Resolution Foundation

The shifting shape of social security

Charting the changing size and shape of the British welfare system

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November 2019

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Executive Summary

With the manifestos of the main parties now published, it's clear that voters face a stark choice at the upcoming election about the level of tax and spending they want. That's particularly true in relation to Britain's social security system – the welfare benefits and tax credits that the vast majority of us will draw on at some point in our lives. The turning of the tide on austerity means that the battle is no longer over whose benefits are being cut. But, instead, it's the legacy of those cuts – some of which are still in the process of being rolled out – that unavoidably forms the backdrop to what comes next.

To make sense of what's going on, it is essential that we step back and put the offers from the main political parties in the context of both longer-term developments and today's demographic, economic and social headwinds and tailwinds. Past Resolution Foundation reports have provided this assessment in relation to the overall size and shape of the British state, and the size and make-up of our tax system. The in-depth look at social security provided in this report is the third instalment in this trilogy. We examine how the provision of social security in Britain has changed over time; the big trends and developments that current social security policy needs to take account of; and the policy offer from our three main Great Britain-wide political parties.

The modern social security system has evolved and grown since its inception, with pensioner spending driving current and future growth

Cash benefits and tax credits currently total £225 billion of spending each year in Britain. That's around 10 per cent of GDP, or roughly one-quarter of all state spending. This system has evolved and grown in relation to the size of the economy since the early 20th century. It totalled around 4 per cent of GDP just after the Second World War, and is projected to be three times that size by the late 2060s.

Britain's social security system has also evolved over the past four decades in terms of how it delivers support. It has shifted away from the three main income-related, out-of-work benefits (incapacity benefits, income support and unemployment benefits, which made up 25 per cent of welfare spending in 1987-88 but only 9 per cent in 2017-18) and towards tax credits, Housing Benefit and cost-related disability benefits. This reflects rising cost pressures and broader economic shifts and policy choices.

Indeed, we can summarise fluctuations in the level and make-up of social security spending as resulting from three interrelated drivers: the economic cycle, with social security spending rising during downturns; demographics, and in particular our ageing population as the baby boomer generation moves into retirement; and policy decisions.

Demographics are particularly important because people rely on the social security system to differing extents at different stages of life. Average per-person spending on pensioners is around seven times the size of average spending on working-age adults. And it is this gap that is crucial to driving the long-run forecast of rising social security spending.

Importantly, over the past decade, policy choices have doubled down on longer-run demographics in pushing up the share of spending on pensioners. The decision to reduce significantly the generosity of the welfare system – we estimate that welfare spending will be around £34 billion lower in 2023-24 under current plans than if 2010 policy had continued – has been combined with a decision to largely shield pensioners from these cuts. In short, policy has exacerbated demographic headwinds. The result has been a growing gap between per-person pensioner and non-pensioner welfare generosity: in 2019-20 that gap is at its widest since 1989-90. Low-income, working-age families have borne the brunt of the associated cuts, which risk further rises in child poverty in the coming years.

Behind this evolution, there have been important shifts in how the social security system operates – not least in the current transition to Universal Credit

To understand the choices facing voters on welfare at the 2019 election, we need to explore not only the size of the social security system and the benefits it comprises, but also the processes and conceptual frameworks underpinning it. The analysis in this report identifies five trends that explain how the past has shaped the social security system we have today.

First, there has been a shift in the balance between universal, contribution-based and means-tested support. The contributory principle has faded from the system. Most recently this can be seen in the move to the single-tier State Pension. As a result, pensioner benefits are more universal. But universalism has been reduced, alongside contributory benefits, for non-pensioners. Most notably, Child Benefit is now means-tested for those with higher earnings. Across the board, means-testing has become more common for benefit recipients below pension age.

Second, despite more means-testing, overall reductions in generosity mean the social security system's 'automatic stabilisation' role in supporting the macroeconomy in a downturn has weakened somewhat. For the same hit to employment and earnings, the current tax and benefit system cushions the incomes of poorer households by less than the 2010 system did. This weakening matters from a macroeconomic perspective because monetary policy is currently constrained in its ability to support the economy in a future recession.

Third, cost pressures relating to things like disability, housing, childcare and travel have risen, with governments seemingly supporting these costs more keenly in some areas (childcare) than in others (disability). More recently, the emphasis on in-kind benefits has also increased. For example, in-kind support towards travel and school meals (as a share of incomes) has grown by a quarter over the past decade, while cash benefits have fallen.

Fourth, Universal Credit (UC) – the merging of six benefits into one with the goals of simplification and improved work incentives – has (sometimes unfairly) become a symbol of all changes to working-age social security in recent years. Its challenges have stemmed from the multiple objectives UC has become laden with; roll-out delays and implementation problems; cuts to generosity; and simply the realities of swiftly imposing such far-reaching changes on some of the most vulnerable people in society. Despite being a decade in the making, the majority of its roll-out still lies ahead. Indeed, the 2019 election comes at a crucial juncture in this journey. The benefit is one year into operating at full service for all new and changed claims, but the tricky 'managed migration' of existing benefit claimants is still one year away.

And fifth, Britain's social security system has become more 'activation' focused during this century. This has entailed greater requirements (via benefit conditionality) and support (through Jobcentre activities and welfare-to-work programmes) to prepare for, and look for, work. Over the past decade, activation has been characterised by expanding conditionality and a big – likely disproportionate – rise in the use of sanctions. However, levels of sanctioning have now fallen back from their 2012 and 2013 heights.

Looking to the future, the social security system will need to adapt to Britain's 21st century economic and social realities

In their vision for how social security should evolve in future, policy makers need to take account of the broader changes that affect it and that it should be responding to. Our analysis also identifies five key trends for the future of the social security system:

- The growing prevalence of disability – and particularly mental health problems – at younger ages. For example, the prevalence of mental illness or depression among the 16-59 year old population has increased by 61 per cent since 2013.
- Changes to the structure of the labour market, including the decline in the number of workless households from 19.2 per cent in 2010 to 13.6 per cent in 2019; the continued prevalence of insecure employment post-crisis; and the importance of dual-earning households in combatting rising in-work poverty.
- The likely continuation of housing-cost pressures on the social security system, given high rents and a high number of renters.
- The fact that growth in the value of assets has outstripped income growth for decades, with wealth increasingly important to lifetime living standards.
- The highest levels of public support for welfare spending to help the poor in 14 years, even if tax rises are needed to fund this.

In responding to this fifth trend, policy makers need to base spending decisions on the realities of who is poor today. The proportion of pensioners living in relative poverty (after housing costs) has fallen by over a third since the beginning of the 21st century, while child poverty is close to a record high.

Against the backdrop of major cuts, the three main parties' manifestos offer stark choices on social security

The sustained reductions in welfare generosity that Britain has experienced since 2010 unavoidably forms the backdrop to current policy debates. We estimate that changes announced under the 2010-15 coalition government are expected to reduce cash social security transfers by £19 billion in 2023-24, slightly offset by in-kind investments in free childcare and school meals. The 2015 Summer Budget doubled down on these cuts, announcing reductions to working-age benefits worth £14 billion by 2023-24. Because some changes (like the two-child limit) are 'flow' measures, only affecting new claims and/or children born from 2017 onwards, more than a quarter (27 per cent) of the original 2015 package of cuts won't be implemented until after the 2019 election.

Since the 2015 Summer Budget, Conservative governments have announced investments in UC for working households worth around £3 billion. These changes have reversed one-fifth (19 per cent) of the 2015 spending cuts. The Conservative manifesto contains almost nothing to change this picture, with new policies kept to a minimum. A Conservative government would therefore continue to preside over £3.8 billion of further cuts to working-age benefits set to roll out after the 2019 election, while maintaining the triple lock on the State Pension.

Labour's manifesto plans for £9 billion of increased financial support are large enough to reverse the remaining post-2015 spending cuts. The rhetorical focus is on an unspecified promise to 'scrap Universal Credit'. But the reality is that over three-quarters of the cash benefit policies proposed centre on reversing previous cuts to benefit generosity, rather than establishing a new approach. This includes scrapping the two-child limit, benefit cap, and bedroom tax; re-linking the Local Housing Allowance to rents; and re-instating disability premia. So, in this sense, the Labour package is rather backward looking. However, a focus on rental costs and disability, alongside broader commitments to more social homes and specialist disability employment advisors, represent welcome acknowledgements of some of the big future challenges facing the welfare state.

Labour's plans also include £8 billion of in-kind spending on free broadband, TV licences, school meals and childcare. While this support is much less progressive than cash benefit increases, the overall package remains very progressive. If we treat in-kind benefits as income, we estimate that the poorest tenth of households would be 20 per cent better off in 2023-24 as a result of these changes relative to today's position, and more the 4 per cent better off relative to the UK's pre-2015 social security system.

However, while large families, renters and disabled people would gain from Labour's plans, many working-age families that fall outside these groups could still find themselves worse off than under the pre-2015 system. This is not least because the party is leaving in place the effects of the benefits freeze (totalling over £5 billion by 2023-24). For example, excluding the impact of in-kind support, working couples with children would remain worse off by £150 per year on average relative to the pre-2015 system, and working single parents would remain £600 worse off.

Labour's approach also reveals a tendency to reinforce the trend of skewing benefits towards pensioners. As well as policies on TV licences and Pension Credit for mixed-age couples, the manifesto commits to halting planned increases in the State Pension age beyond 66. In addition, post-manifesto announcements have committed to £58 billion (over five years) of compensation for women affected by the speeding up of some State Pension age increases. These policies mean that in the longer term, Labour's social security offer to pensioners is actually bigger than its offer to those of working age and children.

The Liberal Democrats' social security offer is similar in size to Labour's, with £9 billion of cash spending in 2023-24 and £8 billion of in-kind spending. The mix of policies is similar to Labour's too, including scrapping the two-child limit, benefit cap and bedroom tax, and investing in free school meals and (substantially) in free childcare. Given the similarities, it is perhaps unsurprising that the distributional impact of this policy package is similar to the impact of Labour's policies. However, the Liberal Democrat package is slightly more progressive, with the poorest 10 per cent of households almost 25 per cent better off in 2023-24 relative to today's position.

In terms of what differentiates the Liberal Democrats from Labour, the former party has avoided further pensioner spending, while planning to improve UC for second earners and the self-employed in ways that the Resolution Foundation has previously recommended.

It is notable that both the Labour and Liberal Democrat approaches could be expected to halt potential increases in relative child poverty over the next parliament. We forecast that under current policy plans (i.e. the Conservative package) child poverty will rise from 29.6 per cent in 2017-18 to 34.4 per cent in 2023-24. Under Labour, this figure would be 30.2 per cent (entailing 550,000 fewer children in poverty), and under the Liberal Democrats it would be 29.7 per cent (entailing 600,000 fewer children in poverty). However, under none of these plans does child poverty actually fall.

So on social security, as in other areas of spending, there is a stark choice between the Conservatives and the two opposition parties at this election. That the debate has shifted away from welfare cuts since 2015 is welcome. That some parties are planning to take substantial steps to reverse these, and in so doing reduce the chance of further child poverty increases, is even more so. But the backward-looking nature of the 2019 election, while natural given the backdrop of a decade of cuts, leaves little space for a vision of how the welfare state needs to evolve in the 21st Century.

The two largest parties appear unwilling to face up to the realities of how pensioner and working-age living standards have shifted, opting for further relative increases in pensioner generosity in the coming years. And no one is considering how the welfare system can better support pay progression, or acknowledging the growing importance of assets to living standards. Those conversations may be avoidable in the campaign itself, but whoever wins the election will need to face up to them over the course of the next parliament.

Section 1

Introduction

Brexit politics might feel deadlocked, but when it comes to the domestic policy agenda, next month's general election is taking place amid a new consensus of sorts. Austerity is coming to an end, and politicians of all parties are articulating their willingness to turn the spending taps back on. Of course, actually ending austerity is not something that can be done overnight given the strain that a decade of spending reductions has put on both public services and household finances. And making sense of parties' promises for the post-austerity phase is particularly challenging, due to both Brexit-driven (and indeed global) economic uncertainty and the fact that our fiscal forecasts are woefully out of date. Nonetheless, it is clear that the political mood music has shifted.

To understand that shift, it is essential that we step back and put the offers currently on the table from political parties in the context of both longer-term developments and today's demographic, economic and social headwinds and tailwinds. Recent Resolution Foundation reports have sought to do exactly that, with a focus on the overall size and shape of the British state,[1] and on the size and make-up of tax revenues.[2]

This report is the third instalment of this trilogy – focusing in on the social security system. We examine how the provision of social security in Britain has changed over time; the big trends and developments that current social security policy needs to take account of; and the policy offer from our three main Great Britain-wide political parties.

Our focus is on cash transfers made through benefits delivered by the Department for Work and Pensions (DWP), as well as tax credits and Child Benefit delivered by HM Revenue and Customs. In doing so we build on the approach of the Office for Budget Responsibility (OBR) and the Institute for Fiscal Studies.[3] This means our analysis normally excludes benefits-in-kind that feature in international comparisons of 'social

1 M Whittaker, The shape of things to come: Charting the changing size and shape of the UK state, Resolution Foundation, November 2019
2 A Corlett, The shifting shape of UK tax: Charting the changing size and shape of the UK tax system, Resolution Foundation, November 2019
3 For example, see: Office for Budget Responsibility, Welfare trends report – October 2014, October 2014; and A Hood & A Norris Keiller, A Survey of the UK Benefit System, Institute for Fiscal Studies, November 2016

protection',[4] such as healthcare, social housing, childcare provision and free services like travel and school meals. However, because the 2019 manifestos include some big-ticket offers in these areas, we extend our analysis to take some account of their impacts when examining the current positions of our main political parties.

The remainder of this report is set out as follows:

- The following section, **Section 2**, describes how **the size and make-up of the welfare state has changed since the late 1970s**. We set these changes in the context of their main drivers: the economic cycle, demographic trends, and policy decisions.
- **Section 3** looks in detail at how **the nature of the welfare state has changed**. We describe some of the conceptual shifts, and changes to social security processes and delivery, that underpin our high-level reading in Section 2. These include the relative emphasis on universalism and the contributory principle, the role of Jobcentres, and the enormous undertaking that is Universal Credit.
- **Section 4** looks briefly at the **wider trends in our economy and our society** that a modern social security system ought to be accounting for. As well as the big-picture effects of the economic cycle and our ageing population, these include declining household worklessness and rising in-work poverty; rising disability within the working-age population; changing housing tenure and housing costs; and the growing importance of assets to living standards.
- **Section 5** reviews the **social security policies proposed by the Conservatives, the Labour Party and the Liberal Democrats** in the current election campaign. We look at the extent to which each party is set to unwind the big welfare reductions of the past decade, and the impact of each party's plans across the income distribution and on child poverty.
- **Section 6** provides a brief **conclusion**.

4 Office for Budget Responsibility, Welfare trends report – June 2015, June 2015

Section 2

How the size and make-up of the welfare state has changed

This section provides an overview of the British social security system – the cash benefits and tax credits that currently total £225 billion, or around 10 per cent of GDP. This system has evolved and grown in relation to the size of the economy since the early 20th century. It is projected to continue growing over the next half-century due to shifting demographics, although not at the rapid pace of projected health and care spending increases.

Britain's social security system has evolved over the past four decades in terms of how it delivers support. It has shifted away from income-related, out-of-work benefits towards tax credits and support in meeting the costs of housing and the costs associated with disability. More broadly, the level and make-up of social security spending has fluctuated due to the impacts of three interrelated drivers: the economic cycle, with social security spending rising during downturns; demographics, and in particular our ageing population as the baby boomer generation moves into retirement; and policy decisions.

Over the past decade, decisions to significantly reduce the generosity of the social security system, combined with the shielding of pensioners from those cuts, mean that policy has exacerbated the effects of demographic headwinds. As a result, the gap between per-person pensioner and non-pensioner welfare generosity is the largest it has been in three decades.

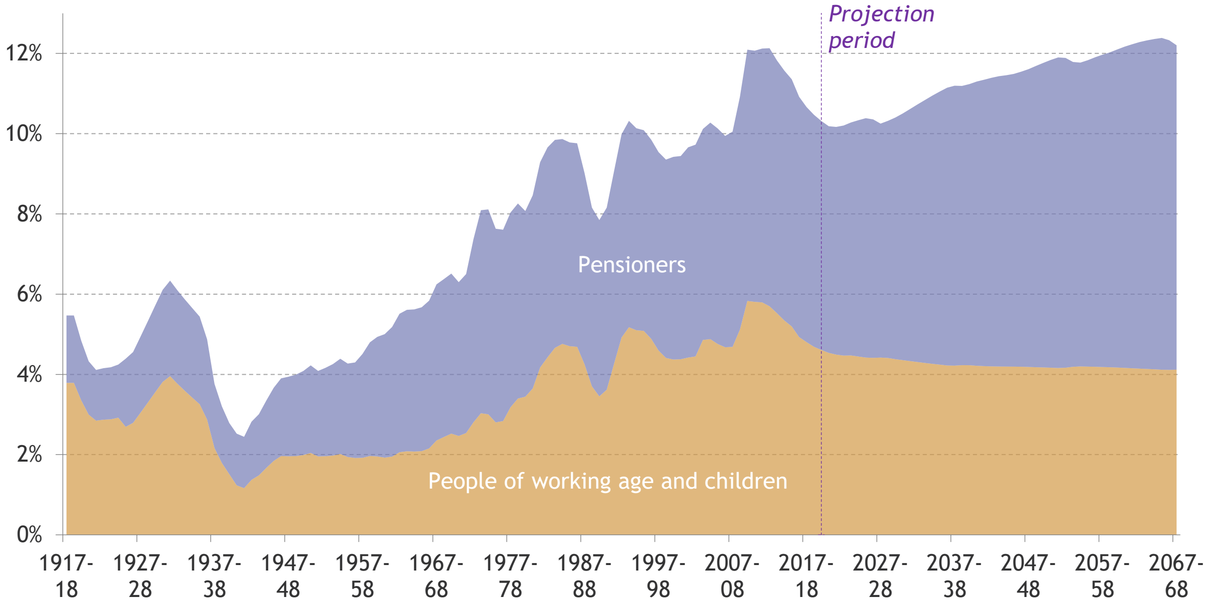
Social security has grown as a share of the economy over time, with pensioner spending driving future rises

Total government spending (so-called 'total managed expenditure', or TME) can be split into the amount spent on day-to-day public services or capital investments delivered by government departments ('departmental expenditure limits', or DEL), and money spent in areas outside the budgetary control of individual departments ('annually managed expenditure', or AME). Benefits and tax credits form the bulk of AME, alongside public-sector pensions and debt interest payments. Spending on these benefits and tax credits currently totals around £225 billion, equivalent to just over 10 per cent of the size of the GB economy. Social security spending therefore makes up roughly one-quarter of total government spending, which stands at just above 40 per cent of GDP.[5] This is reflected in the fact that, at any given time, around half the population receives income from at least one social security benefit, and over the course of their lifetimes almost everyone will receive support from at least one of these benefits.[6]

Figure 1 puts this level of social security spending in its long-term context. It splits spending (in relation to the size of the economy) out into that directed towards pensioners (who we define throughout this report as those above State Pension age) and the portion directed towards people of working age and children.

FIGURE 1: **Social security spending has grown in relation to the size of the economy over time**

Long-run welfare spending as a proportion of GDP: GB



NOTES: Historical and projected data (covering the UK as a whole) have been aligned with outturn data since 1978-79 that covers GB, based on annual growth rates. Council Tax Benefit was abolished in 2013-14, with support instead transferring to the local level. These figures include adjustments to account for this shift. War Pensions are also added back in, having been removed from DWP data after 2001-02.
SOURCE: RF analysis of DWP, Benefit Expenditure Tables; MHCLG; Scottish government data; Welsh government data; OBR, Fiscal sustainability report; HMT, Public Expenditure Statistical Analyses; J Hills, Inequality and the State, Oxford University Press, October 2004

5 Note that the latter figure refers to the UK rather than Great Britain. See: M Whittaker, The shape of things to come: Charting the changing size and shape of the UK state, Resolution Foundation, November 2019
6 Office for Budget Responsibility, Welfare trends report – October 2014, October 2014

Focusing first on the overall level of spending, Figure 1 charts the evolution of the social security system from early in the 20th century. Unemployment benefits and old-age pensions began to be provided by the state, rather than the voluntary sector, after the Old-Age Pensions Act 1908 and National Insurance Act 1911, but they remained small as a share of GDP and subject to intrusive and inconsistent means-testing until the late 1930s. From the mid-1940s onwards, social security spending grew in relation to the size of the economy, initially for pensioners and later for people of working age. In the past forty years, the overall level of welfare spending has fluctuated with economic and political cycles and shifting demographics, all discussed in more detail below. And turning to the future, the OBR expects welfare spending on pensioners to grow while spending on others remains constant as a share of GDP,[7] largely driven by demographic factors (a growing proportion of pensioners in the population). As a result, by the end of the OBR's long-run forecast period in the late 2060s, spending on social security is expected to be above 12 per cent of GDP.

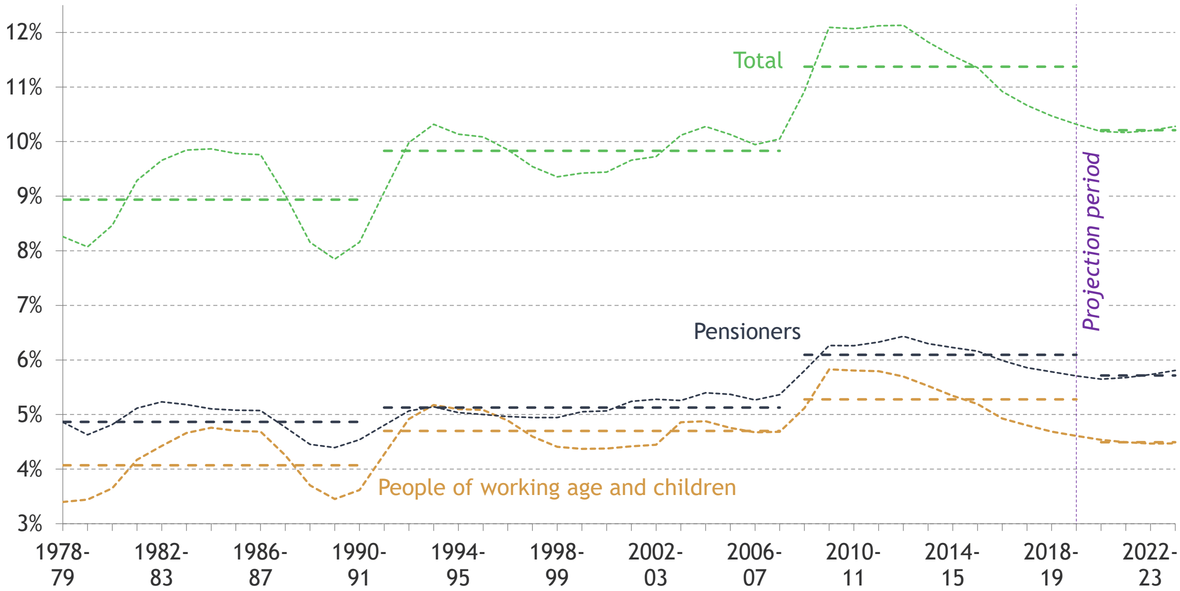
This split between pensioners and others – one of the clearest dividing lines in terms of the recent and future paths of social security – reflects a broader shift. Our earlier report on the overall size and shape of government spending concluded that when social security is viewed together with other government spending, the state is becoming increasingly focused on healthcare and the old.[8]

Figure 2 zooms in on a more recent period running from the late 1970s to the end of the OBR's short-term forecast (which reflects government policy and economic expectations at the 2019 Spring Statement), again maintaining the split between pensioners and others.[9] Abstracting from short-run fluctuations, two things are clear. First, although there has been a sustained decline over the past decade, the level of social security spending has tended to increase over time within both the pensioner and non-pensioner spending categories. Second, the gap between pensioner and non-pensioner social security spending is the largest it has been since the late 1970s. As we discuss below, this reflects a combination of economic and demographic factors, and policy choices.

7 On the assumption that working-age benefits rise in line with earnings in the long term.
8 M Whittaker, The shape of things to come: Charting the changing size and shape of the UK state, Resolution Foundation, November 2019
9 The levels of welfare spending shown in Figure 2 don't map exactly onto those presented by the OBR, for example in its 'Welfare trends' reports. Figures in these OBR reports are generally somewhat higher over the entire time period than those shown here. This is due to two factors. First, data revisions since these OBR reports were published, bringing welfare spending as a proportion of GDP down. Second, our analysis covers Great Britain whereas the OBR's analysis covers the UK as a whole. As a result there is a very consistent 0.3 percentage points of GDP gap between the two (with the UK higher).

FIGURE 2: **The gap between pensioner and non-pensioner social security spending is the largest it has been in four decades**

Welfare spending as a proportion of GDP: GB



NOTES: Council Tax Benefit was abolished in 2013-14, with support instead transferring to the local level. These figures include adjustments to account for this shift. War Pensions are also added back in, having been removed from DWP data after 2001-02.
SOURCE: RF analysis of DWP, Benefit Expenditure Tables; MHCLG; Scottish government data; Welsh government data

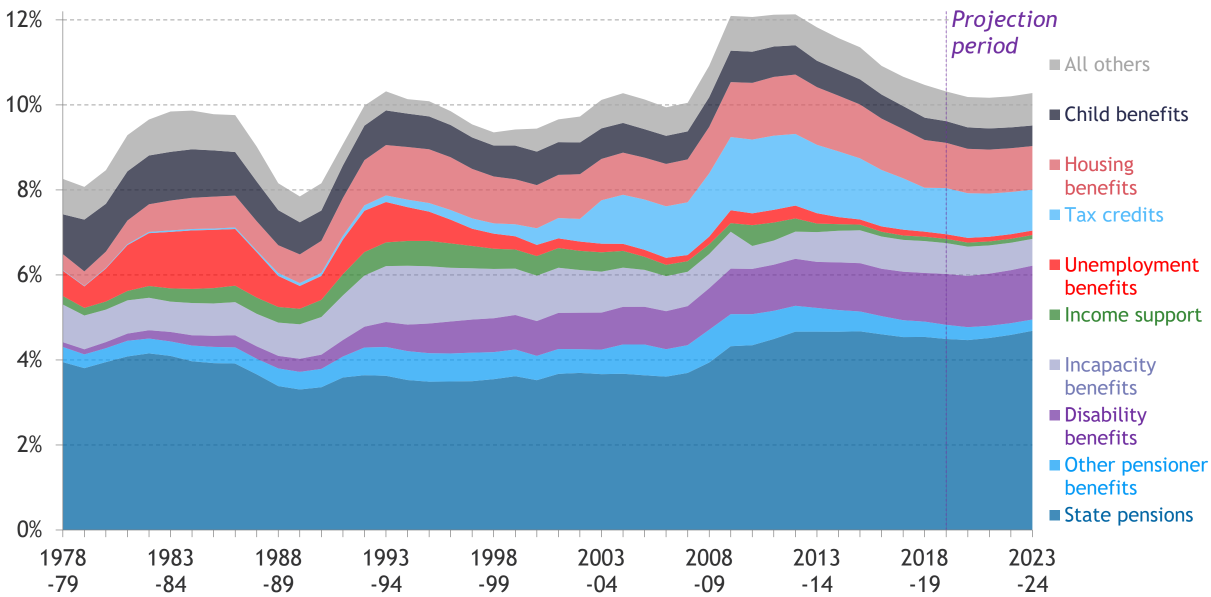
We spend more on supporting housing costs, working families and the costs of disability than in the past

Having described the overall shape of the social security system over time and the pensioner and non-pensioner split, we now turn to the benefits it comprises. Making judgements about social security over time or across countries (see Box 1, below) on the basis of the system's component benefits is challenging. This is particularly the case because systems differ in the extent to which support towards costs related to things like housing and children is rolled into their main income-related benefits, or met separately. In comparison to the past and to other countries, the British system today favours the latter approach.

With these caveats in mind, Figure 3 presents overall welfare spending in Britain since the late 1970s, split into 10 categories.

FIGURE 3: **Spending on tax credits, housing benefits and disability benefits has grown over time**

Welfare spending as a proportion of GDP, by component: GB



NOTES: Disability benefits include Attendance Allowance, Disability Living Allowance and Personal Independence Payment. Incapacity benefits include Incapacity Benefit, Income Support for sick and disabled people, and Employment and Support Allowance. Unemployment benefits include Unemployment Benefit, Income Support for unemployed people, and Jobseeker's Allowance. Tax credits include Family Credit, Working Families' Tax Credit, Working Tax Credit and Child Tax Credit. Child benefits include Child Benefit, One Parent Benefit and Guardian's Allowance. As well as a number of smaller benefits, 'All others' includes Council Tax Benefit and successor localised schemes, Statutory Maternity Pay, Statutory Sick Pay and Carer's Allowance. War Pensions are also added back in, having been removed from DWP data after 2001-02. Universal Credit costs are apportioned to the benefits it replaces, with its marginal cost included in 'All others'.
SOURCE: RF analysis of DWP, Benefit Expenditure Tables; MHCLG; Scottish government data; Welsh government data

Changes can be summarised within different time periods, as follows:[10]

- **1978-79 – 1989-90**: Overall spending rose and fell with the 1980s recession, driven in particular by spending on unemployment benefits. Strong GDP growth in the latter part of the period supported falls in social security spending in relation to the size of the economy. At the same time, State Pension spending fell because the State Pension was uprated with prices, which lagged behind strong earnings growth. Rising spending on income-related incapacity benefits and cost-related disability benefits somewhat offset these falls.

- **1989-90 – 1997-98**: Again, overall spending rose and fell around the early 1990s recession, due to caseload-driven increases in unemployment and incapacity benefit spending. The latter remained high as the economy recovered due to

10 These time periods and interpretations draw heavily on the OBR's. See: Office for Budget Responsibility, Welfare trends report – October 2014, October 2014

the legacy of earlier inflows to these benefits during the 1980s, as those affected by industrial decline moved from unemployment to inactivity. Rising spending on income support was also driven partly by sustained health-related economic inactivity, as well as the growing population of single parents. Spending on housing benefits rose due to both the impacts of the recession and rising rents. Cost-related disability benefit spending continued growing with the introduction of Disability Living Allowance.

- **1997-98 – 2007-08:** Overall welfare spending grew modestly over this period of sustained economic growth. Spending on income-related, out-of-work benefits (incapacity benefits, income support and unemployment benefits) fell during this period due to strong labour market performance and awards growing more slowly than earnings. There was also a big expansion in tax credits, which partly absorbed spending from other parts of the benefits system (for example, unemployment benefits used to include child elements, but these were absorbed by Child Tax Credit) and partly reflected higher awards for children and those on low incomes.
- **2007-08 – 2013-14**: Spending rose rapidly in the recession that followed the financial crisis. In comparison to previous recessions, these increases were much larger for housing benefits and tax credits than for income-related, out-of-work benefits. This reflects the shift towards tax credits described above; discretionary tax credit increases; growth in the number of renters, and rental costs in relation to earnings; and the fact that this recession had a relatively muted impact on unemployment compared to previous ones, but put significant downward pressure on pay.[11] State Pension spending also grew, due to inflation-uprating outstripping earnings and GDP growth.
- **2013-14 – 2023-24**: Overall spending has fallen (and is projected to continue falling) during this period, due to continued recovery from the recession, and policy decisions that are reducing the generosity of working-age social security. (This period spans the roll-out of Universal Credit: here we maintain its spending within the categories of benefit it replaces and include its marginal costs within 'All other' welfare spending.) State Pension spending is expected to rise towards the end of the period, but has been held back before that due to increases in the State Pension age.

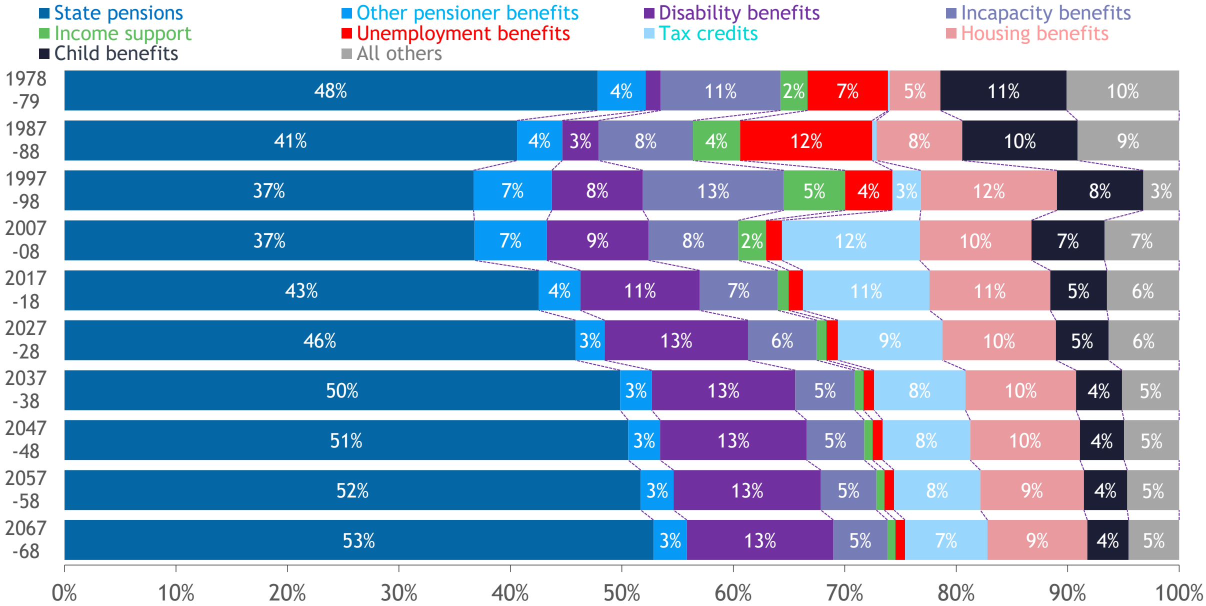
Figure 4 shows these components as a proportion of overall social security spending, including the OBR's long-term projections. It makes particularly clear the shift away from the three categories of income-related, out-of-work benefits (incapacity benefits, income support and unemployment benefits) and towards tax credits, Housing Benefit and cost-

11 S Clarke & P Gregg, Count the pennies: Explaining a decade of lost pay growth, Resolution Foundation, October 2018

related disability benefits. The entire forecast period is dominated by the growing share of welfare spending taken up by the State Pension. This is because the OBR's long-term forecast mainly reflects the gradual impact of an ageing population, as discussed around Figure 1, above.

FIGURE 4: **The State Pension is expected to make up a gradually rising share of social security spending**

Composition of welfare spending: GB



NOTES: Projected data (covering the UK as a whole) have been aligned with outturn data covering GB, based on annual growth rates. Welfare components have been aligned between DWP and OBR data as far as is possible. Disability benefits include Attendance Allowance, Disability Living Allowance and Personal Independence Payment. Incapacity benefits include Incapacity Benefit, Income Support for sick and disabled people, and Employment and Support Allowance. Unemployment benefits include Unemployment Benefit, Income Support for unemployed people, and Jobseeker's Allowance. Tax credits include Family Credit, Working Families' Tax Credit, Working Tax Credit and Child Tax Credit. Child benefits include Child Benefit, One Parent Benefit and Guardian's Allowance. As well as a number of smaller benefits, 'All others' includes Council Tax Benefit and successor localised schemes, Statutory Maternity Pay, Statutory Sick Pay and Carer's Allowance. War Pensions are also added back in, having been removed from DWP data after 2001-02. Universal Credit costs are apportioned to the benefits it replaces, with its marginal cost included in 'All others'.
SOURCE: RF analysis of DWP, Benefit Expenditure Tables; MHCLG; Scottish government data; Welsh government data; OBR, Fiscal sustainability report

Using the most consistent data available, Box 1 reviews the UK social security package in comparison to that in other developed economies.

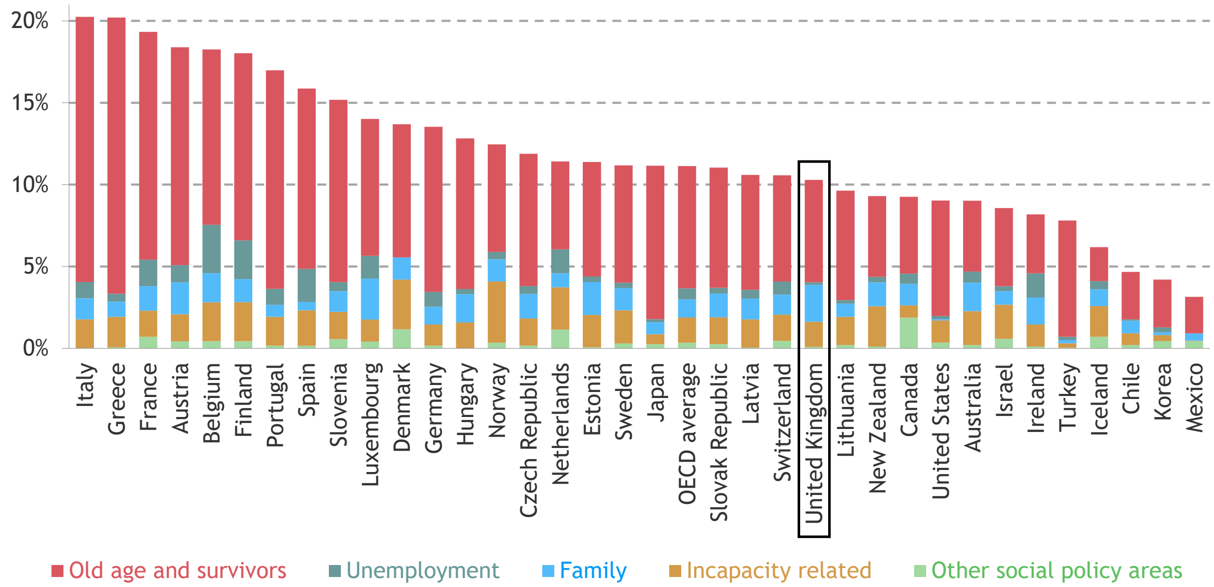
BOX 1: **International comparisons of social security spending**

Placing the size of the UK's welfare state in an international context is challenging due to the differing composition of social security systems across the world, and their balance of private and public spending across different policy areas. The OBR's 2015 Welfare trends report sets out the ways in which the UK's welfare system differs from those in other countries in detail.[12] Here we draw some brief conclusions by comparing spending on different types of benefits across other advanced countries (by comparing the member countries of the Organisation for Economic Co-operation and Development, or OECD).

Reflecting our approach throughout this section, Figure 5 takes into account only cash benefits, excluding the impact of benefits-in-kind, such as private spending (on e.g. pensions) and the net effects of the taxation system (e.g. income taxes paid on benefits). Social security spending on this definition was below average in the UK in 2015: at 10.3 per cent of GDP. It lagged behind the Nordic states and much of Western and Southern Europe. However, the focus on cash transfers ignores elements of the UK's wider social projection system that suggest closer-to-average, and even above-average, spending (discussed below).

FIGURE 5: **The UK has less generous cash benefits than the OECD average**

Gross public expenditure on social protection in cash benefits across developed economies, as a proportion of GDP: 2015



SOURCE: RF analysis of OECD, Social Expenditure Database

12 Office for Budget Responsibility, Welfare trends report – June 2015, June 2015

Figure 5 suggests that the UK has particularly low spending on unemployment benefits. Some of this stems from the relatively low generosity of Jobseeker's Allowance relative to earnings, but it also reflects the fact that (unusually) support towards housing costs is provided by a different benefit in the UK. Incapacity-related spending is very close to the OECD average, while family spending is above average, reflecting the UK's large tax credits system.

The UK seems to have somewhat lower spending on pensioners than the OECD average, despite this still being the largest category of the UK's cash benefit spending in 2015. However, adjusting this measure to include private spending on pensions takes into account the UK's unusually heavy emphasis on private pension provision. When we also account for the differing old-age dependency ratios of OECD states (the ratio of pensioners to the working-age population) and in-kind support for this age group, the UK is slightly above average in terms of total spending in this area.

In particular, the biggest exclusion from Figure 5 is in-kind social protection. This changes the picture significantly due to the UK's model of public healthcare provision. Looking at gross public expenditure on social protection, including in-kind benefits, the UK appears far more generous, spending 21.6 per cent of GDP, above the OECD average of 19 per cent. Moreover, the UK's net total social expenditure including benefits-in-kind, private spending and taxation is even higher at 24.5 per cent of GDP. This is significantly above the OECD average of 20.9 per cent.

Ultimately, the different features of social security systems across countries makes it difficult to reach a definitive conclusion on the 'ranking' of the UK in terms of the generosity of its social security spending. That said, there is no evidence that the UK is especially generous, particularly in terms of cash benefits, where the exclusion of healthcare spending places the UK below the OECD average.

The evolution of the social security system has been driven by the economy, demography, and policy decisions

A huge range of interrelated factors influence the developments described above. The OBR, for example, highlights the importance of four drivers: demographics, labour market trends, inflation and earnings growth (in determining benefit uprating), and the housing market (in determining Housing Benefit spending).[13] Here we offer a slightly different (although complementary) breakdown, briefly setting out the three high-level

13 Office for Budget Responsibility, Welfare trends report - October 2014, October 2014

factors that influence the size and shape of social security spending: the economic cycle, demographics and policy decisions. Section 4 explores these and other contextual factors that determine welfare spending in more detail, with a particular focus on what the future holds.

The economic cycle

As is evident from the short-run fluctuations described above, social security spending moves with the economic cycle. That this is the case should be self-evident. Working-age social security exists in a large part to protect people against the risks of income shocks, like those stemming from job loss or earnings falls. And from a macroeconomic perspective, the tax and benefit system plays an important 'automatic stabilisation' role in downturns, supporting households to maintain their consumption (discussed in more detail in the following section). Given that for the most part we describe welfare spending in relation to the size of the economy (which contracts in downturns), it is no surprise that this spending is heavily counter-cyclical.

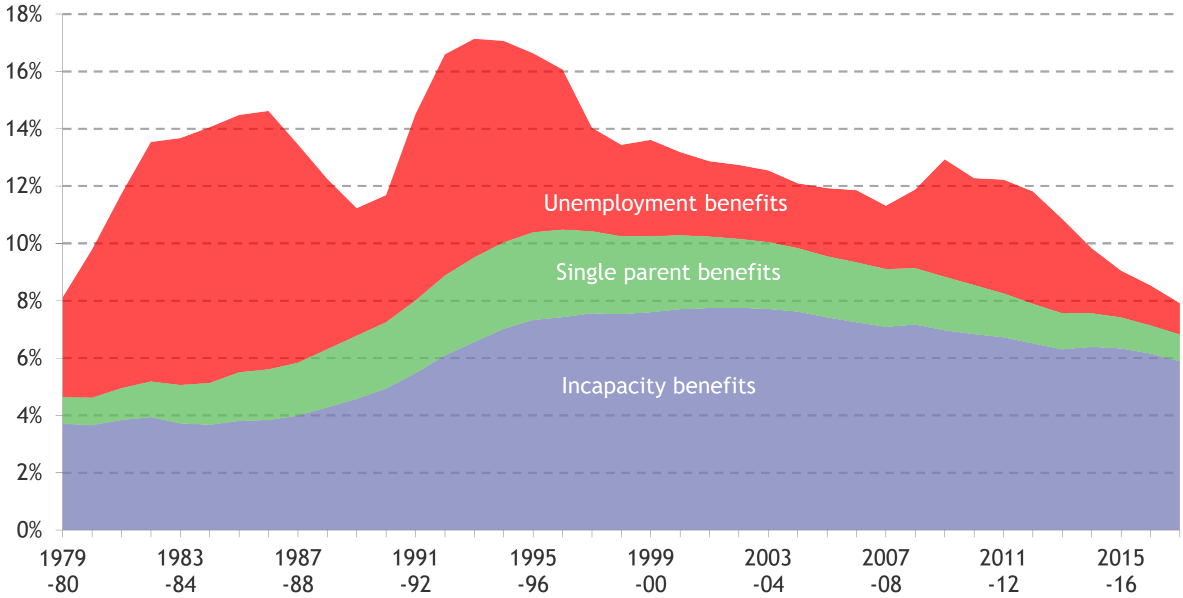
A large determinant of this counter-cyclicality is changing benefit caseloads. These are shown in Figure 6 for the three main categories of income-related, out-of-work benefit. Unemployment benefits clearly display the most cyclicality, with the three peaks reflecting the impact of the past three recessions. The smaller peak seen after the financial crisis was partly due to a smaller increase in unemployment relative to the size of the downturn. But it also reflected the fact that shifts in how support is provided (described above) meant tax credits and housing benefits shouldered some of the burden this time around (in both spending and caseload terms). Taking spending on unemployment benefits and housing benefits together, the OBR's ready reckoners suggest that a 5 per cent increase in unemployment benefit caseloads pushes up welfare spending by around £300,000 per year.[14]

In addition, economic conditions can have much longer-run effects on welfare spending. For example, Figure 6 shows a sustained increase in the incapacity benefits caseload following the 1980s downturn – an increase that endured for decades. This reflects large flows from unemployment to economic inactivity, mainly among men in former industrial areas.[15] In effect, unemployment benefit caseloads reflect the 'short cycle', and the incapacity benefit caseloads in Figure 6 reflect the 'long cycle'.

14 Office for Budget Responsibility, Welfare trends report – October 2014, October 2014
15 P Sissons, 'Welfare reform and recession: past labour market responses to job losses and the potential impact of responses to job losses and the potential impact of Employment Support Allowance', People, Place & Policy 3(3), 2009

FIGURE 6: **Income-related, out-of-work benefit caseloads peak in recessions**

Proportion of working-age population in receipt of income-related, out-of-work benefits: GB



NOTES: The working-age population captures adults aged 16 up to the State Pension age. Incapacity benefits include Incapacity Benefit, Income Support for sick and disabled people, and Employment and Support Allowance. Unemployment benefits include Unemployment Benefit, Income Support for unemployed people, and Jobseeker's Allowance.
SOURCE: RF analysis of DWP, Benefit Expenditure Tables; ONS, Mid-Year Population Estimates

As well as 'mechanical' social security spending increases during downturns (due to a combination of rising caseloads and lower incomes pushing up awards), governments sometimes implement discretionary spending increases to further support incomes via the social security system during periods of economic weakness. A recent example is the increased generosity of Child Tax Credit following the financial crisis.

Demographics

Just as important as the cycle to the size and shape of social security – although generally over a longer time horizon – is Britain's demographic profile. At its root, this is because people rely on the social security system to differing extents at different stages of life. OBR estimates suggest that social security spending per person in the population averages £2,800 per year between the ages of 0 and 15, £1,600 per year between the ages of 16 and 64, and more than £11,000 per year for those aged 65 and over.[16] So more children, and particularly more people in old age, would all-else-equal push up social security spending. Indeed, the OBR's ready reckoners suggest that a 1 per cent increase

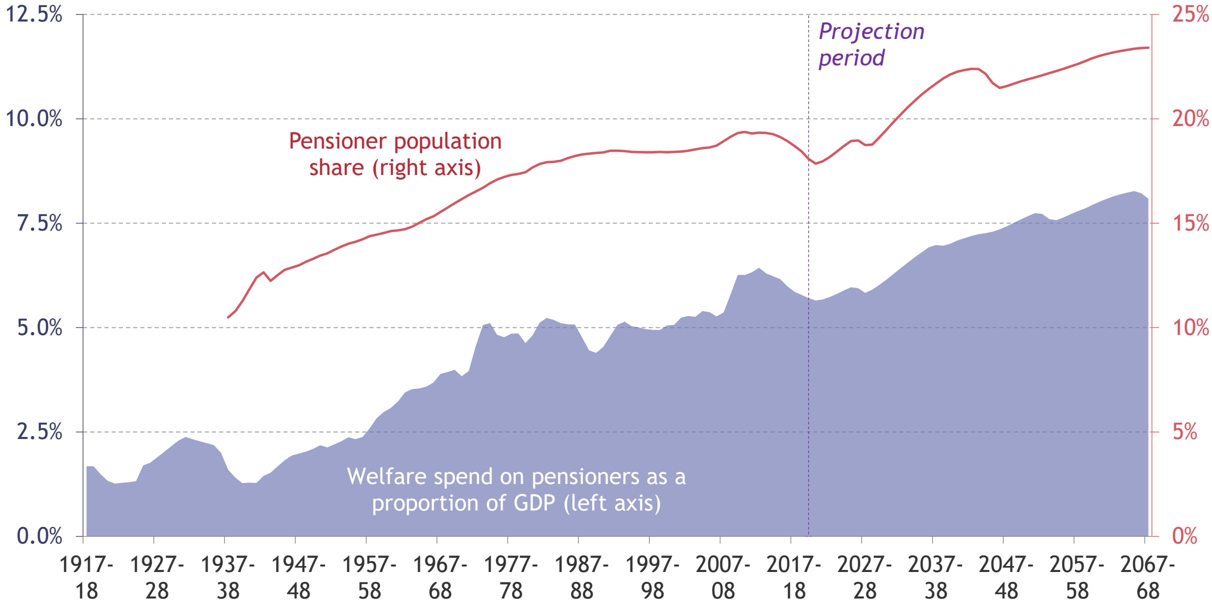
16 In 2020-21 prices. These are simple averages across ages that are not weighted for population size. See: Office for Budget Responsibility, Fiscal sustainability report – January 2017, January 2017

in the number of children or pensioners pushes up welfare spending by £100,000 and £1.2 billion, respectively.[17]

This conclusion is demonstrated by Figure 7, which shows a very strong correlation between social security spending on pensioners as a proportion of GDP and the pensioner population share, or old-age dependency ratio. (The short-run fluctuations in the two series in the post-2010 period reflect actual and planned increases in the State Pension age.)

FIGURE 7: **Changes in social security spending on pensioners closely track the pensioner population share**

Welfare spending on pensioners as a proportion of GDP, and their share of the population: GB



NOTES: Historical and projected welfare spend data (covering the UK as a whole) have been aligned with outturn data since 1978-79 that covers GB, based on annual growth rates; population data covers GB. Council Tax Benefit was abolished in 2013-14, with support instead transferring to the local level. These figures include adjustments to account for this shift. War Pensions are also added back in, having been removed from DWP data after 2001-02. Pensioner definition tracks movements in the State Pension age.
SOURCE: RF analysis of DWP, Benefit Expenditure Tables; MHCLG; Scottish government data; Welsh government data; OBR, Fiscal sustainability report; HMT, Public Expenditure Statistical Analyses; J Hills, Inequality and the State, Oxford University Press, October 2004; ONS, Mid-Year Population Estimates; ONS, Mid-Year Population Projections

It is important to note that while Britain's current and future demographic transition (as everyone lives longer and the large baby boomer generation moves into retirement) is expected to put upward pressure on social security spending, the implications for health spending are even larger. Indeed, while the OBR forecasts social security spending as a share of GDP rising by 18 per cent over the five decades from 2018, health

17 Office for Budget Responsibility, Welfare trends report – October 2014, October 2014

and care spending is expected to rise by 88 per cent.[18] So it would be wrong to say that demographics by themselves are driving social security spending out of control. However, the upward pressure an ageing population is putting on welfare spending is being amplified by policy choices.

Policy decisions

The other fundamental driver of social security spending is the decisions made by successive governments about the generosity of the welfare state, and what they want the social security system to achieve.

Some of the big changes to our social security system that relate to active policy decisions are documented in the discussion around Figure 3, above. This is not the place to rehearse every twist and turn of social security policy over decades. Rather, here we emphasise three core points.

First, it is of course not just social security policy decisions themselves that affect welfare spending. Policy decisions in other areas have knock-on effects, with a range of decisions that have reduced the supply of social and sub-market rental homes a clear example. Relatedly, policy decisions don't always have the effects that are originally intended for them. For example, reassessments that were intended to reduce disability and incapacity benefit spending over the past decade (by reducing the proportion of claimants in the highest-award groups) have saved much less than originally predicted, and taken much longer.[19]

Second, policy decisions have had a bearing on the pensioner and non-pensioner spending split, over and above the impact of an ageing population. This is demonstrated by Figure 8, which puts spending on these two groups in per-person terms. It shows that different policy decisions relating to pensioner and non-pensioner welfare generosity are currently pushing the two in different directions. Per-person pensioner social security spending has been rising in real terms. But, by contrast, per-person spending on those below pension age has been falling (by 13 per cent between 2011-12 and 2023-24). As a result, the proportional gap between per-person pensioner and non-pensioner welfare spending in 2019-20 is the largest it has been since 1989-90.

Of course, policy decisions have had the opposite effect in previous periods, with per-person pensioner spending falling quite rapidly in the late 1980s, for example. But given the demographic headwinds described above, the key point is that policy decisions about relative welfare generosity between pensioner and non-pensioner groups have

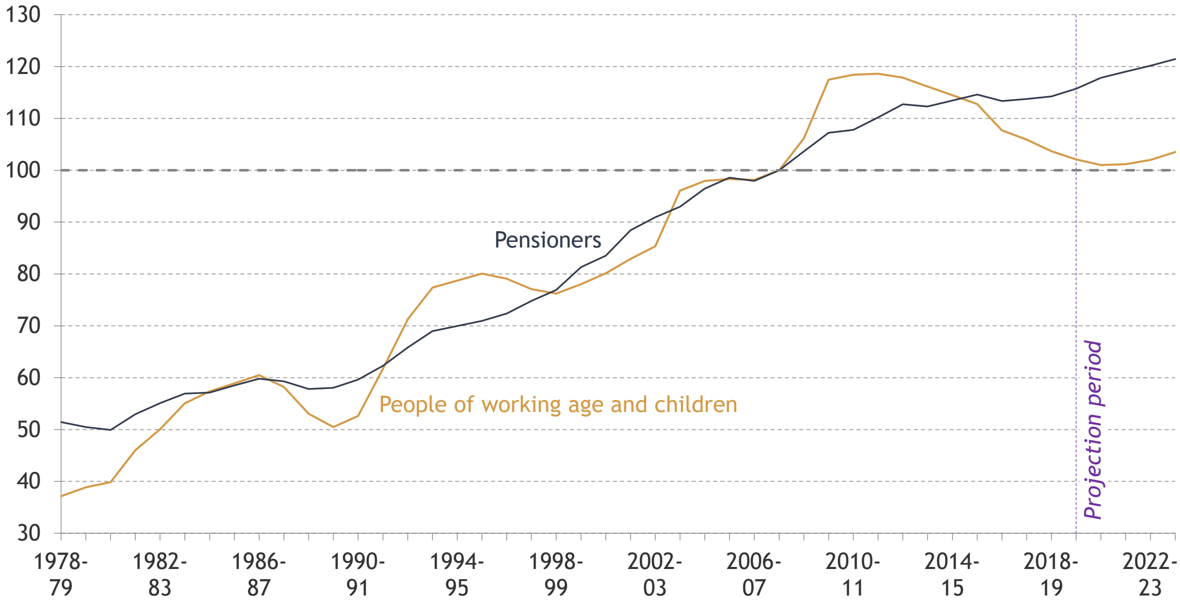
18 It should be noted that these projected increases in health spending are driven by both demographics and expected above-inflation increases in health costs. See Box 5.1 in: Resolution Foundation, A new generational contract: The final report of the Intergenerational Commission, May 2018

19 Office for Budget Responsibility, Welfare trends report – October 2016, October 2016

doubled down on demographic pressures over the past decade. This has made delivering a policy agenda of overall reductions in welfare generosity harder to do. As we will discuss in Section 4, it is also increasingly out of kilter with which groups' incomes have grown fastest and who is poor in Britain today.

FIGURE 8: **Increased spending on pensioners has been driven not just by demographics but by rising generosity too**

Indices of real-terms (GDP-deflated) welfare spending per person, 2007-08=100: GB



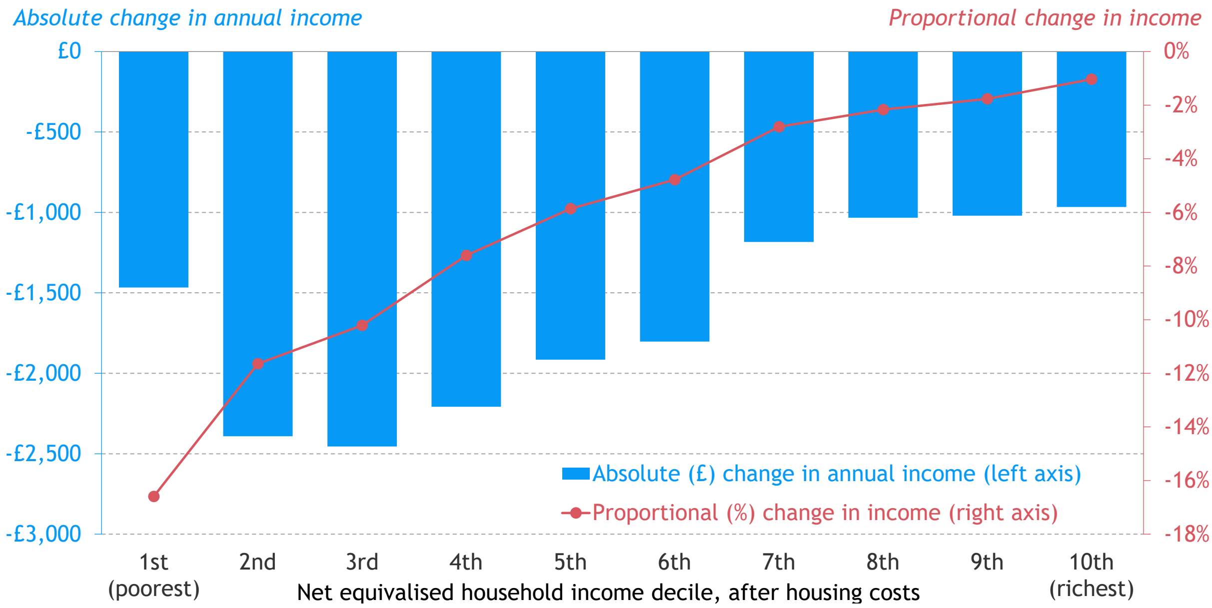
NOTES: Council Tax Benefit was abolished in 2013-14, with support instead transferring to the local level. These figures include adjustments to account for this shift. War Pensions are also added back in, having been removed from DWP data after 2001-02.
SOURCE: RF analysis of DWP, Benefit Expenditure Tables; MHCLG; Scottish government data; Welsh government data; ONS, Mid-Year Population Estimates

Our third point is simply that these reductions in welfare generosity over the past decade set the backdrop for whatever happens next. Abstracting from individual policy decisions, the big-picture conclusion from the analysis in this section is that if the forecasts are correct (i.e. without further policy change), the decade to 2023-24 will represent the longest continuous period of decline in social security spending since the Second World War. This reflects economic improvement to some extent, but also an austerity-driven decision to reduce spending, from which one particular group – pensioners – has largely been spared. Focusing on the major cash benefit changes since 2010 (some of which are still being rolled out), we estimate that social security spending will be around £34 billion lower in 2023-24 than it would have been if the 2010 social security system had remained in place. In the post-2015 period, the largest elements of these cuts include the benefits freeze, the two-child limit, the removal of the 'family element' in tax credits and Universal Credit, and the reduction in support for the Employment and Support Allowance (ESA) work-related activity group (and the equivalent group in Universal Credit).

As Figure 9 shows, the effects of this package of policy decisions have been disproportionately felt by those on the lowest incomes. It is also the major driver of our forecast that, if policy stays as planned, child poverty will continue rising in coming years. The proportion of children in the UK in relative poverty (living in households with incomes below 60 per cent of the median) increased from 27.1 per cent in 2011-12 to 29.6 per cent in 2017-18. It is expected to rise to 34.4 per cent by 2023-24, largely as a result of these policy changes.[20]

FIGURE 9: **Welfare policy changes have reduced incomes for those at the bottom of the income distribution most**

Change in income resulting from changes to the benefit system since 2010, by household income decile: UK, 2023-24



NOTES: This analysis compares the tax credits system to a contemporaneous world in which Universal Credit is fully in place. Analysis accounts for different take-up rates for different benefits. Our results are more skewed towards the bottom of the distribution than those in P Bourquin, A Norris Keiller & T Waters, The distributional impact of personal tax and benefit reforms, 2010 to 2019, Institute for Fiscal Studies, November 2019. This is partly due to the coverage of slightly different policy changes, but mainly due to the fact that we calculate the income distribution after housing costs.
SOURCE: RF analysis of DWP, Households Below Average Income using the IPPR tax-benefit model

This post-2010 package of cuts forms the backdrop to our assessment in Section 5 of what the main political parties are offering on social security in this election. And in Section 4 we pick up this initial discussion of the drivers of social security spending, and expectations for child poverty, in more detail. But first, the next section builds on the high-level assessment of the size and make-up of social security we have so far provided, exploring its conceptual and procedural underpinnings, i.e. how the nature of the welfare state has shifted over time.

20 For a discussion of why we expect child poverty to continue rising, see: A Corlett, The Living Standards Outlook 2019, Resolution Foundation, February 2019

Section 3

How the nature of the welfare state has changed

The social security system is constantly evolving. In this report we do not seek to describe every aspect of the changes it has undergone in recent years. In order to provide some broad context to current debates, in this section we provide a brief account of five big conceptual or procedural shifts that have had, or are having, a profound effect on how our social security system operates:

- There has been a shift in the balance between universal, contribution-based and means-tested support. The contributory principle has faded from the system, and universalism has taken its place for pensioners but also reduced to some extent for non-pensioners. As a result, means-testing is more common for people of working age and children.
- Despite more means-testing, overall reductions in generosity mean the social security system's 'automatic stabilisation' role in supporting the macroeconomy in a downturn has weakened modestly.
- Rising cost pressures relating to things like disability, housing, childcare and travel – and a willingness by governments to support these costs in some areas – have increased the emphasis on costs-based and in-kind benefits.
- Universal Credit – the merging of six benefits into one with the goals of simplification and improved work incentives – has (sometimes inaccurately) become the symbol of all changes to working-age social security in recent years. Despite being a decade in the making, the majority of its roll-out still lies ahead and the 2019 election comes at a crucial juncture in this journey.
- Alongside generosity and the benefits via which it is delivered, Britain's social security system has become more 'activation'-focused in this century, meaning greater requirements and support to prepare for and look for work. Over the past decade this has been characterised by expanding conditionality and a big rise in the use of sanctions, particularly during the early 2010s.

Universalism has shifted towards those above pension age, and the contributory principle has faded, with means-testing more common

To begin, it is instructive to step back from the volume of social security spending at any given point in time and the benefits via which it is delivered, and consider the principles underpinning the system. There are three broad approaches to social security:

- **Universal**: Benefits provided to everyone (or everyone in a certain group or who means certain very basic conditions) regardless of income. Universalism was a core principle underpinning the expanded and streamlined 'Beveridge system' of social security that was created during the 1940s, in terms of both free healthcare and elements of cash-based support. Universal provision of benefits has generally been targeted at the start and towards the end of life when reliance on social security is greater. Examples include Child Benefit (until recently), and Winter Fuel Payments to households of pension age. The growing debate on a universal basic income is the most recent embodiment of the principle of universalism in social security.
- **Contributory**, or social-insurance based: Benefits provided on the basis of prior payments into the system by the individual. William Beveridge argued that "benefit in return for contributions, rather than free allowances from the State, is what the people of Britain desire."21 This led to the creation of a single National Insurance Fund based on mandatory and relatively flat contributions, to support people who had paid in when they found themselves unemployed or sick, and after they retired.22 In practice, this fund has long been subsumed within general taxation in all but name.
- **Means-tested**, or social-assistance based: Benefits provided on the basis of income or other material needs, with no requirement to have 'paid in' to the system.

Of course, social security systems can, and frequently do, blend these principles. For example, the (now-abolished) Child Trust Fund had a universal element and an additional means-tested element for children in lower-income families. And Pension Credit exists to be a means-tested back-stop to the (part-contributory, part-universal) State Pension.

Which type of social security system is preferable? There is of course no 'right' answer to this question, and most governments (rightly) take a 'horses for courses' approach. One argument often made in support of universal or contributory systems, including by Beveridge himself, is that they are likely to garner more public support, rather than being seen as residualised and 'for the poor'.[23]

21 W Beveridge, Social Insurance and Allied Services, HM Stationery Office, 1942
22 For a fuller discussion of the contributory principle, see: K Bell & D Gaffney, Making a contribution: Social security for the future, TUC, 2012
23 K Bell & D Gaffney, Making a contribution: Social security for the future, TUC, 2012

Beyond considerations of public acceptability, the challenge of deciding which approach to adopt is exposed by the 'iron triangle' that all welfare policy has to contend with. This iron triangle suggests that there are three goals of welfare policy: raising the living standards of those on low incomes; encouraging work and economic self-sufficiency; and keeping government costs low. No single reform can satisfy more than two of these goals at the same time.[24] So, for example, universal provision has strong merits in terms of raising the living standards of the poorest (alongside everyone else) and creating strong work incentives. But it tends to fall down on cost. Means-tested provision does well at targeting those on the lowest incomes. But if benefits have high withdrawal rates in order to keep government costs down, then work incentives tend to be weakened.

So which of these principles has the UK adopted? As mentioned above, universalism and the contributory principle were strong themes in the creation of the welfare state after the Second World War. But the approach – particularly to households of working age – has increasingly drifted towards means-testing. Here we briefly recount some of the key changes.

The clearest example of a shift away from universalism in our social security system is the means-testing of Child Benefit. Child Benefit was fully implemented in 1979, when for the first time in the UK every child was entitled to the same basic level of support, regardless of family size or income. However, since 2013 Child Benefit has been withdrawn entirely from children with a parent earning more than £60,000, and those with a parent earning between £50,000 and £60,000 have received only a partial payment. This means that around one-in-five families are no longer entitled to the full benefit.[25]

At the same time, as Child Benefit has become less universal, the State Pension has become less tied to contributions, and far closer to a universal benefit. The introduction of the State Second Pension in the early 2000s, and the new (single-tier) State Pension in 2016 has gradually shifted us towards a largely flat-rate system with relatively larger accruals for lower-paid workers.[26] In particular, generous earnings-related top ups via the additional State Pension are being phased out for new cohorts of pensioners. These shifts reflect one of the fundamental arguments of the mid-2000s Pensions Commission that recommended this kind of approach: that, because the State Pension needed to be a basis for private saving, universalism was required to create the right incentive structures. As a result of both these reforms and gradual increases in female labour market participation, 85-90 per cent of men and women in future cohorts will be entitled

24 R Blundell, 'Welfare-to-Work: Which Policies Work and Why?', Keynes Lecture in Economics, University College London/Institute for Fiscal Studies, November 2001
25 A Corlett, CB40: Happy 40th birthday to child benefit! But will it last another twenty?, Resolution Foundation, April 2019
26 For a fuller discussion of the history of State Pension reforms, see: D Finch & L Gardiner, As good as it gets? The adequacy of retirement income for current and future generations of pensioners, Resolution Foundation, November 2017

to the maximum amount of State Pension in their own right.[27] Alongside these State Pensions changes, the universal Winter Fuel Payment was introduced for pensioners in the late 1990s.

Whereas universalism appears to have shifted from the working-age population to the pensioner population, the contributory principle has been in decline across the board. The clearest recent example in working-age social security is the time-limiting of contributory ESA (for those in the work-related activity group) to one year.

As a result of these shifts, means-testing has become a more prominent feature of the UK social security system, particularly for non-pensioners. The growing role of tax credits is a clear demonstration of this shift.

What the future holds for these features of Britain's social security system is unknown, but it is clear that a well-designed system should have a strong vision for how to manage the trade-offs and tensions between them. It seems likely that the strong emphasis on means-testing, particularly in the working-age system, is here to stay. This will be sub-optimal in the eyes of many, and we agree that there are major drawbacks to such an approach. But there are also reasons why this should not, perhaps, be our primary concern in terms of reforming social security.

First, others have argued that mass technological unemployment would necessitate more universal, basic support. But with record employment and stagnant productivity, we are very far from that reality. Second, while the public-acceptability arguments for contributory or universal systems are powerful, as we shall see in the following section, public support may not be the barrier to more generous welfare provision that it once was. Finally, while we might mourn the decline of the contributory principle for this or other reasons, disabusing the fiction that National Insurance payments directly fund contributory benefits could open the door to much needed reforms on the revenue-raising side. This might include charging National Insurance on pensioners' employment income and some pensions in payment, as suggested by the Resolution Foundation's Intergenerational Commission.[28]

Despite a greater emphasis on means-testing, the tax and benefit system's stabilisation function has reduced

For the most part, and rightly, we consider our social security system from the perspective of the individuals and households interacting with it. But alongside the tax system, it also plays an important macroeconomic role in terms of its automatic

27 Department for Work and Pensions, Impact of New State Pension (nSP) on an Individual's Pension Entitlement – Longer Term Effects of nSP, January 2016

28 Resolution Foundation, A new generational contract: The final report of the Intergenerational Commission, May 2018

stabilisation function. 'Automatic stabilisers' refer to the fact that when people lose their jobs, or their wages fall, taxes go down and benefits go up mechanically, which should allow them to maintain their consumption to at least some extent. This forms an important and speedy part of the fiscal armoury that supports the economy in a downturn.

Recent work by the Resolution Foundation's Macroeconomic Policy Unit has demonstrated that the UK's automatic stabilisers have been weakened somewhat in recent years. This can be seen, for example, in the fact that Jobseeker's Allowance (JSA) is expected to reach an all-time low in relation to earnings in 2019-20, at 14.5 per cent. This compares to a figure (for its predecessor benefits) of 20 per cent in the early 1990s and above 30 per cent during much of the 1960s.[29]

But stabilisation is about much more than people losing their jobs and claiming unemployment benefit. Wage effects and tax changes matter hugely too, as does the incidence of effects across groups. A full modelling exercise that simulates a recession like that of 2008-09, first under the 2010 direct tax and benefit system and then under today's system, shows that the income reduction for those on lower incomes is bigger under the current tax and benefit system. The bottom two quartiles of the income distribution experience a 0.2 percentage point and 0.5 percentage point larger recession-driven income fall, respectively, as a result of the changes to the tax and benefit system that have taken place since 2010. In other words, for the same hit to employment and earnings, the current tax and benefit system cushions the incomes of poorer households less than the 2010 system would have done.[30]

This conclusion might seem counterintuitive given the shift towards more means-testing, discussed above. Means-testing relies on the gradual tapering away of benefit awards as incomes rise, so it should also strengthen stabilisers by ensuring that benefits rise substantially and smoothly when incomes fall (a feature that simultaneously reduces incentives to work more – a challenge to an exclusive focus on stabilisation). The reason why the growing focus on means-testing has not meant a stronger stabilisation function over the past decade is that it has been combined with big overall reductions in social security generosity, which have born down in particular on out-of-work awards. Withdrawal rates and tapering certainly matter for stabilising the economy, but so too does the overall generosity of the system. It is reductions in overall generosity that have weakened the automatic stabilisers over the past decade.

This weakening matters from a macroeconomic perspective because monetary policy is currently constrained by the low level of interest rates internationally, which constrains

29 J Smith et al., Recession ready? Assessing the UK's macroeconomic framework, Resolution Foundation, September 2019
30 For a full description of this modelling, see: J Smith et al., Recession ready? Assessing the UK's macroeconomic framework, Resolution Foundation, September 2019

substantially the ability of the Bank of England to support the economy in a future recession. Our Macroeconomic Policy Unit has argued that bolstering the social security system's stabilisation function should be an explicit feature of a greater role for fiscal policy in future downturns.[31]

Our social security system places increasing emphasis on benefits to support specific costs, and in-kind support

Beyond the three-part typology of social security approaches presented above, a particular feature of the development of our social security system has been the introduction and expansion of benefits and services to support specific costs that certain individuals and households face. As mentioned in the previous section, benefits to support the costs of housing, or the specific costs that people with disabilities face (via Disability Living Allowance and more recently the Personal Independence Payment) have grown as a share of welfare spending. To some extent this reflects the fact that some of these costs were previously met within other benefits, but it also reflects rising cost pressures. Our ageing population is pushing up the incidence of disability, and health conditions are also becoming more prevalent at younger ages. On top of that, the rising proportion of renters and the increasing real cost of renting have pushed up the cost of housing for lower-income families. These upward pressures on spending are discussed in more detail in the following section.

Another area where spending pressures have risen is in relation to childcare. This reflects both above-inflation childcare costs growth,[32] and the rise in single-parent and dual-earner households pushing up the demand for childcare (again, we touch on this driver in more detail in the following section). Some of these costs have been absorbed within growing tax-credit spending, with the transition to Universal Credit improving generosity (although with significant operational drawbacks). In addition, recent governments have sought to support better-off families via the tax-free childcare scheme (which replaced the less generous voucher system in 2017), and all families with young children via the provision of more free childcare hours (certain working parents of 3 and 4 year olds have been eligible for up to 30 free childcare hours per week since 2017).

Beyond the general point that specific costs have been putting upward pressure on social security spending, there are clear differences in the approach to different aspects of these. Rising disability costs precipitated a stricter assessment process in Personal Independence Payment than in Disability Living Allowance (and a parallel tightening up of assessments in the move from Incapacity Benefit to ESA). Notwithstanding the fact

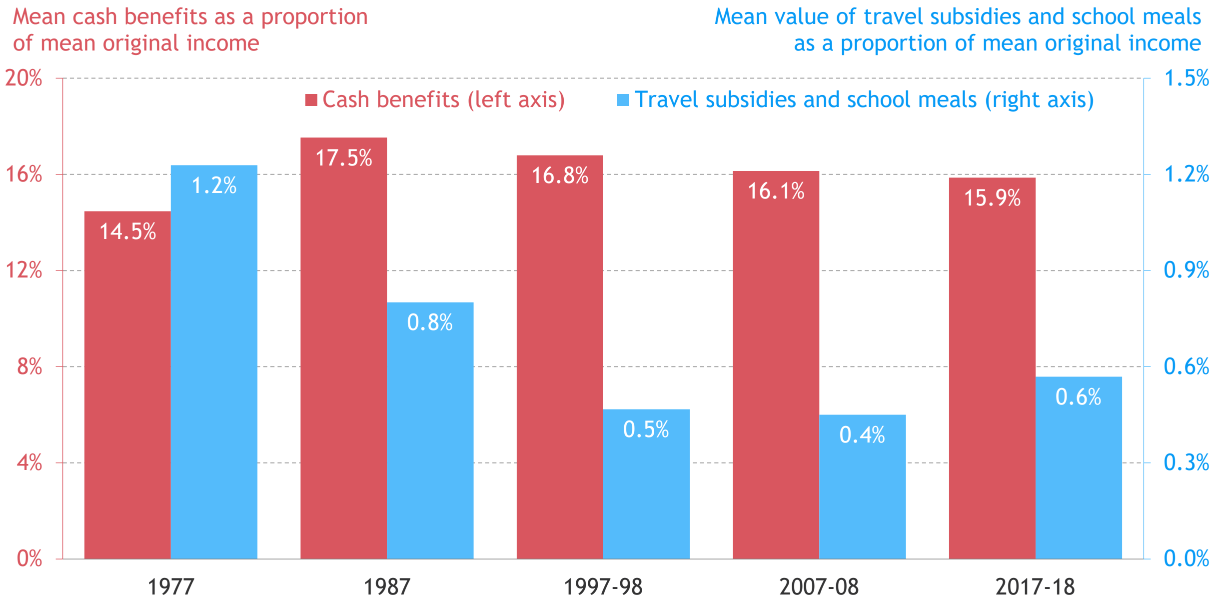
31 J Smith et al., Recession ready? Assessing the UK's macroeconomic framework, Resolution Foundation, September 2019
32 M Jarvie, Families face rising tide of childcare costs as prices rise again, Coram Family and Childcare, February 2019

that these efforts have reduced spending much less than envisaged,[33] it's clear that the approach to childcare has been completely different. In the face of rising cost pressures, political parties have made extra childcare provision or cash support towards childcare costs a big part of recent election offers. That remains the case in 2019, as we discuss in Section 5.

Finally, as mentioned in relation to childcare, rising costs have not only been met by cash transfers. As well as childcare hours, the provision of travel, school meals, broadband and other services has been under the spotlight in the 2019 election campaign so far. Our analysis in the previous section did not cover 'in-kind' support towards these services or activities. But a limited assessment, shown in Figure 10, suggests that the value of free or subsidised travel and school meals has grown as a share of income over the past decade (for example, as a result of the introduction of free school meals for all infants in 2014), at the same time as the value of cash benefits has been falling. Of course it is worth noting that these elements of in-kind support are far less important than they were in the late 1970s or late 1980s.

FIGURE 10: **The value of travel and school meal subsidies has been rising in relation to income, while cash benefits have fallen**

Cash benefits, and travel subsidies and school meals, as a proportion of original income: UK



NOTES: Original income is pre-tax, and captures income from employment, private pensions, investments and other non-government sources. We focus on travel and school meals because those are the only two areas of in-kind benefit spending (outside of health, education and housing subsidies) that are consistently captured in this dataset.
SOURCE: RF analysis of ONS, Effects of Taxes and Benefits on Household Income

33 Office for Budget Responsibility, Welfare trends report - October 2016, October 2016

So due to a mixture of cost pressures and active policy decisions, cash and in-kind benefits that provide for, or reduce, specific costs that households face have grown in importance in our social security system over the past decade. We reflect further on where future cost pressures might come from in the following section, and in Section 5 we assess the main parties' offers in these areas.

Universal Credit is radically transforming the working-age social security system, under the guise of simplification and integration

Universal Credit (UC) is a huge change to Britain's welfare system. Despite the fact that it has already been a decade in the making, the majority of its roll-out is still ahead of us. Previous Resolution Foundation research has explored UC's operation, generosity and the transition to the new benefit in detail.[34] We do not rehearse all those findings here, but rather briefly reflect on what UC means for the nature of our social security system.

UC involves merging six working-age benefits into one to create a single core in- and out-of-work welfare system. The scale of UC is therefore huge: once fully rolled out more than 6 million families will receive it at any given time,[35] and it will pay out over £60 billion per year.[36] The original aims were to simplify the welfare system and to boost work incentives, aims that attracted widespread – and cross-party – support.[37] This support has since waned as a result of: other design elements creeping in; the wider welfare context; roll-out delays and implementation problems; cuts to generosity; and simply the realities of swiftly imposing such far-reaching changes on some of the most vulnerable people in society.

Focusing on what UC set out to do, one of the biggest challenges has been that alongside its headline objectives existed a number of others. Two objectives were put front-and-centre at the outset of its design:

- Simplifying the system to boost take-up and smooth the transition to work; and,
- Improving financial incentives to enter work and earn more.

But we can identify at least three additional objectives that were a key part of UC's design from the start, or became so along the way:

- Adopting a more sophisticated IT system resting on 'real-time' earnings information;

34 D Finch, Making the most of UC: Final report of the Resolution Foundation review of Universal Credit, Resolution Foundation, June 2015; M Brewer, D Finch & D Tomlinson, Universal Remedy: Ensuring Universal Credit is fit for purpose, Resolution Foundation, October 2017; D Finch, The benefits of moving: Managing the transition of existing claimants to Universal Credit, Resolution Foundation, September 2018; D Finch & L Gardiner, Back in credit? Universal Credit after Budget 2018, Resolution Foundation, November 2018

35 M Brewer, D Finch & D Tomlinson, Universal Remedy: Ensuring Universal Credit is fit for purpose, Resolution Foundation, October 2017

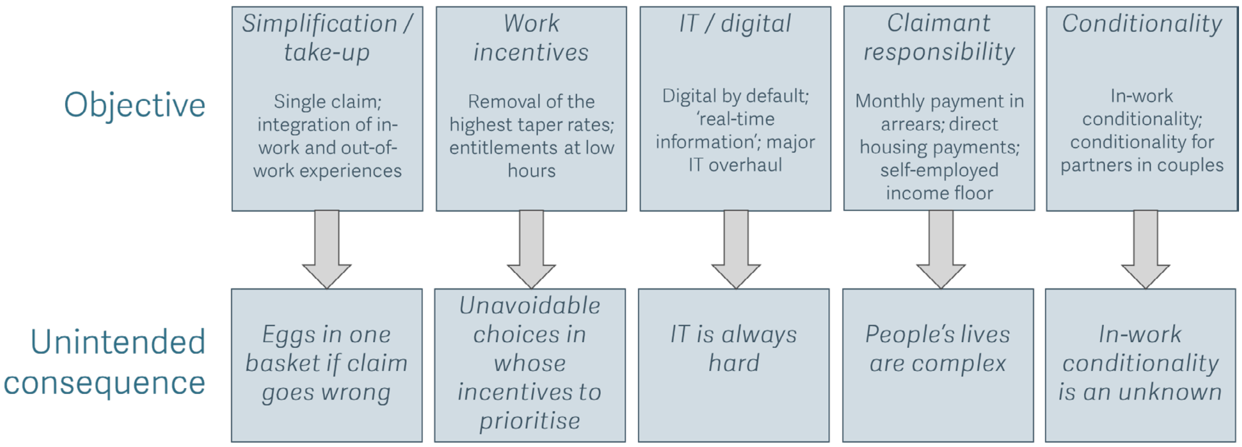
36 P Johnson, Switching millions to universal credit poses real threat of 'poll tax' moment, The Times, October 2018

37 N Timmins, Universal Credit: From disaster to recovery?, Institute for Government, September 2016

- Increasing claimant 'responsibility' via elements including payments being made monthly and in arrears (creating a five-week wait for the first payment after the initial claim date), and direct housing payments (as opposed to support towards housing costs being paid straight to landlords); and,
- Expanding conditionality to people in work, and some partners in couples.

All objectives have trade-offs and challenges underlying them, so the problem with multiple objectives is a proliferation of these. Figure 11 illustrates some of the challenges and unintended consequences inherent in the objectives we have identified for UC. For example, the admirable goal of merging different claims processes to simplify the system increases the costs to individuals of administrative errors or payment delays. And such costs would be amplified by claimant mistakes – given their increased responsibility for things like paying their own rent – that reflect the complexity of their lives or their challenges navigating the new system.

FIGURE 11: **Universal Credit has multiple objectives, and they all entail unintended consequences**



Of course, many policies take on multiple objectives as they develop, but it seems reasonable to suggest that a reform on UC's scale was made harder to do by being pulled in multiple directions. In some cases, these objectives are not inherent to UC but instead appear to have flowed from attempts to make short-term savings, or alter human behaviour rather than support people in need.

As well as this mission proliferation, UC's progress has been complicated by the fact that it is by no means the only big change being made to the welfare system, as we have already set out in this report. Both large overall welfare cuts (happening in both the UC and 'legacy' tax credits system), and incapacity and disability benefit reassessments have happened at the same time. The challenge here is twofold. First, trying to do something on the scale of UC at the same time as such drastic changes to both the generosity of benefits and their behavioural requirements has represented an enormous delivery challenge for the DWP. Second, UC is now credited (more often, blamed) for everything happening to the working-age social security system. This is despite the fact that the vast majority of cuts are not UC-specific, and the peak use of sanctions pre-dated UC (discussed below). Of course, we could do with a bit more honesty from politicians and commentators about what is and isn't UC's doing.[38] But as the flagship welfare policy, the fact that all the problems relating to recent welfare reforms are being laid at UC's door is hardly surprising.

Given these challenges, it is also unsurprising that UC's roll-out, which began very slowly in 2013, has taken far longer than originally expected. UC is still only around one-third of the way towards being fully rolled out across the country, and roll-out is now not expected to be completed until 2024. Successive delays to UC's implementation – and the wider context of welfare reductions – have created space for the policy's design to undergo a number of changes since it was first set out in detail in the 2013 Autumn Statement.[39]

Initially, the story was one of large reductions in generosity. 'Work allowances' (the amount that can be earned before benefits start being withdrawn) were frozen in cash terms in 2014 and 2015. But the big blow came in the 2015 Summer Budget, which included around £3 billion[40] of cuts to work allowances (which were retained when the equivalent cuts to tax credits were reversed at the 2015 Autumn Statement). These changes shifted UC from its original position of being more generous overall than the system it replaces,[41] to being notably less so. But subsequent changes have largely reversed the impact of the 2015 Summer Budget cuts, at the aggregate level. These include:

- A reduction in the 'taper rate' (the rate at which benefits are withdrawn above work allowances) from 65 per cent to 63 per cent in the 2016 Autumn Statement, an eventual investment of £0.6 billion per year;
- Run-ons of Housing Benefit for new claimants and the reduction of the six-week wait to a five-week wait via the removal of 'waiting days' in the 2017 Autumn Statement; and,

38 See: T Bell, Universal Credit: The honesty we owe and the changes we need, Resolution Foundation, October 2018
39 For details of its original design, see Annex A in: D Finch, Making the most of UC: Final report of the Resolution Foundation review of Universal Credit, Resolution Foundation, June 2015
40 Annually, and in 'steady state', i.e. when the benefit is fully implemented.
41 See: Department for Work and Pensions, Universal Credit impact assessment, December 2012

- A boost to work allowances for claimants with children or health problems in the 2018 Autumn Budget (an investment of £1.7 billion), plus a package of measures to ease the transition to UC.42

As a result of these changes, the OBR judges that UC has returned to a position of being marginally more generous in aggregate than the legacy benefits system it replaces. But, crucially, this is only the case if UC achieves its hoped-for take-up gains.[43] And this aggregate position hides large gains and losses for different groups and areas.

The 2019 election comes at an important juncture in UC's implementation journey. It takes place roughly one year after UC reached full service across the country, meaning all new claims, and claimants with changed circumstances, are moving onto it. And the election takes place roughly a year prior to the planned 'managed migration' of remaining existing benefit claimants onto UC (following the current pilot stage). So it is no surprise that it is high on the social security agenda for all parties, as we discuss in detail in Section 5.

The social security system has become increasingly activation-focused, with an emphasis on sanctions and conditionality in recent years

Building on our discussion of Universal Credit, above, our fifth and final area for comment on the changing nature of the social security system relates to the requirements it places on and services it provides to claimants.

Over the past two decades, the way that claimants of income-related, out-of-work benefits engage with the state has changed dramatically. This began with the integration of Unemployment Benefits Offices into Jobcentres during the 1990s, the launch of JSA as the new unemployment benefit in 1996, and then the evolution from Jobcentres to Jobcentre Plus offices in the early 2000s. All of these changes entailed a stronger focus on job-search requirements, backed up by the threat of sanctions. Over the course of the 2000s and 2010s, these changes were accompanied by a growing suite of welfare-to-work programmes (often contracted out to third-party providers) designed to reduce the incidence of long-term receipt of welfare benefits. These included the New Deals, the Flexible New Deal, Pathways to Work, the Work Programme and Work Choice. At the same time 'lone parent obligations' have increased conditionality for single parents by moving them from Income Support onto JSA, and the transition from Incapacity Benefit to ESA has entailed some claimants of incapacity-related benefits being required to prepare for work.

42 For further details, see Box 1 in: D Finch & L Gardiner, Back in credit? Universal Credit after Budget 2018, Resolution Foundation, November 2018
43 D Finch & L Gardiner, Back in credit? Universal Credit after Budget 2018, Resolution Foundation, November 2018

There is evidence that this sustained focus on increased activation has been successful in boosting employment and pushing welfare use down, particularly in comparison to the US.[44] That's not to say that it has been without its drawbacks. As we have discussed, overzealous attempts to reassess incapacity benefit claimants as capable of working have met with strong pushback. And sharp increases in the use of sanctions are regarded by many as having gone too far.[45] A staggering 820,000 JSA and ESA claimants were sanctioned in 2012, and 920,000 in 2013. That compares to the 260,000 average during 2001-07. The number has since fallen back to slightly above 300,000 in 2018.[46]

While activation policy has played a role in Britain's labour market strength, getting the balance between conditions and support right is a fine judgement. It is also important to recognise that the increasing reach of benefit conditionality has reshaped the role of Jobcentres, with profound implications should the economy deteriorate, something Box 2 discusses in detail. The task of whoever governs after this election will be to maintain the positives of two decades of active labour market policy reform in Britain, while ensuring the system is proofed to economic shocks.

BOX 2: **The increasing reach of conditionality and the shifting role of Jobcentres**

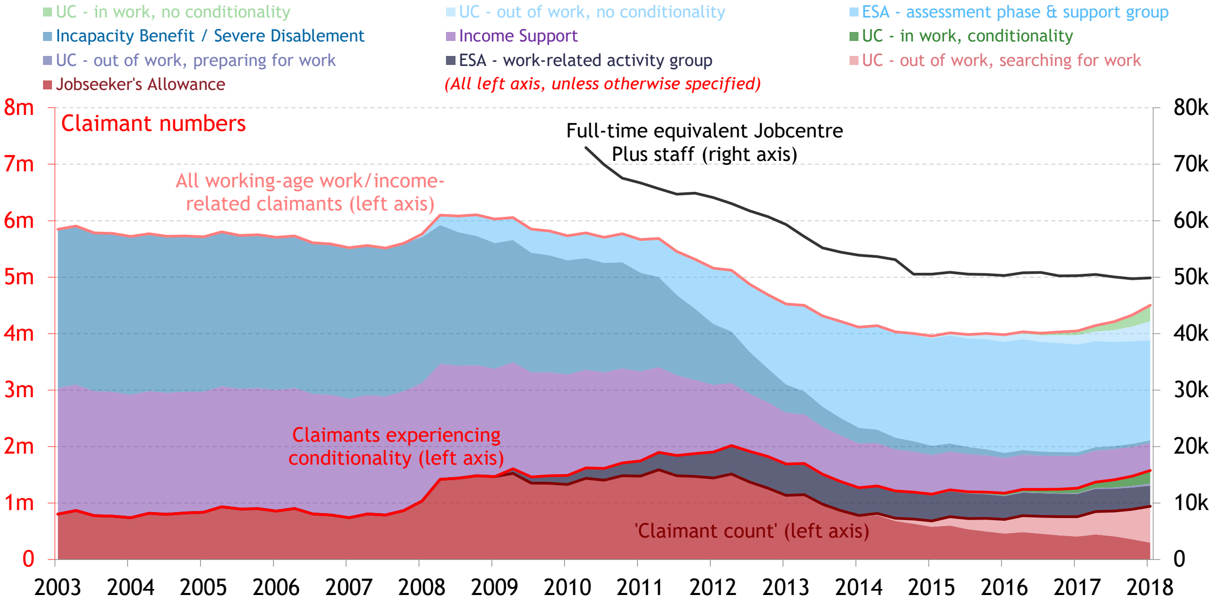
We estimate that the number of people working in Jobcentre Plus (JCP) offices has fallen by almost a third over the past eight years, as shown in Figure 12.[47] While this appears warranted on the basis that the number of people claiming benefits had also been falling, implying a reduction in the JCP workload, other trends push in the opposite direction.

First, over this period, the number of claimants who have been effectively 'contracted out' by JCP to third-party welfare-to-work programme providers has declined dramatically, from over 30,000 each month during 2013 to fewer than 3,000 each month in 2018.[48]

44 A Corlett & P Gregg, An Ocean Apart: the US-UK switch in employment and benefit receipt, Resolution Foundation, July 2015
45 A Tinson, The rise of sanctioning in Great Britain, New Policy Institute, June 2015
46 The 2001-07 figure applies to JSA claimants only, because prior to the introduction of ESA in 2008, there was very little application of conditionality within the health-related benefit regime. The 2018 figure spans JSA, ESA, Income Support and Universal Credit. Source: DWP, Benefit sanctions statistics
47 Our estimate is echoed by the Work and Pensions Select Committee inquiry into JCP, which found that the number of work coaches fell by 35 per cent between 2011-12 and 2015-16. See: Work and Pensions Select Committee, The Future of Jobcentre Plus, November 2016
48 In 2013, over 30,000 long-term unemployed claimants and claimants with health problems started on the Work Programme each month, and a further 1,500 started on Work Choice. Fewer than 3,000 claimants have started on the Work and Health Programme each month since it was rolled out nationally in 2018.

FIGURE 12: **JCP staff numbers have fallen over the past decade, while the number of claimants experiencing conditionality is rising**

JCP-administered benefit claimant numbers and JCP staff numbers: GB



NOTES: Jobcentre Plus ceased to have legal status in October 2011, meaning staff headcounts have not been published separately from DWP totals since this date. We estimate the JCP headcount from then on based on the proportion of DWP (excluding the Health and Safety Executive) staff based in JCP during Q3 2011.
SOURCE: RF analysis of ONS, Public Sector Employment; DWP, Work and Pensions Longitudinal Study; DWP, Universal Credit statistics

Second, the introduction of UC brings more people into 'full' job-search conditionality, entailing frequent contact with JCP. This is because it extends conditionality to some partners in couples, and brings some people who might previously only have claimed unconditional benefits like Housing Benefit and Child Tax Credit into the conditionality regime. This drives the recent uptick in the maroon 'claimant count' line in Figure 12. Third, UC extends conditionality to some in-work claimants. Coming on top of the creation of a work-related activity group (with some job preparation requirements) within ESA from 2009 onwards, this drives up the total group of claimants experiencing some conditionality. This group is shown on the red line in Figure 12. And fourth, for both these groups and those claimants experiencing very little or no conditionality, UC entails new tasks for JCP staff. The most significant of these is verifying housing costs and administering direct housing payments to landlords.

Low unemployment has provided the space for JCP to do this, despite its falling headcount. However even with unemployment continuing to fall in recent years, some of these shifts have driven the ratio of claimants to JCP staff members up since 2017. For example, there were 31.6 claimants experiencing some conditionality per full-time equivalent JCP staff member in the final quarter of 2018. This is only just below this decade's high-point (32 claimants per staff member in the first quarter of 2013), and 38 per cent higher than the figure in the second quarter of 2015. The implication is that in the event of an unemployment spike, DWP and JCP would need to change course. This might involve some combination of increasing JCP staff numbers; dialling down or completely removing conditionality for some groups such as those in work; or slowing or halting the roll-out of UC.

With these five conceptual and procedural shifts as context, the next two sections turn the focus to where our social security system might be (and ought to be) heading next. In the following section, Section 4, we briefly set out some of the broader economic, cultural and social shifts that are reshaping Britain today, and that social security policy should be responding to.

Section 4

How the world is changing

Building on the changing size and nature of the social security system discussed above, in this section we turn to the key trends that will shape its future. We highlight five in particular:

- The growing prevalence of disability – and particularly mental health problems – at younger ages.
- Changes to the structure of the labour market, including the decline in the number of workless households, the endurance of insecure employment post-crisis, and the importance of dual-earning households in combatting rising in-work poverty.
- The likely continuation of housing-cost pressures on the social security system, given high rents and a high number of renters.
- The fact that growth in the value of assets has outstripped income growth for decades, with wealth increasingly important to lifetime living standards.
- The highest levels of public support for welfare spending to help the poor in 14 years, even if tax rises are needed to fund this.

In responding to this fifth trend, policy makers need to take particular account of the fact that much stronger pensioner income growth in the 21st century means that pensioners are now almost half as likely to be in relative poverty as children are.

Health problems and disabilities are becoming more common at younger ages

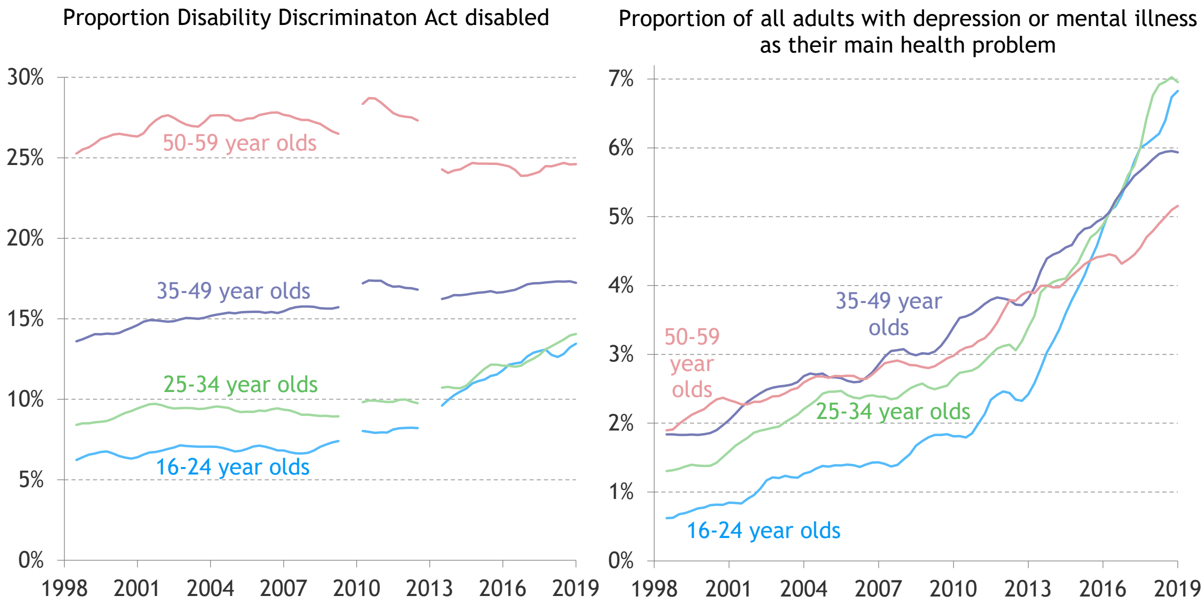
In Section 2 we set out the importance of Britain's changing demographics to the current and future path of social security spending. Because the social security system provides much more generous support to those above the State Pension age, a growing pensioner population and the large baby boomer generation moving into retirement is the fundamental driver of expectations for rising welfare spending.

But the age structure of the population is not the only consideration – people's health at each age matters too. This is, of course, most important for health and social care spending. But it has implications for social security too, given the growing importance of disability benefits like Attendance Allowance (for those above State Pension age) and the Personal Independence Payment. Increases in projected life expectancy and improvements in the quality of life for those above retirement age have roughly tracked one another. However, there is evidence that certain conditions and multi-morbidity prevalence (that is, the co-occurrence of diseases) are set to increase dramatically within the pensioner population over the coming decades.[49] This would have potential implications for disability benefit spending.

More immediately, there is growing evidence of rising disability prevalence within the working-age population. Figure 13 sets this out, showing that, since at least 2013, the proportion of people aged 35 and under who are disabled has been rising particularly rapidly (left-hand panel), which has coincided with rapid increases in the incidence of mental health problems (right-hand panel).

FIGURE 13: **Disability prevalence and mental health problems have been rising among those of working age over the past decade**

Proportion of the population who are disabled, and proportion with depression or a mental illness as a main health problem, by age: UK



NOTES: We use the old Disability Discrimination Act (DDA) definition of disability, which was the most commonly used prior to that established by the Equality Act 2010, because the DDA measure provides the longest consistent definition over time. Changes to question wording and questionnaire design mean that measures of disability in the Labour Force Survey have discontinuities in 2010 and 2013. We show these as breaks in the series. We exclude 60+ year olds due to changes in survey coverage of the population above State Pension age over time.
SOURCE: RF analysis of ONS, Quarterly Labour Force Survey

49 See Box 5.1 in: Resolution Foundation, A new generational contract: The final report of the Intergenerational Commission, May 2018

Using a more up-to-date definition of disability than shown in Figure 13,[50] 17.2 per cent of adults aged under 60 are disabled today. That compares with 15.2 per cent in 2013. Over the same period, the prevalence of mental illness or depression as the main health condition among that group has increased by 61 per cent. And over a longer period, disability prevalence has been rising rapidly among children.[51]

Most immediately, these trends help explain the rising share of social security spending on disability benefits, discussed in Section 2, and suggests that this trend is set to continue. But they also raise broader questions for the welfare system. These include how both benefits and activation programmes can best support people with health problems – particularly those with mental health problems – to work, and the role of disability benefits in meeting the costs of living with a mental illness.

Household worklessness is not the issue it once was; the new challenges are: in-work poverty, insecurity and progression

The 2010 Universal Credit White Paper made the new benefit's target clear: to reduce the high level of household worklessness that "blights the life chances of parents and children and diminishes the country's productive potential."[52] This focus was out of step with the big challenges in Britain's 21st century labour market at the time, and this is even more the case following strong employment growth in recent years. The proportion of working-age households in which no one works was lower even in the immediate aftermath of the biggest recession in living memory in 2010 (at 19.2 per cent) than it was in 1996 (20.9 per cent). That proportion has since fallen by almost a further third, to 13.6 per cent in 2019.[53] This is a reflection of (partly activation-policy-driven) improvements in the employment of single parents and others during the 2000s. More recently, it flows from Britain's remarkable jobs boom of recent years, in particular among single parents (again), and mothers within couples.[54] The latter is particularly important given that dual-earning is becoming the clearest way to avoid rising in-work poverty.[55]

More generally, the problems of today's labour market are characterised increasingly by low pay, a lack of progression, and insecurity. The proportion of employees in low pay has been falling thanks to a rising minimum wage, but remains stubbornly high.[56] Rates of progression from low pay have been improving too, but it remains the case that less than one-fifth of people who are low paid make a sustained move onto higher wages over the

50 Equality Act disabled.
51 Office for Budget Responsibility, Welfare trends report – January 2019, January 2019
52 Department for Work and Pensions, Universal Credit: welfare that works, November 2010
53 Office for National Statistics, Working and workless households in the UK: April to June 2019, August 2019
54 T Bell & L Gardiner, Feel poor, work more: Explaining the UK's record employment, Resolution Foundation, November 2019
55 For example, just 7 per cent of children living in couple families in which both adults are in full-time work are in poverty. This compares to 37 per cent of children living in couple families with only one full-time worker. Source: Department for Work and Pensions, Households below average income: 1994/95 to 2017/18, March 2019
56 N Cominetti, K Henehan & S Clarke, Low Pay Britain 2019, Resolution Foundation, May 2019

following decade. Instead, nearly half cycle in and out of low pay.[57] And while atypical and insecure forms of working - like agency work and zero-hours contracts - have stopped growing, more than 1.6 million people are in these two categories. They remain too common in a labour market that now exhibits very little slack.[58]

In the context of very weak pay growth over the past decade, the challenges in Britain's labour market centre on job quality, progression, and the importance of dual-earning within couples. So it is worrying that UC actually creates the risk that some people (particularly single parents) work fewer hours, and that the new benefit reduces work incentives for second earners.[59] Nor has active labour market policy got a good handle on how to support employment security and progression, rather than just job entry.[60] All this means our social security system needs to be better targeted at today's labour market realities.

High rents and high numbers of renters look set to at least maintain pressure on the social security system

If cost pressures from disability are rising, then housing cost pressures on the social security system can be characterised as having risen, and are likely to remain high. As discussed in Section 2, increasing social security spending on housing benefits has been driven by:

- The declining availability of cheaper social-rented accommodation, and the rise of private renting. The proportion of families living in the social sector more than halved between 1981 and 2018, from 30 per cent to 13 per cent. Over the same period, the proportion of families in private rented accommodation increased from 10 per cent to 18 per cent.61
- Rents rising faster than incomes over much of this period. In 1980, the average working-age family renting privately spent 12 per cent of its income on housing; today it spends almost three times this amount, at 35 per cent.62

These changes have affected the living standards of lower-income families disproportionately, with that group more likely to rely on the social security system. Those in the lowest income quintile and living in the private rented sector spend an eye-watering average of 50 per cent of their income on housing costs, even after support from housing benefit is taken into account. And the effects of rising costs have been

57 C D'Arcy & D Finch, The Great Escape? Low pay and progression in the UK's labour market, Resolution Foundation, October 2017
58 L Gardiner, General election 2019: The jobs eight out of 10 Britons do, BBC, November 2019
59 D Finch & L Gardiner, Back in credit? Universal Credit after Budget 2018, Resolution Foundation, November 2018
60 S Clarke & C D'Arcy, The kids aren't alright: a new approach to tackle the challenges faced by young people in the UK labour market, Resolution Foundation, February 2018
61 RF analysis of IFS, Households Below Average Income; ONS, Annual Labour Force Survey; ONS, Quarterly Labour Force Survey
62 D Tomlinson, Inequality street: Housing and the 2019 general election, Resolution Foundation, November 2019

amplified by the reduced generosity of housing benefits: the share of social renters whose rent is fully covered by housing benefit has fallen from 70 per cent in 2010-12, to just 52 per cent in 2015-17.[63]

The outlook for the future suggests that these pressures are likely to endure. The OBR expects private rents to grow in line with earnings in the near term (although this will have limited immediate effect on social security spending if housing benefits remain linked to inflation). And the supply of new social homes has been very limited over the past 30 years (although the Labour Party in particular is seeking to change that).[64] Finally, our housing tenure forecasts suggest that today's younger generations may not catch up with the home ownership rates of their predecessors during their working lives. This would entail substantially higher spending on Housing Benefit for pensioners in future.[65]

In truth, housing costs are putting pressure on the social security system because of decades of policy failure on housing. The policy challenge for the future is to ensure that the social security system is able to provide support towards these costs, while also addressing our long-term housing failures to stem the 'spillover' effects into social security.

Assets have grown faster than incomes in recent decades, and are therefore an increasing determinant of lifetime living standards

Our fourth forward-looking challenge concerns the importance to living standards of the wealth held in houses, pensions and other financial assets. Previous Resolution Foundation work has shown that household wealth has grown far faster than incomes in recent decades: from around 280 per cent of GDP in 1980 to 680 per cent of GDP in 2015. This reflects rising asset prices. But taxes on wealth have not kept up, with the result that wealth is increasingly lightly taxed.[66]

Wealth is therefore an increasingly important determinant of lifetime living standards. But the fact that its growth is outpacing income – and is accruing to existing wealth holders via rising asset values – means that it is increasingly not what you earn that determines whether you are wealthy. Rather, it is who your parents are, and who you couple up with.[67] This is particularly important as there is evidence that having some assets to fall back on supports positive risk-taking – like moving to a new job or returning to education – behaviours that can improve lifetime living standards further.[68] That's why the Resolution

63 D Tomlinson, Inequality street: Housing and the 2019 general election, Resolution Foundation, November 2019
64 T Bell, Doubling down on a bigger state: Assessing Labour's 2019 manifesto, Resolution Foundation, November 2019
65 S Clarke, The future fiscal cost of 'Generation Rent', Resolution Foundation, April 2018
66 A Corlett, The shifting shape of UK tax: Charting the changing size and shape of the UK tax system, Resolution Foundation, November 2019
67 T Bell, How to solve the UK's growing wealth gaps, Resolution Foundation, February 2018
68 G Bangham, The new wealth of our nation: The case for a citizen's inheritance, Resolution Foundation, May 2018

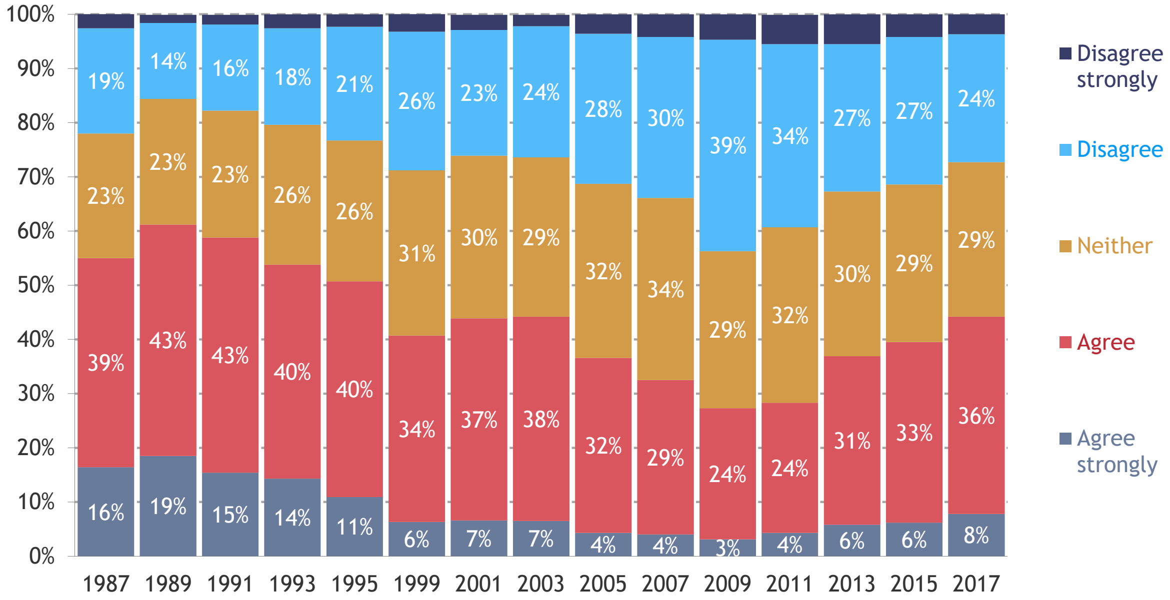
Foundation's Intergenerational Commission recommended a return to asset-based approaches to welfare, like the Child Trust Fund available during 2001-11.[69] A 21st century social security system should at the very least recognise the growing importance of assets, and support asset-building.

The public's attitude to supporting the poor via the welfare system is shifting, but in responding to this we need to reflect on who is poor today

Finally, an election campaign is more than ever the time when politicians might be particularly aware of what the public thinks in key policy areas. When it comes to social security, Figure 14 shows steady increases in support for spending on benefits to help the poor over the past decade. At 44 per cent, the proportion of adults who would support this spending, even if it means higher taxes, is back to its 2003 levels.

FIGURE 14: **Support for benefits spending to help the poor is at its highest in 14 years**

Responses to the question: "How much do you agree or disagree that the government should spend more money on welfare benefits for the poor, even if it leads to higher taxes?": GB



NOTES: Excludes 'don't knows'.
SOURCE: RF analysis of NatCen, British Social Attitudes survey

This will reflect the experience of a decade of austerity, with the largest effects on the social security side hitting in recent years. In responding to this shift in public opinion, it is important that politicians base spending decisions on the realities of who is poor

69 Resolution Foundation, A new generational contract: The final report of the Intergenerational Commission, May 2018

today. In particular, reflecting on the divergent paths of pensioner and non-pensioner social security spending outlined in Section 2, we would highlight differences in poverty by life stage. The typical pensioner income grew by 25 per cent in real terms between 2003-04 and 2017-18 (averaging 1.9 per cent a year), compared to 7 per cent for non-pensioners (0.5 per cent a year).[70] As a result, the proportion of pensioners living in relative poverty (after housing costs) has fallen by over a third since the beginning of the 21st century, while child poverty is close to a record high. Poverty now declines with age: children, working-age adults and pensioners have relative poverty rates of 30 per cent, 20 per cent and 16 per cent respectively, meaning children are now almost twice as likely to be in poverty as pensioners are.[71]

Alongside the other trends outlined in this section, it is this decline in poverty with age that must be borne in mind as politicians consider how to alter the social security system in the coming years. On this basis, we turn next to how the main parties are approaching social security in their 2019 election manifestos.

70 A Corlett et al, The Living Standards Audit 2019, Resolution Foundation, July 2019
71 Source: DWP, Households Below Average Income

Section 5

What the main parties are proposing

With the manifestos of each of the three main UK political parties now published, in this final section we review the policies that each is proposing on social security. Against the backdrop of a decade of cuts:

The Conservative manifesto offers no changes to the status quo, meaning a Conservative government would preside over £3.8 billion of further cuts to working-age benefits set to roll out after the 2019 election.

Labour's plan for social security is comparatively far-reaching, with £9 billion of planned spending on cash benefits in 2023-24, and a further £8 billion of spending on free TV licences, broadband, school meals and childcare. This overall package is highly progressive. However, while large families, renters and disabled people would gain from Labour's plans, many working-age families that fall outside these groups could still find themselves worse off than under the pre-2015 system. And in the longer term, plans to halt State Pension age rises and compensate women affected by the speeding up of State Pension age increases reinforce rising pensioner spending.

The Liberal Democrats' plan is similar to Labour's, both in volume of spending terms and in many of the specific policies proposed. However, the Liberal Democrat offer is slightly more progressive than Labour's, avoids further pensioner spending, and includes welcome improvements to UC for second earners and the self-employed.

Either the Labour or Liberal Democrat approach could be expected to halt potential increases in relative child poverty over the next parliament, but under none of these plans does child poverty actually fall. On social security, as in other areas of spending, there is a stark choice between the Conservatives and the two opposition parties at this election.

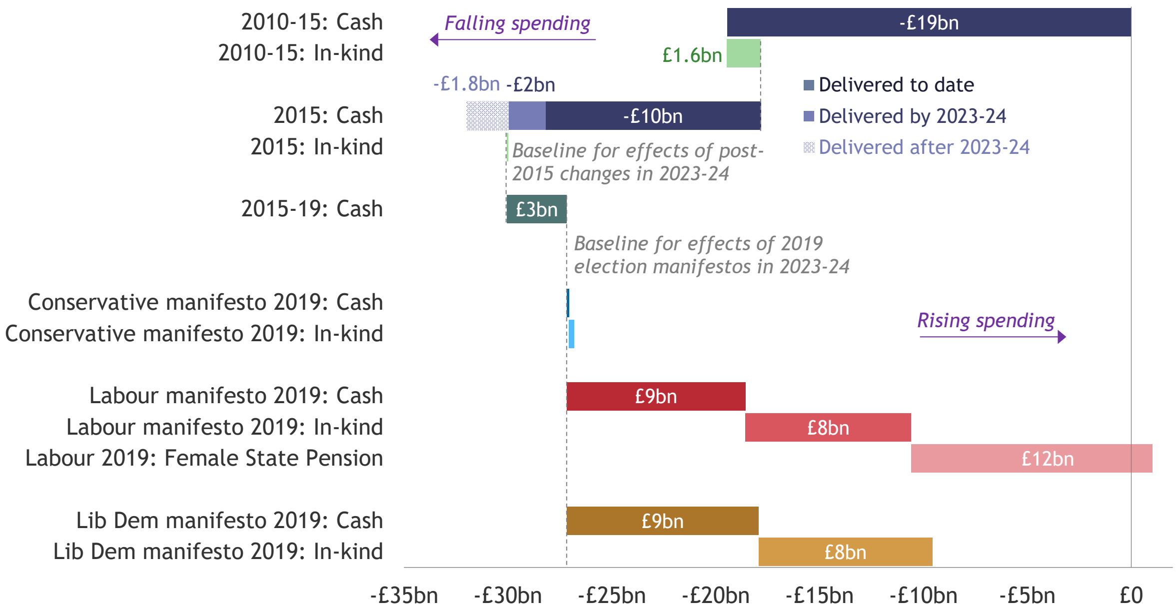
The social security backdrop to the 2019 election is a decade of cuts

Before turning to the details of each party's approach to social security in the 2019 election, and the extent to which these plans speak to some of the challenges we have identified, we begin by considering the overall size of the social security system now on offer from the major parties, as detailed in their manifestos.

As discussed at the end of Section 2, the sustained reduction in welfare generosity since 2010 inevitably provides the backdrop to the current debate. For that reason, Figure 15 sets out how the volume of social security spending changes each party would implement by the end of the coming parliament compares to all changes to the social security system announced since 2010. Unlike in previous sections, we include spending on certain in-kind benefits – including free childcare, free school meals, free broadband and free TV licences – given their particular salience in this election campaign.

FIGURE 15: **Labour and the Lib Dems would reverse most of the post-2010 cash cuts to benefits**

Annual social security spending changes announced since 2010, and the main parties' offers in the 2019 election: 2023-24



NOTES: In-kind changes include changes to free childcare hours, free school meals, free TV licences and free broadband. Modelled results compare the tax credits system (in the 2010) to a contemporaneous world in which Universal Credit is fully in place (in all other cases). Analysis accounts for variation in take-up rates across benefit types.
SOURCE: RF analysis of OBR, Policy Costings Database; 2019 manifestos; DWP, Households Below Average Income using the IPPR tax-benefit model

Taking each element of Figure 15 in turn:

- Using our tax-benefit microsimulation model, we estimate that changes announced under the 2010-15 coalition government reduced cash social security transfers by

£19 billion by 2023-24. This was overwhelmingly a period of spending reductions from policies including the switch from RPI to CPI uprating and subsequent below-inflation uprating. That said, the announcement of tax-free childcare (which largely benefits better-off households) offset these slightly. So too did £1.6 billion of in-kind spending on free school meals for infants and the extension of free childcare to two year olds in lower-income families.

- The 2015 Summer Budget doubled down on these cuts, announcing reductions to working-age benefits worth £14 billion by 2023-24. Because some of these measures (like the two-child limit) are 'flow' measures, only affecting new claims and/or children born from 2017 onwards, it will be more than a decade before their full effect is felt. Indeed, we estimate that more than a quarter (27 per cent) of the original 2015 package of cuts are not due to be implemented until after the 2019 election.
- Since then, Conservative governments have announced additional spending on social security for working households worth around £3 billion. Chief among these announcements was the reduction in UC's taper rate, and increases in some UC work allowances (that were reduced substantially in the 2015 Summer Budget). These changes have (in overall spending terms, rather than directly) reversed one-fifth (19 per cent) of the 2015 cuts. However, planned 'flow' measures remain in place, meaning that one-third (33 per cent) of the remaining post-2015 package is still to be implemented.
- The Conservative manifesto contains almost nothing to affect this picture, with planned cuts set to continue.
- By contrast, Labour's manifesto sets out plans for increased financial support large enough in aggregate terms (although not directly) to reverse the remaining post-2015 cuts, with plans for in-kind spending that are almost as large again. Although it was announced after Labour's manifesto, Figure 15 also shows an estimate of spending on payments to the group of women affected by the rising State Pension age.[72]
- In volume of spending terms, the Liberal Democrats' welfare plans are very similar to Labour's across cash and in-kind benefits.

Beyond the price tag, how does the content of each party's offer measure up in light of the challenges and trends this report has explored? And how do effects differ between richer and poorer households? We turn to these questions, with a more detailed review of each party's plans, below.

72 Spending of £58 billion over five years was announced – we assume that this sum is split equally across years.

In keeping with their overall manifesto approach, the Conservatives' social security plan does not change the status quo

The lack of any meaningful change to the picture in Figure 15 as a result of the Conservative manifesto reflects the fact that it does not contain many policy proposals at all. Expected tax cuts and social care announcements have not materialised, and the overwhelming focus is on Brexit. Spending increases that were mainly announced before the manifesto mean that government spending will increase under the Conservatives, but the only real manifesto commitment is rising investment spending. The only pledges on the social security side were £80 million (in 2023-24) for an easing of Personal Independence Payment reassessment schedules, £25 million for carer's leave, and £260 million for increased childcare provision for school-aged children.

The social security gulf between the Conservatives on the one hand, and Labour and the Lib Dems on the other, reflects a much bigger gap between the manifestos in terms of the size of state envisaged.[73] But voters have learned nothing about social security from the Conservative manifesto that they didn't know already to inform this choice. And a Conservative government would continue to preside over £3.8 billion of further cuts to working-age benefits set to roll out after the 2019 election, and maintain the triple lock on the State Pension.

Labour's social security package is far-reaching, but relatively backward-looking and pensioner-focused

If social security policy is thin on the ground in the Conservative manifesto, Labour's manifesto is a very different story. The rhetorical focus is on an unspecified promise to 'scrap Universal Credit'. However, in terms of the policies detailed and costed, it includes:

- Scrapping the two-child limit in UC, tax credits and housing benefit
- Scrapping the benefit cap
- Scrapping the social sector under-occupancy penalty ('bedroom tax')
- Re-linking Local Housing Allowance to local rents at the 30th percentile
- Re-instating the work-related activity / limited capability for work payment in ESA and UC
- Re-instating the equivalent of the Severe Disability Premium and the tax-credits rate for disabled children within UC
- Extending and increasing maternity and paternity pay

73 T Bell, Oven-ready, safety-first: Assessing the Conservative's 2019 manifesto, Resolution Foundation, November 2019

- Reducing the five-week wait in UC
- Increasing Carer's Allowance.
- In terms of in-kind benefits, Labour is proposing:
- The reinstatement of free TV licences for over-75 year olds not on Pension Credit (with free TV licences for over-75 year olds on Pension Credit having been maintained)
- Free broadband
- The extension of free childcare to younger children, and more subsidised childcare hours for lower-income parents
- The extension of free school meals to all primary school children.

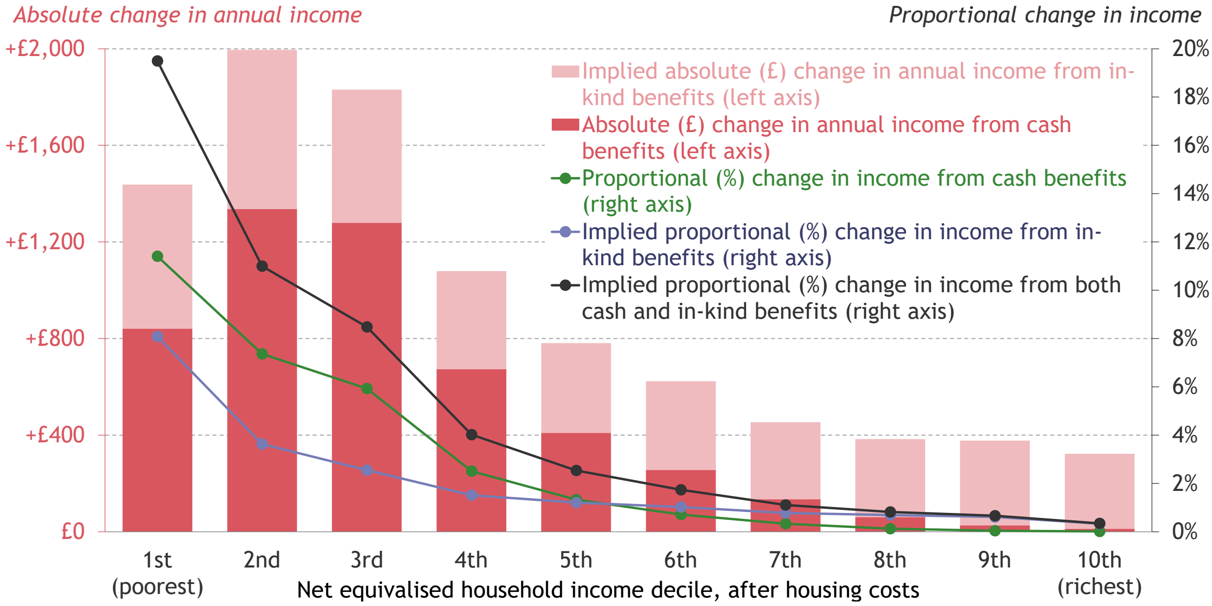
This policy package is highly progressive, as shown in Figure 16, although the in-kind elements are very significantly less progressive than the offer on cash benefits. If we treat these in-kind benefits as income, we estimate that the poorest tenth of households would be 20 per cent better off in 2023-24 as a result of these changes. After a decade of welfare cuts focused on those on the lowest incomes, such a boost would be very welcome indeed.

However Labour's reforms have very different impacts on different groups. Large families, private renters and disabled people are the main beneficiaries. Many working-age families that fall outside these groups could still find themselves worse off under Labour compared to the UK's pre-2015 social security system. This is especially true given Labour is leaving in place the effects of the benefits freeze, worth over £5 billion by 2023-24.[74] For example, excluding the impact of in-kind support, working couples with children would remain worse off by £150 per year on average, and working single parents would remain £600 worse off than they would have been under the UK's pre-2015 system.

74 Resolution Foundation, Super, smashing, great: Spring Statement 2019 response, March 2019

FIGURE 16: **Labour's welfare policy changes would provide a boost to the poorest 10 per cent of households equivalent to one-fifth of incomes**

Change in income resulting from policies in the 2019 Labour manifesto: UK, 2023-24



NOTES: This analysis assumes that UC is fully rolled out and has 85 per cent take up. The impact of 'in-kind' policies is estimated based on costings provided by political parties and other commentators and analysis of where relevant populations lie within the income distribution.
SOURCE: RF analysis of 2019 manifestos; DWP, Households Below Average Income using the IPPR tax-benefit model

Beyond the distributional pattern of Labour's plans, three points are worth highlighting.

First, in some areas, Labour's offer speaks to the challenges raised in the previous section. These include re-linking Local Housing Allowance to rents, extending maternity and paternity pay (which might support dual-earning), and various investments for people with health problems. More social homes and specialist disability employment advisors are further acknowledgements of the challenges relating to housing costs and disability in Britain today. It remains to be seen what Labour's promise to scrap UC will actually entail. If it involves a partial redesign of the system currently being rolled out (which is most likely given the difficulties in unpicking such a complex web of changes), then that will be a good opportunity to consider how these challenges can be further addressed.

Second, however, Labour's package remains rather backward looking. Over three-quarters (77 per cent) of the £9 billion increase in cash transfers is spent on reversing previous cuts. That is perhaps unsurprising given the history of the past decade. But it means there is little sense of a new direction.

Third, a broader view of Labour's approach (taking into account measures the party has not included in its costings) reveals a tendency to go with the grain of rising pensioner spending, and indeed to reinforce it. As well as policies on TV licences and Pension Credit for mixed-aged couples, the manifesto commits to halting planned increases in the State Pension age beyond 66. This policy takes effect from the mid-2020s so does not cost anything in the coming parliament, but would cost around £24 billion by the late 2050s.[75] And three days after its manifesto launch, Labour added £58 billion of spending over five years on women born in the 1950s affected by the speeding up of some State Pension age increases. Together with the costed items directed at pensioners, these policies mean that Labour's social security offer to pensioners is actually bigger than its offer to those of working age and children.

On future increases in the State Pension age, there is a case for a reviewing the scale and timings of rises in light of a recent deceleration in longevity improvements.[76] But a wholesale end to State Pension age increases means very significant pressure on working-age spending in years to come.

The Lib Dems are also reversal-oriented, alongside the welcome addition of a second-earner work allowance in UC

As well as appearing similar to Labour in the overall size of their social security offer, the Liberal Democrat manifesto proposes a number of identical or similar policies. Spending on cash benefits includes:

- Scrapping the two-child limit
- Scrapping the benefit cap
- Scrapping the bedroom tax
- Restoring the link between Local Housing Allowance and rents
- Re-instating the work-related activity / limited capability for work payment in ESA and UC
- Extending paternity pay
- Reinstating UC work allowances that remain below their 2015 level to that level, introducing a second-earner work allowance, and increasing UC's generosity to the self-employed.
- Spending on in-kind benefits includes:
- Extending free childcare hours down to all children aged two, and children aged 9 months and over whose parents are working

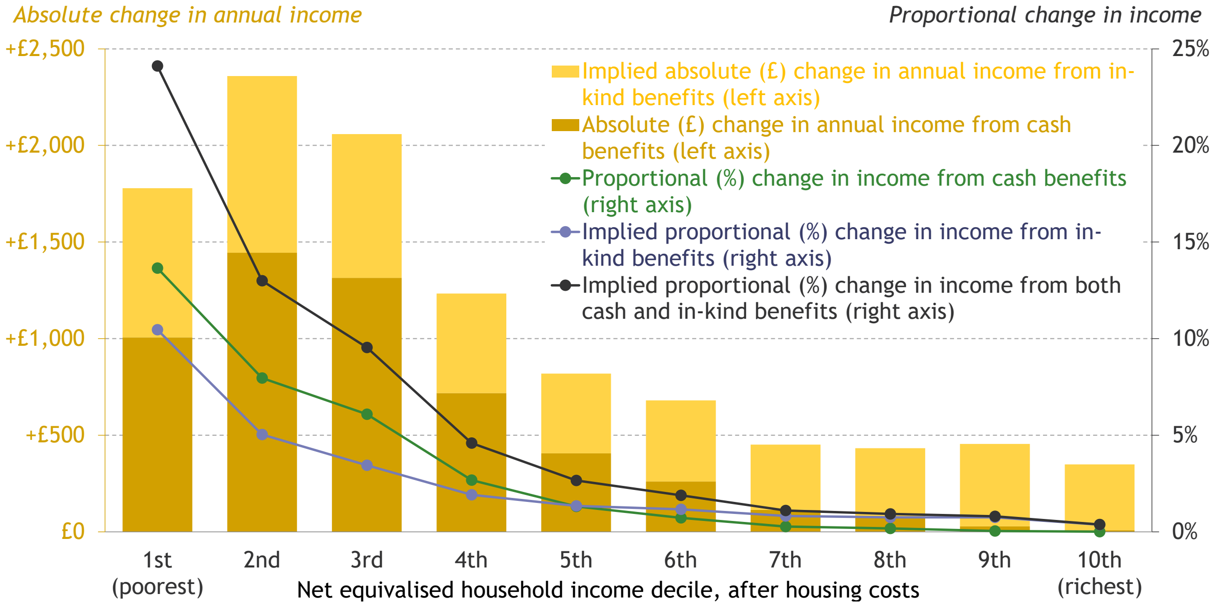
75 Institute for Fiscal Studies, Labour manifesto: an initial reaction from IFS researchers, November 2019
76 See: C McCurdy, Ageing, fast and slow: When place and demography collide, Resolution Foundation, October 2019

- Extending free school meals to all primary school children and all secondary school children whose families receive UC.

Given the similarities, it is perhaps unsurprising that the distributional impact of this policy package is similar to the impact of Labour's policies. In fact, there are slightly larger gains for poorer households, as Figure 17 shows.

FIGURE 17: **The Lib Dems' welfare policy changes would provide a boost to the poorest 10 per cent of households equivalent to nearly one-quarter of incomes**

Change in income resulting from policies in the 2019 Liberal Democrat manifesto: UK, 2023-24



NOTES: This analysis assumes that UC is fully rolled out and has 85 per cent take up. The impact of 'in-kind' policies is estimated based on costings provided by political parties and other commentators, and analysis of where relevant populations lie within the income distribution.
SOURCE: RF analysis of 2019 manifestos; DWP, Households Below Average Income using the IPPR tax-benefit model

In terms of what differentiates the Lib Dems from Labour, the Lib Dems propose spending more, have avoided further pensioner spending, and plan to improve UC for second earners and the self-employed in ways that the Resolution Foundation has previously recommended.[77]

Labour and the Lib Dems look set to reverse welfare reductions since 2015, halting the rise in, but not reducing, child poverty

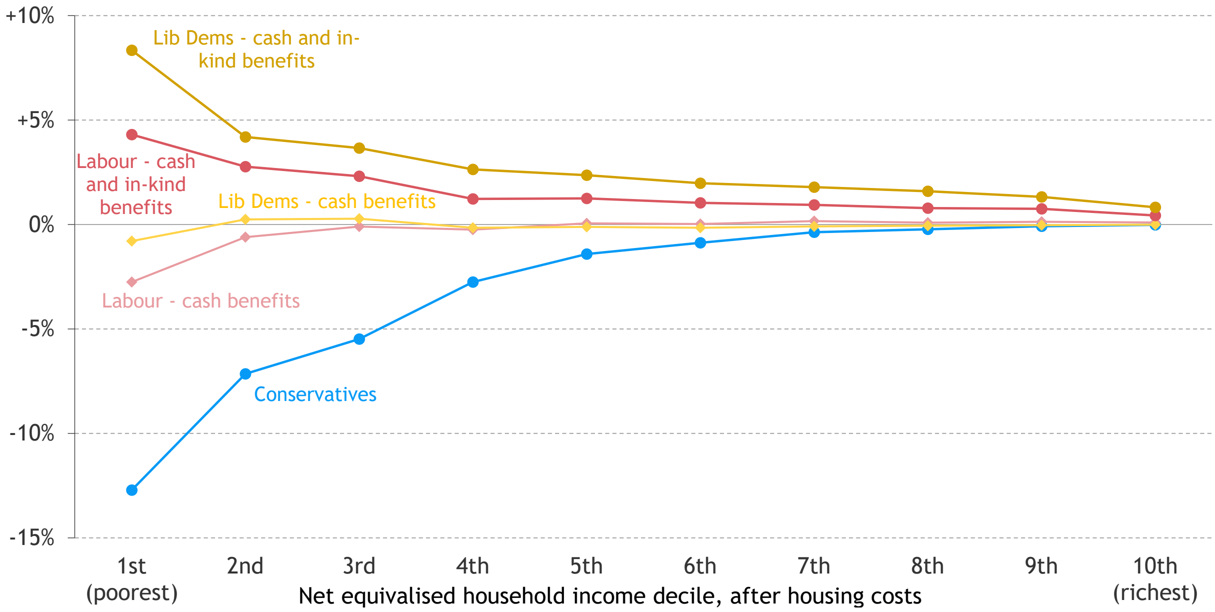
What does this analysis tell us about the social security policies of our three main parties in the round? To answer that question, we offer two points of comparison. First, the respective effects of each package across the income distribution – this time in

77 L Gardiner, Three steps to make it a happier new year for Universal Credit, Resolution Foundation, December 2018

comparison to the policy position prior to the 2015 election – is shown in Figure 18. Echoing Figure 15, this makes clear that both Labour and the Lib Dems would on average cancel out the impacts of post-2015 welfare reductions for each decile of the population, bar the poorest, when only cash benefits are taken into account. When in-kind benefits are accounted for too, these two parties would improve the picture at the bottom, with the Lib Dems' approach more progressive than Labour's. In contrast, a Conservative government would largely be living with (and further rolling out) the legacy of George Osborne's 2015 plans. The only major change to these plans is already-announced improved support for working families on UC.

FIGURE 18: **After in-kind benefits are accounted for, poorer households would be better off under Labour and the Lib Dems than if the pre-2015 policy mix had endured**

Change in (implied) income under each of the main parties' manifestos, compared to pre-2015 policy: UK, 2023-24



NOTES: This analysis assumes that UC is fully rolled out and has 85 per cent take up. The impact of 'in-kind' policies is estimated based on costings provided by political parties and other commentators, and analysis of where relevant populations lie within the income distribution.
SOURCE: RF analysis of 2019 manifestos; DWP, Households Below Average Income using the IPPR tax-benefit model

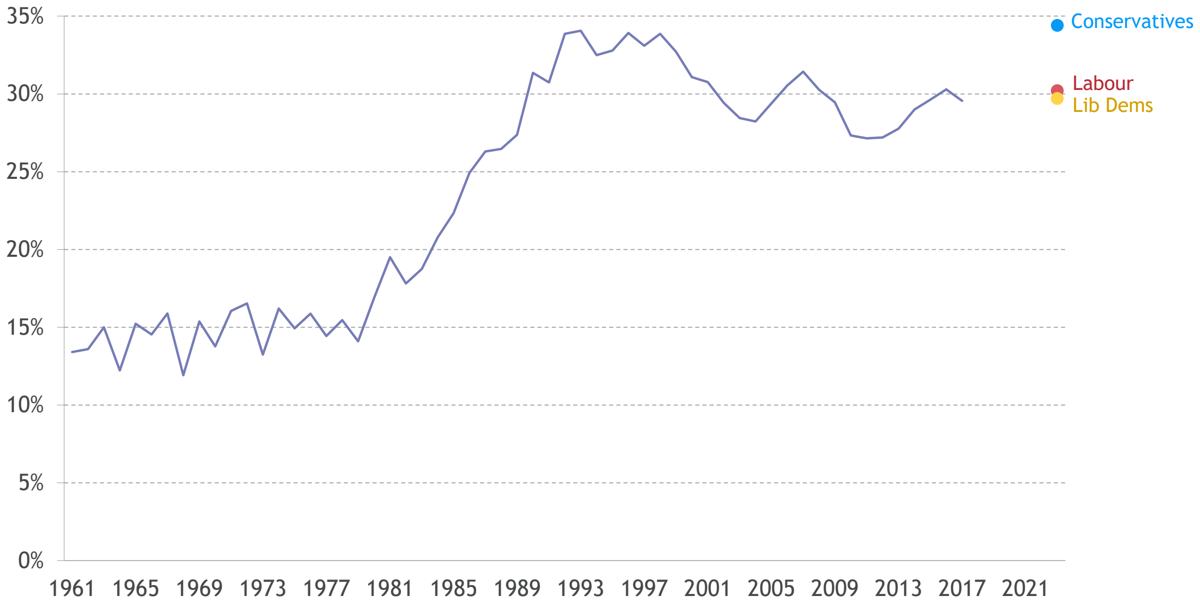
Second, either the Labour or Lib Dem approach could be expected to halt potential increases in relative child poverty over the next parliament, as Figure 19 shows. We forecast that under current policy plans[78] (i.e. essentially the Conservative package) child poverty is expected to rise to 34.4 per cent in 2023-24.[79] Under Labour this figure would be 30.2 per cent (entailing 550,000 fewer children in poverty), and under the Lib Dems

78 And on earlier economic forecasts – we roughly re-scale our estimates based on these earlier forecasts to the latest data.
79 For details of our forecasting approach, see: A Corlett, The Living Standards Outlook 2019, Resolution Foundation, February 2019

it would be 29.7 per cent (entailing 600,000 fewer children in poverty).[80] It is, however, noteworthy that under none of these plans does child poverty actually fall.

FIGURE 19: **The Labour and Lib Dem policy packages would halt expected rises in child poverty**

Proportion of children living in relative poverty after housing costs: UK



NOTES: Projections based on cash benefits only, using proportional adjustments from our central (Conservative) estimate. Financial years after 1993. GB only before 2002-03.
SOURCE: RF analysis of IFS, Living Standards, Inequality and Poverty; 2019 manifestos; RF projection; DWP, Households Below Average Income using the IPPR tax-benefit model

So on social security, as in other areas of spending, there is a stark choice between the Conservatives and the two opposition parties. That the debate has shifted away from welfare cuts since 2015 is welcome. That some parties are planning to take substantial steps to reverse these, and in so doing reducing the chance of further child poverty increases, is even more so.

But while there are elements to commend, it's clear that 2019 is a backward-looking election when it comes to welfare. That's natural, because the past decade has reshaped the system very substantially. But it leaves little space for a vision of how the welfare state needs to evolve in the 21st Century. The two largest parties appear unwilling to face up to the realities of how pensioner and working-age living standards have shifted, opting for further relative increases in pensioner generosity in the coming years and decades. And no one is considering how the welfare system can better support progression, or acknowledging the growing importance of assets to living standards. Those conversations may be avoidable in the campaign itself, but whoever wins the election will need to face up to them over the course of the next parliament.

80 This analysis does not account for free school meal policies or other small elements of Labour and the Lib Dems' packages. And numbers of children are based on 2017-18 population data, not scaled up for population growth.

Section 6

Conclusion

Voters will have important choices to make on 12 December about the size of state that they want, and, within that, the direction in which they want the social security system to head. The end of austerity means the talk is no longer of benefit cuts, but the backdrop of a decade of cuts remains.

This report has provided the broader context within which the main parties' offers on social security in this election should be examined. The cash benefits and tax credits that make up our social security system – equivalent to around 10 per cent of GDP – have evolved and grown over the past century, and are set to continue growing over the next fifty years.

The economic cycle, demographics and policy choices are the three big drivers of change. Over the past decade, the latter two have been pushing in the same direction: decisions to significantly reduce the generosity of the social security system, combined with the shielding of pensioners from those cuts, mean that policy has exacerbated the effects of demographic headwinds. As a result, the gap between per-person pensioner and non-pensioner welfare generosity is the largest it has been in three decades.

Beyond the size and make-up of social security spending, it is important to understand the shifting conceptual frameworks and processes on which this spending rests. Key changes include rising cost pressures shifting the focus towards costs-based and in-kind support, and the all-encompassing reform exercise that is Universal Credit. And looking to the future, policy makers need to account for wider trends that social security should be responding to, like rising disability prevalence with the working-age population, the growing importance of assets, and a shift in public attitudes in favour of rising benefits for the poor. On the latter, policy makers need to take particular account of the fact that much stronger pensioner income growth in the 21st century means that pensioners are now almost half as likely to be in poverty as children are.

With their manifestos now published, there is a clear dividing line between the Conservatives and the two main opposition parties on the approach to social security spending in the 2019 election. The Conservatives plan to continue with the status quo, while Labour and the Liberal Democrats offer similarly sized packages of spending on both cash benefits and in-kind support. Either should be sufficient to halt expected rises in child poverty, although under no main party is child poverty expected to fall. More broadly, the understandably backward-looking nature of the social security offer in this election leaves little space for a narrative on how the welfare system needs to evolve to meet Britain's 21st century challenges. Whichever party forms the next government should prioritise that task in the years to come.

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