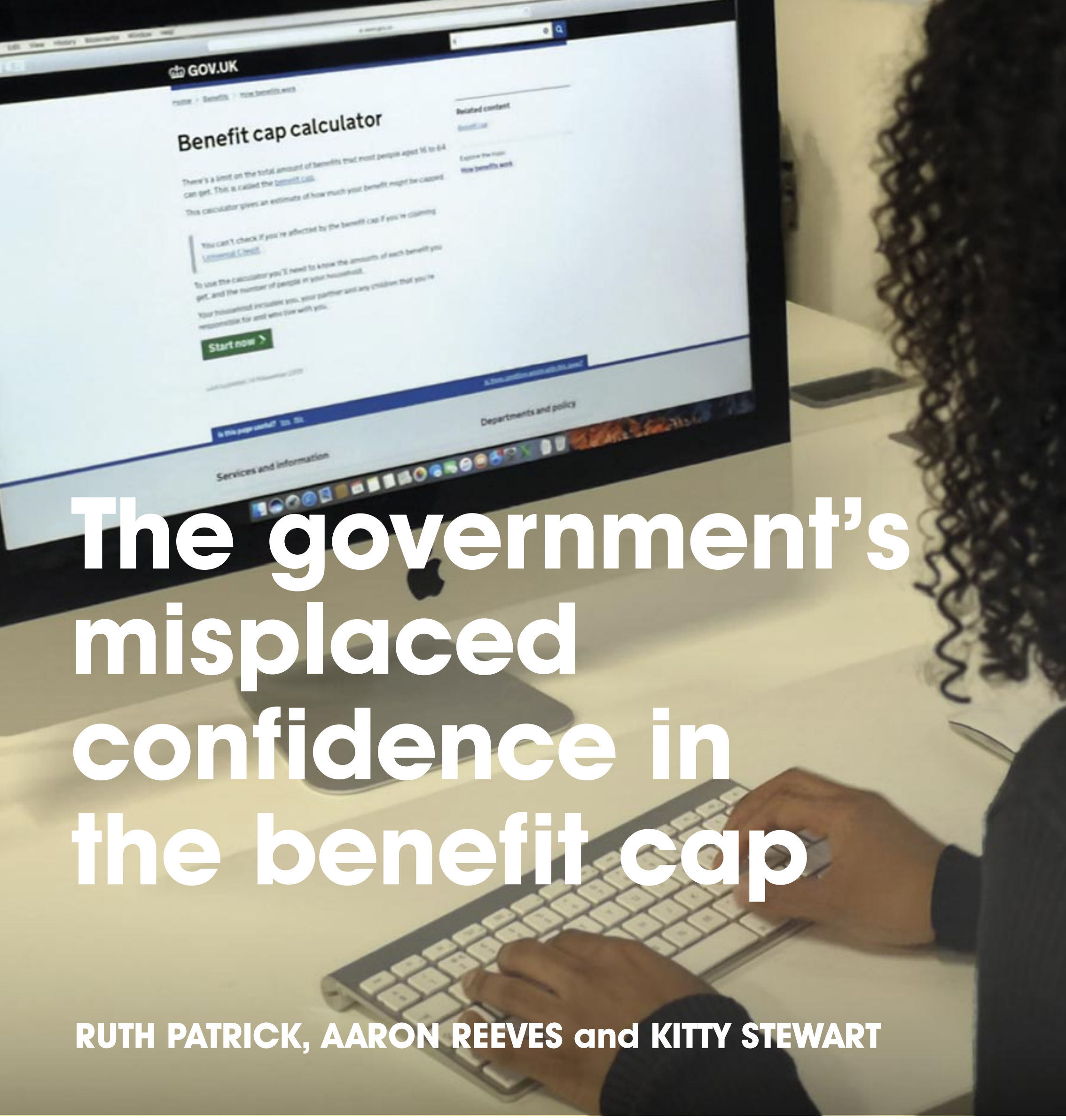

The government's misplaced confidence in the benefit cap

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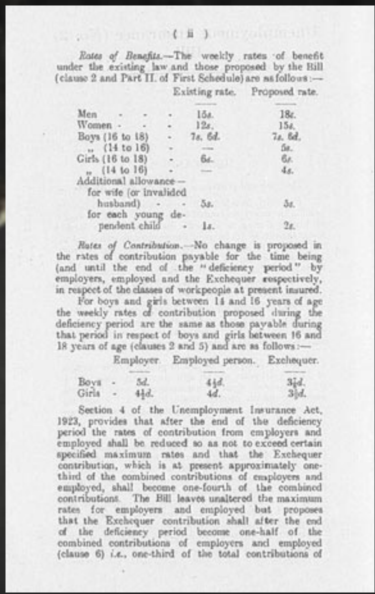
(ii)

Rates of Benefits.—The weekly rates of benefit under the existing law and those proposed by the Bill (clause 2 and Part II. of First Schedule) are as follows:—

	Existing rate.	Proposed rate.
Men - - -	15s.	18s.
Women - - -	12s.	15s.
Boys (16 to 18) -	7s. 6d.	7s. 6d.
„ (14 to 16) -	—	5s.
Girls (16 to 18) -	6s.	6s.
„ (14 to 16) -	—	4s.
Additional allowance—		
for wife (or invalided husband) - -	5s.	5s.
for each young dependent child -	1s.	2s.

Rates of Contribution.—No change is proposed in the rates of contribution payable for the time being (and until the end of the "deficiency period" by employers, employed and the Exchequer respectively, in respect of the classes of workpeople at present insured.

For boys and girls between 14 and 16 years of age the weekly rates of contribution proposed during the deficiency period are the same as those payable during that period in respect of boys and girls between 16 and 18 years of age (clauses 2 and 5) and are as follows:—

	Employer.	Employed person.	Exchequer.
Boys -	5d.	4½d.	3¾d.
Girls -	4½d.	4d.	3½d.

Section 4 of the Unemployment Insurance Act, 1923, provides that after the end of the deficiency period the rates of contribution from employers and employed shall be reduced so as not to exceed certain specified maximum rates and that the Exchequer contribution, which is at present approximately one-third of the combined contributions of employers and employed, shall become one-fourth of the combined contributions. The Bill leaves unaltered the maximum rates for employers and employed but proposes that the Exchequer contribution shall after the end of the deficiency period become one-half of the combined contributions of employers and employed (clause 6) *i.e.*, one-third of the total contributions of

Memorandum from a cabinet meeting held in 1924 discussing unemployment bills to limit the period of time people could receive benefits and the conditionality of attending 'courses of instruction'. Rates had already been capped by the Unemployment Insurance Acts of 1920 and 1924. Today, the benefit cap restricts the total support families can receive, and people can use online calculators to estimate how much a household's benefit might be capped.

The benefit cap has been in place since 2013, but what has its impact been when compared with its objectives? How does the rhetoric match up with the reality for the tens of thousands of families affected? And does the benefit cap have any place during a pandemic?

The UK government has at various times and in different ways placed limits on entitlement to social security. From the 1930s until the 1970s, a wage stop placed an upper limit on the total amount of social assistance available to unemployed or temporarily sick households. These limits were justified in what has now become quite familiar language: limits were necessary to ensure that those out of work were not better off than those in work. As Dr Chris Grover has highlighted in a recent article, when Margaret Thatcher was prime minister, her government considered the introduction of a 'benefit cut off' as part of the Conservative party's manifesto commitment to 'restore the incentive to work'.[1] This policy was never implemented, however, because officials feared both that the policy would be too unpopular and that it would disproportionately increase poverty among larger households.

Origins and contradictions

By the time David Cameron and George Osborne were in power, no such fears remained. Shortly after they formed a coalition government with the Liberal Democrats in 2010, Osborne, then chancellor of the exchequer, used his speech at the Conservative Party Conference to deliver a critique of excessive welfare spending.

> *'If someone believes that living on benefits is a lifestyle choice,'* he said, *'then we need to make them think again. And we need to change completely the system that has allowed and encouraged them to make such a mistaken choice'.*[2]

Osborne was true to his word, and during the same speech he introduced the benefit cap, one of those changes to the system that was intended to 'make them think again'. As the wage stop did, the benefit cap places an absolute upper limit on the total amount of financial support that a family can receive from the state in a particular year across almost all forms of social security. The cap is not applied to everyone, however; there are exemptions if a family has someone in work or if a family member is in receipt of disability benefits.

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These exemptions were intended to help the cap target spending reductions and work incentives on a group whose entitlements were perceived to be too large. Exemptions are also supposed to target the cap at households who could (read 'should') make transitions from welfare and into work.

There is a notable mismatch, however, between the conditionality requirements that operate through work-related welfare conditionality and the reach of the cap. There are households in which adult members are not expected to take many steps to secure paid employment as a condition of receiving benefits (for example, single parents with young children), who may still find their benefits capped unless (or until) they find paid employment. Yet this policy is still defended with the rhetoric of fairness. As prime minister David Cameron noted at the time, 'are [taxpayers] working hard to give benefits so people can live in homes that they [the taxpayers] can only dream of? I don't think that is fair'.[3]

This language of 'fairness' is reminiscent of the justifications used for the old wage stop and the benefit cut off. Indeed, Geoffrey Howe, chancellor of the exchequer in Margaret Thatcher's government, argued that it was 'offensive to many people to see a man out of work who, simply due to the fact that he has a large family, is collecting – untaxed – any reasonable proportion of a national average wage'.[4] In some respects, both Howe and Cameron were right (and the civil servants of the time wrong) because the benefit cap has proven to be popular among the general public. Polling in 2013 found that 74 per cent agreed with the principle of capping benefits.[5]

Critically, justifications for the cap rest on crude divisions between taxpayers and households relying on social security, ignoring the reality that we all pay taxes and rely on social security, albeit in different ways and at different times in our lives. As the late Sir John Hills wrote, 'there is no "them and us" – just us' because 'most of us get back [from the state] something close to what we pay in' over our lifetimes.[6] Furthermore, the rationale that the cap creates an incentive to enter work aligns poorly with the reality that many capped households are on benefits for which they are not required to seek employment as a condition of receiving those benefits. Such households include parents with young children, who are often busy with the real and hard work of parenting.

Finally, some have drawn attention to the policy's attempt to compare an out-of-work family's *total income* with an in-work family's *earnings*. This comparison is problematic because it ignores differences between families in their composition and, therefore, in their spending needs, too. The benefit cap also overlooks the additional support to which many in work families are entitled that increases their *total income* and helps them meet their needs – for example, through children's benefits and housing support. Such inconvenient details are rarely mentioned in discussions of the cap because they merely serve to blur the simplistic dichotomies on which the benefit cap's logic rests.

Unsurprisingly, the cap has not had much success in achieving its stated aims of cutting costs and incentivising employment. The amount of money saved has been relatively small, particularly when set against the costs of administering the cap, including assessing exemptions.[7] The minimal cost reductions are due to the fact that few people have moved to cheaper accommodation as a result of the cap, meaning limited savings have been made on housing benefit and the housing element of universal credit (UC). The cap has not been an effective labour-market activation tool either. Around a third of people who moved into work after being capped would have done so anyway, with the cap leading to an increase in employment of around five percentage points.[8] It is also unclear how far any cost savings from the cap are offset by increased costs of temporary housing and the provision of discretionary housing payments by local authorities, which are often targeted at households affected by the benefit cap.

Unintended consequences

The limited employment effects of the benefit cap need to be examined alongside other unintended consequences of the cap. In our recent work, funded by the Nuffield Foundation, we explored the mental health effects of the cap.[9] We looked at a particular moment in the lifecycle of the policy. In November 2016, the cap was reduced from £26,000 per year to £23,000 per year for families in London (£15,410 for single people) and to £20,000 (£13,400 for single people) outside the capital. We treat this alteration as an experiment in which we compare the 'treated' (those at risk of being affected by this new, lower benefit cap) with the 'untreated' (those not at risk). Our analysis is based on a nationally representative survey of around 1.4 million people, some of whom were interviewed before the cap was lowered and some who were interviewed afterwards. We, therefore, compare the prevalence of poor mental health among those at risk of being capped and those not at risk of being capped, before and after the reduction.

Our main finding was that people at risk of being capped who were interviewed *after* the cap had been reduced were more likely to be experiencing poor mental health than those who had not been exposed to the cap.

> **People at risk of being capped ... were more likely to be experiencing poor mental health than those who had not been exposed to the cap.**

Phillip Hammond and George Osborne, the architect of the modern-day benefit cap, attend the 2013 funeral of Margaret Thatcher, whose government considered a benefit cap but ultimately recognised its unfairness (bottom). At an anti-austerity march in 2016, people protest the benefit cap (top).

Indeed, our data suggests that the mental health effects of this decrease worsen over time. The survey we use interviewed different people every month for up to two years after November 2016, so we can see what happened to mental health for the treated group in November/December 2018. Before the benefit cap was lowered, the proportion of people at risk of being capped who reported mental ill health was around 21 per cent, and that did not change between January 2014 and November 2016. By December 2018, around 30 per cent of those at risk of being capped were reporting mental ill health. This figure gives a nearly 50 per cent increase in the relative risk of mental illness for this group.

What is particularly striking about these figures is that they contradict the stated policy goals of the benefit cap. While it may be true that the benefit cap increases job search activity and even re-employment for some of those affected, the cap may simultaneously push a non-trivial number of people into experiencing poorer mental health. That is important, in part, because many of those experiencing poorer mental health will still be out of work, so the effect of the cap could be to push them even further away from the labour market. Indeed, some of those now in work may exit more quickly because of their mental health while others may be less likely to get work again in the near future.

The benefit cap during COVID-19

The coronavirus pandemic, and the government's response to COVID-19, have also undermined the aims and justification for the benefit cap. Despite increases in other forms of social security, the limit on the total amount of money claimants can receive remains in place. This limit persists even at a time when it has become incredibly hard to find a job or move to cheaper accommodation – the main ways for households to escape the cap. Not only are firms reluctant to take on new staff but the job retention scheme has reduced the amount of churn in the labour market we would have expected to see in the absence of a pandemic, so the number of new vacancies is low. Capped households are, in effect, being punished for their failure to find work, despite there being no work for them to take.

The cap is organised around a 'carrot-and-stick' approach, which also forms the rationale for stringent welfare conditionality and benefit sanctions. These restrictions were temporarily removed at the height of the pandemic but then quickly reintroduced during the summer of 2020. Notably, though, the cap persisted even when wider forms of welfare conditionality were suspended, revealing the government's fondness for the cap and its underlying principles. The cap's persistence across the pandemic only extends existing inequalities because the cap disproportionately harms ethnic minority groups, larger families and lone-parent households, which are often female led.

Before the pandemic hit, around 76,000 households were subject to the cap. These households, on average, lose around £2,600 per year – equivalent to £50 a week.[10] Since the pandemic, the number of capped households has risen dramatically. By August 2020, 170,000 households had their benefits capped, a 124 per cent rise.[11] A number of factors explain this increase. First, newly unemployed households could find themselves subject to the cap. These households are especially at risk if they have only recently moved into work (in the last 12 months) and do not, therefore, benefit from the 39-week exemption from the cap (often called the 'grace period'). Single-parent households, most of which are led by women, are likely to be disproportionately affected as the industries most impacted by the lockdowns have been female dominated. Second, the temporary £20 per week uplift provided by the government to households on UC and WTC has pushed people into having their benefit capped while also ensuring that all those already capped do not receive any additional support. A woman with children who lives outside London and who currently receives £19,500 in social security payments during the year, including help with the costs of housing, will only receive £500 of this additional payment because the cap will remove the other £500.

Crucially, many more households will be exposed to the cap in the coming months as those who lost work early in the pandemic find that their 39-week grace period comes to an end. The Department for Work and Pensions (DWP) recently acknowledged that 160,300 UC households were covered by a grace period that was due to end in December 2020, although not all of these households will necessarily be capped.[12] More careful estimates by CPAG suggest that around 76,000 households will end up being capped in the first few months of 2020 as their grace periods expire.[13] There is little doubt that over coming months thousands of families are going to find it much tougher to make ends meet as a result of the cap.

When viewed together, the mental health consequences of the cap, the lack of vitality in the labour market, the perverse joint effects of the £20 uplift (giving with one hand while taking away with the other) and the likelihood that even more families will be subject to the cap as their grace periods end, makes it almost impossible to defend the continued existence of the cap.

And yet, as recently as November 2020, DWP minister Mims Davies sought to defend the cap using the exact same language of fairness as those who have gone before her, 'the benefit cap restores fairness between those receiving out-of-work benefits and taxpayers'.[14] Persisting with this line of justification in the face of the pandemic seems peculiarly perverse. It continues to draw a false dichotomy between taxpayers and the recipients of out-of-work benefits, despite the evidence that these *are the same people at different points in time.* And it stubbornly fails to recognise the barriers many people face in returning to work – even if we're not in lockdown, schools and nurseries remain subject to closure at short notice and children are routinely sent home when COVID-19 'bubbles' burst.

The government's lack of willingness to move on the benefit cap is actually quite surprising. As Chris Grover's analysis has shown, even Thatcher's government ultimately recognised that such a policy would be 'unfair and discriminatory', and subsequently backed away.[15] The policy is no less unfair or discriminatory today, falling as it does most heavily on female lone parents and ethnic minorities, and yet the government seems determined to continue to shroud themselves behind the false rhetoric of fairness.

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Footnotes

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