Briefing on the ‘Mini Budget’

for the Enough to Live group

26th September 2022

The big question we asked of the 23 September budget[1] was that it should provide people with enough to live this winter.

Prior to the budget, Prof Donald Hirsh calculated that after considering the Energy Price Guarantee and other payments, an average family of four relying on Universal Credit would need around £1,400 in additional income for their living standards to simply stand still this winter2.

The standard of living afforded by Universal Credit is already low - e.g. 48% of adults receiving Universal Credit in April were skipping meals in order to make ends meet[3]. Rising living costs are expected to cause huge hardship and increased demand for emergency support from public agencies and charities alike over the coming months.

This budget focused additional money heavily towards higher earners and no measure assisted a family relying solely on Universal Credit, therefore the estimates in Donald’s short paper regrettably remain valid.

Energy Price Guarantee

Household energy prices will be held at £2,500 for an average family, costing the government £31 billion between October and April 2023. A similar scheme for businesses, charities and public sector organisations

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[1] While this was not officially a budget, it was in every aspect indistinguishable from a budget other than that it was not published alongside an economic forecast and documentation outlining distributional impacts.
[2] Enough to Get Through the Winter (Sept 2022) Donald Hirsh on behalf of a coalition of Faith Groups and Charities
[3] Food Insecurity Tracker (April 2022) The Food Foundation

is expected to cost £29 billion over the same period. As higher income households tend to use more energy, the distribution of this support is skewed up the income spectrum – giving approximately £200 more to the highest earning tenth of households than the poorest tenth[4].

Data on disposable incomes indicate that over the past year energy bills have become a much greater burden on families throughout the UK, leading to lower disposable income. However, this intervention means that energy costs are on average manageable for middle- and higher-income households.

For most low-income families, who began the year with little or no disposable income, even a £2,500 price cap still represents a doubling of energy costs since last autumn and is not affordable.

Personal Tax Changes

Tax cuts in general will tend to give more to the richest than the poorest in cash terms. However, the choices of which taxes to cut exaggerate this effect enormously.

£44 billion of tax cuts were announced of which:

- £5.2 billion (12%) of the gains go to the least well-off half of the population. An average of £230 per household.
- £29 billion (66%) of the gains go to the top fifth earning households. An average of £3,250 per household.
- £21.5 billion (47%) of the gains go to the top 5% earning households. An average of £9,190 per household.

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[4] A Blank Cheque (Sept 2022) Resolution Foundation

The majority of people experiencing poverty and a large proportion of Universal Credit claimants are in work. A much smaller proportion earn enough to reach the threshold to pay either National Insurance or Income Tax. This means that these tax cuts provide no additional income to those who are unable to work – such as the disabled or people caring for family members – and nor do they do much to help the working poor.

It is technically possible for a family with a low income to receive benefit from the dividend tax cut (should they receive over £5,000 in dividends each year) or from the Stamp Duty cut should they be purchasing a house valued at over a quarter of a million pounds. In reality this seems highly unlikely to apply to many low-income households.

While the Chancellor is correct to say cutting National Insurance and Income tax will affect 21 million people, it is important to recognise the effects are non-existent or very small on those who earn the least, and very large for those who earn the most. The impact on the families who we are most concerned about this winter will be nil to negligible.

Economic Growth

The Chancellor's principal argument for cutting tax rates was to stimulate economic growth. There is reason to be sceptical that lower tax rates, either for businesses or individuals, will lead to increased economic growth. Historical and international data are clear that tax cuts do not necessarily lead to growth, and inconclusive as to if they even help stimulate medium- or long-term growth[5]. Because the budget was

[5] The literature is large and contested. A paper relevant to the particular approach taken by the Government is here; or a more accessible general discussion can be found in Ha Joon Chang (2014) "Economics: A user's Guide"

not accompanied by the usual analysis from the Office for Budgetary Responsibility, the usual economic forecasts of its impact are not available for scrutiny.

What is clear is that even if the government's ambitions are realised the hypothesised high paid jobs and increased tax revenues will take years to materialise, while families on low incomes face crisis in the next weeks and months. This means that whatever view you take on the long-term effectiveness of the "Plan for Growth", it is irrelevant to addressing the urgent problem of families making ends meet this winter.

Economic stability

This is not the place to explore the full macroeconomic consequences of the budget. It is important to note that by choosing to fund large tax cuts by increased borrowing, all sides of the political debate acknowledge that the Government has chosen to take a large economic risk. Doubly so as this is happening when Quantitative Easing has ceased, borrowing costs are rising, and there is high underlying inflation.

To take this risk the Government has moved large amounts of money towards the wealthiest, while leaving the poorest exposed to high inflation this winter. It is important to note also that as economic policy stands, should the risk pay off, the wealthiest in society will gain most while the downside of economic instability should the plan fail will be borne most heavily by the poorest.

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