Women's Budget Group Response to Emergency Budget – Sept 2022

AN INEQUALITY BUDGET UNFIT FOR A COST-OF-LIVING CRISIS

Summary

The budget presented by the Chancellor is a gamble on growth through tax cuts at the expense of a major increase in borrowing levels. An almost immediate plummeting of the pound and rise in interest rates will impact families via mortgage costs and eventual defaults, and higher food and other essentials' prices (including fuel). History shows, and most economists agree, that trickle-down doesn't happen. There is no evidence that making the wealthy wealthier leads to more investment, higher productivity or benefits those less well-off. To improve productivity, reduce inequalities and eliminate poverty, investment needs to happen at the ground level through social infrastructure which supports and enables people, particularly women, into paid employment. It would also drive growth by putting money into the pockets of people who will spend it locally rather than accumulating it. The WBG's plan for improving the economy would instead be to invest in social infrastructure now, which will boost the economy and address structural barriers to economic inactivity.

- **Impact on inequalities of cuts to personal taxes -** The cut in personal taxes will benefit men more, while doing nothing for those struggling the most with the cost of living crisis and leaving a hole of £23bn in the public finances in 2023. The 10% richest households will gain 200 times more than the poorest households, and male workers will gain two times more than female workers: £623 versus £337 per year on average.

- **Cuts to corporation tax -** Cuts to corporation tax are unlikely to lead to investment or sustainable economic growth. This is a move that will benefit men disproportionately as the majority of business owners and shareholders, and risks exacerbating international inequality by leading to an international "race to the bottom" in business taxes. This will result in cuts to public services, especially in developing countries, hurting women disproportionately.

- **Stamp Duty on Land Tax cuts -** The Chancellor's £1.5 billion a year stamp duty holiday is good news for estate agents and existing homeowners looking to move but will push up prices and disproportionately benefit those in the South East. A proportional property tax system, alongside serious investment in social and affordable housing is the radical overhauling the housing market needs.

- **Changes to UC work conditionality -** More stringent work conditionality won't deal with the structural reasons why people - mainly women - cannot work more hours: caring responsibilities and unaffordable childcare and social care, as well as ill-health and disability, compounded by unhelpful employer attitudes. There's no evidence that benefit sanctions work into getting more people into employment, but they do cause significant hardship to the people receiving them.

- **Investment Zones -** Areas with looser regulations and lower taxes are a very poor substitute for a programme of state-led investment in tackling regional inequalities. Empirical evidence shows "Investment Zones" create a fraction of the jobs originally estimated and they tend to be low-paid jobs. The tax revenues lost reduce the money available locally for public services, while low levels of regulation encourage illicit activity, financial crime and human trafficking, which impact particularly on women.

A budget that abandons families in the midst of the cost-of-living crisis

Since July 2021, we have seen soaring prices, with the inflation rate increasing to 40-year record highs. The cost-of-living crisis puts even more pressure on households already struggling after a decade of stagnant incomes and the Covid-19 pandemic. The consequences have been disproportionately negative for women, who generally have lower wages and have to rely more on public services and social security due to caring responsibilities. This is particularly true for disabled women, single mothers and women from certain ethnic minority backgrounds.

The freeze on energy prices announced early in September 2022 will help to avoid a major catastrophe for households, small businesses and public services. But despite this support package, households will still face energy bills twice as high as last year's and a 13% increase in food prices.[1] The energy support announced also does not reassure the citizens of Northern Ireland, who rely heavily on heating oil and are under a completely different regulation than Great Britain.

During the campaign, the Prime Minister promised an emergency budget based on tax cuts to support families through the cost-of-living crisis. However, the Chancellor has increased the incomes of those at the top of the income distribution most, leaving millions of less well-off families deciding whether to heat their homes or put food on the table. At the cost of over £45bn by 2026-2027,[2] this budget will increase income inequalities across the UK, particularly benefiting the most affluent households and men.

Lack of transparency and public scrutiny have surrounded this government's financial decisions. First, the energy price guarantee gives a blank check to energy companies based on a direct negotiation between the government and the energy companies.

Secondly, refusing to provide independent analysis from the OBR only added more uncertainty to the long-term effects of a budget that expands total borrowing by £400bn on top of that projected over the next five years.[3] This uncertainty triggered an immediate devaluation of sterling and an unprecedented emergency intervention by the Bank of England to buy government bonds to stop the widespread default of pension funds.

Finally, this government has refused to bring forward a benefit uprate and to increase amounts allocated to public services to counteract the effects of high inflation. Instead,

---

[1] ONS (2022), Consumer price inflation, UK: August 2022
[2] Resolution Foundation (2022), Blowing the budget.
[3] Resolution Foundation, ibid.

departments are being asked to find "efficiencies savings", an impossible task given high inflation rates and the pandemic backlogs. This signals a worrying new era of austerity that will hurt the poorest and women disproportionately and damage our public services further.

Economic context

The budget presented by the Chancellor is a gamble on growth through tax cuts at the expense of a major increase in borrowing levels. An almost immediate plummeting of the pound and rise in interest rates will impact families via mortgage costs and eventual defaults, higher food and other essentials' prices (including fuel). The WBG's plan for improving the economy would instead be to invest in social infrastructure now, which will boost the economy and address structural barriers to economic inactivity.

The Chancellor announced tax cuts were not good news for the domestic and international markets. After the budget release sterling plummeted, increasing the already high prices of food and other essentials that the UK imports. Interest rates have risen, increasing borrowing costs for the government to historically unprecedented levels, which have already impacted mortgage rates and offers.[4] The Bank of England was forced to make an unprecedented emergency intervention to buy government bonds to stop the widespread default of pension funds.

By saying that having money to spend on public services is one of the main benefits of growth, this government is implying that improvements in public services will have to wait until its plan for growth works and the public finances are more secure. In the meantime, we will have more austerity at a time when services are still reeling from the impact of the pandemic and the austerity imposed before it. Even in the most optimistic scenario, waiting for the public finances to improve after an economic boost as a consequence of tax cuts, means a very long wait.

The attempt to incentivise people to work and earn more through the tax system ignores structural barriers that workers face, especially those in lower-paid jobs. Family responsibilities and the lack of an adequate social and childcare system limit the possibilities of joining the paid labour market for many women. Disabled people also have fewer options to get a paid job, while others can't work because of health conditions. Without a substantial investment in the care economy, it is unlikely that the proposed tax cuts will increase employment and economic growth.

The Chancellor has confirmed that the money that would have been raised by the Health and Social Care Levy will still be ringfenced for health and social care and will now come from general taxation. If this is the case, it is not clear whether other areas of public spending will be cut to allow for this budgetary shift. WBG analysis shows that the amount allocated to social care was not nearly enough, with just £1.7bn allocated to social care until 2026 but no guarantee of funding after that.[5]

The WBG's plan for improving the economy would instead be to invest in social infrastructure now, which will boost the economy by improving people's health, education,

[4] T. Stubbington (2022), UK government borrowing costs suffer historic rise after hit to gilts. Financial Times.
[5] S. Himmelweit (2022) Spring Budget 2022 "Taxation and Gender". Women's Budget Group.

skills and the economy's productivity. This will be a more effective "supply side" measure than trying to coax the rich into changing their behaviour by giving massively unfair handouts to them. There is no guarantee these handouts will be invested in the UK economy, while government spending on much-needed public services does that directly.

Also, the Chancellor's tax cuts, described as allowing people "to keep more of what they earn", even if effective in boosting supply, will have demand-side effects that may operate far faster than any supply-side improvements, fueling inflation and worsening the balance of payments. Financial markets are clearly concerned about this. It is likely, therefore, that the Bank of England will raise interest rates further, reducing any growth the government's plans succeed in generating.

Our plan for improving the economy's health would also boost demand - important if we are going into recession - but would have less inflationary risk because investing in social infrastructure would grow the workforce at the same time by enabling people to reduce the amount of unpaid care they do and combine it with employment. For this reason, investments in the care economy would have the capacity to increase overall employment by 5% and reduce the gender employment gap.[6]

Impact on inequalities of personal tax cuts

The cut in personal taxes will benefit men more, while doing nothing for those struggling the most with the cost of living crisis and leaving a hole of £23bn in the public finances in 2023. The 10% richest households will gain 200 times more than the poorest households, and male workers will gain two times more than female workers: £623 versus £337 per year on average.

This budget was marked by the announcement of several tax cuts following Liz Truss's Conservative leadership contest statements. These included abolishing the 45% additional rate of income tax, cutting one percentage point on the income tax basic rate, cutting National Insurance contributions (NICs) by 1.25 percentage points and cancelling the Health and Social Care Levy that was to replace it from 2023.

These tax cuts will widen income inequality by giving more to those with higher incomes while doing very little to support those who are struggling the most with the current cost of living crisis. They are highly regressive as they benefit wealthy people significantly more than the rest of the population, and the very wealthiest the most of all. For the richest households (top decile) tax cuts will increase their incomes by £2,601 per year on average. But the poorest households will gain just under £13 per year (Figure 1). Low-income families where no one earns more than £12,570 will gain nothing from the £23bn personal tax cut package.

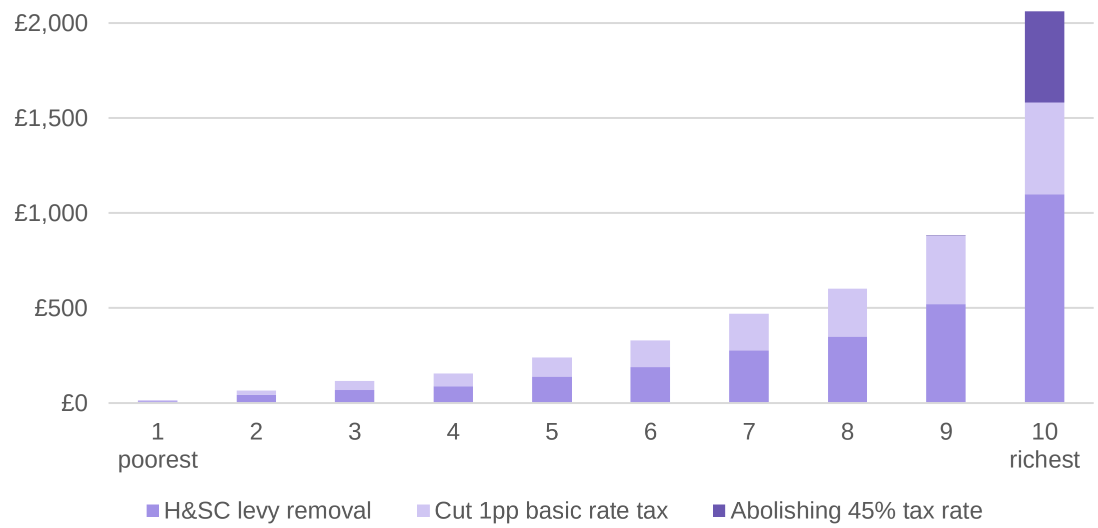
The decision to abolish the additional tax rate of 45% for those earning more than £150,000 is indefensible. It is well documented that tax cuts for the rich do not generate growth or higher employment rates[7], but they do create higher inequality[8].

[6] J. De Henau & S. Himmelweit (2020) A Care-Led Recovery from Coronavirus. Women's Budget Group.
[7] O. Zidar (2019), Tax Cuts for whom? Heterogeneous Effects of Income Tax Changes on Growth and Employment
[8] D. Hope & J. Limberg (2022), The economic consequences of major tax cuts for the rich.

This change alone will increase the income of the 10% richest households by £481 per year[9] while doing nothing for the vast majority of the population, least of all to those most struggling to make ends meet. It will also lead to a hole of over £2bn in the public finances in a single financial year alone.[10]

Figure 1: Impact of Autumn Budget 2022 on annual household incomes, by household decile

The 10% richest households will gain 200 times more than the poorest households (£2,601 compared to £13 on average per year) from the package of personal tax cuts.



Note: WBG's own calculations using UKMOD A3.23+ and Family Resources Survey 2019/20, with 2022 prices. UKMOD is maintained, developed and managed by the Centre for Microsimulation and Policy Analysis (CeMPA) at the University of Essex. The process of extending and updating UKMOD is financially supported by the Nuffield Foundation (2018-2021). The results and their interpretation are the authors' sole responsibility.

These tax cuts will also increase gender inequality, increasing incomes of men to a greater extent than incomes of women. WBG has calculated that 80% of those gaining from the removal of the top rate on income tax will be men.[11] In total, the cuts to personal income tax will increase disposable income of male workers by double the amount of female workers: men will see an increase of £623 per year, versus £337 per year for women.[12] Once you take account of the freezing of the personal tax allowance and the higher tax rate threshold, brought in by the previous Chancellor and not reversed by this one, the only people to gain from government tax measures in this Parliament are those earning over £155,000, less than 20% of whom are women[13].

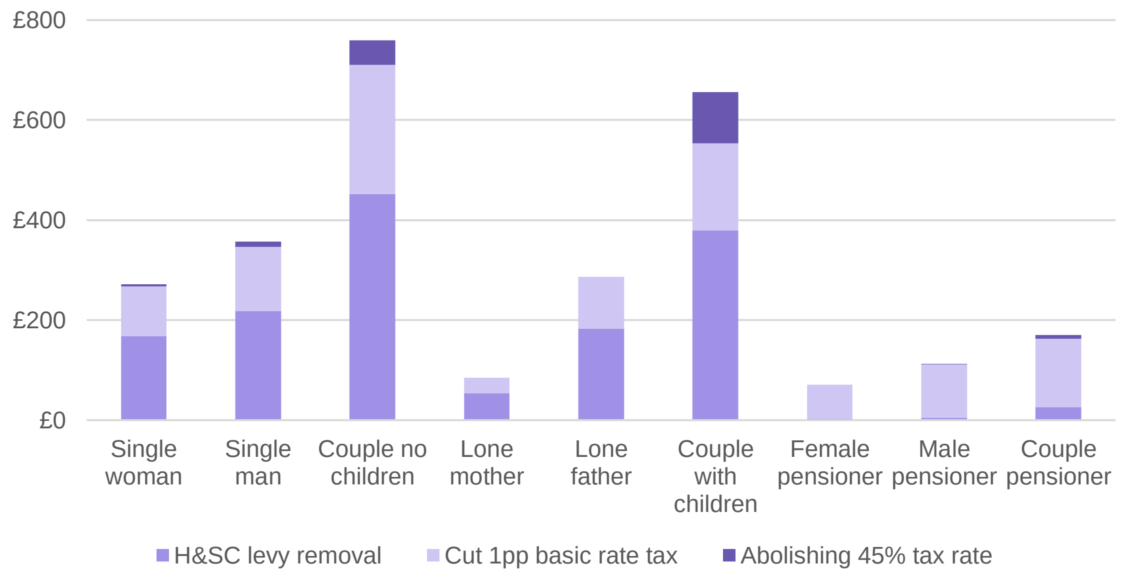
Considering different types of families, these tax cuts will benefit female-headed households the least, with lone mothers and female pensioners gaining the least from these measures (Figure 2).

---

[9] WBG's own calculations using UKMOD 3.23+ and Family Resources Survey 2021
[10] HM Treasury (2022) The Growth Plan 2022
[11] WBG's own calculations using DWP Family Resources Survey 2021
[12] WBG's own calculations using DWP Family Resources Survey 2021, considering 16-64 year-old workers.
[13] Resolution Foundation (2022) Blowing the Budget

Figure 2: Impact of Autumn Budget 2022 on annual household incomes, by household type

Female-headed households benefit less than their male counterparts, with lone mothers and female pensioners benefitting the least of all.



Note: WBG's own calculations using UKMOD A3.23+ and Family Resources Survey 2019/20, with 2022 prices. UKMOD is maintained, developed and managed by the Centre for Microsimulation and Policy Analysis (CeMPA) at the University of Essex. The process of extending and updating UKMOD is financially supported by the Nuffield Foundation (2018-2021). The results and their interpretation are the authors' sole responsibility.

Those earning below the NICs and income tax thresholds - 77% of whom are women[14] - or out of employment will not experience any income increase as a consequence of this measure. Women represent 57% of those that are economically inactive,[15] either because of caring responsibilities, studying, ill-health or disability.

In addition to cuts to income tax on earnings, the government is also cutting taxes on savings, dividends and other forms of unearned income. This is going against the grain of making our tax system more progressive and fairer - at the very least, we should be taxing wealth at the same rate as we tax wages. Cuts to unearned income benefit men more as men hold higher levels of wealth.

Corporation tax

Cuts to corporation tax are unlikely to lead to investment or sustainable economic growth. This is a move that will benefit men disproportionately as the majority of business owners and shareholders, and risks exacerbating international inequality by leading to an international "race to the bottom" in business taxes. This will result in cuts to public services, especially in developing countries, hurting women disproportionately.

[14] WBG (2022) WBG's response to the mini-budget announcement on 23 September 2022, based on WBG's own calculations.
[15] ONS (Sep 2022) Labour market statistics: Table A05: Labour market by age group: People by economic activity and age (seasonally adjusted), Sept 2022

Cancelling the planned corporation tax increase in 2023 is another part of Liz Truss's proposal to promote economic growth. The Chancellor confirmed that corporation tax will remain at 19%, assuming that this measure will boost investment and economic growth in the UK. Men will benefit more from this measure than women, since men are the majority of business owners, top managers and shareholders[16]. However, there is indeed no clear evidence to support a causal relationship between low corporate taxes and economic growth. Corporation tax seems to be a major factor in where firms declare their profits rather than where they employ people.[17]

Lowering tax rates encourages businesses to relocate their headquarters merely to avoid tax, just to capture small gains in the short term, and does not necessarily generate employment. Companies that depend on low corporation tax rates to do business in the UK are less likely to embed themselves in local economies, link to local businesses, or stimulate job-creating investment.[18]

Aggressively reducing corporate taxes is likely to exacerbate international income inequality by promoting an international 'race to the bottom' with respect to taxing business profits, reducing government revenues. This is a particular problem for women in developing countries that rely on what revenue they can raise from taxing corporations to fund public services.

Cancelling the planned corporation tax rise would cost over £17bn a year. Even with a 26% rate, the UK would be among the countries with the lowest corporation tax in the G7.[19] Returning the rate to 26%, as it was in 2011/2012, would raise around £19bn.[20]

Rather than cutting corporation tax, the WBG calls on the Chancellor to set it at average international levels and join enthusiastically in the developing international cooperation on corporation tax levels and on where profits are declared for tax purposes, of which there was no mention in the Budget.

Super-deduction

The 130% super-deduction from taxable profits available to large companies for investment will be extended beyond 2023.[21]

The Super Deduction is not designed to focus investment in any particular way, except that it must be on physical plant and machinery.[22] Therefore, it disproportionately serves men, who are more likely to work in sectors that can benefit from investment in physical plant, and misses the equally urgent need for non-physical investment, for example in training.

There is also no requirement for investment to promote the transition to a lower emissions economy. This is a missed opportunity to focus investment on tackling

[16] 20% of FTSE 250 board members were women in October 2015 (http://bit.ly/1YlOnnE). About 76% of the total CT bill is paid by only 6% of liable companies (73,000) and a third of the bill by 400 companies (http://bit.ly/2lg4cu5).
[17] Grechert & Heimberger (2022), Do corporate tax cuts boost economic growth? European Economic Review.
[18] Women's Budget Group (2016) The Impact on women of the 2016 Budget: Women paying for the Chancellor's tax cuts
[19] S. Adam, R. Joyce, I. Stockton, T. Waters & B. Zaranko (2022), ibid.
[20] S. Himmelweit (2022), ibid; Institute for Fiscal Studies (2018) Green Budget 2018: Options for raising taxes
[21] Tax Watch (2021) The Amazon tax cut
[22] HM Treasury (2021) Budget 2021 – super deduction

climate change and promoting equality. The revenue lost to the Super Deduction would have been better invested in the National Infrastructure Bank, giving it a clear mandate to make socially desirable investments, including investment in social infrastructure.

Stamp Duty Land Tax cuts

The Chancellor's £1.5 billion per year stamp duty holiday is good news for estate agents and existing homeowners looking to move, but will push up prices and disproportionately benefit those in the South East. A proportional property tax system, alongside serious investment in social and affordable housing is the radical overhauling the housing market needs.

The Chancellor announced an increase in Stamp Duty Land Tax (SDLT) thresholds from £125,000 to £250,000 for residential properties, from £300,000 to £450,000 for first-time buyers. Also, the maximum value to request an exemption from the SDLT will increase from £300,000 to £650,000.

Spiralling housing costs are an underlying cause of the cost of living crisis but cutting stamp duty to address the problems in the housing market is misguided. It will have little effect on home ownership or affordability overall. Rather, stamp duty cuts tend to lead to further house price inflation: a study by the Treasury found that the stamp duty holiday introduced by George Osbourne in 2010 fed through to house prices.[23] With a yearly cost of nearly £1.5bn in lost tax revenue,[24] cuts to SDLT will translate into gains to those who already own homes.[25] This will mostly benefit homeowners looking to move in the South East while doing nothing for first-time buyers in poorer areas of the country.[26] The overall impact of the Budget and the financial fallout mean that house prices are now likely to fall, due to higher interest rates and the consequent higher costs of borrowing.

WBG, along with Tax Justice UK and other organisations[27], have advocated for replacing council tax with a proportional property tax, and scrapping SDLT once this has been implemented.

Cutting stamp duty does not address the lack of affordable homes that the country needs. An effective solution would be to invest in building social housing, to provide truly affordable, high quality and secure homes for everyone.

Changes to UC work conditionality

More stringent work conditionality won't deal with the structural reasons why people - mainly women - cannot work more hours: caring responsibilities and unaffordable childcare and social care, as well as ill-health and disability compounded by unhelpful employer attitudes. There's no evidence that benefit sanctions work into getting more people into employment, but they do cause significant hardship to the people receiving them.

[23] HM Treasury (2011) Evaluating the Impact of Stamp Duty Land Tax First Time Buyer's Relief
[24] HM Treasury (2022), The Growth Plan
[25] A. Corlett & L. Gardiner (2018), Home Affairs. Options for reforming property taxation. Resolution Foundation
[26] Resolution Foundation (2022), Blowing the budget.
[27] Tax Justice UK (2019), A manifesto for tax equality.

The Chancellor announced changes in conditionality for those on Universal Credit (UC). People receiving UC who are deemed "fit to work" and who earn less than the equivalent of 15 hours per week at the National Living Wage will have to increase their hours or face losing their benefits.[28]

In addition to these changes in conditionality the government is strengthening the sanctions regime under Universal Credit. Reinforcing benefit sanctions during a cost-of-living crisis is a very missguided approach that will likely lead to poor people losing their income and facing destitution. There is no evidence that benefit sanctions are effective in getting more people into paid work; a 2016 report from the National Audit Office found no evidence that benefit sanctions are an effective way of helping claimants find a job, while "the overall impact of sanctions on wider public spending is unknown."[29]

Plans to cut benefits of low earners if they can't increase their working hours will hit women with caring responsibilities and disabled people. These groups are among those suffering most from the rising cost of living. People – mainly women – who work under 15 hours a week generally do so because of caring responsibilities, ill-health or disability. Also, this change will have a particular impact in Northern Ireland, as Northern Ireland has the biggest share of social security claimants in the UK. Investment in care services, flexible working and a change in employer attitudes rather than punitive policies are needed.

Investment zones

Areas with looser regulations and lower taxes are a very poor substitute for a programme of state-led investment in tackling regional inequalities. Empirical evidence shows "Investment Zones" create a fraction of the jobs originally estimated and they tend to be low-paid jobs. The tax revenues reduce the money available for public services, while low levels of regulation encourage illicit activity, financial crime, and human trafficking.

The plan of the government aims to promote investment and economic growth through lower taxes and loose planning restrictions by implementing "Investment Zones" across the UK. The proposal is unlikely to generate the jobs, investment and economic prosperity promised.[30] Previous studies show that enterprise zones do not generate a substantial number of new jobs. In 2011 the HM Treasury estimated that enterprise zones would create 54,000 new jobs by 2014. However, between 2012 and 2017, 17,500 jobs were created in the 24 enterprise zones, 32% of the expected impact. The jobs created were mainly low paid, showing that this policy could not transform the economic activity of the selected regions.[31] Furthermore, the lack of a national system of regulation of trade creates a risk of criminality and illicit activities in freeports,[32] which might lead to human trafficking,[33] which impact particularly on women.

---

[28] HM Treasury (2022) The Growth Plan 2022
[29] National Audit Office (2016) Benefit sanctions
[30] HM Treasury & HM Government (2020), Freeports prospectus
[31] P. Swinney (2019) In the zone? Have enterprise zones delivered the jobs they promised. Centre for Cities
[32] RUSI and Centre for Financial Crime and Security Studies (2020), Crime in Freeports: International experience and lessons for the UK
[33] Europol & EUIPO (2017), 2017 Situation Report on Counterfeiting and Piracy in the European Union.

Restrictions on industrial action

The government plans to limit industrial action by implementing "Minimum Service Levels" to ensure transport services. At a time when incomes are in crisis, limiting strike action to defend pay and conditions can leave workers in untenable positions and will only serve to hurt working people.

Conclusion

In the middle of a cost-of-living crisis, one could have expected an "emergency budget" to help those families struggling to make ends meet. The consequences of this crisis have been significantly negative for women, who generally have lower wages and rely more on public services. Although the freeze of energy prices will make a difference for households, small businesses and public services, energy bills will be twice as high as last year, while food prices are increasing monthly.

The response from this government does very little to support those who most need it. Instead, the Chancellor presented an extensive tax cuts plan that will benefit richer households and men to a greater extent, exacerbating income and gender inequality. The plan is based on the expectation that economic growth will follow tax cuts, ignoring the lack of evidence to support such a strategy. The immediate effect of this budget was the plummeting of the pound and rise in interest rates, increasing mortgage costs and putting pressure on prices of food and other essentials (including fuel).

The WBG's plan for improving the economy would instead be to invest in social infrastructure now, which will boost the economy by improving people's health, education, skills and raising productivity.

Authors and contact
Ignacia Pinto
Sara Reis

With thanks to Sue Himmelweit, Jackie Longworth, Jonquil Lowe, Becky Tunstall, Alex Brennon and other members of WBG's Policy Advisory Group for their contributions.

UK Women's Budget Group
sara.reis@wbg.org.uk
September 2022