



Cost of Living Crisis

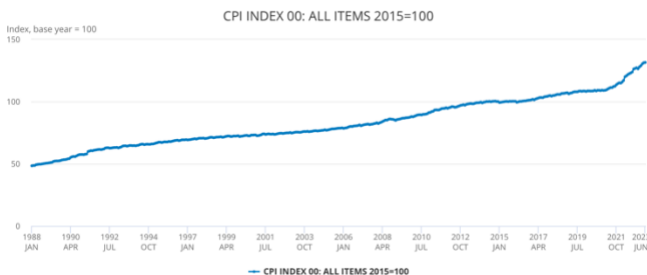
Introduction

Rising prices and falling real wages have created a cost of living crisis that causes misery for millions of low-income households. In this briefing, we look at the evidence and the policy options.

Rising prices

On average, prices (measured by the CPI) increased by over 18% between April 2021 to April 2023, with eye-watering rises in energy prices being replaced by record food inflation and housing costs continuing to soar.

While the media headlines highlight that the [rate rose](#) by 7.9% in the 12 months to June 2023, down from 8.7% in May, prices are still rising rapidly. Food increased by a staggering 17.4%.



The [JRF cost of living tracker](#) found a deeply troubling picture of persistently high hardship levels. The number of low-income households unable to afford food and who are behind with their bills has tripled compared to the Family Resources Survey in 2019–20 and appears to have found a worrying new normal level. This also has health implications, with record food inflation forcing those on low incomes to endure poor diets, go hungry or reduce the size of meals. 48% of low-income households are experiencing food insecurity. Mental health will also suffer.

Low-income households have minimal savings, forcing them to turn to high-interest credit. Cost of living payments helped those who received them, but they are insufficient to reduce ongoing financial strain.

Fuel companies, food retailers and manufacturers, logistics and others have used global crises like the pandemic and war to push prices higher and

balloon their profits. Research by Unite the Union has regularly [highlighted](#) this issue. Even the [IMF](#) has said, "For inflation to fall quickly, firms must allow their profit margins, which have shot up in recent years, to decline and absorb the rise in wages." As the STUC's [Roz Foyer](#) said, "Rishi Sunak or Jeremy Hunt don't talk about restraint for these companies. They call for restraint for the workers." Instead of action, the PM invites half of corporate Britain for tea and biscuits and produces voluntary charters.

As usual, the burden of rising prices does not fall evenly. In addition to low-income households, other disadvantaged groups are disproportionately impacted. [Research](#) by the RSA shows that nearly half of young people today live precariously. A lack of collective security, characterised by an underfunded social security net and a fractured social contract, means that young people face structural challenges.



Resolution
Foundation

Today's ONS data release shows that the cost of living crisis – and especially food price inflation – is continuing to hit households' finances hard.

And while attention has turned to the income shock mortgagees are facing from higher repayments, renters are still the most financially vulnerable – with four in ten reporting that they are struggling to meet their housing costs, compared to three in ten mortgagees.

With both inflation and interest rates set to remain high for some time, the cost of living crisis will continue, and policy makers must be clear-eyed about which households are the most vulnerable.

Real wages

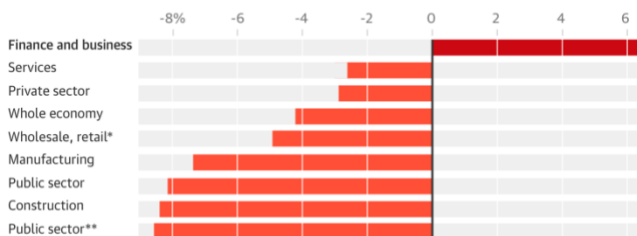
The UK Government continues to propagate the myth, supported by the Bank of England, that the inflation rate can be reduced by curbing wage increases. However, the IPPR has calculated that a settlement of as much as a 10.5% could be used to restore public sector pay to pre-pandemic levels while adding at most 0.14% to inflation.

The TUC has [calculated](#) that UK workers will miss out on £3,600 this year due to their wages not keeping pace with the OECD average. Wage increases have also not been evenly spread. Only the finance and business sector has outstripped

inflation. Even with a 6% pay settlement, an average public sector worker would be £1,400 worse off this year compared with just before the pandemic. Lower inflation for the highest paid and higher wage increases means greater inequality within the labour market.

Finance and business is the only sector to see a real-terms wage increase since 2008

Percentage change in real-terms weekly earnings, January 2008 to May 2023



Guardian graphic. Source: TUC analysis of ONS data. Note: *includes hotels & restaurants. ** excludes financial services.

Trade union actions have generated larger pay rises, highlighting the benefits of membership.

Benefits in the UK are also comparatively low by international standards, with one of the lowest benefit rates relative to earnings. The basic rate of Universal Credit is worth around a sixth of average weekly pay. This has been exacerbated by harsh cuts since 2010.

UK Interest Rate Policy

Inflation in the UK increased faster and higher than our international comparators. Price inflation in the USA was just 3% in June; in the eurozone, it was 5.5%, compared to 7.9% in the UK. Driven mainly by the impact of austerity, Brexit, and the failure to take proper action to keep a lid on household and business energy bills.

Even monetary hawks are beginning to urge caution over further interest rate hikes because most of the impact from previous interest rate increases has yet to be felt. Largely because of the UK mortgage system, there is a lengthy delay before monetary policy bites, typically of about 18 months. Other inflationary pressures may also fall, although supply-side pressures in the labour market may push in the opposite direction. However, a breakdown on the economy's supply side is a feeble excuse for tighter fiscal and monetary policy to crush demand.

The cost of living crisis, coupled with the monetary policy response, has ended the trend of rising wealth. Resolution Foundation estimates suggest that the wealth-to-GDP ratio fell to around 650% by early 2023. This is by far the biggest fall on record as a proportion of GDP, wiping out £2.1 trillion of household net worth in cash terms.

Practical Assistance

Citizens Advice Scotland has a helpful MoneyMap website that helps find online sources of support. Pension savings are an obvious risk when financial pressures increase. Cutting contributions may be a short-term saving but will result in long-term pensioner poverty. The PLSA has published a guide for pension providers and points to the MoneyHelper guide to managing your money. UNISON has a cost of living tracker, and the BBC page has helpful advice.

Policy solutions

We live in one of the wealthiest countries in the world, and yet in the UK, millions are going without the essentials we all need to get by. Regional differences within Scotland could be addressed by giving councils more flexibility to tackle the cost of living crisis. Local authorities know their communities best. A report for the STUC highlights new options for funding public services like this.

A Resolution Foundation report argues that a return to productivity growth is the central precondition for a return to rising wages in the UK. They have modelled how incomes might change if the UK returned to a more normal period of productivity growth. After a decade, real wages could be 16% higher. But if there is no change in earnings inequality, typical household income would rise by 12% and by slightly more (14%) in the top income quintile. However, incomes at the bottom of the income distribution would see average growth of just 2%.

A new CIPD report makes a case that job quality is important in delivering real growth, prosperity and individual and community wellbeing. There is emerging evidence that job quality and good jobs positively affect productivity, while the links between job quality and mental and physical health are well known. We will be returning to this later this month in a major new Reid Foundation report.

In short, the UK Government needs to stop scapegoating workers for rising inflation and tackle the real causes of rising prices and falling incomes.

Jimmy Reid Foundation

The Jimmy Reid Foundation is a think tank which brings together different voices from across Scotland to make the case for economic, environmental, political and social equity and justice in Scotland and further afield.

<https://reidfoundation.scot>

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