Eager to return to work, single mother Tanya has been unable to find more than six weeks employment in the last year. Job hunting is time-consuming and costly, as she and her son struggle to survive on benefits.

The benefits system is an essential part of the social protection Britain has built to protect its citizens and to end poverty in the UK. At the moment, the system simply isn’t achieving this aim.

Oxfam is calling for reform of out-of-work benefits to ensure they provide adequate protection for those people who need them, and to help people take up paid work if they are able to. To do this, the system needs to be more flexible, allowing people to take on some paid or voluntary work without losing benefits; it must also respond to the particular circumstances of individuals, taking into account, for instance, their caring responsibilities or the social support they rely on in their everyday lives.

The government plans to reform the welfare system in the UK. Oxfam is calling for reform based on the principles and recommendations set out in this paper, to ensure that the benefits system becomes a truly effective tool for tackling poverty in the UK.
1. Summary

Research by the Department for Work and Pensions reports that benefit fraud is now at the lowest level ever recorded; according to the latest estimate, it accounts for just over half a penny for every £1 in benefits paid.¹

More than 1.5 million people in the UK are currently in receipt of unemployment benefits.² But the widely-held assumption that people on benefits don’t want to work simply isn’t true. Oxfam’s experience is that most people on benefits do want to work. A big part of what holds them back from moving into jobs is the benefits system itself.

At the moment the system is complicated, inflexible, and suited to a very different model of life and work than that found in 21st century Britain. It was designed for a time when a person might hope to move from unemployment into a full-time, secure ‘job for life’, and when a ‘typical’ family was seen as comprising a male breadwinner and a stay-at-home female homemaker/caregiver.

The reality of life in 2010 is very different. Jobs available to people on benefits are often part-time, short-term, insecure and badly-paid; many people simply wouldn’t earn enough from this type of work to make leaving benefits to take up a job a rational choice. Those with caring responsibilities would struggle to combine these responsibilities with low-paid work. And many would not be able to manage the income gap between coming off benefits and receiving their first pay cheque.

‘I’d love to work… I’d work all the hours that God sends. But [my wife’s ill, so] I’m the main carer for the kids. I just want them to do well… good jobs, families of their own. I don’t want them to be stuck like we are… because we are stuck on benefits.’

John, Thornaby

Oxfam is calling for reform of the system of out-of-work benefits to address these problems, and to make sure the system actively supports people into work by:

- Allowing people to do small amounts of paid work, which helps them build their skills and experience, without losing their benefits;
- Taking account of people’s individual needs and circumstances, such as caring responsibilities, and providing appropriate individual support to help them find their way into work;
- Reducing the complexity of the system and the possibility of being left with no income during the transition from welfare to work.

Most people want to work, but face significant barriers to making it happen. So work should never be seen as a punishment, and those on benefits should not be forced to work for less than the minimum wage.

Oxfam believes that if the government understands the real barriers that prevent people from taking up jobs, and the complex range of factors they must consider in making decisions that will allow them to cope day-to-day, it will be able to design a benefits system that actively supports people into work and makes a real contribution to tackling poverty in the UK.
2. About this paper

One in five people in Britain lives in poverty. Over half of these people are working, so the solution to poverty is clearly not as simple as improving the benefits system, or moving people from benefits into work. Tackling poverty in the UK requires a range of solutions, including measures to ensure that work pays. However, out-of-work benefits are a very important part of the solution and one of the areas that the new government is currently addressing. It is therefore the focus of the current paper.

This paper sets out why Oxfam has chosen to focus on out-of-work benefits, what the system currently looks like, and how we believe it could be changed so that it helps to eliminate poverty and suffering in the UK. More details about other aspects of Oxfam’s policy proposals to tackle UK poverty can be found at www.oxfam.org.uk/uk

Making work pay

Stacy is a working mother of four children aged between 6 and 18. She works part-time and talks about the difficulty of making work pay.

‘The money I am on is not enough to live on. I work part-time at the moment – I’m doing 20 hours a week and I’m going up to 25 hours. I get tax credit, but because my hours are going up, everything extra I earn is taken off me in tax. I’m doing my extra five hours a week for £20 – and that’s before tax. I think to myself, why? But sitting at home does my head in… for me, I want to work.

‘Bringing up kids is hard because of the money that I’m on. If I gave up work, I would get my housing benefit, council tax, uniform allowance… I’d get the kids’ school dinners paid for me. But because I work, I pay everything. I rely on my mum and my daughter for childcare.

‘Some months I think, if I could pay a bit less on my rent, I’d be better off this month. But I don’t dare go down that route, because I don’t want to get into debt. I’d rather go without a meal. That’s why I pay the children’s school dinners up front, because I know at least they have got a hot meal inside them every single day. With the dinners paid, I can always make do.’
3. Why does Oxfam care about welfare reform?

Oxfam works all over the world to end poverty and suffering. We are committed to empowering people who are living in poverty and to changing the structures of society that make, and keep, people poor. We believe that, as the sixth richest country in the world and despite the current economic challenges, the UK has the freedom, prosperity, and stability to ensure that everyone has enough to live on. Yet, at the moment, 13.5 million people in this country still live in poverty.

Oxfam also believes that social protection is a right, and not a response to need. All men and women have the inalienable human right to live a secure and dignified life. Publicly-funded social protection is a means of overcoming the inequalities in access to opportunities and resources that mean not everyone is able to enjoy these rights in reality, and of protecting the most vulnerable. Social protection is therefore particularly vital to tackling poverty in a rich, unequal country such as the UK.

What is social protection?

Social protection includes essential services (such as health and education), as well as targeted support (such as benefit payments) for those who need it. According to Oxfam’s definition, social protection refers to those public and publicly-mandated initiatives that aim to:

1. Protect individuals and households from the effects of chronic poverty;
2. Prevent individuals and households from declining into destitution; and
3. Enable vulnerable individuals and households to cope with and overcome a chronic, seasonal or shock-induced inability to meet their basic consumption needs.

The out-of-work benefits system is an essential part of the UK’s social protection network to tackle poverty, ensure an equitable society and provide a safety-net for the most vulnerable. But at the moment the benefits system simply isn’t achieving its aim – which is why Oxfam is calling for reform.
4. The out-of-work benefits system

An historical perspective

Although the origins of different parts of the UK’s social protection system are found throughout our history, the current system came into being with the implementation of the Beveridge Report from 1942. Beveridge aimed to alleviate the five causes of poverty which he termed: ‘Want’, ‘Ignorance’, ‘Squalor’, ‘Idleness’, and ‘Disease’. A commitment to alleviate the causes of poverty is still an essential part of public policy-making – and something that the UK is rightly proud of. The five ‘causes’ are also a helpful reminder that overcoming poverty is about more than work and income: it is also about the resources and assets that people can create, and draw on, to get by.

On average, childcare costs in the UK absorb around a quarter of a woman’s earnings, regardless of whether she works full-time or part-time.

‘My kids are why I’m not working. I went through a terrible divorce. I own my home, and I do get benefits, but I’m in that kind of stuck situation where I’d have to get into a very high-paid job to be able to afford to stay where I am, even though it would cost the government more if I was in rented accommodation.’

Sara, Wales

There were, however, problems built into the benefits system from the start. Entitlement to payments was based on contributions, normally paid by the employed man in a household. This meant that full-time employment and the idea of the male breadwinner, nuclear family dominated, and that many people, especially women, were excluded from the system.

Over time, the whole benefits system has been adapted, but without fundamental reform. There is now greater emphasis on means-testing of out-of-work benefits, for instance. Over the past two decades, there has also been a move towards seeing ‘protection’ as coming with responsibilities; and a myth has been built that people do not want to work. Benefits have also been reduced: originally they were linked to earnings, but now only match prices; in reality this means that an unemployed couple with two children will have to survive on £115 a week less than the amount which the government defines as the poverty line.

The system as it is now

An inflexible system...

Bizarrely, in an age of technology and ‘joined-up’ policy-making, the out-of-work benefits system is extremely inflexible and not responsive to the needs and circumstances of individuals. In particular, it cannot respond effectively to the needs of women, who still take on the majority of caring work in families. There is no provision of additional childcare support when women are job hunting, for example; and if a woman loses her job, she immediately loses financial support for childcare, meaning the support system she has created to be able to work and bring up children crumbles around her.
One of the purposes of a good system of social protection is encouraging and supporting people as their livelihoods improve. However, the current system identifies the needs of a person at one point in time, rather than recognising that people’s lives change over time. So, for example, while increasing benefits for unemployed parents of children can help raise that household out of poverty, withdrawing these abruptly when those parents go into work can prevent them from being able to take employment.

This problem led the Centre for Social Justice (CSJ) to undertake ‘dynamic modelling’ which assumes that, ‘when confronted by a change in benefit rules that changes their financial position, people can and will reassess their decisions and rearrange their affairs’. As a result, the CSJ has proposed a flexible benefits system that would help to overcome poverty while providing employment incentives. Many of Oxfam’s recommendations reflect the work of the CSJ.

... for a flexible labour market

The inflexibility of the benefits system contrasts markedly with the flexibility of the modern labour market, and the patterns of recurrent unemployment as many people move regularly in and out of work. In the decade up to 2008, half of the men and one-third of the women making a new claim for Jobseeker’s Allowance (JSA) had previously made such a claim less than six months earlier, indicating that many people are not leaving benefits for sustainable jobs.

The labour market has changed profoundly on both the demand and supply sides. De-industrialisation has replaced a landscape of full-time, secure ‘jobs for life’ with a ‘more dynamic and insecure working environment characterised by casualisation, low pay, and deskillled work in the new economy sectors’. This new economy is dominated by ‘irregular and contingent work… fixed term contracts, and the increasing use by employers of temporary staffing agencies’.

There has also been a rise in part-time and a decline in full-time work. This all means that it is less likely that someone will be able to move directly from benefits into full-time, secure work; and much more likely that they would be offered part-time, temporary, insecure work, which won’t provide a sustainable income in the long term. This particularly affects women whose predominance in poor quality, low-paid employment has long been noted. It also means that they may return to benefits relatively quickly.

... and a rise in conditionality

Under the narrative of ‘rights and responsibilities’, there has been an increase in the conditionality of benefits. Under the policy, benefits have to be earned in return for recipients undertaking certain activities: for example, single parents being obliged to take up work when their youngest child reaches a certain age, or the removal of benefits from people who do not accept greater responsibility for finding work.

The
policy of conditionality is problematic for several reasons:

- Conditionality systematically fails to understand why so many people are still in receipt of benefits and not able to find work (for example, because the work they are offered does not provide a secure, adequate income, or because it cannot be combined with their caring responsibilities).

- It is actively counter-productive, serving to frighten people and making it harder for them to engage with programmes that could support them into work.

- Increasing conditionality is very costly because of the increased administration involved. The policy soaks up money that could be better spent on personalising services for jobseekers or reducing barriers to work.

### Struggling with the system

Kevin, a qualified engineer and surveyor, was earning around £40k a year when his company went bust in April 2008. He has since struggled to find permanent work and to receive the benefits to which he is entitled. He applied for benefits immediately, but despite constantly chasing his claim, received nothing for five months. By this time his redundancy money had gone, and Kevin had built up considerable debts as he struggled to pay his mortgage. The stress of financial pressures and ill health contributed to the breakdown of his marriage.

At one point, Kevin managed to get a day’s work as an extra on a television soap. He was paid £77, but when he declared it at the Jobcentre, expecting to lose a day of JSA, he was told he would lose a week of benefits. He gained £13 from his day’s work. The Jobcentre made it very clear there really was no point in Kevin taking on any part-time work he found, and seemed to resent the paperwork it created. Kevin is looking for a well-paid, part-time or flexible job which he can combine with looking after his children. When he told staff at the Jobcentre he was looking for this kind of work, they laughed.
5. What the current benefits system means in reality

Living on benefits

Benefit levels are very low, and have been deliberately run down in comparison with wages over the past 30 years in order to make them more and more difficult to live on, and to act as a disincentive to claimants. As a result, people on benefits may struggle to feed their children properly, to buy essentials such as a winter coat or a second pair of shoes, or to cope with a crisis such as mending a broken boiler. But, despite being inadequate, benefits still afford people a stability of income that the modern labour market increasingly denies them – which is why it is not always a rational choice for someone on benefits to take up paid work, particularly if he or she has caring responsibilities.

Traditional ‘better off in work’ calculations also ignore the importance of non-financial assets in enabling people to cope with their day-to-day lives and in emergencies. ‘Assets’ include a person knowing they are able to pick their children up from school every day if they are not working, or being able to rely on reciprocal childcare arrangements with neighbours. An awareness of the importance of non-financial assets in enabling people to get by is vital in understanding why people, quite rationally, might not be willing to put these at risk for the sake of increasing their financial assets.

The transition to work

Starting a new job is often a difficult time. The current benefits system makes the transition from unemployment to work even more difficult than it needs to be, and means that people entering the workplace from benefits are often more vulnerable to poverty and suffering, rather than less. The risks of moving from benefits into work include:

- The gap between benefits being stopped and wages being paid means that there’s a high risk of being left with no cash.
- The short-term, part-time, low-paid work that tends to be available to people coming off unemployment benefits often only pays slightly more, and occasionally even less, than benefits. Over half the people living in poverty in the UK are in work, so work alone clearly does not give people enough to escape poverty.
- Starting a new job often has costs attached, such as transport, childcare or clothing. Particularly for women, the combination of unaffordable childcare and low wages means many cannot consider the transition at all.
• Although working is extremely beneficial for people’s health in the long term, it brings a lot of challenges during the first few days and weeks. Stress increases, which can be made worse by financial worries (see above).

• People’s non-financial assets, such as their friendships or informal childcare arrangements, are changed by working, which can lead to conflict and stress. It is these assets that allow people living in poverty to cope – so it is vital that they are taken into account in policy proposals.

**Calling for a more flexible benefits system**

As a local community activist and volunteer, Lisa was invited to become a parish councillor. When she declared her small allowance of just £300 per year to the Jobcentre, Lisa’s benefits were cut, she faced eviction, and ended up in debt to a high-interest money lender in order to have enough to live on.

Lisa is critical of the fact that the tax and benefits system does not allow people to take on small amounts of work without losing benefits, and must work at least 16 hours a week to qualify for the working tax credits that will boost their income:

‘Sixteen hours is a big leap for someone who’s not been doing anything for years. If they were happy to just do two hours, four hours, six hours, that’s great, and we should welcome that, embrace that – not shut the door on it. Not say, “if you’re not doing 16 hours it’s not happening”. I think there needs to be a bit more flexibility.’
6.

The non-financial contribution made by people living in poverty

‘The 11 years I looked after my parents I went through all my savings... I have been constantly trying to get back into a situation where I’m in a reasonable financial position.’

Robert, Thornaby

We have already said that most people on benefits would like to take up paid work if they were able to. Oxfam’s recent report Something for Nothing also highlights how people on low incomes make a vital contribution to society through unpaid caring and community work. More ‘mutual aid’ work, or informal volunteering, is done in low-income communities than in affluent communities. One survey of household work practices found that 6.8 per cent of exchanges are unpaid in affluent suburbs, against 15.6 per cent in lower-income neighbourhoods. This type of social help is one of the key community assets which help people survive whilst they are living in poverty.

However, the welfare system does not recognise or support this type of work. The regulations on volunteering while claiming benefits are not widely understood, nor applied consistently. Although claimants lose nothing if they claim only expenses, this is not widely recognised. As a result, many volunteers end up hiding their volunteering from the Jobcentre, or don’t take up fixed-length volunteer placements for fear of losing their benefits. Those who want to undertake part-time, temporary work in their communities, of just a few hours a week, cannot do this and remain on benefits.

Something for Nothing also explores how caring for relatives has a significant impact on a person’s ability to earn. A recent survey found that more than half of those who care have given up work to do so, ‘while one in five have [had] to reduce the hours they worked’. Many people care because they are poor, and stay poor because they care. The most recent survey of unpaid caring estimated the value of unpaid care of adults in the UK at about £87bn per year.
7. Conclusion

“We need a welfare system that is fit for purpose... fit for the reality of 21st century Britain. A system that does not punish those who can’t work, but actively helps people who can move into jobs. A fair, flexible system.”

Kate Wareing, Director UK Poverty Programme, Oxfam

Oxfam’s vision is that everyone in the UK has sufficient income to enable them to live a secure and dignified life, and is able to participate in the community and society in which they live. But, at the moment, the benefits system traps millions of people on the low - but to some extent secure - income they derive from benefits. It is also preventing them from participating in voluntary or part-time paid work, and, in the longer-term, from progressing to better-paid employment.

Now the coalition government plans to reform welfare in the UK, providing a real opportunity to change the out-of-work benefits system for the better. Oxfam believes that, if the government understands the barriers that prevent people from taking up jobs and the complex range of factors they must consider in making decisions that will allow them to cope day-to-day, it will be able to design a flexible benefits system which actively supports people into work and makes a real contribution to tackling poverty in the UK.

Below, we set out the key principles that we believe should guide welfare reform, and a set of recommendations for immediate action. The government should design a benefits system which:

1. Recognises that work should always pay, and creates incentives to work.

It is clear that, if work is to be seen as an incentive and not a punishment, it must always pay. At the moment, people on benefits who take on paid work are taxed at up to 95 pence for every pound they earn - a marginal tax rate not experienced by even the most highly-paid people. For many people, it is simply not worth the risk of taking on work, given the additional responsibilities, costs, and complexity that it would entail. The CSJ’s Dynamic Benefits report stated that ‘employment and career progression above all has to pay, and if we understand that this is part of what motivates those already in work, why do we seem to expect something altogether different of benefit claimants?’

Recommendation:

In line with proposals made by the CSJ, Oxfam is therefore calling for an increased ‘earnings disregard’ for each household, allowing them to keep a certain amount of income from paid work before any benefit is taken away. After this, anyone coming off benefits should be allowed to keep 45 pence in every pound they earn, until they can earn more from work than benefits. And rather than having to ‘sign on’ and ‘off’ as a person undertakes short-term work, benefits should be paid and withdrawn predictably alongside any tax, in a Pay as You Earn process. If these measures were implemented, people on benefits would be able to increase their income through taking on some paid work, giving them valuable skills and experience which will help them, in time, to move to full-time paid work.
2. Recognises that people should not be forced to live in poverty.

People need a basic level of income to live on and to be able to participate in society - to be able to do things such as have a meal with family or friends, send their children on a school trip, or to cope when a piece of household equipment breaks. Yet benefit levels are set too low for many people to be able to cope and participate in this way: they are currently set at one-tenth of average earnings, compared to one-fifth only 30 years ago, making it much harder for people living on benefits to get by.

*Recommendation:*

Oxfam believes that, in a rich society such as the UK, no-one should live in poverty whether they are in or out of work. We are therefore calling for benefits (as pensions) to be triple-locked to average earnings, prices, and 2.5% - so that that benefits would rise in line with the highest of these three. This would stop further erosion in the value of benefits and guard against increasing inequality.

3. Recognises people’s dignity and rights, and is based on cooperation rather than coercion.

The right to social protection and the right to a dignified life are fundamental and enshrined in the Universal Declaration of Human Rights. Welfare payments are not the charitable acts of a beneficent government to the less fortunate – but an essential part of the protection system that supports and benefits us all.

*Recommendation:*

Oxfam therefore wants to see an end to the agenda of ‘conditionality’, where conditions are placed on the receipt of benefits with no account taken of individual circumstance. We also want changes to make the system less complex, frustrating, and de-humanising – and make it easier, faster, and more efficient to make a claim. In the long term, a contract of welfare rights for all benefit claimants should be developed to ensure that they receive certain standards of service and respect.

4. Recognises people’s different needs.

It is vital that the benefits system treats people as individuals rather than continuing the current ‘one-size-fits-all’ approach. More must be done to ensure the differing needs of men and women, different ethnic groups, and disabled and non-disabled people are addressed. Information and advice should be provided to people in appropriate formats, and service should be appropriately tailored to need.

In addition, benefits should, as far as possible, be calculated on an individual rather than household basis. Individualisation of benefits would ensure that benefits reach members of households equally, rather than going to one household member, who may not necessarily
redistribute. Women are less likely to receive household benefits than men: 83 per cent of non-working, non-claiming partners of benefit recipients are female; yet women are often the providers of food within families and, in this case, may not have access to the cash they need to do this.

**Recommendation:**

Oxfam wants to see benefits for couples split into equal halves, paid to each member of the couple.

**5. Recognises the non-financial contribution made by people living in poverty.**

The contributions to society made by people living on benefits are much wider than through paid employment alone. These contributions include volunteering, caring, and the informal support provided for neighbours and communities through social networks.

**Recommendation:**

Oxfam is calling on the government to pilot a Community Allowance scheme, which would allow local community organisations to pay unemployed people to do part-time or short-term work that strengthens their community. This would involve allowing the unemployed person to keep their earnings on top of benefits, to a limit of £4,469 over a year, or the equivalent of up to 15 hours’ work paid at the minimum wage.

Oxfam is also calling for more targeted support for people returning to work after a period of caring.
8. Summary of recommendations

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<th>Principle</th>
<th>Immediate Action</th>
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<td><strong>1. Recognise that work should always pay and create incentives to work.</strong> The benefits system should support people moving from benefits into work by recognising the small steps they take along the way.</td>
<td>Reduce the marginal tax rate barrier to job entry, where up to 95 per cent of the extra money earned in a job is immediately taken off a person’s benefits. Reduce means-testing by setting a basic earnings level, called an earnings disregard, for each household’s needs. 55 per cent of post-tax earnings above this level should be taken away from the benefits, through a <em>Pay as You Earn</em> process.</td>
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<td><strong>2. Recognise that people should not be forced to live in poverty.</strong> There is a basic level of income that people need to live on.</td>
<td>Triple-lock the value of benefits to the highest of average earnings growth, inflation, and 2.5 % (as has recently been announced for state pensions), to stop further erosion of their value and guard against increasing inequality.</td>
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<td><strong>3. Recognise people’s dignity and rights.</strong> The benefits system should be based on cooperation rather than coercion.</td>
<td>Reduce the complexity of the system, so starting and stopping claims becomes easier, less stressful, and cheaper. End the policy of conditionality.</td>
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<td><strong>4. Recognise people’s different needs.</strong> The welfare system should take account of the different caring roles played by men and women, the needs of people with different abilities or cultural expectations, and the aspirations of different people.</td>
<td>Split benefits for couples into equal halves, paid to each member of the couple.</td>
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<td><strong>5. Recognise that contributions go beyond paid employment.</strong> The welfare system should recognise that society needs volunteering, caring, and social networks to function properly, and that these have value.</td>
<td>Pilot a Community Allowance scheme, which includes allowing unemployed people to keep earnings up to the equivalent of 15 hours a week at the minimum wage without losing benefits. Provide specific support for people returning to work after a period of caring.</td>
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References


2 Labour Market Statistical Bulletin – May 2010, Office for National Statistics

3 World Economic Outlook Database, International Monetary Fund, April 2010 (data for the year 2009)

4 The term ‘individual’ is used here to refer to socially-excluded groups such as women, children, elderly or physically-challenged people, or those excluded by virtue of their ethnicity, religion, caste or sexual orientation.


6 Reconciliation of Work and Private Life in the UK, Colette Fagan, Rory Donnelly, and Jill Rubery, University of Manchester (March 2005)

7 Dynamic Benefits: Towards welfare that works, Centre for Social Justice (September 2009)

8 Ibid.

9 Joseph Rowntree Foundation / Peter Kenway, April 2009

10 Helms and Cumbers, Regulating the New Urban Poor: Local Labour Market Control in an Old Industrial City, Centre for Public Policy for Regions, Discussion Paper 3 (May 2005)

11 Ibid.


13 A minimum income standard for Britain in 2009, Joseph Rowntree Foundation (July 2009)


15 See the recent case of a pregnant woman who declared her volunteering for Derbyshire Unemployed Workers Centres (DUWCs) and had her benefits stopped. The ordeal contributed to stress-related ill health and, she believes, to her baby being born early. See Solidarity 24, the quarterly newsletter of DUWCs, summer 2009.


17 Due to a range of benefits being withdrawn as people enter employment, the combined withdrawal rate can reach 95%. This includes Jobseeker’s Allowance (which is withdrawn at 100% beyond £5 ‘earnings disregard’, and Housing and Council Tax Benefits (which are withdrawn at a rate of 85%). The net result is that, for every pound, whilst on benefits, people are often only a few pence better off.

18 Dynamic Benefits: Towards welfare that works, Centre for Social Justice (September 2009)
