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L'épidémie de Covid-19 au Royaume-Uni et son impact sur les revenus, les inégalités et la pauvreté

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L'épidémie de Covid-19 au Royaume-Uni et son impact sur les revenus, les inégalités et la pauvreté

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Introduction

- The Covid-19 pandemic unfolded with great speed in early 2020. On 1 January, the Chinese authorities closed the seafood market in Wuhan, believed to be the source of the first cases. On 30 January, the World Health Organisation (WHO) declared a Global Public Health Emergency. The virus then spread quickly, with nations in north-western Europe like France and Britain somehow hoping they would be immune from the bad luck and bad management of the Chinese, the Iranians... and the Italians... On 6 March, President Macron and his wife went to theatre and with much bravado he announced that, “Life goes on. There is no reason to change our habits of going out, except for persons at risk”.¹ On 11 March, Rishi Sunak as Chancellor of the Exchequer announced a fiscal stimulus of £30 billion to meet the “temporary disruption” of the virus.² Then, after Parisians were widely seen basking in the early spring sun on Sunday 15 March – despite the closure of shops and cafés – France entered a total lockdown on 17 March. On Friday 20 March, while recognising he was acting against “the inalienable free-born right of people born in England to go to the pub”, Boris Johnson announced that pubs were closing, while Rishi Sunak revealed the government’s “furlough” scheme.³
- Known officially as the Coronavirus Job Retention Scheme (CJRS), furlough paid 80% of employee wages, up to a limit of £2,500 per month. This ceiling was subsequently reduced in July 2021 to 70% of pay (with employers making up the 10% difference). As the UK experienced a second lockdown during the winter of 2020/21, the scheme was

extended until 30 September 2021. It is estimated to have covered 11.9 million jobs, with a peak of 8.9 million people on furlough in May 2020. The cost of CJRS to the government (and hence the taxpayer) was £70 billion, with an estimated average per job of £5,983. Some sectors were especially badly hit, such as the wholesale and retail sectors that furloughed most jobs in March and April 2020, peaking at 1.85 million. However, these numbers fell quickly as shops re-opened.⁴ When the scheme ended at the end of September 2021, the CJRS was still supporting 410,000 employers, with a total of 1.16 million jobs on furlough.⁵ The government also set up the Self-Employment Income Support Scheme (SEISS) in March 2020 to support some 5 million self-employed workers or 15% of the UK workforce. It too operated in successive waves through to September 2021, for an estimated total cost of £28.1 billion.⁶

- 3 Together with other policies – notably the £20 per week benefits “uplift” – these payments to households greatly limited the impact of the pandemic on poverty. During the second year of Covid, policies changed, but remained supportive of household incomes, especially to alleviate rising energy costs. As inflation accelerated unexpectedly in late spring 2021, Britain entered a cost-of-living crisis, that worsened in the autumn of 2022. This has had consequences on low-income earners and is set to put pressure on households until the middle of the decade. But the Sunak government, which arrived in office after the spectacularly disastrous premiership of Liz Truss in the autumn of 2022, has continued to tax and spend to help households. The Covid story thus has several phases, which taken together have seen massive government intervention in support of household incomes, contrasting with the neoliberal era that began with the election of Margaret Thatcher and the Conservatives in 1979.
- 4 The first section of this article sets out how households’ incomes evolved during the phases of the pandemic, given government support, and the main consequences of poverty and inequality. The second section seeks to put the effects of the pandemic on income inequality and poverty into a broader historical context. The last section then examines the information available (as of the summer of 2023) about the likely evolution of low incomes and inequality in the short to medium term, noting that Britain’s overall economic performance is squeezing earnings as a whole, though seemingly making them less unequal. The article uses both primary sources (notably official data and policy announcements), as well as key secondary sources of analysis (especially publications by the Institute of Fiscal Studies and by the House of Commons Library).

Incomes and inequality during the Covid pandemic

- 5 The prime data source for measuring poverty and inequality in the UK is the Family Resources Survey (FRS). Before Covid, surveys involved over 19,000 face-to-face interviews with households each year, providing detailed information about income sources used for the Department of Work and Pensions (DWP) and annual calculations of “Households Below Average Income” (HBAI), a series that has been available since 1994-95 (before this, similar data was taken from the Family Expenditure Survey).⁷ The pandemic disrupted the collection of data for two years, though efforts were made to deal with any resulting biases.⁸
- 6 The *main* observation from the data is that incomes held up during the pandemic, even though gross domestic product fell by 11% in 2020, the biggest shock to the British

economy since the Great Frost in 1709.⁹ To be sure, the median disposable household income *before* housing costs (BHC) did fall in the first year of the pandemic from £572 per week to £562 per week, and *after* housing costs (AHC) it fell from £499 to £492 per week (expressed as the equivalised income for a childless couple or an adult plus a child over 14).¹⁰ In the second year of the pandemic (2021-22), however, these figures picked up slightly to £565 (BHC) and £500 (AHC) per week, equal to £29,380 per year and £26,000 respectively. In other words, the real median income BHC was still 1.2% below its pre-pandemic level in 2021-22, but income AHC had recovered.

- 7 These “strikingly muted” falls in income were “[i]n large part... driven by the huge support provided to households in 2020-21 – particularly around £60 billion that year through the furlough scheme, and additional spending on working-age benefits of £11 billion compared with 2019-2020”. In fact, research by the Institute for Fiscal Studies indicates that incomes for the lowest-income population quintile actually rose in real terms by around 3%, during the first year of Covid, due to benefit increases and “the fact that the poorest suffered less from falls in employment incomes which affected many on middle and higher incomes”.¹¹
- 8 Especially important for the working-age benefits was the temporary £20 per week so-called “uplift” provided by the government to persons receiving Universal Credit (UC) and Working Tax Credit, equal to £1,040 for a full year. This flat-rate benefit was introduced at the start of the pandemic, for a year, and helped around 6 million families per month (although controversially it was not granted to so-called legacy benefit recipients: i.e. people still receiving invalidity or other benefits which existed before UC was introduced). According to the IFS, the uplift was “the first significant real increase” [in benefits] for families without children, whose resources “[a]s a fraction of earnings levels when in work... [had been]...falling almost continually for 50 years”. This situation stems mainly from the fact that out-of-work benefits in the UK are largely flat-rate and unrelated to previous incomes. As a result, prior to the uplift, “an average single worker without children in the UK would see their after tax and benefit income fall by 87% if they lost their job”: this compares to the OECD average of 45% for persons entitled to contributory benefits (i.e. persons whose social security contributions are proportional to their incomes).¹²
- 9 Despite calls for the uplift to be made permanent, it was finally phased out, together with the furlough scheme, in September 2021, given its expense. Extending the uplift would have cost £6 billion a year, according to IFS estimates.¹³ This is quite a large amount compared, say, to total defence expenditure in 2020/21 at £42.4 billion, or even the total budget of working-age benefits before the pandemic, roughly £100 billion annually (or about 5% of UK GDP).
- 10 In the event, the 2021-2022 HBAI survey released in March 2023 found that benefit income increased – despite the end of the uplift. This was due to several reasons, including an increase in the number of persons claiming disability benefits; the fact that the number of children receiving Free School Meals recovered to pre-pandemic levels; and as the Universal Credit taper rate (i.e. the rate UC falls as earned income rises) was reduced (from 63% to 55%) in December 2021, while the UC Work Allowance was increased. Accordingly, the HBAI survey concludes that “[o]verall, the factors leading to increases and decreases to benefit income tended to cancel each other out, leaving little change in overall benefit income received between FYE2021 and FYE2022”.

The HBAI statistics thus show there was little change to overall income in real terms for those at or below 60% of median income.¹⁴

- 11 Turning then to the UK's overall figures, Graph 1 shows that relative low income (the key component of relative poverty) remained essentially unchanged over the two years of the pandemic.¹⁵ These figures are based on the standard definition of low income used in Europe: i.e. persons living in households at or below 60% of the median equivalised disposable income. The graph shows there was a drop across all categories (i.e. all individuals and children BHC and AHC) in 2020/21. The numbers then edged up again in the second year of the pandemic. As a result, in 2021/22, 14.4 million people – one-fifth of the population – were living on low income *after* housing costs, essentially the same as the 14.5 million in 2019/20. For children, 4.2 million (29%) were living in low-income households in 2021/22, compared to 4.3 million (31%) in 2019/20.¹⁶

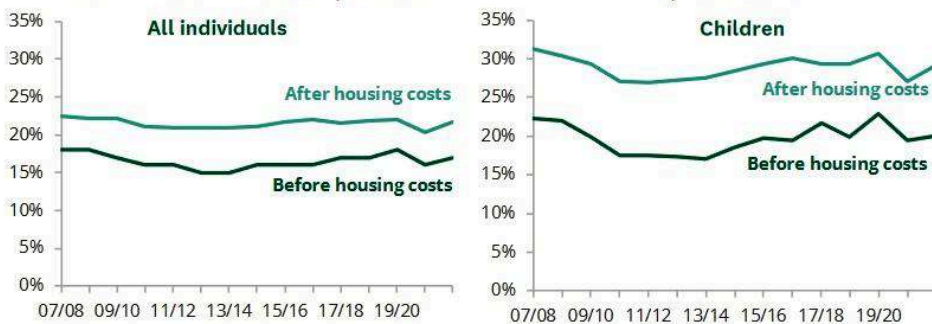
Graph 1: Low-income trends in the UK (since 2007/08: i.e. just before the GFC)

Relative low income in the UK in 2021/22

11.0 million people (17%) were in relative poverty before housing costs and 14.4 million after housing costs (22%).

This includes 2.9 million children (20%) before housing costs and 4.2 million after housing costs (29%).

The % people in relative low income in 2021/22 was at a similar level to before the pandemic



Source: Brigid Francis-Devine, *Poverty in the UK: statistics*, House of Commons Library Research Briefing, No 7096, 6 April 2023, based on DWP op cit, 23 March 2023.

- 12 While these outcomes are reassuring in many respects, it must also be stressed that they are aggregate figures that do not give any indication of how the pandemic affected different categories of persons. There is evidence, for example, that self-employed persons on the whole were more impacted by the pandemic than salaried employees, despite their income support scheme. In the early phases of the pandemic, they had more difficulties in accessing funding. They also had more problems returning to normal levels of work, after the first lockdown ended, although in some sectors (like car hire) activity held up.¹⁷ The pandemic also impacted Britain's Black, Asian and minority ethnic (BAME) population especially. According to a report by the House of Commons Women and Equalities Committee, "[a]s the pandemic progressed, many of [the] underlying [pre-existing] inequalities made the impact of the pandemic far more severe for BAME people than their White counterparts". This was particularly the case concerning the effect of Covid on BAME persons with comorbidities. Also, the pandemic further exposed the vulnerability of zero-hour contract workers, who in some cases were ineligible for Statutory Sick Pay, etc. As BAME people are disproportionately on zero-hour contracts, they were affected more strongly by the pandemic and the lockdowns.¹⁸ Lastly, the aggregate figures of course give no sense of how low-income

households actually lived the experience of the pandemic and its successive lockdowns. The Box here tries to give some feeling for this, drawing on a selection of diary entries of low-income persons who participated in the “Covid realities” project organised by Ruth Patrick et. al.

Box: Experiences reported in the “Covid Realities” diaries project

The following diary entries are taken from a research project on the daily lives of low-income households experiencing Covid. They are published in Ruth Patrick et al. (in partnership with Covid Realities participants), *A Year Like No Other: Life on a Low Income during COVID-19*, Policy Press, Bristol University Press, 2022.

Shopping around became much harder during lockdowns:

Dorothy, a single parent of two children: *I have to do my shopping in small local shops so I can lock my children in the car and watch them. The butchers and petrol station does not have a massive variety – prices are a lot higher and smaller quantities so our budget which was over-stretched before is not even enough to last a week* (p 51).

Georgie, a single parent with two young children: *What I found today is that the basic range is not always there, there are lots of empty spaces on the shelf so you have to grab what there is and some of those products you wouldn't usually buy because, for me, it is usually a financial cost. I wouldn't normally go for branded products because that soon escalates in cost* (p 52).

Couples and managing family incomes:

Polly, a furloughed mother of three children: *My husband got paid for last week today, his first wages in over 4 weeks. As someone who has always worked, he's really hated not earning money, having to depend on Universal Credit and my furlough pay, all of which goes into my bank account. It's been really hard for him asking me for money. It's also been hard for me having to budget with limited income* (p 54).

Fear and isolation:

Charlotte: *My daddy has Covid. He is 62. Last year I nearly lost him in a horrific motorbike accident when he was at the Isle of Man TT. He recently told me 'It's not Covid that will kill me, it will be loneliness and depression and the fact I can't see my family'. (p 58).*

Shame of using foodbanks, getting assistance and being poor:

Victoria, single parent, domestic violence and childhood abuse survivor: *It's emotionally difficult to think I've been reduced to asking for stale and mouldy bread. I feel guilty for needing to access such assistance, I feel guilty for binning some of the produce given ([... as food may be rotten]). And I feel shame. At that moment, I felt disgusted at myself. What kind of mother does it make me? (p 62-3).*

Destiny, a single mum with one child: *I always worry going to food banks would shine a negative light on my parenting skills. I'm on UC and I don't have a lot of money but I try to avoid getting help as I feel it would be admitting defeat* (p 63).

Gracie, a single mum and key worker in a school, wrote: *COVID has actually given us a great smokescreen to hide income disparities behind – so if I couldn't have a day out, a cinema trip, a takeaway with friends, I can just use COVID as our excuse not to attend rather than the much more embarrassing truth: 'I can't afford it' (p 75).*

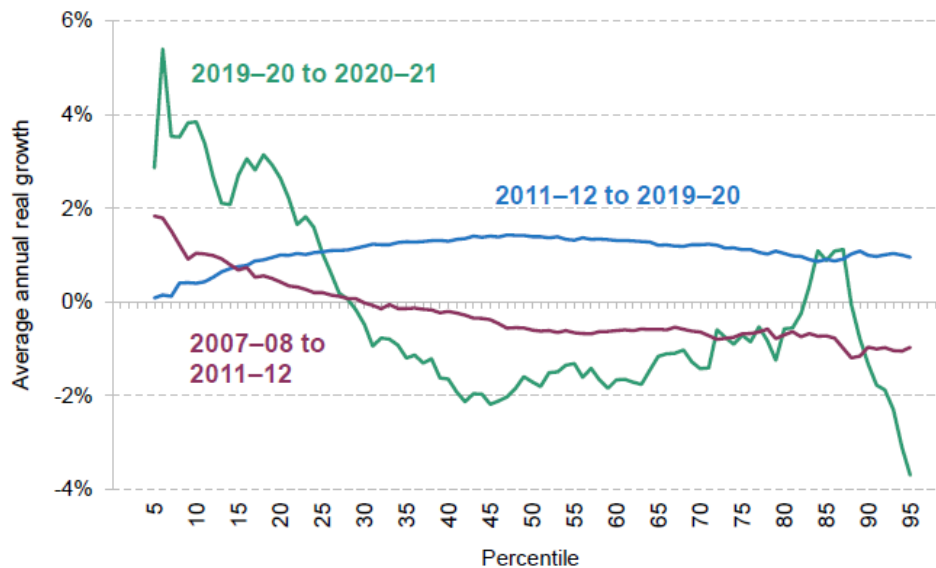
Heating or eating:

Brian, a single father with one child: *At home in winter living on low income is one of the worst experiences I have had to go through, knowing that my daughter is warmer at school than at home and watching her shiver while trying to concentrate on homework. Our home sometimes becomes so cold that it is warmer outside. I actually walk to the local shop just to feel some warmth on my body, even though to do so makes me feel even more inadequate as I do not have enough money to go home with a small treat* (p 160).

Anxiety and mental health:

Nellie: *I feel in a state of low-level panic constantly, it's almost become normal. Trying to think about the future, finances and business plans it's so difficult. My anxiety is in overdrive and it's made me angry at a lot of things, situations, decisions and people, which I don't like feeling* (p 173).

Graph 2a: Average annual real disposable household income growth (BHC), by income percentile: i) the contraction after the GFC, ii) the 2010s and iii) the first year of Covid

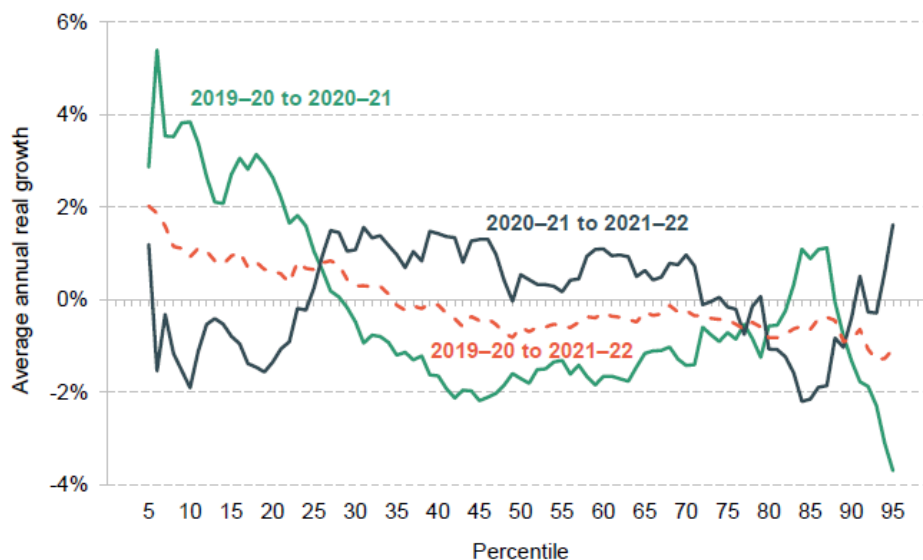


Source: Jonathan Cribb et al., *Living standards, poverty and inequality in the UK: 2022*, Institute for Fiscal Studies, July 2022, Figure 2.2. Calculations using Family Resources Survey, 2002-03 to 2020-21 (incomes equivalised using the modified OECD equivalence scale and are expressed in 2020-21 prices).

- 13 Despite the hardship experienced by many during the pandemic and especially Britain's successive lockdowns, support for household incomes did in fact contribute to a slight reduction in inequality during the pandemic. Graph 2a provides an interesting representation of how earnings evolved comparatively across all income percentiles during three periods. The first period is from 2007-2008 to 2011-12: i.e. from the GFC and the first years of "austerity" under the Coalition government (2010-2015), when growth was "flatlining" in the UK economy (growth began to pick up in a more sustained way only in the second half of 2013). The second period runs from 2011-12 to 2019-20: i.e. from the period of austerity and flatlining until the pandemic. Lastly, the graph shows how incomes evolved from 2019-20 to 2020-21. The interesting point here

is that lower-income households through to the 30th percentile generally saw their disposable income growth remain positive after the GFC and *especially* during the first year of Covid. Incomes at the bottom end of the distribution also held up the Conservative government has maintained the Coalition's Triple Lock for the state pension (i.e. pensions are guaranteed to rise by the highest increase among: i) average earnings, ii) prices (as measured by the consumer price index), or iii) by 2.5%). Thus, for example, research published by the IFS, in 2016, shows that median incomes of the over-60s rose by 11% between 2007-08 and 2014-15, driven by an 8.1% rise in pensioner benefits.¹⁹ By contrast, earnings higher up the distribution fell, most notably during the first year of Covid (2019-20 to 2020-21). By contrast, between these major crises, incomes increased most for households in the broad middle of the income distribution, albeit moderately: the fairly flat line for the years 2011-12 to 2019-20. Graph 2b extends the representation to the second year of Covid. Here, households at the bottom did see some decline in real income growth as the uplift ended in the autumn of 2021, whereas most other income groups experienced rising incomes, including very top earners. By contrast, between the 70th and 90th percentile experienced real income falls. Finally, taking the two years of Covid together, households up to the 30th percentile saw incomes rise, whereas all other categories saw real incomes fall.

Graph 2b: Average disposable household income growth (BHC), by income percentile, for the two years of Covid and for the whole Covid period

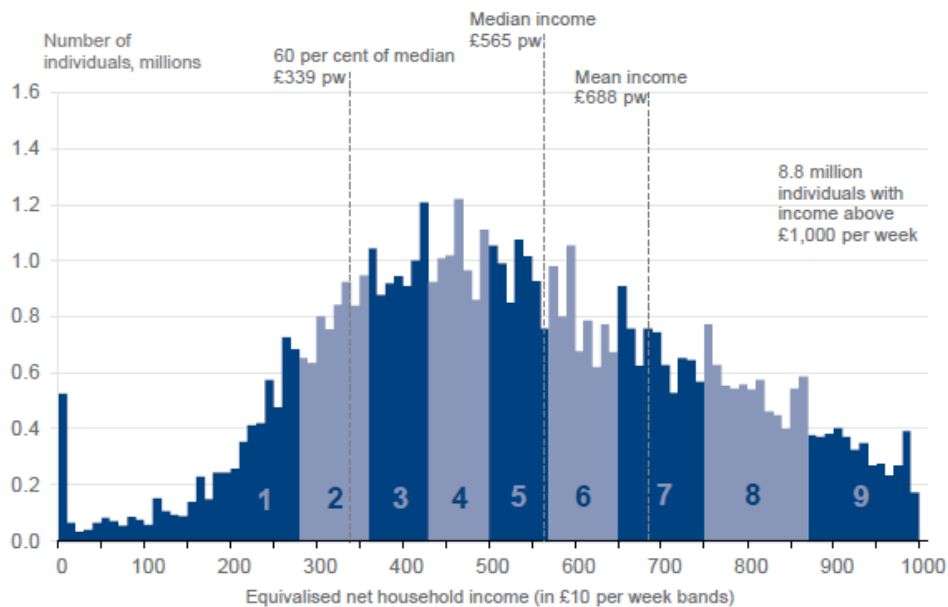


Source: Sam Ray-Chaudhuri et al., *Living standards, poverty and inequality in the UK: 2023*, Institute for Fiscal Studies, July 2023, Figure 2.3. Calculations based on Family Resources Survey, 2019-20 to 2021-22 (incomes equivalised using the modified OECD equivalence scale and are expressed in 2021-22 prices).

- 14 To put these relative figures into perspective, Graph 3 shows the income distribution in 2021/22: the second year of the pandemic. The distribution is skewed in the sense that the tail of (very) high incomes is much longer on the right of the distribution than the tail on the left: in fact, the graph here does not show the distribution for the 8.1 million people with an equivalised weekly income above £1,000. This skewing explains why the mean average equivalised household income (£688 per week) is higher than the median income (£565 per week). These monetary values are equivalised for the earnings of two-

adult households (or households with one adult and a child of over 14): see footnote 10 above. On the basis of these figures, a two-person household with an income of £339 per week is defined as living in poverty: i.e. living at or below 60% of the median income. This is the traditional definition of (relative) low-income (poverty) in the UK and Europe, which we will discuss further below.

Graph 3: Income distribution for the whole UK population (BHC)



Source: DWP, *Households Below Average Income: an analysis of the UK income distribution: FYE 1995 to FYE 2022*, 23 March 2023.

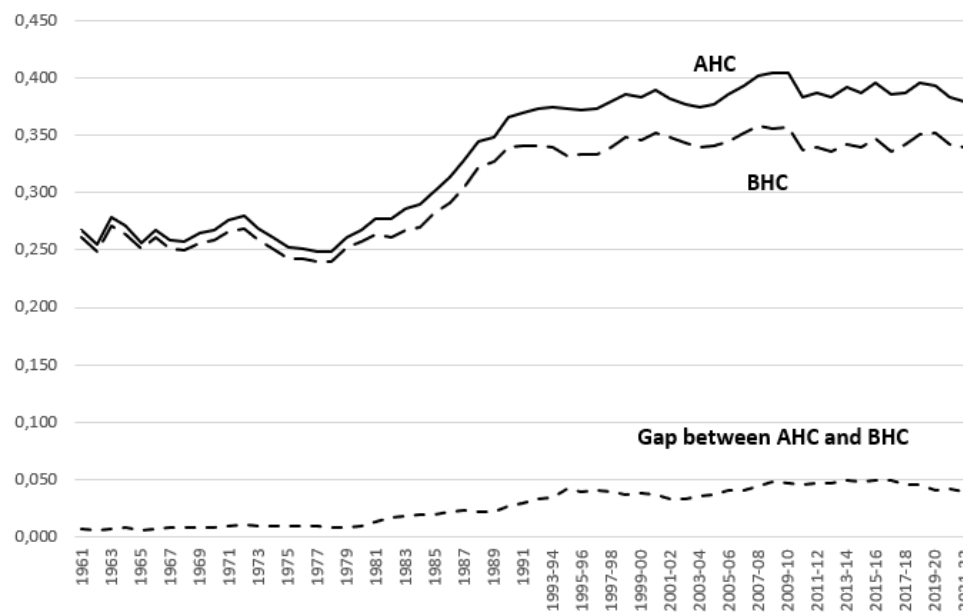
- 15 Given all of these factors, it is not surprising to find that the Gini-coefficient for net equivalised household income fell a little during the pandemic: for incomes before housing costs (BHC), the Gini-coefficient dropped from 0.350 to 0.341 between 2019-20 and 2021-22, and for incomes after housing cost (AHC) it went down from 0.391 to 0.381. Inequality AHC thus remains 0.04 points higher than inequality BHC: see Graph 4. This does not look like much, but is actually quite significant, for while the Gini-coefficient ranges from 0 to 1 by definition, Branko Milanovic, for example, has pointed out that in reality there is an upper limit of 0.7. This is because everyone in a population needs a bear minimum to live on if a population, so there is some minimal distribution of income across every society.²⁰

The Covid pandemic in a historical context

- 16 Graph 4 also provides two other important pieces of information about income inequality in the UK. The first concerns the big jump in inequality linked to neoliberalism in the 1980s, when the Gini-coefficient went from about 0.25-0.27 (generally indicative of a fairly equal society as we can still find today in the Czech Republic, Iceland and the Scandinavian countries) in the 1970s, to around 0.35 from the 1990s onwards. This is what François Bourguignon has called the “one-step” rise in

inequality, which occurred in some countries like the UK (and New Zealand), compared with countries like the United States (and France) where greater income inequality has resulted more from a persistent trend.²¹ For Britain, this surge in inequality is connected with the economic and social policies pursued by Mrs Thatcher's successive governments during the 1980s, including: income tax cuts and VAT increases, cuts in relative benefit levels, privatisation and industrial restructuring, market deregulation, policies to limit union power, as well as deepening international trade liberalisation and technological innovation, and assortive mating, as high-income professionals marry amongst each other.

Graph 4: Gini-coefficients over time (before and after housing costs)



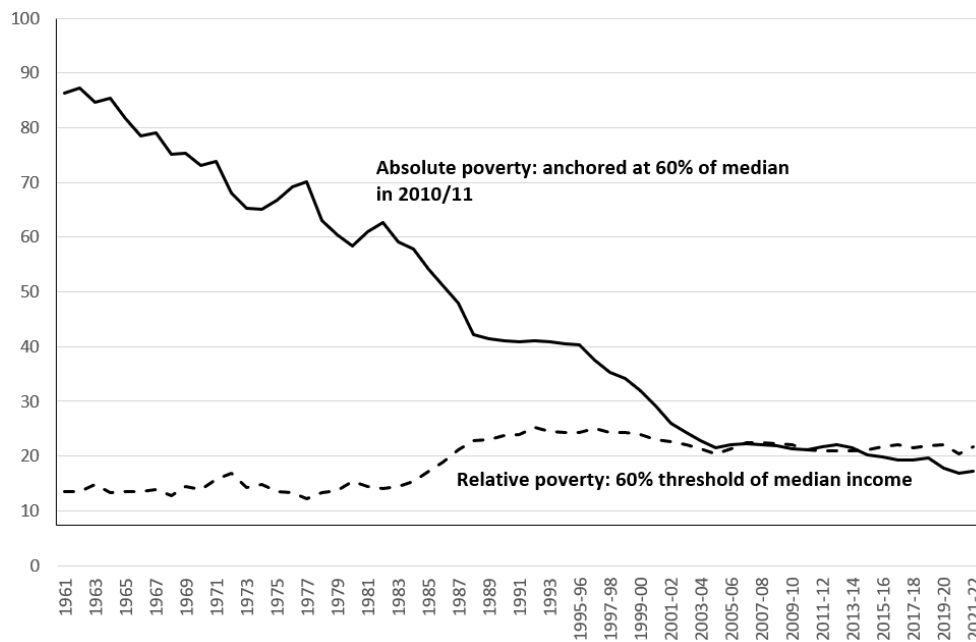
Source: Author's presentation using data from the IFS data spreadsheet on *Living standards, poverty and inequality in the UK* (accessible at <https://ifs.org.uk/living-standards-poverty-and-inequality-uk>).

- 17 Since the 1980s, the Gini-coefficient BHC has remained relatively stable. However, it continued to expand after housing costs (AHC), rising to nearly 0.40, which is comparatively high. It is beyond the scope of this paper to examine to what extent the British situation concerning housing is peculiar: rising real estate prices, most especially in major urban centres, have been a major feature of neoliberalism in many countries and a key consequence of financial liberalisation.²² From this point of view, Britain is not alone, although its situation is probably more acute than elsewhere, given that the number of completed “permanent dwellings” has fallen fairly progressively from about 315,000 per year in the 1970s to around 165,000 in the 2010s.²³ Meanwhile, the UK's population grew from 55.6 million in 1970 to an estimated 67.1 million in mid-2020.
- 18 This very British story on housing is probably one of the more pressing issues concerning inequality and low-income life in the UK, and undoubtedly led to highly varied experiences of the lockdowns between families living in spacious homes with gardens and those cramped in city flats. It is something which also needs to be taken into account when looking at the otherwise long-term trends in relative and absolute low-income/poverty, about which there is a vast literature. Indeed, there are several

ways of calculating poverty, partly because providing simple indicators that can be easily communicated publicly is hard, and partly because definitions of poverty are controversial politically. In the UK, the standard practice for measuring poverty is based on the widely-used definition in Europe of calculating a poverty (more specifically the low-income) threshold in relative terms, reflecting concerns about the “social exclusion”, whereby persons are viewed as living in (relative) poverty if their incomes exclude them from participating in society.²⁴

- 19 The use of this relative calculation alone, however, is not without problems. By definition, there will always be fraction of society living below the 60% threshold of the median income as all incomes rise, although it is possible to reduce this fraction through benefits (as was the case with the £20 uplift). The relative income calculation thus makes it more difficult to evaluate the effectiveness of government policies seeking to tackle poor household living standards. This issue became prominent in the early 2000s in the UK with New Labour’s policy of ending child poverty in a generation, launched in 1999. After considerable research and a consultation organised by the Department of Work and Pensions in 2002, the DWP adopted a tiered policy for observing and targeting child poverty, based not only on the relative 60% threshold, but also on an absolute level of low income.²⁵ In contrast, say, to the US approach where the absolute poverty line is calculated as the cost of a minimum basket of goods and services (including food, clothing and housing), the UK calculation of absolute low income involves calculating the 60% relative threshold in a base year (2010/11 at present) – a process called “anchoring” – and then adjusting it for inflation to measure the real evolution of household incomes. Graph 5 therefore shows both the evolution since 1961 of the share of households in relative poverty and absolute poverty (anchored at the 2010/11 threshold).
- 20 Graph 5 indicates three major trends. First, in line with the rise in inequality in the 1980s, there was a one-step increase in the *relative poverty rate*, which rose from an average of 13.9% in the years 1961 to 1979, to an average of 22.5% in the years 1990 to 2020/21. By contrast, the absolute poverty rate fell throughout much of the period, declining from 86% in 1961 to 21.5% in 2004/05, as society was getting richer. However, from the mid-2000s onwards the fall in the absolute poverty rate slowed considerably (even though the relative rate changed little). This is explained by the fact that growth in the UK has been more limited since the mid-2000s, notably following the GFC. This slowdown in growth has been widely documented and is usually explained for multiple reasons, especially Britain’s poor productivity performance since the GFC, compounded by the effects of Brexit.²⁶

Graph 5: Relative and absolute (anchored) poverty (AHC), 1961 to 2021-22



Source: Author's presentation using data from the IFS.

The difficult world coming out of the pandemic

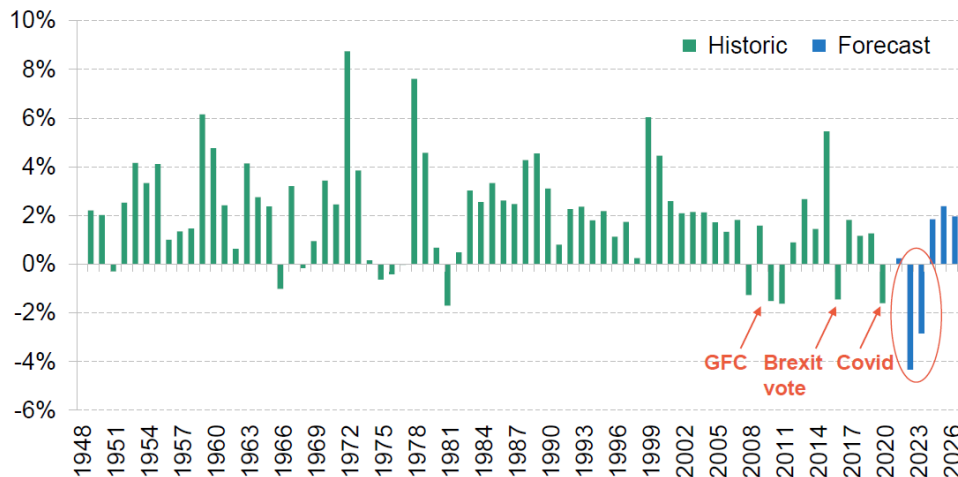
- 21 While the worst was clearly avoided by massive support given by government to households (and businesses) during the pandemic (especially from spring 2020 to the autumn of 2021), the post-pandemic world looks more challenging, albeit paradoxical. On the one hand, thanks in no small part to the furlough scheme, people were able to resume work rapidly as lockdowns ended, so that unemployment has been low over the last two years: according to data by the Office of National statistics, the headline unemployment rate rose in 2020 to *only* 5.2% in the three months from October to December (2020), before falling progressively to 3.7% for August to October 2022 – the lowest rate since the early 1970s! (Figures by the ONS as of August 2023 indicate a slight rise in the three month rate for April to June 2023 to 4.2%, which is still very low.)
- 22 On the other hand, the pick-up in inflation which began in late spring 2021 turned out to be higher and more persistent than was initially forecast, notably given the rise in energy prices, although by 2023 inflation was abating – somewhat. These price rises were already underway in 2021, before the start of the war in Ukraine in February 2022, but accelerated thereafter. As a result, there was much discussion of a cost-of-living crisis from 2022 onwards. For example, in its September 2022 report *In at the deep end*, the Resolution Foundation stated emphatically that “[t]he outlook for household energy prices is now central to the outlook for living standards, over this winter, but also over the next year. The typical gas and electricity bill in 2021-22 was around £1,500, but is projected to be £3,750 in 2022-23”.²⁷In the event, inflation as measured by the consumer price index (CPI) peaked in October 2022 at 11.1%, and fell steadily thereafter (to 6.8% in July 2023).²⁸ The 2022-23 winter was also relatively mild, which helped ease some pressure on energy bills.

23 Within this context, government policy moved on the whole from being supportive of jobs (the furlough scheme) and benefits (the £20 uplift) to supporting incomes via help to meet energy costs, along with some benefit top-ups. This new policy approach emerged notably in the autumn of 2022, when the new government of Liz Truss promised to cap the energy budget of average households at £2,500, in the disastrous “mini-budget” Chancellor Kwasi Kwarteng put to Parliament on 23 September 2023.²⁹ Aimed at jump-starting growth by offering tax cuts to high-income households with borrowed money, this attempted supply-side shock provoked an immediate run on sterling and almost triggered a financial crisis. Within weeks Truss was out of Downing Street, and the new government of Rishi Sunak sought to steady the ship of state in its Autumn Statement on finances to the House of Commons, on 17 November. This emphasised the government’s aim to prioritise “stability, growth and public services”, and to ensure that “national debt falls as a proportion of the economy over the medium term”, given notably that interest payments on public debt in the financial year (2022/23) were forecast to be £120.4 billion.³⁰ Accordingly, the new Chancellor of the Exchequer, Jeremy Hunt,³¹ introduced several tax increases, including: a rise in Corporation Tax, as of April 2023, to 25% for companies with profits over £250,000; the maintenance of the basic income tax rate at 20%; the lowering of the top 45% income tax threshold from £150,000 to £125,000, and the freezing of the nominal value of other tax thresholds (for income tax, National Insurance and Inheritance Tax), which pushes more people into higher tax bands as nominal pay rises.³² As a result, the total tax burden of the UK economy rose to its highest level in 70 years.³³ For 2022-23, tax and social contributions were equivalent to 36% of GDP, while total government receipts (including income on investments and profits by the public sector) were slightly over 40% of GDP.³⁴

Graph 6: Past and expected future real household disposable income growth

Real household disposable income set to fall by 7% over next 2 years IFS

Year-on-year growth in real household disposable income (per capita)



Source: IFS calculations based on ONS UK Economic Accounts (historical RHDl and population statistics), OBR EFO November 2022 (forecast per-capita RHDl)

Notes: Years refer to financial years

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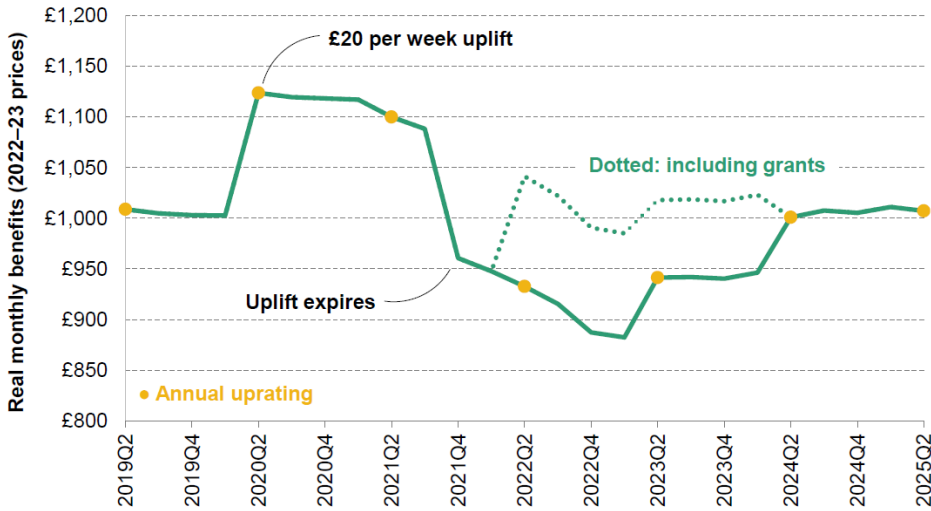
Source: Xiaowei Xu, "Support for households and living standards", as an analysis on the decisions made by the Chancellor at the 2022 Autumn Statement, from the Institute of Fiscal Studies, Event on 18 November 2022 (accessible at <https://ifs.org.uk/collections/autumn-statement-2022>).

- 24 In terms of helping household incomes, the Autumn Statement confirmed the so-called "price cap" on household energy spending, aimed to limit energy bills for (average) households to £2,500. This cap had been announced by the short-lived Truss government, in its "mini-budget", and was forecast to cost a staggering £60 billion over six months (i.e. through the winter of 2022-23).³⁵ Following the Autumn Statement, the price cap was increased as of April 2023 to £3,000, to save an estimated £14 billion in government spending, though with obvious consequences for household budgets. By contrast, households on means-tested benefits were also to receive an additional £900 Cost of Living payment in 2023-24; pensioner households an additional £300 Cost of Living payment, and individuals on disability benefits an additional – very meagre – £150. The Autumn Statement also committed the government to raise benefits in line with inflation, which was set to affect 19 million families on working age benefits and pensions as of April 2023. The State Pension would moreover continue to rise with inflation, in accordance with the Triple Lock. Finally, the government reaffirmed being "committed" to tackling low pay, so that from April 2023, the National Living Wage (NLW) would rise by 9.7% to £10.42 per hour, for persons aged over 23, "in line with the ambitious target for the NLW to reach two-thirds of median earnings by 2024". The Autumn Statement estimated that this would lead to an increase in annual pay of over £1,600 for full-time workers on the NLW, expected to benefit over 2 million low wage workers.³⁶

Graph 7: The evolution of real benefit levels during the pandemic and beyond

Real benefit levels will not return to pre-pandemic levels until April 2024

Average real entitlement excl. housing element for out-of-work claimants



Notes: Deflated using CPIH.

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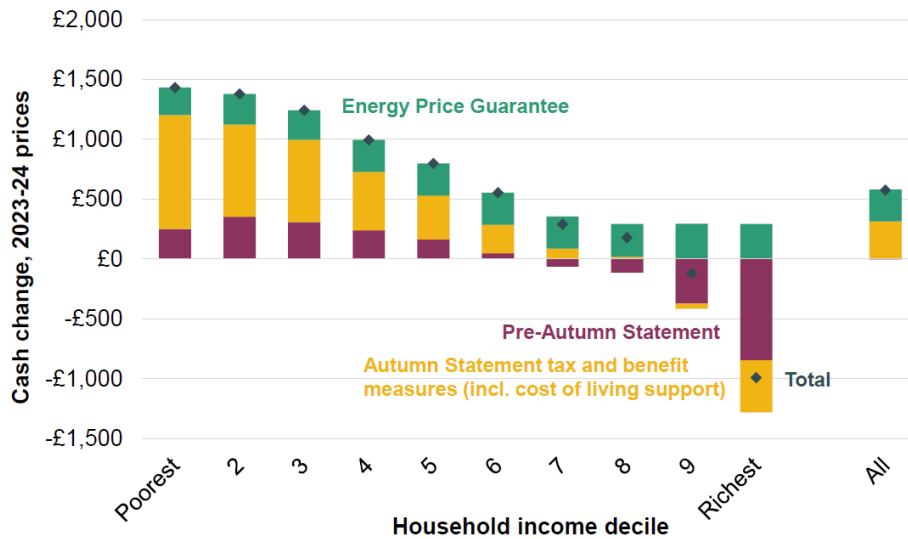
Source: *ibid.*

- 25 In reviewing these announcements and given the forecasts by the Office for Budget Responsibility accompanying the Autumn Statement about the overall context of the UK economy, Xiaowei Xu of the Institute for Fiscal Studies estimated that the UK was headed for another lost decade of income growth, with 2023 and 2024 likely to see a record fall of 7% in real household disposable income (see her presentation slide reproduced in Graph 6), with energy price increases putting particular pressure on household budgets.
- 26 In terms of benefits, the various Cost of Living grants announced in the Autumn Statement meant that the average value of real benefit entitlements was kept at their pre-Covid level, of about £1,000 per month (in 2022-23 prices). Without these top-ups, benefits would have fallen quite strongly in real terms, as shown very clearly in Graph 7, which provides graphic evidence – literally – of the impact of the £20 uplift and its removal.

Graph 8: The combined effect of tax, benefit and energy support measures since November 2021

Distributional analysis 2023–24

Cash change in 2023–24 from tax and policy measures implemented since Nov 2021



Notes: Assumes rise in employer NICs is borne by employees.

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Source: *ibid.*

- 27 Finally, when assessing the combined impact of measures announced in the Autumn Statement (i.e. taking into account the freezing of income tax thresholds, the evolution of benefits plus the Cost of Living top-up grants and support ensuring the energy price cap), the analysis by Xu indicates quite strong progressivity of recent policies. Graph 8 shows that – on average – households in the bottom decile will receive nearly an extra £1,500 in cash in 2023-24 as a result of all measures announced since November 2022. By contrast, households in the top decile will face a net reduction in cash incomes of about £1,000 (indicated by the diamond, which sums the extra taxes paid, plus the benefits of energy price-cap support). Other things being equal, this progressivity is set to continue until 2027-28, according to the policies proposed in the Autumn Statement.

Conclusion

- 28 The initial phases of the Covid-19 pandemic saw massive government intervention in the UK (as elsewhere) to shore up household incomes, and this actually helped raise incomes in real terms by 3% for the lowest fifth of households. Thanks to the furlough and self-employed support schemes, as well as the £20 benefits “uplift”, income inequality therefore fell in the first year to 18 months of the pandemic, although certain groups, in particular some categories of self-employed workers and BAME persons, suffered disproportionately during the pandemic. While the furlough scheme and the uplift ended in September 2021, other forms of support for household incomes were subsequently put into place, most notably help with meeting energy bills. The strong rise in inflation from late spring 2021 onwards, however, has generally put pressure on real household incomes which are once again stagnating, a situation that

has become recurrent since the global financial crisis and which Britain's relatively poor economic performance since then seems set to prolong. This generally poor economic performance is surely the main factor that explains why the UK's absolute poverty (low-income) level has fallen relatively little since the mid-2000s.

- 29 At the same time, the UK's record on relative poverty and inequality has remained fairly stable since the 2000s, and even as far back as the 1990s. Yes, the country experienced a strong rise in income inequality during the Thatcher years of the 1980s, and an attendant rise in relative poverty. Yet since then, the overall relative picture however has changed little. Significantly, as the UK came out of the Covid pandemic, government policies to support household incomes were still substantial, while taxation was higher than for more than half a century. In some ways, the policies of the Sunak government thus contrast quite strongly with the non-interventionist, low-tax policies of the preceding decades. Whether this leads to a persistent policy shift remains to be seen. (The final version of this article was completed on 10 September 2023.)

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NOTES

1. « La vie continue. Il n’y a aucune raison, mis à part pour les populations fragiles, de modifier nos habitudes de sortie », reported by Jérôme Lachase with AFP, “Emmanuel et Brigitte Macron au théâtre pour inciter les Français à sortir malgré le coronavirus”, *BFMTV*, 7 March 2020 (accessible at https://www.bfmtv.com/people/emmanuel-et-brigitte-macron-au-theatre-pour-inciter-les-francais-a-sortir-malgre-le-coronavirus_AN-202003070063.html).
2. Rishi Sunak, *Budget Speech 2020*, 11 March 2020.
3. Heather Stewart and Peter Walker, “Coronavirus UK: Boris Johnson announces closure of all UK pubs and restaurants”, *The Guardian*, 21 March 2020.
4. Harriet Clark, “Examining the end of the furlough scheme”, *Insight*, House of Commons Library, 15 November, 2021.
5. HM Revenue & Customs, *Official Statistics, Coronavirus Job Retention Scheme statistics*, 16 December 2021.
6. Antony Seely, *Coronavirus: Self-Employment Income Support Scheme*, House of Commons Library, Research Briefing, No 8879, 5 January 2023.
7. The figures used in this article are taken from the survey released in spring 2023: Department of Work and Pensions (DWP) (National Statistics), *Households below average income: an analysis of the UK income distribution: FYE 1995 to FYE 2022*, 23 March 2023. The Family Expenditure Survey (FES) was conducted from 1961 onwards by the Office of National Statistics (and its predecessor). In 2001, the FES was merged with the National Food Survey (NFS), to create the Expenditure and Food Survey, which in 2008 became the Living Costs and Food Survey. Although this ONS data provides a number of similar indicators to the DWP HBAI series (such as income Gini coefficients and poverty rates), because the ONS series typically surveys “only” about 5,000 households, it is considered a little less accurate than the HBAI for these figures.
8. Due to Covid, the survey was conducted by telephone after April 2020, and only included about 10,000 households in the financial year of 2020-21, perhaps causing errors in the findings. For 2021-22, 16,000 households were surveyed, and the “Main stories” section of the survey stresses that efforts were made to overcome biases resulting from telephone interviewing (e.g. the higher proportion of older people replying).
9. See for example, Guy Faulconbridge and Andy Bruce, “Never had it so bad? Plague, weather and war did worse to the UK economy”, *Reuters*, May 7, 2020.
10. For the figures, see Table 1.2b of the HBAI data by the DWP released on 23 March 2023. “Equivalised income” means weighting incomes to account for household composition, as extra members in a household generally spend less. The UK now uses the OECD weighting system, in which the first adult is weighted 0.67, and the second adult (or child over 14) is weighted 0.33, while children under 14 are weighted 0.2. Thus, a family of two adults and two children under 14 would have a weighting of: $0.67+0.33+0.2+0.2=1.4$. In order to calculate the mean and the median, household incomes are taken as reported and then divided by their weighting number. For example, the equivalised income of a single adult earning £500 per week would be: $£500/0.67=£746$, which is well above the poverty threshold and in fact higher than the equivalised mean. This figure would then be used in calculating the averages. By contrast, if a family of two adults and two children under 14 also has a weekly income of £500, then its equivalised income would be $£500/1.4=£357$, or quite close to the 60% poverty threshold in 2020/21 of £324 per week – see Graph 3 below.
11. Jonathan Cribb, Tom Waters, Thomas Wernham and Xiaowei Xu, *Living standards, poverty and inequality in the UK: 2022*, Institute for Fiscal Studies, July 2022, p 11.
12. Carl Emmerson, Robert Joyce and Tom Waters, “The temporary benefit uplift: extension, permanence, or a one-off bonus?”, *Comment*, IFS, 18 January 2021 (accessible at <https://ifs.org.uk/articles/temporary-benefit-uplift-extension-permanence-or-one-bonus>).

13. Ibid.
14. Department of Work and Pensions (DWP) (National Statistics), *op cit*.
15. While income is the main determinant of poverty, other factors are important too as poverty is today defined more broadly to include various other aspects of deprivation. This explains why the terms “low income” and the “low-income threshold” are now used in the literature.
16. All the figures given in the graph are taken from Brigid Francis-Devine, based on the DWP HBAI survey published 23 March 2023.
17. Jack Blundell, Stephen Machin and Maria Ventura, *Covid-19 and the Self-Employed: Six Months into the Crisis*, CEP COVID-19 ANALYSIS, No. 012, LSE, November 2020 (accessible at <https://cep.lse.ac.uk/pubs/download/cepcovid-19-012.pdf>).
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22. Adair Turner, *Between Debt and the Devil: Money, Credit, and Fixing Global Finance*, Princeton and Oxford, Princeton University Press, 2016, pp 67-73.
23. Source: ONS, *House building, UK: permanent dwellings started and completed by country*, dataset, 8 November 2022 (at <https://www.ons.gov.uk/peoplepopulationandcommunity/housing/datasets/ukhousebuildingpermanentdwellingsstartedandcompleted>).
24. In the UK, the concept of relative poverty was pioneered by Peter Townsend in his seminal work *Poverty in the United Kingdom: A Survey of Household Resources and Standards of Living*, Harmondsworth, Penguin Books, 1979.
25. Ian Townsend and Steven Kennedy, *op cit*.
26. For a simple summary article on this see Jonathan Cribb and Paul Johnson, “10 years on – have we recovered from the financial crisis?”, *Comment*, Institute of Fiscal Studies, 12 September 2018 (accessible at <https://ifs.org.uk/articles/10-years-have-we-recovered-financial-crisis>). See also, especially, Adam Tooze, a leading economic historian writing at the end of 2022. He argues that the stagnation in productivity growth since the GFC is unparalleled in 250 years, and will have profound consequences for the UK. Brexit only aggravates the situation: “Chartbook#184 – Nostalgia for decline in deconvergent Britain”, December 30, 2022 (accessible at <https://adamtooze.substack.com/p/chartbook-184-nostalgia-for-decline>).
27. Adam Corlett & Lalitha Try, “In at the deep end: The living standards crisis facing the new Prime Minister, The Living Standards Outlook 2022 – Summer Update”, Resolution Foundation *Briefing*, September 2022.
28. Office of National Statistics, *Inflation and price indices*, 16 August 2023 (accessible at <https://www.ons.gov.uk/economy/inflationandpriceindices>).
29. Liz Truss became Prime Minister on 6 September 2022, following the calamitous premiership of Boris Johnson. In the wake of the “mini-budget” fiasco on 23 September, she resigned on 20 October, making her Britain’s shortest-serving Prime Minister ever (dates taken from Wikipedia, *Liz Truss*).
30. HMT Treasury, *Autumn Statement 2022*, CP 751, presented to Parliament by the Chancellor of the Exchequer, November 2022, (accessible at <https://www.gov.uk/government/publications/autumn-statement-2022-documents>), p 1.

31. Jeremy Hunt was appointed Chancellor of the Exchequer by Liz Truss after she sacked Kwasi Kwarteng following the “mini-budget” disaster. Hunt went about reversing policy and was subsequently kept in office when Rishi Sunak became Prime Minister.

32. Ibid, p 17.

33. See for example, Paul Johnson, *Follow the Money: How Much Does Britain Cost?*, London, Abacus Books, 2023, p3.

34. Matthew Keep, *Tax statistics: an overview*, House of Commons Library, 5 June 2023, based on data from the ONS, *Public sector finances*, series.

35. Kwasi Kwarteng and HMT Treasury, *The Growth Plan 2022*, Speech to House of Commons, 23 September 2022.

36. Ibid p 27-8.

ABSTRACTS

The Covid-19 pandemic swept across the world with incredible speed in early 2020, leading to lockdowns across the globe, and a huge collapse in output. The UK government, as elsewhere, stepped in rapidly and massively to support household incomes, most notably with the furlough scheme and an increase in benefits. As a result, household incomes were generally kept stable – and even increased for households with the least pay. This article sets out these policies and their consequences for incomes, poverty and inequality, before putting them into a longer-term context. It then moves on to examine how the expected fall in real incomes due to the surge in inflation since 2021, along with government policies announced in November 2022, will likely affect low-income households through to the middle of the decade.

La pandémie de Covid-19 s'est propagée sur toute la Terre à une vitesse incroyable au début de l'année 2020, entraînant des confinements dans le monde entier et un effondrement de la production économique. Le gouvernement britannique, tout comme d'autres gouvernements, est intervenu rapidement et massivement pour soutenir les revenus des ménages, notamment par le biais d'un plan de congé payé étendu (furlough) et d'une augmentation des allocations sociales. En conséquence, les revenus des ménages sont restés stables, voire ont augmenté pour ceux qui étaient les moins bien lotis. Cet article présente ces politiques, et leurs conséquences sur les revenus, la pauvreté et les inégalités, avant de les replacer dans un contexte à plus long terme. Il examine ensuite comment la baisse attendue des revenus réels, due à la poussée de l'inflation depuis 2021, ainsi que les politiques gouvernementales annoncées en novembre 2022, vont probablement affecter les ménages à faibles revenus jusqu'au milieu de la décennie.

INDEX

Keywords: Covid-19 pandemic, United Kingdom, incomes, inequality, poverty

Mots-clés: pandémie de Covid-19, Royaume-Uni, revenus, inégalités, pauvreté

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