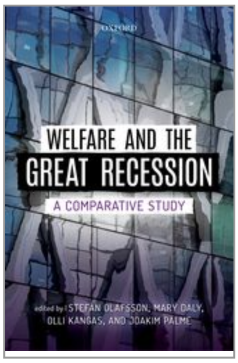

Welfare and the Great Recession: A Comparative Study
Stefán Ólafsson, Mary Daly, Olli Kangas, and Joakim Palme

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UK

Changing Politics of Crisis Management

Fran Bennett

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Abstract and Keywords

This chapter shows how the UK tackled the crisis. The UK was affected early and implemented a post-crisis stimulus package quickly. But from 2010, with a new government, austerity was the watchword, with cuts in social security expenditures prioritized over tax increases. Spending on education and health was shielded, as were old-age pensioners' benefits, but those of families with children were reduced. From 2015 a Conservative majority government continued on a similar path, though also implementing tax cuts and a higher minimum wage. Under the new Prime Minister, the aim of balancing the public finances was postponed. Initially the pain of the crisis was shared more broadly. But financial hardship increased after 2012, especially for lone parents and disabled people, and benefit cuts affected women in particular. Whilst employment has increased, recovery has been slow. It seems unlikely positive welfare state developments can be expected in the near future.

Keywords: UK, crisis, austerity, children, hardship, slow recovery

10.1 Political Economy Context in the Lead-Up to the Crisis

An examination of the initial position of the UK when the crisis and associated recession hit in 2007–8 reveals some strengths and some weaknesses. The UK economy had enjoyed average annual gross domestic product (GDP) growth from 1992 to 2007 of 2.8 per cent and unemployment was at a low of 5 per cent in 2007. But the economy was quite vulnerable, given the recent boom in housing and its dependence on the finance sector (OECD, 2009, p. 22). Labour was in government at that time and onwards up to 2010.

The UK was one of the first European countries to be affected by the crisis. In 2007, one bank received two financial bailouts; in 2008, a major mortgage lender was nationalized; and the financial sector was supported further later in 2008, with a £500 billion bailout (Chung & Thewissen, 2011, p. 362). The creeping credit crunch thus put increasing pressure on the UK financial system from 2007 and mortgage lenders became choosier about loan risks.

The causes of the UK crisis are still contested, with some blaming high public expenditure. Labour governments had increased public spending since 1997, in part to improve the quality of services and eradicate child poverty. But the international nature of the crisis contradicts the idea of this as the main cause. Any increase in public expenditure in later years was in part a response to the crisis itself. By 2010, government borrowing was over 10 per cent of national income (Johnson, 2016).

The alternative view is that the crisis was primarily caused by financial deregulation, or failure of regulation to match developments, and that in 2010 policymakers were convinced by the theory that fiscal contraction can **(p.176)** be expansionary (Wren-Lewis, 2015)—though many argue that the economy was unbalanced, in the build-up of private debt (Elliott, 2015b) and in its dependence on the financial sector.

According to Emmerson and Tetlow (2015), the hole in the UK's public finances after the crisis hit did not simply arise from optimistic fiscal forecasts. It was also caused by the changing composition of the economy (to being less tax rich) and a substantial downward revision to trend output relative to expectations. Adam, Browne, and Elming (2015) argue that countries experiencing the largest deterioration in their underlying public finances relied most on financial sector revenues and taxation of property and other assets, as was the case in the UK.

The UK has been identified as a liberal welfare regime (Esping-Andersen, 1990) and a liberal market economy (LME) (Hall & Soskice, 2001). Its benefit system, when 'stress tested' by crisis, cannot protect income in unemployment adequately unless there are other earners in the household (Figari, Salvatori, & Sutherland, 2010). On the whole, the capacities of the UK social protection system to shelter the population from adverse crisis effects on levels of living are thus likely to be constrained and quite heavily dependent on the prevailing political orientation of the government of the day.

In order to examine the role of the welfare state in tackling the crisis in the UK, it is thus crucial initially to describe the wider context. There were three periods of post-crisis government: Labour, until May 2010; the Conservative/Liberal Democrat coalition, until May 2015; and the Conservative government since (with Theresa May taking over as prime minister from David Cameron in July 2016). Scotland, Wales, and Northern Ireland have also developed their own strategies since 1998, with varying power over different policies (Simpson, 2017), and there has been some devolution to local government. This complicates somewhat the idea of giving a straightforward analysis of the post-crisis role of the welfare state.

10.2 Governments' Crisis Strategies

The UK was amongst the first countries to implement a post-crisis stimulus package. The November 2008 Budget included tax cuts, investment in housing, education, and transport infrastructure, and higher social spending, with an estimated cost of 1.6 per cent of GDP over 2008 and 2009 (OECD, 2009, p. 53). A temporary top rate of tax of 50 per cent on the highest incomes was introduced in 2010. Changes also meant that individuals could keep some savings if banks collapsed, and significant 'quantitative easing' was arranged by the Bank of England (in total, £375 bn; cf. Johnson, 2016). Lupton and colleagues (2016) argue that Labour continued to spend as before but, as a **(p.177)** percentage of GDP, spending shot up because GDP fell. The government also continued to index benefits at least to inflation, 'supporting the most vulnerable families through the downturn' (2009 Budget).[1] Real reductions did not therefore happen until some time after the coalition took office. The 50 per cent tax rate also continued until 2013. Analysis of the coalition's policies depends crucially on whether Labour's pre-election Budget 2010 policies are seen as part of the coalition's record (Lupton et al., 2016); if so, they appear more progressive.

The May 2010 election saw a change of direction—described by Elliott (2015a) as (together with the Eurozone crisis) snuffing out what resembled a 'promising recovery'. The coalition government wanted to reach structural current budget balance by 2015, though poorer than expected economic growth prevented this (Crawford & Johnson, 2015). Emmerson and Tetlow (2015) argue that UK governments have planned and (so far, only partially) implemented significant fiscal tightening to cut borrowing in order to achieve a surplus. The Bank of England gained more control of the financial sector under the Financial Services Act 2012. Alongside this, a key emphasis was retrenchment of social programmes and austerity rather than stimulus. But though the coalition government said that its most urgent task was to tackle the country's record debts, it also claimed that fairness was at the heart of its decisions so that those most in need were most protected (Lupton et al., 2016).

The major plank of the strategy was cuts in public expenditure, in particular social security. Lupton and colleagues (2016) describe this as 'selective austerity'. The June 2010 emergency Budget introduced 'cut-backs of exceptional scale, speed, composition and distributional impact' (Taylor-Gooby, 2012, p. 63), with 13 per cent of public spending being cut. The plan was to reduce the deficit from 8.4 to 0.4 per cent of GDP in four years, with service cuts accounting for 36 per cent, tax increases 30 per cent, and benefit cuts 18 per cent. The Budget also extended private sector provision in public services (Lupton et al., 2015, p. 19). But some planned cuts did not take effect until later, because of time lags. The coalition initially continued to protect benefits and tax credits from inflation (albeit using a different, lower, index). It was hard to cut social security spending because of additional demand from an ageing population, rising rents, and so on. And in some areas the Liberal Democrats either had a restraining influence on policy or pushed for specific measures (Bochel & Powell, 2016). But between 2009–10 and 2014–15, public spending fell from nearly 46 per cent to just over 40 per cent of national income (cf. Crawford & Johnson, 2015).

(p.178) ‘Fiscal consolidation’ was initially planned as to be composed of some 80 per cent reduction in spending versus some 20 per cent tax increases. However, under the Conservatives from 2015 fiscal consolidation was made up of 86 per cent public spending cuts versus 14 per cent tax rises (Emmerson & Tetlow, 2015) and then 89 per cent versus 11 per cent for its austerity programme plans through to 2020 (de Henau & Reed, 2016a). The summer 2015 Budget, including plans to cut social security spending by £12 bn annually by 2020, would bring UK public spending levels down to those of the USA by 2018–19 (subsequently 2020) (Taylor-Gooby, 2015).

The coalition government attempted to kick-start the market with a scheme in 2012 for lending to small firms and individuals. But by 2013, the IMF and OECD argued that excessive spending constraint was slowing recovery. There was a temporary rise in public spending of some £47 bn in 2013–14, largely in support for bank lending and home purchase, and an infrastructure programme—but with plans to continue cuts after the 2015 election (Taylor-Gooby, 2015).

Some policies did protect those on low incomes, or boost services for them. For example, the ‘pupil premium’ was introduced—an additional amount given to schools for each child from a low-income or disadvantaged family (spring 2011)—while free school meals were introduced for all 5–7 year olds (autumn 2014). Both these policies were attributed to the Liberal Democrats’ influence.

Some spending areas were also protected, including health and schools (as well as pensions) (Bozio et al., 2015), meaning that these now make up a larger share of total expenditure (Emmerson & Tetlow, 2015). Spending on the state pension was 4 per cent of GDP, but since the recession has risen to 5 per cent. Taylor-Gooby (2015) argues that spending on ‘old social risks’, which enjoyed popular support, was protected, with provision for ‘new social risks’ involving less popular groups being significantly reduced. Protection did not necessarily ensure sufficient funding to keep pace with social and demographic changes. But protected areas did better than unprotected ones. Furthermore, funding for local authorities was reduced significantly between 2009–10 and 2014–15—disproportionately for those in poorer areas (Innes & Tetlow, 2015; see also Crawford & Johnson, 2015).

Spending cuts meant departments having to make administrative savings, including staffing cuts. Hermann (2015) reports 420,000 jobs shed by 2012, with a goal of cutting the public sector workforce by 10 per cent by 2015. The government also aimed for ambitious restructuring of state services (extending 'new public management' principles and encouraging private providers in health care, for example) (see Taylor-Gooby, 2015, pp. 606–7). Sales of public assets have also helped to meet debt targets.

(p.179) The other clear element of later strategies was saving on benefits/tax credits to avoid (larger) cuts in other departments, with social security seemingly seen as a burden (Bennett, 2015) rather than as positive protection and an automatic stabilizer. In Budget 2014, the coalition set a cap for 'annually managed expenditure' on benefits (excluding only pensions and cyclical benefits). This cap has been breached already in practice, however (Crawford & Johnson, 2015; Rhodes, 2016). Recent governments have also increased discretion and decreased rights, in particular in social security, and have reduced access to ways of challenging decisions about these rights (e.g. through increases in employment tribunal fees and cuts in legal aid).

The Conservatives' Chancellor declared that 'we are all in this together' in resolving the crisis, but this was challenged by many because of the disproportionate impact on those on low incomes. Those at the very top of the distribution did contribute a higher share of their income through tax changes, but below this, average losses were higher for lower deciles, hit hardest by austerity (Blyth, 2013). The Women's Budget Group (2014) also argued that governments were not tackling the real deficits—of care services, affordable housing, and high-quality work—which all had a particular impact on women.

10.3 Policies on Social Security

Post-crisis social security changes have targeted families with children, in particular larger families. Early cuts affected young children in particular. The 'benefit cap', limiting benefits for workless households, is not adjusted for number of children, and in April 2016 was reduced again, affecting many more families. Some means-tested benefit child additions are withdrawn for third or subsequent children born from April 2017 (with limited exceptions).

The UK's minimum income scheme has also been undermined by a range of cuts, including the 'bedroom tax' ('underoccupancy charge' or 'abolition of the spare room subsidy') in social housing, local limits to the amount of private rents covered by benefit, restricted housing benefit for single under-35s, real cuts, the failure to uprate child tax credits, and the localization (and reduction) of council tax support. It is difficult to see the effects of all these changes, especially measuring poverty 'before housing costs'. But they are very real. The poverty gap (how far incomes fall below the poverty threshold on average) increased for families with children both before and after housing costs between 2007–8 and 2013–14. Local authorities are given 'discretionary housing payments' by government to ease the impact of certain cuts, although this gives only partial compensation. Northern Ireland and Scotland have also developed various mitigations, including compensation for those **(p.180)** excluded from disability benefits by tighter eligibility rules (Simpson, 2017). But it is clear that the social security element of the welfare state in the UK has been severely weakened by successive post-crisis measures, in particular for those of working age and their dependants.

One major structural reform is the introduction of 'universal' credit (UC) (HM Government, 2018) for those of working age and below, replacing six means-tested benefits/tax credits for those in and out of work. ('Universal' here means comprehensive, not non-means tested.) Its aims are to simplify benefits and provide clearer incentives (aided by support and conditionality) to enter work and progress. The devolved administrations have decided to vary how UC is paid.

UC has also been designed to be in line with a key goal of recent governments, to reduce so-called 'welfare dependency'. It has been delayed, however, and the Cameron government's desire to make further benefit cuts led to planned UC reductions. A revolt by Conservative MPs and others led to tax credit cuts being reversed, but the proposed UC cuts are proceeding under the new prime minister, Theresa May, though the rate of withdrawal of benefit due to additional income will now be slightly lower. De Henau and Reed (2016a) note that, taking tax/benefit changes from 2015–20 announced in 2015 as a whole, the outcome is clearly more regressive than previously, if temporary transitional protection is excluded. These and other cuts led to the then Secretary of State for Work and Pensions complaining, when resigning in spring 2016, of Treasury pressure to 'salami slice' benefits.

Another key structural reform is the (higher, flat-rate) single-tier state pension payable from April 2016, ending earnings-related state pensions more quickly than previously planned. This is not an integral part of post-crisis policies—except that it does tilt the UK system further towards private provision for anyone wanting more than a basic pension.

10.4 Policies on Taxation

In late 2008, Labour increased tax allowances and reduced VAT from 17.5 to 15 per cent as a response to the crisis (restoring the 17.5 per cent rate in early 2010). It introduced a taper on the personal allowance once taxable income reached £100,000 per year. It also introduced a top tax rate of 50 per cent from 2010; the coalition reduced this to 45 per cent from 2013. Capital gains tax was increased for higher rate taxpayers by the coalition government in its emergency Budget in June 2010, but was reduced again in 2016—even further for basic rate taxpayers (Seely, 2016). The June 2010 Budget also raised VAT from 17.5 to 20 per cent from early 2011, though the prime minister then pledged not to raise it again. The effects of a VAT increase on living standards **(p.181)** are, of course, not visible in the disposable household income measures often used to track changes in poverty, but they generally fall disproportionately on lower income groups.

Another tax increase—presented as a social security cut—was the high-income child benefit charge from January 2013, for households with someone earning £50,000 or more annually. This increases income tax until child benefit is reduced to zero unless the claim is dropped.

Recent governments have been opposed to increases in taxation for individuals and corporations. A Liberal Democrat manifesto pledge in 2010, for real increases in the personal tax allowance, was adopted by the coalition and then Conservative governments. These increases are very significant, taking the tax allowance to £11,000/year in 2016–17 for most (withdrawn for those with income of £100,000/year or more, as noted), and will continue. This represents a huge spending commitment and a 1.5 per cent average increase in living standards (Lupton et al., 2016). Income tax is largely individual in the UK, but the coalition introduced a transferable marriage tax allowance (also applicable to registered civil partners) allowing a partner not using up their allowance to transfer one tenth of it to the other if neither pays higher rate tax.

Lupton and colleagues (2016) calculate that, compared to price linking of relevant benefits and tax credits in line with inflation, revenue from benefit/tax credit cuts by the coalition from 2010 to 2014–15 was spent on direct tax cuts, rather than contributing to deficit reduction as claimed. These resources were in effect redistributed to others (de Agostini, Hills, & Sutherland, 2014), but those suffering benefit cuts were generally on much lower incomes than those receiving most from direct tax cuts. Furthermore, though the annual/lifetime allowances on pension tax reliefs were cut significantly in 2011 and 2014, affecting the highest paid saving the most, fiscal welfare is still regressive and yet seldom considered for cuts.

10.5 Employment and Labour Market Policies

The focus on activation, including increasing and extending conditionality, if anything intensified post-crisis. Labour introduced an employer subsidy for recruiting someone unemployed for over six months and invested £3 billion in active labour market policies in 2009 (Chung & Thewissen, 2011, p. 362). The coalition government in 2010 brought together programmes for different workless groups in the Work Programme. This leaves (largely private) providers to develop services and be rewarded for getting people into sustainable employment, especially those with greater barriers. At the time of writing, there are plans for restructuring this, in particular because it is criticized for being insufficient for sick/disabled people.

(p.182) Governments since 2010 have put increasing emphasis on apprenticeships, latterly proposing a levy on large companies (at the same time as corporation tax continues to decrease). But there is concern about many apprenticeships being filled by older workers, rather than younger starters, as well as about the quality of these schemes and their often gendered nature.

The Conservatives introduced the ‘National Living Wage’ in April 2016—a higher minimum wage for those aged 25 or over, aiming to reach 60 per cent of the median wage by 2020—saying that this helped towards their goal of a ‘high wage, low tax, low welfare’ economy.

Whilst the new UC may facilitate the transition to work, there is concern that it may act as a subsidy to low hours. In-work support and conditionality are intended to counter this, so that people move on from such ‘mini-jobs’. But many claimants appear reluctant to accept the possibility of sanctions, given that they have already shown willingness to work (Wright et al., 2016). Knowledge about employers’ roles and how to overcome structural barriers to more intensive work is needed for this to succeed (House of Commons Work and Pensions Committee, 2016).

UC includes a ‘claimant commitment’, with up to three years’ loss of benefit for breaches, which was introduced into Jobseeker’s Allowance in advance of full UC rollout. Most claimants are expected to spend 35 hours per week looking for work. UC also extends conditionality to many partners of claimants in or out of work (with modified conditionality for those with caring responsibilities for children).

10.6 Housing and Household Debt Policies

Labour introduced a mortgage rescue scheme to help low-income households, allowing those eligible to sell a part share of their home and reduce payments, or sell their home but stay there, paying affordable rent. This was claimed by fewer than anticipated. The home-owner mortgage support scheme allowed lenders to reduce mortgage payments by deferring some interest payments for borrowers who had lost their jobs or experienced a large fall in income (OECD, 2009, p. 42).

The recession was associated with a collapse in house building, which by 2012–13 reached rock bottom, with the fewest completions since 1949. Housing supply recovered slightly in 2014–15, and in 2015–16 improved further, largely due to the ‘Affordable Homes Programme’, with a target of 80,000 by March 2015. However, ‘affordable’ does not always mean social housing; and housing associations were allowed to charge up to 80 per cent of private rents on some properties.

House prices increased, particularly in London and the south-east, affecting young people especially (Halifax, 2015)—though properties were more **(p.183)** affordable in 2014 than in 2007 (except for in London) (Wilcox, Perry, & Williams, 2015). The coalition government introduced a Help to Buy scheme in 2013 for first-timers (subsequently modified) and, more recently, a lifetime savings scheme to be used for house purchase or pension. Housing association tenants got the right to buy their homes in 2016, but Scotland and Wales are abolishing this scheme altogether. In 2014 stamp duty was revised in England and Wales, with more tax on higher value homes; Scotland introduced a more progressive structure. The planning system is being speeded up and other measures are intended to stimulate house building.

Housing benefit cuts and other restrictions mean that many social housing tenants have suffered severely and the future of social housing is uncertain; a four-year rent cut announced in 2015 may make investment even harder. Private rents have increased, with housing benefit cuts for four out of five private tenants due to local limits and altered uprating policies. Many people must now pay part of their rent out of other benefit income; though this cut is less visible than many others, it can have a serious impact on low-income household budgets.

Local authorities have been allowed to fulfil their homelessness duties by offering homeless people a private property. In the 2016 Budget, in the face of rising homelessness and rough sleeping, the Conservative government announced that it would spend £115 m to tackle these problems.

10.7 Economic and Employment Position

Emmerson and Tetlow (2015) argue that permanent damage has been caused to public finances and the economy is not expected to regain the growth trajectory predicted pre-crisis. Elliott (2015a) judges that Britain coped with this recession better than other countries did, but ‘this has been the slowest recovery in living memory’. In deindustrialized and deprived areas, the recession may just have compounded long-standing decline and disadvantage. The UK economy has ‘dragged itself from the depths of recession’ but ‘is still fragile’, according to Johnson (2016); he noted that despite positive employment news the national debt, at over £1.5 trillion, was over 80 per cent of national income and not yet falling. The UK has a large current account deficit and public spending cuts are substantial. Furthermore, ‘we don’t quite know why it is taking so long for the economy to return to normal’. Whilst objective measures of national well-being improved from 2012–14, subjective measures worsened (Office for National Statistics, 2016).

Johnson highlights additional uncertainty because of the 'leave' vote in the EU referendum in mid-2016. The media is predicting that a recession is very likely. In the Autumn Statement in November 2016 the Chancellor confirmed **(p.184)** that Theresa May's government would drop the plan to bring the public finances into balance by 2020. However, the National Institute for Economic and Social Research warned that low-income households are likely to shoulder a disproportionate share of the costs of 'Brexit'.

Adam and colleagues (2015) argue that 2010–15 saw a remarkable rise in employment. Robust average income growth in 2014–15 resulted in particular from a strong labour market recovery (Hood, Joyce, & Cribb, 2016). The Labour Force Survey shows the employment rate for 16–64 year olds rising to 73.2 per cent in 2014–15, the highest since 1971, driven by the private sector; 2 million more are in work than in 2007 (Johnson, 2016).

Workless households have decreased in number, with children in such households falling by 450,000 since 2010 (House of Commons Hansard, 2016). Although recent employment growth was in full-time jobs in particular, there was growing disquiet even before the crisis about insecurity, with increasing 'zero hours contracts' and underemployment, and concern about unpaid internships. Citizens Advice, the largest UK network of advice bodies, said in mid-2016 that 4.5 million people in England and Wales were in some form of insecure work (MacInnes, 2016). Employees' average real gross earnings grew slightly in 2014–15 (Hood et al., 2016). But average weekly earnings remain below pre-recession levels (Bell, 2016)—an unprecedented decade without earnings growth. This is largely because productivity has barely risen—again unprecedented (Johnson, 2016). Indeed, the Institute for Fiscal Studies says that real wages are unlikely to reach pre-crisis levels until 2020–21 at the earliest, the longest such period in 70 years. In 2014, the Office for National Statistics reported that output per hour worked was 18 percentage points below the other G7 group members' average. And 'rebalancing' from public to private sector tends to disadvantage women—a majority of public sector workers (Bennett, 2015).

In addition, ministers expressed concern about jobs disproportionately going to immigrants rather than to British citizens, with the new higher National Living Wage seen as a potential 'pull' factor. The scope for immigration may now be curtailed because of the EU referendum vote. Others argue for more restrictions on exploitative conditions, to avoid undercutting by unscrupulous employers using immigrant labour for this purpose.

10.8 Incomes, Inequality, Housing, and Housing Debt

How were the burdens of the crisis shared in the UK? The next few sections, 10.8 to 10.11, examine this crucial question.

Whilst Labour, and initially the coalition government, protected people to an extent from the economic ‘cold climate’, after 2013 the pace of change **(p.185)** intensified and they were much more exposed (Lupton et al., 2016). The latest (2014–15) data on income distribution with a focus on low incomes (Department for Work and Pensions, 2016) show that for the first time, average (median) disposable incomes have increased to levels above those before the 2008–9 recession.

Following increases in disposable incomes across the distribution, income inequality is unchanged from 2013–14 (0.34 using the Gini coefficient) (Department for Work and Pensions, 2016), as it has been since 2011–12 (with a slight decrease before that). It is lower than before the recession—as large earnings falls between 2009–10 and 2011–12 tended to hit higher income households most—and at its lowest since 1990 (Hood et al., 2016). But the very top has continued to accelerate away. Intergenerational inequality has also grown to a significant level, with pensioners owning most of the nation’s wealth and having average incomes higher than those of non-pensioners (Johnson, 2016). Wealth inequality is not included here (see Lupton et al., 2016), but Standard & Poor’s (2016) argues that quantitative easing and low interest rates helped the wealthiest 10 per cent raise their share of net financial assets from 56 to 65 per cent from 2008–14. This also favoured those in London and the south-east.

Coalition government tax/benefit changes reduced household incomes by an average of £1,127/year (Browne & Elming, 2015), with low-income working-age households and the very richest losing most (Adam et al., 2015). Analysis of the 2010–15 tax/benefit policies showed children and those in their 30s and early 40s hit hardest, with those in their 20s and early 60s benefiting from tax changes; pensioners benefited from the ‘triple lock’, but older pensioners were negatively affected by other benefit cuts (Institute of Social and Economic Research, 2016).[2]

Beatty and Fothergill (2016) find older industrial areas, poorer seaside towns, and certain London boroughs losing most from benefit cuts after 2015, though other areas will also be hit hard.[3] Theresa May, as incoming prime minister in July 2016, noted the ‘gaping chasm’ between London and the rest of the country.[4]

Elliott (2015a) argues that ultra-low interest rates and mortgage lenders’ forbearance meant no repeat of the record home repossessions of the early 1990s. Mortgagors gained from low interest rates, whilst savers lost. It is hard to get a complete picture, however. Mortgagors’ gains are invisible in ‘before housing costs’ income measures.

(p.186) 10.9 Poverty and Material Deprivation

Recent official data (Department for Work and Pensions, 2016) show the percentage in relative poverty before and after housing costs in 2014–15 as relatively stable compared with 2013–14, at 16 per cent and 21 per cent respectively. Examining anchored ('absolute') low income, using 2010–11 incomes uprated with inflation, 20 per cent were in poverty after housing costs. Hood and colleagues (2016), however, note that this is only slightly below the level a decade earlier—a long period of little income growth for low-income households. The proportion of pensioners in absolute poverty after housing costs decreased by 2 percentage points to 13 per cent—probably largely due to the 'triple lock', with most other benefits uprated only by inflation (or less) (Department for Work and Pensions, 2016). However, the recent change in the inflation measure may have resulted in reduced numbers recorded as being in absolute poverty.

Disentangling the distributional impact of recent governments' 'fiscal consolidation' strategies is complex, however. One reason is the simultaneous or sequential changes to different policies (de Henau & Reed, 2016a). For example, benefit cuts took place alongside increases to the National Minimum Wage (especially on the introduction of the National Living Wage) and direct tax reductions, but these did not always affect the same people—those affected by some policies are not necessarily compensated by others. Policy intent is also different from reality, as EUROMOD (2016) shows: despite the policy to keep benefit increases below inflation, benefits kept pace with prices in practice due to very low inflation in 2014 and 2015.

In addition, since the July 2015 Budget the government no longer produces a distributional analysis of Budget and Financial Statement policy changes. The Treasury argues that this is misleading because it presents spending funded by additional borrowing as an unequivocal gain to households (and vice versa), and that this is not helpful, because without sound public finances there is no economic security for working people, and unsustainable deficits result in the poorest suffering most (Stewart, 2015). Instead, the share of net spending and tax for different income groups is given (de Henau & Reed, 2016a). The government has also refused to undertake cumulative impact assessments, arguing that this is too complex and requires too many assumptions. This view has been challenged, however, and alternative impact assessments have been carried out, covering overall distributional outcomes or impact differentiated by equality groups.

A third problem is that many analyses include only changes to tax and benefits (e.g. Browne & Elming, 2015); however, Crawford and Johnson (2015) argue that changes in the labour market were more important determinants of living standards overall under the coalition than these. In addition **(p.187)** to changes to gross incomes, it is often argued that the value of services should be taken into account in calculating overall changes to living standards; the government argued that the increased hours in free early education for 3 and 4 year olds in 'working families' should be included, for example. Some investigations (e.g. simulation modelling by Landman Economics) have included the impact of changes in funding for services. This is more difficult, however, given the differential use of services by households, the fact that services often cater to greater need, and local-level funding allocation (Taylor-Gooby, 2015, p. 605). But Lupton and colleagues (2016) find that benefits in kind for the bottom fifth were lower in 2013–14 than in 2007–8 as a proportion of overall income, whereas they were unchanged for the top fifth.

Beatty and Fothergill (2016), examining the prospective losses from benefit changes from 2015 onwards, show the four-year benefit freeze affecting the most households, followed by cuts to UC and tax credits. The most significant losses result from disability benefits changes, the lowered benefit cap, and the planned loss of housing benefit for 18–21 year olds from 2017 (later abandoned). De Henau and Reed (2016a) include tax changes as well and estimate that the cumulative impact for 2010–20 means the bottom decile of households losing up to a quarter of their disposable income on average in 2020, with the next decile losing one-fifth, compared with a loss of one twentieth of income for the top 30 per cent; these calculations exclude any policy changes made in the 2016 Budget.

One group that has lost out disproportionately in the UK is families with children, especially large families and those with young children (Innocenti: UNICEF Office of Research, 2014, p. 2). Whilst the basic state pension was protected by the 'triple lock', and other pensioner benefits were largely maintained, benefits for families with children have suffered many reductions, as described. Bozio and colleagues' (2015) comparison of six European countries in the 'Great Recession' finds that whilst in France and Italy households with children lost less from tax/benefit reforms than pensioner households, the opposite applies for Ireland and the UK.

De Henau and Reed (2016b) note that, as UC makes up much of the announced benefit spending cut, families with children would lose out in particular (though this excluded the impact of reducing the taper from 65 per cent to 63 per cent). Looking at the cumulative impact from 2010–20, they find female lone parents most affected overall. Beatty and Fothergill (2016) calculated that 83 per cent of the benefit cuts after 2015 would fall on families with children, totalling £10.7 billion annually. The Institute for Fiscal Studies projects an increase in 'absolute' poverty amongst children from 15.1 per cent in 2015–16 to 18.3 per cent in 2020–21, driven entirely by a sharp rise in poverty among families with three or more children resulting from planned tax/benefit cuts. Relative child poverty is also projected to rise significantly, **(p.188)** from some 17.8 per cent in 2015–16 to 25.7 per cent in 2020–21, undoing most of the falls since 1997–8 (Browne & Hood, 2016).

Several benefit changes result in a restriction of the areas in which those on lower incomes can afford to live. Furthermore, more children living in homes in the private rented sector means more mobility and less security for them. In social housing, three-quarters of those affected by the 'bedroom tax' have had to cut back on food, with many landlords concerned about the well-being of their tenants (Cambridge Centre for Housing and Planning Research & IPSOS MORI, 2015). The number of tenants evicted by bailiffs reached a record high in 2015 in England and Wales. The collapse in house building led to an increase in homelessness, which moderated in 2014 but increased again in 2015. Rough sleeper counts (especially in London) have risen yearly since 2010.

10.10 Financial Hardships through the Crisis

There were real falls in wages immediately after the crisis hit (Elliott, 2015b), but transfer payments were protected at first, including following the 2010 change of government (Lupton et al., 2016). Unemployment was also much lower than anticipated, peaking at just over 8 per cent. This meant that initially the pain of the crisis was shared more broadly (Elliott, 2015a), as can be seen in Figure 10.1. But this was before later government strategies had an impact.

Median (net) income fell by 4 per cent between 2009–10 and 2011–12; it then grew by 5 per cent (weakly in 2012–14, but with robust growth of 3 per cent in 2014–15), and it is now 1 per cent above its 2009–10 peak (Hood et al., 2016). Taylor-Gooby (2015) argues that the distinctive features are the depth of the 2008–9 recession, and a slow recovery only becoming established after 2012.

The UK had a significantly lower financial hardship level than the European average before the crisis hit, but the increase during the crisis was steeper in the UK (see Figure 10.1). It peaked in 2012–14 and it was only in the last two years that it started to come down again. The 2015 level is still higher than the pre-crisis level.

The most striking feature of Figure 10.1 is the increase in financial hardship from 2012 overall and, in addition, for many subgroups, except the elderly. In particular, there are significant changes for the worse for those households containing someone on disability (incapacity) benefits and for lone parents. This is not surprising, given the policy emphasis of the coalition government and the lagged effects of the legislation passed from 2010 onwards described in several sections above, which imposed the bulk of the burden of ‘fiscal consolidation’ on those reliant on social security benefits in or out of work.

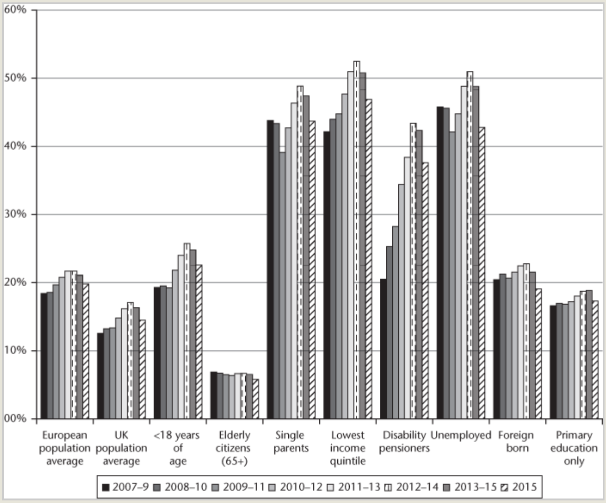

Figure 10.1. Financial hardship profiles through the crisis in the UK, 2007–15

Note: This shows the UK compared to the European average and disaggregated by main socio-economic groups. It is a composite measure based on income poverty, difficulties in making ends meet, and material deprivation (see the Appendix for explanation of the methodology), and shows the proportion suffering financial hardship over three-year moving averages and in 2015.

(p.189) 10.11 Gendered Effects of the Crisis and of Post-Crisis Measures

As Bennett (2015) notes, initial analyses of the crisis described a ‘man-cession’, in which men’s jobs (largely private sector) were lost first, female breadwinners were increasing, and the gender pay gap declined somewhat. However, once the effects of post-crisis policies were included, this picture changed (McKay et al., 2013). Indeed, the Fawcett Society described a ‘triple jeopardy’ for women, as they were more likely to be hit by cuts in benefit income, services, and public sector jobs. The Fawcett Society filed for judicial review in 2010 after the ‘emergency Budget’, arguing that the government had not carried out its gender equality duty fully. A limited gender impact assessment of the 2010 spending review was then produced. But since then (Conley, 2012), the coalition government back-pedalled on this kind of exercise, with **(p.190)** Prime Minister Cameron, in late 2012, describing equality impact assessments as an unnecessary ‘tick box’ exercise.

Most distributional data are traditionally presented at the family/household level, with limited information about within-household distribution of income and well-being (Bennett, 2013). However, in the UK a vigorous strand of research by the Women’s Budget Group and others focuses on gender analysis of Budgets and spending.

First, it is possible to analyse distributional impact by gender of household head (e.g. male versus female lone parents or single pensioners) (Browne, 2011). A study on cumulative impact assessment (Reed & Portes, 2014) included the impact of changes in taxation and benefits, and also in service provision due to funding cuts. They found that lone parents and single pensioners, as well as couples with children, experienced the largest average fall in living standards as a result of these changes in policy in the 2010–15 period; the first two groups are dominated by women (Bennett, 2015).

Secondly, it is also possible to estimate the impact on women’s/men’s individual incomes of tax/benefit changes using the information we have on income receipt within couples. Child benefit is received by mothers by default; child tax credit, for those on lower incomes, goes to the ‘main carer’, usually the mother. Family benefit cuts therefore hit women’s incomes disproportionately. Some changes affect women’s access to their own independent income; for example, limiting contributory employment and support allowance (for those who cannot work through illness/disability) to one year for those in the work-related activity group may leave many women (and also men) with no income of their own.

Reed and Portes (2014) found that, as a result of direct tax/benefit changes planned and/or implemented from 2010–15, women’s average losses would be twice men’s as a percentage of individual income. The latest House of Commons Library figures at the time of writing (including 2016 Budget measures) show that, cumulatively, 86 per cent of savings in 2010–20 come from women’s pockets—an increase from 81 per cent after the November 2015 spending review (cited in Women’s Budget Group (2016); see de Henau & Reed (2016a)—with various assumptions about the counterfactual and baseline used in such exercises). Given that mothers in low-income families with children tend to manage the household budget, qualitative research also reveals the costs to women when money is tight (Lister, 2006).

Underlying many gender analyses (e.g. Perrons et al., 2015) is a concern that whilst resources for physical infrastructure are seen as investment—and were meant to be boosted as part of the rebalancing of the economy away from the City and London towards other industries and areas—those for social infrastructure (such as caring services) are seen as consumption (Himmelweit, 2016). This argument is now being taken up by various other voices, from **(p. 191)** the consultancy firm KPMG to community-based groups. In addition, gender analysis highlights that repeated freezes of duty on fuel and beer are more likely to benefit men.

10.12 Conclusions

Before the recent referendum on the UK’s EU membership, Austin (2015) argued, on the basis of European Social Survey data, that in the crisis there was widespread ‘hunkering down’ into security-related goals such as safety and certainty, especially among socio-economically vulnerable groups and young people. The referendum also revealed a range of fault-lines in the UK, including rurality versus urbanism, liberalism versus social conservatism, and differences between generations. One major driver of voting divisions was ‘the shape of our long lasting and deeply entrenched national geographical inequality’ established in the 1980s—which, Bell (2016) argues, requires a focus on building more housing, providing decent non-university routes into careers, and supporting local areas to progress economically.

There is some evidence of public attitudes changing now (Curtice, Phillips, & Clery, 2016), with a majority opposing further social security cuts and more supporting higher benefits for those in poverty. Almost as many (45 per cent) now want increases in spending and taxation as support the current balance (47 per cent)—back to pre-crash levels. However, whilst there is more support for higher spending on benefits for some, there is continuing lack of sympathy for the jobless. Polling after the EU referendum in 2016, analysing the four most important reasons for voting ‘leave’, was also interpreted by some as highlighting the backlash of a protest vote against austerity, precarity, and economic stagnation, and in favour of more public investment.

Whatever its meaning, however, there has clearly been a loss of trust by many, especially the more disadvantaged, in UK politicians and institutions to deliver security, well-being, and a better life. Despite the new prime minister’s declaration in her first speech of her government’s commitment to the ‘just about managing’, and the announcement by the (then) new Secretary of State for Work and Pensions that there would be no further social security cuts, the pressures both on time and resources of the post-Brexit situation suggest that (leaving aside some minor measures in the devolved nations) there will be little or no positive development in welfare state provision in the near future in the UK.

Notes:

([1]) As Jenkins and colleagues (2013) explain, the UK normally uses formulae that uprate most benefits automatically each year by the increase in prices. One of the most significant changes by the coalition government was to break with this.

([2]) The ‘triple lock’ was introduced in 2010 by the Conservative–Liberal Democrat coalition government. It was a guarantee to increase the state pension every year by the highest of inflation, average earnings, or a minimum of 2.5%.

([3]) This analysis excludes changes in other policies.

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([4]) She also drew attention to energy bills having ‘rocketed’ recently.