How are Rising Costs of Living Affecting the Most Vulnerable?

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The collective repercussions of the COVID-19 pandemic and Russia's invasion of Ukraine have intensified a global cost-of-living crisis that threatens extreme hardship for many. Russia and Ukraine contributed to almost 25% and 14% of worldwide wheat and corn exports respectively. By itself, Russia was the prime exporter of natural gas and the second biggest crude oil exporter before the war. Now, supply-chain disruptions have catalysed an unprecedented cost-of-living crisis that the International Monetary Fund notes will impact the developing world at a projected inflation rate of 8.7% this year, as opposed to 5.7% in advanced economies. It has also exacerbated systemic inequalities for already disadvantaged groups in the UK, where essentials take up more than half of disposable income for the poorest 1/5th of society.

As we observe the above economic turbulence, it becomes clear that disadvantaged populations with high food and fuel costs face accelerated vulnerability and reduced welfare across the board. Thus, it becomes necessary to explore the existing risks diverse populations face, and how they will be compounded by the cost-of-living crisis.

How are Low-Income Households in the UK Affected?

Homing in on the UK, a decade of austerity and stagnated economic growth, combined with a pandemic and conflict on the world stage has left those with the lowest incomes in the worst outcomes. We find that disparity is steadily increasing: the inflation rate stands at 9.4% as of July 2022, the highest recorded since the 1980s. To put this into perspective, from June 2021 to July of this year, costs of essential foods such as butter and whole milk rose by 21.5% and 18.6% respectively. At the same time, wages are not rising proportionately: between March – May 2022, regular pay without bonuses fell 2.8% from last year. Considering the Treasury's indication that incoming pay deals will not necessarily match the costs of living, broadening gaps for disadvantaged groups in the country have become increasingly apparent.

This disparity becomes noteworthy especially now, two years after the initial emergence of COVID-19. It has inevitably caused a shift in working and labour organisation patterns worldwide. Thus, a "two-speed" labour market exists in the UK, where specific skilled and innovation-driven jobs receive more significant pay increases. Other industries such as manufacturing face less flexibility, insecure pay, and heightened difficulty in today's cost-of-living crisis. This indicates that many will struggle to escape low-skilled, underpaid work unless employers invest in skills training. As data shows that aggregate bills are already higher than income for the poorest 60% of society, there is indeed cause for grave concern.

With average petrol and diesel prices hitting 12-month highs of 191.53 pence per litre and 199.05 pence per litre respectively as of July 2022, the burden on households facing high food and energy costs increases steeply. A recent survey of 4000 low-income families with incomes below £25,000 per annum finds that 1 in 5 survive without sufficient food or heating, which averages 2.5 million households in the UK. About 40% (weighted out to 4.6 million households) were unable to pay at least one bill.

Against this backdrop of unsteady pay and spiraling fuel prices, gig economy workers such as self-employed drivers are some of the most at-risk communities. This is because they uphold full responsibility of the costs of vehicles, fuel, maintenance, and insurance, and thus absorb the brunt of rising inflation in turn. In the year ending March 2022, there were 202,700 licensed private hire vehicles (PHV) and 14,200 licensed private hire operators in England. Out of total driver licenses documented, 214,300 were PHV-only licenses. This data may be unrepresentative as some drivers may work without licenses or hold licenses but not work as drivers, however it nevertheless indicates the growing existence of independent drivers who work for ride-hailing platforms such as Uber and Bolt. Platforms have reacted to rising costs by slashing workers' benefits or by refusing to increase fares, and this has resulted in strikes nationwide.

Earlier in May, for example, delivery drivers for Deliveroo, Uber Eats, and Just Eat boycotted the apps calling for better pay and worker protection. While a Supreme Court ruling from 2021 entitled Uber drivers rights to a living wage, pension, and holiday pay, the platform responded by increasing its commission by 25%. For many Uber drivers, this makes the legal ruling largely redundant, and if inflation continues to rise, many platform drivers may exit the gig economy for good. For others, the introduction of flat rates may cause less and less drivers to take up shorter journeys such as those on apps that advertise quick deliveries – this shows that the driver shortage is a myth, and in actuality drivers are merely being selective with their rides as they struggle to cover rising costs.

These issues accumulating on a foundation of precarious economic conditions suggest that policies such as tax-cuts and reducing debt repayments from benefits will be increasingly necessary.

Faults in the System

Escalating costs also reveal systemic weaknesses such as those in the social security system, which impact the mental health of those dependent on benefits. Changes in the Universal Credit system have included payment cuts not congruent to rising inflation – out-of-work payments have hit record lows after 30 years. The benefit cap has received criticism for increasing financial hardship and aggravating mental health issues. Applied to households with incomes below £617 per month, it fell from £26,000 in 2013 to £23,000 and £20,000 in 2016 for those in London and outside London, respectively. This policy change increased the number of households facing mental health issues from 21% to 30% in the immediate months after. In the face of worsening inflation, the benefit cap's primary objective of compelling people to work fails: strict caps deter people from joining the labour market as their mental health deteriorates and working becomes more stressful than before.

Structural impacts amidst the cost-of-living crisis extend to physical health. Research by Macmillan Cancer Support finds that cancer patients' quality of life is negatively affected with additional average costs of £891 monthly. Correspondingly, claimants of Personal Independence Payments (PIP) found their first payments delayed by an average of 22 weeks. Such time lags have severe detriment to cancer patients who already face exorbitant costs of treatment and travel to appointments, as well as docks in income from being unable to work. It is also found that as energy costs increase, about 1 million (32%) cancer patients have had to turn to alternate measures like wearing extra layers inside to keep warm. Other cost-cutting solutions that may ultimately be harmful for those undergoing active treatment include washing garments less and eating fewer hot meals. Particularly when those with a cancer diagnosis require maximum nutrition and care, these dire circumstances signify how those with health issues are most affected by rising costs.

Impact on Domestic Abuse Victims

Evidence shows a strong connection between the cost-of-living crisis and the strain on domestic abuse shelters. This link is created by two crucial factors; financial burden becoming a catalyst for abusive tendencies, and rising costs further decreasing resources and mobility for victims wanting to escape violent situations or leave refuge. The University of Loughborough found that the cost of relocating from a shelter this year increased by £1,500 from 2020, and the cost of living in the 1st year after relocation has risen by £5,000. Data from Refuge, the UK's largest charity for domestic abuse victims, showed how frontline workers think the nature of their work has changed in the face of rising costs. 92% reported that survivors they support are going into debt due to rising costs and that the kind of support they have to give is changing. Now, 85% are devoting more time to victims going through debt and 76% to helping victims access food and other essentials. It is noted that financial abuse is a prevalent manipulation tactic inflicted upon domestic abuse victims, with the aggressor often being the head of the household or the sole controller of sources of income. This involves the victims' inability to work, access education, and aggressors often accumulating debt in the victims' names. This contextualises already bleak situations with lack of resources and mobility that the cost-of-living crisis is aggravating. Exploring the intersection of costs of living and domestic abuse is thus essential in understanding the complexities of violence and exploring what government, charities, and other organisational structures can do to better support victims.

With predictions that in 2023 – 2024 aggregate bills will be 130% of disposable income for the poorest 60% of UK households, policies must be navigated to protect the most vulnerable as far as possible. UCL Economics Professor Mazzucato notes a need to overhaul the UK's current financialized economy in which heavy dependence on loans has led to an imbalance in the ratio of private debt to disposable income. While the government has taken adequate measures such as introducing a 25% windfall tax on profits made by energy companies for the upcoming year, much more can be done such as introducing more comprehensive benefits for lowest-income households especially in terms of energy grants.

Crucially, the setbacks of the cost-of-living crisis are not limited to advanced economies such as the UK. Developing countries across the globe – and disadvantaged groups within them – have unique challenges to face during this time as well, especially those heavily dependent on commodity imports. Analyses of 159 countries signify that soaring inflation could increase the population living at the $1.90-poverty-line by 51.6 million globally. The hubs of the most extreme impacts across all poverty lines include Ghana and Rwanda in sub-Saharan Africa, Armenia and Uzbekistan from the Caspian Basin, Pakistan and Sri Lanka in South Asia, and Haiti in Latin America.

Previous findings forewarn the effects of this crisis on food insecurity in developing economies. Many are still reeling from the initial harm inflicted by the onset of COVID-19. The International Labour Organisation estimated that in the first 9 months of 2020, the number of hours worked worldwide decreased by 17% compared to the last 3 months of 2019 alone, equivalent to 500 million jobs. While countries like the United States were able to relatively minimise damage to economic activity through stimulus payments, the same cannot be said for poorer nations with a lack of resources, where loss of employment and food price shocks continue to disproportionately affect low-income households allocating as much as 70% of their earnings to food. Data from February – June 2022 displays this: 94.1% and 88.9% of low and lower-middle income countries respectively have experienced high food inflation rates above 5%.

These figures have amplified discontent in the developing world alongside plummeting economies. Iran, for example, has seen a rise in protests over the last few months as costs of food necessities like poultry rose by 300% from April to May 2022. With more than half of Iranians living below the poverty line, this signals rapidly declining living standards. Similarly, Somalia, which has long been suffering from drought, relied on Russia and Ukraine for most of its wheat imports. Now, with the war, and wheat prices predicted to increase by a record of more than 40% this year, it is on high alert for catastrophic famine conditions.

Strikingly, breakdowns in food supply-chains, policy responses including food export bans in 18 countries, and pronounced income/price fluctuations have also caused global changes in consumption patterns. Demand for nutrient-rich foods like fruits, vegetables, and animal protein has starkly reduced, while demand for rice, sugar, and other carbohydrates has increased sharply. This is alarming as malnutrition is an ongoing humanitarian crisis that jeopardises the wellbeing of children and preludes a grave projection of 49 million people falling into famine-like circumstances across 46 countries this year. We can draw comparisons to the food crisis in 2008, where some studies estimate that percentages of children from the lowest-income families dropping out of school were as high as 50%.

In coming months, the effects of the war will be felt most through limited access to fertilisers from Russia; this will hinder agricultural production and availability of crucial commodities in international markets. Furthermore, emergency export bans may potentially increase inflation momentum and paralyse countries reliant on necessary food imports. A global economy already brutalised by a pandemic and now coupled with the unforeseeable fallout of war, it will struggle to regulate food supplies to combat worsening inequality in developing and low-income countries. Simultaneously, the combined ramifications of these factors extend to energy supplies also.

The shock waves of the Ukraine invasion on energy cannot be understated: the world is experiencing the highest 2-year price increase since 1973. Evidently, in the year ending 31st May 2022, more than two-thirds of the 166.8% international price rise in natural gas and approximately half of the 73.5% price rise in crude oil were logged after the start of the war in February 2022. This major jump adds to the strain on energy supplies after demand already increased in 2021 due to post COVID-19 economic resurgence.

Many governments have adopted energy subsidies and tax cuts to impede skyrocketing fuel prices, and 65% of over 100 such policy measures introduced recently were concentrated in developing economies. While the reasoning for such actions is to tackle soaring prices and protect consumers urgently, this may be counter-intuitive and can worsen the issue via surges in energy demand. There is also indication that blanket subsidies cause diversion of crucial budgets from areas like education and healthcare, encourage more borrowing, and can widen the rich-poor divide. Past exposure to energy subsidies proves this: a 2013 IMF study of low and middle-income countries found that the top 20% of households received 6 times more benefits from fuel subsidies than the lowest 20%. Perhaps the longer such interim measures last, the harder they will be to terminate without resulting in some form of sociopolitical backlash and exacerbating the vulnerability of poor households.

Although many developed nations have had buffers such as the International Energy Agency to rely on, especially after the 1973 OPEC oil crisis, others remain susceptible to oscillations in energy markets especially those dependent on energy imports. For instance, Pakistan is suffering from one of its worst inflationary crises in 14 years, with the inflation rate standing at a steep 24.9% at the end of July 2022. The steep devaluation of the *rupee*, foreign reserves being sufficient for only about 45 days of imports as of July 2022, and added energy demand via summer heatwaves have resulted in electricity costs soaring. Fuel traders are apprehensive about selling to Pakistan despite the IMF pledging funds to the country – diesel, gasoline, and fuel oil imports dipped by 15% from June to July 2022. A consequence of these factors is an increase in load-shedding – the act of periodically cutting off electricity to different areas to manage increasing energy demand and insufficient supply. This can lead to economic stagnation as flow of operations is disrupted, especially in sectors such as healthcare and agriculture, where electric machinery is imperative for productivity.

Ripple effects also materialise in places like Lebanon, where inflation has entered triple digits at a historic rate of 210% as of July 2022. This cost-of-living crisis which is the worst the country has seen since civil war times in 1987 is the culmination of unstable politics, ballooning debt, and lifting of key subsidies, among other reasons. The effects are also alarming as the Ministry of Energy and Water was stormed at the end of July 2022 with protestors rallying for support against power-cuts, overdependence on fuel imports, and unaffordability of private generators. With 20 litres of fuel estimated to amount to 1 month of minimum wage, people will struggle to keep costs in check. This comes as no surprise due to ¾ of Lebanese living below the poverty line and state electricity being distributed on an average of 2-3 hours daily. Consistent power-cuts lead to less running water being pumped to households and farms. In areas like Majdel Aanjar in northeastern Lebanon that houses not just 25,000 Lebanese but 32,000 Syrian migrant refugees, lack of electricity and water can add to the risk of sectarian conflict.

Elsewhere, protests broke out in June and resulted in a minimum of 8 deaths in Ecuador, where roughly 32% of the population earns less than $3 daily and rising prices have resulted in a rising demand for fuel subsidies. While the inflation rate fell to 3.9% in July 2022 after a record 7-year high of 4.23% in June, consumer prices continue to climb on a monthly basis. Energy expert Jason Bordoff at Columbia University frames the gravity of the crisis for the Global South: "You're going to see, I think, worse risk of rolling blackouts and trouble keeping the lights on and the electricity going in parts of the world that are lower income and don't have stable electricity grids to begin with.".

Addressing the cost-of-living crisis in developing countries therefore requires assessment of how to protect the poorest households sinking the most due to food and fuel costs, while simultaneously balancing limited fiscal space and vicious debt-cycles. Different economies face varying developmental obstacles, whether this be burgeoning food poverty, depleting foreign reserves, trade restrictions, or intensifying conflict. Each may have to implement tailored policies that not only provide short-term financial relief to suffering households, but set resources up to better withstand economic shocks in the long-term.

Overall, understanding the needs of disadvantaged groups within the UK and on a larger scale in global hotspots requires reexamining systems already in place that sustain inequality. This becomes integral to solving the crisis and breaking out of inflationary cycles threatening to aggravate the gap between developed vs. developing economies.

The Inclusion Initiative (TII) at the London School of Economics launched in November 2020. TII leverages behavioural science insights to advance our understanding of the factors that enhance inclusion at work. Our first area of focus is the financial and professional services. Over the next three years we aim to build an open source research repository that houses rigorous and relevant research related to inclusion at work, in the financial and professional services and beyond.

The Uggla Scholar Programme is designed to help new students at LSE gain a global perspective, achieve academic excellence and develop civic leadership skills.