Budget 2002

A Catalyst response

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Contents

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Executive summary

1. Public finances and the macroeconomic picture – John Grieve Smith

- The Budget is a welcome, if overdue, acknowledgement that if public services are to be improved, then expenditure on them will have to take a higher proportion of national income, as will the taxes to finance them.
- The Budget is broadly neutral in its effects on demand, and in the present uncertain state of the economy this is probably appropriate.
- There was a disappointing lack of measures to tackle the main obstacle to achieving the Chancellor's aim of "moving nearer to full employment", namely, the high level of unemployment in the older industrial regions.

2. The National Health Service – Richard Madeley

- In deciding to fund an expansion of the health service from general taxation the government is moving in the same direction as many other European countries. This is the most efficient, least bureaucratic and most redistributive way to do it.
- Supporters of the NHS should prepare for a strong counter-attack from its opponents and counter prevalent misrepresentations of how the system works.

3. Education – Anne West

- Whilst education was not the focus in the 2002 Budget, there were some interesting measures in the £270 million package for England that was announced
- The targeting of pupils at risk of exclusion can be seen as being aimed at reducing not only school exclusion but also social exclusion.

4. Child poverty – Paul Spicker

- Figures released shortly before the budget show that the government is not yet on course to meet its target of abolishing child poverty in twenty years.
- Much discussion has focussed on how poverty is measured, and the government is now considering a less "relative" index. But this will not address the issue of "economic distance", and is not the standard the government originally set itself.
- The 3.9 million children remaining in poverty will be harder to reach through the labour market measures that the government seems to favour. Much more significant will be the level of benefits they receive.

5. The new tax credits – Fran Bennett

- Despite the government's rhetoric the new tax credits can be understood as jointly assessed means-tested benefits.
- There has been concern about the Working Tax Credit underpinning low pay and discouraging investment in human capital, addressing symptoms rather than root causes of labour market disadvantage
- The generous rates of the Child Tax Credit and the promise to increase them in line with earnings are very welcome, but the extension of means-testing and breach of the principle of independent taxation is more questionable.
- The government's claims to be providing a "guaranteed minimum income" for some groups rests on improving take-up, which in turn depends crucially on achieving its declared goal of reducing stigma.

6. Child care – Hilary Land

- The government has accepted a responsibility to share with all parents the costs of feeding and clothing their children. It has yet to accept such a responsibility for their care. There is no "seamless web" of support for childcare in Britain.
- State help to parent with the costs of childcare may depend on employment status, income, discretion of a personal adviser for those on a New Deal Programme, age of the mother as well as where the family happen to live.
- Experience from our European partners shows that directly subsidising child care services in the public sector is a far more certain way of meeting needs than the current heavy reliance on the private for-profit sector.

7. Pensions – Jay Ginn

- Sadly, in a Budget that is redistributive in other respects, measures announced will do little to address poverty and income inequality among pensioners.
- Although the Pensions Credit will increase incomes for some pensioners, further modifying the structure of means-testing it is a flawed way of tackling pensioner poverty, especially for women who make up the bulk of low-income pensioners.
- A better basic pension, raised to the level of the "minimum income guarantee" and indexed to wages, is the most effective way to ensure that all pensioners share in the general rise in economic prosperity.

1
Public finances and the macroeconomic picture

John Grieve Smith

The Treasury under Gordon Brown are past masters of the strategic dictum of the American Civil War general, Stonewall Jackson: "Mystify, mislead and surprise".

The main surprise in the Budget (apart from the concessions for Bingo and locally-brewed ale) was the relatively limited scale of the changes in expenditure and taxation announced, after all the hype about putting more money into the NHS and other public services. There will be little significant change in expenditure plans in this financial year, and in 2003-4 the addition to existing public expenditure plans will be £4 billion, an increase of a little under 1 per cent, £2.4 billion of which will be for health.

Similarly on the tax side, there is little change this year, but in 2003-4 there will be a 1 per cent increase in employers' and employees' national insurance contributions, and additional revenue from freezing the personal allowance and tax bands for Income Tax proposals, yielding a total of £6 billion after allowing for an additional £2.5 billion on Child and Working Tax credits (which the Chancellor treats as negative taxation rather than expenditure).

Public services and public sector pay

Nevertheless the Budget is a welcome, if overdue, sign that the Government are at last prepared to acknowledge that if the public services are to be improved, then expenditure on them will have to take a higher proportion of national income, as will the taxes to finance them. The Government's initial adherence to the public expenditure plans inherited from the Tory Government has seriously aggravated the public sector's problems. It means, of course, that the increases now proposed start from expenditure at a lower level than might otherwise have been the case.

The basic point is that services such as education and health are very labour-intensive and higher standards of service require additional staff. If we are merely to maintain the existing numbers of teachers, doctors and nurses, their total pay bill must rise pro rata with average pay – and hence national income, if there were no increase in the labour force. If the workforce is growing, keeping the public sector pay bill a constant proportion of national income would allow the number of public sector workers to rise in the same proportion as the total number of workers. But higher than average pay increases may well be needed to maintain or increase the number of teachers or health sector workers, thus raising the level of expenditure (and hence taxes) needed to maintain or improve standards.

The Chancellor announced that expenditure on health services is to rise by 7.4 per cent a year "in real terms" for the five years up to 2007-8. This is fractionally above the upper end of the range of 7.1 to 7.3 per cent that the Wanless Report considered practicable after allowing for problems of training and recruitment. Current spending excluding expenditure on health is to increase by 2.5 per cent a year in real terms in 2004-5 and 2005-6. This is, however, much less generous than it sounds and will leave little or no room for increases in the number employed in services such as education.

The Treasury's use of the phrase "real increases" in expenditure is dangerously misleading. Their public expenditure estimates assume that average pay across the economy as a whole increases by 4.5 per cent a year, productivity by 2 per cent and the price level by 2.5 per cent. Hence if we are to employ the same number of teachers etc. and they are to get the average level of pay increases, the salary bill for education must go up by 4.5 per cent a year – just to maintain existing standards. Unlike industry, any decline in the ratio of teachers to students is not an improvement in productivity but a deterioration in standards. But the Treasury would refer to a 4.5 per cent increase in expenditure on education as a 2 per cent "real increase" because the money spent on education is going up 2 per cent faster than prices. Thus if education only gets a 2.5 per cent "real increase" in the Spending Review, this would only allow for an increase of 0.5 per cent a year in teachers' numbers without any increase in their relative pay. Hence unless education gets a disproportionate share of the total increase for services other than health, there will be little scope for increasing the number of teachers or other staff.

The Budget may mark a symbolic change in direction as far as levels of public expenditure and taxation are concerned. But it is doubtful whether the Treasury are yet prepared to accept the full implications of improving public services – unless, of course, there were to be significant cuts in defence, which seems unlikely at the present juncture of world affairs.

Taxation

The main source of additional tax revenue in 2003-4 is £7.9 billion from imposing an extra 1 per cent national insurance charge on employees and employers, presentationally linked to improvements in the NHS. This represents no great departure from existing policy, except in so far as the 1 per cent is to be levied on employees right up the income scale, whereas at present contributions cease at the Upper Earnings Limit.

But the Chancellor failed to take the bull by the horns and remove the Upper Earnings Limit and levy the full 11 per cent on higher incomes. This would remove the anomalous dip in combined Income Tax and National Insurance Contributions tax rates for people in the gap between the Upper Earnings Limit and the starting point of the 40 per cent tax rate, and would raise the marginal rate of tax on the better off to 51 per cent.

Public investment

The outlook for public investment is closely bound up with the use of private finance. The Chancellor's pride in reducing Government debt to 30 per cent of national income must be viewed against the background of the increasing use of private finance to fund investment in transport, hospitals etc. This keeps down the figures for government debt but only at the cost of increasing the future liability for the (higher) interest charges involved in private financing. The Tories' initial argument for involving the private sector was that the higher cost of borrowing would be more than offset by gains in efficiency. But it is now clear that the consequent fragmentation of management, most notably on the railways and underground, is in itself a major cause of increased inefficiency. It is also becoming apparent in the London Underground negotiations that the government still has to shoulder all the major risks if it is to induce private investors to participate. We seem to have got to the point where the Chancellor's desire to reduce public debt (and Treasury definitions of what constitutes public borrowing) have lead to a misleading style of off-balance sheet financing of public investments and liabilities, and become a major source of management breakdown in public services.

The budget balance

A key aspect of any Budget is its effect on demand, and hence business activity and employment. Although the Chancellor's Golden Rule ostensibly rules out any counter-cyclical fiscal measures, the Treasury bible, "Reforming Britain's Economic and Financial Policy" (1) does in fact concede the need for "discretionary" action if circumstances dictate. In 2002-3 the Budget changes themselves involve a small net increase in demand of £900 million. (The Chancellor rather puzzlingly referred to some "fiscal tightening" presumably because the cyclically adjusted surplus is slightly greater than expected in the pre-Budget Report.) The Budget changes for 2003-4 and 2004-5 would have very little net effect. Broadly speaking therefore the Budget changes are "neutral", in that they will neither contract nor expand demand to any significant extent.

The Chancellor was quite right not to impose any immediate tax increases, both because the additional expenditure does not take place until next year, and because the state of the economy does not call for any fiscal measures to curb demand. The continued fall in unemployment suggests that the UK economy as a whole is weathering the world slowdown in activity much better than might have been expected a few months ago, following the September terrorist attacks; but manufacturing industry remains in serious difficulties. It would be over-optimistic to assume we are out of the wood yet. Certainly the dangers of further weakness seem more real than some of the talk about a renewed threat of inflation and a need for higher interest rates. Even the IMF are striking a cautionary note about prospects for the world economy. Moreover, the possibility of the Middle East crisis restricting oil supplies and further increases in oil prices has created a new threat to world recovery. The future of the world economy is still uncertain, and we cannot expect to avoid any contagion if the situation deteriorates elsewhere.

The exchange rate

Although the Budget contains a number of measures designed to help industry, the Chancellor has once again evaded the main issue facing manufacturing: that is the over-valuation of the pound. If the Treasury were to make it plain that they considered sterling overvalued and that there would be no question of joining the euro until it had fallen, this would be bound to have a significant effect on market expectations. But Treasury officials have repeatedly gone out of their way to deny any desire to see sterling come down, thus reinforcing the prevalent belief that officialdom shares the view of some Monetary Policy Committee members that any fall in the pound is liable to stoke up inflation, and hence to be avoided. There is, however, an over-riding need to get the pound down to a more competitive level before there is any further loss of manufacturing capacity and jobs. This is of far greater importance than any tinkering with company taxation.

Unemployment and regional policy

In his Budget speech, Gordon Brown reiterated his aim of moving closer to full employment. In present circumstances this depends very much on increasing employment in the older industrial areas suffering from relatively high unemployment accentuated by the recession in manufacturing. But his approach appears to be based on the illusion that the problem is that people are unwilling to work, rather than that there is a shortage of jobs. The Budget proposes new, and potentially objectionable, measures of compulsion for the unemployed in high unemployment areas, but no action to improve the incentives for industrial development in these areas e.g. in the form of more generous Regional Development Grants, preferably by making them automatic rather than discretionary.

A similar approach to the problem of unemployment underlies the proposed extension of the Working Tax Credit to people without children. This is part of the Government's "making work pay" approach which wrongly assumes that unemployment reflects people's unwillingness to work rather than inadequate demand and shortage of jobs – as both past and recent experience clearly indicate. In addition it reflects the fallacious belief that firms will only hire more workers if their wages are lower than they are already paying their existing labour force – whereas in practice if sales increase, it is generally well worth firms employing more people at current wage rates. The policy of subsidising low wages, rather than ensuring the national minimum wage is adequate has not received the discussion it deserves.

Conclusion

The Budget is broadly neutral in its effects on demand, and in the present uncertain state of the economy this is probably appropriate. The much-heralded increases in expenditure and taxation are relatively modest; and although they are a welcome indication of Government willingness to finance long-awaited improvements in public services, the figures do not leave much scope for significant increases in expenditure in fields other than health. There is certainly a large question mark over the possible resources available for education likely to emerge from the forthcoming Comprehensive Spending Review.

There were three major omissions from the Budget Speech. The first was any acknowledgement of the need to bring down the level of sterling to ease the plight of British manufacturing industry – an essential requirement if we were to enter the euro. The second was the absence of any measures to attack the main obstacle to achieving the Chancellor's aim of "moving nearer to full employment", namely the high level of unemployment in the older industrial regions and the need to improve the incentives for industrial development there. The third was the lack of any mention of the investment needed to rescue the public transport system.

In all the Budget marks a welcome recognition that public expenditure is not just a necessary evil, but an essential means of providing some of the services we value most as an integral part of a rising standard of living. But it would be overoptimistic to expect dramatic improvements in these services in the shorter run as we have a long way to go to make good the neglect of two decades.

Notes

1 Balls, E, and O'Donnell, G, (2001) Reforming Britain's Economic and Financial Policy: Securing our Economic Future, London, Palgrave. (www.hm-treasury.gov.uk/Documents/UK_Economy/ukecon_reform.cfm)

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2

The National Health Service

Richard Madeley

There is no doubt that the extra money raised for the NHS in the budget is a substantial increase. It is not an issue of double-counting, recycling or spin. It is new money, and represents the biggest increase in NHS funding since the system was set up in 1948. The government has clearly decided to find the resources to bring spending on health up to a similar proportion of GDP to that found elsewhere in the EU.

Television, radio and newspaper reports since Gordon Brown’s speech accept this analysis. Therefore the debate moves to the issues of how the money is being raised, how it will be spent and whether or not the NHS is capable of improvement even with this new money.

The debate on tax-funding

The Government has decided to find these resources from direct taxation/national insurance, thus implementing the main recommendation of the Wanless Report (1). This is the most efficient, least bureaucratic and most redistributive way to do it.

In doing so it is moving in the same direction as many other European countries. In the past 20 years the following have moved from insurance-based to tax-based systems: Sweden, Denmark, Finland, Spain, Italy, Portugal, Norway and (partially) Greece. Furthermore, general taxation is playing an increasing role in several countries that use social or private insurance models.

For example, in France an increasing amount of health spending is being covered by the so-called “Contribution Sociale Generalisee” (CSG), which is a form of general taxation. Year by year the percentage from CSG goes up because it is the most efficient and socially just way of raising the extra money required so that the French government can cover the “insurance gap” of poorer people and the rising costs of the system in general. MEDEF, the French equivalent of the CBI, is constantly concerned about the costs of the social insurance system on its international competitiveness. It is generally accepted in France that when the elections for the Presidency and the new National Assembly are out of the way some difficult financial decisions will have to be made. These are likely to include an increase in the CSG. The same issues apply in Germany, Holland and Austria, which also have insurance systems (2).

The case for funding from taxation has been well set out by Tony Blair in the *Observer* (3) and by Gordon Brown in his recent speech to the Social Market Foundation (4).

The two main benefits of taxation-based funding are that it is easy to administer and that it is fairer. It is highly redistributive in a financial sense.

Most people know that poorer people are less healthy than those who are better off but they are often surprised by the extent of the difference. As shown in the following table a man in East Dorset will live on average ten years longer than his counterpart in Glasgow city.

Table 1
Life expectancy in years – Local authorities 1998-2000

	Male	**Female**
High	E. Dorset 79.0	Westminster 83.5
	Horsham 78.9	N. Dorset 83.4
Low	Manchester 70.5	Manchester 76.7
	Glasgow 68.7	Glasgow 75.7

Source: Office of National Statistics, London

Not only do women in Glasgow and Manchester die earlier than those living in Westminster. They have more medical problems throughout their life. They need more help from their GP and are likelier to end up in hospital. Most of these differences are caused ultimately by socio-economic factors. But good health services can ameliorate these to some extent. Thus a system based on need and free at the point of use is a major redistributor of resources. The more progressive the tax system the more this is the case. Therefore the decisions taken in the budget are of major importance from both a political and philosophical point of view.

Common misrepresentations of the NHS

Now that the decision to find extra funds for the NHS has been taken, the debate will shift to how the system works. The recent speech by Dr. Liam Fox, Conservative spokesman on the NHS, to the Conservative Medical Society, showed that they intend to say that it is so flawed that it cannot possibly work.

The following arguments are likely to be used:

i) Constant publicity about mishaps
With one million people using the NHS every day these regrettably can never be entirely eliminated, no matter how hard people try. What will not be said is that such accidents happen everywhere. There is no evidence that they are more common in the NHS. Indeed we know they are not.

ii) "Great Britain is the only country in the world which uses money only from taxes to fund its health care"
In fact the UK has a significant amount of private health insurance, plus cash payments in the private sector plus some direct charges in the NHS e.g. prescriptions. The mix is very similar to that found in such other mainly tax-based systems as Denmark, Finland, Spain and Italy.

iii) "Social or private insurance is inevitably the way of the future"
This is a sort of Marxist historical inevitability argument in reverse. In fact, as we have seen, several European countries have switched away from them.

iv) "Insurance systems reduce bureaucracy"
In fact they increase it because claims need to be processed and chased up. In the USA it has been estimated that 20 per cent of health care costs are spent in this way. Tax-funded systems avoid this, especially if they are free at the point of use.

v) "Moving to an insurance-based system would reduce the influence of government and take politics out of medicine"
It would not, although it would alter the nature of the relationship. It is a naïve pipe dream to believe that such an emotive issue as health, with its strong link with issues of social justice and socio-economic conditions, can ever be depoliticised. Governments in those EU countries using insurance models are heavily involved in the delivery of health care, which remains a highly political issue. For example the recent strikes and demonstrations by French doctors and nurses were directed against their government.

vi) "The NHS is the last remaining Soviet-style (Stalinist) health system"
Leaving aside the lack of a sense of proportion revealed by the word "Stalinist", the NHS has major differences from the way health care in the USSR was organised. These are:

- Patients in the UK have a choice of GP; not so in the USSR

- Doctors in USSR polyclinics, unlike UK GPs, were completely salaried. Because these salaries were low, below the average wage, many doctors had other jobs or were given “presents” by the patients
- Many people received their medical care from occupational health schemes based at their place of work e.g. railways, mines, police and so on.
- The percentage of a low GDP spent on health during the entire history of the USSR never exceeded 2 per cent. This very low figure combined with the professional isolation of Soviet doctors led to systematic problems in the quality of clinical care.

The NHS came from a completely different philosophical and historical background.

vii) “People should pay more at the point of use”
For the reasons already set out this would be financially socially regressive. People who advocate charges often cannot agree about whether they want them to generate extra money or to deter people from using the system.

viii) “The NHS and the UK public health system produce third world results, which are getting worse”
In fact life expectancy is rising rapidly. Life expectancy for UK women is now 80.1 years, and for men 75.2. Although English women live slightly shorter lives than their French and German counterparts, for men the reverse is the case. The last ten years have seen major reductions in the death rate from heart disease and strokes. The death rate from cancer is also falling with very large reductions in the rate of lung cancer in men and important improvements in the rate from breast cancer (5).

ix) “By accepting the Wanless Report the government has closed down the debate”
Politicians and journalists using this argument remind me of those academics who conclude that “more research is needed” at the end of a project in order to justify a further contract for themselves. There is a huge amount of published evidence to provide everything we need to know. These include government and independent reports from around the world, academic studies, the Health Observatory reports and so on. The pros and cons of different methods of funding and organisation are very well known. There is no need for more research.

Conclusion

The Labour government has clearly made a major strategic political decision to support the NHS and to fund it in a way that is strongly redistributive. The response of the Conservatives means that a clear and important philosophical division between the two main parties now exists.

Supporters of the NHS should prepare for a strong counter-attack from those opposed to it.

Notes

1 Wanless, D, (2002) Securing our Future Health: Taking a Long-Term View, London, HMSO. (www.hm-treasury.gov.uk/Consultations_and_Legislation/wanless/consult_wanless_final.cfm)

2 A very good source of data for people interested in the detailed workings of the health services of different European countries is the European Observatory on Health Care Systems. This is based at the European Regional Office of the World Health Organisation (WHO) in Copenhagen. It is funded by WHO, the World Bank, the Open Society Institute and several other partners. It carries out detailed analyses of the health systems of each country. These can be seen on its website: www.observatory.dk. Hard copies of each country report can be obtained directly from the Observatory.

3 Blair, Tony (2002), “A battle half won”, Observer, April 14.

4 Brown, Gordon (2002), “Economic Stability and Strong Public Services”, speech given at the Social Market Foundation, 20 March (www.Hm-Treasury.Gov.uk/newsroom_and_speeches/press/2002/press_25_02.cfm)

5 Sources: Office for National Statistics, London; World Health Organisation.

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3
Education

Anne West

Whilst education was clearly not the focus of the 2002 Budget, there were some interesting measures in the £270 million package announced for England. The Budget announcement includes funds for school building repairs (£85 million) and for modernisation projects to improve educational facilities (£70 million); funds to help deal with problem behaviour (£87 million); and funds to encourage small firms to provide more training for their employees (£30 million).

Funds for schools

Most revenue funding is distributed to schools by local education authorities via formula funding (Fair Funding). However, increasing amounts of funding come direct from the Department for Education and Skills Standards Fund to meet specific government initiatives (1).

Capital funding is handled completely differently: government provides funds to LEAs via credit approvals and through a number of different programmes – including, amongst others, the Standards Fund, the New Deal for Schools (NDS) Devolved Capital for Schools and the NDS Capital Modernisation Fund.

It is not clear at this stage how much of the £85 million announced by the government for school-building repairs is new. However, what is clear is that there is to be an increase in funds going directly to schools for this purpose. The amount is not substantial – an additional £7,100 for repairs for a typical secondary school and £2,500 for a typical primary school. The allocation of funds directly to schools is a relatively new approach to funding schools, introduced by the previous New Labour administration, which looks set to continue. The £70 million for modernisation projects, to improve educational facilities in schools and elsewhere, is new money and comes from the Capital Modernisation Fund.

Taken together, the additional capital funding made available by the Budget should assist with improving the infrastructure of schools and other educational facilities. The decision that all schools should benefit to some extent from some additional capital funding appears to be an acknowledgement by government that capital investment is needed for a high quality education system.

Tackling discipline problems

The link with later outcomes

One interesting aspect of the Budget relates to the funds to deal with problem behaviour. Problem behaviour is an important issue, not only for schools, which have to deal with pupils with challenging behaviour, but also for the future prospects of the pupils themselves, and more generally society as a whole. Research indicates that fewer young people who have been excluded from school in years 10 or 11, gain high grade GCSEs than those who have not been excluded – and more obtain no GCSEs; fewer continue in full-time education post-16 and more are out of work (2).

Table 1
Selected outcomes for 16-year-olds excluded from school in years 10 or 11

Outcome	Pupils excluded (%)	Pupils not excluded (%)
Obtain five or more GCSEs grades A* to C	17	52
Obtain no GCSEs grades A* to G	10	4
Continue in full-time education post-16	42	74
Out of work	15	4

Source: Department for Education and Skills (2001): Youth Cohort Study, 2000

Research evidence also shows that a lower proportion of persistent truants (in year 11) gain five or more high grade GCSEs than non-truants – and more obtain no GCSEs; fewer remain in full-time education post-16, and more are out of work (3).

Table 2
Selected outcomes for 16-year-olds who reported truancy in year 11

Outcome	Persistent truancy (%)	No truancy (%)
Obtain five or more GCSEs grades A* to C	10	58
Obtain no GCSEs grades A* to G	21	3
Continue in full-time education post-16	26	79
Out of work	23	3

Source: Department for Education and Skills (2001): Youth Cohort Study, 2000

Initiatives to tackle discipline problems

Over the years a range of initiatives have been designed to meet the needs of disruptive and disaffected young people. Research carried out in the former Inner London Education Authority (which was abolished in 1990) revealed that “support centres” for disruptive and non-attending pupils were successful in terms of improving motivation and attendance (4). More recently, as part of the government’s “flagship” policy Excellence in Cities, and associated policies, which are targeting funds on disadvantaged areas of the country, learning support units have been set up; they are for pupils at risk of exclusion from school and provide short-term teaching and support programmes designed to meet the needs of difficult and disaffected pupils. The preliminary independent evaluation of the Excellence in Cities Policy notes: “there have been some significant early impacts of Excellence in Cities, particularly in relation to … Learning Support Units” (5).

The Budget measures

The funds announced in the Budget for tackling discipline problems in schools are not “new”, but have been drawn from existing funding that has been redistributed to focus on priority areas. Funds will be channelled into three priority schools in each of 33 “hot spots”, where levels of crime and truancy are high. The level of funding is high for this initiative. A range of measures is to be introduced, and amongst these are new and expanded learning support units. Other measures suggest that some innovative initiatives might be expected – for example, there is to be more preventative work including more police in schools together with other health, childcare and family services. It is not clear what is envisaged in practice, but it is possible that we might see schools used as more of a community resource than has hitherto been the case.

Moreover, as there is clear evidence of links between exclusion, truancy and low educational attainment and later outcomes, the attempt to address problem behaviour can be seen as being aimed at reducing not only *school exclusion* but also *social exclusion.*

Employer Training Pilots

Concerns about the skill levels of the workforce have led to a number of initiatives designed to increase skill levels. The Individual Learning Account initiative, for example, was an innovative form of demand-side financing designed to subsidise training, but was suspended because of fraud. In the Budget, one measure that is particularly innovative is the new funding to enable small firms to take up the Investors in People standard, and to introduce Employer Training pilots. The latter will provide small and large employers in six pilot areas with financial incentives for giving their workforce time off for free training.

These pilots are particularly significant in that they focus on employees who do not have basic skills or qualifications at level 2 (broadly equivalent to GCSE level). It is precisely this group that at present does not benefit from training – all the evidence suggests that "lifelong learning" is undertaken by those who are already well-qualified and, in addition, that those in small firms lose out. This highly focused policy will involve free tuition and /or accreditation costs for targeted employees; employers providing time off for their employees to undertake training; financial support for employers for the time off taken by their employees; and advice and guidance to support both employer and employee decisions about learning.

These interim measures for education and training are to be welcomed. The major funding decisions in relation to education will be published in the Comprehensive Spending Review later this year. It is to be hoped that the focus on reducing inequalities in the education system and attempting to address social exclusion will continue.

Notes

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Dr Anne West is a Professorial Research Fellow and Director of the Centre for Educational Research at the London School of Economics. Recent publications include New Labour and School-based Education in England: changing the system of funding?, British Educational Research Journal, 2000, and (with Hazel Pennell) Educational reform and school choice in England and Wales, Educational Economics, 1997.

4
Child poverty
Paul Spicker

Shortly before the budget, there was a flurry of debate about the Government's success or failure in meeting targets for the reduction of child poverty. The government has undertaken promised to abolish child poverty by 2020, and reducing it by at least a quarter by 2004.

In 1996-7, 4.4 million children were living in families with incomes below 60 per cent of the median. In its last manifesto, the Labour Party claimed that during its first term it had "lifted 1.2 million children out of poverty" (1). In December, a pre-budget statement announced that: "Tax and benefit reforms announced in the last Parliament – including the National Minimum Wage, the Working Families' Tax Credit, increases in universal Child Benefit and in Income Support rates for children – mean that there are now 1.2 million children fewer in relative poverty than there would otherwise have been" (2).

The Institute for Fiscal Studies expressed scepticism in April as to whether the government had actually met this target (3). Figures released the week before the budget revealed that in 2001 3.9 children remained in poverty, a reduction of only 500,0000 from 1997 (4). In response to this apparent shortfall the government clarified its claim to mean that in 2001 there were 1.2 million fewer children in poverty than *would have been the case* if benefits and tax credits had only increased in line with inflation. Alastair Darling has said that "if we had not changed policies, there would have been more than five million children in poverty" (5). It seems clear, however, that on current trends the government is falling short of the rate of poverty reduction needed to achieve its longer term goals.

Measuring poverty

Much of the concern which has been expressed about this relates to the details of how poverty is measured. The details of the debate are fairly arcane, and there has been some confusion in the media about what they mean. If we are talking about a major policy target such as the reduction and elimination of child poverty, the way in which that target is interpreted will make a big difference to the policies it requires.

Median income

The threshold of poverty has been taken as 60 per cent of the median income. The median income is technically an "average", but it is calculated differently from the *mean*, which most people understand by the term "average". The median is the mid-point average: the level of income at which half the population have more, and half the population have less.

This has two advantages over the use of the mean average. First, it is very easy to calculate (and despite the confusion when people call it an "average", it is very easy to understand. It might help if we started calling it the "mid-point" income.) Second, it is not affected by very high or very low incomes; it reflects the pattern of life of a large number of people in the population.

The *Financial Times* suggested on April 10th that if the government had failed to meet its targets, it may be because richer people were better off:

> "A main reason is thought to be that while many poorer families and their children are now much better off in absolute terms than in 1997, average earnings and incomes have also risen. As a result, the relative gap between the poorest and those in the middle and at the top has not closed as fast as ministers hoped." (6)

This is not quite right. The effect of using the median is mainly to compare people on very low incomes with other people on relatively low wages. Roughly speaking, the income distribution puts the top half of workers in the top bracket, the bottom half of workers in the middle bracket, and non-workers in the bottom bracket. The mid-point of the population therefore falls in the lower half of workers. The median compares the poorest mainly to lower-paid workers or households on modest incomes with a single earner.

The median is widely used in European research, and for over ten years the measure which most researchers have used was 50 per cent of the median income level. In the UK, the government used a different test for many years – 50 per cent of mean income, rather than 50 per cent of the median. When we came into line with European practice, we started to use 60 per cent of the median, rather than 50 per cent, because 60 per cent of the median was much closer to 50 per cent of the mean. The precise figures are not, however, very relevant. The use of income levels is an "indicator", or signpost, towards the issues, rather than a precise measure of poverty.

The argument for using the median rather than the mean depends, of course, on the view that increases in the highest incomes have no effect on the social position or the economic distance of those on the lowest incomes. This is certainly the Prime Minister's view, as we know from the Newsnight interview given during last year's election campaign when he expressed no objection to the gap between the richest and poorest widening (7).

Absolute and relative measures

The relation of income levels to the median is, properly speaking, an indicator of inequality rather than poverty. The main justification for this figure, rather than a fixed income level or a measure of "absolute" poverty, has been explained as an indicator of "economic distance" (8). If people have significantly lower incomes than the rest of the population, they will not be able to afford the same standards, amenities and facilities as others. Some items, like housing, are particularly affected by inequality, because unlike other basic commodities like food or fuel, the price of housing depends directly on how much other people are able to pay in competition. Perversely, the recent figures mainly relate to the distribution of income after adjustment for housing costs, which tends rather to undermine one of the central justifications for using a relative figure. As it happens, the figures before housing costs are rather favourable to the government: they show 2.7 million children below 60 per cent of median income by 2000/01, and that 600,000 have been removed from poverty since 1996/97 (9). However, this still falls considerably short of the government's targets.

It has been suggested that people might appear less poor if they are judged on a standard of "absolute" poverty. Poor people have more income in real terms. The government has apparently suggested that, in terms of absolute poverty, more than one million children have indeed been taken out of poverty (10). This is far from negligible – if the real income of poor people was falling, there would be serious grounds for concern. But it does not address the issue of economic distance, and it is not the standard that the government originally set itself.

The government is currently canvassing opinions about an alternative index of poverty, based on the measure of "consistent poverty" used in the Republic of Ireland (11). This measure is an index of deprivation in relation to certain commodities – mainly food, clothing and fuel – as well as debt. The principal weakness of such a measure is the exclusion of housing deprivation. Housing is fundamental, not only as a commodity in itself, but as a foundation for the establishment of other aspects of lifestyle – both commodities, like furniture and amenities, and social opportunities, through education, community and employment. A relative indicator captures some part of this constellation of issues; an absolute measure does not.

The government's progress

It is not difficult to criticise the government's figures. They have failed to do what they said they would, and it is not at all plausible for them to claim that they have achieved those standards in reality.

That said, the government deserves several plaudits. It accepted that people are poor, and that something needed to be done. This position had been explicitly rejected by the previous Conservative government, which had largely removed the term "poverty" from government documents. By contrast, this Budget statement refers to poverty in every chapter. The Labour government recognised, as governments have not recognised for many years, that child poverty is a serious problem. The commitment to eradicate child poverty in twenty years is aiming high; it is better to aim high and miss than not to aim at all. It has taken some significant steps towards alleviating poverty, including the minimum wage and a substantial recent raise in Income Support for families with dependent children. The government has certainly stopped a desperately bad position from getting even worse.

Where, then, has the government gone wrong? It gave itself a medium-term target that it thought to be manageable and achievable. Two-thirds of poor children live in families where no one is working, but about a third do not. The government believed that the combined effects of a minimum wage, tax credits and a push towards greater employment would at least make a difference to working families with low incomes.

That has proved less effective than they had anticipated. The minimum wage was never a major issue in family poverty: most of the people benefiting from it would be young people without families or second earners. The tax credit system has some of the problems of take-up that have troubled similar measures in the past. This is arguably compounded by the major change in role the tax credit schemes demand of the Inland Revenue: an organisation which has been asked, in recent years, fundamentally to recast its role from tax-gathering to one of service delivery. It will take many years before the consequences of this change are fully realised; it is unrealistic to expect immediate results. The push to greater employment has made a difference, but there is a limit to what can be expected from a system that puts so much of the onus to find work on individual claimants. Last, and not least, the government has not always steered in the same direction. One of the key elements in child poverty has been the treatment of divorce. The removal in 1997 of important benefits for single parents, benefits introduced because of the realisation that single parents were being left without enough income to be able to eat, profoundly exacerbated the poverty of the most vulnerable. Single parents account for about two-thirds of poor families where there is no earner; this is a group the government has to reach.

Next steps

The figure for those remaining in poverty – 3.9 million children – is more important than whether the government has achieved its targets. It is composed mainly of families where no one is working – not just job seekers, but people who are not on the labour market. This was always going to be more difficult than the first million, and it remains more difficult now.

Part of the government's strategy has been to introduce restrictive measures on unemployed people.

> "To help integrate the inactive into the labour market, the Government is working to overcome the barriers to participation faced by these groups and is implementing a step change in the level of work-focused support provided to all inactive benefit claimants."(12)

The Chancellor announced long-term unemployed people would be required to take specially created jobs, and the Budget documents list a number of measures, including pilots of a mandatory extension of the New Deal for those over 25 who have been only intermittently employed, a pilot of mandatory Gateway to Work schemes, and mandatory personal adviser schemes for lone parents with children under 5. The announcement of compulsion for single parents aged 16-18 to receive "support" instead of independent accommodation seems to be part of the same set of policies, emphasising the conduct and personal responsibility of the poor. The long arm of the Treasury seems to have reached well beyond its usual remit.

More significant for the overall impact on poverty are those measures directly concerned with benefits. If the incomes of these families were going to be increased significantly, there is only one immediate and direct route to doing so: to increase their benefits. That is the central test of this Budget, and budgets to come.

The Budget has made at least one major stride towards this objective. The Budget document claims that since 1997, families in the lowest income decile will be nearly £50 per week better off (13). The new Child Tax Credit (CTC) will be available both to people in work and out of work. The combination of Child Benefit and Chid Tax Credit will increase the income of the poorest families to £54.25 for the first child, and £38.50 for each subsequent child (14). This comes to about £11 a week more for two children: a significant increase in income in its own right. Perhaps more important, and unlike the current position with Child Benefit, the CTC will not be deducted from Income Support or Job Seeker's Allowance, yielding a substantial material increase in income for the very poorest. By comparison with 1997 figures, the Budget documents state that once changes to 2003 are in operation, 1.5 million children will have been brought above the 60 per cent threshold (14). Even if that figure is optimistic, the gains are noteworthy.

Notes

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5

The new tax credits

Fran Bennett

The spotlight on health funding meant that the new tax credits to be introduced in April 2003 were almost completely overshadowed in the Budget debate.

Their various acronyms and confusing names, and the sheer weight of narrative about them, did not help either. Apart from the extension of tax credits to some people without children or a disability, most of the other proposals are in fact about renaming and restructuring current benefits and tax credits, rather than introducing entirely new payments. This was not always clear in Budget day commentary.

Whilst the Inland Revenue will administer the tax credits, and Working Tax Credit will be paid through the paypacket as a reduction in taxation (or an additional payment), these new tax credits are not really going to be assessed through the income tax system – or not yet, anyway. They will not change your tax code. It is true that they will be based on a test of gross rather than net income, like income tax, usually assessed over a tax year; income definitions will gradually be aligned with the tax system, and some tax information may be used for calculations in future.

But, despite the government's rhetoric – and its attempts to treat the total expenditure on tax credits as foregone revenue rather than public spending – they could be described as jointly assessed means-tested benefits. (If the government pursues its aim of abolishing capital limits in such benefits, their common current label, of income-tested or income-related, will be more accurate.) The government's aim in the longer term, however, is still described as the integration of the tax and benefits systems.

What we already knew

Before the Budget, Child Tax Credit had generally been welcomed as a rationalisation of, and improvement on, existing means-tested help for children. The fact that the amount of Child Tax Credit would not vary with parents' employment status, and that it would be paid to the main carer, was seen as particularly positive. Means-tested support for children would also be extended to some people who had previously not qualified for it, such as students. Lone parents would find it easier to do small amounts of part-time work, because there would be no cut-off earnings rule

The new tax credits: an outline

- *Child Tax Credit* is replacing the family and child-related elements of Income Support, Jobseekers Allowance and current tax credits - as well as (confusingly) the Children's Tax Credit, only introduced in April 2001 to replace the Married Couple's Allowance (phased out in 2000). It is not replacing Child Benefit, however, but instead, according to the government, "builds upon" it. It will be paid to the main carer, not through the wagepacket. There will be two tiers of payment: those on lower incomes will get a family payment and payments for each child; further up the income scale, the family element will be the only payment made.
- *Working Tax Credit* is replacing the adult elements of Working Families Tax Credit for people with children, but is also being extended to some (non-disabled) single people and childless couple households on a low income, if they are aged 25 or more and have an earner working 30 hours a week or more. For employees, it will be paid via the wagepacket by employers. There will be additions for disabled people, and those over 50 starting part-time or full-time work, to replace current tax credits.
- *Child Care Tax Credit* replaces the existing tax credit with the same name, currently paid as an addition to Working Families Tax Credit. Eligibility for Working Tax Credit will be necessary to trigger it, but it will be paid to the main carer alongside Child Tax Credit.

or 100 per cent taper, as there is with Income Support. There was some concern, however, about the longer-term fate of Child Benefit, and the balance between it and Child Tax Credit in future, as well as about the effect on some couples of integrating the former Children's Tax Credit into the new payment structure based on joint assessment (see below).

Pre-Budget views about the proposals for Working Tax Credit were generally more ambivalent. Some commentators were not convinced that there was a strong case for extending means-tested in-work supplements to childless people without a disability, in terms of tackling either disincentive problems or poverty. Some saw in-work supplements of this kind (especially for couples) as a substitute for shortcomings and gaps elsewhere in the social protection system. There was also concern about exacerbating the more unattractive features of the UK's "flexible" labour market by underpinning low pay and discouraging investment in human capital, and about addressing symptoms rather than root causes of labour market disadvantage.

The consultation document published last summer contained most of the major proposals on the structure of the new tax credits, and put forward various issues for discussion about how they would work. But we were still waiting for vital information about rates, thresholds and tapers, as well as crucial indications about operational issues, such as the degree of leeway in the system in terms of responsiveness to changes in income and circumstances. Many of these gaps have now been filled in, and following the Budget we can see more clearly what the new system will look like.

The Child Tax Credit

The Chancellor described the Child Tax Credit as a "radical change" in financial support for families with children. Discussion of its impact is made more difficult because of the inclusion of Child Benefit in all the illustrations of its effect on family incomes and the level of support for children. In addition, some increases will be made to the children's rates of Income Support and Jobseeker's Allowance this year, in advance of its introduction – partly to move more swiftly towards the government's child poverty targets, and partly to align support for families with children in and out of work more closely, which is necessary for Child Tax Credit to become a seamless system. However, the proposed rates do look quite generous, and the government says it is investing an additional £2.5 billion in the first year alone.

The "child-related" elements of the Child Tax Credit (that is, the higher first tier, though not necessarily the lower second tier payment per family) will be increased annually in line with earnings for the rest of this parliament, which is very welcome. We knew that Child Tax Credit would be the same amount for low-income families in and out of work; we now know that maximum credit will be paid up to a gross income of £13,000 per year for those on low incomes in work. (Families on Income Support or Jobseeker's Allowance will automatically get the maximum.)

The puzzle is the second, largely flat-rate, Child Tax Credit payment. There is a long income plateau where people will only receive flat-rate payment, which will then be withdrawn between £50,000 and £58,000 per year. Some better-off couples will lose out compared with current arrangements. At the moment, if one partner pays higher rate tax, they have to claim Children's Tax Credit, and then have it gradually withdrawn. But this is calculated on individual income. The new, lower, tier of Child Tax Credit, however, will instead be awarded and withdrawn on the basis of joint income for couples.

This can be seen as either a massive extension of means-testing or a breach of the principle of independent taxation, and has been described as "a fiscal blow to women's liberation". Another key issue is whether it is really worth the government's while, in order to exclude at most 15 per cent of families, to introduce a means-tested payment - of approximately the same amount as Child Benefit rates for second and subsequent children – rather than just increasing Child Benefit for all. The first tier of Child Tax Credit rationalises current means-tested support for children. The second tier, however, seems an unnecessary complication, with uncertain implications for the longer-term direction of policy change. And there has been no indication that Child Benefit will increase by more than inflation in future.

One issue which has not yet emerged clearly is the proposed shift in the definition of "main carer", to whom Child Tax Credit will be paid, and an associated change in the ownership of benefits/tax credits. With Child Benefit, there is currently a "default" arrangement that the woman is the recipient. With Child Tax Credit, this is not the case; the main carer will instead be defined by the couple themselves. This does happen at the moment for Working Families Tax Credit. But the decision about who is the main carer (or main earner) then determines which partner becomes the claimant; the Working Families Tax Credit belongs to that person, and the method of payment – via the wagepacket or not – follows automatically. The new tax credits will instead be jointly owned benefits (as Jobseeker's Allowance is now). And there will be no "default" arrangement in favour of women for Child Tax Credit, as there is for Child Benefit. The implications of these changes for women's access to income, and for power relations within the household, have not yet been fully explored.

The Working Tax Credit and Child Care Tax Credit

The rates and structure of Working Tax Credit for adults have also been announced. Again, increases in current tax credits this year will lead in to the new system. Child Care Tax Credit, though eligibility comes via Working Tax Credit, will be paid alongside Child Tax Credit to the main carer. The rates are not being altered; but because of the new structure of Working Tax Credit, eligibility will go higher up the income scale. However, help with child care costs will cease immediately someone stops being employed. So child care still seems to be being seen primarily in the context of parental employment, rather than child development, and child care arrangements may often be disrupted because of this limited view.

How the new tax credits will work

The practical operation of tax credits is now known in greater detail. Awards will be based on income over a tax year (usually the previous one), and in principle could last for up to a year. Changes in circumstances (such as in family composition) will affect eligibility with immediate effect. There is more awareness in this document, unlike the previous consultation paper, that family relationships are increasingly fluid, and that this causes difficulties for payments based on joint assessment. But family change may still be under-estimated in terms of its impact on changing eligibility.

In contrast, there is a lot of information about changes in income and how they will be dealt with. There will be a margin of up to £2,500 per year in additional income before tax credit awards are changed, and income up to that level will be ignored in the recalculation. This is a welcome proposal to avoid complexity caused by over-responsiveness to income rises, and seems to replace the fixed award period for most claimants of Working Families Tax Credit with a temporary disregard – though when the award is renewed the disregard ceases to apply, so tax credit could be reduced significantly. Part of the motivation behind this decision may be the government's desire to avoid the recent situation in Australia, where under a similar system large numbers of people were given an amnesty from having to repay overpayments which had arisen because of underestimates of future income.

Income falls can also be reported, and will lead to higher awards. What is not clear is how the "compliance costs" for claimants will compare with the current arrangements for tax credits and benefits, nor how many people may be faced with under- or over-payments at the end of the tax year. It is also unclear how many people will have changes of circumstances that affect their awards – or whether in general there will be more, or fewer, changes in payments than under the current system of tax credits. Any all-out moves to counter fraud – which cannot be ruled out, given recent experience in the United States with Earned Income Tax Credit - would also be likely to override the government's goal of creating a "lighter touch" system of income testing.

Protection from stigma

The government also aims to remove some of the stigma from claiming income-tested help, in part by routing it through the Inland Revenue and the tax system, and in part through drawing in larger numbers of claimants. The laudable aim is for the new system to be “less intrusive and more inclusive”. It remains to be seen how successful this will be. However, the government’s claims to be providing a “guaranteed minimum income” for some groups seem to rest on improving take-up, which in turn depends crucially on achieving the goal of reducing stigma.

Protection from tax increases

The Chancellor argued that he was providing some protection for certain groups from his planned changes in national insurance and tax payments. It is possible to run the argument about protection in reverse, however.

Under the current system, based on net income, any reduction is partially compensated for by increases in means-tested benefits/tax credits. But the new method of calculation from 2003 will mean that tax credits are based on gross income. So the additional deductions due to increased contributions and freezing of the personal tax allowance will not be partially compensated for automatically in this way. This may be one reason why the amounts of the new tax credits had to be set at quite a generous level. Dual earner families are less likely to be compensated, however. And only half of all families with children will be better off as a whole, despite the Chancellor describing the Budget as “putting families first”. (People of working age will only benefit from this protection if they claim tax credits, too. But elderly people do not pay national insurance contributions, and their personal tax allowance is to be increased by more than inflation in April 2003; so their protection from these changes is guaranteed.)

Conditionality and compulsion

The Chancellor has consistently made clear his belief that rights should be balanced with responsibilities. In the past, he has suggested that with tax credits to “make work pay”, there would and should be no excuse not to take up employment opportunities. The introduction of new tax credits was used explicitly in his Budget speech to offset various proposals to increase conditionality and compulsion for people out of work, such as the extension of the New Deal “gateway” provision for young people to those over 25. Conditionality may be applied somewhat selectively in practice, however – partners of earners claiming Working Tax Credit, for example, are apparently allowed to be dependent with no questions asked, whereas with joint claims for Jobseeker’s Allowance both partners now have to actively seek work.

Incentives

Ministers' increasing focus on the "poverty trap" – and more generally on helping people get on once in work rather than just get from welfare into work – is welcome. However, their glaring lack of success in doing anything about reforming housing benefit works against them. The Budget documents make clear that Working Tax Credit will be offset against housing (and council tax) benefit in the same way as Working Families Tax Credit is now. (There will be differences between the reporting requirements for housing benefit and for the new tax credits, which may well cause some confusion for claimants.) What they do not make so clear is the impact of this offset, which will continue to reduce the increase in disposable income from going into work for many people.

A major plank of government strategy on housing benefit seems to be to float as many people as possible off it, by creating more generous tax credits. The Budget documents nonetheless show that the numbers subject to "marginal tax rates" (combined withdrawal of tax and national insurance, and benefits/tax credits) of over 60 per cent will increase by about half between 2002-03 and 2003-04. The government rightly notes that these figures are somewhat artificial, because the margin for increases in income of £2,500/year will mean that few people experience marginal tax rates in this way in reality; but, as noted above, the reduction when it does come will be bigger. It could also claim that it had significantly reduced the numbers on much higher deduction rates, though this success is largely as a result of previous changes. But marginal tax rates should really be disaggregated to show their impact for first and second earners. Incentives should improve for second earners "already in the system".)

What next?

The Budget documents propose, in a somewhat surreal fashion, that the new tax credits in 2003/04, their first year of operation, will be based on incomes in the tax year 2001/02, even though in principle – and in subsequent years – they will be calculated on the previous year's income. This may help avoid the risk of administrative debacle, which has in the recent past either led governments to postpone large-scale changes in the social security system, or has occurred because they did not do so. We do not seem to do big changes very well – especially where they concern people with rather more complicated lives than the average taxpayer the Inland Revenue is used to dealing with. The lessons from the child support scheme and the new national insurance computer should be well learned, and applied to the new tax credits.

The government will be under severe pressure to increase the level of the new tax credits – especially Child Tax Credit, because of its anti-poverty pledges – and to extend their scope – especially Working Tax Credit, because of the anomalies in its proposed coverage. But the change they bring about (from weekly to annual assessment and payment, at least in principle) is so radical, especially for many families on low incomes, that the government's responsibility to get it right is enormous. And the continuity they embody (in terms of extending means-tested payments, however "light touch", and joint assessment of income for couples) is so conventional that we can safely predict some of the difficulties that are likely to arise. We also need to warn, therefore, that not all our eggs should be put in the basket of the new tax credits.

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6

Child care

Hilary Land

“This Budget applies the Beveridge principles to the realities and needs of modern family life” said the Chancellor in his Budget speech. The introduction of the new Child Tax Credit, building on the tax-free Child Benefit, which remains universal, comes close to providing “one seamless system that supports all families”. Financial support for children will no longer depend on the employment status of the parent(s).

This was also Beveridge’s intention but because the Family Allowance (child benefit’s predecessor) was paid only for second or subsequent children, the unemployed or sick father received an additional benefit for the first child. Moreover, because the family allowance was not high enough to cover the subsistence costs of a child, there were additional benefits paid to families in receipt of means-tested national assistance. How far Gordon Brown’s system of payments for children will now meet their basic maintenance costs is still in dispute as the definition of poverty is a matter for debate. Nevertheless, this is a big step forward.

Beveridge was also in favour of nursery provision. This was not because he wanted mothers to take up paid work, as this government wants. Rather men’s working day had shortened over previous decades and he wanted mothers to have more leisure too. He therefore advocated both day and night nurseries. He did not develop these ideas and until the election of the Labour government in 1997 childcare services remained undeveloped in Britain.

There is no seamless web of support for childcare in Britain. There is heavy reliance on the private for-profit sector. State help to parent with the costs of childcare may depend on employment status, income, discretion of a personal adviser for those on a New Deal Programme, age of the mother as well as where the family happen to live. The amount of help student parents receive depends on the level of course being taken as well as the type of care they use.

The Child Care Tax Credit

The main form of direct support for parents is the Child Care Tax Credit. This is currently only available for those in employment. The parent(s) must be using a registered nursery, child minder or approved after-school place.

It is good news that parents of children cared for in their own homes by an “approved” carer will now be eligible for the Child Care Tax Credit. Will an “approved” carer include nannies, grandparents and other relatives? Mothers in employment rely heavily on informal care, some by choice and others because there is no alternative. Poorer mothers are likely to pay for this because the carer is also poor.

If this is to be limited to those working irregular hours (how defined?) and children with disabilities this will add yet more complexity to an already complex and patchy system. If help is only available for those with disabilities severe enough to attract a disability benefit then many children will be excluded. Over one in six children now have some chronic condition or disability but only a minority of these will be attracting an additional benefit. Only one in twenty after –school schemes will take a child with a health problem or disability.

The child care sector

The national childcare strategy has increased the numbers of formal childcare places so that there is now one place for every seven children compared with one in nine three years ago. However this is an average and levels of provision vary considerably over the country. There are two or three times as many nursery places per thousand children in one region compared with another. Low levels of nursery provision are not necessarily counter-balanced by high numbers of childminders whose numbers are declining. There are even higher variations in the level of after-school provision.

In addition the costs of a childcare place varies. London and the South East are the most expensive for pre-school children. However the cost of an after-school place is higher outside of London, perhaps reflecting a lack of a tradition of subsidised after-school provision. (The Inner London Education Authority provided free after-school care until the early 1980s when it was abolished along with the GLC).

Last year the number of child care places only increased by 2 per cent. A major barrier to expanding childcare provision is lack of staff. Young women (over 90 per cent of childcare workers are women) now look for a career structure and reasonable pay. The childcare sector in Britain provides neither of these. Careworkers are still found in the bottom decile of the earnings distribution and turnover rates are high (25 per cent in day nurseries). Continued heavy reliance on a subsidised private for-profit sector is not the way forward.

Limitations of the private sector

The government could learn much from studying the role of the private sector in providing care for elderly people over the past twenty years. The private for-profit sector rarely invests in training and does not pay its workforce well. When other activities become more profitable or raised standards become too onerous owners of private homes put their money elsewhere. Fifty thousand places in residential homes for the elderly have been lost in recent years. The Wanless Report published the day before the Budget pointed out:

> "health and social care are inextricably linked … in planning the delivery of care, social care must be considered together with in order to ensure both provide high quality services … and make efficient use of resources" (1)

However it was unable to say much about social care because

> "it has had neither the information nor the resources to be able to develop a whole systems model, more indeed to build up projections for social care in the level of detail as for health care." (2)

In these circumstances it is harsh to blame under-funded local authorities for the shortcomings of the private sector on whom they have been forced to rely for the past twenty years.

The government has recognised that the private sector will not create enough child-care places in deprived areas and has developed a number of schemes targeted on these areas. The largest is the Sure Start programme. The problem is that money for these schemes is time-limited and in any case will only reach a minority of the poorest children.

Conclusion

The government has accepted a responsibility to share with all parents the costs of feeding and clothing their children and to provide free pre-school education. It has yet to accept such a responsibility for the care of children.

Money is not everything and both children and older people need access to good quality affordable universal care services. In the case of childcare these need to be integrated with education. Experience from our European partners shows that directly subsidising these services in the public sector is a far more certain way of meeting these needs than heavy reliance on the private for-profit sector. The Budget measures plug a few holes in the social care fabric but are far from even promising, let along providing a “seamless web”.

Notes

1 Wanless, D, (2002) Securing our Future Health: Taking a Long-Term View, London, HMSO, p. 92. (www.hm-treasury.gov.uk/Consultations_and_Legislation/wanless/consult_wanless_final.cfm)

2 Ibid, p. 93.

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7
Pensions
Jay Ginn

Most of the financial measures concerning pensioners had already been announced before this Budget. Sadly, these measures do little to address poverty and income inequality among pensioners. In a Budget that is redistributive in other respects, it is regrettable that there has been no substantial improvement in state pensions this year, to allow older people to share in rising national incomes and to lift more pensioners off means-testing.

The basic pension

The April 2002 rise in the basic pension (£3 per week for non-married pensioners with a full pension and £4.80 per week for couples) barely exceeds inflation. The commitment to raise the basic pension in future in line with inflation or at least by £100 pa leaves pensioners to fall ever-further behind average wage levels and living standards. The risk of poverty is particularly acute for those without private pension income, which is the case for two thirds of women pensioners.

British state pensions are modest by EU standards, failing to protect pensioners from the indignity and health-damaging effects of poverty. The basic state pension's value relative to earnings remains below that of the early 1980s. Women make up the bulk of pensioners with low incomes. Among non-married pensioners, the average net weekly income of women is about 80 per cent of men's but most married women have a personal income that is much lower, relative to men's income.

Income-related benefits

The planned rise in the personal allowance for pensioners aged up to 75 by more than inflation in 2003 (to £6,610pa) is welcome, although many women pensioners will gain nothing, since their income is below the tax threshold.

For those on low incomes, all that is offered is an extension of means-testing. The means-tested Minimum Income Guarantee (MIG), for a non-married pensioner will be increased to £98 per week this year and to at least £100 per week in 2003. The current 20 per cent gap between the basic pension and the MIG is set to widen to a gulf due to the policy of pegging the basic pension to prices and the MIG to average wages.

The Pensions Credit, to be introduced in 2003, modifies the structure of means-testing by tapering the withdrawal of benefits as pension income rises. Although this will increase incomes for some pensioners, attempting to tackle pensioner poverty through extending means testing is flawed for several reasons, especially for women, who are poorer in retirement and more reliant on the state as a source of income. These are:

- *Adequacy of incomes*
  Means testing (with or without the Pensions Credit taper), is no substitute for an adequate basic pension. An automatic link to some index of national income is needed to provide security to pensioners in the longer term. Increases in support are needed for all older people to enjoy a decent level of income and to enable them to share equally in growing national prosperity.

- *Low take-up of means-tested benefits*
  At present means-tested benefits help some of those with low incomes but low take-up means that many fall through the net. In 1999/2000 between 22 per cent and 36 per cent of pensioners entitled to the Minimum Income Guarantee were not making a claim, with non-married female pensioners making up the majority of eligible non-claimants.

- *Pension credit and women without a full basic state pension*
  The Pension Credit has particular disadvantages for women. By setting the Pensions Credit threshold at the rate of the full basic pension, the Credit will not enhance the incomes of those with only a partial basic pension and a modest amount of additional savings or pension. Currently, 51 per cent of women do not receive a Basic State Pension in their own right, and recent research suggests that as many as 22 per cent of women aged 55-59 and 12 per cent of those aged 50-54 will not reach full pension entitlement even though these cohorts of women will benefit from full Home Responsibilities Protection.

- *Pension credit and family means-testing*
  The Pension Credit will operate on a family means-test so there will be no individual reward to savings and occupational pensions. Whether an individual living in a couple receives the Pension Credit will depend on

both the income of the other partner and to whom the Pension Credit is paid. Thus many married or cohabiting women will receive no benefit from the Pension Credit if their partner's income renders the couple ineligible. If, as with the Minimum Income Guarantee, the majority of claimants are male heads of household, the Credit will do little to improve women's independent incomes in later life. Since the Pension Credit for couples is based on the assumption of a wife having a category B pension at 60 per cent of the full rate, there will be a disincentive for wives to build a full basic pension. This represents a return to the pre-1978 situation, where wives were effectively discouraged from paying the full NI contribution towards their own basic pension.

- *Increasing complexity*
  Many individuals are put off by the complexity of pension provision, so that they save too little for retirement. This affects women in particular, who are less likely to be covered by occupational pension schemes.

Private pensions

The Budget does not address the issues arising from the crisis in private pensions. As final salary defined benefit schemes close to new members, as investment returns in money purchase schemes continue to stagnate, as providers renege on pension promises due to fraud or mismanagement and as annuity rates fall, confidence in private pensions is low and the need for adequate state pensions is greater than ever. Women face particular risks in relying on private pensions. Living longer, they may see annuity income decline catastrophically relative to prices. Those who rely on a husband's private pension may find when widowed that he has paid in too little to provide an adequate annuity for them.

An alternative pensions policy

Radical steps are needed to simplify the British pension system and to increase the level of state pensions. In particular, a basic pension set at such a level that most pensioners are lifted off means-tested benefits would make it much easier for working age individuals to appreciate the value of additional pension-building and saving, since these would clearly bring financial gain. The growing gap between the MIG and the basic pension means it is difficult, especially for the low paid and those with interrupted employment, to be sure that saving and investing will make them better off in retirement. The Pension Credit, in substituting 40 per cent effective taxation of a band of income for the present 100 per cent rate, does not address this issue.

The 1 per cent increase in National Insurance contributions is welcome in signalling the government's appreciation of the value of collective insurance against risk. It will boost the NI Fund, which already has a comfortable surplus of over £20bn, making improved state pensions even more affordable.

A better basic pension, raised to the level of the MIG and indexed to wages, would be the most effective way to ensure that all pensioners share in the general rise in economic prosperity.

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