

The tapered withdrawal of benefits

The State in organising security should not stifle incentive, opportunity, responsibility... “ – Beveridge

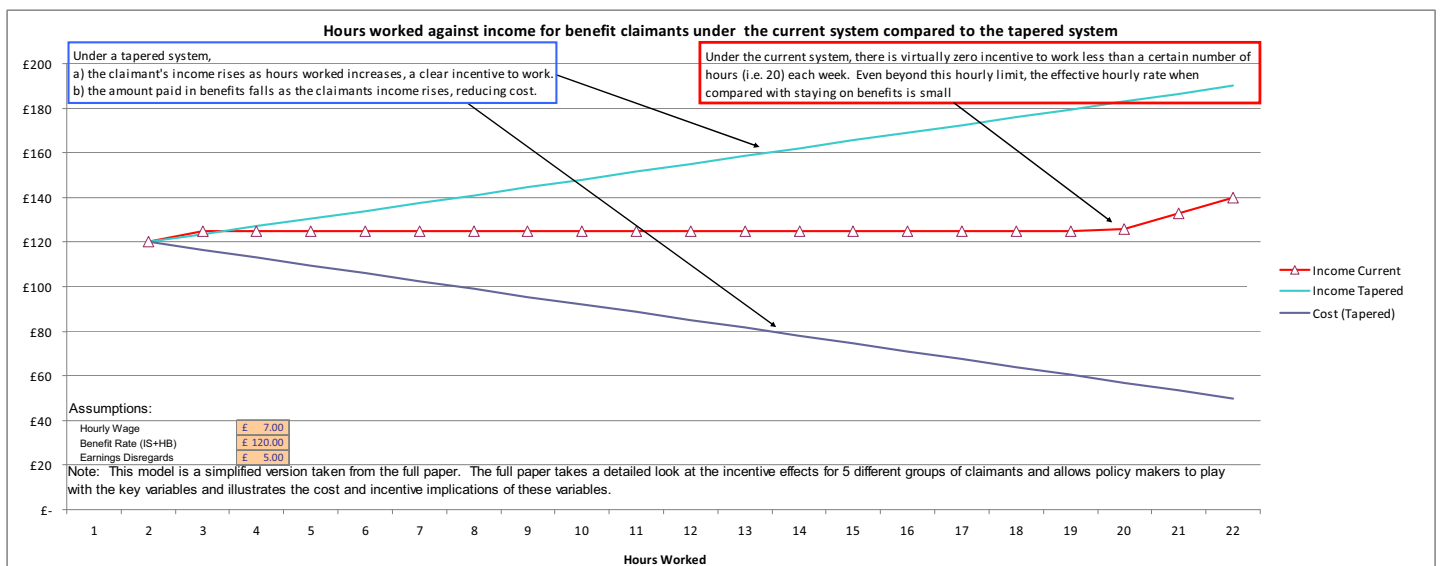
Benefit claimants today have their benefits cut pound for pound as they move into work. The current system eliminates financial incentives to work in limited hours, part time or flexible employment. This neutralises a key policy tool - *incentive* - in the fight against unemployment.

- Long term claimants risk losing the safety net of benefits by moving into work
- Claimants without children have virtually zero incentive to make a gradual move into work
- The employment market in the UK demands this flexibility, particularly for low skilled jobs

This is a summary of a paper and economic model proposing a single reform – a tapered withdrawal of benefit. Under a tapered system, benefit is reduced gradually as income rises, allowing the claimant to keep a fixed percentage of their income. This is shown to lead to better outcomes for claimants, tax payers, employers and the government through the introduction of consistent & clear incentives for all benefit claimants.

The key outcomes of the tapered withdrawal of benefits over the current system are that:

1. Each individual always has a financial incentive to work
2. The system is easy to understand, administer and avoids bureaucracy
3. The system is flexible and responsive to the personal circumstances of each claimant



The cost of work related benefits was over £50bn in 2008. The paper demonstrates how cost could fall under the tapered system through behavioural change amongst claimants. The signal that work increases incomes would be received loud and clear and the impact of increased incentives would lead to higher economic activity, growth effects and increased tax revenues over the longer term. Benefit payments to claimants on low incomes would be funded by replacement of WTC.

A tapered withdrawal at a fair rate could replace the current rules based benefit system and be applied holistically across all forms of benefit. It would work alongside existing job seeking support services with resources focused on those who need it most.

The Government white paper focuses on increased support through job seeking advice and increased expectations enforced via sanctions. This paper proposes a third element - the 'carrot' of incentives and concludes that the potential positive benefits merit a detailed funded investigation into the proposed reforms.