CHILD POVERTY ACTION GROUP

# The Double Lockout: How low income families will be locked out of fair living standards

**Contents**

## Executive Summary

This short report examines the potential impact of the decision, announced in the Autumn Statement 2012, to uprate most benefits and tax credits by one per cent for the next three years, less than the rate of inflation. Analysis by the Institute for Fiscal Studies found that this constitutes a real terms cut of four per cent to the benefits and tax credits affected across the period.[i]

The report examines the claims used to justify the decision, and its potential impact on families, with contributions from a range of experts. In contrast to the 'triple lock guarantee' for pensioners, the bill creates a double lockout: it locks out the workers, jobseekers, carers and disabled people receiving the affected tax credits and benefits from a link with either prices or earnings. It cuts them loose from the cost of living and the mainstream of society. CPAG contends that the policy of real terms welfare downrating will also increase absolute and relative child poverty, with serious consequences for large numbers of children, their families and indeed for broader society. We hope that parliamentarians will not support the Bill. This report sets out why.

The decision to uprate most benefits and tax credits by one per cent only was announced in the Chancellor George Osborne's statement to the House of Commons on 5 December 2012:

*"..we have to acknowledge that over the last five years those on out of work benefits have seen their incomes rise twice as fast as those in work. With pay restraint in businesses and government, average earnings have risen by around ten per cent since 2007. Out of work benefits have gone up by around 20 per cent. That's not fair to working people who pay the taxes that fund them.*

*Those working in the public services, who have seen their basic pay frozen, will now see it rise by an average of one per cent. A similar approach of a one per cent rise should apply to those in receipt of benefits. That's fair and it will ensure that we have a welfare system that Britain can afford...*

*We will support the vulnerable. So carer benefits and disability benefits, including disability elements of tax credits, will be increased in line with inflation and we're extending support for mortgage interest for two more years. But most working age benefits including job* *seekers allowance, employment and support allowance and income support – will be uprated by one per cent for the next three years.*

*We will also uprate elements of the child tax credit and the working tax credits by one per cent for the next three years – although previously planned freezes will go ahead. Local housing allowance rates, that are a central component of housing benefit, will be uprated in line with the existing policy next April and then we will cap increases at one per cent in the two years after that. For this measure, 30 per cent of the savings will be used to exempt from the new cap those areas with the highest rent increases.*

*The earning disregards for universal credit will also be uprated by one per cent for two years from April 2014. Child benefit is currently frozen. It too will now rise by one per cent for two years from April 2014.*

*Let me be clear. Uprating benefits at one per cent, means people get more cash, but less than the rate of inflation. And taken together we will save £3.7 billion in 2015-16 and deliver permanent savings each and every year from our country's welfare bill. …To bring all these decisions for many benefits over many years together, we will introduce into Parliament primary legislation – the Welfare Uprating Bill. I hope it commands support from both sides of the House of Commons.*

Autumn Statement 2012 to the House of Commons by the Rt Hon George Osborne, MP, Chancellor of the Exchequer, available online at http://www.hm-treasury.gov.uk/as2012_statement.htm

**Chapter 1**, by Lindsay Judge, Senior Researcher at CPAG, examines the potential impact of the Bill on measured levels of both relative and absolute child poverty. While no formal impact assessment of the Bill has yet been published, it is clear that a sub-inflation uprating of benefits and tax credits will be a poverty producing policy.

Previous estimates from the Institute for Fiscal Studies (IFS) suggested that 400,000 more children would be living in poverty by the end of the current parliament. Critically, the key factor behind this projected rise was the decision to uprate benefits using the Consumer

Price Index (CPI) measure of inflation, rather than the Retail Price Index (RPI). The decision to uprate benefits by still less than CPI will therefore almost inevitably lead to further rises in child poverty, echoing the increases in child poverty in the 1980s which were widely seen as having been caused to a large degree by the decision to decouple benefit increases from earnings.

Given this, it is hard to see how the government can square the Bill with its obligations under the Child Poverty Act 2010, or with recent statements it has made that it stands by its commitment to tackle child poverty.

**Chapter 2**, by independent policy consultant Declan Gaffney, examines the distinction drawn by the Chancellor between those in work and those on out- of- work benefits.

It shows that most out-of-work benefit claimants have worked, and will work again. Out-of-work claims for benefits were falling steadily before the recession, and remain lower than in the 1990s recession. Although the working age population is bigger today and there has been a much deeper recession than in the 1990s, the number of out of work claims was about a million lower in 2010-11 than in 1995-96. Moreover, the majority of increases in benefit expenditure in recent years have gone to those in work, reflecting the increasingly important role played by in-work benefits and tax credits in propping up stagnating wages. Rather than low paid workers seeing their incomes outstripped by those out of work, in-work benefits have helped to compensate these workers for slow wage growth.

This chapter also explores the Government's claim that losses to families in work will be offset by increases in the personal tax allowance. It shows, for example, that there are at least 682,000 working families receiving child tax credit with annual incomes below £6,420 who will not benefit from the increase in the tax threshold as their incomes are already far below the current threshold of £8,105 in 2012/13. At the same time all will be affected by the real terms cut.

**Chapter 3,** by Jonathan Portes, Director of the National Institute of Economic and Social Research, examines the economic arguments for and against the uprating decision, and the Chancellor's suggestion that we need *'a welfare system that we can afford.'*

Tax credits and benefits form part of the ‘automatic stabilisers’ which help dampen the economy in booms and boost it in recessions. The Chancellor has previously argued that these are important: *‘That is why the automatic stabilisers and the ability of monetary policy to respond are key parts of the flexibility built in to our plan.’* This view has also been endorsed by the IMF, which has consistently argued for the ‘*free operation of the automatic fiscal stabilisers*.’ Restricting benefits below inflation hinders this ‘free operation’ and cannot be justified on macro-economic grounds.

Moreover, there is no evidence that social security expenditure is at unsustainable levels. While Ministers have compared the growth in out-of-work benefits to wages over a five-year period, a longer term perspective makes clear how far the value of these benefits has fallen. In 1979, unemployment benefit (the predecessor to jobseekers' allowance) was about 22 per cent of average weekly earnings; today it is about 15 per cent, a relative decline of about a third. We already have a welfare system that Britain can afford.

**Chapter 4,** by Professors Tracy Shildrick and Rob Macdonald of Teesside University, draws on their own qualitative research to illuminate the lives of those trapped in poverty or low paid work.

Despite persistent references from Ministers and commentators to a culture of worklessness, and to families where no-one has worked for three generations, research in Teesside and Glasgow over a significant period failed to find any families who fit this description, echoing a quantitative study that found less than one per cent of families with even two never-working generations. The research found that workless parents and workless children all remained committed to the value of jobs, with parents actively striving to ensure that their sons and daughters did not end up with the same sort of ‘miserable existence’ marked by poverty and long-term unemployment as themselves.

The research did identify, however, a common cycle of poverty and poor quality employment, with participants moving frequently in and out of work. Although people repeatedly engaged with jobs, these failed to provide routes out of poverty, largely because of there being insufficient decent job opportunities available in local job markets.

**Chapter 5,** by Ben Baumberg, lecturer at Kent University, examines public attitudes to social security.

Although public support for spending on social security has declined, attitudes to benefits are not overwhelmingly hostile. Data from the British Social Attitudes survey shows that even in 2011, when people overwhelmingly are aware of the need to reduce the deficit, an outright majority are in favour of *more* spending on benefits for disabled people, carers, low earners and retired people.

Responses to the uprating decision in polls published so far primarily reflect the way that questions have been framed, and show that attitudes in this area are complex: the same policy can be either popular or unpopular depending on how it is presented and on the ideas it resonates with. Demonstrating that the cut will hit the disabled (despite some exclusions, many of those qualifying for disability benefits will still be affected) low paid workers and those claiming maternity benefits may be effective in ensuring public opposition to the cut.

**Chapter 6,** by Alison Garnham, Chief Executive of CPAG, concludes with CPAG's vision of a social security system that sees falls in child poverty and a sustainable level of public expenditure on social security as compatible goals.

Increases in social security spending have been driven by an insecure labour market that increasingly fails to provide a decent income that can lift families out poverty. Six out of ten poor children now live in a household where somebody is in work, a fact that is perhaps not unsurprising given that five million British workers do not receive a living wage. Yet 60 per cent of the impact of the Uprating Bill will fall on these working people.

Rather than a policy that impoverishes children and robs them of their futures, we need a vision of a system that tackles low pay, and the high housing and childcare costs that both trap families in poverty, and impose a heavy burden on public expenditure. Seventy years ago, Beveridge produced a vision of a society free from want, a vision accepted by a coalition government. Instead of a policy that seeks to pit the interests of one group of people on low incomes against another, we need a vision that recognises that we are truly all in it together.

[i] S Adam (2012) *Personal taxes and benefits* presentation given to IFS briefing on Autumn Statement, 6 December 2012, available online at http://www.ifs.org.uk/conferences/PTAB_SA.pdf

One

## The impact of benefit uprating on poverty

Lindsay Judge

In December 2012, at the tail-end of the parliamentary session, the government laid before the House of Commons a new piece of legislation. The Welfare Benefits Uprating Bill 2012 has a clear objective: to legitimate the Chancellor's decision at the autumn statement to uprate key in- and out-of-work benefits by just one per cent for the next three fiscal years. This short paper explores the likely impacts of the Bill on the fortunes of children growing up in low-income families in the UK today, and subjects some of the rhetorical claims surrounding the Bill to further scrutiny.

But first, some facts. In October 2011, the Institute for Fiscal Studies (IFS) published projections for child poverty in the UK for the next five to ten years.[ii] The picture, according the their report, was bleak: they estimated that 400,000 more children would be living in relative poverty by the end of the current parliament, while the number living in absolute poverty looked set to increase by 500,000 over the same period.

The IFS calculations took account of the multiplicity of tax and benefit changes announced by the government up to April 2011. Alongside this, the researchers also factored in the effect of universal credit (UC) as it was then envisaged, and in its fully implemented state. As their report made clear, any poverty-reducing impacts of UC would be more than offset by the vast range of cuts then planned to benefits for this parliament. Critically, they concluded that the most important policy change that would drive child poverty rates up over the next five to ten years was the decision to index most working-age benefits to the consumer price index (CPI) as opposed to the more generous retail price index (RPI) from 2011 onwards.[iii]

Since the IFS produced these alarming projections, the government has made other adjustments to the way it indexes benefits and tax credits which only worsen the prospect for low income families. In 2011, for example, the chancellor reneged on a previous promise to over-index child tax credit (CTC), and at the same time froze the value of key elements of working tax credit (WTC). But it is the announcement in the autumn statement, now captured in the Bill, to uprate most in- and out-of work benefits, and going forward key elements of UC, at a sub-inflation one per cent for three years that must cause anyone committed to reducing child poverty the most acute concern.

To begin, while the government has yet to provide any figures on the projected poverty impacts of the decision, the simple truth is that a sub-inflation uprating will be a poverty-producing policy. Delinking benefits from prices will result in a fall in the real standard of living for anyone who is reliant on the state for all or part of their income over the next three years. As a consequence, in the absence of any compensatory changes, the number of children living in absolute poverty will rise, while those children in families reliant on out-of-work benefits who already live below this threshold will see their poverty deepen further.

However, the real losses that low-income families will sustain as a result of a sub-inflation indexation are likely to be underestimated in most analysis. We know that poorer households spend a larger proportion of their budgets on items such as food, fuel and water than wealthier households. As a consequence, when prices of these basics increase faster than general inflation as they have in recent years, the effective rate of inflation for low-income households is higher than the headline CPI figure.[iv] With the Office for Budget Responsibility (OBR) continuing to forecast higher than average price growth for essentials such as fuel in the medium term, the losses low-income families will experience as a consequence of the one per cent uprating will be greater than any commentary using the average would suggest.[v]

The uprating decision is being presented by the government as a generous gesture given that benefits have risen at a faster rate than average earnings for the last five years.[vi] But again, looking at the average does not sufficiently distinguish the experience of those who live on low incomes. ONS data shows, for example, that between 2009/10 and 2010/11, the earnings of those in the lowest three income quintiles either decreased or increased at a slower rate than the average, while those in the top two income quintiles saw their earnings rise significantly, with those in the fourth quintile seeing a 6.1 per cent increase in their earnings, and those in the fifth quintile seeing a 3.2 per cent increase.[vii]

While these figures show that claimants have done 'better' than the average, it is those in the top two income quintiles who have been the real winners in recent years. Perhaps even more critically, it is important to remember that the vast majority who claim benefits and tax credits have worked, are in work, or will work again in the near future. What we observe, then, is not the 'scrounger' who has done well at the expense of the 'striver', but instead, those on low incomes who have been as ill-served by the economy in recent years as they will be by the social security system in the future.

Breaking down the averages shows, then, that the one per cent uprating is anything but fair. Moreover, it is not clear where the equity is in pegging benefits to public sector pay rises going forward. With the Treasury anticipating average earnings growth for the whole economy of between 2.2 per cent and 3.9 per cent over the next three years, it is clear that the Uprating Bill will open up a gap between those who rely on the state for all or part of their incomes, and the rest of the population.[viii] As a result, the minority can only become further disconnected from the majority, and relative child poverty will almost inevitably increase.

Finally, what was conveniently obscured in the debates about uprating is the fact that for many years prior to 2008, benefits rose at a significantly lower level than wages. As salaries raced ahead before the recession, a stark gap opened up between earnings and benefits: the value of unemployment benefit (and its successor, jobseekers allowance) fell from about 22 per cent of average weekly earnings in 1979 to about 15 per cent in 2012.

Looking at this historical picture should make us all pause for thought. In fact, the above-average earnings upratings of the last four years have had limited effect on the relative value of benefits eroded over a long period of time, showing how difficult it is to correct the damage done by year after year of under-indexation. Alongside this, the decision to decouple benefit levels from wages is widely recognised as the most significant policy that drove the dramatic increases in relative child poverty through the 1980s and 1990s.[ix]

Given this, the Uprating Bill risks history repeating itself, with one significant difference: this time round we are likely to witness significant rises in child poverty against the backdrop of the Child Poverty Act (CPA) 2010. This is a law which requires the government to concern itself with both the absolute and the comparative fortunes of children growing up in the UK today, and to take action to reduce absolute poverty to below 5 per cent, and relative child poverty to below 10 per cent, by 2020.

Yet three years of benefit uprating that is linked to neither prices nor average earnings will deliberately lock in both real and relative losses for low-income families, at the same time as locking them out of the mainstream. In truth, it will be impossible to square the true consequences of the Uprating Bill with the government's obligations under the CPA 2010. This is a policy decked with false, rhetorical arguments. Challenging these, and ensuring that both policy makers and the public understand the true impacts of the Bill, will be vital if we are to ensure that dramatic rises in poverty are prevented.

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[ii] M Brewer, J Browne and R Joyce, *Child and working age poverty from 2010 to 2020*, Institute for Fiscal Studies 2011.
[iii] ibid, 44
[iv] P Levell and Z Oldfield, *The spending patterns and inflation experience of low-income households over the past decade*, Institute for Fiscal Studies 2011.
[v] Office for Budget Responsibility, *Economic and fiscal outlook*, CM 8481 2012, 75.
[vi] See, for example, Steve Webb Minister of State (Pensions) in HC Deb, 6 December 2012, c1030.
[vii] Office for National Statistics, *Average weekly earnings (AWE),* December 2012. The precise figures are as follows: 1st quintile 1.4 per cent, 2nd quintile -3.1 per cent, 3rd quintile –0.2 per cent, 4th quintile 6.1per cent, 5th quintile 3.2 per cent.
[viii] HM Treasury, *Autumn Statement 2012*, Table B.2.
[ix] J Hills, 'The last quarter century: From New Right to New Labour' in H Glennerster et al, *One hundred years of poverty and policy*, JRF 2004.

Two

## Social security and working households

Declan Gaffney

Much of the controversy about the Coalition Government's proposal to break the link between benefits and inflation has centred on the impact on working families. This emphasis has meant that out of work families, who will lose most in percentage terms[x], feature in the debate primarily as a foil to the 'hardworking' families whose interests all sides claim to be defending.

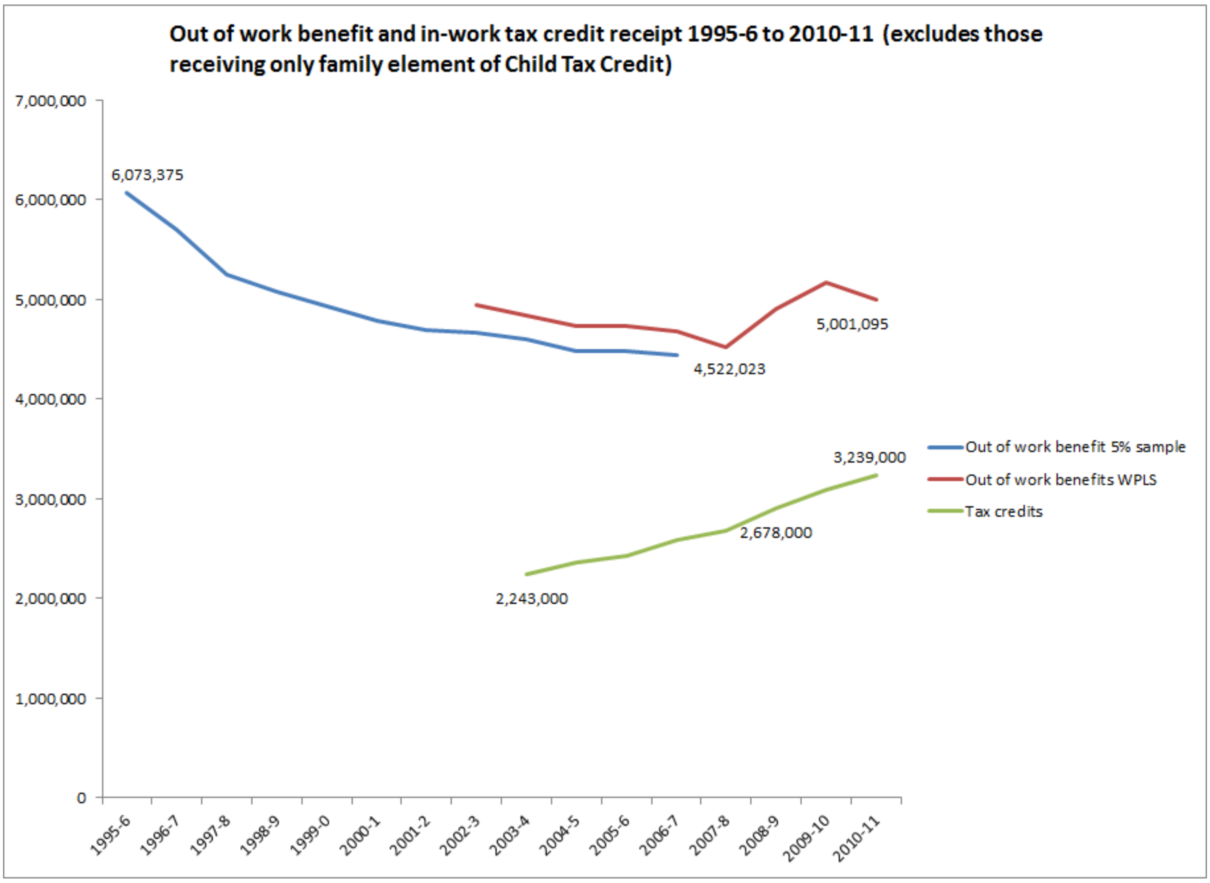
This framing of discussion is unhelpful: working and being out of work are situations, not characteristics of different types of family. Most out-of-work claimants have worked and will work again. New claims for jobseeker's allowance alone have ranged between 244,000 and 357,000 a *month* over the last year, while between 252,000 and 370,000 have left the benefit.[xi] For the great majority of claimants, benefit receipt is a temporary situation. To put it in the terms of the current debate, millions of 'strivers' become 'skivers' every year and vice versa.

At the same time, artificially splitting benefit caseloads between working and out of work claimants distorts public understanding of a social security system which now spends as much on in-work benefits as on income replacement for those out of work.[xii] Out-of-work benefit receipt has been in decline over the long term, while successive governments have increased expenditure on in-work support, especially to families with children. This change in expenditure patterns, driven by both policy decisions and improved labour market outcomes, is one of the major developments in the UK social security system over the last 30 years. The losses to working families under the proposed uprating change are testimony to the scale of this shift.

The decline of out of work benefit receipt since the mid-1990s and the growth of in-work receipt are illustrated in chart 1, focussing on tax credits, the most important of the in-work benefits. The blue and red lines show the total number of out of work claims from two different Department for Work and Pensions (DWP) time series which between them cover the period 1995 to the present. There are differences between these series, as the later series (the red line) is more comprehensive, but they tell essentially the same story. In

1995-96, when the labour market was still recovering from recession, there were over 6 million claimants of out of work benefits. This had fallen to 4.5 million by 2007-08, before the onset of the crisis. Out of work benefit receipt in 2010-11 was just over 5 million. So although the working age population is bigger and there was a much deeper recession, the number of out of work claims was about a million lower in 2010-11 than in 1995-96. It is unlikely that this fall is distorted by differences between the two time series. Given the scale of the economic downturn, the increase of about 500,000 in out of work receipt is remarkably restrained.

Chart 1: out of work benefit and in-work tax credit receipt 1995-06 to 2010-11




Sources: DWP 5% sample and Work and Pensions Longitudinal Study; HMRC Finalised tax credit awards 2010-11. DWP data is the financial year four-quarter average. Claims for Disability Living Allowance without an out of work benefit are excluded from 5% and WPLS lines; claims for Carers' Allowance without an out of work benefit are not identified separately in the 5% sample and are excluded from the WPLS data presented here. Tax credits includes working and child tax credits for working families only, excluding families receiving only the quasi-universal family element of child tax credit or less.

Child tax credit is available to both working and out-of-work families, while working tax credit was available to families with an adult working 16 hours a week or more (this has now been raised to 24 hours a week for couples with children).The green line shows *in-work* tax credit receipt from 2003-04. The family element of child tax credit, which was available up to quite high income levels, is excluded here. Even with this exclusion, there are a lot more in-work tax credit families than out-of-work: 3.2 million compared to 1.4 million. Moreover the number of out-of-work tax credit families has hardly changed since 2003-4: the great bulk of the increase in receipt is among working families. This is partly a reflection of increases to generosity under the previous and current government, and partly of falls in household income since the crisis.

In fact the number of in-work tax credit families has increased by more than the number of out of work benefit claims since 2007-8: about 600,000 compared to 500,000. The role of in-work benefits has been one of the major under-reported stories of the current downturn. It should not be surprising therefore that among the benefits set for one per cent uprating by the government, more than half the growth in expenditure between 2007/08 and 2010/11 is accounted for by working families[xiii].

Table 1: Change in social security expenditure 2007/08 to 2010/11 in benefits subject to one per cent uprating announced in the Autumn Statement 2012 (n.b. includes some unidentifiable disability components which will be uprated by CPI).

| **Benefit** | **£ million increase in expenditure (nominal)** | **Percentage of total increase in spending** |
|---|---|---|
| Income support, incapacity benefit, jobseekers allowance* | 3,268 | 19.1 |
| Tax credits paid to households out of work | 1,620 | 9.5 |
| Child benefit paid to households out of work | 778 | 4.6 |
| Housing benefit paid to households out of work | 2,343 | 13.7 |
| **Total benefits paid to** | **8,009** | **46.9** |

| | | |
|---|---|---|
| **households out of work** | | |
| Maternity benefits and sick pay | 618 | 3.6 |
| Tax credits paid to households in work | 5,327 | 31.2 |
| Child benefit paid to households in work | 778 | 4.6 |
| Housing benefit paid to households in work | 2,343 | 13.7 |
| **Total benefits paid to households in work** | **9,066** | **53.1** |
| Total | 17,076 | 100 |

Sources: DWP benefit expenditure tables (2012 Budget edition); HMRC Tax Credits finalised awards 2010/11 edition; DWP housing and council tax benefit statistics November 2012; HMRC receipts 2012 edition.

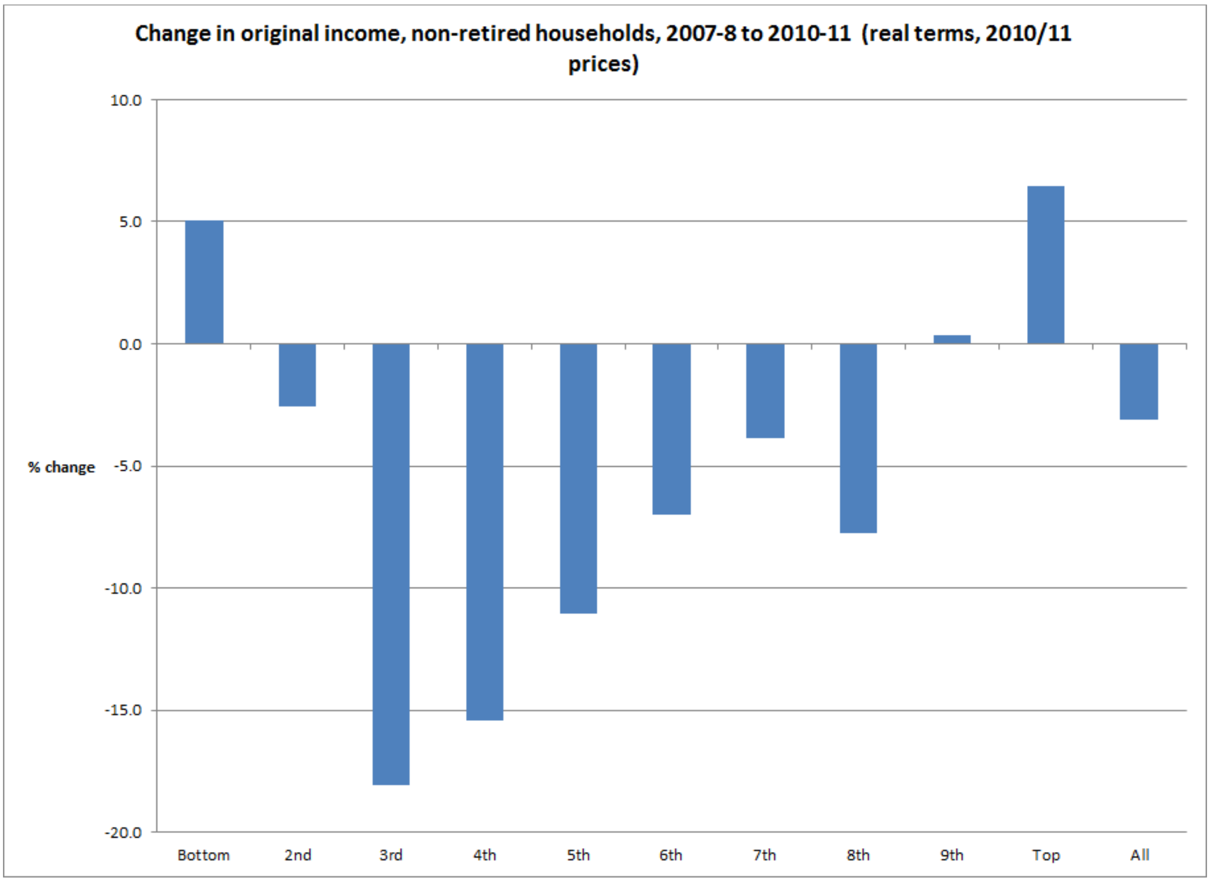
Why has in-work support been so important during the current downturn? Part of the answer is, as noted above, that the social security system now offers much more support to working people, especially if they have children. Part of the answer is that unemployment has risen far less than was widely anticipated at the onset of recession: it has been around 8 per cent for the last three years compared to 12 per cent at the height of the early 1990's downturn. This is in turn partly due to employees accepting cuts in working hours and pay restraint – and this has led to falls in real household income which in-work benefits serve to partially offset, increasing the share of expenditure going to working households.

Chart 2 shows the real-terms change in working age households' income before taxes and benefits between 2007-08, before the onset of recession, and 2010-11: this is referred to as 'original income' by ONS and is made up overwhelmingly of earnings. Households are ranked by income adjusted for household size and composition, but the income *changes* shown here are for unadjusted incomes.[1] There are increases in original income at both the very bottom and the top of the distribution, the former meaning not that poorer households

[1] These figures are for *household* rather than individual earnings, so they do not correspond to the figures in chapter 1.The impact of reduced earnings on household income is more marked for some groups than the headline earnings data might suggest.

have increased their earnings but that more households with someone in employment are at the very bottom of the income distribution. Real earnings have fallen at all other points in the income distribution over this period, with the impact concentrated at the middle and, especially, the 20 per cent of households just below the middle. At the third decile, original income has fallen by 18 per cent, at the fourth by 15 per cent and at the fifth by 10 per cent.

Chart 2: Change in original income, non-retired households, 2007-08 to 2010-11.




Source: author’s calculations from ONS, *The effect of taxes and benefits on household income: historical data.*

Of course the scale of these falls in (mainly) earned income does not translate to households incomes after taxes and benefits: people pay less in direct taxes as income falls and they become entitled to more in benefits. Taking account of all taxes and benefits, household income falls a lot less for those at the lower end, except for the very bottom where the increase in original income is wiped out by indirect taxes (see the post-tax row in table 2).

Table 2: Changes in household income 2007-08 to 2010-11 in each income decile

| Summary statistics on income deciles | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Bottom | 2nd | 3rd | 4th | 5th | 6th | 7th | 8th | 9th | Top | All |
| Original income 2010-11 | 4,639 | 10,245 | 15,806 | 22,805 | 29,446 | 36,926 | 45,645 | 52,184 | 66,161 | 119,188 | 40,305 |
| | | | | | | | | | | | |
| Change in income 2007-8 to 2010-11 | | | | | | | | | | | |
| Original | 5.0 | -2.6 | -18.1 | -15.4 | -11.0 | -7.0 | -3.9 | -7.7 | 0.4 | 6.4 | -3.1 |
| Gross | 4.8 | -1.7 | -8.0 | -12.5 | -7.3 | -5.1 | -2.9 | -7.3 | 0.2 | 6.8 | -1.9 |
| Disposable | 2.9 | -0.7 | -4.7 | -10.0 | -4.6 | -3.2 | -1.8 | -6.0 | 1.0 | 8.5 | -0.4 |
| Post-tax | -1.5 | 0.1 | -5.2 | -9.7 | -3.1 | -1.8 | -2.1 | -6.2 | 1.0 | 9.4 | 0.1 |
| | | | | | | | | | | | |
| % in employment (2010/11) | 39 | 58 | 72 | 80 | 89 | 91 | 95 | 98 | 97 | 98 | 81 |
| % including children 2010/11) | 48 | 56 | 52 | 44 | 44 | 40 | 34 | 30 | 27 | 30 | 41 |
| | | | | | | | | | | | |
| Affected benefits/tax credits (2010/11) | 5,445 | 6,924 | 6,003 | 4,046 | 3,352 | 2,204 | 1,705 | 1,204 | 802 | 834 | 3,252 |
| Of which tax credits (2010/11) | 69 | 305 | 385 | 397 | 428 | 280 | 224 | 174 | 106 | 88 | 246 |

Source: author's calculations from ONS, *The effect of taxes and benefits on household income: historical data* Original income= income before any taxes or benefits. Gross income=original income plus cash benefits Disposable income = gross income less direct taxes. Post-tax income=disposable income less indirect taxes. Affected benefits are those benefits and tax credits which are not exempt from below inflation uprating.

This table shows how households' income has changed in real terms since the onset of recession at different stages of redistribution through the tax benefit system. Households are divided into 10 equal sized groups, called 'deciles', depending on their income taking account of household size and composition.

The first row shows cash income before taxes and benefits in 2010-11 (this is mostly earnings for most households). The second row shows how this 'original income' changed between 2007/8 (i.e. before the recession) and 2010/11. The next row, 'gross income' shows how income changed when benefits are taken into account. Benefits have made a big difference: for example, while original income fell by 18% at the third decile, income including benefits only fell by 8 per cent as earnings losses were partially offset by increased benefit entitlement. The next row ('disposable income') takes into account direct taxes (mostly income tax and National Insurance contributions for most households). Now, incomes at the third decile have fallen by only 4.7 per cent, reflecting lower tax liabilities as original income falls. The next line ('post-tax income') shows the effects of indirect taxes such as VAT, which fall more heavily on lower income households. The effect is slightly ambiguous, increasing income losses for some groups and reducing them for others, presumably because changes in spending due to lower incomes offset the effect of increases in VAT.

Table 2 also shows how much households were receiving in 2010/11 in terms of the benefits scheduled for one per cent uprating. So at the third decile, where the fall in earnings has been most precipitate, households on average received £6,003 in these benefits (this includes the offset to income tax from tax credits,[xiv]which is not included in table 1), while households in the middle received £3,352. Tax credits are an important component of this support (shown in the bottom line) but many households are also receiving other in- or out-of-work benefits, either because they have nobody in employment or because while some members are working they also include somebody who is out of work, such as unemployed adult children. Note that with the exception of the bottom decile, a majority of households have someone working at all points in the distribution.

So the benefits scheduled for below inflation uprating have clearly played a major role in cushioning the impact of recession on household incomes, both for those who have lost all employment and those who have retained work at reduced hours or real wages. The argument in favour of one per cent uprating, that benefits have increased by more than wages seems particularly misplaced under these circumstances: one of the effects of these benefits has been to partially compensate for below inflation rises in weekly earnings, which most economists agree have served to restrain growth in unemployment. It is open to question whether pay restraint and reduced hours would have played this role to the same extent had households not been shielded from some of the impacts through in-work benefits.

While it is true that some working households, especially those without children, will see losses from below inflation uprating offset by changes in the income tax threshold, this will not be the case for the average family with children. Customs and Revenues provisional statistics for 2011/12[xv] show there were 682,000 working families receiving child tax credit (above the 'family' element) with annual incomes (before tax and benefits) below £6,420: there is no reason to expect this figure to have changed dramatically since April. Obviously none of these families will benefit from the increase in the tax threshold as their incomes are already far below the current threshold of £8,105 in 2012/13. At the same time all will be affected by the real terms cut. This is not an estimate of the number of losers, just a lower bound to any possible estimate. There were a further 425,000 working families with incomes between £6,421 and £9,999 some of whom it is to be expected will also be net losers. Indeed, the IFS has shown that working families with children will lose out more in cash terms, although less in percentage terms, under the combined effect of the tax and uprating changes than workless families.[xvi]

Comparing 'benefits' with wages as if millions of people were not in receipt of both airbrushes out the fact that the social security system offers integrated support to households in and out of work through housing and council tax benefit and tax credits. It is surprising that a government which claims to be further integrating in- and out-of-work benefits through universal credit should be trying convince people that workers and benefit recipients are mutually exclusive groups. However public perceptions of social security seem to be lagging behind the reality of how the system has evolved over the last two decades. The 'strivers' versus 'skivers' framing of this discussion may prove difficult to escape.

However, polling by the TUC has shown that there is limited support (30 per cent) for the government's proposals when people are asked specifically about benefits to low-income *working* families, while 40% are opposed[xvii]. The problem, shown by the same polling, is that two thirds of people assume that most of the impact will be on out of work households. To borrow a distinction made by American researchers looking at public attitudes to 'welfare'[xviii] support for the policy is dependent on the public being 'misinformed' rather than 'uniformed' about the benefit system. With 3.2 million lower income working families due to be affected by below inflation uprating of tax credits alone, the current misinformed beliefs about who benefits from social security may prove difficult to maintain.

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[x] Institute for Fiscal Studies (2012), Autumn Statement presentation: personal taxes and benefits available at http://www.ifs.org.uk/publications/6488

[xi]See information from nomis on claimant flows at https://www.nomisweb.co.uk/

[xii] See B Baumberg, K Bell and D Gaffney (2012) for Turn2Us *Read between the lines: confronting the myths about the benefit system* available at http://www.turn2us.org.uk/pdf/Mythbusting.pdf

[xiii] A little under half of total expenditure on these benefits goes to working families, based on calculations from the sources listed for table 1.

[xiv] Above a certain income threshold (dependent on family size and composition and other circumstances, such as use of formal childcare) families no longer receive tax credit payment but have reduced income tax liabilities. This 'negative expenditure' is included in the ONS data on which table 2 is based.

[xv] Table 6.1 of HMRC (2012) Personal tax credits: provisional statistics - main tables available at http://www.hmrc.gov.uk/statistics/prov-main-stats.htm#1

[xvi] Institute for Fiscal Studies (2012), Autumn Statement presentation: personal taxes and benefits available at http://www.ifs.org.uk/publications/6488

[xvii] http://falseeconomy.org.uk/blog/tuc-poll-finds-that-support-for-benefit-cuts-depends-on-misconceptions

[xviii] J H Kuklinski *et al* 'Misinformation and the currency of democratic citizenship' in *The Journal of Politics* Vol. 62, No. 3 (August 2000) http://www.unc.edu/~fbaum/teaching/articles/JOP-2000-Kuklinski.pdf

Three

## The economic impact of uprating policy

Jonathan Portes

Leaving aside normative questions about the "appropriate" or "fair" level of benefits for those who are out of work, disabled, or on low incomes, there are two principal issues raised by the Coalition Government's decision to cut most working age welfare benefits in real terms over the next three years:

- First, macroeconomic; is this sensible and/or necessary given the short-run prospects for the public finances?
- Second, long-term sustainability; is this sensible and/or necessary given long-run trends on benefit expenditure and rates?

On the first, the key point is that not only is cutting benefits not necessary in order to stick to Plan A – the Chancellor's deficit reduction plan – it directly contradicts the original plan. Tax credits and social security benefits rise faster in a downturn than when the economy is doing well. And that is one of the main reasons why the deficit has fallen so much more slowly than the government had hoped two years ago. But that's not a bug; it's a feature; the "automatic stabilisers", as they are known to economists, help dampen the economy in booms and boost it in recessions. So the Chancellor has consistently, and sensibly, argued

> *'That is why the automatic stabilisers and the ability of monetary policy to respond are key parts of the flexibility built in to our plan.'*[xix]

That flexibility has helped up to now; the reason why countries like Spain and Greece have seen a "death spiral" of austerity, slow growth, higher unemployment and lower tax revenues, higher deficits, and then yet more austerity, is precisely because, constrained by euro membership and the economic errors of Eurozone policymakers, they have not allowed the automatic stabilisers to operate. By contrast, though UK economic performance has been dismal, to a large extent as a consequence of premature fiscal consolidation, the

Chancellor's "flexibility" has indeed ensured we avoid those mistakes. Without the automatic stabilisers, things would have been much worse.

But cutting welfare benefits deliberately negates, as a matter of policy, the operation of the automatic stabilisers; it is a reduction in flexibility, not an increase. It is unclear why the Chancellor has suddenly chosen to disregard his own advice - and indeed that of the IMF, which has argued repeatedly for the "free operation of the automatic fiscal stabilisers."[xx] Certainly it makes little or no sense macroeconomically.

So what about the second point; long terms trends in benefits compared to earnings, and the implication for the sustainability of the welfare system? Clearly it is unsustainable if benefits (paid for from tax revenues) rise faster than earnings (from which most tax revenues must come) over a very long period. Moreover, while there is considerable controversy about the incentive impacts of the benefit system in practice, it must surely be the case that a large and sustained rise in out-of work-benefits relative to earnings would damage work incentives and hence have economic and social costs.

Do these factors provide a justification for cutting benefits? The Chancellor argued:

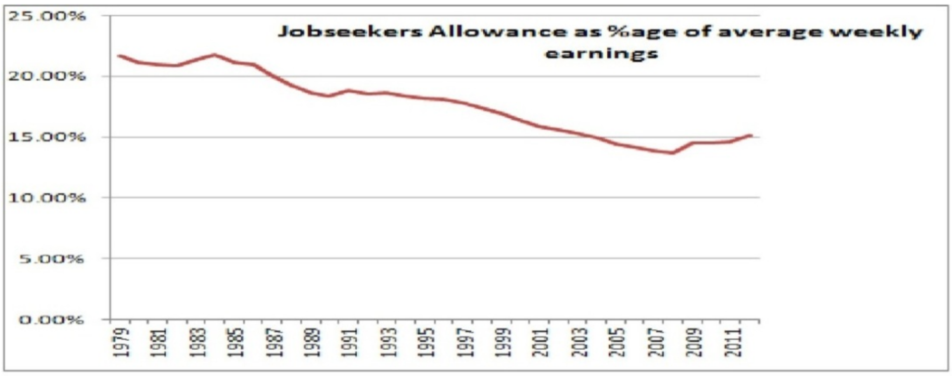
> '*… we have to acknowledge that over the last five years those on out of work benefits have seen their incomes rise twice as fast as those in work. With pay restraint in businesses and government, average earnings have risen by around 10 per cent since 2007. Out-of-work benefits have gone up by around 20 per cent. That's not fair to working people who pay the taxes that fund them. Those working in the public services, who have seen their basic pay frozen, will now see it rise by an average of 1 per cent. A similar approach of a 1 per cent rise should apply to those in receipt of benefits. That's fair and it will ensure that we have a welfare system that Britain can afford*.'[xxi]

David Smith, writing in the Sunday Times, repeated the Chancellor's argument verbatim and stated that:

> '*In five years, out of work benefits have risen 20%, earnings 10%. That is unsustainable*.'[xxii]

The numbers are correct: but they are highly selective, and David's conclusion is simply wrong. The value of out–of-work benefits relative to average earnings (and more broadly the incomes of those in work) has fallen steadily over the past three decades, until the recent slight uptick resulting from the recession:

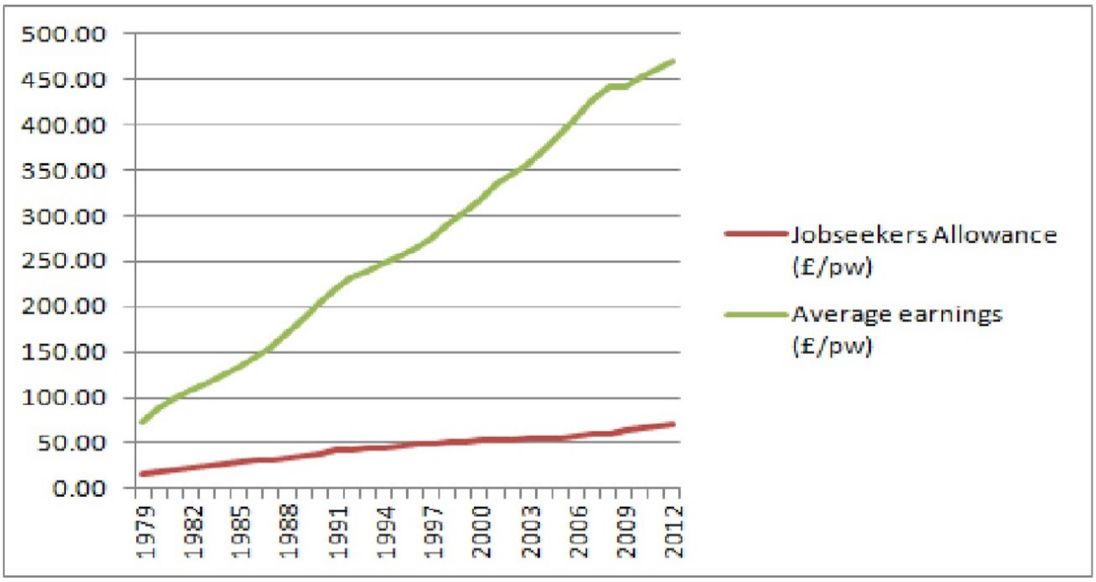
Chart 1: Jobseeker's allowance as percentage of average weekly earnings, 1979-2011




In 1979, unemployment benefit (the predecessor to jobseeker's allowance (JSA)) was about 22 per cent of average weekly earnings; today it is about 15 per cent, a relative decline of about a third. So benefits have been consistently falling in value relative to earnings over the last three decades, improving both affordability and work incentives.

What's going on? Simple: JSA (and most other working age benefits, although not always tax credits) has been indexed to inflation. In normal times, earnings rise faster than prices, as workers become more productive and the economy grows; this chart shows the cash value of both JSA and average weekly earnings:

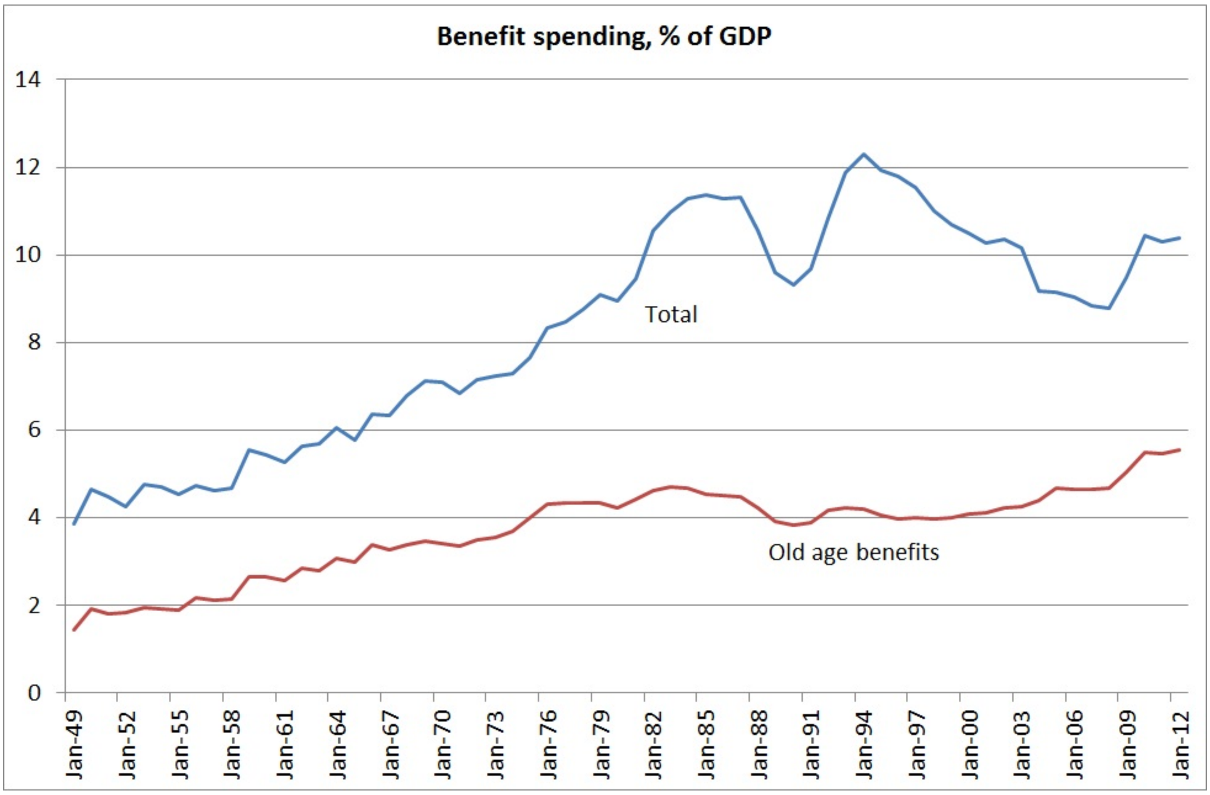
Chart 2: Value of job seekers allowance and average earnings, 1979 -2012




So indexing benefits to prices has been far from unsustainable, or "unfair" to working people, over the last 30 years. Indeed it has resulted in a substantial reduction in spending on out of work benefits as a proportion of GDP, compared to the alternative of indexing benefits to earnings; while the incentive to work, as measured by (falling) replacement rates (the ratio of out of work benefits to earnings) has risen sharply.

As a result, we already have 'a welfare system that Britain can afford', at least for those of working age. Declan Gaffney et al note that all out-of-work benefit spending only amounts to some 3 per cent of GDP.[xxiii] And even overall benefit spending, which has to accommodate the growing number of pensioners, has levelled off, as Chris Dillow has pointed out.[xxiv]

Chart 3: Benefit spending as a percentage of GDP, 1949-2012




Source: Reproduced from stumblingandmumbling.com Benefits data are sourced from the DWP benefit expenditure tables; GDP data from the ONS.

There is nothing remotely unsustainable about any of this.

In the last five years, however, earnings have risen much more slowly than prices, as the Chancellor points out. But this is the temporary consequence of recession, not a permanent state; it is highly unlikely to persist. The government certainly doesn't expect it to: the Office of Budget Responsibility's forecast,[xxv] which is not particularly optimistic about growth over the near term, suggests that earnings will rise about five per cent faster than prices over the forecast period (see table 1.1).

So unless we are stuck in permanent depression, even a modest recovery will in time lead to earnings rising significantly faster than prices, and the relative value of out of work benefits will decline again. No policy action is required to ensure this (although economic recovery would help!).

So unless the OBR is completely wrong, and the economy flatlines for the foreseeable future, with no or negative growth in earnings relative to prices (and even at my most pessimistic I don't think that's likely) then the idea that benefits need to be cut in real terms in order to ensure either that their value doesn't outpace earnings, or the long-term sustainability of the welfare system, is wrong. To conclude, the purely economic arguments – macroeconomic or long-term – for cutting benefits are rather weak.

A version of this piece first appeared on Jonathan Portes blog at http://notthetreasuryview.blogspot.co.uk on 9 December 2012.

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[xix] See BBC News Online 9 September 2011 'Cuts are UK's rock of stability says George Osborne' available online at http://www.bbc.co.uk/news/uk-politics-14857082
[xx] IMF (2012) United Kingdom—2012 Article IV Consultation Concluding Statement of the Mission available online at http://www.imf.org/external/np/ms/2012/052212.htm
[xxi] Autumn Statement 2012 to the House of Commons by the Rt Hon George Osborne, MP, Chancellor of the Exchequer available online at http://www.hm-treasury.gov.uk/as2012_statement.htm
[xxii] David Smith's column of December 9 2012 is reproduced online at http://www.economicsuk.com/blog/001794.html#more
[xxiii] See B Baumberg, K Bell and D Gaffney (2012) for Turn2Us *Read between the lines: confronting the myths about the benefit system* available at http://www.turn2us.org.uk/pdf/Mythbusting.pdf
[xxiv] C Dillow, December 1 2012 at http://stumblingandmumbling.typepad.com/stumbling_and_mumbling/2012/12/benefit-spending-a-quick-history.html
[xxv] Office for Budget Responsibility (December 2012) *Economic and fiscal outlook* Cm8481

Four

## The reality for low income households

Tracy Shildrick and Robert MacDonald

The decision taken in the Autumn Statement to uprate benefits by less than inflation is part of a package of 'welfare reforms' in the shape of drastic cuts to social security spending that have been sold on the basis of populist portrayals of benefit claimants, for instance, that there are '*large numbers sitting on out of work benefits unchallenged, many unwilling or unable to take advantage of the job opportunities being created*'.[xxvi] The 'hard-working families' beloved of political speech writers are presented as paying for the benefits of work-shy families who live it up – or sleep through the days - at their expense. The Coalition Government has professed itself determined to challenge 'cultures of worklessness'[xxvii] and the intergenerational transmission of welfare dependency.[xxviii] Central to its 'welfare reforms' is a desire to tackle the problem of 'children growing up in homes where no one works', worklessness being repeated 'through the generations'[xxix] and the possibility that some people 'regard welfare benefits as a ''lifestyle choice'''.[xxx] The government's Social Justice Strategy ploughs the same furrow, with an over-riding emphasis on the 'importance of work' particularly for the most disadvantaged families.[xxxi]

However, other viewpoints are now making themselves heard, and the widespread depiction of those who claim benefits as people making a 'lifestyle choice' not to work is being challenged. As Gavin Kelly, writing in the New Statesman, puts it, 'the welfare debate is only just warming up'.[xxxii] Our own research, conducted in Teesside and Glasgow and published in December 2012, examined the enduringly popular idea of 'cultures of worklessness' and the notion that there are 'three generations of families where no-one has ever worked'.[xxxiii] These ideas, whilst widespread and influential, have been particularly championed by welfare secretary Iain Duncan Smith as part of the focus on 'tackling worklessness' outlined above. In 2009 he said: '*Life expectancy on some estates, where often three generations of the same family have never worked, is lower than the Gaza Strip*'.[xxxiv] These ideas suggest that unemployment can be explained by 'cultures of worklessness' and 'welfare dependency' being passed down the generations, from grandparent to parent to child.

Determined research over many months using every method at our disposal failed to find any families comprised of 'three generations that had never worked'.[xxxv] If such families exist, they can only account for a minuscule fraction of workless people. Recent surveys suggest that less than one per cent of workless households might have two generations who have never worked.[xxxvi] Families with three such generations will therefore be even fewer. The research also put paid to the more general idea that long-term worklessness might be 'cultural'. In fact, workless parents and workless children all remained committed to the value of jobs, with parents actively striving to ensure that their sons and daughters didn't end up with the same sort of 'miserable existence' of poverty and long-term unemployment.

The finding that 'cultures of worklessness' are largely mythical reflects the fact that concentrating on those who are in work (who are 'striving' or suffering 'in-work poverty') and contrasting them with the unemployed (who are 'shirking') fails to recognise the dynamic movement of people between these two states, between being in work and claiming out of work benefits. Our new book – *Poverty and Insecurity: life in low-pay, no-pay Britain* – was motivated by an attempt to capture the dynamics of working life and of recurrent poverty, and the frequent movement between states of in-work and out-of-work poverty.[xxxvii]

The research was part of a wider Joseph Rowntree Foundation (JRF) programme inspired by the growing recognition that snapshot surveys did not tell the whole story and missed some people's experiences of poverty. Poverty experiences, it was felt, were recurrent and dynamic rather than fixed, one-off events in which individuals were made poor, and stayed poor.[xxxviii] The 'recurrently poor' are those whose fluctuations in income over time swing them above and below the official poverty line (but who perhaps never move far away from it). Tomlinson and Walker find that "recurrent poverty' affects '*around 5-7% of the population as a whole… representing around a fifth of all poverty experience'*.[xxxix] In other words, '*about a fifth of poverty is 'recurrent', where people escape from poverty only temporarily'*.[xl] JRF concluded that among several causes for the recurrence of poverty, the most important one was do with the labour market and the supply of jobs. Insufficient secure and well-paid employment was the key driver of the low-pay, no-pay cycle and recurrent poverty.

*Poverty and Insecurity* gets behind the statistics and makes the real lives of people living in poverty a little more visible. It stands as a corrective to the prejudicial modern-day myth-making so beloved of tabloid editors, social commentators and politicians. Its substance consists of detailed life stories told to us by men and women, younger and older people, who lived and worked in Middlesbrough, the main town of Teesside in North East England. They were all poor or were so much of the time, even if this was a label now so tainted with stigma that they tended to refuse it for themselves. Drawing on their sometimes fraught experiences of juggling precarious work and meagre benefits, the book shows that cycling between poor work and out-of-work benefits kept them in, or near, poverty. Winnie (44, employed in two part-time cleaning jobs) commented:

> *I struggle, really struggle because by the time I pay my bills, gas, electric and water rates, TV, all that I'm left with a couple of pound that's it … I wanted to work. If I didn't work I think I'd go crazy … I mean, to be honest, somebody in my situation, I would probably be better off on benefits.*

Like Sisyphus condemned by the Greek Gods to constantly roll a boulder up a hill, only for it to roll back down, theirs were life stories of repeated labour with little progress, of recurrent engagement with hard work but constant returns to unemployment. Although firmly grounded in Teesside, our descriptions and analysis are far from limited to it. Indeed, the growth and spread of precarious forms of life - centred on the sort of insecure, poor work that the book investigates – have been said to signal the emergence of a whole, new social class with a global provenance: the Precariat.[xli] This story – of workers cycling between subsistence-level benefits and low-paid, low-skilled and insecure work, and circulating below and just above the poverty line as they do so – is one, we argue, that is now characteristic of working life in the flexibilised labour markets of late capitalism.

While participants moved in and out of unemployment and low-paid jobs stretching over years, most expressed enduring commitment to work. This repeated engagement in jobs failed, however, to provide routes away from poverty, largely because of there being insufficient decent job opportunities available in the local job market. Richard, aged 30, was typical in his comment:

> *Just jumping from job to job, it's no way to go. It's a nightmare! Jack of all trades, master of none (laughs). I just want something with a bit of job security - where maybes I can buy me own house in the future rather than just where you've got to be on a wing and a prayer type thing… just a job that I can call me own, you know what I mean? Rather than just looking for one all the time or just jumping from job to job.*

Cycling in and out of low-paid work extended to middle-age and so-called 'entry-level' jobs were rarely stepping stones to better employment in the future. Responsibilities of caring for children and other family members limited labour market participation, as did health problems, while ill-health itself was sometimes the result of poor work and unemployment. Experiences beyond the labour market also led interviewees to lose and leave jobs. By definition, therefore, those in the low-pay, no-pay cycle are likely to have repeated experiences of claiming out-of-work benefits. It would not be an overstatement to say that most deplored signing on and claiming benefits. Some avoided claims altogether or for as long as they possibly could: 'I've seen me not sign on the dole for two months because I'm just so embarrassed going in there. I just can't stand going in the place' (Andrew, 43).

In other words, many of the participants in the study can be described as 'the missing workless'. Their relatively short-term but repeated unemployment and, for many, the continuing stigma of benefits, coupled with the hassles and inefficiencies of the benefits system, result in their not claiming benefits when they were unemployed. All in all, financial necessity, the desire to work and the lack of better opportunities led people to take poor quality jobs that trapped them in long-term insecurity and poverty. This vicious cycle seemed as typical as it was difficult to break.

*Poverty and Insecurity* shows that these circumstances are likely to be an increasingly common feature of working life in Britain. This makes it all the more important that we shatter myths about unemployed 'shirkers' and their alleged 'cultures of worklessness'. We can reveal the insecurities, churning and poverty of long-term, unrewarding 'striving' at the bottom of the labour market. In doing so we can expose the wrong-headedness of discourses that distinguish 'shirkers' from 'strivers' and the injustice of government 'welfare reforms' that punish the victims of labour market failure.

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[xxvi] Iain Duncan Smith (2012*) Cambridge Public Policy lecture: Reforming welfare, transforming lives, s*peech 25th October 2012 available at http://www.dwp.gov.uk/newsroom/ministers-speeches/2012/25-10-12.shtml

[xxvii] Department for Work and Pensions (2012) *Social Justice: transforming lives*. London: The Stationery Office

[xxviii] HM Government (2010) *State of the Nation Report: Poverty, Worklessness and Welfare Dependency in the UK*, London: HM Government.

[xxix] Department of Work and Pensions (2010) *Universal Credit: Welfare that works*, London: the Stationery Office.

[xxx] G Osborne (2010) in Wintour, G. 'George Osborne to cut £4bn more from benefits' *Guardian* 9th September 2010.

[xxxi] Department for Work and Pensions (2012) *Social Justice: transforming lives*. London: The Stationery Office

[xxxii] G Kelly (2012) *The welfare debate is only just hotting up'* New Statesman, http://www.newstatesman.com/politics/2012/12/welfare-debate-only-just-warming

[xxxiii] T Shildrick *et al* (2012) *'Are cultures of worklessness passed down the generations?'* York, Joseph Rowntree Foundation

[xxxiv] Iain Duncan Smith, (2009) *Broken Britain can be fixed by its army of social entrepreneurs*, Centre for Social Justice, London: CSJ.

[xxxv] T Shildrick *et al* (2012) *'Are cultures of worklessness passed down the generations?'* York, Joseph Rowntree Foundation

[xxxvi] P Gregg and L Macmillan (2012) *'Never working families' - a misleading soundbite?* at http://inequalitiesblog.wordpress.com/2012/02/21/never-working-families-a-misleading-sound-bite/

[xxxvii] T Shildrick et al (2012), *Poverty and Insecurity: Life in Low Pay No Pay Britain,* Bristol, Policy Press

[xxxviii] F Devicienti (2000) Poverty Persistence in Britain: A Multivariate Analysis Using the BHPS, 1991-1997, Institute for Social & Economic Research, University of Essex.

[xxxix] M Tomlinson. and R Walker (2010) *Recurrent poverty: the impact of family and labour market changes*, York: JRF.

[xl] C Goulden (2010) *Cycles of Poverty, Unemployment and Low Pay*, York: Joseph Rowntree Foundation.

[xli] G Standing (2011) *The Precariat: The New Dangerous Class*, London: Bloomsbury.

Five

## Public attitudes to social security

Ben Baumberg

Since the 2012 Autumn Statement, there have been a number of commentators who have talked about the decision to uprate benefits by less than inflation as a 'trap' laid by George Osborne to capture a Labour Party uncertain about how to deal with perceived public hostility to social security spending. *"A caucus of "new Labour" figures [believe] it will be politically suicidal to leave the party open to charges that it sides with "scroungers" and is in denial over the need to cut the benefits bill"* ran one recent newspaper report.[xlii]

In this short piece I want to argue that this view is wrong – or at least, that it is only a selective version of the truth. Yes, public attitudes to benefit claimants have got harsher since the early 1990s, and there is considerable support for being tough on 'scroungers'. Yet this coexists with widespread recognition that scroungers are in fact the *minority* of claimants, and continuing support for benefits for *deserving* claimants. With this in mind, there is at least the potential for a politically popular opposition to the one per cent uprating policy, even if this support will not be automatic.

*Attitudes to benefit claimants*

The release of the British Social Attitudes (BSA) reports has become the cue for regular hand-wringing about the hardening of British attitudes to benefit claimants; it has now become orthodoxy to accept that there is little public support for the benefits system.

But this simply ignores the strong evidence to the contrary. Look at the chart below, reproduced from the latest BSA report.[xliii] Even in 2011 – when people overwhelmingly are aware of the need to reduce the deficit – an outright majority are in favour of *more* spending on benefits for disabled people, carers, low earners and retired people.

**Table 1.2 Attitudes to government spending on different benefits, 1998–2011**

| % would like to see more government spending on benefits for … | 1998 | 1999 | 2002 | 2004 | 2006 | 2008 | 2011 |
|---|---|---|---|---|---|---|---|
| … unemployed people | 22 | 25 | 22 | 15 | 16 | 15 | 15 |
| … disabled people who cannot work | 74 | 74 | 72 | 65 | 64 | 63 | 53 |
| … parents who work on very low incomes | 70 | 71 | 71 | 64 | 68 | 69 | 58 |
| … single parents | 35 | 34 | 40 | 36 | 39 | 38 | 29 |
| … retired people | 73 | 71 | 74 | 74 | 73 | 73 | 57 |
| … people who care for those who are sick or disabled | 84 | 84 | 84 | 82 | 84 | 85 | 75 |
| *Weighted base* | *3146* | *3143* | *3435* | *3199* | *3228* | *3333* | *3311* |
| *Unweighted base* | *3146* | *3143* | *3435* | *3199* | *3240* | *3258* | *3311* |

This isn't all. It is often felt that the public believes most benefit claimants are scroungers or even outright fraudulent – but again, this isn't the case. Whichever survey we look at, only a small minority of people think that the majority of benefit claimants are false.[xliv] Instead, people generally believe that 25-35 per cent of claimants are false, fraudulent or scroungers – an order of magnitude more than the painstakingly-constructed official figures (while estimating 'scrounging' is clearly difficult, only two per cent of out of work benefit claims are outright fraudulent), but still some way short of a majority. (Indeed, even 61 per cent of *Conservatives* think that *at most* 'a large minority' are scroungers; see the YouGov/Prospect poll 2012). This is not to deny the decline in support for social security spending that genuinely exists; the table above does show a recent change, while attitudes to unemployment benefit claimants in particular have hardened on almost every measured dimension.

The best way of summing up public attitudes is to say that most of us make divisions between those we see as deserving and undeserving benefit claimants (as the *Benefits Stigma in Britain* report shows in more detail). We know that most claimants are deserving, and strongly believe that they should be supported. But most of us also think that a large minority of claimants are 'scroungers' – far more than is plausibly the case in reality, at least for benefits fraud – and are angry that our taxes go to them. Single parents and unemployed people are particularly likely to be seen as undeserving, and there are concerns about the genuineness of disability benefit claimants.[xlv] But benefits for deserving people – genuinely disabled people, carers, low earners and pensioners – still receive strong support.

*Attitudes to benefits uprating itself*

At the time that I am writing this we have had five polls on attitudes to Osborne's policy and these appear to show wildly different findings. Osborne's supporters point to a Populus poll for the Conservative Party (reported in The Sun), which shows overwhelming support for the one per cent uprating. Yet critics of the policy point to an Ipsos Mori poll where a majority *disagreed* with Osborne. Throw into the mix polls by YouGov (for the Sunday Times) and ComRes (for the Independent) and YouGov (for the TUC) that show something in-between and you have a recipe for confusion.

The essential reason for this is that people's responses are highly sensitive to the details of the question asked – whether it's expressed in terms they understand, what response options they are given, and how the question is framed. The Conservative Party poll is the most leading here; it's hardly a surprise to see large majorities agreeing with a wording like, *'Benefits have been rising twice as fast as wages since the crisis began so it's fair to cap in-work and out-of-work benefit rises at 1 per cent for a temporary period'.* (If anything, it's surprising that only 60-65 per cent agreed).[xlvi]

But the other surveys are not without problems either. YouGov's poll found 52 per cent in favour of the one per cent rise or less, outnumbering the 35 per cent thinking benefits should at least rise with inflation – but interpretation is difficult because the question is confusingly worded (54 per cent actually said that Osborne was 'wrong', but this wrongness then points in two directions). And the ComRes poll failed to explain that a one per cent rise is less than inflation and is therefore a real-terms cut – but still found 43 per cent disagreeing that the benefits and tax credit rises should be limited to one per cent.

Yet even the best-worded questions show differences. Ipsos Mori's survey clarified the specific benefits involved and that a one per cent rise is less than inflation.[xlvii] An outright majority (59 per cent) here disagreed with Osborne in saying that benefits should rise in line with inflation, with a further 10 per cent saying they should rise by *more* than inflation. The TUC YouGov survey also clarified that the rise was less than inflation and further explained that this was for the next three years – but did not specify the benefits involved, and also confusingly used terms that evoked the overall benefits cap.[xlviii] Now more people supported rather than opposed the one per cent rise (48 per cent opposing, 15 per cent neither opposing/supporting nor 32 per cent opposing). And just to add a final twist in the TUC survey, the apparent support for Osborne disappeared when people were specifically asked to focus on the one per cent rise for people who 'are in work but in low-paid jobs' – particularly among those with a poorer understanding of the benefits system to start with – and when people were asked about how benefits 'should generally change each year' rather than how they change at the present time.[xlix]

Beneath the apparent confusion, there is a strong message here: people's attitudes depend on how this question is put to them. People have poor levels of knowledge about the benefit system (as the TUC survey makes clear), they don't have strong prior opinions on technical issues like benefit uprating, and they also have multiple overlapping ways of thinking at the same time. (We can only speculate as to how people would respond if asked to think about a friend or a real pen-portrait). It is simply not correct to conceive attitudes as something solid and immovable; the same policy can be either popular or unpopular depending on how it is presented and what ideas it resonates with.

*A popular opposition to a real-terms benefits cut?*

Given the complexity of public attitudes, those seeking to encourage popular opposition to a real-terms benefit cut will need to think carefully about how this is presented. There are certainly ways to take a stand on benefits uprating that would be deeply unpopular. Press reporting of benefits claimants is increasingly in terms of 'scroungers',[l] and while it is difficult to say exactly how far this affects voting, it seems likely that a party seen to be on the side of scroungers will lose some votes. Furthermore, the Conservatives have latched onto a powerful framing: in the Autumn Statement, Osborne argued that the same uprating should apply to benefits as public sector workers' pay, and that *"average earnings have risen by around 10 per cent since 2007. Out of work benefits have gone up by around 20 per cent. That's not fair to working people who pay the taxes that fund them."*[li] Such framings are effective as the Populus (and to a lesser extent TUC-YouGov) polls above show, and the Conservatives are reportedly planning to focus on the 'welfare wedge' in the run-up to 2015.[lii]

Yet despite this, there could be a popular support to resisting the real-terms benefits cut – particularly if the policy is framed as an attack on the deserving. The Labour party have already[liii] started emphasising that 60 per cent of those affected are *workers* (as this includes Child Benefit and Tax Credits), with Ed Miliband dubbing this a 'tax on strivers'[liv] – a switch in focus that the TUC poll suggests is enough to carry public opinion. But those opposing the cut could go further. The one per cent uprating will affect over two million 'genuinely disabled' people – that is, people who are disabled even according to the rigorous (and arguably too-harsh) 'Work Capability Assessment'. (The detailed explanation for why the Government's claims to the contrary are untrue can be found in this footnote).[lv] It will affect new mothers in jobs, as it includes Statutory Maternity Pay. In short, it affects groups that the public see as deserving – or at least *potentially* see as deserving. But if the debate takes place under the spectre of the scrounger stereotype (even if people know on reflection that these are a minority of claimants), then the public's reaction may be very different.

Alongside this, opposition to the one per cent uprating will have to make the case that the living standards of the lowest earners and benefit claimants should be protected even when the living standards of everyone else are falling. There is a strong argument for this: the role of the benefits system is to provide basic security in a precarious world, and what sort of security do we provide if we abandon it in the times of the highest precarity?

To summarise the evidence suggests there is nothing automatic about the popularity of benefit cuts in general, or about Osborne's particular proposal to cut benefits in real terms. It is simply not true to claim that public support for the benefits system in Britain is dead. Public attitudes are split between their hostility to undeserving claimants versus support for deserving claimants – and attitudes to a given policy depend not just on this balance but also on wider arguments about what 'fairness' really means in this case. We know that opinions about benefit claimants can be influenced by political rhetoric (see *Benefits Stigma in Britain*); the Benefits Uprating Bill is an opportunity to use this influence to bring out the latent support for the benefits system that still remains.

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[xlii] T Helm (2012) 'Ed Miliband to wage war on George Osbourne over benefit cuts' *The Observer* 9 December 2012 available at http://www.guardian.co.uk/politics/2012/dec/08/ed-miliband-george-osborne-welfare.
[xliii] A Park, E Clery, J Curtice, M Phillips and D Utting (eds.) (2012), *British Social Attitudes: the 29th Report*, London: NatCen Social Research, available online at: www.bsa-29.natcen.ac.uk
[xliv] This includes BSA 2007, a much-discussed YouGov/Prospect poll earlier in 2012, or a recent Ipsos Mori poll that I was involved with (all reported in B Baumberg, K Bell and D Gaffney (2012) *Benefits*

*Stigma in Britain* Turn2Us available online at http://www.turn2us.org.uk/PDF/Benefits%20stigma%20Draft%20report%20v9.pdf
A recent Radio 4 ComRes poll shows similar results, but seems to suggest higher estimates of the proportion of 'scroungers'. However, it forced respondents to move straight from 'a relatively small minority' to 'around half' of claimants – in the YouGov/Prospect poll, 'a large minority' was the most common single answer – and this makes its results slightly misleading.

[xlv] 84% in a 2011 Ipsos Mori / BBC poll felt we needed stricter tests to ensure incapacity benefit claimants are genuinely unable to work. The poll is published online at http://www.ipsos-mori.com/researchpublications/researcharchive/2876/Future-State-of-Welfare.aspx

[xlvi] Poll reported at http://conservativehome.blogs.com/thetorydiary/2012/12/polls-show-support-for-george-osbornes-1-per-cent-cap-on-benefits.html and http://www.thesun.co.uk/sol/homepage/news/politics/4706600/Most-Brits-back-the-Chancellors-welfare-curbs-as-vital-to-cut-deficit.html

[xlvii] They asked, *'In Wednesday's Autumn Statement the Chancellor announced that most working age benefits, including job seekers allowance, Income Support and Child Benefit (but not disability or carers benefits), will rise by 1%, which is below the rate of inflation. Which of the following statements comes closest to your view about these benefits?'*

[xlviii] "The government is limiting the increase in many benefits to one percent which is less than the current rate of inflation (i.e. the level of prices) for at least the next three years. To what extent do you support or oppose this move?" See http://bit.ly/RG0XNh

[xlix] When people were asked *'Which ONE of the following statements comes closest to your view about how benefits should generally change each year?',* they responded: (i) Benefits should be raised by less than either wages or prices – 25%; (ii) Benefits should be raised in line with prices – 34%; (iii) Benefits should be raised in line with wages – 15%; (iv) Benefits should be raised in line with prices or wages, whichever is higher – 15%; (v) Don't know – 12%.

[l] See B Baumberg, K Bell and D Gaffney (2012) *Benefits Stigma in Britain* Turn2Us available online at http://www.turn2us.org.uk/PDF/Benefits%20stigma%20Draft%20report%20v9.pdf

[li] Autumn Statement 2012 to the House of Commons by the Rt Hon George Osborne, MP, Chancellor of the Exchequer available online at http://www.hm-treasury.gov.uk/as2012_statement.htm

[lii] J Forsyth (9 December 2012) 'David Cameron unveils his secret poll weapon... the welfare wedge' *MailOnline* available online at: http://www.dailymail.co.uk/debate/article-2245311/JAMES-FORSYTH-David-Cameron-unveils-secret-poll-weapon--welfare-wedge.html#ixzz2FhNVTxu5

[liii] See, for example, BBC News Politics 11 December 2012 'Autumn Statement: Labour to oppose 1 per cent welfare rise' at http://www.bbc.co.uk/news/uk-politics-20680929

[liv] House of Commons *Hansard* 19 Dec 2012 Col843

[lv] This refers to Employment and Support Allowance (ESA) claimants, who will be hit in two ways:

- The Autumn Statement exempted the support component in ESA – that is, the extra payment to the most severely disabled – from the one per cent rise, instead raising this component by prices.
- BUT the 'Work-Related Activity Group' – who are seen to be capable of taking steps towards work, but who are categorised as genuinely disabled in the Work Capability Assessment – are included in the one per cent cap.
- AND all ESA claimants – including the most severely disabled – will see their benefits cut. This is because Support Group claimants still receive the main part of ESA (the personal allowance), so even if their additional premium is uprated with prices, the rest of their payment will fall in value. For single adults 25 or over, the personal allowance (which will fall in value) is double the value of the support component (which will be raised with prices).

A full breakdown of who the benefits uprating decision is expected to affect is given on the HM Treasury website at http://www.hm-treasury.gov.uk/as2012_policy_decisions.htm#Benefits_uprating . See http://www.disabilityrightsuk.org/f31.htm for further information on ESA and benefit payment rates. The latest figures of the numbers affected can be found at http://statistics.dwp.gov.uk/asd/index.php?page=statistical_summaries, while more detailed information dating back to Feb 2012 can be found at http://83.244.183.180/100pc/esa/payment_type/esa_phase/a_carate_r_payment_type_c_esa_phase_feb12.html and http://83.244.183.180/100pc/ibsda/beneficiary/ccbencod/ccclient/a_carate_r_beneficiary_c_ccbencod_p_ccclient_working_age_feb12.html

Six

## Secure Futures: A vision for sustainable social security

Alison Garnham

The plans to set benefit increases below either earnings or prices mark the first time in a generation that a government has sought to lower the nation's official breadline. Ministers argue that this is necessary because of the need to keep social security spending costs affordable and sustainable.

Contributions in this publication have drawn attention to the impact of the uprating policy on child poverty, the extent to which benefit expenditure is directed at working families, the fact that the economic arguments for the policy are weak, the reality of the no-pay, low-pay cycle for many poor families and have challenged the idea that public attitudes to social security are implacably hostile.

From the point of view of the Child Poverty Action Group (CPAG) we know that cutting entitlement to benefits and tax credits will make child poverty grow. But this choice is not an inevitable consequence of constrained economic times. We all want a financially secure and sustainable social security system, but we believe it is possible both to end child poverty and have affordable social security. Increasingly child poverty is a consequence of problems within the labour market, including low pay, insecure and under-employment. Tackling these should be a priority for Government's seeking to reduce child poverty and the deficit, rather than looking first to the pockets of the poorest families in the UK.

*Ending child poverty?*

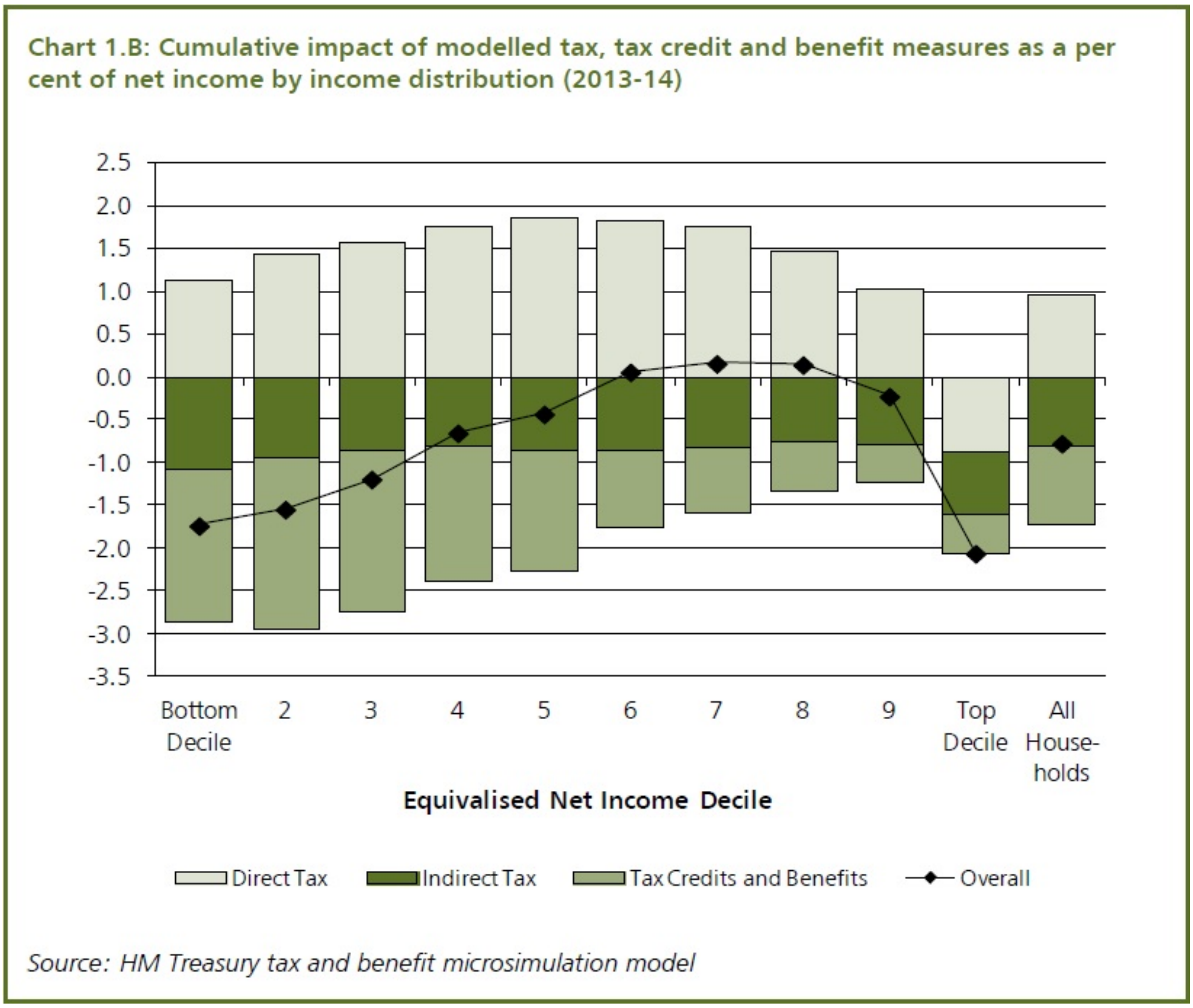
The Government have committed to ending child poverty, stating in their recent consultation on child poverty measurement that *"This government will always stand by its commitment to tackle child poverty."*[lvi] The public share this commitment. According to British Social Attitudes research, 98 per cent of the public think it is important to reduce child poverty and that central government should be responsible for doing it.[lvii] Child poverty alone is estimated by the Joseph Rowntree Foundation to cost the economy £25 billion a year,[lviii] so increasing child poverty creates unaffordable social and economic costs for the next generation who will be left to pick up the pieces. Cutting benefits is expensive because child poverty is expensive.

But the welfare uprating bill (or 'double lockout bill') is a poverty-producing measure. The tremendous progress on child poverty in the last 15 years – with 1.1 million children taken out of relative low income poverty[lix] – will be lost. The government says it does not want to leave the burden of the deficit and unpaid debt to be paid by children of the future: the Prime Minister's New Year message stated that '*We are doing what's right for our country and what's best for our children's future.*'[lx] However, it is asking children right now to pay the price for deficit reduction, despite all the evidence that this will damage childhoods and destroy life chances.[lxi]

The IFS projections published last year suggest child poverty will rise by 800,000 by 2020, and by 400,000 by the end of this Parliament. If the uprating Bill is implemented, this figure can only grow - not least because the biggest rises in child poverty are driven by the previous decision to link benefits to CPI inflation, rather than RPI. Any poverty-reducing effects of Universal Credit will also be compromised as new rates are set according to the new uprating mechanism. Children and disabled people will be amongst the hardest hit as the incomes of the poorest drift away from those of the rest of society leading to an increasingly divided nation.

Moreover, the Government's claims of 'fairness' when it comes to deficit reduction do not stand up, as shown in the Government's own distributional impact assessment in the Autumn Statement. Three out of five people in the wealthiest half of the population actually receive a net financial benefit, whilst *everyone* in the poorest half has a net loss. The pattern is also regressive across the bottom half, so that the poorer you are, the greater your loss.

Chart 1: Cumulative impact of tax, tax credit and benefit measures announced in Autumn Statement 2012




Source: reproduced from HM Treasury (2012) *Impact on Households: distributional analysis to accompany the Autumn Statement* available online at http://www.hm-treasury.gov.uk/d/as2012_distributional_analysis_impact_on_households%281%29.pdf

*Sustainable social security*

The government have suggested that the decision to make a real terms cut in benefits, and the consequent increases in child poverty, are necessary because the social security system is unsustainable. However, spending on workless families has in fact been falling and even in the current recession, the rise in numbers has been surprisingly low. Some of this may be due to the success of tax credits which may be disguising unemployment rates and levels of underemployment. This is testament to efforts until recently to support families with children, but it now means the cut in living standards in the uprating bill will fall most heavily on these families – the majority estimated to be in work.

However, there is still a widespread belief that large numbers of unemployed people are undeserving and large numbers of benefit claimants commit fraud. Ben Baumberg reveals how, in polls, the public massively over-estimate the numbers involved. Yet, Tracy Shildrick and Rob Macdonald describe how hard it is to find families that fit these popular assumptions. They were unable to find families with more than two generations unemployed and found no absence of work ethic in these families - putting paid, decisively, to claims about a dependency culture and generations of worklessness. We also know that 90 per cent of Jobseekers Allowance claimants leave benefit within 12 months,[lxii] showing no lack of willingness to work. Benefit fraud is at its lowest ever level, thanks in large part to initiatives implemented in the late 1990s such as the Verification Framework to raise the standard of evidence required for claims, and the major investment in more fraud investigation. So we need to re-write populist stories and provide the public with better evidence about who claims.

Despite recurrent popular misperceptions about social security claimants, British people believe in social security and protection from poverty. A poll for Radio 4 by ComRes showed 70 per cent of people think the welfare state is one of our nation's proudest achievements and 72 per cent think everyone has the right to a minimum standard of living paid for, if necessary, by the welfare state.[lxiii] And government plans to cap the uprating of benefits at less than inflation do not appear to be as popular with the public as they the Government had perhaps hoped.

The public want the costs of social security kept under control, but they have also retained a strong sense of fairness and empathy for those who need access to social security and other forms of state support such as tax credits.

*The economic argument*

Jonathan Portes points out that the economic arguments for cutting benefits are rather weak. Benefit cuts reduce economic flexibility by negating the free operation of the automatic stabilisers. The slower rises in earnings compared to benefits, since 2007, are likely – unless we are permanently in recession – to be only temporary. In the meantime, low-income families have no choice but to spend all their money on essentials, so every penny taken away from them is a penny taken out of the economy.

For CPAG, it is shocking enough that the poorest families in Britain are in line for the biggest fall in living standards this century – this is far removed from the claim two years ago that the vulnerable would be protected[lxiv] - but also, as the IFS confirm, that those with children have suffered more than those without.[lxv] The IFS also confirm the autumn spending plans suggest an 85:15 split between spending cuts and tax increases – so there is room to raise taxes and still keep to the announced tax-spending balance of 80:20.[lxvi] By contrast, in the early 1990s, John Major managed the far fairer split of 50:50.[lxvii]

*The role of employment*

Six out of ten poor children live with a working parent[lxviii] - the most common cause of child poverty today is not family breakdown, worklessness or a parent on drugs, it is having a parent who's a cleaner, a care worker, a retail worker or a security guard or one of the five million British workers who don't get a living wage.[lxix] And 60 per cent of the cuts due to the uprating measure will fall on these working families.[lxx]

So, the reality for many is low-paid, insecure work. Parents want to work, but the labour market doesn't hold them in. Parents hurl themselves at jobs that don't last or pay enough and find themselves moving from low-paid work and back to benefits in a debilitating and impoverishing cycle.

Unemployment remains high at eight per cent and a problem for any Government wishing to reduce child poverty. But the problem of poverty is increasingly not only one of a lack of employment, but of employment that is insufficient to lift families above the poverty line. We have a growing problem of underemployment. Analysis by the TUC has found that since 2008 there has been a doubling of the number of people who are involuntarily in part-time work.[lxxi] They find that the total number of people unemployed in Britain – wanting more hours of work than their employer can give them – is now 3.3 million.

A further major labour market failure, increasing reliance on tax credits and housing benefit, is poverty pay. Research by KPMG has found that around five million people today are in jobs earning below the living wage. This may reflect a declining share of economic growth going to workers in the form of wages. In the post-war period up to the late 1970s, wages typically accounted for 60% of GDP. Since the 1980s this has fallen, so that wages now account for only around 53% of GDP.[lxxii] Worse still, this shrunken pot is shared less equitably and wages have continued to stagnate since 2008.[lxxiii] As Declan Gaffney points out, tax credits and in- work benefits have taken some of the strain of protecting the living standards of the poorest in the face of declining income from wages. To argue that because the wages of low paid workers have been falling, their benefits should fall too does not make sense.

Low pay is sometimes seen as an inexorable problem, the consequence of increased globalisation. But The Commission on Living Standards convened by the Resolution Foundation, looked closely at the issue of low pay in its recent final report,[lxxiv] and found good evidence that government action could make a difference. It found that the claim that tougher action to make employers pay fair wages would result in people being laid off does not stand up. They produced a thorough sectoral analysis and found that there were sectors with sufficient capacity from profits to improve the pay of their staff to living wage level. Most recently, research from the Resolution Foundation and IPPR shows that by paying a living wage, there are actually more than £2 billion in savings to be made through a higher tax take and lower spending on benefits and tax credits.[lxxv]

*Vision*

It seems the biggest factors piling extra costs onto social security and keeping levels of child poverty high are high unemployment, low-paid, insecure work, the need for appropriate skills training, a lack of affordable housing and a lack of high quality, affordable childcare. So progress towards full employment, living wages and affordable childcare and housing is essential if we are to succeed in keeping the cost of benefits and tax credits to an affordable level. The truth is that our social security and tax credits are being left to do far too much of the heavy lifting. Tackling these problems would mean reducing child poverty and reducing the costs of social security in tandem.

Seventy years ago, Beveridge set out his vision for a combination of child allowances, full employment and a national health service, which, together with a new system of national insurance benefits, could eradicate poverty or win 'freedom from want'.[lxxvi] He said: '*winning it needs courage and faith and a sense of national unity*'. In planning for a better peace, we could 'win two victories'. This, in 1942, in the middle of war time, with bombs raining down on us. In his view, even before the war, the abolition of want was 'easily within the economic resources of the community'. Therefore, to lack such ambition in our current circumstances, despite the recession, is woeful. We need to identify the equivalent policies needed today. We might start with decent jobs, a living wage, decent benefits, affordable housing, skills training and universal childcare.

We have reached a new low with some politicians encouraging distrust, enmity and division between neighbours. Casting the neighbour with drawn curtains in the morning as a scrounger to be distrusted and scorned is abhorrent. You may find it is a sick or disabled person, whose curtains are only drawn when their carer arrives, or a nurse who just got to bed after her night shift. Low pay, insecure employment, persistently high levels of unemployment, expensive childcare and a lack of affordable housing have left benefits and tax credits with too much to do. These fundamental problems unite the nation's working poor with the job-seeking poor – in fact due to job insecurity in low paid sectors they are often the same people.

Beveridge called for a sense of national unity - a sense that national problems were about all of us – about you. Increasingly, those working long hours in low paid jobs who depend so much on tax credits to boost their income are now slowly realising that the benefits uprating bill is about them too. People are beginning to see and feel that what happens to social security policies happens to us all - it could be you – we are all in it together.

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[lvi] HM Government (2012) *Measuring Child Poverty: A consultation on better measures of child poverty* Cm8483
[lvii] A Park, E Clery and M Phillips (2011) *British Social Attitudes 28*, London: NatCen
[lviii] D Hirsch (2008) *Estimating the costs of child poverty* JRF.
[lix] DWP (2012) *Households Below Average Income 1994/5 – 2010/11* DWP.
[lx] David Cameron (2012) *David Cameron's 2013 New Year Message* online at http://www.number10.gov.uk/news/david-cameron-new-year-message-2013/
[lxi] See for example, CPAG (2012) *Ending child poverty by 2020: Progress made and lessons learned* CPAG.
[lxii] B Baumberg, K Bell and D Gaffney (2012) *Benefits Stigma in Britain* Turn2Us available online at http://www.turn2us.org.uk/PDF/Benefits%20stigma%20Draft%20report%20v9.pdf
[lxiii] BBC Radio 4, ComRes Welfare Poll, November 2012
[lxiv] David Cameron, *"There are undoubtedly going to be some very difficult decisions. But in making these decisions I will want to, if I am elected, take the whole country with me. I don't want to leave anyone behind. The test of a good society is you look after the elderly, the frail, the vulnerable, the poorest in our society."*: http://www.thesun.co.uk/sol/homepage/news/2956952/David-Cameron-Well-aid-vulnerable.html#ixzz2GSboRycL
[lxv] Paul Johnson, *Opening Remarks*, IFS Autumn Statement analysis seminar, 6 December 2012.
[lxvi] Paul Johnson, *Opening Remarks*, Ibid.
[lxvii] The 50:50 spilt between taxation and cuts under the Major administration was noted by Robert Chote, former head of the IFS and now head of the OBR, in his presentation following the Coalition's

first Budget in June 2010 (http://www.ifs.org.uk/budgets/budgetjune2010/chote.pdf). Full details can be found in the HMT's Budget documents for the years 1992 to 1997.

[lxviii] DWP (2012) *Households Below Average Income 1994/5 – 2010/11* DWP.

[lxix] Living Wage research for KPMG: current trends in Household Finances and Structural Analysis of Hourly Wages, October 2012, http://www.kpmg.com/UK/en/IssuesAndInsights/ArticlesPublications/Documents/PDF/Who%20We%20Are/Living_Wage_Research_October_2012.pdf

[lxx] Our own estimates show this is the case for each year of successive Budgets, Autumn statements and Spending Reviews since 2010.

[lxxi] TUC (2012) *Under-employment crisis* available online at http://www.tuc.org.uk/tucfiles/367/Underemployment%20report.pdf

[lxxii] See S Lansley (2009) *Unfair to middling: How Middle Income Britain's shrinking wages fuelled the crash and threaten recovery* TUC.

[lxxiii] Resolution Foundation, *Gaining form growth: The final report of the Commission on Living Standards, 31 October 2012,* http://www.livingstandards.org/

[lxxiv] Resolution Foundation, *Gaining form growth: The final report of the Commission on Living Standards, 31 October 2012,* http://www.livingstandards.org/

[lxxv] Resolution Foundation and IPPR, '*Paying the living wage could save the UK billions'*, press release, 28 December 2012: http://www.resolutionfoundation.org/press/

[lxxvi] W Beveridge Social Insurance and Allied Services, Cmd 6404, London: HMSO, pp.165 – 172

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**About CPAG**

CPAG promotes action for the prevention and relief of poverty among children and families with children. To achieve this, CPAG aims to raise awareness of the causes, extent, nature and impact of poverty, and strategies for its eradication and prevention; bring about positive policy changes for families with children in poverty; and enable those eligible for income maintenance to have access to their full entitlement. If you are not already supporting us, please consider making a donation, or ask for details of our membership schemes, training courses and publications.

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