

British economy policy is not helping those at the bottom

 [economist.com/blogs/freeexchange/2016/07/pointer-new-chancellor](https://www.economist.com/blogs/freeexchange/2016/07/pointer-new-chancellor)

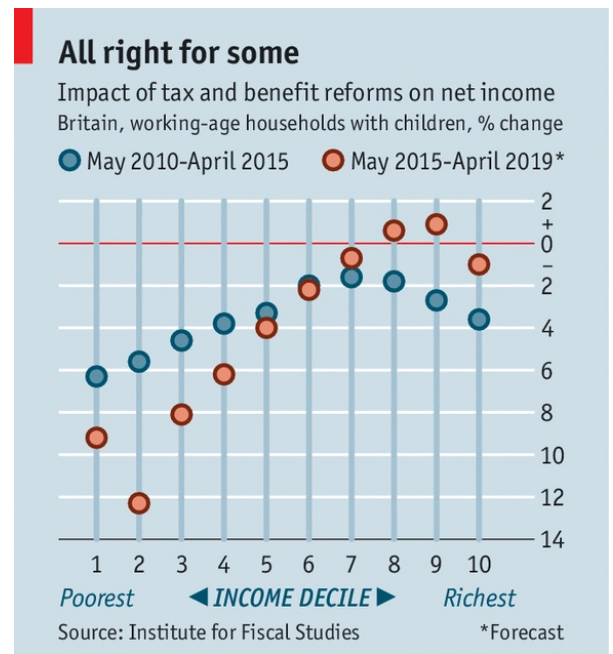
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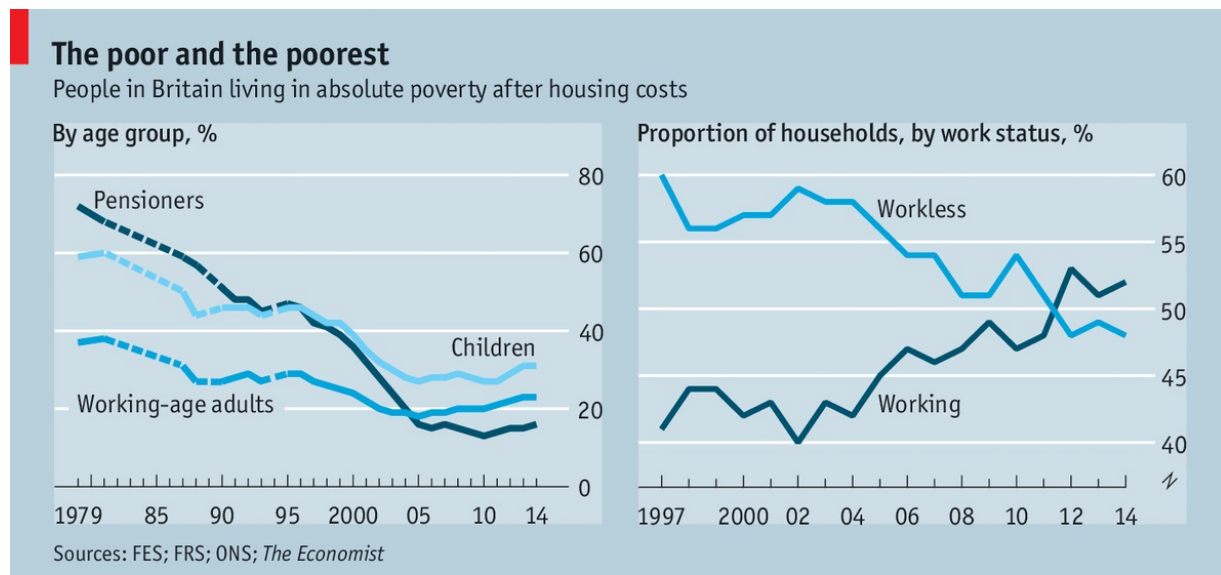
WHAT should the new chancellor, Philip Hammond, do? Some sort of fiscal boost seems likely in light of [Britain's slowing economy](#). Much of the talk has been about infrastructure: Stephen Crabb, who challenged Theresa May for the prime-ministership, proposed a £100 billion to fund it. A focus on infrastructure is welcome; but the government also needs to do more for those at the bottom. This would make sense both economically and politically.

Current government policy is extremely regressive. The plan is to save £12 billion in working-age welfare between now and 2020. The Institute for Fiscal Studies has forecast that over that period tax-and-benefit changes will hit those at the bottom much harder than those at the top (see chart). Someone in the second-poorest income decile is expected to see their income fall by about 12% as a result of welfare changes, whereas those towards the top will see little if any change. It is surprising quite how few people realise Britain's direction of travel in this regard.

The result is that it is quite possible that by 2020 people at the bottom will be poorer in real terms than when the Conservative government took power in 2010. Absolute poverty has already been rising for about a decade (see the second chart), and that trend may well continue. Working poverty has risen as various in-work benefits, like tax credits, have been scaled back. To many, this may not seem an acceptable state of affairs.



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A speech by Andy Haldane, the chief economist of the Bank of England, is thus right to argue that Britain's economic recovery (which in any case may be at an end) has been "for many partial and patchy and for some invisible". £12 billion of cuts only saves about 1.5% of expected government outlays in 2020; but it makes a big difference to people at the bottom.

On political grounds, reversing some of these tax-and-benefit changes makes sense. There is a growing sense in Britain that the country is divided. Making it more so is not a good idea. And Mr Hammond will surely be keen to distance himself from his predecessor, George Osborne.

In addition, it may make sense economically to help those at the bottom. In econo-jargon, poor folk have a higher "marginal propensity to consume", ie, they tend to spend, not save any extra money they get. This is good for economic growth. So I, for one, hope that welfare policy gets a bit looser in the coming months.