Evidence in public policy
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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

Notes and sources: see Figure 5.2 of *The IFS Green Budget: February 2015.*
But not on a longer perspective

But was higher from:
1830–31 to 1869–70
1916–17 to 1967–68

Debt hasn’t exceeded 80% of national income since 1967–68

Notes and sources: see Figure 5.2 of *The IFS Green Budget: February 2015.*
Spending in historical perspective

1960s: 52% real growth
1970s: 36% real growth
1980s: 7% real growth
1990s: 24% real growth
2000s: 46% real growth
2010s: 1% real growth
Change in total DEL – evidence in manifests?

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 ≈ £70bn

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Source: Office for Budget Responsibility.
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

- Income measured before housing costs
- Income measured after housing costs

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*
What about the income distribution?

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  – The top 1% were pulling away in the 2000s
  – There are big generational differences
  – Sometimes it takes public perception a while to catch up with the evidence
  – Over a long period inequality has changed enormously
Income distribution: 1967

Number of Individuals (thousands)

£'s per week, 2013/14 prices
Income distribution: 1976

Number of Individuals (thousands)

£'s per week, 2013/14 prices
Income distribution: 1980

Number of Individuals (thousands)

£'s per week, 2013/14 prices
Income distribution: 1995

Number of Individuals (thousands)

£'s per week, 2013/14 prices
Income distribution: 2012

Number of Individuals (thousands)

£'s per week, 2013/14 prices
Income distribution: 1963 - 1973

Number of Individuals (thousands)

£'s per week, 2013/14 prices

- 1963
- 1973
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

Change in net income

Income Decile Group

Pre-Autumn Statement

Post-Autumn Statement

Poorest 2 3 4 5 6 7 8 9 Richest All

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.