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Busting welfare myths [1]

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The welfare debate has roused emotions on both the left and right, and has led to some outlandish claims. Myth needs to be separated from reality. Geoffrey Taunton-Collins gives his take on what we should and shouldn?t believe.

Myth: Welfare spending that goes on pensions is unreformable.

Reality: The state pension eligibility age has risen too slowly.

Opponents of cuts to welfare often cite the proportion of welfare that goes on pensions (48% or a total of £80bn) as proof that the colossal budget is justified. This is lazy reasoning. The problem is not that pensioners necessarily receive too much money per year, it is that they receive it too soon. Life expectancy is rising fast and people are able to contribute to the economy for longer than they used to. If the government were to raise the state pension age over the next two decades to 70 taxpayers would save hundreds of billions and all would benefit from the contribution of older workers. If this change were made by 2030 pensions would still provide for 15 years of retirement, based on experts' guesses of life expectancy then. Historically this change is long overdue ? since 1948 life expectancy has risen by 16% but the accompanying rise in the State Pension age has been a meagre 1% for men and 3% for women.

Myth: capping housing benefits is a long term solution

Reality: the housing crisis will only be solved by increasing supply

The next biggest outlay after pensions is housing benefit. This takes up 11% (£20bn) of the welfare budget. The government has made some savings by putting a cap on welfare at £26,000 (if a household?s benefits are in excess of this figure housing benefit is reduced until they fall into line). A more fundamental solution would be a liberalisation of planning laws to allow development in areas where it is currently blocked. The strangling of supply is the cause of relentless house price and rent inflation. If development rights were auctioned off and the proceeds given to local residents this would alleviate both the problem of NIMBYism and the government?s bloated housing benefit bill. It would also have the corollary benefit of helping young people onto the housing ladder, and would preserve the vast majority of our rural spaces.

Myth: The government?s ?making work pay? initiative is merely a cover for cuts.

Reality: Some in-work benefits will have to rise if work is ?to pay?.

The benefits system is riddled with financial disincentives to move into work. The government is trying to eliminate them so that welfare prevents poverty not job-taking. What is rarely acknowledged is that eliminating disincentives sometimes implies increasing benefits. Notably, those entering work often face aggressive withdrawal rates (Job Seekers? Allowance and Income Support have 100% withdrawal rates) and if work is to pay these sudden withdrawals will need to be smoothed out. The gist of the Universal Credit is to have fewer people receiving out of work benefits in the long run, but not necessarily to give those on welfare less money. We should therefore be weary of clichéd claims that the Universal Credit is a veil for welfare cuts.

Myth: Immigrants sponge off welfare

Reality: Benefits tourism is miniscule

Immigrants are 60% less likely than natives to receive state benefits or tax credits and only 6.4% of total working age benefits go to immigrants. Further, immigrants from the ?A8? (the Eastern European countries entering the EU in 2004) pay 37% more in taxes than they receive in public goods and services. Of course, this tells us nothing about the social impact of the 3 million new people (between 1997-2010) who have moved to Britain, and tried to assimilate into British culture. It does confirm, however, that scare-mongering about benefits tourism is unfounded.

Myth: benefit fraud is rife/ benefit fraud is negligible

Reality: We have no idea how common benefit fraud is

The simple fact is that there are no reliable figures on benefit fraud (and so we have no idea if the public overestimates it incidence). The most commonly used figure comes from a 2011/12 report from the DWP which estimates that 0.7% of expenditure goes on fraudulent claims. But benefit fraud amounts to fooling the DWP into thinking you are entitled to more than you actually are, so to suppose the DWP?s figures are accurate is to suppose that British benefit fraudsters aren?t very successful ? which is to beg the question. Polls show that Brits think 27% of the welfare budget goes on fraud, in the absence of more reliable figures we cannot endorse or deny this estimate.

Myth: the public think that 41% of welfare goes on job seekers? allowance

Reality: they think that 41% goes on benefits for the unemployed

It has become common in some circles to consider the British public misinformed about job seekers? allowance spending. Brits are accused of being wildly off the mark since only 3% of the welfare budget actually goes on this benefit. This is unfair ? the 41% figure comes from a TUC poll which asks how much is spent on ?benefits for the unemployed?. Unemployed people can receive housing benefit, child benefit, free school meals, tax credits and so on ? in other words they receive far more in benefits than just job seekers? allowance.

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