A Lifetime Perspective on Taxes, Benefits, Inequality and Redistribution

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Key function of tax & benefit system is redistribution

Net transfers from state by income decile: 2013-14 system

Net transfers from state by income decile group: 2013-14 system

Notes: see Figure 9.1 in IFS Green Budget 2013, Chapter 9.
Source: Authors’ calculations using the IFS tax and benefit microsimulation model, TAXBEN, to apply the 2013–14 tax and benefit system to uprated data from the 2010 Living Costs and Food Survey.
... which significantly reduces income inequality

Notes: see Table 3.1 in ‘Redistribution from a Lifetime Perspective’. Both bars show cross-section
But individuals’ circumstances vary a lot over time

<table>
<thead>
<tr>
<th>State</th>
<th>Average at point in time</th>
<th>Ever over 18-waves</th>
</tr>
</thead>
<tbody>
<tr>
<td>In a couple</td>
<td>64.4%</td>
<td>87.2%</td>
</tr>
<tr>
<td>Married</td>
<td>56.0%</td>
<td>80.7%</td>
</tr>
<tr>
<td>Has child aged 18 or under</td>
<td>28.1%</td>
<td>52.3%</td>
</tr>
<tr>
<td>Disabled</td>
<td>7.7%</td>
<td>26.8%</td>
</tr>
<tr>
<td>Unemployed</td>
<td>4.7%</td>
<td>23.9%</td>
</tr>
</tbody>
</table>

Source: Table 2.2 from http://www.ifs.org.uk/publications/7130
Note: Authors’ calculations based on BHPS data. Includes all non-dependants aged 16+. The ‘average across waves’ column includes all waves and is weighted using cross-sectional weights. The ‘ever observed’ columns are calculated for individuals observed in all waves from wave 1 to the destination wave and weighted using longitudinal weights. The final two lines (earnings quintiles) only include individuals who are employed in all relevant waves.
... and earnings display a strong age profile

Median gross earnings of employees by age & sex

Source: Figure 2.2 from http://www.ifs.org.uk/publications/7130
Note: Authors’ calculations based on pooled data from all 18 waves of the BHPS. Includes all employed non-dependants aged 16–70. Results are weighted using cross-sectional weights. Gross earnings are before taxes and benefits and are uprated to December 2012 prices.
Suggests might want to take lifetime perspective

- May change our assessment of:
  - Income inequality & the role of the tax and benefit system
  - The progressivity of tax and benefit reforms
  - How policy should be designed to redistribute resources

- Most analysis of the tax & benefit system is based solely on cross-sectional information because of data limitations
  - Levell, Roantree and Shaw (2015) simulated the lifetimes of the baby-boom cohort (1945-54) in order to address some of these questions
  - Used British Household Panel Survey (BHPS) used to model transitions between consecutive years and Living Costs and Food Survey (LCFS) to adjust simulations to match cross-sectional distributions
  - Include most personal taxes and benefits, assuming full take-up; exclude benefits of public service spending
From a lifetime perspective…
The tax & benefit system does less to reduce inequality between people.
From a lifetime perspective...
... as more of what it does is intrapersonal redistribution

![Bar chart showing the share of redistribution that is intrapersonal for different lifetime net income deciles.](chart-image)

Notes: see Figure 3.7 in ‘Redistribution from a Lifetime Perspective’
From a lifetime perspective…
Tax and benefit reforms have a less dramatic effect on inequality

<table>
<thead>
<tr>
<th>Year</th>
<th>Cross-section</th>
<th>Lifetime</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980/81</td>
<td>0.3</td>
<td>0.25</td>
</tr>
<tr>
<td>1990/91</td>
<td>0.35</td>
<td>0.3</td>
</tr>
<tr>
<td>2000/01</td>
<td>0.35</td>
<td>0.35</td>
</tr>
<tr>
<td>2010/11</td>
<td>0.3</td>
<td>0.3</td>
</tr>
<tr>
<td>2020/21</td>
<td>0.35</td>
<td>0.35</td>
</tr>
</tbody>
</table>

Notes: see Figure 4.1 in ‘Redistribution from a Lifetime Perspective’
From a lifetime perspective…

…and smaller distributional consequences: e.g. 4-year benefit freeze

Percentage change in net income

Net income decile

Notes: see Figure 4.4 in ‘Redistribution from a Lifetime Perspective’
From a lifetime perspective…
Key factor: even the lifetime poor spend majority of lives in work

Notes: see Figure 2.4 in ‘Redistribution from a Lifetime Perspective’
From a lifetime perspective...
Increases to in-work benefits most effective way of redistributing to poor
From a lifetime perspective…

… and increases in higher-rate of income tax for redistributing from rich

Notes: see Figure 5.5 in ‘Redistribution from a Lifetime Perspective’
From a lifetime perspective…
… driven by strong persistence earnings at the top

Notes: see Figure 2.8 in ‘Redistribution from a Lifetime Perspective’
From a lifetime perspective…
Increases in the main rate of VAT are close to neutral

Percentage change in net income

Poorest 2 3 4 5 6 7 8 9 Richest All

Cross-section  Lifetime

Notes: see Figure 5.1 in ‘Redistribution from a Lifetime Perspective’
What implications does this all have for policy?

1. Policymakers should be clearer about their objectives: trying to alleviate short-run hardship or redistribute lifetime resources?

2. “Working” and “non-working” families is not a useful distinction

3. Policymakers looking to reduce inequality or transfer resources to the lifetime poor might favour doing so through in-work benefits

4. The potential exists to achieve what the existing tax & benefit system does more efficiently
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