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The future of benefits

Robert Joyce

With thanks to Pascale Bourquin, Jonathan Cribb, Agnes Norris Keiller, David Sturrock, Tom Waters and Xiaowei Xu
Working-age benefits

£96 billion spent on them in 2017-18
More than education, or defence and policing combined

1.8 million households get 80%+ of their income from them

1 in 3 working-age households will get universal credit

Most people will receive a working-age benefit at some point
Benefits have become major part of welfare state
Real-terms spending on working-age benefits

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

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
The rise and rise of means-testing
Working-age benefits spending, by type

Sources: Benefit expenditure and caseload tables 2018, Budget 2001
FEMALE LABOR SUPPLY, HUMAN CAPITAL, AND WELFARE REFORM

BY RICHARD BLUNDELL, MONICA COSTA DIAS, COSTAS MEGHIR, 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 welfare attenuation, but the employment effects do not extend beyond the period of eligibility. Marginal increases in tax credits improve welfare more than equal cost increases in income support or tax cuts.

TABLE XIV

ELASTICITIES OF LABOR SUPPLY

<table>
<thead>
<tr>
<th></th>
<th>Pitch: Elasticity</th>
<th>Pitch: Derivative</th>
<th>Intensive Elasticity</th>
<th>Intensive Derivative</th>
</tr>
</thead>
<tbody>
<tr>
<td>All women</td>
<td>0.627</td>
<td>0.510</td>
<td>0.248</td>
<td>0.475</td>
</tr>
<tr>
<td>Women with no children</td>
<td>0.314</td>
<td>0.675</td>
<td>0.537</td>
<td>0.699</td>
</tr>
<tr>
<td>With children</td>
<td>0.567</td>
<td>0.469</td>
<td>0.233</td>
<td>0.428</td>
</tr>
<tr>
<td>University</td>
<td>0.427</td>
<td>0.375</td>
<td>0.180</td>
<td>0.331</td>
</tr>
<tr>
<td>High school</td>
<td>0.427</td>
<td>0.375</td>
<td>0.180</td>
<td>0.331</td>
</tr>
<tr>
<td>Secondary</td>
<td>0.240</td>
<td>0.475</td>
<td>0.537</td>
<td>0.699</td>
</tr>
<tr>
<td>By education</td>
<td>0.510</td>
<td>0.248</td>
<td>0.475</td>
<td>0.386</td>
</tr>
<tr>
<td>By family composition</td>
<td>0.532</td>
<td>0.486</td>
<td>0.359</td>
<td>0.419</td>
</tr>
<tr>
<td>Single women with no children</td>
<td>0.532</td>
<td>0.486</td>
<td>0.359</td>
<td>0.419</td>
</tr>
<tr>
<td>lone mothers</td>
<td>2.240</td>
<td>1.275</td>
<td>1.052</td>
<td>1.392</td>
</tr>
<tr>
<td>Women in couples, no children</td>
<td>0.264</td>
<td>0.242</td>
<td>0.163</td>
<td>0.220</td>
</tr>
<tr>
<td>Women in couples with children</td>
<td>0.688</td>
<td>0.522</td>
<td>0.316</td>
<td>0.553</td>
</tr>
</tbody>
</table>

*Calculations based on simulated data under the 1999 tax and benefit system. The derivatives in columns 2 and 3 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
What should benefits system do about people...

...in work but **not earning much**

...needing **support for housing costs**

...with an **incapacity or disability**
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

1994/95

- In a workless household: 56%
- At least one adult in household in paid work: 44%

2016/17

- At least one adult in household in paid work: 68%
- In a workless household: 32%

Note: Chart shows the composition of the population in relative after-housing-costs poverty. Source: Family Resources Survey, 1994-95 and 2016-17.
Notes: Sample is individuals in households that do not contain any member over the state pension age and have at least one adult in paid work. Percentiles are the percentiles of the respective distributions.

Source: FRS 1994-95 to 2016-17.
Challenge 2: support for housing costs
Real spending on housing benefit

Source: DWP benefit expenditure and caseload tables 2018

The future of benefits
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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

£500
£450
£400
£350
£300
£250
£200
£150
£100
£50
£50
£100
£150
£200
£250
£300
£350
£400
£450
£500

30th percentile of local rents

Local housing benefit cap

2012/13
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

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. England only.
Challenge 2: support for housing costs

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

2019/20

Cherwell Valley
HB cap: £194 p/w
30th percentile rent: £206 p/w

Cambridge
HB cap: £179 p/w
30th percentile rent: £229 p/w

Notes: “Caps” are the Local Housing Allowance rates in £ per week. Each data point represents a Broad Rental Market Area. England only.
Challenge 3: incapacity and disability
Real working-age spending, 2010–11 to 2017–18

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)

What should benefits system do about people...

...in work but **not** earning much

...needing **support** for housing costs

...with an **incapacity** or disability
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