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SOCIAL ASSISTANCE AND THE MEASUREMENT OF MINIMUM COST OF LIVING IN THE UNITED KINGDOM

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Brief history of the development of social assistance in the United Kingdom

The social assistance scheme in the UK dates from the Beveridge Report 1942. The Beveridge plan was that, in return for flat rate insurance contributions throughout working life, people would receive flat rate benefits to cover interruptions of employment and retirement. This insurance system would be supported by a system of family allowances payable for each child, a National Health Service free at the point of use, full employment - and, as a safety net, there would be means-tested social assistance, paid for out of general taxation, providing a minimum income for those who fell through the insurance net.

This Minimum Income Scheme was called National Assistance and started in 1948. It was renamed Supplementary Benefit in 1966 and Income Support in 1988. Retirement pensioners' Income Support became Minimum Income Guarantee in 1999 and then Pension Credit in 2003. Income Support for unemployed people became income based Job Seeker's Allowance in 1996. The child and family related elements of Income Support have progressively been replaced by the phasing in of Child Tax Credit, although this is not yet complete for existing claimants. In October 2008, new claims for Income Support for those considered incapable of work ended, and were replaced by claims for 'Employment and Support Allowance'.

Despite all these changes in name, the main elements of the scheme for out-of work benefits have remained the same. However, means-tested benefits have also been extended to supplement in-work incomes. Some low-paid workers, and some of those with a low income and an earner in the family, can claim Working Tax Credit and Housing Benefit and Council Tax Benefit, and families with children can also receive

Child Tax Credit. These cash benefits and tax credits, together with the statutory minimum wage, in principle provide a minimum income guarantee for some groups.

Minimum incomes for both the in and out of work are guaranteed by a complex combination of benefits and other support. These benefits together provide a minimum income for claimants, which varies dependent on their different circumstances (such as their age, family, and whether they have a disability), and their resources (including earnings and savings). As such, households are treated as a benefit unit for the purposes of means-tested benefits.

Essentials of the Program

Income Support (IS) is a benefit paid to support people on a low income who are not in full-time employment (working 16+ hours per week) and who do not have to be 'available for and actively seeking work' (CPAG, 2008, p.291), such as lone parents with young children.

Maximum IS rates differ for people in different circumstances (for instance, how old you are, whether you are part of a couple etc.); the eligible rate for a claimant is known as their 'applicable amount'. Above very low earnings limits (between £5 and £20 per week), IS tapers away at a rate of 100% of additional earnings. Income from other sources, and savings or other capital, may also reduce the amount of IS a claimant is entitled to.

Means-tested (Income Based) Job Seekers Allowance

Means-tested Job Seekers Allowance (JSA) is similar to Income Support, also being a benefit to support working age people on a low income who are not in full-time employment. However, unlike IS, they must be available for, and actively seeking, full-time work (work of 16 hours per week or more, depending on category of claimant).

As with IS, maximum JSA rates depend on a claimant's applicable amount. Above very low earnings limits (between £5 and £20 per week), JSA tapers away at a rate of 100% of additional earnings. Income from other sources, and savings or other capital may also reduce the amount of means-tested JSA a claimant is entitled to.

Income based Employment and Support Allowance

For new claims from October 2008, instead of applying for IS on account of illness or disability, working age claimants must apply for means-tested Employment and Support Allowance (ESA) if they are unable to work due to being incapacitated (and do not have the National Insurance contributions record necessary to claim contribution based ESA and are not entitled to statutory sick pay). Income based ESA can also be claimed as a top-up to contribution based ESA.

As with IS, income based ESA rates depend on a claimant's applicable amount. After 13 weeks of receipt of income based ESA (known as the 'assessment phase'), the claimant's applicable amount will increase, since they will either receive the 'work related activity' component (if they are deemed to be capable of work related activities and comply with certain work related activity requirements) or the 'support' component (if they are deemed to be incapable of work related activity.)

In general you cannot work and be incapable of work at the same time (CPAG, 2008, p.662). However, recipients of ESA can do a certain amount of 'permitted work' without reductions in their ESA. For up to 52 weeks (or longer in some circumstances), ESA recipients can earn up to £92 per week from 'permitted work'. Income from other sources, and savings or other capital, may reduce the amount of income based ESA a claimant is entitled to.

People who have care needs as a result of a disability may be entitled to Disability Living Allowance (DLA) or Attendance Allowance (AA), which are both non-means-tested benefits to help with the additional costs of living with a disability. Those eligible for DLA may also be entitled to help with mobility needs. These benefits do not count as income for the purposes of means-tested benefits and actually in some situations increase the applicable amount.

Pension Credit 'guarantee credit'

Pension Credit 'guarantee credit' is a benefit for low-income people aged 60 and over. The 'guarantee credit' provides a minimum income guarantee which again depends on an individual's circumstances (such as whether you are single or part of a couple, and whether you have a disability, or caring responsibilities). The guarantee credit tops a claimant's income up to this minimum guarantee, meaning that there is effectively a 100% taper on any (non-disregarded) income. Savings and other capital may also reduce the amount of credit a claimant is entitled to. However, if a claimant is aged 65

or over, then they may be entitled to some 'savings credit' (to help those who have saved small amounts and otherwise might be excluded from the scheme) even if their income is too high to be eligible for the guarantee credit.

Housing Benefit

Housing Benefit (HB) is paid to low income people who rent, to help them with their housing costs (help with housing costs for people who own their home may be available through IS or means-tested JSA or means-tested ESA - notably, this means that you cannot get help with mortgage costs if you are in work, despite being able to get HB whilst in work).

The maximum amount of HB a claimant is entitled to (the most they could receive prior to means testing) will depend on factors including the claimant's age, the size of their family, where they live - and the amount of rent that they actually pay, since HB will not be paid at a rate higher than the actual cost of your accommodation (or not more than £15 per week more than the cost of your accommodation if the new local housing allowance rules apply). People with larger families, in areas of the country with higher rental prices, will typically be eligible for a higher allowance to help with housing costs than smaller families in areas of the country with lower housing costs.

IS, means-tested JSA, income based ESA and Pension Credit (Guarantee Credit) automatically 'passport' claimants to full HB. If a claimant is not passported in this way then their HB is means tested. In these cases, for income above low earnings limits, HB tapers away at a rate of 65% gross.

Childcare costs are disregarded as earnings for the purposes of calculating a claimant's entitlement to both HB and CTB, meaning that for working recipients of HB and CTB these benefits may effectively help subsidise childcare costs.

Council Tax Benefit

Council Tax Benefit (CTB) is paid to low income people who are liable for council tax (local taxation), to help them with their Council Tax bill.

IS, means-tested JSA, income based ESA, and Pension Credit (guarantee credit) automatically 'passport' claimants to full CTB. If a claimant is not passported in this way then their CTB is means tested. In these cases, for income above low earnings

limits, CTB tapers away at a rate of 20% gross.

Tax Credits

'Tax Credits' are comprised of two parts: Child Tax Credit (CTC) and Working Tax Credit (WTC). CTC is payable to households responsible for a child or qualifying young person, whether or not anyone in the household is in paid work. WTC is payable to households with somebody in work of 16+ or 30+ hours per week (depending on circumstances), whether or not they are responsible for a child. WTC also contains a childcare element which can provide help with up to 80% of childcare costs for up to £175 per week for one child or £300 for two or more children.

Both CTC and WTC are means-tested benefits. If you are eligible for both CTC and WTC, the income threshold is currently £6420 per year. Tax Credits are tapered at a rate of 39%, for earnings above this income threshold.

However, for just the 'family element' of CTC (£545 per year, or £1,090 per year if the household has a baby), a considerably higher threshold (£50,000 per year) also applies, meaning that families entitled to CTC can earn up to about £50,000 per year and still receive their maximum entitlement of the CTC family element.

Child Benefit

Child Benefit (CB) is a universal (neither contributory nor means-tested) benefit paid to people who are 'responsible for a child or qualifying young person' (CPAG, 2008, p. 56). As of January 2009, CB has been paid at a rate of £20 per week for the oldest child and £13.20 per week for each additional child.

Benefits in kind

People receiving social assistance and maximum child tax credit are entitled to exemption from charges for pharmaceutical prescriptions, dental and optical treatment and free school meals. In the UK the National Health Service provides health care free at the point of demand for all. Those receiving social assistance can apply for a grant or more usually a loan to the Social Fund to meet exceptional needs.

Minimum Wage

The national minimum wage is the lowest amount it is legal for an employer to pay an employee. - Standards and changes for choosing recipient and setting benefit level of

the schemes

Benefit Levels

How these benefits work together to comprise a claimant's 'minimum income' can be best seen through examples. As can be seen from the examples below, the minimum incomes of people vary significantly depending on their circumstances:

Table 1: Minimum income benefits for those out of work by claimant type and benefit¹

| <i>Claimant type</i> | <i>£ per week after housing costs</i> | <i>Breakdown of benefits received (in addition, claimants receive full Housing Benefit and Council Tax Benefit). Claimants will also receive some 'passported' benefits in all cases</i> |
|--|---------------------------------------|--|
| Single person aged 16-24 (entitled to income based JSA) ² | £50.95 | Income based JSA (single under 25 rate) - £50.95 |
| Single person aged 25+ | £64.30 | Income Based JSA (single over 25 rate) - £64.30 |
| Couple aged over 18 | £100.95 | Income Based JSA (couple over 18 rate) - £100.95 |

¹ Assumptions and notes:

1) Claimants are eligible to receive Housing Benefit and Council Tax Benefit (CTB). (Except that people under 18 cannot be liable for council tax (and therefore a single person aged under 18 or a couple both aged under 18 cannot receive CTB either).

2) In some cases the table does not specify whether the claimant is entitled to IS or income based JSA; this is where this depends upon unspecified circumstances.

3) Where claimants do not have children, it is assumed that they are not entitled to IS.

4) Children are assumed to be over the age of 1 and under 16.

² It should be noted that special rules for 16/17 year olds apply and entitlement to income based JSA is limited.

| | | |
|--|---------|--|
| Couple aged under 18 (and both entitled to Income based JSA) ³ | £76.90 | Income Based JSA (couple under 18 and both entitled to income based JSA rate) - £76.90 |
| Single person, in receipt of ESA for more than 13 weeks (and capable of work related activity) | £89.80 | Income Based ESA including work related activity component - £89.80 |
| Lone parent aged 18 ⁺ +1child | £137.71 | IS/Income Based JSA (LP 18 ⁺ rate) - £64.30 Child Tax Credit - £53.41 Child Benefit - £20 |
| Lone parent aged 18 ⁺ +2 children | £193.82 | IS/Income Based JSA (LP 18 ⁺ rate) - £64.30 Child Tax Credit - £96.32 Child Benefit - £33.20 |
| Couple aged 18 ⁺ +1 child | £174.36 | Income Based JSA (couple 18 ⁺ rate) - £100.95 Child Tax Credit - £53.41 Child Benefit - £20 |
| Couple aged 18 ⁺ +2 children | £230.47 | Income Based JSA (couple 18 ⁺ rate) - £100.95 Child Tax Credit - £96.32 Child Benefit - £33.20 |
| Couple aged 18 ⁺ +3 children | £286.58 | Income Based JSA (couple 18 ⁺ rate) - £100.95 Child Tax Credit - £139.23 Child Benefit - £46.40 |
| Single person (aged 60 ⁺) | £130.00 | Pension Credit (Guarantee) - £130 |
| Couple (aged 60 ⁺) | £198.45 | Pension Credit (Guarantee) - £198.45 |

³ See previous footnote.

Table 2: Minimum Incomes for those in work, by claimant type and income source⁴

| <i>Claimant type</i> | <i>£ per week after housing costs (assuming £60/wk rent and £18 council tax)</i> | <i>Income breakdown</i> |
|--|--|---|
| Single person aged 20, working 16 hours per week | £59.01 | Income (after tax and NI) - £76.32 Housing Benefit - £46.76 Council Tax single occupancy reduction - £4.50 Council Tax Benefit - £9.43 |
| Single Person aged 20, working 30 hours per week | £70.36 | Income (after tax and NI) - £135.68 Housing Benefit - £8.18 Council Tax single occupancy reduction - £4.50 Council Tax Benefit - £0 |
| Single person aged 25 ⁺ working 30 hours per week | £114.21 | Income (after tax and NI) - £155.56 Housing Benefit - £0 Council Tax single occupancy reduction - £4.50 Council Tax Benefit - £0 Working Tax Credit - £32.15 |
| Couple aged 25 ⁺ one working 30 hours per week | £145.41 | Income (after tax and NI)- £155.56 Housing Benefit- £0 Council Tax Benefit- £0 Working Tax Credit - £67.85 |

⁴ Assumptions: 1) Claimants assumed to be eligible for HB and CTB with no rent restrictions for HB. 2) No childcare costs in any cases. 3) In all cases, earnings were the same in previous financial year (08/09) as in current financial year (09/10). 4) No claimants (or children) have any disabilities. 5) In some cases, claimants may receive partial health benefits under the low income scheme (only passported health benefits are noted in the table).

| | | |
|--|---|--|
| Couple aged 25 ⁺ both working 30 hours per week | £233.93 | Income (after tax and NI) - £311.12 Housing Benefit - £0 Council Tax Benefit - £0 Working Tax Credit - £0.81 |
| Lone parent aged 22 ⁺ working 30 hours per week +1 child aged 2 | £223.32 + passported health benefits | Income (after tax and NI) - £155.56 Housing Benefit - £0 Council Tax single occupancy reduction - £4.50 Council Tax Benefit - £0 Working Tax Credit - £67.85 Child Tax Credit - £53.41 Child Benefit - £20 |
| Couple aged 22 ⁺ , one working 30 hours per week +1 child aged 2 | £218.82 + passported health benefits | Income (after tax and NI) - £155.56 Housing Benefit - £0 Council Tax Benefit - £0 Working Tax Credit - £67.85 Child Tax Credit - £53.41 Child Benefit - £20 |
| Couple aged 18 ⁺ one working 30 hours per week +3 children aged 2 or more | £331.04 + passported health benefits | Income (after tax and NI) - £155.56 Housing Benefit - £0 Council Tax Benefit - £0 Working Tax Credit - £67.85 Child Tax Credit - £139.23 Child Benefit - £46.40 |

The social assistance scheme in the UK is a national scheme, and all the rules apply to every country in the UK. Administrative responsibilities differ between different benefits:

- The Department for Work and Pensions (DWP) has overall responsibility for the administration of benefits including IS, ESA and JSA, as well as Pension Credit and the Social Fund .
- Every area has a local Jobcentre Plus which is staffed by civil servants and responsible for the day to day administration of claims and payments of IS, ESA and JSA.
- Pension Credit is administered by the Pension Service- an executive agency of

the DWP (CPAG, 2008, p.446)

- With regard to the discretionary Social Fund, fixed amounts are allocated by the Government to DWP districts and decisions are made by decision makers in local DWP offices (CPAG, 2008, p.485).
- Her Majesty's Revenue and Customs (HMRC) has responsibility for the administration of Tax Credits and Child Benefit.
- Housing Benefit and Council Tax Benefit are administered by local authorities (but DWP is responsible for policy).

There is an independent Social Security Advisory Committee which advises the Secretary of State on all benefit matters. It also has a Memorandum of Understanding with HMRC about Tax Credits. The House of Commons has a Work and Pensions Select Committee which establishes inquiries relating to the 'expenditure, administration and policy of the Department for Work and Pensions.'⁵ There is also a Treasury Select Committee, whose responsibilities include the examination of the expenditure, administration and policy of HMRC.⁶

Coverage

Beveridge intended that his social assistance scheme would be a residual safety net for those who fell through the national insurance system. However, it has been far from that. Income-related benefits were 34 per cent of all social security expenditure in 2007/8. This has increased from 13% of benefit expenditure in 1948/49.⁷ Roughly 4.8 million people received all or part of their income from IS, income based JSA and Pension Credit in 2007/8 - approaching 10 per cent of the population.

Income based JSA is the main source of income for unemployed people – 616,000 received it in 2007/8 compared with only 128,000 receiving contributory JSA.⁸ Many sick and disabled people receive all or part of their income from IS, in August 2008 around 1,118,000 people received IS on account of disability/incapacity.⁹ New

⁵ http://www.parliament.uk/parliamentary_committees/work_and_pensions_committee.cfm.

⁶ http://www.parliament.uk/parliamentary_committees/treasury_committee.cfm.

⁷ (see table below).

⁸ http://www.dwp.gov.uk/asd/asd4/medium_term.asp.

⁹ http://www.dwp.gov.uk/asd/asd1/stats_summary/Stats_Summary_Feb2009.pdf?x=1.

claims from October 2008 which would have been for IS on account of illness or disability are now for Employment and Support Allowance (ESA).

It is currently the main source of income for lone parents not in employment. In August 2008 around 745,000 Lone Parents received IS.¹⁰

In August 2008, 2.13 million claimants were receiving the Pension Credit guarantee credit (890,000 received only the guarantee credit, and 1.24 million received guarantee credit and some savings credit).¹¹

This is partly due to failures in the Beveridge scheme; partly due to failures in the implementation of the Beveridge proposals; and partly due to changes in labour demand in the last 60 years. We shall deal with each of these in turn.

Failures in the Beveridge scheme

The Beveridge scheme had three major flaws.

The first flaw was that Beveridge flunked the problem of housing costs. His insurance scheme provided a national system of benefits to cover all requirements including housing costs. Housing costs vary from place to place and, although Beveridge discussed how he was going to deal with this problem in a national system, he did not come up with a solution. Social assistance paid rent including rates (local taxes). This meant that many receiving flat rate insurance benefits found themselves with lower incomes than social assistance plus rent. They were thus eligible for a top up. Thus today social assistance is not a safety net to social insurance but the prop supporting the residual national insurance scheme (at least for those of working age).

The second flaw was that divorce and relationship breakdown were not made an insurable risk. Beveridge discussed the possibility of making divorce an insurable risk but, although his scheme made provision for widows, it did not cover other types of lone parents. Divorce was very rare in the 1940s, but by the 1970s it had begun to increase sharply, and together with other social changes means that today about one in four families with children is a lone parent family. The UK has never been very successful at getting lone parents into the labour market and so, with no insurance benefit to turn to, lone parents claimed social assistance.

¹⁰ http://www.dwp.gov.uk/asd/asd1/stats_summary/Stats_Summary_Feb2009.pdf.

¹¹ http://www.dwp.gov.uk/asd/asd1/stats_summary/Stats_Summary_Feb2009.pdf.

The third flaw was that Beveridge did not recognise civilian disability. His scheme covered those injured in war or at work with higher benefits, but those congenitally disabled or injured by non-work accidents were not covered. And these people, together with others who had not earned benefits by contributions but were incapable of paid work, had no specific benefit. Neither did those who had to give up work to care. They all had to have recourse to social assistance. Although successive governments tried to fill this gap with a new set of non-contributory, non-means-tested benefits, many still have to supplement these benefits with means-tested housing benefits and/or social assistance, in part because the non-contributory benefits had rates that were deliberately set lower than contributory benefit levels.

The second flaw was the Beveridge proposals were not all fully implemented. Beveridge envisaged that entitlement to benefits for pensioners would be built up over a period of time. However, the post-war government decided that it had to pay pensions to existing pensioners from the start of the scheme. As a result, the benefit rates that were paid were at a lower level than Beveridge had proposed and thus, with the addition of housing costs, many recipients of social insurance benefits became eligible for social assistance as a top up to their insurance benefits.

Also, Beveridge had proposed that Family Allowances should be paid for all children, but they were introduced only for the second and subsequent child in 1946. This meant that out-of-work benefits had to be constrained to prevent the net incomes of low wage earners with children being lower than the amount they would receive if they claimed out-of-work benefits.

The third flaw was that Beveridge assumed that Keynesian macro-economics would ensure full employment in the post war period. But from the mid 1960s unemployment began to rise, and in the early 1980s and again in the early 1990s there were over three million unemployed. The unemployment insurance system effectively collapsed under the strain and social assistance (income based JSA) is now the main recourse for unemployed people - and the only recourse for those out of work for more than six months.

The result is that means-tested benefits have been taking an increasing proportion of social security spending. It can be seen that in Table 3 means-tested benefits constituted

13 per cent of the benefits budget in 1948/49, but that by 2007/8 they constituted 34 per cent (if Tax Credits are taken into account).

Table 3: British benefit expenditure 1948/9-2007/8

| | <i>Percentages</i> | | | | | | | |
|--|--------------------|---------|---------|----------|----------|----------|-----------|-----------|
| | 1948/9 | 1958/9 | 1968/9 | 1978/9 | 1988/9 | 1998/9 | 2003/4 | 2007/8 |
| Contributory ¹² | 53 | 67 | 69 | 66 | 55 | 47 | 45 | 45 |
| Noncontributory, non income related ¹³ | 34 | 23 | 17 | 17 | 17 | 20 | 21 | 21 |
| Means-tested benefits ¹⁴ | 13 | 10 | 14 | 17 | 28 | 33 | 27 | 25 |
| Tax Credits ¹⁵ | | | | | | | 7 | 9 |
| Total income related | 13 | 10 | 14 | 17 | 28 | 33 | 34 | 34 |
| All benefit spending | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| (£000s) | (471) | (1,287) | (3,172) | (15,837) | (47,315) | (95,557) | (124,511) | (150,580) |

Adequacy

There are four ways of approaching the issue of adequacy:

How have benefit rates changed over time?

For social assistance, we do not have a consistent time series since 1948. However, in Table 4 we show what has happened to unemployment benefit over time. It has increased in real value by 75 per cent between 1948 and 2007. But in comparison with

¹² Retirement pension, widows benefits, sickness benefit, unemployment benefit, Job Seekers Allowance (contribution based), maternity benefits.

¹³ Family Allowance, Child Benefit, disability benefits, death grant etc. Child Benefit spending was excluded from the DWP series from 2003/4 as responsibility was transferred to HMRC. HC Supply Estimates give totals for Child Benefit and Child Trust Fund.

¹⁴ National Assistance, Supplementary Benefit, Income Support, Family Income Support, Family Credit, Pension Credit, Housing Benefit, Rate Rebate, Council Tax Benefit, Job Seekers Allowance (income based). Some DWP means-tested benefits are replaced by Tax Credits after 2003.

¹⁵ Working Families Tax Credit, Child Tax Credit, Working Tax Credit. (GB est.)

average earnings, it has more or less halved in value. Also in real terms it has not maintained its value since the mid 1980s. The reason for looking at the value of unemployment benefit is that it has been very similar to the level of social assistance (income based JSA) over time, and is now an identical amount.

The next row of the table shows what has happened to IS for a single person over 25 since 1989. It has maintained its value in comparison with prices but fallen in value compared with average earnings.

In contrast, families with children and pensioners on social assistance have both had substantial improvements in their real incomes since 1988/9 and have also maintained their incomes in comparison with average earnings.

Table 4: Benefit rates over time

| | <i>Real value £pw April 2007 prices</i> | | <i>Rate as a percentage of average earnings</i> |
|--|---|--|---|
| Unemployment benefit/JSA July 1948 November 1985 April 1989 April 2007 | £33.72 £65.21 £62.36 £59.15 | Unemployment benefit/JSA September 1971 April 2007 | 20.9 10.8 |
| Income Support (single person aged over 25) April 1989 April 2001 April 2007 | £58.66 £59.77 £59.15 | Income Support (single person aged over 25) April 1989 April 2007 | 14.6 10.8 |
| Minimum Income benefits for couple with two children aged under 11 April 1989 April 2007 | £142.53 £204.13 | Minimum Income benefits for couple with two children aged under 11 April 1989 April 2007 | 35.4 37.1 |

| | | | |
|--|---------|--|------|
| Pension Credit (and predecessors) for single person aged 60-74 | | Pension Credit (and predecessors) single person aged 60-74 | |
| April 1988 | £77.99 | April 1988 | 20.2 |
| April 2007 | £119.05 | April 2007 | 21.7 |

These changes in the relative value of social assistance paid to different classes of claimant have occurred as a result of the uprating regime. Before the 1980s, there was a fairly *ad hoc* system for uprating benefits. From 1988, IS was uprated by movements in the Rossi price index (RPI less rent, local taxes and mortgage interest payments).

The current situation is that most means-tested benefits (including IS, HB and means-tested JSA) are uprated at the start of the financial year with the previous September's 12 month rate of the ROSSI index. However, some means-tested benefits, including the child element of CTC, and Pension Credit guarantee credit, are typically uprated in line with average earnings.¹⁶

A number of other contributory and non-means-tested benefits, including Incapacity Benefit,¹⁷ Child Benefit and Disability Living Allowance are uprated in line with the previous September's 12 month rate of the Retail Price Index.¹⁸

There has been a growing gap between the benefit rates paid to childless single people and couples on the one hand and families with children and pensioners on the other. As can be seen above, in 1989 a single pensioner received about £20 per week more than a person aged over 25 on IS. By 2007, that gap had grown to £60 per week more.

The difference is even more apparent for those aged under 25. Not only do single claimants under 25 have a lower rate of JSA or IS than those over that age (£47.95 per week in April 2008 compared to £60.50, without premiums), but in addition they are not entitled to claim WTC (unless they have a child or a disability) (CPAG, 2008, pp.1209-

¹⁶ Cracknell, R. (2009); '2009 benefit uprating' standard note 4901; House of Commons library.

¹⁷ Although ESA will be uprated in line with the ROSSI index.

¹⁸ Cracknell, R (2009); '2009 benefit uprating' standard note 4901; House of Commons library.

1210), and in many cases their HB will be restricted by the 'Single Room Rent' to a considerably lower rate than they would be entitled to if over 25 (more on this below.) Under the age of 22, they are also entitled to a lower minimum wage rate (£4.77 per hour for 18-21 year olds compared to £5.73).¹⁹

Differences in minimum incomes between groups at different ages raise two key issues with regard to minimum income scheme adequacy. Firstly, why does an unemployed 55 year old need around half the amount to live on as a 60 year old, and why does a 20 year old need considerably less than this? Secondly, given that benefit gaps for different groups have grown considerably, why is it that if policy makers took the view at one time that the relative needs of different types of claimant varied by £X per week, how can they at a different time be £Y per week? The answer to both these questions is that need is not the only determinant of minimum income schemes.

How do benefit scales relate to need?

One approach to answering this question is to employ budget or minimum income standards methodology to establish what income is enough to meet what Rowntree called physical necessities, and what modern budget standards refer to as a basic or minimum healthy life-style. Budget standards were re-established in Britain with the work of the Family Budget Unit (FBU).²⁰ Middleton and colleagues at the Centre for Research in Social Policy (CRSP) also developed a consensual approach to budget standards,²¹ and Morris²² developed Minimum Income for Healthy Living (MIHL)

¹⁹ <http://www.hmrc.gov.uk/nmw/>

²⁰ Bradshaw, J. (ed.) (1993) *Budget Standards for the United Kingdom*, Studies in Cash & Care, Avebury: Aldershot;

Parker, H. (ed) (1998) *Low Cost but Acceptable: A minimum income standard for the UK: Families with young children*, Bristol: The Policy Press; Parker, H. (ed) (2000) *Low Cost but Acceptable Incomes for Older People. A minimum income standard for households aged 65-74 years in the UK*, Bristol: The Policy Press.

²¹ Smith, N., Middleton, S., Ashton-Brooks, K., Cox, L. and Dobson, B. with Reith, L. (2004) 'Disabled People's Costs of Living: More than you would think', York: Joseph Rowntree Foundation. ISBN 1 85935 236 7.

Middleton, S., Ashworth, K. and Braithwaite, I. (1997), 'Small Fortunes: Spending on Children, Childhood Poverty and Parental Sacrifice', York: Joseph Rowntree Foundation.

Middleton, S., Maguire, S., Shropshire, S. and Kellard, K. (1998) 'Household Budgetary Requirements in

Standards for older people and single people.

The most recent (and elaborate) work, however, has been the large Joseph Rowntree Foundation project which resulted in *Minimum Income Standard for Britain*.²³ This combined the consensual approach of the CRSP work with the more normative approach of the FBU. Minimum income standards (MIS) for a range of household types were established by an iterative process involving focus groups representing those household types and the assessment of experts. The aim was to achieve a standard defined as follows:

‘A minimum standard of living in Britain today includes, but is more than just, food, clothes and shelter. It is about having what you need in order to have the opportunities and choices necessary to participate in society.’

The food budget was assessed for nutritional adequacy and to ensure that it met the guidelines for healthy eating.²⁴ The fuel budget²⁵ was designed to enable the household to reach adequate levels of warmth, given the thermal efficiency of the dwelling. The costs of the dwelling for each household were established to meet adequate space, fitness and thermal standards. In general, the budgets covered the need to participate, including taking healthy exercise.

Jersey’, *CRSP Working Paper 359*, Loughborough: Centre for Research in Social Policy.

²² Morris, J. and Deeming, C. (2004) ‘Minimum Incomes for Healthy Living (MIHL): next thrust in social policy?’, *Policy and Politics*, 32, 4, 441-454.

Morris, J. (chair), Dangour, A., Deeming, C., Fletcher, A. and Wilkinson, P. (2005) ‘Minimum income for healthy living: older people’, London: Age Concern Reports.

²³ Bradshaw, J., Middleton, S., Davis, A., Oldfield, N., Smith, N., Cusworth, L. and Williams, J. (2008) *A Minimum Income Standard for Britain: What people think*, York: Joseph Rowntree Foundation.

²⁴

http://www.minimumincomestandard.org/downloads/working_papers/MIS_thefoodbudgetstandard_workingpaper.pdf.

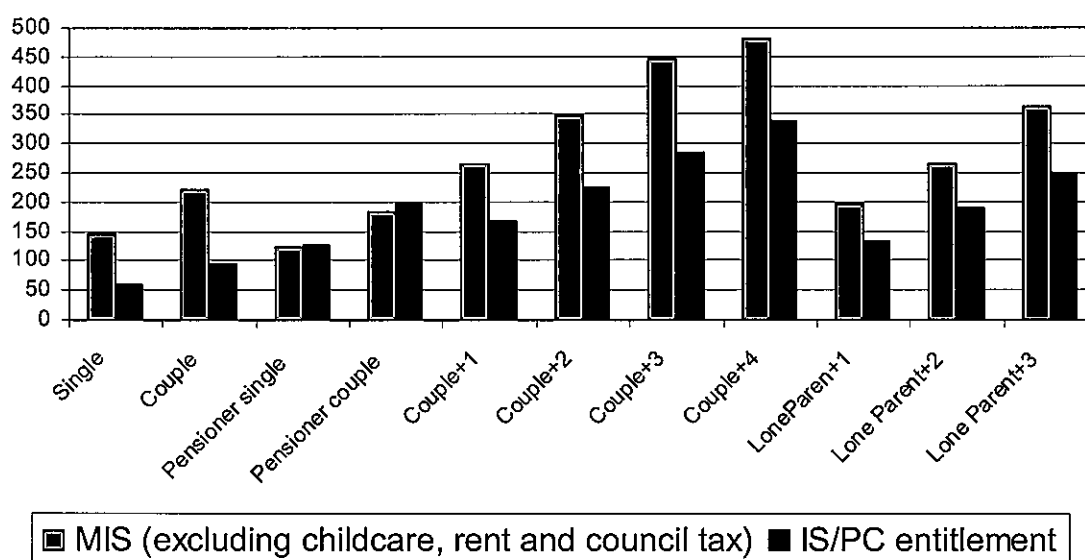
²⁵

http://www.minimumincomestandard.org/downloads/working_papers/MIS_Working%20paper%20on%20Fuel.pdf.

The MIS establishes a standard that can be compared with benefit levels and the income thresholds used to establish poverty rates.

Figure 1 compares the MIS for a variety of household types with the benefits that would be payable to those households on IS and Pension Credit. It can be seen that there is a shortfall between the MIS and the benefit levels for all the household types except single people and couples of pension age. For them, Pension Credit achieved the MIS. However, this was only achieved by the introduction of free travel on buses for pensioners in April 2008 – before then, the MIS was a little above Pension Credit. The biggest gap between the MIS and IS rates was for childless single people and couples. While families with children and pensioners have had increases in the real level of IS and Pension Credit in recent years, the IS paid to childless single people and couples has remained the same in real terms since the mid 1970s (see above).

Figure 1: MIS compared with out of work benefits April 2008



In Table 5, we explore the relationship between the MIS and in-work incomes. The bottom line gives the wage rate for a standard working week that would be required in order to reach a net income equivalent to the MIS for that household type, given the in-work benefits and tax credits available - and assuming, for the couple family, that there is only one earner, and that the other adult has no income of their own. It shows that in all such cases the wage would have to be higher than the (then) minimum wage of £5.52

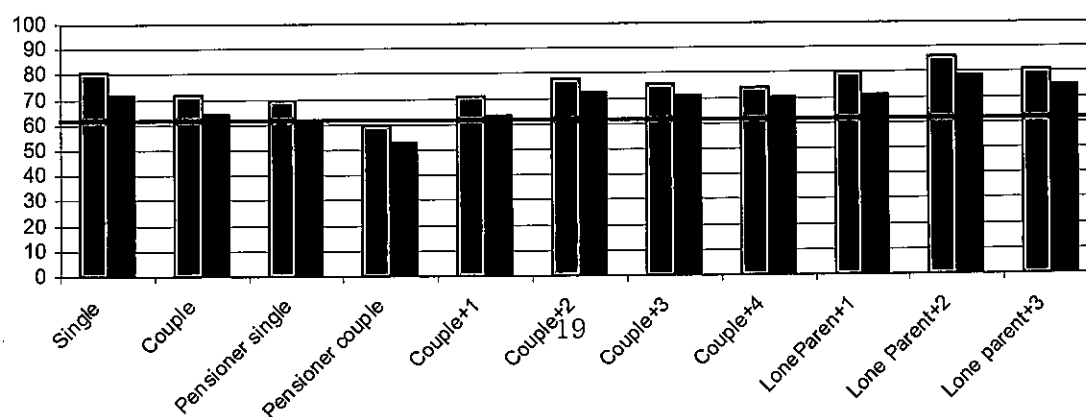
per hour. To achieve the MIS with a lower wage rate, the wage-earner would have to work for longer hours.

Table 5: Weekly earnings required to meet MIS, April 2008

| | <i>Single working age</i> | <i>Couple +2 no childcare</i> | <i>Lone parent +1</i> |
|---------------------------------|---------------------------|-------------------------------|-----------------------|
| MIS (including rent and council | 210 | 439 | 301 |
| Gross earnings required | 258 | 516 | 230 |
| Less income tax | -30.75 | -82.35 | -25.15 |
| Less NI contributions | -16.83 | -45.21 | -13.75 |
| Plus Child Benefit | 0 | 31.35 | 18.80 |
| Plus WTC | 0 | 0 | 40.89 |
| Plus CTC | 0 | 19.78 | 50.44 |
| Housing Benefit | 0 | 0 | 0 |
| Council Tax Benefit | 0 | 0 | 0 |
| Hourly wage rate for 37.5 hours | £6.88 | £13.76 | £6.13 |

In Figure 2, we compare MIS with median income. The line on the chart represents the 60 per cent of median income threshold that is used conventionally to estimate poverty rates in Britain. It shows that the MIS are higher than the poverty threshold for all household types, both before and after housing costs, except for single pensioners after housing costs and pensioner couples before and after housing costs. This indicates that even if the social protection package were high enough to lift every household up to the poverty threshold (which clearly it is not), most households with children and childless single people and couples of working age would be below the MIS standard.

Figure 2: MIS as a % of median income April 2008

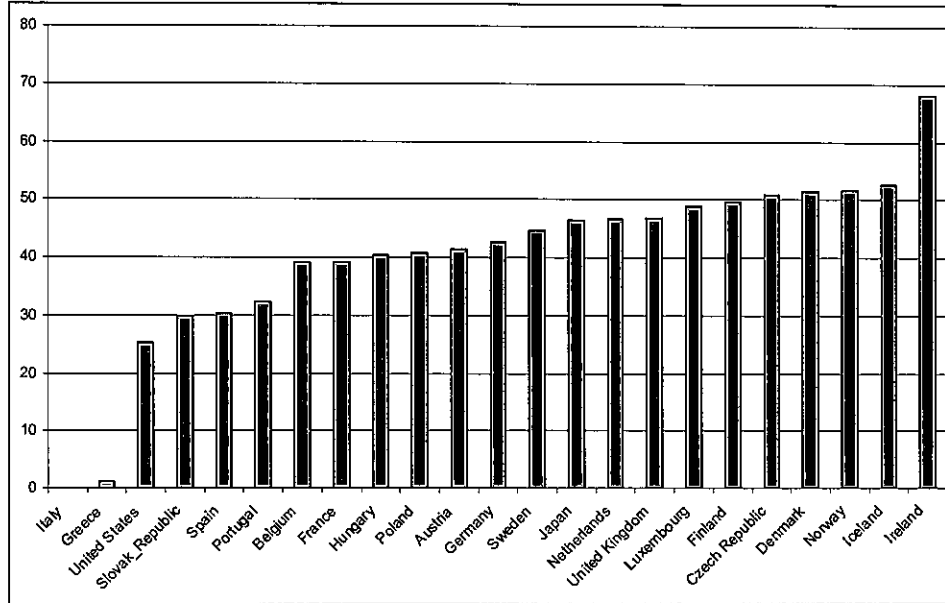


How do minimum incomes in Britain compare with those in other countries?

Here the data is not very good. Eurostat publishes Context Tables 9 and 10 as part of its Inclusion Indicators. Table 9 gives unemployment and inactivity traps, which may be related to social assistance levels. Table 10 gives the net income of social assistance recipients (single person, lone parent plus two children and couple plus two children) as a percentage of the at risk of poverty threshold. We have commented before that the data for the UK in this table must be wrong. This is because for the UK and some other countries it shows that social assistance is higher than the poverty threshold, which is certainly not correct for the UK.

The source for this series is given as 'Joint EC-OECD project using OECD tax-benefit models', and Eurostat. The OECD does collect data on social assistance payments for certain standard family types as part of its taxing wages series and Figure 3 shows that, at least for lone parents with two children, the UK minimum income as a percentage of the average wage is considerably lower than that in Ireland, but in the middle of the distribution of similar EU countries.

Figure 3: Net income of lone parents with two children on social assistance as a % of the average production wage. OECD 2007



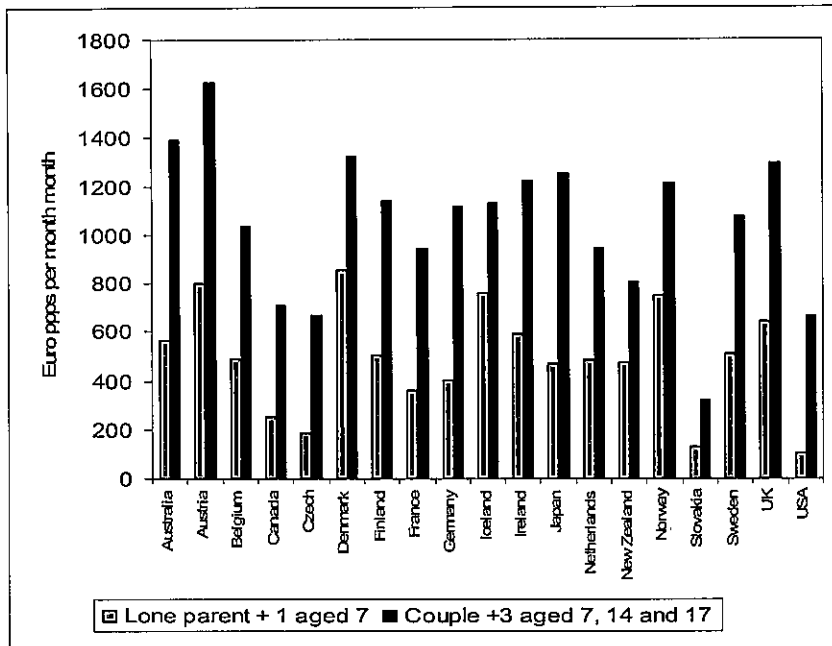
Perhaps the most recent thorough comparative analysis of social assistance was by Bradshaw and Finch.²⁶ This work was replicated and updated for 18 countries and Figure 4 shows the social assistance scales paid to a lone parent with one child and a couple with four children, as at January 2004.²⁷ The UK is not the most generous; but the level of benefits is towards the high end of the distribution.

²⁶ Bradshaw, J. and Finch, N. (2002) *A Comparison of Child Benefit Packages in 22 Countries*, Department for Work and Pensions Research Report No.174, Leeds: Corporate Document Services.

²⁷ Bradshaw, J. (2006) 'Child benefit packages in fifteen countries', in Lewis, J. (ed.), *Children, Changing Families and Welfare States*, Cheltenham: Edward Elgar.

<http://www.york.ac.uk/inst/spru/research/nordic/childbenefit2004%2018%20countries.pdf>

Figure 4: Social assistance payable to two family types

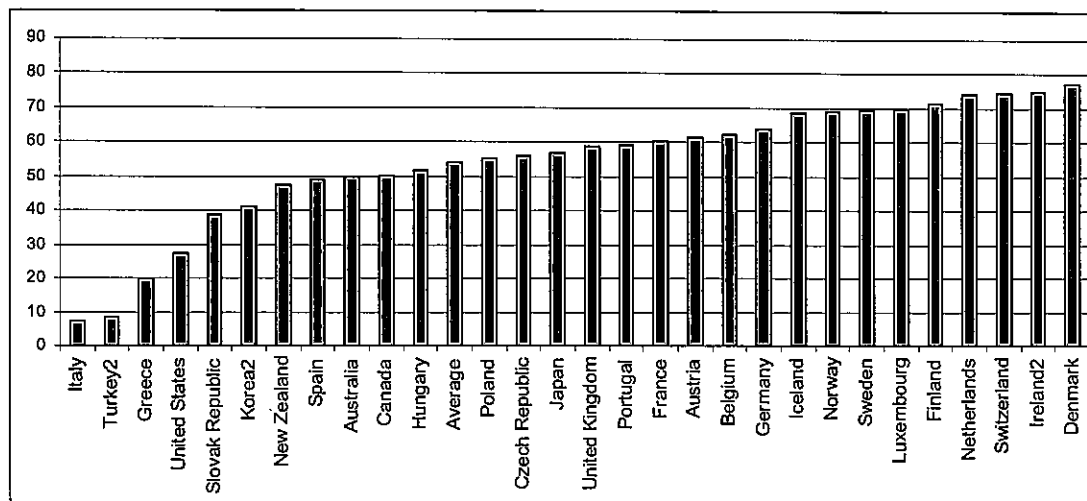


Replacement rates

There is no doubt that one of the constraints on the adequacy of social assistance rates is their relationship with net incomes in work. This is commonly estimated by the notional replacement rate²⁸. The OECD (but not, we think, the EU) produces estimates of replacement rates and Figure 5 presents a comparative summary for 2006. The UK replacement rates are in the middle of the distribution.

²⁸ Net income on social assistance as a proportion of net income in employment

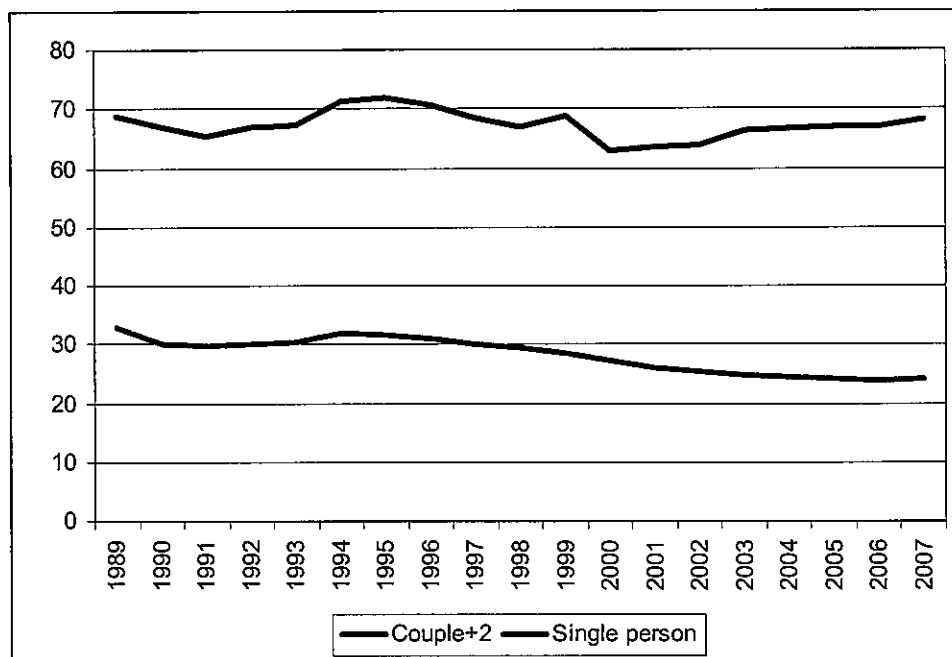
Figure 5: Average net replacement rate for four family types after five year unemployment on social assistance 2006



Source: <http://www.oecd.org/dataoecd/16/42/39720461.xls>.

It is also possible to estimate changes in replacement rates over time at national level. This is shown in Figure 6 for a couple with two children and a single person. It shows social assistance net income as a proportion of net income after housing costs for a one-earner family earning two-thirds average income (assuming no other income for the other adult in the couple). It is therefore a comparison between social assistance and the income available to a low-paid worker or a family with a low income and an earner. For the couple with children, replacement rates declined between 1989 and 2000, but there was then a hike in IS scales for children and replacement rates have risen to about the level they were in 1989. The replacement rate for the single childless person is much lower than for families with children, and has steadily declined since 1994. This is the result of in-work incomes rising faster than the Rossi Index.

Figure 6: Replacement rates of Income Support as a proportion of net income. One earner, two-thirds average earnings

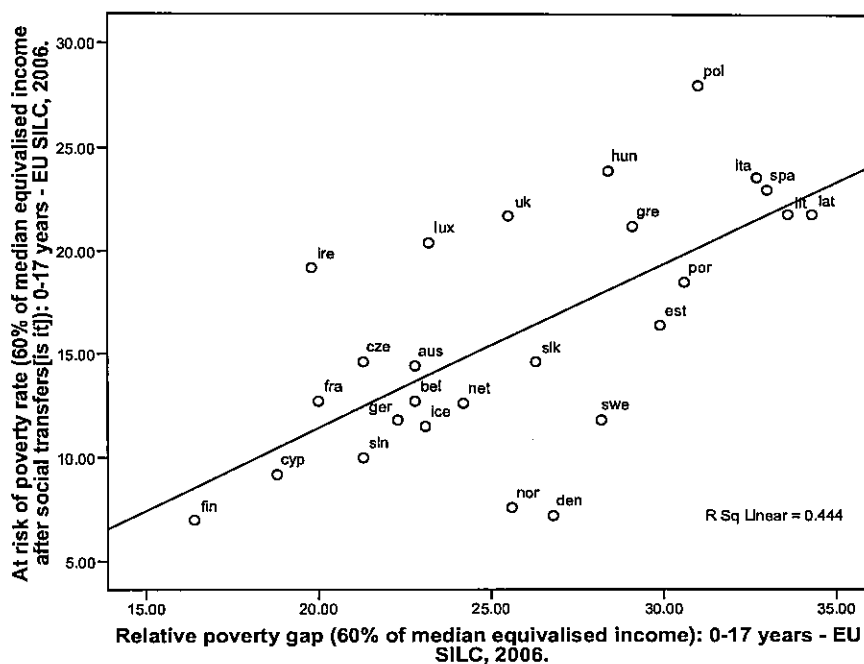


Source: DWP (2008) *The abstract of statistics for benefits, national insurance contributions and indices of prices and earnings*, 2007 edition.

Evaluation

One claim that can be made for the UK minimum income scheme is that it is more or less comprehensive. If people claim their entitlement, and excepting certain cases - including sanctions, tax credit overpayments and rent restrictions (see below) - there is a minimum income below which they would not be expected to live. This may be one reason why, although the UK performs comparative badly on its poverty rate, it does much better on its poverty gaps. Figure 7 is an example of this in relation to child poverty – the UK poverty gaps are lower than you would expect given the poverty rates.

Figure 7: Child poverty rate by child poverty gaps. Own analysis of SILC 2006



Despite its comprehensiveness, the minimum income scheme is not very effective in lifting people dependent on it above the poverty threshold, however. This is certainly the case for the out-of-work benefit system, with the possible exception of pensioners receiving Pension Credit, as we have seen in Figure 2. For families with children, there is a gap between the ‘minimum income guarantee’ for full-time workers on the minimum wage (assuming one wage only) and the poverty threshold. In 2006/7, of all the children in poverty in the UK more than half (56%) had at least one parent in paid work.²⁹

Another claim that could be made for the UK system is that it is predominantly rights based – there is very little scope for official discretion in the amounts received, or in the circumstances that determine the amounts received. Claimants have a right to appeal to an independent tribunal if they dispute the decisions made on their claims (although, as noted above, the rates of benefit payable whilst appealing to a tribunal may be lower than those which the appellant would otherwise be entitled to).

A possible disadvantage of this is that the scheme is short on flexible, individualised

²⁹ <http://www.poverty.org.uk/16/index.shtml>.

justice. There are no social workers with the capacity to vary rules to take account of exceptional circumstances and thus, in order to treat like cases alike and unlike cases unlike, the rules are quite complicated.

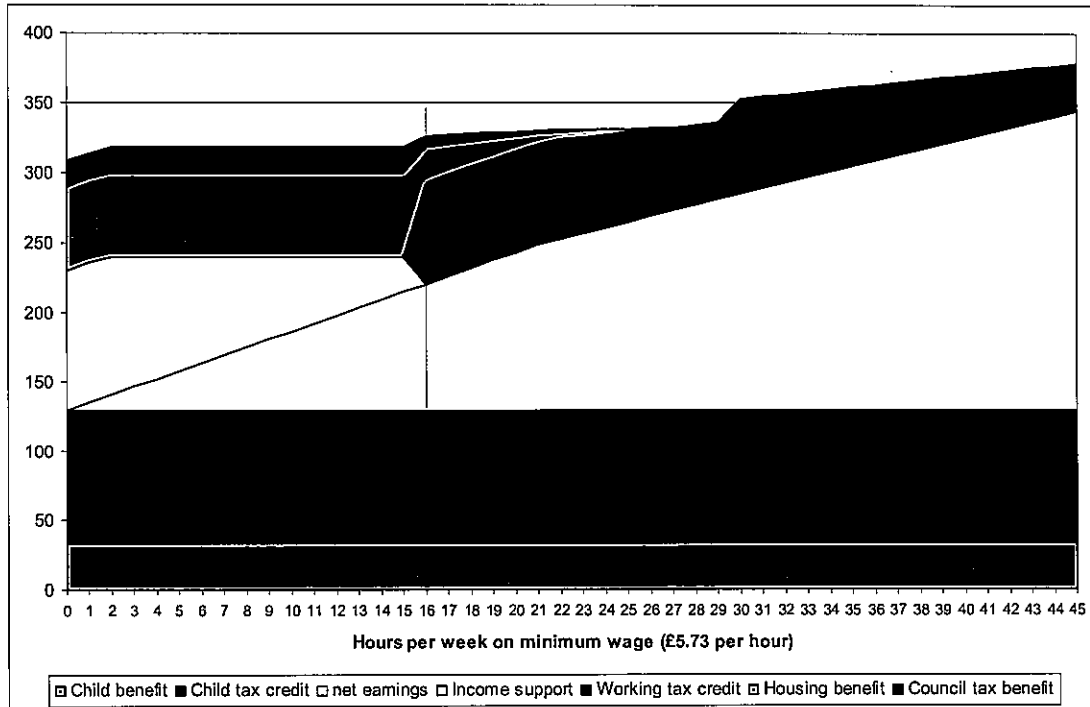
Against these possible advantages of comprehensiveness are a number of criticisms to be made of the UK scheme:

- A large means-tested element to a social security system is inevitably expensive to administer.³⁰
- Both the out-of-work and in-work schemes have very high marginal tax rates on earnings. For several of the key means-tested benefits supporting those out of work, a marginal tax rate of 100% on earnings over the very low disregard limits is employed. The in-work scheme also has very high marginal tax rates arising from income tax and National Insurance contributions, and the loss of CTC, WTC, HB and CTB (though as a result very few of those in work are on HB in particular). The marginal tax rates are illustrated in Figure 8 for a couple with two children, with one earner earning the current minimum wage. The horizontal axis gives the hours worked and the vertical axis the net incomes. The marginal tax rate is at least 70% across the range of hours, and as high as 85% at certain parts of the range. At 16 hours' paid work per week, this family would receive £262.71 per week after housing costs,³¹ and at 40 hours they would receive £292.12 – a difference of £30 for 24 more hours' work. These marginal tax rates may not only be having an impact on the hours supplied (if anyone is able to understand the system) but also deterring second earners.

³⁰ The DWP appears to have stopped publishing the administrative costs of different benefits but some years ago the basic pension cost 1% of benefit expenditure to administer compared with 9% for Income Support.

³¹ Housing costs are rent plus council tax.

Figure 8: Net disposable income for a couple plus two children before housing costs by hours supplied at the minimum wage from April 2009. Rent=£60 per week, Council Tax=£18.00 per week



The UK scheme has always had a disjunction between in-work and out-of-work support. This means that moving from one system to another is never a seamless process. People moving into work have to give up IS and claim WTC, and their HB and CTB will be reduced (though in some cases people can receive ‘extended payments’ of HB and CTB which mean that they continue to get their out-of-work rates for four weeks after returning to work); their CTC entitlement is also likely to decrease eventually. Figure 8 shows this for one family type.

Table 6 gives the relativities for more standard family types. These are the net incomes that are delivered by the minimum income schemes in the UK in the out-of-work scheme and the in-work scheme. We have shown the amounts at 16 hours as well as 40 hours because 16 hours is the threshold for switching to in-work benefits/tax credits.

Table 6: Net income. Tax/benefit system April 2009³²

| | <i>Before housing costs</i> | | | <i>After housing costs</i> | | |
|-----------------|-----------------------------|-------------------------------------|---|----------------------------|-------------------------------------|---|
| | Not working | One earner 16 hours on minimum wage | One earner 40 hours on the minimum wage | Not working | One earner 16 hours on minimum wage | One earner 40 hours on the minimum wage |
| Single | £137.80 | £146.17 | £204.90 | £64.30 | £72.66 | £131.40 |
| Couple | £178.96 | £188.96 | £240.60 | £100.96 | £110.96 | £162.60 |
| Lone parent + 1 | £211.21 | £261.70 | £314.01 | £137.71 | £188.2 | £240.51 |
| Couple + 2 | £308.47 | £340.71 | £370.12 | £230.47 | £262.71 | £292.12 |

Rent = £60 per week and Council Tax = £18 per week (before single occupancy discount where applicable)

By far the most important criticism of the UK scheme concerns the issue of adequacy. This has been discussed already. The differentials between different rates of benefit, the result of the uprating formulae discussed above, are now very difficult to justify. Why should a single person aged 59 receive £64.30 per week in IS, while a year later, aged 60, they would be entitled to £130 per week?

No one has made a rational decision about this situation. It is not based on any evidence of need, nor any principled arguments of desert. It has occurred because from the 1980s one benefit has been uprated with prices and the other by earnings. The gap between the living standards of, for example, a single person unable to work because of, say, mental illness on the one hand and the incomes of families with children and pensioners and people earning on the other is unfair and unsustainable.

³² Assumptions and notes: 1) No rent restrictions apply in any cases. 2) Children are over the age of 1 and under 16. 3) No childcare costs apply. 4) All claimants are assumed to be over 25 and under 60. 5) In addition to incomes noted, some claimants may also be entitled to passported additional benefits. 6) Single occupancy discount on Council Tax is 25% (£4.50); discount is deducted before CTB is calculated. 7) Where in work, all claimants are assumed to have been in work and earning the same income in the previous financial year (08-09) as the current financial year (09-10)

Implications for Japan

I apologise for the fact that this paper has been British and European centric. I am aware that social assistance in Japan is a very marginal benefit – in 2003 expenditure was 0.4 per cent of GDP and only 0.8 per cent of the population were receiving it.³³ This may well have changed with the recession.

In terms of poverty according to OECD³⁴ data Japan has 14 per cent of the working age poverty below the 50 per cent of median threshold in 2005 and 57 per cent of single adults out of employment are below this threshold. The child poverty rate in Japan is above average at 14 per cent and has increased between 2000 and 2005.

Clearly the minimum safety net in Japan is not entirely flawless and perhaps needs more some more attention from scholars and policy makers.

³³ Jung, I-J (2007) Social assistance in OECD countries, Paper for the EASP Conference, Tokyo.

³⁴ OECD (2009) *Growing Unequal*, Paris: OECD