Spending Review 2020: IFS analysis
Welfare and the National Living Wage

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@TheIFS
Cost of the policy response
2020-21

£12bn

March Budget  April  May  June  June  July - Fiscal Sustainability Report  July - Summer Economic Update  November - Economic and Fiscal Outlook
Cost of the policy response
2020-21

Great Recession
~1% of GDP

=14% of GDP, 32% of spending
£10k per household

£280bn

£12bn

March Budget
April
May
June
June
July - Fiscal Sustainability Report
July - Summer Economic Update
November - Economic and Fiscal Outlook

Welfare and the National Living Wage
Where’s all the money going?

£280bn
2020-21
Where’s all the money going?

Public services

£280bn
2020-21
Where’s all the money going?

£280bn
2020-21

Public services

Business support

Loans & guarantees

CJRS & SEISS
Benefit spending
Percent of GDP

Working-age
Benefit spending
Percent of GDP

£16bn – policy & economy

Working-age

Welfare and the National Living Wage
Benefit spending
Percent of GDP

Working-age

Welfare and the National Living Wage
Benefit spending
Percent of GDP

Pensioners
Working-age
Plan still for temporary UC increase to be temporary

- Back in March government announced temporary £20 pw increase in Universal Credit (and Working Tax Credit)
- Benefits 6m families by £1,000 p.a.
- No reference to this yesterday
- Current plans – **expires at the end of March 2021**, implying large overnight cash losses (13% of ben. entitlement for UC claimants)
Housing benefit to be (re-)disconnected from local rents

- In March, max housing benefit for private renters temporarily increased to cover cheapest 30% of properties in their local area
- Yesterday: freeze these max amounts in cash terms indefinitely

Two important effects

1. As rents rise, share of properties claimants can afford dwindles
2. Support you can get related to rents in your local area in 2019

- Bizarre outcomes: some high rent areas get less support than some in low rent ones
National Living Wage – small rise in rate, growing reach

2020-21 prices
National Living Wage – small rise in rate, growing reach

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2020-21 prices

25-64 median hourly wage

NLW/NMW

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National Living Wage – small rise in rate, growing reach

2020-21 prices

More than a quarter of 21 y/o currently paid under NLW

Coverage expanded to age 21+

Coverage expanded to age 23+

25-64 median hourly wage

NLW/NMW

Welfare and the National Living Wage
Conclusion

- Crisis has revealed shortcomings of the welfare system

- The government has papered over this with new policies like furlough & temporary welfare expansions

- In the long term need more systematic thinking about the design of the system – and in the short term on specific choices in Universal Credit and housing benefit