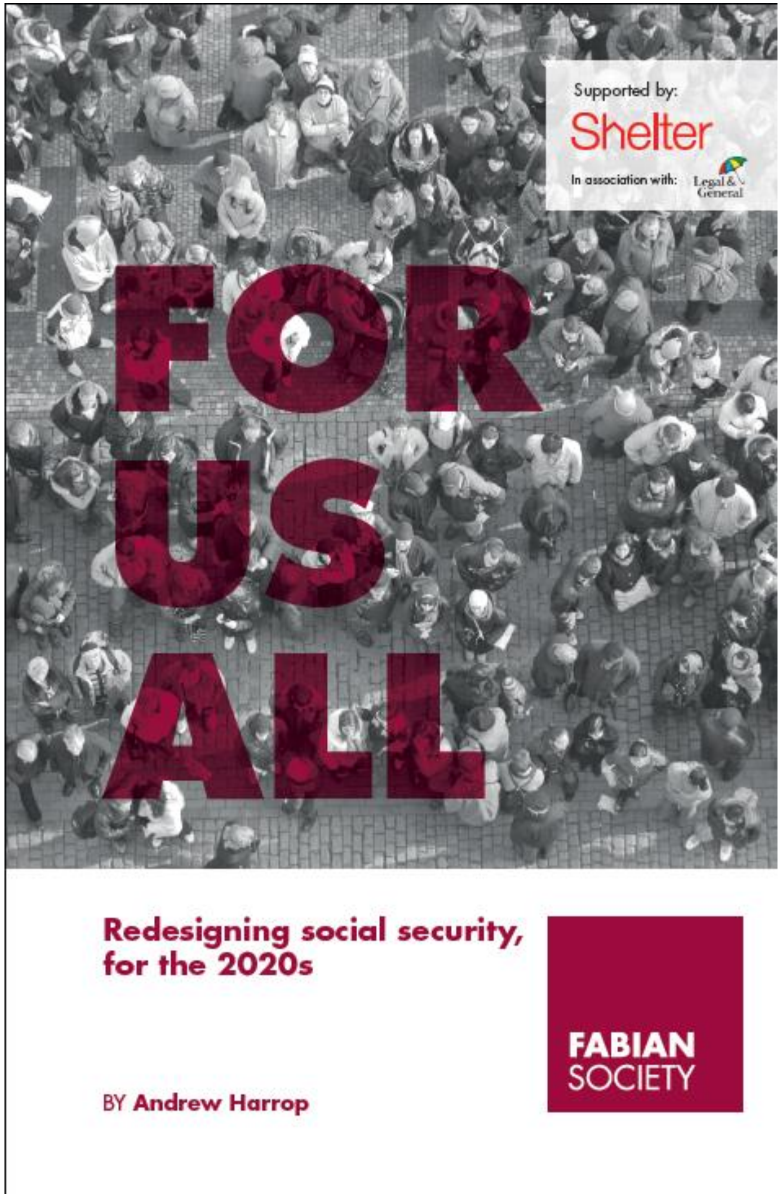
# For Us All: redesigning social security for the 2020s

# Appendices



# 1. Possible aims for social security

| Possible aims for social security: commentary | |
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| **Poverty and inequality** | |
| 1. Prevent destitution and provide a safety-net for all | For most people, preventing destitution and extreme hardship is the first responsibility of social security in a wealthy society. Destitution is the inability afford to buy essentials such as shelter, food, heating and lighting, suitable clothing and basic toiletries.[1] |
| 2. Protect people who can't be expected to work | There is very broad support for social security protecting and sharing resources with people who cannot reasonably be expected to work, including pensioners, people with significant disabilities and their carers, and mothers of infants. Most would agree that this support should go beyond preventing destitution to guaranteeing people the resources to participate in society (ie avoid poverty) especially for people who can't be expected to work on a long-term basis. The specification of who cannot be expected to work is always controversial and has narrowed over recent decades. |
| 3. Tackle poverty (ie insufficient resources to participate in society) | The idea that almost everyone should be able to keep up with society's long-term social and economic progress is widely shared, especially when looking over the passage of decades (ie living standards typical in the 1950s are now viewed as unacceptable). But the concept of poverty in rich economies remains controversial on the right, even though it is internationally recognised: there is scepticism regarding the link between income and life chances; suspicion of an inequality-based poverty measure based on the distance from typical living standards; and hostility to any poverty line that seems compatible with conspicuous consumption. Support for tackling child poverty tends to be stronger, as children bear no responsibility for the financial circumstances in which they find themselves. These days most children in poverty live with a working adult, challenging traditional associations between poverty and worklessness (and therefore with behavioural conceptions of poverty that focus on 'chaotic' lifestyles and 'troubled' families). |
| 4. Reduce income inequality | Social security (and the taxes which pay for it) can play a part in reducing inequality in disposable incomes. This inequality can be measured at the level of individuals or households, and at a single point in time or over a lifetime. Reducing inequality means tackling poverty but also narrowing the gap between middle and high incomes. Tackling inequality of outcomes is a contested public policy goal, but has become more widely accepted since the financial crisis. |
| 5. Reduce wealth inequality and help everyone build assets | Wealth inequalities are greater than income inequalities, and are more closely associated with differences in life chances and health.[2] Both social security and the taxes that pay for it have not traditionally had much focus on assets (although equalising incomes influences future wealth indirectly). There is growing interest in policies that directly address low assets and wealth inequality. |
| 6. Improve life chances and equality of opportunity, especially for children and young people | This goal is supported across the political spectrum (although the right tends to emphasise 'mobility' for a minority and the left narrowing the gap for everyone). The impact of financial transfers, compared to other interventions, is contested. But the evidence suggests that support for family incomes is as effective at improving outcomes for children as spending on public services.[3] |
| 7. Ensure low and middle income households share rising prosperity | This goal is linked to the earlier aims of addressing poverty and income and wealth inequality, but is specific to the circumstances of a growing economy and rising affluence in society. It matters when thinking about the generosity of entitlements over time, as opposed to the design of the system at a single moment, and implies that entitlements should rise in a way that shares the proceeds of rising national productivity and prosperity. |

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| **Distribution between people and across life** | |
| 8. Support economic stability, by smoothing livings standards and demand over the business cycle | Social security is an 'automatic stabiliser' for economic demand. Traditionally this function has been associated with areas of spending which rise during downturns, as a result of lower employment and earnings. Only a fairly small share of benefit spending is cyclical in this way. However, non-cyclical social security (eg pensions) also acts as a stabiliser, as it remains constant even when other parts of the economy shrink, and so can grow as a share of GDP. |
| 9. Transfer resources across individuals' lives | Social security is often an intra-temporal transfer of resources over our lifetimes (distribution 'from us to us'). This smoothes out lifetime living standards, responding to times of reduced earnings and/or higher living costs. Lifecycle distribution is most obvious when it comes to pensions and support for children, but it also significant during working life, at times when earnings are low or costs high.[4] With greater employment flexibility and earnings volatility a system that responds quickly to changing economic circumstances can offer resilience, security and a platform for taking risks in the future. |
| 10. Reflect variations in family size and living costs and invest in the next generation | People with the same incomes have different living standards if their living costs and household size are not the same. Social security can address this through 'horizontal' distribution, between people with similar market incomes to reflect the cost of disability, children, childcare and housing. This is one of the main reasons for providing financial support to working households, as people with low earnings cannot be expected to meet all the costs of children and rent. Benefits for children are also an investment in the country's future wellbeing and productivity. |
| 11. Transfer resources between income groups / geographic areas / age cohorts / men and women | Benefits even out living standards and consumption by making transfers between people and places with high and low market incomes. They play an important and under-debated role in distributing prosperity geographically (to areas with lower earnings and employment; more pensioners and children; and higher housing and childcare costs); they transfer resources between age cohorts (though much of this effect vanishes, when you look at each individual's whole lifecourse); and they distribute money from men to women to equalise resources and power (both within and between households). These intra-personal transfers represent a smaller share of total spending when viewed over a lifetime than a single point in time. [5] |
| 12. Insure against unpredictable risks | Social security can provide financial protection against risks such as unemployment, disability and caring responsibilities which are hard to predict and may be unlikely (in contrast to old age or child-rearing). This insurance function combines both inter-temporal and inter-personal transfers. Insurance is valuable even if it is never used, as the future possibility of hardship causes anxiety and may lead people to avoid taking (potentially beneficial) risks. |
| **Incentivise beneficial behaviour** | |
| 13. Make work pay and maximise sustainable employment and earnings | The design of social security can play an important role in supporting people to retain a job, enter and remain in work, and progress in terms of hours and pay. This matters from the perspective of individuals and the whole economy, both immediately and for future prospects. Social security should make transitions into work and progression pay; it should be designed to reduce the risk of people leaving work; and many (but not all) commentators believe it should be accompanied by support and conditions, where there is evidence that these improve employment-related outcomes. |
| 14. Reward and support valuable non-market contributions | Valuable contributions include caring for disabled relatives, and infant and pre-school children. The boundaries and generosity of this support is a source of controversy. For example lone parents and second earners in couples receiving means-tested benefits are now expected to seek work when their youngest child is aged 5. |

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| 15. Support additional private provision and other choices with long-term benefits | Social security should support individuals and employers to make additional provision on top of government entitlements, in the form of private saving, insurance or loans. The system should also support other activities with long-term benefits for individuals and the country, including education and training, preparation for work during illness, and starting a business. |
| 16. Increase personal power, control and responsibility | Systems which give people money provide choice and agency (compared to services in-kind) but they may also increase risks relating to budgeting and debt. Payments to each adult in a household give women more power and independence. |
| **Fair conditions and public acceptability** | |
| 17. Provide a system the nation can afford and is prepared to pay for | There are both subjective and objective considerations regarding the affordability of social security. Subjectively, there is a limit on the public's willingness to pay taxes and particular hostility to supporting groups seen as 'undeserving', which has led to public hostility to spending on 'welfare'. The Conservative government has promoted the idea that no household should be paid more in social security than a typical individual earns. Objectively, there is an upper limit to taxation in a market economy, where further revenue raising becomes counter-productive – although there is no evidence that the UK is anywhere close to that point. There are also opportunity costs to spending on social security, as opposed to public services or investment. Affordability should be considered from the standpoint of a single point in time and of costs over the long term. Assessments of affordability also need to take account of the costs of any alternative provision (eg private sector schemes). |
| 18. Require past or future contributions in exchange for support | The idea of support in exchange for contribution is relevant to entitlements earned on the basis of specific contributions; and also the wider idea that social security system should reflect people's general contributions to society and the public finances. These considerations are increasingly important in the context of very high levels of migration, as well as broader concerns about 'desert' in social security policy. |
| 19. Require people to meet conditions in exchange for support | In recent decades benefits have increasingly been linked to immediate 'conditions', as opposed to previous or future 'contributions'. Clear conditions are intended to allay public anxiety regarding free-riding and dessert. They also aim to improve employment outcomes and prevent long-term detachment from work. Some commentators fear that the policing of conditions actually increases stigma and hostility; or that work-related requirements prevent people from leading creative lives that blend paid and unpaid work.[6] Others draw a distinction between tough, prescriptive conditions and a looser requirement for participation in some form of socially useful activity.[7] |
| 20. Maintain entitlements as a right for all, that bind people together | Social security can be designed in ways that divides people or brings them together, depending on how restrictive eligibility is. Creating a system that unites different sorts of people may be thought of as a social good in itself. It is also likely to sustain support for entitlements, where many people stand to benefit. Creating separate systems for different groups to achieve similar goals creates unnecessary division (eg supporting childcare through both benefits and tax allowances).[8] High levels of migration have also raised questions of the boundaries of the community which shares rights to social security (ie citizens? residents? people who have established a connection to the country?) |
| 21. Achieve simplicity, transparency and minimal interference | Simple, non-intrusive systems are more likely to be accurate and achieve high take-up, as well as being less costly to administrate. This also reduces stigma (and self-stigma) and aides public confidence and understanding. Achieving this goal might imply a flat-rate system or the greater automation of today's benefits, so that social security feels more like PAYE taxes, working invisibly in the background. Either system is likely to be neutral in its moral connotations, compared to complex and intrusive assessments based on needs and conditions. |

# 2. Today's social security system, assessed against possible policy aims

| | Is the system for children and working-age adults better or worse than for pensioners? | Is it getting better or worse in the 2010s? | With current policy, will it get better or worse in the 2020s? |
|---|---|---|---|
| **Poverty and inequality** | | | |
| 1. Prevent destitution and provide a safety-net for all | ✖ | ⇩ | ⇩ |
| 2. Protect people who can't be expected to work | ✖ | ⇩ | ⇩ |
| 3. Tackle poverty (ie insufficient resources to participate in society) | ✖ | ⇩ | ⇩ |
| 4. Reduce income inequality | ✖ | ⇩ | ⇩ |
| 5. Reduce wealth inequality and help everyone build assets | ✖ | ⇔ | ⇔ |
| 6. Improve life chances and equality of opportunity, especially for children and young people | ✓ | ⇩ | ⇩ |
| 7. Ensure low and middle income households share rising prosperity | ✖ | ⇩ | ⇩ |
| **Distribution between people and across life** | | | |
| 8. Support economic stability, by smoothing livings standards and demand over the business cycle | ✓ | ⇩ | ⇩ |
| 9. Transfer resources across individuals' lives | ? | ⇩ | ⇩ |
| 10. Reflect variations in family size and living costs and invest in the next generation | ✓ | ⇩ | ⇩ |
| 11. Transfer resources between income groups / geographic areas / age cohorts / men and women | ? | ⇩ | ⇩ |
| 12. Insure against unpredictable risks | ? | ⇩ | ⇩ |
| **Incentivise beneficial behaviour** | | | |
| 13. Make work pay and maximise sustainable employment and earnings | ✖ | ⇔ | ⇧ |
| 14. Reward and support valuable non-market contributions | ✖ | ⇔ | 🌀 |
| 15. Support additional private provision and other choices with long-term benefits | ✖ | ⇔ | ⇔ |
| 16. Increase personal power, control and responsibility | ✖ | ? | ⇔ |
| **Fair conditions and public acceptability** | | | |
| 17. Provide a system the nation can afford and is prepared to pay for | ✓ | ⇧ | ⇧ |
| 18. Require past or future contributions in exchange for support | ✖ | ⇩ | ⇔ |
| 19. Require people to meet conditions in exchange for support | ✓ | ⇧ | ⇔ |
| 20. Maintain entitlements as a right for all, that bind people together | ✖ | ⇩ | ⇔ |
| 21. Achieve simplicity, transparency and minimal interference | ✖ | ? | ⇔ |

## 3. Options for reform, assessed against possible policy aims

| | More means testing | More contributory benefits: (1) loss of work | More contributory benefits: (2) caring & education | More private protection: (1) Saving | More private protection: (2) Income protection | More universalism: (1) Disability /carers benefits | More universalism: (2) 'child/individual credit' | More universalism: (3) Full basic income |
|---|---|---|---|---|---|---|---|---|
| **Poverty and inequality** | | | | | | | | |
| 1. Prevent destitution and provide a safety-net for all | ⇧ | ⇔ | ⇔ | ⇔ | ⇔ | ⇧ | ⇧ | ⇔ |
| 2. Protect people who can't be expected to work | ⇧ | ⇧ | ⇔ | ⇔ | ⇧ | ⇧ | ⇧ | ⇧ |
| 3. Tackle poverty (ie insufficient resources to participate in society) | ⇧ | ? | ? | ⇔ | ⇔ | ⇧ | ⇧ | ⇩ |
| 4. Reduce income inequality | ⇧ | ⇧ | ? | ⇔ | ⇧ | ⇧ | ⇧ | ? |
| 5. Reduce wealth inequality and help everyone build assets | ⇔ | ⇔ | ⇧ | ⇧ | ⇔ | ⇔ | ⇔ | ⇔ |
| 6. Improve life chances and equality of opportunity, especially for children and young people | ⇧ | ⇔ | ⇧ | ⇧ | ⇔ | ⇧ | ⇧ | ? |
| 7. Ensure low and middle income households share rising prosperity | ⇧ | ⇧ | ? | ⇧ | ? | ⇧ | ⇧ | ? |
| **Distribution between people and across life** | | | | | | | | |
| 8. Support economic stability, by smoothing livings standards and demand over the business cycle | ⇧ | ⇧ | ⇔ | ⇧ | ⇧ | ⇔ | ⇔ | ⇔ |
| 9. Transfer resources across individuals' lives | ⇧ | ⇧ | ⇧ | ⇧ | ⇧ | ⇧ | ? | ? |
| 10. Reflect variations in family size and living costs and invest in the next generation | ⇧ | ⇔ | ⇧ | ? | ⇧ | ⇧ | ⇧ | ⇧ |
| 11. Transfer resources between income groups / geographic areas / age cohorts / men and women | ⇧ | ? | ? | ⇧ | ? | ⇧ | ⇧ | ⇧ |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 12. Insure against unpredictable risks | ⇔ | ⇧ | ? | ⇔ | ⇧ | ⇧ | ⇔ | ⇔ |
| **Incentivise beneficial behaviour** | | | | | | | | |
| 13. Make work pay and maximise sustainable employment and earnings | ⇔ | ⇔ | ⇔ | ⇔ | ⇔ | ⇔ | ⇔ | ⇧ |
| 14. Reward and support valuable non-market contributions | ⇔ | ⇔ | ⇧ | ⇔ | ⇔ | ⇧ | ⇧ | ⇧ |
| 15. Support additional private provision and other choices with long-term benefits | ⇩ | ? | ⇧ | ⇧ | ⇧ | ⇔ | ⇔ | ⇧ |
| 16. Increase personal power, control and responsibility | ⇔ | ⇧ | ⇧ | ⇧ | ⇧ | ⇧ | ⇧ | ⇧ |
| **Fair conditions and public acceptability** | | | | | | | | |
| 17. Provide a system the nation can afford and is prepared to pay for | ⇩ | ⇩ | ⇩ | ⇩ | ⇔ | ⇩ | ⇔ | ⇩ |
| 18. Require past or future contributions in exchange for support | ⇩ | ⇧ | ⇧ | ⇧ | ⇧ | ⇩ | ⇩ | ⇩ |
| 19. Require people to meet conditions in exchange for support | ⇧ | ⇩ | ⇩ | ⇩ | ⇩ | ⇩ | ⇔ | ⇩ |
| 20. Maintain entitlements as a right for all, that bind people together | ⇩ | ⇩ | ⇧ | ⇧ | ⇔ | ⇧ | ⇧ | ⇧ |
| 21. Achieve simplicity, transparency and minimal interference | ⇔ | ⇔ | ? | ⇧ | ? | ⇧ | ⇧ | ⇧ |

## 4. Pensioners and non-pensioners: diverging policy choices between 2010 and 2020

| | Children and working age | Pensioners |
|---|---|---|
| Generosity | **Declining:** Fall in the value of most entitlements in real terms. Specific benefits cut (eg council tax benefit, tax credits, housing benefit) | **Increasing:** The value of the state pension is indexed to the 'triple lock' (the higher of earnings, inflation or 2.5 per cent) and rising faster than wages or prices |
| Contributory support | **Declining:** Contribution-based Employment and Support Allowance is now only available for one year, except for the most disabled | **Increasing:** New State Pension (for people reaching pension age from April 2016) is paid at a higher rate, greatly reducing the need for mean-tested additions |
| Universal support | **Declining:** Eligibility for universal disability benefits tightened. Child benefit withdrawn from families with high earners (technically through the tax not the benefit system). | **No change** |
| Conditions | **Increasing:** Greater requirements placed on JSA and ESA recipients and tougher enforcement and sanctions | **No change** |
| Reflects living costs | **Declining:** child benefit frozen in cash terms. Local rent costs and council tax often no longer supported in full, even for poorest. Caps on maximum support for housing and for number of children, plus overall benefit cap for some. | **Little change:** older people affected by some of the housing benefit reforms |
| Earnings-related support | **No change** | **Declining:** Previous plans to gradually phase out earnings related pension top-ups accelerated with the flat-rate New State Pension (with transitional protection) |
| Simplicity | **Increasing:** Universal Credit intended to create simple, integrated system (if and when fully implemented) | **Increasing:** New State Pension to lead to simpler system for new pensioners, but many years of transitional protection |
| Eligibility | **Declining:** Personal Independence Payment (PIP) introduced with a higher threshold for eligibility. Tax credit eligibility for working families with middle incomes restricted. | **Declining:** Increases in the State Pension Age accelerated, with women's state pension age to reach 65 by November 2018, then rising for men and women to 66 by October 2020 |
| Devolution | **Significant:** Major devolution of social security to Scotland (separate disability and housing benefit systems; power to top-up other benefits). Council tax benefit devolved to English local authorities as 'council tax support' | **Limited/proposed:** State pension reserved to UK. Older people's disability benefits included in Scotland proposals, with planned consultation on their devolution to local authorities in England.<br>Older people in England protected by national rules on council tax support. |
| Public loans | **Increasing:** student support grants entirely replaced with student loans. Support for Mortgage Interest to be replaced by a loan | **Increasing slightly:** All councils required to offer deferred payment agreements to help pay the costs of social care |
| Private provision | **Increasing slightly:** Help to Save scheme to support saving | **Increasing:** Continued delivery of auto-enrolled workplace pensions |

# 5. Universal credit in the early 2020s

Assuming universal credit is fully implemented, by the early 2020s six benefits for working-age adults and children will have been merged into one, creating a combined means-tested system for households with and without work. It is a development not a departure from the UK's existing mean-tested support and the generosity of out-of-work entitlements will remain unchanged in most cases. But UC is different in several important ways:

**A single payment –** As well as being much clearer, a single payment will ensure that people take-up all the support they are entitled to. It should also encourage transition into work, as it won't be necessary to re-apply for different benefits as households' circumstances change. On the other hand making only one payment, every four weeks, to just one household member, could place strains on household finances and put women at a disadvantage if they have direct access to less money. Tenants will almost always be personally responsible for paying their rent.

**Smooth withdrawal as earnings rise –** With UC, a maximum allowance is set according to a household's circumstances and this is paid to those with no other source of income (apart from certain other benefits). The payment is then gradually decreased as earnings (or savings) rise - with the first portion of earnings ignored for some types of household to make a move into work pay. The pace at which UC is withdrawn is slower than was often previously the case, especially for households claiming housing benefit; but the return from extra earnings are still poor, with many households likely to gain around 20 pence for each extra pound they earn.[*] The new system is better at rewarding households where someone is working a few hours a week, but it provides weak financial incentives to build up earnings beyond that point (and may well encourage some recipients to reduce their working hours).[9]

**Less generous and reflective of living costs –** On average UC will be almost £500 per year less generous for each household than the combined benefits it replaces (which will already be less generous in 2020 than they were in 2010). Compared to UC's predecessors, 2 million households will be better off, while 3.2 million households will be worse off (though, current recipients will be eligible for transitional protections).[10] Owner-occupiers and lone parents will be hit particularly hard, but tenant households with work will typically be better off, because as people's earnings rise housing support will not be withdrawn so quickly. The new system also incorporates upper limits on entitlement so is worse at reflecting underlying need than its predecessors: there is an upper limit on the number of children supported, a maximum rent subsidy and, depending on circumstances, an overall cap on payments.

**Tougher conditions and tighter targeting –** Combining in-work and out-of-work benefits may help de-stigmatise social security, if it becomes widely known that more than half of households receiving UC have work. The hope is that UC is viewed in the same way as tax credits, and not housing benefit or out-of-work benefits.[11] However there are reasons to fear that the new system could instead *increase* the stigma associated with *in-work* social security. UC will be a more tightly

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[*] There will now be far fewer cases of households losing every penny of extra earnings through benefits being withdrawn. But UC recipients who earn enough to be liable for National Insurance and income tax will still lose 76 pence of every extra pound they earn. Withdrawal of other entitlements can makes this rate even higher: council tax support sits on top of Universal Credit and with the schemes combined, it is possible to lose 81p in the pound; people with childcare costs may end up losing almost every penny of each extra pound they earn; and 'passported' entitlements like free school meals and free prescriptions will be withdrawn at 'cliff-edge' thresholds.

targeted entitlement than 2010-era tax credits, with fewer mid-income families eligible. Homeowners and people with savings or contributory benefits will all receive less than before.[*] And for the first time *working* UC claimants will have conditions imposed on them requiring them to make efforts to increase their household earnings until they are receiving a significant amount (eg £33,000 a year for a couple with teenage children).[†] On top of this, the rhetoric surrounding the new National Living Wage is being used to imply that in-work social security is less necessary and legitimate than in the past. Taken together, this could all lead the public to be suspicious of household who receive UC in work for long periods, instead of seeing eligibility for low earners as routine and morally neutral, as has been the case with tax credits.

[*] Every penny of a contributory benefit is cancelled out, meaning contribution goes totally unrecognised, unlike with tax credits and housing benefit at present.
[†] A couple with teenage children will be subject to conditions until their joint earnings are 70 times the level of the National Minimum Wage (around £33,000 a year in 2020). Many households will lose their entitlement to UC altogether before their earnings reached this level (eg homeowers and tenants in cheaper rental markets).

# 6. Social expenditure – the international context

A look across the advanced economies of the OECD reveals that there is nothing inevitable about the balance that the UK currently strikes between social security, services, tax reliefs and privately organised support.

In an attempt to analyse and compare very different systems, the OECD has created a standard taxonomy to evaluate national arrangements for social protection.[12] Social protection is defined to include spending covering nine domains: old age; survivors; incapacity; health; family; active labour market policies; unemployment; housing; and other social policies (note, education, except for early years, is excluded along with other primarily economic spending).

Within these domains, social expenditure may include: cash benefits (ie social security); public services; tax breaks with a social purpose;[*] and relevant forms of private sector spending. To count as social expenditure, a (public or private) programme must be compulsory and/or involve inter-personal redistribution, which may be achieved either by favourable tax treatment or by risk-pooling.

**Figure A1: OECD categories of social expenditure**

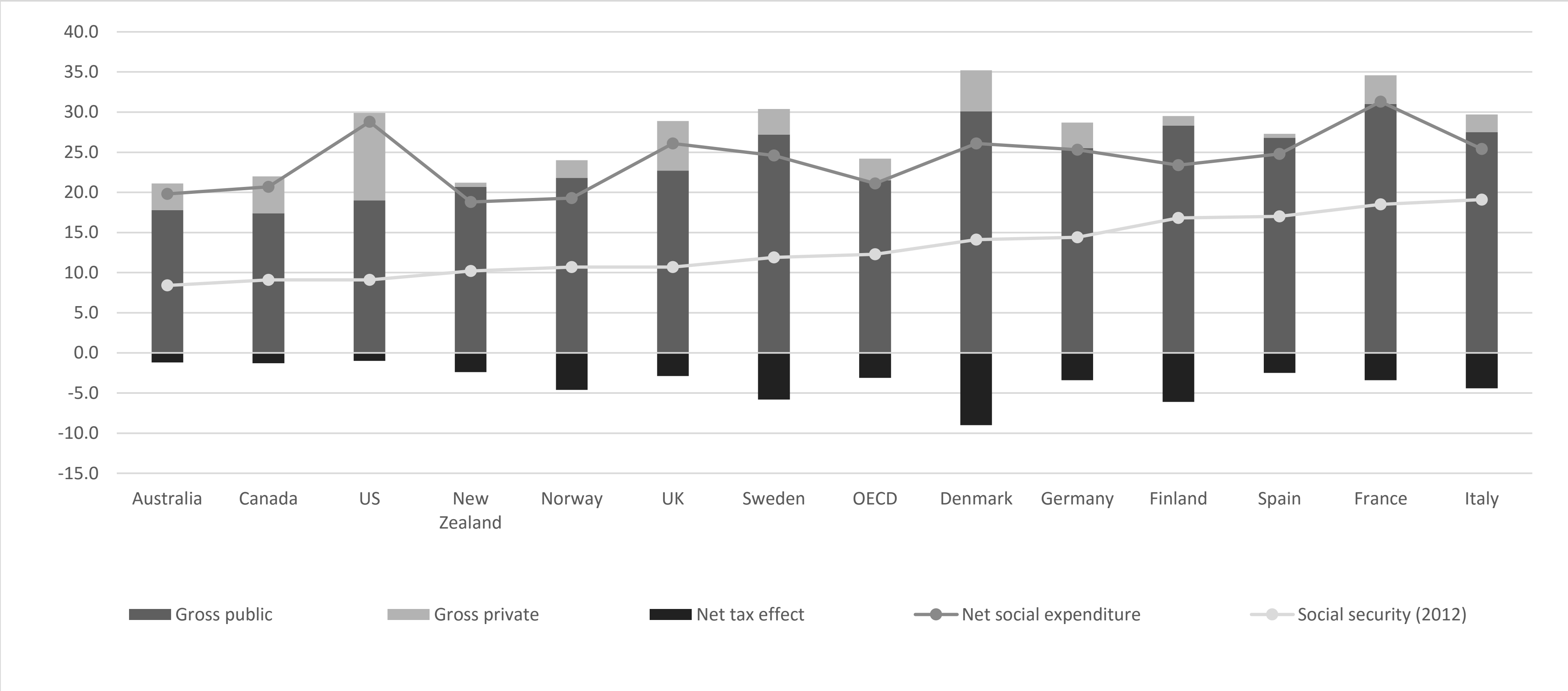
| | Mandatory | Voluntary | Mandatory | Voluntary |
|---|---|---|---|---|
| **Redistribution** | Means-tested benefits, social insurance benefits | Voluntary participation in public insurance programmes. Self-employed opting in to obtain insurance coverage | Employer-provided sickness benefits, benefits accruing from mandatory contributions, to, for example pension or disability insurance | Tax-advantaged benefits, eg individual retirement accounts, occupational pensions, employer-provided health plans |
| **No redistribution** | Benefits from government managed individual savings schemes | NOT SOCIAL EXPENDITURE | Non tax-advantaged actuarially fair pension benefits | NOT SOCIAL EXPENDITURE Benefits accruing from insurance plans bought at market prices given individual preferences |

Different forms of support each have their pros and cons, both conceptually and in practice. For example, the OECD warns that an emphasis on tax relief and private provision may result in less redistribution: '*There are significant differences across countries in the extent to which social policy goals are pursued through the tax system or in*

[*] This includes tax reliefs for pension contributions and taxes foregone on benefit income, but not tax-free allowances on the initial portion of earnings.

*the role of private provision within national social protection systems. These differences point to substantial variance in the re-distributional nature of social systems. Some private social programmes may generate a more limited redistribution of resources than public ones, and tax advantages towards private pension and health plans are more likely than not to benefit the relatively well-to-do.'* A related point is that systems with parallel private and public schemes (for rich and poor) struggle to bind people together and achieve sustained political commitment. However, the extent to which national systems redistribute is determined as much by the design of each form of social protection, as by the balance between them. For example, if the UK were to swap private pensions for an earnings-related public scheme the overall progressivity of the system would not necessarily improve. At present the UK does quite well at redistribution, with both its social security and public services reducing inequality by more than the OECD average.[13]

**Figure A2: Public and private social expenditure across OECD in 2011, as a percentage of national GDP**



So what does the international data on 'social expenditure' reveal (figure A2)? First it shows that in 2012 the UK spent a smaller share of GDP on social security than the OECD average (notwithstanding the claims of high spending made by the government at the time). But the data also reveals different countries' social security systems play very different roles, in the context of diverse political and economic institutions. The UK uses different policy tools to achieve goals similar to those which social security is designed to accomplish in other countries (including tax reliefs, public services and private sector spending). The same is true in the opposite direction too, but not to the same degree: figure A2 shows that despite the UK's modest spending on social security, people in Britain received above average social support overall in 2011 (relative to the size of our economy).

To see how this is possible, we need to look at the other elements of the chart. Take the UK and Italy as two examples: Italy was spending 19 per cent of GDP on social security, while the UK spent under 11 per cent; but the UK actually had higher overall social expenditure. How? The answer is that Britain spent a high share of GDP on public services (ie public sector social expenditure apart from social security); its tax system gave more social support, and clawed back less; and its private sector social expenditure (ie private pensions) was almost three times higher. The role of private pensions is especially important, as it is a substitute for the earnings-related public schemes found in many other countries, which means that the UK can sustain lower social security spending.

This exercise in international benchmarking shows that, in principle, the UK could achieve the same overall level of 'social expenditure' with higher or lower spending on social security. For example, higher social security spending, as a share of GDP, could be offset by lower spending on public services, smaller tax reliefs, or less private social expenditure. And the same goes the other way - social security spending could be reduced, if these other forms of social expenditure increased.

What matters, however, is what maximises living standards and wellbeing, and best distributes resources across our lives and between groups of people. That is to say, the sorts of policy aims we identified in Chapter 1 should be used to make choices, not just within the domain of social security, but also between the different options in the OECD social expenditure taxonomy – between public services, cash transfers and private social spending.

Indeed, they should be applied further still, because the OECD's analysis of social expenditure does not include general-purpose tax allowances, public loans to households, or interventions in markets to reduce the demand that social security would otherwise have to meet.

# 7. Arguments for and against a full basic income

| Arguments for: | Arguments against: |
|---|---|
| • Society provides a subsistence income for all, as a fundamental right<br>• Employment and progression always (visibly) pay, with consistent, low marginal tax rates and no risk of disruptions to income<br>• Public interference in the operation of markets and people's lives is minimised<br>• National income can be better distributed, in the context of economic dislocation and a decline in the share of GDP going to wages (eg globalisation reducing pay; automation reducing jobs; casualisation; increasing job churn)<br>• There is a ready-made mechanism for stimulating economic demand if required ('helicopter drop' payments)<br>• Low earners benefit the most (and they are a group that attract public support)<br>• Women benefit, as each adult in a couple has economic independence and recognition<br>• The intrusiveness, administrative burden and human costs of benefits (sanctions, low take-up, anxiety etc) virtually disappear<br>• When all are beneficiaries there will be less negative attitudes to out of work recipients and the conditions they should meet<br>• Strong incentives for fraud (ie not reporting work or cohabitation) are replaced by a financial reward for these positive choices<br>• People can choose to spend time caring for children and relatives, for creativity and civic life<br>• People have space to find more productive, rewarding work (business start-ups, longer job-search periods) and have more workplace bargaining power | • The country would make a fundamental shift away from established and supported principles of social insurance (linked to contribution) and of lifecycle distribution (linked to changing needs)<br>• There will be entitlement cuts for some, and higher marginal tax rates for others, under any cost-neutral scheme (higher marginal rates in turn reduces the capacity to raise taxes for other purposes)<br>• There is no financial gain for people out of work. Poverty in unlikely to fall (at least in the first instance – it might if employment participation were to rise)<br>• There are no conditions relating to work or training, so the system is tolerant of long-term joblessness. This harms life chances and is resented by the public as 'free-riding'.<br>• Single adults, including lone parents, are penalised as personal payments don't take account of economies of scale for couples<br>• The responsibility of employers to pay wages that reflect living costs could be undermined (workers are prepared to 'settle' for less; the political salience of minimum wage undermined)<br>• Complex means-testing will still be required to meet the extra costs of housing (otherwise a BI treats unlike households alike and/or is unaffordably expensive).<br>• Intrusive capability assessments will still be required, unless disabled people are to be denied extra support to reflect their higher needs and/or lower earning potential<br>• The cost of annual uprating is very high, suggesting a BI could lose value over time and fail as a safety-net |

# Appendix references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