

Rt Hon Frank Field MP
Chair, Work and Pensions Committee



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Re: Universal Credit employment impact

Dear Frank

Thank you for your letter of 12 March.

First of all, it is worth clarifying the role we had in reviewing DWP's approach. By way of background my colleagues reviewed DWP's proposed methodology for two exercises: their *ex ante* modelling of the employment impacts of Universal Credit in 2012, and their *ex post* estimation of the impacts of the early roll-out of UC in 2014.

DWP's estimate of 150,000 more people in work due to changed financial incentives appears to be based on *ex ante* modelling of the kind we reviewed in 2012; their estimate of a 4 percentage point increase in employment at six months among some early claimants of UC is based on *ex post* modelling of the kind we reviewed in 2014. Note that at no stage did we review their approach to estimating the impact of increased conditionality or simplification, to which they attribute 50,000 and 60,000 respectively of the overall 250,000 forecast effect on employment.

As always, reviewing an approach should not necessarily be taken to imply approval or disapproval. Our reviews were specific to the detailed proposals worked up by DWP at the time. They have not been published, though we would be happy to publish our reviews in full alongside the draft documents we were reviewing if DWP agree.

Our reviews identified strengths and weaknesses in their proposed methodologies and suggested possible improvements.

Neil Couling's letter to Baroness Hollis on 16 November states that the 250,000 figure is based on the same methodology we reviewed in 2012. For the reasons given above, that can only be true of the element (150,000) which is a result of changes to financial incentives. And we are

not in a position to confirm whether and to what extent DWP took on board our comments and implemented our recommended improvements before applying the methodology. It might be possible to assess this once DWP publish their methodological paper (after the UC Full Business Case is finalised, according to the Minister's letter to you of 12 March), but effectively doing another review of methodology would be a significant piece of work, which we have no current plans to do and for which we do not have resources budgeted.

We did some work ourselves (https://www.ifs.org.uk/conferences/david_phillips_110913.pdf) about five years ago modelling the possible employment impact of UC. Our rough estimate then was that the changes to financial incentives might lead to an increase of employment somewhere in the region of 50,000 to 230,000. We noted at the time that the impact was highly uncertain – the true effect could fall outside this indicative range – and that we were modelling only the changes in financial incentives, ignoring non-financial aspects of the reform such as changes to conditionality and simplification whose likely impact is even harder to predict. Furthermore, that work is now five years old: as well as changes in the characteristics of the UK population, the intervening five years have seen substantial changes in the government's plans for UC, principally making it less generous by reducing the level of work allowances. These changes have an ambiguous effect on employment incentives (weakening the incentive for families to have someone in work, but strengthening the incentive for couples to have both partners in work rather than just one of them), so it is not obvious whether updating our analysis would yield higher or lower estimates than before.

All this suggests to us that the DWP estimate of 150,000 (for the impact of financial incentives alone) is within the plausible range, but we could not be more definitive than that at present. We have not made any attempt to quantify the likely employment effect of non-financial aspects of UC, though they could be important.

We emphasise that the overall employment impact of UC will conceal very different effects for different groups in the population, with employment rates likely to rise for some and fall for others. Our most recent analysis of how UC affects work incentives for different groups (which did not take the next step of modelling the size of responses to those incentives) can be found here <https://www.ifs.org.uk/publications/8136>.

The employment impact of UC is highly uncertain. The move to UC involves a number of changes for which it is hard to find comparable precedents (especially UK precedents): the removal of hours rules, changed incentives for 'mini-jobs', extension of work-search requirements to new groups, integration of several benefits and tax credits into a single one, changes to the timing of assessment and payment, and so on.¹ It is not even possible to

¹ These and other issues in estimating the employment impacts of UC are discussed in S. Adam and D. Phillips (2013), *An ex-ante analysis of the effects of the UK Government's welfare reforms on labour supply in Wales* (<https://www.ifs.org.uk/publications/6586>).

produce statistical margins of error for estimates of the employment impact, as the nature of the uncertainty is not conducive to standard statistical analysis. The illustrative range given above comes from sensitivity analysis that is judgement-based rather than scientific. It would certainly be desirable for DWP to give their own assessment of the extent of uncertainty or to publish a sensitivity analysis alongside their central estimates. But again it is difficult for us to say much more ourselves without either seeing DWP's full analysis or conducting further analysis of our own.

Sadly, it will be difficult even after the event to produce convincing estimates of the overall employment impact of UC. The early impact estimates that DWP have published – cited in the Minister's letter of 12 March – apply only to a small group of claimants who are not affected by UC in the same way as most other claimants, and the roll-out plan for UC precludes a similarly 'clean' analysis for the population as a whole because there is no suitable comparison group (though it may be possible to answer some narrower questions).²

I am sorry that we cannot provide more precise answers to your queries, but I hope you find this response somewhat helpful. We would be happy to respond (as far as we are able) to any further questions you might have.

Yours sincerely



Paul Johnson

² See S. Adam, M. Costa Dias and B. Sianesi (2014), *Evaluating the labour market impacts of Universal Credit: a feasibility study* (<https://www.ifs.org.uk/publications/7289>) for a comprehensive feasibility study based on the roll-out plans at the time. The roll-out plans have since changed so the details would now be different, but the gist would be similar.