



## Economic Affairs Committee

### Corrected oral evidence: Economic inactivity: welfare and long-term sickness

Tuesday 19 November 2024

3 pm

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Members present: Lord Bridges of Headley (The Chair); Lord Blackwell; Lord Burns; Lord Davies of Brixton; Lord Griffiths of Fforestfach; Lord Lamont of Lerwick; Lord Layard; Baroness Liddell of Coatdyke; Lord Londesborough; Lord Razzall; Lord Rooker; Lord Turnbull; Lord Verjee; Baroness Wolf of Dulwich.

Evidence Session No. 4

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Questions 66 – 88

### Witnesses

**I:** Professor Ben Geiger, Professor of Social Science and Health, King's College London; Professor Jonathan Portes, Professor of Economics and Public Policy, King's College London.

### USE OF THE TRANSCRIPT

1. This is an corrected transcript of evidence taken in public and webcast on [www.parliamentlive.tv](http://www.parliamentlive.tv).

## Examination of witnesses

Professor Ben Geiger and Professor Jonathan Portes.

Q66 **The Chair:** Good afternoon and welcome to this hearing of the Economic Affairs Committee on inactivity. Would you like to introduce yourselves, please?

**Professor Jonathan Portes:** I am now at King's College London, but I was previously a civil servant, including, for a period, chief economist and director of welfare to work at the Department for Work and Pensions. My research now is quite wide-ranging, but some of it relates to employment and labour markets. I have also relatively recently taken up the position of chair of the Stakeholder Advisory Panel on Labour Market Statistics, which is an independent advisory group set up by the ONS to advise on the collection and presentation of labour market statistics. I should emphasise that we are independent, and I do not speak on behalf of the Office for National Statistics.

**The Chair:** Great, thank you. We will have a lot of questions to ask you about statistics, then.

**Professor Ben Geiger:** Hello. I am a professor of social science and health. I am also at King's College London but in a completely different part of it to Jonathan. I have worked on work, welfare, health and disability issues for more than 15 years now, including a stint on secondment in the Department for Work and Pensions back in 2015-16.

Q67 **The Chair:** Great. First, we have a scene-setting question. Can you give us an overview of why inactivity matters and what the impact of the cost of failure to address the problem we currently face is likely to be? Could we hear from Professor Portes first, and then from Ben, just to scene-set?

**Professor Jonathan Portes:** As we will no doubt come on to, we are uncertain just how large the rise in inactivity has been, but we can be reasonably confident that there has been a significant rise in health-related inactivity in the UK over the last three or four years, which is not observable in comparable advanced economies.

I would describe the short-term macroeconomic fiscal costs as significant but not catastrophic. To be absolutely blunt, this is one of the UK's economic problems, but it is not one of the really big economic problems which, as we all know, are things like lack of productivity growth, lack of business investment, and more global issues, but it certainly has a significant negative impact. Looking at all the different data sources, we can see that roughly the same number of UK-born people are in work as they were before the pandemic, after a period when, for demographic and other reasons, we have been on a continual upward trend since the global financial crisis to 2019. As that trend breaks, we are no longer getting that benefit of an increased number of people working that we were before. Ben will talk more about the fiscal impact. I agree with him that the fiscal impact is a significant cost, but, again, it is by no means an unprecedented or disastrous one.

What we should worry about more, perhaps, than the short-term macro impact is the potential long-term economic and social impact of higher levels of health-related inactivity among younger people, particularly mental health-related inactivity. Although, of course, we do not know what will happen in 10, 15, 20 years, history suggests that the risk of permanent scarring impacts on the labour market trajectories of those young people could be significant. The human and social costs of that, as well as the long-term economic cost of lots of people being out of the labour force, probably for a considerable period of time, seem to me to be very substantial and, in some ways, of more serious public policy concern than the immediate question: “Do we have another 100,000 people in work or not?”

**Professor Ben Geiger:** I echo what Jonathan says about employment impacts.

There is a really big misunderstanding of what is going on with the welfare costs around health-related benefits. It is completely true that the cost of working-age health-related benefits as a share of GDP has been going up. However, almost entirely absent from this debate is an appreciation that spending on non-pensioner welfare spending—it is non-pensioner because, whether it is badged for working-age adults or for children, it primarily goes to working-age adults—as a share of GDP is about 4.7% at the moment, which is the same as it was in 2007 and in 2013.

There is big rhetoric around the fact that welfare spending is out of control, but what we are spending now is not particularly unusual. In fact, if you take away the 8% of current claimants who would have been counted as not working age—as pensioners—in 2010, it would be about 4.5% of GDP, which is a perfectly typical amount for us to be spending on non-pensioner welfare.

So the issue is not that welfare spending is out of control, but that we have a dysfunctional benefit system that does not work very well, for a whole range of reasons that we can go into, and there is a long-standing issue around people who are out of the labour market for health-related reasons. If you look at employment rates split by gender, you can see that, in the UK and in many other countries in the 1980s, **male non-employment** went up considerably and we have not done a good job of taking that seriously.

So it is not that I do not think there is an issue. I agree with Jonathan that there is. It is about understanding what the issue is.

**The Chair:** Just to pick up on Jonathan’s point, the benefits of tackling this and reducing long-term sick inactivity would be considerable. I am sorry, I am just trying to get the balance here. I hear what you are saying: that we cannot get this out of perspective. But, on the other side, if we tackle this, the prize is really quite considerable, yes?

**Professor Ben Geiger:** Yes.

Comment [BG]: Quick edit for clarity

**Professor Jonathan Portes:** Yes, absolutely.

Q68 **The Chair:** There is something else that you said. I do not know whether we will come on to this. We may do. To what extent is long-term sickness and inactivity in that group of the inactive population a UK-born national issue? Do we have data to show to what extent the UK-born workforce is becoming more inactive and that our labour force is being buoyed up by migrant workers?

**Professor Jonathan Portes:** There are two data sources: the Labour Force Survey and the Revenue and Customs tax data. On this, they fortunately both show broadly the same picture, which is that employment among the UK-born has been flat at best, with, according to the LFS, rising inactivity. There has been a very large increase in the number of people born outside the EU in paid employment over the last few years. Both data sources say that that has increased by probably about 1.3 million.

So there is absolutely no question that employment among the UK-born has performed quite poorly relative to the pre-pandemic trend. That has been made up for by very rapid growth in employment of the non-UK-born, which of course is related to the very large increase in net migration since the pandemic, effectively.

We could probably look at this in some LFS data, but we do not know the extent to which the increase in inactivity is just the UK born or whether it also applies to people who have been here, say, 10, 15, 20 years, who you would probably expect are not that different from the UK-born. I would guess that they probably have similar trends. The increase in employment is being driven by these very recent migrants, who are typically younger and often coming directly or indirectly to work.

**The Chair:** Thank you.

Q69 **Lord Layard:** I want to understand what you said about the level of working-age benefits not having risen as a percentage of GDP. Did I understand you correctly, and are you including PIP in that?

**Professor Ben Geiger:** They have risen since 2019, which was historically extremely low, but it is important to understand that they are not particularly high in historical terms. In fact, the OBR is not forecasting non-pensioner welfare spending over the next few years to be higher than it is today. It is forecasting a growth in PIP spending in particular, but offset by falls in other spending, and that is missing in nearly all the charts that you will see about this.

**Lord Layard:** The OBR is forecasting a big increase in sickness-related benefits, but you are saying that is offset by an equal fall in other things.

**Professor Ben Geiger:** Yes. To take one of many particular examples, more and more people will be affected by the benefit cap over the next few years, and reductions will be forecast in that particular area. So the net effect of all the things that the OBR is forecasting for spending in the

next few years is that it is stable as a share of GDP, excluding pensioners, which is a different issue.

**Lord Layard:** Yes. Obviously, we are in a period of extreme fiscal pressure, so the fact that it is stable may not be satisfactory enough.

**Professor Ben Geiger:** I can only agree with that.

Q70 **Lord Davies of Brixton:** Professor Portes, yesterday you reported on Bluesky—a Twitter substitute with nicer people—that you were appearing before the committee for this purpose. Almost to a poster, the replies you received suggested that it was all due to Covid, or long Covid. How significant do you think that is?

**Professor Jonathan Portes:** Ben and I were just discussing this, in fact—Ben will have views on it as well—but I find it implausible that the direct impacts of long Covid can account for very much of this. First, it is not really observed in other countries. We know now that the burden of Covid overall here was not that different from most other advanced economies. Clearly there are people who are suffering from long Covid in this country, and clearly people who are suffering from long Covid in other countries, but it is hard to see that as a key driver.

Secondly, to the extent that we have good information on this, a lot of it appears to be driven by mental health-related conditions. Again, although long Covid may indirectly contribute to people's mental health-related conditions, I do not think it is likely to be the main driver here.

It is more plausible to hypothesise that some of the after-impacts of Covid and the pandemic have burdened people's mental health, particularly in young people who were perhaps deprived of education or whatever, or had their movements restricted and so on. That may have had some indirect impact. I am not sure we know the answer to that, but, based on the data that I have seen, I find it hard to substantiate or credit long Covid leading directly to this increase in health-related inactivity.

Q71 **Lord Turnbull:** We have two concepts that tend to get fused but are different. One is the people who are inactive, and the other is people who are long-term sick. The people who are inactive but not long-term sick could be carers, family makers, women who live at home and do not take jobs, students, the early retired. Is there a process whereby more of that not sick but not working group think, "I might as well try and find some income out of this"? Is there a process whereby the proportion of sick within the inactive is actually going up?

**Professor Ben Geiger:** Yes and no. Yes, to the extent that there has clearly been a substitution between different reasons for inactivity. Previous witnesses have also spoken to you about the reduced proportion of the population who say they are inactive because they are looking after family and home, and we see increases in long-term sickness. So there is clearly something there about the reasons that people give.

We will return to this, I am sure, but it is not just a matter of people being really strategic about this and saying, "Where do I get the most money?" It is more complicated than that, and the reasons behind it are more complex. These are more the fundamental ways in which people think about themselves. Maybe the best way of putting it is this: it is a real phenomenon that needs taking seriously, but that real phenomenon may be the way in which people think about themselves.

Q72 **Lord Turnbull:** One of the most worrying parts of this is that we started by thinking that the long-term sick are mainly older people, but in fact there are large numbers of younger people. Is what is actually happening here that they are coming out of school not very well-educated or coming out of university and finding it difficult to attach to the labour force? They may work for a bit and then they lose jobs. It is all very uncertain, and this is pretty destructive of their own self-esteem. In the process they find themselves in this inactive group. They may get on to sickness benefit and once they do, by and large the authorities seem to say, "We have paid you the money, we are not going to do much for you". Is there something we need to do about stopping younger people getting into this problem?

**Professor Ben Geiger:** We are seeing some shifts across the whole population in things to do with mental health, inactivity, benefit receipt and so on. Whatever we are seeing is not specifically about young people, but, within that, young people are particularly affected. There is no way of having a complete explanation of what is going on just with youth transitions, but that is clearly a part of it.

There is a certain amount of research on the things that are affecting young people which we and previous witnesses have done, but I would say that it is an area in which, just in those annoying ways of how people work together, the youth transitions people are not necessarily the health, disability and labour markets people, and those people have not necessarily worked really well together to totally understand what is going on.

So some of the things you said are a perfectly reasonable hypothesis, but we do not know for sure, and there are definitely other things going on as well.

**Professor Jonathan Portes:** That is true. In terms of how the system works for young people, there is definitely a real problem here in that we used to pay more attention. As Lord Londesborough knows as well as anyone in the country, we used to have programmes that addressed youth unemployment and that gave young people enough money to live on—just about; it was never hugely generous, but it reached at least some standard of adequacy. It applied some pressure on them to get jobs or training, or whatever, and provided them with some help and support. We have really undermined all of those to the point where we give young people little or nothing in the way of benefits and little or nothing in the way of support.

As you say, at least a substantial proportion of the jobs that may be on offer are these sorts of insecure, easy come, easy go jobs. So the idea that there has been some sort of substitution out of employment and unemployment, and looking for work and being in some sort of constructive programme that was designed to push you towards work into longer-term sickness and disability benefits where that does not exist is at least a credible hypothesis, yes.

**Lord Turnbull:** Is this where the phrase “sick-note culture” comes up? It seems to me that the likes of the *Daily Mail* are basically blaming people and saying, “You’re getting lazy”. The alternative hypothesis is that the incentives to go to work, the kind of jobs on offer, are just less attractive and more difficult to get.

**Professor Jonathan Portes:** They are less attractive, more difficult to get, and the way the benefit system treats people is neither conducive to people getting better jobs or better training, nor perhaps to people’s own mental health; hence, yes, the pressure. It is not so much a sick-note culture, but that incentives matter here, and pressures matter.

**Professor Ben Geiger:** I know you have discussed the sick-note culture issue in previous sessions, and we will come back to it in more detail. We have had an issue with large numbers of people out of the labour market for reasons of health and disability for a very long time, but in particularly large numbers since the 1980s. A lot of the response has been to say, “This is not a real phenomenon. These are people putting it on. It’s a sick-note culture”, or any of the other versions of that. I cannot quite remember the quote from John Major in the 1990s on this, but we have had lots of versions of this.

The empirical reality of it has been that we have done a really bad job of dealing with the issue by thinking of it in that way. There is something going on that needs to be taken seriously, and somehow talking about it as sick-note culture is a way of dismissing it and not taking it seriously.

What taking it seriously might mean, I would say, is on three levels. If we are talking about mental health, one level is drivers of distress. To what extent are people feeling in ways they would not have been feeling before, and what can we do to tackle it?

A second level is that, for people who are feeling distressed in some way, how likely are they to classify that as a medicalised health problem or disability? As we will come back to, there are things about the way the world of work works and the welfare system that push people to do that more than they used to.

The final level is how the system responds to someone who comes to them with a medicalised problem. There is a way of thinking about what is going on and how people think about themselves and labelling, but just to talk about this as sick-note culture has led us down a path of successive Governments who have not gone very far in tackling the problem.

**Lord Turnbull:** At the end, I would like to come back to the question about what we do about it. The programme of the benefit system and its modus operandi really has to change.

**The Chair:** We will come back to that. That is a nice segue to Baroness Wolf and statistics.

Q73 **Baroness Wolf of Dulwich:** It does segue rather well, because I want to ask about data: what your data priorities would be, and how far our problems of policy formulation are related to data issues.

I would like to highlight two things, one of which you have just been talking about. First, we do not know as much as we should about unemployment, partly because of the collapse of the Labour Force Survey. The second thing, which seems particularly pertinent here, is the whole issue of people feeling unwell, people feeling sick? What is going on? It seems to me that we do not know nearly enough about this. To make it even more King's heavy, I remember Simon Wessely saying quite recently that the NHS data about serious mental health conditions does not map well on to what we can see happening at the level of people reporting far greater levels of mental ill health and distress. That is not to say that these are not real. They are clearly really felt.

So my first question is: do you think the problem is about data quality—that we are trying to collect the data are somehow not doing a very good job of it? Or are there actual data that we are simply not collecting and that we should be? If so, what would be your top priorities for this particular issue?

**Professor Jonathan Portes:** There are clearly significant issues with our labour market data which complicate the decisions that the Bank of England, the Treasury and the OBR have to take. I am happy to talk about those, but I do not think they are central here, in a sense. We know there is a problem, but the difficult questions are what the key causal drivers of that are. I am not sure it is data alone that is preventing us identifying this.

Ben will no doubt talk about this, but we need to know what is going on, particularly with mental health. Why has the number of people reporting distress risen, and why is that translating in greater numbers than it did in the past into people who are not working or having to claim benefit? I do not think we do not understand that simply because we do not have enough data. It is that we have not understood the causal pathways enough.

In terms of what data would improve things, it is less a matter of getting the LFS back than getting the longitudinal elements so that we can trace people over time, look at the transitions and what is driving them, what type of people are moving through what types of pathway, and what the key causal mechanisms are.

**The Chair:** We have seen a rise in inactivity of people saying that they are inactive for reasons of musculoskeletal issues and mental health



issues, yet at the same time the OBR tells us that the waiting lists have gone up. Actually, even if you bring the waiting list down, that will not have a big impact on the inactivity issue. So if they are not waiting on the waiting list, where are they in the NHS statistics? Where has this sharp rise been? If I am saying I cannot work for reasons of mental health or musculoskeletal issues but I am not on the waiting list, what am I doing? Suffering in silence? Is that what you are saying?

**Professor Ben Geiger:** There is a general issue here. For somebody who is out of work or struggling in work with a health-related issue, do they need more medical intervention? The answer is sometimes yes, but there are a lot of other forms of support that people need. Hopefully we will also talk about employers and interventions in the labour market from the employer side in order for them to get back to work. Some people will be receiving medical interventions, but those medical interventions on their own are not sufficient to help them back to work. Some people will not be receiving medical interventions at all.

**The Chair:** Sorry to interrupt you, Ben, but it seems like we are talking about a lot of people here, not just a few. It seems like a large number of people are saying that they are inactive for reasons of musculoskeletal and mental health issues and are not on the NHS waiting list and potentially not in the NHS. We do not really know. That is what we are saying here.

**Professor Ben Geiger:** I cannot speak in detail about some data that has an administrative data linkage with the DWP. I am not allowed to say any of the results until I have asked their permission to do it so that I can come back to the committee in due course. It seems very unlikely to me, from all the anecdotal evidence I have and all the people I have spoken to, that there are people who are seriously ill who have no contact with the NHS, be that mental health or physical health. It is not necessarily that they are on waiting lists, or that the thing they really need is more medical attention. They may need some other sort of employment support, a different benefit system, or a different world of work in which there is a space for them to make use of their talents.

**The Chair:** Sorry, but this is all anecdotage. There is no evidence. There is no data. To Baroness Wolf's point, we have a big set of data from the Labour Force Survey and an NHS database, but there seems to be complete lack of linkage between the two. I am not wishing to criticise you on this, by the way.

**Professor Ben Geiger:** We can maybe write to you afterwards about the things we are exploring.

**The Chair:** If you could, that would be great.

**Professor Ben Geiger:** I would just very quickly flag one thing on data, though. Even within one domain of data—DWP benefits data on incapacity benefits, as we would describe them—we do not have a consistent time series, which is a problem. We know that the official DWP

statistics on out-of-work benefit claimants are wildly wrong, but DWP made an effort to correct these. The process of bringing in universal credit adds a lot of people to the count, just because universal credit counts people differently in a series of different ways.

There was something called the alternative claimant count which the DWP used to estimate, which adjusted for the unemployment bit of it. However, not only has it stopped doing that, for sensible reasons, but it never did it for the wider benefit system, and we know that this would add over a third to the unemployment rate in certain years for the number of people on unemployment-related benefits. So pushing DWP to do proper estimates of out-of-work benefit statistics that can be compared over time would be useful, but otherwise I agree with Jonathan that the issue is not necessarily data.

**Professor Jonathan Portes:** I agree with that. The fact that it is almost impossible for the DWP to tell how many people on universal credit are getting different types of benefits or what their position is is dreadful.

**Baroness Wolf of Dulwich:** In that case, does existing data mean that we should be able to know quite clearly why we are so different from other countries?

**Professor Ben Geiger:** The shortest answer I can give is that some additional data would be helpful, because measuring disability internationally is very hard. I have an OECD working paper coming out on it that I can send you, but I do not trust any of the comparisons of disability employment rates across countries, nor do we have good surveys about the experience of claiming benefits across countries. Those are important, but some things we come to about policy are probably more important.

**The Chair:** If you are saying that the data is good enough, you are also saying that we have enough data and the linkage between the DWP and NHS data is good enough to know what the solutions are to the problems.

**Baroness Wolf of Dulwich:** Even if we do not fully understand how we got there, we have enough data to know what we should do.

**The Chair:** If you are saying, "Yes, there's no problem", you can surely, therefore, join up the dots.

**Professor Ben Geiger:** It is not binary. There are some things that would help us understand things better, but if you gave me a priority of the first thing we should do, it would be different ways of thinking and different actions, not more data.

**The Chair:** I am still grappling with the issue that, if the data is fine, the questions we are asking, which seem pretty basic, have very straightforward answers to them. You are saying that you cannot give us the answers, but you know the solutions.

**Professor Ben Geiger:** Your question was about what the people who are not on waiting lists are doing. What is their experience? We know a lot about the experiences of people who are out of work with health problems. There is a huge amount of qualitative research.

**The Chair:** I am looking for quantitative.

**Professor Ben Geiger:** There is survey evidence of different sorts, and there is administrative data.

**The Chair:** Great. So is this something that you can furnish us with?

**Professor Ben Geiger:** Lots of those are not focused on what is happening to people in terms of the NHS. There are ways in which we can answer that, and we could give you a more specific question with better data linkages, but most of the things we want to know are about what would help people get back into work. That is perhaps a more useful question, and we do know about that. So I cannot answer your specific question, but the broader issue is—

Q74 **Lord Layard:** The picture you are giving us is that here are these people who are struggling in some way, but they do not have a strategy for doing anything much, so they just continue to live on benefit and we follow them up every two years, or not even that sometimes. Do you think the situation would be radically changed if they had a caseworker? Somebody who was there to try to help them form a strategy, either by getting more medical help or by trying a job or whatever. Thinking of the cost benefit of it, if a caseworker had 100 people who were otherwise just going to go on living on benefits, it seems pretty likely to me that they could get at least three of them back into work and pay for themselves. What do you think?

**Professor Ben Geiger:** Good caseworkers doing effective approaches for supporting people with health problems, including mental health problems, can be effective. We can talk a bit about individual placement and support; Lord Layard, you will know something about this. There are many different aspects to it, but one is the intensive time of a caseworker, and one of the problems is then, "This is really expensive. Can we do it on the cheap?" Then you do not have personalised support, because you need enough time to spend time supporting people.

There is room for evidence-based strategies with investment to help people back to work. That said, there are two important caveats. First, even the best evidence strategies are not going to suddenly mean that things are better. I heard one person giving evidence to you saying that it could be three times more effective. I do not believe that things are likely to be three times more effective. That is not the order of magnitude that we expect for interventions in this space, even the best ones, and sometimes they struggle even to have convincing effects at all.

The other thing, going back to the Chair's point, is that most people who are out of work for health-related reasons have, at some time, tried to get back into the labour market. They have had some dealing with

employers, and those things have not gone well. So from their perspective, as well as a whole load of wider research, you need places in the labour market and people who can make use of the skills and capacities that people have. Just focusing on caseworkers without focusing either on the benefit system structures or the world of work is unlikely to be transformative.

**Lord Layard:** As you say, individual placement and support for people with mild to moderate mental health problems has, in trials, been found to pay for itself. We are offering it now to only about one in 10 or 15 of the people on the case load. I am not saying it is the only thing, but should it not be expanded?

**Professor Ben Geiger:** This goes back to the issues that Lord Turnbull was discussing. Part of taking it seriously is investing seriously in employment support, including the caseworkers, but part of taking it seriously is also recognising that that on its own is not enough.

Q75 **Lord Rooker:** To be honest, most of the discussion so far has covered the issue I was going to raise about the changing conditionality in benefits and individuals' incentives. However, the more I read our briefings, the more I get—not quite confused, but we always seem to be talking about low-skilled people. The issue is non-manual. We do not have what we had when I was in manufacturing, it is true, but people standing on their feet all day interacting with the public is classed as low-level. That gives them a mental health problem, so getting back into work and maybe changing from what they are doing if they have been in "low-skilled occupations" is more difficult. Is this a factor?

Are the well-off, high-skilled self-starters included in the group that we are talking about? If not, why is the group as it is? I say "low-skilled", but everyone has a skill; I am not being critical at all. Some jobs, however, are classed as more skilled, more impressive, than others, more needing of qualifications and experience. I keep seeing from the OBR and others that the people we are talking about have become ill because they were trying to claim a benefit. We saw a figure of several thousand. Simply claiming the benefit made them ill. One witness said that they were from low-skilled occupations. Is the level of skill in this group a factor here?

**Professor Jonathan Portes:** There is no doubt that people in low-paid occupations are more likely to move out of employment, both into inactivity and separately, but relatedly on to benefit. That is partly, of course, because of the way the benefit system operates and the incentives present in the benefit system, and partly because of the labour market. It is, frankly, more attractive for people who will be able to get a job where you will be paid more and be better treated than it is for people who are on lower pay, particularly where job quality is less.

To what extent does the benefit system actually make people ill? There are certainly cases where that is the case. I suspect it is not the main thing that is going on here, but we certainly do not have a benefit system that treats people well.

Partly as an aside, it should be a lesson to us going forward that the attempt to reduce spending and tighten conditionality in the early 2010s, or even the late 2000s—both on incapacity benefit, as was, and on disability living allowance, as was—was a remarkable policy failure that led very clearly to a huge increase in misery and discontent among the people affected, resulting in a political backlash, and to an increase in the numbers of people on benefit and the amount of money that we spent.

You would think that there would be a trade-off between making people unhappier and more miserable on the one hand, and saving money on the other. The Government at the time probably thought that was the case. In fact, we turned out to get both of those wrong. We ended up spending more money at the same time as making the individuals treated worse off in their own perception of their experiences.

You can see this on Bluesky, which was mentioned. When I go on to Bluesky and talk about this, at the same time as some people are complaining that there are more people on benefits and we are spending more, lots of people who know my background will come and say how dreadfully they are treated by the benefit system and how difficult it is to get disability. If you look at the replies to me on the platform you mentioned, a lot are about how difficult it is to get on to disability benefits despite the fact that the numbers are up. So we have managed to get ourselves into this very unfortunate doom loop where we seem to be having the worst of all worlds, and if there is one message to take from this it is that we cannot repeat that experience. We have to find a way of breaking out of that cycle of spending more money and making people more unhappy.

**Professor Ben Geiger:** Just to echo the point on conditionality, the best available evidence on the effect of conditionality and sanctions for people with health problems and disabilities, including some randomised trials in some Nordic countries and work from the NAO in the UK, is that it is counterproductive. People argue about the very complicated set of impacts that conditionality has on non-disabled people, but it unquestionably has worse impacts for people with health problems and disabilities.

A major part of the reason behind this is that people are not sure what they will be able to do, and they will be taking a bit of a punt, in the main, by returning to work. If you have a mental health problem, how can you guarantee how you are going to get on in a particular workplace? So when somebody threatens you and says, "You've got to get back to work", people hunker down. They move away from things. You need to be in a position to try to get people to take a chance on things, and that can involve challenge. Challenge is really important from effective personalised conditionality, but challenge within the context of a trusting relationship is different to conditionality in the impact it has, for that reason.

Q76 **Lord Griffiths of Fforestfach:** Professor Geiger, I have to say that I find everything that you are saying totally counterintuitive. As an economist, I

understand that society, its values and its culture have a great impact, and I do not doubt that for a minute. On the other hand, we are the Economic Affairs Committee, and we start on the assumption that prices, costs, numbers affect behaviour. But you seem to be saying time and again, "No, that's not the case". You are analysing everything as if culture and the way we somehow treat people, the experience they have in going to an office asking for money, explains the whole story. I may be wrong, but I really feel that is the message I am hearing with answer after answer.

**Professor Ben Geiger:** I really appreciate you asking the question in such a clear form. Let me give you two responses.

Narrow incentives do matter. I may have a different way of telling it. To give one example, the gap between health-related benefits and non-health-related benefits in how much people receive is unsustainably large, because it gives you a series of people who do not receive any health-related elements, who, as all the evidence shows, are struggling very badly, and people who are getting health-related elements, many of whom are still struggling, particularly if they have additional costs of disability.

Compared to 2007, there are a lot more people getting those health-related elements than would have been getting them before, and who are probably struggling less than they would have been before. The gap between those two things is a real problem. It is not that economic incentives, narrowly defined, are unimportant and we should not be thinking about them in reform. What it is important to do, and the simplest way of saying it, is to think about reasons rather than incentives. Incentives are a subset of reasons, but if you speak to people who are out of work for health-related reasons or claiming benefits, the reasons they give are a bit more complicated.

One set of reasons why that is a very strong disincentive for people to try to do things around work is an absolute lack of trust in the DWP. That is connected to economic incentives, but it is also a bit broader. It is very hard to get the OBR to score trying to get more trust in the DWP, but I genuinely think, and all the evidence that we have so far would suggest, that wider reasons as well as incentives are what is shaping behaviour.

**Professor Jonathan Portes:** Just before you asked this question, Ben talked about why people are not keen to go back to work when they are uncertain about their future, which is a classic economic incentive problem, right? If the expected value of moving from benefits to work is an increase in your income of £20 but you have some risk aversion and there is a 30% risk that you will be kicked back on to unemployment benefit and get £50 a week, or whatever we pay people on JSA these days, that will lead to people who would be better off, from their point of view and from the point of view of the economy and the DWP, not taking that chance because they are rationally risk-averse. That is a perfectly straightforward Econ 101 incentive set-up that we could probably deal with if we tweaked the values.

That does not mean to say that things like the trust in the DWP that Ben was talking about is not also relevant, but we have created a bunch of perverse incentives in the system. We also have to recognise that the experience of at least the last 15 years but possibly longer is that trying to improve incentives by tightening up the conditionality gateways in particular has proved hugely counterproductive for a complicated mixture of pure economic incentive reasons, culture reasons, and political economy, and we should be very wary about that.

**Q77 Lord Londesborough:** I am trying to steer us back to data and economics, which is probably more our comfort zone. Ben, I think you called it an unsustainably large gap between how Britain treats those on sickness benefits and unemployment. Putting this into numbers, is it fair to say that the UK is pretty mean in its unemployment benefits?

Statistically, let us look at that from the replacement ratios in terms of salaries earned to what you are being paid. In the UK, it is around 12%, excluding housing benefits, whereas in other countries in Europe—Spain, Germany, France—the numbers are around 50%, 60%, even 75%. Luxembourg is top at 86%. So there is a clear incentivisation from a very low level of unemployment benefits. You can understand the economic temptation or need to go to health benefits.

The other thing I draw your attention to, which does not get a lot of airplay but should do, is short-term sick pay. Again, Britain is pretty much the meanest of the mean in the G20 in terms of what we pay, and—surprise, surprise—we have almost the lowest number of sick days taken. There is a very strong correlation between economic benefits and the propensity to claim health. Is that data not fairly clear, rather than talking about the cultural issues?

**Professor Ben Geiger:** It is very clear, but it is what we take from that and what message we interpret. There are countries that pay much more in sickness benefits and have more people taking sick leave that also have a higher employment rate and a higher number of days of people in the labour market.

**Lord Londesborough:** Did you say a higher employment rate?

**Professor Ben Geiger:** A higher employment rate, yes. I was just looking at the latest OECD employment rate figures. The Netherlands and Switzerland are two countries I am really interested in. It comes back to taking the issue seriously. If you are going to take the issue seriously, that sometimes means that you offer people more incentives to take sick leave. In a narrow sense, that is part of helping people to take time off and not get to a point where they are at the end of their tether, long-term sick and unlikely to get back into the labour market, but also part of a wider culture of taking the barriers that people have to work seriously and doing something about them. It is not necessarily an economically disadvantageous position.

One thing I am trying to think through but have not found a way of writing about is that lots of things are evaluated in very narrow economic frameworks. We have this particular thing that we do, and we have our particular econometric methods that might be randomised trials or quasi-experiments of one sort or another to look at the impacts of it. But, actually, there are wider things that are harder to evaluate but none the less economically very important, and I know this must come up in a lot of economic contexts. It is about how we have rigorous economic thinking that does not just default to the easiest thing that we have to look at but also takes into account the more important things.

**Q78 Lord Blackwell:** We are really struggling here with trying to understand the extent to which the rise in long-term sickness is an exogenous thing that just happens to be reflected in the sickness benefits, or whether the benefit system is partially a contributor to that. So before we come on to solutions, it would be really helpful to try to crystallise what you think the flaws are in the benefit system. We have covered some of them.

We have heard that the problem is not so much the flow of people becoming inactive, but that once they become inactive there is a greater flow from inactivity into long-term sickness and fewer people coming off that. We have heard, as Lord Londesborough was just saying, that the economic incentive to be on sickness as opposed to ordinary universal credit is considerable. What do you think are the flaws in the way the current benefit system works that may be a contributor to this trend?

**Professor Jonathan Portes:** As Ben has said, the very large gap between unemployment-related benefits and incapacity-related benefits is clearly a significant problem and pushes people towards the latter rather than the former. That is clear.

The way the conditionality regime has operated on unemployment benefits, which has become increasingly draconian in recent years, further intensifies that, because you not only get much less money; you also get pressured in certain ways. I agree with Richard that you should have conditionality on unemployment benefits, and you should require people to look for work. That has been a fundamental part of our system for a long time, but we have gone well past the point of negative returns in the way that is applied to people who are unemployed.

**The Chair:** Can you give us some practical examples of what you mean by that?

**Professor Jonathan Portes:** We require people on universal credit to show that they have done X numbers of job searches or applied for X numbers of jobs, or they have to come into the office in a certain way and, if they do not come in or if they are five minutes late, we sanction them automatically. The number of people with sanctions or other deductions to universal credit has gone up significantly in recent years.

The system has become punitive. There was always an element of conditionality, and rightly so: people who did not comply with the conditions lost money. That is right, but it has gone to the point where



people do not want to come in and do not want to have anything to do with the system, and either drop out of the system entirely or try to, if they can.

**The Chair:** Do you both agree about conditionality? Ben, you mentioned it earlier.

**Professor Jonathan Portes:** He was talking about sickness.

**The Chair:** I just want to be clear on where we think conditionality should and should not apply.

**Professor Ben Geiger:** The trouble with saying that conditionality should apply, which I hasten to add is my position, is how easily misinterpreted that is. When you say that, people think conditionality means what we have currently in the system.

Let me give an example of how conditionality could apply in a different setting, taking the guidelines for the labour market experts in the Dutch system. The Netherlands is a country that really takes these issues seriously. The aim is to get somebody to reintegrate back into the labour market and to support them in doing so. When people are not seeming to be taking steps towards doing it, there is an eight-point process, of which the last point is applying benefit sanctions, but effectively that almost never happens in the Netherlands. I asked for some statistics on this and was told they do not keep records on it but can tell me how many employers have been sanctioned in the last year for not meeting their obligations.

You never reach it because you go through a series of steps of trying to get people to re-engage and trying to find out the reasons for their lack of engagement. It is sufficiently robust that it disincentivises away from fraud, and it is trying to get people back into the labour market. But it is so many worlds away from what conditionality means here, which is a focus on hoops to jump through, which you may not be able to do for health-related reasons and which may be totally unrelated to getting back into the labour market.

**Lord Griffiths of Fforestfach:** If you have any conditionality, or if you have any way of trying to find out who is deserving of benefit, would that not almost inevitably be viewed by the person receiving the benefit, or wanting to receive the benefit, as being a rather adversarial position?

If I am that person, waiting for the door to open and to go in and see you, I am going to be slightly nervous in any case going into that encounter. At the end of the day, I will think that you are out to get the better of me and deprive me of benefits that I have a right to. The problem is that, a present, the system is set up in an adversarial way. The question I am really asking is whether we can ever have a system—maybe the Dutch do it—that is not adversarial?

**Professor Jonathan Portes:** It comes back to what Richard was saying. When it comes to people on incapacity benefits, if you have a personal

adviser who has the time, is sufficiently skilled and well-trained, and, as Ben says, conditionality is part of the process or a backstop—and the adviser has enough resources and training to make it not the first thing that the claimant thinks about—then it can work. Unfortunately, that is not the way our system currently works.

**Professor Ben Geiger:** I have two examples. The first is in New York, where a system called WeCARE was doing assessments of people's disability. Conditionality requirements applied in the New York state system at the time. When somebody failed, as we would call it, a disability assessment, they were told, "Congratulations, we think we can get you back to work".

The Danish system is another example. The whole process of disability assessment in Denmark is not a one-off, where they pretend that, magically, in 50 minutes, you can understand what people's barriers to work are outside of any work situation. A caseworker is allocated, who works with you over a period of months. There is a multidisciplinary team meeting that might have education people there and, to go back to your point, Lord Bridges, local health representatives. The caseworker helps you fill things in, and then they might refer you to other places to find out what your work capacity is. They have a system of supported employment of one sort or another, including work trials and internships.

In that system, it plays out differently. They are trying to help people back to work. In that system, there is a category of long-term disability pension, where they say to you that they cannot think of anything useful that can be done together to help you get back to work, and that is the point at which you are assessed as not having sufficient capability for work.

Those systems are so far away from where we are. As well as a better assessment, it comes back to being able to survive on the non-disability bit of it. Aside from the conditionality and support and engagement, if you are not confident of being able to feed your family, it is going to be more adversarial, and the incentive issue is a real barrier.

**Lord Blackwell:** If you are saying that part of the problem is that conditionality on unemployment has got tougher, and there is an economic incentive to move on to sickness, surely this is only part of the answer. The other factor has to be how tough the conditionality is in moving on to sickness benefit. Do you think there is any flaw in the system that has made it easier, or too easy, for people faced with that challenge to decide and convince people that it is appropriate to move them on to long-term sickness benefit, particularly around mental health issues?

**Professor Jonathan Portes:** I will let Ben answer this one, but, briefly, as I said, we had the experience of trying to tighten up the gateway in the early 2010s. It does not work. Regardless of what you think the underlying moral or deservingness of it is, the fact is that if you set up

these incentives and structures, people will find a way to get through. That is the political economy of it and how the systems will work.

There are a whole bunch of players in the system, such as doctors, Citizens Advice, other advisers and the individuals themselves. You can try to tighten up the gateway but the end result, as we found in the early 2010s, is that some deserving people will end up starving to death. The political and cultural system, and various other players, will react to that in a way that you end up in a worse place than where you started. That is what happened before.

I see absolutely no reason to believe that, if we suddenly decided that the answer is tightening up the gateway for people with mental health issues and that that will solve the problem, we will end up going around the same doom loop again.

**Professor Ben Geiger:** I completely agree. I have a couple of examples to illustrate that. First, in a lot of the circles I move in, this is referred to as the “cut” in the move from DLA to PIP. It was intended as a cut, but it never actually became a cut. It was an intended tightening, after which we have seen a substantial increase in the numbers of people claiming and the total cost to the state.

The second example is around the WCA. This is one of the problems I have with the OBR’s latest report. It tries to use 2010 as a baseline for looking at what the difference in approval rates are. But 2010 was not a steady state scenario; it was a level of unacceptable harshness that led to media headlines and political pressure that I have never seen in any country about a work-related disability assessment.

Even if you could construct an assessment that would restrict things in the way that you wanted to, with all the other moving parts in the system, if it did not work for the people involved and the people around them, and for society at large, in allowing people to find a reasonable place to be, there would be intense political pressure on it, and it would not be sustainable in the long run.

Q79 **Baroness Wolf of Dulwich:** I find a lot of what you are saying extremely interesting, in particular the point you made a while back about people not trusting DWP and being nervous about going back into work. I keep coming back to the fact that what we have had is an explosion in the last two to three years. As far as I know, we have not transformed the benefit rules or the way we go about it.

The other point I would like to highlight, which I am sure you are aware of, is that the only other country that has had this is Denmark. I would like to come back to that point. What has happened here, and what has happened in Denmark, that has meant that we have been out of line with the rest of the OECD, given that as far as I know there has been no dramatic shift in the way that we address our benefits system?

**Professor Ben Geiger:** It is a great question—that is why Jonathan and I are looking at each other.

There are some things that we can guess at, as we have thought a lot about this and looked at a lot of the research on it, but I would not want to give you the wrong impression. Jonathan and I were talking earlier about this and there are just some things we are not certain about.

A plausible explanation is that levels of benefit receipt for people not classed as having ill health are lower than pretty much nearly all the other countries, so there is that differential and that struggle. There were figures that came up earlier. How you take into account housing costs—housing costs are high in the UK—and so on is complicated. Some combination of Covid and some UK-specific things may have been causing problems.

It is also important to look at our education system, although that mostly goes beyond what Jonathan and I usually focus on. Obviously, the rising educational classifications are reflecting both cultural trends and the way in which we organise our education system and the world of work.

One of my colleagues feels that, in the UK, we have a problem: whenever something is not working in the UK, there is only one box that you can put it in. This is true in the world of work and the world of welfare, and it is also true in education, if you put it in the health box, you might get somewhere. If you do not put it in the health box, you cannot usually get the treatment that you need or feel that you need. It is very hard to know how that applies in other countries, but I have a feeling that the UK is bad at that and that Covid intensified all those issues.

**Q80 Lord Burns:** I would like to follow up the conversation we have been having about how we break out of the doom loop and what a better benefits system might look like that would help us to do that.

We have been talking about three categories of people not working: the unemployed who get universal credit subject to conditionality, the group who are inactive but simply not working—they could be looking after family or may have retired early, or perhaps they just cannot cope with the conditionality rules—and those who are receiving additional benefits directed to ill health and incapacity. As you point out, there are some stark differences in welfare payments between these categories; there is a big cliff edge between unemployment and sickness. I understand that these payments are not taxed and are not means-tested in any way.

Within the present budget, how would you reform the benefits payments system to create a better set of arrangements and remove some of the tensions you have been describing so graphically between people who are caught in these different situations? Should unemployment benefit be higher, with illness payments being more graduated? Should they be lower, relatively?

The easiest thing is to say that we must spend a lot more money on it. But if we want to design something that looks more to the principles that we employ with taxation to avoid these stark cliff edges and so on—with some things being taxed and some not—how would you set about it?

**Professor Ben Geiger:** I will have a go at answering this, but Jonathan's comments on this will be really helpful.

There are four sets of things that you would need to do. I will mention briefly the ones that are not about the benefits system. You need to look at what is causing rising levels of distress. Part of what is going on is people are reporting more distress, particularly since 2019. Up until 2019, most of what had been going on was a small rise in distress for some groups—teenage girls, for example—but mostly an increased labelling of the distress that people had as medicalised mental illness. We need to deal with the determinants of the distress and the determinants that cause people to label things in some ways.

You also need to have a strategy with employers. It is far easier to get employers to keep the people they have than to hire new people who they do not know. The Netherlands had a really high incapacity benefit claim rate in the late 1980s and early 1990s, so throughout the late 1990s and through the 2000s, they did a lot. One of the things they did was to heavily incentivise employers, so that they were liable for two years of sick pay—sometimes three—unless they had shown that they had done everything they could do. Not just to get that person back to their old job, and not just to look elsewhere in the organisation to see what roles they could do, but to look at whether there was anywhere in the whole supply chain that this person, with the skills of the industry, could be redeployed and made use of. The wider context involves employers.

In the benefits system, there are at least two things that you need to do, one of which is around payment structures. I feel I went out on a bit of a limb in the areas that I work in by saying explicitly that I do not think that so many people getting health-related benefits is an ideal system. It is not good economically and it leads to very big inequalities between some claimants who can get by and some who cannot, and it just feels rubbish because everybody has the massive threat of losing their health-related addition, and they know they cannot survive if they do not get it. Fundamentally, the basic level of benefits needs to be higher, and in an ideal world fewer people would be getting the disability-related addition.

**The Chair:** Just so we are clear, do you think we should be spending more on welfare?

**Professor Ben Geiger:** You could spend the same amount as we did in 2007 in a better way. The trouble is, how do you get there from here? In getting there from here you would have to spend a bit more. You can try to get people to feel more confident in experimenting with work, and have a better payment structure and less risk, but if all the people claiming PIP feel like we are coming for them and will take away their benefit, it will not work well as a package of reform, either politically or in its economic effects. You have to think about the process of moving. To undo going from 2007 to 2024 is harder than it was to get there. To get where we want to go, you would not start from here, but we have to. Benefits payment structures are important but very difficult.

The other thing I would do is try to make it a better experience for people claiming. That does not mean without elements of challenge or safeguards against fraud, but in a way that people feel they trust the system a bit more so that if they take a risk, it is okay.

**Professor Jonathan Portes:** I agree with all that. One thing you could do which would not cost money is to reduce the excessive and punitive conditionality on ordinary unemployed people in universal credit. It would not cost anything extra in benefits to reduce that pressure and the formal conditionality requirements and, I hope, change the culture a bit in DWP, so that it is not there to effectively simply punish unemployed people.

**The Chair:** Could we have one or two examples of those specific conditionalities on UC? Maybe you could write to us with examples.

**Professor Jonathan Portes:** If you do not show up for an appointment within 10 minutes of the appropriate time, you can be sanctioned.

**Professor Ben Geiger:** I have been doing some research on this. There was a point, a decade ago, where people were being asked to do things that they clearly could not do. This was widely reported in Select Committee hearings and other evidence on it. The trouble is that, although that happens much less rarely today, people have long memories, and they do not update very quickly in this space. People are very worried about stuff. The worst examples of things are not generally happening now, but in disability benefit assessments, people have the feeling that they being looking at to see, for example, which hand they get things out of and how far they go. There is a feeling of fear and suspicion.

**Professor Jonathan Portes:** Ben is talking about conditionality or the way that people on incapacity benefit, or ESA, are treated. I was talking about unemployed people, where I think we could simply dial down the conditionality and not apply sanctions in such a hair-trigger way.

We could also—I think the DWP is already thinking about this—allow people to return to the benefit that they left if they take a job. That has relatively close to zero cost and, if it works, could actually reduce the number of people on benefits, because it would increase exit rates. There are certainly some low-cost things that you can do.

The next step is to do the sort of thing that Richard was talking about. That costs money up front, but you can make a business case for it. As Ben said, you are not going to triple the number of people coming off benefits through one intervention, but properly structured personal adviser support can, if it works, pay for itself.

Q81 **Lord Burns:** Jonathan, you mentioned earlier the absence of a longitudinal study about how it is that people actually arrive into the sickness category, whether they have come from employment or whether they have come from simple non-activity but not categorised as unemployed. As well as the whole issue about people departing from it, is

it the case that people are less likely to depart from long-term sickness than from unemployment?

Does this work exist? Does this analysis exist? I think we heard last week that 70% of people going on to long-term sickness come from other non-activity, rather than from employment. That is quite a striking concept, particularly when you try to tie it up with a cause of inactivity. What data is there? What could we learn about this? I cannot see anywhere that this is laid out or any description of the stop-flow position of the people entering into this category and leaving it.

**Professor Jonathan Portes:** Some work was done on precisely this in the UK Household Longitudinal Study when data was commissioned by DWP in 2017-18, which is our best longitudinal study, so we have some data going back to then. I am going to try to take a look at that and update it and see what we can find out. There is also longitudinal data in the Labour Force Survey, but, as we have discussed, that is subject to known problems.

Paul Gregg, as you may know, is now advising DWP on precisely these issues and wrote a paper for the Commission for Healthier Working Lives, published by the Health Foundation—I do not know if you have seen it. It looks at the longitudinal data from the Labour Force Survey and at issues around transition and what has changed since the pandemic.

There is some analysis of this. It has not been that long since the pandemic, and these surveys take time to process, so we do not yet really understand the key drivers and causalities here.

**Lord Burns:** There must be some administrative data that exists today about the people who have been put into this category and what their history was before they came into this category. It would be very useful if we knew more about this. It has struck me throughout our discussions that, along with the other weaknesses in the data, we are trying to work in a murky world around what the data is actually telling us.

**Professor Jonathan Portes:** I agree.

Q82 **Lord Davies of Brixton:** You have answered my question on how long this is going to take. The answer was some time, depending on the sources. But there is the issue of a target. Governments and others have talked for some time about an 80% target. Is that really a target? It is an output rather than an input. Do we actually know what the right level of employment is? Is 80% just a wild guess? Is it based on consideration of what we can afford or is it about what we think the natural rate of inactivity is? Where does the 80% come from?

**Professor Ben Geiger:** As an aside, before Jonathan gives a more direct answer to that, it is at least better than trying to have the disability employment gap or the number of people with a disability in work as a target. What happened in the 2010s is that loads more people started reporting a disability, and on average those people were less severely disabled than the people who already had a disability. The disability

employment gap—which is the difference in employment rates between disabled and non-disabled people—went down, not because of anything that the Government did but because people changed the way that they answered survey questions. It is better not to be reliant on these kinds of measures as it is difficult to compare over time measures of disability. As for whether the 80% target is viable, I shall leave that to Jonathan.

**Professor Jonathan Portes:** In about 2006, when I was at DWP, I was involved in writing a Green Paper the first time the 80% target was set by a Government, so I have some ownership here. Is there any great science behind it? No. Is it consistent with what other really high-performing advanced economies get to, such as Iceland and Norway? Yes. If you construct it from the bottom up and start thinking about what proportion of the population we would expect to be out of the labour force because of frictional unemployment, looking after kids and disabilities that are sufficiently severe that you could not reasonably expect people to work, it seems to be in the right ballpark. It is a perfectly sensible number, if you are going to pick a number.

Of course, in the end, it is an aspiration rather than a target, in the sense that we have a plan and a costed strategy for getting from there to here. It is something to set our goals on in the longer term. If you think of it as that, it is as good as any, if that makes sense.

**The Chair:** How do you think the Government's policy to increase employers' national insurance will help meet this objective?

**Professor Jonathan Portes:** It clearly will not. On the other hand, the OBR, using its estimates of various labour supply elasticities, suggests that the reduction in employment that will result from that is 50,000, which is between 0.1% and 0.2%. That estimate will be wrong, because it is based on historic elasticities; it could be more or less than that. But it is fair to say that the available economic evidence from studies of labour supply and demand suggests that the impact will be negative but not huge.

**Q83 Lord Londesborough:** Further to that point, the target, as you say, is a top-down one, but in brutal numbers it is 2 million people out of welfare and into the workplace. The private sector is expected to fill about 75% of those roles, which is 1.5 million. Quite apart from the national insurance contributions, the private sector is generally not getting a lot of engagement in this area. Indeed, the forthcoming government White Paper, with its three pillars, talks about national and local initiatives led by the mayors and a youth guarantee—which appears to have some teeth to it, but that is another issue.

There is not a lot of incentive for employers, particularly SMEs, to take the risk of hiring people who have been long-term inactive, especially with the tightening employment laws which are on the way. It seems to me a major missing piece that. Ultimately, the private sector has to be the predominant employer here; the public sector does not have the roles for it. Do you think there is enough emphasis given to that? The danger



with these top-down, mission-led assumptions is that there is a massive component part here that is not really being engaged. Is that fair?

**Professor Jonathan Portes:** I am not familiar enough with what exactly will be in the White Paper. The basic point is that, if you want to raise the level of employment, most of the work in simple numerical terms has to be provided by the private sector; that is clearly absolutely right.

On the other hand, equally, you do not get the private sector to create jobs by inviting a bunch of business leaders into Whitehall or Westminster and saying, "Well, how many jobs are you going to create? Let's all sign up to creating X-thousand jobs and then add it up". You need to create an environment where the private sector wants to take people on.

Part of that is around employment law. There is obviously a balance to be struck between employment laws that promote the interests of workers and of good employment, which should attract people into the workforce, and employment law that is excessively burdensome and discourages employers.

On the whole, British Governments, at least for much of my time in this area, have balanced that reasonably well. We will see what these current initiatives look like, but the Government are well aware that there is a balance to be struck.

One area which was a bright spot in both the late 2000s and the 2010s was the increasing employment rate of older people. That was not done by top-down plans. There was a lot of positive employer engagement work to get them to see the advantage of taking people on. There was a bit of regulation and legislative change: the ending of the default retirement age, rights to request flexible working, and so on. This was a bit of a push in regulation from the Government but not in a heavy-handed way, with quite a lot of employer engagement and getting exemplar employers to hire people. That is probably the sort of balance you need, as well as broader macroeconomic stability and so on.

**Lord Turnbull:** If we go back to the four-part Geiger to-do programme, the question is whether this could be done within DWP's current model, mindset, rule book and modus operandi, or whether there must be a major rethink. There are three things you have to add to achieve those things.

First, you have to have more caseworkers. They can be mentors and confidence boosters, acting as a back-up to the person who is unemployed, but they also could be the disciplinarian, helping them in their negotiations with jobs, by going to employers and saying, "Come on, surely you can take this kind of person on".

Secondly, you have to have more regular monitoring and follow-ups. Once you get past a certain point, there is a tendency to, effectively, get written off, and no one comes back to see you for years and years and years.

Thirdly, when we talk about costs, virtually all these things will cost more money in year one, but where is not just the cost-benefit analysis but the actual cost and returns? I think you were rather pessimistic, Ben, about how many people you would have to turn from dead-end cases into actual work to get a pay-off, but you need to look at it in that framework, and not just look at the fact that we are asking you to spend more money in the first few years.

**Professor Ben Geiger:** I can quickly come back on the first and third of those. Thank you for the suggestions, which I noted down.

It is not just about a need for more caseworkers. Countries that seem to take these issues seriously have large investment and a well-trained body of people who are specialists in vocational rehabilitation. Switzerland has extremely high employment rates—not Iceland-type levels, but among the top countries in the OECD; whenever you go to any international meeting about these issues, you will find loads of Swiss people there, because there are just so many people in Switzerland who are specialists in trying to think about health and work. We have decimated that workforce in the UK, for various reasons, over quite a long time. The Carol Black review was not able to galvanise repairing that over the last 15 years. It is not just about more caseworkers; we need a well-trained body of people who are specialists in vocational rehabilitation, whether that is in the private sector or in government.

The other issue about tracking investment and returns—Jonathan and I were talking about this before as well—is that the things you can get the OBR to score are not necessarily the difficult but important things that are going to transform the way that things are in the country. There are lots of good reasons for this. You do not want the OBR just to say, “Yes, come to us with your promise of all the returns you are going to get from this and we are going to wave it through”. But where things are uncertain like this, it is difficult to know what approach you would want the Treasury, the DWP and the OBR to take to break out of the lock that says you can talk only about the small things. In the current framework it is very difficult to make the case for investment in any of the big things that are uncertain.

Maybe it is just a matter of politicians feeling more emboldened to say, “We have talked to the OBR about this and it has not scored it, but that is just because it is uncertain. We are going to do it anyway; we think it is important”, or maybe there is another way of breaking out of the loop. Trying to find some way of making the case for investment which has a plausible but not very certain pay-off is important.

**Q84 Lord Griffiths of Fforestfach:** Listening to evidence we have taken in this area, one thing that surprised me is the regional differences. Look at Merseyside, the Tees Valley or west Wales—Baroness Liddell is not here, but she would ask the same question about Scotland; you find a whole string of reasons: not very good economic activity, no employment prospects, not many graduates in these areas, and so on. Do you have any particular insights on the regional issue?

**Professor Jonathan Portes:** It is extremely striking. The first thing to say is that we should not talk about “regional” issues, because the difference within regions explains a larger amount of the variance than the difference between regions. It is a local issue.

The second thing to say is that this is a really important point. I have a chart here from the IFS—you may have seen it, because the IFS has already testified—that shows the share of the working-age population claiming benefits before the pandemic and after the pandemic. Basically, it shows that the relativities have not changed at all; the whole line has just shifted up. That is interesting. It tells you something relating to Alison’s point earlier about what has changed since the pandemic. The answer is that something has clearly changed since the pandemic, but whatever it was just accentuated what was there before. There has been a change, but it has just been a shift. Something was going on there already, and the pandemic somehow made it worse. That does not tell you what the answer is, but it does tell you that the question about geographical variation is important.

There was a paper by some people at Sheffield, again looking at the UK HLS from about five or six years ago, which found that it was related not to regional but to local labour market conditions. It is clearly related to the strength or weakness of the local labour market and the availability or otherwise of opportunity, or attractive opportunity.

**The Chair:** To be clear, what do you mean when you say, “it”?

**Professor Jonathan Portes:** The rise in the number of people on sickness or disability-related benefit.

**The Chair:** You are saying it is linked to employment, not to health.

**Professor Jonathan Portes:** It is the interaction of employment with health.

**Lord Griffiths of Fforestfach:** Can I just come back on Jonathan’s point? If there was greater regional control over budgets and so on, and greater delegation or devolution to regions, could that be a way of trying to tackle this issue? It is very hard to see how the DWP in central London could have any idea what is going on in those areas that you are talking about in, say, the north-east.

**Professor Jonathan Portes:** When it comes to working with employers and keeping or getting people into decent jobs that they want to stay in and will not drop out of even if they have an episode of sickness or ill health, it is absolutely better done at local level. How much you can realistically regionalise or localise our actual benefits system is quite hard, given the way the UK is set up, but certainly a lot more individual support in working with employers would be better done at a local level.

**Professor Ben Geiger:** I will respond with two things. The Commons did an inquiry into the devolution of employment support. I am not sure if it ever produced the report, as it was interrupted by the election, but there

was a lot of very good evidence given on this issue. My takeaway would be that it is definitely worth doing but it is harder than devolving and thinking that it is all going to work perfectly. There are a lot of practical issues in getting it to work well. We need to have reasonable expectations for what this could achieve. It might be worth doing, but on its own it is not going to be a magic bullet.

The other thing connected to this is—Lord Bridges was sort of asking about this—is whether it is health or just unemployment disguised? It is worth thinking about the fact that local labour demand determines your capability for work. There might be one labour market where, given your impairments, employers are not going to employ you for health reasons, but in a tighter labour market you would be higher up the queue for jobs and the employer might be more willing to make changes to include you in the job. It is not even whether it is just health or work; it is the interaction of those two things. That is a part of what goes on. What employers are willing to do for their employees differs in areas of the country and between sectors. It depends on what is in their interest.

**Q85 Lord Verjee:** We are trying to dissect this issue in many ways. Has any work been done on trends in gender differences in inactivity in our population? Is there anything to be gained from that?

**Professor Jonathan Portes:** The proportion of new claimants who are female has risen. This is partly due to the fact that fewer women are out of the workforce because they are looking after children, and the equalisation of the state pension age has meant that there is a new group of working-age women who were not there before. They would have previously been inactive because they were retired. A greater proportion of new claims are from women.

To go back to the chart, places such as Blaenau Gwent and Merthyr Tydfil are labelled, where, 30 years ago, almost all the people on incapacity benefit would have been male; it is now 50:50. There has been a big gender shift. Some 30 or 40 years ago, a substantial majority of people on capacity benefit-related claims would have been male, and that is no longer the case.

**Q86 Lord Griffiths of Fforestfach:** I would like to come back to a question that came up earlier. You made what I thought was a convincing case to say that the whole process of getting benefits could be much better than the way we do it. You used the example of Holland and so on. That took me back to when I was in No. 10. On education reform, we thought that we had to create new kinds of schools. What did we do? We created city technology colleges and grant-maintained schools, which were totally different from what we had on offer at the time. John Major backed them subsequently, and so did Tony Blair. They have grown and we have a completely different system.

In this field, given what you are suggesting as a way of making sure that the claimant feels that the person they meet is on their side, could we have four or five local experiments where the people who administer for

the DWP, or for health, have some special training and so on, which experts like you know more about than me? Is there any possibility of doing a trial like that, which we do for all sorts of policies in the country?

**Professor Jonathan Portes:** This was one of the things we were talking about before. It is unfortunate that the DWP does not seem to pilot as many schemes. If, for example, you were going to do what Lord Layard suggested and have proper investment in well-trained, skilled, personal advisers who have the time and space to work with people in way that Ben was talking about, doing that for the whole country would be hugely expensive, and, with the best will in the world, is not going to happen. You would definitely want to pilot and evaluate that first, so that you could at least present a more convincing case to the Treasury and the OBR that this was something that would pay back over the medium to long term. I would hope that that is going to be part of what the DWP comes up with next week. I will be very disappointed if it does not.

**The Chair:** I want to come back to the data point; I am trying to grapple with something in my mind.

I have the figures for fit notes issuances, and they are very interesting, considering the numbers involved. For example, the musculoskeletal system has 40,000 in one month alone; and mental and behavioural disorders have 90,000 in one month alone, and it is pretty much trending at that. There are very large numbers of people getting these fit notes. They get the fit notes and then do the WCA and the conditionality, which Ben says is very tough—and reading it through, I can see that it is very tough. They then get into the benefits system, but, as I said earlier, they do not seem to appear in the NHS waiting lists at all—or maybe they do appear but nothing like to the degree of these numbers.

This brings me back to my point. Given that what we are talking about seems to be quite focused in certain regions of the country, in quite a profound way, where are these people within the databases for the NHS? Where are they showing up? These are enormous numbers, and you seem to be saying that they are getting help in other ways. What are the ways in which they are getting help? It is the data that I am interested in here.

**Professor Ben Geiger:** I apologise that we have talked about our university so much, but I go back to King's. In our bit of London, King's College has a long-standing partnership with local health authorities, so that we have local health data. We have been looking at the South London and Maudsley NHS Foundation Trust, including in the Institute of Psychiatry. We have data on secondary mental health service use and talking therapies, and there is a linkage to DWP administrative data that we are exploring. Some of those things are too provisional to be able to describe to you the results at the moment, but others have been published. Among people who have contact with secondary mental health services, we can see that there are very high levels of contact with the benefits system. There are some things we know about that, and it is just starting to go online.

The difficulty is getting the full set of benefits data and seeing how many people have health contacts. We do not have that information in our data linkages, although it is starting to come on stream and will be helpful when it does.

If you speak to people in that position, lots of them will say that their health is very bad, they have lost any hope, and they do not know what would make it better. They are not always on a waiting list; they just do not feel there is a space for them in the labour market.

**Lord Layard:** In relation to the previous discussion, we have had the trial with individual placement and support which is the sort of system you are talking about. We have the results; we can perhaps circulate them.

**The Chair:** We should do that.

Q87 **Lord Razzall:** It is common ground among everybody now that, since Covid, we are doing a lot worse in this area than all our competitors. You talked about the Netherlands and Switzerland, but, first, in general terms, do you have a view as to why we are doing worse than these other countries?

Secondly, it is not just the Netherlands and Switzerland that are doing better than us; all other countries are doing better than us. Do you have any general views on what prescriptions we could follow to do better? You have touched on what Switzerland does, but not everybody is doing what Switzerland does and they are still doing better than us.

**Professor Ben Geiger:** There are a lot of different ways of going about it. Norway has slightly above a one percentage point higher male employment rate than us and quite significantly higher female employment rates. That is partly to do with the provision of childcare and other things around that. But they do that while having levels of health-related benefit claims that would seem crazy to us. The last time I looked, in the mid-2000s, I found that 15% of the working-age population in Norway were on a work-related health benefit. That is something that we would think is going to lead to disaster, but Norway has made it work.

Looking internationally does not tell us the one way of doing it. There are different ways of taking it seriously and trying to get the various things. We cannot import any one of them wholesale into the UK, because we are a unique country, with our own set of institutions. It is about learning about the different ways of doing things. The OECD emphasises this in its reports: everything needs to work together; whatever the set of institutions in your country, you need to think about a strategy and a tactic that will work. Maybe it will look a bit like Switzerland, or maybe Denmark, the Netherlands, Norway or Sweden, but it is about getting everything to work together, whatever form that takes. That is how I would look at it.

**Professor Jonathan Portes:** Ben is absolutely right on the longer-term perspective of why we have done worse since the pandemic, even alongside countries that do not necessarily do this particularly well, such as the US. It is something to do with the way that the shock of the pandemic—not just long Covid but the whole shock of the pandemic—interacted with the operation of our benefits system and labour market.

As this hearing has shown, we are still struggling. I am certainly still struggling to understand exactly how that works, but it seems convincing that the interaction of the shock of the pandemic with the existing structure of the benefits system and the labour market has had a particularly negative effect in the UK that was not the case in most other countries.

**Lord Razzall:** That is very helpful. If I may say so, we have asked that question to everybody who has appeared before us, and you have given us the best answer.

Q88 **The Chair:** Jonathan, I want to come back to where we began, with UK-born, and non-UK-born. Given where we are and everything we have said, and how thorny a problem this is, as you look ahead and think about our approach to immigration and our labour market needs, what does that tell us about where we need to think about migration? Some would argue that net migration is running way too high. If we were to bring it down drastically, what impact would that have on our labour market, given the thorny problem with the UK-born population?

**Professor Jonathan Portes:** The ONS will be publishing the figures next week, but we already know from administrative data that migration is falling quite sharply. We know that immigration is going to go down quite a lot. The very high levels of the last two years were a combination of post-pandemic inflation and labour market pressures with the loosening of the system, and that has sort of been reversed. It will come down quite a lot, although it will remain at reasonably high levels by historical standards.

If we do not tighten up the system further, that should not in itself be dramatically damaging to the UK labour market. We need some level of migration, and we need a reasonably liberal and flexible system to respond to labour market pressures. But that does not by any means mean net migration of 750,000 a year or whatever, indefinitely. This, combined with broader demographic trends, is one of the reasons why migration should and will remain reasonably high, again by historical standards rather than the standards of the last few years.

Migration is not the answer to this problem. The problem here is that many hundreds of thousands of people would be better off if they were working and, as Ben said, not claiming benefit, and we would be better off if they were working and not claiming benefit. In my view, it is fundamentally a long-term social problem more than a problem of employers not being able to get enough workers this week or this month.

**Lord Burns:** I have been struck by how much time we have spent talking about the amount of sickness-related inactivity. We have not been dealing with the question of what has been happening to total inactivity, because, as you said at the beginning, it is very difficult to tell at this point, given the terrible state of the labour force statistics. When do you think we will have a clearer picture of this? Do you have any hope that we will get to a point where we know what has been happening to total levels of inactivity?

**Professor Jonathan Portes:** I am speaking here with my independent adviser to the ONS hat on. On the labour market statistics published last week, the ONS did a good job of stepping back and saying that you have to look at all these different data sources in the round. It is true that there are issues with the LFS, but we have data from HMRC on the number of payrolled employments. We will get the Transformed Labour Force Survey in due course, and we have a reasonable picture of the overall labour market.

The labour market is clearly softening somewhat; it has not fallen off a cliff, but employment growth is not particularly rapid. Overall levels of inactivity, so far as we can tell, are not that different from before the pandemic, but that is a negative relative. Obviously, we are more worried about people who are inactive because of sickness and disability than people who are inactive because, for example, they are students, but there is a negative trend. The Transformed Labour Force Survey is in the field and under development. It is "working", in the sense that we think it will, in due course, be fit for purpose and better than the LFS.

That said, there is a basic structural problem here. For a very long time in this country, as in many other countries, we have relied on people being able to spend 45 minutes to an hour being interviewed about all the details of their lives. The proportion of people who are willing to do that these days is considerably smaller and, even worse than that, considerably more biased, in the sense that it is less representative than it used to be. That means that, going forward, even with the Transformed Labour Force Survey, we are going to have to rely quite a bit more on administrative data to give us a full picture of the labour markets. We just cannot place as much weight on surveys as we could in the days when they had a 60% or 70% response rate.

**The Chair:** Excellent. Thank you very much. We have had two hours of very good questions and answers, and we covered an enormous amount of ground. Thank you, Jonathan and Ben. That was a good session; it was very helpful. Thanks a lot.