Department of Social Policy public lecture

Good Times Bad Times: the welfare myth of them and us

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Suggested hashtag for Twitter users: #LSEwelfaremyth
Good Times  
Bad Times:  
The welfare  
myth of *them*  
and *us*  

John Hills  
London School of Economics  
12 November 2014
Spongers: May 1989
Where are they now? 25 years on

The Osbornes

Stephen (1955) Henrietta (1957)


The Ackroyds

Jim (1968) Tracy (1963)


Paul (1991)
Two nations? Them and us

‘Two groups need to be satisfied with our welfare system. Those who need it – who are old, who are vulnerable, who are disabled, or have lost their job and who we as a compassionate society want to support. And there’s a second group. The people who pay for this system: who go out to work, who pay their taxes and expect it to be fair on them too. (George Osborne, Chancellor of the Exchequer, June 2013; emphasis added)

- ‘Strivers’ vs ‘shirkers’
- ‘Three generations who have never worked’ vs ‘hard working families’
- ‘Curtains drawn in mid morning’ vs ‘alarm clock Britain’
Henry, Michelle and the State, 2010

**Henry & Clare Osborne**
- £53,300 (after pension contributions)
- £12,900 (income tax and NICs)
- £545 Child Tax Credit
- £1,060 Child Benefit
- £1,988 Council Tax
- £6,900 indirect taxes
- £4,000 NHS

NET £16,200 to the state this year

**Michelle Ackroyd**
- £5,940 after NICs
- £2,845 Child Tax Credit
- £1,060 Child Benefit
- £3,810 Working Tax Credit
- £1,720 Housing Benefit
- £612 Net Council Tax
- £10,300 Schools, NHS, housing

NET £16,100 from the state this year
Receipts from the welfare state and taxes by income group (£, 2010-11)

Source: Office for National Statistics (2013)
The long view: The original lifetime sums (adjusted to 2010 earnings terms)

Stephen & Henrietta Osborne
- £50,000 cash benefits
- £152,000 pensions
- £153,000 NHS
- £153,000 education
- £509,000 total from the welfare state
- £140,000 tax relief on mortgage
- £104,000 other
- £896,000 taxes
Net loss £140,000
LIFETIME EARNINGS £2.7 million

Jim & Tracy Ackroyd
- £215,000 cash benefits
- £102,000 pensions
- £134,000 NHS
- £85,000 education
- £535,000 total from the welfare state
- £6,000 other
- £334,000 taxes
Net gain £200,000
LIFETIME EARNINGS £1 million
Lifecycle average receipts and taxes, 2005-06 (£/year, not equivalised)

Source: Office for National Statistics from Redistribution of Income series.
Taxes are direct and indirect allocated to households.
Market and disposable incomes, 2005-06 (£/year)

Source: Office for National Statistics from Redistribution of Income series (original income estimated using average equivalisation factors by age for disposable income).
But other parts of life-cycle redistribution are in retreat

Protected:
Schools

Cuts:
- Child Benefit
- Allowances for staying at school
- Youth provision

Protected: Higher tax allowances

Cuts:
- Working age benefits (CPI/ limits on totals/ 3 years of real cuts)
- Disability benefits
- Housing Benefit
- Council Tax Benefit
- Tax credits
- Student loan repayments

Protected:
- NHS
- State pensions (better for some)
- Winter fuel etc.

Cuts:
- Local Authority care for elderly
- Age allowance in income tax
- Higher pension age (but longevity)
Life is complicated for some…

Charlotte Osborne
- April to July: £1,815
- October to March: £1,890

Gary and Denise Ackroyd
- April: £1,150
- May: £918
- August: £719
- September: £1,360
Tracking incomes over the year: Highly erratic cases (four week periods)

Source: Data supplied by Department for Work and Pensions.
Ups and downs in the 2000s: Positions in the income distribution (percentiles)

Stephen’s heart attacks

Stephen and Henrietta
Ups and downs in the 2000s: Positions in the income distribution (percentiles)

- Stephehn's heart attacks
- Michelle moves out again
- Jim loses job
- Empty nest

Jim and Tracy

Stephen and Henrietta
Tangled spaghetti

Source: Jenkins (2011), figure 7.2, based on BHPS
Child poverty lengths over nine years

Source: Jenkins (2011), figure 8.4, based on BHPS
<table>
<thead>
<tr>
<th>Assets</th>
<th>The Osbornes</th>
<th>The Ackroyds</th>
</tr>
</thead>
<tbody>
<tr>
<td>£700,000 financial assets</td>
<td>£700,000 financial assets</td>
<td>Assets:</td>
</tr>
<tr>
<td></td>
<td>£700,000 house</td>
<td>personal possessions, furniture, car</td>
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<tr>
<td></td>
<td>£700,000 pension rights</td>
<td>£6,000 in a building society account</td>
</tr>
<tr>
<td></td>
<td>£2,100,000</td>
<td>£16,000</td>
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</table>
Total household wealth by age, 2008-10 (£)

# The next generation: George Ackroyd and Edward Osborne

<table>
<thead>
<tr>
<th>Age</th>
<th>Edward Osborne</th>
<th>George Ackroyd</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>Development and skills</td>
<td>Age</td>
</tr>
<tr>
<td>60% up a scale of development</td>
<td>5</td>
<td>33% of the way up a scale of development</td>
</tr>
<tr>
<td>11</td>
<td>83% of students not on Free School Meals (FSM) achieve level 4</td>
<td>11</td>
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<tr>
<td>16</td>
<td>62% of way up the GCSE national range</td>
<td>16</td>
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<tr>
<td>19</td>
<td>58% achieve A Level qualifications who have not been on FSM</td>
<td>19</td>
</tr>
<tr>
<td>HE</td>
<td>55% of least deprived fifth go on to Higher Education</td>
<td>HE</td>
</tr>
<tr>
<td>Private /state school</td>
<td>64% of private A level students go to prestigious universities</td>
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The Great Gatsby Curve

### Winners and losers from austerity, May 2010 to 2014-15 (vs. CPI indexation)

<table>
<thead>
<tr>
<th></th>
<th>Stephen Osborne</th>
<th>£96,840 annual earnings</th>
<th>Gain</th>
<th>Loss</th>
<th>£29 total NICs</th>
<th>£926 total income tax</th>
<th>NET £59,241 after PC/TAX</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>Henrietta Osborne</td>
<td>£8,608 annual earnings</td>
<td>Gain</td>
<td>Loss</td>
<td>£113 total NICs</td>
<td>£547 total income tax</td>
<td>NET £59,241 after PC/TAX</td>
</tr>
<tr>
<td></td>
<td>Stephen and Henrietta Osborne</td>
<td>£297 Council Tax</td>
<td>£2.28 Child Benefit</td>
<td>£2.04 Child Tax Credit</td>
<td>£6.61 Working Tax Credit</td>
<td>£0.94 Housing Benefit</td>
<td>£6.61 Net Council Tax</td>
</tr>
<tr>
<td></td>
<td>Michelle Ackroyd</td>
<td>£123 weekly earnings</td>
<td>Gain</td>
<td>Loss</td>
<td>£2.28 Child Benefit</td>
<td>£2.04 Child Tax Credit</td>
<td>Working Tax Credit £6.61</td>
</tr>
<tr>
<td></td>
<td>Loss of disposable income per year</td>
<td>0.7%</td>
<td>6%</td>
<td></td>
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</tbody>
</table>
IFS analysis of effects of tax and benefit reforms since January 2010 (% change)

Source: Joyce (2014), post-Budget analysis (compared to price-linked base).
Where your money goes: Treasury view

Source: HMRC
Where your money goes: Another view 3

- Not welfare state
- Other welfare state
- Pensioners
- In work cash
- Other out of work
- Unemployment (1%)
The myths and the consequences

• The median belief is that 40 per cent of the social security and tax credit budget goes on benefits for unemployed people. It is actually 4 per cent. And cash transfers are less than half of all welfare state spending

• All ‘welfare’ payments to those of working age are less than £1 in £12.50 of what we spend on the welfare state

• And the average belief is that 27% of total benefits are claimed fraudulently. That would be £58 billion.

• This is 50 times DWP’s estimates from random probes

• In effect, people think that fraud of unemployment benefits is at least tenth of all social security spending, when it is really one thousandth

Such myths have consequences....
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