UK austerity measures to throw 1 million into poverty

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The British Conservative-Liberal Democrat coalition government's austerity measures will throw almost 1 million more people into poverty over the next three years, including hundreds of thousands of children.

These are the findings of a study by the Institute for Fiscal Studies (IFS) think tank, produced in collaboration with the Joseph Rowntree Foundation.

In October, the coalition government announced public spending cuts of £83 billion, including significant cuts in welfare benefits and a wage freeze across the public sector. The measures are not only a deepening of efforts to force working people to carry the cost of the Labour government's multibillion-pound bailout of the banks. They mark a significant escalation in the attempts of successive governments to force down wages and fully dismantle essential social and welfare provision.

The IFS forecasts that there will be an exponential increase in the numbers of children and adults living in absolute and relative poverty, and a stagnation in the incomes of the broad mass of the population.

The numbers in absolute poverty—defined as households with income of less than 60 percent of the median in 2010/2011, adjusted for inflation—will rise by 900,000 by the end of 2014. Of these, some 200,000 will be children, the first rise in absolute child poverty in 15 years.

The numbers forecast to be pushed into relative poverty are just as damning. The benchmark for relative poverty is determined by median income. But, the IFS states, this target will itself fall, due to the decline in real earnings. As a consequence, relative poverty is forecast to rise by approximately 800,000.

The government's cuts in housing and welfare benefits, combined with the previous Labour government's decision to raise National Insurance contributions from next year, hit across the board. Poverty amongst working-age adults without children is expected to rise by 300,000 and 200,000 for absolute and relative poverty respectively.

Families with two children on "middle-incomes" have already suffered a 3.4 percent decline over the past two years, the IFS reported. They earned £988 a year less in 2010 than in 2008. They are expected to lose a further £300 in real terms over the next two years under the government's spending cuts.

The IFS predictions come under conditions in which almost 2 million children in Britain are already living in conditions of "severe poverty" and fully 4 million are living in poverty.

The government's measures have been condemned by anti-poverty charities—the very organisations tasked with filling the gap of declining social provision under the coalition's grotesquely named "Big Society" plan.

They complained that the IFS projections will place the government in breach of the Child Poverty Act, passed into law earlier this year, which commits current and future governments to cut relative child poverty to 10 percent and absolute child poverty to 5 percent over the next decade.

But the government has already stated that it intends to redefine poverty so that "isn't just about getting above an arbitrary line, but is about improving people's life chances."

It was Conservative Howard Flight who gave vent to the class sentiment motivating the assault on welfare. Speaking last month, just after he was selected as one of more than 20 new Tory peers, Flight complained that child benefit was being removed from higher earners. "We're going to have a system where the middle classes are discouraged from breeding because it's jolly expensive. But for those on benefits, there is every incentive. Well, that's not very sensible", he said.

His remarks came barely a week after Lord Young, one of Prime Minister David Cameron's senior advisers, was forced to resign after stating, "For the vast majority of people in the country today, they have never had it so good ever since this…so-called recession—started.”

A Treasury spokesperson dismissed the IFS report, claiming that “uncertainty” in the model it had employed meant that the “small differences they identify may not be meaningful”.

Elements of the coalition’s cuts package were also criticised by the Labour Party. The real measure of its stance, however, is made clear by the fact that it is Labour MP Frank Field who is drawing up the government report on “redefining” child poverty.

The coalition’s austerity measures come after a 30-year period in which successive governments have conducted a systematic assault on the social position of working people.

According to a report by the New Political Economy Network, the share of the national output going to wage earners fell from 65 percent in 1975 to 53 percent in 2007. It was Labour that fuelled the increase in the “working poor”. Through its various welfare “credits,” it ensured that business had access to a large army of workers on minimum pay, funded at taxpayers’ expense.

During the same time frame, as wage rises fell behind productivity, personal debt as a proportion of disposable income rose from 45 percent in 1980 to 160 percent in 2007.

As the report noted, “People did not borrow to increase their consumption. They borrowed to compensate for wages that were increasingly falling behind productivity increases. As household debt rocketed between 2001 and 2007, levels of consumption as a proportion of GDP actually fell”.

Even prior to the 2008 financial collapse, Labour’s policies had led to a vast increase in social inequality. A survey by the National Equality Panel based on figures from 2007/2008 found that the richest 10 percent of the population were over 100 times wealthier than the poorest 10 percent, and that income inequality had reached its highest point since the end of the Second World War.

Now, unemployment has crossed the 2.5 million mark, rising by 35,000 in the three months to October. Much of this was accounted for by the fall in pubic sector employment by 33,000, as the spending cuts began to make their mark.

The situation is even worse amongst the young. The number of 18- to 24-year-olds claiming unemployment benefit has quadrupled since 2008, from 5,840 to more than 25,800. In July, UKJobs.net reported that the average annual salary had dropped by more than £2,600 in the past six months, with across-the-board wages falling from £28,207 to £25,543.

As a consequence of huge levels of indebtedness, rising unemployment and the undermining of welfare provision, millions are now threatened with penury.

According to the *Independent*, the number of emergency welfare loans paid out to people in dire distress has almost trebled in the last five years. More than 3.6 million “crisis loans” were made in the last financial year—up from 1.3 million in 2005/2006. The government has now said that, from April, Job Centre staff will begin issuing vouchers for people to exchange for emergency food supplies.

The Bank of England has also forecast a tightening financial squeeze on many families due to soaring commodity and utility prices, and the planned Value Added Tax hike to 20 percent from January 1. It warned that more than one in two people with unsecured debts are struggling to cope. This is especially the case where some credit companies are charging up to 2,600 percent interest a year.

On Monday, the Confederation of British Industry warned that interest rates would have to rise almost sixfold due to inflation over the next 24 months—from 0.5 percent to 2.75 percent by 2012. This would mean millions of homeowners facing a hike of almost £200 on the average monthly mortgage payment.

Meanwhile, the directors of the FTSE 100 companies have seen their total earnings rise by an average of 55 percent over the past year. The Incomes Data Services revealed last month that chief executives at the 100 most highly capitalised firms on the London Stock Exchange had received an average of £4.9 million in total in the year to June.