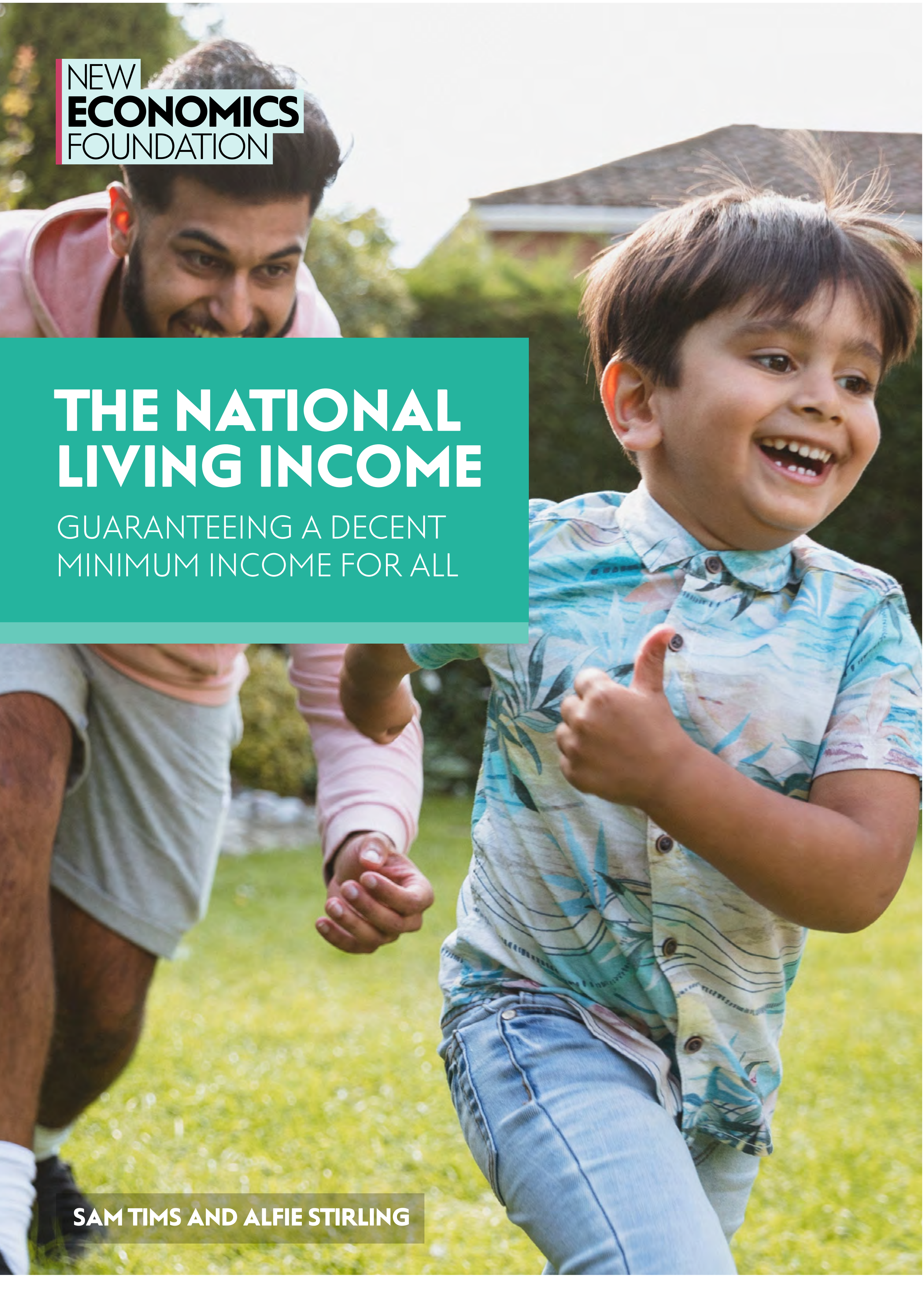
NEW ECONOMICS FOUNDATION



THE NATIONAL LIVING INCOME

GUARANTEEING A DECENT MINIMUM INCOME FOR ALL

SAM TIMS AND ALFIE STIRLING

CONTENTS

EXECUTIVE SUMMARY **2**

1. TRADE-OFFS IN SOCIAL SECURITY **4**
1.1 EVOLVING PRINCIPLES AND TRADE-OFFS 4
1.2 GROWING CONSENSUS FOR A FAIRER SYSTEM 7

2. A DECADE OF REFORMS AND CUTS **9**
2.1 MEASURING THE COST OF LIVING 9
2.2 THE INADEQUACY OF INCOME PROTECTION 10
2.3 COMPLEMENTING THE WORLD OF WORK 15

3. PRINCIPLES FOR REFORM **18**
3.1 DESIGN PRINCIPLES OF THE NATIONAL LIVING INCOME 18

4. THE NATIONAL LIVING INCOME **19**
4.1 CREATING A DECENT MINIMUM INCOME 19
4.2 GUARANTEEING THE NATIONAL LIVING INCOME FOR ALL 21
4.3 SUPPORTING WORK 22
4.4 FUNDING THE NATIONAL LIVING INCOME 23
4.5 DISTRIBUTIONAL IMPACTS 25

APPENDIX A **29**

ENDNOTES **30**

EXECUTIVE SUMMARY

The crises of the early 2020s, of the Covid-19 pandemic and war in Europe, brutally exposed the fragility of the UK social security system. But this fragility was a long time in the making. A decade of cuts, freezes, caps, and haphazard migration between systems left the UK with one of the weakest safety nets, both among developed countries globally, as well as in the UK's history. Millions of families were living in avoidable deprivation and hardship, leaving the country inexcusably vulnerable to an economic shock. The country was forced to essentially reinvent social security from scratch, not just once with the creation of furlough and income protection schemes, but again with the cost of living support and energy price guarantee and all at an eye-watering cost to government and society.

The UK now sits on the cusp of the greatest living standards crisis on modern record. The Office for Budget Responsibility (OBR) forecasts an eye-watering 7% fall in disposable income per capita over the next two years. But what this means for the day-to-day experience of families, and in particular families on low incomes, is even more harrowing. By December 2024, 43% of households will be unable to afford a decent standard of living, based on the Joseph Rowntree Foundation's (JRF's) 'minimum income standard' (MIS), compared to 31% at the time of the last general election. This includes 88% of lone parents and 50% of working families with children. On average, those falling below the threshold for decent standard living will be short by £10,000 a year.

Historically, public support for income protection comes in waves, often mirroring people's perceptions of the wider economic cycle. But the UK is now seeing the longest period of public support for the role of social security since at least the 1980s. The economic pain is genuine, and the trade-offs are real and cannot be wished away. But the design of social security can make a huge difference to how this pain is felt, by whom, and for how long. Rarely has the need for whole system change been higher, the opportunity been larger, or the costs of inaction been so great.

This report sets out NEF's proposals for a new system of working-age income protection for the coming decade and beyond. It brings together and builds on our published work since 2020 by setting out the first step towards a new national living income (NLI) replacing the existing universal credit (UC) system. We set out and model a detailed reform agenda for the next parliament, built around four key principles:

Benchmark income protection to a minimum decent standard of living. To deliver against this principle the NLI would deliver a new minimum income guarantee benchmarked to need, including a new standard payment set at 50% of the MIS after housing and childcare costs (AHCC) by the end of the first parliament, worth £460 per month for a single adult and £770 per month for a working-age couple in 2021/22, and beyond which rising to 75% of the MIS (AHCC); payments of up to 100% of the MIS (AHCC) for children, those with a disability, or those unable to look for work; and the abolition of caps, limits, and sanctions. This compares to a minimum of just 35% of the MIS (AHCC) for a single person over 25 on UC.

Expand universal provision to create a genuine minimum income guarantee. This would be delivered through two key features. First, a new national allowance paid to almost all individuals in the UK, not just those on means-tested benefits. This guaranteed element would be included in the calculation to bring households to a minimum level of the MIS (AHCC) and would repurpose part of the tax-free allowances of income tax and national insurance contributions. Second, a new system of auto-enrolment to help ensure that the social security system operates more like the inverse of the tax system: with additional support provided automatically when incomes fall, on a similar basis to how more tax is paid automatically when incomes rise.

Strengthen financial work incentives. The NLI would instil a new principle that no one pays any tax, or has any benefits withdrawn, until their income is equivalent to 100% of the MIS (AHCC) for a single adult. This would be delivered by first ensuring that the guaranteed payment of 50% of the MIS (AHCC) is neither taxable nor scored against work allowances (the minimum amount someone can earn before benefits are withdrawn). On top of this, work allowances would be set at 50% of the MIS (AHCC) for a single adult and extended to every adult on the NLI, while the personal allowances of income tax and national insurance would also be set at 50% of the MIS (AHCC) for a single adult. The NLI would also have a lower taper rate for withdrawn benefits than UC, set at 50% rather than 55%, lowering the maximum effective marginal tax rate for low earners.

Fully fund the system through progressive taxation. The NLI would be fully funded by closing the gap in effective tax on income from employment compared with income from wealth and ensuring higher earnings pay the same marginal rate of national insurance as everyone else. This includes extending national insurance to investment income, equalising the rates of tax on capital gains and dividends with income tax, and abolishing the upper earnings limit to national insurance contributions.

The NLI would revolutionise tax and social security in the UK, with big gains for low- and middle-income households. Everyone outside the richest third would be better off overall, with the poorest families seeing their disposable incomes rise by more than 50% on average (£500 per month), and middle-income families seeing an increase of 9% (£200 per month). Even with the standard allowance set at 50% of the MIS (AHCC), the NLI would have a huge impact on the risk of deprivation. Among low-income households, the proportion falling below 75% of the MIS (AHCC) would drop from 53% to 19%, and the numbers at risk of deprivation would drop to all but zero, once the minimum income guarantee rose to 75% of the MIS.

1. TRADE-OFFS IN SOCIAL SECURITY

The principles underpinning social security policy in the UK have changed substantially since the 1940s. Shifts in government ideology and public perception have altered the landscape of support for low- and middle-income households, from one based on contribution and universalism to a largely means-tested system. This is particularly true of working-age policy, where changes introduced since 2010 have notionally focused on boosting work incentives and reducing spend at the expense of the adequacy of income support and poverty reduction.

1.1 EVOLVING PRINCIPLES AND TRADE-OFFS

When social security was rebuilt following World War Two, 75% of working-age expenditure was composed of universal and contributory-based payments. This system was based on the recommendations of William Beveridge, who argued: "Benefit in return for contributions, rather than free allowances from the State, is what the people of Britain desire."[1]

For 30 years, this picture did not change substantially. Contributory benefits made up the largest proportion of social security expenditure, aided by the real-term increase in the value of unemployment benefit during the 1960s. Meanwhile, means-testing and universalism jostled for second place. The advent of, and increases to, child benefit (CB) gave universalism the runner-up prize at the end of this period, although CB would have been introduced as a means-tested benefit if it weren't for the Child Poverty Action Group (CPAG).

In the 45 years since, the role of means-testing in social security has overtaken that of contribution and universalism, making up 76% of the Department for Work and Pensions (DWP) spend on working-age income-related benefits in 2021/22.

One reason that means-testing has grown in importance sits outside the direct remit of social security. In 1978/79, housing benefit (HB), a means-tested payment, formed less than 10% of the total spend on working-age social security. This had risen to 33% in the early years of the coalition government before the roll-out of universal credit (UC) began. This increase has been driven less by social security policy and more by the introduction of right to buy, historically low levels of home building, and a deeply flawed and under-regulated private rental sector. Indeed, in 2017, the UK spent 1.3% of gross domestic product (GDP) on support for housing costs across all ages, far more than any other Organisation for Economic Co-operation and Development (OECD) country.[2] The next highest was Finland at 0.8%, while the OECD average was a little over 0.3%.

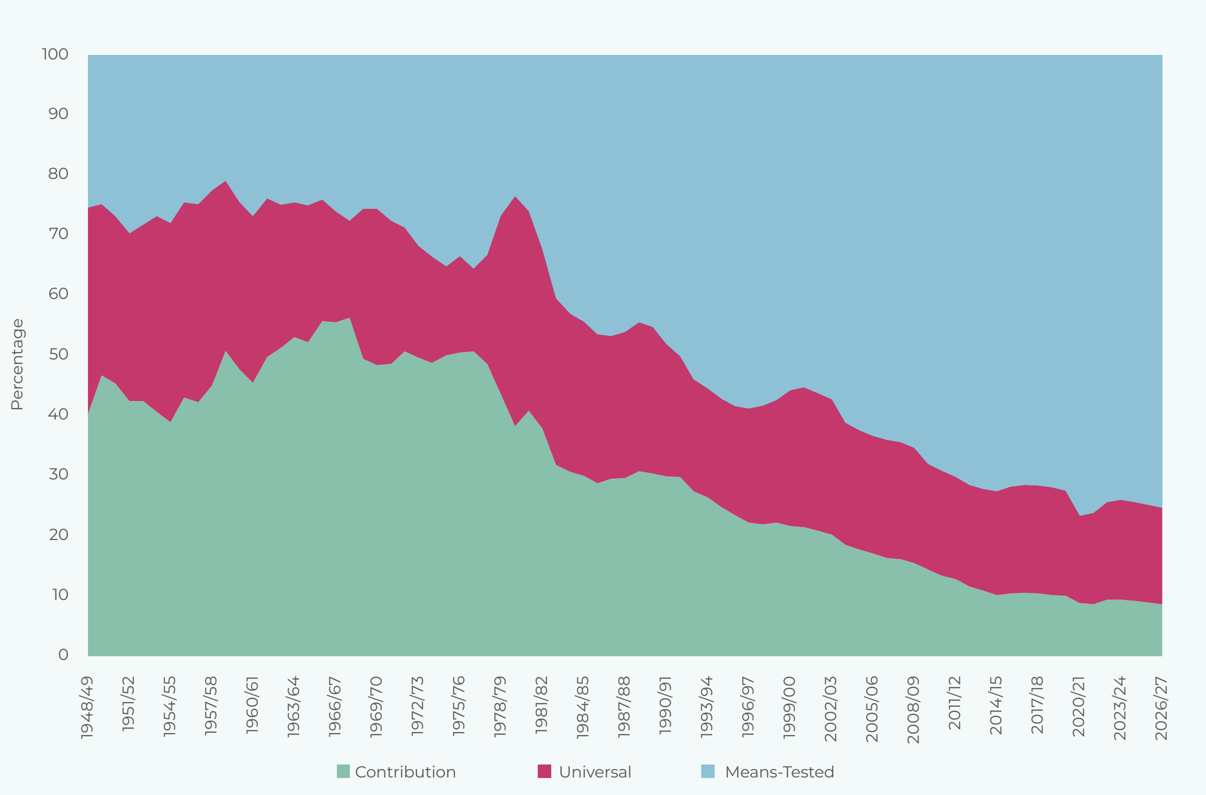
But choices made by governments to reduce the direct cost of social security have also played an important role in the growth of means-testing. Even the post-war government reduced the ambition of social security when it chose not to adhere strictly to Beveridge's recommendations. His report argued for subsistence-level payments, but in most cases did not propose a precise schedule of payment rates.[3] This link to subsistence was not seen as a key priority, given the need to rebuild the economy. Instead, to reduce costs, the rates of payment were set at essentially arbitrary levels.

Rather than reducing headline rates, later governments often chose to narrow the eligibility criteria in an attempt to target support with a greater focus on welfare-to-work policy. The introduction of jobseekers allowance (JSA) is one such example. JSA merged the contributory unemployment benefit and elements of the means-tested benefit income support (IS). Two versions of the JSA were introduced, one contributory and the other means-tested. The claim length for contributory JSA was reduced to six months from twelve, and both required claimants to sign a more substantial jobseeker's agreement stating they would follow an agreed set of steps to move back into work.

The shifting focus of policy corresponds to the difficulty in reconciling three competing objectives in social security policy. The trade-off between 'affordability' (for the government), 'adequacy' (in terms of reduced poverty and increased living standards), and 'financial work incentives' (effective tax rates on low earners) is often referred to as the iron triangle of welfare. Explained by Blundell[4] during an evaluation of social security and labour market policy at the turn of the millennium, it describes the frequent inability of welfare policies to achieve all three objectives simultaneously.

FIGURE 1.1: THE ROLE OF MEANS-TESTING HAS GROWN SINCE 1980

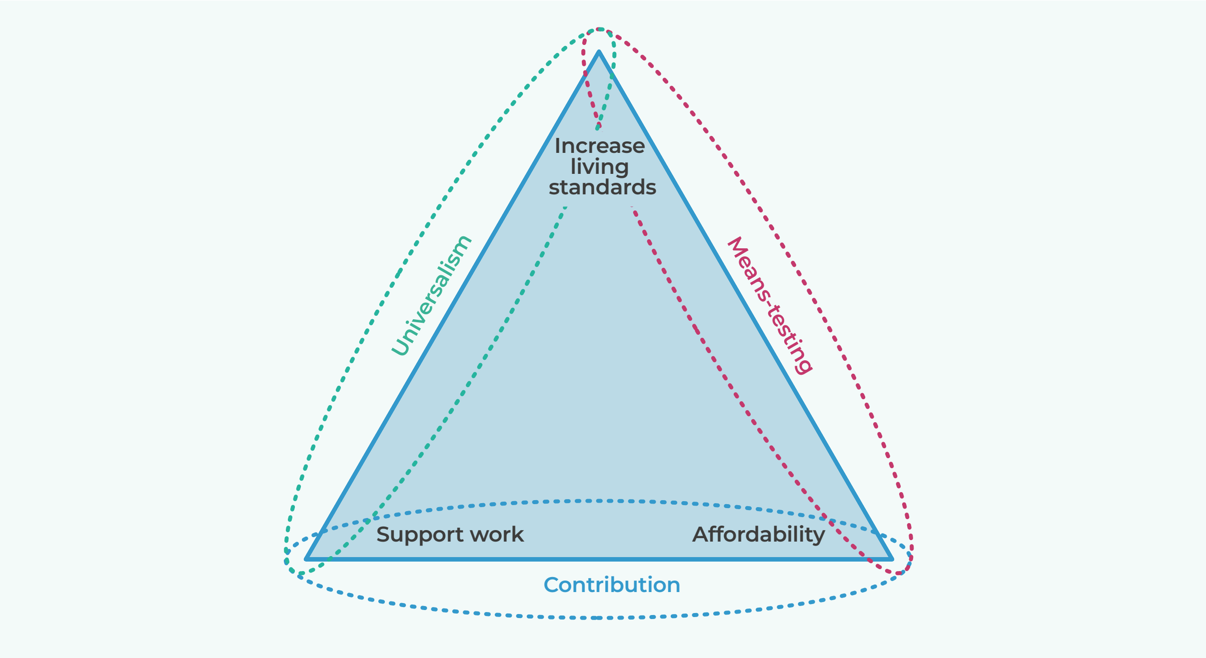
Share of social security spend for working-age households by entitlement approach over time



Source: DWP expenditure tables for the 2022 Spring Statement. Note: Disability benefits and "other benefits" are not included. Spending before 1978/79 by entitlement is estimated based on demographics from 1978/79 to 1982/83.

FIGURE 1.2: MEANS-TESTED SYSTEMS SUCH AS UNIVERSAL CREDIT ARE NOT AS WELL SUITED TO SUPPORT WORK

Visual representation of the iron triangle of welfare policy, overlapped by the three entitlement approaches: contributory, universal, and means-tested



Source: NEF adaptation of Blundell's iron triangle

Represented in figure 1.2, the iron triangle is a useful heuristic with which to interrogate welfare policy but, as with all models, it comes with limitations. It does not inherently indicate how these three policy objectives should be weighted (or question that they are the right ones). It is also limited as a static model, meaning it fails to capture things like behavioural economic effects and intertemporal dynamics, which may affect or reverse some of the static trade-offs.

Nonetheless, in a simplified form, the headline delivery approaches to social security payments – universal, contributory, and means-testing – can be mapped onto the iron triangle in terms of the static trade-offs they each imply respectively. Universal support increases living standards without hampering financial work incentives because welfare payments are not withdrawn as a function of rising earnings from work, but this is necessarily expensive for the government. A contributory system is more affordable and supports work incentives since it is exclusionary based on those who are able to pay into the system, but as a result, its coverage and effect on living standards is not comprehensive. Means-tested systems improve living standards in a cost-effective way since payments are targeted where they are needed most, but this comes at the expense of financial work incentives due to the withdrawal of benefits for those in employment.

Broadly speaking, financial work incentives fall into two categories: the motivation to increase earnings when working and the incentive to work at all. The former can be thought of in terms of the proportion of gross earnings subtracted through tax and withdrawn from benefits for a given increase in income. This is the effective marginal tax rate (EMTR). The motivation to work at all is covered by the participation tax rate (PTR) – the proportion of gross income subtracted through tax and withdrawn from benefits, after moving into work – and the replacement rate (RR) – the ratio of net income between an individual being out-of- and in-work, respectively.

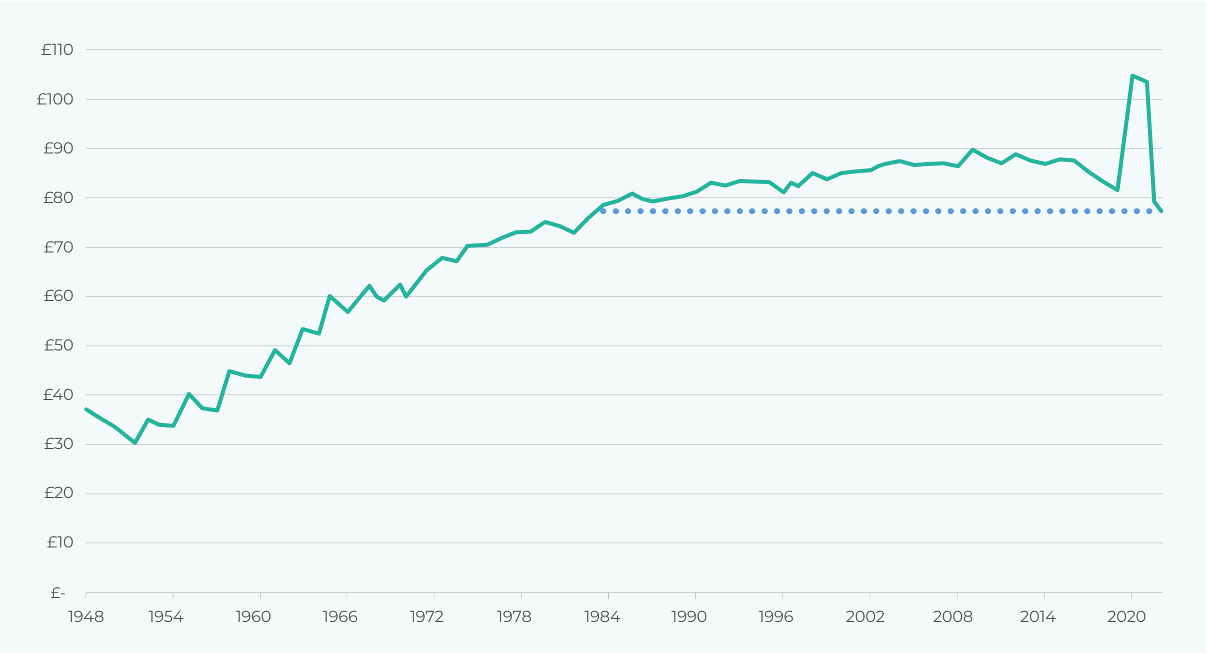
A high EMTR is often referred to as the poverty trap while the unemployment trap is when there is little incentive to work in the first place. The lower the value of these three metrics, the stronger the incentive to work, but this may not always lead to the most desired outcome, particularly if at the expense of adequacy. Indeed, a comparison of 12 European countries,[5] including the UK, found that higher RRs in disability benefits reduced the disability employment and poverty gaps.

Attempts to reconcile the inherent trade-offs within a system dominated by means-testing have been a key feature in the evolution of social security payments in recent decades. In an attempt to achieve the ambitious target of eradicating child poverty in 20 years, the New Labour government introduced child tax credit (CTC), which combined previous support for parents into a single benefit for those in- and out-of-work, as well as working tax credit (WTC) – a reformed version of the working families tax credits also implemented by New Labour. WTC targeted additional support at low-paid households where at least one adult was working over 16 hours, or 30 if they had no children. These reforms expanded eligibility for means tested benefits up the income distribution, and were successful in raising living standards for working-age families with children. Child poverty fell by 6 percentage points between when New Labour took office and 2004/05.[6] But introducing tax credits on top of existing support also created a complex web of financial work incentives. Working tax credits pushed higher EMTRs further up the income distribution, since more people now had means tested benefits to be withdrawn, extending financial disincentives to increase hours and pay to a greater number of families. Households still in receipt of WTC and housing benefit (HB) experience EMTRs of 93%.[7] For people working fewer than 16 hours, claiming either employment support allowance (ESA) or JSA, their PTRs are 100%.

Universal credit was a deliberate response to this complex system and its maze of financial work incentives. The government's stated objectives for UC included improved work incentives and reduced overall costs.[8] But it's also important to highlight that some of UC's key objectives were mutually in tension from the beginning, leading to the systematic failure we explore later in this report. This tension should be somewhat expected, as a means-tested system is not best suited to reducing costs and improving work incentives at the same time.

FIGURE 1.3: SOCIAL SECURITY PROVIDES THE SAME LEVEL OF SUPPORT AS THE EARLY 1980S

Real value of primary unemployment benefit for a single person over 25 between 1948 and 2022, adjusted by CPI to 2022/23 prices



Source: NEF analysis of IFS fiscal facts using CPI figures from the ONS. CPI values before 1988 are ONS estimates.

This was exemplified in 2015 when George Osborne attempted to find £3 bn[a] per year in savings from UC and found himself cutting 'work allowances'[9] – the amount of money someone can earn in work before their benefits start to be withdrawn. This increased both EMTRs and PTRs at the same time, significantly worsening financial work incentives.

But the result of a cost-cutting agenda -within a means-tested system not only meant that financial work incentives suffered, but more fundamentally so did the level of adequacy. The real value of the main element of unemployment benefit, for example, broadly flat-lined for much of the 2000s, before falling back to its lowest level since the 1980s over the last decade (Figure 1.3). This has had a huge impact on living standards, with the number of people living in deep poverty rising by a fifth in the last 20 years.[10]

Failure to find a balance between these trade-offs has resulted in a sub-optimal social security system held together by postcode lottery discretionary support and a network of charitable organisations such as the Trussell Trust, who have distributed as many emergency food parcels in the first six months of this year as the first six months of the pandemic,[11] despite their network of foodbanks barely existing a decade ago. The relentless repudiation of the inadequacy of social security rates by ministers, in favour of promises that work will pay, meant that when the pandemic and cost of living crisis worsened living standards, temporary support was required.

1.2 GROWING CONSENSUS FOR A FAIRER SYSTEM

The diminishing role and prominence of universalism and contribution have coincided with reducing support for social security as a whole. The rise of the term 'benefit scrounger' and views of the deserving and undeserving poor hold back social security from supporting all those who need it, despite being based on misinformed information and anecdotal experience. These views still hold today, with half of the country believing that households claiming social security as a result of the pandemic were more deserving than those in receipt before.[12] The same views do not apply to other pillars of the welfare state, particularly those

a Cutting work allowances would have saved £3.9 bn per year by 2021/22, but this was reduced by £700 m after the government reduced the taper rate by 2 percentage points to 63% in 2017.

that are not built on systems of means-testing or contribution. YouGov polls show that 85% of the country believe GP appointments should be free for all[13] while a further 85% think that prescriptions should either be universally free or free for people in receipt of a social security payment.[14] The NHS also receives greater support for more funding (70%) than the social security system (20%), although that same polling tracker finds that backing for higher social security payments has increased from 13% in July 2019.

But sentiment towards social security is cyclical. The British Social Attitudes (BSA) survey has found that positive opinions on social security have grown in recent years, having slumped since the early 90s. Trends between 2000 and 2015 showed support for the 'scrounger' narrative of benefit claimants, with the proportion of people agreeing that "many people who get social security don't really deserve any help" peaking at 40% in 2005.[15] Support for this statement has now halved while over 40% of people have disagreed every year since 2018. This is the largest prolonged period of support for those in receipt of social security since the BSA first polled this statement in 1987.

The Fabians corroborated this in 2021, finding that there was significant support for increasing social security for most households not in work.[16] The increasingly positive attitudes towards those in receipt of social security may be driven by generational differences. An earlier BSA report[17] found that people under 45 were approximately 20 percentage points more likely to support wage top-ups than pensioners. These changing views may have contributed to 61% of the population supporting an inflation-linked uprating in April 2023.[18] despite wages falling in real terms.

Together with higher popularity amongst younger people, the cyclical nature of support implies that now is likely the best time to introduce long-lasting reform that results in an adequate and effective safety net. But to build permanent support, new policy should not focus on means-testing alone. With greater support, the bounds of the iron triangle are loosened, making the next parliament an opportunity to rebalance the roles of universalism and means-testing while aligning the tax and benefits systems.

2. A DECADE OF REFORMS AND CUTS

The mechanisms of social security have transformed just as much as the political ideology that has driven system change. While some policies have improved the administration of the benefits system, many have fundamentally cut away at the strength of the safety net, leading to unacceptable levels of hardship. The inadequacy of social security was clear during the pandemic and is again exposed during the cost of living crisis. But the sticking plasters implemented have not been made permanent, further increasing the likelihood of widespread destitution as the economy enters what is forecast to be the longest recession in 100 years.[19]

2.1 MEASURING THE COST OF LIVING

To understand the insufficiency of social security and the policy choices that have led to this, it's important to consider metrics that capture the ability of the system to deliver against absolute need. One such metric is the minimum income standard (MIS), which NEF explored in more detail in 2021.[20]

The MIS is the level of income required to meet and sustain an acceptable standard of living for a given family type and at a given point in time, according to the general public.[21] Based on extensive qualitative and quantitative work, the MIS has been maintained by the Centre for Research in Social Policy (CRSP) at Loughborough University and funded by the Joseph Rowntree Foundation (JRF), since 2008/09.

Figure 2.1 shows the April 2021 MIS for four household types outside of London. For a single person outside London to afford their MIS of £1,400 per month, they needed to earn £1,700 before tax. For a couple in receipt of universal credit (UC) with a toddler and primary-school-aged child, both partners needed to earn £1,400 per calendar month to cover their MIS excluding childcare. The impact of individual personal allowances means that such a household would not meet its MIS if only one person in this household earned £2,800. Introducing childcare to a family budget can substantially increase the cost of living and, as such, the earnings needed to afford the cost of living are dependent on actual childcare costs. For example, in Figure 2.1, childcare costs make up 27% of the total MIS for a couple with two children.

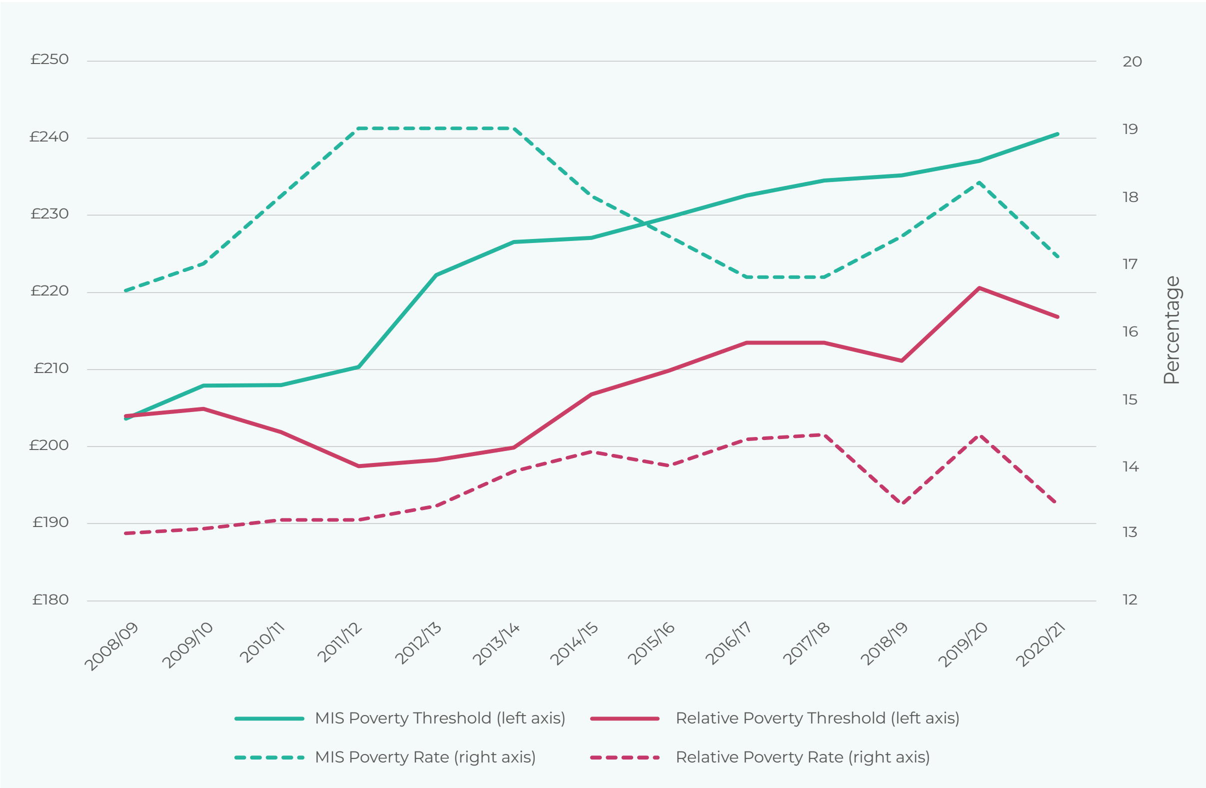
FIGURE 2.1: THE COSTS OF A DECENT QUALITY OF LIFE VARY SIGNIFICANTLY WITH HOUSEHOLD COMPOSITION

The minimum income standard monthly budgets in 2021 for four households types

Source: MIS budgets provided by the Centre for Research in Social Policy at Loughborough University. Note: Living costs are comparable to out of work benefits, with housing costs including rent and Council Tax.

FIGURE 2.2: THE 75TH PERCENTILE OF MIS DOES NOT DIRECTLY FOLLOW WAGE GROWTH, INSTEAD REPRESENTING THE CHANGING COST OF LIVING

Comparison of the threshold and rates, in 2020/21 prices, of the 75th percentile of the MIS before housing costs (BHC) and relative poverty BHC between 2008/09 and 2020/21, for a single person outside London



Source: MIS data provided by the JRF inflated by ONS CPI, relative poverty information taken from IFS inequality data.

But an acceptable standard of living, set at 100% of the MIS, free from the risk and grip of destitution, is a different notion from poverty. Hirsch et al.[22] have proposed using the 75th percentile of the MIS as an appropriate poverty threshold. Below this point, they have found that the risk of deprivation in one or more areas of life increases at a faster rate compared to households with income over the MIS.

We can compare the 75th percentile of the MIS to the official relative measure of poverty. The relative poverty threshold is defined as 60% of the median income in a given year and can be equivalised to allow comparison of different household sizes. Using the government's equivalisation scale, a single person with an annual income of £19,200 has an equivalised income of £32,000 per year.

Yet relative poverty is more of a reflection of inequality than of the ability to afford essentials. In Figure 2.2 we see that following the financial crisis, the relative poverty threshold reduced as median earnings fell, but this did not coincide with better living standards. Indeed, in 2008/09, the MIS poverty indicator was identical to the relative poverty threshold before housing costs (BHC). Wages then stalled yet the cost of living did not, with the MIS poverty marker £24 per week higher in 2020/21 for a single person.

2.2 THE INADEQUACY OF INCOME PROTECTION

The safety net in the UK has long been insufficient. A decade of austerity measures imposed over the top of major welfare reform has resulted in a threadbare system of support, with local discretionary schemes for the most part a postcode lottery.

First rolled out in April 2013, UC was introduced alongside harsh cuts to social security, and is now synonymous with an ineffective and harsh safety net.[23] The capped uprating of social security, followed by the benefit freeze, led to real-term decreases in rates from 2014/15 until 2020/21. These cuts have left support for unemployed people at the same rate as in the early 1980s, as shown in

Figure 1.3. The bedroom tax reduces the housing element of UC (and housing benefit (HB)) for social tenants while the local housing allowance (LHA) is undergoing its second freeze since it was introduced. In the first nine months of this year alone, rents have increased by a staggering 22% year-on-year in London,[24] yet support for private renters is held at the same value as in April 2020.

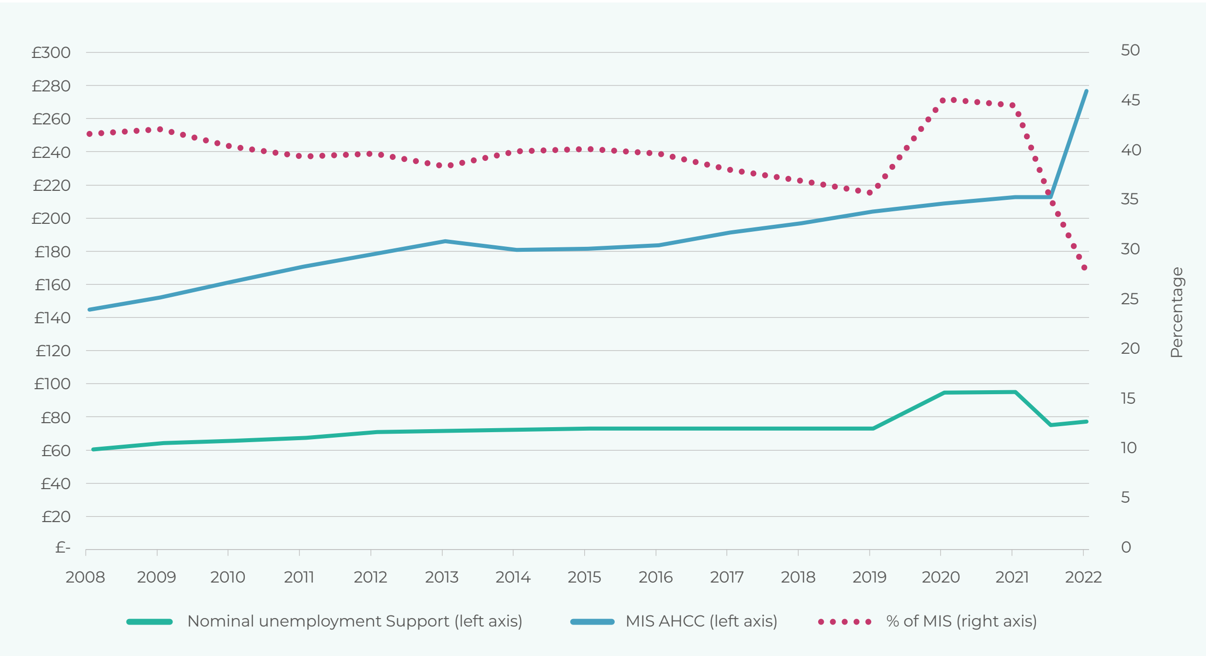
Other policies are also having an increasingly harmful impact. The two-child limit restricts social security from covering a third or subsequent child born after April 2017 while the benefit cap limits state support for single working-age adults to £15,410 and £13,400 per year, in and out of Greater London, respectively. For couples or parents, these caps are £23,000 and £20,000. These levels were themselves reduced in November 2016 from £26,000 for parents and couples and £18,200 for single people. As of May 2022, 127,000 families on UC and HB were benefit capped, 69% of whom were lone parents.[25]

The limited capability for work (LCW) element of UC has been scrapped while eligibility criteria for the non-means-tested disability benefit personal independence payment (PIP) have been tightened. Child benefit (CB) is no longer universal, and funding from central government for the devolved council tax reduction (CTR) fell by 20% in 2013/14. As of 2020/21, these cuts had removed £14 bn from the working-age social security annual budget.[26] Once UC has fully rolled out, previous estimates show that the total social security budget will have fallen by £34 bn compared to if 2010/11 policy had been upheld.[27]

The effects of cuts have driven a growing wedge between the level of working-age income protection – whether to legacy benefits or UC – and the cost of living. In Figure 2.3, we see that in 2008/09 jobseeker's allowance (JSA) for a single person aged over 25 covered 42% of the MIS after housing and childcare costs (AHCC). As the cost of living increased, the support offered by social security fell. The standard allowance of UC now only covers 28% of the MIS AHCC, although the cost of living packages increase this to 32%.

FIGURE 2.3: AUSTERITY HAS INCREASED THE GAP BETWEEN SOCIAL SECURITY AND THE COST OF LIVING

Nominal value of primary unemployment benefit for a single person over 25 over time compared to MIS AHCC



Source: NEF comparison of IFS fiscal facts and annual MIS budgets data from the Centre for Research in Social Policy at Loughborough University.

While the MIS is a comprehensive measure of acceptable living costs for the majority of households, it does not reflect the additional costs of living with a disability. Measuring such costs is difficult. Each disability is unique in its impact on a person's life and therefore the additional cost will differ between any two disabilities. In 2015, however, the CRSP[28] found that the additional costs for a single deaf person were 82% higher (£706 per month) than the default MIS budget. For those with hearing loss, the MIS was 25% higher (£217 per month).

By comparing equivalent living standards between people with and without a disability, Scope, the disability equality charity for England and Wales,[29] was able to estimate that the average disabled adult faced additional costs of £583 per month after income from disability benefits. One in five disabled adults had additional costs of over £1,000 per month after social security payments aimed at covering these costs. By combining the Scope figure with the MIS, we estimate that in 2021/22, disability and living allowance covered only 36% of the additional cost of living for disabled people.

Disability premiums exist within legacy benefits and help to bridge this gap for low-income disabled people, but were not added to UC. This has weakened social security for many disabled people, particularly those unable to work. The effects of a deteriorating income safety net before the pandemic were profound. The JRF found that between 2002/03 and 2019/20, the number of people living in destitution, classified as below 40% of median income rather than the standard 60%, had increased by 20%.[30] The increasing propensity of destitution has coincided with the expansion of charitable organisations propping up the social security system.

Very few people had heard of a food bank in 2010, let alone visited one, with the Trussell Trust network giving out 60,000 emergency food parcels in that year.[31] By 2016, at the beginning of the benefits freeze, this had increased to 1.2 m and this trend of increasing reliance on foodbanks continued, with 1.9 m parcels distributed across the UK in the year before the Covid-19 pandemic.[32]

The increasing need for food banks should not come as surprise. Alongside a decade of weak growth and high inequality, our inadequate safety net has left a typical family £8,800 poorer than in Australia, Canada, France, Germany and the Netherlands.[33] The picture of poverty in the UK by income-based measures is therefore unsurprisingly poor by international standards as well. Figure 2.5 shows both the 'poverty rate', in this case, defined as 50% of equivalised median income, and the 'poverty gap', a ratio reflecting the extent to which the average income of the poorest falls below that poverty line, across the Organisation for Economic Co-operation and Development (OECD) countries before the pandemic. The UK poverty rate is broadly in line with the middle of the pack, although it is still one of the highest in northwest Europe. But the extent to which those on low incomes are falling below the poverty threshold is one of the highest of any OECD country.

TABLE 2.1. DLA/PIP COVERS 36% OF THE ADDITIONAL COST OF LIVING FOR A DISABLED PERSON

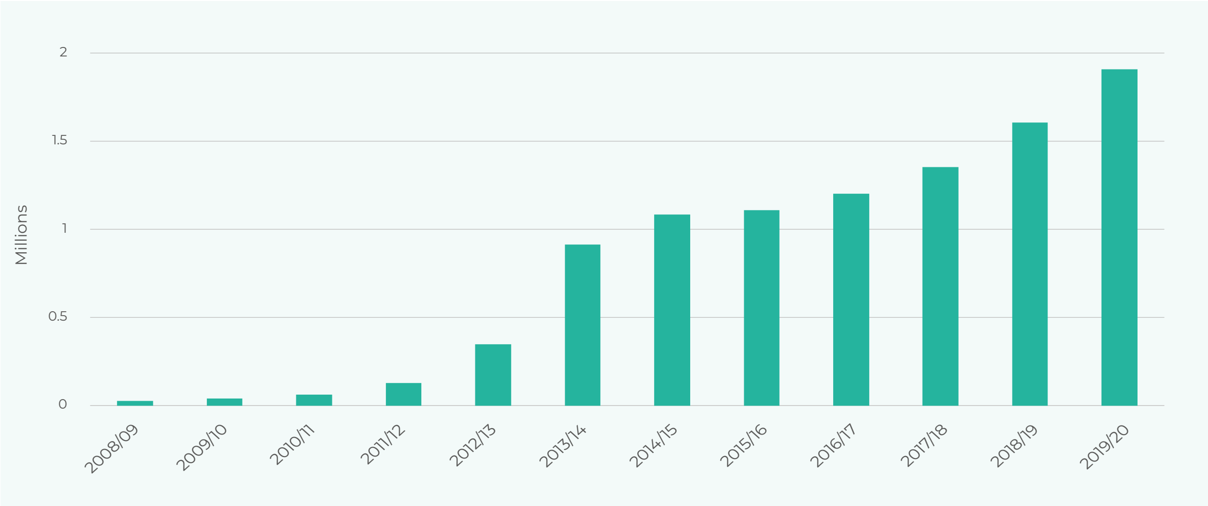
Estimates of the additional monthly MIS for three broad categories of disability compared to support from disability benefits

Level of disability	DLA equivalent	Single person MIS budget	Extra budget covered by DLA	Extra budget not covered by DLA
None	N/A	£1,409.46	N/A	N/A
Low	Low care & low mobility	£1,974.13	£205.40	£359.27
Middle	Middle care & low mobility	£2,406.57	£362.70	£634.41
High	High care & high mobility	£3,222.01	£659.32	£1,153.23

Source: NEF estimates based on the 2021 MIS provided by the CRSP at Loughborough University and the 2019 Disability Price Tag developed by Scope. DLA rates are provided by the DWP.

FIGURE 2.4: 1.9 MILLION EMERGENCY GOOD PARCELS WERE DISTRIBUTED BY THE TRUSSELL TRUST IN THE YEAR BEFORE THE PANDEMIC

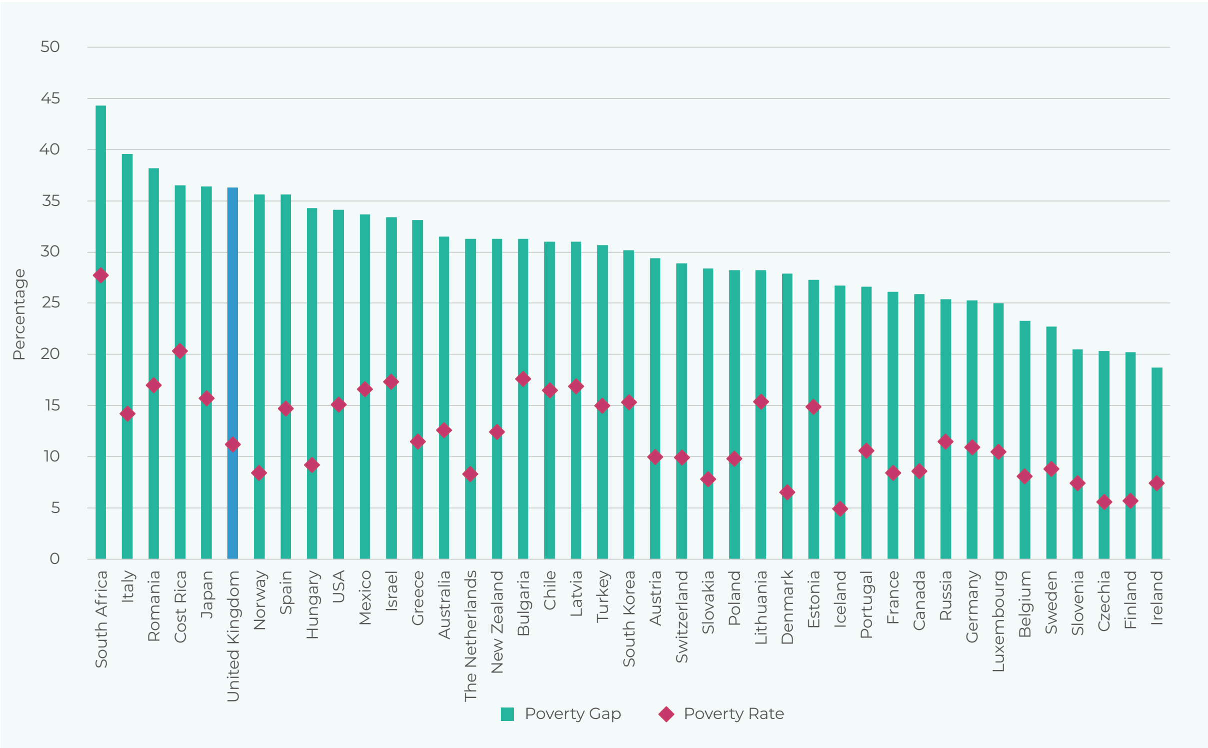
Number of emergency food parcels distributed by the Trussell Trust network of food banks between 2008/09 and 2019/20



Source: Statistics provided by the Trussell Trust. Note: This data only covers the Trussell Trust network of food banks. The independent food aid network has identified a further 1,100 foodbanks in the UK, not including those run by school, hospitals or the Salvation Army.

FIGURE 2.5: THE EXTENT TO WHICH THE POOREST FAMILIES IN THE UK ARE FALLING BELOW THE POVERTY THRESHOLD IS ONE OF THE HIGHEST IN THE OECD.

'Poverty rate' (proportion of people falling below a poverty threshold of 50% of median equivalised income) and 'Poverty gap' (ratio of average income of the poorest falls to the poverty line) across OECD countries, most recent year available



Source: OECD poverty gap and rate data, accessed November 2022.

Already weak by international standards, the reforms of the UK social security system before Covid-19 were then brutally exposed by the effects of the pandemic itself. The weaknesses in the system before the pandemic meant that the government was forced to make emergency repairs to working tax credits (WTC) and universal credit (UC) in the form of the £20 uplift. The uplift demonstrated the power of welfare adequacy to improve living standards. The uplift, in combination with slightly lower wages, lowered the headline poverty rate by 2 percentage points[34] (relative poverty after housing costs (AHC) fell from 22% to 20%) in the first year of the pandemic. More households had incomes below the MIS when the uplift was removed, increasing from 30.1% of working-age adults to 31.5%.[35] The increase for children was similar (43.4% to 44.7%).

However, the government also quickly realised that a £20 uplift on the current system would be far from sufficient. In a matter of weeks, the government built a whole new, temporary system from scratch in the form of the Coronavirus Job Retention Scheme (CJRS) and the Self-Employed Income Support Scheme (SEISS). The former covered 80% of wages, up to £2,500 per month, for 10.8 m people,[36] while payments for the latter covered up to 80% of quarterly profits, up to £7,500, but only for those with annual trading profits below £50,000. The scale of these schemes showed that the state could act to protect incomes when needed and almost overnight the civil service had created a new social security system more in line with the European model.

But the speed with which furlough was created contributed to millions of people falling through the cracks due to eligibility issues among those in particularly precarious work and those who had become self-employed or started work after the furlough cut-offs. This was as well as the opposite problem of an estimated £5.3 bn lost to fraud,[37] which was almost the same cost as implementing the £20 uplift for an entire year.

The three systems of social security (UC, legacy benefits, and pandemic work-based income protection) ran in tandem until the pandemic schemes closed in October 2021 as the health and economic threat of the pandemic eased. The uplift was replaced by increases to the work allowance and a lower UC taper rate set at 55% instead of 63%. While these policies offset the loss for some households, 3.6 m families still saw a reduction in income.[38]

The UK therefore essentially returned to its pre-pandemic safety net at precisely the moment that the cost of living crisis began to take hold. By December 2021, the consumer price index (CPI) had increased to 5.4% from a year earlier, a result of increased global demand and stuttering supply chains. High prices transformed into a fully fledged cost of living crisis as the primary and secondary inflation effects of higher energy, caused by the Russian invasion of Ukraine, pushed inflation to the highest rate in 40 years.[39]

For the second time in as many years, the UK income safety net was shown to be unfit for the 2020s. The government was once again forced to step in with new, one-off packages of support, this time administered through far more chaotic and ineffective means. The council tax rebate was poorly targeted from the beginning (given the near irrelevance of 1991 property values to 2022 family income needs) and while it was automatically applied to households able to pay by direct debit, many low-income families have had to claim this support leading to a significant rate of under claims. As of the beginning of November 2022, 300,000 households were missing out on the rebate.[40] The energy price guarantee was more effective overall, but it was eye-wateringly expensive, poorly targeted, and led to perverse incentives on energy consumption.

The result is that even with the cost of living packages and the energy price guarantee, more people are living below an acceptable standard of living than pre-pandemic. As of December 2022, with real wages reducing at their fastest level since the late 1970s,[41] 41% of households (11.9 million) can no longer afford a decent standard of living, rising to 43% (12.5 million) % by December 2024. This equates to an increase of 12 percentage points (3.6 million families) between the 2019 election and latest possible date the next election can be called. This includes 88% of lone parents and 50% of working families with children. The average shortfall between income and MIS (AHCC) for those unable to afford a decent standard of living will have risen from £6,200 per year to £10,000.

Evidence from the Food Foundation supports these findings. Their survey shows that 9.7 m adults (18.4%) of households experienced food insecurity in September 2022,[42] more than any period since they began collecting data at the beginning of the pandemic.

With the Office for Budget Responsibility (OBR) [43] and the Bank of England[44] forecasting recessions into the middle of the decade, and fiscal policy tightening once again, the insufficiency of social security will push even more people below a decent standard of living. The harmful and unequal impact of a recession will be most felt by those out of work, long-term disabled, or otherwise economically inactive. The size of this last cohort has increased by 500,000 since 2019,[45] driven primarily by mental illness, back pain, and long Covid.

The largest relative rises in long-term sickness has occurred in young people, with increases of 29% and 42% since 2019 for 16–24 and 25–34-year-olds, respectively. More needs to be done to prevent these people from becoming ill in the first place, and once they are, a more compassionate system of employment support is needed to ensure the long-term sick do not also encounter the scarring effects of long-term unemployment.

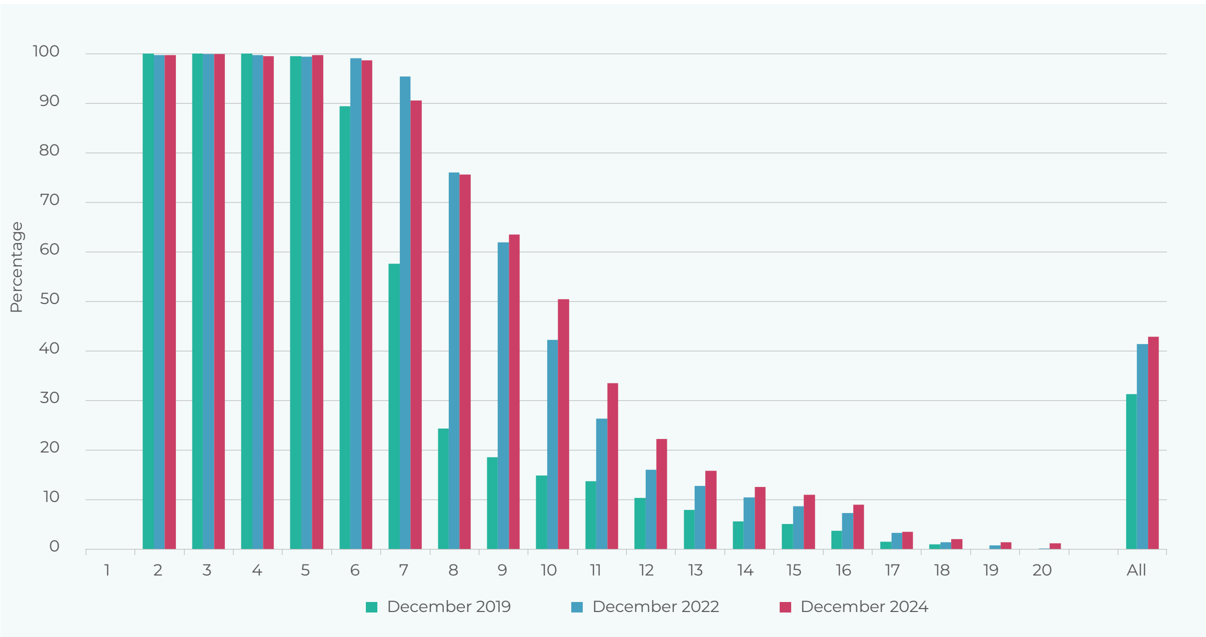
2.3 COMPLEMENTING THE WORLD OF WORK

The social security landscape was a confusing amalgamation of benefits when the coalition government came to power in 2010. Approximately £10 bn of social went unclaimed[46] across all age groups the year before while central take-up estimates for WTC and CTC were found to be 64% and 83%, respectively.[47] This contrasts with CB, which had a 96% take-up rate in 2010/11.

To simplify the system, and to remove incredibly high effective marginal tax rates, the government began the rollout of UC, a means-tested benefit for working-age households in and out of work, importantly with a single taper rate on earnings. The interaction with earnings improved on the legacy system, where work was often disincentivised by incongruent taper rates. Before the taper was increased in 2011, a household claiming both WTC and HB would see income rise by only 11p for every £1 they earned. Someone working under the 16-hour limit of the employment and support allowance (ESA) (and above the small earnings disregard) would see 100% of their earnings tapered.

FIGURE 2.6: 43% OF HOUSEHOLDS WON'T BE ABLE TO AFFORD A DECENT STANDARD OF LIVING BY THE NEXT GENERAL ELECTION

Estimated proportion of households falling below the the MIS after housing and childcare costs (AHCC) in December 2019, December 2022 and December 2024 respectively, by income vingtile



Source: NEF analysis of the Family Resources Survey (FRS) using the IPPR tax-benefit model, December 2022 and 2024 MIS estimates uses OBR inflation forecasts accounting for the energy price guarantee. Note: The bottom 5% of households are removed due to unreliable data in the FRS. Grossing is applied at the household level.

Yet certain groups do have higher tax rates on UC, including owner-occupiers facing a higher taper and some disabled people, often at the expense of adequacy. A renter in receipt of the lower levels of DLA care and mobility and working part-time at minimum wage has a PTR 4 percentage points higher on UC than legacy benefits (51% versus 55%). This is because UC, which contains no disability premiums, provides less support for disabled people than legacy benefits. Compared to claiming UC, the person is £180 and £150 better off per month on legacy benefits when working part-time and out of work, respectively.

Not only can the adequacy of UC be worse compared to its predecessor, but the adequacy of UK work-related benefits is weak by international standards. The UK ranks second bottom for the value of previous income covered by income support after six months of unemployment. Where in the UK this replacement rate is 16% for a single person on two-thirds the average wage,[48] it is 35%, 59%, and 66% in Ireland, Germany, and France, respectively. Norway and Denmark have rates just short of 80%. Once housing support is accounted for, which is comparatively high in the UK,[49] the replacement rate rises to 48%. This is still one of the lowest in the OECD,[50] although the replacement rate was five and eight percentage points higher in 2021 and 2020, respectively, as a result of lower wages and the £20 uplift during the pandemic.

Universal credit has managed to support households in and out of work, adapting as someone's earnings shift from month to month and smoothing the transition from work to unemployment, especially as the UK went into lockdown. The IT infrastructure of UC was able to withstand 1.2 m applications in the four weeks leading up to 9 April 2020. Legacy benefits are highly unlikely to have been able to achieve this. While UC did reach most of those who applied at the beginning of the pandemic, many families are still not in receipt of the support they are eligible for. NEF estimates from January 2022 found that 400,000 families were eligible for UC but were not claiming it.[51]

Cliff edges still exist in the system, preventing those with savings over £16,000 from receiving support while the free school meals threshold creates a work disincentive. Temporary government policy, while right to make use of the benefits system, has added further cliff edges to UC. The cost of living payments for households in receipt of means-tested benefits are not tapered. As lump sum payments, a person on a low wage would lose out on £325 if an increase in earnings reduces their UC award to nil. In extreme cases, this could happen by earning just £1 more in a month.

Yet for many of those who have lost out, their earnings did not fluctuate. Instead, the monthly UC assessment period did not match their payment cycles. A person paid every four weeks will have one month each year where they receive two pay checks. In this month, their UC award will substantially reduce, often to zero. In normal times this makes budgeting more difficult. During this period of high inflation, this rigid mechanism has contributed to 500,000 households having a nil UC award and being prevented from accessing the cost of living payments, despite having a low income.[52]

The rigidity of monthly assessment periods and the inability of UC to retrospectively engage with the Real Time Information (RTI) system also results in a wait for the first payment. This is called the five-week wait,[b] which has been found to contribute to the incidence and depth of arrears. Before the pandemic, it was commonly cited as the primary reason for reliance on food banks. The Trussell Trust found a 52% increase in demand for emergency food parcels in the 12 months after UC was rolled out in an area.[53] While an advance can be claimed to cover this period, this loan has contributed to over 40% of households in receipt of UC having a deduction of up to 25% of the standard allowance removed from their award.[54] In March 2022, it was found that just under half (46%) of the deductions were for the repayment of the advance. In total, over 2 m families in receipt of UC were receiving a standard allowance lower than the rate set by the Department for Work and Pensions (DWP).

b The wait for the first UC payment was originally six weeks, but the administrative two-week wait was halved in 2017 leaving a five-week gap between application and first payment.

Other policies can also limit support provided to low-income households, including clawbacks for overpayments, the minimum income floor, and the sanctions regime. Following the easing of conditionality during the pandemic, the use of punitive benefit sanctions by the DWP within UC is on the rise again, having previously been found to apply sanctions more often than JSA.[55] On the eve of the pandemic, 2.5% of UC claimants subject to conditionality were under sanction; in August 2022, this had risen to 6.4%.[56] Deductions due to sanctions, which can reach 100% of the standard allowance, prevented 6,600 UC claimants from receiving the first cost of living payment.[57]

While conditionality is rife within social security, the tax system awards unconditional allowances to every earner. The cash value of these personal allowances, accounting for the huge increase to national insurance contributions (NICs) introduced earlier this year, has increased by 117% since 2010, far more than the 18% increase in the basic rate of support for unemployed people.[58] This makes the weekly value of the personal allowance across income tax and NICs the same as the standard allowance for a single person over 25 on UC. For a couple over 25, their personal allowances are worth £33 more per week than their standard allowance. Indeed, in 2018/19, more was spent on shadow welfare than actual social security per working-age household (£3,800 compared to £3,500).

In 2019/20, the personal allowance of income tax was worth £6,500 in reduced liability for households in the top 10% of incomes.[59] For the lowest decile, this was only £600. The growth of these allowances is set to stall, with current government policy freezing the tax-entry thresholds until 2028, but a rebalancing of shadow and actual welfare spending should be considered going forward.

3. PRINCIPLES FOR REFORM

The rollout of universal credit (UC), overlaid with a programme of deep austerity has transformed the UK social security into a far weaker, far less capable version of itself. Yet policy should not simply restore 2010 rates or roll back to the previous system, which is itself unfit for the challenges of the decades to come. Instead, a new plan for income support, the national living income (NLI), should be introduced, rooted in the following four principles.

3.1 DESIGN PRINCIPLES OF THE NATIONAL LIVING INCOME

Principle 1: Benchmark the level of social security payments against a measure of need, to ensure every household can meet a decent standard of living

The schedule of payments across UC and legacy benefits is both too low and too arbitrary, increasing financial hardship and stripping claimants of their dignity. The NLI, when combined with other benefits such as child benefit (CB) or carers allowance (CA) should provide a minimum income for every household, tied to the cost of a decent standard of living.

Principle 2: Rebalance the benefits system away from means-testing by strengthening the principle of universalism

Ensuring a better balance of universalism and means-testing will allow a new system to reconcile more effectively the trade-offs between affordability, adequacy, and financial work incentives. The NLI should enhance universalism, both through a stronger role for universal payments and in terms of the accessibility and conditionality of the system.

Principle 3: Improve financial work incentives for low earners and support a healthy labour market of well-paid, secure work

The combination of reducing the effective marginal tax rate (EMTR) and participation tax rate (PTR) for low-income households will improve the microeconomic incentives to work, while stronger welfare adequacy and more universal payments will put pressure on employers to compete upwards on pay and conditions to secure workers.

Principle 4: Fully funded through progressive taxation

All components of the national living income need to be fully funded over the long run through a combination of increased progressive taxation and replacing existing social security payments. In particular, new funding should come from recycling shadow spending currently made through tax reliefs and allowances on personal taxation, and by better aligning the effective tax rates on income from wealth with earnings from employment.

4. THE NATIONAL LIVING INCOME

In this chapter, we outline NEFs preliminary thinking on how reform of the personal tax and benefits system can ensure we have a strong income safety net for the 2020s and beyond. These proposals illustrate an initial prototype for satisfying the principles we've outlined within working-age social security, but NEF will continue to develop the national living income (NLI) with our partners to iterate and refine the proposals. Within the scope of this first iteration is income support for working-age families accounting for household composition, barriers to work, and disability. Out of scope for this paper, therefore, is the role of social security in providing support for pensioners, housing (including council tax and non-dependants), and formal childcare to low-income households – future NEF papers will look at reform in each of these areas, including reform to housing and childcare delivery itself as part of a universal services agenda.

In this paper, we also start to consider the role of the NLI in supporting work, as per our third principle. However further detail and policy design in these areas will also be the subject of a future paper, including flexible assessment periods, treatments of self-employed workers, wider reform to active labour market policy, and macroeconomic considerations.

Our policy modelling in this section is designed to represent the long-run effects of social security reform. We model results on labour market and economic data for the 2021/22 financial year, on the basis that this is likely to be the closest year to 'normal' economic activity at any point in the first half of the 2020s, with the preceding year overly affected by the pandemic, and the following years affected by high inflation and recession. However, the tax and benefit system (before any recommended reforms) represents the latest schedules as of the 2022 Autumn Statement, except that UC is assumed to be fully rolled out, to future-proof our results.

4.1 CREATING A DECENT MINIMUM INCOME

Under the NLI, total income support would provide a minimum income sufficient for a decent quality of life, below which no household can fall. The delivery of this decent minimum income is the first key element of the NLI.

Recommendation 1: Restore basic adequacy and permanently link it to need

The NLI would build initially on the existing IT infrastructure of UC, retaining the unit of the household and the six existing payment elements: the standard allowance, child and disabled child element, limited capability for work-related activity component (LCWRA), carer element, childcare element, and housing element. For this paper, which does not attempt to set out proposals for housing and childcare costs, only the first four elements are within scope, alongside additional major reforms detailed below.

Restoring basic adequacy and linking this to need would include the following reforms:

- **The guaranteed minimum income** of each household would ultimately rise to 75% of the minimum income standard (MIS) after housing and childcare costs (AHCC) as soon as possible. The minimum provided by universal credit (UC) in 2021/22 for a single person and couple over 25 is 35% and 33% of the MIS AHCC, respectively. This is lower if deductions are applied to the UC award. However, we recognise that reaching 75% of the MIS (AHCC)may take longer than a single parliamentary term. During the first parliament in which the NLI is introduced, we propose that the combined standard allowance should take the minimum income first to 42% of the MIS (AHCC)(the equivalent value for a single person over 25 in 2010) and then to 50% by the end of the parliament. Modelling in this paper is based on the 50% rate unless otherwise stated.

- **If a person is unable to immediately work** they would receive greater support. Those eligible for the LCWRA component (unable to work for the foreseeable future) will have a minimum income guaranteed at 100% of the MIS (AHCC) while a reintroduced limited capability for work (LCW) component (unable to work in the short term) would cover 75% of the cost of living.

TABLE 4.1: THE NLI WILL REVERSE THE GROWING GAP BETWEEN SOCIAL SECURITY AND THE COST OF LIVING

Monthly rates of universal credit (for adults over 25) and the national living income system in 2021/22

Household composition	Universal credit		National living income	
	Value	% of MIS AHCC	Value	% of MIS AHCC
Single adult	£324.84	35%	£460.71	50%
Lone parent with one child	£698.99	53%	£857.23	65%
Couple with three children impacted by the two-child limit	£1,242.47	48%	£1,839.66	70%

Source: NEF analysis of existing DWP rates and NLI rates based on the 2021 MIS provided by the Centre for Research in Social Policy at Loughborough University.

- **If a person is eligible for carer's allowance**, the NLI would guarantee an income at 100% of the MIS (AHCC). The existing rates of the carers element and carers allowance amount to 50% of the MIS (AHCC). This provides 100% of the MIS (AHCC) when added to the guaranteed minimum income above.

- **Child benefit (CB)** would be set at the same higher rate for all children, and the taper applied to income tax for higher earners would be abolished, ensuring that CB returns to being genuinely universal.

- **The child element** would be set to ensure that in combination with child benefit, 100% of the cost of providing a decent standard of living to a child is covered. This would include a higher payment for the first child to lower marginal costs of additional children as represented in the MIS.

- **All payments linked to the MIS** would be uprated at least annually in line with changes to the MIS. Intra-year uprating would follow inflation linked to the MIS basket of goods.

- **All existing caps, limits, and sanctions would be abolished** including the benefit cap and the two-child limit.

- **Debt deductions would be capped at 5%** and abolished for any household whose income is not already above 75% of the MIS (AHCC) (50% during the first parliament).

Table 4.1 demonstrates the significant boost to household income the NLI system would provide compared to the current UC system. See Appendix A for a fuller comparison of the current benefits system and the NLI.

Working-age households with children are set to gain the most from these reforms, with an average increase of £210 per month. Lone parents would see an 17% increase in monthly income (£260 per month) while disposable income would rise by over a quarter for families with children but out of work (£410 per month), many of whom will have been impacted previously by the benefit cap. The total cost of these recommendations to boost adequacy is £35.9 bn (without Recommendation 4 implemented). Table 4.3 presents a breakdown of the marginal costs of these reforms.

Recommendation 2: Introduce a new disabled adult element to the national living income

In the NLI system of social security, the increased rates associated with LCW and LCWRA recognise the negative impact of long-term economic inactivity. However, the rates of disability living allowance (DLA) and personal independence payment (PIP) are likely to only cover 36% of the additional cost of living with a disability. To make up for this loss, the NLI would include the following.

TABLE 4.2: THE DISABLED ADULT ELEMENT WILL COVER THE ANTICIPATED GAP BETWEEN DISABILITY BENEFITS AND THE EXTRA MIS (AHCC)

The 2021 rate schedule for the proposed disabled adult element of the national living income

Disabled adult level	Monthly disabled adult rate
Lower	£180.80
Middle	£319.25
Higher	£580.34

Source: Authors' own calculations based on the 2021 MIS provided by the Centre for Research in Social Policy at Loughborough University and the 2019 Disability Price Tag developed by SCOPE.

- **A new disabled adult element** to make up the difference between disability benefits and 100% of the MIS (AHCC) for low-income disabled people.
- **Eligibility will be based on entitlement to the three levels of care element in DLA/PIP**.[c] For example, if a person receives the higher level of care, this will act as a passport to the higher level of the disabled adult element.

To introduce this disability payment, the MIS would need to be improved and expanded to estimate the additional costs associated with disability. For illustrative purposes, however, we use the methodology as set out in Chapter 2, applied to the single-person MIS (AHCC), to show what the value of this award might be. The marginal cost of the disabled adult element on top of the package of enhanced adequacy (Recommendation 1) would be £8.9 bn a year.[d]

This targeted funding will substantially increase the income of working-age disabled people, with the disposable household income of those receiving the higher element increasing by £620 per month. The increase is £320 per month and £170 per month for working-age households receiving this middle and lower disabled adult element respectively. The disabled adult element expands the reach of means-testing under the NLI, but the vast majority of this additional spend (81%) is directed at poorest half of households.

4.2 GUARANTEEING THE NATIONAL LIVING INCOME FOR ALL

Just like the NHS, the NLI should be available to everyone whenever it is needed. NEF proposes that a fundamental aim of the NLI should be to achieve full take-up, including through a new universal payment.

Recommendation 3: Enable auto-enrolment onto the national living income

To ensure that everyone is guaranteed the NLI, we recommend that social security shifts to a system of auto-enrolment. Auto-enrolment has been a major success of pension policy in the last decade[60] and a core role of the Department for Work and Pensions (DWP) in the next parliament should be to realise full enrolment on the NLI. Introducing auto-enrolment will address two major issues of UC: reducing the five-week wait and increasing take-up.

A consistent issue experienced by all benefit systems to date, low take-up prevents households from receiving the support they are eligible for when they need it. In January 2022, NEF outlined several recommendations[61] for enabling auto-enrolment in UC. These are also applicable to the NLI and include basic profiles for all families, better support and integration for the self-employed, keeping accounts open permanently (UC cases close after six months of nil awards), and using HM Revenue & Customs (HMRC) Real-Time Information (RTI) system to proactively support households with low earnings. The capital limit could also be extended to £50,000, but still tapered from £6,000 as is currently the case.

c Modelling assumes that a lower care award is reintroduced to PIPs.

d It is worth noting that compared to administrative benefits data, the FRS underestimates the number of disabled people in the UK. This may increase the cost of the disabled adult element relative to this estimate.

If the earnings and unearned income for a given assessment period fall below the upper NLI income threshold, payments will begin automatically or, if further information is required by the DWP, a prompt can be sent to the household. Households can update their details at any point to ensure such automatic payments are as reliable as possible.

This automated and integrated tax and social security system can, in a scenario in which the monthly assessment periods are sustained, end the need for the five-week wait experienced by new or returning claimants. Where additional information is required, the wait for the first payment would be limited to a single week required for administrative purposes. We estimate that enabling auto-enrolment in 2021 would cost £9.2 bn, with a further £700 m needed to extend the capital limit to £50,000.

Recommendation 4: Bring everyone onto the national living income through the national allowance

To ensure everyone has a stake in social security, NEF proposes that the NLI contain a new universal element. A £187 per month national allowance (NA) will be paid directly to each adult within a household, up until someone earns over £100,000 per annum, at which point their individual NA is tapered away on the same basis as the personal allowance of income tax. This payment would be included in the calculation to bring the standard allowance of the NLI up to a given level of the MIS (AHCC). It would also be non-taxable and would not be scored against work allowances (see section 4.3 below)..

The national allowance would have several important benefits. It would ensure that almost everyone in the country is receiving payments from the NLI system, reducing stigmatisation and division. As a person-level payment, it would also act as a counterbalance to the otherwise household-based entitlement of the NLI (although the NLI could also be administered as a split payment). The NA would also have important positive interactions with the rest of the NLI, including providing a significant financial incentive to drive auto-enrolment. From a macroeconomics point of view, the NLI also represents a powerful new system for the government to provide temporary support to everyone outside the means-tested benefit system in times of crisis, for example, future pandemics or price shocks.

The gross cost of the national allowance in 2021 would be £80.5 bn. To cover the majority (£72.4bn) of the cost of the NA, NEF proposes that the personal allowances of income tax and national insurance contributions (NICs) are reduced to 50% of the MIS (AHCC) for a single person, worth £5,530 annually. Combined with Recommendation 5, this will prevent any tax from being paid until a person s income reaches the MIS (AHCC, see below).

4.3 SUPPORTING WORK

After a decade of stagnating wages[62] and rising in-work poverty,[63] better social security must support those in work as well as those looking for employment. In this section, we propose al reduction to effective marginal tax rates (EMTRs), replacement rates (RRs) and participation tax rates (PTRs) for low earners. Future papers will explore how effective tax rates might be reduced and reformed further, as well as looking at how to implement flexible assessment periods and the treatment of self-employed earnings.

Recommendation 5: Reduce effective tax rates

In lowering EMTRs and PTRs, we build our reforms around the principle that integrates the personal tax system with the benefit system: that no one pays tax or sees benefits withdrawn on any income until they reach 100% of the MIS (AHCC) for a single adult.

- **Reduce the taper rate** from 55% to 50%. This would see EMTRs for basic rate taxpayers fall from 70% under UC to 66% under the NLI.

- **Increase and expand work allowances.** Under the NLI, the work allowance of each adult would be worth 50% of the MIS (AHCC) for a single working-age adult. Together with the non-taxable standard allowance and national allowance, and the personal allowances of income tax and NICs, this would mean no tax is paid, and no benefits reduced, until a person s total income reaches 100% of the MIS (AHCC) for a single adult.

The different effective marginal tax rates in the NLI and UC can be seen in Figure 4.1. This example considers a single parent with one child with rent of £400 per month. Under the NLI system, personal allowances in the tax system (the personal allowance of income tax and the lower earnings

FIGURE 4.1: NO TAX IS PAID, AND NO BENEFIT WITHDRAWN, UNTIL A FAMILY CAN COVER THEIR BASIC COSTS

Comparison of monthly effective marginal tax rates between universal credit and the national living income for a single parent over 25 with one child and rent of £400 per month

Source: Authors own calculations. Note: Tax schedule applied is that of the 2022 Autumn statement

limit of national insurance) are aligned with work allowances, simplifying the system and ensuring most families can earn more before welfare payments start to be tapered away. This reduces cliff edges and makes the effective tax schedule simpler for basic rate tax payers overall. The lower taper rate also means that the maximum EMTR faced by families is lower than in the current system. But the lower taper rate, combined with lower personal allowances of tax, also means that the minimum EMTR above the work allowances is higher under NLI too. Comparative PTRs between the NLI and UC therefore vary depending on the level of earnings, and NEF will be exploring ways to improve efficiencies and financial work incentives further in future papers.

4.4 FUNDING THE NATIONAL LIVING INCOME

Repurposing a portion of the personal allowance into the NA is the best way to achieve full take-up of the NLI. However, we accept that its creation would be a major undertaking, one that requires substantial political capital. For this reason, we present two sets of costs, one with the NA and one without. The other variation between scenarios is the split work allowances, which take a lower value when the NA is not implemented since the personal allowances of tax remain unchanged. In a world where the NA is not implemented, we assume that existing work allowances remain at current levels, but everyone without a work allowance (including second earners) would receive one at half the current level.

We estimate that implementing the full NLI reforms for the first parliament would cost £71 bn per year in 2021/22 prices, after taking into account savings from lowering personal allowances of income tax and NICs, but before behavioural and macroeconomic impacts. That s equivalent to restoring all of the cuts since 2010, and then investing the same value again into social security on top. This falls slightly to £65 bn in the NLI scenario without the NA and with weaker work allowances. This compares to the current total spend on working-age social security in 2021/22 at an estimated £106 bn.[64]

Our recommendations are split between four packages, which could be phased separately or in tandem. The first package returns social security roughly to its 2010 level, with the standard allowance and NA covering 42% of the MIS (AHCC) and caps removed. The second expands on this basic level, with the MIG aligned to 50% of the MIS (AHCC) and further support for those who are unable to work or have a disability. The third package focuses on improving tax rates, while the last set of policies expands social security automatically to all eligible households.

TABLE 4.3: THE NLI WOULD PUT IN TWICE WHAT HAS BEEN LOST FROM SOCIAL SECURITY SINCE 2010

Marginal cost (£ millions) of respective national living income reforms, implemented together in 2021/22 in the order presented in the table

Package	Policy	With national allowance	Without national allowance
NLI first parliament	**Total cost** Of which	**£70,600**	**£64,900**
Package one	**Package one total** *Of which*	**£31,400**	**£25,300**
	Set the minimum income guarantee at 42% of the MIS (AHCC) with 100% for children and LCWRA	£20,200	£20,200
	Reduce the annual personal allowance of income tax and NICs to £5,530	-£72,400	N/A
	Introduce the national allowance payment	£80,500	N/A
	Abolish the two-child limit	£1,400	£1,400
	Abolish the benefit cap	£600	£1,000
	Cap deductions	£1,100	£2,700
Package two	**Package two total** *Of which*	**£17,400**	**£19,400**
	Set the minimum income guarantee at 50% MIS (AHCC)	£6,700	£8,100
	Reintroduce top-ups for LCW	£2,200	£2,400
	Additional disability payment based on eligibility to PIP/DLA	£8,500	£8,900
Package three	**Package three total** *Of which*	**£13,800**	**£10,300**
	Expand, split and increase work allowances	£10,500	£5,000
	Lower the Taper Rate to 50%	£3,300	£5,300
Package four	**Package four total** *Of which*	**£8,000**	**£9,900**
	Enable auto-enrolment	£7,600	£9,200
	Raise the capital limit to £50,000	£400	£700

Source: NEF analysis of the Family Resources Survey (FRS) using the IPPR tax-benefit model. Modelling of each individual policy includes all those before it.

TABLE 4.4: THE MAJORITY OF THE NLI CAN BE FUNDED BY PLUGGING GAPS IN THE TAX SYSTEM

Individual and total revenue raised by policy, in millions

Policy	Revenue Raised
Total raised *Of which*	**£71,100**
Remove the upper earnings limit of national insurance contributions	£17,400
Equalise rates of capital gains tax with income tax	£14,900
Extend national insurance contributions to investment income	£14,100
Introduce a flat rate of relief on pensions	£9,000
Equalise rates of dividend tax with income tax	£7,000
Scrap entrepreneurs' relief	£5,500
Remove the remaining capital gains annual exemption	£1,700
Extend national insurance contributions to pensioner income, excluding pensions	£1,500

Source: Equalising rate on capital gains, closing inheritance tax relief, and changes to national insurance are based on estimates from Advani and Summers et al.[65] Analysis from the IPPR provides revenues for the remaining changes to capital gains[66] and equalising tax paid on dividends.[67] Flat rate pension relief is based on Resolution Foundation estimates form 2016.[68] Notes: Policies do not account for the proposed reduction in personal allowances of income tax and national insurance, which would increase revenue. The interaction of all policies is not modelled, although the extension of NICs to investment income includes the interaction with other NICs policies. Reform of capital gains tax assumes an indexation allowance is implemented. The assumed impact of this allowance on IPPR capital gains forecasts is linear.

To fund these packages, we focus on raising revenue in ways that maximise efficiency and progressivity. In particular, this means reducing the differential in effective tax rates between earnings from work and income from wealth, by aligning headline rates and removing reliefs and allowances.

It is unfair and inefficient for the level of personal tax to vary significantly based on the source of income alone. In the current system, the headline rate of tax paid on earnings over £2 m per year is 47%, but the effective average tax rate (EATR) for someone with taxable income above this point is only 40%.[69] If we include capital gains, where over half of the gains are concentrated among 5,000 people,[70] the EATR of someone with total income over £10 m is only 21%. This is less than the rate paid by someone earning £30,000.

We suggest that funding the NLI should look to address this unfairness and inefficiency, and so set out a number of recent proposals from the IPPR, Resolution Foundation and Arun Advani and Andrew Summers (see table 4.4).

4.5 DISTRIBUTIONAL IMPACTS

Replacing UC with the NLI will substantially increase the disposable income of the poorest families. Figure 4.2 shows the cumulative impact of the policies that make up the NLI. Under this system, the poorest households[e] would see their net income AHCC increase by £6,000 per annum (from £11,800 to £17,800).

e The first vingtile of households, i.e. the poorest 5% of households in the FRS are dropped from distributional analysis due to inconsistent data in the FRS but are retained in total costings.

FIGURE 4.2: THE NLI WILL SUBSTANTIALLY IMPROVE THE FINANCES OF LOW- AND MIDDLE-INCOME HOUSEHOLDS

Change in household income after housing and childcare costs if the NLI was implemented with the NA in 2021/22, by policy package and income vingtile

Source: NEF analysis of the Family Resources Survey (FRS) using the IPPR tax-benefit model. Note: The bottom 5% of households are removed due to unreliable data in the FRS. Grossing is applied at the household level.

More than two-thirds of the population would see a net financial gain from the implementation of the NLI, with the poorest families seeing their disposable incomes rise by more than 50% on average, and middle-incomes families seeing an increase of 9%. The highest income 25% of the population would see their net tax contribution go up to pay for this, with a rise of less than 4% outside the highest income 10%.

The effects of the NLI on absolute measures of need are also striking. Even with the standard allowance set at just 50% of the MIS (AHCC), the combined effect of the NLI would have a huge impact on families below 75% of the MIS. Among the poorest 30% of households, the proportion falling below this level would drop from 53% to 19%.

TABLE 4.5: THE PERCENTAGE OF HOUSEHOLDS WITH INCOME BELOW THE MIS AHCC FALLS BY 10 PERCENTAGE POINTS WITH THE NLI

Percentage of households below the MIS after housing and childcare costs and average income as a percentage of the 75th percentile of the MIS (AHCC)

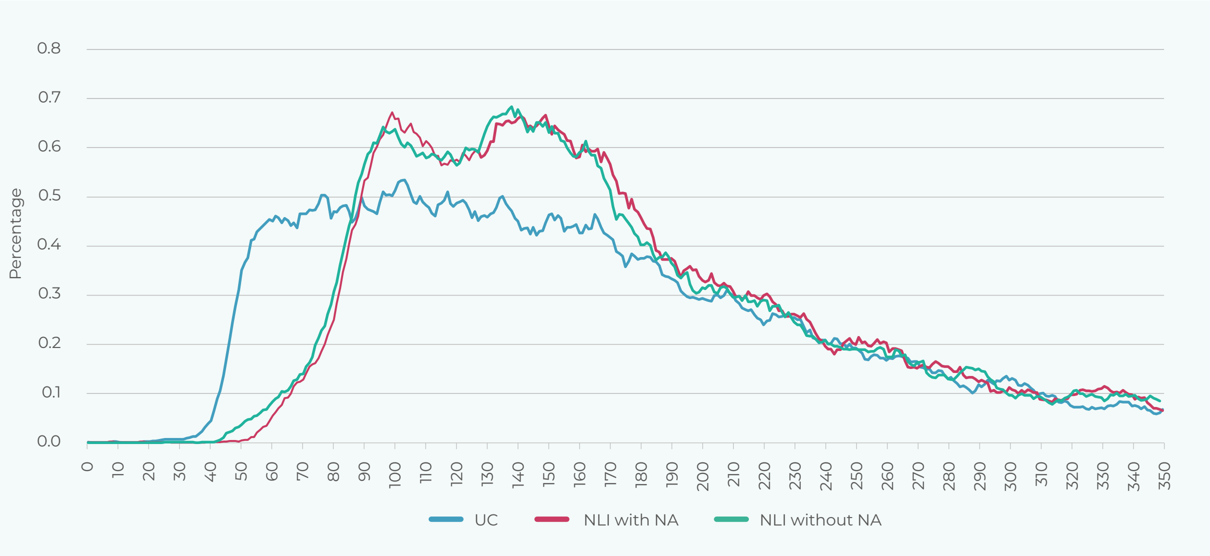
Vingtile	UC		NLI with the NA		NLI without the NA	
	Households under the 75th MIS (AHCC)	Average income as a percentage of the 75th MIS (AHCC)	Households under the 75th MIS (AHCC)	Average income as a percentage of the 75th MIS (AHCC)	Households under the 75th MIS (AHCC)	Average income as a percentage of the 75th MIS (AHCC)
1						
2	99%	56%	35%	91%	48%	84%
3	75%	72%	5%	107%	14%	101%
4	19%	94%	3%	124%	3%	117%
5	14%	111%	2%	135%	2%	125%
6	13%	124%	1%	146%	1%	137%
7	10%	134%	0%	154%	0%	148%
8	7%	146%	0%	165%	1%	161%
9	6%	159%	1%	173%	1%	171%
10	5%	171%	0%	185%	0%	181%
11	3%	182%	0%	193%	1%	190%
12	1%	196%	0%	205%	0%	199%
13	2%	210%	1%	215%	1%	212%
14	1%	224%	0%	225%	1%	223%
15	0%	240%	0%	240%	0%	239%
16	0%	262%	0%	258%	0%	259%
17	0%	288%	0%	283%	0%	282%
18	0%	320%	0%	310%	0%	312%
19	0%	364%	0%	348%	0%	351%
20	0%	442%	0%	415%	0%	421%
All	**17%**	**198%**	**7%**	**206%**	**8%**	**203%**

Source: NEF analysis of the Family Resources Survey (FRS) using the IPPR tax-benefit model. Note: The bottom 5% of households are removed due to unreliable data in the FRS. Grossing is applied at the household level.

The impact of the NLI is shown in Figure 4.3, which contains the distribution of working-age household income compared to the MIS (AHCC). The rightward shift from universal credit to the NLI highlights the extent to which poverty could be reduced by a better system of social security. While the proportion of households falling below the 75th percentile of the MIS (AHCC) would reduce from 17% to 7%, households with income below 100% would fall from 29% to 19%. Currently, the majority of households that will benefit from the means-tested portions of the NLI have net income (AHCC) below their respective MIS with a median ratio of 95%. If the NLI were implemented in 2021/22, the median ratio would increase to 117% in either scenario.

FIGURE 4.3: THE NATIONAL LIVING INCOME WILL HELP MORE FAMILIES REACH THEIR COST OF LIVING

Distribution of working-age household income after housing and childcare costs (AHCC) as a % of MIS (AHCC)



Source: NEF analysis of the Family Resources Survey (FRS) using the IPPR tax-benefit model. Note: The bottom 5% of households are removed due to unreliable data in the FRS. Grossing is applied at the household level.

APPENDIX A: SCHEDULE OF RATES

Policy	UC	NLI with NA	NLI without NA
National allowance (paid individually)	*N/A*	*£187.00*	*N/A*
Standard allowance (single under 25)			
(current value)	*£257.33*	*N/A*	*N/A*
(package one value)	*N/A*	*£200.00*	*£387.00*
(package two value)	*N/A*	*£273.71*	*£460.71*
Standard allowance (single over 25)			
(current value)	*£324.84*	*N/A*	*N/A*
(package one value)	*N/A*	*£200.00*	*£387.00*
(package two value)	*N/A*	*£273.71*	*£460.71*
Standard allowance (couple under 25)			
(current value)	*£403.93*	*N/A*	*N/A*
(package one value)	*N/A*	*£274.16*	*£648.16*
(package two value)	*N/A*	*£397.62*	*£771.62*
Standard allowance (couple over 25)			
(current value)	*£509.91*	*N/A*	*N/A*
(package one value)	*N/A*	*£274.16*	*£648.16*
(package two value)	*N/A*	*£397.62*	*£771.62*
Child element			
(first child)	*£282.50*	*£304.86*	*£304.86*
(subsequent children)	*£237.08*	*£244.11*	*£244.11*
Child benefit			
(first child)	*£91.65*	*£91.65*	*£91.65*
(subsequent children)	*£60.66*	*£91.65*	*£91.65*
Limited capability for work (package 2)	*£0.00*	*£230.36*	*£230.36*
Limited capability for work related activity (package 2)	*£343.63*	*£460.71*	*£460.71*
Carers element	*£163.73*	*£163.73*	*£163.73*
Disabled adult element			
(lower)	*N/A*	*£180.80*	*£180.80*
(middle)	*N/A*	*£319.25*	*£319.25*
(higher)	*N/A*	*£580.34*	*£580.34*
Disabled child element			
(lower)	*£128.89*	*£128.89*	*£128.89*
(higher)	*£402.41*	*£402.41*	*£402.41*
Taper rate	*55%*	*50%*	*50%*
Work allowance			
(lower with children or LCW)	*£344.00*	*£460.00*	*£344.00*
(higher with children or LCW)	*£573.00*	*£460.00*	*£573.00*
(lower other)	*£0.00*	*£460.00*	*£172.00*
(higher other)	*£0.00*	*£460.00*	*£286.00*
Upper capital limit	*£16,000.00*	*£50,000.00*	*£50,000.00*

ENDNOTES

1 Beveridge, W. (1942). *Social insurance and allied services (The Beveridge Report)*. Retrieved from http://pombo.free.fr/beveridge42.pdf

2 Morrey, A. (2022, October 28). How generous is the British Welfare State? *IPR* blog. Retrieved from: https://blogs.bath.ac.uk/iprblog/2022/10/28/how-generous-is-the-british-welfare-state/

3 Beveridge, W. (1942) *Social insurance and allied services (The Beveridge Report)*. Retrieved from http://pombo.free.fr/beveridge42.pdf

4 Blundell, R. (2002). *Welfare-to-work: Which policies work and why?* Retrieved from https://www.ucl.ac.uk/~uctp39a/keynes%20-%202001-%20blundell%20-%20May-20021.pdf

5 Bentley, L., McHale, P., Chen, W-H., Burström, B., Anderson, I., Jensen, N. K., Harber-Aschan, L., Thielen, K., McAllister, A., & Barr, B. (2022). *Effect of disability benefit income replacement rates on employment and risk of poverty for people with disabilities* Working Paper. Retrieved from https://ssrn.com/abstract=4043547

6 Joseph Rowntree Foundation. (2022). *Overall UK poverty rates*. Retrieved from https://www.jrf.org.uk/data/overall-uk-poverty-rates

7 Stidle, L. (2015). *93% tax?! Effective marginal tax rates explained*. Retrieved from https://policyinpractice.co.uk/93-tax-effective-tax-rates-explained/

8 National Audit Office. (2018). *Rolling out universal credit.* Retrieved from https://www.nao.org.uk/report/rolling-out-universal-credit/

9 Finch, D. (2017). Still just about managing? *Pre-election briefing on the main political parties* welfare policies. Retrieved from https://www.resolutionfoundation.org/publications/still-just-about-managing-pre-election-briefing-on-the-main-political-parties-welfare-policies/

10 Schmuecker, K. & Clark, T. (2022, July 25). Diving beneath the surface of poverty. *Jospeh Rowntree Foundation* blog. Retrieved from https://www.jrf.org.uk/blog/diving-beneath-surface-poverty

11 Trussel Trust. (2022). *Mid-year stats*. Retrieved from https://www.trusselltrust.org/news-and-blog/latest-stats/mid-year-stats/

12 De Vries, R,. Baumber-Geiger, B,. Scullion, L,. Summers, K,. Edmiston, D,. Ingold, J,. Robertshaw, D & Young, D. (2021). *Solidarity in a crisis? Trends in attitudes to benefits during COVID-19*. Retrieved from https://62608d89-fc73-4896-861c-0e03416f9922.usrfiles.com/ugd/62608d_ffc54112b28141fdb85a9e9474120452.pdf

13 Yougov. (2022). *Should people be charged for GP appointments?* Retrieved from https://yougov.co.uk/topics/politics/trackers/should-people-be-charged-for-gp-appointments [accessed 3 November 2022]

14 Yougov. (2022). *Should people be charged for prescriptions?* Retrieved from https://yougov.co.uk/topics/politics/trackers/should-people-be-charged-for-prescriptions

15 British Social Attitudes. (2022). *Taxation, welfare and inequality*. Retrieved from https://www.bsa.natcen.ac.uk/media/39481/bsa39_taxation-welfare-and-inequality.pdf

16 Abey, J & Harrop, A. (2021). *How to increase social security with public support*. Retrieved from https://fabians.org.uk/wp-content/uploads/2021/05/Going-with-the-grain-Fabian-Society-lowres.pdf

17 British Social Attitudes. (2018). *Work and welfare*. Retrieved from https://www.bsa.natcen.ac.uk/media/39254/bsa35_work.pdf

18 Joseph Rowntree Foundation. (2022). *Government plans completely out of step with public opinion as clear majority call for benefits to be uprated by inflation.* York: JRF. Retrieved from https://www.jrf.org.uk/press/government-plans-%E2%80%9Ccompletely-out-step-public-opinion%E2%80%9D-clear-majority-call-benefits-be-uprated

19 Bank of England. (2022). *Monetary Policy Report November 2022*. Retrieved from https://www.bankofengland.co.uk/monetary-policy-report/2022/november-2022

20 Arnold S,. Harper, A. & Stirling, A. (2021). *The UKs living standards crisis: The case for a living income*. London: NEF. Retrieved from https://neweconomics.org/uploads/files/Living-Income-Report_FINAL.pdf

21 David, A,. Hirsch, S,. Padley, M. & Marshall, L. (2015). How much is enough? *Reaching social consensus on minimum household needs*. Loughborough: Centre for Research in Social Policy. Retrieved from https://www.lboro.ac.uk/media/media/research/crsp/downloads/how-much-is-enough-2015.pdf

22 Hirsh, D,. Padley, M. & Valadez, l. (2016) *A poverty indicator based on a minimum income standard.* Loughborough: Centre for Research in Social Policy. Retrieved from https://www.lboro.ac.uk/media/media/research/crsp/downloads/poverty-indicator-based-on-a-minimum-income-standard.pdf

23 Timmins, N. (2022) *Universal credit: Getting it to work better*. London: Institute for Government. Retrieved from https://www.instituteforgovernment.org.uk/sites/default/files/publications/universal-credit-getting-it-to-work-better_0.pdf

24 Mcloughlin, B. (2022). Londoners facing squeeze as rental prices surge by 22%: 30 It is alarming . *Evening Standard*. Retrieved from https://uk.finance.yahoo.com/news/londoners-facing-squeeze-rental-prices-175251567.html

25 Department for Work and Pensions. (n.d.). *Stat-Xplore*. Retrieved from https://stat-xplore.dwp.gov.uk/webapi/jsf/tableView/tableView.xhtml [accessed 1 December 2022].

26 Arnold, S,. Caddick, D. & Krebel, L. (2021). *How our benefits system was hollowed out over 10 years*. London: NEF. Retrieved from https://neweconomics.org/2021/02/social-security-2010-comparison

27 Gardiner, L. (2019). *The shifting shape of social security*. London: Resolution Foundation. Retrieved from https://www.resolutionfoundation.org/app/uploads/2019/11/The-shifting-shape-of-social-security.pdf

28 Hill, K., Davis, A., Hirsch, D., Padley, M., & Smith, N. (2015). *Disability and minimum living standards: The additional cost of living for people who are sight impaired and people who are deaf*. Loughborough: Centre for Research in Social Policy. Retrieved from https://www.lboro.ac.uk/media/media/research/crsp/downloads/disability-and-minimum-living-standards-report.pdf

29 John, E., Thomas, G., & Touchet, A. (2019). *Disability price tag report*. Retrieved from https://www.scope.org.uk/campaigns/extra-costs/disability-price-tag/

30 Schmuecker, K., Matejic, P., Bestwick, M., & Clark, T. (2022). *Going without: Deepening poverty in the UK*. York: Joseph Rowntree Foundation. Retrieved from https://www.jrf.org.uk/report/going-without-deepening-poverty-uk

31 Trussell Trust. (2016). *Foodbank use remains at record high as new data mapping tool gives fresh insight into UK hunger*. Retrieved from https://www.trusselltrust.org/2016/04/15/foodbank-use-remains-record-high/

32 Trussell Trust. (n.d.). *End of year stats*. Retrieved from https://www.trusselltrust.org/news-and-blog/latest-stats/end-year-stats/ [accessed 1 December 2022].

33 Resolution Foundation. (2022). *Britain must get serious about its toxic combination of low growth and high inequality that has left typical families £8,800 poorer than their counterparts in comparable countries*. Retrieved from https://www.resolutionfoundation.org/press-releases/britain-must-get-serious-about-its-toxic-combination-of-low-growth-and-high-inequality-that-has-left-typical-families-8800-poorer-than-their-counterparts-in-comparable-countries/

34 Department for Work and Pensions. (2022). *Households below average income: An analysis of the income distribution FYE 1995 to FYE 2021*. Retrieved from https://www.gov.uk/government/statistics/households-below-average-income-for-financial-years-ending-1995-to-2021/households-below-average-income-an-analysis-of-the-income-distribution-fye-1995-to-fye-2021

35 Arnold, S., Harper, A., & Stirling, A. (2021). *The UKs living standards crisis*. London: NEF. Retrieved from https://neweconomics.org/uploads/files/Living-Income-Report_FINAL.pdf

36 HM Revenue & Customs. (2021). *Coronavirus Job Retention Scheme statistics*. Retrieved from https://www.gov.uk/government/statistics/coronavirus-job-retention-scheme-statistics-16-december-2021/coronavirus-job-retention-scheme-statistics-16-december-2021

37 House of Commons Committee. (2022). *COVID-19 cost tracker update*. Retrieved from https://publications.parliament.uk/pa/cm5802/cmselect/cmpubacc/640/summary.html

38 Brewer, M., Handscomb, K., & Try, L. (2021). *Taper-cut*. London: Resolution Foundation. Retrieved from https://www.resolutionfoundation.org/app/uploads/2021/11/Taper-cut.pdf

39 Partington, R. (2022, October 19). UK inflation rises to 10.1% on back of soaring food prices. *The Guardian*. Retrieved from https://www.theguardian.com/business/2022/oct/19/uk-inflation-rises-energy-bills-food-prices-september-cost-of-living-crisis#:~:text=UK%20Inflation%20is%20at%20its%20highest%20since%201982

40 Retrieved from https://www.moneysavingexpert.com/news/2022/11/p150-council-tax-rebate-left-unclaimed-/

41 Arnold, S., Caddick, D., and Krebel, L. (2021). *How our benefits system was hollowed out over 10 years*. London: NEF. Retrieved from https://neweconomics.org/2021/02/social-security-2010-comparison

42 The Food Foundation. (n.d.). *Food insecurity tracking*. Retrieved from https://foodfoundation.org.uk/initiatives/food-insecurity-tracking [accessed 1 December 2022].

43 Office for Budget Responsibility. (2022). *Economic and fiscal outlook*. Retrieved from https://obr.uk/docs/dlm_uploads/CCS0822661240-002_CCS001_SECURE_OBR_EFO_November_2022_BOOKMARK.pdf

44 Bank of England. (2022). *Monetary Policy Report November 2022*. Retrieved from https://www.bankofengland.co.uk/monetary-policy-report/2022/november-2022

45 Office for National Statistics. (2022). *Half a million more people are out of the labour force because of long-term sickness*. Retrieved from https://www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/economicinactivity/articles/halfamillionmorepeopleareoutofthelabourforcebecauseoflongtermsickness/2022-11-10

46 Department for Work and Pensions. (2012). *Income related benefits: Estimates of take-up 2009/10*. Retrieved from https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/222914/tkup_first_release_0910.pdf

47 HM Revenue & Customs. (2012). *Child benefit, child tax credit, and working tax credit tale-up rates 2010/11*. Retrieved from https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/255441/cwtc-take-up.pdf

48 OECD. (n.d.). *Benefits in unemployment, share of previous income*. Retrieved from https://data.oecd.org/benwage/benefits-in-unemployment-share-of-previous-income.htm [accessed 1 December 2022].

49 Morrey, A. (2022, October 28). How generous is the British Welfare State? *IPR* blog. Retrieved from: https://blogs.bath.ac.uk/iprblog/2022/10/28/how-generous-is-the-british-welfare-state/

50 OECD. (n.d.). *Net replacement rate in unemployment*. Retrieved from https://stats.oecd.org/Index.aspx?DataSetCode=NRR [accessed 1 December 2022].

51 NEF. (2022). *1.3 million people eligible for universal credit missing out on payments worth £7.300 per year*. Retrieved from https://neweconomics.org/2022/01/1-3-million-people-eligible-for-universal-credit-missing-out-on-payments-worth-7-300-per-year

52 UK Parliament. (2022). *Universal credit: Cost of living payments*. Retrieved from https://questions-statements.parliament.uk/written-questions/detail/2022-10-10/59119

53 Trussell Trust. (n.d.). *Universal credit and food banks.* Retrieved from https://www.trusselltrust.org/what-we-do/research-advocacy/universal-credit-and-foodbank-use/#:~:text=Key%20Findings,destitution%2C%20housing%20insecurity%20and%20debt [accessed 1 December 2022].

54 Deep Poverty. (n.d.). *Universal credit deductions and levelling down*. Retrieved from https://www.deep-poverty.co.uk/post/universal-credit-deductions-and-levelling-down [accessed 1 December 2022].

55 UK Parliament. (2018). *Why are sanction rates higher under universal credit?* Retrieved from https://commonslibrary.parliament.uk/universal-credit-why-are-sanction-rates-higher/

56 Department for Work and Pensions. (2022). *Benefit sanctions statistics to July 2022*. Retrieved from https://www.gov.uk/government/statistics/benefit-sanctions-statistics-to-july-2022-experimental/benefit-sanctions-statistics-to-july-2022-experimental

57 Jayanetti, C. & Bloom, D. (2022, October 9). Half a million DWP universal credit claimants denied £326 cost of living payment. *The Mirror*. Retrieved from https://www.mirror.co.uk/news/politics/half-million-dwp-universal-credit-28192100

58 Harrop, A. (2022). *In the shadows*. London: The Fabian Society. Retrieved from https://fabians.org.uk/wp-content/uploads/2022/03/In-the-Shadows-Fabian-Society.pdf

59 Stirling, A. & Arnold, S. (2019). *Nothing personal*. London: NEF. Retrieved from https://neweconomics.org/uploads/files/NEF_WeeklyNationalAllowance_2019.pdf

60 Cominetti, N. & Odamtten, F. (2022). *Living pensions*. Resolution Foundaiton. Retrieved from https://www.resolutionfoundation.org/app/uploads/2022/07/Living-Pensions.pdf

61 Pollard, T., Arnold, S., Caddik, D., & Stirling, A. (2022). *Social security for all*. London: NEF. Retrieved from https://neweconomics.org/uploads/files/NEF_SOCIAL-SECURITY-FOR-ALL.pdf

62 Office for National Statistics. (2022). *Average weekly earnings in Great Britain.* Retrieved from https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/averageweeklyearningsingreatbritain/october2022

63 Department for Work and Pensions. (2021). *Households below average income for financial years ending 1995 to 2020*. Retrieved from https://www.gov.uk/government/statistics/households-below-average-income-for-financial-years-ending-1995-to-2020/households-below-average-income-an-analysis-of-the-income-distribution-fye-1995-to-fye-2020#working-age-adults-in-low-income-households-and-low-income-by-work-status

64 Department for Work and Pensions. (2022). *Benefit expenditure and caseload tables 2022*. Retrieved from, https://www.gov.uk/government/publications/benefit-expenditure-and-caseload-tables-2022

65 Warwick University. (n.d.). *Reforms to the taxation of wealth*. Retrieved from https://arunadvani.com/taxreform.html [accessed 1 December 2022].

66 Nanda, S. (2019). *Reformating the taxation of income from wealth*. London: IPPR. Retrieved from https://www.ippr.org/files/2019-11/capital-gains-tax-briefing.pdf

67 Nanda, S. (2019). *Reforming the taxation of dividends.* London: IPPR. Retrieved from https://www.ippr.org/files/2019-11/reforming-the-taxation-of-dividends-nov19.pdf

68 Corlett, A & Whittaker, M. (2016). *Save if for another day*. Resolution Foundation. Retrieved from https://www.resolutionfoundation.org/app/uploads/2016/03/Pension-tax-relief.pdf

69 Advani, A. & Summers, A. (2020). *How much tax do the rich really pay?* Retrieved from https://warwick.ac.uk/fac/soc/economics/research/centres/cage/manage/publications/bn27.2020.pdf

70 Advani, A. & Summers, A. (2020). *Capital gains and UK inequality: New evidence from tax microdata*. Retrieved from https://warwick.ac.uk/fac/soc/economics/research/centres/cage/manage/publications/bn19.2020.pdf

NEW ECONOMICS FOUNDATION

WWW.NEWECONOMICS.ORG
info@neweconomics.org
+44 (0)20 7820 6300 @NEF
Registered charity number 1055254

COVER IMAGE BY:
SolStock (iStock Photos)

PUBLISHED:
December 2022

NEF is a charitable think tank. We are wholly independent of political parties and committed to being transparent about how we are funded.

WRITTEN BY:
Sam Tims and Alfie Stirling

THANKS TO:
Graeme Cooke and Iain Porter of the Joseph Rowntree Foundation, Zoe Charlesworth of Policy in Practice and Louise Murphy of the Resolution Foundation for their insight.

NEF is also grateful to the support of the Laudes Foundation which made this work possible. Any errors remain those of the authors alone.