CASE
CENTRE FOR ANALYSIS OF SOCIAL EXCLUSION

LSE Department of Social Policy

Department of Social Policy public lecture

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

Professor Sir John Hills
Director, Centre for Analysis of Social Exclusion (CASE), LSE

Polly Toynbee
Political and Social Commentator, The Guardian

Professor Holly Sutherland
Director, EUROMOD, ISER, University of Essex

Professor Julian Le Grand
Chair
Richard Titmuss Professor of Social Policy, LSE

Suggested hashtag for Twitter users: **#LSEwelfaremyth**

LSE events

CPD CERTIFIED
The CPD Certification Service

Good Times Bad Times: The welfare myth of *them* and *us*

John Hills
London School of Economics
12 November 2014

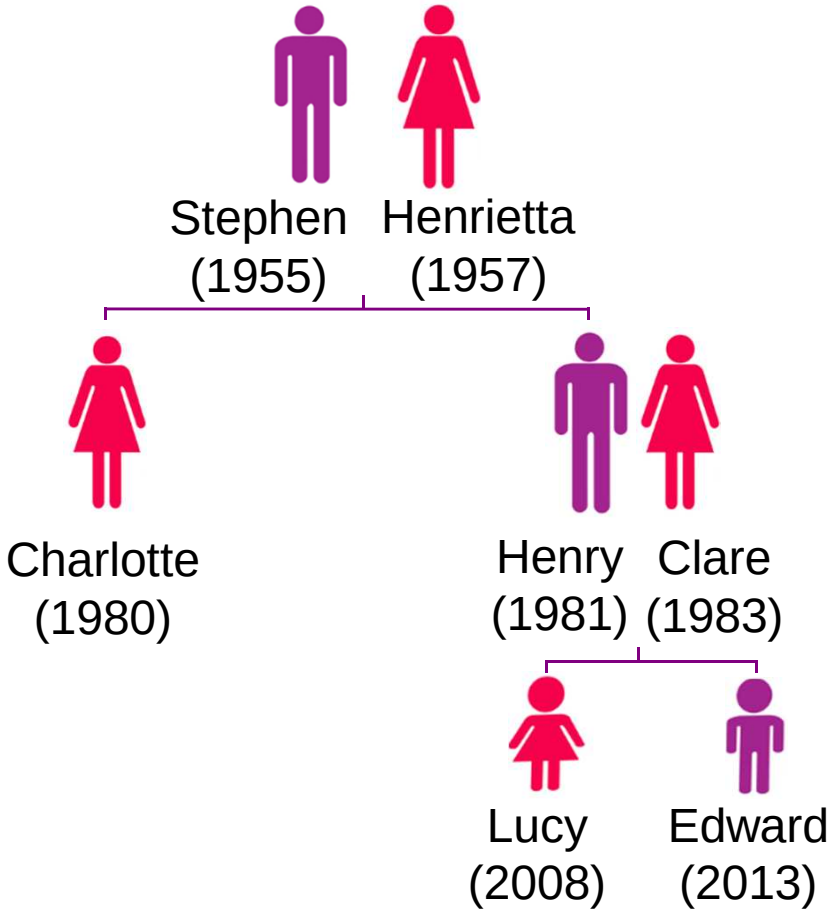
CASE
CENTRE FOR ANALYSIS OF SOCIAL EXCLUSION

E·S·R·C ECONOMIC & SOCIAL RESEARCH COUNCIL

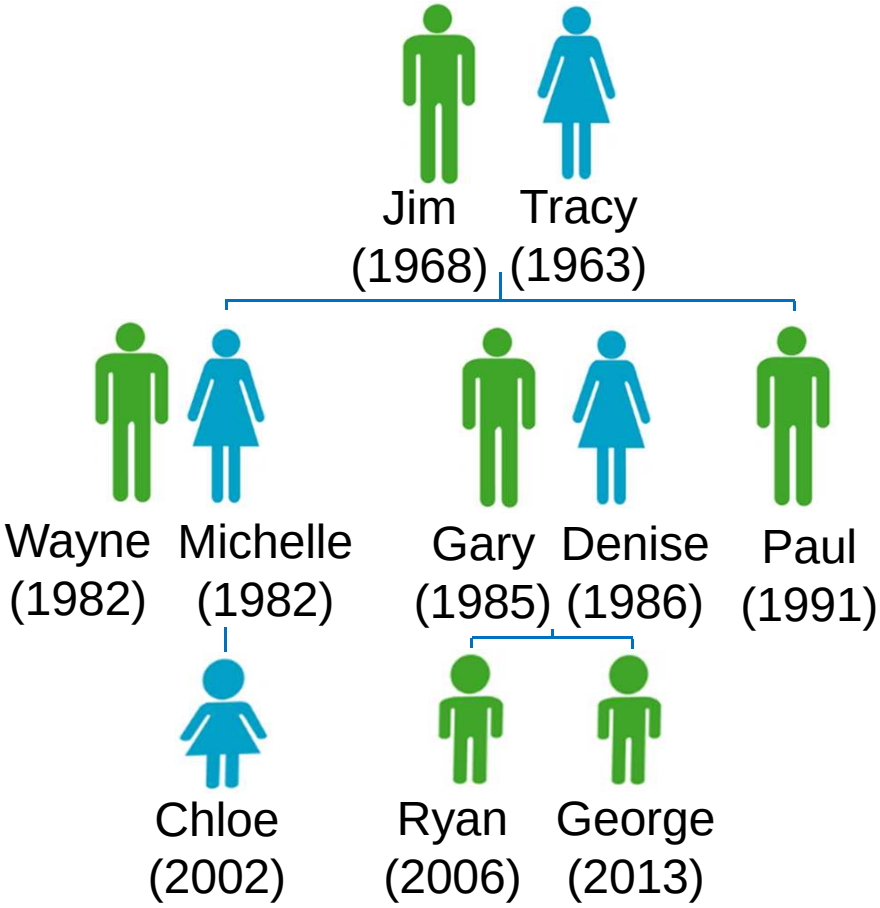
Spongers: May 1989

Where are they now? 25 years on

The Osbornes



The Ackroyds



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

=

£40,000

−

£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

=

£14,740

−

£3,000 Indirect Taxes

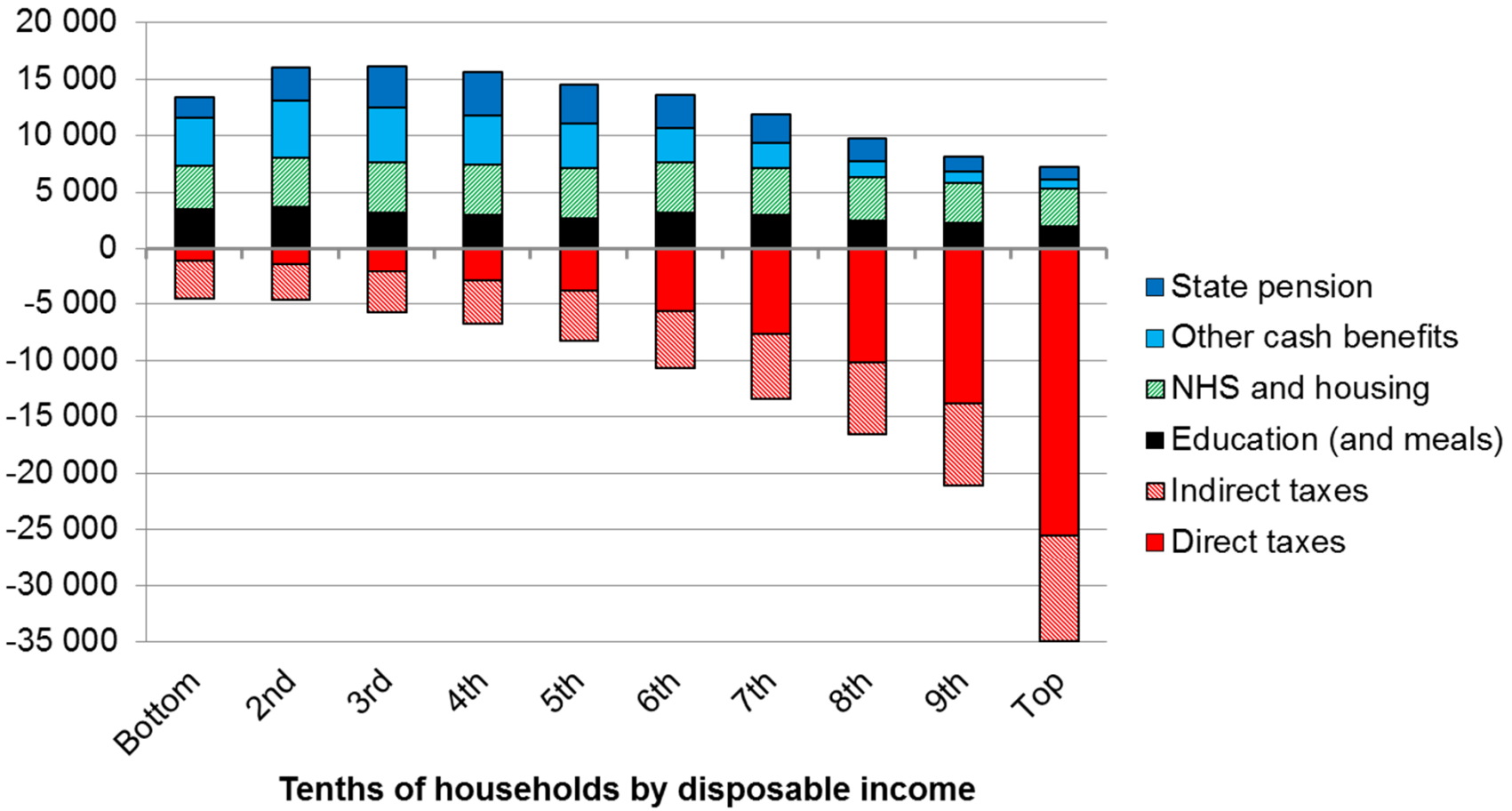
+

£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

−

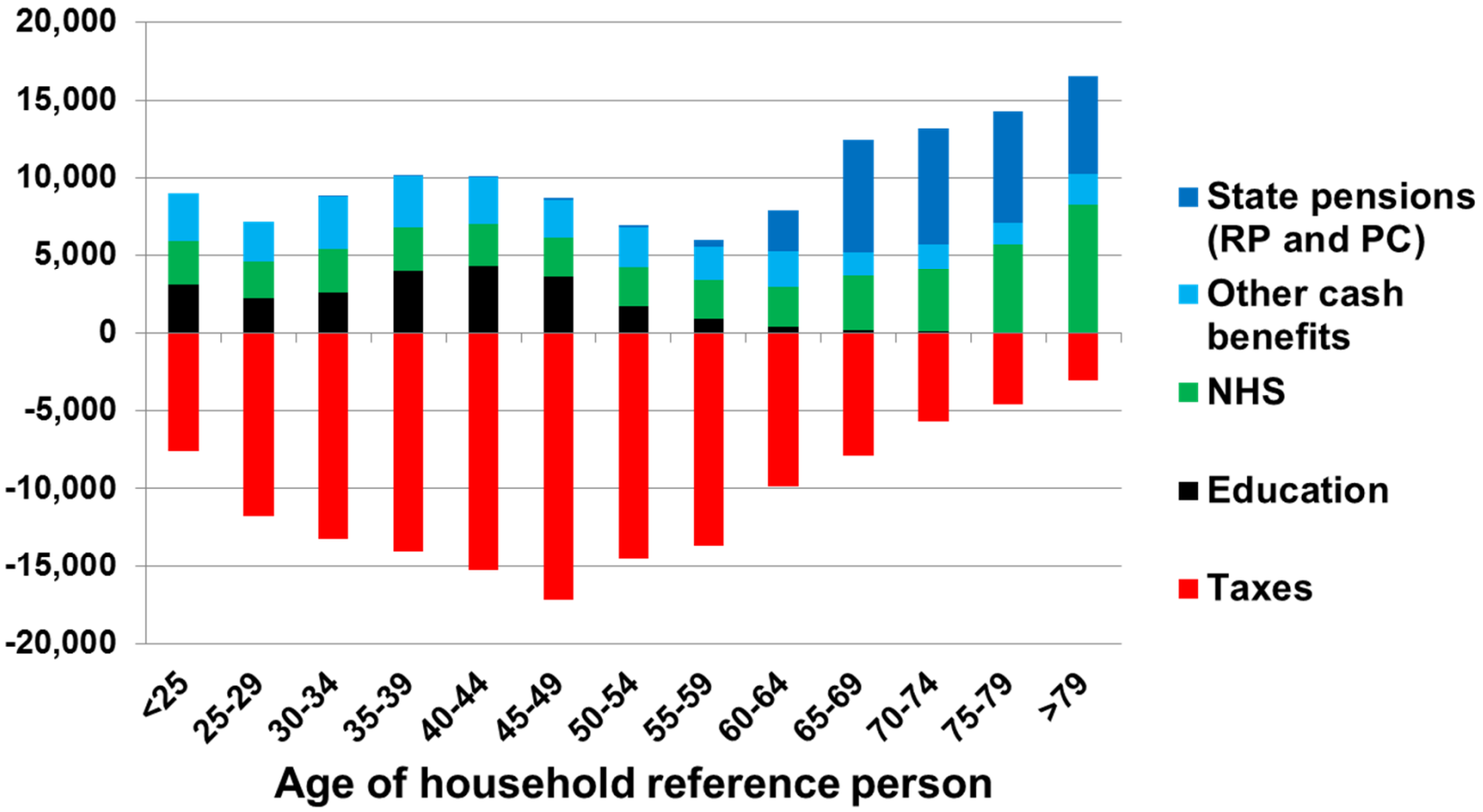
£334,000 taxes

=

Net gain £200,000

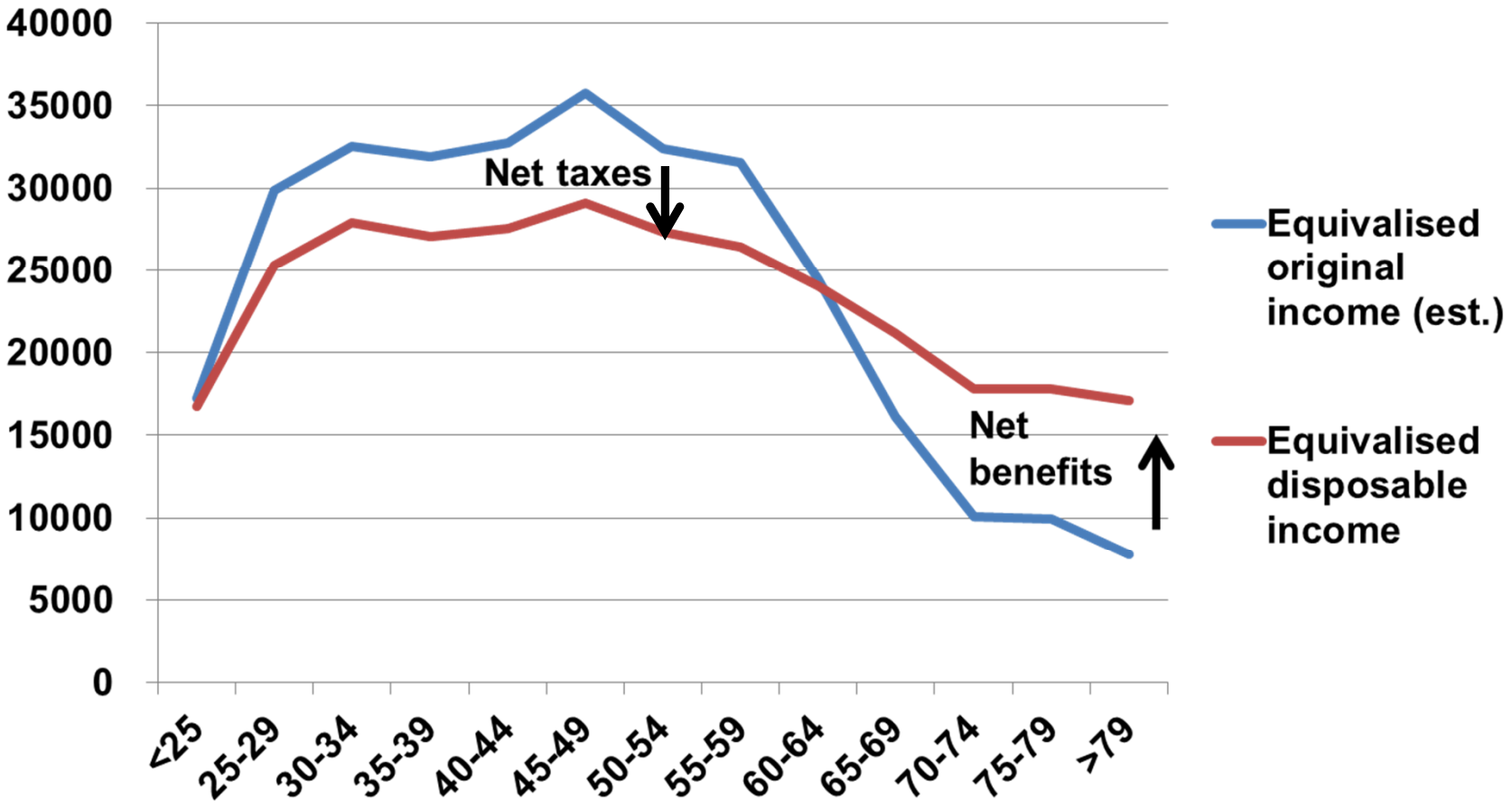
LIFETIME EARNINGS £1 million

Lifecycle average receipts and taxes, 2005-06 (£/year, not equivalised)



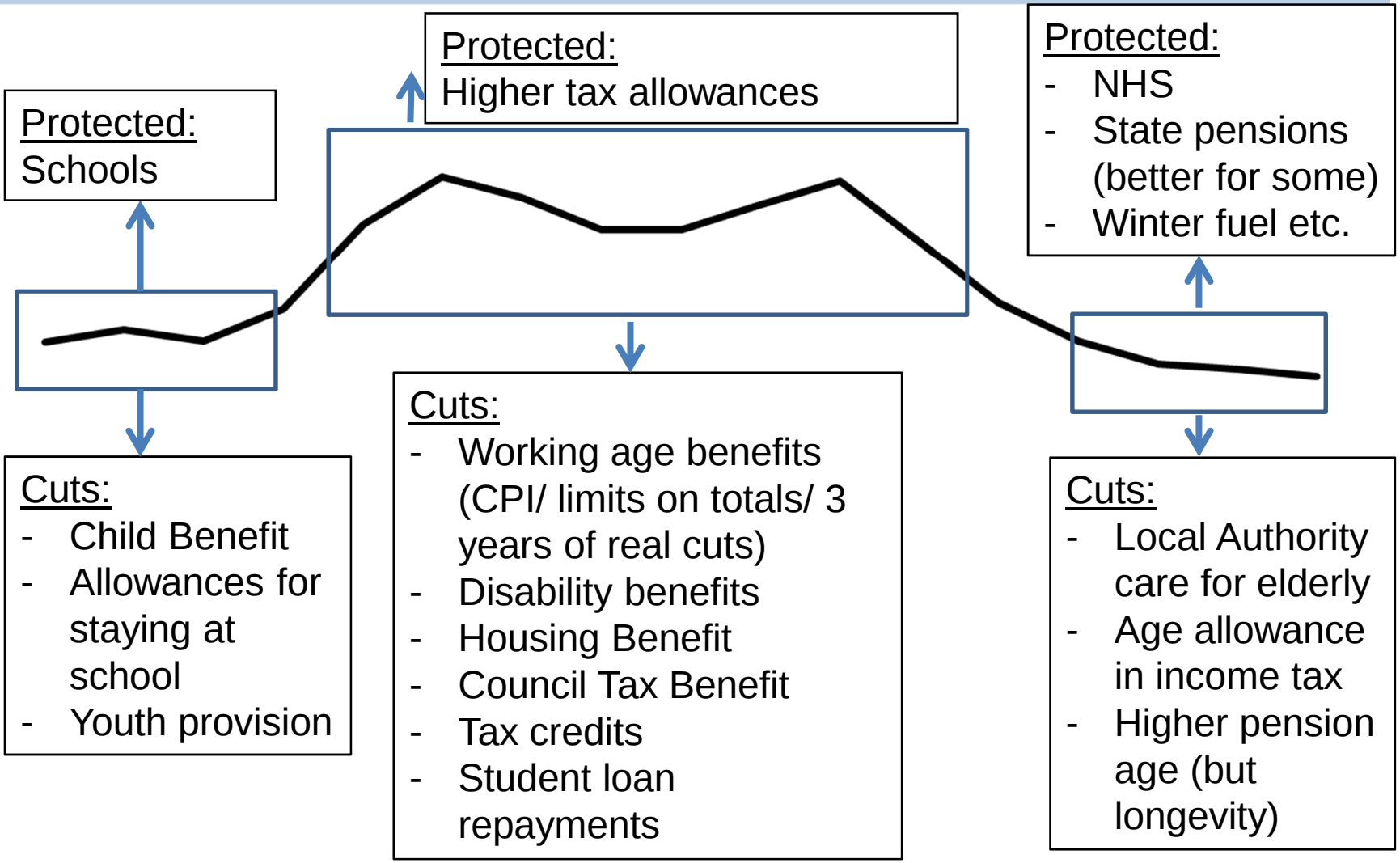
Source: Office for National Statistics from Redistribution of Income series.
Taxes are direct and indirect allocated to households.

Market and disposable incomes, 2005-06 (£/year)



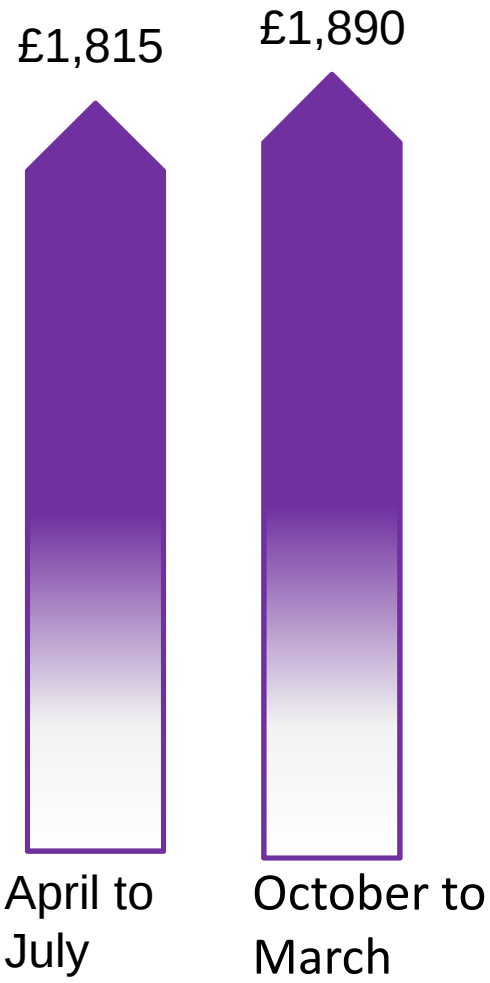
Source: Office for National Statistics from Redistribution of Income series (original income estimated using average equivalisation factors by age for disposable income).

But other parts of life-cycle redistribution are in retreat

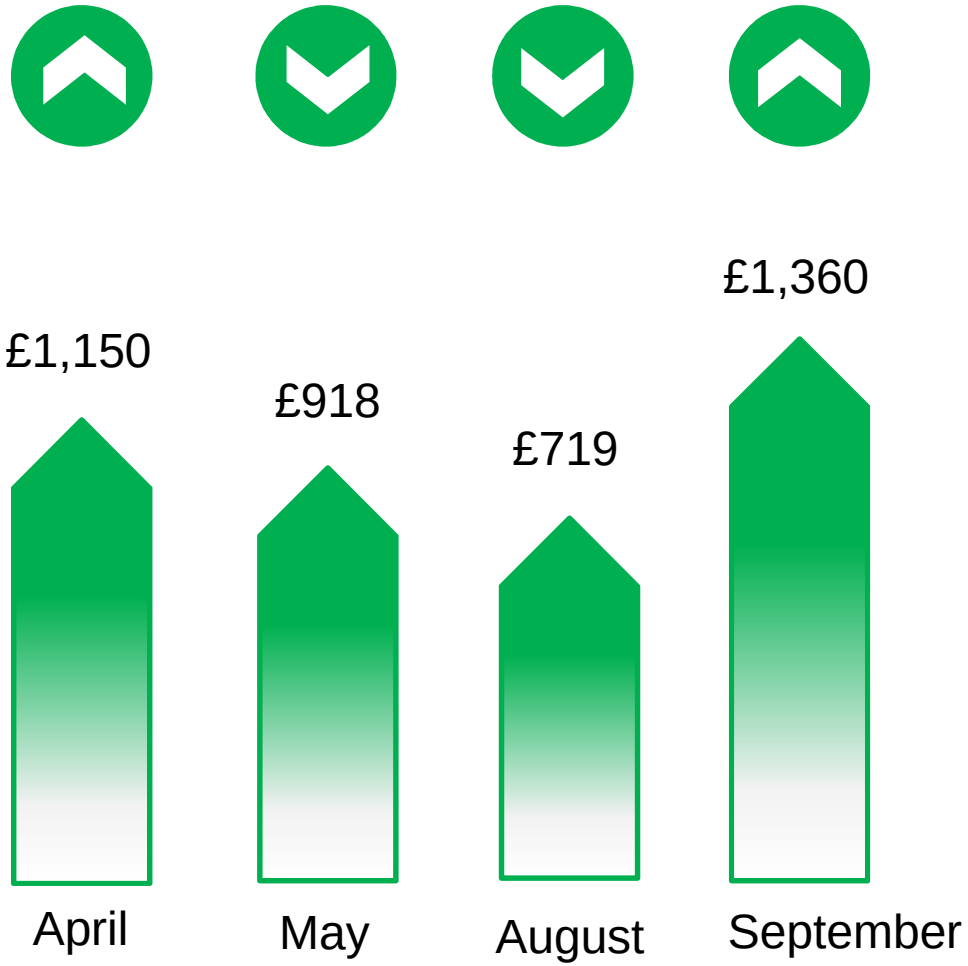


Life is complicated for some…

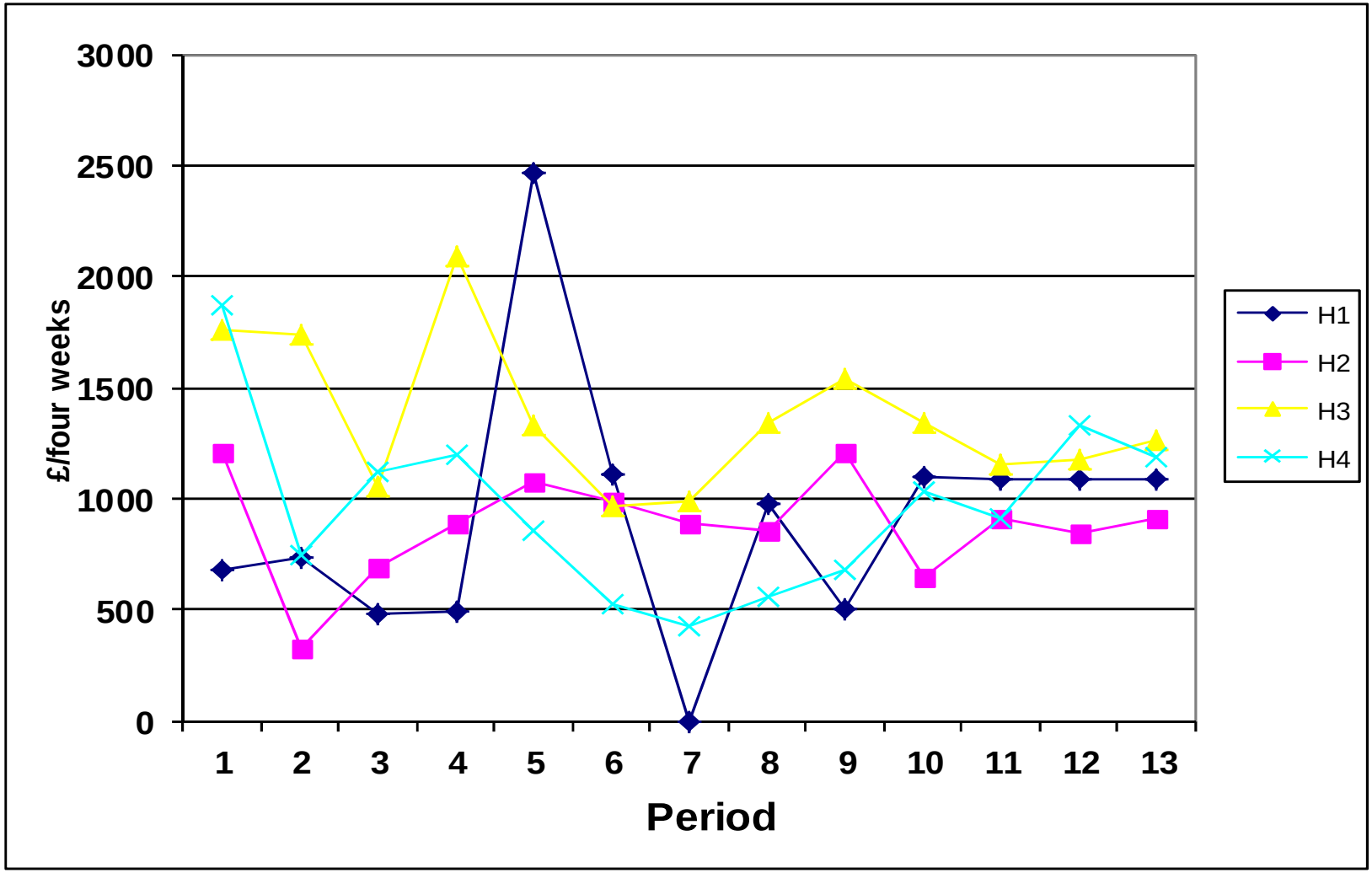
Charlotte Osborne



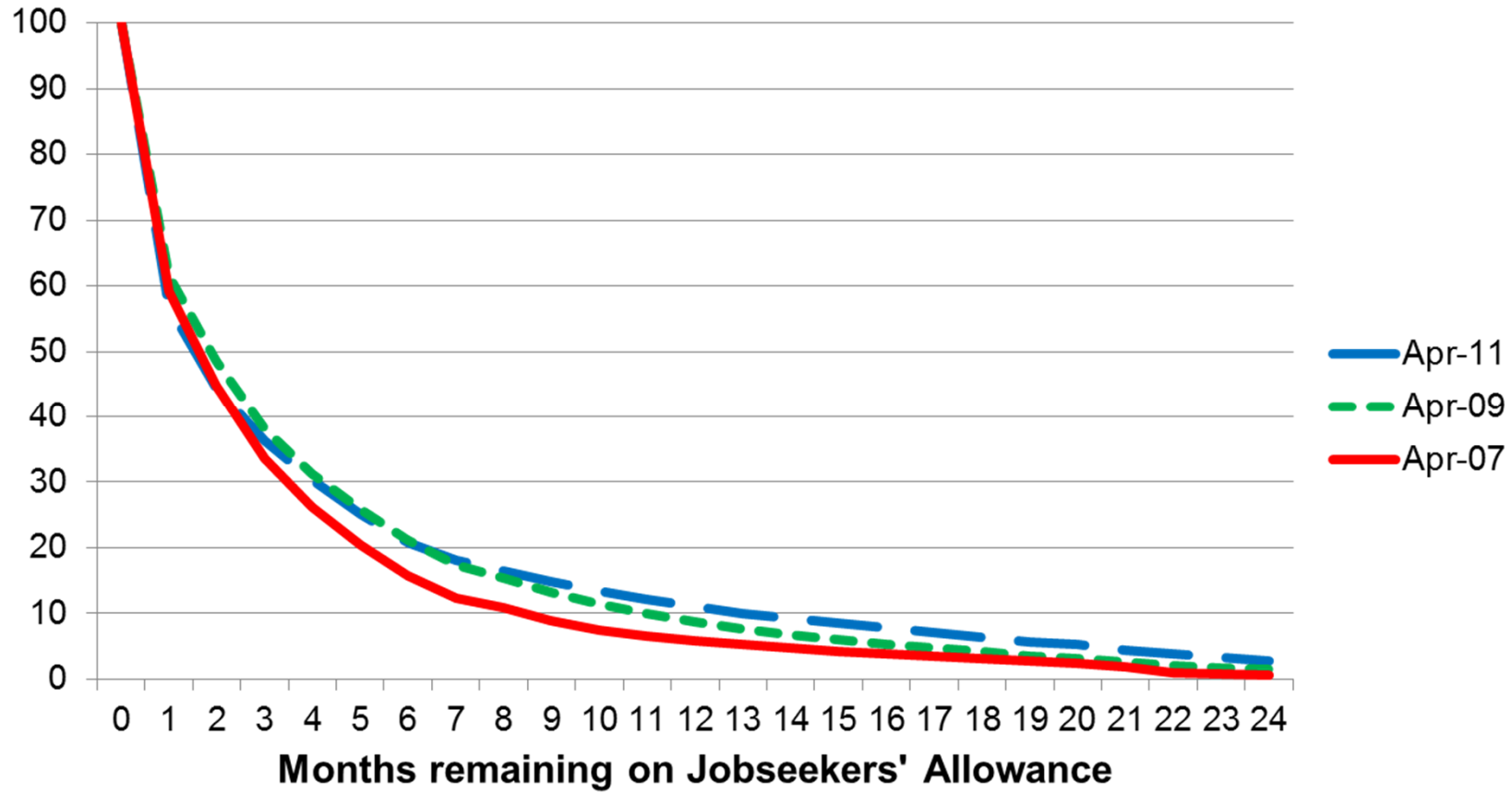
Gary and Denise Ackroyd



Tracking incomes over the year: Highly erratic cases (four week periods)

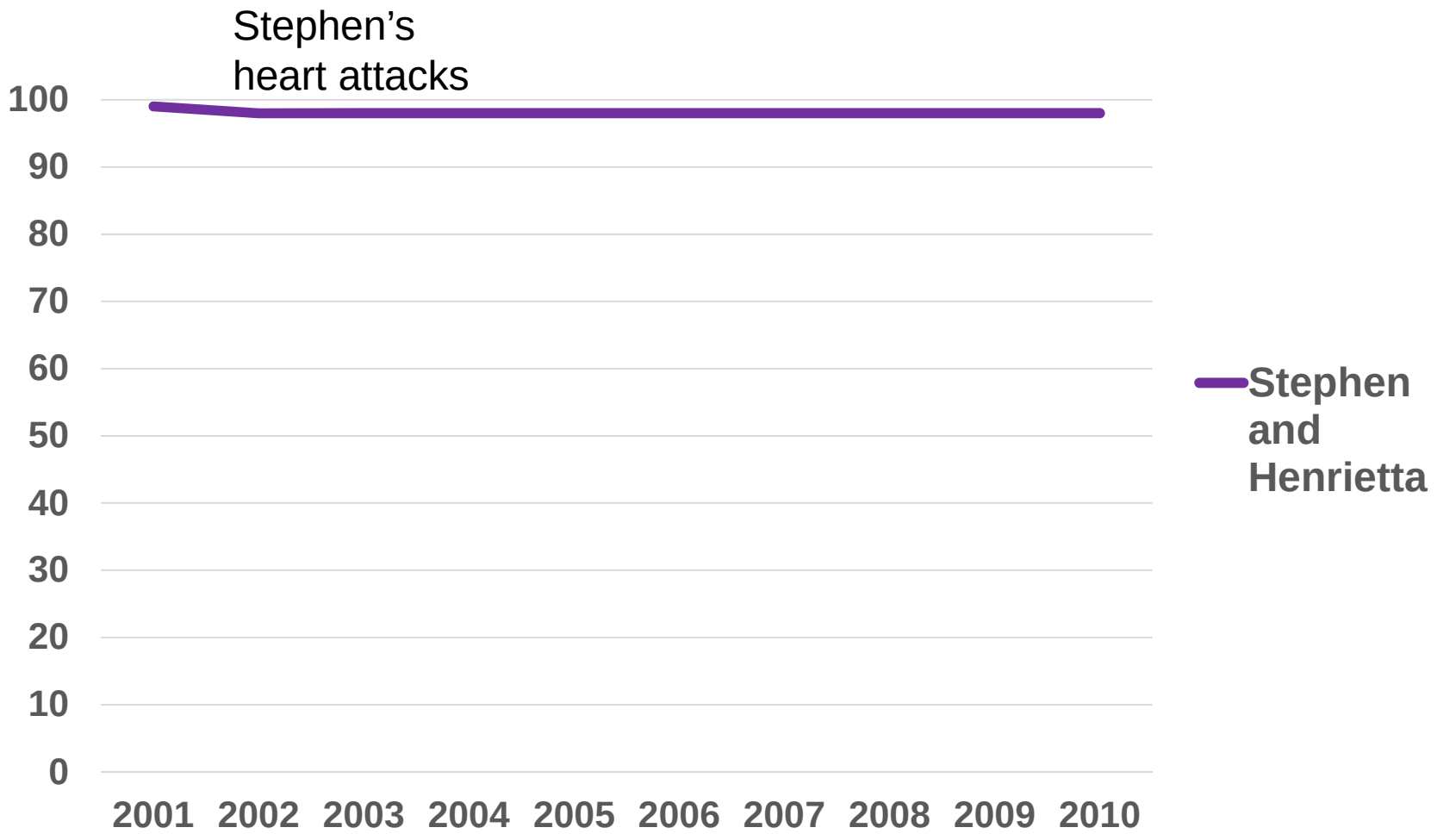


Durations on Jobseekers' Allowance, starting in 2007, 2009, 2011

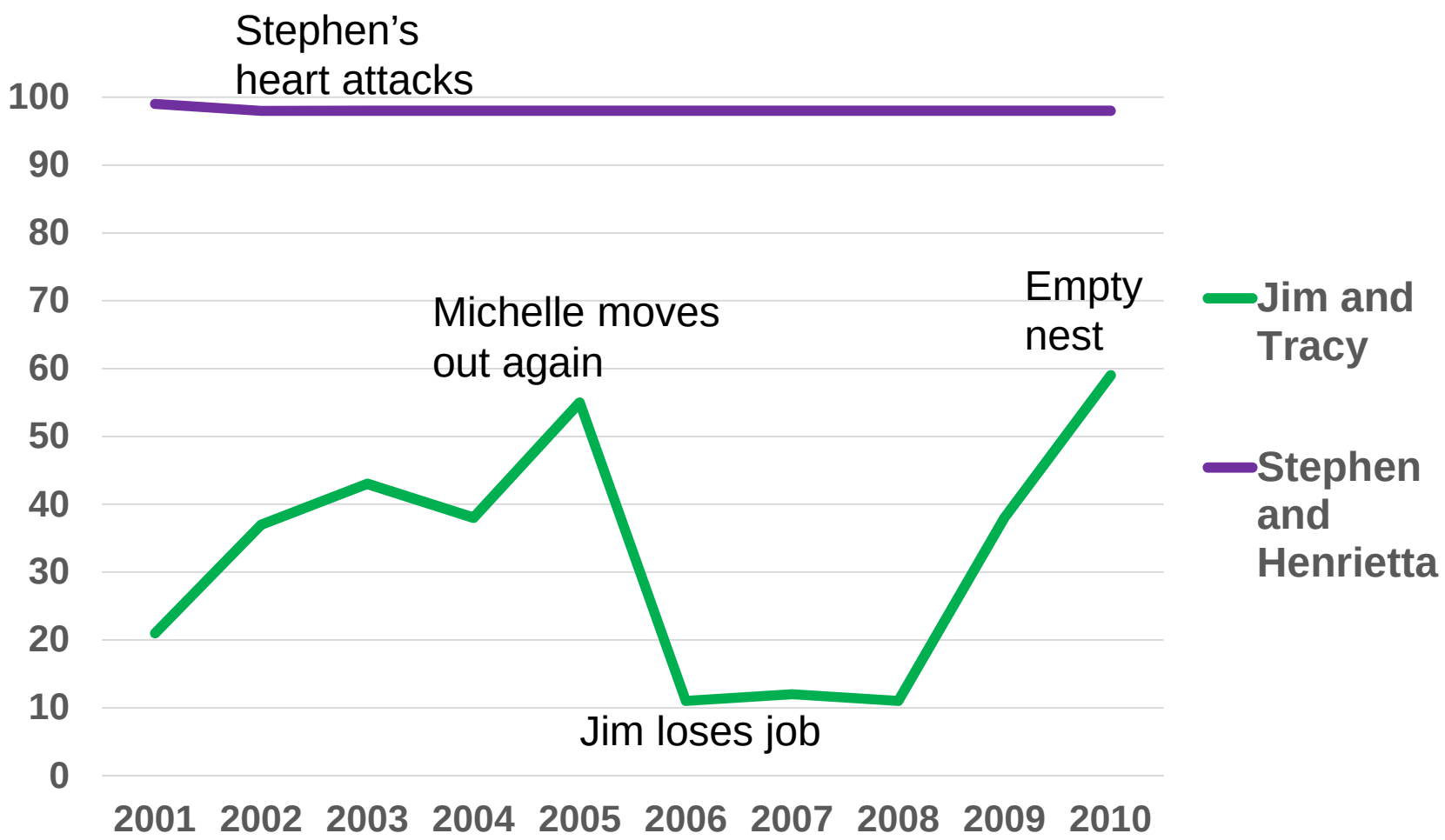


Source: Data supplied by Department for Work and Pensions.

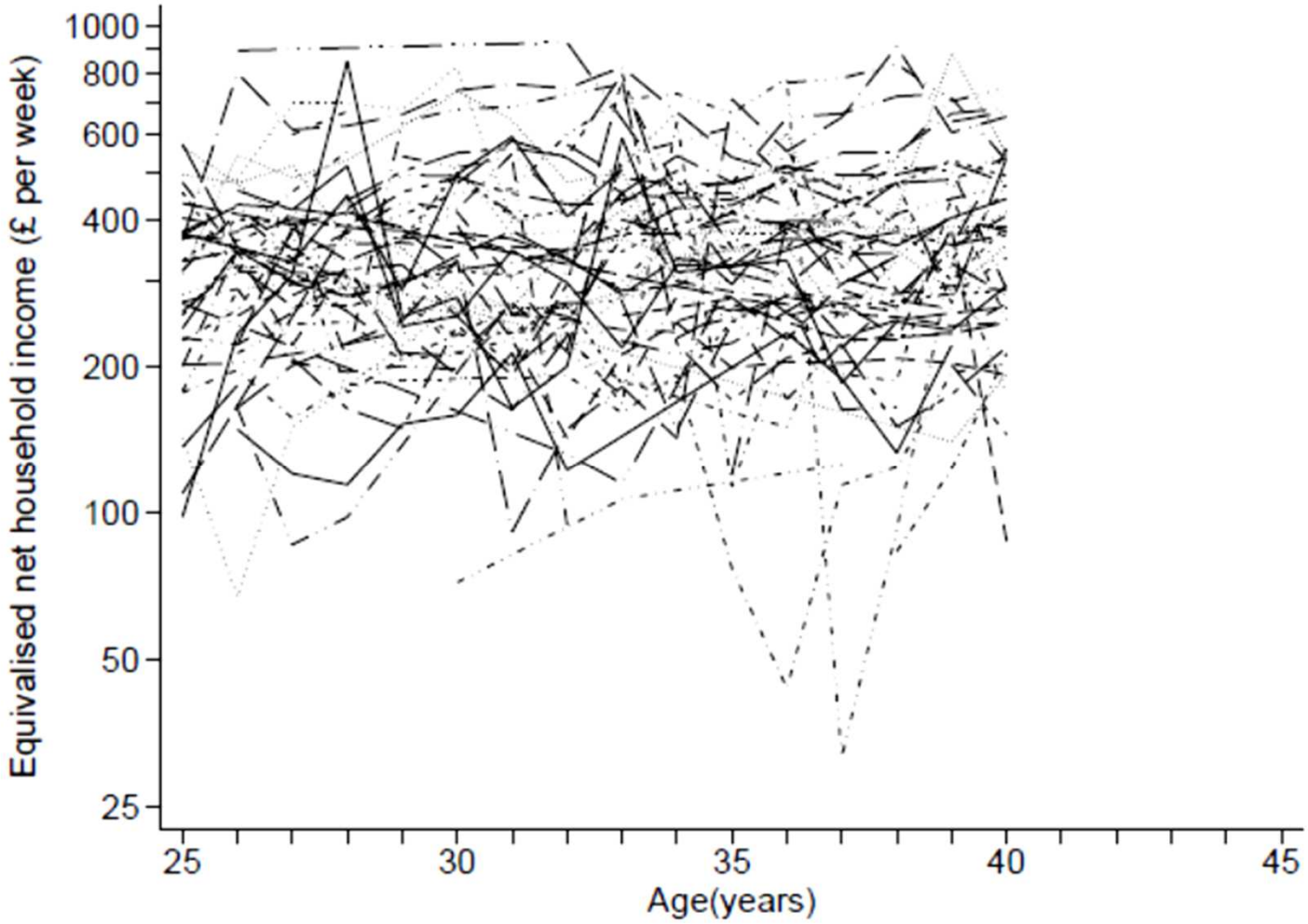
Ups and downs in the 2000s: Positions in the income distribution (percentiles)



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

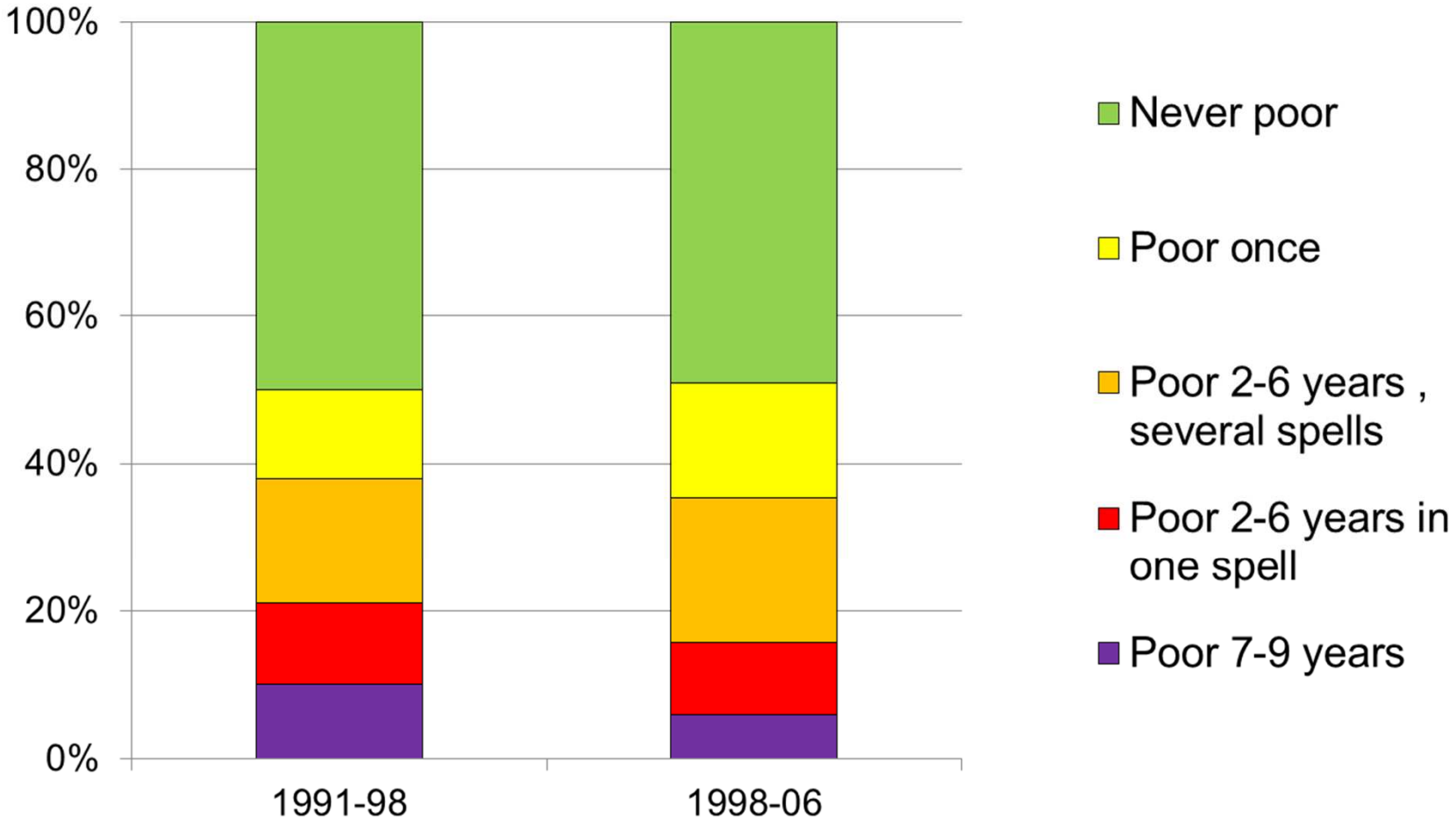


Tangled spaghetti



Source: Jenkins (2011), figure 7.2, based on BHPS

Child poverty lengths over nine years



Source: Jenkins (2011), figure 8.4, based on BHPS

Accumulate, accumulate….

The Osbornes

£700,000 financial assets

⊕

£700,000 house

⊕

£700,000 pension rights

⊜

£2,100,000

The Ackroyds

Assets:
personal possessions,
furniture, car

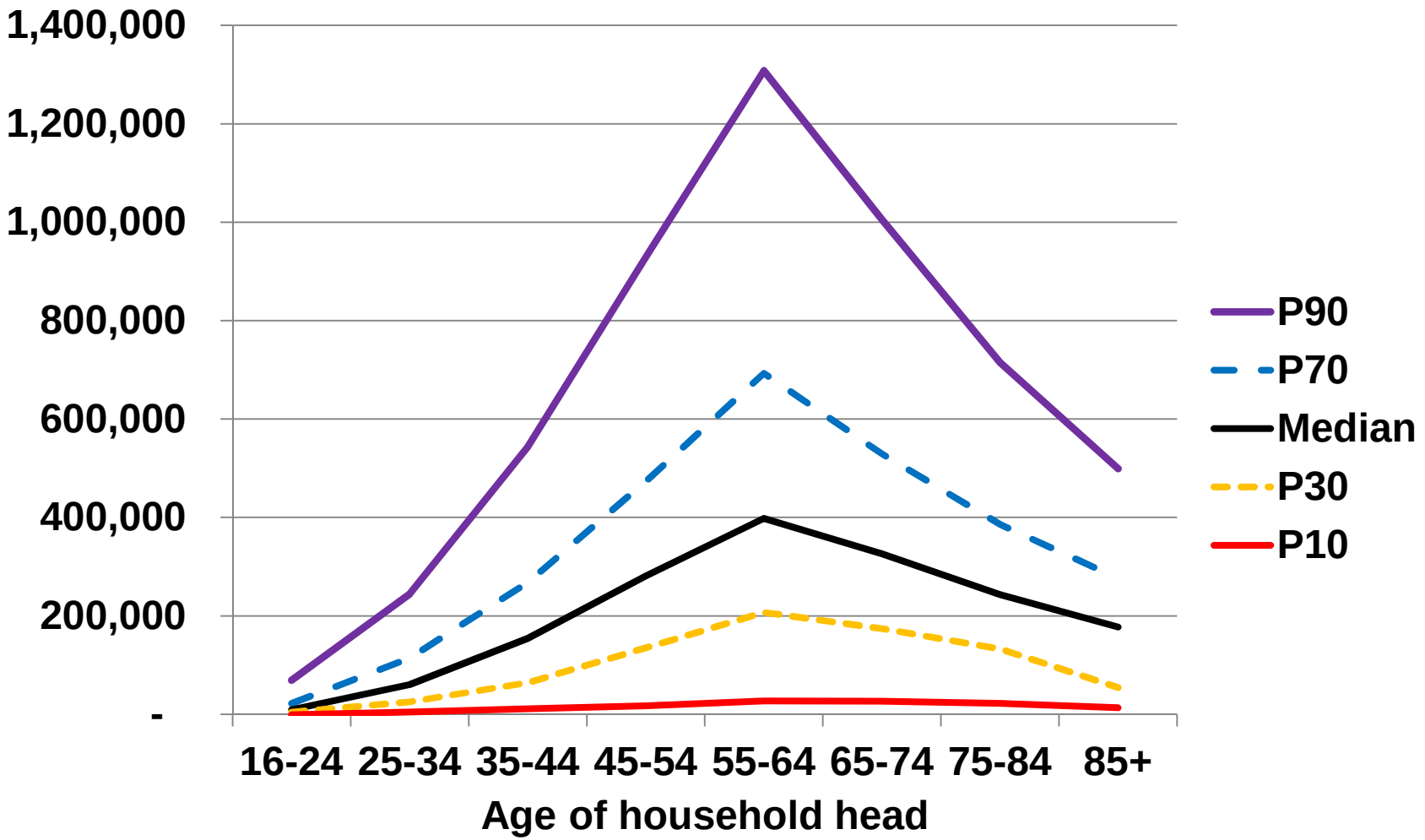
⊕

£6,000 in a building society account

⊜

£16,000

Total household wealth by age, 2008-10 (£)

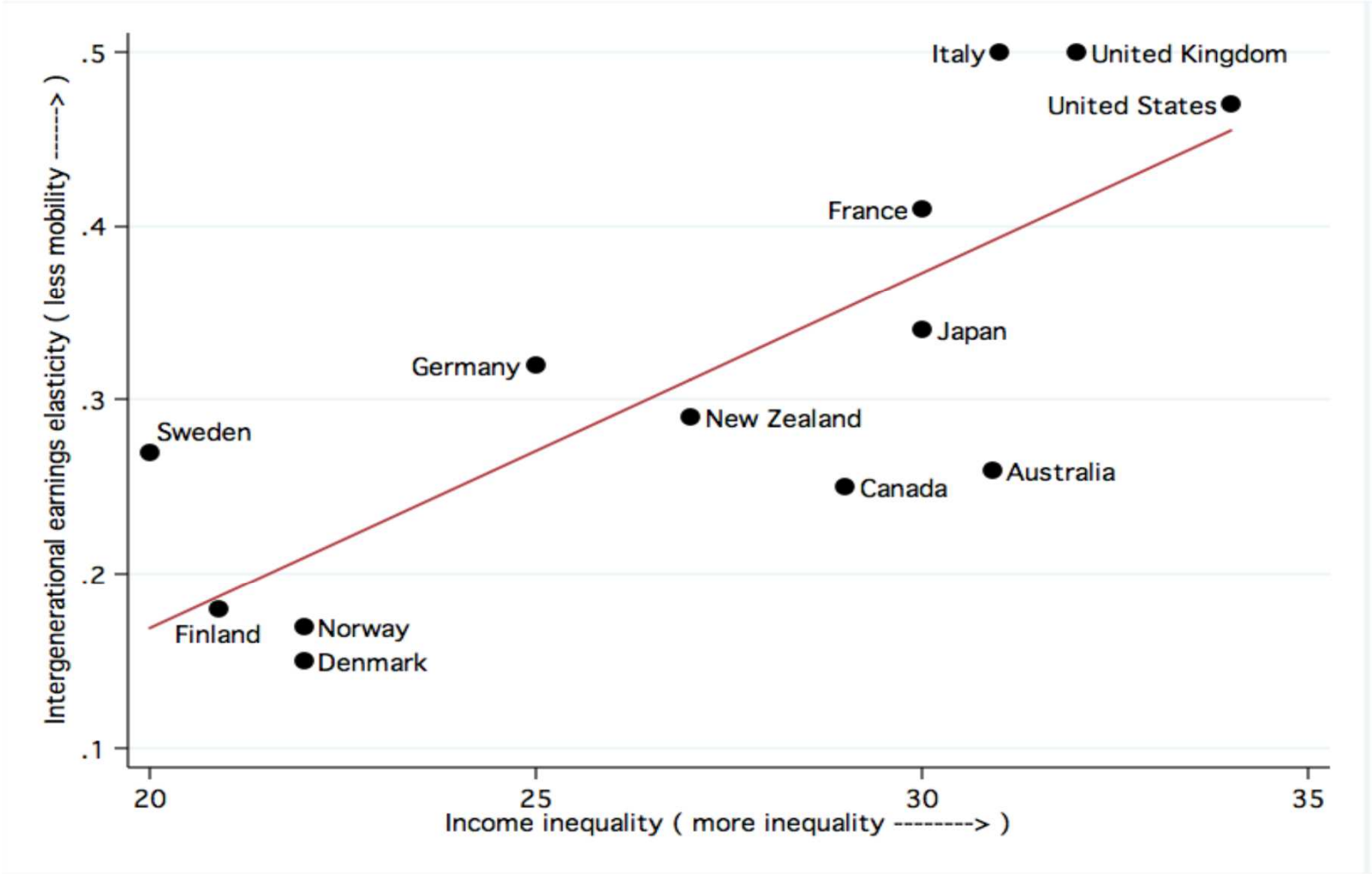


Source: Office for National Statistics analysis of Wealth and Assets Survey, wave 2 (revised). Includes pension rights.

The next generation: George Ackroyd and Edward Osborne

Edward Osborne		George Ackroyd	
Age	Development and skills	Age	Development and skills
5	60% up a scale of development	5	33% of the way up a scale of development
11	83% of students not on Free School Meals (FSM) achieve level 4	11	66% of students on FSM achieve level 4
16	62% of way up the GCSE national range	16	33% of way up the GCSE national range
19	58% achieve A Level qualifications who have not been on FSM	19	34% achieve A level qualifications who have had FSM
HE	55% of least deprived fifth go on to Higher Education	HE	18% of the most deprived fifth go on to higher education
Private /state school	64% of private A level students go to prestigious universities		24% of state school A level students go to prestigious universities

The Great Gatsby Curve



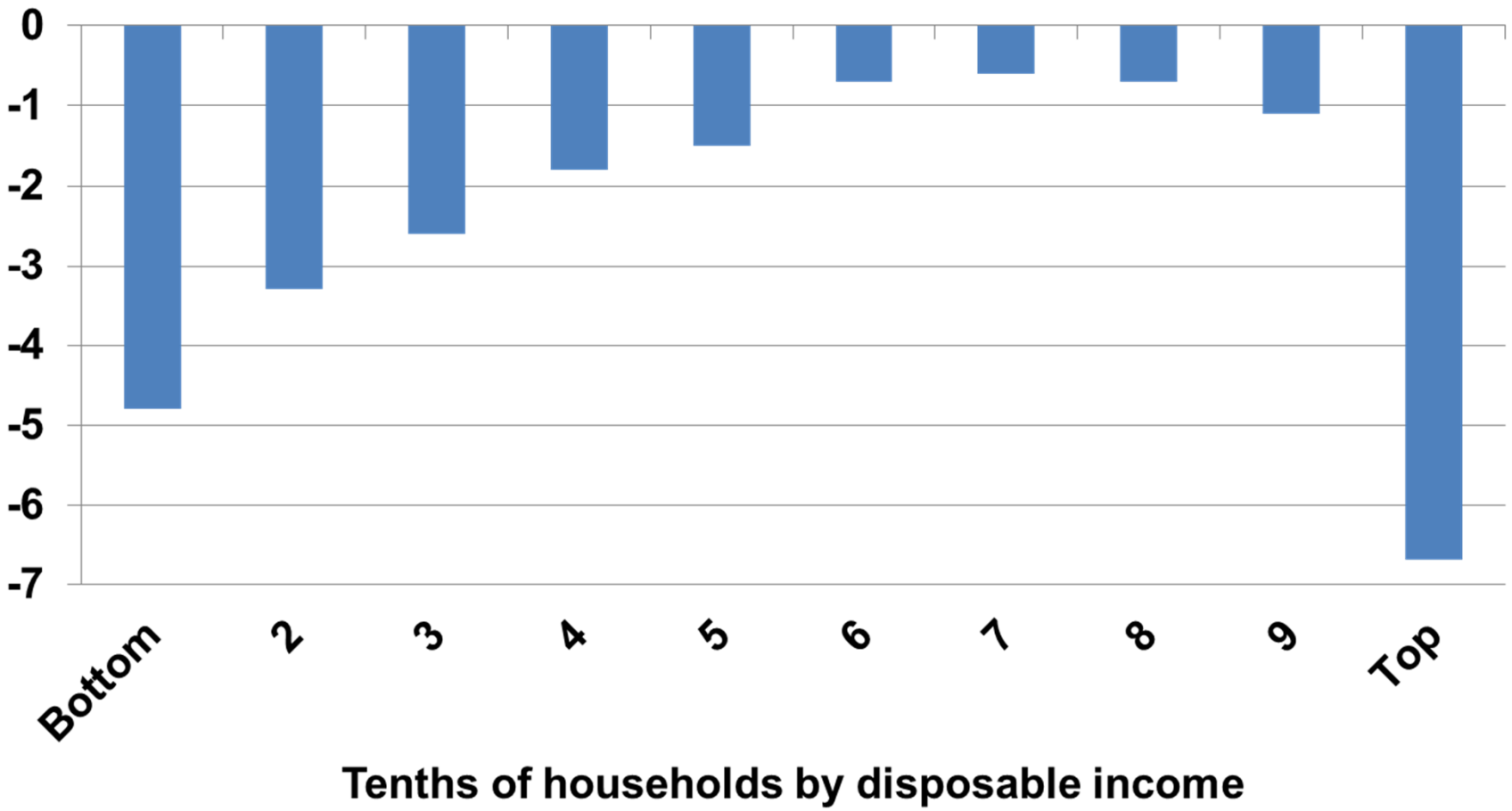
Source: Corak (2013), *Journal of Economic Perspectives*, figure 1.

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

Stephen Osborne	**£96,840 annual earnings**	
	Gain	Loss
	£29 total NICs	£926 total income tax
	NET £59,241 after PC/TAX	
Henrietta Osborne	**£8,608 annual earnings**	
	Gain	Loss
	£113 total NICs	
	£547 total income tax	
Stephen and Henrietta Osborne	£297 Council Tax	£698 VAT
	TOTAL LOSS	£638 (=£12.20 per week)
Loss of disposable income per year		**0.7%**

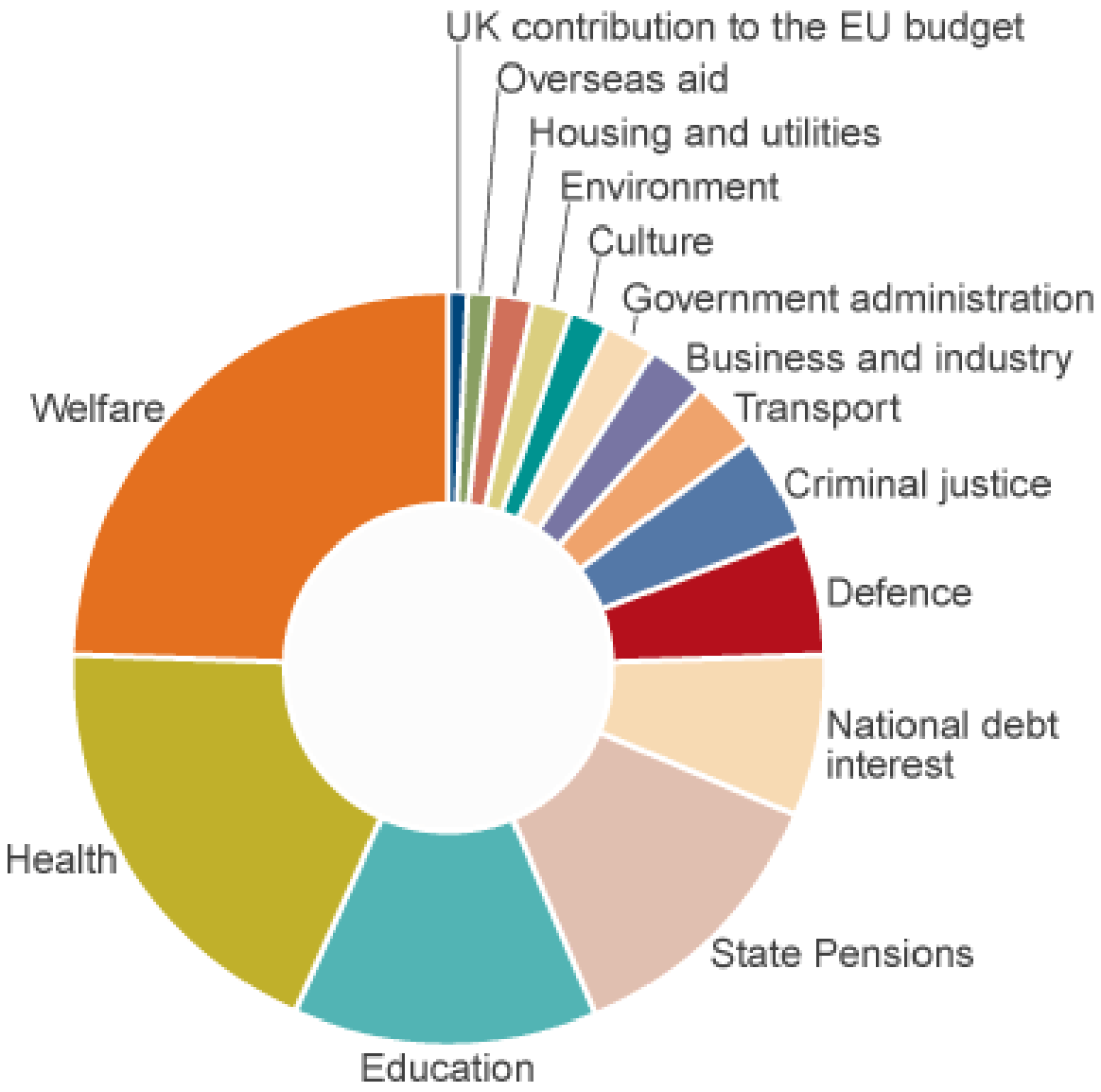
Michelle Ackroyd	**£123 weekly earnings**
Gain	Loss
	£2.28 Child Benefit
£2.04 Child Tax Credit	
	Working Tax Credit £6.61
	Housing Benefit £0.94
	Net Council Tax £5.09
	VAT at 17.5% £1.42
TOTAL LOSS	£14.27
Loss of income after housing costs	6%

IFS analysis of effects of tax and benefit reforms since January 2010 (% change)



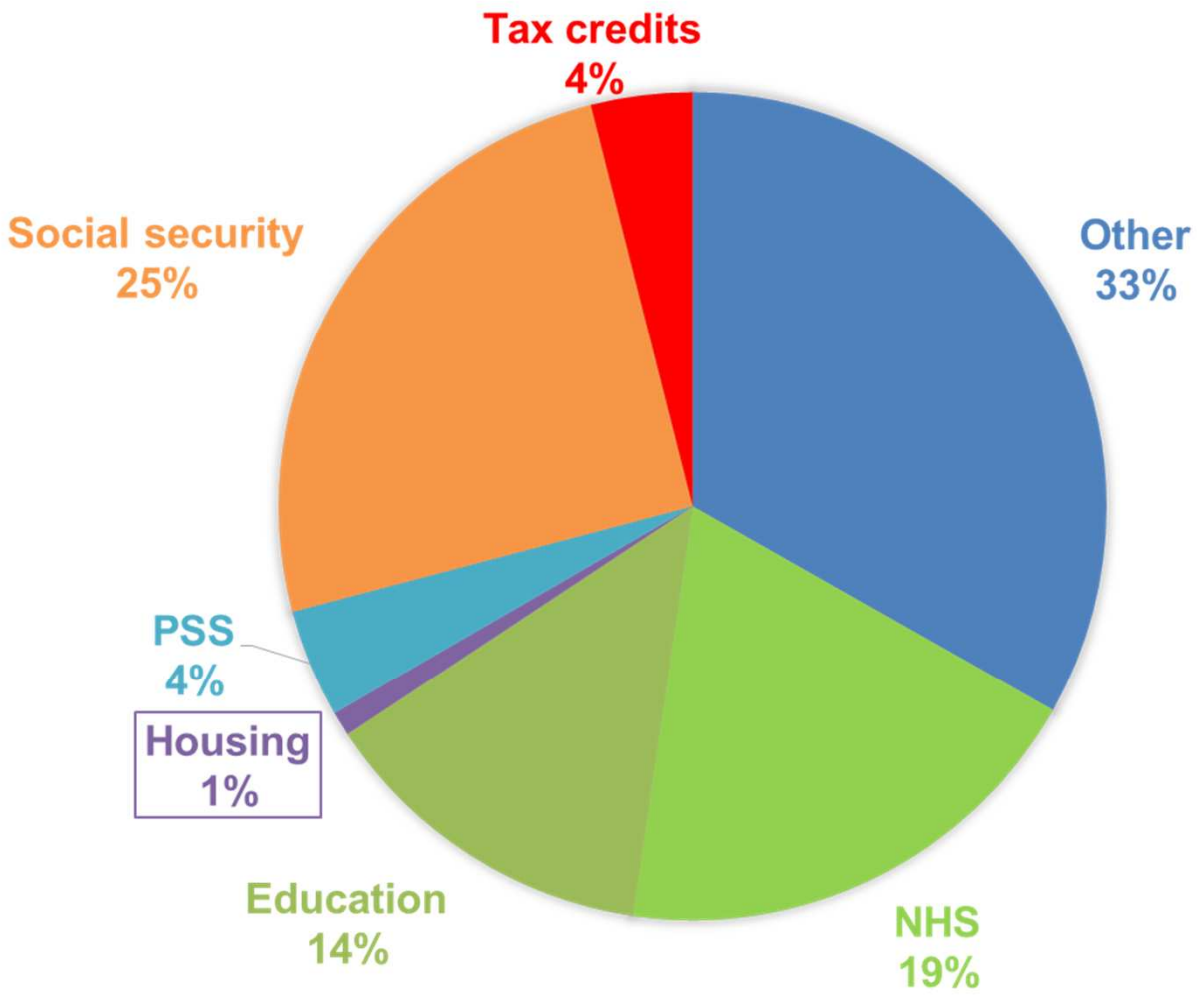
Source: Joyce (2014), post-Budget analysis (compared to price-linked base).

Where your money goes: Treasury view

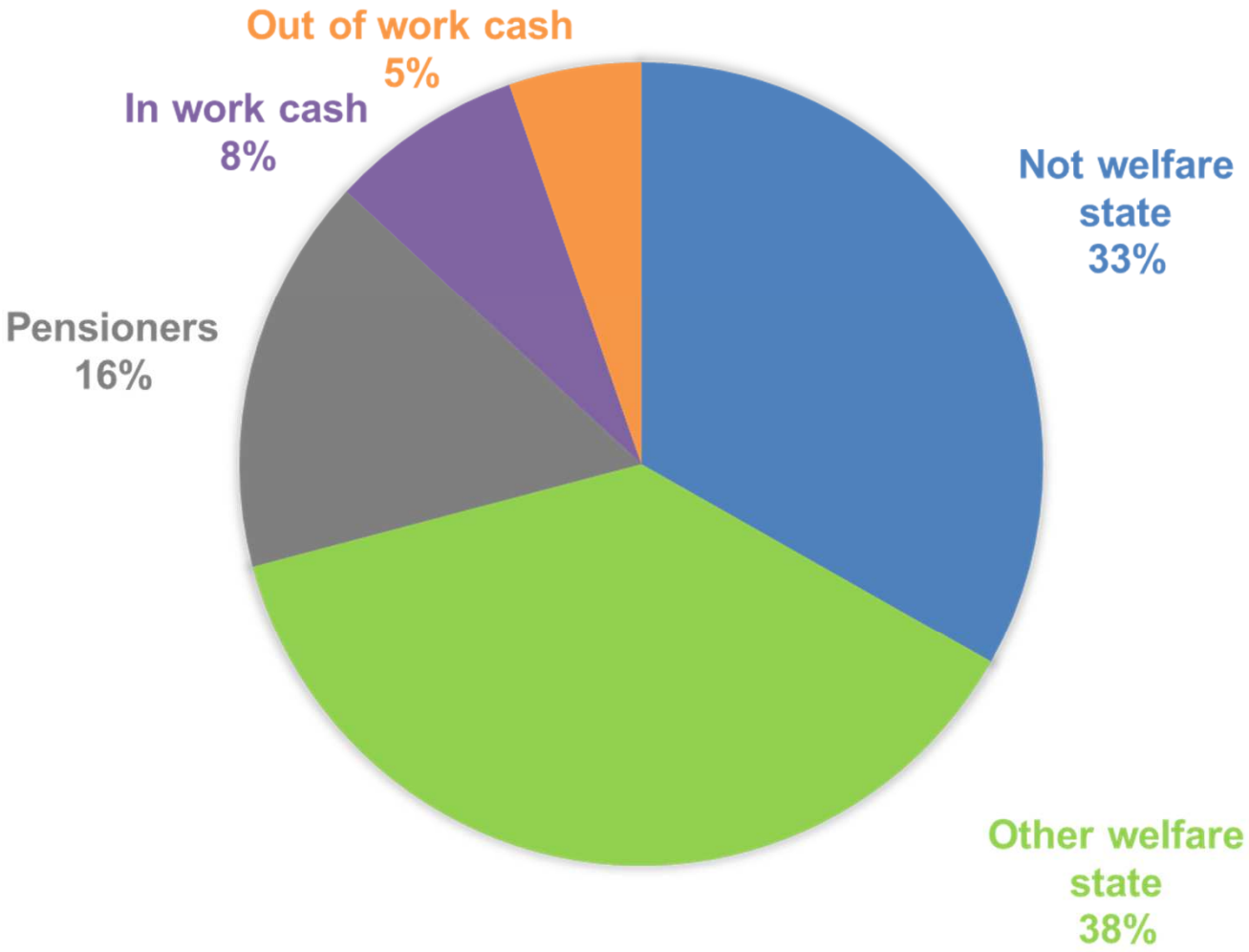


Source: HMRC

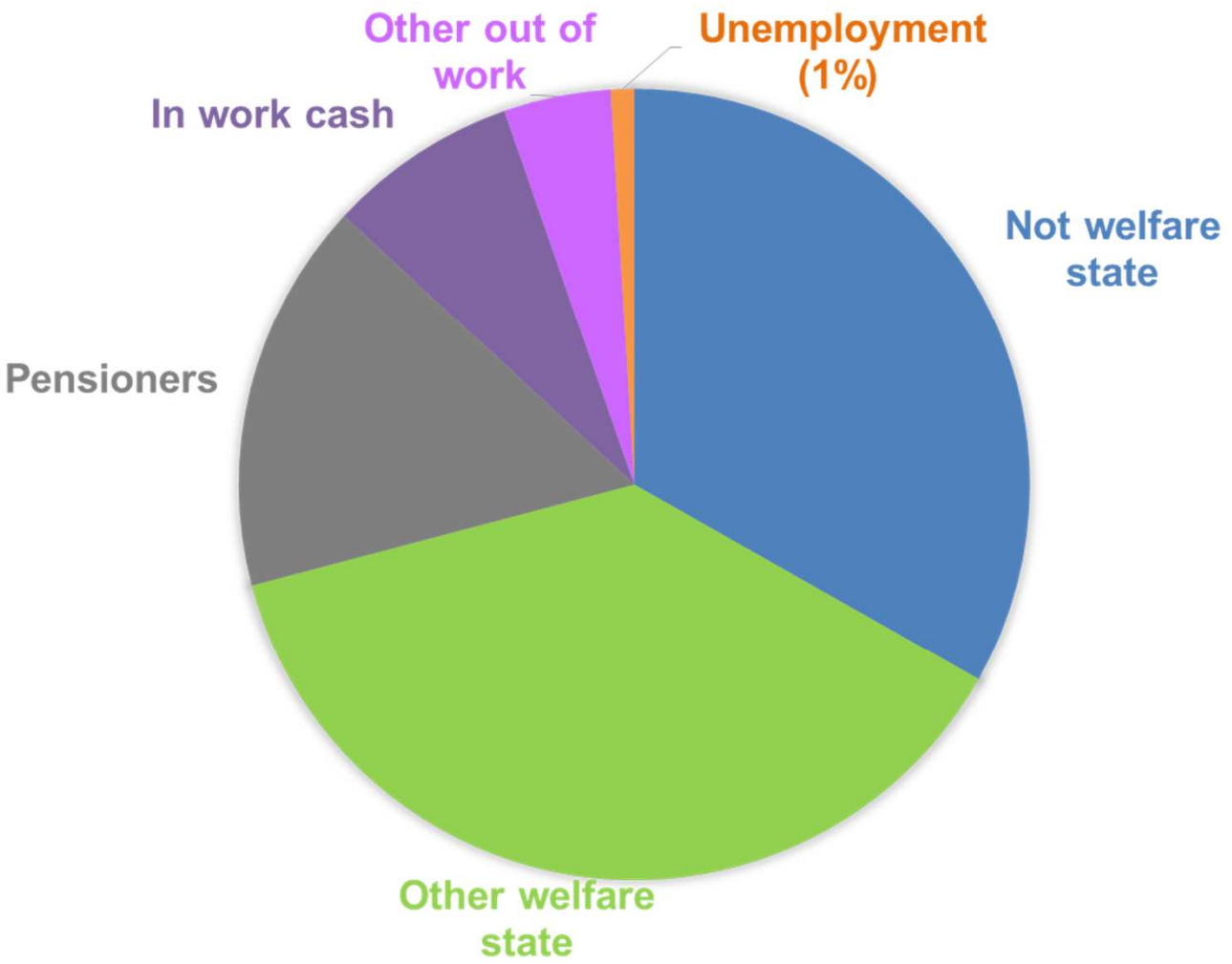
Where your money goes: Another view 1



Where your money goes: Another view 2



Where your money goes: Another view 3



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….

Good Times Bad Times: The welfare myth of *them* and *us*

John Hills
London School of Economics
12 November 2014

CASE
CENTRE FOR ANALYSIS OF SOCIAL EXCLUSION

E·S·R·C ECONOMIC & SOCIAL RESEARCH COUNCIL

CASE
CENTRE FOR ANALYSIS OF SOCIAL EXCLUSION

LSE Department of Social Policy

Department of Social Policy public lecture

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

Professor Sir John Hills
Director, Centre for Analysis of Social Exclusion (CASE), LSE

Polly Toynbee
Political and Social Commentator, The Guardian

Professor Holly Sutherland
Director, EUROMOD, ISER, University of Essex

Professor Julian Le Grand
Chair
Richard Titmuss Professor of Social Policy, LSE

Suggested hashtag for Twitter users: **#LSEwelfaremyth**

LSE events

CPD CERTIFIED
The CPD Certification Service