

# A NEW WELFARE CONTRACT

## Executive summary

### A new welfare contract

A Conservative government will tear up the old ways of dealing with worklessness, which has got worse under Labour. We will draw on the principles of the Big Society to create **a new welfare contract**, one that promises people: if you do the right thing then we will back you all the way; but if you fail to take responsibility then the free ride is over.

We will **introduce a single, comprehensive Work Programme to get Britain working again, which will be up and running by the end of 2010**. As part of our Work Programme, we will offer unprecedented support to all those who are looking for work. We will:

- make sure you get help as soon as you need it – straight away for those really struggling to find work, and after six months if you're less than 25 years old;
- help you start your own business by giving you access to a business mentor and start-up loans;
- create a range of business-led training places to get you started on the road to employment, with 50,000 places in the hospitality and leisure industry to begin with;
- give you somewhere to go during the day – Work Clubs – so you can learn skills, find opportunities, make useful contacts and provide other people with support;
- if you're under the age of 25, provide a huge range of extra training opportunities – 400,000 apprenticeship, training and college places over two years; and,
- pay back-to-work providers in full only if they get you into work for a year or more.

If you can't work and need to be paid Incapacity Benefit (IB) then we will give you the financial support to which you are entitled. And if you can work, and you actively look for work, we will give you unprecedented help to find a good job. But you must keep to your side of the bargain. We will make sure that you are claiming the right benefits and, **within six months of taking office, we will introduce new sanctions for anyone who refuses to look for work**. We will:

- cut the benefits of anyone on Jobseeker's Allowance (JSA) who refuses to join the Work Programme;
- cut the benefits of anyone who refuses to take up reasonable job offers: the first time for one month; the second time for three months; and, the third time for up to three years;
- cut benefits for up to three years for anyone caught repeatedly committing benefit fraud.
- reassess all current claimants of IB – if you are fit for work then you will be transferred onto JSA and your benefits will be reduced; and,
- require long-term benefit claimants who fail to find work to 'work for the dole' on community work programmes.

## Building the Big Society

Our plans to build a better future for Britain are based on our belief that the era of big government is over, and that only by building the Big Society can we solve the deep problems our country faces. We are all in this together, and only by everyone working together can we make the changes Britain needs.

More big government is not the answer to our problems. We've had 13 years of Labour's centralised, top-down approach and things have only got worse. We need a totally new way of doing things, based on social action not state control.

Our plan to build the Big Society is based on a simple idea: responsibility. We believe that everyone has a part to play in our national renewal. But this can only happen if government trusts people to make a difference and gives them the power, incentives and information they need to make responsible choices.

## Get Britain working again

In this document we apply our Big Society principles to one of the biggest problems we face – worklessness. Even before the recession, we had growing youth unemployment and the highest proportion of children being brought up in workless households in Europe. Now, having suffered the worst economic crisis for 60 years, we have record levels of economic inactivity, with one in four adults not in work. Labour's big government approach to worklessness has failed. And, in Parliament, the Lib Dems spoke out against even timid welfare reform.

A Conservative government will do things differently, drawing inspiration from our Big Society principles. Our Work Programme will use the extraordinary power of innovative voluntary and private sector organisations to get people back into sustainable work – because we believe that harnessing state action to the knowledge and experience of these organisations far outweighs the ability of big government to deal with unemployment on its own. And we will pay those organisations by results – because we will only succeed if we go with the grain of human nature, rather than relying on the top-down, big government targets that have only brought years of failure.

With our Work Programme, we are saying to people – yes, government has a responsibility to help you find work, and we will use government to harness the passion and expertise of others to get Britain working again. But we're all in this together, and that means you too have a responsibility – to look for work in return for the benefits you receive. At the moment, for too many people a life on benefits has become the norm. Whole families have been dependent on welfare for decades – and the big government system has failed to get them working again. We will not accept the status quo.

## 1. Labour's failure on jobs

Labour came to power in 1997 promising to tackle unemployment. Just as Gordon Brown made empty promises to bring an end to 'boom and bust', so too Labour made promises to 'abolish youth unemployment' and create 'full employment'.<sup>1</sup> But 13 years on and almost every indicator available shows how things have got worse under Labour. Once again Labour isn't working:

- One in four working age adults doesn't have a job, with the number of 'economically inactive' people – people who have dropped out of the jobs market altogether – at a record high.<sup>2</sup>
- Labour have consistently failed to meet their full employment target of 80 per cent of adults being in work.<sup>3</sup> And the number of private sector workers who were born in the UK is now lower now than it was in 1997.<sup>4</sup>
- By the end of the recession youth unemployment had hit a record high, with one in five young people unable to find a job.<sup>5</sup>
- We have a record number of 'underemployed' – people who want to work more hours but can't find any suitable work.<sup>6</sup>

Labour's big government approach to jobs has failed. Their flagship programme for the unemployed – the New Deal – treats people like statistics rather than human beings. Funding is given to welfare to work providers on the basis of the processes they follow, rather than the outcomes they achieve. As a result, many unemployed people are going round and round the system without ever finding sustainable work. The former Labour Minister for Welfare Reform, Frank Field, who was forced to leave the government by Gordon Brown in 1998, has described the performance of Labour's New Deal for Young People as 'derisory' and has called for the government to scrap the scheme.<sup>7</sup>

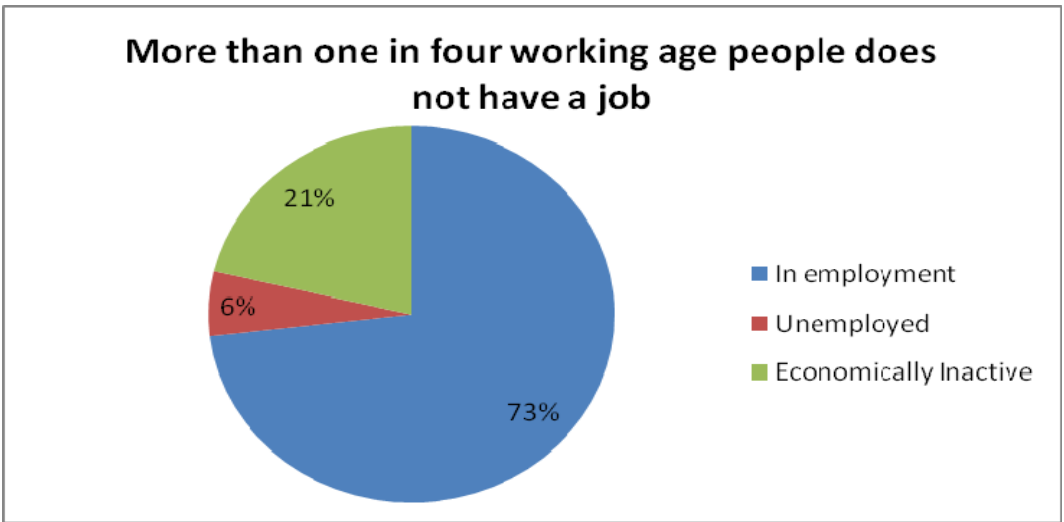
And now Labour's big government approach is threatening our recovery. Their decision to impose a jobs tax – a 1 per cent hike in both Employer and Employee National Insurance from 2011 onwards – threatens to kill the recovery and increase unemployment. Labour have identified £11 billion of waste in government, but they do not plan to start dealing with it until 2011. The logic of their big government approach has driven them to a position where they will continue wasting money while putting up taxes on people and businesses. This makes no sense – which is why their plans are opposed by one hundred of Britain's businesses leaders, who together employ over one million workers.

### 1.1 Failure on economic activity

To be counted as unemployed in the official figures, someone has to be actively seeking work and available for work. This means that they do not take account of people who have simply given up on looking for work altogether. Instead, these people are classed as economically inactive.

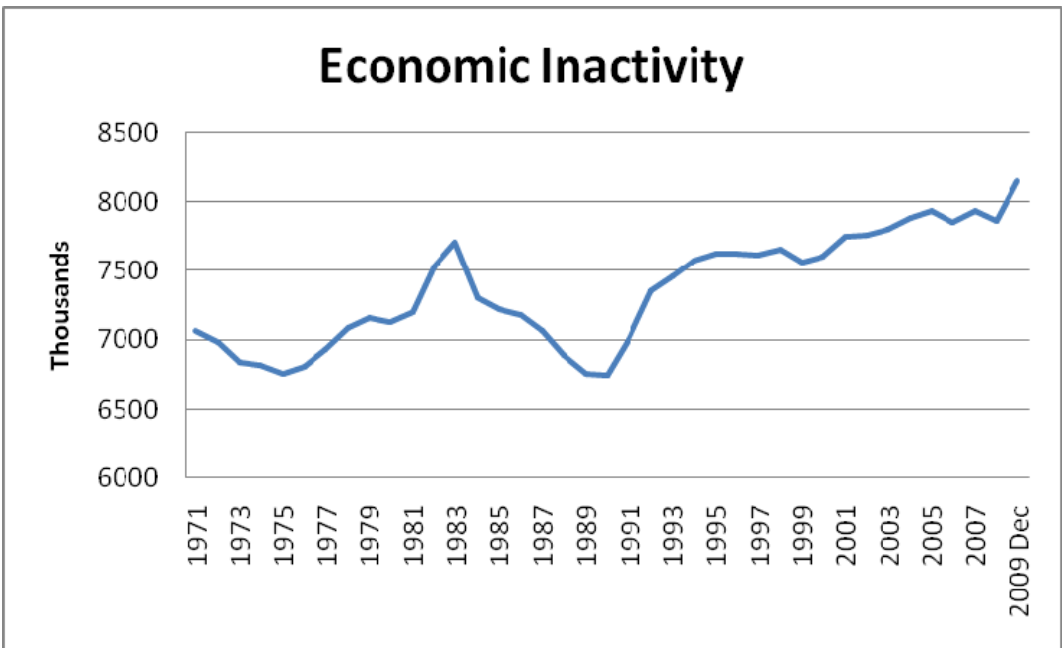
Over one in five working age people is classed as economically inactive. Combined with unemployment (which is classed as being economically active, even if someone does not have a job), that means that over one in four working age people is not in work.<sup>8</sup>

#### **Chart 1: working age population by employment status**



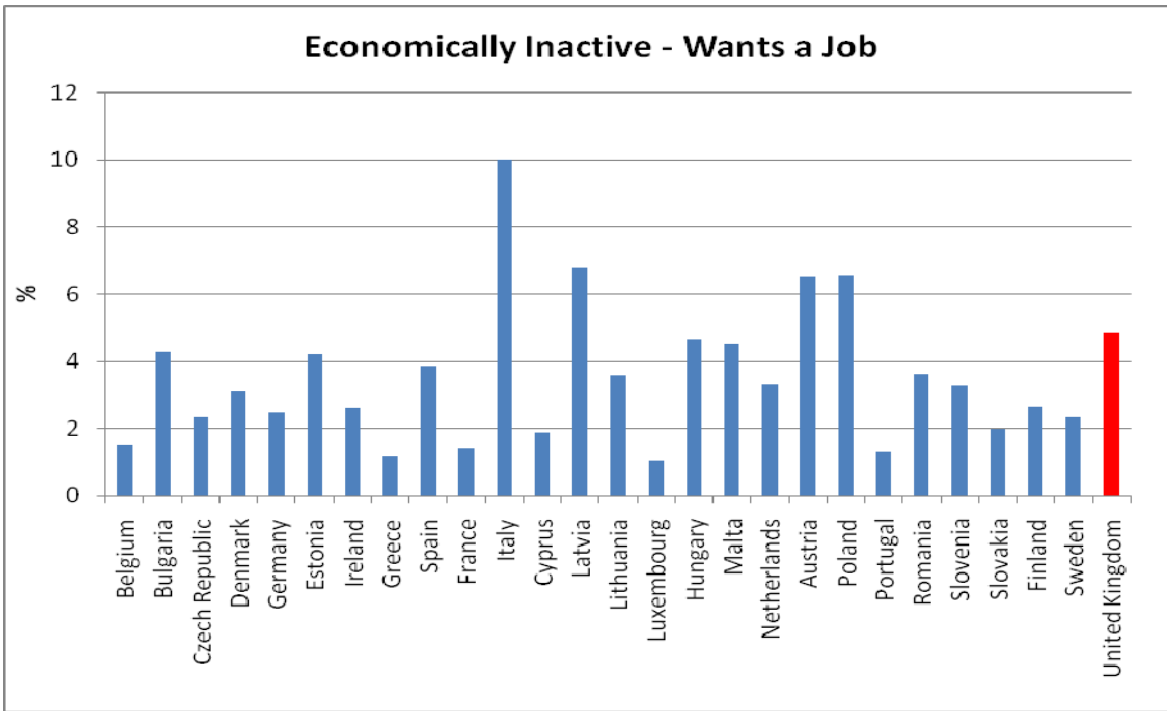
**Chart 2: economic inactivity**

Over 8 million working age people are now economically inactive – a record high.<sup>9</sup>



**Chart 3: European comparisons of economic inactivity**

Not everyone who could be economically active can or wants to work – for example, carers or mothers with young children. But there are over 2.3 million economically inactive people who do want to work, but who do not feature in the headline unemployment figures.<sup>10</sup> We have one of the highest proportions of economically inactive people who want to work in all of Europe – far higher than in key competitors like France and Germany.<sup>11</sup>



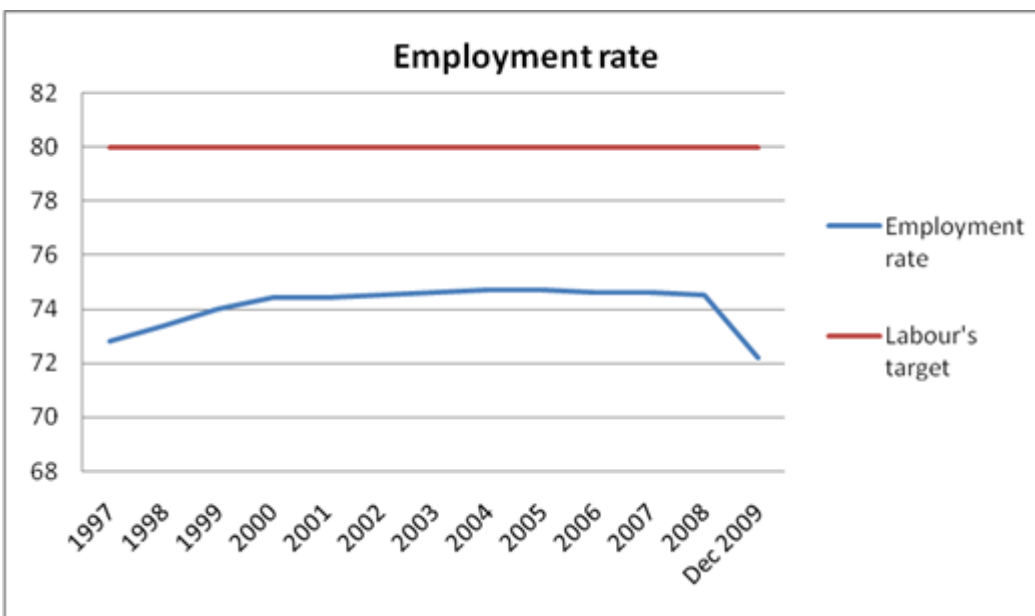
Included in these figures are people classified as ‘discouraged’ workers – people who have given up on looking for work (and therefore are no longer classed as officially unemployed) because they believe that there is no job available for them. The number of discouraged workers more than doubled during the recession from 36,000 to 73,000.<sup>12</sup>

## 1.2 Failure on full employment

In their 2005 manifesto, Labour pledged: ‘Full employment in every region and nation’.<sup>13</sup> They went on to define full employment as an employment rate of 80 per cent. But Labour have broken their pledge.

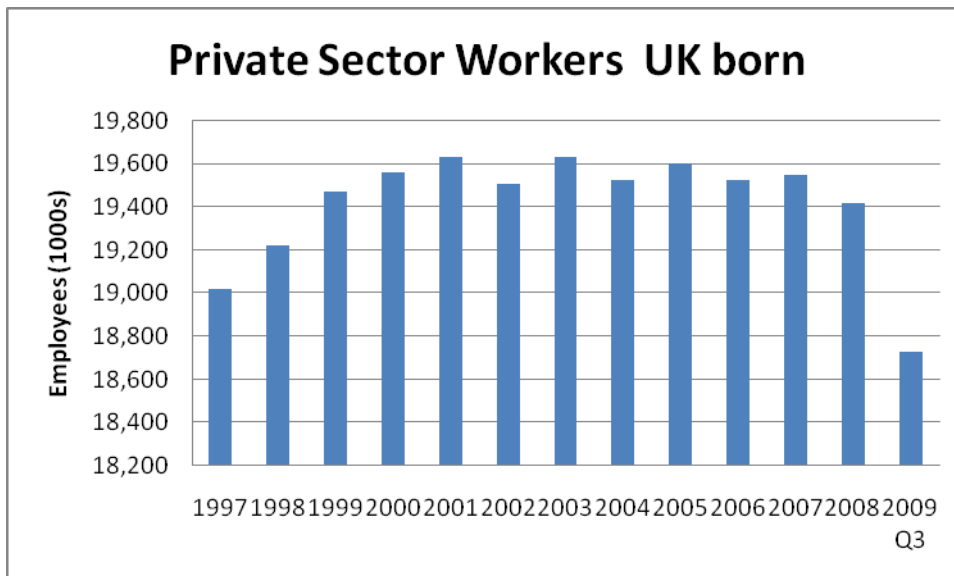
The employment rate is now lower than in both 2005 and 1997. We are now further away from full employment than when Labour first came to power.<sup>14</sup>

**Chart 4: employment rate**



### Chart 5: private sector workers born in the UK

Gordon Brown likes to claim that he has created 2.5 million jobs.<sup>15</sup> However, if you remove the public sector and migrant workers, the number of UK born people in work is lower now than in 1997.<sup>16</sup>

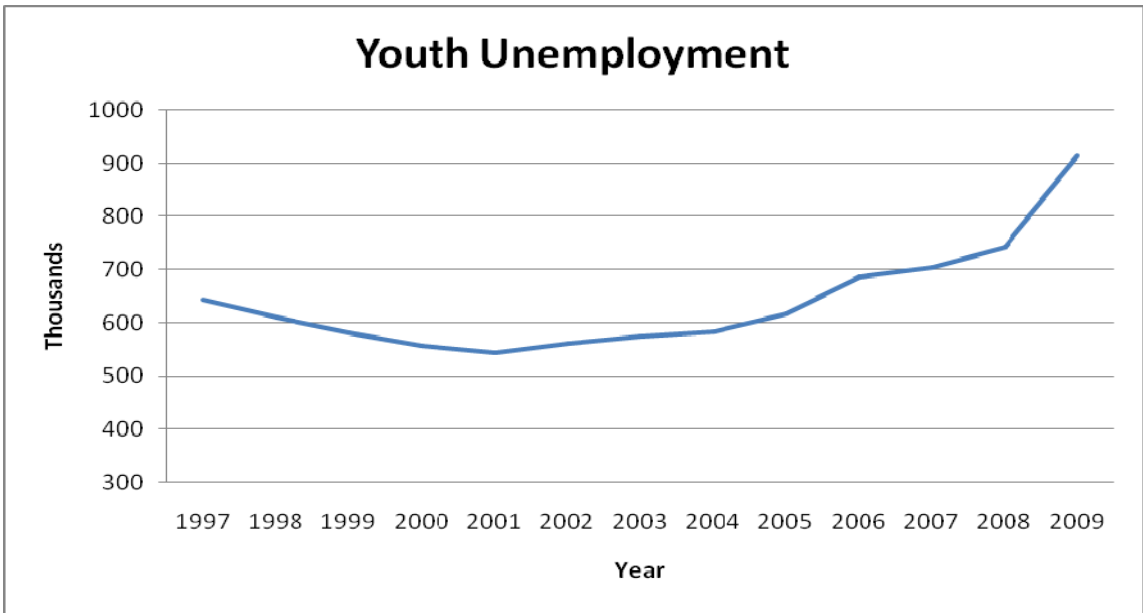


### 1.3 Failure on youth unemployment

When he was Shadow Chancellor, Gordon Brown promised: ‘Our plan is nothing less than to abolish youth unemployment. I will not make promises I cannot keep’.<sup>17</sup> This was a promise that Labour have comprehensively broken.

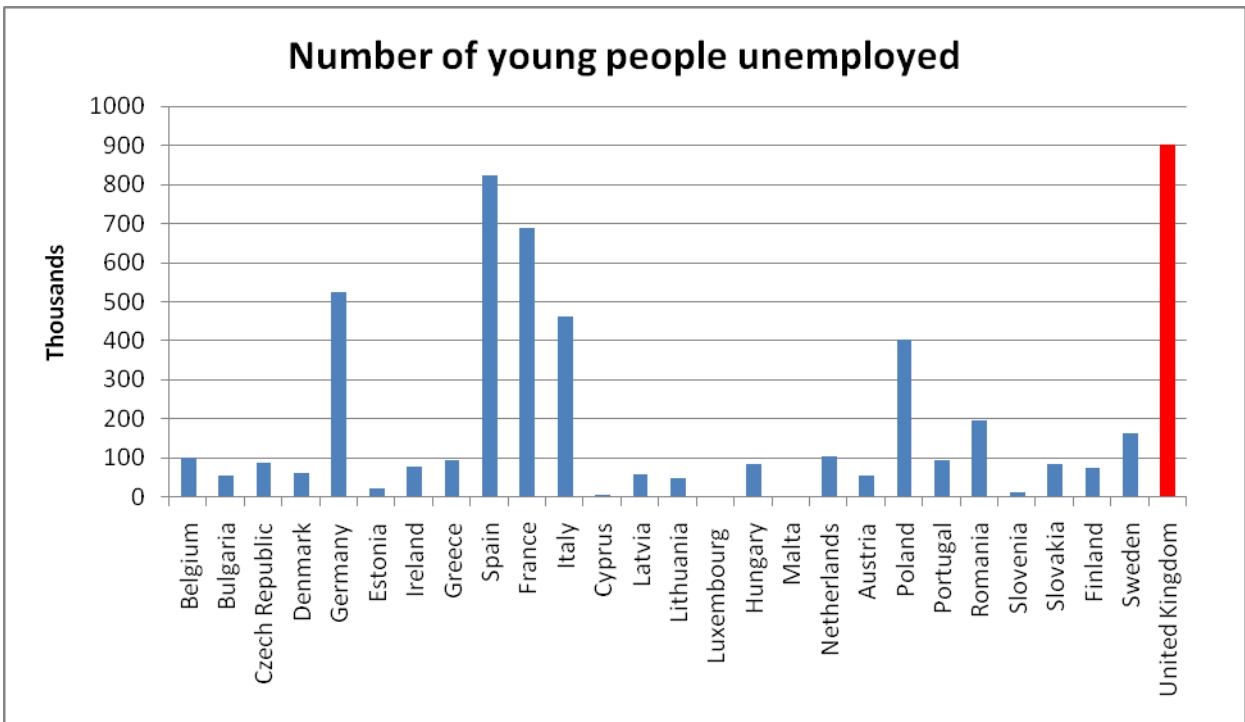
### Chart 6: youth unemployment

By the end of the recession, not only had youth unemployment hit a record level of 943,000 16-24 year olds unemployed, but it had also reached a record rate of 20 per cent.<sup>18</sup> However, high youth unemployment is not just a product of Labour’s recession – youth unemployment has been rising since 2002.<sup>19</sup>



**Chart 7: European comparisons of youth unemployment**

The UK has the highest number of young people unemployed in all of Europe.<sup>20</sup>

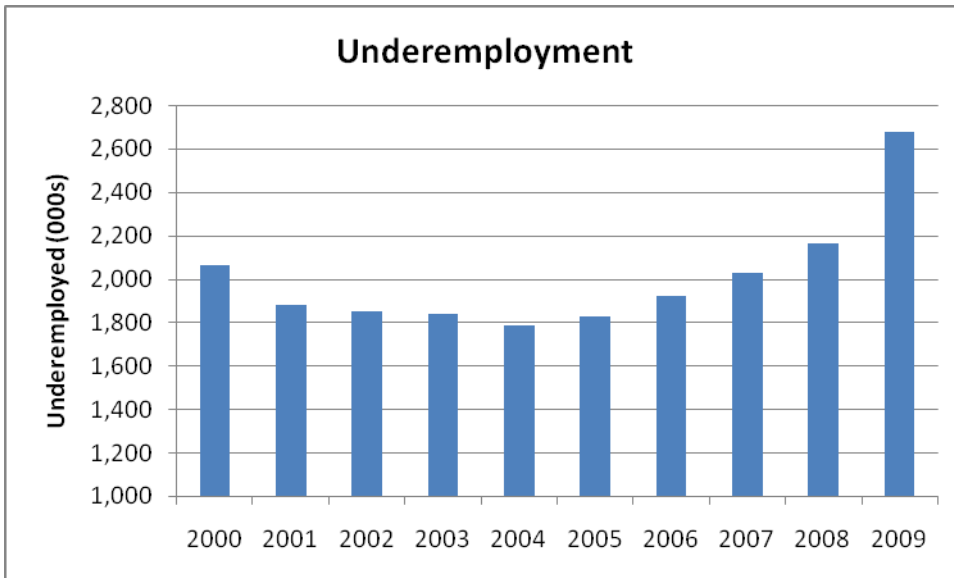


### 1.4 Failure on underemployment

‘Underemployment’ is a measure of how many people who have a job already, but who want to and are available to work additional hours. This could include employed people looking for an additional job, people looking for a replacement job with longer hours, or people who want to work longer hours in their current job. Underemployment has hit a record high under Labour.

**Chart 8: underemployment**

Latest figures show that, in 2009, 2.68 million people were underemployed, accounting for one in ten of all workers. Underemployment has risen by 651,000 since 2007, revealing the impact of the recession on workers' hours. At the end of 2009, the Office for National Statistics estimated the volume of underemployment, in terms of extra work wanted, was 31.6 million hours – up by 6.2 million hours compared to the end of 2008. <sup>21</sup>



## 2. Why the big government approach has failed

### 2.1 The New Deal

Labour came to power with great promises to tackle unemployment and deliver ‘record employment’. But it is clear now that their big government approach has failed.

Nothing underlines Labour’s approach of treating people as statistics rather than human beings than the way they run their emblematic New Deal scheme – their main route for getting people back into work. The New Deal takes a prescriptive, central government approach, and has cost the taxpayer more than £5 billion.<sup>22</sup> Yet it has failed to deliver. Funding is linked to the processes – as defined by central government – that providers are supposed to follow, not the outcomes they achieve, like getting people into sustainable work. And the New Deal encourages a short-term approach to getting people into jobs because it counts success as placing someone in work for a matter of weeks, instead of sustained employment over a number of years.

As a consequence of this approach, the New Deal has become a revolving door back on to benefits: nearly 60 per cent of those aged over 25 leaving the New Deal for those aged over 25 last year returned straight back on to benefits.<sup>23</sup>

- **‘Derisory’ New Deal.** The former Labour Minister for Welfare Reform, Frank Field, has described the performance of the government’s New Deal for Young People as ‘derisory’ and has called for the government to scrap the scheme.<sup>24</sup>
- **Less than 25 per cent find a job.** In 2009, fewer than one in four New Deal participants went into employment.<sup>25</sup>
- **Repeat New Deal participants.** 264,000 people have been through the New Deal more than three times, and 18,500 people have been through it five times or more.<sup>26</sup>
- **One in eight claiming benefits for six out of the last seven years.** In 2007, the government itself admitted that around one in eight of all Jobseeker's Allowance claimants had spent six of the past seven years on benefits.<sup>27</sup>

### 2.2 Labour’s response to the recession

Labour’s response to the recession has been to turn their back on welfare reform. Despite claims that their Young Person’s Guarantee is bold and new, it is almost no different from their New Deal for Young People. Instead of a radical new programme to help people move from Incapacity Benefits and into work, Labour plan to scrap the current support given to people on Incapacity Benefits without a new programme to replace it.

- **Young Person’s Guarantee not working.** In January, almost two years after the recession began, Labour introduced their Young Person’s Guarantee, claiming that any young person unemployed for 6 months or more would be guaranteed a job, training place or work experience. However, two months since the Guarantee was introduced, over 117,000 young people have still been claiming Jobseeker’s Allowance for 6 months or more.<sup>28</sup>
- **13 years of failure.** Labour’s Young Person’s Guarantee was first promised in their 1997 manifesto: ‘Every young person unemployed for more than six months in a job or training’.<sup>29</sup> Despite this, youth unemployment hit record highs under Labour in 2009.<sup>30</sup>

- **‘Six month offer’ not delivering.** Labour’s ‘six month offer’ was supposed to offer 500,000 Government created opportunities for Jobseeker’s Allowance claimants reaching six months unemployment. After eight months, just 9 per cent of opportunities have been taken up. At this rate, it will only deliver support to a quarter of the people it planned to help.<sup>31</sup>
- **No evidence on jobs.** Labour have admitted that they simply do not know if many of their employment programmes have helped anyone into work: ‘The number and proportion of people who have found work through the day one offer, support for newly unemployed professionals and executives, the volunteering and work focused training elements of the Six Month Offer and the Flexible New Deal is not yet available’.<sup>32</sup>

## 2.3 Labour’s jobs tax

Labour are planning to introduce a 1 per cent increase in both Employee and Employer National Insurance in April 2011. Employers will pay more tax on every job over £5,700, and everyone earning over £20,000 will pay more in tax.

- **Tens of thousands of jobs lost.** The Federation of Small Businesses and the Centre for Economics and Business Research estimate that this will cost 57,000 jobs in small and medium-sized enterprises alone,<sup>33</sup> while the Chartered Institute of Personnel and Development found that 12 per cent of employers intend to recruit fewer staff as a result of Labour’s planned hike in Employer NICs, and 8 per cent would cut jobs.<sup>34</sup>
- **Opposition to Labour’s jobs tax.** Over 100 business leaders who employ over 1 million people have voiced their opposition to Labour’s jobs tax. Employer organisations have also condemned the jobs tax – the Confederation of British Industry has described it as a ‘serious mistake’ that will ‘hold back job creation and growth’, and the Federation of Small Business has said it is ‘an attack on jobs’.<sup>35</sup>

## 2.4 Lib Dems offer more of the same

The Lib Dems will continue Labour’s big government approach on welfare. They have no plans to reform Labour’s failing New Deals or to give any extra support to those on Incapacity Benefit to find a job. Their manifesto says that they want to give ‘disabled job seekers better practical help to get to work’. However, they do not include any funding for this policy.<sup>36</sup> Labour do not currently fund back-to-work support for the majority of disabled people claiming Incapacity Benefit, so new funding would be required in order to offer extra help.

The Lib Dems actually oppose any further welfare reforms, describing Labour’s welfare reform bill as ‘a nasty Bill’.<sup>37</sup> And their policies to tackle youth unemployment will only be in place for one year – after that the extra support will be cut back.<sup>38</sup>

## 3. Real welfare reform – our new welfare contract

### 3.1 Introduction

Our vision for tackling the huge economic and social problems we see in Britain today is not to carry on relying on the state for all the answers – we know that fails.

In place of big government schemes that have failed to tackle unemployment and welfare dependency, we want to create the Big Society: where enterprises, charities, the voluntary sector and people themselves are pulling together with a new, national purpose to tackle unemployment and create new jobs.

To make that happen, we will:

- **replace Labour’s failed employment schemes with the Work Programme** – a new comprehensive programme of intensive support delivered by back-to-work specialists who are paid by results. We expect people to take up this help or face having their benefits cut;
- **create over 400,000 new apprenticeship, college and training places over two years**, giving people better job prospects and ensuring our labour market is less dependent on labour from other countries;
- **stop Labour’s jobs tax**, which threatens to kill the recovery, so businesses can provide the growth Britain needs; and,
- **help small businesses create jobs** by offering a tax cut for new firms on the first 10 employees they take on.

We will create a **new welfare contract**, based on the principles of the Big Society – do the right thing and we will back you all the way; fail to take responsibility and the free ride is over.

Our plan to get people back into work is built on the ideas that underpin the Big Society: that we are all in this together; that if you trust people they will act more responsibly; and, that we will only solve our problems through social action not state control. This is what makes our approach distinct from Labour’s big government, and this is the real choice at this election.

### 3.2 The Work Programme

The Big Society approach to helping the unemployed into work is based on harnessing the passion and expertise of community-based specialists, including businesses, social enterprises, charities and voluntary groups – and those who are out of work themselves – to get people into jobs and overcome the problems faced by those with the biggest barriers to work. These organisations are far more effective than made-in-Whitehall schemes run by central government, and will transform our back-to-work support.

A Conservative government will create a single Work Programme for everyone who is unemployed, including the 2.6 million people claiming Incapacity Benefit who do not get enough help from existing programmes.

We will reassess all current claimants of Incapacity Benefit. Those found fit for work will be transferred onto Jobseeker’s Allowance and given positive back-to-work support. Recipients of

Incapacity Benefit who are genuinely disabled will continue to receive the financial support to which they are entitled. Our Work Programme will:

- **offer people targeted, personalised help sooner** – straight away for those with serious barriers to work and at six months for those aged under 25;
- **be delivered through private and voluntary sector providers**, which will be rewarded on a payment by results basis for getting people into sustainable work;
- **draw on a range of Service Academies** to offer pre-employment training for unemployed people – our first Service Academy, for hospitality and leisure, will provide up to 50,000 training places and work placements; and,
- **involve the development of local Work Clubs** – places where people looking for work can gather together to exchange skills, find opportunities, make useful contacts and provide mutual support.

In addition, we will create a Big Society Bank, funded from unclaimed bank assets, to provide new finance for charities, social enterprises and other non-governmental bodies, so they can deliver our back-to-work schemes.

Our plans will give unemployed people a hand up, not a hand out. Unemployed people must be prepared to take up job offers. So with the Conservatives, long-term benefit claimants who fail to find work will be required to ‘work for the dole’ on community work programmes. Anyone on Jobseeker’s Allowance who refuses to join the Work Programme will lose the right to claim out-of-work benefits until they do, while people who refuse to accept reasonable job offers could forfeit their benefits for up to three years. This will create a welfare system that is fair but firm. This is our new welfare contract with the British people.

### 3.3 Boost skills to strengthen the job market

We know that developing economies are able to provide highly-skilled work at a fraction of the cost of British labour. The only way we can compete is by dramatically improving the skills of Britain’s workforce, yet thousands of young people leave school every year without the skills they need to get a good job.

A Conservative government will not accept another generation being consigned to an uncertain future of worklessness and dependency. We will promote fair access to universities, the professions, and good jobs for young people from all backgrounds.

By using funding that currently supports Labour’s ineffective state-run employment and training schemes, such as Train2Gain, we can direct real help into providing support for people looking to improve their skills. This will allow us to:

- **create 400,000 work pairing, apprenticeship, college and training places** over two years;
- **give small and medium-sized enterprises (SMEs) a £2,000 bonus for every apprentice they hire;**
- **establish a Community Learning Fund** to help people restart their careers; and,
- **create a new all-age careers service** so that everyone can access the advice they need.

To meet the skills challenge we face, the training sector needs to be given the freedom to innovate. We will set colleges free from direct state control and abolish many of the further education quangos Labour have put in place. Public funding will follow the choices of students and be delivered by a single agency, the Further Education Funding Council.

### 3.4 Stopping Labour's jobs tax to promote recovery

Labour's plans to increase National Insurance in 2011 are direct evidence that they are still wedded to the big government approach. That is the very reason why our economy is in such trouble. Under their plans, anyone earning over £20,000 will pay more tax, and employers will pay more tax on all jobs paid over £5,700. This jobs tax, which will hit small businesses especially hard, will kill the recovery. Experts predict it will cost 57,000 jobs in small and medium-sized businesses alone.<sup>39</sup>

At the same time, Labour will not take action to cut waste in government. They have identified £11 billion of waste, but they do not plan to start dealing with it until April 2011. So Labour will continue wasting money while putting up taxes on working people.

We will stop the most damaging part of the National Insurance rise for employers and for anyone earning under £35,000. We will make the following changes in April 2011:

- **raise the primary threshold for National Insurance by £24 a week and raise the Upper Earnings Limit by £29 a week; and,**
- **raise the secondary threshold at which employers start paying National Insurance by £21 a week.**

Seven out of ten working people – those earning between £7,100 and £45,400 – and almost every employer will save up to £150 a year per person compared to under Labour. Lower earners will get the greatest benefit as a percentage of their earnings. Nobody will be worse off as a result of these changes.

Our plans are backed by over a hundred of Britain's top business leaders, who between them employ more than a million people, as well as by Britain's leading business organisations and more than 400 small businesses.

To pay for this, we will take immediate action to cut a net £6 billion of wasteful departmental spending in the financial year 2010/11, with further savings in future years. These actions will allow us to reduce the deficit more quickly than Labour year-on-year while avoiding the most damaging part of their jobs tax. It will also lower the proportion of the reduction of the structural deficit that is accounted for by tax increases, from about one third towards one fifth. This is in line with international best practice, as well as the Treasury's own internal analysis.

Former government advisers, Sir Peter Gershon and Dr Martin Read, have advised us that savings of £12 billion across all departmental spending are possible in-year without affecting the quality of frontline services. These are over and above any savings already planned by Labour.

### 3.5 Boost small businesses so they can create jobs

Far too much of the employment growth we saw under Labour before the recession was created in the public sector. While our frontline public professionals do a fantastic job, increasing the size of the state, especially all the back-office administration, does not help to create the growth and wealth needed to build sustainable employment – business does.

Enterprise is the engine of economic growth and small businesses are especially important to the UK's economic recovery and for creating employment.

Government can help boost enterprise, not by creating artificial schemes, but by empowering the Big Society: lowering tax rates, reducing regulation and empowering people to start and grow enterprises. So, as well as stopping Labour's jobs tax, for the first two years of a Conservative government any new business will pay no Employer National Insurance on the first ten employees it hires during its first year.

To support small businesses further, we will:

- **make small business rate relief automatic; and,**
- **aim to deliver 25 per cent of government research and procurement contracts through SMEs by cutting the administrative costs of bidding.**

And to boost self-start enterprise, we will give new support to would-be entrepreneurs through a Work for Yourself programme, which will give unemployed people direct access to business mentors and substantial loans.

We also understand we need to make work pay, so we will keep the minimum wage and work to reduce the very high marginal tax rates faced by many people on low incomes who want to return to work or increase their earnings.

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<sup>1</sup> Hansard, 7 March 2001; Labour Party, Manifesto, 2005; Gordon Brown speech to Labour Party Conference, 1995

<sup>2</sup> ONS, Labour Market Statistics, March 2010

<sup>3</sup> ONS, Labour Market Statistics, Time Series Data, March 2010

<sup>4</sup> ONS, Labour Market Statistics, March 2010

<sup>5</sup> ONS, Labour Market Statistics, Time Series Data, March 2010

<sup>6</sup> DEP 2010-0705, Hansard, 12 March 2010, Col. 483W

<sup>7</sup> Frank Field, The Times, 20 February 2009

<sup>8</sup> ONS, Labour Market Statistics, March 2010

<sup>9</sup> ONS, Labour Market Statistics, March 2010

<sup>10</sup> ONS, Labour Market Statistics, March 2010

<sup>11</sup> Eurostat, Inactive population by sex, age groups and willingness to work 2008, November 2009

<sup>12</sup> Hansard, 15 December 2009, Col. 1138W

<sup>13</sup> Labour Party Manifesto, 2005

<sup>14</sup> ONS, Labour Market Statistics, Time Series Data, March 2010

<sup>15</sup> Gordon Brown, Speech to the Scottish Labour Spring Conference, 27 March 2010

<sup>16</sup> ONS, Labour Market Statistics, March 2010

<sup>17</sup> Gordon Brown, Speech to Labour Party Conference 1995

<sup>18</sup> ONS, Time Series Data, March 2010

<sup>19</sup> ONS, Time Series Data, March 2010

<sup>20</sup> Eurostat, Unemployment by age, unemployed 15-24, April 2010

<sup>21</sup> DEP 2010-0705, Hansard, 12 March 2010, Col. 483W; ONS, Economic and Labour Market Review, February 2010

<sup>22</sup> Hansard, 30 March 2010, Column 957W

<sup>23</sup> DWP, Employment Programme Data, August 2009

<sup>24</sup> Frank Field, The Times, 20 February 2009

<sup>25</sup> DWP, Employment Programme Data, August 2009

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- <sup>26</sup> Hansard, 25 April 2008, Column 2362W
- <sup>27</sup> John Hutton, Speech to the Welfare to Work Convention, 20 June 2007
- <sup>28</sup> ONS, Labour Market Statistics, March 2010
- <sup>29</sup> Labour Manifesto, 1997
- <sup>30</sup> ONS, Labour Market Statistics, Time Series Data, March 2010
- <sup>31</sup> DWP, 6 Month Offer Statistics, January and February 2010
- <sup>32</sup> Hansard, 13 January 2010, Col. 1033W
- <sup>33</sup> FSB Press Release, 28 October 2009
- <sup>34</sup> CIPD Press Release, 22 January 2010
- <sup>35</sup> CBI Press Release, 9 December 2009; FSB Press Release, 9 December 2009
- <sup>36</sup> Liberal Democrat Manifesto, 2010
- <sup>37</sup> Hansard, 17 March 2009, Column 872
- <sup>38</sup> Liberal Democrats launch plans to stimulate a green economy, 19 April 2010
- <sup>39</sup> CEBR / FSB Press Release, 28 October 2009