

IFS Green Budget 2020: Options for the temporary COVID benefit increases





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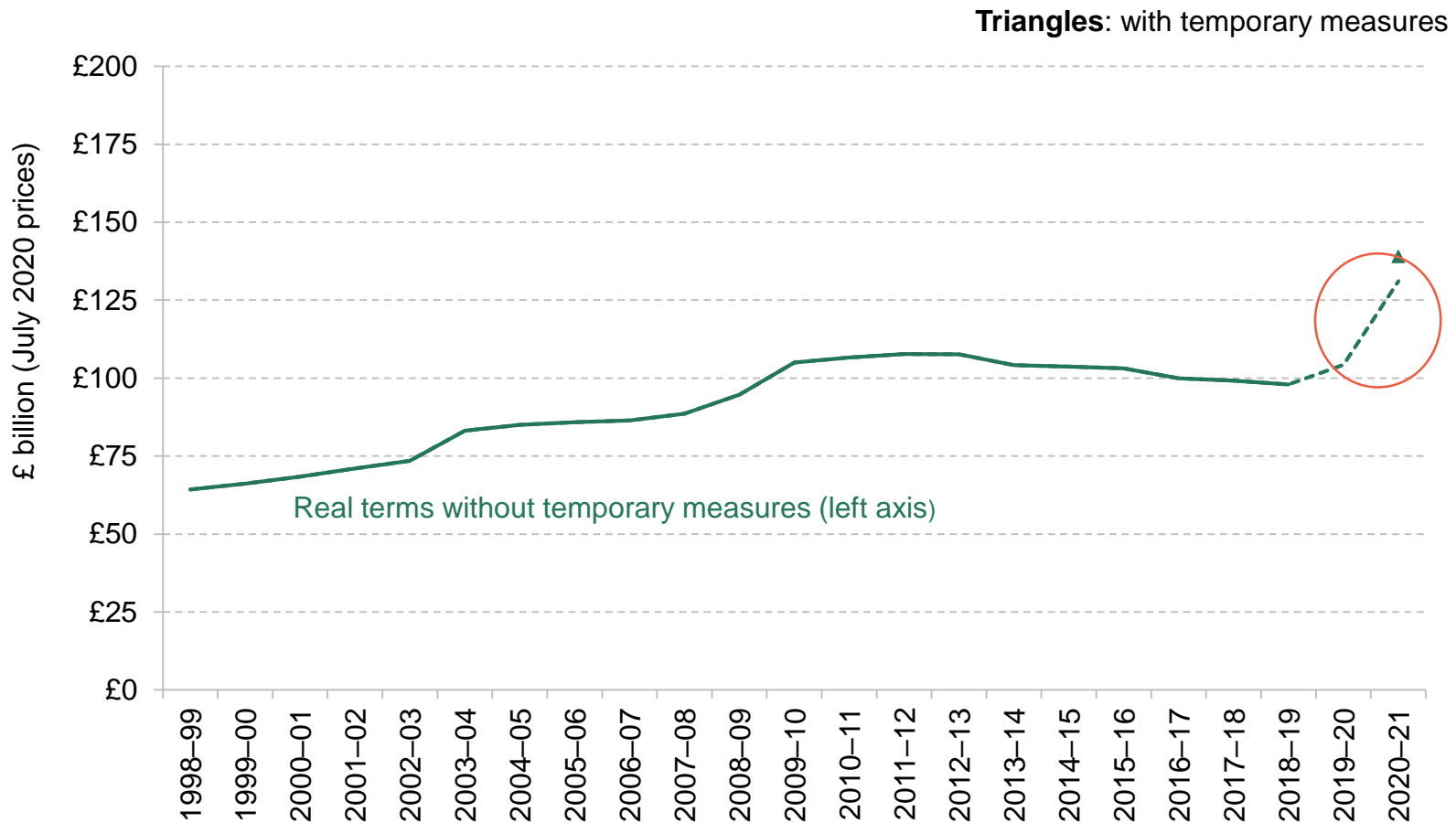
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The temporary benefit increases beyond 2020-21



Economic
and Social
Research Council

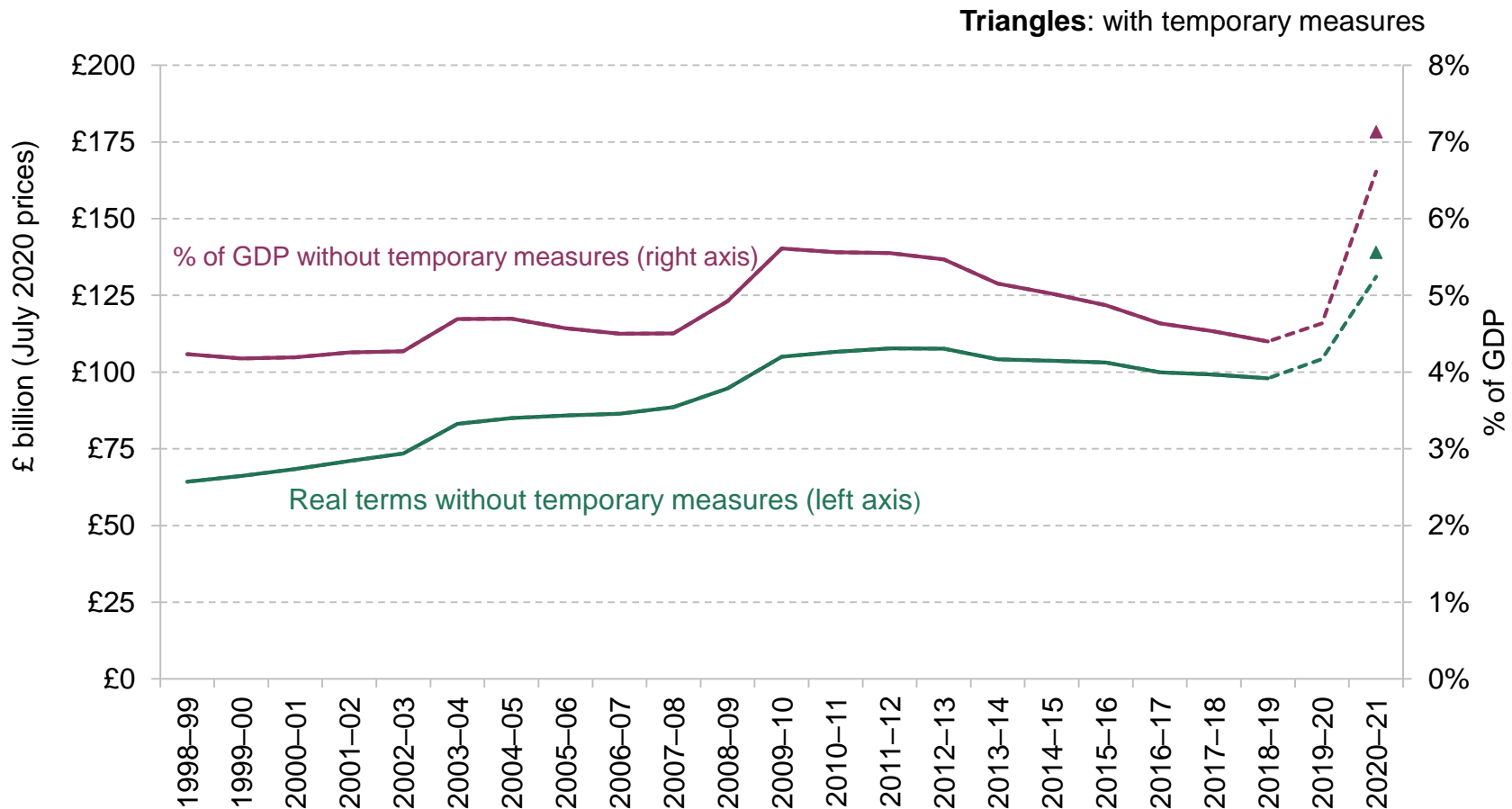
Working-age benefits spending



Source: Figure 8.1. Bourquin & Waters 2020

The temporary benefit increases beyond 2020-21

Working-age benefits spending



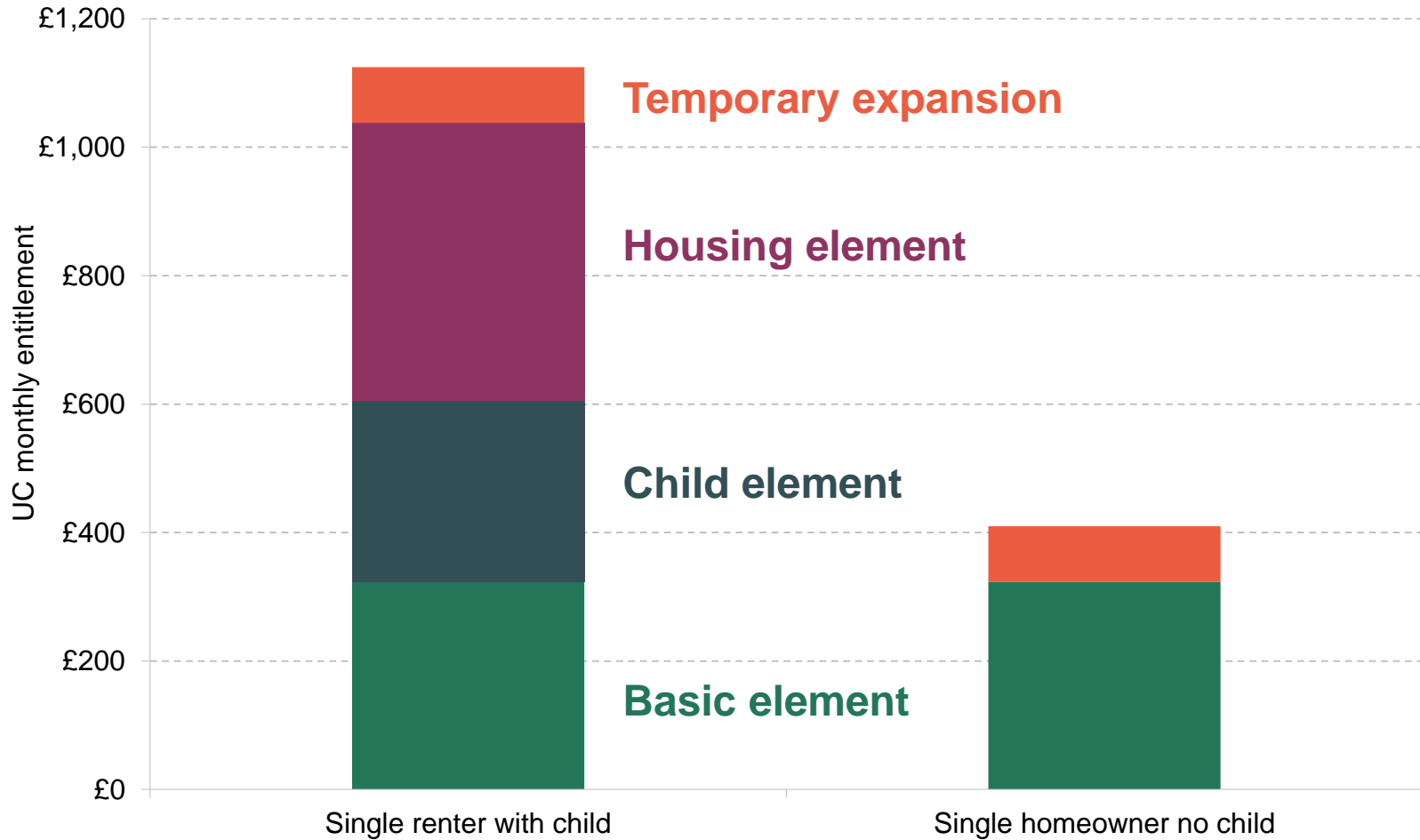
Source: Figure 8.1. Bourquin & Waters 2020

The temporary benefit increases beyond 2020-21

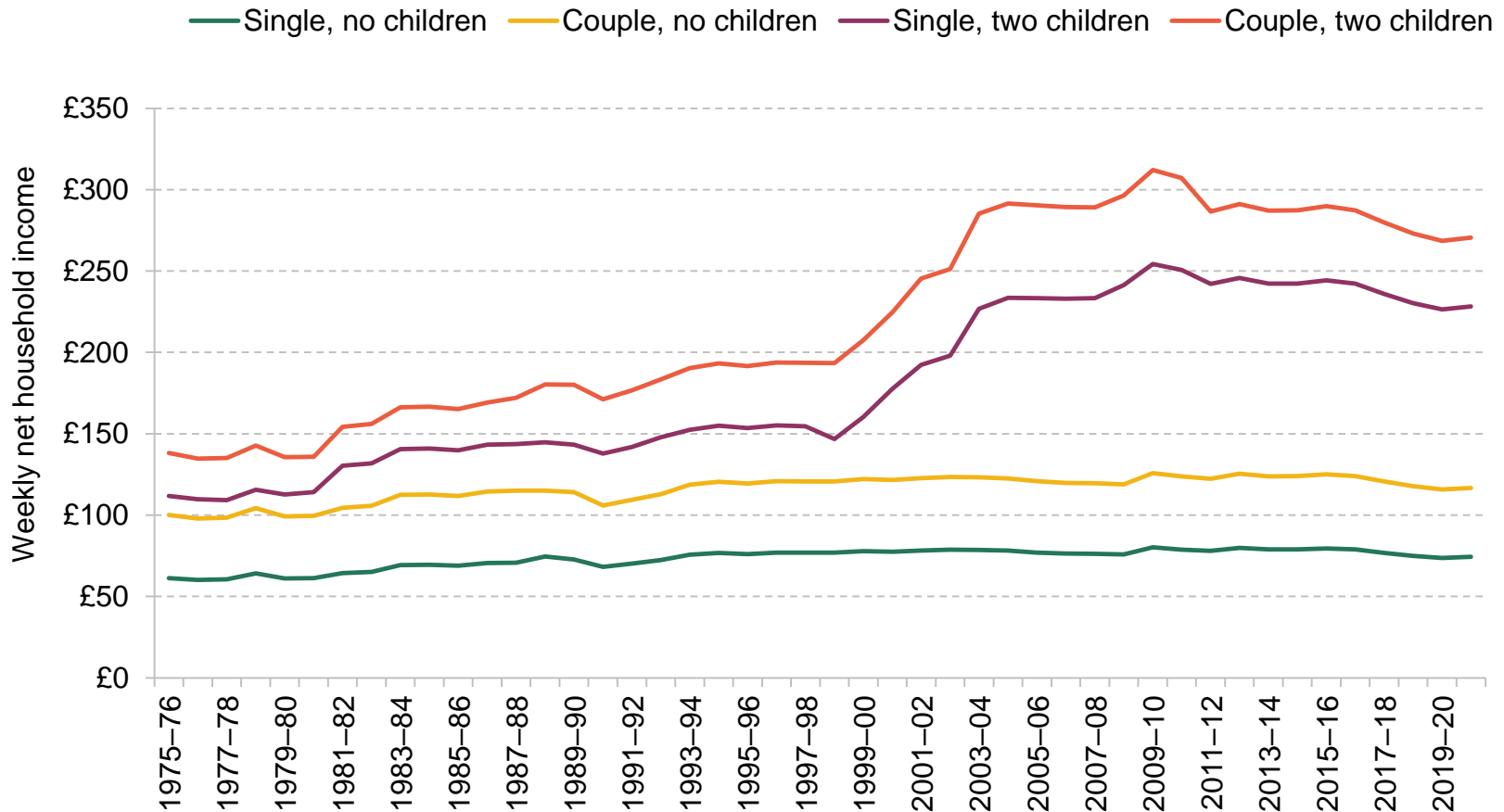
Benefit reforms during the crisis

- In the wake of the crisis, three key temporary expansions to the benefit system:
 - Basic Universal Credit (UC) entitlements increased by £1k p.a.
 - Suspended 'Minimum Income Floor' boosting UC entitlements among low income self-employed
 - Support for rent for private renters increased
- Policies in place until November-March: long-term plans unclear
 - And some connect to areas of the system ripe for reform

Increasing basic UC entitlement

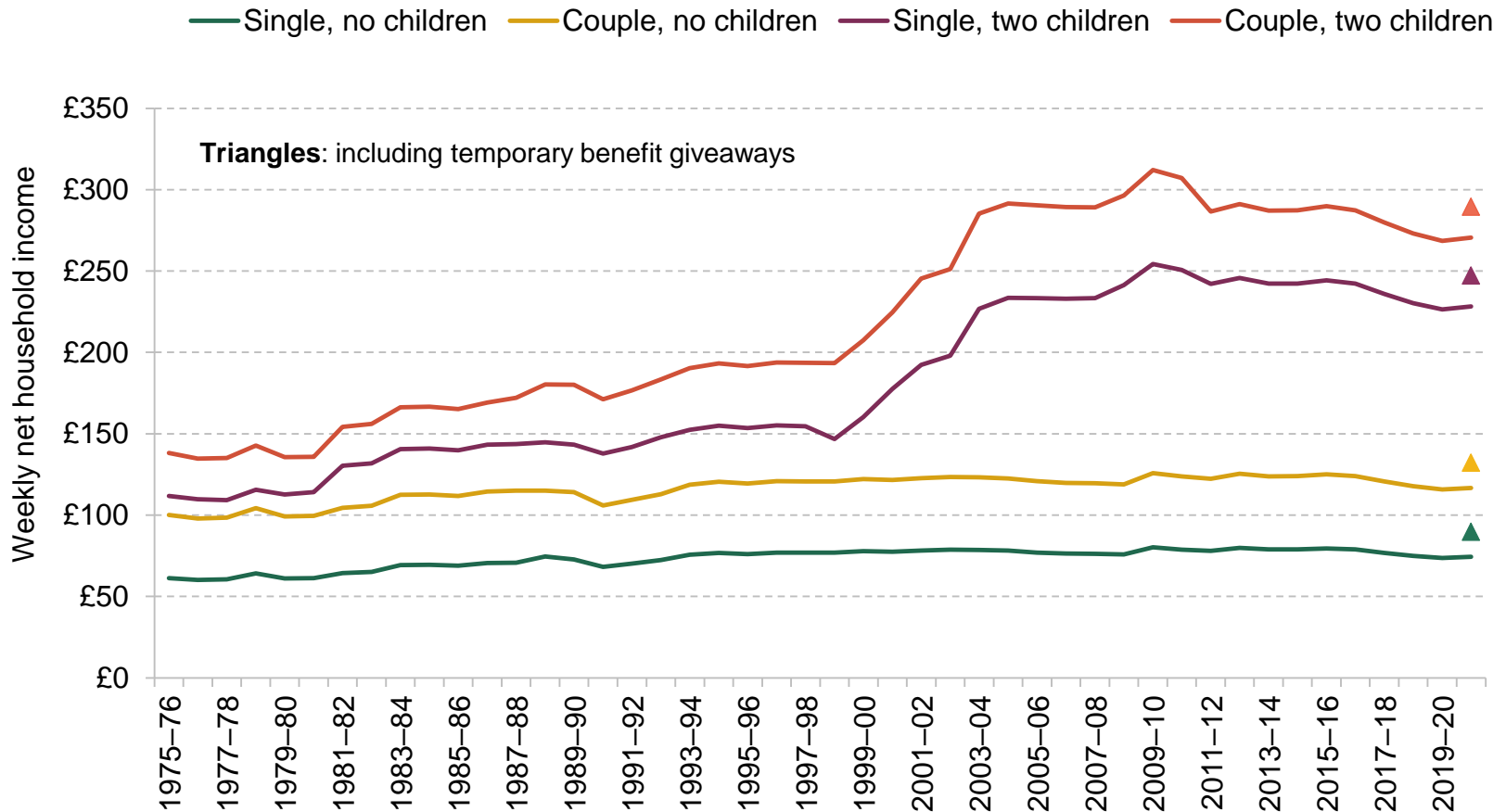


Out-of-work support over time



Source: Figure 8.3. Bourquin & Waters 2020

Out-of-work support over time



Source: Figure 8.3. Bourquin & Waters 2020

Increasing basic UC entitlement

Short-term:

- Strong case for linking to recovery – temporary expansion?
- Important to announce potential end of temporary increase early
 - Would lead to an average 13% fall in entitlement for around 4 million families

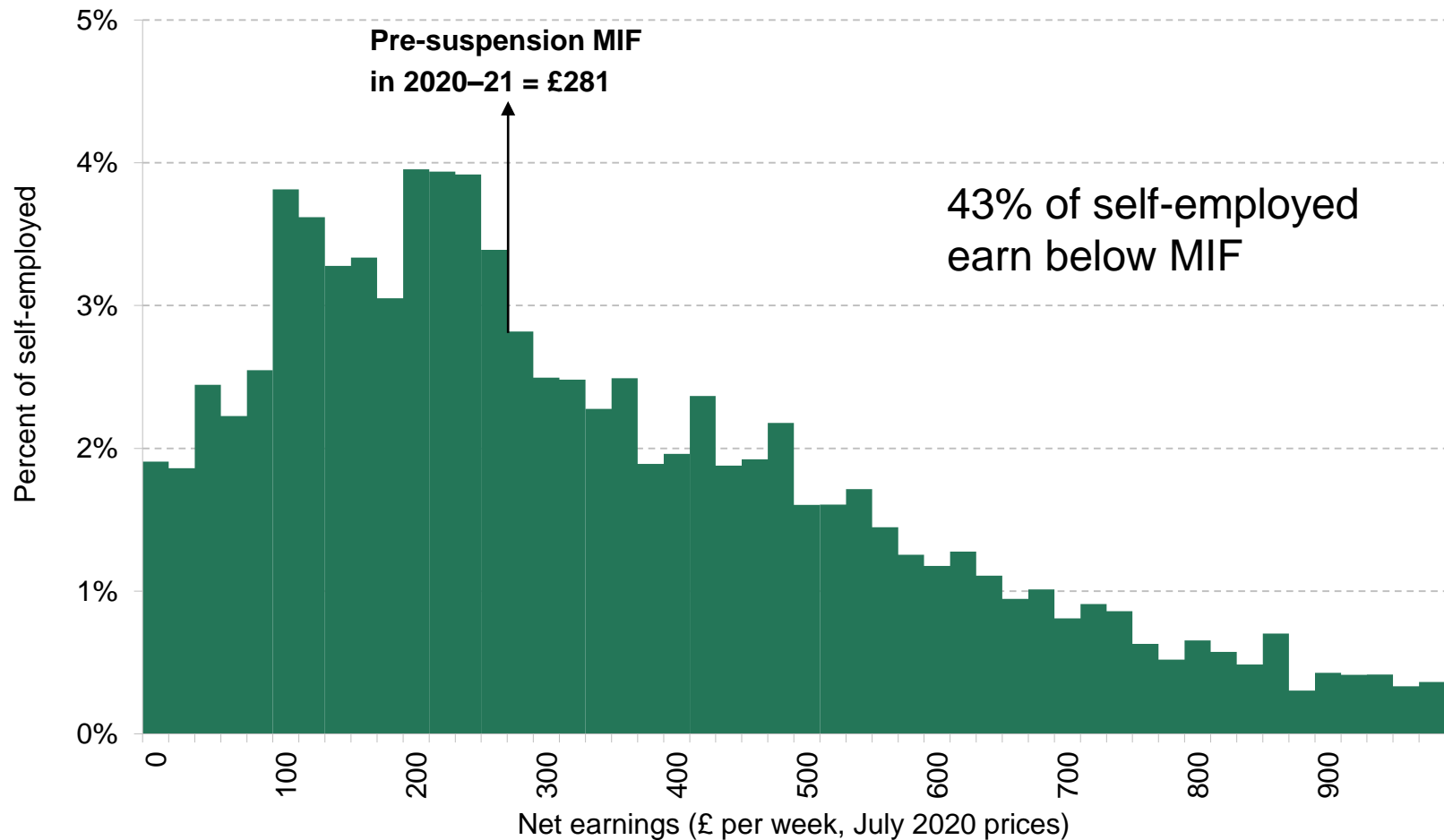
Longer-term:

- Keeping the reform
 - Boosts incomes among lowest income HHs but weakens work incentives
- If government minded to make £6.6bn annual cost of UC standard allowance increase permanent, could also spend on:
 - Raising work allowances by £86 pw
 - Or reducing the taper rate by 22 percentage points

Minimum Income Floor

- Self-employed claimants in UC can be subject to the ‘Minimum Income Floor’ (MIF)
- If you earn less than an employee at the full-time minimum wage (the MIF), you are treated *as if* you earn equal to the MIF
 - Not applied during the first year of self-employment – the ‘start-up period’
- Purpose:
 - Disincentivises fraudulently underreporting earnings
 - Disincentivises being SE to avoid job-search requirements
 - Avoids the government subsidising non-viable self-employment
- Under current plans suspended until mid-November

Earnings of the self-employed



Source: Figure 8.6. Bourquin & Waters 2020

Note: We do not show the top decile.

Minimum Income Floor

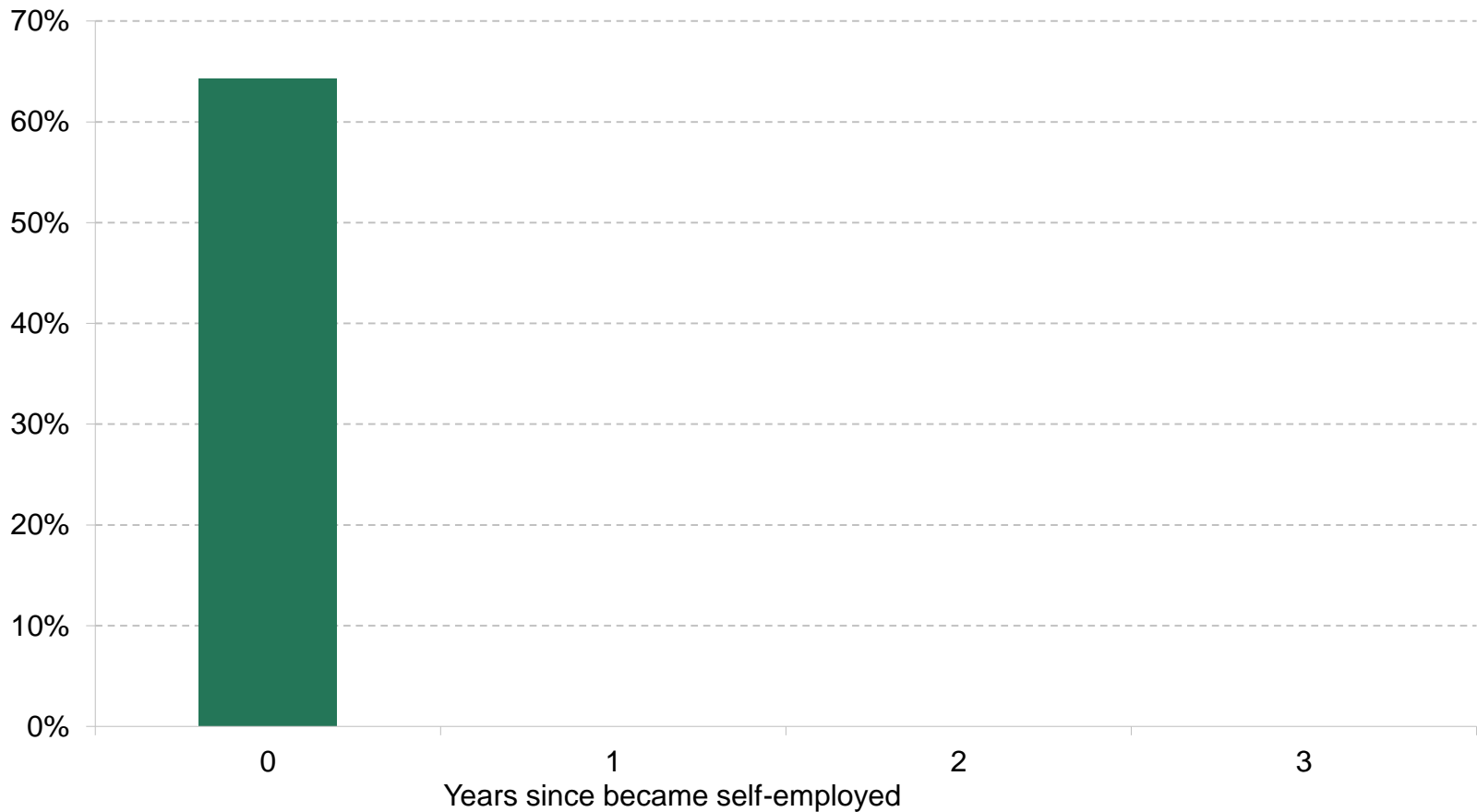
Two key objections:

- Is a one year start-up period enough to get a business 'going'?

How long does it take to grow a business?



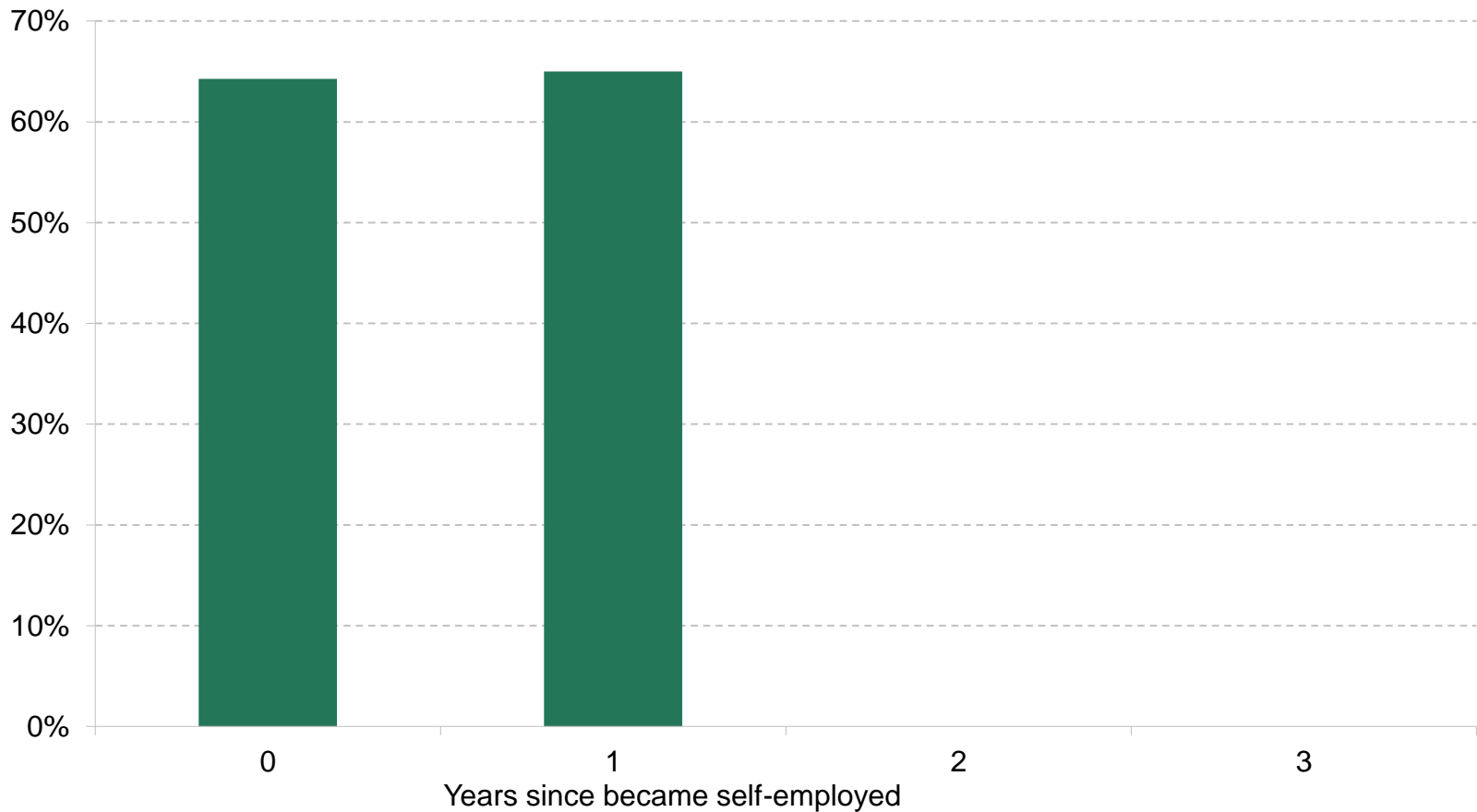
Percent of self-employed who are on means-tested benefits when they begin self-employment that earn below the MIF



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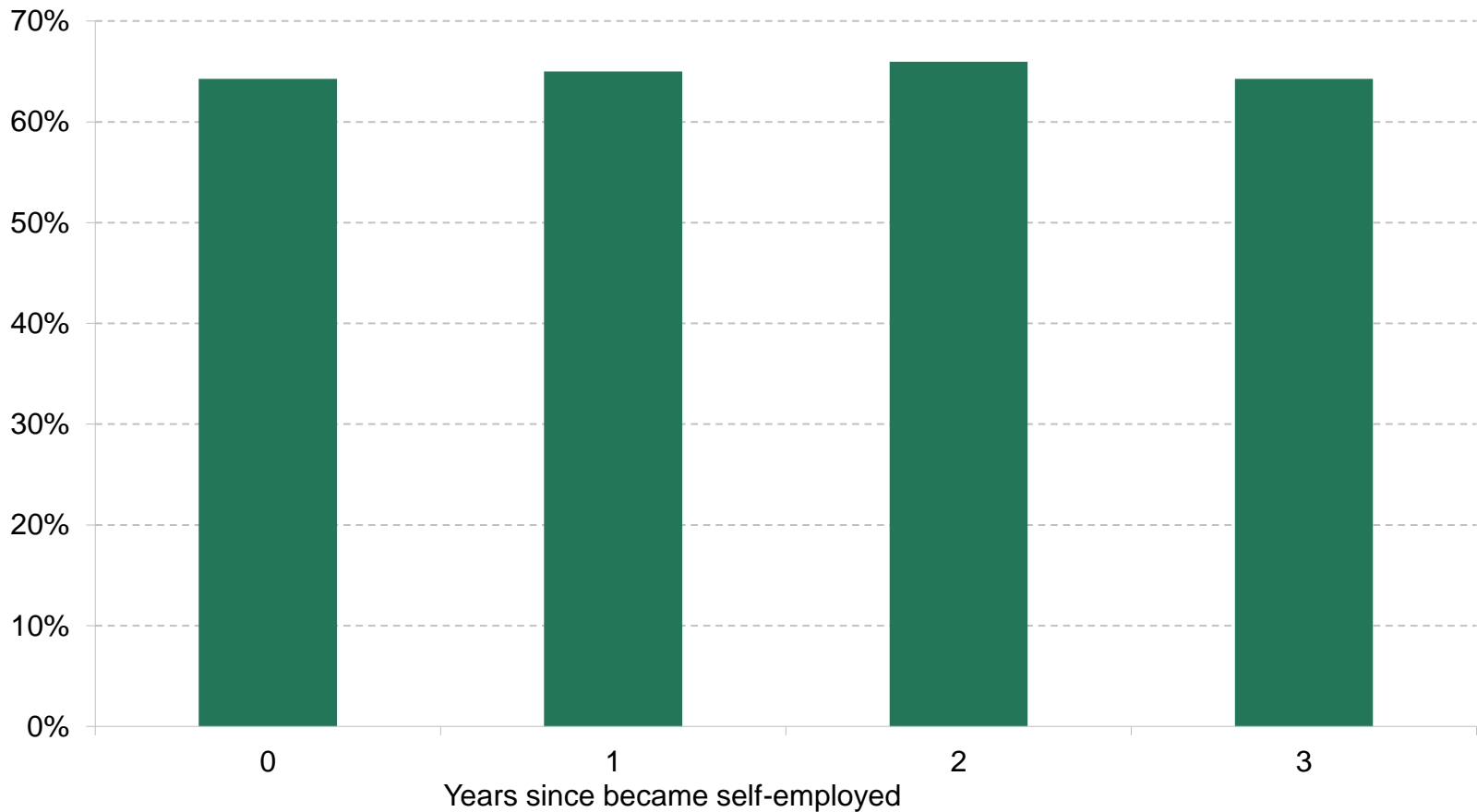
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Percent of self-employed who are on means-tested benefits when they begin self-employment that earn below the MIF



Minimum Income Floor

Two key objections:

- Is a one year start-up period enough to get a business 'going'?
- Causes problems for workers with volatile earnings because it is applied *each month*, even if annual earnings are > MIF
 - In the low earning months, MIF is applied, UC reduced
 - In the high earning months, no compensation for earlier loss

Options for reform

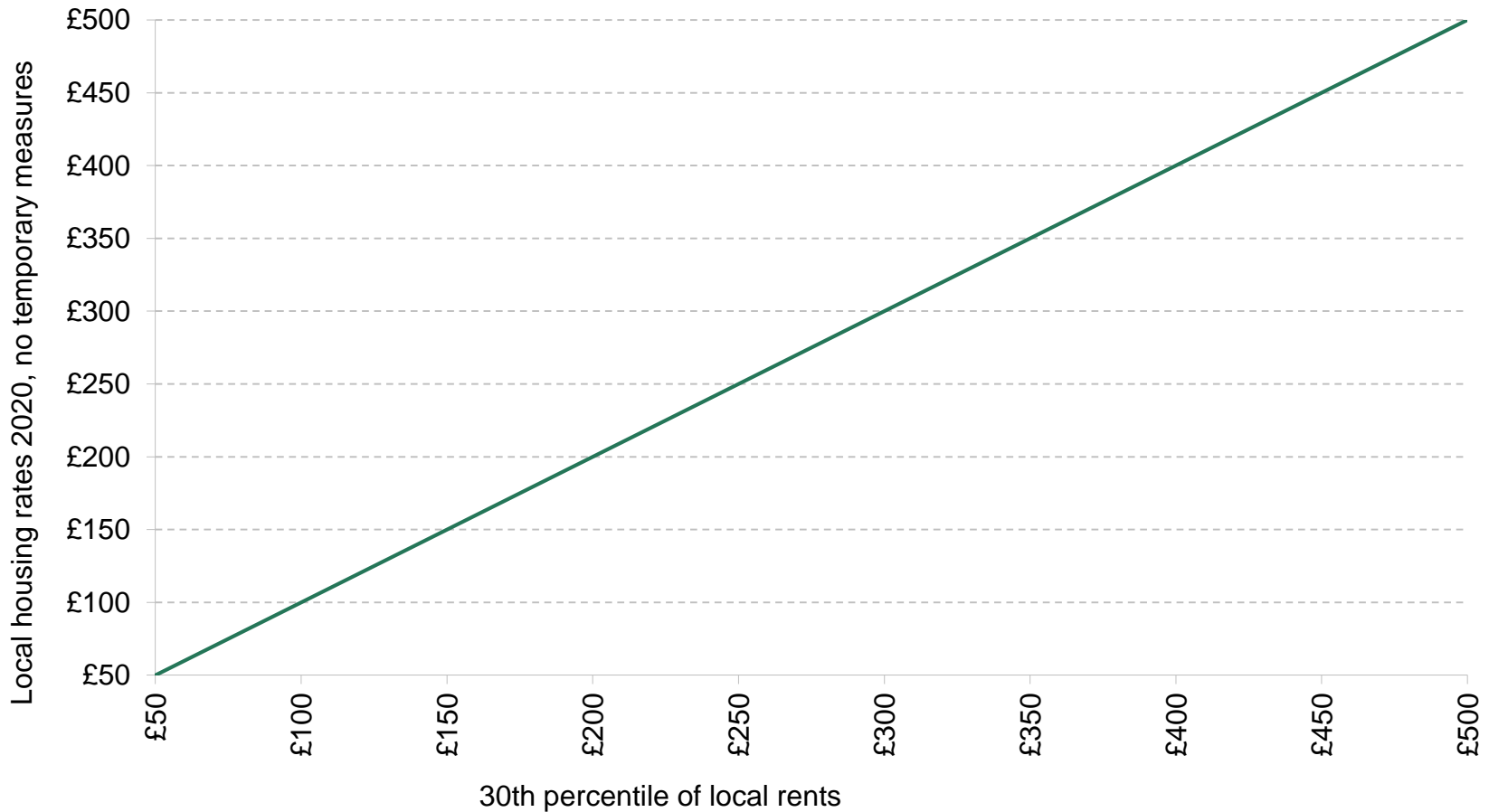
- Abolish MIF permanently (costing £1.4bn p.a.)
 - Increases incomes for poorest households
 - But loses benefits of MIF (e.g. anti-fraud)
- Increase length of start-up period
 - No evidence that the MIF is choking off what would turn out to be high earning businesses
- Use a rolling 12 month average of earnings and steadily increase MIF level after start-up period
 - Would treat those with volatile incomes in a more similar manner to those with steady incomes
 - Avoids cliff-edge in 13th month of self-employment

Local Housing Allowances



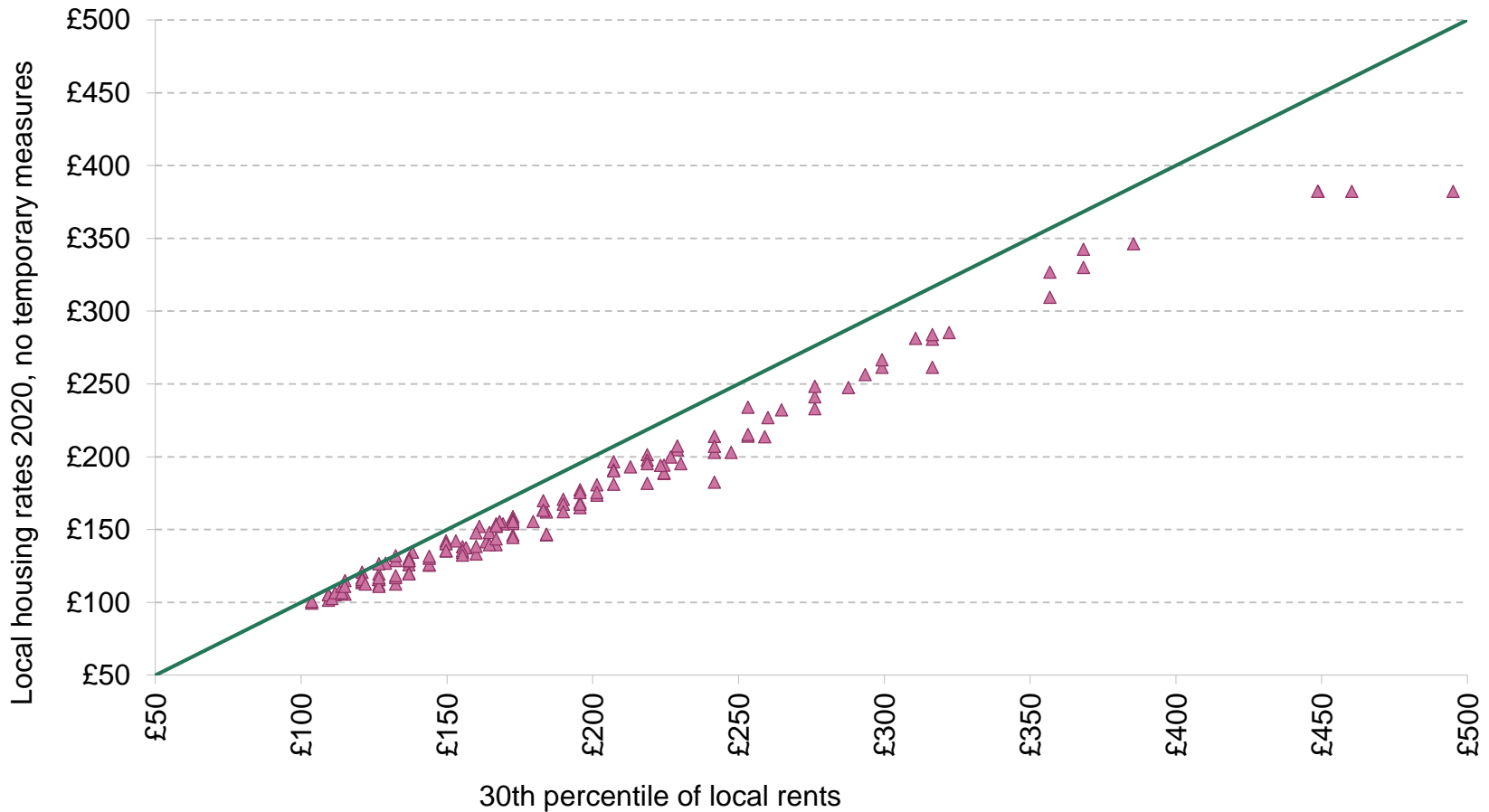
- Benefits for housing for poor private renters is the lower of their rent, and their Local Housing Allowance (LHA)
 - LHA varies across the country (200 areas) and with HH size
- In 2012, LHA rates were 30th percentile of local (2011) rents
- Since then LHA rates have at different times been frozen, uprated by 1%, or uprated with CPI
 - Means that maximum support for housing linked to 2011 rents, not current rents.
 - Esp. reduces support in areas w/ fast rent growth since 2011

LHA rates and local rents



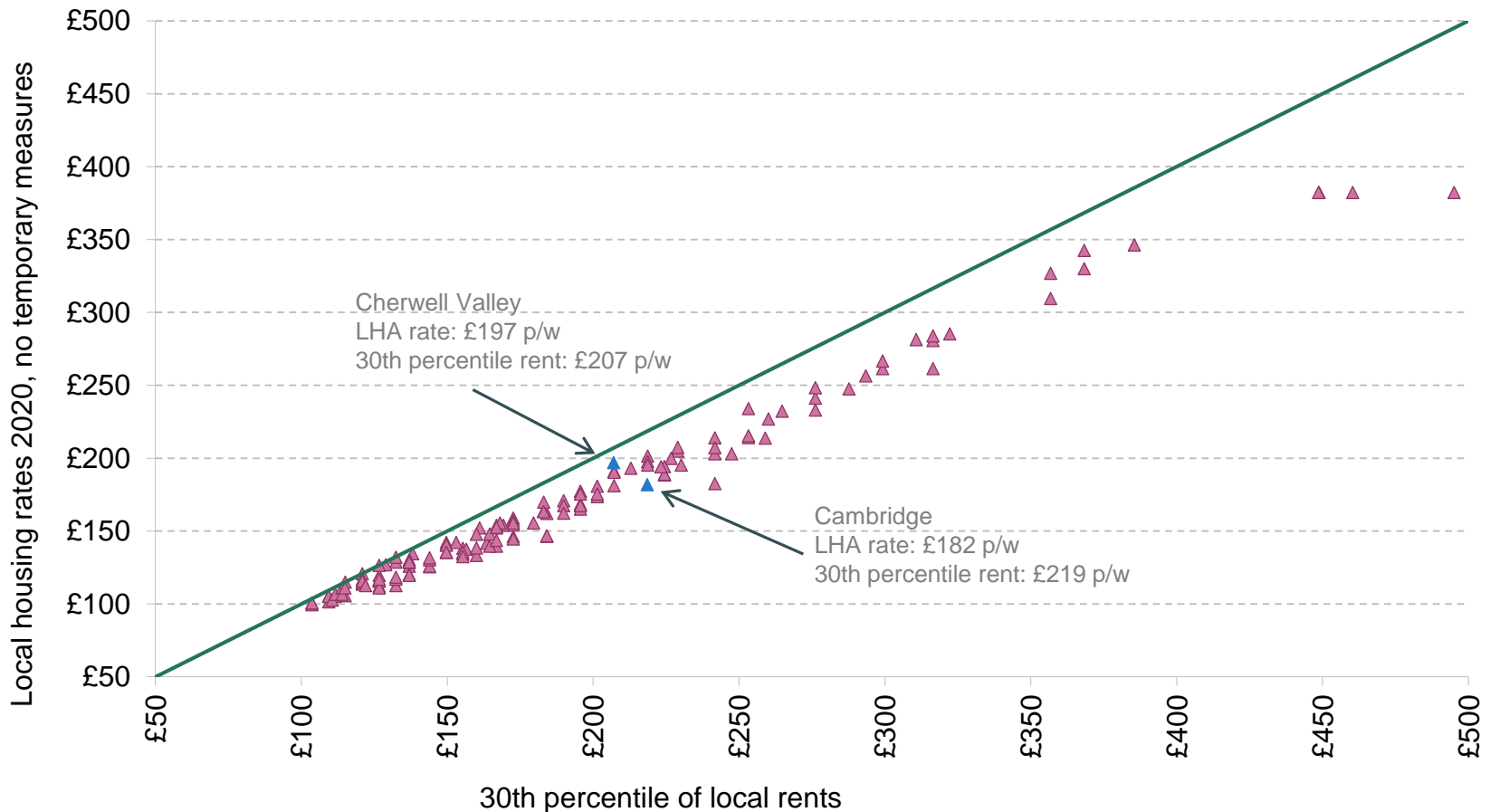
Source: Figure 8.12. Bourquin & Waters 2020

LHA rates and local rents



Source: Figure 8.12. Bourquin & Waters 2020

LHA rates and local rents



Source: Figure 8.12. Bourquin & Waters 2020

Options for reform

Temporary benefit increase: LHA rates back to 30th percentile – no official plans for 2021

Options for reform:

1. Return to pre-COVID system
2. Stay at 30th percentile of 2019 rents and uprate with CPI
3. Link to 30th percentile of rents (costs £1.1bn more than 1)
4. Set LHA rates to the 20th percentile of rents (costs the same as 1)

Conclusion

- Opportunity to reset the welfare system at a more generous level
- Trade-off: boost incomes of poorer families, but costs the Exchequer and weakens work incentives
- But an opportunity to rationalise two parts of the system, regardless of its overall size
 - MIF could be made more robust to volatile incomes and avoid cliff-edge
 - LHA rates could be linked to current rents, rather than 2011 rents
- Such reforms are valuable, regardless of the overall size of the system