
THE TRUE COST OF AUSTERITY AND INEQUALITY

UK Case Study

Pre-crisis UK

The UK is the sixth richest country in the world.¹ From 1993 to 2008 it saw 15 years of economic growth, underpinned by the socio-economic reforms of the 1980s. This shift towards market-based capitalism was characterized by financial liberalization, the erosion of social security and deregulation of the labour market.

However, these reforms have led to a dramatic increase in the number of people living in poverty, which almost doubled, from 7.3 million people in 1979 to 13.5 million in 2008,² and inequality reached levels last seen in the 1920s,³ driven by a growing share of income going to the richest, in particular the top one per cent. Since 1975, income inequality among working-age people has risen faster in the UK than in any other OECD nation, including the United States,⁴ such that the UK now ranks as one of the most unequal countries in the OECD.⁵ Indeed, the UK has a pre-tax income inequality index of 0.52, greater than the United States (0.49).⁶

The average annual income in the UK for the top 10 per cent of the population in 2008 was roughly £55,000; for the bottom 10 per cent, it was just £4,700 – a ratio of 12:1. This is up from a ratio of 8:1 in 1985, and significantly higher than the average income gap in developed nations of 9:1.⁷

The crisis

The 2008 financial crisis led the UK government to bail out British banks at an estimated cost of £141bn, with exposure to liabilities of over £1 trillion.⁸ This unprecedented state intervention was undertaken to prevent a collapse of the British banking system. At the same time, the government began a £31bn stimulus effort, which included reducing VAT, bringing forward capital spending on schools and social housing, and

deferring an increase in corporation tax. The stimulus programme lasted until 2010; during that time, incomes grew fastest for the poorest fifth of the population (at 3.4 per cent) and slowest for the richest two-fifths (at 0.3 per cent).⁹

Austerity measures

Since 2010, austerity – primarily in the form of deep spending cuts with comparatively small increases in tax¹⁰ – has been the UK government's dominant fiscal policy, with far fewer measures to stimulate the economy. The stated aim of austerity was to reduce the deficit in the UK to give confidence to the markets and therefore deliver growth to the economy. While austerity measures have had some impact on reducing the deficit, they have delivered little growth, and public debt has risen from 56.6 per cent of GDP in July 2009¹¹ to 90 per cent of GDP (£1.39 trillion) in 2013.¹² The policies have also had far-reaching impacts on the poorest people in the UK. In 2010, the Conservative-Liberal Democrat coalition government announced the biggest cuts to state spending since the Second World War,¹³ including significant cuts to social security and the planned loss of 900,000 public sector jobs between 2011 and 2018.¹⁴

Since the 2008 financial crisis began, those already in poverty have seen their impoverishment worsen, and millions more have become more vulnerable.

'Because they kept giving me days off, I couldn't afford to keep the job. I was left with nothing. If it was a full-time job, I wouldn't have had to leave it, you see. By the time I paid transport, paid rent and everything, I was left with nothing. I was losing out on money'

Lee, Glyncoch, Wales

Economic stagnation, the rising cost of living, cuts to social security and public services, falling incomes, and rising unemployment have combined to create a deeply damaging situation in which millions are struggling to make ends meet.¹⁵ Just one example among many is the unprecedented rise in the need for emergency food aid, with at least half a million people using food banks each year.¹⁶

As a result of the tax and welfare changes to be implemented between 2010 and 2014, the poorest two-tenths of the population will have seen greater cuts to their net income, in percentage terms, than every other group, except the very richest tenth.¹⁷ The Institute for Fiscal Studies found that the net direct effect of the coalition government's tax and benefit changes will be to increase both absolute and relative poverty.¹⁸ Over the decade to 2020, an additional 800,000 children are expected to be living in poverty – almost one in four British children.¹⁹ Over the same period, an extra 1.5 million working-age adults are expected to fall into poverty, bringing the total to 17.5 per cent of this group. When incomes are adjusted to account for inflation, absolute poverty has already seen its largest year-on-year increase in a decade, rising by 900,000 in 2012.²⁰

This is happening at a time when levels of unemployment remain stubbornly high. Despite reaching a 40-year low of 4.7 per cent in 2004,²¹ the unemployment rate has remained above 7 per cent since 2009. In 2012, unemployment reached 7.9 per cent, a level last seen in 1996.²² In the year to May 2009, the number of people who were unemployed rose by 760,000 (from 1.61 million to 2.38 million) and, as of August 2013, stood at 2.51 million (7.8 per cent).²³ Of even greater concern has been the growth of youth unemployment²⁴ and long-term unemployment,²⁵ which have remained at historically high levels since the financial crisis began.

Unemployed people will experience a loss of income close to 7 per cent.²⁶ The decision to change how social security payments increase will have a particularly damaging effect; linking payments to a lower inflation index, the Consumer Price Index (currently 2.9 per cent), instead of the Retail Price Index (3.3 per cent) – means incomes will not rise to match increases in the cost of living.²⁷ These changes will affect the poorest hardest, as basic costs for food,²⁸ energy²⁹ and housing³⁰ have outpaced inflation over the last few years. This impact is compounded the poverty premium³¹ and recent measures to limit increases of some social security payments – including Jobseeker's Allowance, Housing Benefit and Child Benefit – to just 1 per cent annually for the next three years, which greatly affects those in in-work poverty.³²

For those in work, average hourly wages have fallen in real terms by 5.5 per cent since mid-2010.³³ There has also been a considerable shift in the type of jobs created, with half of the increase in employment numbers since 2010 being in temporary work and a doubling of people involuntarily in temporary work.³⁴ In other words, people who want permanent jobs are increasingly unable to find them. The number of people taking part-time work because they are unable to find full time work has more than doubled since 2008.³⁵ In addition, self-employment, which can leave workers with no employment rights, has seen a dramatic increase, particularly since 2011.³⁶

Women have arguably been worst affected by the crisis: of the £8.1bn in net personal tax increases and benefit cuts, an estimated £5.8bn (72 per cent) will impact upon women.

Women will also suffer to a greater degree from cuts to public services, due to their comparatively higher representation in the public sector. Since the 2008 financial crisis, female unemployment has risen from 678,000³⁷ to 1.08 million in 2013³⁸ – a level last seen in 1988³⁹. This is expected to further rise to 1.5 million by 2018,⁴⁰ as the remainder of public sector cuts take effect. Women typically use public services more than men for a variety of reasons and will therefore be more significantly impacted by their closure, both in their own right and, usually, as principal carers. The combination of these impacts from austerity measures will have long-term consequences for both gender equality and, most likely, child poverty in the UK.

'I felt very ashamed having to go to a food bank the first time. It was down to my son's school liaison officer coming round to my house, because I hadn't sent my son into school for a couple of days as I couldn't afford a packed lunch for him and I couldn't afford to pay for a school dinner. I couldn't do what a mum should do for them – look after them. I couldn't even feed them. That just makes you feel really low as a parent.'

Lorna, school dinner lady and mother of three, Tower Hamlets, London

Inequality

When all austerity measures are taken into account, including cuts to public services and changes to taxes and welfare, the poorest tenth of the population are by far the hardest hit, seeing a 38 per cent decrease in their net income over the period 2010-15.⁴¹ By comparison, the richest tenth will have lost the least, comparatively, seeing a 5 per cent fall in their income.⁴² There is also continuing evidence that the very richest are faring much better since the economic crisis. The super-rich – the top one per cent of earners – pocketed 10p of every pound of income earned in the UK in 2010-11, up from 7p in 1994-5.⁴³ Meanwhile, the poorest 50 per cent of the population took home between them only 18p in every pound, down from 19p.⁴⁴ At the very top, Britain's richest 1,000 individuals saw their wealth increase by £138bn in real terms between 2009 and 2013.⁴⁵ Even measures designed to stimulate the economy have resulted in significant gains for the richest – the richest five per cent of households hold 40 per cent of the assets that increased in value as a direct result of quantitative easing⁴⁶.⁴⁷ All the while, the poorest tenth are taking home even less.⁴⁸

Even policies designed to increase the share of tax paid by the richest have been watered down, with the government reducing the top rate of income tax, over £150,000, from 50 to 45 per cent. Corporation tax has also fallen significantly in the last three years, at a time when the UK's top companies are doing better than ever. As recently as May 2013, the FTSE 100 reached its highest level since 1999 and the FTSE 250 reached a new record.⁴⁹

As the UK returns to growth, this will not be cause for celebration for the bulk of the population, as it is accompanied by rising levels of insecure work, high unemployment and the destruction of mechanisms to reduce poverty and lower inequality. Far from a shift towards more inclusive growth, austerity will increase inequality in what is already one of the most unequal developed countries, in which the richest continue to gain disproportionately from new growth.

The UK's current austerity programme threatens to solidify the UK's position as a country of growing inequality and poverty. Its emphasis on cutting public spending as opposed to increasing taxes has already begun to increase the hardship faced by people on low incomes, whilst allowing the richest bear a comparatively small burden of the pain. As millions more are expected to be living in poverty and at risk of poverty by the end of the decade, the richest look set to get richer.

NOTES

All URLs last accessed in September 2013.

- ¹ World Bank (2012) 'GDP (current US\$)', http://data.worldbank.org/indicator/NY.GDP.MKTP.CD?order=wbapi_data_value_2012+wbapi_data_value+wbapi_data_value-last&sort=desc
- ² Department of Work and Pensions (2013) 'Households Below Average Income: An analysis of the income distribution 1994/95 – 2011/12 June 2013 (United Kingdom)', https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/206778/full_hbai13.pdf, Table 3.3tr, p.74
- ³ F. Alvaredo (2011) 'Inequality over the past century', *Finance and Development* 48:3, IMF <http://www.imf.org/external/pubs/ft/fandd/2011/09/picture.htm>
- ⁴ OECD (2011) 'Divided We Stand: Why Inequality Keeps Rising. Country Note: United Kingdom', <http://www.oecd.org/els/soc/49170234.pdf>
- ⁵ OECD (2013) 'Crisis squeezes income and puts pressure on inequality and poverty', <http://www.oecd.org/els/soc/OECD2013-Inequality-and-Poverty-8p.pdf>. The UK has a net income inequality index of 0.341, and is only exceeded by Portugal (0.344), Israel (0.376), USA (0.378), Turkey (0.411), Mexico (0.466) and Chile (0.501). See <http://stats.oecd.org/#> (Table: Inequality, by country)
- ⁶ See <http://stats.oecd.org/#> (Table: Inequality, by country)
- ⁷ *ibid.*
- ⁸ National Audit Office (2013) 'HM Treasury Resource Accounts 2012-13: The Comptroller and Auditor General's Report to the House of Commons' <http://www.nao.org.uk/wp-content/uploads/2013/07/HMT-Accounts-2012-13.pdf>
- ⁹ J. Cribb, *et al* (2013) 'Living Standards, Poverty and Inequality in the UK: 2013', Institute for Fiscal Studies (IFS): London, <http://www.ifs.org.uk/comms/r81.pdf>
- ¹⁰ The ratio of spending cuts and tax increases is roughly 85:15 – for every £100 of deficit that is reduced, £85 comes through spending cuts, while £15 is through increased taxes. See Paul Johnson's opening remarks from an Institute of Fiscal Studies event on 27 June 2013 in London, http://www.ifs.org.uk/budgets/sr2013/paul_johnson.pdf
- ¹¹ Office of National Statistics (ONS) (2009) 'Statistical Bulletin: Public sector finances: July 2009', <http://www.ons.gov.uk/ons/rel/psa/public-sector-finances/july-2009/public-sector-finances--july-2009.pdf>
- ¹² ONS (2013a) 'Government Deficit and Debt Under the Maastricht Treaty, Calendar Year 2012', http://www.ons.gov.uk/ons/dcp171778_299198.pdf
- ¹³ R. Crawford (2010) 'Public services: serious cuts to come', Institute of Fiscal Studies presentation, October, <http://www.ifs.org.uk/budgets/budgetjune2010/crawford.pdf>
- ¹⁴ IFS (2013) 'The IFS Green Budget', IFS, p.175, <http://www.ifs.org.uk/budgets/gb2013/gb2013.pdf>
- ¹⁵ M. Haddad (2012) 'The Perfect Storm: Economic stagnation, the rising cost of living, public spending cuts, and the impact on UK poverty', Oxfam: Oxford, <http://policy-practice.oxfam.org.uk/publications/the-perfect-storm-economic-stagnation-the-rising-cost-of-living-public-spending-228591>
- ¹⁶ N. Cooper and S. Dumpleton (2013) 'Walking the Breadline: The scandal of food poverty in 21st Century Britain', Oxfam and Church Action on Poverty: Oxford, <http://policy-practice.oxfam.org.uk/publications/walking-the-breadline-the-scandal-of-food-poverty-in-21st-century-britain-292978>
- ¹⁷ J. Browne and P. Levell (2010) 'The distributional effect of tax and benefit reforms to be introduced between 2010 and June 2014: a revised assessment', IFS: London, <http://www.ifs.org.uk/bns/bn108.pdf>
- ¹⁸ M. Brewer, J. Browne and R. Joyce (2011) 'Child and Working-Age Poverty from 2010 to 2020', IFS: London, <http://www.ifs.org.uk/comms/comm121.pdf>. Relative poverty amongst working-age adults is expected to rise from 16.7 per cent (2011/12) to 18.5 per cent (2014/15). By 2020, relative poverty is expected to rise between three to four percentage points to 24.4 per cent among children and 20.0 per cent among working-age adults.
- ¹⁹ *ibid.*
- ²⁰ Department of Work and Pensions (2013) *op. cit.*
- ²¹ Government Statistical Service (1996) 'Unemployment Statistics from 1881 to the present day', <http://www.ons.gov.uk/ons/rel/lms/labour-market-trends--discontinued-/january-1996/unemployment-since-1881.pdf>
- ²² Eurostat (2013) 'Unemployment rate, by sex', <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=tsdec450&plugin=0>

- ²³ ONS (2013b) 'Labour Market Statistics', July 2013, http://www.ons.gov.uk/ons/dcp171778_315111.pdf
- ²⁴ Youth unemployment is almost one million, a rate of 21 per cent, almost double that of 2001. See J. Mirza-Davies (2013) 'Youth unemployment statistics', House of Commons Library: London, <http://www.parliament.uk/briefing-papers/sn05871.pdf>
- ²⁵ Long-term unemployment has almost doubled in the last five years to 915,000, a 17-year high. See Chart 1 in ONS (2013b) *op. cit.*
- ²⁶ *ibid.*, Figure 4.1
- ²⁷ ONS (2013c) 'Statistical Bulletin: Consumer Price Inflation, June 2013', http://www.ons.gov.uk/ons/dcp171778_317813.pdf
- ²⁸ ONS (2013d) 'Consumer Price Inflation, July 2013', http://www.ons.gov.uk/ons/dcp171778_322005.pdf. Food prices have risen 3.9 per cent over the 12 months to July 2013.
- ²⁹ *ibid.* Housing and energy costs have risen 4.3 per cent over the 12 months to July 2013.
- ³⁰ See V. Alakeson and G. Cory (2013) 'Home Truths: How affordable is housing for Britain's ordinary working families?', London: Resolution Foundation, <http://www.resolutionfoundation.org/publications/home-truths-how-affordable-housing-britains-ordina/>. Rents have risen considerably, such that in a third of local authorities, a low-income family on £22,000 would have to spend more than 35 per cent of its disposable income on rent and it is now more expensive for a low income family to rent than to own with a mortgage in close to half of all local authorities.
- ³¹ The poverty premium is the cost of being unable to take advantage of schemes to reduce costs by paying upfront on necessities such as gas and electricity – this is estimated to be in the region of £1,170 a year. M. Haddad (2012) *op. cit.* p. 14
- ³² A. Hood, P. Johnson and R. Joyce (2013) 'The Effects of the Welfare Benefits Up-rating Bill', IFS: London, <http://www.ifs.org.uk/publications/6539>
- ³³ BBC News (2013) 'UK wages decline among worst in Europe', 11 August 2013, <http://www.bbc.co.uk/news/business-23655605>
- ³⁴ Trades Union Congress (2013) 'Involuntary temporary jobs driving rising employment', 9 August 2013, <http://www.tuc.org.uk/economy/tuc-22456-f0.cfm>
- ³⁵ ONS (2010) 'Labour Market Statistics, August 2010', <http://www.ons.gov.uk/ons/rel/lms/labour-market-statistics/august-2010/labour-market-statistics.pdf>, and ONS (2013e) 'Labour Market Statistics, August 2013', http://www.ons.gov.uk/ons/dcp171778_319808.pdf. The number of people who were working part-time because they could not find full-time work rose from 681,000 in April–June 2008 to 1,433,000 in April–June 2013.
- ³⁶ ONS (2013f) 'Self-employed up 367,000 in Four Years, Mostly Since 2011, 6 February', http://www.ons.gov.uk/ons/dcp171776_298533.pdf
- ³⁷ ONS (2008) 'Labour Market Statistics', <http://www.ons.gov.uk/ons/rel/lms/labour-market-statistics/july-2008/july-2008-stat-bull.pdf>
- ³⁸ ONS (2013g) 'Labour Market Statistics', http://www.ons.gov.uk/ons/dcp171778_315111.pdf
- ³⁹ ONS, 'LFS: Labour Market Statistics - Integrated FR - Unemployment by age & duration', <http://www.ons.gov.uk/ons/datasets-and-tables/data-selector.html?cid=MGSE&dataset=lms&table-id=9>
- ⁴⁰ Fawcett Society (2013) 'The changing labour market: delivering for women, delivering for growth', <http://www.fawcettsociety.org.uk/wp-content/uploads/2013/04/Fawcett-The-changing-labour-market.pdf>
- ⁴¹ T. Horton and H. Reed (2010) 'The distributional impact of the 2010 Spending Review', *Radical Statistics* 103, pp.13-24, <http://www.radstats.org.uk/no103/HortonReed103.pdf>
- ⁴² *ibid.*
- ⁴³ Resolution Foundation (2013) 'Squeezed Britain', http://www.resolutionfoundation.org/media/media/downloads/Resolution-Foundation-Squeezed-Britain-2013_1.pdf, p.15
- ⁴⁴ *ibid.*
- ⁴⁵ The combined wealth of the 1,000 richest individuals in the UK in 2009, as calculated by the Sunday Times Rich List (<http://features.thesundaytimes.co.uk/richlist/live/>, NB. paywall), was £258bn (R. Nikkhah (2009) 'Sunday Times Rich List 2009 – Analysis', *The Telegraph*, 25 April, <http://www.telegraph.co.uk/finance/5220243/Sunday-Times-Rich-List-2009-Analysis.html>) and £450bn in 2013 (*The Telegraph* (2013) 'Sunday Times Rich List: Alisher Usmanov is Britain's wealthiest man', 21 April, <http://www.telegraph.co.uk/finance/10008314/Sunday-Times-Rich-List-Alisher-Usmanov-is-Britains-wealthiest-man.html>). £450bn in 2013 is approximately £396bn in 2009 GBP, based upon a total rate of inflation of 13.5% since 2009.
- ⁴⁶ A means of injecting more money into the economy and reviving consumer spending by the central bank, the Bank of England, through the acquisition of financial assets.
- ⁴⁷ Bank of England (2012), 'The Distributional Effects of Asset Purchases' 12 July

<http://www.bankofengland.co.uk/publications/Documents/news/2012/nr073.pdf>

⁴⁸ In the UK, the poorest have seen their income share decline from 2.9 per cent in 2009 to 2.8 per cent in 2011, whilst the richest took a greater share, rising from 25.4 to 26.0 per cent over the same period. Eurostat (2013) 'Distribution of income by quantiles', http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=ilc_di01&lang=en

⁴⁹ B. Martin (2013) 'FTSE 100 hits highest since 1999', The Telegraph, 21 May, <http://www.telegraph.co.uk/finance/markets/10071967/FTSE-100-hits-highest-since-1999.html>

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