

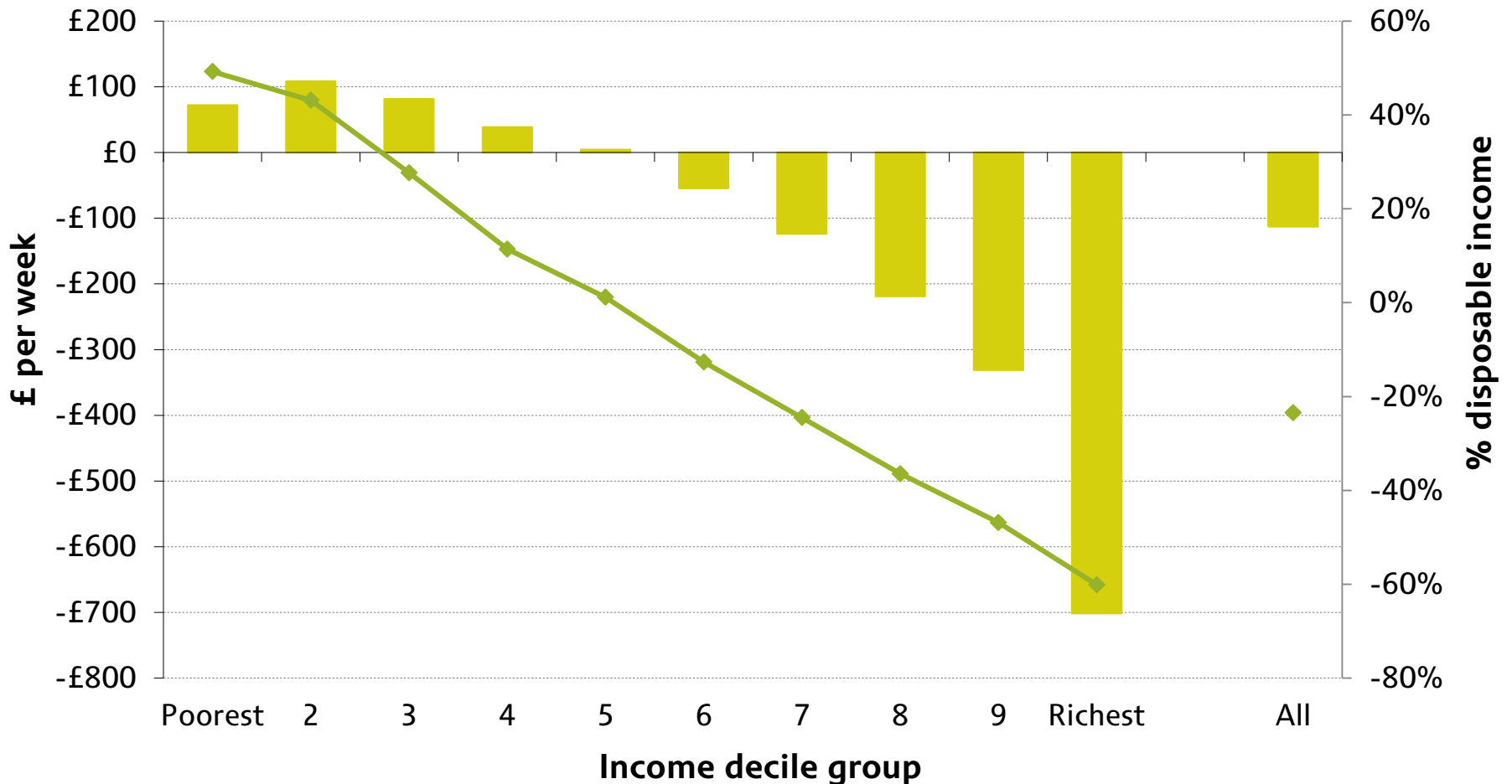
A Lifetime Perspective on Taxes, Benefits, Inequality and Redistribution

Barra Roantree

Understanding Society Scientific Conference, Essex, July 2017

Key function of tax & benefit system is redistribution

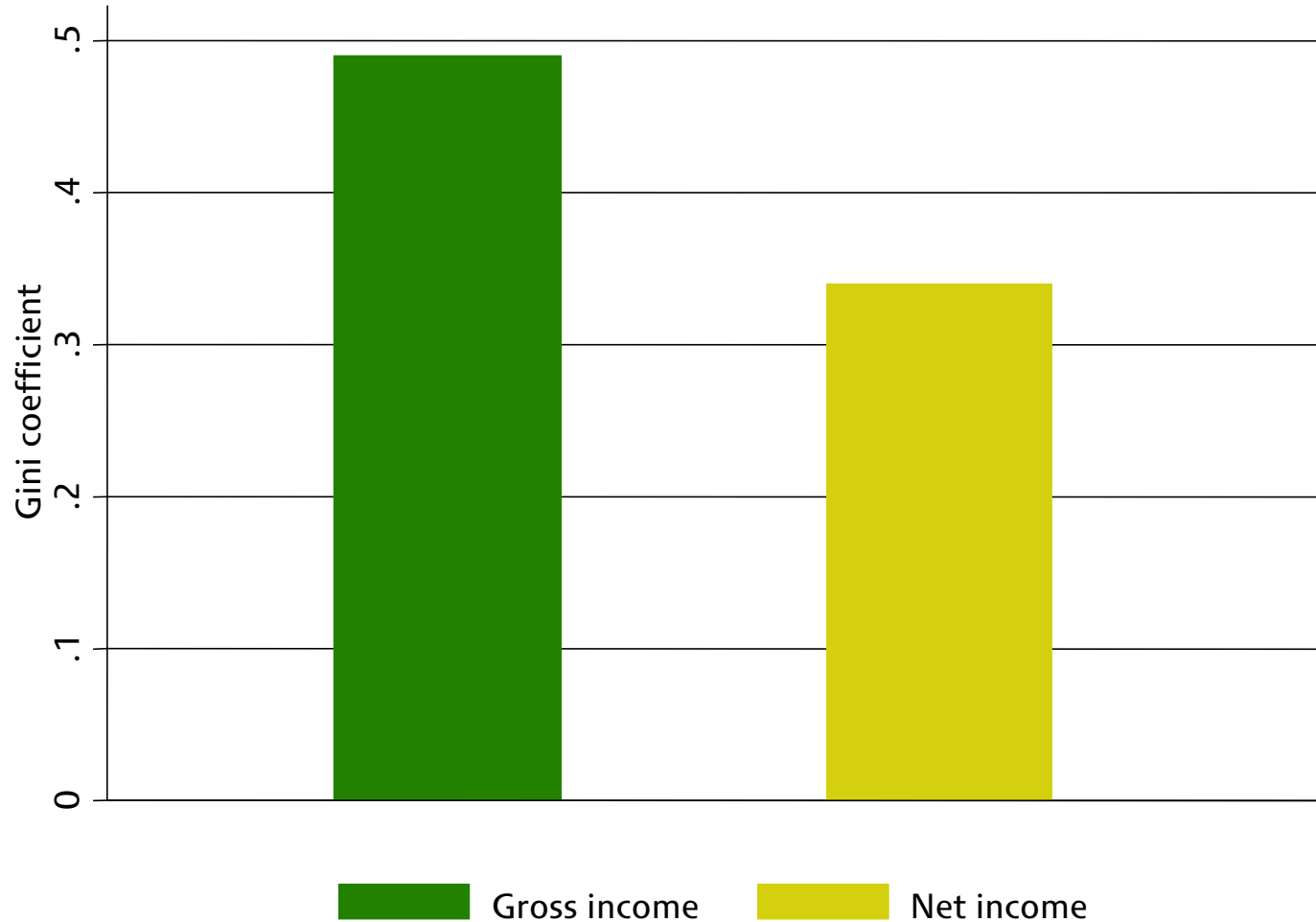
Net transfers from state by income decile: 2013-14 system



Notes: see Figure 9.1 in IFS Green Budget 2013, Chapter 9.

Source: Authors' calculations using the IFS tax and benefit microsimulation model, TAXBEN, to apply the 2013-14 tax and benefit system to uprated data from the 2010 Living Costs and Food Survey.

... which significantly reduces income inequality



Notes: see Table 3.1 in 'Redistribution from a Lifetime Perspective'. Both bars show cross-section

But individuals' circumstances vary a lot over time

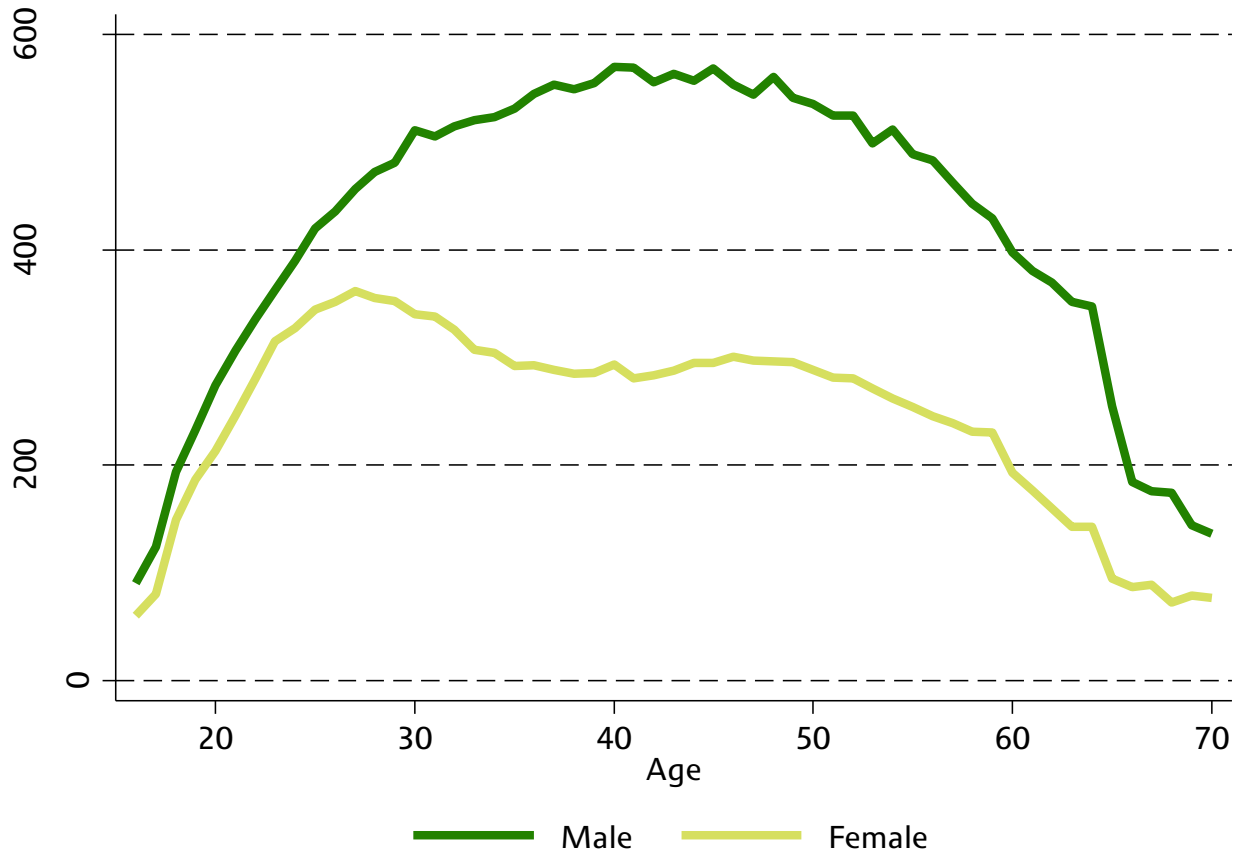
| State | Average at point in time | Ever over 18-waves |
|----------------------------|--------------------------|--------------------|
| In a couple | 64.4% | 87.2% |
| Married | 56.0% | 80.7% |
| Has child aged 18 or under | 28.1% | 52.3% |
| Disabled | 7.7% | 26.8% |
| Unemployed | 4.7% | 23.9% |

Source: Table 2.2 from <http://www.ifs.org.uk/publications/7130>

Note: Authors' calculations based on BHPS data. Includes all non-dependants aged 16+. The 'average across waves' column includes all waves and is weighted using cross-sectional weights. The 'ever observed' columns are calculated for individuals observed in all waves from wave 1 to the destination wave and weighted using longitudinal weights. The final two lines (earnings quintiles) only include individuals who are employed in all relevant waves.

... and earnings display a strong age profile

Median gross earnings of employees by age & sex



Source: Figure 2.2 from <http://www.ifs.org.uk/publications/7130>

Note: Authors' calculations based on pooled data from all 18 waves of the BHPS. Includes all employed non-dependants aged 16-70. Results are weighted using cross-sectional weights. Gross earnings are before taxes and benefits and are uprated to December 2012 prices.

Means might want to take longer-run perspective

May change our assessment of:

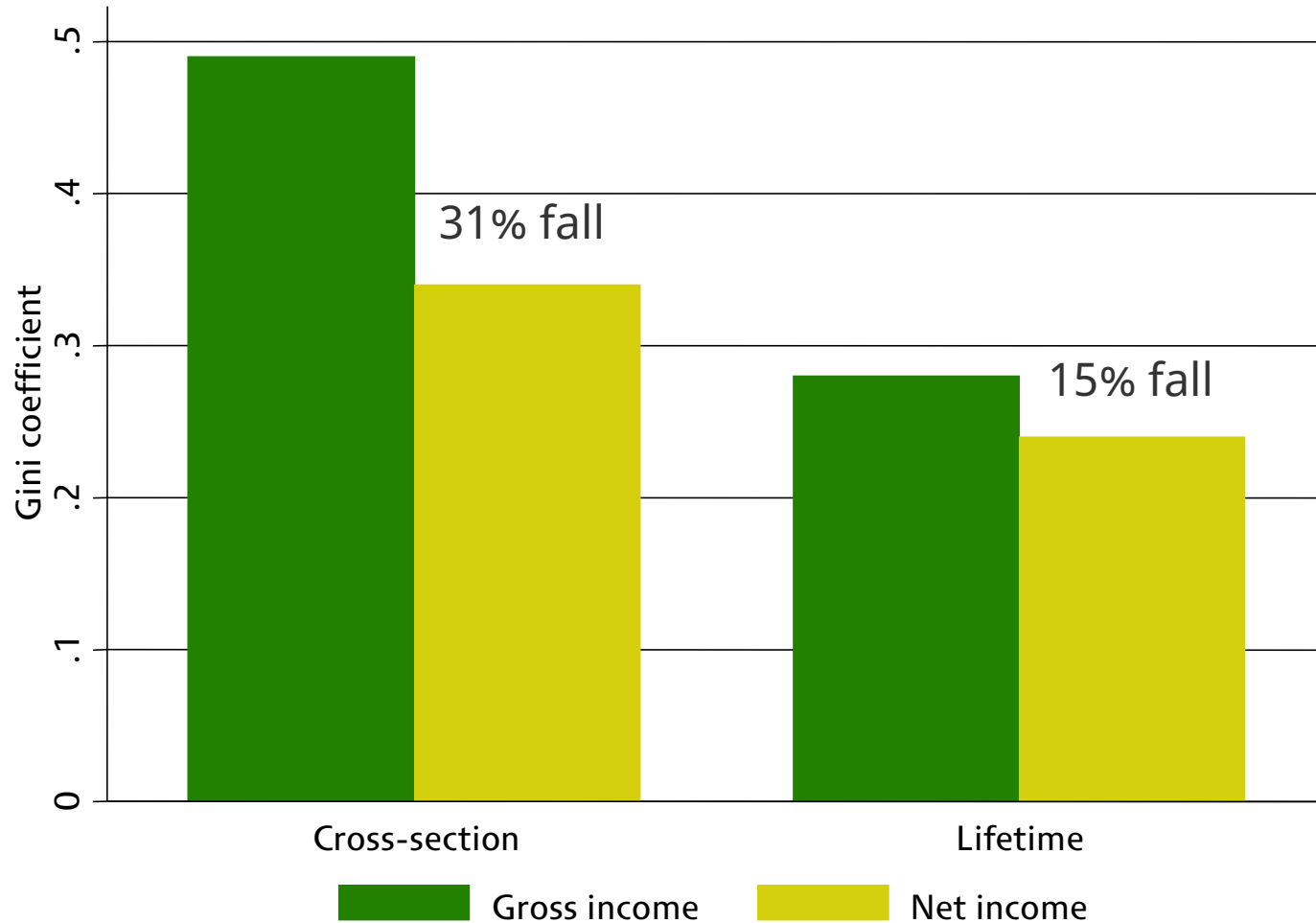
- Income inequality & the role of the tax and benefit system
- The progressivity of tax and benefit reforms
- How policy should be designed to redistribute resources

Most analysis of the tax & benefit system is based solely on cross-sectional information because of data limitations

- Levell, Roantree and Shaw (2015) simulated the lifetimes of the baby-boom cohort (1945-54) in order to address some of these questions
- Used British Household Panel Survey (BHPS) used to model transitions between consecutive years and Living Costs and Food Survey (LCFS) to adjust simulations to match cross-sectional distributions
- Include most personal taxes and benefits, assuming full take-up
- Ignores behavioural responses, public services

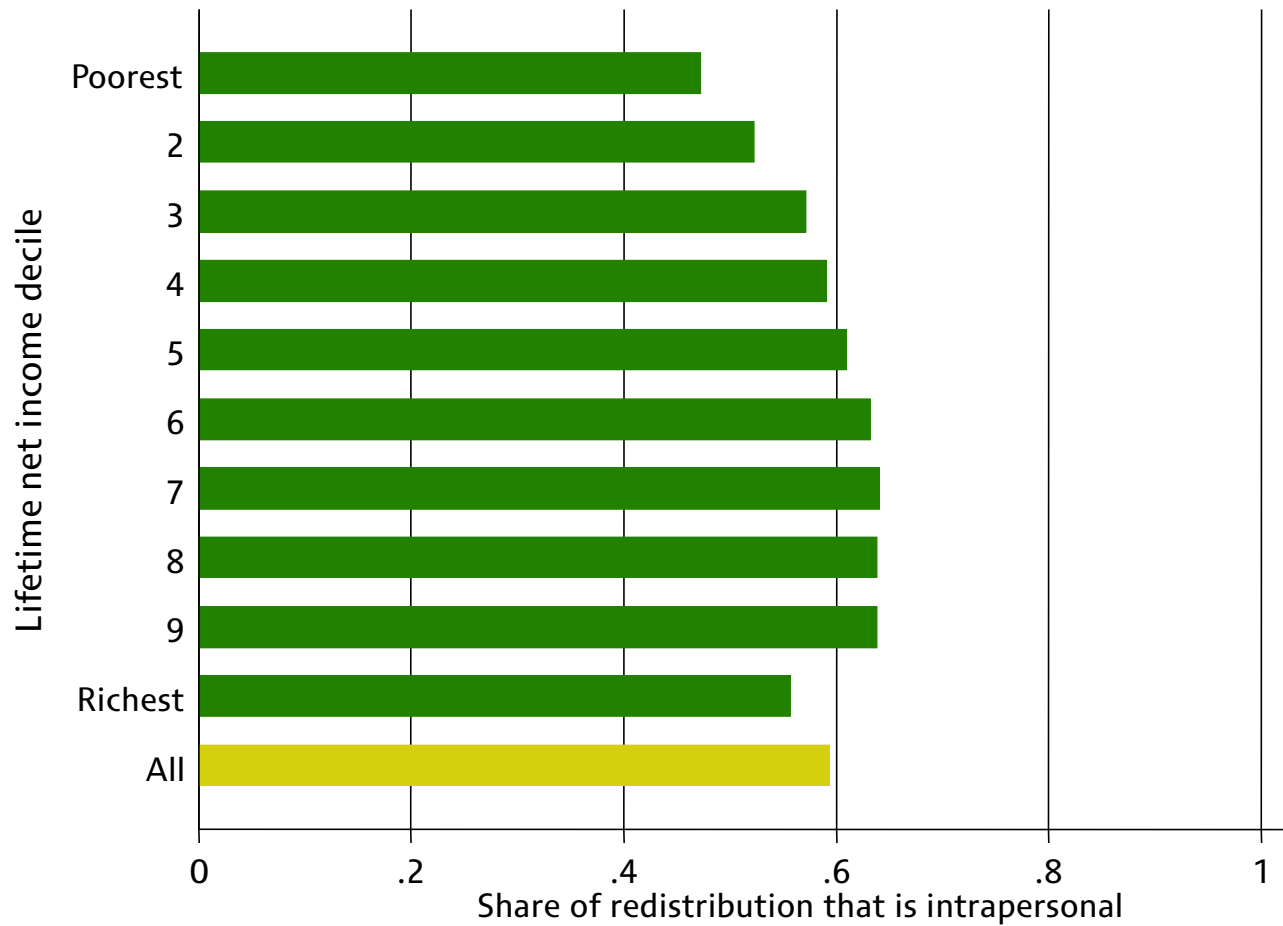
From a lifetime perspective...

The tax & benefit system does less to reduce inequality between people



From a lifetime perspective...

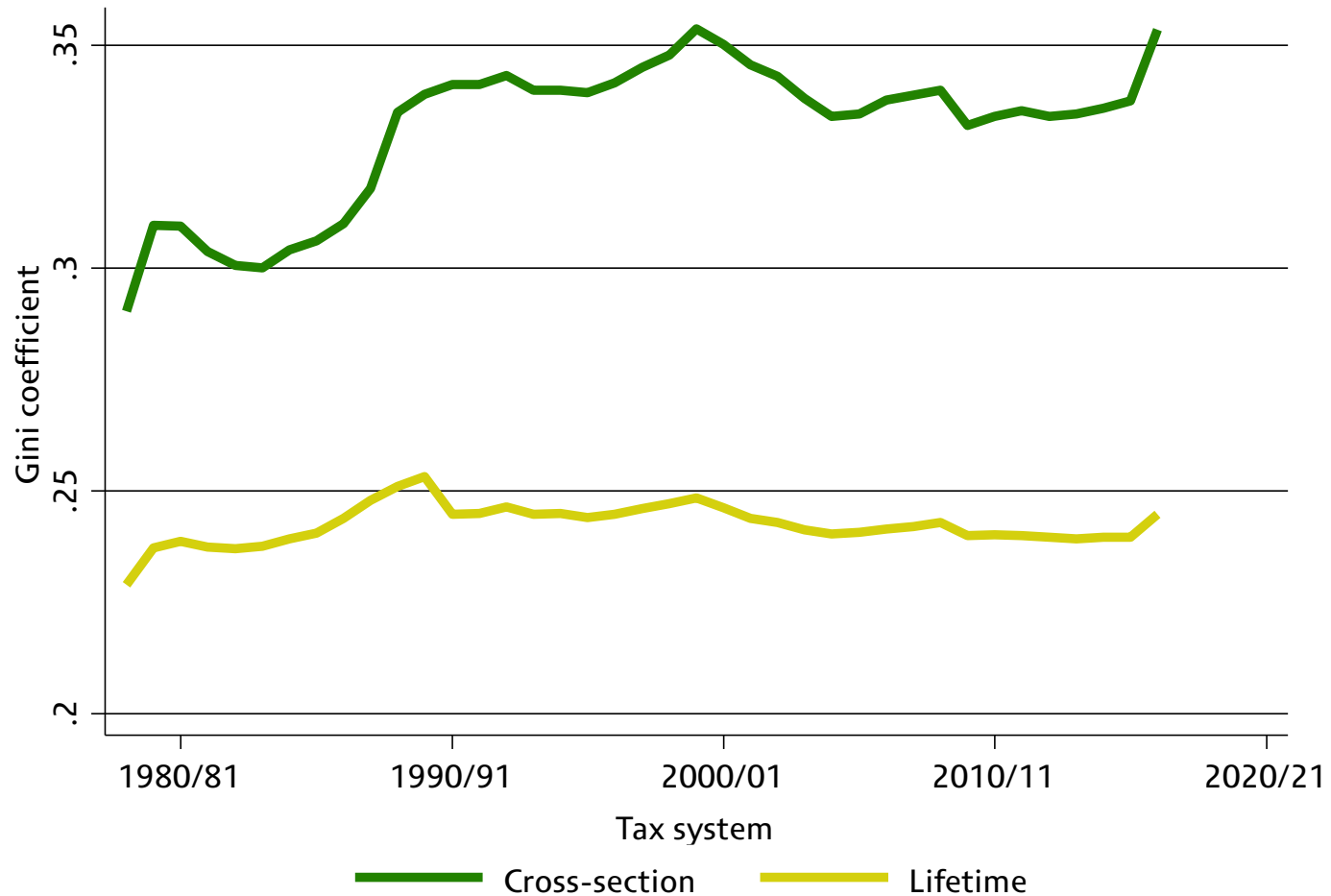
... as more of what it does is intrapersonal redistribution



Notes: see Figure 3.7 in 'Redistribution from a Lifetime Perspective'

From a lifetime perspective...

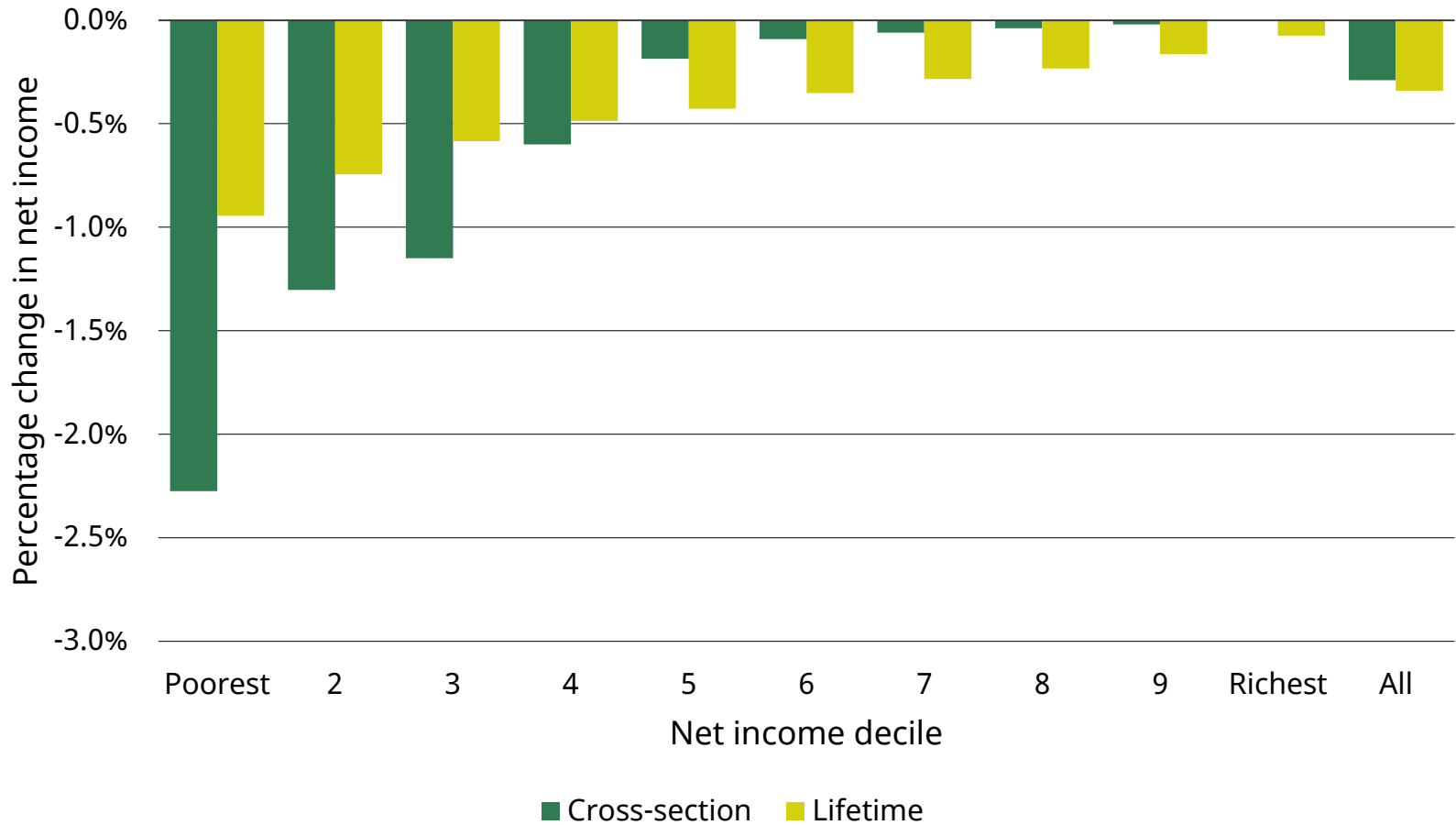
Tax and benefit reforms have a less dramatic effect on inequality



Notes: see Figure 4.1 in 'Redistribution from a Lifetime Perspective'

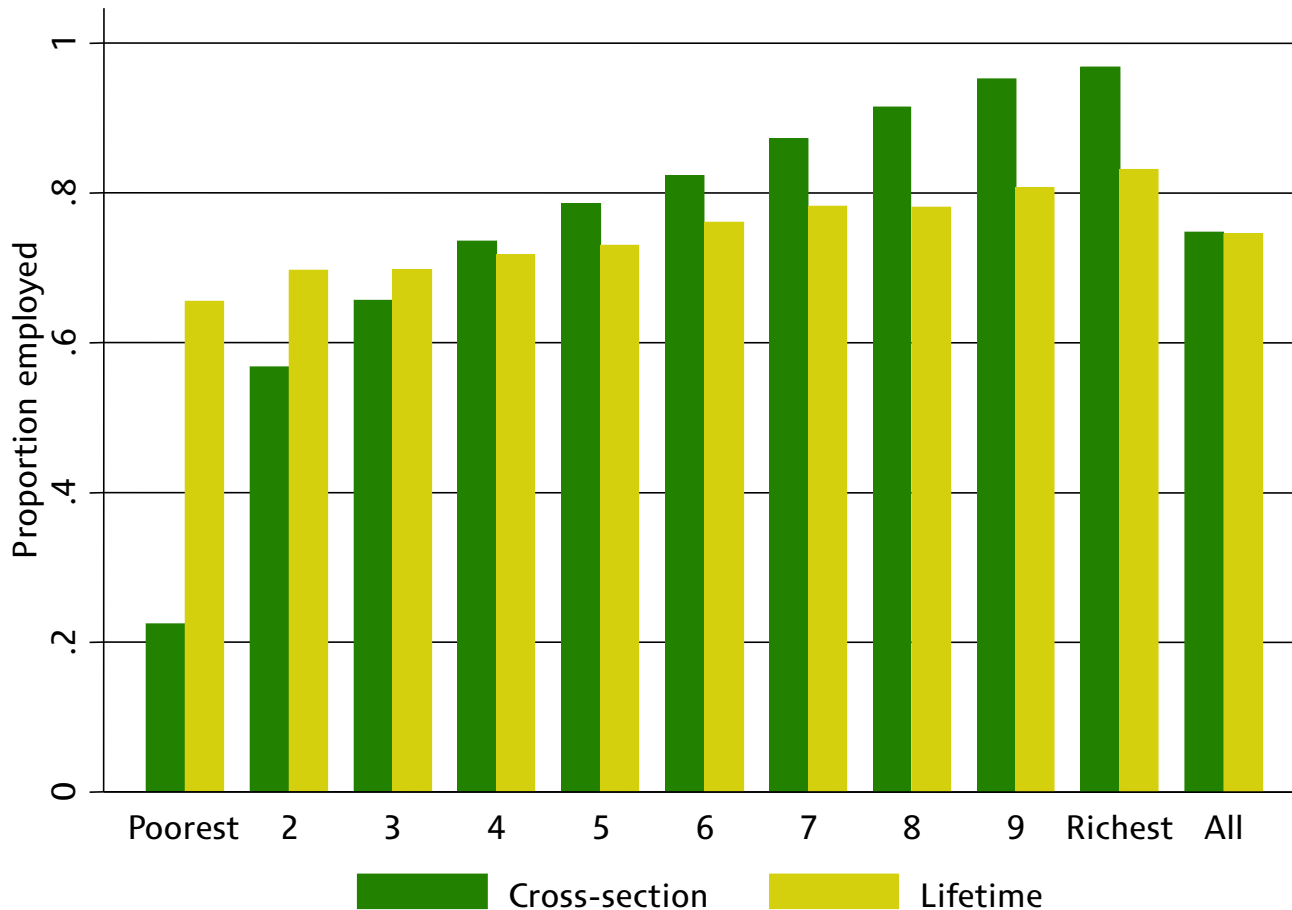
From a lifetime perspective...

... and smaller distributional consequences: e.g. 4-year benefit freeze



Notes: see Figure 4.4 in 'Redistribution from a Lifetime Perspective'

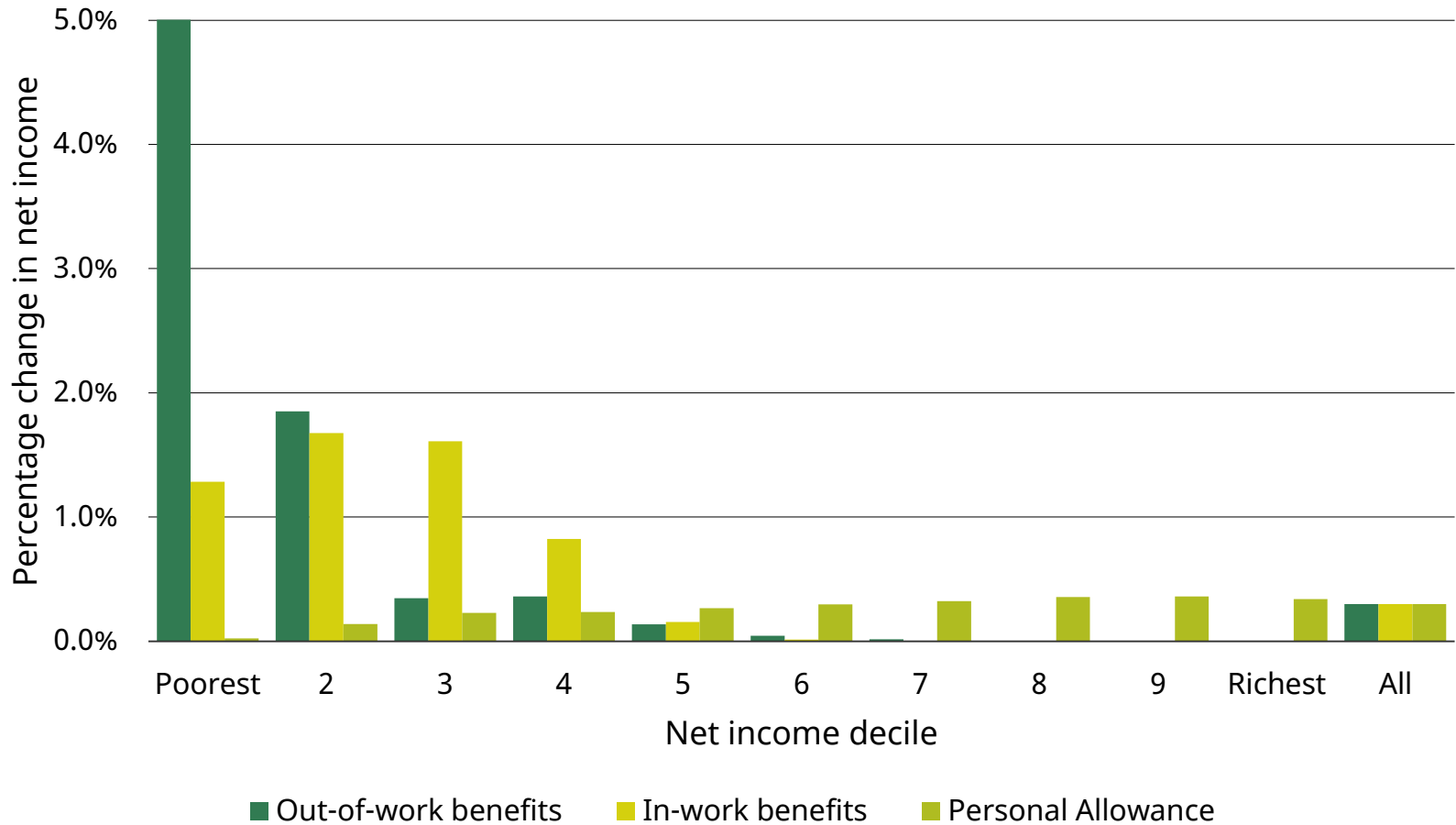
Key factor: on average, even lifetime poor spend majority of their working lives in (low-paid) work



Notes: see Figure 2.4 in 'Redistribution from a Lifetime Perspective'

... which has implications for policies targeted at worst off

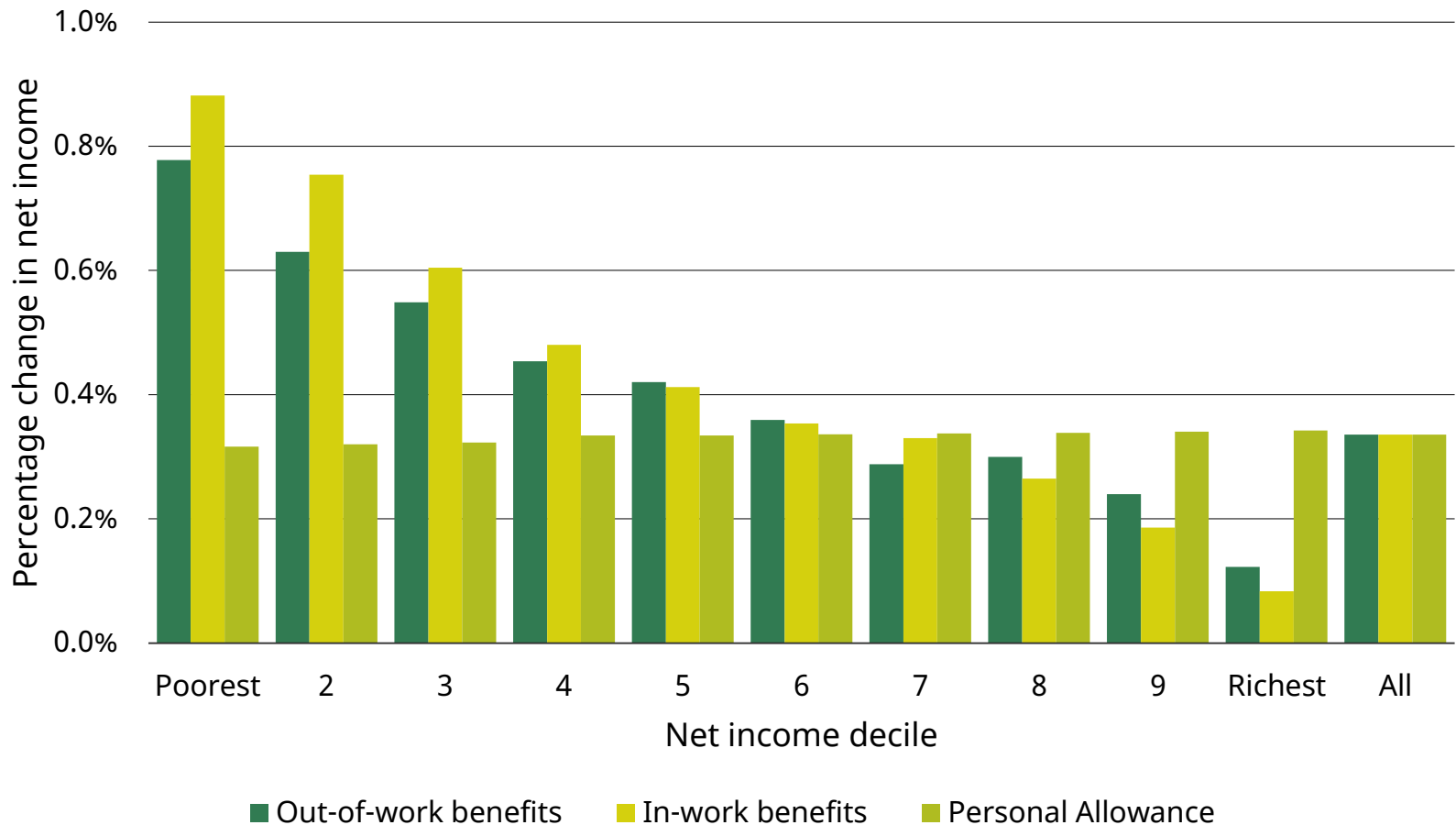
At snapshot, increases to out-of-work benefits look most progressive



Notes: see Figure 5.4 in 'Redistribution from a Lifetime Perspective'

... which has implications for policies targeted at worst off

But from lifetime POV, increases to in-work benefits more progressive



Notes: see Figure 5.4 in 'Redistribution from a Lifetime Perspective'

What implications does this all have for policy?

Individuals' circumstances vary a lot over time meaning distinguishing families as e.g. "working" and "non-working" not especially useful

- Unemployment experienced by large share of adults at some point
- Even lifetime poorest are – on average – in work for large % of lives

Policymakers should try be clearer about their objectives

- Alleviate temporary hardship or redistribute lifetime resources?
- Appropriate policy instrument can be very different

Policymakers seeking to redistribute resources to the lifetime poor might favour doing so through in-work benefits

- At least as progressive as increasing out-of-work benefits
- ... but less damaging effects on work incentives

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