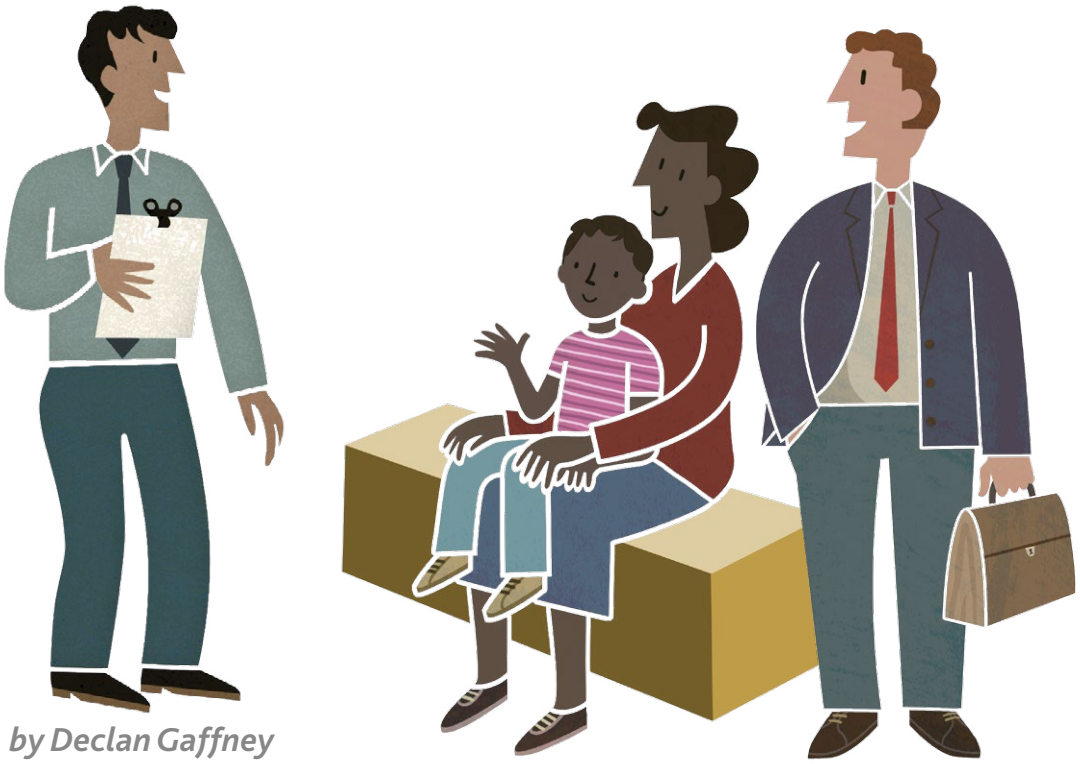
TOUCH STONE EXTRA

Welfare States:

How generous are British benefits compared with other rich nations?



by Declan Gaffney

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Introduction

How generous is the UK social security system for people of working age compared to those of other wealthy nations?

The question is complicated, partly because social security systems typically serve a range of different purposes. They provide protection for workers against risks to income from unemployment, sickness and disability; they support family life through paid maternity and paternity leave and allowances for children; they redistribute towards low income groups, whether out of work or, increasingly, in work and on low pay; and they provide financial support for additional costs arising from disability. Moreover, these functions are met using different mechanisms: through social insurance, funded in whole or in part by the contributions of employees and employers, and through universal and means-tested benefits funded through taxation. Welfare states also differ in how far they use cash benefits as opposed to direct provision to support housing needs and the additional costs of disability, for example; and they also differ in the extent to which benefits are subject to taxation.

These differences mean there is no single criterion that allows us to compare the generosity of social security systems. Figures on benefit expenditure are perhaps the most widely cited indicators. But although there is a very strong relationship between the level of spending and broad social outcomes such as poverty and economic inequality, expenditure data on its own does not tell us about people's final incomes or how resources relate to needs. Alternative approaches involve looking at the actual entitlements of individuals and families in different situations, taking account of all direct taxes and benefits and of variations in the cost of living to see how incomes compare in different countries. In this paper we use both approaches but with more emphasis on the second, using the most recent results from international comparative studies to build up a broad picture of how income protection varies in modern, rich nation welfare states.

We focus in particular on three functions of social security: protection for unemployed people, support for families and redistribution towards low earners. It is important to look at these functions separately as they underpin important variations in social provision between countries. We separate these functions by showing entitlements for two family types: single people without children and couples with children. Entitlements for single people give a sense of how the social security system treats workers in their capacity as workers; entitlements for families allow us to see how people are treated in their capacity as parents. We also take account of how welfare states support people's housing costs because this factor has a big impact on estimates of relative generosity.

In most of the countries we look at many unemployed people are entitled to earnings-related benefits: the UK, along with Ireland, Australia and New Zealand, does not provide earnings-related unemployment benefits. Inevitably, this means that the UK looks ungenerous compared with many other systems. But generous earnings-related benefits for those who meet contributions conditions often co-exist with far less generous minimum income benefits for those with incomplete contributions records, leading to stark differences in incomes among unemployed people in many countries. At the same time family benefits, which are usually not based on earnings or contributions, tend to reduce the differences in income between those on contributory and income-related benefits.

These factors pull in different directions when it comes to assessing the UK's relative position. The absence of earnings-related benefits makes it quite spectacularly ungenerous to workers in their capacity as workers. In contrast to most of the Western and Nordic European states, and even to the United States and Canada, being in employment in the UK does not confer much additional income protection. Moreover, the other countries without earnings-related benefits in our sample (Ireland, Australia and New Zealand) prove to be more generous than the UK. However, not all countries with earnings-related benefits are more generous than the UK to uninsured workers who are not entitled to those benefits because they have discontinuous employment records or are at the start of their working lives, for example.

Family benefits change the picture. Although the UK remains at the less generous end of the scale, differences in income between countries are less marked for couples with children. Earnings-related benefits remain important in driving international differences but there is less of a gulf between these benefits and minimum income benefits because means-tested family benefits tend to erode the difference between the two. Housing costs also play a role in making final incomes more similar; more generous benefit entitlements in other countries often have to meet some or all of the cost of housing, whereas the UK has a separate benefit for this purpose. What is striking is how much work family benefits have to do in the UK to bring incomes up to international norms. This is, we suggest, mainly a reflection of the very low level of income protection that people receive in their capacity as workers. Similarly, family benefits (including tax credits) play a major role in bringing the incomes of low-waged couple families up to levels comparable to other European countries. But wages are generally lower in the UK and low-paid single workers, even with some support from tax credits, have low incomes by international standards.

We also look at two other important income entitlements: sick pay and maternity pay. Statutory sick pay (SSP) is not earnings-related in the UK and this, combined with a short duration (six months compared to at least a year in most other countries) means the benefit is of low value. Statutory maternity pay (SMP) is earnings-related in the UK but only for six weeks, although the duration of paid maternity leave in the UK is longer than in many European countries.

The conclusion from this broad comparison is that while the UK cannot be regarded as having a particularly generous social security system for people of working age, relative generosity varies a lot depending on whether one is looking at benefits associated with employment or with parenthood. Employment in the UK does not generally lead to people building up entitlements to income protection when they face a fall in earned income, with the exception of SMP. Benefits for families go some way towards addressing the resulting income shortfall for those with children. The UK is not alone in this respect; the pattern can be seen in some other welfare states in the English-speaking world, although those without children are more disadvantaged in the UK.

1 An overview of working age cash benefits and welfare states

In this paper we are concerned with how cash transfers protect working people from falls in their earned income due to various contingencies: unemployment, temporary sickness, childbirth and earnings which are low in relation to basic needs. We compare benefit entitlements in the UK with those in a set of seventeen broadly comparable welfare states. The nations chosen for comparison are Western European and (majority) English-speaking countries with mature welfare state institutions and levels of GDP per capita above the average for countries in the OECD.[1]

In this introductory section we look briefly at broad patterns of expenditure on cash benefits for people of working age and children. We include both public expenditure and 'mandatory private expenditure', the latter consisting mostly of benefits which employers are required to provide such as sickness and maternity pay.

Our focus throughout this paper is on cash benefits but the line between cash benefits and other forms of support is not always as clear cut as it may seem because cash is one of the mechanisms that can be used to ensure access to goods and services. Some welfare states rely heavily on cash transfers to meet housing or childcare costs, or the extra costs faced by disabled people, while others make more use of direct or subsidised provision of goods and services. In fact, in each of these examples the UK is more likely to use cash transfers to meet needs than many other countries, and this can create problems of comparability.

To get around this problem the usual convention is to classify benefits which can be spent at the complete discretion of recipients as 'cash benefits' but to treat benefits which are earmarked for specific items as 'benefits in kind' (Adema ***et al***. 2011). In principle, this means that benefits such as housing benefit should be treated as benefits in kind: the recipient of the benefit has no choice about the purpose to which the cash can be applied, even if they have choice about the actual provision.

In this section we will look at expenditure on cash benefits according to the strict definition (thus excluding housing benefits and other forms of subsidy to housing). However, in the rest of the paper we will look at how housing costs and benefits affect disposable incomes.

1 The maturity criterion excludes Switzerland which was late in developing welfare institutions.

Cash benefit expenditure in different types of welfare state

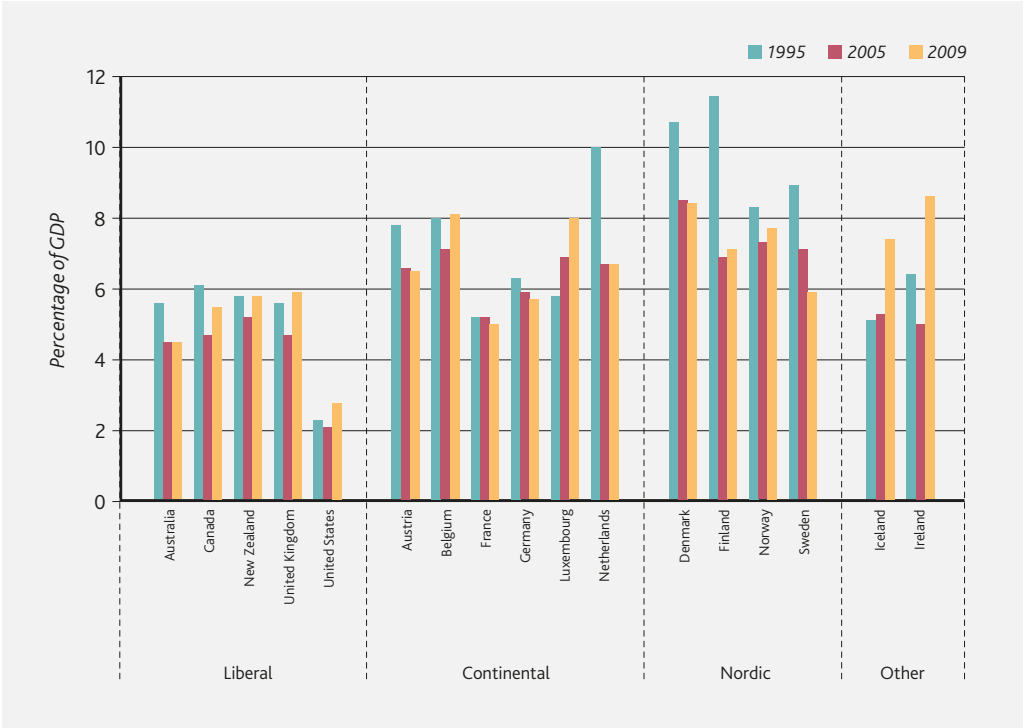
We are looking at some seventeen countries and in order to summarise the data it is useful to group nations into broadly similar groupings based on the main features of their welfare state institutions. We use the long-established framework of 'welfare regimes' [Esping-Andersen 1990; Castles 2004]. The countries we are concerned with mostly fall into three types of regime: liberal, continental and Nordic.

The UK is usually classed with the liberal group which is characterised by low levels of labour market regulation and a heavy reliance on flat-rate and means-tested benefits. Continental (or 'corporatist/conservative/Bismarckian') systems tend to have high levels of regulation and job protection for most employees and generous earnings-related benefits for those meeting contribution conditions. Nordic (or 'social democratic') systems tend to have medium levels of labour market regulation, earnings-related benefits for contributors and universal public services.

There is a lot of variation within these broad categories, as we shall see, but they do pick out important differences in how social protection is organised in different countries. Two nations, Ireland and Iceland, are difficult to assign to any of the groupings.[2]

We look first at overall expenditure on cash benefits as a share of GDP using data from 2000, 2005 and 2009 to avoid economic fluctuations distorting the comparison (Figure 1). Because we are concerned with people of working age, old age and survivors' benefits are excluded.

Figure 1: Gross public and mandatory private social expenditure on cash benefits, excluding old age and survivors' benefits



Source: OECD Social Expenditure Database and author's calculations

2 Iceland's low expenditure levels prior to the crash distinguish it from other Nordic nations; Ireland is in some respects a member of the liberal group but in others is closer to Southern European welfare regimes.

Liberal nations tend to spend the least on working age benefits but it is notable that the United States is an outlier even compared with other liberal nations (those who propose the United States as a model for welfare reform should be aware of how exceptional it is by comparison even with other market-oriented systems). Although expenditure in the UK rose sharply with the economic downturn in 2009, over the longer term it is similar to the other liberal nations at around five per cent of GDP.

Nordic nations show the highest expenditure on average but this may be somewhat deceptive: unlike continental and liberal welfare states, these countries tax benefits quite heavily meaning that net expenditure is lower than the gross expenditure figures shown here. Taking account of this Nordic and continental nations are probably more similar than this comparison suggests.

Recognising that the financial markets crash impacted more on some nations than others, relative expenditure levels have not generally changed much over this period. Notable exceptions, however, are Sweden, where expenditure has fallen sharply, and Ireland and Iceland, which raised expenditure from very low baselines between 2000 and 2005 as well as suffering severe impacts from the crash.

Spending priorities

Table 1: Contrasting priorities in different 'welfare regimes'

	Unemployment	*Family*	*Incapacity related*	*Other*	*Total*
As a percentage of GDP					
Nordic	1.6	1.6	3.8	0.4	7.4
Continental	1.6	1.8	2.7	0.4	6.4
Liberal (excluding US)	0.7	1.8	2.0	0.7	5.1
As a percentage of cash benefit expenditure (excluding old age and survivors' benefits)					
Nordic	21.4	21.7	51.1	5.8	100
Continental	25.4	27.7	41.5	5.4	100
Liberal (excluding US)	13.3	35.6	38.2	12.8	100

Source: OECD Social Expenditure Database

We are not only interested in how much nations spend on cash benefits but on expenditure on different types of benefit. Are there differences in spending priorities between these groups of nations? In Table 1, we show expenditure broken down by broad category, as a share of GDP (at the top) and as a share of cash benefit expenditure. Because it is such an outlier we have excluded the United States from this comparison. The figures are averages for 2000, 2005 and 2009 in order to reduce the impact of economic downturns on the spending breakdowns.

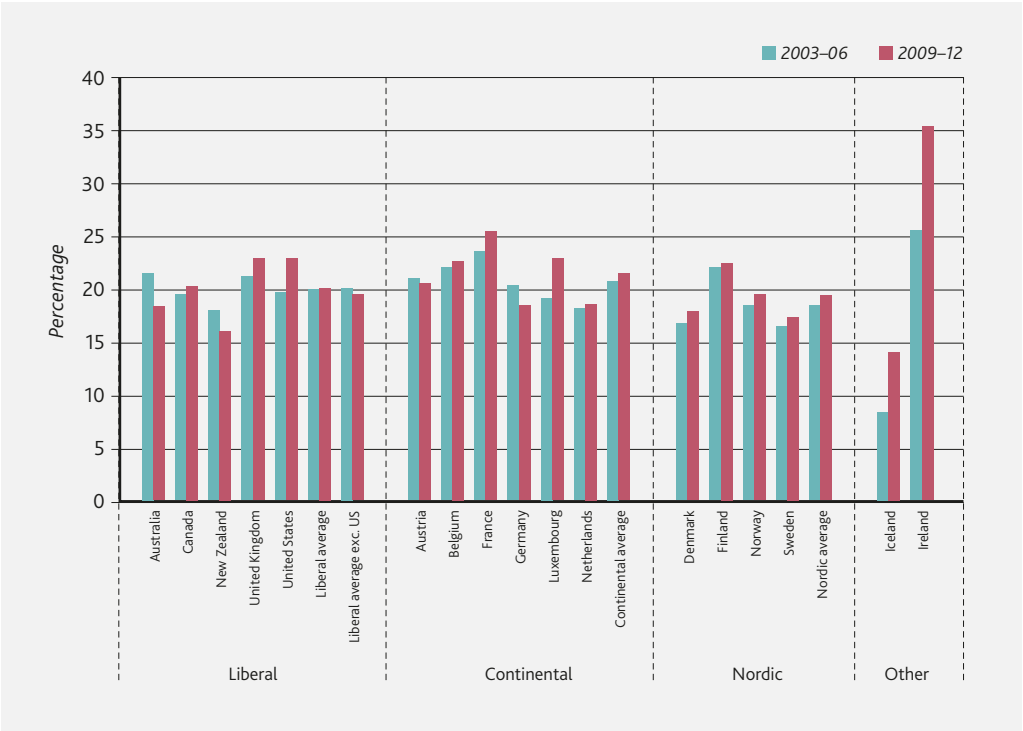
Despite profound differences in policies and institutions there are two common features across the three groups. Firstly, the great majority of benefit spending (other than on the elderly) is accounted for by sickness and disability on the one hand and family benefits on the other. Together these benefits account for 70–74 per cent of all spending across the three groups. Sickness, disability and needs of families with children are the major calls on cash benefit expenditure below pension age, everywhere.

The second is that family benefits account for a similar share of GDP across the three groups. Despite being low spenders overall the liberal nations on average devote a similar proportion of GDP to these benefits as do the other groups.

The most obvious divergence concerns unemployment benefit, where the Liberal nations on average spend less than half as much as the other two groups. This is more a reflection of the value of these benefits than of differences in unemployment rates. In continental and Nordic systems unemployment benefits (for contributors) are earnings-related, while in the UK, Australia and New Zealand they are flat rate and largely means-tested. We will see later that this combination of (comparatively) low spending on unemployment benefits and average spending on family benefits in the liberal nations means that relative benefit generosity varies by family type.

Reducing poverty

Figure 2: Working age poverty before redistribution

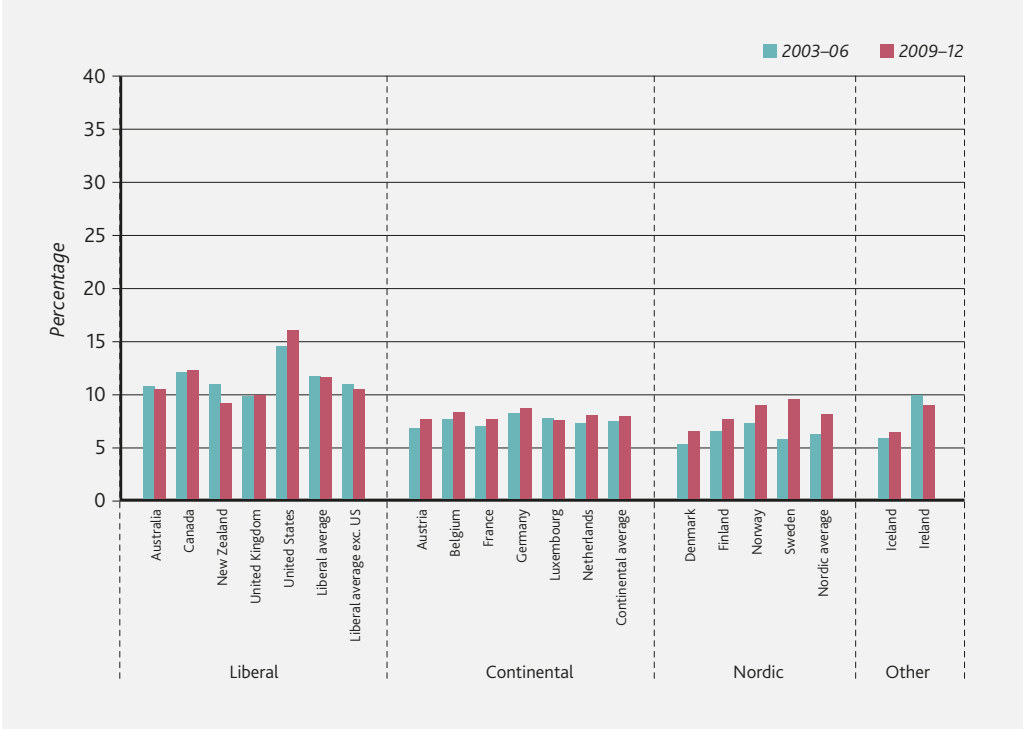


Source: OECD Income Distribution and Poverty Database

How do these different types of welfare state perform in tackling poverty and inequality in market incomes? Working age poverty before taxes and benefits is a pervasive feature of almost all these economies (with the arguable exception of Iceland before the crash) (Figure 2). Here the similarities rather than the differences between nations are what is most striking. (The poverty line here is 50 per cent of median income after taxes and benefits, a more stringent definition of poverty than the 60 per cent of the median usually used in the UK and Europe.)

The effect of taxes and benefits on pre-tax poverty is enormous. Figure 3 shows that on average the working age poverty rate is more than halved by redistribution. Even in the United States, with its minimal social provision, poverty is reduced by nearly a third. The UK, which has similar pre-tax poverty to the United States, reduces poverty by some 57 per cent although this still leaves working age poverty higher than in most of the European welfare states.

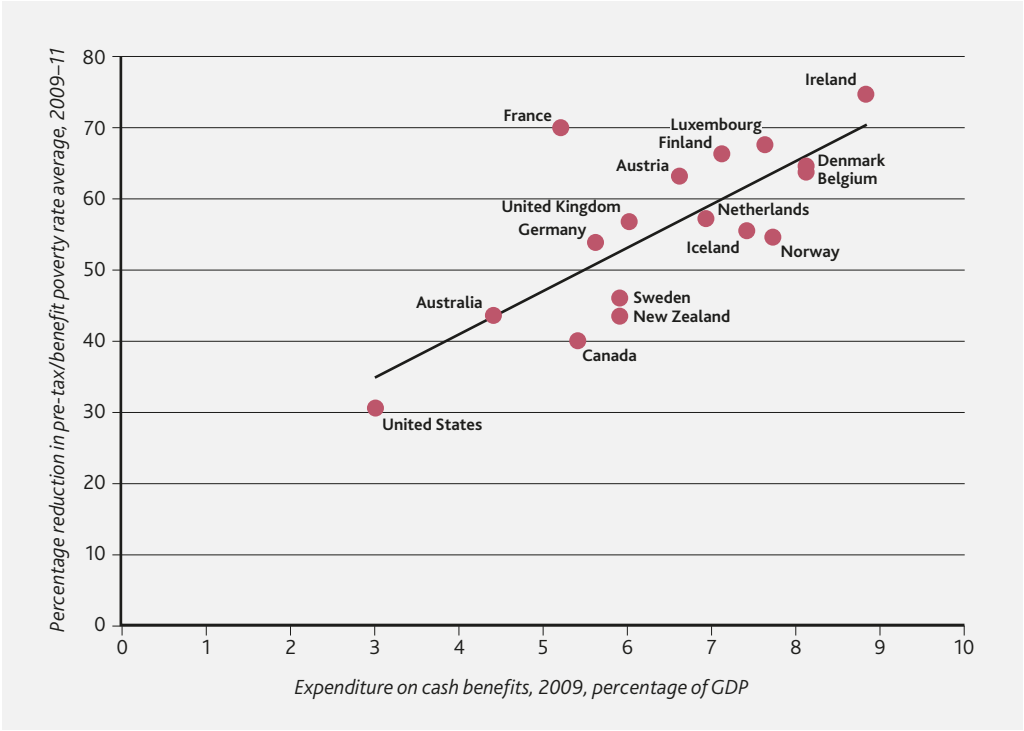
Figure 3: Working age poverty after redistribution



Source: OECD Income distribution and poverty database

Does the effectiveness of poverty reduction reflect the amount governments spend on cash benefits? Yes: on the basis of this data, expenditure 'explains' 60 per cent of the variation in poverty reduction between nations (Figure 4). There is still a lot of variation even among countries with similar spending levels because some countries, including the UK, target benefits more towards households with low incomes. But the level of expenditure is clearly a key factor in poverty reduction.

Figure 4: Does redistribution work? Poverty reduction and spending on cash benefits

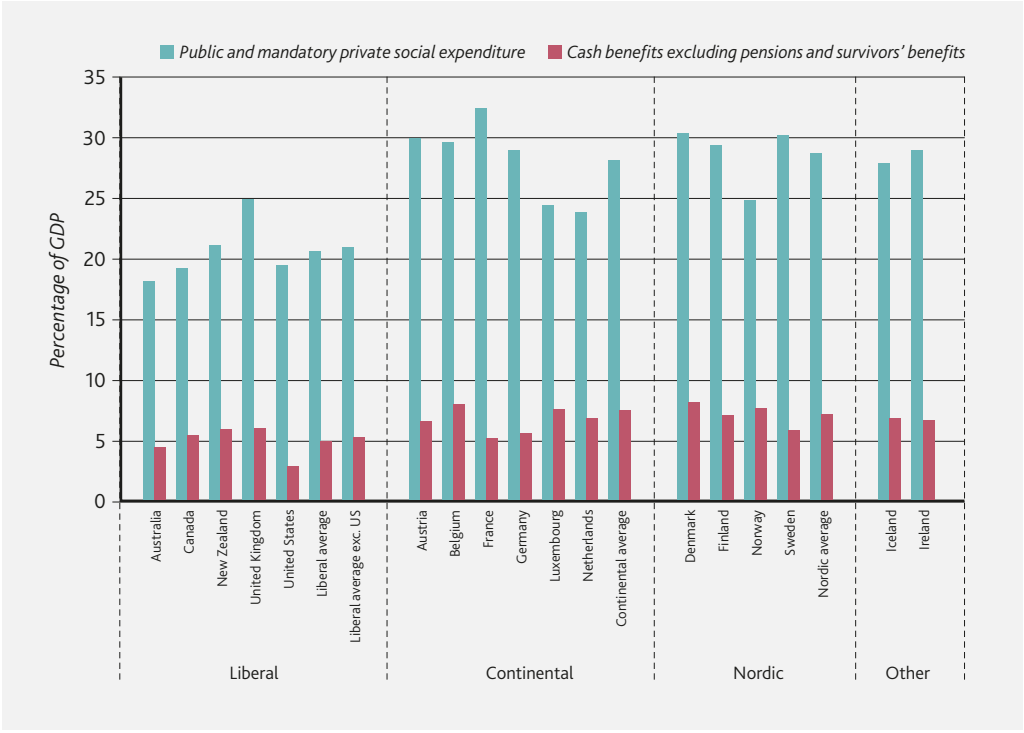


Sources: OECD social expenditure database; OECD income distribution and poverty database and author's calculations

Transferring income through cash benefits for people of working age is only one among a variety of things that welfare states do, and it accounts for far less expenditure than people seem to think (Hills 2014). Healthcare, benefits and services for the elderly dominate social expenditure everywhere. The cash benefits we are concerned with account on average for a quarter of all public and mandated private social spending in our group of wealthy nations, and the share of spending in the UK is exactly equal to that average (Figure 5).

Nonetheless, as we have seen, these benefits make an enormous difference: without them, one in five of the working age population would be in poverty. There is an understandable feeling that it would be preferable if pre-tax poverty rates were lower, not least in order to reduce the fiscal cost of redistribution. However, in the seventeen nations we are looking at we have only one example where at any point pre-tax working age poverty could plausibly be regarded as being at 'frictional' levels: Iceland during its ill-fated boom. Otherwise, working age pre-tax poverty is a major phenomenon in all of these countries and the main way in which they have addressed this, with varying degrees of effort and efficacy, is through cash benefits.

Figure 5: Working age cash benefits in the context of overall social expenditure, 2009



Source: OECD social expenditure database

2 Entitlements across wealthy nations

Comparing benefit entitlements for unemployed people: an example

In the rest of this paper we look at the benefit entitlements which people in out of work and working households receive in our group of wealthy European and majority English-speaking nations. We focus on two household types: single adults without children and couples with two children, in order to separate out the effects of family benefits from other types of benefit.

Comparing benefit entitlements across different social security systems is not entirely straightforward, even in the simplest possible case of a single unemployed person with no children. Consider the case of two people (single without children) employed at the national average wage in the UK and in Denmark in 2012. While in work gross earnings for both are quite similar when we take account of price differences between the two countries. However, if they lose their jobs the UK worker would be entitled to £71 a week Jobseeker's Allowance (JSA, 2012 rate), equivalent to £3,692 a year. The Danish worker would be entitled to the equivalent of £18,504 in earnings-related unemployment benefit.[3] In this case it looks as if the Danish worker is five times better off than her UK equivalent.

Now, the Danish worker is better off but this comparison is nonetheless quite misleading. For a start the Danish worker has to pay income tax and social insurance contributions on her benefit income. This reduces the gross benefit amount to a net figure equivalent to £12,460. That is still a lot more than what the UK worker receives but it's about a third less than the gross benefit entitlement.

Another difference between the UK and Danish systems is that in the UK rents are covered by a single means-tested benefit, housing benefit, and if people are entirely reliant on benefits, the housing benefit award corresponds to the full rent amount, subject to various limits and excluding service charges. This is in fact an unusual arrangement by international standards. In many systems housing benefits, if they exist at all, meet only part of the cost of rent. For example, in Denmark, for a single person without children, the housing allowance pays only a maximum of 15 per cent of the rent. Moreover, as contributory unemployment benefits tend to be more generous than means-tested benefits, recipients of unemployment benefits are often entitled to no additional support with housing costs, as is the case for the single unemployed worker in our example for Denmark. Nonetheless, the value of the income replacement benefits is high enough to ensure that even after meeting the cost of rent, benefit recipients are still better off in Denmark.

3 All values are based on US dollar private consumption. Purchasing power parities are expressed in sterling.

Deducting rent to the value of two-thirds of median private sector rents from the net unemployment benefit in the Danish example brings income down to the equivalent of £10,792, compared with the UK entitlement of £3,692. The Danish entitlement is still much higher but by a factor of three rather than five. If we use higher rent assumptions then the gap between UK and Danish entitlements reduces further.

Finally, not all unemployed people in Denmark are entitled to an earnings-related unemployment benefit: some will not have met the contribution conditions and some will have exhausted their entitlement. In these cases they will need to rely on the less generous means-tested minimum income benefit. In the UK, by contrast, there is no difference in value between contributory and means-tested Jobseeker's Allowance. Assuming the Danish worker is receiving the minimum income benefit and paying two-thirds of the median rent, her entitlement is equivalent to £6,326, which is 1.7 times the value of the UK entitlement. If the unemployed Danish worker is paying the median rent rather than two-thirds of the median, benefits are worth 1.4 times as much as in the UK.[4] There are important lessons here: on the one hand it is easy to overstate the differences in benefit entitlement between countries by failing to take all benefits, direct taxes and social contributions into account; on the other hand, even when we do take everything into account unemployed Danish workers tend to be significantly better off than their UK counterparts, even when they are reliant on safety net benefits rather than the more generous unemployment benefit.

The main groups of benefits

Overall benefit entitlements are typically made up of different elements serving different functions. These can be summarised schematically in terms of four broad categories:

Social insurance benefits – unemployment and sickness/disability benefits based on prior social insurance contributions, usually but not always based on a percentage of earnings while in employment and usually time limited; contributions based Jobseeker's Allowance is a social insurance benefit which is not earnings related.

Minimum income benefits – social assistance benefits typically based on a flat rate related to household size providing a means-tested minimum income floor for those with no other source of income and in some systems an income top-up to families in receipt of social insurance benefits or with low earnings; income-based Jobseeker's Allowance is a minimum income benefit.

Family benefits – universal or means-tested benefits contingent on presence of children in the family unit, including tax allowances for children.

Housing allowances – benefits to cover all or some of the cost of housing, paid either as a separate allowance or as part of the minimum income benefit; in some systems housing allowances to non-retired and non-disabled claimants are only available to families with children; in this paper these are treated as housing allowances rather than family benefits; some systems provide support for the costs of owner-occupation as well as renting; these benefits are not considered here.

4 Figures from OECD country files with the exception of Danish private rents which are from MIPI. The UK rent assumption is for social rather than private rented accommodation and is therefore on the low side but as housing benefit in the UK meets the full cost of eligible rents for unemployed people (subject to savings conditions) the UK rent level makes no difference to the income comparison as long as it is within the eligible rent limits.

Among the group of rich nations we are looking at, two countries have no social insurance benefits at all (New Zealand and Australia), while in the UK and Ireland the base value of the social insurance benefit before means testing is close to or identical to the minimum income benefit, so that the only advantage of being an insured worker is freedom from means testing for those living in households with other sources of income. Every country apart from the United States has some form of family benefit, although not always with a universal element. Belgium and some US states have no explicit housing allowances.

Overall benefit entitlements reflect interactions between these different types of benefit and in many systems there are further interactions with the tax and social contribution systems. In the end, what claimants receive is a function of different policy priorities, often welded together in a somewhat ad hoc manner. Ideally, we would like to be able to see not just the eventual outcome for claimants (in terms of income) but the way in which the outcome has been arrived at and how the components of the social security system fit together for people in different situations.

To this end, we look at benefits in sequence, beginning with unemployment insurance and minimum income benefits for adults, continuing with family benefits and finally looking at housing costs and benefits.

Earnings while in work are assumed to be at the national average for full-time workers. The value of benefits is expressed in sterling based on purchasing power parities (see Annex 2).

Unemployment: insurance benefits and minimum income protection

The generosity of benefits for unemployed people can be expressed in different ways: for example, as a percentage of earnings when in work (known as the replacement rate) or (as we do in this paper) in terms of the value of benefits, adjusting for differences in purchasing power between countries. Another option, not explored here, is to compare incomes on benefits with national average (median) incomes or with the national poverty thresholds based on median incomes.[5] A disadvantage with the latter approach in the UK context is that the impact of the 2008/9 recession and subsequent real wage stagnation on incomes was higher than in most comparator countries

5 A disadvantage with the latter approach in the UK context is that the (downward) impact of the 2008/9 recession and subsequent real wage stagnation on incomes was higher in the UK than in most comparator countries. This affects international comparisons based on average incomes or relative poverty thresholds (e.g. the poverty threshold in the UK falls while rising in other countries). It should be noted however that the differential impact of the financial markets crash also affects the comparisons using purchasing power parities we present here, via changes in the exchange rate value of sterling. (The fall in the sterling/Euro exchange rate affects the purchasing power of sterling in the UK because it raises the relative cost of imports.) For median income/poverty threshold comparisons using MIPI, see Marchal ***et al.*** 2011 and Marx ***et al.*** 2012.

It is worth stating clearly from the start that in terms of replacement rates, whether these are measured gross or net of taxes and social contributions, JSA is the least generous unemployment insurance benefit not only in our set of wealthy nations but across all OECD and EU nations (remember, JSA is both an insurance benefit and a minimum income benefit). Essen 2013 compares replacement rates for single people before and after taxes and social contributions for 27 European nations On both comparisons the UK replacement rate is not only the lowest but is the only example which is significantly lower than 20 per cent (in the majority of states the replacement rates are 50 per cent or more). OECD comparisons of 40 countries also show the UK as the least generous.

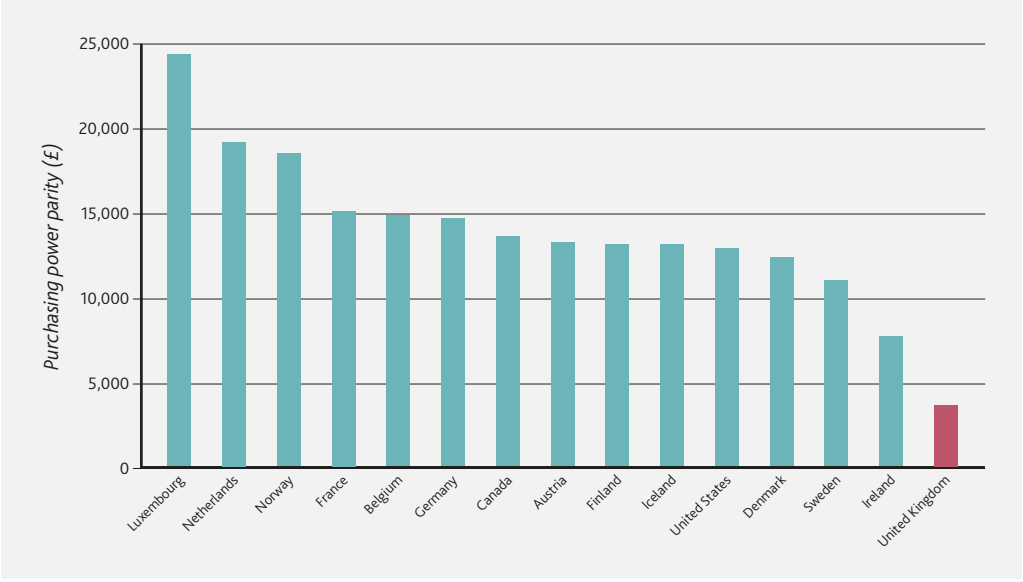
These comparisons concern unemployment insurance benefits.[6] However, Essen 2013 shows that even for the usually much less generous minimum income benefits, the UK replacement rate for the single unemployed is also lower than in 19 of 27 EU countries, while Grzegorzewska and Thévenot (2013), averaging over different family types, unemployment durations and wage levels show the UK as having either the second or third lowest replacement rate (excluding housing benefits) out of 26 EU countries.[7] The latter comparison does include family benefits, which we deal with separately in this paper, so it is not a pure comparison of unemployment benefit generosity but it provides a further indication of the low value of out of work benefits in the UK compared to wages.

Figures 6a and 6b show the benefit entitlement, net of any tax or social insurance contributions and excluding any housing allowances, for single unemployed people without children, receiving either an unemployment insurance benefit or a minimum income benefit. Australia and New Zealand do not appear in Figure 6a as they do not have unemployment insurance benefits. The differences between insurance and minimum income benefits are very clear, with the latter typically worth only a fraction of the former – note the difference in scales. States with 'generous' unemployment insurance benefits tend to offer much less generous protection to the uninsured. However, JSA in the UK is worth less than the minimum income benefit in all countries apart from the US, although the difference with Sweden is marginal. Contributory JSA is, of course, worth even less in comparison with the mostly earnings-related contributory benefits in other countries and is also worth less than half the equivalent contributory benefit in Ireland, which, like JSA, is also flat-rate.

6 Where they exist: otherwise (as in Australia and New Zealand) minimum income protection benefits in the sense outlined above.

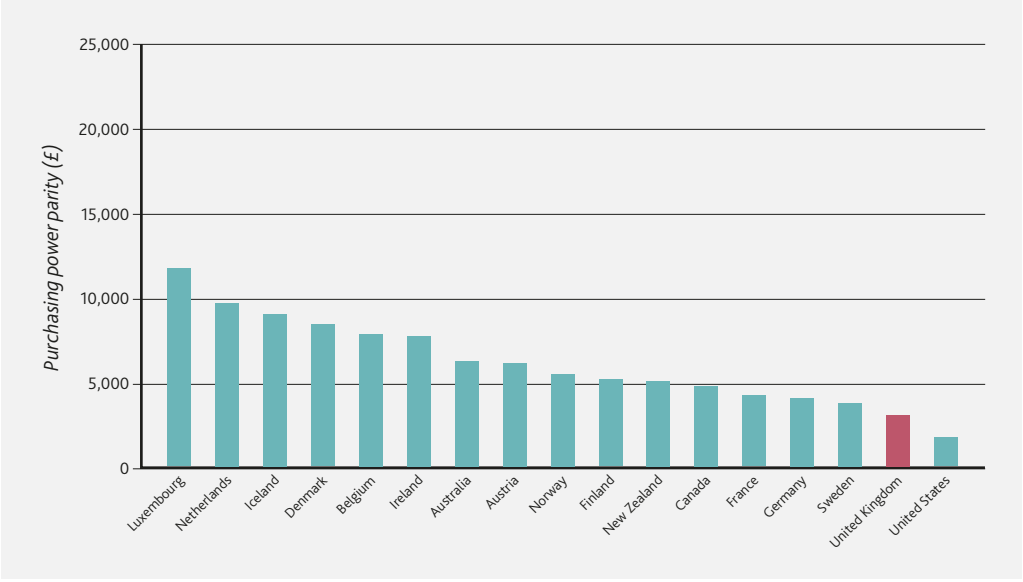
7 The data cited here is accessible by following the link to chart 8 (p134) of Grzegorzewska and Thévenot (2013). The published chart averages over scenarios with and without housing benefit receipt: these are shown separately in the source data.

Figure 6a: Net disposable income excluding housing allowances for a single unemployed person without children, previously employed on an average wage, reliant on unemployment insurance, 2012



Sources: OECD country files except UK[8]: CSB-MIPI dataset, Version 2/2013. PPPs: OECD/Eurostat purchasing power parities

Figure 6b: Net disposable income excluding housing allowances for a single unemployed person without children, reliant on minimum income benefits, 2012



Sources: For European countries other than Iceland, CSB-MIPI dataset, Version 2/2013; other countries, OECD Tax benefit model country files; PPPs, OECD/Eurostat household consumption purchasing power parities.

8 MIPI and OECD figures for minimum income benefits in the UK differ, partly because council tax is not included in the OECD tax benefit model. For consistency we have used the MIPI figures for both unemployment insurance and minimum income benefits for the UK throughout (as there is no difference between the two in the cases we present).

In the light of these differences in entitlements for insured and uninsured workers, coverage of insurance benefits is obviously important in drawing international comparisons. Generous entitlements for insured workers might after all have limited reach due to restrictive eligibility conditions or labour market flexibility, so that the majority of unemployed people were reliant on minimum income benefits. Indeed, coverage rates have been in decline in a number of European countries over recent decades.

In fact, there is no perfect data source for estimating coverage for unemployed people, mainly because national administrative definitions of unemployment do not always match the standard International Labour Office definition (as is well known in the UK, where the claimant count only represents a fraction of ILO unemployment). For this reason researchers have needed to piece together a rough picture of coverage using surveys where responses might not always accurately reflect the type of benefit received. The results are described as 'pseudo-coverage rates' in light of the imperfections of the data.

Estimates for the EU countries in our sample range from 93 per cent in Finland, to 40 per cent in the UK and only 35 per cent in Sweden (Grzegorzewska and Thévenot (2013)). The UK estimate is considerably higher than UK benefits data for contributory JSA receipt would suggest (only about six per cent of unemployed workers in the most recent data),[9] and may reflect misunderstanding of the distinction between contributions-based and income-based JSA. The distinction between unemployment benefits and minimum income protection is more obvious in countries with earnings-related benefits (not least because they are worth so much more), so this type of error may be less of a problem in those countries. In all of the other EU countries in our sample estimated pseudo-coverage rates are over 50 per cent in all but one they are over 60 per cent and in more than half they are over 70 per cent. These figures cover people who have been unemployed for between three months and a year. As such, they indicate that the majority of those experiencing a spell of unemployment would be entitled to insurance benefits – and therefore earnings-related benefits – in these countries with the exception of Sweden. Estimates based on the percentage of the labour force (as opposed to unemployed people) entitled to insurance benefits show coverage rates above 60 per cent in all EU countries in our sample (Essen ***et al***. 2013).

The value of unemployment protection (taken on its own without family or housing benefits) is thus exceptionally low in the UK, as it both lacks an earnings-related insurance benefit and its minimum income benefit is less generous than in any country other than the United States and Sweden, while majorities of unemployed people in most other European countries are entitled to an earnings-related insurance benefit. It is notable that the other countries with flat-rate unemployment benefit systems (Australia, New Zealand and Ireland) all offer more generous benefits. Unemployment protection is not a priority in the UK social security system.

9 Based on the contributory JSA caseload in 2014/15 and ILO unemployment in 2014. Sources: DWP Benefit Expenditure Tables, Budget 2015 and ONE Labour Market Statistics database.

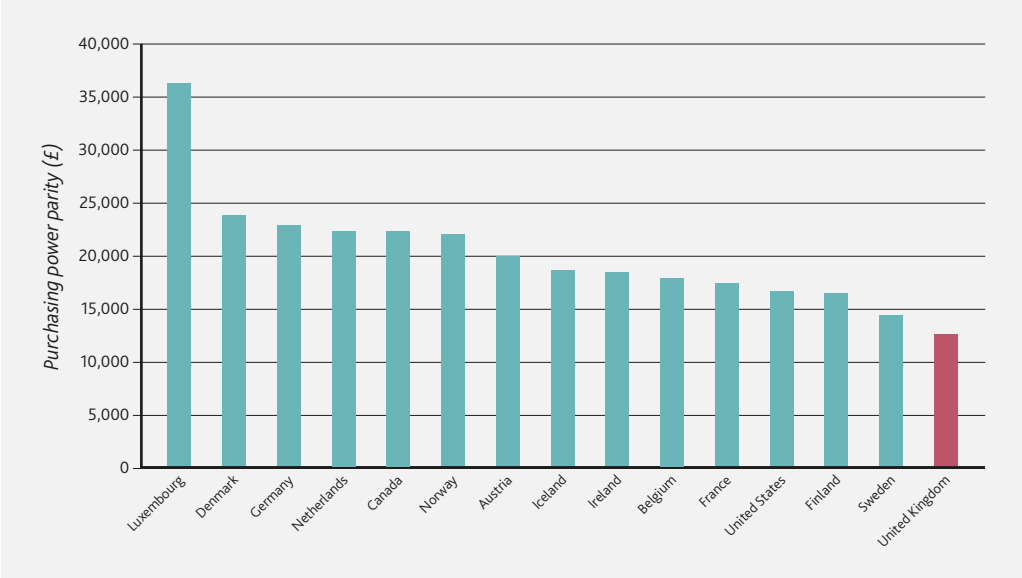
3 Support for out of work families: the impact of family benefits on generosity

Figures 7a and 7b show net entitlements for a couple family with two children (aged 10 and 14); again in receipt of either an unemployment insurance benefit or minimum income benefit and again excluding housing allowances. We are therefore looking at the effect of family benefits on income. It is assumed (here and in all other couple examples) that only one parent is entitled to an unemployment insurance benefit.

If we compare with Figures 6a and 6b, what is most striking is how the huge gulf between entitlements for those on insurance and minimum income benefits has changed. Universal and means-tested family benefits tend to erode the differences between earnings-related and minimum income benefits. For families entitled to unemployment insurance the UK is at the bottom of the ranking again, although the differences with most other countries are much less marked. (Differences between the data sources mean that figures for Sweden and Finland are not comparable between Figures 7a and 7b; the problem only affects these two countries.) For families on minimum income benefits the UK is ranked third from the bottom but differences in incomes are not marked in a group that includes the UK, the United States, Sweden and New Zealand. The UK is certainly at the lower end of the range in terms of generosity but in contrast to the situation for the single unemployed, it is not off the range.

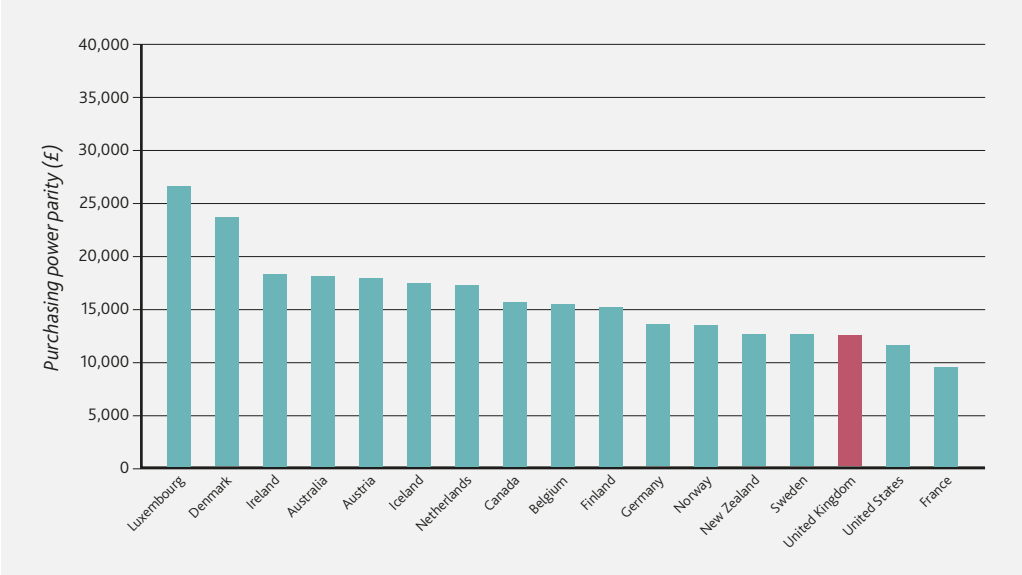
Looking at the components of income in different countries shows how important family benefits are in the UK. Unemployment insurance and minimum income entitlements in the UK are the lowest, reflecting the low priority of unemployed adults in the UK system. But the value of family benefits in the UK is by far the highest, exceeding the value of the minimum income benefit. One interpretation is that the UK is exceptionally generous to children. Another is that the UK uses family benefits to compensate families with children for the extremely low value of benefits for adults.

Figure 7a: Net disposable income excluding housing allowances for a couple with two children, previously with one earner employed on an average wage, reliant on unemployment insurance, 2012



Sources: as for Figure 6a

Figure 7b: Net disposable income excluding housing allowances for a couple with two children, reliant on minimum income benefits, 2012



Sources: as for Figure 6b

Out of work incomes after housing costs

Figure 8a: Net disposable income after housing costs for a single unemployed person without children, previously employed on an average wage, reliant on unemployment insurance, 2012

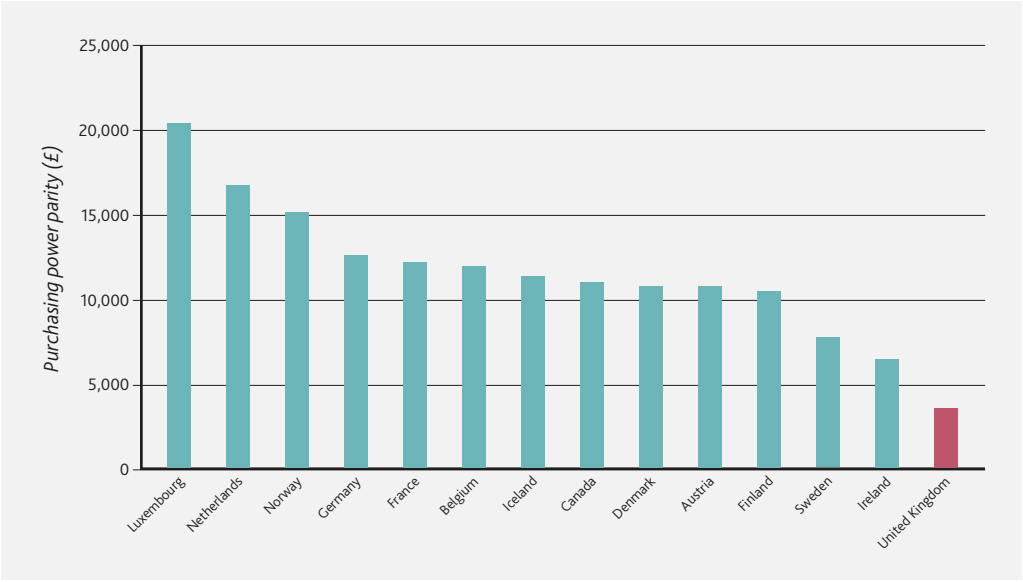
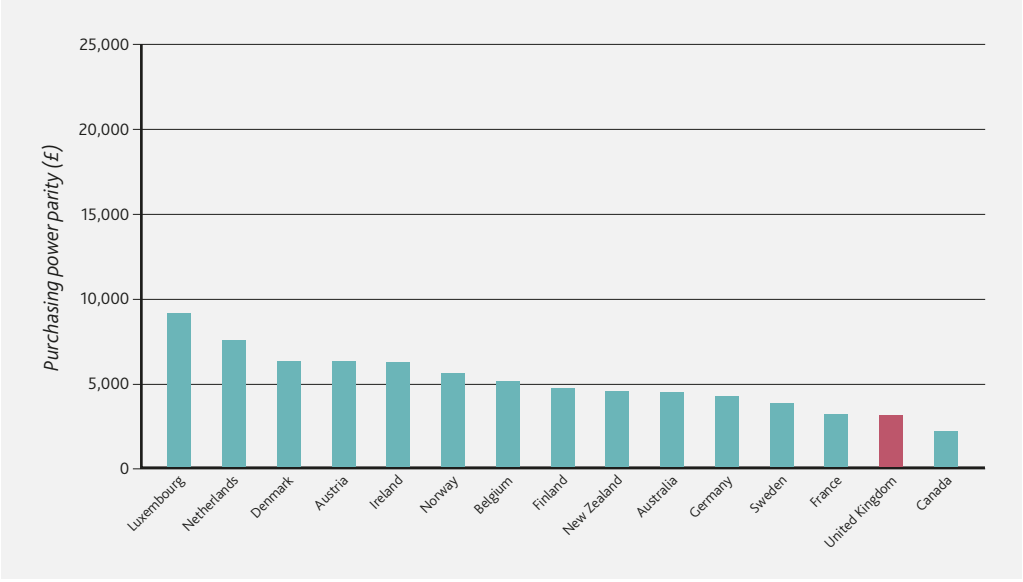


Figure 8b: Net disposable income after housing costs for a single unemployed person without children, reliant on minimum income benefits, 2012



Sources: CSB-MIPI dataset, Version 2/2013; Van Mechelen ***et al.*** 2011; OECD Tax benefit model country files and author's calculations.

Next we look at how housing costs and housing benefits affect relative generosity. For reasons set out in the methodology section in Annex 3, these results must be seen as more tentative than the previous figures. Because of differences in the way benefit systems manage housing costs and variation in rent levels between and within countries, there is no generally accepted methodology for comparing benefit incomes after housing costs. However, to ignore housing costs would risk understating relative generosity in some countries and overstating it in others, making systems in which recipients are expected to meet some or all of their housing costs out of their unemployment or minimum income benefit appear more generous than those (like the UK) where housing allowances cover all of the rent for out of work recipients.

Figure 8b shows that bringing in housing costs slightly changes the rankings for single unemployed people: benefit entitlements on minimum income benefits in Canada are now remarkably low, and in France are similar to the UK.[10] Otherwise the UK's relative position remains unchanged. As before, those in receipt of unemployment insurance in countries with earnings related benefits are much better off (Figure 9a: note the difference in scales between the charts).

For couples with children we only have a few points of comparison for those in receipt of contributory benefits (see Annex 3). With the exception of the UK we are only able to compare incomes in cases where there is no housing benefit entitlement for insured families. Despite having to meet housing costs out of benefit income – while families in the UK have their rents covered by housing benefit – insured families continue to have higher incomes in other countries. But for families on minimum income benefits, where we have more points of comparison, the UK is in the middle of the range.

Bringing in housing costs does not seem to greatly alter the main conclusions from looking at unemployment, minimum income and family benefits. The UK is extremely ungenerous to unemployed adults as unemployed adults (as opposed to parents, for example). The UK's low relative position is not solely due to the flat rate nature of UK unemployment benefits: Australia, New Zealand and Ireland also have flat rate benefits but provide more generous support to unemployed people. Accusations of stinginess therefore do not seem misplaced as long as it is recognised that they apply specifically to unemployment.

10 The United States is excluded from the comparison: neither MIPI nor OECD assumptions yield usable figures for incomes after housing costs.

Figure 9a: Net disposable income after housing costs for an unemployed couple with two children, previously with one earner employed on an average wage, reliant on unemployment insurance, 2012

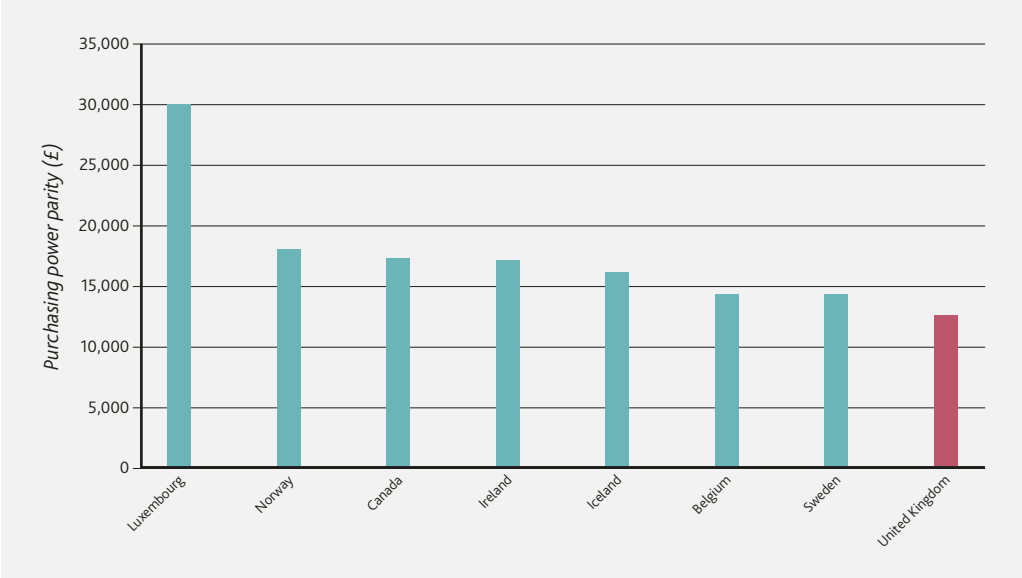
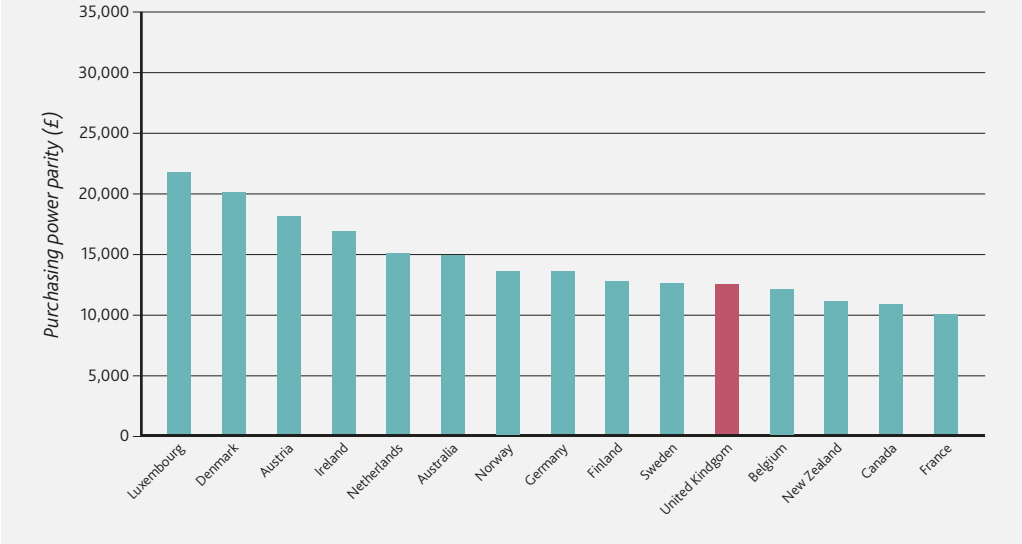


Figure 9b: Net disposable income after housing costs for a couple with two children, reliant on minimum income benefits, 2012



Sources: as for Figures 8a and 8b

For families with children the UK compensates for its low unemployment/minimum income benefits by providing the highest levels of family benefits (for out of work families) of all these nations. But it would be wrong to see child benefit and tax credits as representing exceptional generosity towards families with children. As we have seen, the effect of family benefits is to bring overall entitlements in the UK closer to international norms for families reliant on minimum income benefits but the UK is far from being exceptionally generous.

Finally, bringing in housing costs reinforces the sense of a social security system pulling in opposite directions for people with and without children. Even with housing costs fully met by housing benefit, while in other countries claimants have to make up some of the cost of rent out of other benefits, the UK remains exceptionally ungenerous to unemployed people without children. For out of work families with children benefit entitlements are comparable to the minimum income benefits provided by some of the UK's closest geographical neighbours (Sweden, Norway, Finland, Belgium, Germany), while lower than in others (Netherlands, Austria, Ireland). However, data on unemployment insurance coverage indicates that the majority of the labour force in the other European countries, and a majority of those experiencing spells of unemployment in most countries, are covered by more generous earnings-related benefits. The strong family focus in the UK benefits system thus only succeeds in bringing maximum entitlements up to, at best, the average level of minimum entitlements in most other wealthy European nations.

Other contingencies: sickness and maternity

Unemployment is only one of the contingencies faced by workers which social security systems traditionally cover. The others include absence from work due to sickness and maternity. How does the UK compare to other countries in covering these contingencies?

Once we move from looking at unemployment to social protection for people who are in employment, we cannot look at social security benefits in isolation from the employment relation and the factors which influence it. What happens when someone is temporarily unable to work depends on statutory minimum standards, labour market regulation and collective agreements and on benefits provided by the contract of employment, as well as on the social security system. There is a lot of variation in how these different factors play out in different countries. Our focus is on the minimum protection people can expect to receive but it is important to bear in mind that many employees will be entitled to occupational benefits well above the minimum.

Sickness

Social security systems vary a lot in terms of how the cost of temporary absence is shared between firms, social security funds and government. In the UK, for example, the cost of Statutory Sick Pay (SSP) for up to six months falls entirely on employers, although until 2014 small employers could recover some of the cost from government. In other systems it is common for employer responsibility to end within four weeks or less, after which the social security system takes on the cost. This does not mean that sick pay always represents more of a cost for employers in the UK, as entitlements are earnings-related in most European systems but flat-rate in the UK. These variations are illustrated, for European countries only, in Table 2 (Ireland does not have SSP).

Table 2: Employer responsibilities for paid sick leave, 2012[11]

	Statutory minimum period in which proportion of salary is paid by employer (weeks)	*Minimum proportion of salary paid by employer (%)*
Austria	10–16	100 falling to 50 after first week
Belgium	2	100 falling to 60 after first week
Denmark	n/a	n/a
Finland	2	100
France	52	50
Germany	6	100
Ireland	n/a	n/a
Luxembourg	13	100
Netherlands	104	70
Norway	2	100
Sweden	2	80
United Kingdom	28	n/a

Source: MISSOC

Table 2 shows the percentage of previous salary (the replacement rates) and maximum durations of sickness benefits for workers earning average wages for our group of wealthy nations (workers earning above average wages do not always receive the full replacement ratio as earnings are only taken into account up to an upper limit). Although some systems do not have replacement rates because benefits are flat-rate, we calculate the percentage of the average salary which the flat-rate benefit represents.

With the exception of Canada, the UK has the shortest duration of sickness benefit: in all other countries the duration is twice as long or more. The replacement rate is the lowest of any country at 13 per cent, with only Australia being close at 18 per cent. Otherwise, replacement rates range from 30 per cent in Ireland (the remaining flat rate system) to 100 per cent in the Netherlands and Norway.

The short duration of SSP in the UK means that the system for long-term sickness and disability (Employment Support Allowance – ESA) has to accommodate large numbers of short-term claims by people who have exhausted their sick pay entitlement. At the same time the fact that the cost of the benefit falls entirely on employers may lead to non-compliance on the one hand and evasion (for example through keeping hours worked down) on the other. A surprisingly high number of workers move on to ESA without receiving any SSP (Black and Frost (2011)). For these reasons it can be argued that the UK system for temporary sickness represents the worst of all possible worlds, i.e. its limited value to workers, with incentives for employers to shift the burden to the public sector.

11 n/a – UK SSP is not earnings-related; Ireland does not have statutory sick pay.

Table 3: Comparing sickness benefit/sick pay generosity, 2012

	Maximum duration of sickness benefit (months) assuming first claim in relevant period	*Minimum gross replacement rate of sickness benefit on average earnings (%)*
Australia*	n/a	18
Austria	12–18	50-60
Belgium	12	60
Canada	3.6	55
Denmark	12	n/a (decided by collective agreement)
Finland	12	70
France**	12	50
Germany	18	70
Ireland	12	30
Luxembourg	12	100
Netherlands	24	70
New Zealand	n/a	n/a
Norway	12	100
Sweden	12	78
United Kingdom*	6	13
United States	n/a	n/a

Notes: Where replacement rate varies over period of sickness or between groups of employees we report lowest rate; durations expressed as nearest number of complete months to statutory maximum.
*Flat-rate benefit; replacement rate based on average earnings; no statutory maximum duration in Australia.
** Employer makes up difference between benefit and salary, so replacement rate is 100% in practice.
Sources: MISSOC; CLEISS; Australian Department of Human Services; Employment and Social Development Canada; Work and Income New Zealand; United States Department of Labor

Maternity

Statutory Maternity Pay (SMP) in the UK is paid at 90 per cent of earnings, without an earnings ceiling for the first six weeks of maternity leave. The replacement rate is broadly in line with European systems (and contrasts with Australia and Canada) but the period over which this rate is paid is short: only six weeks, after which the benefit is subject to a maximum of £138.18. In most systems the initial replacement rate is maintained for longer and if it is reduced, remains relatively high (where the replacement rate remains unchanged, 'n/a' appears in the relevant columns). So while the duration of maternity leave in the UK is relatively long, the total value of the maternity pay is relatively low. While SMP is earnings-related this is really only the case for six weeks, which is less than half the period over which earnings related benefits are paid elsewhere.

Table 4: Comparing paid maternity leave entitlements, 2012

	Duration of paid leave (weeks)	*Initial gross replacement rate on average earnings (%)*	*Duration of benefit at initial replacement rate (weeks)*	*Replacement rate after initial period (%)*
Australia	18	n/a (= national minimum wage)	n/a	??
Austria	16	100	n/a	n/a
Belgium	15	82	4	75
Canada	35	55	n/a	n/a
Denmark	50	n/a	n/a	n/a
Finland	17	90	11	70
France	16	up to 100	n/a	n/a
Germany	14	100	n/a	n/a
Iceland	14	80	n/a	n/a
Ireland	26	80	n/a	n/a
Luxembourg	16	100	n/a	n/a
Netherlands	16	100	n/a	n/a
New Zealand	14	100	n/a	n/a
Norway	49	100	n/a	n/a
Sweden	70	78	57	flat rate
United Kingdom	39	90	6	Lower of 90% or £138.18

Assumptions: First child, mother insured where relevant, includes pregnancy leave where this is a separate benefit, assumes mother takes all leave where all or part of leave can be shared with partner.
Sources: MISSOC; CLEISS; Australian Department of Human Services; Employment and Social Development Canada; Work and Income New Zealand; United States Department of Labor

However, the UK system compares well with some of the other European systems in terms of the minimum levels of SMP. Not all systems have a minimum rate of maternity pay but where there is a minimum in place, the value is generally very similar to that in the UK.

Table 5: Minimum weekly maternity pay, 2012

	PPP (£)
Finland	130
Iceland	122.4
Ireland	185.7
Luxembourg	150.1
Sweden	132.9
UK	138.2

Source: MISSOC and CLEISS

Thus, while SMP on the face of it has features in common with an earnings-related benefit, this is limited to a short period after which the maximum protection received by UK workers, quite typically as we have seen, falls to the level of the minimum protection received by workers elsewhere. If, as has been argued by Bell and Gaffney (2012), SMP represents one of the few successes of the contributory principles in the UK benefit system over recent decades, it does not represent a radical departure from the ungenerous UK model.

Incomes for minimum wage workers and families

Finally, we look at how taxes and benefits affect the incomes of low-paid workers. (Note that this comparison does not include the severe tax credit cuts announced in the Budget of summer 2015.) When looking at how taxes and benefits affect incomes in work, further assumptions need to be introduced: how many people are working in the household and for how many hours? As in previous sections we focus on single people and couples with children, and we now assume that only one partner in the couple is working. Where there is a national minimum wage in place we base earnings on this; where there is not, we rely on estimates provided by national experts for the MIPI dataset of the lowest wages it is reasonable to assume for adults working full-time in the national labour market.

This still leaves open the question of how many hours are worked and assumptions on this vary between our two data sources: the OECD and MIPI. Not all minimum wages are set in terms of hourly pay (some are set in terms of weekly pay and adjusted pro-rata for part-time work), and countries vary in terms of statutory standards for working hours. These differences in regulation of wages and hours mean that it is not always easy to compare minimum wages (or minimum reasonable earnings) between countries.

Table 6 shows the estimates from both data sources. There is some variation in the estimates, particularly for Belgium, Ireland and the UK, which reflect different assumptions on working hours. In the OECD data the United States has the lowest minimum wage (this is the federal minimum: some states have higher minimum wages), followed by Canada and the UK. The UK minimum wage is worth just over £1,000 a year more than the US equivalent for someone working forty hours a week. In the MIPI data the UK minimum wage is lower than that in the US but this is solely because the hours worked are different – 35 hours in the UK and 40 in the US. Note that these comparisons are based on the purchasing power of minimum wages and tell us nothing about how the minimum wage relates to average wages. In relation to the national median wage the UK minimum wage is not low by international standards. Thus, the low value of the minimum wage in this table reflects the low purchasing power of UK wages in general in 2012, in turn reflecting relative wage movements in different countries and changes in the purchasing power of currencies.[12]

We cannot rule out other inconsistencies in the minimum wage data, so it is as well to be aware that the assumptions about hours made by the compilers of the datasets may affect the estimates. Finally, we are looking at incomes after housing costs, so there is a further layer of assumptions to bear in mind.

12 Changes in purchasing power should not be confused with exchange rate changes. However, changes in exchange rates, such as the fall in the UK-Euro exchange rate during the recession, affect the purchasing power of currencies via the importance of imported goods in domestic consumption.

Table 6: National minimum wage/wage floors, 2012, in PPP(£)

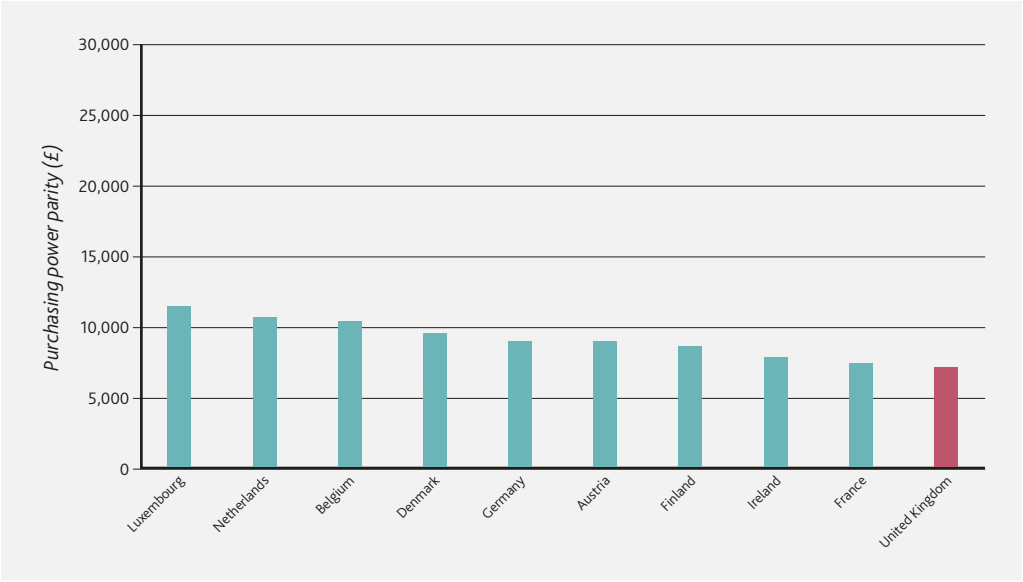
	OECD	*MIPI*
Australia	15,653	–
Austria	–	*12,541*
Belgium	15,959	16,752
Canada	12,407	–
Denmark	–	*17,415*
Finland	–	*13,115*
France	14,812	14,669
Germany	–	*14,571*
Ireland	14,528	13,428
Luxembourg	16,831	16,726
Netherlands	16,516	16,513
New Zealand	13,568	–
United Kingdom	12,704	11,083
United States	11,653	11,653

Notes: Figures in italics = estimated wage floor, no minimum wage in place **Sources:** OECD and MIPI

We look first at the case of a single person without children (Figure 10a). As we might expect there is some relationship between the minimum wages in different countries and their relative position but this is not completely straightforward due to housing costs and benefits, taxes and tax credits. On this simulation minimum wage workers are worst off in the UK, although the difference with France, the next lowest ranked country, is not significant. UK minimum wage workers are more than £1,000 a year worse off than in most other European countries for which we have data, including those countries where there is no minimum wage and national experts have provided lower earnings floors (there are no results for Norway and Sweden).

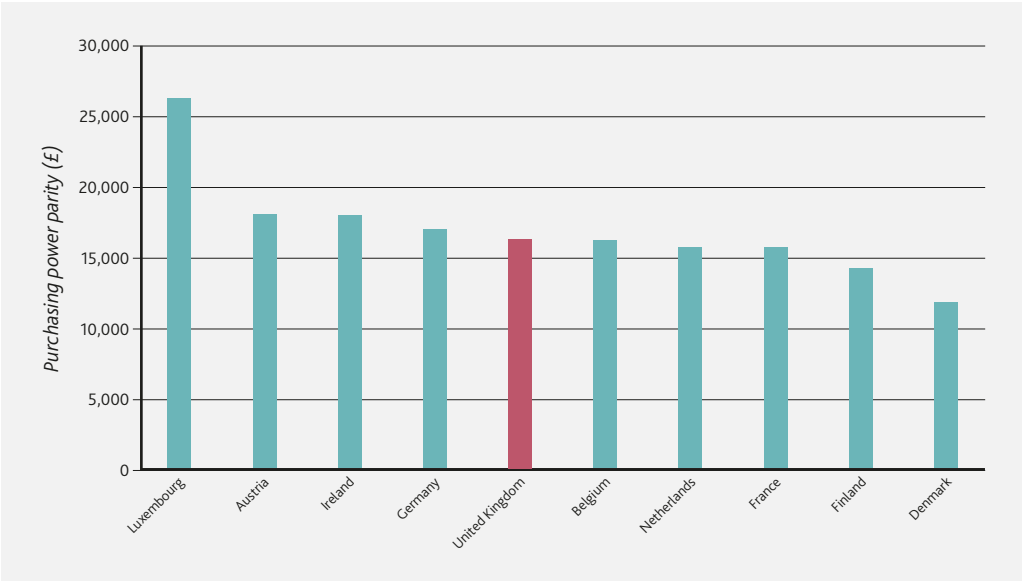
Again, we find that the relative position of the UK couple family is different (Figure 10b): if there is a European norm for living standards for single earner couples with children at the bottom of the earnings distribution, then the UK would seem to be close to it with incomes similar to the Netherlands and Belgium; higher than in Finland and France and lower than in Germany, Austria, Luxembourg and Ireland. Denmark is at the bottom of the range, surprisingly.

Figure 10a: Net disposable income after housing costs for a single person without children, reliant on minimum wage/wage floor, 2012



Sources: CSB-MIPI dataset, Version 2/2013; Van Mechelen *et al.* 2011; OECD

Figure 10b: Net disposable income after housing costs for a couple with two children, reliant on minimum wage/wage floor, 2012



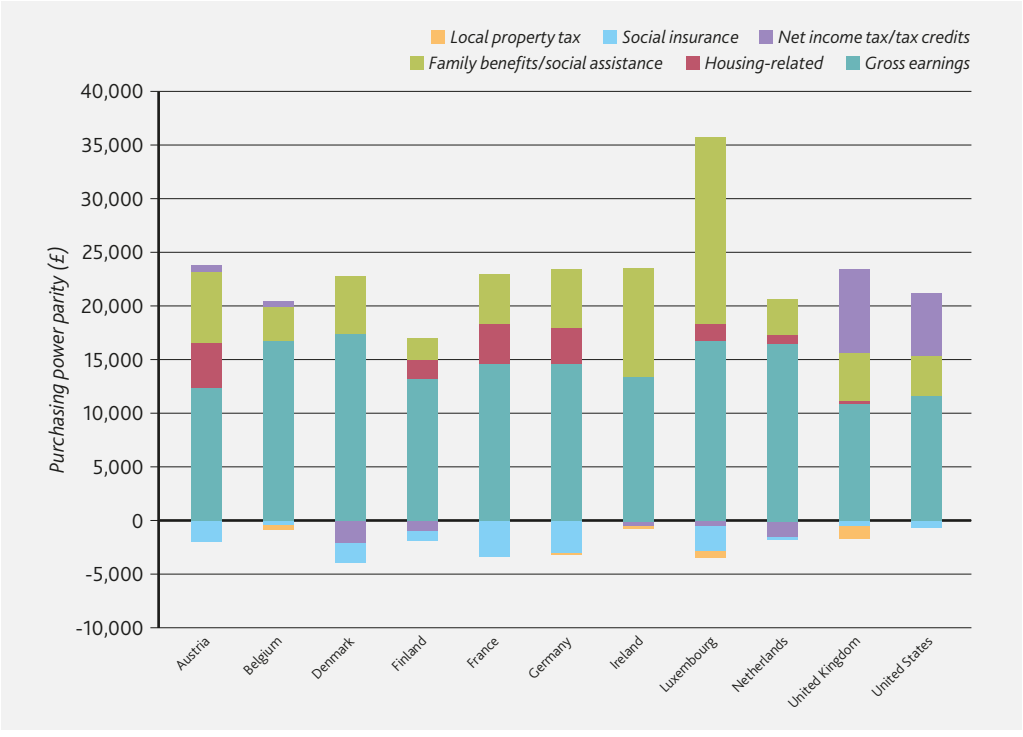
Sources: CSB-MIPI dataset, Version 2/2013; Van Mechelen *et al.* 2011

As noted, these results are sensitive to wage assumptions and also to assumptions on rents. They indicate that the pattern we have seen with regard to unemployed people also holds for low-waged workers: single minimum wage workers faring badly and family benefits bringing couples with children closer to the norm for wealthy European welfare states.

Finally, we look at the composition of income for the minimum wage families in different countries. We are looking at disposable income before housing costs here, so the totals are higher than in Figure 10 and we distinguish tax credits from other family benefits for the UK and the United States. Benefits make a substantial but variable contribution in all countries to the income of low-waged couples. The contribution is particularly important in the UK, along with Ireland and Luxembourg.

The pattern of broadly similar incomes for low-waged couples in most European countries shown in this scenario is achieved by very different mixes of income components. What is striking about the UK is how little wages contribute compared to other countries: a couple with two children and one minimum wage earner (in 2012) in the UK is reliant on benefits and tax credits for half their income.[13]

Figure 11: Components of net disposable income for a couple with two children, reliant on one minimum wage/wage floor, 2012



Sources: CSB-MIPI dataset, Version 2/2013; Van Mechelen *et al.* 2011

13 Note that in this simulation, there is very little housing support in the UK couple's income, reflecting the steep taper on housing benefit.

Conclusions

Our view of the UK social security system for people of working age depends a lot on which part of the system we are looking at and whose living standards we are taking into account. Comparisons between countries need to show the overall effect of the various components of the tax and benefit system on incomes for different groups and different contingencies. General assertions about system generosity cannot be made on the basis of components of systems taken in isolation. Factors such as the taxation of benefits, the coverage of social insurance, earnings ceilings for calculating benefits, benefit durations, minimum wage levels and support for housing costs can make a big difference to estimated generosity.

We have compared the UK to what seemed the most relevant comparator nations: wealthy European and English-speaking nations with mature welfare state institutions. We have tried to give a broad account of how some of the most important components of tax and benefit systems fit together into two groups: single people without children and couples with children. We chose these examples in order to bring out differences in the way welfare states deal with some of the main functions of social security: redistributing towards families with young children and protecting workers from income risks arising from unemployment or low pay.

One clear result from this exercise is that welfare states vary a lot in terms of both how they approach each of these objectives and in terms of the outcomes they achieve. There is considerable variation even among systems that are often seen as similar: for example, among 'liberal' welfare states such as the UK and Australia or 'Nordic' states such as Denmark and Sweden.

Income protection contingent on unemployment in the UK is strikingly weak compared to most comparator nations. This is the case whether we are comparing incomes for insured workers or those reliant on minimum income benefits, whether or not we include housing costs and benefits in the comparison and whether we are comparing the UK with earnings-related benefit systems or other flat-rate systems. Unemployment benefits have a quite exceptionally low priority within the UK social security system.

By contrast, family benefits in the UK seek to achieve incomes for families with children, whether out of work or low-waged, which are in line with the middle to lower end of the range for other wealthy countries. Because of the very low value of benefits contingent on unemployment, family benefits have to do more to support incomes in the UK. The UK benefits system is therefore generous to families only compared to its unusual lack of generosity to those without children; it is not exceptionally generous compared to other benefits systems.

It is also striking that while comparable European welfare states generally provide similar or higher incomes for couple families with children to the UK – again, whether unemployed or low-waged – they achieve this through different mixes of policies. Contrary to what is sometimes assumed these include significant elements of means testing but combined with other approaches, including unemployment insurance and higher floors for minimum income protection benefits. The UK is very reliant on just one element in the policy menu – family benefits – to achieve income levels comparable to those in other wealthy nations for families with children faced with unemployment or low earnings.

One of the limitations to the modelled income approach is that it inevitably focuses on a limited set of family and employment situations. In order to look at how wages and social insurance combine with other elements to build up disposable incomes, we have used the example of a couple with two children where one partner is in receipt of social insurance or where one partner is working and neither is receiving an insurance benefit. Arguably, the results understate the importance of social insurance benefits because there will be many situations involving a combination of one partner receiving a non means-tested insurance benefit while the other is working part-time or full-time, or where the partners have separate entitlements the insurance benefit. Moreover, we have not looked at the situation of single parents reliant on insurance benefits. In all of these cases incomes would be expected to be higher than if the family were reliant only on minimum income benefits and/or the minimum wage; and because of the low value and low coverage of the insurance benefit (contributory JSA) in the UK, they would also be expected to be higher than for an equivalent family in the UK.

The existence of individual entitlements based on social insurance contributions is clearly important in improving the incomes of families in a variety of situations other than those we have looked at, of complete worklessness and reliance on a single earner. In modern labour markets these other combinations are becoming more rather than less important. This raises questions about the direction of UK social security policy. It would be hard to argue that the very strong focus in the UK on redistribution towards families with children through targeted benefits achieves better outcomes than those in other European welfare states, where comparable or better outcomes flow from a more mixed set of policies serving a wider range of ends and providing wider social protection, including for people without children. This is not to argue against redistribution towards families with children; still less to suggest that there is any easily available set of alternative policies which would reduce the need for redistribution, although it would no doubt be welcome to politicians facing a grim fiscal outlook if this were the case. But the focus of UK social security policy

has long been on redistribution at the level of the household, and if Universal Credit (or something like it) is implemented, this focus will be reinforced. This approach, coupled with the UK's perfectly reasonable focus on tackling child poverty, places a heavy burden on family benefits while providing little income protection for those without children; it leads to unresolved tensions with a system of personal taxation based on individual incomes; it greatly reduces the value of a second wage packet for couples with children on low earnings due to necessarily high benefit withdrawal rates; and it undermines the financial autonomy of non-earning partners with implications for gender equality.

Rather than seeking to address these problems through ad hoc measures such as in-work benefit conditionality or additional earnings disregards, it may make more sense to ask how a system with stronger individual entitlements could address child poverty and work incentives while providing better income protection for workers in their capacity as workers.

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Annex 1: Data sources

We use four main sources of international comparative data on benefits, supplemented where necessary by information from national agencies. The sources are as follows (the acronym in bold is used as the reference in this paper):

OECD – Tax Benefit Model country files: these provide summary models of earnings, benefits and taxes for OECD countries and documentation of benefit and tax rules. They cover both social insurance and minimum income benefits, as well as family and housing benefits. However, the treatment of housing benefits in the model has been criticised as being excessively crude (see Van Vechelen et al. 2011) and this element in the data is not used in this paper.

MIPI – the Minimum Income Protection Indicators dataset developed by researchers at the University of Antwerp and kindly provided by them for this project. This does not cover social insurance benefits but adopts a more realistic approach to housing benefits than the OECD model and includes information on local property taxation (important in the UK) which is absent from the latter. In general, MIPI and OECD figures on specific income components are very similar; however, for Sweden and Finland there are substantial differences between the two datasets. A comparison of the results from the two datasets for minimum income benefits is included in Annex 4.

MISSOC – the European Union Mutual Information System on Social Protection (MISSOC), which provides detailed comparative tables on the organisation of social protection in EU countries.

CLEISS – the Centre des Liaisons Européennes et Internationales de Sécurité Sociale provides documentation of (mainly) social insurance benefit rules and entitlements for a range of EU and non-EU countries.

Annex 2: Converting figures to a common currency – Purchasing Power Parities

In presenting figures on the taxes, benefits and incomes of households in different countries we convert values in national currencies to sterling equivalents using Purchasing Power Parities (PPPs), a form of exchange rate which takes account of price differences between countries. These figures are thus based on the relative purchasing power of money rather than its usual exchange rate value. Relative purchasing power can vary considerably even within the common currency area of the Eurozone.

There are in fact a number of different PPPs used in international comparison depending on the area of interest, and differences between the measures are not trivial. Within the set of countries we are concerned with the PPP used in measuring Gross Domestic Product differs by as much as eight per cent from the PPP for household consumption (in 2012). It is thus important to use the same PPP throughout. We use the household final consumption PPPs produced by Eurostat and, for non-EU countries, the OECD's private consumption PPPs. (These are just different names for the same measure.)

This approach means that some of our figures differ slightly from those in the MIPI dataset and also from some of the income figures expressed in PPPs in Eurostat and OECD publications and databases, which use different PPPs. These differences are quite apart from the fact that we have expressed values in terms of sterling rather than Euro or US dollar equivalents (which makes no difference to relative purchasing power).

Table 7: Household final consumption, 2012

	PPP (UK = 1)
Australia	1.99
Austria	1.12
Belgium	1.15
Canada	1.67
Denmark	11.07
Finland	1.29
France	1.14
Germany	1.07
Iceland	185.81
Ireland	1.24
Luxembourg	1.29
Netherlands	1.14
New Zealand	2.05
Norway	12.56
Sweden	11.85
United Kingdom	1.00
United States	1.29

Annex 3: Comparing entitlements in the light of housing costs

As we have noted, the UK housing benefit system is unusual in that it is the only element in the social security system which contributes to the cost of rent for those with no market income: in most other systems, part of the cost of rent is expected to be met from other benefits. This poses a problem of comparability.

There are three ways of addressing this problem.

1. Count housing allowances as income. This is the approach taken by the OECD which reports Net Disposable Income including any housing allowances. This approach corresponds to the presentation of incomes Before Housing Costs (BHC) in UK incomes data (although without adjustment for family size and composition). This means that modelled incomes are very sensitive to the assumptions about rents, especially in systems where there is no maximum rent allowance. In fact, in the OECD modelling, rents are as a default assumed to be equivalent to 20 per cent of average earnings. This approach is unrealistic not only because there is no reason to expect rents to relate to income in the same simple way in different countries but because it attributes the same rents to households of different sizes and composition. In some cases the incomes After Housing Costs implied by the OECD modelling are quite unrealistically low.

2. Count housing allowances as income, but deduct rents from income and report income After Housing Costs. This corresponds to the presentation of income After Housing Costs (AHC) in the UK with the same reservation as above. This is the approach taken in the Minimum Income Protection Indicators (MIPI) dataset. (MIPI also reports Net Disposable Income before housing costs in the same way as the OECD). Again, the results are very sensitive to the rent assumptions, although in this case national experts have advised on whether the assumptions are realistic, and rents vary with household size. However, MIPI is concerned only with social assistance benefits while we are also concerned with social insurance benefits.

3. Exclude housing allowances from income and ignore rents. This approach is suggested by the OECD as a way of getting over the problems arising from their rent assumptions. The advantage is that differences in rent levels and the tenure mix of the population will not affect the value of benefits. The disadvantage is that the value of benefits in systems which do not have an explicit housing element will be overstated compared to those which do, as it must be assumed that these benefits in part cover the cost of housing. Also the difference between contributory and social assistance benefits

will tend to be overstated, as housing benefits make up a larger share of the gross income of social assistance recipients. This approach corresponds to neither BHC nor AHC in the UK (although a similar approach has at times been used in measures of area deprivation). It identifies those elements in benefit income which are not explicitly earmarked for rent. As such, it is a measure of the cash entitlement of households if we think of housing allowances as essentially benefits in kind. It can be seen as corresponding to a situation in which households face no housing costs, for example, for owner-occupiers with no outstanding mortgage debt. Such a situation can hardly be regarded as representative for households reliant on out of work benefits.

Our approach is where possible to effect a compromise between the OECD and MIPI rent datasets in order to provide modelled entitlements AHC for both social assistance and contributory benefit recipients in different household circumstances while taking account of the likely differences in rents faced by different types of household. Our procedure is as follows:

1. We use OECD data for 2012 for families entitled to unemployment insurance benefits and for non-European countries not included in the MIPI dataset, except for housing allowances and costs.
2. We use MIPI data for families entitled only to minimum income benefits in European countries, including housing allowances and costs. Tables comparing MIPI and OECD results for families on minimum income benefits (excluding housing allowances) are included in Annex 4: in general, the figures are very close.
3. We calculate housing allowance entitlements for families in receipt of minimum income benefits in countries not included in MIPI using housing costs based on maximum eligible rents for calculating housing allowance entitlements. This yields estimates for Australia, New Zealand, Canada and Iceland.
4. We report MIPI results on incomes AHC for minimum income families and use our own assumptions on housing costs to calculate equivalent figures for minimum income families in countries not included in MIPI.
5. Where possible we use MIPI housing costs or our own housing cost assumptions to calculate incomes AHC for families receiving insurance benefits. This is only possible for those situations where there is no housing allowance entitlement: that is, where we can be confident, given the benefit rules of the country in question, that unemployment benefits would lift families paying these rents above entitlement to a housing allowance. Countries where this is not clearly the case are excluded.
6. For low-earning working families we use MIPI exclusively. This means that we are unable to provide any figures for countries outside Europe, and there is also no data for Norway and Sweden (Iceland is not included in MIPI).

Annex 4: Comparison of OECD and MIPI modelled benefit entitlements

Table 8: Gross and net benefit income excluding housing allowances, for a single person previously earning an average wage, not entitled to unemployment insurance, 2012 (percentage difference MIPI-OECD; -ve =>MIPI value lower)

	Minimum income benefit	*Insurance benefit*	*Income tax*	*Social contributions*	*Gross benefit income*	*Net benefit income*
Australia	n/a	n/a	n/a	n/a	n/a	n/a
Austria	–	–	–	–	-1	-1
Belgium	-2	–	–	–	-2	-2
Canada	n/a	n/a	n/a	n/a	n/a	n/a
Denmark	0	–	-19	–	0	0
Finland	-9	–	–	–	-9	-23
France	3	–	-100	–	3	3
Germany	0	–	–	–	0	0
Iceland	n/a	n/a	n/a	n/a	n/a	n/a
Ireland	1	–	–	–	1	1
Luxembourg	0	–	9	-23	0	1
Netherlands	27	–	–	–	27	0
New Zealand	n/a	n/a	n/a	n/a	n/a	n/a
Norway	9	–	–	–	9	9
Sweden	0	–	–	–	0	0
United Kingdom	-5	–	–	–	-5	-5

Sources: CSB-MIPI dataset, Version 1/2013, Van Mechelen *et al.* (2011); OECD Tax Benefit model country files; OECD/ Eurostat household consumption PPPs and author's calculations.

Table 9: Gross and net benefit income excluding housing allowances, for a couple with two children aged 10–14, previously with one earner on an average wage, not entitled to unemployment insurance, 2012 (percentage difference MIPI-OECD; -ve =>MIPI value lower)

	Minimum income benefit	*Income tax*	*Social contributions*	*Family benefits*	*Gross benefit income*	*Net benefit income*
Austria	-1	-100	–	7	1	-2
Belgium	-2	0	–	12	2	2
Denmark	0	-19	–	-21	-2	-2
Finland	36	–	–	0	30	11
France	4	-100	–	37	9	9
Germany	-7	–	–	-2	-6	-6
Ireland	1	–	–	0	0	0
Luxembourg	0	9	-26	11	2	3
Netherlands	16	–	–	17	16	3
Norway	-2	–	–	0	-2	-2
Sweden	23	–	–	0	18	18
United Kingdom	-5	–	–	-77	**-46**	-4

Note: UK gross benefit income figure of -46 reflects MIPI treatment of child tax credit as negative tax vs. OECD treatment as family benefit
Sources: CSB-MIPI dataset, Version 1/2013, Van Mechelen *et al.* (2011); OECD Tax Benefit model country files; OECD/ Eurostat household consumption PPPs and author's calculations.

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