The welfare state: past, present and future

Robert Joyce

Cheltenham Science Festival, 7th June 2019
Benefits have become major part of welfare state
Real-terms spending on working-age benefits

More than trebled

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
Benefits have become major part of welfare state
Spending on working-age benefits

Almost doubled

Real terms (left axis)
% of GDP (right axis)

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
What are the UK’s benefits for?

Working-age benefits spending, by type

Sources: Benefit expenditure and caseload tables 2018, Budget 2001
Notes: Tax credits include cost of Children’s Tax Credit in 2001/02-2002/03, based on forecasts in Budget 2001. “Other” benefits include Council Tax Benefit and other minor housing-related benefits
The rise and rise of means-testing
Working-age benefits spending, by type

Sources: Benefit expenditure and caseload tables 2018, Budget 2001
Notes: Tax credits included in means-tested benefits. Includes cost of Children’s Tax Credit in 2001/02-2002/03, based on forecasts in Budget 2001. “Other” benefits include Child Benefit, DLA/PIP and other non-means-tested, non-contributory benefits.
How do means-tested benefits work?

Example: single parent with 2 children

Note: Assumes two children aged under 5, no childcare costs, no unearned income, rent of £100 per week area and paid the National Living Wage. Ignores child benefit and council tax support.
How do means-tested benefits work?
Example: single parent with 2 children

Note: Assumes two children aged under 5, no childcare costs, no unearned income, rent of £100 per week area and paid the National Living Wage. Ignores child benefit and council tax support.
Some things don’t change: the means-testing trilemma

- Contains cost
- Support focused on neediest
- Protects work incentives
Some things don’t change: the means-testing trilemma

Benefit entitlement

“Universal Basic Income”

☑️ Contains cost
☒ Support focused on neediest
☑️ Protects work incentives

Other income
Some things don’t change: the means-testing trilemma

☑ Contains cost
☒ Support focused on neediest
☑ Protects work incentives

“Universal Basic Income”

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Some things don’t change: the means-testing trilemma

- Contains cost
- Support focused on neediest
- Protects work incentives

“Universal Basic Income”

Can’t
FEMALE LABOR SUPPLY, HUMAN CAPITAL, AND WELFARE REFORM

BY RICHARD BLUNDELL, MONICA COSTA DIAS, COSTAS MECHIP, AND JONATHAN SHAW

We estimate a dynamic model of employment, human capital accumulation—including education, and savings for women in the United Kingdom, exploiting tax and benefit reforms, and use it to analyze the effects of welfare policy. We find substantial elasticities for labor supply and particularly for lone mothers. Returns to experience, which are important in determining the longer-term effects of policy, increase with education, but experience mainly accumulates when in full-time employment. Tax credits are welfare improving in the U.K., increase lone-mother labor supply and marginally reduce educational attainment, but the employment effects do not extend beyond the period of eligibility. Marginal increases in tax credits improve welfare more than equally costly increases in income support or tax cuts.

TABLE XIV
ELASTICITIES OF LABOR SUPPLY

<table>
<thead>
<tr>
<th></th>
<th>Extensive</th>
<th>Intensive</th>
<th>Marshall</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Elasticity</td>
<td>Derivative</td>
<td>Elasticity</td>
</tr>
<tr>
<td>All women</td>
<td>0.627</td>
<td>0.510</td>
<td>0.240</td>
</tr>
<tr>
<td>Secondary</td>
<td>0.314</td>
<td>0.675</td>
<td>0.327</td>
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<tr>
<td>High school</td>
<td>0.567</td>
<td>0.469</td>
<td>0.223</td>
</tr>
<tr>
<td>University</td>
<td>0.427</td>
<td>0.375</td>
<td>0.180</td>
</tr>
<tr>
<td>Single women</td>
<td>0.532</td>
<td>0.486</td>
<td>0.159</td>
</tr>
<tr>
<td>with no children</td>
<td>2.240</td>
<td>1.275</td>
<td>0.452</td>
</tr>
<tr>
<td>Lone mothers</td>
<td>2.264</td>
<td>0.242</td>
<td>0.163</td>
</tr>
<tr>
<td>Women in couples</td>
<td>0.688</td>
<td>0.522</td>
<td>0.316</td>
</tr>
<tr>
<td>with children</td>
<td>0.756</td>
<td>0.510</td>
<td>0.368</td>
</tr>
</tbody>
</table>

*Calculations based on simulated data under the 1999 tax and benefit system. The derivatives in columns 2 and 5 measure the percentage point change in labor supply, in response to a 1% increase in net earnings. All effects are measured in the year the change in earnings occurs.
3 big challenges
Challenge 1: people in work but not earning much

% of working-age benefits going to households with adult(s) in paid work

Source: Family Resources Survey

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Challenge 1: people in work but not earning much
Population who are in poverty and in a working-age household

1994/95

56% 44%

In a workless household  At least one adult in household in paid work

Note: Chart shows the composition of the population in relative after-housing-costs poverty.
Challenge 1: people in work but not earning much
Population who are in poverty and in a working-age household

Note: Chart shows the composition of the population in relative after-housing-costs poverty.
Challenge 1: people in work but not earning much

Growth in household incomes across the distribution since 1994/95

Notes: Sample is individuals in households that do not contain any member over the state pension age. Percentiles are the percentiles of the respective distributions.

Challenge 2: support for housing costs

Real spending on housing benefit

Source: DWP benefit expenditure and caseload tables 2018
Challenge 2: support for housing costs
Growth of higher-rent sectors driving much of the increase

Source: DWP benefit expenditure and caseload tables 2018. Breakdown by housing sector only available since 1994/95.

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Challenge 2: support for housing costs

Housing benefit caps in private rented sector for 3-bed properties

Local housing benefit cap

30th percentile of local rents

2012/13
Challenge 2: support for housing costs

Housing benefit caps in private rented sector for 3-bed properties

2012/13

Notes: “Caps” are the Local Housing Allowance rates in £ per week. Each data point represents a Broad Rental Market Area.
Challenge 2: support for housing costs

Housing benefit caps in private rented sector for 3-bed properties

Notes: “Caps” are the Local Housing Allowance rates in £ per week. Each data point represents a Broad Rental Market Area.
Challenge 2: support for housing costs

Housing benefit caps in private rented sector for 3-bed properties

2016/17

Notes: “Caps” are the Local Housing Allowance rates in £ per week. Each data point represents a Broad Rental Market Area. England only. Source: https://www.gov.uk/government/publications/local-housing-allowance-lha-rates-applicable-from-april-2016-march-2017

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Challenge 2: support for housing costs

Housing benefit caps in private rented sector for 3-bed properties

**Challenge 3: incapacity and disability**

Real working-age spending, 2010–11 to 2017–18

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**Note:** ‘Incapacity benefits’ include ESA, IB, SDA, invalidity benefit, sickness benefit, and income support on grounds of disability. ‘Disability benefits’ include DLA, PIP, attendance allowance and mobility allowance.

Source: Authors’ calculations using DWP expenditure tables Autumn 2018 and Autumn 2012.
Challenge 3: incapacity and disability
The nature of incapacity has changed radically

Note: Data run to 2018Q3. ‘Low education’ means leaving education at or before the compulsory school-leaving age; ‘high education’ corresponds to leaving education after age 18. For the yellow series, the upper age limit is 59 for women and 64 for men.

Source: Labour Force Survey
Challenge 3: incapacity and disability

% of incapacity benefits claimants whose main health condition is mental or behavioural (ages 25-59)

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