Social (in)security: Reforming the UK’s social safety net

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SUMMARY

1. The concept behind universal credit (UC) – that integrating working-age benefits would lead to a simpler, less bureaucratic system – was once supported by broad political consensus. However, the resulting policy and its implementation has alienated many, with universal credit’s misplaced attempt to mimic the workplace through a monthly assessment and payment that bears no relation to the way those on low incomes are paid, and an array of design features that seem designed to punish rather than support. For too many, it is a tightrope over poverty, not a social safety net.

2. It did not help that it was introduced alongside some of the most severe cuts the welfare system has seen. The hardship and distress experienced by many since the introduction of austerity in 2010 and the welfare reforms of 2015 (the benefit cap, two-child limit and benefits freeze) have made this a painful chapter in the history of the UK’s social security system. Having declined significantly during the first decade of this century, poverty is now growing again, particularly among pensioners, children and those in-work.

3. While the Conservative government has held steadfast to its flagship policy, the Labour party has now committed to ‘scrapping’ universal credit, while the Liberal Democrats have said they will fix the problems with UC and ‘construct a new benefits system’ which provides dignity and respect. The SNP have also said the system should be ‘radically reformed’.

4. This is the first of several papers from IPPR’s Fairer Welfare programme which will answer the question: ‘What succeeds universal credit?’ In this first paper, we argue for greater investment in our social security system and for social security payments to be based, in future, on the amount needed for a basic minimum standard of living.

5. We step back to ask whether any social security system could truly be effective when its funding is at such an all-time low. When unemployment benefit was first introduced in 1948, it was equivalent to 20 per cent of average weekly earnings. Since then, the real value of today’s equivalent – the universal credit standard allowance – has fallen to 12.5 per cent of average earnings, following years of benefits growing more slowly than wages and the recent impact of the benefits freeze.

6. The real value of working-age benefits has remained relatively constant since the 1990s. It was set at £74.03 when jobseeker’s allowance was introduced in 1996, and £71.90 today under universal credit, with a peak of £78.80 in 2009 following the financial crisis. In other words, the calculation of benefit levels has always been based on historical precedent, rather than any independent assessment of what is needed to afford the basic goods and services to get by.
7. While keeping social security payments at or below subsistence levels combined with strong sanctions has been seen as providing a strong incentive to work, our analysis suggests this is a false economy. People need a degree of financial security in order to be able to make choices and stabilise themselves and their families in order to secure and maintain work. We also argue that investing in social security is not the ‘constraint’ on economic growth it is sometimes presented as: there is increasing evidence that it is beneficial for growth, both on its own terms and given the negative link between inequality and economic growth.

8. Looking ahead to the next decade, we make recommendations to address what we call the ‘security’ deficit at the heart of our society – the prevalence of low incomes, precarity, debt and destitution. Ahead of the general election, we are calling on political parties to reverse the impact of the benefits freeze and invest in the social security system by:

- **removing the benefit cap at a cost of £295 million**
- **reversing the impact of austerity measures in either of the following ways:**
  - removing the ‘two-child limit’ and partially reversing the benefit freeze at a total cost of £3.8 billion
  - OR
  - removing the ‘two-child limit’ and fully reversing the benefit freeze at a total cost of £5.6 billion
- **lowering the universal credit taper rate and increasing work allowances, including introducing new work allowances for second earners and single parents who have been unfairly penalised by universal credit – at a cost of £2.5 billion.**

We find that this is a more progressive and cost-effective way of supporting low earners than through the tax system. The latest proposal for this is raising the threshold for national insurance contributions from the current £8,632 to offer more tax relief for low earners. However, while the emergency funding package we propose for UC including a full reversal of the benefit freeze would raise average incomes for households in the bottom half of the income distribution by 4.8 per cent, raising national insurance contributions to £12,500 in line with the personal tax allowance would only increase incomes for the same households by 1.2 per cent – and at a higher cost (£10 billion).

9. We also recommend a package of reforms to correct some of the most damaging features of universal credit, including **reducing the assessment period for UC from one month to one week; cutting the initial wait for UC from five to two weeks; introducing a three-month ‘breathing period’ before debt deductions are made to UC payments and extending the debt repayment period to 24 months.**
lowering the cap to 20 per cent; limiting the severity of sanctions; and sparing the most vulnerable from sanctions altogether.

10. The lessons of the last 10 years of austerity must be learned. It should not be possible for any future government to so easily hold the social security system to ransom again and without any real institutional resistance. We therefore propose that:

• a new independent body, the ‘Minimum Income Commission’ (modelled on the Low Pay Commission) should be set up to advise government on the calculation and uprating of social security payments

• the first act of the Minimum Income Commission should be to advise on options for calculating social security payments in line with the minimum income standard (MIS), or a preferred alternative, by the end of the next parliament.

We suggest a goal of raising the baseline social security payment (the UC standard allowance) to reach 30 per cent of the MIS value by the end of the decade, up from the current 20 per cent. This would require the standard allowance to rise by 1 per cent per annum as a proportion of the MIS. By 2023/24, when UC is fully rolled out, this would represent an average increase in the standard allowance for single people over 25 of 6.4 per cent, somewhat higher than average inflation.

11. The higher level of funding required is ambitious yet feasible. In our paper, *There is an alternative: Ending austerity in the UK*, we argued for the creation of an ‘investment state’ in the UK, by bringing social spending in line with comparable European countries to 48 per cent of GDP up from the current 41 per cent. This would allow for £46 billion additional spending by the end of the next parliament and would be funded in part by higher borrowing, alongside progressive taxation policies, such as taxing wealth the same as income, abolishing inheritance tax and introducing a gift tax and increasing corporation tax.

12. This is at the heart of our vision for a progressive social security in the 2020s. Fundamentally it is a commitment by the state to ensure that everyone achieves a basic minimum standard of living. This includes enough income to live on but also access to the basic goods and services – such as housing, an education and healthcare – needed for a good life. The next paper on social security from our *Fairer Welfare* programme will set out the case for a 'living standards guarantee' to replace universal credit, which will bring together a comprehensive social security system, strong labour market institutions and universal public services to help deliver prosperity and justice.
INTRODUCTION

The UK has experienced a decade of austerity. While this has not resulted in a dramatic decrease in public spending in absolute terms – it has remained stable at around £800 billion (Quilter-Pinner and Hochlaf 2019) – it does represent the longest pause in real-terms spending growth on record. Moreover, with the UK’s population continuing to grow, spending per head has fallen, and is set to be 3.9 per cent lower in real terms by 2021/22 than it was in 2010/11 (ibid). Likewise, as a share of GDP, spending has fallen from 47 per cent to 40 per cent.

The impact of these spending cuts has not been shared equally among government priorities and groups of people. Notably, successive governments have chosen to protect spending on the NHS and international development, while other priorities including the Department of Work and Pensions (DWP), have been disproportionately hit (figure 1). Within DWP, spending on older people have been largely protected while children’s and working-age benefits have been cut. By 2021, £37 billion less will be spent on working-age social security compared with 2010, despite rising prices and living costs (Butler 2018).

FIGURE 1

While some areas of government have been protected, others, including the DWP, have faced significant cuts

*Cumulative real terms change in departmental spending, 2013–19*

This reduction in spending on social security has occurred at the same time as fundamental reform to how working age benefits operate in the UK, with the introduction of universal credit (UC). This new benefit – introduced by the Coalition government, and developed further by subsequent Conservative
governments – replaced six means-tested benefits for working-age households: jobseeker’s allowance, income support, housing benefit, employment and support allowance, working tax credit and child tax credit (legacy benefits).

 Has UC delivered on its objectives?
The aims of UC were to encourage more people into work; and simplify the system, thereby reducing fraud, error, confusion and administration costs. Proponents of UC claim that it has succeeded in achieving these objectives citing record levels of employment as the main evidence.

However, it is far from clear that this is the result of UC, with the National Audit Office indicating that there is doubt over whether it will ever be possible for the government to measure the impact on employment (NAO 2018). Moreover, across a whole host of other metrics, social indicators show that our welfare system is failing to deliver as we would expect it to. Having declined significantly during the first decade of the century, poverty is now growing again, particularly amongst pensioners, children and those in-work.

Many, such as the architects of UC, the Centre for Social Justice, attribute this not to UC itself, but to the cuts in welfare spending that were introduced at the same time. They argue that all that is needed is ‘more fuel in the tank’. The requirement for more investment in UC is undoubtedly true. But the reality is that UC needs a more fundamental programme of re-engineering. This is because some of the principles that underpin it – and any number of core design features – are fundamentally misconceived.

The ability of any benefits system to reduce poverty is dependent on take-up, which is in turn influenced by ease of use and trust. The introduction of universal credit has if anything increased the sense of complexity and stigma associated with the benefits system. Levels of trust in universal credit are dangerously low in many communities in the UK, with 38 per cent of the population believing it to be unfair and 42 per cent of people from working class backgrounds opposing its introduction (Smith 2018). This will limit its ability to achieve progressive goals.

Simplicity and fairness were intended as hallmarks of the system, but its inflexibility has left some families struggling with financial problems. The monthly assessment periods mean that a slight change in circumstance, such as an early wage payment before Christmas, can suffer arbitrary income shocks which can cause financial difficulties and contributed to a 17 per cent increase in underpayments in 2018/19 (Tucker and Norris 2018). Shortfalls in income as a result of the systems design are pushing people into debt, with investigations finding UC claimants are “six times more likely to fall into rent arrears” (Jayanetti and Bulman 2019).

Another key argument for reform was the need to provide people with greater incentives to work. This has been partially been achieved through changes that allow people to retain more of their earned income. However, analysis finds that overall financial incentives to work have seen little improvement under universal credit (Finch et al 2015).
Clear incentives to work under UC have been achieved in part by imposing strong sanctions and reducing payment levels relative to wages. However, the evidence is increasingly clear that this is too simplistic. Recent evidence suggests that people need security in order to be able to make choices and take risks, and they respond to support and relationships as much, if not more, as they do financial incentives (Sheehy-Skeffington J and Rea J 2017).

While some claim that UC has started to deliver on these objectives (see information box), the evidence is increasingly clear that the cuts to the social security system in the UK, combined with these changes to the benefits system, are a key contributing factor in the rise of what we at IPPR have called the ‘security deficit’ facing people in the UK. This ‘security deficit’ is defined by the following.

- **Low incomes**: Poverty is on the rise in the UK with 30 per cent of children (up from 27 per cent in 2010) and 16 per cent of pensioners (up from 14 per cent in 2010) (DWP 2019) below the poverty line. This is no-longer just a problem facing those who are unable to work. Quite the opposite: more than half of all people in poverty now live in a working family (Bourquin et al 2019). This is the result of changes in our economy, notably the polarisation of the jobs market and flatlining productivity which has translated in wage stagnation since the financial crisis (Tily 2018). But cuts to the benefits system have also contributed.

- **Precarity**: Volatility in income is also a significant challenge facing people in the UK. This particularly impacts on those who are self-employed, on zero hours contracts or working multiple jobs. This is concerning because these three employment arrangements have become more common in recent years. However, volatility in wages also impacts on those with full-time jobs: four in 10 people with a ‘steady job’ have volatile pay (a gain or loss of more than 5 per cent) in six or more months of the year (Tomlinson 2018).\(^1\) Regardless of job status, variations in income – particularly downward volatility – are more frequent amongst those on low incomes (ibid).

- **Debt**: The UK has experienced consistent growth in unsecured personal debt – bank loans, personal loans, credit cards, and student loan – over recent decades.\(^2\) According to the TUC, in the first quarter of 2019, unsecured debt per household hit a record high of £15,880, up by £1,160 on the previous year (Collinson 2019).\(^3\) This is largely the result of wages failing to keep up with the cost of living in the UK.

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\(^2\) This is debt not backed by an asset so excludes mortgages.

The majority of households with unsecured debt (61 per cent) describe repayments as a burden with many struggling to repay debt.

- **Destitution:** As a result of the trends set out above a growing number of people are forced to go without the basic necessities needed for a good life. More than a million people are now forced to rely on foodbanks to feed themselves and their families (Trussell Trust 2019). There has been a shocking increase in homelessness, with street homeless up 165 per cent since 2010 (Homeless Link 2019)\(^4\) and similarly stark increases in temporary accommodation.

The emergence of the ‘security deficit’ has been driven by a range of factors, notably both globalisation and technology which have both increased the risks faced by people in the economy. But it also the result of what Professor Jacob Hacker has called the “great risk shift”. This has seen more of the responsibility for managing risks move from the state (in the form of welfare cuts and conditionality) and employers (in the form of the ‘gig economy’) to the individual (Hacker 2019). This has often been driven under the auspices of ‘personal responsibility’ or ‘autonomy’ over working patterns, but has in fact been about increasing profits and cutting taxes.

But this approach fails to recognise that the circumstances that people are born into greatly impacts on the choices people make (Mounk 2017). Likewise, many of these risks are determined by collective forces that the individual has little control over (ibid). As such, we have argued previously that through a universal offer of public services and social security, the state should ensure that everyone achieves a good minimum standard of living (Quilter-Pinner and Hochlof 2019). This should include enough income to live, and access to the basic goods and services needed for a good life, such as housing, an education and healthcare.

Furthermore, it is also true that creating a more complete social safety net is the most efficient way of managing these challenges. This is because insurance transforms what could be devastating individual misfortunes – sickness, injury, disability, unemployment, old age – into shared problems that are manageable. This is because the unexpected variation faced by the individual as a result of these risks declines sharply when distributed amongst larger numbers of people. By making this insurance **social** – by compelling all citizens to be part of the risk pool – that risk is spread more evenly with even those on low incomes benefitting.

Furthermore, the case for investing more in social security is not just about social justice – it is about economic prosperity too. While historically economic theory has claimed that more social spending is a constraint on economic growth (Bergh and Henrekson 2011), there is growing evidence suggesting that this is not a universal rule. Investment in ‘social infrastructure’ is an investment like any other, with an economic return which can drive improvements in growth. This is often the case for public services such as childcare and education, but a

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recent IMF study suggests that investments in social security may be beneficial for growth as well (given growing evidence of the negative link between inequality and growth) (Ostry et al 2014).

On this basis, this paper will argue that it is time to embrace a more progressive vision of social security in the 21st century. This would be underpinned by five key principles (see information box below) but, fundamentally, it would recognise that, in the world’s fifth richest country, a basic minimum standard of living should be a foundation for citizenship. This idea must sit at the heart of the social security system.

**Five principles of a progressive social security system**

1. Everyone is entitled to a basic minimum standard of living as a right of citizenship in the UK.

2. Everyone has the responsibility to pay into and the ability to draw on the social security system at some point in their life.

3. The aim of social security should be more than just getting by, it should enable people to fulfil their potential and flourish.

4. Payments and support should be built around the individual and their circumstances - giving them both ‘voice and choice’.

5. People respond to support, trust and relationships – which should be at the heart of the system – rather than just incentives.
WHAT IS WRONG WITH UNIVERSAL CREDIT?

The ‘security deficit’ we have identified suggests there are fundamental problems with our social security system. Not only are the key problems we point to – of low income, precarity, debt and destitution – not sufficiently resolved by our social security system, they are in too many respects exacerbated or even created by it.

Some of the problems we highlight with universal credit below are design flaws that can be corrected with minimal upheaval. However, others relate more to the fundamental principles that have underpinned universal credit from the start.

Key among these is the insistence on monthly payments in arrears and monthly assessment. Because some people’s earnings fluctuate from month to month, this leaves some families unable to predict how much they will receive in benefits each month, making budgeting difficult and forcing some into destitution. The justification for the monthly assessments/payments is that it more closely reflects the world of work. However, this is not the case for the majority of claimants who are paid weekly or fortnightly, and as such the system is out of step with how people are used to receiving income and budgeting for costs.

Improving incentives to work was originally of the key aims of universal credit, by encouraging more people into work and smoothing the transition between benefits system and earnings. In practice, significant cuts to in-work benefits have meant that universal credit does little to improve financial incentives to work. Not every individual is influenced by financial incentives alone, but certain groups like single parents and those with a disability or health condition are highly responsive to knowing how much better off they are in work.

Part of the solution is about the generosity of the system as a whole and this is something we turn to in the next chapter. But it is also about the way the system is designed, so that certain groups, such as second earners and single parents, lose out because of decisions that were made about the way UC is designed. For example, the absence of a ‘second earner’ work allowance for couples can deter potential second earners (often women) from working. And while single parents face a greater likelihood of childcare costs and poor work incentives their work allowance is the same as for the main earner in a couple, which contributes to higher poverty rates for this group.

Finally, the five-week wait for universal credit has received much attention and is indeed responsible for some of the problems we identify as part of the ‘security deficit’. But given that a loan is available to cover this initial period, for many the greater problem (which has received much less attention) are the debt deductions made from the first UC payment onwards, which can be worth up to 40 per cent of the value of the award. Given the inadequate amount many are

receiving in the first place, this is arguably the greatest ‘hidden’ cause of financial distress, debt and destitution universal credit is responsible for.

We need to restructure our social security system as we set out below and in subsequent chapters in a way that goes far beyond ‘tweaks’ to the existing system.

Several of the changes we argue for below are so fundamental that the system will no longer be recognisable as the policy introduced in 2013. In particular, it is not yet clear how the financial volatility and instability introduced by integrating out-of-work benefits with the tax credit system can be resolved within the current system. It is increasingly clear that the integration of six working age benefits has not resulted in the simplicity many expected and hoped for. Unless fundamental issues such as this can be resolved, it should not be assumed that universal credit and its underlying IT infrastructure can survive intact.

In the subsequent chapters we argue that our goal for social security should be to move away from a system that provides minimal protection against poverty towards one which has this at its core, as well as helping all those who can to move into good quality work and progress. However, as an immediate priority, the most damaging design features of the universal credit system should be reformed. In summary these are:

- **five-week wait**: reducing the assessment period from one month to one week, reducing overall wait to two weeks

- **debt**: reducing financial distress by introducing a three-month ‘breathing period’ before debt deductions are made from UC payments and thereafter extending out debt repayment period to 24 months, effectively reducing the cap on debt deductions from 40 to 20 per cent.

- **lack of choice over payments**: introducing split (50:50) payments as the default option and introducing a primary carer test for additional payments such as the child element

- **sanctions and conditionality**: as a minimum the severity of sanctions should be reduced with greater onus on work coaches to offer support before a sanction is made, and the most vulnerable should be spared sanctions altogether

- **removing the two-child limit and the benefits cap**.

**Five-week wait**

UC is a monthly payment in arrears. This means new claimants currently wait a minimum of five weeks from the point of application to receiving their first payment, with the first week serving as an assessment period. The wait for income is in fact often longer (‘12-week wait’) because people often delay making their claim. Financial distress during this waiting period forces many applicants to receive an advance from the DWP which they then pay back over
the next 12 months through deductions from their benefit, alongside other debts (see below).

We propose that the assessment period under UC should be reduced from four weeks to one week, which would reduce the overall wait for first UC payment to two weeks. Payments should then subsequently be made on a fortnightly basis as is currently the case in Scotland. An advance would still be available to cover the first two weeks between a claim being made and a first payment received.

Moving to a weekly assessment period would bring the waiting period more in line with that for JSA and would reduce the length of time needed to be covered by an advance. However as an interim measure, due to the length of time it could take to implement a weekly assessment, we propose that a first payment should be made at two weeks, estimated after the first two weeks (and then adjusted if necessary after five weeks with the balance of the award paid).

And until either of these measures can be put in place, a day one option would be to reduce the impact of debt build-up from the advance by converting this into a grant for the most vulnerable. This could be administered retrospectively to reduce the risk of fraud (for example, all people given an advance and debt foregone for the most vulnerable upon receipt of full entitlement).

Assessing over a shorter time frame (two weeks) should not compromise the ability to accurately assess income and expenditure. A real-time information system provides continuous updates on financial status which should allow for adjustments to be made. For the same reason, any increase in fraud is unlikely and overall liability could be reduced given the lower level of the advance needed to cover the three weeks wait.

Changing the assessment period to a week and subsequent fortnightly payments would represent a fundamental challenge to one of the core design principles of UC and would require a re-build of the system. It is therefore unlikely that this could be introduced until towards the end of the next parliament and it would likely require primary legislation. Introducing a payment after two weeks based on an estimated award while the monthly assessment period was still in place would have a similar effect and could potentially be introduced more quickly.

The cost of moving to an earlier assessment period has been estimated as a one-off capital cost outlay of £2.5 billion.\textsuperscript{6} While this is high, the five-week wait is one of the key issues causing stigma around the system and therefore lowering take-up. Some small savings would likely be achieved through lower cost of advances to cover a three-week period. We estimate that converting the advance into a grant for the most vulnerable as an interim measure would cost between £0.3 billion and £1.3 billion depending on how it was formulated.

Debt
Deductions are made to the first UC payment onwards for pre-existing debts including unpaid utility bills, rent arrears, tax credit debt, and council tax debt and court fines, alongside the advance where this has been taken up. Deductions of 40 per cent of the standard allowance (soon to be 30 per cent) are allowed with deductions made to over a quarter of UC payments. Even after four months of being on UC, 44 per cent of claimants are experiencing financial difficulties,7 with some of the most vulnerable UC claimants with people frequently going further into debt or becoming reliant on food banks or other charitable support to survive. This can also severely hamper any efforts to search for work.

The practice of deducting debts (including the advance repayments) from the first UC payment onwards should be stopped as this hugely compromises the ability of the benefit to provide an adequate safety net, particularly at existing funding levels.

We propose that a three-month ‘breathing space’ should be introduced before deductions are made from the standard allowance. Repayments of all debts after the three months should be extended over a longer period – from the current 12 months to 24 months. This would in effect reduce the cap on debt repayments to a maximum of 20 per cent of the standard allowance. It should also be possible for work coaches to ‘pause’ any debt deductions if this is driving people into further debt and financial hardship. Finally, there should be greater flexibility around being able to backdate claims, to at least a month in reasonable circumstances, thereby bringing UC into line with the legacy benefits system.

The costs of introducing the proposed changes on the treatment of debt will be largely administrative. Extending the debt repayment period may lead to lower recuperation of debt given the high rate of churn (30–40 per cent of claimants leave UC without paying off all the advance for example) but this is in any case recouped at a later date (for example, via pension payments).

Lack of choice over payments
UC payments are paid on a household rather than individual basis. For couples this means that one partner is nominated to receive the payment, which in some circumstances can deprive the other individual of financial independence. While there are special circumstances allowing more flexibility over the method and frequency of payment, these are rarely used in England and Wales.

The Scottish government has already moved towards making changes to the rigid way in which UC payments are made. ‘Scottish Choices’ provides claimants with the option to be paid more frequently and to have their housing element

paid directly to their landlord. Scotland is also looking to introduce split payments as the default option for joint claimants, however, it has yet to instigate this change.

In terms of frequency of payments, as above we recommend that payments should be made fortnightly. More frequent payment has proven popular in Scotland, with almost half of all claimants who are offered this choice accepting it.

For joint claimants, we recommend that a 50:50 split payment is introduced to ensure greater equality within the system. This should be the default, with an option to change back to a single payment in special circumstances. For couples with children we recommend that the standard allowance is split 50:50 but that additional payments such as a child element are paid to the nominated primary carer via a primary carer test as is the case in Scotland for certain benefits. The barriers to implementation are technical. The UC system is designed for payments to a single recipient and any adjustment will take time to implement and will increase administration costs for the DWP.

Sanctions and conditionality

Some claimants must take steps towards work, like actively looking for work and attending meetings at the Jobcentre, in order to receive benefits. When a claimant does not fulfil an agreed requirement, a sanction is applied. This means that their benefit is stopped or reduced for a period of time. The past two decades have seen sanctions-backed conditionality intensified and extended to encompass previously exempt groups such as disabled people, lone parents and, since 2013 under universal credit (UC), low-paid workers and their partners. The main aim of conditionality within the benefit system is to influence claimants’ behaviour by incentivising them to actively seek work and move off benefits. However, others have argued that it has also served to drive cuts in expenditure and reduce the legitimacy of the system.

The evidence in favour of conditionality is highly contested. Some international studies show that sanctions and conditionality can increase employment prospects (mainly in the short run), but others show no positive employment effect. Furthermore, there is also evidence even where there are positive employment outcomes that these are short-lived (precarious and low paid work). What is clear is that sanctions result in an increase hardship and distress. As a result, we recommend that – as a minimum – the balance between sanctions and support needs to change; the severity should be reduced (with clear warnings and communication ahead of a sanction); in order to impose a sanction work coaches must have evidence that they have fully engaged and offered support with any potential contributing issues; and the most vulnerable should be spared sanctions altogether.
Welfare reforms

The two-child limit

A two-child limit was imposed on the child element of UC that restricted benefits to only the first two children born (providing any more children were born after 6 April 2017). Larger households have been hit hard by this change, with an estimated 300,000 children expected to be pushed into poverty as a direct consequence of this policy, with a further million children expected to see their material circumstances worsen.

The two-child limit has had a wider impact on family incentives. For many parents, they will be unable to compensate for the loss of income through extra work, not only deterring people from finding work but also trapping families in poverty. This issue is compounded for non-working families facing the benefit cap. Family decisions, such as who children live with following separation or whether couples with children from previous relationships merge their families together are also adversely impacted by the two-child limit and may encourage decisions that are not in the best interest of the children involved.

We recommend that the two-child limit is removed. The limit has had a hugely negative impact on larger families and the burden has primarily on children with a substantial rise in the numbers of children living in poverty since the policy came into effect. Poverty during childhood negatively influences outcomes in later life, harming educational attainment, health and wellbeing and employment prospects. Removing the limit would bring the UK into line with other European countries, where restricting benefits for later children is a rarity.

According to our estimates, removing the two-child limit will cost £1.7 billion as of 2023/24 when the roll out of UC is expected to finish. The DWP has suggested that it would not be possible to implement this change until 2023/24. Primary legislation may also be required to enact the change.

The benefit cap

The benefit cap restricts the entitlement non-working families can receive. The total amount a household receives in benefits can no longer exceed the average earnings of a working household. Again, the intention was to ensure that it was always more profitable to work. The cap is set at £23,000 per year for families and £15,410 for single households living in greater London and less through the rest of country.

However, the cap has been deemed to harm more vulnerable families the most. Most households affected by the cap are not required to look for work. It has also been suggested that savings are re-purposed through local authorities to support capped claimants. Large families are particularly vulnerable to the implications of the benefit cap, which interacts with the two-child limit to exacerbate the issue of child poverty.

We recommend that benefit cap is removed. The projected cost of lifting the benefit cap was £295 million in 2018/19, based on official estimates, years (HoC 2019). The impact on relative poverty will be less noticeable than with the
removal of the two-child limit, as many of those impacted by the benefit cap were below the poverty line before its introduction. However, the fact that the benefit cap has disproportionately impacted those already living in poverty is a powerful argument in favour of lifting it and directing funds to help some of the most vulnerable and marginalised recipients of UC, including those with health conditions and disabilities. Like the removal of the two-child limit, this will require primary legislation to enact change.

Conclusion
Taken together, these changes would make a significant difference to people’s experience of our social security system and its ability to protect against precarity, debt and destitution.

However arguably the greatest impact of all will come from improving the generosity of the system. As we show in the next chapter, this would be a reasonable approach to take, given the falling real value of benefits in relation to average income, and the extent to which social security payments have fallen behind inflation following four years of the ‘benefits freeze’. In addition to this, improving the generosity of the system is relatively straightforward for any government to implement, compared with many of the changes above which as we have explained may require secondary legislation and could take years to put in place.
TOWARDS A SUSTAINABLE SOCIAL SECURITY SYSTEM

The hardship and distress experienced by many since the introduction of austerity in 2010 has made this a painful chapter in the history of the social security system. While the original blueprint for universal credit (CSJ 2009) would have seen the generosity of the benefits system increase, it became less generous than the system it replaced as key elements of the system were cut as it was brought in.

Then, in 2015, the Coalition government introduced swingeing welfare reforms such as the ‘two-child limit’ and ‘benefits cap’. The most severe of all was the ‘benefits freeze’. This meant that most in-work benefits would not be increased in line with inflation - whatever level it was to reach – between 2015/16 and 2019/2020. As the last few years have seen inflation rise, the impact of the ‘freeze’ on household incomes has been severe, especially for working families with children. An estimated 27 million people have been affected by the freeze, with 400,000 swept into poverty (Barnard 2019). According to our analysis, couples with children are £380 a year worse off than they would have been without benefits freeze.

This past decade has exposed several major problems with our social security system.

- The level of benefits is arbitrary in nature, in that it bears no relation to the level of income needed to live in dignity and security, and can therefore be cut at will.

- Those reliant on the benefits system are highly vulnerable to experiencing such cuts to their living standards as they have no widely-recognised lobby, political constituency or consumer group to protest on their behalf.

- There are almost no institutional constraints to guard against deep and sustained cuts to the social security system, making it deeply vulnerable to the same treatment again.

The lessons from the past decade of austerity must be learned. It should not be possible for any future government to disregard the impact of the rising cost of living for those reliant on benefits on such a sustained basis. Quite clearly, government discretion is needed over social security spending as this represents such a sizeable proportion of overall government spending. And discretion will be needed, particularly during economic downturns when spending could be expected to rise.

However, we argue here that this should be balanced by concerns with ‘adequacy’ – the basic minimum required to live in security and dignity. We examine the role for new labour market institutions to regulate and advise on adequacy, learning from other recent successful examples.
The adequacy of social security transfers

The first payment of unemployment benefit (UB) was made in 1948 for those who were unemployed and actively seeking work. This was introduced at £1.30 per week in 1948, equivalent to £45.92 in today’s prices. In the early–mid 1960s, there was a sharp rise in the real value of unemployment benefit and it was soon uprated annually, keeping its real value relatively consistent over the following years. In 1996, unemployment benefits were replaced with jobseeker’s allowance (JSA), worth £74.03 in current prices per week. The real value of JSA peaked in 2009 at £78.80, following the financial crisis.

**FIGURE 2**


definition

JSA and its precursor, unemployment benefit (UB) have remained relatively constant in real terms since the 1990s

Weekly value of JSA/UB payments, 2018 prices

![Graph showing the weekly value of JSA/UB payments from 1986 to 2018](image)

**Source:** DWP Abstract of Statistics 2018

When first introduced in 1948, UB was equivalent to roughly 20 per cent of average median weekly earnings. Until its real value rose sharply in the 1960s and annual uprating was introduced, increases were arbitrary and sporadic. However, the legacy of the initial amount has persisted through further changes to the benefit system.

When jobseeker’s allowance was introduced in 1996, it was equivalent to an estimated 16 per cent of median average earnings. When UC was introduced in 2013, the standard allowance (the minimum monthly award someone receiving UC is entitled to) was set at £311.55 per month for a single person over the age

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8 This is based on the retail price index. While this measure is no longer typically used for calculating inflation, it is the only available estimate during this time period that helps us compare the value of unemployment benefit to today.

9 Based on the Consumer Price Index, which is the typical measure used today.
of 25, or £71.90 per week – an estimated **13.9 per cent** of median average earnings.

Since then the standard allowance for a single person over the age of 25 has risen to £317.82 or 73.30 per week. In real terms this is a decline of £16.23 per month for a UC claimant, and the standard allowance for this group has fallen to **12.5 per cent of median average median earnings**\(^{10}\).

Someone receiving the maximum standard allowance can only expect £3,813 per year, however this will invariably be topped up by the additional elements of universal credit or by wages. The average UC award was £650 per month in 2018, or £7,800 per year (DWP 2018). This is vastly lower than the recommended minimum income standard, the income deemed as necessary to live a reasonable lifestyle, which is set at £18,849 per year (MIS 2019).

In other words, the calculation of benefit levels has always been based on (arbitrary) precedent, rather than on any independent assessment of what is needed maintain an adequate basic income.

**The falling real value of out-of-work benefits**

Not only has the value of unemployment benefit remained relatively flat over the past quarter of a decade, it is falling behind the average median income. Despite continued slow increases in the real value of UB/JSA, its value relative to the median wage fell from 20 per cent in 1984 to 12.8 per cent as of 2018, reaching its lowest point in 2008 at 12.6 per cent.

**FIGURE 3**

The real value of JSA has fallen relative to earnings

*Value of UB/JSA as a percentage of median earnings*

![Graph showing the real value of JSA has fallen relative to earnings.](https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinhours/bulletins/annualsurveyofhoursandearnings/2019)

**Source:** DWP Abstract of Statistics 2018

\(^{10}\) Calculated based on the most recent estimates of the Average Weekly Median Earnings [https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinhours/bulletins/annualsurveyofhoursandearnings/2019](https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinhours/bulletins/annualsurveyofhoursandearnings/2019)
The growing gap between benefit levels and wages has been driven by the real value of benefits growing more slowly than wages in the years preceding the 2008 financial crisis and in recent years, due to the benefit freeze eroding the real value of benefits, while wage growth has returned. This in effect means that those reliant on social security payments have become increasingly excluded from mainstream society, with the basic goods and amenities needed to survive let alone thrive increasingly out of their grip.

It is striking that this relative decline in the value of out-of-work benefits has occurred with little real protest, opposition or even awareness. This contrasts markedly with the success of a labour market institution such as the minimum wage. Despite initial opposition that the minimum wage would burden businesses with higher costs and harm economic growth, it has proven to be a transformative policy that has benefited countless people on low incomes.

The minimum wage has risen faster than average earnings, reversing the previous trends for wages at the bottom to grow at a slower pace. The number of people paid the minimum wage has risen from 800,000 in 1999 to over 2 million as of 2018. Having risen from £3.61 at its inception in 1998 to £8.21 today, the value of the increase for a minimum wage employee has been over £5,000. Over this period it has also been found that the minimum wage has not had a negative impact on employment rates (LPC 2019).

In part, the success of the minimum wage has been a consequence of the introduction of the Low Pay Commission (LPC). The LPC, composed of experts, business leaders and union representatives, is responsible for analysing evidence and making recommendations on the rate at which the minimum wage should be set. As well as providing expertise, the LPC has been a strong and independent voice in public debate, for example contributing research based on impartial evidence and robustly defending the labour market institution where necessary. As such it is a useful model for those seeking to improve outcomes for the on the lowest incomes of all - social security claimants.

Reforms for a sustainable social security system
We have seen that social security payments since their introduction have been based not on any independent assessment of what is required to achieve a basic standard of living, but on arbitrary precedent. Recent welfare reforms have shown that as payments bear no relation to a calculation of the level of income needed to live in dignity and security, they can be cut at will and fall well behind inflation, coming up against little – if anything – in the way of institutional resistance.

This has resulted in a growing gap between social security payments and the median wage, with payments falling from 20 per cent of the value of the median wage in 1984 to 12.8 per cent as of 2018, with worrying consequences for levels of poverty, destitution and social cohesion.

No future government should be able to distort our social security system in the way governments over the past ten years have without – at the very least –
greater institutional resistance and public independent analysis of the impact on the living standards of the poorest in society.

We argue that the time has come for a more considered approach – one which calculates payments on the basis of what is necessary to afford the basic goods and services required for an adequate standard of living. We set out below how the social security system could ensure a higher minimum income by the end of the next decade. By minimum income we refer to the minimum amount anyone could expect to live on if they found themselves out of work, before any additional support was received for housing or to support with caring responsibilities, or a health condition or disability.

We also propose for year one of the next parliament an emergency funding package for working-age benefits to reverse their falling relative value and allow people to keep more of what they earn – thus helping to achieve one of the original aims of universal credit to ‘make work pay’.

Introducing an emergency funding package for working-age benefits in year one of the new parliament

UC Standard allowance

Despite the initial promise that UC would increase financial security, the standard allowance for those over 25 has fallen from £334 per month in 2013 to £318 per month in 2018. Combined with further cuts across the rest of the benefit system and added restrictions such as the benefit cap and two-child limit, this has had a severe impact on poverty rates. We estimate that by 2023/24 when UC has been fully rolled out, the lasting legacy of the ‘frozen’ standard allowance and child element will mean 200,000 more children will be in poverty, had the freeze not been implemented in the first place.

The end of the benefit freeze is not enough. We recommend either two ways to address this. The more ambitious recommendation would be that the value of both the Standard Allowance and child element of UC should be restored to where they would have been had the freeze not been implemented in the first place. The value of the changes is illustrated in the table below. Combined with the removal of the two-child limit, this policy would cost an estimated £5.6 billion by 2023/24.

An alternative recommendation is that at the very least there should be a partial reversal of the freeze, equivalent to halfway between where we estimate the Standard Allowance and child element will be and where it would be under a full reversal of the benefit freeze. This policy would go some way to reversing the damage of the freeze but at a lower cost of £3.8 billion by 2023/24.
### Taper rate and work allowances

In order to improve financial security for low earners we propose that adjustments are made to support those on in-work benefits to retain more of their income. The taper rate, currently set at 63 per cent should be reduced to 60 per cent.

To remove the ideological biases in the design of UC which reduce work incentives for women and single parents, we propose a series of changes to work allowances – the amount of money that can be earned through working before benefits are reduced. Currently the work allowance is available for those who look after children or qualifying young persons and those with limited capability for work. There are two rates for work allowance, with a higher level for those who do not receive support with housing costs. We recommend two changes.

- The first is that a second earner work allowance should be introduced equivalent to a working week of eight hours at the minimum wage. This would amount to £3,415 a year. At present, only one member of a couple can receive a work allowance. This will help ensure that partners of those in working households will have a greater incentive to enter the labour market and retain more of their earnings. We also suggest that the work allowance for couples be reviewed given the extra benefit and potential costs of the introduction of a second earner allowance.

- We also recommend that the current work allowance should be increased for single parents and people with limited capacity to work, so that it is higher than the work allowance for couples. Single parents or people with limited...
capacity to work do not benefit from a second earner allowance but may face higher costs to participate in the labour market. We therefore recommend that the work allowance is separated and the higher limit set at £6,830 a year for eligible single recipients (those with children or limited capacity to work), equivalent to 16 hours work a week at minimum wage.

- The combined cost of the changes to the taper rate and introduction of a second earners allowance and increased workers allowance for single parents is estimated to be £2.5 billion in 2023/24.

The full cost of our recommended emergency funding package with the full reversal of the benefit freeze is £8.4 billion a year by 2023/2024. It is estimated that there would be 600,000 fewer children in poverty at this time as a result of these changes. The main benefactors of these changes would be in the lower half of the income distribution. The bottom 10 per cent of households would be 9 per cent better off, after housing costs are taken into consideration.

Under a scenario where the benefit freeze is partially reversed, the total cost would be an estimated £6.5 billion by 2023/24. Such a policy would have a similar impact on child poverty, raising at least 500,000 children out of poverty. The bottom half of the income distribution would be 3.9 per cent better off under this scenario.

This stands in marked contrast to recent efforts to support low income households through the tax system. Since 2011, the personal allowance – the amount of earned income that is not subject to income tax – has risen considerably to £12,500, despite the fact that many low income households do not earn enough to benefit from this rise which has predominantly increased the incomes of wealthier households.

With speculation that the threshold of payment for national insurance contributions (NICs) should be raised to match the personal allowance, it is clear that this rhetoric remains prominent. However, IPPR analysis shows that this would raise the incomes of the top half of all households by 1.4 per cent, more than the 1 per cent that it would benefit the bottom half of the distribution.
FIGURES 4 and 5

Investing in the social security system is a far better way to help low-income households than further increases in tax free allowances

Impact of full IPPR welfare package vs increase in the NICs threshold to £12,500 on average weekly income by household income decile, after housing costs

Impact of partial IPPR welfare package vs increase in the NICs threshold to £12,500 on average weekly income by household income decile, after housing costs

Source: IPPR Tax Benefit Model
Not only is the IPPR welfare package more progressive than a change to the NICs threshold, but is also significantly cheaper, with the estimated lost tax revenue associated with the tax cut estimated at £10 billion. The evidence is clear. To support low income households, we must move away from relying on expensive tax cuts and turn towards restoring our welfare system to a level that is fit for the 21st century.

Establishing a higher minimum income by the end of the next parliament
The level of social security payments should be based on an assessment of adequacy rather than simply historical precedent, as is currently the case. We propose that the calculation of social security payment levels should be handed over to an independent body which would advise on both a new calculation and its uprating.

The Low Pay Commission provides a successful model for such a body. When it was introduced in 1998 the minimum wage was highly contested and divisive. It now enjoys broad political support and there has never been an occasion where secretaries of state under either Labour or the Conservatives have rejected their recommendation for level the adult minimum wage should be set at. This is in part due to the strong and objective evidence base it has established on the minimum wage, its robust independence and successful social partnership model.

The minimum wage is of course a very different institution to social security. Put simply, employers are responsible for paying the minimum wage, not government, and therefore we could expect less resistance to proposed increases. The ability to vary social security expenditure is by necessity part of any government’s armoury for responding to negative economic circumstances. Nevertheless, the experience of the past decade has shown that with no independent institutional assessment, scrutiny or robust defence of the adequacy of social security payments, future governments can and will reduce incomes for the poorest at will, regardless of the consequences.

Recommendation: a new independent body, the Minimum Income Commission, should be set up to advise government on the calculation and uprating of social security payments
The Minimum Income Commission (MIC) should have three key responsibilities:

1. providing objective evidence to government on the adequacy of social security payments in relation to both absolute and relative measures\(^{11}\)

\(^{11}\) Examples of the former being the minimum income standard or minimum wage, and of the latter median income.
2. advising government on a calculation for the adequacy of social security payments and how social security payments should be indexed in line with this in future

3. providing independent and robust scrutiny of government’s actions in relation to the adequacy of social security payments.

There is currently a non-statutory body responsible for providing impartial advice to government on social security issues – the Social Security Advisory Committee (SSAC). However, this advises more on matters of policy, does not play a high-profile public role in providing scrutiny of government actions and is not a permanently staffed organisation.

**Recommendation: MIC should advise on options for calculating social security payments in line with the Minimum Income Standard (or a preferred alternative) by the end of the next parliament**

In the 71 years since unemployment benefit was introduced, out of work social security payments have never been based on anything other than the level at which their precedent was set. We argue that the time has come for a more considered approach – one which calculates payments on the basis of what is necessary to afford the basic goods and services required for an adequate standard of living.

Given the integrated nature of our social security system under universal credit, this should initially be made for the standard allowance – the ‘baseline’ flat rate payment all claimants receive whether on in or out of work benefits. It is possible new calculations could also be made for the additional elements of universal credit, however here we take the standard allowance as our starting point.

There are a number of options that could be considered for calculating a basic minimum. We examine these below.

**State pension and the ‘triple lock’**

When first introduced in 1948, unemployment benefit was set equal to the state pension. Today the basic state pension is more than 70 per cent higher than the standard allowance someone will receive on universal credit. This is due to the State Pension receiving a more generous uprating over the last few decades. In the 1970s it was decided that to allow pensioners to share in the benefits of shared prosperity, uprating should be based on average wages. In 2010, the Coalition government introduced the ‘triple lock’, which guaranteed that pensions would rise based on the highest of the following measures – average earnings, CPI inflation or 2.5 per cent - ensuring that the real value of the basic state pension continued to grow.

By introducing a triple lock for working-age benefits, a continual increase in the real value of benefits would be guaranteed. However, the calculation would not be based on a measure of adequacy and as such it could be more vulnerable to
change in the future, particularly given the political nature of the measure. It also raises questions of sustainability which have been asked of the state pension system and which could leave the benefit system exposed to criticism, especially if we enter a period of high-inflation or a recession, which would rapidly raise the cost of the social security system.

**Minimum income standard (MIS)**

The MIS is calculated according to what the public think people need for an acceptable minimum standard of living. At present, it is estimated that the MIS for a single adult below the state pension age with no children is £18,849; for a working-age couple with no children, £25,499; and for a couple with two children in primary school, £40,272. The MIS has many advantages. It reflects the costs of what the public deem essential which may be missed in typical economic data sets. The negotiation aspect allows for different perspectives from people across the social spectrum. In short, it offers a deeper understanding of what adequacy means based on the views of the public.

However, a change in public attitudes has the potential to significantly alter the MIS. Despite this, over the last decade, the changes made to the MIS have been relatively small (Davis 2018).

**Minimum wage**

Since its inception, the minimum wage has ensured that hourly pay for the lowest paid has grown faster than average wage growth. It has played a vital role in supporting those on low incomes and is set to rise further still.

The minimum wage is an important protection for workers and given its consistent growth, establishing a link between working age benefits and the minimum wage would ensure that these were less likely to fall behind median average income. However, while the minimum wage has risen substantially in recent years, there is no guarantee of future increases. The existence of the Low Pay Commission to provide guidance on this matter offers some protection, but this remains a risk if the minimum wage fails to rise faster than inflation or stagnates.

The Minimum Income Commission should consider which of these options (or any others) is the most appropriate. Like the Low Pay Commission, it would be expected that the MIC would start fairly cautiously in the advice it gives government on payment levels. But, once consent had been widely secured, over a ten-year timescale the commission should be expected to act consistently to bring social security payments closer to an agreed level of adequacy – whether this is based on a triple lock, the MIS or the minimum wage.

**Calculating a higher minimum income**

The minimum income standard is possibly the best measure to use given its key purpose is to calculate what is required for an acceptable minimum standard of
living. At present, the MIS is set at £18,849 per year for a single person without children. The standard allowance provides £3,814 per year, an estimated 20 per cent of the MIS.

In order to bring the baseline social security payment closer to what is needed to help secure a basic minimum income, it should be possible by the end of the next decade for the standard allowance to reach 30 per cent of the MIS value of today.

This would require the standard allowance to rise 1 per cent per annum as a proportion of the MIS. By 2023/24 when UC is fully rolled out, this would represent an average increase in the standard allowance for single people over 25 of 6.4 per cent, substantially higher than average inflation. For this group we estimate that by 2023/24, the standard allowance would have risen from £3,813 to £4,889. This would mean an additional £3 billion in costs in that year. However, the gains would be concentrated at the bottom of the income distribution, raising the incomes of the bottom 10 per cent of households by 1.91 per cent.

This demonstrates how a minimum income could be established as part of the social security system by the end of the next decade by linking baseline social security payments to the minimum income standard (MIS). This is an ambitious target, but through re-defining the benefit system to pursue the MIS, rather than arbitrary levels, we can ensure that the social safety net comes closer towards what is needed to live in security and dignity.

Conclusion
The ‘security deficit’ we have identified— as characterised by low income, precarity, debt and destitution – is not simply unresolved by our social security system, but in too many respects exacerbated or even created by it. We have argued for a series of reforms to universal credit that will help ameliorate some of the worst features of its design.

However, as we conclude in section 2, it is not yet clear how some of the most damaging aspects of the policy – in particular the instability introduced by integrating out-of-work benefits with the tax credit system – can be resolved with universal credit and its underlying IT infrastructure surviving intact. Resolving this fundamental question will be a key focus of IPPR’s Fairer Welfare programme.

Whatever the future of universal credit, there is an urgent need to correct one of the fundamental flaws of the UK’s social security system since its inception: the failure to calculate payment levels on the basis of anything other than historical precedent.

As we have argued, because the level of social security payments is arbitrary in nature and bears no relation to the level of income needed to live in dignity and security, they are vulnerable to being cut at will.
We argue that at the heart of a vision for a progressive social security system should be a commitment by the state to ensure that everyone achieves a basic minimum standard of living. This includes enough income to live on but also access to the basic goods and services – such as housing, an education and healthcare – needed for a good life. We have therefore proposed that the calculation of social security payment levels should be handed over to an independent body – the minimum income commission – which would advise on both the introduction of a new higher minimum by the end of the next parliament and its uprating.

Our analysis demonstrates the effectiveness of the social security system as a means of improving the incomes of the poorest households in the country. Despite this, the last decade has seen an increasing commitment to the tax system as a preferential way to target poverty. While most working-age benefits were frozen, the personal allowance threshold – the amount you can earn before it is subject to income tax – has been repeatedly increased at a cost of almost £17 billion in foregone tax revenue. This is despite many low-income households failing to meet the threshold and there failing to benefit from the policy which has disproportionately flowed to the top half of households.

As our analysis has shown, raising the threshold for national insurance closer to that for the personal tax allowance would have a similarly regressive impact and would be similarly costly. Our package of proposals by contrast would overwhelmingly benefit the low earners and the poorest people in society. Taken together, these changes would make a significant difference to people’s experience of our social security system and its ability to protect against low income precarity, debt and destitution.

Taken together, these changes would help shift our social security system away from being a tightrope over poverty and towards being the social safety net we need, offering a route out of poverty and low income, precarity, debt and destitution.
REFERENCES


NOTES
The cost and impact of policy recommendations made in this briefing were calculated using the IPPR Tax Benefit Model. Assumes full-take up of benefits in base line and counterfactual scenarios. Our model does not calculate the impact of lifting the benefit cap. The cost estimate for this is based on current government estimates.

ABOUT IPPR
IPPR, the Institute for Public Policy Research, is the UK’s leading progressive think tank. We are an independent charitable organisation with our main office in London. IPPR North, IPPR’s dedicated think tank for the north of England, operates out of offices in Manchester and Newcastle, and IPPR Scotland, our dedicated think tank for Scotland, is based in Edinburgh.

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