UK think tank warns of fall in economic growth and rising inequality

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A new study by the Resolution Foundation, "Living Standards 2017—the past, present and possible future of UK incomes," predicts a rise in inequality and poverty in the UK over the next four years.

The study calculates that incomes for the poorest half of households in the UK will fall by 2 percent, while the richest fifth will see an increase of five percent.

According to the report, "Our projected combination of weak average growth, falling incomes for the bottom half and rising inequality is perhaps without precedent." This, they say, would make the present parliament from 2016 to 2021 the worst on record for income growth for the bottom half and the worst since the 1980s for rising inequality.

The projection, as the report explains, is only the least-worst-case scenario, wholly dependent on external factors in the European and global economy—such as the danger of increasing inflation and the slowing growth in world trade.

Grim though this forecast is, that it comes from the Resolution Foundation makes it all the more alarming.

The Resolution Foundation is a think tank founded in 2005 "to improve the living standards of low to middle income (LMI) families." It is led by former Conservative MP David Willetts, and Torsten Bell, a senior adviser to Ed Miliband when he was leader of the Labour party. They applaud Prime Minister Theresa May's phony "focus on supporting just-managing families" as "absolutely right."

Resolution Foundation Director Bell said in an interview, "Britain has enjoyed a welcome mini-boom in living standards in recent years," adding that this is coming to an end.

Reiterating this assessment, Adam Corlett, economic analyst at the Foundation, declared, "The healthy growth in household incomes of recent years was driven by historically low inflation and fast-rising employment."

According to the Foundation's own current figures on the incomes of the six million LMI family households, who range from £12,000 to £36,000 annually, 48 percent of them live on incomes of no more than £14,000 a year.

The consumer spending-fuelled growth spurt of the past few months was not a sign of any economic vigour but largely based on borrowing. With Brexit negotiations between the May government and the European Union (EU) about to get under way, the attendant economic uncertainty is leading consumers to rein in spending. "On January 31st the Bank of England revealed that consumer-credit growth in December fell to £1bn from £1.9bn the month before," declared the *Economist.*

The Foundation's report describes the five percent projected gains to be enjoyed by the top 25 percent as "small income gains." Hardly. For an upper-class family making one million pounds per annum, a five percent increase would translate to £50,000!

Included in the study are disparities and changes in household income, but not wealth as expressed in stock portfolios or real estate. The real measure of inequality is therefore muted.

In 2012-2014, there was not so much "mini-boom," but a staggering increase in wealth for just one section of society—the top 10 percent. They saw their wealth grow three times faster than the bottom 50 percent. In the same period, there was a 60 percent increase in the number of poor households.

The report describes the economic outlook as very worrying, with "income growth set to slow to extremely low levels and in a way that is highly regressive, with income falls for poorer households." The immediate causes, it says, are the impact of welfare benefit cuts already in place and yet to come and the prospect of rising inflation.

The report points to "very significant cuts to working-age welfare benefits of over £12bn," including a three-year freeze in working-age benefits and housing allowances, cuts in the amount that can be allowed before the Universal Credit benefit begins to taper, and other cuts that impact on families with more than two children.

Planned changes to the tax and benefit system means that the poorest 10 percent in society will be 3.1 percent worse off, which translates to £314 a year.

The report notes that the cuts in the benefit system will negate any positive impact of the introduction of the national living wage—set at just £7.20 an hour.

Regarding the impact of the Brexit referendum result, the report says that the value of sterling has declined by 15-20 percent, raising import costs. Liquid fuel rose 22 percent from June to December last year, air travel costs rose 20 percent in the same time frame and fruit by six percent. These cuts have hit the poorest disproportionately.

While inflation at 1.6 percent is still below the Bank of England’s target of two percent, the report expects this to rise as currency changes feed through into costs of production and consumer prices.

The section in the report dealing with the government’s planned tax cuts explains that raising the tax threshold slightly will do nothing to benefit the majority of households.

The report hints at longer-term trends of growing poverty and inequality. It notes that since 2008 average wages have still not caught up to their pre-crisis peak, and that incomes for the younger age groups may not have recovered fully. The average income of a typical pensioner is now higher than that of a typical working household. This points to the fact that while unemployment has fallen, the bulk of the jobs available tend to be low-paid on temporary contracts.

Analyzing data on incomes since 1994-1995, the report says that the “great recession has cast a long shadow, with typical incomes £3,100 below where they would have been if pre-crisis growth trends had continued.”

This is in line with international trends, which indicate that the world economy is smaller by a sixth than it would have been without the 2008 banking collapse.

The report ends by noting that the government is “actively choosing to increase inequality.” This, it predicts, is “likely to ensure that the proceeds of growth are shared unequally and that many families are made worse off.” The government should “alter the projected trajectory through policy choices,” such as changes to the tax and benefit system, and investment in training.

Such appeals will fall on deaf ears.

In a speech on Brexit last month, May threatened to “change the basis of Britain’s economic model” if the UK was not granted unlimited access to European markets after it exits the EU. May is travelling the globe in search of new trade deals, pledging that Britain will become “globally competitive.” This is premised on creating a tax haven for the rich, lowering wages even further and eradicating the employment rights of millions of workers.

To attract inward investment into the UK and sell competitively abroad, corporation tax is to be lowered to 17 or even as low as 10 percent by 2021. To put this figure into perspective, in 1965 the standard rate of income and corporation tax was 50 percent. In 2008, the Labour government lowered corporation tax to 28 percent, while the Cameron Conservative government lowered it further to 21 percent in 2014. The subvention to the super-rich now proposed signals the end for National Health Service funding and what remains of the social safety net.

The findings of the Resolution Foundation reflect not just of the failure of capitalism, but the bankruptcy of the trade unions which have overseen decades of attacks on wages and conditions. Their Labour allies have either imposed the same agenda in government or implemented, in opposition, every austerity cut demanded.

Speaking on the Resolution Foundation’s findings, Labour shadow chancellor John McDonnell called on Chancellor Philip Hammond to stopping cutting in-work benefits and taxes for the rich. The reality concealed by such statements is that McDonnell, in a joint letter with party leader Jeremy Corbyn, instructed Labour run councils nationally—including in the major towns and cities it controls—to set legal budgets and continue to implement austerity measures.