

Analysing Rishi Sunak's Inadequate Reaction to the 'Perfect Storm'

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Prices for oil and gas, already rising as a consequence of supply constraints due to reopening of economies following the pandemic, have been adversely affected by Russia, on which much of Europe is very dependent for fuel, invading Ukraine. The price of fuel at filling stations has increased, on average, by about 40p a litre for petrol and 50p a litre for diesel (Tidman, 2022).

Announcements made by Chancellor Rishi Sunak in his spring spending statement seem like 'small beer to those affected by the cost-of-living crisis. Reducing fuel by 5p a litre, saving over £3 on the cost of filling an average car, is hardly going to make a tremendous difference to those who were already struggling.

Significantly, utility bills for gas and electricity, which were due to go up by 54% on 1st April even before Putin decided to invade Ukraine, have been adversely affected by the uncertainty of supply (Sommerlad, 2022). There's a fear that when the next Ofgem (Office of Gas and Electricity Markets) decision on the price cap is taken in August, when demand for fuel is usually reduced meaning prices come down, the effect of war on supply could result in another large hike which would be implemented on 1st October as we approach winter.

Sunak raising the point at which National Insurance Contributions (NICs) takes place by £3,000 to £12,570, equalising it with that at which basic rate tax starts to be paid, is more likely to have some impact. However, welcome as it may be, it hardly addresses the issue of how to deal with increasing poverty.

As Torsten Bell, head of the Resolution Foundation tweeted immediately after the announcement of the rise in NICs believes, this is effectively a tax cut for those in the middle and top of the income distribution as "only £1 in £3 of the benefit goes to the bottom half."

Paul Johnson, head of the Institute of Fiscal Studies, also tweeted that Sunak did nothing for those "subsisting on means tested benefits" who, he points out are likely to face an increase in their cost-of-living of "probably 10% but their benefits will rise by just 3.1%." As if to emphasise the pain that's going to be suffered by those on low income, Johnson stresses that this is after the loss of the £20 uplift in universal credit received during the pandemic.

Writing in the Times, Johnson categorically states his view that the Resolution Foundation's analysis of Sunak's spring statement makes "uncomfortable reading" (2022).

Though Sunak made a number of other announcements including no Value Added Tax on home energy-saving measures such as insulation, solar panels and heat pumps and that the Household Support Fund given to councils to assist the most vulnerable being doubled to £1 billion from April, the view is that in his two years he's been more willing to raise money from taxation than he's willing to lower them. Indeed, under this government taxes have increased more than any other in living memory.

Pointedly, all Sunak's done, cynics suggest, is to give a little back of the taxes he's already collected because of inflation. It's believed that his announcements on Wednesday represent giving back only a sixth of what's going to be collected through previous policies. For instance, in the case of petrol, the fact that VAT collected on petrol has gone up by 7p a litre (9p for diesel), means his 5p reduction will cost the exchequer nothing.

It's no wonder that the OBR (Office for Budget Responsibility), the UK's fiscal 'watchdog' believe that the combination of rising inflation and tax allowances that have been frozen as well as the 1.25% increase in national insurance due to commence in April, will mean that "real living standards" will decline and disposable income will fall by 2.2% in 2022-23, which would be the greatest decline since records began in 1956-57 (Clowes, 2022).

Few would argue that Sunak has a difficult task in finding a way to alleviate the financial strain being experienced by many hundreds of thousands of households discovering incomes, at best, merely cover outgoings. What are referred to as 'jams' (just about managing) are those in this position.

Dreadful as this may be, what's sadly inevitable is that there will be a significant number of households which will join those already in the position of not having sufficient income to cover even the basics of food, utility bills and clothing.

Prior to Sunak's statement in Parliament, ONS (Office for National Statistics) announced that inflation in the 12 months to February had risen to 6.2%, a rise from 5.5% in the twelve months to January, the fastest increase for 30 years (Espiner, 2022). Significantly, this rate is a measure of CPI (consumer price index) which excludes housing costs which is included in the RPI (retail price index). RPI for the 12 months to February is 8.2% (up from 7.8% the previous month).

According to the ONS, the price rises of individual items contributing to the latest inflation figure are as follows:

- Food and non-alcoholic beverages: +5.1%
- Alcoholic beverages and tobacco: +3.5%
- Clothing and footwear: +8.9%
- Housing, water, electricity, gas and other fuels: +7.2%
- Furniture, household equipment and maintenance: +9.1 %
- Health: +2.6%
- Transport: +11.5%
- Communication: +1.1%
- Recreation and culture: +4.7%
- Education: +4.5%
- Restaurants and hotels: +5.0%
- Miscellaneous goods and services: +1.9%

What's depressingly inevitable is that increased costs of energy and commodities will feed into the production costs and that what we're seeing is not a temporary blip but part of what will be a longer trend. The OBR prediction is that though average inflation for the remainder of this year will be 7.4%, it will peak at 8.7% in the fourth quarter, notably the period prior to Christmas, which would be a 40-year high.

Little wonder that many commentators, already expressing concern prior to the spring spending statement, are extremely worried that we're about to see a calamity emerging which is going to result in poverty increasing. The OBR believe that what we're about to experience could be a "worse

blow” than the recessions of the 1990s or 1980s and likely to negatively impact spending power more during the ‘oil shocks’ of the 1970s.

Tim Wallace, Deputy Economics Editor at the Telegraph asserts, what were about to experience will be “a bigger hit than families suffered during the pandemic or the financial meltdown in 2008” (2022).

As charity Joseph Rowntree Foundation in January in its report *UK Poverty 2022: The essential guide to understanding poverty in the UK* point out, 14.5 million people, 22% of the population at currently believed to be in poverty (2022). Last week, Joseph Rowntree Foundation produced a detailed analysis of the likely impact of rising fuel costs on households (2022).

Joseph Rowntree Foundation, in conjunction with energy analysts Cornwall Insight, show that energy costs, taking into consideration the impact of Russia’s invasion of Ukraine, could mean families on low incomes having to pay around £2,000 on average (an increase of around £850 per household compared to 2020-21). This would mean, it explained, £1 in every £5 from low-income family budgets having to be dedicated to energy costs this year.

According to this analysis, lone parent families on low incomes would need to spend 26% of available income on energy. Shockingly, single adult households who are on low income would need to spend almost half their income, 49% of available income on energy.

It’s against a background of economic problems stemming from our departure from the EU, a once-in-a-century health emergency, during which the UK economy was largely closed down, and structural problems which undermines productive capability that the Chancellor is forced to confront the rapidly developing cost-of-living crisis. It’s unlike anything experienced in this country half a century.

It’s becoming apparent we’re confronted by a confluence of factors, not least of which includes an energy crisis caused by supply constraints caused by the reopening of economies following the pandemic been exacerbated by Russia’s invasion of Ukraine.

Reaction to Sunak’s spring spending statement has been unsurprising. Many criticise him for not doing more to alleviate the suffering of the poor. Carys Roberts, executive director at the Institute for Public Policy Studies, believes what he offered are “woefully out of touch with the reality facing millions of families, who face being pulled into poverty and debt.”

Campaign organisation The Resolution Foundation, chime with the views of many that Sunak’s statement may have been big “but poorly targeted policy package” and will do very little to assist those worst affected by the cost-of-living crisis. They believe that absolute poverty will rise by 1.3 million people next year, a figure which includes 500,000 children (Sweney, 2022). This, they stress, should underline how dreadful things are going to become for many millions who have no ability to cope with the shock of rising bills.

Sunak was also criticised for his unwillingness to use more of the financial headroom gained from the ‘war chest’ he accrued from higher tax take and lowered borrowing in the last year (Rees 2022a), to spend more on ensuring all families but, critically, those on low income, are protected from the cost-of-living crisis that’s going to get much worse. Notably, The Resolution Foundation believe, only one out of every eight workers are likely to experience the amount of tax they pay fall by the end of the parliament (Rees, 2022b).

Nonetheless, most believe Sunak has, as Parker and Pickard write in the FT, “banked most of a £50bn windfall” so it can be spent on a pre-election tax cut to enhance the Conservative Party’s prospects (2022). Sunak, it seems, is more interested in his party’s election, not to forget his own career, prospects than the plight of those who are poor and face genuine destitution from what’s increasingly representing a ‘perfect storm’.

Arguments that we cannot afford to intervene in the way seen during the pandemic seem hollow. This was compared to being like dealing with a war. Many contend that the problems we’re experiencing is directly related to this crisis though made much worse by Putin’s madness. Surely, it’s claimed, we should be prepared to continue to support every family which will be confronted with extremely tough choices in the months ahead.

Crucially, as those who’ve studied crises will attest, they are opportunities to innovate and be creative in seeking solutions to ensure a better future. Some two years on from the pandemic, as proved to be the case during the 1970s energy crisis caused by the oil shocks, the Chancellor may be criticised for not being most far more adventurous in engendering a radical change in the way we live, work and travel.

Sunak should have been more effusive in encouraging investment in the green economy through investment by businesses in research and development as well as new products. This would improve levels of productivity and underpin economic recovery which will pay off the public debt Sunak is so concerned about.

Sunak’s concerns about the cost of servicing the national debt, which has grown from £354billion in 2000 to almost £2.5trillion is entirely understandable. Servicing this debt, according to the OBR will cost £83 billion in 2022-23, which is £1,235 for every person in the UK (Duncan and Shapland, 2022).

Equally Sunak needs to provide greater assistance and incentives to every property owner to do more to improve thermal efficiency. His announcements that there’s be no VAT on installation of energy efficiency materials such as insulation, solar panels and heat pumps (Beament, 2022), though very welcome, lacked the sense of urgency required to enthuse the population we should be doing more to reduce dependence on fossil fuels so harmful to the environment.

Let’s face it, if the latest energy crisis should teach us anything, rapidly increasing energy costs have a major impact on the budgets of almost literally every household and business. ‘Fuel poverty’ is going to rise at an alarming rate in future months.

Sunak needs to provide incentives to urgently improve insulation of our homes as well as creating higher levels of fuel self-sufficiency. Currently, of those able to live without consuming energy from utility companies, Off-Grid Net (2022) estimate there are about 200,000 who can, However, only “25,000 live in conventional houses” (Kelly, 2021).

Politically, the tumultuous 1970s led to the 1980s in which neoliberalism under Margaret Thatcher in the UK and Ronald Reagan in the US became the orthodox political doctrine. Markets and the power of firms to solve our problems held sway.

Though somewhat idealistic, it’s to be hoped the current crisis leads to reconsideration of existing thinking. In particular, our government should dedicate effort to be creating collaborative action between public and private organisations through investment to produce a better, cleaner, greener economy.

If this were to occur, we'd as happened after the second world war, a long-term consequence would be a society and economy better able to serve individual need and, importantly, work in our collective interest.

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