



Institute for
Fiscal Studies

Evidence in public policy

Paul Johnson

SRA annual conference

14 December 2015

What makes for effective evidence?

- Deals with an issue of importance
- Timely
- Robust
- Well presented/communicated
- From a trusted source

The IFS

- Combines academic with public policy
- Focus on clear communication
- Very careful to be, and be seen to be, independent/neutral
- Stick to what we know
- Unidisciplinary
- Been doing it for 30+ years

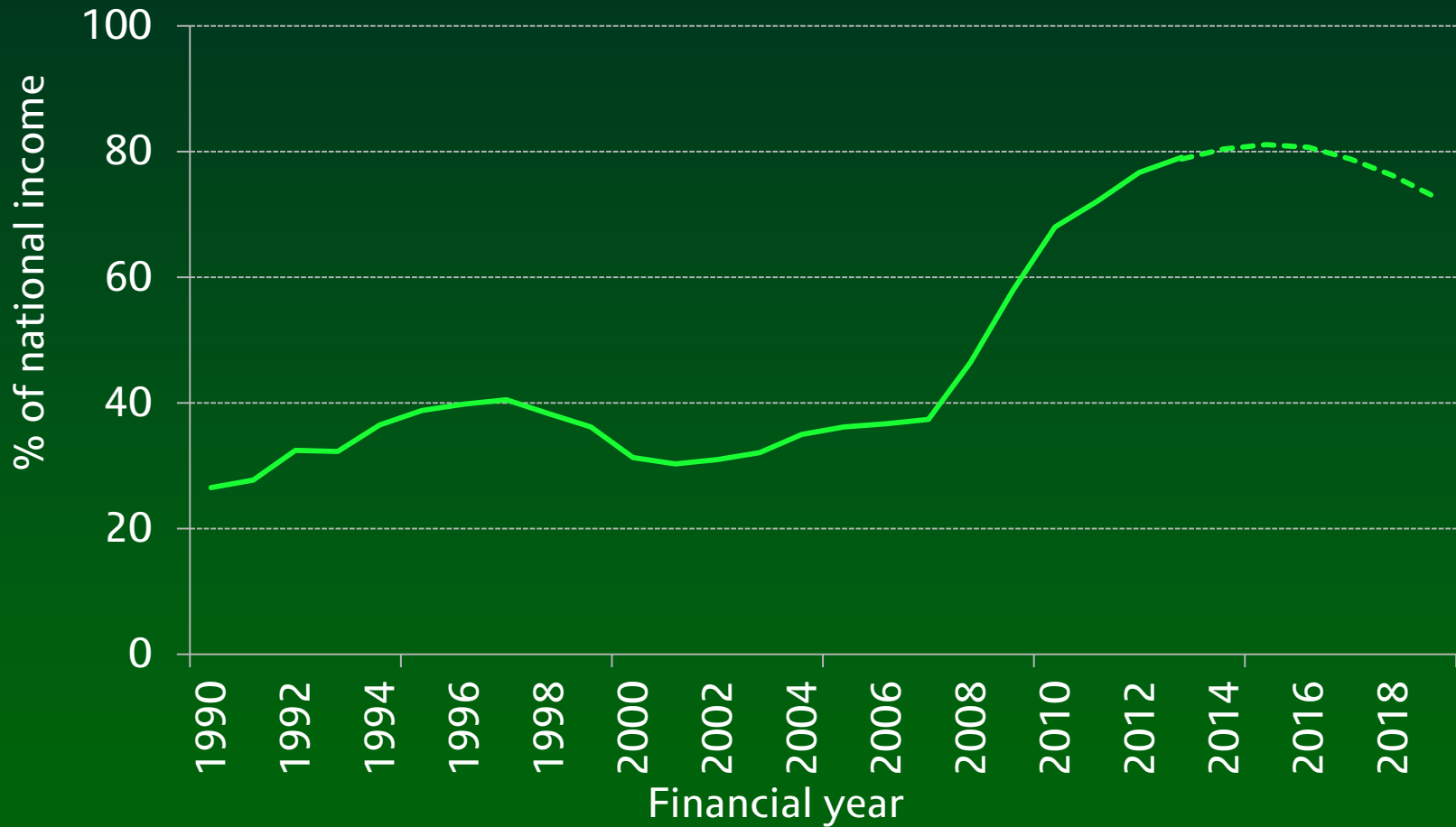
Understanding causation

- Not the subject of this talk
- Widespread abuse of figures by politicians
 - And search for evidence that confirms priors
- Right combination of timeliness, robustness, clarity required
 - Remains all too rare
- To be useful results need to be generalisable
 - Need models *and* experiments

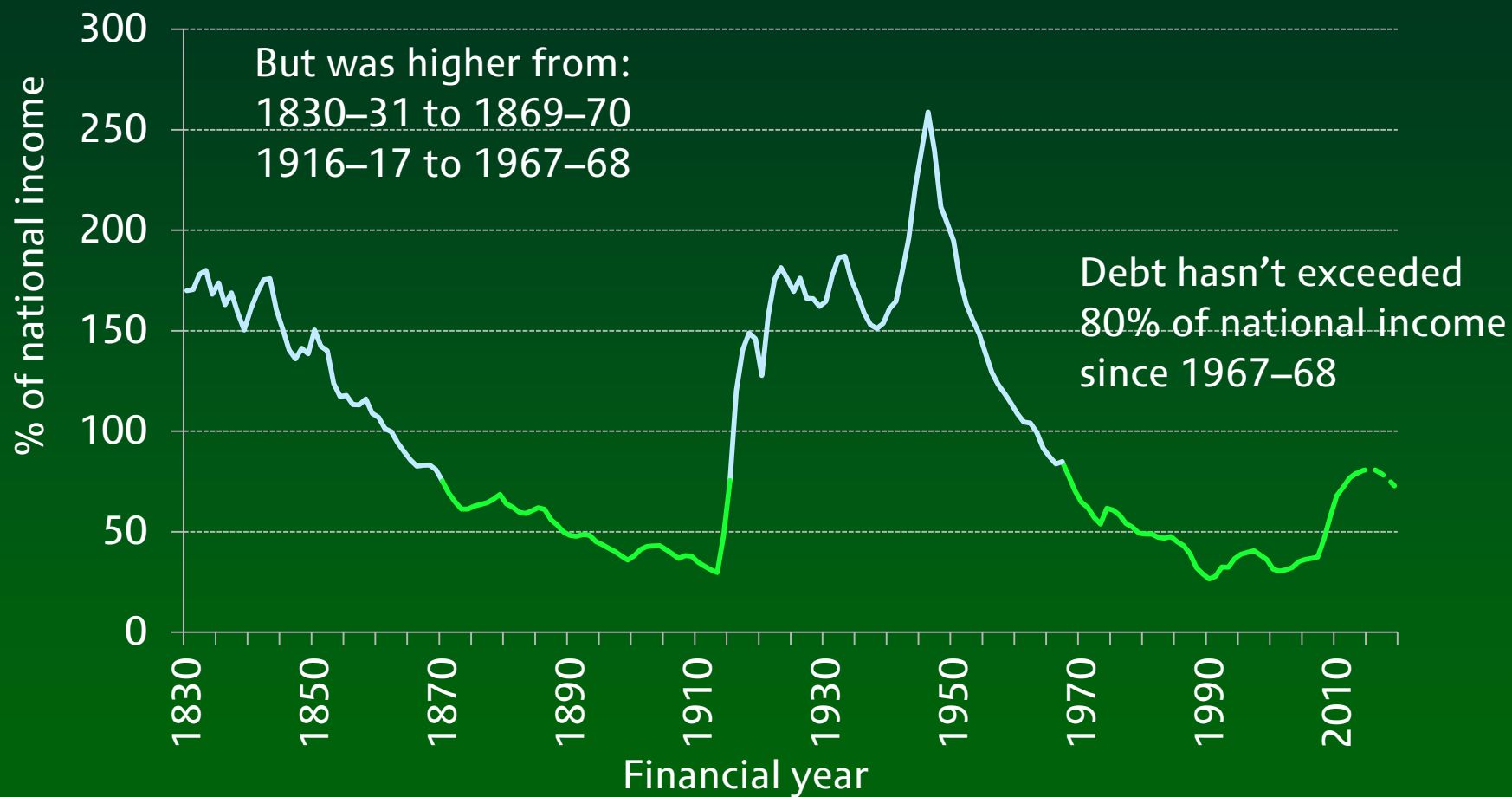
Some examples

- Public finances
 - Debt and spending
 - The Autumn Statement
 - Eliminating the deficit – risk and uncertainty
- What has been happening to the income distribution
 - Long term trends
- Changes to welfare
 - Examples and populations
 - Long term and short term

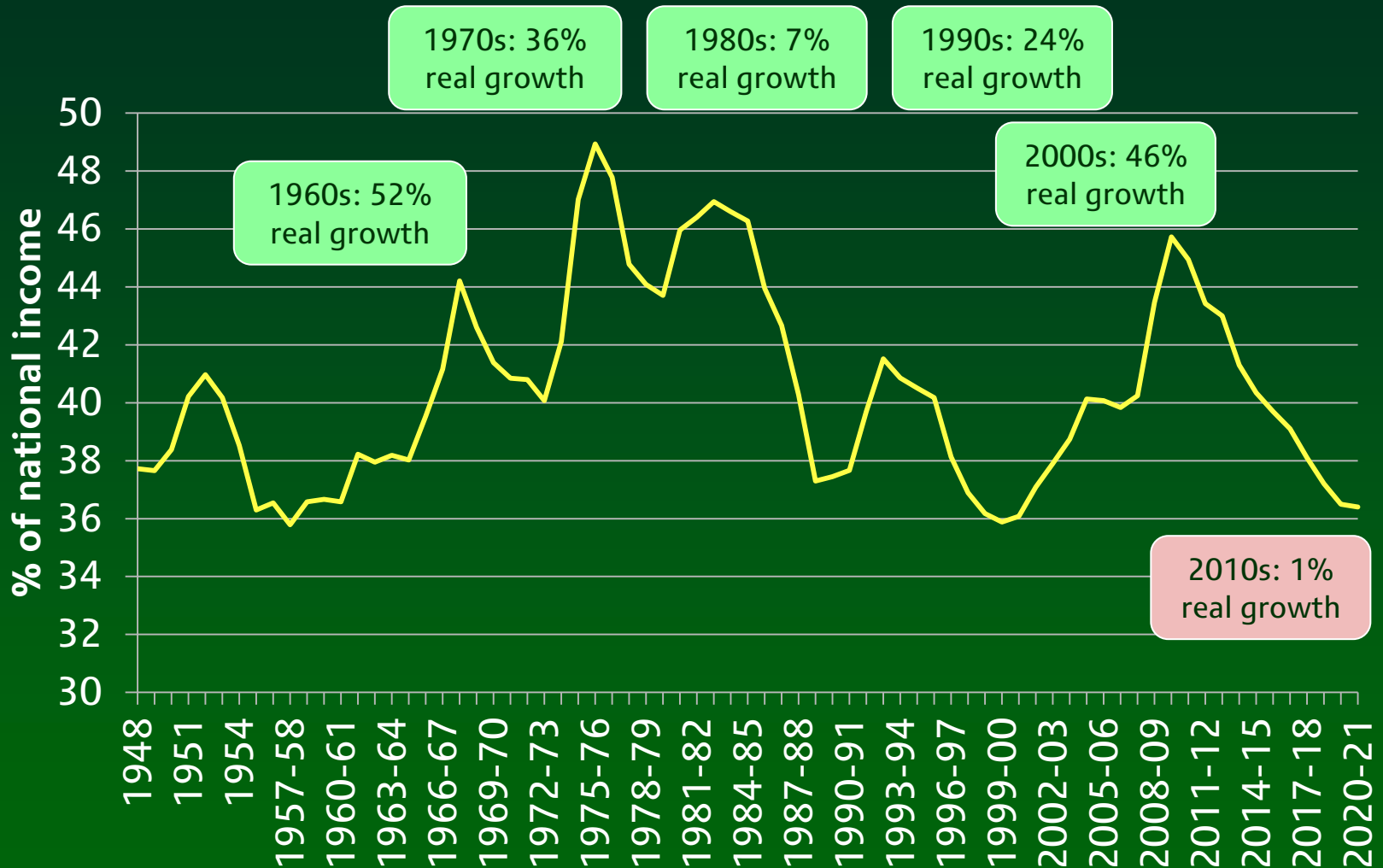
Public sector debt at record high



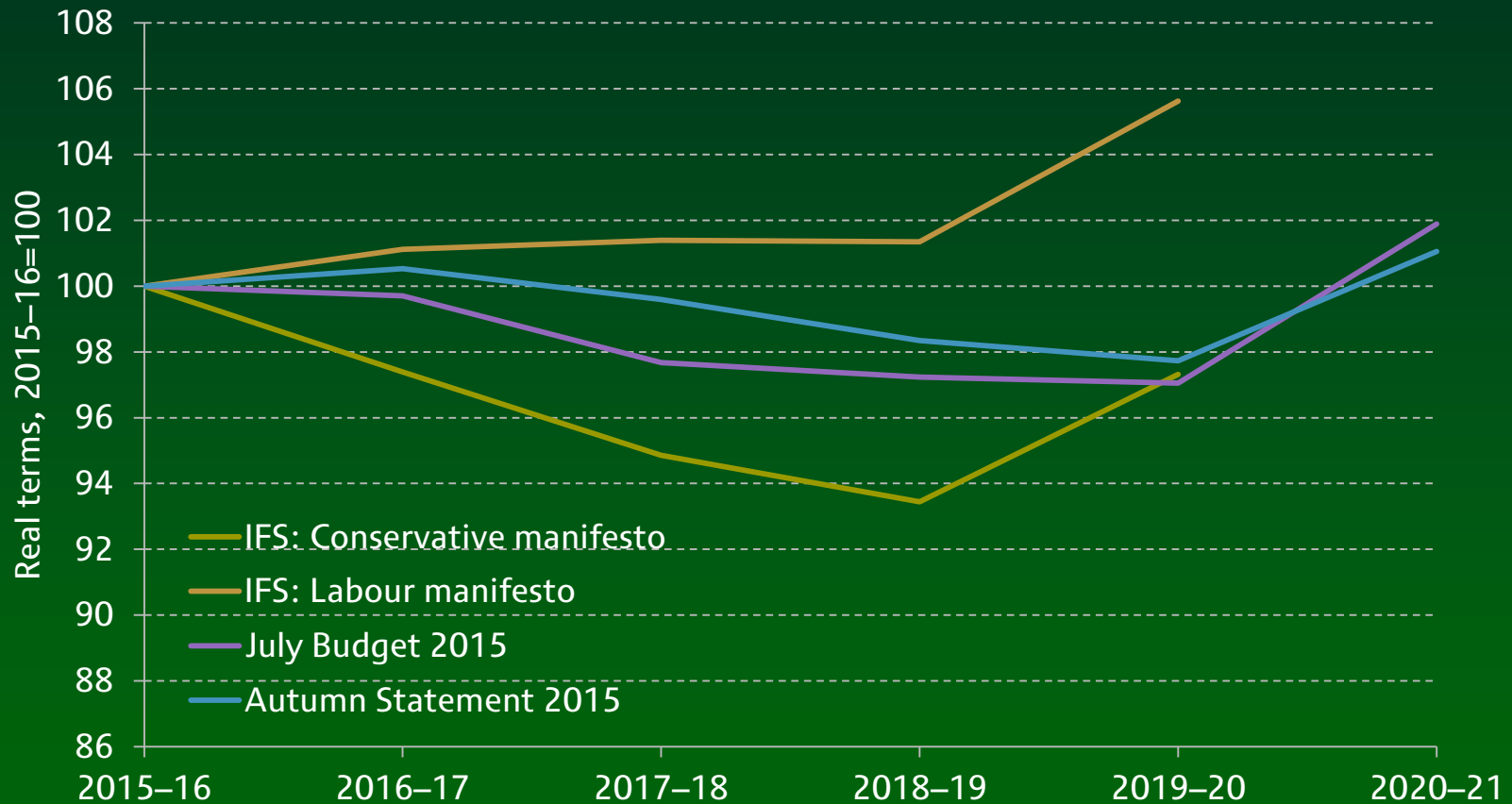
But not on a longer perspective



Spending in historical perspective



Change in total DEL – evidence in manifestos?



Paid for by £27bn windfall?

- No
- £14bn net tax rise
- Small net forecasting adjustments
 - Number cumulated over several years

Eliminating the deficit in this parliament?

Past forecast errors suggest 55% chance of a surplus in 2019–20

Forecast surplus in 2019–20 of £10bn

Average absolute forecasting error 5 years out \approx £70bn

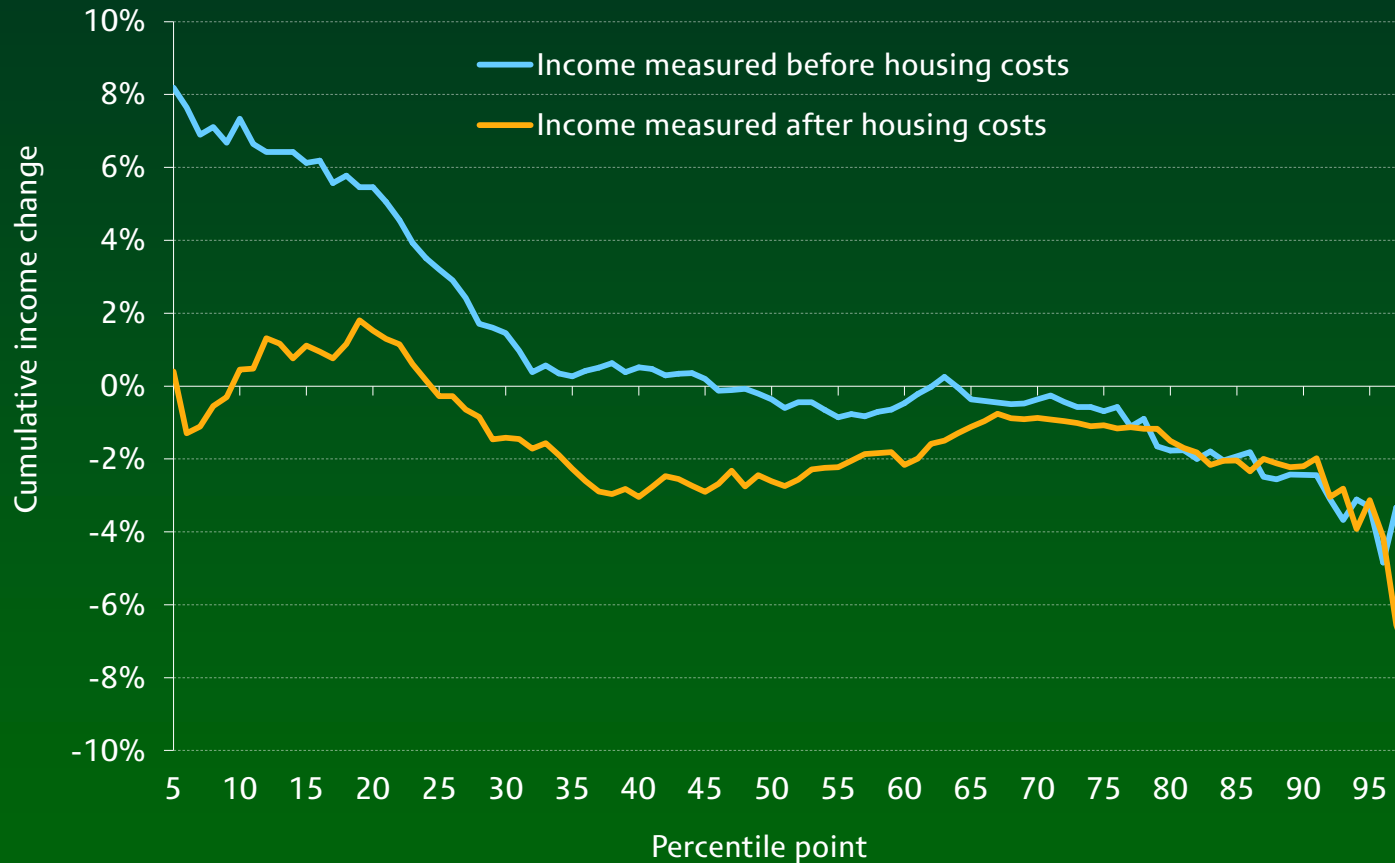


What about the income distribution?

- Everyone knows it's been getting more unequal
- Only trouble is that in recent years the evidence would suggest otherwise

Income inequality is lower than pre-recession

Real income growth by percentile point, 2007–08 to 2013–14



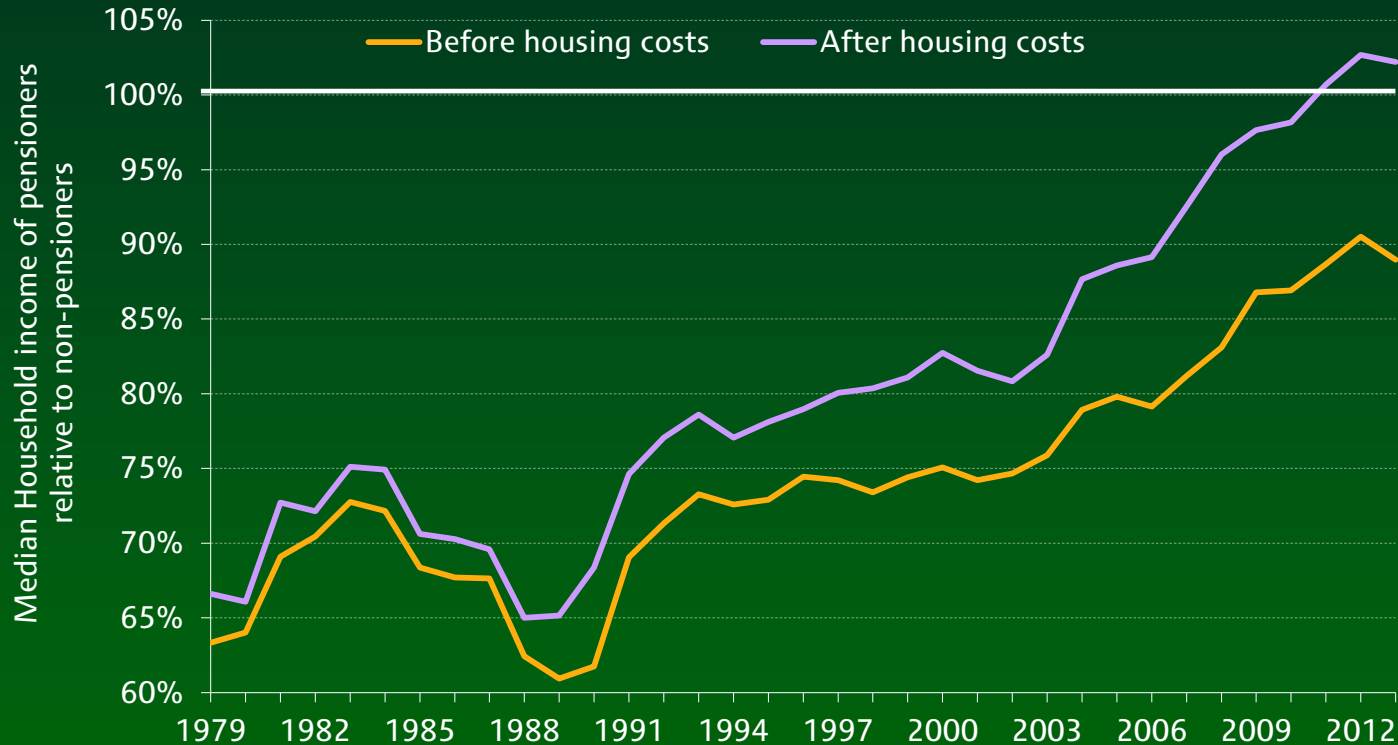
Source: Fig 3.9 of *Living Standards, Inequality and Poverty in the UK: 2015*

What about the income distribution?

- Everyone knows it's been getting more unequal
- Only trouble is that in recent years the evidence would suggest otherwise
- Need to be much clearer what we mean
 - The top 1% were pulling away in the 2000s
 - Complex changes to wealth distribution
 - There are big generational differences
 - Sometimes it takes public perception a while to catch up with the evidence

Incomes of pensioners catching up with the rest...

Median income of pensioners relative to that of non-pensioners, 1979 to 2013–14



Source: Fig 3.6 of *Living Standards, Inequality and Poverty in the UK: 2015*

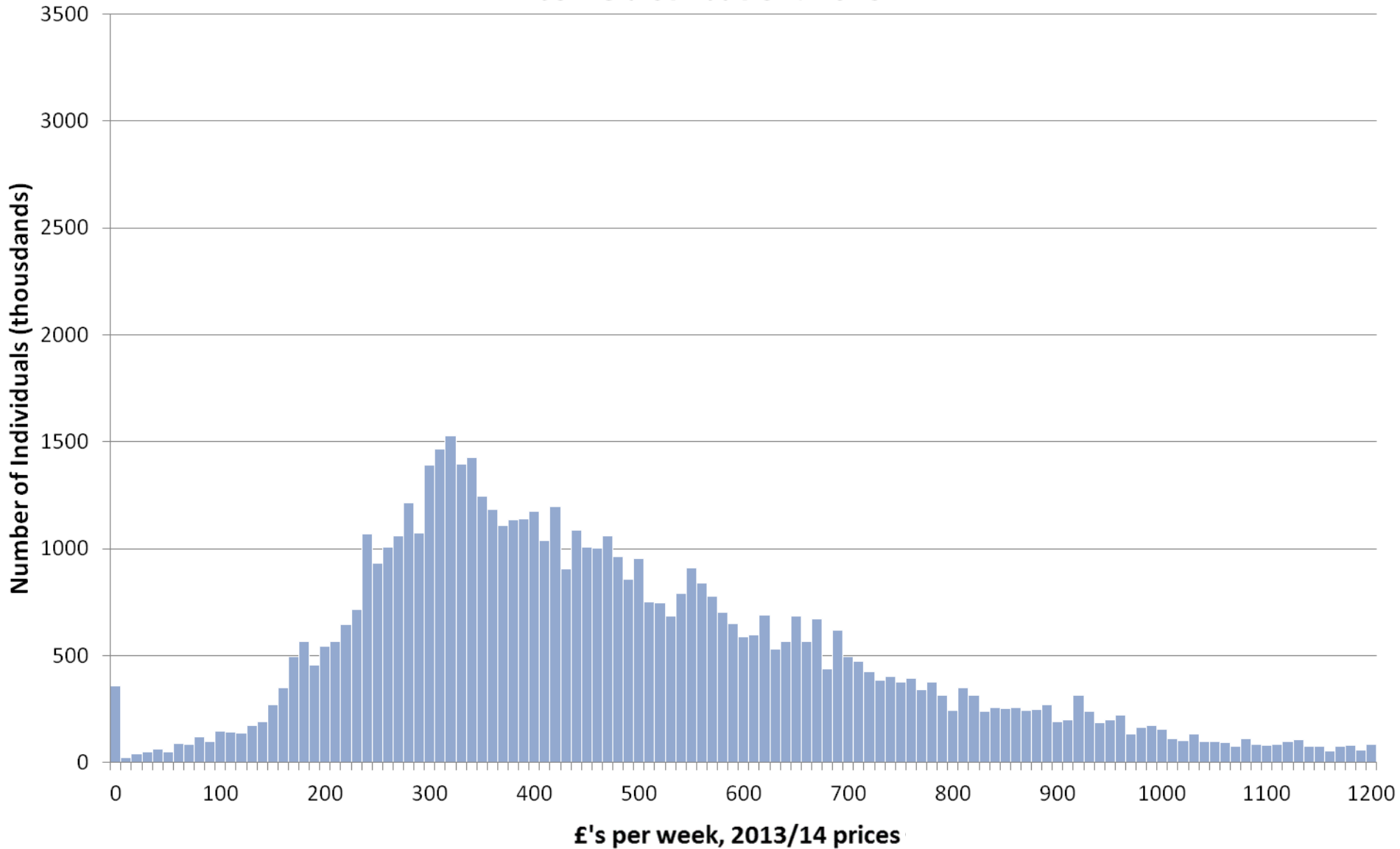


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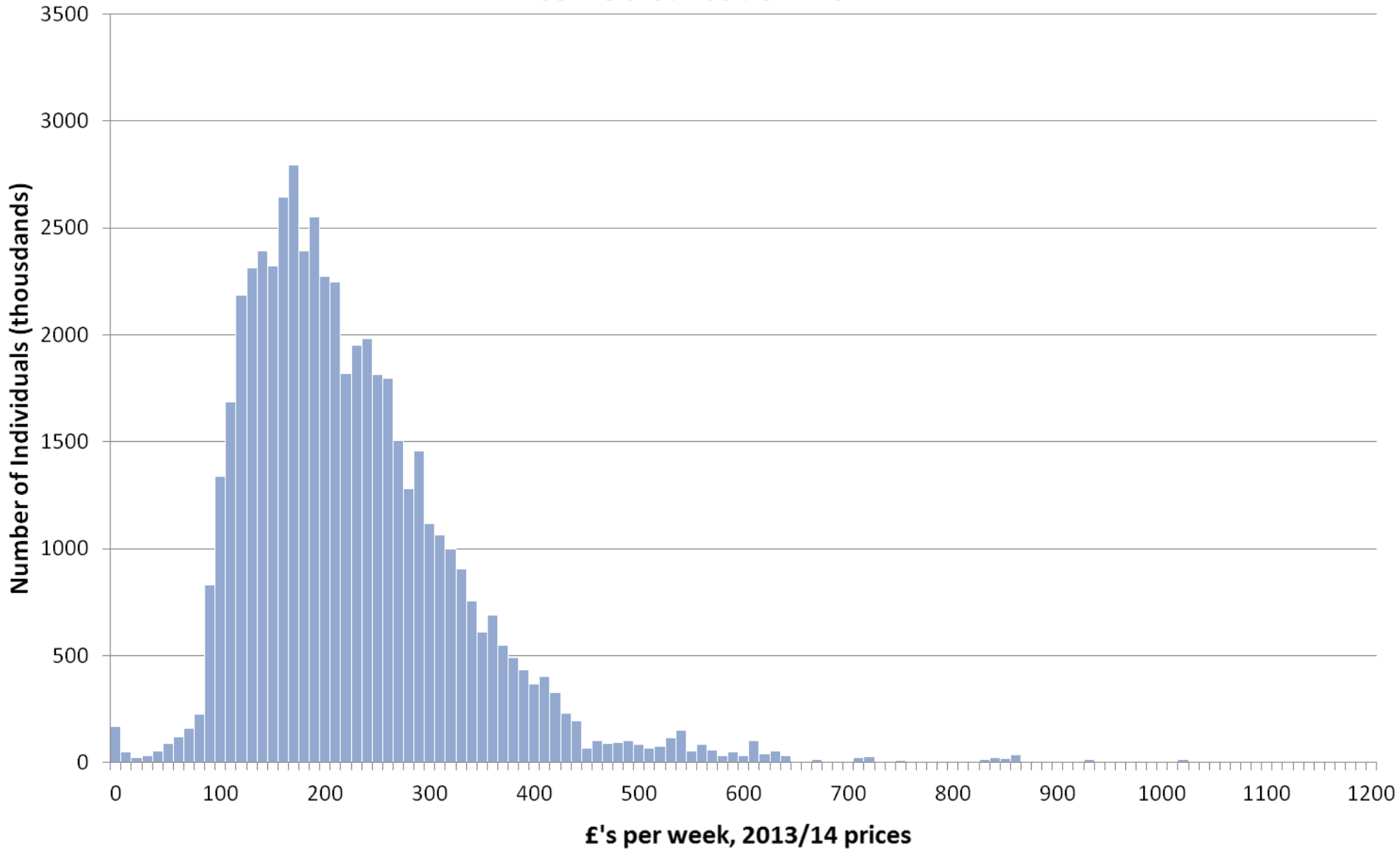
What about the income distribution?

- Everyone knows it's been getting more unequal
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 - The top 1% were pulling away in the 2000s
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 - Sometimes it takes public perception a while to catch up with the evidence
 - Over a long period inequality has changed enormously

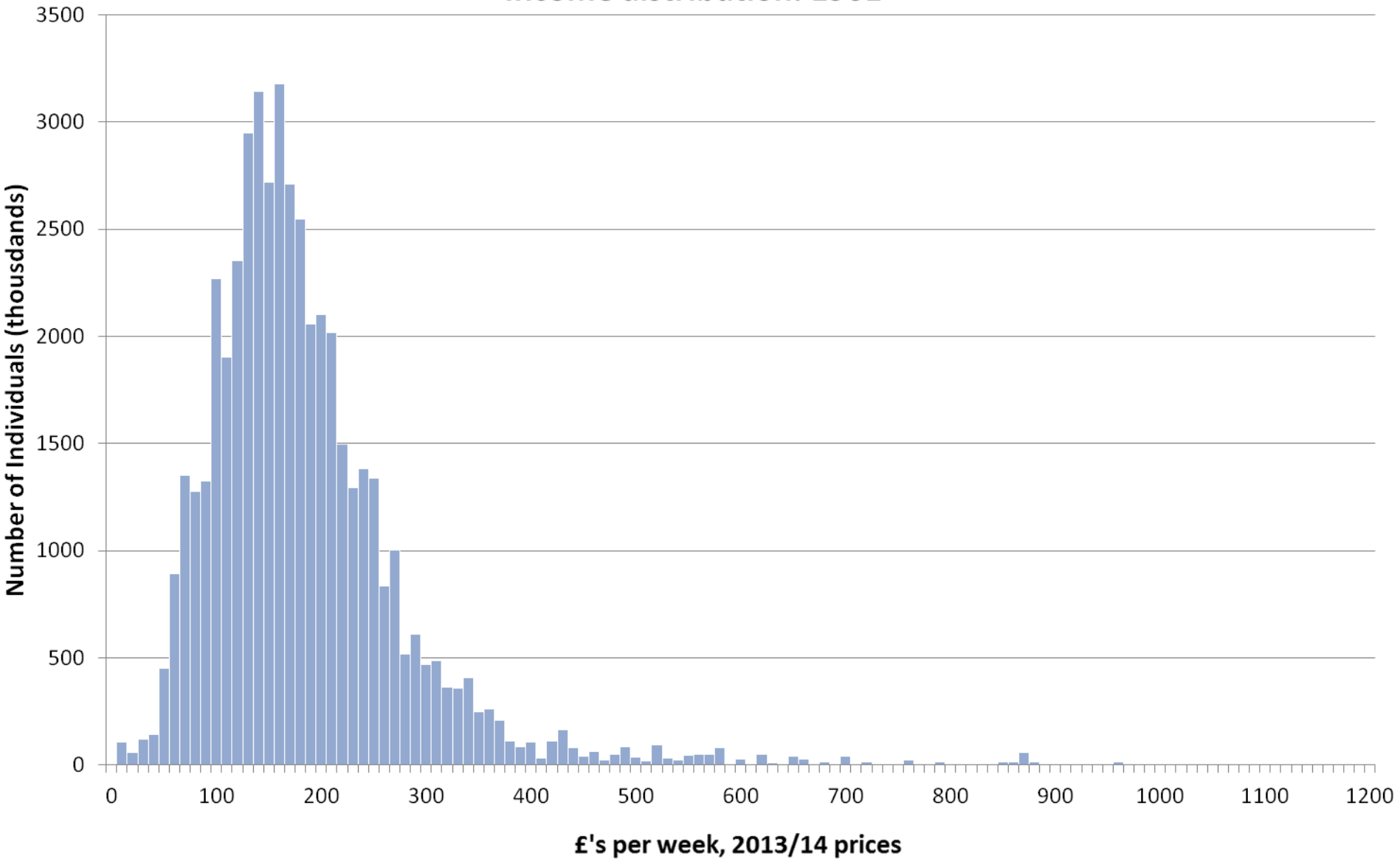
Income distribution: 2013



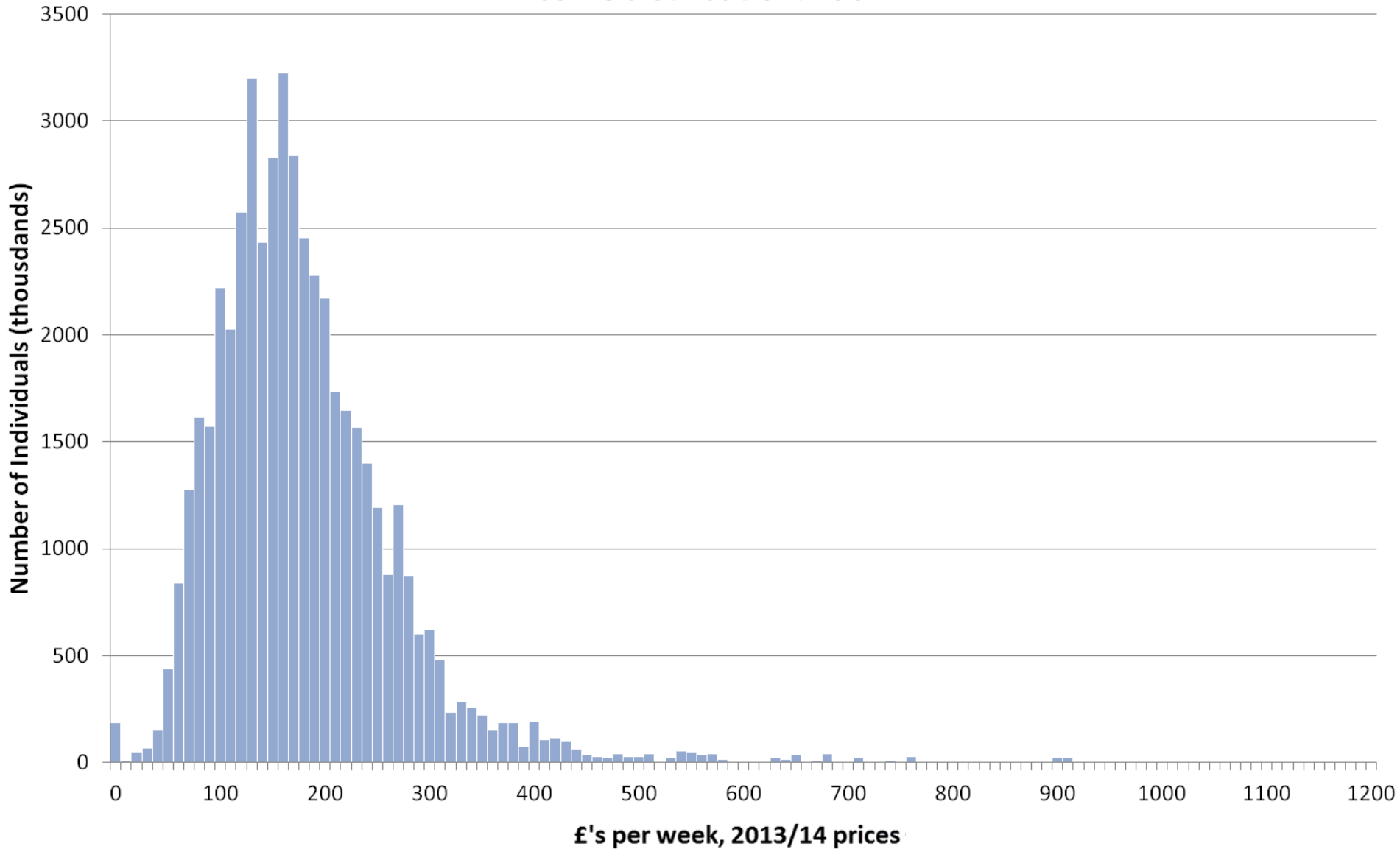
Income distribution: 1977



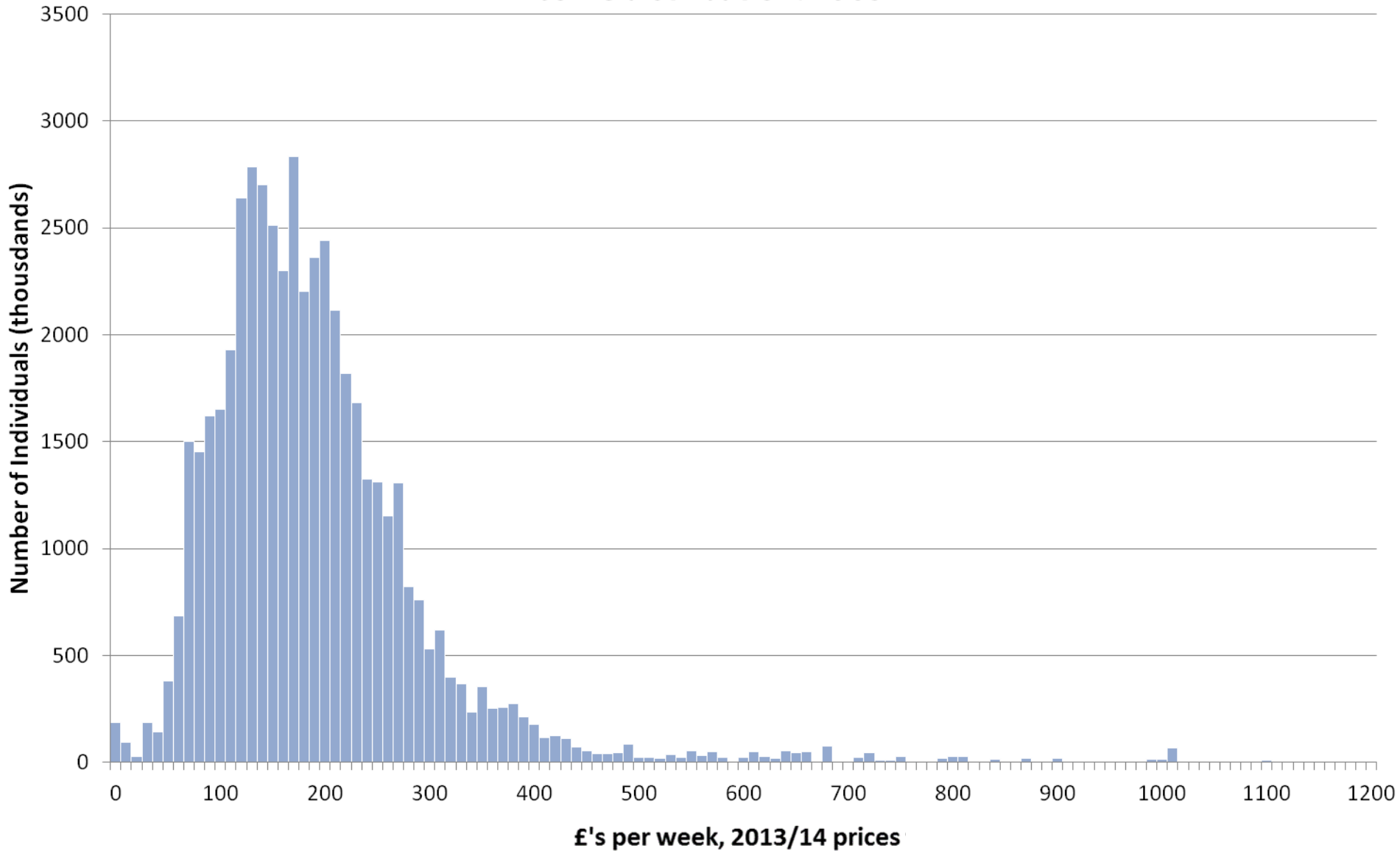
Income distribution: 1961



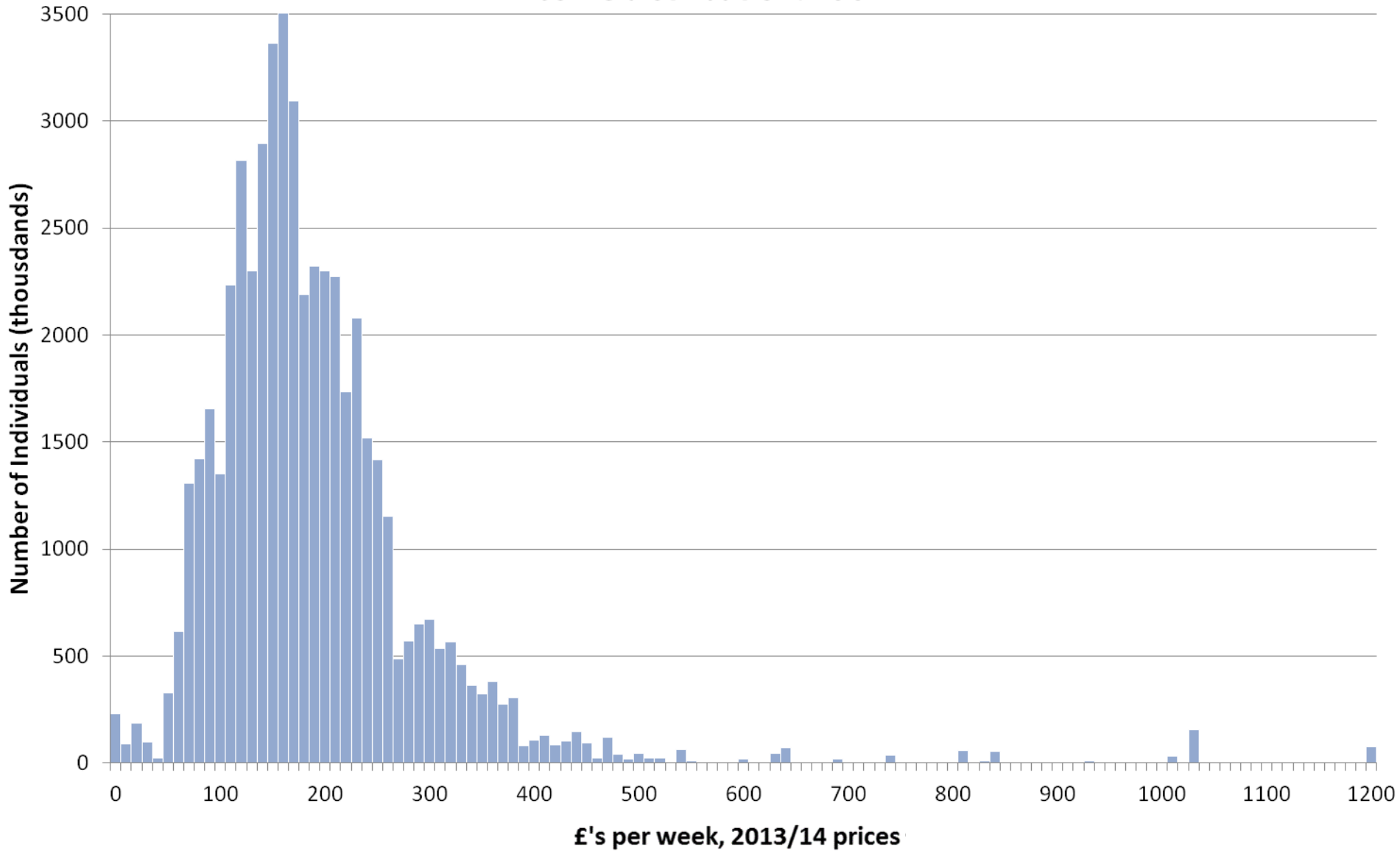
Income distribution: 1962



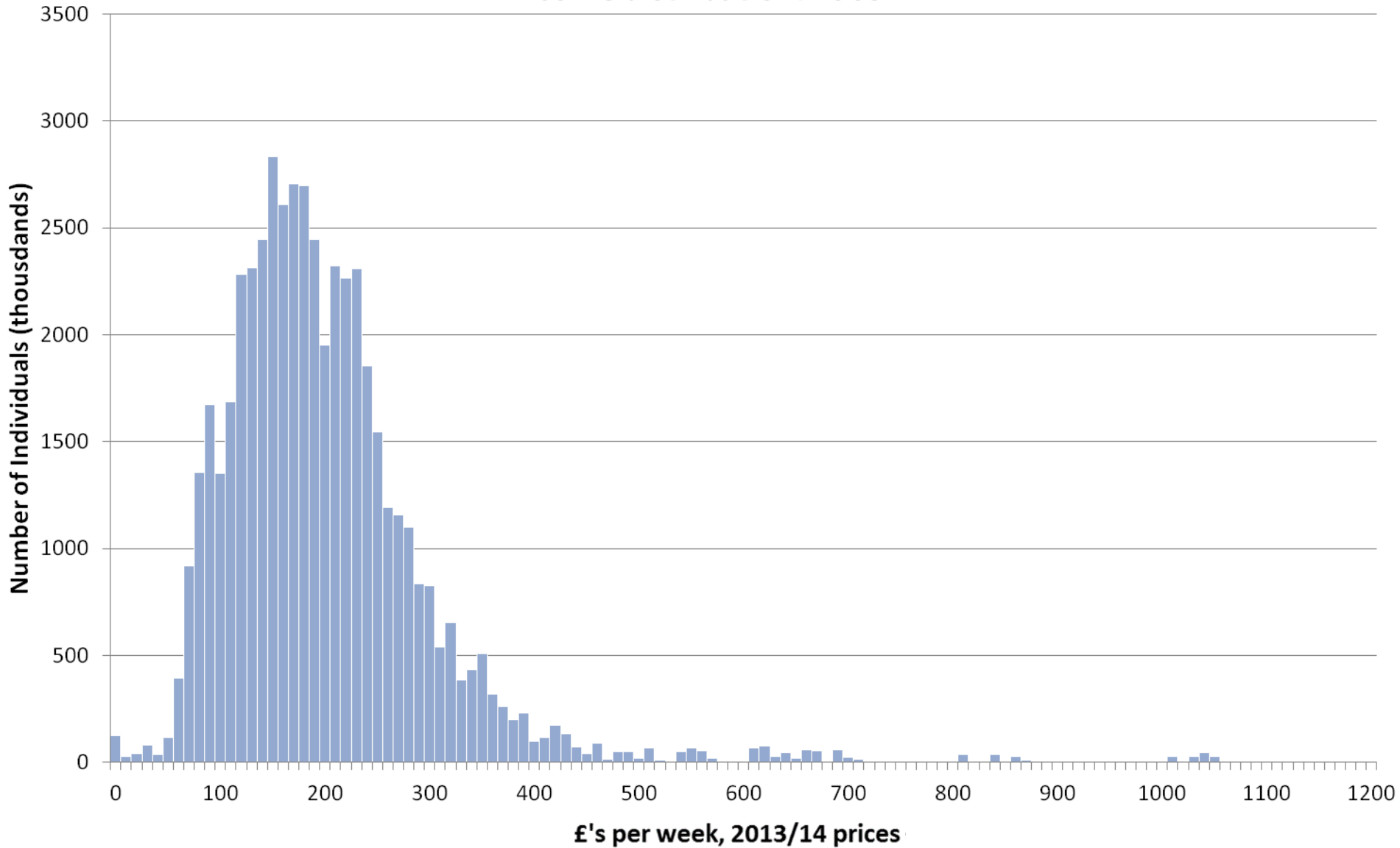
Income distribution: 1963



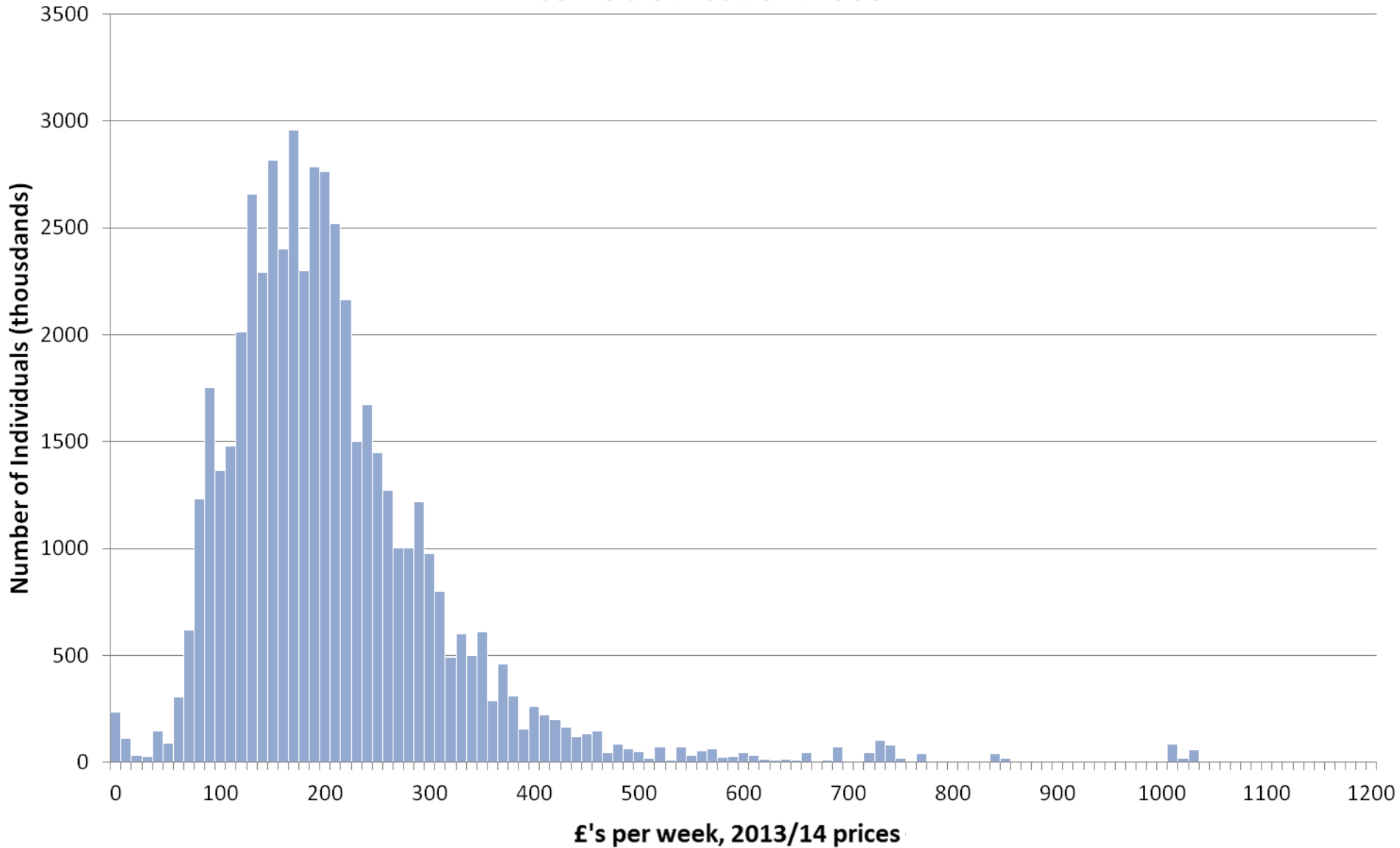
Income distribution: 1964



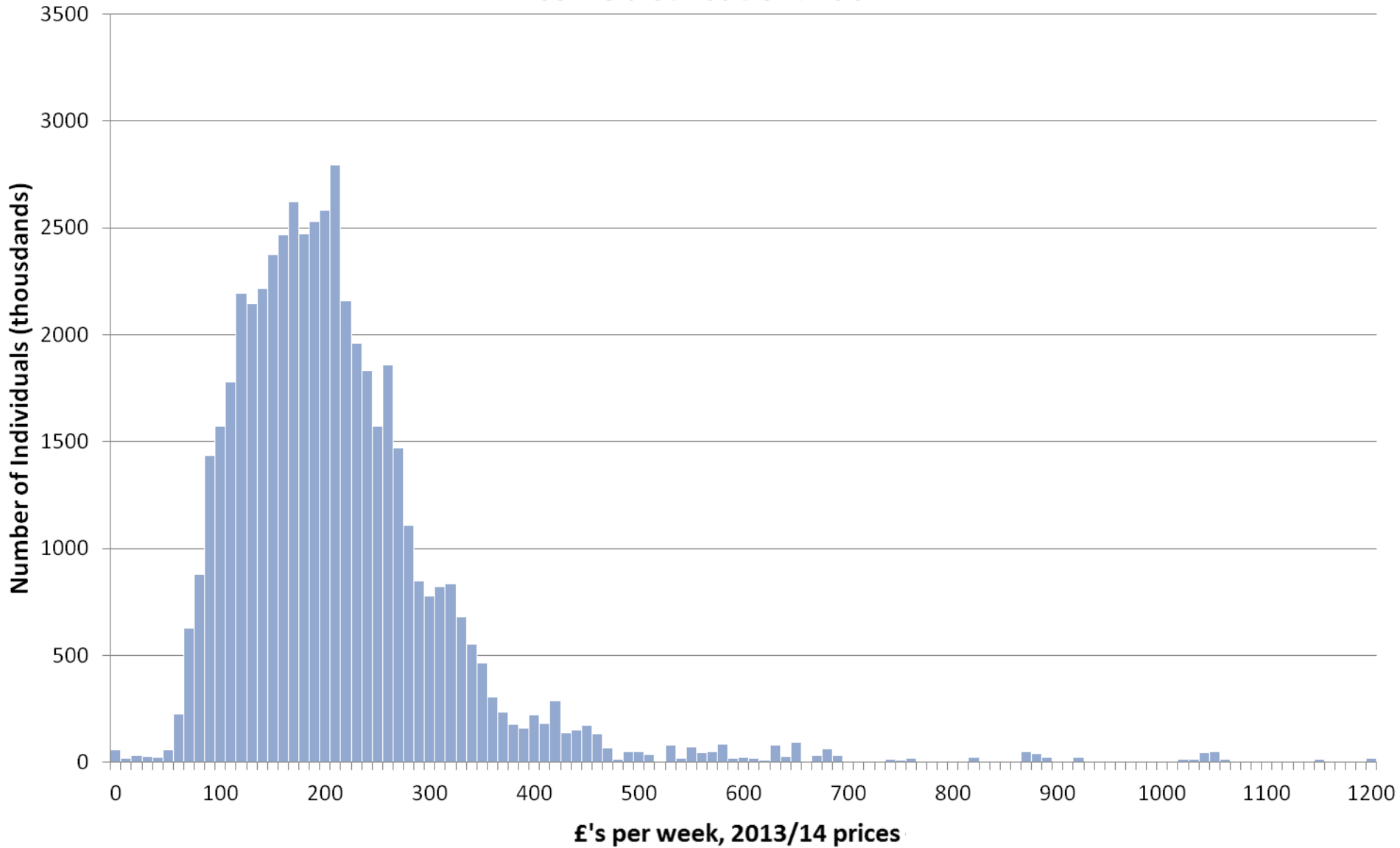
Income distribution: 1965



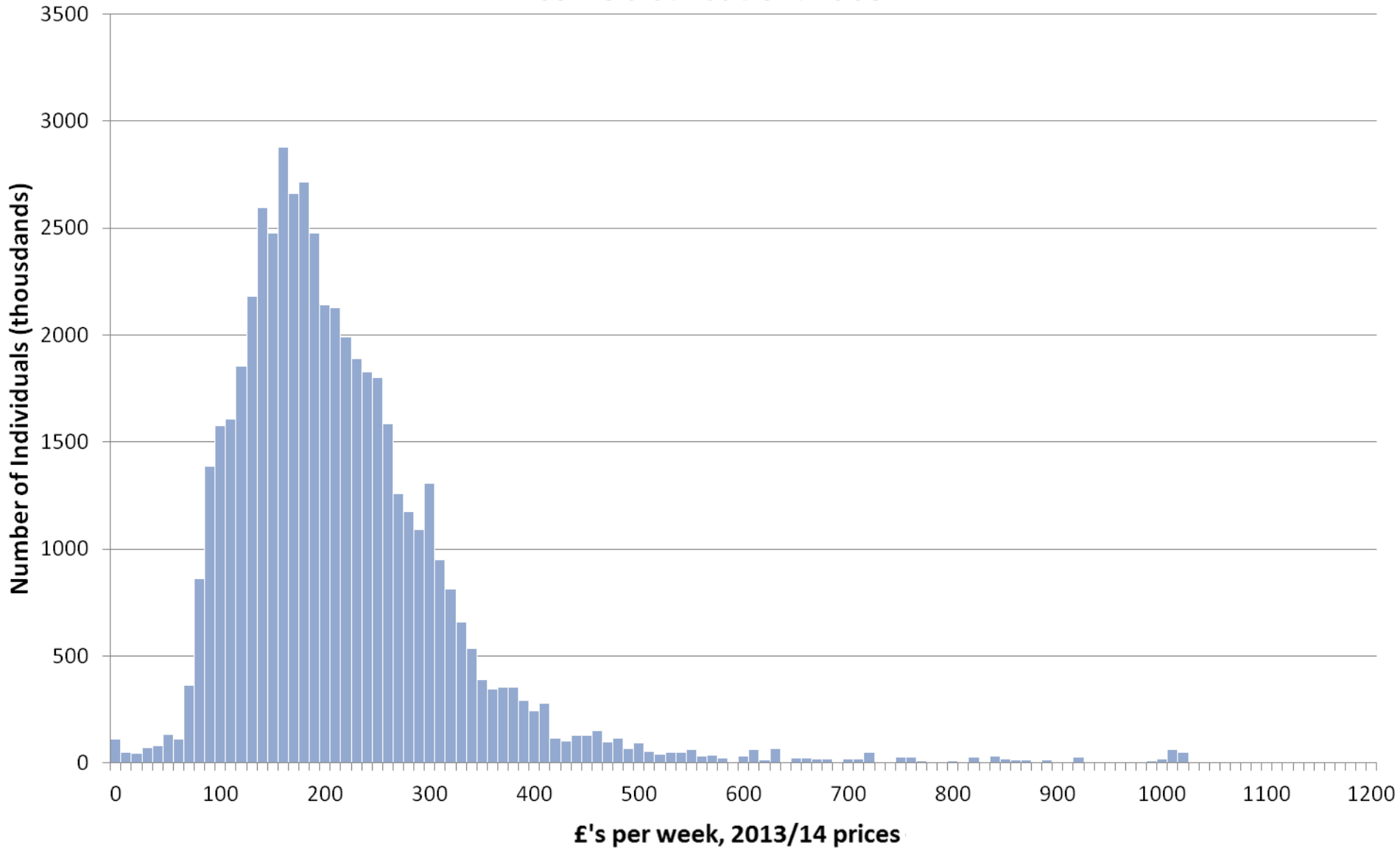
Income distribution: 1966



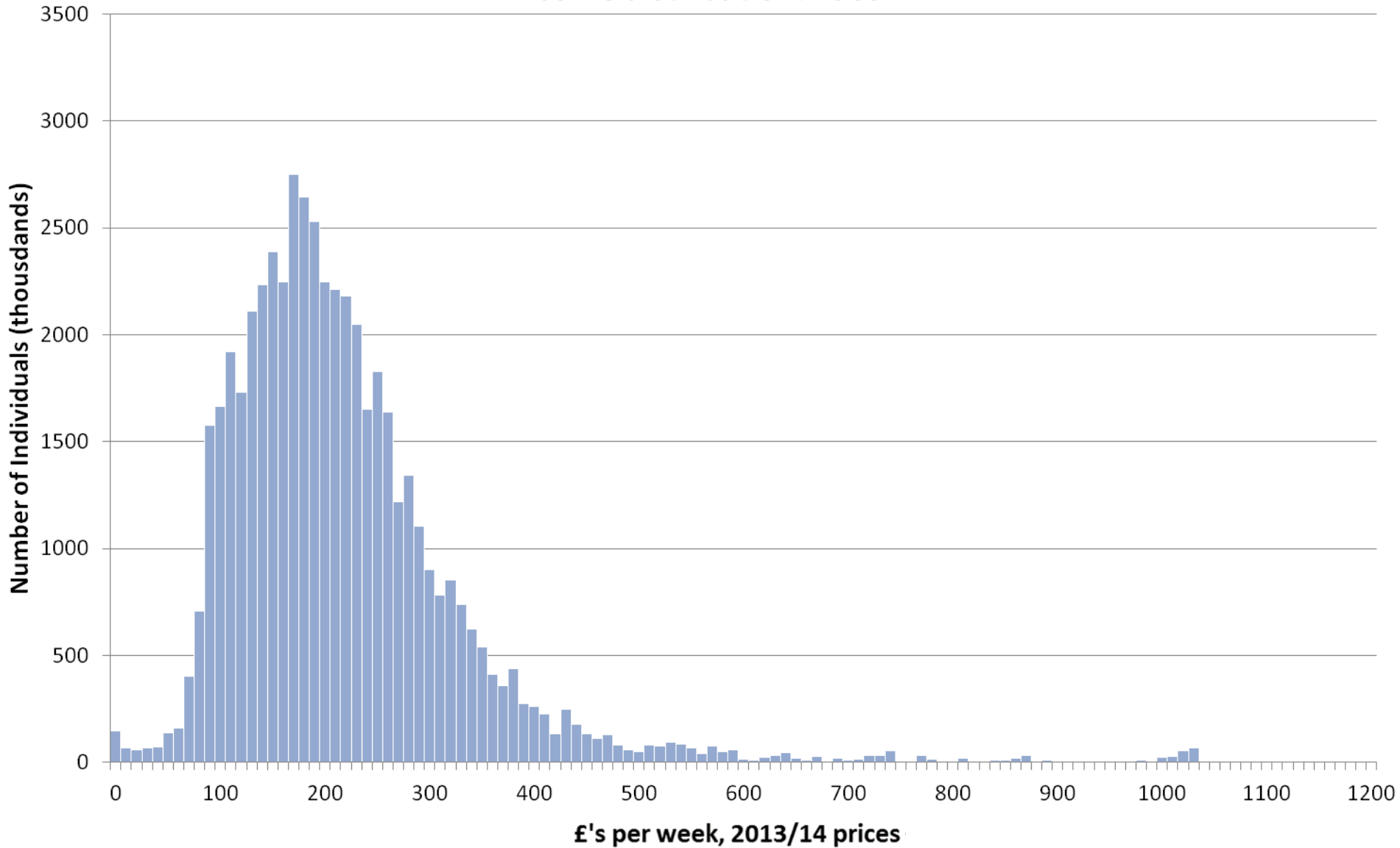
Income distribution: 1967



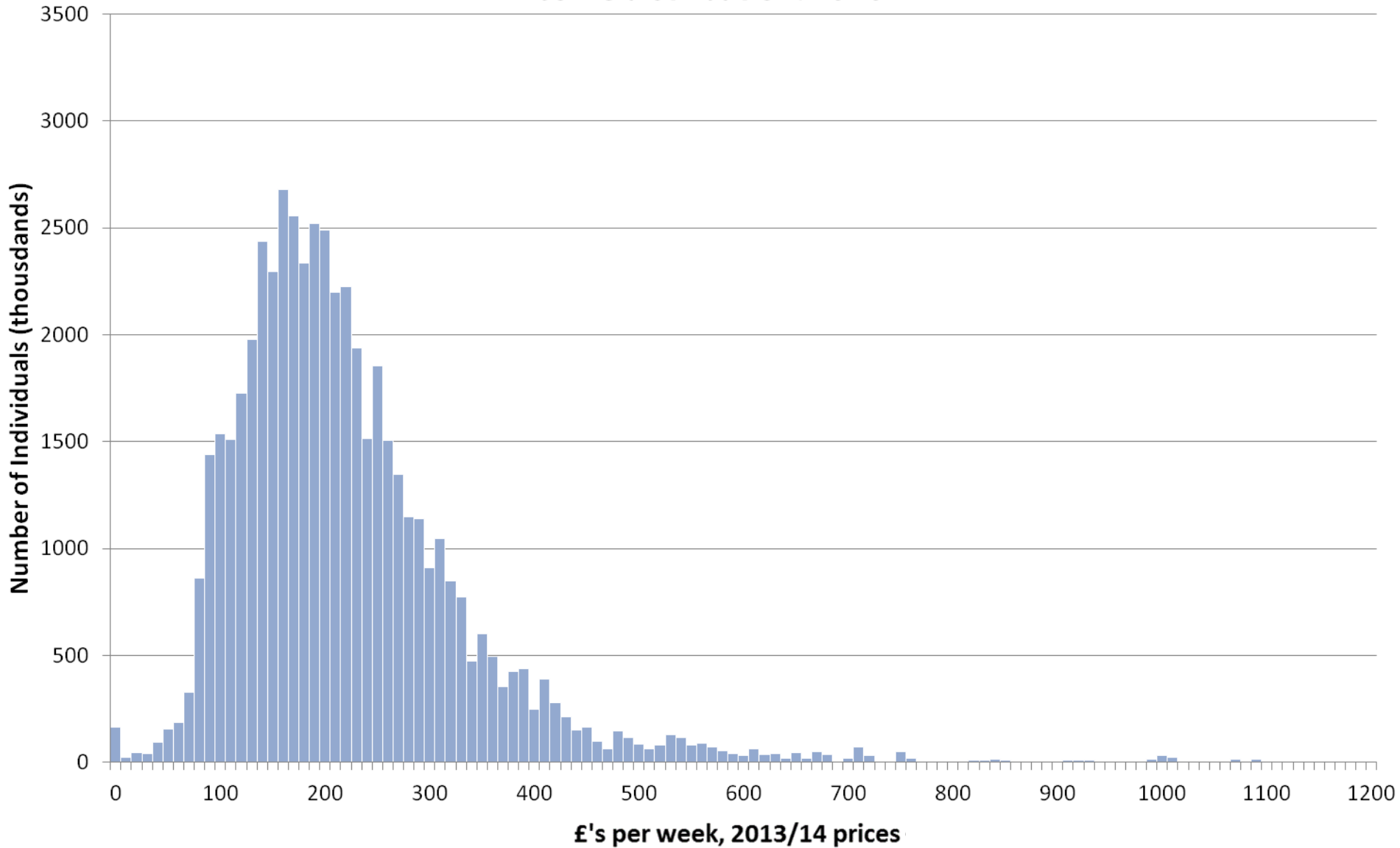
Income distribution: 1968



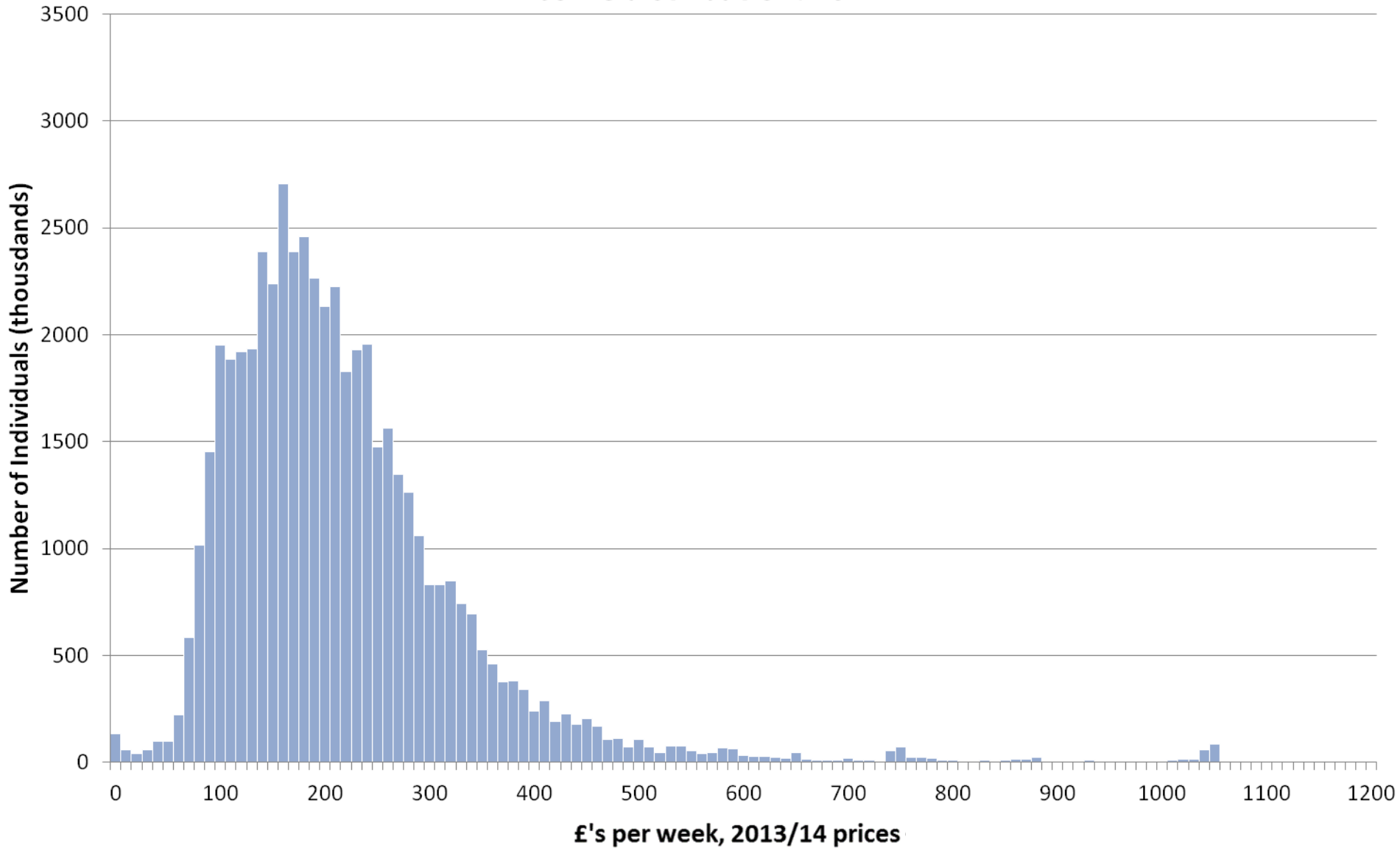
Income distribution: 1969



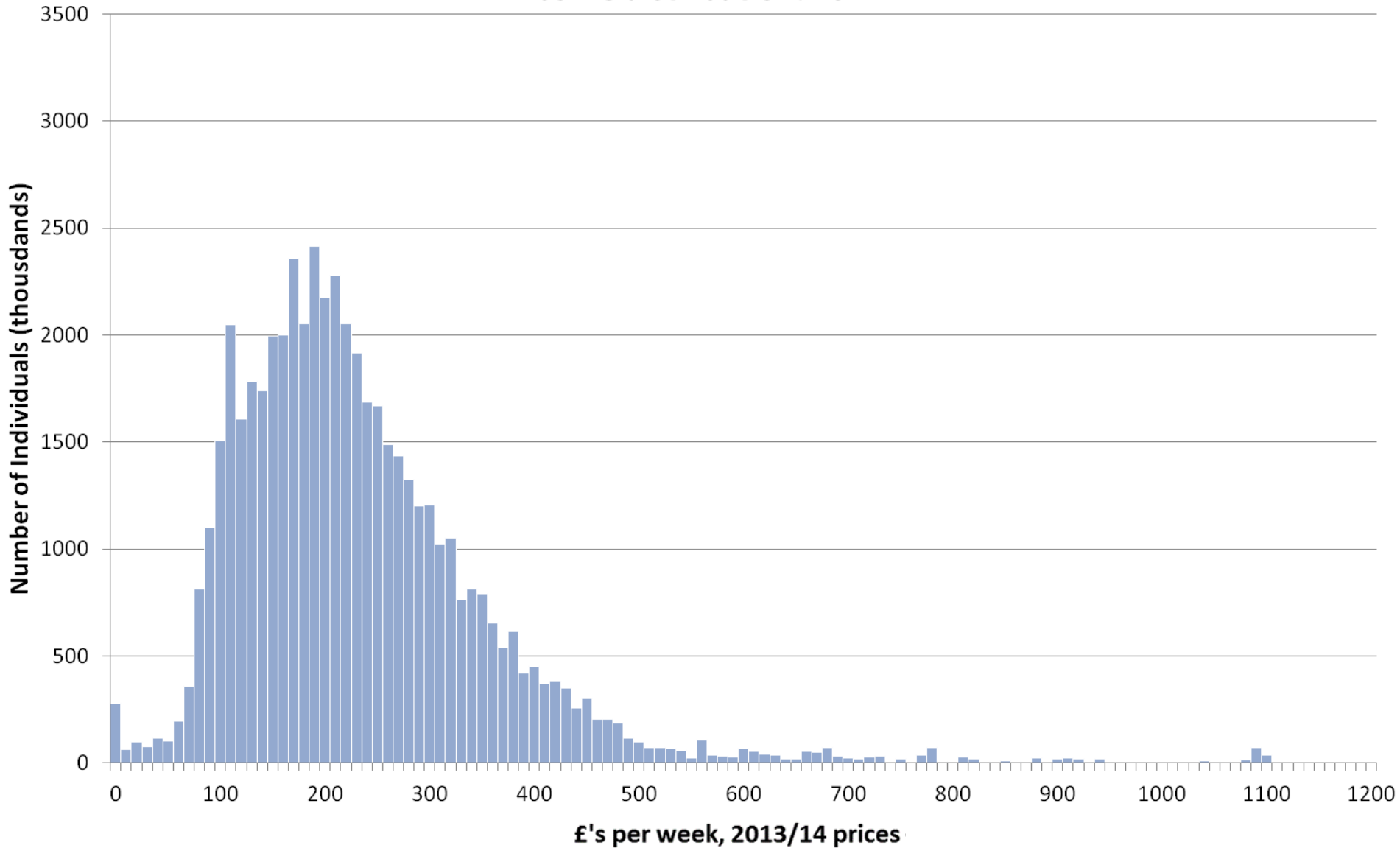
Income distribution: 1970



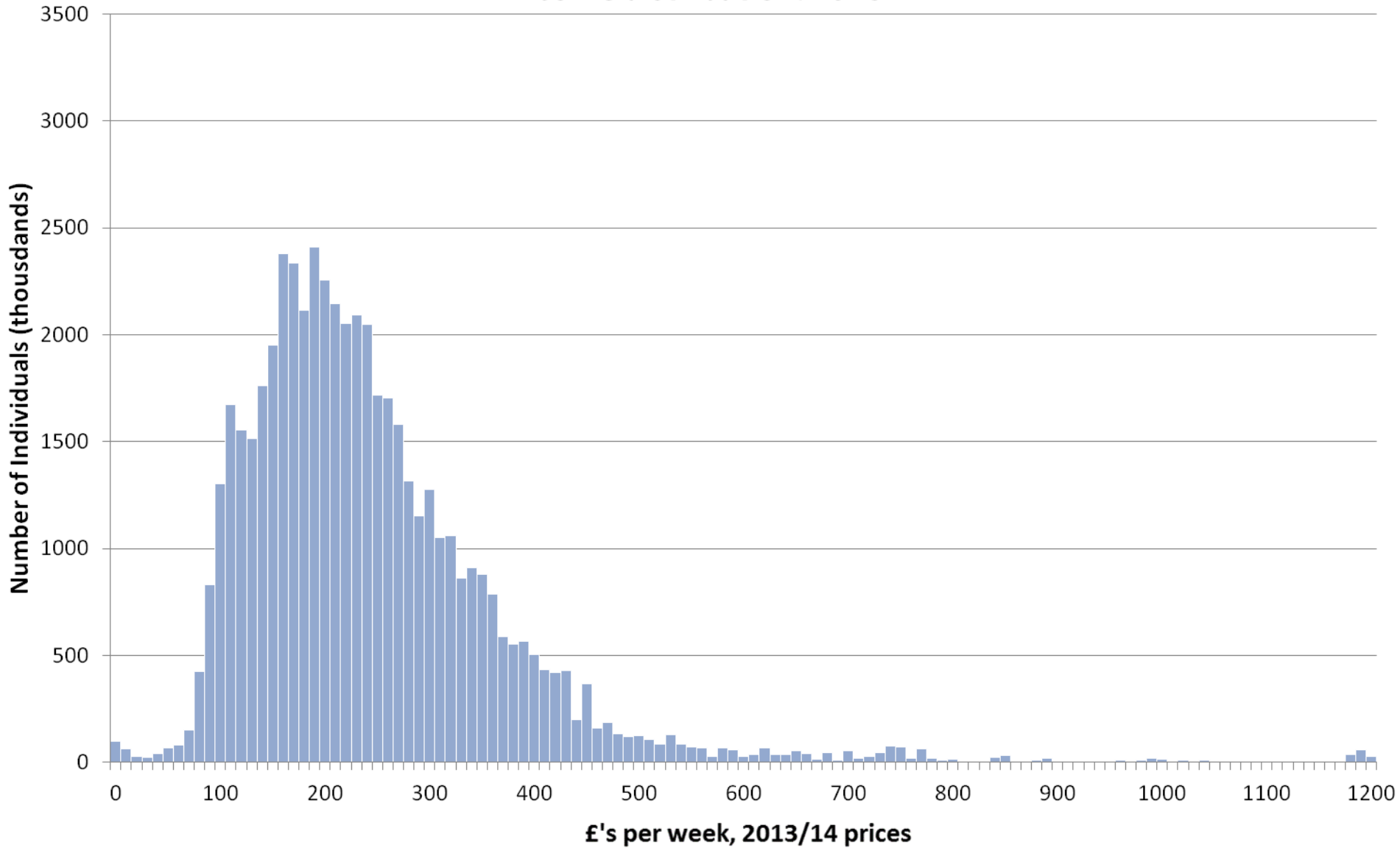
Income distribution: 1971



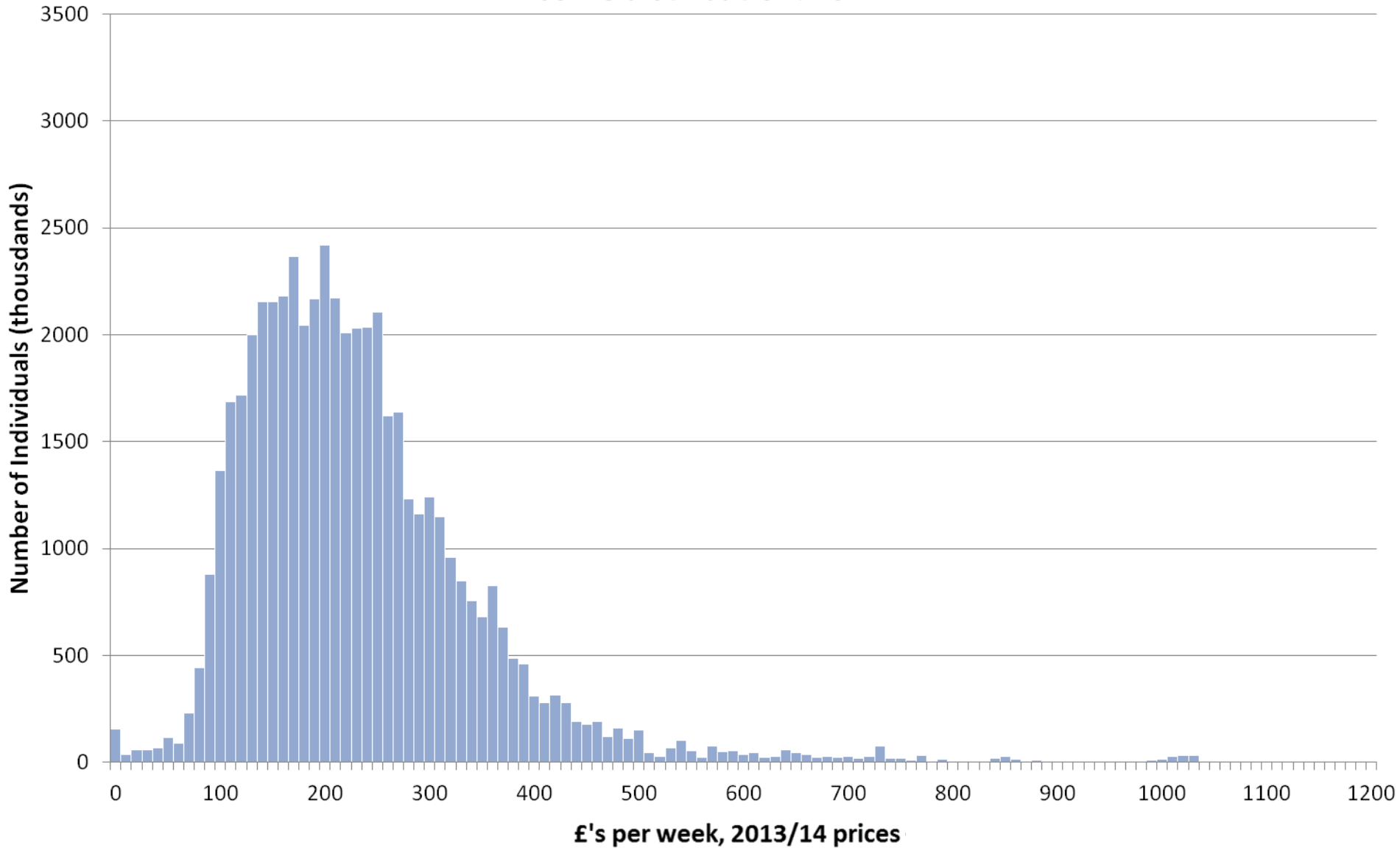
Income distribution: 1972



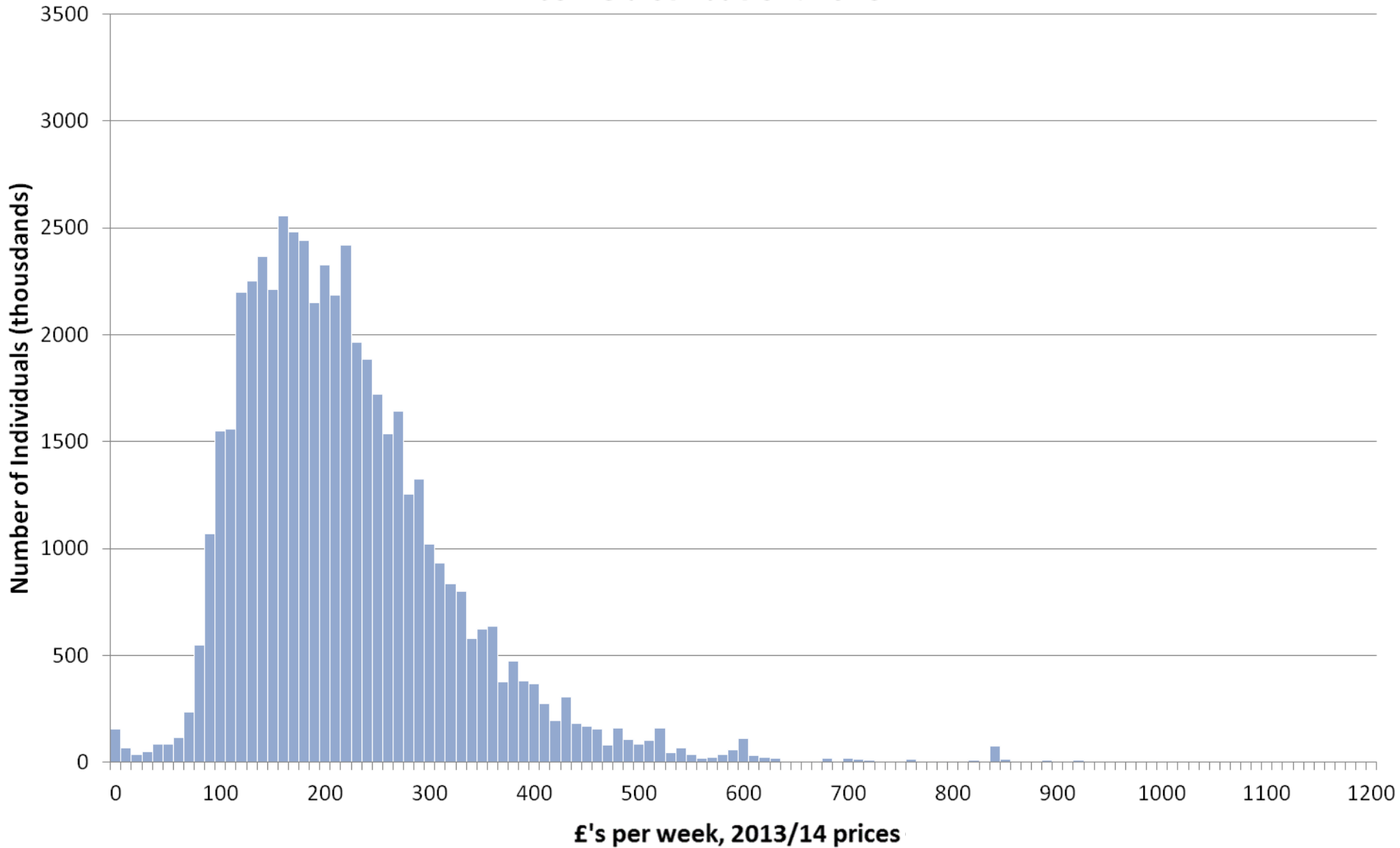
Income distribution: 1973



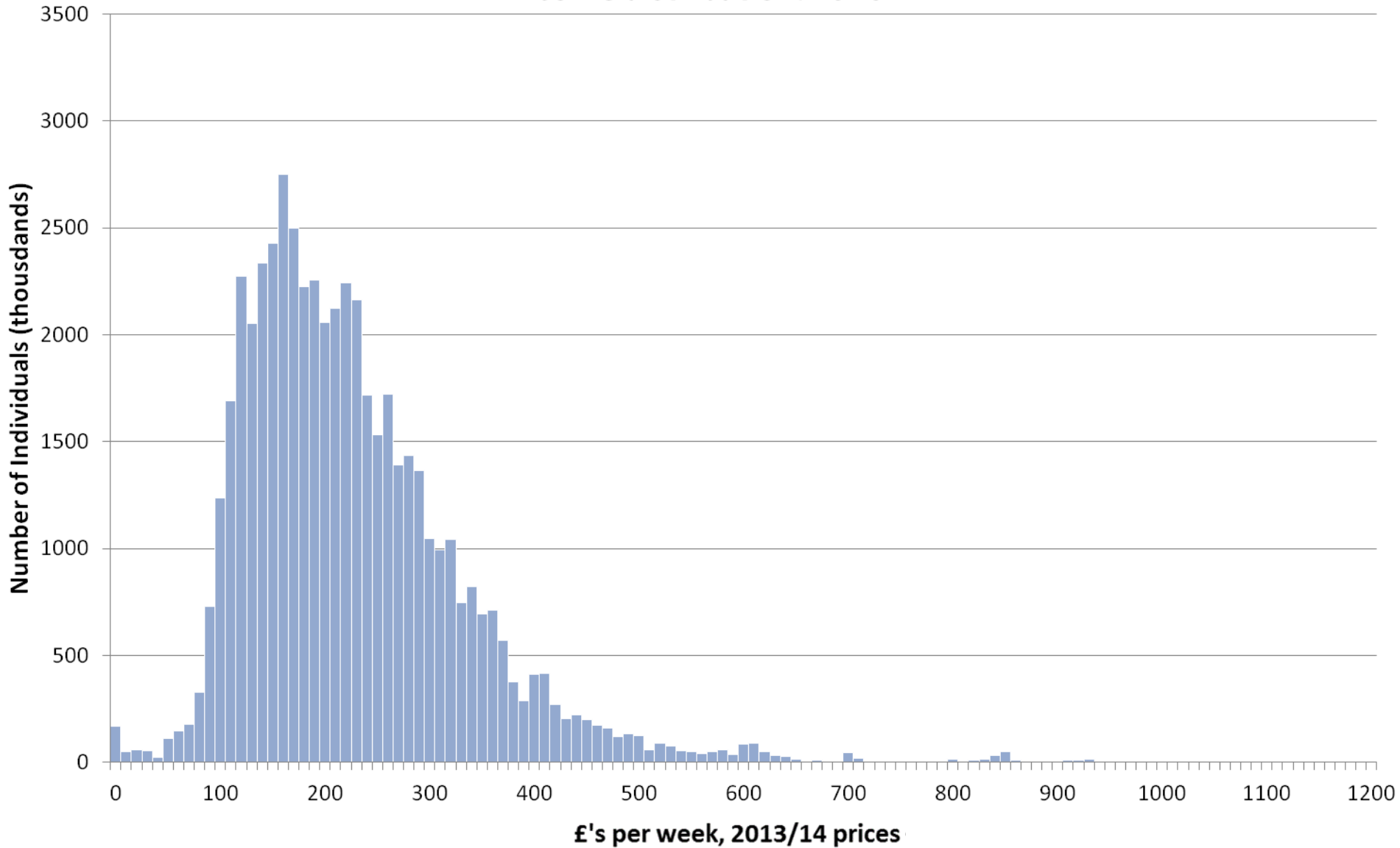
Income distribution: 1974



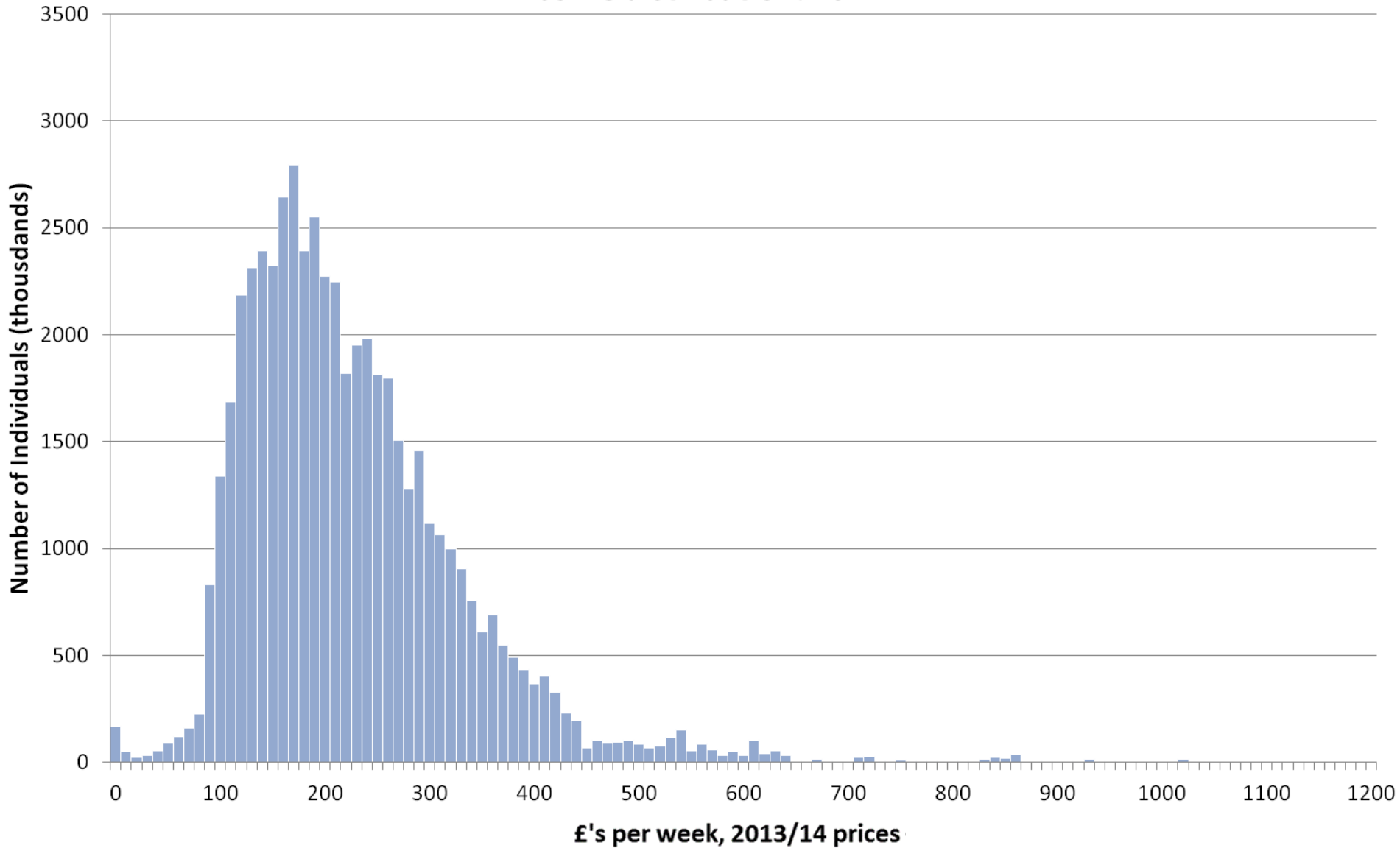
Income distribution: 1975



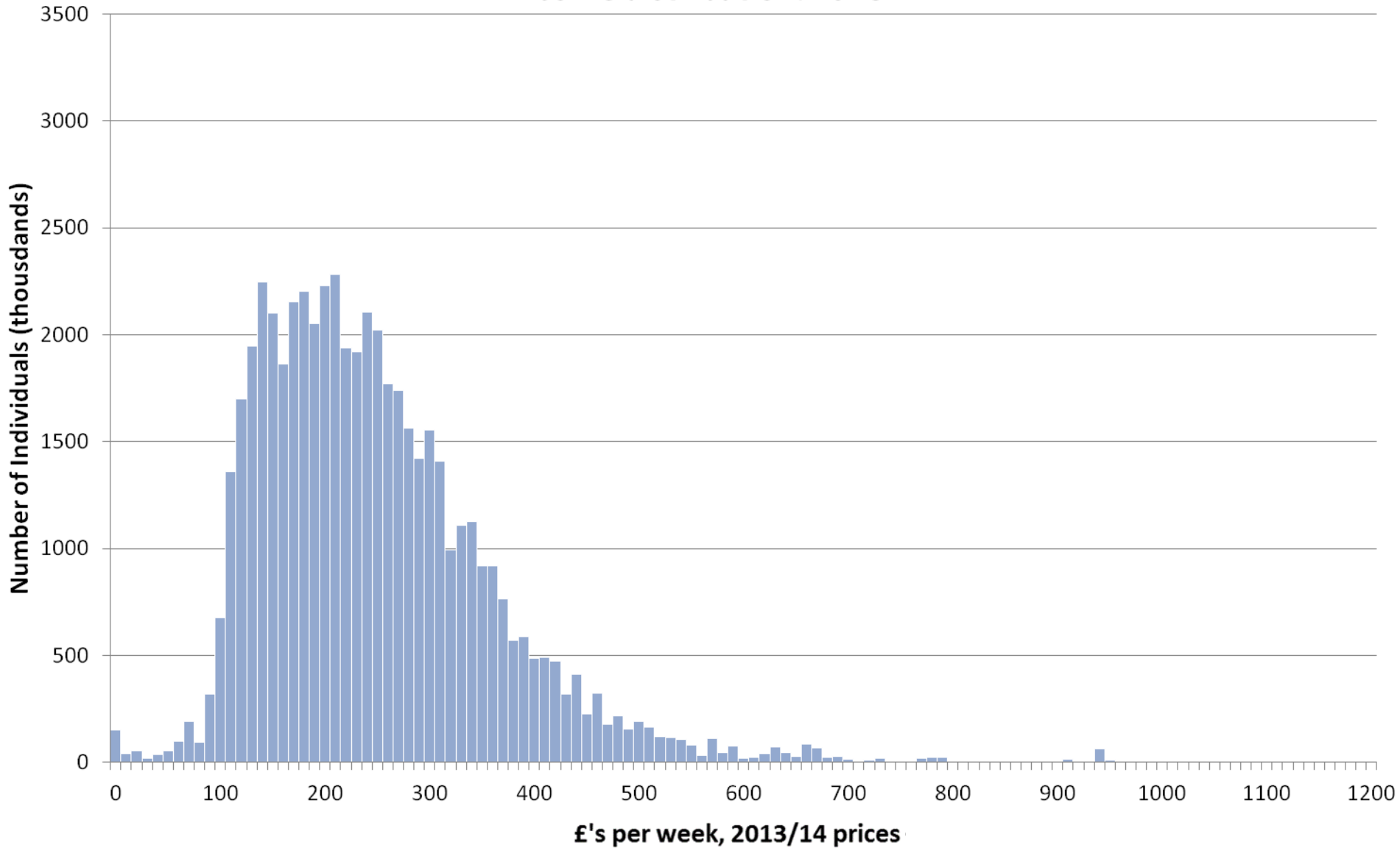
Income distribution: 1976



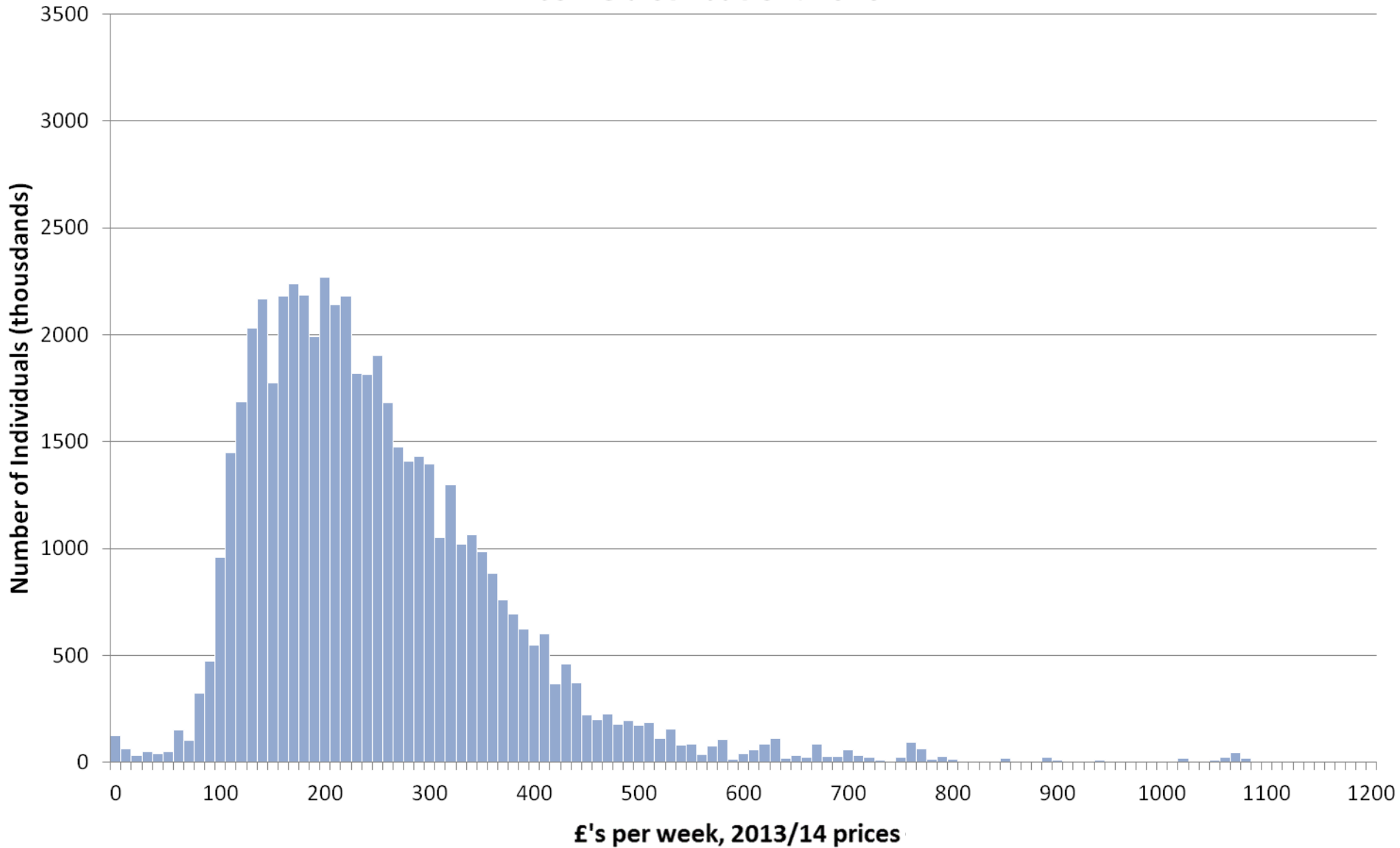
Income distribution: 1977



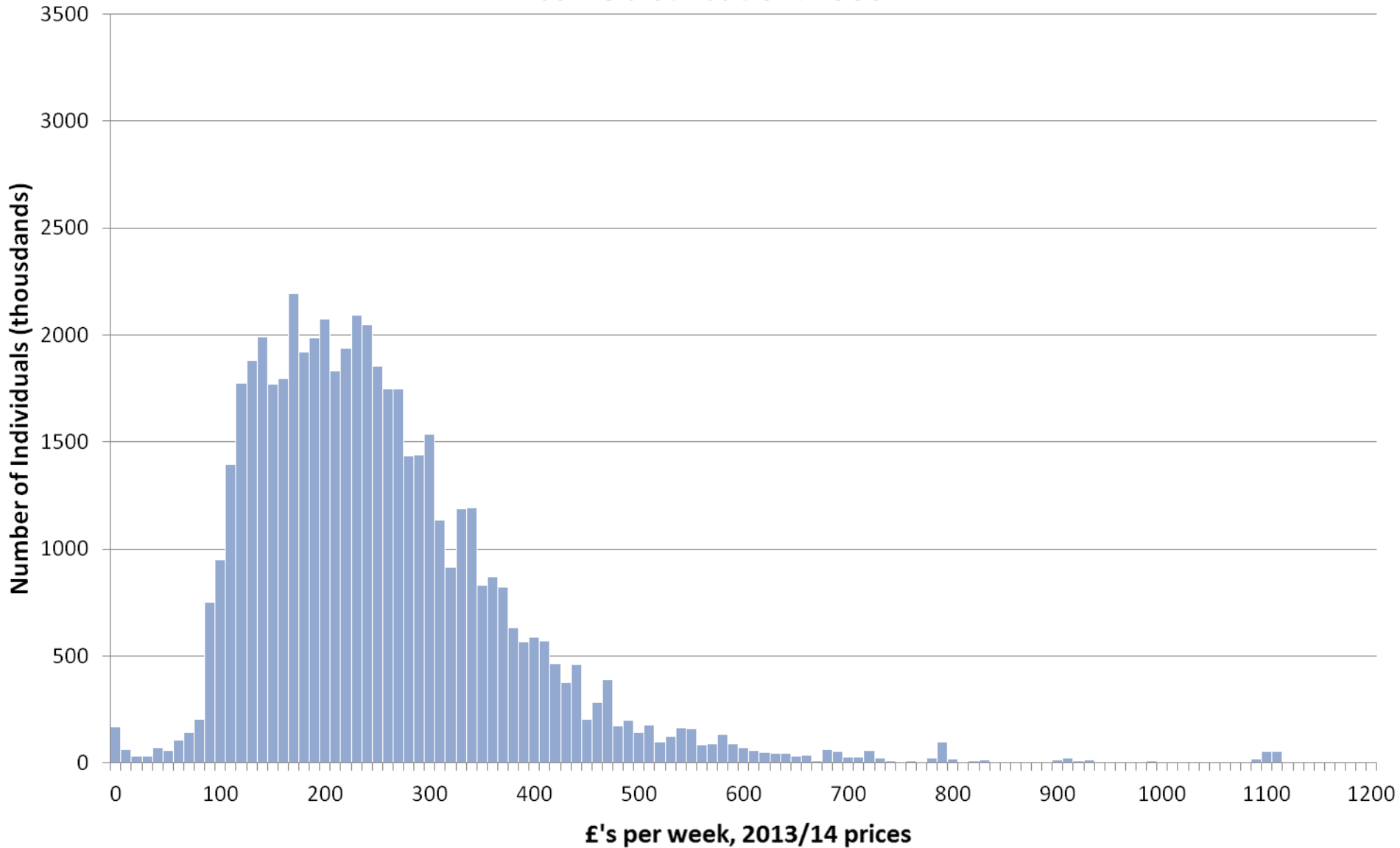
Income distribution: 1978



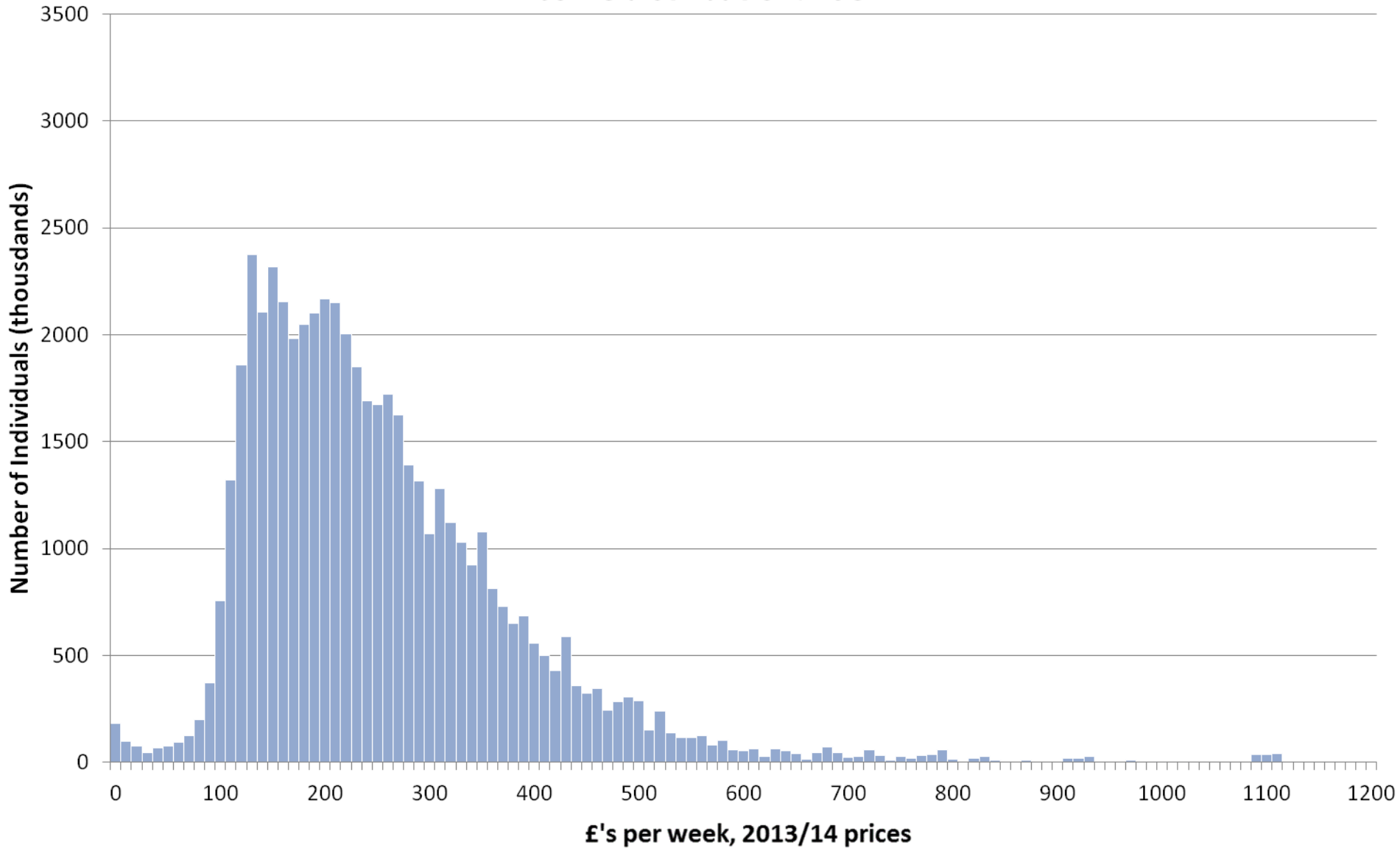
Income distribution: 1979



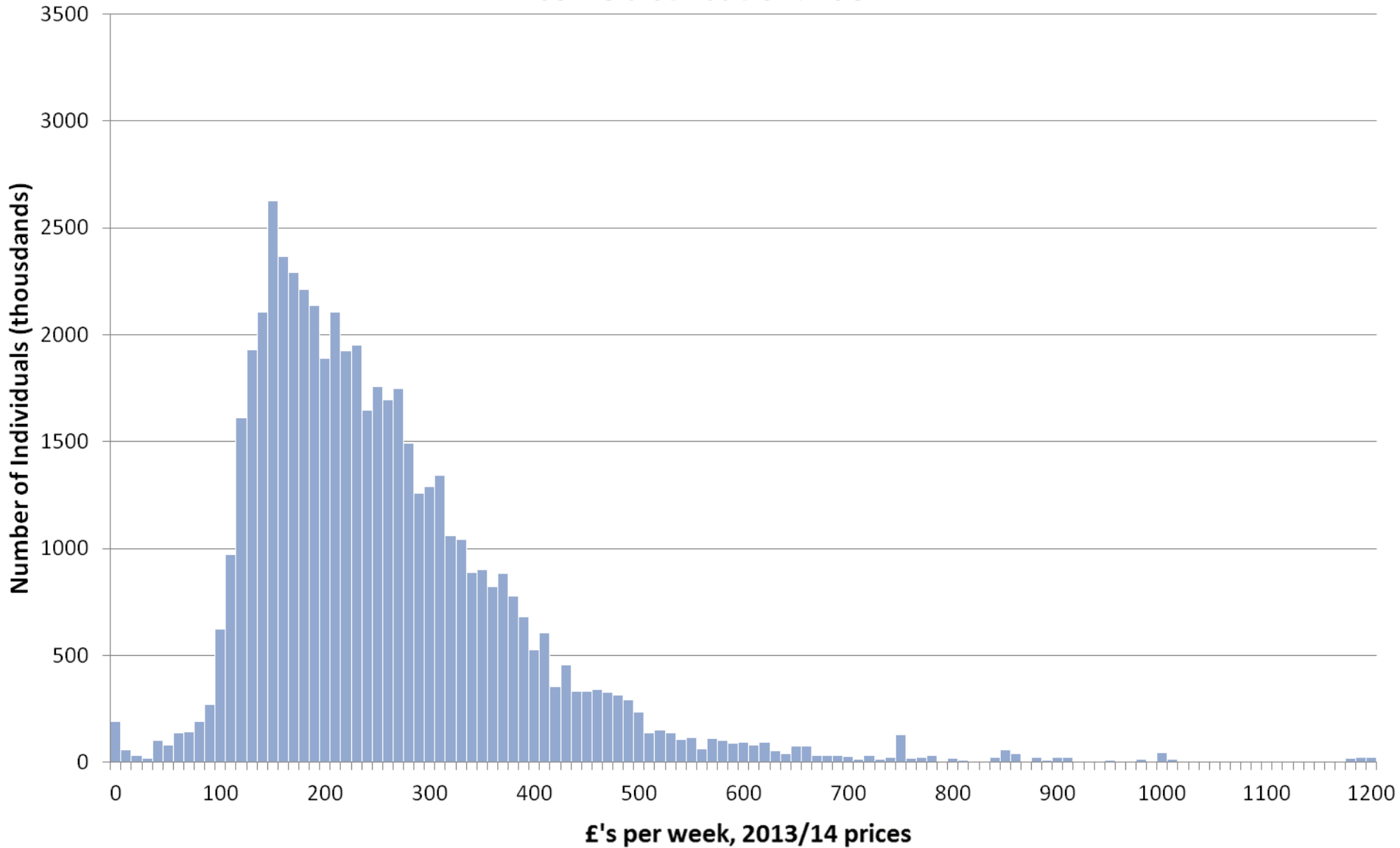
Income distribution: 1980



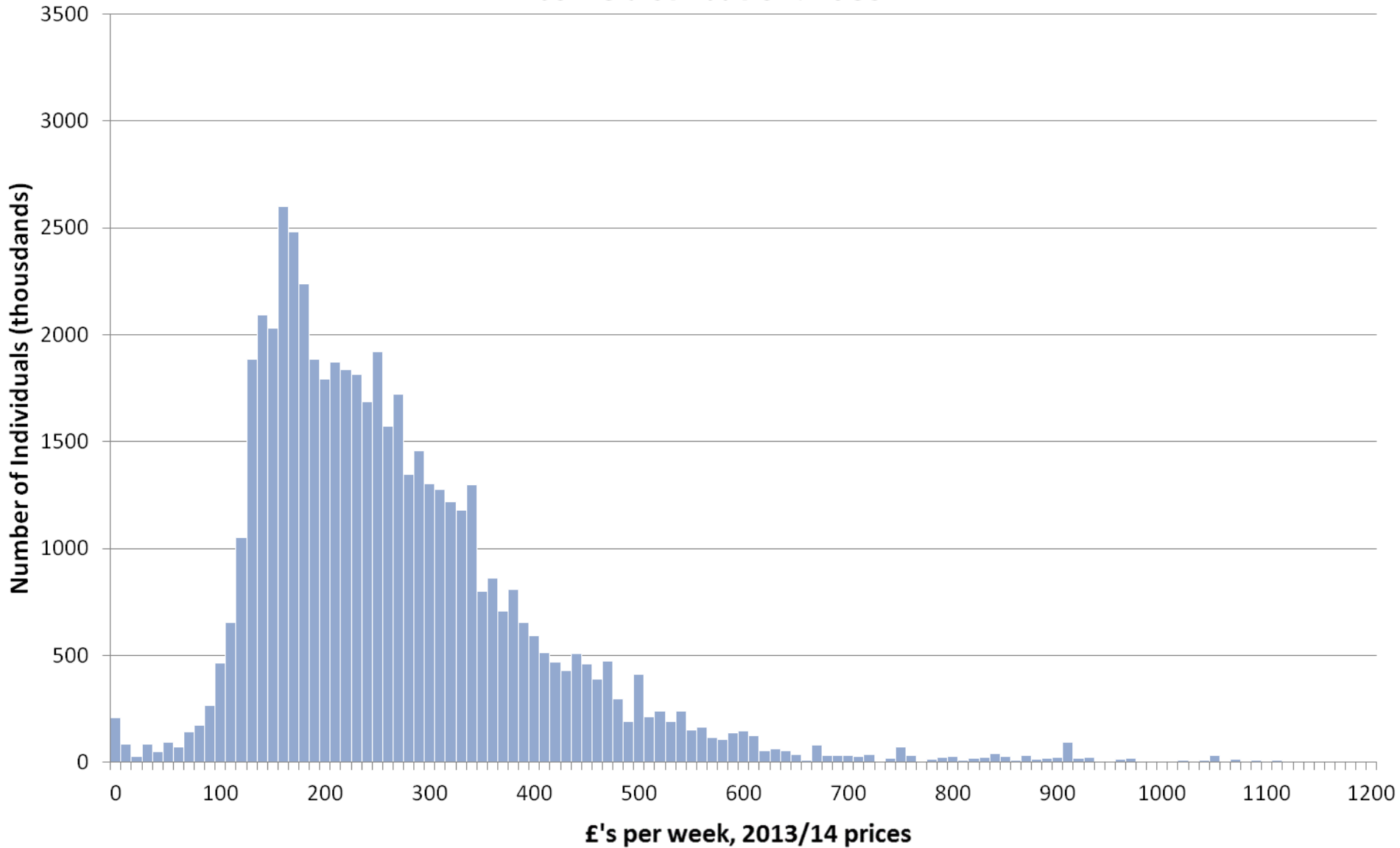
Income distribution: 1981



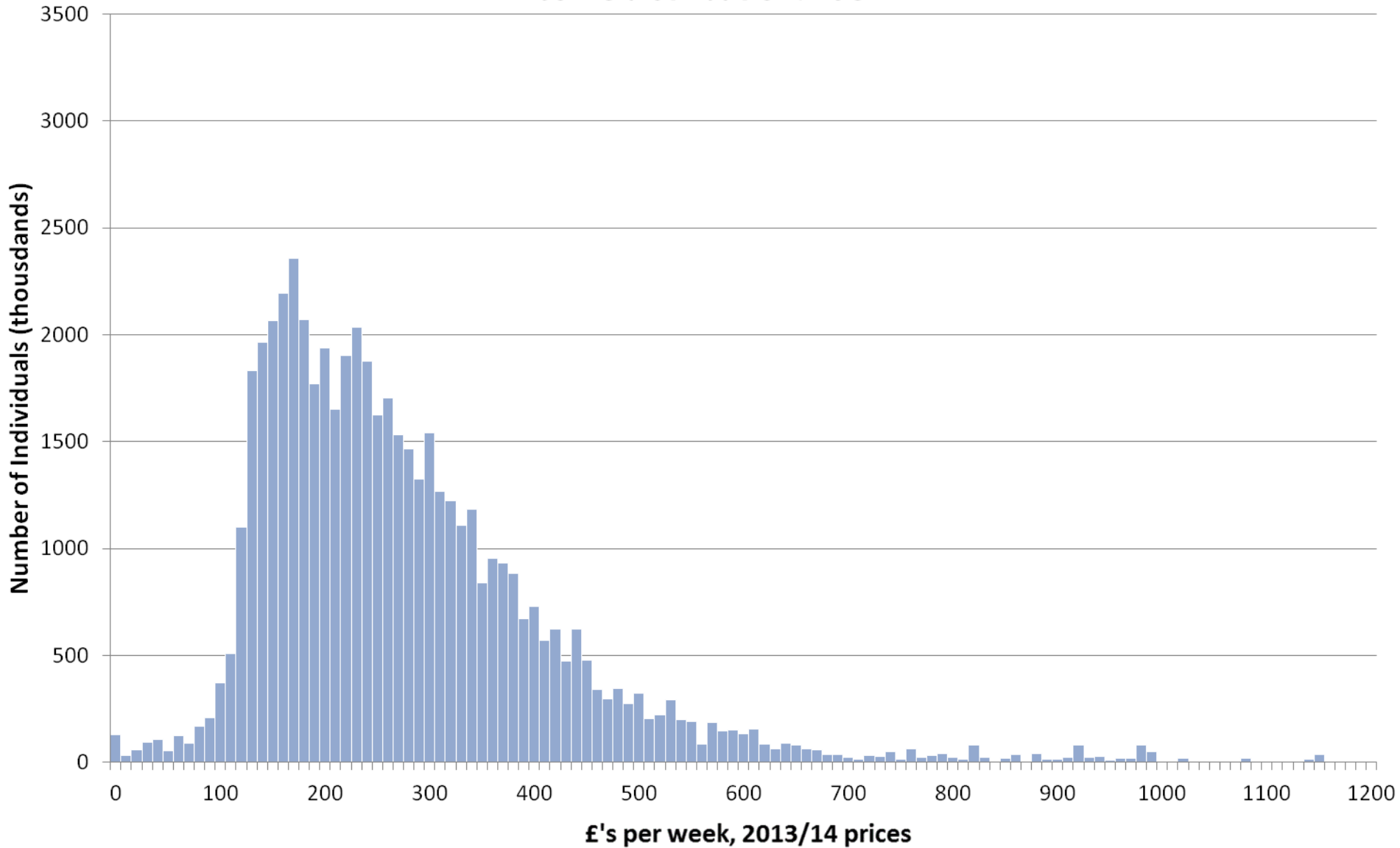
Income distribution: 1982



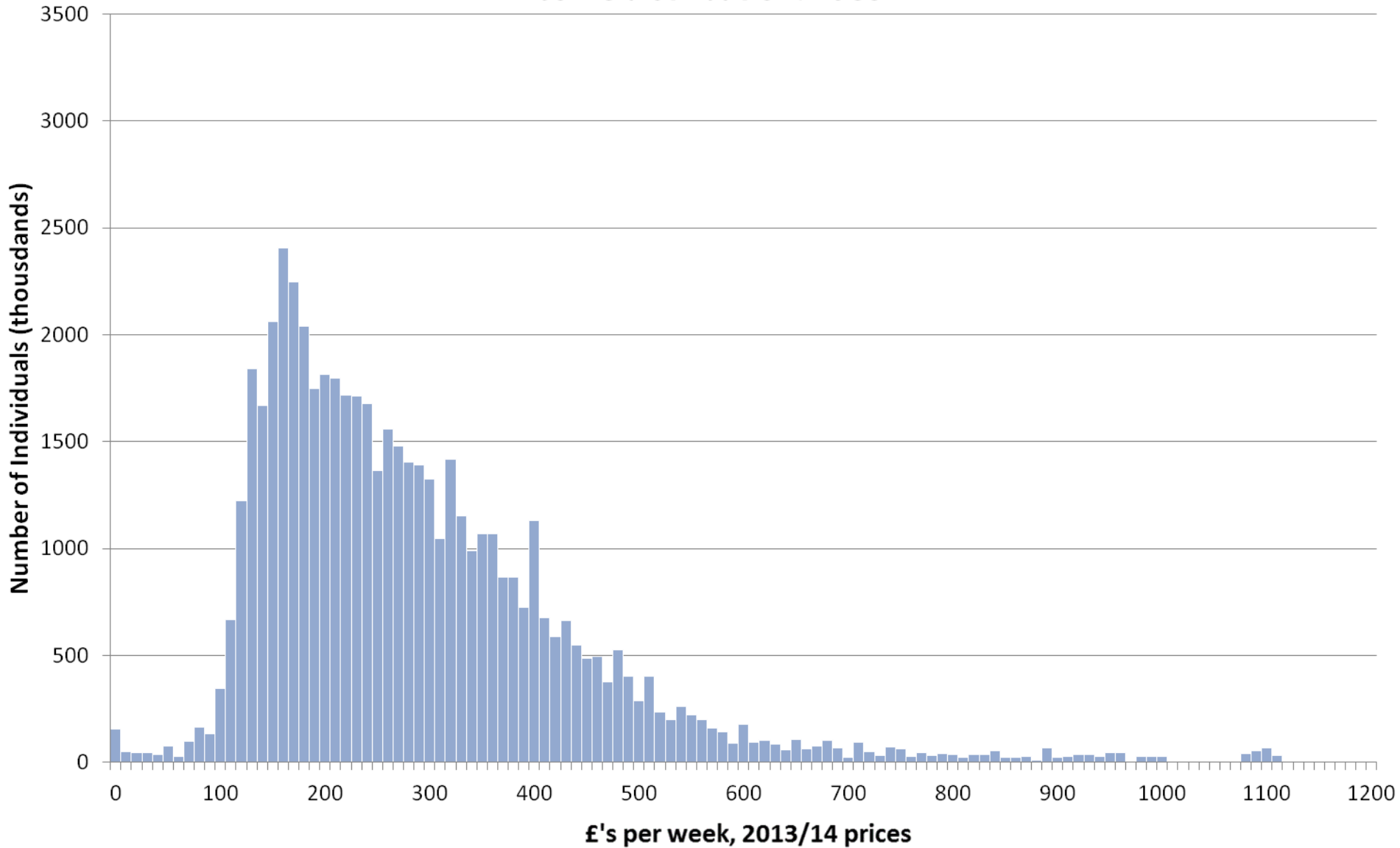
Income distribution: 1983



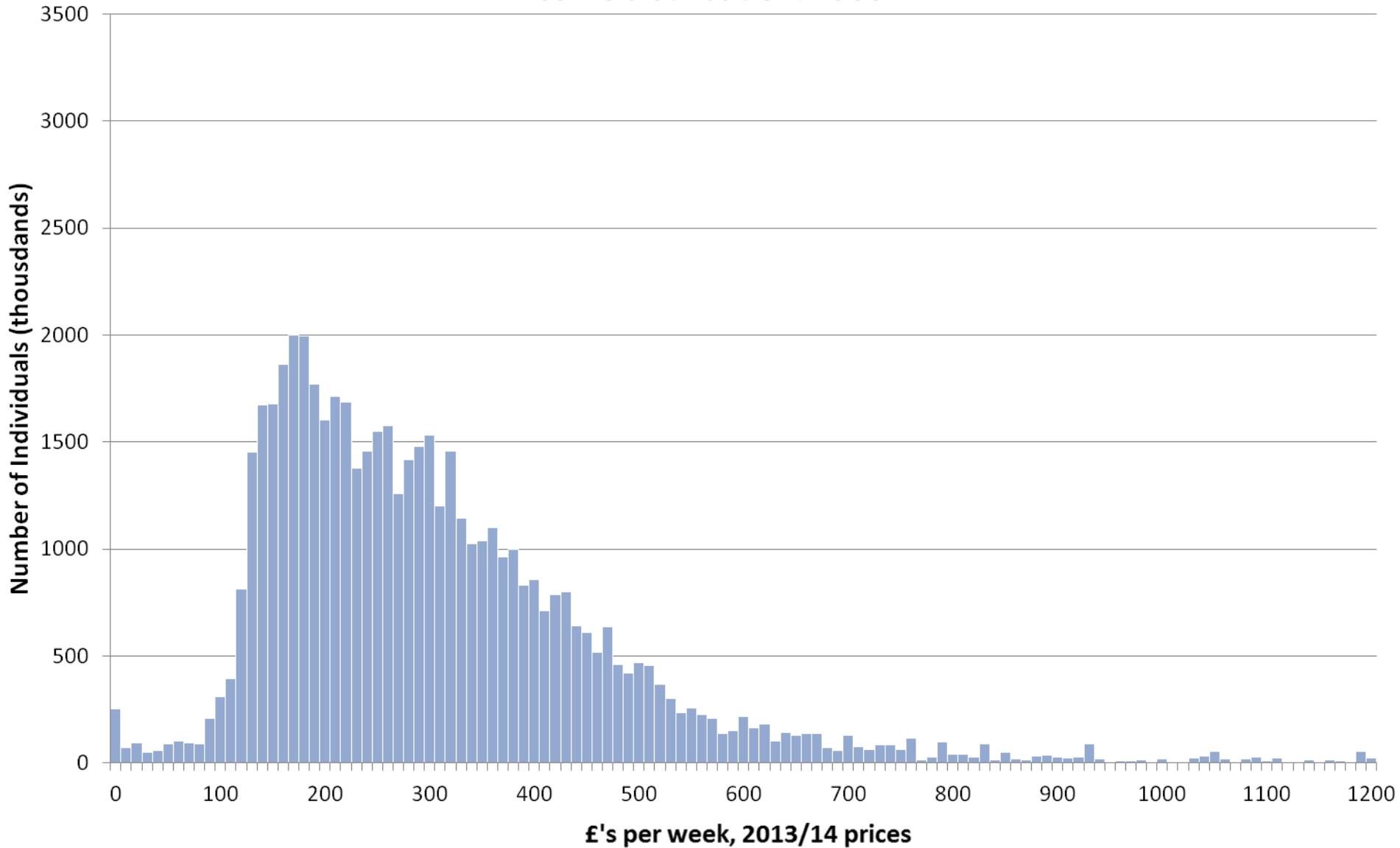
Income distribution: 1984



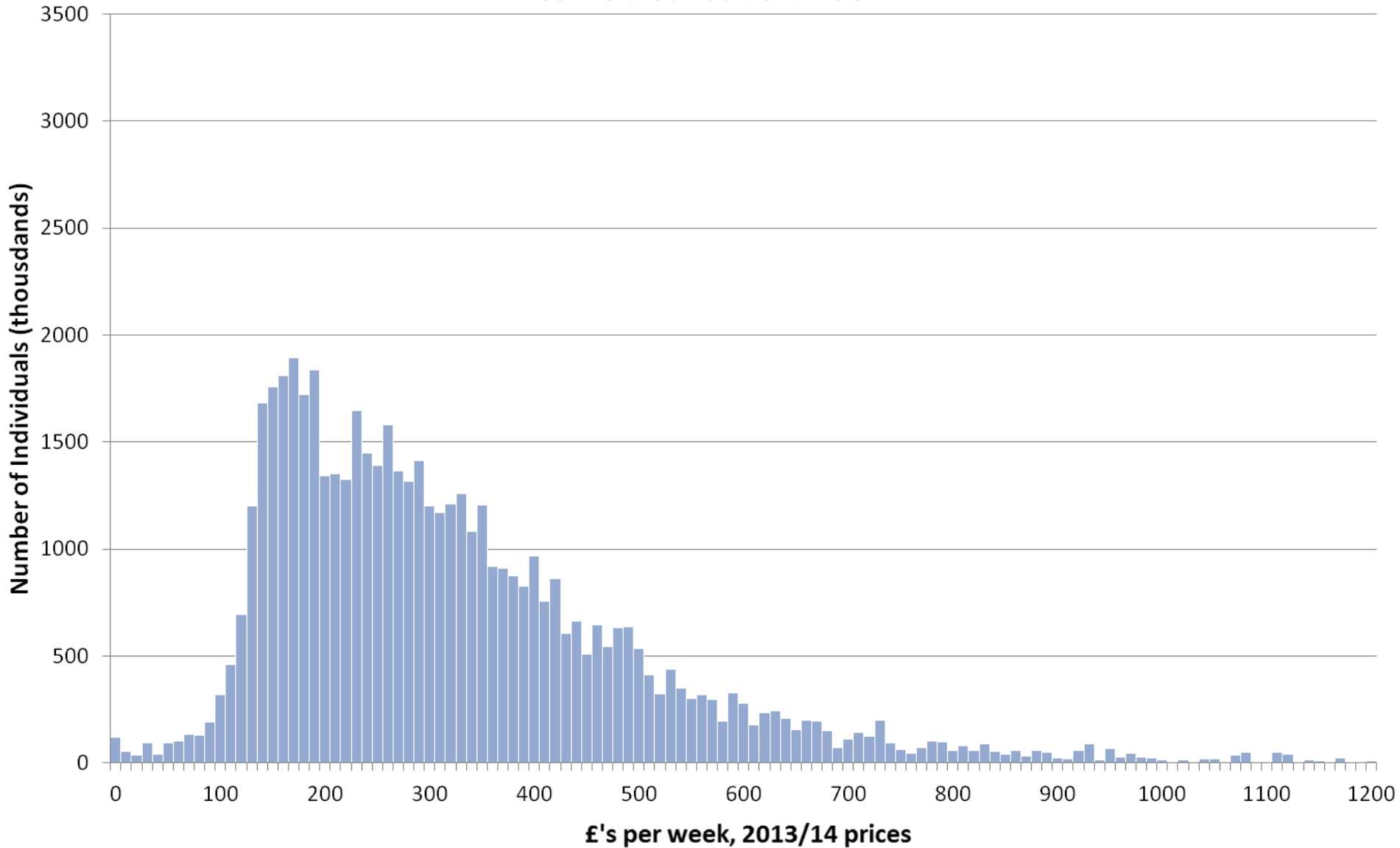
Income distribution: 1985



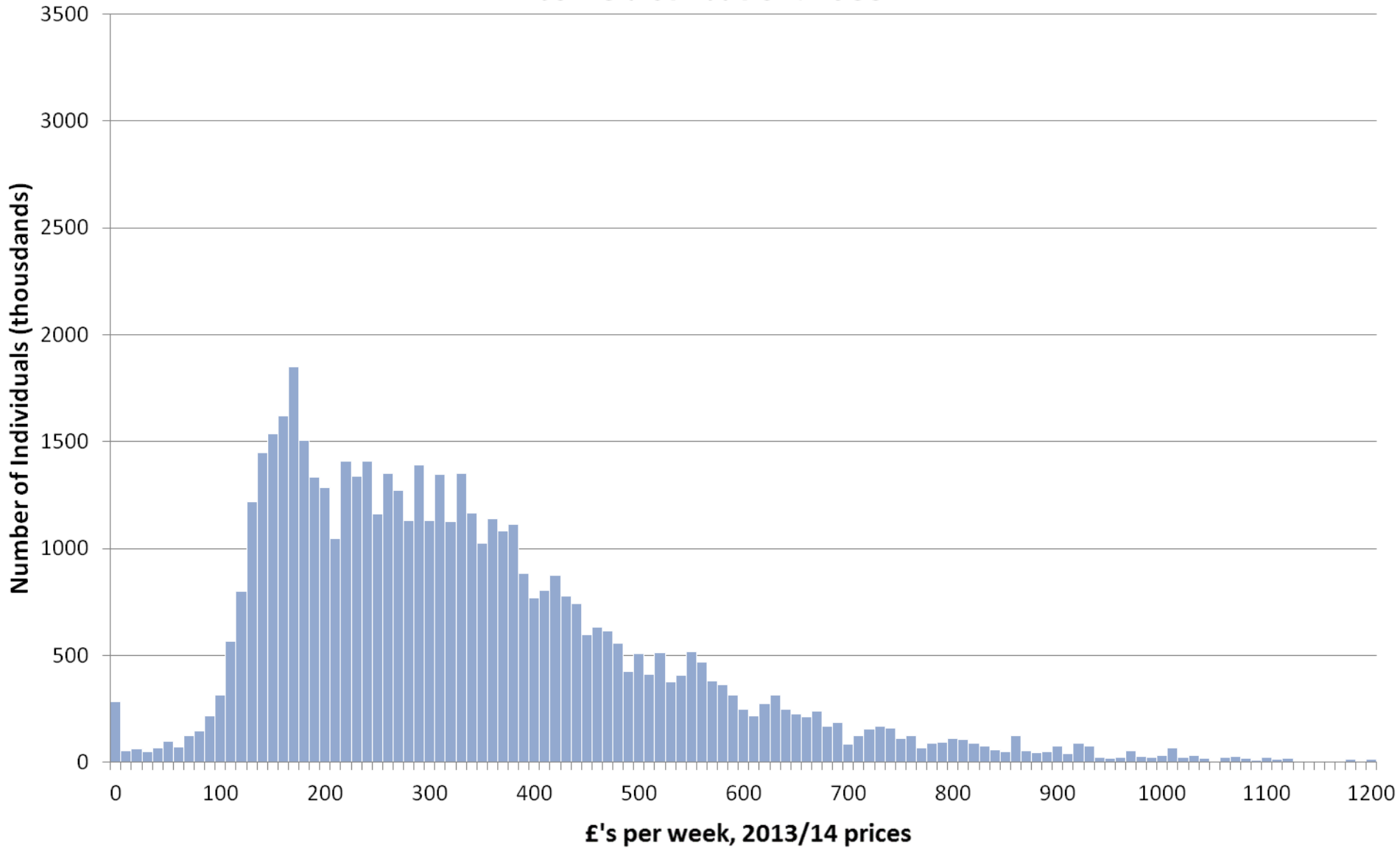
Income distribution: 1986



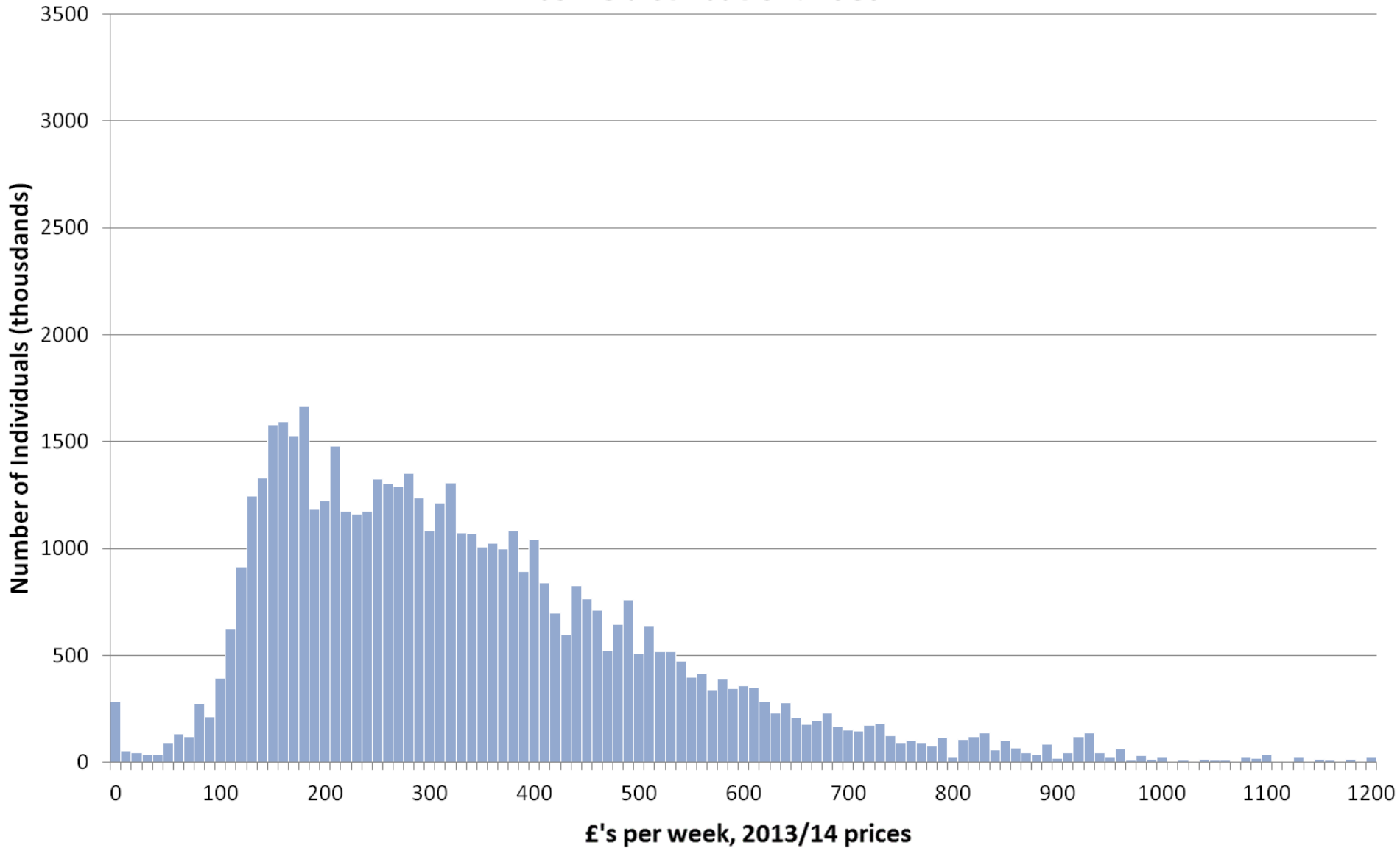
Income distribution: 1987



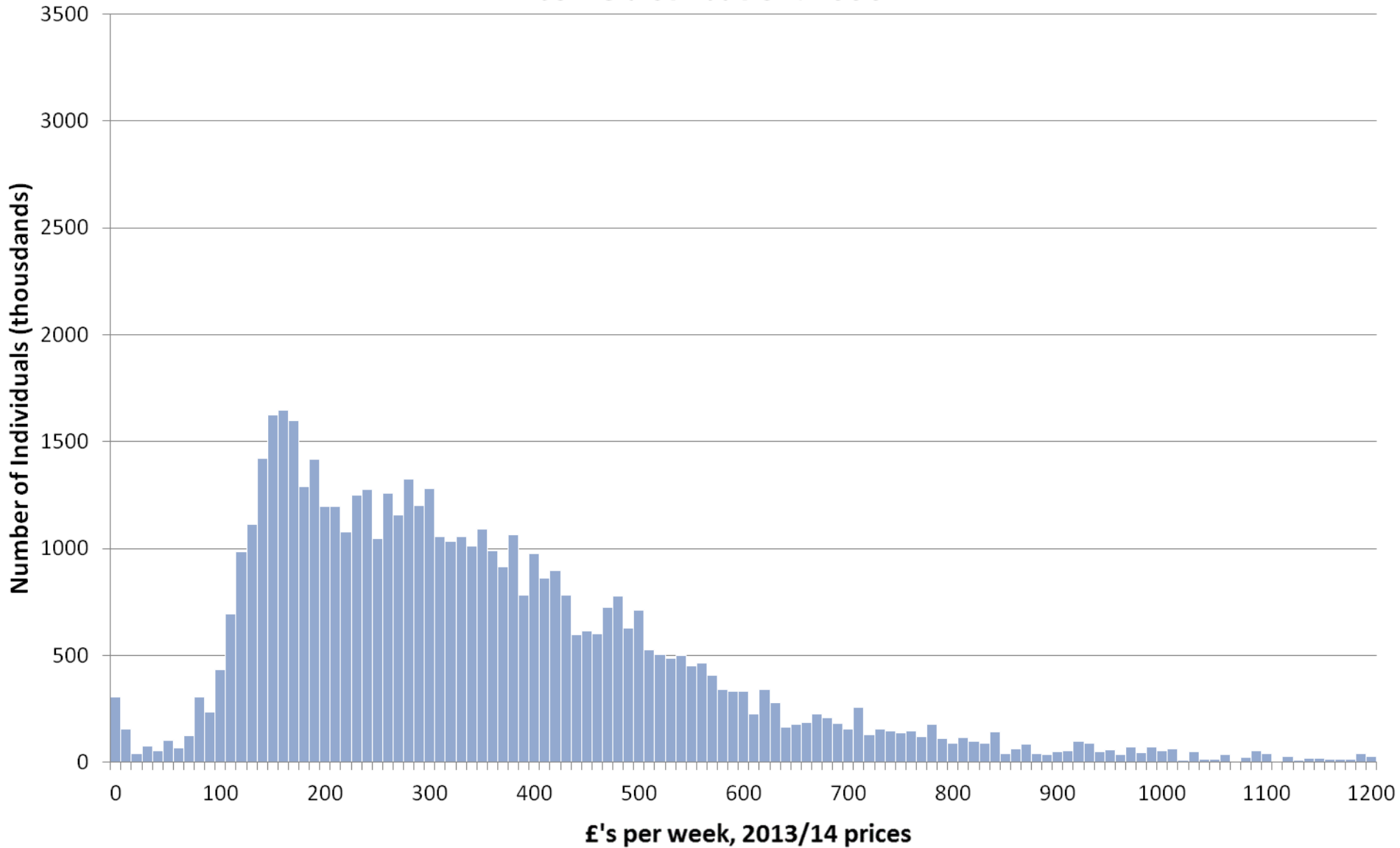
Income distribution: 1988



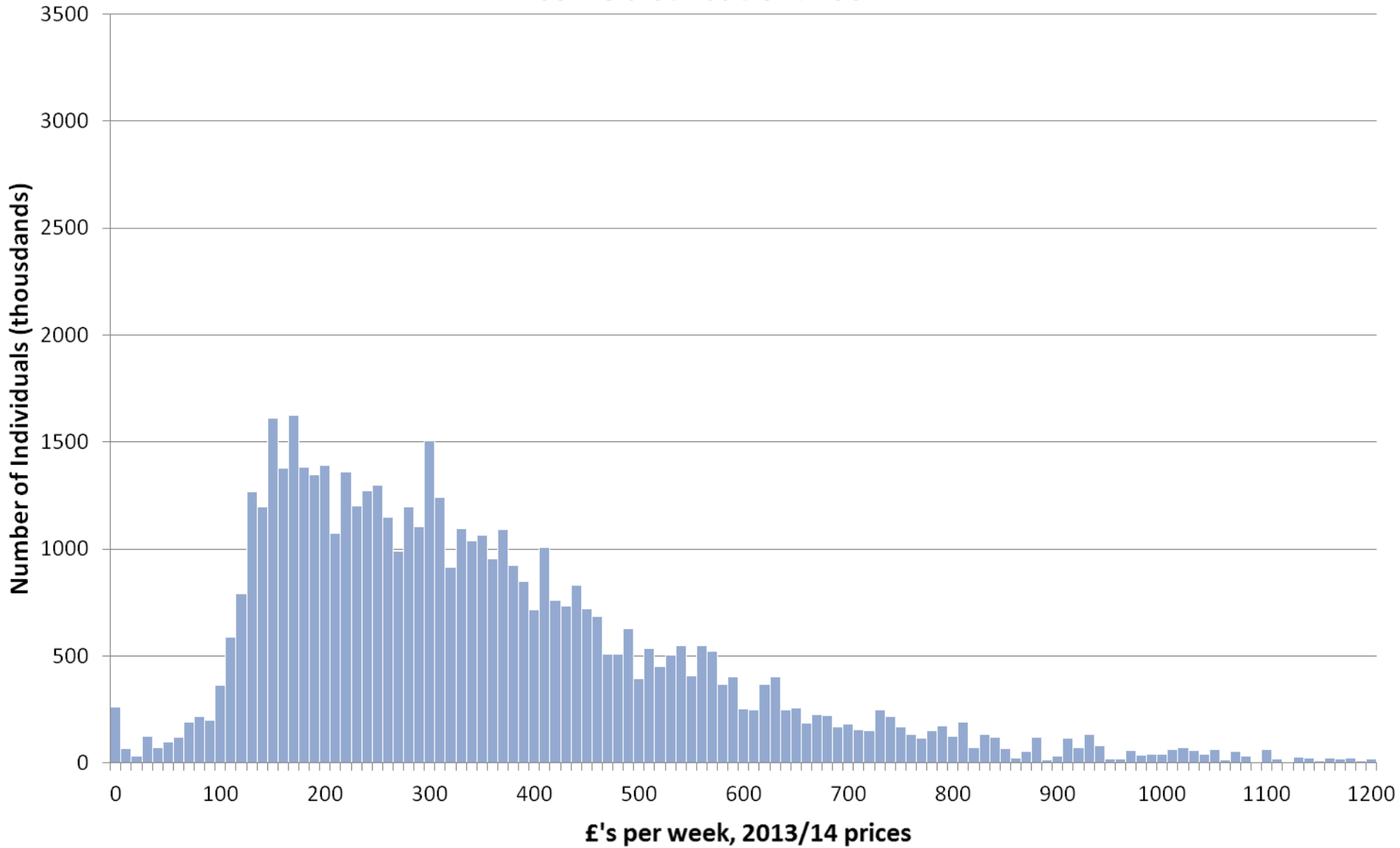
Income distribution: 1989



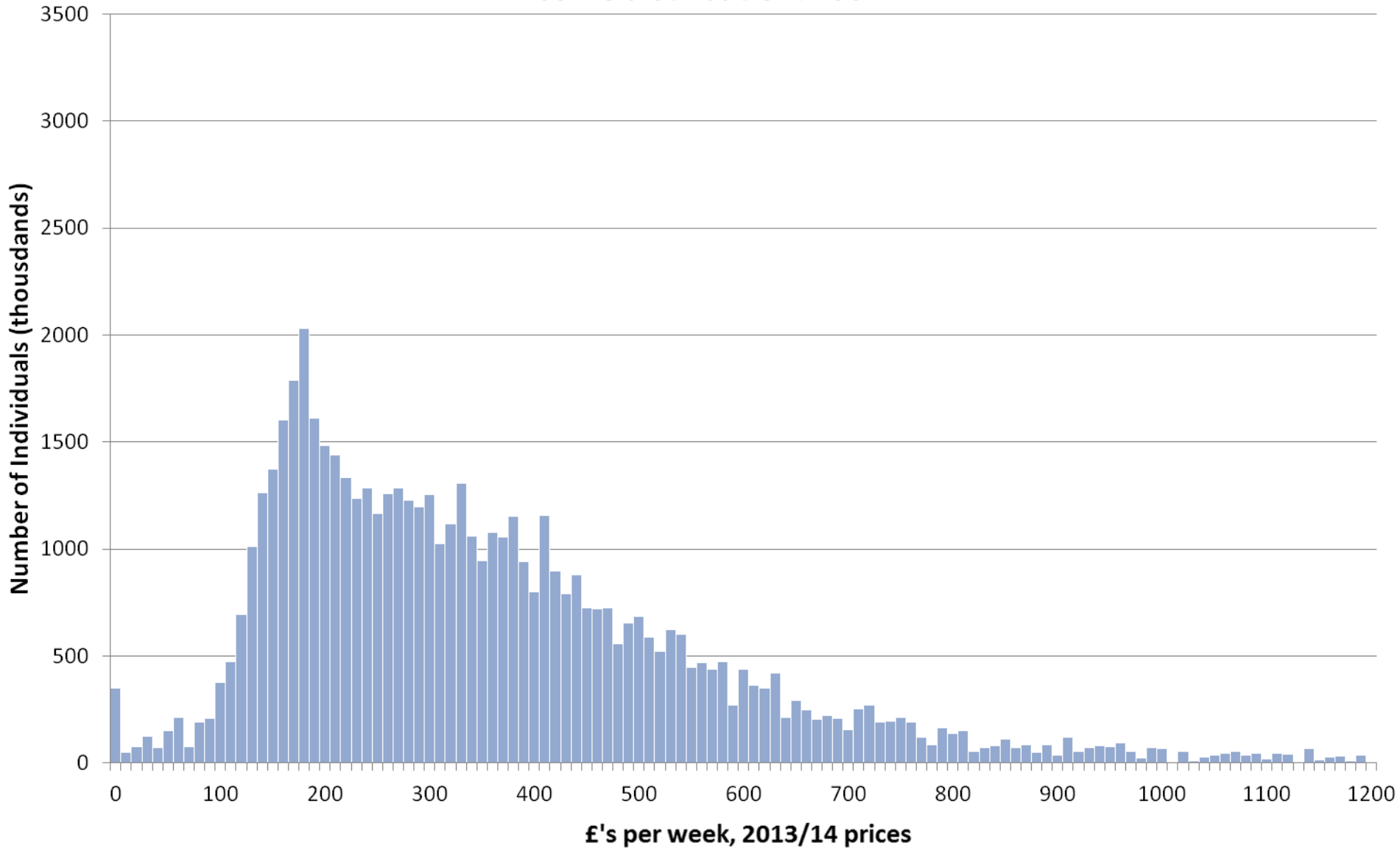
Income distribution: 1990



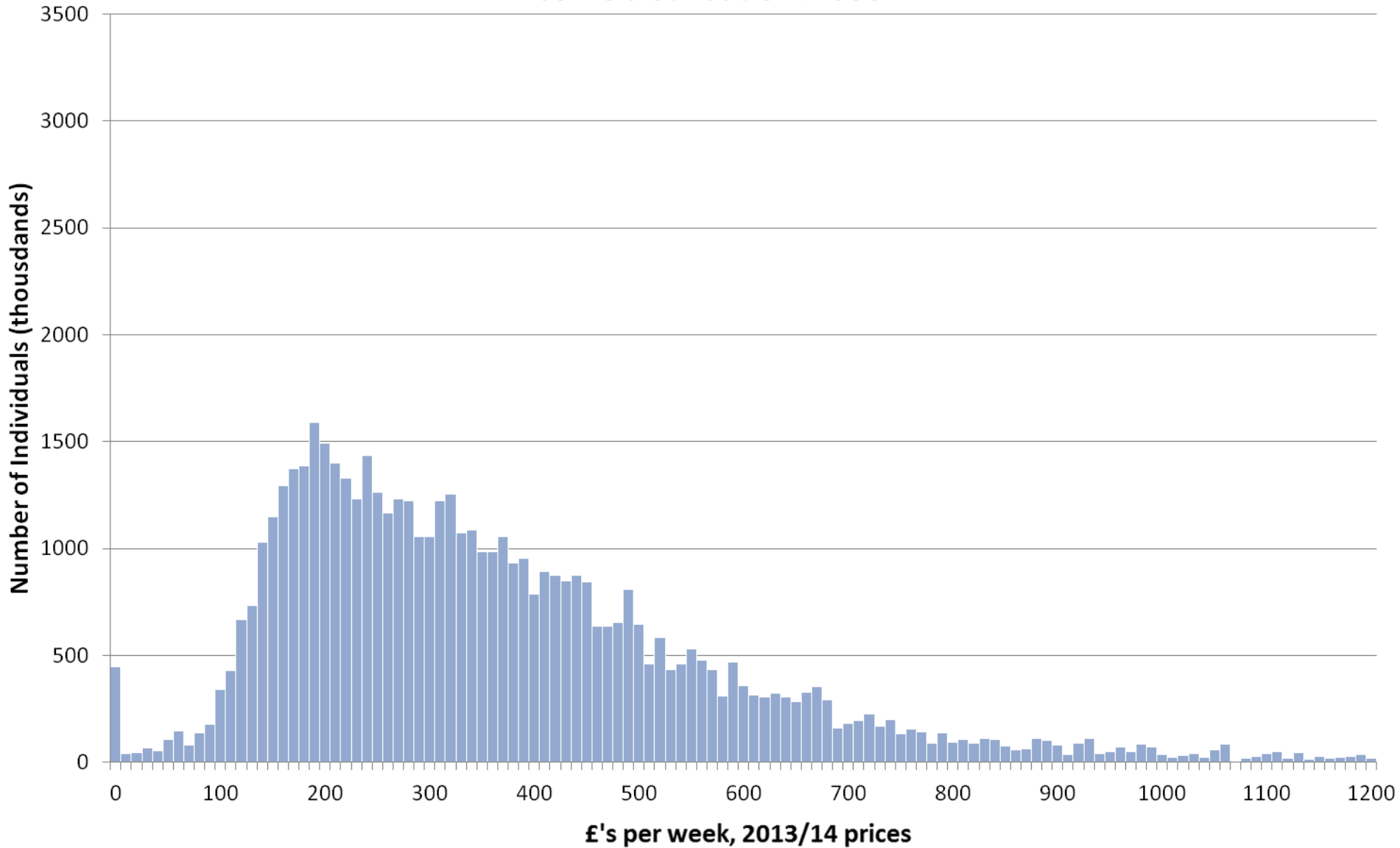
Income distribution: 1991



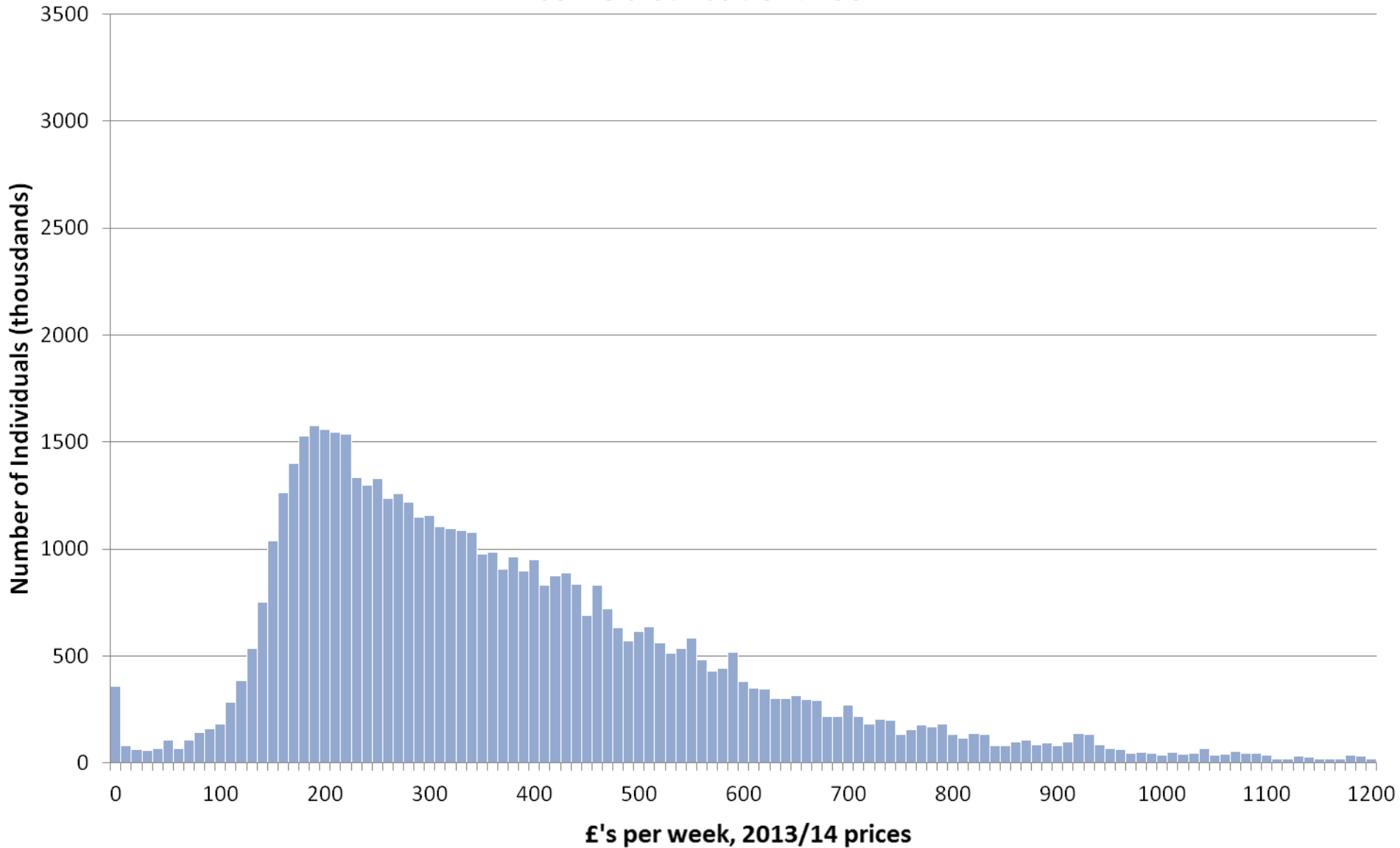
Income distribution: 1992



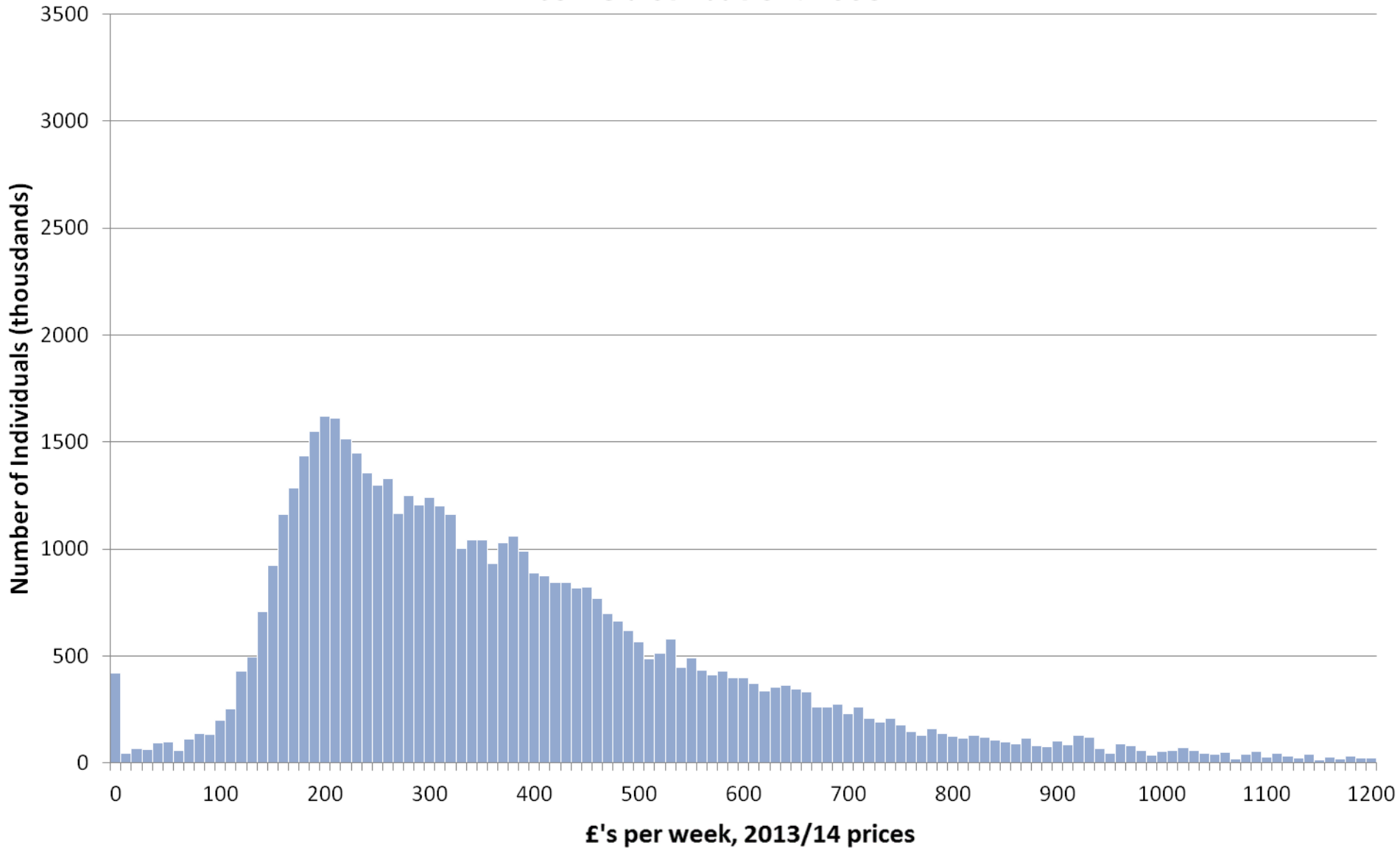
Income distribution: 1993



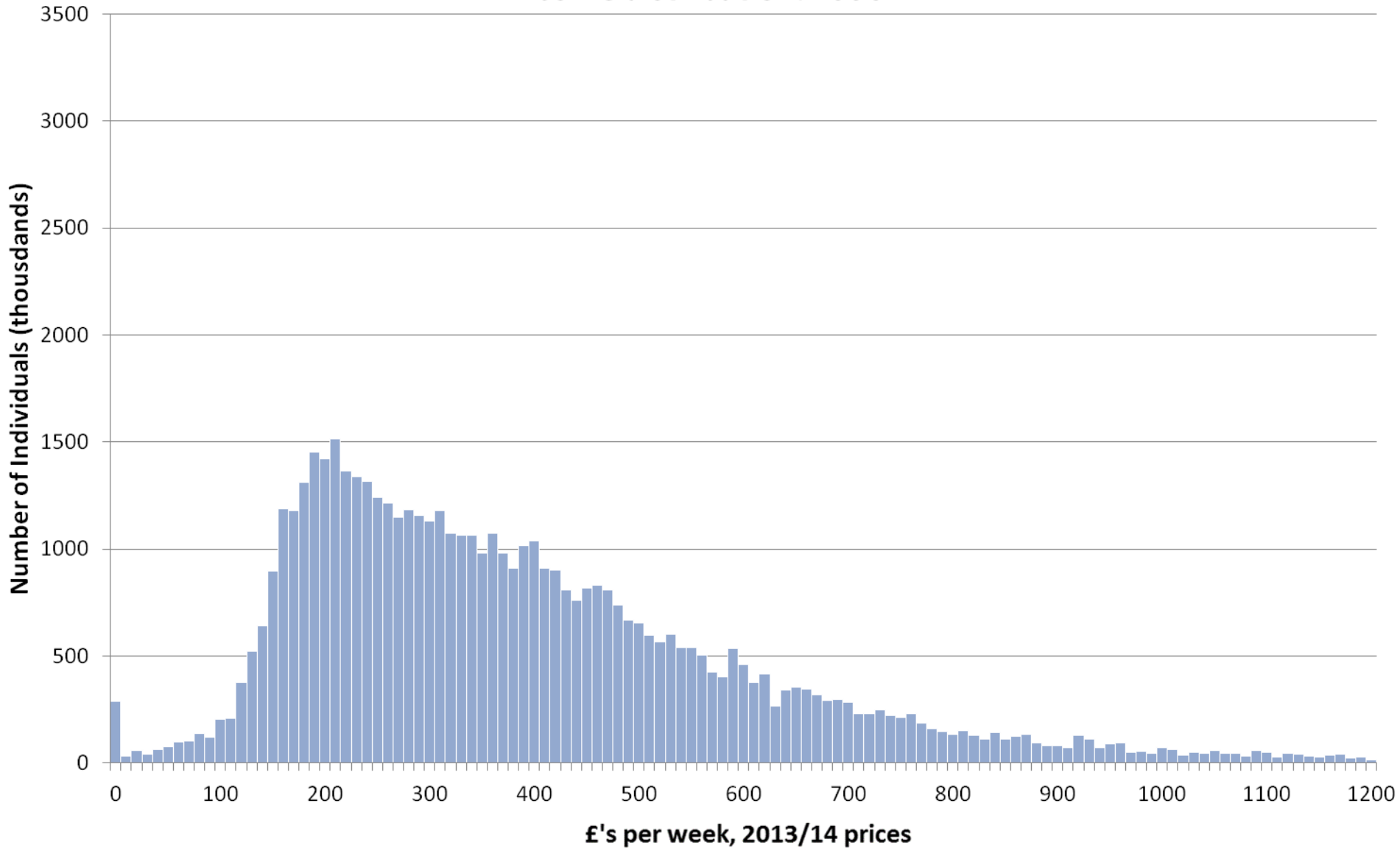
Income distribution: 1994



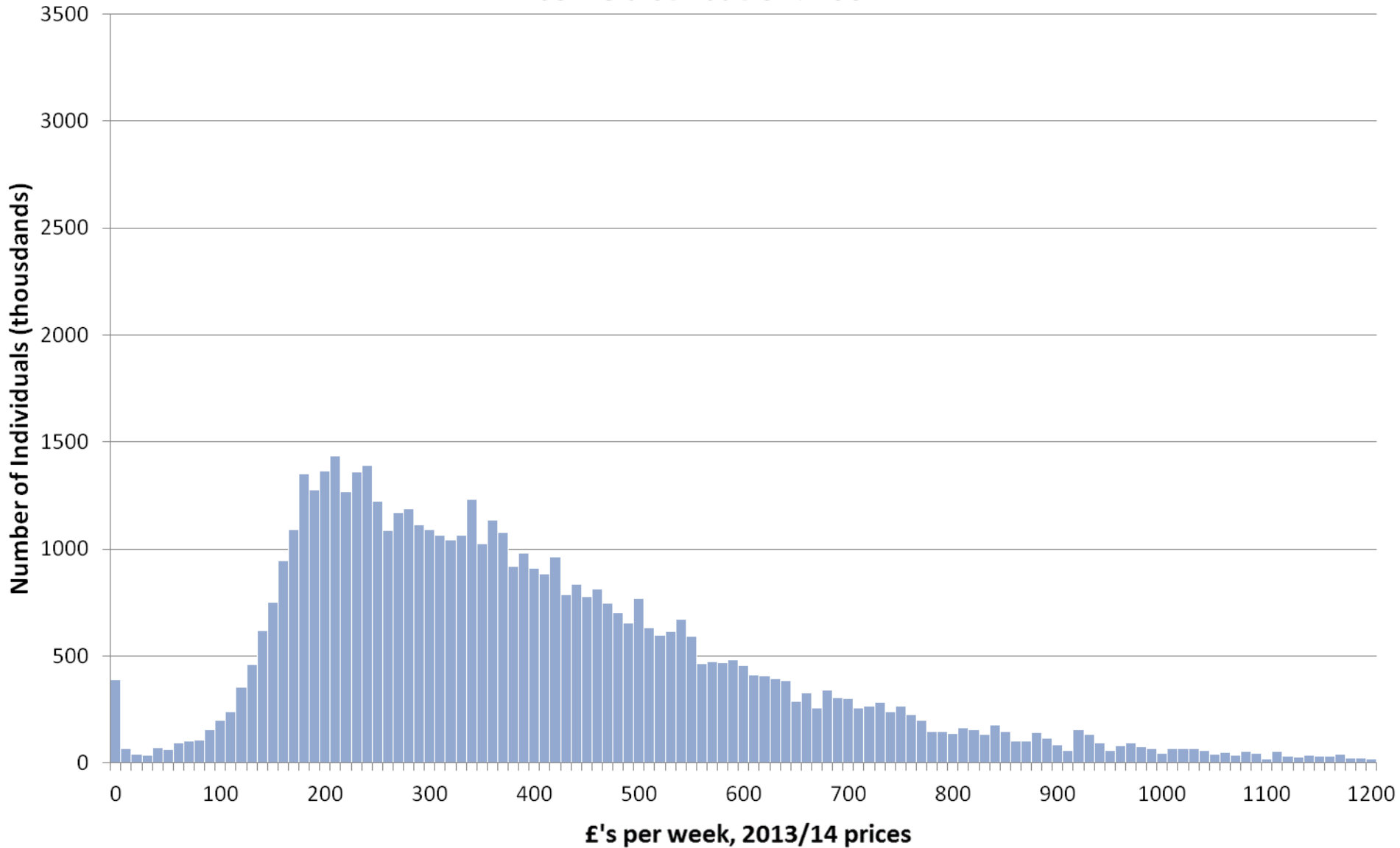
Income distribution: 1995



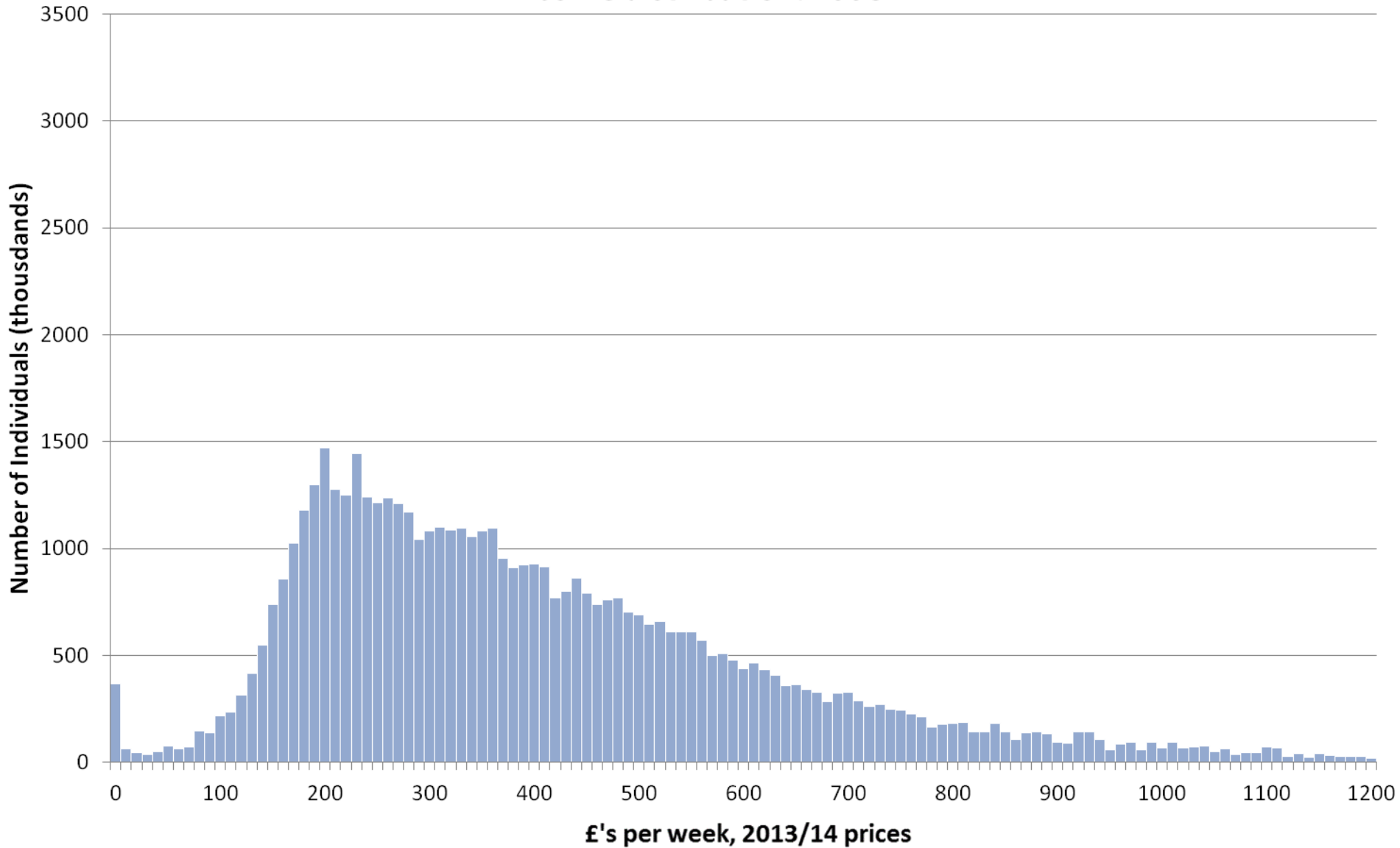
Income distribution: 1996



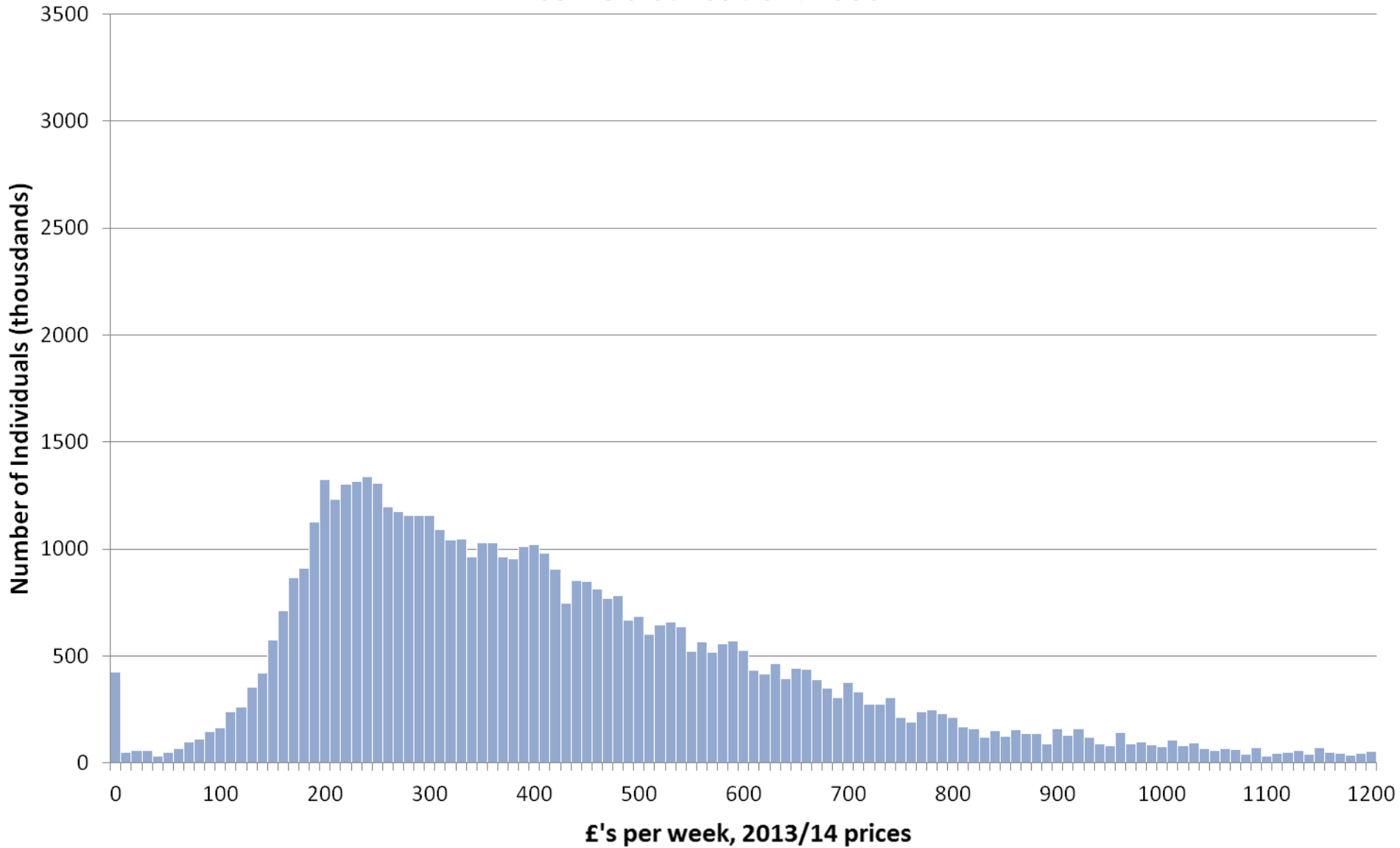
Income distribution: 1997



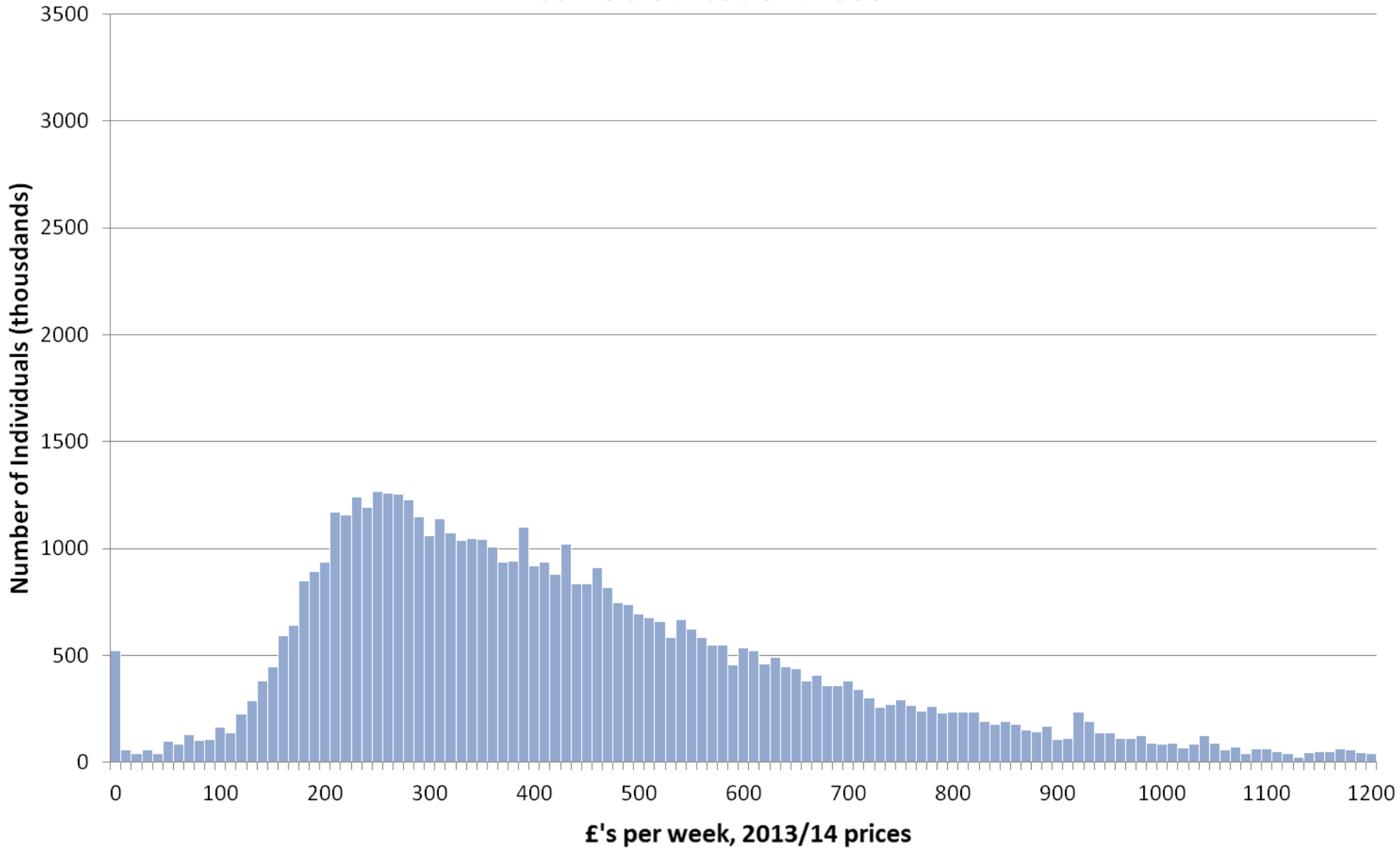
Income distribution: 1998



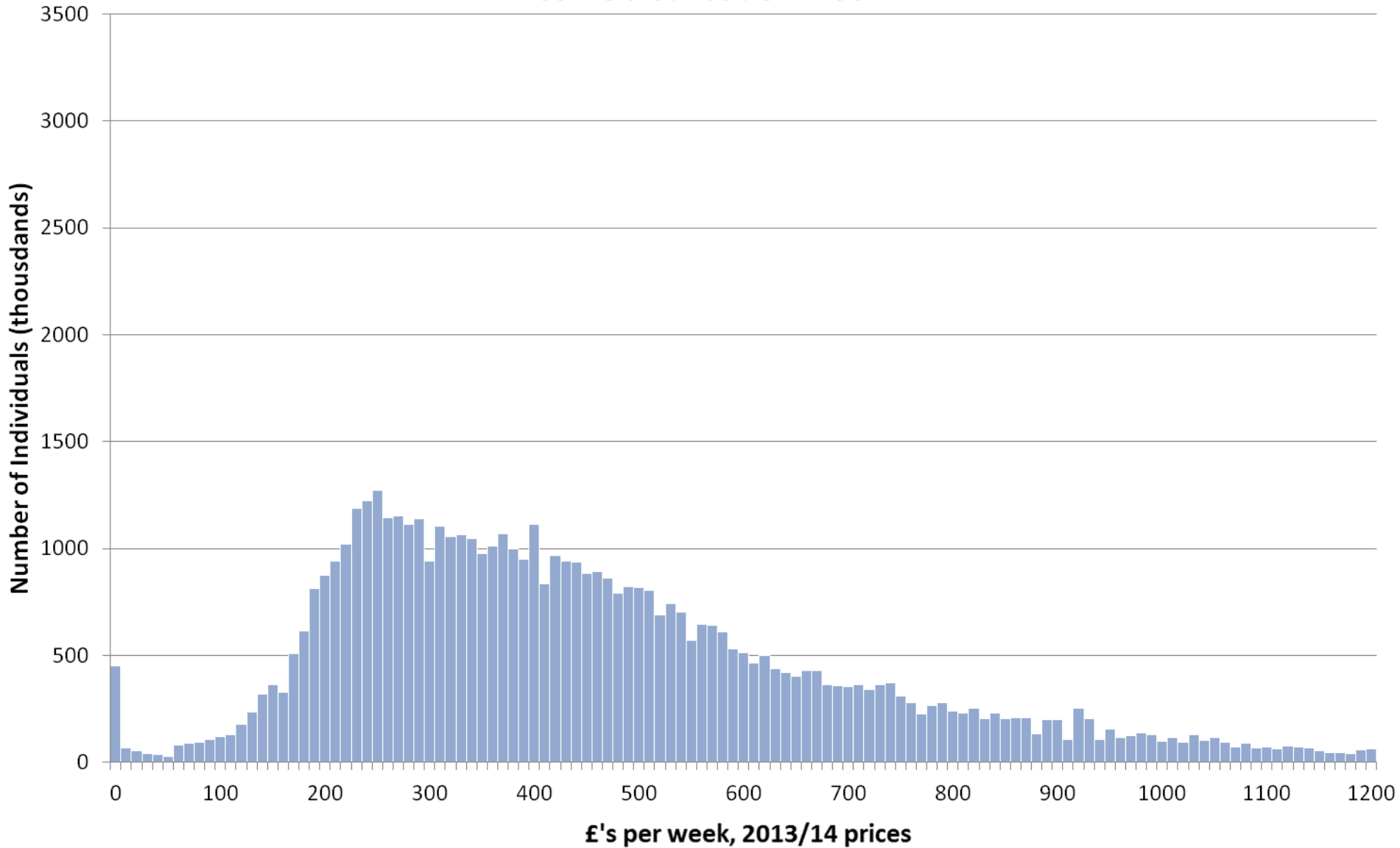
Income distribution: 1999



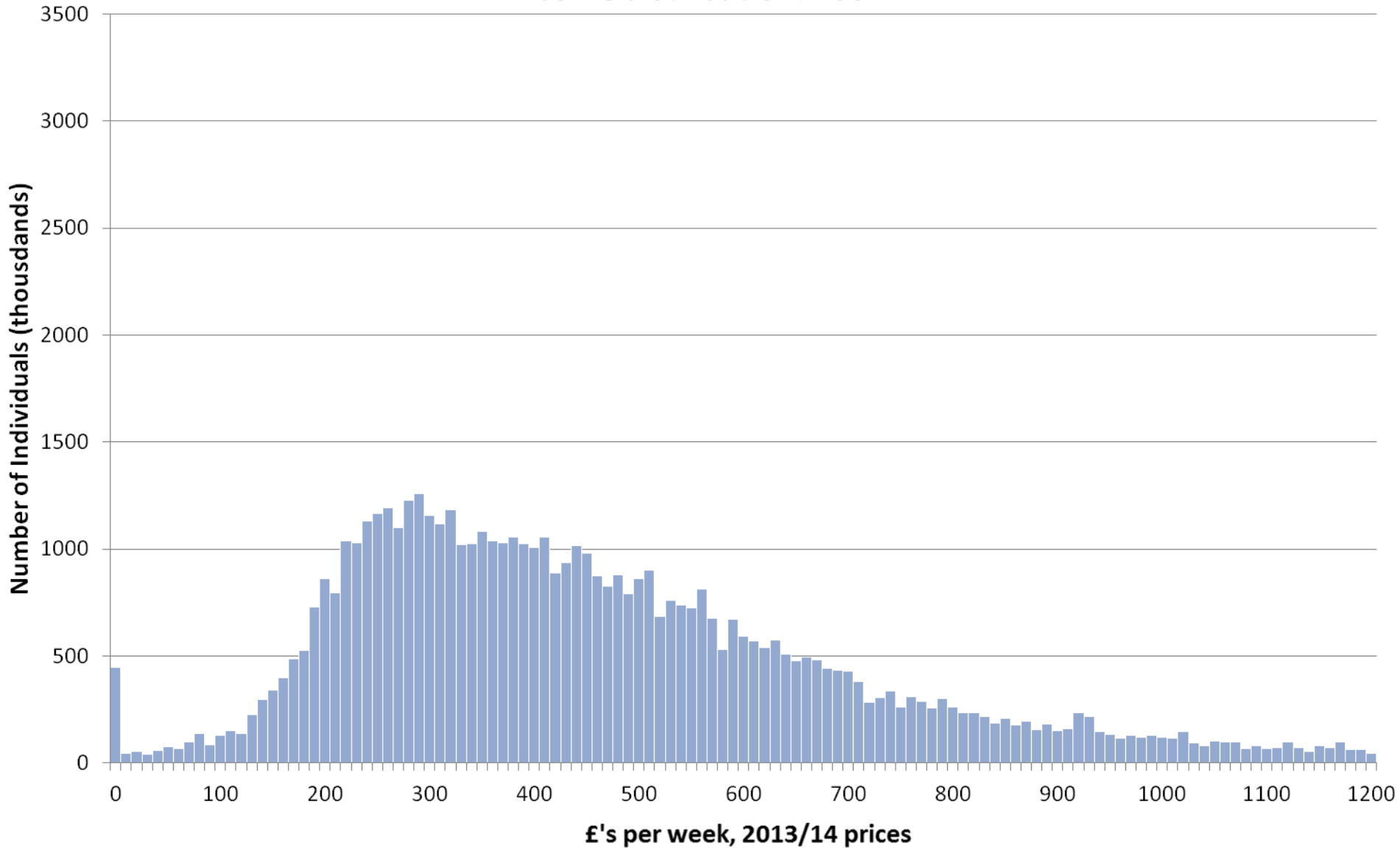
Income distribution: 2000



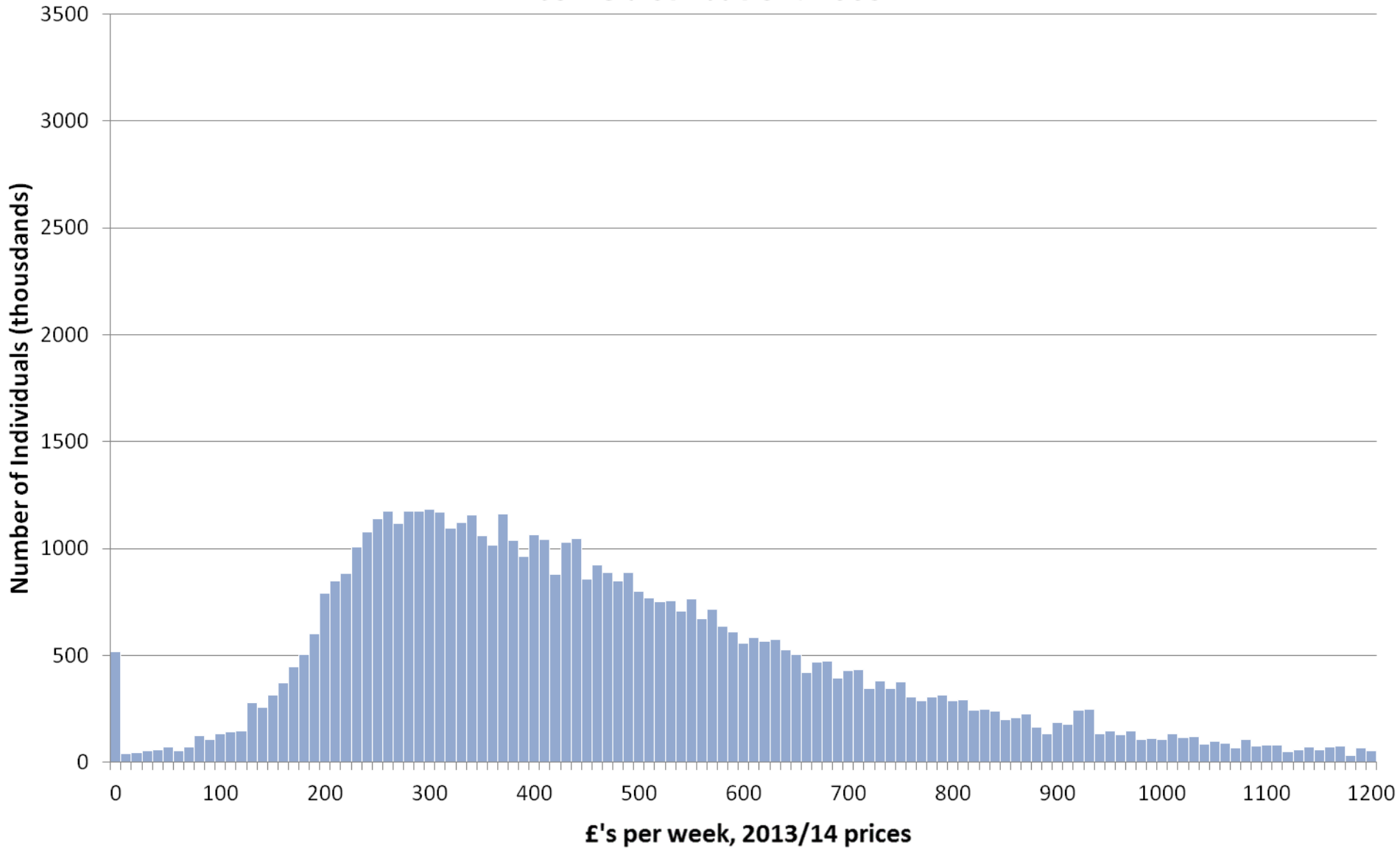
Income distribution: 2001



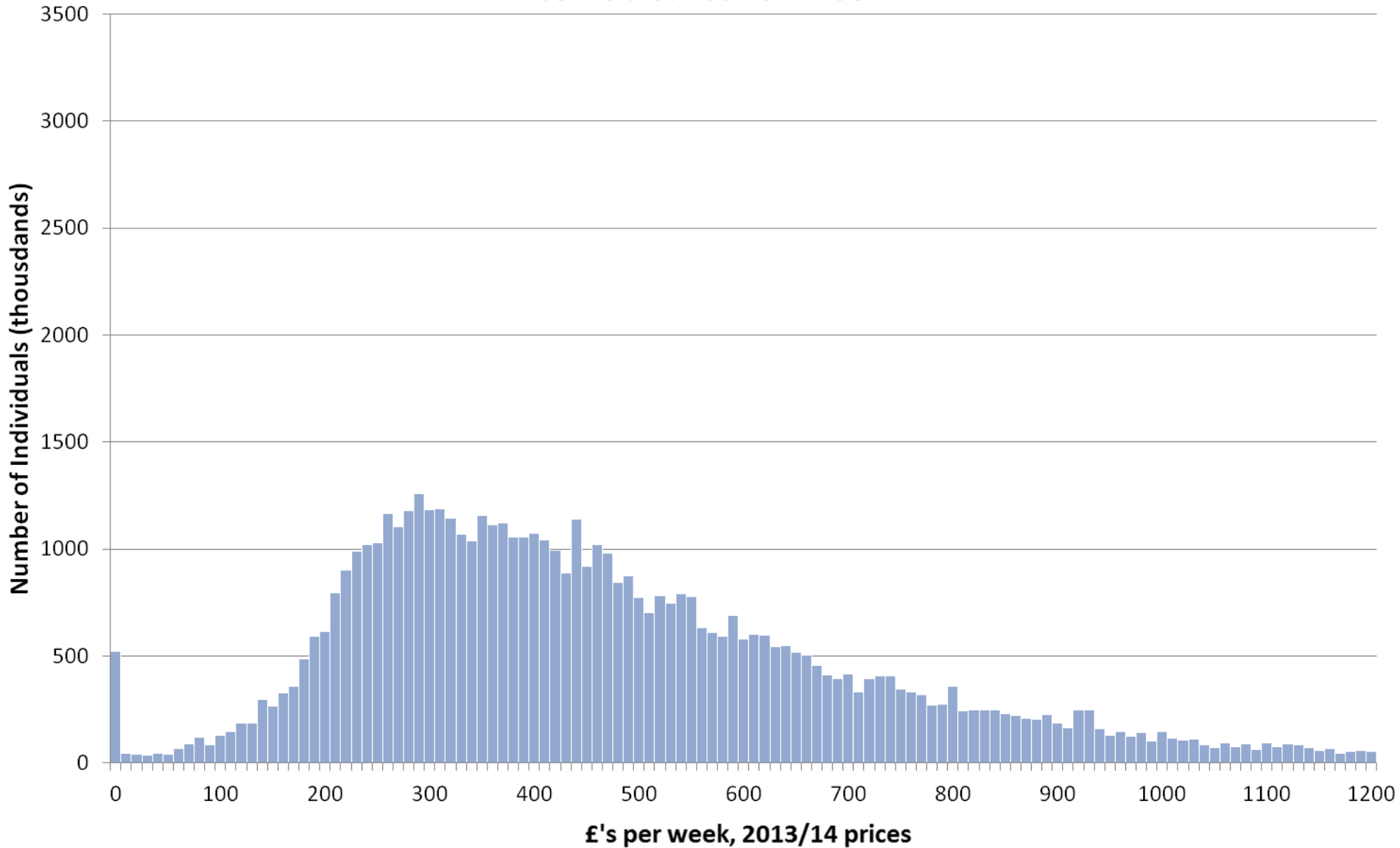
Income distribution: 2002



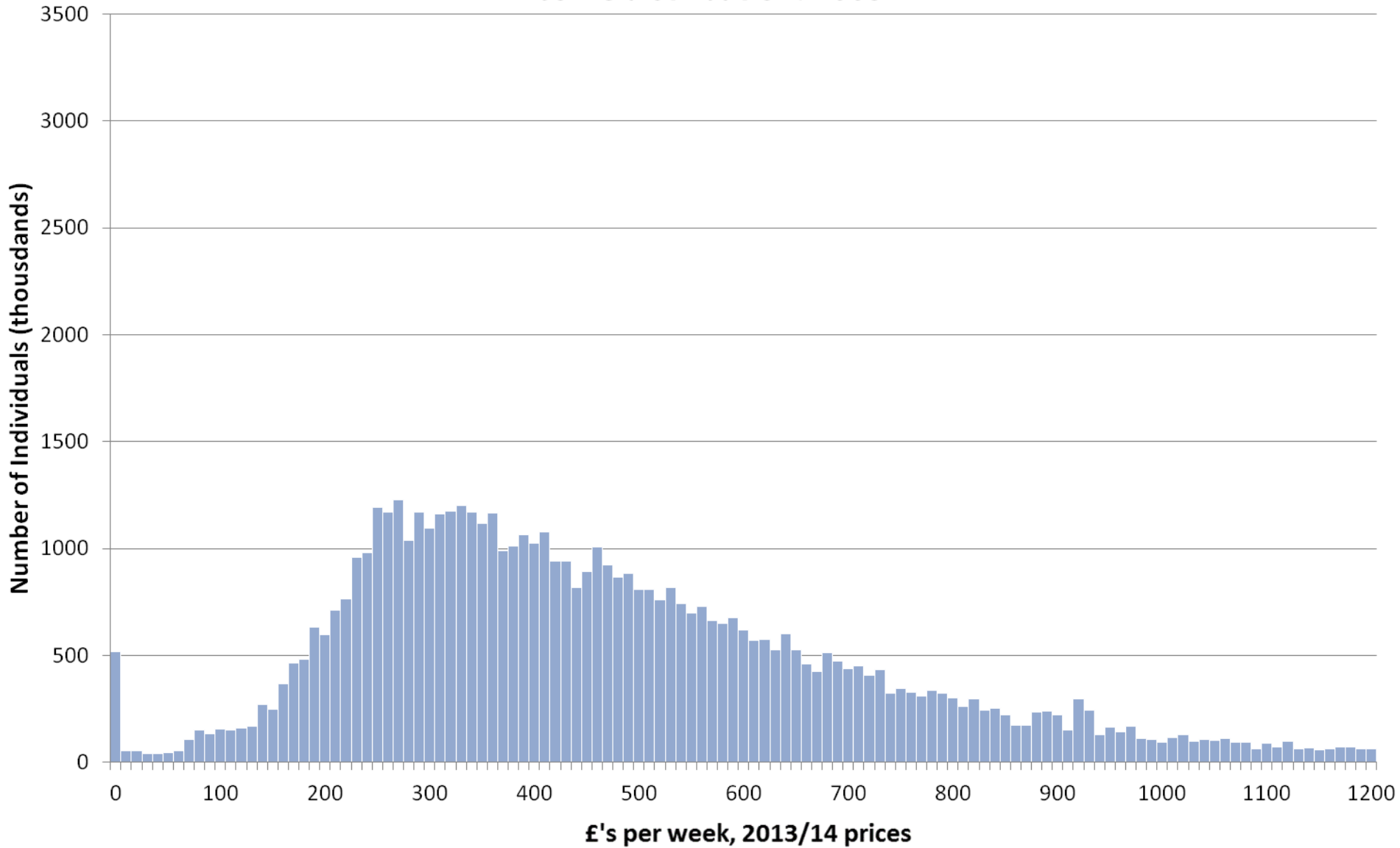
Income distribution: 2003



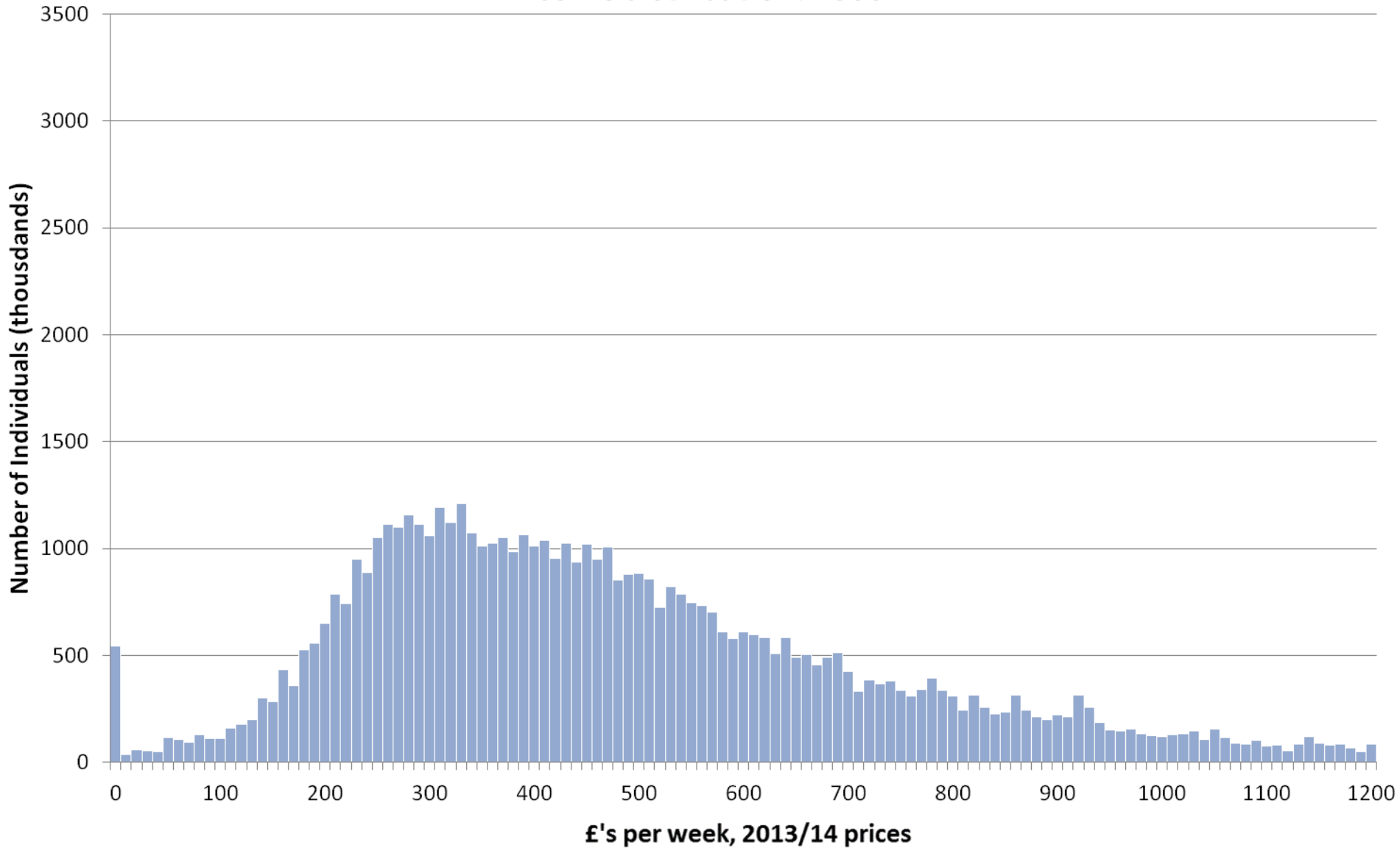
Income distribution: 2004



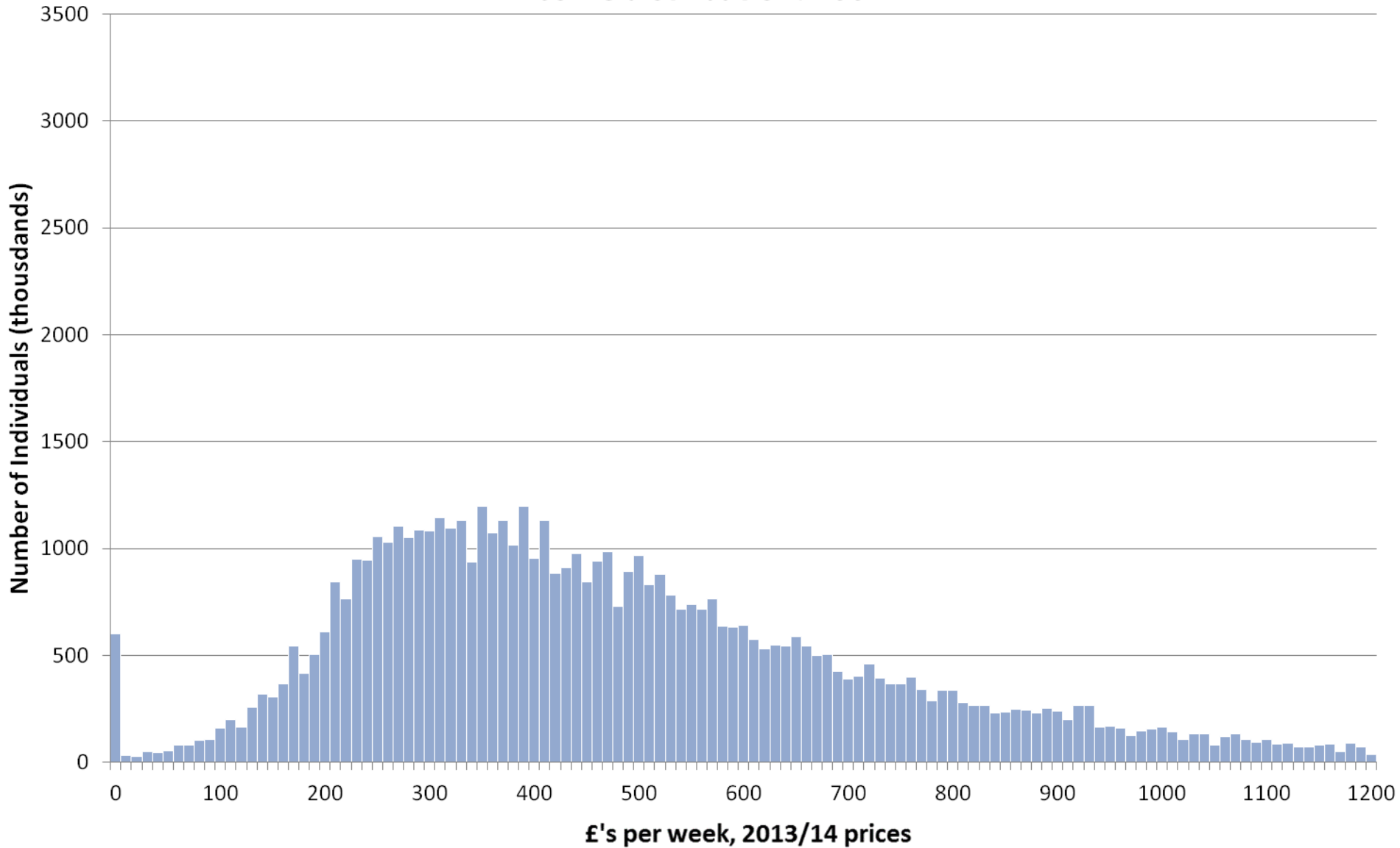
Income distribution: 2005



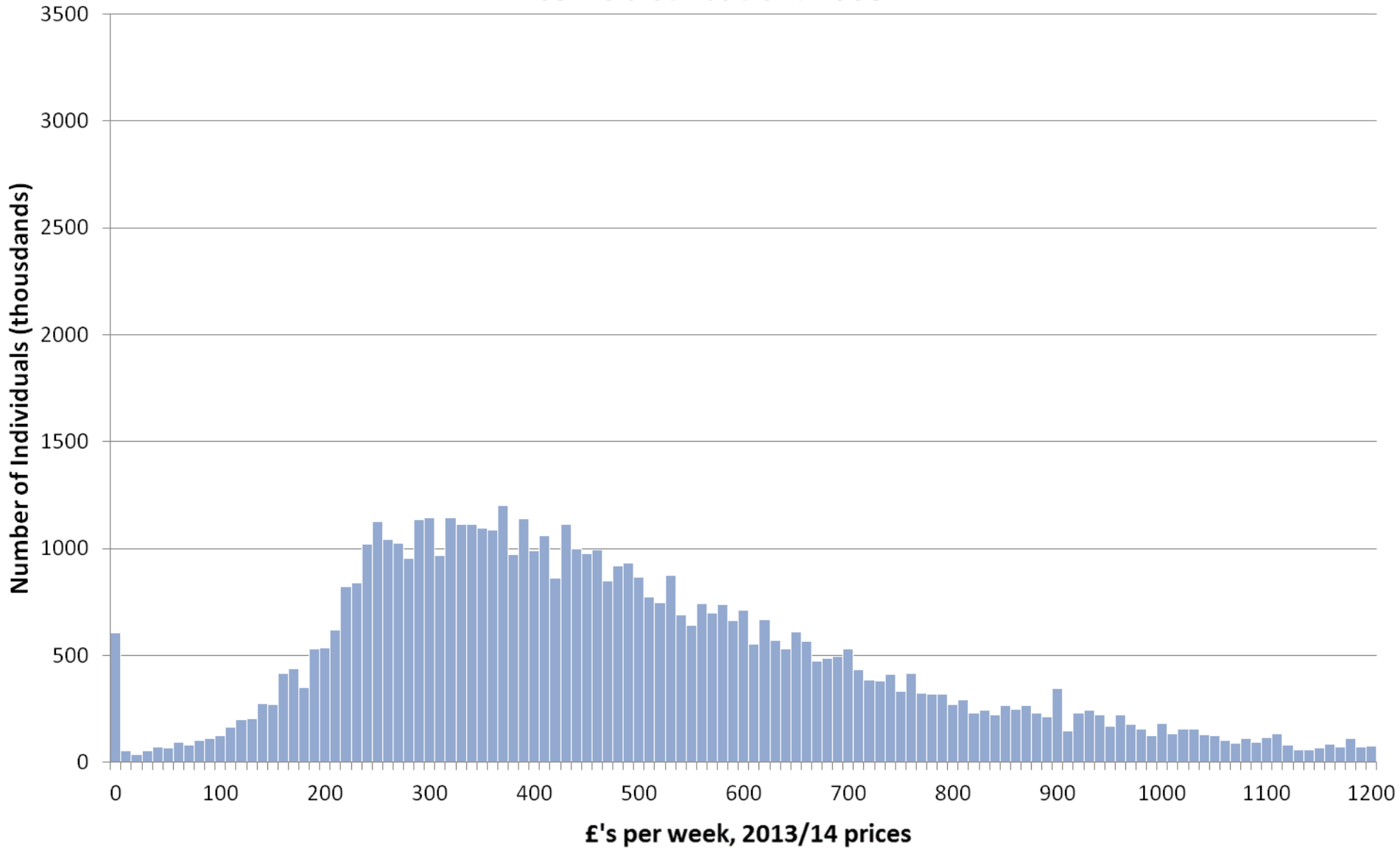
Income distribution: 2006



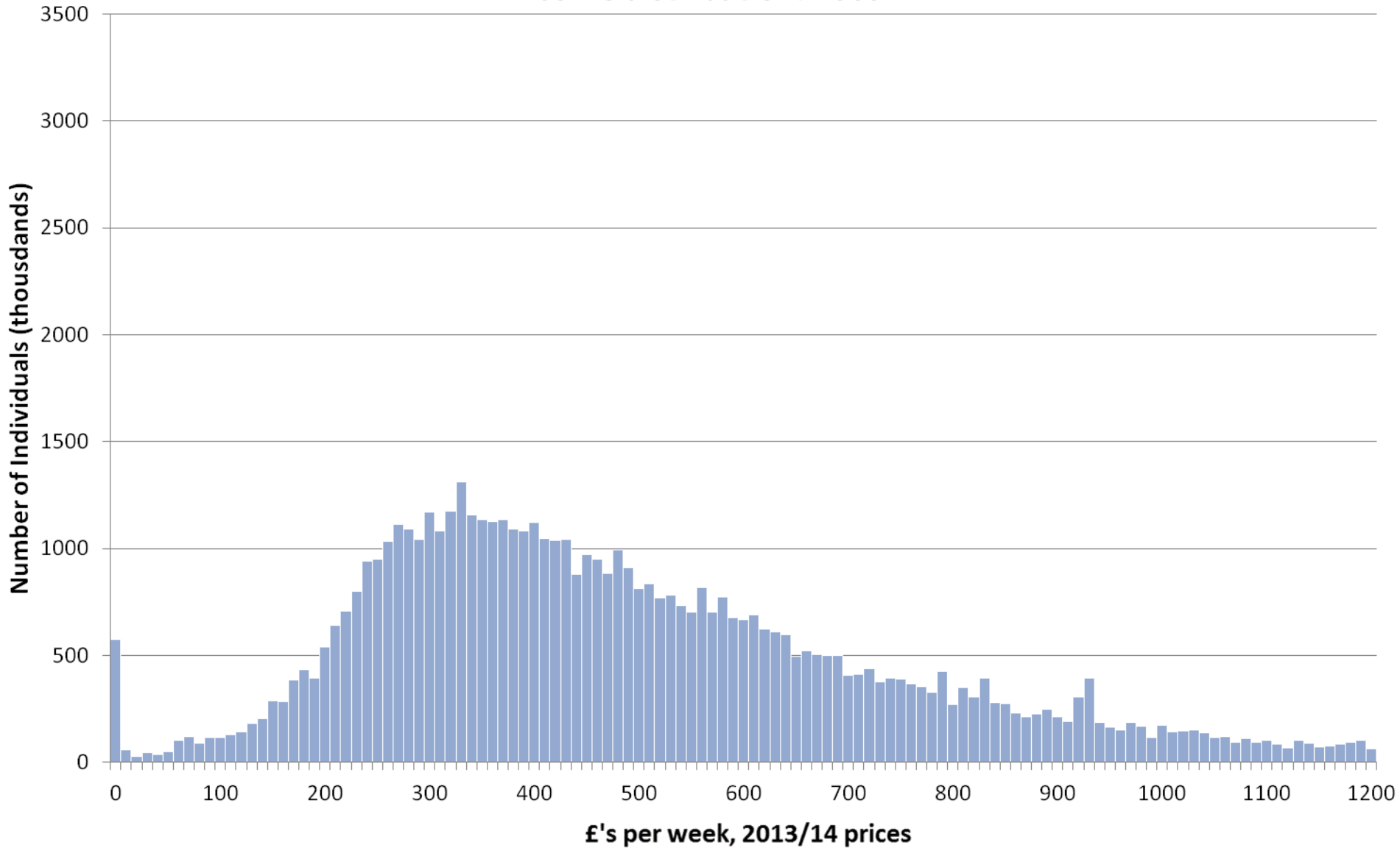
Income distribution: 2007



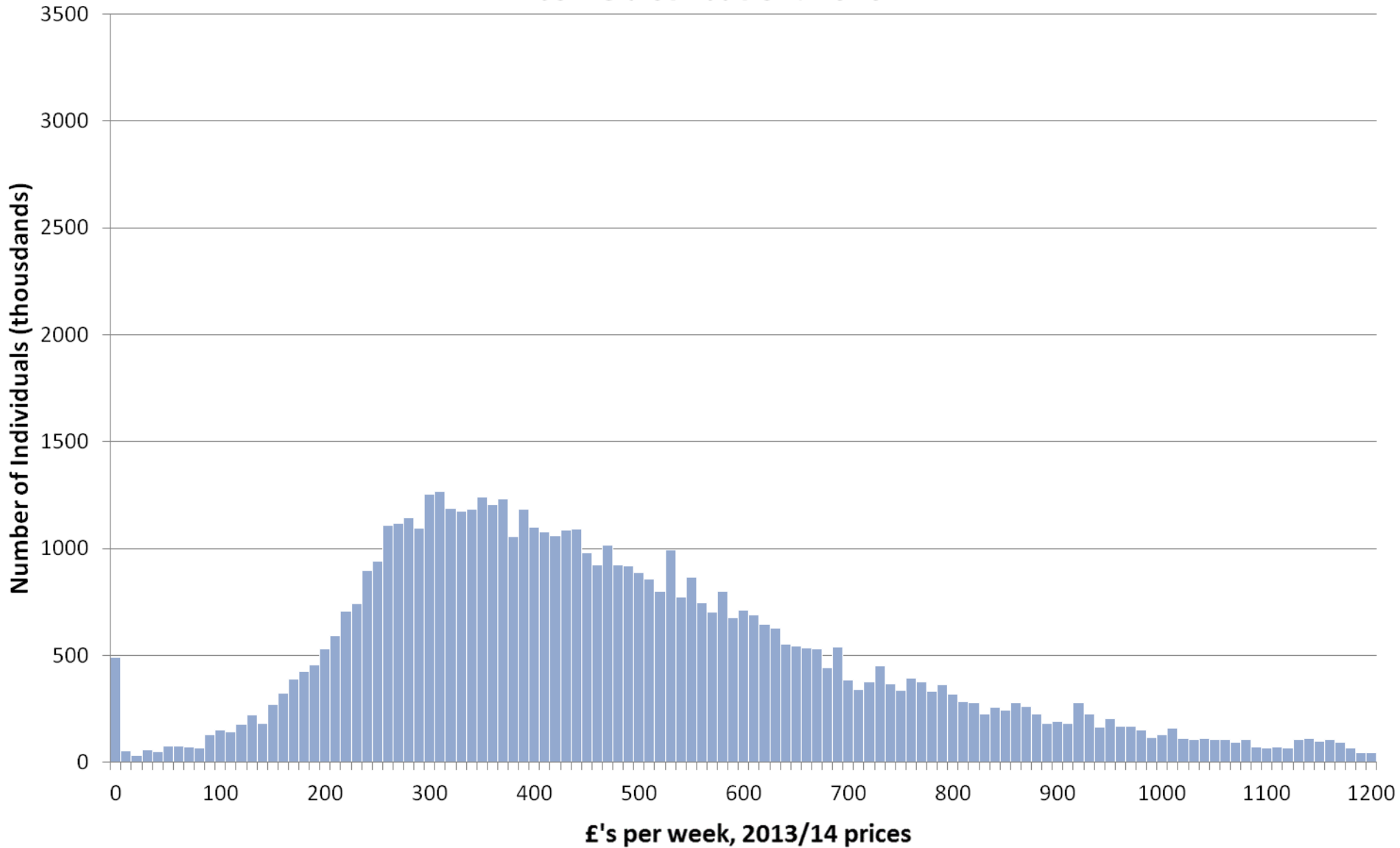
Income distribution: 2008



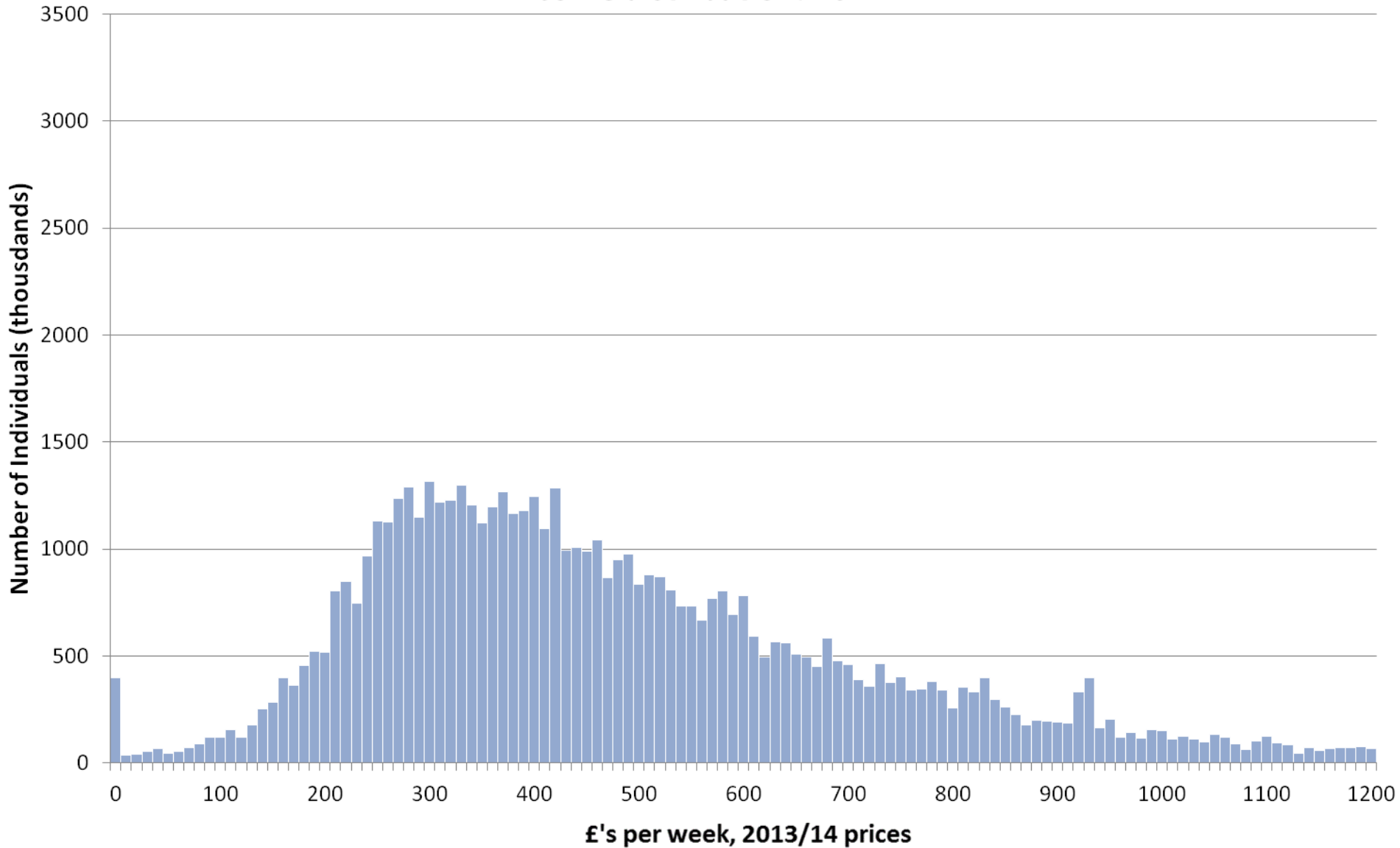
Income distribution: 2009



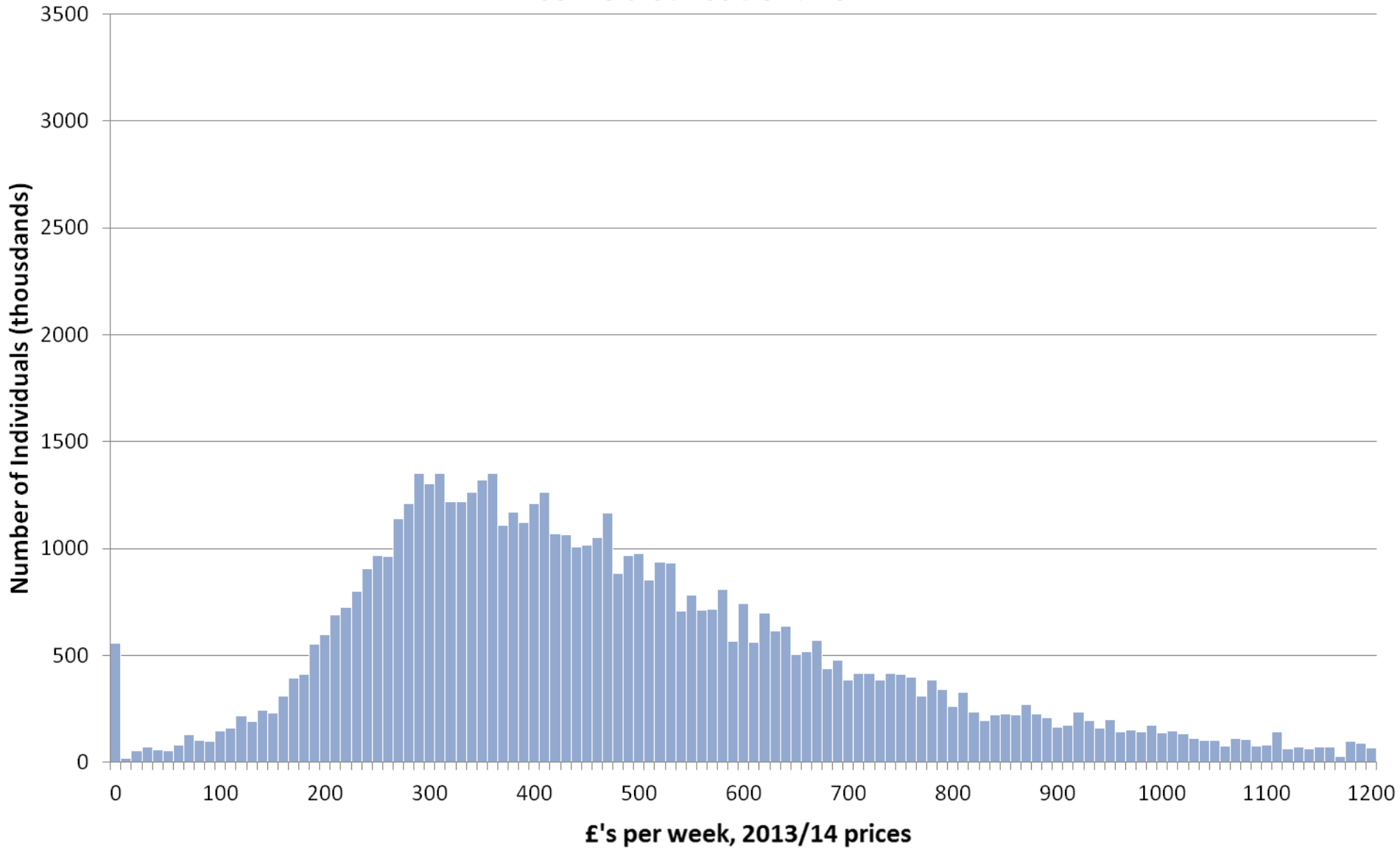
Income distribution: 2010



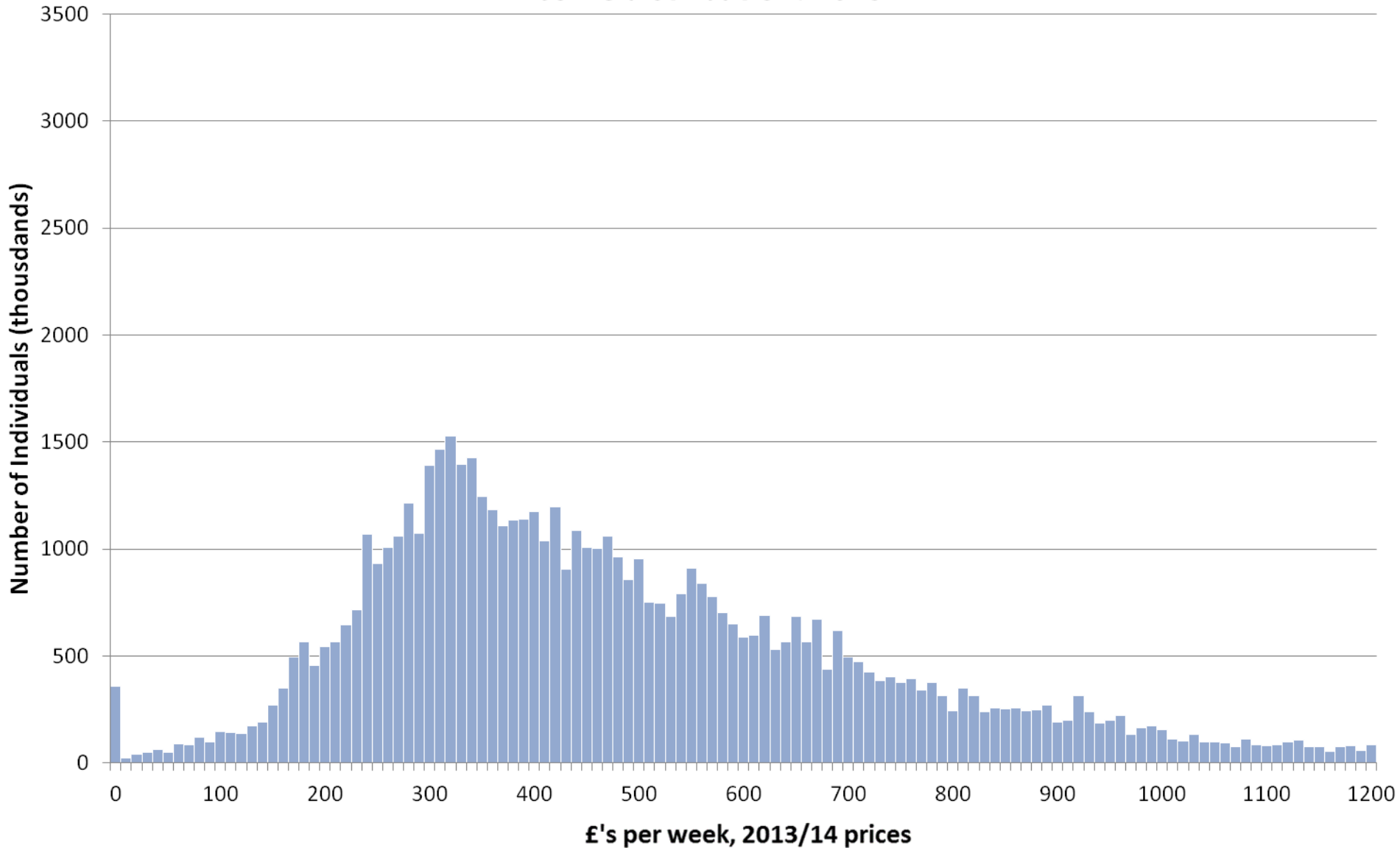
Income distribution: 2011



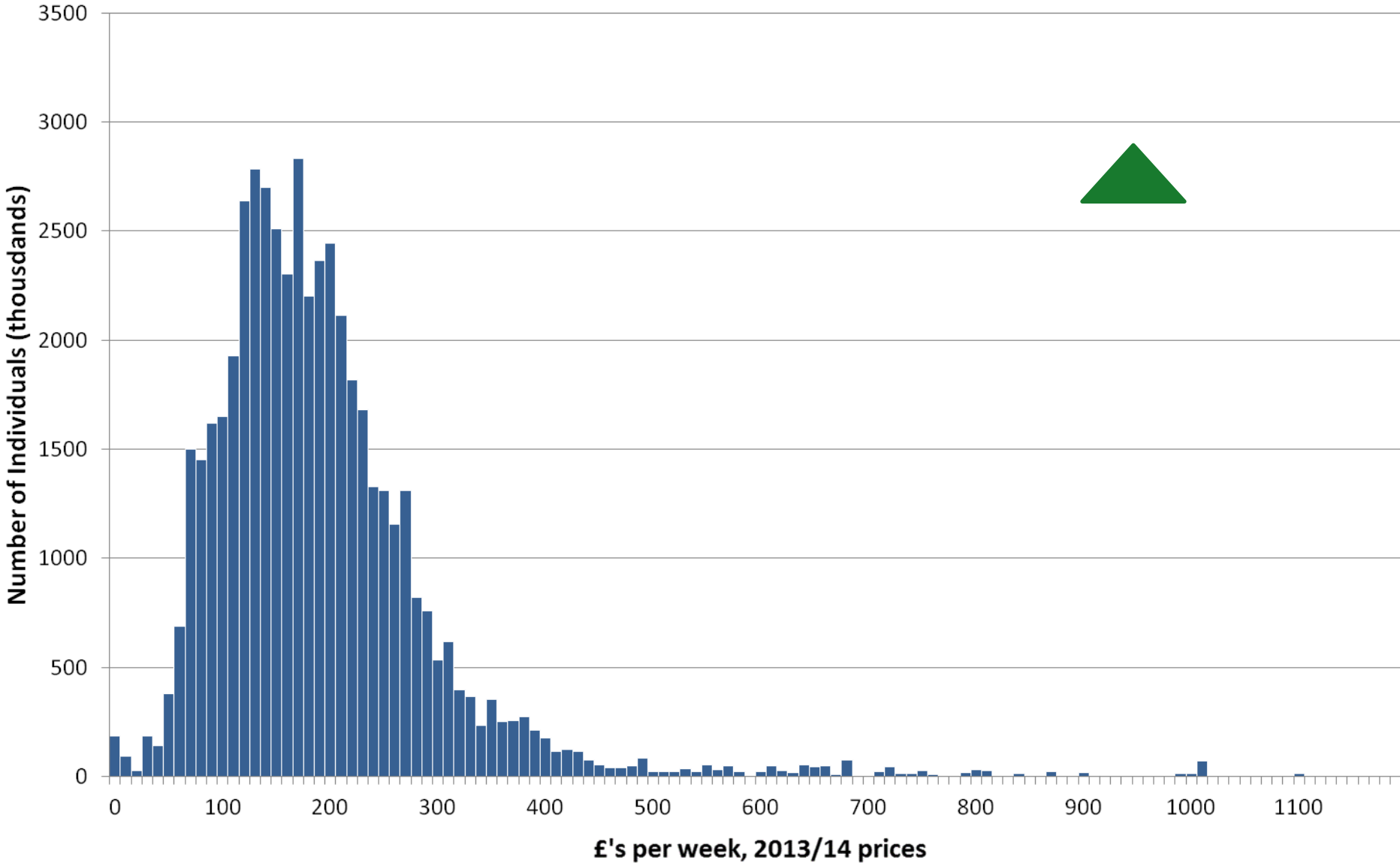
Income distribution: 2012



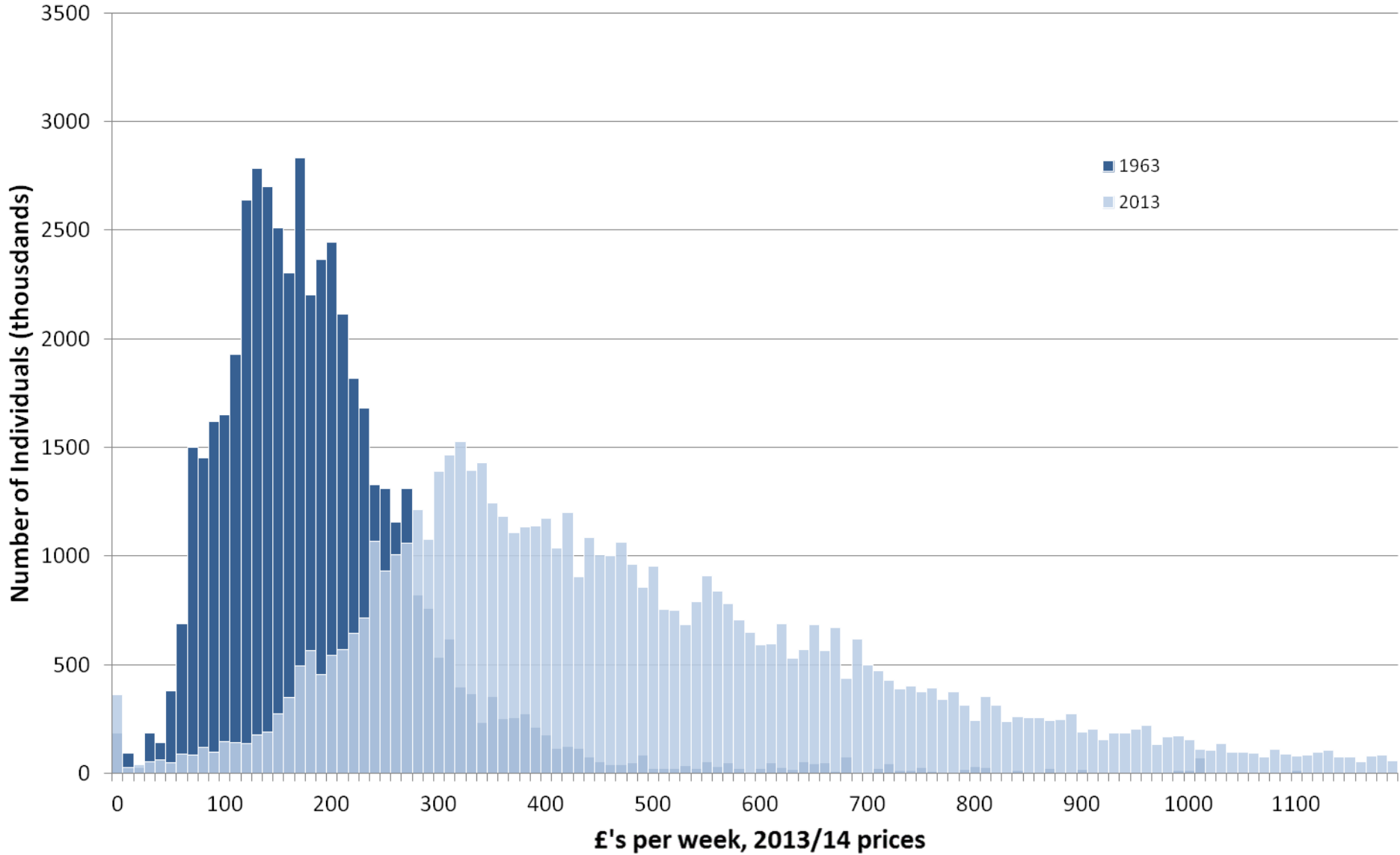
Income distribution: 2013



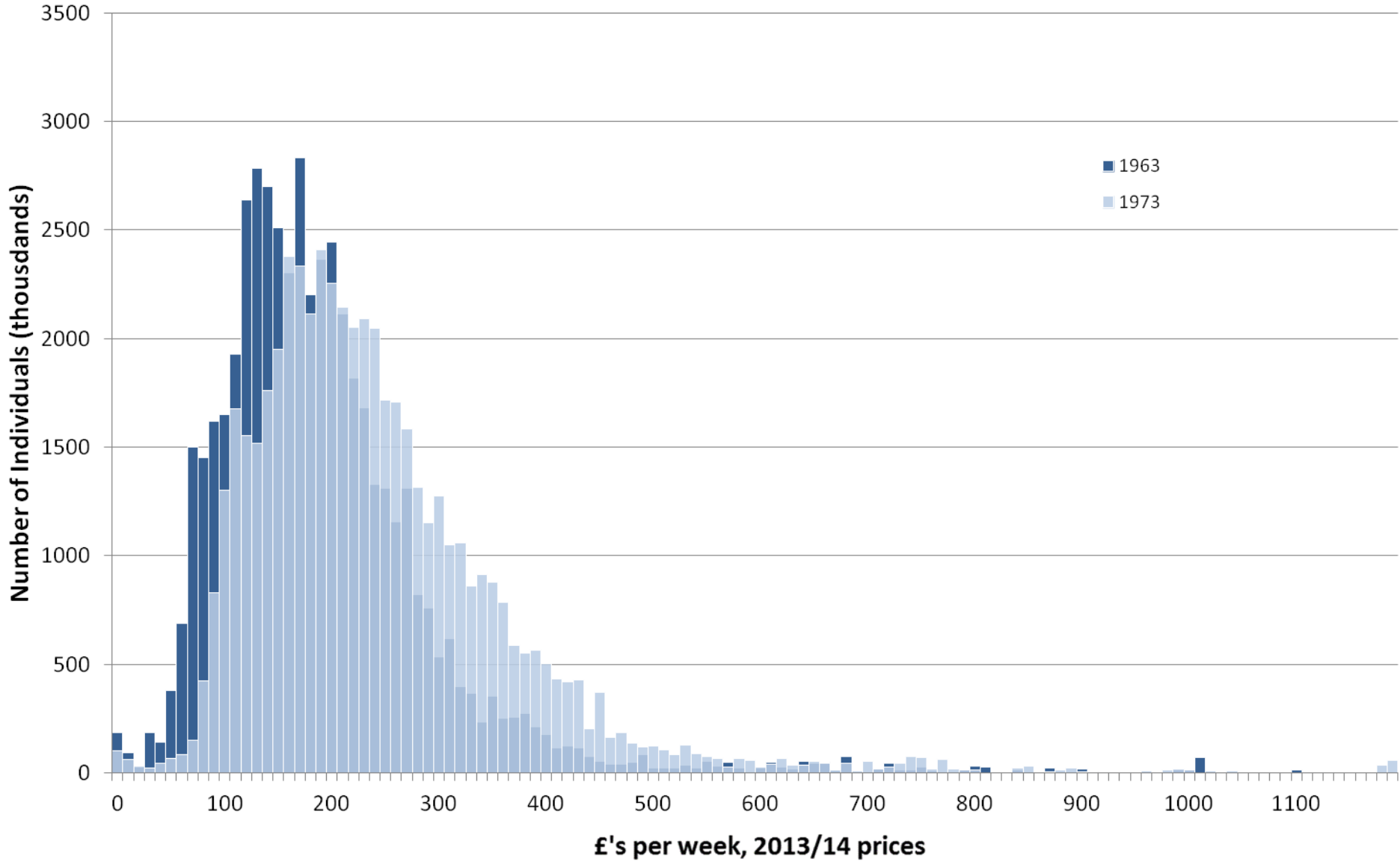
Income distribution: 1963



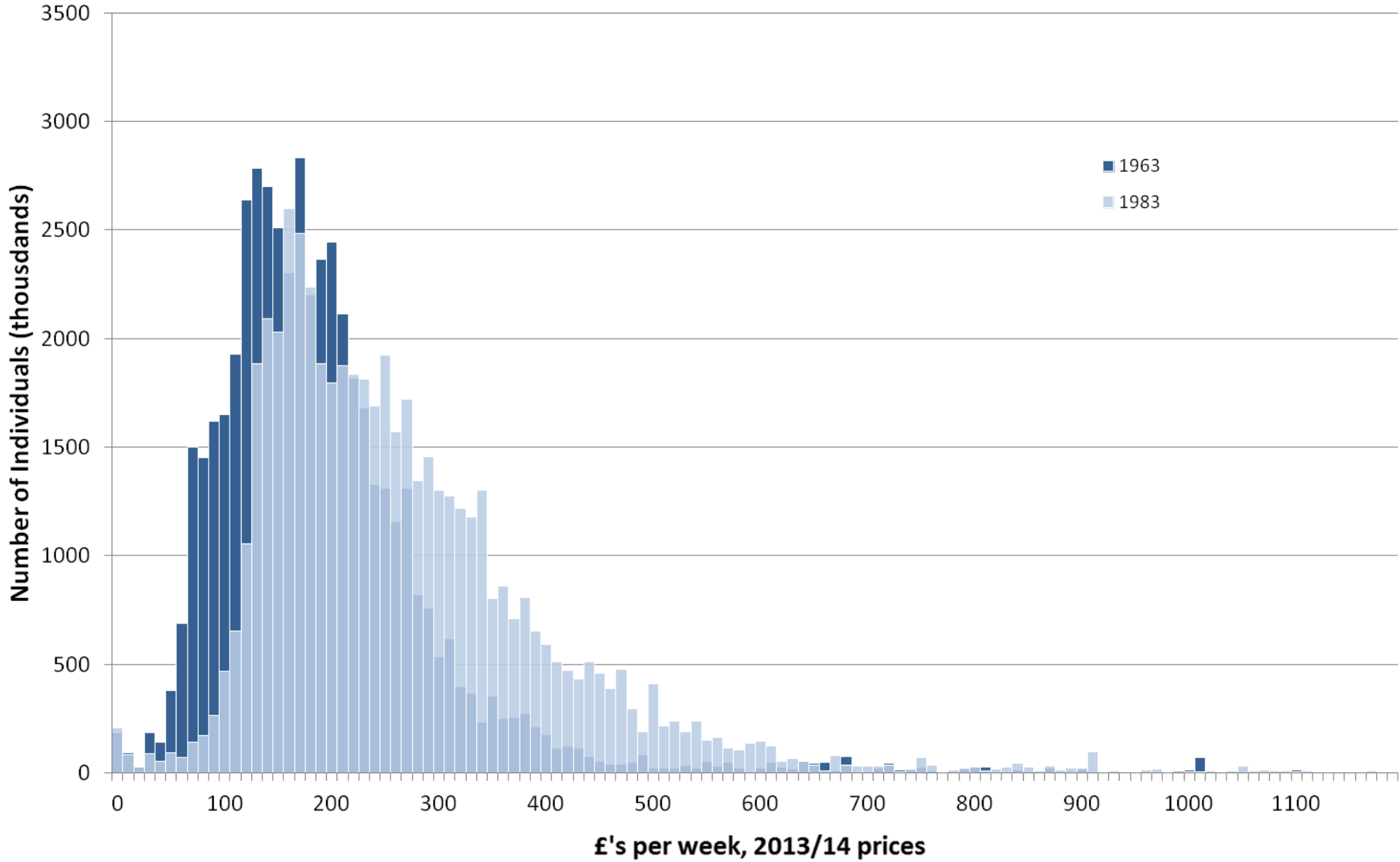
Income distribution: 1963 - 2013



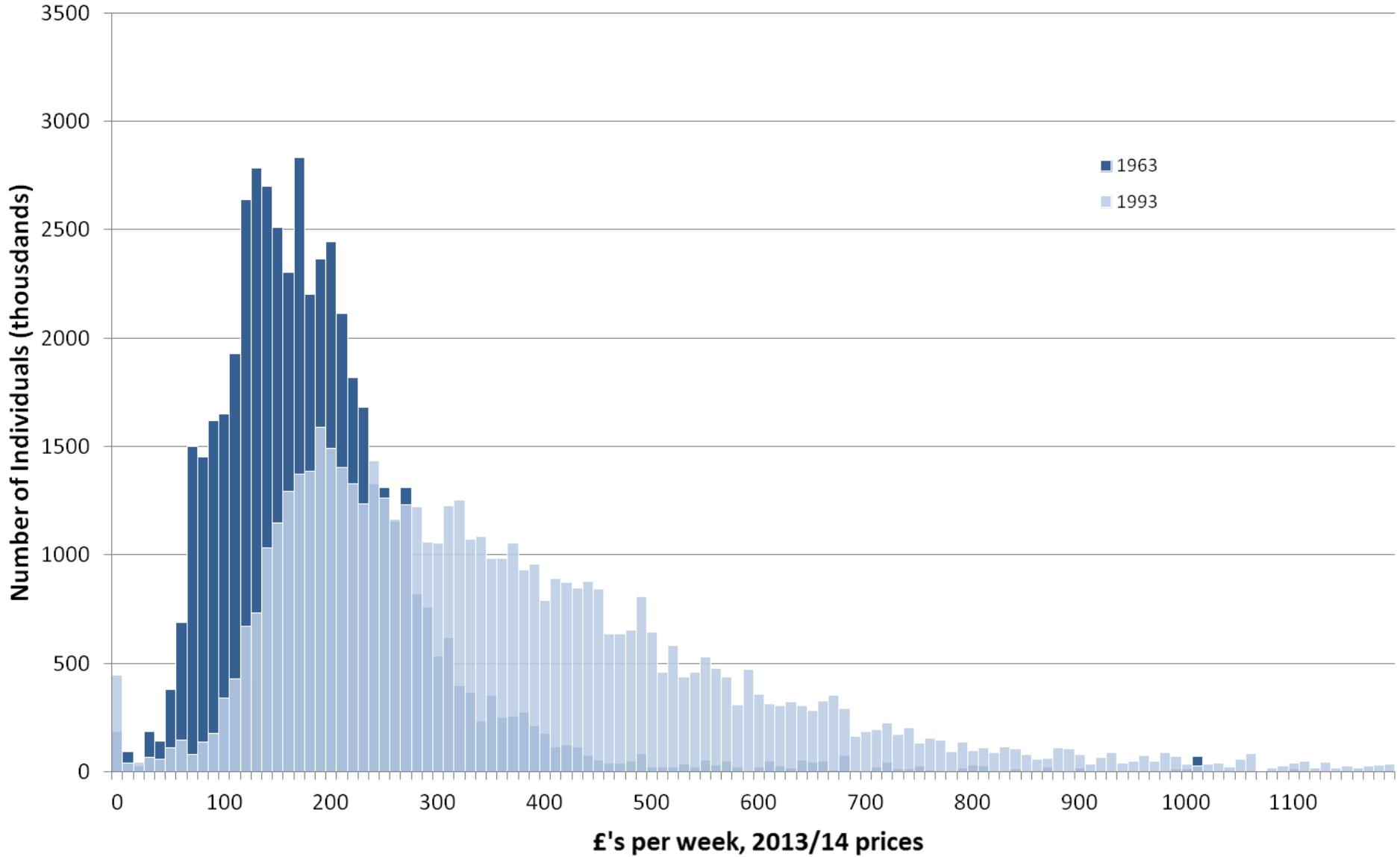
Income distribution: 1963 - 1973



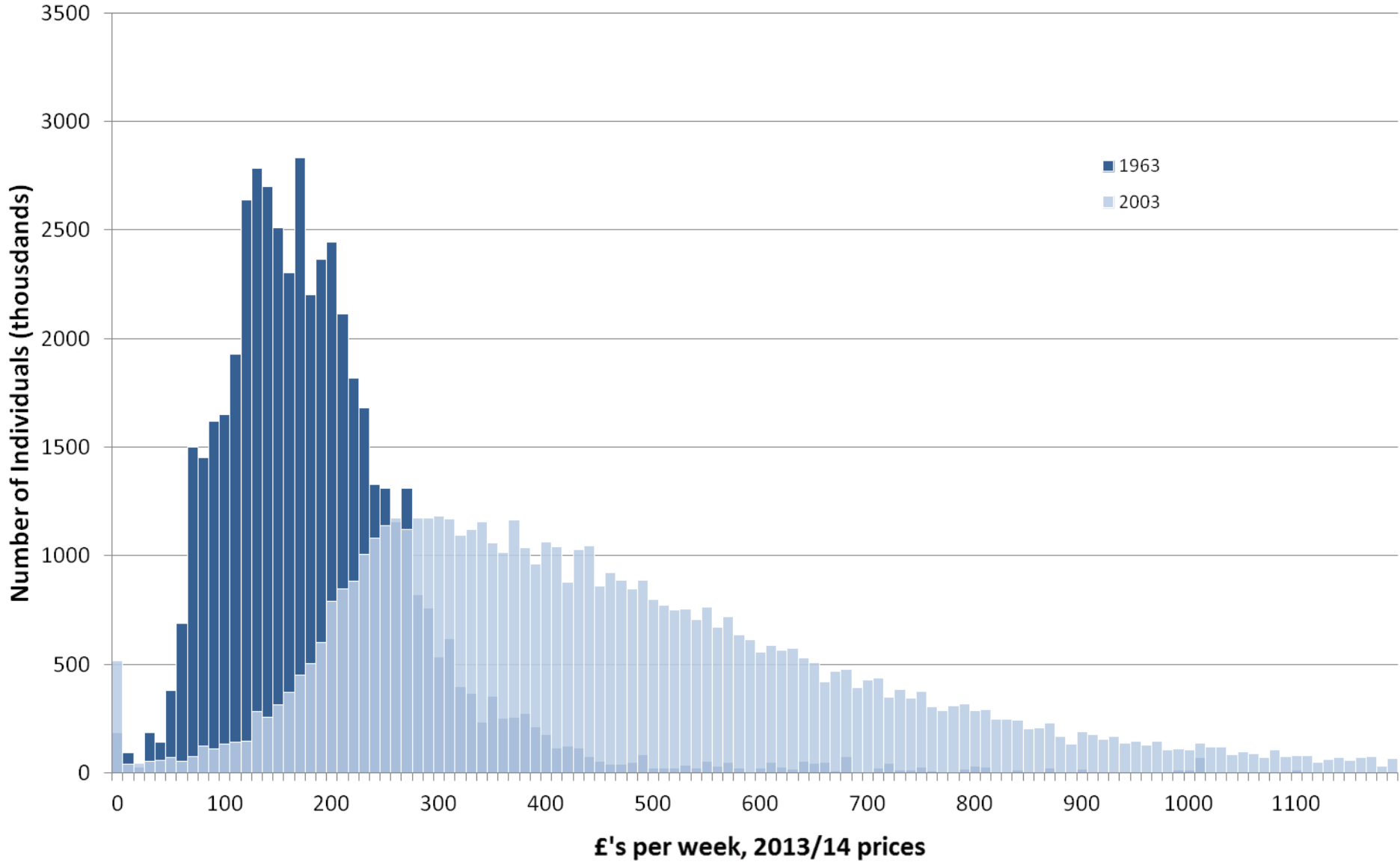
Income distribution: 1963 - 1983



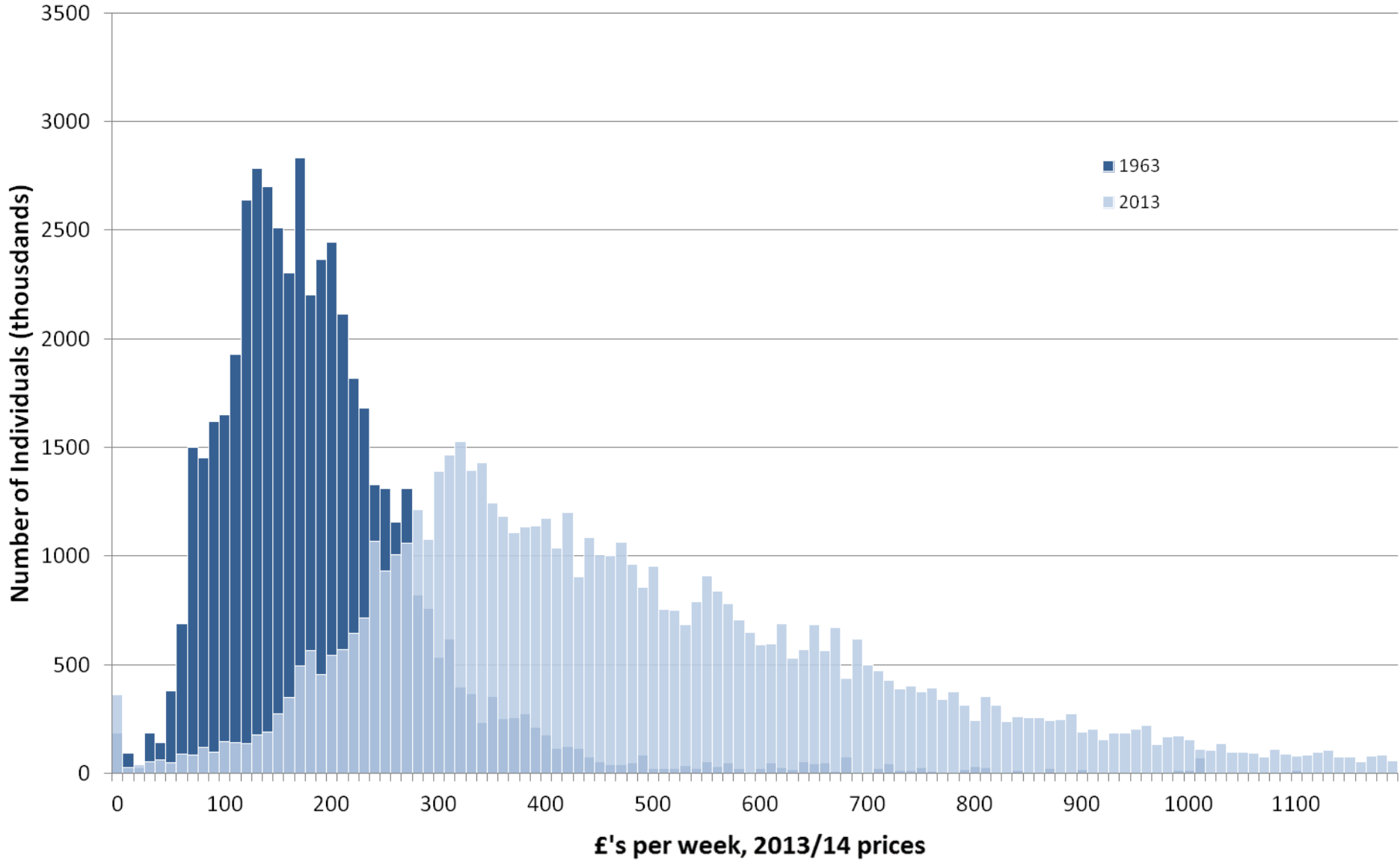
Income distribution: 1963 - 1993



Income distribution: 1963 - 2003



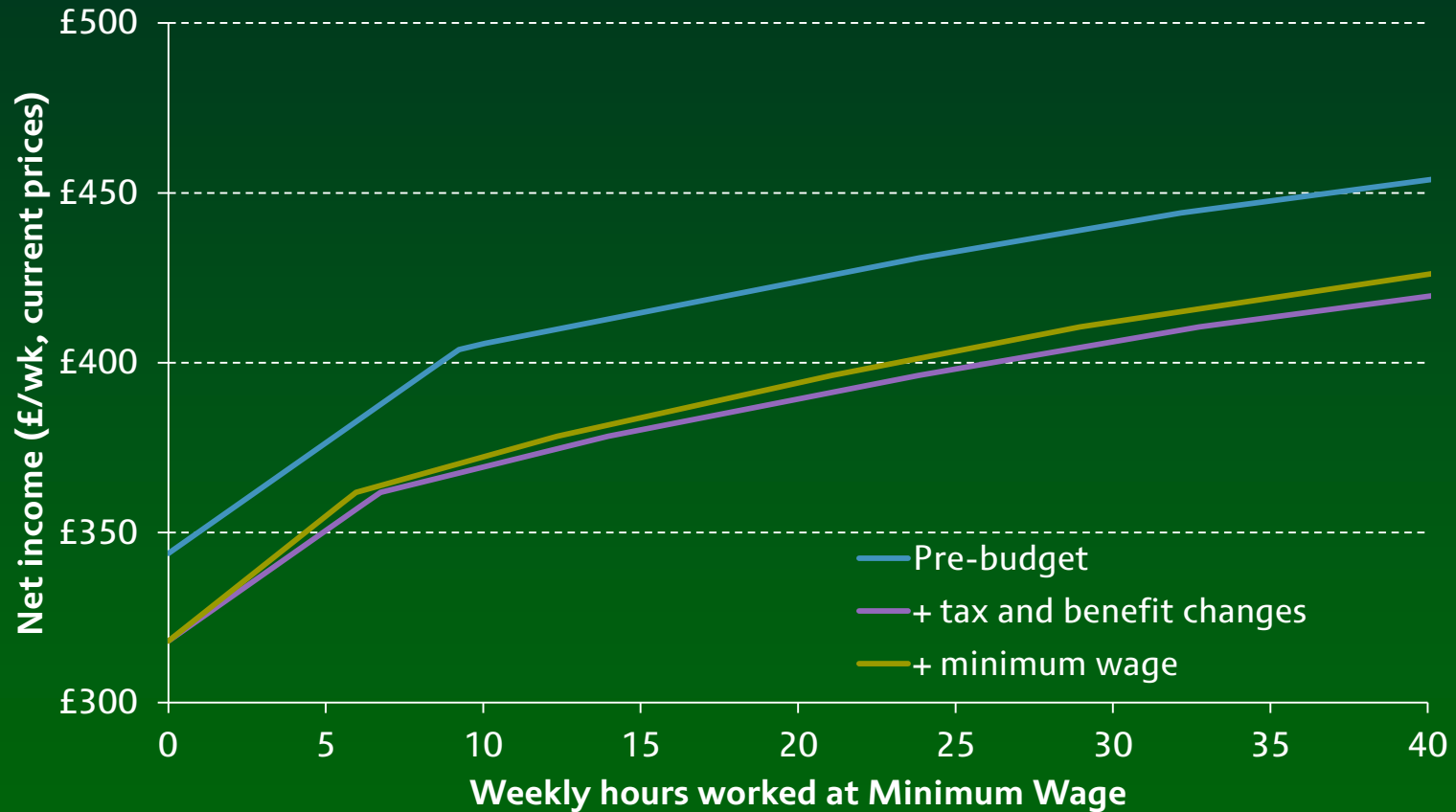
Income distribution: 1963 - 2013



Distributional effects of policy change

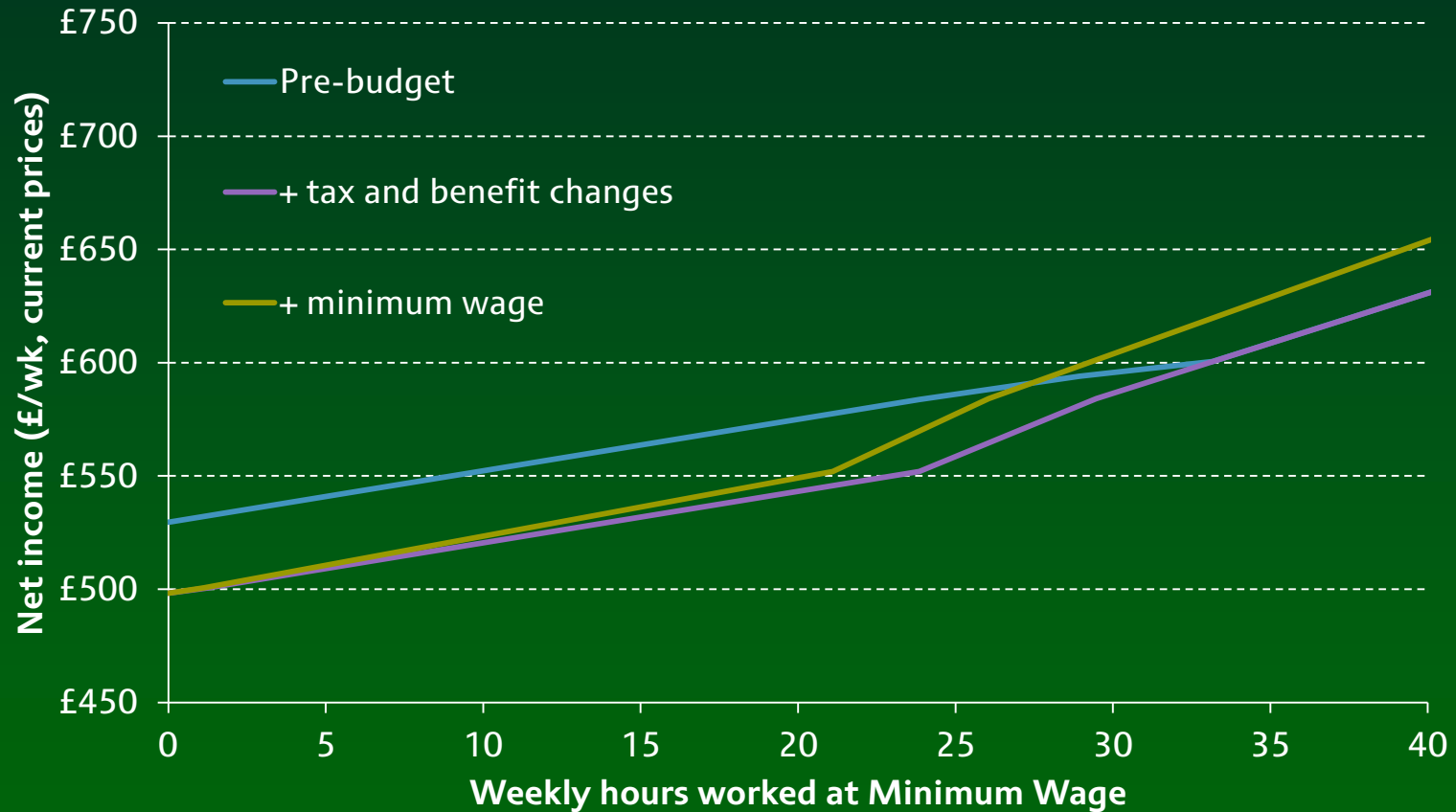
- Lots of examples in July Budget of how tax credit changes plus new National Living Wage would leave lots better off
- You can produce all sorts of examples

Effect of Budget changes to taxes, benefits and the minimum wage on lone parent's budget constraint in 2019–20



Assumes: 2 children aged under 5, median Local Housing Allowance rate, 'National Living Wage' 13% above NMW.

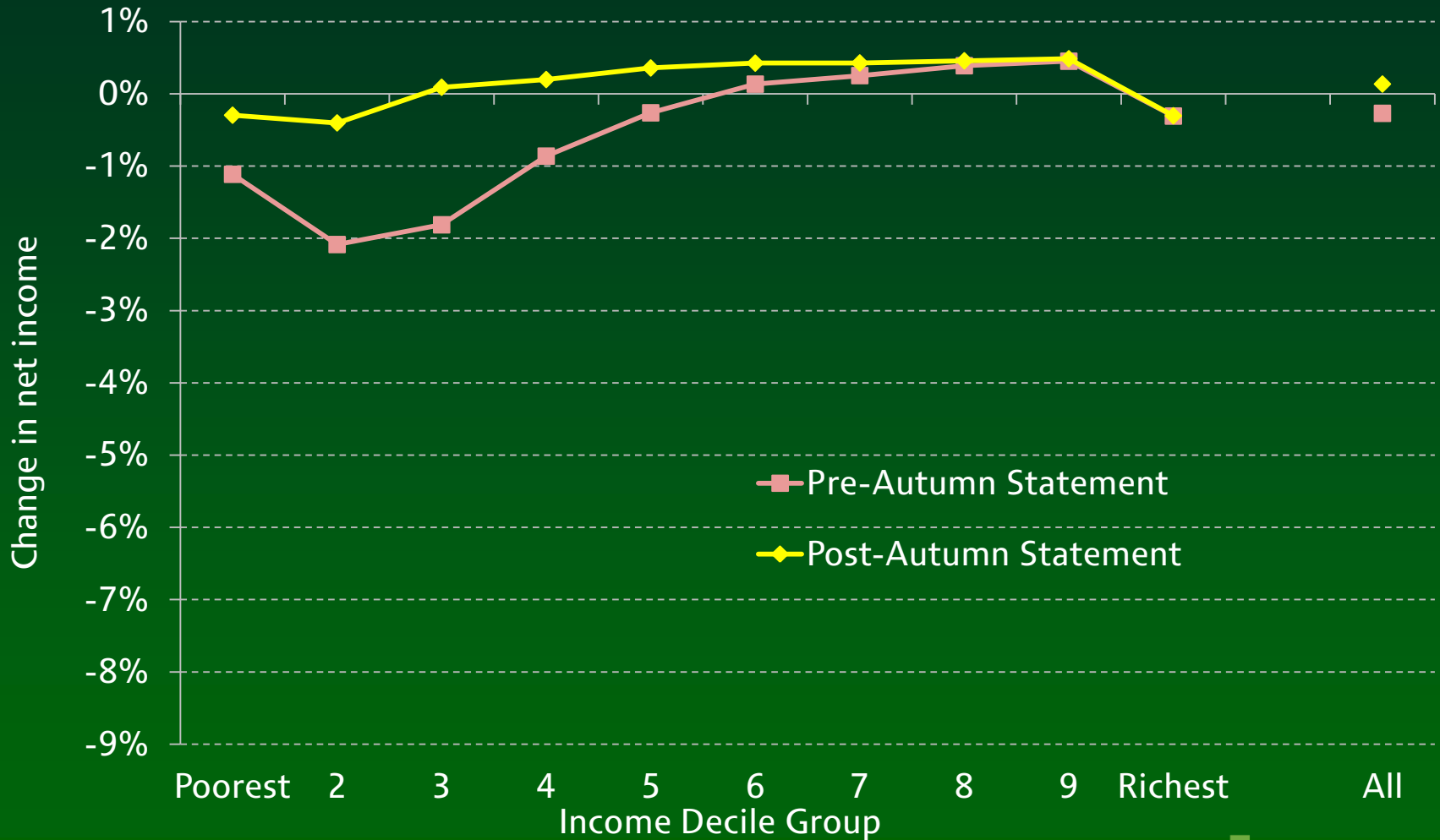
Effect of Budget changes to taxes, benefits and the minimum wage on budget constraint of a second earner in a couple in 2019–20



Assumes: 2 children aged under 5, median Local Housing Allowance rate, 'National Living Wage' 13% above NMW, partner earns £25,000 a year.

Short-run impact of tax and benefit changes

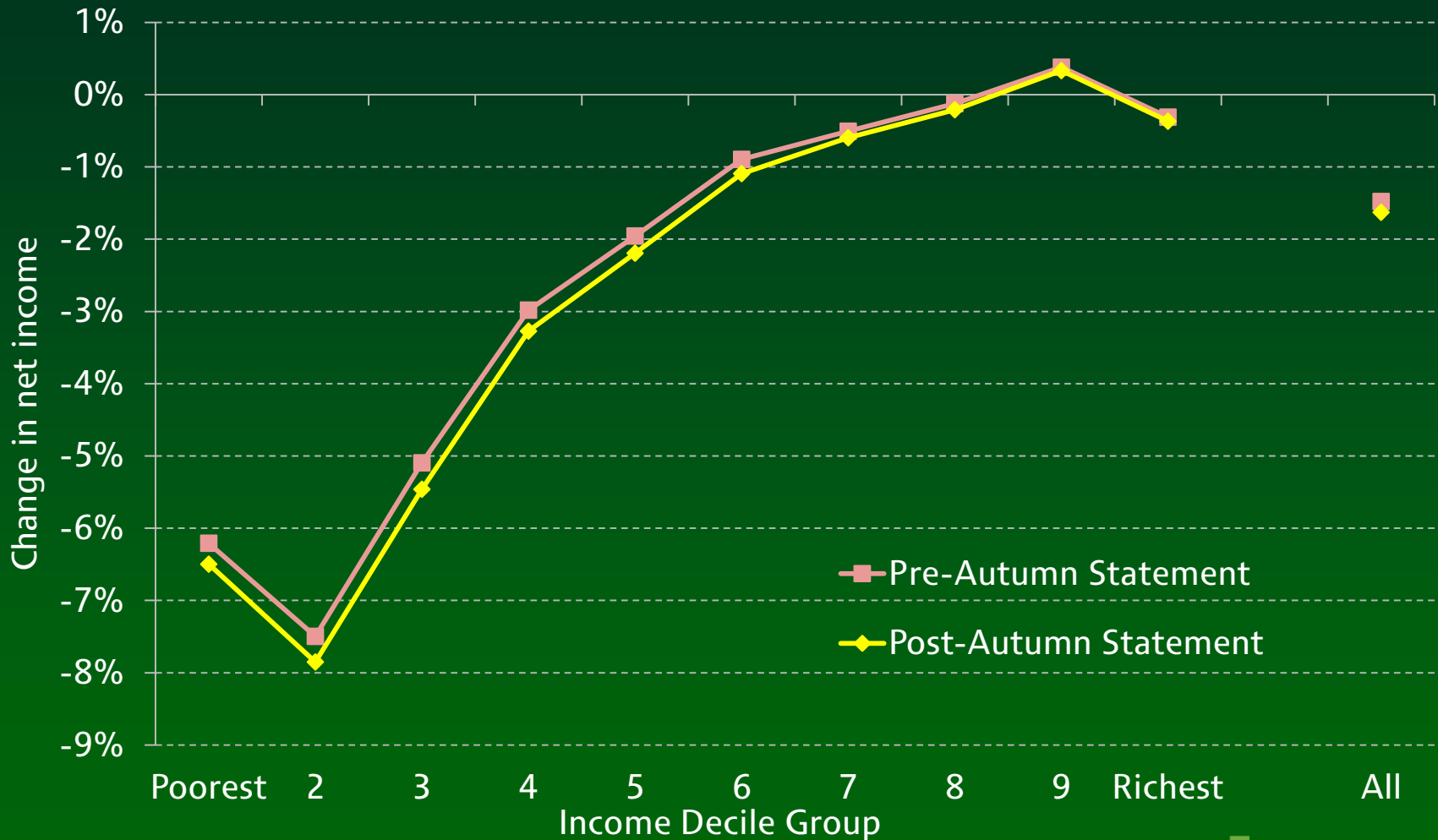
Changes in April 2016 only



Note: Assumes full take-up of means-tested benefits and tax credits.

Long-run impact of tax and benefit changes

All changes introduced May 2015-April 2019 fully in place



Note: Assumes full take-up of means-tested benefits and tax credits.

