Monthly Labour Market Report

Llywodraeth Cymru
Welsh Government

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Welcome

The Monthly Labour Market Report from the Learning and Skills Observatory Wales (LSO) aims to provide the main headlines on the Welsh labour market and is based on the latest data available.

This month's issue puts the spotlight on the impact of welfare reforms in Wales.

This report was produced by the Centre for Economic and Social Inclusion (known as *Inclusion*), commissioned by Welsh Government to blend Wales' available labour market information (LMI) (from the various sources) and produce a monthly analysis. Whilst the report is owned by Welsh Government it is not validated in terms of its specific content or interpretation.

Inclusion has an unrivalled understanding of the labour market based on over 28 years of experience of working with the range of stakeholders involved in delivering employment and skills services. We collect and analyse both national and local labour market data through our well developed Local Labour Market Information System, conduct research on employment and skills issues at the local level, run events that bring together policymakers and providers in the skills and employment sector, and produce weekly e-briefings that summarise what is new in employment and skills for our subscribers.

We currently supply monthly employment and skills data to the Greater London Authority, as well as providing labour market tools and analysis for Greater Manchester.

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Latest labour market trends

Employment

Employment data from the Labour Force Survey (LFS) – estimates obtained from a large sample quarterly rolling survey of households – show that Wales outperformed much of the rest of the UK in the first quarter (January to March) of 2013. Performance was good both in absolute terms and relative to most other UK nations and regions.

The (seasonally adjusted) LFS estimate of the number of people aged 16 and over in employment in Wales increased by 16,000 (+1.2%) compared to the previous quarter (October–December 2012) to a total of 1.361 million. This is in contrast to a corresponding quarterly fall in total UK employment of 43,000 (–0.1%). Employment fell in seven of the nine English regions (London, and Yorkshire and Humberside being the exceptions) and in Northern Ireland. Scotland registered the largest quarterly rise in employment (54,000, or +2.1%). The quarterly increase in employment in Wales is comprised of an increase in male employment of 9,000 (+1.3%) and an increase in female employment of 7,000 (+1.1%).

The working age employment rate for Wales (i.e. the proportion of the population aged 16–64 years in employment) increased in the quarter by 0.8 percentage points, second only in the UK to the 1.1% quarterly increase registered in Scotland, though the Office for National Statistics noted that ‘the general picture of the employment rate in Wales over the last year suggests an on-going slower increase’. The employment rate increase narrowed the employment rate gap between Wales (69.5%) and the UK average (71.4%) to 1.9 percentage points (see LMI scorecard). However, within the UK only North East England (66.6%), Northern Ireland (66.6%) and North West England (69.3%) have a lower employment rate than Wales.

Unemployment and economic inactivity

The number of people in Wales who are unemployed on the International Labour Organisation (ILO) LFS based measure fell by 6,000 to 121,000 in the first quarter of 2013. The ILO unemployment rate fell by 0.4 percentage points to 8.2%. This contrasts with no change in the UK average rate of ILO unemployment (which remained at 7.8%). The male ILO unemployment rate in Wales is 9.0%, the female unemployment rate 7.4%. The 2012 annual average figures for ILO unemployment by age are also now available. The unemployment rate for 16–24 year olds was 23.6%; for 25–34 year olds it was 8.6%; for 35–49 year olds, 4.9%; and for 50–64 year olds, 4.4%.

The administrative count of people unemployed and claiming Jobseeker’s Allowance (JSA) is somewhat lower (77,700, 5.3% in April 2013) than ILO unemployment because non-JSA claimant jobseekers are excluded. The number of JSA claimants in Wales increased by 200 between March and April. However, care should be taken in interpreting change in the claimant count since this can be influenced by changes to the benefit system as well as underlying change in the labour market.

The effect on unemployment of the quarterly 16,000 increase in employment in Wales was limited to a reduction of 6,000 in the number of people out of work and actively seeking work, because of a corresponding fall of 10,000 in the number of economically inactive people. This resulted in a 10,000 quarterly increase in the supply of available labour in the Wales economy (i.e. the number of economically active people). This supply increase mostly consisted of men, with the result that the quarterly fall in unemployment is higher for women (5,000) than men (1,000), despite the relatively larger rise in the number of men in work.

These quarterly changes in unemployment, activity and inactivity are all positive developments indicative of improved underlying conditions in the Welsh labour market. However, changes in these variables can be volatile

– thus care should be taken not to read too much into a single quarter's figures. Moreover, Wales continues to score relatively poorly on unemployment and inactivity rates compared with much of the rest of the UK.

The 8.2% ILO unemployment rate for Wales in the first quarter of 2013 is 0.4 percentage points higher than the UK average. Within the UK nations and regions, only North East England (9.8%), the West Midlands (9.2%), Yorkshire and Humberside (9.0%) and London (8.5%) had a higher unemployment rate than Wales.

As the LMI scorecard shows, the working age rate of economic inactivity in Wales (24.2%) is 1.8 percentage points higher than the UK average (22.4). Within the UK regions and nations only the North East (26.0%), Northern Ireland (27.4%) and Yorkshire and Humberside (24.5%) have higher inactivity rates.

Key groups targeted by government welfare reform measures

The UK government is stepping up its efforts to reduce long-term unemployment and also to encourage more economically inactive people in receipt of various welfare benefits other than JSA to seek work.

The key groups targeted by welfare to work measures can be identified in two main ways from official statistics. The LFS provides estimates both of the number of long-term ILO unemployed (i.e. people without work and actively seeking work for more than a year) and the number of economically inactive people, the latter further sub-categorised by the reason survey respondents give for their inactivity. In addition the government publishes administrative data showing the number of people in receipt of key out of work benefits, including JSA, Employment and Support Allowance (ESA)/Incapacity Benefit, and lone parents on Income Support.

The survey estimates and administrative data usually differ because they measure different things. Not all long-term unemployed or economically inactive people are in receipt of welfare benefits, while receipt of benefits does not necessarily determine whether a person is economically active (though most benefits are now paid on condition that recipients will avail themselves of help provided to improve their prospects of finding work). Publication dates for the survey and administrative data also differ, which also complicates direct comparison.

Annual average data from the LFS shows that 502,000 people of working age in Wales were economically inactive in 2012. This total comprised 127,000 students, 108,000 people looking after family and home, 120,000 temporarily sick, 134,000 long-term sick, 83,000 retired and 36,000 not otherwise classified. Within this total, the share of people looking after family and home (21.5%) is lower than the corresponding share of these people in the total UK inactive population (25.1%), while the share of long-term sick is higher (26.7% in Wales compared with a UK average of 22.2%). However, whereas the total number of economically inactive people fell by 2.3% in both Wales and the UK between 2011 and 2012 the fall in those classified as long-term sick was proportionately much greater in Wales (7.4% compared with 4.4% across the UK as a whole).

The latest available administrative data for the key out of work benefits are those for November 2012. Table 1 below shows the number of people on these benefits in Wales, the number on these benefits as a proportion of the resident population in both Wales and Great Britain, and the percentage change in the number of people on these benefits in both Wales and Great Britain in the year to November 2012.

Table 1: Recipients of key out of work benefits, Wales and Great Britain, November 2012

Benefit type	Wales number on benefit	Wales % of resident pop on benefit	GB % of resident pop on benefit	Wales % change in number on benefit in year to November 2012	GB % change in number on benefit in year to November 2012
JSA	76,270	3.9	3.6	+1.1	–2.4
ESA/Incapacity	165,120	8.5	6.3	–7.0	–3.0
Lone parents on Income Support	27,120	1.4	1.3	–10.1	–12.3
All key out of work benefits (including others than those shown above)	276,600	14.2	11.6	–5.4	–4.1

Source: StatWales Link

The proportion of the resident population in receipt of these key out of work benefits is higher in Wales than the Great Britain average. However, the reduction in benefit recipients between November 2011 and November 2012 is greater in Wales, with a noticeably large relative reduction in the number of people on ESA/Incapacity benefit in Wales similar to the percentage fall in the number of economically inactive people classified as long-term sick by the LFS. In both Wales and the UK the most significant reduction is that in the number of lone parents on Income Support, though this will in part reflect a transfer of people on this benefit to JSA (because of a change in the welfare policy regime) which in turn will have affected the observed change in the JSA count. At November 2012, 21,425 JSA claimants in Wales had been claiming the benefit for more than a year (an increase of 2.8% on the previous year) and 8,860 18–24 year olds had been claiming for more than six months.

The LMI scorecard

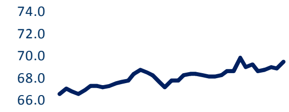
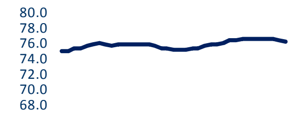
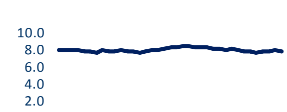
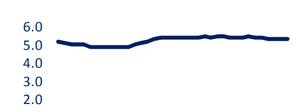
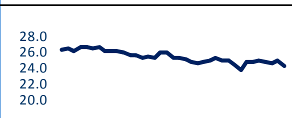
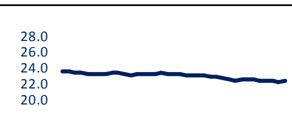
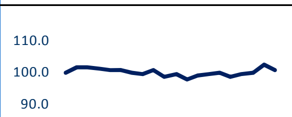
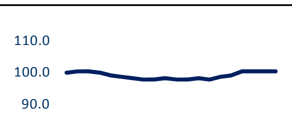
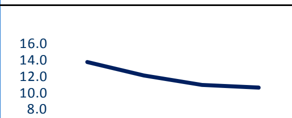
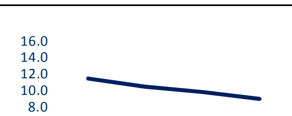
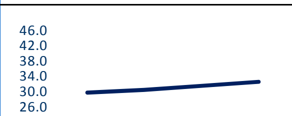
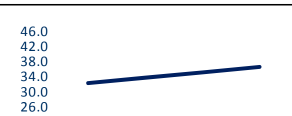
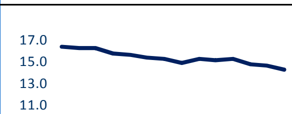
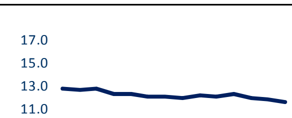
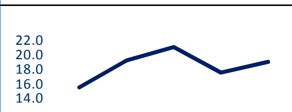
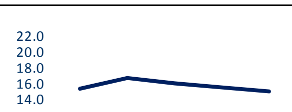
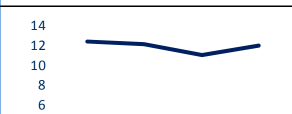
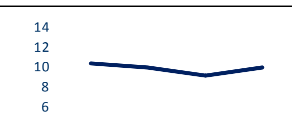
The scorecard presents recent trends and figures for a number of core labour market indicators, using a variety of different sources:

	Source
Working age employment rate	1
Working age male employment rate	1
Working age female employment rate	1
ILO unemployment rate 16+	1
Claimant count as a proportion of the working age population	2
Working age economic inactivity	1
Index of workforce jobs	3
Proportion of the working age population with no qualifications	4
Proportion of the working age population qualified to NQF4+	4
Proportion of the working age population who claim out of work benefits	5
Children living in workless households	6
Proportion of 16-18 year olds who are not in employment, education or training	7

1	Labour Force Survey, Office for National Statistics: subject to sampling variability and should be used with caution
2	Claimant count seasonally adjusted, NOMIS: trends can be affected by changes to benefit rules
3	Employer surveys, household surveys and administrative sources, ONS
4	Annual Population Survey/Annual Local Labour Force Survey, ONS. Data is subject to sampling variability and should be used with caution.
5	Department for Work and Pensions, NOMIS
6	Household Labour Force Survey, ONS: subject to sampling variability and should be used with caution
7	Source: ONS, Higher Education Statistics Agency, Welsh Government Lifelong Learning Wales Record, Pupil Level Annual School Census, Annual Population Survey.

LMI Scorecard

May 2013

		Wales: Trend (Three to four years)	Wales: Latest result & trend	Difference between Wales and National (latest figures): Better / Worse	NATIONAL (UK or GB depending on indicator): Latest result & trend	NATIONAL: Trend (Three to four years)
Supply of Labour	Working age employment rate (%)		69.5% ↑	-1.9 Charts cover: Jan-Mar 10 to Jan-Mar 13	71.4% ↑	
	Working age male employment rate (%)		73.6% ↑	-2.6 Charts cover: Jan-Mar 10 to Jan-Mar 13	76.2% ↑	
	Working age female employment rate (%)		65.5% ↑	-1.1 Charts cover: Jan-Mar 10 to Jan-Mar 13	66.6% →	
	ILO Unemployment rate 16+ (%)		8.2% →	0.4 Charts cover: Jan-Mar 10 to Jan-Mar 13	7.8% →	
	Claimant Count as a proportion of the working age population, seasonally adjusted (%)		5.3% →	0.8 Charts cover: Apr 10 to Apr 13	4.5% →	
	Working age economic inactivity (%)		24.2% ↓	1.8 Charts cover: Jan-Mar 10 to Jan-Mar 13	22.4% ↓	
Demand	Index of workforce jobs. 2009 Q1=100		100.7% →	0.7 Charts cover: 2008 Q1 to 2012 Q4	100.0% →	
Skill gaps	Proportion of the working age population with no qualifications (%)		10.6% ↓	1.6 Charts cover: Year to Dec 09 to year to Dec 12	9.0% ↓	
	Proportion of the working age population qualified to NQF4+ (%)		32.6% ↑	-4.1 Charts cover: Year to Dec 09 to year to Dec 12	36.7% ↑	
Worklessness & NEETS	Proportion of the working age population who claim out of work benefits		14.2% ↓	2.6 Charts cover: Aug 09 to Nov 12	11.6% ↓	
	Children living in workless households (%)		19.1% ↑	4.1 Charts cover: Apr-Jun 2008 to 2012	15.0% ↓	
	Proportion of 16-18 year olds who are NEET (%)		12% →	2 Charts cover: 2008 to 2011	10% England →	

Welfare Reform and its impact on Wales

Introduction

The coalition government has committed to carrying out the biggest shake up of the welfare and benefits system for 60 years. It believes the current system is too complex and there are insufficient incentives to encourage people on benefits to start paid work or increase their hours. The government is therefore taking action to:

'Reform the welfare system to help more people to move into and progress in work, while supporting the most vulnerable'. (Source: www.gov.uk)

The coalition announced its plans for welfare reform soon after it took office, continuing the implementation of reforms started by the previous Labour government, and also announcing significant savings to the benefits bill in the 2010 Budget and subsequent Spending Review. The coalition has forecast that savings of around £18bn will be made by 2014/15, through the following:

- £5.8bn by linking benefit increases to the Consumer Prices Index (CPI), rather than the Retail Prices Index (RPI)
- £3.6bn from a freeze on Child Benefit and removing the entitlement for higher-rate tax payers
- £2.6bn from changes to tax credits
- £1.9bn from Housing Benefit reforms
- £1.2bn from Disability Living Allowance (DLA) reforms
- £1.2bn from time-limiting contributory ESA

(source: *Inclusion* Link)

The government also introduced its **Welfare Reform Bill** in 2011, which became law in March 2012. The Bill announced fundamental changes to the tax credits system and the introduction of a single working-age benefit, **Universal Credit**, and also included:

- a clamp down on fraud and error in the benefits system
- a call for greater commitment from benefit claimants
- reforms to DLA, through the introduction of the Personal Independence Payment in 2013
- changes in Housing Benefit payments
- reforms to ESA
- a new system of child support

Features of Universal Credit

Universal Credit is a new single payment for people who are looking for work or on a low income. It will simplify the benefits system by bringing together a range of working-age benefits into a single payment, replacing:

- income-based JSA
- income-related ESA
- Income Support
- Child Tax Credit
- Working Tax Credit
- Housing Benefit

It will be introduced in 2013, with an initial launch in parts of North West England, and a progressive national roll out from October 2013. The transition from the current system of benefits and tax credits to Universal Credit will be gradual and it is expected to be completed by the end of 2017.

Under Universal Credit, the Welfare Reform Bill estimates that (across the UK as a whole) 2.7 million households will see an increase in their benefit entitlements, 3.5 million will see no change, and 1.7 million will see a reduction in the level of their entitlements. In terms of weekly earnings, Universal Credit is expected to increase average earnings in the bottom two quintiles by £4 and £5 respectively. With the combination of increased take up and higher entitlements, the Bill estimates that around 950,000 individuals will be lifted out of poverty, including 350,000 children.

Universal Credit will also introduce a limit in benefit payments – total weekly benefit payments under Universal Credit will be limited to £500 for a couple/lone parent household (£26,000 per year) and £350 for a single person household (£18,200). The new system will also include an element of 'conditionality', which will include penalties for people who refuse a job. A sliding scale of sanctions will see benefits withdrawn for three years if three jobs are refused in three years.

Response to welfare reforms

In general, the proposed welfare reforms were welcomed, with some commentators praising the simplification of the system under Universal Credit and the provision of an earnings disregard i.e. the part of an income that is not counted when working out benefit entitlements. However, there are a number of concerns about the design of the system.

Joseph Rowntree Foundation (JRF) believes that 'Universal Credit, on its own, is not a silver bullet that will help people move out of poverty. The labour market, housing, living costs and childcare all play a role.' JRF feels that Universal Credit does not sufficiently encourage people to move into full-time work and achieve better pay to help people move permanently out of poverty, stating:

'There are more people in poverty in working households (6.1 million) than in households without work (5.1 million) and over half of children living in poverty have a parent in employment. Upcoming JRF work on Universal Credit suggests that if you factor in the costs of childcare when people progress into work, families could be worse off because support is removed (as families earn more they will need to pay more of their childcare costs).'
Source: JRF (Link)

Inclusion also broadly welcomes the introduction of Universal Credit but also highlights the issue of the high cost of childcare for those in low paid employment, along with the following concerns:

- The complicated system for disregards means that claimants will still require professional advice in order to understand how much better off they will be in work.
- The failure to include Council Tax Benefit in Universal Credit means that there are risks that the system could be more complicated than it needs to be, and could lead to worse financial incentives.
- Universal Credit will also penalise families who have saved, as it will reduce capital limits that were previously available under Tax Credits to £16,000.

Source: *Inclusion* (Link)

Scale of impact in Wales

So far we have covered the main features of the welfare reforms that the coalition is committed to implementing, and some of the predicted impact on the UK as a whole. This section discusses what the changes are likely to mean for Wales and its labour market.

The Welsh Government's ministerial Task and Finish Group on Welfare Reform has commissioned a three-stage programme of research to assess the impact of the UK Government's welfare reforms in Wales. The Stage 1 report – undertaken by the Institute for Fiscal Studies (IFS), focused on analysing the impact of the welfare reforms on labour supply in Wales, and was published in February 2012. The main aim was to analyse existing evidence on the impact of the tax and benefit changes on individuals and households in Wales. This looked at:

- the number of individuals potentially affected by the changes
- the expected monetary impact on household incomes (spatially, and by income group and family type)
- impact on poverty
- effects on work incentives
- an initial assessment of wider economic and social impacts.

The Stage 2 reports were published in February 2013. This stage was undertaken via a combination of internal work (undertaken by Knowledge and Analytical Services), and further work by the IFS.

The internal work estimated the direct effects of the main welfare reforms on household incomes in Wales, and an assessment of the wider economic and social impacts of the reforms devolved public services in Wales. By far the largest impact is the change to up-rating most benefits by CPI rather than RPI. Total annual income losses in Wales were estimated to be £90 million in 2011–12 increasing to around £600 million in 2015–16, with around 350,000 working-age benefit claimants and 330,000 families in receipt of tax credits already affected.

There will also be a negative impact on incomes in Wales (estimated at £113 million in 2015/16) as a result of the decision to up-rate most working-age benefits, certain elements of tax credits (from 2013/14 to 2015/16), and Child Benefit (from 2014/15 to 2015/16) by 1% rather than being linked to price increases. The impact on this measure is dependent on actual rates of inflation in the coming years.

A total of 42,500 claimants are estimated to lose their entitlement to DLA by May 2018, equivalent to around £55–£83 per week on average in Wales. This equates to a total annual income loss in Wales of £122–£183 million by 2018/19.

Around 56,000 claimants are estimated to have their benefit income reduced by up to £89 per week as a result of the time-limiting policy for contributory Employment and Support Allowance (ESA). The total annual income loss in Wales could be as much as £132 million by 2015/16.

Smaller negative impacts on income include:

- Over 48,500 Housing Benefit recipients are estimated to have lost £9 per week on average from the April 2011 reforms, amounting to an annual loss in Wales of £23 million.
- Around 370,000 families and 640,000 children are likely to be affected by the freezing of Child Benefit for three years from 2011/12. Average losses per family are estimated to be around £2.50 per week in 2013/14, a total annual loss of £47 million in Wales.
- Over 3,000 Housing Benefit recipients are likely to have been affected by the change in the age threshold for the shared accommodation rate, losing around £24 per week. The total annual loss in Wales is estimated to be £4 million.

- 1,200 claimants are estimated to have been affected by the abolition of youth provisions under contributory ESA. Average weekly losses per claimant are likely to be around £25, resulting in a total reduction of around £1.7 million in Wales by 2015/16.
- The increase in the working hours rule for couples with children and the removal of the second income threshold that form part of the changes to tax credits are estimated to have an impact on approximately 9,400 and 43,500 households respectively. Maximum weekly income losses per household will be around £74 and £10, equating to annual losses in Wales of up to £36 million and £24 million.
- The extension of lone parent obligations in May 2012 will have affected around 5,000 lone parents claiming Income Support with a youngest child aged five or six, with the majority expected to move on to JSA. It is estimated that up to 1,250 of those affected could move into work, given the increased focus on work preparation and obligations to look for work.
- Around 31,000 families in Wales are expected to incur income losses of £25 per week on average as a result of the taper rate applied to Child Benefit, which could see a further loss in income of £41 million annually in Wales.
- The April 2013 Housing Benefit reforms will increase Local Housing Allowance rates by CPI rather than actual rents and will cut the amount of benefit paid to claimants under-occupying socially rented properties. Average weekly losses per person are estimated at £6 and £12 respectively, with annual losses in Wales totalling £40 million.
- Around 1,500 households in Wales are estimated to have their benefit income reduced by around £70 per week on average as a result of the Household Benefit Cap in 2013/14, a total annual income loss of around £5 million in Wales.
- Programme funding for those elements of the Social Fund that are being transferred to the Welsh Government is estimated to be reduced from £11.7 million in 2011/12 to £10.2 million in 2013/14 and 2014/15, while need is expected to increase.
- The UK Government will devolve responsibility for providing council tax support for low-income families and will cut funding by 10% from 2013/14. The Welsh Government is making up the shortfall in funding for council tax support in Wales in 2013/14.
- Overall, Universal Credit is expected to increase household incomes in Wales by £22 million (excluding transitional protection) in 2014/15. However, this is significantly offset by the income losses estimated from the other welfare reforms.

Source: Analysing the impact of the UK Government's welfare reforms in Wales –Stage 2 analysis (2013)

These findings are intended to provide an indication of the number of claimants that could potentially be affected by each of the main welfare reforms and the estimated direct income losses in Wales. This analysis is not intended to provide an aggregate figure of the loss to household incomes in Wales as a result of the cumulative impact of the welfare reforms. This work was undertaken by the IFS as part of the externally commissioned Stage 2 research. The IFS assessed the aggregate impact of the majority of the welfare reforms announced (before December's Autumn Statement) on household incomes in Wales and estimates that there will be a direct loss of income of around £590 million in 2014/15. This equates to an average of £7.26 per household per week, or 1.5% of their net income.[1]

[1] The IFS analysis is not directly comparable with the Welsh Government estimates as the coverage of the analyses differ, as do some of the assumptions made and data sources used. Both analyses should be treated as indicative.

Impact on labour supply

The main focus of the IFS work was analysing the impact of the welfare reforms on labour supply in Wales. Their report distinguished between two kinds of work incentive:

- the incentive to be in paid work at all
- the incentive for those in work to increase their earnings.

The financial incentive to be in work at all was measured using the participation tax rate (PTR), i.e. the proportion of total gross earnings lost in the form of tax and withdrawn benefits. The incentive for those in work to increase their earnings can be measured by the effective marginal tax rate (EMTR), i.e. the proportion of a small increase in earnings lost in tax and withdrawn benefits. In both cases, higher numbers mean weaker work incentives.

Across the whole working-age population in Wales, the IFS estimates that the coalition government's welfare reforms reduce the average PTR from 33.1% to 32.3% (including Universal Credit). This modest change in the average PTR conceals far greater variation across the population: almost one in four sees their PTR change by more than 10 percentage points and one in ten sees a change in their PTR of more than 20 percentage points.

Universal Credit strengthens incentives for families to have someone in work, mainly because it is more generous to low-earning families (especially couples with children) than the existing system, while having little effect on maximum entitlements for non-working families (unless they have significant unearned income, as discussed above). But since Universal Credit provides greater support for one-earner couples, couples have more to lose by a second partner moving into work so (potential) second earners see a rise in their average PTRs and hence a reduced incentive to be in work.

Another notable effect of Universal Credit is to reduce the number of people in Wales facing PTRs in excess of 75% to fewer than 10,000, compared with 46,000 under the baseline 2010 benefits system. This is achieved because Universal Credit will not be withdrawn at low levels of income as sharply as existing benefits.

While the number of people facing these extremely high PTRs will fall, the number facing moderately high PTRs will rise: over 60,000 more people will face a PTR of between 50% and 75% under Universal Credit. But reducing the numbers facing the very highest PTRs is particularly valuable because the distortion caused by taxes rises more than proportionately to their rate. It is clear that the most dramatic changes are for people with non-working partners and children, who see a substantial fall (6.4 percentage points) in their average PTR. On the other hand, those with a working partner and children face PTRs on average 3.6 percentage points higher after the reforms than before them. Thanks to Universal Credit, the reforms strengthen the incentive for families to have someone in work, but weaken the incentive for couples to have both partners in work.

The reforms also strengthen incentives for those in work to increase their earnings, on average. The average EMTR is reduced by 1.4 percentage points (from 36.9% to 35.5%) by the reforms including Universal Credit.

Universal Credit increases EMTRs for a small number with the very lowest level of earnings (below about £7,000 per year), but apart from that it tends to reduce EMTRs at low levels of earnings (with the biggest falls at earnings of around £12,000), since it is at low levels of earnings that people can currently face simultaneous withdrawal of several benefits and tax credits, which Universal Credit eliminates.

With the introduction of Universal Credit, it is lone parents that stand out, with a 12.3 percentage point reduction in their average EMTR. Single people without children and two-earner couples see more moderate falls, while the (relatively few) sole earners in couples see a weakening of their incentives to earn more. Average

EMTRs are sharply reduced at earnings of £10,000 to £15,000 –where incentives were weakest to start with, which is a particularly desirable outcome.

Likely labour supply responses to the changes in financial work incentives

The IFS work also estimated how people's work behaviour might respond to the changes in financial incentives, using labour supply models. The reforms including Universal Credit are predicted to lead to an increase in employment among lone parents (+800), single adults without children (+1,800) and couples with non-working partners (+3,900), but is expected to fall among couples with children with working partners (-2,700). This reflects stronger incentives for families to have someone in work, but weaker incentives for couples to have both partners in work.

The IFS modelling approach also predicted the impact of the reforms on the total number of hours worked and total amount earned in Wales. Their estimates predict an increase in the total number of hours worked in Wales of 1.0%, and an increase in aggregate earnings of 0.5% (£149 million). However, the changes vary significantly across the population and lone parents are expected to see much bigger increases (7.0% for total hours worked and 5.1% for earnings), as are the relatively small number of women with children whose partner does not work (an increase of 11.2% and 9.7% for hours and earnings respectively).

The IFS acknowledges that there is uncertainty about just how responsive people are to financial work incentives, and produced estimates based on differing levels of responsiveness. However, all the scenarios examined suggest that the overall impact will be positive but relatively small.

Labour market impacts in the wider economic environment

The IFS report states that:

'When there is significant unemployment and demand for labour is weak, the impacts on employment and hours of work of policies to increase labour supply are less strong than standard labour supply models imply: people are simply not offered the option of doing the (extra) work they seek.'

This implies that the weaker the Welsh labour market is, the lesser the extent to which the predicted increases in desired labour supply would translate into increases in employment, at least in the short run.

Low labour demand also means the possibility of negative spillover effects from the reforms on the employment and wages of other people: with more people looking for (extra) work, and businesses not yet expanding to absorb them (as we would expect in the long run), existing workers and other jobseekers may find themselves 'crowded out' by those wishing to work longer hours or enter employment, or may see their wages fall if employers cut wages in response to the larger pool of potential workers.

Most affected groups

In terms of who will be most affected by the welfare reforms, the IFS report states that the biggest average losses will be experienced by low–middle income families in Wales, particularly in non-working families with children. Pensioners, and families without children in which all adults work, will be largely protected from the cuts. Furthermore, additional analysis by Crawford, Joyce and Phillips (2012) suggests that the benefit cuts will hit Wales slightly harder than the UK as a whole because of its higher levels of welfare dependency.

Conclusions

The UK coalition government's welfare reforms strengthen financial work incentives a little, on average, and correspondingly the effect of the reforms on employment, hours of work and earnings in Wales looks likely to be positive but small. These small overall changes conceal significant variation across the population, notably important differences between the effects on first and second earners in couples.

It is unclear whether those wishing to enter work or increase their hours will be able to, given that fairly high levels of unemployment are expected to persist in the short to medium term. The introduction of Universal Credit is taking place at a time of low employment and an unstable labour market. Underemployment, which means the number of people lacking the paid work they want, stands at 6.5 million. The number working part-time but wanting full-time work is now 1.4 million, up by 500,000 since 2009 (source: JRF).

The overall state of the jobs market will remain a fundamental factor in how successful these reforms are in moving more people from benefits into work and into better paid work.

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