The future of the UK welfare state

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Pressures on the welfare state

- Demographic change
- Technological advance/Baumol effects
- Globalisation: factor mobility/tax competition
- Debt overhang from Great Recession
- Social attitudes
OBR central scenario 1: don’t worry, you’ll be dead

Chart 1: Central projection of the primary balance and PSND

Source: OBR
### Table 3.6: Non-interest spending projections

<table>
<thead>
<tr>
<th></th>
<th>Estimate $^1$</th>
<th>Per cent of GDP</th>
<th>FSR Projection</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2012-13 2017-18</td>
<td>2020-21 2022-23</td>
<td>2032-33 2042-43</td>
</tr>
<tr>
<td>Health</td>
<td>8.1 7.0</td>
<td>6.9 7.0</td>
<td>7.6 8.2</td>
</tr>
<tr>
<td>Long-term care</td>
<td>1.2 1.3</td>
<td>1.4 1.5</td>
<td>1.8 2.1</td>
</tr>
<tr>
<td>Education</td>
<td>5.6 4.6</td>
<td>4.5 4.5</td>
<td>4.5 4.3</td>
</tr>
<tr>
<td>State pensions</td>
<td>6.0 5.8</td>
<td>5.7 5.8</td>
<td>6.6 7.5</td>
</tr>
<tr>
<td>Pensioner benefits</td>
<td>1.2 1.0</td>
<td>1.0 1.0</td>
<td>1.0 1.1</td>
</tr>
<tr>
<td>Public service pensions</td>
<td>2.2 2.3</td>
<td>2.2 2.2</td>
<td>1.9 1.6</td>
</tr>
<tr>
<td><strong>Total age-related spending</strong></td>
<td><strong>24.4 22.0</strong></td>
<td><strong>21.6 21.9</strong></td>
<td><strong>23.4 24.8</strong></td>
</tr>
<tr>
<td>Other social benefits</td>
<td>6.5 5.8</td>
<td>5.7 5.7</td>
<td>5.8 5.8</td>
</tr>
<tr>
<td>Other spending</td>
<td>9.6 8.8</td>
<td>8.7 8.4</td>
<td>8.4 8.4</td>
</tr>
<tr>
<td><strong>Spending</strong> $^2$</td>
<td><strong>40.5 36.7</strong></td>
<td><strong>36.1 36.1</strong></td>
<td><strong>37.6 39.0</strong></td>
</tr>
</tbody>
</table>

$^1$ Spending consistent with the March 2013 EFO.

$^2$ Excludes interest and dividends.
Chart 3.4: Representative profiles for tax and public services spending

Spending in 2020-21 (£ thousands)

Age

Education
Health
Long-term care
Tax
Total public services

Source: OBR
Headline implications

- “Breathing space” post-austerity. Good or bad?

- Pensions and health are the big issues. Implicit crowding out?

- WA benefit spending and public sector pensions: move along, nothing to see here.
Key issues

• Pensions: (fiscal) affordability vs. adequacy

• Immigration

• Health sector productivity/demand

• The political economy of working age benefit spend
Pensions

- Implicit contribution rate on good DB scheme (eg PCSPS): 20-25%

- Contribution rate in relatively generous DC schemes: 10-15%

- NEST: 8%
Chart 3.14: Public sector net debt for demographic variants

Source: OBR
Chart 3.16: Public sector net debt assuming lower productivity in the health care sector.

Source: OBR
Figure 4: Social security spending as a share of GDP (working age and total)

Source: 1955/56 to 2017/18, GB benefits and tax credits, DWP; 2018/19 to 2031-32, ‘UK spending projections’, Fiscal Sustainability Report, OBR 2012 (adjusted for current indexation policies)
Long term decline of replacement rates

Jobseekers Allowance as % of average weekly earnings
What benefit changes do we support and expect to save the most?

- Stopping child benefit at £50k+: £1.7bn
- Capping benefits at £26,000: £290m (or £185m)
- “Bedroom tax”: £500m
- Raising pension age to 66: £5bn

Base: 1,015 British adults aged 16-75

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