

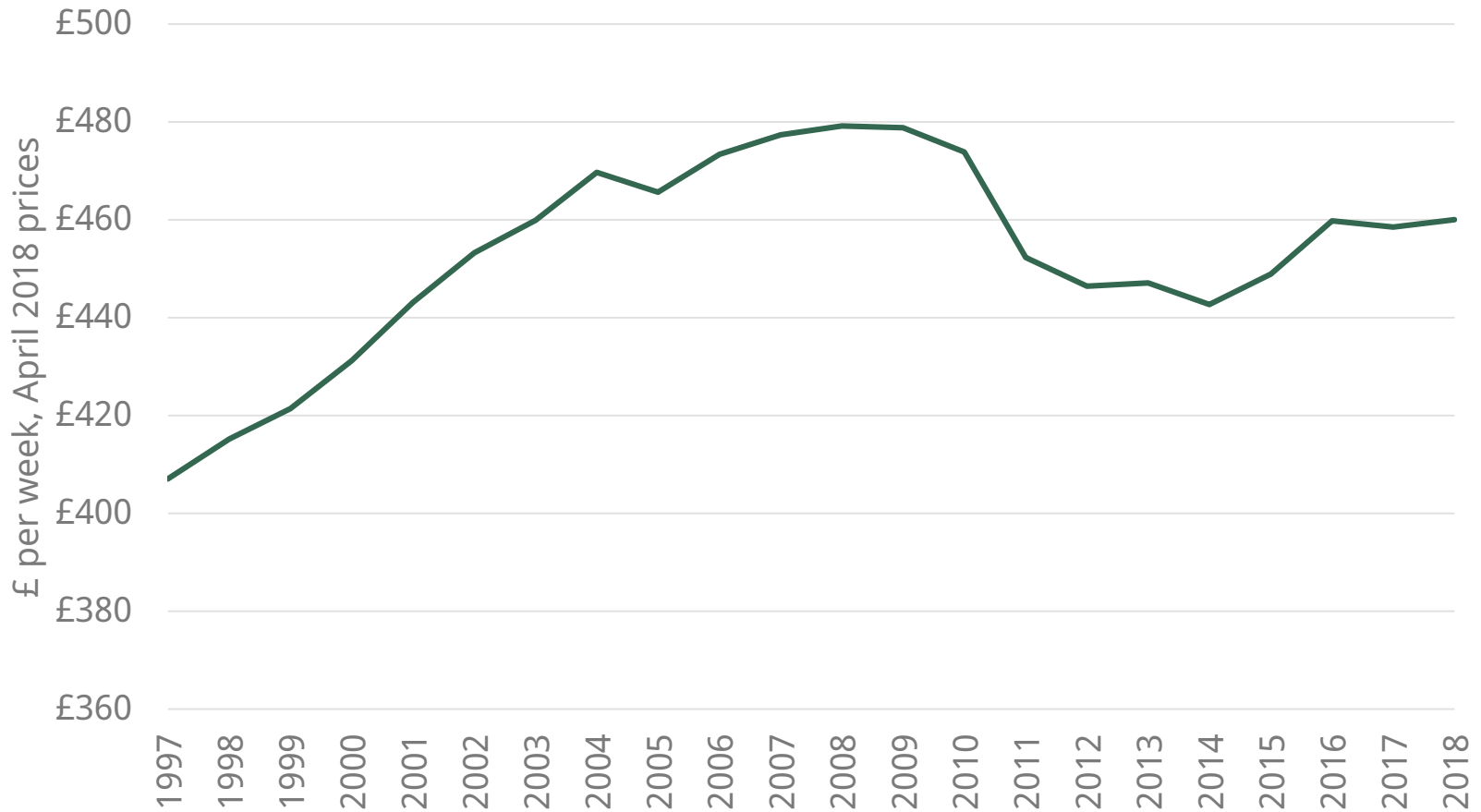
Future challenges

Paul Johnson

14 March 2019

Low pay and welfare

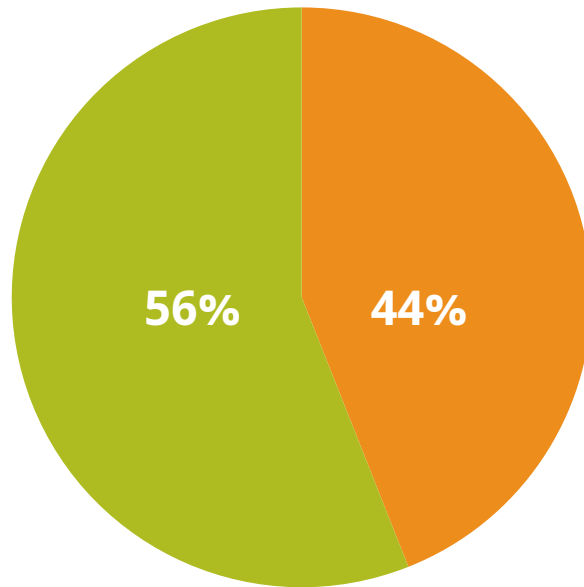
Real median weekly employee earnings since 1997



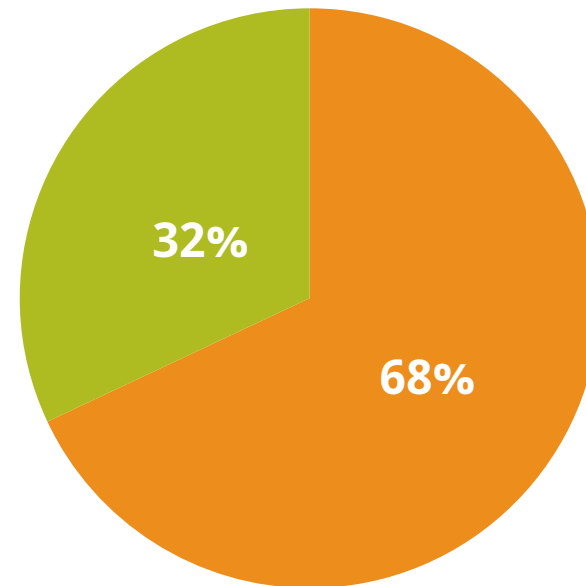
Source: Annual survey of hours and earnings, deflated using CPIH measure of inflation

Those in working households now make up two thirds of working age poor

1994/95



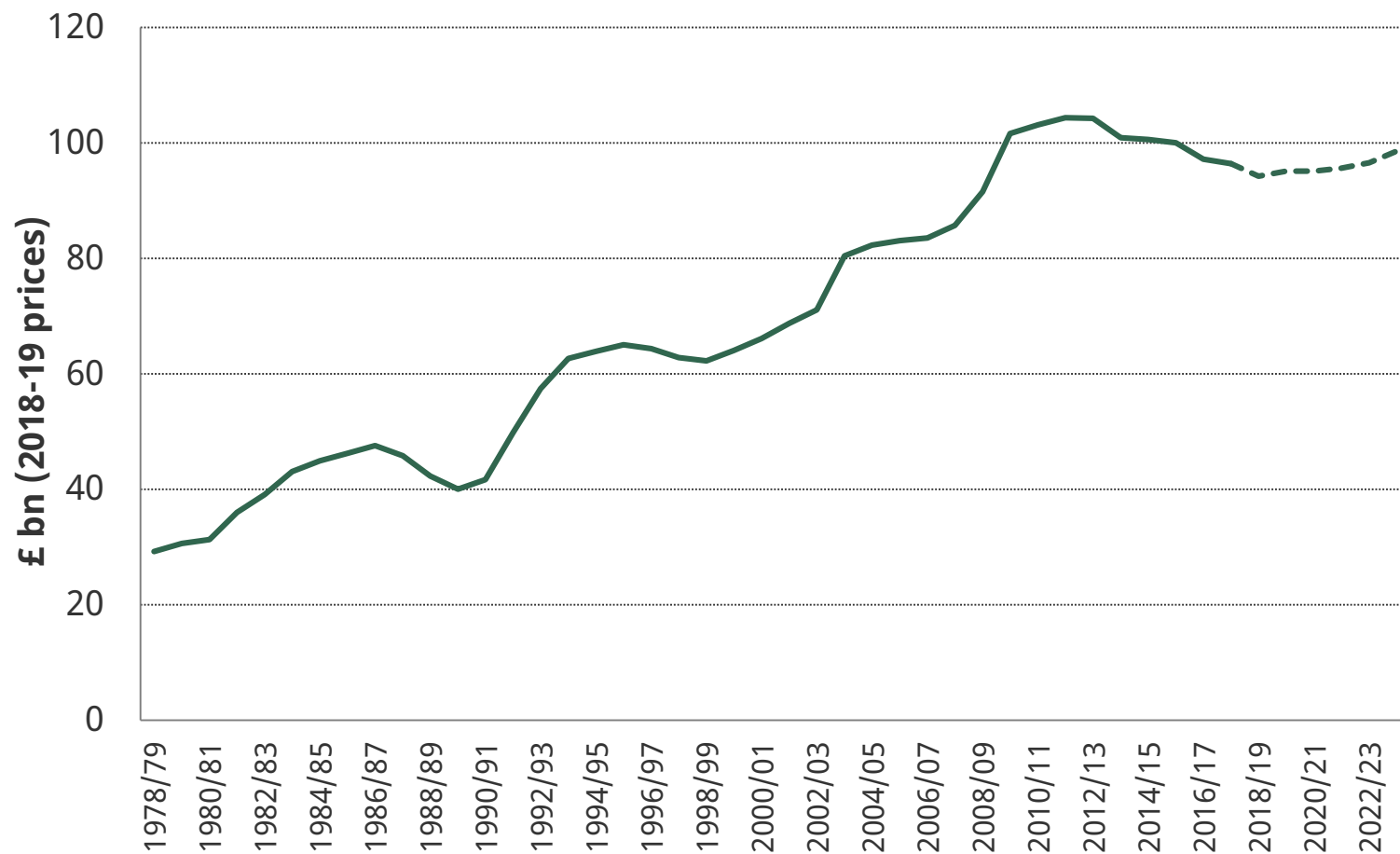
2016/17



In a workless household

Someone in household in paid work

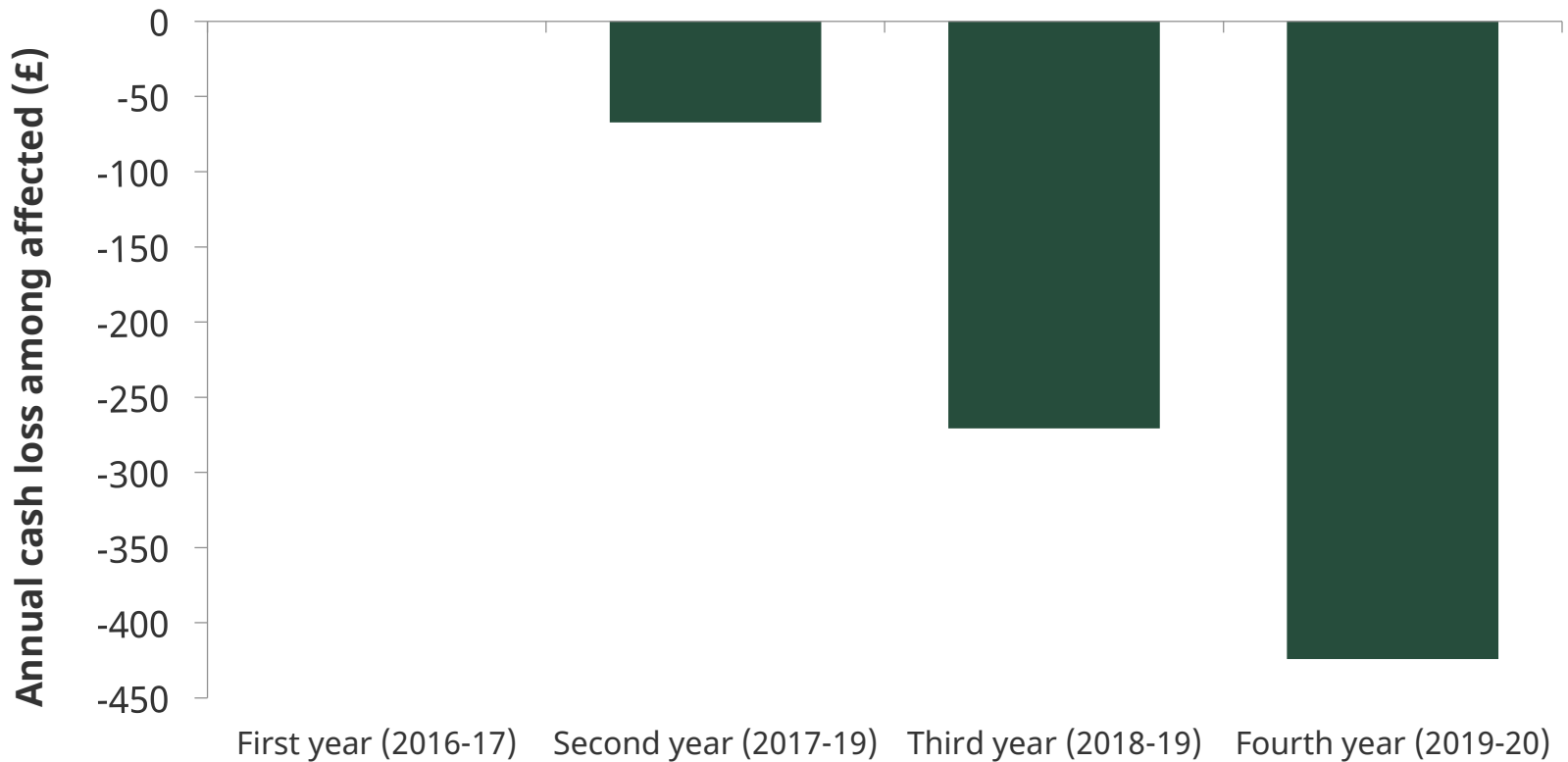
Working age benefit spending has (only) been stabilised



Sources: Benefit expenditure and caseload tables 2018, GDP at Market Prices and Money GDP (BKTL series), Budget 2001

Notes: 1948-1954 GDP based on calendar years. Includes cost of Children's Tax Credit in 2001/02-2002/03, based on forecasts in Budget 2001

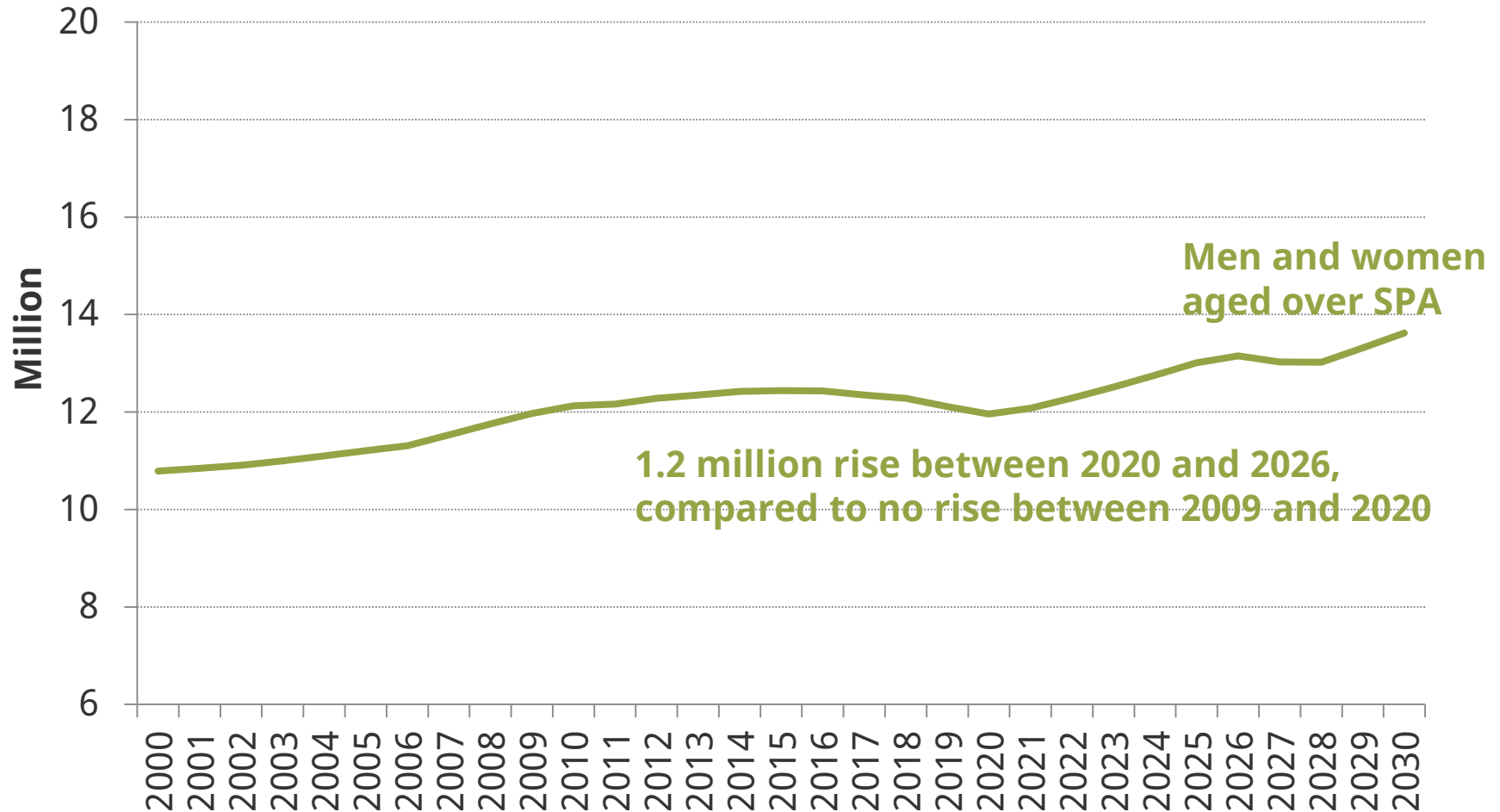
Despite four years of freezes leaving 10 million households on average £420 worse off



Notes: Average effect of the policy across all affected by the reform. Assumes full take-up of means-tested benefits and tax credits, with all claimants unaffected by the changes made in April 2017 for new benefit claimants.

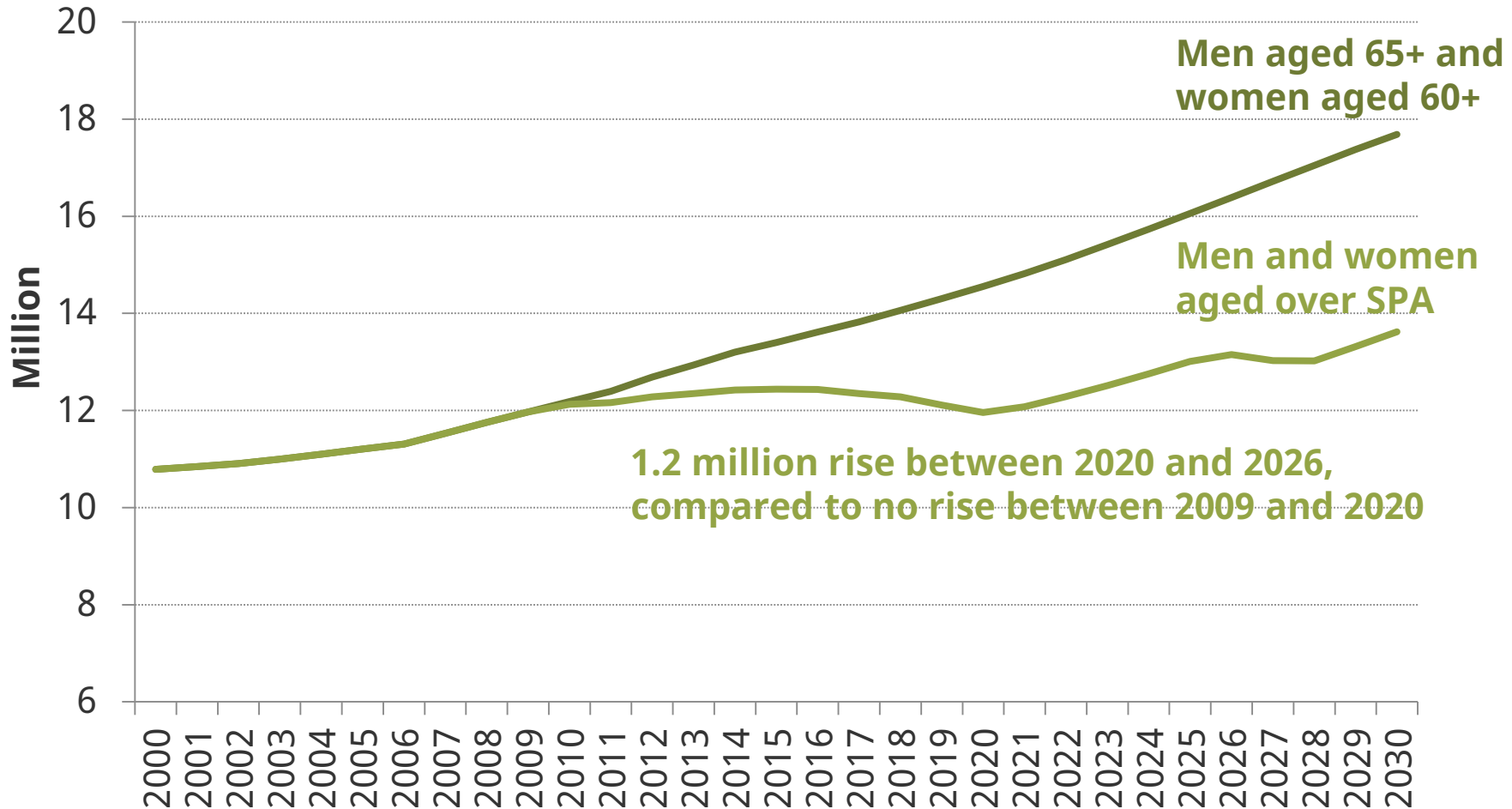
Ageing and future of the state

Meanwhile number of pensioners starts to grow from 2020



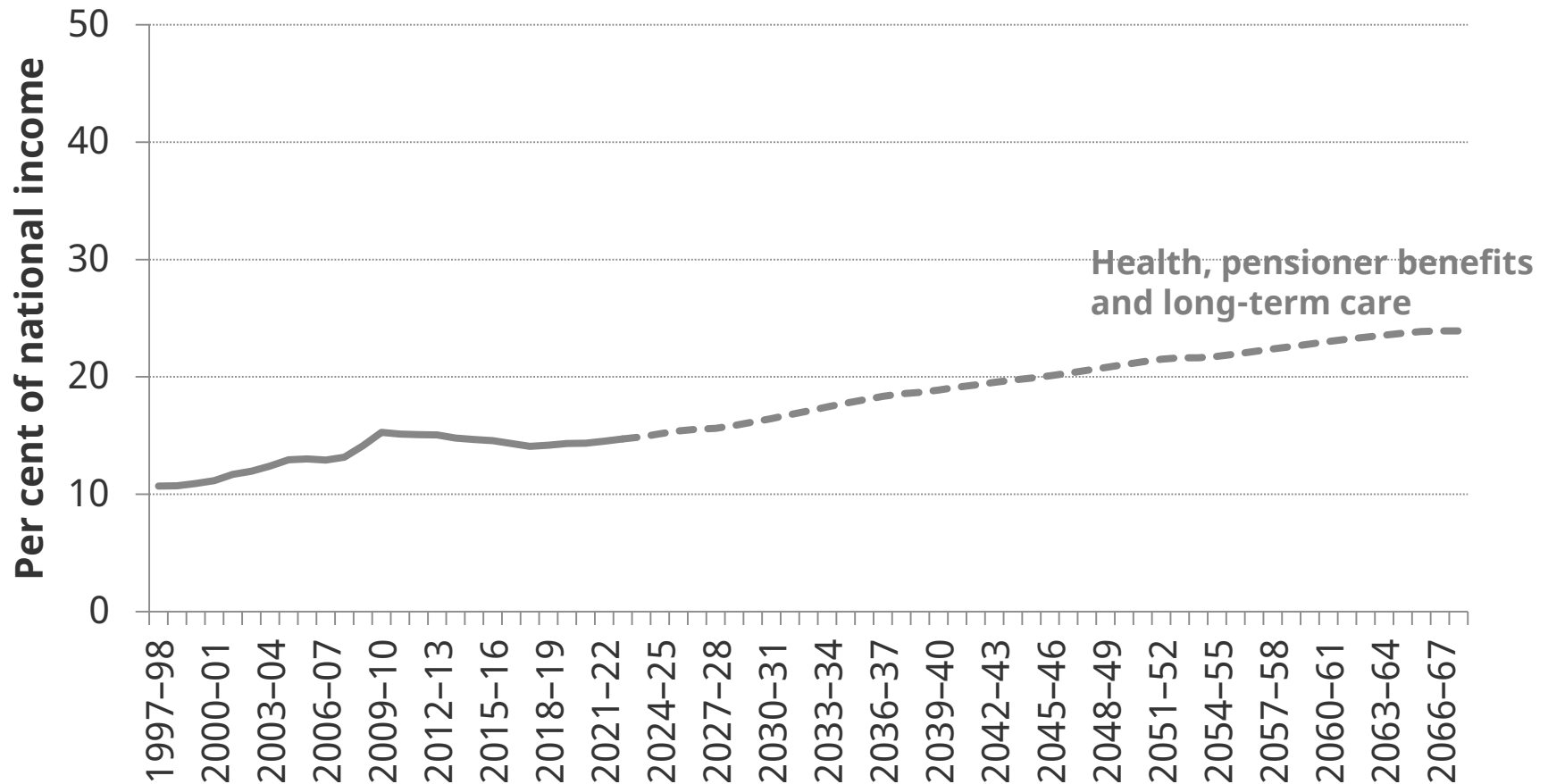
Source: Author's calculations using data from the Office for National Statistics.

Meanwhile number of pensioners starts to grow from 2020



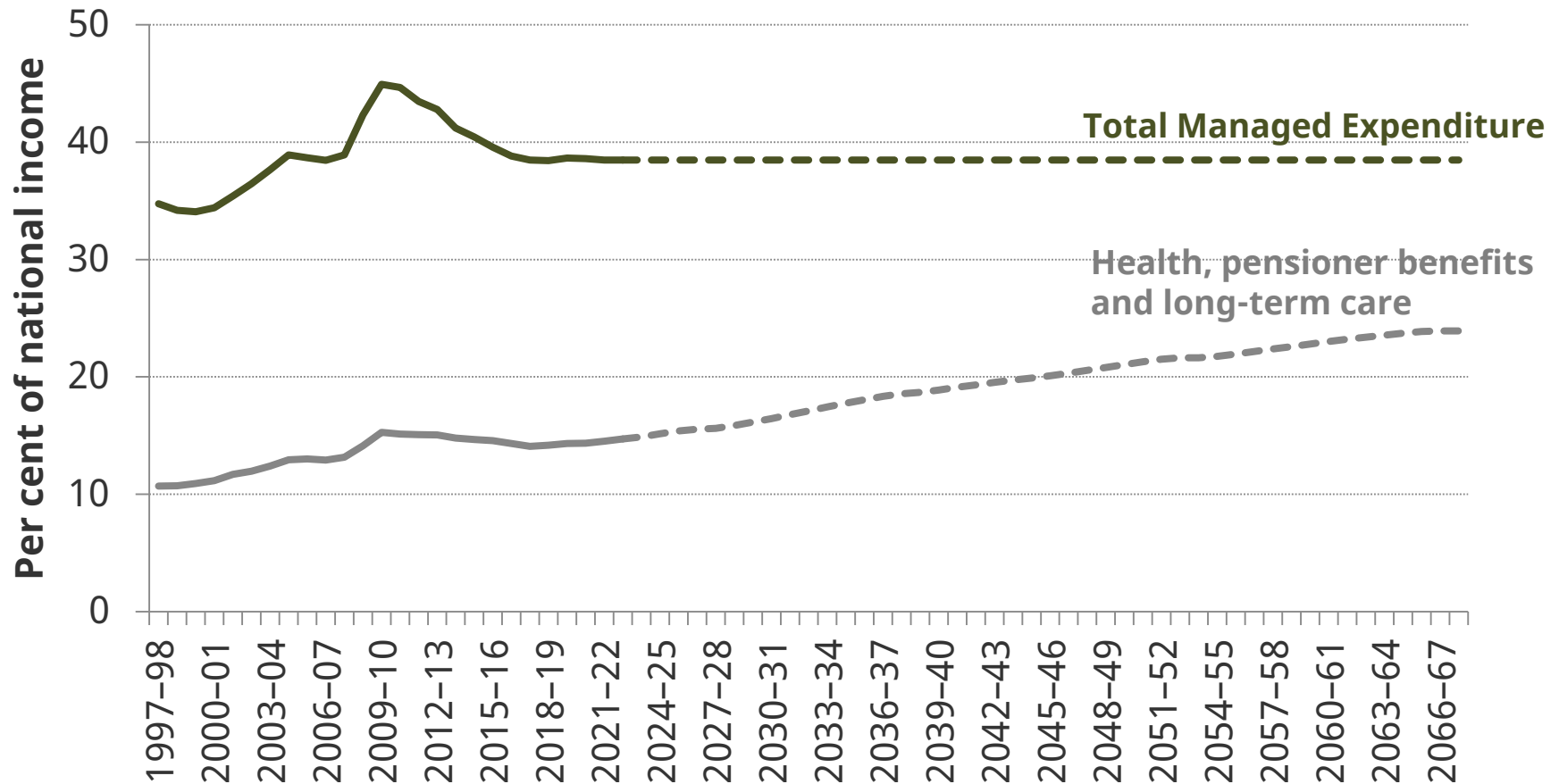
Source: Author's calculations using data from the Office for National Statistics.

Ageing and health costs change shape of state



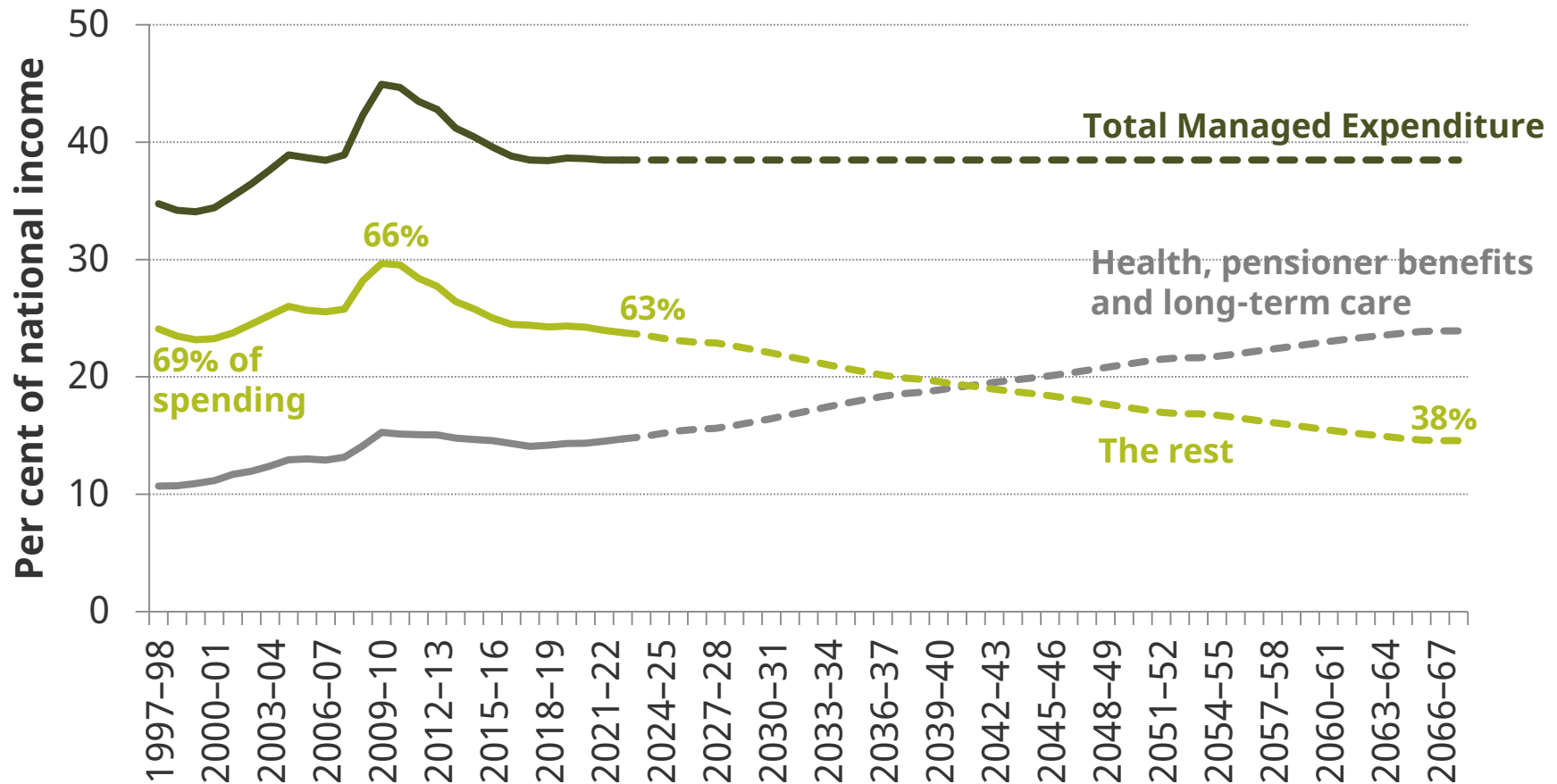
Source: Author's calculations using data from Office for Budget Responsibility, *Fiscal Sustainability Report: July 2018* (<https://obr.uk/fsr/fiscal-sustainability-report-july-2018/>).

Ageing and health costs change shape of state



Source: Author's calculations using data from Office for Budget Responsibility, *Fiscal Sustainability Report: July 2018* (<https://obr.uk/fsr/fiscal-sustainability-report-july-2018/>).

Ageing and health costs change shape of state



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Scope for big reductions in other spending?

Prisons

- spending cut by £3bn, or 16%, between 2009–10 and 2017–18
- since 2010 increases in: prisoner deaths (69%), self-harm (64%), assaults on prisoners (86%), assaults on staff (188%)

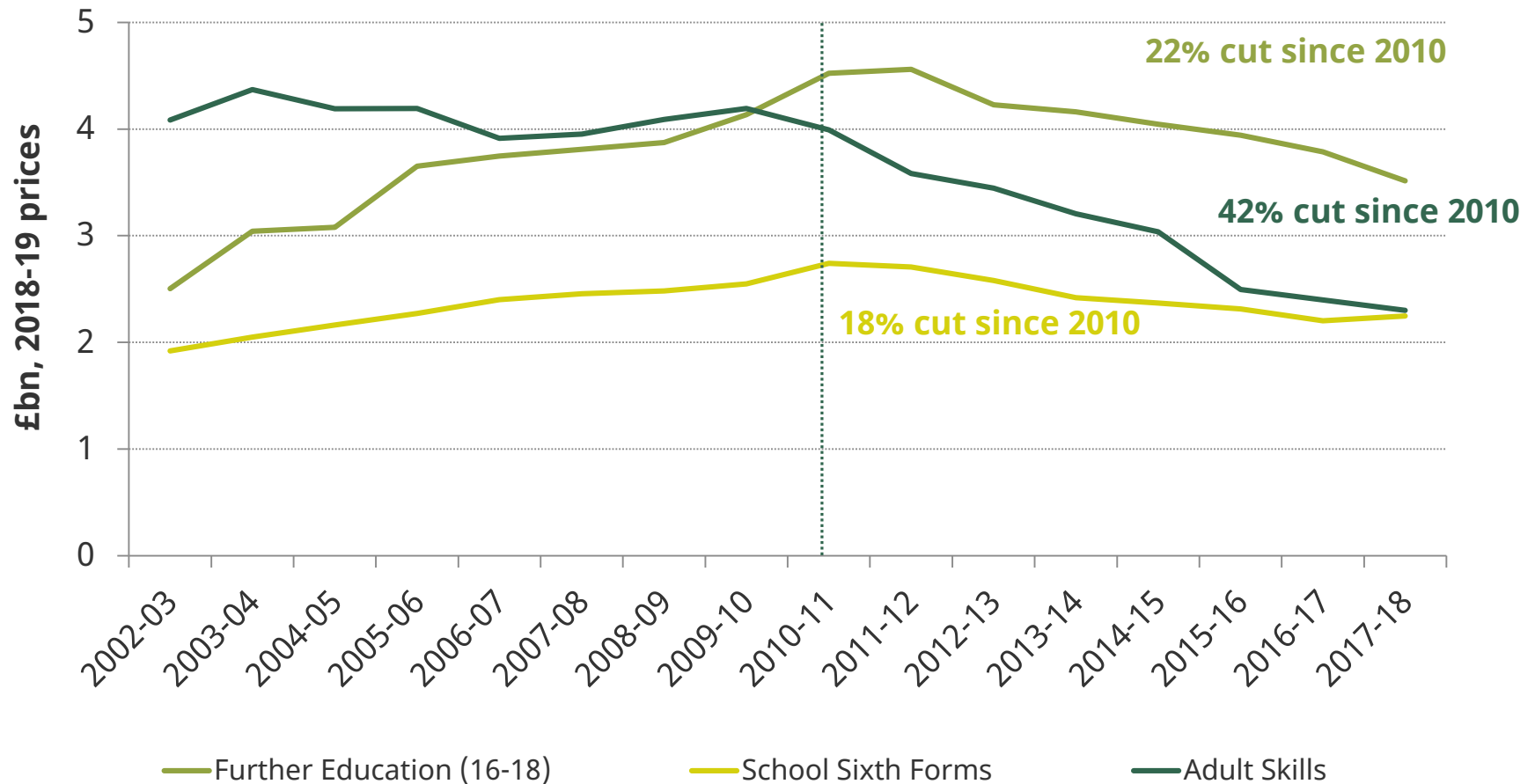
Police

- 19% reduction in total funding in England and Wales since 2010–11
- Number of police officers fell by 15% over same period

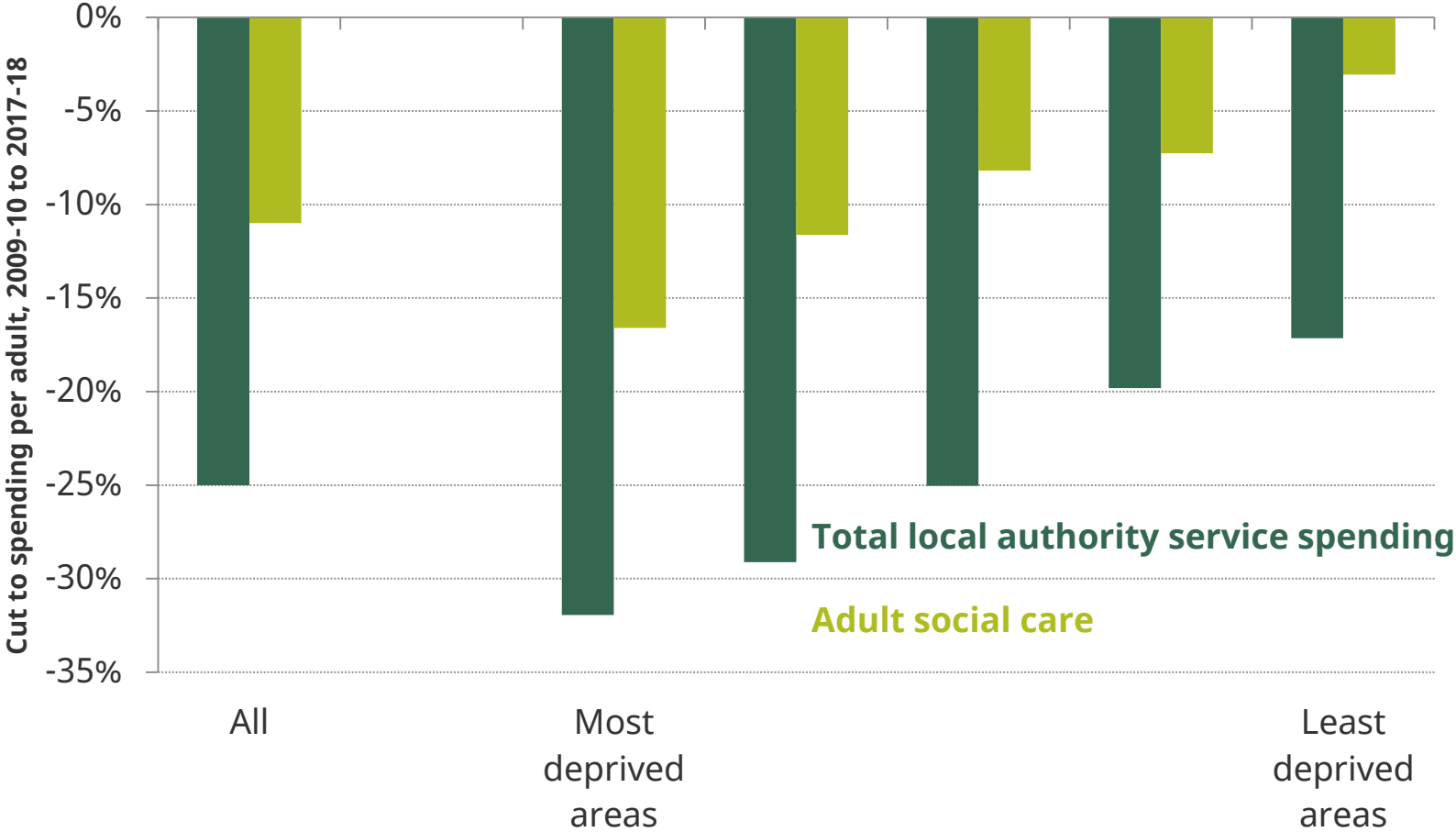
Schools

- 8% cut in per-pupil spending since 2009–10

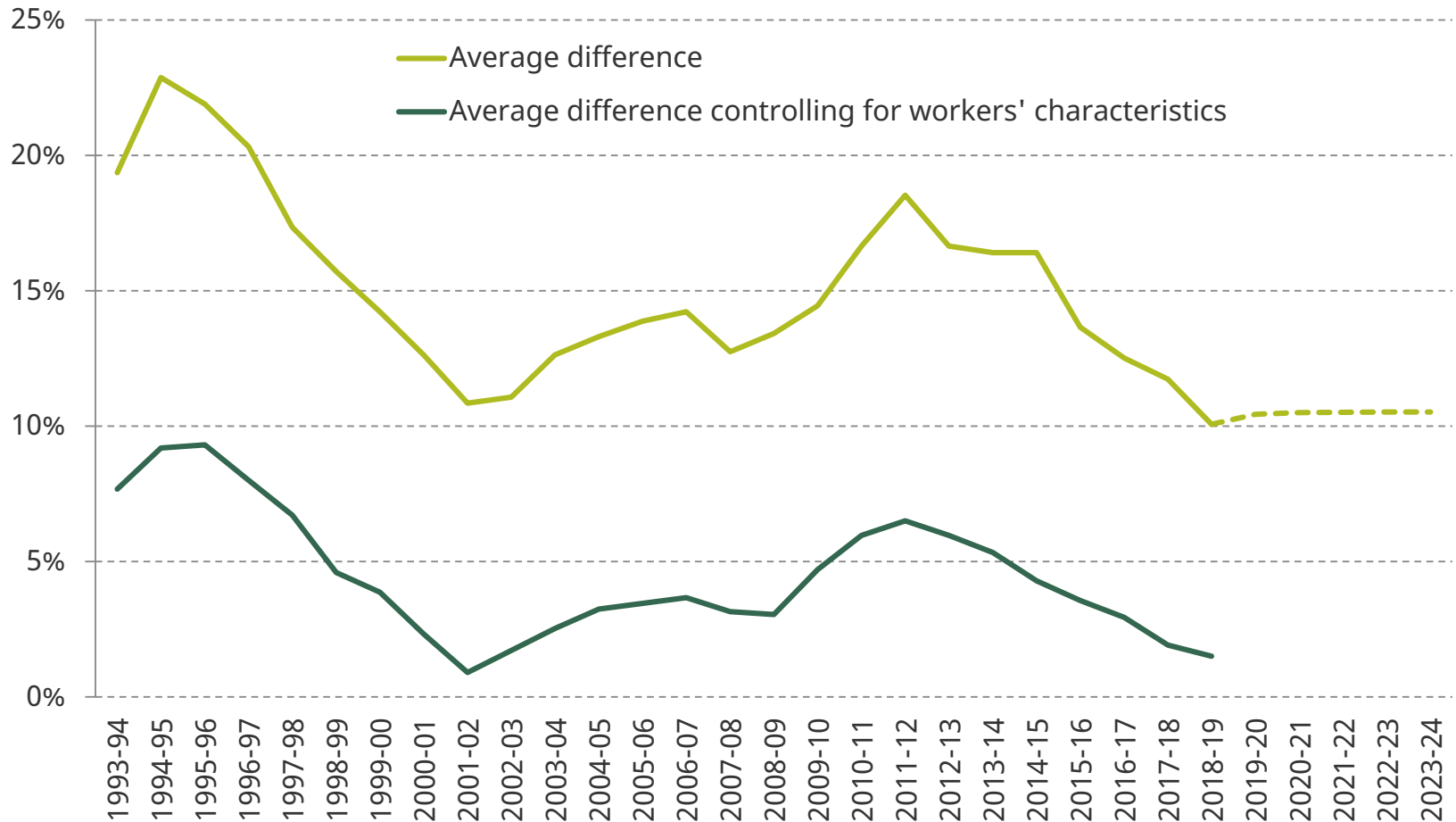
FE and Sixth Form spending



Per capita cuts in local government spending



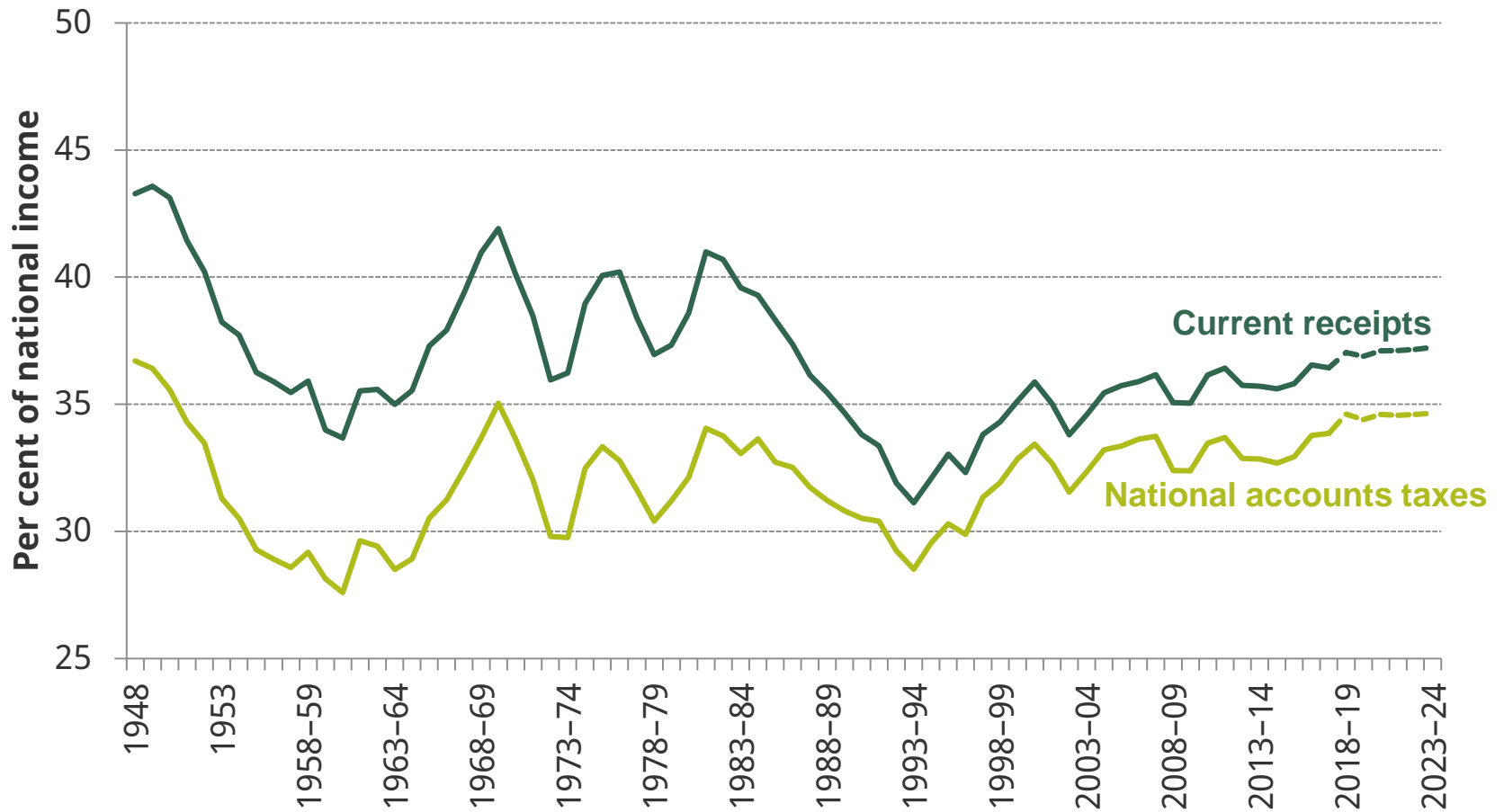
Public pay now at historically low level relative to private sector



Note: A positive difference means that public sector pay is higher than private sector pay on average. Difference controlling for workers' characteristics controls for differences in age, sex, education, experience and region.

Tax

Tax at historically high levels



Source: OBR Databank, March 2019

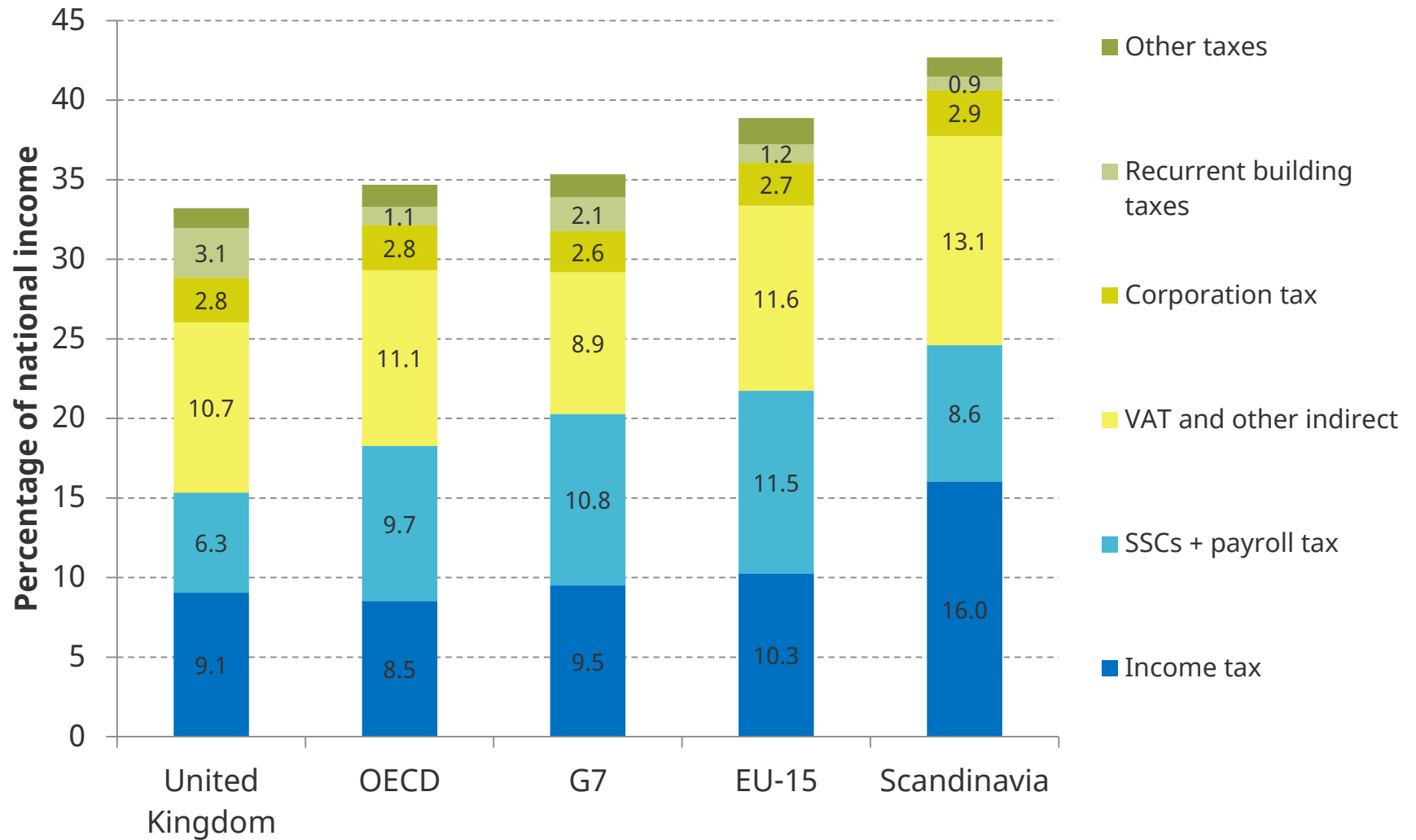
Challenges even to maintain revenues

Growth of company owner managers

Failure to index fuel duty

Taxing multinationals and digital companies

Of course we can decide to tax more



Composition of tax receipts Source: OECD

And we need to sort out the tax system

Stamp Duty

CGT at death and entrepreneurs relief

Council tax

Taxation of pensions

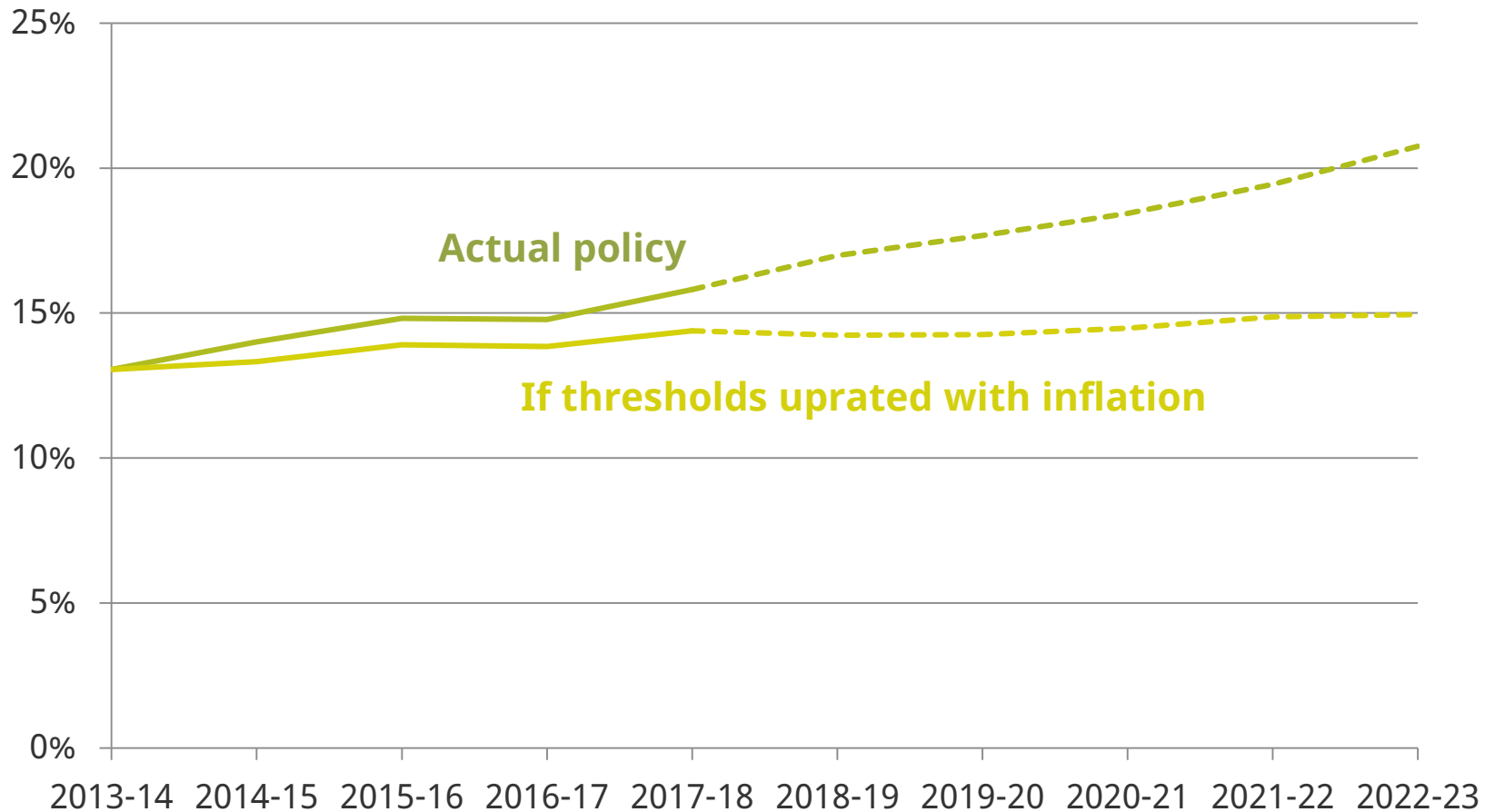
NICs and self employment

VAT base

Big elements of income tax system not indexed

Dragging people in

Share of families with children not entitled to full child benefit



Don't forget...

Median pay is still below its 2008 level

“Absolute” poverty rates are barely shifting

Huge challenges for working age welfare

Unfinished business on social care, local government, FE and more

Costs of an ageing population are well and truly upon us

And our tax system is not set up to deal with this

Future challenges

Paul Johnson

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