

The UK's Welfare Reform

Thank you all for coming. I would like to start today by thanking the Konrad-Adenauer-Stiftung for hosting this event. And my particular thanks to both Nico Lange and Professor Klaus Zimmerman for their contributions today.

It is a pleasure to be here in Berlin.

The recent European Parliament elections have sent a shockwave throughout much of Europe and given us all food for thought.

In fact, over the last couple of years, I have visited and spoken to a large number of my counterparts from many countries about our concerns over the reform of the EU and our belief these concerns should be shared.

Yet in all my discussions I have been left with the feeling that whilst often sympathetic, most implied that these were just British issues.

I wonder if today, in the aftermath of the rise of anti-EU sentiment so clearly shown through the ballot box, I might be so bold as to say that I don't think they are 'just British' now.

Indeed, I believe recent events have underscored the importance of dialogue and engagement between our two countries.

I have always found that we both have so much to share and learn from each other. That is why I sincerely hope there is still a space for a measured discussion and the productive exchange of ideas.

Particularly when it comes to my area of responsibility – the welfare state – I have always felt that there is much both Britain and Germany have done to reform our systems, which is leading the way.

A decade after the Hartz reforms which radically remodelled the German social security system, now it is Britain undertaking the most extensive welfare reforms for a generation.

The principles behind those reforms, and their importance, is the topic of my speech today.

Welfare reform

I would like to start by outlining the backdrop to what we are doing.

Whilst others in Europe continue to face tough economic times, it is a testament to decisive Government action in both our countries, that Britain and Germany can now welcome a more positive outlook.

In the UK, following the worst recession in living memory – slashing 7.2% off our economy and costing 750,000 people their jobs – the resurgence in our country's fortunes has been striking.

We heard gloomy forecasts of a million jobs disappearing from the private sector... mass unemployment... lost generations.

They could not have proved more wrong.

Our economic recovery is now established... and, in particular, our labour market has rebounded faster and stronger than many thought possible.

Like Germany, we now have record employment:

Well over half a million more people in work than at the pre-recession peak... a slightly lower employment rate in the UK than here – 72.7% against 73.7% – but having

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increased faster over the last year than Germany, France, and the EU as a whole.

On unemployment too, the UK has done better over the last year than the EU and G7 averages, and the United States – having fallen to 6.8%, a 5-year low.

And – less known – we also have falling numbers of people absent from the labour market... falling long-term unemployment... and perhaps most importantly of all, falling numbers of workless households.

Social recovery

In looking to explain the UK's resilience, there is much to be said of the labour market reforms that took place under Mrs Thatcher – freeing up the labour market and ensuring flexibility, even to this day...

... particularly in contrast to rigid and uncompetitive markets that continue to plague some of our neighbours in Europe.

Yet, I believe there is even more to this recovery than economics alone.

On entering office in 2010, I was not only determined to get Britain back to work, but more than that: I was determined that economic reform should be matched by social reform...

... taking action, not only to rebuild our finances, but also to restore our nation's greatest asset – that is, the British people.

Legacy

Too often in the past, when Britain recovered from an economic crash, the poorest were left behind.

I was determined that would not happen here.

At its peak under the last Government, 5 million people were sitting on out of work benefits – by the last election, 1 million of them had been stuck there for a decade or more.

Nearly a quarter of the UK's working age population was economically inactive.

Nearly 1 in 5 households were workless, leaving almost 2 million children living in homes without work.

Crucially, this worklessness and dependency was not just a product of the recession.

Even when growth was booming, a persistent and sizeable group of people remained inactive – having dropped out of the labour force altogether – neither in work nor looking for work, even when jobs were available.

Broken system

In too many cases, it was the welfare system which trapped people in dependency in the first place.

Through its fiendish complexity... a myriad of different benefits, credits and top-ups... some paid in work, some out of work... withdrawn at different rates, some net, some gross...

... the very safety net that was intended to help people, had instead become a cage.

The system undermined the financial incentive to go to work... it simply wasn't worthwhile doing so.

This was then compounded by a lack of conditionality which allowed individuals to sit on benefits unchallenged.

As a result, for too many welfare became a way of life.

Dependence to independence

Surely common sense should tell us that Britain cannot run a modern flexible economy, if at the same time, so many of the people who service that economy are trapped in dependency on the state.

That is why I knew that welfare reform needed to play a vital part in Britain's recovery: a stable economy matched by a

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strong society where people are ready and capable of work.

'Reform', often overused, is in reality about the renewal of a principled welfare state.

Restoring fairness and integrity, lost for too long.

And in doing so, restoring the incentive for individuals to make positive choices for themselves...

... to take greater responsibility for themselves and their family...

... and to regain control over for their futures, and pride in their endeavours.

Even for the most disadvantaged individuals and families... for disabled people who the system should always rightly support... welfare must be about more than sustainment alone.

It must be about helping people to move onwards and upwards – a journey from dependence to independence.

Welfare reform

In Government, the challenge has been to act on this ambition and make changes to restore a creaking and chaotic welfare state into one which delivers on that vision for life change.

Let me explain.

This guiding principle underpins the welfare reforms we are driving through now: the welfare system should be fair to those on benefits and to the taxpayers who fund it... both rewarding the right choices and removing the stumbling blocks in people's way.

I am not going to list all the changes we are making, but I want to illustrate what I mean by way of some examples.

First and foremost, Universal Credit – one of the most fundamental reforms to the welfare state in a lifetime.

This is about simplifying the system, rolling 6 out of work benefits and tax credits into a single, simple payment – with differing income allowances for single parents, disabled people and so forth – these benefits are then withdrawn at a constant rate so that it always pays to work.

Its simplicity means that everyone will be able to work out what each hour of work is worth to them.

Furthermore, paid monthly, online, and directly into claimants' bank accounts, the new benefit is both simpler to administer and to claim.

But more than that, Universal Credit is also about transforming the whole culture of what it means to be out of work.

As part of it, we are requiring that every individual signs a claimant commitment – deliberately set to mimic a contract of employment, setting out what individuals must do in return for state support.

This is the best example I can give of a real cultural change.

A piece of paper – yet the claimant commitment introduces the idea that although on benefits, you still have a job.

The job is to get back into work – 'in work to find work'.

Thus in the process, Universal Credit aligns what it means to be unemployed with the experience of being in a job, as well as bringing the benefits system up to date with our modern, flexible economy – rewarding part-time work and mini jobs, better enabling people to juggle their family and working lives.

Universal Credit is now being rolled out and by the time implementation is complete, over 3 million people will be better off – with the poorest the biggest gainers, and many hundreds of thousands lifted out of poverty.

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Together with the Work Programme – the largest payment by results employment programme the UK has ever seen – this is about providing meaningful, intensive support to get even the hardest to help into work.

Conditionality

Universal Credit and the Work Programme go hand in hand. Together they act as the 'pull' into work – encouraging, incentivising and supporting individuals.

Yet at the same time, the process of moving individuals from dependence to independence requires a 'push'.

This is what we in the UK call conditionality: just as those in work have obligations to their employer, so claimants have a responsibility to the taxpayer. In return for support, and where they are able, they must do their bit to find work.

Our reforms make this deal unequivocal.

We are requiring individuals to do all they can to get work-ready even before they start claiming state support – making sure they have a current resume and sign up to our online job matching service.

Once on benefit, more stringent expectations then require jobseekers to do all they can to get a job.

Half will now be required to attend the jobcentre every week, rather than once a fortnight as currently... increasing to daily attendance for some of the longest unemployed.

And new programmes will also require claimants to undertake full-time community work placements and supervised full-time jobsearching.

All this will be backed up by increased support – no one will be overlooked or left without help... but we are saying to everyone that there is no longer any opt-out from a tough regime.

If individuals fail to meet their requirements without good reason, they must face the consequences... with a robust set of sanctions that mean for the most serious offences, they lose their benefit for 3 months for the first time, 6 months for the second and 3 years for the third.

Success so far

I make no secret of the fact that this is challenging... for it involves a complete cultural upheaval for those within the welfare system... but already, it is working.

In Britain, labour inactivity is now at its lowest on record excluding those in education, down by half a million since 2010...

... reflected in falling numbers claiming the main out of work benefits – down nearly 700,000.

We now have a lower proportion of workless households than at any time on record, down 450,000 on the latest figures.

In response to those who were puzzled by our record rise in employment and such a strong fall in unemployment, it was the Bank of England which said:

"a tightening in the eligibility requirements for some state benefits might also have led to an intensification of job search."

As the economy improves, this is where the real effect of our reforms is felt:

British people reengaging with the workforce and regaining the opportunity to access the jobs being created...

... ensuring everyone who is able can play a part and realise their potential.

Fairness

Yet there is still one final issue we must confront.

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Fairness – a principle lacking for far too long in the UK's welfare system.

Under the set-up we inherited, under which it was actually possible for certain families to claim over €100,00 a year in benefits to cover incredibly high housing costs... contributing to an overall welfare bill that cost around €250 billion in 2010 – have risen by 60% in 13 years under the last Government.

This kind of a system isn't fair on hardworking taxpayers, paying out ever increasing amounts to sustain others in lifestyles they could barely dream of affording themselves.

Nor is it fair on benefit recipients themselves, trapped in system where it pays more to sit on benefits than to work.

That is why in the UK we have capped the amount a household can receive in benefits overall – at the level of average earnings after tax and national insurance.

These changes mean families face the same choices about where they live and what they can afford, regardless of whether they are on benefits or in work.

What's more, because those claiming in-work credits are exempt from the benefit cap, we have ended the perverse incentive to remain on welfare as a way of life.

To date, over 15,000 people who had their benefits capped, have since moved into work...

... for each one of them, a powerful step in the right direction.

Access to benefits

We have ended the something-for-nothing culture for those already living in Britain...

... but this balance between give and take will only be fair if it applies equally to all.

So, equally, I believe it is only fair and reasonable to say to those coming into our

country: if you haven't made a contribution, you shouldn't be able to claim.

That is why we have also had to reform the way our benefits system works for those arriving on our shores.

Here too the same principle of fairness must apply.

For those migrants who do come here, we're ensuring our benefit system is no longer an easy target for abuse...

... limiting access, to prevent migrants from taking unfair advantage of our system by accessing benefits as soon as they arrive.

We have banned new migrants from claiming Housing Benefits altogether...

.... and stopped them from getting jobseeking or family benefits until they have been living in the UK for at least 3 months.

Now entry to the benefits system is also policed by a tougher habitual residence test – including a new provision that requires migrants without work to prove they can speak English and that they will be able to get a job in order to claim...

... followed by entitlement to jobseeking benefits that ends after 6 months unless the person has genuine prospects of finding work.

We have also clamped down on those trying to manipulate the tax credits system... for too long a source of income for those in bogus jobs or falsely declaring themselves self-employed.

Now, until those who come here start paying National Insurance contributions, individuals must prove to us that they are working in a real job.

Together, these new immigration and benefit checks will clamp down on those trying to exploit the system...

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... ensuring that Britain's growing economy and dynamic jobs market deliver for those who work hard and play by the rules.

As we reshape our economy, and revitalise the entrepreneurial spirit that our great nation has always shown, we cannot shut the door on the rest of the world.

But those who come here should know that we will not compromise when it comes to protecting the principles on which our welfare state is based.

We must do right by those born here, living here and working here, whose contributions fund the system. That is only fair.

Europe

It is this context that we should frame the further action that Britain and other Member States want to take in order to protect the integrity of their welfare states.

This is not just about a better deal for Britain.

As our Prime Minister has said, with urgency and frankness, Britain strongly believes that the European Union must change – both to deliver prosperity and to retain the support of its peoples.

So it is about a better deal for Europe too.

Ours is a positive vision for the future of the European Union... in which Britain wants, and should want, to play a committed and active part.

Yet currently, it is no secret that when it comes to welfare – in Britain, and I think elsewhere in Europe – interference from the European Union is often seen as unwarranted and unwanted.

This is especially so when the European Commission wrongly cites the freedom of movement directive as a justification for interfering with our national welfare system...

... telling us we will have to pay benefits to anyone who comes here from Europe, regardless of their circumstances... and that to do otherwise is, in the Commissioner's words, akin to "xenophobia". This is almost always followed by the threat to infract us.

I have long believed that freedom of movement must be about work.

But alongside that it must be clear that Nation States run their own national welfare arrangements, and the UK is not prepared to change that.

Yet this is not just a British concern – the German authorities have also been defending their welfare system in the European Court recently and I am pleased that so far, indications are that your approach will be upheld.

But we cannot lurch from one court case to another – this is not a sustainable way to run our systems and the constant stream of legal challenges points to an underlying problem in the way the EU is operating.

Space for change

We need to resolve these disagreements in a more comprehensive way, updating the rules to reflect the realities of today's European Union...

... which we have to accept is very different to the European Community of 50 years ago.

Our Prime Minister has already emphasised the importance of returning the principle of free movement to a sensible basis, as it was first envisaged – making clear it cannot be a completely unqualified right.

And as your Chancellor has said, the EU is not a "social union and there cannot be de facto immigration into other EU social systems.

That is why we need a reasonable discussion about what more countries can do to protect the integrity of their national welfare arrangements.

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In Britain, we do want to go further – the right to say to migrants that we require a much longer record of commitment before you get benefits...

... and shortening the duration of any benefit claim that is allowed...

... as well as looking again at the absurdity of paying family benefits to workers who have moved country, yet whose children remain back at home, at a rate that bears little relation to the level of benefits in the country where the children actually live.

This may have made sense when the EU was small collection of countries with a similar cost of living and GDP. Now, however, it is not sustainable.

Thus all members should accept that we, and indeed all Member States, may want to make changes that safeguard our interests and strengthen democratic legitimacy.

We should be able to make these changes too.

For if we fail to do so...

... if we fail to change, if we fail to heed the message from those who are clearly deeply disillusioned with the EU...

... then we run the risk of damaging the reputation of free movement altogether.

Conclusion

Such reform will not be achieved overnight.

But for too long, politicians of all hues have focused on the short-term...

... chasing quick wins, or pandering to immediate interests.

Nowhere has that destructive process been more evident than in Britain's welfare system.

For us at home, instead of leaving one section of our society trapped in dependency, unable to make the positive

choices that would free them and their children from the welfare net...

... now is the time to face those challenges head on.

Our purpose must be to release people from the trap and so that they can break free from dependency, participating equally as our economy improves.

All across Europe, we must give back to those on the margins the freedom to choose and the opportunity to transform their own lives...

... offering the hope of a more productive society and a more cohesive one...

... now and for generations to come.