

Balancing taxes and benefits: The net recipience puzzle



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1. Background

- This paper presents the most recent Office for National Statistics (ONS) data on the impact of tax and benefits on household income in the UK, both over time and between income groups.¹
- The paper focuses on the rarely-discussed ‘net recipient rate’ as an indicator of macroeconomic health. This is the proportion of individuals living in households that receive more from cash benefits and benefits-in-kind than they pay in direct and indirect taxation.
- Benefits include ‘benefits-in-kind’ – the imputed value of non-cash benefits such as the National Health Service (NHS) and state education. Taxes include both direct taxes, such as income tax, National Insurance contributions (NICs), and council tax; and indirect taxes, such as VAT and fuel duty. In the ONS data, student loan repayments are also included in direct tax.
- The ONS estimates the taxes paid and benefits received by different households using mainly data from their Living Costs and Food Survey, a voluntary survey sample of private households.²
- This paper uses actual incomes for the tables, instead of equivalised incomes. Equivalised incomes are preferable for determining prosperity over time as household composition changes, and therefore are used to generate quintile groupings, but actual incomes are preferable for understanding the actual impact of taxes and benefits since no one earns equivalised money.
- The ONS presents data for all households; for non-retired households; and for retired households. These are each separated into quintiles (fifths of the population, with around 13,360,000 individuals in each) and deciles (tenths of the population).
- The statistics given for quintiles and deciles represent the average³ for that group.
- The ONS also publishes the Gini coefficient, which is the main measure of income inequality.
- The ONS reports data for financial years, that is, from April to the following March. The most recent data runs from April 2022 to March 2023.
- For the financial year 2018-19 onwards, the ONS changes their methodology for estimating incomes – and consequently income taxes – of top earners. This resulted in an upwards revision of their incomes and income taxes from 2018-19 onwards.⁴

1 Office for National Statistics (2024) *Effects of taxes and benefits on household incomes*. Available at: <https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/datasets/theeffectsoftaxesandbenefitsonhouseholdincomefinancialyearending2014> (Accessed: 2 January 2025).

2 Office for National Statistics (2018). ‘Effects of taxes and benefits on household income (ETB) QMI’. Available at <https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/methodologies/theeffectsoftaxesandbenefitsonukhouseholdincome> (Accessed: 23 January 2025).

3 Unless otherwise stated, in this report ‘average’ refers to the mean.

4 Office for National Statistics (2019) *Using tax data to better capture top earners in household income inequality statistics*. Available at: <https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/articles/usingtaxdatatobettercapturetopearnersinhouseholdincomeinequalitystatistics/2019-02-26> (Accessed: 27 November 2024).

Some definitions

The following definitions are all either based on those used by the ONS or based on specified existing definitions from other organisations.

A **household** is a group of people who live together at the same address, and share cooking facilities and a living or dining area. A household can consist of a family, multiple families at the same address, a single person, or multiple unrelated people.

Original income is the income from wages and salaries, self-employment, private pensions, and investments, before taxes and benefits are applied.

Cash benefits are monetary benefits individuals receive from the state, including the State Pension, Universal Credit, Child Benefit, Employment Allowance and the Jobseeker's Allowance.

Benefits-in-kind are non-monetary benefits individuals receive from the state, including the imputed value of NHS care, state education, free hours of childcare, adult social care, school meals and Healthy Start vouchers (including nursery milk and school milk, universal infant free school meals in England, free school meals for children in Primary 1 to 3 in Scotland and the provision of free breakfast to all pupils in maintained primary schools in Wales), and housing and travel subsidies.

Benefits include both cash benefits and benefits-in-kind.

Gross income is original income plus all cash benefits.

Direct taxes include income tax, national insurance contributions (NICs) and council tax. In the ONS data, student loan repayments are included in direct taxes.

Indirect taxes are VAT plus duties paid on goods and services such as petrol, tobacco and alcohol.

Disposable income is gross income minus direct taxes.

Post-tax income is gross income minus all taxes (that is, direct plus indirect taxes).

Final income, or income after considering all taxes and benefits, is post-tax income plus benefits-in-kind.

Quintile groups are used throughout this report. These are most straightforwardly understood as fifths (with the fifth quintile group being the *top* fifth of households by equivalised income). Each quintile for all households represents around 13.6 million people. The ONS analysis ranks individuals by their equivalised household disposable incomes. This means that low earners in high-earner households are placed according to the income of the household they are in.

Equivalisation is the process of adjusting income figures to account for the fact that households with many members are likely to need a higher overall income, but a lower per capita income, to achieve the same standard of living as households with fewer members. Equivalisation considers the number of people living in the household and their ages. The ONS analysis uses the modified Organisation for Economic Co-operation and Development (OECD) scale.⁵

Net recipients refer to individuals who live in households which receive more in benefits (including benefits-in-kind) than they pay in taxes. Those who receive less are **net contributors**. The **net recipience rate** is the percentage of individuals for whom this is true.

⁵ Organisation for Economic Co-operation and Development, *The OECD equivalisation scale*.

Retired households are those where more than 50 per cent of household income is sourced from retired people. A retired person must satisfy one of the following two sets of criteria: either their self-defined employment status is 'Retired', and they are aged over 50 years; or their self-defined employment status is 'Sick or Injured', they are not seeking work, and they are aged at or above the State Pension age.

Economic inactivity refers to people not in employment who have not been seeking work within the last four weeks and/or are unable to start work within the next two weeks.

Long-term sickness applies to those who are off work sick for more than four weeks.

2. Main findings

Direct and indirect taxes

- Direct taxes – in particular income tax – are progressive taxes. The top income quintile spends 29.5 per cent of their income on them. By contrast, the middle quintile spends just 18.1 per cent of their income on them.
- The only exception to this is council tax. The bottom quintile pays a striking 5.6 per cent of their gross income on council tax, compared with 2.5 per cent across all individuals.
- Indirect taxes are regressive taxes. The bottom income quintile pays almost three times as much of their gross income on indirect taxes as the top income quintile – paying 22.4 per cent compared to 7.5 per cent for the top quintile.
- Although this is true for VAT, it is even more true for other indirect taxes, such as alcohol, tobacco and fuel duties. Taken together, the bottom quintile pays 12.6 per cent on other indirect taxes, over two times the average across all individuals and over three times that of the top quintile.
- Surprisingly, the bottom quintile still pays 38 per cent of their gross income on taxation, more than any other quintile.

Variation in the tax burden

- The top quintile pays 55.0 per cent of direct tax and 47.3 per cent of all tax. The other quintiles pay an average of 13.2 per cent each of all tax.
- Government redistribution through taxes and benefits has a large impact on quintile incomes. The bottom quintile earns more than 68 per cent of its total income through cash benefits and benefits-in-kind.⁶
- The middle income quintile is in net receipt from the Treasury, paying £16,011 in taxes and receiving £20,625 in cash benefits and benefits-in-kind, for a total position of £4,614 in net receipt on average.

Net receipt

- The net receipt rate is the proportion of individuals living in households who receive more from the state than they pay in taxation. It has been growing for decades and was 52.6 per cent in 2022/23.
- This corresponds to 35.1 million individuals living in net recipient households. This is up by almost 4 million since 2019/20, when it was 31.4 million, and it is up by over 11 million since 1999/00, when it was 24.0 million.
- It is the third highest rate ever recorded and remains significantly higher than the pre-Covid net receipt rate of 47.5 per cent in 2019/20. However, the rate has climbed down somewhat from the peak reached during Covid: 2020/21 was the highest ever recorded at 55.0 per cent, and the following year, 2021/22, was the second highest, at 53.6 per cent.
- The long-term trend in net receipt is striking. There are now 46 years of records, and taking the previous 45 years and splitting them into three 15-year periods, we see that net receipt averaged 40.0 per cent between 1977 and 1991, then 43.8 per cent between 1992 and 2006, and a striking 50.3 per cent between 2007 and 2022 (see Figure 5.1).
- This report evaluates this extraordinary long-term rise. Determining a conclusive explanation is not possible, but a number of important factors are highlighted.

⁶ The bottom quintile has an average original income of £13,748, and receives on average benefits worth £29,399, including cash benefits and benefits-in-kind.

- There have been three macroeconomic shocks that have had a large impact on net recipience: the recession and crises from 1990-1993, the Global Financial Crisis of 2007-2009, and the Covid-19 pandemic of 2020-2022.
- A significant element of the rise in net recipience is that recipience did not fully revert to pre-crisis levels after any of these crises.
- The size of state expenditure has grown substantially in the 21st Century. It was below 35 per cent of GDP in 1999/00, and has exceeded 39 per cent every year since 2004.
- A major explanation of the record numbers that we have seen in the last three years is the failure to recover from the Covid-19 crisis. Part of this is due to the large rise in long-term sickness since 2020, of which much may be related to Covid-19.
- The most popular explanation for the long-term rise in net recipience, an ageing population, is not credible. Net recipience has risen faster for non-retired households than it has for the overall population.
- Changes in family structures, in particular rises in single parenthood and the large demographic shift from marriage to cohabitation in the last half century, could have impacted net recipience but are unlikely to be a major contributor.
- Towards the end of the 20th Century, a significant rise in income inequality of original income was a major factor in net recipience increasing as taxes and benefits became effectively more redistributive.
- In the medium term, median wage growth has stagnated since the shock of the 2007-2009 Global Financial Crisis, making it increasingly difficult and ultimately increasingly unlikely for middle earners to be net contributors.
- A similar story is true for net migration, which has likely exerted some upwards pressure since the turn of the century, but is unlikely to be a leading contributor.

The effects of taxes and benefits

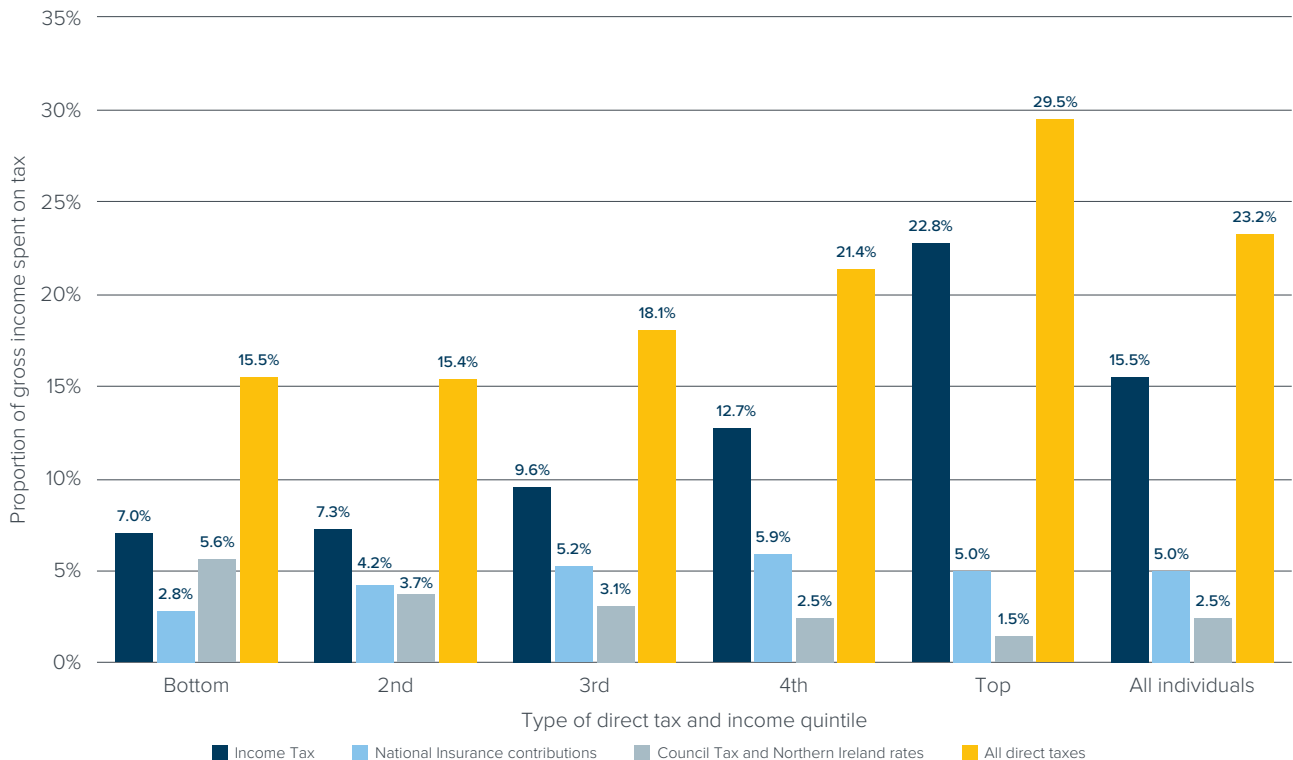
3. Direct and indirect taxes

The effect of taxes on income is different for direct and indirect taxes. Indirect taxes tend to be regressive, whereas direct taxes tend to be progressive – with an increasing proportion of income spent on them as income rises. Income tax as a proportion of gross income is highest for the top quintile. This has been especially clear since the 2018/19 ONS methodological adjustment.⁷ The proportion of income paid as income tax rises non-linearly, meaning the progressive nature of the tax is clearer towards the upper end of the income distribution.

Direct taxes

The top quintile pays 29.5 per cent of their gross income on income taxes – a share almost double that of the bottom two quintiles. This results in the top quintile paying 55 per cent of all direct taxes, over seven times the second quintile and two and a half times the fourth quintile. For council tax, however, another direct tax, we see that the tax is regressive, with the bottom quintile paying over three times as much of their gross income on council tax as the top quintile. This figure includes council tax rebates for those on low incomes or in receipt of certain benefits.

Figure 3.1: Direct taxes as a percentage of gross household income for all individuals by household equivalised income quintile group, UK, 2022/23



Source: Office for National Statistics (2024) Effects of taxes and benefits on household incomes. Available at: <https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/datasets/theeffectsoftaxesandbenefitsonhouseholdincomefinancialyearending2014> (Accessed: 2 January 2025). Table 8.

⁷ Office for National Statistics (2019) Using tax data to better capture top earners in household income inequality statistics. Available at: <https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/articles/usingtaxdatatobettercapturetopearnersinhouseholdincomeinequalitystatistics/2019-02-26> (Accessed: 27 November 2024).

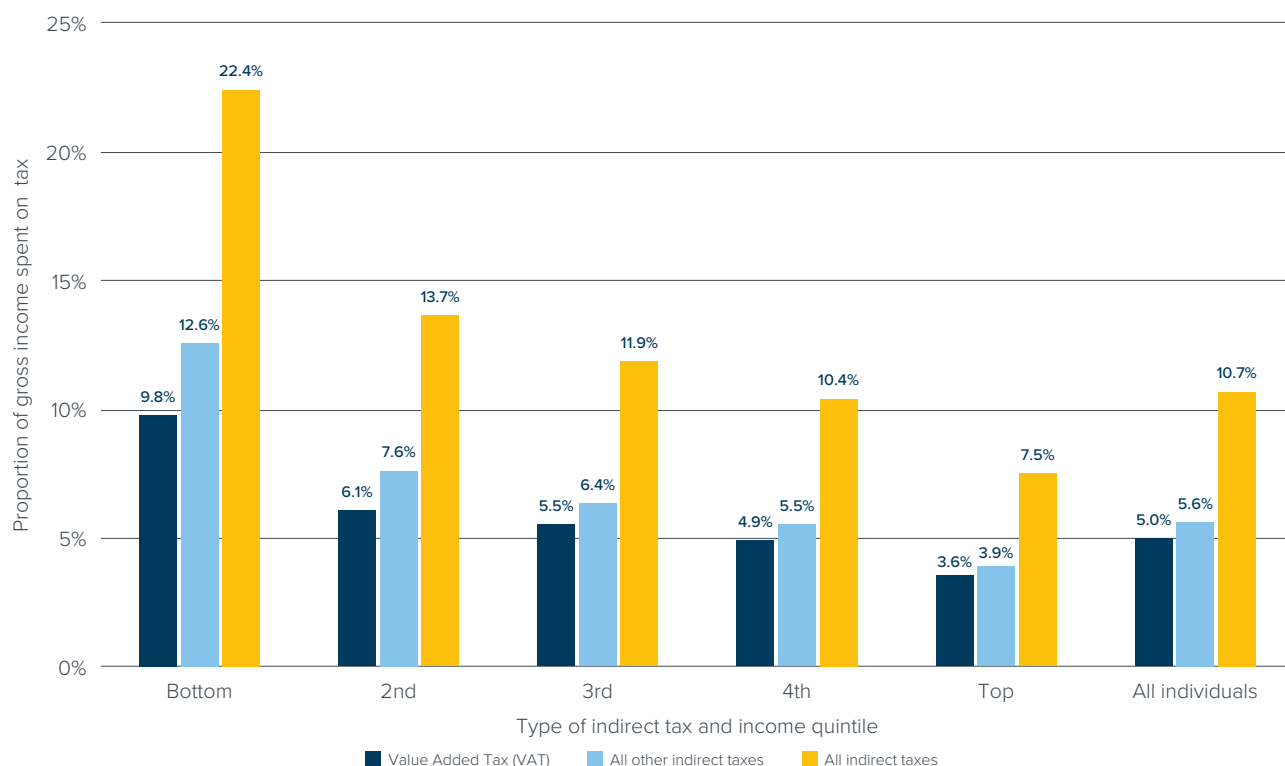
The amount of council tax that households pay is set according to the value of their property relative to others in England, *as of 1 April 1991*. It is a common observation, not least from the Institute for Fiscal Studies (IFS) recently, that the nature of this taxation – being set according to 33-year-old asset value estimations – is ‘absurd’.⁸

In the final quarter of 2023, the average house price in London was seven times what it was in the first quarter of 1995. For the North East of England, the average house price in the final quarter of 2023 was less than four times its early 1995 value. IFS calculations have shown that revaluing council tax so that it was charged according to current, not 33-year-old, house value, would make the taxation more progressive than it currently is, and would make it more geographically progressive as well, in terms of more and less affluent areas of England.⁹ Admittedly, this could potentially harm council income in poorer areas.

Indirect taxes

Indirect taxes are regressive taxes, meaning that, as an individual’s income rises, they pay a lower proportion of their income on the tax. Those in the bottom income quintile group in the UK pay a substantially larger proportion of their gross income on indirect taxation than they do on direct taxation. This is a stark contrast to those in the top quintile, who pay nearly four times as much in direct taxation as they do in indirect taxation.

Figure 3.2: Indirect taxes as a percentage of gross household income for all individuals by household equivalised income quintile group, UK, 2022/23



Source: Office for National Statistics (2024) *Effects of taxes and benefits on household incomes*. Available at: <https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/datasets/theeffectsoftaxesandbenefitsonhouseholdincomefinancialyearending2014> (Accessed: 2 January 2025). Table 8.

⁸ Institute for Fiscal Studies (2024) *Council tax needs urgent reform – not being frozen in time in 1991*. Available at: <https://ifs.org.uk/articles/council-tax-needs-urgent-reform-not-being-frozen-time-1991> (Accessed: 21 July 2024).

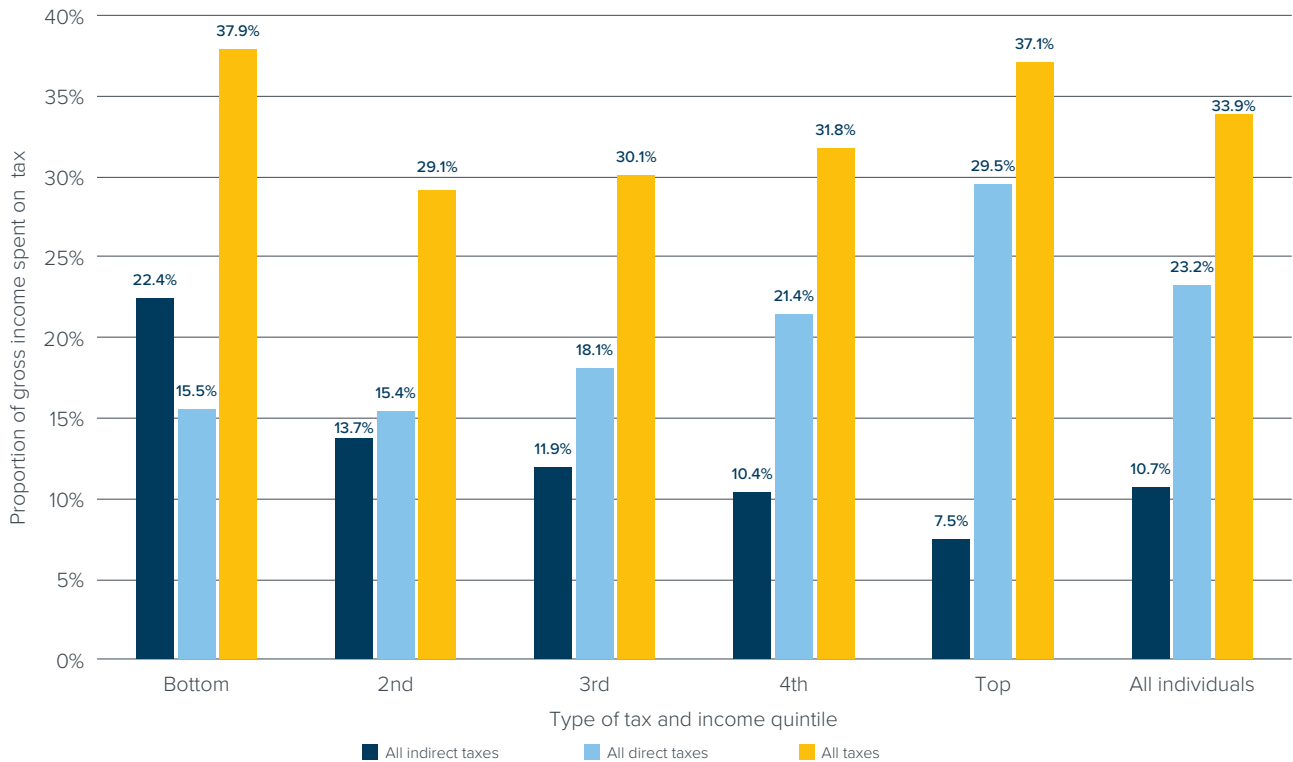
⁹ Institute for Fiscal Studies (2024) *Council tax needs urgent reform – not being frozen in time in 1991*. Available at: <https://ifs.org.uk/articles/council-tax-needs-urgent-reform-not-being-frozen-time-1991> (Accessed: 21 July 2024).

Total taxes

Taking direct taxes and indirect taxes together, we find that, quite shockingly, the bottom quintile pays the highest proportion of its gross income on tax – paying 37.9 per cent. This quintile has an average gross income of just £23,278 and pays on average £8,829 of tax.

Between the second and fifth (top) quintiles, taxes are progressive overall, with a gentle increase in the proportion of gross income spent on tax from 29.1 per cent of income for the second quintile, up to 37.1 per cent of gross income spent on tax by the top quintile. These are all, however, less than the proportion paid by the bottom income quintile.

Figure 3.3: Total taxes as a percentage of gross household income for all individuals by household equivalised income quintile group, UK, 2022/23



Source: Office for National Statistics (2024) Effects of taxes and benefits on household incomes. Available at: <https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/datasets/theeffectsoftaxesandbenefitsonhouseholdincomefinancialyearending2014> (Accessed: 2 January 2025). Table 8.

4. Variation in the tax burden

Variation by income

The top quintile pays 47.3 per cent of tax.

The top decile pay more tax than the bottom three quintiles combined – a group six times as large. Tax is mostly contributed by the top earners – even the fourth quintile, the second highest earning fifth of households, only pay 20.4 per cent of all tax.

The picture is different for council tax: the bottom quintile pays 8.6 per cent of council tax – a share over five times that of their income tax contribution. The second quintile similarly contribute a three times larger share to council tax than income tax.

Table 4.1: Average household share of taxes paid of all individuals split by equivalised household disposable income quintile group, UK, 2022/23¹⁰

Quintiles	Bottom/1st	2nd	3rd	4th	Top/5th	Top decile
Original income	£13,748	£29,084	£46,097	£68,771	£138,247	£182,537
Income tax	£1,634	£2,821	£5,113	£9,366	£32,211	£49,392
NICs	£644	£1,639	£2,778	£4,317	£7,087	£8,342
Council tax (and Northern Ireland rates), minus rebates	£1,293	£1,434	£1,638	£1,832	£2,121	£2,238
Direct taxes total	£3,615	£5,943	£9,664	£15,750	£41,783	£60,344
Total share of all direct taxes	4.8%	7.8%	12.3%	20.0%	55.0%	40.5%
VAT	£2,284	£2,372	£2,943	£3,624	£5,145	£5,975
Indirect taxes total	£5,214	£5,308	£6,347	£7,686	£10,658	£12,140
Total share of all indirect taxes	15.2%	15.2%	17.6%	21.3%	30.6%	17.8%
All taxes	£8,829	£11,251	£16,011	£23,436	£52,441	£72,484
Total share of all taxes	8.1%	10.1%	14.0%	20.4%	47.3%	33.4%

Source: Office for National Statistics (2024) Effects of taxes and benefits on household incomes. Available at: <https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/datasets/theeffectoftaxesandbenefitsonhouseholdincomefinancialyearending2014> (Accessed: 2 January 2025). Table 2a, 2b for top decile. Percentages may not sum to 100.0% due to rounding.

Income before and after redistribution

Looking at a quintile group level, we see clearly the redistributive effect of taxes and benefits. We can also see clearly that the average position for the middle quintile group is net recipient by nearly £5,000. Looking at incomes before and after redistribution for each income decile group (Figure 4.1), we also see that individuals cannot expect to make a net contribution to the tax and benefit system until they reach the seventh decile of household income.

It is especially interesting to note here that, even though the bottom quintile pay the highest proportion of their income on taxation of any quintile, they still receive £20,570 more in benefits than they pay in taxes.

It also appears strange, even wasteful, that top quintile households receive an average of £3,247 a year in cash benefits – a sum amounting to a total of around £18.6 billion in cash benefits given to a group with an average original household income exceeding £138,000.¹¹

¹⁰ This table is a summary of a larger dataset, and so rows shown do not sum to give total direct and indirect taxes.

¹¹ There are 5.72 million households in the top quintile, and they receive an average of £3,247 in cash benefits. $5,720,000 \times £3,247 = £18,572,840,000$ or £18.57 billion.

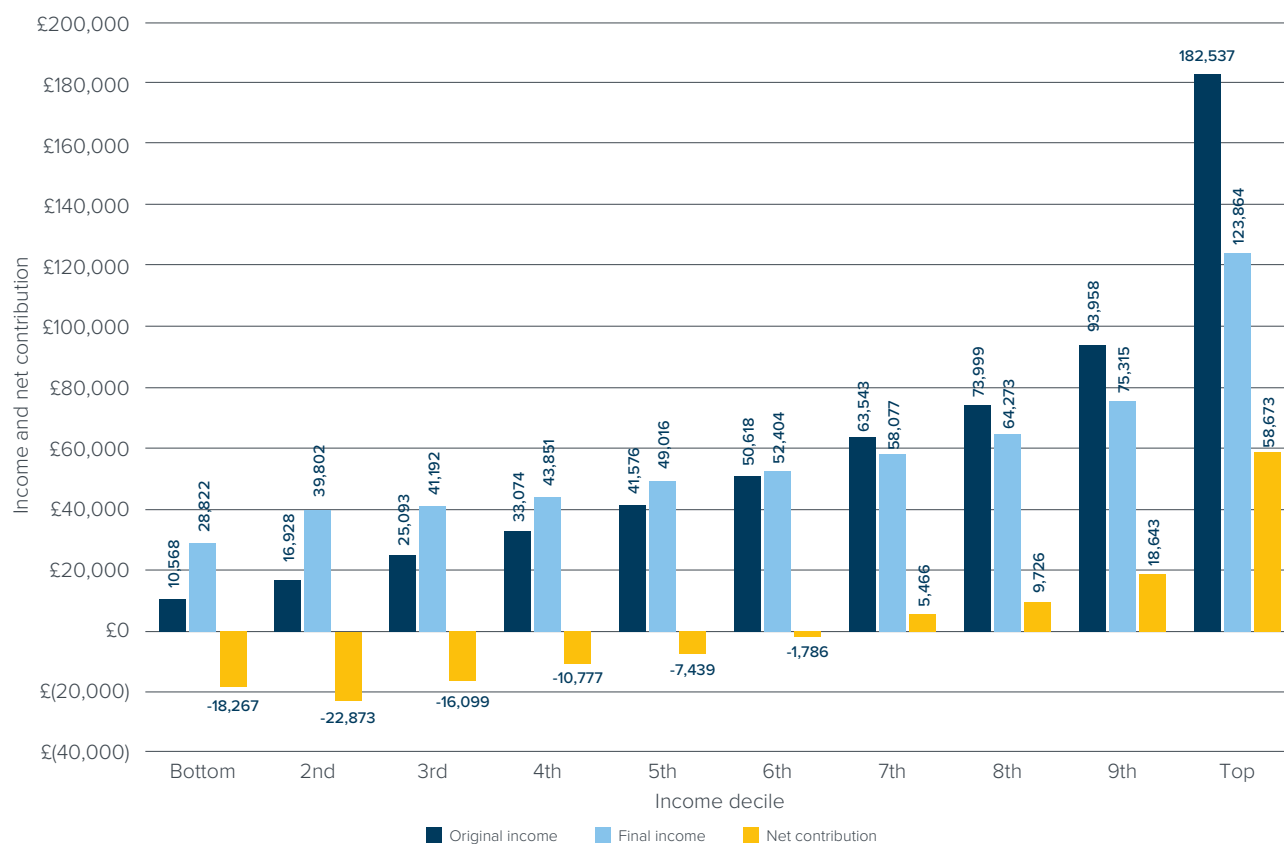
It is also apparent the extent to which the top quintile, and particularly the top decile, are depended on by the rest of the country. The net contribution from households in the top decile is, on average, nearly eight times as much as the net contribution from the households in the fourth quintile – a reasonably affluent group themselves.

Table 4.2: Average household income, taxes and benefits of all individuals split by equivalised household disposable income quintile group, UK, 2022/23

Quintiles	Bottom/1st	2nd	3rd	4th	Top/5th	Top decile
Original income	£13,748	£29,084	£46,097	£68,771	£138,247	£182,537
Cash benefits	£9,530	£9,590	£7,159	£4,825	£3,247	£2,821
Benefits-in-kind	£19,869	£15,099	£13,466	£11,014	£10,536	£10,990
Direct taxes	£3,615	£5,943	£9,664	£15,750	£41,783	£60,344
Indirect taxes	£5,214	£5,308	£6,347	£7,686	£10,658	£12,140
Final income	£34,312	£42,521	£50,711	£61,174	£99,589	£123,864
Total taxes – benefits	–£20,570	–£13,438	–£4,614	£7,597	£38,658	£58,673

Source: Office for National Statistics (2024) Effects of taxes and benefits on household incomes. Available at: <https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/datasets/theeffectsoftaxesandbenefitsonhouseholdincomefinancialyearending2014> (Accessed: 2 January 2025). Table 2a, Table 2.b for top decile.

Figure 4.1: Income before and after redistribution, and net contribution, of individuals in the UK, split by equivalised household income decile.



Source: Office for National Statistics (2024) Effects of taxes and benefits on household incomes. Available at: <https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/datasets/theeffectsoftaxesandbenefitsonhouseholdincomefinancialyearending2014> (Accessed: 2 January 2025). Table 2b.

The net recipience puzzle

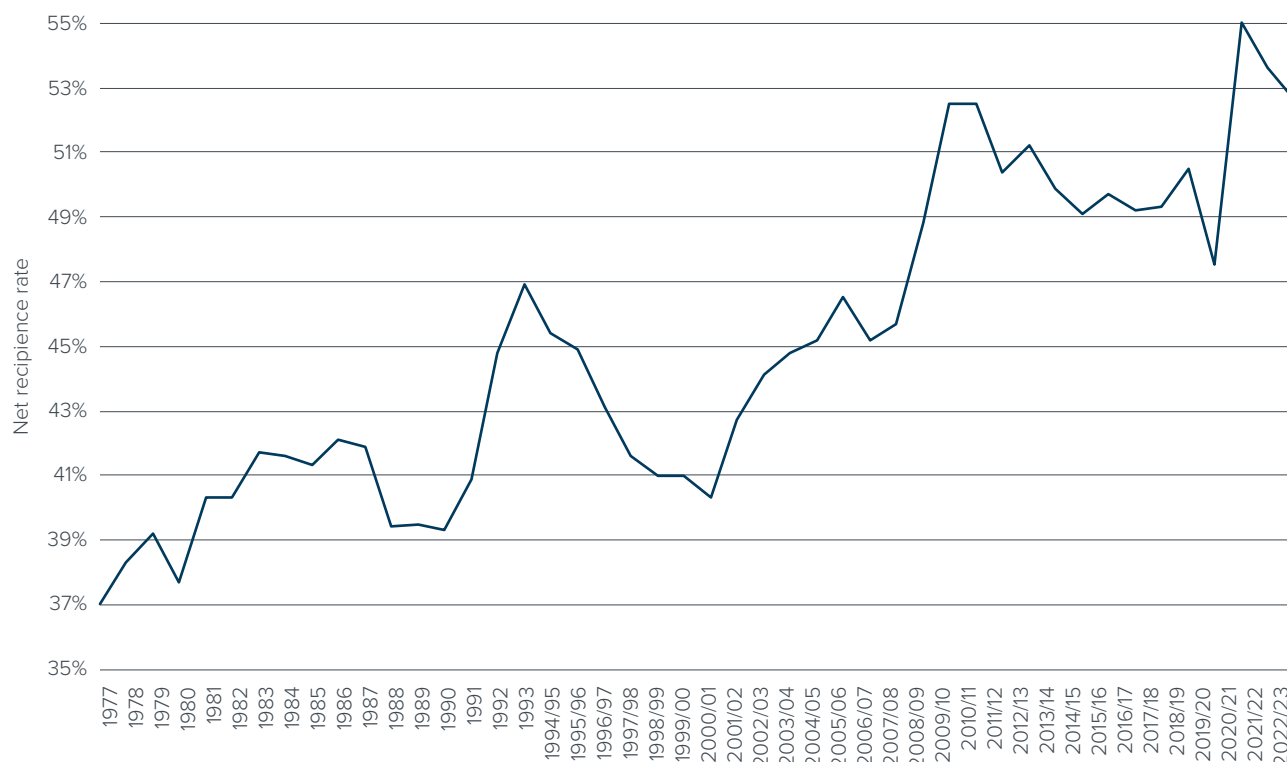
5. Net recipience

The latest ONS data on the effects of taxes and benefits on UK household income shows that, in the 2022-23 financial year, 52.6 per cent of individuals were in households which received more in benefits than they paid in taxes. This is the third consecutive year of a net recipience rate that is higher than it had ever been before 2020 since measurements began in 1977. Overall, approximately 35.1 million individuals live in households which receive more from the state in benefits than they are paying in taxes.

The long-term trend in net recipience is strikingly upwards. There are now 46 years of records and taking the previous 45 years and splitting them into three 15-year periods, we see that net recipience averaged 40.0 per cent between 1977 and 1991, then 43.8 per cent between 1992 and 2006, and a striking 50.3 per cent between 2007 and 2022.

Figure 5.1 shows that from 1990 to 1994, likely related to the early 1990s recession, and then the Exchange Rate Mechanism crisis, Black Wednesday and the large spike in UK unemployment in this period, net recipience increased a very large amount in a short period of the time. It subsequently fell from 1995 to 2001 but stayed above its 1991 level.

Figure 5.1: Percentage of all individuals receiving more in benefits (including in kind) than they pay in taxes, UK, 1977-2023



Source: Office for National Statistics (2024) Effects of taxes and benefits on household incomes. Available at: <https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/datasets/theeffectsoftaxesandbenefitsonhouseholdincomefinancialyearending2014> (Accessed: 2 January 2025). Table 16.

The figure then shows that from 2007 to 2009, likely due to the Global Financial Crisis, there was a rise in net recipience of over six percentage points from 45.7 per cent to 52.5 per cent. This was at the time the all-time peak by some margin. Over the next 11 years, this steadily fell but remained above its pre-financial crisis level, with a net recipience of 47.5 per cent in 2019/20, having been 45.2 per cent in 2006/07.

The 2019/20 level, after 11 years of steadily falling, also remained above the pre-financial crisis record peak of 46.9 per cent in 1993. The rate fell in the medium term, but not enough to counter a long-term upward trend.

There was then, largely due to the Covid-19 pandemic, another sharp rise in net recipience to a new record of 55.0 per cent in 2020/21. This has since steadied to 53.6 per cent in 2021/22 and then 52.6 in 2022/23, but remains far higher than the 20th Century norm.

Overall, since 1991, there have been a number of sharp rises in net recipience, with clear contextual explanations, after which net recipience has fallen. But the long-term trend has consistently been of a rising net recipience rate.

The subsequent sections of this report look into some key explanations for this historically high net recipience rate, and discuss whether there are any compelling explanations beyond two shocks: a financial crisis that was never fully recovered from, and a Covid-19 pandemic and response to it whose economic consequences are still being strongly felt.

The sections find a cocktail of short-, medium- and long-term answers. In the short term, the catastrophic effect of the Covid-19 pandemic and government response to it has had lingering consequences. In the medium term, the economy, and in particular wages, have failed to grow since the 2007-09 Global Financial Crisis. In the long term, the total size of state expenditure has grown substantially since the turn of the century, and, before that, rises in income inequality throughout the 1980s and 1990s led to an increasingly redistributive state. There have been further potential upwards pressures over that time, including from household formation changes and migration, but these are less clear.

6. The size of state expenditure

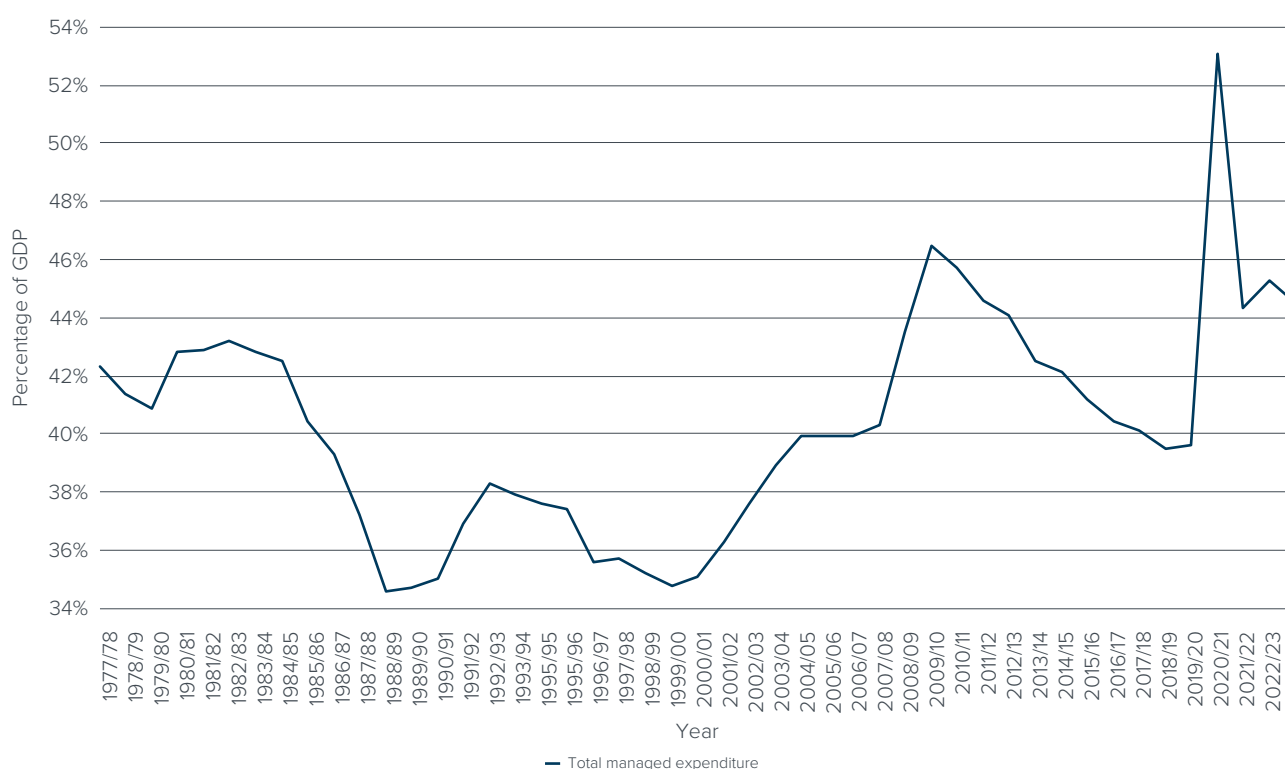
The most obvious place to begin when looking to understand the historic rise in net recipience is the overall size of total government expenditure. If the size of total state expenditure has grown over the decades, then this would be expected to gradually move more households into net recipience, mostly through increases in benefits-in-kind. This would explain much of the long-term trend.

Figure 6.1 looks specifically at how total managed expenditure¹² has evolved over time. From the late 1970s to 2019/20, there was an overall small net decline in total managed expenditure: expenditure was 42.3 per cent of GDP in 1977/78 and 39.6 per cent GDP in 2019/20.

There have been four trends within the whole period: a steady but non-linear decline from 1977 to 2000, within which there was a substantial fall in expenditure from 1981-1990 and then a substantial rise from 1990 to 1993; the long-term rise from 2000 to 2010, which was gradual until the financial crisis, and then rapid from 2008-2010; the steady fall during austerity from 2010-2019; and finally, the spike in 2020/21. However, all but the final of these largely cancelled one another out.

There is, however, a case that there has been a growth in the size of the state since 2000. The rise in spending from 34.8 per cent of GDP in 1999/00 to 46.5 per cent of GDP in 2009/10 only reversed down to 39.6 per cent in 2019/20, even after 10 years of spending reductions. The vast Covid-19 rise to 53.1 per cent in 2020/21 has also not fully reverted, sitting at 44.9 per cent in 2023/24.

Figure 6.1: Total managed expenditure as a percentage of GDP, UK, 1977/78-2023/24

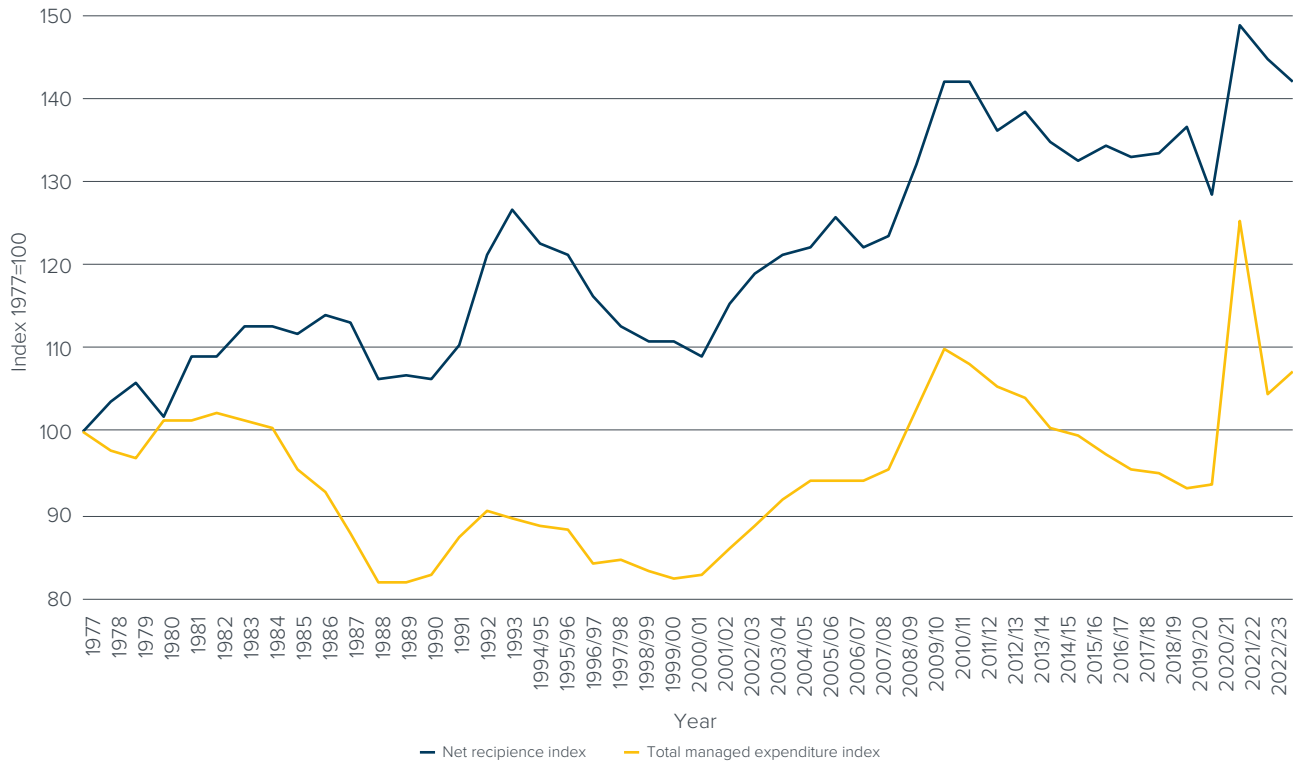


Source: Office for Budget Responsibility (2024) Public finances databank 2023-24. Available at: <https://obr.uk/public-finances-databank-2023-24/> (Accessed: 27 November 2024).

12 Total managed expenditure describes all forms of expenditure made by government, including local authorities and public enterprises. It include all departmental budgets, but also money spent in areas outside budgetary control such as debt interest, welfare and pensions.

It is clear when comparing public expenditure against net receipt from 1977 to 2022 that the two are closely related – something which is true by definition, with public expenditure being a key component of net receipt – but that net receipt has consistently grown over the long term, whilst public sector current expenditure has not.

Figure 6.2: Index, net receipt against public sector current expenditure, UK, 1977/78-2022/23, 1977=100



Source: Net receipt: Office for National Statistics (2024) Effects of taxes and benefits on household income. Table 16. Available at: <https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/datasets/theeffectsoftaxesandbenefitsonhouseholdincomefinancialyearending2014> (Accessed: 2 January 2025). Public sector current expenditure: Office for Budget Responsibility (2024) Public finances databank 2023-24. Available at: <https://obr.uk/public-finances-databank-2023-24/> (Accessed: 27 November 2024).

Government spending is a key determinant of net receipt. It is also undoubtedly a key part of the spike from 2020 onwards, and most likely a significant contributor of the rise in net receipt since 2000, but it does not explain the very long-term structural climb in net receipt over a half century. Net receipt rose, albeit not linearly, from 1977 to 2000, whilst public expenditure fell substantially from 1977 to 1988 and then only rose a little from 1988 to 2000; net receipt demonstrates a mostly-unrelenting large climb upwards over a half century, while for public expenditure the long-term trend upwards only clearly begins in 2000.

7. The Covid-19 pandemic

One prominent explanation for the UK reaching record net receipt in 2021 and remaining near this height is the impact of the Covid-19 pandemic. The number of individuals in net receipt households increased 5 million from 2019/20 to 2020/21, and remains almost 4 million above the 2019/20 level.

Financial years make this easier to evaluate as the 2020-21 financial year began in April 2020 and the first UK national lockdown was called on 23 March 2020.

From 2019/20 to 2020/21, the amount paid in indirect taxation fell dramatically – an obvious consequence of lockdowns. The average tax paid by all UK households fell from £24,084 to £21,925, 84 per cent of which was from falls in indirect taxes paid (due to lower day-to-day spending), even though they make up just a quarter of overall taxes.¹³

This increased net receipt as it made taxes more progressive, with indirect taxes being regressive. Indirect taxes form a larger share of the disposable income of the bottom quintiles (in 2020/21, the year of note, this was 57 per cent for the bottom and 43 per cent for the second) than they are for the top quintiles (30 per cent for the fourth and just 17 per cent for the top, in 2020/21).¹⁴ (See Section 3.)

The other major contributor to the rise in net receipt from the Covid-19 pandemic was a sharp increase in benefits-in-kind. This was particularly seen in increased spending on the NHS,¹⁵ and also increased spending on education.¹⁶ There were some other smaller effects of the Covid-19 pandemic, such as increases in cash benefits and falls in self-employment, but these results did not have a large effect on the reported outcomes. Furlough payments represented a significant temporary increase in state expenditure (with a gross cost to the exchequer of approximately £70 billion),¹⁷ but these do not contribute to the ONS's measures of net receipt as they were counted as salaried income rather than a benefit.

These two principal explanations – a fall in indirect taxation and a rise in benefits-in-kind – are particularly interesting because we would expect that this would result in a sharp decline in net receipt over the 2021-2023 period, with the 2022/23 result being similar to that of 2019/20. This is because the dramatic fall in indirect taxes reverted after lockdowns finished, and the dramatic rise in spending would be expected to reverse after lockdowns finished, as NHS and education spending would be expected to mostly revert to normal after the end of the pandemic. In reality, the 2022/23 figure is nearer the 2020/21 record than the 2019/20 pre-pandemic level.¹⁸ There has not been anything close to a full reversion, something worth examining. Much of this is that public expenditure has not fully reverted, as shown in the previous section, but it is worth further consideration.

13 Office for National Statistics (2024) *Effects of taxes and benefits on household incomes*. Available at: <https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/datasets/theeffectsoftaxesandbenefitsonhouseholdincomefinancialyearending2014> (Accessed: 2 January 2025).

14 Office for National Statistics (2024) *Effects of taxes and benefits on household incomes*. Available at: <https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/datasets/theeffectsoftaxesandbenefitsonhouseholdincomefinancialyearending2014> (Accessed: 2 January 2025).

15 The King's Fund (2024) *The NHS budget and how it has changed*. Available at: <https://www.kingsfund.org.uk/insight-and-analysis/data-and-charts/nhs-budget-nutshell> (Accessed: 24 January 2025).

16 Farquharson, C. et al (2021) *COVID-related spending on education in England*. IFS. Available at: <https://ifs.org.uk/publications/covid-related-spending-education-england> (Accessed: 24 January 2025).

17 Cribb, J. and Salisbury, A. (2021) *Employment and the end of the furlough scheme*. IFS. Available at: <https://ifs.org.uk/books/employment-and-end-furlough-scheme> (Accessed: 24 January 2025).

18 Office for National Statistics (2024) *Effects of taxes and benefits on household incomes*. Available at: <https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/datasets/theeffectsoftaxesandbenefitsonhouseholdincomefinancialyearending2014> (Accessed: 2 January 2025).

8. Long-term sickness

A common theory for the lingering effect of the Covid-19 pandemic on net recipients is the impact of long-term sickness, with an increase in people out of work due to sicknesses that may have been either caused or significantly exacerbated by national lockdowns, as well as some cases of Long Covid. Long-term sickness has risen sharply from 2.1 million in the first quarter of 2019 to 2.8 million in the first quarter of 2024.¹⁹

Available net recipients data comes to March 2023. Isolating the period between the Covid-19 pandemic and then, long-term sickness rose from 2.1 million in the first quarter of 2021, to 2.3 million in the first quarter of 2022, to 2.7 million by the first quarter of 2023.²⁰ Although this increase of around 600,000 (the net increase in net recipients from 2019/20 to 2022/23 is around 4 million) is less than one per cent of total population, it could have caused a much larger increase in net recipients if it moved whole households from positions of net contributors to net recipients.

Isolating the increase in economic inactivity because of long-term sickness, the cumulative rise from December 2019–February 2020, taking us right to the beginning of lockdown, to December 2022–February 2023, three years later, was 415,000.²¹

There was also, between 2020 and 2022, a rise in those in work with a work-limiting health conditions from 16.3 per cent to 18.1 per cent.²² This is a much larger number of people than the increase in economic inactivity.

The question for whether this change can explain the rise in net recipients continuing beyond lockdowns is then twofold: whether this rise in economic activity due to long-term sickness and work-limiting health conditions has been related to Covid-19 and, more importantly, whether these individuals and their household have subsequently moved from being net contributors to net recipients.

Neither of these questions is straightforward to evaluate, but both seem reasonably likely. Figure 8.1 shows that the largest increase in health conditions as a primary or secondary reason for long-term sickness from the first quarter of 2019 to the first quarter of 2023 is, by some margin, 'depression, bad nerves or anxiety', with an increase in nearly 400,000 people. It is worth noting that most who are long-term sick cite a number of health conditions, and as such the numbers presented in Figure 8.1 significantly exceed the overall increase in long-term sickness.

The rise in depression, bad nerves and anxiety can and has been linked to lockdowns compellingly. Not allowing people to socialise other than with those they live with (with whom they may not have good relations), or do almost any of their standard activities, or significantly enter the outside world for a sustained period of time, intuitively risks causing long-term damage to some people's 'mental health, especially those who are already fragile. A similar case is true for 'mental illness' (given by the ONS as a

separate category to 'depression, bad nerves or anxiety'), which has had a sharp increase since and not before 2020.²³ It is likely that other factors are also at play, as some of the rise seen in this group occurred before March 2020, but it is compelling that this is a Covid-19 pandemic and lockdown response observation.²⁴

19 ONS (2024) *LFS: Econ. inactivity reasons: Long Term Sick: UK: 16-64:000s:SA*. Available at: <https://www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/economicinactivity/timeseries/lf69/lms> (Accessed: 27 November 2024).

20 ONS (2024) *LFS: Econ. inactivity reasons: Long Term Sick: UK: 16-64:000s:SA*. Available at: <https://www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/economicinactivity/timeseries/lf69/lms> (Accessed: 27 November 2024).

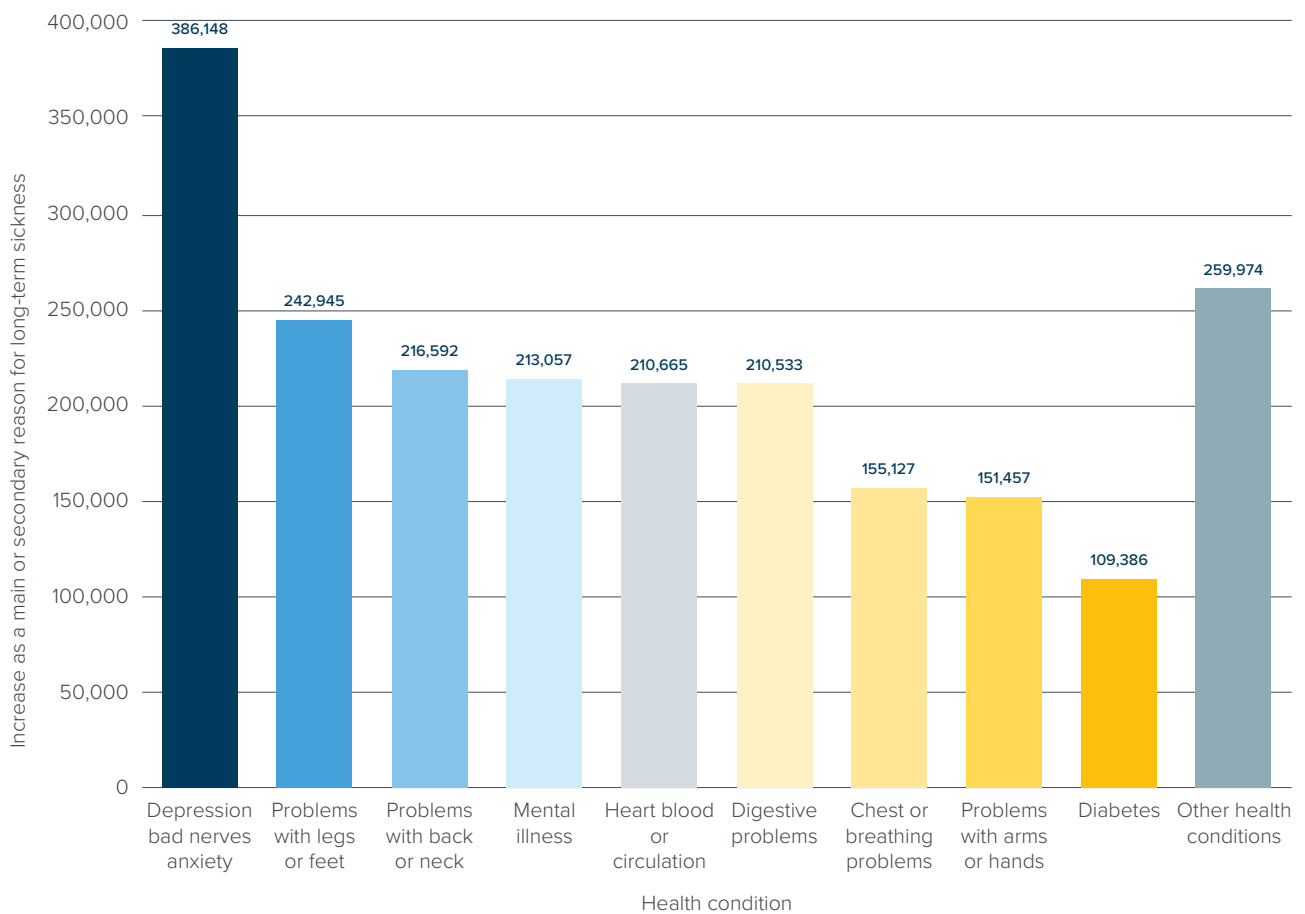
21 ONS (2023) *Rising ill-health and economic inactivity because of long-term sickness, UK: 2019 to 2023*. Available at: <https://www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/economicinactivity/articles/risingillhealthandeconomicinactivitybecauseoflongtermsicknessuk/2019to2023> (Accessed: 27 November 2024).

22 ONS (2023) *Health, demographic and labour market influences on economic inactivity, UK: 2019 to 2022*. Available at: <https://www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/economicinactivity/articles/healthdemographicandlabourmarketinfluencesoneconomicinactivityuk-2019to2022/2023-05-19> (Accessed: 27 November 2024).

23 ONS (2022) *Half a million more people are out of the labour force because of long-term sickness*. Available at: <https://www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/economicinactivity/articles/halfamillionmorepeopleareoutofthelabourforcebecauseoflongtermsickness/2022-11-10> (Accessed: 27 November 2024).

24 ONS (2022) *Half a million more people are out of the labour force because of long-term sickness*. Available at: <https://www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/economicinactivity/articles/halfamillionmorepeopleareoutofthelabourforcebecauseoflongtermsickness/2022-11-10> (Accessed: 27 November 2024).

Figure 8.1: Increase in long-term sickness by main and secondary health conditions, January-March 2020 to January-March 2023



Source: Office for National Statistics (2023) *Rising ill-health and economic inactivity because of long-term sickness, UK: 2019 to 2023*. Available at: <https://www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/economicinactivity/articles/risingillhealthandeconomicinactivitybecauseoflongtermsicknessuk/2019to2023> (Accessed: 23 July 2024).

The ONS suggests that much of the rise in ‘other health conditions’ may be a result of Long Covid, due to individuals not being given any indication of what health condition to report Long Covid as, making it likely to have been reported as ‘other’.²⁵ On the other hand, much of the rise in ‘other health conditions’ was before March 2020, and this rise cannot be attributed to lockdowns, which had yet to occur.

Problems with legs or feet and problems with back or neck may be related to a large increase in physical inactivity, in particular working from home, as a result of lockdowns. This also fits with the timing of these problems, where the biggest year-on-year rise in those out of work citing those conditions as their main reason was from 2021 to 2022.

In general, it is clear that the sharp rise in long-term sickness has correlated closely with the Covid-19 pandemic, and a causal relationship seems highly likely, although not certain. There is also a pertinent argument that declaring unhappiness as long-term sickness has been incentivised, as discussed in Channel 4’s *Britain’s Benefits Scandal*.²⁶

25 ONS (2022) *Half a million more people are out of the labour force because of long-term sickness*. Available at: <https://www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/economicinactivity/articles/halfamillionmorepeopleareoutofthelabourforcebecauseoflongtermsickness/2022-11-10> (Accessed: 27 November 2024).

26 Channel Four, *Britain’s Benefits Scandal: The rise and rise of sickness benefit*. Available at: <https://www.benefitstrap.com/> (Accessed: 27 January 2025).

The second question is whether the rise in economic inactivity due to long-term sickness has significantly impacted net recipience. It is not beyond the realm of possibility that these individuals were mostly already net recipient and it is worth examining this trend.

The question here is what these individuals were doing before they became economically inactive. This is not entirely clear, but Centre for Social Justice research suggests that those who have left the labour force due to long-term sickness are disproportionately from deprived backgrounds, suggesting that a reasonable contingent may have already been net recipients.²⁷

On the other hand, we do know that the rise in long-term sickness has been concentrated in older workers (aged 50-64).²⁸ This is a cohort who would disproportionately be expected to have previously been net contributors, with salaries typically higher towards the end of careers and some benefits-in-kind – such as the imputed value of school spending – typically fairly low, as those aged 50-64 are less likely, on average, to have school-aged children.

It also seems likely that the rise in those in work with a work-limiting health condition (that is, those who have reduced their working hours due to a health condition) from 16.3 per cent to 18.1 per cent²⁹ has increased net recipience. By the nature of the indicator, we know that this entire cohort was in work before becoming long-term sick, although we do not know whether this was full-time and/or highly paid work.

In general, long-term sickness is compellingly part of the story of the lingering effect of Covid-19 on net recipience. It also seems to be an increasing issue in its own right, with a steady rise since before the pandemic spike and little signs of retreat since. It doesn't, however, shed light on the long-term upwards trend in net recipience since the late 1970s, and bigger structural questions need to be asked here.

27 Centre for Social Justice (2023) *Two Nations: The State of Poverty in the UK*. Available at: <https://www.centreforsocialjustice.org.uk/library/two-nations> (Accessed: 27 November 2024) p73.

28 Boileau, B. and Cribb, J. (2022) *Is worsening health leading to more older workers quitting work, driving up rates of economic inactivity?* IFS. Available at: <https://ifs.org.uk/articles/worsening-health-leading-more-older-workers-quitting-work-driving-rates-economic> (Accessed: 27 November 2024).

29 ONS (2023) *Health, demographic and labour market influences on economic inactivity, UK: 2019 to 2022*. Available at: <https://www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/economicinactivity/articles/healthdemographicandlabourmarketinfluencesoneconomicinactivityuk-2019to2022/2023-05-19> (Accessed: 27 November 2024).

9. Population ageing

The most obvious structural answer for this long-term rise in the net recipient rate is that the UK population is ageing. In 2022, the median age in the UK was 40.7 years,³⁰ up from 33.9 years in 1974.³¹ All else being equal, we would expect the trend of population ageing to mean a rising proportion of UK adults that are retired – and claiming the State Pension – and a shrinking proportion of UK adults that are working.

The crux of this argument is that the increase in net recipient rate is not principally due to working age households becoming more dependent on the state, but instead caused by there being fewer of them compared to retired households, which are of course much more likely to be net recipient.

This explanation would suggest that the rise in net recipient rate would mostly be because of a growing retired population. We would therefore expect the biggest structural shift to be the retired group becoming larger compared to the non-retired group, more so than either group becoming more net recipient.

We can test this quite easily. The first and easiest way to isolate this is to look at how the relative sizes of the retired and non-retired groups have changed over the years.

The proportion of retired households has risen slightly over the years. If we look from 2001 to 2021, the two decades which saw huge growth in the net recipient rate, we see that the proportion of individuals in retired households went up from 16.4 per cent to 17.9 per cent. However, contrary to the ageing population explanation, the proportion of all net recipients that live in retired households *fell* from 2001 to 2021, from 34.3 per cent to 29.2 per cent.³²

The rise in net recipient rate is most certainly not principally a rise in the number of retired individuals.

We can see this even more clearly by looking at the long-term trend in the net recipient rate for individuals living in non-retired households. This can be seen as the ‘working age net recipient rate’ and should be mostly unaffected by an ageing population. It is certainly unaffected by *retirement* by definition as it excludes retired individuals.

Figure 9.1 shows the exact opposite. If we index net recipient rate at 100 in 1977, we see very clearly that net recipient rate has grown *faster* for non-retired individuals than the whole population. Although counterintuitive to the ageing population explanation, this result is not especially surprising as non-retired individuals are much more impacted by economic shocks – especially in terms of changes in unemployment – than retired individuals.

It is worth noting that there could be an ageing population effect within non-retired individuals. For instance, individuals do not have to retire in order to claim the State Pension: an ageing population could result in a growing number of individuals that are net recipient because they receive the State Pension, although they are still in work. Because the State Pension makes up a substantial portion of benefit spending – and, more importantly, the yearly amount received per person on the full State Pension is similar in magnitude to the total tax paid by many households – this effect could in theory have a significant impact on net recipient rate. However, the number of State Pension claimants has remained remarkably steady over the last decade or so, in significant part due to increases to the pension age.³³

30 Office for National Statistics (2024). *Population estimates for the UK, England, Scotland, Wales, and Northern Ireland: mid-2022*. Available at: <https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationestimates/bulletins/annualmidyearpopulationestimates/mid2022> (Accessed: 29 January 2025).

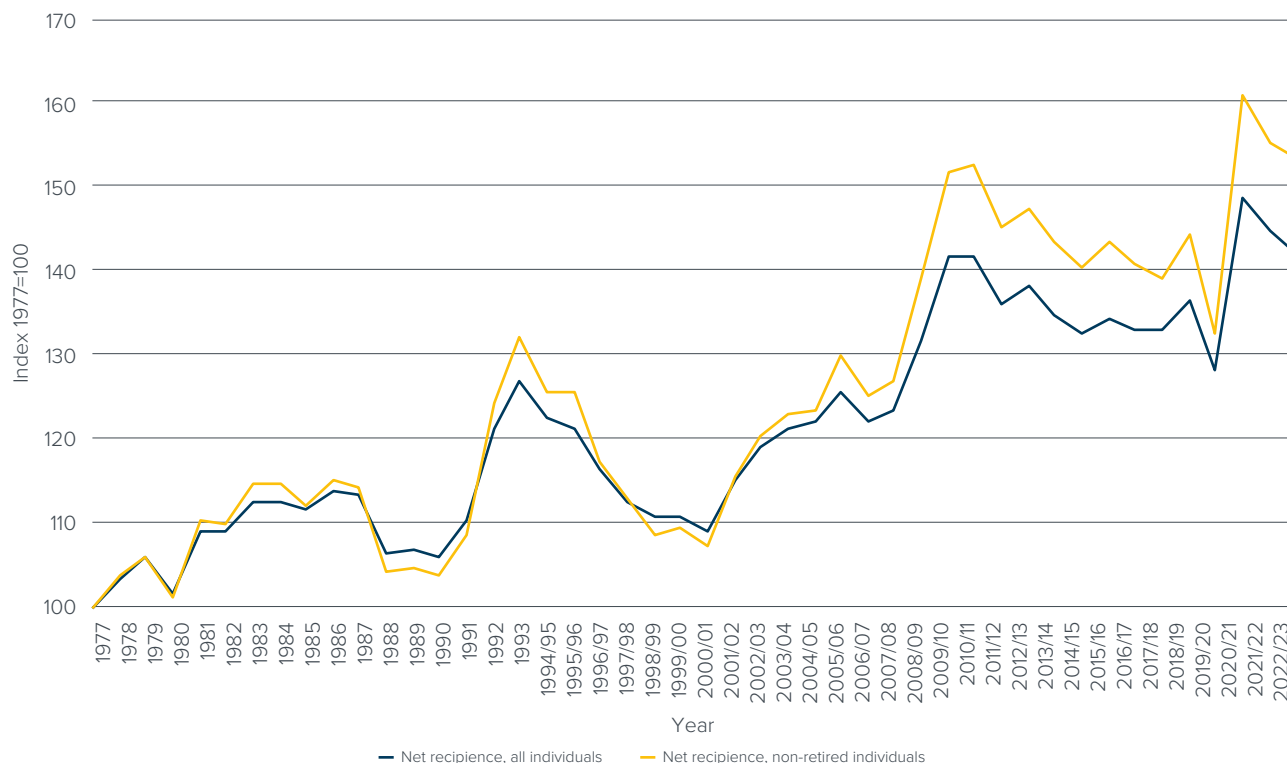
31 Office for National Statistics (2015). *Overview of the UK Population: November 2015*. Available at: <https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationestimates/articles/overviewoftheukpopulation/2015-11-05> (Accessed: 29 January 2025).

32 Office for National Statistics (2024) *Effects of taxes and benefits on household incomes*. Available at: <https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/datasets/theeffectsoftaxesandbenefitsonhouseholdincomefinancialyearending2014> (Accessed: 29 January 2025).

33 UK Government (2022). *DWP benefits statistics: August 2022*. Available at: <https://www.gov.uk/government/statistics/dwp-benefits-statistics-august-2022/dwp-benefits-statistics-august-2022> (Accessed: 29 January 2025).

A further way in which population ageing could impact net recipience within non-retired households would be if income followed a quadratic trend – with income falling in the latter years of working life. It is true that households are at their most net contributory, on average, when the reference person (largest earner) is aged 50-54, and that this falls a little for ages 55-59 and 60-64. However, the group aged 60-64 remain more net contributory than those aged 45-49, and, compared to the 65-69 age group (which is significantly net recipient), these changes are very small.³⁴ It is unlikely this would have a significant effect.

Figure 9.1: Index, percentage of all non-retired individuals receiving more in benefits (including in kind) than they pay in taxes, UK Index (1977=100), 1977-2023



Source: Office for National Statistics (2024) *Effects of taxes and benefits on household incomes*. Available at: <https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/datasets/theeffectsoftaxesandbenefitsonhouseholdincomefinancialyearending2014> (Accessed: 2 January 2025). Table 16.

Considering that net recipience has risen faster for non-retired households, the ageing population argument is not persuasive.

34 Office for National Statistics (2019) *Effects of taxes and benefits on UK household income: financial year ending 2018*. Available at: <https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/theeffectsoftaxesandbenefitsonhouseholdincome/financial-year-ending-2018> (Accessed: 27 January 2025) Figure 10.

10. Migration

There are several economic impacts of migration, with wage growth, labour shortages, housing, productivity, and capital formation being five areas particularly frequently noted as affected by immigration. Many of these issues relate closely to net recipient, but are best analysed on their own terms. The direct relationship between movement of people and net recipient relates to the recipient status of those entering and leaving the country.

Net migration into the UK has grown substantially in the 21st Century. Cumulative net migration in the 25 years from 1973 to 1998 was 68,000; in the following 25 years, from 1998 to 2022, it was at least 5.89 million – around 85 times as much.³⁵ If it is that migration has been a causal factor in the long-term rise in net recipient, this will have only been a 21st Century phenomenon.

The most recent ONS estimates suggest that there has been a further 1.63 million cumulative net migration between June 2022 and June 2024, although much of this will not have impacted the most recent net recipient data, which only reports up to March 2023.³⁶

Gross immigration in this period has been higher still, as total emigration each year has been substantial – it has been around half a million each year since 2012.³⁷ Together, this amounts to a very substantial total movement of people.

These numbers are large enough to have significantly increased net recipient (the number of people living in net recipient households in the UK has risen by around 11 million since 2000), but only if it has been the case that a substantially higher proportion of the individuals immigrating have been, and remained, net recipient than the UK average, and also that a higher proportion of those emigrating had *not* been net recipients.

We do know from research from the Migration Observatory at the University of Oxford³⁸ that every leading study of the net recipient of migrants (of which there are six, from: Oxford Economics (2018),³⁹ Migration Watch (2014 and 2016),^{40,41} Dustmann and Frattini (2013 and 2014)^{42,43} and Rowthorn (2014))⁴⁴ found that non-European migrants as a group are net recipients. The studies disagree on whether European migrants as a group are net contributors or recipients. This does not prove that there are more net recipients than contributors, but it does help inform the overall picture. For most of the 21st Century, most migration to the UK was from the EU, but non-EU migration has become a large majority in recent years.⁴⁵

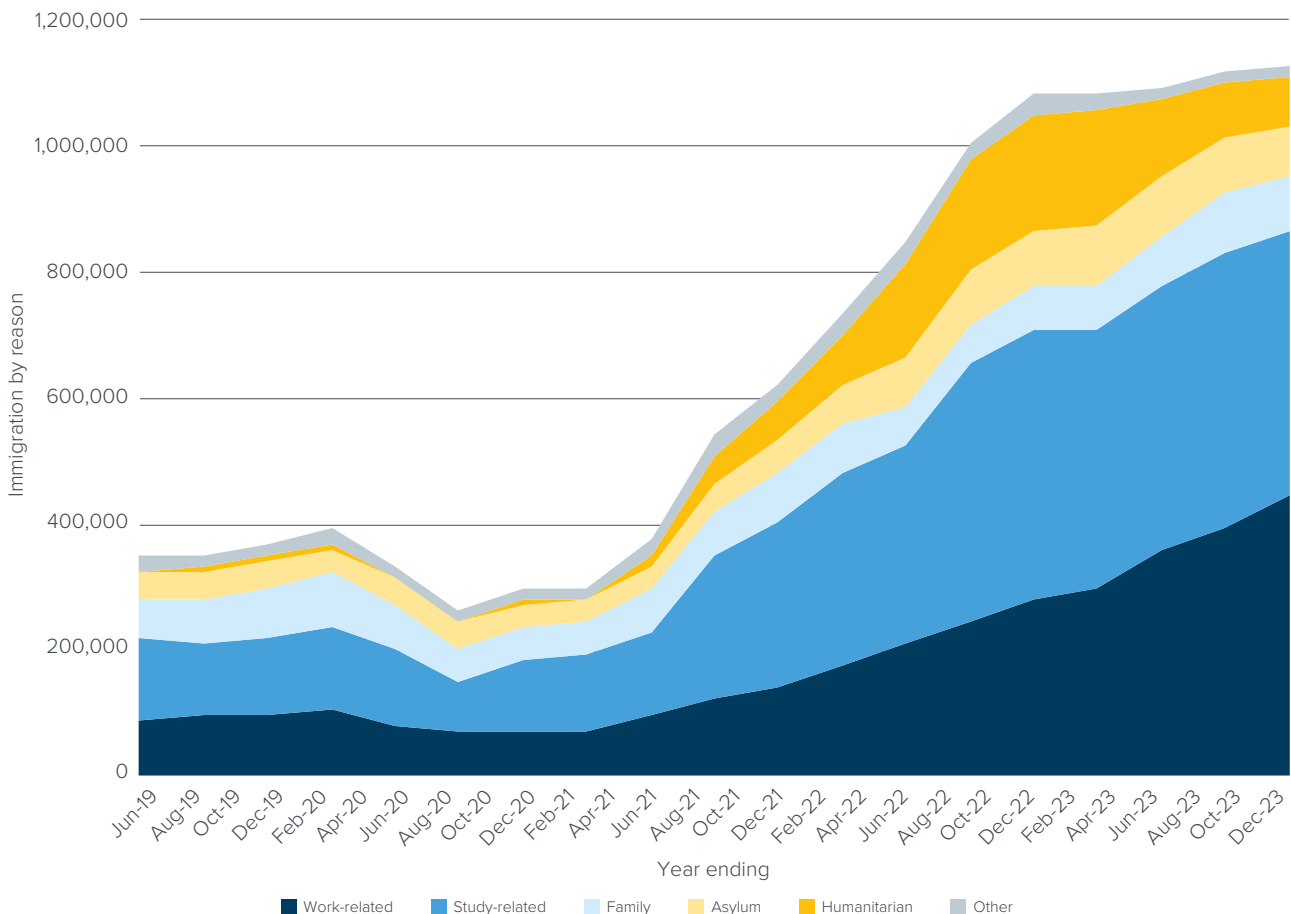
Immigration by category and region

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- 35 Jenrick, R. et al (2024) *Taking Back Control Why Britain needs a better approach to immigration*. Centre for Policy Studies. Available at: https://cps.org.uk/wp-content/uploads/2024/05/CPS_TAKING_BACK_CONTROL_PDF.pdf (Accessed: 24 January 2025).
- 36 ONS (2024) *Long-term international migration, provisional: year ending June 2024*. Available at: <https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/internationalmigration/bulletins/longterminternationalmigrationprovisional/yearendingjune2024> (Accessed: 24 January 2025).
- 37 ONS (2024) *Long-term international migration, provisional: year ending June 2024*. Available at: <https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/internationalmigration/bulletins/longterminternationalmigrationprovisional/yearendingjune2024> (Accessed: 24 January 2025).
- 38 Vargas-Silva, C. et al (2024) *The Fiscal Impact of Immigration in the UK*. The Migration Observatory. Available at: <https://migrationobservatory.ox.ac.uk/resources/briefings/the-fiscal-impact-of-immigration-in-the-uk/> (Accessed: 24 January 2025).
- 39 Oxford Economics (2018) *The Fiscal Impact of Immigration in the UK*. Available at: <https://www.oxfordeconomics.com/resource/the-fiscal-impact-of-immigration-on-the-uk/> (Accessed: 24 January 2025).
- 40 Migration Watch UK (2014) *An Assessment of the Fiscal Effects of Immigration to the UK*. Available at: <https://www.migrationwatchuk.org/briefing-paper/1.37> (Accessed: 24 January 2025).
- 41 Migration Watch UK (2016) *The Fiscal Effects of Immigration to the UK 2014/15*. Available at: <https://www.migrationwatchuk.org/briefing-paper/381/the-fiscal-effects-of-immigration-to-the-uk> (Accessed: 24 January 2025).
- 42 Dustmann, C. and Frattini, T. (2013) *The Fiscal Effects of Immigration to the UK*. Discussion Paper Series, CDP No 22/13, Centre for Research and Analysis of Migration, UCL. Available at: https://www.cream-migration.org/publ/uploads/CDP_22_13.pdf (Accessed: 24 January 2025).
- 43 Dustmann, C. and Frattini, T. (2014) 'The Fiscal Effects of Immigration to the UK', *The Economic Journal*, 124(580), pp. 593-643. Available at: <https://onlinelibrary.wiley.com/doi/abs/10.1111/eoj.12181> (Accessed: 24 January 2025).
- 44 Rowthorn, R. (2014) *Large-scale Immigration: Its Economic and Demographic Consequences for the UK*. Civitas. Available at: https://www.civitas.org.uk/reports_articles/large-scale-immigration-its-economic-and-demographic-consequences-for-the-uk/ (Accessed: 24 January 2025).
- 45 Jenrick, R. et al (2024) *Taking Back Control Why Britain needs a better approach to immigration*. Centre for Policy Studies. Available at: https://cps.org.uk/wp-content/uploads/2024/05/CPS_TAKING_BACK_CONTROL_PDF.pdf (Accessed: 24 January 2025).

Moving to trying to identify approximate proportion of migrants that are net recipients and contributors, we can analyse visa data. Visa data categorises the reasons for entry of immigrants. Until the new ‘Future Border and Immigration System’ came into effect in 2021, there was free movement for EU citizens, meaning that visas were not required. Since then, they have only made up a small fraction of the total of visas issued, accounting for just four per cent of the total in the year ending December 2023.⁴⁶

In 2022, only around 280,000 of the over 1 million total visas issued were for work and almost half (424,000) were for study. Nearly 300,000 were Asylum or Humanitarian visas – with many of these being through the Hong Kong and Ukraine schemes. This figure has fallen substantially since then.

Figure 10.1: Non-EU+ immigration to the UK by reason, year ending June 2019 to year ending December 2023



Source: ONS (2024) Long-term international migration, provisional: year ending June 2024. Available at: <https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/internationalmigration/bulletins/longterminternationalmigrationprovisional/yearendingjune2024> (Accessed: 24 January 2025).

46 Jenrick, R. et al (2024) *Taking Back Control Why Britain needs a better approach to immigration*. Centre for Policy Studies. Available at: https://cps.org.uk/wp-content/uploads/2024/05/CPS_TAKING_BACK_CONTROL_PDF.pdf (Accessed: 24 January 2025).

Skilled worker visas

Skilled work visas account for around three quarters of work visas (the rest are split over several minor routes). Occupational classification data is available for these individuals, even though individual salaries are not, meaning that a good indication of salaries is inferable using the median salary for those occupations.

Research from the Centre for Policy Studies think tank has found that 68 per cent of skilled worker visas between July 2022 and June 2023 were provided for occupations where the median salary was less than the median earnings of full-time workers in the UK – of £35,000.⁴⁷ For context, average wages and salaries income of the third quintile of households in the UK was £36,753 in 2022/23, and this group was, on average, net recipient by £4,614. This is not conclusive, but it suggests that a majority of immigrants on skilled worker visas, and therefore worker visas in general, may be net recipient. The size of this majority, however, is not clear.

However, one crucial caveat is that migrants, on average, receive substantially less in benefits than natives do, as discussed in the aforementioned work by Dustmann and Frattini.⁴⁸ Much of this is because many migrants are not entitled to some benefits and public services in the UK. For instance, they may have to pay a surcharge for medical treatment on the NHS, though some treatment, such as emergency care and family planning, is free for all.⁴⁹ This lowers the salary threshold needed for net contribution and complicates the evidence above.

Student and other visas

Those who come to the UK on student visas are generally, while students, net recipient. In addition to this, since 2021, a fifth of study visas granted went to the dependents of students: 13 per cent in 2021, 22 per cent in 2022, and 24 per cent in 2023.⁵⁰ These dependents increase the likelihood of the whole households being net recipient, as many – especially children – do not work.

The number of student visas has grown substantially since the new immigration system came into effect in 2021, exceeding half a million in the last two years, although it has been over a quarter of a million annually since 2008.

Student visas only have a reasonably small initial effect on net recipience in principle as students will only stay in the country as students for a few years and then will either return home or stay to work in graduate jobs, and therefore likely net contributory, careers. The question in terms of a larger effect is how many students stay, and what proportion of those that stay remain net recipient.

The evidence for this is not clear, but it seems that most students return within a few years of finishing their studies in the UK. Home Office data suggests that of the people who started on a study visa in 2017, 20 per cent still held valid or indefinite leave to remain status at the end of 2022. This suggests that, even if those who stay remain net recipient, the overall impact on net recipience is, at most, moderate.

Centre for Policy Studies research highlights that those from developed economies are especially likely to return to their home countries. Among the 2007 to 2016 cohort of international students, six per cent of students from the US were still in the UK with valid leave in 2022, compared to around a quarter from Pakistan, Nigeria, Bangladesh and Sri Lanka. This does suggest that those staying are potentially more likely to be net recipient, as aggregate data suggests that they disproportionately come from countries for whom those that have immigrated to the UK are, on average, net recipient.⁵¹ This is not, however, sufficient to conclude that it is a net recipient group.

47 Jenrick, R. et al (2024) *Taking Back Control Why Britain needs a better approach to immigration*. Centre for Policy Studies. Available at: https://cps.org.uk/wp-content/uploads/2024/05/CPS_TAKING_BACK_CONTROL_PDF.pdf (Accessed: 24 January 2025).

48 Dustmann, C. and Frattini, T. (2014) 'The Fiscal Effects of Immigration to the UK', *The Economic Journal*, 124(580), pp. 593-643. Available at: <https://onlinelibrary.wiley.com/doi/abs/10.1111/eoj.12181> (Accessed: 24 January 2025).

49 Office for Health Improvement and Disparities (2014) *NHS entitlements: migrant health guide*. Available at: <https://www.gov.uk/guidance/nhs-entitlements-migrant-health-guide> (Accessed: 24 January 2025).

50 Home Office, 'Vis_D02', Entry clearance visa applications and outcomes detailed datasets, year ending December 2023 (29 February 2024).

51 Jenrick, R. et al (2024) *Taking Back Control Why Britain needs a better approach to immigration*. Centre for Policy Studies. Available at: https://cps.org.uk/wp-content/uploads/2024/05/CPS_TAKING_BACK_CONTROL_PDF.pdf (Accessed: 24 January 2025).

Considering this, it is possible that student visas increase net recipience, but it is not straightforward to see this having a substantial structural impact on net recipience.

People entering the UK through the family route – a relatively small proportion of the total, as in Figure 10.1 – are likely to be net recipient. This has some upward impact on net recipience, but not a large one.

Emigration

The other important question for the impact of movement of people on net recipience is that of the net recipience status of those leaving the UK. As noted, this is a large group – accounting for around half a million a year at the current time. If this group is substantially net contributory, then this emigration will also increase net recipience.

There is not a large amount of evidence for this question, as emigration data is much less extensive than immigration data; there are no thresholds that need to be met to have permission to leave the UK. It appears likely that the largest factor in the rise of emigration out of the UK has been the rise in immigration, with a proportion of those coming to the country returning within a few years. Whether those that do not settle long term in the UK are more or less likely to be those who were net recipient is also not clear.

Conclusion

Overall, the data suggests that it is likely that a majority of recent immigrants have been net recipients on arrival. The data is not clear, however, on the net contribution of those emigrating nor on whether most immigrants who were net recipient upon entering the country remained net recipient. Overall, migration has probably exerted upwards pressure on net recipience. It is not clear whether this effect is enough to be a major cause in the long-term shift in net recipience, but it seems unlikely that it is. Gauging the scale of the impact of immigration is not possible with available data and requires considerably more research.

11. Household types

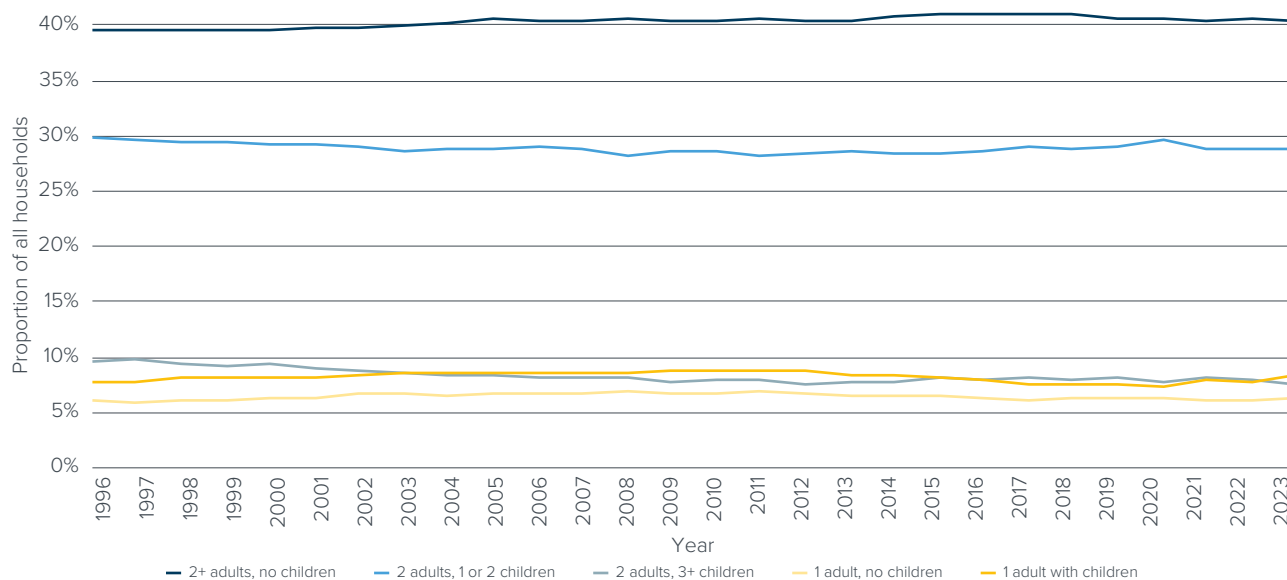
Changing household types can alter net receipt statistics even with all else being equal. For example, one household of two adults and two children becoming two households as a result of relationship breakdown – of one adult and two children, and one lone adult – would often increase the number of individuals living in a net recipient household by three (from a net contributing four-person household to a net recipient three-person household and a net contributing one-person household).

It is certainly true that family structure has changed profoundly since the 1960s. Single parenthood has become more common, from around a tenth of births to a sixth over the last 40 years. Cohabiting parenthood has seen the largest rise, from 10 per cent of births in 1986 to 36 per cent in 2022. Marriage has become much less common, although remains most common, as 49 per cent of births were to married mothers in 2022. This is a large fall over a half-century from 91 per cent in 1972.^{52,53}

It is certainly possible that these family changes may have impacted net receipt – cohabiting couples are approximately three times more likely to separate over their children’s lives than married couples,⁵⁴ and separations increase net receipt in two ways. Separation directly impacts the net receipt position of the household as it is separated into two, often from one contributing household to two households, of which one is contributing and one is recipient. The household separation can indirectly impact the net receipt if the strain of separation has negative downstream financial consequences for parents and children.

The ONS data, however, does not significantly visually indicate this. It does not distinguish between married and cohabiting families (although if the main factor is separation likelihood, this impact should be present in lone parent numbers), but it does show that families of a single parent with children have not become substantially more common. Lone parents with children accounted for 7.7 per cent of people in households in 1996 and 8.4 per cent in 2023. This is a rise in over 1.2 million individuals in those households, but most of that rise is population growth, not increasing share. This is small compared to the 11 million rise in net receipt in that period.⁵⁵

Figure 11.1: Change in relative population share of household types, UK, 1996-2023



Source: Office for National Statistics (2024) *Families and Households*. Available at: <https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/families/bulletins/familiesandhouseholds/2023> (Accessed: 27 November 2024).

52 Office for National Statistics (2024) *Births by parent characteristics*. Available at: <https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/livebirths/datasets/birthsbyparentscharacteristics> (Accessed: 24 January 2025).

53 Lilley, D. (2024) *Marriage and the Stable Society: The continued importance of marriage*. Civitas. Available at: <https://www.civitas.org.uk/publications/marriage-and-the-stable-society> (Accessed: 24 January 2025).

54 Kiernan, K. et al. (2022) *Families and Inequalities*. IFS. Available at: <https://ifs.org.uk/inequality/families-and-inequalities/> (Accessed: 23 October 2024).

55 Office for National Statistics (2024) *Families and Households*. Available at: <https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/families/bulletins/familiesandhouseholds/2023> (Accessed: 27 November 2024).

The second, related, question pertaining to household type is whether the demographic shift from marriage to cohabitation has impacted net recipience directly. Instead of focusing on separation prospects, we can observe that cohabiting individuals, on average, have lower incomes than married individuals,⁵⁶ and this could mean that the shift from marriage to cohabitation may have lowered income growth at the margin.

This effect would have to be very large to substantially affect net recipience. The total number of cohabiting couples increased 150 per cent between 1996 and 2022, from 1.5 million to 3.7 million couples.⁵⁷ This is a rise of 4.4 million cohabiting individuals. Net recipience in that period has risen by just under 11 million people. Many of those 4.4 million will have had dependents, but a substantial proportion will not have been close to the margin between net recipience and net contribution. For this to be a persuasive contributing factor, it has to have been a large household effect.

The effect, however, is not especially compelling. Although married people earn more than cohabiting people, the difference is not especially large.⁵⁸ In addition to this, a proportion of the marital wage premium is due to selection – those with higher earnings potential are more likely to marry – meaning that, even though marriage is associated with higher earnings, the difference cannot be assumed to be fully causal.

Overall, household types are an important social phenomenon, and they may have had some impact on net recipience, but they are most likely not a significant part of the long-term net recipience puzzle.

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- 56 Hill, M.S. (1979) 'The Wage Effects of Marital Status and Children', *The Journal of Human Resources*, vol. 14(4), pp. 579-94. Available at: <https://www.jstor.org/stable/145325> (Accessed: 27 November 2024). Seng Loh, E. (1996) 'Productivity Differences and the Marriage Wage Premium for White Males', *The Journal of Human Resources*, vol. 31(3), pp. 566-89. Available at: <https://www.jstor.org/stable/146266> (Accessed: 27 November 2024). Pilossoph, L. and Lin Wee, S. (2021) 'Household Search and the Marital Wage Premium', *American Economic Journal: Macroeconomics*, vol. 13(4), pp. 55-109. Available at: <https://www.aeaweb.org/articles?id=10.1257/mac.20180092> (Accessed: 27 November 2024). Santos, C. and Tertilt, M. (2023) *How families matter for understanding economic inequality*. IFS. Available at: <https://ifs.org.uk/inequality/wp-content/uploads/2023/05/How-families-matter-for-understanding-economic-inequality-IFS-Deaton-Review-of-Inequalities.pdf> (Accessed: 27 November 2024).
- 57 Office for National Statistics (2024) *Families and households*. Available at: <https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/families/datasets/familiesandhouseholds> (Accessed: 13 August 2024).
- 58 Pilossoph, L. and Lin Wee, S. (2021) 'Household Search and the Marital Wage Premium', *American Economic Journal: Macroeconomics*, vol. 13(4), pp. 55-109. Available at: <https://www.aeaweb.org/articles?id=10.1257/mac.20180092> (Accessed: 27 November 2024). Olivo-Villabrilie, M. (2021) 'The marital earnings premium: an IV approach', *Empirical Economics*, vol. 62, pp.709-47. Available at: <https://link.springer.com/article/10.1007/s00181-021-02021-7> (Accessed: 27 November 2024).

12. Income inequality

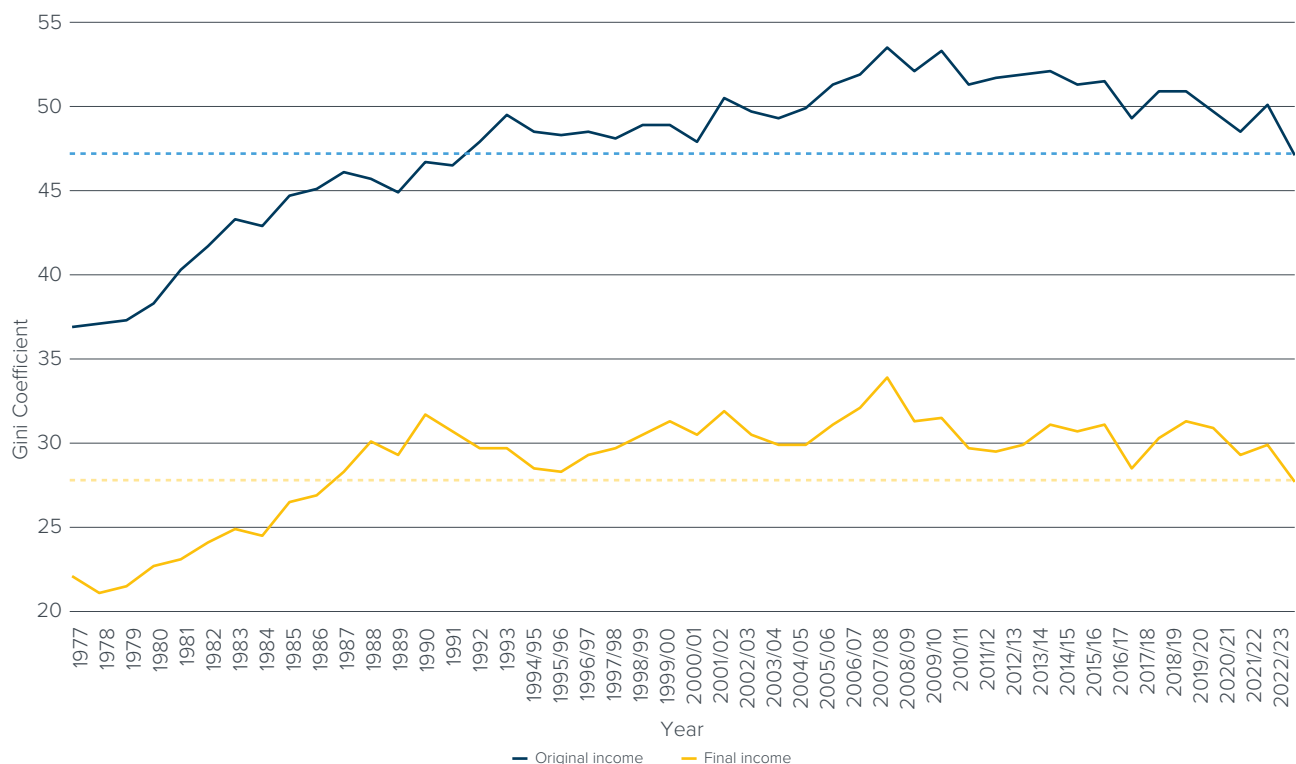
Another dominant explanation is increasing inequality: that net reciptence is a proxy for the scale of redistribution, and that the scale of redistribution follows income inequality. There is some merit to this argument in explaining increases in net reciptence in the late 20th Century, but much less so in explaining the increase over the last two decades.

A stylised fact that can be used to understand the relationship between income inequality and net reciptence is to say that Treasury taxes and spending calculations use mean income as a reference point, and that rises in income inequality increase the gap between mean and median income, meaning that more people's incomes fall below the mean. This is simplistic, but it helps illustrate the nature of the relationship between income inequality and net reciptence.

The main measure of income inequality is the Gini Coefficient, a measure for aggregating the overall difference in income shares across a population. A Gini Coefficient of 100 per cent means one person earns all of the income, and a Gini Coefficient of 0 per cent means that everyone has exactly the same income.

The Gini Coefficient can be measured at each income stage, with naturally significantly different results. Figure 12.1 looks at the Gini Coefficient for UK original income and for final income, after all taxation and benefits – many of which are redistributive – have been taken into account.

Figure 12.1: All individuals, original and final income Gini Coefficient, UK, 1977-2022/23. Dotted lines represent 2022/23 levels.



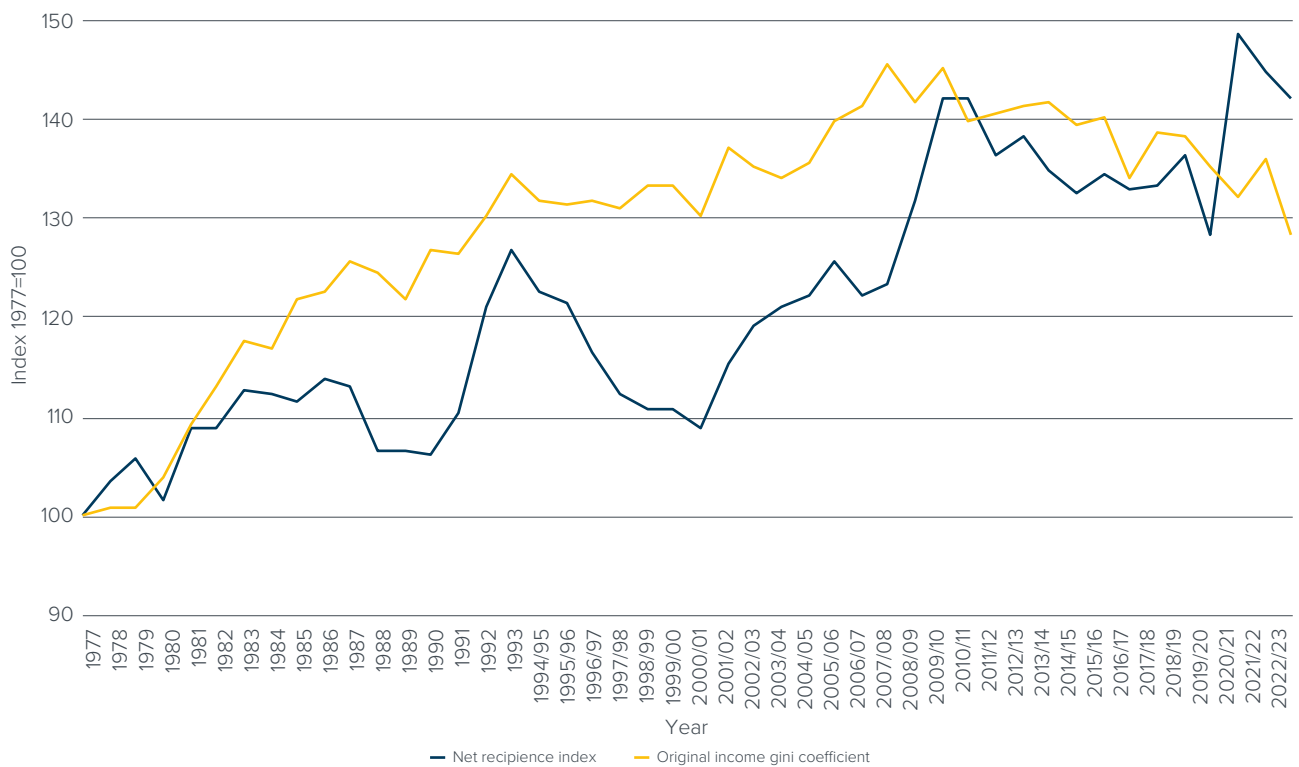
Source: Office for National Statistics (2024) Effects of taxes and benefits on household incomes. Available at: <https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/datasets/theeffectsoftaxesandbenefitsonhouseholdincomefinancialyearending2014> (Accessed: 2 January 2025). Table 6a.

In the UK, the final Gini Coefficient, after all government redistribution, has been fairly stable since the late 1980s. It has fallen from a peak of 33.8 per cent in 2007/08 and is now 27.7 in 2022/23 – lower than it has been since the 1980s. Other than a brief spike during the financial crisis, it has not significantly moved since the late 1980s.

This is less true for the original income Gini Coefficient, which measures income inequality before all government redistribution. This consistently rose over the long run from 1977 to 2007/08, from 36.8 per cent in 1977 to a peak of 53.5 per cent in 2007/08. Since then, it has fallen steadily over the last 15 years to 47.2 per cent in 2022/23, lower than it has been since 1991.

There is some good evidence supporting the argument that net reciepnce movements have followed increases in inequality of original income. The inequality of original income does – especially through progressive income tax and cash benefits – have a direct effect on net reciepnce as more of the tax bill falls on top incomes. Figure 12.2, which shows net reciepnce and the original income Gini Coefficient, indexed with 1977 equalling 100, correspondingly shows that net reciepnce has moved alongside movements in the original income Gini Coefficient since 1977.

Figure 12.2: All individuals, net reciepnce and original income Gini Coefficient, UK Index (1977=100), 1977-2022/23



Source: Office for National Statistics (2024) Effects of taxes and benefits on household incomes. Available at: <https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/datasets/theeffectoftaxesandbenefitsonhouseholdincomefinancialyearending2014> (Accessed: 2 January 2025) Table 6a and Table 16.

The biggest recent disconnect – which is not a huge surprise – is that net reciepnce rose much more than the Gini Coefficient with the Covid-19 pandemic, as the relative impact of government spending in terms of benefits-in-kind as compared with direct taxation or cash benefits was much higher than in previous shocks. That said, income inequality does generally respond less to shocks than net reciepnce, as shown throughout the last 50 years.

Of course, this does not imply a causal relationship between the two, especially as both logically rise in crises, but it does provide some evidence to the argument that a rise in income inequality has made the tax and benefits system more redistributive, due in particular to the progressive nature of income taxes, and that this has in turn led to a higher net recipience rate.

Notwithstanding this, the original income Gini Coefficient has moved little overall in the last 20 years (it was lower in 2022 than in 2002), whilst net recipience has shown a clear and strong upward trend, especially from 2000 to 2010. The two empirically and logically relate, but rises in inequality do not tell the story for this century.

Although the evidence is not conclusive, this contributes to a possible explanation of the rises in net recipience from 1977 to 2009. A rise in income inequality from the late 1970s to the turn of the century gradually increasing net recipience, and then growing state expenditure since then continuing that growth in net recipience from 2000 to the Global Financial Crisis.

It is also important to note that income tax has not become tangibly more progressive since 1977 and the share of indirect taxes has risen, meaning that we would not expect this to be a result of legislative changes to taxation.

13. Wage stagnation at the middle

Although not all compelling, the previous sections helped colour the picture of the rise in net recience. The effects of lockdown have lingered, partly due to the long-term sickness rising. From 1977 to 2000, increases in income inequality seem to have grown net recience, something which family formation patterns might have contributed to. State expenditure grew substantially from 2000 to 2010, accelerated substantially by the financial crisis.

The main resulting, and as of yet unanswered, question is the poor recovery in the net recience rate from 2010 to the beginning of 2020. Even years of determined effort on fiscal prudence could not significantly reverse the net recience shock. The most compelling answer to this question – albeit admittedly one that raises its own questions – is wage stagnation. The principal way to become a net contributor is through income tax, which depends, of course, on wages. A lack of median earnings growth leads to a lack of growth in contribution from the middle quintile, which makes them more vulnerable to being rendered net recipient.

Figure 13.1 shows a clear picture for the 21st Century. Real wage growth was strong before the financial crisis, it was then hit extremely hard by the financial crisis and it has not properly recovered since, even though it has shown gentle growth in the last decade since 2014. From 1977 – when net recience started being measured – to 2007, real wages grew by a third each decade. In the 17 years since, taken as a whole, they haven't grown at all.

Figure 13.1: Average real weekly earnings, UK, January 2000 to May 2024 (2015 prices, seasonally adjusted)



Source: Office for National Statistics (2024) Average weekly earnings in Great Britain: July 2024. Available at: <https://www.ons.gov.uk/employmentandlabour-market/peopleinwork/employmentandemployeetypes/bulletins/averageweeklyearningsingreatbritain/july2024> (Accessed: 30 July 2024).

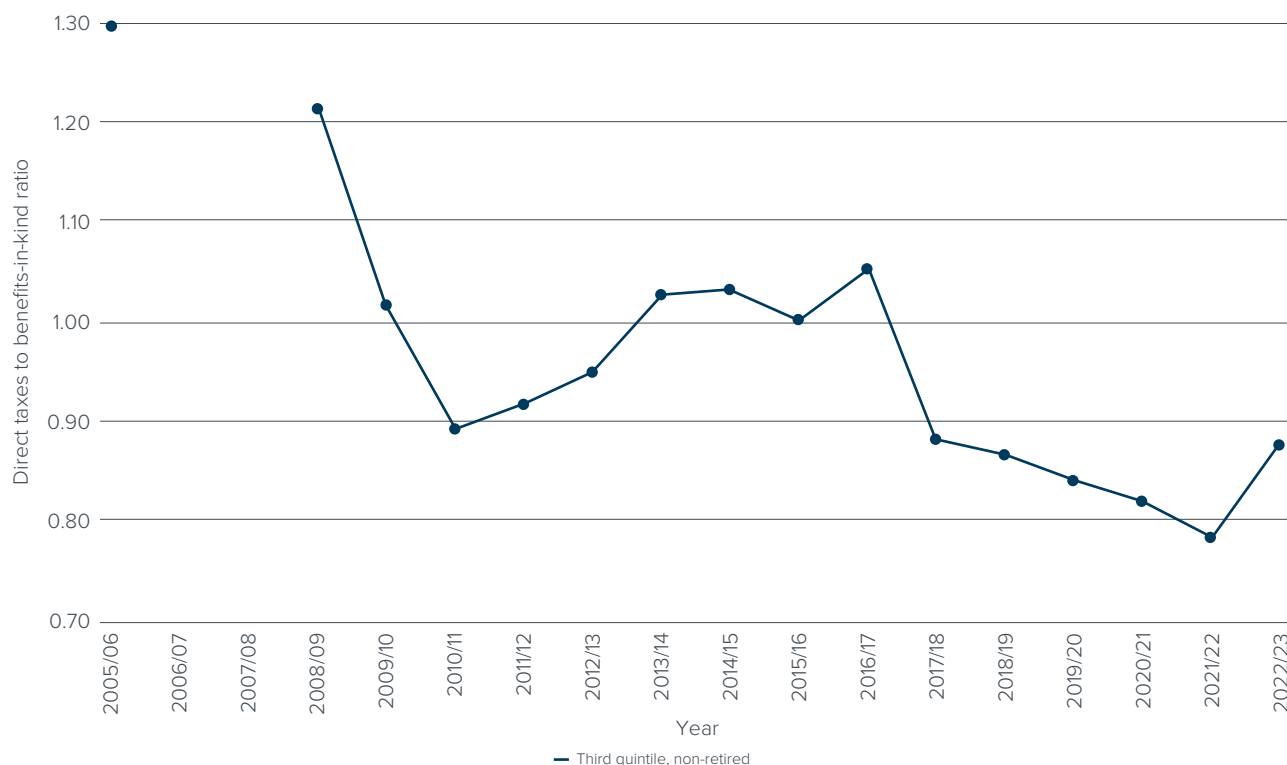
If we compare this to the third (middle) quintile of non-retired households, we can analyse the likely impact of the wage stagnation. The largest impact of wage growth in terms of net reciepience is direct taxes paid, and the growth of this can be measured over time against the growth in benefits-in-kind, which can be taken as a proxy for general state spending (public services) on these households.

What we can see from this in Figure 13.2, which shows this ratio since 2005/06 – except for two years of missing data – that this ratio stood at 1.29 in the 2005/06 year, immediately before the Financial Crisis. Since then, it has fallen substantially to 0.88 in 2022/23, up a small amount from the low-point of 0.78 in 2021/22.

This shows middle income, non-retired households have become steadily less contributory over this time, with the imputed value of state spending on them growing more quickly than their direct taxes. These households – that earned an average of £46,802 in wages and salaries in 2022/23 – have always been net contributory and are becoming net recipient. Stagnating salaries, certainly relative to state spending, seems a likely explanation for this.

Net reciepience, and the closely related change in the societal financial relationship with the state we have seen in the last few years, features on the list of wage stagnation’s victims. It is not the whole picture, but it is likely a key part of why we can’t stop net reciepience from continuing to creep up.

Figure 13.2: Ratio of direct taxes paid to benefits-in-kind received, third quintile of non-retired households, 2005/06, and 2008/09 to 2022/23



Source: Office for National Statistics (2024) Dataset: Effects of taxes and benefits on household incomes. Available at: <https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/datasets/theeffectsoftaxesandbenefitsonhouseholdincomefinancialyearending2014> (Accessed: 2 January 2025). Financial years ending 2006, 2009-2023.

14. Conclusion

Irrespective of political instincts, we can all agree that a healthy government needs to ensure its tax base can pay for its spending commitments. It is highly concerning that, over less than half a century, the proportion of households whose direct and indirect taxation contributions exceed the amount that they receive from state spending has deteriorated from nearly two thirds of the population to less than half.

Exactly why this has happened is a complicated question, but there are three broad observations that we can derive from this initial analysis. The first is that we are still deep in the Covid-19 pandemic and lockdown depression. Many of the severe consequences of the pandemic and government response, especially that of rising rates of long-term sickness, are not improving and must be resolved.

The second observation is that of public expenditure incrementally expanding. Ten years of attention on fiscal prudence still left state spending substantially higher in 2019/20 than it had been in 1999/2000. Four years on from the first lockdown announcement, public spending remained five per cent of GDP higher in 2023/24 than it was in 2019/20. This only looks to worsen as debt and debt servicing costs continue to rise in an alarming feedback loop.

The third is that weak economic performance and, in particular, median salaries stagnating since the Global Financial Crisis has had significant adverse implications for the relationship between the state and the average household. The reasons for Britain's stagnation have been well articulated elsewhere: high energy costs and the burdensome planning system that prevents the building of infrastructure and homes have clearly contributed.⁵⁹

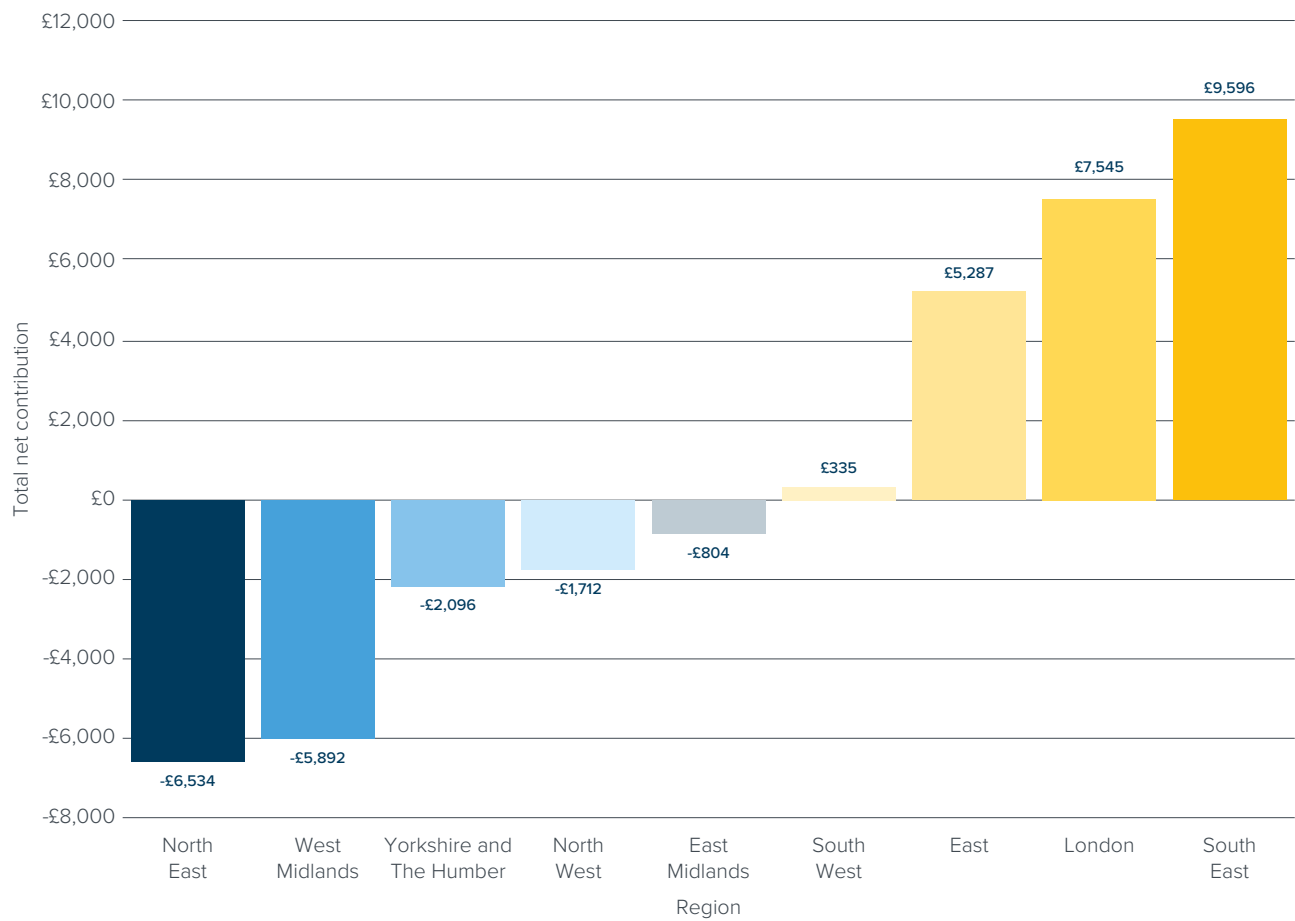
The earnings available for 'middle income' jobs in the economy have not grown in real terms, and the result has been that working households on average salaries are increasingly not paying enough tax to cover the public expense on them. This is in no way whatsoever a criticism of Britain's median earners, but a concerning reality of stagnation. The last 15 years have been overwhelmingly economically unsuccessful for this country, and one result of this is that the welfare state is increasingly precarious.

A system which is so reliant on a shrinking share of the population that are net contributors, and in which more than half of households are not able to support themselves, cannot be sustainable. It is crucial that we attempt to understand what has gone wrong so that we can begin to fix it.

59 Southwood, B et al. (2024). *Foundations: Why Britain has stagnated*. Available at: <https://ukfoundations.co/> (Accessed: 28 January 2025).

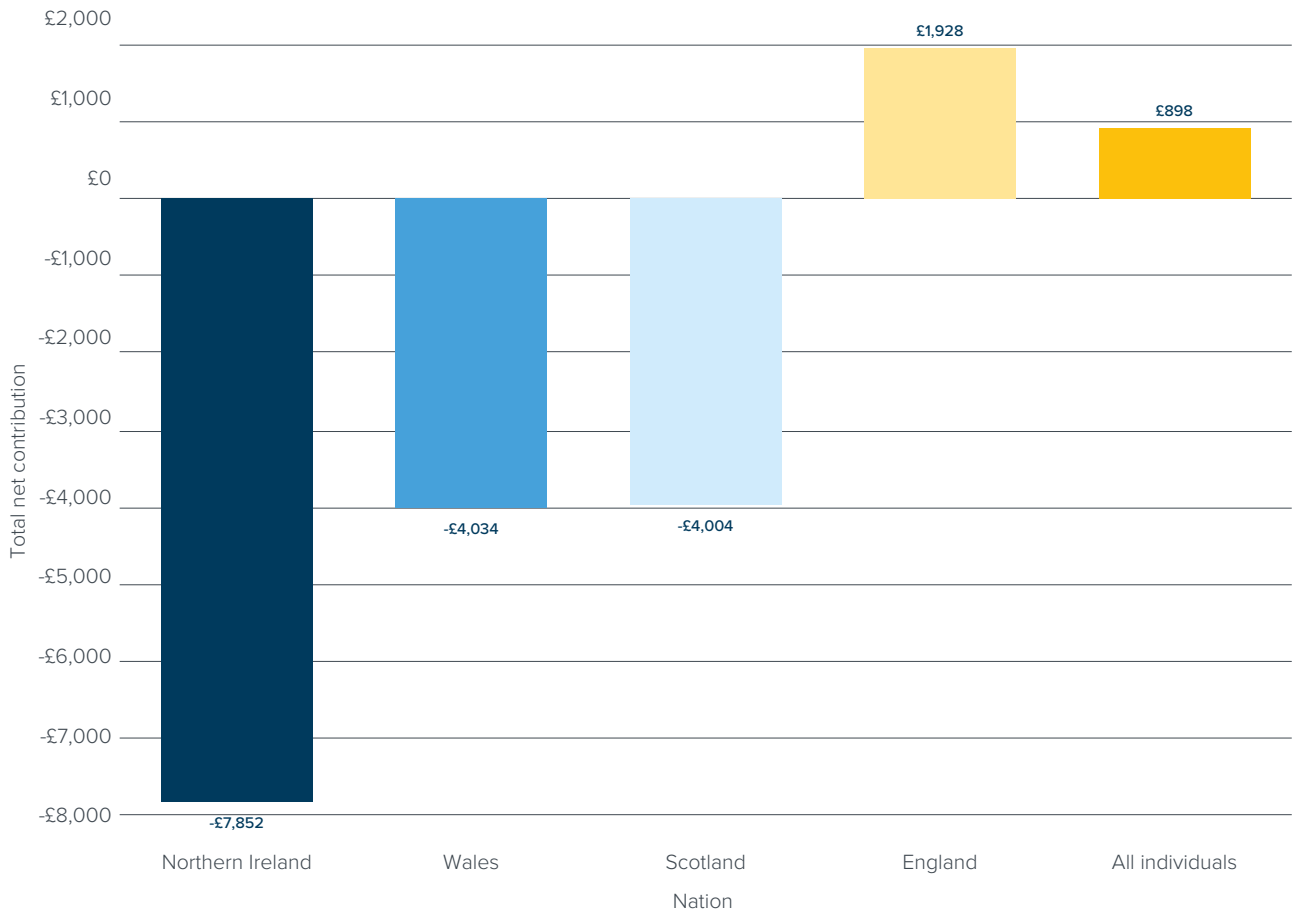
Appendix A: Net contribution by geography

Figure A.1: Average net contribution (taxes minus benefits) of all households by geographic region, England, 2022/23



Source: Office for National Statistics (2024) Effects of taxes and benefits on household incomes. Available at: <https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/datasets/theeffectsoftaxesandbenefitsonhouseholdincomefinancialyearending2014> (Accessed: 2 January 2025). Table 17.

Figure A.2: Average net contribution (taxes minus benefits) of all individuals by nation, UK, 2022/23



Source: Office for National Statistics (2024) Effects of taxes and benefits on household incomes. Available at: <https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/datasets/theeffectsoftaxesandbenefitsonhouseholdincomefinancialyearending2014> (Accessed: 2 January 2025). Table 17.

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According to the latest data from the Office of National Statistics, more than half of households in the United Kingdom (52.6 per cent) receive more from the state in benefits (including benefits-in-kind such as NHS care) than they pay in taxes. Overall, approximately 35.1 million individuals live in 'net recipient' households – an increase of around four million since before Covid.

This report continues the discussion that began in Civitas' previous report, *An Analysis of the effect of taxes and benefits on household income (2023)*, which highlighted that net recipience in 2021 was the highest ever recorded. This is in the context of a substantial upward climb since records began in 1977, when 37 per cent of households were net recipient.

Balancing Taxes and Benefits updates the analysis with the latest data, and begins to explore possible reasons for the rise in net recipience.

Bloated state expenditure is one obvious culprit, especially with the sudden increase in spending seen during Covid. But this cannot explain the long-term rise in net recipience since the 1970s. The same can be said for the increased numbers of people claiming out-of-work sickness benefits since the pandemic began – again, this is likely to be a significant factor in the short term, but it cannot explain the long-term trend.

Many might point the finger at the ageing population: with an ever-growing share of the population retired and claiming the State Pension, and a shrinking group of working age people to foot the bill, net recipience would be bound to grow. But this too cannot fully explain the problem, since net recipience is growing faster amongst working people, meaning it cannot be purely caused by changing demographics.

This report suggests that wage stagnation may be an important driver of rising net recipience in the medium term. Average wages have not grown in real terms since the 2008 financial crisis. This of course limits the amount of income tax that workers will pay, meaning that as the cost of providing various benefits increases, more and more households will tip into net recipience.

Over the long term, the ratcheting increase in net recipience remains a puzzle. But it is crucial that we attempt to understand it. An economy where more than half of households are not able to support themselves cannot be sustainable. We must identify what has gone wrong so that we can begin to fix it.

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