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Taxes and benefits: the parties' plans

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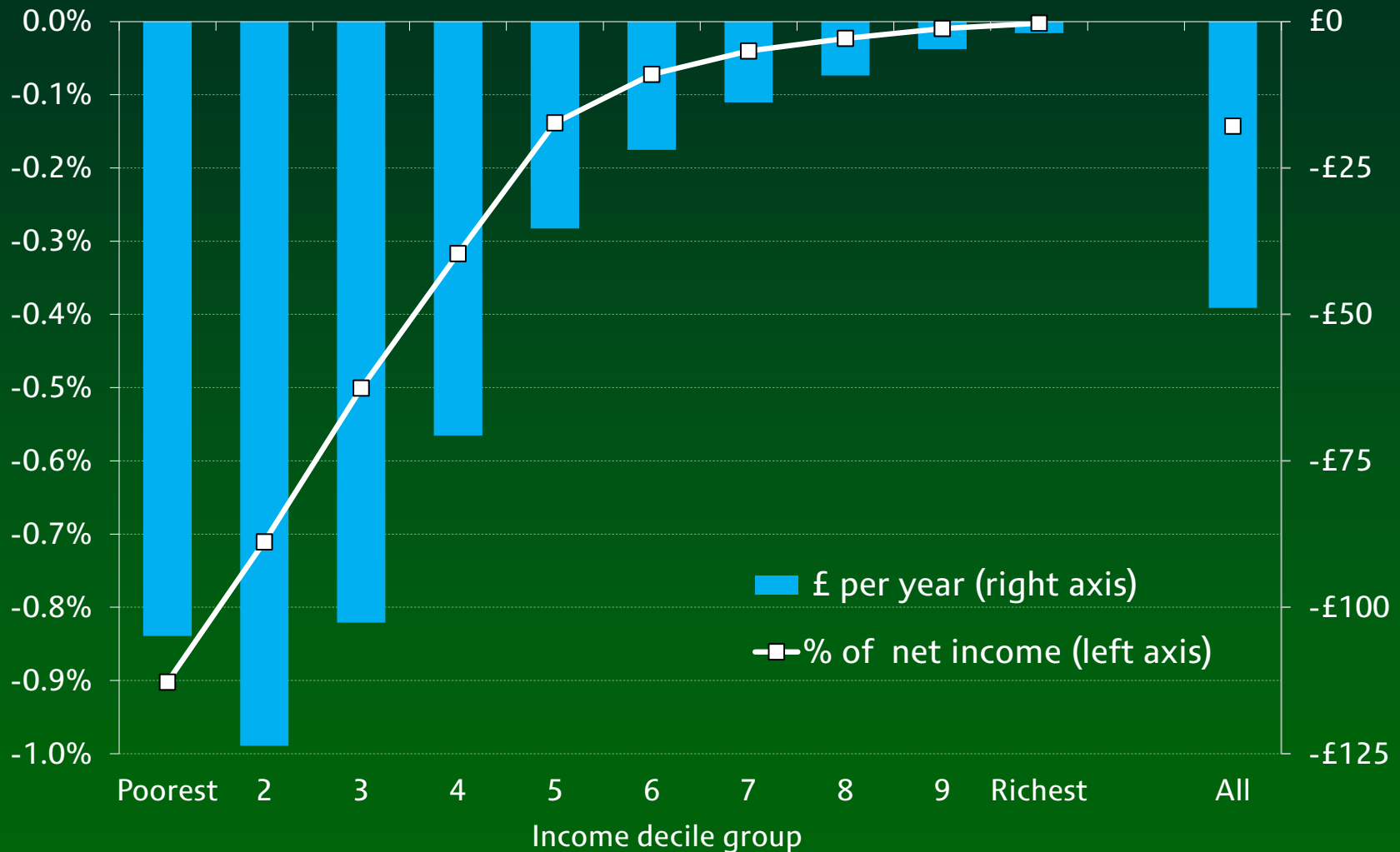
Conservative and Labour benefits proposals

Robert Joyce

Conservatives: three specified benefit cuts

- 1. £1.0bn:** freeze most working-age benefits in 16-17 and 17-18
 - 1.4% real cut under OBR inflation forecasts; affects 11 million families
- 2. £0.1bn:** reduce benefits cap from £26k to £23k
 - 24k families already capped lose another £3k per year; 70k other workless families lose less
 - Evidence from current cap suggests: minority responded by moving into work; very few responded by moving to lower-rent property
- 3. £0.1bn:** remove housing benefit from 18-21 yr-old JSA claimants
 - About 20k affected
 - Strengthens incentive to find work or qualify for another out-of-work benefit

Distributional effect of benefit cuts proposed by Conservatives



Notes and sources: see Figure 2.4 of 'Taxes and Benefits: the parties' plans'

Conservatives: much more we don't know

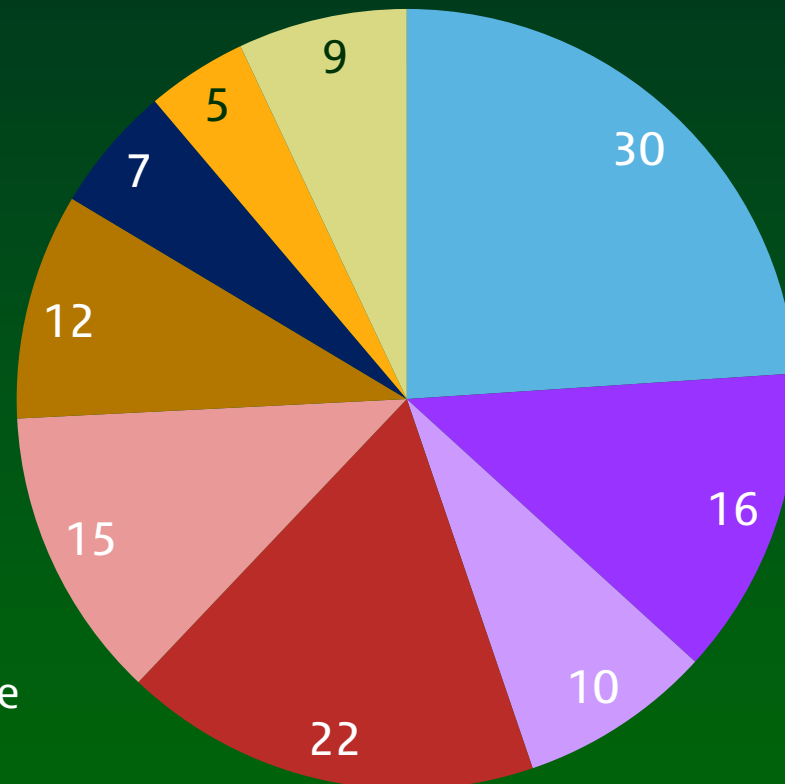
- Committed to £11.1bn (today's terms) of cuts to annual social security by 2017-18 (£12bn nominal in 2017/18)
- Specified policies achieve £1.2bn of this
 - Including £1.0bn from freezing most working-age benefits for 2 years
- That leaves about £10bn more cuts to find in 2 years
 - via policies other than 'just' increasing things less quickly than inflation

The Conservatives' planned benefit cuts: context

- Currently spend about £220bn per year on social security
- Prime Minister has pledged to protect £95bn of that
 - state pension and universal pensioner benefits
- So Conservatives seeking to cut spending on unprotected benefits by about 10% in 2 years
- If they did this then, as a share of GDP in 2017-18:
 - Total social security spending back to around pre-crisis level
 - But unprotected spending back to lowest level since 1990-91
- Over last 5 years, excluding policies to increase benefits less quickly than inflation, coalition found £15bn of gross cuts
 - Compared to £10bn over two years that Conservatives now need on top of measures announced

Unprotected benefit spending: £billion, 2015–16

- Tax credits
- Housing benefit (social tenants)
- Housing benefit (private tenants)
- Disability benefits
- Incapacity benefits
- Child benefit
- Pension credit
- Jobseekers' allowance and income support
- Other



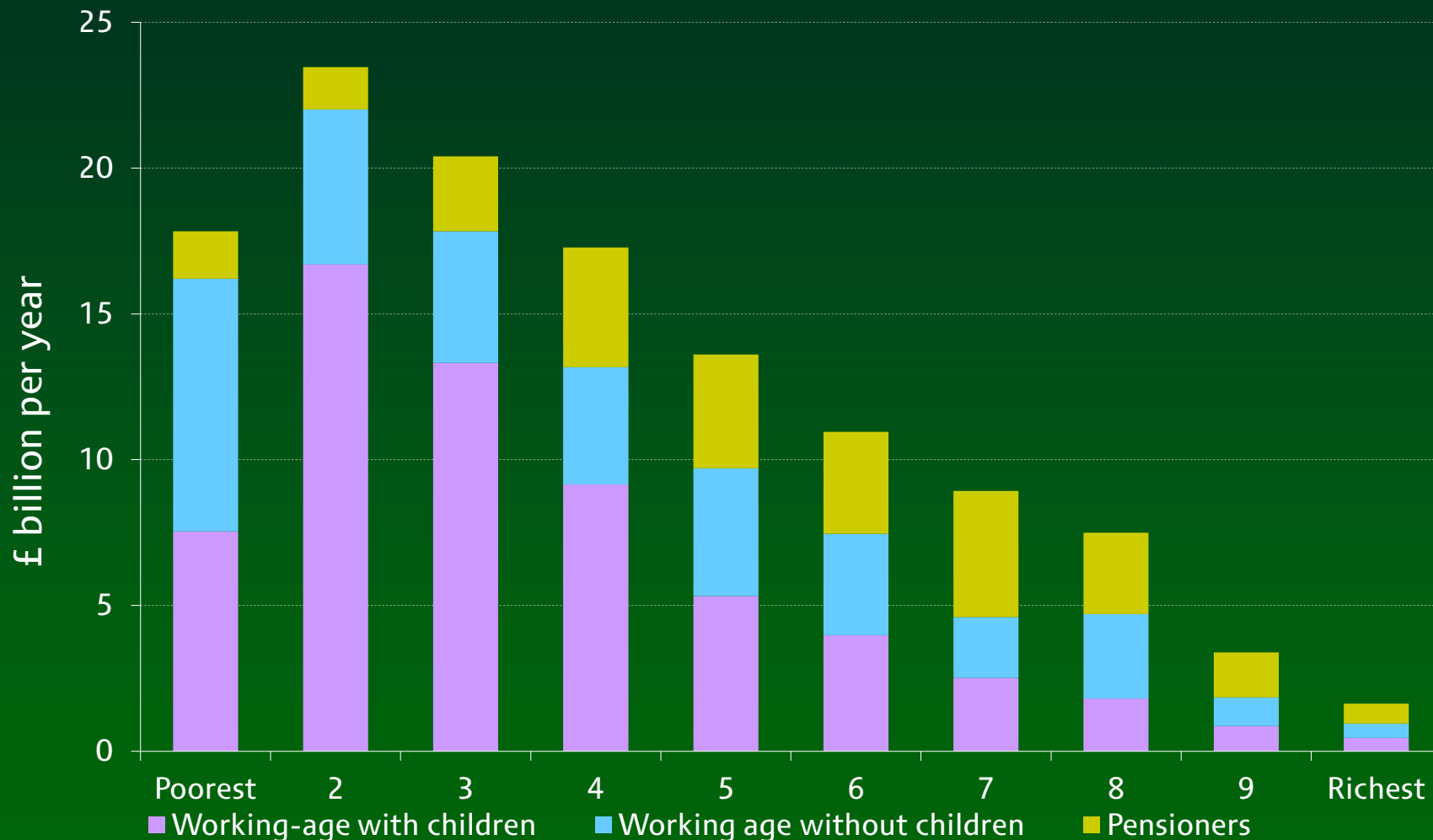
Total = £125 billion



Illustrative examples of revenue raised from cuts to unprotected benefits

- **£5bn:** reducing child element of child tax credit / universal credit by 30% (back to its real 2003-04 level)
- **£5bn:** abolishing child benefit and compensating low-income families through universal credit
- **£2 ½ bn:** making all housing benefit recipients pay at least 10% of their rent
- **£1 ½ bn:** Taxing universal disability benefits

Estimated distribution of benefit spending not protected by the Conservatives



Notes and sources: see Figure 2.6 of 'Taxes and Benefits: the parties' plans'



Removing social sector size criteria ('bedroom tax')

- Labour's biggest benefits proposal: giveaway of about £0.4bn
- SSSC are a cut to housing benefit for working-age social housing tenants deemed to be 'under-occupying'
 - Affecting about 460k families, who lose average of £15 per week
 - Early evidence shows few affected tenants moved house (shortage of small properties) and substantial fraction went into rent arrears
- SNP have same policy
- Goes further than Lib Dems, who would apply SSSC to new claims or those who refuse 'reasonable' offer of 'suitably-sized' home

Labour's 'tough choices' on benefits

1. “Cap child benefit rises for two years”

- Expected saving is zero
- Description misleading: refers to 2015-16 and 2016-17, but 1% rise in 2015-16 has happened
- Cap at 1% in April 2016 likely to be irrelevant: low inflation means that, under OBR forecast, default rise would be 0.2%

2. Winter fuel payments: remove from higher-rate taxpayers

- Saves £100m per year (0.1% of benefit spending on pensioners)
- WFPs are worth £200 or £300 per household per year
- Affects about ½ million families

Other Labour policies

- Increase in paternity leave and paternity pay (costs £150m)
- Revenue-neutral change to contributory JSA
- ‘Youth allowance’ to replace JSA for 18-21 year-olds – means-tested against parental income, conditional on training
- Tightening eligibility for migrants
- Pausing the rollout of universal credit to review programme

- Also ‘compulsory jobs guarantee’ for long term unemployed
 - Labour assume long run cost of employer subsidy is £300m per year
 - Also small implications for benefit spend: JSA sanctions for those who refuse, and benefit entitlement can fall when people start working

Conclusions

- Conservatives, Labour and Lib Dems all plan further net takeaways from tax and benefit changes
 - But stark differences in composition between tax and benefits
- All seem to share preference for vaguely-defined and opaque tax changes
 - with little regard for coherence and efficiency of the system
- Benefit changes are largely unspecified (Conservatives), vague (Liberal Democrats) or trivial relative to rhetoric (Labour)
- Disappointing to see such little evidence of clear and coherent vision