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Austerity: Inequality in the UK

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ABSTRACT

The global banking crash and financial crisis in the period 2007–2008 led to the ushering in of a period of austerity in the UK and across the world. The global debt that had been fuelled by a frenzy of greed was shared by those who could afford it with those who could not which has resulted in greater inequality and in the poor, being punished for the mistakes of the rich. This article looks at the definition of austerity and the figures behind how it was dealt with in the UK and how it has resulted in greater inequality in the country.

Keywords: austerity, bank, financial crisis, global

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INTRODUCTION

The global financial crash that occurred between 2007 and 2008 resulted in great financial hardship being imposed on populations throughout the world by governments to meet the incurred debt. In the UK the state took over banks which had become caught up in the crisis. To pay for the debts incurred by the bailing out of these banks the government ushered in a programme of austerity in 2010 and this is still in place in 2017.

DEFINING AUSTERITY

Austerity has been defined as ‘official actions taken by the government, during a period of adverse economic conditions, to reduce its budget deficit using a combination of spending cuts or tax rises’ [1]. Following the global financial crisis in 2008 banks in the UK received approximately £141 billion funding from the government as they sought to sustain the financial system from collapse [2]. To stimulate the economy, the government committed £31 billion to several measures including investment in infrastructure and the reduction of VAT [3]. The financial pressures put upon the public purse by the high levels of debt incurred were ceased

on by opposition Conservative party who identified fiscal responsibility as the main part of their manifesto for the 2010 general election. A year before the general election David Cameron, the leader of the Conservative party announced the ‘new age of austerity’ [4] on 26/4/09. The general election resulted in the formation of a Coalition administration between the Conservative and Liberal Democrats with an agreement that recognized that ‘deficit reduction’ and ‘economic recovery’ were ‘the most urgent issue (s) facing Britain’ [5]. The emergency budget in June 2010 put forward austerity measures through a deficit reduction program including additional cuts of £40 billion on top of the spending reductions already identified [6]. Blyth (2013) identified an alternative definition of austerity as ‘a form of voluntary deflation in which the economy adjusts through the reduction of wages, prices and public spending to restore competitiveness, which is (supposedly) best achieved by cutting the state’s budget, debts and deficits’ [7]. This definition links the process of deficit reduction with the restoring competitiveness and returning the economy to a position of growth. Blyth (2013) argues that austerity

has not worked, and its application has penalized poorer sections of society.

The relationship between austerity measures taken in 30 high income

countries within the OECD during the period 2010 – 2014 and the impact on growth can be shown on a chart (Figure 1). In the UK, this during this period the Coalition administration was in power.

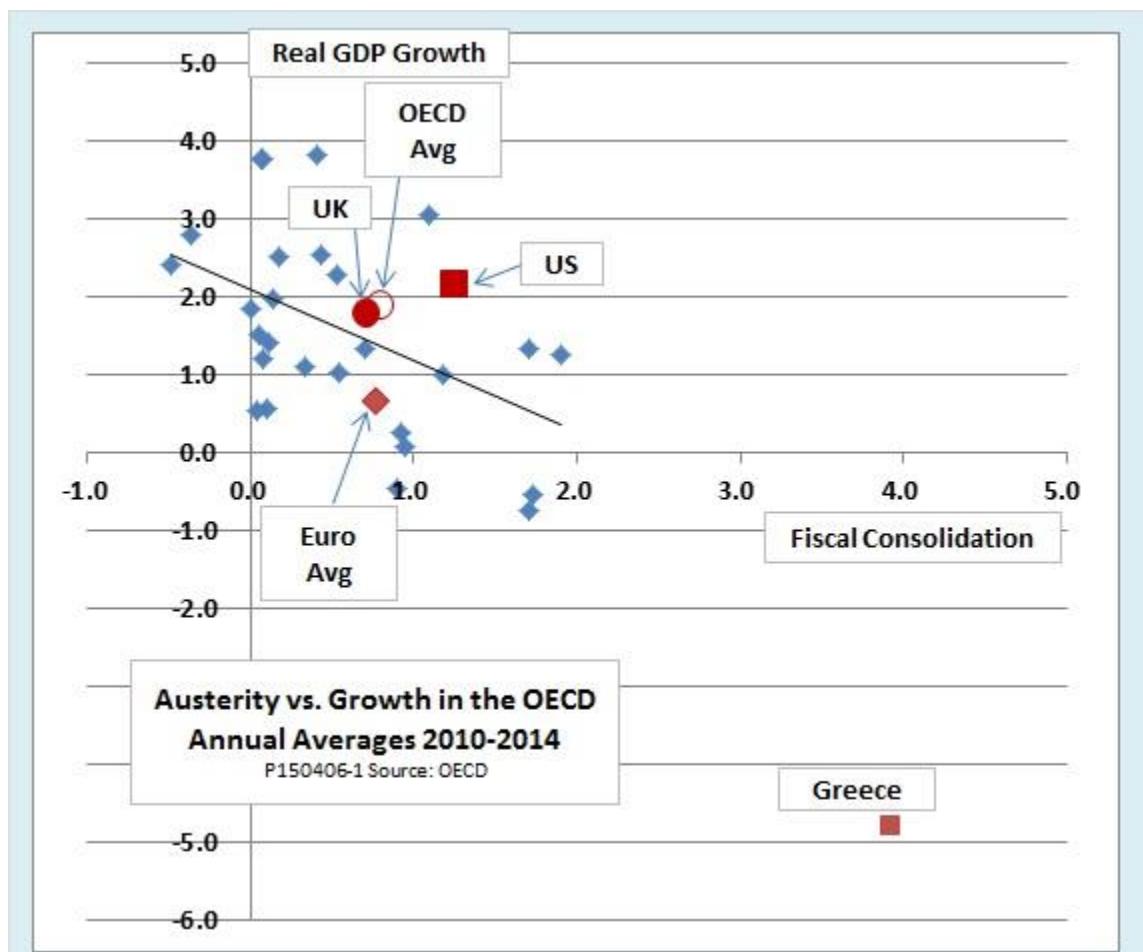


Fig. 1. Austerity versus growth in the OECD, annual averages. Source: OECD cited in New York Times (2015).

Each point within the chart represents one of the 30 high income countries in the OECD, austerity or fiscal consolidation is measured along the horizontal axis which is the underlying structural primary balance. The annual rate of growth is shown on the vertical axis. In countries that are positioned further along the axis more austerity has been undertaken during this period with Greece being the country most affected. The UK is positioned in the middle range of countries below the USA which has undergone greater austerity yet has shown higher growth and the OECD

average. The average figures for countries within the EURO currency area shows that they had undergone more austerity and show a lower rate of growth. The line in the chart highlights that fiscal consolidation has resulted in a reduction of growth and Greece has been excluded from this calculation due to the level of economic crisis in that country [8].

INEQUALITY AND FINANCIAL CRISIS

It has been argued that the radical policies introduced during the 1980s by the

Conservative government have become irreversible [9] normalized and accepted as 'unchallenged pillars of the new consensus' [10]. The impact today of many of these policies is that Britain has become a more unequal country and that these inequalities range across all spheres of life from

income, employment, education, health and housing [9]. In 1979 '6% of the nation's income went to the top 1%' by 2015 this had increased 'to 14%' [10] reversing a trend whereby the inequality gap from the 1930s to 1979 had been narrowing [11].

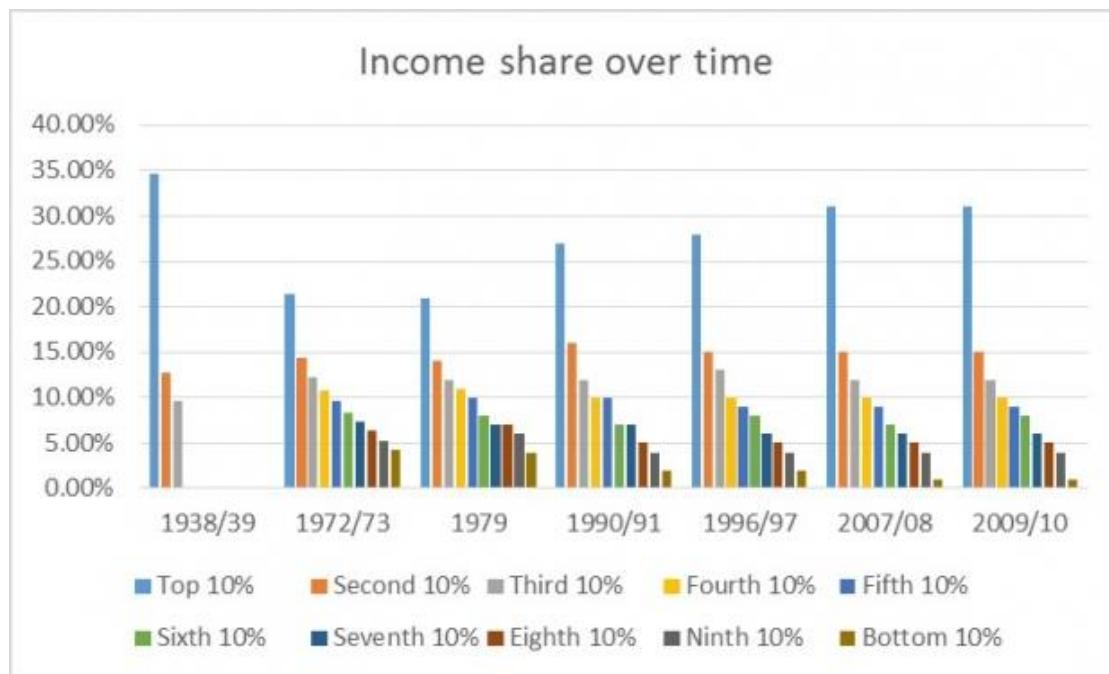


Fig. 2. Income share over time 1938–2010. Source: Equality trust (2015).

Figure 2 shows income share in the UK over the period 1938 to 2010. During the years between 1938 and 1979 the share of income going to the top 10% of the population fell from 34.6% to 21% in 1979 while the share of income going to the bottom 10% increased slightly. This reduction in the percentage of income going to the top 10% was reversed after 1979 increasing from 21% to over 30% in 2010. The share of income going to the bottom 10% has been declining since 1972 with the greatest falls being between the periods 1979 to 1991 and 1996 to 2008. The share of income going to the second 10% increased between 1979 and 1991 to over 15% but this fell back to 15% and has remained static between 1991 and 2010. The third 10% received an increased share of income that peaked in 1996 but subsequently fell in the period to 2010.

Below the third 10% the general trends are that the share of income is static or falling in most groups but with some increases during this period. In 2010, while the top 10% received 31% of all income, the bottom 10% received just 1%.

The financial crisis of 2007–2008 seems to have had little impact on how the share of income is divided with the top fifth of the population receiving half both before and after the crisis.

Figure 2 shows a significant gap between incomes going to the top fifth compared to the other groups with income share across the remaining fifths being static, though when compared to the data in Figure 3 there has been a drop in the income received in the bottom 10%.

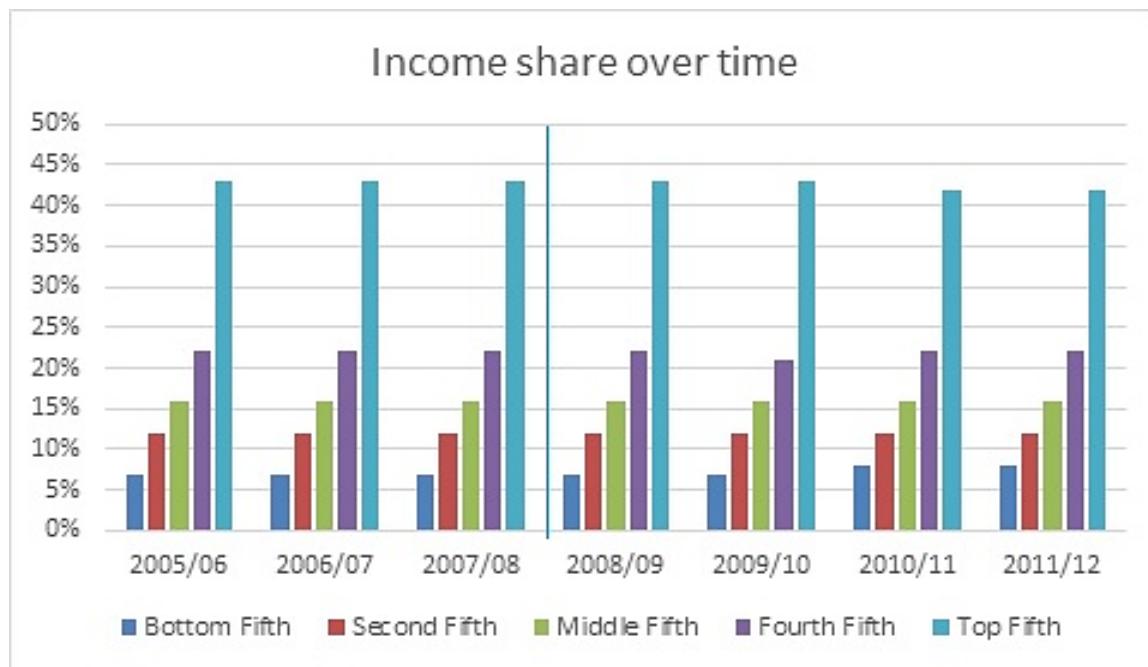


Fig. 3. Income share over time 2005–2012. Source: Equality trust (2015).

In Great Britain, the distribution of wealth is more unequal than the distribution of income with 44% of wealth in 2006/8 received by the top 10% who also received 31% of income shared [12]. Wealth is the stock of economic resources and income is the flow of resources [13]. The top 10% own four times more than the bottom 50% and the top 10% own 100 times more than the bottom 10% [14, 15].

Table 1. Breakdown of income and wealth in Great Britain.

Decile	Income	Wealth
1	1%	0%
2	4%	0%
3	5%	1%
4	6%	3%
5	7%	5%
6	9%	7%
7	10%	9%
8	12%	13%
9	15%	18%
10	31%	44%

Source: Adapted from Rowlingson (2012, p 11).

The Table 1 shows that the bottom 10% accounts for only 1% of income distributed and 0% of the wealth distributed. The second bottom 10%

accounts for 3% of income distributed but still 0% wealth distributed. The next five decile groups have account for between 5% and 10% of distributed income and between 1% and 10% of wealth distributed. The third top 10% is the first group that has a higher figure at 13% of wealth distributed than their share of distributed income at 12%. The second top 10% has 18% of distributed wealth and 15% of distributed income while the top 10% has more than double this figure in both categories.

From the 1979 to 1995 the income for the top 10% of earners increased 60% while for the bottom 10% it increased by 10% and following the financial crisis of 2008 the increase in income for the very rich has increased significantly [13]. Between onwards as incomes grew substantially at the top of the income distribution. From 1979 to 1994/5, incomes rose fastest for the richest (the richest tenth saw their real incomes rise by 60% while the poorest tenth saw only a 10% rise).

The disparities in the distribution of income and wealth have also become

exacerbated in other countries where neoliberal free market policies have become embedded. In the United States the top 20% of the population receive 50% of the distributed income whereas the bottom 20% received 3.4% of the distributed income and the top 1% own 40% of the wealth [16]. A key part of the neoliberal ideology includes enabling enterprising and entrepreneurial individuals create wealth which will in turn create employment, economic growth and allow financial benefits to trickle down to the less wealthy within society. The creation of such an environment that encourages risk taking and entrepreneurial activity is one where regulation is restricted, financial rewards are encouraged, the burdens of taxation are reduced and interference from the state is curtailed. Financial deregulation carried out in the 1980's enabled a global financial system to be developed whereby capital could move freely seeking profitability and wealth accumulation opportunities [17]. Deregulation also brought with it exposure for national economies to the speculative movement of capital [18].

A crisis in capitalism resulted in the financial meltdown which started in the United States (US) in 2007 and filtered across the globe through the complex integrated corporate and financial systems that had evolved since the 1980s. Credit was augmented by mortgage debt to pay for continued consumption but when defaults by sub-prime mortgage borrowers reached high levels this triggered a financial crisis [16, 18]. Capital had made cheap credit available to enable consumption to increase to enable the level of profits to be maintained [16]. Mortgages had been approved for consumers who had poor levels of income and represented a potential risk of default. This was sub-

prime lending with the repayment levels set at a higher rate than prime mortgage loans due to the risky nature of the lending, these loans had risen to a level of 25% of the market in 2005 increasing from 9% in 2002 [19].. Increased debt was put into the financial system and sold, repackaged and resold through the complex global financial network [20]. A house price bubble in the US drove the speculative lending and risk taking with prices rising 'at an annual rate of 7.1% between 2002 and 2006 [19]. The gains to be made by individuals through the speculative lending and transfer of debt were significant and highlighted the greed that became a symbol of the crisis [19]. The financial collapse and contagion that followed spread through the global financial network impacting on the sustainability of banks and other financial institutions which were exposed to the financial meltdown. In Britain, the 'vortex of economic collapse' that these financial institutions had become involved in was 'rescued by over £1 trillion of public money' but they 'continue to operate as before' [10]. The impact on the UK financial sector of the crash was deemed by the government to be dangerous to the stability of the country and subsequently several banks were nationalized. Owen (2015) labelled this as 'socialism for the rich' and highlighted the irony of the state bailing out banks through 'the biggest global wave of nationalizations' that 'happened in the age of neo-liberal free markets' (p 258). Government Statistics break down debt into figures that do not include the money borrowed to bail out the banks (Figure 4) and figures that do include the money borrowed to bail out the banks (Figure 5).

Figure 5 presents data for the period 2006 to 2015 showing a gradual increase from

£529.8 billion in 2006 to a peak of £1,488.1 billion in 2014.

The level of debt increases dramatically from £666.6 billion in 2007 to £2,156.8 billion in 2008 when the nationalization of the banks started, reaching a peak of

£2,264.5 billion in 2010. The difference between the two levels of debt can be shown in a line graph presenting net debt as a percentage of GDP (Gross Domestic Product) in Figure 5.

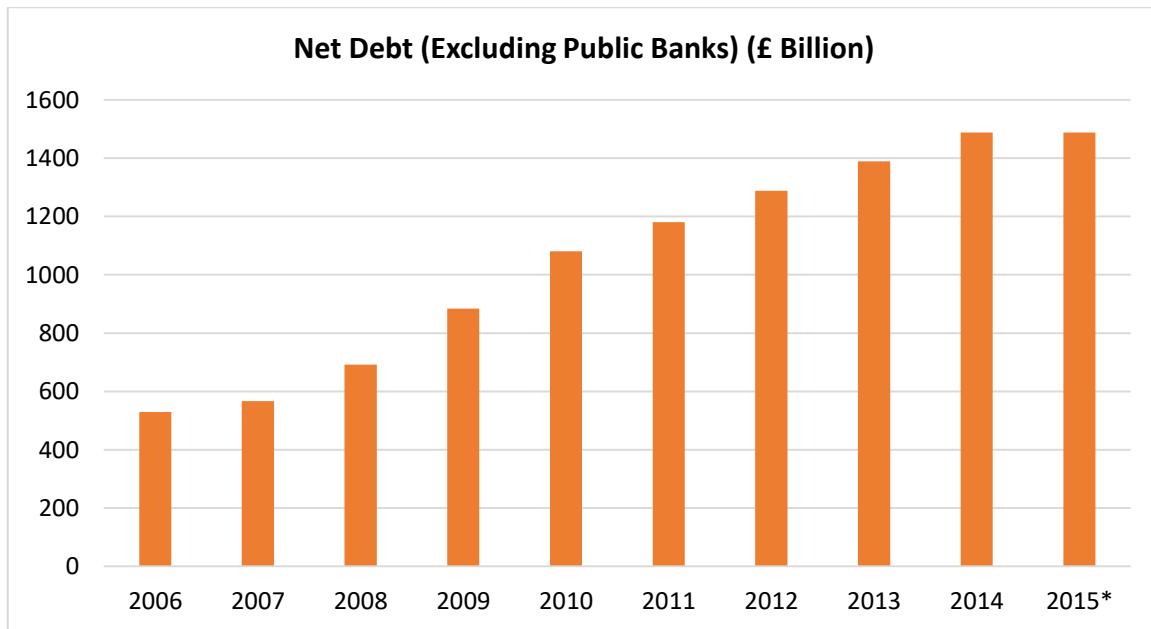


Fig. 4. Net debt (excluding public banks). *2015 figure is from April. Source: ONS (2015).

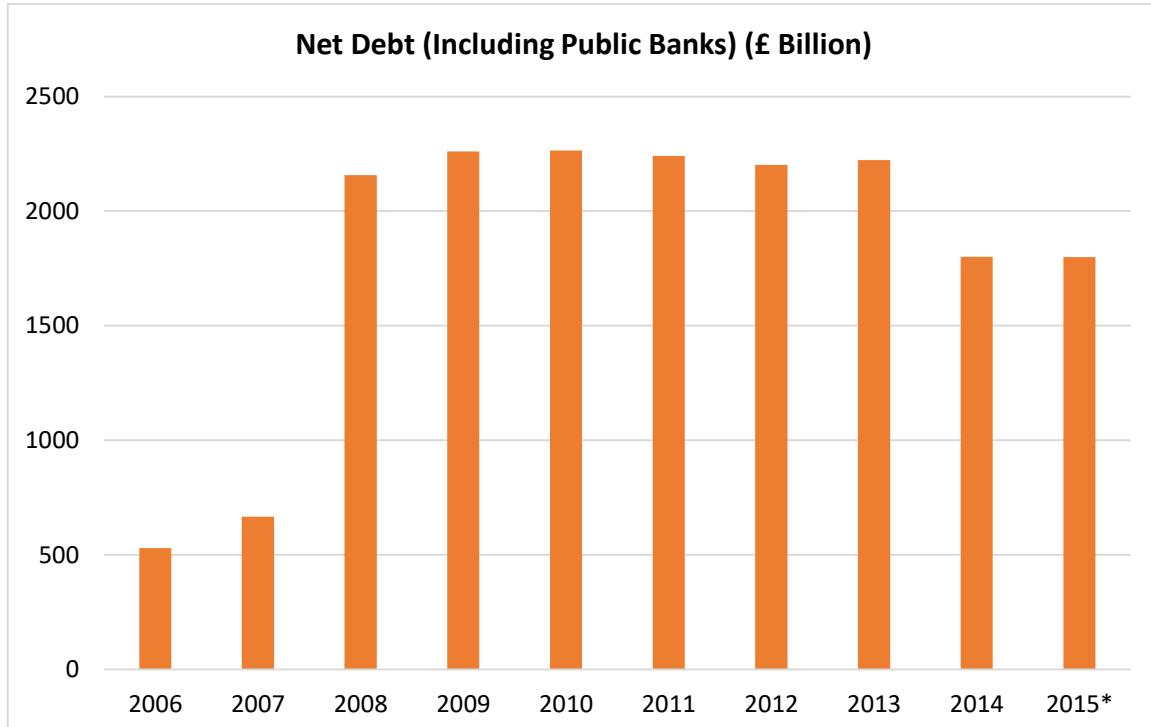


Fig. 5. Net debt (including public banks). Source: ONS (2015). *2015 figure is from April.

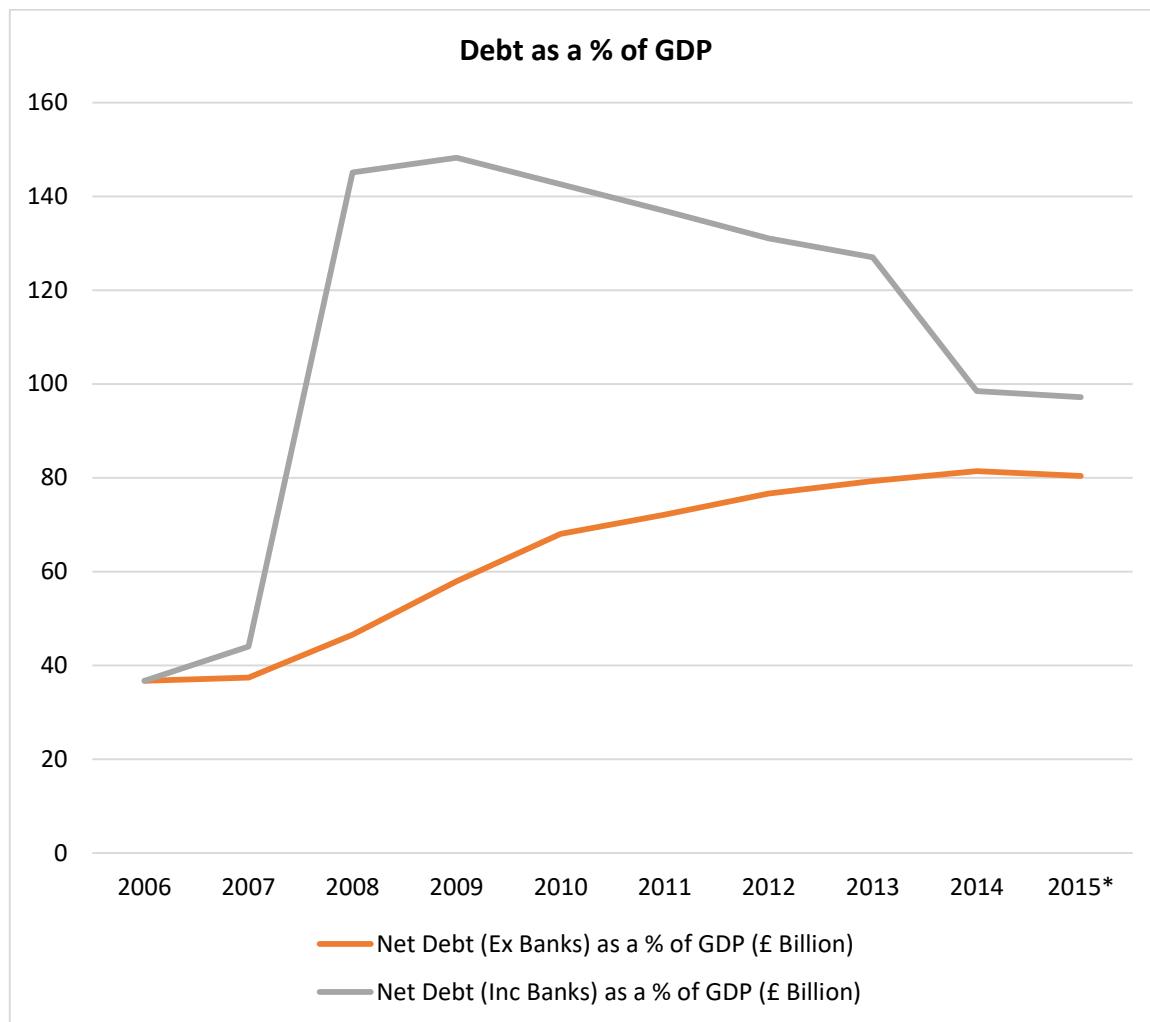


Fig. 6. Net debt as a % of GDP. Source: ONS (2015). *2015 figure is from April

DEBT FOR EVERYONE

The significant rise in debt was caused by the ‘impact of the crash and bailout’ which was the price of ‘rescuing capitalism from itself’ [21]. Net debt as a % of GDP was 36.7% in 2006 rising to 145.1% in 2008 and 148.2% in 2009 in the figures that include the money used to bail out the banks but 46.5% and 57.9% respectively in the figures not including the bailout costs. The debt has reduced gradually to 97.2 % of GDP in the figures including the bailout debt and to 80.4% in the figures that do not include the bailout debt. The Coalition government elected in 2010 agreed a program of austerity measures to implement which they felt was needed to control the countries debt levels but was

also an opportunity ‘to accomplish the goal of pushing back the state and opening it up to the market’ [21]. During the period between 2010 and 2014 the net debt excluding the bail out of the banks decreased but the figure of net debt as a percentage of GDP excluding the bail out of the banks increased. The International Monetary Fund (IMF) had predicted that there would be growth in the UK economy of ‘12% by 2013; in fact, it had contracted by 1%’ [21]. The implementation of policies of austerity were aimed at reducing public spending as well as the levels of public debt but resulted in fiscal contraction within the economy, reduced levels of levels of income and higher levels of private indebtedness [10].

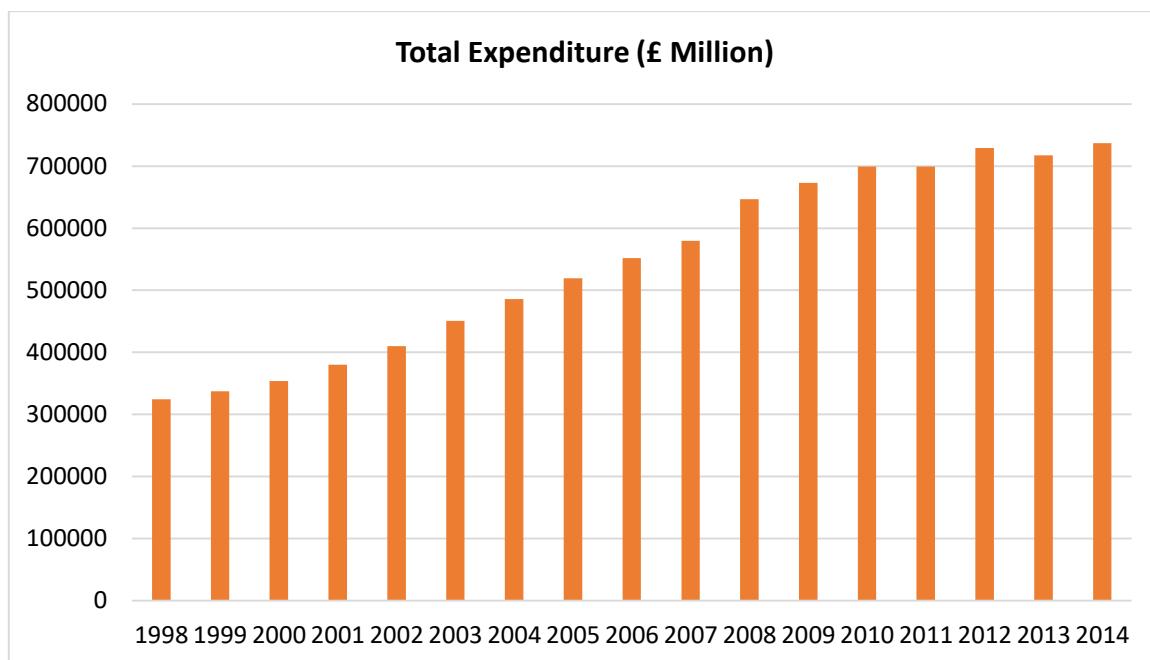


Fig. 7. UK Government spending. Source: ONS (2015).

The overall trend of government spending has been to increase during the period 1998 to 2014 from a figure of £324,388 million in 1998 to £736,782 million in 2014. The steady rise in public spending came to a halt in 2010 at £699,284 million and reduced slightly in 2011 to £699,034, increasing to £729,097 in 2012, reducing to £717,514 million in 2013 and increasing again to £736,782 million in 2014 [14].

Following the election in 2010 the Coalition government ‘set upon the public sector’ reducing levels of employment from ‘21.6 of the UK workforce’ in 2010 to ‘17.6 %’ in 2014 [21], as well as attacking pay and conditions. The high levels of debt incurred were presented as being the result of ‘spending too much money’ on ‘Britain’s bloated public sector’ and not because of an ‘out-of-control financial sector’ [10]. Austerity has impacted disproportionately on sections of society that rely significantly on the welfare state which was ‘cut with a rusty axe wielded with malice’ [21]. The founding pillars of the welfare state were set up to put in place a system of social protection to support individuals in society against the five ‘giant evils’ – want,

disease, ignorance, squalor and idleness. They have been under constant reform under the neo liberal project [22], from the 1980s to the introduction of the program of austerity under the Coalition government between 2010 and 2015 as well as being under the threat of more change following the election of a Conservative government in 2015. The area of public sector housing, often considered to be the ‘wobbly pillar’ under the welfare state [23] and identified by Hodkinson and Lawrence (2011) as the ‘forgotten pillar of the neoliberal project’ has been subject to ‘mass privatization’ [10] under the Right to Buy (RTB) that started in the 1980s [24]. The transfer of state owned housing to private ownership at a discount has reduced the availability of affordable public housing since 1980 and pushed those who cannot afford home ownership into private rented accommodation or rented accommodation provided by Housing Associations. Between 2010 and 2015 the Coalition government implemented housing policies which encouraged the increase in rental income for private sector landlords and the significant increase in the provision of individual rental subsidy through Housing

Benefit (HB). In 2010/11 the cost of HB was £15.74 billion rising to £23.8 billion in 2013 and forecast to rise to £25.9 billion in 2017/18. Jones (2015) sees this as a 'symptom of the failure of successive governments to provide affordable' (p 179) housing and as a subsidy 'for private landlords' (p 50). The neo liberal state has used the free market mechanism to enable excessive rent rises, 37% in the five years between 2008 and 2013 and projected to rise by 35% between 2013 and 2019 as well as accessing public money to subsidize high rents and low wages.

CONCLUSION: AUSTERITY IN THE UK

The 2015 election resulted in the Conservative party achieving a majority within the UK giving them a platform to drive forward the next phase of their neo liberal project to create a modern democracy based on 'free market economics' and the 'principle of private profit' which should be 'weaved into the fabric of ordinary citizens lives' (Paris, 2015). As part of the Conservative election manifesto the RTB that was introduced for the sale of council housing in the 1980's was promised to be extended to the tenants of Housing Associations (HA's) with the provision of significant discounts offering the individual purchaser the possibility of making a large private profit. HA's have become the largest provider of social housing across the UK and previously the RTB had not applied to them but following the election implementation of the policy is now taking place but only in England as the Devolved administrations in other UK countries have separate control over housing and are against the extension of the RTB.. Free market capitalism had relied on state interventionism following the 2008 financial crisis. Jones (2015) sees Britain as being transformed into a society that benefits 'large corporations and rich individuals' (p xvii) and does not see the transformation in the straightforward way

that Paris does that 'the liberating free market' is replacing a centralist statist 'stultifying, bureaucratic' socialist Marxist experiment which has not worked. He states that what presents itself as a free market approach is actually 'the provision of generous subsidies and hand-outs for a wealthy elite' and that the welfare state has been reshaped to pay income for 'low wage paying bosses and extortionate rent charging landlords' (p 303).

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