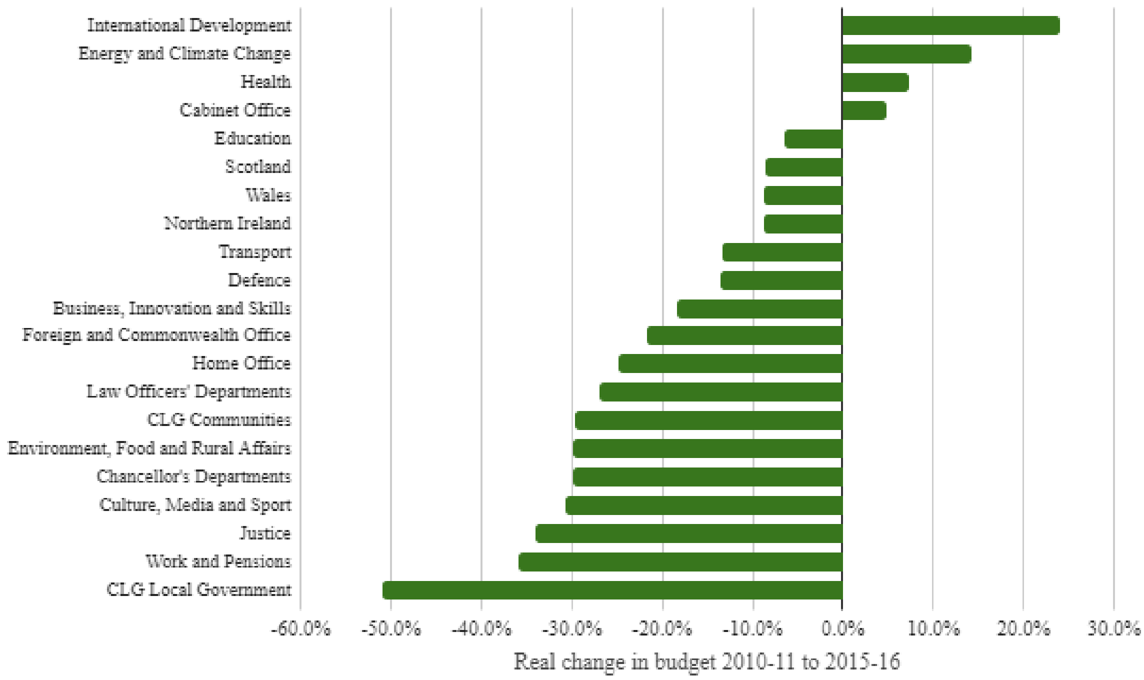
Austerity: Is it all over?

The Coalition government wanted to cut public expenditure by £128 billion by 2016. About £99 billion was to come from public spending cuts and £29 billion from tax rises. The largest element of the tax rises was an increase in VAT which went up from 17.5% to 20%. According to the budget of 2010, the richest were to contribute the most to the cuts while the impact on child poverty was assessed as being statistically insignificant. 1

The chart shows the percentage cuts across a range of government departments between 2010 and 2016. While a few departments such as International Development, Health, and Energy and Climate Change saw an increase in their budgets, most government departments experienced substantial cuts. The largest cuts between 2010 and 2015/16 were directed at local government, with the Department of Local Government and Communities losing 51% of its funding, The Department of Work and Pensions lost 35.8% of its funding. The Home Office budget which covers things such as immigration, security and law and order was cut by 24.9% and the Business, Innovation and Skills department by 18.4%. Scotland, Wales and Northern Ireland all suffered cuts of between 8 and 9%. 2



There were wide difference in the way the cuts affected different parts of the country. For example between 2009 and 2018 there was an 18% fall in the day-to-day spending by local governments in cities. This compared to a 9% fall elsewhere. In cash terms this amounted to a cut of £386 per person in cities compared to £172 per person elsewhere. Cities in the North of England were much harder hit than cities in other areas of Britain. Seven of the 10 cities with the largest cuts are in the North East, North West or Yorkshire. On average northern cities saw a cut of 20% to their spending compared to 9% in cities of the East, South East and South West. 3 One economic historian concluded: *"The burden of these cuts fell especially heavily on poorer areas of England and Wales, as cuts in central government grants did not take into account the greater reliance of such areas on this form of finance (local resources being scarce), or their level of needs."* 4

The cuts proposed in the 2015 budget included a reduction of £13 billion in the social security budget. The combined effect of the changes to taxes and benefits at that point was to reduce the income of the average household by £455 a year. Further changes were introduced in 2017/18. As a result households in the top half of incomes stood to gain, with the greatest gains going to the richest 10%, while the bottom 30 per cent of people on lower incomes would see even more reductions in their income. 5

A recent study concluded that austerity cuts to the NHS, public health and social care have been responsible for the death of thousands of people in England. Researchers from the University of York found that between 2010 and 2014 the spending cuts were linked with 57,550 more deaths than would have been expected. 6 During the period of austerity the Department of Health and Social Care budget continued to grow but at a slower pace than before. Budgets rose by 1.4 per cent each year on average in the 10 years between 2009 and to 2019, compared to an average of 3.7% in previous years. 7

In his budget of October 2021, the Chancellor announced a number of measures intended to improve the economic position of households. They included an increase in the National Living Wage and changes to Universal Credit. The National Living Wage, which applies to people aged 23 and over, was increased from £8.91 to £9.50 per hour. The work allowance, the amount a person can earn before their universal credit payment is affected, was increased by £500. The earnings taper, which refers to the rate a person's universal credit payment is reduced after they start earning more than their allowance, went down from 63% to 55% - that is for every pound earned above the allowance a person's universal credit payment will fall by 55 pence instead of 65 pence. Both these changes mean that people receiving universal credit will have their benefits withdrawn more slowly as their earnings increase.

Although these changes are helpful and will provide more money to those on the lowest incomes, they do not make up for the loss of the £20 increase which was introduced at the start of the pandemic and stopped in October last year. This is the case even for those people who are in work and benefit from the higher National Living Wage. Of the 4.4 million households on Universal Credit, around three-quarters or 3.2 million will be worse off. 8

Overall, day-to-day government spending is set to grow by 3.3 per cent a year in real terms between 2022 and 2025. However despite increases over the next three years, some departments' day-to-day budgets will still be significantly below the levels they were in 2009.

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