

The Perfect Storm

Economic stagnation, the rising cost of living, public spending cuts, and the impact on UK poverty

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Micky works part-time as an administrator for a local charity. He's on the minimum wage and struggles to make ends meet, having a weekly budget for food of £15. Despite his vast experience – he has run a business and worked in management for a supermarket chain – he cannot find a permanent job that pays. Photo: Mora McLagan/Oxfam

The combination in the UK of economic stagnation and public spending cuts is causing substantial hardship to people living in poverty. This amounts to a 'Perfect Storm' of falling incomes, rising prices, public service cuts, benefit cuts, a housing crisis, and weak labour rights. By making different political choices, the government can both protect people in poverty and help to stimulate economic recovery in the short term, and set the UK on the way towards economic, social and environmental sustainability in the long term.

1 Summary

Introduction

The UK is facing a set of serious, interlocking challenges. The economy is stagnating, unemployment is increasing, prices are rising, incomes are falling, and spending on public services is being cut back rapidly.

In this paper, Oxfam has taken its experience of working with partner organisations across the UK and the stories of individuals with whom those partners work, together with a wider analysis, to outline the reality of these challenges for people living in poverty.

For the 13.5 million people who currently live in poverty – a fifth of the population – the combined impact of all these challenges is creating a ‘Perfect Storm’ that is pushing already fragile livelihoods to breaking point.

‘We are seeing people on a daily basis who have not got enough money to feed themselves or their children adequately.’

Feedback from Community Links focus group, 2012

Background: the reality of poverty in the UK

The UK is the sixth richest country on earth, yet one in five of its people lives in poverty. Before the financial crisis and the economic recession, prosperity was not shared. The UK is one of the most unequal rich countries in the world, with the poorest tenth of people receiving only 1 per cent of total income, while the richest tenth take home 31 per cent.

The risk of poverty is not one that is shared equally across society. Twice as many people from ethnic minorities live in poor households compared with white people; women are more likely than men to live in poverty; and, geographically, there are substantial inequalities both between and within the regions and nations of the UK.

Poverty in the UK is about material deprivation: for example, more than a fifth of UK households (5.5 million or 22 per cent) are affected by fuel poverty, and inadequate heating results in thousands of unnecessary deaths each year. But it is also about life and death: premature deaths caused by health inequalities in England each year lead to the loss of between 1.3 million and 2.5 million extra years of life. And people living in poverty have to face stigma and prejudice, and a lack of recognition for the positive, non-financial contributions they make to society.

‘What worries me, and scares me sometimes, is that there are so many programmes about benefit cheats and scroungers, and the labelling you get because you are someone on benefits.’

Sandra, Salford

The 'Perfect Storm' and its impact on poverty

'Just because people are not screaming, it does not mean that people are not desperate. It does not mean there isn't a crisis.'

Bal Athwal, worker at the Bradford Resource Centre

Since the economic crisis of 2008, those already in poverty have seen their poverty deepen, and millions more have become increasingly vulnerable. A combination of economic stagnation, the rising cost of living, benefit cuts, falling incomes, rising unemployment, and public service cuts add up to a Perfect Storm for the millions already struggling to make ends meet.

The Perfect Storm is already affecting partners with whom Oxfam works in the UK, with increased demand on their services, just as the resources to provide that support are being withdrawn. The coping mechanisms of people living in poverty have included increasing debt, more people relying on food parcels, and women acting as 'shock absorbers', managing budgets and debt and going without in order to ensure that their families have what they need.

Rising unemployment and declining incomes

Average earnings shrank by 4.4 per cent last year. Incomes of the directors of FTSE 100 companies rose by 49 per cent.

'I've been unemployed before and it's only ever taken three months to find work. Now, I've been looking for full-time work for ten months. It took me a long time to even get any interviews.'

Christina, Bradford

Incomes are decreasing across most of society due to a combination of rising unemployment (particularly youth unemployment), involuntary part-time working, pay freezes and cuts, and cuts in benefit levels. This is causing the biggest real terms fall in incomes since the mid-1970s. While real wages are falling for the majority and the National Minimum Wage has fallen over the past four years, rewards at the top have raced away: last year, earnings of directors and chief executives went up by 15 per cent, and those of directors of FTSE 100 companies soared by 49 per cent.

Falling incomes and rising inequality are part of a longer-term trend. In the decade to 2008/09, 40 per cent of total income growth in society went to the richest tenth of people, and a decreasing proportion of gross domestic product (GDP) has gone to wages. It is predicted that, on current trends, the UK will rapidly return to levels of inequality not seen since Victorian times.

The increasing cost of living

Food prices have risen by 30.5 per cent in five years. The National Minimum Wage has risen by 12.1 per cent in the same period.

'I always worry when I make a dish that it might not be enough. And if a friend should appear with my children at dinner time, they're always welcome – I give up my plate.'

Jean, Glasgow

Prices have risen rapidly, particularly in 2008 and 2011, even as the economy has stagnated. This inflation has been driven by food and fuel prices, both of which account for a high proportion of the spending of people living in poverty. In addition, people living in poverty have to pay more than rich people for basic necessities such as gas, electricity, and banking. This 'poverty premium' is estimated to cost them an additional £1,170 a year. Finally, tax rises under the coalition

government, such as VAT, have been regressive, thus affecting people living in poverty more. The poorest 10 per cent pay twice as much of their income in VAT as the richest 10 per cent.

The Institute for Fiscal Studies (IFS) has calculated that, between 2008 and 2010, the poorest fifth of households experienced an inflation rate of 4.3 per cent, against 2.7 per cent for the richest fifth. The Joseph Rowntree Foundation estimates that the cost of achieving a Minimum Income Standard – a minimum standard of living, based on a broad survey of what members of the public think constitutes the basic requirements of life – has risen by 43 per cent over the past decade, compared with 27 per cent for general prices.

Public service cuts

Spending cuts hit the poorest tenth of the population 13 times harder than the richest tenth.

The government plans to achieve the majority of its deficit reduction programme through public spending cuts. Poorer people rely most on public services, and spending cuts are estimated to hit the poorest tenth of the UK population 13 times harder than the richest tenth – with planned reductions to public services being equivalent to more than a fifth of their income being taken away. These cuts mean less health care, reductions in social care, and the loss of hundreds of smaller services such as counselling support, care homes, school crossing patrols, and youth clubs.

Cutting public spending has a particularly strong impact on gender equality, with women more likely to be reliant on public services than men. Cuts to the Sure Start programme in England (while the equivalent in Wales, Flying Start, is being protected by the Welsh government), and the thinner spreading of cash support for childcare support under Universal Credit, will particularly affect women.

Public service cuts also have an impact on unemployment. Public sector employment levels are in steep decline, and women form the majority of public sector employees.

Welfare reform and benefit cuts

Seventy-two per cent of the benefit cuts announced in 2010 will be paid by poor women.

One of the largest contributions to spending cuts has come from reductions in benefits for working-age people, accounting for £18bn per year by 2014–15. According to the House of Commons Library, 72 per cent of cuts announced in the 2010 Emergency Budget will be met from women's incomes, against 28 per cent from men's.

The introduction of Universal Credit will simplify the benefits system, making it easier for people currently on benefits to transition between unemployment and work. Yet, just as the system is simplified, so eligibility is being tightened for many claimants.

'There are too many cuts in Manchester, and there are too many places closed down, so I don't have many places left to go. Since all these cuts have affected me, I've actually relapsed with my mental health.'

Bridget, Manchester

'[On benefits] you don't get enough to live on. £65 or £67 a week, for an adult, is not enough. Sometimes I think, "I am a single person and I struggle, what about families of six kids?"'

Jo, unemployed, Bradford

These changes are increasing the demands on support services, including those of Oxfam partners. They also create severe hardship: the Trussell Trust food bank network reports that two people out of every five receiving food parcels do so as a result of benefit changes or delays.

Housing crisis

The number of Housing Benefit claimants in work more than doubled between November 2008 and February 2012.

Before the recession hit, there was an acute housing shortage. There were 1.77 million households in England on social housing waiting lists in 2008, and 489,400 households living in officially overcrowded homes. Government targets for the building of new homes have been missed, with construction slowing to a crawl since the recession.

The cost of housing has continued to rise in spite of the recession in both the private and social rented sectors, with average rents at record highs and homes unaffordable in more than half of English local authorities. Newly homeless households increased by 18 per cent in England between 2010 and 2011.

Reforms to social housing are not only increasing rents, but also reducing security of tenure. Above-inflation increases in private rents have been compounded by cuts to housing support, even as the need for that help spreads. The number of Housing Benefit claimants in work more than doubled between November 2008 and February 2012, whereas the number of claimants out of work rose by only 9.3 per cent.

The human cost of scarce and expensive housing is stark. Family life is affected, with people forced to delay having children, or to live away from the support of grandparents, while the cost of housing is forcing millions to cut back on other essential spending, including food and heating, and pushing many into debt.

Weak labour rights

Since the recession started, 830,000 permanent full-time jobs have been lost, and half a million new part-time jobs created. The number of people in temporary work because they cannot find a permanent job has risen by 73 per cent. The UK has weaker protection for those in work than Mexico.

For a substantial minority in the UK, work is characterised by insecurity, uncertainty over hours, underpayment, a succession of short-term jobs, or a combination of these. There are estimated to be two million 'vulnerable workers' in the UK; decades of deregulation for employers mean that the UK now has the third lowest level of employment protection legislation in the OECD – below Greece, Turkey, and Mexico – and the highest number of zero-hours contracts in Europe (contracts in which a person is required to be on call for work, but has no guaranteed hours of work and is only paid for the hours they do work); and women are in the most precarious and vulnerable work.

Right now, the loose labour market and the shortage of jobs mean that

'It [the housing benefit cap] fills me with dread and I've tried to move to a flat instead of a house which is about £50 cheaper per month, but no one will touch me because I'm a [social] housing tenant. So when these changes take place, I will have to end my contract here and probably go homeless – they aren't leaving me with any choice.'

Single mother, London

'My life has not been stable because I cannot find a permanent job. I work whenever it is available. I have to push hard to make sure I have a sensible amount of hours for the week – I have no guaranteed work, it is all ad hoc. The organisation I work for does not commit itself to give me work.'

Stella, single parent and care worker, lost her permanent job as a housing support worker

more power rests with employers, and more people are being forced to turn to insecure work, with few rights – or to waive the rights they do have – just to survive. The number of ‘frustrated part-timers’ – those who want and need full-time work – is at a record high, which is particularly significant as such work is generally low-paid and less secure. A very high proportion of jobs created since the first recession have been part-time, and one in three is a temporary job.

Responding to the Perfect Storm

The need for a new approach

The government’s rapid deficit reduction measures are hitting the livelihoods of almost everyone in the UK, but the particular approach taken is hurting people living in poverty the most. The focus on cutting public spending rather than raising taxes is deeply regressive, and the blend of tax increases chosen is itself regressive. In addition, both public spending cuts and the tax and benefit changes introduced by this government will have a significantly more negative impact on women than on men.

At the same time, we are seeing a synergy of economic and social needs. Protecting the incomes of the poorest people is crucial for both social and economic reasons. It is people on low incomes who are being hurt the most by the Perfect Storm, and increasing the incomes of the poorest will have the strongest multiplier effect on aggregate demand in the economy. By prioritising and targeting social and economic investment, the government can ensure that it protects the services upon which those in poverty most rely, while helping to boost demand and provide investment in the long-term productive capacity of the economy.

No return to business as usual

The UK’s economy and society, as currently constituted, are unsustainable – economically, socially, and environmentally. We need a people’s bail-out to protect the millions in poverty and the millions more who are increasingly vulnerable. But we also need to ensure that there is no return to business as usual.

Protect the incomes of the low-paid

Protecting the incomes of the poorest people is a clear priority, and will help to stimulate demand in the economy. In the long term, action to reduce pay differentials within businesses, public authorities, and wider society can help to protect the incomes of those at the bottom, as well as helping to reduce inequality.

To ensure that incomes for those in work are maintained:

- **Cuts to working tax credits should be reversed;**

- **The withdrawal rate for Universal Credit should be reduced from 65 per cent to 55 per cent, to ensure that the principle that work should pay is realised in the new system; and**
- **The National Minimum Wage should be increased automatically at least in line with inflation or average earnings, whichever is the higher.**

Protect people in poverty from the increasing cost of living

To protect people living in poverty from high energy prices, **the government should give the energy regulator, Ofgem, new powers to cap prices and eliminate excess profits.**

To protect people who are forced into debt by high prices, the government should:

- **Introduce a maximum level of interest; and**
- **Ensure that access to the Social Fund is maintained for those on very low incomes, and that its resources are expanded to meet increased demand.**

Reduce public service cuts

In the short term, by changing the ratio of spending cuts to tax increases, the government can protect services by reducing the speed and depth of cuts. To protect services for the longer term, it can invest in services that create jobs and increase long-term growth.

As an immediate step, the government should:

- **Slow the speed and depth of public service cuts by increasing progressive taxation instead;**
- **In particular, protect Sure Start services by reinstating the ring-fence to the Sure Start grant to local authorities in England; and**
- **Explore investing in a national system of universal child care.**

Protect the social safety-net

In the short term, the incomes of the poorest people should be protected. In the longer term, overcoming poverty and creating a sustainable economy will require social protection that provides enough to live on, but which also acts as a springboard towards employment and progression.

In the short term, the government should protect the level of out-of-work benefits by:

- **Ensuring that local authorities in England have sufficient resources to maintain existing levels of Council Tax Benefit,**

following the examples of the Scottish and Welsh governments;

- **Monitoring the effect of the Housing Benefit and overall benefit caps and reviewing them in light of social impacts; and**
- **Ending stealth cuts to benefits by reversing the switch in uprating these from the Retail Price Index (RPI) to the Consumer Price Index (CPI) measure of inflation, to protect benefit levels for those in or out of work.**

To protect the incomes of women both in and out of work, who have been hit particularly hard by cuts to benefits:

- **Child Benefit levels for those on low and middle incomes should be maintained through a reversal of the freeze to 2014; and**
- **Cuts to child-care support should be reversed, to protect both incomes and work incentives, by restoring support for child-care costs for low-income families to pre-April 2011 levels and through providing an adequate level of support for child-care costs in the new Universal Credit system.**

Secure, affordable, decent housing for all

There is a clear long-term need for housing, but in the short term there is a need to protect private tenants. Housing is also a very good way of stimulating the economy. Investment in housing can serve environmental as well as economic ends, for example through retrofitting existing housing stock.

In the short term, the government should:

- **Invest in affordable homes to boost the economy and help solve the housing crisis; and**
- **Consider raising the maximum penalties for offences by landlords, including increasing the maximum fines to make it more cost-effective to pursue prosecutions.**

Protect rights at work

In the short term, it is crucial that existing labour rights are protected. In the long term, protecting labour rights is an essential part of ensuring that decent work becomes the norm in the UK, and that in-work poverty is eradicated.

In the short term, the government should:

- **Protect access to justice by exempting low-income workers from employment tribunal fees;**
- **Apply the working practices of the Gangmasters Licensing Authority to other sectors of the economy, prioritising**

hospitality, construction, and social care; and

- **Extend the right to request flexible working to all workers.**

A fairer tax system

In the short term, for social and economic reasons, any further tax increases should be progressive in nature, and future tax cuts should be targeted at people on low incomes. In the long term, a progressive tax system would help to tackle inequality.

In the short term, to raise money to protect essential services, the government should:

- **Proactively clamp down on tax avoidance and evasion to ensure that all tax that is levied is collected;**
- **Introduce a 'Robin Hood Tax' on financial transactions of 0.05 per cent, to raise money for services and benefits at home and to fight poverty overseas; and**
- **Examine options for a land value tax.**

The long-term case for a fairer society

There is a strong relationship in the UK between poverty and inequality. The UK is a rich society, but one in which income, wealth, and opportunity are unequally distributed.

Inequality harms those who are shut out from wealth and left in poverty, but there is also substantial evidence that it leads to worse outcomes across society as a whole. Meanwhile, the economic crisis has to a large extent been caused by unsustainable personal debt and a bloated financial sector, both of which were driven by inequality. Finally, as a whole, the UK economy is environmentally unsustainable.

The impact of inequality on individuals and society

Inequality has the harshest impacts on those forced to remain at the lower end of the income spectrum, breeding a sense of hopelessness and status anxiety. More broadly, inequality has negative impacts across society as a whole, causing lower life expectancy, less social mobility, and poorer health outcomes, and worsening a range of other social problems. Within rich societies, the way in which resources are distributed is the key determinant of overall well-being.

The economic case for greater equality

Economic growth over the past three decades has been unequally shared and incomes for low earners have been stagnant, even as incomes at the top have raced away. With those at the bottom trying to keep up, personal debt increased by three-and-a-half times between 1981 and 2007, from 45 per cent to 160 per cent of GDP.

'In Britain or Glasgow as a whole, it's all slowly eroding. You see wealth creation, and you see wealth, but it never filters down. So you see the very poor getting poorer.'

Audrey Flannaghan, Trussell Trust food bank manager in Glasgow, Scotland

Bridging the widening gap in incomes with borrowing cannot be maintained indefinitely. The World Bank and the IMF have both recently produced evidence showing that reducing income inequality is likely to be important in reducing the likelihood of future crises.

Inequality is also bad for growth and, according to the IMF, reduces the length of growth spells. For example, closing half of the inequality gap between Latin America and emerging Asian economies would more than double the expected duration of a 'growth spell'.

As a recent Oxfam International report on the G20 puts it, 'If we factor in the impact on growth, the double dividend of tackling inequality becomes a triple dividend: it directly reduces poverty, enhances the ability of future growth to reduce poverty, and, finally, it improves prospects for growth itself.'

In order to effect a lasting solution to the crisis, steps taken to fight economic stagnation and to protect people living in poverty must seek to build a fairer, more sustainable society.

Rethinking what we value as a society

It is not growth that matters, but the type and distribution of growth. Oxfam in Scotland has led the development of a Humankind Index, which is based on asking people in Scotland what matters to them and then measuring those things, to see how well Scotland is doing as a society. The UK government should adopt a similarly wide-ranging approach to measuring well-being, to help ensure that steps taken now will build a post-crisis economy and society that sustainably serve the interests of the British people.

Conclusion

The aftermath of recession is seeing economic stagnation, falling real incomes, and public service cuts all hitting people living in poverty the hardest. The combined impact of all of these factors adds up to a Perfect Storm that is pushing people's livelihoods to breaking point.

The crisis we are in could be an opportunity to change thinking about what a fair society looks like, and to build the foundations for overcoming poverty once and for all. We need urgent action right now to reinvigorate both the economy and the social safety-net on which most of us ultimately rely. But we also need to do so in a way that sets us on the road to a fair, productive, and sustainable society.

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This paper was written by Moussa Haddad. Oxfam acknowledges the assistance of Krisnah Poinasamy, Joana Martinho, Louie Fooks, Kate Raworth, Ruth Kelly, Nicola Hughes (Shelter), and Fiona King (Shelter Scotland) in its production. Infographics created by Garth Stewart. It is part of a series of papers written to inform public debate on development and humanitarian policy issues.

Oxfam would like to thank the many individuals who have shared their experiences of working poverty with us. Some names have been changed. Some quotes and case studies have previously been published in other Oxfam papers. All quotes and case studies relate to experiences reported in the past two years.

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The information in this publication is correct at the time of going to press.

Oxfam's work in the UK: Oxfam works to overcome poverty in the UK in three ways. We develop projects with people living in poverty to improve their lives and show how things can change; we raise public awareness of poverty to create pressure for change; and we work with policy makers to tackle the causes of poverty. For more information visit www.oxfam.org.uk

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Published by Oxfam GB under ISBN 978-1-78077-118-2 in June 2012.
Oxfam GB, Oxfam House, John Smith Drive, Cowley, Oxford, OX4 2JY, UK.