

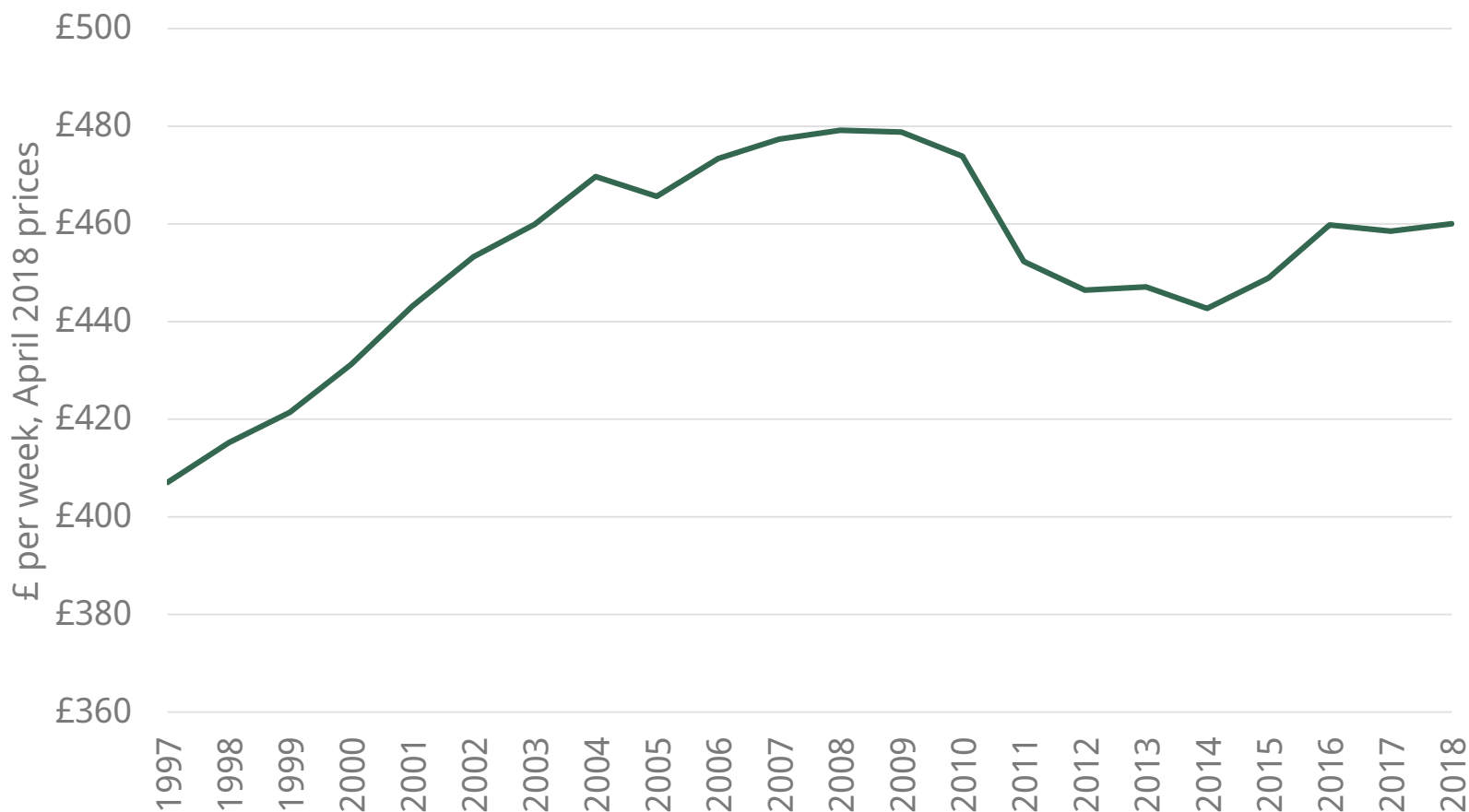
# Future challenges

Paul Johnson

14 March 2019

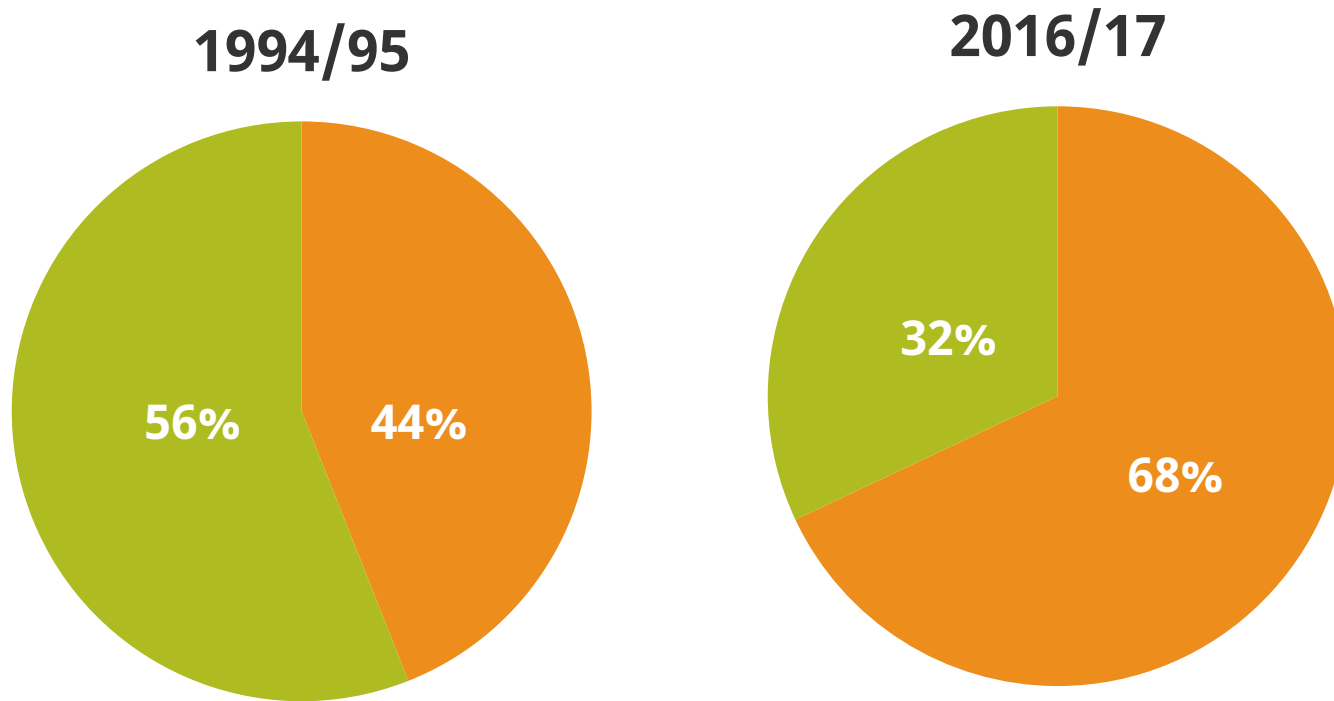
# Low pay and welfare

# Real median weekly employee earnings since 1997



Source: Annual survey of hours and earnings, deflated using CPIH measure of inflation

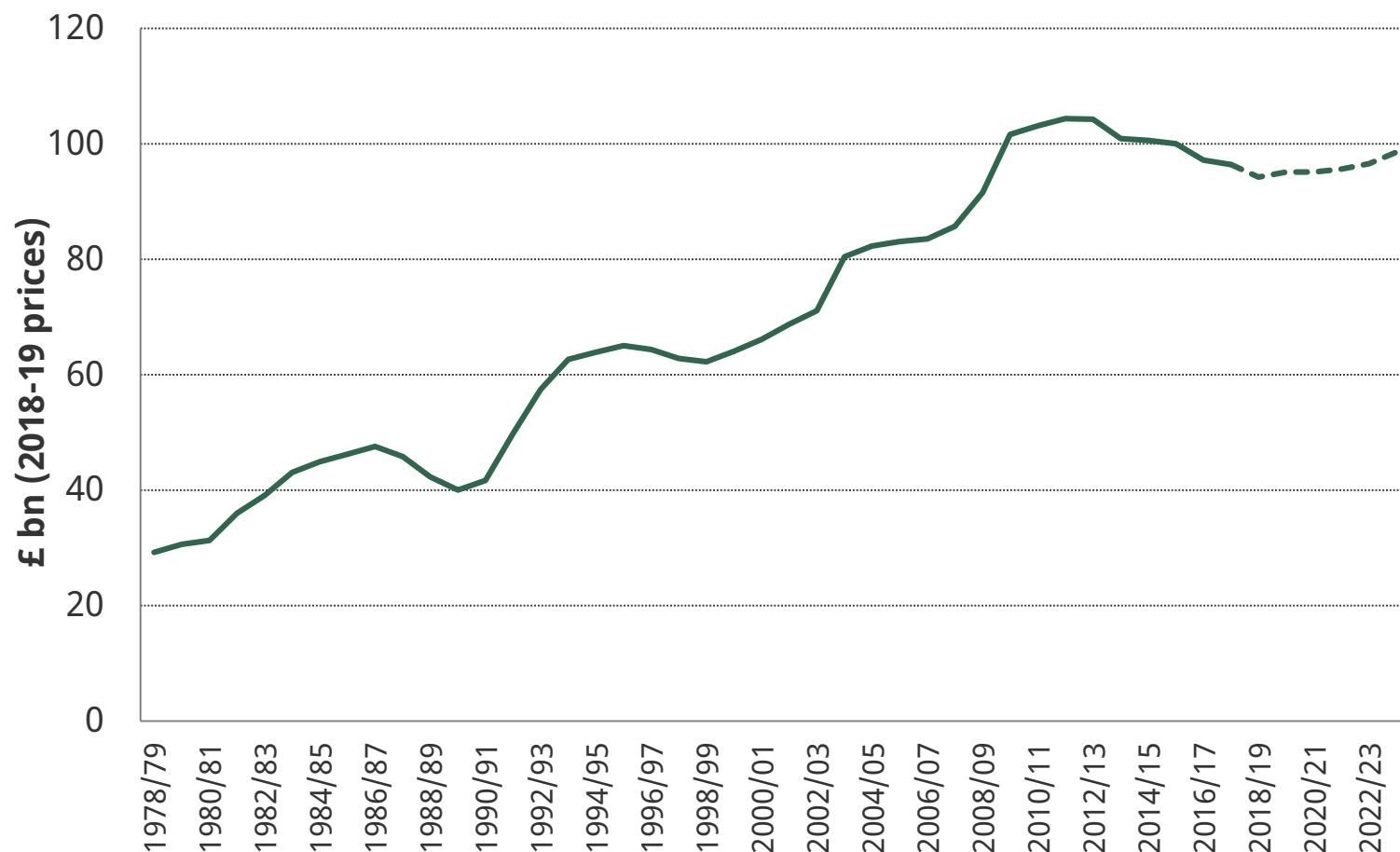
# Those in working households now make up two thirds of working age poor



**In a workless household**

**Someone in household in paid work**

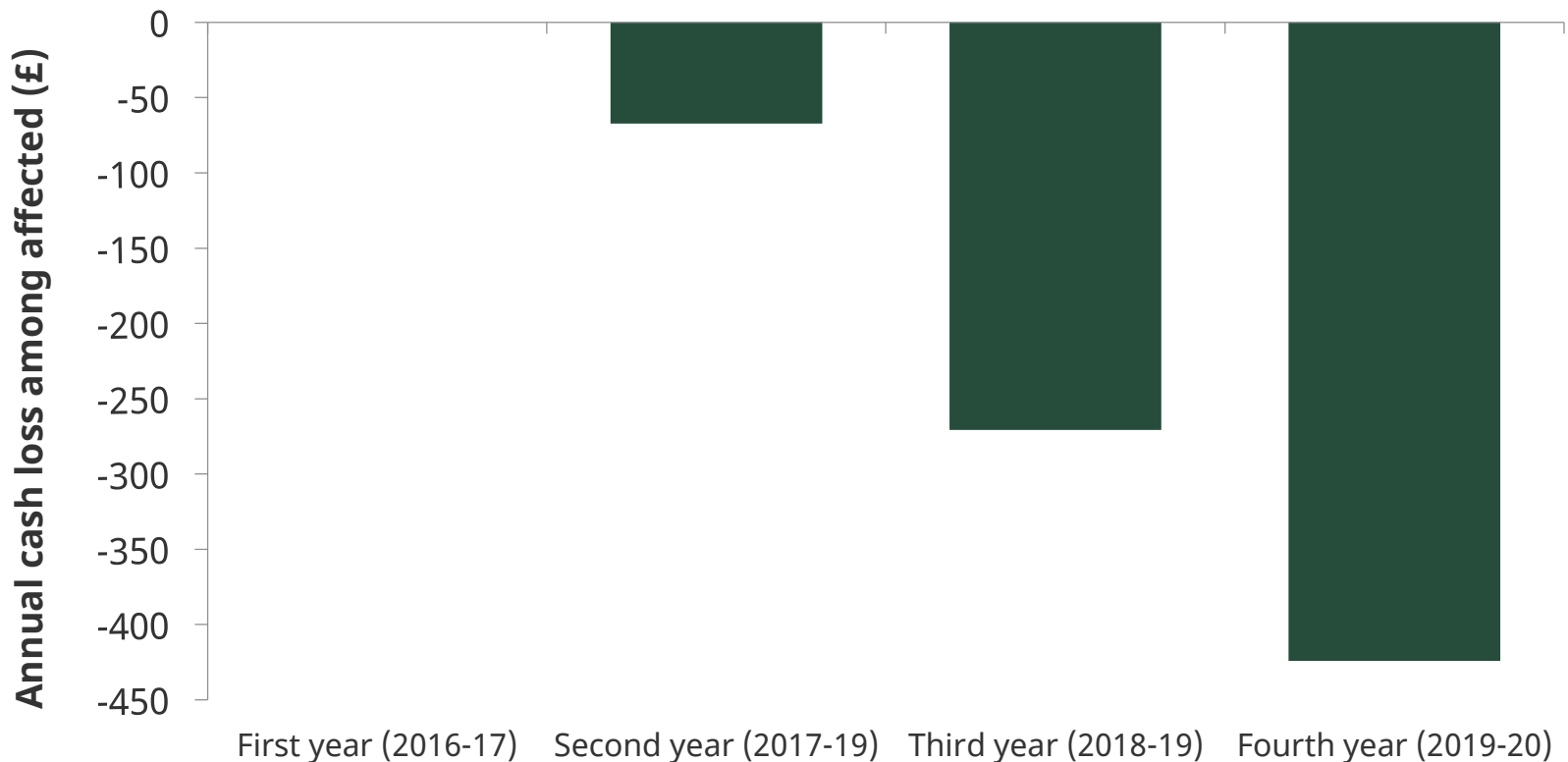
## Working age benefit spending has (only) been stabilised



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

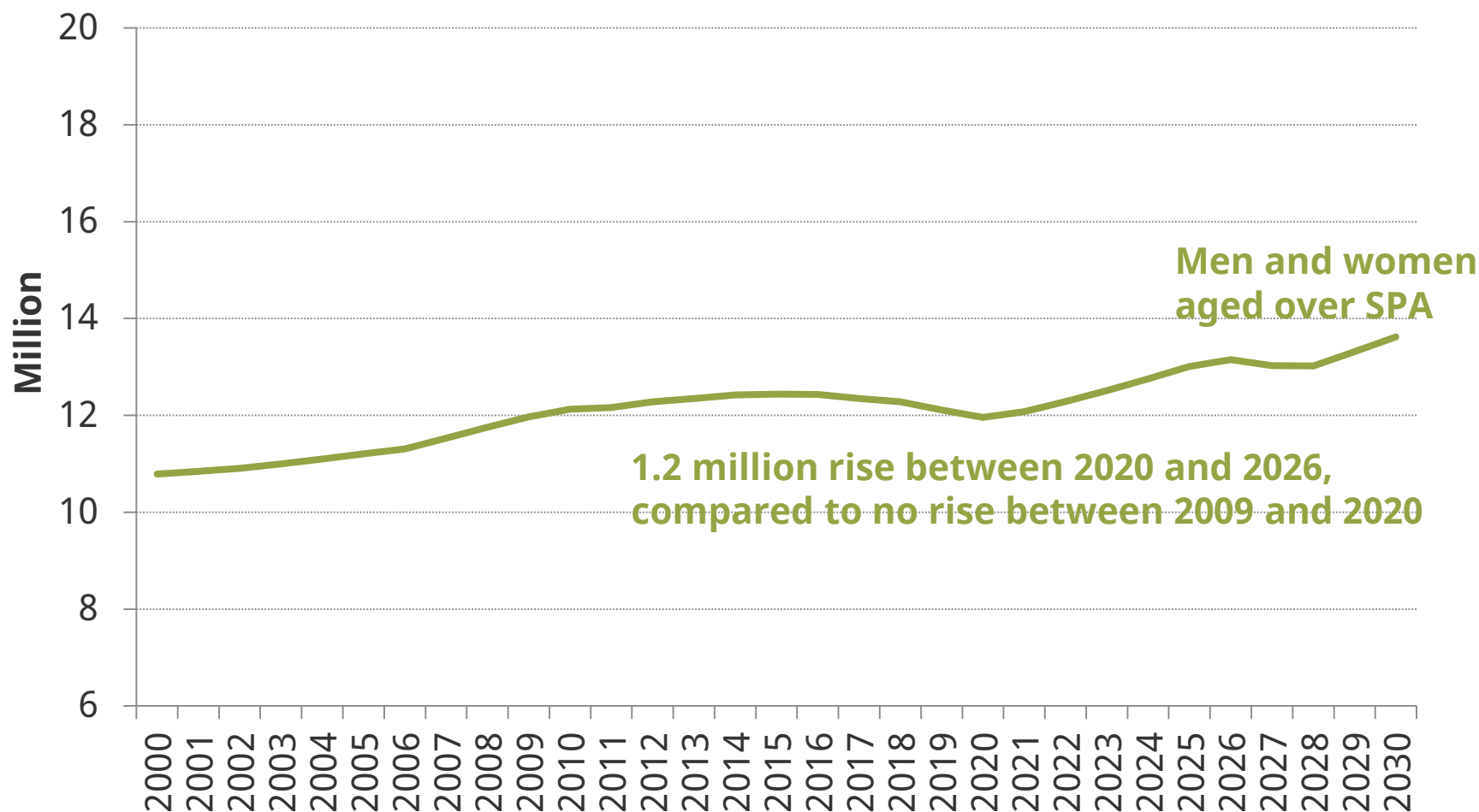
## Despite four years of freezes leaving 10 million households on average £420 worse off



Notes: Average effect of the policy across all affected by the reform. Assumes full take-up of means-tested benefits and tax credits, with all claimants unaffected by the changes made in April 2017 for new benefit claimants.

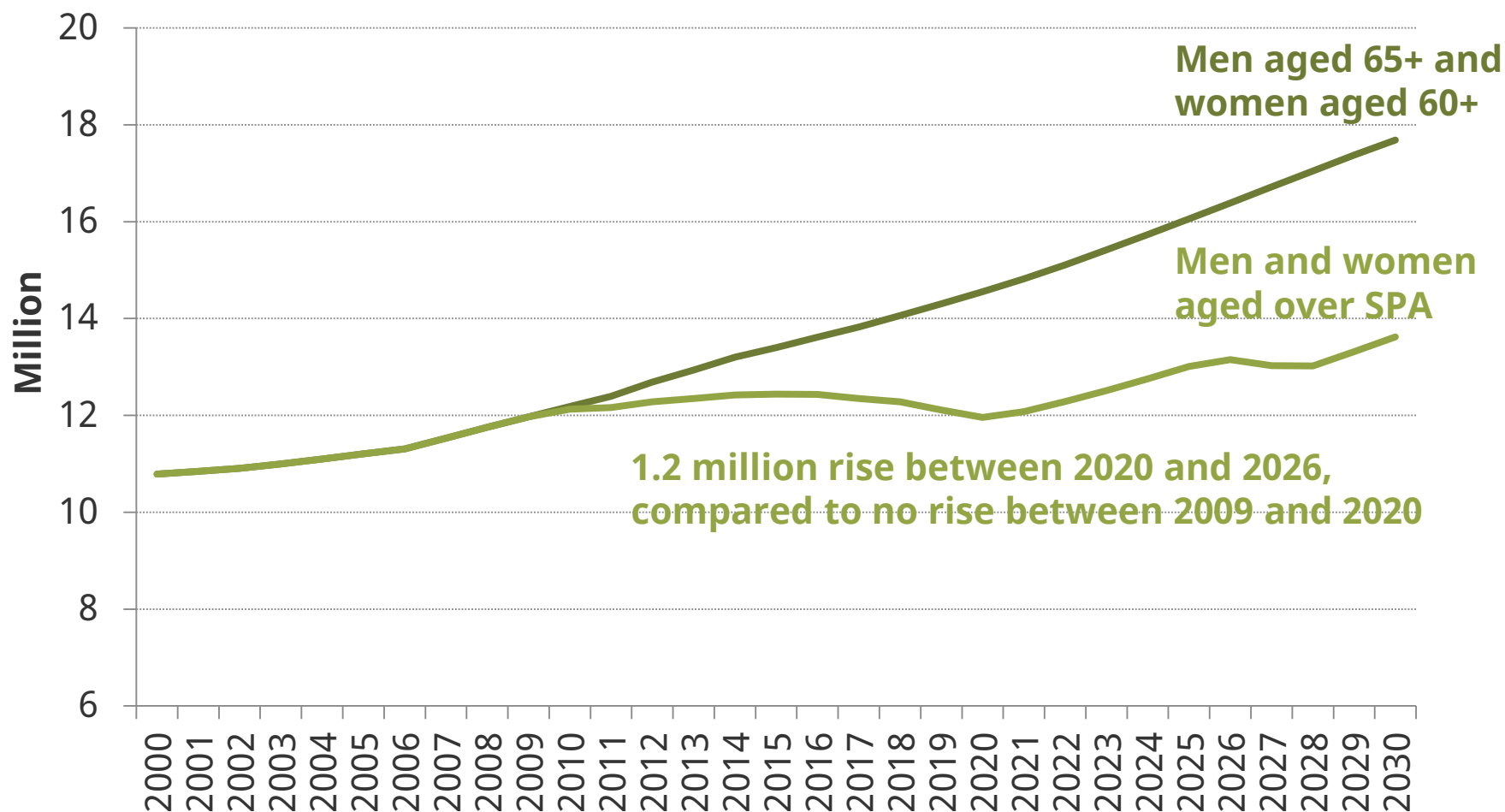
# Ageing and future of the state

## Meanwhile number of pensioners starts to grow from 2020



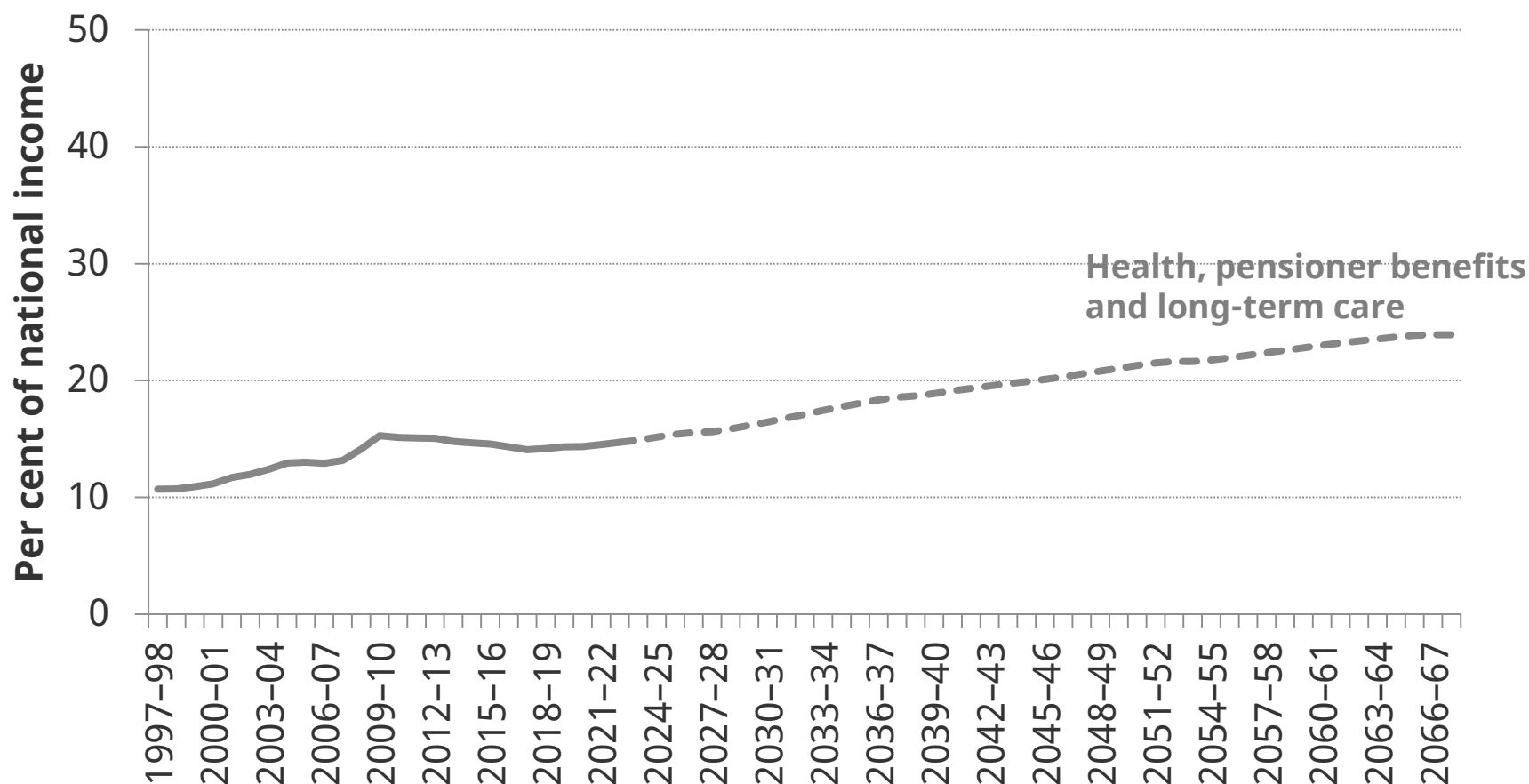
Source: Author's calculations using data from the Office for National Statistics.

# Meanwhile number of pensioners starts to grow from 2020



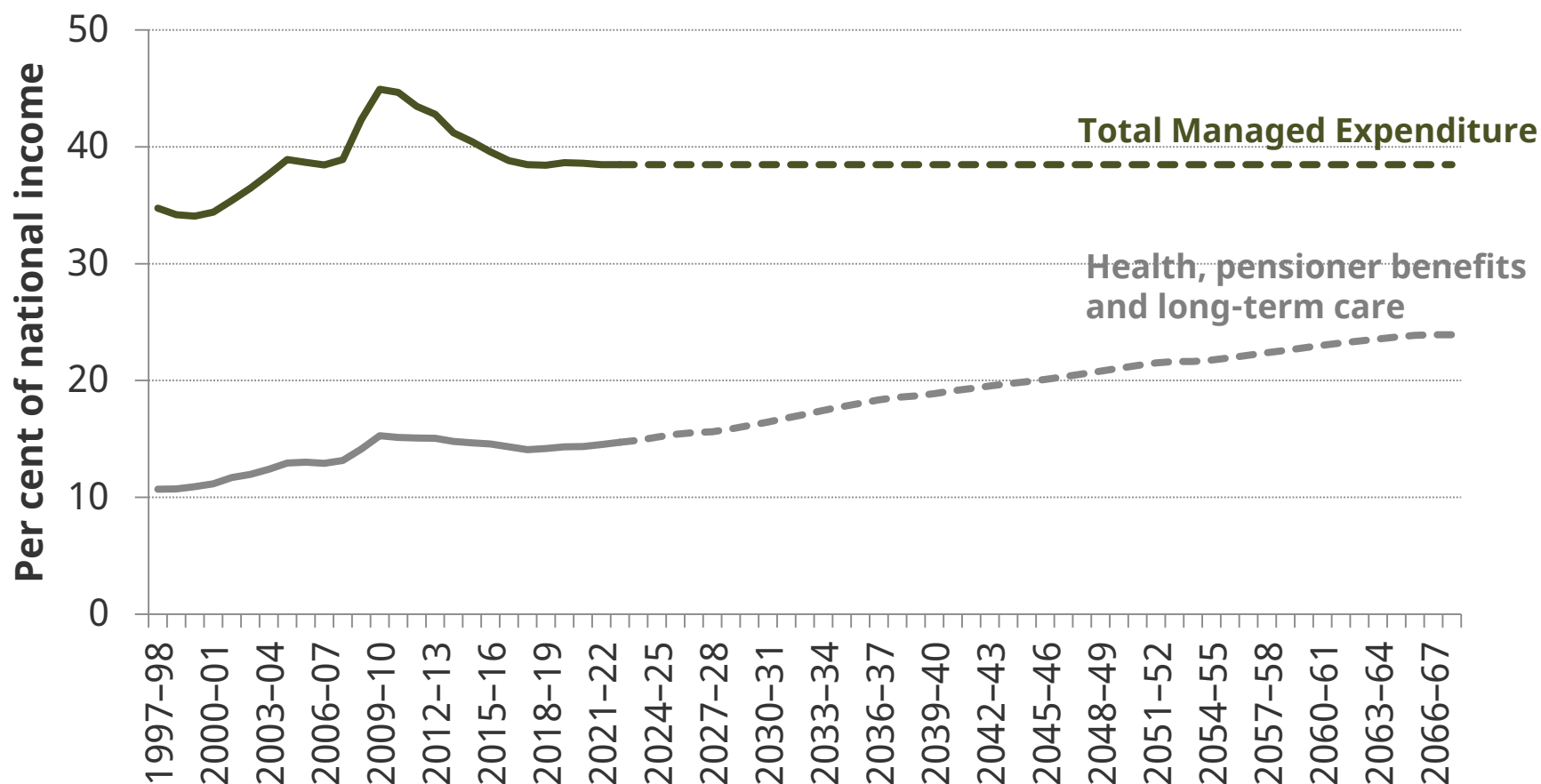
Source: Author's calculations using data from the Office for National Statistics.

# Ageing and health costs change shape of state



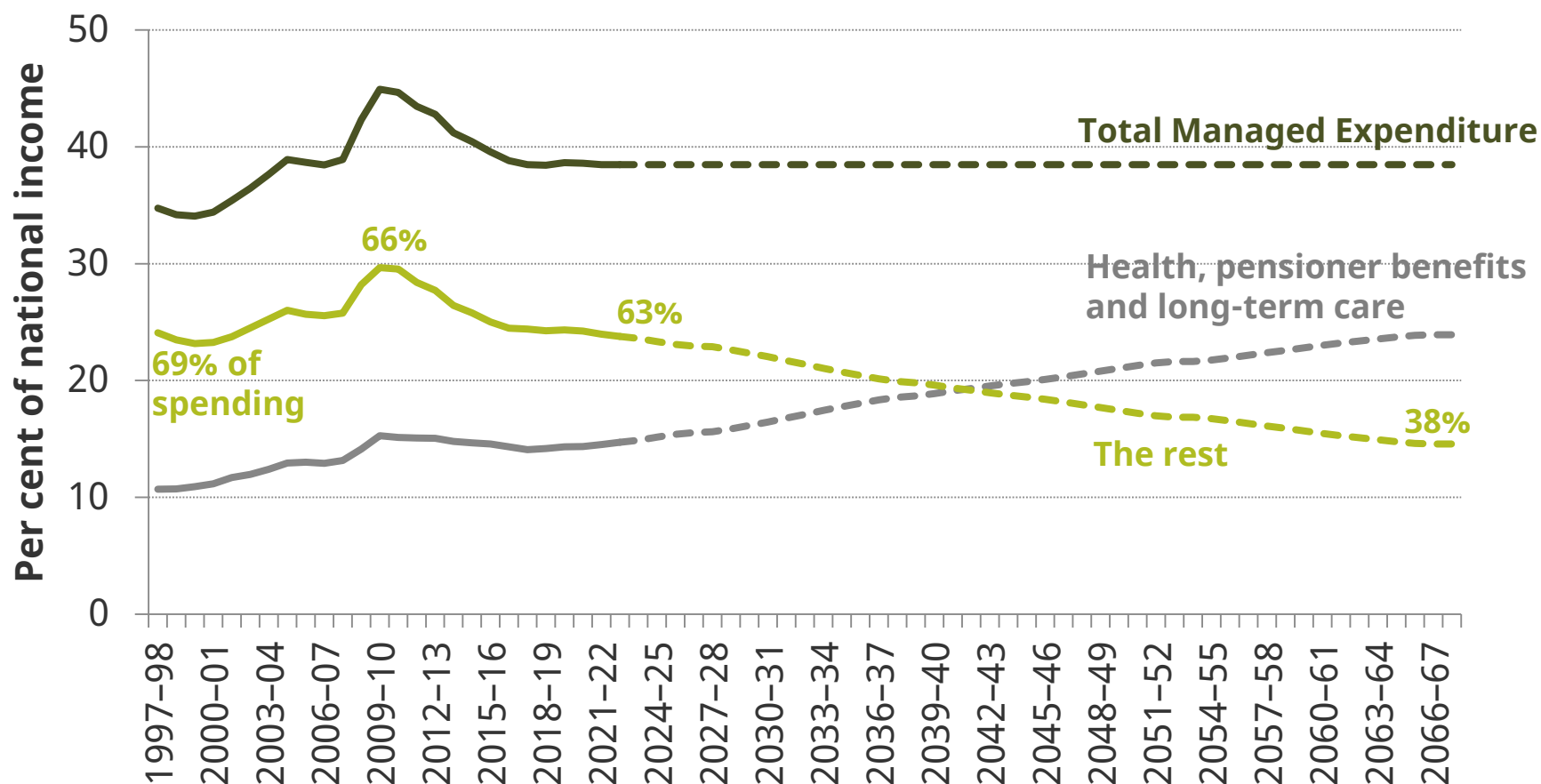
Source: Author's calculations using data from Office for Budget Responsibility, *Fiscal Sustainability Report: July 2018* (<https://obr.uk/fsr/fiscal-sustainability-report-july-2018/>).

# Ageing and health costs change shape of state



Source: Author's calculations using data from Office for Budget Responsibility, *Fiscal Sustainability Report: July 2018* (<https://obr.uk/fsr/fiscal-sustainability-report-july-2018/>).

# Ageing and health costs change shape of state



Source: Author's calculations using data from Office for Budget Responsibility, *Fiscal Sustainability Report: July 2018* (<https://obr.uk/fsr/fiscal-sustainability-report-july-2018/>).

# Scope for big reductions in other spending?

## Prisons

- spending cut by £3bn, or 16%, between 2009–10 and 2017–18
- since 2010 increases in: prisoner deaths (69%), self-harm (64%), assaults on prisoners (86%), assaults on staff (188%)

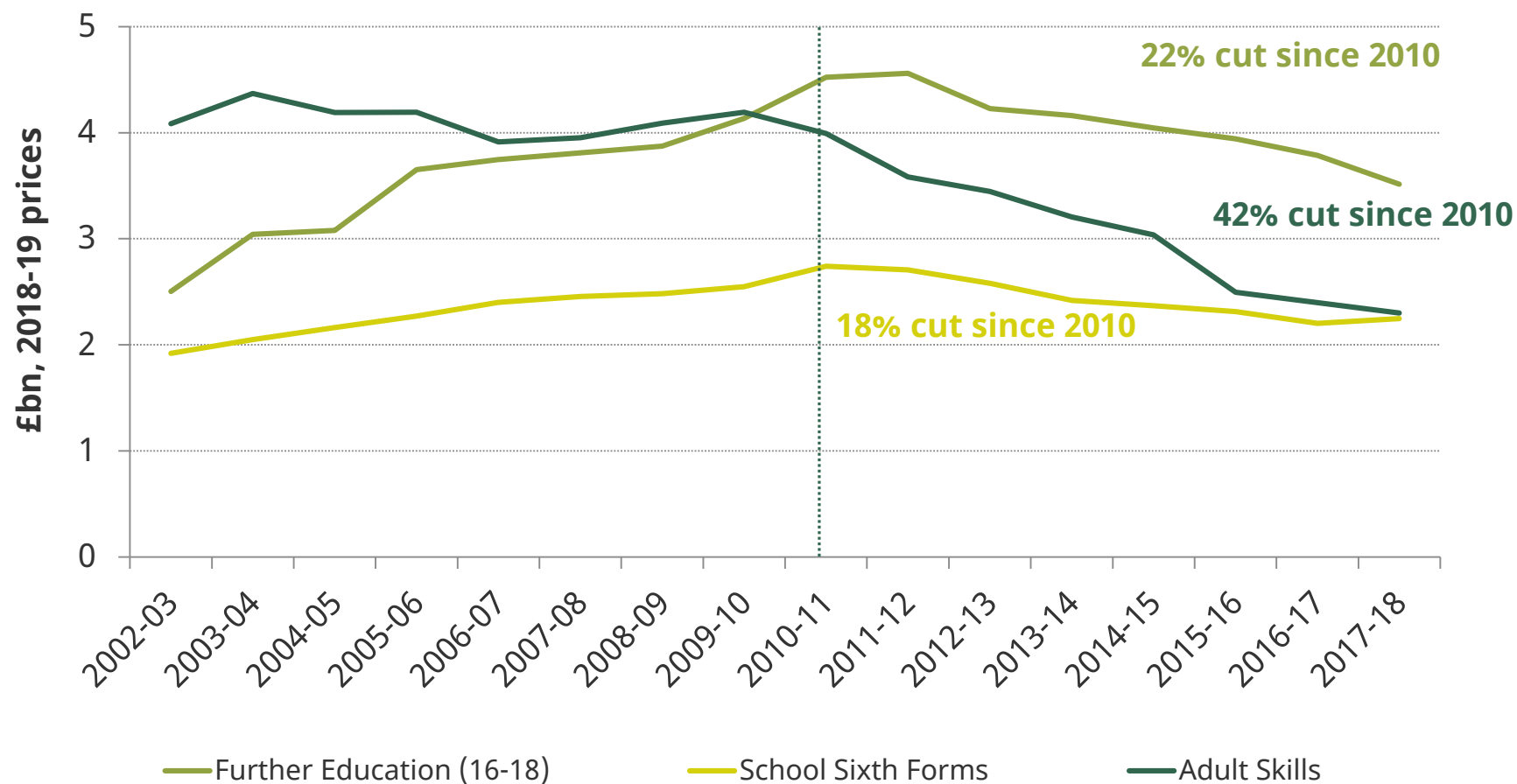
## Police

- 19% reduction in total funding in England and Wales since 2010–11
- Number of police officers fell by 15% over same period

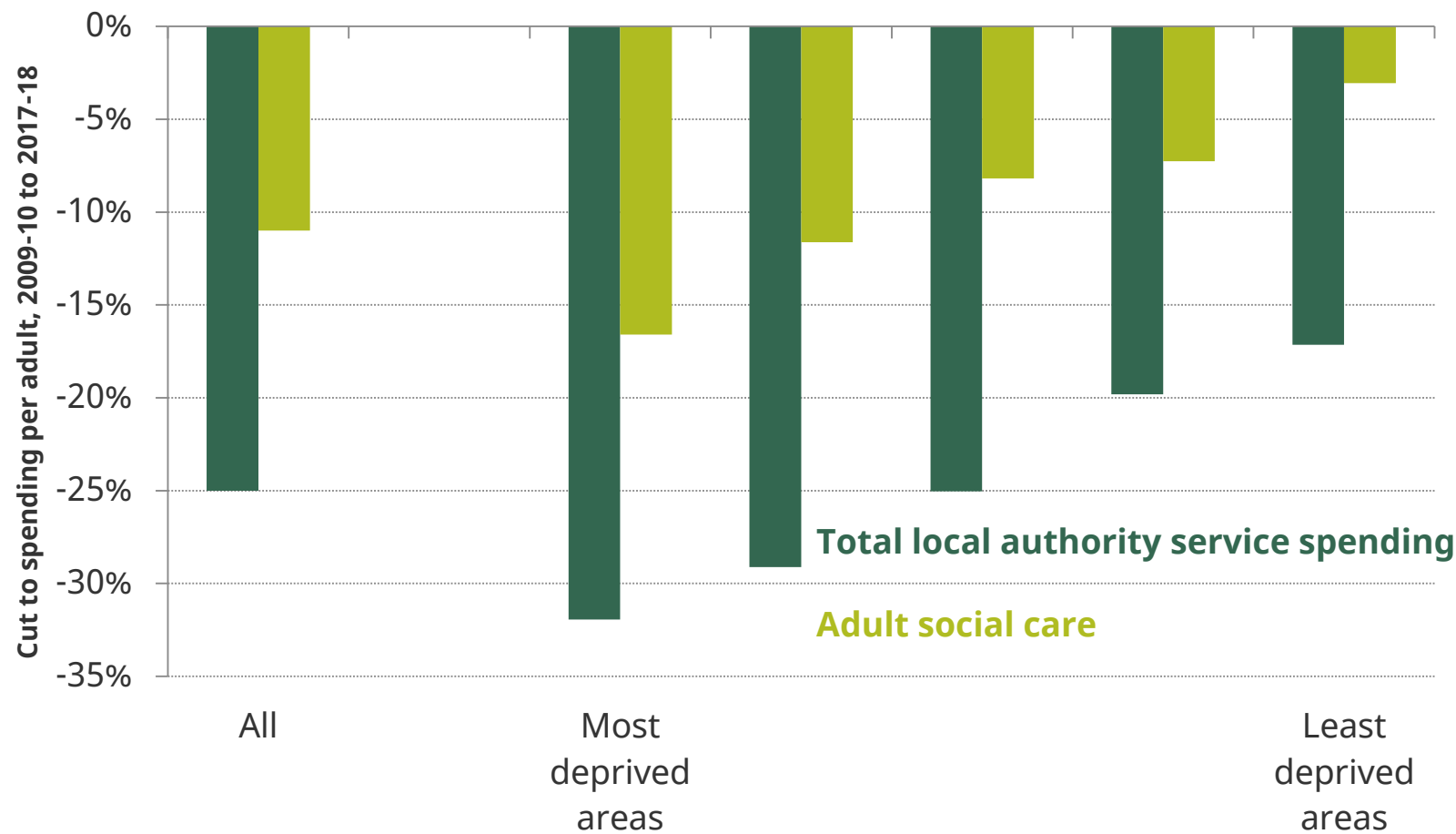
## Schools

- 8% cut in per-pupil spending since 2009–10

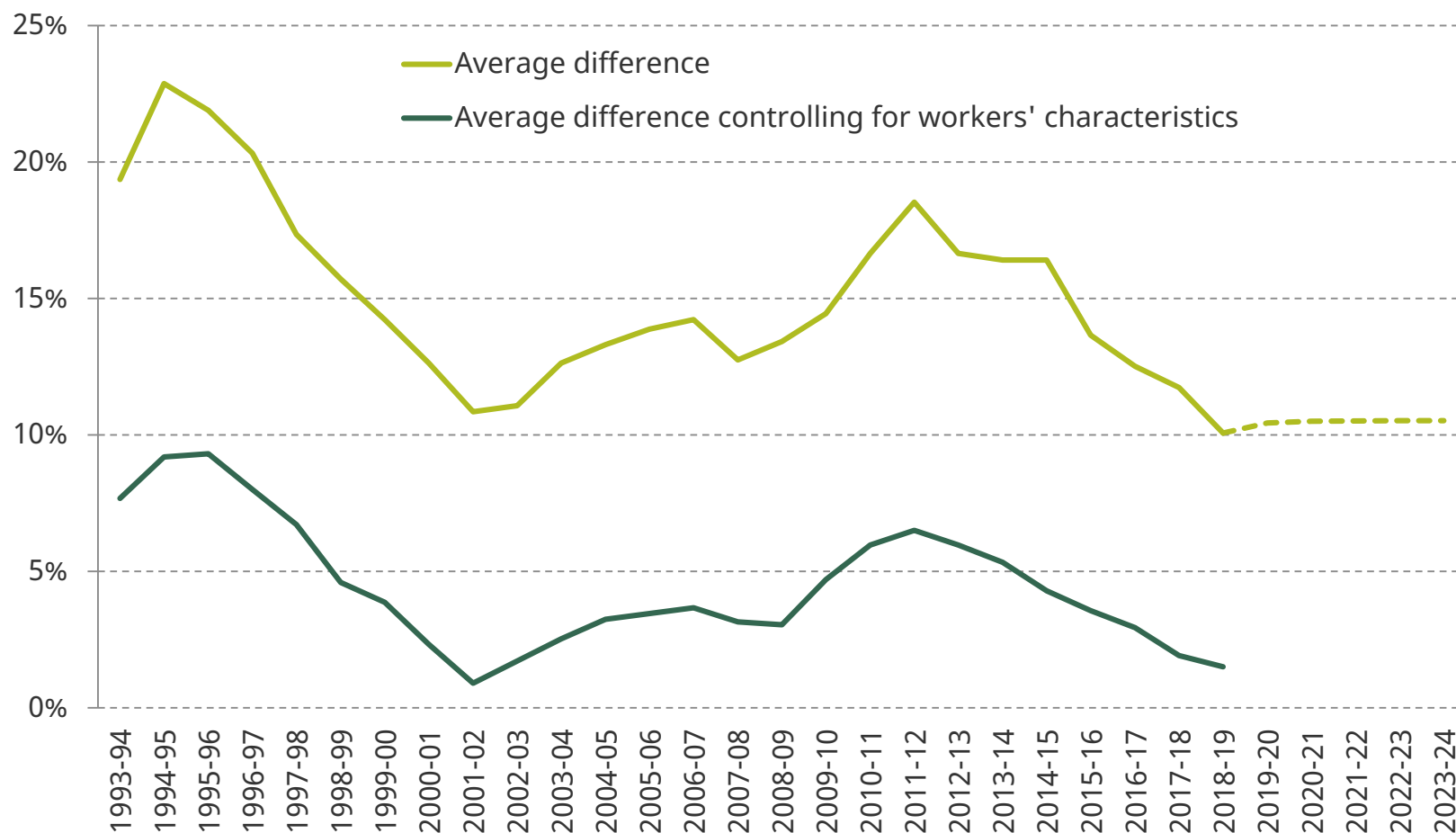
# FE and Sixth Form spending



# Per capita cuts in local government spending



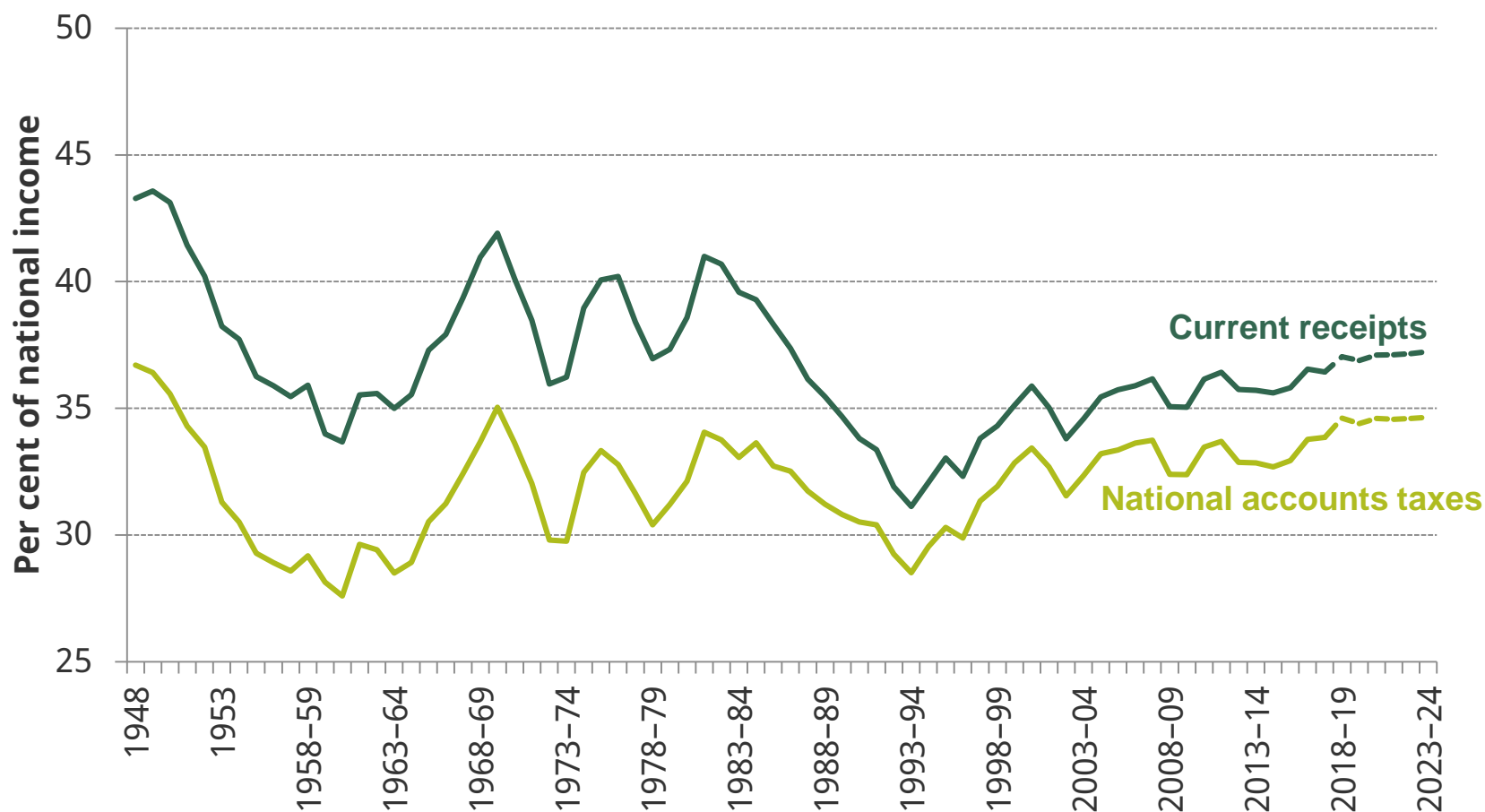
# Public pay now at historically low level relative to private sector



Note: A positive difference means that public sector pay is higher than private sector pay on average. Difference controlling for workers' characteristics controls for differences in age, sex, education, experience and region.

# Tax

# Tax at historically high levels



Source: OBR Databank, March 2019

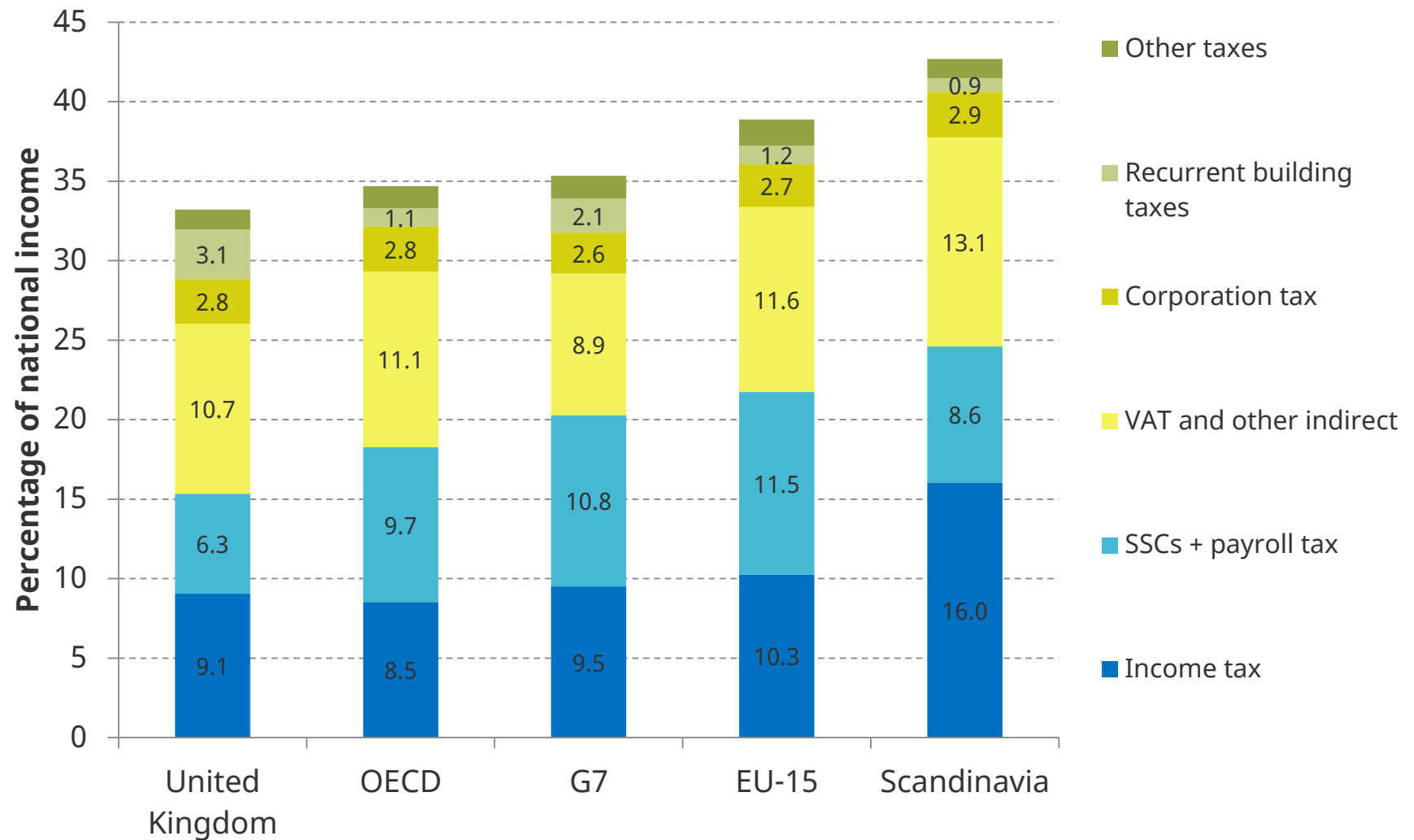
# Challenges even to maintain revenues

**Growth of company owner managers**

**Failure to index fuel duty**

**Taxing multinationals and digital companies**

# Of course we can decide to tax more



**Composition of tax receipts** Source: OECD

# **And we need to sort out the tax system**

**Stamp Duty**

**CGT at death and entrepreneurs relief**

**Council tax**

**Taxation of pensions**

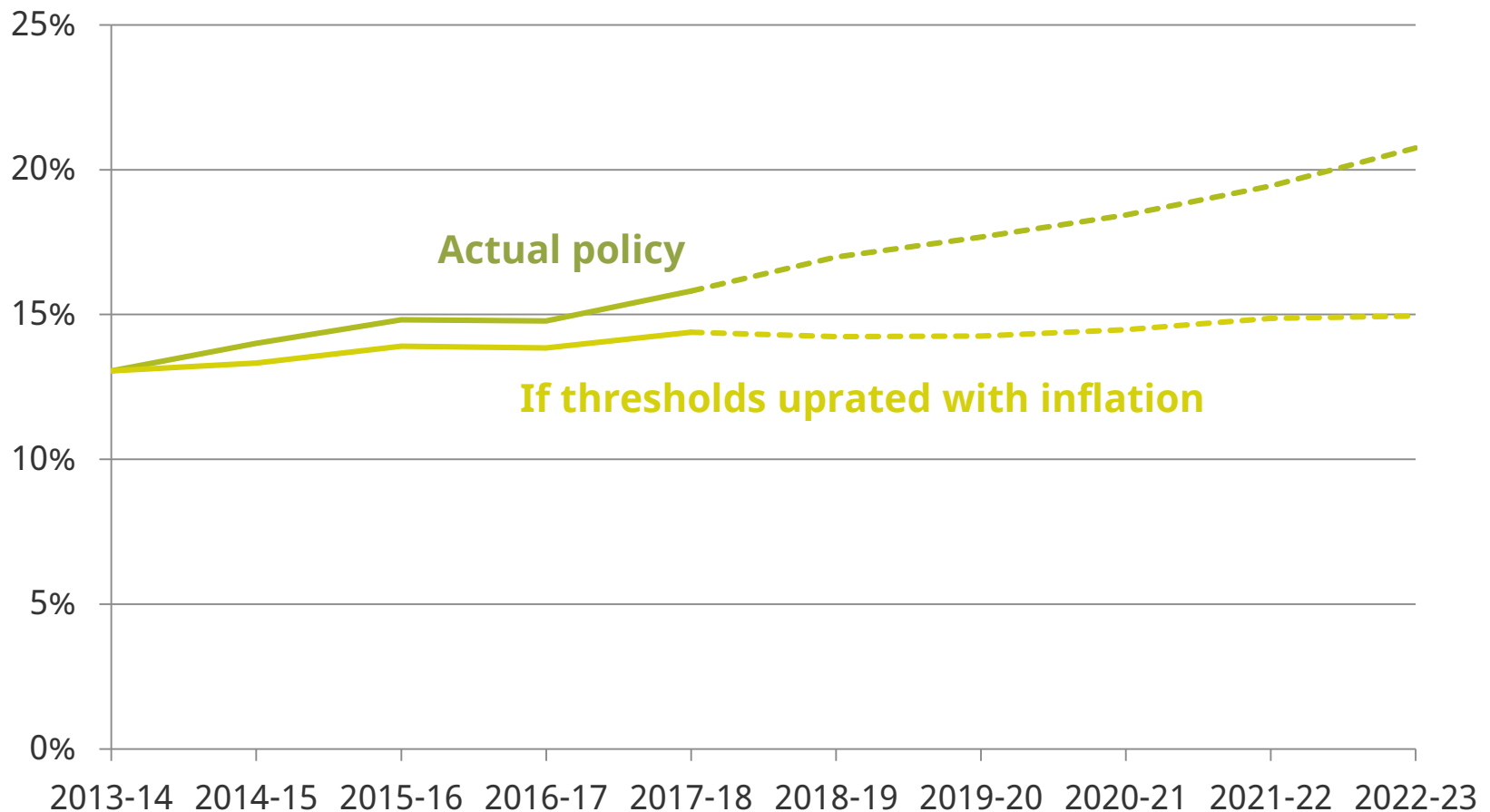
**NICs and self employment**

**VAT base**

**Big elements of income tax system not indexed**

# Dragging people in

## Share of families with children not entitled to full child benefit



## **Don't forget...**

**Median pay is still below its 2008 level**

**“Absolute” poverty rates are barely shifting**

**Huge challenges for working age welfare**

**Unfinished business on social care, local government, FE and more**

**Costs of an ageing population are well and truly upon us**

**And our tax system is not set up to deal with this**

# Future challenges

Paul Johnson

14 March 2019