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**'UNIVERSAL CREDIT': AN EVALUATION OF GOVERNMENT
PROPOSALS FOR RADICAL WELFARE REFORM**

The coalition government's plans to introduce a 'universal credit' to replace the current range of welfare benefits and tax credits represent a radical administrative change. According to Professor **Paul Gregg** of the Centre for Market and Public Organisation (CMPO), the simpler the new system is, the more it will result in large numbers of losers even with substantial extra costs to the Treasury. The more complex it is, the less radical a reform it represents and the less attractive it becomes.

Selling a system with substantial extra costs and many losers will prove very difficult, Professor Gregg argues in the latest issue of *Research in Public Policy*, published today. Furthermore, doing it in one big bang may repeat the administrative nightmare that occurred with the more modest integration of three different sources of support for children with the tax credit system.

What's more, Professor Gregg demonstrates, the assertions used to justify the reform – that welfare spending is out of control and the system broken – simply do not stack up. They are more the hyperbole that politicians use to motivate change rather than an accurate description of the situation.

The real picture that emerges for the welfare system is one of long-term declines in numbers of claims and total spending as a share of GDP. The welfare system has been steadily improving since 1996 but with the current recession – the worst since the Second World War – masking the improvement. And welfare spending is not out of control but doing its job in a recession where there is increased need for support.

The central idea of the universal credit is to have a single deduction rate as incomes rise, designed to ensure that people are always better off working and that those on low incomes do not face punitive effective tax rates when they seek to earn more.

The government argues that the current system is too complicated and that work incentives are too low because of excessive rates of benefit withdrawal when people earn more. The universal credit would take all income-related benefits and tax credits for working age people into a single system with a single withdrawal rate, proposed to be 65p in the pound, as earnings rise.

This withdrawal would have to be based on joint family income. But the universal credit still needs to address the residual entitlements to individual contributory benefits (based on National Insurance contributions made rather than an assessment of family needs), mainly short-term Jobseeker's Allowance and incapacity-related benefits.

Keeping these individual elements separate from the family-based universal credit would add considerable complexity, undermining the very logic of the reforms. The government has moved to make contributory access to incapacity-related benefits limited to a year. This saves money but also leads to many people losing entitlement to any financial support.

The remaining individual contributory elements still add substantially to the complexity of the proposed system with two additional benefits outside the credit. Hence the expectation must be that the remaining contributory elements in benefit entitlement will eventually go.

Professor Gregg points to four additional fundamental design features that will be a problem with moving to a universal credit:

- Many benefits are supplements for specific additional costs.
- Different elements of the current system are re-evaluated at different intervals.
- Out-of-work benefits come with conditionality.
- The out-of-work welfare system and the in-work tax credit system create sharp incentives to work a minimum number of hours.

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