

## Economics – The Dismal Science.

Economics is really the study of scarcity, and how scarce resources are allocated. Like all sciences, it is amoral in that it does not provide a moral basis for its conclusions. Nor does it have anything to say about the emotional issues of blame for the present straitened circumstances many nations find themselves in, such as banker's bonuses, or profligate spending; it deals only with models, predictions, and cold figures. Whilst studying economics in the 1960s we were also required to read Economic History, presumably to enable us to learn from the lessons of the past. Recently on Radio 4, a group of academics looked at the "Great Crash" of 1929 in the USA, which had a knock on effect throughout the world, and sought to draw parallels with the situation that arose in 2008. Basically the crash of 1929 was fuelled by easy credit, and the advent of mass production which led to an unprecedented rise in consumption. The stock market boomed, and many people borrowed money to cash in on the Bonanza. Many people look to the huge rise in property values on which much of the growth in the UK was based, and the expectation that it would continue as at least part of the reason for the economic problems we now face. This too has an historical parallel in the Florida Land Boom of the 1920s. Florida is warm, and in the 1920s as Americans were able to travel, more of them wanted to live there. It became the place to make money. People borrowed to invest there, anxious not to be left behind in the process of making money for literally doing nothing. Many people did make money. One man's investment increased by \$750 an hour, when in 1923 he bought a small lot for \$11,000 at three in the afternoon, and sold it two hours later for \$12,500. As ever, it was dependent on people always being willing to come forward and invest money, and by 1925 confidence and money had both run out. As soon as confidence wanes and the money runs out you get a crash. In the USA property and stock values did not regain their pre-crash value until 1954. Now you can see why it is called the Dismal Science!

Just to provide a little balance, economics can warn, advise and provide solutions which enable people to work, earn a living, and provide for the future. Some people dismiss money (the common currency of economics) as being relatively unimportant, but nothing happens without it. To provide the family centres in this diocese requires something like a million pounds every year. To make it work we need business plans and a strategy for financing these centres in the future. Without money they would never have got off the ground; without money they cannot carry on the wonderful work they do amongst some of the most deprived and needy people who are our neighbours.

Jesus did not have much to say about economics, but he did have a lot to say about the rich and the poor, and about our relationship with money. The parable from St Luke's Gospel about the man who built greater barns to store his wealth is a good illustration. He had made his pile, but then death intervened, and to quote a phrase beloved of my friend Peter, there are no pockets in a shroud! The love of money for its own sake is the problem, and it seems that in our society, for many people you just cannot have too much of the stuff. Money is the determinant of choice, and strangely in the society that we have created also determines how free we are. There is also almost incontrovertible evidence that the gap between rich and poor is growing. In May this year the OECD (Organisation for Economic Co-operation and Development) published a report on **income** inequality in most developed countries, including the U.K. and offered three reasons why this is happening:

- Robots etc. Technology is increasing in complexity, and this has disproportionately benefited highly skilled workers.
- Rich people marry rich people. It's true, and is known by the rather creepy phenomenon of "assertative mating."
- More privatisation means the jobs market is more competitive, and the well qualified are surging ahead. The down side of this is that in recession wages tend to fall.

On April 13<sup>th</sup> this year, Dominique Strauss-Khann, whilst he was still in charge of the International Monetary Fund in an address to the G20 spoke of a "dangerous cocktail of high unemployment and rising inequality", and not just in the developing countries. The context of his speech was the events of the Arab Spring, but he went on to speak about the necessity of providing safety nets to dampen the worst effects of "market driven inequality."

Recent research published by the "Resolution Foundation" puts it very starkly. They began by asserting that over the past 30 years, the proportion of National Income going to the bottom half of British earners has fallen by 25%. Imagine £100 created by the British economy. Only £12 of that is paid to the bottom 50% of wage earners, and this is down from £16 in 1977. £14 is paid to the top 10%, and the top 1% get £3, but if bonuses and incentive payments are added to this, it rises to £5. This is the reality about the economics of poverty, and the gap has increased across all sectors of the economy.

In a previous paper, "Poverty in Wales" I alluded to "Minimum Income Levels" now called "Minimum Income Standards" and these have recently been updated by the Joseph Rowntree Foundation. I think they are useful because they give a realistic figure on what money is **needed** for social inclusion.

### **What are Minimum Income Standards?**

Minimum Income Levels were introduced in 2008 by the Joseph Rowntree Foundation. They are designed to illustrate what a person or a family need in terms of income to participate fully in society, and lead what is termed a "socially acceptable standard of living." This is a difficult concept, but comes from initial research conducted by the Trust. It comprised 39 groups, each one composed of individuals from the types of households cited by the Trust, (pensioners, individuals, couples with children etc.). These groups were informed by specialists, such as nutritionists, teachers, heating engineers, and concentrated on needs, rather than wants. It looked at the needs of individuals and families under the following headings:

Food, clothing, accommodation, utilities, fuel, household goods, personal goods and services, transport, social and cultural activities.

Governments have always been concerned with "relative" poverty and social exclusion, but are obviously constrained by the economic problems posed by the size of the deficit in public finances. They continue to define poverty as people living on 60% of median income, but these amounts are well below Minimum Income Standards calculated by the Joseph Rowntree Trust. Out of work benefits amount to 40 to 50% of Minimum Income Standards, and the situation is likely to get worse for many poorer families as inflation continues to eat into family budgets.

## **Inflation?**

There are two figures published by the government for inflation:

Consumer Price Index (CPI)      Currently 4.2%

Retail Price Index (RPI)        Currently 5.0%

Both indexes are worked out on a spread of 650 consumer goods and services over 150 areas of the UK. The RPI is higher because it includes costs associated with owner occupation of property and depreciation. Both indices include things like transport, food, fuel costs, as well as alcohol, insurance, telephone and entertainment costs. Think of it like a basket of shopping. You don't buy all the items every week, so the assumption is that most of these goods will be purchased over the course of a year, and in February each year the basket is examined and up-rated. The effect of inflation is to increase prices, but it also effectively lessens your income as you need more money to buy the same goods. For people with savings, it means that your savings are probably going to be worth less, simply because they will buy less.

The implications for the poor are more serious, because they tend to spend a greater proportion of their income on fuel and food, which are experiencing the highest rises in price. The decision by British Gas to raise energy prices by up to 19% is seen by many analysts to be ushering in a new age of very expensive energy and fuel poverty (10% or more of your income going to pay for fuel). Fuel is inextricably linked to transport, and that too will increase in price.

To put it in perspective over the past ten years the cost of the basket of goods and services used to work out the inflation rate has increased by 43% using the RPI and 27% if the CPI is used. The really big problem for low income families that rely on benefits and tax credits is that these benefits are now up-rated by the CPI. Child benefit has been frozen, and some families will have lost tax credits.

## **So what are the Minimum Income Standards now (20.07.2011)?**

The latest figures published by the Joseph Rowntree Foundation, and which can be accessed on their web site indicate that to meet the Minimum Income Standard:

- Families (two children) with one earner need to gross £31,600
- Both parents working need to earn £18,400 each
- Lone Parent needs to earn £18,200
- Single person with no dependents needs £15,000
- Pensioner couple need £233 a week for essentials

It is worth pointing out at this stage that it is impossible to reach these amounts if you are in work and being paid the minimum wage. In October 2010 the minimum wage for people over 21 was £5.93 per hour.

Minimum Income Standards are best illustrated by looking at 4 scenarios, and the following table deals with the amount of money needed per week. Again, the figures do not include housing costs.

This translates into weekly amounts:

Family	Single working Age person	Pensioner Couple	Couple with two children	Lone Parent and one child.
Weekly Budget	184.68	232.74	424.65	246.37
%age inflation	5.3%	4.7%	5.4%	5.4%
%age of median Income(after Housing costs) To meet MIS.	74%	54%	74%	73%
%age of budget Provided by I.S. And PC	40%	100%	62%	64%

The last bit means Income Support (IS) and Pension Credit (PC)

Median income is the dividing line between the amounts earned – 50% above and 50% below. The latest government figures I can find are for April 2010, when they were £538 per week for men and £439 for women. They are based on people working full time. Over the year April 2010 to April 2011, average earnings have increased by between 2.0% and 2.3%.

### Conclusion.

I began with the proposition that economics is a dismal science, but I think we need to have a realistic view of the society in which we live, and how different groups of people fare. All I seek to do is to raise awareness of these issues, in order that the Church can speak up for the most

disadvantaged people in society. I see things getting more difficult, and organisations like the Rowntree Foundation, Bevan Foundation, and Resolution Foundation are supplying us with a picture of what is happening in our society.

Back in 1845 Disraeli wrote a novel called *Sybil*, which was the story of “Two nations: between whom there is no intercourse and no sympathy, who are as ignorant of each other’s habits, thoughts and feelings, as if they were inhabitants of different zones, or inhabitants of different planets: The Rich and the Poor.” Whilst social conditions, pensions, and education have improved immeasurably since then, the gap between the rich and the poor was wider at the end of the last government than ever before in the UK, and as I have demonstrated the gap is continuing to widen.

Timothy Radcliffe, a Dominican Friar, published a book entitled “What is the Point of Being a Christian?” In Chapter 7 he writes that “the Christian longing is for a home where no one is excluded unless they so choose.” He chooses as his illustration the story from St Luke’s Gospel about the rich man and his barns.” I have already alluded to it as an example of self centeredness; of personal contentment. Then comes the judgement – Fool! Somehow, the Church has to persuade people to turn away from “I” to “we”. The aim of Christianity is to enable people to flourish, to attain their full potential, and in so doing reflect something of the Glory of God. The Church is called to be a sign of the unity of humanity, and the poverty that I see through these figures is in a very real sense the sign of an unjust society.

Richard Walker.