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SERIES EDITORS: TOM CLARK AND ANDREW DILNOT



THE STRUCTURE OF WELFARE

Mike Brewer

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The structure of welfare

Election Briefing Notes 7, 8 and 9 analyse the precise distributional impacts of the parties' proposals. This Election Briefing Note looks at whether we can see a difference between the parties in their approach to taxes and benefits and the treatment of the unemployed, and how their proposals relate to what we have seen during the first term of a Labour government.

Labour was elected with few specific ideas about welfare. Tax credits did not feature in its 1997 manifesto, and there seemed to be early tensions within government, particularly on the balance between 'old Labour' insurance-based, universal policies and the 'new Labour' policy of 'targeted support for those that need it most', as Frank Field's departure showed. But after four years of reforms, it is easier to discern consistent trends in welfare policy. This Election Briefing Note looks at some important principles about the way parties are approaching the tax and benefit system. In particular, it looks at:

- the generosity of government transfers;
- the use of means testing, and tax and benefit integration;
- family – rather than individual – assessment of taxes and benefits;
- policies for managing workless benefit claimants.

1. Welfare policy proposals

Box 1 summarises the policies considered in this Election Briefing Note. The details of the parties' policies are given in Election Briefing Notes 7, 8 and 9.

Box 1. What are the major welfare policies proposed by the parties?

Labour Party

- An integrated child credit, replacing and unifying the child-related payments in the tax and benefit system.
- A pension credit: an income top-up for pensioners with small amounts of private income.
- An employment tax credit for poor working families without children.
- Extension and tightening of the New Deal for the unemployed.
- Merger of the Employment Service and the Benefits Agency. More active case management of claimants of other non-working benefit claimants such as lone parents and sick and disabled people.
- Asset-based welfare for children and low-income households.

For Conservative and Liberal Democrat policies, see next page.

Box 1 continued

Conservatives

- A tax-cutting package for families with children;
- Small increases in state pension for older pensioners.
- Income tax cuts for pensioners.
- £0.5bn savings in housing benefit and a small cut in WFTC.
- Privatisation of the compulsory New Deals. Abolition of the New Deal for lone parents.
- Making non-working lone parents with no children under 11 look for work.
- Pension opt-out.

Liberal Democrats

- Increase of £5 per week in the basic state pension (£8 for couples), and much higher increases for the over-75s, but no corresponding increases in income support.
- Payment of state pension to all over pension age.
- Introduction of a partial capacity benefit.
- Payment of £200 a year to families with children on income support for more than a year.
- £0.5bn savings in housing benefit.

2. Generosity of state support

The Labour government made transfers through the tax and benefit system more generous, but mostly focused on children and pensioners. All parties are promising to increase support further for families with children and pensioners, but they have suggested different mixtures of universal benefits, means-tested benefits and tax changes for achieving that. The Labour Party is alone in proposing long-term goals that imply continual above-inflation increases in support for families with children and for pensioners.¹

The past government's record

Election Briefing Note 5 shows that most household types gained on average through personal tax and benefit changes made by the past government, but the gains were directed at families with children and pensioners. Just over a half of families in Britain contain either a pensioner or a child, but pensioners

¹ The distributional impacts of each party's policies are analysed in Election Briefing Notes 7, 8 and 9.

and children are found in over 70% of the poorest 40% of families in Britain.² Single pensioners and lone parents are disproportionately likely to be poor, and this helps explain why a focus on these groups is progressive.³ But couples with children and couple pensioners are less than proportionately likely to be poor, and this is why the government has used income testing to target its extra support.

Table 1. Families with children and pensioners in the income scale

Family type	% of family type with income below 60% median
Pensioner couple	23
Single pensioner	31
Couple family with children	21
Lone-parent family	59
Couple family without children	11
Single adult without children	22
Average	23

Note: The table shows, for example, that 23% of all families have incomes less than 60% of median income, but 59% of lone parents have incomes less than 60% of median income, after adjusting for household size.

Source: Table J1 of Department of Social Security, *Households Below Average Income, 1994/5-1998/9*, DSS, London, 2000.

So what has happened to means-tested benefit rates? Income support rates for families with children and for pensioners, and the support for low-income working families with children, have all risen in real terms since 1997 (see Table 2). Income support rates for a lone parent with two children under 11 are 25% higher in 2001 than they were in 1997 – even including the abolition of the lone-parent premium – and working families’ tax credit (WFTC) rates for the same family are 37% higher than the equivalent family credit (FC) rates in 1997. These increases are greater than the real increase between 1988 – when these benefits were introduced – and 1997.

Table 2. Maximum benefit and tax credit awards

Family type	April 2001 ^a	Real increase, 1988-97	Real increase, 1992-97	Real increase, 1997-2001 ^a
Single person	£53.05	1%	2%	0%
Lone parent, two children under 11	£133.45	4%	2%	25%
Low-income working lone parent, two children under 11 ^b	£111.00	27%	17%	37%
Single pensioner	£92.15	7%	6%	25%
Couple pensioner over 75	£140.55	11%	6%	19%

^a Includes increases announced in Budget 2001 due in 2001.

^b Shows maximum FC/WFTC award assuming full-time work.

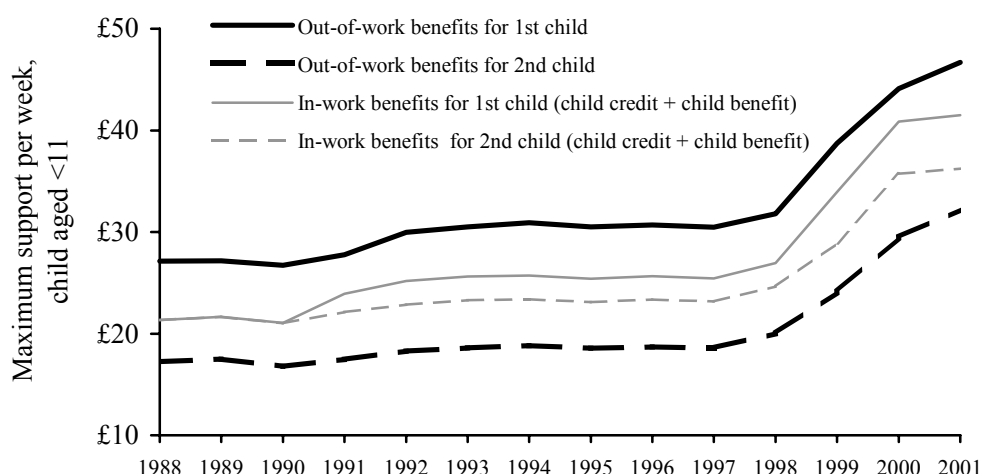
Note: Real increases calculated using ROSSI index.

Source: Author’s calculations from various DSS publications.

² Of the 30 million families in Great Britain, there are around 7 million families with children and 10 million families with at least one pensioner (source: author’s calculations from the Family Resources Survey).

³ 31% of single pensioners and 59% of lone parents are poor, compared with 23% of all family types – see Table 1.

Figure 1. Real means-tested support for children



Notes: Figure shows maximum extra support that families on means-tested benefits receive for children under 11, averaged over financial year in real terms. Does not include free school meals, the basic credit in FC or WFTC, support for childcare costs, the married couple's allowance, the additional personal allowance or children's tax credit.

Source: M. Brewer, M. Myck and H. Reed, *Financial Support for Families with Children: Options for the New Integrated Child Credit*, Commentary no. 82, IFS, London, 2001 (<http://www.ifs.org.uk/taxben/icc.shtml>).

Income support rates for pensioners – the government's minimum income guarantee – have risen considerably between 1997 and 2001: by 25% for a single pensioner and 19% for a couple pensioner over 75, for example. But benefits for able-bodied working-age adults without children have not changed in real terms since 1997.

The increase in support for low-income families with children reflects the substantial increase in the amount of money given specifically for their children. As Figure 1 shows, this support hardly changed in real terms between 1988 and 1997, but since 1997 there has been a real increase of 53% in the amount that families on income support receive for a child under 11, and an increase of 63% for families on WFTC.⁴

Prospects for the next Parliament

No party is committing itself to across-the-board increases in benefit levels; all are promising to target extra support on the groups that were targeted by the present government – pensioners and families with children.

The Labour Party would introduce three new credits, as described in Election Briefing Note 9. As well as introducing the credits, the Labour Party is promising to increase the new pension credit in line with earnings, which would lead to continual increases in benefit levels for the over-60s. For families with children, the introduction of an integrated child credit would require a one-off change in the level of support for out-of-work or low-income

⁴ Children over 11 have seen a smaller increase since 1997 because the government has aligned the support given to children under and over 11.

working families. Beyond that, there is no formal commitment to above-inflation increases in benefit levels for families with children. But Labour's long-run goal of eliminating child poverty is implicitly committing it to further real increases. In particular, if a future Labour government remains committed to its child poverty reduction targets, it is highly likely that it would need continual above-inflation increases in benefits for families with children.⁵

The Conservative Party is promising extra support for families with children and for pensioners, but both of these are to be delivered mainly through the income tax system (see Election Briefing Note 7). Other than a small rise in the state pension, there is little detail in the Conservative manifesto on what might happen to universal or means-tested benefit rates more generally.

The Liberal Democrats are proposing substantial increases in the state pension, with particularly large increases for older pensioners (see Election Briefing Note 8). But there are no proposals to increase income support alongside the state pension, meaning that the poorest pensioners will see little increase in incomes. The Lib Dems are proposing that families with children on income support for more than a year would gain by £200 a year, affecting around 15% of children. There are also a number of proposals that would increase benefits for disabled people. The use of universal rather than means-tested benefits means that the Liberal Democrats would have to worry less about ensuring take-up rates remained high.

3. Extending means testing and eroding the contributory principle

The last government focused its extra resources on the poorest families, and, in doing so, substantially increased the number of families entitled to means-tested benefits. It also diminished the importance of the contributory principle and National Insurance benefits.⁶ The Labour Party's proposals for the next Parliament would continue these trends. The other parties do not propose any significant extensions in means testing: the Conservatives are proposing a small reduction in WFTC, and both the Liberal Democrats and the Conservatives are seeking to cut the spending on housing benefit. Instead of using means-tested benefits, the Liberal Democrats are proposing to increase non-means-tested benefits for pensioners, and the Conservatives are proposing to use the tax system to deliver support.

⁵ The Department of Social Security and HM Treasury have a Public Service Agreement to make substantial progress towards eradicating child poverty by reducing the number of children in poverty by at least a quarter by 2004, and Labour's manifesto repeats the party's commitment to end child poverty by 2020 and halve it by 2010. Broadly speaking, to reduce child poverty measured relative to median income, a government would need to do some combination of the following: increase the proportion of children whose parents work; improve the targeting of financial support for children; raise total financial support for children as a share of GDP.

⁶ Under the contributory principle, entitlement to and awards of certain social security benefits are linked to the amount of National Insurance contributions paid by an individual. The basic state pension, statutory sick pay and bereavement benefits are all examples of contributory benefits.

Compared with universal benefits, means-tested benefits allow governments to target money on the neediest families, either reducing the cost of providing support or allowing for greater support at the same total cost. But some argue this extension of means testing is undesirable. The most important concern is that the take-up rate of means-tested benefits is usually lower than that of universal benefits because, quite simply, people have to submit claims for means-tested benefits and not all who are entitled to claim do claim, either because they do not want to claim or because they do not know that they are entitled.⁷ In addition, means-tested benefits are more expensive to administer and increase opportunities for fraud compared with universal benefits.⁸ One economic disadvantage of extending means-tested benefits is that it can increase effective marginal tax rates. Opponents of means testing also portray it as an infringement of personal liberty and argue that it places too much power in the hands of government agencies. This view may depend, though, upon the form of means testing used by the Benefits Agency, under which claimants fill in long questionnaires to claim support and may have to report relevant changes in circumstances every week.

The past government's record

Table 3 shows changes in the numbers of families on means-tested benefits since 1997.⁹ For most of the means-tested benefits in the table, *fewer* people were claiming benefits in 2000 than in 1997. The exceptions are a 50% increase in the number of families with children receiving an in-work benefit (either family credit or the working families' tax credit) and a 20% increase in claimants of sickness or disability premiums in income support. Surprisingly, the number of pensioners claiming income support – the government's minimum income guarantee – is lower in 2000 than it was in 1997, despite above-inflation increases in generosity (although the caseload began to rise in 1999 from a level of 1.6 million).

There is more stability in the number of people receiving support from *any* means-tested benefit.¹⁰ The number of working-age adults receiving a means-tested benefit has fallen by only 11%, as the falling number on jobseeker's allowance is partially offset by the increased numbers claiming WFTC and on

⁷ Income support take-up rates are around 91%, but they are lower for pensioners and those without children. Take-up rates for family credit were around 76%. Source: Department of Social Security, *Income Related Benefits: Estimates of Take-Up in 1998-99*, DSS, London, 2000.

⁸ The total direct staff cost for processing income support in 1999–2000 was £206m, or £53.70 per beneficiary. In the same period, benefit overpayment due to fraud and errors was estimated to be 8.4% of the total benefit paid. Sources: Department of Social Security, *Fraud and Error in Claims for Income Support and Job Seeker's Allowance*, DSS, London, 2000; Department of Social Security, *Public Service Agreement 2001-2004: Technical Note*, DSS, London, 2000.

⁹ We are treating WFTC as a means-tested benefit here as it owes more in operation to means-tested benefits than it does income tax: claimants have to fill in an application form, entitlement is based on earnings over a short period (seven weeks to four months) and claimants face similar rules on capital limits to claimants of traditional means-tested benefits.

¹⁰ See notes to Table 3 for a precise definition of which means-tested benefits are included; note that housing benefit and council tax benefit are excluded in this comparison.

income support for a disability or long-term sickness. The number of children in families on out-of-work means-tested benefits has fallen by only 2%, so, including in-work benefits, more children are in families receiving means-tested support in 2000 than in 1997.

Table 3. Numbers of families on key means-tested benefits, 1997–2000

	Estimated caseload in:		
	May 1997	Nov. 2000	% change, May 1997–Nov. 2000
<i>Individual benefits for people out of work</i>			
Jobseeker's allowance	1.6m	1.0m	–38%
Jobseeker's allowance (income-related)	1.2m	0.7m	–41%
Income support: over-60s	1.7m	1.7m	–3%
Income support: lone parents	1.0m	0.9m	–12%
Income support: disabled	0.8m	1.0m	+20%
<i>Individual benefits for people in work or on a low income</i>			
FC/WFTC	0.7m	1.1m	+50%
Housing benefit	4.6m	3.9m	–16%
<i>All means-tested benefits by client groups (see notes below for exact definition)</i>			
Working-age adults	5.7m	5.1m ^a	–11% ^b
Children in out-of-work families	2.7m ^c	2.7m ^d	–2% ^c

^a August.

^b May 1997 – August 2000.

^c November.

^d May.

^e November 1997 – May 2000.

Notes: 'Working age' includes adults claiming WFTC/FC, disabled person's tax credit, jobseeker's allowance (JSA), incapacity benefit (IB), severe disablement allowance or disability living allowance (DLA). 'Children' counts dependent children in families claiming income support (IS), JSA, IB or DLA. There were also 2.3 million children in families claiming WFTC in November 2000, compared with 1.5 million in families claiming FC in November 1996; a small fraction of these will also be claiming IS.

Source: Author's calculations from various quarterly statistical enquiries, latest issues of which are on <http://www.dss.gov.uk/asd/online.html>.

What determines the number of people claiming means-tested benefits? There are four main factors:

- demographics (e.g. the size of groups that rely on state support, such as pensioners and families with children);
- economic changes (e.g. the number of people who are in work or receiving private pensions);
- the take-up rate of means-tested benefits;
- the generosity of means-tested benefits, as an increase in generosity means that more people are entitled.

To help determine which of these factors can explain the results above, Table 4 estimates the change in the number of families entitled to means-tested benefits due to changes in the generosity of benefits alone. It shows that discretionary policy changes increased the numbers entitled to income

Table 4. Effect of policy changes on numbers of families entitled to means-tested benefits

	April 1997	Estimated caseload April 2001 ^a	% change since 1997
Housing benefit	4.7m	4.7m	—
Income support	4.7m	5.4m	+17%
<i>of which:</i>			
Lone parents	1.1m	1.1m	+2%
Pensioners ^b	1.5m	2.2m	+46%
Others	2.1m	2.3m	+10%
FC/WFTC	0.7m	1.2m	+79%

Notes: The estimates were based on Family Resources Survey data from 1996–98, and so measure changes in entitlement abstracting from changes in demographics. Full take-up of all benefits is assumed.

^a Includes increases announced in Budget 2001 due later in 2001. The pre-announced increases in income support for the over-60s due in 2002 will mean a further 0.1 million families will be entitled to income support.

^b People of pensionable age; families headed by a man over 60 but under 65 are included in the ‘Others’ category.

Source: Author’s calculations from the IFS tax and benefit model, TAXBEN.

Box 2. What has happened to the number of families on WFTC?

The means-tested benefit that has seen the largest expansion in entitlement has been the working families’ tax credit. There has been some concern that the government has failed to meet its caseload target of 1.4 million families.

The caseload is certainly below 1.4 million (there were 1.1 million families receiving WFTC as of November 2000), and successive Treasury forecasts have overestimated expenditure on WFTC: the estimated cost of WFTC in 2000 given in the March 2001 Budget was over 10% lower than the estimate in 1999, despite increases in its generosity since the latter date (Budget 1999 estimated the costs of WFTC as £5.1bn in 2000–01 and £5.4bn in 2001–02; Budget 2001 estimated £4.5bn and £5.3bn for the same years; see tables entitled ‘Accounting and Other Adjustments’ in Appendix C of both documents).

This suggests that either the government overestimated the take-up rate for WFTC or it overestimated the number of low-income families with children. There are no estimates yet of the actual take-up rate for WFTC, but evidence from family credit suggests that it took well over a year for families newly entitled to FC to claim it, and so the number of families claiming WFTC may continue to rise.

support; so the falls in the number of people claiming income support in Table 3 are probably due to demographics, changes in the economy or a change in the take-up rate.¹¹ Government estimates suggest that take-up rates for out-of-

¹¹ Tables 3 and 4 are not quite comparable: we have administrative data from November 2000, but we have modelled entitlement for April 2001.

work benefits have changed little over recent years, at around 83% for pensioners and 98% for lone parents.¹² Thus the most likely causes for the lower income support caseload are demographic and economic changes, such as fewer pensioners on low or no private pensions, and more lone parents in work. But the situation is more complicated for WFTC, as Box 2 discusses.

Have taxes and benefits become more integrated?

Although the past government spoke much about integrating taxes and benefits (rather than just increasing means-tested benefits), progress was limited. One of the key reforms – the working families' tax credit – blurred the traditional distinction between taxes and benefits.¹³ The government's view is that WFTC is now part of the tax system, as it is administered by the Inland Revenue and most recipients are paid through the pay-packet. One of the effects of relabelling WFTC as a tax credit was that the aggregate tax burden appeared to fall under the government's preferred measure, but this relabelling will not affect claimants' financial incentives or income.¹⁴ As WFTC is assessed on the basis of a short-term income measure and is reassessed every six months, it looks very similar to its predecessor – family credit, a means-tested benefit – and has different rules and a separate structure from income tax.

What has happened to the contributory principle?

Alongside this increase in means testing, the contributory principle has not fared well under the past government. There have been a number of changes to former National Insurance benefits that have made them look more like means-tested or universal benefits. For example, the maternity allowance has been extended to mothers with incomplete contributions records – making a contributory benefit more like a universal benefit. Awards of incapacity benefit is to be taxed at 50% for personal pension income that exceeds £85 a week from 2001 – making a contributory benefit more like a means-tested benefit. The government originally intended this reform to save a quarter of spending on incapacity benefit, but subsequent amendments reduced the savings. There were also changes to the system of benefits for widows (now bereavement benefits), which sharply reduced their cost, principally by paying

¹² Department of Social Security, *Income Related Benefits: Estimates of Take-Up in 1998-99*, DSS, London, 2000.

¹³ Traditionally, taxes and benefits have had different objectives – the funding of government expenditure and the relief of need – and have been administered separately. An integration of taxes and benefits would mean that families are assessed once and receive one single transfer or tax demand. The main advantages would be increased take-up of existing benefits, reduced hassle for claimants and lower administrative costs for government. See A. Dilnot, C. Emmerson and H. Simpson (eds), *The IFS Green Budget: January 2001*, Commentary no. 83, IFS, London, 2001 (<http://www.ifs.org.uk/gbfiles/gb2001.shtml>) for a discussion.

¹⁴ Around a fifth of expenditure on WFTC offsets income tax liabilities – see Appendix B of A. Dilnot, C. Emmerson and H. Simpson (eds), *The IFS Green Budget: January 2001*, Commentary no. 83, IFS, London, 2001 (<http://www.ifs.org.uk/gbfiles/gb2001.shtml>). Qualitative evidence suggests that many recipients are more concerned about receiving payments regularly than the form in which they are paid – see National Association of Citizens' Advice Bureaux, *Work in Progress: CAB Clients' Experience of the WFTC*, NACAB, London, 2001.

the new bereavement allowance (the old widow's pension) for a year only, making a previous contributory benefit much less generous.

Prospects for the next Parliament

The Labour Party's future reforms would increase the number of people entitled to means-tested benefits by both further increasing the generosity of existing benefits and introducing new benefits.

The proposed pension credit would be available to around half – around 3.6 million – of all pensioner families, around 1.5 million more than will be eligible for income support in 2001. Integrating financial support for families with children would mean that around 6 million families with children could be eligible for an integrated child credit, nearly 3 million more than currently receive a means-tested benefit through income support or WFTC.¹⁵ A new employment tax credit for families without children could go to around 500,000 working-age families. Overall, we estimate the Labour Party's proposed reforms could increase the number of families entitled to means-tested benefits by 3.4 million (considerably less than the sum of the totals above, as some of those newly entitled to one of Labour's credits are already entitled to receive housing benefit or council tax benefit).¹⁶

As discussed above, the main concerns over means testing are that it can increase effective marginal tax rates and that means-tested benefits tend to have lower take-up rates than universal benefits. The impact of the new credits on marginal tax rates is discussed elsewhere.¹⁷ The Labour Party is aware that maximising take-up will be an important challenge and seems to be focusing on changing the way the new transfers work to make them seem very different from old-style means-tested benefits. For example, it is proposing to abolish the weekly means test and capital limits for the pension credit, perhaps making the means-testing process seem more like income tax assessment. There are also signs that the integrated child credit and the employment tax credit may move to a system of annual awards, adjusted only in response to a limited number of changes in circumstances. But in order to show that the integrated child credit and the pension credit are more effective in tackling low incomes than increases in, say, the state pension and child benefit, the Labour Party will need to ensure that take-up rates are high.

¹⁵ Although most of these 6 million families with children are entitled to the children's tax credit this year, and so are already facing some form of joint assessment, as Section 4 considers.

¹⁶ We estimate that the integrated child credit, employment tax credit and pension credit will extend means-tested benefits to 2.7 million, 0.3 million and 0.3 million families respectively once entitlement to housing benefit and council tax benefit is considered.

¹⁷ See M. Brewer, M. Myck and H. Reed, *Financial Support for Families with Children: Options for the New Integrated Child Credit*, Commentary no. 82, IFS, London, 2001 (<http://www.ifs.org.uk/taxben/icc.shtml>), A. Dilnot, C. Emmerson and H. Simpson (eds), *The IFS Green Budget: January 2001*, Commentary no. 83, IFS, London, 2001 (<http://www.ifs.org.uk/gbfiles/gb2001.shtml>), and T. Clark, *Recent Pensions Policy and the Pension Credit*, Briefing Note no. 17, IFS, London, 2001 (<http://www.ifs.org.uk/pensions/bn17.pdf>).

Box 3. Saving money from the housing benefit budget

Both the Conservative Party and the Liberal Democrats are pledging to save £0.5bn on housing benefit (HB) expenditure on private-sector tenants (people who are renting private accommodation). The parties are claiming that they would do this by cutting down on fraud. This might occur because private-sector landlords with tenants on HB can increase their rents knowing that the tenant will receive extra HB – up to a limit – to cover the increase; it might also occur because tenants and landlords can collude to defraud local authorities.

The extent of fraud in this area – and the degree to which the Liberal Democrats' and Tories' promised savings represent a crack-down on genuine fraudulent behaviour – is very difficult to determine. If the savings are found, and are all found by eliminating fraud or by driving down rents, then this would represent a welcome efficiency saving. But, alternatively, the savings could come by reducing HB payments, and the mooted savings represent around £13 a week for the average private-sector HB claimant. (£0.5bn is around 5% of the total HB budget, and there are 700,000 families on HB renting in the private sector. Source: Department of Social Security, *Housing Benefit Quarterly Statistical Enquiry, November 2000*, DSS, London, 2001.)

The Labour Party's two proposed policies to promote savings (the Child Trust Fund and the Saving Gateway) have an element of means testing in them, as discussed in Election Briefing Note 9. But by promoting saving amongst low-income families, the policies would attempt to reverse the traditional disincentive to save faced by people on means-tested benefits.

The Conservatives' proposals would reduce the number of people on means-tested benefits, as they are proposing to make a small cut in WFTC, would like to move lone parents with older children off income support and are hoping to cut the housing benefit budget (see Box 3 and Election Briefing Note 7). In other areas, they are proposing a reduction in contributory benefits, by insisting that employers pay for industrial injuries insurance and by allowing people to opt out of the basic state pension (see Election Briefing Note 12). The Tories also propose to pay WFTC as a traditional means-tested benefit, direct to recipients, rather than having it paid by employers. They are proposing a small one-off increase in the state pension rather than increases in means-tested support.

The Liberal Democrats are proposing minor changes in means-tested benefits. The largest reform would be intended to save money from the housing benefit budget (see Box 3). They are proposing two offsetting reforms to income support for the over-60s: increasing the state pension without increasing income support levels, which should reduce the number of pensioners entitled to income support, but also removing the capital limits in income support for the over-60s, allowing some pensioners with low incomes but large savings to receive extra help. Over time, the Liberal Democrats want to make the state pension a universal, non-contributory benefit, which would benefit people with incomplete contribution records and could reduce the number of pensioners needing to claim income support, but would represent a

move away from the contributory principle to a more universal approach. They also want to reform incapacity benefit so that it can give support to people who are able to do some work but still have some form of disability or illness (which would strengthen the contributory principle).

4. Extending joint assessment and joint taxation

The number of families facing joint assessment increased under the past government, as means-tested benefits have increased and the new children's tax credit requires information on a family's earnings. No party is proposing a return to joint taxation in the future, but both Labour and the Conservatives are proposing reforms that would increase the number of couples assessed on their joint income, whether through the tax or benefit system. The Liberal Democrats' policies would reduce the number of pensioner couples facing joint assessment through income support by making non-means-tested benefits more generous.

Much of the debate around joint assessment focuses on whether taxation is joint or individual. Before the introduction of individual taxation in 1990, the income of a woman in a couple was treated and taxed as if it were her husband's. Since that date, women have been taxed as individuals in their own right. But whether we have joint or individual taxation is a narrow debate; a wider question is whether tax payments or benefit entitlement should depend upon an individual's income or upon the combined income of a couple. We shall use the phrase 'joint assessment' (rather than 'joint taxation') to refer to the second option.

Whether one is in favour of joint assessment partly depends on one's view about how couples share their income. Individual assessment is more appropriate if governments are concerned with individuals' own income, but joint assessment is more appropriate if governments believe that the combined income of a couple is more closely related to their actual standard of living. But there are other concerns with joint assessment. Joint assessment means that families have to provide government agencies with details of their relationships and be prepared to have these investigated. It also means that individuals in a couple have to share information on their incomes with each other. Sociologists argue that this can exacerbate existing gender imbalances of power within a relationship. Depending on the precise way in which joint assessment is implemented, it can affect the incentives for two single people to form a couple, and it could lead to a situation where the second earner faces a higher effective tax rate than the first earner.¹⁸

Between 1990 and March 2001, there was a clear dichotomy between the tax and benefit systems: a person's tax liability depended on her own income

¹⁸ For example, N. Eissa and H. W. Hoynes, 'Explaining the fall and rise in the tax cost of marriage: the effect of tax laws and demographic trends, 1984-97', *National Tax Journal*, vol. 53, no. 3, part 2, pp. 683-712, finds that joint assessment in the US tax system leads to both financial incentives and disincentives to form a couple at various income levels.

only, and the financial position of any partner was immaterial,¹⁹ but entitlement to means-tested benefits has always been assessed against joint family income. These two extremes are not the only options, though: there are a range of ways that we could treat couples, from full independence to full joint assessment. Table 5 lists these and shows how some of the parties' tax and benefit proposals (discussed more below) fit on this scale.

Table 5. A range of possible tax and benefit treatments of families

Tax type	Information required on partner	Example
Fully independent	None	Tax system for families without children since 1990
Independent with full transferable allowance	Whether married or have children	Married couple's allowance (1990–99)
Independent with selective transferable allowance	1. Whether a higher-rate taxpayer	Children's tax credit
	2. Whether engaged in unpaid caring or with children under 11	Conservatives' semi-transferable personal allowance for married couples
Fully joint	Income	Pre-1990 system for taxing couples All means-tested benefits Pension credit Employment tax credit Integrated child credit

The past government's record

Although the government abolished the married couple's allowance, two developments over the last Parliament have shifted the balance away from individual assessment. First, as discussed in Section 3, the increased generosity of means-tested benefits, such as WFTC and income support for pensioners, means that more couple families are now potentially subject to joint assessment through the benefit system. Second, the children's tax credit, which will go to around 5 million families with children, represents a form of joint assessment in the tax system: couples who claim must nominate the higher earner, and the credit is withdrawn where this partner is a higher-rate taxpayer.

Prospects for the next Parliament

The Labour Party's new credits are all due to be assessed on joint family income and so would certainly increase the extent of joint assessment in a similar way to increased means testing. For example, around 4 million couples with children would be entitled to the integrated child credit, compared with

¹⁹ The married couple's allowance (MCA) depended on whether one had a married partner, not how well off they were, although couples could decide how to allocate the benefit of the MCA, meaning that there was a very small element of joint assessment.

around 1.3 million who are entitled to income support or WFTC. The pension credit would extend joint assessment to around 600,000 couple pensioners, and the employment tax credit could go to around 100,000 couples.

The Conservative Party has a number of proposals that would increase the number of families subject to joint assessment. First, the transferable tax allowance for married couples with young children or caring responsibilities would introduce an element of joint assessment into the tax system, as it allows the higher-earning partner to benefit from the lower-earning partner's personal allowance. Second, but less importantly, the increased children's tax credit for families with children under five would slightly increase the number of families who would be eligible for the credit. The Conservatives have also suggested that it would be better if the credit were tapered away according to the joint income of a couple (this would remove a discrimination against single-earner couples).

The Liberal Democrats' proposals to extend the scope and increase the value of the state pension will mean that fewer pensioners will need to claim income support.

5. The benefit system and workless claimants

The New Deal was the past government's flagship programme for dealing with the unemployed and involves a set of different policies designed to get the young unemployed back to work. The past government has also begun actively to manage other benefit recipients through the New Deal for Lone Parents, the New Deal for the Disabled, and early piloting of a single agency for all working-age benefit claimants, combining the roles of the Employment Service and the Benefits Agency. Both main parties are offering an extension of that approach. The Labour Party proposes to extend the New Deal to more unemployed adults and intensify it, and to extend the New Deal principles to people claiming other benefits (lone parents, sick and disabled people). The Conservatives, though, are proposing to scrap the New Deal and to involve the private sector more, effectively privatising the Employment Service's role as job-brokers for the unemployed. The Liberal Democrats also want to scrap the New Deal, but they propose to replace it with a flexible guarantee of help for all out-of-work jobseekers. They would not introduce any more sanctions.

The past government's record

The last government introduced the New Deal in January 1998, financed by the windfall tax on the privatised utilities.²⁰ There is now a compulsory New Deal for people aged between 18 and 24 who have claimed jobseeker's allowance for six months, as well as a compulsory New Deal for the long-term unemployed. There are also voluntary New Deals, involving assistance with

²⁰ The windfall tax raised £5.2bn between 1997 and 1999, but not all of this has been spent on labour market programmes, as the labour market has performed better than expected.

no sanctions, for lone parents, partners of the unemployed, those over 50 years old and disabled people. These are all summarised in Table 6. The New Deal represents a continuation of a trend begun in the 1980s, when successive Conservative governments changed the conditions for receipt of unemployment benefits, such as the RESTART initiative.

Table 6. The New Deal programme

Client group	Conditions and eligibility	Provision
18- to 24-year-olds	Compulsory after unemployed for six months	Personal adviser. Gateway period for four months (advice, guidance, preparation), then one of: training or education, job with wage subsidy, voluntary work, public sector employment through the environmental task force. Help with travel and childcare costs.
25- to 50-year-olds	Compulsory after unemployed for 18 months	Personal adviser. Gateway period for four months (advice, guidance, preparation), then one of: training or education, job with wage subsidy, work placements. Help with travel and childcare costs.
Aged 50 and over	Voluntary after unemployed for six months	Personal adviser. Help with job search. One year's employment credit if move into low-paid work.
Lone parents	Voluntary for lone parents who are not working	Personal adviser. Help with job search, training, childcare arrangements and in-work support. Financial help for training and childcare. May join other New Deals.
Partners of unemployed people	Voluntary if partner claiming out-of-work benefit for six months	Personal adviser. Help with job search, training, childcare arrangements and in-work support. Financial help for training and childcare.
Disabled people	Voluntary if receiving disability-related benefits	Personal adviser and access to job broker.

Source: Appendix 10 of Child Poverty Action Group, *Welfare Benefits Handbook 2001/2*, CPAG, London, 2001.

What impact has the New Deal had? The claimant count of unemployment fell below 1 million early in 2001, to reach its lowest level for 25 years. The government has claimed the New Deal for Young People to be a success, as it has met its 1997 manifesto pledge of moving 250,000 young people into work, reducing youth unemployment by 75%. But an assessment of the success of the New Deal needs to estimate how many people would have found work in the absence of the programme. One study estimated that the New Deal for Young People (NDYP) seems to have successfully increased net employment. Young unemployed men are about 20% more likely per period to gain jobs as a result of the New Deal gateway period, and it may have led to a sustainable increase in youth employment of over 17,000. The same study estimated that the net exchequer cost per additional employee from the NDYP is around

£12,000 and, more importantly, that social benefits exceeded social costs.²¹ An evaluation of the New Deal for Lone Parents's (NDLP's) prototype found that it had had a small positive effect on the number of lone parents moving off income support: after 18 months, the number of lone parents on income support was 3.3% lower than it would have been in the absence of the programme, with 20% of jobs gained through the NDLP additional to those that would have arisen without the programme.²² The cost per participant moving into work was estimated at £1,388.

In addition to the New Deal, the government has taken steps to reform the way that benefits are delivered to claimants. In particular, it is piloting ONE, a system where all benefit claimants – not just the unemployed – are given a personal adviser and must attend work-focused interviews at regular intervals. This represents a middle way between the voluntary and compulsory New Deals, as claimants are obliged to attend interviews, where they will receive advice and support, but they are not compelled to seek and accept work, like participants on the compulsory New Deals. From April 2002, the requirement to attend interviews will be extended nationwide to all lone parents claiming income support with children over five.

Prospects for the next Parliament

The Labour Party is proposing to extend and intensify the New Deal. The New Deals for young and older people will focus on numeracy, literacy, IT skills and presentation. All lone parents will be invited to interviews to discuss their employment options. Labour would also create a new agency – JobCentre Plus – by merging the Employment Service with those parts of the Benefits Agency that deal with people of working age.

The Conservatives would abolish the compulsory New Deals and replace them with a scheme called 'Britain Works'. This would effectively contract out the work of the Employment Service by paying independent contractors to help unemployed people find and retain jobs. This reform would be backed up by stronger conditions for those receiving jobseeker's allowance, making it harder or impossible for them to turn down job offers and continue to receive benefit. Although details of this policy are limited, it could be seen just as an extension of the present government's approach, where private and not-for-profit contractors are fully involved in the New Deal programme in some areas. The Tories are also proposing to abolish the voluntary New Deal for Lone Parents.

²¹ J. Van Reenen, 'No more skivvy schemes? Active labour market policies and the British New Deal for Young People in context', Institute for Fiscal Studies, Working Paper no. 01/09, 2001, <http://www.ifs.org.uk/workingpapers/wp0109.pdf>. Other evaluations of the early stages of the New Deal can be found in B. Anderton, R. Riley and G. Young, *The New Deal for Young People: Early Findings from the Pathfinder Areas*, Employment Service, Sheffield, 1999, and in R. Layard, 'Welfare to work and the New Deal', *The Business Economist*, vol. 31, no. 3, pp. 28–40.

²² J. Hales et al., *Evaluation of the New Deal for Lone Parents: Early Lessons from the Phase One Prototype – Synthesis Report*, Department of Social Security, London, 2000. Evaluation reports for the other New Deals can be found at <http://www.employmentservice.gov.uk/english/about%5Fus/publications.asp>.

The **Liberal Democrats** propose to replace the New Deal with a flexible guarantee of help for all out-of-work jobseekers, whether or not they are claiming jobseeker's allowance. It would be administered through a merged Benefits Agency and Employment Service. The Lib Dems would not introduce any more sanctions and would review the effectiveness of the existing ones.