Social Policy in a Cold Climate: Changes in Coalition Britain

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CENTRE FOR ANALYSIS OF SOCIAL EXCLUSION

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Cash transfers: Coalition aims and policies

- ‘Cash transfers’ covers social security benefits (including pensions and other pensioner benefits), and tax credits, rather than confusing word ‘welfare’
- Looking at policies towards these and direct taxes (income tax and National Insurance Contributions), two originally Liberal Democrat policies were agreed in the Coalition Agreement and Programme for Government:
  - A substantial increase in the personal tax allowance, reaching £10,600 by 2015/16 (from £6,475 in 2010)
  - The ‘triple lock’ for pensioners

These had a considerable effect on the Coalition’s room for manoeuvre, and its distributional effects

- They are also dominated by decisions on adjusting most other benefits for inflation:
  - **Initial** preservation of price-uprating (although with CPI since 2012/13)
  - 1% for 3 years from April 2013 (and a 2 year freeze from April 2016 planned by the Coalition)

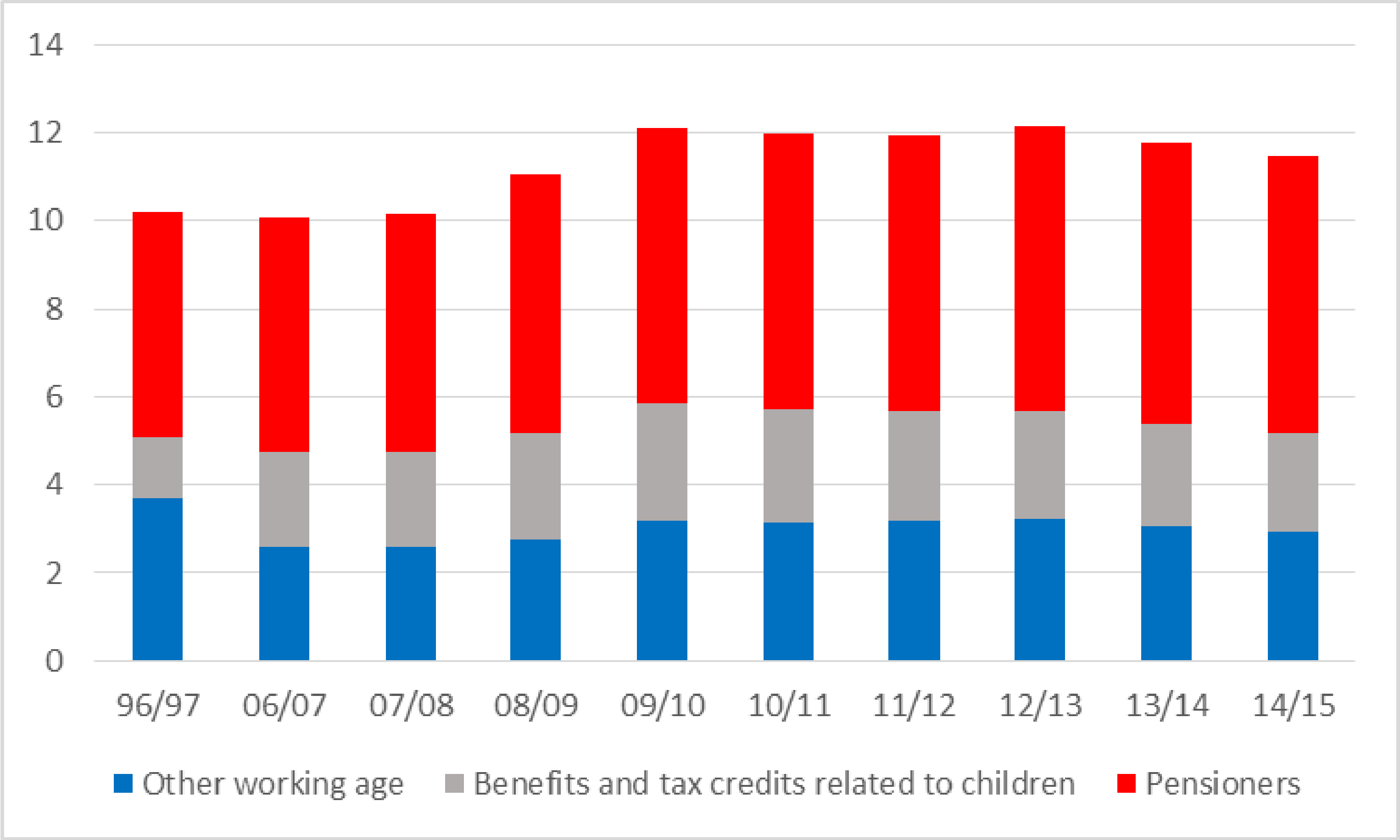
Cash transfers: Aims and policies

- And a long list of specific reforms/cuts, often targeted at quite narrow groups, and many implemented since April 2013:
  - the individual benefit cap of £26,000
  - tighter limits on private sector Housing Benefit and the ‘Bedroom Tax’ for social tenants (in England)
  - freeze on Child Benefit for three years and withdrawal from those with one income over £50,000
  - Council Tax Benefit reformed and cut for English working-age households in most local authorities
  - less generous tax credits
  - a series of reforms to disability benefits, with tighter conditions and smaller budgets
  - transfer of most of what had been covered by the Social Fund to English councils, with less money
  - early end of Child Trust Funds
- Alongside much greater use of ‘sanctions’ for those meeting particular conditions for receiving out of work benefits
- For the longer-term, major structural reforms are coming to pensions (the single-tier pension from 2016, but freedom of use of pension saving from April 2015) and Universal Credit (but with differences in Scotland)

Cash transfer spending (change from 96-97, £ billion 2014-15 prices, GB)

- Real spending on pensioners continued to rise under the Coalition, but it fell for children after 2010/11
- Cash transfers to working age people unrelated to children fell until the crisis, but even after it accounted for little of the real increase in spending

Cash transfer spending as % GDP (GB)

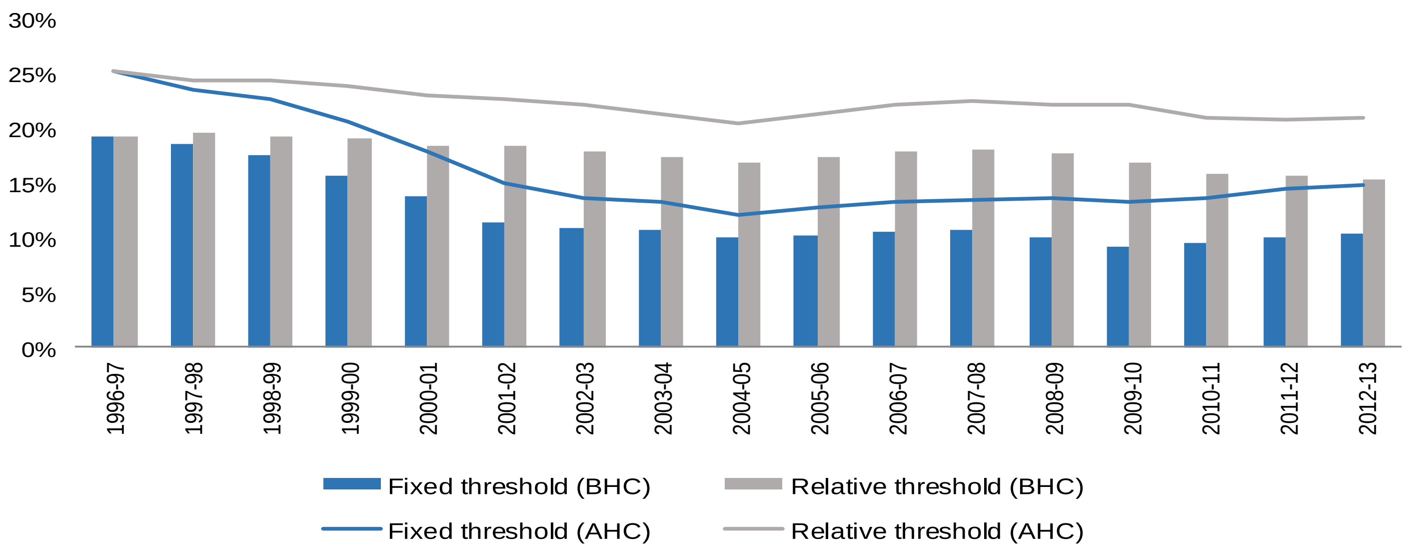


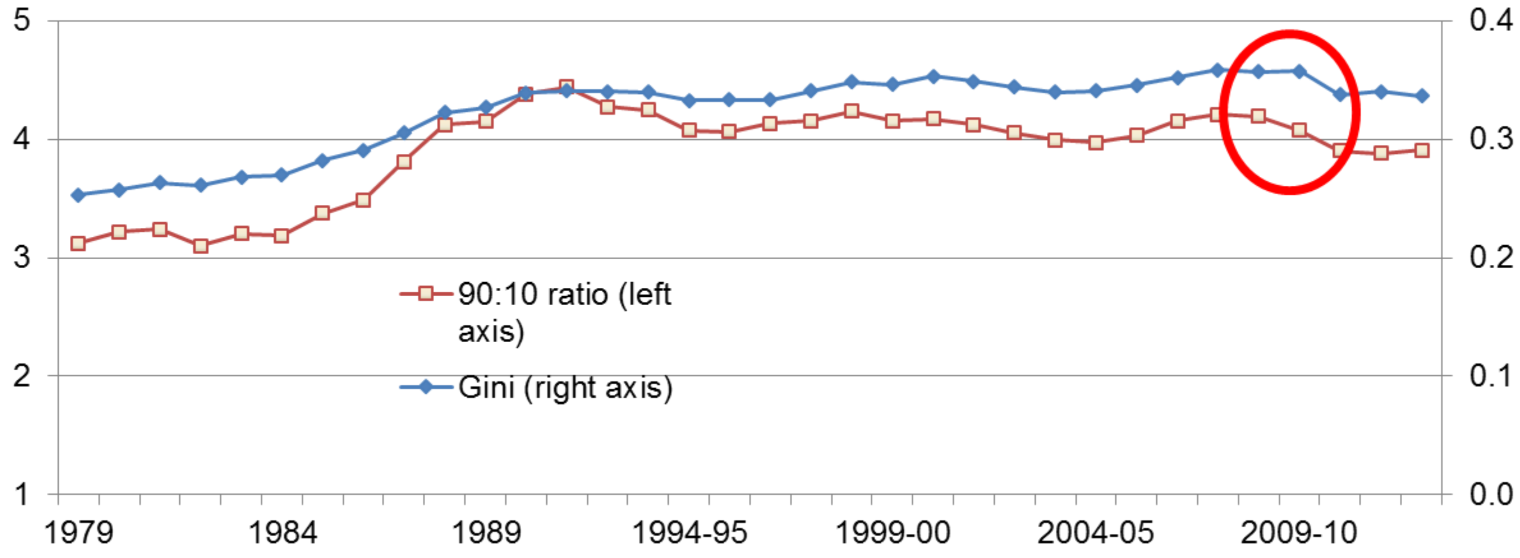
- Cash transfers to working age people unrelated to children fell under Labour and Coalition as % GDP; those related to children grew under Labour but fell under the Coalition

Initial changes in poverty and inequality

- Data on the *actual* national position are only available until 2013/14. This <u>precedes</u> the cumulative effects of many of the most important cuts/reforms to benefits and tax credits, which started in April 2013.
- What happened to poverty and inequality under the Coalition until then depends on who the changes in the election year, 2010/11 ‘belong to’.
- With benefits still price-protected, relative poverty fell in the 2010 election year, but the population below a fixed income threshold (60 per cent of 1996/97 median income) has been rising since 2009/10 – especially after housing costs.
- Inequality fell sharply in 2010/11 and was then flat for the next three years

Initial changes in poverty and inequality





Modelling what the overall effects of policy change were

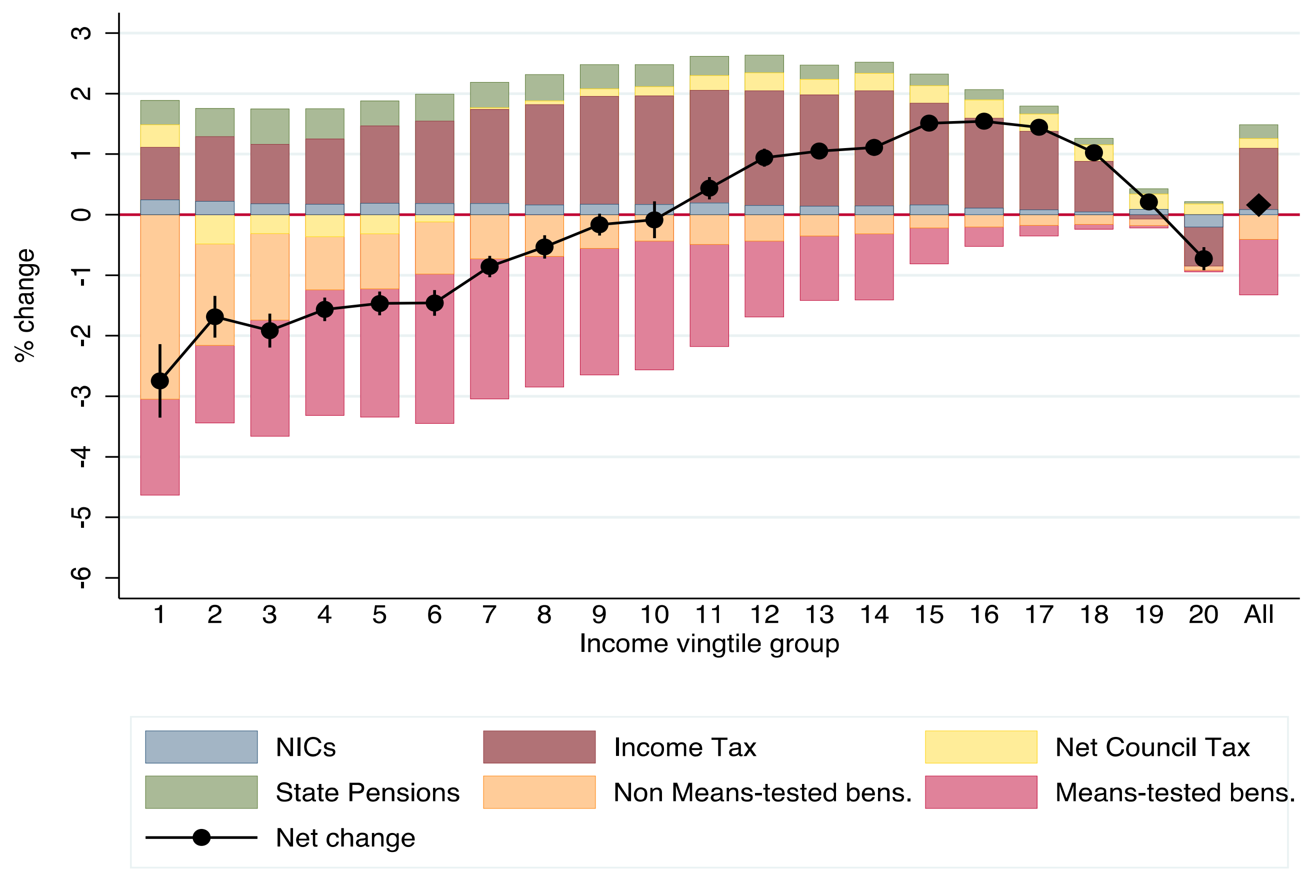
- Using the UK module of EUROMOD we compare the *actual* 2014/15 tax and benefit system with the system the Coalition government inherited at the election in May 2010.
- In these results we use the base system uprated by *CPI* inflation as the counterfactual (we also look at comparisons compared with uprating by an alternative price index and by earnings)
- This presentation shows results by income group (twentieths and percentiles), age group, and household type, but other breakdowns possible such as by household type, by (or within) region, etc .
- We also project forward the plans that had already been agreed by the Coalition government by November 2014 to see their effects by 2019/20, in this case compared with the 2010 system uprated with earnings growth, as this gives the clearest view of their effects on income distribution. In reality other things will happen! (Including some agreed by the Coalition in the March 2015 Budget and others announced by the Conservatives in July 2015, including further major cuts to working-age benefits).

Key assumptions

- The results cover *direct* tax changes only; adding in indirect tax increases means larger losses for all, but more at the bottom.
- Comparisons using the *previous* year (2009-10) as the base would give different results at the top (because the previous government changed the system from April 2010, raising top tax rates).
- Comparisons with what *would have* happened if the base system had been adjusted in line with different indexation conventions produce different results.
- These results are shown by *individual*; presenting by household (as HMT does) changes the picture slightly.
- They allow for some people *not claiming* all means-tested benefits, rather than assuming full take-up (as IFS does), which can exaggerate effects of cuts at the bottom.
- They do *not* allow for *under-reporting* by those with the highest incomes (unlike IFS), which means some gains for the top groups are understated, but nor do they allow for *behavioural change* (eg avoiding the highest income tax rates).

Percentage change in household disposable income by income group (twentieth) due to policy changes 2010 to 2014/15

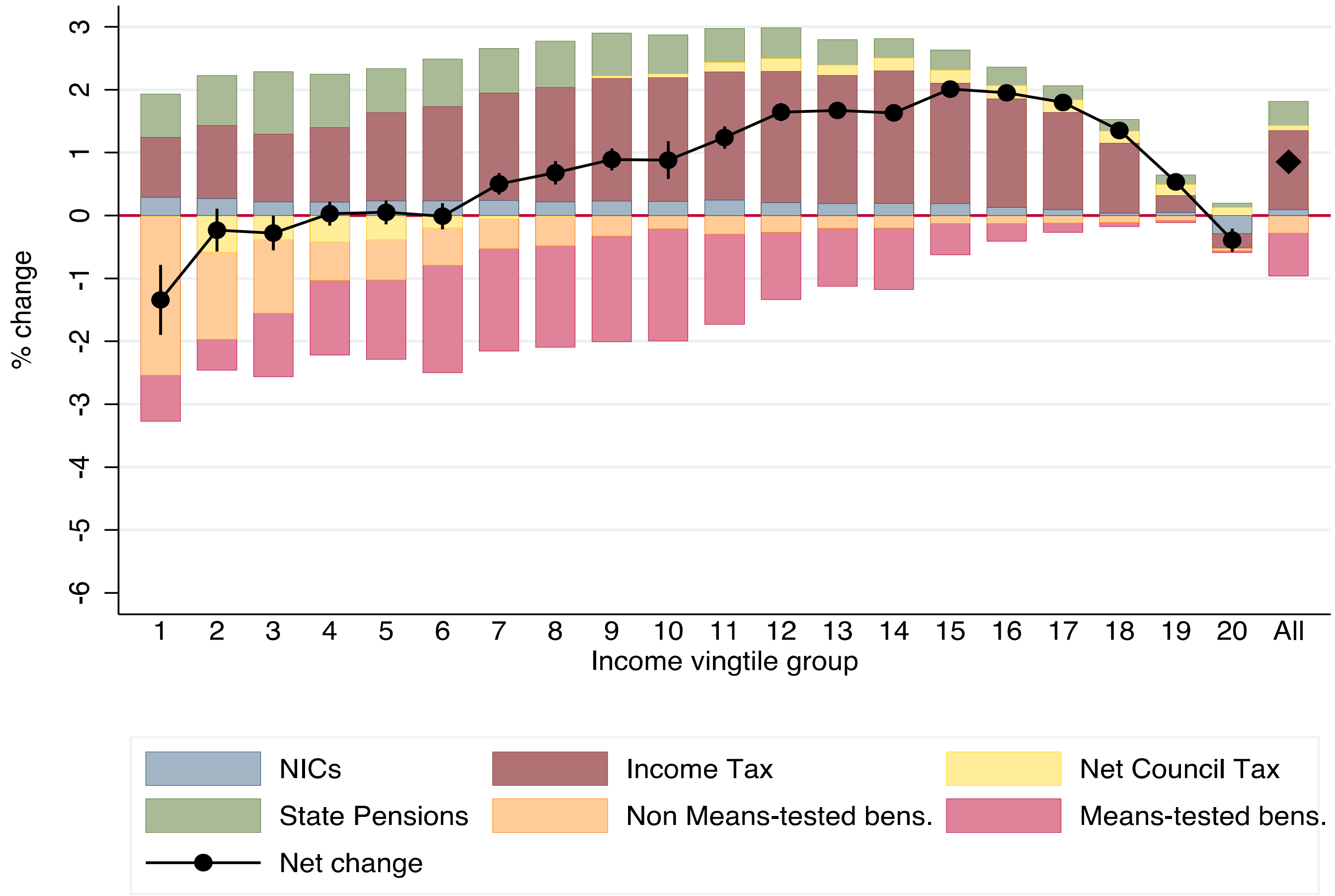
(Compared with May 2010 policies uprated to 2014/15 using CPI)



Source: De Agostini, Hills and Sutherland (2014).

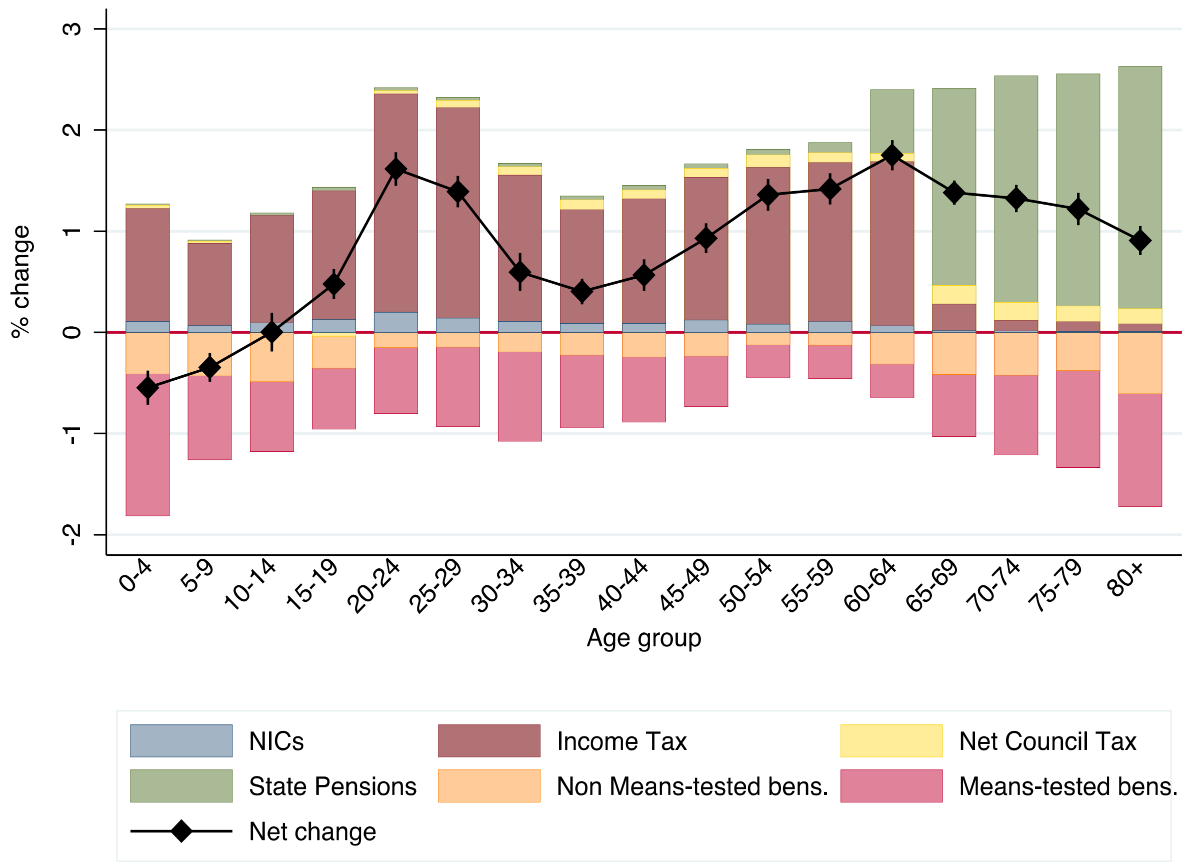
Percentage change in household disposable income by income group due to policy changes 2010 to 2014/15 (*earnings*-linked base)

Compared with May 2010 policies uprated to 2014/15 using AEI



Percentage change in household disposable income by age group due to policy changes 2010 to 2014/15

Compared with May 2010 policies uprated to 2014/15 using CPI



Percentage change in household disposable income by income decile group due to policy changes 2010 to *2019/20* (earnings-linked base)

Policies agreed pre-2015 election compared with May 2010 policies uprated to 2019/20 using average earnings index

Conclusions: three ages of the Coalition

- **First** phase to 2012-13 dominated by ‘non-decision’ to continue price protection of working-age benefits (but more for state pensions) alongside some specific cuts, but increased tax allowance.
- Relative poverty and inequality fell sharply in election year (comparing 2009/10 and 2010/11), then flat for three years
- **Second** phase to 2015/16 sees working age benefits cut in real terms alongside series of specific cuts, while pensions protected
- Modelling suggests regressive effects of combination across <u>most</u> of distribution May 2010 to 2014/15 – greatest losses at the bottom (but also losses for top) and rising relative poverty as a result

Conclusions: three ages of the Coalition

- **Third** phase – Coalition policies implied continued regressive and poverty-increasing effects of combination of benefits falling in real terms while tax allowance increases (to be reinforced under Conservatives?)
- **But** significant uncertainties in longer-term reforms:
  - Will Universal Credit be implemented as currently planned?
  - If so, will it *increase* take-up at bottom or spread stigma and *reduce* take-up?
  - Effects of 'pension freedom': higher more flexible retirement incomes or blown resources and the next mis-selling scandal?
  - Where will higher employ<u>er</u> NICs for public sector employers come from in April 2016?
  - More devolution to Scotland of working-age benefits (and some more to Northern Ireland)

Further information

The Coalition's Record on Cash transfers, Poverty and Inequality 2010-2015 John Hills

Social Policy in a Cold Climate Working Paper 11, January 2015, Centre for Analysis of Social Exclusion, London School of Economics. Summary available at: *http://sticerd.lse.ac.uk/dps/case/spcc/SWP11.pdf*

Full paper available at: http://sticerd.lse.ac.uk/dps/case/spcc/WP11.pdf

Were we really all in it together? The distributional effects of the UK Coalition government's tax-benefit policy changes

Paola De Agostini, John Hills and Holly Sutherland

Social Policy in a Cold Climate Working Paper 10, November 2014, Centre for Analysis of Social Exclusion, London School of Economics http://sticerd.lse.ac.uk/dps/case/spcc/wp10.pdf

[Updated version to 2015/16 be available shortly as a EUROMOD working paper by the same authors]