

DR KATY JONES, MANCHESTER METROPOLITAN UNIVERSITY – WRITTEN EVIDENCE (EUC0045)

The economics of Universal Credit

About the author

This submission has been prepared by Dr Katy Jones, Senior Research Associate in the Centre for Decent Work and Productivity at Manchester Metropolitan University. The response focuses on Questions 1, 2, 3, 4, 6 and 7 of this Inquiry.

Q1 How well has Universal Credit met its original objectives?

1. Regarding the objective of *delivering full employment*, the National Audit office (NAO, 2018) has concluded that the DWP “cannot isolate the effect of Universal Credit from other economic factors in increasing employment” (NAO, 2018). UC is being introduced in a context of very high employment, but with a lot of people stuck in low paid, insecure jobs.
2. Evidence focused on claimants’ experiences suggests UC has not been effective at supporting people into work. For example, in the *Welfare Conditionality: Sanctions, Support and Behaviour Change* study, we found that the conditionality underpinning UC was usually experienced negatively by both in and out-of-work claimants (see Wright et al. 2018). UC was viewed as a system mostly about ensuring compliance with Claimant Commitments and disciplining those who fail to do so (through financial sanction) – where claimants have found work this has often been independently.
3. For UC claimants out of work, the *Welfare Conditionality* project found that undertaking job seeking activities 35 hours every week proved challenging. For those in work, UC claimants struggled to meet expectations to attend appointments at the Jobcentre where these conflicted with work shifts and childcare arrangements. Meeting in-work conditions was especially challenging for those with variable hours.
4. Regarding the objective of *providing a safety net*, a key challenge here is improving take up. There are certain groups, such as young people, where take up of benefit entitlement is very low (Jones et al. 2018). The *Welfare Conditionality* study found evidence that ‘in-work conditionality’ can result in people signing off UC (Wright et al. 2018).

Q2 Were the original objectives and assumptions the right ones? How should they change?

5. UC involves the extension of conditionality and support to working social security claimants. This appears to have been developed on the assumption that a ‘supply-side’ approach, focusing on the behaviour of claimants is the solution to tackling low paid work.
6. Within a context of high levels of in-work poverty, additional support for low-income workers is welcome. However, the extension of conditionality and

sanctions to those in work is controversial. Existing research focusing on claimant experiences has raised questions about the extent to which In-Work Conditionality results in meaningful progression (DWP, 2018) and has highlighted the counterproductive consequences of a conditionality regime focused on requirements to apply for a high volume of (often inappropriate) jobs (Wright et al. 2018).

7. An emphasis on individual job seeking behaviour neglects to consider the 'demand side' of active labour market policy. In the UK, a high prevalence of "non-standard" work (including zero hours contracts) and insecure employment can make sustaining and progressing in work difficult. At a time of both low unemployment and low productivity, the key objective should not be moving people into any work, but ensuring that, where appropriate, UC claimants are supported into decent and productive work where their skills and capabilities will be developed and used effectively, and in which they can progress.

Q3 What have been the positive and negative economic effects of Universal Credit?

8. The DWP has said that it will help 'business to grow' and 'improve productivity' (DWP, 2018). However, the mechanisms through which this might be achieved are unclear. Whilst the government's ambition for a 'higher pay, lower welfare society' forms a key part of its productivity plan (HM Treasury, 2015), little attention has been paid to understanding how recent welfare reforms are likely to impact on the labour market, including the behaviour of employers.
9. Extending conditionality to those who are in work has implications for a range of productivity-related issues including skills (Abreu, 2018), well-being (McSorley, 2018) and the nature of work and the workplace (Newsome, in McCann, 2018). Focusing on individual workers, and emphasising work intensity (i.e. increasing working hours), whilst neglecting to consider demand side issues, such as work quality and management practices appears unbalanced, if 'improving productivity' is an aim of UC.
10. In our recent study exploring employer responses to Universal Credit (see Jones et al. 2019), employers complained about the high costs associated with dealing with a high volume of applications, which they felt in part resulted from the emphasis of Jobcentres on requiring jobseekers to make a high volume of applications, rather than focusing on the quality of these applications and the job fit/match. As one employer explained:

"We get people applying for jobs just so they can sign on and say that, 'Look, I've applied and I've been for interviews,' and then waste all our time because they don't actually want the job... It's a cost to our business"
(Employer, social care provider).
11. Employers felt that the extension of conditionality to those in work might increase costs for their business incurred through managing recruitment – not only due to increased turnover, but also if more applications were made by others trying to increase their working hours.

Q4 What effect has fiscal retrenchment had on the ability of Universal Credit to successfully deliver its objectives?

12. A number of choices have been made about UC in part to reduce government spending – such as the two child limit, and the 5 week wait – which work against its objective to provide a safety net.
13. In addition to this, budget cuts have meant that Jobcentres have fewer resources to deliver the UK's public employment service. It is currently unclear what additional resource will be available to support the development of an in-work service.
14. At present, UC claimants report a lack of tangible support, and employers describe variable and often poor experiences engaging with the Jobcentre. The employers we spoke to were sceptical about the capacity of the DWP to deliver an effective in work service, particularly given budget constraints:

"[It's] going to mean enormous pressure on the Jobcentre and additional people working in the Jobcentre. Good luck trying to fund that, government" (Employer, manufacturing company)

Q6 How has the world of work changed since the introduction of Universal Credit? Does Universal Credit's design adequately reflect the reality of low-paid work?

15. High levels of in-work poverty, poor quality 'non-standard' work (including zero hours contracts and self-employment), a lack of progression for low paid workers and low productivity are all longstanding issues in the UK economy and pre-date the introduction of UC.
16. The solution to the UK's low-pay culture, is not simply to require low paid workers to work more hours. However, alongside more stringent requirements for out-of-work claimants to engage in job seeking activity, UC may also involve the introduction of "in-work conditionality" (IWC) to welfare claimants on a low income, placing responsibilities on individual claimants to increase their earnings.
17. Whilst policy specifics are developing (trials are underway), the DWP's (2018) *"Employer Guide to Universal Credit"* states that workers on a low income who are in receipt of UC, may be expected to: increase their hours, look for ways to progress in their current workplace, search for additional work with a different employer (i.e. take on multiple jobs), or take up alternative work elsewhere (i.e. move jobs).
18. These expectations may be backed up by support from the Jobcentre (for example, through advice from Work Coaches), but also by penalties (benefit sanctions) if individuals do not comply with mandatory work-related requirements. Once UC is fully rolled out, approximately one million households may be subject to in-work conditionality (SSAC, 2017).

19. Whilst this policy has implications for their staff, employers have largely been ignored in research and policy relating to Universal Credit. In a recent project (Jones et al. 2019) we consulted with 12 employers about this policy change.
20. Our study showed that rigid expectations to work a 35-hour week are at odds with the reality of low paid work. Where employers predominantly offered low waged/low skilled roles, hiring staff on a flexible basis was central to their business models. In hotels, for example, staff tended to be employed on a part-time basis (around 16-20 hours) but typically took on more hours in response to fluctuations in business need. The majority of staff employed by a care provider and a soft play centre were on zero hours contracts. Opportunities for progression were also limited in those businesses with a high proportion of low skilled/low wage roles.

"We wouldn't want to have every single person on a full-time contract. We'd still need some flexibility to fluctuate with the demands of business levels" (Employer, hotel)

21. Employers felt that the impact of the policy would be highly dependent on a range of factors including business needs, worker responses, and the approach taken (i.e. whether a supportive or sanctions-based approach was taken to the application of conditionality to those in work, and the nature of the support provided). However, overall, employers felt that it would have a limited impact overall on their way of working and staffing policy. Their overriding priority would continue to be their 'bottom line' and keeping labour costs low.
22. Some employers felt that the policy of IWC could help to open up opportunities for staff and encourage them to progress in work:

"I think it will open up more opportunities for the carers to actually actively ask us for more work. I think at the moment they just don't... they're comfortable with the system that they're used to" (Employer, social care provider)

23. On the other hand, we found that some employers may prevent workers from taking up additional work through 'conflict of interest' clauses:

"If someone who works in reservations upstairs or sales upstairs comes to me with this proposition of going to the next-door hotel, then unfortunately, there is a contractual clause that will bar them from doing such a thing" (Employer, hotel)

24. Overall though, employers voiced concerns about the potential for the policy to have an adverse impact on staff, and their business as a result. There was a concern that new expectations introduced as part of the policy may be a hindrance to flexibility of their workforce. It was widely felt that if staff were to increase their hours in their organisation as a result of the policy, this would not necessarily be productive for their business. Several employers were concerned that the policy would result in increased staff turnover, which they felt would adversely impact productivity:

"If we saw a rise in turnover because people were looking for work elsewhere, that's going to make us less productive, because more time is going to be spent recruiting people" (Employer, hotel)

25. Employers were also concerned that the policy could have a negative impact on staff well-being and motivation, and that both absenteeism and presenteeism may result from an approach to in-work support that was underpinned by conditionality and sanctions:

"Potentially what you'll see is people will go more off with stress, with anxiety, depression" (Employer 7, housing association)

26. Employers felt the risk of this was bigger for (mainly female) staff who were combining work with caring responsibilities. Alongside their concerns about how the policy might impact their employees' work-life balance, this was felt to potentially have knock on consequences in terms of the reliability of staff and their relationship with other staff members:

"[T]hinking about our mums, and particularly single mums... I think they already have a job and so this is kind of their secondary job, and if they had to spend too much time on this, they're probably going to end up being unreliable and then that's going to damage our relationship with that member of staff" (Employer, soft play centre)

27. Whilst our research with employers has focused on the individual firm level, there are also broader macroeconomic implications if such a policy leads to 'more transient' workforce:

"[It's] going to make employees more transient, I think. If it's done on any sort of large scale... it's like the gig-economy people, they'll go under that, won't they? They'll ride around on a bike, delivering pizzas or whatever" (Employer, manufacturing company)

Q7 If Universal Credit does not adequately reflect the lived experiences of low-paid workers, how should it be reformed?

28. Universal Credit should protect people from poverty – whether they are in or out of work. Helping people into work (where appropriate) should be a key aim as part of this – for most people, paid work is the main way to avoid poverty. However, the link between paid work and security is being eroded - wages have not kept pace with rising living costs and a high proportion of labour market opportunities are characterised by low pay and insecurity.
29. Reform is needed, but any reform should be shaped through the involvement of UC claimants, employers, and unions, (involving employers and unions is particularly important if UC is to remain an in-work benefit). The Trust for London funded Commission on Social Security will provide important insights from those with experience of claiming UC.
30. In addition, to ensure that UC better reflects the reality of the UK labour market, more needs to be done to consult with employers, to understand how the benefit interacts with their business practices and how it impacts on their staff, in order

to develop appropriate support. Our research has demonstrated both a need and an appetite for this:

"[Employers are] an important stakeholder to the Jobcentre and anybody who is writing this policy. It's their duty to consult us... the whole thing [should be] done in conjunction with employers"

"I think there needs to be a full consultation"

31. It is notable that the Taylor Review of Modern Work Practices did not consider Universal Credit – there would be value in commissioning a review on how UC does or does not reflect the reality of low paid work and how UC can better support the 'decent work' agenda.
32. The conditionality underpinning UC should be rebalanced towards a support-based, rather than a sanctions-based system. As part of this, people who are unemployed or on a low income should be supported to access skills training, where appropriate. Currently, our welfare and our skills systems appear to operate in isolation.
33. The opportunity provided by the DWP's interaction with in-work claimants to help people access better work opportunities and support to improve their skills, and find work that suits them, whatever their circumstances.
34. Regarding 'in-work conditionality', simply requiring people to take on any additional work, regardless of work quality - a '*work first, then work more*' approach - is inappropriate as it fails to consider long-standing issues including poor work quality and management practices, and broader issues relating to the needs of workers outside of the paid labour market.
35. It is important to recognise that many of the levers for tackling poor quality work fall outside of our social security system. However, if supporting people to progress in work is a key aim, more emphasis should be placed on improving employer practices, rather than focusing solely on claimants. The government should be doing more to support employers to be better businesses and better managers. This approach would be more likely to have a positive impact on both individual progression opportunities and the productivity of businesses. As one of the employers we interviewed explains:

"It would be probably more beneficial for the government to help employers become better employers, and to make the workplace a more positive environment than it is to push employees to get more jobs"
(Employer, soft play centre)
36. In a time of both low unemployment and low productivity, the key challenge is supporting people into decent and productive work where skills/capabilities will be developed/used effectively.

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