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Introducing Universal Credit

Paul Spicker

Universal Credit is an ambitious reform intended to unify means-tested benefits for people of working age. The idea of simplifying and unifying benefits attracted strong support at the outset, but growing doubts about the practical viability and the detailed operation of the scheme have raised questions about what its impact will be. There is a risk in the short term that the system will crash, but in the longer term defects in concept and design may prove just as important.

There are times when social policy analysts have little choice but to get down to the detail, and the discussion of social security needs that rather more than some other parts of the field. Broad-brush categories like "dependency" or "inequality" rapidly disintegrate when the circumstances that are being described run to millions of people in hugely varied circumstances. Fashionable categorisations like 'social risk management' (World Bank, 2001 and 2012) or Esping-Andersen's 'worlds of welfare capitalism' (Esping-Andersen, 1990) do not help very much when they are exposed to an incoherent and inconsistent reality (see Mabbett, Bolderson, 1999; Castles, 2009). In the same way, and for the same reasons, policy initiatives that begin with a grand, overarching vision tend not to sit well with the complex circumstances that benefits have to deal with. Over the years, many writers have advocated broad-brush, universal schemes - among them, negative income tax (Friedman, 1962), schemes which combine tax and benefits (Dilnot, Kay and Morris, 1984) and basic income (van Parijs, 1992). These schemes have important limitations. The first is that any benefit intended to make provision at similar costs to existing schemes can only make some people in need better off by making some other people in need worse off. The Conservative Tax Credit Scheme of the 1970s (Cmnd 5116, 1972) foundered because it did not protect the position of women; proposals for a unified disability benefit in Ireland (Government of Ireland, 1996) failed to attract support because of lack of agreement between different constituencies; recent proposals for a Citizens Pension have hit the rock of reduced entitlements for higher earners (Reade, 2012). The second is that benefits are complicated for good reasons. They are trying to meet multiple objectives, and to respond to a wide range of needs and commitments. The situations they are dealing with are complicated. Simplification is only possible if some objectives, some needs, and some existing commitments are set aside - or if benefits are increased by so much that it does not matter. When governments promise schemes that will be simple, unified, coherent and able to deal with all our social ills, it is often a warning that we need to stand by with the fire wagons.

The Beveridge scheme (Cmd. 6404, 1942) was supposed to be universal, unified and adequate. The first major challenges to the scheme came in the 1950s, as it became clear that a system of flat rate contributions and benefits could not match the continental systems for adequacy (Labour Party, 1959). It became clear, too, that insurance left important gaps, and much of the attention in the 1960s focused on the development of National Assistance, the means-tested safety net, to become Supplementary Benefit (see Kincaid, 1973). In the 1970s, there were further developments: the establishment of several non-means tested benefits for people with disabilities, and the creation of new means-tested benefits which supplemented the income of people in work. Since the 1980s, the emphasis on insurance-based benefits, apart from pensions, has been reducing. The complexity of the current system reflects, then, years of incremental development, the accretion of new roles and functions and the sheer range and diversity of the circumstances that the benefits system has to respond to.

Major reforms of the benefit system have been trumpeted on several previous occasions. The reform of pensions in the 1970s was "the result of the biggest rethink of the welfare state since Beveridge" (Guardian, 1985). The Fowler reviews in the 1980s were to be "the most comprehensive review of the social security system since Beveridge" (Dean, 1984). Labour's welfare reform programme was to be "the biggest welfare shake-up since Beveridge" (Heffer, 1998). And the current Secretary of State for Work and Pensions, Iain Duncan Smith, has of course presented his scheme for Universal Credit as "the biggest change since Beveridge introduced the welfare system" (Porter, Riddell, 2010). In retrospect, however, many of the most important changes in the benefits system have taken place incrementally at other times - among them, the development of benefits tested by need rather than means, Family Income Supplement, Child Benefit, the end of Sickness Benefit and the move to long-term incapacity benefits, the Housing Benefit system, the effective collapse of the National Insurance system for unemployment in the 1990s, or the introduction of Tax Credits.

The current programme of reform has three elements. One is an attempt to reduce costs: the measures undertaken to do that have included reducing protection against inflation, raising the pension age, reassessing capacity to work and introducing other restrictions on entitlement. Two thirds of the budget goes on people of pensionable age (DWP Statistics, 2012a); there is no way of reducing benefits by the levels the government has been talking about without hitting pensioners. Most of the measures are ephemeral, which means that discussing them in detail is not particularly appropriate for this volume. They fall short of the levels of economy that the government has been talking about, and that probably means that the Treasury will be back for more (Spicker, 2010).

The second element is conditionality. The government has ratcheted up sanctions against those who fail to work. At the time of writing, government is proposing to increase the requirements for work search, to cut off benefits for unemployed people who fall ill and to impose sanctions for up to three years. Conditionality has been a recurring theme in benefits since at least the sixteenth century. The Welfare Reform Act 2012 retains the Tudor principle of progressively increasing the sanctions for persistent idlers, but by comparison with the Act of 1572, when the penalties for the idle poor included whipping, branding and effective enslavement, the threat of years of penury and debt recovery in 2012 seems almost modest.

The third element of the reforms, and the subject of this chapter, is the attempt to redesign benefits for people of working age. The centrepiece of the reforms is the proposal for Universal Credit, which aims to bring together six other benefits: income-related Jobseekers Allowance and Employment and Support Allowance, Working Tax Credit and Child Tax Credit, Housing Benefit, and Income Support. Because many claimants receive some of these benefits simultaneously, the numbers claiming cannot simply be added together, but there are more than five million claims made for people out of work and four million claims for Tax Credits for people in work. The DWP estimates there should be 8.3 million claims. (DWP, 2012c)

Universal Credit

The aims of the Universal Credit system have been outlined in a series of documents. It begins with a report prepared by the Centre for Social Justice (CSJ, 2009), a think tank founded by Iain Duncan Smith, a former leader of the Conservative Party who has become the Secretary of State for Work and Pensions. In the period between losing the leadership and becoming a cabinet minister, Duncan Smith devoted attention to "broken Britain" and the growth of an underclass, doomed to dependency in generation after generation. His preface to the CSJ report begins:

> As leader of the Conservative Party I frequently encountered significant social breakdown and dysfunctionality across the country. I met people trapped by dependency and left behind by society. This emerging underclass lives in communities consistently defined by five characteristics, which become the pathways to poverty: family breakdown; educational failure; drug and alcohol addiction; severe personal indebtedness; and economic dependency – caused by intergenerational worklessness. (CSJ, 2009, p 6)

Duncan Smith explains that he has three criticisms of the present system:

1. It creates a series of disincentives to work;
2. It imposes penalties on constructive behaviour apart from work (such as marriage and cohabitation, saving, and home ownership);
3. It is very complex – making it costly to administer and reinforcing dependency. (CSJ, 2009, p 6).

The Green Paper, *21st Century welfare*, emphasises affordability; rewarding work and personal responsibility; reduced worklessness; a simpler system; and reduced scope for error and fraud (Cm 7913, 2010) The White Paper explained that the objectives were to emphasise incentives, reduce complexity and limit welfare dependency (Cm 7957, 2010). The purpose of the Universal Credit scheme is, then, to discourage dependency, either by removing disincentives to work, or by replacing them with positive incentives; to reward desired social behaviour; and to simplify the benefits system.

Dependency

The current debate on social security is driven by three key beliefs: that

- the critical problems in benefit relate to "out of work" benefits. (Cabinet Office, 2010) This is a relatively new category, which did not feature in the statistics before the present government took office; it pulls together a range of groups, including unemployed people, people who are sick and unable to work, carers and lone parents.
- expenditure on welfare is growing because of increasing demands from people of working age (Cabinet Office, 2010); and
- the nature of provision leads to long-term dependency, generation after generation (CSJ, 2009).

The figures show a different story. Most of the money, by far, goes to people over working age. There has been some growth in expenditure, but it is mainly attributable to older people and the extension of tax credits to people in work, not to the growth of "out of work" benefits (see DWP Statistics, 2012a). That remains true despite increasing unemployment because unemployment itself accounts directly for a very limited part of expenditure on benefits; if Jobseekers Allowance accounts for only 3% of the DWP budget, then unemployment could go up by a million while altering the balance of expenditure only by a small fraction.

Long-term dependency is dominated by pensioners and people who are not expected to work. The DWP Longitudinal Survey shows that very few 'job-seekers' on income related benefits have been in receipt of benefit for more than five years. The figure is 4,720 out of 1,328,910 - about one person in 280. 1,050 have been on benefit for ten years; that is less than one person in 1250. By contrast, people on incapacity benefits are relatively likely to remain on benefits long term: 1.48 million, or 57%, have been on benefits for more than 5 years, 922,000 or 36% for more than 10 (DWP Statistics, 2011). (That includes about a quarter of a million people formerly in receipt of Severe Disablement Allowance, who are now bundled in with the IB figures.) So the impression of long-term dependency among people of working age is overwhelmingly attributable to people who it is not reasonable to expect to work. (That is not a subjective test: it is the basic criterion for entitlement to incapacity benefits, contained in the Welfare Reform Act 2007.)

Most of the reforms that have taken place around ESA were set in motion before the coalition government came to power, and separately from the introduction of Universal Credit. The key elements were

- the replacement of the insurance-based Incapacity Benefit with the largely means-tested Employment and Support Allowance. This has been done through a time limit on contributory entitlement - a principle already established for Jobseekers Allowance.
- the process of reassessment, leading to the rejection of many claims on the basis that people were fit for work. To date a large number of claims have been excluded because the claimant failed to repeat the process, and many who have gone through the process have been found fit for work. There have been many criticisms of the process itself, and the agency (Atos Healthcare) employed to conduct it; the Harrington Review describes the process as impersonal and mechanistic (Harrington, 2010). More than 80% appealed that process, but after that the story is hazy: there has been a moderately high success rate of appeals heard, but many more appeals have not been not considered at all, seeming to disappear in the process.
- the introduction of work-oriented measures to prepare people to move into the labour market. Following the Gregg report, ESA claimants are divided into a support group, a minority who are not expecting to engage in work related activity, and a return to work group, who are so expected (Gregg, 2008). Only a small proportion have been admitted to the "support group", people who were recognised as not appropriately required to be prepared to work. (DWP Statistics, 2012b)

In relation to job seekers, the principal change directed at dependency has not been Universal Credit, but the introduction of the Work Programme, aimed at 'long-term' claimants. If long term means "on benefit for several years", there are very few long term unemployed people in Britain. The Freud Review, prepared for the Labour government, had suggested that all unemployed people should go through a programme of intensive support (Freud, 2007) - a fairly ill-thought out proposal, when Freud himself acknowledged that the JCP regime saw nine out of ten unemployed people return to work in a year. The review made little or no reference to existing knowledge about labour market policy, and showed no awareness of the possibility of ‘deadweight’ – paying for intervention for people whose situation will be resolved regardless – or ‘spillovers’, continuing to intervene after problems are resolved. David Freud was ennobled and became a Minister in the coalition government. Early returns on the outcomes of the Work Programme suggest that the intervention may lead to slower rates of engagement in the labour market than if the government did nothing (DWP Statistics, 2012c; Ross, 2012).

Behaviour

The next part of the programme of reform has been a focus on behaviour, principally understood as engagement with the labour market. “At the heart of these solutions”, Iain Duncan Smith writes, “is recognition that the nature of the life you lead and the choices you make have a significant bearing on whether you live in poverty.” (CSJ 2009) This might seem to imply some emphasis on the promotion of family life, whether that is done by supporting families or penalising people for irregular life styles. It is difficult, however, to see anything in the programme of reform which would support such a view. Universal Credit will have compulsory joint claims; all claims made that relate to a couple should be made by both members of a couple, and that both will be asked for a statement of consent and “claimant commitment”. ‘Couples’ include not only established couples, but also people living together as man and wife, and people in same sex relationships who are not civil partners but who “are to be treated as living together as if they were civil partners if, and only if, they would be treated as living together as husband and wife were they of opposite sexes” (Welfare Reform Act 2012, s 39). When civil partnership was established parliament took great pains to emphasise that civil partnerships could and should not be considered as analogous to the situation of man and wife. It is not clear, then, what the clause means - which suggests it is probably about sex, but the legislators are too coy to say so.

Making a joint commitment as claimants constitutes a public acknowledgment of a relationship. Some people will not sign, because they do not think they have such a relationship, because they do not want to make such an acknowledgement or wish to repudiate or terminate the relationship. The new scheme does not specify how the circumstances where either one of a presumed couple denies there is a relationship, when a relationship should be considered to have terminated or when it has formed. There is one interesting further decision, however, which may have been made about cohabitation, or ‘living together as man and wife’. Bereavement Allowances, the national insurance provision for parents whose partner has died, have always had a cohabitation rule - some of the earliest case law on cohabitation came from it; widows who remarried or cohabited with a new partner were struck off the benefit. In a consultation, the government proposes to get rid of the rule altogether (DWP, 2012a). That makes sense - people who are making provision for children after their death do not usually opt for something that is conditional on whether their partner remarries - but it runs in the opposite direction to much else that is happening in the benefits system.

Incentives to work

Incentives feature in the plans in two main ways. The first part is rooted in the belief that benefits should always pay less than work, a principle which has dominated policy in Britain since the Poor Law. “Less eligibility” was based in Ricardo’s ‘iron law of wages”, the belief that the only way to protect the position of people in work was to be sure that they were not undercut by people out of it. (Poynter, 1969) This implies that benefits are kept generally low - if this was about incentives, they should only be lower than a person's prospective wage. That principle is seen as an issue of fairness; the introduction of "benefit caps", to ensure that no-one on benefits gets more than the average for people in work, is part of the same sense. There is precious little evidence to link "better off calculations" with the rate of return to work; people are as likely to be concerned with prospects, security of income and compatibility with their circumstances.

The second part is concerned with the 'poverty trap', also referred to as the Marginal Rate of Deduction. Part is the attempt to even out the rate at which benefits are withdrawn as someone starts to earn through work. This, like less eligibility, is really a question of perceived fairness, rather than economic behaviour; there is again very little evidence to show that people's decisions about working hours are directly affected by hourly rates of pay or taxation.

The intention is to ensure that people whose earnings increase will not lose more than 65% of extra income through having benefits withdrawn. The CSJ documents were originally thinking of 55% (CSJ, 2009), but that would have meant that people kept their benefits for longer, and it would have been costly. Because the assessment is being made only after tax and national insurance contributions, that leads to an effective Marginal Rate of Deduction of 76%. That is disappointingly steep – more than 30% greater than the top rate of income tax. Beyond that, there will still be interactions with support from other sources, particularly Council Tax benefits. And owner-occupiers who move into work will lose all housing support: the DWP has said that this this "recognises the different characteristics and work incentives facing owner occupiers compared to other out of work claimants. Owner occupiers who claim income-related benefits will previously have obtained and sustained mortgages and, usually, they have done this while they are in full-time work" (DWP, 2012b, para 82).

The level of conditionality which is being introduced depends heavily on sanctions - penalties for failing to comply with directions, for failing to take up opportunities and for refusing work It has been suggested that this will apply to people who work part time when they could commit themselves to work for more hours. Sanctions can least for up to three years; they will be imposed on couples; where hardship payments are made they are recoverable, which means that after the three years are up the claimant may face years more of repayment.

There is also a new expectation, which is to engage in work search for 35 hours a week. "A claimant is to be treated as not having complied with a work search requirement to take all reasonable action for the purpose of obtaining paid work in any week unless ... the claimant takes action for the purpose of obtaining paid work for the claimant's expected hours of work per week minus any relevant deductions" (drafts of 2012 Universal Credit Regulations, s 86; Jobseekers Allowance Regulations 2012 sa.12.) An explanatory memorandum clarifies that "we propose that claimants are expected to have spent up to 35 hours a week (or their agreed number of hours, if less) looking or preparing for work" (DWP, 2012b, para 238). This bears no relationship to the process of looking for or preparing for work. The test used to be that claimants took at least three steps in a week; that will not do. A person might send a hundred letters of enquiry in a week and still not meet the test; a person who has learned how to use internet sources and where to look may be able to complete in an hour what at first took fifteen. It might have been reasonable to say that claimants cannot refuse to spend less than 35 hours in a week when opportunities present themselves, for example by spending a day travelling to an employment agency; but this is not what the regulation actually says. It is different to say that 35 hours is the expectation, when very few claimants will be able consistently to generate 35 hours of job-seeking activity. It is a recipe for inconsistent administration. It invites claimants to lie.

Simplification

Universal Credit is not a negative income tax scheme, or a basic income, but it is being represented as a major simplification. Within the new benefits, each of the component elements - conditions related to job-seeking, incapacity, housing, work and so forth - continues to have its distinct mode of operation. Although a unified benefit might seem to offer some prospect of easier transitions between states, there will still be complications when unemployed people fall, workers become unemployed or sick people move to part time work. UC is better described, then, as a portmanteau benefit; it has a common title, and some common conditions, but it is really a group of benefits under a shared masthead.

Portmanteau benefits have some limited advantages over multiple benefits: they are able to rely on common rules and procedures (though the same is true currently of many benefits with different names) and a common point of entry, which should in principle make it less likely that people will fail to claim. However, they are also intrinsically complex, and it is not at all clear that much is gained by having one benefit with six compartments rather than six benefits with one. There have been many examples of portmanteau benefits - the industrial injuries regime, the Social Fund and the State Pension all have distinct component elements. The most important comparators, however, are the large scale means-tested benefits, intended like Universal Credit to deal with millions of people in disparate circumstances.

The prime example was Supplementary Benefit, a basic means-tested benefit that was provided for pensioners, unemployed people, people with incapacities, lone parents and others, and which included housing support and discretionary payments in emergencies. In 1978, the Labour government introduced a controversial review of the benefit, which by that time had come to have nearly five million claimants. The report, *Social Assistance,* argued that it was not possible, with so many people, to maintain the pretence that the benefit was responding to each person individually or that it was feasible to adjust sensitively and responsively to the needs of each person. The scheme had to be adapted to its "mass role".(DHSS 1978). The reforms were introduced in 1980 by the incoming Conservative government. (Eight years later, the same government reformed Supplementary Benefit again, renaming it Income Support.) Universal Credit declares the intention of doing exactly what previous governments had come to believe was impossible - responding to fluctuating circumstances with individualised, personalised assessment.

Another key portmanteau benefit was the "unified" Housing Benefit. Rate Rebate had been introduced in 1967, Rent Rebate and Rent Allowance in two stages in 1972-73. Housing Benefit was based on a combination of these benefits, along with the support for rents previously managed as part of Supplementary Benefit. The responsibility was transferred to local authorities. The result was described, in its day, as "the greatest administrative fiasco in the history of the welfare state" (The Times, cited in Walker, 1986, p 39). The local authorities were not prepared for the complexity of the scheme, or the sheer numbers involved.

Both Supplementary Benefit and Housing Benefit were dogged by the problems of trying to respond sensitively and equitably to complex circumstances. Can Universal Credit avoid the same fate? When the scheme was proposed, the government seemed confident that it would be possible to process claims in "real time", relying on the miracle of modern technology to give an instant, accurate response. The programmes and equipment to do this had not been developed, subsequently they pulled back from the idea, though they will be relying on the new pay-as-you-earn system, designed for taxing employees, developed for Her Majesty's Revenue and Customs (HMRC). Doubts have been expressed about whether this can work; HMRC has opted for an 'Interim Solution' which will separate information from payments, a recipe for delaying instructions to alter payments. (Black, 2012) However, even if real-time systems were in place, they could not function as intended; the "technological fix" was always an illusion. Universal Credit is set to depend not only on information about income, but on the employment, health status, rent and household circumstances of both members of a couple. Both members of a couple are being asked to sign a claimant commitment, and things which happen to one person, including sanctions and deductions, will affect the entitlements of the other. A computer system, however good it is, can only go as fast as the information that goes into it. So the design of the new scheme now depends on a different principle: that it is the responsibility of claimants to report their own circumstances, and everything overpaid, for any reason, has to be repaid. This principle was introduced for Tax Credits, and it has been the source of major problems. The Ombudsman comments:

> There are many for whom the experience has been, and indeed remains, highly distressing. Whilst they may be only a relatively small proportion of the overall numbers claiming tax credits, they are a significant number, and the impact on the customers concerned, typically those on the very lowest incomes who are amongst the most vulnerable in society, is huge (Parliamentary and Health Service Ombudsman, 2007, p 43).

Some people who have previously claimed have been forced to repay thousands of pounds, and many of those people have said that they cannot afford to claim again (Gerrard, 2008; see also Parliamentary and Health Service Ombudsman, 2007, pp 3-4.)

There are new features in the benefit besides. Probably the most important are the shift to online application, the end of girocheque payment, and the move to monthly benefits. At the time of writing, the effects are difficult to predict. The current plan is that the benefit will be piloted in the six months from April 2013, and it will open to new claims from October - there has already been some slippage in the timetable, and there may yet be more. The plans for the pilot are limited: there will be about 1500 cases per month for six months, based in one area of the country, making 9000 in total, and the government has also announced that local authorities will be invited to add their own pilots for advice work. If this was a structured sample indicating patterns in the population, 9000 may seem adequate; taking all comers in one location, in preparation for a scheme which is expected to deal with nearly ten million claims, it is not very many. The pilot can be expected to pick up a reasonable range of the main circumstances, but it is not necessarily good enough for practical administration. The central problem is diversity. Previous attempts to identify segments to the "customer market" in social security suggest that have failed, because there are simply too many variations (Bryson, Kasparova, 2003). The experience of Supplementary Benefit over the years was that rules had to be developed to deal with aberrant cases, and over the years that led to the progressive growth of increasingly detailed rules. Equally, the experience of previous partial implementation - for example, in Housing Benefit, Tax Credits or the implementation of the Community Charge - does not suggest that any problems identified will lead to revision of the timetable or the principles. If there are problems, the rules have been put in place to ensure that the responsibility falls on claimants rather than the administrators.

Aims and methods

The most basic test of any policy is how it relates to its aims. The aims reviewed at the outset of this paper are fairly general, and some are hard to pin down. At a subordinate level, however, the DWP has identified some operational aims, which are easier to verify. Universal Credit is intended to:

- *Simplify the system.* The arcane rules governing worklessness, incapacity and housing liabilities all remain; there will be new complexities relating to new tests for availability for work.
- *Improve work incentives.* There will be some smoothing of marginal rates of deduction, and an assertion of the value of benefits in work, but that is probably all that is intended under this heading. On the whole it is striking how little has been done to integrate benefit systems with the realities of a casualised and precarious labour market.
- *Smooth transitions in and out of work.* Linking rules have generally meant that people should not have suffered, but there have been problems in the past; for example, although Housing Benefit is supposed to be maintained regardless of work status, some local authorities have continued, despite several legal cases to the contrary, to suspend Housing Benefit and insist on a new application on a change of employment status. In more general terms, complexities arise because of the growing importance of marginal labour and sub-employment, including zero-hour contracts (where people have to hold themselves available to be called on) and pseudo 'self employment', where employers use nominal self-employed status to avoid the inconvenience of administration, tax and national insurance. Without a minimal degree of regulation, the complexities will remain.
- *Reduce in-work poverty.* The effect of increasing tapers has been to reduce the amount of benefit people get while in work.
- *Cut back on fraud and error.* Error appears from the figures to be a much larger source of problems than fraud. Three factors – earnings and employment, income from occupational and personal pensions and living together – make up 44% of all the losses through fraud and error; others include rules about capital, household composition, housing costs and so on (DWP Statistics, 2012e, table 6.1). All of these factors will continue to apply in the new system. The main method which has been taken to deal with this is to make claimants personally responsible for repaying benefit - which does not reduce error, only the financial consequences of the Treasury of such error.

Probably the most evident concern, however, is about the immediate implementation of the scheme. Much of the process has been secretive, which makes it difficult to say with confidence how smoothly it is proceeding, but a trickle of reports suggest it is in trouble. *Computer Weekly,* which has led the field with its incisive reporting, received a leaked Major Projects Authority report to the effect "Tight deadlines left the Department for Work and Pensions with little choice but to use 'unproven' agile methods"; HMRC had also been told that it could not deliver its real time information system by April 2013 (Ballard, 2011). There are "too many moving parts in too many places" (Hall, 2012). Treasury officials and HMRC have warned the Chancellor that the system is liable to fail through over-ambitious targets, lack of preparation and unreasonable deadlines; the *Daily Telegraph* reported: "Flagship reforms of the welfare system are in serious danger of arriving late and billions of pounds over budget, or even failing altogether." (Kirkup, 2011) The government has been pushed to deny that the scheme is a "car crash in the making" (Hardman, 2012). A crash is avoidable; but it will need time, resources and a readiness to adapt to the mass role of the benefits. None of this has been forthcoming to date.

The means test

The central problem with Universal Credit is a failure of concept rather than administration. Universal Credit has been designed as a complex, multi-faceted means-tested benefit intended to cover the circumstances of millions of people. Means tests have a dreadful reputation (see e.g. van Oorschot, 1995), which is only partly deserved. The principal accusations made against means testing are that it is complex, that people do not understand how the system works, and that people fail to claim. Those are all true, but they are also true of benefits that are not means-tested, such as benefits for disability. However, there are issues which are distinctive to means tested benefits. They include problems of equity:

- identifying the thresholds at which people will become entitled
- how to treat different forms of capital, such as owner occupation, inheritance, and possession of goods, and
- how to ensure equity of treatment between households with different compositions (the problems of equivalence, and cohabitation);

they also include complicating elements which are part of the process of assessing means:

- the treatment of unearned income, such as occupational pensions or regular income from families
- managing the relationship to other benefits (which are, of course, a form of income)
- the treatment of non-dependants in the household
- assessing the position of small businesses and self-employed people, and
- dealing with fluctuations in income (see Spicker, 2011).

The last two points are particularly important. Small businesses and independent workers - their numbers have grown because of unemployment and casualised labour markets - will have to make returns monthly instead of annually, generally within seven days of the end of each month. They will be assumed to earn at least the minimum wage. Even with that assumption, the general problem of dealing with fluctuations in income means that benefits may vary widely from month to month. The incomes of people in the lower reaches of the income distribution are often radically unstable - research for HMRC suggests that about a third have incomes that are 'erratic' or 'very erratic' potentially halving or doubling in the course of three months (Hills, Smithies, McKnight, 2006). Tax Credits depend critically on assessments around this unstable income. The Ombudsman has been particularly critical, questioning 'whether a financial support system which included a degree of inbuilt financial insecurity could properly meet the needs of very low income families and earners' (Parliamentary and Health Service Ombudsman, 2007, p 5). The central case of Universal Credit is that it is intended to yield a stable final income package, by varying the level of benefit exactly in line with fluctuating income - but it is relying on perfect information to do it.

The basic problems of means testing necessarily apply to the proposals for Universal Credit. Beyond that, however, UC falls into a further class of means-tested benefits, intended not just to provide a basic income, but to supplement income and earnings - the model of Tax Credits and Housing Benefits. The principle works by setting an assessment level and then gradually reducing benefit entitlement as income increases - the "taper". This leads immediately to two problems. The first is that it is difficult to work out what people are entitled to and, no less important, what is the level of income at which they are no longer entitled. The second is the "poverty trap", which the government has taken to calling the Marginal Rate of Deduction: the combined effect of taxation and the withdrawal of benefits. The principle of the taper is well-established in the UK benefits system; it has been in operation, in one form or another, since 1967, when it was first used for Rate Rebate (the equivalent of Council Tax Benefit). Then there was Family Income Supplement in 1971, the forerunner of Family Credit, and then Rent Rebate and Allowance, introduced in 1972 and 1973. These benefits were translated eventually into Housing Benefit (1982-983) and Tax Credits (after 1999).

Housing Benefit has never worked well, but it is maintained by governments because it is difficult to see how to get out of it. The benefit is complex; takeup for those in work and private rented housing is poor; the design of the benefit means that people on higher incomes, with higher rents, may get more in benefit than people on lower incomes with lower rents. It is difficult to work out who is entitled, what they are entitled to and when they cease to be entitled. There have been huge administrative problems; some local authorities have developed continued in practices which are contrary to law (such as the suspension of benefit for people who start work); the regulations change with frightening rapidity. And yet Housing Benefit effectively became the model for Tax Credits - with the same model of assessment minus taper, coupled with the removal of the operation from benefit authorities who might have known what they were doing. Tax Credits were predictably blighted with administrative problems, as people found that benefits had been wrongly calculated, phone lines were blocked and they were expected to repay miscalculated benefits. Despite the problems, HMRC estimates the figures for Child Tax Credit to be 81-85% caseload, 91-94% expenditure, and Working Tax Credit to be 62-66% by caseload, 82-86% by expenditure. (HMRC 2012) That compares to figures for income-based JSA which put take-up at 60-67% by caseload and 61-70% of expenditure. (DWP Statistics, 2012d) The difference is, frankly, hard to believe. HMRC has acknowledged that there have been serious problems in the design and administration of the benefits. If take-up is affected by ignorance, complexity, bad experiences, stigma or barriers to access, the take-up of Tax Credits should be markedly lower.

Means tested benefits are not, of course, the only benefits which are subject to problems. There are other aspects of the benefits system which are cumbersome, badly designed and problematic for claimants and administrators alike. They include, for example,

- benefits which people cannot work out they're entitled to
- the problem of repaying money that people did not know they should not receive
- rules that tell people they must work at the same time as recognising that it's not reasonable to work (the current position for ESA)
- the medical reassessment of claimants
- benefits which penalise claimants for circumstances outside their control
- the cohabitation rule, and

- complex assessments that require people to report changes across multiple dimensions.

Universal Credit has the lot. It is as if someone has started with a list of everything in the benefits system that causes problems and designed the new benefit round it.

We have enough experience of badly-designed benefits to have some idea of what is likely to happen in the long term. They cannot just be snuffed out, because too many people would be affected. The benefits have to adapt to the conditions where they are being applied, so they become complex. Where rules have not been thought through, old rules have to be recycled or carried forward to do the job - that is why there are still elements of the 1934 Unemployment Assistance Act in the present day system. If they are too cumbersome to be administered, their constituent parts have to be managed separately, and ultimately they are likely to be broken away - this is what happened to Supplementary Benefit. Even if Universal Credit fails spectacularly, it will lumber on; but it may not look much like the initial vision.

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