

**OUR VOICE IN OUR
FUTURE:
BENEFITS**

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Social Work**

Our Voice In Our Future: Benefits

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Contents

Summary	1
Introduction	4
1. Reforms that have taken place	6
2. Overview of changes to pensions and benefits	10
3. Issues affecting benefits	11
4. Benefits fraud	13
5. Useful statistics	14
6. Changes in the tax system and paying for welfare	15
7. Political and economic changes	17
8. Current plans and government policies	20
9. Current views of user organisations	22
10. Issues for discussion	24
References	27

Summary

Introduction

Our Voice In Our Future is a project to give people who use services a say in how they change in the future.

There are three booklets: one on Benefits, one on Services and Support, and one on Mental Health Issues.

The booklets tell you what changes have happened already and the changes that are happening now.

We want to hear what everybody has to say about these things.

We are also talking to people in two areas to find out more about what they think.

Not everyone will agree with what we say but we think that it is important that users have a bigger say than before.

Our Voice In Our Future is part of a project called Shaping Our Lives. The Joseph Rowntree Foundation gave us the money to do this work.

Changes that have happened

There have been lots of changes to benefits in the last 20 years.

Here are the most important.

Benefits used to be put up by the same amount as the pay for people who work. They are now put up by the amount

that prices for what you buy go up. This means that benefits are not worth as much now.

The same happens with pensions for older people.

A lot is done now to make unemployed people get jobs.

Benefits for children now cost a lot more. There are more lone parent families than there used to be, which means that more is being spent on benefits.

There are also more people getting benefits because they are disabled.

Income tax is lower now and there are less taxes on businesses.

There are more taxes that everyone pays when they spend money.

Other issues about benefits

There will be more older people in the future which will mean more has to be spent on pensions.

There is a lot said about people getting benefits by fraud. Some people say that there is not as much fraud as the government and newspapers say.

Some people say more should be done for people who do not get benefits that they should get.

Everyone who has a job pays National Insurance but it does not work the way private insurance does.

Changes that have affected benefits

All governments now want to spend as little money as possible so that they can keep taxes low.

The economy has changed, and we have less factories

making things and less money coming into Britain from other countries. This means that less taxes are paid to the government, so it has less money to spend.

Many big companies now work in many different countries, and the government wants companies to have their offices and factories in our countries so that more people can get jobs. To encourage them to do this the government has to keep taxes low.

What the government is doing now

The government is trying to get as many people as possible off benefits and into jobs. It has the New Deal to help young people, disabled people, and lone parents to get jobs.

It has changed taxes to make sure people who work get more money than if they are on benefits.

Other ideas

Some people and organisations think the government is just trying to cut the cost of benefits and not doing what is best for people.

They say that people should be helped to find jobs, but benefits should be improved as well.

They also say that people on benefits should be treated better by the benefits offices and by politicians and the media.

Introduction

This booklet is part of the Our Voice In Our Future project which aims to give people who use services and receive benefits provided through the welfare state a say in the future.

It is one of three booklets which will give people background information on three key areas of discussion on future social policy. This booklet covers issues about benefits and financial support. The other two deal with Services and Support, and Mental Health Issues.

The booklets aim to help people think about the changes that are taking place and being planned to the services and support that is vital to our lives. The people running Our Voice In Our Future believe that people who use services and receive benefits have some of the most important expertise on these issues. We believe that any plans or changes that are made without talking with us first are unlikely to work or improve things.

Each booklet ends with a section called Issues for Discussion – you can use this yourself, or with friends and people that you meet or work with, to think about what you want to say about these issues.

We also hope that wherever possible, organisations that represent service users will send us their views on these issues (and where organisations have existing policy documents on these issues we would be pleased to receive them).

As well as publishing and distributing these leaflets, Our

Voice In Our Future is working directly with two local user-led organisations to hold discussions with different groups of service users to get a detailed picture of their views on the future of services and support.

When we have finished meeting and talking to people we will be writing a report that will be used to tell the government and MPs and others who influence policy changes.

There are many points about the future of benefits and welfare being debated at present and it's probably worth noting as one writer has observed¹ that there has never been very much agreement about the welfare state except in the years after World War Two when the system was being set up.

Our Voice In Our Future is unlikely to break 50 years of disagreement but it can mark the start of a stronger voice for users in this continuing debate.

Our Voice In Our Future is being run by Shaping Our Lives, a national project which works to show the importance of involving users of services in the planning and running of the services that they use. The work is being funded by the Joseph Rowntree Foundation as part of its Shaping Futures programme.

Michael Turner, Project Worker, Shaping Our Lives

1. Reforms that have taken place

The benefits system has been in a state of almost continuous change in the last 20 years as various governments have tried to adjust the system to the changing social, political and economic circumstances.

One of the key changes by the Conservative government of the 1980s was breaking the link between average earnings and benefits and pensions. Increases in pensions and benefits are now linked to inflation, that is the price increases of goods in shops. This has had a major impact on the value of benefits – see Section 5, Useful Statistics.

This has significantly reduced the amount spent on benefits and pensions, and some economists² have said there would be no difficulties in maintaining benefits at their current levels unless there is a sharp increase in unemployment. They have also pointed to the ‘peace dividend’ with the end of the cold war as freeing a lot of resources, although recent wars in the Gulf and Kosovo bring this into question.

The main changes to the different types of benefits in the last 20 years are summarised below.

Pensions

The first state pensions were introduced in Britain in 1908. With the introduction of National Insurance after the Second World War the amount people paid in changed with their income and pensions became linked to how much a person had paid in. In the 1960s the system split

into the current format of the flat rate pension paid to all and an earnings related pension.

The key change to the state pension in recent years has been the ending of the linking to rises in average earnings, a change made by the Conservative government in 1980.

The current government has rejected the idea of restoring the link, despite a continuing campaign by older people and their organisations. In July 1999 a Labour government review said that linking pensions to average wages would cost £10 billion a year which is too expensive.

A key government policy since the 1980s has been that people who are not in a pension scheme run by their employer should join a private scheme.

Unemployment benefits

Since the 1980s there has been a growing obligation and pressure on unemployed people to take any work that is available or join training schemes.

People who have paid sufficient National Insurance qualify for full Unemployment Benefit. At the end of this time they and others qualify for the Job Seekers Allowance which requires claimants to show that they are available for and looking for work.

The 1980s brought a range of schemes for unemployed people, such as the Youth Training Scheme in 1983 and the first penalties against people who refused the schemes.

The current government has adopted its own approach to this with its 'welfare to work' or New Deal programmes.

For many the key issue on 'welfare to work' is its emphasis on individual unemployed people as having failed and/or

being unwilling to work. Critics say that unemployed people need a more supportive and less authoritarian approach. One writer has summed up the issue as being about the difference between things being done *for* people who are unemployed or being done *to* people who are unemployed.³

Child and family benefits

Child Benefit has been the backbone of support for families and children since it was introduced after the Second World War. The main problem faced by this benefit has been keeping pace with inflation. There have been suggestions that it might become means tested or taxable, but the political unpopularity of such a move has held it back.

Support for families on low incomes with children was introduced in the 1970s, with the Family Income Supplement topping up wages to a target figure. This became the Family Credit in the 1980s, which has recently been replaced by the Working Families Tax Credit.

There are also benefits to give particular support to lone parent families. These have been the focus of a lot of attention in recent years because of the growing number of lone parents (see below) and the current government policy is to try to get lone parents into work wherever possible.

This has also been the focus of one of the most controversial moves on benefits in recent years with the establishment of the Child Support Agency in 1993. From its beginning the Agency attracted considerable criticism and hostility to its principle that lone parents on benefits must obtain maintenance from the absent partner. This

has been seen as putting the interests of the government and the 'tax payer' ahead of those of the children involved.

Although the stated aim of the Agency is to improve the situation of lone parent families, most people who have studied it believe it has had a bad effect on the families involved.

It is also important to note that young people under 19 years old do not qualify for any benefit if they are not employed.

Disability benefits

Disability benefits have changed considerably in recent years.

At the beginning of the 1990s the situation was actually improving with the introduction of the Disability Living Allowance. However, this new allowance really brought together two existing benefits, though it did also extend them to many others.

Since then there have been growing concerns about the number of people qualifying for disability benefits. These benefits have become the fastest growing area of the benefits budget.

There has been particular concern about Incapacity Benefit. Until 1994 this was called Invalidity Benefit but the government changed the name when it changed the rules and introduced a stricter test for the Benefit in an attempt to reduce the number of new claimants. There was a strong belief that people were claiming the Benefit because it gives more money than other unemployment benefits, although there was an equally strong view that during the high unemployment of the 1980s the government had encouraged the practice of putting

people on Invalidity Benefit rather than other unemployment benefits in an effort to reduce numbers of unemployed people.

The changes brought in with Incapacity Benefit did little to reduce the numbers claiming it, and the new measures to reduce the Benefit for new claimants were going through Parliament during 1999.

Suggestions that Disability Living Allowance should be means tested or taxed have been put off for the moment, although the government has said there should be a review of the allowance. People receiving the allowance have also been subject to substantial scrutiny through the Benefits Integrity Project which has reviewed many people's entitlement to the allowance.

The Project has actually found very little fraud, and the government has ended it saying that there have been problems with it and there will be a similar scheme to replace it.

2. Overview of changes to pensions and benefits

The result of all these changes can be seen as the fragmentation of the benefits system. One writer⁴ has pointed out that we now have a situation where there are no absolute rights, with everything being negotiable and subject to change.

The idea of an overall benefits system for everyone has broken up, with many turning to private pensions and insurance against unemployment and sickness.

There are still some universal benefits that everyone can get – Child Benefit, some disability benefits and the state pension. Some people question whether this is the best way to support people in greatest need and say that there should be ‘targeted help’ to people who need it most.

However, others say the universal approach is the best way to make sure that everyone who needs help gets it. They point to the fact that many older people who are entitled to benefits in addition to their pension do not claim them.

There is also a change in emphasis from social rights to social responsibilities – to self-reliance rather than support from the state.

The change is also shown in the idea of social inclusion and through the state trying to support equal opportunities in education and employment.

3. Issues affecting benefits

The benefits system has been said to be in need of change since the mid 1980s. It is said that the demands on the system have been getting too much for what can be provided.

Most of what we call the welfare state was set up in the years after World War Two. The system was seen as a safety net as the number of unemployed people was very low, but in the 1980s unemployment reached higher levels than ever before and included many people who were unemployed over a long period of time.

This, of course, meant the government had to spend more

on benefits and is the root of many of the changes now being discussed. While the number of unemployed people has gone down, it remains high compared to the time when the benefits system was set up.

As well as high unemployment there are several other issues that are said to be putting pressure on the system. One of the issues most often talked about by people who say that there has to be change is the increasing number of older people caused by people living longer. Current estimates suggest that the sharpest rise in the number of older people will happen in the 2020s.

Some people question whether these changes will have as much impact as has been suggested. Predicting future changes is very difficult, but the Department of Health itself said in 1996 that the changes would be no greater than those dealt with in the previous 15 years.⁵

Whatever the issues around changes in the population, many older people will point out that they have already spent their working lives paying into the state pension and many feel that they are being cheated out of what they are entitled to. Many of the reforms to the welfare state talk about it becoming a safety net, but older people see that they have paid into an insurance scheme and are now being denied what they have already paid for.

The other rise in demand on the benefits system has resulted from changes in families in recent years and the growth in the number of lone parent families, with more babies being born outside of marriage and more marriages ending in divorce.

4. Benefits fraud

There is a view that there is widespread fraud by people who claim benefits. It is one that seems popular in the media and one that is put forward by many politicians.

The government estimated in 1998 that around £7 billion of benefits are claimed through fraud. However, specific measures to tackle fraud have done little to prove these estimates. When the government set up a scheme to check up on claims for Disability Living Allowance it estimated around one in ten were getting the benefit dishonestly. The scheme found very few cases of fraud and was abandoned.

Similar schemes have also failed to show widespread fraud and the Audit Commission – which independently monitors public services for the government – said in 1997 that fraud is being over estimated.⁶

Where fraud does happen, there may be a need to give greater thought to why it happens.

This is a difficult area to study – people involved in this are obviously not going to be keen to discuss it. However, one small study⁷ found that very few people set out deliberately to commit fraud. It found that many people do so by accident because of the complexity of the benefits system, others resort to it because they find benefits pay too little to get by on, and some particularly referred to having to deal with debts.

5. Useful statistics

Spending on benefits

European Commission figures show that only Spain and Italy spend less on welfare than Britain as a proportion of overall spending (this is called Gross Domestic Product by economists).

Department of Social Security statistics show that spending on benefits went down from 12.87% of overall spending to 11.48% between 1993 and 1998.

Department of Social Security statistics show that overall spending went up by 8% during the financial year 1997/98. Spending on benefits at this time went up by 1.3%.

Benefits levels and values

Department of Social Security statistics show that while all benefits are around a quarter of average earnings, Income Support is just over 13% of the average income.

Wages for workers generally rise at above the rate of inflation but benefits increases are based on the underlying rate of inflation (which excludes housing and some other costs and is lower than the standard inflation rate). Here is the effect that this has, using 1998 as an example.

In 1998 wages rose by 4.6%. Overall inflation rose by 3.6%, but underlying inflation, and therefore benefits, rose by 2.4%.

The effect of this since the current system for upgrading benefits was introduced in 1983 is that a pension for a married couple based on the man's National Insurance contributions has gone down from being 34.8% of average earnings to 26.9% in 1998. Incapacity Benefit for long term

claimants with a dependent has gone down from 32.8% to 26.9%.

These figures are all from the Abstract of Statistics for Social Security Benefits and Contributions and Indices of Prices and Earnings (1999 Edition).

Figures for benefits fraud

In 1998 the government estimated that £7 billion a year was claimed by fraud.

Unclaimed benefits

Estimates of the value of unclaimed benefits vary.

Figures given in the House of Lords in 1998 suggest that £6 billion in disability benefits are not claimed every year.

An estimated 700,000 older people on state pensions are entitled to additional benefits through Income Support but do not claim it.

6. Changes in the tax system and paying for welfare

Challenging the high taxation policies of the Labour government of the 1970s was a key aim of the Conservative governments of the 1980s to the mid 1990s. It is also a key objective of the current Labour government.

Income Tax went down substantially during the 1980s. The

basic rate of tax was 33p of every £1 earned in 1979 and had been reduced to 25p by 1988. However, indirect taxation, particularly Value Added Tax which is paid on virtually everything that you buy, rose substantially at the same time – doubling from 7.5% to 15% when the government first reduced Income Tax in 1979. It was increased to 17.5% in 1991 in order to reduce the new community charge which replaced the poll tax.

Indirect taxes are generally seen as less favourable to people on low incomes, as they are likely to be paying little or no Income Tax but have to pay VAT on everything except essentials like food and children's clothes.

Both the Conservatives and New Labour say that Income Tax has to be kept low in order to encourage people to work. They see it as necessary to ensure that people on high incomes are not over taxed and discouraged from developing their companies and businesses, which they believe is bad for the economy.

National Insurance

National Insurance is a confusing issue in the British tax system. It comes from the moves to bring in insurance schemes for pensions and unemployment benefits into a national scheme. Policy has now gone in the opposite direction, yet National Insurance contributions still have to be paid by employers and employees, and for many people it creates a sense of entitlement that does not exist, particularly for older people around pensions.

The reality is that National Insurance is not an insurance scheme. It is subject to political decisions and can be according to political priorities – as has happened before when governments have taken decisions like reducing the time that Unemployment Benefit is payable and that

pensions should rise by the level of inflation rather than average earnings. It is a political decision that National Insurance should not operate as an insurance scheme.

The arrangements for paying for the welfare state are more complex than they first seem. Even looking simply at state provision there is a complicated relationship between local and central government, with local councils only responsible for 10% of taxes but providing about a quarter of services.⁸ Public money is then often to pay for private companies to provide a service.

The situation is becoming even more complicated with the Private Finance Initiative which involve private companies building hospitals and facilities and leasing them back to the National Health Service.

Private insurance schemes for health and benefits for illness and unemployment have grown rapidly in recent years.

7. Political and economic changes

The last 20 years have seen considerable changes in politics and the economy in Britain that have had a profound affect on the approach to the welfare state and benefits.

Political priorities

There were key changes in political priorities under the Conservative governments of the 1980s.

High levels of unemployment benefit became acceptable. This obviously had an impact on spending on benefits.

Government policy of reducing public spending to reduce taxation

Despite all the attempts to cut public expenditure it actually rose during the 1980s. There were some attempts to cut back but this had little effect due to increasing demand.

The Conservative government of the 1980s through to the mid 1990s were very keen that people should make private provision for their pensions, health insurance and the like because of its belief that business and enterprise should provide services rather than the state.

The current government also believes that individuals should make their own provisions wherever possible with the state stepping in where this is not possible.

Despite this, there is strong evidence that many people support the continuation of the welfare state⁹.

Part of the reason is probably that most people in society do benefit from the existence of the welfare state. While the system is designed to support people in the greatest need, universal benefits like the Child Allowance (and the education system, the NHS and police and fire services are all part of the welfare state) are of great value to all sectors of society.

As well as the direct benefits to individuals, there is recognition of the wider benefits of having a welfare state.

Some writers simply refer to support for the welfare state as 'enlightened self interest' – people support it because they know that they will or are likely to benefit from it. This is probably why surveys show that people support the NHS more than the benefits system.

Economic changes

Economics is a complicated subject but it affects all our lives and all aspects of the work of the government. It particularly affects the amount of money that governments have to spend on benefits and services.

There have been a number of important changes in the British economy in the past 20 years that have had a particular impact on the welfare state.

Manufacturing

During the 1980s the number of companies and factories in Britain actually making goods went down sharply. This meant that there was a drop of about two million in the number of people in manufacturing jobs in the 1980s.

This has meant that more money is spent to bring things in from other countries – and because we have less factories making things, we do not sell as many things to other countries. This is what is called the balance of trade.

North Sea oil

During the 1980s Britain had a high level of income from North Sea Oil which meant that the closure of many factories did not seem as bad. That income is now declining.

Globalisation

One of the key concepts in current economics is called globalisation. This means that countries are becoming

more and more similar because the large companies now work in all parts of the world. Major companies like this – which include computer companies like IBM and Microsoft, large oil/petrol companies like Shell and BP, and car makers like Ford and Nissan – have their offices and factories in whichever part of the world they believe is best for them.

This means that governments want to attract companies like this to work in their countries. To do this they will have policies like keeping taxes on companies low, limiting employers' responsibilities to employees, and providing subsidies to help companies.

Some economists say that one of the effects of globalisation will be a permanent unemployment level of 10–15%.¹⁰

Some people also believe that globalisation will mean that the welfare systems in different countries will become more and more similar. While it is certain that many countries are looking at their welfare systems, it is not clear whether they are making similar changes.

8. Current plans and government policies

The Labour government was elected in 1997 with a promise to reform and modernise the welfare state.

It says that the system needs to be updated for the current situation and the future. They say that the existing system does not work and point to the fact that so many people

are still very poor and depending on benefits as showing that the system has failed.

It says that the best way to improve the situation is to give people on benefits support and assistance to find work wherever possible. It plans to do this with its New Deal programme with schemes to help young people, lone parents and disabled people to get jobs – which is being backed up with changes in the rules on benefits that will require people to attend interviews to get help and advice on getting a job.

Changes to the tax system came into effect in the autumn of 1999 that support this policy. The Working Families Tax Credit will guarantee the income of families on low incomes and reduce the tax that they pay. There is a similar credit for disabled people who return to or take up work. The minimum wage will also help families in this situation.

The government has also made a specific commitment to reducing child poverty, with additional money being put into education to provide children in deprived areas with a better start.

However, there are also reports that parts of the government are still concerned with reducing spending on benefits. Despite it being said that changes are not based on the need to reduce the amount spent on benefits in the government's long term plans for reform, some of the changes in the Welfare Reform and Pensions Bill have been seen as simply aiming to cut costs – such as restricting claims for Incapacity Benefit for people who have private pensions and plans to end widows' benefits.

The government has also continued the Conservatives emphasis on fraud in the benefits system.

9. Current views of user organisations

Views on the current plans

There is a strong lobby of pressure groups that represent the interests of welfare state service users to Parliament.

It is important to note that many groups working on behalf of welfare state service users are not run or controlled by service users – although they do often work closely with organisations run by service users.

They have been strongly opposing many of the measures being proposed by the government. In particular, they point to the difficulties associated with getting work for disabled people and lone parents. They stress that there will always be people who are unable to work for such reasons and that the current plans do not go far enough to address the needs of people in this situation.

They have also been critical of the way the government has consulted and involved people. A forum had been set up by the government to consult organisations representing disabled people, but most of the groups involved left the forum in the spring of 1999 saying that their views were not being listened to.

Alternative ideas

Some have suggested that a big problem with the current plans is that they are too focused on the individual and that this penalises people. Critics say that more should be done to look at needs of areas and communities, and that regenerating communities is the best way to get people into work.¹¹

There have also been calls for the benefits system to recognise the importance of activities beyond paid employment. The Labour Party's own Commission on Social Justice's report suggested just this in its 1994 report, and such a system would recognise the importance of the contribution of people with responsibilities for child care or supporting disabled or older relatives.¹²

Beyond this, some have pointed to the need to change the way we approach benefits and the poor way in which people on benefits are treated. One study of people involved in fraud suggested that increasing means testing and the growing emphasis on fraud in the benefits system is leading to people feeling stigmatised, undervalued, as second class citizens, and that more rights and respect for claimants are necessary and may be the best way to tackle fraud.¹³

Taxation is a difficult issue. Many people say that they support increased taxation for a better welfare state, and continued surveys have shown this over many years that people support the welfare state. International surveys have also shown the idea of state welfare to have more support in Britain than in other countries.

Even during the 1980s there was no apparent shift away from support for the welfare state in surveys, yet the political support for the system seemed to decline, and many elections have been fought on the issue of low taxation. One explanation of this is the way the election system works, as governments generally do not have the support of the majority of the electorate.

Interestingly, surveys of the views of supporters of particular political parties have shown little support amongst Conservative voters for reducing taxes at the expense of welfare.¹⁴

The future of the welfare state might be seen as being tied to improving the democratic system. At the moment many of the people who depend on the welfare state do not participate in elections and other aspects of British democracy. To improve one it seems we might have to improve the other.

One way of trying to challenge this is earmarked taxes, which have been tried on a limited basis in America and are to be introduced in relation to cigarette taxes, and some fuel taxes by the British government in its budget for the year 2000. Such a system is seen as very difficult to administer in practice but is seen as a way of giving people more information about how taxes are spent.

Another idea is to restore the idea of social insurance – state supported insurance schemes which everybody pays into (National Insurance goes some way towards this but is subject to political decisions) – to provide for pensions and other benefits. Supporters of this idea believe it would offer far greater security for everybody, and some say that social insurance could also be used for health care and education.

However, one study which looked at social insurance in relation to long term care found that people did not trust the government to run social insurance schemes and many believed that the private sector would invest the money more effectively.¹⁵

10. Issues for discussion

The following questions may help you to think about the issues about the future of services and support. Our Voice

In Our Future wants to hear from all service users about their views on these issues. You could send us your answers to these question or write to us about anything else that you think is important.

Send your views to:

*Our Voice In Our Future, c/o NISW, 5 Tavistock Place,
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Tel: 020 7387 9681

Fax: 020 7387 7968

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Here are the questions which cover the main issues that we want to cover on welfare reform.

What is the welfare state?

This seems a basic question but it is probably the most important issue that we need to have agreement on. We need to think about why we want and need a welfare state and be able to say what is good about it.

What are the good things about the welfare state and benefits?

What are the bad things about the welfare state?

What do you think would happen if there wasn't a welfare state?

Who benefits from the welfare state?

Is the welfare state just there for the people who claim benefits and use services? What else is good about having a welfare state? Who else benefits from the country having a welfare state?

Can we afford the welfare state?

Can we afford not to have a welfare state?

How realistic are benefit levels for people to live on?

Should we have benefits like Child Benefit that everyone gets regardless of what other money they get?

‘Welfare to work’ has a strong emphasis on the importance of having a job, but where does this leave people who cannot work because of disability or responsibilities for caring for a relative?

How realistic is welfare to work when it is generally believed that full employment is not possible and many jobs are part-time and/or short-term?

Is the idea behind the Child Support Agency a good one?

Should the welfare state be an insurance scheme – as might be expected when people and their employers pay National Insurance contributions – or is it to be a safety net for those who cannot or have not made their own provisions?

Is the idea of social insurance – a universal scheme for all to pay into for pensions and other welfare benefits – better than the current system with people choosing from a variety of private schemes?

Is the emphasis on fraud in the benefits system right?

Is there enough emphasis on unclaimed benefits?

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These are the books and articles where some of the information and ideas in this booklet have come from.

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