



Welfare Reform and the Minimum Wage

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Mike Brewer
Robert Joyce

Series editors: Robert Chote, Carl Emmerson and Luke Sibieta

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Summary

Work and training schemes

- Sensibly, there is general agreement between the three main parties on the need to tackle the large rise in youth and long-term unemployment caused by the recession.
- All three main parties plan to target unemployed people under the age of 25. The Liberal Democrats would introduce voluntary work placements solely for this group for one year. Labour and the Conservatives would make work or training compulsory for under-25s after ten and six months of unemployment respectively.
- The Conservative Party's proposals for welfare-to-work policies follow the general direction taken by the current government, but go a little further, spending £600 million more than the government over three years on welfare-to-work and training programmes.
- Labour and the Conservatives both plan to make the long-term unemployed partake in community work or face benefit sanctions.

Disabled people and incapacity benefits

- It is existing government policy to move all existing recipients of incapacity benefits to Employment and Support Allowance (or another – usually less generous – benefit if they are deemed fit to work by the medical test in ESA) by 2014. This reform will save money relative to the status quo. The Conservatives plan to do the same thing, but by 2012. The Conservatives' claim that they would save £600 million more over three years than the government's plans in this area (and that this would therefore offset the extra cost of their welfare-to-work reforms above) is not credible, precisely because the government has already set out plans to do the same thing. On the other hand, if the Conservatives can complete this process two years faster than the government is planning, there may be some temporary savings in 2012 to 2014.
- The Liberal Democrats do not comment on this area in their manifesto. But they propose better 'practical help' for people with disabilities to get to work, and funding of disability-related equipment to be 'already in place' when disabled people apply for a job (it is currently available only when a job has already been offered or started). Without more detail, it is impossible to assess the likely impact of this.

Lone parents

- None of the three main parties has suggested any changes to existing policy in this area.

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Minimum wage

- Labour proposes to ensure that the minimum wage rises at least in line with average earnings over the period to 2015. There is currently no explicit rule about changes over time. Since its introduction, the minimum wage has risen slightly faster than average earnings overall, so the main impact may be solely to reduce uncertainty about the future path of the minimum wage, which is sensible.
- The Liberal Democrats propose to equalise the minimum wage for all workers aged 16 and over (currently, there is a lower rate for 16- and 17-year-olds, a middle rate for 18- to 21-year-olds and a higher rate for those aged 22 and over). Although the Low Pay Commission has recommended that 21-year-olds be paid the adult rate, it has recommended that the lower rates for those aged 16–20 remain. A higher minimum wage for these young people might reduce the fraction in full-time education, but also lead to employers offering fewer jobs to these people if they have to pay the same as they pay to those aged 22 and over.

Benefit and tax credit reform

- The Labour Party has highlighted its plan to introduce a Better-off in Work Credit (BWC), for people who move into work and were previously on out-of-work benefits for 26 weeks or more, to ensure that they are at least £40 per week better off in work than on benefits for six months. A pilot of this policy was not a success. This suggests that Labour's preference for the BWC over use of the existing Working Tax Credit may reflect the fact that the former would be cheaper (because it is time-limited and existing workers are ineligible) rather than more effective.
- The Liberal Democrats propose to fix tax credit awards for six-month periods. This should make it considerably easier for families to work out what their entitlements would be if their circumstances changed (e.g. they moved into work). The disadvantage is that entitlements would be based on past circumstances, not current ones. This is an inescapable trade-off, but IFS researchers have previously argued that fixing tax credit payments for periods of time would be a sensible reform, all things considered.
- The Conservatives also plan to reform the administration of tax credits, to reduce fraud and overpayments. But no further details have been given.

This Briefing Note reviews developments in welfare policy under the current government and analyses the manifesto proposals of the three main political parties in this policy area. In some cases, we refer to statements made by the parties outside of their manifestos, in order to interpret or flesh out the detail of their proposals (we indicate this in the text). Note that many of the Labour Party's manifesto statements reflect existing government policy (again, we indicate this in the text where appropriate).

Other notes in this series will compare the three main parties' proposals on taxes and benefits, education policy and pensions.

Work and training schemes

Key policy developments under the current government

The current government's first approach to welfare-to-work programmes was the New Deal. There are a number of New Deals aimed at different groups on welfare, each with differing eligibility requirements and varying degrees of compulsion. Those for young people (under 25) claiming Jobseeker's Allowance (JSA) and the long-term unemployed were compulsory, but others (such as the New Deal for Lone Parents, New Deal for Disabled People, New Deal 50 plus and New Deal for Partners) were voluntary.

These separate New Deals have recently been replaced with the Flexible New Deal (FND). Under FND, all JSA claimants will face the same conditions, which will involve intensified job-search activity in months 6–12 of a JSA claim, and then a referral to an external provider for specialist help and advice if a claim reaches 12 months.² FND began to be rolled out in October 2008.

The government responded to the recession with two specific policy interventions (alongside an increase in the funding available to Jobcentre Plus to enable it to cope with the increased demand for its services): the Future Jobs Fund, and the Young Person's Guarantee. The Future Jobs Fund aims to provide 120,000 new jobs for young people, and 50,000 new jobs for the long-term unemployed in areas of high unemployment. Any employer – private, public or voluntary sector – can bid for government funds (up to £6,500 per job) to subsidise the creation of new jobs. The jobs have to pay at least national minimum wage, be full-time, last at least six months and be of benefit to the local community. Additionally, employers have to show that the jobs would not have happened without the Future Jobs Fund. The Young Person's Guarantee is that, from January 2010, all under-25s who have been unemployed for six months will have the chance of a job (possibly through the Future Jobs Fund), work-focused training or a work experience placement in the Community Task Force. From March 2010, take-up of this 'guarantee' became a condition of receipt of benefit.³

Manifesto announcements

The Labour Party's manifesto restates existing government plans.

Conservative Party:

- Replace all existing welfare-to-work programmes for the unemployed, lone parents and disabled people with one mandatory Work Programme for people on out-of-work benefits, delivered by private and voluntary sector organisations, with payment almost entirely by results, costing £600 million more than government plans over three years.⁴
- Long-term unemployed to take part in community work programmes as a condition of receiving benefit.⁵
- Stop out-of-work benefits for up to three years for people who refuse to accept 'reasonable' job offers.

Liberal Democrats:

- A Work Placement Scheme for up to 800,000 workless under-25s, who would be paid £55 per week for a maximum of three months (estimated by the Liberal Democrats to cost £660 million in 2010–11).

The Conservative Party's proposed Work Programme is the 'toughest' of the work/training schemes for young people in the sense that it will be mandatory for under-25s who have been unemployed for at least

² Department for Work and Pensions, *Ready for Work: Full Employment in Our Generation*, Cm 7290 (2007–8 session), TSO, London, 2007, <http://www.dwp.gov.uk/docs/readyforwork.pdf>.

³ Budget 2010 announced that this Young Person's Guarantee would be funded into 2011–12, at a cost of £450 million in that year, which would extend the cumulative number of new jobs to 200,000.

⁴ The costing was given in Conservatives, *Get Britain Working*, <http://www.conservatives.com/~media/Files/Policy%20Documents/GetBritainWorking.ashx?dl=true>. Some more details of the policy package are given in Conservatives, *A New Welfare Contract*, http://www.conservatives.com/News/News_stories/2010/04/~media/Files/Downloadable%20Files/a_new_welfare_contract.ashx?dl=true.

⁵ Conservatives, *Get Britain Working*, <http://www.conservatives.com/~media/Files/Policy%20Documents/GetBritainWorking.ashx?dl=true>. That document also says that, once the recession is over, 'long-term' unemployment would be defined as having claimed Jobseeker's Allowance for longer than two of the previous three years.

six months,⁶ compared with ten months under the Labour plan and an entirely voluntary scheme under the Liberal Democrats' plans. For those aged 25 and over, it is not clear at what stage in the unemployment spell the Conservative Party's Work Programme would become mandatory.

For those aged 25 and over receiving JSA, the government plans a guaranteed (and mandatory) job placement after two years of unemployment. The Conservative Party's proposal that the long-term unemployed must take part in community work in order to receive benefits seems similar to existing government plans to require the long-term unemployed to do 13 weeks of work experience if they do not participate in the subsidised job programme.⁷ The Conservative Party's plan to stop out-of-work benefits for up to three years for people who refuse to accept 'reasonable' job offers appears to be a toughening of an existing sanction.

The Conservative Party's plan to combine all welfare-to-work programmes (into a single Work Programme) goes further than the government's stated intention, which is to test, from March 2011, an employment programme that would include both those on unemployment (JSA) and disability (ESA) benefits (i.e. it would combine FND and Pathways to Work).⁸

In *Get Britain Working*, the Conservative Party claimed that its package of welfare-to-work reforms (which includes an increase in apprenticeships and further education (FE) college places not discussed here) would cost around £600 million over three years, and that this cost would be covered in the long run by savings from moving people off benefit and into work faster, and in the short run by savings from moving all recipients of incapacity benefits onto Employment and Support Allowance (ESA).⁹ We are not able to assess the Conservative Party's estimate of the additional gross cost of the Work Programme, nor what savings it might lead to in the long run. However, as discussed in the next section, it does not seem credible to argue that the Conservative Party would make greater savings from reassessing recipients of incapacity benefits than the current government's plans, and this implies that the Conservative Party's plans would involve higher public spending in this area than the government's, at least in the short run. Note that the Conservative Party has also said in its manifesto that any savings arising from its welfare reforms would be used to reduce the couple penalty in the tax credit system. As the extent of the savings from the Conservative Party's welfare plans compared with the government's current plans is extremely difficult to predict, and as some of the savings have been earmarked to pay for the extra costs of the Work Programme, the amount of savings (if any) in this area that could be used to reduce couple penalties in the tax credit system is not at all clear.

The Liberal Democrats' Work Placement Scheme is not a permanent reform, but part of a one-year 'job creation package' that they think would cost £660 million in 2010–11 (a claim that we have not been able to assess). The Labour Party's promise to guarantee work or training for 200,000 under-25s who have been unemployed for at least six months is existing government policy, not a new pledge, and so we presume that the Liberal Democrats' package is additional to this. Participation in the Work Placement Scheme would be entirely voluntary and no welfare receipt would be conditional upon such participation. A risk is that the types of people *choosing* to participate in this scheme are those that would be relatively likely to find work in the absence of the policy, which would reduce the effectiveness of the scheme at increasing employment (and thus the return for the taxpayer).

⁶ This is not in the manifesto but is stated in Conservatives, *Get Britain Working*, <http://www.conservatives.com/~media/Files/Policy%20Documents/GetBritainWorking.ashx?dl=true>.

⁷ Department for Work and Pensions, *Building Bridges to Work: New Approaches to Tackling Long-Term Worklessness*, Cm 7817 (2009–10 session), TSO, London, 2010, <http://www.dwp.gov.uk/docs/building-bridges-to-work.pdf>.

⁸ Department for Work and Pensions, *No One Written Off: Reforming Welfare to Reward Responsibility*, Cm 7363 (2007–08 session), TSO, London, 2008, <http://www.dwp.gov.uk/docs/noonewrittenoff-complete.pdf>.

⁹ In this note, we use the phrase "recipients of incapacity benefits" to refer to those receiving Incapacity Benefit and those receiving Income Support by virtue of having a disability.

Disabled people and incapacity benefits

Key policy developments under the current government

The number of people receiving sickness and disability benefits rose considerably during the late 1980s and early 1990s, leading to the reform in 1995 that brought in Incapacity Benefit, but the number of working-age recipients of IB continued to grow after 1995, particularly amongst women.¹⁰ Since October 2003, the government has been piloting reforms which both provide greater support (financial and non-financial) and impose greater obligations to encourage claimants of incapacity benefits to move into paid work. These were known as the 'Pathways to Work' reforms, and included a new benefit, Employment and Support Allowance, introduced in 2008 for new claimants, to replace Incapacity Benefit and Income Support for those with a disability.

The Pathways to Work package of reforms for new claimants of incapacity benefits had three features: mandatory monthly work-focused interviews for the first six months (those with particularly serious medical conditions are exempted); a set of health-related and labour market programmes; and increased financial support and incentives, with a new Return to Work Credit paying £40 a week for the first year of paid employment after leaving incapacity benefits if gross annual earnings are below £15,000. Pathways to Work was rolled out nationwide in 2008 (initially, it was compulsory for new claimants and for existing claimants aged under 25, but it was later extended to other recipients of incapacity benefits), but a regime to replace Pathways to Work was proposed by the government just before the general election.¹¹

The key differences between ESA and IB are:

- The generosity of ESA is no greater than JSA for the first 13 weeks. After that, it is more generous than JSA only if a person has a serious health condition or participates in work-related activities. IB, by contrast, placed no requirements on recipients to do anything related to work, and Pathways to Work for IB recipients required only that they attend work-focused interviews.
- The medical test for ESA, the Work Capability Assessment, asks people about what they can do, rather than what they cannot do. The government expected that fewer people taking the test would go on to qualify for ESA than was the case for IB.
- ESA recipients will have their health reassessed at least every two years.
- ESA is available as a contributory or a means-tested benefit: this means that all adults claiming an income support programme because of disability or poor health should, in time, all be receiving the same benefit (ESA), rather than split across two (IB and Income Support, IS).

The government has always said that it intended to make all existing recipients of incapacity benefits move to ESA starting from 2010. It clarified recently that this would start in October 2010, and should be completed by 2014 (there are around 1.5 million people still receiving incapacity benefits, all of whom would have to go through the Work Capability Assessment). The government's initial estimate was that moving recipients of incapacity benefits to ESA would save £1 billion over five years, although it has since revised this estimate upwards in the light of the proportion of ESA claimants being found fit to work by the WCA.¹²

¹⁰ See M. Anyadike-Danes and D. McVicar, 'Has the boom in Incapacity Benefit claimant numbers passed its peak?', *Fiscal Studies*, 2008, 29, 415–34, with data available at http://www.erini.ac.uk/dsp_sub.cfm/Page/IBGrowth/Parent/. References to IB are usually intended to include those receiving the disability premium in Income Support.

¹¹ Department for Work and Pensions, *Building Bridges to Work: New Approaches to Tackling Long-Term Worklessness*, Cm 7817 (2009–10 session), TSO, London, 2010, <http://www.dwp.gov.uk/docs/building-bridges-to-work.pdf>.

¹² The latest timetable is in Department for Work and Pensions, *Building Bridges to Work: New Approaches to Tackling Long-Term Worklessness*, Cm 7817 (2009–10 session), TSO, London, 2010, <http://www.dwp.gov.uk/docs/building-bridges-to-work.pdf>. The government's initial estimate was in *Explanatory Memorandum to The Employment and Support Allowance (Transitional Provisions, Housing Benefit and Council Tax Benefit) (Existing Awards) Regulations 2010*,

Manifesto announcements

The Labour Party's manifesto restates existing government plans.

Conservatives:

- Move all existing recipients of incapacity benefits to Employment and Support Allowance by 2012.

Liberal Democrats:

- Provide disabled people with 'better practical help to get to work' using Jobcentre Plus services and the voluntary and private sectors.
- Ensure that funding is already in place for necessary disability-related equipment when disabled people apply for jobs (currently, the Access to Work scheme ensures such funding for those already in jobs or about to start a job or Work Trial).

Both Labour and the Conservatives pledge to move recipients of incapacity benefits onto ESA. This reform should save money for at least two reasons:

1. For some people (particularly where IB claimants were previously receiving additional payments for dependants), entitlements to ESA are lower than those for IB.
2. The fraction of people undergoing the Work Capability Assessment (WCA) – the medical test in ESA – who are deemed fit for work is higher than it was under IB.¹³ Those deemed fit to work must claim a different out-of-work benefit, which will almost always be less generous than IB (and ESA).

The Conservative Party estimates that it will save £600 million over three years, compared with the government's plans, from moving the remaining recipients of incapacity benefits to ESA – which requires all claimants to undergo the WCA – by 2012.¹⁴ This is a curious claim because the Conservatives' policy is identical – other than the timing, which we discuss below – to stated government policy. The Conservative Party has argued that these additional savings are credible because it does not believe that the government would actually make savings from this reform – perhaps it suspects that the government would find some way of protecting recipients of incapacity benefits who were deemed 'fit to work' by the Work Capability Assessment from experiencing the large fall in benefit income that would otherwise follow from having to claim JSA rather than IB or IS – and because it asserts that the government has not built any savings into its forecast of social security spending.

It is hard to find evidence to support either of these points. The government has set out a clear plan for moving recipients of incapacity benefits onto ESA (albeit, as we discuss below, at a slightly slower rate than proposed by the Conservatives), and it has announced how much it expects to save from this reform. Unfortunately, the only government forecasts of social security spending in 2011–12 and beyond are at such an aggregated level that it is not possible to assess what savings they assume from this particular reform.

Fundamentally, though, this is not a credible way of identifying 'savings' relative to the government's plans, because any opposition party could identify alleged savings in this way at any time by simply asserting that the government will not do things to which it has publicly committed. On the other hand, as

http://www.opsi.gov.uk/si/si2010/em/uksiem_20100875_en.pdf. The revision was in paragraph 5.9 of HM Treasury, *Budget 2010: Securing the Recovery*, HC 451 (2009–10 session), TSO, London, 2010, http://www.hm-treasury.gov.uk/d/budget2010_chapter5.pdf.

¹³ This was one of the government's intentions for ESA, but the harshness of the medical test has been strongly criticised: see Citizens Advice, *Not Working: CAB Evidence on the ESA Work Capability Assessment*, London, March 2010, http://www.citizensadvice.org.uk/index/campaigns/policy_campaign_publications/evidence_reports/er_benefitsandtaxcredits/not_working.

¹⁴ See Conservatives, *Get Britain Working*, <http://www.conservatives.com/-/media/Files/Policy%20Documents/GetBritainWorking.ashx?dl=true>.

we mentioned above, the Conservative Party is promising to complete the transition from IB to ESA by 2012, two years earlier than the government's plans. If this can be achieved, then the Conservative Party's plans may lead to a temporary saving in 2012 to 2014 relative to the government's plans (though it is not obvious that a Conservative government would be able to carry out the additional WCAs that this would require, and at what cost).

The Liberal Democrats' manifesto does not comment on the move from IB to ESA. Without more detail, it is impossible to judge the extent to which their policies designed to increase employment amongst disabled people would be effective. According to the Liberal Democrats' manifesto, these policies would involve no net cost.

Lone parents

Key policy developments under the current government

The UK has a high proportion of families with children headed by a lone parent (23% of children live in a lone-parent family¹⁵). Lone parents tend to have relatively few formal educational qualifications, and those in paid work tend to work part-time for relatively low wages. In August 2009, there were 715,000 lone parents receiving Income Support and 41,000 receiving JSA.¹⁶ In 1997, the UK had relatively generous rules for lone parents who claim out-of-work benefits: lone parents who satisfied the means test were allowed to claim Income Support, rather than Jobseeker's Allowance, and were thereby not required to look for work until their youngest child reached 16. No doubt reflecting these points, fewer than half of lone parents were in work in 1997, and relative poverty rates for children in lone-parent families were much higher than for children in couple families.

Early policy developments for lone parents were as follows:

- The New Deal for Lone Parents, where personal advisers (case workers) provided tailored support and advice;
- Strengthening of financial incentives to work, chiefly through changes to tax credits, but also through the introduction of the minimum wage and greater availability of childcare;
- A requirement that lone parents receiving Income Support met at least once a year with a personal adviser, whose main aim was to promote the New Deal for Lone Parents, in what was called a work-focused interview.

A much more substantial reform began in 2008. By 2011, lone parents whose children are all aged 7 or over will not be entitled to claim IS as a lone parent, and will instead have to claim ESA (if disabled) or JSA (if not); if they claim JSA, they will then have to look for work as a condition of receiving benefits. The government has also announced that lone parents will have to take steps to prepare for work when their youngest children are aged 3; this is due to begin in certain parts of the country in late 2010 (the co-called 'Progression to Work pathfinders').¹⁷

Manifesto announcements

The only manifesto announcement in this area was by the Labour Party; it was limited to restating existing government intentions.

¹⁵ Table 2.4 of Office for National Statistics, *Social Trends*, 39, Palgrave Macmillan, Basingstoke, http://www.statistics.gov.uk/downloads/theme_social/Social_Trends39/Social_Trends_39.pdf.

¹⁶ Both to the nearest thousand. IS caseload from DWP Tabulation Tool (<http://research.dwp.gov.uk/asd/tabtool.asp>); JSA caseload from 'Lone Parents Receiving JSA', http://research.dwp.gov.uk/asd/asd1/jsa/lone_parents/JSALP_Mar10.xls.

¹⁷ Department for Work and Pensions, 'Realising potential: developing personalised conditionality and support: a discussion paper on next steps in implementing the Gregg Review', 2009, <http://www.dwp.gov.uk/docs/gregg-review-discussion-paper-jan09.pdf>.

Minimum wage

Manifesto announcements

Labour:

- Ask the Low Pay Commission to ensure the minimum wage rises at least in line with average earnings over the period to 2015.

Liberal Democrats:

- Set the minimum wage at the same level for all workers aged 16 and over.

On average, the minimum wage grew a little faster than average earnings over the period 1998 to 2010, despite there having been no formal requirement for it to increase at all (if the minimum wage had been increased in line with average earnings, it would be around £5.10 per hour now, instead of the actual £5.80). On the other hand, its rate of growth has been far from uniform: much of the increase took place in 2001, 2003 and 2006; since 2006, the rate of increase has been slightly slower than the rate of growth in average earnings. Thus, it is hard to see that Labour's manifesto policy would significantly change the *average* rate of minimum wage growth from what we have seen in practice, but an explicit uprating rule should reduce uncertainty for employers and employees about the long-term path of the minimum wage. This is sensible, and overdue. It should be noted, however, that it is not clear that increases in the national minimum wage are effective in raising the incomes of low-income households.¹⁸

The Liberal Democrats plan to set the minimum wage at the same level for all workers aged 16 and over. Currently, there is a lower rate for 16- and 17-year-olds, a 'middle' rate for 18- to 21-year-olds and a higher rate for those aged 22 and over. It is not clear that this would be a sensible reform overall. An increase in the minimum wage for 16- to 21-year-olds would increase the attractiveness of working compared with remaining in full-time education, which would work against the grain of government policy to encourage young people to remain in some form of education after they reach age 16. Furthermore, an increase in young workers' minimum wage might lead to fewer jobs being offered to this group if employers decide that they would rather employ someone aged 22 or over at the same rate. In addition, increases in the minimum wage are generally advocated on distributional grounds, but many workers aged under 22 live with their parents and therefore do not necessarily have a low household income. It is worth noting that the Low Pay Commission has recently repeated its recommendation that 21-year-olds be paid the adult rate (currently payable at age 22), mostly on the grounds that only 10% of 21-year-olds (55,000 people) are paid below the adult minimum wage, but that the lower rates for 16- to 20-year-olds continue.¹⁹

The Conservatives have not proposed any reforms to the minimum wage (but their manifesto confirms that they would not abolish it).

Benefit and tax credit reform

Manifesto announcements

All three parties have proposed changes to entitlements to Child Tax Credit, and the Conservative Party and the Liberal Democrats have proposed cuts to the Child Trust Fund: these, and other changes to personal taxes and benefits, will be assessed in a later Election Briefing Note on tax and benefit reform proposals. Below, we analyse those tax and benefits changes most relevant for welfare-to-work policy.

¹⁸ See, for example, M. Brewer, R. May and D. Phillips, *Taxes, Benefits and the National Minimum Wage*, Low Pay Commission Research Report, 2009, http://www.lowpay.gov.uk/lowpay/research/pdf/FromLPC_Document_Feb.pdf.

¹⁹ *National Minimum Wage: Low Pay Commission Report 2010*, Cm 7823 (2009–10 session), TSO, London, 2010, http://www.lowpay.gov.uk/lowpay/report/pdf/LPC_Report_2010.PDF.

Labour:

- Introduce Better-off in Work Credit (BWC), ensuring that people are at least £40 a week better off in work than on benefits for the first six months after moving into work (this is existing government policy).
- Reform Housing Benefit (HB) so that 'we do not subsidise people to live in the private sector on rents that other ordinary working families could not afford'.

Conservatives:

- Reform administration of tax credits to reduce fraud and overpayments. No further details have been given.

Liberal Democrats:

- Fix tax credit awards for six-month periods.

The Better-off in Work Credit is intended to top up people's income so that they are at least £40 a week better off in work than on benefits if they had previously been on out-of-work benefits for 26 weeks or more.²⁰ A pilot of this policy was not a success, with an evaluation concluding that 'In the course of its year-long pilot period, very few customers were entitled to a BWC' and 'Overall the evidence suggests that the BWC as piloted has not been a significant addition to the range of back-to-work support'.²¹ On the other hand, the government is proposing to increase the value of the credit by £15 per week from the one that was piloted. The negative findings of the evaluation do not mean that the policy is necessarily a bad one – in that it would fail a cost-and-benefit analysis – but they do question the point of complicating the benefit system in this way if few people are likely to be affected and their behaviour is unlikely to change.

Recent years have seen a growing use of time-limited, targeted, back-to-work incentive payments in the UK, including:

- A 12-month supplement to the Working Tax Credit (WTC) for those aged 50 or over who have left an out-of-work benefit and moved into work of at least 16 hours per week. It increases WTC entitlement by up to £37 a week.
- The Return to Work credit, which is payable for up to 12 months to people who have left ESA or incapacity benefits to move directly into work of at least 16 hours per week and whose gross earnings do not exceed £15,000 a year. It is worth £40 per week.
- The In Work Credit, which is payable for up to 12 months to lone parents who have left an out-of-work benefit to move into work of at least 16 hours per week. It is worth £40 per week (£60 per week in London).

The key features of these payments are:

- Recipients have to be in work.
- Recipients have to have previously been receiving an out-of-work benefit.
- The payment is only made for a limited period of time (usually a year).

The BWC shares these properties. As with the existing benefits, it is unclear how effective BWC will be as an incentive for people to take work, given that it is paid for only six months. It could be argued that the

²⁰ Department for Work and Pensions, *Building Britain's Recovery: Achieving Full Employment*, Cm 7751 (2009–10 session), TSO, London, 2009, <http://www.dwp.gov.uk/docs/building-britains-recovery.pdf>.

²¹ R. Dorsett, H. Metcalf and H. Rolfe, with H. Bewley, A. Dhudwar, A. George and R. Hopkin, *The Better-off in Work Credit: Incentives and Experiences*, DWP Research Report 637, CDS, Leeds, 2010, <http://research.dwp.gov.uk/asd/asd5/rreports2009-2010/rrep637.pdf>.

fact that the government is proposing to introduce this sort of benefit is a sign that it is disappointed in the results of its previous efforts to increase the financial gain to being in work, such as the introduction of Working Tax Credit, and its reforms to speed up administration of Housing Benefit; it is not clear why the government needs to introduce a new benefit when WTC could be used to help low-income working families. A likely attraction is that BWC will be considerably cheaper than using WTC to deliver the same level of support, because of the time-limited nature of BWC payments and the fact that existing workers are not eligible.

It is not clear what the Labour Party intends with its reform to Housing Benefit, but we presume that the effect would be to lower awards of HB to those in the private rental sector (known as 'Local Housing Allowance'). This would continue a direction of reform announced in Budget 2010.

The Liberal Democrats have suggested fixing tax credit awards for six-month periods (at present, awards are based on annual income, and subject to a reconciliation at the end of the year, which can lead to over- or under-payments). This would return tax credits to a system more like that under Working Families' Tax Credit. Fixed awards of tax credits would mean that awards would be based on verifiable, backward-looking information (such as earnings over some past period), and would then not change for six months. The advantages of such a system are that families will never have to face an under- or over-payment and that it should be considerably easier for families to work out what their awards might be if they moved into work. The disadvantage of such a system is that awards would necessarily be based on past, rather than current, circumstances. The key question is whether this slight loss of precision in the targeting of tax credit awards is a price worth paying for greater certainty and transparency. In past work, IFS researchers argued that it almost certainly would be.²²

Conclusion

There is general agreement on the need to tackle the large rise in youth and long-term unemployment that has followed the recession, which is very sensible, and on trying to reduce the large numbers of people who are out of work and claiming a disability benefit. However, what is more striking having reviewed the three main parties' manifestos is what they do not contain.

None of the three main parties has proposed a substantial increase in the generosity of social security benefits (although government plans are for the Pension Credit Guarantee and the Basic State Pension (from April 2012) to rise in line with average earnings, rather than inflation as is the case for most other benefits). All three parties voted in favour of the Child Poverty Act, which requires the future government to eradicate child poverty by 2020. It is difficult to escape the conclusion that meeting this target would require substantial increases in the generosity of social security benefits for families with children (as well as substantial increases in the private incomes of those families through higher employment rates).

On the other hand, the current state of the public finances may mean that the more likely scenario is for the next government to implement more substantial cuts in social security spending than any of the three main parties have suggested in their manifestos. They all acknowledge that dealing with the UK's fiscal deficit is of paramount importance, but none is proposing anything but very minor cuts to spending on welfare benefits and tax credits. IFS researchers have found that the public spending plans set out by Alistair Darling in his last Budget imply departmental spending falling by 11.9% by 2014–15 but social security spending growing by 4.4% over the same period.²³ Obviously, productivity improvements mean

²² M. Brewer, E. Saez and A. Shephard, 'Means-testing and tax rates on earnings', in J. Mirrlees, S. Adam, T. Besley, R. Blundell, S. Bond, R. Chote, M. Gammie, P. Johnson, G. Myles and J. Poterba (eds), *Dimensions of Tax Design: The Mirrlees Review*, Oxford University Press for Institute for Fiscal Studies, Oxford, forthcoming; draft available at http://www.ifs.org.uk/mirrleesreview/press_docs/rates.pdf.

²³ C. Emmerson, 'Public services: the axe comes soon', Post-Budget briefing presentation, 25 March 2010, IFS, <http://www.ifs.org.uk/budgets/budget2010/emmerson.pdf>.

one might be able to squeeze more public services from a given level of departmental spending, whilst the same is not true for spending on cash benefits. But these vastly diverging trends look unbalanced, and a post-election government may agree.²⁴

²⁴ For an overview of the options the government has for fiscal tightening, see M. Brewer, J. Browne, A. Leicester and H. Miller, 'Options for fiscal tightening: tax increases and benefit cuts', in R. Chote, C. Emmerson and J. Shaw (eds), *The IFS Green Budget: February 2010*, <http://www.ifs.org.uk/publications/4732>.