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# DISABILITY BENEFITS IN AN AGE OF AUSTERITY

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## **Abstract**

This article takes a long-view of the huge rise in disability claimant numbers in the UK since the early 1980s and looks ahead to the trends that can now be expected to emerge in an era of fiscal austerity and welfare reform. The article's central thesis is that disability numbers are best understood as part of a triangular relationship between levels of employment, unemployment and sickness. In particular, the big decline of industrial employment in many places has often resulted in large-scale 'hidden unemployment' on disability benefits, especially among low-skill workers. Looking ahead, the UK's welfare reforms are set to reduce disability claimant numbers but principally by restricting access to Employment and Support Allowance, the new disability benefit. The main effect will be to divert substantial numbers of men and women with ill health or disability onto unemployment benefits instead or, more often, out of the benefits system altogether.

## **Keywords**

Disability      Unemployment      Welfare reform      Regions

## **Introduction**

The UK has a disability benefits crisis. The scale of the problem took some while to be recognised, first by labour market analysts and benefits administrators and only much later by politicians and the general public. But continuously since the late 1990s the number of men and women out-of-work on disability benefits in the UK has hovered around the 2.5 million mark. This represents more than 6 per cent of the entire working age population. The UK's disability claimant rate places it well towards the higher end by international standards (Kemp 2006).

This article considers disability benefits in the UK in the era of welfare reform and fiscal austerity that followed the financial crisis of 2008. In order to do so, it first takes a long-view of the rise in disability claimant numbers and explains how and why this came about, drawing on both theory and empirical evidence. This assessment is then deployed to help anticipate the new trends that are likely to emerge as welfare reform and fiscal austerity work their way through the benefits system. The article's distinctive contribution is that it synthesises insights from a range of previous studies of UK disability claimants, including the authors' substantial research in this field, and brings this accumulated knowledge and understanding to bear in assessing likely trends and impacts in the near future.

## **Defining 'disability benefits'**

It is helpful to begin by clarifying terminology. The term 'disability benefits' is used here to describe a family of UK welfare benefits comprising Incapacity Benefit, Income Support and National Insurance credits paid on the grounds of disability, Severe Disablement Allowance, and Employment and Support Allowance (ESA). Since 2008 a process of reform has been underway and the aim is that by 2015 all qualifying disability claimants will have moved onto ESA. The intention is also that by 2018 all ESA claimants who claim means-tested benefits will in turn have moved across onto Universal Credit, which is planned to replace most working-age benefits, though the rules applying to ESA claimants will stay substantially unchanged so they will remain a distinct sub-group within the benefits system. In the UK context, the term 'disability benefits', as defined here, is often used interchangeably with 'incapacity benefits' to describe the same group of welfare benefits.

To qualify for one or other of these disability benefits a claimant normally has to be aged between 16 and state pension age (65 for men and currently rising in stages from 60 to 65 for women). They also have to be out-of-work. The exceptions are a very small number of claimants above state pension age who carry on working but are entitled to claim disability benefits for a short while if they fall ill, and a small number of individuals with health problems or disabilities who undertake 'permitted work' as part of a rehabilitation programme. All disability claimants have to demonstrate a sufficient degree of ill health or disability to be not required to look for work as a condition of their benefit entitlement.

In the UK, disability benefit claimants are an entirely separate group from the unemployed on Jobseeker's Allowance, who are required to look for work. It is not possible to claim disability and unemployment benefits at the same time. Also, 'disability benefits' as defined

here do not include a further benefit known as Disability Living Allowance (DLA), intended to help offset the additional costs of disability. DLA is claimed by approaching 3 million people but eligibility is not restricted to just the out-of-work and it can be claimed by men and women above state pension age and by parents in respect of disabled children.

One of the reasons that the huge numbers out-of-work on disability benefits are a major problem is that they represent a massive waste of talent and productive potential. In an age of fiscal austerity they are also a major drain on the UK Exchequer. It is impossible to pin down the full cost because entitlement to disability benefits often brings entitlement to other benefits in its wake. Income Support, for example, can be claimed as a means-tested top-up. Nearly half of all disability claimants claim Housing Benefit, half claim Council Tax Benefit, and almost half also claim DLA (Beatty et al 2009). In turn, these entitlements can lead to further passported benefits such as free school meals, free prescriptions and free dental care.

Bearing in mind that in 2012-13 the forecast expenditure on ESA and Incapacity Benefit alone was just short of £10bn (HM Treasury 2013) it would not be unreasonable to suppose that the full financial cost to the UK Exchequer of disability benefit claimants is of the order of £15-20 billion a year. This equates to £6-8,000 per claimant per year, or £120-160 a week. These figures put into context the UK government's desire to bring down disability claimant numbers and spending at a time when the political priority is to reduce the scale of the budget deficit.

## **The rise in disability claimant numbers**

### *Overall trends*

Figure 1 shows disability claimant numbers in Great Britain between 1979 and 2012, alongside the numbers claiming unemployment benefits and lone parent benefits. The diagram illustrates very well why disability benefits have become such a policy concern. Since the end of the 1970s, the numbers out-of-work on disability benefits have tripled. The numbers on unemployment benefits, by contrast, remain well below peak levels in the 1980s and early 1990s. The numbers claiming lone parent benefits have also halved since the mid-1990s.

The trends through time in Figure 1 reflect changing benefit rules as well as underlying trends in the labour market and economy. A substantial proportion of the fall in claimant unemployment numbers since the mid-1990s, for example, reflects tighter rules on eligibility: the numbers now recorded as unemployed by the UK government's Labour Force Survey are around a million higher than the claimant count. Likewise, eligibility for lone parent benefits has been reduced in stages, from parents of under-16s to just parents of under-5s. Nevertheless, the upshot is that disability claimants now constitute by far the largest group of out-of-work claimants of working age.

The big increase in disability claimant numbers began in the 1980s, from a base of well below one million. By the early 1990s the numbers were reaching two million and there

were the first attempts to stem the increase. 1995 is a significant date in the story because it saw the replacement of what was then Invalidity Benefit by Incapacity Benefit, with rather less generous entitlements. The 1995 reforms also introduced a new medical test – the Personal Capability Assessment – carried out early in the claim by doctors working on behalf of government to supplement the initial medical sign-off by the claimant’s own doctor. After 1995 the pace of increase in disability claimant numbers began to slow. Disability claimant numbers peaked at over 2.7 million in 2003.

What is striking is that, across Britain as a whole, disability claimant numbers did not fall significantly during the long period of economic growth from 1993 to 2008. A modest fall of around 200,000 occurred only during the final stages, from 2003 to 2008. Since 2009 there has been a further gradual reduction which is without doubt attributable to welfare reform, discussed later. What the resistance of claimant numbers to fall during a period of sustained economic growth illustrates is the extent to which many disability claimants had become marginalised from the rest of the UK workforce. Indeed, statistics from the Department for Work and Pension (DWP) show that the modest fall in the headline total after 2003 was entirely due to a reduction in on-flows to disability benefits, as fewer people with health problems or disabilities lost their jobs or failed to find alternative work (National Audit Office 2010). By contrast, off-flows of existing claimants from disability benefits remained at a largely unchanged and low level.

### *Gender*

Figure 2 disaggregates the increase in disability claimant numbers between men and women. It also takes an even longer view, extending back to the early 1960s. However, changes over the years in the way that short-term claimants have been handled within the benefits system mean that the data here refers only to working-age disability claimants of six months or more. These are nevertheless the vast majority of disability claimants.

The number of women claiming disability benefits has been consistently below the number of men. Partly this reflects benefit rules: men on disability benefits move across onto a state pension at age 65, whereas until 2010 women did so at age 60. There has therefore been a group of 60-64 year old men in receipt of disability benefits for which there has until very recently been no corresponding group of women. But there is also evidence in Figure 2 that the increase in disability claims among women took off rather later – in the 1990s rather than the 1980s. The reduction in the number of claimants since 2003 has also been almost exclusively among men. The effect has been to create a more even gender balance. Indeed, between 1984 and 2008 the ratio between 16-59 year old men and women claiming disability benefits shifted from 61:39 in favour of men to just 52:48 (Beatty et al 2010). Age for age, women are now almost as likely to claim disability benefits as men.

## *Geography*

Figure 3 shows the disability benefit claimant rate by local authority district across Great Britain in August 2012. The data here is expressed as a percentage of all adults between the ages of 16 and 64. There are substantial differences between places.

For those familiar with the geography of Britain it will be immediately apparent that the highest claimant rates, approaching or above 10 per cent, are mostly found in Britain's older industrial areas – in the South Wales Valleys, in the North of England in places such as Merseyside, Lancashire, South Yorkshire, Teesside, Durham and Tyneside, and in the West of Scotland in and around Glasgow. These are the parts of Britain where large-scale industrial job losses occurred in the 1980s and early 1990s and where there has been a continuing imbalance between labour demand and labour supply.

Closer scrutiny also highlights a number of seaside towns that have high claimant rates. In southern England these include Great Yarmouth, Tendring district in Essex (which includes Clacton), Thanet in Kent (Margate), Hastings, Weymouth and Torbay. Further north, Blackpool, Scarborough and East Lindsey in Lincolnshire (Skegness) also stand out. Not all seaside towns have high disability claimant rates, but those that are generally regarded as having weaker local economies certainly do.

By contrast, the disability claimant rate in much of southern and eastern England is consistently low – generally below 4 per cent. This is the part of Britain where the economy is strongest and where unemployment problems have traditionally been modest. A group of mainly rural districts in North Yorkshire also have low disability claimant rates – this is a part of the country that on a range of socio-economic indicators has for some while looked closer to prosperous southern England than to surrounding areas in the North.

The London boroughs mostly have higher disability claimant rates than surrounding areas, but still much lower rates than much of the North, Scotland and Wales. The rates are highest in parts of Inner, East and North London, pointing to a degree of residential segregation between rich and poor areas across the capital.

Although the differences in disability claimant rates across Britain remain very large they are actually smaller than at their peak in the late 1990s and early 2000s (McVicar 2013). The modest reduction in overall disability claimant numbers from 2003 onwards occurred mostly in the high-claimant areas, where the reduction was in some cases as large as a quarter or a third. This may owe something to a 'cohort effect', as claimants from the earlier era of industrial restructuring finally reached pension age. It may also reflect greater competition for jobs from healthy in-migrants in some of Britain's more prosperous local economies, where similar reductions in disability claimant numbers did not occur. The evidence is that where disability numbers fell fastest, economic growth rather than policy intervention was the main driver (Webster et al 2010). In at least one city (Glasgow) improvements in health also appear to have played a role (Webster et al 2013).

## The profile of claimants

DWP administrative data provides a basic profile of disability claimants. We have already noted, from this data, that disability claimants are now almost as likely to be women as men. Another clear observation is that the probability of claiming disability benefits rises with age.

The DWP data shows that a high proportion of disability claimants have been claiming these benefits for a very long time. The up-to-date statistical picture on the duration of claims is complicated by the changeover from Incapacity Benefit (and associated benefits) to Employment and Support Allowance. But the data does tell us that in 2007, before the changeover started, around 55 per cent of disability claimants had been in receipt of these benefits for five years or more, and around three-quarters for more than two years. This is a stark contrast with the unemployed on Jobseeker's Allowance, for whom claims are typically of much shorter duration.

The DWP data also provides an insight into claimants' health problems or disabilities. The data records the primary medical reason for allowing the disability claim; in practice, a great many claimants suffer from more than one health problem or disability (Kemp and Davidson 2010). According to the data for 2012, the primary reason for entitlement to ESA for 43 per cent of claimants is 'mental or behavioural problems'. This is a broad category, spanning stress and depression through to much more tightly-defined psychological problems. The category also includes drug and alcohol problems. The second most numerous category, accounting for 15 per cent of ESA claimants, covers those with 'musculoskeletal problems'.

Over the years, the proportion of disability claimants recorded as having mental or behavioural problems has risen while the proportion with musculoskeletal problems has declined. The changing balance partly reflects a generational shift: a group of men made redundant from heavy industry in the 1980s and 90s, who had often picked up physical injuries over the course of the working lives, have been passing out of the figures into retirement to be replaced by a more diverse group of both men and women with different work histories. There have also been changes in the way the medical profession approaches back pain – a key musculoskeletal problem – with activity rather than rest now recommended as the treatment. Beyond the two big groups of 'mental or behavioural' and 'musculoskeletal', other specific illnesses or disabilities account for much smaller numbers, generally less than 5 per cent of ESA claimants.

A survey of more than 3,500 disability claimants across eight local areas around Britain (Beatty et al 2009) found that illness or injury is cited by more than 70 per cent of disability claimants as the principal reason for their last job coming to an end. For many, a specific event, such as injury or a deterioration in health, triggered job loss and they have subsequently not returned to work. Only around a quarter of disability claimants say they 'can't do any work' but the remainder nearly all report health limitations on their ability to work. Typically, there are certain types of work that claimants no longer feel able to do (heavy labour for example) or limitations on how much work they feel able to undertake. Around half expect their health problems or disabilities to get worse; only 5 per cent expect to get better.

It is therefore not surprising that health problems shape the way that disability claimants see their prospects. The same survey data shows that only around a third would like a job, now or further into the future. In more than 90 per cent of cases the reason given for not wanting a job is that their health is not good enough. Even among those who would like a job, 90 per cent cite ill health, injury or disability as an obstacle to finding work, and three-quarters say they think employers would regard them as 'too ill or disabled' or 'too big a risk'.

But ill health and/or disability are not the only defining features of disability claimants. The same survey data underlines the extent to which they are a poorly-qualified group with mostly lower-grade manual work experience. Some 60 per cent report that they had 'no formal qualifications', and some 80 per cent of women and 85 per cent of men had usually worked in manual occupations.

On the other hand it is important not to characterise disability claimants as men and women who have rarely, or never, been in paid employment. In the same survey, just 9 per cent of women and 6 per cent of men said they had never had a job. Substantial and often continuous work experience is common: a third of men and a quarter of women reported that they had been in their last job for twenty years or more.

### **Explaining the increase**

Drawing on empirical evidence from the UK, Beatty et al (2000) argued that disability benefit claims are best understood as part of a triangular relationship between the levels of employment, unemployment and sickness. In particular, they argued that job loss can lead to increases in recorded sickness (i.e. disability benefit claims) as well as to increases in recorded unemployment, even if there is no change in the underlying health of the population. They also argued that welfare rules – for example, qualifying criteria and differences in payment rates – help allocate claimants between disability benefits and other benefits.

More recently, Lindsay and Houston (2013) have argued that disability claims in the UK and elsewhere are best understood as reflecting the interaction of labour markets, ill health and employability. Their view is that difficult labour local markets, ill health and/or disability, and poor skills and qualifications combine to marginalise some men and women from paid employment, and that because of their ill health they claim disability rather than unemployment benefits.

These are not two rival theories. They are in fact entirely compatible and, in many respects, two different ways of expressing and explaining the same processes. A narrative of the increase in disability claims in the UK can usefully draw on elements of both.

The starting points need to be, first, that ill health and disability are actually quite widespread in the working age population, and second, that they are not necessarily an absolute bar to working. The UK's Labour Force Survey for 2012, for example, identifies 8.3m adults of working age who are disabled (in terms of the Disability Discrimination Act) or report a work-limiting illness or disability – around one-in-five of the whole working age population. Of

these, 4.1m, or 49 per cent, are in employment. This is well below the employment rate among men and women without health problems or disabilities (76 per cent) but it illustrates the point that ill health or disability is not always an insurmountable obstacle to holding down a job.

Beatty et al (2000) described the ill health and disability among those in work or recorded as unemployed as 'hidden sickness', in that it is not reflected in disability benefit numbers. However, they argued that when job loss occurs this hidden sickness begins to become 'visible': men and women with health problems or disabilities are often among those that employers prefer to shed, retaining instead the fit and healthy with fewer constraints on the work they can undertake, and some of the men and women with health problems volunteer themselves for redundancy because of the difficulties they face carrying on working.

This is what began to happen in the early 1980s, a period of immense job loss in the UK especially from manufacturing and mining in the North of England, Scotland and Wales. At first it was often the newly redundant industrial workers themselves – the ex-miners and ex-steelworkers for example – who moved onto disability benefits. They accessed disability benefits rather than unemployment benefits because they carried forward ill health and injuries from their former employment and because they were mostly financially better off doing so. The recession at the beginning of the 1990s added a further wave of job losses.

One of the earliest examples to be documented showed how in the UK's coalmining areas the principal labour market adjustment in response to the loss of mining jobs was an increase in recorded 'permanent sickness' rather than in recorded unemployment (Beatty and Fothergill 1996). This observation helped provoke extensive discussion of the scale of 'hidden unemployment' on disability benefits (Armstrong 1999, Fieldhouse and Hollywood 1999, MacKay 1999, Webster 2002, Bell and Smith 2004, McVicar 2006, 2008, Little 2007).

That neither the short-lived economic boom in the second half of the 1980s nor the first stages of recovery from the early 90s recession resulted in falling disability numbers is not surprising. Labour markets take time to adjust fully in response to job loss. The rising numbers on disability benefits in the 1980s and 90s were made up of not just those who had made been redundant from mining and manufacturing but also those in poor health who subsequently lost out in the normal competition for jobs.

Wherever there is an imbalance between labour demand and labour supply, ill health or disability is one of the great discriminators determining exactly which individuals are able to secure and maintain employment. Other things being equal, employers prefer the fit and healthy. Indeed, over the years they have probably become *less* tolerant of sickness absences, partly because fewer men and women with health problems remain in work (a corollary of the increase in disability claimant numbers) and partly because many organisations, notably in the public sector, have become more adept at monitoring absences and setting targets.

Poor qualifications, low skills, low-grade work experience, advancing age and low motivation tend to be the other discriminators that determine which individuals find and maintain employment. Where an individual faces more than one of these obstacles – which can often

be the case with disability claimants – their chances of finding work can be slim. In a period of economic recovery the numbers on unemployment benefits also fall more quickly because the claimant unemployed, unlike their counterparts on disability benefits, are required to look for work and thereby stay in touch with the labour market.

That the final stages of the long period of economic growth up to 2008 did not lead to bigger reductions in disability claimant numbers came as more of a surprise. Beatty et al (2000) had predicted that once claimant unemployment reached historically low levels, further economic growth might be expected to erode the numbers on disability benefits. This happened to only a marginal extent, as Figure 1 earlier showed. The disengagement of so many disability claimants from the labour market, documented in Beatty et al (2009), is likely to be a key reason why disability numbers did not fall further during this era of economic growth. But in addition this was also a period when there was a surge in international immigration to the UK, providing an alternative source of labour supply. Once more, fit and healthy workers (in this instance from abroad) were preferred to those with ill health or disability.

In the parts of the UK worst affected by job losses in the 1980s and early 1990s, the long economic recovery never did plug the gap between labour demand and supply. With a continuing imbalance in these local labour markets it was therefore inevitable that some individuals would be squeezed out and, in a competitive labour market, it has been those who are least able or least willing to keep a foothold in paid employment that have been marginalized. These men and women are typically the poorly qualified, low-skill manual workers in poor health, whose alternative would at best be unrewarding work at or close to the national minimum wage.

Competition in the labour market also explains why so many women now claim disability benefits and why they are concentrated in the same places as men. The industrial job losses that first triggered the rise in disability claims impacted disproportionately on men. The textiles and clothing industries, which have together shed over a million jobs in the UK since the 1960s, were once huge employers of women, but many other parts of mining and manufacturing were traditionally male-dominated. Steel, shipbuilding, heavy engineering and the motor industry are good examples. However, in the parts of Britain where disability claimant rates are highest – often older industrial areas – high claimant rates are found among both men and women (Beatty et al 2009).

The explanation lies in the fact that far fewer jobs are now seen as exclusively ‘male’ or ‘female’. So while the men made redundant a generation ago from industries like coal, steel and shipbuilding might have shunned what they saw as ‘women’s work’, their sons have rarely had the same luxury. The old industries have often gone, while the requirement to look for work as a condition of benefit receipt, and the impact of government schemes such as the Work Programme, mean that it is not easy to remain on Jobseeker’s Allowance for extended periods. So a younger group of men who a generation ago would have found jobs in industry have instead taken up employment in shops, hotels, catering, hospitals and offices, often in roles that once might have been filled by women. In doing so they have made the labour market in the places they live more difficult for women. Many of the women who fail to find work have then ended up claiming benefits, including disability benefits, in the

same way as their male counterparts. In this way unemployment is transmitted from men to women in the places where there are not enough jobs for everyone (Beatty et al 2009).

For the men and women excluded from employment in this way, disability benefits have hitherto offered a more attractive way forward than Jobseeker's Allowance. Disability benefits have been a little more generous and, for those with sufficient recent National Insurance credits, disability benefits have until recently not been means-tested, unlike Jobseeker's Allowance which has always been means-tested for longer-term claimants. This meant that for many claimants, disability benefits could be combined with other sources of household income, such as a partner in work. On disability benefits there has also been no requirement to look for work – work that anyway may be unattractive, low-paid and (bearing in mind issues of age, health and poor qualifications) difficult to obtain. Men and women with ill health or disability have normally been entitled to disability benefits and they have therefore almost always claimed them in preference to unemployment benefits.

Added to this, the effect of lengthening durations on disability benefits saps the enthusiasm of many to re-engage with the labour market. Long-term claimants adjust their lifestyle and aspirations to fit with the diminished job opportunities they perceive to be available, lowering their standards of consumption to fit with reduced household income. Their 'fitness to work' often declines as despondency sets in and disabilities worsen with age. An initial willingness to consider new employment is thus gradually replaced by a complete detachment from the world of work, rationalised in terms of largely insurmountable health obstacles.

None of this indicates that the health problems and disabilities affecting the men and women who claim disability benefits are anything less than real, or that the older industrial areas where disability claimant rates are highest do not have higher underlying levels of ill health. What is happening is that in places where there is a surplus of labour, employers have less incentive to hold on to staff in poor health. Once an individual with ill health or disability has lost their job, in a difficult local labour market they are also less likely to find a way back into work.

So although ill health or disability is rarely an absolute obstacle to employment, even in the eyes of disability claimants themselves, in practice even modest incapacities can prove to be a formidable obstacle, especially if an individual has no special qualifications or training to offer. By contrast, where there are plenty of jobs – a situation that characterises much of southern England – large numbers of men and women with health problems or disabilities do not hang around on disability benefits. They either stay in work or, if they lose their job, find new work.

In other words, the UK's high incapacity claimant numbers are, as Lindsay and Houston (2013) argue, an issue of *jobs, health and employability*. But they also need to be understood, as Beatty et al (2000) argue, as part of a triangular relationship between *employment, unemployment and sickness*.

## Welfare reform

For more than a decade there has been a political consensus in the UK that the numbers on disability benefits need to be brought down. The pre-2010 Labour government's initial efforts, through its *New Deal for Disabled People* and later the *Pathways to Work* scheme, were focussed on providing additional support to claimants to re-engage with the labour market. Most new claimants were mandated to engage with these support services whereas existing claimants opted in on a voluntary basis. From 2006 onwards, however, Labour began to introduce reforms to the disability benefits themselves (Department for Work and Pensions 2006, 2008). This process has continued under the post-2010 Coalition government. As a result, four key reforms have been simultaneously underway in the first half of the 2010s.

The first is the application of a tougher medical test – the Work Capability Assessment – as the gateway to the new Employment and Support Allowance. This was introduced by Labour and has applied to all new disability claimants since October 2008. The Work Capability Assessment takes place three rather than six months into a claim. It uses a points-based system and examines what activities the claimant is capable of undertaking. If the claimant scores sufficiently highly they qualify for ESA. The initial expectation, based on a pilot study, was that around 12 per cent of the claimants who qualified for Incapacity Benefit under the old medical test would not qualify for ESA under the Work Capability Assessment (Department for Work and Pensions, 2007). In practice the failure rate has proved much higher. The effect of the tougher medical test is that the gateway to disability benefits has narrowed.

The second reform, the re-testing of existing claimants, was also introduced by Labour, though it was not part of their initial plans for ESA. The intention is that by 2014 all pre-2008 disability claimants will be called in for the new medical test. They will then be routed onto Employment and Support Allowance or, if they fail to qualify, onto other benefits such as Jobseeker's Allowance or (if they fail to qualify again) out of the benefits system altogether. The re-testing of existing claimants was piloted in two areas in late 2010 and early 2011. From April 2011 re-testing was rolled out nationally, with the number of tests carried out each week gradually ramping up.

The third reform, the introduction of a new requirement to engage in work-related activity, is another Labour measure. All those who qualify for Employment and Support Allowance are allocated to one of two groups – a Support Group, who are deemed to have sufficiently serious health problems or disabilities to receive unconditional support, and a Work-Related Activity Group, for whom ESA comes with strings attached. All claimants in this second group are required to attend work-focussed interviews, initially at monthly intervals, at which they are advised on steps to find suitable work including training, voluntary work or job placement for a few hours a week, or physical or mental rehabilitation. Advisers then draw up an 'action plan' to which claimants are expected to adhere. Failure to engage in the work-related interviews runs the risk of benefit sanctions. The underpinning assumption is that, for the Work-Related Activity Group, ESA should only be a temporary benefit, pending the claimant's return to work.

The fourth reform, the time limiting of entitlement to non-means tested benefit, is an addition by the Coalition government. Incapacity Benefit, now in the process of being replaced by ESA, was never means-tested except for a small number of post-2002 claimants with significant income from a personal or company pension. This meant that other sources of household income – a partner's earnings for example – were not docked off a claimant's financial entitlement. However, from April 2012 onwards there has been a twelve-month limit on the duration of non-means tested ESA for those in the Work-Related Activity Group. After the expiry of the twelve months, these claimants are only eligible for the means-tested version of ESA.

## **Impact of the reforms**

### *Shifting the boundaries*

The main impact of the reforms to disability benefits is to shift where individuals are placed within the UK benefits system. The reforms impact sequentially. The new medical test to access ESA has been up-and-running for new claimants for some while, and there is also growing experience of its retrospective application to existing claimants. By contrast, the time-limiting of non-means tested entitlement begins only after twelve months on ESA, and only from 2012 onwards, so there is less hard evidence on outcomes. On time-limiting, it is necessary to rely more heavily on the Department for Work and Pensions' forecasts.

The principal effect of the new medical test on *new claimants* is to reduce the on-flow to ESA compared to its predecessor benefits. Based on data for 2010 and 2011, Beatty and Fothergill (2011) estimated the reduced on-flow as being around 45,000 a year, or a cumulative total of around 140,000 over the 2011-14 period. The DWP estimates that 50 per cent of the claimants who fail to qualify for ESA will go on to claim Jobseeker's Allowance instead, 20 per cent will move onto another benefit (for example Income Support as a lone parent or Carer's Allowance) and 30 per cent will move off benefit entirely (Department for Work and Pensions 2011a).

The effect of the new medical test on *existing claimants* can be gauged from data on the re-assessments (Department for Work and Pensions 2013, Table 11). Of the 700,000 claimants for whom reassessment was completed between October 2010 and August 2012, 30 per cent were placed in the Support Group, 41 per cent in the Work-Related Activity Group and 29 per cent (just over 200,000) found 'fit for work' and therefore denied ESA. Beatty and Fothergill (2011) estimated that when the process of reassessment is completed the final number of existing claimants losing entitlement to disability benefits as a result of re-testing would be 410,000. This estimate was based on data for the pilot areas. The actual figure, based on the more recent DWP figures, seems likely to be close.

Among the claimants losing entitlement, a reasonable assumption based on the DWP figures for those refused ESA would again be that 50 per cent (around 200,000) will claim Jobseeker's Allowance instead, 20 per cent (80,000) will move onto another benefit, and 30 per cent (120,000) will move off benefit entirely.

The large number moved off benefit entirely does not presume that these individuals find employment, though some will do so. Rather, it reflects the fact that having lost (or, in the case of new claimants, failed to gain) entitlement to disability benefit, many men and women will also find that they are not entitled to other means-tested benefits such as Jobseeker's Allowance. Because the means-testing is undertaken on a household basis, other sources of household income – a partner in work for example – or significant household savings will disqualify them.

The effect of the new medical test is therefore to divert substantial numbers of men and women with ill health or disability – presumably, if the medical test is working properly, those with problems that pose fewer impediments to working – into recorded unemployment, onto other benefits, or out of the benefits system altogether. 'Hidden sickness' will increase; 'recorded sickness' on disability benefits will decline.

The time-limiting of non-means tested entitlement adds to these diversions. The DWP forecast is that by 2015-16 700,000 claimants in the Work-Related Activity Group will be affected by time-limiting (Department for Work and Pensions 2011b). DWP also forecasts, based on information on household income, that 40 per cent (280,000) of those affected by time-limiting will not qualify for the means-tested variant of ESA. The remaining 60 per cent (420,000) will generally receive less on the means-tested variant than they did previously.

Whether those who fail to qualify for the mean-tested variant of ESA will remain as a 'disability claimant' is unclear. Though they will receive no further disability benefit payment they will remain entitled to National Insurance (NI) credits on account of their disability, which count towards their eventual state pension entitlement. If they stay within the system in this way they will continue to be counted as 'disabled'. On the other hand, as part of the Work-Related Activity Group there will in theory continue to be a requirement to fulfil an 'action plan' aimed ultimately at returning to work. The experience of Jobseeker's Allowance claimants who lose entitlement to means-tested benefit is that they mostly stop their claim even though they remain unemployed, though in the case of Jobseeker's Allowance the on-going requirements on claimants – looking for work and signing-on fortnightly – are more demanding. At least to some extent, the introduction of time-limiting seems likely to further increase the scale of 'hidden sickness' outside the benefits system.

Collectively, the reforms to disability benefits are set to have a major impact. Some 1.25 million in all can be expected to lose some or all of their financial entitlement to disability benefits – around 700,000 from time-limiting, 400,000 from re-testing, and 150,000 from the refusal of new claims. The overall saving to the public purse, based on HM Treasury figures, is estimated at £4.35bn a year by 2015-16 (Beatty and Fothergill 2013a).

### *The local and regional impact*

It is perhaps to be expected that the parts of Britain with the highest disability claimant rates will be hit hardest by the reforms. In fact, in most of these places the potential reduction in disability claimant numbers and the loss of benefit income is somewhat greater than even their high claimant rate would suggest.

One reason is the geographical distribution of 'hidden unemployment'. These are the men and women claiming disability benefits who *might reasonably have been expected to be in work in a fully-employed economy* (Beatty and Fothergill 2005). Their disability claims are not fraudulent: they are men and women with ill health or disability who have accessed disability benefits rather than unemployment benefits. However, because their ill health or disability is not so severe as to prevent them from working in all circumstances they are the group most exposed to loss of entitlement as a result of the new medical test.

'Hidden unemployed' is disproportionately concentrated in the places where the disability claimant rate is highest and the demand for labour weakest. Where the claimant rate is low, as in large parts of southern England, the equivalent individuals have mostly been able to find work. The local impact of the disability benefit reforms can therefore be expected to be weighted towards Britain's weaker local economies. There is already evidence that this is the case. The DWP's statistics on the reassessment of existing claimants (Department for Work and Pensions 2013, Table 11) show that a higher proportion of disability claimants are being found 'fit for work' in the weaker local economies of the North of England and Wales than in the more prosperous London and South East. Only Scotland bucks the general trend, for reasons that are unclear.

The other factor skewing the local impact of disability reform is the incidence of means-testing. In London, the proportion in the Work-Related Activity Group receiving only contributions-based (i.e. non-means tested) disability benefits is significantly lower than elsewhere. This indicates that fewer claimants in London risk losing their entitlement, or face a reduction in payment, when time-limiting comes into effect.

Estimates of the local and regional impact of the disability reforms, taking these factors into account, were first published when the reforms were still being introduced (Beatty and Fothergill 2011). Revised estimates of the impact (Beatty and Fothergill 2013a) are shown in Tables 1 and 2. The figures here on the numbers 'adversely affected' include not only those who can be expected to lose all entitlement to disability benefits (the focus of the original 2011 estimates) but also those who can expect to have the financial value of their disability benefit reduced as means-testing comes into effect. The revised figures here also more accurately reflect the DWP's own estimates of the impact of means testing (Department for Work and Pensions 2011b).

Table 1 shows four measures of the impact by region when the reforms have come into full effect in 2015-16. The regions are ranked here by the financial loss per adult of working age (i.e. all 16-64 year olds in the region, whether or not they claim disability benefits). This is the best measure of the intensity of the financial 'hit' facing each region. The biggest financial losses can be expected in Wales, the North East, North West and Scotland. By contrast, London, the East and South East can expect to escape relatively lightly.

Table 2 shows the estimated loss, per adult of working age, in the 20 worst affected local authority districts in Britain. The three hardest hit districts are in the Welsh Valleys, and seven of the top 20 are in South Wales. The rest of the list (with the notable exception of Blackpool) is a roll-call of older industrial Britain. A separate set of estimates for Northern

Ireland (Beatty and Fothergill 2013b), using essentially the same methods, suggests that Belfast, Derry and Strabane will be hit even harder than the worst affected districts in Great Britain.

### *Impact on employment*

Ministers in the UK's Coalition government argue that the reduction in disability benefit numbers is actually a good thing – quite apart from the money it saves the Treasury – because married to the assistance provided by the Work Programme it will lead to more people in employment. They also argue that the disability reforms are best understood alongside the planned introduction of Universal Credit, which is intended to ensure that in all circumstances claimants are financially better off in work.

What is certainly true is that for many disability claimants – the most severely ill or disabled in the Support Group are the notable exception – the reforms sharply increase the financial incentive to look for work. This is especially the case for the estimated 400,000-plus likely to lose the whole of their financial entitlement.

Labour market engagement is unquestionably set to increase. Disability claimants who are found 'fit for work' and then claim Jobseeker's Allowance instead are required to look for work. Those who retain disability benefits but are placed in the Work-Related Activity Group are required to take practical steps to returning to work. These requirements are rarely likely to be popular among claimants who still perceive substantial and on-going obstacles to working again, and it is telling that in the 10 months to September 2013 almost 20,000 ESA claimants were sanctioned, three-quarters for not participating in work-related activity.

But looking for work and actually finding work are two different things. Also, if a former benefit claimant finds work this does not necessarily mean that the overall level of employment is any higher or the numbers on benefits any lower. One jobseeker can displace another in the competition to find work.

One of the ways in which extra labour supply can lead to extra employment is by addressing a shortage of labour. At various times, in various places and in particular sectors and occupations, labour shortages do unquestionably arise, but it is hard to characterise the UK in the wake of the 2008-9 recession as an economy that is especially constrained by a shortfall in labour supply. The other way in which extra labour supply can lead to extra employment is if it forces down wages so that businesses are more competitive and employers take on more workers. The problem here is that these adjustments generally take many years and exceptionally large numbers of claimants are set to be pushed back towards the labour market over a short space of time. The adjustment is also constrained by the national minimum wage, which limits how far wages can fall.

Two further factors work against the expansion of employment in response to the reduction in disability benefit numbers. The first is the characteristics of the claimants themselves. Even if they are deemed 'fit for work' under the new medical test, former disability claimants will normally still be affected by health problems or disabilities that limit the work they are

able to undertake. As we noted, they also tend to be an older group who previously worked mainly in low-grade manual jobs, and a high proportion have no formal qualifications. They have often been out-of-work for many years and their motivation has often been sapped. They are unlikely to be employers' first choice.

The other factor that works against an expansion of employment is the location of so many disability claimants. They are disproportionately concentrated in Britain's weakest local economies and it is the very weakest local economies of all – places such as the Welsh Valleys – that have the very highest disability claimant rates. In these places, former disability claimants face little chance of finding work.

Of course, there will be some success stories and these will no doubt be trumpeted. Some former disability claimants will find work, even perhaps in the Welsh Valleys. But to focus on individual success stories would be to miss the point. In difficult labour markets there are not enough jobs for everyone, and if one person finds a job it is most likely to be at the expense of someone else.

### **Concluding remarks**

The UK's disability crisis took the best part of two decades to grow to its scale in the early 2000s and then proved largely impervious to a sustained period of economic growth and interventions by the pre-2010 Labour government. The increase in disability claims was deeply rooted the pattern of restructuring in the UK economy and in particular in the regional and local disparities in job opportunities that arose from this restructuring. Against this backdrop it would be rash to assume that the disability benefit numbers can easily be reduced to something closer to the low level last seen at the start of the 1980s.

There is nevertheless no doubt that the reforms currently underway will reduce disability claimant numbers, and there are already clear signs this is happening. Quite how far the headline numbers will fall depends on how claimants (and the employment services) react to the loss of entitlement when time-limiting takes effect. If large numbers stay on the books as 'NI credits-only' claimants the headline numbers will fall less than if they drop out of the system altogether. Either way, the spending on disability benefits is still set to fall sharply by 2016. This will have a big impact in most of Britain's weaker local economies.

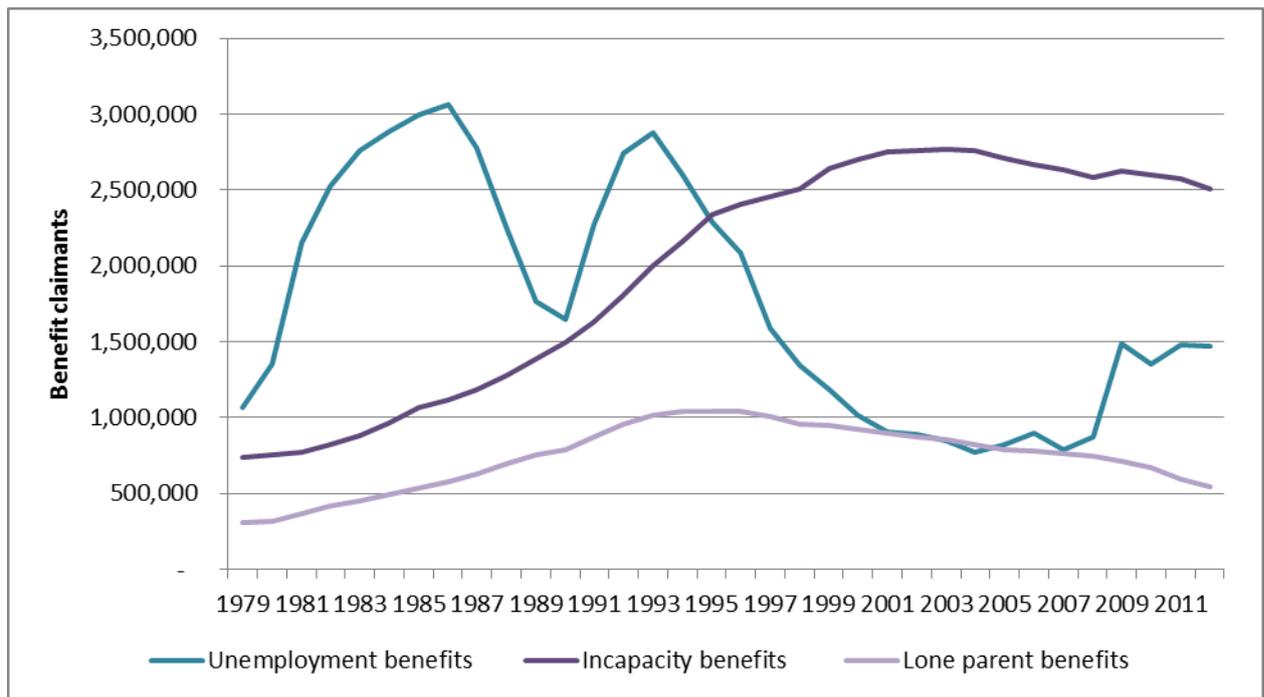
In an age of austerity, however, when jobs remain hard to find in most parts of the country, the reduction in disability numbers and spending looks set to be achieved not by moving claimants back into work but by diverting them between different parts of the benefits system or, in many cases, out of the benefits system altogether. This is hardly a lasting or satisfactory solution to the underlying problem.

It is hard to escape the conclusion, therefore, that as a tool for raising employment and economic growth the reforms to disability benefits have little value. Rather than being based upon a sound analysis of why disability claimant numbers have risen so much, and why the claimant numbers are so high in specific localities, the reforms wrongly assume that underlying problems are individuals' motivation and financial incentives, rather than ill health,

disability and job opportunities. The reforms also pre-suppose that an increase in labour supply will bring forth additional labour demand, which as we explained seems most unlikely.

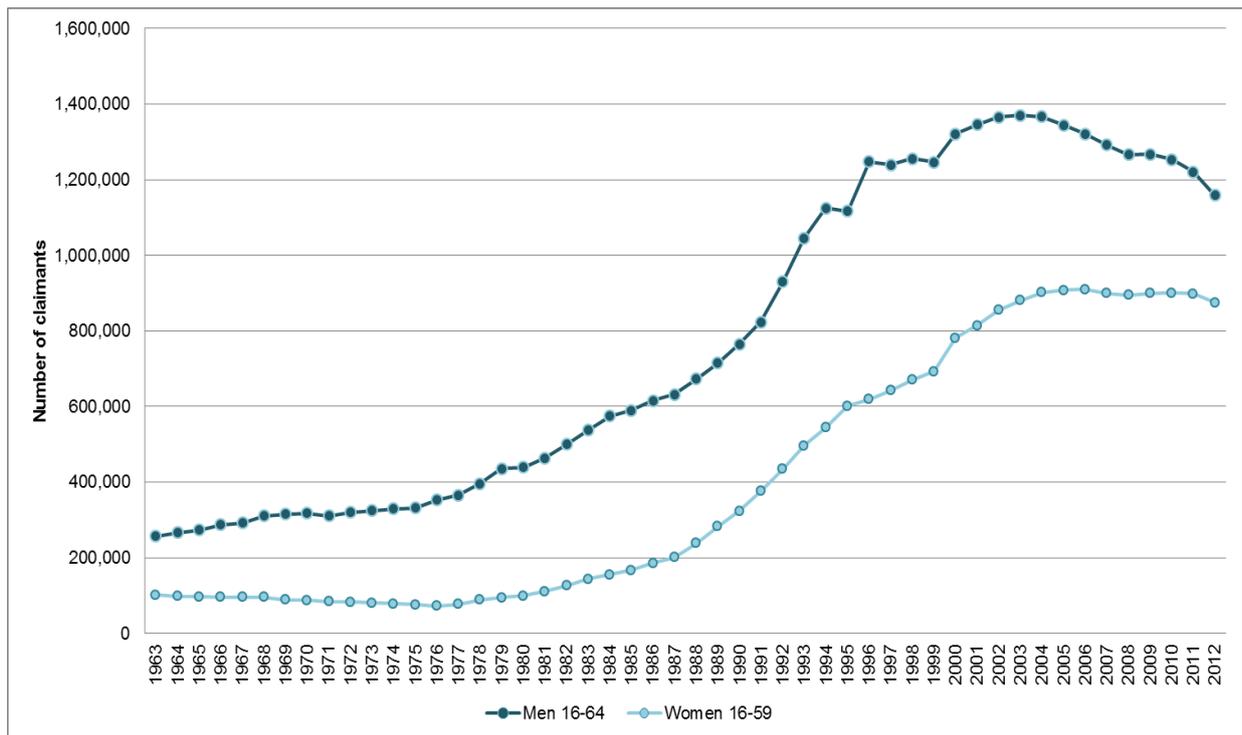
As a mechanism for saving the UK Treasury substantial money, the reforms do nevertheless seem certain to work. Fewer people will remain entitled to disability benefits and those who retain entitlement are often likely to find that the financial value of their benefits has been reduced by means-testing. In effect, large numbers of disability claimants are being made to pay the price of a fiscal crisis that was not directly of their making. Sometimes this financial loss will fall on households that have hitherto been able to get by tolerably well, though not necessarily very comfortably, by combining disability benefits with other sources of household income – a partner's earnings, an occupational pension, other welfare benefits. As means-testing kicks in for so many, more will be pushed down towards the poverty line. Ill health or disability, combined with unemployment, looks sets to grow as a cause of profound social and economic disadvantage.

**Figure 1: Benefit claimant numbers, GB, 1979-2012**



Source: DWP

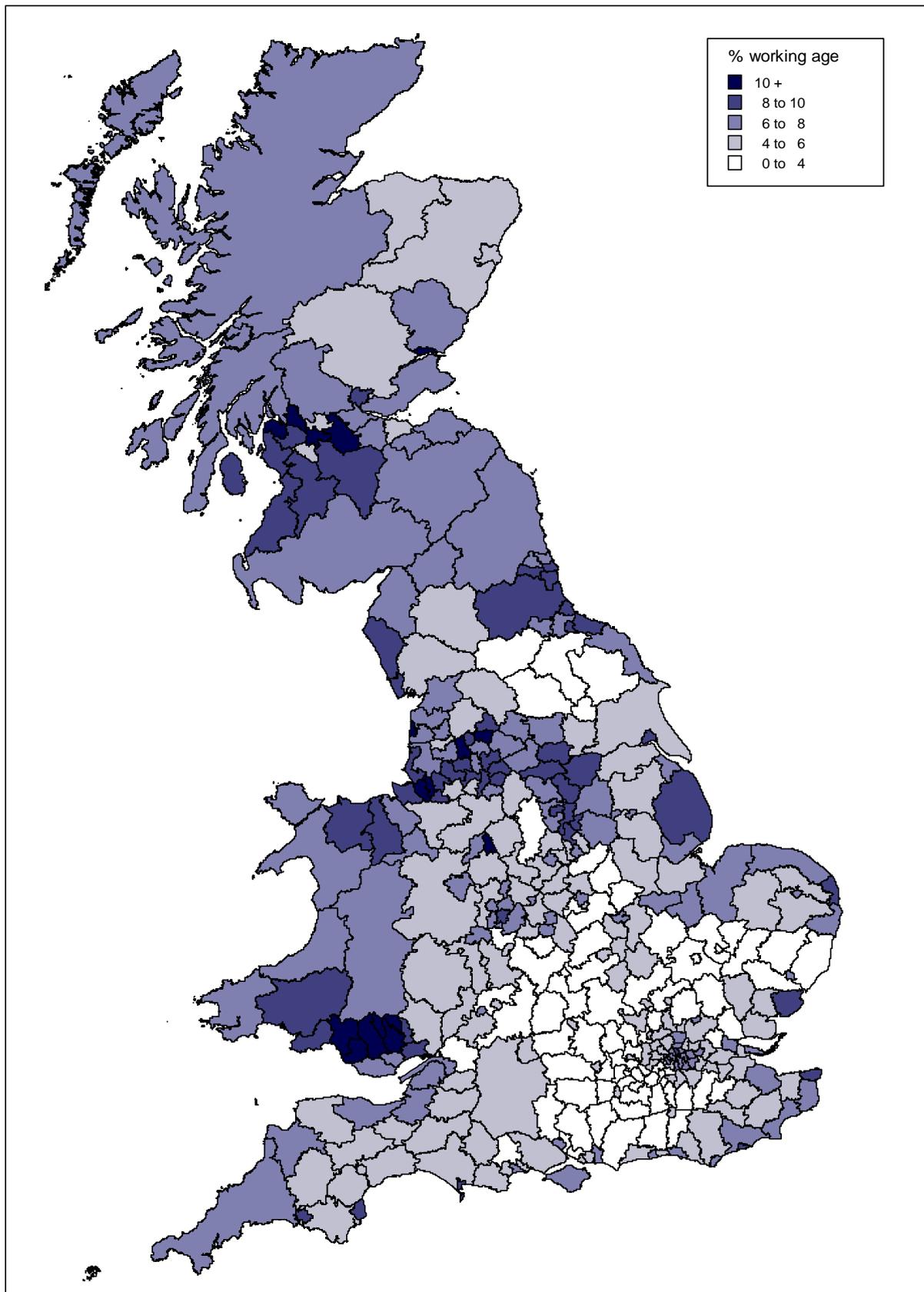
**Figure 2: Male and female disability claimants\* (6 months+), GB, 1963-2012**



\*excluding Severe Disablement Allowance

Source: Webster (2004) and up-dates by authors based on DWP

Figure 3: Disability benefit claimant rate by district, GB, August 2012



Sources: DWP, ONS

**Table 1: Estimated impact of disability benefit reforms by 2015-16, by region**

	<b>No of individuals adversely affected</b>	<b>Estimated loss £m p.a.</b>	<b>No. of individuals affected per 10,000</b>	<b>Financial loss per working age adult £ p.a.</b>
Wales	93,000	320	480	165
North East	74,000	260	440	155
North West	197,000	690	430	150
Scotland	144,000	500	410	145
Yorkshire and the Humber	112,000	390	330	115
West Midlands	115,000	400	320	115
East Midlands	88,000	310	300	105
South West	92,000	320	280	100
London	147,000	470	260	85
East	83,000	300	220	80
South East	108,000	390	200	70
<b>Great Britain</b>	<b>1,250,000</b>	<b>4,350</b>	<b>310</b>	<b>110</b>

Source: Beatty and Fothergill (2013a) based on HM Treasury and DWP data

**Table 2: Estimated impact of disability benefit reforms by 2015-16: worst affected 20 local authority districts in Great Britain**

	<b>Loss per working age adult £ p.a.</b>
1. Merthyr Tydfil	265
2. Neath Port Talbot	255
3. Blaenau Gwent	255
4. Knowsley	240
5. Rhondda Cynon Taf	230
6. Glasgow	225
7. Caerphilly	225
8. Inverclyde	220
9. Blackpool	215
10. Barrow-in-Furness	210
11. Liverpool	210
12. Hartlepool	200
13. Burnley	200
14. Stoke-on-Trent	200
15. West Dunbartonshire	200
16. Barnsley	195
17. Carmarthenshire	195
18. Bridgend	195
19. St Helens	190
20. Mansfield	190

Source: Beatty and Fothergill (2013a) based on HM Treasury and DWP data

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