

Policy developments in the UK: Who faces weak work incentives?

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ESRC Festival of Social Sciences

Workshop “What works for work incentives: moving off benefits”

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Overview

- How have incentives to work at the intensive margin been affected by past tax and benefit reforms?
- How will they be affected by potential future changes of tax and benefits?
- Who faces weak work incentive at the intensive margin?

What we do

- We study the working population in 2005/6, 2010/5, 2015/6, 2017/8 and 2020/21
 - Using EUROMOD-UK with the Family Resource Survey data
 - Implemented and announced tax and benefit changes
 - OBR forecasts for earnings growth
- Assumptions
 - We account for gradual roll-out of UC
 - We do not account for non-take-up
 - We do not allow for employment effects (i.e. higher NLW)
 - We ignore indirect taxes
 - We look at the income of the family, not the household: this makes a difference (think of 26 y-o living with mum and dad)



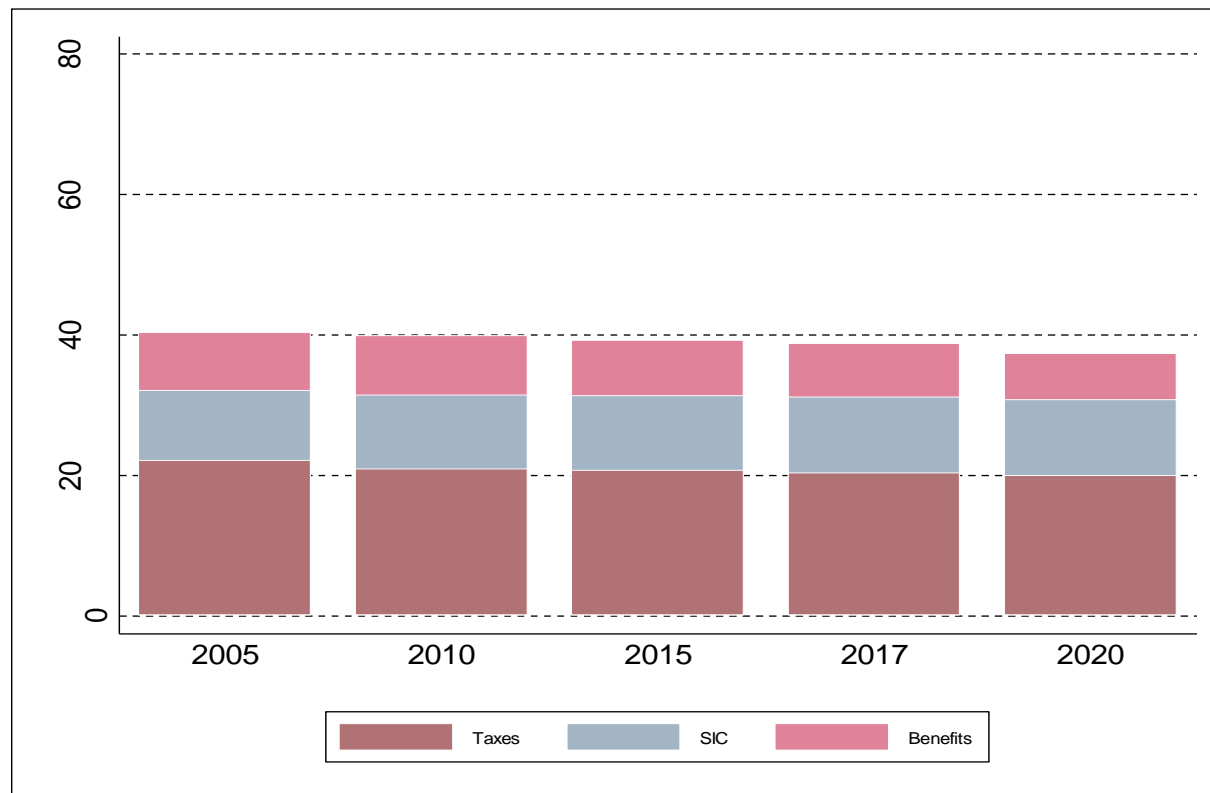
Results

1. Decomposition of work incentives by taxes, SIC and benefits over time
2. Distribution of METRs and how they have changed over time
3. Portrait of people facing low work incentives in the UK

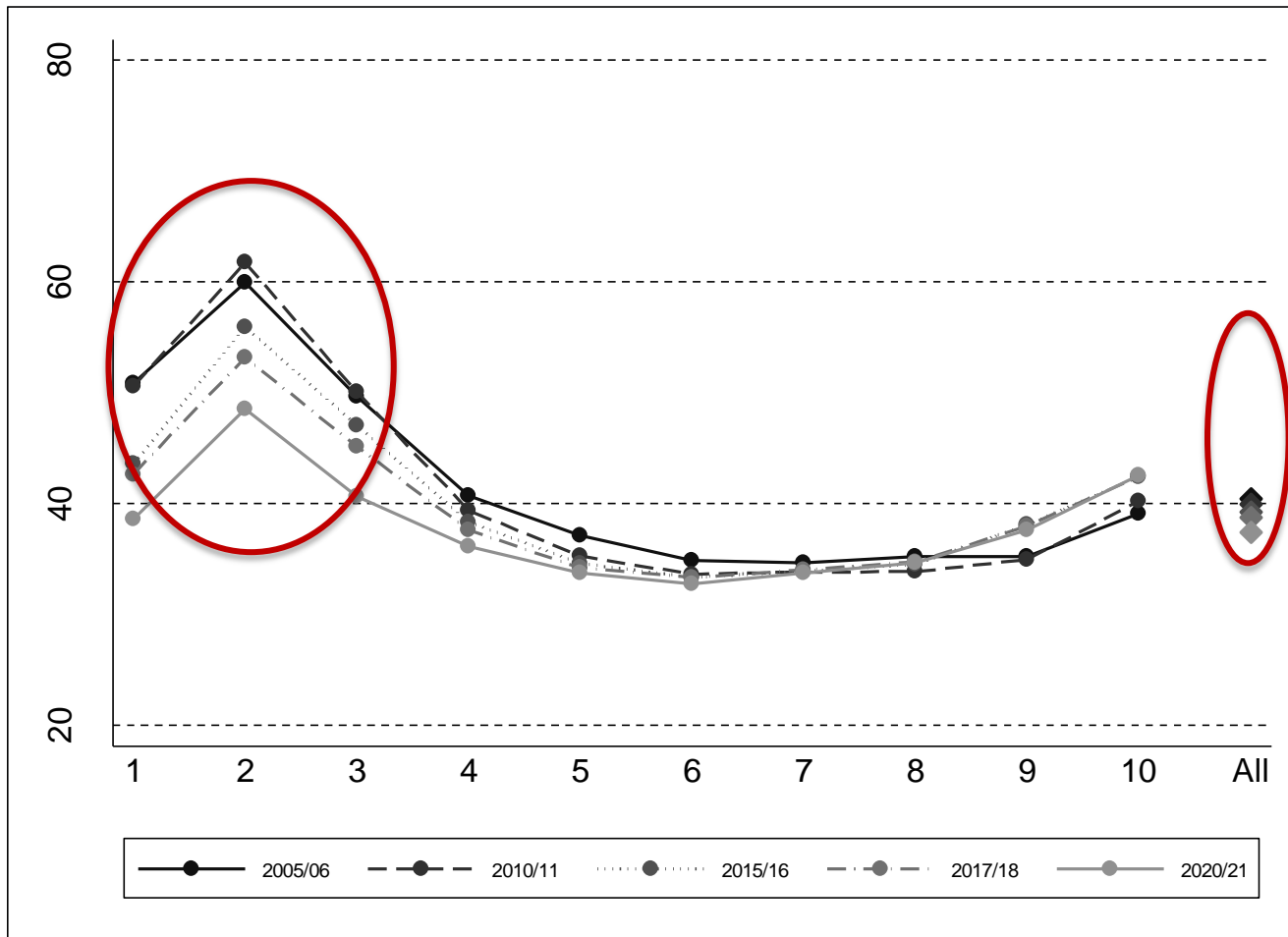
→ selected results

1. At the intensive margin, average METRs are mostly driven by SIC and taxes

Decomposition of mean METR by income source 2005-2020

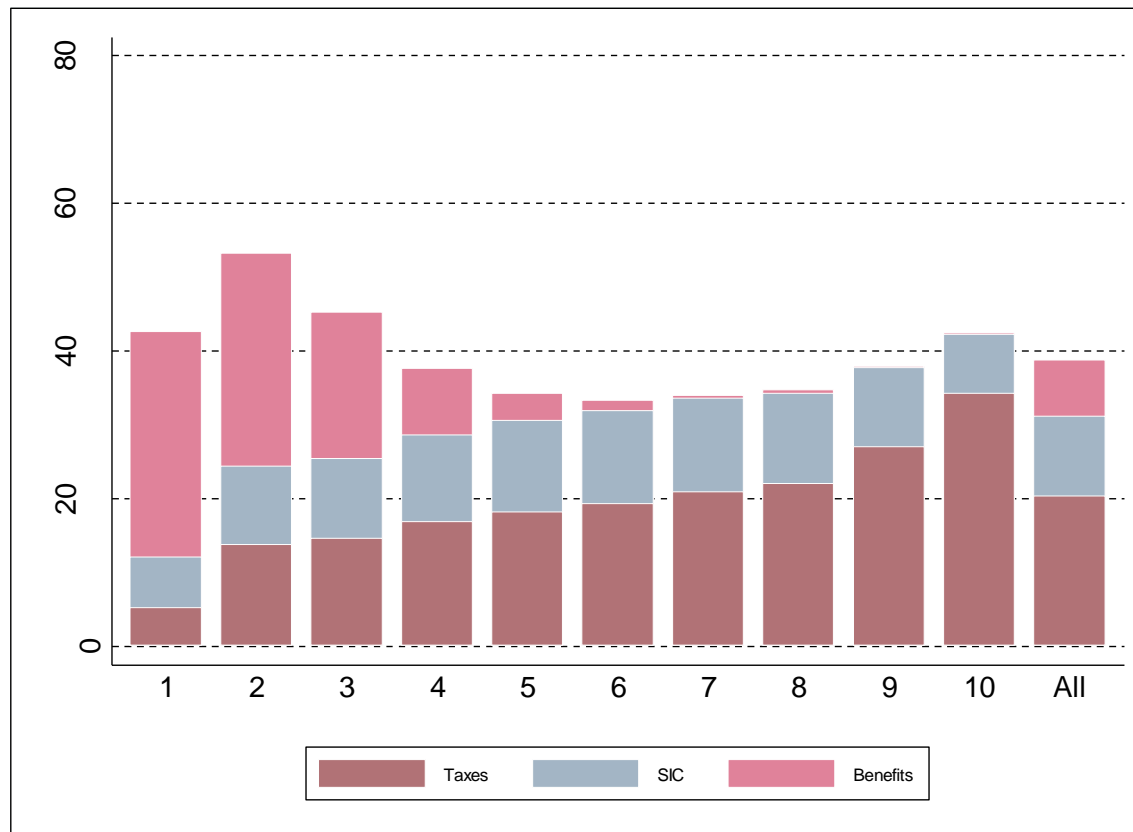


2a. Marginal Effective Tax Rates - over the working working-age population income distribution of 2017/18



2b. Marginal Effective Tax Rates - decomposition over the working working-age population income distribution of 2017/18

Decomposition of mean METR by income source in 2017

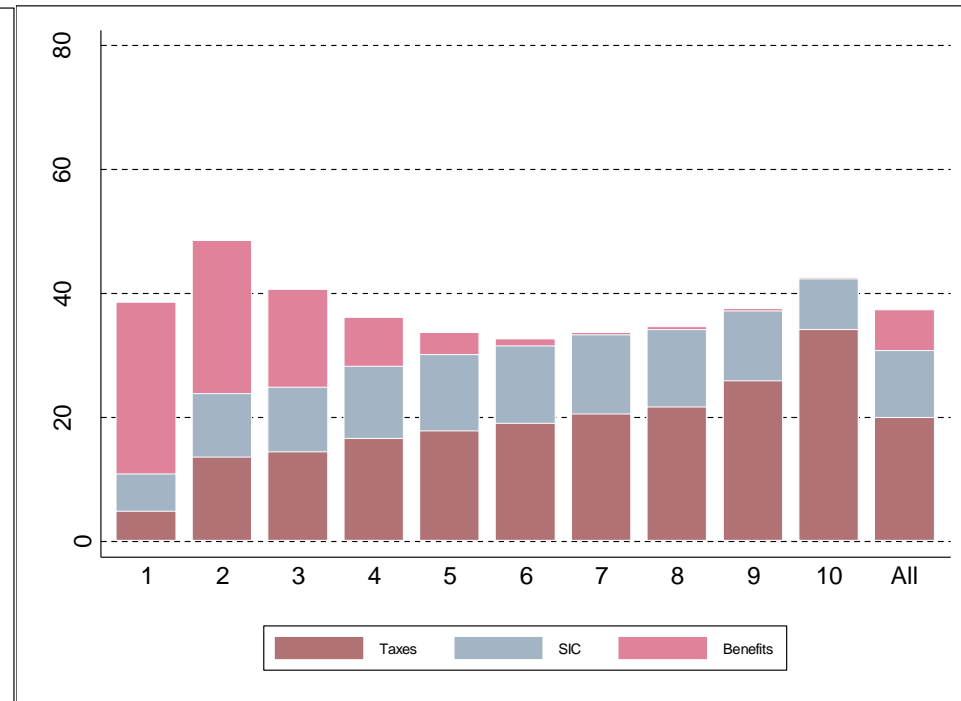
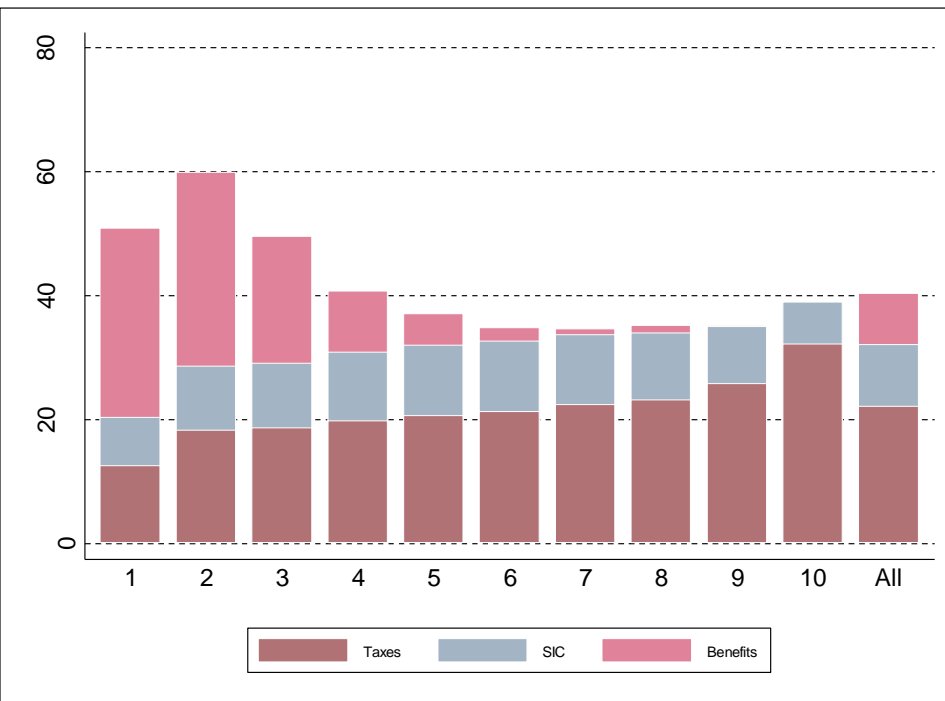


2c. Marginal Effective Tax Rates - decomposition over the working working-age population income distribution of 2017/18

Decomposition of mean METR by income source

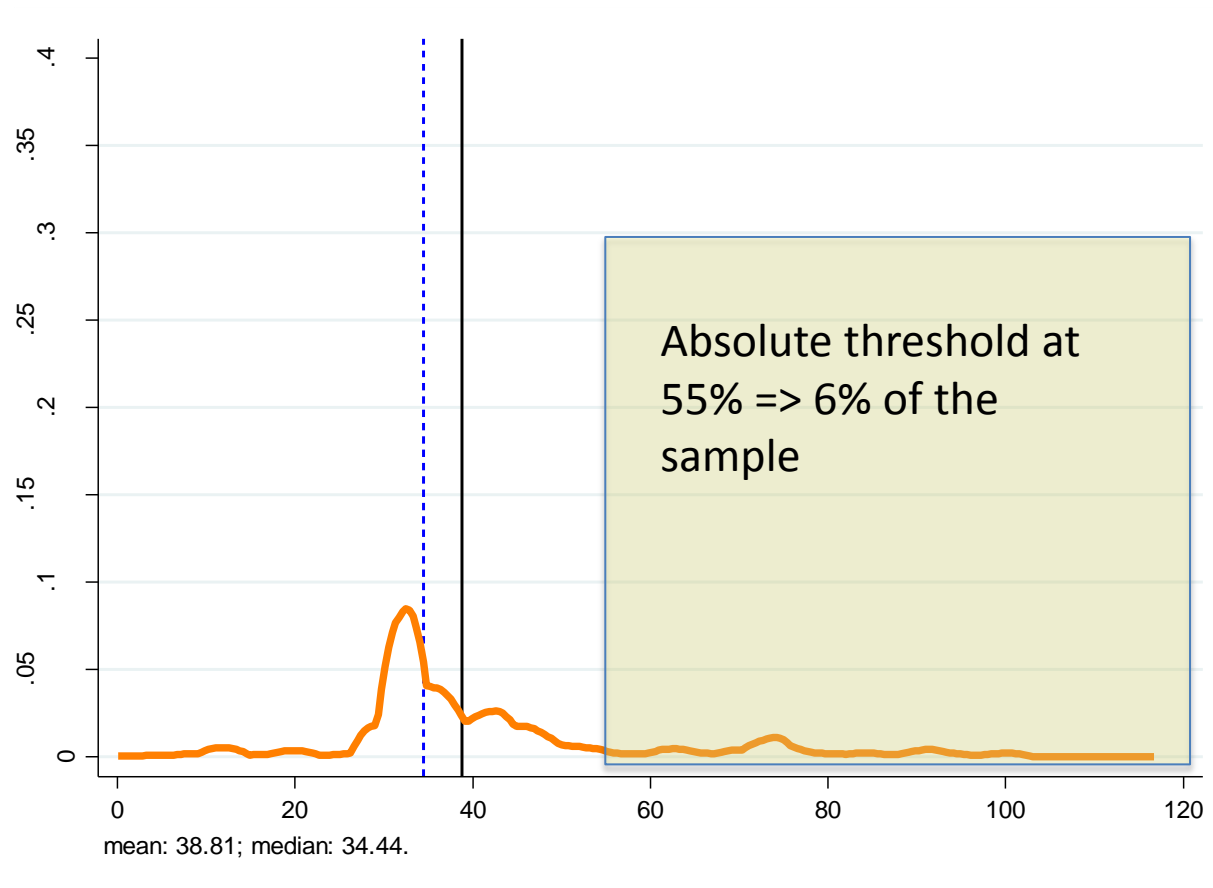
In 2005/6

In 2020/21



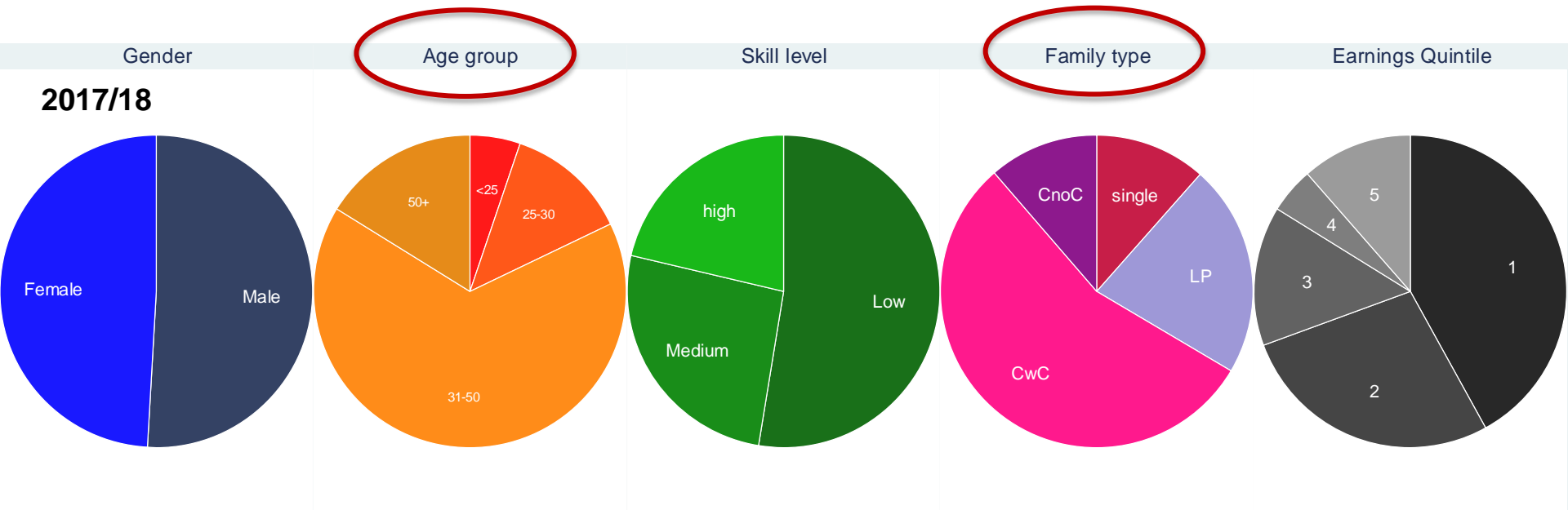
3. Identifying people facing weak work incentives at the intensive margin

Distribution of METR in 2017



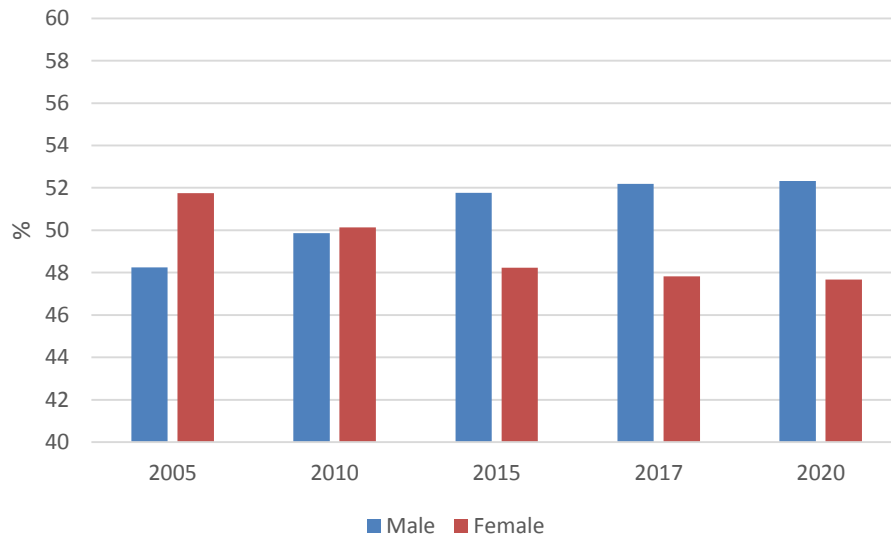
4. The profile of the group with weak work incentives in 2017/18 in the UK

Characteristics of population facing METR above 55%



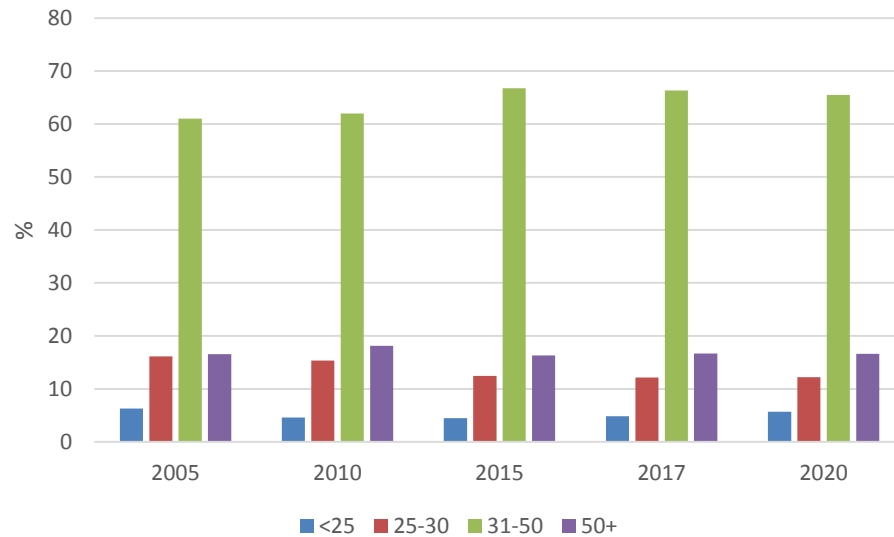
4a. The profile of people facing weak work incentives over time in the UK

Characteristics of population facing METR above 55% - by gender



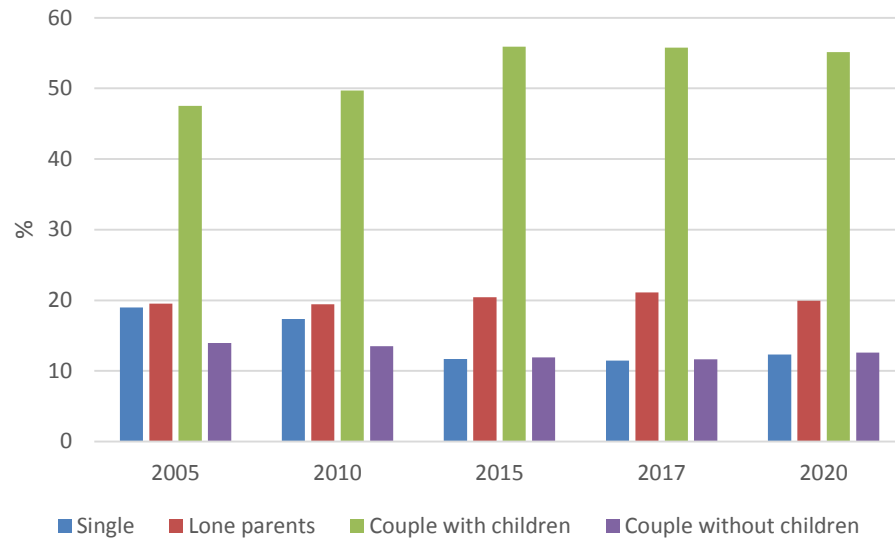
4b. The profile of people facing weak work incentives over time in the UK

Characteristics of population facing METR above 55% - by age groups



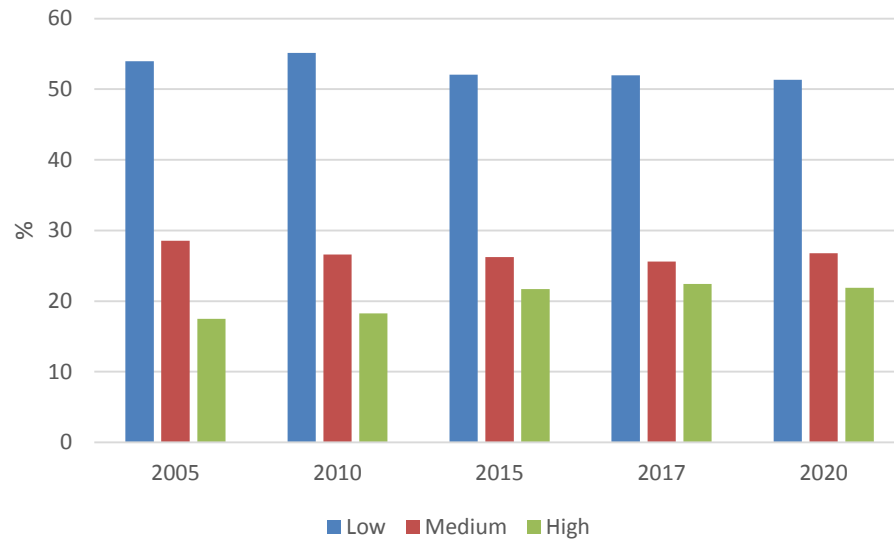
4c. The profile of people facing weak work incentives over time in the UK

Characteristics of population facing METR above 55% - by family type



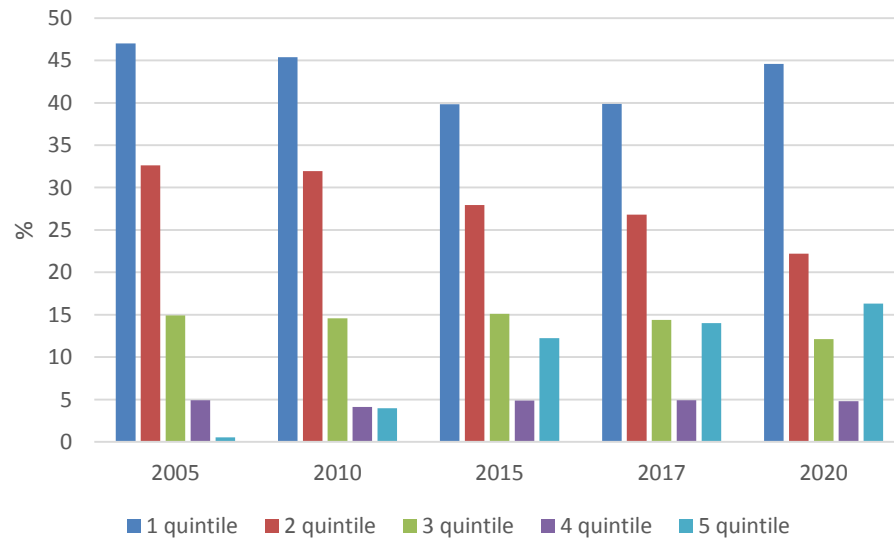
4d. The profile of people facing weak work incentives over time in the UK

Characteristics of population facing METR above 55% - by skills



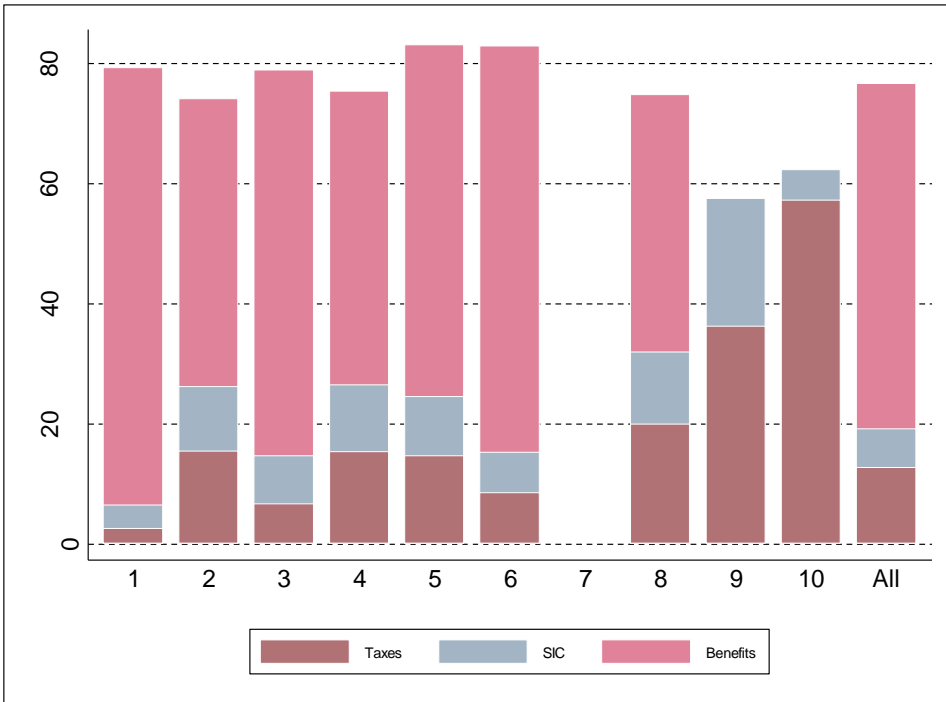
4e. The profile of people facing weak work incentives over time in the UK

Characteristics of population facing METR above 55% - by earnings groups

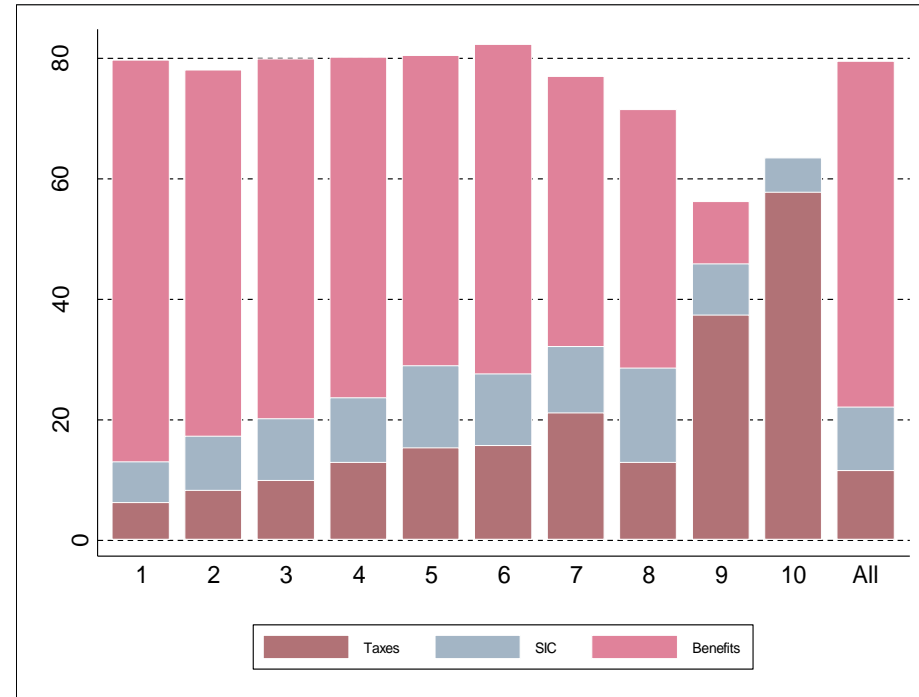


5. The profile of people facing weak work incentives over time in the UK

Single vs Lone Parents facing METR above 55% over the working working-age income distribution in 2017/18



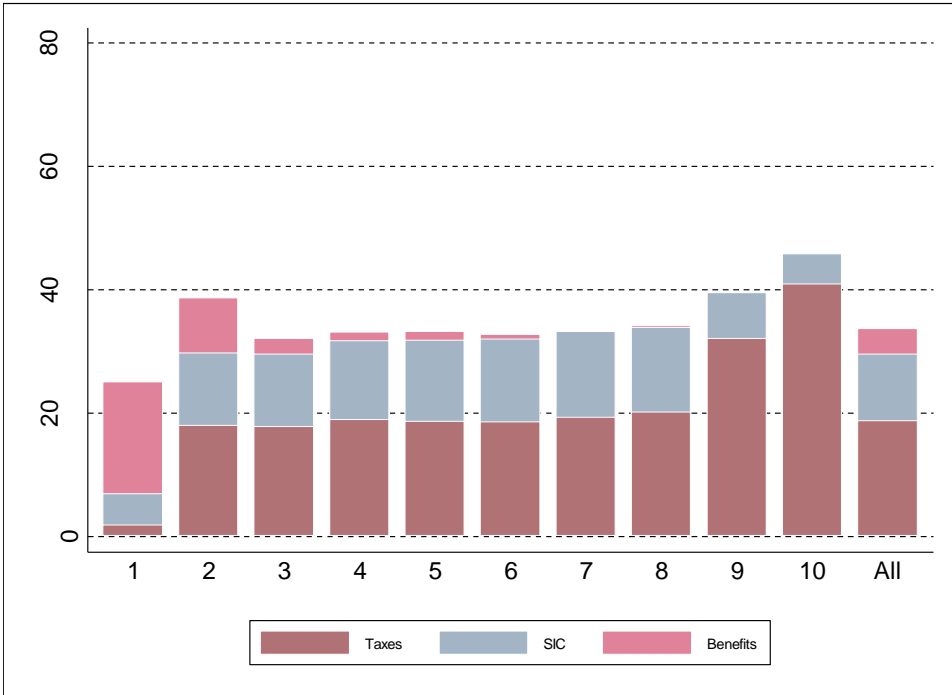
Single



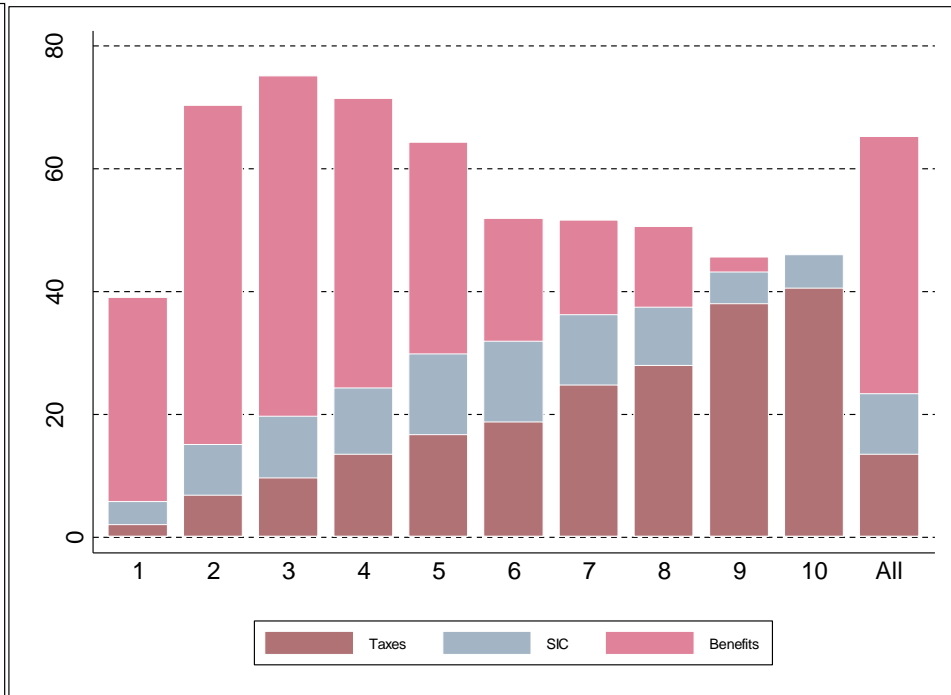
Lone Parents

5a. The profile of people facing weak work incentives over time in the UK

Single vs Lone Parents - METR decomposition over the working working-age income distribution in 2017/18



Single



Lone Parents

Conclusions

- Incentives to work or earn more in the UK have on average increased (METRs decreased) since 2005 mainly driven by reduce earning loss toward taxes
- For families at the bottom of the income distribution work incentives are strongly related to benefits
- Low paid men age 30-50 with low skills and with children are those more likely to face weak work incentives
- Useful first step to discuss potential reforms to make work pay especially in relation to the rolling-out of Universal Credit
- Starting point to discuss appropriate definition of low work incentive