

A Minimum Income Guarantee for the UK

Policy briefing | Alfie Stirling and Sarah Arnold | March 2020

1. The UK economy needs a new safety net to survive recession

- 1.1 **We are in the midst of a severe, global recession.** The spread of the COVID-19 pandemic has caused countries to implement the most significant public health interventions in post-war history. Entire populations are now practicing social distancing and isolation. The effects on GDP are expected to be significant, with some forecasters predicting a quarterly contraction of 15% over the next three months for the UK.¹ Unemployment is expected to reach levels not seen since the 2008 financial crisis, with almost half a million new applications to universal credit (UC) in less than two weeks.² Monetary policy in the UK is also largely exhausted, with both interest rates and quantitative easing reaching their ‘effective lower bounds’ – a point beyond which further reductions have little or no positive effect on spending in the economy. Trying to get the economy moving by making credit cheaper will be like pushing on a piece of string.
- 1.2 **In such circumstances, direct government subsidy through fiscal policy – tax and spending – is the only remaining option.** By far the most effective fiscal lever in recession is the existing social security system because it can maintain incomes, and therefore minimum spending, even when people lose their jobs and without any need for further action from government. Usually this so-called ‘automatic stabiliser’ is just the first line of defence against downturn. But with monetary policy so constrained, we have known for years now that our social security system will be among the last lines of defence as well.
- 1.3 The problem is the UK has entered recession with one of the weakest employment safety nets, either among advanced economies globally, or in the UK’s own post-war history. Total out-of-work payments received by UK employees are on average around 34% of their previous in-work income – the third lowest among 35 OECD advanced economies.³

¹ <https://www.capitaleconomics.com/publications/uk-economics/uk-economics-update/govt-needs-to-step-in-to-confine-big-hit-to-gdp-to-q2/>

² <https://www.theguardian.com/world/2020/mar/25/almost-500000-people-in-uk-apply-for-universal-credit-in-nine-days>

³ <https://data.oecd.org/benwage/benefits-in-unemployment-share-of-previous-income.htm>

And at less than 15% of average earnings, the main adult unemployment payment is worth less than at any time since the 1948 creation of the welfare state.⁴

- 1.4 Strengthening the social security system so it can do its job as a sufficient and comprehensive safety net should have been the first economic priority of government. It is true that UC and working tax credits have been temporarily strengthened, with an increase in the main adult payment by around £20 per week.⁵ But this £7 billion injection of cash amounts to just one fifth of the cuts to welfare seen since 2010.⁶ Even after these changes, the UK still has one of the weakest safety nets in its post war history, and far weaker than the majority of advanced economies.
- 1.5 The job retention and the self-employed income support schemes, launched by the government over the past two weeks, are welcome and necessary – but they are also insufficient. Government should be congratulated for their interventions to protect earnings. But there are still significant gaps that will harm the ability of the UK economy to recover and bounce back. All employees who have lost their job since the outset of social distancing, or who will do so before the end of April, are currently missed out. And those that see their employers cut their hours but not their entire job, will not be picked up by the schemes either. Even after this latest the announcement, self-employed workers will have to survive more than two months with little additional protection – beyond entitlement to temporary tax deferral and loans – until the new income protection scheme is operational from the beginning of June. Meanwhile those who trade as incorporated micro companies, who have been operating for less than a year, are missed out entirely. All of these groups, and more, will join the millions who already rely on means-tested benefits that are not sufficient to shield families from the present crisis.

⁴ <https://www.resolutionfoundation.org/comment/key-take-aways-chancellors-package-of-measures-to-support-workers-coronavirus-crisis/>

⁵ <https://www.resolutionfoundation.org/publications/next-steps-to-support-family-incomes-in-the-face-of-the-coronavirus-crisis/>

⁶ <https://www.resolutionfoundation.org/app/uploads/2019/11/The-shifting-shape-of-social-security.pdf>

2. Proposal: creating a Minimum Income Guarantee

- 2.1 The New Economics Foundation (NEF) proposes the creation of a new Minimum Income Guarantee (MIG). In response to the present crisis, NEF is proposing a substantial and immediate reform of the current social security system, building on and adapting from our previous recommendations from 2019.⁷ Given where we are today, the immediate priority for government should be to put in place a comprehensive, sufficient, non-conditional, non-means tested at the point of access, minimum income floor to catch everyone who is currently missed out by the job retention scheme and the self-employed income support scheme.
- 2.2 We propose that the MIG is built out of the existing architecture of the present social security system. The specifications of our proposal are as follows:
- *Value:* Every working age adult who is not covered by either the job retention scheme or the self-employed income support scheme will be entitled to a weekly payment worth £221 per week. This is equal the value of the 2019 minimum income standard estimated by the Joseph Rowntree Foundation⁸ for a single adult, excluding any rent, mortgage or childcare costs.⁹ A couple payment would be available for two-person households worth double this amount. To deliver this payment, the main adult element of UC and key legacy benefits (including jobseekers allowance and employment support allowance) will be immediately increased to the equivalent of £221 per week. The cash differential between the previous main adult element for these benefits and any disability or carers elements will be preserved, so claimants entitled to these elements will see their payments rise by the same amount as everyone else.
 - *Administration:* For existing claimants, the top-up to their current benefits will be automatic and will not interact with the benefit cap. For new claimants, the payment will be made through the advance payment system for UC. This facility will be used to make this main adult payment while foregoing an assessment period and therefore the five-week wait. This will enable the Department for Work and Pensions (DWP) to process claims much faster than at present, helping them to deal with the increased demand from rising unemployment over the coming week.
 - *Entitlement:* Initial entitlement to the MIG will be extended to all working age adults who wish to apply via the advanced payment system in UC. Claimants can also apply and receive their MIG payments while they wait for their entitlement from either the job retention scheme or the self-employed income support scheme. Any backdated payments from these schemes will be made net of payments already received under the MIG. Once someone is in receipt of either the job retention scheme or the self-employed income support scheme, they will no longer be able to receive payments from the MIG. Workers who still have some level of earnings and are not using the employee and self-employed schemes will also be entitled to the MIG. For anyone who receives an MIG payment

⁷ <https://neweconomics.org/uploads/files/newrules2019a.pdf>

⁸ <https://www.jrf.org.uk/report/minimum-income-standard-uk-2019>

⁹ We propose that these additional costs are addressed through separate policies

which takes their net income above £2,500 per month after taking into account any other earnings from work, the value of income above this threshold will be repaid in additional tax in the 2021/22 fiscal year.

- *Cost:* The MIG will be in place for an initial three months with an option to extend for a further three months on a rolling basis. Outside of any payments recouped – either through the job retention scheme, the self-employed income support scheme or additional tax in 2021/22 – the MIG will be funded by government borrowing. Initial modelling by NEF shows that the additional cost of the MIG for existing benefit claimants would come to around £3 billion per month, or £9 billion for three months.¹⁰ For every additional 500,000 claimants of the MIG, the marginal cost above what they would have received from the present benefit system would be a little under £0.5 billion per month, or less than £1.5 billion for three months. The latest forecasts from the DWP for an increase in the claimant count would imply a total cost for the MIG of around £4.5 billion per month, or little under £13.5 billion for three months. However, the latest DWP forecasts are likely to prove an underestimate of the likely demand for an MIG, with the final cost likely to be far closer to £20 billion over three months
- *Further development:* NEF will be publishing further details and modelling for this policy over the coming weeks

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¹⁰ Initial NEF modelling based on DWP expenditure and caseload data <https://www.gov.uk/government/collections/benefit-expenditure-tables>. We will be providing more detailed costings, policy details and distributional effects in the coming weeks.