Cuts to welfare spending

Posted on Wednesday 17th November 2010

Spending on social security benefits and tax credits – 'welfare' as it is increasingly known – represents £190 billion or around one third of government spending. When cuts in public spending are regarded as unavoidable, it is inevitable that welfare comes under pressure. The June 2010 Budget proposed measures that reduce spending by £11 billion, while the Comprehensive Spending Review (CSR) found another £7 billion of cuts. Radical reforms are on the horizon. There are ambitious plans to replace many benefits with a single 'Universal Credit' with high hopes that it will improve incentives to work and tackle fraud.
Discussion of these changes, and their effects, exposes the complex nature of welfare. Financial Times journalists covering the CSR in real time could only say, that there were 'lots of obscure changes to benefits': **http://blogs.ft.com/westminster/2010/10/the-spending-review-live-coverage/ (http://blogs.ft.com/westminster/2010/10/the-spending-review-live-coverage/)**

It is often assumed that benefits spending exists to transfer money from the better-off to the worse-off, implying that spending on those with higher incomes is somehow inefficient. The origins of the system, as reformed by Beveridge's report in 1942, are however of social insurance – the idea that workers pay into the system and receive benefits when they are unable to work owing to retirement, disability or unemployment. Beveridge's design was for a system covering everyone, mostly without means tests.

This feature remains clearest in benefits for those over the state pension age. Well over half of social security spending now goes to older people, and the largest component is the state pension – paid to all who have contributed, regardless of wealth or income. The sacrosanct nature of spending on older people (including new universal benefits like Winter Fuel Payments), necessarily means that any cuts to spending fall most heavily on those of working age. And the biggest recipients of benefits and tax credits, pensioners aside, are disabled people and families with children.

The cuts announced will curtail the comprehensiveness of the system, by denying benefits to those on higher incomes, weakening rights to contribution-based elements, placing caps on the total amounts of benefits payable, and restricting how much rent the system will meet. The largest savings come from lowering the rate at which benefits are increased each year, reducing most benefits compared to earnings levels over time. Some of the changes to in-work tax credits including a reduction in the childcare costs that may be met go directly against the aim of making work pay. For now, at least, the imperative has been to cut not to enhance incentives to work. There is only limited recognition of the interactions between social security and other policy areas – increasing the rents of social tenants closer to market levels inevitably leads to higher spending on Housing Benefit.

The countries that make the most progress in tackling poverty are those with the most universal systems. When means-testing is prominent, levels of benefits tend to be low, and often they go unclaimed. Political and popular support for such a system tends to be weak, making it vulnerable to further cuts. Already the impact of the CSR and budget falls, on the government's own figures, very hard on those on the lowest 10% of incomes (CSR chart B.5), with the richest 10% appearing to fare worse only as a result of pre-announced tax rises.

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