

9 Social security reform, 1984-86 and after

In April 1984 the government announced the establishment of a Social Security Review. It suggested that it would be ‘the most substantial examination of the social security system since the Beveridge Report forty years ago’.¹ This proved to be the case but the exercise was not comparable with the Beveridge inquiry. The Review neither looked at the social security system as a whole nor the whole of the social security system. There were four separate review committees, one each for provision for retirement, Housing Benefit, Supplementary Benefit, and benefits for children and young people. There was to be no immediate review of the full range of benefits for disabled people. This would await the outcome of a national survey of disabled people about to be undertaken.

As the Review developed it became evident that there would be other important gaps. No examination of the functioning of the National Insurance scheme was intended. The Review would concentrate on the means tested benefits and, in the case of the elderly, on the second pension provision. No review of the provision for the unemployed as a separate subject area would be undertaken. As a large population group dependent on means tested benefits, their position within those benefits had to be considered, as well as the relationship between these various benefits and between the unemployed and the low paid working population. But the balance between contributory and means tested benefits in provision for the unemployed was not part of the brief given to the review teams.

This would not (and did not) prevent witnesses to the Review giving evidence which discussed these wider issues, but there was little likelihood that the teams would depart significantly from their briefs.

While the Beveridge inquiry had a significant degree of independence from government, three out of four committees in the Social Security Review were chaired by Ministers and the fourth (Housing Benefit) had a very specific task - to examine the Housing Benefit scheme. The co-ordinating committee which was established at a later stage to look at the outcome of the four separate elements of the Review was made up of civil servants. Thus, the review was substantially controlled by government at all its stages and the decisions on how the subject of the provision for the unemployed would be handled were government decisions.

The structure of provision

In 1984/85, benefit expenditure on the unemployed was around £6.4 billion or 17 per cent of all social security expenditure. This was made up of around £1.6 billion in Unemployment Benefit, £4.5 billion in Supplementary Benefit and related Housing Benefit, and the balance in sundry benefits such as Child Benefit and war or industrial disablement pensions.² Whereas at the end of 1970, 240,000 or 41 per cent of the unemployed on benefit had been wholly or partly dependent on Supplementary Benefit, by the end of 1984, 1.95 million unemployed or 65 per cent of the unemployed on benefit were receiving SB. Of these, 202,000 were receiving supplementation of Unemployment Benefit and 1.75 million were on SB alone.³ This pattern of expenditure raised obvious questions about the benefit structure. Among the evidence given to the Review, three approaches can be considered.

The first sought to remove the unemployed from Supplementary Benefit almost entirely. The evidence of the Society of Civil and Public Servants (SCPS), which represented executive and managerial administrators in the DHSS social security divisions is an example of this. It said:

Unemployment benefit in a time of mass and long term unemployment must as a first prerequisite continue to be payable for the duration of an individual's unemployment. The absurdity of limiting benefit to only one year is cruel and irresponsible. There should be no limit to the duration of benefit.⁴

It also sought a level of Unemployment Benefit set at 20 per cent above the SB level, and wished to see the Earnings Related Supplement (ERS) restored, to cushion short term unemployment and the early

months of long term unemployment. In addition there were proposals to credit-in school leavers to National Insurance so that they had UB entitlement while neither in work nor on a training scheme.

This plan would upgrade the income of the unemployed and reduce the use of means testing quite substantially, but it had obvious cost implications. The SCPS acknowledged that its plan involved extra expenditure but it believed this should not be a deterrent. It said:

Social Insurance, because it rests on a pooling of risks and a sharing of benefits between the whole national community, is the sound way to pool the risks of unemployment. We firmly believe that those who are in work would be willing to pay the increased cost of national insurance contributions to raise benefits for the unemployed in the way we have described above.⁵

A quite different point of view was put forward by the Institute of Fiscal Studies (IFS) in a plan for social security reform which would have involved abolishing the National Insurance scheme altogether.⁶ IFS argued that to meet what it considered should be the primary goal of a social security system – poverty prevention – it was necessary to concentrate resources on those in need and withdraw payments which it described as ‘wasted’. IFS assumed, for the sake of its argument, that the prevailing SB level was adequate to prevent poverty and it based its estimates of ‘wasted’ benefits on this. It calculated that, in 1981, nearly 76 per cent of Child Benefit expenditure, 26 per cent of pension costs and 45 per cent of sickness and unemployment benefits went to the non-poor. If these benefits were not paid, the resources released could, in part at least, be used to raise the level of benefits paid to those in need.⁷

The new scheme proposed by IFS would be based on a universal means test applied through tax assessment mechanisms. A minimum income line would be drawn taking into account the number of adults and children in the household and housing costs. Those with zero income would receive a Benefit Credit, reduced as income rose until the minimum income line was reached when it would cut out. Thereafter tax would be payable, increased as income rose.

The Institute saw no reason why Unemployment Benefit should be an entitlement based on contributions, payable regardless of current income and resources and, in the case of the short term unemployed, regardless of future income. In the proposed scheme, an unemployed person would not be eligible for a Benefit Credit while he had resources above his minimum income line. Moreover, since

assessment for Benefit Credit entitlement or tax liability would be on an annual basis, someone who returned to work after a brief spell of unemployment and secured a reasonable wage, might, in a full tax year, find himself repaying the Benefit Credit through tax. In effect the benefit would operate as a loan.

This proposal would concern itself, therefore, only with immediate need. Unemployment Benefit would no longer act to cushion a sharp fall in income. No account would be taken of the problem of meeting commitments undertaken while in work, which could not immediately be abandoned. No action would be taken until the income fell below the minimum level. On the other hand, if the proposed redistribution of resources in favour of the poor produced a Benefit Credit higher than current benefits, it would provide a better standard of living for the longer term unemployed.

A proposal which fell between these two extremes came from the National Consumer Council (NCC). It wished to retain the National Insurance scheme and Unemployment Benefit, but to improve their functioning. First, the Council sought the relaxation of the contribution conditions which at present excluded from UB those who could not show a sufficient contribution record in the previous tax year. It looked at various alternatives and favoured adopting a test used under the Equal Treatment Regulations to determine the right of a woman to claim benefit as the breadwinner in a married or cohabiting couple. This was known as the 'contact with employment' test, under which it was necessary to show employment of eight hours or more per week for the six months prior to the claim. Applied to all adults, it would remove the barriers to UB for a large proportion of those now excluded. For young people, the NCC proposed that NI credits should be given for education or training so that on seeking work, and failing to find it, they had an immediate entitlement to Unemployment Benefit.⁸

This would reduce the extent of means testing, but the NCC were not prepared to recommend an indefinite right to a non-means tested benefit as an immediate goal. This was partly a question of cost and partly because for some groups – for example young people who had never been in work – this might have undesirable side effects. Its proposal was for a one year entitlement only, for those who had just left school, college or a training course. However, for adults, while benefit would begin with a one year minimum duration, it might be increased in respect of years of prior work. The NCC envisaged that

a worker made redundant at 50 years could, if necessary, draw Unemployment Benefit until retirement.⁹ In all cases the availability for work rule would apply.

In the event, none of these (or other) propositions were accepted by government. The Social Security Review produced no comprehensive report, but in late 1985 a Green Paper was issued in which the government laid out its plans. Subsequently a White Paper confirmed most of these proposals.

The government had decided it did not want to abandon the contributory principle which it regarded as an important link between contributions paid in, and benefits received. In the case of unemployment, it saw the contributory principle not so much as social insurance (i.e. the pooling of risks) but as a social compact, between those in work and those not.¹⁰ The government saw 'a clear continuing role for unemployment benefit as a contributory, national insurance benefit'.¹¹ It went on to say:

Alternatives to the present arrangements would involve either extending unemployment benefit or replacing it with a wholly income-related approach. The Government do not believe either course to be appropriate or sustainable. The former would require substantial extra resources which are neither justified nor affordable without adding to the already heavy burdens on contributors or taxpayers. For example, paying unemployment benefit for an unlimited period could cost over half a billion pounds extra... Relying on a wholly income related approach would reduce expenditure and ensure that resources were targeted on those who need financial help during unemployment. But this would be a step away from the contributory principle and would have the effect of depriving anybody with more than modest savings from benefits. We propose, therefore, to leave the present arrangements for unemployment benefit as they are.¹²

Any additional help for the unemployed would come from reforms to the means tested (income related) schemes. The government had no proposals to open up unemployment benefit entitlement to some or all of those currently excluded, and no comments to make on the desirable balance between social insurance and means tested provision for the unemployed.

Although the Green Paper said that the government's intention was to leave the present arrangements for unemployment benefit 'as they are', this decision did not last for long. Subsequent to the Social

Security Review, it took four steps which would have the effect of reducing entitlement to the benefit.

The first of these was the abolition of the reduced rates of unemployment benefit available to those with a less than full contribution record. Provision to end this right was added to the 1986 Social Security Act – the legislation which implemented the Review proposals. Two reasons were given; the administrative costs of the payment were high (over 20 per cent), while the low rates required supplementation from Supplementary Benefit for around half the recipients, who thus gained nothing from the payments.¹³ The main losers from the change were married women who could have qualified for the partial Unemployment Benefit on the basis of their contributions, but were not eligible for the means tested benefit.

The second change formed part of the 1987 Social Security Bill (the 1988 Act). The contribution rules for Unemployment Benefit were made more stringent. As they stood before the Act, contributions on earnings of at least 25 times the lower earnings limit (ie the threshold for NI contributions) must have been paid in any one tax year since 1975, and in some circumstances, contributions in two tax years could be joined. In addition, contributions on earnings of at least 50 times the lower earnings limit must have been paid or credited in the tax year prior to the year of claim. The credit rules, though limited in some respects, gave access to Unemployment Benefit to those who had spent some time on disability related benefits (including carers receiving the Invalid Care Allowance) as well as to those who had been in approved education or training. They also assisted those who had had a period of unemployment in the recent past but had met certain minimum contribution conditions. Under the new rules, the required contributions must be paid in the two tax years immediately prior to the claim and no other contributions could be taken into account. In these two years, contributions must have been paid on earnings of 25 times the lower earnings limit in one year and contributions on earnings of at least 50 times the limit must have been paid or credited in both years. In addition, credits would no longer be awarded to people entering the National Insurance scheme for the first time, a provision which had helped them to satisfy contribution conditions at an early stage. These rules would come into force in October 1988. Their immediate effect would be to exclude 350,000 people from Unemployment Benefit, all but 50,000 of whom were

likely to qualify for the means tested benefit.¹⁴ The rules would also reduce the access of young people to the insurance benefit.

The link between recent employment and entitlement to Unemployment Benefit was further tightened in the 1989 Social Security Act. Where a person had exhausted his/her entitlement to the insurance benefit, it would be necessary to have worked 16 or more hours in at least 13 of the 26 weeks immediately before the new claim.

The government presented these various changes as ‘measures that emphasise the contributory principles in qualifying for national insurance benefits and re-inforce the original purpose of unemployment benefit’.¹⁵ This purpose was defined as ‘to insure those who are accustomed to earnings from employment for short periods of unemployment while they seek work’.¹⁶

But the method chosen to emphasise the contributory principle was to link benefit rights with paid contributions in the immediate past. The government appeared to be recalling a former ‘purer’ period in National Insurance, but it chose to ignore the fact that the scheme had always sought to be flexible and to give recognition to the earlier years of contributions where this was needed to give access to insurance benefits. Indeed, as the account in Chapter 3 of the practice immediately following the original National Insurance Act indicates, not only was the early record part of the reckoning, but it was used to extend the duration of benefits through the additional days provisions. The credit rules were a later development. They sought to increase the access to insurance benefits. For the unemployed at least, the government chose the opposite course.

The fourth step taken to limit Unemployment Benefit rights also appeared in the 1988 Social Security Act. This extended downwards, from 60 to 55 years of age, the rule requiring pound for pound deductions from Unemployment Benefit of any occupational pension in excess of £35 per week. This would apply from January 1989.

The government’s argument was that, by drawing their occupational pension rights, the 55-59 year old unemployed were signifying that they were really retired. Since Unemployment Benefit was not intended for those who were retired and no longer seeking work, it was ‘consistent with the original intention of unemployment insurance’¹⁷ to abate (ie reduce) the benefit. It was pointed out in the debate on the Bill that the pension income at which reductions began – £35 – had not been increased since 1980 and should now stand at £48 to take account of inflation. But the government argued that no

uprating was needed since the full benefit would not cut out until income reached £66.50 for a single person and £88.90 for a married couple on 1987 benefit rates.¹⁸

No proof was offered that the 55-59 year old unemployed saw themselves as retired. Indeed the opposition quoted a government survey showing that only 3.5 per cent of them did so.¹⁹ Moreover, it has to be assumed that these men and women were meeting the availability for work rules required of the unemployed. It was just as likely that they had claimed their occupational pension, even though this may have meant accepting an actuarially reduced rate, in order to cope better with low income in unemployment. Unless the pension was an ample one, the benefit reduction, therefore, was another blow to an already disadvantaged group. It was expected to extinguish the benefit rights of 400,000 claimants and reduce the benefits of a further 300,000,²⁰ and it would reduce public expenditure by £65 million.²¹

The adequacy of benefits

By 1984, a good deal of evidence had accumulated to show that the long term unemployed on the short term rate of Supplementary Benefit were suffering financial hardship. As early as 1976 the Supplementary Benefits Commission in its Annual Report presented evidence on the severe difficulties experienced by unemployed families with children in particular, in managing on the short term rate of SB for extended periods.²² The report of the DHSS review of the Supplementary Benefits Scheme in 1978 also referred to the unemployed as 'often the claimants experiencing the greatest hardship'.²³ The DHSS team were concerned not only at the denial of the long term rate to the unemployed, but also with the inadequacy of the children's scale rates which compounded the problem for families with children.²⁴ Some changes were subsequently made to the rates for children, but they remained inadequate, and especially for older children.²⁵

Studies in the early 1980s confirmed these earlier findings. Reporting in 1983 on an examination of the living standards of the unemployed, Bradshaw et al concluded that:

the cumulative weight of evidence suggests that the living standards of the long term unemployed are lower than those in short term employment and that the living standards of both are below those of the poorest families in work.²⁶

In 1984, Ditch reported for the National Consumer Council on the unemployed on Supplementary Benefit in Northern Ireland where long term unemployment was at its worst. He noted evidence of concern about the diet of unemployed families, and of debts for rent, heating, electricity and hire purchase.²⁷ Evason, too, found hardship among the long term unemployed in Northern Ireland in 1983/4.²⁸

In light of these and many other reports and studies, it was not surprising that the income of the unemployed was a central issue for many witnesses to the Social Security Review. However, they were not all in favour of increasing benefit rates. The issue of work incentives and the relationship between benefits and wages so prominent in the 1970s continued to be raised.

The Institute of Directors revived the old principle of 'less eligibility' which the Poor Law had used as the basis for benefit rates for the unemployed in particular. Its evidence said:

since on the principle of less eligibility the income of a low paid worker should be more (or at least not less) than the income of a non-working recipient of welfare payments, the market thus imposes a ceiling on the amount that should be paid in benefits.²⁹

The 'fundamental anomaly', the Institute went on, was that welfare support was too large a proportion of low pay. Supplementary Benefit was too high and should be reduced for both adults and children. This, it claimed, would strengthen work incentives.

A more common approach was to recommend the extension of the long term rate of Supplementary Benefit to the unemployed on the same terms as other SB recipients. This was, for example, the highest priority of the National Consumer Council, pending more extensive reforms.³⁰ It also appeared in the evidence of such groups as the Scottish Convention of Women,³¹ the Association of County Councils,³² the Child Poverty Action Group³³ and many others. This was often accompanied by recommendations for improvements in the rates paid to children or for a significant increase in Child Benefit.

The Social Security Advisory Committee, in its evidence to the Review, introduced a new element. It noted recent research evidence that new SB claimants, going on to the short term rate, experienced considerable financial problems while adjusting to a lower income, and did not necessarily have financial reserves to cushion the changeover.³⁴ The SSAC also thought the differential between the long and the short term rates, now 25-27 per cent, had become far too

great. It wanted, therefore, to see a staged transition to a single rate, set at the higher long term rate.

In the event, the government rejected all of these recommendations, though elements of each of them appeared to have some influence. The government began from the position that any social security reform had to be undertaken without additional expenditure - a no-cost basis. So money for any benefit increases had to be found by shifting resources from one group or one form of benefit to another. This clearly limited the options for change.

The government acknowledged that some of the unemployed were suffering financial hardship. In the Green Paper it declined to formulate a definition of poverty, as some witnesses to the Review had urged, but it set out a basis for the determination of priorities for the reallocation of resources, through a definition of low income. It said:

Families whose needs are likely to be greatest may be defined as those falling into the bottom 20 per cent of the national distribution of income, with family incomes being adjusted for differences in family size and composition to allow for the greater requirements of large families.³⁵

The composition of the bottom 20 per cent had changed in the past decade. Fewer pensioners were to be found in this group than in 1971 and more families with children. In 1982 those in the bottom 20 per cent of income as defined were proportionally: 19.2 per cent pensioners, 57.1 per cent one and two parent families with children, 8 per cent couples without children and 15.7 per cent working age single persons. The Green Paper went on to say that 'higher unemployment was the single most important cause of the shift in composition of the low income group' and that, 'unemployment has now displaced old age as the main reason for low income'.³⁶ The quite substantial group (15.7 per cent) of working age single persons were, however, dismissed on the grounds that 'many of them are non-householders living in households with higher incomes'. The real cause for concern was families with dependent children who, the Green Paper said, 'now account for over half of individuals living on low income'.³⁷

A decision to improve benefits for unemployed families with children might, however, have undesirable consequences for work incentives. The Green Paper said:

While it is one of the functions of the social security system to help those who are unemployed, it is self defeating if it creates barriers to the creation of jobs, to job mobility or to people rejoining the

labour force. Clearly such obstacles exist if people believe themselves better off out of work than in work...38

The rates of support, therefore, could not 'be isolated from consideration both of the returns and the rewards that are available to people in society generally'.39

The government, therefore, set out to create a structure of benefit provision for unemployed families with children which would operate in harmony with provision for low income working families, but would ensure that working families would always be better off than those not working. As part of this process, it would restructure the Supplementary Benefits scheme – to be renamed Income Support – not only for the unemployed, but for other population categories also.

In the new scheme the distinction between long term and short term cases and between householders and non-householders would be ended. There would be a standard personal allowance for all claimants varied only by age and marital status. Child Dependency Additions would be unchanged, but a new feature would be introduced. There would be 'premiums', i.e. additional allowances, paid to certain categories – families with children, the elderly, one parent families and disabled people.

The family premium would be available to unemployed families with children – thus improving their income. The structure of their benefits – a basic allowance, plus a family premium, plus Child Dependency Additions – would then be 'matched' with a similar structure for the low paid in a new Family Credit Scheme to replace Family Income Supplement. This would also have three tiers – wages, a family benefit and child additions. But this 'matching' need not be exact. Higher payments could be made within Family Credit to ensure that those in work had a disposable income which was higher than for those not in work.

The plan for better matching also involved modifications to other benefits. Housing Benefit for those in work would be improved. Under the prevailing arrangements, a different means test was applied to those in and out of work. Moreover, while those on Supplementary Benefits received full housing costs, those in work received allowances in the region of 60 per cent of the rent and rates payable. In future, the operating means test would be the same, both groups would receive 100 per cent of rent but only 80 per cent of rates. The lower percentage for the rate rebate did not relate to the work incentive issue. It was introduced because the government believed that

freedom from the responsibility to pay rates induced irresponsible voting in local elections.

Further steps were necessary within the new Income Support Scheme to achieve a full alignment and these involved a reduction in the benefits available to the unemployed and other recipients. Water rates and other residual housing costs would no longer be paid in the new Income Support scheme, as they had been under SB, though allowance could be made for them on the setting of benefit rates. SB families who were owner occupiers, had received an allowance to pay the interest on the mortgage (but not for capital repayments), from the time they came on to benefit. Low paid families received no such help. The Green Paper said of this situation:

The specific extra help through Supplementary Benefit can create an incentive problem and raise the question of fairness between those in and out of work. For a claimant with a sizeable mortgage there may be little financial reward from a return to work.⁴⁰

Help with mortgage interest could not be withdrawn altogether or the home could be lost. The government, in due course, compromised by ruling that only half of the mortgage interest would be paid for the first four months of unemployment. During this time, the unemployed home owner would be expected to arrange with his Building Society or other mortgager for the deferment of payments if this was necessary. If a re-scheduling of the loan led to higher interest payments at a later stage, these would be met for individuals still remaining on benefit.

It was also necessary to deal with those additional payments in the Supplementary Benefits scheme for which there was no equivalent in the scheme for the low paid. Additional weekly allowances for such items as heating, diet and for other special needs of disabled people would be ended and the Income Support rates adjusted to take account of these costs. A further problem was the Single Payments, which could be claimed for home repairs, replacement of large items such as cookers, certain items of furniture and other essential outlay which could not be met out of low weekly allowances. The Green Paper said of these:

The rapid growth in payments in the last few years had raised considerable questions of fairness with those not on benefit. The availability of payments stands in sharp contrast to the position faced by many others, on what may not be a very different level of disposable income, who have to budget for such items.⁴¹

Single payments would therefore be ended and replaced (from April 1987) with loans from a new Social Fund. These would have to be repaid from benefit.

Finally, those 25 years old and under were singled out for special treatment. The Green Paper argued that while there was no one age dividing line relevant to all claimants, it was clear that, at the age of 18, the majority of claimants were not fully independent, and that the great majority of claimants above the age of 25 were. In the SB scheme as it then operated, nearly 90 per cent of all claimants over 25 years were getting the householder rate, while 'a clear majority' of the under 25s were living in someone else's household.⁴² However, if the non-householder rate was to be abolished, this younger group would receive a higher rate of benefit than before – inappropriately in the Green Paper's view. The solution adopted was to pay a lower rate of personal allowance to all those 25 years and younger, other than lone parents. Originally the intention was to apply this rule to married (and cohabiting) couples as well as single people and to the young married with children also. This aroused a good deal of opposition and the later legislation restricted the lower allowance to the single people of 25 and under and couples under 18 years. This would apply whether or not they were in fact householders.

The provision for unemployed women was not addressed by the review at all. Apart from changes to the benefit arrangements which would affect them as dependent wives, their position was basically unaltered. If they were single, their treatment would be on all fours with that of single men. If they were married, the rules prevailing under SB would apply, with minor modifications to the disregard rules (to be discussed later).

The social security reforms offered some improvement in the position of unemployed families with children after 1988, when the family premium was introduced. Moreover, this would be payable from the time the family came on to benefit in the Income Support scheme rather than after a year's wait, thus assisting both short and long term recipients.

However, taken in conjunction with all the other changes proposed, the improvement has been quite modest. In late 1987, the DHSS published estimates of the effect of the social security reforms, based on notional rates of benefit, but sufficiently close to the implementation date (April 1988) to be reasonably reliable. The figures showed that, on average, unemployed couples with children

would gain around £1.50 pw and those unemployed without children would, on average, lose £0.70 pw.⁴³ But these figures did not take account of the loss of Single Payments. In 1986, over 2 million unemployed recipients received Single Payments, at an average of £82.20 per head. Tighter rules were introduced for 1987, cutting the numbers to around 1 million, but still at an average payment of over £82.44. Thus the abolition of Single Payments would have a considerable impact on the unemployed, and especially on the longer term unemployed with children who were among the heaviest users of Single Payments.⁴⁵ Unemployed people who were owner occupiers suffered a specific disadvantage through the reduction in mortgage interest support for the first four months – a provision which could become extremely burdensome if the claimant had frequent spells of unemployment.

As the figures given above suggest, unemployed people without children tended to be losers. They are effectively to be maintained on the equivalent of the old short term rate, while losing access to the various additional payments. Particular note may be taken of three categories. An older worker who has children when he comes on benefit and whose children move out of the age of dependency while he is still unemployed, will lose not only the dependency additions, but eventually the family premium also, and his income will fall accordingly. An individual classified as disabled and with entitlement to the disability premium may be reclassified as unemployed and lose that premium. Moreover, as a disabled unemployed person in the SB scheme, he might still have had rights to additional payments in relation to the disability, but these will no longer be available to cushion the loss of the premium. Someone who comes on to Income Support as an older childless unemployed person – for example a 50-59 year old – will be offered only the equivalent of the short term SB rate until the age of 60 years when the pensioner premium will become payable.

Notable among the losers is the 18-25 year old age group. As seen these are to be paid a lower rate of personal allowance in Income Support as long as they are single, or if married (or cohabiting) while they are under 18 years. This proposal had raised quite widespread opposition. One of the concerns was that the lower rate of benefit would enforce dependence on young adults just at the time when they are moving towards greater independence. The SSAC noted ‘the steady trend’ towards the formation of independent households at

younger ages and did not think the proposal took account of 'social realities'.⁴⁶ The National Union of Teachers argued that the proposed change would 'not only have an impoverishing effect on young people who are currently living independently, but will also prevent others from choosing to live independently'.⁴⁷ These and other respondents to the Green Paper also pointed out that the proposal would place an unfair burden on the parents of these young unemployed adults.

The difficulties the younger (18-25) unemployed would experience if they attempted to live independently were reinforced by later changes in the Board and Lodging rules. Most people on low incomes, including the low paid, got help with housing costs through Housing Benefit. Government believed it was unsatisfactory that for one group – those claiming SB – special rules were in operation within the Supplementary Benefit scheme. The rules, moreover, were complicated, not only in relation to whether or not the charges made included food and other non-accommodation costs, but also by the time limits imposed on those under 26 years since 1985.

In the context of the new Income Support scheme and the revised Housing Benefit provisions, it was decided, therefore, that from April 1989, new rules for boarders would be introduced. In future, except for those living in hostels (who were included from October 1989 with some additional protective provisions),⁴⁸ boarders would make a claim from Housing Benefit for that part of the boarding costs which related to the accommodation. Other costs – mainly for food – would have to be met from the Income Support benefit.

These new rules were not seen as wholly unwelcome. They would simplify claims for those 26 years and over and they would remove the time limits on the younger age group. But, taking the 18-25 group as an example, but the rules would imply that single unemployed people attempting to live independently would have to manage on £27.40 per week (in 1986) after accommodation costs had been met, instead of the £34.90 available to those over 25 years. Moreover since the rate of Housing Benefit was linked to the rate of benefit under Income Support to which the individual would be entitled, the 18-25 year old would have a lower entitlement to Housing Benefit than would someone over this age.

Commenting on these provisions in their 1988 report, the SSAC said they regretted that the structure of Income Support and Housing Benefit would not only retard the natural development of this 18-25 age group towards greater independence, but would 'cause inevitable

hardship to some who may leave home not just on account of domestic tension, but also, in areas of high unemployment, to find work'.⁴⁹

The measures affecting the 18-25s introduced in this period were presented by the government as necessary and desirable simplifications of the social security rules. But it is reasonable to assume that there was no reluctance on the part of government to reduce the benefit income of the single unemployed of this age group. There was some evidence (confirmed in a report published in 1989, but based on a 1984 survey)⁵⁰ that a minority of the 18-25 year old group had ceased to search for employment or to do so actively. Exerting pressure to work through the benefit system would have been in accord with the government's general policy stance.

16 and 17 year olds

The brief of the review team on benefits for children and young people included an examination of the range of benefits for 16-17 year olds. Although plenty of evidence was submitted on this point – looking at the confused network of Education Maintenance Allowances, Minor Awards for non-advanced further education, YTS Allowances, Unemployment Benefit and Supplementary Benefit – there was no discussion of this age group in the Green or White Papers.

But the government had not overlooked the young unemployed on benefit. It was awaiting the right moment to act. As seen in Chapter 6, the government had repeatedly expressed its desire to withdraw from 16 and 17 year olds the right to claim Supplementary Benefit, which it saw as the right to opt for unemployment at public expense. In September 1988, the development of the Youth Training Scheme had reached the point that a guarantee of a training place could be given to all 16 and 17 year olds not in education or employment. The time had come to withdraw benefits for unemployment for most of this age group.

The 1988 Social Security Act raised the normal minimum age for entitlement to claim Income Support in one's own right, from 16 to 18 years. Section 4 of this Act provided for some exceptions to this. The Secretary of State was also given power to make discretionary Income Support payments in cases of 'severe hardship'.

In future, in the normal regime, when a young person left school, the parents could continue to claim Child Benefit – to be known as Extended Child Benefit – for 4 further months (September to December) for Summer school leavers and 3 months for Christmas

and Easter leavers. This right would be dependent on the young person's registration at a Careers Office or Job Centre as looking for a YTS place or a job. The benefit would stop if a job or YTS place was found, but could be paid again, during the extended period only, if the young person left the job or YTS, and it would not be cut for refusal of such opportunities. But no other benefit would be payable after the extended period was over.

Once in a YTS place, a weekly training allowance of £29.50 for the 16 year olds and £35 for 17 year olds (1988 and 1989 rates) would be paid. Some one who left a job or a YTS place could claim a Bridging Allowance of £15 pw., but only if they were registered as seeking work or another YTS place, and only for a maximum of 8 weeks in any period of 52 weeks. This allowance could be stopped for refusal of a YTS place.

Clearly the rules were principally designed for young people, living at home, whose families could, if necessary, afford to support them in an extended period of dependence, on low benefits or no benefits. The rules were expected to cover the vast majority of 16 and 17 year olds, but various exceptions were recognised to be necessary.

Provision had to be made for the point of changeover to the new rules. There were roughly 70,000 16 and 17 year olds on Income Support as unemployed people at that time.⁵¹ These were transferred to the Bridging Allowance for 8 weeks or until they took up a YTS place, whichever was sooner. Thereafter, the new normal rules would apply.

Another group retained the right to claim Income Support, because they were not expected to be available for work. These included single mothers, pregnant girls (from the 11th week before the expected birth), young people who were registered as blind, disabled young people likely to be incapacitated for work for at least 12 months, and a number of other people whose circumstances (usually relating to caring responsibilities) would prevent them from working.

Where the 16 or 17 year old had parents who were on Income Support or Family Credit, the parents could claim a topping up benefit for the young person as a dependant, but only during the Child Benefit extension period. A further group could also claim Income Support for a time. These were young people without parents; those who were in local authority care or youth custody immediately before their 16th birthday; young people who were mentally or physically handicapped or mentally ill, whose parents could not cope with them, but who were

capable of work; those at risk of physical or sexual abuse at home as well as some other equally difficult situations. But again, the benefit rights lasted only during the Child Benefit extension period.

Beyond this period, Income Support would only be given where 'severe hardship' could be shown. Initially this was not defined. It would be judged by the Secretary of State, but would not automatically include cases of family estrangement. Later the Minister (Nicholas Scott) described the criteria in this way:

Examples of the factors that are taken into account include the young person's health and vulnerability – for example, the risk of being led into crime, the risk of eviction and subsequent homelessness as a result of inability to meet accommodation costs, the availability of any income which would normally fail to be disregarded, the availability of any savings, the prospect of speedy entry into YTS, the prospects of casual work, the young person's financial commitments and prospects for postponing payment, and whether the young person has any friends or relatives who could help.⁵²

The object of the new regime was to remove any 'perverse incentive for people of this age (16/17) to leave home needlessly'.⁵³ Young people who had the option to live at home must either do so, or manage as best they might on the new normal benefit provision. For 16 and 17 year olds who had a responsibility for paying rent and or rates this included a right to claim Housing Benefit. YTS trainees in board and lodgings might still be able to claim Income Support to top up the training allowance.

Both the government's interpretation of leaving home needlessly and the stringency of the severe hardship criteria proved controversial. Voluntary organisations in direct contact with young people, including the increasing number of young homeless, were particularly critical and made many representations to government.

In March and April 1989, some concessions were announced⁵⁴ mostly operating from July 1989. Cases of genuine family estrangement would be eligible for Income Support during the Child Benefit extension period. Those receiving Income Support during this period would, because of their vulnerability, be considered for severe hardship payments if at the end of the period they had not found a job or a YTS place. Young people seeking emergency accommodation in night shelters would get severe hardship payments. And any young people on Income Support, who for good reason had to live

independently, would be eligible for the 18-25 rate of allowance. The amount available for 16/17 year olds in Housing Benefit would also be increased. This package was expected to cost a further £3.7 million. But the Minister (Nicholas Scott) said:

Our wider policy of encouraging such youngsters (16/17) to stay in the parental home and, if they are not in education or employment, to take up the offer of a YTS place, remains appropriate for the vast majority of young people of this age.⁵⁵

One other point should be noted. The effect of the new NI contribution rules, requiring 2 years contributions to qualify for Unemployment Benefit, will be to exclude 17 year olds from this benefit. Whereas after a year's work, they could qualify at 17 for the insurance benefit, now there is no possibility of qualifying before the age of 18 years. For those who have spent 2 years on YTS, which gives no insurance credits for unemployment, it will not be possible to qualify until the end of their 20th year. During this time, only Income Support will be available.

Disregards

Returning to the outcome of the Social Security Review, if benefits for the unemployed were not to be increased to any extent and might be decreased, were there other ways in which those on benefit could add to their income?

It has been the practice for many years to allow benefit recipients to earn a little extra money without loss in benefit. A certain level of earnings is therefore disregarded when benefit entitlements are calculated. Earnings higher than the disregard level are deducted pound for pound from benefits.

The rules in force at the time of the Social Security Review were described in Chapter 5, but are repeated here, for convenience. While on Unemployment Benefit alone, the claimant might earn £2 per day, six days per week without benefit loss. The wife of an unemployed man might earn up to the level of her dependency addition, i.e. £17.55 per week in 1984/85 (£21.40 in 1989). Because this disregard takes work expenses into account, the amount it is possible to earn might be higher, though still limited. If she earns more than her dependency addition, the whole of the addition is withdrawn. These rules still apply. Once on Supplementary Benefit, either as a supplement or as the main income, the SB rules applied. At the time of the Review these

permitted only £4 per week in earnings by the claimant and the same for the wife of a claimant, though again work expenses were taken into account.

The policy on disregards was explained by the DHSS in 1981. Disregards were designed 'to provide a modest encouragement to those who are able to help themselves by part time working to do so'.⁵⁶ For the unemployed, it was considered that disregards 'should not be at a level where the total income from earnings and Supplementary Benefit would discourage claimants from moving back into full time work because the net gain would be small'.⁵⁷

The earnings disregard for Unemployment Benefit was last uprated in 1982 after standing still for almost a decade, though that for the wife moved with each uprating of the dependency addition. For Supplementary Benefit, the last increase for both partners was in 1980, after a 5 year lapse. Thus the value of these disregards, and the number of hours which could be worked before loss of benefit, had fallen. This affected not only the unemployed on SB, but their wives also, whose contribution to the family budget was thus severely limited.

During the early 1980s, there were many recommendations for a review of disregard policy. The SSAC, for example, urged in several reports (1981, 82/3, 84 and 85) that, at the least, the prevailing disregards should be uprated in line with inflation so that they retained the same proportional relationship to the benefit as when they were first instituted. The Committee also argued that changes in the economy made it more desirable to facilitate efforts by the long term unemployed to keep in touch with the labour market. A more flexible disregard policy could contribute to this.

These and similar proposals were rejected by the government on the grounds of cost. The first call on additional resources should be to improve the benefit rates for all claimants, rather than to assist those who could earn a little extra.⁵⁸ The Social Security Review, which heard further evidence on the need for a more generous disregard policy, did have some proposals to make on disregards in the new Income Support scheme, to be implemented in 1988.

For the first two years of unemployment, the earnings disregard would be set at £5 per week each. This was not transferable between husband and wife. The apparent increase was, however offset by a reduction in deductible work expenses. These would now cover only tax, NI contributions and half of occupational pensions contributions, but would exclude fares to work, child care costs and other work

expenses. After two years of unemployment, a £15 per week disregard would apply jointly to husband and wife where neither was working. One could claim the whole if the other did not work. Single people, on the other hand, would remain on the £5 disregard indefinitely.

To this was added an even less favourable rule change which was designed to exclude couples from entitlement to benefit under the Income Support scheme if either was in regular work. Regular work would now be defined as 24 hours per week or more. Couples with children could instead claim under the new Family Credit scheme. Couples without children would have to subsist on the part time earnings of husband or wife, even if these were very low. This, the government argued, had become necessary following the introduction of the equal treatment rules, under which either the man or the woman can claim benefit.⁵⁹ It would prevent an unemployed woman claiming benefit while her partner worked part time and, in effect, had his earnings subsidised by her benefit.

All of these proposals aroused considerable criticism as being both too limited and too inflexible an approach to disregards at a time when unemployment was so high and the chances of full time work so limited for so many people. The SSAC, for example, said that it did not think the government had 'responded adequately to the need for benefit change to cope with a high unemployment society in which part time work assumes increasing economic and social importance'.⁶⁰ The Northern Ireland Assembly drew attention to the higher disregards being offered to other claimant categories (£15 per week for disabled people and one parent families) from the beginning of benefit receipt and could see 'no justifiable rationale for disbarring the unemployed from the same earnings disregard'.⁶¹ It went on: 'If the government are serious about encouraging the unemployed to maintain contact with 'the world of work' then they must recognise the illogicality of this proposal'.⁶²

The National Consumer Council was, if anything, more critical. It said:

These earnings disregards are not enough to enable the unemployed to maintain their skills and their sense of purpose. Unemployed people are given a choice – either they can lapse into apathy and idleness, or be driven into the black economy by claiming while doing casual work. It is a trap affecting not only the claimant but their partners as well. Having set up the trap, the government is putting increased efforts on to 'fraud drives' in

which claimants are pressured to withdraw the claims to benefits.⁶³

The NCC's alternative strategy was higher disregards and the encouragement of part time work. The government's decision was to adhere to its proposals within Income Support and to make no change to the disregards for Unemployment Benefit.

Concluding Comments

In the White Paper the government wrote:

It cannot be said too often that social security cannot remove the causes of poverty. It can and should give protection from the effects of unemployment. But unemployment itself will only be tackled by creating the conditions for sustained economic growth. Social security must not hinder that growth – either in the way the system affects individuals or in the burden it places on the economy generally.⁶⁴

In the social security reforms, the government showed a much stronger interest in giving effect to the latter part of this statement than in protecting people from the effects of unemployment. The benefit provision cannot, however, be considered as an isolated policy. It must be seen in the context of a range of other policies towards the unemployed. It is to these that the next chapter will turn.

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