THE INCOME CRISIS – a gendered analysis

Summary

The cost-of-living crisis comes after a decade of wage stagnation and the erosion of social security benefits. This crisis is therefore not only one of rising prices but one of eroding incomes.

This is the first of a series of briefings on the gendered dimension of the cost-of-living crisis.

Wages

Labour shortages and a tight labour market led many to speculate that wages would grow significantly as workers' bargaining power increased. But record-high vacancies haven't led to record-high pay increases.

Workers are facing a pay cut in real terms of 1.9% as wages are not increasing as fast as prices. Public sector workers are seeing an even bigger deterioration of their salaries, with an estimated 4.2% pay *cut* after inflation is accounted for. Workers in some key sectors such as education, who are mostly women, are seeing the biggest falls in pay.

Bonuses on the other hand are at an all-time high, but these are concentrated in a few industries and they disproportionately benefit men – the gender bonus gap in 2021 was 40%.

Strong unions increase workers' power to negotiate better pay and working conditions. At a time of eroding incomes, they are especially needed.

Social security

The erosion of the social security system during the last decade is a key contributor to the current cost of living crisis.

In April, benefits were increased 3.1%, just a third of price rises in the same month. After the cut of £20/week in Universal Credit, which led to a surge in families using food banks in the autumn, people on benefits are experiencing a sharp reduction in income in real terms. This is after two decades in which the income of poorest families grew by just 7%.

Women have felt the disproportionate impact of this erosion of benefits as they are more likely to rely on social security due to their lower wages and wealth, and are more likely to have a disability and caring responsibilities.

The one-off payments announced in May are very welcome and will put money swiftly in the pockets of those who are most struggling. But some gaps remain, particularly large families who are facing much higher extra costs in things like energy, food and clothing but receiving the same support as single people.

Debt and food bank use

The pandemic has eroded the financial resilience of many families to cope with rising costs of living. Women are the majority (61%) of those having to resort to debt to buy essentials, reflecting their lower incomes and budget responsibilities in poorer families.

As social security is eroded, destitution and food bank use continue to rise. In the year to March 2022 food bank use increased 81% compared to 2016. The Trussell Trust reports an "acceleration of

need" in the second half of 2021/22, which coincides with the cut to Universal Credit and the rise in the cost of food and energy.

As the shock absorbers of poverty, women also bear the brunt of the physical and mental toll of debt and of struggling to make ends meet.

What we want to see

- *We welcome the commitment to raise benefits next year in line with September's CPI (an inflation measure).*
- *Increase child benefit to £50/week to support (large) families with the increasing child costs.*
- *Remove the benefit cap and the two-child limit, as they are unfair and punitive measures for large families.*
- *Support workers' access to unions and establish collective bargaining across different sectors for decent pay increases and working conditions.*
- *Increase public sector salaries in line with inflation, not least in recognition of the essential work of many of these key workers in the last two years.*

What is happening to incomes?

The cost-of-living crisis comes after a decade of wage stagnation and the erosion of social security benefits. To tackle this crisis we need to revert the erosion of incomes.

Earnings & employment

With record job vacancies at the moment, there was speculation, not least by the Prime Minister himself,[1] that this would increase workers' bargaining power and lead to a 'wage-price spiral'[2]. However, pay growth figures show this is not happening.

Regular pay in April 2022 grew 4.1% (according to latest data available). When accounting for inflation, this represents an average *pay cut* for workers of 1.9%.[3] This follows a decade where real wages (pay after accounting for prices) have been stagnant.

The pay situation is markedly bleaker in the public sector, where we are seeing an increase of only 1.8%,[4] and therefore a pay cut of 4.2% in real terms. Given the overrepresentation of women and people from ethnic-minority backgrounds in public sector employment,[5] this risks further widening the gender and ethnicity pay gaps.

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[1] J Elgot and H Stewart (9 Jun 2022) Boris Johnson warns of 'wage-price spiral' if workers demand higher pay. The Guardian
[2] D Strauss (1 Feb 2022) Can the UK avoid a wage-price spiral?. Financial Times
[3] ONS (2022) Average weekly earnings time series (Table EARN01)
[4] Ibid.
[5] H Wakefield (2019) Triple Whammy: the impact of local government cuts on women. Women's Budget Group

There is an ongoing public sector pay increase negotiation where the government is determined to prevent pay increases in line with inflation.[6] This is a disrespect for the arduous work of public sector workers during the last two years of the Covid-19 pandemic. It will also have a knock-on effect on public services if it proves difficult to recruit and retain staff.[7]

This is after a decade of pay cuts and freezes from austerity measures. Despite the vacancies and high demand for labour in the sector, this is not being reflected in higher wages. Education and public administration are two of the industries that have seen the highest falls in pay.[8] These were two critical sectors during the pandemic and will be critical in the recovery but whose key workers, most of which women, are not being valued; in education alone, 70% of workers are women.[9]

Bonuses are pushing total pay up, but they are very unevenly spread across industries. They signal an attempt by employers to reward workers without consolidating pay rises.[10] Bonuses are also gendered; women are much less likely to receive them. The current gender bonus gap is 41%.[11] This is both because women are less likely to work in industries that award the largest bonuses (e.g. finance or construction) and to work in senior positions (bonuses are often a proportion of a worker's salary).[12]

Evidence from the TUC shows workers getting pay rises above inflation in workplaces with a strong union presence,[13] signalling the importance of union strength for decent salaries.

Social security

The erosion of social security during the last decade through austerity measures is a key contributor to the current cost of living crisis.

In the last two decades, income for the poorest families has increased just 7%, compared to 15% for middle-income families[14] so for many families it has been increasingly difficult to afford essentials even before the current crisis took hold. Unemployment benefits specifically are at their lowest level since 1990-91 and half the value of what they were in the early 1970s,[15] meaning that people who lose their jobs are unable to count on benefits to cushion them financially during a period of joblessness.

In April, benefits were increased 3.1%, which is far below the inflation rate of 9% in the same month[16] and lower than the estimated 10% later in the 2022[17]. This means that people on benefits are experiencing a reduction in income in real terms.

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[6] J Pickard and D Strauss (9 Jun 2022) Unison warns of public-sector strikes unless pay deals match cost of living. Financial Times
[7] This will be the focus of an upcoming briefing on this series.
[8] G Tily (Feb 2022) Jobs and recovery monitor - wage squeeze continues. TUC
[9] B Francis-Devine et al (2022) Women and the economy. House of Commons Library
[10] TUC (2022) Jobs and recovery monitor - bonuses
[11] ONS (2021) Earnings and hours worked, all employees: ASHE Table 1.8a Annual Pay – Incentive 2021
[12] B Francis-Devine et al (2022) Women and the economy. House of Commons Library
[13] G Tily (Feb 2022) Jobs and recovery monitor - wage squeeze continues. TUC
[14] M Brewer et al (2022) Social Insecurity Assessing trends in social security to prepare for the decade of change ahead. Resolution Foundation
[15] Ibid.
[16] ONS (2022) Consumer price inflation, UK: April 2022
[17] Bank of England (2022) How high will inflation go?

Women have felt the disproportionate impact of this erosion of benefits as they are more likely to rely on social security because their caring responsibilities mean they earn and own less, and are more likely to have a disability.[18]

Social security benefits are now insufficient to keep many people from destitution. According to research by the Trussell Trust, more than half of people on Universal Credit are going without at least one essential (food, warmth, or clothing),[19] and the vast majority of people who are using food banks are on benefits, which attests to the insufficiency of the current social security system.[20]

As the Resolution Foundation points out in their recent social security assessment,

it is increasingly clear that our current approach to working-age social security system is not going to deliver reductions in poverty and inequality.[21]

The current system is also proving incapable of shielding people from the worst effects of the cost of living crisis, just like it was incapable of protecting families against the impact of the Covid-19 pandemic. The creation of the various coronavirus income support schemes and the introduction of emergency benefit changes was a tacit recognition by the government of the standard inadequacy of social security. The announcement by the Chancellor in May of additional one-off payments to people on benefits, while a very welcome move that will put money in the pockets of those who are most struggling, is another such acknowledgement that the current system is inadequate.

Debt

The pandemic has eroded the financial resilience of many families to cope with rising costs of living. What is more, the pandemic has widened the savings gap, with better-off families having been able to save on commuting costs, outings and holidays, while lower-income people have had to ran down savings and get into debt due to higher likelihood of job loss and income insecurity.[22]

The rise in personal and household debt is also a consequence of the erosion in benefits and severe restrictions such as the benefit cap, the two-child limit, the five-week wait for the first UC payment, and the 'no recourse to public funds' condition for migrants. A survey conducted at the start of 2022 revealed that 40% of people on Universal Credit were in debt following the cut of £20/week to Universal Credit.[23] Quite shockingly, the state is the biggest creditor: half of people using food banks owe money to DWP.[24]

Due to their lower levels of income and wealth and as the ones responsible for budgeting in poorer households, women are more likely to struggle with debt and bills. Before Covid-19 hit, 61% of those getting into debt to purchase essentials were women.[25]

[18] M Howard et al (2022) Spring Budget 2022: Social security and gender. Women's Budget Group
[19] Trussell Trust (2022) The true cost of living The action needed to stem the rising tide of destitution: March 2022
[20] Trussell Trust (2021) The State of Hunger: Building the evidence on poverty, destitution and food insecurity in the UK
[21] M Brewer et al (2022) Social Insecurity Assessing trends in social security to prepare for the decade of change ahead. Resolution Foundation
[22] B Francis-Devine et al (2022) Women and the economy. House of Commons Library
[23] Trussell Trust (2022) The true cost of living The action needed to stem the rising tide of destitution: March 2022
[24] Trussell Trust (2021) The State of Hunger: Building the evidence on poverty, destitution and food insecurity in the UK
[25] J Norman (2021) Spring Budget 2021: Household debt, gender and Covid-19. Women's Budget Group

Debt is a problem that affects young women disproportionately and which the pandemic labour market restrictions exacerbated, with 29% saying they are in debt 'all the time' (compared to 16% in 2020).[26]

As the shock absorbers of poverty, women bear the brunt of the physical and mental toll of debt and of struggling to make ends meet.

Food bank use

While social security is eroded, destitution and food bank use continue to rise. In the year up to March 2022 food bank use increased 81% compared to the same period in 2016.[27] The Trussell Trust reports an "acceleration of need"[28] in the second half of the financial year 2021/22, which coincides with the cut to Universal Credit and the rise in costs of food and energy.

This need is disproportionately experienced by disabled people, who constitute 62% of working-age adults referred to Trussell Trust food banks (three times the rate of disabled people in the population. Single parents, the vast majority of whom are women, are also disproportionately facing food scarcity and they are 18% of those accessing food banks (twice their rate in the population).[29]

The explosion in food bank use in the last decade is a direct consequence of an increasingly threadbare benefit system. Social security design is identified by the Trussell Trust as one of the biggest drivers of food bank use. This specifically includes the five-week wait for the first UC payment and the 'bedroom tax'. Inadequate benefit payment levels are also a cause of food bank use – the Trussell Trust calculated that for every extra £1 spent on UC and legacy benefits, there were 118 fewer food parcels handed out in a local authority.[30]

What we want to see done

The one-off support announced by the Chancellor at the end of May was very welcome – not least because it reaches everyone on benefits, including legacy and disability benefits, as well as Universal Credit. The extra support for disabled people is an important recognition that they can face extra fuel costs related to health equipment. It is targeted support that will reach the pockets of those who are facing the brunt of this crisis. The one-off nature of this support however means that there is a cut-off date and people having to make a claim after the announcement will not receive the full support. Further support should be designed within the existing social security system.

- *We welcome the commitment to raise benefits next year in line with September's CPI (an inflation measure).*

Some gaps in support remain, particularly for larger families. They will receive the same level of support as a single person, whereas their costs with food, clothing, and energy will be substantially higher. Large families are expected to see their energy bills rise by over £500 more than those

[26] Young Women's Trust (2022) Just Getting By: Young Women's Trust Annual Survey 2022
[27] Trussell Trust (2022) End of Year Stats
[28] Ibid.
[29] Trussell Trust (2021) The State of Hunger: Building the evidence on poverty, destitution and food insecurity in the UK
[30] Ibid.

without children but will receive the same support.[31] The easiest and most targeted way to support large families is through increasing child benefit:

- *Increase child benefit to £50/week to support families with the increasing child costs.*

The creation of one-off payments delivered to families on benefits, but which circumvent the benefit cap is welcome but a tacit admission by the government that the benefit cap is a punitive measure:

- *Remove the benefit cap and the two-child limit, as they are unfair and punitive measures for large families.*

To prevent businesses, particularly large corporations, from passing on inflationary costs onto employees through cutting wages, we need stronger unions.

- *Support workers' access to unions and establish collective bargaining across different sectors for decent pay increases and working conditions.*

Public sector workers, the majority of whom are women, have faced a decade of pay cuts and freezes. Their contribution to keep the country running and the extraordinary work they delivered during the Covid-19 pandemic should be rewarded at a minimum with a pay increase in line with rising prices. This is also crucial to ensure staff retention and wellbeing and therefore high-quality public services.

- *Increase public sector salaries in line with inflation, not least in recognition of the essential work of many of these key workers in the last two years.*

This is the first of a series of briefings on the gendered dimension of the cost-of-living crisis. Upcoming briefings will look at the impact of rising costs on women, the impact of the crisis on public services, among other related topics.

Income crisis – a gendered analysis
Cost of living scandal – the gendered story series

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[31] T Bell (2022) Top of the Charts: Socialist Sunak, gaping gaps and wonderful wages. Resolution Foundation