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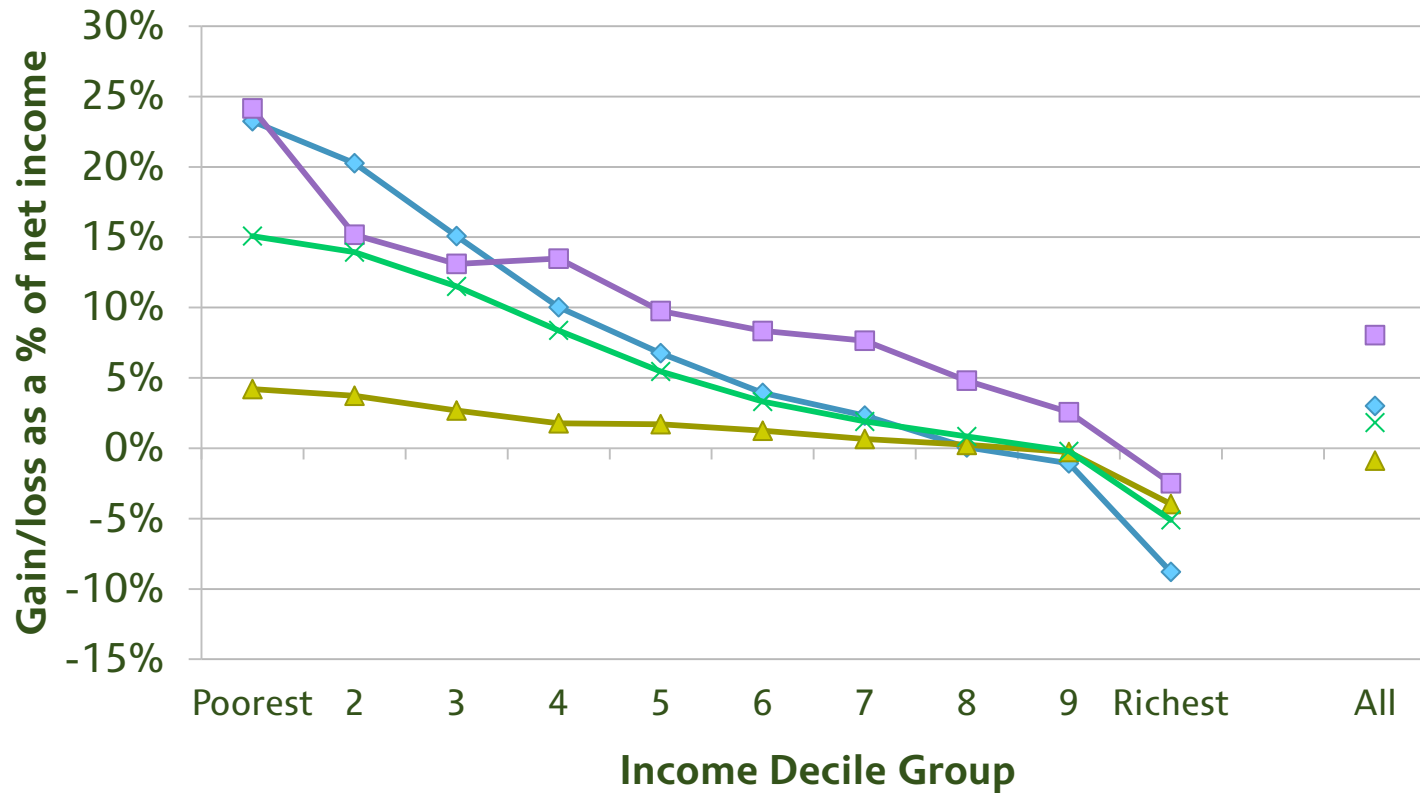
## The impact of austerity measures on household incomes and poverty

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# Introduction

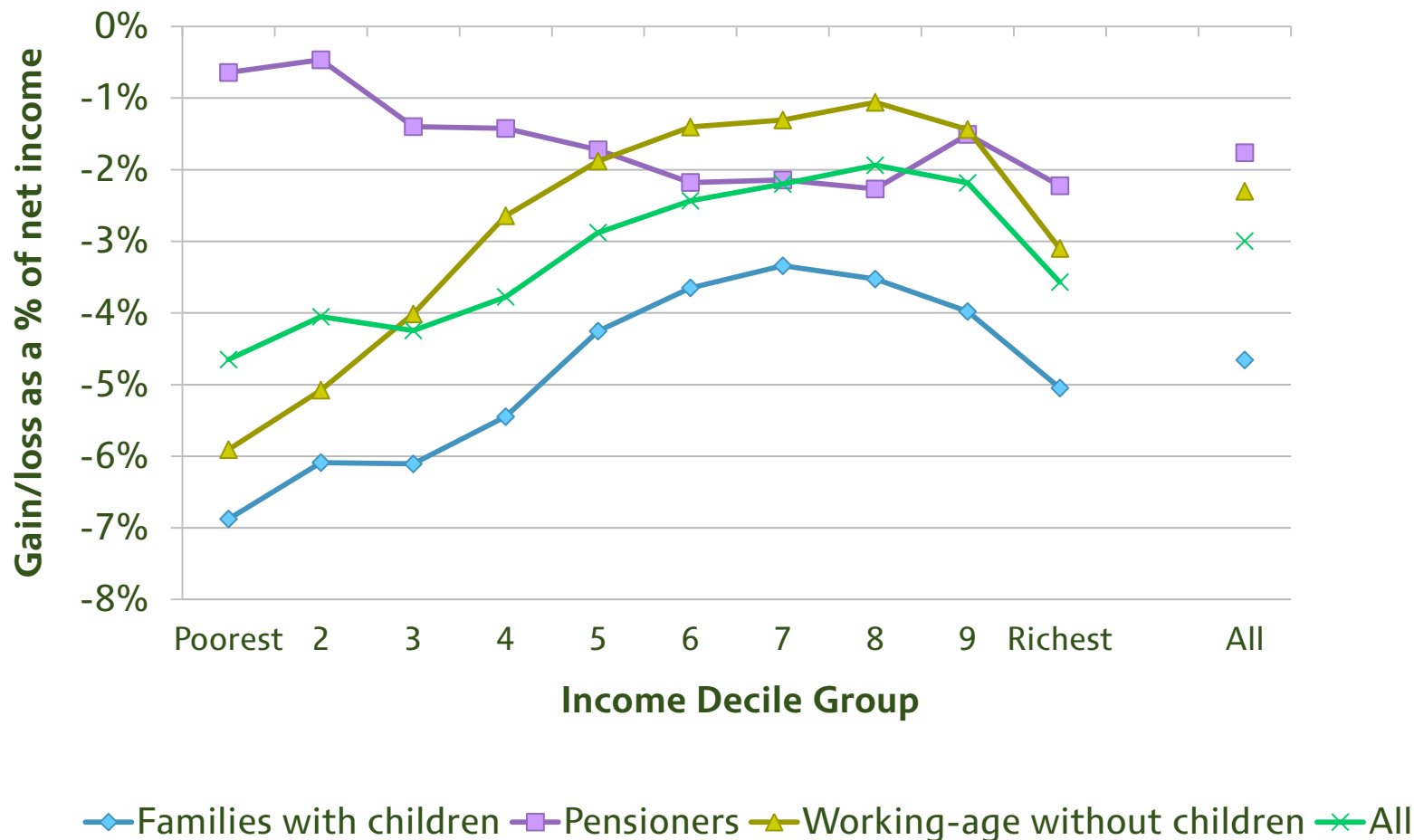
- Government introducing £123bn fiscal tightening by 2016–17 to eliminate structural budget deficit
  - Around 80% through spending cuts and 20% from tax rises
  - £18bn of savings coming from reduced welfare payments
  - Key changes are shift to CPI indexation for most benefits, cuts to LHA, more aggressive means-testing of tax credits, freezing child benefit and Working Tax Credit, new disability test for DLA/PIP
- This presentation shows the distributional impact of tax and benefit changes to be introduced in the current spending review period (to April 2014)
- Reductions to departmental spending make up the majority of fiscal tightening, but are not accounted for in this analysis
  - These also have important distributional impacts, but difficult to assign to particular households

# Background: low-income families with children and pensioners gained from Labour's giveaways



—◆— Families with children —■— Pensioners —▲— Working-age without children —×— All

# Distributional impact of tax and benefit changes to be introduced between 2010–11 and 2014–15



# Who loses out the most from austerity measures?

- Low-income families with children lose the most from tax and benefit changes being introduced between 2010 and 2014
  - Offsets at least some of Labour's giveaways to this group between 1997 and 2001
- Pensioners largely protected from welfare cuts
  - Triple lock for Basic State Pension
  - Pension Credit still going up in line with earnings
  - Contrasts with shift to CPI indexation for benefits going to those of working age
  - Caveat: this just looks at fiscal policy. Low interest rates hurt pensioners but benefit those with mortgages
- Poor working-age people without children also lose out from welfare cuts, but those in upper-middle of income distribution least affected

# More detailed results

- Groups that fare particularly badly are:
  - Large families (affected by benefit cap)
  - Families with young children (tend to be poorer, lose baby element of Child Tax Credit)
  - Families in private rented accommodation (affected by cuts to Local Housing Allowance)
  - This is particularly true in London as many of the cuts to LHA affect those with high rental costs

# Average loss as a percentage of income by UK income quintile, reforms to 2014–15



# Universal Credit will, in the long run, offset some of these effects

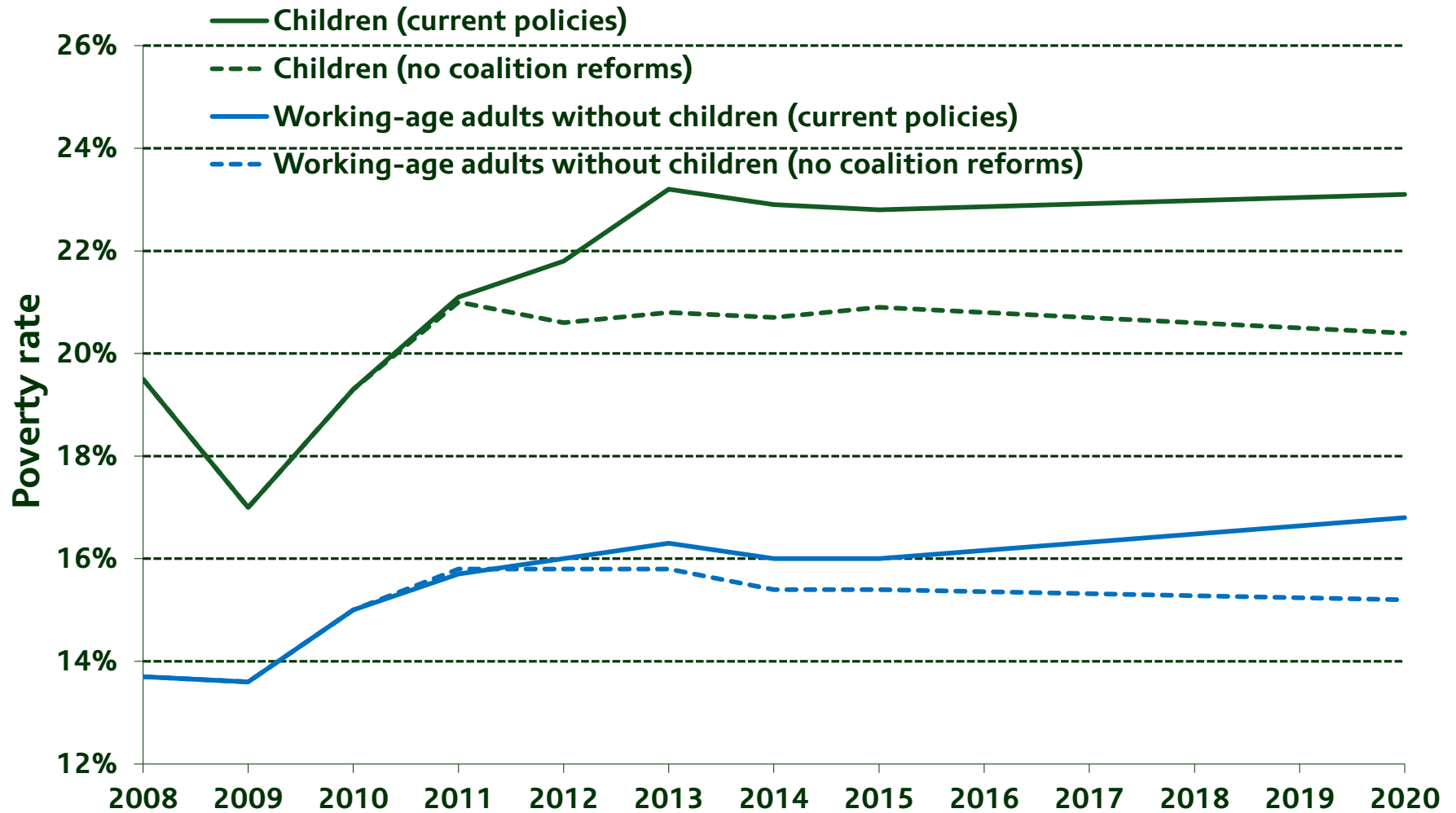




# Impact on income poverty rates

- Reforms also have an impact on income poverty rates
  - Use measures in Child Poverty Act (2010): relative and absolute low income measures
- Show results for children and working-age adults without children
  - Methodology not robust for those above State Pension Age
- Expect absolute measure to increase between 2010–11 and 2013–14
  - Unsurprising: large fall in incomes during recession and afterwards because of austerity measures
  - Forecast increase of 500,000 children and 1 million working-age adults between 2010–11 and 2015–16
  - Impact of coalition's tax and benefit changes is to increase poverty using absolute measure by 200,000 children and 300,000 working-age adults

# Absolute low income measure

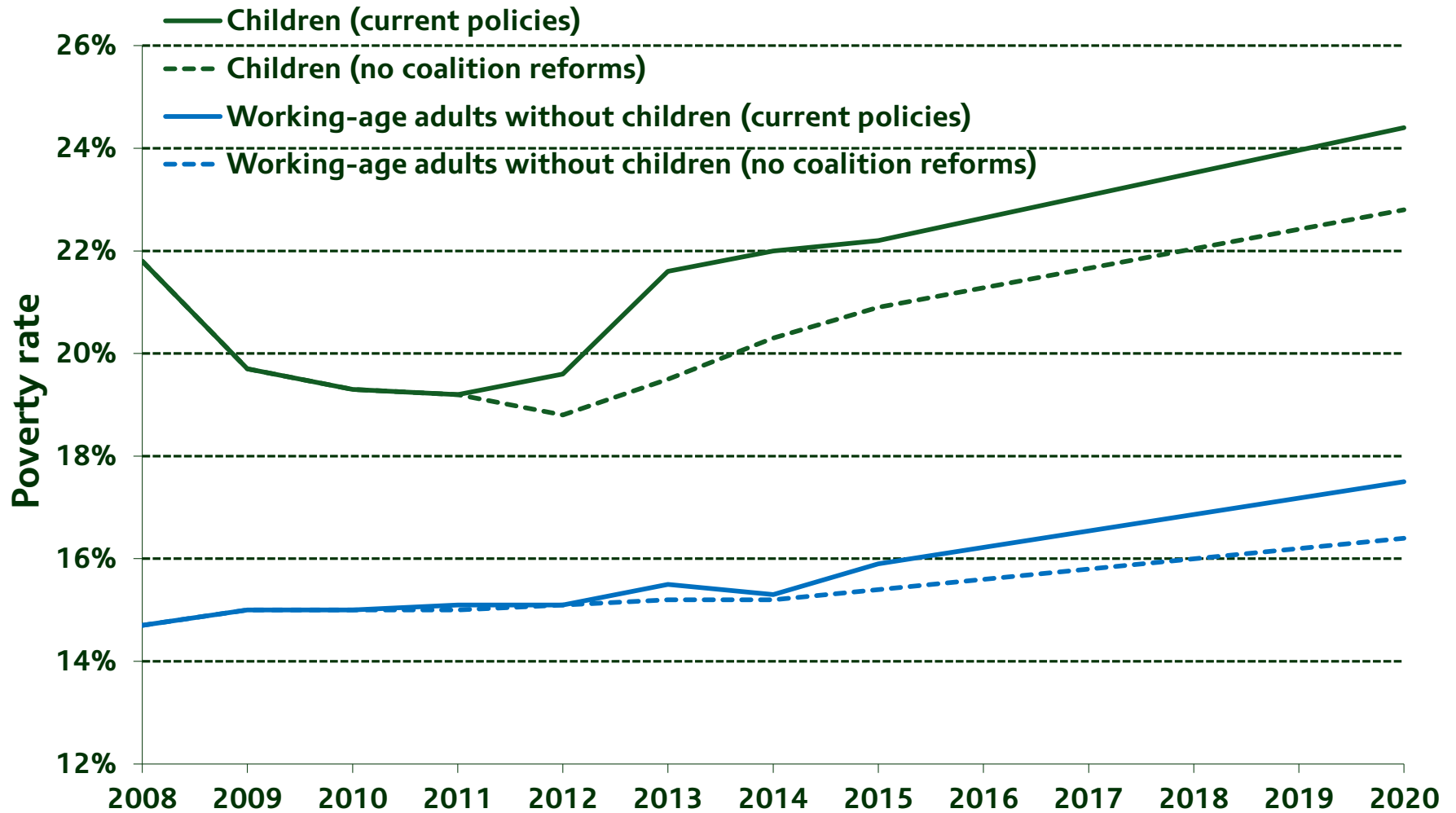


Notes: 2008 and 2009 figures are actual. Figures for 2016 to 2019 interpolations between forecasts for 2015 and 2020. Years refer to financial years. Incomes measured before housing costs have been deducted.

# Impact on income poverty rates

- Expect relative low income measure to have fallen between 2010–11 and 2012–13 but then increase
  - Poorer households protected from impact of recession by income from benefits remaining constant while median income fell
  - Austerity measures reduce incomes of poor by more than the median
  - Over long-run, relative poverty tends to increase over time as median income increases more quickly than the incomes of the poor
  - Arises because benefits, which make up most of the incomes of the poor, do not increase in real terms each year whereas earnings do
- Relative poverty forecast to increase by 400,000 children and 800,000 working-age adults between 2010–11 and 2015–16
  - Without coalition government's austerity measures, would have been 200,000 less among children and 200,000 working-age adults

# Relative low income measure



Notes: 2008 and 2009 figures are actual. Figures for 2016 to 2019 interpolations between forecasts for 2015 and 2020. Years refer to financial years. Incomes measured before housing costs have been deducted

# Summary

- Labour's reforms from 1997 to 2010 redistributed towards low-income families with children and pensioners
  - Led to a fall in relative poverty among these groups
- Austerity measures involve £18bn reduction in welfare spending
  - Pensioners largely protected
  - Among those of working age, most welfare spending goes to those with children, so unsurprising that they lose out the most
  - Child poverty forecast to increase by 400,000 using relative low income measure and 500,000 using absolute low income measure
  - Austerity measures one of the reasons for this: without these measures, both relative and absolute child poverty would be 200,000 higher in 2015–16