

Welfare Systems

Economics

How income support is designed, and the trade-off at its centre.

Design approaches and the trilemma.

Approaches

Means-tested benefits

Universal, non-means-tested payments

Social insurance from contributions

In-work tax credits

Conditional on job search or training

The trilemma

Adequate support for those in need

Affordable total cost

Preserved incentive to work

Any two constrain the third

Withdrawal rates create the trap: benefits tapering as earnings rise can produce very high effective marginal tax rates.