Sheffield Hallam University
Centre for Regional Economic and Social Research

Celebrating the 30th Anniversary of CRESR at Sheffield Hallam University

Jobs, Welfare and Austerity

How the destruction of industrial Britain casts a shadow over present-day public finances

Christina Beatty and Steve Fothergill

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November 2016

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CRESR at 30: 1987-2017

The Centre for Regional Economic and Social Research (CRESR) at Sheffield Hallam University was established in 1987. Over the last thirty years we have undertaken more than 500 projects for UK government departments, research councils, research charities, devolved administrations, the Organisation for Economic Co-operation and Development (OECD), the European Commission, and many other organisations, exploring relationships across policy, people and places. There are two reasons why we think now is an especially apt time to reflect on that experience.

First, at a time of political, economic and social turmoil there is an inevitable tendency to focus on the here and now. However, creative solutions rarely emerge from short-termism and political expediency. We are witnessing a marked break with long-run post-war trends, the intensification of long-standing issues and problems, and the emergence of new challenges. Now is not the time for collective policy amnesia. It is a time to take stock, reassess and reconsider; to take the long view and reflect on lessons to be drawn from previous policies, strategies and initiatives in order to chart a way forward.

Second, there is an urgent need to discuss the role of evidence in the formulation of public policy. Policy making rooted in evidence and analysis is out of favour. Political debate appears more interested in appealing to emotion, speculation and imagery. Facts are seen as irrelevant and experts as dour pessimists. This rejection of evidence in favour of supposed 'common sense' thinking in practice risks distancing policy from the lived realities of the people and places it should be serving. The result is policy that misunderstands what is going on, does little to make things better and can often make them worse.

Over the last 30 years, we have teased out a rich evidence base, often working in partnership with other researchers. Much of this work has been commissioned directly by government departments and agencies: it is perverse that findings emerging from publicly funded research should be so rapidly discarded. In response, we are publishing a series of themed reviews that reach across CRESR's expertise between November 2016 and summer 2017. Each will address a broad area of policy within which CRESR has operated. The particular slant they take will vary, but the reviews will be united by a commitment to bridge the gulf that has opened up between the ostensibly ambitious rhetoric of many government initiatives and the harsh realities of life for many places and people who are increasingly becoming the 'unconnected'.

We hope readers enjoy these reviews; we welcome comments and feedback on them.

CRESR Directors: 1986-2016	
Professor Paul Lawless	1986–2003
Professor Ian Cole	2003–2010
Professor Peter Wells	2010–2013
Professor David Robinson	2014–2016

An indication of the range of organisations with which we have worked, and the nature of some of these projects, can be found at **www.shu.ac.uk/cresr.**

Key Points

- UK manufacturing employment has fallen from 8.9 million to just 2.9 million over the last fifty years, and 500,000 jobs have disappeared from the coal industry. This has destroyed the economic base of many communities, especially in the North, Scotland and Wales.

- The main effect of this job loss has been to divert vast numbers of men and women out of the labour market onto incapacity-related benefits, these days Employment and Support Allowance (ESA) which accounts for almost 2.5 million adults of working age. The highest claimant rates – 10 per cent or more of all 16-64 year olds – are nearly all in older industrial areas.

- ESA and the additional benefits received by ESA claimants – Housing Benefit and Disability Living Allowance for example – are a £30bn-plus annual claim on the Exchequer.

- Low pay in former industrial areas depresses tax revenue and inflates spending on in-work benefits. Spending on Tax Credits, for example, exceeds £850 a year per adult of working age in much of older industrial Britain – double the level in parts of southern England.

- The Treasury has misdiagnosed high welfare spending as the result of inadequate work incentives and has too often blamed individuals for their own predicament, whereas in fact a large part of the bill is rooted in job destruction extending back decades.

- The welfare reforms implemented since 2010, and strengthened since the 2015 general election, hit the poorest places hardest. In effect, communities in older industrial Britain are being meted out punishment in the form of welfare cuts for the destruction wrought to their industrial base.

- Across most of older industrial Britain the loss arising from welfare reform is expected to exceed £750 a year per working age adult by 2020-21.

- There is an alternative – a genuine rebalancing of the economy in favour of industrial production and a revival of regional economic policy.

- Policy makers need to take a long-term perspective, look at the differences between places, and stop thinking in silos.

The contemporary UK economy

Most discussion about the economy is framed within short time-horizons, with general elections or at most changes in government setting the outer edges of memory and debate. This focus may convey immediacy and relevance but the effect is all too often to obscure the longer-term issues and trends.

So in the autumn of 2016 it is the consequences of the UK's vote to leave the European Union that dominate the economic debate. Brexit is unquestionably important, even if the result of the referendum has not yet had quite the impact that was anticipated, but its potential consequences pale by comparison with the cumulative effects, year on year, of underlying economic trends.

In the UK, the defining feature of the economy over the last thirty or forty years has been the big shift away from industry as an employer and generator of wealth. That this 'deindustrialisation' has happened is widely understood. It is part of the backdrop to modern life. Yet the massive consequences for the contemporary economy and for present-day policy making are generally overlooked. This is unfortunate because major economic changes, such as deindustrialisation, have impacts that spill over from decade to decade.

In this short paper we aim to explain how the loss of Britain's industrial base sets the context for present-day public finances. In doing so, we draw in particular on our own research at CRESR over the last three decades. Individual components of this research provide pieces of the jigsaw, but by combining all the pieces and drawing on wider ideas in economics to fill in some of the gaps the overall picture becomes clear.

In brief, our argument is that the destruction of industrial jobs, which was so marked in the 1980s and early 90s but has continued on and off ever since, fuelled spending on welfare benefits which in turn has compounded the budgetary problems of successive governments. And with the present government set on welfare reform, the places that bore the brunt of job destruction some years ago are now generally facing the biggest reductions in household incomes. There is a continuous thread linking what happened to British industry in the 1980s, via the Treasury's budgetary calculations, to what is today happening on the ground in so many hard-pressed communities.

In particular, we demonstrate these links by deploying local data. This has been the distinctive contribution of our research (and of CRESR more generally) and its value is that it provides not just a level of detail that would otherwise be missing but, more importantly, it sheds light on the underlying processes at work. The Treasury knows it has a problem balancing public finances, and that the government spends an awful lot on working-age welfare benefits. But it never seems to ask exactly where – which towns and cities – draw so heavily on benefits, or why these communities have become so dependent on welfare spending.

UK manufacturing employment has fallen from 8.9 million to just 2.9 million over the last fifty years, and 500,000 jobs have disappeared from the coal industry. This has destroyed the economic base of many communities, especially in the North, Scotland and Wales.

The destruction of industrial Britain

It is appropriate to begin by outlining the scale of industrial job loss and its distinctive geography. For those who lived through the 1980s and early 90s as adults this will be a familiar story but it is perhaps best not to take too much knowledge for granted.

Britain was once a major industrial employer. Back in 1966, when manufacturing employment peaked, 8.9 million worked in manufacturing and a further 500,000 in the coal industry. This compares with just 2.9 million employed in manufacturing in 2016,[1] and none at all in the coal industry except at a handful of opencast sites and tiny drift mines. The shift from manufacturing to service sector employment is a phenomenon shared by other advance economies,[2] rooted in differential rates of productivity growth and accentuated by globalisation and the rise of China, in particular, as a competitor. But in Britain the process of deindustrialisation has gone further and faster than just about anywhere else.

As **Figure 1** below shows, manufacturing employment fell especially steeply in the early 1980s in a recession triggered by a high exchange rate and high interest rates. The recession of the early 1990s added further pain. Thereafter, manufacturing employment failed to recover even though the UK economy enjoyed fifteen years of sustained economic growth. For the coal industry (which statisticians don't include within 'manufacturing'), the biggest job losses started a little later, after the 1984/5 miners' strike, but by 1992 when the 'Heseltine' round of pit closures was announced two-thirds of the pre-strike workforce had already gone. The final colliery closed in 2015.

These industrial job losses were concentrated in specific parts of the country – mostly but not exclusively in 'older industrial Britain'. Towns and cities in the North of England, and to a lesser extent in the Midlands, were especially badly hit. The West of Scotland around Glasgow, and South Wales were similarly affected. In many cases the economic base of whole communities was destroyed. By contrast, London escaped relatively lightly and so did most of its vast hinterland in the South and East of England.

Partly this pattern reflected the pre-1980 location of UK manufacturing, and coal-mining of course only took place where there was coal to be mined. Partly the pattern of job loss reflected the location of the industries that shrank most – coal, steel, shipbuilding, heavy engineering, textiles etc. And partly it was attributable to the closure of branch factories in the 'assisted areas' that had opened in the post-war years of economic growth and strong regional policy.[3]

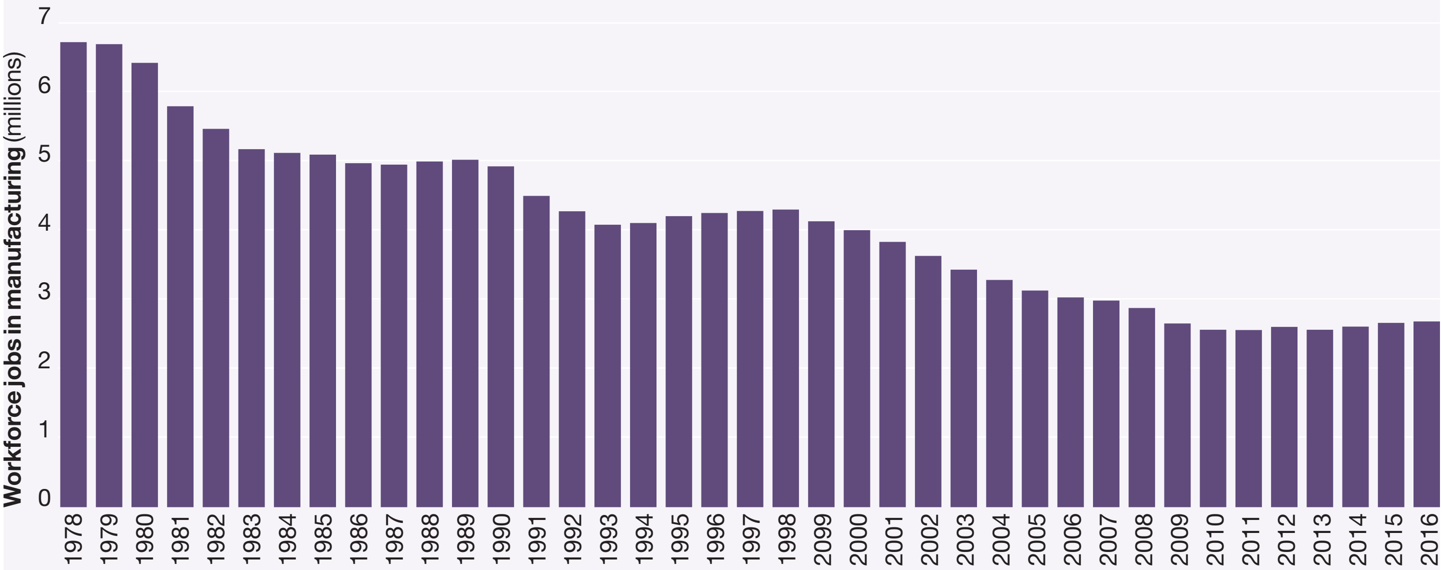
Figure 2, opposite, illustrates the geography of this job loss. This map does not purport to show the location of every major industrial closure or redundancy over the last three and a half decades but rather to give a flavour of which industries have shrunk or disappeared from which locations. The concentration in a number of specific areas is especially noticeable. It is not the whole of the North, nor indeed the whole of Scotland or Wales, that has been in the firing line – many rural areas, for example, were less affected. It s the industrial cities, towns and coalfield areas that suffered the big job losses. This is a distinctive geography that recurs in the evidence we present later.

1. GB data for the year to March 2016. Source: Labour Force Survey.

2. See in particular R Rowthorn and J Wells (1987) *Deindustrialisation and Foreign Trade*, CUP, Cambridge

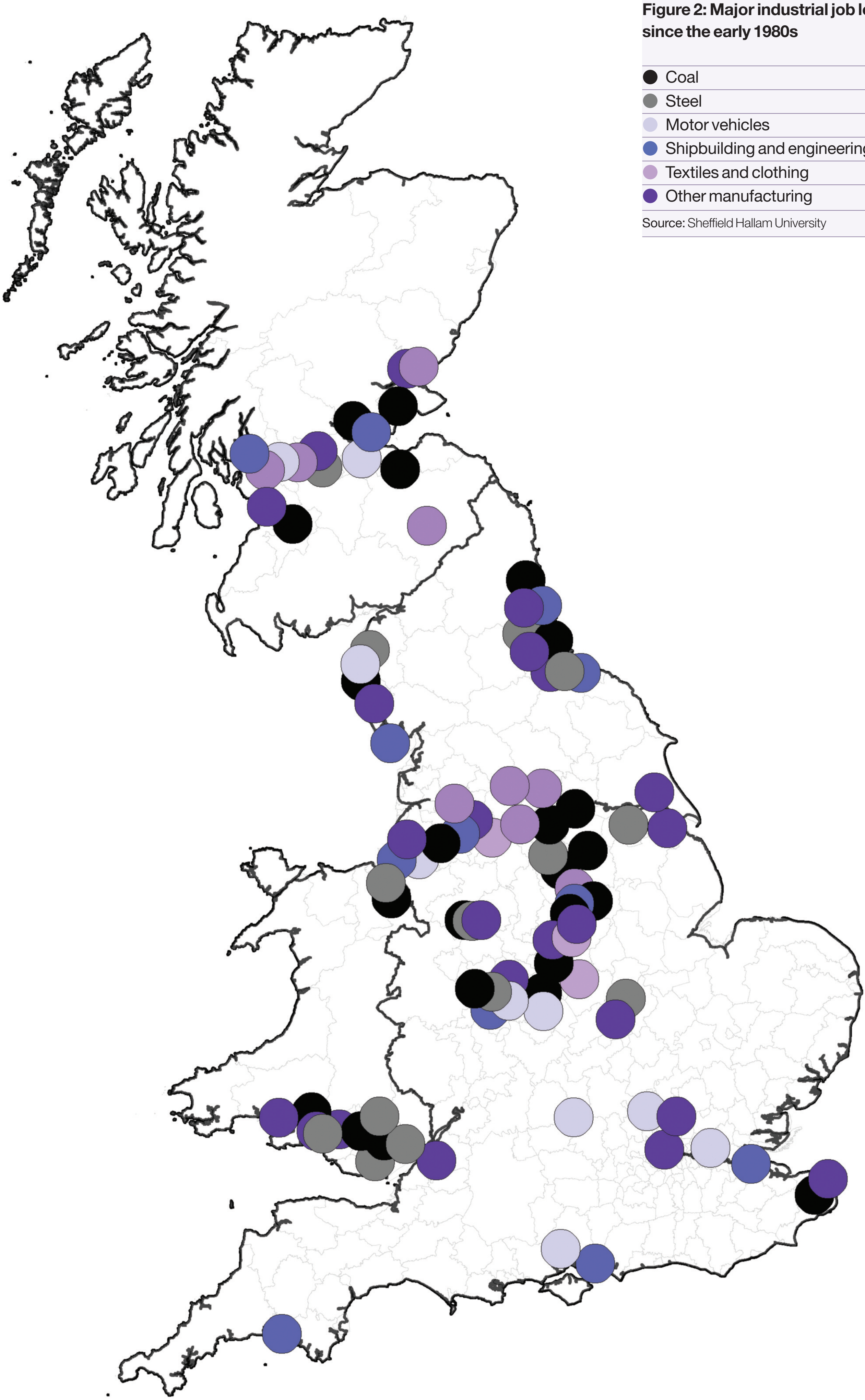
3. S Fothergill and N Guy (1991) *Retreat from the Regions: corporate change and the closure of factories*, Jessica Kingsley / Regional Studies Association, London.

Figure 1: UK manufacturing employment 1978-2016



Source: ONS

Figure 2: Major industrial job losses since the early 1980s



- Coal
- Steel
- Motor vehicles
- Shipbuilding and engineering
- Textiles and clothing
- Other manufacturing

Source: Sheffield Hallam University

Labour market adjustment

The 1980s are remembered as a period of high unemployment. The number of claimant unemployed – that is, the number out-of-work claiming unemployment benefits – hovered around 3 million for a number of years, which was perhaps to be expected given the scale of the job loss. But after the early 1990s recession, claimant unemployment fell away, declining to under 1 million for most of the 2000s, and after the 2008 financial crisis returning to below 1 million once more. If claimant unemployment alone were to be the sole guide it might be argued that the UK economy has got over deindustrialisation.

Unfortunately, this optimistic assessment is wide of the mark. A closer look at how labour markets have adjusted explains why.

We first became interested in labour market adjustment in the context of the UK coal industry. By the early 1990s most of the pits had shut but claimant unemployment in the coalfields was no higher than when the pits had been working. This was not what most observers had expected. We therefore picked apart the trends in the coalfield labour market.[4] How much of the low claimant unemployment could be explained by commuting to neighbouring areas, by out-migration, or by new job creation? The conclusion, based on Census data, was in fact that the main response to coal job loss was a diversion of working-age men into 'economic inactivity'. Looking closer, this was primarily a withdrawal from the labour market into what the Census called 'permanent sickness' – in practice onto incapacity-related benefits. So job loss had indeed resulted in a lasting increase in benefit claims but not in the way that had been expected.

In a follow-up study[5] we brought the figures forward by a decade or so. A lot more had happened, particularly on the job creation front, but the fundamental conclusion remained the same: the big labour market adjustment in response to coal job losses was an increase in 'economic inactivity' among working age men. Furthermore, because many of the ex-miners themselves had by then reached state pension age it was clear that the increase in economic activity must be occurring much more widely across the local workforce. In effect, job loss for one generation was being passed on as higher economic inactivity among the next. By 2008, 'economic inactivity' among working age men in the English and Welsh coalfields was still 150,000 higher than at the beginning of the 1980s.[6]

The coalfields pointed the way but it quickly became apparent that their experience was not unique. Across the whole of older industrial Britain, from the mid-1980s through to the early 2000s there was a huge surge in the numbers out of the labour market – 'economically inactive' – on incapacity-related benefits.[7]

We argued that much of the increase in incapacity numbers was a form of 'hidden unemployment'. These were men and women who in a fully employed economy might have been expected to be in work but whose health problems or disabilities entitled them to incapacity-related benefits (these days Employment and Support Allowance) instead of unemployment benefits. Our estimates of the scale of hidden unemployment adjust for underlying variations in the extent of ill health. The most recent figures, for 2012,[8] suggest that as many as 900,000 unemployed are hidden on incapacity-related benefits, only around 100,000 down on our very first estimate for 1997.[9]

The increase in incapacity numbers in older industrial Britain occurred among women as well as men. At first this seemed hard to understand because the heavy industries shedding jobs had previously mainly employed men. What became apparent, after much detailed research in the former coalfields[10] and elsewhere,[11] is that these days the male and female sides of the labour market interact so that a shortfall in opportunities for men is transmitted, through competition for jobs, to a difficult local labour market for women in the same places. Out-of-work women with health problems or disabilities generally end up on incapacity-related benefits just like their male counterparts.

So via the study of local data it became possible to draw firm conclusions about what really happened in response to the large-scale loss of jobs in older industrial Britain. Yes, claimant unemployment did fall back to low levels. But the near-permanent effect has been to raise incapacity claimant numbers, both among men and women.

4. C Beatty and S Fothergill (1996) 'Labour market adjustment in areas of chronic industrial decline: the case of the UK coalfields', *Regional Studies*, vol. 30, pp. 637-650.

5. C Beatty, S Fothergill and R Powell (2007) 'Twenty years on: has the economy of the UK coalfields recovered?, *Environment and Planning A*, vol. 39, pp. 1654-1675.

6. M Foden, S Fothergill and T Gore (2014) *The State of the Coalfields*, CRESR, Sheffield Hallam University. http://www4.shu.ac.uk/research/cresr/sites/shu.ac.uk/files/state-of-the-coalfields.pdf. C Beatty (2016) 'Two become one: the integration of the male and female labour markets in the English and Welsh coalfields, *Regional Studies*, vol. 50, pp. 823-834.

7. C Beatty and S Fothergill (2005) 'The diversion from 'unemployment' to 'sickness' across British regions and districts', *Regional Studies*, vol. 39, pp. 837-854.

8. C Beatty, S Fothergill and T Gore (2012) *The Real Level of Unemployment 2012*, CRESR, Sheffield Hallam University. http://www4.shu.ac.uk/research/cresr/sites/shu.ac.uk/files/real-level-of-unemployment-2012.pdf

9. C Beatty, S Fothergill, T Gore and A Herrington (1997) *The Real Level of Unemployment*, CRESR, Sheffield Hallam University. http://www4.shu.ac.uk/research/cresr/sites/shu.ac.uk/ files/the-real-level-unemployment-1997.pdf

10. C Beatty (2016) 'Two become one: the integration of the male and female labour markets in the English and Welsh coalfields, *Regional Studies*, vol. 50, pp. 823-834.

11. C Beatty, S Fothergill, D Houston, R Powell and P Sissons (2009) *Women on Incapacity Benefits*, CRESR, Sheffield Hallam University. http://www4.shu.ac.uk/research/cresr/sites/shu.ac.uk/files/women-incapacity-benefits_0.pdf

The impact on present-day welfare spending

We can now begin to explore what this has meant for welfare spending and for the Treasury's struggle to balance public finances. It is appropriate to begin by looking at the numbers claiming the three main out-of-work benefits, shown in **Figure 3** for 1979 to 2016 for Britain as a whole.

As we noted earlier, the numbers claiming unemployment benefits – Jobseeker's Allowance from 1996 onwards and Universal Credit more recently – reached 3 million in the mid-1980s, fell back, rose again in the early 1990s, then declined to well under a million. In the wake of the 2008 financial crisis the numbers peaked at around 1.5 million before falling back once more. Older industrial Britain, with around 30 per cent of the GB population,[12] still has 42 per cent of the claimant unemployed.[13]

The number claiming lone parent benefits – Income Support for most of this period – rose from around 300,000 at the start of the 1980s to a peak of around 1 million in the mid-1990s. The evidence on the geography of lone parent claims[14] pointed clearly to job loss among men as a key factor. In the places where men's jobs had disappeared, such as older industrial Britain, the ability of men to provide financial support to women and children had been eroded. More recently, the numbers on lone parent benefits have fallen, not least because eligibility has gradually been restricted just to those with the very youngest children.

The striking feature in **Figure 3**, however, is the rise in the numbers out-of-work on incapacity-related benefits, from around 750,000 to a plateau of around 2.5 million. The numbers have declined a little from the all-time high in the early 2000s but not by much.

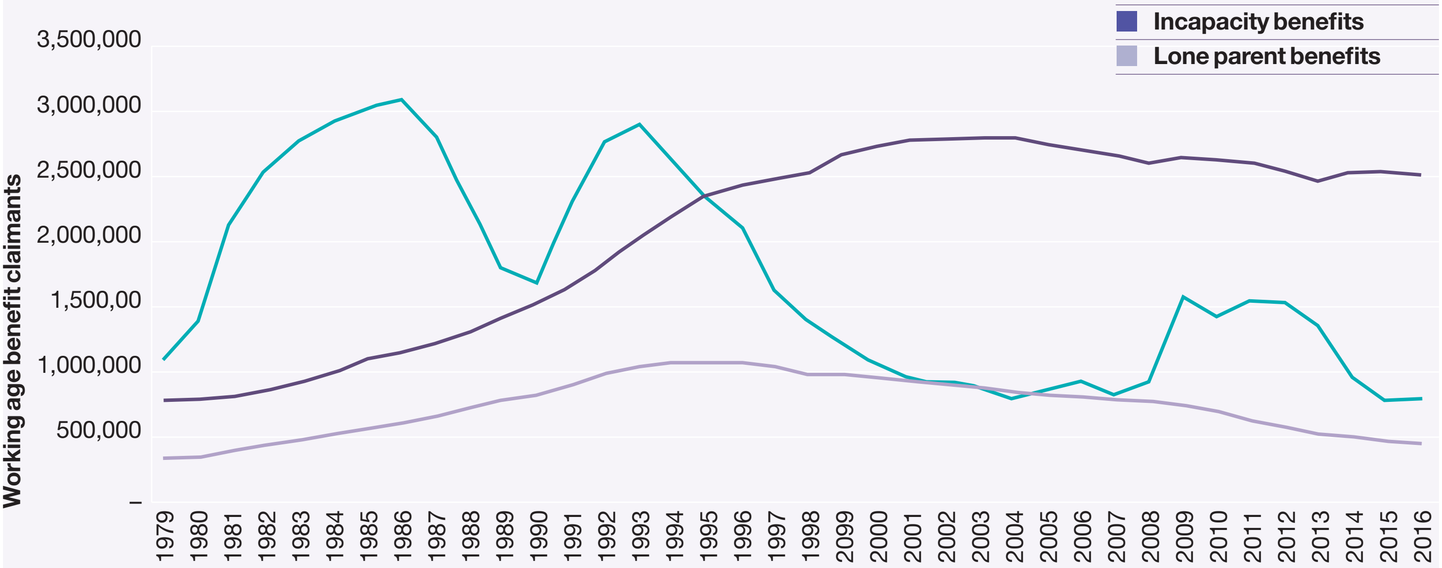
The main effect of this job loss has been to divert vast numbers of men and women out of the labour market onto incapacity-related benefits, these days Employment and Support Allowance (ESA) which accounts for almost 2.5 million adults of working age. The highest claimant rates – 10 per cent or more of all 16-64 year olds – are nearly all in older industrial areas.

12. Industrial Communities Alliance (2015) *Whose Recovery? How the upturn in economic activity is leaving older industrial Britain behind*, ICA, Barnsley. http://www.industrialcommunitiesalliance.org/uploads/2/6/2/0/2620193/whose_recovery_report.pdf

13. August 2016

14. R Rowthorn and D Webster (2008) 'Male worklessness and the rise of lone parenthood in Great Britain', *Cambridge Journal of Regions, Economy and Society*, vol. 1, pp. 69-88.

Figure 3: Working age benefit claimants, 1979-2016



Source: DWP

Incapacity-related benefits

There are two remarkable aspects of the incapacity numbers. First, they are largely invisible. The figures surface in the media from time to time but probably few beyond those who follow these issues would be aware that the numbers currently out-of-work on incapacity-related benefits exceed the numbers on unemployment benefits by more than three-to-one and that, the immediate post-financial crisis years excepted, this has been the situation since the end of the 1990s.

The other remarkable aspect of the incapacity numbers is that they have stayed so high for so long despite multiple efforts to bring them down. Reform in 1995 introduced more formal medical tests. More restrictive eligibility rules were introduced in 1999. A Pathways to Work programme for claimants was introduced in 2003. And from 2008 onwards Employment and Support Allowance has been replacing the previous incapacity benefits, with a new medical test, new conditionality and (from 2012 onwards) an extension of means-testing. But all this effort has had remarkably little impact on the headline figures. Clearly, the factors that underpin incapacity claimant numbers are very powerful indeed.

The key insight again comes from the local numbers. **Figure 4** shows the share of adults of working age claiming incapacity-related benefits in February 2016, by district across the whole of Britain. It is immediately apparent that there are huge variations across the country. Moreover the pattern is systematic. As anyone familiar with the geography of Britain will quickly note, the highest incapacity claimant rates are mostly found in older industrial Britain – places such as the South Wales Valleys, North East England, Merseyside and Clydeside. In contrast, the incapacity claimant rate in much of the South and East of England, especially outside London, is modest.

In fact, 18 of the 20 districts with the highest incapacity claimant rates cover older industrial areas[15]. Typically, the incapacity claimant rate in older industrial Britain is just above or below 10 per cent, meaning that one-in-ten of all adults between the ages of 16 and 64 in these places are out of the labour market on Employment and Support Allowance or (in a diminishing number of cases) one of its predecessor benefits. In Blaenau Gwent and Neath Port Talbot in South Wales the incapacity claimant rate is 11.9 per cent. It is also 11.9 per cent in Glasgow. In Liverpool it is 10.8 per cent, in Middlesbrough 10.3 per cent and in Stoke-on-Trent 10.1 per cent.

High incapacity claimant rates are emphatically not an issue in the places where the local economy is strong. Only one London borough is among the top hundred (Islington at number 95) and only four other districts in South East England, all of which cover seaside towns.

Of course, older industrial Britain often has higher underlying levels of ill health so we might expect to find higher incapacity claimant rates here. But it is worth remembering that the surge in incapacity claimant numbers in these places only happened after the industrial jobs began to disappear. When the mines, steelworks and the like still employed vast numbers, far more people were actually exposed to damaging impacts on their health but far fewer made incapacity claims. It is also worth remembering that ill health or disability is not necessarily an absolute bar to employment.

What appears to be happening is that where there are plenty of jobs the men and women with health problems or disabilities are able to hang on in employment or find new work if they are made redundant. But where the labour market is difficult – as in older industrial Britain – ill health or disability ruins many people's chances of finding and keeping work. Employers are well able to recruit the fit and healthy instead. Poor qualifications, low-grade work experience and advancing years all too often compound the difficulties the sick and disabled experience in finding work.

Additional welfare benefits

This is nevertheless still a long way from attributing more than a small share of the present-day fiscal constraints on the Treasury to the consequences for the benefits system of industrial job loss. To expose the full impact we have to first consider the other welfare benefits claimed alongside incapacity-related benefits.

Employment and Support Allowance, onto which nearly all incapacity claimants have been moved, is not overly generous, particularly bearing in mind that most claimants spend long periods out-of-work on this benefit. The current (2016) basic rates are £109 a week for an ESA claimant aged 25 or over in the 'Support Group' and £102 a week for one in the 'Work-Related Activity Group', though the latter is now means-tested after twelve months and is soon to be reduced to £73 a week (the same as Jobseeker's Allowance) for new claimants. But in practice many ESA claimants are also entitled to additional benefits, depending on their personal and household circumstances, sometimes on an automatic 'passported' basis. These include:

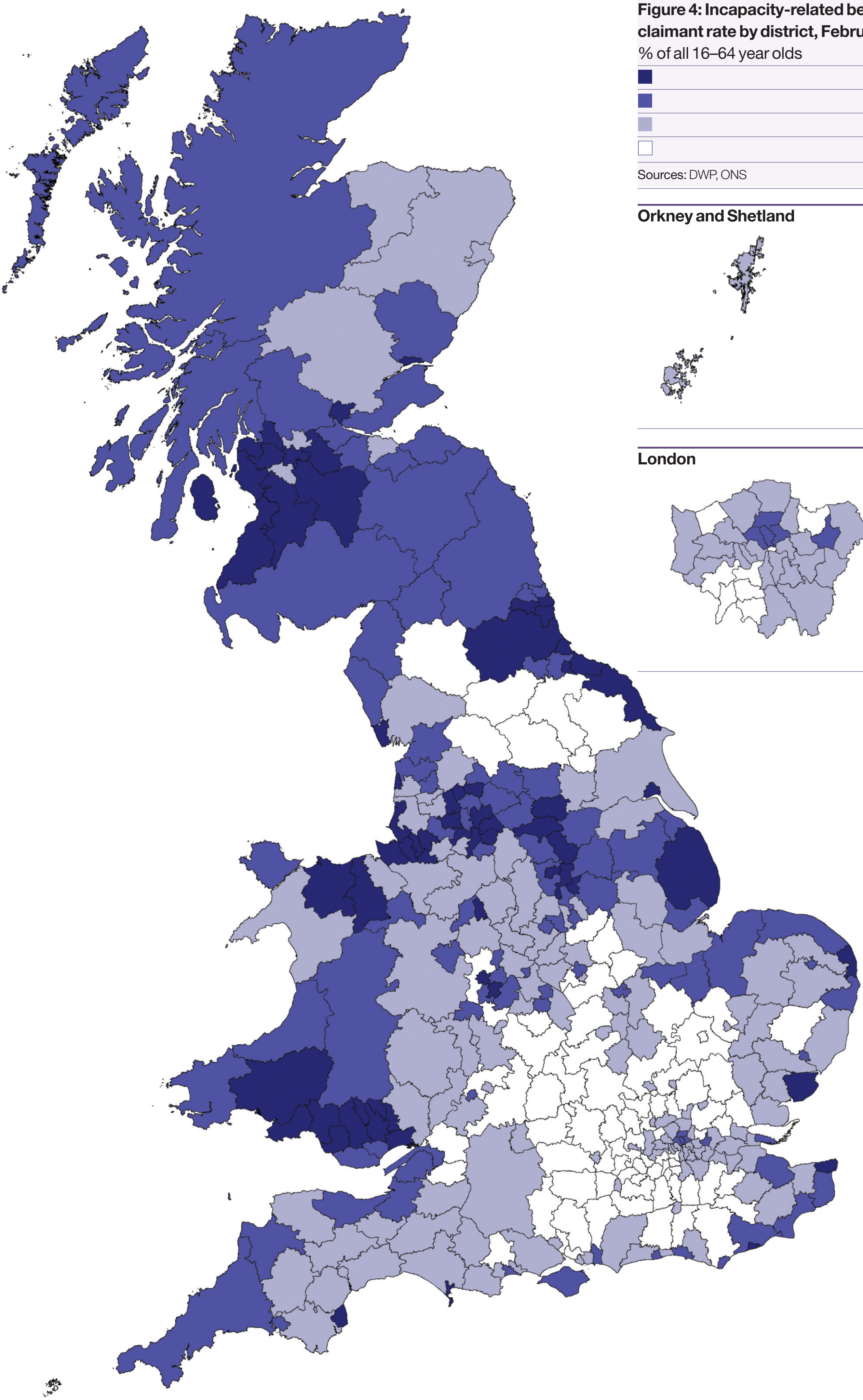
- Means-tested top-ups, including for disability
- Disability Living Allowance / Personal Independence Payments
- Housing Benefit
- Child Tax Credits
- Council Tax Support
- Industrial Injuries Benefit
- Free school meals

15. The exceptions are Blackpool and Hastings, two seaside towns with ailing local economies.

Figure 4: Incapacity-related benefit claimant rate by district, February 2016
% of all 16–64 year olds

■	8+
■	6 to 8
■	4 to 6
□	0 to 4

Sources: DWP, ONS



Orkney and Shetland

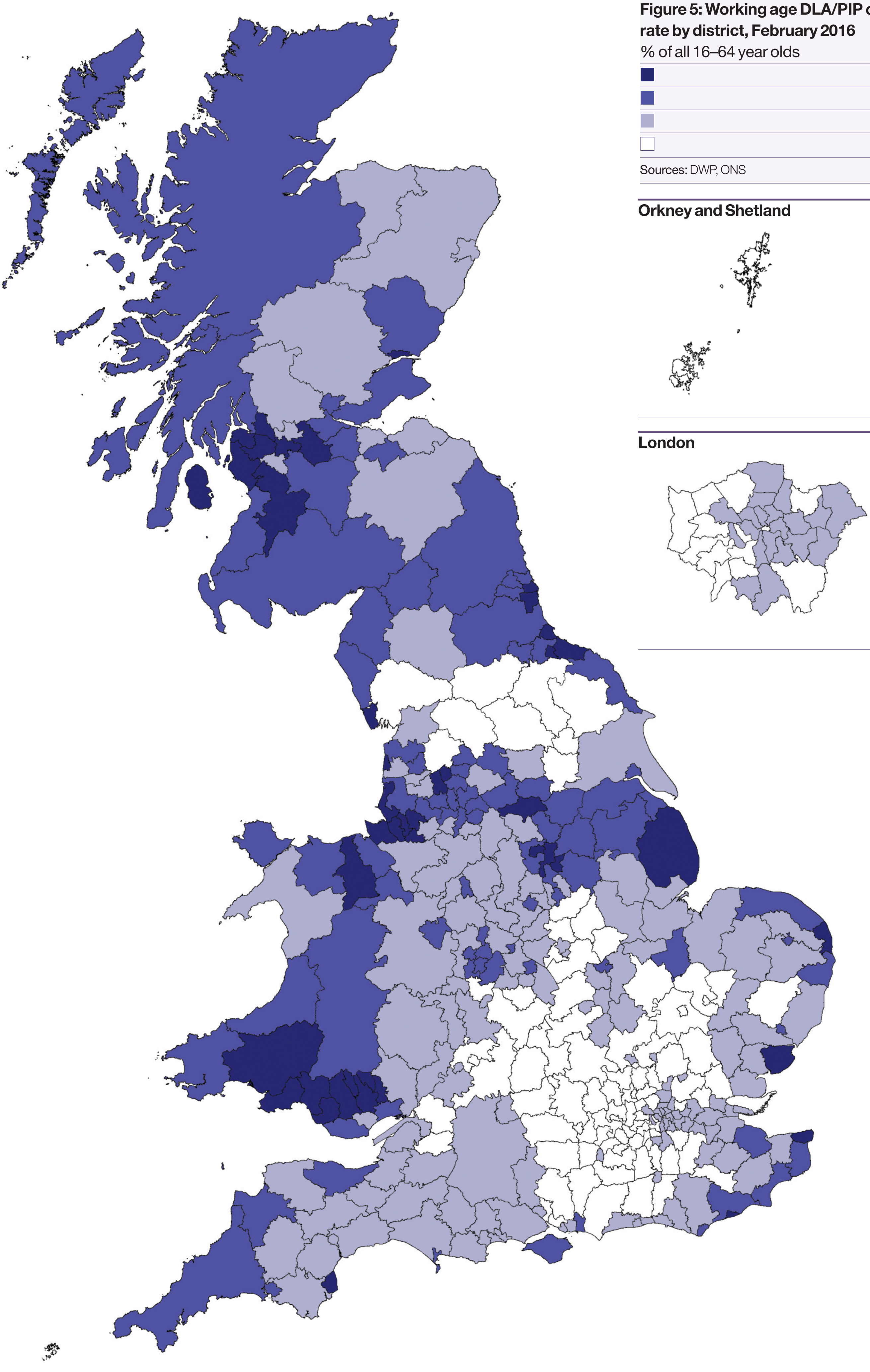
London

Figure 5: Working age DLA/PIP claimant rate by district, February 2016

% of all 16–64 year olds

■	8+
■	6 to 8
■	4 to 6
□	0 to 4

Sources: DWP, ONS



Several of these are widely claimed by ESA claimants. At the present time a number of these benefits are being merged into Universal Credit but that does not change the basic point because the rules governing entitlement are essentially carried over from the old system.

Disability Living Allowance, which is currently in the process of being replaced by Personal Independence Payments, is worth singling out. This is paid to men and women with health problems or disabilities to help offset the additional costs they face. In total, 3.65 million men and women claimed DLA or PIP in February 2016, of whom 2.25 million were of working age.[16]

The geography of DLA/PIP claims, shown in **Figure 5**, is remarkably similar to the geography of incapacity (ESA) claims. As we noted in a report for the Department for Work and Pensions in 2009,[17] at that time around half of all incapacity claimants received DLA and around four-out-of-five working-age DLA claimants received incapacity benefits. The report also noted that even in-work DLA claimants were concentrated in the same places as incapacity claimants.

It is hardly surprising therefore that older industrial areas account for around three-quarters of the districts with the highest DLA/ PIP claimant rate – the remaining quarter are all seaside towns. Neath Port Talbot in South Wales heads the list, where 11.2 per cent of all 16-64 year olds – one-in-nine of the working age population – claim Disability Living Allowance or its replacement PIP. In Glasgow the figure is 9.7 per cent, in Liverpool 9.3 per cent and in Barnsley in South Yorkshire 8.6 per cent.

By contrast, there are relatively few DLA/PIP claimants, either in-work or out-of-work, in the most prosperous local economies of southern England. Across much of Surrey, for example, the DLA/PIP claimant rate is below 3 per cent. The highest ranked London borough (Islington again) comes in at only 5.6 per cent – 161st out of 379 GB districts.

In essence, DLA/PIP appears to function as an addition to ESA for many longer-term incapacity claimants whilst some of those who do return to work then retain their DLA/PIP entitlement, which is not dependent on employment status. So just as ESA claims are disproportionately concentrated in older industrial areas, DLA/PIP claimants are found disproportionately in older industrial areas as well.

It is not easy to assess precisely how much this all costs. The Treasury does not publish overall figures but some components can be measured directly and others can be estimated. **Table 1**, below, shows the results of these calculations.

The DWP's own data tells us that £14.9bn a year is spent on working age incapacity-related benefits, these days nearly all ESA. To this needs to be added an estimated £7.2bn a year paid to the same claimants in the form of DLA/PIP, £7bn a year in Housing Benefit and £3.2bn a year in Tax Credits. The grand total for the benefits listed in **Table 1** comes to just under £34bn a year.

This is a staggering sum and, as far as we are aware, not one that has previously been highlighted. But let us be quite clear: we are not arguing that this is financial support to which individuals are not entitled or should not receive. We are simply drawing attention to the total cost to the Exchequer. Furthermore, of this immense cost a good proportion – perhaps £10-14bn a year given the distribution of incapacity claimants across the country – could be described as the price of job destruction in older industrial Britain.

The cost of higher claimant unemployment in older industrial Britain needs to be added to this. The numbers on JSA are far less than on ESA, as we noted earlier, and some add-on benefits such as DLA/PIP are less widely claimed by the claimant unemployed. Jobseeker's Allowance alone cost the Exchequer £2.3bn in 2015-16 but if we follow broadly the same logic as for incapacity claimants (in **Table 1**) the full cost of claimant unemployment, adding in other benefits, is more than £6bn a year.

Table 1: Estimated payments to working-age incapacity claimants, 2015-16

	£ bn p.a.
ESA (including means-tested top-ups)(1)	**14.9**
DLA/PIP(2)	**7.2**
Housing Benefit(3)	**7.0**
Child Tax Credit(4)	**3.2**
Council Tax Support(5)	**1.0**
Industrial Injuries Benefit(6)	**0.4**
Free school meals(7)	**0.2**
Total	**33.9**

(1) DWP data including residual IB, IS and SDA payments for incapacity
(2) Based on share of working-age DLA/PIP claimants not in work
(3) HB claimants with ESA
(4) Based on number of ESA claimants with children and average payment per out-of-work household
(5) 2012-13 spending of £1.1bn on Council Tax Benefit to incapacity claimants, reduced to reflect new scheme
(6) Working age only
(7) Assumes 500,000 children at £400 per year

Source: Sheffield Hallam University estimates based on DWP

16. Source: DWP.

17. C Beatty, S Fothergill and D Platts-Fowler (2009) *DLA Claimants: a new assessment*, research report 585, DWP, London. http://www4.shu.ac.uk/research/cresr/sites/shu.ac.uk/files/dla-claimants-new-assessment.pdf

Once more, only part of this cost can be attributed to the destruction of jobs in industrial Britain and it is worth bearing in mind that there is always some unemployment even in fully-employed local economies. But if we assume that around half the claimant unemployment in older industrial Britain is rooted in job loss, and bear in mind that these places have rather more than 40 per cent of all GB unemployment, the higher claimant unemployment arising from industrial job destruction probably costs the Exchequer another £1-1.5bn a year.

In-work benefits

The full cost to the Exchequer is greater still however. One of the defining features of the industrial jobs that have been lost on such a grand scale is that they were often relatively high value-added, high wage jobs. The skilled manual jobs in manufacturing are now far fewer in number. There are more well-paid professionals in the modern economy, and more poorly paid service workers, but fewer in between.

Nowhere is this clearer than in older industrial Britain. In these places there has been job growth in the wake of industrial decline, as our figures for the coalfields demonstrate,[18] but all too often it has been in low-productivity, low-wage activities. In the former coalfields for example, two of the prime sources of new jobs have been call centres and warehouses. The Yorkshire, Derbyshire and Nottinghamshire coalfields, for instance, have a central location and ready access to the motorway network and have become prime destinations for national distribution depots. A well-publicised example, on the site of the former Shirebrook Colliery in Derbyshire, is the national warehouse of Sports Direct, where most of the work-force is employed on zero-hours contracts and low wages.

Beyond the call centre and warehouses, the seemingly relentless growth in consumer spending has fuelled job growth in shops, hotels, pubs, restaurants and takeaways. Few of these new jobs are well paid, and many are part-time.

It is the weakness of labour demand in older industrial Britain, stripped of its once dominant employers, that has enabled the new employers to get away with paying low wages. The ex-miners and ex-steelworkers may have baulked at the prospect of work in a call centre or warehouse and opted out of the labour market instead, cushioned by redundancy pay, early entitlement to pensions and disability benefits, but their sons and daughters have never faced the same choices. With little possibility of remaining on Jobseeker's Allowance for long periods, they have had to accept whatever work they can find, particularly as unscrupulous employers have been quick to turn to migrant workers from Eastern Europe as an alternative supply of pliant, low-wage labour.

Women's growing involvement in the labour market adds a further twist.[19] In the places once dominated by heavy industry the tradition used to be that male wages supported whole families. Relatively few women with children held paid employment, especially on a full-time basis. That more women in these places now look for paid employment should be welcome progress but they do so in some of the most problematic labour markets in the country. Local economies have to grow very fast indeed if they are to not only replace the jobs that have been lost but also keep up with new labour supply. In practice, the growth has been insufficient and the result has been worklessness, part-time employment and low wages.

All this has knock-on consequences for the Exchequer. Low wages generate low tax returns. But at least as importantly, low wages generate a high bill for in-work benefits. These include:

- Housing Benefit
- Child Tax Credit
- Working Tax Credit

Spending on in-work benefits is concentrated in the places where low wages are prevalent and (in the case of Housing Benefit) where housing costs are high.

To illustrate this point, **Figure 6** shows the estimated spending on Tax Credits, per adult of working age, in every local authority district across Britain.[20] This presents a complex picture which is by no means a case of older industrial Britain versus the rest. Wherever low wages are the norm, spending on Tax Credits is high. This applies in a number of rural areas, in several seaside towns and in the parts of London where less well-off residents are concentrated. But it also applies across most of older industrial Britain. Large families also boost Tax Credit spending in some places.

Nevertheless, the overlap with the maps shown earlier on job loss and disability benefits is considerable. In Middlesbrough, the estimated spending on Tax Credits works out at £1,050 a year per adult of working age. In Stoke-on-Trent it is £1,000. Across most of older industrial Britain, in fact, it exceeds £850. The equivalent figure in Guildford in Surrey is just £290 a year, and in Kensington and Chelsea £310.

So we are arguing that the job destruction in older industrial Britain has resulted not only in higher spending on out-of-work benefits but also higher spending on in-work benefits and depressed tax revenue.

18. M Foden, S Fothergill and T Gore (2014) op. cit.

19. See C Beatty, S Fothergill, D Houston, R Powell and P Sissons (2009) 'A gendered theory of employment, unemployment and sickness', *Environment and Planning C*, vol. 27, pp. 958-974.

20. Based on the average payment per claimant in 2014-15 and the number of claimants in each local authority in April 2016. Source: HMRC.

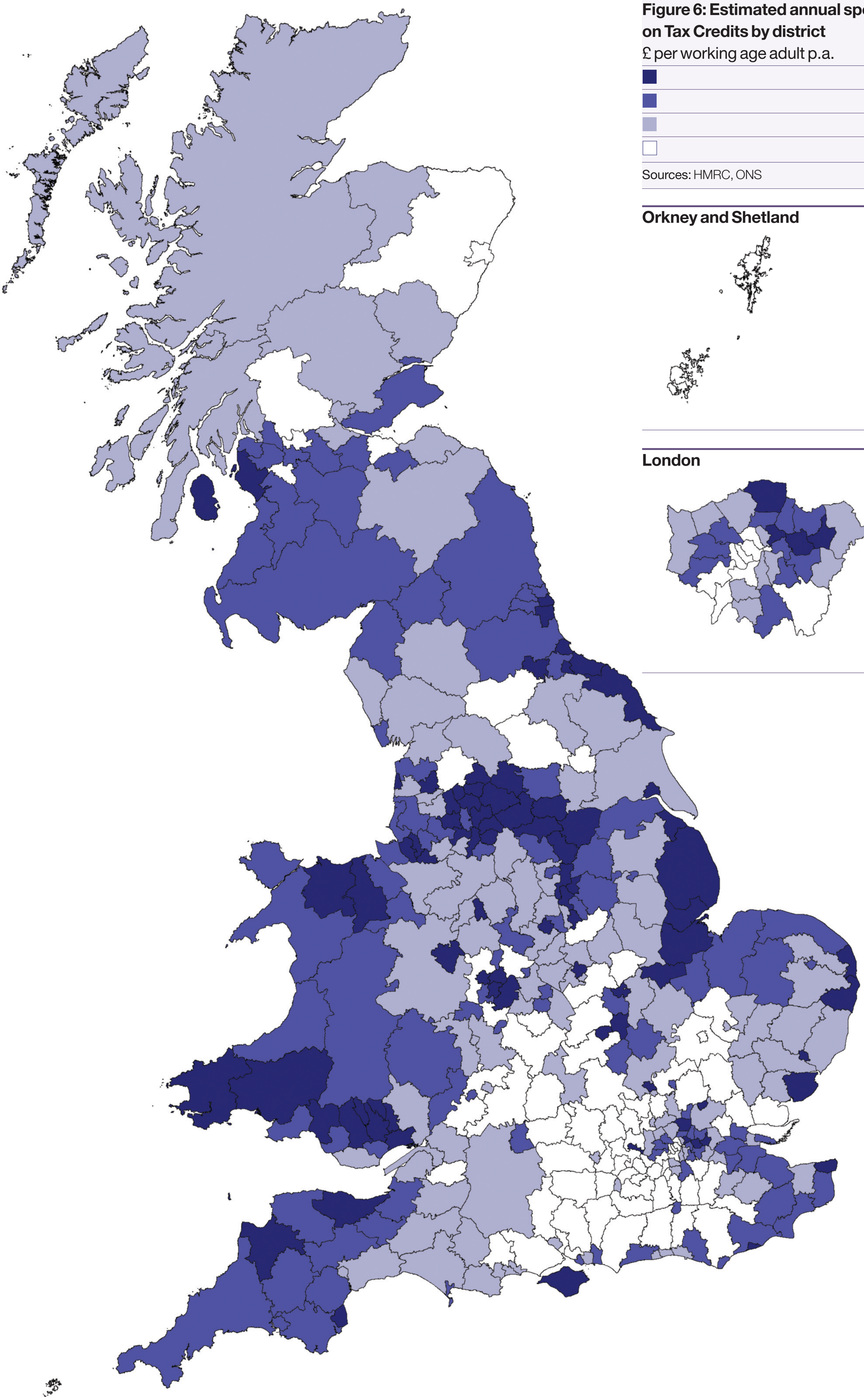
ESA and the additional benefits received by ESA claimants – Housing Benefit and Disability Living Allowance for example – are a £30bn-plus annual claim on the Exchequer.

Figure 6: Estimated annual spending on Tax Credits by district

£ per working age adult p.a.

■	800+
■	650 to 800
■	500 to 650
□	0 to 500

Sources: HMRC, ONS



Orkney and Shetland

London

It is impossible to put a reliable figure on the cost in terms of in-work benefits and lost tax revenue. However, Tax Credits paid to in-work households cost the Exchequer almost £20bn a year,[21] and Housing Benefit to in-work households rather more than £5bn a year. If low pay also means that the Treasury receives £1,000 a year less in tax from (say) 5 million workers – one-in-six of the workforce – that would be a further £5bn a year.[22] Add these together and the Exchequer cost of low pay is perhaps £30bn a year. Bearing in mind the prevalence of low pay across older industrial Britain, perhaps £10bn a year might be attributed to the destructionof well-paid industrial jobs.

If we add this admittedly speculative figure to the earlier, more robust estimates of the costs of ESA and JSA claims, the present-day cost to the Exchequer, in welfare payments and lost tax revenue, of the destruction of jobs in industrial Britain almost certainly exceeds £20bn a year.

Lower output, lower incomes

There is a final way in which the destruction of industry has undermined public finances. This is through the erosion of the UK's export base, and this is arguably the most powerful effect of all. This is not something our own research has addressed but it would be wrong to overlook here.

The UK economy in 2016 seems remarkably prosperous. GDP exceeds pre-financial crisis levels, inflation is low, and overall employment has reached record highs. But the prosperity is deeply precarious, and not simply because of the uncertainties created by impending departure from the EU. As the government itself could not deny, the contemporary economy displays a number of alarming features:

- An extraordinary level of household debt – among the very highest in the world
- A trade deficit with the rest of the world, in goods and services, at record peacetime levels
- A public sector budget deficit that remains large despite the most draconian austerity measures in modern times

These features of the contemporary UK economy are deeply interrelated. In essence, Britain is living beyond its means. Consumption and living standards are being sustained not by incomes earned by trading with each other and the rest of the world but by ever-rising debt and the sale of UK assets – companies, property, government bonds – to foreign investors.

That debt has become the driver of UK economic growth is first and foremost the result of the erosion of the UK's industrial base. The UK no longer sells enough to the rest of the world to pay for what it imports. And the UK manufacturing sector has become so hollowed-out that even a substantial devaluation of sterling, such as occurred in the wake of the 2008 financial crisis and more recently in the wake of the Brexit vote, no longer provides sufficient stimulus to bring foreign trade back into balance.

Of course, the UK does not rely just on manufacturing to pay for imports. The economy has proved exceptionally good at selling services to the rest of the world – finance, legal, design, media, education and the rest – but this success has never been enough to offset the industrial failures. The fact remains that around half the value of all UK exports still comes from manufacturing and that manufacturing, with just 10 per cent of the UK workforce, sells as much to the rest of the world as the other 90 per cent put together.

The point here is that contemporary public finances are undermined not only by the direct cost of welfare benefits in former industrial Britain but also by the inability of a weakened manufacturing sector to deliver the sustainable growth that the economy so clearly needs.

21. 2014-15 spending data.
Source: HMRC.

22. 2015-16 spending data.
Source: HMRC.

The orthodox solution: welfare cuts

Faced with a budget deficit that is high and has proved slow to bring down, successive governments have chosen to tackle the symptoms rather than the underlying causes

A key symptom has of course been the high spending on working-age welfare benefits. As we have argued, this should really be understood as a result of economic failure rather than of financial generosity. If spending on out-of-work benefits is too high, especially in older industrial Britain, it is because there aren't enough jobs to absorb all the potential labour supply, and if spending on in-work benefits is too high in the same places it is because too many of the jobs that do exist pay low wages. This is not, however, how the Treasury has interpreted the problem.

The pre-2010 Labour Government was far from immune to Treasury orthodoxy and from 2008 onwards began to replace old-style incapacity benefits by Employment and Support Allowance, with a new medical test and greater conditionality. The Coalition Government that then took office introduced a major round of cuts to welfare benefits and its wholly Conservative successor, elected in 2015, has carried on with a further major round.

The cuts fall on three main areas of welfare spending:

- In-work benefits such as Tax Credits and Child Benefit
- Housing benefits in the private rented sector and social housing, including Council Tax Support
- Disability benefits, including ESA and the changeover from DLA to PIP

Additionally, the value of most working-age benefits is being frozen for four years from 2016, so as a result of inflation claimants will receive less in real terms even if they continue to qualify.

The Coalition Government also initiated the introduction of Universal Credit to replace most working-age benefits, which is only now beginning to take effect on a large scale. In its original form, Universal Credit was not intended to reduce the benefit bill directly but rather to introduce a standardised withdrawal rate. In practice, Universal Credit will now pay less than its predecessors because entitlement is reduced at lower income levels than was previously the case with Tax Credits.

A distinguishing feature of the welfare reforms is that they focus almost exclusively on working age claimants. By contrast, spending on state pensions – by far the largest component of welfare spending – has been entirely unaffected. The quite explicit assumption has been that reductions in working-age benefits incentivise claimants to find work. The new Benefit Cap for example, which sets a ceiling on the sum total of benefits paid to a household, applies only to out-of-work claimants under state pension age. By targeting in-work benefits as well, the reforms also assume that reduced entitlement will encourage claimants to find a better paid job or work longer hours. All this has been backed up increasing conditionality and the wider application of sanctions, for example to unemployed JSA claimants.

Low pay in former industrial areas depresses tax revenue and inflates spending on in-work benefits. Spending on Tax Credits, for example, exceeds £850 a year per adult of working age in much of older industrial Britain – double the level in parts of southern England.

To put this another way, the assumption framing welfare policy is that unemployment and low pay are the fault of individuals. Claimants have let themselves become "dependent" on welfare benefits and they should choose to "do the right thing" and instead find work or increase their earnings.[23]

This is a quite different view to the one we have set out here, which is that high spending on welfare benefits is the result of economic failure. The Treasury's orthodoxy makes the mistake of taking welfare spending out of its economic context. If the Treasury had a better understanding of what has happened to the economy of older industrial Britain it might not be so keen to blame welfare spending on the workshy or feckless.

We first documented the uneven impact of the welfare reforms in a report published in 2013.[24] In an updated report in 2016[25] we calculated that the pre-2015 welfare reforms had by March 2016 resulted in a loss to claimants of £14.5bn a year. The Treasury's own figures show that the reforms now in the pipeline will result in a further loss of £12.3bn a year by 2020-21.[26] That brings the cumulative total to almost £27bn a year.

Figure 7 shows where across Britain this financial loss is occurring.[27] The methods underpinning these estimates are set out in full in our 2016 report. In essence, they take the Treasury's own estimates of the financial loss and translate them down to the local level using a range of official statistics on claimant numbers and spending. The measure shown in this map is the average loss per adult of working age – in other words the financial loss spread across all 16-64 year olds, including those not in receipt of welfare benefits. This is the best measure of the intensity of the 'hit' in each place. The map shows the annual financial loss that can now be expected by 2020-21 as a result of all the post-2010 welfare reforms.

If this map show similarities with those presented earlier it is not accidental. Welfare cuts inevitably impact most in the places where claimants are concentrated. So it is no surprise that Britain's older industrial areas figure so prominently among the worst-hit places. Once more, it is places such as South Wales, the industrial North from Merseyside across to the Humber, North East England and the West of Scotland that stand out, whilst large parts of southern England around London are much less affected by the welfare changes.

The Treasury has misdiagnosed high welfare spending as the result of inadequate work incentives and has too often blamed individuals for their own predicament, whereas in fact a large part of the bill is rooted in job destruction extending back decades.

23. For examples of this language see Department for Work and Pensions (2015) *Welfare Reform and Work Bill: impact assessment for the benefit cap*, DWP, London. http://www.parliament.uk/documents/impact-assessments/IA15-006.pdf

24. C Beatty and S Fothergill (2013) *Hitting the Poorest Places Hardest: the local and regional impact of welfare reform*, CRESR, Sheffield Hallam University. http://www4.shu.ac.uk/research/cresr/sites/shu.ac.uk/files/hitting-poorest-places-hardest_0.pdf

25. C Beatty and S Fothergill (2016) *The Uneven Impact of Welfare Reform: the financial losses to places and people*, CRESR, Sheffield Hallam University. http://www4.shu.ac.uk/research/cresr/sites/shu.ac.uk/files/welfare-reform-2016_1.pdf

26. This is a revised figure taking into account new data published in *Budget 2016* and differs from the figure published in Beatty and Fothergill (2016) op. cit.

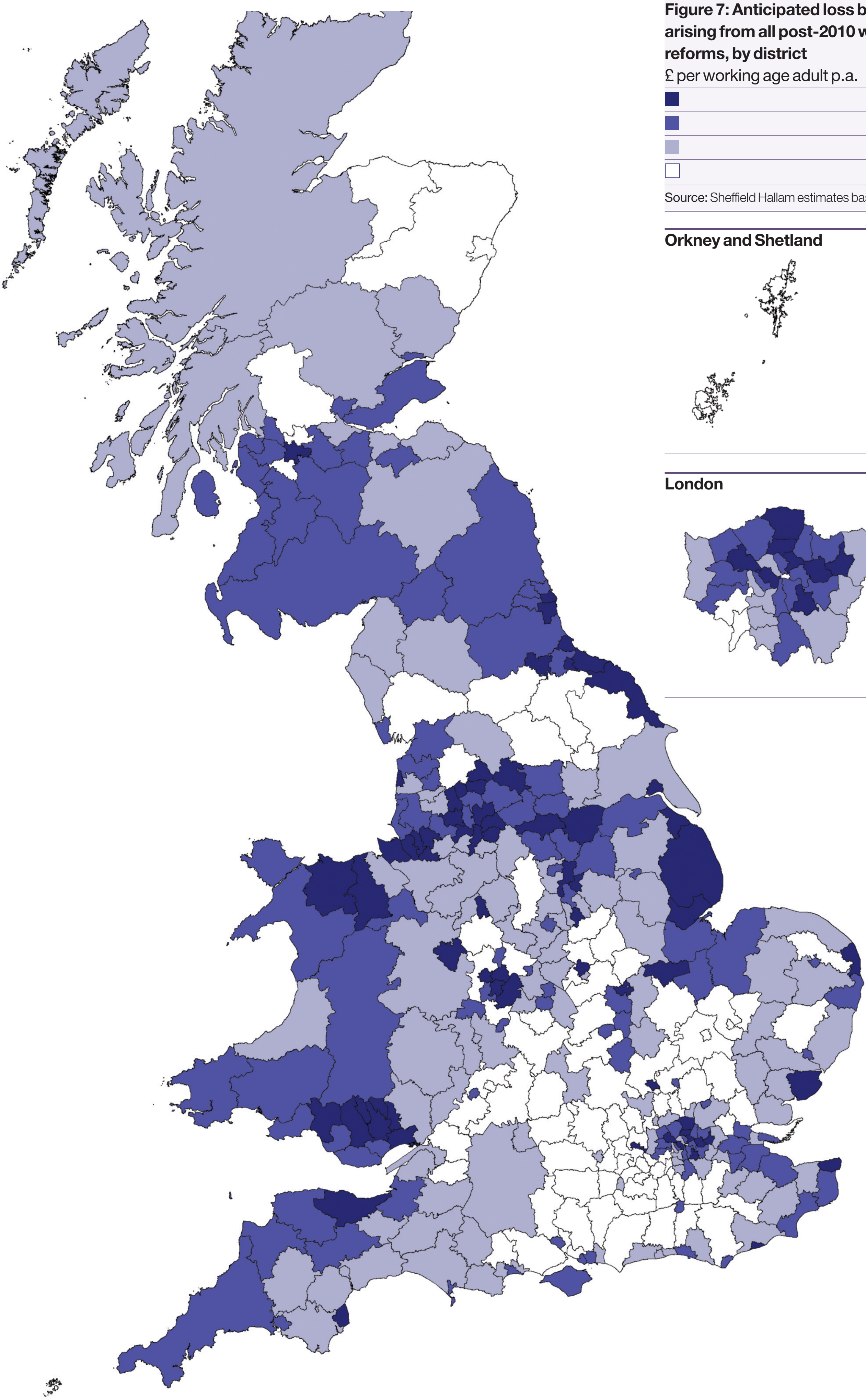
27. Figure 7 has been up-dated to incorporate revised Treasury estimates of the financial losses, published in *Budget 2016*.

Figure 7: Anticipated loss by 2020-21 arising from all post-2010 welfare reforms, by district

£ per working age adult p.a.

■	800+
■	650 to 800
■	500 to 650
□	0 to 500

Source: Sheffield Hallam estimates based on official data



Orkney and Shetland

London

In Middlesbrough by 2020-21, the financial loss from all the post-2010 welfare reforms is estimated to exceed £1,000 a year per adult of working age. This is an average loss across all 16-64 year olds, including non-claimants. For those actually in receipt of welfare benefits the average financial loss will obviously be larger – sometimes much larger. In Bradford the average loss per working age adult is £970 a year, in Oldham £950 a year, and in Merthyr Tydfil in the heart of the Welsh Valleys £920 a year. Across most of older industrial Britain the loss exceeds £750 a year. In Cambridge the equivalent figure is just £340 a year.

In fairness, older industrial Britain is not the only place hit hard by welfare reform. A number of less prosperous seaside towns are also hit hard, and a number of low-wage rural areas. Some parts of London also lose large sums, particularly because of the reductions in support for housing costs. Nevertheless, it is not difficult to argue that communities in older industrial Britain are now being meted out punishment in the form of welfare cuts for the destruction wrought to their industrial base all those years ago.

The welfare reforms implemented since 2010, and strengthened since the 2015 general election, hit the poorest places hardest. In effect, communities in older industrial Britain are being meted out punishment in the form of welfare cuts for the destruction wrought to their industrial base.

The scale of disparities: a summary

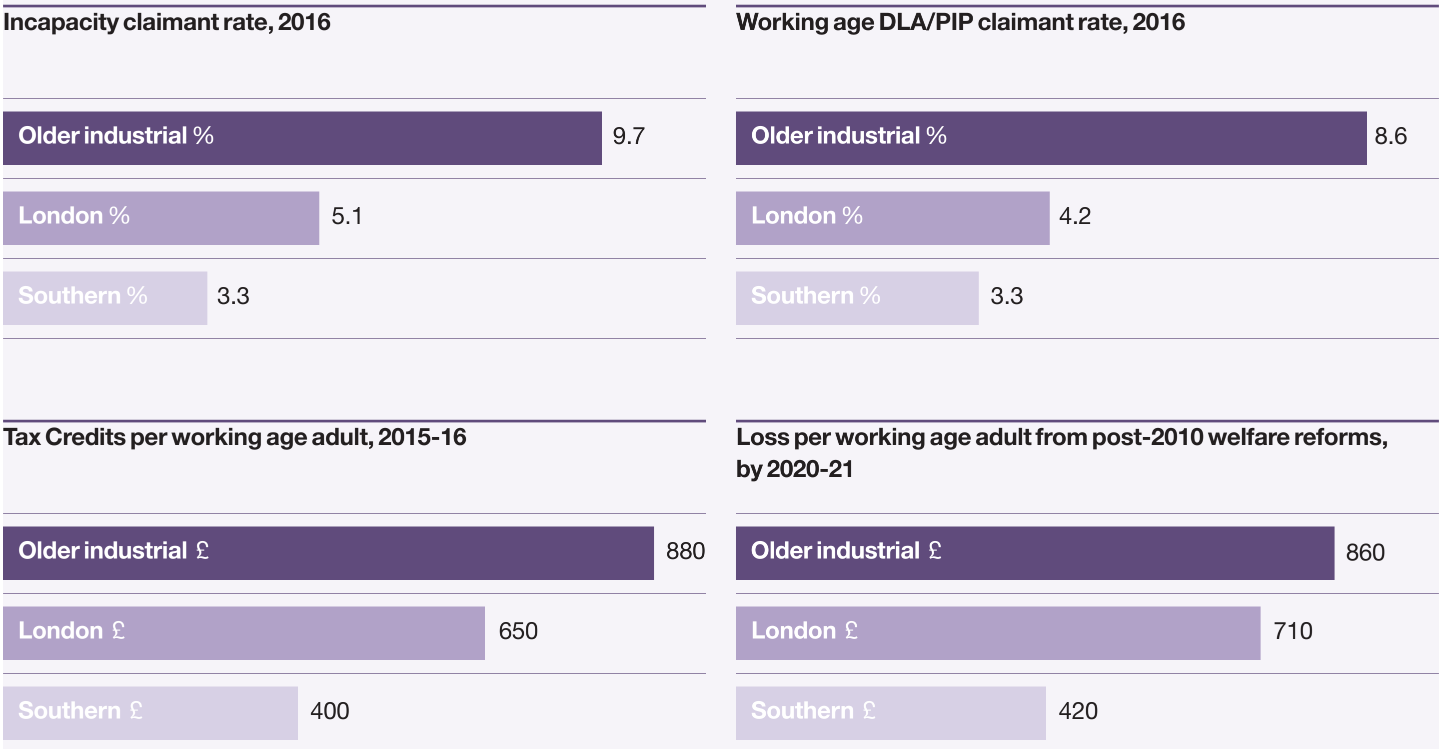
To underline the extent to which older industrial Britain differs from the most prosperous parts of the country, and to highlight the cost to the Treasury and communities, **Figure 8** draws a number of comparisons based on the data presented earlier in Figures 4-7. The averages across 30 local authorities in older industrial Britain, spread across the North, Scotland and Wales, are compared with the equivalent averages for 30 local authorities in the prosperous parts of South East and Eastern England.[28] London is also included for comparative purposes. London is arguably the most prosperous place of all but it is also home to substantial poverty and the benefit bill there is boosted by high housing costs.

The comparisons are intended to be illustrative but they do make a number of telling points:

- In older industrial Britain, the **incapacity (ESA) claimant rate** is nearly three times higher than in the prosperous parts of southern England, and double the rate in London
- The **disability (DLA/PIP) claimant rate** in older industrial Britain is also nearly three times higher than in the prosperous parts of the South, and double that in London
- In older industrial Britain, per capita spending on **Tax Credits** – a key in-work benefit – is more than double the level in the prosperous South, and more than a third higher than in London.
- The **cuts in welfare spending** take twice as much in older industrial Britain as in the prosperous South, and 20 per cent more than in London even though London is hit hard by changes to Housing Benefit.

28. These are all unweighted averages.

Figure 8: Disparities across Britain



Sources: DWP, HMRC, ONS and Sheffield Hallam estimates based on official data

30 older industrial LAs: Barnsley, Barrow-in-Furness, Blackburn with Darwen, Blaenau Gwent, Bolsover, Bradford, Caerphilly, Chesterfield, Doncaster, Dundee, E Ayrshire, Glasgow, Hartlepool, Hull, Inverclyde, Knowsley, Liverpool, Mansfield, Merthyr Tydfil, Middlesbrough, Neath Port Talbot, N Lanarkshire, Oldham, Redcar & Cleveland, Rhondda Cynon Taf, Rotherham, S Tyneside, Stoke-on-Trent, Sunderland, Wigan

30 southern LAs: Aylesbury Vale, Basingstoke & Deane, Bracknell Forest, Brentwood, Cambridge, Central Bedfordshire, Chelmsford, Chiltern, Eastleigh, Epsom & Ewell, Fareham, Guildford, Hart, Horsham, Huntingdonshire, Mid Sussex, Oxford, Reigate & Banstead, Sevenoaks, S Bucks, S Cambridgeshire, S Oxfordshire, St Albans, Tunbridge Wells, W Oxfordshire, Winchester, Windsor & Maidenhead, Woking, Wokingham, Wycombe

Is there is an alternative?

Our argument is that for many communities the pain caused in the past by industrial job loss and the pain suffered today as a result of welfare reform are inextricably linked. By taking a long view of economic change, and by drilling down to evidence at the local level, these connections are all too apparent.

But if welfare cuts represent the orthodox Treasury-driven response to the budget deficit, is there an alternative? The re-creation of the past, or more specifically of the levels of industrial employment last seen in Britain two generations ago, is not really an option. Technology has moved on, so that even if Britain did produce vastly more cars, machinery, electronics or whatever, far fewer men and women would be employed in these industries than would once have been the case.

That in 2016 the new Prime Minister, Theresa May, has finally inserted 'Industrial Strategy' into the name of the Department for Business is perhaps a sign that all is no longer well with the Treasury orthodoxy, though critics might argue this is a case of too little, too late. But if the name change does indeed signal a change of direction the new way forward still remains to be defined. This is not the place to try to set out the details but two principles should perhaps be central to an alternative to the Treasury's traditional approach.

First, the rhetoric about **rebalancing the economy** needs to be turned into reality. In the wake of the 2008 financial crisis there was much talk of the need to move away from an over-reliance on financial services towards an economy based more on exports and investment. The former Chancellor, George Osborne, called for "the march of the makers". This hasn't happened. If anything, the UK economy is now more imbalanced than before the financial crisis and if growth has returned – for the moment – it is because the old economic model based on debt and the housing market has been rekindled one more time.

Across most of older industrial Britain the loss arising from welfare reform is expected to exceed £750 a year per working age adult by 2020-21.

A genuine revival in industrial production would be central to any rebalancing of the UK economy. This should not be regarded as impossible, even against the backdrop of competition from China. It is salutary to remember that in Germany, where labour costs are generally even higher than in the UK, the share of GDP accounted for by manufacturing is twice the level in the UK. In no small part as a result, Germany has a large trade surplus and a far smaller budget deficit. The UK needs to become more like Germany. A rebalancing of the UK economy in favour of industry would be of direct benefit to much of older industrial Britain because, even after years of job loss, that is where so much of what remains of UK manufacturing is still located.

The other principle central to an alternative to the Treasury's welfare cuts is a revival of **regional economic policy**. The places where welfare claimants are concentrated, out-of-work or on low wages, need to be grown fastest. This doesn't necessarily mean the creation of new administrative structures or adherence to any specific geographical scale of action – regional, sub-regional, city-region. Rather, what is important is that policies are in place to channel economic growth to the places that need it most, where in turn the welfare bill can be reduced most.

At the present time, the UK probably has its weakest regional economic policies since the Second World War. Indeed, what masquerades as regional policy is more often the promotion of competition between places, which in practice often widens the differences in economic well-being, or the devolution of powers to local authorities, which is really about governance and has the most tenuous connection to prosperity. The dominating position of London, in particular, has gone unchallenged even though the downsides of the capital's success – congestion and stratospheric property prices – are all too evident.

The starting point needs to be that the economies of older industrial Britain can be rebuilt. The prize is lower spending on welfare, higher tax revenue, and a reduction in the budget deficit that is not based upon hitting the poorest place hardest.

There is an alternative – a genuine rebalancing of the economy in favour of industrial production and a revival of regional economic policy.

Lessons for analysis and policy

In conclusion, let us return to the theme at the very start of this paper: that the focus on the short term obscures longer-term issues and trends. We have endeavoured to explain here how the destruction of industrial Britain in the 1980s still has profound repercussions for present-day public finances. What does this tell us about the way policy makers should go about understanding issues?

First and most obviously, it underlines the importance of a **long-term perspective**. Where we are now, as a society, is the product of long and still evolving economic processes. The financial crisis of 2008 is not the defining event in Britain's recent economic history, nor even the main cause of the present budget deficit. The source of many current problems lies much deeper in the destruction of Britain's industrial base in the 1980s and all that has flowed from it.

Second, it is hard to understand what is happening to the economy or society without looking at the **differences between places**. It is disturbing that the Treasury and most of the economics profession rarely if ever look beyond national data and national trends. They end up failing to grasp causality and misdiagnose problems. A good example is the rise in incapacity numbers and spending, which has been wrongly identified as an issue of work incentives, not as the consequence of job destruction in specific parts of the country.

Third, there is a pressing need to **stop thinking in silos**. Jobs, or the lack of them, and public finances are profoundly interconnected. The Department for Work and Pensions cannot hope to create jobs for all merely by adjustments to benefit payment rates and conditions. Nor can the Treasury deliver full employment simply by eliminating the budget deficit. Where we are now is the result of astonishing negligence and short-sightedness. Allowing Britain's industrial base to wither so dramatically has not been cost-less and it has certainly not been absorbed by the smooth operation of market forces. It has resulted in persistent worklessness, low wages, an inflated welfare bill and an alarming trade deficit with the rest of the world.

Policy makers need to take a long-term perspective, look at the differences between places, and stop thinking in silos.

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Jobs, Welfare and Austerity : how the destruction of industrial Britain casts a shadow over the present-day public finances

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