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Fiscal Studies

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50
YEARS

THE FUTURE OF POLICY EVENT SERIES

THE FUTURE OF BENEFITS

WEDNESDAY 27 FEBRUARY 2019

18:30–20:00, ROYAL INSTITUTION, LONDON

Speakers

Robert Joyce, Institute for Fiscal Studies

Lord Freud, former Minister of State for
Welfare Reform

Sir John Hills, London School of Economics

Liz Sayce, honorary fellow at LSE and was until
recently Chief Executive of Disability Rights UK



#IFSat50

Wi-Fi Network: Ri-Public
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Objective analysis of economic policy is more important now than it has ever been. Please support our work and help us to improve public debate and government policy by becoming a member: www.ifs.org.uk/about/membership

The future of benefits

Robert Joyce

With thanks to Pascale Bourquin, Jonathan Cribb, Agnes Norris
Keiller, David Sturrock, Tom Waters and Xiaowei Xu

Working-age benefits

£96 billion spent on them in 2017-18

More than education, or defence and policing combined

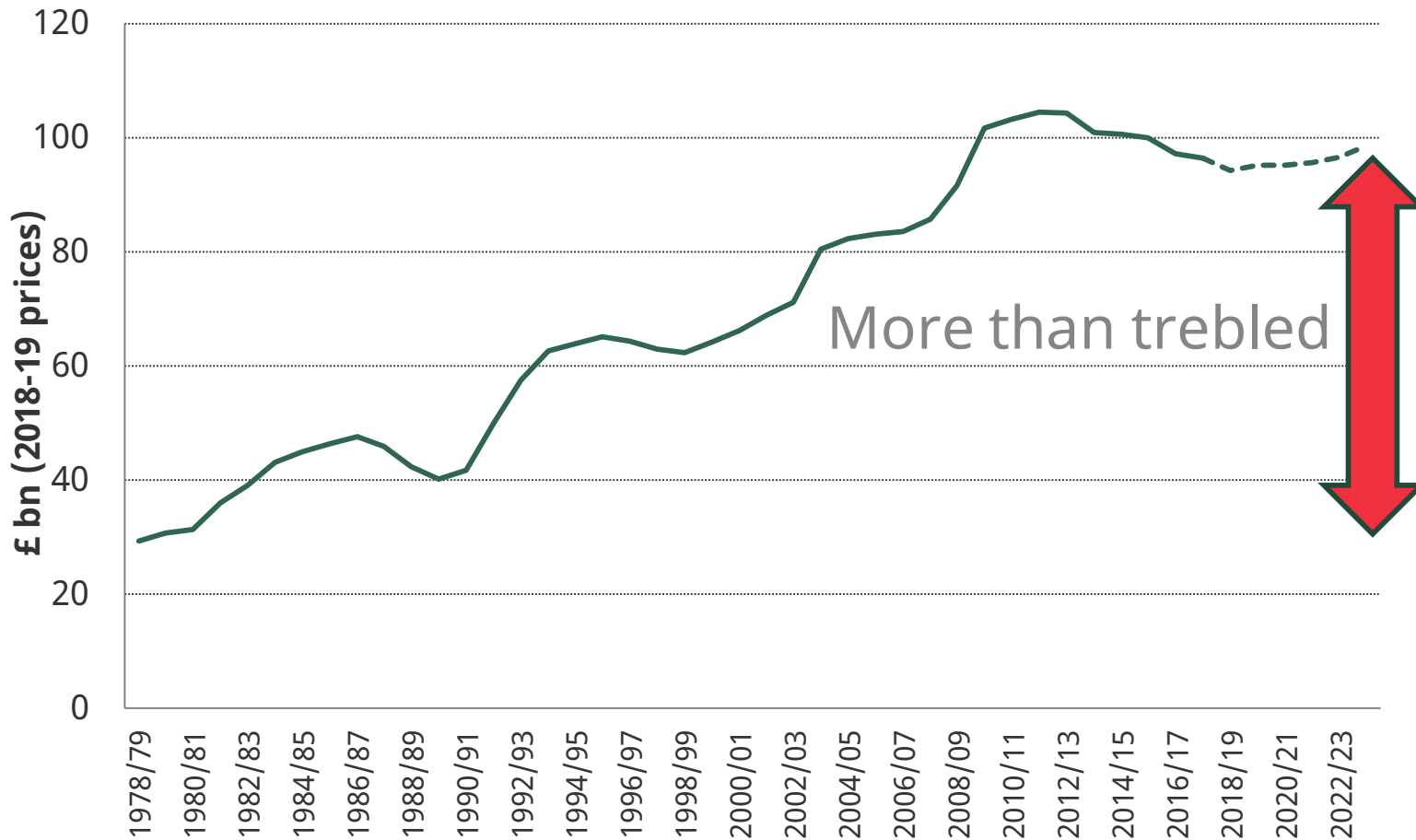
1.8 million households get 80%+ of their income from them

1 in 3 working-age households will get universal credit

Most people will receive a working-age benefit at some point

Benefits have become major part of welfare state

Real-terms spending on working-age benefits

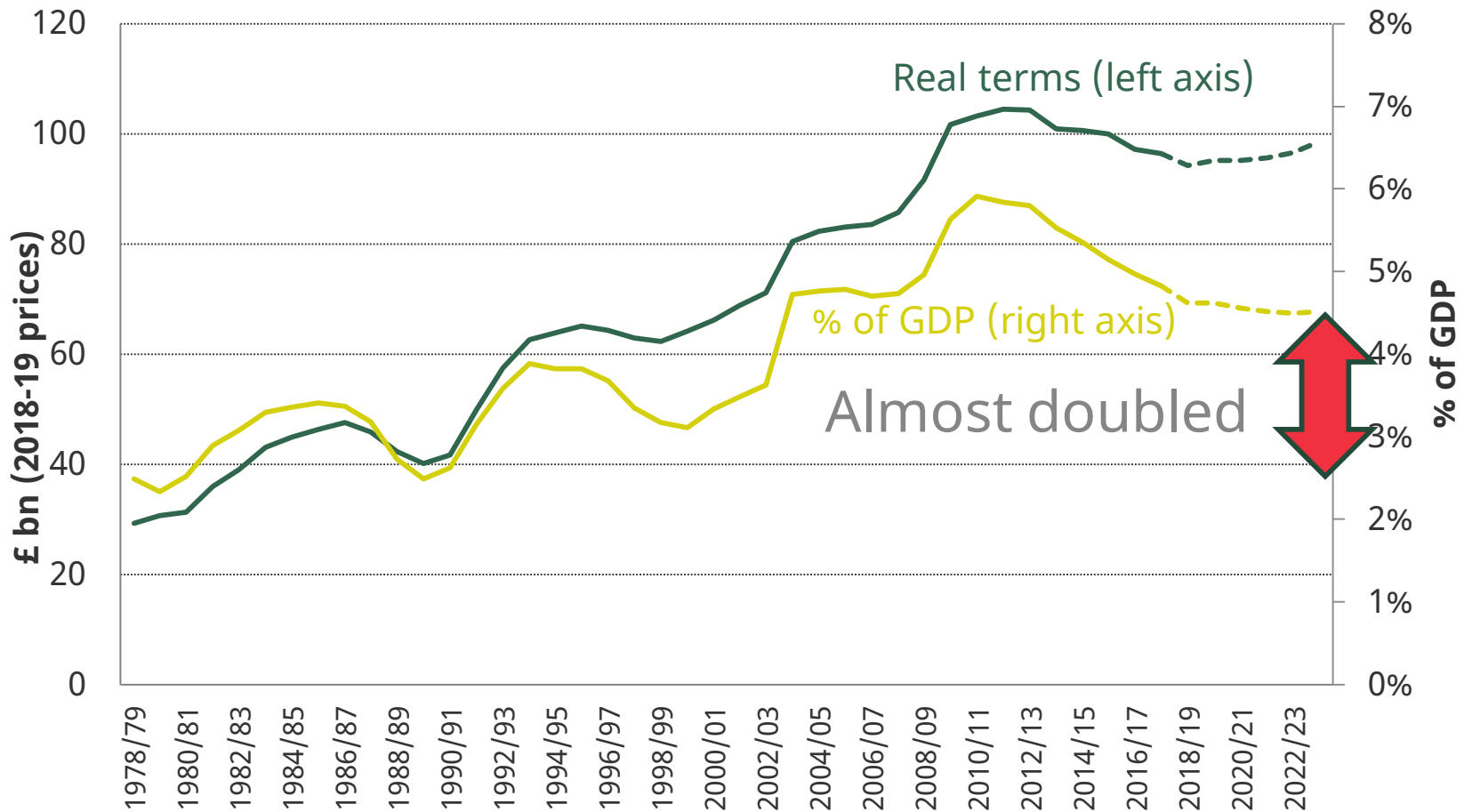


Sources: Benefit expenditure and caseload tables 2018, GDP at Market Prices and Money GDP (BKTL series), Budget 2001

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

Benefits have become major part of welfare state

Spending on working-age benefits

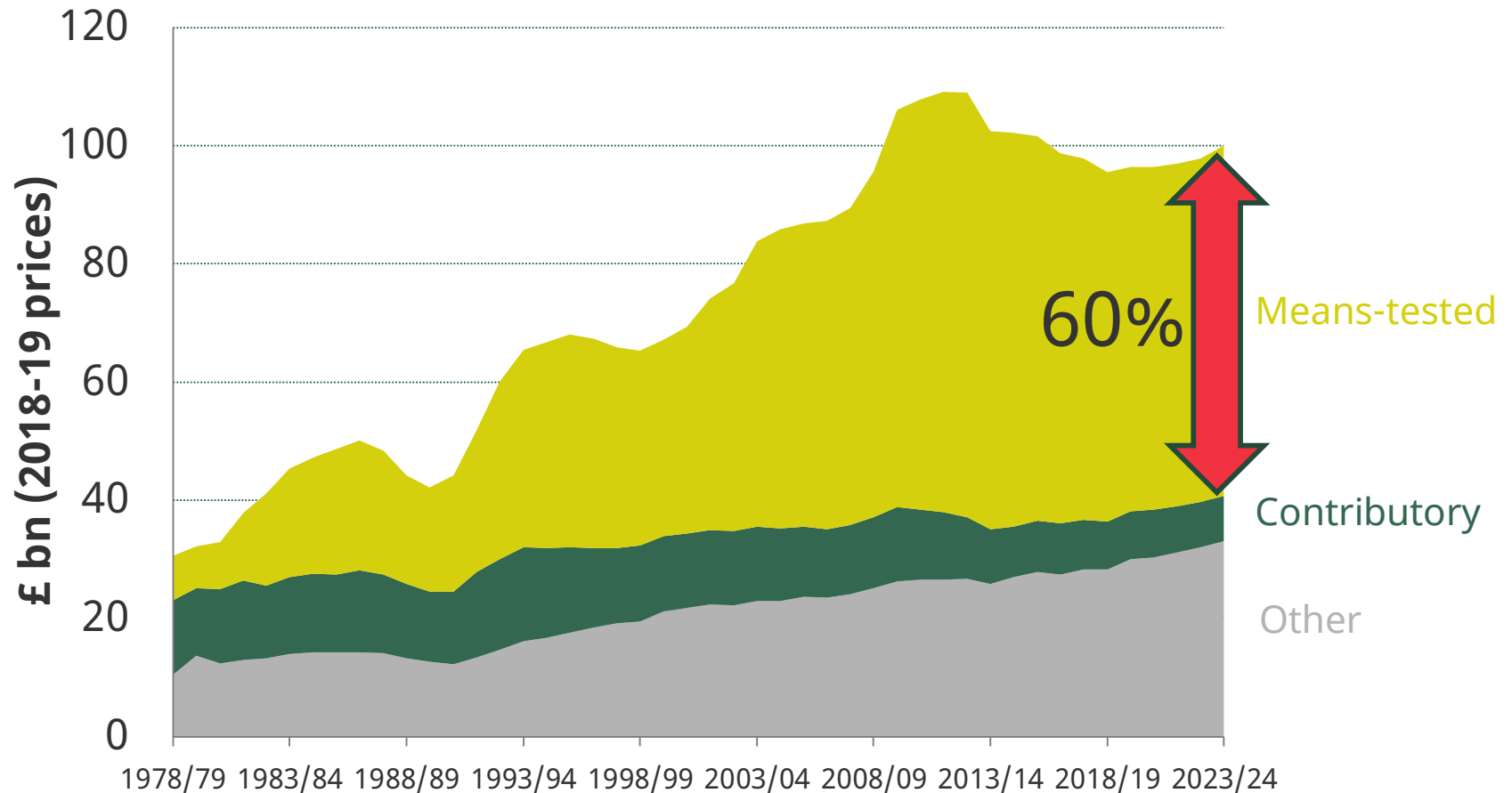


Sources: Benefit expenditure and caseload tables 2018, GDP at Market Prices and Money GDP (BKTL series), Budget 2001

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The rise and rise of means-testing

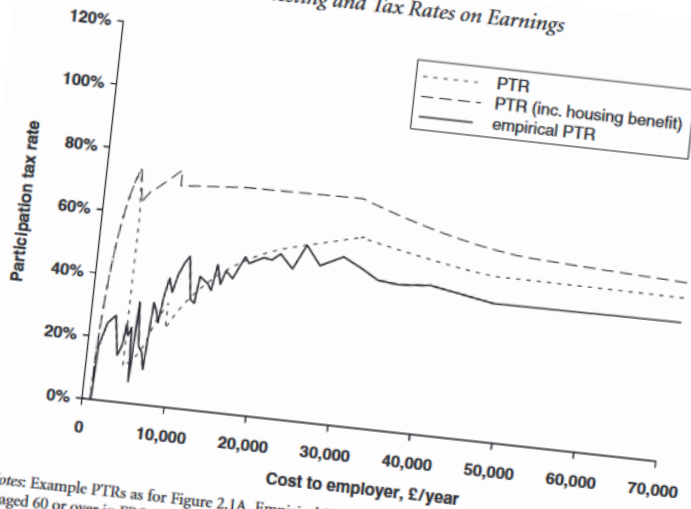
Working-age benefits spending, by type



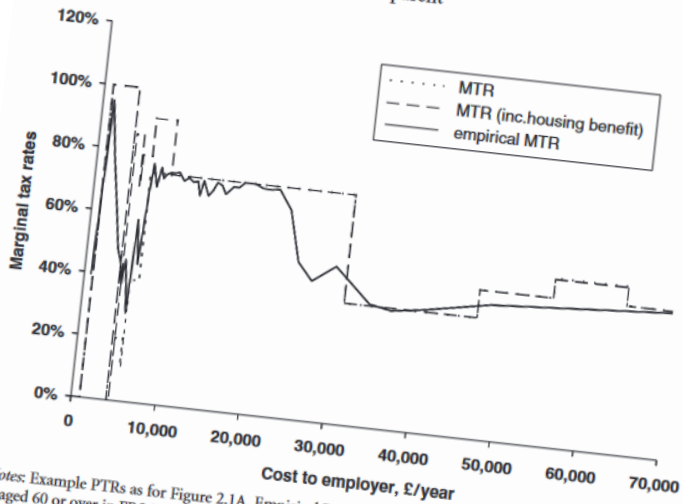
Sources: Benefit expenditure and caseload tables 2018, Budget 2001

Notes: Tax credits included in means-tested benefits. Includes cost of Children's Tax Credit in 2001/02-2002/03, based on forecasts in Budget 2001. "Other" benefits include Child Benefit, DLA/PIP and other non-means-tested, non-contributory benefits.

Means-testing and Tax Rates on Earnings



Notes: Example PTRs as for Figure 2.1A. Empirical PTRs based on all workers in families where no adult is aged 60 or over in FRS 2004-05 with net incomes calculated using TAXBEN.
Figure 2.5B-1. Participation tax rate, lone parent



Notes: Example PTRs as for Figure 2.1A. Empirical PTRs based on all workers in families where no adult is aged 60 or over in FRS 2004-05 with net incomes calculated using TAXBEN.
Figure 2.5C-1. Marginal tax rates, lone parent

FEMALE LABOR SUPPLY, HUMAN CAPITAL, AND WELFARE REFORM

BY RICHARD BLUNDELL, MONICA COSTA DIAS, COSTAS MEGHIR, AND JONATHAN SHAW¹

We estimate a dynamic model of employment, human capital accumulation—including education, and savings for women in the United Kingdom, exploiting tax and benefit reforms, and use it to analyze the effects of welfare policy. We find substantial elasticities for labor supply and particularly for lone mothers. Returns to experience, which are important in determining the longer-term effects of policy, increase with education, but experience mainly accumulates when in full-time employment. Tax credits are welfare improving in the U.K., increase lone-mother labor supply and marginally reduce educational attainment, but the employment effects do not extend beyond the period of eligibility. Marginal increases in tax credits improve welfare more than equally costly increases in income support or tax cuts.

TABLE XIV
ELASTICITIES OF LABOR SUPPLY^a

	Frisch		Marshall			
	Extensive Elasticity	Intensive Derivative	Extensive Elasticity	Intensive Derivative	Intensive Elasticity	
All women	0.627	0.510	0.240	0.475	0.386	0.210
Secondary High school University	0.914	0.675	0.327	0.689	0.509	0.280
	0.567	0.469	0.223	0.428	0.354	0.198
Single women with no children Lone mothers	0.427	0.375	0.180	0.331	0.291	0.158
	0.532	0.486	0.159	0.419	0.383	0.055
Women in couples, no children Women in couples with children	2.240	1.275	0.452	1.362	0.775	0.378
	0.264	0.242	0.163	0.220	0.203	0.167
	0.688	0.522	0.316	0.553	0.419	0.304

^aCalculations based on simulated data under the 1999 tax and benefit system. The derivatives in columns 2 and 5 measure the percentage point change in labor supply, in response to a 1% increase in net earnings. All effects are measured in the year the change in earnings occurs.

3 big challenges

What should benefits system do about people...

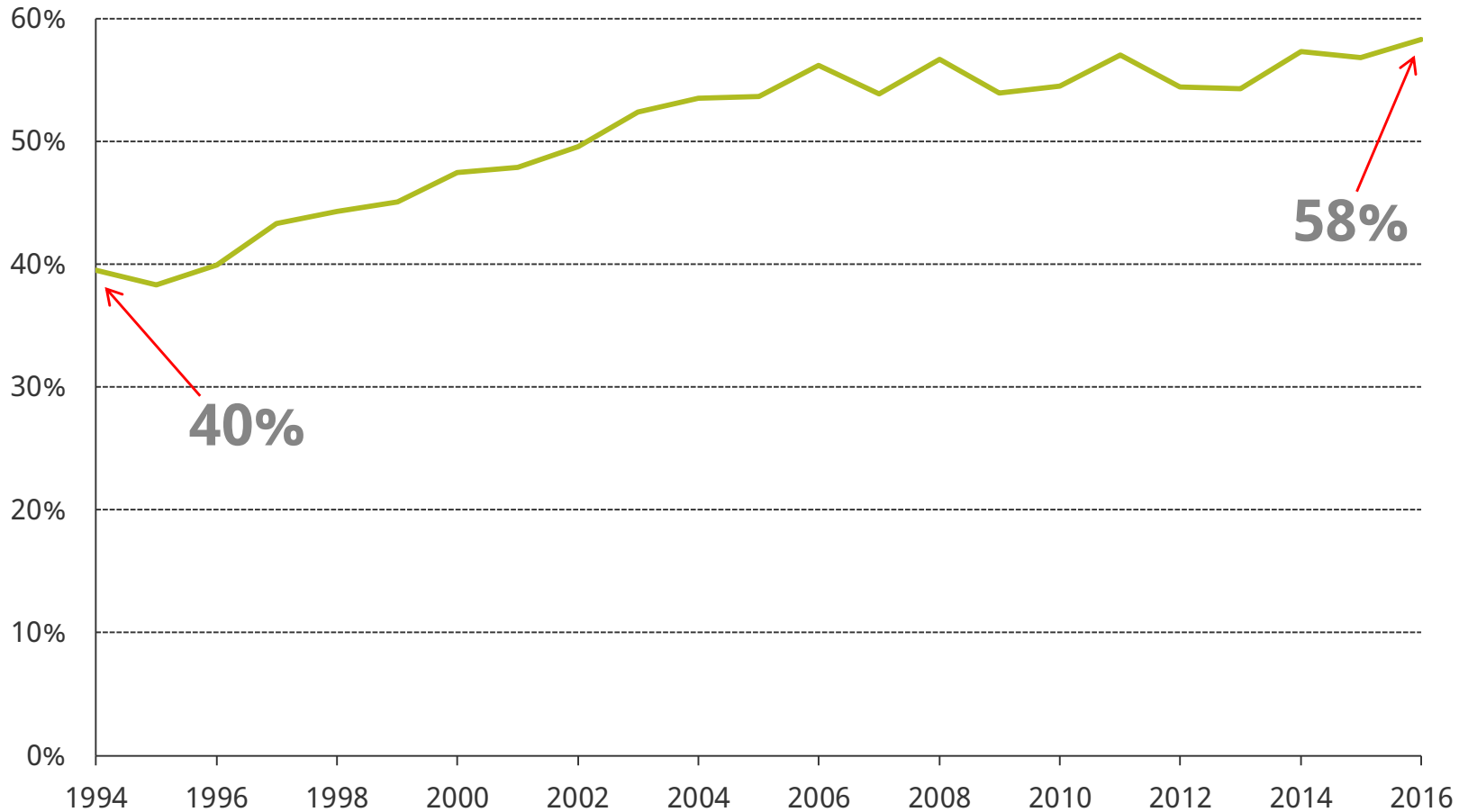
...in work but **not earning much**

...needing **support for housing costs**

...with an **incapacity or disability**

Challenge 1: people in work but not earning much

% of working-age benefits going to households with adult(s) in paid work

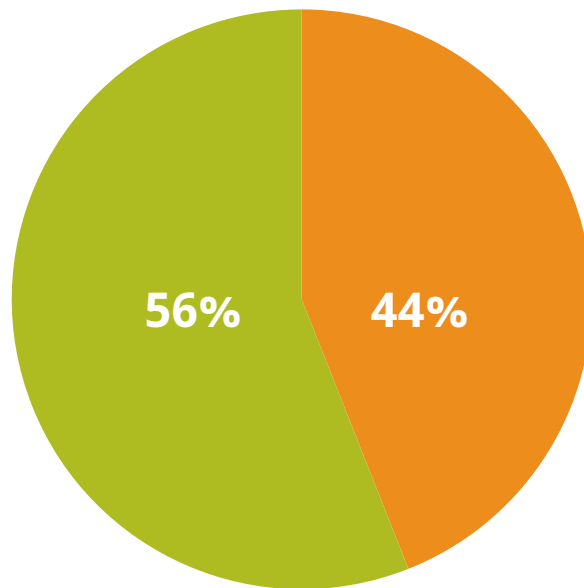


Source: Family Resources Survey

Challenge 1: people in work but not earning much

Population who are in poverty and in a working-age household

1994/95



In a workless household

At least one adult in household in paid work

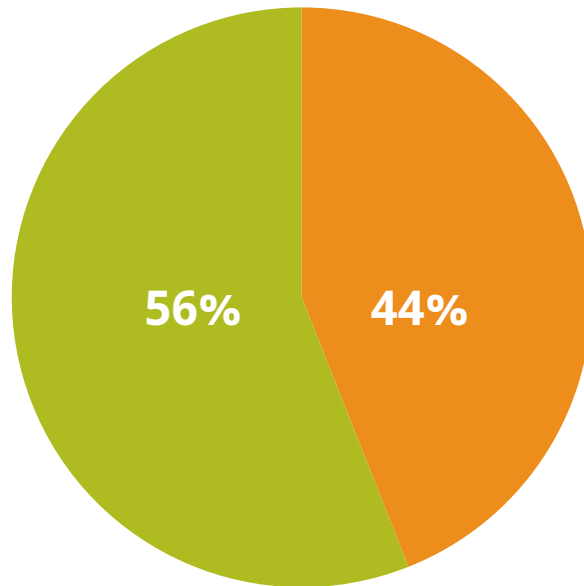
Note: Chart shows the composition of the population in relative after-housing-costs poverty.

Source: Family Resources Survey, 1994-95 and 2016-17.

Challenge 1: people in work but not earning much

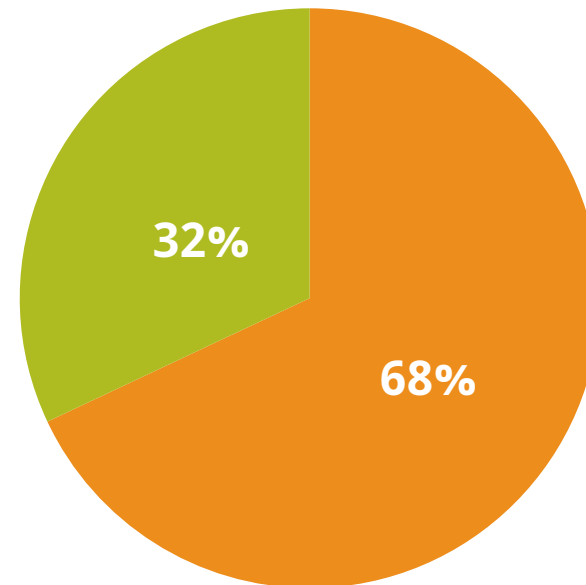
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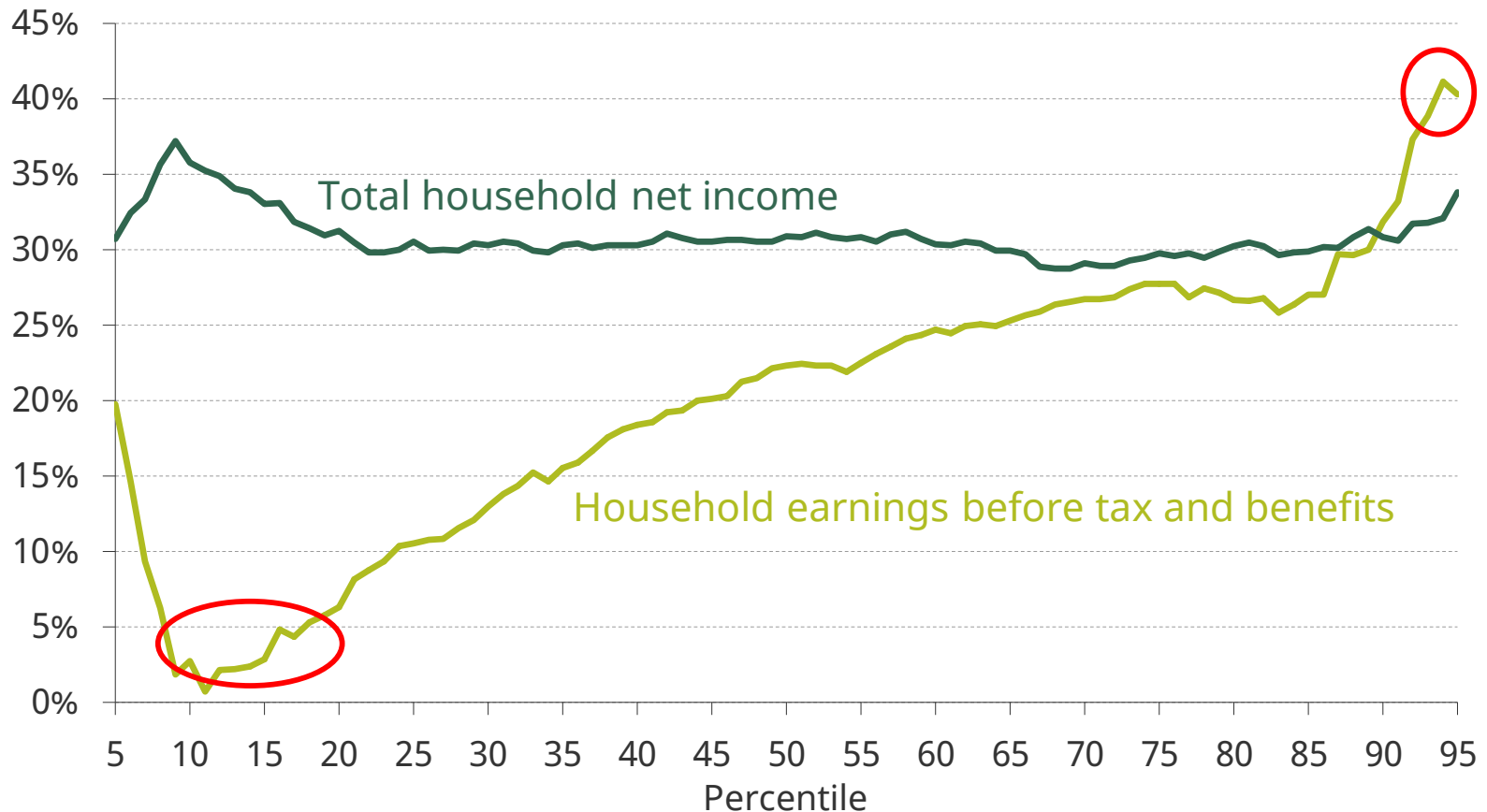
At least one adult in
household in paid work

Note: Chart shows the composition of the population in relative after-housing-costs poverty.

Source: Family Resources Survey, 1994-95 and 2016-17.

Challenge 1: people in work but not earning much

Income growth for people in working households, 1994/95 to 2016/17

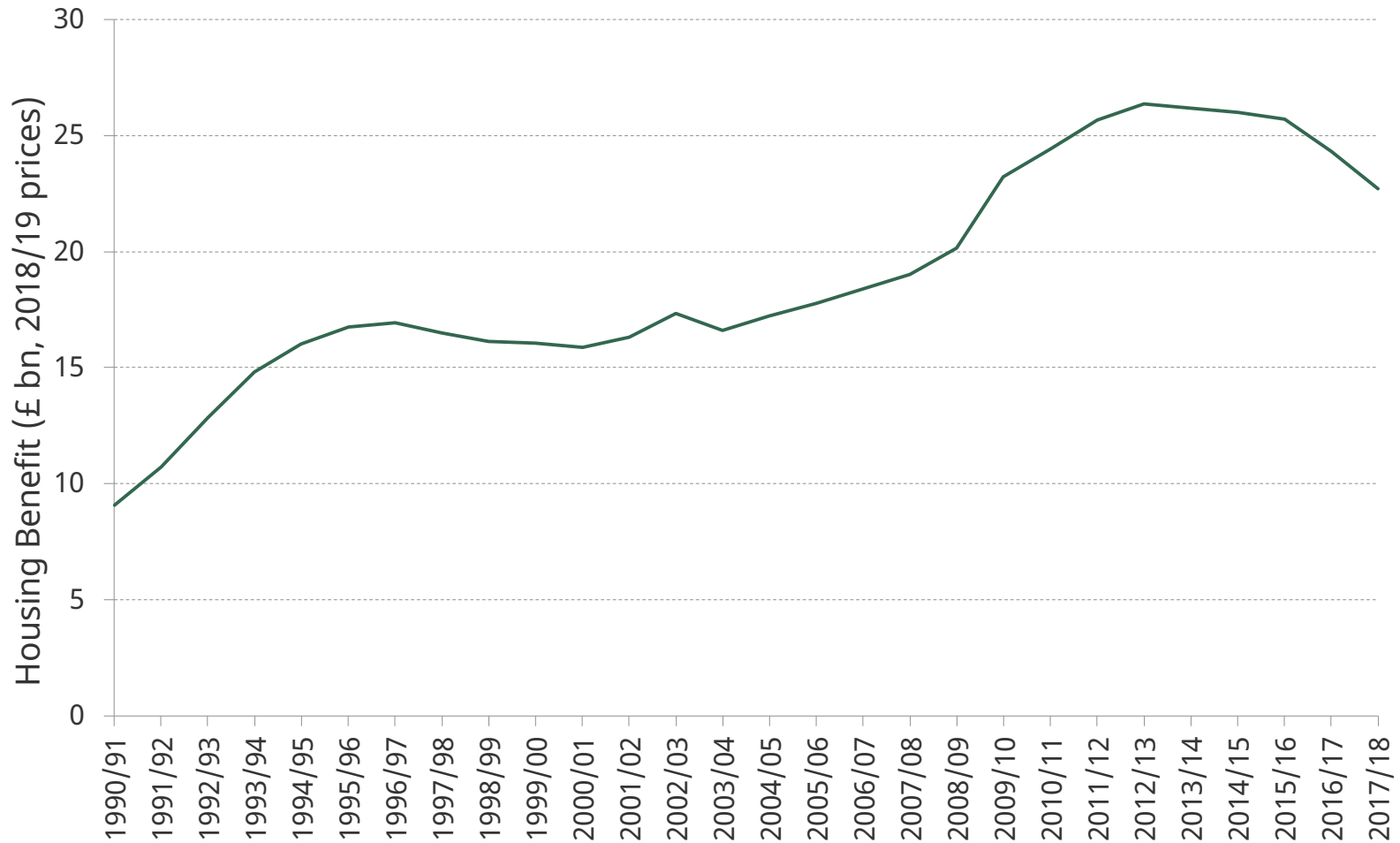


Notes: Sample is individuals in households that do not contain any member over the state pension age and have at least one adult in paid work. Percentiles are the percentiles of the respective distributions.

Source: FRS 1994-95 to 2016-17.

Challenge 2: support for housing costs

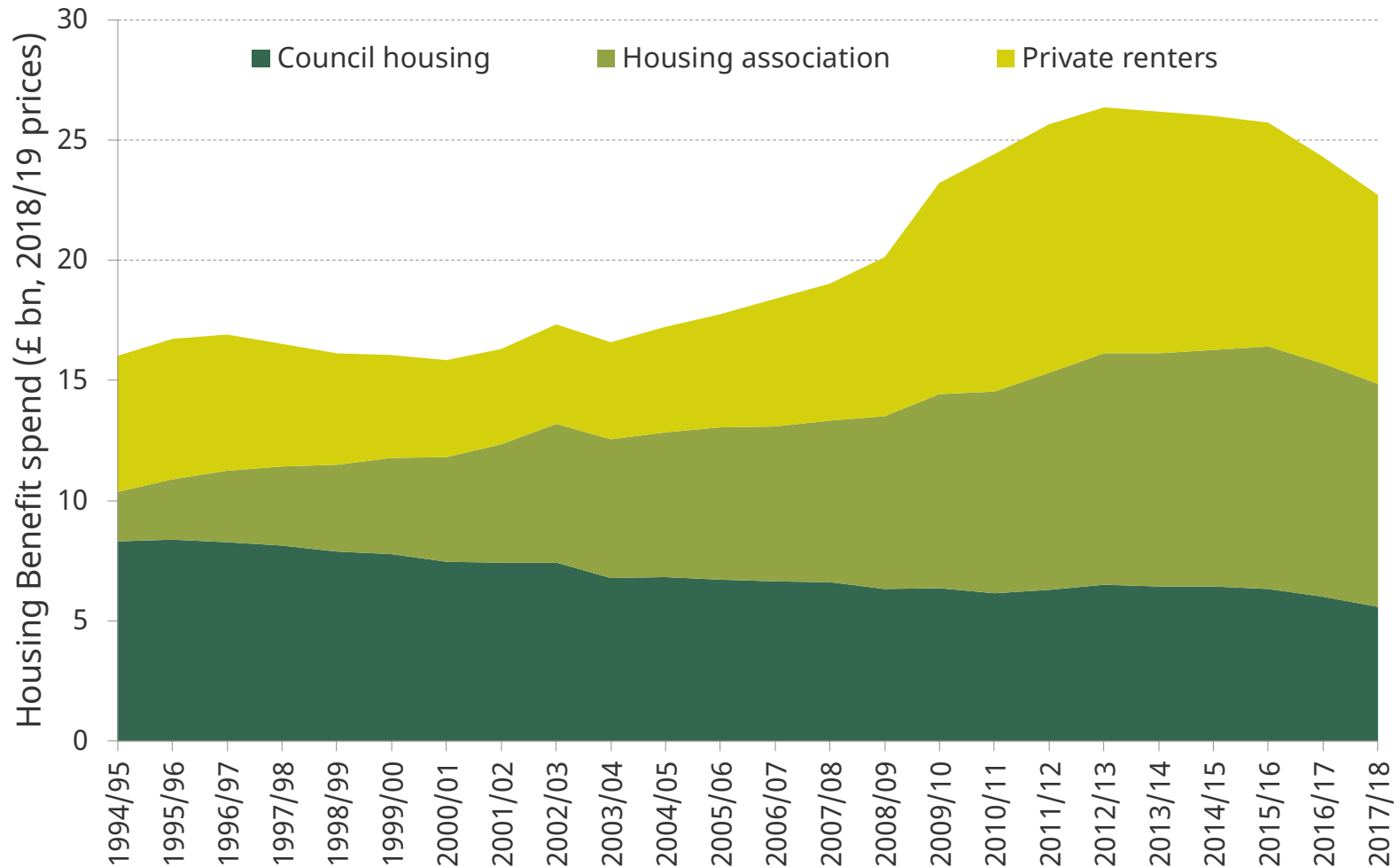
Real spending on housing benefit



Source: DWP benefit expenditure and caseload tables 2018

Challenge 2: support for housing costs

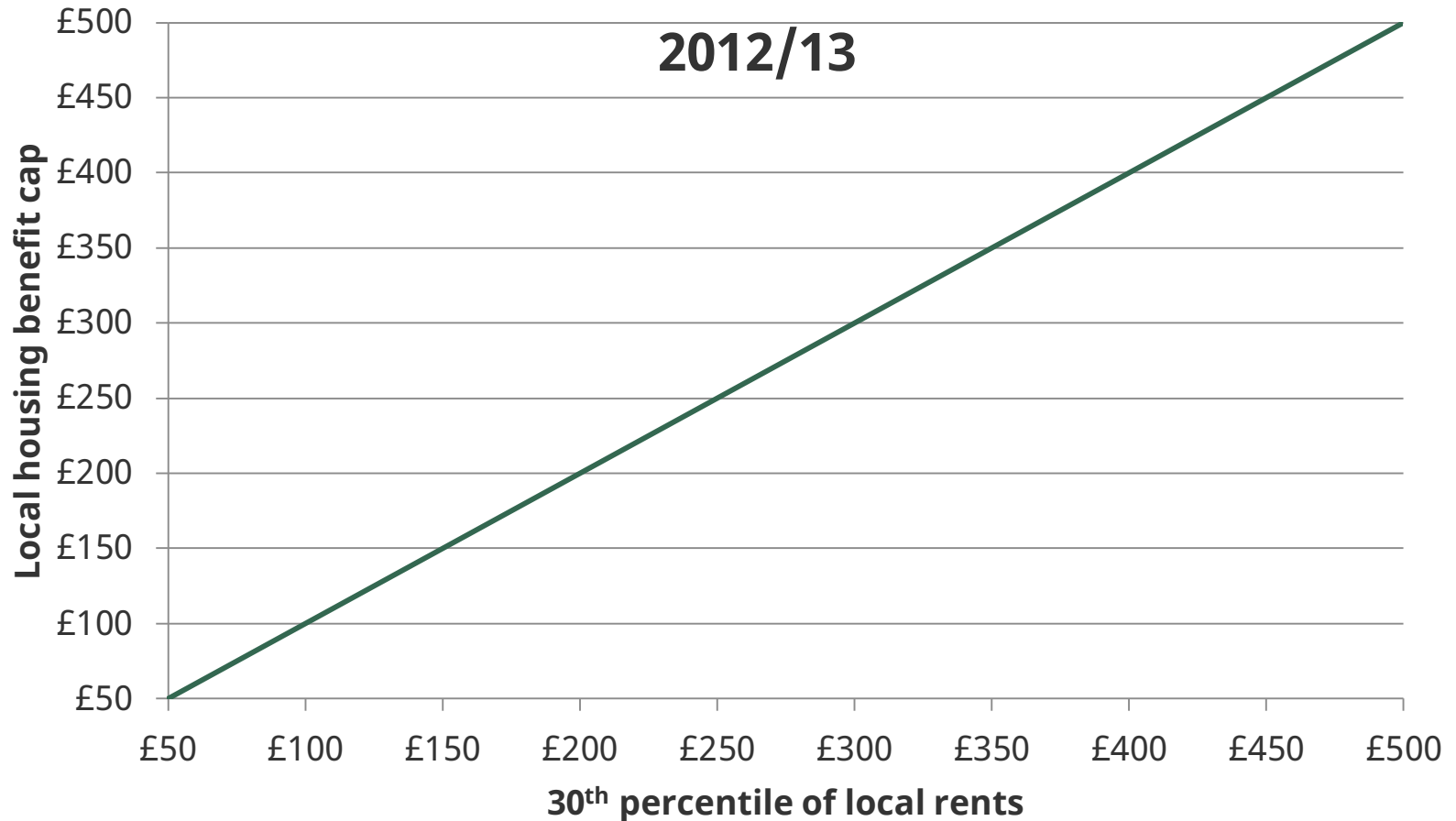
Growth of higher-rent sectors driving much of the increase



Source: DWP benefit expenditure and caseload tables 2018. Breakdown by housing sector only available since 1994/95.

Challenge 2: support for housing costs

Housing benefit caps in private rented sector for 3-bed properties



Challenge 2: support for housing costs

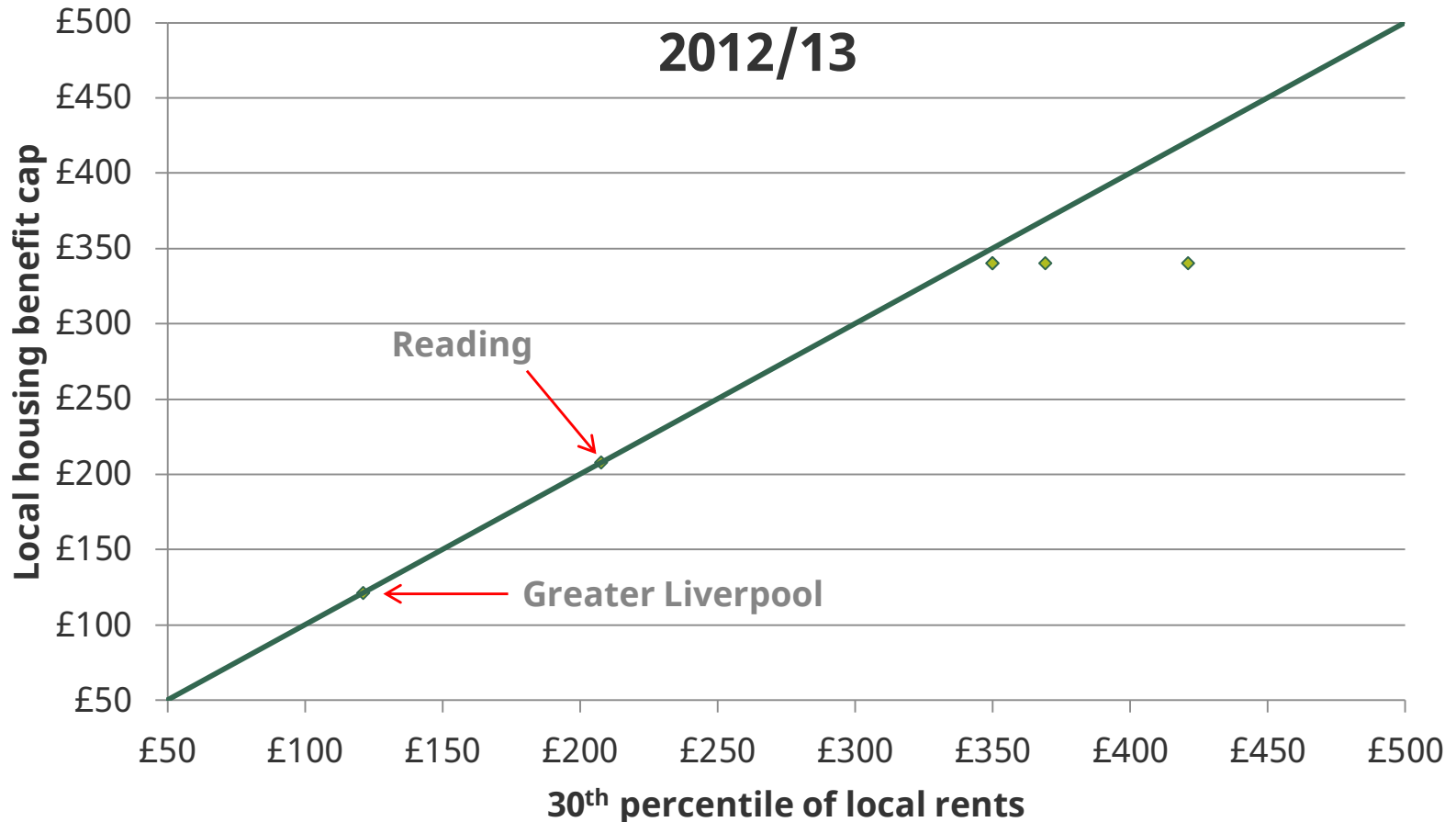
Housing benefit caps in private rented sector for 3-bed properties



Notes: "Caps" are the Local Housing Allowance rates in £ per week. Each data point represents a Broad Rental Market Area.

Challenge 2: support for housing costs

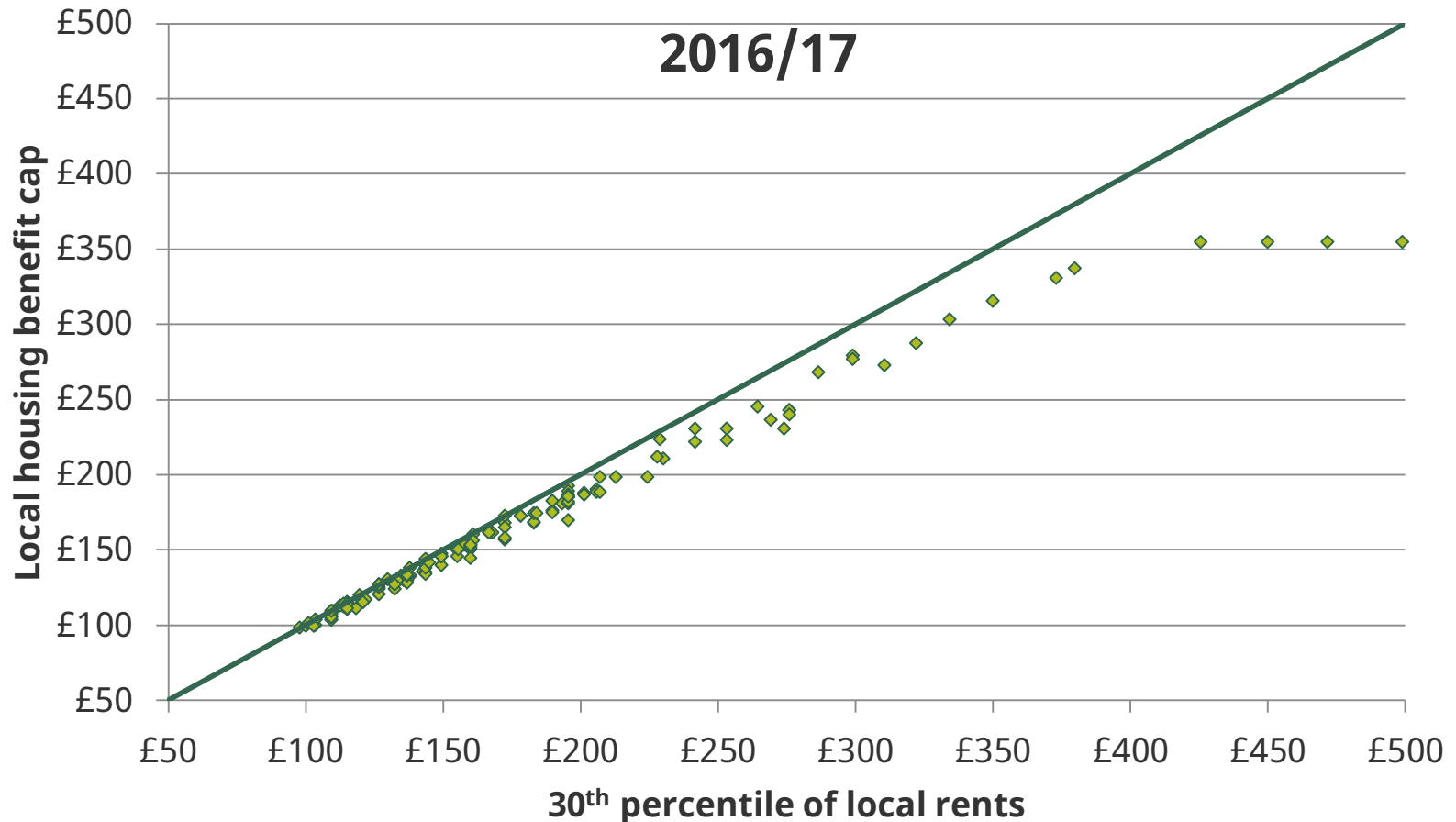
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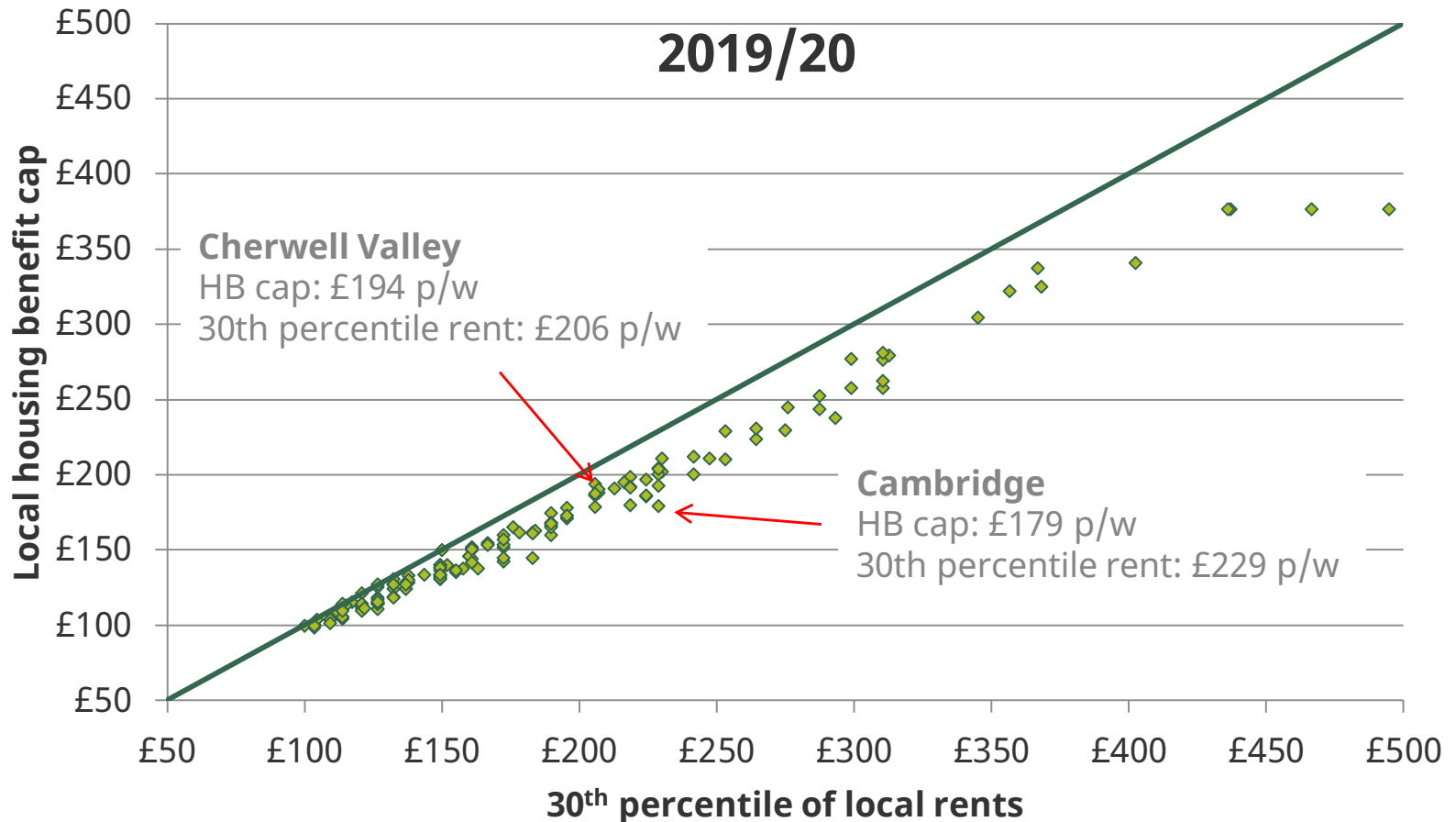


Notes: "Caps" are the Local Housing Allowance rates in £ per week. Each data point represents a Broad Rental Market Area. England only.

Source: <https://www.gov.uk/government/publications/local-housing-allowance-lha-rates-applicable-from-april-2016-march-2017>

Challenge 2: support for housing costs

Housing benefit caps in private rented sector for 3-bed properties

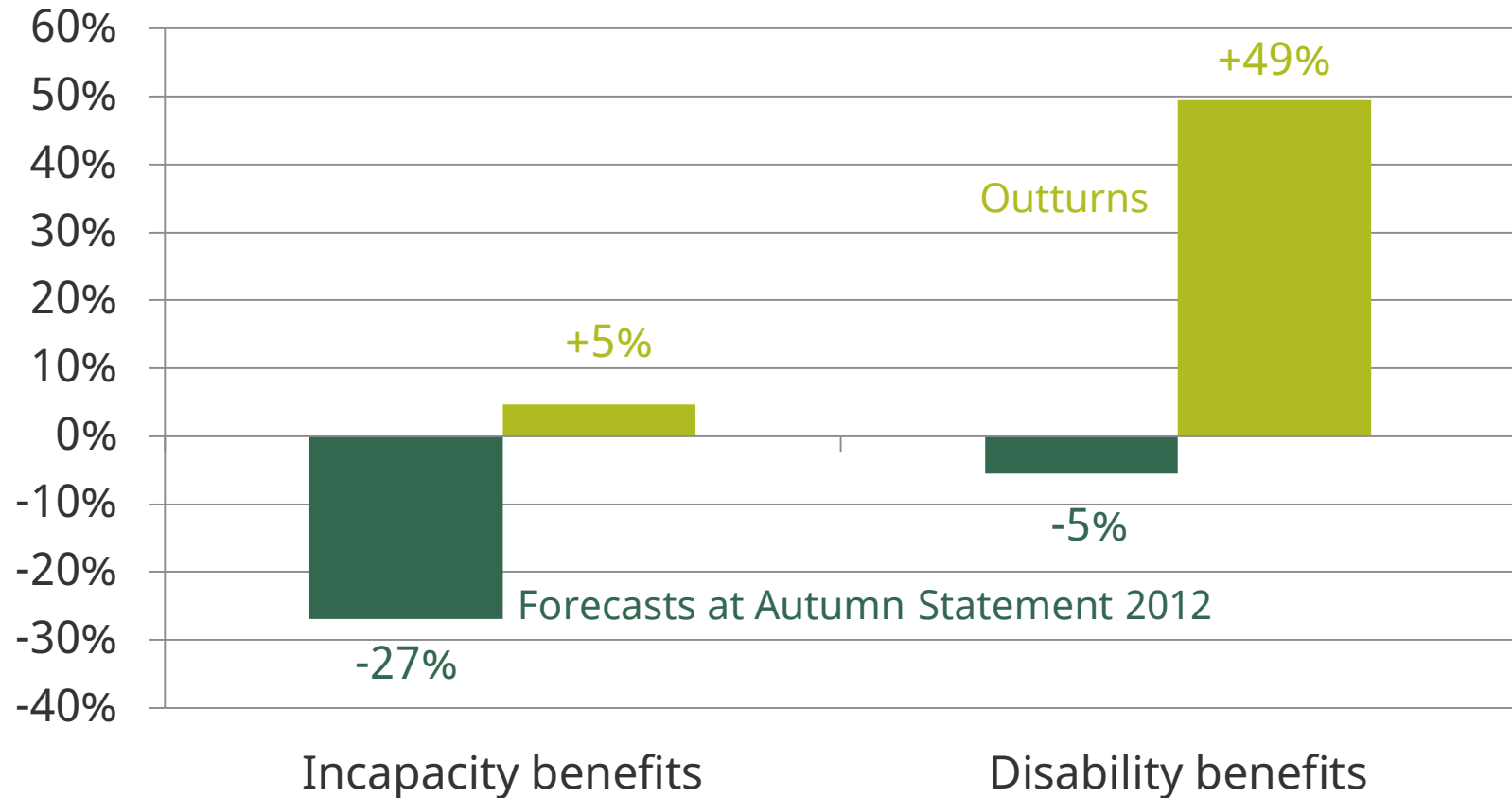


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Challenge 3: incapacity and disability

Real working-age spending, 2010-11 to 2017-18

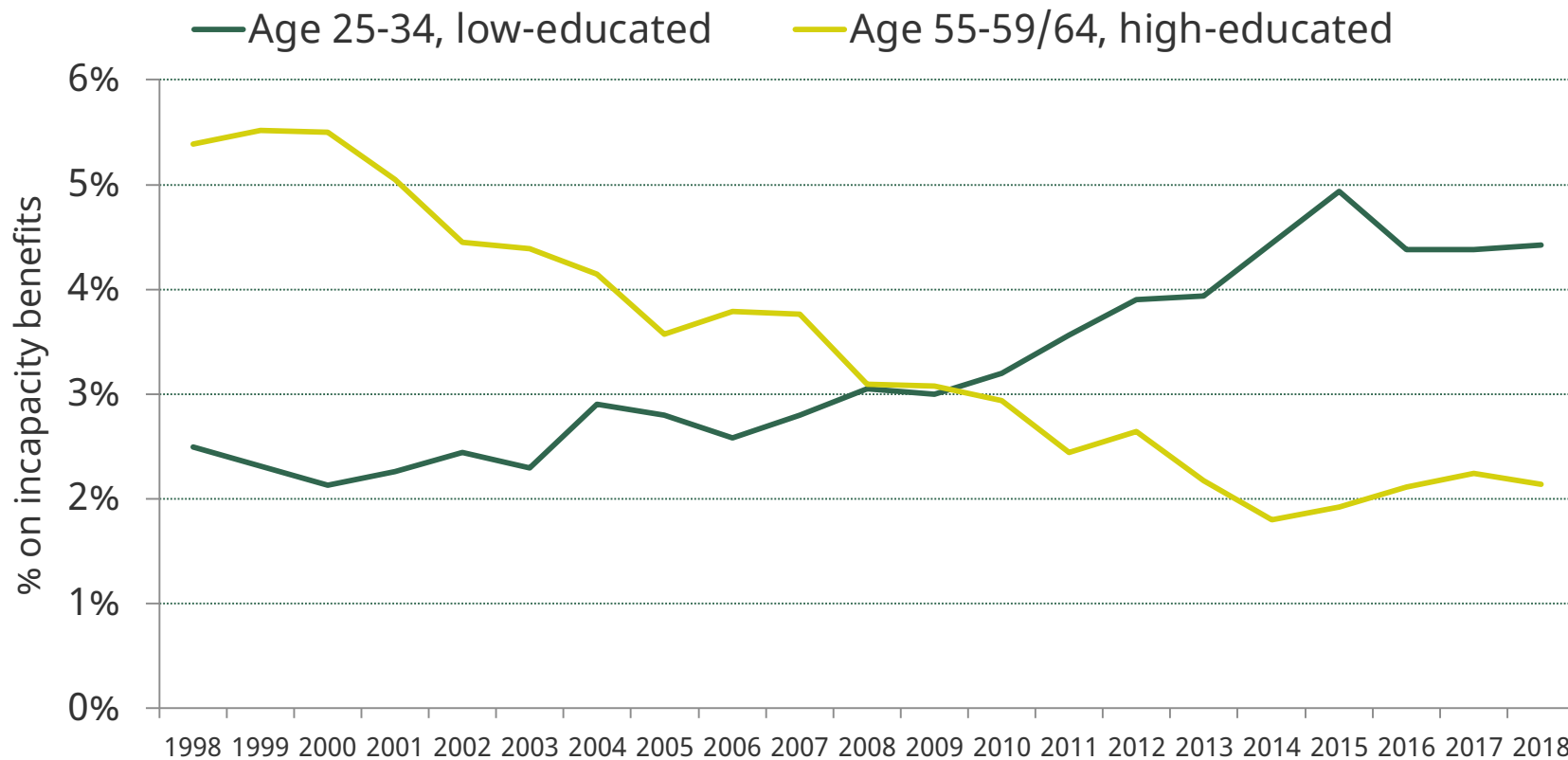


Note: 'Incapacity benefits' include ESA, IB, SDA, invalidity benefit, sickness benefit, and income support on grounds of disability. 'Disability benefits' include DLA, PIP, attendance allowance and mobility allowance.

Source: Authors' calculations using DWP expenditure tables Autumn 2018 and Autumn 2012.

Challenge 3: incapacity and disability

The nature of incapacity has changed radically

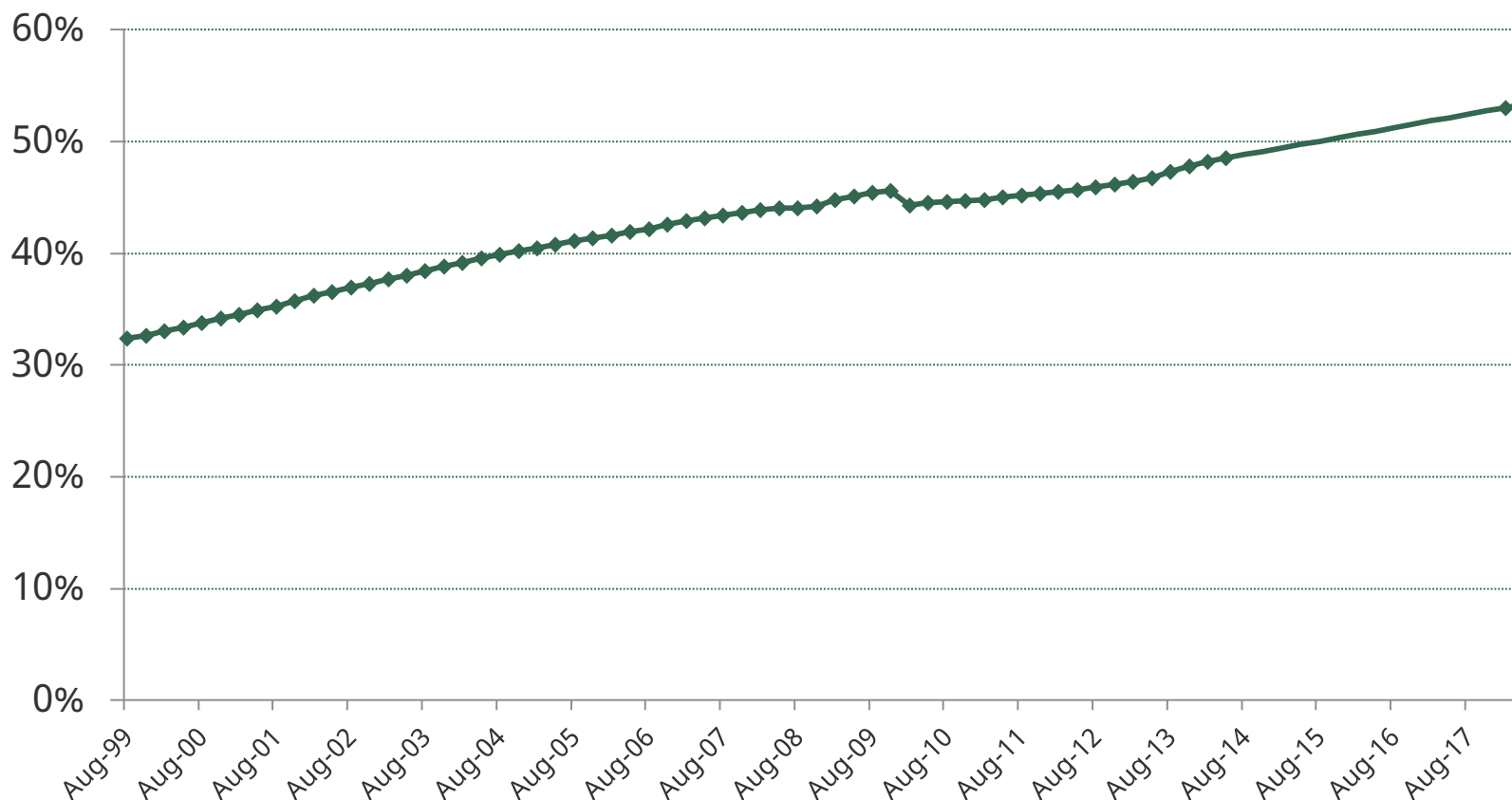


Note: Data run to 2018Q3. 'Low education' means leaving education at or before the compulsory school-leaving age; 'high education' corresponds to leaving education after age 18. For the yellow series, the upper age limit is 59 for women and 64 for men.

Source: Labour Force Survey

Challenge 3: incapacity and disability

% of incapacity benefits claimants whose main health condition is mental or behavioural (ages 25-59)



Source: Banks, Blundell and Emmerson (2015), 'Disability Benefit Receipt and Reform: Reconciling Trends in the United Kingdom', *Journal of Economic Perspectives* 29(2), and ONS Nomis data for 2018. Includes claimants of incapacity benefit, which was phased out for new claimants from 2008, and Employment and Support Allowance. February and May 2018 data points are ESA claimants only.

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