

# Means testing flaws

The more flexible French and German systems should be copied

New Economy

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**B**ritish social policy has always had a strong nationalistic element. Beveridge in 1942 was proud of the Britishness of his proposals. At the other extreme, foreign policies can look very attractive: the Chilean private pension scheme has become an icon to some who have not been able to assess its strengths and weaknesses in the light of the peculiarities of Chile's labour markets, institutions and recent economic performance. Our current priorities and preoccupations not only underpin the contemporary British debate but also influence the questions we ask of foreign systems. To compare any international policy requires an acknowledgement of our own national assumptions.

## The role of means-testing

Coming from Britain, where means-tested benefits now support about 30 per cent of households, the first challenge is to understand why this figure is so much higher than in either France or Germany. The Table compares means-tested benefit coverage in the three countries. Even leaving out housing benefits for better comparability, 19 per cent of the UK population live under means-testing. In France it is half this and in Germany it is only four per cent. The difference is due for the most part to the higher commitment

of continental models to earnings-related social insurance as the basis for coverage for all insurable needs: unemployment, sickness and retirement or widowhood.

The British model has very little left of social insurance besides basic pensions, and what there is (besides a reluctant continuation of SERPS) is flat rate provision. We encourage the well off to supplement provision through private means, but discourage poor people from doing the same because they have limited access to market provided products and the returns are unlikely to lift them from the margins of minimal provision.

This fundamental difference underpins much of the debate. British concerns about incentives have led to low benefit levels and high use of means-testing. British policy has traded-off different incentive concerns. We

### Britain much more reliant on means testing than France and Germany (1993)

	Claimants & dependents (mil)	% of all individuals
<i>Britain</i>		
Income support	8.8	16
Family credit	1.8	3
<i>France (all schemes)</i>	5.5	10
<i>W Germany (all schemes, 1992)</i>	3.3	4

Source: Authors' calculations. Means-tested housing benefits are not included

have lowered benefit rates to solve the unemployment trap (where benefits are a high proportion of potential net earnings), but we have means-tested to control spending and be more efficient and this has created large numbers of poor people who face very high marginal tax rates on earned income and invest-

that there are growing numbers of unemployed who have no social insurance cover due to their age and work experience or the length of their unemployment. In France and Germany the same passive policy trends have occurred, but there has been far less concern with actively reducing social insur-

**France and Germany have more flexible systems for supporting the unemployed than Britain (1993)**

	Britain	France	W Germany*
Total unemployed (000s)	2,763	2,911	1,808
% unemployment	10.2	11.5	5.8
<i>proportion of unemployed relying on contributory or means-tested provision</i>			
% on contributory benefit only	18	70	46
% on specialised unemployment assistance	-	14	23
% on non-specific social minima	81	12-14	23-25

Source: (Evans 1996a)  
\* W Germany 1992

ance cover. Reductions in coverage have happened in both countries: for instance, Germany has lowered the earnings-related formula for its calculation, and France has introduced a tapered reduction in unemployment benefits to ensure work incentives improve as unemployment duration increases. But France and Germany still remain fundamentally committed to social insurance as the main-stay of unemployment coverage.

The Table shows that the unemployed in Germany and France are covered by a range of insurance and different means-

tested schemes. In Britain we have rearranged the mix between insurance and means-tested cover for unemployment under a single categorical scheme but have introduced less flexibility. In France and Germany, earnings related benefits (with work incentive measures to accompany them) operate, along with specialised unemployment assistance with specific income disregards. The lowest form of provision, basic social assistance, is thus only offered to those who fall through the other nets.

Ten per cent of the British workforce now faces effective marginal 'tax' rates of more than 50 per cent because they are poor. Any discussion of improving incentives or of improving 'welfare-to-work' in Britain is thus faced with the problem of means-testing on this scale never mind the way in which the means-test works. We should not focus so narrowly on the rules that we lose sight of the system itself.

### Means-testing the unemployed

Underlying unemployment has grown dramatically since the late 1970s in all three countries. The response in Britain has been to withdraw social insurance and replace it with means-tested provision. This response has been an active and a passive response to growing levels of unemployment. It has been active because benefit rules have been altered to make social insurance less generous and to last shorter periods. It has been passive in

The results are that the British have effectively a single income maintenance policy for the unemployed, and this is then supplemented by active employment programmes as the length of unemployment increases. The French and German systems allow more flexibility because they have several benefit regimes, and, with smaller numbers claiming assistance, their means-tested schemes can have more flexibility and discretion in them.

Hence, incentives to work can be approached by a mixture of individual discretion about the treatment of part-time earnings, and of working at the margins of assistance, and active employment measures more targeted to local labour markets and individual needs.

### Be more flexible

What lessons could be drawn from this? There is a link between the scale of British means-testing and its inflexibility. Why should the same policy mix and timetable apply to all the unemployed in Britain? There is no reason why the current divide between six months benefit and then means-tested provision should apply equally between the skilled and unskilled, between a depressed labour market in Liverpool and a vibrant one in Swindon, or between 55 year olds and 30 year olds. The means-test could itself be made more flexible. Continental systems work on a monthly income calculation and often assess incomes on a three month basis, or even on previous year's income. In Britain all means-tests operate on a weekly basis and most benefits are reassessed on any week by week change of circumstances. This approach increases the disincentives to try short term or one-off jobs, encourages fraud, and escalates the costs of administration. Greater flexibility could be an advantage for both claimants and administrators if, say, rent rebates were given for longer periods without reassessment and income was tested more flexibly over a month or longer in response to an assessment of local employment prospects and individual circumstances.

### Lone parents and means-testing

Lone parents are a source of increased benefit dependency in all three countries. Unlike unemployment, having a child but no partner is not an insurable risk unless through widowhood. Lone parents are thus high risks for means-tested assistance, but the proportion of lone parents who rely on means-tested benefit differs hugely between Britain and France and Germany. The Table below shows that Britain has a higher proportion of lone parents in families with children and a far higher proportion of these relying on means-tested assistance and family credit. The reasons for this include the fact that lone parents qualify for better standard social insurance in France and Germany, that more

qualify as unemployed, and the different delivery of family policy through tax and family allowances. But more important is the British assumption of economic inactivity of lone parents until

their youngest child is aged 16.

In France, the main form of means-tested provision for a lone parents only lasts until the youngest child is three years old at most, based on the universal nursery provision for all three-year olds and above. In Germany, the local administration of means-tested assistance allows more discretion, not only in the calculation of benefit levels and treatment of part-time earnings, but also in the combined provision of benefits in kind such as child-care or a *kindergarten* place. The British approach, by contrast, denies lone parents access to active employment programmes and vocational training places. Instead it relies on in-work benefit incentives such as Family

**Britain has more lone-parent families and more of them rely on means tested benefits (1993)**

	Britain	France	Germany
Lone parents as % of all families with children	22	16	11
% of lone parents receiving means-tested benefits	68 Income Support 15 Family Credit	25	16

Source: Evans 1996b

Credit to draw lone parents into low paid part-time work.

### Over-targeting in Britain

Means-tested benefits in Britain are often labelled as non-categorical because the majority of the population can claim under a national safety net. But since 1988 the system has become more categorical in nature. Rigid rules define claimants as pensioners, lone-parents, unemployed, sick and disabled, or unemployed. Greater emphasis on controlling and coercing the unemployed has made the alternative labels of sickness, lone parenthood, and early retired far more attractive but what has been gained from these rigidities?

Targeting is one answer. Employment programmes can be offered to those who are truly unemployed. But the disadvantage is that by linking such programmes to a strict definition, claimants' opportunity and choices are strictly contained. Packages of education, child care, training, and employment programmes are not delivered in any rational way other than that created by the system itself. We encourage the unemployed to train but not to study and get better qualifications, while lone parents are encouraged into low status work without access to vocational training.

So what happens at the margins of the system? The dogma of current welfare-to-work policy is that it is the sole point of transition between benefit dependency and work, and that it can be largely driven by marginal differences between in work and out of work incomes. Thus training and education are focussed on those out of work. But the growing incidence of low paid, low status, part-time and temporary jobs means that it should continue to operate when these jobs are taken up. How else can those in poor status jobs move up into full financial security and independence?

The French call this *précarité*, a potential problem and underlying reason for social exclusion, whereas the British tend to see low

paid work at the margin of welfare as a solution in itself. If we were able to see such workers as precarious we could respond more positively to repeated periods of unemployment mixed with low paid work. A better mix of provision could expand training and education to those in precarious work as well as those out of work, and remove rationing for those out of work based solely on current duration of current unemployment and claimant status. The resulting expansion of choice would give lone parents access to training for work, allow training and job search programmes to start immediately on a second or subsequent period of unemployment, and reduce the friction between higher and further education and unemployment. If we could be more flexible in our demarcation of claimants and more able to support those at the margins of claiming we could, perhaps, increase choice and opportunity.

### Incentives, behaviour and British assumptions

Means-testing produces perverse incentives to work and save. The phenomenon of the poverty trap is now infamous. This is where marginal rates of tax reduce net income gains for increased work on the margins of poverty. These exist in continental systems as they do in Britain with several big differ-

*Fuller details can be found in a series of discussion papers published by the Welfare State Programme in STICERD at the London School of Economics.*

*These are EVANS, PAUGAM and PRÉLIS: Chunnel vision: Poverty, social exclusion and the debate on social welfare in France and Britain (1995)*

*EVANS: Means-testing the unemployed in Britain, France and Germany (1996a)*

*Families on the dole in Britain, France and Germany (1996b)*

*Housing benefit problems and dilemmas: What can we learn from France and Germany? (1996c)*

ences: on the continent, there is more discretion in the rules, fewer claimants, and greater ability to mix income horizons and means of provision. Unemployment traps (where income out of work is near or above potential income in work) are, in fact, generally worse in France and Germany where high replacement rates exist due to earnings related social insurance. However, the importance of these issues is seen quite differently. The issue of incentives is not at the heart of discussions about social security or welfare reform.

Job creation in Britain is more focussed at the flexible end of the labour market than in France and Germany, but there is an apparent growing convergence towards our experience. Only recently have France and Germany begun to amend their benefit systems to take account of changing labour market entry conditions for the poor. Even so, they appear to have a more holistic approach to the problem. Workfare, under various guises, is on the agenda in all three countries. Germany has always maintained a local commitment to public or community work alongside means-tested assistance for the unemployed. Recent proposals on public employment contracts for youth in France are breaking with their minimum wage standards.

Nothing stands still. British research into welfare dependency rarely finds evidence to support the axioms of the current policy arrangements. Employment programmes are beginning to offer a better mix of training and work for the long term unemployed, for instance in the Jobmatch scheme. Recent concerns over the long term dependency of lone parents are beginning to question the fundamental divide in treatment between them and the unemployed. Britain is beginning to realise the inconsistency of both advocating an increasingly flexible labour market and maintaining an inflexible policy response to unem-

ployment and benefit dependency. But why is the policy process running so far behind a changing appreciation of the problem?

### **The social basis of any new model**

One advantage of comparative study is that it can enable us to see ourselves as others see us. Such insights are not limited to the operation of the benefits system, but also point to larger issues of social policy. The British Left often blame the New Right for a minimalist view of the British State and its role in provision of welfare. This is hardly fair. The tradition is neither new nor exclusively Right. Beveridge's role for social security was minimalist: a national minimum through flat rate social insurance with private provision and mutual aid ensuring living standards above this level. More importantly it confuses the

*"The analytical framework that exists is largely American, as policy and theory look across the Atlantic rather than across the channel."*

very different assumptions about the role of the state. In France and Germany there is an optimal role for the state in social security but a minimal role in the actual provision of other services which are left to voluntary and private providers. This stands in stark contrast to the British post-war legacy, even the one so altered by 17 years of

radical Conservatism, which now forms the basis for debates about private versus public provision.

Britain's social policy is dominated by an empirical tradition which saw the study of problems and policy design as paramount and the wider issues of social theory as the domain of sociologists and political scientists. Within this tradition economic analysis has now become prominent. The analytical framework that exists is largely American, as policy and theory look across the Atlantic rather than across the channel.

This approach can be contrasted to France. There the role of social policy is deeply integrated into the republican conception of soci-

ety and the principles of solidarity and social cohesion. It is the duty of the State and the public institutions to reinforce social integration in the form of *citoyenneté*. This conception goes back to the eighteenth century and the idea of Rousseau's *contrat social*, which binds the individual to the collectivity, rather than Locke's social contract which protected individuals. The differences can be traced back through policy histories to the first half of the Nineteenth Century. The rise of pauperism caused numerous discussions in both France and Britain. The British solution of the Workhouse to combat voluntary poverty, the principle of less eligibility and the stigma of the Poor Law were all designed to increase the incentive to work. In contrast, the *Comité de Mendicité* had tried to organise a vast programme of public assistance to the poor, but failed. The French state has since remained opposed to a law comparable to the English Poor Law of 1834.

Economic history also affects national assumptions: for instance late industrialisation, and the very recent post-war phenomenon of unemployment have made the French more tolerant towards the unemployed. Religious traditions differ. Protestant ethics promote individual professional success, rejecting a route to salvation by good works. Catholic doctrine is founded on the moral value of charity and thereby encourages the rich to provide for the poor.

We are considering constitutional reform in the UK. The German constitution has a huge say in the formation and implementation of social policy. For instance, every citizen has the right to a minimum quality of life, and it is this principle which underpins their means-tested assistance schemes. Last year, as a result of a ruling by their Constitutional Court, German family allowance and tax policies had to be redrawn to ensure that they delivered minimum standards of living.

### UK options

Do we want to continue to have 30 per cent

of our households means-tested? There is a great investment in the mess we are in. Blame is easier than responsibility. Inertia is easier than change. We are so tied up in cross-sectional concerns about costs of change that we are losing sight of the longer term consequences of current policy.

The prevailing British policy paradigm allows little strategic thinking across departmental responsibilities. Social security has become the policy ambulance to pick up and deal with all the casualties of the new economic order. We could learn from the French experience of inter-departmental provision of benefits and social and economic integration in the *Revenu Minimum d'Insertion*.

The academic environment has also swung so greatly towards an individualistic appreciation of the problem of dependency and labour markets that there is insufficient breadth of approach. We employ increasing technical competence and sophistication in econometric, statistical and demographic modelling, but have increasingly lost any social context. How can we bring together the quantitative and qualitative analysis across different disciplines to ask better questions and provide more robust answers? The messy truth is that policy needs to be founded on theory that is a robust mixture of political science, system analysis, anthropological insight, macro economics, demography, sociology and microeconomics.

No matter how we appeal to new models of solidarity – through stake-holding, community renewal or a new constitutional settlement – we have to address deep weaknesses in the structure of social policy. At present, appeals to national and community solidarity only ring true when we lose at sport (after battling bravely) or win at war. Unlike France and Germany we have lost a sense of national solidarity through social policy. This was Beveridge's dream, but the NHS is now the only service that binds us together in mutual responsibility ●