

Which way for the future?

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It will be recalled that the Social Security White Paper of 1985, under a heading ‘objectives of reform’, said that, while social security could not remove the causes of poverty, ‘it can and should give protection from the effects of unemployment’.¹ Unlike the Beveridge Report – to which the Green and White Papers made many references – the 1985 White Paper was not proposing a policy based on full employment and it qualified its statement of objectives accordingly. The goal was to create conditions for sustained economic growth and, in that way, to tackle unemployment. Social security must not hinder that growth ‘either in the way the system affects individuals or in the burden it places on the economy generally’. Social security could not be ‘ring fenced’ from the requirements of the sensible management of the economy as a whole.²

But equally social security for the unemployed cannot be ‘ring fenced’ from the current and likely future state of the labour market. And this must include not only the number of people who are unemployed, whether claiming or ineligible for benefit, but also the way in which the labour market is developing. In both areas, marked changes have been taking place in recent years.

The unemployment outlook

In 1986 the Manpower Services Commission published its Corporate Plan for 1986 to 1990. In it, the Commission presented various projections of UK unemployment, excluding school leavers, for the year 1989. Of the five independent projections shown, the lowest was 2.6 million and the highest 3.4 million.³ In the Corporate Plan for 1987 to 1991, the beginnings of a downward trend in unemployment were noted, but continued high unemployment was expected.⁴ A

White Paper in 1988 presented a much more up-beat picture, recording further falls in unemployment and making no forecasts about future unemployment.⁵ At the beginning of 1989, the numbers claiming benefit for employment fell below 2 million and have continued to fall slowly.⁶

By April 1989, the number of people claiming benefits for unemployment had fallen to 1.856 million.⁷ Even taking into account the number of married unemployed women and 16 and 17 year olds who do not qualify for benefit, and any other factors which remove people from the benefit count without their entering employment, the record shows a significant improvement in the employment/unemployment situation. But the numbers remaining unemployed are still large enough to be classified as mass unemployment. Moreover, given the economic uncertainty which has characterised late 1988 and 1989, the future cannot be forecast with real confidence. There may be a continued decline in unemployment, or the numbers could settle at a still high plateau, or they could rise again. When the Single European Market comes about in 1992, it may have good or it may have bad effects on unemployment. All of this indicates the need for a benefit system, with its related rules, which is able to respond appropriately to high unemployment and to both declining and growing numbers of the unemployed.

Although the fall in unemployment has benefited all regions, both short and long term unemployed, and all age groups and special groups, it remains the case that some regions, some areas even within prosperous regions, and some population groups, still experience higher than average unemployment rates or longer term unemployment.⁸

Among those whose work opportunities are limited by disability, the unemployment rate has usually been more than double the average. In 1985, it was 23.4 per cent compared with an average 10.6 per cent.⁹ Assuming that disabled unemployed people have shared the general decline in unemployment, as some evidence suggests,¹⁰ the 1989 rate is still likely to be in the region of 14.5 per cent compared to an average 6.6 per cent.¹¹ Another group with higher than average unemployment rates is the ethnic minority population. In 1985, when the rate for white unemployment in the Labour Force Survey was 10.3 per cent, the ethnic minority rate was 20 per cent. In 1987, the figures were 10.2 per cent white and 16.4 per cent ethnic minority unemployment. But within the ethnic minority population there were

wide variations in the rate in 1987, from 13 per cent for those of Indian origin, 17 per cent West Indian/Guyanese to 29 per cent Pakistani/Bangladeshi.¹²

A third group, unemployed men and women over 50 years of age do not show such a disparity in their unemployment rate. But once out of work, they experience above average long term unemployment. While the proportion of all unemployed men and women out of work for 12 months or more in April 1989 was 39 per cent, for those aged 50-54 years, the proportion was almost 60 per cent and for those aged 55-59 years, it was 68 per cent.¹³

All three groups – disabled, ethnic minority and older unemployed – experience discrimination in the labour market. While efforts must continue to overcome this aspect of the problem, the current realities point to the need for the benefit system, and its operating rules, to take account of the difficulties members of these groups can have in re-entering employment, as well as the problems of those living in areas where high unemployment persists.

A fourth group – 16-19 year olds – can expect improved prospects in the next decade. Their numbers will have fallen by over 1 million between 1983 and 1993,¹⁴ starting with a fall in the numbers reaching compulsory school leaving age. But this does not obviate the need for better protection for the more vulnerable 16 and 17 year olds than exists at present, and it re-emphasises the importance of a comprehensive policy for this age group which is relevant both to their needs and to the demands of the labour market.

A further issue of importance to the planning of benefits for unemployment is the development of changing patterns of work in the labour market. These were identified in a study by Atkinson of the Institute of Manpower Studies, published in 1984. This sees an emerging model of work organisation, involving two groups of workers within companies – a core group and a peripheral group. The core group will be made up of full time, permanent, career employees with skills and experience specific to the firm. These must be prepared to be flexible in their employment practices and willing to undertake retraining if necessary, and in return are offered job stability, good wages and fringe benefits (sick pay, pensions etc). The peripheral group will be made up of three sub-groups; full time workers with easily replaceable skills, few career prospects and little access to training; part time women, public subsidy trainees and temporary workers; and sub-contracted workers, either individual self-employed

persons or employees of firms engaged in sub-contracting. All three sub-groups will have little or no job security since the company's goal will be to achieve ready flexibility in the numbers on the payroll (directly or indirectly), in relation to the company's needs and to market demands at any one time. These groups will also tend to be excluded from fringe benefits.¹⁵

This pattern of work organisation in its most developed form would, the study suggests, probably be found mainly in large companies but elements of it may well be used by both medium and small employers. Hakim, in an article published in late 1987, describes the peripheral group as the 'flexible part' of the labour force, and says that it 'now constitutes a fairly sizeable one third of the workforce rather than an insignificant fringe on the edges of the labour market as so often thought.'¹⁶ Among men in work in 1986, 78 per cent were full time permanent employees and 22 per cent were 'flexible' workers. The equivalent figures for 1981 had been 74 per cent and 16 per cent respectively. Among women in employment, in 1986, 49 per cent were full time permanent employees and 51 per cent in flexible work. In 1981, the figures had been 53 and 47 per cent respectively.¹⁷

Around half the flexible workforce are part time workers. In 1987, 23 per cent of total employment was in part time work, in contrast with 4 per cent back in 1951.¹⁸ The great majority of part timers are women and a large proportion of these are women with child rearing responsibilities.

For men, the principle features of flexible working are first, self-employment, including both operating a one man business and having a self-employed status within firms that undertake sub-contracts (in the construction industry for example); second is temporary work (limited contracts); and third is casual and seasonal work. Women are also involved in these types of employment, but to a lesser extent.

Hakim suggests that the 'dramatic changes in the business climate in recent years,'¹⁹ has produced a heightened preference among employers for short term options over long term commitments in hiring practices. This is most notable among large employers (5,000+ employees), and given that large employers employ the largest proportion of the labour force, 'even a quite minor change in policy in this group can have a visible effect on the composition of the labour force'.²⁰

Government is giving its encouragement to these changes in labour practices, in order to increase competitiveness in both manufacturing and service industries.²¹ The changes are attractive to some workers – married women with children may welcome part time opportunities, two thirds of temporary workers in 1986 said they wanted this type of work,²² and many self-employed people value the independence offered by this work status. But others are forced into the flexible sector through lack of alternatives, or attempt and fail to establish viable self-employment.

Moreover, whether by choice or by compulsion, the flexible or peripheral workforce raises issues for a benefit system for unemployed people which, at the time it was established (as Chapter 3 suggested), was ‘primarily intended to deal with the short term employment of those normally in regular employment who need to be tided over a period of temporary difficulty’. The benefit system, since that time, has had to adapt to large scale and long term unemployment. But it has never handled long term unemployment well and it is ill equipped to operate within the labour market changes now taking place.

16 and 17 year olds

Before discussing a desirable future structure of benefits for unemployment, consideration needs to be given to a group which has, since September 1988, been virtually excluded from the benefit provisions. The employment demands and opportunities in the future were described in the White Paper *Training for Employment* as follows:

The most striking feature about the new jobs of the future is the increase we can expect in the demand for skills and qualifications and for flexibility in their use. Many of the jobs created in the next decade or so will be open only to workers with skills and qualifications, especially at technical level and above. In many sectors of the economy there will be less need for unskilled and semi-skilled workers. Even where jobs do not demand of workers a high level of technical skills, they will certainly require greater flexibility in approach, greater breadth of experience, and greater capacity to take responsibility.²³

Given this scenario, few would disagree with a policy for 16 and 17 year olds which sought to give them a choice between continuing in full time education, entering a good standard training scheme or taking employment, preferably with a training content. Moreover, it

would be generally agreed, in principle if not in terms of the detailed provisions, that the process of shifting the pattern of choices of young people from education, work or unemployment, to education, training or work, has needed a combination of steps to make education/training attractive and pressure to move off benefits.

There are still weaknesses in the policies for 'attraction'. The proportion of 16 and 17 year olds who remain in full time education, that is, in school or non-advanced further education, has increased. For 16 year olds, there has been an increase from 35 per cent in full time education in 1974 to 45 per cent in 1987, while for 17 year olds, there has been a smaller increase, from 25 per cent to almost 32 per cent.²⁴ But it is not clear that young people from low income families, do have a genuine choice to remain in full time education. The failure to develop effective, nationwide arrangements to provide Education Maintenance Allowances (EMAs) and Minor Awards (for school and further education respectively) is a severe handicap to choice.

Since the 1950s, there have been a number of official committees which recommended the development of a national scheme.²⁵ In the late 1970s, there seemed some hope that such a scheme would finally emerge. Instead, on the limited figures available, it would appear that provision has worsened, not improved, in the 1980s, and that by 1984 a number of local authorities were making no allowances at all.²⁶ In 1978, as part of the move to national provisions, a Supplementary Benefit disregard for these allowances was introduced at a rate of £7.50 per week for EMAs and £9.50 for Minor Awards. But this was not uprated during the following 10 years.

From April 1988, there will be a marked improvement. No account will be taken of the maintenance allowances in Income Support, Family Credit or Housing Benefit. This could leave room for local authorities to improve their allowance schemes, though it was indicated by government that, if the allowances became so high that they constituted 'a significant alternative system for meeting the living needs of young people', the disregard rule would have to be revised.²⁷ But the schemes are to be left to local authority discretion and past experience suggests that the result will be uneven provision, good, bad and indifferent, across the country.²⁸ If young people's choices are not to be dependent on the chance of where they live, a national scheme, or national minimum standards for local schemes will have to be developed.

Young people who left school for financial reasons, or who made an unwise choice to leave but did not then find regular work, did have a second chance to improve their educational qualifications while on Supplementary Benefit under the 12 and 21 hour rules (see Chapter 6). It was estimated in early 1988 that almost one third of 16 and 17 year olds on benefit – some 30,000 of them – were engaged in part time education under these rules, while remaining available for work.²⁹ This option disappeared with the withdrawal of benefit rights in September 1988.

It has never been seen as appropriate that benefit policy should be geared to providing support in education and it could not be expected that this lost option would be restored, other than as a by-product of changes to mainstream benefit policy. But the ending of this route to a second chance serves to emphasise the importance of getting the main policy on education allowances right, so that young people are not forced to leave education, or be unable to return to it, because of financial barriers.

As seen in Chapter 10, a policy of improving the quality, and therefore the attractiveness, of YTS has been pursued with some success. For a substantial proportion of young people, not in education or work, YTS was the right choice, and one that was freely taken. For this group, there was no need to make drastic changes in the social security provisions, as long as the training offered was good and as long as the training allowances stayed ahead of benefit rates by a noticeable margin.

Nor was there justification, related to young people's behaviour, for effectively withdrawing the right to unemployment benefit from 17 year olds by changing the contribution rules. Those who would have qualified had demonstrated willingness to work and pay contributions, and if they were then out of work 'voluntarily', there were provisions to deal with this.

The government's principal concern was the 16-17 year old group on Supplementary Benefit as unemployed people. The unemployment rate among the under 18s had fallen from 24 per cent in 1983 to 11.5 per cent in 1988.³⁰ The numbers unemployed and claiming benefit had fallen also – from 204,293 in 1984 to around 92,000 at the beginning of 1988 to 74,450 by August 1988.³¹ Not all of these young people spent long periods on benefit. Some were on their way to a YTS placement. Others were in and out of temporary or casual work. Typically at the time of the monthly count, only one

quarter had been on benefit for more than 6 months, while the actual numbers were declining.³²

It could, therefore, be argued that the government's strategy was working and that there were sufficient instruments available to put pressure on those well able to enter work or training. Instead the government lost patience – or seized the opportunity to do what it had long wished to do – and introduced the drastic measures described in Chapter 9.

The Minister (Nicholas Scott) said in the House of Commons in December 1988:

The point we are trying to make in the new provisions is that, at the age of 16 or 17, young people are at the stage of transition from childhood to the young adult world. We must all be careful about the provision that we make for them.³³

He went on to apply this to the importance of ensuring that young people did not move straight from education into dependence upon State benefits as 'a normal stage in their transfer to adult life'. Later he asserted that 'all that young people have lost as a result of the implementation of the new arrangements is the option of doing nothing at the public's expense'.³⁴

For youngsters living in stable homes, with adequate family incomes, and with responsible parents to protect them and help them deal with the consequences of wrong decisions – their own and other people's – the regime introduced might just about be tolerable, though there is no information on what effects it is having.

But the safety net for those who need it is threadbare. Questioned about the Bridging Allowance, Employment Ministers asserted that 'it is not a form of income support, nor is it intended to support young people in any way over a long period of time'.³⁵ Asked about the reasons for setting the rate at £15, the only reply was that it is 'more than twice the level of child benefit'.³⁶ Asked how many young people run out of eligibility for the income available in the Child Benefit extension period, or for eligibility for the Bridging Allowance, without securing work or a YTS place, Employment Ministers have replied variously 'young people are not obliged to report what they are doing after bridging allowance ceases'³⁷ or that it is a matter for the local authority Careers Service to ensure a YTS place.³⁸

Social Security Ministers have had to show more concern. There has been a constant flow of representations from voluntary agencies

and groups such as Social Services Directors, drawing attention to weaknesses in the arrangements³⁹ as well as pressure in Parliament. As a consequence of this, and of the government's own monitoring, the minimum safety net provisions on offer – Income Support for particularly vulnerable groups during the Child Benefit extension period and the severe hardship provisions – have had to be extended on a number of occasions since their introduction. But in March 1989, the Minister (Nicholas Scott) acknowledged that he did not know how many young people had been left without income and what had happened to them. He said, 'I am considering whether we need to collect these figures in future'.⁴⁰

The same Minister said in December 1988: 'it is not possible to regulate for every particular circumstance in which it would be unreasonable to refuse benefit to somebody under 18'.⁴¹ Every effort was being made to protect the vulnerable. But it could equally be argued that the real issue is whether the provisions can be regarded as at all suitable either in relation to training or as a social security safety net.

The Employment Minister quoted earlier asserted that the Bridging Allowance was not a form of income support. But in fact both this allowance and the YTS training allowance are being used as forms of social security. What might be termed the normal use of the provisions would be the payment of Child Benefit for an extended period, followed by entry to YTS for 2 years with room for a change of YTS scheme, where the first turned out to be unsuitable, via a Bridging Allowance. Another normal usage might be entry to work on leaving school, the realisation that the job was a dead end, followed by entry to YTS, perhaps using a Bridging Allowance during the changeover period.

In both these scenarios, the provisions are being used as part of the training arrangements. The goal is to secure YTS training and the allowances help to facilitate this. But for an unknown number of young people, the allowances are operating primarily as social security. Some examples can be given. Someone a few months from their 18th birthday who loses a job and cannot find another, must seek a YTS place or be left without income. Similarly a girl who becomes pregnant, cannot maintain her YTS place but has not reached the 11th week before the expected birth, must seek a further YTS place to cover the intervening months. Young people, from among the highly vulnerable groups entitled to Income Support during the Child Benefit

extension period (see Chapter 9), may find themselves unable to cope both with training and with the battle to survive on their own, and yet – unless they can find regular work – must keep reapplying for a YTS place so as to secure an income.

What may then occur, and anecdotal evidence suggests it is already happening, is that employers will decline to accept young people whom they see as unsuitable for training, or where the time available for training is so short as to make it pointless.⁴² In training terms these are legitimate decisions – YTS is in these circumstances being misused – but the decisions leave the young people concerned without income.

The alternative then is to turn to the severe hardship provisions – assuming the young person concerned is aware of their existence and is able to meet the very stringent requirements for this benefit described in Chapter 9. But severe hardship payments are intended to be temporary. Pressure will continue to enter YTS or take some kind of employment, including casual work. The vulnerable young people whose needs have been recognised in the Child Benefit extension period, and perhaps for a period beyond this, are quite likely to experience periodic crises before they reach 18 years, and other young people, not originally identified as vulnerable, are running into problems and needing help.

The experience of the first year of the provisions for the 16 and 17 year olds raises grave doubts about this good sense of operating a social security safety net either as an offshoot of a training programme or as a series of reactions to acute crises. Nor is it clear what long term value it is to the country to harry vulnerable young people as they seek to work through the transition from childhood to young adulthood.

The case for making the drastic changes which were introduced in September 1988 was never a strong one. And the case for bringing 16 and 17 year olds back into mainstream policy for unemployed people is strengthened by the fact that, as the numbers of young people decline, more of them will spend time in employment and, as part of the labour force, will be entitled to be treated on a similar basis to other workers, should they become unemployed.

The next section will turn to a discussion of a possible future policy for unemployed people. In the process, attention will be drawn to the place 16 and 17 year olds might have in these arrangements.

A policy framework for unemployed people

In a market economy, unemployment is never likely to be entirely eliminated. Even in times of full employment, some people will spend time in unemployment. In 1951, when the unemployment rate was as low as 1.3 per cent, the annual average number of unemployed was 281,000 (see Table 3.1). Moreover, neither the monthly figures nor the annual averages give a full picture of those claiming unemployment benefits. In 1951, in Great Britain alone, there were 2.6 million claims including people who claimed more than once in the year. In 1987, there were 4.8 million claims, and in some years during the 1980s, the numbers rose above 5 million.⁴³ Thus, even if unemployment continues to fall, benefit provision will remain important, and if the labour market does develop the forecast flexibility, then more rather than fewer claims might be expected.

Government already acknowledges that ‘most benefit claimants are genuinely unemployed and keen to work’.⁴⁴ The numbers of disqualifications for voluntary unemployment in 9 months in 1986/7 comprised 9 per cent of total claims for the period (see Chapter 10) – so that 91 per cent of claims were recognised as for involuntary unemployment. On the question of activity in seeking re-employment, the Minister (John Moore) said in 1989, ‘the vast majority of claimants – and I stress this – do take the initiative in looking for work’.⁴⁵

And as suggested earlier, government is actively encouraging increased flexibility in the labour market. In *Employment for the 1990s*, the extent of global competition is described and the lesson drawn from this is that:

...to meet competition at home and overseas, industry and commerce – since there is intense competition in services – must be increasingly alert to new opportunities, and must adapt to changing technologies, changing markets and changing tastes. This requires a high degree of commercial expertise. It also requires a more adaptable labour force, from top management to the office or shop floor.⁴⁶

Thus the evidence points clearly to the fact that the great majority of the unemployed are ‘victims’ of the normal functioning of the economy, and that policies which may produce other ‘victims’ are seen as necessary to the health of the economy. The total numbers involved may decline, but they are likely to remain substantial.

It follows, then, that there is a continuing need for an orderly framework within which earnings interruption can be managed – a framework of appropriate benefit provisions, the right to which is based on reasonable rules which serve to include those who in justice ought to be included and exclude only those who ought, justly, to be excluded; and of supportive programmes which help unemployed people, through information, encouragement, guidance, training and the like, to return to employment as satisfactory as possible to them. Since the objective would be to establish arrangements principally for people out of work through no fault of their own and seeking to return to work, it would be reasonable to expect that the rules and their administration would be designed to minimise any invasion of the privacy and any loss of the personal dignity of unemployed people.

The basis for benefits

There are three possible bases for benefits during unemployment – means tested provision, social insurance, or tax funded benefits not subject to a means test.

A sole reliance on means tested provision, or even the heavy bias towards it that prevails at present, would not meet the requirements set out above. And provision of this type would tend to discourage rather than facilitate labour market flexibility on the part of the labour force. Means tested benefits, as currently operated, do not offer freedom from the invasion of privacy and often involve loss of personal dignity. Even if their operation could be improved, (and there are various propositions for this) there would still be disadvantages. Means tested benefits are designed to be exclusive rather than inclusive. For couples, they are based on household income, typically excluding married or co-habiting women, and for all claimants, there is a degree of uncertainty about eligibility, and particularly in borderline cases, dependent as the benefits are on whether the unemployed person's means fall above or below a particular line.

The fact that benefits may sometimes be available, and sometimes not, undermines an important element in provision for unemployment. The objective since 1911 has been to cushion the impact of the loss of regular earned income without first requiring that the claimant's resources be used up, at least to a prescribed level. Even with benefits by right, it is inevitable that the financial reserves of the individual or family will be run down as the adjustment to a much lower income takes place and commitments taken on when times were better are

sorted out. But the assurance of such benefits – in contrast to the unpredictability of means tested provision – permits the necessary financial adjustments to be made in a more measured way, and if unemployment is relatively short term, can enable those concerned to recover from a spell of unemployment more rapidly.

Benefits by right fit better with the goals outlined earlier. They do not require an invasion of privacy and – if properly administered – ought not to offend against personal dignity. They have – or ought to have – the characteristics of predictability and reliability and they serve both to replace part of the lost wage income and, to some extent, to protect the economic well being of the individual or family. They are – or could be – very suited to dealing with the needs arising from the labour market of the future. But as the various ‘doubts’ in parentheses in this paragraph suggest, much will depend on the applicable rules.

With few exceptions, the evidence present to the 1984/5 Social Security Review was strongly in favour of unemployment provision substantially based on benefits by right. But there was less agreement on how they should be financed. Since the National Insurance scheme, which provides such benefits, is in place, it would seem to be the natural vehicle. But National Insurance has come under criticism in the last decade because it is said not to be ‘genuine’ insurance, because the contributions which finance it constitute a regressive tax, and because contribution conditions exclude many who, it is believed, ought to be entitled to benefits.

These arguments, however, do not constitute a particularly strong case for moving away from National Insurance. To begin with, if what is meant by the claim that National Insurance is not true insurance, is that it does not operate according to the practices of commercial insurance, then this line of argument is correct. But the scheme was established not as commercial but as social insurance, that is, a scheme in which all risks are pooled, and the State sets the contribution rate (and, in the past, any tax subvention) that it considers is required to meet the contingencies the scheme is to cover. The State also establishes the contribution rules and their relationship to benefit rights.

Moreover, there is nothing in the theoretical base of social insurance which requires a specific type of contribution, or the use of contributions rather than, for example, a social security tax. Regressive taxation, through National Insurance, is not an inherent

characteristic of social insurance. Nor are contribution rules which exclude groups and individuals whose risks, logically, ought to be covered in a 'pooled risks' scheme. These are characteristics and rules which governments have chosen to impose and, equally, could choose not to impose. It would, thus, be possible to devise National Insurance rules which kept the scheme relevant to the future labour market.

Although a decision could be taken to provide for the common human risks⁴⁷ through taxation, in the same way as provision is made for education, the mechanism of a National Insurance scheme has proved to be publicly acceptable over quite a long period. Similarly, while there is no reason why such a scheme should not be financed by a social security tax, rather than by contributions, the idea of contributions has been long accepted by the public, while an apparently new tax could provoke a degree of hostility. Given that the National Insurance scheme can be reformed to meet the practical (as opposed to the semantic) objections made to it, there seems no obvious reason to abandon the advantages of public acceptability. Indeed, if it continues to be necessary to support a large number of unemployed people, then public support for the desirability of pooling the risk of unemployment and public acceptance of the mechanism by which this is done will be of great importance.

The present role of National Insurance

National Insurance was established as a pooled risks scheme with a fund financed by tripartite contributions – employer/employee/State (see Chapter 2). The government, in its 1985 Green Paper, sought to redefine the scheme from social insurance to a social compact. It approved of the fact that it was financed through contributions, in part because these were publicly acceptable and in part because it was 'right that people in work should see that they are paying for the benefits of those who are not, and are in turn establishing their own rights to these benefits when they need them'.⁴⁸ Given this explanation, the distinction between social insurance and a social compact seems a fine one. But one element of the Beveridge scheme, at least, was on the way out.

The 1989 Social Security Act abolished the State subvention to the National Insurance Fund. The Minister (John Moore) argued that it had been justified at a time when contributions were flat rate and had to be kept sufficiently low that low wage earners could afford them. To achieve this, the State supplement was essential. But since

1975, contributions have been wage related. The Minister went on to say:

The tripartite principle is already effectively a dead letter. The rationale behind it has gone, and the supplement has been shrinking steadily as a proportion of the fund's income from about one third in 1948. It now stands at only 5 per cent. We consider that there is now no need for it at all.⁴⁹

The contributions to the Fund were already covering all expenditure and the abolition of the supplement would, therefore according to the Minister, have no effect.

There may, of course, be a long term effect in the loss of flexibility in the National Insurance scheme. But, more immediately, it might have been expected that the fact that Fund's expenditure was being covered by contributions would have led to a strengthening or at least a maintenance of the rights of contributors. But this is not the case.

In considering this, it is important to distinguish between the numbers of unemployed on the insurance benefit at any one time and the numbers claiming during the year. In November 1987, 675,000 men and women were receiving unemployment benefit, 27 per cent of all the unemployed at that time. But during 1987, there were 4.8 million claims for UB, including second and subsequent claims by the same person.⁵⁰ Thus the benefit is in active operation to meet the needs of the short term unemployed.

The government has been emphasising the short term role of National Insurance.⁵¹ But it has also been weakening this and other roles through the new and more demanding contribution rules. As seen in Chapter 9, one of these rules (requiring contribution conditions to be met in the two years preceding unemployment) was expected to exclude 350,000 people from the insurance benefit, all but 50,000 of whom would qualify for the means tested benefit. Other new contribution rules would also act to reduce possible UB entitlement and increase the uncertainty about income during unemployment. As the figures above suggest, some will qualify for Income Support, but others will be left without income, at least in the short term.

These rules will also have a flow on effect to the medium term unemployed (i.e. less than 12 months on benefit). Those deprived of access to up to 12 months Unemployment Benefit will join the already high proportion of unemployed people reliant on the means tested benefit. By November 1987, this proportion (if those awaiting benefit

determination are excluded) had already reached around three quarters of the unemployed.⁵²

A further factor undermining the ability of the National Insurance schemes to serve the unemployed is the increased stringency and more active application of the voluntary unemployment rules. These not only reduce temporarily the numbers entitled to the insurance benefit, but shorten the maximum possible duration of this benefit by a period equal to the length of the original disallowance. This can be anything up to 26 weeks. During the disallowance period, the individual may be eligible for Income Support at a reduced rate and, if still unemployed when the shortened UB entitlement runs out, will return to full dependence on Income Support earlier than would otherwise have been necessary.

National Insurance has no role at all in relation to the long term unemployed. There has been only one change of note since 1948 in relation to the duration of the benefit, and that was the extension of the maximum period of benefit from 6 to 12 months in 1966. At that time, the numbers unemployed for more than 12 months were quite modest – amounting to 48,000 in Great Britain in October 1966.⁵³ In spite of a huge increase in numbers of long term unemployed, peaking in 1986/7 at over 1 million, no attempt has been made to adapt the rules of the National Insurance scheme to accommodate even part of this population group. The numbers are now falling – reaching 685,000 in Great Britain and 744,000 in the UK as a whole in April 1985.⁵⁴ This may reduce the proportion of unemployed people on Income Support – or more probably stabilise it, given the other factors described above which are adding to the proportion – but long term unemployment remains a major problem and one for which no distinctive benefit policy has been developed.

The Beveridge Report, which recommended the establishment of the National Insurance scheme, has been much quoted in recent years. There is no doubt that it was a seminal report – though it is as well to remember that not all of its proposals reached the statute book, including that for an indefinite benefit by right for the unemployed. But its importance lies not so much in its precise proposals but for the standard of social protection it set, and the spirit of community, social responsibility and mutual aid it promoted in the provision for the common human risks, while still leaving room for individual endeavour. The schemes for social protection established in the 1940s have had to be adapted in the decades that followed and will need to

be adapted again for the 1990s. But it would be a poor reflection on our own age if the standards this generation sets fall below those of the 1940s.

The National Insurance Scheme has stood up well to the test of time. It would be over optimistic to suggest that it can be adapted to meet the needs of *all* the unemployed. But it is quite realistic to expect it to maintain a central role in the benefit provision and to seek changes to its rules which would equip it to operate more effectively in the labour market of the present and the foreseeable future.

Maximising access to National Insurance

There has been no open review of the functioning of the National Insurance scheme, either during or since the 1984/5 Social Security Review. But government seems to be pursuing a policy of reducing access to Unemployment Benefit, without any serious attempt to offer a rationale for doing so. If, as has been argued here, National Insurance should play a more, not less, central role in the management of earnings interruption, then access to the benefits of the scheme should certainly not be reduced and ought, if feasible, to be extended.

As long as it remains compulsory for all employees, and their employers, to contribute to National Insurance and that included in that contribution is an element intended to meet the costs of unemployment, there is an assured fund for the support of unemployed people. As unemployment falls, those who re-enter employment begin to pay contributions, and as wages rise above the rate of inflation, the income of the fund grows without the need to increase the percentage rate of NI contributions. If other increases in the funds available are needed, then government could withdraw or lift the higher earnings ceiling, which limits the amount contributed by higher paid workers, or it could restore the State subvention available until 1989. Given this situation, government is in a position to set rules aimed at the maximum feasible access to Unemployment Benefit. But the word 'feasible' recognises that the scope for change is not unlimited.

It has been suggested (for example by the National Consumer Council) that the test for benefit eligibility should be a 'contact with employment' test rather than a contribution test, so as to solve the problem of people being excluded from National Insurance benefits 'by the mathematical vagaries of contribution calculations'.⁵⁵ While there is nothing in the principles underlying social insurance which

would prevent such a development (provided contributions remained a universal requirement), the idea of the change seems to be based on the assumption that contribution rules cannot be altered. But there is plenty of evidence that they can, and although change so far has usually been for the worse, the contrary could equally apply.

Provision for unemployment is reasonably based on recent employment. It offers an income replacement benefit, following loss of wage income. For the majority, a contribution test offers unarguable evidence of a recent period of work as well as the dignity of claiming benefit by right of contributions made. But this points to the need to consider how those currently excluded from benefit by their inability to meet contribution tests could be brought into the scheme.

Prominent among these are married women who still exercise the Married Women's Option and those women, usually with dependent children, who do part time work at a rate of pay too low to create a requirement to pay NI contributions. The numbers of married and other women exercising the Option has fallen from over 4 million in 1978 to 1.5 million in 1986. It is estimated that by 1990-91, the numbers involved will have fallen to 750,000 and a further decline can be expected as older women still paying reduced contributions retire and others lose the right to do so, due to a period of absence from the labour force in excess of the minimum required for its retention. Other women may choose to switch to the payment of full contributions. This is, therefore, an exclusion problem that time will cure. Indeed, there may come a time when the numbers have fallen so low that there will be little point in continuing to impose a penalty for this hangover from the past.

Low paid part time work, on the other hand is not diminishing and, if the labour force forecasts are to be believed, will increase in the future. While there will be stable, though low paid, part time jobs, it can also be expected that many service industry jobs as well as those organised on the core/peripheral model, will be both low paid and unstable. If this is to be the future, then there is every reason to bring this part of the labour force into unemployment benefit provision which seeks to cushion wage loss while further work is sought. Since part time work gives entitlement only to part time benefits, there need not be a problem of too high a wage replacement rate unless the wages were so low as to be set at a scandalous level.

It would be possible to pay benefits without any requirement to pay contributions if wages are too low. A test of labour force attachment could be substituted. But there is already an incentive to hold (and accept) wages below the low limit for National Insurance contributions, so as to avoid their payment by both employer and employee. This incentive would be strengthened if, in spite of this, unemployment benefits were payable.

Recent moves to reduce the incentive to hold wages below the NI contribution level have involved changes in the contribution rate. It used to be the case that the full rate of contribution (9 per cent) had to be paid on the whole wage once it passed the lower earnings limit. Then, stepped contributions were introduced. In October 1989, these were abandoned and a rate of 2 per cent was set for wages below the lower limit, but payable only when the wages pass that limit. But this does not answer the problem of access to benefits for those below the contribution limit. For this purpose it could make sense to impose a nominal contribution – say 1 per cent – on very low earnings, in order to bring these employees into benefit provision. This would include not only Unemployment Benefit, but also other NI benefits, and thus be a worthwhile step forward for these part time workers. Bearing in mind that it has been estimated that, in 1989, the cost of the 2 per cent payment would be 86 pence per week,⁵⁷ the lower cost of the 1 per cent contribution would be an excellent investment, at tolerable cost.

A second major group currently excluded are 16 and 17 year olds. Already in 1988 (as figures given in Chapter 10 showed), over one quarter of young people of this age group were in employment. The proportion can be expected to grow if the decline in general unemployment continues during a period when the numbers of young people are also declining. In work, they will be paying NI contributions but they have no possibility of qualifying for the insurance benefit before they are 18 years because of the changed rule which requires contribution conditions to be fulfilled in the two years preceding unemployment. It will be suggested later that this rule ought to be reversed. If this is done, then 17 year olds who have met the contribution conditions ought to qualify for benefit as members of the labour force who have met their responsibilities under a pooled risks scheme.

Given the continued need to develop a well trained labour force, it can be expected that a proportion of 16 and 17 year olds will be in the Youth Training Scheme or in equivalent schemes. These young

people ought properly to be regarded as part of the labour force, though it could not be expected that they make NI contributions since they will not necessarily spend all their time in on the job training. Equally, it would not be reasonable to expect employers to make contributions in respect of trainees who spend part of their time in education.

But under the 2 year contribution rules, a young person who spends 2 years on a YTS scheme will have to work until the age of 20 before becoming eligible for an NI benefit should they become unemployed. Thus they will have been up to 4 years in the labour force – as trainees and then as employees – before they acquire any National Insurance rights. The situation adds to the case for revising the 2 year contribution requirement. But it also suggests that credit provisions should be made for YTS trainees so as to speed up their entry to full NI rights. These credits could properly be tied to completion of YTS training and be related to the length of that training. This would avoid undesirable incentives to leave training early or to prefer shorter to longer training. Moreover, it could be provided that the credits were not activated until a minimum level of contributions had been paid while in employment. Such provisions would serve to integrate young people into the rights enjoyed by others in the labour force, instead of treating them as an excluded ‘rightless’ group.

Provisions such as these raise another issue. It is being seen as desirable that some young people remain in full time education, gaining the intellectual development and/or specific skills required by the labour force of the future. There would be merit in giving this group access to NI credits, again tied to completion of these courses, to the length of those courses and to the payment of contributions when they enter employment. Such provisions could be important, not only in their own right so as to integrate these young people into normal workforce rights, but so as to avoid any inappropriate incentive to prefer YTS to education.

The National Insurance scheme still does best what it was first planned to do, that is, to offer a bridge between one period of long term employment and another, and especially where the duration of the unemployment is reasonably short. This aspect of its operation is not affected by the 2 year contribution requirement. Those who have had many years of unbroken employment and who, after a spell of unemployment, return to stable long term employment can meet the necessary conditions.

But securing fresh stable employment has never been assured. Even in the early 1970s, when unemployment was still relatively low (see Table 3.1), a survey of workers made redundant showed the difficulties experienced in re-acquiring stability and security in work.⁵⁸ In a future labour market when the proportion of stable jobs is declining and, conversely, the 'flexible' or 'peripheral' sector is growing, a return to long term employment will be harder still to achieve. And given that the older the worker, the more difficult it is to acquire any job (see Chapter 7), it is very likely, for this age group, that unstable employment will have to be accepted sooner or later. It can then happen that, in any subsequent periods of unemployment, men and women with substantial contribution records – perhaps of 20 or 30 years of payments – will find themselves deprived of NI rights, whereas justice would suggest that the greater the contribution made to the NI scheme, the more should be the security of benefits by right in unemployment.

The case for reversing the 2 year contribution rule does not however, only rest on the older, long time, contributor. The government did not present any substantial case for the change from the existing rules, and no suggestion that these were not functioning perfectly well as a means of establishing an acceptable level of labour force attachment. It can only be assumed, therefore, that there was a desire to place greater emphasis on the means tested provision. But it has been argued here that this is not the appropriate way for the management of income interruption in the present and future labour market. If flexibility is to be the order of the day, there will be a need for the security given by established rights to benefit; and therefore for a return to the earlier rules, at the very least. An even better course of action would be to review the former rules with the object of giving the maximum reasonable consideration, after recent labour force attachment had been established, to the earlier years of contribution.

There will still be the issue of provision for men and women who become unemployed after short term employment, and perhaps find themselves experiencing periods of intermittent unemployment.

Assuming there has been no disallowance of benefit, there is a potential entitlement on first becoming unemployed of 52 weeks of benefit. If during this time, a job is secured which lasts 8 weeks or less, there will be an entitlement under the linkage rules, to the number of weeks of UB not already used up. Once the whole 52 week entitlement is used, then the old rule required that 13 weeks of

employment of 16 hours a week or more be served in order to acquire new rights. But there was a certain flexibility built into this in that the weeks worked did not have to be consecutive, nor had they to be worked in any specific period. The present rules retain the 13 weeks/16 hours a week employment provision, but require this to be undertaken in the 26 weeks immediately preceding the new unemployment. Thus, at a time when greater flexibility is being urged upon the labour force, the benefit rules have been made less flexible.

It is of interest to note the relationship of these two rules with the new (1989) provisions for trying out a job for a period of not less than 6 and not more than 12 weeks, without fear of incurring the voluntary unemployment disqualification by leaving if the job proves unsuitable (see Chapter 10). Originally the minimum qualifying period of unemployment was 12 months, by which time any Unemployment Benefit rights would have expired. But after 6 months – the period finally set – there may be unused rights. A trial period of employment ended in more than 6 but less than 8 weeks could enable UB to be reclaimed under the linkage rules. But further perseverance – to the limit of 12 weeks – would carry a penalty. This disadvantage would also apply to someone who had already run out of UB rights. This is because the limit of 12 weeks to the job trial period excludes the possibility of requalifying for UB, being short by one week of the necessary period of work.

The ‘trial work’ provision is a useful change in the context of helping longer term unemployed people to return to work. But it would have made better sense if it had not been linked, presumably by design, with a rule which sets up a further barrier to access to Unemployment Benefit. Moreover, what will be needed in the labour market of the future – in which both short term and temporary employment is expected to increase – are rules which seek the greater integration of this part of the workforce into the National Insurance provisions for unemployment. It cannot be assumed that this group will be made up of individuals who are foot loose and fancy free or that they are all willingly working in insecure jobs. Where they have dependents and/or commitments, this part of the labour force, above all, will require the orderly framework for the management of earnings interruption referred to earlier.

There is one other labour group in the labour force which has no access to Unemployment Benefit, and that is the self-employed. These have been excluded from any right to this benefit from the outset

of the National Insurance Scheme, though they are able to claim the means tested benefit, after a waiting period. There has been a substantial increase in the numbers of the self-employed, especially since 1980, and by the time of the 1987 Labour Force Survey, they constituted 1 in 8 of the labour force.⁵⁹ Forecasts about the future labour market suggest that this may increase further.

In 1980, the DHSS issued a Discussion Document about social security for the self-employed,⁶⁰ in which it raised the issue of cover for unemployment. The paper suggested that the main problem in extending Unemployment Benefit to the self-employed was that there was no employer to confirm the fact that they were out of work and the reasons for it. There was a possibility that some people could take unfair advantage of the availability of a benefit by right. It went on to suggest that if the right to Unemployment Benefit was extended – and this was seen as a feasible option – it might be necessary to impose a waiting period of up to six weeks, similar to that imposed (at that time) on those who left work voluntarily.

It is understood that the discussion exercise did not produce a large response and that there was little consensus on the most appropriate direction for change. No action was, therefore, taken on the unemployment issue or the other matters in the DHSS paper, and virtually no attention was paid to the self-employed in the Social Security Review. This outcome might have been understandable in 1980, but in light of the trends in self-employment, there is a good case for a fresh review of the position of the unemployed who were formerly self-employed. More needs to be known of the numbers of self-employed who claim Income Support, their experience of the claims process, the length of time they spend on benefit, the frequency of benefit spells and whether they return to the labour market as employed or self-employed persons. This would provide a starting point for examining whether access to the NI benefit would be helpful and, if so, what, if any, extra rules would have to be applied to self-employed claimants.

Duration of Unemployment Benefit

It needs to be said first that there is no case for reducing the current 52 week duration of Unemployment Benefit. There is (at the time of writing) no proposition on the table for such a reduction. But inevitably the government's recent emphasis on the short term role of the NI benefit and its tendency (in relation to other programmes) to

refer to those out of work for 6 months or more as long term unemployed people – a term formerly used to mean 12 months or more out of work – raises the possibility that a reduction in benefit duration may be contemplated.

In April 1989, some 46 per cent of UK unemployed men and women had been out of work for between 6 and 12 months.⁶¹ Even if the actual numbers fall, it is clear that a reduction to a 26 week duration would affect a significant proportion of the unemployed. A loss of access to the NI benefit by this group would represent a further undermining of the rights of National Insurance contributors. Moreover, a reduction of this kind would have a severe effect on unemployed married women contributors, since they would not qualify in their own right for any substitute means tested benefit.

On the opposite side of the coin, it would not really be feasible to propose any general extension in the duration of the NI benefit. While this would be justified in principle – especially in periods of high unemployment when jobs are simply not available – if there is a desire to maximise access to the NI benefit for the main body of the unemployed, then the additional costs of a general extension in duration could not easily be contemplated.

But this does not necessarily rule out selective policies for extended duration. These might simply be related to the number of years of contributions, but a more useful approach would be to base an extension – or even a right to an indefinite benefit duration – on age and the number of years in the labour force. A start might be made on men and women who were 55 years and over and who had spent at least 25 years in the labour force. And if high long term unemployment among the 50-54 year old group persists, the age might be lowered and the required years reduced to 20. Such a rule would help not only the older unemployed in general, but would assist disabled unemployed people, a significant proportion of whom are in this older age group (see Chapter 8). It could also offer greater justice to those long term unemployed married women, who are at present excluded from income replacement benefits after 52 weeks in spite of lengthy labour force attachment, before and after marriage.

This extended benefit would quite properly be made subject to availability for work rules of a reasonable nature. It would also make sense to ensure that the right could be reclaimed after periods of employment, including quite short periods, so that no hindrance or

disincentive is put in the way of older unemployed people who seek to work whenever they can.

These measures will not give full protection to the older man or woman against the impact of unemployment on retirement provision. It will still be impossible during unemployment to maintain second pension contributions – to an occupational pension, to SERPS or to a personal pension. But it would reduce the necessity to use up all or most of the reserves accumulated for retirement, as would be necessary to qualify for a means tested benefit. Moreover, to the extent that employment can be secured, additional pension contributions may be possible for those who have not claimed an early pension. The proposals would also give greater protection to married women for the accumulation of credits for the NI Retirement Pension. Given the present structure of retirement provision, these various advantages offered by extended NI benefits in unemployment, are probably the best that can be hoped for.

The position of those already receiving an occupational pension would have to be considered. To the extent that they retain an entitlement to all or part of a benefit for unemployment and fulfill the rules required of unemployed people, then there is no reason to exclude them from extended rights. But a change in practice is needed for this group. The occupational pension level which triggers the reduction of Unemployment Benefit (£35) has not been uprated since 1980. This means that only a proportion of their income – the NI benefit – is inflation proofed. This is an injustice which ought to be put right.

The level of benefit

Although the changes proposed so far would increase the numbers of unemployed people with an entitlement to the NI benefit, a proportion of the unemployed would still rely on Income Support. And, as the benefits stand at present, many unemployed people would need to claim supplementation of their NI benefit from Income Support. Furthermore, the standard of living offered by both Unemployment Benefit alone and by Income Support as a supplement or as the main income, is too low to offer real protection from the effects of unemployment.

It will be recalled (from Chapter 9) that there was plenty of evidence, prior to the 1986 Social Security Act, that unemployment was the main cause of low income and that many unemployed people were subject to financial hardship, including those who were on what

was then Supplementary Benefit(SB). A small but detailed study of 67 unemployed families with children in Tyne and Wear, undertaken by Bradshaw and Holmes just before the establishment of the Income Support scheme, gave further confirmation of the low standard of living of unemployed families on benefit. In a summary of their findings, the authors described the lives of these families as ‘marked by the unrelieved struggle to manage, with dreary diets and drab clothing’ and characterised by ‘constant restriction’ in almost every aspect of their activities.⁶²

The authors were able to compare the income of 43 of the families with children on Supplementary Benefit with the income they would receive on the Income Support scheme then just about to be introduced. After uprating the SB to allow for increases that would have been given for inflation (had the SB scheme remained in force), they found that 20 of the families would be worse off under Income Support. Some 7 of these would be protected by the transitional payments which guaranteed no cash loss of benefit at the point of change, but these would become worse off as the transitional payments were eroded by inflation. The 20 losers were worse off by sums ranging from 10 pence to £12.20 pw, while the 23 gainers were better off by sums ranging from 20 pence to £10.92 pw. The higher end of the losses arose from the ending of various additional payments. The higher end of the gains stemmed from the improved disregards for those unemployed for more than 2 years.⁶³

If the 1989 UB rates are compared with the Income Support rates, it can be seen that a single person (over 25) and a childless married couple (over 18) are marginally better off on Unemployment Benefit, though access to passport benefits such as free prescriptions will not automatically be available. But a family with children will be noticeably worse off on Unemployment Benefit. Leaving aside such items as free school meals and milk – available to Income Support (IS) but not UB recipients – the principle difference lies in the availability of the Family Premium for IS recipients and the payment to them of child dependency additions (CDAs). UB families suffer a double problem in that they have no CDAs, only Child Benefit, and that benefit has been frozen for the last two years, and is about to be frozen for a third year. Recipients of Unemployment Benefit did gain an improvement in Housing Benefit in 1988 (though this was principally designed for low paid workers), but this does not alter the comparison just made. It merely removed an earlier injustice.

The evidence both of the official calculations (see Chapter 9) and of the study just quoted, indicates that there is still a problem of inadequacy of benefits for unemployed people – a problem compounded for IS recipients who are under 25 and who live away from home, by the lower rate paid to them. But in spite of this, the chances of a general increase in the rates paid to unemployed people are limited.

The long standing principle of less eligibility – now given the modern name of the unemployment trap – continues to exert a downward pressure on benefit levels. Given that much of the additional employment of the future is expected to be in lower paid jobs, government's desire to maintain work incentives through the mechanism of low benefits is likely to continue. But there might be room to improve the income of unemployed people and reduce the need to claim supplementation from Income Support, through two policy changes.

The first would involve both the restoration of child dependency additions to Unemployment Benefit, and the setting of these rates, and those for Income Support children, at a higher level than the present IS rates. Making such a change without adverse consequences would be facilitated by the structure of the Family Credit scheme. Provided the rates for children in that scheme were increased in line with those for unemployed families (and other families also in the case of Income Support), there need be no loss of work incentives as they relate to children. All of these families with children need a better income, so the upgrading of provision for children would have all round merit. If this was accompanied by the return to regular uprating of Child Benefit, it would be even better, since Child Benefit, payable to unemployed and employed alike, is a valuable weapon in overcoming the unemployment trap.

Such a policy would also reduce the need for UB families to claim Income Support. But it would not obviate it altogether. Where they are paying a mortgage, help with this is available under Income Support but not along with UB. This is unlikely to change until the Housing Benefit scheme itself is reformed so that it assists low income owner occupiers with more than their rates (or Community Charge) bill – a long overdue reform.

The second policy could help a wider range of unemployed people. This would involve a more substantial reform of the disregard rules than was undertaken by the Social Security Review (see Chapter 9).

The objectives of such a policy would be twofold, with a sub goal of improving the position of wives of unemployed men. The objectives would be:

- to enable unemployed people who are unable to find employment (of at least 24 hours per week) to keep a foothold in the labour market. In so doing they would maintain work habits and skills and would be in greater contact with opportunities for full time employment;
- to enable unemployed people to add to their income so as to raise their standard of living and perhaps accumulate modest reserves. These reserves would both assist families to stay out of debt (including debts to the Social Fund) and give them the greater confidence needed to embark on training or a direct return to full time employment;
- to free the wives of unemployed men from the most severe of the constraints on work inherent in the present disregard rules.

To take the last point first, the principle change needed here is to the rules related to Income Support. Under the Unemployment Benefit rules, the wife's disregard is separate from that of her husband. It is tied to the rate of her dependency addition, so that at £21.40 (in 1989/90) it offers reasonable scope for work. Because of the link with the dependency addition, her disregard is inflation proofed. The addition will be withdrawn in full if her earnings exceed that level, but earnings beyond that point will not affect her husband's benefit, and so will add to the family income.

It could not be hoped that disregard rules of this kind could be made available under Income Support, a means tested scheme based on household income. But if a separate set of disregard rules for husband and wife in a family on Unemployment Benefit is possible, there is no reason, in principle, why the wife's disregard should be tied so closely to her husband's in an Income Support family. A separate rate for the wife could be set, from the time of coming on benefit, at the same level as other Income Support recipients. At present this is £15 per week, but there is no provision for inflation proofing. There is a strong case for maintaining the value of this disregard for all recipients. If it was right to allow £15 earnings in 1988 (when the figure was fixed), it would surely be right to allow earnings of equivalent value in subsequent years. It would, in theory, also be appropriate to review the level every few years in relation to wages. If, for example, £15 pw enabled 6 hours of work a week at £2.50 an

hour in 1988 the goal might be to maintain the right to work for at least 6 hours if wage levels rose ahead of inflation. Unfortunately the fact that benefits are linked only to prices would handicap such a policy, since the disregard could then become disproportionate to the benefit, whereas an inflation proofed disregard would simply maintain the original relationship with the benefit rate.

The present disregard for men and single women – £2 per day on Unemployment Benefit, £5 per week on Income Support for the first two years – is so far out of step with current wage levels as to be an invitation either not to attempt to work at all or to work without declaring the earnings. The rates ought, therefore, to be raised to a more realistic level and to be inflation proofed. The limits to realism in this case are set by the low level of the benefit itself, but there is room for somewhat more generous rates.

A suggestion of interest which emerged from a social security review in Australia⁶⁴ was that both the unemployed themselves and the wives of unemployed men should be permitted to accumulate their own unused earnings disregards up to a maximum and to earn up to this limit without benefit loss in casual or seasonal work. It was thought that, in the case of single women and all men, it might be necessary to limit this right to long term unemployed people. The proposal raises administrative problems, but these should not be unsolvable. Another idea, with a similar objective, was put forward by the organisation Action in 1988. This was for a yearly income allowance for unemployed people over 50 years, permitting earnings of up to £500 in the year by a single person and £750 for a married couple, without loss of benefit. It would enable the over 50s to demonstrate their abilities to employers and thus help to overcome age discrimination.⁶⁵ Another proposal by Action has been partially taken up by government in 1989. In a pilot scheme called Action Credit, former ET trainees on Income Support will be able to work up to 23 hours per week, earning up to £43 per week, without affecting their benefit. The money earned will be saved for them and paid over when they begin a job that takes them off benefit.

These, and other possible initiatives, indicate that there is a potential for a more constructive approach to disregard policies. It is worth noting that any improvement in these policies could have a useful flow on effect. It will be recalled that income of current ET trainees could be affected by the earnings of the wife of a trainee or

by extra money earned (by trainees) during training. Better benefit disregard policies could reduce these discouraging effects.

Finally in this discussion of benefit levels, there are two groups who require attention. The first of these is single people aged 18-24, together with couples under 18 years. Now that the accommodation costs of those living independently are met by Housing Benefit, rather than through Board and Lodging allowances, it would be reasonable to re-introduce a distinction in Income Support for this age group between householders and non-householders, paying the former at the full adult rate. The gap between the under 25 rate and the full rate in 1989/90 is £7.50 for a single person and £13.20 for a couple under 18 years. The extra payment which a restoration of the full adult rate would bring is, therefore, not large enough to create a 'perverse incentive' to leave home, but is big enough to be of help to those who need to leave home – for work reasons and because of family circumstances – and also for those who seek to move to greater independence at an appropriate time. Such a policy would go with the grain of human development and not seek to turn back the clock to a period when remaining at home, semi-dependant on parents, was the norm for this age group, at least until marriage.

The second group – and one requiring urgent attention – is the 16 and 17 year olds. The young unemployed acquired a particularly 'villainish' status in the 1980s, but it is worth remembering that when there was full employment in the UK, there was no problem of youth unemployment, even among the age group then entitled to benefit (see Chapter 6). And it was argued earlier that the strategies adopted by the government in the mid 1980s were working, so that there was no need for the drastic action on benefits that was taken. Looking to the future, there are a number of favourable factors. The numbers of young people are declining; employment opportunities are increasing; and YTS is now offering worthwhile training. Thus, it will be possible to absorb most young unemployed people into the labour force, as employees or trainees, and if steps were taken to improve the system of education allowances, young people would have a good range of realistic choices.

All this suggests that there is no sound reason why 16 and 17 year olds should not be brought back into social security entitlement, including Income Support. They are as much in need of orderly arrangements to manage earnings interruptions as adults, and if the more vulnerable among them are to be protected, then more need of

reliable provision. It need not be thought that a proposal of this kind is intended to offer carte blanche to this age group. The normal benefit controls would have to apply and, it will be suggested below that the help and advice available to young people may need strengthening. But in the 1990s, this country ought to be able both to 'manage' and to protect its young people without resorting to the kind of measures now operating.

Benefit control and special employment measures

A policy which gives unemployed people greater access to benefits by right of contributions needs to be balanced by active programmes which give them advice and help to get back to work. Such programmes are especially necessary during a period when unemployment is declining. At such a time, the benefits of an improved labour market can all too easily by-pass the long term unemployed and particularly the older and the disabled unemployed. Moreover, in a changing labour market, today's unemployed people have to be far more adaptable than their predecessors in more stable times. Career change presents many difficulties, not only in personal terms, but because it involves entering strange territory where the network of familiar contacts and kinship connections is not available. In this situation, the availability of New Client Advisers, Restart, Claimant Advisers, job clubs, Disablement Rehabilitation Officers, and for young people, Careers Officers, can all be welcomed as positive contributions to a policy for the unemployed. But there are provisos to this.

First, policy development ought to be concentrated on improving the quality and scope of the advice and help available rather than on strengthening the ability to detect non-availability for work. A decision to seek advice or a response to letters inviting attendance at an interview ought not to be turned into a high risk strategy – the risk of losing one's benefit income. Rather, it should be possible to make use of these programmes with confidence and in the expectation of receiving skilled help. It may be noted also that such an emphasis would give greater job satisfaction to staff who genuinely seek to be of assistance to unemployed people.

Second, it ought not to be the goal of these services simply to get an unemployed person off benefit and into any job, however dead end, low paid or unstable. It has always been recognised that unemployed

people cannot hold out for lengthy periods for their ideal job. Moreover, the need to adapt to a changing labour market must be recognised. Unemployed people will often have to be helped to accept a career change, to try out different jobs or to undergo re-training. But to pressurise unemployed people, with threat of loss of benefit, into sub-standard and/or unstable jobs is a short sighted policy and may produce little benefit saving if the end result is more frequent unemployment. In the long run, to resettle an unemployed person in a job with decent pay and prospects or one which can realistically be seen as a step towards longer term stability, would be a more useful contribution, not only to individual well being, but to the health of the economy and to savings in social security costs - including savings on means tested benefits in retirement.

Third, if young people – 16 and 17 year olds – are to have their benefit rights restored, it may be necessary to strengthen the programmes which advise and assist this age group. This would include working in co-operation with statutory and voluntary agencies which have a specific concern for the most vulnerable of our young people. Their experience, and the personalised help they are equipped to offer, can do much to overcome the problem of assisting young people who cannot fit easily into the standard programmes, because of their special difficulties.

Fourth, the quality of the schemes to which the unemployed are referred, needs to be kept under review, and where necessary improved. The Enterprise Allowance Scheme has proved useful, but the allowance needs to be reviewed. It was set at £40 pw when the scheme was introduced in 1982 and still stands at £40 pw in 1989. It ought to be increased and then inflation proofed. The training offered under YTS has been steadily improved, but the scheme needs careful monitoring so that some employers are not permitted to misuse it. The ET scheme is still relatively young and it is clearly suffering from growing pains. High standards of training, planned appropriately for the individual trainee, need to be further developed so that the attractiveness and effectiveness of the scheme is improved and its quality kept under review. The improved child dependency additions and the changed disregard rules would upgrade the income of some trainees, but these would still be a case for paying the whole of the trainees' travelling expenses so that the full value of the addition to benefit is retained. This addition also needs inflation proofing.

Fifth, if unemployed people are to be encouraged to accept low paid work, for lack of better possibilities, then it is essential that the benefit arrangements – for Family Credit and Housing Benefit – work effectively so as to provide a smooth transition from one benefit income to another. At this level of income, any disruption in the financial arrangements can create quite serious difficulties.

Sixth, in all of these arrangements, the needs of groups who suffer from exclusion and discrimination should warrant special attention. These include members of the ethnic minority population, disabled unemployed people and the unemployed over 50 years. It is particularly important not to write off the older unemployed – who may well include members of the other two groups – or to give them such a low priority that it amounts to the same thing. It ought not to be assumed that older workers are incapable of being re-trained or of rising to new challenges. But they may need extra help to do so.

Even with policies as proposed above, there would still be a need to deal with fraudulent claims. Improved disregard rules could, in fact, reduce fraud so far as this relates to undeclared earnings, but working full time and claiming benefit might still have to be dealt with. No one questions the necessity for this, as long as genuine claimants are not harassed in the process.

Similarly there will be a need for some benefit sanctions to be available. Again this is hardly questioned. The Minister (Nicholas Scott) closing the second reading debate on what became the 1989 Social Security Act, said of the new actively seeking work provisions: ‘genuine claimants have nothing to fear from our proposals’.⁶⁶ At the time of writing this chapter, it is not possible to judge how these provisions will be administered in practice. But if these regulations are taken in conjunction with the severe penalties in use for voluntary unemployment and for being found unavailable for work, then unemployed people – however genuine – are bound to approach the benefit and employment services with deep unease. At whatever point they engage with these services – and the range of possible contact points is now considerable – they must fear that they may fall foul of one or other of the rules which trigger a benefit sanction. And if they are judged wrongly, they must nevertheless suffer the consequences until an appeal tribunal hears the case and sets the matter right.

At the end of Chapter 10, it was asked whether the three streams of policy – benefit provisions, the special employment measures and benefit controls – were in reasonable balance with one another. It has

to be said that the network of benefit sanctions is seriously out of balance with the other policies and is acting to undermine both the protection for the unemployed against the consequences of unemployment and the programmes designed to help and encourage unemployed people back into worthwhile jobs. Government insists that it is not seeking to harass unemployed people, only to encourage them back to work.⁶⁷ If this is so, the way ahead should be to strengthen the confidence of unemployed people in the programmes designed to encourage them, not to resort to the introduction of one punitive measure after another.

Some special concerns

The disabled unemployed

The older (50+) disabled unemployed will be assisted by the provisions for indefinite Unemployment Benefit proposed earlier, and all disabled unemployed people can benefit from the other rule changes proposed. Both YTS and ET make special provision for disabled trainees and these are useful provisions, provided they are implemented effectively. But younger (ie under 50 years), disabled unemployed people may nevertheless find themselves spending longer than average periods on Income Support, without the access to benefit additions formerly available.

The Department of Employment is undertaking a review of the policies and services supported by the Department and the Training Agency for people with disabilities.⁶⁸ The government has also promised a review of social security benefits for all disabled people. Rather than propose separate changes for the unemployed among them, as, to some extent, was done by the Social Security Review, it would be better sense to await the full review so that their needs can be considered in the context of all the needs of disabled people, and in conjunction with the findings of the employment review. The wisdom of adopting this approach is re-inforced by the necessity to consider how people move between the classification 'disabled' and that of 'unemployed', and the extent to which account should be taken of labour market opportunities when these decisions are made. Moreover, some of the benefits for disabled people generally, also serve to assist those who seek to remain in the labour market – for example the Mobility Allowance. It should be stressed, however, that proper attention needs to be given to the particular needs of disabled unemployed people in the proposed review of disability income.

The position of married women

The proposals made above would increase the access to Unemployment Benefit of older married women with a long labour market attachment, very low paid part time women and married women who can establish Unemployment Benefit rights, as well as improving the position of wives of unemployed men. This, however, still leaves a group of both short and long term unemployed married women who have no benefit rights because the means tested benefit aggregates the income of husband and wife.

It is difficult to see a solution to this short of a fundamental reform of the means tested safety net, involving the disaggregation of benefits and the allocation of individual benefit rights. In this context, married women could retain the right to claim as an unemployed person as long as they demonstrated availability for work. Such a reform is often talked about but is not on the immediate political agenda. Government is now saying that in the 1990s, there will be more need than ever to attract and retain the services of women in the labour force. Part of this process ought to be a review of means to secure greater rights to benefits in unemployment.

A service with dignity

It is worth saying again that the vast majority of the unemployed are out of work through no fault of their own, and seek only to return to stable employment as soon as possible. Becoming and being unemployed is for many a devastating experience. Both for adults who have previously worked and for young people seeking to enter the labour market, the process of job search, with its many rebuffs and disappointments, is a profoundly discouraging process.

It is all the more important, therefore, that the benefit system is not only designed to protect them against the economic consequences of unemployment, but that it is administered in a way which does not undermine their self-respect and self-confidence.

It is acknowledged that there must be rules which determine the right to benefit and rules on availability for work, on efforts at job search, on willingness to undertake training or re-training, where appropriate, and on co-operation with other efforts to facilitate a return to the labour force. Rules such as these which are clearly set out and based on reasonable requirements in relation to the current state of the labour market need not be seen as 'hostile' to the unemployed. Indeed,

most unemployed people would expect such rules and find them acceptable. Equally, services which are designed to encourage and guide the unemployed, to combat the discouragement of the long term unemployed and to provide good quality training are highly desirable and welcome to the unemployed in general.

But there is a fine line between rules which are recognised to be a necessary accompaniment of benefit provision for the unemployed, and rules which operate on the assumption that unemployed people are, as a group, out 'to milk' the system. Equally, there is a line between help and encouragement for unemployed people and the harassment of people who are dependent for their daily needs and those of their families on the social security system.

Unemployment is no longer a temporary phenomenon. Some part of our society will be suffering from its effects for the rest of the century and beyond. They have a right to the support of those who are fortunate enough to be in work – just as they should show solidarity to the unemployed when they, themselves, return to work. And they also have a right to a service which respects their personal dignity and worth.

Addendum

In January 1990 (just as this study was being prepared for publication), the government issued a paper - *The Way Ahead: Benefits for Disabled People*¹ - in which it set out the results of an internal review of disability income. It was not the far reaching review that many had hoped for, but it did include some proposals of relevance to disabled unemployed people.

The paper acknowledged that higher unemployment made it more difficult for people to get jobs if their employability was reduced by disability.² It also noted three groups among disabled people³ - the most severely disabled who received one of the two rates of Attendance Allowance and/or the Mobility Allowance, and might also have entitlement to the Income Support disability premium; the least severely disabled people who worked and thus had earned income; and a middle group who were less likely to be able to work and add to their income through earnings, but who did not qualify for the social security provisions for the severely disabled.

A third problem identified related to work incentives for people classified for purposes of social security as disabled and claiming the Invalidity Benefit or SDA.⁴ The present therapeutic earnings rules had unsatisfactory aspects. Not everyone who wanted to work would

qualify for this allowance. If they did, and if subsequently the earnings exceeded £35 pw or the individual was medically certified as capable of work, the allowance would be withdrawn. In addition, people whose earning potential was low could be worse off in work than on benefit, and unless they had dependent children, they would not qualify for Family Credit. Moreover, a failed attempt at working, if it ran beyond the eight weeks of the benefit linking rule, could mean a return to the short term benefits and a six months wait before requalifying for the higher, long term, Invalidity Benefit.

The 'substantial decline in unemployment in the last three years' had, the paper suggested, opened up new opportunities.⁵ And the review of employment services for disabled people, then taking place, would strengthen the ability of those services to assist in overcoming barriers to employment.⁶ For the 'middle' group on benefit, a new non-means tested Disability Allowance was to be introduced. This would be available for people who became disabled before the age of 65 years and would comprise the existing Attendance and Mobility Allowances, plus, in each case, a new lower tier of benefit worth £10 pw. This lower tier would be payable to those with day time caring needs insufficient to qualify for the present day Attendance Allowance, and mobility needs below the level required for the current Mobility Allowance. For those on Income Support, the new lower rate of Disability Allowance would qualify the recipient for the disability premium, which was itself being improved.

To improve work incentives, there were two main proposals. The first was a new benefit, a Disability Employment Credit, on the lines of Family Credit, which would supplement the earnings of single and married people without children who had qualified for one of the disability benefits.⁷ Someone receiving the Invalidity Benefit or SDA before starting work and qualifying for the Disability Employment Credit would, if they again became incapable of work, be eligible immediately for the long term disability benefits they had received before. This new benefit and the related rules would be of assistance not only to those now unemployed, but also to those who might otherwise have claimed the therapeutic earnings allowance, to those working part time and those in low wage full time work.

One further change involved the withdrawal of an existing benefit.⁸ Those who lost earning power as a result of an industrial injury were entitled to a Reduced Earnings Allowance from the Industrial Injuries Scheme. On the grounds that the majority of

recipients were also receiving the Invalidity Benefit, this benefit is to be abolished. In the process, it will also be withdrawn from those in work but on lower wages than before the industrial injury.

With the exception of the last, the proposed changes are likely to be of benefit to disabled people, and will improve the position of some disabled people now classified as unemployed, who qualify for the new lower Disability Allowance. But much will depend on where the lines are drawn. A stringent set of requirements for the lower Disability Allowance would reduce the possible qualifying population. This, in turn, would limit the numbers eligible for the Disability Employment Credit, whose means test rules will also be of importance. Thus, for disabled unemployed people, their social security classification will still be a crucial factor determining how they are treated. The new benefits will not be introduced until April 1992. At that point, when the rules are known, it will be possible to make a better assessment of the changes being proposed.

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