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# What's wrong with social security benefits?

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## 3. The real problems

The main task of this book so far has been to clear the ground - to challenge misconceptions about benefits. There are many real problems with the benefits system, but they are not the problems one hears most about.

### The size of the operation

The first, and in some ways the most obvious, problem of the benefits system hardly gets mentioned in the critical coverage: that it is very big. It deals with millions of people in complex, highly diverse circumstances.

- More than six million people get means tested, income replacement benefits. (3.7 million of those are pensioners).
- More than five million people get help with housing costs.
- Nearly six million people get help with paying Council Tax, mainly administered in local schemes.
- There are nearly thirteen million people in receipt of State Pension. One pound a week on the State Pension costs more than £670 million in a year.

The size alone has startling implications. There's a famous rule in engineering, called Murphy's Law, telling us that 'anything that can go wrong will go wrong'. This is far from being a joke, even if it sounds like one. Any operation which goes through millions of iterations will have its weaknesses found out. It is useful to think in the same terms about social security. Whatever situation one could imagine, there are so many people in the system, and so many complexities in the circumstances that the benefits system deals with, that unlikely things are not just possible - they are almost certain to happen. This comment comes from Lord Freud, a social security minister, who explained to the House of Commons Work and Pensions Committee how the pilot schemes for Universal Credit – still largely confined to jobless single people, at the time managing only a few thousand claims, from

over eight million initially expected – had shed a light on case management. He cited a ‘rather complicated’ case.

“Just to take an example of one of the more complicated cases we have had, we had a claimant who met a partner who had a son; they wanted to move in together and they therefore needed to move house and he had his own son moving in with them over the weekends. The new partner was in receipt of income support. What we got out of that rather complicated example was a partner claim, a child, a termination of tax credit, a termination of income support and a change of address. We were able to work that through, in policy terms, on a manual basis to find out how all those systems work ...”<sup>1</sup>

This example raises several troubling issues. One is that the system has clearly not been designed to take into account inconvenient changes in people’s lives. New household formation is being treated as if it was exceptional, when it’s commonplace. The assumption has been made that people fall into a defined category which then has to be modified. Second, half the ‘problems’ Freud is identifying seem to relate to the transition to Universal Credit itself. If that is right, this is a fundamental design fault likely to be experienced by millions of claimants. Third, the development of Universal Credit had at the stage when these comments were made been going on for more than three years, and it seems that it was still unable to process a change in circumstances without managing it on a ‘manual basis’ - because, in other words, the system hadn’t been designed to cope.

## **The human factor**

Benefits are for people, and people do not always live the way that governments want or expect them to do. People who receive benefits have choices to make. Part of the architecture of benefits is based on the idea that claims are ‘subjective’ - it is up to the claimant to make them. In the literature on social care, this is increasingly being referred to as ‘co-production’: the claimant has a role, as much as the service does.<sup>2</sup> Nothing can really work unless claimants take the initiative. (It doesn’t have to be this way. People are not given a choice about whether or not they pay their taxes. There have been experiments with pensioners, to show that the same can be done for the payment of benefits.<sup>3</sup> But that, of course, is still subject to the general rule that things can and will go wrong; people will make of the evidence for and against what they choose to make of it.)

Much of the economic analysis of benefits depends on people being ‘rational’, at least to the degree that they do what is in their interests, or what right-wing political writers imagine is in their interests.<sup>4</sup> It may be true that some people respond to incentives - there is some circularity in the idea, because if they don’t, it’s not really an incentive - but it is not

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<sup>1</sup> House of Commons Work and Pensions Committee, 2013, 9th December, <http://data.parliament.uk/writtenevidence/WrittenEvidence.svc/EvidenceHtml/4338>

<sup>2</sup> S Osborne, Z Radnor, G Nasi, 2013, A new theory for public service management?, *American Review of Public Administration* 43(2) pp 135-58.

<sup>3</sup> Pensions Client Directorate, 2010, Pension Credit payment pilot: Department for Work and Pensions, <http://www.dwp.gov.uk/docs/pension-credit-payment-pilot-response.pdf>.

<sup>4</sup> e.g. C Murray, 1984, *Losing ground*, New York: Basic Books.

always clear what is an incentive, and what is not. The DWP is currently arguing that reducing benefits should act as a spur to those involved to find work; an independent research study suggests that it has the opposite effect, and claimants have to spend more time on day-to-day household management.<sup>5</sup> Some of the options that may seem to be 'rational' to commentators<sup>6</sup> are not what claimants choose to do. People do not claim money just because it's there. They don't unfailingly choose leisure before work. People of working age don't live on benefits long term if they have any way out. That's partly true because benefits don't actually work in the way that many of those commentators imagine - there has never been a system, Atkinson points out, which is unconditional and delivered uncritically.<sup>7</sup> It's no less true because people whose income is largely made up of benefits are generally much worse off than other people, despite the myths, and there's not much about their situation that could have the imagined effects.

It is more true that some of the routes people take may be predictable. People do what they have to do to survive. In the 1840s, Edwin Chadwick reported that people were getting help from the Poor Law because they were sick, not just because they were poor. By the time Beveridge wrote his report in the 1940s, every administrator knew that it was not possible to separate income support for unemployment and sickness: if there is no unemployment provision, people have to present as sick, and if there is no sickness provision, they have to present as unemployed. That is why Beveridge thought it was necessary for there to be a National Health Service so that his unemployment insurance could work.<sup>8</sup> In the same way, provision for disability overlaps with provision for sickness: if there is no disability benefit, as there wasn't before the 1970s, people have to claim sickness benefits, and if there is no sickness benefit people may have to claim disability benefits instead. This implies that it is at least possible to predict broad, aggregated trends - even if it tells us little about what any individual claimant will do in the circumstances.

## **Presumptuous administration**

The complexity and variability of individual responses leads to a third major problem of the benefits system. Time and again, benefits have been designed on the basis that the agency operating the system will be able to process huge amounts of data to respond sensitively and flexibly to the changing circumstances of millions of people. Time and again, this approach has failed. When the Housing Benefit scheme was introduced in the early 1980s, the problem wasn't just that the authorities were being asked to work out benefits with two complicated formulae; it was that the local authorities needed to know about the house, the household composition and the income of thousands of families. The result was chaotic - it was called, in its day, 'the greatest administrative fiasco in the history of the welfare state'.<sup>9</sup> Some local authorities hadn't worked out benefits years after it was introduced, and had to keep making temporary payments on account while they caught up. Then there was the Child Support Agency, set up to make sure that absent parents paid for children from their former relationships. That often meant that an assessment needed to know the income, liability and

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<sup>5</sup> P Butler, 2016, Docketing benefits is not incentive to work, report claims, Guardian 5th June

<sup>6</sup> such as C Murray, 1984, *Losing Ground*, New York: Basic Books.

<sup>7</sup> A Atkinson, 1990, *Institutional Features of Unemployment Insurance and the working of the labour market*, London: Suntory-Toyota Centre for Economics and Related Disciplines.

<sup>8</sup> Cmd. 6404, 1942, *Social insurance and allied services*, London: HMSO.

<sup>9</sup> The Times, cited R Walker, 1986, *Aspects of administration*, in P Kemp (ed) *The future of housing benefits*, Glasgow: Centre for Housing Research, p 39.

household composition of two families - keeping track of six elements. Predictably, the administration proved to be impossible - not for everyone, just for enough people to make it into an unholy mess. There were simply too many moving parts.

The capacity of IT systems to resolve this sort of issue has been over-sold, nowhere more visibly than in the shambles that is Universal Credit - the leading minister was said to be 'hypnotised by promises of what an online system can deliver'.<sup>10</sup> There are limits to what computers can do, and a comprehensive system of benefit administration goes beyond them. Fifty years ago, Richard Titmuss berated the naivety of commentators who were convinced that computers could provide the answer to everything. He thought it absurd to expect a computer 'to solve the problems which human beings have not yet adequately diagnosed'. He pointed to the complexity of family lives, the lack of common characteristics, and the particular difficulties of applying general rules to the working age population. He noted the problems employers would have in collating information, especially on information beyond the workplace, and the difficulty of coordinating benefits and tax. And he emphasised, above all, that the rules and principles governing benefits called for issues of 'moral values, incentives and equity' to be taken into account. 'Computers', he wrote, 'cannot answer these questions.'<sup>11</sup>

The presumption goes deeper, however, than simply asking people for more information than the agencies know how to handle. There is a widespread assumption that all one has to do is to ask people the right questions, or get them to go through proper tests, and the answers will become clear. When Incapacity Benefit was introduced in the 1990s, it was assumed that a clearer, firmer definition of incapacity would make it possible to administer the benefit more strictly. The numbers of claimants fell a little at first, then returned stubbornly to where they had been before. So the assessment process - the 'Personal Capacity Assessment' - was reformed into a more focussed 'Work Capability Assessment', and claimants were required to undergo personal assessments, and then to undergo personal assessments at recurring intervals. There were hundreds of thousands of appeals, and about 40% of those heard were successful - which implies that many of the decisions were just plain wrong. (Unfortunately, there is no final figure - many of the appeals have disappeared in the Bermuda Triangle of benefits administration.) The main substance of the complaints, monitored in a series of independent reports, is that personal statements and medical evidence were ignored or dismissed;<sup>12</sup> the government has conceded at least that people with long term conditions will not in the future be required to submit to repeated assessments. A similar process is also taking place to assess people for Personal Independence Payment, but while medical evidence is formally accepted, some of the same problems are still evident. Assessing people in this way is difficult, intrusive and inconvenient, and assessing millions of people is all of those things in large numbers, but that's not all the problem. The sort of questions that are being asked are the sort of questions people find it enormously difficult to answer. Most people who are disabled don't think they are disabled. Others answer that they're disabled 'sometimes'.<sup>13</sup>

The same uncertainty and confusion is evident in claimants' position about their

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<sup>10</sup> J Cusick, 2012, Benefits reform under threat after IT glitch, Independent 11th November

<sup>11</sup> R Titmuss, 1968, Universal and selective social services, in Commitment to Welfare, London: Allen and Unwin.

<sup>12</sup> e.g. M Harrington, 2013, An independent review of the Work Capability Assessment - Year 3, London, HMSO, p 48.

<sup>13</sup> DWP Ad Hoc analysis, tables 10-11,

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/210030/q1-2013-data.xls](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/210030/q1-2013-data.xls)

personal relationships, and employment. Those who have gone through a divorce should be able to recognise the difficulty of saying for certain that a partner has gone, or that a new relationship is forming. Employment is also uncertain. For lower paid employees, contracts of employment have become harder to obtain; people on zero-hours contracts don't know whether they have work until they do it; some employers insist (very questionably) on treating their employees as 'self-employed', to avoid having to meet their statutory requirements; pay can be unpredictable. The benefit system expects people to be able to say what they are doing and how it fits in to the rules. Something every benefits adviser must have heard is, 'I don't know how to answer - tell me what I should say.' But when the claimants get it wrong, it is liable to be treated as fraud and harshly dealt with.

This raises serious doubts about one of the main objectives of contemporary policy, the plea for 'personalisation'. In theory, benefits ought to be able to respond to individual circumstances with sensitivity and precision. In practice, the more sensitive the requirements, the more difficult it is for the benefits to identify and respond appropriately: that is why highly individualised benefits like Pension Credit or Personal Independence Payment have such poor records for accuracy, while impersonal benefits such as the State Pension or Child Benefit work far better.

## **Complexity**

It should not be surprising that benefits systems are complex. They need to be. They have multiple aims, they deal with a huge range of different conditions and circumstances, and they deal with complex lives. What seems to happen next, however, is that politicians respond to the problems by making the situation more complex still. Recent examples include:

- a limit to the amount of benefit that someone of working age can receive
- clawing back Child Benefit from richer families
- rules to make sure that families are not paid for spare bedrooms
- special rules for single people to stop them getting bigger housing
- rules to limit the rights of recent migrants to the UK
- restrictions on the age when young people can claim certain benefits..

Any of these rules could be criticised in its own right, but quite apart from that, each change pulls a clutch of new problems in its wake. The rules have to be clarified, to explain who is being included in them and who isn't. What is a spare bedroom? How long does someone have to live in the UK before they stop being a migrant? Which benefits get restricted, and which don't? Then, like most general rules, they don't work for everyone. So at the same time that the government introduces the rules, it also has to introduce a range of exceptions - benefits that are not included in the benefit cap, classes of claimant who will be affected and others who won't, rooms that are not counted as accommodation, and so on. Currently there are plans to suspend benefits for the third child in the family, unless the child is born as a result of rape. That exception means that there will have to be a rape test - some way of

distinguishing women who have been raped from the rest.<sup>14</sup> The exception might be well-meaning, but it's hard to think of any way of implementing it that wouldn't be intrusive, humiliating and deeply unpleasant. A further set of problems comes because any rules like this have to cope with the dizzying complexity of people's lives. Age is fairly predictable, but family composition can change rapidly, and income changes suddenly and sometimes catastrophically.

Complexity can't be avoided altogether, because any rule to define who is entitled to benefit has to be interpreted somehow. There can't be a benefit for sickness without there being some distinction between people who are sick and those who are not; if there is going to be an unemployment benefit, there has to be some way of determining whether someone is unemployed. Some of the complexities are then intrinsic to the benefits - they are part and parcel of what the benefits are supposed to do. But there are also avoidable complexities, of two kinds.

First, there are rules that are just more convoluted than they need to be to do the job. (My apologies if the examples which follow are difficult to make sense of, but that's the point.)

- National Insurance entitlements for some benefits are based on contributions made one or two tax years (running April-March) preceding the immediate calendar year (running January-December).
- Actual income from capital is disregarded for means-tests, but capital is means-tested on a nominal scale.
- Entitlement to rent is usually calculated on a weekly basis, but lots of social landlords have two rent free weeks around Christmas time, so the non-dependent deductions and income are recalibrated, and rent is recalculated at 50/52 of the nominal level.
- Universal Credit is being paid on the same day of the month as the initial claim, a date which loses its significance as soon as someone gets their first pay cheque. It means that claimants can be paid on any one of 31 days; and that those days need to be shunted around for bank holidays and 30 or 28-day months.

Then there are rules that are introduced deliberately to vary the terms on which the system works for others - trying to bar the wrong sort of person from claiming benefit, trying to remove barriers for others, trying to personalise the response. It's not that decision-makers actually say to themselves, 'the system isn't complicated enough yet'; it's rather than they think they can stand a little more complexity to do the terribly important thing that they absolutely have to do this time around. Examples of the first type, trying to bar the wrong sort of claim, are the rule which says people have to be looking actively for work for 35 hours a week (it is impossible to verify, but despite that it is still one of the main grounds for benefits being withdrawn)<sup>15</sup>; that although strikers already can't get benefit strikers' families should also have elements deducted from their benefit entitlement; or that people who come to live in Britain should have to wait an extra period before they become entitled to disability benefit. Examples where the special rules have been supposed to encourage people to claim

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<sup>14</sup> H Stewart, R Mason, 2016, UN asks government to explain two-child cap on child tax credits, Guardian 21st May <https://www.theguardian.com/society/2016/may/21/two-child-cap-child-benefit-un-snp>

<sup>15</sup> D Webster, 2016, Explaining the rise and fall of JSA and ESA sanctions 2010-60, <http://www.cpag.org.uk/sites/default/files/uploads/16-08%20Supplement%20-%20Reasons%20for%20rise%20%20fall%203%20Oct%2016.docx>

benefits might be the Savings Credit, an extra means test meant to allow pensioners on very low incomes to keep some income from savings which would otherwise be deducted from means tested benefits, or the rules which allow older people receiving Disability Living Allowance to get extensions into retirement age.

The administrative complications are fuelled by the assumption that if any general rule is introduced, everyone has to be checked individually. So, every claimant of JSA or Universal Credit has to sign a 'commitment' about looking for work; every claimant of ESA has to be assessed for their capacity to work; everyone has to be warned about the dire consequences of fraud; every form must be signed. Employment and Support Allowance refuses to accept basic evidence from medical practitioners who have given continuing care for patients over extended periods of time, or even from leading experts dealing with the medical condition. Not long after the process of re-assessing ESA claimants had become the subject of extended delays, mis-judgments and protests, and the firm commissioned to do the work had thrown in the towel, the government extended the same kind of process to Personal Independence Payments.

## Selectivity

The core problem of complexity reflects the practice of 'selectivity'. Selectivity is sometimes confused with means-testing, of which more shortly, but it is a more general term than that. Usually it implies the selection of people on the basis of means or need, so it would include not only tests of income, but also the sorts of test required of people with disabilities.

The first basic principle of selectivity is that a distinction has to be drawn between people who are eligible to receive the benefit and those who are not. To claim assistance with paying for a funeral, the process asks six things: the personal circumstances of the applicant, their financial resources, their relationship to the deceased person, the resources of the estate, the arrangements that have been made for the funeral and whether anyone else might be responsible for meeting the costs. There are 36 pages in the form, though in fairness the first ten pages are explanatory notes (or administrative gobbledegook) rather than things the applicant absolutely has to work through. The most difficult thing about filling the form is probably not the means test, but the last part - explaining the family and personal relationships that lead to one person rather than another taking responsibility.

Almost all benefits define eligibility in some way. If the criterion for eligibility is straightforward membership of a category - for example, people over 80, pensioners' bus passes or benefits for children under 16 - there is no need to develop a process for exclusion. (These are real examples.) Income tax is not thought of as a selective process, because everyone is included until they can find a way to opt out; when we had means-tested student grants, those were not treated as selective either. The difference between selective benefits and others is the second part - the process of exclusion. Selection sorts out the sheep from the goats, and sometimes they can be hard to tell apart. So there are tests to decide how sick or disabled people are, whether they are actively seeking work, how much money they have coming in, and so on. Often the tests are poorly understood. A study of unsuccessful claims for Disability Living Allowance found that people receiving Employment and Support Allowance - the long-term sickness benefit - did not understand that DLA was there for different purposes; that they sometimes made claims with no reasonable hope of success, thinking that they may as well have a crack at it; and if they were refused, they put it down to



luck rather than the operation of appropriate criteria.<sup>16</sup> (The transition from DLA to Personal Independence Payment is being done at a time of swingeing cuts in entitlement to ESA, and there seems to be very little prospect of undoing the muddle in the course of redefining the benefits.)

The language of 'selectivity' does not identify a straightforward category of benefits. There is a spectrum of eligibility conditions and tests, and the more stringent the tests, the more selective the benefit is. There is more selectivity for some benefits, such as Employment and Support Allowance, than there is for others, such as Industrial Injuries Disablement Benefit. JSA is less selective for the first six months, when there is a contributory test, than it is later on. Child Benefit used to have hardly any selectivity, but the government recently introduced a mechanism through the tax system for excluding richer families.

The most basic argument for selectivity is that benefits need to be delivered to people in need. If benefits are meant to help those in need, there has to be some way of identifying who those people are. If there were no selection, there would be no practical way of responding to specific needs when they do arise. Some degree of selectivity is necessary in a benefits system; we could not provide for people with disabilities without it. Unfortunately, it is not possible to do this without some complexity, and more finely tuned the rules are, the more problematic benefits become. There are always problems of inclusion, where people qualify for the benefit who are not in the target group, and exclusion, where people do not get the benefits they should. Benefits commonly fail to reach the people they are intended for. Most of the available figures focus on means-tested benefits, but there are the same kinds of problems with all selective benefits. Table 3.1 shows estimates, drawn from a range of sources.<sup>17</sup> The outcomes for means-tested benefits are bad; the outcomes for disability benefits, which are not means tested, are worse.

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<sup>16</sup> A Thomas, 2008, Disability Living Allowance: disallowed claims, London: DWP.

<sup>17</sup> DWP, 2016, Income related benefits: estimates of takeup 2014/15, <https://www.gov.uk/government/statistics/income-related-benefits-estimates-of-take-up>; HMRC, 2016, Child Benefit, Child Tax Credit and Working Tax Credit: Take-up rates 2013 to 2014, <https://www.gov.uk/government/statistics/child-benefit-child-tax-credit-and-working-tax-credit-take-up-rates-2013-to-2014>; DWP, 2012, Income related benefits: estimates of takeup 2009-10 (for Council Tax Benefit, predecessor of Council Tax Support); D Kasparova, A Marsh, D Wilkinson, 2007, The takeup rate of Disability Living Allowance and Attendance Allowance: feasibility study, London: Department for Work and Pensions.

<b>Table 3.1: The takeup of various benefits</b>			
	<i>Type of benefit</i>	<i>Estimates of takeup by eligible recipients</i>	<i>Estimates of the amount of money due that is being claimed</i>
Child Benefit	Universal	95-96%	-
Child Tax Credit	Tapered	85-89%	91-94%
Housing Benefit	Tapered	79%	86%
Income Support (and income-related ESA)	Minimum income	82%	84%
Working Tax Credit	Tapered	66-71%	84-87%
Pension Credit	Minimum income	62%	69%
Council Tax Support	Tapered	62-69%	64-71%
Jobseekers Allowance	Insurance/minimum income	50%	57%
Disability Living Allowance mobility component	Non-contributory	50-70%	-
Attendance Allowance	Non-contributory	40-60%	-
Disability Living Allowance care component	Non-contributory	30-50%	-

The other problems that are hard to avoid are the boundary problems - the difficulty of deciding where the boundary should fall, of who is in and who is out. This is often identified with the 'poverty trap' - withdrawing benefits gradually makes it uncertain when entitlement starts, and when it finishes - but it's more complicated than that. In Scotland, free personal care for elderly people is based on an assessment, and the assessment determines entitlement to support and provision. When free personal care was introduced, it seemed at first as though the demand was limited, and largely known. As the system has become established, the pressure on services - and their expense - has been growing. This is a common pattern with selective benefits. It happened with single payments, where highly restrictive entitlements for special needs were progressively tested through applications and appeals; with the assessment of incapacity, where a points system laying down strict criteria for qualification admitted increasing numbers of claims; or for Disability Living Allowance, where the initial rules were gradually bent to accommodate the needs of people with

mental illness or fluctuating conditions. In all of those cases, politicians and administrators have been convinced that all they need to do was to tighten up the rules, and the costs would fall. It rarely works that way. People claim what they can; if the distinction is a matter of fine judgment, some will be deterred, and others will try to make sure that they can satisfy the requirements. These judgments cannot be made consistently, accurately and fairly, and inevitably attempts to personalise have to accept some degree of compromise.

Then there are problems of fraud and error. The popular conception here is that fraud is the main problem; the best evidence, outlined in table 3.2,<sup>18</sup> suggests that the problem of error is much greater. The official statistics are sometimes questionable - HMRC claims to have made hardly any mistakes - and the figures for error are probably an underestimate, because the samples it is based on are samples of claims; people who have been wrongly denied the benefit are not included in the figures.

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<sup>18</sup> DWP, 2016, Fraud and error in the benefit system, [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/528719/fraud-and-error-prelim-estimates-2015-16.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/528719/fraud-and-error-prelim-estimates-2015-16.pdf); HMRC, 2015, Child and Working Tax Credits error and fraud statistics 2013 to 2014, <https://www.gov.uk/government/statistics/child-and-working-tax-credits-error-and-fraud-statistics-2013-to-2014>

<b>Table 3.2: Estimates of errors in the benefit system (percentages of value)</b>				
	Fraud	Claimant error	Official error	Total
Jobseekers Allowance				
<i>Overpaid</i>	3.2	0.4	1.5	5.0
<i>Underpaid</i>	0.1	0.1	0.7	0.8
Pensions Credit				
<i>Overpaid</i>	2.5	1.4	1.7	5.6
<i>Underpaid</i>	0	0.7	1.6	2.3
Housing Benefit				
<i>Overpaid</i>	3	1.8	0.4	5.2
<i>Underpaid</i>	0	1.0	0.4	1.4
DLA				
<i>Overpaid</i>	0.5	0.6	0.8	1.9
<i>Underpaid</i>	0	2.4	0.1	2.5
State pension				
<i>Overpaid</i>	0	0.1	0	0.1
<i>Underpaid</i>	0	0	0.2	0.2
Employment and Support Allowance				
<i>Overpaid</i>	1.7	0.5	0.6	2.8
<i>Underpaid</i>	0	0.1	1.4	2.3
Universal Credit				
<i>Overpaid</i>	5.4	0.2	1.7	7.3
<i>Underpaid</i>	0	0.4	2.3	2.6
Tax Credits				
<i>Overpaid</i>	2.4	2.9	0	5.3
<i>Underpaid</i>	no data	no data	no data	0.5

The figure for Pension Credit are noteworthy, because it is the only figure which can be compared directly to an alternative method of payment, the State Pension. These benefits go to a very similar population, but State Pension is easy to claim, and Pension Credit is convoluted. In relation to Pension Credit, overpayment through fraud stands at 1.8 per cent, 'customer' error at 1.3 per cent and official error at 1.5 per cent, making 4.6 per cent altogether. By contrast, the equivalent figures for State Pension are 0.0 per cent, 0.1 per cent and 0.0 per cent. The message is clear: if benefits are to get to the right people, they need to be simpler.

## Means-testing

Means testing ought, on the face of the matter, to ensure that people on low incomes have their incomes supplemented, without wasting resources on people who do not have the same needs. Economists often argue that systems that respond to the circumstances of individuals are more efficient than those which don't, and one of the primary arguments for means-testing has always been that the benefits will be allocated more efficiently - spending less money to greater effect. Unfortunately, this is not how things work in practice. Many of the problems of means-testing are the problems of selectivity. There are problems of policing the boundaries, and of fairness; there are inevitably problems with imposing conditions, running tests, and excluding people. But means testing also has problems of its own, partly due to the focus on financial resources, partly to the processes that are needed to track them. The first problem is knowing where to draw the lines. The lower the income threshold, the higher the rate of withdrawal, the meaner the benefit will be. The shape of the distribution of income means that means tested benefits are condemned to be either restrictive, or very expensive.

The second problem is a problem of equity. Means-testing is largely based on a test of financial resources, but all resources are not financial. There have in the past been tests which required people to sell their possessions, but these have been extremely unpopular. That implies that some people will have carpets, or cars, or televisions and others will not. If the purpose of benefits is to smooth income, this is not a problem: the point of some benefits (like contributory JSA and ESA) is to fill in gaps so that people won't have to suffer as a result of the interruption of their income. That is not true in this case: one of the primary justifications for means-testing is to relate income to resources, and the tests that are based solely on income and capital rely on a compromise.

Then there are the specific administrative problems of trying to track resources. They include:

- the problem of defining the threshold for entitlement - and the obvious unfairness which happens when some people are just above the qualifying level;
- the speed at which income changes - month to month, week to week, even day to day. The increasing reliance on 'flexible' labour markets mean that the income of lower-paid people fluctuates rapidly and unpredictable - a 'roller coaster'.
- the difficulty of treating saving fairly, because saving often depends on past income rather than present resources.
- the way that resources are shared in a household, and the ways in which people who live together in different arrangements are treated. Most of the non-means tested benefits are only concerned with the person who is claiming. Means-tested benefits have to be concerned with other people around the claimant - another set of circumstances that is liable to rapid and unpredictable change.

Means-testing has proved in practice to be, not the cheapest, most tightly circumscribed way of delivering a benefit, but the opposite. The benefits which have mushroomed unexpectedly since the 1970s - Supplementary Benefit and Income Support, Housing Benefit and Tax Credits - are mainstream, means-tested benefits. They are complex, covering multiple contingencies; they are expensive to run, and they are riddled with administrative pitfalls; but none of that really sets means-testing apart. The plain fact is that means-tests have proved far more difficult to control and regulate than politicians (and theoretical economists) imagine. Entitlement to these benefits is based primarily on the fact

that people have low incomes, and as very large numbers of people live on low incomes, there is not much that can be done effectively to deny them. In relation to each of these benefits:

- Governments imagined they were dealing with a smaller set of issues than proved to be the case. SB descended from National Assistance, which was supposed to wither away as more people became entitled to National Insurance; Housing Benefit was supposed to fill the gaps for social renting, while owner occupation was expanding; Tax Credits, for lower paid workers, would cost £2 billion rather than the £30 billion they proved to cost.
- Policy makers thought that managing needs through the market would lead to greater allocative efficiency. Supplementary Benefit and Income Support were used - very effectively - to finance the private care sector; Housing Benefit was intended to move subsidies from housing to individual households; Tax Credits have paid for child care by giving people the money to spend, rather than providing places directly. In each case, this approach has led to a costs mounting rapidly. (Something similar is likely to happen with the growth of independent budgets in social care.)
- Governments believed that if costs increased, they would be able to restrict them by tightening the criteria, and in particular that using a formula or threshold would target benefits and keep the costs down. The rules for Income Support tightened up SB, reducing the scope for individuals to claim extras. The costs of Single Payments were to be held down by blocking claims to clothing. Housing Benefit saw progressive changes in its formulas, altering the thresholds and the tapers. The costs of Housing Benefit would be held down by tightening the Local Housing Allowance or the bedroom tax. Tax Credits are being limited to two children and tapers have been hiked up, but the growing number of claims stems from changes in the labour market.

Insanity, Einstein famously suggested, is repeatedly doing the same thing in the belief that next time the results will be different. The design of Universal Credit, which is slowly being rolled out across the UK, brings together every major feature that has caused administrative meltdown in the course of the last forty years: personalisation, tapers, computerisation, conditionality and multiple moving parts. It is as if the designers had painstakingly identified all the elements of the benefit system that are known not to work and built the new benefit around them.