

Impact case study (REF3b)
Institution: University College London
Unit of Assessment: 18 – Economics and Econometrics
Title of case study: The Mirrlees Review: Influencing policy and debate on tax and benefit reform
1. Summary of the impact (indicative maximum 100 words)

The research carried out by Professor Richard Blundell transformed understanding of the responsiveness of labour supply to tax and welfare reform, and fundamentally changed the public debate about taxation. This was achieved most clearly through the *Mirrlees Review of Tax Reform*, co-authored by Professor Blundell, and through publications that provided the key scientific evidence behind the tax rate, tax credit and benefit integration proposals. These proposals had substantive impact on policy reform at home and abroad, ranging from public debate on the fundamental principles of taxation to immediate impact on tax and welfare reform legislation, such as the business case for the Universal Credit reform.

2. Underpinning research (indicative maximum 500 words)

In 1984, Professor Richard Blundell set up the Microeconometric Research Laboratory at UCL, which initiated a new generation of pioneering microeconometric research in the empirical analysis of tax and welfare policy. In 1991 he established the ESRC Research Centre for the Microeconomic Analysis of Public Policy at the Institute for Fiscal Studies (IFS) that used this rigorous microeconomic research to inform the tax policy debate. This research was supported at UCL by the award of a six-year Leverhulme Professorial Research Fellowship in 1998.

A key publication from this research was a paper [a, in section 3 below] by Richard Blundell (UCL), Costas Meghir (UCL 1985–present) and Alan Duncan (Centre Research Fellow, 1993–present) entitled ‘Estimating Labour Supply Responses Using Tax Policy Reforms’ and published in *Econometrica* in 1998. This paper established a robust method for estimation and produced new estimates for labour supply elasticities in the UK. It won the Frisch Prize in 2000 awarded to the best applied paper published in *Econometrica*, the most prestigious international refereed journal in econometrics. This research was subsequently developed [b] to establish clear differences in labour supply behaviour at the extensive and intensive margins.

This research was put to work in the tax policy context in the 2001 Keynes Lecture by Professor Blundell [c], the annual British Academy Public Lecture in Economics presented to a wide policy audience, and also in a 2000 paper on the impact of the then-proposed Working Family Tax Credit reform [d]. This work was described as ‘a remarkable combination of academic excellence and policy relevance’ in the statement of the IZA Prize in Labour Economics, the leading international prize in labour economics, awarded to Blundell in 2012.

This work by Blundell, his colleagues and his students provided new and robust microeconometric methods for estimating labour supply parameters from individual micro-data. These new methods allowed for unobserved heterogeneity across families, fixed costs of work, and for stigma costs in the take-up of tax-credits and welfare benefits. Using micro-data from the UK over a long period of time, publications [a–c] are considered to have established the key facts on the responses of labour supply to tax reform. The methodology developed there and the estimated elasticities from that work have been used extensively in tax and welfare policy design and analysis, both in the UK and abroad. The research uncovered robust estimates of the differences in labour supply response by family type, the key role of stigma costs and the importance of distinguishing between impacts of employment and weekly hours worked.

This research underpinned the analysis and recommendations of the *Mirrlees Review*, published in two volumes in 2010 and 2011 by the Institute for Fiscal Studies [e, f]. This review used Blundell’s research to show how to improve the design of tax credit and benefit policy reforms for low-wage workers, particularly families with children. The research papers [a–d] described above provided the scientific evidence for the recommendations on the tax rate, tax credit and benefit integration

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proposals in the *Review*. The final report was launched by Professors Richard Blundell and James Mirrlees (Cambridge) at the Institute for Government in 2011.

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

- [a] 'Estimating Labour Supply Responses using Tax Reforms', *Econometrica*, Vol. 66, No. 4, 827–861, July 1998; co-authored with Costas Meghir (UCL) and Alan Duncan (Centre Research Fellow). *Econometrica* is the leading international refereed journal in economic theory and econometrics. The paper was awarded the Frisch prize by the Econometric Society for the best applied paper published in *Econometrica* in the past five years. <http://www.jstor.org/stable/2999575>
- [b] 'Labor Supply: A Review of Alternative Approaches', *Handbook of Labor Economics*, Volume 3, O. Ashenfelter and D. Card (eds.), Elsevier Science 1999, Blundell co-authored with Thomas MacCurdy (Stanford University). This Handbook is the main international reference for research in the labour market. It has the highest citation in the field: 1606 according to Google scholar. <http://ideas.repec.org/b/eee/labhes/3.html>
- [c] 'Welfare-to-Work: Which Policies Work and Why?', Keynes Lecture in Economics, *Proceedings of The British Academy*, Vol. 117, 477–524, 2002. DOI: [10.5871/bacad/9780197262795.003.0015](https://doi.org/10.5871/bacad/9780197262795.003.0015)
- [d] 'The Labour Market Impact of the Working Families Tax Credit', *Fiscal Studies*, Vol. 21, No. 1, 75–103, March 2000. Co-authored with Costas Meghir (UCL), Alan Duncan (Centre Research Fellow) and Julian McRae (IFS Centre researcher, now Director of Research, Institute for Government). DOI: [10.1111/j.1475-5890.2000.tb00581.x](https://doi.org/10.1111/j.1475-5890.2000.tb00581.x)
- [e] *Mirrlees Review: Vol I: Dimensions of Tax Design* (co-editor); OUP, 2010, Oxford and New York, open access download at <http://www.ifs.org.uk/mirrleesReview>
- [f] *Mirrlees Review: Vol II: Tax by Design* (co-author); OUP 2011, ISBN 978-0-19-955374-7, Oxford and New York, 524pp, open access download at <http://www.ifs.org.uk/mirrleesReview>

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

The research described in section 2 has stimulated and fundamentally changed the public and policy debate about taxation, and has had direct consequences for tax legislation in the United Kingdom. A key example of this was the publication of the *Mirrlees Review of Tax Reform* established by the ESRC Centre, under the direction of Richard Blundell and underpinned by his research, which has had a significant impact on tax and benefit reform in the UK and abroad.

Each volume of the report was received with widespread acclaim in the major news outlets. On 18 September 2011, the *Financial Times* ran a glowing lead editorial on the policy recommendations of the *Review*, ending: 'Were Mr Osborne to pursue such aims, he would do Britain a service', echoing the *Economist's* enthusiastic appraisal a year earlier [1]. While Larry Summers, the then US Treasury Secretary (and Professor at Harvard University) wrote in 2010, on the release of the first volume: 'Theory and practice rarely are brought together effectively. It should be read by anyone who cares about the future of taxation – that is anyone who cares about the future of government' (quoted in [e] in section 3).

The publication of the first volume was an important factor in the Treasury Select Committee's decision to launch an important inquiry into the principles of tax policy. On 24 November 2010, the Select Committee wrote: 'In the last month, the Institute for Fiscal Studies in London and the OECD have each published important reports into the fundamentals of tax policy. The *Mirrlees Review*, published by the IFS, argues that the tax system should be considered as a whole with the benefit system, seek neutrality, and achieve progressivity as efficiently as possible. The Treasury Committee has decided to launch its own inquiry into the principles which should underpin the tax system' [2].

After the final volume of the report was launched, Blundell delivered specific presentations of the tax reform proposals from this research to various policy audiences in the UK and abroad, ensuring

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that the research made an integral contribution to debate on tax policy reform. These included, for example, discussions with the following audiences:

- Oral testimony to HM Treasury in the UK (25 January 2011) [3];
- European Union Tax Commissioners (29 November 2011);
- The International Monetary Fund (22 November 2011).

The *Review* is now an intrinsic part of policy discussion regarding tax reform in the UK and abroad, and is routinely cited in policy reports and in the media. The launch of each volume was covered in the press, and the findings are regularly referred to, e.g. in articles in the *Telegraph* as recently as September 2012 and March 2013 [4]. Some key examples of its use in policy are described below.

The *Review* provided the foundation evidence, presented by Professor Blundell and colleagues, for the influential Treasury Select Committee Report on Principles of Tax Policy published on 10 March 2011. The proposals on earnings tax reform in the *Mirrlees Review*, which were based on Blundell's research, formed the key evidence for the Treasury Committee Report, Principles of Tax Policy, 2011 (see especially p. 11 of [3]) which used it as a framework to formulate its own recommendations.

Similarly, the Office of Tax Simplification, which was mandated with assessing the worth of the UK's tax allowances and relief in 2010–11, relied heavily on the *Mirrlees Review* as a far more exhaustive assessment of the overall tax system (p. 5), as well as in discussing specific aspects such as inheritance tax (p. 15) (for which it recommended a top-down review, following the conclusions of the *Review*) and corporation tax [4]. This report was presented to the Chancellor to inform the 2011 Budget.

The research not only helped make the original business case for the Universal Credit reform introduced as part of the Welfare Reform Act 2012, but also had direct impact on the design of the reform. This reform involved a complete redesign of the benefit and tax credit system in the UK, involving some £55bn of government expenditure impacting on more than 8 million families, with a limited rollout beginning from April 2013. As HM Treasury writes, 'Professor Blundell's micro-econometric research on labour supply and the tax and benefit system has directly influenced UK economic analysis and policy making with respect to the design of tax, tax-credit and benefit integration reforms. For example we have drawn on his work in considering the business case for Universal Credit, the Government's flagship reform of the welfare system, and in other modelling and analysis of the welfare system and labour market to inform policy thinking and advice to ministers' [5].

In June 2012, Blundell was invited by Lord Freud (Minister for Welfare) to join a high level Universal Credit Evaluation Committee at the Department of Work and Pensions. This committee meets regularly to actively monitor and critically assess the roll out of Universal Credit, according to a Universal Credit Evaluation Framework released in December 2012 [6]. Given the delays with the roll out, this committee plays an essential role. As the department's Permanent Secretary confirms, 'Professor Blundell's micro-econometric research on labour supply and the tax and benefit system is one of the Department's primary sources for understanding the possible employment impacts of the new Universal Credit' [7].

The research has also influenced policy debate in Europe. For instance, in 2010, the CPB Netherlands Bureau for Economic Policy Analysis (CPB) at that country's Ministry of Finance announced that a Study Committee on Taxation had been established, 'inspired by the *Mirrlees Review*', and charged with offering a broad review of the Dutch tax system and proposing directions for reform.' The study group published its recommendations in April 2010 [8].

In recognition of the contribution of Blundell's research, in 2012 he was awarded the Prize in Labor Economics by the German institute for the study of labour, IZA, for 'his path-breaking contributions to the econometric analysis of labor markets and public policy reforms.' It added: 'Professor Blundell has played a major role in the development of modern labor and policy analysis. His work

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has been enormously influential in the worldwide debates about tax and welfare reforms over the past decades.' This came shortly after the IZA itself proposed a tax reform for Germany 'which is based largely on the methodology developed by Richard Blundell' [9].

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

- [1] *Financial Times* 'A medium-term strategy for tax' 18 September 2011. Available on request. The *Economist* 'Tax from scratch' 11 November 2010. <http://www.economist.com/node/17461040>
- [2] Treasury Committee launches new inquiry into the fundamental principles of tax policy, announced 24 November 2010. <http://www.parliament.uk/business/committees/committees-a-z/commons-select/treasury-committee/news/committee-launches-inquiry-into-the-fundamental-principles-of-tax-policy/>
- [3] Principles of Tax Policy: Eighth Report of Session 2010–11 (published 15 March 2011) House of Commons Treasury Committee:
<http://www.publications.parliament.uk/pa/cm201011/cmselect/cmtreasy/753/753.pdf>
Report draws on research regarding earnings tax design (page 11), and many other references. Transcript of evidence by Blundell et al: see Ev. 1.
- [4] Examples of ongoing references in media debate:
Daily Telegraph 'Smash and grab raid on middle class wealth is a recipe for disaster' 24 September 2012. <http://www.telegraph.co.uk/finance/comment/jeremy-warner/9563737/Smash-and-grab-raid-on-middle-class-wealth-is-a-recipe-for-disaster.html>
Daily Telegraph 'George Osborne's aspiration nation is a sham – and stamp duty proves it' 26 March 2013. <http://www.telegraph.co.uk/finance/comment/9955264/George-Osbornes-aspiration-nation-is-a-sham-and-stamp-duty-proves-it.html>. Daily web + print adult readership 2012–2013: 2.1 million people (National Readership Survey-PADD figures <http://www.nrs.co.uk/nrs-data-tables/>).
- [4] Office for Tax Simplification, March 2011; see, for example, page 5 among others.
http://webarchive.nationalarchives.gov.uk/20130129110402/http://www.hm-treasury.gov.uk/d/ots_review_tax_reliefs_final_report.pdf
- [5] Statement provided by the Deputy Director, Labour Markets and Distributional Analysis, HM Treasury is available on request.
- [6] Universal Credit Evaluation Framework document.
<https://www.gov.uk/government/publications/universal-credit-evaluation-framework>. Expert group membership: page 14.
- [7] Statement provided by the Permanent Secretary, Department of Work and Pensions is available on request.
- [8] The influence of the Mirrlees Review on the Dutch government's establishment of a study group: <http://www.cpb.nl/sites/default/files/CPB%20Newsletter%20march%202010.pdf>
- [9] The 2012 IZA Prize in Labor Economics citation:
http://www.iza.org/en/webcontent/prize/prize2012/iza_prize.