A cumulative gender impact assessment of ten years of austerity policies

*A briefing from the **UK Women's Budget Group** on the cumulative distributional effects of cuts in public spending and tax changes on household income by gendered types over the period 2010-20*

Key findings

- ***Austerity policies*** *that are planned for the 2015-20 Parliament have an even **more regressive distributional impact** than those implemented in the 2010-15 Parliament, with the living standards of the 10% lowest income households being cut by an average of 21% annually in 2020, more than five times as much as the cut to living standards for households in the top decile*

- *Women are hit harder than men and households headed by women such as **lone parents and single female pensioners are hit hardest**, both being about **20% worse-off** on average in 2020*

- *The full implementation by 2020 of **Universal Credit is the main factor behind the deepening of the regressive cuts** over this Parliament, as cuts to its already less generous rates and thresholds were not reversed in the 2015 Autumn Statement, unlike those to tax credits*

- *Besides cuts to household incomes, the **effect of central government cuts on school and social care budgets** is the main factor behind the drop in living standards, mainly for the bottom half of the income distribution*

- This briefing examines the real-term distributional impact of tax changes and public spending and social security cuts as part of the deficit reduction strategy implemented by the Conservative-Liberal Democrat Coalition government between 2010 and 2015 and continued by the Conservative government elected in May 2015.

- The Conservative government has vowed to reach a structural surplus in the public finances by 2020 with an austerity programme made up of 89% public spending cuts and 11% net tax rises.

- As the Women's Budget Group and other observers have noted repeatedly, despite the requirements of the 2010 Equalities Act 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.[1]

- 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 would be shared equally.[2]

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[1] See WBG Budget responses, in particular the July 2015 response as the presentation of distributional impacts as usually done (incidence by quintiles) was entirely removed (http://bit.ly/1WUU6Mg); See also EHRC report by Reed and Portes (2014) at http://bit.ly/1TnP0dC

[2] Reed and Portes (2014) ibid., and WBG briefing on Plan F (2013) at http://bit.ly/1QrnllT

- 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 £82bn in cumulative tax changes and cuts in social security spending announced since 2010 that will have been implemented by 2020, 81% will have come from women.[3] (However it didn't include cuts to public services, neither 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]

Producing a thorough gender impact analysis

- This briefing seeks to address this gap by providing a cumulative gender impact assessment of a wide range of tax changes and cuts to social security spending as well as to public services. It includes all direct income taxation, indirect taxation, council tax, social security transfers, including Universal Credit, and public services provided in kind (healthcare, education, social care etc.).[5]

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[3] See 2015 AFS response by WBG (http://bit.ly/1QbC6Ir)

[4] Debate in the House of Commons on 9 Dec. 2015 (see Hansard records at http://bit.ly/1NOuN8m)

[5] For a detailed gender impact analysis of the 2010-15 coalition government austerity policies, see Reed, H. (2016) 'The gender impact of austerity in the UK under the Conservative-Liberal Democrat Coalition Government, 2010-15'. In Bargawi, H, Cozzi, G and Himmelweit, S. (eds) *Lives after Austerity: gendered impacts and sustainable alternatives for Europe*, London: Routledge

- It looks at different household types, identified by gender relevant characteristics (such as female lone parents and female single pensioners) as well as by decile groups.
- Two microsimulation tools developed by Landman Economics are used:
  - A tax-benefit model
  - A public service spending model
- The first one 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 2010-15 Parliament, and using the pre-2015 rules for the 2015-20 Parliament.[6] 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[7]. This is the counterfactual against which policy changes are measured.[8]

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[6] We assume that tax credits and tax thresholds are uprated using the RPI for 2010-15 while benefits are uprated by a combination of RPI and the ROSSI index. For 2015-20 we assume CPI uprating as the default. Full take-up is assumed.

[7] Technically the index used to uprate public spending totals is known as the GDP deflator.

[8] '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.

- The 'post-changes' scenario that is simulated calculates projected household incomes, that 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. 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.

Distributional impact of tax and social security measures 2015-20

- In the July 2015 Budget, the government announced further cuts to social security spending worth £12bn per year by 2020 (mainly through reducing Universal Credit (UC), cutting housing benefit and freezing most working-age benefits).

- The so-called "U-turn" on tax credits announced in the 2015 Autumn Statement is in fact only temporary, as tax credits are set to be fully replaced by 2020[9] by a much less generous Universal Credit system to which the drastic cuts announced in the July Budget will still fully apply.

- Figure 1 shows that the cuts announced since July 2015 will, on average, reduce annual disposable household income by £1500 by 2020. For the second lowest decile, the cuts may amount to a reduction in disposable income of up to £2500.[10]

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[9] We assume no transitional protection and full roll-out by then. This might be pushed back (http://bit.ly/1QXo1oB).

[10] Households are ranked by their (equivalised) disposable income in ten equal decile groups. Decile 1 includes the 10% poorest households and Decile 10 the 10% richest households.

- The richest decile group sees a net rise in disposable income, due to reduced taxation, while in the lower part of the income distribution UC constitutes the lion's share of the cut.

- The overall picture is one of regressive cuts as the poorest 30% of households lose on average about 12% of their disposable income compared to 0% on average for the richest 30%.

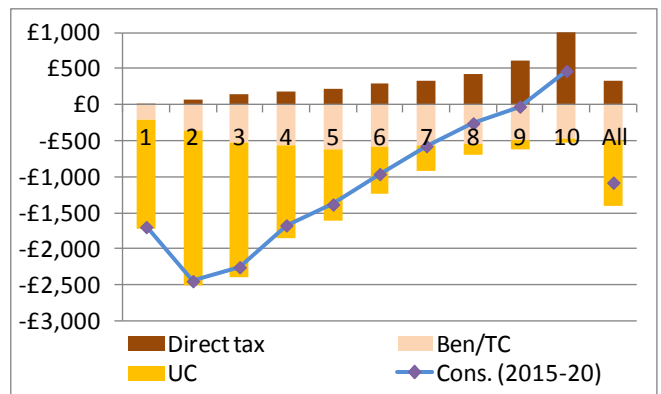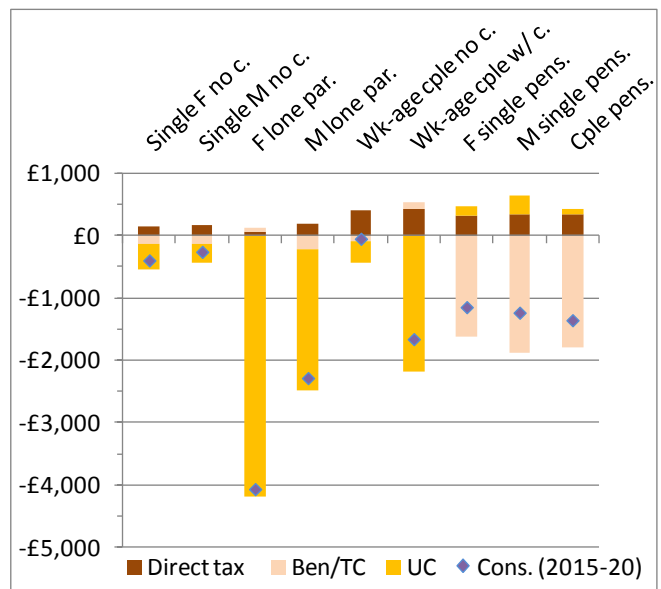**Figure 1:** Real-term impact by 2020 on household disposable income by decile (2015-20)[11]

Figure 2 Real-term impact by 2020 on household disposable income by gendered type (2015-20)

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[11] All charts in this briefing are the authors' calculations based on Landman Economics Tax-benefit and Public spending models. Results show 'overnight' 'static' impact, which assumes no change in households' behaviour.

- Figure 2 shows the same impact by 2020 but for household types broken down by their gender composition.[12]
- As cuts to UC are prominent, it is not surprising that households with children are most affected. Female lone parents (92% of lone parents)[13] are most affected overall, with an estimated £4000 annual average loss in 2020, a huge 17% cut as a proportion of their disposable income.
- Despite rises in their state pension, pensioners would still experience a net real cut on average due to 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.

Individual impacts by gender

- A fuller gender impact analysis would also examine the effect of cuts on individual incomes. With a few assumptions about allocation rules (such as, for non-individual taxes and benefits, splitting them equally or awarding them to an individual according to the nature of the tax or benefit), it is possible to draw a picture of the tax-benefit changes by decile and by gender.
- In their report to the EHRC, Reed and Portes (2014)[14] calculated the cumulative impact of tax-benefit changes for the period 2010-15 by gender and deciles and showed that at every decile, women stood to lose more than men in both cash terms (50% more) and as a percentage of income (twice as much).

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[12] 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/1QrnllT)

[13] Caution is needed for results for male lone parents as very few such households were observed in the dataset.

[14] See http://bit.ly/1TnP0dC

- We have not done this analysis for the 2015-20 changes yet but it is likely that the picture will show similar results given that similar types of benefits are being cut and further tax cuts that benefit men more than women are being proposed (such as further rises in the personal tax allowance).

Cumulative impact of tax/benefits 2010-20

- Given that the cuts announced by the 2010-15 Coalition have ongoing effects during the 2015-20 period – and indeed some, such as UC, are being implemented only then – a cumulative analysis is required in order to assess the full effect of the austerity period.

Figure 3: Cumulative impact of 2010-20 tax/benefit changes by period (% of disposable income by decile)
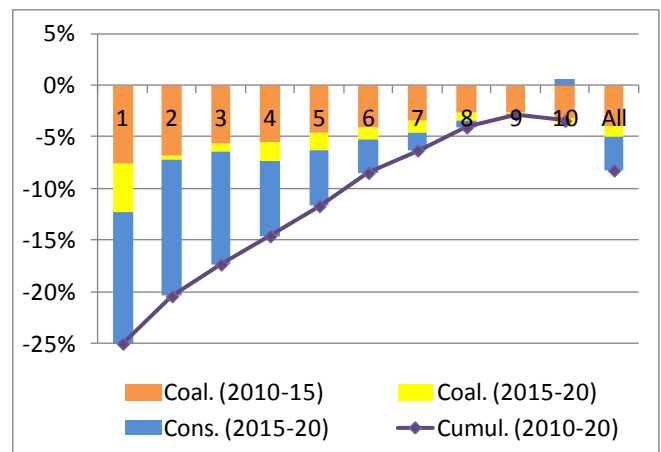

- Figure 3 clearly shows the regressive pattern of the tax/benefit changes over the whole period of 2010-20. Changes were already regressive in the first period (shown as 'Coalition 2010-15'), and intensified by plans by the previous coalition government for the period 2015-20 ('Coalition 2015-20'). Despite this, the current government has ensured a substantial deepening of those regressive effects ('Conservative 2015-20').
- At the very bottom of the distribution, households are set to lose up to 25% of their disposable

income on average in 2020 as a result of the changes over the whole period, and the next decile would lose 20%, compared to a 5% average cut for the top 30% of the distribution.

- The intensification of the regressive pattern of cuts is mainly due to the introduction of Universal Credit as explained above.

- This effect 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 UC.[15]

Figure 4: Cumulative impact of 2010-20 tax/benefit changes (% disp. income by gendered household type)
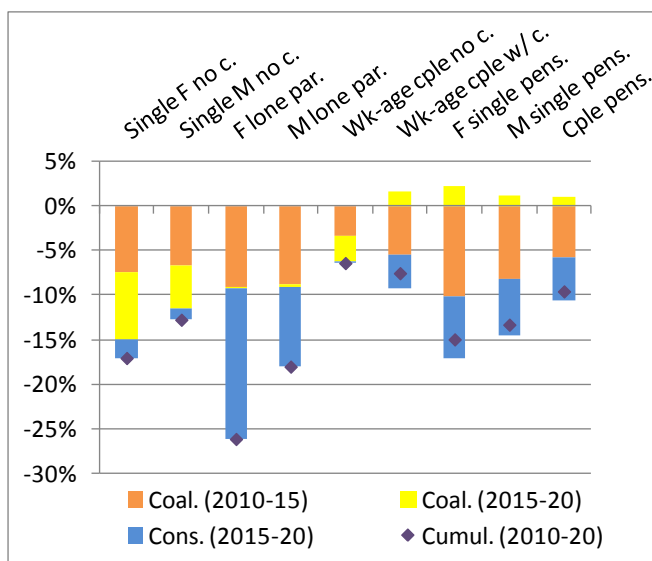
- Figure 4 shows again that the cumulative impact of tax/benefit changes is more negative on female single-adult households than on male single-adult households. Female lone parents are set to lose 26% of their disposable income on average by 2020 (£6,300 annually, the bulk of which due to UC cuts). Single childless women would lose 17% of their income (£3,300, mainly through replacing

tax credits with less generous UC) while single female pensioners would be 15% worse-off (£2,400), mainly through various benefit cuts.

Impact of cuts in public spending on services

- In the 2015 Spending Review, further cuts in public spending were announced, with the aim of achieving a £12bn reduction in annual spending by 2020.[16]

- Not all departments faced real-term cuts, with health and school education budgets protected (or raised). However, such budget increases did not keep up with population changes (which the Landman Economics spending tool accounts for).

- The spending tool includes the value of services (i.e. cost of public spending on them) that can be allocated to households and measured reliably in the data (about 71% of public spending on services).[17]

- Central government 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 year) 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 councils in poorer areas, where the need for publicly-subsidised social care is also higher.

[15] See http://bit.ly/1QbC6Ir

[16] Ibid. 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.

[17] For a detailed explanation of the method, see Reed and Portes (2014) at http://bit.ly/1TnP0dC

Figure 5: Real-term impact of public spending cuts 2015-20, by deciles of household income
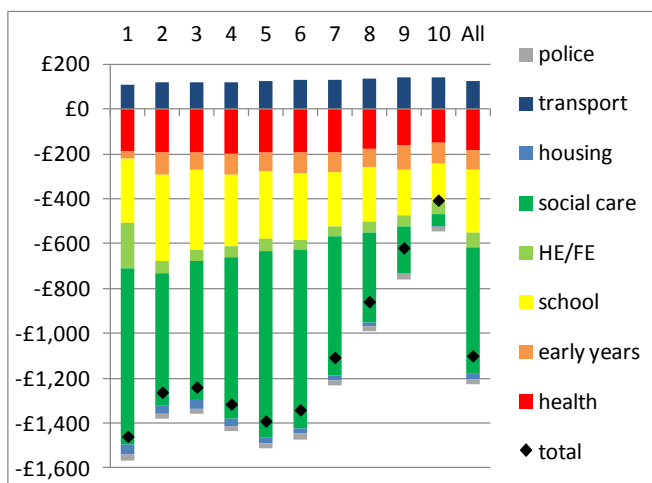
- Social care and school spending are the main contributors to overall cuts, followed by healthcare. The average reduction per household in the value of public services is about £1100, and between £1250 and £1450 for the bottom 60% of the distribution.

Figure 6: Real-term impact of public spending cuts 2015-20, by gendered household type
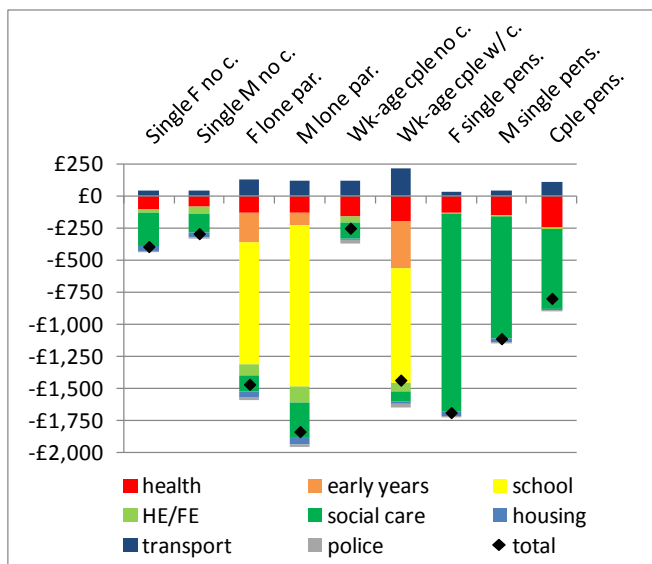
- Again, households with school-aged children stand to lose most from cuts to school budgets, while pensioners lose out more from social care cuts, especially female single pensioners.

Overall cumulative impact 2010-2020: ten years of gender-biased austerity

Figure 7a: Cumulative impact of tax/benefit and spending cuts by income decile (2010-20)
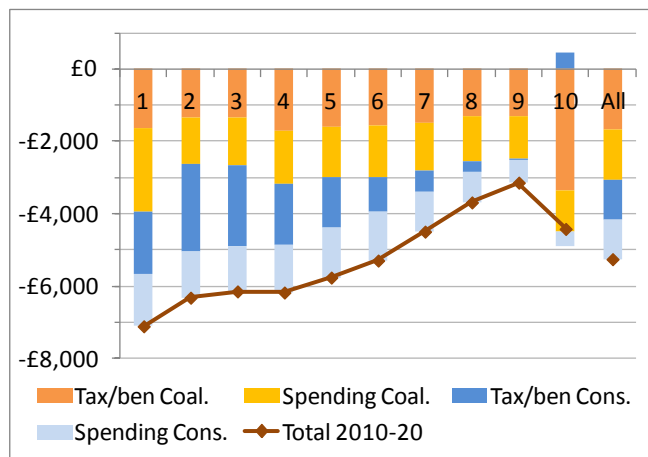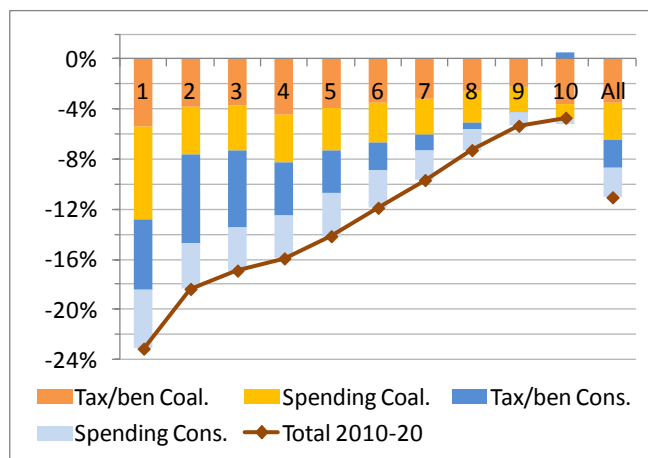

Figure 7b: Cumulative impact of tax/benefit and spending cuts as % of living standards by decile (2010-20)

- We can now put the tax/benefit and public spending cuts together, and measure them against household living standards (i.e. the disposable income of a household plus the value of the public services which it uses).

- Figures 7a and 7b confirm a picture of strongly regressive overall cuts, especially when measured as a proportion of living standards in Figure 7b. The 2015-20 period of cumulative tax-benefit and spending cuts significantly accentuates an already

existing regressive pattern inherited from the 2010-15 announcements.

- By 2020, the 10% poorest households lose an equivalent of £7,100 per annum, or 23% of their living standards, compared to £4400 for the highest decile group, just 5% of their living standards.

Figure 8a: Cumulative impact of tax/benefit and spending cuts by gendered household type (2010-20)
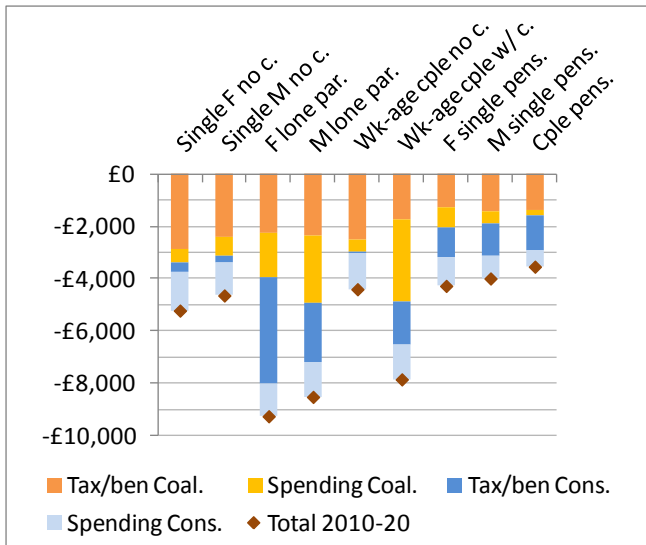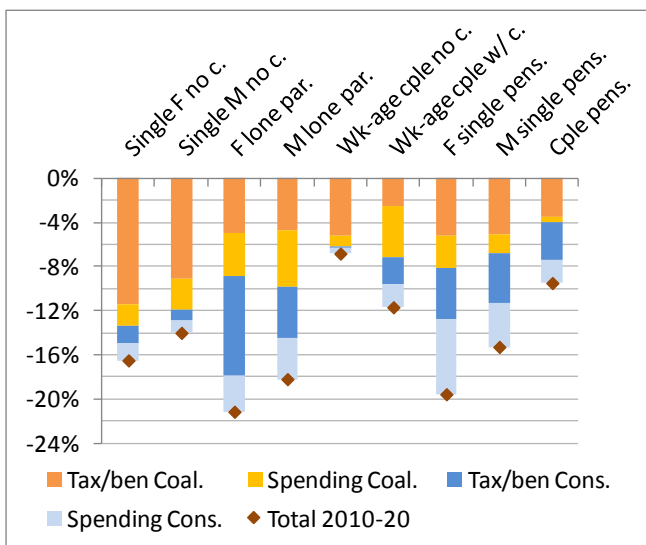

Figure 8b: Cumulative impact of tax/benefit and spending cuts in % of living standards by gendered household type (2010-20)

- Figures 8a and 8b also show 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%, 20% and 17% respectively.

Conclusion

- The simulations undertaken for this briefing show that announcements made thus far by the Conservative government will disproportionately negatively impact the living standards of the lowest-income households and women. This is on top of the severe and unequal impact of the 2010-15 coalition government's policies.
- Further, this briefing has shown 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 analysis of this sort is a necessary part of understanding the full impact of government policy.
- We urge the government to use this analysis 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.[18] 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.

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[18] See previous briefings by WBG at http://bit.ly/1eJbMea

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