Women's Budget Group Pre-Budget Briefing, March 2012

Plan A has failed. It is time for Plan F: a feminist economic strategy to stimulate social and economic recovery.

Austerity measures are damaging women, families and the economy. George Osborne's deficit reduction plan is centred on 77% spending cuts and 23% tax increases, and is having a detrimental effect on the lives of British women. Female unemployment is at its highest in 25 years, and is still rising. Mass job losses in the public sector hit women hardest because they make up 73% of all public sector employees - last year alone 270,000 public sector jobs were lost, according the Office for Budget Responsibility.

In this briefing, the UK Women's Budget Group highlights the measures that the Chancellor should take in the Budget next week.

This is the beginnings of a Plan F: a feminist plan for recovery that stimulates job creation by putting money in the hands of poorest, and middle-income people, and invests in social as well as physical infrastructure. To support plan F the Chancellor should:

- Lift the three-year freeze of child benefit, restore its real value and keep it universal

- Increase the child element in child tax credit above inflation, as originally planned; restore the child care subsidy to 80% of child care costs, and unfreeze couple and lone parent elements of working tax credit

- No income tax cuts while much needed expenditure is being cut: no cut to 50% rate and no above inflation increase in personal tax allowances

- Halt the loss of revenue through pensions tax relief for higher income earners

- Tighten tax loopholes to provide billion-pound savings that can be used to sustain social welfare and childcare provision

- Introduce a financial transactions tax, part of which would be hypothecated to finance services that directly benefit women's economic independence, such as social and child care

- Increase the proposed income levels of the Universal Pension and make all pensioners eligible; increase winter fuel allowances to reflect rise in fuel prices
- Make a proper commitment to adequately fund a new system of social care; in the meantime, provide ring-fenced funds for local authorities to prevent further erosion of social care services
- Confirm the provision of 260,000 free nursery places for children from the most deprived homes, and provide ring fenced funds for local authorities to reopen and expand Sure Start centres
- Halt the decrease in international development spending, make sure aid is not tied and stop counting debt relief within its 0.7% GDP target for development assistance
- Develop an extended programme of training, business support and mentoring for women moving off benefits, so that they can develop the skills, networks and confidence to launch a business; increase the period for which the New Enterprise Allowance is payable
- Direct the banks to make low-cost, small-scale loans to small businesses
- Recognize that investment in infrastructure must include investment in people – human capital – through education, skills development and training, as well as in physical capital
- Make proposals for investment in employment, skills and training that are structured to open opportunities for women and men to move into non-traditional areas of employment
- Ensure that such investment is not funded by making cuts in services and benefits that are vital for gender equality

Rather than sticking to Plan A, which is imposing unfair burdens on women and not delivering the planned cut to the budget deficit, a government that really cares about fairness would implement Plan F to help economic recovery and promote equality.

Introduction

The Women's Budget Group (WBG) urges the Chancellor to use the 2012 Budget to halt the unfair damage to the lives of women caused by his government's policies.

This briefing sets out how the Chancellor could use the Budget to mitigate the unequal impact of austerity measures and suggests policies to advance gender equality.

It considers benefits, tax credits, taxation, pensions, child and social care, international development assistance, employment and support for women setting up small businesses.

Background

British women face a bleak future. They are being driven out of employment and into poverty as public sector jobs are lost, and child and social care funding is cut. Female unemployment is at its highest rate in 25 years and is growing disproportionately faster than male unemployment.[1] The government's welfare reform plans will not help. A new report says that around 150,000 single mothers could lose as much as £68 a week under the Universal Credit system.[2]

Writing on International Women's Day last week, Guardian columnist Polly Toynbee said: "This marks the first era in living memory that British women's freedoms have gone into reverse, as women pay the heaviest price for government policies."

Indeed, since the Coalition government's first Emergency Budget in June 2010, the WBG has argued that the decision to rely more on spending cuts (77%) and less on tax increases (23%) to reduce the deficit will have a detrimental impact on women.

House of Commons Library research assessing the Emergency Budget's policies found that of the £8bn savings to be made, £5.8bn (72%) were to come from net cuts to women's income, and just £2.2bn (28%) from men[3]. Similar calculations showed that of the £2.37bn that the 2011 budget would save though tax credit cuts and caps on public sector pay, "73% (£1.73bn) of the money will come from women, and just 27% (£638m) from men".[4]

WBG analysis found that public spending cuts announced in the 2010 spending review would hit women's households disproportionately. While on average households suffered a

[1] http://www.guardian.co.uk/society/2012/feb/20/female-unemployment-crisis-women

[2] http://www.savethechildren.org.uk/news-and-comment/news/2012-03/uk-welfare-reforms-could-push-250000-children-deeper-poverty

[3] http://www.yvettecooper.com/women-bear-brunt-of-budget-cuts

[4] http://www.newstatesman.com/blogs/the-staggers/2011/12/women-tax-chancellor-pay

cut in public services worth 6.85% of their household income, lone parents and single pensioners, both groups heavily dominated by women, could expect cuts of 18.5% and 11% respectively.

What is also worrying is the government's poor record in meeting its legal obligation to pay 'due regard' to the impact of its spending decisions on gender equality. The government has been taken to task for this[5], most recently by a formal inquiry by the Equality and Human Rights Commission, whose investigation into the Treasury's equality impact assessment practices will be published this month.

Gender impact analysis produced by the WBG and other organisations, including the Institute for Fiscal Studies, demonstrates that it is possible to produce gender analysis of who benefits from and who pays the cost of economic policy. The government can and must do the same.

Benefits and Tax Credits

Changes will drive women out of work and into poverty

A key plank of Mr Osborne's austerity drive is slashing the welfare benefits bill by around £18bn during this parliament. This will have a particularly large effect on women on low to middle incomes, who are more likely to rely on benefits and tax credits to supplement low paid and/or part-time work. Benefits currently make up, on average, one-fifth of female income, compared to only a tenth of male income. Changes to elements of working tax credit and child benefit will make it difficult for women to remain in work and afford the high cost of childcare. WBG is particularly concerned about the effect of the following policies on women struggling to make ends meet.

Tax Credits

- Mr Osborne's decision last November to reverse the government's plan to raise the child element of child tax credit by £110 above inflation will have a devastating effect on families. The increase had been talked about by the government as compensation for other cuts and to illustrate its commitment to tackling child poverty. The reversal of this plan will further exacerbate child poverty and take much-needed cash away from low-income households with children.[6]

- The reduction in the childcare element of working tax credit, from 80% to 70% of childcare fees, will make it difficult for women to stay in work, particularly at a time of rising childcare costs.

[5] http://www.bbc.co.uk/news/uk-10833190

[6] http://www.cpag.org.uk/press/2011/291111.htm and **http://tinyurl.com/76uh3e5**

- Couple and lone parent elements of the working tax credit will be frozen from April 2012. These payments, worth £265m, go the poorest members of the working population and the freeze will disproportionately impact women, who make up at least 90% of lone parents.

- The number of hours couples with children are required to work between them in order to receive the working tax credit will rise from 16 to 24 hours. This measure will have a particularly deleterious effect on women in such couples, who are more likely to work part-time. It is a regressive measure at a time of rising unemployment, when increases in hours of work are not readily available, and will severely penalise many families with children

Child Benefit

- The decision in 2010 to freeze child benefit for three years will reduce its real value by over 10%, according to official figures.
- In 2011, the Chancellor announced plans to withdraw child benefit from households with a higher rate taxpayer. Although more men are higher rate taxpayers than women, the majority of lone parents who are higher rate taxpayers are women, therefore withdrawing child benefit from higher rate taxpayers will impact on income of female headed households more than of male headed households, though on more men within couple households.
- The argument that removing child benefit from higher rate taxpayers ensures that the better-off pay a fair contribution to reducing the deficit is mistaken. There is no reason to expect such a contribution should be made just from those with children. A much fairer and more effective way of raising revenue from higher rate taxpayers would be to raise the higher rate of income tax. If the Chancellor thinks higher rate taxpayers with children can afford to pay more, surely those without children can too?

How should the Chancellor address WBG's concerns in the March 2012 Budget?

- Lift the three-year freeze of child benefit and restore its real value;

- Increase the child element of child tax credit above inflation, as originally planned, restore the child care subsidy to 80% of child care costs, and unfreeze couple and lone parent elements of working tax credit;

- Keep child benefit universal.

Taxation

Women gain very little from tax giveaways

Personal income tax

The planned rise in the personal allowance for income tax to £8,105 in 2012/13 lifts 260,000 people out of taxation, but does nothing to boost the incomes of the nearly 4 million people who earn too little to pay tax, 73% of whom are women.

VAT

A proposal temporarily to cut the VAT rate as a short-term stimulus to the economy appears attractive. VAT is a regressive tax and so its reduction would help poorer families. However the WBG does not favour such a reduction because a more effective stimulus would be to target any increase in disposable income on the poorest families through the benefit and tax credit system. Not only are these families most in need, they are also likely to spend the largest proportion of any increase in their disposable income, making this a more effective stimulus measure.

Tax reliefs

WBG would support reducing tax reliefs and abolishing all forms of higher rate tax relief, except for genuine and limited work expenses. Paying tax is a contribution to society from which very few forms of income should be exempt.

Reducing such tax relief would not only be fairer but would raise considerable revenue. In 2010-11 tax relief on pensions cost the treasury £32.9bn in lost revenue. HMRC estimates that of the relief going to individuals 43% goes to higher-rate taxpayers and 18% goes to additional-rate taxpayers earning more than £150,000[7]. The Chief Secretary to the Treasury claims that restricting all relief to the 20% basic rate would raise £7 billion per year.[8]

National Insurance

Another way to raise revenue would be to abolish the Upper Earnings Limit on NI which renders our taxation system regressive. Many European countries have far more progressive tax systems. It has been estimated that raising the NI limit could raise £9bn, which could be used to roll back the most detrimental cuts to childcare subsidies and social welfare for women.

[7] http://www.bbc.co.uk/news/business-17208760
[8] http://www.guardian.co.uk/politics/2012/feb/11/alexander-pension-tax-relief-liberal-democrat-budget

Tax avoidance

WBG supports all efforts to reduce tax avoidance and to reform tax rules to reduce the loopholes whereby high income and wealthy individuals may legally avoid paying tax, whether by paying their income into companies or by treating it as capital gains.

Arguments that the 50% income tax rate or taxes on the wealthy do not raise much tax depend on there being ways in which such taxes can be avoided or reduced. Rather than using such arguments to cut or not implement such taxes, the government should ensure that such loopholes are either closed or rendered unprofitable.

It is not only tax avoidance by individuals that must be stopped. It is estimated that £16bn could be recovered if all multi-national corporations were required to file accounts in the UK thereby revealing their use of tax havens, the profits they earn and what tax they pay in each country of operation. This should also include making banks give details of all accounts for companies operating in the UK allowing for greater scrutiny by HMRC.

Financial Transactions Tax

Current estimates are that the so-called 'Robin Hood Tax' would raise £20bn from a 0.01% tax on speculative financial transactions. This is a substantial amount of money capable of funding all of the extra spending that the WBG calls for in this briefing, while leaving substantial funds over for socially desirable goals, such as tackling child poverty. The WBG has previously argued for a proportion of this additional revenue to be hypothecated as a "Maid Marion Tax", directed at funding services which directly benefit women's economic independence such as social care, childcare and services preventing and addressing violence against women. We would also argue that a substantial portion of the revenue be directed at fighting poverty in developing countries and assisting them in preventing or mitigating the effects of climate change.

What tax measures does the WBG want to see in the March 2012 Budget?

The Women's Budget Group believes income and wealth taxes are the fairest ways to collect revenue. The WBG is not in favour of:

- Any above inflation increase in the personal income tax threshold;
- A reduction in the 50% rate of income tax applied to the highest earners;
- A temporary cut in the rate of VAT.

The WBG would like to see:

- Tax loopholes tightened to provide billion-pound savings that can be used to sustain social welfare and childcare provision essential for the poorest, and low to middle-income families;

- A financial transactions tax, part of which would be a Maid Marion Tax hypothecated to finance services that directly benefit women's economic independence, such as subsidised social and child care.

Pensions

The government is proposing to introduce an individual Universal State Pension of £140 a week, possibly as early as 2015, but only for new pensioners. This would be only a slight improvement on the current system, which provides a basic pension of only £96 for a single person, means-tested pension credits to bring their income to £132.60 a week. It is set at too low a level, about £30 a week less than the accepted international definition of an income that keeps people out of poverty (60% of national average income). This will matter more to women, who are less likely to have any private pension wealth than men. In their 50s, men on average have approximately £50,000 of accumulated private pension wealth, while women have only one sixth of that amount.

In addition, women, who have personal incomes in retirement of only 57% of men's, are more reliant on benefits available to pensioners, so it is particularly important to them that the value of the benefits available to pensioners are maintained.

The Women's Budget Group recommends that:

- The Universal Pension is set at a higher level than currently proposed and be paid to all pensioners regardless of their contribution history;
- Winter Fuel Allowance should be increased to reflect rises in fuel prices and consolidated in the basic pension (thus taxable and indexed through the triple lock).

Public Services

The Women's Budget Group has shown how public service cuts will have a disproportionate impact on women, particularly lone parents and single women pensioners.[9] In the run up to the March 2012 Budget we are most concerned about the impact of the retrenchment of childcare and social care. Cuts to these particular services are important for gender equality because of the predominance of women in caring roles.

Childcare

After allowing for housing costs almost 1 in 3 children (3.8m) in England grow up in poverty (Child Poverty Action Group using DWP data 2010). This percentage is amongst the highest in industrialised countries. Child poverty is less likely in households with two earners or when single earners have a living wage. Therefore higher female employment means lower

[9]See WBG (2010) The Impact on Women of the Coalition Spending Review 2010 www.wbg.org.uk/RRB_Reports_4_1653541019.pdf

child poverty. Moreover, even short periods of time outside of the labour force impact negatively on a woman's lifetime earnings and increase the probability of poverty in old age.

The Autumn Financial Statement 2011 announced 260,000 free nursery places for two-year-olds from the most deprived homes. WBG welcomes this; however, this measure alone is not enough. Other policies could undermine its impact, such as the closure of Sure Start centres (124 since the government first came into office, according to the Day Care Trust) because of cuts in local authority expenditure.

Social Care

There is widespread agreement that the existing system of social care provision is failing to provide for the increasing number of people who need care. A new system of provision and funding is needed urgently.

The Dilnot Commission review of the funding for care and support services is a good starting point and the government should not delay any longer in providing its response. Such a system must be well-funded. Even in times of austerity, short-term pressures cannot be allowed to distort a care system that will have long-term negative effects if left under-funded.

The WBG welcomes the idea of a cap on personal contributions to social care of £35K as proposed by the Dilnot Commission, but are concerned that this absolute cap will disproportionately benefit higher income people. It is crucial that any new system is fair to those needing care, care workers and those who provide unpaid care in the home. All groups feature women disproportionally.

To address social and child care concerns the Chancellor should:

- Make a financial commitment to adequately fund a new system of social care;
- Ring fence increases in funding for local authorities to spend on social care. Sustain local authority budgets to prevent further erosion of social care services;
- Confirm the provision of 260,000 free nursery places for 2 year olds for children from the most deprived homes;
- Provide ring-fenced funds for local authorities to reopen and expand Sure Start centres;
- Allow families in receipt of working tax credit to claim 80% of childcare costs (reversing the earlier reduction to 70%) and allow the maximum allowable costs to rise in line with actual childcare costs.

International Development

WBG firmly supports the continuation of international development funding and urges the Government to resist any measures to reduce current levels. While the government says it remains committed to the target of providing 0.7% of GDP as development assistance, it has taken the fall in GDP as an opportunity to cut the budget of the Department for International Development. Moreover, it has begun to include debt relief as part of development assistance even though this does not provide any new resources.

Specifically, WBG urges the UK government to

- halt the decrease in funding to the Department for International Development, down by £380m in 2012-13 and £790m 2013-15;
- stop loosening the 0.7% target by including within it debt relief on money that was never expected to be repaid;
- halt the upsurge in the use of private sector for-profit contractors and the step backwards to tied-aid.

WBG shares the concerns of other women's organisations that there has been narrowing of the development agenda to focus on the economic growth and support for the private sector. This risks the abandonment of a broader agenda that puts gender equality at the heart of the UK development assistance.

Wage Employment

Women heavily rely on the public sector employment

Women account for two thirds of employment in the public sector, therefore will face the brunt of the anticipated 710,000 job losses (Office for Budget Responsibility). In Scotland, for example, in the last quarter of 2011, women lost jobs at a rate of 370 a day. [10] In early 2012, 1.12 million women are unemployed in the UK; women's unemployment is at the highest level in 25 years; and women account for two thirds of the latest increases (ONS 2012).

Seventy-three per cent of those affected by the public sector pay freeze are women. [11] Their real incomes are set to fall even after the end of the freeze, as a result of the government's decision last year to follow the freeze with a 1% cap on salary increases to last until 2015.

[10] http://www.tuc.org.uk/economy/tuc-19982-f0.cfm, 2 September 2011

[11] See WBG (2010) The Impact on Women of the Coalition Spending Review 2010 www.wbg.org.uk/RRB_Reports_4_1653541019.pdf , p. 13

How should Mr Osborne tackle women's unemployment in the 2012 Budget?

Current austerity policies need to be modified in order to retain existing jobs, increase job creation, and stimulate economic recovery. Reducing rights at work and increasing tax breaks are not going to bring this about. Investment for recovery is needed.

Women's Self Employment and Enterprise

Women's business start-ups tend to be smaller scale micro-business to which banks are unwilling to lend. Finance for social enterprise is limited to non-bank lending such as the Community Development Finance Institution. This has led to a funding gap for women starting up businesses.

The government's current provision of 26 weeks total support, through the New Enterprise Allowance, for women who want to move from benefits into self-employment is insufficient. This is compounded by the withdrawal of working tax credits in the early stages of the first signs of profit, making the adjustment difficult to manage.

In order to create better conditions for female entrepreneurs the WBG recommends:

- A doubling of the periods for which the New Enterprise Allowance is payable to 6 months pre-start-up and 6 months subsequently. Passported benefits should continue to be available throughout this period.
- An extended programme of training, business support and mentoring for women moving off benefits to develop the skills, networks and confidence to launch a business.
- Direction to the banks to make low-cost, small-scale loans to small businesses.

But all of this will not help much if there is no market for women to sell their products and services. It needs to be complemented by investment for recovery.

Investment for Recovery: Plan 'F'

UK government policies have so far not produced a net increase in jobs or a recovery in production. Job losses in the public sector far outweigh job creation in the private sector. The Independent Office for Budget Responsibility (OBR) has forecast that unemployment will rise to 2.8 million and living standards will continue to fall to at least 2013.

The £5bn for infrastructural investment announced in the Autumn Financial Statement amounted to less than 0.1% of GDP per annum, and will be paid for by reduced spending, and capping public sector pay and freezing the lone parent and child elements of the working tax credit, at a time when inflation is more than 5% a year.

Therefore WBG is calling for a 'Plan F', a strategic plan for investment in recovery that works for women and for all disadvantaged groups. This should include public investment in social as well as physical infrastructure. For too long investment has been gender biased, seen as concerned only with physical infrastructure, creating jobs which tend to be mainly taken by men. But human capital also requires investment and produces jobs in occupations where women pre-dominate. The government should be stimulating the economy by investing more in education, health and child and social care services, as well as in transport and other physical infrastructure.

Tax cuts are often talked about as the best way to provide a stimulus to the economy. One argument is that they are easier to implement rapidly than increases in expenditure. But at a time when cuts in services are taking place, increases in spending can easily be implemented by reversing some or all of those cuts. Further increases in benefits are also easy to implement rapidly. Both are likely to result in more increased spending than tax cuts, thus having bigger multiplier effects, creating demand and stimulating private investment. WBG would therefore urge that in the forthcoming Budget, the Chancellor:

- Recognizes that Investment should include investment in people – human capital – through education, skills development and training.
- Makes proposals for investment in employment, skills and training that are structured to open opportunities for women and men to move into non-traditional areas.
- Ensures that investment is not funded by making cuts in services and benefits that are vital for gender equality.
- Reverses cuts to spending on social and childcare that impede women's employment.

- Reverses cuts to the real value of tax credits and benefits to put more money in the hands of low-income people, who will spend and stimulate job creation.

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