenges economists' conventional ideas about what is – and ought to be – 'rational', suggests that ideas that have now rather fallen by the wayside may be due for a revival.

9 This evidence is presented in Chart 5.1 of the Treasury paper (Mulheirn and Pisani, 2008, p. 33). The key point that the authors make is that the step down in employment rates at age 25 witnessed prior to 2003 disappears after 2003. So it does, but the reason why that step disappears is that the whole employment curve for those aged under 25 shifts *down* after 2003, whereas what the authors' policy conclusion actually required was that the curve should step *up* from age 25 onwards.

10 These conclusions are all derived from Table 1 on page 42 of the IFS paper (Meghir and Phillips, 2008). For those with low levels of education, the implied employment elasticities with respect to in-work income are +0.28 and +0.42 for single and married men while the corresponding out-of-work ones are –0.53 and –0.28 respectively. While this pattern might be explicable, the paper makes no attempt to do so. In addition, taking account of the reported standard errors, the differences between +0.28 and –0.53 for single men and +0.42 and –0.28 for married men must be too large for each pair to be equal but opposite (which is what the replacement rate approach would require). The t-ratio on the estimated coefficient for in-work income is 1.8.

11 Bell and Blanchflower (2009), pp. 12–13: This result rests on a pooled time-series/cross-section analysis of 18 OECD countries over the period 1965 to 2002.

12 Two recent instances of the phrase being used by government can be found in (i) the November 2008 announcement from the Communities and Local Government Department of a scheme to help families at risk of repossession (in the quote provided by the Housing Minister, Margaret Beckett), www.communities.gov.uk/news/corporate/1071959; and (ii) several places in the December 2008 White Paper on Welfare Reform (Department for Work and Pensions, 2008, *Raising expectations and increasing support: reforming welfare for the future*, www.dwp.gov.uk/welfarereform/raisingexpectations/fullversion.pdf). But, as a quick Google search reveals, the phrase is routinely used by politicians, charities and non-governmental bodies.

Chapter 4

1 According to the OECD (OECD, 2008), pp. 135–8, UK unemployment will approach 8 per cent by the end of 2009, with an average for 2010 of a little above 8 per cent. This rate is equivalent to some 2.5 million unemployed people, an increase compared with autumn 2008 of some 700,000.

2 Source: ONS Juvos cohort, via www.poverty.org.uk/57/index.shtml

3 Quoted from an article in *The Times*, 10 October 2008: www.timesonline.co.uk/tol/comment/columnists/guest_contributors/article4916344.ece

4 The reason one can be confident about this is that the argument, very simply, requires no more than the assumption that recovery from the recession will be accompanied by a fall in unemployment.

5 The November 2008 Pre-Budget Report delivered an immediate fiscal stimulus worth some £12 billion, equivalent to less than 1 per cent of GDP. Relative to the overall size of the economy, this is similar in scale to the fiscal stimulus introduced in the USA by President Bush in the spring of 2008. By contrast, the stimulus being undertaken by the new Obama administration is closer to 5 per cent of GDP.

6 Although transfer payments are nowadays almost invariably treated as a part of public spending, in economic terms they are not since (unlike the bridge or the teachers) they do not in and of themselves use up resources (materials, the time put into teaching).

7 Quoted from articles in the *Financial Times*, 15 January 2009, by Samuel Brittan and Joseph Stiglitz: www.ft.com/cms/s/0/f5c1863a-e324-11dd-a5cf-0000779fd2ac.html and www.ft.com/cms/s/0/a78e69a4-e30d-11dd-a5cf-0000779fd2ac.html

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Joseph Rowntree Foundation
The Homestead
40 Water End
York YO30 6WP
www.jrf.org.uk

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About the author

Peter Kenway is Director of the New Policy Institute.