

# Despite the tax credit U-turn a radical upheaval in support for the working poor is still underway

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By Democratic Audit UK

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*The government's decision to scrap tax credit cuts was a welcome move, and (eventually) highlighted the effectiveness of the British political system's checks and balances. However, Daniel Clegg writes that the abandoned cuts were just one part of a more drawn-out and comprehensive dismantlement of the system of cash support for low-earning households. Tax credit U-turn notwithstanding, the democratic process would appear in this respect to have failed the working poor.*



*Credit: [Lendingmemo.com](http://Lendingmemo.com)*

George Osborne's announcement in the recent spending review that he was shelving cuts to working tax credits originally planned to take effect in April 2016 was a major surprise. A combination of defiance from the House of Lords, disquiet amongst his party's own backbenchers, hostility in parts of the right-wing press and manoeuvring by some of his main rivals for the future leadership of the Conservative Party clearly made it inevitable that the Chancellor would need to revisit the plans first announced in the July budget. But there had been few suggestions that the proposed changes might be scrapped altogether.

There are good reasons to be cheered by the belated revolt against the tax credit cuts and its somewhat unexpected outcome. While the Conservatives may argue that their election pledge to reduce the welfare bill by £12 billion annually gave them a mandate for these reforms after victory, their equivocation bordering on downright dishonesty during the campaign over how the cuts would be targeted should not be forgotten. Insinuating that the axe would be falling on some unspecified group of undeserving 'others' (the unemployed, immigrants...) to secure the votes of 'hard working citizens' on whom big losses would subsequently be imposed is political cynicism of the crassest kind. Accompanying the announcement of the tax credit cuts in the summer with bold boasts of being 'the workers party' only added insult to injury. At least the British political system has, eventually, shown that it still has sufficient checks and balances to prevent the uncontested deployment of such political newspeak.

For the working poor, though, the comfort is somewhat cold. As I've discussed [elsewhere](#), the now-abandoned tax credit cuts were just one part of a more drawn-out and comprehensive dismantlement of the system of cash support for low-earning households that has become a cornerstone of the British social protection system since the turn of the millennium. Most importantly, the tax credits that Osborne has spared with such fanfare are in any case in the process of being phased out as the new Universal Credit, adopted in the [2012 Welfare Reform Act](#), is gradually introduced. With it will come sharp declines in the cash value of in-work support, but also a number of other shifts in the basis on which low-earning households are helped by the state.

Perhaps understandably, it is the monetary aspects that have received most attention in recent weeks. Like for tax credits, the income disregards for entitlement to Universal Credit in work – the so-called work allowances – were sharply reduced in the summer budget, and for some groups of claimants removed altogether. Unlike the tax credit cuts, these more distant changes were not very vocally opposed and are not being reversed. They mean many claimants will be able to earn considerably less than under current rules, and in some cases earn nothing at all, before their in-work cash support is removed at a rate of 65 pence in the pound. [Analysis by the TUC](#) suggests that working households in the bottom two income quintiles face very big losses in annual income by 2020 as a result, even after the impact of the increased tax threshold and more generous minimum wage are factored in. For the working poor the pain has thus been merely delayed.

But the non-pecuniary features of Universal Credit are arguably even more significant. In the name of simplification, Universal Credit will administratively merge tax credits with a range of means-tested social security benefits for people of working age, and bring in-work support back under the control of the Department for Work and Pensions. This will put an end to the institutional but also symbolic differentiation of support for the working poor from other forms of 'welfare' that was so essential to the policy theory underlying tax credits at their introduction. The working poor will henceforth be on welfare, just like all those undeserving 'others'.

Universal Credit will also place a new, and deeply ambivalent, conception of employment at the centre of UK policies to make work pay. A key rationale for the introduction of Universal Credit is the government's belief that too many current recipients of tax credits are choosing to work only a limited number of hours. Much is made of the need for progression in work and of claimants of in-work support eventually becoming financially independent. At the same time, though, the complete removal of the minimum hours of work thresholds that governed the tax credit regime will for the first time allow people to receive income supplementation even in 'mini jobs' of less than 16 hours per week, thus making it easier for employers – as the [government's publicity has it](#) – to 'fill any job'. Confusingly, Universal Credit seems to simultaneously encourage and discourage the acceptance of work at any level of pay.

It is the working poor who will bear the cost of this tension being resolved through a gamut of new controls on their behaviour. For the merging of in-work support and out-of-work benefits is not merely symbolic, but also entails the extension to the former of the tight benefit conditionality that has been increasingly applied in recent years to the latter. Concretely, members of working households in receipt of Universal Credit will be invited to what government calls '[challenging conversations](#)' about their current situation and will face mandatory requirements, backed up by the threat of sanctions, to take steps to increase their earnings from work. If this approach is unique across the world, as the government likes to observe, it may be because it pushes at the limits of what is an acceptable role for the state in a civilised liberal democracy.

The limited political controversy around Universal Credit has centred mainly on its delayed and costly implementation, and since the tax credit revolt to some extent also on the implications of the new scheme for the cash value of in-work support. But a lazy consensus around superficially unobjectionable goals like simplification and making work pay has apparently precluded much critical debate of how significantly Universal Credit departs from the broader principles of in-work support on which tax credits were based, and what this will mean for the status and experience of its future working claimants. Tax credit U-turn notwithstanding, the democratic process would appear in this respect to have rather failed the working poor.

*Note: this post represents the views of the author and not those of Democratic Audit UK or the LSE. Please read our [comments policy](#) before posting.*

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