

# INCAPACITY BENEFITS IN THE UK: AN ISSUE OF HEALTH OR JOBS?

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## **Introduction**

The UK has 2.6m incapacity benefit claimants of working age – far more than the number on unemployment benefits even at a time of recession. The UK is not unique in this respect. With 7 per cent of the working age population out of the labour market on incapacity benefits, the UK actually has a lower incapacity claimant rate than the Netherlands, Sweden or Denmark but is nevertheless well towards the upper end of the range in Europe (Kemp 2006).

The large numbers on incapacity benefits in the UK have typically been characterised as an *employment* problem, or more specifically as a problem of low skills, low motivation and disengagement from the labour market. This view finds its clearest expression in policy statements from the Department for Work and Pensions (2006, 2008). The underpinning assumption of the UK government's recent welfare reforms, for example, has been that if incapacity claimants look for work, and equip themselves for work, they will find work. When the present reforms reach full fruition, in 2013 on current plans, all but the most severely ill incapacity claimants will have to attend a series of compulsory 'work-focussed interviews'. All but the most severely ill will also be required to draw up plans to 'progress towards work'. None of these rules out addressing health problems alongside problems of employability, but it would be fair to say that medical issues are not centre-stage in current thinking.

Yet *ill health and disability* have clearly always been part of the mix. In order to qualify for incapacity benefits a degree of ill health or disability is mandatory, and there are checks to make sure that claimants meet the relevant medical criteria. Incapacity claimants are initially 'signed off' by their own doctor. After six months, and sooner in the case of more recent claimants, their entitlement to incapacity benefits has to be confirmed by medical practitioners working on behalf of the

government agency Jobcentre Plus. The medical test – these days known as the Work Capability Assessment – was toughened in 2008. Claimants do not have to prove that they are incapable of all possible work in all possible circumstances, but in view of the independent medical testing it is a reasonable assumption, especially for those who have passed through the Work Capability Assessment, that the health problems and/or disabilities are mostly real enough.

So to what extent can the UK's high incapacity numbers be characterised as an issue of jobs and employability or of ill health and disability? Curiously, ill health and disability have rarely been central to previous socio-economic research on incapacity benefits. Notable exceptions are studies by Anyadike-Danes (2010) on the distribution of claimants' conditions across the UK regions, by Lindsay and Dutton (2010) on the delivery of condition management services by the National Health Service and private contractors, and by Kemp and Davidson (2007, 2010) on the impact of health and disability on the trajectories of new incapacity claimants. More commonly, health issues are mentioned only in passing, for example while the discussion focuses on the impact of low wages and the falling demand for manual labour (Bell and Smith (2004).

This paper tries to bridge the gap between 'health' and 'jobs' in understanding benefit numbers. It begins by setting out the classic evidence on the geography of claims and on trends through time that points firmly towards the labour market as the root cause of the UK's high incapacity claimant numbers. The paper then interrogates a new, large-scale survey dataset on incapacity claimants to shed greater light on the role of ill health and disability. The evidence from the survey is that health is central to an understanding of the numbers. The final part of the paper then seeks to reconcile the two competing perspectives, explaining the interaction between ill health and the difficult labour market that continues to be found in substantial parts of Britain.

Throughout the paper, the term 'incapacity benefits' is used to refer to a family of social security benefits, whose claimants add up to the headline figure of 2.6m.

These are:

- *Incapacity Benefit (IB)*. In early 2010 this accounted for around half the total. Incapacity Benefit dates back to 1995, when it replaced Invalidity Benefit. IB

is not means-tested except for a small number of post-2001 claimants with significant pension income.

- *NI credits-only IB claimants.* These are the incapacity claimants who fail to qualify for Incapacity Benefit itself because they have insufficient National Insurance (NI) credits. The government counts these as IB claimants but most actually receive means-tested Income Support, usually with a disability premium. They account for a further quarter of the national total.
- *Severe Disablement Allowance (SDA).* SDA is paid to pre-2001 claimants with a high level of disability and a poor NI contributions record, and accounts for around 10 per cent.
- *Employment and Support Allowance (ESA).* ESA replaced IB (including the NI credits-only variety) for new claimants in October 2008. The intention is that between 2010 and 2013 all existing IB and SDA claimants will be gradually moved over to ESA, subject to the appropriate medical test.

The important point about all these benefits is that claimants are not required to look for work as a condition of benefit receipt. This differentiates them sharply from the claimant unemployed in receipt of Jobseeker's Allowance (JSA), who are required to look for work as a condition of benefit receipt. The two groups of benefit claimants are mutually exclusive: it is not possible to claim incapacity benefits and JSA at the same time.

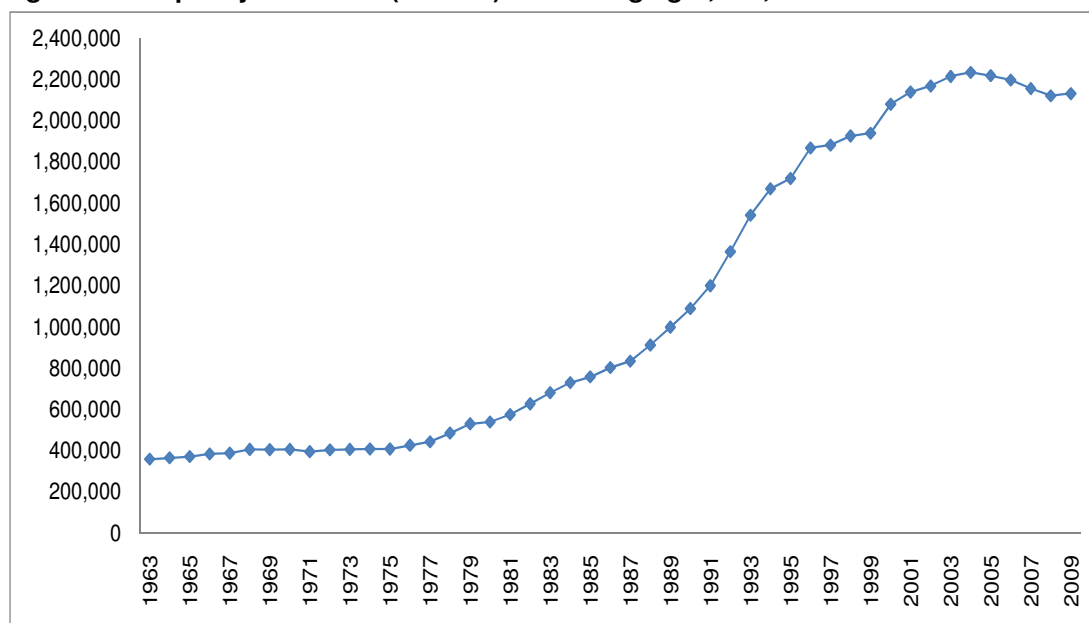
### **Trends and geography**

Two pieces of evidence point strongly to the role of the labour market, and more specifically a deficient demand for labour, as lying at the root of the UK's high incapacity claimant numbers.

The first is the very large increase through time in the number of incapacity claimants. Figure 1 takes a long view, from the early 1960s through to 2009. This shows the number of men and women of working age claiming incapacity benefits (including predecessors to the current benefits) for six months or more. Data on sub-

six month claimants is not available on a consistent basis over this long period, but most incapacity claims are anyway long-term. The striking feature here is the huge increase, from below half a million to in excess of two million.

**Figure 1: Incapacity claimants (6mths+) of working age\*, GB, 1963-2009**



\*excluding SDA claimants

Source: Webster (2004) based on DWP, and authors update

It is impossible to explain this increase in health terms alone. If anything, trends in the underlying health of the working age population have moved in the opposite direction, which might have pointed to fewer incapacity claimants, though the improvements in health have arguably been slowest for some of the most disadvantaged groups in society. The UK government's General Household Survey provides a consistent measure through time of self-assessed health among the working age population. This shows that limiting long-standing illness is quite widespread but that there has been no great increase in the proportion of men and women affected – up from 16.1 to 16.7 per cent of working age women between 1980 and 2006, but down from 17.4 per cent to 15.5 per cent for working age men over the same period (Beatty et al 2009).

The timing of the large increase in incapacity claims does however coincide with a difficult period for the UK labour market, from the mid 1970s through to the 1990s, when the economy operated at well below full employment and claimant

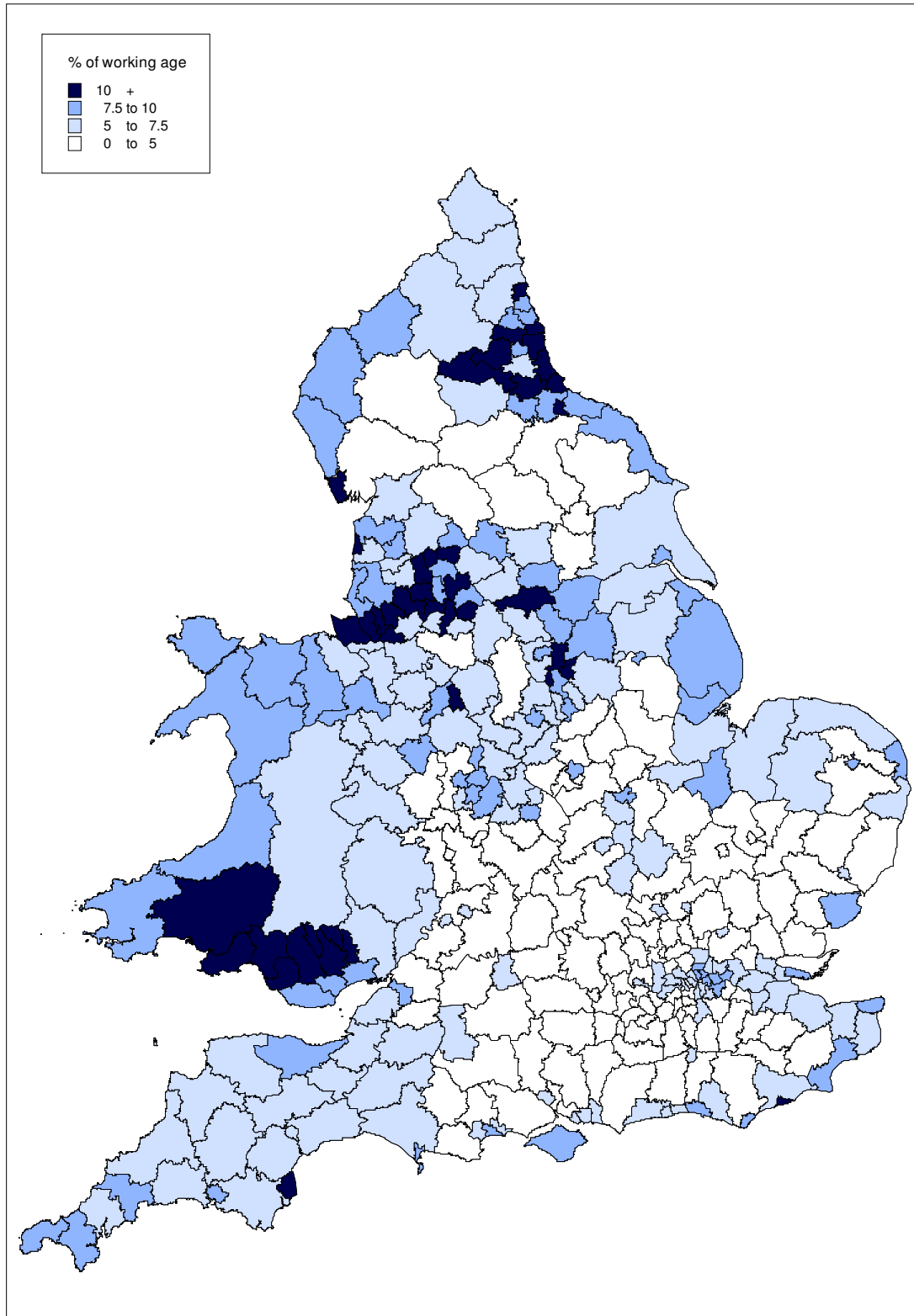
unemployment (that is, the number out-of-work on unemployment benefits) twice rose over 3 million.

The other piece of evidence that points powerfully to the labour market as an explanation for the UK's high incapacity numbers is the distribution of claimants across the country, shown in Figures 2 and 3. Incapacity claimants are far from evenly spread across the country. At the extremes, 16 per cent of all adults of working age in Merthyr Tydfil district in South Wales are incapacity claimants, compared to just 2 per cent in Hart district in Hampshire. Furthermore, the pattern is far from random. The areas where the incapacity rate is highest tend to be the older industrial areas of the North, Scotland and Wales. In contrast, the incapacity claimant rate in large parts of southern England outside London is consistently far lower.

Britain's older industrial areas were especially badly hit by job losses in the 1980s and early 1990s, often witnessing the complete disappearance of formerly dominant employers in sectors such as coal, steel, shipbuilding and heavy engineering. These places had long had poorer standards of health, sometimes associated with the old industries themselves, but it was only after the closures and job losses that incapacity claimant numbers started to rise steeply. That incapacity benefits are in most circumstances financially more generous than unemployment benefits was a powerful incentive for redundant workers with health problems to claim incapacity benefits.

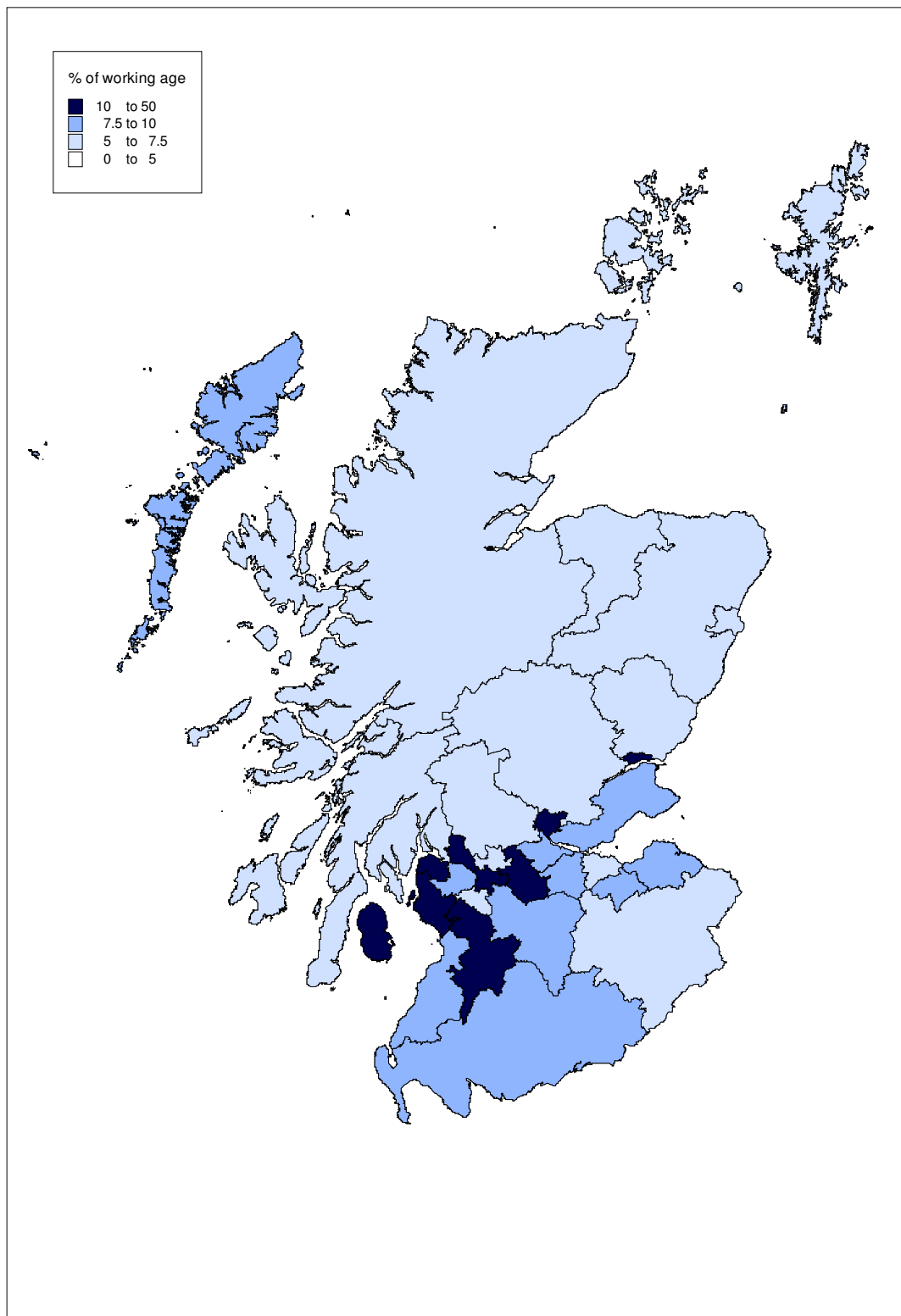
On the basis of statistics such as these, the present authors have argued that incapacity benefits hide unemployment. In studies of labour market adjustment in the former coalfields (Beatty and Fothergill 1996, Beatty et al 2007) we showed that the principal response to job losses from the coal industry was not a rise in recorded unemployment but a marked increase in the numbers of men 'economically inactive' on incapacity benefits. More generally, we have argued that there has been a large diversion from 'unemployment' to 'sickness' across Britain as a whole, and that around one million incapacity claimants could be regarded as 'hidden unemployed' in the sense that they could probably be expected to have been in work in a genuinely fully employed economy (Beatty and Fothergill 2005). Newer evidence has also shown how job loss among men has eventually been transmitted, via competition in the labour market, to higher incapacity claims among women in the same places (Beatty et al 2009).

**Figure 2: Incapacity claimant rate, England and Wales, February 2009**



Sources: DWP, ONS

**Figure 3: Incapacity claimant rate, Scotland, February 2009**



Sources: DWP, ONS

The view that a weak demand for labour underpins the high incapacity claimant numbers in many parts of Britain is shared by other commentators (see for example Armstrong 1999, MacKay 1999, McVicar 2006, Webster et al 2010).

## **Survey data**

The data on the role of ill health and disability in incapacity claims, reported here, is taken from a survey originally designed to provide a better understanding of the high numbers of women now claiming incapacity benefits<sup>1</sup>. The survey was carried out in eight local authority districts spread across five UK regions<sup>2</sup>. The survey covered a range of different types of locality but was structured to focus on areas where the incapacity claimant rate is relatively high, since it is the high claimant rate in these places that is most in need of explanation.

The fieldwork took place between November 2006 and September 2007. The survey was conducted face-to-face, in individuals' own homes, by professional interviewers, using a tightly structured questionnaire, and achieved a high response rate. The Department for Work and Pensions supplied the names and addresses of the claimants to be interviewed, directly from its benefit records. The survey covered all incapacity claimants except those claiming Severe Disablement Allowance but pre-dated the introduction of Employment and Support Allowance. We use the term 'IB claimants' to describe this group, which corresponds to their official benefits status. Full details of the survey methods are presented in Beatty et al (2009).

The size of the survey sample varied a little between localities, depending on the scale of co-financing by local partners, but in the figures presented here the all data for working age claimants is simply pooled. In all, 3,549 useable interviews were completed with men and women of working age – 1,659 with men and 1,890 with women.

Although the survey was not designed with the explicit aim of being representative of IB claimants across Britain as a whole, in practice the survey sample is close to the

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<sup>1</sup> The research was funded by the UK government's Economic and Social Research Council (grant ref no RES 062230086) and by local partners in the survey areas.

<sup>2</sup> Barrow in Furness, Blackpool, Easington, East Lindsey, Great Yarmouth, Hull, Knowsley and Wansbeck

national average in terms of age and duration on incapacity benefits (see Beatty et al 2009).

Specifically in terms of the medical conditions affecting claimants, Table 1 shows that the survey data deviates only marginally from the national average. Both the DWP and survey data in this table refers to the official, recorded medical reason for the claim (not the claimant's own assessment in the case of the survey data). In practice, of course, many incapacity claimants are affected by more than one illness or disability and there can be a tendency for health problems to multiply the longer that claims last.

**Table 1: Medical diagnosis of incapacity claimants**

	DWP data (May 2007)		Survey data (2006/7)	
	Men	Women	Men	Women
Mental, behavioural	40	43	34	41
Musculoskeletal	17	18	22	22
Injury, poisoning	7	4	5	5
Circulation	7	3	8	3
Nervous system	5	7	6	7
Respiratory	2	2	3	3
All other	21	22	21	20
<b>TOTAL</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Sources: DWP and IB survey data

These days 'mental and behavioural problems' account for the largest single group of both men and women. This is a broad category that includes stress and depression as well as other forms of mental illness, and also includes drug and alcohol problems. The other large medical category is 'musculoskeletal problems', which includes bad backs and other movement difficulties. The DWP's own statistics show that, over time, the share of IB claimants with mental or behavioural problems has been increasing whilst the share with musculoskeletal problems has fallen. The survey sample slightly under-represents claimants with mental or behavioural problems and over-represents those with musculoskeletal problems, which is

perhaps to be expected given the bias in the survey sample towards older industrial areas where physical injuries are more likely to have arisen at work.

The survey data highlights some important differences between IB claimants with mental or behavioural problems and those with musculoskeletal problems. Men recorded as suffering from mental or behavioural problems are a notably younger group – just 33 per cent are aged 50-plus, compared to 71 per cent of men with musculoskeletal problems. The equivalent figures for women over 50 are 30 and 54 per cent. Men with musculoskeletal problems have also been on incapacity benefits for rather longer – 67 per cent for at least five years, compared to 57 per cent of those with mental or behavioural problems – though the very long duration of claims associated with all categories of ill health or disability is perhaps most noticeable.

In other respects there are considerable similarities between claimants with different categories of health problems or disabilities. Qualification levels are a case in point. The survey asked claimants about their various academic and vocational qualifications. Strikingly, 60 per cent of all IB claimants said they had no formal qualifications at all – not even CSEs or GCSEs. This is an astonishingly high proportion, and varies little by gender or by type of illness or disability. It makes the point that IB claimants are not only a less healthy group but also a very poorly qualified group as well.

### **The survey evidence on ill health and disability**

Table 2 shows the reasons men and women give for the loss of their last job. An important point to bear in mind here is that the reasons why an individual leaves a job can be complex. Sometimes there is a single, clear-cut cause. On other occasions job loss is the result of the interaction of a number of factors – for example cuts in a firm's workforce combined with personal ill health, domestic responsibilities and maybe even a bullying or unsympathetic boss. The survey asked men and women to identify the *principal* reason for leaving their last regular paid job and the answers presented here exclude the very small number of claimants (5 per cent of men and 9 per cent of women) who have never had a job.

The key feature is the importance of illness or disability as the trigger of job loss. This was cited by 74 per cent of men and 70 per cent of women. This is clear

evidence that ill health, injury and disability play a powerful role in triggering individuals' exit from the labour market, even if the aggregate numbers point strongly to labour market processes.

**Table 2: Principal reason for job loss**

	Women (%)	Men (%)
Compulsory severance*	10	16
Voluntary – redundancy/retirement	1	3
Voluntary – pregnancy/baby	8	n.a
Voluntary – to look after children/others	4	1
Voluntary – other reasons	5	4
Illness or injury	70	74
Other	1	1
	100	100

\*compulsory redundancy, dismissal, end of contract

Source : IB survey data

By contrast, compulsory severance – mainly redundancy but also dismissal and the end of a short-term contract – accounts for just one-in-six men and one-in-ten women. There is little evidence here that redundant industrial workers make up the bulk of incapacity claimants, but it is worth underlining that this survey data is for the late 2000s. Further back in time, in the late 1990s, similar surveys used to find that between a third and a half of male IB claimants had lost their last job through redundancy (Alcock et al 2003). But time has moved on, and this cohort of redundant industrial workers has gradually dropped out of the figures, often onto state pensions.

The importance of ill health, injury or disability in the job loss process among contemporary claimants is underlined by the further 8 per cent of men and 7 per cent of women who said that this was a *contributory* factor to job loss, even where they cited other factors as the main reason.

Table 3 shows individuals' own assessment of the severity of their present health problem or disability at the time they were working in their last job. Over half of all men, and over half of all women, say that their difficulties at that time were either less severe, barely an issue or not a problem at all. What these figures suggest is that for many men and women there has at some stage been a deterioration in health, either gradual or sudden, and this may help account for the high proportion who say they lost their last job because of ill health, injury or disability. A sizeable minority – rather more than a quarter – did however soldier on in their last job with health problems or disabilities that they say were as severe or worse than at the time they were interviewed.

**Table 3: Severity of health problems/disabilities while in last job**

	Women (%)	Men (%)
Not a problem/barely an issue	16	15
Less severe	42	44
About the same as at present	15	16
More severe	12	13
Fluctuating	11	10
Don't know/can't remember	3	3
	100	100

Source : IB survey data

Table 4 shows claimants' own assessment of the influence of health on their ability to work. A degree of self-reported health limitation is nearly universal among both men and women – fewer than 5 per cent of claimants say there is no limitation on the work they can do. Also, relatively few report only modest limitations. On the other hand, only around a quarter (26 per cent of men, 23 per cent of women) say they 'can't do any work'. What needs to be kept in mind here is that eligibility for Incapacity Benefit does not depend on being unable to do any type of work in any circumstances. To qualify for IB, a claimant has to demonstrate a sufficient degree of ill health or disability to be not required to look for work. What these figures tell us is that, in the eyes of claimants themselves, ill health, injury or disability is an important obstacle to working again.

**Table 4: Self-assessment of influence of health on ability to work**

	Women (%)	Men (%)
'Can't do any work'	23	26
'A lot' of limitation	57	56
Some limitation	16	15
No limitation	4	3
	100	100

Source : IB survey data

Table 5 presents claimant's own expectations about their health or disabilities. Pessimism is the norm. Half of all the men, and half of all the women, expect their problems to worsen. Far fewer men or women expect their health problems to ease, though between a fifth and a quarter think their problems will fluctuate. Here is evidence that in the eyes of claimants their health problems or disabilities are not only an important obstacle to working but in many cases likely to get worse.

**Table 3.5: Expectations about current health problems/disabilities**

	Women (%)	Men (%)
Get better	5	5
Stay much the same	13	15
Fluctuate	24	21
Get worse	52	54
Don't know	6	6
	100	100

Source : IB survey data

At the time of the survey, the proportion of IB claimants who said they had taken part in any rehabilitation programme was modest – not a great deal over one-in-ten, though this is likely to have risen a little as the national roll-out of the Pathways to

Work programme for incapacity claimants will have increased the availability and visibility of condition management programmes. Amongst those who had taken part in rehabilitation programmes the experience was mixed, but more than 40 per cent did report that the programme had ‘helped a lot’ or (more commonly) ‘helped a little’.

Table 6 deals with aspirations to work. It combines the responses to several survey questions. The first line presents the responses to the question ‘would you like a job?’ The important finding here is that the proportion of claimants saying they would like a job is low – just 15 per cent of men and 17 per cent of women. The second line shows the additional claimants who said that they might like a job further into the future. Combined with those saying ‘would like a job’ in the first line of the table, this brings the pool of potential jobseekers up to 24 per cent of men and 30 per cent of women.

**Table 6: Job aspirations**

	<b>Women (%)</b>	<b>Men (%)</b>
Would like a job	17	15
Might like a job further into future	13	9
Looked after last job ended	11	18
Looking now	4	4
Thinks there’s a realistic chance of ever getting one	2	3

Source : IB survey data

The difference between the proportion of men and women who are interested in working again reflects the older age profile of the men – there is a large cohort of 60-64 year old men on incapacity benefits for which there is no equivalent group of women. Among the under 60s, the proportion of men and women expressing an interest in working again is much the same. The key observation, however, is the low proportion who would like a job now or in the future. In effect, the data is telling us that more than two-thirds of all IB claimants have no interest in working again. This proportion varies a little according to the medical basis of the claim – 67 per cent

of men with mental or behavioural problems, for example, have no interest in working again, compared to 82 per cent of those with musculoskeletal problems. But overall it is the labour market disengagement of such a high proportion of IB claimants that is most striking.

The third line in Table 6 shows the proportion that looked for work after their last job ended. 18 per cent of men fall into this group, but just 11 per cent of women. The difference here almost certainly reflects the 8 per cent of women who left their last job to have a baby (Table 2 earlier). The individuals who did look for work when their last job ended were clearly not resigned, at least at the outset, to a life on incapacity benefits.

The fourth line shows the proportion who say they are presently looking for work – just 4 per cent. It should be noted here that unlike Jobseeker’s Allowance for the unemployed, Incapacity Benefit does not require the claimant to look for work, and most do not do so. Indeed, there are often fears among IB claimants that to be seen to look for work would bring their status as an IB claimant into question. The fifth and final line of the table refers to the proportion of all IB claimants who are presently looking for work and think there’s a realistic chance of getting a job. Very few IB claimants, male or female, fall into this category.

**Table 7: Main reasons for not wanting a job**

	<b>Women (%)</b>	<b>Men (%)</b>
Health not good enough	93	93
Too much uncertainty	5	5
Children to look after	3	0.4
Family responsibilities	2	1
Decided to retire permanently	2	5
No suitable jobs	1	2
Would be no better off	0.6	0.5
Don’t need the money	0.4	0.5
Other reasons	2	3

NB columns do not add to 100 because some people give more than one reason  
Source : IB survey data

Table 7 shows the main reasons given for not wanting a job. Poor health dominates the responses, for both men and women. By comparison other factors, including childcare and other family responsibilities, figure very little. 'Too much uncertainty' does however come a poor second in this list of reasons, reflecting perhaps the security that at least some claimants feel that incapacity benefits are able to offer them – a point that emerges strongly from in-depth interviews with claimants (Beatty et al 2009).

Table 8 lists the obstacles to finding work cited by the men and women who say they would like a job or might like a job in future. Ill health, injury or disability, mentioned by more than nine-out-of-ten, dominates this list. There is clearly a major issue here. Whatever the objective reality of men and women's health, or indeed the true opportunities in the labour market, the *perception* has unquestionably taken root even among those closest to the labour market that their health or disability is a stumbling block to employment.

**Table 8: Obstacles to finding work**

	Women (%)	Men (%)
Ill health, injury, disability	91	93
Qualifications, skills, experience	10	8
Not enough suitable jobs	9	8
Childcare arrangements	9	1
Lack of confidence	8	5
Age	6	11
Difficult to get to work	3	4
Lack of advice on benefits/options	2	2
Other domestic/caring responsibilities	2	1
Other various obstacles	1	3
'No obstacles'	3	2

NB individuals could cite more than one obstacle so columns do not add to 100

Source : IB survey data

Finally, for those who express an interest in working again, Table 9 presents the responses to the question ‘What do you think potential employers would think about you?’ Hardly any men or women are confident that an employer would think them ‘a pretty good bet’ or ‘worth a try’. Once more it is ill health or disability that is by far the dominating concern. More than half think they would be viewed as ‘too ill or disabled’. A further sizeable group think they would be seen as ‘too big a risk’, no doubt in most cases because of their health problems or disabilities.

**Table 9: ‘What do you think potential employers would think about you?’**

	<b>Women (%)</b>	<b>Men(%)</b>
A pretty good bet/worth a try	8	6
Too ill or disabled	53	56
Too big a risk	21	27
Too little experience	10	7
Too poorly qualified	9	6
Too old	8	11
Too highly qualified/skilled/experienced	1	2
Don’t know	21	21

NB columns do not add to 100 because women could give more than one answer  
Source : IB survey data

The survey data therefore provides compelling evidence that health problems and disabilities are central to an understanding of incapacity claims. In summary:

- Injury or illness is the principal reason for job loss in at least 70 per cent of cases
- Claimants mostly see their health problems or disabilities as worse now than when they were working
- Virtual all claimants see their health problems or disabilities as limiting the work they could do

- Far more claimants expect their health problems or disabilities to worsen rather than ease
- Ill health or disability is by far the most important reason for not wanting a job
- Ill health or disability is seen as by far the most important obstacle to finding work, even by those who would like to work again
- Many IB claimants who would like work think that potential employers would see them as too ill or disabled

To underline the extent to which ill health or disability is a powerful factor detaching IB claimants from the labour market, Table 10 presents the results of a logistic regression analysis using the survey data. The dependent variable in this analysis is the likelihood of an IB claimant saying that they would like a job or might like one in the future. The factors assessed as potentially relating to wanting to work are age, qualifications, duration on incapacity benefits, health and whether or not the individual also claims Disability Living Allowance (DLA) a top-up benefit paid to more than a million IB claimants with mobility or care problems.

For those unfamiliar with logistic regression, the key statistic is the 'odds ratio'. This expresses the strength and direction of any given factor's association with the dependent variable (in this case an interest taking up employment). Each odds ratio is expressed relative to a base line (eg for age, relative to the 16-34 year old group). An odds ratio of 0.50, for example, in this context indicates that an interest in taking up employment is half as likely in comparison to the base line. The statistical significance of each odds ratio is also calculated. A significance of less than 0.05 indicates that the variable is statistically significant at a confidence level of more than 95 per cent. Logistic regression measures the strength of association of each factor *simultaneously*, in other words taking all the other factors into account at the same time.

Table 10 shows that age, qualifications and duration on benefit are all statistically significant factors related to the likelihood that an IB claimant wants a job. The older

**Table 10: Logistic regression of factors explaining variance in whether IB claimants would like a job now or in the future**

	Odds ratio	Significance
<b>AGE</b>		
16-34	1.00	0.000
35-49	0.63	0.001
50+	0.20	0.000
<b>FORMAL QUALIFICATIONS</b>		
Yes	1.00	0.000
None	0.60	0.000
<b>DURATION ON INCAPACITY BENEFITS</b>		
Less than 2 years	1.00	0.000
2-5 years	0.72	0.016
5-10 years	0.42	0.000
10 years or more	0.36	0.000
<b>SELF-ASSESSED HEALTH</b>		
No/some limitation	1.00	0.000
A lot of limitation	0.42	0.000
Can't do any work	0.13	0.000
<b>DLA CLAIMANT</b>		
No	1.00	0.000
Yes	0.63	0.000

Source : IB survey data

a claimant, the poorer their qualifications and the longer their duration on IB, the less likely they are to be interested in working again.

But over and above these factors, the logistic regression shows that self-assessed health is also an important and statistically significant factor. Claimants who say they 'can't do any work' are 87 per cent less likely to want a job than those who report no limitation or only 'some' limitation. Claimants reporting 'a lot of limitation' are also 58 per cent less likely to want a job than those with no/some limitation.

In addition, the analysis shows that, over and above the other factors, being a DLA claimant is a statistically significant factor associated with the likelihood of wanting work – DLA claimants are 37 per cent less likely to want a job. This may reflect the additional financial cushion provided by DLA, which may reduce the incentive to return to work. It may however indicate that even over and above self-assessed

health, the particular health problems and disabilities of DLA claimants add a further obstacle to re-engagement with the labour market.

### **Reconciling health and labour market issues**

We face two apparently contradictory perspectives on the high numbers claiming incapacity benefits in the UK. On the one hand, the aggregate statistics on the increase through time and on the location of claimants around the country point firmly to a *labour market* explanation. On the other hand, the survey evidence points unequivocally to *health* issues as lying at the core of why individuals have fallen out of employment and then become thoroughly marginalized from the world of work. Can these competing perspectives be reconciled?

The starting point has to be the underlying weakness of the local economy in the areas – principally older industrial Britain - where IB claimants are concentrated. These areas were all, to a greater or lesser extent, badly affected by job losses in the 1980s and early 1990s. The long economic recovery from the mid 1990s onwards helped plug the gap, but never completely. In these circumstances there have never been quite enough jobs – especially reasonably well-paid jobs – to go around. With a continuing imbalance in the local labour market, with the local demand for labour still running behind the potential local labour supply, it was therefore inevitable that some individuals would be squeezed out.

In the first instance it was often the newly redundant industrial workers themselves – the ex-miners and ex-steelworkers for example – who were squeezed out. Many of them accessed incapacity 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 claiming incapacity benefits. As time has passed, they have either found work again (in the case of the younger and more dynamic claimants) or dropped off incapacity benefits onto a state pension.

More recently, in a competitive labour market it has been those who are least able or least willing to keep a foothold in the labour market that have been marginalized in the places where there have never been enough jobs for everyone. 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.

As a result, the composition of the UK's stock of incapacity claimants has changed quite radically over the last decade, even though the headline total has changed relatively little. In Barrow-in-Furness in the North West of England, a shipbuilding town hit by job losses, two comparable surveys of male B claimants in 1999 and 2006/7 found that the redundant, craft-trained shipyard worker with a strong residual desire to return to work had by 2007 been almost entirely replaced by the low-skill, poorly qualified worker who had dropped out of their last job for health reasons and was now disenchanted with the idea of ever returning to work (Beatty and Fothergill 2007).

For the men and women excluded from employment in this way, Incapacity Benefit continues to offer a more satisfactory way forward than Jobseeker's Allowance. In most circumstances Incapacity Benefit is more generous and there is 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. Those who are excluded from employment and have health problems or disabilities will normally be entitled to IB and will almost always therefore claim IB in preference to JSA.

Added to this, the effect of lengthening durations on incapacity benefits saps the enthusiasm of many to re-engage with the labour market. Long-term IB claimants adjust their lifestyle and aspirations to fit with the diminished job opportunities they perceive as available to them, lowering their standards of consumption to fit with on-going benefit dependency. Their 'fitness to work' often declines as dependency 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 incapacity benefits are anything less than real, or that the older industrial areas where incapacity claimant rates are highest do not have higher underlying levels of ill health. What seems to be happening is that in areas where there is a surplus of labour, employers have less incentive to hold on to staff in poor health, for example by moving them on to lighter duties. In these places staff can always be replaced, so the individual may be less likely to be supported in trying to

maintain their job. Equally, once an individual has lost their job because of ill health or disability, in a difficult local labour market they are less likely to find a way back into work. Employers have the option of taking on the fit and healthy instead – and the men and women on IB know that is how the labour market works. In a weaker labour market, even a modest degree of ill health or disability is likely to prejudice an individual's chances of gaining and holding down employment. Bear in mind too that given the low-skill, manual background of so many IB claimants, the jobs for which they might compete often require a degree of physical robustness and a mental resilience to cope with mundane and repetitive tasks.

So even though ill health or disability is rarely an absolute obstacle to all employment in all circumstances, even in the eyes of IB 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. Bearing in mind their official status as an 'Incapacity Benefit claimant', it is perhaps hardly surprising that for many individuals their health or disability therefore becomes part of their identity and, in their view, an explanation for their exclusion from the labour market.

In other words, the UK's very high incapacity claimant numbers are an issue of jobs *and* of health. Where there are plenty of jobs available – a situation that characterised much of southern England up until the 2008 recession – large numbers of men and women with health problems or disabilities do not hang around on incapacity benefits. They either stay in work or, if they lose their job, find new work again. In these places only the men and women with the most challenging physical or mental obstacles to employment remain on incapacity benefits. Where labour supply continues to exceed labour demand, as in so much of older industrial Britain, ill health or disability acts as one of the great discriminators in determining who works and who doesn't. In these places, if an individual has not only poor health but also poor qualifications and low-grade manual work experience, and is perhaps over 50, their chances in a competitive labour market are slim indeed.

### **Policy implications**

In the UK – the focus of the empirical material presented here – a reduction in incapacity numbers has emerged as a key objective of welfare reform. It once suited almost everyone to turn a blind eye to the scale of the issue. The government liked

incapacity benefits because they hid the true scale of joblessness, employers liked them because they were freed from an obligation to take on workers in poor health, and claimants liked them because, as long as they were going to be jobless, they might as well be on the most generous benefit. The target reduction of one million in the number of incapacity claimants by 2016 shatters the cosy consensus.

What the evidence in this paper shows is that bringing down incapacity benefit numbers requires a focus on jobs but also on health. A growing economy, with rising employment, is arguably a prerequisite for lower incapacity numbers – unless, that is, the numbers are to be cut simply by making medical tests tougher. The evidence shows that in the parts of Britain where the economy is strong enough for long enough, it is possible to achieve incapacity claimant rates far below those currently prevailing in many parts of the country.

But the evidence also shows that the existing stock of incapacity claimants are unlikely to be moved quickly back towards the labour market, even in favourable economic circumstances. Their problems are multiple and entrenched and, crucially, include their poor health or disability. It is not at all clear that the Department for Work and Pensions (DWP), which manages benefit claimants and jobseekers, has recognised the importance of this last point. Routing incapacity claimants towards physical and mental rehabilitation services is only one of the options within the Pathways to Work programme. If the survey evidence is any guide, perhaps the majority of incapacity claimants will require help of this kind. Moreover, as Pathways has been rolled out to the country as a whole the condition management programmes are increasingly being delivered not by the National Health Service but by private sector contractors who lack the same formidable professional expertise, resources and credibility with clients. This is a retrograde step.

Matters look set to come to a head when the DWP begins to call in existing Incapacity Benefit claimants for re-evaluation and transfer to Employment and Support Allowance, from October 2010 onwards. So far, welfare reform has focussed on *new* incapacity claimants, who are mostly a younger, fitter and better-motivated group than the longer-standing stock of claimants. DWP looks set to learn that it will not make much progress with the existing stock of claimants unless it addresses their health problems alongside all other obstacles to returning to work. Whether it has earmarked the substantial resources to do so looks highly questionable.

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