UK household incomes to plummet for years to come, new reports find

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According to a report, "Living Standards, Poverty and Inequality in the UK: 2016-17 to 2021-22," by the Institute for Fiscal Studies (IFS), workers in Britain will remain in the grip of a squeeze on incomes, which began with the global financial crisis of 2007/8.

The IFS concludes that cuts will continue until 2021, making it the most prolonged squeeze on income for 60 years. It is estimated that, on average, households will be £5,000 a year worse off than they would have been if the financial crisis had been avoided.

The report, compiled using official government data on household incomes for the year 2014-15, the most recent set of such figures, examines the policy implications of government fiscal measures. The researchers augmented this using other data sources and changes in legislation to produce an up-to-date picture.

In the introduction to the report the IFS noted, "The latest available data show real median incomes in 2014-15 just 2.2 percent above its 2007-08 level. This poor performance is largely due to wages (and ultimately productivity)—the large falls in real wages that characterised the recent recession and the weakness of real pay growth since… it is no surprise that the picture looks even worse if we exclude pensioners: among the rest of the population, average incomes were essentially the same in 2014-15 as back in 2007-08."

The report notes that the decline in real incomes is due to the austerity policies of successive governments. Their impact will worsen as they are projected through in the coming years. It forecasts that nearly one in three children will be living in poverty, predicting child poverty rates of 30 percent by 2022.

The report predicts inequality will rise by 2021-22, because of the weakening growth of earnings combined with the changes to benefits and taxes, which will hit the poorer hardest. According to the IFS, this will represent the most prolonged, persistent decline in living standards since 1961.

The IFS expects the income of an average household to be 18 percent lower in 2021-22 than it would have been if the 2007-08 financial crisis had not occurred. For a couple with two young children, it would mean a drop in income of over £8,000 a year while a couple with no children would see a drop of nearly £6,000 in the income they could have expected outside of the financial crisis.

The report found that those families in the bottom 15 percent will be on lower incomes in five years' time compared to today. This is due to the 2013 introduction of Universal Credit—which replaced six means-tested benefits and tax credits—and is paid at a lower level.

Earnings are set to fall even further with last year's Brexit vote for the UK to leave the European Union. This triggered a steep decline in the value of the pound, with inflation expected to accelerate to 3 percent in a year's time. Wages are not expected to grow at the same rate.

Andrew Hood, a senior research economist and one of report's authors, said, "Weak earnings growth combined with planned benefit cuts mean that the absolute poverty rate among children is projected to be roughly the same in 2021-22 as it was in 2007-08. In the decade before that, it fell by a third. Tax and benefit changes planned for this parliament explain all of the projected increase in absolute child poverty between 2014-15 and 2021-22."

Another IFS economist, Tom Waters, expects the financial crisis to have an effect for years to come, noting, "Even if earnings do much better than expected over the next few years, the long shadow cast by the financial crisis will not have receded."

The IFS report was commissioned by the Joseph

Rowntree Foundation (JRF)—the social policy research and development charity. Responding to its findings, JRF chief executive Campbell Robb said, "These troubling forecasts show millions of families across the country are teetering on a precipice, with 400,000 pensioners and over one million more children likely to fall into poverty and suffer the very real and awful consequences that brings if things do not change."

The staggering decline in income since 2007 was confirmed by other reports published last month. A report commissioned by the Trades Union Congress noted that the UK ranked near the bottom of a list of more than a 100 countries in the terms of growth in pay since the 2007-08 financial crash. In real terms, UK workers saw the value of their wages decline. It warned, "[T]he UK's poor global ranking is unlikely to improve soon, with the latest monthly figures showing real wage growth at its lowest for almost two years."

A report from the UK-based insurance multinational Aviva highlighted the dire low levels of savings among poor families, and how inequality is increasing in terms of savings accrued by the poorest families compared to the richest.

The report noted that "data shows low income families (earning £1,500 or less a month) now typically have just £95 in savings and investments excluding pensions compared to £136 a year ago, while high income families (earning £5,001 a month or more) have increased typical savings to £62,885."

According to Aviva, the average savings of high-income families increased by nearly £13,000—a 25 percent increase since last year. They estimate around a quarter of UK families are classed as low-income families, whose savings on average have fallen to less than £100.

Commenting on the report, Paul Brencher of Aviva said, "The gulf between low and high income families is showing signs of widening, in a worrying indication that those less fortunate are finding their finances increasingly stretched. While high-income families have been able to increase their savings pots, those with low incomes have seen theirs fall to less than £100. This reflects the trend of shrinking savings seen across the UK families as a whole. Without a financial back-up, any sudden unexpected expense could put low income families in particular under added pressure."

In summarising the IFS report, the Joseph Rowntree Foundation made a plea to Conservative Chancellor Philip Hammond to ease the burden on low-income families.

This met with a hostile response from the government, with Hammond making clear this week that the austerity onslaught against the working class, the poorest and most vulnerable will continue. Ahead of today's budget, the chancellor authored a piece in the *Sunday Times*, criticising calls for "massive borrowing to fund huge spending sprees…" On Tuesday, Hammond told MPs "the [welfare] reforms that we have already legislated for must be delivered, and parliament's original intent in legislating for those reforms has to be ensured".