



Department
for Work &
Pensions

Benefit and Tax Credit Expenditure Growth

Real growth in benefit and tax credit
expenditure by Parliament, 1951 to 2015

February 2015

Introduction

This note provides a comparison of real growth in total benefit and tax credit expenditure during each Parliament since 1951.

Sources and methodology

The analysis uses published data from the Department for Work and Pensions (DWP) which has been converted to 2014/15 prices using GDP deflators published by the Office for National Statistics (ONS).

Sources

Historical benefit and tax credit data for Great Britain from 1948/49 is published in the DWP's Outturn and Forecast tables¹.

Expenditure on benefits and other welfare transfers has been subject to a number of changes in responsibility over the years, which makes comparisons over periods of time difficult. In the following analysis, figures from 1979/80 onwards have been adjusted to take account of the main transfers of responsibility between departments, and therefore are broadly consistent with current DWP and HM Revenue & Customs (HMRC) benefit expenditure and tax credits figures². To get maximum consistency the analysis is confined to Great Britain, and excludes some smaller benefits that are not administered by DWP or HMRC, but are included in other measures of welfare spending. These omissions are unlikely to materially affect the comparisons.

Pre-1979 figures are based on the expenditure of the Department of Health and Social Security and its predecessors. Over this period the majority of new benefits represented expansions to the social security system, leading to higher growth than in later years. There are some examples where the benefits partly replaced local provision (as with Housing Benefit). However, we believe that these differences do not distort the analysis to the extent that they invalidate the results.

Taking account of price inflation

Over a long time period comparisons of nominal expenditure (how much money is actually paid out in a year) can be misleading, since general inflation over time means that the purchasing power of a given amount of money diminishes. Therefore an established statistical approach is to convert expenditure into "real terms" – the prices of a given year. Since prices generally increase over time, making adjustments to convert spending to 2014/15 prices increases spending in past years (relative to their nominal values), but in turn means that the growth rates observed in the past are lower than if nominal figures were used.

¹ <https://www.gov.uk/government/statistics/benefit-expenditure-and-caseload-tables-2014>

² More details of the adjustments are given in the source tables.

Standard practice for deflating Government expenditure by prices is to use the “GDP deflator”³, which is a wider measure of inflation than the Consumer Prices Index (CPI), and this approach is used in this note. However, the GDP deflator is subject to periodic revision, meaning that the current year values of past nominal spending can change.

Choice of time periods

The comparisons made here are based on Parliaments. The start and end points of each Parliament are determined by the financial year in which the general election fell, on the grounds that incoming governments have relatively little ability to have a big impact on expenditure in that year. We have made two exceptions to this principle: the 1966 general election fell on 31st March 1966, so we have treated the end point of the 1964-66 Parliament as the 1966/67 financial year; and we have used 1974/75 as the end of the 1970-74 Parliament, although there was a general election in February 1974, as well as the one in October. These exceptions do not make a material difference to the results.

Analysis

The analysis shows real benefit and tax credit expenditure since 1951, expressed in 2014/15 prices, for the start and end years of Parliaments, and the average annual growth rate during each Parliament.

Caveats

Results can be sensitive to the choice of years – in particular to the fact that the analysis is based on Parliaments. Over some periods, different start and end points can lead to materially different average growth rates. In particular, real expenditure between 1984/85 and 1989/90 fell by an average of 0.6% per year, but this is divided between two Parliaments. Also, if comparisons are made over shorter periods, then it is more likely for average annual growth rates to show more extreme values.

³ <https://www.gov.uk/government/statistics/gdp-deflators-at-market-prices-and-money-gdp-december-2014-autumn-statement> (Based on ONS figures.)

Results

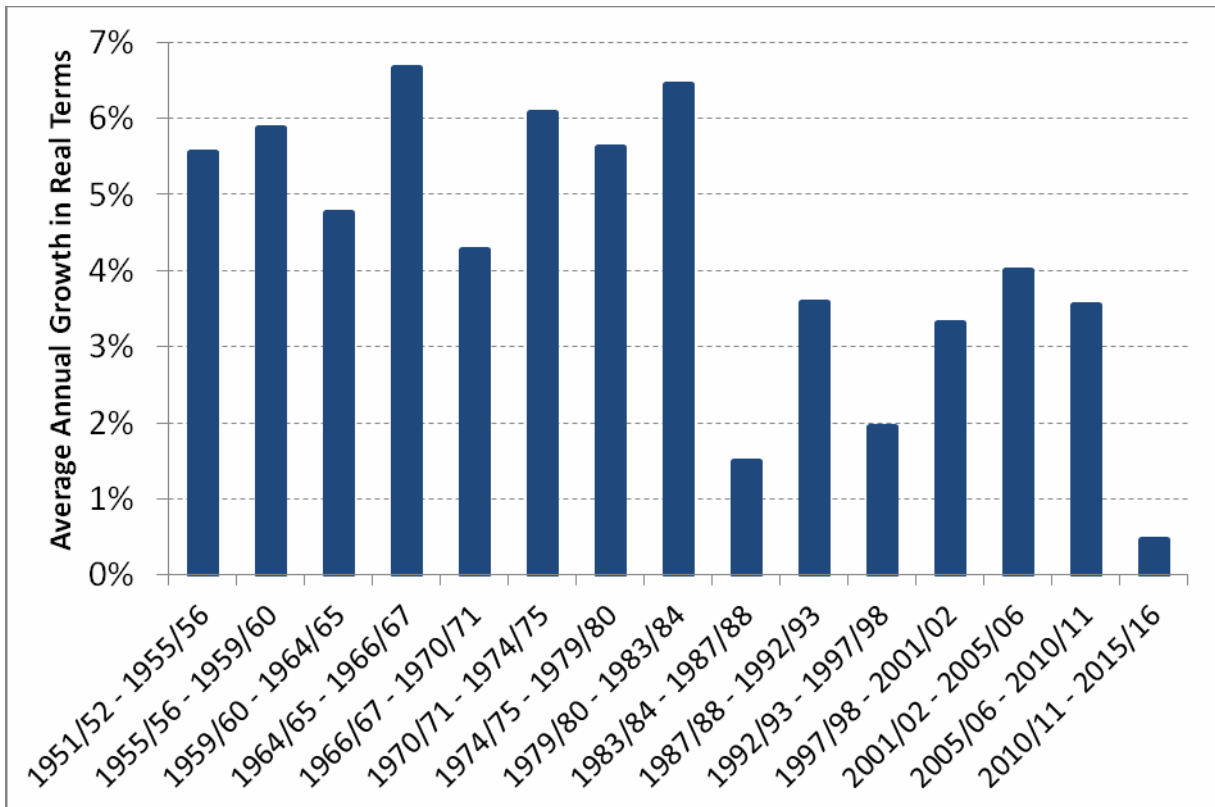
The following table shows annual benefit and tax credit expenditure and average annual growth in that expenditure during each Parliament since 1951/52, in real terms. Annual expenditure refers to the year on the same row of the table. Growth refers to the average annual expenditure growth in the Parliament ending that year.

Figure 1: Benefit and Tax Credit Expenditure in Great Britain⁴

Financial Year	Expenditure, £m, 2014/15 prices	Expenditure, £m, 2014/15 prices	Average Annual Growth in Expenditure
1951/52	16,903		
1955/56	20,989		5.6%
1959/60	26,371		5.9%
1964/65	33,292		4.8%
1966/67	37,876		6.7%
1970/71	44,787		4.3%
1974/75	56,702		6.1%
1979/80	74,526	71,231	5.6%
1983/84		91,466	6.5%
1987/88		97,052	1.5%
1992/93		115,766	3.6%
1997/98		127,508	2.0%
2001/02		145,279	3.3%
2005/06		169,985	4.0%
2010/11		202,347	3.5%
2015/16		207,199	0.5%

⁴ The figures pre- and post- 1979/80 are based on different definitions, explained in the “Sources and Methodology” section.

Figure 2: Growth in Benefit and Tax Credit Expenditure



The key result is that during the current Parliament, ending in 2015/16, spending has grown at the slowest rate per year in real terms (0.5%) since the modern welfare state was first created in 1948.

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