Children versus pensioners: Which have benefitted most from the state over the last 30 years?

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Motives

- Research preoccupation with child poverty and child well-being
- Ageing – fertility ↓ life expectancy ↑
- Children and pensioners largest consumers of social expenditure
- In competition for social expenditure will pensioners win - because of grey power
- David Willetts (2010) *The Pinch* ‘the boomers have been guilty of a monumental failure to protect the interest of future generations’
- Gerry Redmond Australian comparison
Limitations

- Not LIFEMOD analysis – not an analysis of impact of the welfare state over the life-cycle including an analysis of the receipts and payments by welfare generations.
- Willetts’s focus broader – real incomes, two earner households, impact of globalisation, inflation and the house price boom.
- Indeed Willetts ignored the welfare state.
- But welfare state will be needed to right any wrongs.
- Has welfare state effort moved in favour of pensioners at expense of children?
Two types of analysis

**Comparative** using OECD social expenditure data

- Expenditure on cash benefits and services for the retired (pensions, early retirement pensions, ‘other’ cash benefits, residential care or home help services and ‘other’ benefits in kind), and
- Expenditure on cash benefits and services for children (family allowances, maternity and parental leave, ‘other’ cash benefits, day care or home help services and ‘other’ benefits in kind)

**UK** using

- *ONS The effects of taxes and benefits on household incomes* in the UK reports since 1977 and,
- from 1994-5 onwards, the dataset on which the analysis is based available in the UK Data Archive.
Spending per child and per retired and ratios: UK (source: OECD)

Break in retired series 1990

[Graph showing expenditure per child and per retired person as a percentage of GDP and expenditure per child as a percentage of expenditure per retired person from 1980 to 2007]
Spending per child as % of spending per elderly person

[Bar chart showing spending per child as % of spending per elderly person across various countries (Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom, United States) for years 1980, 1990, 2000, and 2007.]
Problems with OECD data

- ? consistency of the OECD classification of social expenditure between countries.
- The OECD classification of public social expenditure does not include tax expenditures, mandatory occupational provision, occupational benefits, housing benefits, health expenditure or child support (alimony).
- Does not take account of the fact that benefits are taxed in some countries and not others.
- Adema net social expenditure data available, only from 2001 onwards, it is not disaggregated by age group.
- Education expenditure is available but not included here
- ?consistency of the classification in any one country over time.
- For example some countries have turned elements of their cash benefits for children into tax benefits in recent years which may not be classified as social expenditure. Black box.
- The latest data we have is up to 2007– well before the current recession began.
- This data does not allow us to observe distributional changes, or which elements of the tax and benefit system have contributed to the changes described.
- So this led us to the analysis of UK micro data.
Based on the effects of taxes and benefits on household incomes in the UK

Our analyses uses

- the reports from 1977 to 2010-11
- the datasets in the ESRC Data archive from 1994-5 to 2009-10

to examine how

- **Original income**: Cash income before any form of taxation or receipt of any benefits or services in kind.
- **Gross income**: Original income plus cash benefits.
- **Disposable income**: Gross income minus direct taxation and National Insurance contributions.
- **Post-tax income**: Disposable income minus indirect taxation.
- **Final income**: Post-tax income plus benefits received in kind

have become more or less favourable to retired households and households with children over 33 years
4 limitations

- The reports do not provide equivalised income by household type for all distributional stages, only for disposable income. Composition has been changing over time.
- Subject to a range of assumptions made by the ONS authors (e.g. definitions, treatment of negative incomes and values of in-kind benefits).
- Third, prior to 1991-2 for households with children and 1990-1 for retired households, aggregated means were not reported by household composition within each household type. For these years we estimated weighted means for each household type from the reported values for the disaggregated household types.
- Sample weights lacking until 1996-7. Given datasets were only available from 1994-5 onwards, adjusting most of the unweighted years’ means was impracticable. Therefore, we report unweighted data from 1977 to 1995-6 and weighted data from 1997-8 onwards. Sensitivity analyses using the micro-level datasets suggest using unweighted data in the later years would not substantively alter our findings.
Average original income of retired households as a % the average income of households with children
Mean net transfers to retired households, £ per year

Cash benefits
In-kind benefits
Direct taxes
Indirect taxes
Net average social expenditure
Average **Cash benefits** for retired households as % of average cash benefits for households with children
direct and indirect taxes paid by retired households as a percentage of those paid by households with children
Ratio of average in kind services for retired households as a percentage of average in kind services for households with children.

Break in series 2005/6
Ratio of retired households’ income as a percentage of those of households with children’s income at stages of the distributional process
Final Income Gini coefficient (right hand axis) and 80/20 ratios (left hand axis)
Per cent increase in incomes 1994/5-2009/10
Poverty rates after housing costs
OECD social expenditure data 1980 to 2007, gives no support to the hypothesis that the welfare state in the UK or most other countries has become less generous to children.

In the UK the impact of taxes and benefits on the retired households vis a vis households with children has been extraordinarily stable over the last 20 years.

A small improvement in the relative value of cash benefits for families with children has been reinforced by a small improvement in their relative tax take thanks mainly to indirect taxes.

The relative value of services in kind for the retired increased until 2006/7.

The final incomes of retired households have improved relative to families with children but this was achieved entirely as a result of the relative improvement in retired household original income, almost entirely due to occupational pensions.

Ratios of inequality between retired and families with children have changed very little, although retired households have become slightly more equal relative to families with children in recent years.
Be vigilant

- Though there is little evidence that public policy has contributed to a shift in resources between age groups or at least not the benefits, taxes and services aspects of social policy.
- Social policy is only part of the story. Most of the discussion of generational equity focuses on earned income, the value of housing, access to higher education and other capital.
- Intergenerational Foundation Fairness Index (if.org.uk) – nine indicators – deteriorating 1990-2010
- We should be wary of predicting the future from the past.
  - ageing is speeding up until 2030
  - aggregate spending on elderly increasing even if average not
  - the Coalition Government has concentrated cuts on families with children
  - Now triple lock on pensions versus 1% for children
  - plan for higher basic pension
Distributional impact of cuts IFS by 2015

Distributional impact of tax and benefit reforms
January 2010 - April 2015 inclusive, as if Universal Credit fully in place

- Pensioner households
- Households with children
- Working-age without children

Note: excludes reforms to Council Tax Benefit and tax credit disregards.
Fuel duty modelled at average 2015-16 level.
Cash-terms figures will be available on the IFS website.