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Lessons from the Covid-19 crisis for our social security system

Mike Brewer, Karl Handscomb & Krishan Shah

April 2021

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Introduction

There are lots of calls for reforms to welfare 'in light of the crisis' or in order to 'build back better', ranging from scrapping Universal Credit (UC) to implementing a universal basic income. Some have called for a return to Beveridge without being clear about what principles should be preserved from the original report, and others have called for a root-and-branch rethink of the social security system without suggesting what the new founding principles should be.

The desire to look hard at our welfare system is entirely understandable, given that the UK has been through a major economic shock, and had to introduce brand new programmes to support household incomes. But there is a risk that current debates focus either on highly-specific (if vital) immediate issues – such as the future of the £20 a week uplift or how to secure an adequate system of self-isolation support – or on long-term proposals for change that don't engage sufficiently with what actually happened in the crisis. A more productive approach is to focus on what we can learn from the crisis, and to think about how to make reforms starting from the system we have now.

So this report starts to do just that, drawing out the lessons for the welfare state from both how the existing system performed and also the changes that were swiftly made to it. Some of these lessons will help us design a better system, and others remind us of the objectives we have for the social security system, or the principles that it should follow.

We also offer examples of what policy changes that draw on the experience of the past year might look like, focusing on practical changes that begin with our existing system. The challenges, and costs, of taking forward even a few of those changes should caution us against the idea that a silver bullet exists for a perfect welfare state and highlights the need for prioritisation. We will build on this work over the next two years as part of the Resolution Foundation's Economy 2030 Inquiry,[1] undertaken in collaboration with the LSE and funded by the Nuffield Foundation, which will look at how an improved welfare state can strengthen economic and social outcomes in a decade of unprecedented change.

The pandemic highlighted some of the limitations of the existing welfare system and underlined what we want our social security system to achieve

A big picture success of the past year has been the Government's economic policy response.[2] Taken as a whole, the Government's actions have – imperfectly, of course –

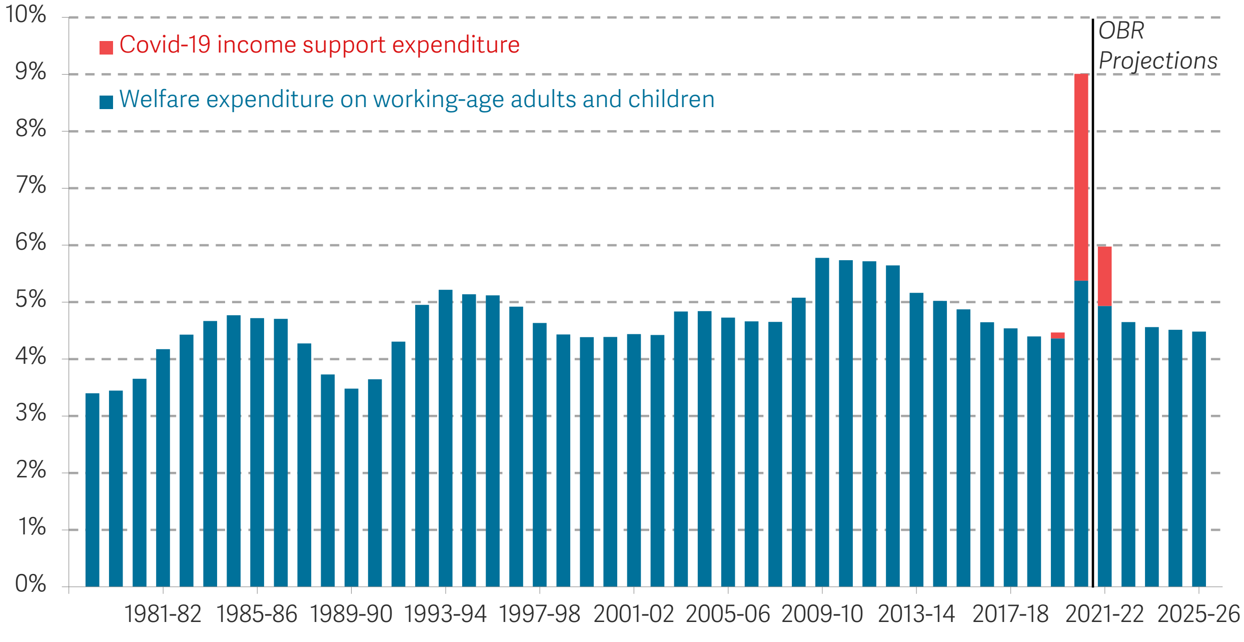
1 See: Ground-breaking new Inquiry will help post-pandemic Britain successfully navigate a decade of unprecedented economic change, Resolution Foundation, 31 March 2021.
2 See: T Bell & M Brewer, The 12-month stretch: Where the Government has delivered – and where it has failed – during the Covid-19 crisis, Resolution Foundation, March 2021.

achieved its key objective of insuring households and firms, in aggregate, against the income shock that would otherwise have followed the huge virus-induced slump in economic activity. Aggregate household income has been broadly similar in 2020 to its 2019 level despite GDP falling by almost 10 per cent.[3]

And the scale of the action has been unprecedented, with crisis-related spending of (so far) £340 billion, £111 billion of which was devoted to supporting household incomes directly. Indeed, in 2020/21, spending on the three main policies to support household incomes – the Job Retention Scheme (JRS), the Self-Employment Income Support Scheme (SEISS) and the increases to benefit entitlements announced as a result of the crisis[4] – was £82 billion, or 84 per cent of the value of all working-age welfare spending in 2019/20 (see Figure 1).

FIGURE 1: **Spending aimed at supporting incomes during the pandemic has been large by historical standards**

Expenditure on working-age and child welfare and Covid-19 income support schemes, outturns and forecast as a per cent of GDP: UK



SOURCE: RF analysis of OBR, Economic and Fiscal Outlook, March 2021; HMRC; DWP, Benefit Expenditure Tables: Spring Budget 2021.

3 See Figure 8 of T Bell et al., Spending fast, taxing slow: Resolution Foundation analysis of Budget 2021, The Resolution Foundation, March 2021, which shows the OBR's series for real household disposable income. Our own nowcast can be found in: M Brewer et al., The Living Standards Outlook 2021, Resolution Foundation, January 2021.

4 Full details of this are in A Mackley, F Hobson, & S Kennedy, Coronavirus: Withdrawing crisis security measures, House of Commons Library, March 2021.

One response to this is to conclude that our pre-crisis welfare system was not up to scratch: if it had been, then we wouldn't have needed to introduce new programmes at this scale. This is true in parts, but it doesn't recognise that this was a unique crisis: in particular, most economic downturns are not caused by the Government prohibiting firms from opening or workers from leaving their homes.

Another response could be to observe that the core of our social security system for working-age families, UC, actually performed very well, coping with the incredible volume of claims thrown at it in March and April 2020[5], and that the UK Government responded very quickly to the onset of the crisis. Given this, and the unique nature of the Covid-19 crisis, then one might conclude that reforms are unnecessary, and we can wait to respond to the next economic shock when it arrives. Elements of this are also true – the speed of the Government's response was extremely impressive. But 2020 also shows, and as this note discusses in more depth below, that policy making on the fly inevitably leads to policies with imperfect targeting, rough justice, and money needlessly lost to fraud and error. And it has not been the case that every country heavily affected by Covid-19 has had to respond in as dramatic a way as the UK did: some already had social security systems that could cope.[6] More importantly, as we argue below, what we take from the experience of the last year is not just lessons on how we want the social security system to perform in crises, but also how it should function in normal times.

A rounded perspective on the experience of the last year needs to acknowledge both of these insights. Our view is that the crisis exacerbated some of the pre-existing flaws in our social security system; it created some unique, temporary challenges that our system was unable to adapt to; and it has raised some new and lasting questions about what we want the welfare state to achieve. Given this, it would be a mistake simply to return to our pre-crisis system without first thinking about what lessons we can learn. This note does that below, by looking at how the existing system performed, by studying the nature of the changes that were made to it, and by interrogating how successful those changes were. We spend less time considering the operational lessons, where the relative success in the crisis has been the flexibility and resilience of the UC system.

We then illustrate how one could respond, considering stylised reforms that could be made to the pre-crisis system. These are not meant to be definite recommendations, but

5 In spring 2020, 2.4 million UC claims were processed in just ten weeks and, despite that volume, over 90 per cent of payments due were paid in full and on time, and 74 per cent of new UC claimants at the start of the crisis were satisfied with the way DWP handled their claim. M Brewer and K Handscomb, This time is different – Universal Credit's first recession, Resolution Foundation, May 2020.

6 See Box 2.1 in: Tax Policy Reforms 2021, OECD, March 2021.

instead serve to give some shape to possible directions for the post-pandemic welfare state, noting possible ball-park costs and potential trade-offs.[7]

Lesson 1: Earnings-replacement is a fundamental role of the social security system

Most of the spending on the new programmes brought in in response to the pandemic was on the JRS and the SEISS. What is common to those programmes, and different between them and the rest of the UK welfare state, is that they provide payments to workers that were directly related to workers' previous earnings.[8]

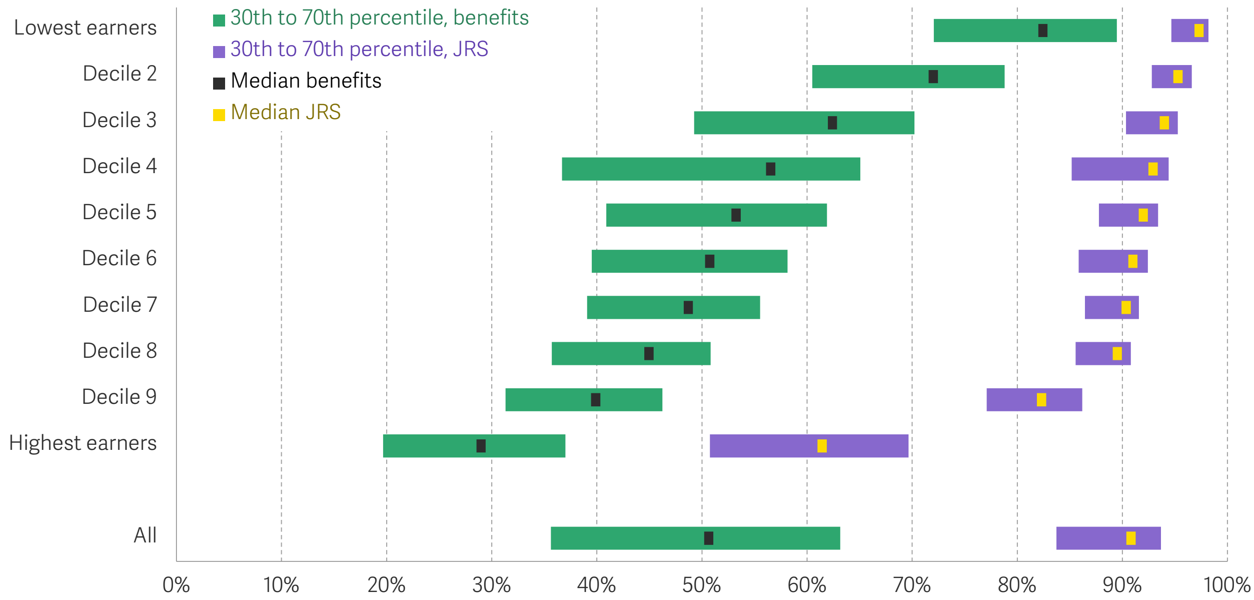
These programmes made a massive difference to the scale of income replacement provided by the welfare system. The median replacement rate provides a measure of how much workers were insulated from the financial implications of job loss. For workers unable to perform their jobs following the onset of the pandemic, and who could receive the JRS or SEISS, this was over 90 per cent, and much higher than the 50 per cent replacement rate for those relying on the pre-crisis social security system. The £20 a week uplift increased that somewhat to 53 per cent. As Figure 2 shows, the JRS and SEISS made a much greater difference to these replacement rates for higher-earning workers, reflecting that the pre-crisis social security system had flat-rate benefits and, for those who had not made sufficient NI contributions in the previous two years, was means-tested against their partner's earnings and family's savings.

7 We limit our attention to working-age benefits, as the principles behind the design of working-age benefits are different from those behind the social security system for older adults; we also focus attention on the non-devolved areas of social security policy, although there are definitely lessons to be learned both from the policies adopted (or not) by devolved nations, and from the way that devolved health policies interacted with a set of mostly UK-wide income support programmes.

8 The JRS was paid to employers, but in this note, we think of it primarily as a programme supporting workers that used employers as the delivery mechanism.

FIGURE 2: **The Job Retention Scheme and the Self-Employment Income Support Scheme increased effective replacement rates for highest earners the most**

Family income replacement rates when earner stops working, is furloughed or claims a self-employment grant, by earnings decile: UK, 2020-21



NOTES: Replacement rate shown for whole benefit unit income before housing costs, for adults aged 16-64 who stop working and then claim benefits as entitled. £20 per week boost to Universal Credit is not included. Full roll-out of UC and full take-up of benefits assumed.
SOURCE: RF analysis of DWP, Family Resources Survey, using the IPPR tax-benefit model.

It is useful to think through why the Government felt such programmes were needed. First, without any response, the macroeconomic consequences of the shock to income of the size and speed of the one caused by the pandemic would have been disastrous, for the economy in general and, ultimately, for household living standards. Second, generous income-replacement programmes, such as the JRS and SEISS, are an attempt to reduce economic uncertainty at the aggregate level by as much as possible, to try to prevent an initial shock to economic activity amplifying, which can happen as households and firms retrench spending in the face of worries about future income losses. Third, the Covid-19 crisis had an important difference from previous crises. To preserve the health and economy in the longer-term, the Government had to curtail economic activity in the short-term, with the Government directly prohibiting some firms from operating and, in the first lockdown at least, directly instructing non-essential workers to stay at home. In such circumstances, it is entirely reasonable that the state provide support to affected workers and business.

Now, more generous earnings-replacement programmes are not the only way to address the economic challenges of the pandemic: it is noteworthy, for example, that the US adopted a different policy approach, with its centrepiece being a policy of sending cheques to all adults, in a way that had no link to whether people's jobs had been affected by the pandemic, or to their previous earnings. But the downsides of such a policy are that it is much less effective at protecting individual households from shocks to their own circumstances, and it requires the policy makers to take a judgement over how large to make the cheques, whereas a genuine earnings-replacement programme automatically calibrates itself to the size of the income hit.

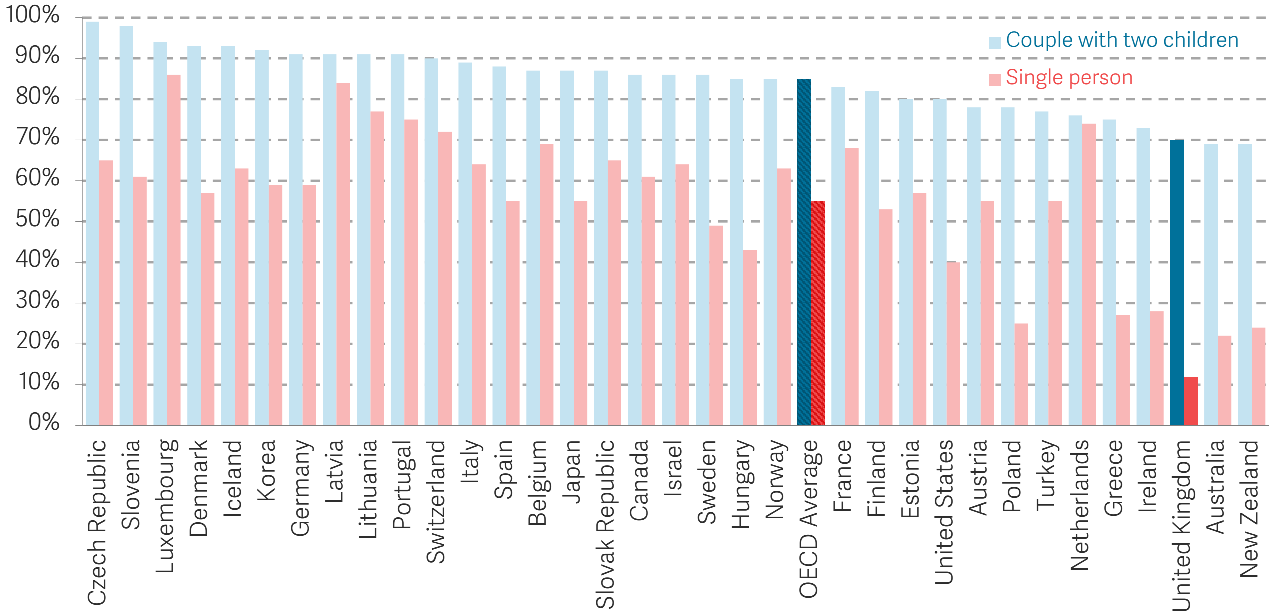
So, some of the circumstances behind the introduction of the JRS and SEISS are unique to this crisis. But it is also the case that the UK's social security system has evolved over decades into one that provides a basic level of support, with a heavy reliance on means-testing to focus that support on those who are deemed most in need. Unlike many continental European systems, there is very little left in our social security system that resembles 'social insurance' (discussed in more detail in Box 1). Instead, policy thinking has moved over time to thinking that, with a flexible, fast-moving labour market, spells of unemployment would typically be brief and so households could be left, in effect, to insure themselves, as well as taking the view that we need to maintain a sharp financial divide between being "in work" and "out of work" to motivate people to work. This was typified in a basic rate of unemployment benefit that bore no resemblance to previous earnings, and was very low, at just £75 a week during 2019-20. Furthermore, support for those with additional costs, as well as all of the safety-net benefits, are means-tested against the income of the claimant and their partner, as well as against the family's savings. This means that some people will face no earnings replacement at all: for example, consider an employee who lost their job, but had insufficient NI contributions to get JSA, and too much savings – or a partner with too high an income – to get any help through UC.[9] As a result of all these factors, pre-crisis, the UK had replacement rates in the event of unemployment that were among the lowest in the OECD (see Figure 3). And recent reforms mean that automatic stabilisers have been weakened, risking unnecessary delays to and less effective targeting of fiscal support in an economic downturn.[10]

9 Some excellent research on non-take-up of UC during the crisis – and its various causes – can be found in B Geiger et al., Non-take-up of benefits at the start of the COVID-19 pandemic, Welfare at a Social Distance, April 2021.

10 See: J Smith et al., Recession ready? Assessing the UK's macroeconomic framework, Resolution Foundation, September 2019.

FIGURE 3: **Before the crisis hit, replacement rates in the UK were amongst the lowest in the OECD**

Replacement rate in the event of unemployment, by household type and country: 2019



NOTES: The net replacement rate measures the proportion of income maintained after two months of unemployment. For a couple with two children this assumes previous in-work earnings were 67% of the average wage, and includes social assistance benefits and housing benefits. Single person replacement rates are calculated assuming the recipients previously earned the average wage, and do not receive housing benefits. Housing benefits are calculated assuming that the household is renting private accommodation with rent equal to 20% of the average wage.
SOURCE: RF analysis of OECD, Net replacement rate in unemployment.

BOX 1: **The UK's pre-crisis welfare system put a heavy reliance on means-testing, prioritising those with additional costs over Bismarckian social insurance**

The archetypal social security system that draws its inspiration from a Bismarckian social insurance model – common in central and northern European countries, at least – would have two sorts of benefits. First, there would be benefits payable in the event of unemployment or sickness (as well as in old age), where eligibility depends on past work history (so they are 'contributory', in the UK terminology) and the level of entitlement is related to previous earnings (which in this note we call 'earnings-related'). Second, supplementing these would be a set of non-contributory and typically means-tested benefits intended to serve as the safety net, i.e. to provide a minimum income, that varies with a family's needs, below which no one should fall.

That model is not especially helpful for understanding the UK's current system.

It is the case that in theory, the UK has long made a distinction between 'contributory' and 'non-contributory' benefits. Contributory benefits are those where eligibility depends on having made sufficient past National Insurance contributions – in effect, this is conditioning eligibility on previous or recent experience of being in work. Non-contributory benefits do not have that as a condition.[11] Despite a long history, there has been a consistent trend by Conservative and Labour governments since at least the 1980s to make contributory benefits a less important part of our system, either by making contributory benefits less generous or payable for shorter period of time (this has happened to, for example, the contributory unemployment and sickness benefits), or by removing the need for past contributions (for example, in the new state pension).[12]

The result is that there are now very few pure contributory benefits left in the working-age benefit system, and those that remain are payable at a low flat-rate, not linked to a claimant's previous earnings. In particular, the most important remaining contributory benefits are: new-style Jobseeker's Allowance (JSA), which is payable in the event of unemployment for up to six months; new-style Employment and Support Allowance (ESA), which is payable if someone is not able to work through ill-health or disability (it can be paid indefinitely if someone's condition is not expected to improve, or for a maximum of 12 months otherwise); and Statutory Maternity Pay (SMP), although this is something of an exception in that entitlement is related directly to previous earnings in the first six weeks of payment. Spending on these amounts to just £7.1 billion in 2019-20, or seven per cent of the total working-age welfare budget.

Importantly, non-contributory versions of these benefits have existed for many decades, and in the current system, their role is performed by UC in the case of JSA and ESA. But these have typically been means-tested against the claimant's other income sources, the claimant's partner's income, and the level of savings.[13] That is to say, someone who had recently been made redundant could receive either JSA if they had made sufficient NI contributions, or could receive UC if their and any partner's income and savings are low enough. Crucially, for a single person with no dependents and no housing costs, entitlement to either benefit will usually be identical. This is because entitlement to JSA

11 Non-contributory benefits can be means-tested, like UC, or non-means-tested, like Carer's Allowance, or Child Benefit (for most of its existence).

12 See: J Hills, Heading for retirement? National Insurance, State Pensions, and the future of the contributory principle in the UK. Journal of Social Policy, 33 (3). pp. 347-371.

13 This is not true for SMP: an alternative benefit does exist for women who were working before having a child but had not met the conditions to get SMP – it is the Maternity Allowance – but this is not means-tested.

and ESA are payable at the same low flat-rate, not linked to a claimant's previous earnings. For an adult living in a couple, though, the advantage of the contributory JSA and ESA is that entitlements will be paid regardless of any partner's income or the level of savings the couple has.[14]

The Government plans to stop the JRS and the SEISS at the end of September. If the public health and social distancing restrictions are phased out according to the Government's road-map, then that is a reasonable approach. But that would return us to a system with one of the least-generous systems of unemployment insurance in developed countries. Although the pandemic was an extreme event, many instances of unemployment in normal times are just as random or unpredictable, and there is an ongoing economic justification for providing greater earnings-replacement in the event of unemployment.[15]

Lesson 2: Our system of sick pay leaves workers with too much of a financial imperative to carry on working, with deadly consequences in a pandemic

The UK's sick pay system did not get much attention pre-crisis, partly as successive governments had moved it from being a social security entitlement to being more like an obligation on employers to provide a minimum level of compensation at no direct cost to the state.[16] The crisis highlighted that our pre-existing system gave workers little protection against being sick, as well as putting the risk of an employee's ill-health all on the employer.[17] Unlike the issue of earnings-replacement in the event of unemployment, though, this is a lesson that did not lead to major policy change during the crisis.[18]

The eligibility rules for SSP mean that around 2 million low-paid employees, as well as all 5 million self-employed workers, are entitled to nothing.[19] Those who are not eligible are typically working in low-paid jobs or working part-time (or both); this means that women, younger and older workers, and workers with atypical contracts are all more likely than the average worker to be ineligible, as Figure 4 shows.

14 It is possible to receive both the contributory JSA or ESA along with UC: this would happen, for example, if a claimant had additional costs, such as children or housing costs, that lead to higher entitlements to UC.

15 Both at a family level to provide smoother income during an earnings shock, as well as at a macroeconomic level during a downturn.

16 Employers used to be refunded for some SSP expenditures: this stopped in 1993 for large employers, and 2014 for all employers, although a government consultation in summer 2019 proposed returning to a system with some rebates: see HM Government, Health is everyone's business: Proposals to reduce ill health-related job loss, July 2019.

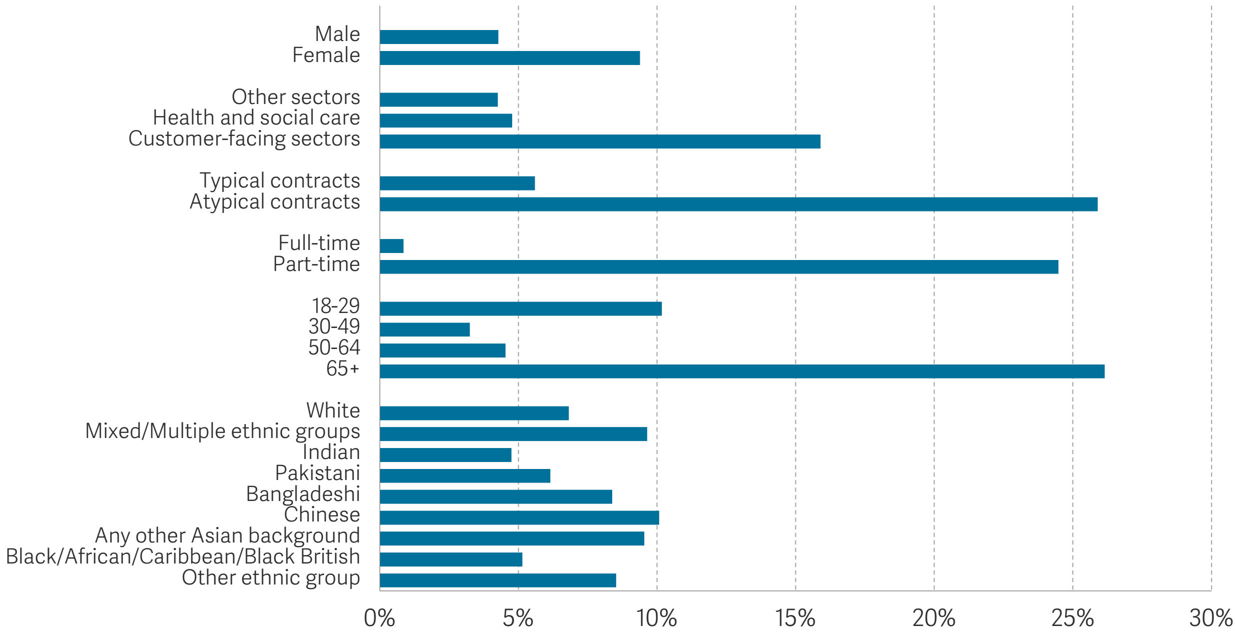
17 This draws on: M Brewer and M Gustafsson, Time Out: Reforming Statutory Sick Pay to support the Covid-19 recovery phase, December 2020, The Resolution Foundation.

18 Small changes were made to allow (qualifying) employees to receive support if they were told to self-isolate (as well as when they were ill), and for it to be paid from the first day of Covid-related illness or self-isolation, rather than day four, and the state is covering the cost of SSP payments for up to two weeks for small-to-medium businesses through a new SSP rebate scheme. The old rules continue to apply for non-Covid-19 sickness.

19 RF estimates based on pre-crisis data from ONS, Labour Force Survey. To be eligible, workers have to be classed as an employee or agency worker and earn an average of at least £120 per week (this is the Lower Earnings Limit (LEL) in the National Insurance system).

FIGURE 4: **Female workers and those on insecure contracts are more likely to be ineligible for SSP**

Proportion of employees earning below the Lower Earnings Limit, by selected demographic groups: UK, 2019



NOTES: SSP covers all types of employment contracts, but employees on flexible or zero-hour contract have to prove their average earnings, which can be a challenge. Therefore, these figures may underestimate how many workers would receive SSP in case of illness. Atypical contracts include agency workers and workers on temporary and zero-hour contracts.
SOURCE: RF analysis of ONS, Labour Force Survey

As well as poor coverage, SSP is paid at very low levels, at just £96.35 per week in 2021-22. This fixed rate of SSP means that its replacement rate falls rapidly in higher earnings deciles, so that SSP represents less than half of weekly earnings for all eligible workers outside the bottom earnings decile, and only a quarter of weekly earnings, on average. Although some employers offer top-ups, survey estimates (although from 2014) are that a quarter (26 per cent) of those who got some sick pay rely on SSP alone when they are ill (a further 17 per cent reported that they did not know what they were entitled to).[20] Just like the levels of unemployment support in the UK, these rates of sick pay are extremely low compared to those in other countries, with OECD comparisons putting the UK at the bottom, save only for Korea and the US, which pre-Covid-19 had no mandatory sick pay.[21] In some ways, SSP typifies the worst aspects of the British system of benefits, with both a low level of payment and also a legacy eligibility-restriction from our old contributory system that means that low earners are entitled to nothing.

20 The original data came Health and Wellbeing at Work: A Survey of Employees, 2014, but the fact comes from M Brewer and M Gustafsson, Time Out: Reforming Statutory Sick Pay to support the Covid-19 recovery phase, December 2020, The Resolution Foundation.
21 Figure 3 is OECD, Paid sick leave to protect income, health and jobs through the COVID-19 crisis, July 2020.

As more people have had to take time off for illness, so the pandemic has highlighted the pre-existing flaws with SSP. But more importantly, many more families have also had first-hand experience of the consequences of presenteeism this year than previously. Because sick pay affects individuals' ability to take time off work when they show symptoms or are told to self-isolate, it will directly influence the rate of transmission of Covid-19. Strikingly, during the first wave of Covid-19, the Office for National Statistics (ONS) found that care homes paying sick pay were significantly less likely to have seen Covid-19 cases among residents in the early weeks of the pandemic.[22] The level of support received has also been reported to affect compliance with Test and Trace (both in terms of coming forward for a test when symptomatic, as well as complying with self-isolation requirements).[23] The pandemic has shown clearly that adequate sick pay – in terms of coverage and generosity – should be seen as a collective benefit, and a crucial part of our public health policy.

Lesson 3: Treating employees and self-employed differently is hard to justify, and getting ever-harder to implement in our modern labour market

Many parts of our social security and income tax systems are administratively clunky at dealing with the self-employed, or try to maintain policy differences between employees and the self-employed. As self-employment grows, and as there is a growth in people who are both employees and self-employed, so these distinctions become harder to operate in practice, and harder to defend in principle.

When the crisis hit, the Government took steps to as-good-as remove any distinctions between the treatment of employees and the self-employed in the social security system. It did this through changes to rules in the social security system: ESA was changed to allow self-employed workers to access it immediately if they became ill with Covid-19 or needed to self-isolate (so functioning as an equivalent to SSP), and it allowed self-employed workers to use UC as a means-tested unemployment benefit, just as employees who lost their job can do (it did this by suspending the Minimum Income Floor). Much more significantly, of course, was the introduction of the SEISS, effectively a companion scheme to the JRS designed for self-employed sole traders, the parameters of which matched the JRS very closely, with both paying 80 per cent of previous income up to the same cap.

In the end, though, the operational limitations of the underlying income tax systems, and the Government's apparent desire to decide whether all workers are "employees"

22 ONS, Impact of coronavirus in care homes in England: 26 May to 19 June 2020, July 2020.
23 L E Smith et al., Adherence to the test, trace, and isolate system in the UK: results from 37 nationally representative surveys, BMJ 2021; 372:n608.

or "self-employed", led to the SEISS to be poorly-targeted in two dimensions: giving too much money to some, and not enough to others. In particular, it seems very hard to justify the various cliff-edges built into the SEISS, with no support at all payable to self-employed whose pre-crisis income exceeded £50,000, or to those who got less than half their income from self-employment, or those who were newly-self-employed.[24] In a survey fielded by us in January 2021, three-in-ten (29 per cent of) self-employed workers – equivalent to 1.5 million people – said that their profits had fallen as a result of Covid-19 by January 2021, but that they had not been eligible to receive a SEISS grant.[25] In the other direction, large SEISS payments could have been made to individuals that in some cases bore little resemblance to the size of their losses, all at considerable cost to the taxpayer. Last year, we estimated that one-in-six (17 per cent) of those who had received one of the first two SEISS grants had not experienced a single month of reduced earnings between March and September 2020.[26]

Importantly, though, the fact that the Government had to create a bespoke system for the self-employed is not proof of the long-held view that the self-employed get less in benefits and so deserve their considerable tax advantages over employees (see Figure 5) – indeed, that view is largely wrong. It is true that self-employed workers have for many years not been able to claim SSP (although they can claim Employment and Support Allowance (ESA) if their illness prevented them from working long-term and they had made past NI contributions), SMP, or unemployment benefits (by which we mean new-style (contributory) Jobseeker's Allowance (JSA)). The principle here is that self-employed workers should be responsible for their own income protection in the event of sickness or unemployment, whether through formal or informal insurance schemes.

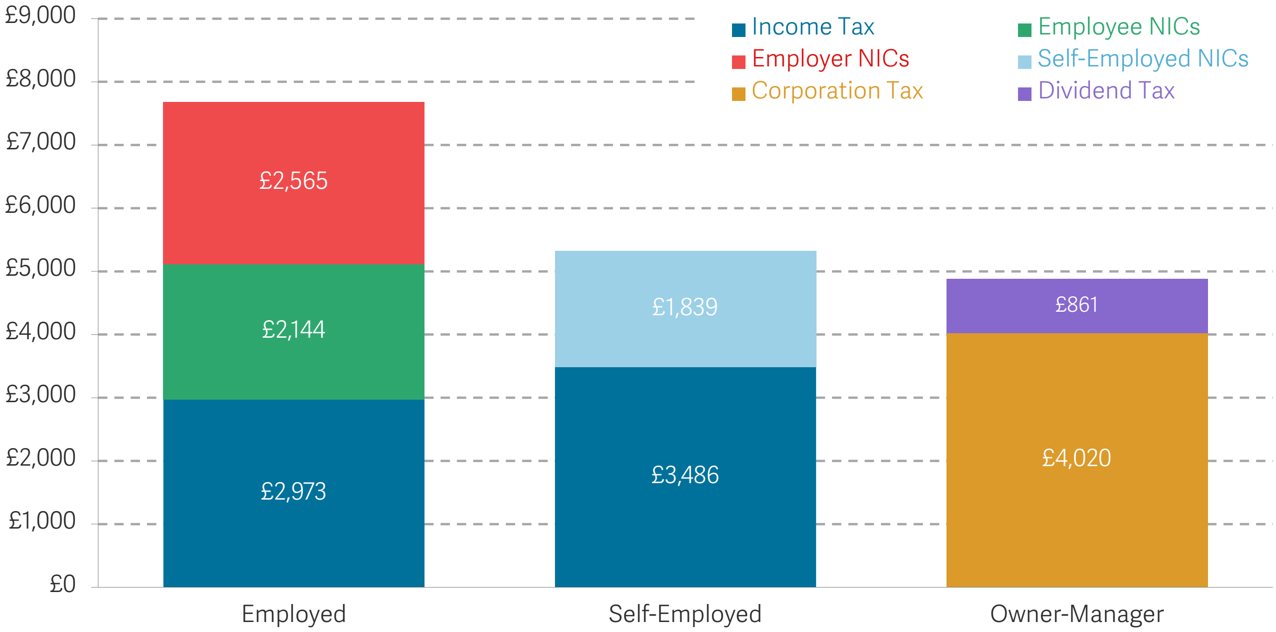
24 Most of what we said above applies to self-employed sole traders. A further complication surrounds those who run their business through an incorporated company, paying themselves as company directors and through dividends: they could not claim the SEISS, although their earnings as a company director were eligible for the JRS, and they could claim Bounce Back loans and other support aimed at businesses. And some will have been encouraged to set their business up in this way by the substantial tax advantages shown in Figure 5.

25 N Cominetti et al., Long Covid in the labour market: The impact on the labour market of Covid-19 a year into the crisis, and how to secure a strong recovery, February 2021, The Resolution Foundation.

26 See: M Brewer et al., Jobs Jobs Jobs: Evaluating the effects of the current economic crisis on the UK labour market, October 2020, The Resolution Foundation. This occurred both because there was minimal checking, but also because the fact that the grant was paid in lump-sums covering three-months, so recipients could get 80 per cent of three months' earnings regardless of for how long or how badly their business was affected by the crisis.

FIGURE 5: **Self-employed workers contribute significantly less total tax on earnings than employees**

Tax due on £30,000 of economic activity by employment type: UK, 2021-22



NOTES: Owner-Manager category assumes owner takes out a wage equal to the secondary limit (£8,840): the largest wage that can be paid without generating national insurance or income tax liabilities.
SOURCE: RF analysis of HMRC rates and allowances.

But this principle has long ceased to have much practical relevance in our social security system. Self-employed workers have always been able to claim in-work support through tax credits, and can also claim all the non-contributory benefits that provide extra support for those with children or housing costs (in the run-up to the crisis, this meant that self-employed workers could claim UC, but were usually assessed as if they were earning at least the national living wage (the policy is called the Minimum Income Floor).[27] So 'reduced social security entitlement' is no grounds for asking self-employed sole traders to pay lower NI contributions than employees. Indeed, the tax distortions shown in Figure 5 in fact worsen the underlying problem, both by encouraging bogus self-employment, or by encouraging workers to turn what is really an earned income source into a source of unearned income (i.e. where an owner-manager pays herself in dividends).

It was right to extend income-replacement schemes to the self-employed during the crisis, and we should now aim to reform both policy and operational aspects of social security and taxation systems so as to distinguish as little as possible between different forms of employment (acknowledging that different operational rules could be warranted, given that self-employed workers do not have an employer who could verify information

27 For further detail see: S Adam & H Miller, Taxing work and investment across legal forms: pathways to well designed taxes, Institute for Fiscal Studies, January 2021.

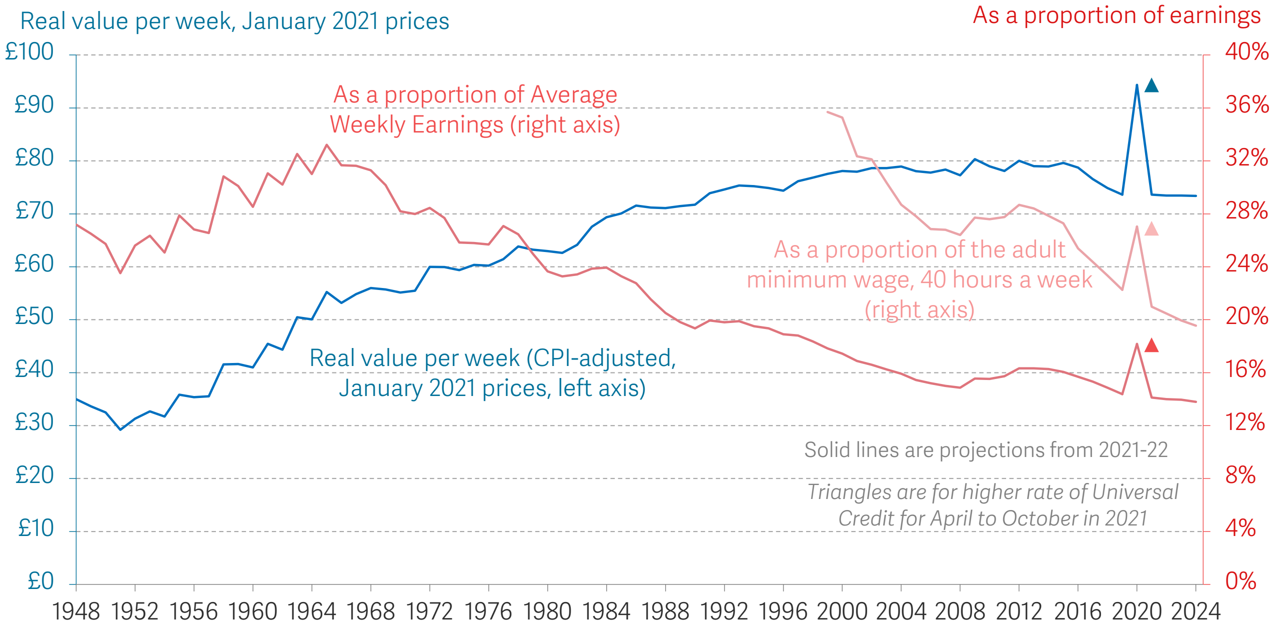
provided to DWP). This is the right thing to do, not just because it is hard to justify different treatment, but also that it is impractical to attempt differential treatment given the large numbers of people who have both employee and self-employment income. And this policy alignment must include ending the preferential rates of NI paid by the self-employed, as flagged by the Chancellor when he first announced the SEISS, as well as seeking to remove the tax advantages of incorporation.[28]

Lesson 4: The level of support provided by the pre-crisis safety net was too low

The UK went into this crisis after nearly a decade of retrenchment affecting the social security system for working-age adults. As a result of freezing the cash value of benefits for some of this period, the pre-crisis value of a single person's entitlement to UC (or its equivalent in other benefits) was at its lowest level since the early 1990s (see Figure 6), and pre-crisis levels of benefits were set at just over a third of the value of a minimum income standard.[29]

FIGURE 6: **The real terms value of unemployment benefit is set to fall to its lowest level in decades**

Value of the main rate of unemployment-related benefit over time for a single adult, with projections: UK, 1948 to 2024



NOTES: National Living Wage forecast is based on OBR, Economic and Fiscal Outlook, November 2020.
SOURCE: RF analysis of IFS Fiscal Facts; ONS; Bank of England; and OBR.

28 The Chancellor's speech was here: https://www.gov.uk/government/speeches/chancellor-outlines-new-coronavirus-support-measures-for-the-self-employed, accessed 27 April 2021. Aligning rates of employee NI contributions would raise about £0.4 billion a year, but the much larger tax break comes from the self-employed not having to pay employer NI contributions, which is a tax break worth over £5 billion a year.

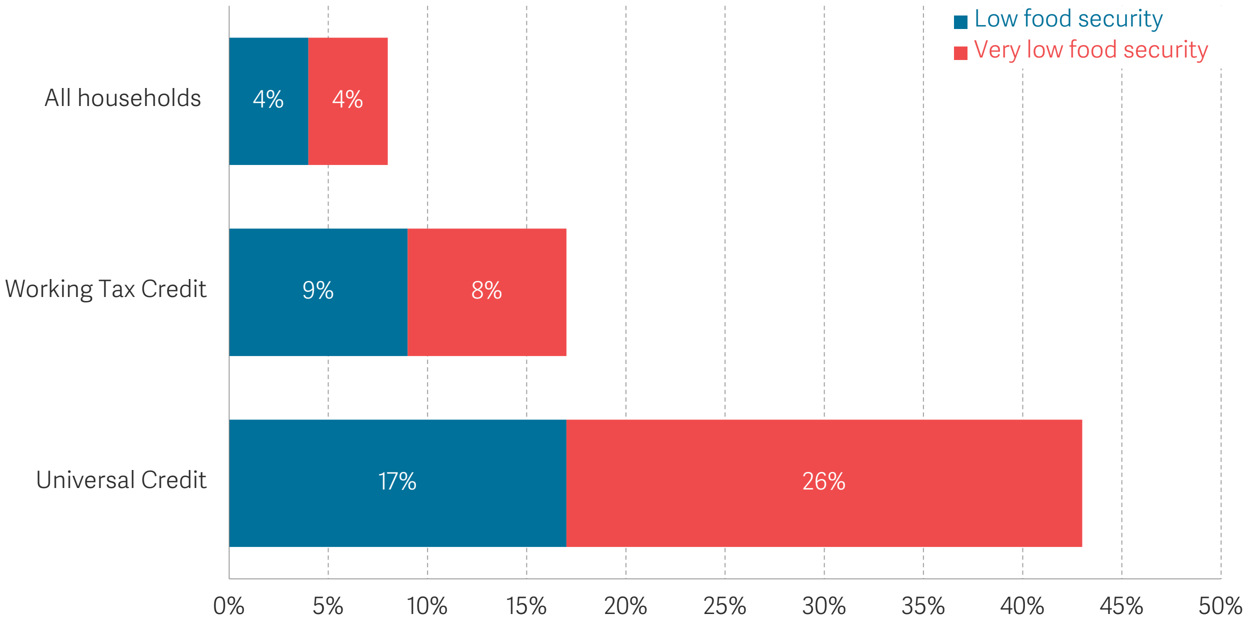
29 Figure 36 in M Brewer et al. The Living Standards Audit 2020, The Resolution Foundation, July 2020.

This is one of the reasons why disposable incomes for those at the bottom of the distribution had been stagnating in recent years. From 2003-04 to 2019-20, incomes at the 10th percentile grew at half the rate in real terms (7 per cent) than at the median or the 90th percentile (over 14 per cent).[30] Although there was a mini boom in incomes in 2019/20, the weakest income growth in the 5 years leading up to the crisis was in the bottom income quintile.[31]

And this is matched by evidence that reveals more directly the levels of unmet need even before the crisis hit: in the year before the crisis hit, over four-in-ten (43 per cent) of families/recipients on UC were food insecure, according to recent new official data on food security, much higher than the 17 per cent of Working Tax Credit (WTC) recipients or the 8 per cent in the whole population (see Figure 7).

FIGURE 7: **A large proportion of those receiving UC pre-crisis were food insecure**

Percentage of households that report being food insecure, by state support received: UK, 2019-20



SOURCE: RF analysis of DWP, Family Resources Survey, 2019/20.

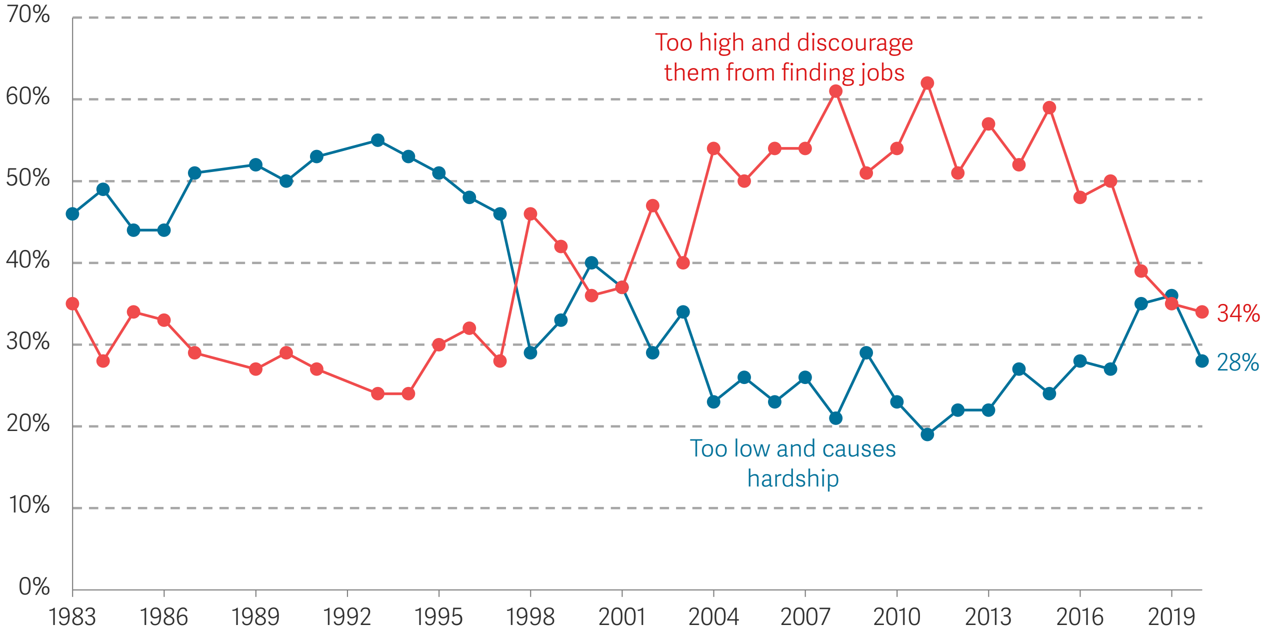
It may also be behind changes in the fraction of the public who think that the benefit system is not generous enough: this has been rising steadily during the 2010s (see Figure 8), with the balance of opinion in 2019 essentially back where it was in the late 1990s.

30 We take 10th and 90th percentile as the median of the bottom and top quintiles of incomes after housing costs; see: Households below average income: for financial years ending 1995 to 2020, DWP, March 2021.

31 See: K Handscomb, Pre-pandemic Britain experienced a mini living standards boom – alongside rising child poverty, Resolution Foundation, March 2021.

FIGURE 8: **Public attitudes to benefit generosity are similar to those in the nineties**

Attitudes towards benefits for unemployed people: UK, 1983-2020



NOTES: There were small changes to the response options in 2020 when it was conducted solely on-line.
SOURCE: RF analysis of NatCen, British Social Attitudes Survey 2020.

The Government did, of course, respond to the crisis by increasing UC and WTC entitlements by £20 a week. [32] Despite this, there is still overwhelming evidence that levels of deprivation or hardship, or instances of problem debt, have worsened during the Covid-19 crisis. For example, a survey in January 2021 of families who newly-claimed UC in the crisis found that one-in-five were behind on essential bills, and three-in-ten were more in debt than they were in February 2020. A government-run survey from November and December 2020 estimated that 9 per cent of private renters in England were in arrears, up from 3 per cent in the year before the crisis.[33] The Trussell Trust distributed 2.5 million emergency food parcels to people in crisis in 2020-21, a 33 per cent increase on the previous year.[34]

The pandemic has also drawn attention to the much lower levels of support provided by the social security system to those aged under 25, with core levels of UC being some £16 a week lower for those under 25: UC awards just £59 a week to someone under-25, temporarily rising to £79 with the £20 a week uplift (and this is on top of an assumption built into LHA rates that those under 35 should be supported only to rent a room in a

32 Some might say that the £20 a week uplift to UC and WTC was evidence that the Government recognised that pre-crisis levels of generosity were insufficient. But this does not quite hold. Had the Government come around to the idea that pre-crisis benefit rates were inadequate, then presumably it would have found it easier to confirm that the £20 a week uplift should be made permanent, and that it should be extended to the so-called 'legacy benefits', as recommended by many organisations. In the event, it has not done either.

33 Ministry of Housing, Communities and Local Government, English Housing Survey, Household Resilience Survey, Wave 2. April 2021.

34 Taken from: https://www.trusselltrust.org/news-and-blog/latest-stats/end-year-stats/, accessed 27 April 2021.

shared household). This different treatment is especially noteworthy given the well-known pattern of who has been most affected by the crisis, with younger workers being the most likely to lose their jobs, be furloughed or see a reduction in earnings,[35] and unemployment among those aged 18 to 24 currently at 12.8 per cent.[36]

So the lesson we draw, overall, is that the basic level of support provided by the social security system pre-crisis was insufficient given the needs of low-income families, and particularly for younger adults. The experience of the pandemic has made this more apparent to a wider cross-section of society.

Lesson 5: The safety net needs to reflect the variation in costs faced by different households

As discussed earlier, the UK's pre-crisis system performed poorly at providing earnings-replacement in the event of unemployment. But one aspect of the UK's social security system that had historically been viewed as relatively successful was its recognition of the additional costs or needs of certain types of households. Most obviously, these were households with dependent children or with high rental costs.

The Government's response to the crisis followed this principle in one respect, but scored less well elsewhere. The need to help those with high housing costs was recognised by DWP through changes it made to the Local Housing Allowance (LHA) when the crisis hit: these reversed eight years of cuts and restored LHA rates to the 30th percentile of rents in the local area. But there was no additional social security support provided to those with children: the uplift to UC was an across-the-board £20 a week regardless of family size, making it a smaller percentage increase for a family with children than for a single adult. This is problematic, because it is clear now that the Covid-19 crisis, and the various lockdowns in particular, pushed up living costs for low-income families, especially those with children. In contrast better-off families saw a lockdown-enforced cut in spending, leading to a rise in net savings.[37]

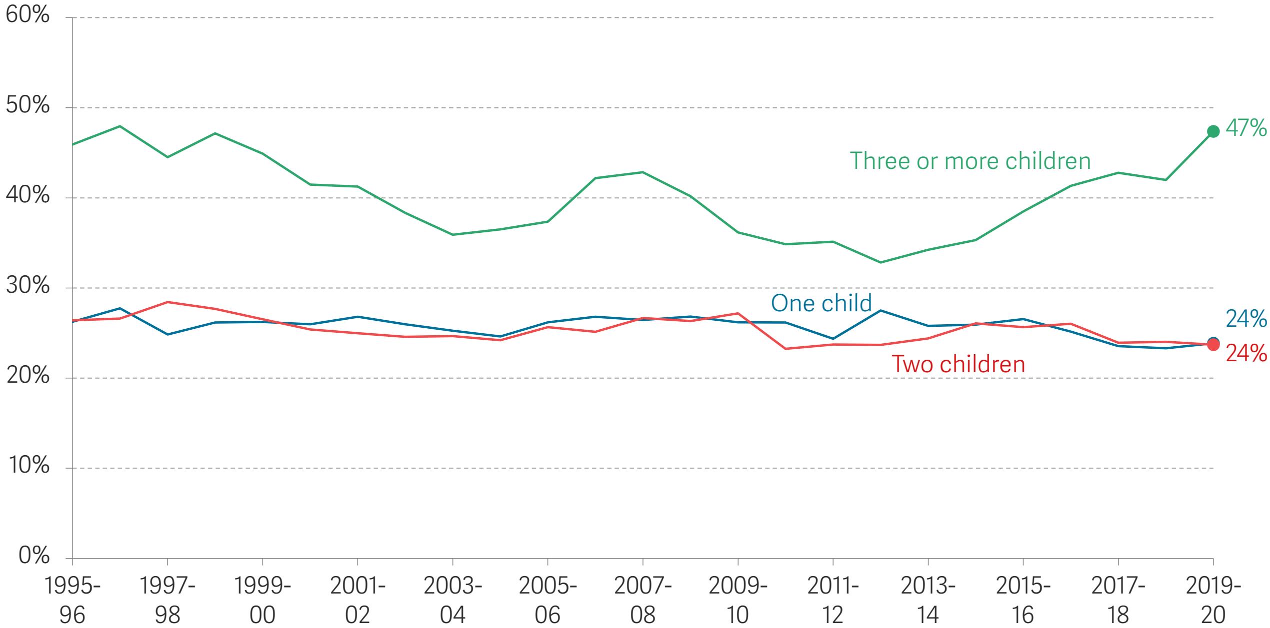
Furthermore, the attention given to those with high housing costs and on families with children has also underlined the consequences of some of the post-2010 reforms to the social security system. As well as a general failure to uprate child allowances in UC (or their equivalent) in line with inflation since 2010, two particular reforms have borne down heavily on the ability of the social security system to support those with high needs: these are the two-child limit, and the overall 'benefit cap'. The two-child limit prevents

35 N Cominetti et al., Long Covid in the labour market: The impact on the labour market of Covid-19 a year into the crisis, and how to secure a strong recovery, February 2021, The Resolution Foundation.
36 See: ONS, Labour Market Statistics, April 2021.
37 M Brewer & R Patrick, Pandemic Pressures: Why families on a low income are spending more during Covid-19, January 2021, The Resolution Foundation.

families from receiving additional support from UC or other benefits for any children after the second; the benefit cap, through the way that it is operationalised, mostly affects families with large numbers of children or with high housing costs. Both of these restrictions undermine the ability of the system to help some of those who face the highest costs.[38]

FIGURE 9: **Children from large families are more likely to be living in poverty**

Proportion of children living in poverty living in relative poverty (after housing cost) by number of children in the family: UK



SOURCE: RF analysis of DWP, Households Below Average Incomes, 2021.

The implications of these policies can be seen in Figure 9. Although we do not attempt a counterfactual analysis, the chart shows that rates of child poverty were already higher for families with three or more children than those in smaller families at the start of the 2010s; since then, rates of poverty have diverged substantially. In the year before the crisis hit, the risk of poverty for children in families with three or more children was twice as high as for those in smaller families.

The lesson is that it is important that the benefit system is allowed to respond to varying levels of needs across households.

38 180,000 families were affected in November 2020, 84 per cent of whom have dependent children: see DWP, Benefit cap: number of households capped to November 2020.

Lesson 6: Delivering real-time, multi-billion-pound programmes is possible but will inevitably result in design flaws

As we said earlier, and have discussed in other work, the speed and scale of the Government's economic policy response to the crisis was impressive.[39] Our parliamentary rules do mean that the government of the day can pass laws or give itself powers very quickly. And it was testament to the hard work of many public servants that HM Treasury and HM Revenue and Customs were able to design and implement the JRS scheme – an unprecedented policy intervention – so quickly, with the scheme opening for claims just five weeks after lockdown began, alongside the various loan schemes for businesses.

But the experience of the past year, including from the JRS and the SEISS, shows that that are limits to what can be achieved when policy making is done at such a rapid pace. In the case of the policies under consideration in this note, we see two major flaws.

First, the desire to get support out as quickly as possible meant that fewer checks than usual were built in to some of the new schemes and, as a result, it is likely that a large amount of money will have been lost to fraud and error. Full estimates have not yet been published, but HMRC had an initial planning assumption that between 5 and 10 per cent of spending on JRS could be due to fraud and error – this would be £2.9 billion to £3.9 billion based on payments made by mid-September – and between 1 and 2 per cent on SEISS (which seems very low) – this would be £135 million to £270 million based on payments made by 20 September 2020.[40] No equivalent numbers for UC are currently available, but the DWP's estimates of fraud and error are due on 13 May. Second, as mentioned earlier, because the Government had to very quickly invent brand new mechanisms for getting money to employers and the self-employed, both the JRS and the SEISS ended up with arbitrary cliff-edges in who gets support that are hard to justify. In the case of the SEISS there has been some terrible targeting, at least of the early grants where the self-employed could receive a full 80 per cent grant even if this hugely exceeded any income losses due to Covid-19.[41] These are inevitable problems that come from both designing new programmes at speed: very rough edges.

The lesson here is that, alongside a debate about whether we want to build in more earnings-replacement during normal times (as discussed in the first 3 lessons), the Government should also plan how it would respond to the next global pandemic. The Public Accounts Committee noted last year, somewhat critically, that its members were

39 For example, see: T Bell & M Brewer, The 12-month stretch: Where the Government has delivered – and where it has failed – during the Covid-19 crisis, Resolution Foundation, March 2021.

40 See: Implementing employment support schemes in response to the COVID-19 pandemic, National Audit Office, October 2020. A survey conducted by NAO found that 9 per cent of people admitted to working in lockdown at the request of their employer, against the initial rules of the furlough scheme and pointing to a fraud figure towards the upper end of HMRC's assumptions.

41 It is also worth noting that in another programme intended to get money to households during the crisis – the Test and Trace Support Payment in England – if anything went too far the other way, and ended up with a system that is complicated and off-putting to claimants

"astonished by the government's failure to consider in advance how it might deal with the economic impacts of a pandemic";[42] Covid-19 has shown us very clearly how dealing with an infectious disease requires a joined-up public health and economic policy response. More planning now could help us develop the programmes and systems in advance of the next crisis.

Lesson 7: Our system for supporting those with long-term health conditions may soon be under much greater strain

The final lesson from the Covid-19 crisis is necessarily more tentative as we do not yet have evidence to draw on, though we suspect it will soon appear. Current estimates are that 10 per cent of those who catch Covid-19 experience symptoms 10 weeks later – so-called 'long Covid'.[43] Although this represents a cluster of syndromes rather than a single one, in some cases, long Covid has debilitating impacts on a person's health and quality of life. Depending on the scale and duration of this, and whether long Covid remains a risk for those who contract Covid-19 after having been vaccinated, attention will be drawn to the low levels of income replacement provided to those who cannot work in the event of sickness.

Here, the pre-crisis UK system was not generous, treating ill-health similar to the way it deals with unemployment. Adults who cannot work through ill-health first claim SSP – which, as we described above, is one of the least generous systems in the OECD – and after six months must claim contributory ESA, if they have made sufficient NI contributions, or the means-tested UC if not (as discussed in Box 1). Either way, levels of support are very low, with contributory ESA just £75 a week (and UC will be higher only if they are additional costs, such as children or housing). Similarly, attention may also be drawn to the way that we support carers, where those who care for someone full-time are able to claim Carer's Allowance, but which is paid at just £67.60 a week (although it can be topped up by UC).

Before embarking on reforms, we need to decide which issues are the most important to fix

There is a risk that debates about what next for welfare fall into one of two categories. At one end, there is an immediate debate about highly-specific (if vital) issues – such as the future of the £20 a week uplift, or how to secure an adequate system of self-isolation support – that are grounded in the current experience of the crisis. At the other end, there are large scale and long-term proposals for radical change that do not engage

42 See: Recommendation 1, Whole of Government Response to COVID-19: Thirteenth Report of Session 2019–21, House of Commons Public Accounts Committee, July 2020.
43 See: Minutes of Seventy-ninth SAGE meeting on COVID-19, 4 February 2021.

sufficiently with what actually happened or do enough to provide a route map from our current system to a new settlement.

What is missing is a debate focused on major reforms that are necessary if we are to learn some of the key lessons of the past year. This will also bring to the fore what gets missed in the micro debates about specific changes or the discussions of wholescale reforms: trade-offs.

So, to plug that gap, we briefly discuss below three possible directions for reform that the country could take following the lessons learned from the crisis: providing a greater degree of earnings-replacement; ensuring a more generous system overall; doing more to support those with additional costs. The suggested policies are intended to be illustrative proposals and are not intended to be mutually exclusive – indeed, progress could be made on all three fronts.

Reform direction A: greater earnings replacement by moving away from a flat-rate system

As discussed earlier, the key reason that the pre-crisis system provided such low levels of earnings-replacement in the event of unemployment or sickness is that the core benefit levels were set at a low flat-rate (and this was compounded by the support for extra costs being heavily means-tested against any earnings of the partner and the level of cash savings). Most obviously in this context, at just £75 a week, the pre-crisis level of unemployment benefit was clearly too low to support family incomes in the event of job loss and provided insufficient stabilisation of the overall economy in the face of the shock from the pandemic.

A way to provide much more meaningful temporary wage-insurance for those losing their job would be make greater earnings-replacement a regular feature of our system by significantly enhancing the existing contributory JSA. For the sake of illustration, a simple version of this might work as follows:

- It would be paid to those who were unemployed because of redundancy, or where a fixed-term contract came to an end.
- To be eligible, employees would need to have made sufficient past National Insurance contributions (as a proxy, we have assumed that workers would have had to been in work for 12 months before a spell of unemployment).
- Entitlements would mirror the JRS or SEISS, by paying 80 per cent of previous

earnings, up to the same cap on payments of £2,500 a month.[44]

- Payments would last for three or six months.[45]

Using the immediate pre-Covid-19 labour market as a basis for costing this scheme, and assuming for now that the scheme does not lead to any behavioural change, we estimate an approximate cost of £0.9 billion or £1.7 billion a year (in 2024-25), depending whether the payments last for three or six months.[46] These estimates are low, mostly because in the immediate pre-crisis years, unemployment was very low, especially among the sort of workers who would be eligible for this enhanced JSA. If, instead of using 2019 as our reference period for the costing, we use 2009 – the height of unemployment during the financial crisis and the highest period of unemployment since 1992 – the cost would be higher, at £6.5 billion (in 2024-25 earnings) for a scheme that paid out for six months, and £3.3 billion for one that paid out for three months. It is, of course, possible that a more generous unemployment benefit would lead to more or longer spells of unemployment among eligible workers – as discussed below – and this would increase the cost. On the other hand, there would be some offsetting savings by paying less UC that we have not been able to model, as well as savings of £150 million in existing contributory JSA.

This is, of course, only one set of parameters, and all of our assumptions can and should be debated. A replacement rate of 80 per cent is high (as Figure 2 showed, a notional 80 per cent replacement rate in the JRS and SEISS leads to median family income replacement rates of around 90 per cent, thanks to the operation of the tax and benefit system, and the income brought in by partners). Six months is a shorter period than that used in many European nations but it may still appear to be a long duration in the UK context – for example, Statutory Maternity Pay, our only existing earnings-related benefit, pays 90 per cent of previous earnings only for six weeks. And for any set of parameters, there is a debate to be had about how to share any cost with employers. In the current system, employers are in effect asked to make a small contribution to providing some earnings-replacement in the event of unemployment through Statutory Redundancy Pay (SRP); if reforms in this area were contemplated, then it would be important to look at the parameters of SRP and how it interacts with a new earnings-related JSA.[47]

The long-standing criticism of a change like the one we set out is that paying higher unemployment benefits weakens the financial imperative to find a new job, and so leads

44 This level of earnings replacement would at the upper end of that provided by other European countries: in Germany individuals received 60 per cent of their net wage; in France individuals receive between 57 and 75 per cent of their previous gross wage; while in Sweden they receive 80 per cent of previous income for the first 200 days of unemployment. Source: Your rights country by country, Employment, Social Affairs & Inclusion, European Commission, accessed 27 April 2021.

45 This duration is towards to lower end of that provided by other European countries: in Germany individuals receive payments for 12 months; in France payments are reduced in size from the seventh month they are claimed but can last 24 months if previous employment meets certain length criteria; in Sweden payments continue for 300 days.

46 See the Annex for more details on how we estimated these costs.

47 SRP provides up to 30 weeks' pay, capped at £16,320, but this maximum is available only for those with 20 years working for same employer – something that is not reflective of modern working.

to longer stretches of unemployment. This could mean additional costs for the state and could even be bad for the individuals, if they suffer from skills attrition while they are not working. There are at least three counterarguments to this. First, such problems are much less of an issue during economic downturns – where it is labour demand that is usually the constraint, not labour supply. Outside of a downturn, our view is that disincentives can be tackled both through the operation of the conditionality regime, and by the time-limit on payments, which could be kept short during normal times (and then extended, ideally automatically, during downturns). Second, there is also evidence that paying a more generous unemployment benefit regime allows workers more time to search and the end result is a better match between worker and subsequent employer.[48] And third, international evidence shows examples of countries which have much more generous income replacement and still had lower overall unemployment rates pre-crisis than the UK.[49] Our view is that, in the past, policy thinking on the design of unemployment benefit may have put too much weight on ensuring the immediate financial imperative to find a job, and not enough on the benefits to individuals (and the wider economy) of greater earnings-replacement both in terms of income security and improved job-matching.

As well as improving earnings-replacement in the event of unemployment, there is an overwhelming case – which was clear before the pandemic hit – for strengthening SSP. We have costed a version where SSP eligibility is extended to those earnings less than £120 a week, and where entitlement is set at 80 per cent of previous earnings, but to a low cap of £204 per week (this is considerably lower than our proposed cap on an earnings-replacement JSA, reflecting both the greater expense but also mindful of some of the moral hazard issues, but would be double the current planned SSP amount in 2024-25): if the Government refunded employers 60 per cent of the cost of this scheme, then it would cost the state an estimated £3.1 billion a year (some of which would be seen in higher sick pay received by workers, and some in reduced spending by employers on occupational sick pay). Again, we stress that these are only set of possible parameter choices: our proposal emphasises extending sick pay to those who do not currently get any, and increasing its generosity at the bottom, but there are many other ways forward and the share of costs to be paid by employers or Government is open to debate.

Finally, there is a case for making similar reforms to the contributory ESA to provide a greater degree of earnings-replacement where people are not able to work through ill-health (including, in the case of ESA, for the self-employed, as is the case currently). We

48 There is good evidence from several countries that lengthening the duration of unemployment benefits leads to better job matches: this work is summarised in A Farooq, A Kugler and U Muratori, The impacts of unemployment benefits on job match quality and labour market functioning, VoxEU, as well as A Nekoei and A Weber, Unemployment benefits and job match quality, VoxEU.

49 An obvious example is Germany. For a discussion, see: M Gustafsson et al., After shocks Financial resilience before and during the Covid-19 crisis, Resolution Foundation, April 2021.

have not provided a detailed costing, but reform here could be more expensive than the cost of an equivalently-generous earnings-replacement aspect to JSA because there are a lot more people on contributory ESA than would be entitled to an enhanced JSA, and because it is currently payable for 12, rather than 6, months. Any reform here should go alongside a review of the full set of benefits that support people with poor health or disabilities.

Note that, although we are pointing to the creation of the JRS and SEISS as strong evidence that our existing social security system did not provide enough earnings replacement, we are not suggesting that a scheme like the JRS would not have been needed if we had had an earnings-related unemployment benefit. The additional aim of a furlough scheme is that it preserves the match between firm and (temporarily-unemployed) worker through temporary downturns. Our view is that, in addition to earnings-related unemployment benefits, there is also a case to examine short-time work schemes like the German 'Kurzarbeit' scheme, and there may also be a case for something like the JRS in future crises. But these should be seen as complements to earnings-related unemployment benefits, not substitutes.

Reform direction B: Improve basic levels of support

In the short-run, much attention is rightly being given to whether the £20 uplift to UC should continue after the currently-anticipated end date of September 2021, or be made permanent. The cost of making this permanent and extending to legacy benefits (i.e. the remaining income-related JSA and ESA cases) is around £7 to £8 billion in 2024-25, depending on future levels of unemployment.

A thought experiment that goes beyond the debate on the £20 uplift is to consider what it would cost to further increase the basic element of UC and contributory benefits by an additional 10 or 25 per cent (had the main basic rate of UC increased in line with inflation since 2010 – instead of being frozen or cut in real terms – it would be some 10 per cent higher than current rates). Maintaining the £20 a week and then doing this would cost around £12 billion and £19 billion respectively. Again, we offer these as a guide to the scale of the challenge, rather than as concrete proposal for change.

Removing the under-25 rates in UC in normal times would cost around £950 million a year in 2024/25, but would cost more in the current crisis.

Reform direction C: Give sufficient support to those with unavoidable extra costs

It is not just the basic levels of support that should be considered. UC also provides additional support for those with additional costs: namely those with children, housing costs, or disabilities. As discussed earlier, some of the additional cost elements have been eroded over the past decade, which inevitably leaves some families facing additional hardship as they have to make up any shortfall from other means. Ending the two-child limit, the bedroom tax, the benefit cap, increasing the standard allowance for young single parents to the main adult rate, as well as maintaining LHA rates at the 30th percentile of local rents, could together cost around £7 to £8 billion in 2024-25. Further support could be directed towards families with children by increasing all child elements in UC by £5 per week, at a cost of £1.4 billion in 2024-25.[50]

As always, welfare reform involves a complex set of trade-offs

The three directions outlined above would affect different households, and potentially have different impacts on overall economic performance (although, as we say above, these are by no means mutually exclusive options). This is unsurprising: each is responding to a separate priority for action. For example, although we have not undertaken a full distributional analysis, it should be clear that having the social security system provide more earnings-replacement in the event of unemployment or sickness would, on average, benefit those who were better off, in a lifetime or long-term sense, compared to the beneficiaries of a move to improve basic levels of support by increasing UC allowances. That said, research has also suggested that targeting additional support on those who have a low income and dependent children – which is what our third suggested direction would achieve – is a good way of focusing on those likely to be poor throughout their lifetime.[51] The snapshot impact on the usual measures of relative poverty of each of these options would also be different (with, again, the third set of reforms likely to be the most tightly-targeted at those below the poverty line). All three directions for reform would have different implications for the strength of financial incentives to work or earn more, and could affect other aspects of behaviour in the labour market or in family life. And they would all have different impacts of the ability of the welfare system to provide insurance to households in the event of unemployment, sickness, fluctuations in the earnings, or changes to their family circumstances. These trade-offs are inevitable, and so it is important that those proposing reforms are up front about their existence, as well as acknowledging – as we have tried to in this note – the different policy goals that lie behind the various policy proposals.

These trade-offs also apply to other potential reforms that we have not costed explicitly. For example, one of the wholescale reforms that has been discussed a lot since the crisis

50 We are deliberately focusing on support for low-income households with children, as that is where we think the pandemic has shown the strain of our current system. But the past decade has also seen the steady increase in the means-testing of Child Benefit, to the point where it now (just) affects some basic-rate taxpayers. Making Child Benefit universal again would cost £3 billion in 2024-25, and increasing the threshold for the means-test so that it is at the same real value as it was when it was introduced would put it at £60,000 in 2024-25 at a cost of £850 million.

51 M Brewer, M Costa Dias and J Shaw, Lifetime inequality and redistribution, IFS WP12/23.

hit is a Universal Basic Income (UBI). There are many different variants of a UBI, not all with the same underlying goals, but it is useful to consider what the crisis has told us about the advantages of a UBI. Certainly, a UBI would have helped address some of the limitations that were highlighted in our Lesson 6: a UBI should have ensured that no one was excluded entirely from all forms of support (i.e. from the benefit system, the JRS or the SEISS), and that everyone would have had some income to draw on when self-isolating. These are real upsides. But a UBI would have done little or nothing towards providing more earnings-replacement than is achieved by our existing JSA and UC, it would not have performed a better job than the current system at reflecting the variation in need across different households, and it is unlikely that a UBI could have done much to help ensure that incomes at the bottom are adequate. These limitations reflect the key principles behind most UBI schemes – their universality means that it is difficult to tailor support to the circumstances of particular households, and without doing that, the cost of providing support that even matches what is done by our existing social security system becomes prohibitive.[52]

Likewise, we do not claim that these are the only aspects of our social security system that need to be looked at. Any comprehensive assessment of where our social security system should go next would want to consider the future of Child Benefit; whether our means-tested benefits should take into account people's holdings of savings; the level of support provided to full-time carers; and whether back-to-work job support provided by Jobcentre Plus, or on the Restart programme, gives sufficient weight to retraining as well as job search support. It should also reflect whether shifts in patterns of employment, including more self-employment and more people being both employees and self-employed, have challenged or strained our existing social security mechanisms, and whether there is a growing share of workers who have difficulties realising not just their labour market rights but also their social security rights. Ultimately, the order in which these many important issues are tackled will boil down to political priorities.

Conclusion

It is vital that we learn the lessons of the past 12 months, a period in which policy makers faced a huge challenge, and experimented on an unprecedented scale with the UK's approach to social security.

As the country starts to emerge out of the immediate public health crisis – with record levels of foodbank usage, unemployment still to reach its peak, and reports of growing arrears among benefit recipients – the argument for prioritising better meeting families'

52 See the excellent discussion in L Martinelli, Assessing the Case for a Universal Basic Income in the UK, IPR Policy Brief, September 2017, or J De Henau, S Himmelweit & S Reis, Modelling Universal Basic Income using UKMOD, EUROMOD Working Paper EM 05/21, April 2021.

immediate needs, raising basic levels of support and tackling destitution and poverty is overwhelming. That is the most urgent task.

But it is also hard to review the experience of the past year and conclude that this should be the only task. The crisis has shown that a large swathe of society can face shocks that they would never anticipate, and could never insure themselves against. Pandemics on the scale of Covid-19 are, of course, highly exceptional, but the threat of real economic insecurity for households certainly is not. There may be more of it in the decade ahead, as the UK reacts to its new trading status outside the EU, decarbonises its economy, and adjusts to technological change.

The core lesson from the crisis is that the UK's welfare state is not well set up for insuring households against risks, so it's essential that we seek to learn from the extraordinary – and largely successful – experiment in wage protection that we've undertaken over the past year.

And we should not characterise the way ahead for social security reform as a binary choice between supporting those with the least resources or backing a new Bismarckian insurance to help better-off employees ease their way between jobs. When it comes to providing earnings replacement for those too ill to work, for example, the crisis has underlined our long-standing failure to provide any help at all to the two million lowest-paid workers. It is perfectly possible to combine a degree of wage protection for all in the event of unemployment, alongside a more generous safety net, and one better aligned with households' needs, if we so wish. And there is little reason to think that either of these directions for reform would be at odds with the UK's flexible labour market – indeed, there are good reasons to think that they would enhance it.

There are very few upsides to what has happened over the past year but one of them is that it has reminded us of the extent to which purposeful public policy can ensure greater economic security for families. Putting this lesson into practice as we return to more normal times will mean devoting more money to the social security system. Now is the right time to start talking about these and other choices – and whether we are willing to pay for them.

Annex

This annex sets out our methodology and approach for producing the costings listed in this note.

Earnings-contingent benefit

We base this costing on several figures derived from the Labour Force Survey (LFS), including the longitudinal element.

- We use four quarters of LFS data spanning 2019-20 to estimate the costs. In that year there were on average 1,300,000 unemployed individuals of which 800,000 had been unemployed for six months or less; and 600,000 for three months or less. However, we limit the scope only to those who were recently previously employed, and on this basis in 2019-20 there were 330,000 in work at some point in the previous six months, and 170,000 in the previous three months. We also exclude individuals who voluntarily left their previous job, leaving 200,000 who were in work in the previous six months, and 100,000 in the previous three months.[53]
- Using the longitudinal LFS we estimate 50 per cent of these individuals had previously worked in the same job for 12 months.[54] To estimate the average earnings-related benefit payable, we take 80 per cent of the average gross wage of these individuals, after wages have been capped at £3,125 per month (giving a maximum monthly payment of £2,500).[55]

From these figures we derive the £1.7 billion cost for a scheme for unemployed persons who left a job less than six months ago and worked for at least 12 months previously. Limiting the scheme to pay earnings for three months instead of six reduces the cost to £0.9 billion. We estimate the cost during the financial crisis using 2009 LFS data, calculating a cost of £6.5 billion (payable for six months) or £3.3 billion (payable for three months). These figures are also in 2024-25 earnings terms for an individual who has worked for 12 months previously.

We have not modelled any behavioural responses that might occur as a result of having more generous unemployment benefit, in particular that individuals would turn down lower paid work after losing a higher paid job. It is also likely that contributions-based Jobseeker's Allowance would be abolished under this proposal (as in almost all cases the new scheme will be more

53 This data is counter to the fairly quick off-flow from unemployment that ONS labour market stats show. However, we are measuring time since last work as our duration measure, and individuals with periods of inactivity between their last job and unemployment explain this difference. As we are costing an unemployment benefit we are only interested in people who are able to and looking for work.
54 Sample sizes mean we have to restrict our analysis to individuals who have been unemployed for less than three months, and generalise for those who are unemployed for longer. It is also possible that some individuals had multiple overlapping jobs prior in this period which the survey does not measure.
55 All earnings are uprated to 2024-25 terms using average wage forecasts produced by the OBR, and we calculate the net cost to Government after Income Tax and National Insurance contributions.

generous), which will reduce all costs by £150 million in 2024-25 (although this would also be greater during a recession). We have not assumed any offsetting reduction in spending on means-tested benefits, and we have also not adjusted the numbers to account for those receiving redundancy pay, who, in the LFS data, account for around 6 per cent of the eligible unemployed.

Improved Statutory Sick Pay

Our costing of expanding and reforming Statutory Sick Pay is based on an analysis of employee pay data from the Annual Survey of Hours and Earnings, the average number of sick days according to the ONS, and the distribution of sickness duration according to previous research.[56] We have ignored any possible behavioural effects of higher sick pay resulting in longer absences from work. We assume the government would fund 60 per cent of the total costs of the scheme, with the remainder being paid by the employer.

We cost the scheme as paying 80 per cent of employee's earnings up to a cap of £204 per week, costing the government £3.1 billion in 2024-25. It would be payable to all employees (with no minimum earnings threshold) and be payable, as now, for a maximum of six months.

Other changes to benefit generosity

We have calculated these costs using the IPPR tax and benefit model.

We cost maintaining the £20 per week boost to UC standard allowances in 2024-25 as £7.3 billion per year in a modelled world where UC is fully rolled out.[57] We also model a further increase in the standard allowances by an extra 10 and 25 percent bringing the total uprating cost to £11.8 billion and £18.7 billion in total respectively. Increasing the basic elements of contributory-based benefits by the same amounts as well raises the costs to: £7.6 billion for the £20 per week boost, £12.1 billion for £20 per week plus a further 10 per cent and £19.2 billion for the £20 per week boost plus a further 25 per cent.

We also cost: the ending of the two-child limit; ending of the bedroom tax; increasing the standard allowance for young single parents to the main adult rate; maintaining Local Housing Allowance rate at the 30th percentile of local rents; and, the ending of the benefit cap; as totalling £7.8 billion in 2024-25.[58] In addition, increasing child elements of UC by £5 per week would cost a further £1.4 billion per year.[59]

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56 We base our analysis on sick days taken in 2018, ignoring any long-term Covid-19 effect for 2024-25, as from: ONS, Sickness absence in the UK labour market: 2018. We also use a distribution of sick days in table A.6 from: Health and wellbeing at work: a survey of employees, 2014, Department for Work and Pensions, June 2015.

57 For this reason, our cost effectively includes the cost of increasing so-called legacy benefits by the same amount and does not depend on the roll-out schedule of UC.

58 Removing the young person rates in UC altogether would cost £950 million in 2024-25.

59 Although the LHA levels reverted to the 30th percentile in 2020-21, current policy is that they remain frozen beyond then. As our costing is for 2024-25, we model keeping rates at the 30th percentile as a cost.

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For more information on this report, contact:

Mike Brewer
Chief Economist

Resolution Foundation, 2 Queen Anne's Gate , London, SW1H 9AA

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