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Austerity and Inequality. Exploring the Impact of Cuts in the UK by Gender and Age

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Date of publication: July 30th, 2013

To cite this article: Ginn, J. (2013). Austerity and Inequality. Exploring the Impact of Cuts in the UK by Gender and Age. *Research on Ageing and Social Policy, 1*(1), 28-53. doi: 10.4471/rasp.2013.02

To link this article: http://dx.doi.org/10.4471/rasp.2013.02

RASP – Research on Ageing and Social Policy Vol. 1 No. 1
July 2013 pp. 28-53

Austerity and Inequality. Exploring the Impact of Cuts in the UK by Gender and Age

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Abstract

Across Europe and North America, governments responded to the financial crisis of 2007-8 by taking on the debt of banks and insurance companies. Subsequent austerity programs to reduce that debt have cut the living standards of all but the richest. Yet governments insist cuts are necessary and that they are fairly distributed. In this review of austerity policies in the UK, these claims are challenged, first by assessing the impact on key population groups of cuts in welfare spending and second by showing how specific reforms, including those planned before the financial crash, are likely to affect current and future pensioners, especially women and those living on low incomes. Finally, I review the effectiveness of austerity policies in tackling the deficit, outlining alternative policies that have been put forward by critics. I conclude that the cuts are not only unfair, exacerbating the social division between the very wealthy and the rest of society but are also counterproductive to the aim of restoring economic activity and reducing the deficit.

Keywords: austerity, age, pensions, welfare state, banking.

2013 Hipatia Press
ISSN: 2014-6728
DOI: 10.4471/rasp.2013.02

RASP – Research on Ageing and Social Policy Vol. 1 No. 1
July 2013 pp. 28-53

Austeridad y Desigualdad. Evaluación del Impacto de los Recortes en Reino Unido por Género y Edad

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Resumen

En Europa y en Norte América, los gobiernos han respondido a la crisis financiera de 2007-8 asumiendo la deuda de los bancos y de las compañías de seguros. Los consecuentes programas de austeridad para reducir esa deuda han recortado los niveles de vida de todas las personas excepto de las más ricas. Los gobiernos insisten en que los recortes son necesarios y están distribuidos justamente. En esta revisión de las políticas de austeridad en UK, estas pretensiones son desafiadas, en primer lugar, valorando el impacto de los recortes del gasto social sobre algunos grupos de población clave y, en segundo lugar, mostrando cómo ciertas reformas específicas, incluso aquéllas proyectadas con anterioridad a la crisis financiera, tienden a afectar a las y los pensionistas actuales y futuros, especialmente a las mujeres y a las personas con ingresos más bajos. Finalmente, reviso la efectividad de las políticas de austeridad que pretenden hacer frente al déficit, y esbozo políticas alternativas que han sido propuestas por algunos críticos. Concluyo que los recortes no sólo son injustos, ya que empeoran la división social entre los muy ricos y el resto de la sociedad, sino también contraproducentes de cara al objetivo de recuperar la actividad económica y reducir el déficit.

Palabras clave: austeridad, edad, pensiones, estado del bienestar, banca.

2013 Hipatia Press
ISSN: 2014-6728
DOI: 10.4471/rasp.2013.02

The boom created by lending policies of most western banks led to the most serious economic crisis since the 1930s. As banks and insurance companies faced insolvency and share values collapsed, most governments prioritised supporting these institutions, borrowing on global capital markets to do so and plunging their economies into debt and on-going recession affecting global trade. When public sector jobs, wages and pensions were cut, recession deepened and tax revenue fell, shrinking economies even further in a downward spiral (Irvin et al., 2009, figure 2; Boyer, 2012; Krugman, 2013).

In the UK, cuts in social security programmes, in grants to local authorities to provide social care services, in jobs, wages, pensions and benefits in the public sector, and gradual privatisation of National Health Service hospitals have all been justified as necessary to reduce the annual fiscal deficit –the gap between tax revenue and government spending (Irvin et al., 2009; PCS, 2011; Reed & Lawson, 2011; TUC, 2012). Yet nearly five years after the financial crisis, the Conservative-Liberal Democrat Coalition government's austerity programme has failed to achieve the promised deficit reduction. Instead, unemployment has risen substantially and GDP has flatlined but the government's response is to squeeze the population's living standards even further, despite continuing military spending and condoning, despite much hand-wringing, the excessive remuneration to top earners and widespread tax avoidance and evasion. The opposition Labour Party has timidly advocated slower and shallower cuts. Thus, no major political party has been prepared to contest the principle of austerity. In the next section, I show how the effects of cuts announced in 2010 are expected to affect the living standards of different family types.

Impact of Austerity Measures on Different Family Types

The Coalition government has focused on reducing spending on the public sector, claiming (against the evidence, so far) that the private sector of industry would fill the gap by creating new jobs and services. Research based on use of various services and average receipt of benefits by each family type was used to estimate the relative change in their living standards resulting from planned spending cuts (Women's Budget Group, 2010; Horton & Reed, 2010). While all groups lose to some extent, the greatest loss is for lone parents, among whom over 90 per cent are women, while lone women pensioners are the next most disadvantaged by the cuts (see Table 1). For pensioners, the projected loss is mainly due to reductions in Local Authority (LA) social care services, following a cut in government grant of 7 per cent per annum for four years from 2010. Disabled older people are the main users of these services as we discuss below. Thus it is vulnerable groups across the age range, from young to old, that bear the brunt of the cuts.

Table 1
Estimated change in living standards due to welfare cuts, by family type, UK 2010

Family type	Income loss, as % net average annual income
Couple, childless	4
Couple, with children	8
Single, childless	7
Lone parent	18
Couple, pensioners	6
Single, male pensioner	10
Single, female pensioner	12

Source: Calculations by S. Himmelweit using data supplied by Howard Reed as used in WBG (2010) and Horton & Reed (2010).

Shrinking the UK Public Sector. Impact on Women and Older People

By 2014-5, a total of £14.9 billion worth of cuts will have been made to benefits, tax credits, pay and pensions, with 75 per cent of this taken from women (House of Commons Library, 2012). In addition, cuts in public sector services, such as education, healthcare and personal social services, which disproportionately affect women as users, are a major element of the austerity programme. Job losses in the public sector, estimated by the Office for Budget Responsibility as 500,000, as well as a wage freeze and reduced pensions, also affect women badly, since they comprise 65 per cent of the public sector workforce. Nationally, nearly 40 per cent of UK women's jobs are in the public sector, compared with about 15 per cent of men's. 'Sure Start' centres for children from low income families are facing closure, leading to loss of women's jobs and also of childcare options. Proposed cuts to legal aid and to refuges for women subject to domestic violence (often those living in poverty) threaten women's safety by making it harder for them to leave abusive relationships with their children. While unemployment rises, eligibility conditions for some social security benefits have been tightened and the payments reduced. Housing Benefits, where 53 per cent of recipients are lone mothers, are being restricted. Child Benefit has been frozen for 3 years, effectively cutting its value permanently. The 'health in pregnancy' grant has ended and the Sure Start maternity grant has been restricted. Funding for childcare –essential for women in employment - is being cut, putting more pressure on relatives such as grandmothers to provide unpaid care. Increased fares on public transport, due to cuts in subsidies, will affect mainly women, since more of them depend on it. In education, too, it is the women-dominated humanities courses that bear the bulk of the cuts. University crèches and nurseries are being closed or hours reduced, affecting nursery workers' jobs and disadvantaging women students. Such cuts have long-lasting consequences. As demonstrating students have put it on their placards 'Education cuts never heal'. Public service cuts affect people at all stages of the lifecourse. Many National Health Service (NHS) hospitals are being closed, merged or stripped down to a basic level, due to having debts they cannot repay. These are the legacy of government encouragement to hospitals, over several decades, to take on expensive loans from Private Finance Initiative (PFI) schemes (Pollock et al., 2002). Hospital closures and mergers not only cause job losses among nursing and other healthcare staff but also jeopardise the health of those in need. Contentious legislative reforms since 2010, strongly resisted by the nursing and medical professions as well as large sections of the public, are undermining the founding principles of the NHS. The changes are likely to increase opportunities for large private healthcare corporations to 'cream-skim' the most profitable –but still tax-funded– health services. In this unfolding scenario, treating people with acute conditions is likely to have priority over treating those with chronic, complex and often multiple health conditions (Leys & Player, 2011). Opposition to the creeping privatisation of the NHS, including local campaigns to save hospitals, is met with the excuse that the national deficit must be reduced. Again, it is the most vulnerable whose care will be threatened by the changes.

A significant proportion of older people have chronic conditions that limit their activity. Disability, measured as Limitations on Activities of Daily Living (LADL), affects 40 per cent of those aged 60 and 75 per cent of those aged over 80; the disability is severe for 20 per cent of those aged 60 and 50 per cent of those aged over 80 (Banks et al., 2010, p. 260-1). Where help is required with daily tasks, including personal care, family members, especially spouses, provide much of this informal care. Disabled older people who live alone (mainly women) rely on social care provided or commissioned by local authorities (LAs) in order to maintain independent living in their own homes. But they face reductions in supportive home care services that are already inadequate. Due to government cuts in grants, many LAs can only provide help to the most severely disabled, while means-tested charges for services are also increasing. LA provision of sheltered housing and financial support for those living in institutional care homes will also be cut. Overall, state spending on care and support for older people is expected to be £250 million pa lower in real terms in 2014 than in 2004, despite numbers of older people rising by two-thirds (Glendinning, 2008).

Cuts in Older People's Pensions and Benefits

Pensioners in the UK are diverse, with inequalities of income according to gender, ethnicity and previous occupational class (Ginn, 2003). According to international research, 28 per cent of UK men and 33 per cent of women over 65 lived below the official OECD poverty line in 2007 (Zaidi, 2010). State pensions are 'among the least generous in the developed world' (Pensions Commission, 2005). The average weekly basic pension for women in 2010 was £70, for men £84; while the average weekly amount of the earnings-related second state pension was £16 for women, £29 for men. Women on average received 76 per cent of men's amount for the combined state pensions (Daily Telegraph, 2010). Even UK men's average total weekly state pension in 2010 (£112) was far less than the Dutch Citizen's Pension (AOW) in 2006 (£138). About half of pensioners are eligible for means-tested social assistance, but this is complex and stigmatised, so that only 68 per cent of eligible households claim (NAO, 2011). The benefit thus fails to reach almost 2 million of the poorest pensioners. Austerity measures will have most impact on the poorest among older people, mainly women since they lack private means to compensate for cuts in state services, pensions and benefits.

Winter Fuel Payment. Some 3 million pensioners live in fuel poverty, spending over 10 per cent of their income on domestic energy bills. Pensioners spent an average 30 per cent of their income on food, domestic fuel and clothing in 2004-8. The poorest fifth, likely to live in the least energy-efficient housing, spent nearly half their income on these essentials (Banks et al., 2010, p. 101). Many face a choice whether to heat their homes or spend money on food –dubbed by campaigners the 'HEAT or EAT' dilemma. Older people need to heat their homes for longer than do people out at work, and those with limited mobility need a higher temperature in their home. Every winter over 20,000 pensioners die of cold-related illnesses. The annual Winter Fuel Payment (WFP), paid in December each year to pensioner households, was intended to prevent this by enabling pensioners to keep warm. The WFP originally covered a third of the average pensioner heating bill but between 2004-12, the average energy bill has more than doubled, across all households. The WFP now pays only a fifth of the average pensioner household's heating bill. Far from raising the WFP to restore its effectiveness, in 2011 the government cut it from £300 to £200 per household aged 65-75, and from £400 to £250 for those aged over 80. This increases the risk to older people's health from cold and malnutrition.

Housing Benefit. One third of older people rent their homes, either from a Local Authority, Housing Association or private landlord. Housing Benefit was designed to make rents affordable for those of any age with low household income, since UK rents have risen dramatically to reflect rising house prices, but its value is now being restricted while rents are still rising. This forces low income older (and younger) people to move away from their local social network of friends and family, risking increased isolation and loneliness.

Reduced indexation of pensions. Following a long campaign by the National Pensioners Convention, state pensions from 2010 were indexed to the Retail Price Index (RPI) the growth in average earnings or 2.5 per cent, whichever is the higher. However, this success was short-lived; in 2011, the government replaced the RPI by the Consumer Price Index (CPI) which is on average 1 per cent less. With national average wages kept low, it is the CPI that applies. Use of CPI indexation means that both state and most occupational pensions will lose purchasing power over time, so that pensioners' living standards fall as they age. For example, a pensioner with an income of £10,000 pa will lose £800 over 5 years compared with when RPI was the index (Towers Watson, 2010). Even the RPI was an inadequate index for older people, especially the oldest old, since the rise in cost of living is higher than RPI when a disproportionate share of income is required for fuel and food. From January 2006 to August 2008 (32 months) the rise in cost of living was 5.4 per cent for non-pensioners, 6.6 per cent for young pensioners aged 60-64, 7.8 per cent for those aged 75-9 and 8.4 percent for those aged over 80 (Leicester et al., 2008). The difference according to age group is partly explained by the association of higher than average inflation with low income and by increasing prevalence of solo living with advancing age (IFS, 2009). Pensioners who live longest, mainly women, will experience the greatest fall in buying power. Women pensioners' average income is already only 57 per cent of men's, mainly due to their lesser chance of having any private (occupational or personal) pensions and lower amounts among those who have this source of income (Arber & Ginn, 2004).

Monetary and fiscal policies. The policy of maintaining near-zero interest rates (while inflation has ranged from 2 to 5 per cent since 2008) affects around 5 million older people who rely on a modest income from lifetime savings to supplement a small pension. Among older women in their 60s, median savings (among those who had any) were £8,000, which at 3 per cent per annum would generate £4 per week; however near-zero interest rates will reduce the median weekly income from this source to the price of a loaf of bread. The number of individuals aged over 65 becoming insolvent rose from 2,725 in 2006 to 5,749 in 2011. This surge in insolvency is faster than for any other age group (Wilkins Kennedy, 2012). The impact of low interest rates on annuities for new pensioners is equally dramatic. When workers retire and use their pension fund to buy an annual income, the amount depends on the prevailing rate. This has fallen from 15 per cent in 1990 to a historic low of 5.6 per cent in 2012 and is still declining. For those older people liable to pay income tax, the age-related personal tax allowances have been frozen instead of rising with the cost of living. Each year the amount of tax payable will rise, leaving reduced disposable income.

Thus, far from being protected from the cuts, older people face a number of reductions to services, pensions and benefits. In principle, pensioners could boost income from employment, although for the nearly half who are eligible for means tested benefits most of the increase would be clawed back by withdrawal of benefits. With poor job opportunities, age discrimination and a substantial proportion of pensioners having disabilities or caring responsibilities, it is not surprising that only 11 per cent of men over 65 were employed and 5.3 per cent of women, mainly part time (PPI, 2012). I next turn to future pensioners, outlining how pension reforms, in the context of the continuing recession, are likely to affect retirement income of different population groups.

Changes in the Pension System Affecting Women and Men of Working Age

State pensions have been made more inclusive for those with periods out of the labour market, following the Pensions Act of 2007. Policymakers belatedly recognised the injustice to women of receiving only partial state pensions due to career breaks to care for children and others (Pensions Commission, 2004). Although women's employment has been steadily increasing since the mid-20th century, the gender gap in hours of employment persists and employment is particularly low for lone mothers (see Figure 1).

The gender gaps in employment hours and years, as well as in hourly pay, are reflected in gender inequality in private pensions. For example, at age 56, men's median private pension wealth in 2006-8 was £52,800, women's £9,100 (Hansard, 2011). Since private pensions make no allowance for time out of the labour market, the substantial gender gap in pension income is likely to persist, with especially poor outcomes for lone (divorced or never-married) mothers (Ginn & Arber 2002). Moreover, the retirement income generated by private pensions will become increasingly unpredictable in future, due to developments in pension provision that shift investment and annuity risk onto individual employees.

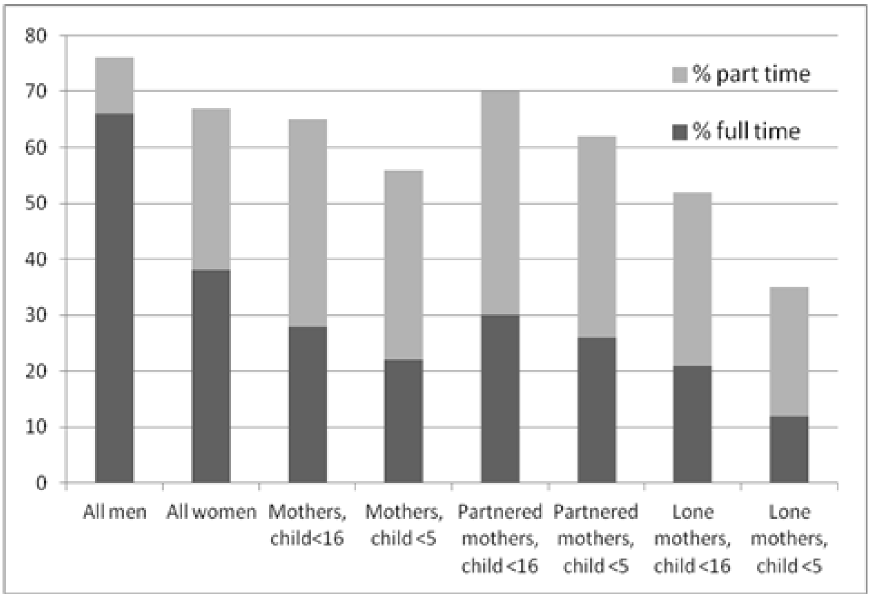

Figure 1: Percentage of UK women aged 16-64 employed full and part time, by partnership status and age of youngest child at home

Note: Mothers aged 16-64. Child living at home
Source: ONS, 2012.

Policymakers since the 1980s have used various incentives, in addition to tax relief, to promote private pensions. The Labour government elected in 1997 was no exception, setting a target to increase the share of private pensions from 40 to 60 per cent of the total pension provision (DSS, 1998). Prior to the 1980s, most occupational pension schemes were defined benefit (DB), the pension being calculated according to a formula based on 'final salary' and years of membership and the scheme itself bearing the investment risk. Private sector DB pension schemes vary widely in quality and specific rules even within a single industry (Meyer & Bridgen, 2008). Employers with a DB pension scheme have retreated from such provision to limit their liabilities. Most have closed the existing scheme to new (or all) members, switching to a defined contribution (DC) scheme, in which longevity and investment risk are borne by the employees, and raising the pensionable age to 65. Some have changed to a cheaper Career Average Earnings formula which is fairer to most women, since their age profile of earnings tends to be flatter than men's. However, where employers simultaneously cut their contribution, women's gain is negligible. Remaining private sector DB schemes often carry large deficits and some have become insolvent, unable to pay the pensions promised. An emergency Financial Assistance Scheme provided partial compensation to employees in insolvent schemes and the later Pension Protection Fund was set up to insure against insolvency.

Only the public sector of employment, where a high proportion of employees are women, retained high quality DB pension schemes but these are now under attack from the government, with employees facing higher contributions, reduced benefits and later pensionable age (Hutton, 2011). Indexation of most DB pensions in payment has been changed from the Retail Price Index (RPI) to the lower Consumer Price Index (CPI), as in the state pension schemes. Use of CPI, insofar as it fails to keep pace with inflation, also reduces the value of DB pensions preserved during a career break, a change that will disproportionately affect women. The financial crisis and recession provide the context in which governments have sought to justify reducing the value of public sector pensions.

The pension model most strongly promoted since the 1980s has been personal pensions, where the fund accumulated by each individual depends on their contributions, investment performance and charges levied (ONS, 2011). Retirement income also depends on annuity rates when the fund is converted to an annual amount. By 2009, 7.7million workers were members of a DB occupational pension scheme (5.3 million of them in the public sector); 1 million were contributing to a DC occupational scheme and 6.4 million to a personal pension (ONS, 2011). Thus a total of 7.4 million workers, having joined pension schemes of the type promoted by successive governments, saw their funds and expected pensions dramatically reduced by stock market falls associated with the 2007-8 financial crisis. Despite the poor outlook for these DC pensions due to stagnant or falling share prices, the 2008 Pensions Act, with heroic optimism, legislated for a new wave of voluntary, but auto-enrolled, personal pension schemes, to be introduced from 2012.

Auto-enrolled personal pensions. Employers lacking a suitable alternative workplace pension scheme will be required to auto-enrol employees into a DC personal pension scheme that meets regulatory requirements, the National Employment Savings Trust (NEST) being the state-sponsored option. From October 2012, employers with over 50,000 employees must auto-enrol all those aged over 22 and earning at least about £8,000pa (in 2012). Minimum contributions from employer and employee (in addition to National Insurance contributions) will eventually be 4 per cent from employee, 3 per cent from employer and 1 per cent tax relief (total 8 per cent). For smaller organisations the start date will be delayed for several years, depending on size. Employees will be allowed to opt out of their workplace pension scheme. The NEST pension account will be portable across jobs but transfers of funds in and out will not be allowed. Charges in NEST will initially be 0.3 per cent pa of each employee's accumulated fund, but could rise. Employees will also be charged 2 per cent of their annual contribution, to help repay a government loan for the start-up costs of the scheme. Policymakers hope that around 7 million individuals will contribute to NEST, providing a combined pension fund for investment of over £6bn pa. But concerns have been raised that since employers may choose the scheme and investment, many will shun NEST. Auto-enrolled workers could then find their savings eroded in badly-run or fraudulent funds, with annual charges over 0.5 per cent of the fund, substantially reducing its value. There is also the risk of small pension pots being lost, as workers have an average 11 jobs in their working life.

Like other private pensions, NEST cannot remove the gender gap in retirement income. Indeed, private pensions tend to exacerbate gender inequality. Those with earnings below a certain level will be excluded from membership. These will be mainly women part-timers, who will have no choice but to lose the employer contribution –and the benefit of tax relief– for the years when excluded. Tax relief is of greatest benefit to employees paying the higher tax rate (40 per cent) who are mainly men; half the subsidy is received by the top 25 per cent of taxpayers and a quarter by the top 2.5 per cent (Agulnik & Grand 1998). Employers will have an incentive to keep part timers' wages below the auto-enrolment threshold, to avoid paying their contribution. Some may illegally persuade employees to opt out of any auto-enrolled scheme, for the same reason. Among full-timers, some low paid employees are likely to opt out due to the cost; a survey by B&CE Benefits Schemes found 28 per cent of workers thought they would be unable to afford the 4 per cent contribution in addition to paying 12 per cent of qualifying earnings as National Insurance (NI) (The Independent, october 25th, 2008). Where employers previously paid no pension contributions other than NI, they are likely to recoup their new compulsory contribution by holding down wages of all employees, a double blow for those already excluded by their low wages.

For a proportion of the low paid or modestly-paid employees at whom NEST is targeted, voluntary extra saving may not be advisable. There is no guarantee that the fund at retirement will exceed the value of contributions paid. The potential interaction with means testing in retirement, such that additional voluntary saving would bring little or no financial gain, will remain as long as the state pension is barely above the level of the threshold for means testing. The problem applies especially to anyone who will receive less than the full state pension, as well as those aged over 45 in 2012, or tenants who would otherwise receive Housing Benefit. For women, the risk of a wrong decision is particularly high, as unpredictable careers and future relationship status are combined with the uncertainties of future investment returns, charges and annuity rates. It has been estimated that a median earner saving from age 30 until SPA could receive a wage replacement rate of 45 per cent, 30 per cent from state pensions and 15 per cent from an auto-enrolled personal pension (Pensions Commission, 2005, p. 274). However such estimates are necessarily speculative. For those with gaps in employment, the overall replacement rate will be lower (Price, 2007) and for the low paid even a replacement rate of 70 per cent would leave them in the unattractive position of relying on means tested benefits in retirement. Most contributions to personal pensions since the 1980s have been minimal and fund values low, with a high proportion of memberships lapsing after one year (Waine, 2007). Moreover, as noted above, annuity rates have already declined dramatically in the last decade due to actuaries' adjustments to rising estimates of longevity and to low interest rates since the financial crash. Rates are expected to decline further in future and to be especially low for those with small pension pots, adding to the risk of no financial gain from extra saving.

At the same time as auto-enrolment is introduced, contracting out of part of National Insurance (NI) contributions will no longer be allowed for any pension schemes. This means the Treasury will gain an extra £6bn each year for the NI Fund from the higher NI contributions paid by employers and employees. However, the amount of tax relief paid by the Treasury to subsidise private pension saving (about £45bn in 2012) will increase with auto-enrolment, the bulk of it benefiting the higher paid, mainly men. Auto-enrolment will take a large amount of money (estimated as £8bn or more each year) out of circulation by reducing workers' disposable income, and will place it in the hands of the same banks and insurance companies that created the financial crisis. Given this, and all the uncertainties of private pensions, combined with the experience of past misselling and fraud, one expert concludes that it is 'irresponsible, in the light of recent experience, to entrust [social insurance] to private arrangements' (Rys, 2010, p. 2). The drawbacks of private pensions for women and the low paid are clear; hence the inclusiveness and level of the state pensions are most important for them.

Changes to State Pensions since 2010

Accelerated Rise in State Pension Age (SPA)

The SPA was already set to equalise for women and men at 65 in 2020, a reform that was planned well in advance and was generally accepted. However, the Coalition government elected in 2010 decided to accelerate the rise, for both men and women, to age 66 in 2020. Nearly 5 million people near to retirement face a later age of eligibility for their state pensions than they expected. The rapid change in SPA facing women in their late 50s will leave their retirement plans in disarray. About 330,000 women in their late 50s will have to wait an extra 18 months, with very little time to adjust their plans for retirement and for any family caring commitments. Some women in their late 50s will lose over £10,000 in Basic State Pension compared with women a few months older.

The 'active ageing' agenda of successive governments is welcome only if it increases opportunities for older workers who want to stay in employment beyond SPA and are able to do so. But it is unhelpful to those who cannot work longer for whatever reason. The availability of suitable employment for older workers is uncertain and patchy, especially in a recession. Nor are older workers necessarily available to stay at work. Recent research on the attitudes of those aged 60-64 identified barriers to longer working and what might encourage individuals to work beyond age 65 (Vickerstaff et al., 2008). On the whole, older workers had limited desire to work beyond SPA, although flexible working, such as part time or casual work, were seen as preferable to standard employment. Choice as to timing of retirement was limited and unevenly distributed. Although the specific obstacles to longer working varied with individuals' circumstances, common ones were the worker's own poor health or the need to provide informal care (ibid). Disabilities affect a significant proportion of men and women from age 60, especially among those working in manual occupations. The need to provide informal family care is another factor that can constrain employment. Women aged 50-69 are twice as likely as men (14 versus 7 per cent at a given time) to be informal carers of older relatives (Arber & Ginn, 1991; 1995) and they are also more likely than men to care for grandchildren (Gray, 2005). The austerity cuts in social care services will enlarge the 'caring gap' that women are expected to fill. Job cuts in the public sector will disproportionately affect the availability of employment for women, while gendered age discrimination among some employers further reduces opportunities to work longer (Itzin & Phillipson, 1993; Loretto & Vickerstaff, 2010; McKay, 2010). Thus raising the SPA will disproportionately affect women and manual workers.

Planned State Pension Reform – the Single Tier Pension (STP)

In early 2013, the government produced detailed proposals for a new Single Tier Pension (STP) that will combine the flat rate basic state pension (BSP) and the earnings-related state second pension (S2P) into a flat rate single-tier pension of £144 per week (at 2013 prices) if payable in full. When introduced, after 2016, it is proposed that the STP will include the self-employed and be indexed in payment through the triple lock –the highest of CPI, average earnings rise or 2.5 per cent. The full amount will be paid at SPA to those with 35 years contributions or credits, pro rata for those with fewer years, and a minimum requirement of 7-10 years (still not decided). A great advantage of STP is that it is simpler to understand and to operate than the two-tier structure. During the transition to the new STP, the need for means tested Pension Credit should be reduced and all derived benefits in the state pensions (spousal, survivor and divorcee) will be phased out.

Women with low lifetime earnings would in principle be the major beneficiaries of the STP, if partnered and thereby ineligible for means tested Pension Credit. However, the STP is to be set very low, at about 25 per cent of average wages; the amount is well below the internationally-accepted poverty level of 60 per cent of median population income. Because of the low level, by 2050 over 40 per cent of pensioner households are still expected to be eligible for means tested Housing Benefit and Council Tax Benefit (Carrera et al., 2012). Moreover, the requirement of 35 years of NI contributions or credits for full STP (when only 30 years were required for the basic pension) is a step backwards for women with interrupted employment. Some will receive only a partial STP.

Some men and women, those who would otherwise have been able to accrue state pension entitlements above £144 per week (in 2013 terms) through S2P, will be worse off with STP than under the existing two-tier state pensions. The vital protection of a wage replacement provided for carers with gaps in employment in the state earnings-related schemes (SERPs and S2P) will be lost. The only means of obtaining a wage replacement will be through private pensions, where women's time out for family caring places them at a disadvantage. With the exception of Ireland, the UK's existing state pensions provide the lowest wage replacement rate across 27 OECD countries – only 35 per cent compared with the average 61 per cent, for a full career on average earnings (Queisser & Whitehouse, 2006) and the full STP provides ten per cent less than existing state pensions. Because the STP will be barely above Pension Credit level, women with less than 35 qualifying years will still be at risk of falling below that threshold and may therefore gain little or nothing financially from any extra saving, for example in voluntary auto-enrolled personal pensions. This risk is more acute for women than men, since life-course events such as unexpected caring responsibilities and changes in marital or partnership status can dramatically alter their ability to accrue pensions. For policymakers and private pension providers, the main purpose of STP is to reduce, for low to moderate earners, the disincentive to extra voluntary saving that is posed by the risk of interaction with means testing. Yet STP's low level, combined with only partial receipt among a proportion of women, could undermine that aim.

The pension reforms and cuts to jobs, services and benefits promise a bleak future for both current and future pensioners, with the hardest hit being the most vulnerable groups, especially women whose lifetime earnings have been restricted by their family caring. I next return to the question of the fairness of austerity measures.

Are Austerity Measures Fairly Distributed?

The Coalition government claimed that 'We are all in this together' and that the ongoing cuts in living standards were distributed fairly across the population. However, recent research by the Commission on Living Standards estimated that whereas the real income of the highest paid will actually rise in real terms between 2008 and 2020, an average household will see a decline of 3 per cent and a typical low-income household will see their income fall by 15 per cent (Plunkett, 2012). Income inequality in the UK has been rising since the 1980s and has continued through the financial crisis and recession. Table 1 has shown the uneven effect on different family types, with lone women pensioners and lone mothers among the hardest hit by the cuts.

Another claim is that older people have been largely protected from the cuts and that they have enjoyed 'undue advantage…at the expense of the young' (Intergenerational Foundation, 2012, p. 1). Older people are often portrayed as a burden on society and are told they must work for longer, yet at the same time are blamed for lack of jobs for young people (ibid). Yet as the evidence above shows, most older people are far from well-off and about a quarter are in poverty according to the widely-accepted OECD definition. All older people face further cuts in living standards and local services but the cuts mainly affect the most vulnerable pensioners, those with disabilities requiring social care and living alone or on a low income. It is often forgotten that society benefits from the value of older people's informal caring – for spouses, for their own parents and for grandchildren, a contribution estimated as worth £34 billion each year (McNabb, 2012). If the various taxes paid by older people and the cost savings to the state from the informal care and voluntary work pensioners provide are included, the total benefit to society from older people has been calculated as £175.8bn every year, compared to total expenditure on older people through pensions, welfare payments and health care of £136.2bn. The annual net contribution by older people to the economy is therefore almost £40bn (NPC, 2012). Undoubtedly, young people in Britain face a grim future in terms of finding jobs in a prolonged recession, and the anger of disaffected urban youth at rising inequality and social exclusion played a part in the 'Occupy' movement and the widespread riots of 2011. But to cast intergenerational relations as a zero-sum game with old and young competing for resources, as the Intergenerational Foundation does, is ill-conceived. Not only do families bind generations together in interdependence but in the UK young and old campaign in solidarity, for example in a 'Generations United' initiative to defend the welfare state and public services. Within-generation inequalities in later life, especially of gender and class, outweigh any putative intergenerational inequalities.

Are Austerity Measures Effective?

In the UK, the three-party consensus that cuts in public spending can reduce the annual deficit has been challenged. Since 2009, an informal alliance of policy analysts, economists, tax experts, trade unions and left political groupings have made a persuasive case that austerity is both unjust and counterproductive. They argue that, since the deficit arose from transferring bank debts to the state, it is unfair to attempt to recoup those debts from working people and pensioners –the 99 per cent. Moreover, they point out that austerity measures applied during recession tend to worsen the economic situation and increase the deficit; UK growth is stagnant and living standards are still falling, several years after the financial crash (Reed & Lawson, 2011; PCS, 2011). According to the TUC, in 2011 'slow growth cost £34bn more in tax credits and social security costs and lost over £51bn of income tax' (TUC, 2012, p. 7) increasing the deficit. Figures from the Office for National Statistics show that net income per head in 2012 was 13 per cent lower than in 2008, after allowing for inflation (BBC, 2012). Auto-enrolment into new personal pensions will also reduce the population's spending power and prolong recession.

A recent report has highlighted the steep rise in UK income inequality over the course of a generation, the Gini coefficient rising from 2.5 in 1979 to 3.5 by 1999. The report notes that 'Since the mid 1970s, the general workforce's share of GDP had shrunk by over 12 per cent up to 2008' and that while the average pay of an employee in a FTSE100 company rose by 2.7 per cent in 2011, executive pay rose by 49 per cent (High Pay Commission, 2012, p. 9). This report identified the detrimental effects on society of growing inequality and also made the business case for restoring more income equality through fairer pay structures that are accountable and transparent. Austerity policies are increasingly exposed as leading only to further hardship and blighting a generation of young people with little chance of employment. The scale of the perceived social injustice has inspired a Coalition of Resistance, with marches, rallies and occupations.

Not everyone suffers from austerity of course. Banks are still paying large bonuses in addition to exceedingly high salaries and the social elite is unaffected by cuts in public services since members can afford private education, healthcare and social care. In the UK Cabinet, there are over 20 millionaires. Austerity policies are consistent with the ideology of the three major political parties, all of which to some degree share the aim to shrink the state and expand the private sector. Their mantra is 'personal responsibility', implying that those who are poor have brought their situation on themselves. They ignore the fact that it is mainly women who, through a sense of personal responsibility for their families, have the lowest incomes both during working life and in later life.

Alternatives to Restore Economic Stability and Prosperity

Critics of austerity policies advocate investing in infrastructure that will create new jobs and provide benefits to the public and the economy in the long term. For example, investing in building affordable homes and renewable energy would both stimulate economic activity and generate revenue (Irvin et al., 2009; Reed & Lawson, 2011). In order to fund this investment, possible ways to save public money and to increase tax revenue from those with the highest incomes have been suggested (see Table 2).

Table 2:
Raising extra revenue and saving costs

Reforms	(£ billion pa)
1. Increasing revenue:	
Apply 50% tax on incomes over £100,000pa	2.3
Set minimum income tax bands on incomes over £100,000pa (to claw back tax allowances and tax reliefs)	14.9
Remove cap on National Insurance contributions	9.1
Abolish tax havens and tax allowances for the 'non-domiciled'	10.0
Introduce a financial transaction tax	4.2
Total annual extra tax revenue	**40.5**
2. Saving costs:	
Scrap planned ID cards	2.5
Scrap new weapons programmes	4.0
End military spending on Afghan war	4.0
Scrap plan for 'mini-Titan' new prisons	1.3
Switch PFI schemes back to the public sector	3.3
Total annual cost savings	**15.1**
Total extra revenue and savings	**55.6**

Source: Irvin et al. (2009). Based on their Table 1 and section 5.

Thus £56bn of extra revenue and savings could be found and used for two purposes: first, to stimulate the economy through investment in jobs (which in turn will increase revenue and reduce spending on unemployment benefits) and second to reduce the annual deficit (about £40bn in 2009) (Irvin et al., 2009). The highly regressive tax relief on private pensions could be reduced or removed, providing resources to improve state pensions. The annual windfall of higher National Insurance contributions due to the ending of contracting out belongs to the NI Fund and as such should be used to improve social security benefits.

The government accepts the need for some reforms to banking to improve stability, including some separation of the retail and investment functions of banks. However, critics argue this is not enough, proposing a state-owned People's Bank for everyday retail transactions, providing current accounts with the security that most people require (Reed & Lawson, 2011). More radically, some economists have proposed monetary reform, in which full reserve banking would be mandatory (prohibiting private banks from creating money through loans not backed by their own reserves or deposits in customers' investment accounts). The right to create new money, as and when required, would be restored to the state, through the Bank of England (Dyson et al., 2011; Jackson & Dyson, 2012). This option would, however, not be possible for countries without their own national currency.

Conclusions

Austerity is not working in the UK, nor in other countries crippled by debts arising from irresponsible activity in the financial sector as well as governments' reluctance to apply effective regulation to banking and their decision to bail out the banks. While the cuts in jobs, services, pensions and benefits fall hardest on lone mothers and lone female pensioners, a tiny elite of top earners continue to increase their already high income, giving rise to a widespread sense of injustice among the 99% of the population; this label was adopted by the Occupy and UK Uncut protesters, to highlight the extreme and growing inequality of income, wealth and political power. Alternative economic and social policies are available to reduce inequality and poverty, and to restore high quality public services, given the political will.

There is no evidence that older and younger people see their interests as being in conflict; rather there are intergenerational campaigns to defend the universality and security of the welfare state. The UK policy direction since the 1980s –to reduce the role of the state and boost that of the private sector– is endorsed by all three major political parties, depriving the electorate of a choice in this matter. Such policy aims represent a longstanding neo-liberal project that has no popular mandate; but the financial crisis and recession can be seen as providing a convenient legitimation. Nevertheless, the claim that 'There Is No Alternative' to cuts in public spending is vigorously contested by evidence, argument, popular organisation and civil unrest, wherever people are suffering from the unequal impact of austerity policies.

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