# Fiscal redistribution cycles: four decades of social assistance in the UK

# David Coady\*

\*International Inequalities Institute, London School of Economics, UK, email: D.P.Coady@lse.ac.uk

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# Abstract

This paper describes the evolution of *fiscal redistribution* (FR) in the UK through *social assistance* transfers over the last four decades and the contribution of each of its determinants: *budget effort* (the share of national income devoted to redistributive transfers) and *transfer progressivity* (the extent to which these transfers are concentrated on lower-income households). Trends in FR have been driven by a combination of economic and political cycles. Over the 1980s and 1990s, the heavy reliance on meanstested transfers indexed to prices resulted in FR fluctuating over the 'economic cycle'. Over recent decades, FR has been driven primarily by 'political cycles'. Under a Labour government (1997–2010), a large expansion of coverage of in-work benefits resulted in an unprecedented, sustained increase in effort which, despite decreasing progressivity, was large enough to ensure a continuous rise in FR. This increase was reversed under a Conservative-led government from 2010 in the context of fiscal austerity, which decreased effort and increased progressivity as remaining transfers were concentrated more on lower-income households. A striking feature over the last four decades has been the sharp decline in FR to the poorest income decile under different political leadership as emphasis has shifted to reducing in-work rather than out-of-work poverty and 'making work pay'.

Keywords: social assistance, progressivity, budget effort, redistribution, inequality, poverty.

JEL codes: D31, D63, H23, I38

# I. Introduction

The paper focuses on the role of social assistance programmes in redistributing income in the UK and how this has evolved over the last four decades.<sup>1</sup> In doing so we also analyse the evolution of the two key determinants of fiscal redistribution (FR), namely, the size of the social assistance budget (*budget effort*) and how narrowly this budget is targeted at lower-income households (*transfer progressivity*). The analysis is embedded in the conventional social welfare framework, which helps to make underlying distributional concerns (or value judgements) explicit and facilitates an analysis of the sensitivity of our findings to differing distributional concerns. In discussing our empirical results, we focus primarily on the broader developments in social assistance policies rather than on individual programme components. Consistent with this, we focus on broad time trends rather than on specific years, especially since household survey data typically display substantial year-on-year variability.<sup>2</sup>

<sup>1</sup> All high-income countries (HICs) have extensive *social protection* systems that redistribute income from higher-income to lower-income households aimed at reducing income inequality and protecting households from poverty. These systems comprise both *social insurance* and *social assistance* programmes, where the former protect households from income shocks and are typically financed through contributory taxes, while the latter protect households from poverty and are typically financed through general revenues. Social assistance benefits accrue primarily to those of working age. In the UK, benefits for this group are dominated by means-tested transfers, which have increased from around 25 per cent of total contributory and non-contributory benefits at the end of the 1970s to just over 60 per cent by 2018. Appendix I provides a more detailed description of the evolution of social assistance benefits drawing on an extensive literature.

<sup>2</sup> Although household survey data do not typically capture top incomes well, they suffice for our purpose, given our focus on social assistance spending and income distribution at the middle and bottom of the distribution. Changes to the distribution of income near the bottom of the income distribution have driven much of the policy debate and reforms, especially as regards the role and design of redistributive public transfers.

© The Author(s) 2025. Published by Oxford University Press on behalf of The Oxford Review of Economic Policy Ltd. This is an Open Access article distributed under the terms of the Creative Commons Attribution License (https://creativecommons.org/ licenses/by/4.0/), which permits unrestricted reuse, distribution, and reproduction in any medium, provided the original work is properly cited. Our analysis complements the findings of other recent papers. Hérault and Jenkins (2022) analyse the evolution of FR in the UK over the period 1977–2018. However, their focus is on the Gini coefficient and total cash benefits (i.e. both social assistance and social insurance benefits), in addition to in-kind benefits (including education and health), and direct and indirect taxes. Belfield *et al.* (2017) focus on income inequality between 1994 and 2014 and on total cash transfers as well as direct income taxes. Hoynes *et al.* (2023) analyse the evolution and design of spending on various social assistance programmes in greater detail and discuss efficiency and social issues that need to be considered when designing means-tested social assistance benefits. In interpreting our empirical analysis below, we draw on related discussion contained in these papers.<sup>3</sup>

It is important to recognize that while social assistance spending is the primary policy tool used to redistribute income towards lower-income households, it is by no means the only redistributive policy tool used by governments. In particular, public spending on social insurance transfers (especially public pensions) and on education and health services achieves a significant amount of resource redistribution in all high-income countries (HICs) given the relatively large spending levels involved, reflecting their emphasis on redistributing resources to middle-income (as well as lower-income) households and on ensuring more equal access to human-capital investments. In the context of income transfers, the relatively high FR achieved by some HICs through total public income transfers to households is due to their relatively high spending on public pension transfers (Coady *et al.*, 2022; Coady, 2023). Similarly, for the UK, Hérault and Jenkins (2022) find that the redistributive impact from public in-kind education and health spending was nearly three-quarters of that achieved through total public income transfers. Other papers in this special issue discuss public spending on pensions, education, and health.

The structure of the paper is as follows. Section II sets out the basics of the social welfare framework used to evaluate the extent and determinants of FR. To help map our analysis to previous studies of FR through public income transfers in the UK, section III analyses the evolution of income inequality over four decades and the redistributive role of social assistance transfers. Section IV then uses the framework set out in section II to examine in more detail the evolution of FR from social assistance transfers and its underlying determinants, and how this has been influenced by economic developments and policy reforms. Section V summarizes our key findings.

Our analysis captures the significant redistributive impact of both social assistance and social insurance transfers, which over the four decades from 1980 to 2020 decreased income inequality on average by nearly a quarter. Around 40 per cent of this decrease is accounted for by social assistance transfers. However, the extent of FR from social assistance fluctuates over time, driven by a combination of economic and political cycles. Within each of the first two decades, trends in FR are driven by economic cycles, capturing the stabilizing impact of social assistance transfers whereby assistance spending increases as a share of national income during economic downturns and decreases during economic upturns. In contrast, fluctuations in FR over each of the subsequent two decades are driven by the political cycle, with FR initially increasing sharply under a Labour government with the significant expansion of assistance spending, but then declining under a Conservative-led Coalition government in the context of fiscal austerity. A striking feature over the last four decades has been the sharp decline in FR to the poorest income decile under different political leadership as emphasis has shifted to reducing in-work rather than out-ofwork poverty and to 'making work pay'.

# II. The social welfare framework

In contrast to many existing studies of FR, which focus on the Gini coefficient, our analysis is embedded in the standard social welfare framework which allows for an integrated and transparent evaluation of the level and determinants of FR, making explicit the value judgements necessarily inherent in such analyses (Coady and Skoufias, 2004; Coady *et al.*, 2022).<sup>4</sup> This, in turn, facilitates an evaluation of how sensitive our results are to the underlying value judgements. Consistent with most existing studies comparing FR across countries or over time, we abstract from the behavioural (e.g. labour supply) responses that typically arise from redistributive transfer systems.<sup>5</sup>

<sup>&</sup>lt;sup>3</sup> See also the numerous important background papers referenced in these papers, especially the rich set of analyses and commentaries available through the *IFS Deaton Review of Inequality* available at https://ifs.org.uk/inequality/.

<sup>&</sup>lt;sup>4</sup> This framework is also widely used in the optimal taxation literature.

<sup>&</sup>lt;sup>5</sup> Most empirical papers on FR across countries and over time abstract from the important issue of behavioural responses arising from taxes and transfers. Such responses are very important in deciding on the optimal level and design of FR since they generate an efficiency–equity trade-off (Piketty and Saez, 2013; Bargain, 2017; Brewer *et al.*, 2020). The presence of behavioural responses means that the level and distribution of 'original' incomes (i.e. incomes prior to the imposition of taxes and transfers) may be different from the level and distribution of 'market' incomes (i.e. 'disposable' incomes after taxes and transfers, minus taxes and transfers). Since we abstract from behavioural responses, we refer simply to market income throughout.

## (i) Social welfare and FR

Consider an economy with two groups: households and the government. Let  $y_0$  be household *market income* (i.e. income before direct taxes and transfers) and  $y_1$  be household *gross income* (i.e. income after transfers) so that:

$$\mathbf{y}_1 = \mathbf{y}_0 + \mathbf{m} \tag{1}$$

where m denotes social transfers. Let social welfare be described by a standard Bergson–Samuelson function of household welfare:

$$W\left(\ldots,V^{h}\left(\boldsymbol{p},\boldsymbol{y}^{h}\right),\ldots\right) \tag{2}$$

where  $V^{b}(.)$  is the indirect utility function of household *h*,  $y^{b}$  is household gross income, and **p** is a vector of commodity and factor prices facing the household (henceforth assumed fixed). The social welfare impact of a given transfer programme with  $dy^{b}=dm^{b}$  is:

$$dW = \sum_{h} \frac{\partial W}{\partial V^{h}} \frac{\partial V^{h}}{\partial m^{h}} dm^{h} = \sum_{h} \beta^{h} \mathrm{d}m^{h}$$
(3)

where  $\beta^{h}$  is the social valuation of extra income to household *h* or, more simply, the social 'welfare weight'.

Denote the total transfer budget (*budget effort*) by  $B = \sum_{h} dm^{h}$  so that (3) can be rewritten as:

$$dW = \frac{\sum_{h} \beta^{h} dm^{h}}{\sum_{h} dm^{h}} B = B \sum_{h} \beta^{h} \theta^{h} = \lambda B$$
(4)

where  $\theta^{h}$  is the share of the total budget received by household *h* and  $\lambda$  is a *distributional characteristic* (Diamond, 1975) capturing the social welfare impact of a unit transfer delivered through the programme (*transfer progressivity*). The welfare impact depends on the amount of resources transferred to households as well as on how effectively these resources are channelled to lower-income households.<sup>6</sup> It is immediately clear from (4) that differences in the extent of FR—across countries or over time—will reflect differences in three components:

- (i) *Budget effort* (*B*), i.e. the size of the transfer budget or how much the government is devoting to redistributive transfers;
- (ii) *Targeting performance* ( $\theta$ ), i.e. how effectively the government channels these transfers to lower-income households; and
- (iii) Targeting returns (β), i.e. the social returns to targeting as captured by the dispersion of welfare weights (or relative incomes) across income groups. If welfare weights vary little across income groups (e.g. because they have similar income levels), then the social returns to targeting will also be low.

Clearly then,  $\lambda$ , which is the product of targeting performance ( $\theta$ ) and targeting returns ( $\beta$ ), can differ across transfer programmes when welfare weights differ across households and the distribution of transfers differs across programmes. The greater the proportion of the budget ending up in the hands of lower-income households (i.e. those with relatively high  $\beta^b$ ), the higher transfer progressivity. Note that this measure of progressivity is scale neutral in that it does not change in response to a scaling up or down of transfer levels.<sup>7</sup>

#### (ii) Social welfare weights

The calculation of  $\lambda$  requires specifying social welfare weights, which helps to further highlight that any analysis of FR (or inequality) involves the adoption of 'value judgements' as captured by these weights. In other words, any assessment of transfer progressivity will depend on how we weight redistribution towards different parts of the income distribution. One of the attractions of the social welfare framework is that it makes these value judgements explicit and facilitates an analysis of the sensitivity of empirical results to alternative value judgements.

To start with, within the social welfare framework, such weights can be usefully derived using the constant elasticity social welfare function where the (relative) *welfare weight* of household *h* can be calculated as (Atkinson, 1970):

$$\beta^{\rm h} = \left(\frac{y^k}{y^h}\right)^{\varepsilon}$$

<sup>&</sup>lt;sup>6</sup> For fiscally neutral transfers where transfers are fully financed by taxes, the first of these is zero and the welfare impact of the transfer programme will arise solely from its redistributive impact.

<sup>&</sup>lt;sup>7</sup> For a discussion on how (4) can be straightforwardly applied to an analysis of the contribution of different transfer, or tax and transfer, components to FR, see Coady and Skoufias (2004) and Coady *et al.* (2022).

where k is a reference income level (e.g. mean income) and  $\varepsilon$  captures our 'aversion to inequality' with aversion increasing in  $\varepsilon$ . For example, a value of  $\varepsilon$ =0 implies no aversion to inequality so that all welfare weights take on the value unity (i.e. a pound is a pound no matter to whom it accrues). A value of  $\varepsilon$ =1 implies that if household h has half (twice) the income of household k then its welfare weight is 2.0 (0.5) as opposed to unity for k. A value of  $\varepsilon$ =2 similarly implies a welfare weight of 4.0 (0.25) for h. In this sense, the Atkinson welfare weights are 'distribution dependent', i.e. they vary with the ratio of household incomes. For  $\varepsilon$ >0, if there is little variation in incomes across households then there is little social value to redistribution income across households, i.e. the social returns to targeting are low.

Instead of appealing to a standard social welfare function, one can consider alternative approaches to specifying welfare weights that a 'social planner' might use when evaluating among competing redistributive public policies. One can, for example, consider welfare weights that are 'distribution free', i.e. fixed independently of relative incomes. For instance, welfare weights could be set at 1 for all households in the bottom two deciles of the income distribution and zero otherwise (*poverty weights*), which is analogous to using a poverty gap index as a social objective. Alternatively, we could set weights to decile ranks, i.e. 1 for richest decile and 10 for poorest decile (*rank weights*).<sup>8</sup> Neither rank nor poverty weights would change if initial income inequality (e.g. the ratio of income of the poorest decile to the mean) increased, hence our use of the term 'distribution free'.

Note that for distribution free welfare weights—poverty weights and rank weights—all *differences* in fiscal redistribution will be explained by *differences* in budget effort and targeting performance (i.e. differences in *redistributive effort*). In contrast, for distribution dependent welfare weights, differences will also reflect differences in social returns to targeting, which will allow for the actual intensity of difference in income between households. Therefore, by comparing differences (or changes) in FR using distribution free and distribution dependent welfare weights we can get a sense of the extent to which differences are been driven by differences in targeting returns as opposed to differences in redistributive effort (i.e. the combined effect of budget effort and targeting performance).<sup>9</sup> In our discussion below we refer to (Atkinson) 'welfare weights', 'rank weights', and 'poverty weights'.

It should be clear from the above discussion that our comparison of results using different weights is intended solely as an analytical device to better understand the distributional implications of government transfer policies rather than as a representation of the actual social values underlying these policies. The latter can be expected to vary across governments of different political persuasion, and the rationalization of policy outcomes will typically require looking beyond the distributional implications to allow for additional concerns, such as strengthening work incentives.

#### (iii) Decomposing FR

To analyse the variation of FR across countries, or over time in the same country, we can interpret the set of redistributive transfers in a country as a transfer 'programme'. The total welfare impact of a transfer programme in country j (d $W_i$ ) with budget  $B_i$  can then be written as:

$$dW_j = \lambda_j \,.\, B_j. \tag{5}$$

To facilitate comparisons of FR across time (or countries), this can be usefully rewritten in percentage terms as:

$$\frac{dW_j}{Y_j} = \lambda_j \cdot \frac{B_j}{Y_j} = \lambda_j \cdot \tau_j \tag{6}$$

where  $Y_j$  is total household income, and  $\tau_j$  is the ratio of the transfer budget to total household income, in year *j*. The percentage increase in social welfare due to redistributive transfers in a given country in year *j* can then be compared to the increase for the same country in other years. These differences will reflect differences in *budget effort* ( $\tau$ ) and differences in *transfer progressivity* ( $\lambda$ ).

In general, progressivity captures the share of total transfers that accrues to 'deserving' households as reflected in relative welfare weights. Under 'poverty weights', progressivity becomes the share of transfers accruing to 'poor'

<sup>&</sup>lt;sup>8</sup> Rank welfare weights are consistent with the social welfare function proposed by Sen (1976), which weights the income of each group by its rank in the income distribution. Rank welfare weights are also implicit in the Gini inequality index, which plays a very prominent role in the empirical FR literature.

<sup>&</sup>lt;sup>9</sup> For distribution dependent measures of FR, it is possible that countries with the same *redistributive effort* (i.e. exact same level and distribution of transfers as captured by *B* and  $\theta$  respectively) can have very different levels of FR, solely because of differing initial income distributions (and thus targeting returns,  $\beta$ ). In such instances, a country with relatively high initial income inequality will have a relatively high level of FR because the social welfare returns to targeting, captured in more unequally distributed social welfare weights, are higher. This captures the notion that there is little social benefit from redistributing income in countries where incomes (and thus welfare weights) vary little across households.

households, e.g. those in the bottom 10 per cent of the income distribution, and the welfare impact in (6) is the share of national income being redistributed to these 'poor' households. Essentially, only those households designated as 'poor' are 'deserving' so that transfers to other 'non-poor' households do not increase progressivity or contribute to FR (or social welfare). In contrast, under both welfare weights and rank weights, transfers to 'non-poor' households do increase progressivity and contribute to FR, albeit to different degrees depending on where they are ranked in the income distribution (under rank weights) and on the ratio of their income relative to mean income (under welfare weights). If welfare weights are normalized to 1 at mean income and no social value is attached to redistribution (i.e. a zero aversion to inequality), then all households are equally deserving and all  $\lambda = 1$  so that FR equals  $\tau_{\rm t}$  (i.e. equals budget effort calculated as the share of national income dedicated to these transfers). As aversion to inequality increases, progressivity and FR are determined more and more by the share of transfers accruing to low-income groups with decreasing value attached to redistribution to higher-income groups. Budget effort can be interpreted as the increase in social welfare when all transfers accrue to those at mean income (or when we don't care about income distribution), and progressivity as the upward adjustment made when transfers are channelled to lower-income households. In the limit, as aversion to inequality ( $\varepsilon$ ) increases, progressivity and thus FR will be solely determined by the share of transfers received by the poorest income group, similar to poverty weights where only the lowest income decile is designated as poor.

To illustrate and reinforce the above discussion, Figure 1 presents welfare weights calculated for the UK for 2016 where, for presentational purposes, weights have been normalized to sum to unity across welfare deciles. This helps to demonstrate that the distribution-dependent welfare weights (for inequality aversion  $\varepsilon$ =1 and  $\varepsilon$ =2) attach a higher weight to redistribution to the bottom deciles than do rank weights since they take account of differences in relative incomes across deciles and thus the social returns to targeting. These weights also fall below rank weights for middle-income deciles before converging with rank weights at the upper deciles. Poverty weights, on the other hand, attach a relatively high weight to the bottom two deciles but a zero weight for higher deciles. Note that while the profile of poverty and rank weights will be constant over time, the profile of welfare weights can vary when the underlying inequality of income varies.

When comparing the differing levels of FR across time, it is useful to know whether these are driven by differences in *redistributive effort* (i.e. in the share of national income redistributed to lower-income groups, or 'how much countries do'), which captures the combined impact of budget effort and targeting performance, or by different initial income distributions (i.e. different social returns to targeting or 'how much a country has to do'). This can be achieved by examining the robustness of our results to the use of both distribution-dependent welfare



Figure 1: Normalized social welfare weights, UK 2016

Note: Welfare weights are based on per adult equivalent household income normalized so that they sum to unity across welfare deciles. The data underlying these weights are discussed in more detail in the next section.

Source: Author's calculations based on Luxembourg Income Survey (LIS) harmonized household survey data.

weights and distribution-free weights (i.e. rank and poverty weights). Finally, note that a simple arithmetic average of welfare weights can be used as a valid measure of income inequality that better captures inequality at the bottom of the income distribution since, for a given aversion to inequality, a more unequal distribution of income at the bottom will have the impact of increasing the relative welfare weight attached to low-income households.<sup>10</sup>

## III. Evolution of income inequality

To map our analysis of FR to previous studies, we start by analysing the evolution of income inequality in the UK over the last four decades using the harmonized household-level data available in the Luxembourg Income Survey (LIS) database. A key strength of the harmonized LIS household survey database is that it facilitates the analysis of inequality and FR over a long period. This is especially so for the UK, for which LIS includes harmonized data covering the period 1968–2022. For the UK, the LIS data are provided by the UK Office of National Statistics and relevant government departments. These data are based on the UK Family Expenditure Survey up to 1993, with sample sizes of around 7,000 households, and on the UK Family Resources Survey thereafter, with sample sizes of over 20,000 households. Both these are general purpose household surveys of household income and living circumstances and are designed to be nationally representative, and have been used extensively in most previous studies of inequality in the UK.<sup>11</sup> Up to 1993, survey years refer to calendar years, after which they refer to 12-month financial years starting on 5 April—for convenience, we refer to financial years using the starting year of the survey.

We focus on public transfers calculated as the sum of social insurance and social assistance income transfers, as well as on the separate redistributive impact of each transfer component.<sup>12</sup> In LIS databases, social insurance benefits include transfers where eligibility is based on the existence or length of an employment status, while social assistance includes both means-tested and non-means-tested benefits delinked from employment status or employment history.<sup>13</sup> For each country-year, we construct individual population deciles based on *per adult equivalent* gross income where household gross income is calculated as market income (i.e. before public income transfers and direct income taxes) plus total public transfers. Our use of per adult equivalent income, derived as total household income divided by the square root of household size, is consistent with the approach used by LIS for measuring inequality and poverty indices.<sup>14</sup> All income and transfer flows are grossed up using household weights and aggregated into income deciles based on per adult equivalent gross household income, i.e. the data are collapsed into ten observations per country-year dataset.

We first look at the evolution of income inequality as measured by the Gini coefficient, which facilitates comparison with previous studies. Figure 2 shows the Gini coefficient over the period 1976–2020 for different definitions of income, including market income and gross income (i.e. market plus total social protection transfers). Consistent with the general pattern observed by Hérault and Jenkins (2022), *inequality of household market income* increases over the two decades up to 2000 after which it steadily declines. It is also noticeable that the increase up to 2000 comprises an initial relatively sharp increase up to 1990 followed by a more gradual increase. Reflecting this, three-quarters of the increase in inequality over these two decades happened in the 1980s, which constitutes the most dramatic increase in income inequality in recent British history. By 2020, inequality has fallen back to the levels observed around the mid-1980s, although this decline offsets less than half the increase over the previous two decades.<sup>15</sup>

Empirical studies have attributed the large increase in market income inequality up to 2000 to various factors, including rising wage inequality due to skill-biased technological change, rising unemployment, and the declining

<sup>&</sup>lt;sup>10</sup> The arithmetic average of welfare weights can also be interpreted as the marginal social value of a uniform absolute transfer to households, which plays an important role in the optimal income tax literature.

<sup>&</sup>lt;sup>11</sup> Both survey instruments exclude Northern Ireland as well as the area to the north of the Caledonian Canal and all Scottish Highlands and Islands.

<sup>&</sup>lt;sup>12</sup> Using LIS terminology, total social transfers equal the sum of social insurance (hi32+hi421+hi43+hi44) and social assistance (hi31+hi41+hi422+hi45+hi46). Market income is calculated as 'current income' (i.e. factor and total transfer income; *hitotal*) minus total transfers (*hitransfer*) plus private transfers (*hiprivate*) and private pensions (*hi33*). We apply standard LIS top and bottom coding to deal with income outliers.

<sup>&</sup>lt;sup>13</sup> For instance, in 2018, social insurance included contributory employment, support, and jobseekers' allowances; the old persons' retirement pension; and statutory disability, maternity, and sickness pay. Social assistance included non-means-tested child benefit as well as means-tested pension credit, child tax credits, working tax credit, universal credit, and employment and unemployment allowances.

<sup>&</sup>lt;sup>14</sup> Given that the precise way in which per adult equivalent income is derived is always somewhat arbitrary, we also undertook the analysis using *per capita* income (i.e. total household income divided by total household size) as our welfare indicator, and the results were qualitatively very similar to those presented below.

<sup>&</sup>lt;sup>15</sup> While the Gini has declined over recent decades, the share of the top 1 per cent increased up to the Great Recession in 2008 (Belfield *et al.*, 2017). In general, the use of administrative data shows that top incomes have pulled away by a greater extent than revealed by household surveys. For disposable income (income net of taxes and transfers), the 90:10 ratio increased faster than the Gini over the late 1980s and early 1990s and declined thereafter.



Figure 2: Gini coefficients, UK 1976-2020

Source: Author's calculations based on LIS harmonized household survey data.

roles of trade unions and wage councils (Machin, 1996, 1997, 2001; Goodman and Shephard, 2002). These were reinforced by a rise in non-working one-parent families and in part-time employment.<sup>16</sup> The subsequent decline in market income inequality from 2000 was initially driven by a decline in non-working households (including single-parent households), increasing female labour force participation and hours worked, and decreasing female earnings inequality (Cribb *et al.*, 2022). This was reinforced by rising private pension incomes as the pension system matured and pensioners retired with more complete employment histories and thus larger pensions. These factors more than offset the inequality increasing impact of rising male earnings inequality reflecting increasing male hourly wage inequality and a decrease in the number of hours worked by low-wage working men. The net impact was a large growth in household earnings in the bottom fifth of the household earnings distribution. The continued decline after 2010 reflected the sustained decline in non-working households and declining male and female earnings inequality, in large part due to higher wages at the bottom of the wage distribution associated with sharp increases in the minimum wage especially after 2016.

Turning to the *inequality of gross income*, which includes social protection (i.e. insurance plus assistance) transfers, this is much lower than inequality of market income over all four decades. On average over the four decades, social protection transfers decreased the Gini by almost 24 per cent, from 0.42 to 0.32 (i.e. by 10 Gini points). To put this impact in historical perspective, it is approximately equal to the unprecedented sharp increase in market income inequality over the two decades up to 2000 when the Gini increased from 0.35 to 0.46 (i.e. by 11 points). For the most part, the trend in inequality of gross income closely followed that for market income inequality. However, it is noticeable that the trend in gross income inequality in the early 1980s and early 1990s, when market income inequality was increasing, and in the early 2010s, when market income inequality was declining, is much flatter reflecting *inter alia* the stabilizing role of social protection spending during economic downturns and upturns. The general trend in the Gini for gross income inequality is also captured in the annual averages of social welfare weights in Figure 3.<sup>17</sup> But it is notable that these measures of inequality, which put a greater weight on inequality at the bottom of the income distribution compared to the Gini, suggest a much sharper increase in gross income inequality at the bottom of the income distribution in the years immediately following 2003 and 2013, suggesting that the general downward trend in gross income inequality has not benefitted lower-income deciles equally.

Note: Income is per adult equivalent household income.

<sup>&</sup>lt;sup>16</sup> The share of households headed by a lone parent increased from 8 per cent in 1971 to 24 per cent by 1998. The proportion of such families in work is substantially lower than the rest of the working-age population and decreased from around 50 per cent in the late 1970s to just over 40 per cent for much of the 1990s before increasing again from 2000 to 65 per cent in 2024.

<sup>&</sup>lt;sup>17</sup> The averages of these welfare weights capture changes in the underlying income inequality and are more sensitive than the Gini to inequality at the bottom. In contrast, the averages of rank and poverty weights do not change over time since they are independent of relative incomes.



#### Figure 3: Average welfare weights, UK 1976–2020

Note: Welfare weights are based on decile average per adult equivalent gross household income. We considered using per capita *market* income as our welfare metric and the basis for social welfare weights but, in many cases, the weight given to the poorest welfare decile was excessively high and not very insightful for our analysis. This issue has motivated the same choice in other papers examining FR.

Source: Author's calculations based on LIS harmonized household survey data

# IV. Evolution of fiscal redistribution

We now turn to the evolution of FR from *social assistance* spending in the UK and the determinants of this evolution in terms of the roles played by transfer *progressivity* and budget *effort*. In general, changes over time in the redistributive impact of assistance benefits will reflect a combination of policy reforms as well as changes in underlying economic and social conditions. For the UK, social assistance is dominated by transfers to working-age households since pension transfers are mostly included in insurance transfers. Budget effort, calculated as the ratio of total assistance transfers to national market income, captures trends in the overall generosity of assistance benefits in terms of beneficiary coverage and per beneficiary benefit levels. Transfer progressivity captures the extent to which assistance benefits are targeted towards lower parts of the income distribution. We start by first looking at the relationship between trends in FR and effort and then focus on the role played by trends in progressivity.

#### (i) FR and budget effort

Figure 4 presents trends in total transfer spending, in *real* terms indexed at 1980=1, based on the underlying household survey data grossed up to the national level. Figure 5 presents the corresponding trend in effort capturing the *share* of national income allocated to social assistance and social insurance transfers, which is unaffected by changes in the price level (i.e. inflation) across years. We focus primarily on trends in social assistance transfers. To understand the evolution of effort, it is important to recognize two key features of the social assistance system in the UK, namely, that benefits tend to be inflation indexed and means tested. In the absence of discretionary policy reforms, these features have the effect of generating cycles in effort over time as assistance spending tends to increase as a share of national income during economic downturns and decrease during economic upturns, capturing the important stabilizing role of social assistance. Deviations from these trends reflect the impact of discretionary policy reforms, for example, linked to political cycles.

This impact of the economic cycle is clear over the first two decades from 1980 to 2000, which coincided with Conservative governments under Thatcher (1979–90) and Major (1990–7).<sup>18</sup> In the early 1980s, the UK economy was still emerging from the economic downturn caused by the two oil price shocks from 1973 to 1979, experiencing high inflation, high interest rates, rising unemployment, declining incomes, and labour unrest. Assistance spending increased faster than national income, reflecting both coverage expansion and rising benefit levels, causing

<sup>&</sup>lt;sup>18</sup> Hérault and Jenkins (2022) also find cyclicality for budget effort for *total social protection spending* and point to the sharp upward trends during 'recession periods'. This makes sense given that public pension spending is typically non-cyclical and social assistance spending is typically counter cyclical.



Figure 4: Real national income and transfers, UK 1976–2020

*Note*: All flows are from the LIS nominal data grossed up to national levels, then transformed into real terms using the RPI available from the UK Office of National Statistics website using variable CDKO (Retail Prices Index: Long run series: 1800 to 2024: Jan 1974=100). The series is re-indexed to unity in 1980. When transfer lines intersect with national income then their ratio to national income (interpreted as budget effort) returns to their 1980 levels.

Source: Author's calculations based on LIS harmonized household survey data



#### Figure 5: Budget effort, UK 1976-2020

Note: Effort is calculated as total spending on transfers divided by total national income based on Figure 4. Source: Author's calculations based on LIS harmonized household survey data.

an increase in effort. As the economy started to recover from the mid-1980s, the increase in benefits lagged the increase in national income so that effort started to decline.

A similar pattern was observed over the 1990s, which began with an economic recession in the context of the fallout from the Exchange Rate Mechanism crisis, currency devaluation, and a downturn in the housing market and in the global economy. As real incomes declined and unemployment increased sharply, assistance spending increased sharply up to 1993, causing a rise in effort. As we saw in Figure 2 above, this helped to stabilize the

inequality of gross income as market income inequality continued to increase. However, the rise in assistance spending was temporary, as benefit eligibility tightened and benefit levels became less generous, resulting in a sharp fall in spending from 1993. When combined with a recovering economy from the mid-1990s, this led to a sharp decline in effort, which fell to levels below those observed in 1980.

The next two decades display a clear break with the automatic impact of the economic cycle on budget effort, reflecting significant discretionary policy reforms affecting both the coverage and generosity of benefits. The transition to a Labour government (Blair, 1997–2007; Brown, 2007–10) ushered in an unprecedented rise in assistance spending. Despite favourable economic growth, there was a sustained increase in effort throughout the 2000s. The sharp rise in assistance spending in the context of large reductions in unemployment, which would *ceteris paribus* contribute to decreasing transfer spending, is testimony to just how more generous the transfer system became over this period. The decade after 2010, under a Conservative-led Coalition government (Cameron, 2010–15), was characterized by fiscal austerity in the aftermath of the Great Recession of 2008. Assistance spending decreased sharply as benefit eligibility was tightened and benefit generosity declined, including a 4-year benefit freeze, indexation below inflation, and reductions in specific benefits.

The evolution of budget effort had a determining impact on the evolution of FR, which also captures the extent to which redistributive transfers are concentrated on households with relatively high welfare weights. Figure 6 plots the evolution of FR from social assistance (left axis) against effort (right axis) for different welfare weights. The top panel shows FR for welfare weights with  $\varepsilon$ =1.0 and rank weights, while the bottom panel shows FR for poverty weights; the former weights put a relatively high value on redistribution towards both the middle and bottom of the income distribution<sup>19</sup> compared to the latter which only value redistribution to the bottom income deciles.<sup>20</sup> The top panel displays a very strong relationship between the trend in FR and the trend in effort across all four decades. FR closely follows the same cyclical pattern as effort, consistent with effort being the main determinant of the trend in FR, or at least with transfer progressivity changes not significantly offsetting this relationship.

However, turning to the lower panel, it is notable that FR for poverty weights presents a quite different picture over recent decades. As with the top panel, FR follows the same pattern as effort from 1980 to 2000. But, while



**Figure 6:** Social assistance: fiscal redistribution and budget effort, UK 1976–2020 *Note*: Budget effort (rhs) captures total social assistance spending as a share of total national income, while transfer redistribution adjusts this to capture how effectively these transfers are concentrated on lower-income households.

Source: Author's calculations based on LIS harmonized household survey data.

<sup>19</sup> For redistributive transfers that accrue disproportionately to lower-income deciles, for welfare weights FR will exceed effort since it adjusts effort upwards to reflect this redistributive (i.e. social welfare) impact as captured by our measure of transfer progressivity.

<sup>20</sup> In subsequent figures we do not always present results for a common set of welfare weights. This reflects both a desire to reduce clutter and to focus on the most salient features of our results.

effort increases sharply over the 2000s, the increase in FR is not as pronounced, especially when the focus is more on redistribution to the bottom decile of the income distribution. This clear break in the coincidence of trends in FR and effort suggests that when we focus on poverty weights and redistribution towards the lowest income deciles, then transfer progressivity trends significantly offset trends in effort. This is consistent with most of the increased effort accruing to income deciles above the bottom and into the middle of the income distribution. It is also consistent with our earlier observation from Figure 3 that income inequality in the bottom of the income distribution, as captured by average welfare weights, increased in the latter parts of the 2000s and 2010s.

#### (ii) FR and transfer progressivity

A closer analysis of trends in transfer progressivity, which captures the extent to which transfers are concentrated on 'deserving' households with relatively high welfare weights, confirms this interpretation that the break in the strong link between trends in FR and in budget effort after 2000 reflects progressivity trends running counter to trends in effort. Figure 7 plots trends in the progressivity of social assistance for different welfare weights capturing different distributional concerns, and overlays assistance effort to help map to the above discussion.<sup>21</sup> We drop rank welfare weights since the change in progressivity mirrors that for  $\varepsilon$ =1 but it is much more muted, reflecting the relatively lower weight attached to redistribution at the bottom of the income distribution. Appendix Figure A1 shows the evolution of the share of assistance transfers accruing to different income deciles, which underlies the results in Figure 7. While we again see a very cyclical pattern over time, trends in progressivity often run counter to trends in effort, especially after 2000.

Over the early 1980s, progressivity and effort increase hand in hand, thus reinforcing increasing FR. However, as effort starts to decline from the mid-1980s, progressivity continues to increase, thus containing the fall in FR. The continued rise in progressivity into the early 1990s then reinforces increasing effort over these years. For the remainder of the 1990s, the decrease in FR caused by declining effort is reinforced by declining progressivity. Over the 2000s, when effort increases throughout the decade, effort and progressivity move in opposite directions. The particularly sharp fall in poverty progressivity is strong enough to create a clear break in the link between rising effort and rising FR, the latter being much more muted than the former (Figure 6, panel D). In the final decade, as effort starts to decline after 2013 as part of austerity, progressivity starts to rise again, initially enough to offset the initial effects of austerity and declining effort before being overwhelmed by the effect of continued austerity.



Figure 7: Social assistance: progressivity and effort, UK 1976–2020

Note: Budget effort (rhs) captures total social assistance spending as a share of total national income. Progressivity (lhs), which captures how effectively these transfers are concentrated on lower-income households, is indexed at unity in 1980.

Source: Author's calculations based on LIS harmonized household survey data.

<sup>21</sup> The common general trend displayed by rank and welfare weights also signals that changes are being driven by changes in redistributive effort (i.e. how much of national income is being transferred to lower income deciles) rather than by changes in the social returns to targeting (i.e. in the relative incomes of deciles).

To understand the forces driving progressivity trends, it is useful to look more closely at the policy reforms behind the trends in assistance spending—these reforms are discussed in more detail in Appendix I. The expansion of assistance transfers in the UK from 1980 reflects the expansion of means-tested transfer programmes as opposed to universal programmes such as universal child benefits. This changing composition tends to increase overall assistance progressivity. Then, as means-tested transfers begin to dominate total assistance transfers, overall assistance progressivity will primarily reflect movements in the progressivity of means-tested transfers.

Changes in the progressivity of means-tested transfers will reflect both reforms to programme design and changing economic conditions. Means-tested programmes have two key design parameters: (i) the minimum income threshold for families ('needs'), and (ii) the rate at which benefits are withdrawn ('taper rate') as family earnings ('means') increase.<sup>22</sup> Therefore, across the board increases in family incomes, due either to general price inflation or real income growth, will tend to increase transfer progressivity by pushing higher-income beneficiaries out of assistance programmes, which concentrates beneficiaries into lower-income deciles and increases the share of transfers accruing to these deciles.<sup>23</sup> Increasing the minimum income threshold for all households, say in line with price inflation, will tend to decrease progressivity since it operates like a uniform non-means-tested transfer to all existing beneficiaries. This effect will be reinforced for an increase in the *real* threshold, which will tend to bring in higher-income households. Finally, increasing (decreasing) the taper rate will increase (decrease) progressivity through decreasing (increasing) the benefits of higher-income beneficiaries. Each of these dimensions plays a role in explaining the evolution of transfer progressivity in the UK.

At the end of the 1970s, social assistance included spending on a universal non-means-tested child benefit ('family allowance') and a means-tested Family Income Supplement (FIS) available to families with children and an adult working at least 24 hours a week, which was subject to a 50 per cent benefit taper rate. Benefit levels tended to be meagre and grew in line with prices rather than average earnings. Under the new Conservative government (1979–90), spending increased from the late 1970s to the early 1980s in the context of an economic downturn, two oil price shocks, high inflation, and a global economic downturn. Increasing progressivity over the 1980s is therefore consistent with an expansion of the means-tested FIS and the decreasing relative importance of universal child benefit. The continued (although slower) increase in progressivity in the late 1980s coincides with a period of economic recovery, fiscal consolidation, and the replacement in 1988 of the FIS with the Family Credit (FC) system. The FC redirected spending towards low-income working families with dependent children albeit with less generous benefits—child benefits and housing benefits were subject to declining real benefits through cuts, freezes, and inflation—and stricter eligibility criteria. The FC also involved a substantial increase in the taper rate from 50 to 70 per cent, which helped to sustain the increase in progressivity into the early 1990s.

Social assistance spending rebounded sharply in the early-1990s under the newly re-elected Conservative government (1990–7) in the context of an economic recession and rising means-tested spending. Progressivity also continued to increase, although this seems to be driven by relatively higher transfer increases above the bottom income decile consistent with the expansion of in-work benefits, including through higher income disregards (Figure A1). However, this increase was short lived and spending declined sharply after 1993 up to the late-1990s under renewed fiscal austerity and declining real benefits—eligibility for housing and disability benefits was tightened and some benefits were reduced, especially for younger claimants under the new and more demanding Jobseeker's Allowance (JSA). This also coincided with a decline in progressivity driven by a sharp reduction in transfers to the bottom income decile. However, spending started to increase again after the mid-1990s, although not as fast as national income, along with the expansion of FC coverage and benefit increases achieved through the upward adjustment of minimum income thresholds. Transfer progressivity also started to increase, driven by increases in transfers to the bottom income decile.

The new Labour government (1997–2010) ushered in a clear break with previous trends. The sustained increase in budget effort over the 2000s coincided with a sustained decline in transfer progressivity. The 'New Deal' focused on reducing unemployment, in particular among the long-term unemployed and disadvantaged groups (young adults, lone parents, and the disabled). In October 1999, a rapid expansion of in-work benefits began with the introduction of the Working Families Tax Credit (WFTC), which replaced the previous FC system with

<sup>&</sup>lt;sup>22</sup> In the UK, 'needs' is referred to as the 'applicable amount' and the 'income threshold' is the income level at which benefits start to be 'tapered out' as earnings increase. In general, one can think of these as being the same, i.e. the taper starts to immediately apply after family income exceeds the applicable amount. However, in practice, they can diverge when households are allowed to earn a certain amount of income ('income disregards') before the taper sets in.

<sup>&</sup>lt;sup>23</sup> Note that this increase could be offset to the extent that income growth is relatively higher towards the bottom of the income distribution. Similarly, increasing emphasis on in-work benefits can redirect resources to low-income working families above the bottom income decile to the extent that unemployed households fall disproportionately in the bottom decile.

substantially more generous benefits focused on 'making work pay'. The substantially lower taper rate of 55 per cent meant that more higher-income households were incorporated into the programme, thus increasing budget effort while decreasing transfer progressivity.

In April 2003, the WFTC was in turn replaced by two separate programmes, the Child Tax Credit (CTC) and the Working Family Credit (WFC). Although the CTC was a means-tested child benefit paid to families with dependent children regardless of work status, the income cut-off was initially so generous that it included 90 per cent of all households with children. The WFC was conditional on work but, in contrast to the WFTC, was also available to low-income adults aged 25 years and above without children and working at least 30 hours a week. In addition to removing the asset test, the WFC again reduced the benefit taper rate to 37 per cent. These reforms reinforced the trend of rising effort alongside declining progressivity. While effort and progressivity both stabilized somewhat in the mid-2000s, both reverted to their previous trends with further discretionary increases in benefits between 2009 and 2011 in the context of the Great Recession. The shift towards in-work benefits away from out-of-work benefits meant that increasing overall benefit generosity contributed less to raising incomes at the very bottom of the income distribution. This is consistent with the increase in average welfare weights observed in Figure 3 after 2005 (while the Gini declined) as lower income deciles benefitted less from increasing market incomes and higher transfers.

The election of a new Conservative-led Coalition government (2010-15) was accompanied by renewed fiscal austerity over the subsequent decade up to the pandemic, characterized by the imposition of benefit caps and freezes along with the tightening of eligibility criteria. When combined with the economic recovery following the Great Recession, these reforms led to a sharp decline in budget effort. The reforms started with the rollout of the new umbrella Universal Credit (UC) programme, which integrated previously separate benefits under a single payment (Hobson, 2020). The CTC became means-tested at the top of the income distribution, was withdrawn from families where either partner had an annual income above £50,000, which affected one in eight families, and eligibility was restricted to the first two children. Eligibility for the UC is subject to an asset test and an almost doubling of the taper rate to 63 per cent. The conditionality and sanction regimes were also made stricter and extended to previously exempt groups, such as lone-parent families. The net effect was an increase in transfer progressivity and a decrease in budget effort, especially in the early years of the reforms. While the rising minimum wage helped protect low-income working households, large cuts to income-related transfers worked in the opposite direction, resulting in relatively lower income growth in the bottom income deciles.<sup>24</sup> As before, the concentration of these adverse income impacts at the bottom of the income distribution is picked up by the sharp increase in average welfare weights after 2013 in contrast to the declining Gini (Figure 3).

The evolution of FR in the UK has therefore been characterized by both economic and political cycles. The former reflects the automatic stabilizing response of a system characterized by a heavy reliance on means testing and the inflation indexation of benefits. The latter, in contrast, arises from discretionary policy reforms reflecting underlying political preferences. To smooth out the impact of short-term economic fluctuations and focus more on longer-term political cycles, Figure 8 shows the relationship between FR and transfer progressivity with a 5-year smoothing window. Panel A shows the relationship for rank weights, which exhibits a clear political cycle. Over the first two decades from 1980 to 2000, as well as the final decade from 2010, we observe increasing progressivity combined with decreasing FR as Conservative governments prioritized more narrow targeting of a declining budget effort, with the latter effect dominating the former.<sup>25</sup> In between, over the decade from 1997, we observe decreasing progressivity combined with increasing FR as a Labour government prioritized expanded coverage through broader coverage of beneficiaries up to the middle of the income distribution and an increasing budget effort, with the latter effect dominating the former. Panel B shows a similar relationship using welfare weights, which attach a higher weight to transfers to the lowest income deciles, although the negative relationship is weaker at the beginning and end of the four decades.

This weaker relationship for welfare weights that put a relatively high weight on the poorest income decile arises from a striking feature in the evolution of FR in the UK over the last four decades, namely, the sharp decline in FR towards the poorest income decile (Figure 9). This coincided with the fundamental shift in emphasis, under

<sup>&</sup>lt;sup>24</sup> Although the combination of lower benefits and increases in the minimum wage were presented as an offsetting package, these policies tend to be poor substitutes for each other (Elming *et al.*, 2015).

<sup>&</sup>lt;sup>25</sup> This observed negative relationship between progressivity and fiscal redistribution is consistent with the existence of a Paradox of Redistribution as posited by Korpi and Palme (1998) who argued that 'the more we target benefits to the poor... the less likely we are to reduce poverty and inequality' (p. 661) since more narrow targeting of transfers reduces political support for redistribution, which in turn results in a reduction in the overall transfer budget sufficient to lead to an actual decline in overall redistribution. See Coady *et al.* (2022) and Coady (2023) for further discussion.



**Figure 8:** Long-term trends in FR and progressivity, UK 1980–2020 *Note*: Based on 5-year smoothed averages to reduce the impact of short-term economic fluctuations. *Source*: Author's calculations based on LIS harmonized household survey data.



**Figure 9:** Long-term trends in assistance transfer share and FR (POV10) *Note*: Based on 5-year smoothed averages to reduce the impact of short-term economic fluctuations. *Source*: Author's calculations based on LIS harmonized household survey data.

different political leadership, away from out-of-work benefits towards in-work benefits. As a result, the share of transfers accruing to the poorest income decile has decreased substantially from around 23 per cent in the mid-1980s to less than 16 per cent in the late 2010s (Figure 9). When combined with decreasing budget effort, this has resulted in a sharp decline in FR towards the poorest income decile from 1.3 to 0.75 per cent of national income.

# V. Summary

This paper describes the evolution of fiscal redistribution (FR) in the UK through social assistance transfers over the last four decades and the contribution of each of its determinants: budget effort (the share of national income devoted to redistributive transfers) and transfer progressivity (the extent to which these transfers are concentrated on lower-income households). The evolution of FR since 1980 has been driven by a combination of economic and political cycles. The increasingly heavy reliance on means-tested transfers indexed to prices has meant FR has fluctuated along with the 'economic cycle', as budget effort increased during economic contractions and decreased during economic expansions. This pattern is clear from the within decade pattern of FR between 1980 and 2000, with FR first increasing as budget effort increased during an economic downturn at the beginning of each decade and then decreasing over the remainder of each decade as the economy recovered and budget effort declined. As a result, over both decades, the evolution of FR has been predominantly determined by the evolution of budget effort.

In contrast, the evolution of FR over later decades from 2000 has been driven by 'political cycles'. In the decade from 2000, FR increased steadily under a Labour government (1997–2010). This reflected a large expansion of coverage of in-work benefits from the end of the 1990s resulting in an unprecedented and sustained increase in effort which, despite decreasing progressivity, was large enough to ensure a continuous rise in FR over the decade. The decline in progressivity arises from most of the unprecedented increase in assistance spending being channelled to income deciles nearer to the middle of the income distribution. This increase was quickly reversed under a Conservative-led government (2010–20) in the context of fiscal austerity in the wake of the Great Recession, which decreased effort and increased progressivity as remaining transfers were concentrated more on lower-income households.

A striking feature in the evolution of FR in the UK over the last four decades has been the sharp decline in FR towards the poorest income decile. This coincided with the fundamental shift in emphasis, under different political leadership, away from out-of-work benefits towards in-work benefits in an effort to 'make work pay'. This raises the obvious policy challenge of alleviating poverty among the lowest-income households while simultaneously addressing in-work poverty.

# Appendix I: Evolution of social assistance over four decades<sup>26</sup>

The social assistance system in the UK has gone through numerous structural policy changes over the last four decades. Over this period there has been a shift away from contributory benefits towards a greater reliance on means-tested benefits.<sup>27</sup> The rise in real benefit spending since the late 1970s is almost entirely due to



Figure A1: Income decile assistance transfer shares, UK 1980–2020

Note: Lines show the evolution of the share of each income decile in total assistance transfers.

Source: Author's calculations based on LIS harmonized household survey data.

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<sup>&</sup>lt;sup>26</sup> This Appendix draws heavily on existing accounts of policy changes over recent decades, especially Davies (2007), Timmins (2023), and Hoynes *et al.* (2023).

 $<sup>^{27}</sup>$  The UK spends more on cash transfers to working-age families than on education. Annual working-age benefits increased in real terms from £1,000 per working-age adult in the late 1970s to £2,500 just prior to the pandemic (2022 prices). In 2019, total annual spending on working-age benefits stood at about £100 billion or 4.5 per cent of national income.

means-tested benefits, which have increased from around 25 per cent of total contributory and non-contributory assistance benefits at the end of the 1970s to just over 60 per cent by 2018/19. In recent years, more than a quarter of working-age families were in receipt of some means-tested benefits.

In general, assistance benefits in the UK have been indexed to prices, although often with a lag. Therefore, in the absence of discretionary policy changes, while these benefits tend to maintain their real value, their share of national income (i.e. budget effort) tends to decrease during economic upturns and increase during downturns. The heavy reliance on means-tested transfers reinforces this counter-cyclical pattern as the number of beneficiaries and benefit levels automatically tend to increase during downturns and decrease during upturns. Breaks from this trend have been associated with discretionary policy changes, often in the context of a changing government, aimed at increasing or decreasing beneficiary coverage and benefit generosity relative to average incomes. Broader changes in the economy also affect the pattern of assistance spending, as in the case of rising female employment levels and a decline in the share of non-working families.

Policy reforms over recent decades have mostly focused on the expansion of benefits for working families with children aimed at decreasing in-work family and child poverty and incentivizing employment while containing fiscal costs. The per capita working-age benefit spending at 2021 prices increased steadily from around £1,200 in 1980 to £3,200 in 2010, although it subsequently fell to £2,500 in 2017. Between 1975 and 2018, the gap in benefits received by an out-of-work lone parent with two children compared to a couple without children more than doubled from 12 to 23 per cent. More recently, while benefit entitlement for families with children increased by around 50 per cent in the late 1990s, the increase for those without children was minimal. Since the level of out-of-work benefits for families without children has generally gone up only with prices over the last 50 years, it has declined from 23 to 14 per cent of average earnings.

These shifts have been accompanied by a greater emphasis on promoting work, including stricter conditionality related to job search and employment take-up. The design of these incentives has tended to promote part-time work with low earnings given the eligibility requirement for a minimum number of hours and the application of means testing to higher earnings. The focus of support on in-work benefits has also meant that greater emphasis has been placed on income replacement when earnings decline and away from protection of income due to loss of employment.

Along with the shift of social assistance spending towards working families with children, there has been a shift in social insurance spending towards spending on pensioners, especially over recent decades. Around 1975, the Basic State Pension was indexed at the higher of prices or earnings—and earnings tend to rise faster than prices resulting in increases in real terms.<sup>28</sup> In 1980, the calculation of the state pension was delinked from earnings and indexed to price inflation only. The real value of the State Earnings Related Pension Scheme (SERPS) also halved in the 1980s and halved again in the 1990s.<sup>29</sup> SERPS was replaced in the 2000s with a second state pension, which was more generous to the lower paid than what remained of SERPS but much less generous to the higher paid, thus encouraging them to opt out into private pensions. However, this policy was reversed in 2010 when the government introduced the 'triple lock' system, which linked state pension benefit increases to the highest of price increases, earnings growth, or 2.5 per cent. Between 1990 and 2018, the ratio of basic support for a single person just under the pension age with no other source of income compared to that for someone just over pension age increased from being 32 to 137 per cent higher. An additional Pension Credit introduced in 2003 was designed to ensure that pensioners received a minimum income. Spending per pensioner increased steadily from around £4,300 in 1980 to around £11,000 in 2019, when state pension spending reached 5.5 per cent of national income compared 4.3 per cent for the working-age benefit bill.<sup>30</sup> d

Below we discuss in more detail the most salient reforms to the *social assistance system* in the UK over the last four decades.

### 1980s decade

In 1977, the unwieldy system of family allowances and tax allowances for children, which had eroded over time due to inflation and tended to be available only to the unemployed, was replaced by a more generous single

<sup>&</sup>lt;sup>28</sup> The Basic State Pension was a flat-rate pension that provided a fixed amount of money to individuals with sufficiently long work histories during which they were deemed to have contributed. Benefits were not related to earnings but varied slightly depending on number of working years.

<sup>&</sup>lt;sup>29</sup> SERPS was a supplementary pension scheme introduced in 1978 to provide a pension top-up to the Basic State Pension. Eligibility was based on amount contributed (or earnings over working years) and the number of contributing years. Benefits were also linked to earnings and years of contributions.

<sup>&</sup>lt;sup>30</sup> The inequality reducing impact of pensions since the mid-1990s reflects the growing importance of private pension provision and in entitlement to higher state pensions across successive pensioner cohorts as the system matured and retirees had more complete employment histories, especially among women. Most of these impacts had played out fully by 2010.

non-contributory, non-means-tested universal child benefit available to all families with children. This was complemented by the Family Income Supplement (FIS), which was a means-tested in-work benefit for families with an adult working at least 24 hours a week with dependent children, and delivered directly to beneficiaries through the Department of Social Services (DSS). The benefit was intended to bridge the gap between family income and needs based on family size and was set at 50 per cent of the difference between this income gap. Benefits were withdrawn as earnings increased based on a 50 per cent taper rate, and both benefit eligibility and levels were reassessed every 52 weeks.

The FIS had initially been introduced in 1971 to help address in-work poverty, especially among single parents, with the intention to strengthen work incentives over time. At its introduction, the FIS applied to a tiny proportion of workers, and take-up was less than 50 per cent. Beneficiary numbers grew from 71,000 in the early 1970s to around 200,000 by the mid-1980s. These reforms had the impact of increasing assistance spending, both through more generous benefit levels and expanded coverage of low-income and poor families. This spending increase was reinforced by economic decline and rising unemployment from the mid-1970s up to the early 1980s. As a result, social assistance spending increased faster than national income up to the mid-1980s, after which further increases started to lag behind national income.

In April 1988, the system of means-tested benefits was reformed under the Thatcher Conservative government. While total spending on assistance benefits remained stable, these reforms essentially redirected resources towards families with children and away from pensioners and the working-age adults without children.<sup>31</sup> The FIS was restructured into a more generous Family Credit (FC) system directed at low-income families with dependent children (under the age of 16 years, or 19 years if in full-time education) and at least one adult working at least 16 hours per week. Households with large savings were ineligible and beneficiary households had to reapply after 26 weeks. The benefit level depended on the gap between family income and needs and there was a small supplementary credit if an adult worked more than 30 hours per week. The generosity of the benefit was phased out at a rate of 70 per cent as net-of-tax earnings exceeded £80.65 per week—some childcare costs could also be deducted from earnings. Beneficiaries rose to 780,000 by 1999, compared to FIS coverage of 200,000 in the mid-1980s. More generally, the real value of many benefits fell as they were not fully inflation indexed, with, for example, child benefits and housing benefits subject to cuts or freezes.

# 1990s decade

After levelling off at the end of the 1980s, assistance benefits increased sharply over 1990–3, but then decreased sharply up to the end of the 1990s. The Conservative government under John Major (1990–7) continued the austerity policies initiated by the previous government. The recession of the early 1990s resulted in a temporary increase in unemployment and social assistance spending. However, as the economy recovered in the mid- to late-1990s, unemployment rates fell and spending on unemployment benefits decreased. Inflation was relatively low during much of the 1990s, which helped to stabilize the real value of social assistance spending compared to the high inflation periods of the 1970s and 1980s.

In 1993, a Council Tax Benefit was introduced to assist low-income households with paying the newly introduced Council Tax, replacing the previous system of Community Charge Benefit. The means-tested FC for low-income working families was also maintained and slightly expanded, reflecting a growing emphasis on supporting work over welfare. Eligibility for housing and disability payments was tightened and benefits often reduced, especially for younger claimants.

In the mid-to-late 1990s, the Major government made changes to FC to increase its generosity and coverage and provide greater support to lower-income households while incentivizing employment. These adjustments included increasing the 'applicable amounts' which determined the maximum benefit level a household could receive as well as introducing 'income disregards' that allowed households to earn income above these amounts before the benefit taper would apply.

In October 1996, the existing system of unemployment benefits, which included Unemployment Benefit and Income Support for unemployed people, was replaced by the Jobseekers' Allowance (JSA), which contained contributory and non-contributory components. These were designed to support unemployed people actively seeking work, and claimants were required to sign a Jobseeker's Agreement and participate in back-to-work schemes and training programmes. Stricter conditions for claiming unemployment benefits were introduced, including requiring

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claimants to demonstrate that they were actively seeking work and available for work. Eligibility for contributory JSA was reduced from 12 to 6 months. Unlike non-contributory income support benefits, eligibility for contributory benefits is typically not subject to a savings cap. They allow a working partner to carry on earning without the household's income becoming subject to a means test and can thus provide a better cushion against job loss for the individual and families.

# 2000s decade

There was a large and sustained increase in social assistance spending from the end of the 1990s up to the early 2010s. This was despite steady economic growth throughout most of this period, with the exception of a short economic downturn in the early 2000s after the bursting of the dot-com bubble and the Great Recession from 2008.

The late 1990s saw a new Labour government under Tony Blair (1997–2007), which committed to halving child poverty by 2010 and completely eradicating it by 2020. The inherited welfare system was perceived as being inadequate to the challenge of getting more people into work as involuntary unemployment had decreased substantially throughout the 1980s and early 1990s as the economy recovered and the remaining unemployment needed to be addressed through more active policies that made low-paid work more attractive. By May 1998, take-up of FC, which had begun at 57 per cent in 1988, was still only at 70 per cent, as benefit levels and the income eligibility threshold remained too low to make work significantly more attractive than benefits, especially given the loss of housing benefit that acted as a major disincentive to taking work. The introduction of the 'New Deal' programmes aimed at reducing long-term unemployment and increasing employment among 'disadvantaged groups' (young adults, lone parents, and the disabled), including through expanded job training, job search assistance, and subsidies to employers for hiring the long-term unemployed (Hills, 2013). This was accompanied by a minimum wage, a relatively low 10 per cent income tax band, and a system of tax credits.

This increase in spending reflected the rapid expansion of the tax credit system with the introduction of workingfamilies' tax credit (WFTC) in October 1999 in place of the previous FC system as well as a disabled persons tax credit. As with the FC, eligibility was still limited to families with children with at least one employed adult working a minimum 16 hours a week, and payment was still calculated on a 6-monthly basis. A key objective was to make it easier for low-income parents to take up work, including through support for childcare costs. The WFTC was considerably more generous than the FC with higher maximum credits, a substantially higher income eligibility threshold, a lower 55 per cent phase-out rate, and with an explicit rebate against childcare costs. For example, the WFTC would approximately double the income of a family with someone working part-time on the minimum wage with two school-age children, and this credit would be withdrawn at the lower 55 per cent taper. Take-up was maintained at a relatively high rate of 65 per cent of the much larger eligible population of 1.5 million individuals. Annual spending on the WFTC increased to £6 billion, twice that of the FC system. Although not formally linked to the income tax system, the WFTC was administered by the tax authority and paid to recipients in their monthly pay cheques by employers who were refunded by the tax authorities. This transferred responsibility for the family credit from the DSS to the inland revenue and more explicitly linked benefits to being in work. Claimants declared their incomes and circumstances twice a year and benefit entitlements were fixed for 6 months regardless of any changes in income or circumstances.

The WFTC was replaced in April 2003 by two new tax credits, a system of child tax credits (CTC) and a working tax credits (WTC) for adults in low-paid work. While initially motivated by operational considerations, the system expanded significantly over the 2000s (Hills, 2013; Belfield *et al.*, 2017). This was partly intended to meet commitments to eradicate child poverty without incurring the large fiscal cost that would have been incurred by scaling up universal child benefits. The CTC is essentially a means-tested child benefit paid to those with dependent children regardless of work status. As with the WFTC, the WFC is a refundable tax credit conditional on work, and is also available to adults without children working at least 30 hours a week with a low family income and who are at least 25 years old. For both CTC and WTC, assessment periods are aligned with the income tax system but the operation of tax credits remained formally separate and paid directly to beneficiaries without employer involvement. Asset rules were scrapped, and the phase-out range was initially lowered to 37 per cent but later increased to 41 per cent in 2011 along with lower income thresholds under the Coalition government. Families needed to apply and receive payments every week or at the default 4-week interval based on an initial estimate of circumstances in the current year subject to end-of-year reconciliation. However, the reform was also beset with severe implementation problems, not least those related to the additional compliance burden placed on households.

The new system was therefore much more generous than the WFTC and so went higher up the income scale thus incorporating more working adults into the means-tested benefits. By 2007, around 40 per cent of families paid

no tax when tax credits were accounted for. The CTC was initially so generous that it went to 90 per cent of families with children, although its generosity has since been substantially reduced. Unlike FC, those in low-paid work without children could also qualify for the WTC.<sup>32</sup> By 2010, those without children receiving WTC numbered more than 500,000, compared to the 780,000 receiving the in-work family credit in 1999, and around 1.4 million out-of-work families were receiving both the CTC and the WTC. By 2007, approximately 6 million households received some tax credit payment.<sup>33</sup>

Spending on tax credits tripled as a share of GDP between 1997 and 2004 (from 0.5 to 1.5 per cent of GDP). Real spending increased tenfold from 1992, from £1.7 billion (0.11 per cent of GDP) to £18.4 billion (0.69 per cent of GDP) in 2004. This mostly reflected increasing beneficiary numbers, although the payments per beneficiary have also doubled in real terms. These benefits played a key role in protecting families during the 2008 Great Recession. Over 2007–9 there were discretionary increases in benefits and tax credits, and benefits continued to increase in line with inflation between 2009 and 2011 while national income and employees' earnings fell substantially in real terms (Cribb *et al.*, 2017).

In October 2008, under the Brown Labour government (2007–10), the Employment and Support Allowance (ESA) replaced the Incapacity Benefit and Income Support providing income support to those unable to work due to illness or disability, while enhancing their employment prospects. It also has separate 'contribution-based' and 'income-based' components, the former requiring sufficient contributions and the latter being means tested and subjected to a savings eligibility threshold. Both are subject to a Work Capability Assessment and successful claimants are placed into either a Work-Related Activity Group (WRAG) or a Support Group. The 'support' group in ESA, those whose level of disability means it is unreasonable to apply any requirement to seek work, is paid at a higher rate which is not time limited or subject to work-search conditions.

# 2010s decade

The increase in assistance spending over the previous decade peaked in 2013 and subsequently started to decline sharply to 2019 reflecting a range of austerity measures introduced by the new Coalition government. In 2010, in the aftermath of the Great Recession, the government proposed a reform aimed at making the welfare system more cost effective, increasing its simplicity, and improving work incentives among benefit recipients. The new Universal Credit (UC) was aimed at integrating the main five existing benefit programmes under one administrative umbrella with a single benefit payment: unemployment assistance, in-work support for low earners (CTC and WTC), income support for those with sicknesses and disabilities, and housing support. A maximum entitlement is calculated for each recipient based on their eligibility for various components of the UC benefit, which roughly mirrors the five predecessor benefits, and then subjected to a single means-test and taper initially set at 65 per cent. With the reform starting in 2012, the UC rollout was initially expected to be completed in 2015 but is now projected to complete in 2028. Once existing claimants for the predecessor benefits are phased out, these benefits will constitute a single integrated payment that is not mapped to any of these predecessors.

But the reforms also introduced some fundamental structural changes. In contrast to the previous in-work support (tax credits), only those with responsibility for children or with caring responsibilities benefit from an income disregard ('work allowance') under UC. In addition, household (not individual) savings over £16,000 prevent eligibility and, below that, benefit is reduced to allow for savings until it is only paid in full once savings fall below £6,000. Under UC, the conditionality and sanctions regime is also stricter and extended to groups previously not subject to conditionality. Note that there is a household benefit cap that varies by household composition. The main difference with UC entitlements was for families in paid work for whom the taper rate was initially set at 65 per cent and, unlike WTC, there is no 'hours rule' determining entitlement. There is also a 5-week wait between application and receipt of first payment. All payments are made monthly. The benefit withdrawal rate was lowered to 63 per cent in 2016.

The reform measures also greatly reduced the generosity of benefits and tax credits through a 4-year benefit freeze, indexation below inflation, and reductions in the level of specific benefits. From 2010 to 2015, the government started to more aggressively means test benefits and the removal of support from beneficiaries slightly

<sup>&</sup>lt;sup>32</sup> Yet poverty among working-age families without children actually increased over the decade as benefit increases were more focused on working families with children and pensioners (Hills, 2013).

<sup>&</sup>lt;sup>33</sup> In 2007, the WTC was fully phased out for a single person without children at an annual income of £13,000. In contrast, the CTC tapered away only gradually over the income range £14,495 and £55,000. A non-working family with two children was entitled to an annual child tax credit (CTC) of £4,325. When one or both parents became employed, the household became entitled to WTC, e.g. if one parent became employed at the minimum hourly wage of £5.35 for a 35-hour week, then annual household income rose by a total of £6,567 due to tax credits.

further up the income distribution was one of the defining reform features. Effective from 2013, the CTC became means-tested at the top end of the income distribution and was withdrawn from families where either partner had an annual income above £50,000 a year, affecting one in eight families. The non-adjustment of this cut-off income means that eligibility for benefits decreases over time as incomes increase. In addition, since 2017, the CTC is only paid for the first two children. While the government made cuts to the WTC, it increased CTC benefits, which in combination meant that the poorest families tended to gain while moderately poor families lost out. Combined with the economic recovery from 2011, these reforms resulted in spending declining as a share of national income.

More recently the pendulum has started to turn back with several UC reforms since 2017 increasing the amount claimants can keep when they move into work or increase their earnings, including a large reduction in the UC taper rate in 2021 to 55 per cent from 63 per cent to allow claimants to keep more of their earnings, thus incentivizing work. It also appears that reimbursements of household needs/costs are now more limited to what is deemed 'reasonable' (e.g. introduction of 'two-child' limit, the 'bedroom tax' reduction of rent ceiling from the median local rent to the 30th percentile, introduction of a benefit cap).

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