If the cap fits? The introduction of a cap on UK welfare benefits

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The coalition government recently suffered one of its most significant defeats in the House of Lords over the welfare reform bill. Reforms of disability–related benefits and of child support proved to be contentious, but the most controversial idea was the introduction of a 'welfare cap'. That is, the idea that there should be a maximum level on the amount of support that a person may receive in terms of their benefits and tax credits.

For couples not in work, the maximum amount of benefits they may receive in future will be £500 per week (£350 for single adults). This is based on the idea that no non–working family should receive in benefits more than the average wage. Of course, each individual benefit has its own maximum level of payment. What the welfare cap proposes is that there should also be an overall limit on the total amount paid. Various low–paid workers and some families with disabled people are exempted from this cap. The rhetoric of reform is based on making sure that work pays more than people may receive on benefits. In practice, there are few people who would be worse off in work, as many parts of state support (tax credits and Housing Benefit) continue to be paid to those in lower waged work.

Few people receive such a high level of benefits as £500 per week — it is only possible if the family contains a rather large number of children, or if their housing costs are relatively high (or both). The move away from social tenancy to private landlords has meant an increase in rents, and hence in Housing Benefit payments. Many of those receiving high levels of benefits are merely handing over their payments to landlords rather than having it available to spend on other goods. As a result of the exclusions, and the few people who receive such levels of benefits, only around 67,000 families are expected to be affected — according to the Government's impact assessment this represents around 1% of out of work families. Over half will be living in the London area, and about half have four or more children. A saving of £260m is expected, from a welfare budget approaching £200bn. This reform seems to be about a point of principle, not just the financial savings to be made.

The British Social Attitudes Surveys of 1983 until the present day, tell a tale of reduced support for spending on benefits, despite continued concerns about inequality. Research conducted at the University of Birmingham both by Prof Karen Rowlingson and myself, shows some interesting trends in people's opinions about benefits and taxes. Whilst people tend to believe that levels of inequality are too high, they more rarely think that the government has an important role to play in redistributing wealth. A narrow majority now think that levels of unemployment benefit are too high and tend to act as a disincentive to finding work. This in a system where an unemployed man of 24 may expect to receive £53.45 in Jobseeker's Allowance, albeit with likely additions to cover Council Tax and any rent being paid. Under New Labour 1997–2010, support for spending money on the poor fell, and the views of Labour supporters came to more closely resemble those of people who supported the Conservatives.

Underlying much of the debate about the welfare cap is whether social security (benefits) is about providing only a temporary respite from short–lived economic difficulties, or instead is supporting those choosing a 'lifestyle' on benefits. In the former account, benefit recipients are the victims of wider economic changes, in the latter they are the architects of their own situation. The introduction of a welfare cap may be seen as an attempt to engineer greater fairness into the payment of social security, but the reality is that few families will be affected by it and separate measures in the housing market or within individual benefits might have been as effective.

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Department for Work and Pensions. Impact Assessment for the Household Benefit Gap Department for Work and Pensions 2012
www.dwp.gov.uk/docs/household-benefit-cap-wr2011-ia.pdf

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