The combination in the UK of economic stagnation and public spending cuts is causing substantial hardship to people living in poverty. This amounts to a ‘Perfect Storm’ of falling incomes, rising prices, public service cuts, benefit cuts, a housing crisis, and weak labour rights. By making different political choices, the government can both protect people in poverty and help to stimulate economic recovery in the short term, and set the UK on the way towards economic, social and environmental sustainability in the long term.
1 Summary

Introduction

The UK is facing a set of serious, interlocking challenges. The economy is stagnating, unemployment is increasing, prices are rising, incomes are falling, and spending on public services is being cut back rapidly.

In this paper, Oxfam has taken its experience of working with partner organisations across the UK and the stories of individuals with whom those partners work, together with a wider analysis, to outline the reality of these challenges for people living in poverty.

For the 13.5 million people who currently live in poverty – a fifth of the population – the combined impact of all these challenges is creating a ‘Perfect Storm’ that is pushing already fragile livelihoods to breaking point.

Background: the reality of poverty in the UK

The UK is the sixth richest country on earth, yet one in five of its people lives in poverty. Before the financial crisis and the economic recession, prosperity was not shared. The UK is one of the most unequal rich countries in the world, with the poorest tenth of people receiving only 1 per cent of total income, while the richest tenth take home 31 per cent.

The risk of poverty is not one that is shared equally across society. Twice as many people from ethnic minorities live in poor households compared with white people; women are more likely than men to live in poverty; and, geographically, there are substantial inequalities both between and within the regions and nations of the UK.

Poverty in the UK is about material deprivation: for example, more than a fifth of UK households (5.5 million or 22 per cent) are affected by fuel poverty, and inadequate heating results in thousands of unnecessary deaths each year. But it is also about life and death: premature deaths caused by health inequalities in England each year lead to the loss of between 1.3 million and 2.5 million extra years of life. And people living in poverty have to face stigma and prejudice, and a lack of recognition for the positive, non-financial contributions they make to society.
The ‘Perfect Storm’ and its impact on poverty

Since the economic crisis of 2008, those already in poverty have seen their poverty deepen, and millions more have become increasingly vulnerable. A combination of economic stagnation, the rising cost of living, benefit cuts, falling incomes, rising unemployment, and public service cuts add up to a Perfect Storm for the millions already struggling to make ends meet.

The Perfect Storm is already affecting partners with whom Oxfam works in the UK, with increased demand on their services, just as the resources to provide that support are being withdrawn. The coping mechanisms of people living in poverty have included increasing debt, more people relying on food parcels, and women acting as ‘shock absorbers’, managing budgets and debt and going without in order to ensure that their families have what they need.

Rising unemployment and declining incomes

Average earnings shrank by 4.4 per cent last year. Incomes of the directors of FTSE 100 companies rose by 49 per cent.

Incomes are decreasing across most of society due to a combination of rising unemployment (particularly youth unemployment), involuntary part-time working, pay freezes and cuts, and cuts in benefit levels. This is causing the biggest real terms fall in incomes since the mid-1970s.

While real wages are falling for the majority and the National Minimum Wage has fallen over the past four years, rewards at the top have raced away: last year, earnings of directors and chief executives went up by 15 per cent, and those of directors of FTSE 100 companies soared by 49 per cent.

Falling incomes and rising inequality are part of a longer-term trend. In the decade to 2008/09, 40 per cent of total income growth in society went to the richest tenth of people, and a decreasing proportion of gross domestic product (GDP) has gone to wages. It is predicted that, on current trends, the UK will rapidly return to levels of inequality not seen since Victorian times.

The increasing cost of living

Food prices have risen by 30.5 per cent in five years. The National Minimum Wage has risen by 12.1 per cent in the same period.

Prices have risen rapidly, particularly in 2008 and 2011, even as the economy has stagnated. This inflation has been driven by food and fuel prices, both of which account for a high proportion of the spending of people living in poverty. In addition, people living in poverty have to pay more than rich people for basic necessities such as gas, electricity, and banking. This ‘poverty premium’ is estimated to cost them an additional £1,170 a year. Finally, tax rises under the coalition
government, such as VAT, have been regressive, thus affecting people living in poverty more. The poorest 10 per cent pay twice as much of their income in VAT as the richest 10 per cent.

The Institute for Fiscal Studies (IFS) has calculated that, between 2008 and 2010, the poorest fifth of households experienced an inflation rate of 4.3 per cent, against 2.7 per cent for the richest fifth. The Joseph Rowntree Foundation estimates that the cost of achieving a Minimum Income Standard – a minimum standard of living, based on a broad survey of what members of the public think constitutes the basic requirements of life – has risen by 43 per cent over the past decade, compared with 27 per cent for general prices.

**Public service cuts**

*Spending cuts hit the poorest tenth of the population 13 times harder than the richest tenth.*

The government plans to achieve the majority of its deficit reduction programme through public spending cuts. Poorer people rely most on public services, and spending cuts are estimated to hit the poorest tenth of the UK population 13 times harder than the richest tenth – with planned reductions to public services being equivalent to more than a fifth of their income being taken away. These cuts mean less health care, reductions in social care, and the loss of hundreds of smaller services such as counselling support, care homes, school crossing patrols, and youth clubs.

Cutting public spending has a particularly strong impact on gender equality, with women more likely to be reliant on public services than men. Cuts to the Sure Start programme in England (while the equivalent in Wales, Flying Start, is being protected by the Welsh government), and the thinner spreading of cash support for childcare support under Universal Credit, will particularly affect women.

Public service cuts also have an impact on unemployment. Public sector employment levels are in steep decline, and women form the majority of public sector employees.

**Welfare reform and benefit cuts**

*Seventy-two per cent of the benefit cuts announced in 2010 will be paid by poor women.*

One of the largest contributions to spending cuts has come from reductions in benefits for working-age people, accounting for £18bn per year by 2014–15. According to the House of Commons Library, 72 per cent of cuts announced in the 2010 Emergency Budget will be met from women’s incomes, against 28 per cent from men’s.

The introduction of Universal Credit will simplify the benefits system, making it easier for people currently on benefits to transition between unemployment and work. Yet, just as the system is simplified, so eligibility is being tightened for many claimants.
These changes are increasing the demands on support services, including those of Oxfam partners. They also create severe hardship: the Trussell Trust food bank network reports that two people out of every five receiving food parcels do so as a result of benefit changes or delays.

Housing crisis

The number of Housing Benefit claimants in work more than doubled between November 2008 and February 2012.

Before the recession hit, there was an acute housing shortage. There were 1.77 million households in England on social housing waiting lists in 2008, and 489,400 households living in officially overcrowded homes. Government targets for the building of new homes have been missed, with construction slowing to a crawl since the recession.

The cost of housing has continued to rise in spite of the recession in both the private and social rented sectors, with average rents at record highs and homes unaffordable in more than half of English local authorities. Newly homeless households increased by 18 per cent in England between 2010 and 2011.

Reforms to social housing are not only increasing rents, but also reducing security of tenure. Above-inflation increases in private rents have been compounded by cuts to housing support, even as the need for that help spreads. The number of Housing Benefit claimants in work more than doubled between November 2008 and February 2012, whereas the number of claimants out of work rose by only 9.3 per cent.

The human cost of scarce and expensive housing is stark. Family life is affected, with people forced to delay having children, or to live away from the support of grandparents, while the cost of housing is forcing millions to cut back on other essential spending, including food and heating, and pushing many into debt.

Weak labour rights

Since the recession started, 830,000 permanent full-time jobs have been lost, and half a million new part-time jobs created. The number of people in temporary work because they cannot find a permanent job has risen by 73 per cent. The UK has weaker protection for those in work than Mexico.

For a substantial minority in the UK, work is characterised by insecurity, uncertainty over hours, underpayment, a succession of short-term jobs, or a combination of these. There are estimated to be two million ‘vulnerable workers’ in the UK; decades of deregulation for employers mean that the UK now has the third lowest level of employment protection legislation in the OECD – below Greece, Turkey, and Mexico – and the highest number of zero-hours contracts in Europe (contracts in which a person is required to be on call for work, but has no guaranteed hours of work and is only paid for the hours they do work); and women are in the most precarious and vulnerable work.

Right now, the loose labour market and the shortage of jobs mean that
more power rests with employers, and more people are being forced to turn to insecure work, with few rights – or to waive the rights they do have – just to survive. The number of ‘frustrated part-timers’ – those who want and need full-time work – is at a record high, which is particularly significant as such work is generally low-paid and less secure. A very high proportion of jobs created since the first recession have been part-time, and one in three is a temporary job.

Responding to the Perfect Storm

The need for a new approach

The government’s rapid deficit reduction measures are hitting the livelihoods of almost everyone in the UK, but the particular approach taken is hurting people living in poverty the most. The focus on cutting public spending rather than raising taxes is deeply regressive, and the blend of tax increases chosen is itself regressive. In addition, both public spending cuts and the tax and benefit changes introduced by this government will have a significantly more negative impact on women than on men.

At the same time, we are seeing a synergy of economic and social needs. Protecting the incomes of the poorest people is crucial for both social and economic reasons. It is people on low incomes who are being hurt the most by the Perfect Storm, and increasing the incomes of the poorest will have the strongest multiplier effect on aggregate demand in the economy. By prioritising and targeting social and economic investment, the government can ensure that it protects the services upon which those in poverty most rely, while helping to boost demand and provide investment in the long-term productive capacity of the economy.

No return to business as usual

The UK’s economy and society, as currently constituted, are unsustainable – economically, socially, and environmentally. We need a people’s bail-out to protect the millions in poverty and the millions more who are increasingly vulnerable. But we also need to ensure that there is no return to business as usual.

Protect the incomes of the low-paid

Protecting the incomes of the poorest people is a clear priority, and will help to stimulate demand in the economy. In the long term, action to reduce pay differentials within businesses, public authorities, and wider society can help to protect the incomes of those at the bottom, as well as helping to reduce inequality.

To ensure that incomes for those in work are maintained:

- Cuts to working tax credits should be reversed;
• The withdrawal rate for Universal Credit should be reduced from 65 per cent to 55 per cent, to ensure that the principle that work should pay is realised in the new system; and

• The National Minimum Wage should be increased automatically at least in line with inflation or average earnings, whichever is the higher.

**Protect people in poverty from the increasing cost of living**

To protect people living in poverty from high energy prices, the government should give the energy regulator, Ofgem, new powers to cap prices and eliminate excess profits.

To protect people who are forced into debt by high prices, the government should:

• **Introduce a maximum level of interest;** and

• **Ensure that access to the Social Fund is maintained for those on very low incomes, and that its resources are expanded to meet increased demand.**

**Reduce public service cuts**

In the short term, by changing the ratio of spending cuts to tax increases, the government can protect services by reducing the speed and depth of cuts. To protect services for the longer term, it can invest in services that create jobs and increase long-term growth.

As an immediate step, the government should:

• **Slow the speed and depth of public service cuts by increasing progressive taxation instead;**

• **In particular, protect Sure Start services by reinstating the ring-fence to the Sure Start grant to local authorities in England;** and

• **Explore investing in a national system of universal child care.**

**Protect the social safety-net**

In the short term, the incomes of the poorest people should be protected. In the longer term, overcoming poverty and creating a sustainable economy will require social protection that provides enough to live on, but which also acts as a springboard towards employment and progression.

In the short term, the government should protect the level of out-of-work benefits by:

• **Ensuring that local authorities in England have sufficient resources to maintain existing levels of Council Tax Benefit,**
following the examples of the Scottish and Welsh governments;

- Monitoring the effect of the Housing Benefit and overall benefit caps and reviewing them in light of social impacts; and

- Ending stealth cuts to benefits by reversing the switch in uprating these from the Retail Price Index (RPI) to the Consumer Price Index (CPI) measure of inflation, to protect benefit levels for those in or out of work.

To protect the incomes of women both in and out of work, who have been hit particularly hard by cuts to benefits:

- Child Benefit levels for those on low and middle incomes should be maintained through a reversal of the freeze to 2014; and

- Cuts to child-care support should be reversed, to protect both incomes and work incentives, by restoring support for child-care costs for low-income families to pre-April 2011 levels and through providing an adequate level of support for child-care costs in the new Universal Credit system.

**Secure, affordable, decent housing for all**

There is a clear long-term need for housing, but in the short term there is a need to protect private tenants. Housing is also a very good way of stimulating the economy. Investment in housing can serve environmental as well as economic ends, for example through retrofitting existing housing stock.

In the short term, the government should:

- Invest in affordable homes to boost the economy and help solve the housing crisis; and

- Consider raising the maximum penalties for offences by landlords, including increasing the maximum fines to make it more cost-effective to pursue prosecutions.

**Protect rights at work**

In the short term, it is crucial that existing labour rights are protected. In the long term, protecting labour rights is an essential part of ensuring that decent work becomes the norm in the UK, and that in-work poverty is eradicated.

In the short term, the government should:

- Protect access to justice by exempting low-income workers from employment tribunal fees;

- Apply the working practices of the Gangmasters Licensing Authority to other sectors of the economy, prioritising
hospitality, construction, and social care; and

- Extend the right to request flexible working to all workers.

A fairer tax system

In the short term, for social and economic reasons, any further tax increases should be progressive in nature, and future tax cuts should be targeted at people on low incomes. In the long term, a progressive tax system would help to tackle inequality.

In the short term, to raise money to protect essential services, the government should:

- Proactively clamp down on tax avoidance and evasion to ensure that all tax that is levied is collected;
- Introduce a ‘Robin Hood Tax’ on financial transactions of 0.05 per cent, to raise money for services and benefits at home and to fight poverty overseas; and
- Examine options for a land value tax.

The long-term case for a fairer society

There is a strong relationship in the UK between poverty and inequality. The UK is a rich society, but one in which income, wealth, and opportunity are unequally distributed.

Inequality harms those who are shut out from wealth and left in poverty, but there is also substantial evidence that it leads to worse outcomes across society as a whole. Meanwhile, the economic crisis has to a large extent been caused by unsustainable personal debt and a bloated financial sector, both of which were driven by inequality. Finally, as a whole, the UK economy is environmentally unsustainable.

The impact of inequality on individuals and society

Inequality has the harshest impacts on those forced to remain at the lower end of the income spectrum, breeding a sense of hopelessness and status anxiety. More broadly, inequality has negative impacts across society as a whole, causing lower life expectancy, less social mobility, and poorer health outcomes, and worsening a range of other social problems. Within rich societies, the way in which resources are distributed is the key determinant of overall well-being.

The economic case for greater equality

Economic growth over the past three decades has been unequally shared and incomes for low earners have been stagnant, even as incomes at the top have raced away. With those at the bottom trying to keep up, personal debt increased by three-and-a-half times between 1981 and 2007, from 45 per cent to 160 per cent of GDP.
Bridging the widening gap in incomes with borrowing cannot be maintained indefinitely. The World Bank and the IMF have both recently produced evidence showing that reducing income inequality is likely to be important in reducing the likelihood of future crises.

Inequality is also bad for growth and, according to the IMF, reduces the length of growth spells. For example, closing half of the inequality gap between Latin America and emerging Asian economies would more than double the expected duration of a ‘growth spell’.

As a recent Oxfam International report on the G20 puts it, ‘If we factor in the impact on growth, the double dividend of tackling inequality becomes a triple dividend: it directly reduces poverty, enhances the ability of future growth to reduce poverty, and, finally, it improves prospects for growth itself.’

In order to effect a lasting solution to the crisis, steps taken to fight economic stagnation and to protect people living in poverty must seek to build a fairer, more sustainable society.

**Rethinking what we value as a society**

It is not growth that matters, but the type and distribution of growth. Oxfam in Scotland has led the development of a Humankind Index, which is based on asking people in Scotland what matters to them and then measuring those things, to see how well Scotland is doing as a society. The UK government should adopt a similarly wide-ranging approach to measuring well-being, to help ensure that steps taken now will build a post-crisis economy and society that sustainably serve the interests of the British people.

**Conclusion**

The aftermath of recession is seeing economic stagnation, falling real incomes, and public service cuts all hitting people living in poverty the hardest. The combined impact of all of these factors adds up to a Perfect Storm that is pushing people’s livelihoods to breaking point.

The crisis we are in could be an opportunity to change thinking about what a fair society looks like, and to build the foundations for overcoming poverty once and for all. We need urgent action right now to reinvigorate both the economy and the social safety-net on which most of us ultimately rely. But we also need to do so in a way that sets us on the road to a fair, productive, and sustainable society.
Introduction

The UK is facing a set of serious, interlocking challenges. The economy is stagnating; unemployment is increasing; prices are rising; incomes are falling; and spending on public services is being cut back rapidly. For the 13.5 million people living in poverty, the combined impact of all of these factors is creating a ‘Perfect Storm’ that is pushing already fragile livelihoods to breaking point.

When the recession first hit, Oxfam warned that there could be no return to ‘business as usual’. This is as true today as it was then. Oxfam also warned that the poorest and most vulnerable people would bear the brunt. Sadly, as this report shows, this is what is happening right now.

In the UK, Oxfam’s anti-poverty programme works with many different partner organisations, developing projects with people living in poverty to help improve their lives, and to show how things can be changed for the better. Working with these groups and individuals has helped Oxfam to understand the impact that the Perfect Storm is having on people living in poverty. Many of their stories are told in this paper. To deepen its understanding, Oxfam also surveyed all its partners in autumn 2011 about the impact the Perfect Storm was having on their organisations and on the people they work with. Nearly 50 organisations responded, confirming the depth of the problems, and helping to inform this paper.

This paper analyses the factors that are making life harder for people living in poverty, drawing on Oxfam’s own experience, as well as a wider analysis. This narrative is interspersed with the testimony of individuals with whom Oxfam’s programme and its partners work. The paper goes on to suggest urgent remedies to the immediate crisis, and begins to sketch out a longer-term solution to the underlying causes, arguing that a return to pre-crisis business as usual is neither possible nor desirable.

In publishing this paper, Oxfam wishes to tell the untold story of the millions of people at the bottom who are feeling the worst effects of a crisis that is not of their making. It is aimed at politicians and decision makers, whose actions can help to mitigate its effects; at the institutions of civil society, whose task it is to develop a blueprint for a fairer society that is both sustainable and economically successful; and at the media, who can help to articulate the reality of the Perfect Storm for those living in poverty.
3 Background: the reality of poverty in the UK

The UK is the sixth richest country in the world, and meets the major conditions for poverty eradication: democracy and good governance, independent media and judiciary, well-resourced provision of basic services, and laws enshrining rights and prohibiting anti-discriminatory practices.

Yet, in spite of this, more than a fifth of the population, some 13.5 million people, live in poverty. The number of people living in poverty increased from 7.8 million in 1982 to 13.4 million in 1990, and has remained stubbornly high since. Even before the recent financial crisis and economic recession, prosperity was not shared. Over the decade to 2008/09, the poorest tenth of the population saw their incomes fall by 12 per cent, while the richest tenth saw their incomes grow by 37 per cent. Since then, the level of poverty in the UK has remained consistently high and a combination of factors, stemming from economic trends and political decisions, has served to make life significantly tougher for people on low incomes (discussed in detail in Part 4, ‘The Perfect Storm’).

Figure 1: Changes in incomes over the 1998/99-2008/09 decade
Increasing inequality – whether in or out of work

In the past three decades, the UK has become a society characterised by enormous inequality. The commonly used Gini co-efficient measure of inequality rose from 26 in 1979 to 40 in 2009, making the UK one of the most unequal rich countries in the world. The poorest tenth of people in the UK receive only 1 per cent of total income, while the richest tenth take home 31 per cent. Meanwhile, benefit levels have halved compared with incomes since 1980, falling from one-fifth to one-tenth of average earnings.

The relationship between work and poverty is crucial, but complex. Unemployment substantially increases the risk of poverty, and the average level of unemployment since 1979 is more than three times the average level in the two post-war decades. Yet having a job is not necessarily enough to lift someone out of poverty, with more working-age adults in poverty now living in working households than in workless households. Low wages, involuntary part-time working – exacerbated by a part-time pay penalty and in-work benefits that are insufficient to lift part-time workers out of poverty – together with inadequate and poorly enforced labour rights, especially for those in the worst-paid and most insecure jobs, combine to cause growing levels of in-work poverty.

Who is poor in the UK?

The risk of poverty is not one that is shared equally across society. A person’s ethnicity has a substantial bearing on their likelihood of being in poverty, and around two-fifths of people from ethnic minorities live in poor households, twice the rate for white people. There are also substantial disparities between ethnic groups, with 72 per cent of people of Bangladeshi origin in poverty, compared with 29 per cent of Indians. Women are slightly more likely than men to live in a poor household (21 per cent against 20 per cent), though this does not consider the distribution of resources within households, since all poverty figures are collected at the household level. From what Oxfam knows about the allocation of resources within households, and in view of the persistent gender pay gap in the UK, it is likely that government figures understate the extent to which women are more likely than men to be in poverty – which is problematic in itself.

Geographically, there are substantial inequalities both between and within the regions and nations of the UK. Regionally, the poverty rate varies between 28 per cent in London (and 32 per cent in inner London) and 18 per cent in South East England (and 23 per cent in Wales and 19 per cent in Scotland). Average incomes in the South East are 15.9 per cent higher than in the West Midlands. Meanwhile, South West England has both one of the lowest poverty rates – 20 per cent – and highest average incomes nationally, yet is also home to Cornwall,
which ranks 43rd out of 46 English ceremonial counties for Gross Value Added (GVA). And being born poor is possibly the single biggest risk factor in becoming a poor adult: social mobility in the UK has slowed over the past 30 years, and is low by international standards.

**What does poverty mean in the UK?**

**Material deprivation**

In practical terms, people living in poverty are often forced to make choices between essentials such as heating and eating. More than a fifth of UK households (5.5 million or 22 per cent) are affected by fuel poverty, meaning that adequate heating would cost more than a tenth of their income. In reality, with money needed elsewhere, many are forced to go without heating, resulting in thousands of unnecessary deaths each year.

It is also clear that managing on a low income is time-consuming – and very hard work. The people with whom Oxfam works report having to visit many different shops in order to buy food at the best prices, rather than being able to buy everything they need from one supermarket. Living on a low income makes it difficult to cope with an unexpected ‘shock’ such as a broken cooker or boiler, or an electricity bill that is higher than normal. This is exacerbated by the poverty premium faced by people living in poverty on the cost of basic necessities such as gas, electricity, and banking, which is estimated to be in the region of £1,170 a year. As a consequence, debt is a major concern for people living in poverty, and is likely to become more acute in the coming years (see Part 4 below). And for many people on low incomes, even a visit to the cinema – or being able to invite family or friends round for a meal – is an impossible luxury they cannot afford; they are effectively excluded from participating in the normal activities that are part of everyday life in a ‘developed’ country.

**The impact on health**

Living in poverty has substantial detrimental consequences for physical and mental health. Being at the bottom of an unequal society fuels status anxiety and feelings of insecurity, and contributes to mental and physical ill health. The male life expectancy in the wealthiest local authority area (Kensington and Chelsea) is 13.5 years higher than in the least healthy (Glasgow City). The variations in disability-free life expectancy are greater still: those living in the richest neighbourhoods can expect to enjoy 18 more years of healthy life than those in the poorest. Premature deaths caused by health inequalities in England each year lead to the loss of between 1.3 million and 2.5 million extra years of life. Inequality is not just causing poverty: it is killing people.
**Stigma and prejudice**

Media and government portrayals of people living in poverty fuel poverty prejudice and negative stereotypes. One example of this is the language used to talk about benefit claimants, with both competing to appear toughest on conditions around receipt of out-of-work benefits, presenting them as generous and unaffordable, whereas they are in reality at their lowest level relative to wages since the welfare state was founded.34

**Box 1: The labels you get**

Sandra lives in Salford, and since losing her job has been on benefits. She feels that her self-esteem has been severely affected by her situation. She says, ‘What worries me, and scares me sometimes, is that there are so many programmes about benefit cheats and scroungers, and the labelling you get because you are someone on benefits. ‘I think there’s a massive link between poverty, stress, and mental health, and you can’t get away from it. I felt I was relatively safe. I had a mortgage, I had a job, I had a good career; now I’ve been reduced to a set of labels. The confidence I used to have is gone. What rules most of the time is my electric meter, constantly going, and I worry about how many showers can I have in a week? How much television can I watch?’

The lack of recognition of the contribution that people living in poverty make to society adds to their negative experiences. People living in poverty make substantial contributions, whether through undervalued low-income work or non-financial contributions (for example, unpaid or low-paid caring), and often undertake substantial amounts of volunteering in their communities. In spite of this, prevailing attitudes in the UK include a lack of recognition of the existence of poverty, a tendency to believe that poverty is the fault of the individual, and increasingly harsh attitudes towards benefit recipients.35

In summary, poverty in the UK is about low incomes and material deprivation, but it is also about social exclusion, stigmatisation, and health inequalities. The causes of poverty are complex, and its risks are unevenly distributed across society. Ultimately, it is this unevenness which defines the landscape of poverty in the UK: inequalities of wealth, opportunity, and income explain the paradox that, while the overall material riches of the nation have grown substantially in the past 30 years, poverty and its consequences have grown in equal measure.
The ‘Perfect Storm’ and its impact on poverty

As demonstrated above, the problems of poverty in the UK have not arisen overnight: they are longstanding and are the result of deep, complex, and long-term factors. Yet, since the economic crisis of 2008, people already in poverty have seen their poverty deepen, and millions more have found themselves to be vulnerable to economic and political tides beyond their control. A combination of economic stagnation, the rising cost of living, benefit cuts, falling incomes, rising unemployment, and public service cuts adds up to a Perfect Storm for the millions already struggling to make ends meet in the UK. Living standards for the majority are falling through a combination of declining real incomes and a loss of social benefits due to reduced public services. In a society where decades of rising inequality have already weakened bonds of solidarity, this Perfect Storm has left millions of people isolated, with their livelihoods stretched to breaking point.

The recession of 2008/09 was the deepest since the 1930s. The recovery since then has been the weakest in modern history, worse even than the Great Depression, with output still well below pre-recession levels, and the UK recently re-entering recession. This has had substantial social consequences in the form of rising unemployment and involuntary part-time work, falling incomes, and increasing job insecurity, leading to reduced labour rights. Since it came into power in May 2010, the coalition government has chosen to tackle the debt accrued since the recession and the 2007/08 financial crisis by undertaking a programme of deep and rapid public spending cuts and tax increases (originally intended, under plans set out in the 2010 Comprehensive Spending Review, to total £99bn of spending cuts and £29bn of tax rises per year by 2015/16, equivalent to 6.2 per cent of gross domestic product (GDP)). These changes have served to reduce incomes further (through tax increases, benefit cuts, and redundancies), as well as reducing incomes in-kind provided by public services. Both the total amount and the proportion achieved by spending cuts (which are substantially more regressive than tax increases) will increase year-on-year through the five-year spending period from 2010/11 – meaning that things will get worse for those on low incomes.

The impact of the Perfect Storm is already being felt by people with whom Oxfam works in the UK. Across the country, many of Oxfam’s partners say that the combination of government cuts, economic recession, and welfare reform has led to an increasing number of service users seeking support. In many cases, the complexity of the support needed has increased. Yet, just as the need for support becomes more acute, so the resources to provide it are being withdrawn: 19 Oxfam partners have experienced a recent cut in funding.
Box 2: What Oxfam’s partners say

When Oxfam surveyed its partners in 2011, it found that many of them, despite the decreases in their funding streams, were facing a growing demand for their services. ‘Due to cuts in mainstream services and benefits, the number of clients needing our support has increased drastically,’ the Rochdale Women’s Welfare Association reported.

Many of Oxfam’s partner organisations are concerned about a decline in health and nutrition, especially for young families and older people, as they are faced with tough choices in the distribution of their household expenditure. Other partners have seen increasing levels of debt and homelessness befalling their clients. Oxfam’s partners reported that there is low morale in the communities they work in with more anti-social behaviour, including religious and racial prejudice.

The unbalanced impact of the recession on women is something that Oxfam’s partners have witnessed themselves. The Pankhurst Centre said: ‘We have seen a marked increase in women presenting themselves as homeless, and these women are not typical; they are increasingly women who have lost jobs or are experiencing domestic abuse. And job losses are affecting more women than men.’

Changes to the make-up of communities due to the recession are also being witnessed. ‘Many shops have closed, especially unusual shops, and there is an increase in budget and “cut-price” shops. Now, there are lots of charity shops, pawnshops, empty shops, shops with broken windows,’ said the Swansea Women’s Asylum and Refugee Group.

Most of all, Oxfam’s partners recognise that this crisis is hitting those at the bottom the hardest. Thrive said: ‘There appears to be a double standard in this country between the way rich people and poor people are treated.’

In order to cope with the impact on their lives, people living in poverty have been forced to rely upon damaging coping strategies. Frequently, Oxfam partners have reported an increase in service users experiencing debt,

and this is borne out in national figures: because economic growth is below its initial expectations, since last year the Office for Budget Responsibility has revised upwards its forecast for total household debt in 2015, from £1,823bn to £2,126bn. The impact is being felt at the basic level of providing food. The UK’s largest food bank network, the Trussell Trust, has seen the number of people receiving its food parcels double in the past year, and it predicts further increases, from 128,000 people last year to half a million by 2016.

Finally, as Oxfam knows from its work, and extensive academic literature has proved, women tend to act as ‘shock absorbers’ in times of crisis, managing budgets and debt, and going without in order to ensure that their families have what they need.

The Perfect Storm is so damaging in part because it is made up of a combination of factors, all hitting at the same time. So, while this paper considers below the impact in six particular areas, millions of people are being affected by a combination of several of these issues:

- Rising unemployment and declining incomes;
- The increasing cost of living;
- Public service cuts;

‘All our users are in debt. We have definitely seen an increase in bankruptcy and debt relief orders in the last year to 18 months. The people I see have debts to credit cards, catalogues, loan sharks. […] It’s often only when they can see a financial statement that they really appreciate they don’t have enough money to live on.’

Feedback from Community Links worker in focus group, 2012
• Welfare reforms and benefit cuts;
• The housing crisis; and
• Weakening labour rights.

Box 3: A family in East London hit by the Perfect Storm

David used to work for his local council, and his wife Catherine works for the local hospital. Over a year ago, David lost his job and, as Catherine’s job is low-paid and their son is struggling to find a job, the family started having trouble making ends meet.

Despite trying his best, David couldn’t find a job, so he turned to taxi driving. Renting his cab costs him £250 per week, and he cannot always find customers on a regular basis, due to the recession. The family cannot miss any more mortgage payments, or their house will be repossessed, so they are having to go without food to keep up with their payments, and haven’t been able to put the heating on all winter. They use gas and electric keys, and when they run out, David goes out to try and pick up a fare, and then comes home to put the money on the key.

The pressure on the couple is mounting and both Catherine and David are now on anti-depressants. David is not entitled to any benefits as his wife works, and the couple’s son is not classified as a dependant any more, even though he cannot provide for himself, as he doesn’t have a job. They have other debts that they can’t pay, and if they decide to go bankrupt, they won’t be able to afford to rent another property or to live in a council property, as they aren’t vulnerable adults.

Source: Community Links
Rising unemployment and declining incomes

A number of factors are pulling down incomes across most of society. Rising unemployment, involuntary part-time working, pay freezes and cuts, and cuts in benefit levels are all contributing to the biggest real-terms fall in incomes since 1974–77. According to the Institute for Fiscal Studies (IFS), median incomes will drop by 7 per cent between 2009/10 and 2012/13, having fallen modestly during the recession itself.45

The squeeze on incomes for the majority is not new. Real wages for most have been stagnant since the mid-2000s, and are now falling – earnings growth in February 2012 was 1.2 per cent,46 against inflation of 3.4 per cent measured by the Consumer Price Index (CPI),47 while average earnings fell by 4.4 per cent in 201148 – and they are set to continue to do so. In the first six months of 2011, almost three-fifths of employees experienced a pay freeze (rising to over three-quarters in the public sector), with a further one in twenty having their pay cut.49 The National Minimum Wage (NMW), the level at which millions of workers are paid, has fallen in real terms for three of the past four years, and was frozen in the other.50

Figure 2: Income changes according to occupation

‘As a civil servant I haven’t had a pay rise for three years, but each January, my costs go up. Bus fares go up, train fares go up, petrol is constantly fluctuating up and down at the moment, food obviously … so when I buy food now it’s got to be stuff I know we’re going to eat – nothing can go in the bin.’

Dionne, mother of two, London
At the same time, rewards at the top have raced away compared with those at the bottom. Last year, the earnings of company directors and chief executives went up by 15 per cent, while the annual pay of waiters and waitresses fell by 11.2 per cent and the earnings of cleaning staff fell by 3.4 per cent.\\(^{51}\) Directors of FTSE 100 companies saw their earnings increase by 49 per cent.\\(^{52}\) The average FTSE 100 executive now earns 145 times more than their average worker. On current trends, by 2035 this inequality will reach levels last seen in the Victorian era.\\(^{53}\)

Even during the good times, the majority of rewards went to the richest: in the decade to 2008/09, 40 per cent of total income growth in society went to the richest tenth of people.\\(^{54}\) The progressive initial response to the recession helped briefly to reverse this trend, with incomes growing fastest for the poorest fifth (3.4 per cent) and slowest for the richest two-fifths (0.3 per cent) from 2008/09 to 2009/10. Since then, however, the new government's deficit reduction plan has been substantially regressive, hitting the poorest hardest.\\(^{55}\) The contrast does demonstrate, however, the potential for positive government action to protect people living in poverty, through decisions on how tax and benefit changes are targeted.

Meanwhile, levels of unemployment have reached their highest for 17 years, at 2.67 million people (8.4 per cent).\\(^{57}\) This represents a second post-recessionary spike in unemployment, with levels initially having begun to fall in the wake of recovery in 2009/10, suggesting that the impacts of stagnating growth and of public sector redundancies (public sector employment having fallen for eight successive quarters since the start of 2010)\\(^{58}\) are starting to be felt in the job market. Moreover, long-term unemployment is at a 14-year high of 882,821 claimants, having more than doubled since the financial crisis of 2008.\\(^{59}\)

**Box 4: Fewer opportunities for young people**

Community Links, an Oxfam partner based in East London, delivers training to young people not in education, employment, or training (NEETs). The trainers usually compile a list of apprenticeships that the participants can apply for, but they are witnessing a decline in the number of opportunities available. ‘Each year the list has got shorter and shorter,’ says one Community Links worker.

Last year there were only three apprenticeships, one of them in child care, she adds. ‘Three of the girls on my course applied for the place in child care, so you can imagine what the competition for that was like. Do you know what that placement was for? It was to work with terminally ill kids. They wanted to pay a 16–18-year-old £100 a week to work full-time with terminally ill children.’

Source: Community Links

Levels of youth unemployment are notably high, with more than a fifth of young people, over one million of them, unemployed.\\(^{60}\) This last statistic is of particular concern, given evidence that unemployment has a permanent ‘scarring’ impact on the life prospects of young people.\\(^{61}\) It is estimated that for every young person not in education, employment, or training (NEETs), there is an average cost of £56,000 to public
authorities over their lifetime. There are also impacts in terms of equality and social cohesion, as one in two young black people is unemployed. The likelihood is that unemployment will get worse before it gets better, with employers seeking to reduce staffing levels outnumbering those looking to increase them.

Unfortunately, even these figures understate the extent of the employment problem. Many of those currently in work are under-employed – involuntarily working fewer hours than they would like. The number of such ‘frustrated part-timers’ has reached 1.4 million – the highest figure since records began in 1992. Oxfam’s own experience demonstrates the impact of the weak labour market for people living in poverty: several of its partners report that the numbers of their service users experiencing redundancy have recently increased. In addition, several partners have told Oxfam that more of their employed service users are facing reduced incomes due to shorter working hours.

Falling incomes and higher levels of unemployment, while particularly acute at present, are part of a longer-term trend. The average level of unemployment since 1979 – of 7.9 per cent – is more than three times the average level recorded in the two post-war decades. At the same time, a decreasing proportion of GDP has gone to wages, while corporate profits and the incomes and wealth of the very rich have sped upwards. To bridge the gap and allow workers to buy the increasing output (and thus keep the economy functioning), consumers have needed to borrow. As a result, levels of personal debt have more than tripled in less than 20 years: from 45 per cent of incomes in 1981 to 157 per cent in 2008. Moreover, those with incomes of less than £10,000 per annum have a consistently higher unsecured debt-to-income ratio than any of the higher-income groups, rising to almost 300 per cent in 2010.

The increasing cost of living

A major reason why real incomes have been falling is that prices have been rising rapidly. While, typically, inflation is associated with an economy operating above full capacity (i.e. the end of a boom), both recession and stagnation have been accompanied by high rates of inflation, with peaks of 5.2 per cent (CPI; RPI was 5 per cent) in September 2008 and 5.2 per cent (CPI; RPI was 5.6 per cent) in September 2011. More significant than the headline figures has been what is driving price rises. The peaks in 2008 and 2011 were driven by food and fuel prices, both of which account for a high proportion of the spending of people living in poverty.

In addition, tax rises under the coalition government have been regressive, thus affecting people living in poverty more, when the poorest fifth are already taxed more heavily (35.5 per cent of their income in 2009/10) than the richest fifth (33.7 per cent). In particular, the increase in VAT from 17.5 per cent to 20 per cent from January 2011 (having been reduced to 15 per cent between December 2008 and
January 2010) is making the tax system more, not less, regressive. VAT continues to constitute a greater proportion of household disposable income – more than double – for the poorest people (almost 10 per cent) than for the richest (under 5 per cent). Indeed, the gap between the richest and the poorest in terms of the proportion of disposable income spent on VAT has grown from 1 percentage point in 1986 to almost 5 percentage points in 2009/10.\textsuperscript{74}

In the past five years, food prices have risen at approaching double the rate of average inflation (30.5 per cent against 17.4 per cent),\textsuperscript{75} a trend that is likely to continue, with food prices expected increase by 50 per cent in real terms over the next 40 years.\textsuperscript{76} Meanwhile, fuel prices have also risen above inflation: between January 1997 and December 2010, electricity prices rose by 67 per cent and gas prices increased by 139 per cent, compared with a rise of 48 per cent in the overall RPI,\textsuperscript{77} with dual-fuel bills expected to rise by up to 50 per cent from 2011 to 2015.\textsuperscript{78} This, in turn, has contributed to a rise in the proportion of homes facing fuel poverty in England and Wales from 18 per cent to 24 per cent in two years.\textsuperscript{79}

In addition, people living in poverty face a ‘poverty premium’ on the cost of basic necessities such as gas, electricity, and banking, estimated to be in the region of £1,170 a year (for example, because the best tariffs are only available to those able to pay by direct debit, while pre-payment meters offer the worst rates of all).\textsuperscript{80} As incomes for people living in poverty have tended to rise with average inflation (benefits have historically been uprated along with RPI, though that will change to CPI from this year - and the National Minimum Wage has gone
down in real terms in the same five-year period), this means that their ability to pay for essentials has been reduced.

**Box 5: Buying bigger clothes for the children to grow into**

Andrea is a single mother of three in Newport, South Wales, the youngest being two years old. She feels that the cost of food, electricity and gas, and clothes has risen sharply. She has to budget more and more carefully when she goes shopping, and can no longer afford to buy treats for the children without thinking twice.

‘I have to think a lot more about where the money goes. I prioritise fruit and vegetables rather than sweets and crisps. I always try to pass toys and clothes on from the older children to the youngest, and when I do buy clothes, I look at the quality of the material and buy clothes that will last. I buy bigger sizes so that the children will grow into the clothes. I worry about the children getting older and demanding more things. It is difficult when we live in a society that is so built around consumption.’

A number of attempts have been made to quantify the impact of this differential inflation. Comparing patterns of spending across income groups and associated price rises, the IFS has calculated that, between 2008 and 2010, the poorest fifth of households experienced an inflation rate of 4.3 per cent, compared with 2.7 per cent for the richest fifth. As food and fuel prices have since undergone a second peak, it is likely that this differential pattern has continued into 2011/12. The Joseph Rowntree Foundation (JRF) annually uprates the level of the Minimum Income Standard – a minimum standard of living, based on a broad survey of what members of the public think constitutes the basic requirements of life. The JRF calculates that the cost of achieving the Minimum Income Standard has risen by 43 per cent over the past decade, compared with 27 per cent for general prices.

Oxfam is seeing the effects of price rises in its day-to-day work, with its partners increasingly reporting that service users are finding it harder to get by because of the increased cost of living, particularly food and fuel prices. In the majority of cases, they report a ‘large increase’ in these instances.

**Public service cuts**

The political climate today is dominated by deficit reduction, largely in the form of public spending cuts. The government plans, by 2016–17, to instigate average cuts of 19 per cent to each government department, or £126bn over six years. It also plans £29bn of tax increases over that period, the bulk of which will come from the increase in VAT from 17.5 per cent to 20 per cent.

The decision to focus so heavily on spending cuts is significant, since these are known to have a far greater impact on poorer people, who rely most on public services. Research shows that spending cuts will hit the poorest tenth of the UK population 13 times harder than the richest tenth. The impact on those poorest households will be enormous –
equivalent to more than a fifth of their income being taken away (even more if benefit cuts and tax increases are taken into account).\textsuperscript{85} In addition, research shows – and the government acknowledges – that spending cuts will be proportionately larger for more deprived local authorities than for richer ones. For example, within London and the South East, Hackney and Tower Hamlets Councils will see cuts of 8.9 per cent per year, while Richmond and Windsor will see cuts of 1 per cent or less.\textsuperscript{86}

\textbf{Figure 4: Percentage of income lost as a result of spending cuts}

At a time when substantial social damage is being caused by the Perfect Storm, the resources to deal with its impacts are being withdrawn. The cuts mean less health care, reductions in social care, and the loss of hundreds of smaller services such as counselling support, care homes, school crossing patrols, and youth clubs. This is liable to lead to a double effect of existing services dropping in quality and more of these problems being inadequately dealt with, and of money for preventative public services being diverted into short-term, curative spending, decreasing well-being for future generations. The pressure to make such short-term decisions is particularly acute for local government, which is suffering the biggest overall cut, at a cumulative 27 per cent by 2014–15. One particular function of local government is to provide many of the essential personal services that women and their families need.

Cutting public spending has a particularly strong impact on gender equality.\textsuperscript{89} This is before considering the secondary effects, as women are more likely to make up the shortfall in public services by their own unpaid efforts in the home. They can also suffer knock-on financial impacts, as they will in some cases reduce their own employment and

\textit{‘If grant funders and Government all think it’s someone else’s responsibility to fund key crisis services like ours, where is this magical funder that will pick it all up?’}

NEWomen’s Network member\textsuperscript{86}
incomes to make that additional work in the home possible.

**Box 6: The health consequences of the cuts**

Bridget is 52 years old and is on employment support allowance due to her mental health issues. She lives alone in Manchester and, due to her condition, she used to rely on support groups in her area, but now most of them have closed as a result of the cuts. ‘There are too many cuts in Manchester, and there are too many places closed down, so I don’t have many places left to go. There were some groups that I used to go to for mental health therapy, and they’ve lost their funding, so they’re just not there any more,’ she explains.

She would like to move out of Manchester because she feels there is no service provision for people her age in her area any more, but she can’t afford to move house.

‘Since all these cuts have affected me, I’ve actually relapsed with my mental health, and I don’t go out as much as I used to. The one thing I will do is use my bus pass to go on the bus to somewhere that is free because that’s all I can afford to do now. I can’t afford to go for treats or to places like the cinema any more, and things like that,’ she says. The isolation has made her condition worsen: ‘I’ve pretty much had a relapse and gone back to stage one, when I’d come so far with the help and support of these groups. Now they’re not there, I’ve gone backwards again.’

One area in which spending cuts will bite especially hard, affecting women in particular, is child care. Already, the UK has the third most expensive child care amongst OECD countries. While the UK government spends a high proportion of GDP on family benefits (3.6 per cent compared with an OECD average of 2.2 per cent; only France and Denmark spend more, at 3.7 per cent), most of this is spent on cash transfers to families. Countries that allocate proportionately more of such spending to services (even if the total amounts spent are lower) obtain better outcomes in terms of child poverty, gender equality, employment rates in families, and rates of child-care enrolment. In spite of this, spending on Sure Start, the major service of this kind in England, is being cut back – particularly heavily in poor areas, at £100 per child, compared with £30 per child in rich areas. Between April 2010 and November 2011, there was a net reduction of 124 Sure Start centres in England. In contrast to this approach, the Welsh government has chosen to protect and expand its equivalent service, Flying Start, which demonstrates the potential for taking different approaches within the same spending context (see Box 7).

Meanwhile, cash support for child care is to be spread more thinly under Universal Credit, meaning that many families on low incomes will be worse off in work once child-care costs are taken into account. Already, the average second earner in the UK keeps only 32 per cent of their earnings once child-care costs are taken into account, compared with 48 per cent on average in OECD countries. This and other cuts to family benefits, including Child Benefit and Tax Credits, will make the situation significantly worse. To reach the Minimum Income Standard, families requiring child care would have to earn over 20 per cent more

• 75 per cent of local government workers are women.
• 77 per cent of NHS workers are women.
• 80 per cent of adult social care workers are women.
• 82 per cent of education workers are women.

Andrea, single mother of three, Newport, Wales

*A lot of staff at Sure Start has been made redundant and we had made good bonds with those staff, so it is a shame to lose them. Also there is less provision; they used to run various parenting courses which have been cut.*
in 2011 than in 2010 to meet the shortfall in government support.93

**Box 7: Wales: investing more in children**

In stark contrast with the UK government’s approach to services in England, the Welsh government decided last year to invest in its Sure Start equivalent, Flying Start, in order to double the number of children it reaches.

An extra £55m will be injected into Flying Start over the next three years, on top of the regular £39m a year, to benefit an extra 18,000 2–3 year olds, at a time when 32 per cent of children in Wales live in poverty (compared with 28 per cent in 2003–06).94 This extra funding will be applied differently, through data on households that receive Income Benefit, rather than based on the Welsh Index of Multiple Deprivation, which will ensure that families struggling in well-off areas are less likely to lose out.

Finally, public service cuts feed back into the Perfect Storm through their impact on unemployment. Public sector employment levels are in steep decline, with a 4.3 per cent drop in employment levels (270,000) over the past year,95 which has contributed to unemployment continuing to rise far beyond the technical end of the recession (prior to the onset of a second recession). In their secondary effects, too, public service cuts have a gendered impact. Women form the majority of public sector employees,96 and are particularly concentrated where the cuts are deepest, with women constituting 68 per cent of those employed by local authorities.97

**Welfare reform and benefit cuts**

One of the largest contributions to spending cuts has come from the welfare budget. In total, benefit cuts for working-age people (and, by extension, the children they support) will account for £18bn per year by 2014–15. This is the context in which an ambitious programme of welfare reform – with Universal Credit as its centrepiece – is being pursued. The amount being cut from the budget is 36 times greater than the amount being invested in the new system.

The major components of these cuts to benefits include caps and other reductions to Housing Benefit (to be followed by an overall benefit cap); a three-year freeze in Child Benefit, together with means-testing for higher-rate taxpayers; a one-year time limit for contributory Employment and Support Allowance (ESA); a 10 per cent reduction in the budget for Council Tax support (with administration of the cut devolved to a local level); reduction in Child Tax Credits and a tightening of eligibility criteria for Working Tax Credit; a reduction in child-care support; and a change to uprating benefits annually by the CPI, rather than the RPI, measure of inflation.

‘Things are changing all the time and it’s very confusing and worrying for people… Especially when they think they are going to be losing their benefits.’

Dorothy, volunteer at the Clydebank Resource Centre, Scotland
Box 8: Tax credits cuts: a tough blow on single parents

Becky is a single parent working 28 hours a week, on a four-day week. Her three-year-old daughter goes to child care while she’s at work, and this costs £565 a month. Becky receives the maximum 80 per cent support to pay for child care, but cuts to tax credits mean that she will lose over £1,300 a year in support.

Becky says: “This will be very, very hard for me. I was going to try and set up a pension but I won’t be able to afford those payments every month now. I’ve already cut down on all our non-essential spending, so the only way to get around these costs is to try and negotiate working a shorter day, from 9.30 to 2.30, so I don’t have to use child care at all – although this will mean I work fewer hours and so I earn less.

‘I honestly have no idea how I’m going to manage with this. I am a manager, I’m well qualified, I have 11 years’ experience – I contribute to my local economy through my skills and experience. But I feel that I’m being forced to consider giving this up.’

Source: Gingerbread

Figure 5: Benefits rise vs. earnings

If benefits had continued to rise with earnings, Jobseeker’s Allowance would have been £123.69 a week in 2010/11 rather than £65.45 a week

This last issue is highly significant, since benefit levels have steadily been falling further behind average incomes since the link with earnings was broken in 1980. Unemployment benefit has fallen from one-fifth to one-tenth of average earnings. If benefits had continued to increase with earnings, Jobseeker’s Allowance would have been £123.69 a week in 2010/11, rather than £65.45 a week (for single people aged 25 and above). With each subsequent year, the impact of the switch to uprating via the CPI will be compounded, a major factor in the
increasing scale of welfare cuts over the four-year spending review period to 2014–15. The change is predicted to save the government £1.2bn in 2011–12, rising to £5.8bn in 2014–15.101 This seemingly technical change will ensure that benefits become increasingly more residual, year by year, accelerating the creation of a ‘them and us’ welfare system.

On a positive note, the introduction of Universal Credit will simplify the benefits system, making it easier for people currently on benefits to take short-term, part-time, or insecure work. It will also help to protect people as they transition between unemployment and work, or as the hours they are able to work rise and fall.

Yet, just as the system is simplified, so eligibility is being tightened for many claimants, making it harder for people to claim their rights to social protection. New tests for ESA (which has replaced Incapacity Benefit as the main means of support for people who cannot work due to ill health), and soon for the Personal Independence Payment (which will replace Disability Living Allowance from 2013), have caused a great deal of hardship in the form of incorrect decisions, appeals, and a reduction in financial support for many.102 Meanwhile, successive governments have increased ‘conditionality’, or the requirements that claimants must meet in order to receive benefits, including, from October 2011, the requirement for single parents of children aged five and over to seek work. The latest Welfare Reform Bill has introduced a maximum sanction for non-compliance of three years’ loss of benefits.

**Box 9: Benefit sanctions: one step closer to destitution**

The users of the Bradford Resource Centre (BRC), an Oxfam partner, have noticed an increase in welfare sanctions in the area, with people having their benefits stopped for two weeks, two months, or even six months. People are penalised for not applying for the jobs they have been assigned, even if these jobs prove to be unsuitable for their skills, or for missing appointments with the job centre. ‘On benefits, you are not allowed to be ill, to go on holiday, or to be under stress,’ says Bal, from the BRC.

‘The problem with welfare sanctions is that people lose their Jobseeker’s Allowance (JSA), and all their other benefits. It stops immediately, and then it takes ages to sort out getting all the benefits again,’ she explains. Those affected rarely have any savings, and find it even harder than before to get by, having to resort to food banks.

The workers at Community Links, an Oxfam partner based in East London, have noticed the same trend, with many of their service users being pushed into extreme poverty or into debt after being sanctioned. One Community Links worker says: ‘People are experiencing benefits sanctions much more frequently now. If they miss appointments or the benefit office decides that they are not actively looking for work, that they are being lazy – rather than there actually being no job supply at the moment – their benefits are stopped.’

The combination of these changes, of cuts to funding for advice and support services, and of the increased need for benefits due to the Perfect Storm, has resulted in large numbers of Oxfam partners reporting an increase in the number of service users experiencing...
problems in claiming welfare support.\textsuperscript{104} The Trussell Trust food bank network reports that two people out of every five receiving food parcels do so as a result of benefit changes or delays.\textsuperscript{105} As with public service cuts, welfare reform is likely to result in a negative impact on gender equality. In part, this is because women are more likely than men to rely on benefits for the bulk of their income: twice as many women (30 per cent) as men (15 per cent) rely on state support for at least three-quarters of their income.\textsuperscript{106} Research by the House of Commons Library also showed that, of the measures announced in the 2010 Emergency Budget, 72 per cent of cuts would be met from women’s income as opposed to 28 per cent from men’s.\textsuperscript{109} The Commons Library found a similar differential impact in the Comprehensive Spending Review later that year, with women affected twice as badly as men.\textsuperscript{110} However, it is also about the way in which the government has chosen to pursue welfare reform. In particular, the Welfare Reform Bill focuses on improving incentives for first earners (more likely to be men) rather than for second earners (more likely to be women). There have also been significant cuts to child-care support, which make it harder for women to enter or progress in employment,\textsuperscript{111} and to other family benefits. Combined with a single household-level payment for all benefits (which threatens to increase intra-household inequality of access to income), a move away from the few remaining non-means-tested benefits, and the use of stronger conditionality that particularly affects women, the way in which Universal Credit is being pursued will have a differential impact on women.\textsuperscript{112}

\section*{Housing crisis}

The cost and availability of housing have both long since reached crisis point for people living in poverty. There is evidence, however, that recent economic realities and political decisions have made the situation worse – whereas tackling the housing crisis could be part of the solution to the economic crisis.\textsuperscript{113}

Before the recession hit, there was an acute housing shortage. There were 1.77 million households in England on social housing waiting lists in 2008, and 489,400 households living in officially overcrowded homes.\textsuperscript{114} The government of the time set a target of 3m new homes by 2020, and 240,000 per year by 2016, in order to tackle the shortage.\textsuperscript{115} Since then, construction has slowed to a crawl. Over the past year, there have been 107,140 new housing starts in England, only 20,900 of which were in the social housing sector – representing the lowest level of house building since the Second World War.\textsuperscript{116} In Scotland, last year there were 156,200 people waiting for social housing\textsuperscript{117} and 10,685 households in temporary accommodation,\textsuperscript{118} against only 15,150 house completions (in all housing sectors) – a decrease of 41.1 per cent compared with 2007,\textsuperscript{119} and short of the 19,000 required annually simply to keep pace with the growth of household numbers.\textsuperscript{120}

The human cost of this shortage is stark. It affects family life, including forcing people to delay having children, preventing adults from living
near their parents and keeping children away from their grandparents, and making it more difficult to develop and maintain relationships. Unaffordable housing is forcing millions of people to cut back on other essential spending, with research by Shelter showing that housing costs lead over a quarter of people to reduce how much they spend on food, and a similar number to cut back on home fuel consumption.\textsuperscript{121} It can also lead to problem debt, with millions resorting to borrowing on credit cards to pay their housing costs, and can harm job prospects by preventing people from moving for work.\textsuperscript{122} Homelessness is rising, with households accepted as homeless by local authorities up 18 per cent in England in the year to October–December 2011\textsuperscript{123} and on an upward trend in Wales since 2009.\textsuperscript{124} Scotland experienced a 20 per cent decrease in the year to June–September 2011, after five years of relatively stable numbers,\textsuperscript{125} though it is unclear at this stage to what extent this is a genuine fall in homelessness resulting from an investment of resources into homelessness prevention, and to what extent it reflects a change in recording practice.

Prices in the private housing sector have risen at historically fast levels, more than doubling in real terms in the decade to 2008,\textsuperscript{126} contributing to inequality of wealth (80 per cent of first-time buyers now rely on money from their parents – the proportion has more than doubled in six years – meaning that the majority of the major source of wealth in society is now inherited\textsuperscript{127}) and acting as a major factor behind a rising state welfare bill.\textsuperscript{128} Thanks largely to historically low interest rates, house prices are currently still at around 2008 levels (albeit slightly down from their 2007 peak).\textsuperscript{129}

\textbf{Box 10: Families at breaking point}

Paula lives in London, with her husband and their two children. The house rented by the family is going on the market soon, and even though both parents work, they are struggling to find another place to live due to rising rents and the impossibility of raising a deposit to buy a house.

‘We moved to the area when we were students because it was cheap. We set up home, put down roots. My salary has increased as my career has developed, but it simply hasn’t kept pace with housing costs,’ Paula explains. The couple don’t want to move because the children are doing well at school, but it’s looking impossible to stay in the area. They have been looking at two-bedroom houses, but even if they find one Paula anticipates problems. ‘With a teenager who is increasingly in need of his own space, and a boisterous six-year-old, having them together in one room is likely to cause many family rows.’

Source: Shelter

Significantly for people living in poverty, the cost of renting in the private sector has been rising sharply. According to Shelter, rents rose more than one-and-a-half times faster than incomes in the decade to 2007, with the result that homes are now unaffordable in more than 55 per cent of local authorities in England.\textsuperscript{130} Average private sector rent for England is now 58 per cent of the average income of the poorest quarter of the population.\textsuperscript{131} Since the start of the recession, the

\textit{‘Being in the system of public housing, which I wasn’t before, I haven’t been able to choose where I live. It’s like you never have control.’}

Sandra, Salford
combination of low levels of house building and more restricted credit for first-time buyers has seen rents continue to rise. Average private rents in England and Wales reached a record high of £718 per month in September 2011, having risen by 7.4 per cent over the previous two years. According to one study, renting privately is now typically 17 per cent more expensive than owning a home, based on total monthly costs.

Increasingly, this means that the need for government support with housing costs extends to those in work: the number of Housing Benefit claimants in work more than doubled between November 2008 and February 2012, whereas the number of claimants out of work rose by only 9.3 per cent in the same period.

Figure 6: Number of housing benefit claimants in work

It [Housing Benefit cap] fills me with dread and I’ve tried to move to a flat instead of a house which is about £50 cheaper per month, but no one will touch me because I’m a [social] housing tenant. So when these changes take place, I will have to end my contract here and probably go homeless – they aren’t leaving me with any choice.’

Single mother, London
Source: Netmums online forum

The government’s programme of spending cuts has had a two-fold impact on the housing crisis (as well as the indirect impact on house building described above). First, a substantial proportion of the cuts to the welfare budget (discussed above) has fallen on housing support. The move to decrease the maximum level of support available through
benefits, from covering half to one-third of housing in a given area, will undoubtedly add to the 48 per cent of claimants whose housing benefit already fails to cover the whole of their rent, and who pay £23 per week on average from other sources. Together with plans to increase future support by the CPI measure of inflation rather than actual rents in an area (as has been the case to date), this will ultimately destroy the principle that housing support should meet housing needs.

Second, changes made as part of the government’s welfare reform agenda (and enacted through the Localism Act 2011) will substantially increase the cost of housing outside the private sector. Rents for new tenants in the social housing sector have been increased to 80 per cent of market rates, under the new Affordable Rent scheme. According to the National Housing Federation, this could increase rents for low-income families to up to £9,000 a year, while a report by the London Assembly gave the example of a four-bedroom house in Haringey, the rent for which would more than triple. In addition, a new ‘under-occupation’ penalty will, according to government figures, affect 670,000 social housing tenants, who will lose an average of £676 per year. With 180,000 social tenants in England ‘under-occupying’ two-bedroom homes, but only 68,230 one-bedroom social homes becoming available for rent in 2009–10, many will be unable to avoid the penalty, making it essentially punitive. Moreover, the problem of a shortage of affordable housing is likely to worsen as a result of the cuts programme, with resources allocated to building affordable housing falling by 63 per cent in real terms in 2011–15 compared with 2008–11.

Finally, housing tenure will be made less secure for many under the provisions of the Localism Act. Having a secure place to live can be an important aspect of constructing a sustainable livelihood, particularly for people living in poverty, for whom social and community assets can be especially crucial. The introduction of new Flexible Tenancies under Affordable Rent – which the government estimates will affect 29–39 per cent of social tenants in 30 years’ time – will carry a statutory fixed-term minimum of two years, rather than permanent Secure Tenancies as at present. This will mean that many of those renting outside the private market will have less long-term security in their homes, reducing their ability to put down roots in their community and increasing uncertainty, particularly for families with children. The Act also allows councils to discharge homeless households into the private rental sector, which is characterised by insecurity of tenure, high and increasing prices, and weak regulation. This is likely to increase the insecurity of a highly vulnerable proportion of the population, and to reduce the prospect of these households ever finding the secure home that should be a basic right for all.

Weak labour rights

For a substantial minority in the UK, work is characterised by insecurity, uncertainty over hours, under-payment, a succession of short-term jobs, or a combination of all these. Across the UK, the Trades Union Congress (TUC) estimates that there are two million ‘vulnerable workers’ in
The proportion of those in a low-paid job in Wales is higher than in the UK as a whole, with more than one in ten in-work households living in poverty.\textsuperscript{146}

‘My life has not been stable because I cannot find a permanent job. I work whenever it is available. I have to push hard to make sure I have a sensible amount of hours for the week – I have no guaranteed work, it is all ad hoc. The organisation I work for does not commit itself to give me work.’

Stella, single parent and care worker, lost her permanent job as a housing support worker

Precarious, low-paid, and insecure employment,\textsuperscript{144} and research from across Europe shows that it is women who are in the most precarious and vulnerable work.\textsuperscript{145}

The UK labour market as a whole has unprecedented levels of ‘flexibility’, which corresponds to low levels of rights for workers. Successive governments have decreased regulation for employers since the 1970s, making it easier for them to hire and fire workers, in order to meet what they perceive to be their business needs, despite the evidence to support this claim being mixed at best.\textsuperscript{147} Indeed, evidence suggests that the relationship between employment protection legislation and productivity growth is an ‘inverted U-shape’, whereby both very low and very high levels of employment protection legislation have been found to reduce productivity growth, and levels in between are best.\textsuperscript{148} It is therefore significant that the UK now has the third lowest level of employment protection legislation in the OECD, below less developed economies such as Greece, Mexico, and Turkey,\textsuperscript{149} which affects the type of jobs available at the bottom end of the labour market. The UK also has the second highest prevalence in Europe of very short-hours contracts of less than ten hours per week (8 per cent) and the highest number of zero-hours contracts – contracts in which a person is required to be on call for work but has no guaranteed hours in a particular week, and is only paid for the hours they do work (5 per cent).\textsuperscript{150}

\begin{boxedtext}{Box 11: The inflexibility of the care industry}

Jasmine is a single mother with three children, aged ten, seven, and 17 months. She has worked for five years as a night care assistant, working 12-hour shifts, looking after severely disabled children.

The problems with her employer started with her recent pregnancy, which was deemed risky, causing Jasmine to go to hospital more often than normal. ‘They [the employers] made me take my hospital ante-natal appointments as holiday. I looked on the internet to see what my legal rights were and I asked my employer about their maternity policies. They didn’t have any,’ she says.

Jasmine went on maternity leave, and when she returned to work she asked to reduce her hours, but her request was refused. Jasmine was told that if she wanted to come back to work she would have to sign a new contract of employment, working seven nights each fortnight.

Jasmine works nights because she can’t afford child care. Her nieces are able to stay overnight at her house to look after her children. When Jasmine needed to take emergency leave to care for a member of her family, her request was refused. ‘When I phoned work they said: “Since you came back [from maternity leave] you have been causing a lot of trouble.” They refused to let me even take the time as holiday.’

There is a clear link between living in poverty and having few labour rights. Low-paid workers in sectors such as hospitality and social care are often employed on flexible labour contracts, such as being paid at a piece rate (per room cleaned, for example). Research has also shown that 41 per cent of temporary workers are low-paid.\textsuperscript{151} ‘Flexibility’ includes very short-term contracts, work paid at piece rates, and zero-hours contracts where the worker has no guarantee that they will receive any hours of paid work in a particular week, often under the
guise of supposed ‘self-employment’. An employee’s vulnerability to adverse treatment is determined by a wide range of factors which affect the balance of bargaining power between them and their employer.\textsuperscript{152} Where the balance of power favours the employer, there may be less incentive for them to protect their employees against adverse treatment.\textsuperscript{153}

The Perfect Storm is exacerbating the situation for people living in poverty. The loosening labour market and shortage of jobs means that more power rests with employers, and more people are being forced to turn to insecure work, with few rights – or to waive the rights they do have\textsuperscript{154} – just to survive. The private sector has created fewer jobs since the recession ended than the government predicted, and those that have been created are often poorly paid and part-time.\textsuperscript{155}

\textbf{Figure 7: Change in job availability since May 2008}

\textbf{Change in job availability between May 2008 and March 2012}

- Change in part-time jobs: +500,283
- Change in temporary jobs: +138,786
- Change in full-time jobs: -830,880

\begin{itemize}
  \item Change in part-time jobs: +500,283
  \item Change in temporary jobs: +138,786
  \item Change in full-time jobs: -830,880
\end{itemize}
Since May 2008 – after which unemployment began to rise – the numbers of people in both part-time and temporary work have increased. Full-time employment has fallen by 3.8 per cent, while part-time employment has increased by 6.7 per cent, and temporary employment by 9.7 per cent. Furthermore, men have accounted for 83 per cent of new jobs added to the economy, at a time when women are losing their jobs in the public sector, and female unemployment is at a 23-year high.

There are now a record 1.42 million ‘frustrated part-timers’ – those who want and need full-time work – doubling as a proportion of part-time workers since May 2008. This is highly significant as part-time workers are generally low-paid, with two-fifths paid under £7 an hour, and half of all part-time workers paid under £8 an hour. The number of people working in temporary jobs because they cannot find permanent employment has increased by 72.6 per cent. Similarly, while the rise in self-employment has offset around 40 per cent of the loss in employee jobs since the onset of recession, this rise has been atypical, with women accounting for 60 per cent of the rise (when they constitute less than a third of self-employed people overall), and nine in ten of the additional self-employed working less than 30 hours per week (compared with less than one-third of self-employed people overall). In short, people are doing any job they can find, even if that means having a very unstable income.

In addition, the government’s commitment to expanding the ‘contracting out’ of public services, for example through the Localism Act 2011, is likely to further undermine labour rights. The move towards contracting out has led to an almost four-fold expansion in the agency sector in the past two decades, and the number of workers employed by agencies doubled between 1996 and 2006 – with nearly 1.265 million workers employed by agencies by 2006, or 4.5 per cent of the workforce. In the public sector, there are already 1.2 million people employed through contractors. With estimates that outsourced public services cost 20 per cent less, there is concern that squeezed national and, in particular, local government budgets will lead to greater outsourcing of public services and will exacerbate the race to the bottom for workers’ pay and terms and conditions.

Government deregulation is at present further increasing labour market flexibility, ostensibly to encourage increased employment, but at the expense of increasing insecurity and reducing labour rights. For example, the proposed fee of £200 to deter frivolous cases being taken to employment tribunals – and up to £1,000 before a case is heard – is likely to discourage the most vulnerable workers from making claims against exploitative employers. This is in addition to the abolition of Legal Aid for employment advice, which will further undermine access to justice. Crucially, in the absence of an enforcement body with the appropriate authority, employment tribunals constitute the only way of claiming for unpaid holiday pay – the number one violation reported.
The government has also increased the qualification period for unfair dismissal to two years, making the jobs of three million workers more insecure,169 and adding greater insecurity for those in low-paid jobs. As the Chartered Institute of Personnel and Development (CIPD) has noted, raising the qualification period yielded no discernible benefit in the 1980s and is ‘detrimental to fostering a culture of genuine engagement and trust between employers and their staff, and potentially harmful to the long-term performance of the UK economy’.170 Overall, evidence from the OECD has shown that less job protection simply makes employment rates less stable over the economic cycle, with little impact upon the structural rates of employment or unemployment.171 This is particularly significant because people in low-paid jobs are increasingly likely to become long-term unemployed.172

These changes to employment protection legislation will have an impact on the security of the poorest people and will continue a strategy that has been marked by calls to abolish protection against unfair dismissal altogether,173 and to suspend the minimum wage for young workers in small businesses.174 This is despite the evidence that, given the UK’s very low levels of employment protection, a further, substantial reduction in employment protection is unlikely to enhance labour market performance, and could instead worsen performance.175 Moreover, efforts to improve labour rights may not reach people in the most need. Though decisions have yet to be taken on the extension of flexible working, the government’s proposals indicate that those unable to work regular hours due to other responsibilities will not receive any further rights if they are working in temporary jobs or working for small businesses. This means no ability to negotiate for better working terms for the one-third of temporary jobs that are low-paid.176

In the absence of government stepping in to increase protection for workers, it is likely that the introduction of Universal Credit will increase the prevalence of vulnerability in work. Universal Credit will make it easier for people to take up short-term or part-time work, and, while it is positive that people currently excluded by an inflexible benefits system will be empowered to take existing work of this nature, the danger is that an increase in the supply of flexible labour will unleash pent-up demand from employers. With welfare reform increasing the power of employers, it is likely that the position of workers will be weakened without a commensurate increase in their rights.

In addition, there is evidence that the Mandatory Work Activity workfare scheme, enabled by the previous government’s Welfare Reform Act 2009, has been used by private sector employers to replace regular, waged work with unpaid labour.177 This breaks the link between work and pay, forcing people to work for up to 30 hours a week for four weeks (an equivalent of £2.37 an hour for those on the adult rate of Jobseeker’s Allowance of £71 a week), and threatens to undermine the labour rights of those already in work, as it further reduces the power of workers.
Finally, the shortage of formal job opportunities – there are 5.6 unemployed people for every vacancy\textsuperscript{178} – is likely to force many people living in poverty into working informally. Workers in the informal economy lack the labour rights of those working formally, meaning that they are vulnerable to exploitation, including being paid below the National Minimum Wage. Working informally also limits routes for progression, since experience gained outside of formal employment cannot necessarily be presented when applying for jobs.\textsuperscript{179} The introduction of Universal Credit will help to reduce the benefit traps that force many people into informal work, but with work incentives under the new system being lower than originally envisaged due to public spending cuts,\textsuperscript{180} and with economic stagnation meaning a reduction in employment generation in the formal economy, there will still be many who are forced into informal work.

Research by Oxfam in one city in the North West found that a significant minority of unemployed people had worked informally in the past year, and that this work was accepted by many in the community as a survival strategy. Those who work cash-in-hand reported that they did so to make ends meet, and because of the lack of adequately paid jobs in the area.
5 Responding to the Perfect Storm

The need for a new approach

As demonstrated in the previous section, the economic crisis and the political responses to it are having enormous, negative social consequences. Rapid deficit reduction is hitting the livelihoods of almost everyone in the UK, but the particular approach taken is hurting people living in poverty the most. The effect is two-fold: the focus on cutting public spending rather than raising taxes is deeply regressive, and the blend of tax increases chosen – particularly the focus on increasing indirect taxation – is itself regressive. In addition, both public spending cuts and the tax and benefit changes introduced by this government will have a significantly more negative impact on women than on men.

At the same time, we are seeing a synergy of economic and social needs. Even within the terms that the government has set itself regarding the pace and depth of deficit reduction, there are far fairer and more economically productive ways of doing things. First, protecting the incomes of the poorest people is crucial for both social and economic reasons. It is people on low incomes who are being hurt most by the Perfect Storm; but they also have the highest marginal propensity to consume (i.e. they spend most of their income because they have to), and so increasing the incomes of the poorest will have the strongest multiplier effect on aggregate demand in the economy. Conversely, at present, with the impacts of falling incomes and spending cuts falling most heavily on the poorest, the reductions in demand are multiplied, thus reducing economic growth.

Second, by prioritising social and economic investment, and targeting that investment in pro-poor ways, the government can ensure that it protects the services upon which people in poverty (and women in particular) most rely; it can ensure that money is circulated directly into the economy, helping to boost demand; and it can provide investment in the long-term productive capacity of the economy, at a time when business investment has collapsed. With bond rates in the UK at historically low levels, according to one commentator ‘it is inconceivable that creditworthy governments would be unable to earn a return well above their negligible costs of borrowing, by investing in physical and human assets, on their own or together with the private sector’. Indeed, since such investment can create the potential for future growth, it can not only help to solve the cyclical fiscal deficit by stimulating the economy now, but can also reduce the structural deficit by raising the long-term potential output of the economy.

There are two main ways in which the government can respond to the Perfect Storm, and ensure that people in poverty or vulnerable to
poverty are protected. The first is to continue deficit reduction at its current pace, but to alter the balance and make-up of tax rises and spending cuts to ensure that they better protect people on low incomes. The second involves softening its stance on deficit reduction, in order to allow room for investment in the economic and social infrastructure of the UK, boosting both short-term demand and the long-term potential output of the economy, and tackling both the cyclical and structural deficits (see Part 6 below, ‘The long-term case for a fairer society’ for a discussion on tackling the structural social and environmental deficits.)

**Shifting the iron triangle**

There is an ‘iron triangle’ in fiscal policy. Tax, government cash transfers to boost incomes (both in and out of work), and government spending on public services must all be increased or decreased in relation to each other, in what amounts to a zero-sum game. To keep budgets in balance, a change in one side must ultimately be met with a commensurate change in another. For example, a tax decrease must lead to a cut in public services or cash transfers (or both), and an increase in public services must be funded by a decrease in cash transfers or an increase in tax (or both). In the context of economic recession, tax revenues tend to decrease and cash transfers increase (through ‘automatic stabilisers’ such as increased unemployment benefits), and political decisions must be made on how to deal with the resulting fiscal deficit.

**Figure 8: The ‘iron triangle’ in fiscal policy**

![Iron Triangle Diagram]

The severity of the Perfect Storm is largely the result of a political decision to respond to a crisis in tax revenues predominantly through cuts to cash transfers and public services. A switch from the planned 77:23 ratio of public spending cuts to tax increases in a more equal direction could help to shift the balance of that triangle away from cuts and back towards cash transfers and services. As well as the balance of the triangle, the detail of each side is crucial to how fiscal decisions affect different groups in society. Thus, below, this paper sets out priorities for protecting benefits and public services, but also focuses on ensuring that any new sources of revenue are fair.
Investing our way out of the crisis

This approach – of shifting the iron triangle to protect those must vulnerable to the Perfect Storm – can be complemented by investment in the economic and social infrastructure of the UK. Since such spending raises the long-term productive potential of the economy, it sits outside the short-term iron triangle, and can help to stimulate the economy out of the deepest recession it has experienced since the nineteenth century. With private investment collapsing and the UK now experiencing a double-dip recession, such government investment can help to counteract the negative economic consequences of rapid deficit reduction. The International Monetary Fund (IMF), the UK Treasury, and the National Institute of Economic and Social Research (NIESR) have all concluded that deficit reduction will both act as a drag on growth and raise unemployment, with the result that, even if the government reaches its targets for spending reduction, it will not meet its borrowing targets.

The evidence above shows that the Perfect Storm is doing enormous damage to individuals and to society, compounding existing inequalities. Meanwhile, enormous amounts have been spent on bank bail-outs: according to calculations by the IMF, these amounted to over 100 per cent of annual GDP in 2009. A modest degree of investment in the social and economic fabric of the UK can help both to stimulate the economy out of recession and to protect the essential services and social protection upon which millions of people rely – provided it is targeted to ensure that the most vulnerable can access the economic benefits through jobs and services.

No return to business as usual

The UK’s economy and society, as currently constituted, are unsustainable – economically, socially, and environmentally (see Part 6). Actions taken now, as an urgent response to the urgent situation created by the Perfect Storm, should be taken with an eye on building a more sustainable future. By protecting services and social protection through progressive taxation, inequality can be reduced. By targeting government investment towards transitioning the economy to an environmentally sustainable footing, and by investing in the social as well as the economic infrastructure of the country, government investment today can help to overcome ecological and social deficits as well as the fiscal deficit. And by rethinking existing tax and government spending so that they are more progressive and encourage more sustainable growth, we can build on the actions taken to ease the current crisis to build a more economically, socially, and environmentally sustainable future.

We need a ‘people’s bail-out’ to protect the millions in poverty and the millions more who are increasingly vulnerable. But we also need to ensure that there is no return to business as usual.
Responding to the Perfect Storm

The Perfect Storm is a set of interlocking crises, and, while particular problems have particular solutions, there is a need for joined-up thinking, for example around how rethinking state support for housing can help to free up money to maintain social protection for all. In particular, the area of tax connects many of the issues addressed below, with a fairer, more progressive tax system being central to protecting both the incomes of people in or vulnerable to poverty and the public services upon which they rely. Overall, however, it is imperative to recognise the Perfect Storm for what it is: an urgent crisis for the livelihoods of people living in poverty. The measures below, therefore, are crucial in the short term – but they must also be enacted with a view to effecting a fair and sustainable longer-term exit from the crisis.

Protect the incomes of the low-paid

With incomes being squeezed and the prices of essentials rising, protecting the incomes of the poorest people is a clear priority. Not only will this be socially beneficial, but concentrating resources on the poorest will help to stimulate demand in the economy, since people on low incomes have the highest marginal propensity to consume. It is crucial to protect the incomes of those both in and out of work, through maintaining real benefit levels for both groups, as well as guarding against the erosion of wage levels (see below for more on out-of-work benefits). In the long term, action to reduce pay differentials within businesses, public authorities, and wider society can help to protect the incomes of those at the bottom, as well as helping to reduce inequality in the long term.

A double effect of reduced wage protection and cuts to out-of-work benefits is compounding falling incomes at the bottom. Cuts in working tax credits will mean that more than 200,000 working families will lose up to £3,870 per year, with the average qualifying family expected to lose £2,000 a year because of benefit cuts. Meanwhile, the National Minimum Wage, which provides a floor for wages, has fallen or has been frozen in real terms in each of the last four years. To ensure that incomes for those in work are maintained:

- Cuts to working tax credits should be reversed;
- The withdrawal rate for Universal Credit should be reduced from 65 per cent to 55 per cent, as recommended by the Centre for Social Justice, to ensure that the principle that work should pay is realised in the new system; and
- The National Minimum Wage should be increased automatically at least in line with inflation or average earnings, whichever is the higher.
Protect people in poverty from the increasing cost of living

The combination of falling incomes and rising prices has driven many people living in or near poverty into unsustainable debt. In order to protect vulnerable people suffering financial shocks from exploitation, a maximum level of interest should be set, along with action to crack down on unscrupulous lending. The government should also take positive action by promoting and funding credit unions, and ensuring that access to the Social Fund for those on very low incomes is protected and its resources expanded. In addition to protecting benefit levels (see below), the government should instigate an additional increase to reflect the higher inflation recently faced by people living in poverty (due to high food and energy prices) – which will also provide a short-term economic boost.

Rising energy prices have coincided with substantial increases in the profit margins of energy companies: the energy regulator, Ofgem, estimated that profit margins on dual-fuel deals for the big six energy companies increased by 733 per cent between June and October 2011, from £15 to £125 per household. Oxfam is supporting calls for the government to take action to make the energy market work more in favour of people living in poverty, based on an independent public inquiry.

To protect people living in poverty from high energy prices, the government should give the energy regulator, Ofgem, new powers to cap prices and eliminate excess profit.

To ensure that people who are forced into debt by high prices do not have their situation further compounded by having to pay exploitative levels of interest on that debt, the government should:

- Introduce a maximum level of interest; and
- Ensure that access to the Social Fund is maintained for those on very low incomes, and its resources expanded to meet increased demand.

Reduce public service cuts

Public service cuts form the largest aspect of the government’s response to the economic crisis. Yet these cuts to services disproportionately affect people living in poverty. In the short term, by changing the ratio of spending cuts to tax increases (see ‘Shifting the iron triangle’ above), the government can protect services by reducing the speed and depth of cuts. It is particularly crucial to protect services that support women and children, who are being hit hardest by public sector cuts. One quick way of doing this would be to reinstate the ring-fencing of the Sure Start grant to local authorities in England, while providing additional money to fund it so that other services are not affected.
To protect services for the longer term, the government can invest in services that create jobs and increase long-term growth (for example, through a national investment bank focusing on green, social, and other productive investment that is empowered to draw in funding from bond markets\(^{200}\)). Investment in early years education through an expanded Sure Start scheme (following the positive example of Flying Start in Wales) and a universal system of child care would create employment (in a sector in which women are over-represented), and would help to make work pay for second earners and single parents (both of whom are more likely to be women). Such services are more cost-effective than the system of cash transfers that the UK currently relies heavily upon, while public services have proved particularly powerful in reducing inequality.\(^{201}\)

As immediate steps, the government should:

- Slow the speed and depth of public service cuts by increasing progressive taxation instead;
- In particular, protect Sure Start services by reinstating the ring-fence to the Sure Start grant to local authorities in England; and
- Explore investing in a national system of universal child care.

**Protect the social safety-net**

As discussed above, protecting the incomes of the poorest people, vital in itself, can also play a crucial role in stimulating the economy. Indeed, social protection spending, which must in the short term form the core of the boost to incomes, has been praised internationally for the double effect of fighting poverty and acting as a macro-economic stabiliser, thus fuelling demand.\(^{202}\)

In the longer term, overcoming poverty and creating a sustainable economy can only be achieved by rebalancing incomes across society. This will require fair social protection that provides enough to live on but also acts as a springboard towards employment and progression. It also requires making all work decent work (see below). The UK urgently needs to begin a conversation about creating a pro-poor system of social protection for the post-crisis era, much as the Beveridge Report led the way after the twin crises of the Great Depression and the Second World War.

In the short term, the government should protect the level of out-of-work benefits by:

- Ensuring that local authorities in England have sufficient resources to maintain existing levels of Council Tax Benefit, following the Scottish government’s example;\(^{203}\)
- Monitoring the effect of the Housing Benefit and overall benefit caps and reviewing them in light of social impacts; and
- Ending stealth cuts to benefits by reversing the switch in uprating from the RPI to the CPI measure of inflation, to protect benefit levels for those in or out of work.

To protect the incomes of women in and out of work, who have been hit particularly hard by cuts to benefits:

- Child Benefit levels for those on low and middle incomes should be maintained through a reversal of the freeze to 2014; and

- Cuts to child-care support should be reversed, to protect both incomes and work incentives, by restoring support for child-care costs for low-income families to pre-April 2011 levels of up to 80 per cent of costs, and through providing an adequate level of support for child-care costs in the new Universal Credit system.204

**Secure, affordable, decent housing for all**

The UK is suffering from an acute housing crisis, with rents soaring and house building grinding to a halt. There is a clear, long-term need for housing205 but, in the short term, housing is also a very good way of stimulating the economy. House building generates a multiplier of 3.51, meaning that every pound invested adds £3.51 of output to the economy.206 Construction lead times are relatively short, especially given high unemployment among construction workers; house building is relatively labour-intensive, using skilled and unskilled labour; and the investment will create jobs in the UK.

Housing investment also supports the economy in the long term by increasing labour market mobility, with one in five businesses considering housing costs to be a constraint to their business growth.207 The investment will also boost government finances over the long term, with the creation of assets that generate rental income, and a reduction in spending on housing support through the benefits system – rising housing costs have meant that the average weekly Housing Benefit claim for recipients in the private rented sector has increased by 47 per cent in a decade.208

Investment in housing can also serve environmental as well as economic ends, for example through retrofitting existing housing stock. According to research by the Energy Saving Trust, full-scale refurbishment of the entire UK housing stock could support 4.7 million jobs and add £280bn to the economy (though of course a more modest programme could also be implemented).209 It would also have long-term benefits, saving £8.7bn a year on domestic energy bills and cutting CO₂ emissions by 48m tonnes.210 Investing in retrofitting has the advantage that it can create jobs quickly, and the money remains in the UK, boosting the economy.
In addition, there is a need to provide greater protection for private tenants. Numbers in private housing have risen to 3.6 million households – one in six. There are now more than one million families with children renting privately, almost double the number five years ago. Promoting security for people who are likely to be in privately rented accommodation for the long term can help them to develop social assets and play an active part in their community. The government should as a matter of urgency explore ways to increase certainty of tenure and to stabilise rents. As an immediate step, it is crucial for action to be taken against serial ‘rogue landlords’ – of which local authorities say they are aware of 1,477. Complaints about the private rented sector have increased by 22 per cent in three years, with research suggesting that the true number of problems is more than four times higher than reported.

In the short term, the government should:

- **Invest in affordable homes to boost the economy and help solve the housing crisis; and**
- **Consider raising the maximum penalties for offences by landlords, including increasing maximum fines to make it more cost-effective to pursue prosecutions.**

### Protect rights at work

In the short term, it is crucial that existing labour rights are protected. Higher levels of labour market regulation have not hindered economic recovery in countries such as Germany, while some observers have found ‘flexibility’ in the UK to be positively associated with unemployment. Similarly, the UK’s high level of labour market flexibility has not resulted in a rapid return to growth or increased job creation as expected. As the CIPD has recently noted, ‘the case for wholesale employment deregulation is thus far from being a no-brainer’. As such, it is vital to maintain and enforce existing rights.

In particular, it is vital to ensure that low-paid workers continue to have free access to employment tribunals, in light of the proposed introduction of a £200 fee. The government should also rigorously assess the decision to increase the qualification period for protection against unfair dismissal in light of its impacts on the job security of those at the bottom of the labour market and on employment levels. Promoting security in work for those in employment will increase consumer confidence, encouraging spending, which is vital in the short term to boost demand in the economy.

It is also important that those with jobs are encouraged to enter into dialogue with employers, so that they can better balance work with their responsibilities. As research has shown, extending the right to request flexible working to all workers would be a driver towards wider provision of flexible working arrangements, improving the ability of those on low-paid, temporary contracts to negotiate for better working conditions.
Furthermore, the government should protect workers’ existing rights more effectively and efficiently, prioritising sectors in which labour rights violations are significantly high. This would ensure that those at most risk of exploitation by unscrupulous employers in today’s tough economic climate are able to secure their livelihoods. Better protection of existing rights could be achieved by applying the cost-effective working practices of the Gangmasters Licensing Authority (GLA) to other sectors of the economy, including hospitality, construction, and social care. In the long term, protecting labour rights is an essential part of ensuring that decent work becomes the norm in the UK, and that in-work poverty is eradicated. It requires making all work decent work, with strong, enforced labour rights and wages that provide enough to live on. Strengthening the bargaining power of workers over labour rights and pay levels will help to ensure that there is upward pressure on wages and conditions for those on low incomes, and downward pressure on inequality. Long-term solutions will also include the creation of a single Employment Status that affords ‘Workers’ (including temporary workers) the same employment rights as ‘Employees’.

In the short term, the government should:

- Protect access to justice by exempting low-income workers from employment tribunal fees;
- Apply the working practices of the Gangmasters Licensing Authority to other sectors of the economy, prioritising hospitality, construction, and social care; and
- Extend the right to request flexible working to all workers.

A fairer tax system

As discussed above, tax increases undertaken with the aim of closing the fiscal deficit under the current government have been regressive overall. In the short term, it makes social and economic sense to ensure that any further tax increases are progressive in nature, and that any future tax cuts to stimulate that economy are targeted at people on low incomes.

Given the squeeze on incomes among those paid the least, where revenue does need to be raised – for government investment, to boost the incomes of the poorest, or to reduce the fiscal deficit once the economy is moving – targeting tax avoidance should be the first priority. According to HM Revenue and Customs, the UK tax gap is £35bn a year, while other sources estimate that it could be as high as £120bn a year. The proposed introduction of a statutory general anti-avoidance rule (GAAR) promises be a good short-term method of clamping down on tax evasion, prior to addressing the fundamental causes of avoidance in the medium term.
Much of the current deficit was caused by the cost of bailing out financial institutions. In the long run, to create a sustainable economy, we will need to construct a financial system that serves the economy, rather than its own interests, and as such it will be desirable to promote productive investment and to discourage speculation. Part of that will be achieved by reducing the need for a large financial sector by reducing inequality and therefore the need for debt-fuelled consumption by the poorest. But in the short term, a financial transaction tax (FTT) could help both to dampen the most destructive financial speculation and to raise vital revenue. A modest FTT of 0.05 per cent could raise £20bn per year, which the financial sector could afford, and which represents almost twice as much as the increase in VAT. VAT has double the impact on the poorest tenth of the population as on the richest tenth, and the IMF has said that an FTT would be ‘highly progressive’, falling predominantly on the richest institutions and individuals in society.

In the long term, a progressive tax system would help to tackle inequality: at present, the poorest pay more of their incomes in tax than the richest. Progressiveness must be built into the system as a whole. This allows green taxes to be introduced to help reduce the UK’s ecological footprint, without such taxes unduly affecting people living in poverty as their regressive effects are offset elsewhere in the system. The details of a fairer tax system for the long run will be subject to debate in the years ahead, but the policies and priorities could include:

- A focus on targeting wealth inequality, since wealth is essential as a cushion against economic shocks and helps to facilitate economic
independence and reduce vulnerability to exploitation;\textsuperscript{230}

- Discouraging asset bubbles and wealth inequality through a form of land value tax,\textsuperscript{231} which has advantages over other methods of tackling inequality, since it is less vulnerable to global wage and tax competition;\textsuperscript{232}

- Tackling the long-term causes of tax avoidance, for example by equalising taxes on income and capital gains;\textsuperscript{233}

- Rethinking the contribution of businesses: companies paying below a ‘living wage’ cost the taxpayer between £5.9bn and £6.3bn a year in benefit payments and loss of tax,\textsuperscript{234} while the largest companies, which operate in tax havens, pay just 5.75 per cent tax on the resulting profits.\textsuperscript{235}

In the short term, to raise money to protect essential services, the government should:

- Proactively clamp down on tax avoidance and evasion to ensure that all tax that is levied is collected;

- Introduce a ‘Robin Hood Tax’ on financial transactions of 0.05 per cent, to raise money for services and benefits at home and to fight poverty overseas; and

- Examine options for a land value tax.
The long-term case for a fairer society

There is a strong relationship in the UK between poverty and inequality. The UK is a rich society, but one in which income, wealth, and opportunity are unequally distributed. Yet inequality causes damage not only to those who are shut out from wealth and left in poverty: there is also a substantial body of evidence demonstrating that it leads to worse outcomes across society as a whole. On a range of indicators, from violence and imprisonment, through physical and mental health, to social mobility, more equal societies fare better across the board.\(^{236}\)

Meanwhile, the economic crisis in which we find ourselves is to a large extent due to unsustainable levels of personal debt and a bloated financial sector, both of which were substantively driven by ballooning levels of inequality. These left people in poverty (and vast swathes of those in the middle) with insufficient income to meet their consumption needs (especially with pressure to consume fostered by an unequal society in which status anxiety is rife), while the rich were left with a surplus of capital from corporate profits and accelerating personal incomes, for financial speculation. The resultant combination of debt-fuelled consumption at the bottom and widespread speculation at the top – and the vast edifice of financial institutions that facilitated it – have led to an unbalanced and unsustainable economy, which is trapped in long-term stagnation.

Finally, as a whole, humanity is using up nature’s renewable resources between 20 per cent and 50 per cent faster than the planet can renew them.\(^{237}\) The UK’s contribution to the global ecological footprint is far out of proportion to its size: if everyone in the world consumed the planet’s resources in the way that the UK does, humanity would need more than three planets to sustain itself.\(^{238}\) Over the past 15 years, the UK has modestly decoupled its production-based carbon emissions from economic growth, but this is reversed if consumption-based emissions – i.e. the carbon emissions embodied in net imports – are also taken into account. Carbon emissions will need to fall far more rapidly and more consistently if the UK’s economic growth is to decouple from carbon use and become environmentally sustainable.\(^{239}\) Our society and the economy that serves it require a substantial reordering if we are to meet the interlocking challenges of social justice, sustained economic recovery, and environmental sustainability. Each of these is necessary if we are to achieve a lasting end to the Perfect Storm.
The impact of inequality on individuals and society

Inequality has the harshest impact on those forced to remain at the lower end of the income spectrum. It breeds a sense of hopelessness and status anxiety, and the experience of inequality is often feeling that ‘you’ve lost the competition’. Status anxiety in turn encourages materialistic goals, and there is evidence linking this consumerism with children in low-income households feeling unsafe and insecure. Where an individual has an unfavourable relative position in a social hierarchy, this creates chronic stress if they are without other resources to buffer against the damage to well-being. Wealth and income disparities have a negative impact on those at the bottom of the income distribution, over and above the impact of insufficient income.

More broadly, inequality has negative impacts across society as a whole, beyond those individuals who find themselves at the wrong end of the income spectrum. There is comprehensive evidence – from numerous countries – that life expectancy, social mobility, health outcomes, and a range of other social problems, from murder rates to levels of infant mortality, are all directly related to levels of inequality in societies. Yet within rich countries, there is no link between income per head and social well-being. Rather, it is the way in which resources are distributed within society that is the key determinant of overall well-being, once a country has reached a certain level of income.

Therefore, from the perspective of the UK’s social development, the overall level of GDP growth is less important than what that growth looks like, and whom it benefits. Brazil’s economy grew by 2.5 a year from 1990 to 2009 and the poverty rate halved; Peru’s grew by 3.9 per cent a year from 1997 to 2007, and poverty increased. Based on a large sample of countries, former chief economist of the World Bank Francois Bourguignon found that variation in growth rates on their own explained only 26 per cent of the variation between countries in rates of poverty reduction. Policies that lower inequality can both reduce poverty immediately and accelerate the poverty-reducing impact of growth in the future – this is known as the ‘double dividend’ of redistribution. On that basis, the UK has been doing very badly for some time – 40 per cent of income growth from 1998/99 to 2008/09 went to the richest 10 per cent of the population – and by international standards, with one of the highest levels of inequality in the OECD.

The economic case for greater equality

With economic growth for the past three decades being unequally shared, and incomes stagnant at the bottom of the distribution, low earners, and particularly the millions living in poverty, have increasingly needed to resort to borrowing to maintain a decent...
standard of living. While average real incomes have stagnated, incomes at the top have raced away, with the share of income going to the top 0.1 per cent of earners increasing by two-and-a-half times in the past three decades, and the top tenth enjoying pay increases four times higher than low earners in the same period. The share of national output taken by wages fell from 60 per cent in 1980 to 53 per cent in 2008. As a result, the proportion of people working on low pay has doubled to more than one in five. Consumption levels for those on low incomes have been maintained through a bubble of consumer debt, which lax financial regulation has helped to inflate. Personal debt increased by three-and-a-half times between 1981 and 2007, from 45 per cent to 160 per cent of GDP.

Bridging this widening gap in incomes with borrowing cannot be maintained indefinitely. We have developed a society in which those at the bottom need to borrow to survive, and those at the top have enormous amounts of money to lend (even once they have substantially increased their consumption), leading to an expanded financial sector. This led the lead economist in the World Bank research group, Branko Milanovic, to conclude that ‘the real cause of the crisis lies in huge inequalities in income distribution that generated much larger investable funds than could be profitably employed’. The IMF has recently produced evidence reaching the same conclusion, and suggests that ‘any success in reducing income inequality could therefore be very useful in reducing the likelihood of future crises’.

In addition, inequality is bad for growth. Detailed investigation of data from both developed and developing countries from the mid-1990s onwards offers significant evidence that a high level of inequality is a barrier to future economic growth. Indeed, the Asian Development Bank (ADB) suggests that growth and equality can ‘be seen as part of a virtuous circle’. Research by the IMF shows that income inequality is a ‘key driver of the duration of “growth spells”’: i.e. economic growth is much more likely to endure in countries with more equal income distributions. The IMF suggests that the effect is large, and estimates that closing half of the inequality gap between Latin America and emerging Asian economies would more than double the expected duration of a ‘growth spell’.

Greater equality, then, is good for society, but it is also good for the economy as a whole. According to a recent Oxfam International report on the G20, ‘if we factor in the impact on growth, the double dividend of tackling inequality becomes a triple dividend: it directly reduces poverty, enhances the ability of future growth to reduce poverty, and, finally, it improves prospects for growth itself.’

**No return to business as usual**

What we see, then, is a synergy of social, economical, and environmental necessities. In order to effect a lasting solution to the crisis, steps taken to fight economic stagnation and to protect people living in poverty must seek to build a fairer, more sustainable society.
That task is a long-term one, and Oxfam is committed to being part of the conversation about what such a society would look like. Yet the outlines are clear. We need a society underpinned by decent work that pays enough to live on, and in which the distribution of resources is far more equal than it is today. We also need a system of social protection that acts both as a safety net and as a springboard, preventing poverty without trapping anyone on benefits. And the imperative to reduce the UK’s ecological footprint should be imprinted across everything we do as a society, building towards an environmentally sustainable future.

As the IMF points out, even successful debt reduction on its own will only store up more problems for later, since ‘a long-lasting trend toward higher debt-to-income ratios resumes immediately after the debt reduction, because workers continue to have a reduced share of the economy’s income’. We therefore need to restore the earnings of workers as a proportion of national income to stave off future crises. The blend of solutions could include strengthening the collective bargaining power of workers, switching from labour income taxes to economic rents (such as taxes on land, natural resources, or the financial sector), and tackling excessive incomes at the top of the distribution.

Add in the social costs of continuing inequality, and the ecological imperative to decouple economic output from environmental resource use, and it is clear that we need a new paradigm. The details are up for debate, and should urgently be the subject of national conversation, but one thing is clear: there can be no return to business as usual.

Rethinking what we value as a society

The social damage wrought by inequality, persistently high unemployment, and the unsustainable ecological footprint incurred in achieving growth all tell us that it is not growth that matters, but the type and distribution of growth. It is clear that our predominant mode of measuring economic success, GDP, is no longer fit for purpose (if it ever was).

We therefore need to reconsider how we measure what we value as a society. Oxfam in Scotland is leading on this, through the development of a Humankind Index, which is based on asking people in Scotland what matters to them, and then measuring those things, to see how well Scotland is doing as a society. The UK government’s commitment to exploring measures of well-being is welcome, and Oxfam would encourage it to adopt a similarly wide-ranging approach to the Humankind Index, so that it can be sure that steps taken now will build a new post-crisis economy and society that sustainably serve the interests of the British people. More emphasis should be placed upon social return on investment, rather than on more conventional measures based on cost and price.
Conclusion and summary of urgent recommendations

In the aftermath of the recession, economic stagnation, falling real incomes, and public service cuts are all hitting people living in poverty the hardest. The combined impacts of all of these factors add up to a Perfect Storm which is pushing people’s livelihoods to breaking point. The current government approach, of balancing the budget on the backs of the poorest, is not working, socially or economically.

The crisis we are in could be an opportunity to change thinking about what a fair society looks like, and to build the foundations for overcoming poverty once and for all. In the long term, people, government, and businesses must all be part of that effort. Yet we need urgent action right now to reinvigorate both the economy and the social safety-net on which most of us ultimately rely. We also need to do so in a way which sets us on the road to a fair, productive, and sustainable society.

To defend the rights of people who are in poverty or vulnerable to poverty, and to start us on the road to economic recovery, we need urgent action now on each aspect of the Perfect Storm. Only the state has the resources and the reach to take these immediate steps. Therefore, we urge the government to:

- **Protect the incomes of the low paid**, reducing the withdrawal rate of Universal Credit from 65 per cent to 55 per cent to ensure that work pays, and increasing the National Minimum Wage at least in line with inflation or average earnings, whichever is the higher;

- **Protect people in poverty from the increasing cost of living**, by giving new powers to Ofgem to cap fuel prices; introducing a maximum level of interest; and protecting the Social Fund and expanding its resources, to protect people from exploitation and to guard against problem debt;

- **Protect public services**, by using progressive taxation to slow the speed and depth of cuts; ring-fencing the Sure Start grant to local authorities in England; and exploring investing in a national system of universal child care, to make work pay for women and to build the social infrastructure of the country;

- **Protect the social safety-net**, by giving local authorities in England and Wales sufficient resources to maintain existing levels of Council Tax Benefit; monitoring the effect of the Housing Benefit and overall benefit caps; reversing the switch from RPI to CPI inflation for benefit uprating; maintaining real Child Benefit levels; and reversing cuts to child-care support;

- **Provide secure, affordable, decent housing for all**, by investing in affordable homes to boost the economy and to help solve the housing crisis; and increasing maximum penalties for rogue landlords;

- **Protect rights at work**: the weak labour market is adding to the
power that employers have over workers, and so it is essential to maintain and enforce the vital protections that do exist for vulnerable workers;

- **Move towards a fairer tax system** by clamping down on tax avoidance; introducing a Robin Hood Tax on financial transactions, to help protect public services and benefits and ensure that everyone pays their fair share; and exploring options for a land value tax; and

- **Rethink how we measure value**: the social damage caused by inequality, high unemployment, and environmental degradation all tell us that it is not growth that matters, but the type and distribution of growth; measuring true social value through a measure of well-being such as Oxfam Scotland’s Humankind Index will help us to measure whether what we are doing to fix the economy is really, sustainably benefiting society.
Notes

3 World Bank (2010). Countries ranked by GDP at purchaser’s prices.
5 Defined as having a household income below 60 per cent of median income.
8 http://www.poverty.org.uk, calculated from DWP, ‘Households Below Average Income’ (1994/95 onwards) and the Family Expenditure Survey (earlier years).
13 DWP, ‘Households Below Average Income’ series.
17 Ibid.
18 See, for example, C. Warburton Brown (2011) op. cit.
30 K. Trebeck (forthcoming) ‘Our Economy’, Oxfam GB.
36 National Institute of Economic and Social Research (NIESR). http://www.niesr.ac.uk/images/progres3a.jpg
41 Seventy-seven per cent of partners surveyed. Oxfam GB: UK Partner Survey, op. cit.
44 See, for example, Women’s Budget Group (2005) ‘Women’s and Children’s Poverty: Making the links’.
46 According to the IFS, real household incomes from 2008–11 will have fallen by 1.6 per cent. IFS (2011) ‘Living Standards during the Recession’, March 2011
51 ONS. Figures for the NMW increase and CPI inflation respectively were: October 2008, 3.8 per cent and 4.5 per cent; October 2009, 1.5 per cent and 1.5 per cent; October 2010, 2.2 per cent and 3.2 per cent; October 2011, 2.5 per cent and 5 per cent.
53 Incomes Data Service (2011) ‘FTSE 100 directors get 49 per cent increase in total earnings’, press release, 26 October 2011.
61 Ibid.
62 See, for example, D.N.F. Bell and D.G. Blanchflower (2011) ‘Young People and the Great Recession’, IZA, April 2011.
64 The Labour Market Outlook net employment index, which measures the difference between the proportion of employers who intend to increase total staffing levels and those who intend to reduce them, stands at -8; this is the worst net employment balance score since the recession began. CIPD (2012) ‘Labour Market Outlook, Winter 2011–12’, February 2012.
67 Oxfam GB: UK Partner Survey, op. cit.
68 The share of wages as a proportion of GDP peaked at a high of 64.5 per cent in 1975. It then started drifting downwards reaching a post-war low of 51.7% in 1996. In 2008, the share of wages was 53.2%. ONS cited in Trades Union Congress (2009), ‘Unfair to Middling: How Middle Income Britain’s shrinking wages fuelled the crash’, Trades Union Congress.
69 Between 1977 and 2010, people in the bottom half of earnings distribution saw their share of gross value added (GVA) drop from 18.2 per cent to 12 per cent, and the bottom 10 per cent saw their share drop from 1.2 per cent to 0.8 per cent. Resolution Foundation (2011) ‘Missing Out’.
70 Between 1977 and 2010, the share of GVA accrued as capital (profits and business return) increased from 36 per cent to 39 per cent, the top 10 per cent of earners increased their share of GVA from 11.7 per cent to 14.2 per cent, and the top 1 per cent increased their share from 2 per cent to 3.1 per cent. Ibid.
73 ONS, Consumer Price Indices – Time Series data, retrieved April 2012. The current (April 2012) rate of inflation is 3.0 per cent (CPI); 3.5 per cent (RPI).
75 ONS (2011) ‘Poorest Households Spending More on VATable items than in 1986’,
October 2011.


83 Oxfam GB: UK Partner Survey, op. cit.


85 A loss in income and services equivalent to 20.3 per cent of household income for the poorest tenth of households, and 1.5 per cent of household income for the richest tenth. T. Horton and H. Reed (2010) ‘Where the Money Goes: How We Benefit From Public Services’, Trades Union Congress (TUC), September 2010.

86 D. Taylor-Robinson (2011) ‘Bigger cuts to local authority budgets in the most deprived areas are likely to widen health inequalities’, London School of Economics, 4 April 2011.


88 Ibid.


100 Ibid. Calculations based on ratio of unemployment benefits to earnings in November 1979 and April 2010.


103 For the experiences of an Oxfam partner, the Clydebank Independent Resource Centre, relating to the introduction of Employment and Support Allowance, see C. Collins (2009) ‘To Banker, From Bankies: Incapacity Benefit: Myth and Realities’,
Oxfam GB.

104 Oxfam GB’s UK Partner Survey, op. cit.


109 Gender audit of the June 2010 Emergency Budget, commissioned by Yvette Cooper MP.


113 For more detail on these arguments, see J. Veitch (2010) ‘A Gender Perspective on 21st Welfare Reform’, Oxfam GB, October 2010.

114 This is explored in more detail in Part 5 of this paper.


122 Ibid.


126 Nationwide Building Society, House Price Index, Q2 2011.

127 Clydesdale and Yorkshire Banks (2011) 84 percent of first time buyers rely on parental support, 26 May 2011.

128 In the decade to 2006, the number of recipients in the private rented sector fell by 21 per cent from 1,066,000 to 838,000, while their average weekly Housing Benefit increased by 47 per cent, from £58 to £85. As a proportion of all benefits and tax credits, Housing Benefit has remained relatively stable at around 14 per cent of the total for the past 20 years, yet total expenditure has risen sharply, with increased rents, from £12bn in 2003/04 to over £20bn in 2009/10. Building and Social Housing Foundation (2010) ‘Support with Housing Costs: Developing a simplified and sustainable system’.

129 The average house price in Q3 2008 was £165,188, and stood at £162,722 for Q1 2012. Nationwide Building Society, House Price Index.

130 Defined as a median private rent for a two-bedroom house which costs more than 35 per cent of median take-home pay. Shelter (2011) ‘Private Rent Watch, Report One’, October 2011.


132 In February 2012, the average rent in England and Wales fell by 0.6 per cent to £707 per month, following a rise in January. Despite the monthly drop, rents continue to rise on an annual basis, increasing by 3.5 per cent. LSL Property Services, ‘Buy-to-Let Index’, September 2010, September 2011, February 2012.

133 Research by Halifax for Guardian Money, 11 November 2011.
TCMP=SRCH

139 For four-bedroom properties rented by the L&Q housing association, rent would increase from £168 per week to £390 per week, an increase of 210 per cent. London Assembly Planning and Housing Committee (2011) ‘Implications of the Affordable Rent Model in London’, July 2011.
148 Ibid., p.9.
149 Ibid., p.66.
152 Ibid.
156 Full-time employment has fallen by 830,880 jobs; part-time employment has increased by 500,283; temporary employment has increased by 138,786. ONS (2012) ‘Labour Force Survey’, May 2012.
160 Ibid.
162 HM Government, Open Public Services, July 2011.


Ibid., p.11.


For more on the experiences of Oxfam’s partners of the informal economy, see Community Pride Initiative and Oxfam GB (2009) ‘Invisible Workers: The Informal Economy’.


Investment by UK businesses fell by nearly 20 per cent from 2007 to 2009, and is now £44.5bn below its pre-recession peak, accounting for 80 per cent of the output lost since 2008. H. Reed and N. Lawson (2011) ‘Plan B: A good economy for a good society’, op. cit.


NIERF. http://www.niesr.ac.uk/images/progres3a.jpeg


The IMF has performed simulations which suggest that implementing spending cuts and/or tax rises to close a fiscal deficit equal to 1 per cent of national output typically reduces output by around 0.5 per cent within two years and raises the unemployment rate by about 0.3 per cent, while domestic demand falls by about 1 per cent. International Monetary Fund (IMF) (2010) ‘World Economic Outlook’, Chapter 3, October 2010.

The Treasury suggests that a 1 per cent reduction in GDP relative to trend increases the Public Sector Borrowing Requirement (PSBR) by around 0.75 per cent. HM Treasury (2008) ‘Public Finances and the Cycle’, November 2008.

NIERF has suggested that, because of the weakness of the economic recovery, even if the government manages to meet its targets for spending reductions over the next four years, public sector net borrowing will fall only to 3.6 per cent of GDP in 2015–16 rather than the 1.5 per cent that the Office for Budget Responsibility projects (missing the government’s target for balancing the budget by around 2 per cent of national output, or about a third of the total size of the fiscal consolidation). NIESR (2011) ‘Prospects for the UK Economy’, May 2011. http://www.niesr.ac.uk/pdf/040511_230126.pdf
The UK government (HMRC) defines the tax gap as: "the difference between tax collected and the tax that should be collected (the theoretical liability). The theoretical tax liability represents the tax that would be paid if all individuals and companies complied with both the letter of the law and HMRC's interpretation of the intention of Parliament in setting law (referred to as the spirit of the law). The tax gap estimate is net of the Department's compliance activities. An equivalent way of defining the tax gap is the tax that is lost through non-payment, use of avoidance schemes, interpretation of tax effect of complex transactions, error, failure to take reasonable care, evasion, the hidden economy and organised criminal attack". HMRC (2011) ‘Measuring Tax Gaps 2011’, September 2011.
For more on the benefits and feasibility of a unilateral UK financial transaction tax, see Robin Hood Tax campaign (2011) ‘There is an Alternative: Time for a Robin Hood Tax’, policy brief.


According to the Global Footprint Network, the UK’s per capita biocapacity is around 1.4 global hectares (a common unit based on all the biologically productive land and sea area in the world in a given year), and its per capita eco footprint is around 4.8. See http://www.footprintnetwork.org/en/index.php/GFN/page/trends/unitedkingdom/


Whose Economy? seminar series, Oxfam Scotland focus groups, Oxfam Scotland, 2011


See also K. Trebeck (forthcoming) ‘Our Economy’, Oxfam GB.


S. Lansley (2011) ‘Britain’s Livelihood Crisis’, TUC.

H. Reed and N. Lawson, ‘Plan B: A good economy for a good society’, op. cit.


S. Lansley (2011) ‘Britain’s Livelihood Crisis’, TUC.


Ibid.


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