Progressive Economics Group (PEG)
Policy Brief

Replacing Universal Credit

John Grahl
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Policy Issue

The Conservative Government elected in 2015 declared an objective of reducing expenditure on working age claimants by £12 billion a year – that is £12 billion from the unemployed, the chronic sick and the low-paid (and their children). The then Labour leadership decided to abstain on the issue. There could be no better example of the bankruptcy of mainstream politics in Britain.

It is doubtful whether existing policies could in fact secure such a reduction in the near future. Targets have been modified. The main cuts still pending in the last Parliament were two more years without inflation-related increases in most benefits, two more years of annual reductions in the Housing Benefit (HB) allowances for Local Authority and Social Landlords, cuts to child tax credit and the continuing roll-out of universal credit. No changes have been made so far in the new Parliament. The Universal Credit (UC) roll-out, however, will eventually impose big losses on new claimants and on existing claimants if they have to change or renew their claims.

What would be the costs and difficulties to move to a less oppressive regime for working age claimants?

Analysis

The Labour Party 2017 election manifesto pledged "…to rebuild and transform our social security system." Four immediate commitments were: to end the punitive sanctions regime; scrap the bedroom tax; reinstate housing benefit for under-21s; and cancel cuts to bereavement support payment. Other major commitments for the first year of a Labour government included: "We will increase the Employment and Support Allowance (ESA) by £30 per week for those in the work-related activity group, and repeal cuts in the UC limited capacity for work element; Increase Carer's Allowance by £11 to the level of Jobseekers' Allowance."

Although there are good reasons to believe that a sustained and effective anti-poverty programme would yield immense benefits over time, reversing recent cuts and cancelling some of those that are programmed will impose substantial up-front costs. The Joseph Rowntree Foundation estimates, that temporarily reinstating the higher benefit level for people in the Work Related Activity Group for Employment Support Allowance would cost £600m in 2020. They further conclude that the government would incur a net annual outlay of £5.8bn in 2020 and £13.6bn in 2030 as a result of the restoration of old Universal Credit work allowances with a second-earner disregard. Doing so would leave 480,000 fewer people in poverty in 2020 and 1.7 million fewer in 2030, and note that "a third of whom would be children".

The Rowntree Foundation concludes that “Less costly measures, but with a big impact on child poverty rates, would be to raise the child support element in UC by 20% for children under five and to support claimants for all their children, removing the limit of two.”

A potential saving would be made by increasing the proportion of housing benefit claimants in social housing where the rents and consequently awards are much lower than for private tenants. Councils and other social landlords provide various forms of support to claimant tenants which are not available in the private sector.

Another potential saving could arise from reform of the work capability assessment and the various schemes providing work preparation and work experience. There is growing evidence that outsourcing has compromised the quality of the employment services and distorted objectives away from support and assistance towards an intensification of severe and often arbitrary sanctions. Bringing the relevant activities back to the public sector would bring more responsible administration and might well reduce save public expenditures on the substituted programmes.

Some changes should not be costly. The Labour manifesto commitment to scrap the punitive sanctions regime would, according to National Audit Office figures save some £30-50 million in administrative costs and a similar amount in emergency support. The massive rise in the use of sanctions after 2010 was due to a political decision and the de-escalation of these after October 2013 also resulted from an undeclared change in policy. The Audit Office finds that the government took these political decisions without serious investigation of their possible consequences either for public finances or for claimants concerned.

Some improvement in benefits could be financed by transferring some costs to employers and landlords. In principle the move to a national living wage should work to reduce the need for tax credits. However, cuts might cause the situation of employed claimants to deteriorate sharply as new claims replace old ones and Universal Credit is implemented. Strong moves against businesses misrepresenting employees as self-employed and against zero hours contracts could help put some of the costs of poverty onto those who are in part responsible for it.

It is likely that a move to a less punitive regime will increase the number of benefit recipients and this should be taken into account when estimating expenditures. However, the de-escalation of JSA and ESA sanctions from the end of 2013 was not followed by a rise of new claims. Estimates are needed of the degree of recycling of claims when rejections are followed by reapplications until an award is made. At present no clear data on such recycling is available.

The launch of the Universal Credit welfare reforms by the Coalition Government was very widely welcomed: they aimed at reinforcing incentives to seek employment while simplifying the welfare system for claimants. A third aim sometimes mentioned was to move people off welfare benefits, but this was not compatible with the first two if recipients of working tax credit are regarded as welfare claimants. Central to the primary objectives was the need for long, slow reductions in support as unemployed and underemployed claimants increased their labour market participation and their earnings.

Two interlinked forces diverted the Universal Credit reforms away from this agenda. Financially, the Coalition government and its Conservative successor were increasingly reluctant to provide the funds necessary to support the changes. Ideologically, welfare claimants were represented as responsible for their own misfortunes and even turned into scapegoats for other social and economic problems.

By the beginning of the 2015 Parliament Universal Credit had almost become the opposite of its original intention as the working age welfare budget was reduced to finance tax cuts. The resignation of Iain Duncan Smith, who had launched the UC reforms, expressed his disillusion at these developments. The scale of the budgetary reductions imposed on the welfare system made the notion of reinforcing, or even maintaining, employment incentives quite unrealistic. Incentives were replaced by pressure often exercised in harsh and arbitrary ways.

The complexity of the system stems from the attempt to achieve contradictory goals – and in particular to achieve ambitious targets while reducing already inadequate funding. For example, given the degree of housing stress among claimants it has proved impossible to combine housing benefits into a single UC payment. Attempts to achieve this goal complicated the administration of the benefit system to very little purpose.

The *reductio ad absurdum* of the UC notion came with the proposed use of sanctions against tax credit recipients if those recipients were judged not to have sufficient hours of work or high enough earnings. These sanctions indicated the complete inadequacy of incentives to seek employment. The inclusion of employers in this new sanctions regime threatened to undermine the very notion of welfare benefits as a form of *public* policy.

Policy Framework

To fund adequately a welfare system that is supportive and fair while providing strong incentives for employment should remain a long-term goal for Labour (see Ian Gough`s policy briefing on basic income). To the extent that resources are not available, Labour's priorities should remain clear: social justice should prevail over the logic of markets; poverty relief be given priority over labour market disciplines.

John Grahl is Professor of European Integration in the Human Resources Department at Middlesex University.