UK: Eight million hit by welfare cuts

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Eight million Britons are at risk of the first sustained rise in inequality since the late 1980s, according to the Resolution Foundation's (RF) latest annual report.

As the government rolls out £14 billion of welfare cuts, the think tank warned that these were damaging the prospects of eight million low- and middle-income households, offsetting the impact of any increase in the national living wage.

The report, "The Living Standards Outlook," looks at what may happen with household incomes and inequalities over the next five years, examining in some detail the real spending power of typical households and the distribution of income.

Low to Middle Income households (LMI) are defined as those families, including single parent families, that are part of the bottom half of the non-pensioner income distribution. This group have been hit by rising housing costs and the full impact of the recession. In 2016-17, LMI income hardly grew and projections point to LMI income stagnating or falling for the three years from 2017-18 through 2019-20.

Over the full decade from 2010-11 to 2020-21, typical LMI income is projected to rise by under £300 (2 percent), compared to £3,100 (10 percent) for higher-income working families. The previous decade saw figures of £1,500 (11 percent) and £3,100 (11 percent) respectively, despite the impact of the recession.

The Foundation adds that although higher-income households were likely to experience an increase, income growth would be weak—partly because interest rate rises over the next few years are expected to dampen disposable income growth for homeowners.

Adjusting for inflation, the last decade has been the weakest for average earnings in two centuries—the product of above-target inflation and poor nominal pay growth.

Nominal pay growth took a massive hit following the financial crash in 2008.

Average weekly wages in 2008 in today's money stood at £492. In December 2017, they were £480. The Office for Budgetary Responsibility (OBR) expects pay growth to remain weak, with nominal pay growth of less than 3 percent a year until 2021.

Workers in the public sector represent one in five employees and have endured pay freezes since 2011-12. The Resolution Foundation notes that forecasts show that average pay in public sector education will be lower in 2022-23 than in 2004-05, with public administration pay lower than in 2005-06—pay stagnation of 18 and 17 years respectively.

A downward factor affecting income growth and increased inequality is cuts to working age benefits. Key benefits will be less valuable in 2020 than they were in the 1980s.

Child Benefit beyond the first child, for example, and Job Seekers Allowance (JSA) are less valuable than they were in April 1988, while Child Tax Credit will be at the same level in real terms as it was 10 years ago. In the 1970s, the equivalent of Job Seekers Allowance was paid at a fifth of average full time pay. By 1988, it had fallen to 15 percent, and it now stands at 11 percent. By 2022, basic out-of-work welfare support is estimated to stand at just 10 percent of average pay.

Working class families are also set to lose out due to cuts to benefits for new claimants. The rollout of Universal Credit (UC) will impact those claiming in-work allowances, as it is set to be less generous overall than the benefits it will replace over the years to 2022-23.

Larger families, single parents and out-of-work households are likely to see the largest income falls. Families with three children or more, families without anyone in work, and single parents are all projected to be worse off in 2022-23 than in 2015-16.

The foundation points out, "The weakest regional median income growth between 2015-16 and 2022-23 is forecast for Northern Ireland (2.4 percent) and Wales (4.8 percent)—two of the poorest parts of the UK—in comparison to 8 percent nationally…

"Roughly the bottom 40 percent of the working-age population is expected to face relatively weak or even negative income growth, with higher and relatively equal growth for the rest… The years 2016-17, 2017-18, 2018-19 and 2019-20 in our projections all involve part of the income distribution becoming worse off than the year before."

The report points to the pressure that will be exerted on housing costs because of potential interest rate rises. Homeowners have benefited from a period of low interest rates on mortgages, but with the Bank Rate forecast to rise mortgage payments could soon be rising faster than earnings—bringing to an end an era of cheap borrowing.

The Foundation notes, "As 2017-18 draws to an end, all the evidence so far points to a dire year for living standards and poverty. There was zero growth in the typical household income, and only a few years are on record that have delivered such poor growth."

In every year since 2016-17 to 2022-23, the UK is projected to have missed its international targets via the United Nations Sustainable Development Goals, to deliver higher growth for the poorest 40 percent of the population than the overall population.

Torsten Bell, the think tank's director, said, "This parliament risks seeing the first sustained rise in income inequality since the 1980s. But the story this time around is less about the rich soaring further away, and more about the poorer families falling further behind as they bear the brunt of £14bn of welfare cuts."

This is somewhat disingenuous.

The richest in society have soared so far away from the majority of people that they may as well live in another universe. The report concludes with a call on the government to enact the "right policies", including reversing the benefits freeze, and changing Universal Credit to "make it a system for reducing rather than increasing poverty." The Foundation has made similar recommendations over the last decade, to successive Labour and Conservative governments, to no avail.