

The 2015 Budget Effects on Black and minority ethnic people

Summary

- Black and minority ethnic (BME) people are over-represented in several categories which are negatively impacted by the 2015 summer budget
- As a result more than 1.25 million BME housholds and more than 4 million BME people could be worse off
- Inequality in the affected areas is likely to worsen for BME people, meaning the cumulative effect of the budget may become even more unfair with time
- British Bangladeshi and Pakistani households are particularly affected, with up to half of Bangladeshi households out by £1,000 or more
- Black African households will also be worse off, but even Indian and Chinese households are more likely to be affected because they have higher rates of low income households
- The Government may point to initiatives to address BME inequality, but there is limited evidence they have been effective
- The Government urgently need to carry out a formal audit, or a full Equality Impact Assessment on the budget, including its effect on BME people

Introduction

Analysis of the 2015 Budget, especially in the media, has largely focused on how far the various measures will impact on low income groups. While Government ministers agree there are some winners and some losers, the Institute for Fiscal Studies suggests that low income groups will generally have less weekly income overall. If BME people are merely equally affected by the budget, the IFS's estimate of 13 million households worse off implies at least 1.25 million BME households, and 4 million BME people, will be worse off.

However not all low income groups are affected equally. The Runnymede Trust is concerned with the question of how the budget will affect ethnic minorities, a subject which has been less widely discussed.

While an increase in the minimum wage, taken in isolation, suggests an improvement for low-paid BME workers, this is counter-weighted by reductions in tax credits and the disproportionate impact of the budget on young people. As a result

overall poverty and inequality may rise.

This is further compounded by the specific areas where BME people are over-represented and where the impact of the budget is likely to be most severe.

Runnymede is further concerned that, as with some previous legislation, the Government may not publish data for how the various measures affect ethnic minorities or conduct Equality Impact Assessments.

David Cameron has <u>previously remarked</u> that 'smart people in Whitehall' would never deliberately increase inequalities, but this fails to recognise how policy can unintentionally increase racial inequalities through indirect discrimination. The question isn't whether government deliberately makes BME people worse off, but rather whether the effects of policies, directly or indirectly, increase racial inequality in reality.

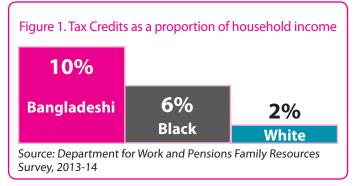
Due to the comparative lack of data on the impact of the 2015 budget on BME people we cannot provide a fully costed assessment overall, but there are several areas where the evidence suggests they are likely to be worse off:

- Tax credits
- Part time working
- Child poverty
- BME young people
- · BME people living in London
- Benefit cap
- Apprenticeships
- · Households with three or more children
- Inheritance tax

We have not tried to estimate the full costs and benefits of the 2015 budget's various proposals but rather we indicate why ethnic minorities are more or less likely to be affected by particular measures. We have also tried to indicate where the budget may decrease racial inequalities. We accept that our account may be a partial one; this is all the more reason for the Treasury to conduct a proper Equality Impact Assessment.

Tax Credits

According to government data, tax credits account for 10% of Bangladeshi and Pakistani household income, 6% of Black household income, and 2% of White household income. In



other words, cuts to tax credits are up to five times more likely to adversely affect some BME people. Cuts to, or freezes in, the value of tax credits will therefore increase racial inequalities because they disproportionately affect BME families who are already more likely to be living in poverty.

Part-time working

Tax credits are often associated with part-time working, and BME men in particular are more likely to be working part-time (especially Bangladeshi and Pakistani men). Most part-time workers on low incomes will be worse off, with only full-time workers with no children on minimum wage clearly better off. Figure 2 shows that while 5% of White men worked part time in 2011, the corresponding figures were 9% for Indian men, 10% for Black Caribbean men, 12% for Black African and Chinese men, 18% for Pakistani men and 35% for Bangladeshi men (with only 35% of Bangladeshi men employed full-time, compared to 72% of White men).

Child poverty

Black and minority ethnic households are more likely to be living in poverty. This is particularly notable for <u>BME children</u>, with nearly 50% of Pakistani children and over 40% of Bangladeshi children living in poverty, and all BME groups having higher child poverty rates than white British children.

Because BME households have slightly more children, the 2015 budget is likely to increase BME child poverty further from its already high levels, although if white British child poverty also increases racial inequalities may narrow.

Young people

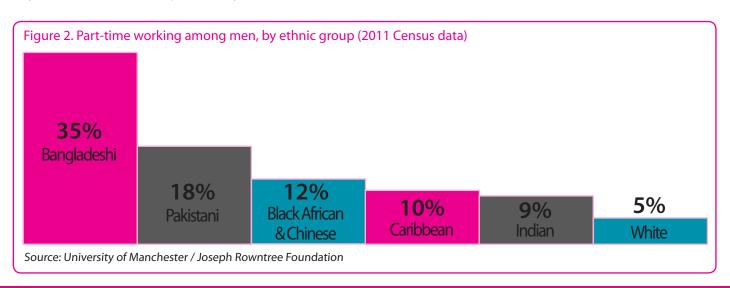
Many commentators have noted the disproportionate effects of many of the budget's proposals on young people. Due to the younger age profile of BME people they are likely to be disproportionately impacted of these measures. The median age among the White British population is 42 but it is much lower among BME groups, including only 16 for the Mixed: White and Black African group. Overall the median age for the Mixed population is only 18, and it is 23 for Black Other, 24 for Bangladeshi, 25 for Pakistani, 27 for Arab and 28 for Chinese and for Black African people in Britain (all data from the 2011 Census).

Furthermore, youth unemployment is much higher (around double) among BME people, having <u>risen by 49% over the past 5 years</u> compared to a 2% fall among young white people. These figures indicate why the budget's inability to extend support to young people will likely increase racial inequalities.

One particular benefit change - housing benefit - will particularly affect BME young people. This is because BME households are not only more likely to include young people, but they are also more likely to be overcrowded. Nearly half of all overcrowded households in Britain are among ethnic minorities, but the government is now restricting access to housing benefit for people in their late teens and early twenties. Among BME young people affected by this change, many will be living in overcrowded households, sharing bedrooms with younger siblings, and so these changes are more likely to negatively affect housing quality among BME families and young people.

London

Another seeming effect of the budget will be higher poverty in London. This is because the new national minimum wage (NMW) will be much lower than the living wage in London. Over 40% of BME people in the UK live in London, including nearly 60% of Black British people, and the living wage in London is £9.15 today, already above the 2020 target for the NMW established in the Chancellor's budget speech, a figure based on existing tax credit support. If poverty rises in London, this will mean that



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racial inequalities will rise in the UK too, given the much higher proportion of BME people who live in the capital.

Benefit cap

Previously we noted that the DWP found that 40% of those affected by the benefit cap are BME, despite BME people making up just 14% of the UK population. BME people make up 16% of Jobseekers' Allowance claimants, 16% of lone parents claiming income support, and 9% of those on Employment and Support Allowance (ESA). Reducing the cap further, even taking into account a slightly higher cap in London, will likely further increase racial inequalities, especially as the savings have been earmarked for the apprenticeships policy that is itself likely to increase racial inequalities.

Apprenticeships

The government has again committed to three million further apprenticeships, but this policy has in the past failed to benefit BME young people equally. According to David Cameron, 9.5% of apprenticeships were taken up by BME people, well below the proportion of BME young people, which is over 20%. Further expanding apprenticeships without addressing the disproportionately few number of BME apprenticeships will widen racial inequalities, with the Prime Minister's election campaign commitment to 10% BME apprenticeships implying white British applicants will be twice as likely to benefit.

Households with three or more children

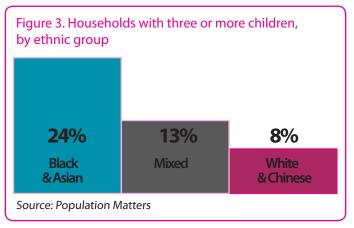
While the overall number of households with three or more children has stayed <u>roughly the same over time</u> (30% for those born in 1955; 28% for those born in 1975 and 27% for those born in 1995), the figures vary by ethnicity. Around 8% of White and Chinese families have 3 or more children compared to 13% of Mixed families, and 24% respectively for Black British and Asian British families. Changes in Child Tax Credits will result in lower incomes in these households, and so increase BME child poverty and racial inequalities.

NIESR has calculated that among low income family types, only childless and non-disabled individuals currently working 40 hours on the national minimum wage will gain from these changes, and we expect BME people to be less represented among this household type. The IFS has also indicated significant losses for lone parents. Given the higher proportion of BME households headed by lone parents, this may also increase racial inequalities.

Inheritance tax

The decision to increase the inheritance threshold to £1 million will benefit the richest households, as only 5% estates currently pay inheritance tax. BME people are disproportionately likely to be low earners, but they are also less likely to have significant assets, and to own their homes. The Office of National

Statistics found that while the average White British household had assets of around £221,000, this fell to just £21,000 for Black African and £15,000 for Bangladeshi groups. While most



groups have less than half of the White British wealth holding, Indian household median net wealth of £204,000 is not far off the White British figure and so perhaps as many as 1 in 20 Indian households may benefit from the rise in heritance tax.

Minimum wage

The Chancellor called the introduction of a new minimum wage of £7.20 a new 'living wage'. This is not so far off from the official £7.65 living wage, but is far short of the £9.15 living wage for London. In any case, this change will very likely increase the wages for a large number of BME individuals. This is because of the much higher proportion of BME people who currently earn the minimum wage, currently only £6.50 per hour, and so is one of the Budget's few clear measures that will likely reduce racial inequalities. For example, one-third to half of Bangladeshi men in work earn less than £7 per hour, so up to half of Bangladeshis could see a wage increase because of the budget.

However, as IFS and NIESR have pointed out, a wage increase does not necessarily mean an increase in income. This is particularly the case for many low income households, for lone parents and couples with children working 30 or 40 hours on the national minimum wage, and the average single-earner family on in-work tax credits, household types that are likely to be more common among BME people. While 6% of White people earn the minimum wage, this rises to 8-9% for Chinese and 'Other Black' workers, and 12-14% of Bangladeshi and Chinese workers.

It is important to recognise the clear impact a rise in the minimum wage will have on BME workers, and the possible reduction of racial inequalities as a result. However, overall the various features of BME households suggest that these benefits are likely to be eroded by other changes in the Budget.

Earning below the minimum wage

The rise in the minimum wage will clearly benefit those who are currently earning that wage (see above). However, it won't do anything to help those currently earning less than the minimum wage – those exploited by their employers and paid an illegally low wage. As Figure 4 indicates, this includes 18% of Bangladeshi workers, 11% of Pakistani and Chinese workers, 5% of Black African and Indian workers, but under 3% of White workers. Failing to address this abuse while increasing the mini-

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mum wage will therefore further increase ethnic inequalities.

A key reason for the higher rate of tax credits are the lower wages (and fewer hours) among BME households. While around 15% of White British men earn below the living wage, this rises to around 40% of Pakistani men and nearly 60% of Bangladeshi men, figures that the budget does not appear to address. The IFS estimates the bottom three deciles will be around £1,000 worse off from the budget overall, and given the median Bangladeshi household is within these bottom three deciles, this implies that half of Bangladeshi households will be £1000 or more worse off. So while we have suggested above that as many as half of Bangladeshi could benefit from the rise in the minimum wage, Figure 4 rather suggests that between 20-30% (ie. the proportion currently earning between the minimum wage and £7 per hour) will benefit.

Other measures

Assessing other budgetary measures for their impact on racial inequalities is more speculative, but it is worth noting that tax rises for better off populations may reduce racial inequalities. This is because BME are less likely to be well-off and so less likely to be disadvantaged by policies that seek to raise revenue from those populations. For example, the changes in buy-to-let properties may reduce racial inequalities given the lower ownership rates among BME people, and depending on the knock-on effect on private rental costs (as BME people are more likely to rent privately). There may be other such measures and we would expect a full race equality impact assessment to estimate which budgetary measures would result in a potentially positive reduction in ethnic inequalities.

Conclusion

Governments can and should demonstrate how their policies affect different groups, both to understand the efficacy of their implementation, and to ensure the fairness of government decision-making for all its citizens. In the case of race, this basic requirement for democratic legitimacy and procedural fairness has not been adequately considered over the past five years or more. In this sense, the current lack of an Equality Impact Assessment for the 2015 Budget may be an-

ticipated, but in three other ways it is surprising.

First is that it is not difficult to unearth the above data we've shown regarding the nature of the BME population; clever people in Whitehall could do so in an afternoon if so motivated.

Second is that no more than a quarter of BME voters supported the Conservatives in the 2015 election, less than the 30% combined 2010 Conservative and Liberal Democrat vote share, and so the government particularly need to ensure that its policies are fair and are seen to be fair for ethnic minorities. In this context, claiming that equality assessments are red tape, while implementing measures that directly or indirectly increase racial inequalities, not only implies a shirking of government responsibilities, but is also unlikely to win over many of the voters affected.

Third and lastly is that the above analysis does not address the issue of discrimination in the labour market, which remains widely documented in 21st century Britain. This is relevant because discrimination is one of the main reasons why people don't get hired, promoted or retained, and so explain the BME pay gap for similarly-qualified workers, under-employment, self-employment and unemployment data for BME people. To the extent that the budget seeks to contrast 'successful' or 'hard working' people with those 'shirking' or 'on benefits', it effectively denies that discrimination has any role to play in the figures referred to above, or implies that ethnic minorities are fully responsible for their worse employment outcomes. Failure to address this issue explains the persistent ethnic minority 'employment gap' of 11%, representing some 500,000 'missing' workers in the labour market, a figure that will rise to 1,000,000 'missing workers' by 2050 if nothing is done to tackle it.

Taken together our analysis suggests that 2015 Summer Budget will increase racial inequalities. We accept that there may be possible positive effects and indeed hope that countervailing measures will at least moderate the cumulative effects of the widespread ethnic inequalities referenced in this analysis. In this context, we therefore call on the government to publish its own estimates regarding the effects of the budget on Black and minority ethnic people, not simply to fulfil its obligation under the equality act, but to demonstrate its commitment to equal treatment for everyone, regardless of ethnic background, and indeed to economic growth for all.

About the author

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