



# TO EACH ACCORDING

*A living income for all*

Proposals from  
Sheffield for a new  
Social Security System

# INTRODUCTION

## Origins

The proposals for an alternative social security system set out in this document have been produced by a working group in Sheffield which came together after the government published its plans to reform the social security system in December 1985. The group is made up of representatives from local advice centres, the society of Civil and Public Servants, the Sheffield Campaign for Social Security, the Tenants' Federation, claimants organisations, the Sheffield Pensioners Action Group, the Sheffield Co-ordinating Centre Against Unemployment and the City Council. A full list of groups who have taken part appears in Appendix A.

The immediate stimulus for the work was the threat to claimants' standard of living represented by what has now become the Social Security Act (1986), which will extend means testing and cut payments to Sheffield claimants alone by up to £30m a year.

However, the working group recognised that simply attacking the government's plans is not enough and that the social security system even before the 1986 Act comes into effect is largely indefensible. What is needed is a radical rethink of the entire benefits and taxation system and a clear statement of the aims and principles which should underlie benefit and wage levels.

## Aims – or what the system should achieve

In our view any acceptable alternative to the present system should ensure the following:

- \* it should reduce inequality by redistributing wealth
- \* it should be effective and simple to administer
- \* it should treat everyone equally, regardless of gender or race
- \* it should make sure that everyone who is unwaged or on low wages has an adequate income
- \* it should make sure that people who cannot work because they are caring for children or other dependents are not financially penalised for doing so.

## The principles – a summary

We believe that to meet the above aims a new social security system must be based on the following principles:

1. there should be a guaranteed minimum income for claimants and for people in employment; this income should be high enough to make sure everyone can afford to play a full part in society
2. there should be universal entitlement and an end to means testing
3. all benefits should be paid to individuals, not couples or households
4. there should be collective provision and an end to the concept of individual insurance through National Insurance contributions
5. the benefits system should be funded through progressive taxation
6. the administration of social security and taxation should be accessible and responsive.

## Timescale

All our proposals are based on these fundamental principles. Given that a number of them are fairly radical, we recognise that it will be necessary to move away from the present system in stages – to allow time for the proposals to win acceptance and time to plan and introduce them efficiently.

However, we believe that short-term reforms should be adopted only if they shift the system in the right direction – towards the basic principles we have outlined and away from the existing ones of means testing and grudging benefit levels.

## Employment

We believe that everyone who wants it should have the right and the opportunity to do useful and satisfying work. Mass unemployment costs the country dearly not only in lost talent and potential, but also

financially; it is estimated that the annual loss to the Exchequer is £20 billion in benefit payments and lost taxes. We believe however, that the wealth of this country is such that redistribution can provide the decent social security system we would like without an expanding economy or a return to full employment being prerequisites. The key to funding social security is a radical restructuring of taxation.

## The cost

Our proposals are not separately costed. Instead we have identified key taxation reforms which will yield a big enough pool of resources to pay for the system we want to see.

For instance, reductions in corporation tax relief could yield £13.5bn a year, enough to double Child Benefit and pay for many other of our proposals. A clamp-down on corporation tax fraud would produce

another £1bn a year. Ending the married man's tax allowance would yield £4.4bn a year and phasing out mortgage tax relief an eventual £3.5bn. Tax relief on contributions to private pension schemes now amounts to over £5bn a year. This too should be ended as everyone should be covered adequately by collective provision.

The present government has itself shown that it is perfectly possible to manipulate the tax and benefits system to redistribute vast amounts

of money over a very short period. Since 1979 £8.2bn has been taken out of the social security system and an estimated £3.6bn has been handed out in tax reliefs to the richest five per cent of the population through mechanisms such as reductions in income tax and increased tax reliefs on mortgages and private pension schemes.

So the issue is not whether but when the taxation and benefits system will be organised to eliminate inequality.

# THE PRINCIPLES

## 1 GUARANTEED MINIMUM INCOME

We want to see the introduction of a guaranteed income for all adults – whether they are in or out of work. This would be a universal benefit paid automatically to everyone and it would replace all existing benefits and allowances, both contributory and non-contributory such as:

- personal tax allowances
- Supplementary Benefit
- Unemployment Benefit
- Retirement Pension
- student grants
- Family Income Supplement
- Incapacity Benefit
- Sickness Benefit
- Invalid Care Allowance

The Guaranteed Minimum Income may be supplemented by wages. Additional benefits would be payable to people with children and those

with disabilities. The Guaranteed Minimum Income would be paid for out of general taxation and the proposal assumes that the taxation system would be reformed accordingly. People with earnings well above the Guaranteed Minimum would pay more tax under progressive taxation.

This is a very radical proposal as it challenges the link between income and wages. But we believe that because it points towards income equality it should be in the forefront of all our thinking about benefits and income distribution. It is the yardstick by which any interim reforms should be measured.

## Minimum wage or guaranteed flat-rate benefit

As an interim measure we would propose the twin introduction of a



statutory minimum wage to be paid by employers and a universal flat-rate benefit to be paid to all non-wage earners. Part-time workers would be entitled to benefits for the remainder of the week. Again, additions would be payable to people with children and to people with high outgoings because they have disabilities.

These additions would be paid both to claimants receiving the flat-rate benefit and to workers earning the minimum wage.

The minimum wage should be set at a reasonable proportion of average wages.

The benefit should be linked to the minimum wage, in the first instance should be well above existing Supplementary Benefit levels and should then be brought quickly up to the level of the minimum wage.

Top-up benefits for people with dependents or disabilities would be tax free.

## Decent benefit levels

Our aim is income equality. But in the short term benefits should be high enough to make sure everyone can play a full part in society. Claimants complain with every justification that on benefit, you don't live – you exist. Benefits must enable claimants to live by going beyond subsistence to provide for pride in home and possessions and the opportunity to pay their way in all forms of association with other people.

This is a fundamental principle which we believe should apply immediately to all existing benefits. We can see no reason for instance why there should be a special, lower Supplementary Benefit rate for people who are unemployed and a higher rate for other claimants, especially when everyone on benefits

is grappling with the same very difficult circumstances and when even the higher, long-term rate is far too low.

Indications of just how low benefit rates have become are the simple facts that the Supplementary Benefit scheme pays just £1.46 a day for a ten year old child and that the Death Grant, now £30, can buy barely a tenth of even the cheapest funeral. And what are nowadays standard items of household equipment, like a television, a washing machine, a fridge, a telephone or a vacuum cleaner, are either expressly ruled out or available only in the most exceptional circumstances.

One of the reasons why benefit levels have sunk so low is that they are no longer uprated in line with earnings. Since 1980 they have been aligned instead with a prices index which has risen more slowly than earnings, so that claimants are getting steadily worse off in relation to wage earners. We can see no defensible reason why claimants should not maintain the same relationship to

prices as wage earners and believe that there should be an immediate return to uprating benefits on an incomes index.

## 2 UNIVERSAL ENTITLEMENT

### The stigma of means tests

Means testing is one of the most unpopular aspects of the present benefits system. It forces claimants into proving their poverty; it is humiliating; it makes claiming unpopular as it stigmatizes people in need; and it divides claimants from non-claimants, pushing them into a social category of their own.

The stigma attached to claiming also stops many people who are in need and entitled to benefits from applying for them. For instance only 50 per cent of those eligible for Family Income Supplement actually apply for it.

Other benefits are equally under-claimed – for example, free school meals, school clothing grants and



special needs payments.

### The poverty trap

Another overwhelming reason for ending means testing is that it is largely responsible for the poverty trap. As earnings rise a whole range of means-tested benefits are withdrawn. Social Security, Housing Benefit, free school meals and Family Income Supplement are all affected. The end result is that low wage earners can lose over £1 in benefits for every extra £1 they earn. The 1986 Social Security Act does almost nothing to solve this problem.

### Muddle, delay and harassment

Basing entitlement on income and other kinds of unnecessary eligibility tests, such as residence or nationality, has pushed the D.H.S.S. into expensive, bureaucratic and potentially racist practices which in

turn mean frustration for claimants, who have to fill in complicated and offensive forms and are often subjected to accusations of fraud, to investigation and harassment. In these circumstances, misunderstandings, delays in paying benefits and ill-will between claimants and benefits staff are inevitable.

### The alternative

Instead of using means testing as a basis of entitlement, benefits should be paid to everyone as of right. They should be universal and entitlement should be based only on personal circumstances. For instance, people would qualify for benefit simply because they were unwaged, have a disability or are caring for a dependent – regardless of their income. For those whose incomes are already high, our proposed new taxation system would cancel out the benefit.

## 3 BENEFITS TO BE PAID TO INDIVIDUALS

At present many benefits are calculated and paid out on the basis of family or household units. For example Supplementary Benefit and Family Income Supplement when paid to claimants with partners are assessed on the basis of both the claimant's and their partner's income; and the calculations for Housing Benefit assume that every adult member of the household is paying towards the housing costs.

Lumping together everybody's resources in this way assumes that couples have joint finances. What it means in practice is that many women do not have any independent

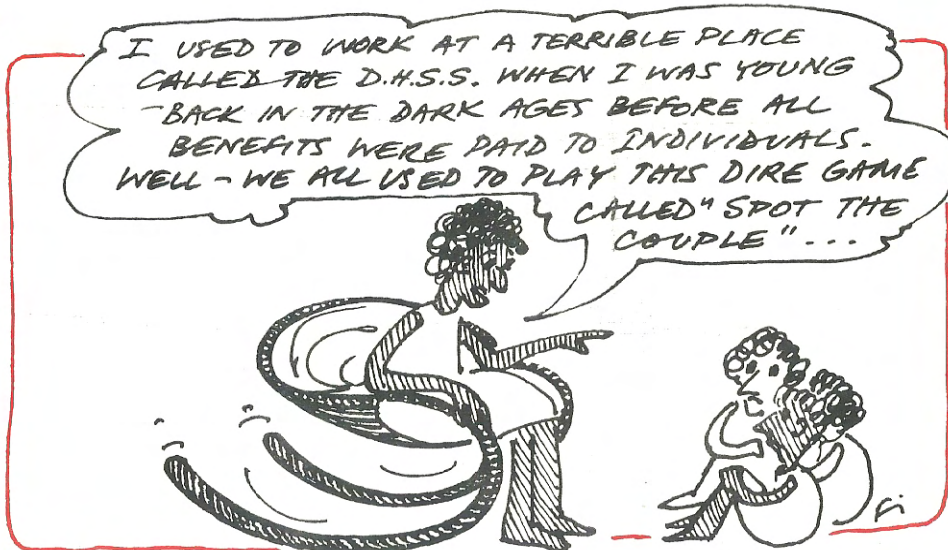
income of their own, are forced to depend on their partners and have little financial control over their own lives.

### The alternative

Instead benefits should be paid to individuals regardless of their marital and family circumstances. Additions for dependent children should be paid to the person who has the main responsibility for looking after them.

## 4 COLLECTIVE PROVISION an end to contributory benefits

National Insurance benefits are not means tested, but because they are based on the contributions people



OVERHEARD AT THE NATIONAL GALLERY, NOVEMBER 2001:  
"HARDLY BELIEVABLE NOW, IS IT, NORA? THAT RIDICULOUSLY INDIVIDUALISTIC SYSTEM WAS STILL BEING INFLICTED ON PEOPLE AS LATE AS THE 1980S - THEY STILL HADN'T THOUGHT OF SIMPLE COLLECTIVE PROVISION!"

pay while they are in work many never qualify for them – for instance part-time workers, large numbers of married women, people who are unemployed for long periods or who cannot work because they are disabled.

The National Insurance scheme as it stands is also a highly regressive form of taxation as it falls proportionately most heavily on lower wage earners. Earnings above £285 a week, for instance, are entirely exempt from National Insurance contributions.

A further problem with the scheme is that it is not self-financing and has to be heavily subsidized from general taxation. Finally, because National Insurance benefits are low, many people who do qualify have to rely on Supplementary and/or Housing Benefit as well.

In summary, the National Insurance scheme rests on the individualistic principle of self-insurance but manages to protect only a proportion of the labour force. Those who do not qualify have to rely on means-tested benefits instead and so are treated very differently even though they have identical needs and have paid taxes of other kinds for years – such as VAT and income tax and National Insurance contributions for periods when they were in work.

The notion that people should be disqualified from certain benefits because they haven't paid a particular tax at a specified time would be clearly unacceptable



in relation to other aspects of the welfare system, such as health care. We believe it is equally unacceptable in relation to income support. We therefore want to see an end to National Insurance contributions-based benefits. Instead we believe that insurance against future need should be recognised as a collective responsibility and should therefore be funded through the general pool of wealth available through all forms of taxation.

## 5 FUNDED THROUGH PROGRESSIVE TAXATION

We believe that the tax system should be made genuinely progressive, should redistribute wealth and should pay for the benefits system we are proposing.

### Income tax

Income tax is structured so that higher earnings attract higher rates of tax. This is as it should be. However, the present structure does not go anywhere near far enough in this direction. For example, 96 per cent of those paying income tax do so at the standard rate of 29 per cent; only 4 per cent pay any of the higher rates and a tiny 0.5 per cent pay the very highest. And even those who pay higher rates pay them on only part of their income.

We believe that the tax system should be made much more progressive. Low paid workers should be taken out of taxation altogether. High earnings should be taxed much more fairly, by applying higher tax rates at earlier income points and by raising the rates

themselves. These measures would increase the revenue from income tax without penalizing people on lower incomes.

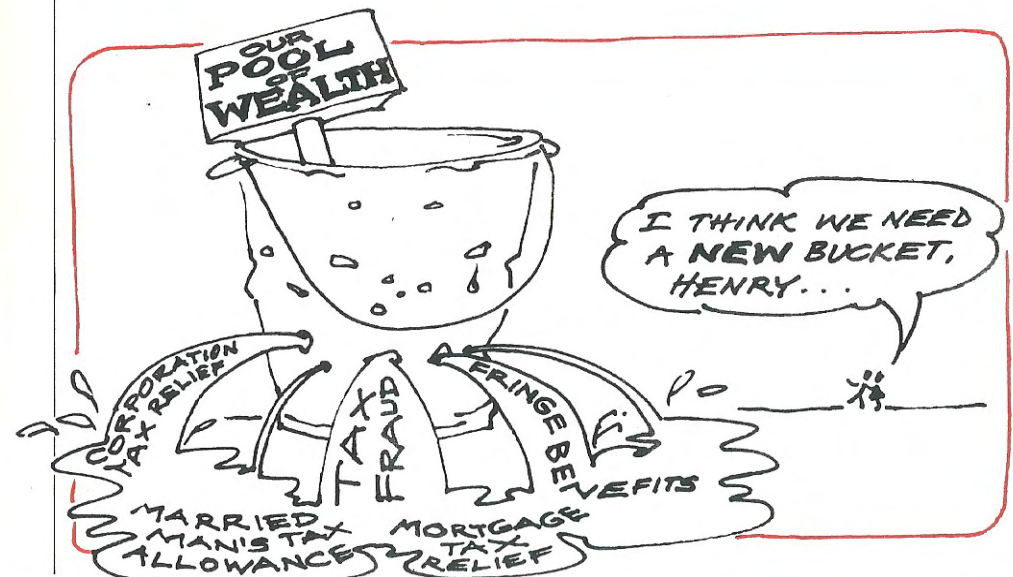
### Other tax reforms

Income tax is only one part of the taxation system. Steps must also be taken to reduce or phase out exemptions and allowances which unfairly benefit people on high incomes, to eliminate fraud and to increase revenue from corporation tax.

Our proposals for tax reforms which, taken together, would effectively redistribute wealth and pay for a decent benefits system are summarized below:

- \* raise the basic tax threshold; after the introduction of the minimum wage the threshold should be set above the minimum wage level

- \* increase tax rates on high incomes and lower the starting points for higher rates
- \* eliminate the married man's tax allowance
- \* reduce the value of tax relief on mortgages
- \* eliminate tax fraud – both personal and company
- \* reduce corporation tax reliefs so that higher amounts of corporation tax are paid
- \* introduce merger and windfall taxes
- \* abolish VAT on essential items; retain and increase it on luxuries
- \* re-introduce an inheritance tax
- \* introduce wealth and property taxes
- \* tax fringe benefits
- \* abolish tax reliefs and exemptions on private pension schemes



## The Pool of Wealth

Britain is still an immensely rich country. And the rich have got richer since 1979, thanks to the boom in the stock market and house prices, the relaxing of taxes on capital plus tax changes favouring the highest earners.

In addition to recouping the £3.6bn of tax cuts gained by the top 5 per cent of earners since 1979, other mechanisms for redistributing wealth through taxation are possible, including:

- \* a clamp-down on fringe benefits, tax evasion and tax avoidance, worth perhaps £1.00bn
- \* ending or reducing reliefs on inflation and investment, thereby increasing corporation tax by up to £13.50bn
- \* reinstating inheritance tax (Capital Transfer Tax) abolished by 1986 budget £0.45bn
- \* phasing out or ending tax relief on mortgages, releasing a maximum of £3.50bn
- \* taxing contributions to private pension schemes £5.10bn
- \*\* or enough to double all state pensions. £23.55bn\*\*

## 6 RUNNING THE SYSTEM

A benefits system based on universal entitlement rather than on income or eligibility tests will be simple and cheap to administer. This is already the case with Child Benefit. By removing local discretion it will also make sure that everyone in the same circumstances receives the same level of benefit.

We envisage the system we have proposed being supported by centralised computer services but administered by a network of local offices which will give everyone personal access to officials. There would be rights of appeal, which would be particularly important for additional benefits for people with children or disabilities as these would be the subject of individual applications. Although these benefits would be available as of right, some evidence of parenthood and disability would be needed, would

have to be verified and could lead to disagreement and appeals against decisions.

Increased computerisation and an end of means testing would release many staff for new duties. We envisage these staff being retrained to work in areas such as benefits advice with respect to disability, on tax fraud and on enforcing the minimum wage.



## H HOUSING INVESTMENT & HOUSING SUPPORT

Help with housing costs has become an integral part of the benefits system only because, due to shortages, housing costs are now so high that people on low incomes cannot afford decent accommodation without additional financial support. In our view the present Housing Benefit system and the operation of tax reliefs for owner-occupiers cannot solve this problem. They do nothing to reduce shortages, bring down the price of housing, place owner-occupation within the reach of people on low incomes or make sure that all housing of a similar standard costs the same. On the contrary, they make all these problems worse.

We believe that individual income support and general housing finance should be separated and that whatever new system is adopted

must make sure of two things: that a variety of adequate housing stock is available to everybody; and that everyone can afford a decent standard of housing. For some time to come, until greatly increased housing investment has eliminated housing shortages and high housing costs, some form of housing allowance for individuals will still be required. Such an allowance would be available for all forms of tenure, including owner occupation, and would relate housing costs to income levels along similar lines to the present housing benefits scheme, though with a tax claw-back for people with earned income instead of means testing.

## SOME FOOTNOTES

### Wages and benefits

We have left open the crucial question of the relationships between



average wages, the statutory minimum wage and benefit levels. This is because we want to emphasise our commitment to the broad equality of incomes from whatever source, embodied in the idea of a guaranteed minimum income. We are therefore reluctant to prescribe inequalities in the interim arrangements for minimum wages and benefits.

We realise that our desire to see minimum wages and benefits move rapidly towards a single level and thence to a guaranteed minimum income is a direct challenge to the doctrine of 'work incentives' – the notion that people will not work unless they are being paid for it. We consider it no bad thing for work to be valued for its social worth rather than as a means of providing a livelihood. Furthermore we are impressed by the willingness of large numbers of poorly paid workers to take or remain in employment, despite being poverty trapped or having earnings very little above or even below their dole entitlement. We are convinced that 'work incentives' have to do with much more than cash rewards.

### **Benefits and taxation**

We have suggested that benefits be tax free and that tax allowances be structured to take low paid workers out of taxation altogether. However, we have sympathy with the argument that both benefits and all wages should be taxable. With universal benefits replacing means tests, it would be possible to claw back benefits awarded to wealthy claimants. Benefit levels and the statutory minimum wage could be set at levels which allowed for

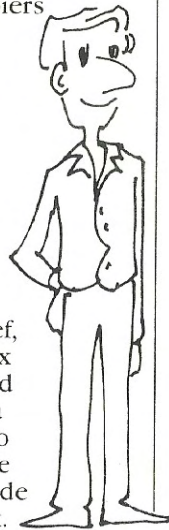
taxation at the basic rate, so that people on benefits or low wages would receive an adequate income, even if their benefit/wage was taxed. This approach would have the additional advantage of ending the separation of citizens into tax payers and non-tax payers.

### **Housing investment**

To complement increased investment in public housing, public sector grants could be made available to private sector landlords on the basis that the grants would be recoverable on the eventual sale of the property.

The fixing of maximum rents in both sectors could go a long way towards bringing housing costs within the means of individuals on minimum wages or benefits, which could in turn include a standard housing cost element. Where high costs persisted, a taxable housing allowance could be made available. Such a housing allowance could be extended to owner occupiers on the basis that the local authority would acquire a share in the dwelling. A 'right to rent' their own home could be made available to owner occupiers in difficulty who wished to sell to the local authority.

As an alternative to outright abolition of mortgage interest tax relief, relief just to higher rate tax payers could be ended, and relief could be limited to a single 20-25 year period to prevent 'trading up.' House sale for profit could be made subject to capital gains tax.



## **W**HERE NEXT?

Our six principles are put forward as a basis for discussion, locally and nationally. We hope they will be taken up and debated by everyone everywhere who believes we need social security policies which will ensure that everybody has a decent income and neither penalize nor impoverish claimants. We welcome suggestions for improving on our proposals and for common action to put them into effect.

**The Sheffield Alternatives Working Group can be contacted c/o Councillor Howard Capelin, Sheffield City Council.**

## **Appendix A** **Organisations taking part in the Working Party**

Campaign for Social Security  
Crookes Rights and Advice Centre  
Low Pay Campaign  
Lower Manor Tenants Association  
Manor Advice Centre  
Middlewood Citizens Advice Bureau  
Sheffield Advice Centres Group  
Sheffield City Council  
– Housing Department  
– Family & Community Services Department  
– Education Department  
– Central Policy Unit  
Sheffield Co-ordinating Centre Against Unemployment  
Sheffield Council for Racial Equality  
Sheffield Pensioners Action Group  
Sheffield Polytechnic Students Union  
Sheffield 13 Campaign  
Sheffield University  
Sheffield University Students Union  
Society of Civil and Public Servants  
Stannington Advice Centre  
Tenants Federation  
Upper Manor Tenants Association  
Woodhouse and District Tenants  
Sheffield City Polytechnic



