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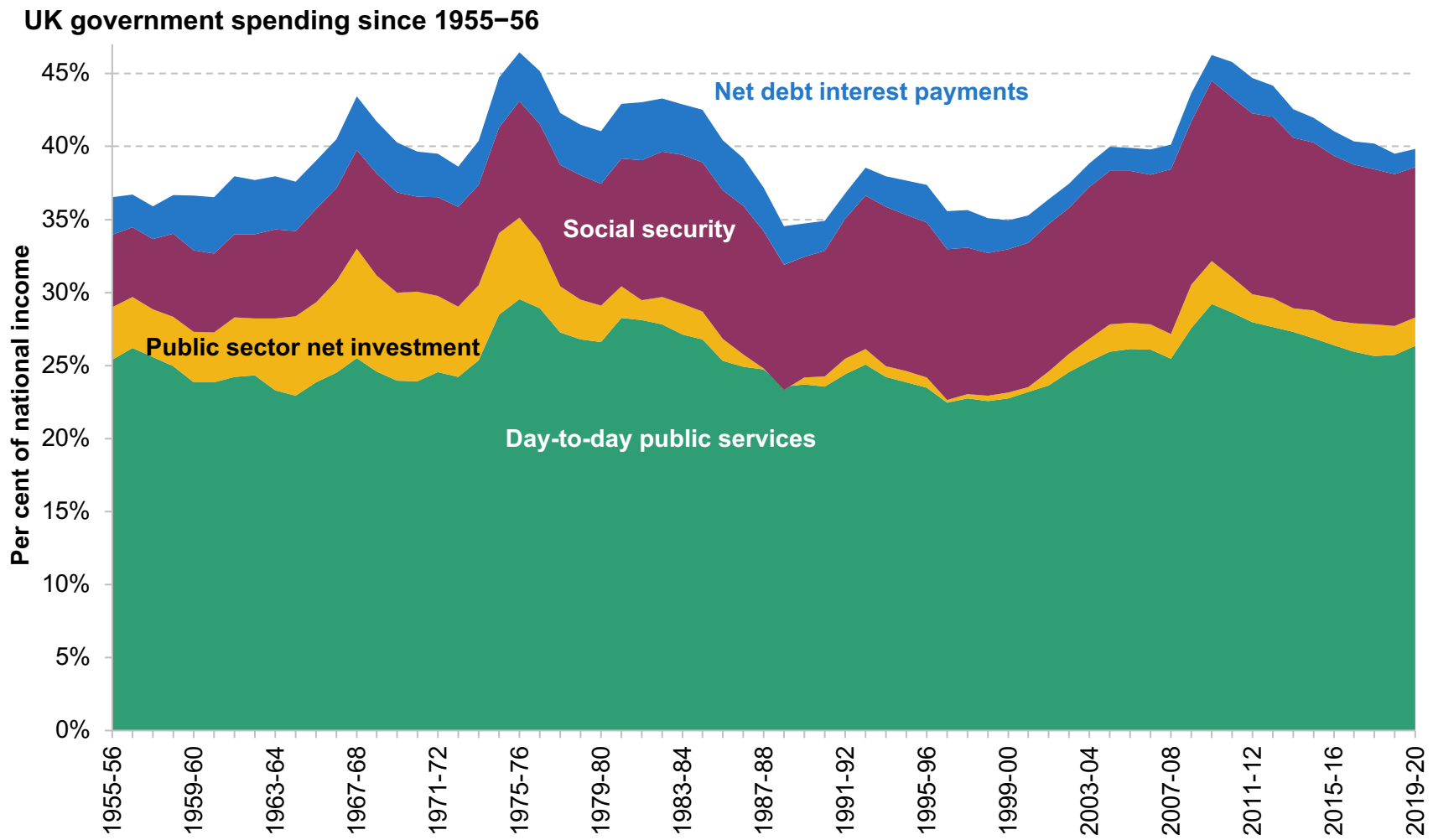
@TheIFS

Future of the welfare state



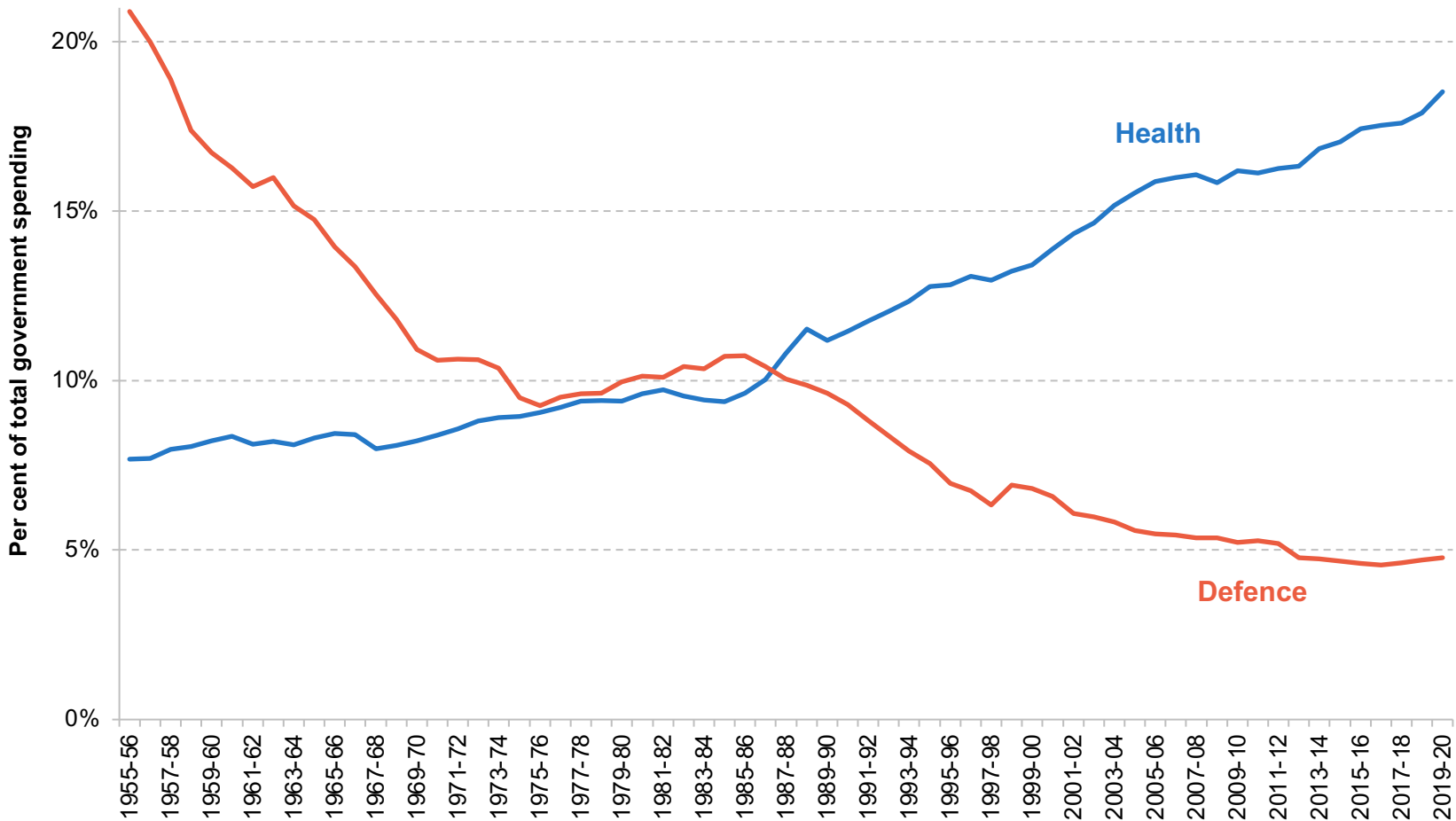
Economic
and Social
Research Council

Size of state hasn't changed much in 60 years



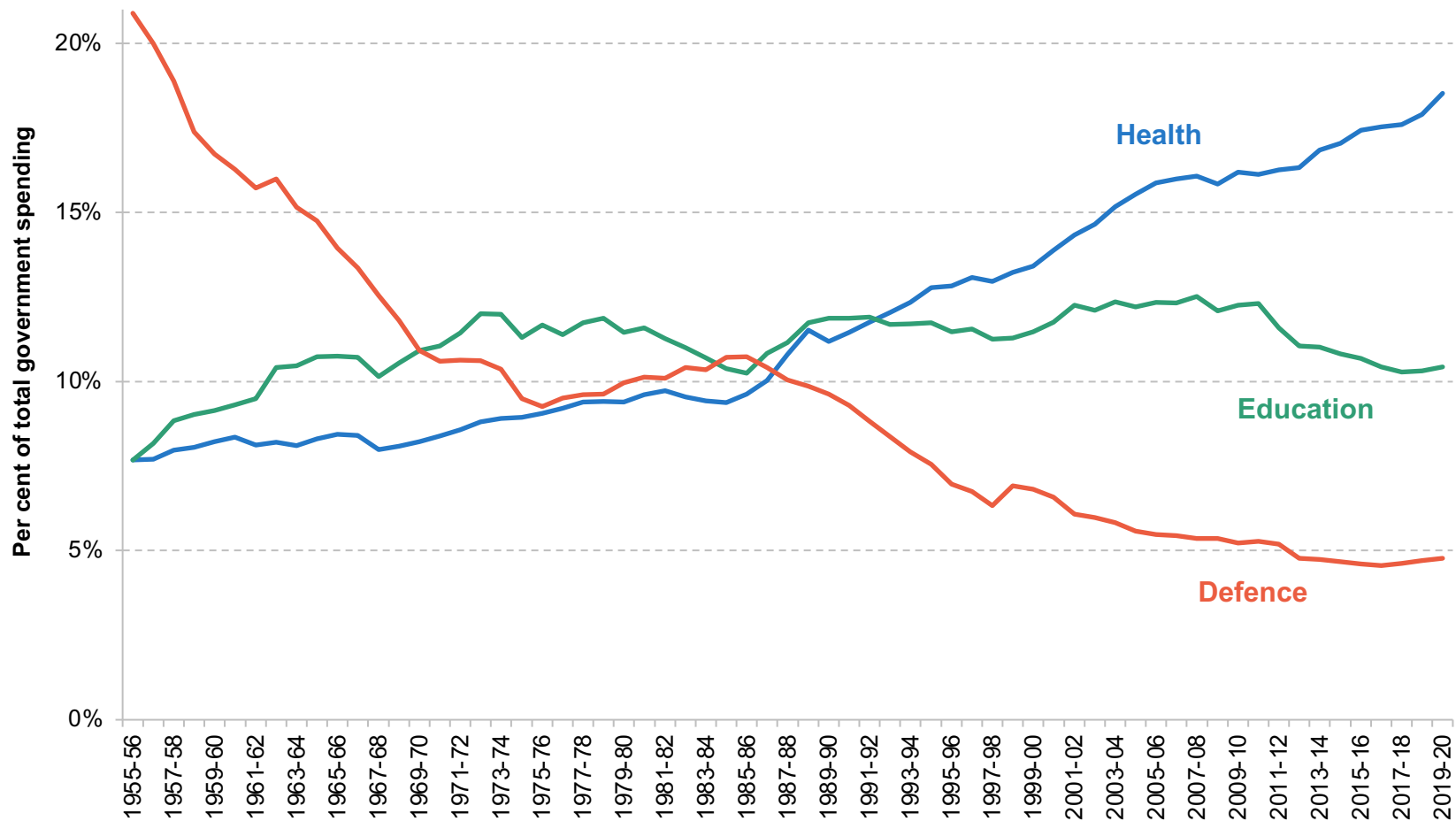
A trick we can't pull again

Health and defence as % of total UK government spending



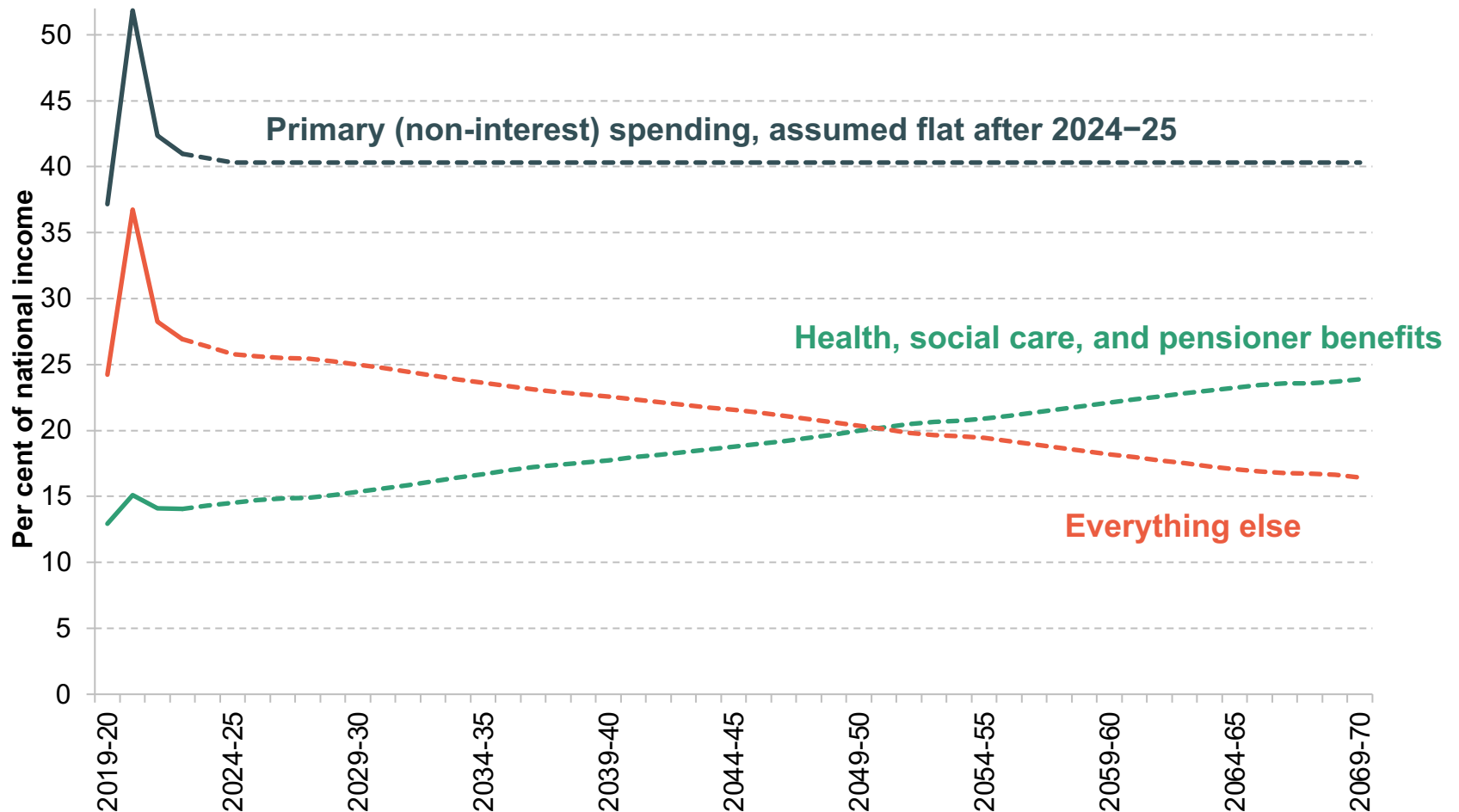
Education, education, education?

Health, defence and education as % of total UK government spending



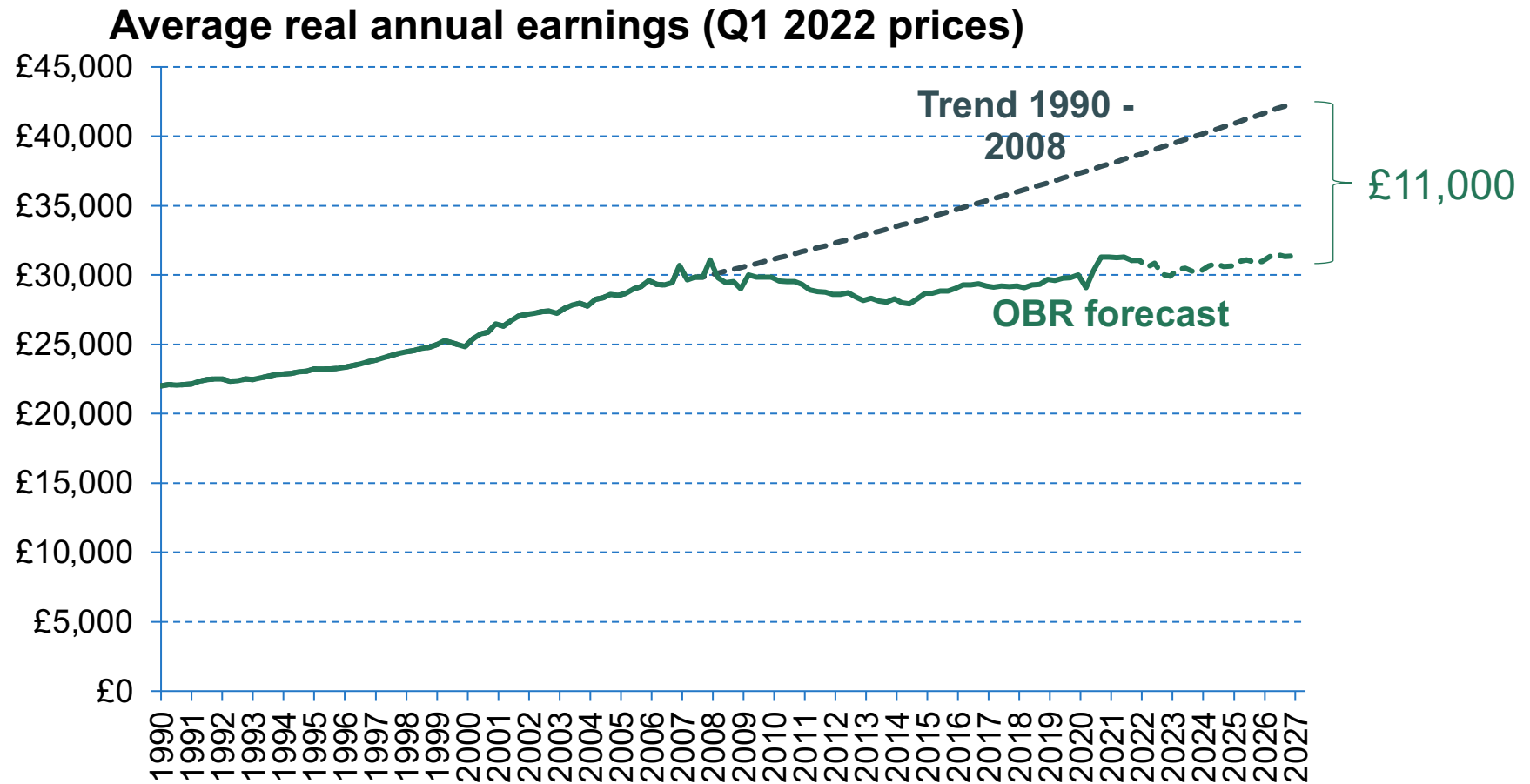
The 'graph of doom'

OBR long-term projections of public spending (as of July 2020)



Source: Author's calculations using Office for Budget Responsibility, Fiscal Sustainability Report, July 2020.

The huge cost of economic failure



Source: ONS AWE and Historic AWE, OBR

Note: In Q1 2022 prices. Historical series is deflated by CPI with an adjustment for housing costs. Forecast is deflated by OBR's CPI forecast.

Focussing on referendum period



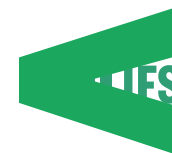
SOURCE: ONS, CPI inflation and Labour Market Statistics.

Key facts on inequality



- Overall income inequality (90:10 ratio) has changed little in 30 years
 - Though top 1% share continued to grow to 2008
 - Policy has had a big effect

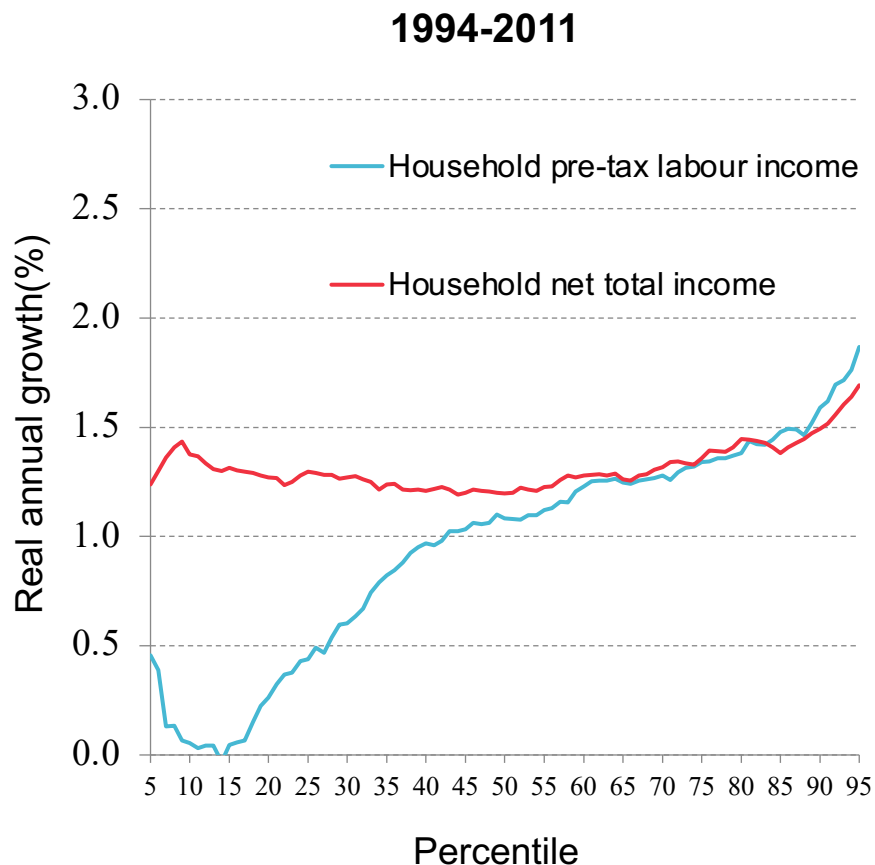
During the 2000s tax and benefit policy held back growing inequality



Inequality

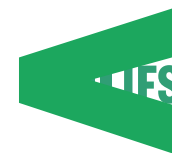
The IFS Deaton Review

- Changes in household income by percentile, among households with 1+ adult in paid work



Source: Cribb, Joyce and Wernham (2022), 'Twenty-five years of income inequality in Britain: the role of wages, household earnings and redistribution', IFS Working Paper. Based on data from Family Resources Survey.

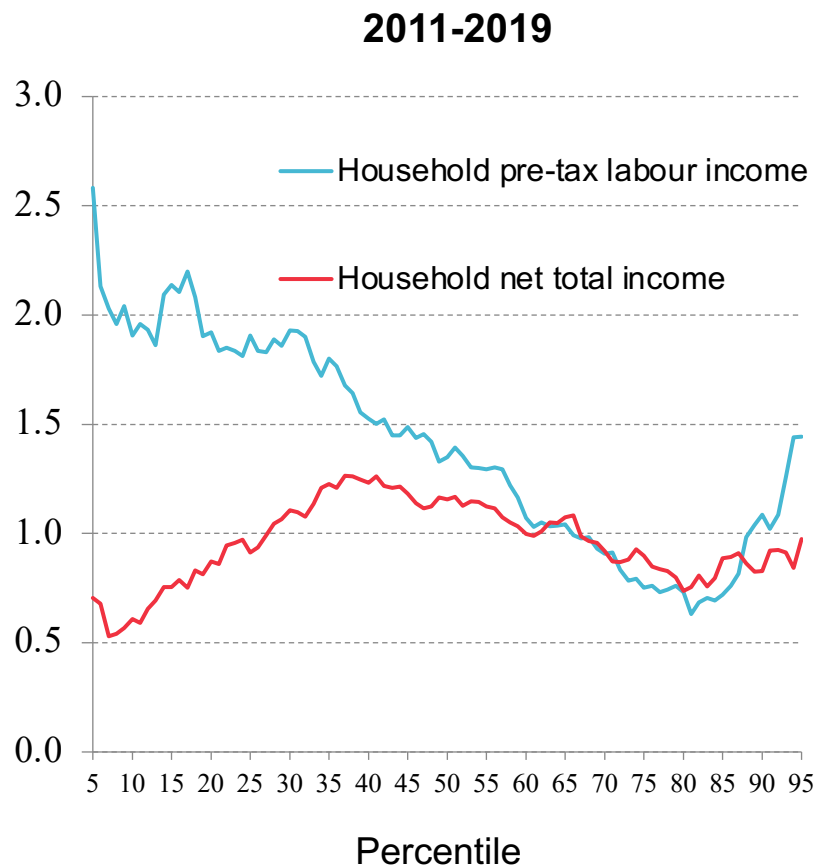
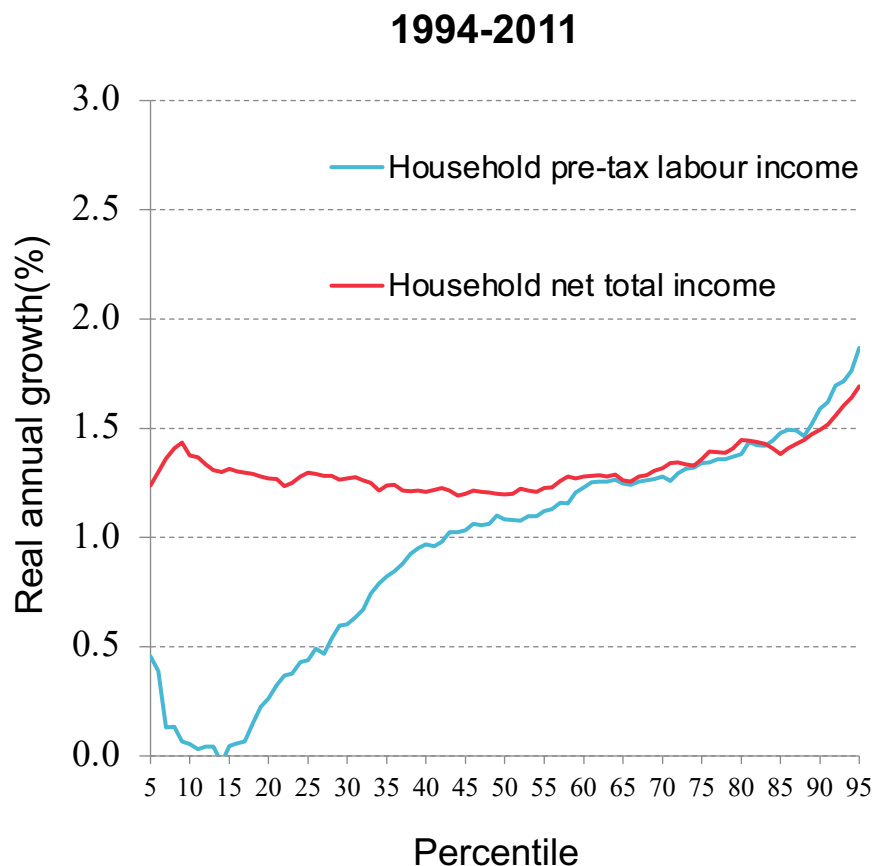
During 2010s the reverse occurred



Inequality

The IFS Deaton Review

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Source: Cribb, Joyce and Wernham (2022), 'Twenty-five years of income inequality in Britain: the role of wages, household earnings and redistribution', IFS Working Paper. Based on data from Family Resources Survey.

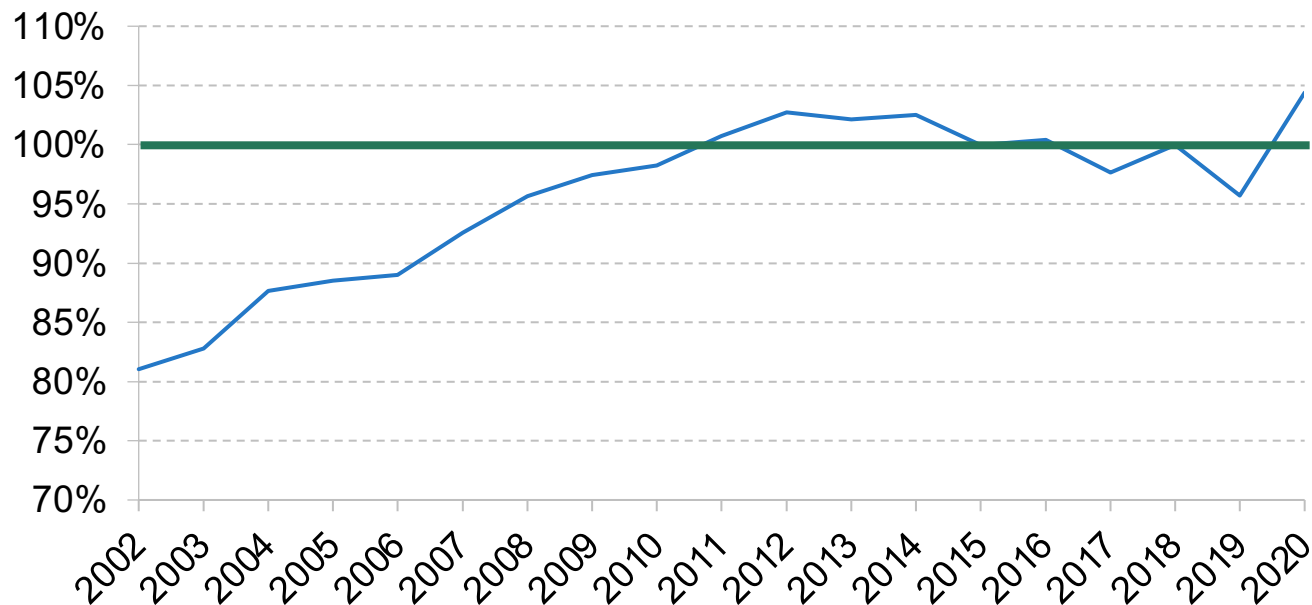
Key facts on inequality



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- Pensioners have moved up the income distribution

The triumph of the baby boomers

Median pensioner income as a percentage of median non-pensioner income, after deducting housing costs



Note: Pensioners defined as being over the state pension age, which rose for women from 60 to 66 from 2010 to 2020 and for men from 65 to 66 from 2018 to 2020. Using fixed age definitions of pensioner (at the pre-2010 or current state pension ages) makes essentially no difference to the result.

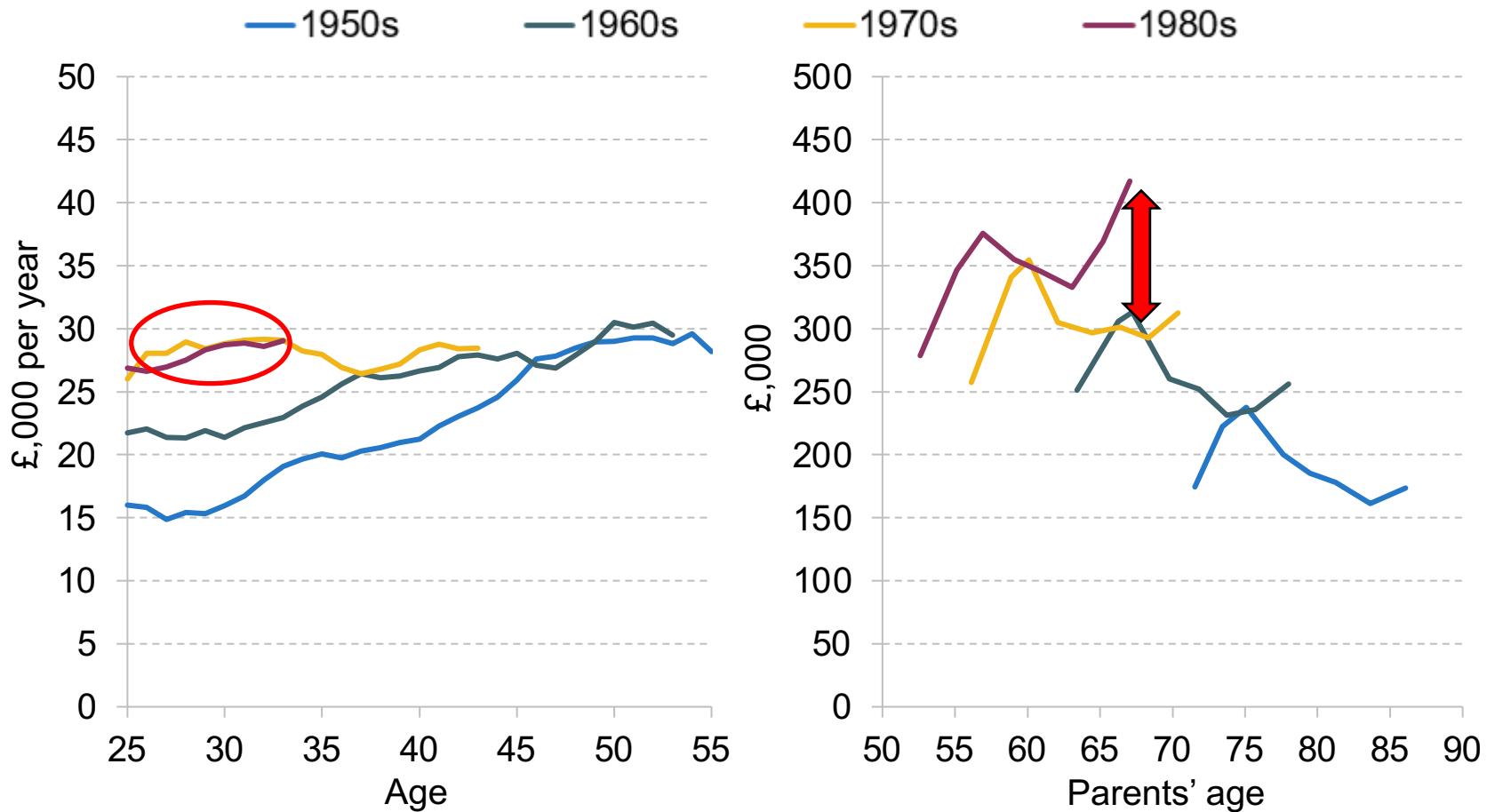
Source: IFS calculation using Family Resources Survey

Key facts on inequality

- Overall income inequality (90:10 ratio) has changed little in 30 years
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- Pensioners have moved up the income distribution
- While incomes of younger generations have stagnated

Young cohorts' incomes are stagnating while their parents' wealth grows

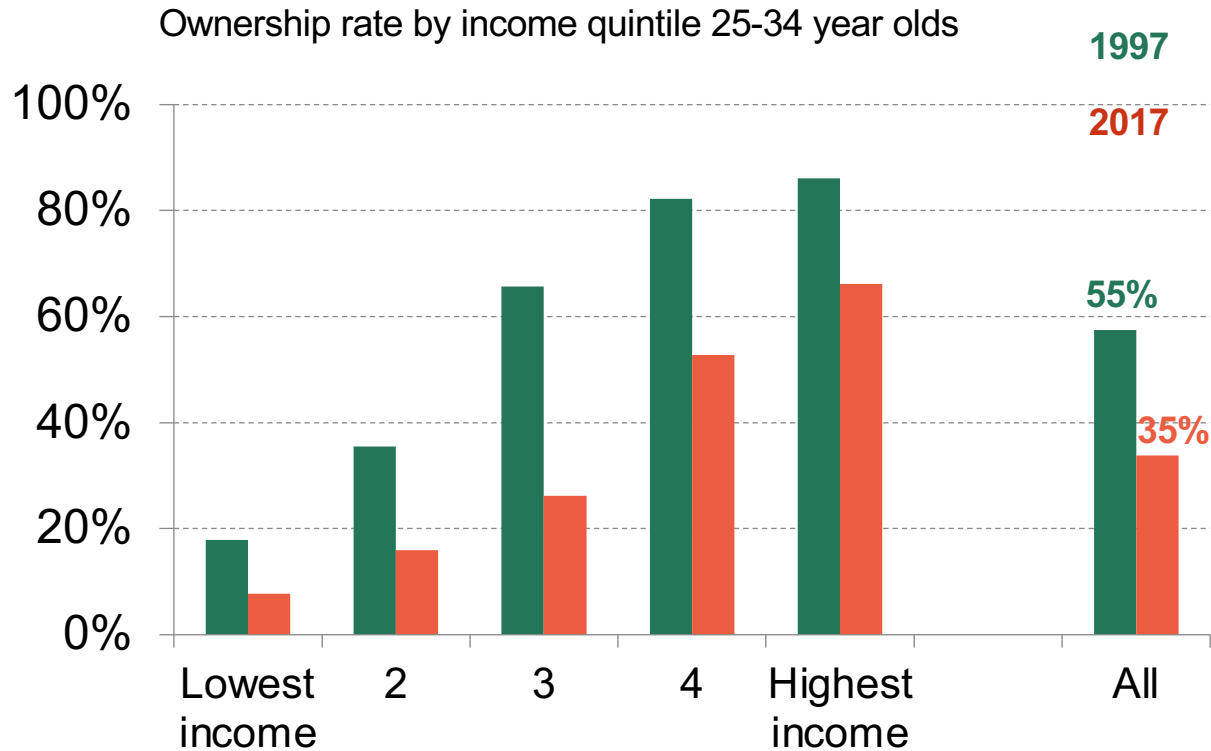
Median household income (left) and median wealth of parents (right)



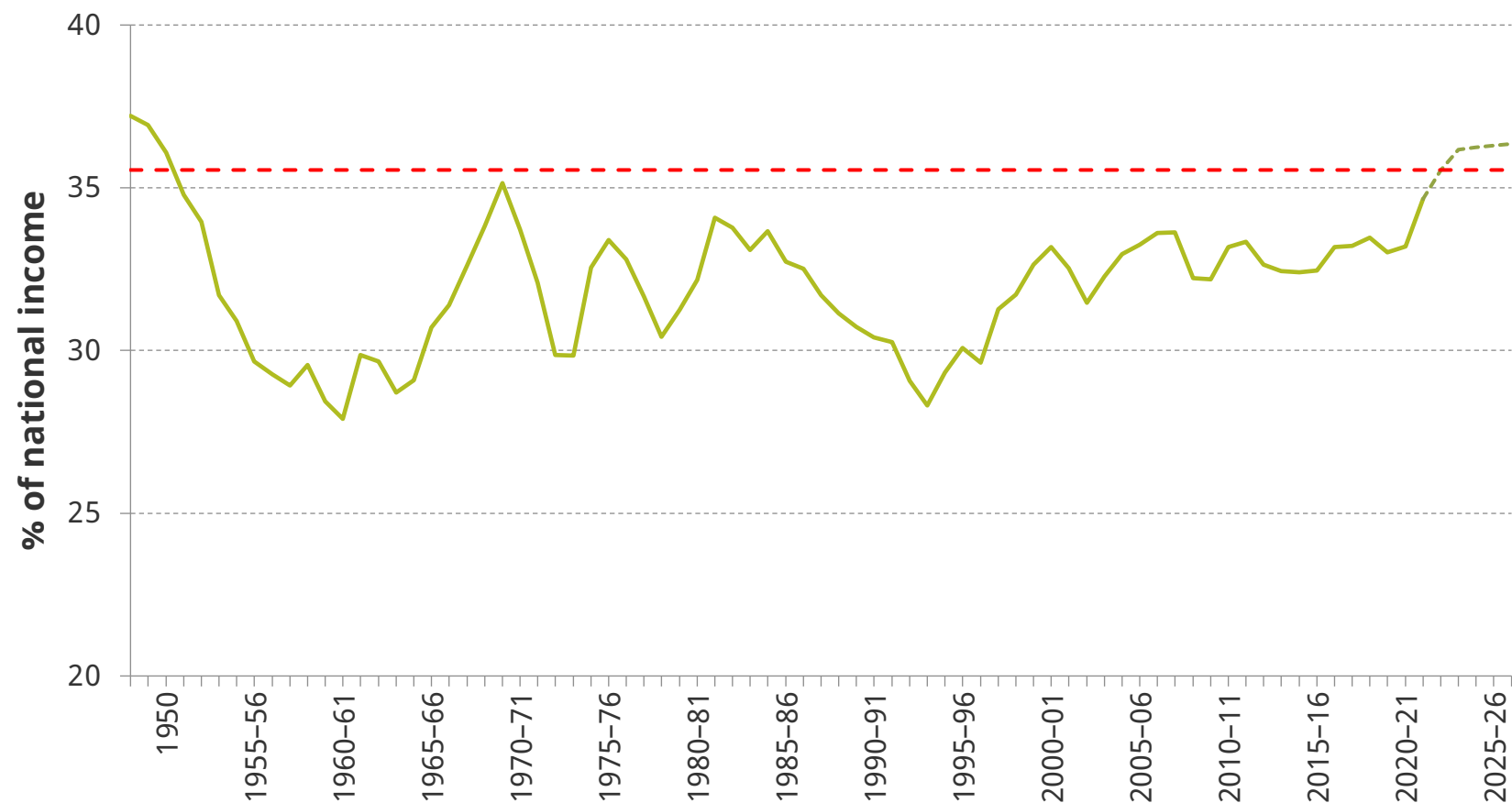
- Source: Bourquin, Joyce and Sturrock (2021), 'Inheritances and inequality over the lifecycle: what will they mean for younger generations?' IFS Report 188. Wealth measures housing and financial wealth.

The collapse of owner occupation

Especially for those on middle incomes



Tax burden rising to highest since 1940s



Much better tax design is possible



- Income tax, VAT and NICs raise c. two thirds of tax revenue
 - They have done for decades and that is not going to change
- Challenges ahead include:
 - International corporate tax
 - Taxation of motoring
 - Carbon pricing
- Need to overhaul taxation of wealth – IHT, CGT, housing tax
 - And taxation of rents/super normal returns
- We still subsidise those who claim to be self-employed or incorporated
 - Including partners in professional service
- Are business rates and council tax in current form sustainable?

There is only one escape route



- Higher growth and productivity are possible over the long run
- They bring greater demands on public pay and higher expectations of public services, but do allow more space for public provision
- The ingredients are not a secret
 - Education – early years, teachers, FE
 - Trade – openness to our richest, nearest and biggest trading partners
 - Planning/housing – to support growing areas
 - Competition policy – needs to adapt to digital age
 - Institutional confidence and macroeconomic stability

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