

## **NICHOLAS BROMLEY – WRITTEN EVIDENCE (EUC0113)**

### **The economics of Universal Credit**

I wish to make two points. I have offered a number of possible parliamentary questions that one of the Committee's members might pursue. Alternatively, it may be that you will wish to adapt them to be questions the Committee itself can ask the relevant Minister.

First, people tend to assume that Universal Credit is at least a welcome simplification despite the ugly cuts. But, for Universal Credit, 'simplification' implies choosing between the benefit entitlements of different benefits. 'Amalgamation' is really the proper word. When the Treasury is as powerful as it is, it is a racing certainty that the simplification will tend to the cheapest entitlement of the six. I am not aware of any examination of who will be the losers (as logically some claimants must be) from this simplification/amalgamation. (It may be that there are measures to avoid immediate losses but losers will, of course, emerge after a number of upratings). A parliamentary question might look like this

*To ask the Secretary of State [for Work and Pensions] to list the entitlement requirements of all the benefits that make up Universal Credit, as well as the entitlement basis of Universal Credit itself, identifying any savings in the choice of any entitlement criteria.*

My second issue is tax credits. There are striking drawbacks in such an arrangement. The income assessment is far more complex (and puzzling) than a benefit and, because it relies on data that is much further in the past, it is subject to frequent adjustments that make it a very unstable form of income. Claimants have a miserable time dealing with the application form.

It has been said that it 'ends the poverty trap'. This is an equivocation. There was once a poverty trap, but it was ended with the introduction of Income Support at the end of the eighties. (There was, admittedly, provision that benefit would be denied if a claimant worked over 16 hours, resulting in a cliff-edge disqualification. The solution should have been to abolish the provision.) What recent governments were referring to was merely the softening of a steep withdrawal in some cases. But it can be strongly argued that a shallow slope merely traps a claimant on benefit for longer.

The Government also argued that Universal Credit reduced stigma. Of course, tax credits obviated the need to go to a benefit office. But how much stigma was there really in claiming benefits compared to being unemployed itself or having recourse to a food bank. Arguably, the way to address stigma is to ensure that benefit offices are not squalid places, that the queues are made to queue at another door, and that forms are designed not to make people feel inadequate.

There may be an argument that Universal Credit does improve steep tapers and stigma, though both effects are rather weak for the average claimant. The essential question is, 'Who would go in for the mass churning of social security (as evidenced by the failure to deliver Universal Credit) for two such relatively feeble improvements?'

Potentially there is one incentive that would justify the reform. If it has been the motive for Universal Credit, it is thoroughly disreputable. Social security benefits are paid out of the Consolidated Fund. They are public expenditure. But, if a benefit is paid for by non-receipt of taxes, as a tax credit is, it is classed, for obvious reasons, as revenue forgone and part of public sector borrowing. If you move a benefit to 'revenue forgone' it is much less closely monitored. Much more important, public expenditure is reduced by the value of the benefit. That is certainly an incentive for a tax credit; the question is whether it places political advantage over fiscal honesty.

I have tried very hard to find out what has gone on. I have had some, but only partial success. In particular, I have talked to the Institute for Fiscal Studies. The impression I have received is that various government accountants objected to the transfer most strongly. Some expenditure appears to have been returned to public expenditure quite quickly. The rest was expected to be back with PE shortly. The general picture was confused and seemingly obscured by the fog of battle. My impression is that the government accountants won, but I am not sure. But, the transfer back would have been hugely expensive. One has to ask whether this explains the freezing of the benefit? The possible political ramifications are obvious: Why should claimants pay because the government's accounting tricks are rumbled. This has nothing to do with austerity. As I say, the picture is not clear but, if there were a parliamentary question it might look somewhat like this:

*To ask the Secretary of State for Work and Pensions [not minister for HMRC?] to detail all (a) occasions and b) amounts of expenditure by which any social security expenditure was reclassified as 'revenue foregone' and vice versa.*

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