

Recognising Citizenship: A Proposal For An Integrated Tax And Benefits System

This paper has four parts. The first part outlines a conceptual and logical approach to welfare reform; the second describes the economic and social factors driving the need for welfare reform in the UK. The third part summarises the main directions of welfare to work policies, welfare reform and scope for introducing a social and economic participation income; while the fourth maps out a policy pathway for introducing a new architecture for welfare, which has the recognition of citizenship as its cornerstone.

As it stands the current system of benefits is very complex. It gives every appearance of being designed by and for experts and it is certainly impossible for the majority of its users to understand. Moreover, it is not sufficiently flexible to create a secure platform for enabling people to enter the flexible labour market. Claimants are often unclear of the effect that taking work will have on their benefits - many assume that this will result in the loss of all benefit entitlements. Certainly many have no means of knowing how much benefit they would be entitled to before accepting the offer of a job. Under the current system benefits stop when unemployed people sign-off, but wages may not be paid for at least a week - often a month leaving people in severe hardship and unable to meet the extra costs associated with employment (travel, appropriate clothes etc.). This fear of the unknown provides a substantial barrier to work.

So too does the amount of time taken to process new claims and to calculate benefit entitlements after a change of circumstance as set out in the following vignette:

While he was unemployed his wife managed to find a job for five hours work per week. Her total earnings from the job were £12. In order to calculate the level of benefits to which this man was now entitled the Benefits Agency averaged his wife earnings over the year. Whilst they were making this calculation, benefits were paid to the man weekly. Once the Benefits Agency had calculated the change in entitlement, payments were once again made fortnightly. This left the man and his family without any income for one week. It felt as if they were being punished for trying to work.

The existence of so many different benefits, each with a separate regulatory regime may make bureaucratic sense, but it makes absolutely no sense to claimants (Rowlingson and Newburn, 1997)¹. Under the current arrangements, taxpayers and benefits recipients are set against one another; the systems are split apart and do not treat people equally.

If the system works, as it should, those in receipt of benefit now will pay tax in the future (in fact anyone who buys anything is already a VAT taxpayer). Moreover, with the rise of in-work benefits (and the existence of universal benefits and tax reliefs such as Mortgage Interest Tax Relief) the majority of tax-payers are also

¹ Rowlingson, K. and Newburn, T., (1997) Social security Fraud, London: Policy Studies Institute

benefit recipients. We all receive “benefits” from universal services such as health and education. The approach demonstrates that with a sufficiently open mind a system of tax and benefits, which is both fair and which avoids creating personal and financial hardship through unemployment and poverty traps, can be developed.

As policies currently stand, people who are offered casual or short-term work may be unwilling to declare it to the Benefits Agency for fear of losing their benefits immediately. Similarly, people may be forced to refuse offers of work. This will be the case if the additional costs associated with working (e.g. travel) added to the amount of benefit lost is greater than their take-home pay. Under the proposed system, which recognises citizenship and participation, individuals would be able to take-up casual work when it was on offer and to see the immediate benefit of their labour. It would also allow people who can not guarantee their hours of work every week (those with caring responsibilities or some disabled people for example) to do as much as they can and still benefit. This system has an in-built incentive to work (it avoids the unemployment trap) and does not penalise people for being honest. This system would help to eliminate the situation as summarised by the following vignette.

She has been seriously ill in the past and still suffers the effects of her blood disorder and the brain haemorrhage caused by this. She could now do some limited paid work. Her doctor advises her to do 10 or 12 hours a week on a therapeutic basis to improve her condition and make her more likely to reach a condition where she could work longer hours in future. She will not be likely to be able to work full time. Her illness has left her forgetful and the amount of time for which she can concentrate varies from day to day and week to week. She is now doing voluntary work and the organisation is in a position to pay her a small stipend.

She is in the ironic position that if she were able in time to do more than 15 hours work, she would receive less under the Disability Working Allowance rules than she would on therapeutic earnings.

When she applied to work under the therapeutic earnings rule, she was turned down because her doctor had written that it would be “good for her morale” rather than “improve her condition” which, in fact, is his opinion. In her case, therefore, this should be overturned when she can make an appeal. However, it raises the question: why should it be illegal for a long-term sick or disabled person to work for under 15 hours if they cannot prove that it would improve their condition – so that they could eventually work full time?

She would like to be earning a higher proportion of her income without the fear that doing so in the short-term would penalise her in the long term. She says that she would like a lifetime guarantee that if she finds work too demanding she can go back on benefits without being worse off. Any time limit for such a guarantee would be entirely arbitrary for many disabled people and certainly for her. She could have a relapse at any time, or not for years, or never. She wants the chance to work part-time with flexible hours and with no distinction between her earned income and the income she receives from benefits. She wants to wake up one day and realise that she is not on benefits anymore. She wants to be able to work as much as she is able to on a flexible basis. Ideally she would like to start with 10 hours work a week building up if she is able to, but with the possibility of doing less when necessary. She does not feel that this is possible with the current arbitrary change of status between working 15 hours or over 16 hours a week or doing nothing at all. The UA system would allow her to do this.

Above all, this system treats benefits recipients and tax-payers in the same way. Neither group is assumed to have a monopoly of honesty and the sharp division between those who always receive, and those who always give, is eroded.

The approach also recognises the benefits of empowering the citizen in an active society and economy. It recognises that power is concerned with people's ability to achieve what they aim to do; and that empowerment is concerned with the processes which assist them to do so. It also emphasises the fact that the concept of empowerment spans both the individual and collective.

Social and economic support systems should be concerned with its power "TO" and not with power "OVER". A social support system's power "TO" is concerned simply with the system's ability to act, and implicit in being able to act is the ability to define purpose and the means of achievement and evaluation (Little, 2000)². It is virtually impossible to be confident about either purpose or means except by reference to a system of values. In the absence of a value system the discussion about means and ends tends to go round in circles. Therefore, limits to power are important to discuss within the profile of the tax/benefit system. Here the concern should be about enabling choices and facilitating action to achieve them. Inevitably, there needs to be a recognition of constraints: delineating constraints and deciding what to do about them is an essential part of the social protection system (Beck, 1992)

Empowerment is concerned with the processes whereby people are assisted to become powerful in the sense of being able to act. The primary focus of a social and economic support system must remain on what needs to be done to assist individuals to become able to achieve their desired ends. In the direct sense much of this is concerned with assisting individuals to develop the competencies required to elucidate:

1. What is it they would like to achieve;
2. How to assess the best means of doing this;
3. How to best set about these activities;
4. How to evaluate progress; and
5. How to use tools of evaluation.

It is also important to recognise that in order to familiarise people with the complexities of decision making without intimidating them it is crucial to:

- Continually reinforce areas of confidence;
- Always relate to familiar matters; and
- Make everything explicit.

In order to achieve these objectives the management of social risk should be realigned to ensure:

² Little, R., (2000), *A Balance of Power?* In *Contending Images of World Politics*, eds. Greg Fry and Jacinta O'Hagan, London, MacMillan,

- Flexibility
- Accessibility
- Reliability
- Resourcefulness

Through this FARR-reaching strategy a social risk management programme can become part of a high-quality, client driven, infrastructure which reflects the context of the local economy and labour market.

Significant support for the welfare to work is promoted in the UK. In-work benefits are available for families with workers in low-paid or intermittent employment, by way of the Working Families Tax Credit system, for those with children or one partner not in employment, and through the provision of work-related services (such as child -care payments). Means tests have been progressively eased to make in work benefits more widely available through reducing withdrawal rates for family payments in particular and continuing to provide partner payments as a means of reducing effective marginal tax rates and replacement rates for families with low to moderate wages (Lewis, 2000)³. Because these approaches have tended to receive more emphasis for families and couples, unemployment payments still have more stringent means tests than other income support payments.

In many ways, however, the welfare system of the UK is rooted in the past, and has not kept pace with the economic, social and demographic changes of recent times. It embodies assumptions about the structure of work, the structure of families and gender roles that look increasingly outdated. It was designed when unemployment was generally low and of short duration and when the most common family type was a couple with children and a principal male breadwinner. Welfare payments were provided for the small minority of cases in which a family needed support because of unemployment, severe disability or lone parenthood. Welfare receipt is now much more common due to the growth of unemployment (in particular long-term unemployment), the ageing of the population and increased lone parenthood (Oppenheim, 1999)⁴.

The welfare system has also not responded sufficiently to a number of labour market trends, including: the growth in female employment and the decline in male employment; the growth of part-time, casual and non-standard work; increased underemployment; and declining opportunities for unskilled and semi-skilled workers. While overall employment levels have risen over the past 10 years, (Rowlingson, 2000)⁵ this has been accompanied by a much larger increase in the proportion of the working age population receiving income support payments (Falkingham, 1999)⁶. This is primarily due to changes in the distribution of employment across families, whereby there has been an increased number of

³ Lewis, J., (2000), Unpaid care work is a bar to full employment, British Association for the Advancement of Science's Festival of Science in London

⁴ Oppenheim, C., (1999), Welfare Benefits and the Labour Market: a 'third way'?, Benefits, Issue 25

⁵ Rowlingson, K., and Warren, T., (2000), Wealth in Britain: a lifecycle perspective, Joseph Rowntree Foundation

⁶ Falkingham, J., (1999), 'Partnership in Pensions' - delivering a secure retirement for women, Benefits, Issue 26

families with no adult in employment, and an increasing proportion of children living in these families. Around 1 in 6 children are growing up in families where there is no adult in paid work (Cm 4445, 1999)⁷.

At the same time, the UK population is growing older, with increasing numbers of older people experiencing long-term joblessness (Disney, 1999)⁸. Many of these people have a disability or are in poor health. The incidence of joblessness has also fallen unevenly across different geographical locations. Some communities are experiencing high levels of joblessness and exclusion from the mainstream of UK economic and social life, at the same time as other locations have record low levels of unemployment (e.g. in London), (Gordon and Panatis, 1999)⁹.

These issues have gained some urgency in recent times, with the realisation that nearly a decade of economic growth since the early 1990s have not translated into reduced levels of welfare dependency in the community. There are currently 1 in 7 people of workforce age who rely on welfare for 90 per cent or more of their income. In this context the UK government has acted to reform the welfare system. The approach taken has emphasised the need for a broader conception of the nature of the welfare system than just income support and a greater emphasis on tackling joblessness with welfare to work policies rather than just focusing on those registered as unemployed (Blair, 1998)¹⁰.

Greater emphasis is also being given to the combined impact of a wide range of Government programmes, and to the need for preventive strategies. And, rather than launching into yet more major new initiatives, the Government is taking a more exploratory approach to assess the relative merits of different methods of managing and minimising social risk.

Over the last decade, the UK labour market has changed dramatically, with significant differences in the patterns of men and women. More women are working, including those with children. Most mothers are now in the paid workforce, at least part-time. Only those with children aged under 5 are more likely to be at home than in paid work. Employment among older women has also increased markedly (Cm 4445, 1999)¹¹. For men, however, fewer are working. Of those in work, more are working part-time and there is also more under-employment. The proportion of men aged 15 to 64 in full-time employment fell from 77% in 1978 to 67% in 1999, while the proportion in part-time employment doubled from 4% to 9%. There was a small net increase in the proportion unemployed (from 5% in 1978 to 6% in 1999), and a larger increase in the proportion not in the labour force (from 14% to 18%). This clearly shows the impact of the economic cycle on both full-time employment and unemployment, whereas part-time employment rose and overall labour force participation fell, much more steadily.

In contrast, the overall participation of women aged 15 to 64 grew strongly (from 50% in 1978 to 64% in 1999), with most of the increase occurring in the 1980s. While women's labour force participation is still much lower than men's, the gap

⁷ DSS, (1999), Opportunity for All- Tackling Poverty and Social Exclusion, Cm 4445, London

⁸ Disney, R., (1999), Partnership in Pensions: an assessment, London, IFS

⁹ Gordon, D., and Panatis, C.(eds), (1999), Breadline Britain in the 1990's, Ashgate

¹⁰ Blair, T, (1998), The Third Way: Politics for the New Century, Fabian Pamphlet 5888, London

¹¹ DSS, (1999), Opportunity for All- Tackling Poverty and Social Exclusion, Cm 4445, London

between the two has halved over this period. The increase in labour force participation was driven mainly by the increase in part-time employment (from 16% in 1978 to 26% in 1999). Full-time employment grew only slightly (from 30% in 1978 to 33% in 1999) and there was no change in the unemployment to population ratio (4% in both 1978 and 1999). The fluctuations of the economic cycle had much less effect on women's employment levels than on men's (Cm 4445, 1999)¹²

The overall picture is of an increased proportion of the working-age population in employment, but less in full-time and more in part-time employment. Much of the part-time work is also casual, and is often low-paid (Dunlop 2000)¹³. The increase in part-time employment is partly due to increased under-employment over this period. There has been a relatively small overall increase in the prevalence of unemployment over the last 20 years but the duration of unemployment has increased significantly. Between 1978 and 1999, the average duration of unemployment increased from 25 weeks to 59 weeks for men and from 27 weeks to 44 weeks for women (Van Drenth, et al.)¹⁴. For men, there has been an increase in labour force non-participation probably due to hidden unemployment, including discouraged job seekers and marginal attachment to the labour force.

Family status appears to have influenced the employment to population ratios for men and women aged 15 to 64 over the period 1979 to 1999. Employment rates of partnered men decreased although those with children remained consistently higher than those without. Most of the decline occurred in the recessions of the early 1980s and 1990s. There was little overall change in the proportion of single men employed (69% in 1979 and 68% in 1999), although this group was clearly responsive to changes in the economic cycle. Among men, the experience of male lone parents stands out – their employment rate fell by 15 percentage points from 79% in 1979 to 64% in 1999 (Cm 4445, 1999)¹⁵.

Partnered women with and without children shared similar patterns of employment. Employment among women with children increased from 42% in 1979 to 60% in 1999, while employment among women without children increased from 45% to 61%. The rate of increase was most rapid in the 1980s, with smaller increases during the 1990s. Female lone parents also experienced rapid employment growth in the 1980s (from 38% in 1980 to 45% in 1990), but there has been little further improvement during the 1990s (47% in 1999). Employment rates of single women without children increased less than for the other groups of women. The employment to population ratio for this group is now only slightly above the ratios of partnered women (Cm 4349, 1999).¹⁶

Inequality in the distribution of employment has also increased in the past 15 years. As well as more dual worker families, there are now more jobless families. The impact of these shows that the number of couples with no paid work has increased

¹² DSS, (1999), Opportunity for All- Tackling Poverty and Social Exclusion, Cm 4445, London

¹³ Dunlop, Y., (2000), Labour market outcomes of low paid workers, an application using survey of employment and unemployment patterns, ABS Occasional Paper, Cat No 6293.0.00.0005, ABS Canberra

¹⁴ Van Drenth, A., Knijn, T., and Lewis, J., (1999), Journal of Social Policy, Vol. 28, Part 4 October 1999

¹⁵ DSS, (1999), Opportunity for All- Tackling Poverty and Social Exclusion, Cm 4445, London

¹⁶ DSS, Cm 4349, (1999), A new Contract for welfare: Children's rights and parent's Responsibilities, London

alongside the significant increase in the number of couples with two incomes (Miller 1997)¹⁷. This is largely a consequence of increased joblessness among men and the tendency of their wives also to be jobless (Bradbury 1995)¹⁸. The proportion of working-age couple families with one earner fell from 45% in 1982 to 31% in 1996-97, the proportion with two earners increased from 45% to 57% over the same period, and the proportion with neither partner in employment increased from 10.6% to 12.2%. The most rapid growth in this phenomenon occurred during the 1980's.

These changes in the distribution of employment have meant that more children now live in families with two parents working, and in jobless families (Gregory 1999)¹⁹. International comparisons show that joblessness affects a larger proportion of families with children.

The population is also ageing. The workforce-age population has grown steadily older during the 1980s and 1990s (Veit-Wilson, 1999)²⁰. Population projections also show a large increase between now and 2021 in the numbers of people in the age groups from 40 years onwards (Cm 3805, 1998)²¹. Early retirement (both voluntary and involuntary) has become increasingly prevalent. This increases the risk of low incomes in old age and places additional burdens on the social security system.

The past 20 years has seen a large increase in the proportion of workforce-age people on social security payments – from around 10 per cent in 1978 to 18 per cent in 1998. There are two main categories of income support payments – pensions and allowances. Pensions are based on somewhat outdated assumptions about the circumstances that require long term support, such as disability, widowhood and lone parenthood. Allowances tend to be paid to people whose situation is assumed to be temporary – the unemployed and sick.

Another assumption that conditions the pension/allowance divide is that men are labour market aspirants and women are not. Thus men tend to receive payments which require them to show that they cannot support themselves (such as unemployment payments and disability pensions) whereas many women receive payments that assume domestic responsibility and dependency or see caring and parenting as a complete substitute for labour market activity.

The proportion of the working-age population receiving unemployment payments increased from 3.4% in 1980 to 7.3% in 1998 (Kelly et al, 1998)²². Three main factors have contributed to this: increases in aggregate unemployment during recent economic downturns; growth in part-time and casual work and underemployment; and changes to income support provisions. There are now over 12 per cent of unemployment payment recipients who declare earnings due to the increased availability of part-time and casual work and changes to income tests that allow

¹⁷ Miller, P.W., (1997), The Burden of Unemployment on Family Units: An overview, Australian Economics Review, Vol. 30, No. 1

¹⁸ Bradbury, B., (1995), Added subtracted or just different: why do the wives of unemployed men have such low employment rates?, Australian Bulletin of Labour, 21 (1)

¹⁹ Gregory, R.G., (1999), Children and Changing Labour Market: Joblessness in families with dependent children, Conference: labour market trends and family policies.

²⁰ Veit-Wilson, J., (1999), Welfare without standards, Benefits, Issue 26, 1999

²¹ DSS, (1998), Green Paper on Welfare Reform: new ambitions for our country, Cm 3805

²² Kelly, G., and Gamble, A., (1998), Ownership, Political Quarterly, Vol. 69, No. 4,

recipients to keep more of their earnings. Changes to activity test provisions have increased the proportion of recipients undertaking activities other than job search (such as short-term training).

The number of people receiving incapacity payment rose steadily throughout the 1980s and 1990s (Ben Shlomo, 1996)²³. It is generally accepted that one factor behind the steady increase in incapacity receipt during the 1980s was the overall increase in unemployment during that period and its selective impact on groups such as middle-aged and older men from blue-collar occupations.

The relationship between unemployment and incapacity receipt is not direct. The increase in long-term unemployment and subsequent discouragement from job search may well have acted to exacerbate levels of ill health in the unemployed population. In addition, some unemployed people may seek to claim incapacity benefit rather than unemployment benefit because of its higher payment rate, and lack of activity requirements.

These developments have increased the demand among the older age group, at the same time that numbers in that age group are also increasing due to the ageing of the baby boomer cohort.

The growth in lone parenthood has been a significant contributor to the overall growth in family joblessness. Around one third of lone parents on benefit have earnings at any one point in time. Most work part-time and some on low full-time wages also receive some payment. For many, the issue is not whether they are on or off benefit so much as their degree of reliance. In terms of duration, lone parents tend to come onto payment, stay for around two years (75 per cent) with some staying at least five years (25–30 per cent). But, the majority of those who exit for re-partnering or work to income support within 12 months either on the same or an alternative payment (e.g. as the partner of someone on unemployment benefits) (Lewis, 1997)²⁴.

The final group consists of people receiving payment because of their caring responsibilities and/or presumed financial dependency on a current or former partner. Payments are primarily designed for and received by women and, most are aimed specifically at people in older age groups. Most people in these payment categories receive payment because of their relationship to people in other payment groups (for example, wives and carers of people with disabilities and partners of unemployed people). As these groups have grown in size, so has this one. The proportion of working-age people receiving these forms of payment increased from 2.4% in 1980 to 3.9% in 1998 (Lewis, 2000)²⁵.

There are a number of distinct patterns of income support receipt. These tend to vary considerably both within and between payment categories. The most stable population is people receiving disability payments. People who come onto incapacity benefit, of whatever sort, tend to stay on that payment until they reach pension age or die. Very few ever leave payment for employment. Also, 56 per cent of new incapacity benefit claimants come onto payment from another income support

²³ Ben Shlomo, Y., (1996), Does the variation in socio-economic characteristics of an area affect mortality?, *BMJ*, 312

payment. This shows the potential for people with disabilities to become dependent on low levels of income for life.

At the other extreme, there is considerable turnover in the population receiving unemployment payments. Many people receive this payment only for short periods of time, but many also alternate periods of employment with periods of income support receipt. About one in seven reports income from employment at any point in time (Duffin, 2000)²⁶. It is relatively rare for a long-term unemployed person to be entirely dependent on payment for many years. Net population turnover for lone parents on payment is relatively low. Some leave payment because of re-partnering, others for employment and a substantial group simply moves onto another payment when their eligibility expires. Lone parents are the group most likely to combine employment and income support on an ongoing basis. And, as noted earlier, of those who leave welfare, the majority does not sustain this exit.

The last of the four main recipient groups is the most diverse. Some of the payments in this group show similar patterns of receipt. This increasing diversity of welfare receipt parallels the increasing diversity of labour market experience outlined earlier. The increased availability of part-time employment has provided more opportunities for people to supplement their income support with earnings. On the other hand, increased underemployment and casual employment have meant that many people who in previous times might have been independent of the income support system have had to rely on it to top up their inadequate earnings. The system does not respond to these employment opportunities as readily as it could in terms of providing incentives for and rewards from taking up such work. Around 3.5million adults of workforce age received more than 90 per cent of their income from government pensions and allowances (Duffin, 2000)²⁷. About half a million more received between 50 and 90 per cent of their income from social security.

Most people who receive income support are highly reliant on it for their base income. Of approximately 4.6 million workforce-age people receiving income support in March 1999, 83 per cent had less than 24 pounds a week of private income in addition to their pension or allowance. Only 5 per cent had private income of 75 pounds a week or more (CAP, 2000)²⁸

Single people are much more likely to be reliant on income support than couples, whether or not they have children. The other key factor is age – 47 per cent of single people aged 55 to 64 were highly reliant on income support in 1997-98, compared with 15 per cent of single people under the age of 35. Among couples in the same age, the proportions with high reliance were 18 per cent and 2 per cent, respectively.

Of the workforce age income support payment groups, the older unemployed and disabled people are the most dependent. They have low levels of additional income and high probabilities of long periods continuing to receive income support (including

²⁴ Lewis, J. (ed), (1997), *Lone mothers in European welfare regimes*, Kingsley, London

²⁵ Lewis, J., (2000), *Unpaid care work is a bar to full employment*

British Association for the Advancement of Science's Festival of Science in London

²⁶ Duffin, S., (2000), *Towards a Social Income Policy for the UK*, Scan, London

²⁷ *ibid*

²⁸ Church Action on Poverty, (2000), *Flexible Benefits*, National Policy Forum

retirement). There is significant overlap between these groups, with many older unemployed people reporting significant levels of disability. Significant numbers of older unemployed people never leave the social security system before they die. Also, demographic projections show that this group is likely to grow significantly in the near future (Parker et al, 1999)²⁹.

The least dependent are young unemployed people (who tend to move on quickly from the income support system), followed by lone parents (who often work and/or study whilst receiving income support). It is however important to note that within these groups there remains significant numbers of people at risk of long-term dependence. Research suggests (Dean and Melrose, 1999)³⁰ that extended periods of welfare dependency can also adversely affect the life chances of children. Young people from income support recipient families are themselves more likely to become parents at an early age, leave school prematurely, receive income support and become heavily reliant on income support. By the time they are about to turn 19, about one in six young people from income support recipient families have spent more than half the previous three years on income support themselves. This compares with an average probability of about one in fifteen. Other factors associated with high income support dependence between the ages of 16 and 18 are living with only one parent at age 15, living in public housing at age 15 and/or having a primary parent who identified as from a minority ethnic background (Barlow, et al., 2000)³¹.

The overall level of economic participation among welfare recipients is rising and there are significant increases in employment levels among people receiving income support. Lone parents had consistently the highest employment rates at each point in time. Employment rates of women in families increased strongly in the late 1980s, whereas employment rates have increased more strongly for men during the 1990s. The increased employment of female income support recipients represents an increase in aggregate labour supply, whereas for men it represents a decrease in aggregate labour supply (i.e. a net movement from full-time to part-time employment), of which at least part is underemployment (Lewis, 2000)³².

²⁹ Parker, H., et al., (2000), *Low cost but acceptable incomes for older people*, Polity Press

³⁰ Dean, H., and Melrose, M., (1999), *Poverty, riches and social citizenship*, Basingstoke, Macmillan

³¹ Barlow, A., et al., (2000), *The national mistake: new Labour's communitarianism and supporting families*, in Taylor-Gooby, P., (ed) *Risk, trust and welfare*, Basingstoke, Macmillan

³² Lewis, J., (2000), *Unpaid care work is a bar to full employment*
British Association for the Advancement of Science's Festival of Science in London

Participation in education also increased among female income support recipients over the 1980s and 1990s, but not among men. Survey data (Blunkett, 2000)³³ also show that female lone parents are the income support group with the highest rate of participation in education. Thus, it appears that increasing proportions of women on income support are deciding that time spent improving their skills is a worthwhile investment. Research from both the US and Canada has also confirmed the value of education for the employment prospects of female income support recipients (Harris & Edin (2000)³⁴ and Barrett (2000) respectively³⁵.

However, there remain large groups who remain relatively inactive – predominantly people in the older age groups – and at risk of long-term welfare dependence. In addition, many of those who are active in employment or education are not able to sustain an exit from welfare and return to income support at a later time. People receiving the activity-tested unemployment allowances had the highest exit rate, followed by people on parenting payments partnered and single, many of whom leave payment when their partner gets a job.

The substantial movement of people from allowance payments to pension payments may be of concern, as it is clear that pensioners are much more likely than those on allowances to become highly reliant on income support. This trend reflects a variety of factors, including population ageing and the multiple disadvantages faced by some income support recipients, including poor health (which may also deteriorate with age and duration on income support). Another contributing factor may be the differing rates and conditions for pensions and allowances, which are likely to have an incentive effect for some people at the margins of pension eligibility. Because pensions are paid at higher rates than allowances, are less stringently means -tested and generally have no activity requirements, they are attractive to some allowance recipients. The more generous payment conditions of pensions compared with allowances may have contributed to the growth in recipient numbers in the payments that are not subject to activity tests, or other participation requirements.

To sum up, the social security system may have contributed to the growth in welfare dependency, particularly amongst the older age groups. The system tends to focus on alleviating short-term financial need, with less emphasis on facilitating the transition to social and economic participation of welfare recipients. Some parts of the system still create work and savings disincentives. Eligibility requirements for many income support payments are still focused primarily on incapacity and barriers to work, rather than emphasising people's capacities and potential. In short, the income support system still does too little to prevent and discourage welfare dependency.

The UK government has identified welfare reform as a major area for policy reform. It follows on from a range of very significant policy changes with broad impact on the community, including those people receiving assistance from the welfare system.

³³ Blunkett, D., (2000), Transforming the welfare state, speech given to the IPPR, London, June

³⁴ Harris, K. M., and Edin, K., (2000), From welfare to work and back again: quantitative and qualitative perspective, PDPC, Canberra

³⁵ Barrett, G.F, (2000), The effect of educational attainment on welfare dependence, Canada

The tax system is reducing income taxes and introducing a tax system focused on goods and services. In respect of welfare to work policy, the changes included:

- ?Increased payments for family assistance and child care
- ?Greater incentives for working low to middle-income families; and
- ?Greater incentives for people moving into full-time employment.

The effective marginal tax rate for many of those in the social security system will drop from 85.5 per cent to 61.5 per cent over a substantial range of incomes (Jordan, Agulnick, Burbidge and Duffin, 2000)³⁶. Workers employed full-time will have more incentive to improve their circumstances in the workforce. Providing assistance to low income families in this way has been preferred by the Government to the introduction of a working Families Tax Credit (WFTC) similar to that in other countries.

Evidence suggests that prevention and early intervention approaches starting in early childhood are important for developing an individual's foundation skills for participation throughout the rest of their life. Underpinning the strategy is that strong communities support families and individuals to become more self-reliant and solve their own problems. However, this policy approach needs to include parenting and relationship education, community leadership training, and the development of volunteering and support for local solutions to local problems. The Strategy needs to be implemented in partnership with the business and community sectors. All of which as yet have not been set into motion or practice.

A significant concern in the UK is the high incidence of joblessness among families with children and emerging evidence about the intergenerational impacts for children growing up in jobless families. An additional driver was the ageing of the population. The UK population, in common with many other countries, is getting steadily older and older people tend to need more support than younger people. Increasing trends of early retirement – both voluntary and involuntary – have also led Government to increase the emphasis on encouraging people to maximise their capacity for self-reliance through the lifecycle.

Therefore the need to develop policies and strategies that strike a better balance between providing a strong safety net and allowing all to participate fully in the workforce where they are able.

Government policy encouraging economic participation has in the past been on two main fronts. On one hand, assistance has been provided on a voluntary basis to some groups likely to benefit from investment in work-related skills (for instance lone parents). On the other hand, activity tests are applied stringently to ensure those able to work are actively pursuing employment opportunities.

More recently, the focus has turned to more active forms of assistance. The Government is interested in different approaches to increasing social and economic participation among income support recipients and those at risk of long term dependency in the future. Its aims are to increase levels of economic and social participation among people who are at risk of long-term reliance on income support

³⁶ Jordan, B., et al., (2000), *Stumbling towards basic income: the prospects for tax-benefit integration*, Scan, London

and who may benefit from earlier access to services or alternative approaches to building their capacities for participation. Each of these interventions will involve a face to face interview, referral to existing services where appropriate and development of a 'participation' plan, through a Social Enterprise Strategy.

The proposed approach will also test the provision of discretionary funds for services or items to assist with a return to work or participation. This approach may offer a cost-effective way of empowering recipients to identify their own pathways out of welfare.

In addition, the Government needs to test different approaches to identifying capacity for participation among people with disabilities and proving interventions from a broader group of service providers. This will seek to test whether a new approach for people with a disability, including a more detailed assessment of an individual's capacity for work, leads to better targeting of existing interventions and improves outcomes. This approach will test the capacity of the non-governmental sector to provide rehabilitation services in cases where rehabilitation is considered appropriate.

The reform of welfare is advocated and there is a need to overhaul the whole welfare system (both income support and services) and refocus it on participation. We need to reject approaches based on restricting access to payments or time limits for eligibility, while acknowledging that the poverty alleviation goal of the social safety net may have been over-emphasised and that the current system was failing many of those it had been designed to help, because there had been insufficient emphasis on welfare to participation.

A new architecture for a social support system should activate, enhance and support people's capacities for economic and social participation (Jordan et al., 2000).³⁷
Particular problems identified with the current system included:

- ?Fragmented service delivery arrangements which are not sufficiently focused on participation goals for all people of workforce age;
- A rigid, categorical and complex array of payments which relies heavily on presumptions of capacity for participation and doesn't recognise the diversity of each individual's capacity and circumstances;
- Poor incentives and support for some forms of work;
- ?Insufficient recognition of the many forms in which people make a contribution, including social participation.

Welfare reform is a community wide issue that needs commitment from business and the broader community as well as government in order to be successful. A long term vision for a new participation support system is developing, which includes the following five key features:

³⁷ Jordan, B., et al., (2000), *Stumbling towards basic income: the prospects for tax-benefit integration*, Scan, London

- Individualised service delivery
- ?Simpler income support structure
- ?Incentives and financial assistance
- ?Mutual Obligation
- ?Social Partnership

Each of these features required attention both to achieve balance between additional facilitation, incentives and requirement and to maximise the likely outcomes of welfare to work or welfare to participate initiatives.

An individualised service delivery approach would focus on individual capacities and outcomes, rather than payment category, when determining access to services and assistance. The new service delivery system would link the disparate parts of the current service delivery network through a central gateway for assessment and streaming, backed up with integrated Communications and information technology management and reporting systems. Streaming to one of three levels of service provision would depend upon a person's assessed labour force disadvantage or barrier to participation and likely risk of long term dependence, along with the likelihood of achieving an outcome.

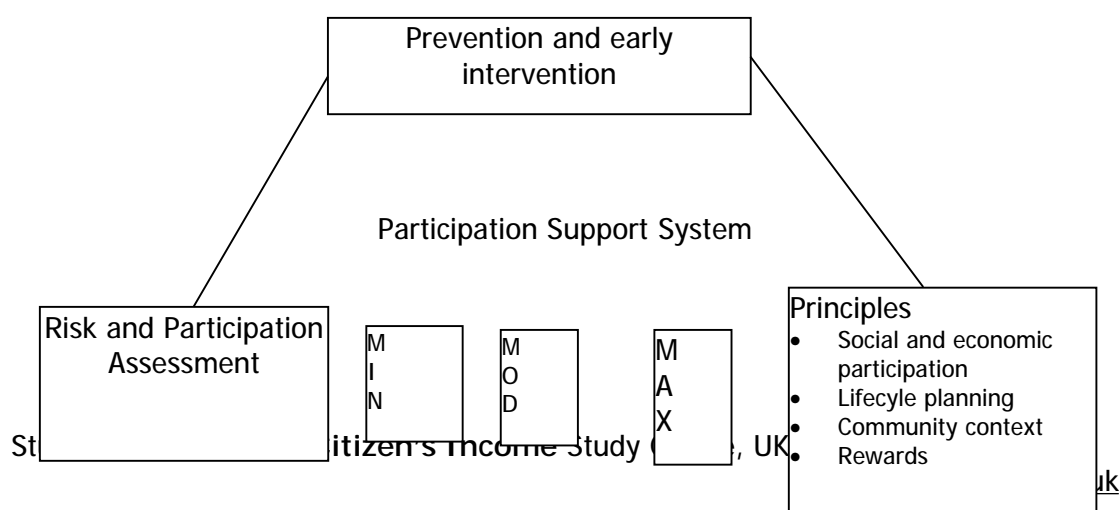
This system would require much more sophisticated assessment and profiling tools than are currently available. It is estimated that around 75 per cent of people would be referred to the base level of assistance that offered self-help and information provision. Typically people in this tier would include those who are job ready or participating in education and need no specific assistance, those who are caring or parenting and not yet ready for economic participation and those for whom an outcome is considered remote.

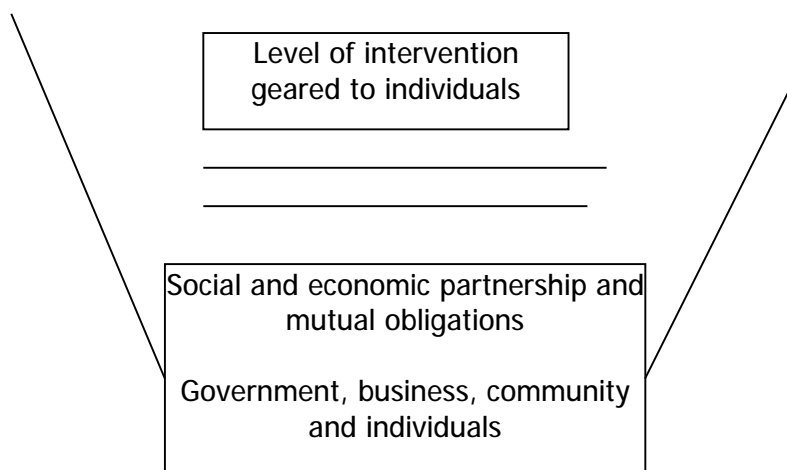
The second tier is titled towards low-level brokerage and would encompass those people who need to be linked to available service or require additional help with planning.

The most intensive tier - high-level brokerage - would offer individualised assistance to those who are not yet ready for participation or who have multiple barriers to assistance but for whom an outcome is considered likely with the provision of such assistance.

A diagram of this conceptual model of the service delivery system is given below:

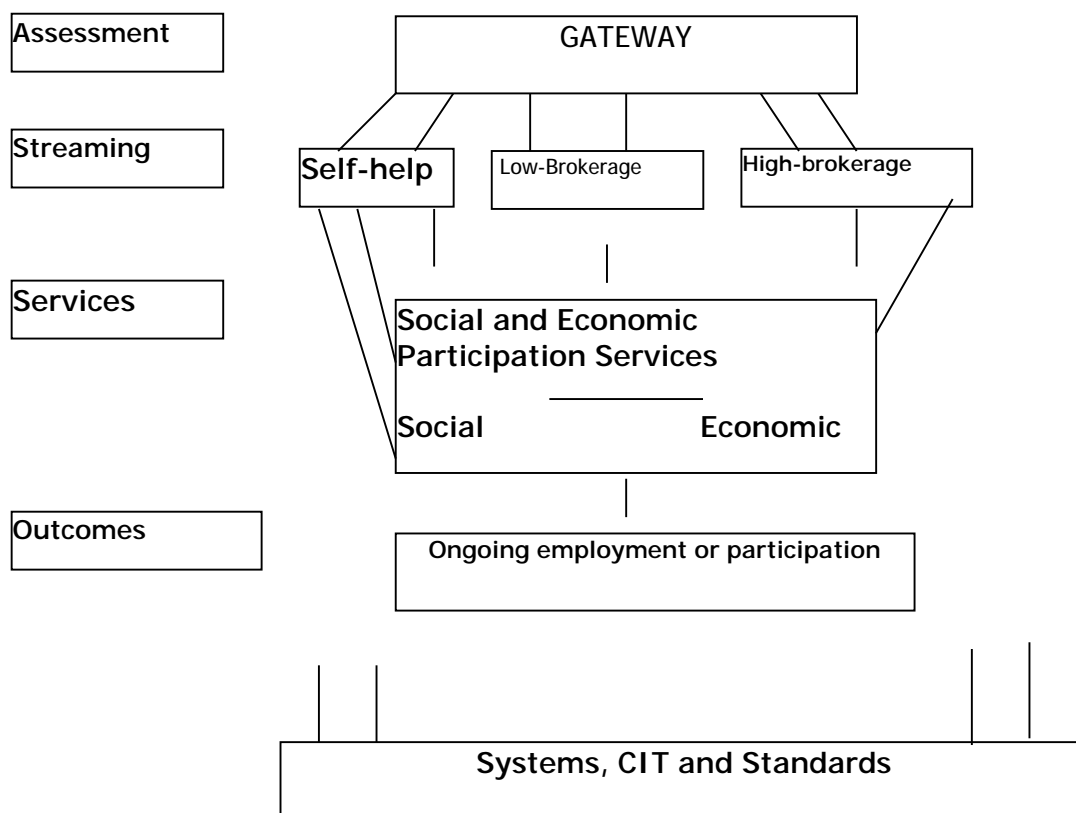
Individualised services





This translates into a new architecture for service delivery, as given below

Proposed Service Delivery



The challenges for government thrown up by this model include:

- The development of better assessment and profiling tools to aid streaming and rationing of services;
- ?Determining likely outcomes for people with more complex needs;
- ?Incorporating access to social participation opportunities (e.g. volunteer work) within the model;
- Providing a degree of integration across disparate providers and agencies
- Determining appropriate funding regimes – input, output or outcome based
- ?Privacy concerns with more integration of CIT networks
- ?Identifying agencies best placed to carry out the roles of gateway, low level broker and high level broker; and
- Appropriate risk management and assurance frameworks.

There are a number of shortcomings with the current categorical system of income support available to people of workforce age. In particular the system does not adequately recognise the individual variation in circumstances and capacity among people receiving income support nor does it support the transitions that people make across their life course, for example, from being a primary carer back into the labour market. Within the current system there can be identified some unintended behavioural incentives, including incentives to reduce work effort in order to meet eligibility rules for more generous pensions and/or non-activity tested allowances (such as the Working Families Tax Credit). Complexity of the arrangements is creating confusion for staff administering the system as well as claimants.

In the longer term, the categorical system of pensions and allowances should be replaced with an integrated payment structure for all people. The nature of this payment structure would be a conditional minimum income (or participation income) model with a base rate and supplementary add-on modules to address various additional needs such as:

- The costs of children
- The additional cost of living as the only adult in a household
- Additional costs of a lone parent or single income family
- Costs of childcare
- Housing costs above some specified level
- Costs of disability
- Remote area costs

In addition to these forms of support, a participation supplement is also suggested as either a fortnightly payment (which could build up as a lump sum in an “account”) to address the additional costs of some forms of economic participation (e.g. education, voluntary work, etc.).

In addition to standardising rates it is also proposed to adopt a consistent approach to indexing and taxation treatment of workforce age payments. The long-term nature of this goal is highlighted by the likely costs involved and the difficult balance government would need to consider in implementing a more integrated payment structure. In addition, the issue of coverage arises because at present full-time workers and the self-employed are generally excluded from receiving unemployment payments because of their inability to meet the test of seeking and being available

for suitable paid work. Removal of sharp distinctions between the “unemployed” and other participants as a basis for payment would bring this issue to the fore.

Some initial steps, which could facilitate a more integrated payment structure include:

- Amalgamating allowance payments for mature age jobless people (Currently the Government are looking at this in relation to and Integrated Child Credit) into one payment with appropriate requirements for participation and additional employment assistance to be made available; and
- Integrating payments for adults who are unemployed, temporarily incapacitated and adult students into a unified structure.

One of the strengths of New Labour’s reform strategy for the welfare system is its broad coverage of needy people at low costs. However, the tight targeting which accompanies its design was also identified as creating some workforce disincentives and resulting in some black spots of inadequate rewards for some forms of work or workforce disincentives for families in some specific circumstances. Improved incentives for part–time work are needed, which could be achieved through liberalising means tests for people currently receiving allowance payments to approach the withdrawal rates for people currently receiving pension payments. However, this reduction in withdrawal rates might reduce the incentive for welfare recipients to take up full-time work, unless eligibility for income support was extended to full-time workers and the self-employed (a very costly option) or some other form of in-work benefits was also made available.

A further issue arises because of the interaction between income support tapers. As well as the issue of cost, it is acknowledged that the likely behavioural responses to the approaches canvassed above are very uncertain.

Therefore under this scheme to create a social and economic participation income priorities for early attention should include:

- **?Participation supplements/accounts to meet the costs of economic participation such as education, training, transport, etc., which could be drawn fortnightly and “banked” into an account to be drawn on at a later date for larger expenditure, including a possible wage subsidy.**
- **?Return to work bonuses along the lines of the Canadian Self-Sufficiency Project earnings supplements.**
- **?Measures to reduce the very high effective marginal tax rates faced by social housing tenants whose rent rebates are reassessed when they return to work.**
- **?Income-contingent loans to cover the costs of more expensive activities, such as private training courses, setting up small businesses, etc.**

A vehicle for delivery of this approach is the development of a network of credit unions whose aim would be to improve the return from intermittent and casual work by smoothing the impact of the income test.

Consideration of financial incentives highlights the need to improve the evidence base for the behavioural impacts of improved financial incentives. Associated with this is the recognition that positive financial incentives need to be “sold” to income support recipients through effective service delivery mechanisms.

The adoption of a very broad notion of mutual obligations as the conceptual basis for a participation support system is required. Within this model, government, business, communities, non-government organisations and individuals should be seen as having social obligations to society at large. Each of these has a role to play in enabling people to move from welfare to participation (and work) and additional efforts would be needed from each to implement welfare reform.

Credit unions would allow income support recipients with seasonal or intermittent casual work to build up a “bank” of unused income test free. Once they undertake work, their income is offset against this credit until the balance is reduced to nil thus evening out the impact of income tests on intermittent earnings. If extended to people who return to permanent full-time work, the credit union could also act as a return to work bonus by providing income support for a short period (one or two weeks) after a person has returned to work (Duffin, forthcoming)³⁸.

Nonetheless, we need to differentiate between obligations that are societal expectations and those that are requirements, enshrined in legislation. Strategies for achieving voluntary compliance from each of these parties must be seen as important with sanctions only to be used as a last resort. The Government’s obligations can be summarised as managing the economy; maintaining a strong social safety net; managing social risk; investing in individual and community capacity building; and expanding its leadership role in providing opportunities for disadvantaged people and thus (re) establishing a social and economic contract between the elected and the electorate.

Additional effort from business is needed in providing employment opportunities for people who experience discrimination, including people from ethnic backgrounds, mature age workers, people with disabilities and workers with family responsibilities. In addition the notion of corporate social responsibility is an area for further development.

The role of communities in tackling social and economic exclusion within a social capital building framework is also canvassed, which argues that particularly disadvantaged communities in depressed regions need additional support from government to tackle joblessness and create opportunities for participation. Finally, a framework of mutual obligations to encompass all people of workforce age receiving income support is advocated.

Within this framework, people with the capacity and availability would be expected to undertake some form of economic participation with a return to work goal. Others with substantial caring responsibilities or with permanent incapacity would not be

³⁸ Duffin, S., (Forthcoming), Delivering economic empowerment, SMF, London

required to participate economically but their social participation would be seen as discharging their mutual obligation. In some circumstances it is envisaged that people could choose social participation as a substitute for economic participation or as a pathway towards economic participation (e.g. voluntary work) but they would not be required to undertake social participation for its own sake (e.g. workfare programmes). The fundamental approach taken to mutual obligation is to tailor requirements (if any) to a person's specific individual capacities and circumstances within the context of their community and family.

In developing this approach there is widespread support from a range of constituencies in the UK. There is evidence of wide community support for appropriate forms of participation as the basis of income support receipt for those with capacity (Lewis, 2000)³⁹. It is also important to note that income support recipients generally wish to participate themselves. However, there is a strong emphasis that strategies to obtain voluntary compliance and enabling people to choose their own pathway to participation but it can also be argued there is a need for sanctions such as suspension or withdrawal of income support as a last resort.

Social and economic partners are a key to the delivery of this new architecture for welfare. These partnerships are an important strategy for building the capacity of communities to solve their own problems and provide greater opportunities for economic and social participation. This is especially important in regions of concentrated disadvantage and joblessness.

Four important processes in community capacity building can be identified:

- ?Community economic development;
- ?Community-enterprise partnerships;
- Social entrepreneurship; and
- ?Fostering micro-business.

The emphasis on social partnerships and the community level domain is influenced by their belief that strong stocks of social capital can counter social and economic exclusion and provide additional resources to disadvantaged communities and individuals. In addition, there is a need to invest both at the community and individual level and the benefits of social participation for building individual's capacities for participation. Social entrepreneurship, community business partnerships and micro-business are all seen as means of increasing the available opportunities for social and economic participation.

These strategies are particularly important for people from ethnic backgrounds, young people and those at great risk of marginalisation from economic and social life. The way forward for a new architecture for welfare, which recognises citizenship, can be mapped out. It acknowledges the need for more research, modelling and evaluation before full-scale implementation of a social and economic participation support system. It also identifies some of the difficult choices government will confront in refining its welfare to work policy approach.

³⁹ Lewis, J., (2000) Unpaid care work is a bar to full employment
British Association for the Advancement of Science's Festival of Science in London

The welfare reform process in the UK appears to have galvanised community opinion that the current system is too passive and should seek to activate participation among people on welfare rather than leaving the issue of when and whether to participate up to individual recipients. The Government wishes to provide ways of assisting people who are disadvantaged that strike a better balance between its ongoing commitment to maintain a strong safety net and its responsibility to develop policies and strategies allowing all to participate fully where they are able. Six principles of a social and economic participation can be matched with New Labour's welfare agenda. These are:

- Maintaining equity, simplicity, transparency and sustainability;
- Establishing better incentives for people receiving social security payments, so that work, education, skill development and civic participation are rewarded;
- Creating greater opportunities for people to increase self-reliance and capacity-building, rather than merely providing a passive safety net;
- ?Expecting people on income support to help themselves and contribute to society through increased social and economic participation in a framework of Mutual Obligation;
- ?Providing choices and support for individuals and families with more tailored assistance that focuses on prevention and early intervention; and
- Maintaining the Government's disciplined approach to fiscal policy.

Currently, the tax and benefits system is unfair and traps people in poverty and unemployment. It is not possible to reform the system as it currently stands. It may be possible to reduce some of its worst aspects by tinkering with starting rates of tax and benefit tapers, but the inherent inequality in the way that tax-payers and benefits recipients are treated will remain. Policy-makers and politicians must take this opportunity to consider a total reconfiguring of the tax and benefits system - building on the start made with the Working Families Tax Credit. Without this, it is impossible to imagine that any changes will do more than transform an awful system into a bad one.