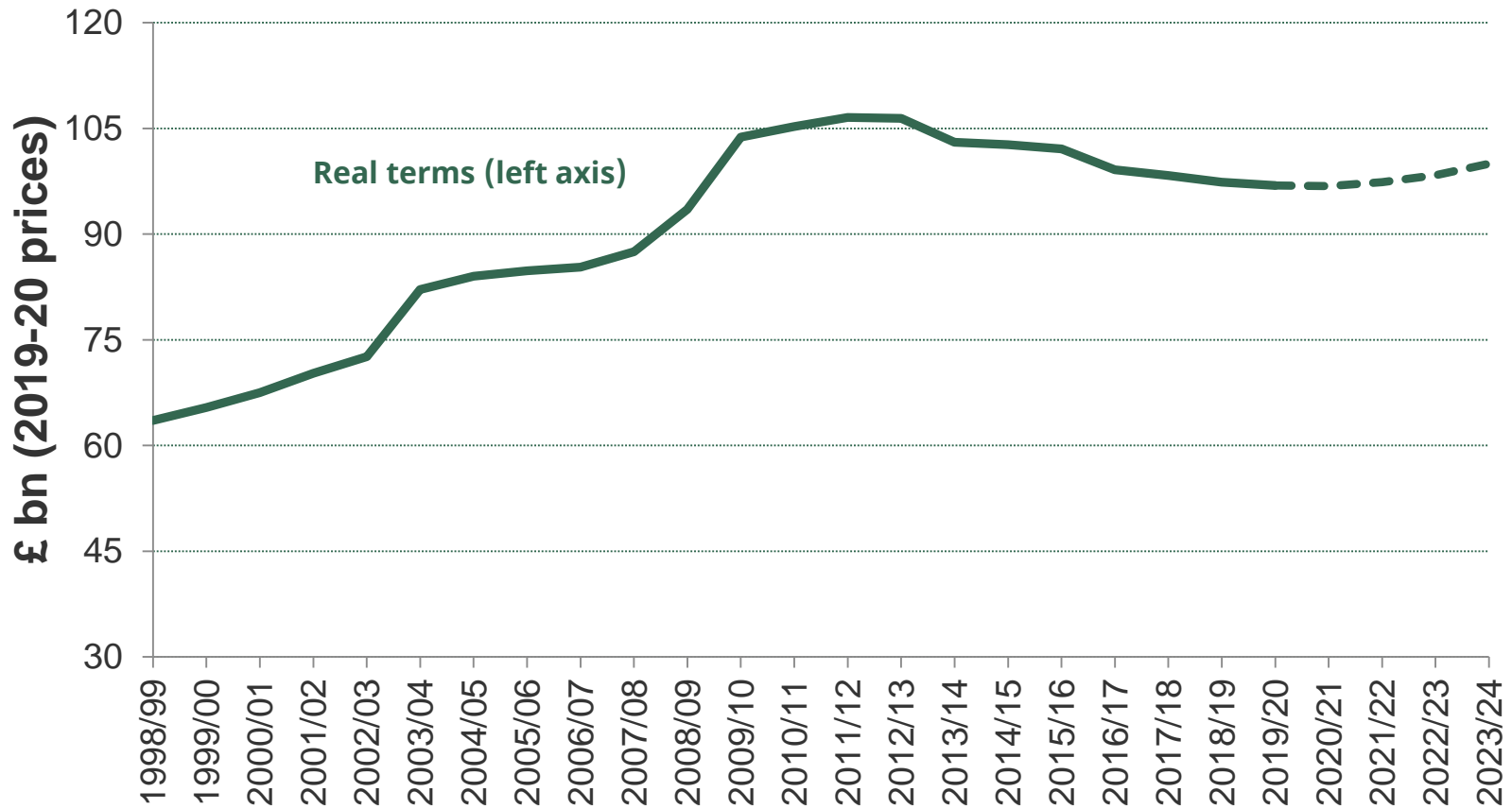


Working-age benefits and the labour market

Robert Joyce

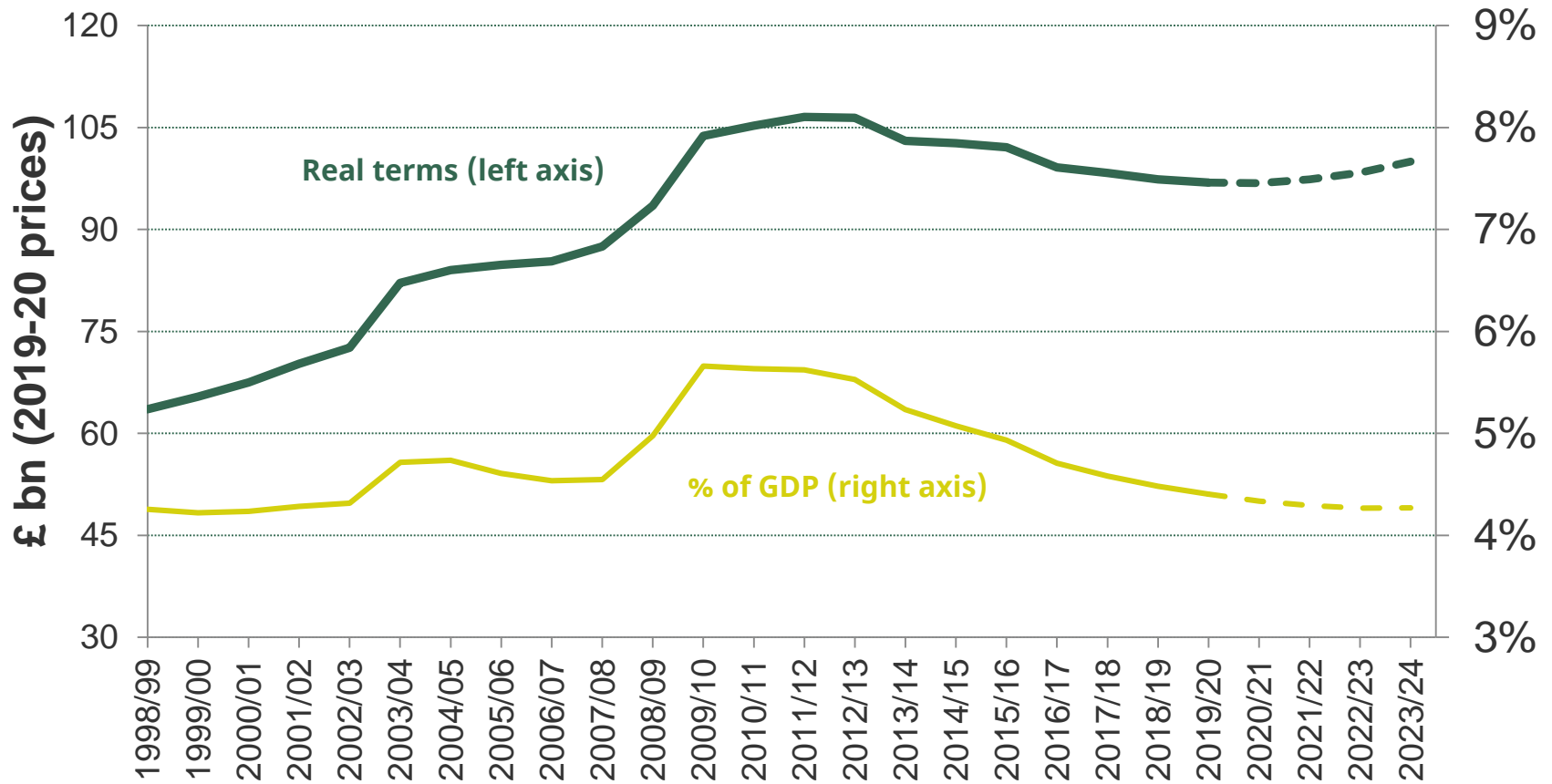
Working-age benefit spending



Source: Author's calculations using 'DWP Benefit Expenditure and Caseload Tables 2019, OBR public finances databank and OBR policy measures database.

Notes: Cash numbers are in 2019-20 prices.

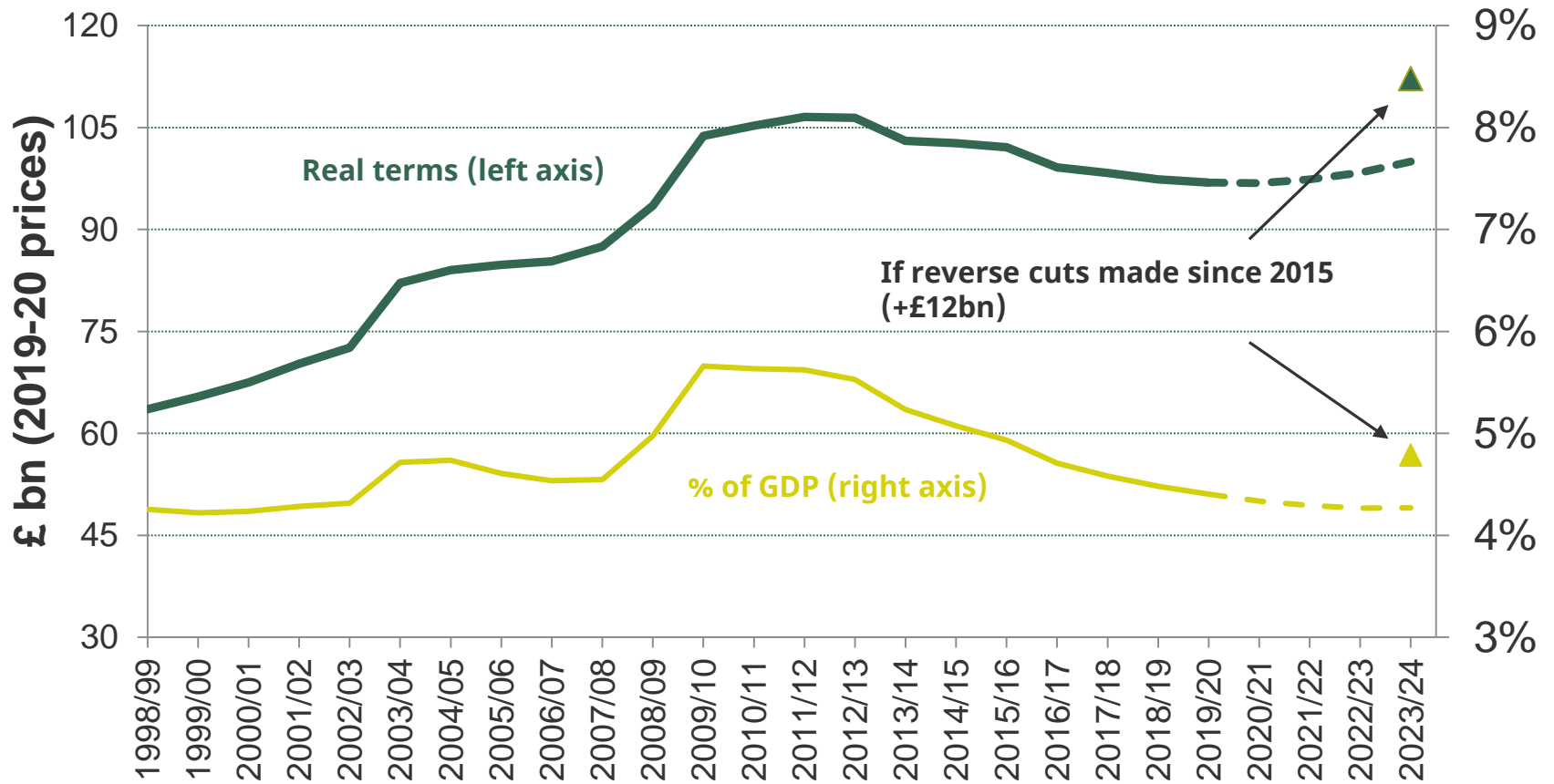
Working-age benefit spending



Source: Author's calculations using 'DWP Benefit Expenditure and Caseload Tables 2019, OBR public finances databank and OBR policy measures database.

Notes: Cash numbers are in 2019-20 prices.

Working-age benefit spending



Source: Author's calculations using 'DWP Benefit Expenditure and Caseload Tables 2019, OBR public finances databank and OBR policy measures database.

Notes: Cash numbers are in 2019-20 prices.

Unwinding (some) benefit cuts

Unwinding (some) benefit cuts

Proposal	Estimated cost in 2023-24 (£bn)	Conservatives	Labour	Lib Dem
Abolish “two-child limit”	2.3	✗	✓	✓
Reverse (some) cuts to universal credit work allowances	1.5	✗	✗	✓
Restore link between rents and housing benefit for private sector tenants	1.3	✗	✓	(✓)
Reverse cut to ESA WRAG element	0.5	✗	✓	✓
Abolish “bedroom tax”	0.4	✗	✓	✓
Abolish benefit cap	0.2	✗	✓	✓
Scrap bereavement support reforms	Negligible	✗	✓	✓

Sources: Conservative Party Manifesto; Labour Party Manifesto; Liberal Democrat manifesto.

Universal Credit

Currently 2 ½ million claimants; set to rise to 6 million by 2023-24

Getting roll-out right will be huge challenge in next parliament

In long run, millions of winners and millions of losers

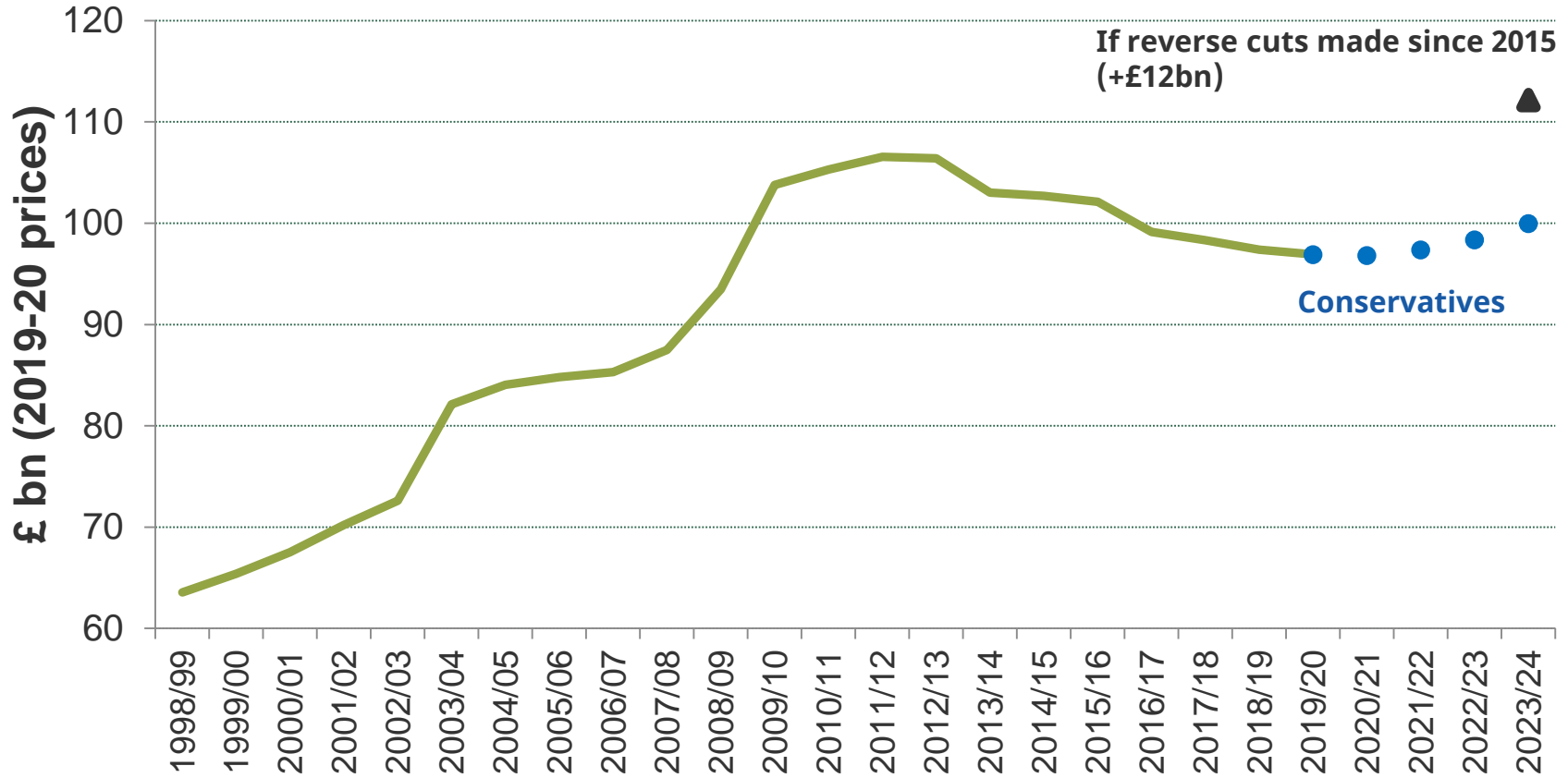
Labour and Lib Dems to make UC more generous for some groups

Labour says it will:

Not go ahead with moving claimants of 'old' benefits to UC (NB **not** the same as pausing UC roll-out: new or repeat benefit claims would still go on to UC)

Ultimately replace UC with something else entirely

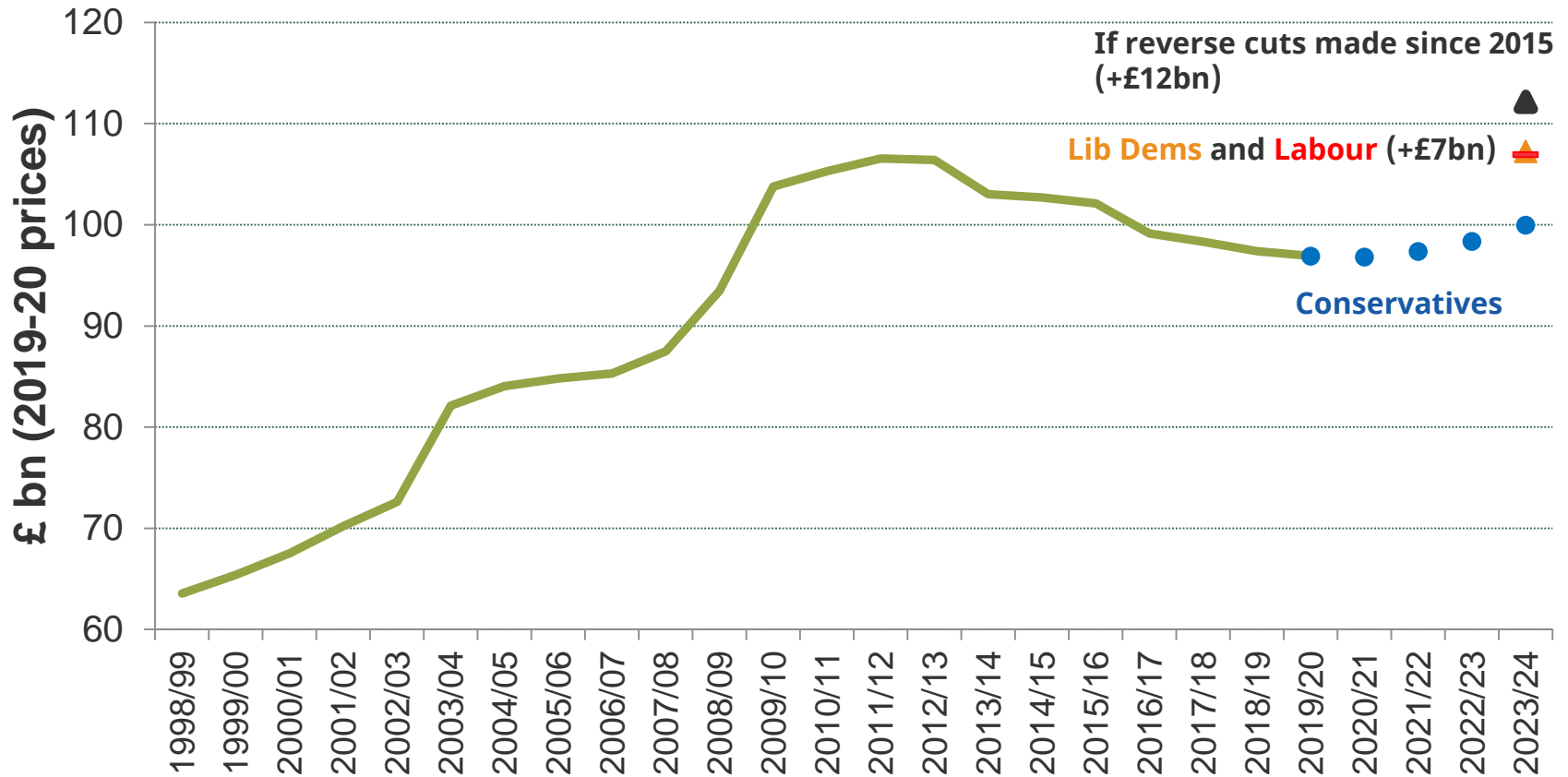
Working-age benefit spending



Source: Author's calculations using 'DWP Benefit Expenditure and Caseload Tables 2019, OBR public finances databank and OBR policy measures database.

Notes: Uses parties' costings of benefit reforms proposed in manifestos scaled by proportion of total benefit expenditure that is currently spent on working-age benefits. Cash numbers are in 2019-20 prices.

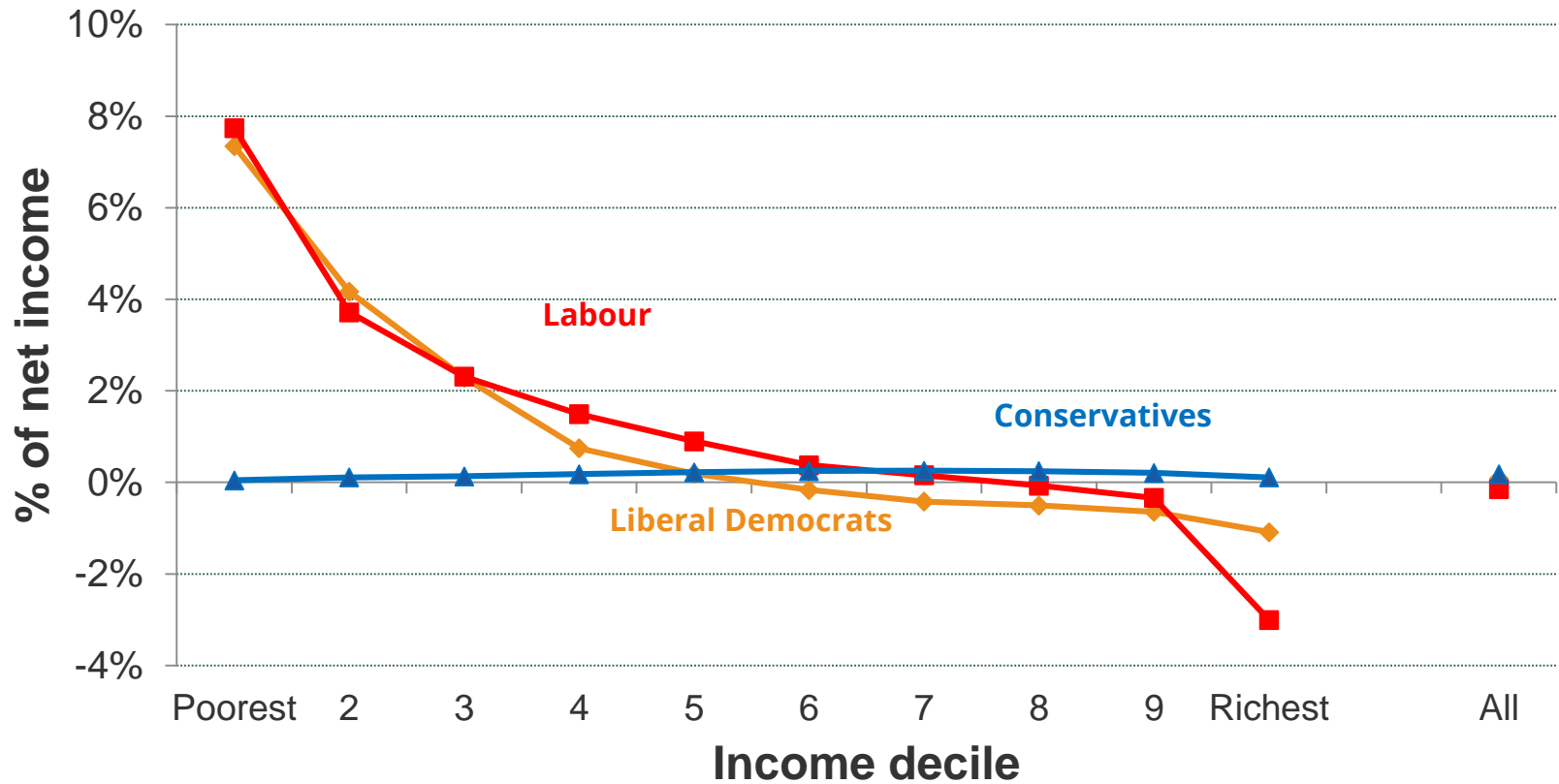
Working-age benefit spending



Source: Author's calculations using 'DWP Benefit Expenditure and Caseload Tables 2019, OBR public finances databank and OBR policy measures database.

Notes: Uses parties' costings of benefit reforms proposed in manifestos scaled by proportion of total benefit expenditure that is currently spent on working-age benefits. Cash numbers are in 2019-20 prices.

Impact of personal tax and benefit reforms, 2020-21 to 2024-25

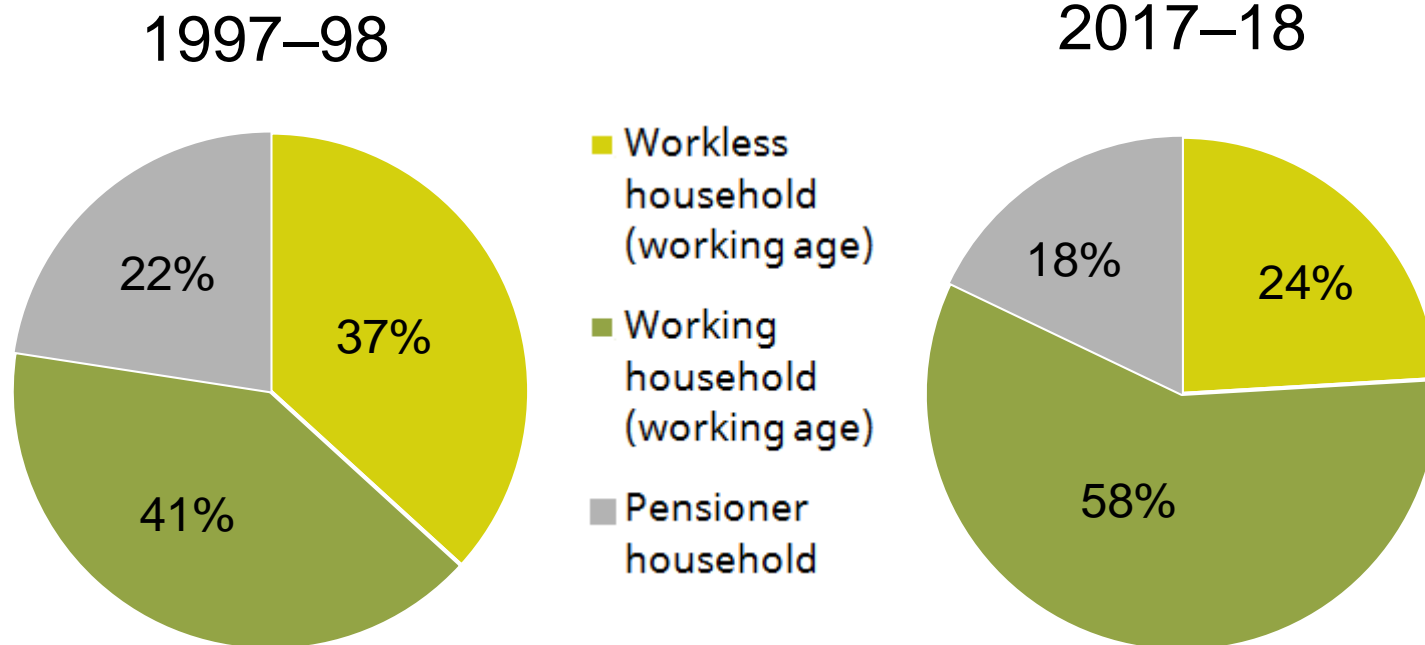


Note: Income decile groups are derived by dividing all households into 10 equal-sized groups according to net income adjusted for household size using the modified OECD equivalence scale. Assumes full take-up of means-tested benefits and tax credits, and that all planned changes are fully in place

Source: Authors' calculations using the Family Resources Survey 2017–18 and TAXBEN, the IFS tax and benefit microsimulation model.

Big shift in nature of poverty in the UK

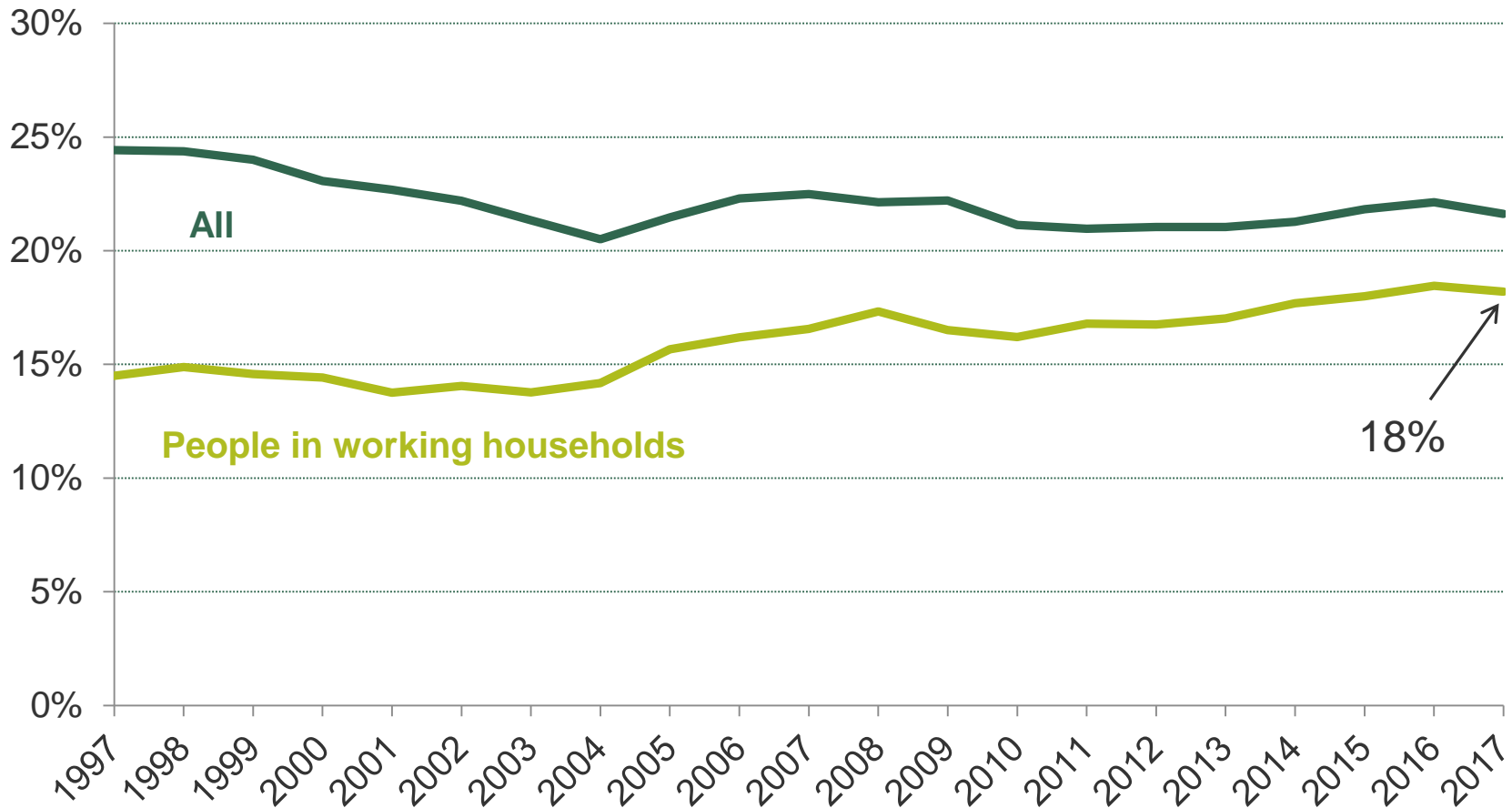
Population in relative after-housing-cost poverty



Note: Poverty line is 60% of median net equivalised household income after deducting housing costs.

Income poverty rates over time

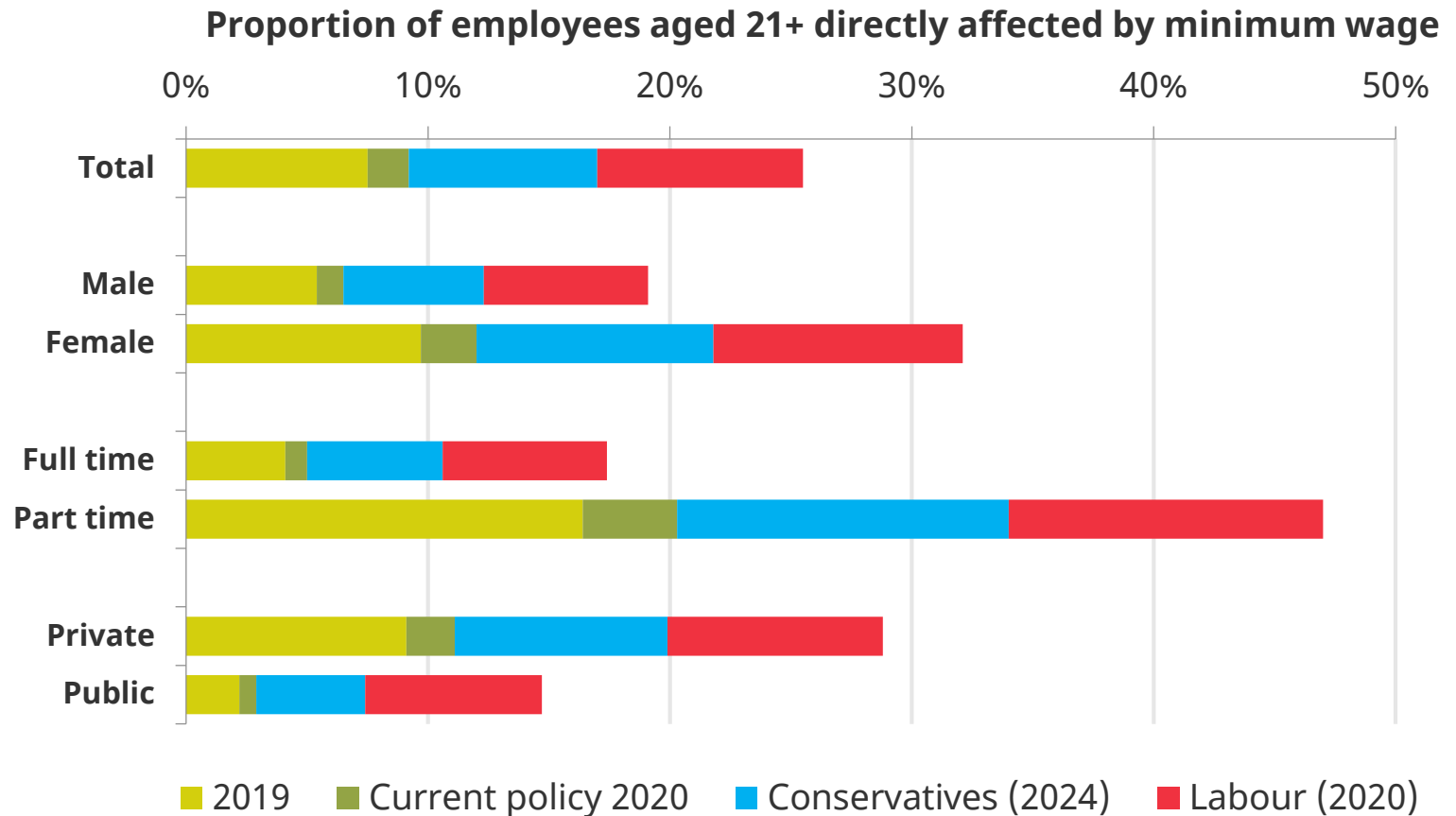
Relative poverty, after housing costs



Note: Poverty line is 60% of median net equivalised household income after deducting housing costs.

Source: Family Resources Survey.

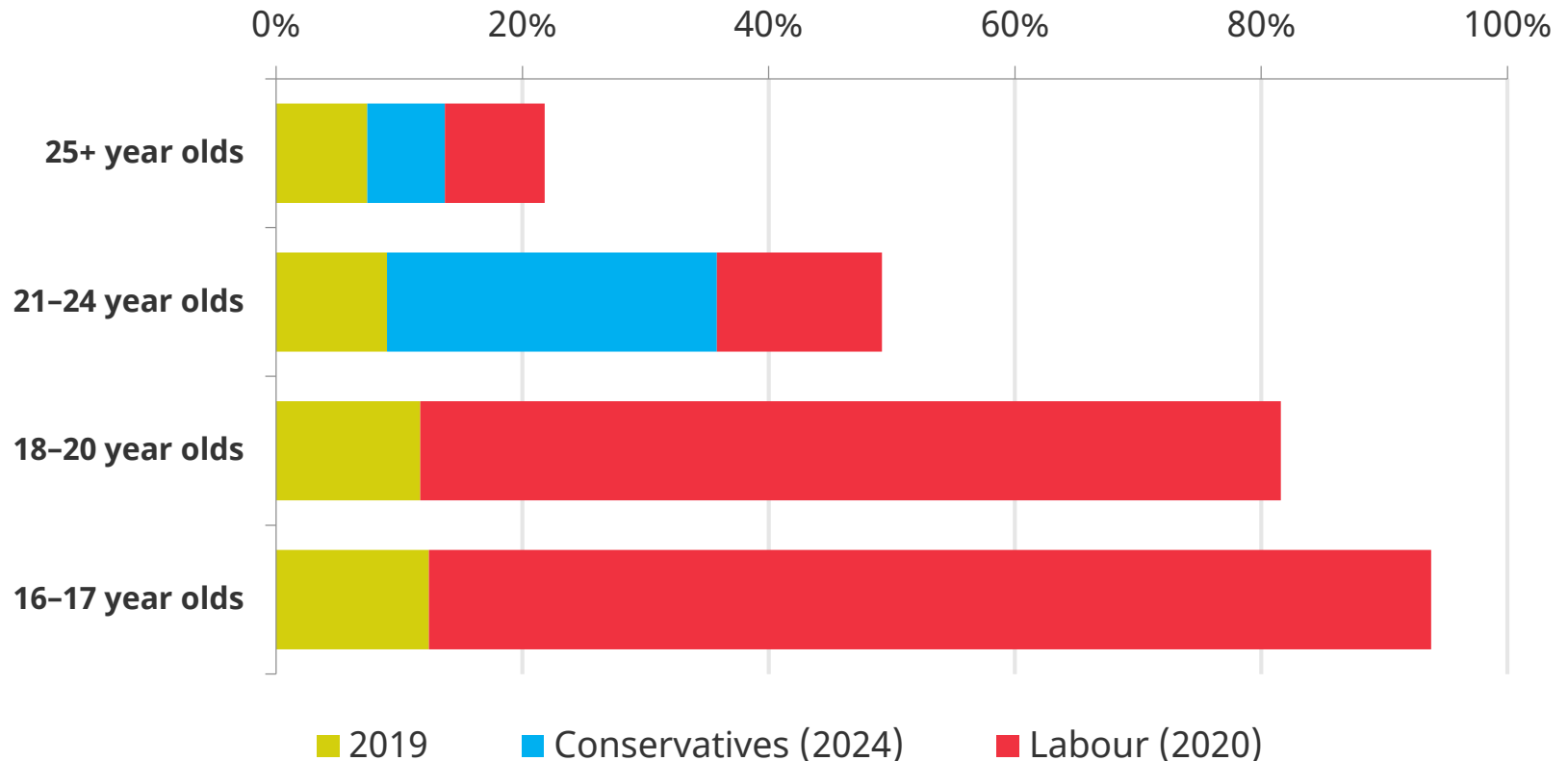
Large and rapid rises in minimum wages planned



Source and notes: Figure 3 in Cribb, J. Joyce, R and Xu, X., 'The future path of minimum wages', IFS, November 2019

A Labour government would set pay for almost all young employees

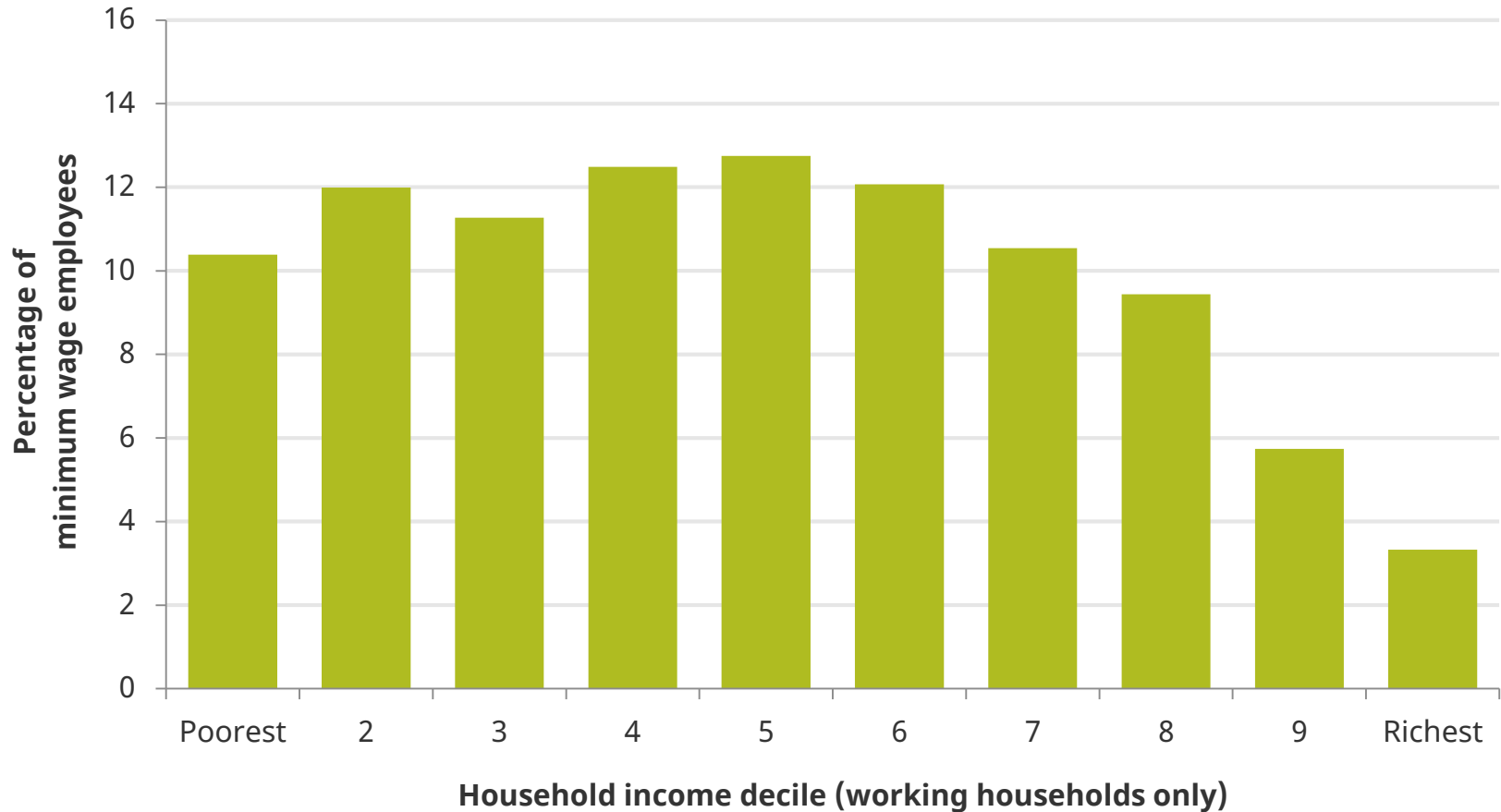
Proportion of employees directly affected by minimum wage



Source and notes: Figure 4 in Cribb, J. Joyce, R and Xu, X., 'The future path of minimum wages', IFS, November 2019

Minimum wage employees not concentrated within poorest working households

% of minimum wage employees in each household income decile



Sources and Notes: See Figure 5 in Cribb, J. Joyce, R and Xu, X., 'The future path of minimum wages', IFS, November 2019

Labour plan major reforms to labour market institutions and regulations

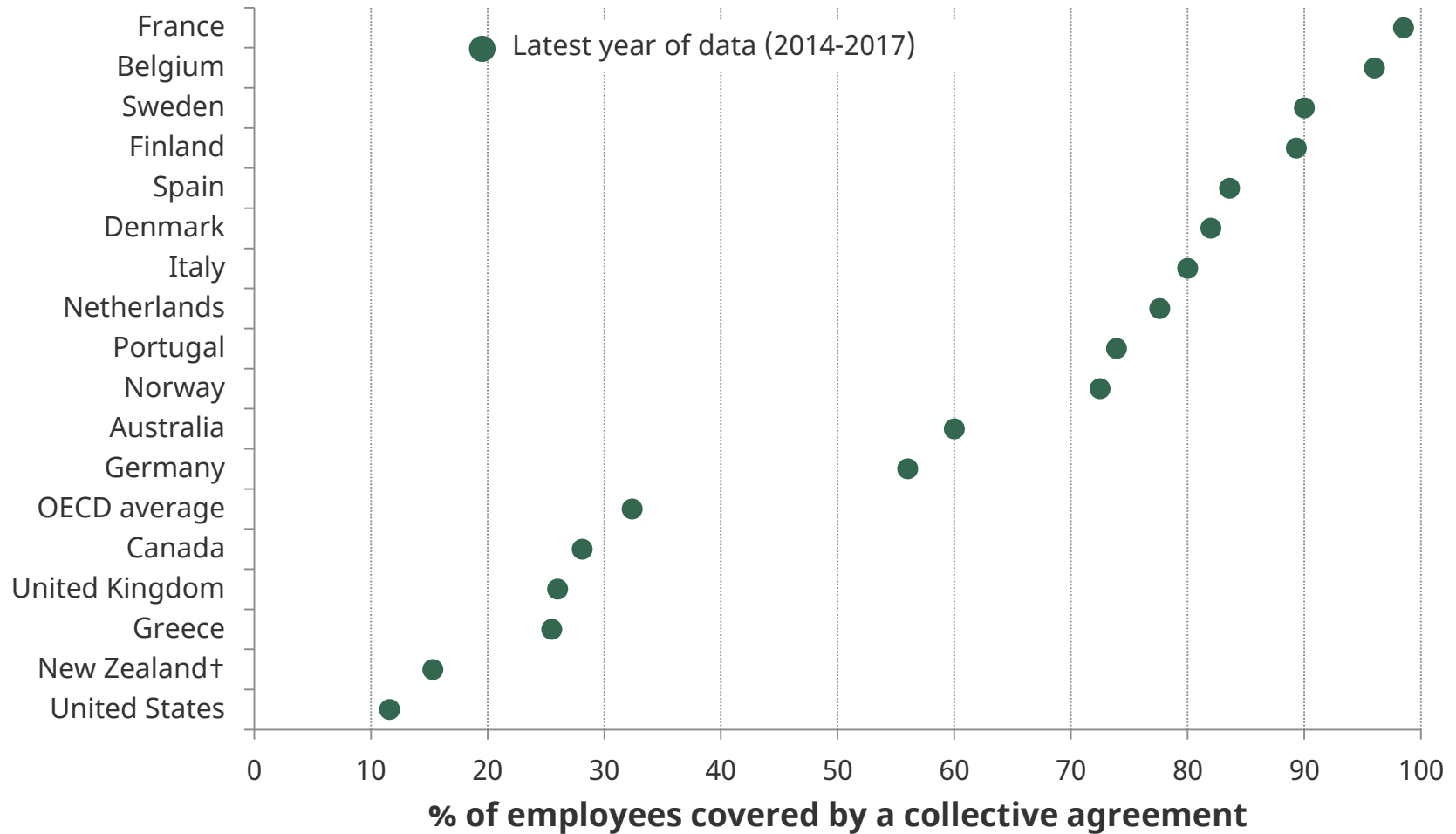
Common thread seems to be concern over the bargaining power of workers, and especially lower-paid ones

Evidence suggests this is a reasonable concern for a government wanting to make serious inroads into inequality

Examples of Labour policies that appear motivated by this:

- Much higher minimum wages
- Worker representatives on boards
- Large-scale sectoral collective bargaining

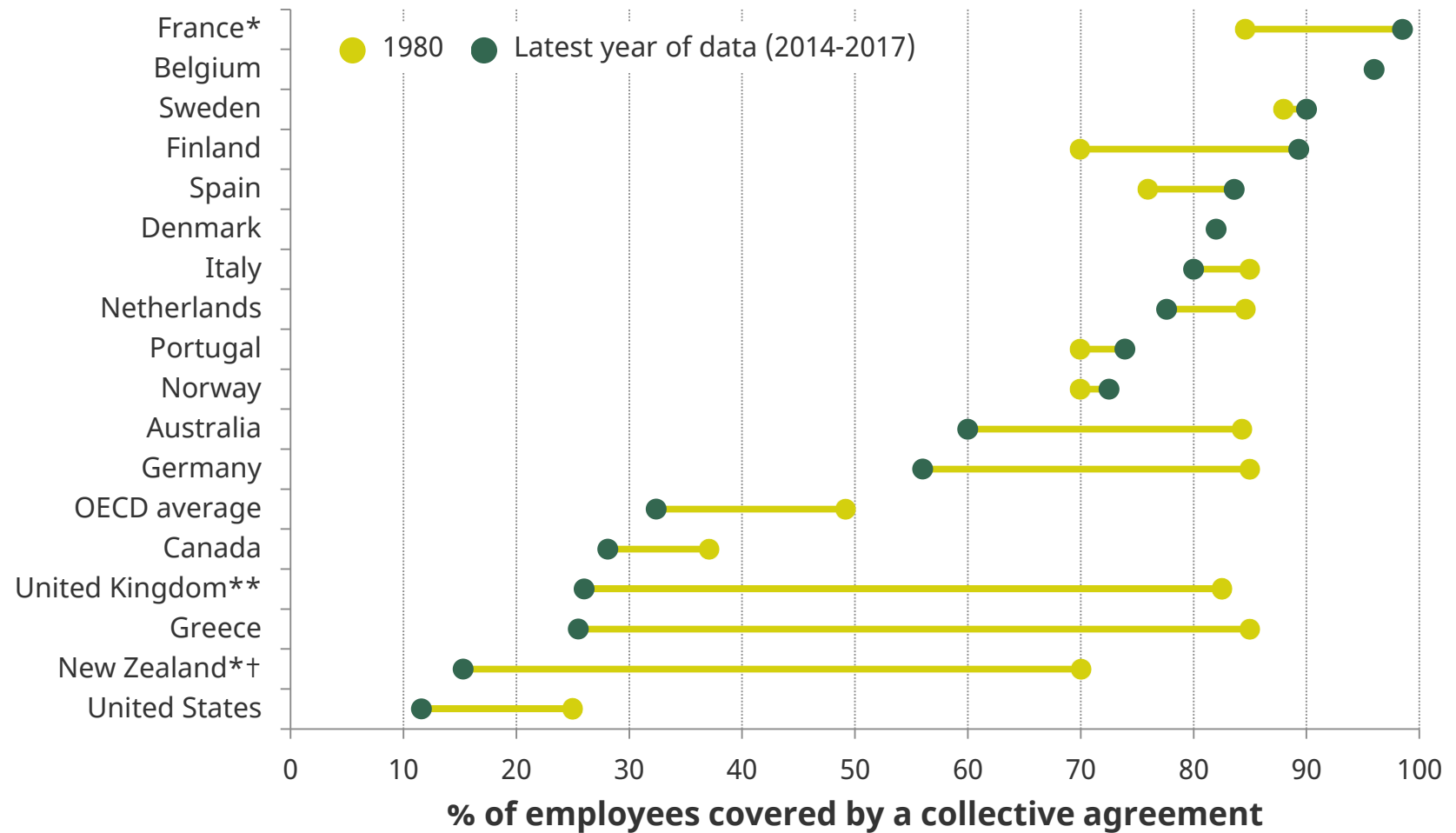
Collective bargaining in the UK is rarer than in many other developed economies



Source: OECD statistics (see <http://www.oecd.org/employment/negotiating-our-way-up-1fd2da34-en.htm>)

Notes: † latest year data from 2011

Collective bargaining in the UK is rarer than in many other developed economies



Source: OECD statistics (see <http://www.oecd.org/employment/negotiating-our-way-up-1fd2da34-en.htm>)

Notes: * first year data from 1981, ** first year data from 1982, † latest year data from 2011

Conclusions

Working-age benefits

Conservatives to lock in the cuts to date

Labour and Lib Dems to undo some of them

Labour's intention to replace UC would, if carried out, be most significant benefits policy in the manifestos – but very unclear what is really intended

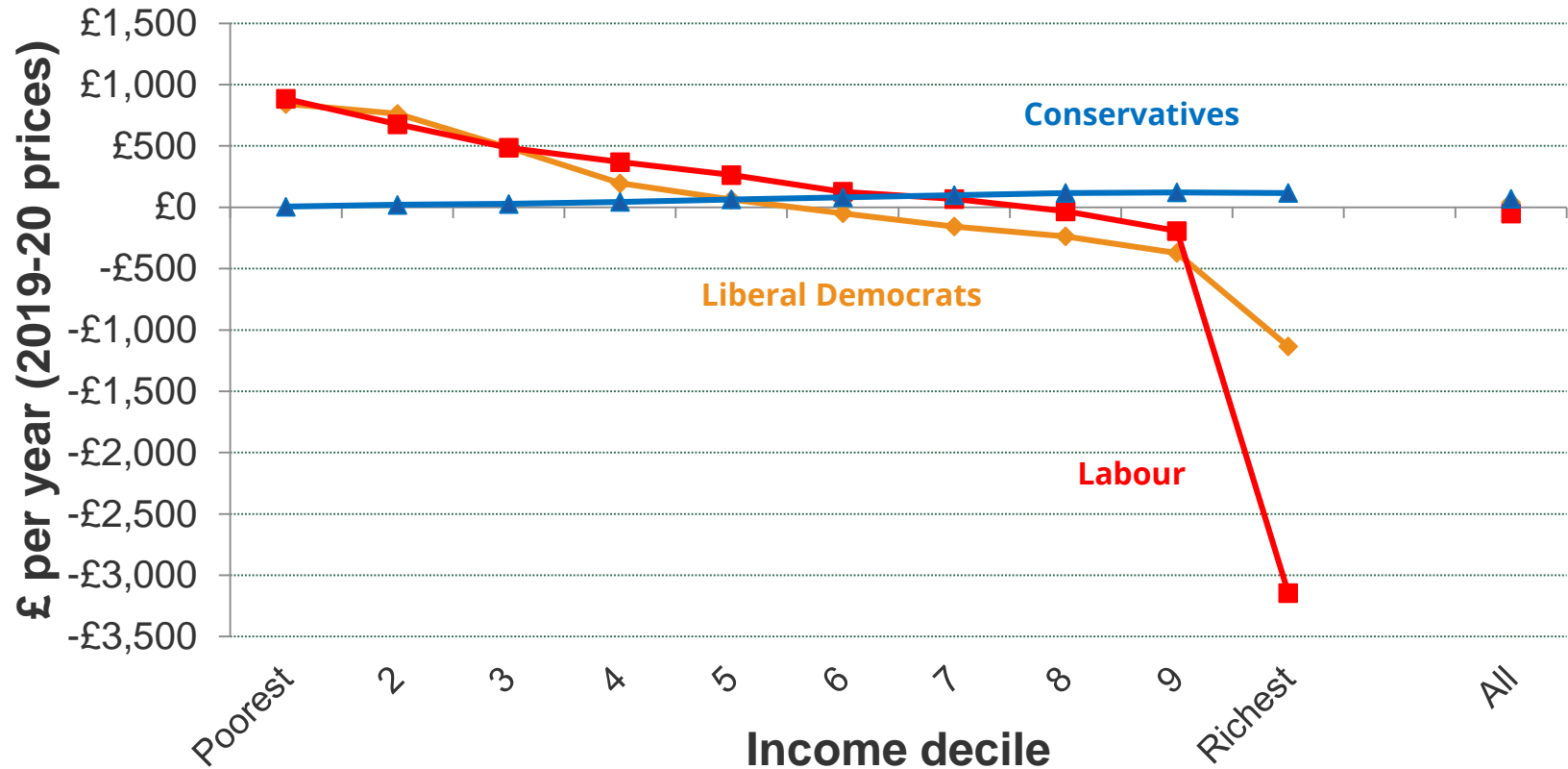
Labour's manifesto as a whole:

Would not eliminate in-work poverty *within five years*

But bigger picture is that impacts on earnings and income distribution likely to be inequality-reducing, and could be very substantial in long run

Annex on distributional analysis

Impact of personal tax and benefit reforms, 2021-22 to 2024-25, in £ per year



Note: Income decile groups are derived by dividing all households into 10 equal-sized groups according to net income adjusted for household size using the modified OECD equivalence scale. Assumes full take-up of means-tested benefits and tax credits, and that all planned changes are fully in place.

Source: Authors' calculations using the Family Resources Survey 2017–18 and TAXBEN, the IFS tax and benefit microsimulation model.

Policies modelled in distributional analysis

Conservatives

- Raising the point at which employees and the self-employed pay National Insurance Contributions to £9,500 in 2020–21

Policies modelled in distributional analysis

Labour

- Increasing marginal income tax rates above £80,000 to 45% and above £125,000 to 50%
- Reversing the limiting of the child element in tax credits and UC to two children
- Abolishing the benefits cap
- Abolishing the 'bedroom tax'
- Reintroducing the WRAG premium in ESA
- Abolishing the married couples' transferable personal allowance
- Increasing carer's allowance up to the level of JSA
- Introducing a self care element in UC
- Introducing universal free school meals to all children in primary school
- Restore pension credit and housing benefit eligibility for mixed-age couples
- Free TV licenses for those aged over 75
- Restore LHA levels to 30th percentile of local rents

Policies modelled in distributional analysis

Liberal Democrats

- Increasing all income tax rates by 1p
- Reversing the limiting of the child element in tax credits and UC to two children
- Abolishing the benefits cap
- Abolishing the 'bedroom tax'
- Reintroducing the WRAG premium in ESA
- Abolishing the married couples' transferable personal allowance
- Reversing the cuts to work allowances in UC
- Introducing a second earner work allowance
- Uprating LHA rates with average rent in the area rather than CPI
- Introducing universal free school meals in primary school and to all secondary school children whose families receive UC