

<b>Institution:</b> University College London		
<b>Unit of Assessment:</b> UoA 16 Economics and Econometrics		
<b>Title of case study:</b> Improving Tax and Benefit Policy: Universal Credit Reform and Part-Time Work		
<b>Period when the underpinning research was undertaken:</b> 2000-2017		
<b>Details of staff conducting the underpinning research from the submitting unit:</b>		
<b>Name(s):</b>	<b>Role(s) (e.g. job title):</b>	<b>Period(s) employed by submitting HEI:</b>
Sir Richard Blundell	Professor of Economics and Director of the ESRC Research Institute: Centre for the Microeconomic Analysis of Public Policy	1984 - present
<b>Period when the claimed impact occurred:</b> 2014-2019		
<b>Is this case study continued from a case study submitted in 2014?</b> No		
<b>1. Summary of the impact</b> (indicative maximum 100 words)		
<p>Sir Richard Blundell has transformed public debate about taxation by providing rigorous underpinning research for tax and welfare reform proposals. His work on labour supply, women's earnings and the part-time penalty has been central to the business case for reforming Universal Credit (UC) in the UK, as well as reforms abroad, evidenced in statements from chief analysts at HM Treasury, the UK Department of Work and Pensions, the Ministry of Finance in Netherlands, and the International Monetary Fund (IMF). His research has had major impact on tax policy both within the UK and internationally, ranging from public debate on the fundamental principles of taxation to immediate impact on legislation.</p>		
<b>2. Underpinning research</b> (indicative maximum 500 words)		
<p>Professor Blundell initiated a new generation of pioneering microeconomic research in the empirical analysis of family labour supply, tax and welfare policy. Working closely with the Institute of Fiscal Studies, a long-term partner of UCL Economics, Blundell has been the Director of the ESRC Centre of Microeconomic Analysis of Public Policy (CPP) since 1991, which was awarded the prestigious designation of the first two designated UKRI Research Institutes in Social Science in 2018. Blundell's body of work is regularly published and publicly disseminated through his IFS affiliation.</p> <p>Blundell's original work is brought together in the book <i>Labor Supply and Taxation</i> (2016) [R1]. The key innovation of this research programme was to develop new methods of analysis of the hours and employment behaviours of individuals and families, and to use these to examine new options for tax and welfare reform, thereby addressing important policy choices and issues of policy analysis around the world [R2]. His work has highlighted the adverse cumulative impact of part-time work on women's earnings and the disincentives created by very high benefit withdrawal rates.</p> <p><b>Research Methodology:</b> The methods developed allowed for unobserved heterogeneity across families, fixed costs of work, and for stigma costs in the take-up of tax-credits and welfare benefits. Using various sources of micro-data from the UK since the early 1980s, this research is considered to have established the key facts on the responses of hours of work and employment to tax and welfare reform. The research showed the importance of different causal responses to tax and welfare reform by different groups of individuals, according to a variety of characteristics. Blundell's research on taxation and welfare-benefit reform involved a detailed analysis of alternative welfare and tax-credit policies [R3]. This fed into the analysis of the 2011 Mirrlees Review [R4], co-authored by Blundell, which provided a broad set of highly influential recommendations for tax and welfare reform, including the integration of welfare benefits, reducing some of the high benefit withdrawal rates implicit in the welfare system and the taxation of capital gains. The research established the evidence base for labour supply and for the analysis of tax and welfare reform in the UK and around the world.</p>		

From 2012 Blundell set about to address the interaction between human capital, labour supply and earnings over the working life. The key scientific paper [R5] showed the important role of the UK tax and benefit system in providing an incentive for part-time work and used variation in the incentives for part-time work to uncover the role of part-time work for different education groups. It identified the impact of incentives in the tax credit reforms on employment and hours of work. The research provided precise new estimated responses to tax reform in a life-cycle context with human capital investments and found that, even for women with higher education levels, part-time work provided little pay progression [R6].

**Research Findings:** Blundell's research highlighted the role of part-time work among mothers with young children. It considered not only the effect of part-time work on immediate decisions but also, critically, examined its effect on career progression and work-experience capital over the working life. It showed unequivocally that the incentives for part-time work in the UK tax credit system had adverse impacts on current earnings and on the progression of earnings across a career. Part-time work had little impact on future earnings growth. Consequently, encouraging mothers into part-time work did little to enhance earnings growth. For less educated women, it showed that work was not a route out of poverty and low earnings. For more highly educated women, part-time work did not enhance future earnings and therefore did not reduce the earnings gap with men.

### 3. References to the research (indicative maximum of six references)

- R1.** *Labor Supply and Taxation* (author), Oxford University Press, Oxford, UK. March 2016, ISBN: 978-0-19-874980-6
- R2.** "Tax Policy Reform: the Role of Empirical Evidence," *Journal of European Economics Association*, BBVA Lecture, February 2012 10(1):43–77
- R3.** "Welfare-to-Work: Which Policies Work and Why?," Keynes Lecture in Economics, *Proceedings of The British Academy*, Vol.117, 477-524, 2002. DOI:10.5871/bacad/9780197262795.003.0015
- R4.** *Mirrlees Review: Vol II: Tax by Design* (co-author); OUP 2011, ISBN 978-0-19-955374-7, Oxford and New York, 524pp, open access download at <https://www.ifs.org.uk/mirrleesReview>
- R5.** "Female Labour Supply, Human Capital and Welfare Reform", (with Monica Costa-Dias, Costas Meghir and Jonathan Shaw), *Econometrica*, 2016, 84(5), 1705-1753, September.
- R6.** "Human Capital, Inequality and Tax Reform: Recent Past and Future Prospects; The Coase Lecture 2015" *Economica*; 2016, 83, 201–218. Funded through ESRC Research Centre CPP.

### 4. Details of the impact (indicative maximum 750 words)

Blundell's research [R1-R6] has fundamentally changed public and political discourse about taxation and earnings, which has led to legislative changes in the United Kingdom.

#### Influencing the design of Universal Credit in the UK

In the UK, 5.6 million citizens who are unemployed or on low income receive Universal Credit (UC). The previous welfare-benefit system in the UK incentivised part-time work through a 16 hour per week eligibility rule for Working Tax Credit. This disproportionately affected women with children, due to the sensitivity of their work decisions to financial incentives [R2]. Blundell presented his research on the welfare re-design in a series of lectures on Taxation of Labour Earnings at HM Treasury in November 2013, 2014, and 2015, and continued to engage with the Cabinet Office, DWP and HM Treasury (May 15th 2018) and as part of a panel discussion at HM

Treasury Labour Market Conference 18th September 2018 on the issue. In these interactions with individual government analysts and seminars given to government departments, Blundell's research was used to detail the way welfare benefits impact on hours of work, employment and earnings progression. Blundell's research, and research-informed guidance, drawing upon [R5] and [R6] was key in redesigning welfare benefits that aim to encourage work, while avoiding severe means-testing and perverse incentives for part-time work. The Chief Economic Advisor, HM Treasury agreed, "The research on the economics and econometrics of tax and benefit policy has been highly influential in setting and informing our policy agenda and research. We have drawn on his work in considering the business case for Universal Credit, the Government's flagship reform of the welfare system, and in other modelling and analysis of the welfare system and labour market to inform policy thinking and advice to ministers" [A]. The work in [R5] and [R6] documented the specific importance of high effective marginal tax rates in the UK welfare system for low wage mothers and the strong adverse incentive in the part-time eligibility condition for working tax credits.

### Improving UK policy dialogue on welfare reform

Research on welfare reform, in particular the underlying incentives to work and the effectiveness of the system to support families with low or no earnings, underpinned by Blundell's body of work [including R1-R6], has been mentioned over 100 times since 2015 in House of Lords and House of Commons debates, involving leading political figures from across the political spectrum. IFS policy briefs, which drew upon Blundell's research in [R1-R6], were cited in a number of Universal Credit debates across 2015-2017 focusing on the impact of Universal Credit on claimants, tax credits, household incomes, single parents, workless households and tax reform. For example:

- In the 15 September 2015 Tax Credits debate Helen Goodman (Shadow Minister for Work and Pensions) noted that the Treasury Select Committee had commissioned research from IFS whilst challenging Exchequer Secretary Damian Hinds MP on stating the apparent 'penalties' of lone parents working: "The Institute for Fiscal Studies, following a request from the Treasury Select Committee, sent us a new analysis showing that lone parents earning less than £20,000 will have marginal deduction rates of either over 90%, if they are on the old legacy system, or 75%, if they are on universal credit. How does the Minister square that with his claims at the Dispatch box?";
- During the 6 January 2016 Household Income debate, Robert Fieello MP when discussing the effects of Universal Credit on Scottish low income households, stated that Blundell's IFS research had shown "by 2020 more than 2.5 million working families on universal credit will, on average, be £1,600 a year worse off owing to the cuts to the work allowance in universal credit";
- On 25 February 2016, during a Welfare Reform debate on Gender Equality Chris Law MP supported the challenge to Minister for Employment Priti Patel that changes to UC would disproportionately negatively affect women, based on IFS research saying that "lone parents with assets or unearned income are more likely to lose out under universal credit. With single parents overwhelmingly being female, it appears [...] that the Government's austerity programme is once again targeting women. What representations has the Minister made to the Secretary of State for Work and Pensions about the impact of universal credit on women's equality?";
- Finally, on 16 November 2017, prior to the Universal Credit Roll Out debate in the House of Commons, Baroness Hollis of Heigham took to the House of Lords and reiterated, "The IFS says that 3 million working families will, on average, be £2,500 a year worse off. The work allowance, which is taper free, before UC withdrawal kicks in, has been cut by up to £2,000 for a lone parent, and for single people, scrapped. A lone parent with one child now has to work 25 hours a week on UC to get the same income as working 16 hours a week under tax credits—60% more hours for the same income." She also stated that the potential effects on claimants would be "catastrophic" [B].

On the basis of these arguments, the Chief Analyst and Chief Scientific Adviser of the Department of Work and Pensions (DWP) noted, "In particular, his [Blundell's] research on taxation and labour supply has had a substantive impact on making the business case for reforming the structure of Universal Credit." [C]. After long debate the DWP went on to produce a smoother tapering of

benefit withdrawal and a removal of part-time eligibility, where the amount of Universal Credit gradually reduced as the recipient earnings increased, but no longer included the 16 hours per week requirement.

The research on the progression of earnings combined data resources from the Office of National Statistics SRS confidential data sources and Blundell was awarded the Office for National Statistics Research Excellence Special Recognition Award for 2020 for innovative research on inequality that delivered a public benefit to the UK. In presenting the excellence award the Chief Statistician said Blundell's research is "grounded in absolutely brilliant econometrics but influenced by the need to get results which impact on policy and on peoples' lives" [D].

### **Informing the UK Government Equalities Office**

Blundell's research into the hours conditions in the UK tax system also uncovered the key adverse role of part-time work in gender earnings differences, and related weak impact of part-time working hours on pay progression, a "particularly important insight" that the Director of the Government Equalities Office (GEO) credits research based on Blundell's work [R5] for having brought to "the forefront of our focus" [E]. The research has directly informed the GEO's knowledge and approach towards the issue: "The work has been important and influential in shaping our understanding of the origins of the gender pay gap and our thinking about how it can be addressed." The Director also acknowledged the broadened professional and public awareness Blundell's research has generated: "The clear and powerful communication of the findings of the research has significantly enhanced its impact, making it easier for us to digest its implications and making it known to a much wider audience than would otherwise have been the case" [E].

This was recognised by Baroness Penn and Baroness Berridge (Parliamentary Under Secretary of State, Department of Education), in a Lords debate on International Women's Day (10 March 2020) when discussing the effect of a pay gap on women who have families: "Research by the IFS shows that when a couple have their first child, on average, the wage gap between the mother and father is 10%. However, by the time of the child's 13th birthday, it has grown to 30%, often driven by the mother's decision to move to part-time work." Baroness Gale observed on 6 February 2018 "My Lords, is the Minister aware that the Institute for Fiscal Studies [IFS] published research yesterday showing that, by the time their first child is grown up, mothers earn 30% less per hour than fathers? A quarter of that gap can be explained by the fact that mothers are the ones who generally work part-time while their children are growing up, so they miss out on earnings growth and opportunities. While it is good to see the pay gap closing when women first get on the career ladder, when women and men decide to become parents it is usually the women who miss out. What are the Government doing to close this gap for women who are or have been working part-time?" [F]. The IFS research to which Baroness Gale referred had cited [R5] as the standalone "previous research" which "tells us that the three years less spent in any form of paid work understates the gender differences in accumulated 'human capital' (i.e. skills and experience that employers value) – it is the ten-year gap in full-time experience that is more relevant" and that "the effect of extra part-time experience on women's wages is negligible" [G].

### **Influencing tax policy reform around the world**

The impact of Blundell's research on tax and welfare impacts on labour supply has also had a major policy impact on tax and benefit reform around the world. In October 2016, on the basis of [R4, R5], Blundell was invited to serve as an advisor to the Bureau for Economic Policy Analysis (CPB), part of the Ministry of Economic Affairs and Climate Policy of the Netherlands, during the development of the MICSIM model (a behavioural microsimulation model used to generate a greater understanding of the labour responses of changes in the tax-benefit system). The Deputy Director of the CPB directly credits Blundell's research for having had "a substantive impact on making the business case for tax policy for reform in the Netherlands". He specifically credits Blundell's advice for the CBP's decision to "take into account the price and use of childcare and involuntary unemployment in the labour supply model" and confirms that the resultant "MICSIM model has since been used extensively in the analysis of tax-benefit reforms for the Dutch government and political parties" [H]. Blundell's research [R1-R5] and engagement has also had a direct impact at the IMF, where the Deputy Director, Fiscal Affairs Department, writes "The body

of research on the economics and econometrics of tax policy and social spending over recent years has been highly influential, including at the IMF, in terms of both methodology and in setting and informing the policy agenda” (I).

As a result of Blundell’s research, tax and welfare policy has changed, including the design of the Universal Credit in the UK. As probably the largest reform to the UK welfare system for a generation, the conditioning on part-time work for eligibility to in-work benefit entitlement was removed, the benefit withdrawal rates integrated, and the higher withdrawal rates reduced. These are recommendations that Blundell had made in [R3, R4 and R5]. The research provided the key empirical evidence in the UK on the part-time penalty on pay and pay progression for women with children and its role in the gender wage gap, with a major impact on policies toward pay equality.

**5. Sources to corroborate the impact** (indicative maximum of 10 references)

- A. Testimonial from Director General, Chief Economic Advisor and Joint Head of the Government Economic Service, HM Treasury, UK, 24th September 2020
- B. Hansard: transcriptions of cited parliamentary debates, including all cited quotations [Available on Request].
- C. Testimonial from Chief Analyst and Chief Scientific Adviser, DWP, UK, 22nd September 2020
- D. UK National Statistician, Sir Ian Diamond, in Official of National Statistics Video, available at: <https://vimeo.com/503068724/376af7b3e7>
- E. Testimonial from Director, Government Equalities Office, February 9th 2019
- F. Baroness Berridge (Parliamentary Under Secretary of State, Department of Education), March 10th 2020, Hansard V.802, <https://bit.ly/3edCNby>; Baroness Gale, 6 Feb 2018, Hansard V.788, <https://bit.ly/38qnlr4>
- G. IFS Briefing note BN223. Wage progression and the gender wage gap: the causal impact of hours of work (by Monica Costa Dias, Robert Joyce, Francesca Parodi). 5 Feb 2018. Available at: <https://www.ifs.org.uk/uploads/publications/bns/BN223.pdf>
- H. Testimonial from Deputy-Director of the CPB Netherlands Bureau for Economic Policy Analysis, September 16th, 2020.
- I. Testimonial from Deputy Director, IMF Fiscal Affairs Department, Washington, October 25th, 2019.