10 years of austerity: the impact on low-income households and women

Tax changes and cuts to public spending and social security have been key to the deficit-reduction strategy implemented by the coalition government between 2010 and 2015 and continued by the Conservative government elected in May 2015. Indeed, the Conservative government has vowed to reach a structural surplus in the public finances by 2020, with an austerity programme made up of 89 per cent public spending cuts and 11 per cent net tax rises. Pursuing a fiscal surplus is economically controversial and it is not clear that it is necessary for a healthy, sustainable economy.[1] But even within a framework of reducing public deficit, the choice of achieving this through public spending cuts as opposed to tax rises has also proved controversial because of its disproportionate impact on more vulnerable groups. Despite Chancellor Osborne having trumpeted in June 2010 that the austerity plan would see us 'all in it together', Jerome De Henau **and** Howard Reed **report on the latest analysis to question this claim.**

Previous analysis by Landman Economics and the Women's Budget Group has identified significant, and disproportionate, negative impacts of the government's plans on women and low-income households (in which women predominate), despite claims that the burden of cuts would be shared equally across the income distribution and across genders.[2]

This is mainly due to the fact that women rely more heavily on public services and social security transfers, as gender norms operate to maintain women on low incomes and in a primary carer role. Analysis by the House of Commons Library has already shown the lasting gender bias of tax–benefit changes. Of the £82 billion in cumulative tax changes and cuts in social security spending announced since 2010 that will be implemented by 2020, 81 per cent will come from women.[3] (However, this analysis did not include cuts to public services, or the impact of universal credit.) Despite all this evidence, a recent motion to call on the government to conduct an urgent cumulative impact assessment on women and other protected groups in December 2015 was voted down.[4]

In fact, the Women's Budget Group and other observers have repeatedly noted that, despite the requirements of the Equality Act 2010 to carry out gender impact analysis of significant reforms, no comprehensive equality impact analysis was performed of any Budget or Spending Review since 2010. Instead, incomplete and ad hoc gender effects were suggested for some individual measures.[5] Also, since the July Budget 2015, the government has changed its way of assessing distributional impacts: it no longer produces a distributional analysis of policy changes by income groups, instead producing data showing the share of net spending going to (and tax payment being borne by) different income groups. This has muddled the way in which the degree of progressivity of policy changes can be assessed. A lack of systematic gender analysis has continued to be partly justified by the Treasury, which, despite having been briefed systematically on how to carry out such analysis, claims methodological difficulties.[6]

Producing a thorough gender impact analysis

In order to address these issues, the Women's Budget Group and Landman Economics have performed a cumulative gender impact assessment of a wide range of tax changes and cuts to social security spending as well as to public services. The analysis considered all direct income taxation, indirect taxation, council tax, social security transfers (including universal credit) and public services provided in kind (such as healthcare, education and social care).[7] It looked at different household types, identified by gender relevant characteristics (such as female lone parents and female single pensioners), as well as by income deciles.

Such an analysis is crucial if policy makers are to understand how different aspects of sequential changes end up having cumulative effects on household income that are not easy to identify in isolation. For example, in the absence of a distributional analysis, cuts to levels of tax credit payments coupled with an increased minimum wage could be seen as potentially cancelling each other out, and hence having no effect on an individual. However, as the beneficiaries of increased minimum wages and recipients of tax credits may not be the same people or the changes in amounts may not be of the same magnitude for everyone depending on other factors, the net effect is difficult to predict for each person, let alone how different individuals and households compare with each other.

Microsimulation tools help address this issue by looking at all changes at once, compared to a baseline scenario. Two microsimulation tools developed by Landman Economics were used: a tax–benefit model and a public service spending model. The first tool simulates changes in households' disposable income after a series of policy changes affecting taxation and social security transfers have been considered. The second tool looks at the projected impact of changes in public spending on services such as health, education, transport and social care as a result of changes in central government funding. It does so by assessing the value of these services as used by individual households.

The calculations involve estimating a baseline scenario to May 2020 in which the system in place in May 2010, just before the general election, is maintained. In the baseline scenario, benefits, tax credits and tax thresholds are assumed to rise using the pre-2010 rules for the 2010–2015 Parliament, and using the pre-2015 rules for the 2015–2020 Parliament.[8] Funding for in-kind public services such as health and education is assumed to rise in line with the general level of prices in the economy.[9] This is the counterfactual against which policy changes are measured.[10] The 'post-changes' scenario that is simulated calculates projected household incomes, which similarly include the value of public services, by May 2020 after all the tax–benefit and public spending changes between June 2010 and 2020 have been included. The difference between the 'post-changes' income and the baseline income for a given household is a measure of the cumulative impact of all the changes on that household.[11]

The distributional impact of tax and social security measures

In the July 2015 Budget, the government announced further cuts to social security spending, worth £12 billion a year by 2020 (mainly through reducing universal credit, cutting housing benefit and freezing most working-age benefits). The so-called 'u turn' on the cuts to tax credits announced in the 2015 Autumn Statement is, in fact, only temporary, as tax credits are set to be fully replaced by 2020 by a much less generous universal credit system to which the drastic cuts announced in the July Budget will still fully apply.[12]

The poorest 30 per cent of households lose on average about 12 per cent of their disposable income, compared with 0 per cent on average for the richest 30 per cent

Our analysis shows that the cuts announced since July 2015 will, on average, reduce annual disposable household income by £1,500 by 2020. For the second lowest decile, the cuts may amount to a reduction in disposable income of up to £2,500.[13] By contrast, the richest decile group sees a net rise in disposable income, due to reduced taxation, while in the lower part of the income distribution universal credit constitutes the lion's share of the cut. The overall picture is one of regressive cuts as the poorest 30 per cent of households lose on average about 12 per cent of their disposable income, compared with 0 per cent on average for the richest 30 per cent.

When looking at the cumulative impact by 2020 for household types broken down by their gender composition, the differences are striking.[14] As cuts to universal credit are prominent, it is not surprising that households with children are most affected. Female lone parents (92 per cent of lone parents)[15] are most affected overall, with an estimated £4,000 annual average loss by 2020 – a huge 17 per cent cut as a proportion of their disposable income. Despite rises in their state pension, pensioners will still experience a net real cut on average due to the reduction in other social security benefits. The three types of single adult-headed households lose more when headed by a woman than by a man.

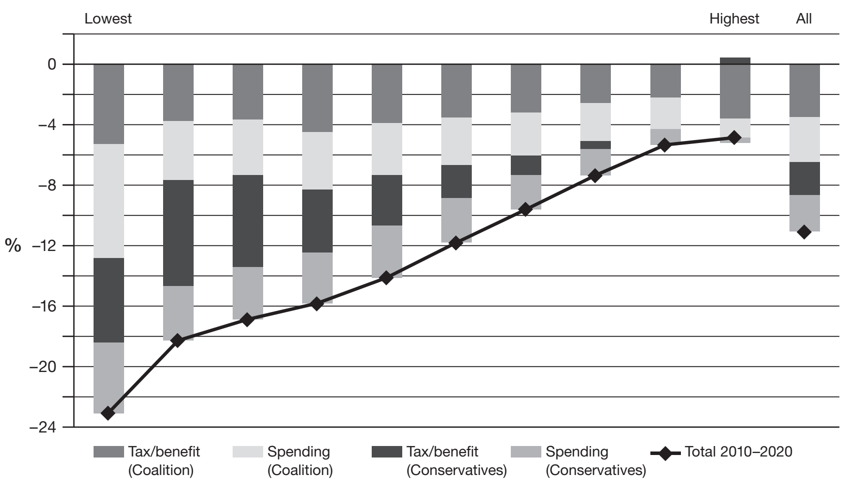
Compared with the period 2010 to 2015, the changes to taxes and benefits announced for the period 2015 to 2020 offer a more regressive picture, mainly owing to the introduction of universal credit by 2020. In cumulative terms for the whole period 2010 to 2020, households at the very bottom of the income distribution are set to lose up to 25 per cent of their disposable income on average in 2020 as a result of the changes over the whole period, and the next decile will lose 20 per cent, compared with a 5 per cent average cut for the top 30 per cent of the distribution.

Female lone parents are set to lose 26 per cent of their disposable income on average by 2020

This effect of the introduction of universal credit and other social security changes is not compensated for by the higher minimum wage, set to reach £9.20 per hour by 2020. As the Women's Budget Group has pointed out in its response to the 2015 Autumn Statement, those benefiting from the rise in the minimum wage are not necessarily in the same households as those being hit by cuts in tax credits and universal credit.[16]

If we look at gendered household types, female lone parents are set to lose 26 per cent of their disposable income on average by 2020 (£6,300 annually, the bulk of which is due to universal credit cuts). Single childless women will lose 17 per cent of their income (£3,300, mainly through replacing tax credits with the less generous universal credit), while single female pensioners will be 15 per cent worse-off (£2,400), mainly through various benefit cuts. This compares with childless working-age couples losing about 6 per cent of their household income, on average.

Figure 1: **Cumulative impact of tax–benefit and spending cuts as percentage of living standards by income decile, 2010–2020**



Source: Authors' calculations using Landman Economics tax–benefit model and public spending model

The impact of public spending cuts on services

In the 2015 Spending Review, further cuts in public spending were announced, with the aim of achieving a £12 billion reduction in annual spending by 2020.[17] Not all departments faced real-term cuts, with health and school education budgets protected (or raised). However, such budget increases will not keep up with population changes, which the Landman Economics spending tool accounts for. The spending tool includes the value of services (ie, the cost of public spending on them) that can be allocated to households and measured reliably in the data (about 71 per cent of public spending on services).[18]

Central government has announced drastic cuts to its grant to local government. The hypothecated tax that the government has allowed local authorities to raise (increasing council tax by up to 2 per cent per year above inflation) in order to fund additional social care is included in the model. However, this is a maximum assumption and the results below show that, even at its highest, it does not compensate for central government funding cuts. Moreover, there is no guarantee in practice that local councils will be able to raise equivalent amounts – especially those in poorer areas, where the need for publicly subsidised social care is also higher.

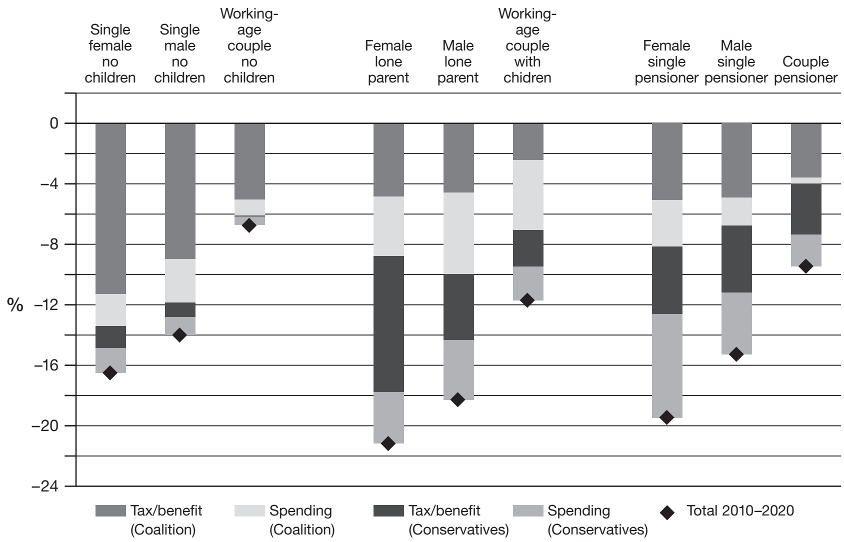
Cuts to social care and school spending contribute to most of the total spending reduction, followed by healthcare. The average reduction per household in the value of public services is about £1,100, and between £1,250 and £1,450 for the bottom 60 per cent of the distribution. Again, households with school-aged children stand to lose most from cuts to school budgets, while pensioners lose out more from social care cuts, especially female single pensioners.

The overall cumulative impact: 10 years of gender-biased austerity

We can now put the tax–benefit and public spending cuts together, and measure them against household living standards – ie, the disposable income of a household plus the value of the public services that it uses. Figure 1 confirms a picture of strongly regressive overall cuts, when measured as a proportion of living standards. The 2015–2020 period of cumulative tax–benefit and spending cuts significantly accentuates an already existing regressive pattern inherited from the 2010–2015 announcements. By 2020, the 10 per cent poorest households lose an equivalent of £7,100 per annum, or 23 per cent of their living standards, compared with £4,400 for the highest decile group, just 5 per cent of their living standards.

Figure 2 also shows that women in single adult households face disproportionate cuts overall, with female lone parents, female single pensioners and single childless women having their living standards reduced by 21 per cent, 20 per cent and 17 per cent respectively.

Figure 2: **Cumulative impact of tax–benefit and spending cuts as percentage of living standards by gendered household type, 2010–2020**



Source: Authors' calculations using Landman Economics tax–benefit model and public spending model

Conclusion

This analysis has showed that announcements made thus far by the Conservative government will disproportionately negatively impact on the living standards of the lowest income households and women. This is on top of the severe and unequal impact of the 2010–2015 coalition government's policies. Further, it is important to acknowledge that tools for cumulative gender impact analysis exist; they can easily be made available to various stakeholders, including government departments, to fulfil their equality duties and improve policy making. Conducting cumulative gender and distributional impact analyses of this sort is a necessary part of understanding the full impact of government policy. The government should take account of the disproportionate impact identified by these results and take steps to change its social and fiscal policy priorities and, in particular, to reverse the drastic cuts to universal credit. Otherwise, lower income households and women will continue to bear the brunt of austerity policies, with long-term damage to their life chances.

The Women's Budget Group has repeatedly called for a feminist Plan F that would deliver benefits to all, not just women.[19] Plan F calls for a different fiscal and economic strategy, whereby significant public investment in social infrastructure fuels the development of public services in social care, childcare, health and education in order to foster a self-funding caring and sustainable economy with greater gender equality. ■

The government should take account of the disproportionate impact identified by these results and take steps to change its social and fiscal policy priorities

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1 Women's Budget Group, *The Impact on Women of the 2016 Budget*, 2016, http://wbg.org.uk
2 H Reed and J Portes, *Cumulative Impact Assessment*, Equality and Human Rights Commission, 2014; Women's Budget Group briefing on Plan F, 2013, http://bit.ly/1QrnlIT
3 See *Women's Budget Group Response to the Autumn Statement and Spending Review 2015*, http://bit.ly/1QbC6Ir
4 See *Hansard* record of debate in the House of Commons, 9 December 2015 at http://bit.ly/1NOuN8m
5 See Women's Budget Group Budget responses at http://bit.ly/1WUU6Mg, in particular the July 2015 response as the presentation of distributional impacts as usually done (incidence by quintiles) was entirely removed; see also H Reed and J Portes, *Cumulative Impact Assessment*, Equality and Human Rights Commission, 2014
6 H Reed and J Portes, *Cumulative Impact Assessment*, Equality and Human Rights Commission, 2014
7 For a detailed gender impact analysis of the 2010–2015 coalition government austerity policies, see H Reed, 'The gender impact of austerity in the UK under the Conservative–Liberal Democrat Coalition Government, 2010–15', in H Bargawi, G Cozzi and S Himmelweit (eds), *Lives after Austerity: gendered impacts and sustainable alternatives for Europe*, Routledge, 2016
8 We assume that tax credits and tax thresholds are uprated using the RPI for 2010 to 2015, while benefits are uprated by a combination of RPI and the ROSSI index. For 2015 to 2020, we assume CPI uprating as the default. Full take-up is assumed.
9 Technically, the index used to uprate public spending totals is known as the GDP deflator.
10 'Raw' incomes are from 2013/14 and uprated to April 2015 with earnings index rises, after which they are uprated with CPI up to 2020.
11 All figures are expressed in April 2015 prices, so the cash amounts are real-terms sterling. The main dataset used is the Family Resources Survey, with some data on public services use coming from other data sets and matched to households in the main survey. Note that the changes analysed in this simulation do not include the recent Budget 2016 announcements.
12 We assume no transitional protection and full roll-out by then. This might be pushed back (see http://bit.ly/1QXo1oB).
13 Households are ranked by their (equivalised) disposable income in 10 equal decile groups. Decile 1 includes the 10% poorest households and decile 10 the 10% richest households.
14 This method was developed by Women's Budget Group members Diane Elson, Sue Himmelweit and Howard Reed in their analysis of the gender impact of the coalition government austerity policies – see http://bit.ly/1QrnlIT.
15 Caution is needed for results for male lone parents as very few such households were observed in the dataset.
16 See http://bit.ly/1QbC6Ir
17 See http://bit.ly/1QbC6Ir for details. Note that the distributional and gender impact analysis provided here uses a revised methodology from that used in the December report (corrections for increase in population sizes), so figures differ.
18 For a detailed explanation of the method, see H Reed and J Portes, *Cumulative Impact Assessment*, Equality and Human Rights Commission, 2014
19 See previous briefings by Women's Budget Group at http://bit.ly/1eJbMea