

Institute for
Fiscal Studies

Redistribution from a lifetime perspective: historical and hypothetical reforms

Barra Roantree



Introduction (1)

- Have seen that individuals' circumstances vary hugely over time
 - Poor not always poor, and (to a lesser extent) rich not always rich
 - Most entitled to means-tested benefits at some point in time
 - Even lifetime poor spend a majority of working-life in paid work
- ... and this has important consequences for how we assess income inequality and the role of the tax and benefit system
 - Taking a lifetime perspective, Gini coefficient is much lower ...
 - ... lots of what tax & benefit system does is intrapersonal redistribution
- Now use our simulations to answer questions about the lifetime distributional impact of some tax and benefit reforms

Introduction (2)

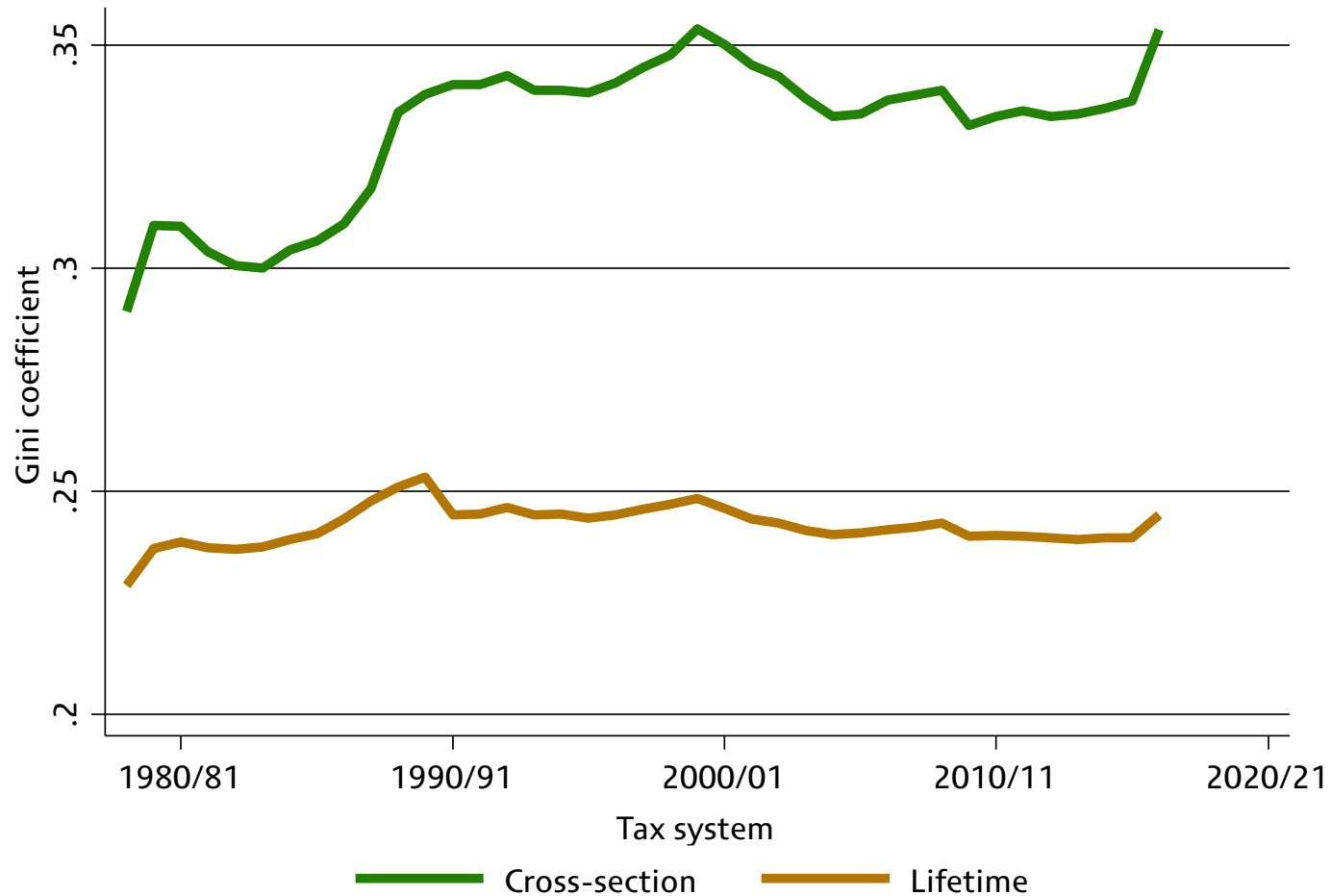
1. Look at effects of historical tax and benefit reforms
 - How have reforms over the last 40 years affected inequality?
 - What were the distributional consequences of recent benefit cuts

2. But also answer some questions about some hypothetical reforms
 - Which policy instruments reduce inequality the most?
 - Are increases in VAT regressive?
 - Are out-of-work benefits, in-work benefits or tax cuts the most effective way to redistribute resources to the lifetime poor?
 - How well do income tax changes target the lifetime rich?

3. Discuss implications of results for policy

HISTORICAL TAX AND BENEFIT REFORMS

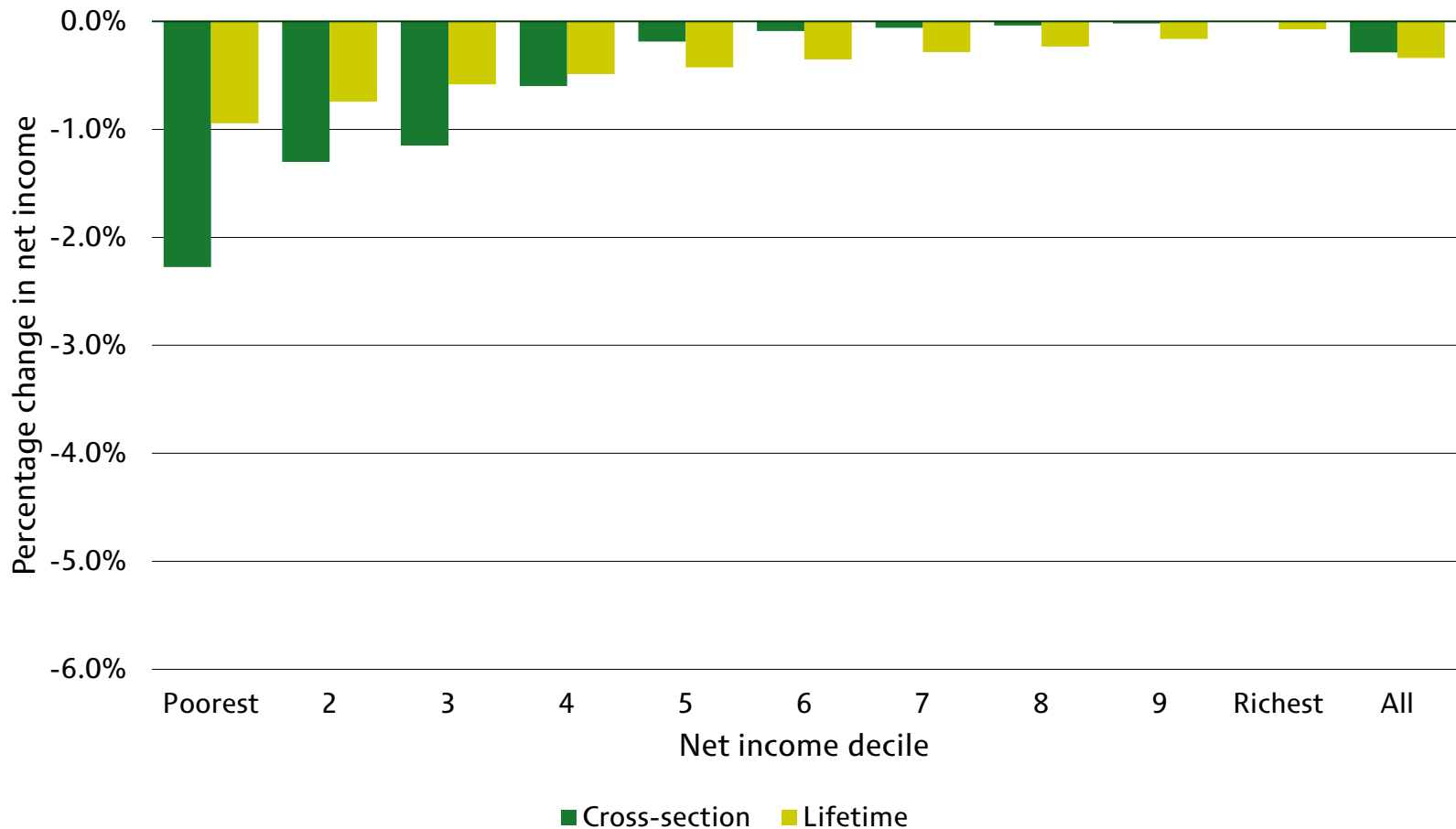
How have 40 years of reforms affected inequality?



Notes: see Figure 4.1 in 'Redistribution from a Lifetime Perspective'

What were the distributional consequences of ...

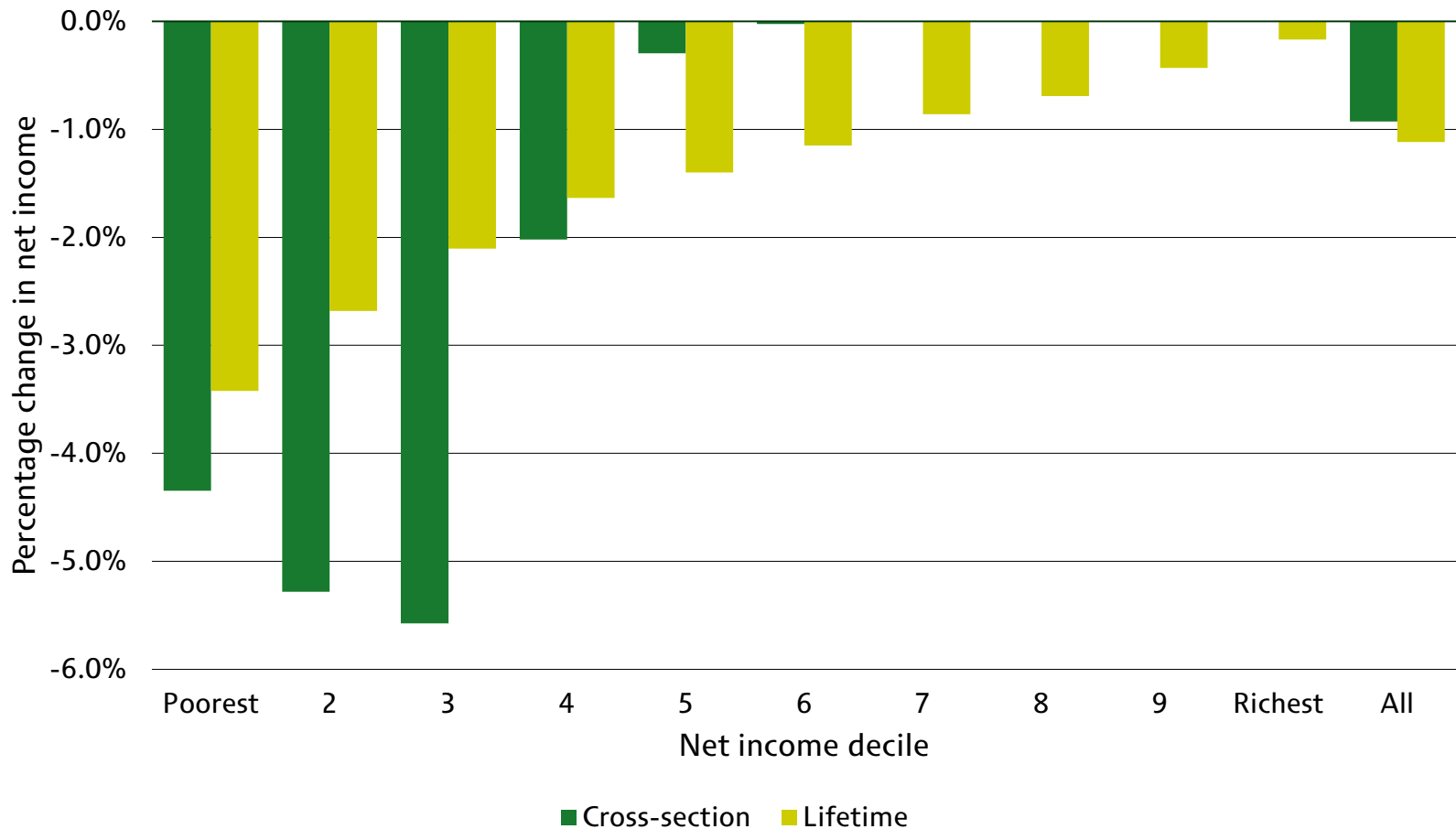
The 4-year benefit freeze announced in the July 2015 Budget



Notes: see Figure 4.4 in 'Redistribution from a Lifetime Perspective'

What were the distributional consequences of ...

The tax credit cuts announced in the July 2015 Budget



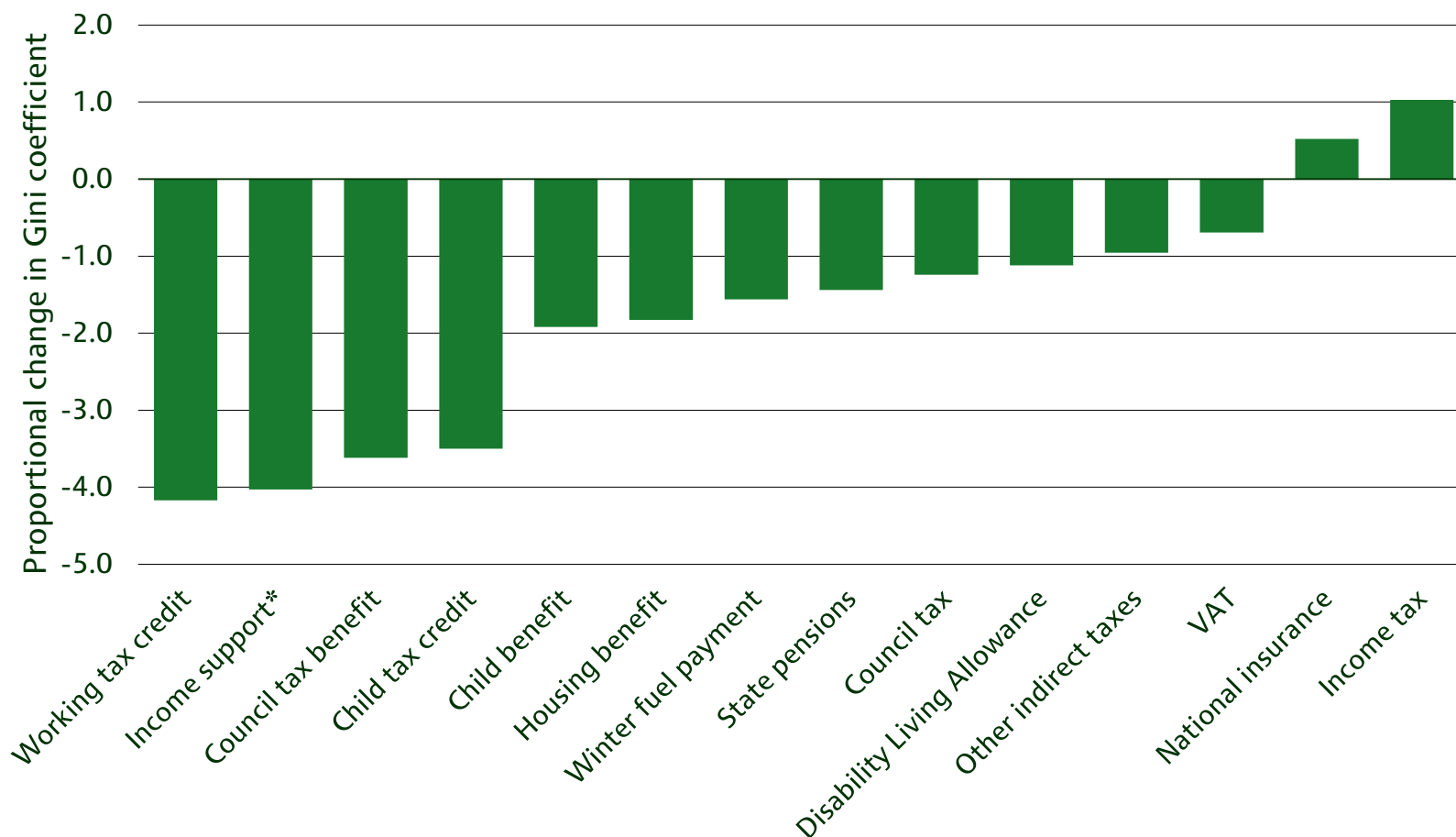
Notes: see Figure 4.5 in 'Redistribution from a Lifetime Perspective'

HYPOTHETICAL TAX AND BENEFIT REFORMS

Hypothetical tax & benefit reforms: some questions

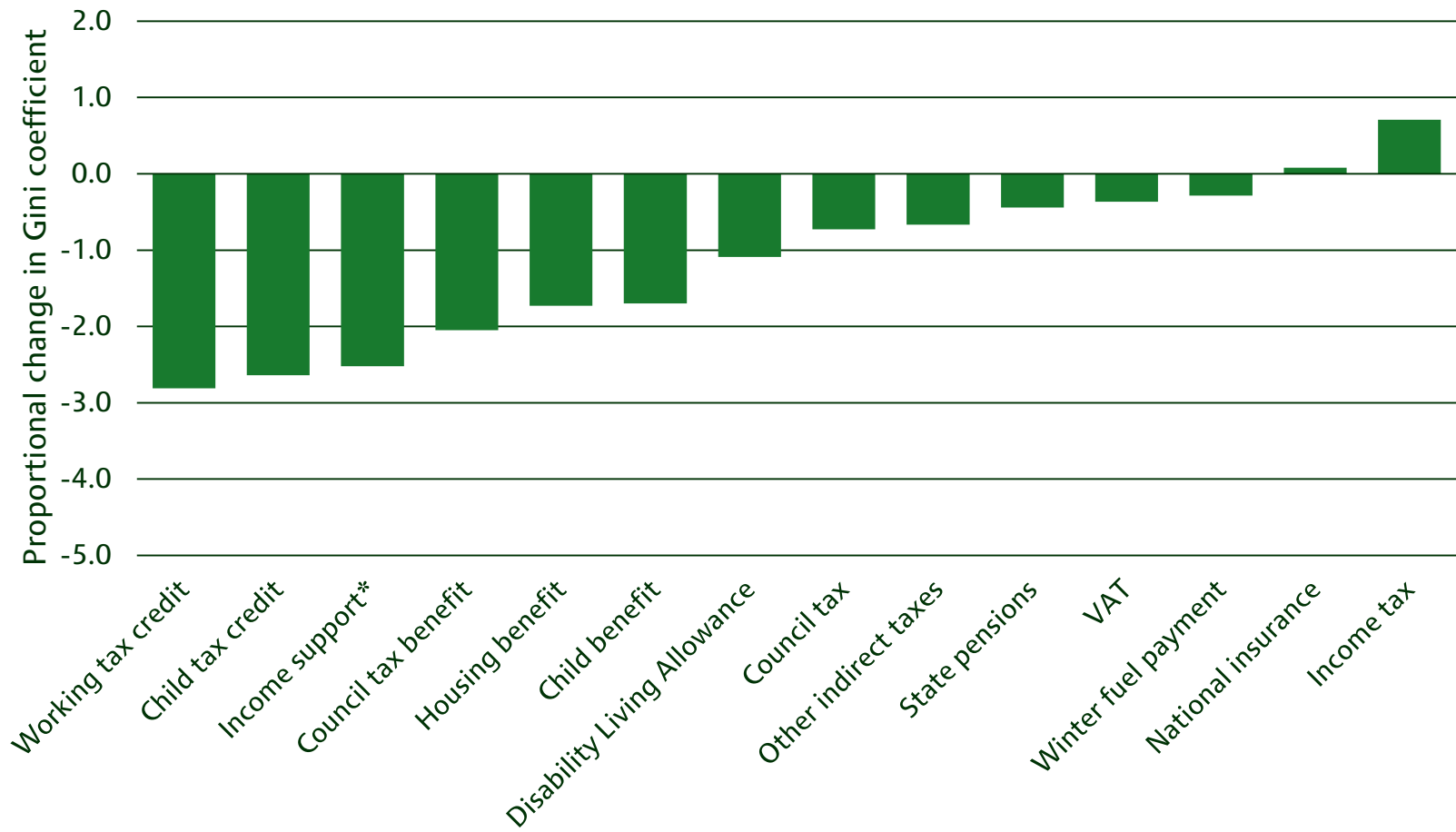
- What's the most cost-effective policy to reduce inequality directly?

What are the most cost-effective policies to reduce cross-sectional inequality directly?



Note: Income Support category includes means-tested Jobseekers Allowance and Employment Support Allowance

What are the most cost-effective policies to reduce lifetime inequality directly?

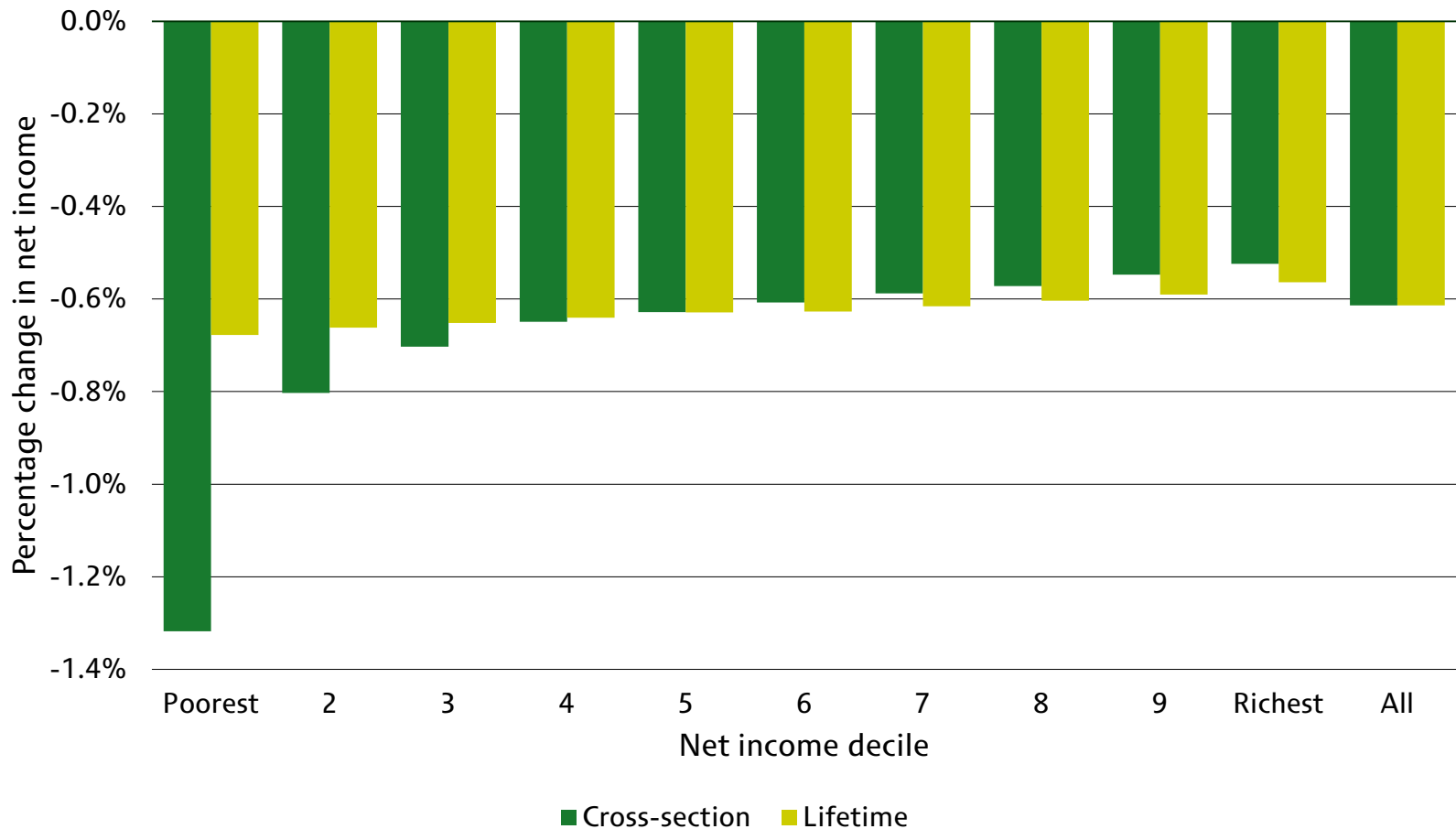


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Hypothetical tax & benefit reforms: some questions

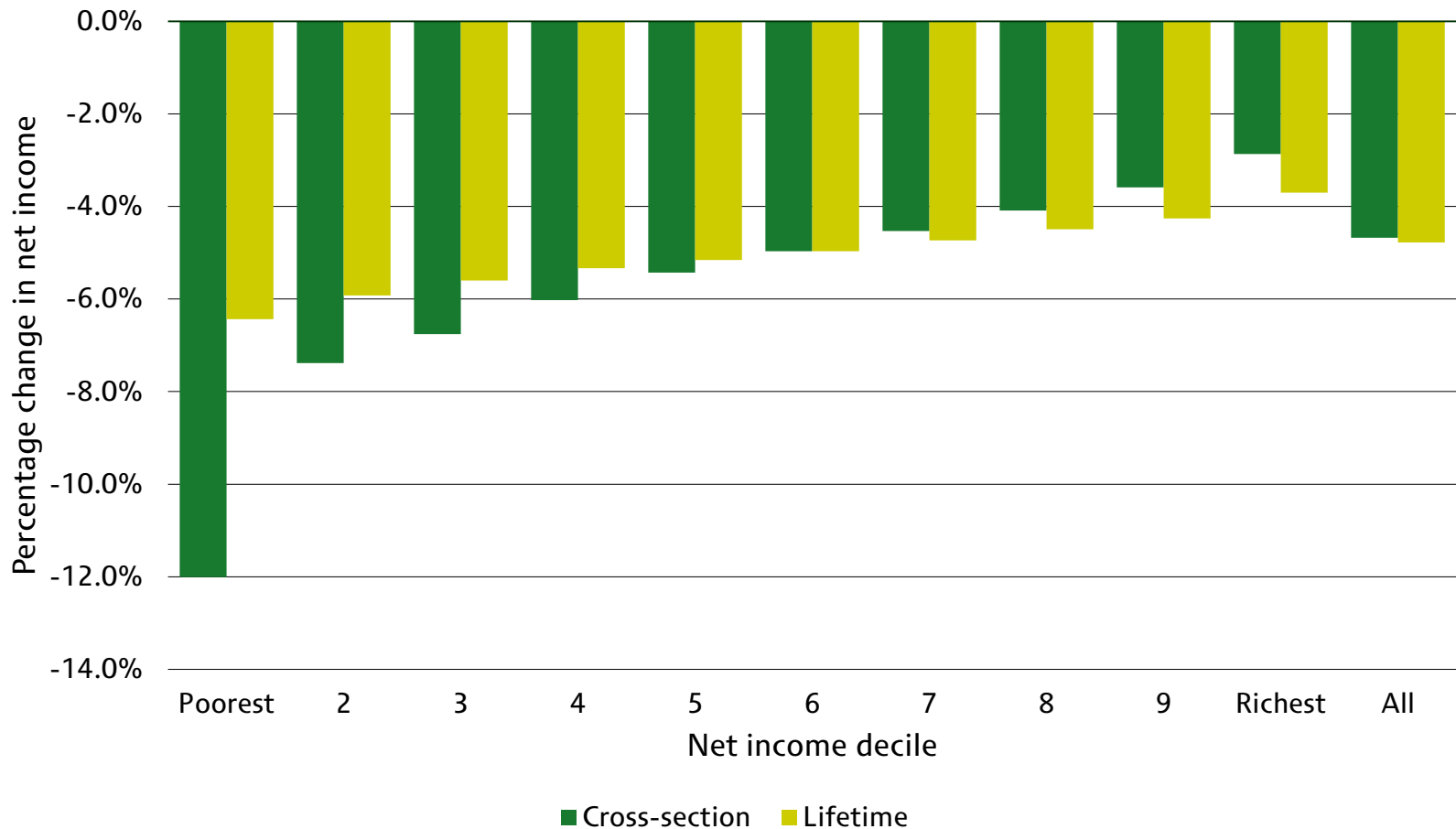
- What's the most cost-effective policy to reduce inequality directly?
 - Working & Child Tax Credit, Income Support, Council Tax Benefit
- Are increases in VAT regressive from a lifetime perspective?

Increases in the main rate of VAT close to neutral



Notes: see Figure 5.1 in 'Redistribution from a Lifetime Perspective'

... but rise in zero- & reduced-rate regressive

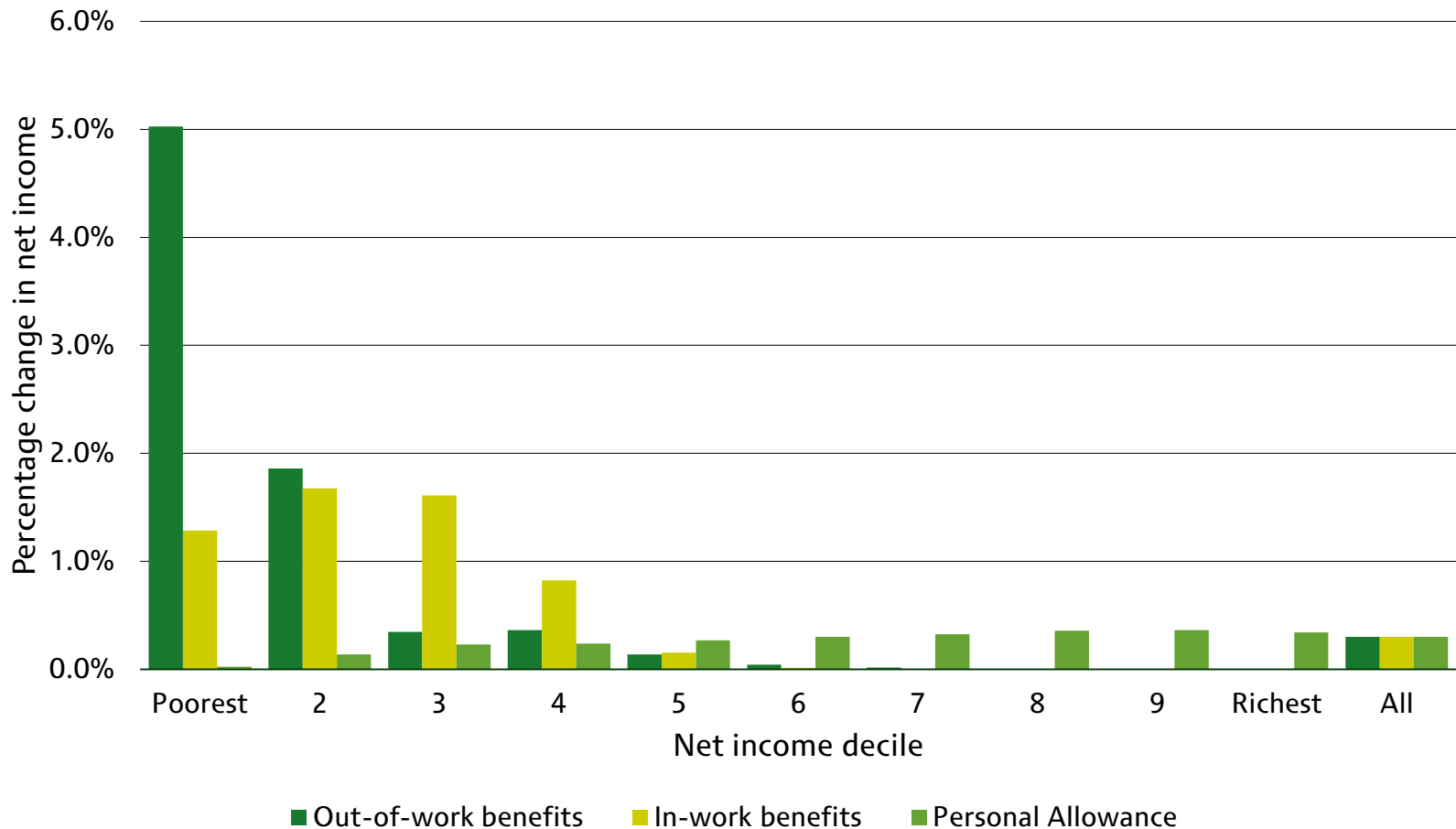


Notes: see Figure 5.2 in 'Redistribution from a Lifetime Perspective'

Hypothetical tax & benefit reforms: some questions

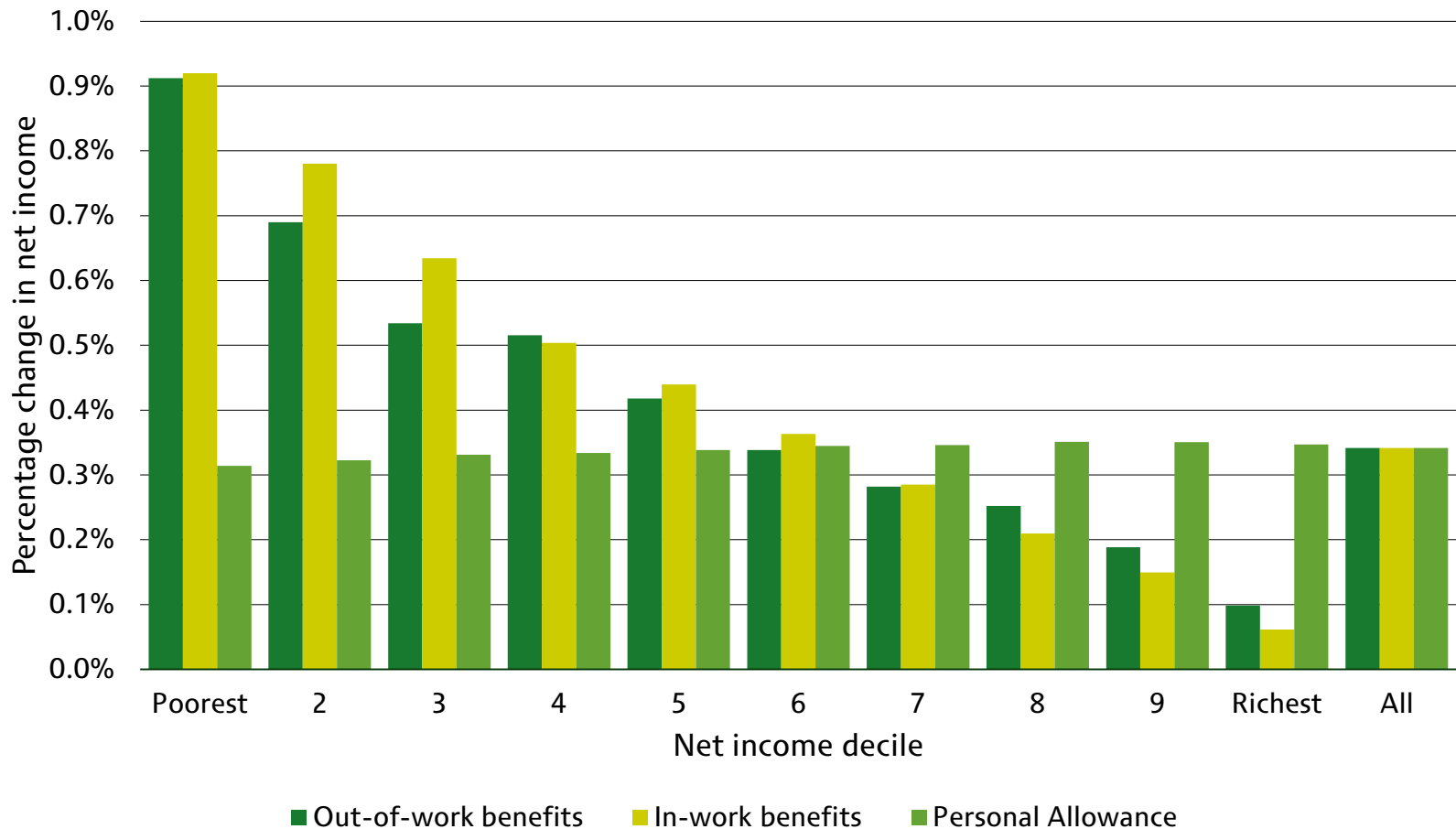
- What's the most cost-effective policy to reduce inequality directly?
 - Working & Child Tax Credit, Income Support, Council Tax Benefit
- Are increases in VAT regressive from a lifetime perspective?
 - reduced- and zero-rate increases regressive but main rate ~ neutral
 - ... but distortionary system hard to justify on distributional grounds.
- Are out-of-work benefits, in-work benefits or tax cuts the most effective way to redistribute resources to the lifetime poor?

Out-of-work benefits help snapshot poor most



Notes: see Figure 5.3 in 'Redistribution from a Lifetime Perspective'

... but in-work benefits help lifetime poor as much

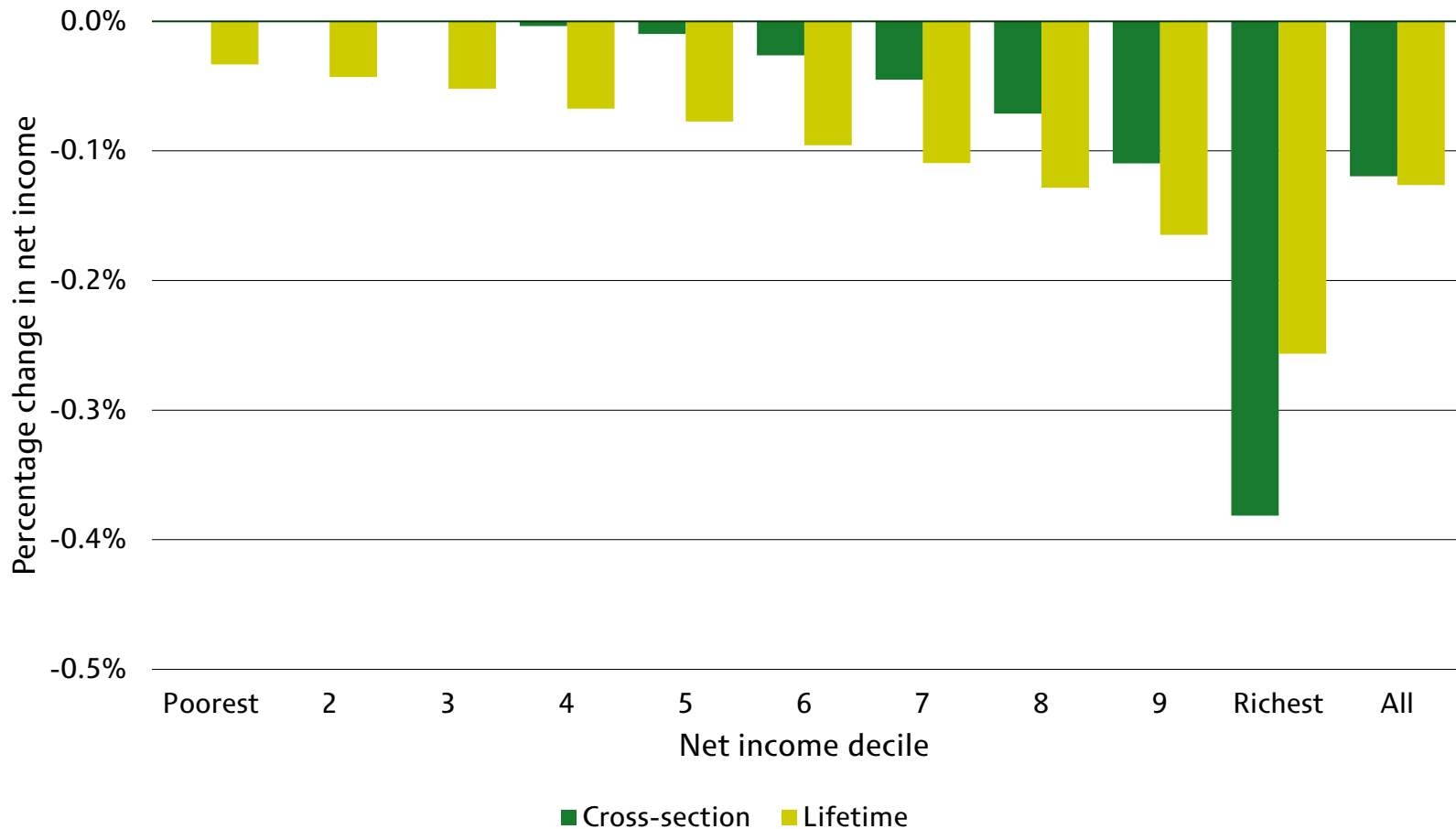


Notes: see Figure 5.4 in 'Redistribution from a Lifetime Perspective'

Hypothetical tax & benefit reforms: some questions

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- Are out-of-work benefits, in-work benefits or tax cuts the most effective way to redistribute resources to the lifetime poor?
 - Increasing in-work benefits does as well as out-of-work benefits
 - ... but without reducing incentive to be in paid work
- How well do income tax increases target the (lifetime) rich?

Higher-rate of income tax targets lifetime rich well



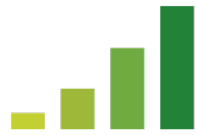
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Hypothetical tax & benefit reforms: some questions

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 - ... but without reducing incentive to be in paid work
- How well do income tax increases target the (lifetime) rich?
 - Higher-rate does so quite well ... but last rise in 1975

Policy Conclusions

1. The lifetime impact of policies matters
2. Be more explicit about your distributional aims: are you trying to alleviate short-run hardship or redistribute lifetime resources?
3. “Working” and “non-working” families is not a useful distinction
4. Targeting the lifetime rich can be done reasonably well using the higher rate of income tax
5. Policymakers looking to target the lifetime poor might favour doing so through in-work rather than out-of-work benefits
6. Maintaining the current distortionary system of VAT is difficult to justify on distributional grounds
7. The potential exists to achieve what the current tax and benefit system does more efficiently
8. Targeting lifetime redistribution more effectively may require new policy instruments



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