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**Market entitlement and the
foundational economy/FE 4
metric after the “cost of living
crisis”**

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Summary of the argument

Our starting point is the cost-of-living crisis, which has highlighted the central role of Foundational Economy 4 (FE4) essentials (housing, utilities, food and transport) as ‘unavoidable’ household expenses. Our new argument in this working paper is based on cross-country empirical analysis (from household expenditure surveys) of national similarities and differences in patterns of household spending before and during the Ukraine War shock.

What was/is the FE4 share in net expenditure for low-income households in Austria, Belgium, France, Germany, Italy and the UK? Before the Ukraine war, it ranged from 46-72% of low-income household net expenditure in 6 West European countries. The percentages have increased everywhere due to this external shock which is also a ‘man-made’ crisis as a result of the way the Foundational Economy (FE) is currently governed.

In a nutshell our insight is that the FE4 has a role to play as a stabilizer of liveability in economy and society, outside the classic domain of the “welfare state” and other measures that work as ‘automatic stabilizers’. This is a point that was made about cities in our grounded city argument a few years ago and is supported by historical accounts of city development.

But now the current crisis gives us a ‘natural experiment’ showing what happens if you manage the FE in a way so that FE4 it cannot perform that stabilizing function. Despite national differences of political economy, the underlying pan-European problem here is a general tendency to marketize the FE.

This increases the importance of ‘market entitlement’ where households need to buy commodified FE4 essentials from income. As such FE market citizenship – even before the current crisis – was a vector of inequality rather than a vehicle for redistribution; but this remained tolerable in a period of sustained low prices and relative stability in energy and food markets.

The ‘entitlement’ of households before the shock was underpinned through an implicit social contract whereby the state stepped aside, and cheap essentials could and would be provided through global markets; sustained low energy and food prices had encouraged a high degree of complacency amongst the political classes who assumed the FE could be governed through prices with much essential provision for households left to the market.

But this is now challenged by events. As might have been anticipated, the energy and food markets were price volatile, external governors; and their price spikes had direct effects on

transport and indirect effects on housing costs in a new period which brought inflation and the end of cheap money.

On closer scrutiny, the FE4 metrics show that while the energy price spike was the midwife of the cost-of-living crisis it is not its creator *per se*. If we review the pre-crisis position, the weight of expenditure on housing makes it the cornerstone of foundational spending and, in the long run, the national housing settlement has a much higher (distributional) impact on society.

Before the crisis, housing accounts for at least 30% or more of low-income household spend in Belgium, Germany and Italy. The near 2:1 difference in the percentage importance of housing costs in adjacent Germany and Austria brings out the importance of Austria's low-cost housing settlement. The cost of UK housing benefit and the way it regressively subsidises asset acquisition by private landlords demonstrates how attempts to solve housing problems in a market governance frame can be self-defeating.

But in 2022 the reaction of those in power to cost of living crisis did not lead to a fundamental alteration of governance and a retreat from commodification. European national policy responses were within the market entitlement frame. The preferred solution was mainly to 'correct' the market problem by emergency measures which reduced the price of energy or increased the income of households.

The Breugel think tank's calculations show that in the EU and the UK nearly three-quarters of allocated spend was directed to reducing energy prices rather than raising household incomes. And most of the price reductions and income supports were universal and not targeted. The outcome was that in the EU and UK, six times as much was spent on universal not selective policies.

The logic of universality on price and income was regressive distribution with larger cash handouts to middle- and upper-income groups that did not need support because their residual incomes, after FE4 spend, were not seriously squeezed or negative. While low-income households were left with options to go cold or hungry because those in power are mainly responding to crisis in ways which legitimize a social contract based on market entitlement.

The European response was also riven by contradiction. After initial hesitation, centrist and right wing national European governments accepted the necessity for increased government spending on price subvention and income support which implied higher debt/ GDP ratios. But at the same time, they maintained a logic of "responsible" austerity implying that cuts need to be made elsewhere, through increases in pension age and such like.

One cannot understand that contradiction without acknowledging the alignment between market entitlement and electoral populism amongst those in power and their challengers from centre-left and centre-right in various European countries. Pleasing the middle classes is their electoral strategy.

Meanwhile national crisis response measures did nothing to fundamentally reform the market governance of the FE and does not bring us closer either to reinstating the function of FE4 as stabilizer or to mobilizing the FE as an engine for ecological/environmental transition. They maintain the problematic discrepancies between the privileged who can easily afford to spend more on FE4 essentials in an environmentally damaging way and those at the bottom of the income distribution who do not have the means to do what is necessary.

When the FE has a key role to play as a stabilizer in economy and society, decommodification of FE4 must be a central aim of progressive politics. If the strategy is one of adaptive reuse, housing should be the immediate target because of its weight in spending and its role as the main vector of inequality. The metrics show that having a larger non-commodified section of the housing system shelters society from volatility (and the inverse is true, as in the case of countries like Greece, which is not in our study).

Market entitlement and the Foundational Economy 4 metric after the “cost of living crisis”

David Bassens, Julie Froud, Colin Haslam, Sukhdev Johal, Karel Williams¹

Some years ago in an article on cities we proposed a new territorial standard of socio-economic achievement. The grounded city (or region or country) was one which secured access to the foundational goods and services which all should have as a right. Our new standard of achievement was then “internal ability to distribute mundane goods and services which ensure the civilized life of the largest number of people” because this was directly relevant to living standards².

The old, established territorial standard was then size and growth of per capita marketable output (GDP or GVA) which ignores planetary limits and provides a much more indirect measure of living standards. Whether growth can or does produce higher wages for all is now doubtful. This is especially so in G7 countries where productivity growth has been mediocre since the Great Financial Crisis (GFC) and where the gains from efficiency can be captured by capital and any gains by labour may not come through in higher wages for low paid workers.

But despite our arguments for a new grounded standard of access to foundational goods, the old size and growth of output standard continued to dominate discussion for several reasons. First, as explained below, policy makers were complacent about market entitlement and assumed wages would buy adequate supplies of commodified foundational goods. This was especially so in Europe where wages were backed up by welfare state provision which was regarded as a privileged stabiliser of capitalism. Second, the grounded standard did not come with any kind of metric that could challenge GVA and GDP per capita.

But we are now in the middle of a “cost of living crisis” driven by the rising price of essentials like energy and food squeezing residual income of all households and leading to heating vs eating choices for many households on low wages. In sum, market entitlement is failing, and, in this context, we now propose a new liveability measure of **grounded achievement**. Hence the FE 4 metric which calculates the percentage of household expenditure accounted for by four foundational essentials (energy, food, housing and transport) within a territory; and does so in a way which allow comparisons across time and space in Europe.

1. Market entitlement: and the stabilizing of capitalist economies

Failure of market entitlement is a regular feature in low- income “pre-industrial” societies where half or more of the wage labourer’s income is spent on food so that affordability is

¹ The named authors who drafted this working paper have benefited from extended discussion in Zoom meetings of the Collective. Our especial thanks to ther Austrian researchers who are working in parallel on these issues.

² Engelen, E., Johal, S., Salento, A. and Williams, K. (2014), ‘How to build a fairer city’, The Guardian, 24th Sept. <https://www.theguardian.com/cities/2014/sep/24/manifesto-fairer-grounded-city-sustainable-transport-broadband-housing>

routinely challenging, and wages cannot cover fluctuations in the market prices of staple foodstuffs. Before and without a welfare state, we then have local or national policies which provide selective assistance for low-wage households by subsidising wages or prices often under pressure of food riots as in 18th century England or Egypt in 1977.

- In England in the early 19th century, we have local wage subvention. The worst paid workers were agricultural labourers who spent 75% of their income on food and over half on bread³. Consequently, in the Napoleonic Wars when grain imports were cut off, the so called Speenhamland system in the south of England used public funds locally to subvent rural wages according to the price of bread.
- In our own time, there are echoes of all this in the bread dependent Middle East where governments now typically subsidise staple prices nationally. Thus, Morocco has subsidized the price of staples like white flour and cooking gas while the Egyptians have subsidized bread so that 60 million (of 100 million population) benefit from ration cards entitling them to daily cheap flat bread loaves (eish balady)⁴.

This experience has until very recently been considered irrelevant, in high income Western Europe. After Bismarck and Beveridge, European states introduced new technologies like social insurance and developed welfare state services as an explicit, central state policy driven stabiliser of the capitalist system of wage labour and an important support of minimum living standards for all. Income maintenance for unemployment, sickness and old age was provided because only a minority of wage earners have assets or savings to tide them over a gap in/ or at the end of, earning power. While tax funded collective service provision ensured universal access to foundational services like health, care or schooling, which were taken off market and de-commodified.

But, if we look beyond food to a broader range of necessities in urban, post-industrial societies, there is another kind of implicit, unacknowledged, and until recently taken for granted stabilizer: the universal necessities which are commodities wholly or partly on the market and which must also be physically accessible and financially affordable. Here we highlight the FE4 of energy, food, housing and transport which in many European countries in the late 2010s accounted for half or more of household spend out of post-tax income for low-income groups. Food has become much less important over the twentieth century, but the FE4 bundle of household necessities is everywhere a major object of expenditure.

Some housing provision is ambiguously part of the welfare state by virtue of social housing and rent control or support. But the other three items in FE4 have always been largely “non-welfare/welfare” where market entitlement is critical. The FE4 are powerful automatic stabilisers when wages comfortably cover their cost and accessibility is secured. If these market entitlement conditions are not met, FE4 will destabilise by undermining living

³ Griffin, E. (2018), ‘Diets, Hunger and Living Standards During the British Industrial Revolution’, *Past & Present*, 231(1), May, pp. 71-111. <https://doi.org/10.1093/pastj/gtx061>

⁴ El Safty, S. (2022), ‘Egypt eyes bread subsidy overhaul as global inflation bites’, *Reuters*, 1 Feb. <https://www.reuters.com/world/middle-east/egypt-eyes-bread-subsidy-overhaul-global-inflation-bites-2022-02-01/>

standards for low wage groups and accelerating inequality. This was recognised in World War 2 when the British government introduced devices like food rationing and rent controls which safeguarded the position of the working class and provided a platform for planning post war welfare measures which extended access to education and health services.

Ulrike Hermann⁵ has argued provocatively that the British war-time economy, with its abridgement of the market, provides a model for public policy management of 21st century nature and climate emergency. But, since the 1980s, European national policies have been moving in the opposite direction. Since the 1980s FE4 staples have been increasingly marketized as matters of private consumption and provision. Consequently, housing was assetized while utility provision was privatised (and, increasingly, formal child care is required in dual earner households).

Through this process of intensified commodification, the working assumption of complacent policy makers was that market entitlement from wages was not and would not be a problem. A globalised and financialised world system working through long chains would deliver low and stable prices. Cheap food stuffs, oil and gas were, like Chinese manufactures, something we could all take for granted and benefit from (as economic growth generated higher wages).

This assumption was always an oversimplification at local and regional level as rising house prices gentrified neighbourhoods and extractive fund investors ran down utility provision in the reliance systems providing water and energy. And real wages were not increasing for many low paid groups from the 1980s onwards. But since 2008 the assumptions of complacent policy makers are increasingly and visibly refuted by macro crises and emergencies which challenge the management capacity of central states and do not lead to effective system reform.

The global financial system is crisis prone because it is built on debt both before and after 2008. Pandemics like Covid-19 are a public health threat in a world of large-scale and rapid population movement. The return of great power rivalry in a multi-polar world increasingly threatens long market supply chains (for everything from grain to computer chips) when we have no short-run alternatives. The planetary consequences of economic growth are nature and climate emergencies where we have targets but no effective mitigating action.

Against this darkening background, problems about the price and availability of FE4 necessities accumulated over the 2010s which could be described as a period of grumbling chronic liveability crisis about the gently rising cost of FE4 in European countries against a background of stagnant real wages. Signs of stress included the rapidly increasing use of food banks in the UK over the 2010s and the *gilets jaunes* protest movement in France in 2018. Here nationwide unrest in a car dependent population quickly forced President Macron into reversing proposed tax increases in the price of motor fuel.

The liveability crisis became acute and general with major disturbance in 2022. In the aftermath of the pandemic, the war in Ukraine led to a sharp spike in gas and oil prices

⁵ Hermann, U. (2022), *Das Ende des Kapitalismus*, Kiepenheuer & Witsch.

(affecting motor fuel and home heating) and rolling inflation of food prices which hit an annual rate of 20% in the UK in early 2023⁶. The result was widely understood and described as a “cost of living crisis”. In foundational thinking this is more precisely defined and analysed as a crisis of foundational unliveability caused by the failure of the FE4 automatic stabilisers in conditions of market volatility.

What we are discovering is that in an unstable and crisis prone world, market entitlement can no longer be taken for granted. When a commodified FE4 cannot perform its proper stabilizing function, it will instead accelerate inequality as market entitlement becomes problematic or fails for low-income groups whose wages cannot cover prices. And history suggests that when market entitlement fails, the problem often or usually is not limited physical supply but distribution of the available supply.

Amartya Sen’s (1981) *Poverty and Famines*⁷ considered the extreme case of famines where he challenged the food availability decline (FAD) explanation of famines and instead proposed an entitlement failure explanation of famines. Sen argued that it is possible to have mass hunger and starvation without a major decline in food production and harvest failure. Thus, in the Bengal famine of 1943, the primary cause was not the small decline in food production but the lag of labourers’ wages behind food prices which undermined their market purchasing power; with food supply problems then compounded by the inept decisions of British Raj administrators to export and stockpile food for the war in the UK.

From this perspective famines are not natural disasters but manmade results of the exercise of political power and the access and eligibility decisions taken when market entitlement fails. Sen argued that accountability and rights in liberal democracies are an effective defence against famines which only happen in authoritarian regimes like Imperial India in 1943, Communist China in 1959-61 or North Korea in the 1990s. This position is empirically contestable and has subsequently been disputed, especially by Rubin who argues for a more context specific political approach⁸.

But the entitlement failure explanation of famines does open an interesting perspective on West European 2022 responses to managing FE4 in a cost-of-living crisis. From this point of view, responses are about discretionary political decisions with distributional consequences when market entitlement fails. Obviously, this is a less extreme case because in a cost-of-living crisis people go cold and hungry but do not starve to death. But in the current crisis, Sen’s optimism about the responsiveness of liberal democracy does seem misplaced.

West European governments have not focused cost of living assistance in a targeted way to help low-income groups who are most vulnerable to food and energy price rises. As we shall see, across the EU and in the UK, more than 70% of the support was untargeted assistance mainly through price reduction measures like VAT cuts or capping energy unit price, rather

⁶ ONS, (2023), ‘Food and energy price inflation, UK: 2023’.
<https://www.ons.gov.uk/economy/inflationandpriceindices/articles/foodandenergypriceinflationuk/2023>

⁷ Sen, A. (1999), *Poverty and Famines*, Oxford University Press.

⁸ Rubin, O. (2009), ‘The Merits of Democracy in Famine Protection – Fact or Fallacy?’, *European Journal of Development Research*, (21) December, pp. 699-717. <https://link.springer.com/article/10.1057/ejdr.2009.37>

than targeted assistance through measures like social tariffs or lump sum social security payments. Middle- and upper-income groups who used more energy and did not need assistance, got larger sums of cash support than low-income households who were facing heating or eating choices as their market entitlement failed.

2. Sources, methods, and evidence on FE 4

To set all this in context and focus on the market entitlement of low-income households, we have developed the FE4 metric. Our method is to calculate FE4 expenditure on four items- energy, food, housing and transport- as a share of post-tax household expenditure for 6 European countries (Austria, Belgium, France, Germany, Italy and the UK). From the available national household expenditure surveys, we can then produce time series analysis within each one of these countries and (with rather less precision) make cross country comparisons of the FE4 share of expenditure before and after the current cost of living crisis.

The unit in this foundational analysis is the household (not the individual as in national income accounting}. Most West European citizens live in multi-person households where expenditure is shared, and income sharing has become increasingly important with the increase in female participation and the rise of the dual income household. In the UK, for example 70% of the population live in multi-person households and both parents work in 75% of two parent households with children⁹.

National analysis and international comparisons are then possible because all six countries have household expenditure surveys. Headings and categories are standardised so the same line items of expenditure should be classified in the same way in all six countries. All have consumer price indices calculated on a broadly comparable basis, so that time series analysis can remove price inflation. The scope of analysis can then be extended because all these countries also calculate household net income so that it is possible to calculate household expenditure as a percent of household net income for different groups.

The line items of expenditure in FE4 (energy, food, housing and transport) are universal necessities for all households and they are all big-ticket items which can be easily identified in national expenditure surveys. We do not pretend this is a comprehensive list of essentials because the definition of what is essential can always be challenged and changes over time. Thus, the list of essentials for all households should probably now include mobile telephony/ broadband. Formal child care in dual earner households is a big-ticket item but we exclude it from FE4 because child care costs only affect some households. The implication of these decisions is that the residual spend available (after FE4) should not be considered as discretionary spend because it includes important items of inescapable expenditure for many households.

Exchange rates complicate international comparisons. But in this case, comparisons are facilitated because five of the six European countries are within the one exchange area of the Euro. The exception is the UK where pounds can be converted into euros at the prevailing

⁹ Calafati, L., Froud, J., Haslam, C., Johal, S. and Williams, K. (2023), *When Nothing Works: from cost of living to foundational liveability*, Manchester University Press.

market exchange rate. The average annual exchange rate during 2022-23 was 1.17 and 1.173 in 2021-22.

In the tables below we calculate the FE4 percentage share of household expenditure and the absolute size of the available spend after FE4 at two points (1) for an undisturbed year, before the inflationary spike caused by the Ukraine War which brought acute crisis and then (2) for December 2022 which is the most recent post-crisis point at time of writing. We do this for groups of low- income and high-income households.

The minor complication is that household expenditure survey data is not available for every year in several countries. So, the undisturbed pre-2022 year varies. In Germany, Italy and the UK the undisturbed year is 2021, in Austria and Belgium it is 2020 and in France 2018. The cost and availability of FE4 did not vary substantially between 2018 and 2021 in any of the six countries so this complication does not unduly influence or undermine comparisons.

The major complication is about the variable size of the groups being compared in the different countries where low- and high-income groups include between 16.66% and 25% of households. Only three countries (Austria, France and the UK) present household expenditure data in a format which divides households into deciles. Here we can take the top two and bottom two deciles to form a 20% group by summing deciles 1 and decile 2 of the lowest income households and then dividing by 2 to obtain a mean. We do the same for lowest and highest income household deciles. The other countries do not divide the households into decile groups. Belgium classifies by quartiles. Germany by sixths and Italy by quintiles so that in these three cases the top and bottom group gives us between 16.66% and 25%.

The implication is that time series comparisons within one country are technically more precise insofar as the percentage of households included is held constant. But cross section comparisons between countries are less precise because the share of all households in top and bottom groups varies between 16.6% and 25%. It would then be foolish to make too much of the small cross section differences, although large differences should not be ignored or discounted. A good example here would be the large difference in housing cost between Austria and Germany where it accounts for 20% and 40% of FE4 respectively.

A final point is that the impact of crisis on the FE 4 share of household spend is calculated by relating (a) the numerator of FE4 prices as they had risen by end December 2022 to (b) the denominator total of household expenditure in the undisturbed, pre-inflation spike year 2021/2020/2018. The result gives a worst-case calculation because it effectively assumes that household expenditure is constrained by income which does not increase. As we shall see, low-income groups do typically spend up to the limit of their limited income but, of course, many low-income groups will have got some increase in income by December 2022.

This does not completely vitiate the comparison. Pay claims and media discussion are always about whether groups of workers can get increases in wages i.e., gross pay which match the increase in prices. But the net income gain for an individual or household is likely to be much smaller than the gross because the rate of income retention is low when households have to

pay tax and social insurance and then lose earnings related benefits on every extra pound of income.

The marginal tax and benefit loss rate for low-income households in the UK is around 70%¹⁰. This outcome is the result of deductions for income tax, social insurance and pension which take 35 pence in the pound and then the means tested Universal Credit taper which takes 55% of what remains. In other European countries, the marginal tax and benefit loss rate is well above 50% through different combinations of social charges and benefit withdrawal. Except in Belgium where wages are indexed, gross pay rises in private and public sectors have typically lagged behind prices. So our worst-case post-crisis comparison may not be too far from actual experience.

Exhibit 1: Lowest income households monthly total spend split by FE4 spend and residual income pre-crisis vs December 2022¹¹

	Total spend	FE4 spend (Food, housing, energy and transport)				Residual income (Spending on all items after FE items)			
		Pre crisis	Dec 2022	Change		Pre crisis	Dec 2022	Change	
Austria	€1,530	€697	€828	€131	18.8%	€833	€702	-€131	-15.8%
Belgium	€1,899	€1,059	€1,226	€168	15.9%	€841	€673	-€168	-20.0%
France	€1,435	€687	€796	€109	15.9%	€749	€639	-€109	-14.6%
Germany ¹²	€1,030	€740	€808	€68	9.1%	€290	€222	-€68	-23.3%
Italy	€1,205	€867	€988	€121	13.9%	€338	€218	-€121	-35.7%
UK ¹³	€1,030	€536	€645	€109	20.4%	€494	€384	-€109	-22.2%
Germany (bottom 2/6 th)	€1,200	€827	€903	€76	9.2%	€373	€296	-€76	-20.4%
UK (in UK £)	£878	£457	£550	£93	20.4%	£421	£328	£-93	-22.2%

¹⁰ Calafati, L., Froud, J., Haslam, C., Johal, S. and Williams, K. (2023), *When Nothing Works: from cost of living to foundational liveability*, Manchester University Press.

¹¹ National statistics agencies sort households by expenditure into differently sized groups of deciles, sixths, quintiles and quartiles. The low-income group here in Austria is the bottom 2 deciles, in Belgium the bottom quartile, in France the bottom 2 deciles, in Germany the bottom 1/6th, in Italy the bottom quintile, in the UK the bottom 2 Deciles.

¹² This first citing of Germany gives the result for the bottom 1/6ths of households and the second lower citing giving the result for the bottom 2/6ths of households.

¹³ The first citing of the UK figures gives the mean of the bottom 2 deciles in euro at the average exchange rate and the second lower citing gives the result in £ sterling.

Exhibit 2: Lowest income households monthly FE4 spend on energy, food, housing and transport pre-crisis vs December 2022¹⁰

	FE4 share of total spend		Energy Price increase		Food Price increase		Housing Price increase		Transport Price increase	
	Pre crisis	Dec 2022	Price change	Dec 2021 vs 2022	Price change	Dec 2021 vs 2022	Price change	Dec 2021 vs 2022	Price change	Dec 2021 vs 2022
Austria	45.6%	54.1%	€44	58.5%	€40	18.5%	€19	6.3%	€29	26.5%
Belgium	55.7%	64.6%	€65	57.3%	€45	15.5%	€41	7.4%	€16	17.7%
France	47.8%	55.5%	€40	45.9%	€39	15.0%	€5	2.1%	€25	21.1%
Germany ¹¹	71.8%	78.4%	€31	32.7%	€26	13.4%	€7	1.7%	€4	9.4%
Italy	71.9%	82.0%	€79	85.3%	€29	9.3%	€5	1.2%	€7	10.9%
UK ¹²	52.0%	62.7%	€88	88.7%	€22	10.5%	€12	4.6%	€6	10.2%
Germany (bottom 2/6 th)	68.9%	75.3%	€34	32.7%	€30	13.4%	€8	1.7%	€5	9.7%
UK (in UK £)	52.0%	62.7%	£64	88.7%	£16	10.5%	£9	4.6%	£5	10.2%

Exhibit 3: Lowest income households monthly spend on FE4, energy, food, housing and transport as a share of total household spending, pre-crisis vs December 2022¹⁰

	FE4 share of total spend		Energy share of total spend		Food share of total spend		Housing share of total spend		Transport share of total spend	
	Pre crisis	Dec 2022	Pre crisis	Dec 2022	Pre crisis	Dec 2022	Pre crisis	Dec 2022	Pre crisis	Dec 2022
Austria	45.6%	54.1%	4.9%	7.8%	14.2%	16.8%	19.5%	20.7%	7.0%	8.9%
Belgium	55.7%	64.6%	6.0%	9.4%	15.5%	17.9%	29.5%	31.7%	4.8%	5.6%
France	47.8%	55.5%	6.1%	8.9%	18.3%	21.0%	15.1%	15.5%	8.3%	10.1%
Germany ¹¹	71.8%	78.4%	9.3%	12.4%	18.7%	21.2%	40.1%	40.8%	3.7%	4.0%
Italy	71.9%	82.0%	7.7%	14.3%	26.0%	28.4%	32.6%	33.0%	5.6%	6.2%
UK ¹²	52.0%	62.7%	8.2%	15.5%	17.7%	19.5%	21.1%	22.1%	5.1%	5.6%
Germany (bottom 2/6 th)	68.9%	75.3%	8.7%	11.5%	18.5%	21.0%	37.6%	38.2%	4.1%	4.5%
UK (in UK £)	52.0%	62.7%	8.2%	15.5%	17.7%	19.5%	21.1%	22.1%	5.1%	5.6%

Exhibit 4: Highest income households monthly total spend split by FE4 spend and residual income pre-crisis vs December 2022¹³

	Total spend	FE4 spend (Food, energy, housing, and transport)				Residual income (Spending on all items after FE items)			
		Pre crisis	Dec 2022	Change		Pre crisis	Dec 2022	Change	
Austria	€ 4,560	€ 1,581	€ 1,913	€ 333	21.1%	€ 2,979	€ 2,647	-€ 333	-11.2%
Belgium	€ 4,189	€ 1,919	€ 2,214	€ 295	15.4%	€ 2,270	€ 1,975	-€ 295	-13.0%
France	€ 3,509	€ 1,563	€ 1,774	€ 211	13.5%	€ 1,946	€ 1,735	-€ 211	-10.9%
Germany ¹⁴	€ 4,383	€ 2,156	€ 2,349	€ 193	9.0%	€ 2,227	€ 2,034	-€ 193	-8.7%
Italy	€ 4,288	€ 2,146	€ 2,359	€ 213	9.9%	€ 2,142	€ 1,929	-€ 213	-9.9%
UK ¹⁵	€ 3,701	€ 1,578	€ 1,809	€ 231	14.7%	€ 2,123	€ 1,892	-€ 231	-10.9%
Germany (bottom 2/6 th)	€ 3,674	€ 1,913	€ 2,086	€ 173	9.1%	€ 1,761	€ 1,588	-€ 173	-9.8%
UK (in UK £)	£3,157	£1,346	£1,543	£197	14.7%	£1,811	£1,614	-£197	-10.9%

Exhibit 5: Highest income households monthly FE4 spend on energy, food, housing and transport between December 2021 and December 2022¹³

	FE4 share of total spend		Energy Price increase		Food Price increase		Housing Price increase		Transport Price increase	
	Pre crisis	Dec 2022	Price change	Dec 2021 vs 2022	Price change	Dec 2021 vs 2022	Price change	Dec 2021 vs 2022	Price change	Dec 2021 vs 2022
Austria	34.7%	42.0%	€96	58.5%	€90	18.5%	€33	6.3%	€114	28.2%
Belgium	45.8%	52.8%	€88	57.3%	€105	15.5%	€65	7.4%	€37	17.6%
France	44.5%	50.6%	€66	45.9%	€75	15.0%	€13	2.1%	€57	20.8%
Germany ¹⁴	49.2%	53.6%	€66	32.7%	€81	13.4%	€19	1.7%	€27	12.8%
Italy	50.0%	55.0%	€110	85.3%	€58	9.3%	€13	1.2%	€32	10.9%
UK ¹⁵	42.6%	48.9%	€119	88.7%	€51	10.5%	€32	4.6%	€29	11.0%
Germany (bottom 2/6 th)	52.1%	56.8%	€62	32.7%	€71	13.4%	€17	1.7%	€23	12.7%
UK	42.6%	48.9%	£102	88.7%	£43	10.5%	£28	4.6%	£25	11.0%

(in UK £)										
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Exhibit 6: Highest income households monthly spend on FE4, energy, food, housing and transport as a share of total household spending, pre-crisis vs December 2022¹⁴

	FE4 share of total spend		Energy share of total spend		Food share of total spend		Housing share of total spend		Transport share of total spend	
	Pre crisis	Dec 2022	Pre crisis	Dec 2022	Pre crisis	Dec 2022	Pre crisis	Dec 2022	Pre crisis	Dec 2022
Austria	34.7%	42.0%	3.6%	5.7%	10.7%	12.7%	11.5%	12.3%	8.8%	11.3%
Belgium	45.8%	52.8%	3.7%	5.8%	16.2%	18.7%	20.9%	22.4%	5.0%	5.9%
France	44.5%	50.6%	4.1%	6.0%	14.2%	16.4%	18.5%	18.8%	7.7%	9.4%
Germany ¹⁵	49.2%	53.6%	4.6%	6.1%	13.8%	15.6%	26.0%	26.4%	4.9%	5.5%
Italy	50.0%	55.0%	3.0%	5.6%	14.4%	15.7%	25.8%	26.1%	6.8%	7.5%
UK ¹⁶	42.6%	48.9%	3.6%	6.9%	13.0%	14.4%	18.9%	19.7%	7.1%	7.9%
Germany (bottom 2/6 th)	52.1%	56.8%	5.2%	6.9%	14.4%	16.4%	27.5%	28.0%	5.0%	5.6%
UK (in UK £)	42.6%	48.9%	3.6%	6.9%	13.0%	14.4%	18.9%	19.7%	7.1%	7.9%

Sources for exhibits 1 to 6

Austria	https://www.statistik.at/fileadmin/pages/339/Verbrauchsausgaben - Sozialstatistische Ergebnisse Kapitel 3 .ods
Austria CPI Inflation factors	Source: email exchange vpi@statistik.gv.at
Belgium	https://statbel.fgov.be/sites/default/files/files/documents/Huishoudens/10.1%20Huishoudbudget/Plus/FR/EBM_0113_2020_FR_07SEP21.XLSX
Belgium	Tab03_QRT_BE - Dépenses moyennes par ménage et par an (€) - Répartition par quartile de revenus - Belgique
Belgium CPI Inflation factors	https://stat.nbb.be/index.aspx?queryid=89

¹⁴ National statistics agencies sort households by expenditure into differently sized groups of deciles, sixths, quintiles and quartiles. The high -income group here in Austria is the top 2 deciles, in Belgium the top quartile, in France the top 2 deciles, in Germany the top 1/6th, in Italy the top quintile, in the UK the top 2 Deciles.

¹⁵ This first citing of Germany gives the result for the top /6ths of households and the second lower citing giving the result for the top 2/6ths of households.

¹⁶ The first citing of the UK gives the mean of the top 2 deciles in euro at the average exchange rate for the year and the second lower citing gives the result in £ sterling.

Germany	https://www.destatis.de/DE/Themen/Gesellschaft-Umwelt/Einkommen-Konsum-Lebensbedingungen/Konsumausgaben-Lebenshaltungskosten/Tabellen/liste-monatlichen-haushalts-nettoeinkommen.html#115398
Germany CPI Inflation factors	https://www-genesis.destatis.de/genesis/online?operation=abruftabelleBearbeiten&levelindex=1&levelid=1679490098615&auswahloperation=abruftabelleAuspraegungAuswaehlen&auswahlverzeichnis=ordnungsstruktur&auswahlziel=werteabruf&code=61111-0003&auswahltext=&werteabruf=Value+retrieval#abreadcumb
France	https://www.insee.fr/fr/statistiques/4648335?sommaire=4648339#titre-bloc-6
France CPI Inflation factors	https://www.insee.fr/en/statistiques/series/102342213
Italy	http://dati.istat.it/
Italy CPI Inflation factors	https://www.istat.it/it/files//2023/01/Consumer-prices_Prov_December2022.pdf
UK	https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/expenditure/datasets/familyspendingworkbook4expenditurebyhouseholdcharacteristic
UK CPI Inflation factors	https://www.ons.gov.uk/economy/inflationandpriceindices/datasets/consumerpriceinflation

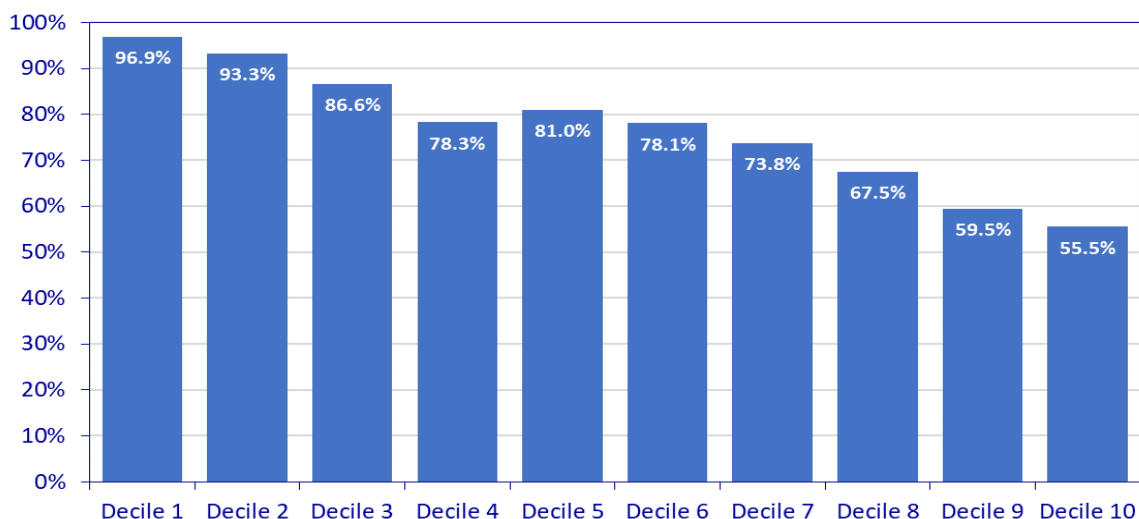
Some social scientists will complain that in many respects our comparisons lack rigour and precision. We are comparing groups which vary in size between 16.7 and 25 % in countries where GDP per capita varies considerably as does the tax take and benefit support so that the ratio of household disposable to gross income is not uniform. To which, we would reply that it is better to be approximately right about measures of what matters for liveability like residual income and FE4 shares of household spend rather than to be fastidiously precise about measures of what is increasingly irrelevant like GDP and GVA per capita. The groups are not matched for household gross or disposable net income because we are concerned with residual income and what 's left over after FE 4 spend at the top and bottom of these societies. The expenditure data we use in this working paper covers the groups who are in income terms the high and low income groups at the top and bottom of the income pile in the six European countries.

3. Sources, methods, and evidence on FE4

The market entitlement position of low-income households was everywhere precarious before the acute cost of living crisis.

- Before the crisis, the FE4 items everywhere in Europe accounted for a substantial proportion of household expenditure. As exhibit 2 shows, before the crisis in the UK and across the EU for low-income households in the bottom 16.6%-25% by post-tax income, the FE 4 essentials (energy, food, housing and transport) were taking from nearly half to three quarters of expenditure: the range is from 46% in Austria to 72% in Germany and Italy where low-income households were most precarious.
- The exposure to risk of price increases on any major FE4 item is considerable because the pre-cost-of-living crisis residual spend available after FE4 essentials is everywhere modest in absolute terms (exhibit 1). The absolute residual available monthly ranges from €841 to €290 with Germany, Italy and the UK all below €551 residual margin before items like broadband or child care are paid for.
- There is little headroom to increase the share of expenditure out of post-tax / net income because low-income households are already spending all or more of their net income on an annual basis. This point emerges clearly from exhibit 7 below which shows that in Austria the bottom two deciles spend more than 93% of household income. Elsewhere the position is similar or worse: the bottom Italian quintile spends 98% of net household income and in Germany the bottom sixth spends 113% of net household income. In all cases, households have no safety margin beyond income because low-income households typically have no savings and few assets.

Exhibit 7: Austrian household expenditure as share of net household income split by deciles, 2020¹⁷



¹⁷ Statistics Austria, EU-SILC 2021 (email contact) richard.heuberger@statistik.gv.at. Directorate Social Statistics Living Condition, Social Protection
Data on gross and net income by 6 income bands supplied in a PDF attachment in email exchanges. For expenditure data https://www.statistik.at/fileadmin/pages/339/Verbrauchsausgaben_-_Sozialstatistische_Ergebnisse_Kapitel_3_ods

If we look at the composition of FE 4 spend, the big-ticket item for low-income households is housing (exhibit 1 and exhibit 3). If we exclude France as a low housing cost outlier, then in low net income households in the 5 remaining countries housing accounts for between 20-40% of net expenditure; and in three of these countries (Belgium, Germany and Italy) housing accounts for 30% or more of all household expenditure.

By way of contrast, only in Italy (where food accounts for 26% of low-income household expenditure) is the food item nearly as important as housing (exhibit 1 and exhibit 3). In Italy, low-income households are burdened by the expense of a “traditional” national diet which Alberto Grandi argues was reinvented after 1945 as Italians moved on from poor peasant diets¹⁸. But in low-income households in the other 5 European countries food is contained in the range 14-19% of net expenditure (exhibit 3).

All this pre crisis evidence has interesting implications. The key long-term determinant of capitalist stability and the driver of liveability in different European countries is what might be called the national housing settlement. Practically, this is reinforced by mobility strategies which default onto car dependence because public transport is not physically or financially accessible. The problem then is that, as the UK *Jobs and Liveability* report shows, the expense of running just one second hand car is a burden on low income households¹⁹.

Housing supply and the volume of new builds is one variable in that settlement. With similar populations in France and the UK, the French have typically built 350-400,000 new dwellings per annum for the past 25 years when the UK builds 200,000 new dwellings in a cyclically good year.²⁰ But, we should not assume that increasing volumes of new build housing imply lower prices or, in any other way semi-automatically solves housing problems. More important in most urban cases is how government manages the existing stock through variables like the relation of ownership to renting, the availability of social housing, the extent of rent controls and/ or rent subsidy. Because all these powerfully influence residual income.

The outcome for low net income households is that housing costs are the long-term stabiliser of capitalism and governor of liveability which has much more to do with housing cost than GDP growth and level. Thus, adjacent Germany and Austria are part of one functional economic area but housing accounts for 20% of low-income household net expenditure in Austria and 40% in Germany and that difference largely accounts for the 46% vs 72%

¹⁸ See the invention of tradition arguments made by the Italian food historian Alberto Grandi who mischievously claims that pizza and carbonara are: American and panettone and tiramisu are recent inventions. All highlighted in a much-read FT article by M. Gusti “Everything I, an Italian, thought I knew about Italian food is wrong”. Financial Times, 20 March 2023 <https://www.ft.com/content/6ac009d5-dbfd-4a86-839e-28bb44b2b64c> For his more scholarly and sustained account see A, Grandi (2018) *Demoninazione di Origine Inverntata*, Mondadori

¹⁹ L. Calafati et al. (2022) *Jobs and Liveability*, <https://foundationaleconomyresearch.com/wp-content/uploads/2022/12/FERL-Report-Jobs-Liveability-for-Karbon-Homes-Sept-2022.pdf>

²⁰ For France, see “House Building in France in 2016” at French Property.com https://www.french-property.com/news/french_property_market/new_house_building_2016. For the UK, see Statista on completion of new dwellings <https://www-statista-com.manchester.idm.oclc.org/statistics/746101/completion-of-new-dwellings-uk/>

difference in FE 4 share of expenditure between Austria and Germany (exhibit 1 and exhibit 3).

Before the crisis, this apparent difference is influenced but not wholly caused by higher absolute expenditure in Austrian low-income households which serves as the denominator in these percentage calculations. Low-income Austrian households have an undisturbed total net spend of €1,530 against €1,030 net spend in German households. But absolute housing cost as the numerator in the percentage calculation is substantially higher in Germany. Here low-income German households spend €429 monthly on housing as against €298 in Austria. The monthly out of pocket spend on housing in Germany is 40% higher than in Austria and that is a substantial burden on low-income households.

If national governments want to promote liveability, they should make high quality low cost rented housing for the bottom quartile a major objective of policy. Though it should be remembered that some of the ways of doing this are self-defeating. The UK has relatively low-cost housing for low-income groups where housing takes 21% of total household net spend (exhibit 1 and exhibit 3). But this is the result of a rent subsidy system of housing benefit which lowers the cost to tenants while effectively paying off the mortgage of the private landlord who is acquiring an asset and benefitting from any value appreciation.

Understandably, the pre-crisis FE4 constraints on liveability for low-income households claim our attention. But the pre-crisis expansiveness of FE4 spending in high income households is equally interesting. Here is an important and almost unnoticed aspect of household behaviour which does not fit with the standard economic relation between food consumption and income proposed by Ernst Engel in 1857.

According to Engel's Law, the poor spend on the cheapest energy dense food and as income rises the proportion of income spent on food decreases and quality displaces quantity as diet shifts away from carbohydrates. If we compare low- and high-income households in our six European countries, any declining share of income effect operates weakly in national cross section despite very large differences in income between low- and high-income households in every country. On food, if we exclude Italy, in five other West European countries food accounts for 14%-19% of spend in low-income households and 11-16% in high income households (exhibits 1 and 3).

Engels law was never intended to apply to housing, but here again we observe the apparent paradox of the expansibility of demand for necessities in line with income. If we exclude Germany as a high housing cost country for low-income households and Austria as a low housing cost country for high income households, we are left with a group of four countries where housing accounts for 20-33% of total spend in low-income households and 18-26% of total spend in high income households (exhibits 1 and 3).

Overall, in a majority of West European countries, the proportion of total expenditure spent on FE4 necessities is not hugely lower in high income households than in low-income households. What explains this expansibility of spend on necessities in high income

households? Our answer is that the spend on food and housing in high income households is in various ways not consumption but capital investment.

- Food is an important source of shared values and mutual respect, and diet is the basis for endless Bourdieusian social differentiation. For Yotam Ottolenghi “we are in an age where people are using food more than in the past to define their social status”.²¹ It is then relatively easy to increase expenditure when in the UK a loaf of sliced white in a supermarket costs just over a pound and an artisan sourdough loaf costs £4.50 with faux sourdough in between.
- Housing is a financial investment for upper income groups who are owner occupiers acquiring assets which have generally appreciated over the past 40 years. Upper income groups have more rooms in larger properties in more desirable areas; and increasing numbers of upper income groups hold second properties for rental in a patrimonial society where pensions cannot be relied upon.

High income groups are also much more insulated from price volatility. Because although FE4 takes a substantial pre-crisis 35%-50% of net household expenditure in high income groups, the percentage take comes from a much larger absolute income (exhibit 6). The pre crisis residual spend in high income households ranges from €1,946 to €2,979; whereas low-income households were much less comfortably placed with a residual spend of €290 to €840 (exhibits 1 and 4).

However we construct it, pre-crisis market entitlement is not about deficiency and shortage but the unequal distribution of the available stock of necessities which leaves low-income households deprived or without the residual income and discretionary margins which the middle classes take for granted. Thus, Danny Dorling²² argued from Census data that there was no housing shortage in the UK because the number of rooms per person had increased to 2.5 per capita in 2011 from around 1.0 per capita 100 years previously. Dorling’s measure was a crude one which ignored the relatively small size of UK rooms by European standards. But the point about distribution is valid and well made.

From an ecological point we would add the point that high incomes at national and international level lead to all kinds of overconsumption. The term overconsumption here does not imply a moral judgement about whether artisan sourdough or single estate coffee is necessary. It is a technical judgement on how the lifestyles of high-income individuals are everywhere a planetary burden in a world where the higher the income the more burdensome is the lifestyle. According to the Stockholm Environment Institute²³, the richest 5% of the world’s population is responsible for more than one-third of the growth in

²¹ Sexton, D. (2014), ‘HOW YOTAM OTTOLENGHI RESCUED THE MODERN DINNER PARTY’, Evening Standard, 9th October. <https://www.standard.co.uk/esmagazine/how-yotam-ottolenghi-rescued-the-modern-dinner-party-9784253.html>

²² Dorling, D. (2014), *All that is Solid*, Allen Lane. See figure 13.

²³ Oxfam (2020) *Confronting Carbon Inequality* oxfamilibrary.openrepository.com/bitstream/handle/10546/621052/mb-confronting-carbon-inequality-210920-en.pdf

cumulative emissions between 1990 and 2015. Over the same period the richest 1% - in the Russian oligarch or Murdoch/Succession income bracket- account for 15% of global emissions, which is greater than the entire cumulative emissions of all EU citizens.

4. Acute cost of living crisis: after the Ukraine war

As we have noted, across all of Western Europe, low housing cost is the long-term stabiliser of capitalism and governor of liveability because of its weight in household budgets. But the short-term destabiliser is the price of energy or food because these prices are much more volatile than housing rents or mortgages. And, as we have seen, in the late 2010s before the crisis, the FE4 share of expenditure was already so high that low-income households had limited capacity to absorb energy price spikes or sustained inflation of food prices.

And clearly the long-term liveability governor of low-cost housing and the short-term destabilisers of energy and food prices interact in ways which we can understand *ex post*.

The energy crisis is the midwife of the cost-of-living crisis, but not its creator. The assetization and financialization of housing and its propensity to follow wider patterns of inflation had already pre-crisis pushed many low-income households close to or below the coping line, so they were dependent on low prices for energy and food and exposed to volatility in those markets.

In 2021, Housing Europe diagnosed a Europe wide “affordable housing crisis”²⁴. Since the Great Financial Crisis, the past decade had seen house prices rise all across Europe of around 30% and private rents had risen by 15%. By 2021 (and before the cost-of-living crisis) Housing Europe found that 10% of the EU population had “housing cost over burden” (despite zero interest rates) and 17% of the EU population lived in overcrowded homes. The buffer of low-cost housing had in many countries been eroded in ways which increased exposure to energy and food prices.

The experience and outcome of liveability stress varies from country to country. Even with long distance trucking and the Euro currency area, there is no law of one price in food across Western Europe. Even within multinational retail chains operating in adjacent Austria and Germany the price of identical products differs by an average of 21%.²⁵

But exposure to international energy markets is everywhere a problem. France relies on nuclear electricity generation but has problems about down time in aged reactors; while European oil and gas producing countries like Norway and the UK are not insulated because they buy and sell at international prices. Overall Europe, including the major economies of

²⁴ Housing Europe (2021), *The State of Housing in Europe*, <https://www.stateofhousing.eu/#p=14>

²⁵ Messner, T., Rumier, F. and Strasser, G. (2023) “Cross Country Price and Inflation Dispersion” ECB Working Paper No. 2776. <https://www.ecb.europa.eu/pub/pdf/scpwps/ecb.wp2776~ed7ac4620d.en.pdf>

²⁵ Eurostat, (2023), ‘Comparative price levels for food, beverages and tobacco’, 21st June. https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Comparative_price_levels_for_food,_beverages_and_tobacco#Price_levels_for_food.2C_beverages_and_tobacco

Germany and Italy, have been heavily dependent on Russian oil and gas; unlike the USA which uses domestic fracking to produce cheap gas.

After the Ukraine war and as inflation kicks in, European energy costs spike dramatically and year-on-year food price inflation reaches above 9% and ranges up to 19% by December 2022. For energy, the short-term driver is a huge rise in the wholesale price of energy in 2022 which is only partially countered by various forms of government intervention to reduce the retail price to households. In Germany the retail price increase was only 33% but elsewhere the increase was at least 50% while the price of energy nearly doubled in the UK and Italy (exhibits 2 and 4).

Inevitably, FE4 essentials then take an increasing share of expenditure. In exhibit 1 and 3, the increasing share of FE4 for low-income groups is calculated on the basis that total expenditure does not increase. This is worst case but, as previously explained, is not unrealistic when wages lag behind prices, more tax and less benefits take a large share of any wage increase and low-income groups were already spending all or more of their income.

On this worst-case basis by December 2022, the FE4 share of post-tax/net income increases by 7%-10% in our six West European countries (exhibit 2). The increase is 8% or more in 4 of the six countries including Austria, Belgium, Italy and the UK. When FE4 already accounted for 46-72% of net expenditure in low-income households in these countries before the crisis, an increase of up to 10% in FE4 share is painful and pushes poor households from just about coping into distress.

The liveability squeeze at the bottom end can be understood and explained in economics 101 terms. The market demand for FE4 essentials is price inelastic in low-income households. These households have already economised on essentials and when prices rise, these households carry on buying essentials at higher prices because they cannot easily cut back on physical demand or substitute cheaper products.

The dilemma is that low-income households have limited capacity to cover higher staple prices by transferring residual income or savings into FE4 spend because both are meagre or non-existent before prices rise. So, unless the low-income households can raise income very dramatically above the inflation rate, poor households have increasingly to choose between FE4 essentials, as with heating or eating.

High income households were immediately much more favourably placed (before higher interest rates fed through to higher monthly payments for those with mortgages). Calculated on the same, worst-case basis by December 2022, the percentage rise in the share of FE4 essentials for high income households is everywhere below that observed in low-income households. In all West European countries, the rise in FE4 income share here is no more than 7% and the range is 4-7% (exhibit 4 and exhibit 6). The contrast is particularly marked in Italy and the UK where a 4%-5% rise in share of FE4 essentials for high income households contrasts with a 8%-10% or higher rise in FE4 share for low-income households.

It is also true that high income households everywhere can much more easily absorb rising prices of FE4 essentials because they have a substantial margin of residual income and in many cases the cushion of substantial savings. Before the crisis, as already noted, high income groups had an available residual monthly spend of roughly €2-3,000 in every one of the six West European countries (exhibit 4).

5. The policy response

Policy responses to the cost-of-living crisis were everywhere complicated by Covid's legacy of public debt. Immediately pre-crisis by early 2022 the debt to GDP ratio was around 95% in the euro area and the costs of raising and servicing debt were then steadily increased after July 2022 as the European Central Bank embarked on the orthodox policy of raising interest rates from zero to deal with inflation. If the response to Covid (as to earlier financial crises) had been "whatever it takes", the policy response to the cost-of-living crisis was everywhere complicated by "what we can afford".

But the European countries were all liberal democracies with a mass franchise and independent media, so is not surprising that European governments were in the summer and autumn of 2022 jolted out of any complacency about market entitlement when households and firms faced the prospect of a horrid winter of high energy prices. If large scale public spending, then became politically inevitable, fiscal responsibility could still be defended through austerity cuts in other policy areas and/or sound finance policies further down the line.

All West European national governments moderated the influence of the energy price rise through massive public expenditure which was one way or another designed to secure access for all or most households and avoid mass company bankruptcies. The Bruegel²⁶ think tank calculated the total funding allocated to support households and firms (though not all was drawn down). In the "big 4" European national economies, allocated funding accounted for 3.7% to 7.4% of GDP with allocation of 7.4% of GDP in Germany, 5.2 % in Italy, 3.8% in the UK and 3.7% in France.

National government support for households and firms then took many different forms in what could be described as a policy panic about doing something about the unanticipated. The various interventions are listed in exhibit 6 below which shows that across many European countries governments almost universally reduced taxes on energy and introduced retail price regulation plus transfers to vulnerable groups, while many firms gained business support in one form or another with energy firms paying windfall tax.

At this level of generality, it is hard to make sense of the interventions. Is there any unifying strategic intent and what were the practical effects of such diverse policy measures? But much can be clarified by considering how public funds were spent after classifying the policies (a) according to whether the point of intervention was prices or incomes and (b) according to

²⁶ Sgaravatti, G., Tagliapietra, S., Trasi, C. and Zachmann, G. (2023), 'National policies to shield consumers from rising energy prices', Bruegel Datasets, first published 4 November 2021, available at <https://www.bruegel.org/dataset/national-policies-shield-consumers-rising-energy-prices>

whether assistance was universal for all households or selective for low-income households. Exhibit 8 below summarises the results of this classification by Bruegel.

Exhibit 8: Measures implemented or discussed in response to the energy crisis of 2022²⁷

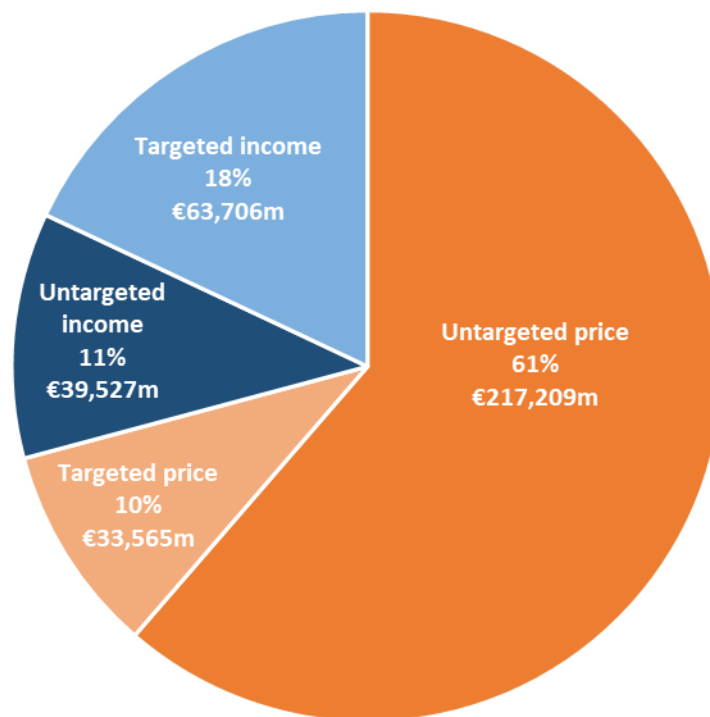
	Reduced energy tax / VAT	Retail price regulation	Wholesale price regulation	Transfers to vulnerable groups	Mandate to State-owned firms	Windfall profits tax / regulation	Business support	Other
Austria	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Belgium	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Bulgaria	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	
Croatia	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Cyprus	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	
Czechia	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Denmark	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Estonia	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	
Finland	<input checked="" type="checkbox"/>			<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
France	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Germany	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Greece	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	
Hungary	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>				<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	
Ireland	<input checked="" type="checkbox"/>			<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Italy	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	
Latvia	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	
Lithuania	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Luxembourg	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	
Malta		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Netherlands	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	
Norway	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	
Poland	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	
Portugal	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	
Romania	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	
Slovakia		<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	
Slovenia	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	
Spain	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	
Sweden	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
UK	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	

²⁷ See note 24.

Notes: (☑) 'proposed' -measures that have been publicly announced by government officials; (☐) 'enacted' -measures implemented. Shading relates to Eurozone countries.

This exhibit shows that policy was heavily biased towards reducing the price of energy rather than to raising the incomes of energy consuming households: nearly 3/4 or 71% of the total allocated spend in the EU and the UK was directed to reducing energy prices rather than raising household incomes. And most of the price reductions and income supports were universal and not targeted. If we add together price reduction and income spend, then nearly 3/4 or 71% of the total allocated spend in the EU and UK was universal rather than selective. In the case of price reducing policies, in the EU and the UK six times as much was spent on universal policies as on selective policies.

Exhibit 9: Allocated and earmarked funding to shield EU's households (Sep 2021 - Jan 2023)²⁸



How are we to understand the strategies of intervention? The bias towards price reduction on energy rather than income subvention can be understood partly as a case of governments doing what was technically easier. Discriminating household assistance according to need was difficult or impossible to organise at short notice. National governments did not have databases on the income of individual households which would allow targeted interventions on income support across the range of incomes. Only in the case of the group of households drawing social security was it easy to offer social tariffs, lump sum payments or increased weekly allowances.

But the emphasis on energy price reduction was also a political decision about how to manage a failure of market entitlement which would, as always, bring cash rewards to suitably placed

²⁸ Source: Bruegel. <https://www.bruegel.org/dataset/national-policies-shield-consumers-rising-energy-prices>
 Note: The estimates refer to measures targeting households in EU27. A large share of untargeted, price-distorting measures also support firms. The amounts exclude the German, Economic Defence Shield (EUR 200 billion).

producers and intermediaries (just as surely as it brought costs to household and firm consumers). Capping the retail price paid for energy by households and firms through various forms of government subvention was done in an energy trader and producer friendly way. On the supply side, sanctions on Russian gas and oil were imposed after the invasion of Ukraine but energy markets were otherwise allowed to work freely without controls on the producers and intermediaries who quite predictably would make large profits from volatility around much higher price levels and physical shortages.

The results were most egregious in the case of the oil super major companies who are integrated producers of oil and gas and large-scale energy traders. In 2022, they all made record profits and the sums applied to share buy backs and increased dividend distribution dwarfed anything clawed back through various forms of windfall profits taxes which were dismissed by one financial commentator as a “PR side show”²⁹. By May 2023, BP had paid about \$1billion in various forms of windfall tax when the company had in the previous year of 2022 made \$28 billion of profit and applied \$11 billion to share buy backs³⁰.

At the same time, the prospect of continuing high and distributable profits from oil and gas was shifting super major strategies in a climate unfriendly direction. BP is the only energy super major with hard targets for reducing its dependence on oil and gas. But the company has now reduced the rate at which it will run down oil and gas output this decade so as to meet Paris Accord targets. BP’s Scope 3 emissions targets (for emissions from customer use of oil and gas) are now not for a 35%-40% reduction but for a 20%-30% reduction by 2030³¹.

The other major issue is about the effects of government intervention for consuming households. The question here is whether government policies concentrate assistance on low-income households who were least able to bear the costs of rising energy and food prices. The answer is that this cannot have been the outcome when, as we have noted, European mainland and UK policies were not targeted but reliant on universal and unselective price rebates.

In many national cases, little effort was put into capping the value of assistance. Austria did introduce assistance capping with its electricity “cost brake”. This was effective for about 80% of the average consumption of a household with consumption above 2900 kWh paid for at market prices. But, more typically, the UK introduced an Energy Price Guarantee which reduced the amount which suppliers could charge per unit of gas and electricity. So that UK households which used more energy got more assistance.

Overall, the policy mechanisms used meant that middle- and upper-income households who needed less, typically got more cash assistance. This point becomes clear if we consider the

²⁹ Ashcroft, J. (2023). ‘What’s next for the BP cash machine?’, *Proactive Investors*, 7 Feb. <https://www.proactiveinvestors.co.uk/companies/news/1005460/what-s-next-for-the-bp-cash-machine-1005460.html>

³⁰ Wilson, T. (2023), ‘BP beats profits forecasts but slows pace of share buy backs’, *Financial Times*, 2 May 2023, <https://www.ft.com/content/f1b91245-39f4-443b-a0f1-022974a9b28b>

³¹ Wilson, T. (2023), ‘BP defends climate strategy at AGM clash’, *Financial Times*, 27 April 2023 <https://www.ft.com/content/2dd5f69a-0795-4588-ac0f-50190a7e1e68>

two outlying national cases of the UK and Belgium where the policy interventions are interestingly different. The Belgian response was uniquely biased towards income raising through private wage indexation in a corporatized system; whereas the UK response is price oriented and marketized with wage suppression at the expense of rolling public sector strikes. But they are alike in that the major elements in both responses are not targeted towards low-income households and are inegalitarian in that they offer larger absolute gains to higher income groups. This is the logic of offering the same percentage increase to higher earners who start with a larger absolute income base in Belgium; and it is also the logic of capping the unit price of electricity and gas when high income households will usually use more in the UK.

The Belgian response included:

- a) Indexation of private wages according to the CPI. This delivered a 4% wage increase for many private sector workers in January 2022 and a 10% plus wage increase in January 2023.
- b) VAT reduction on energy (natural gas and electricity) from 21% to 6%.
- c) Extension of the existing social tariff for low-income energy consumers
- d) Substantial ‘energy cheques’ (gas and electricity) of €196 euro per month for all households not in social tariff system for the winter months of 2022-23. Higher income households will need to pay back via personal taxation.
- e) Reduction on surcharges (‘accijnzen’) for benzine/diesel for transportation of 0.175 euro/l.

The UK response included:

- a) Price capping of the unit price of energy so that the “average household bill” would be no more than £2,500. The price cap was initially to be for two years from October 2022 but now will lapse at end June 2023.
- b) Insistence on “anti-inflationary” public sector wage increases below the private sector going rate of 6%-7%; although public sector workers like teachers and medics had suffered real wage cuts in 2010s.
- c) No social tariff. Poor households on pre-pay meters actually pay more per unit of energy than households paying by direct debit. Warm Homes Discount scheme offers those on social security and/or in fuel poverty £1,300.
- d) Limited direct payments to households (a) selective one-off £650 support for those on universal credit (b) all households received £400 support for energy bills, as a discount administered by energy companies.

Through a long period of cheap energy and food, European governments could get away with governing the FE without needing to shelter households from volatility. When this ended abruptly in “cost of living crisis”, it became a matter of democratic responsibility to ensure

that FE4 essentials remained accessible to all or most households even in the most austere “neoliberal” settings. But the policy response was not targeted on the most vulnerable and the claw back of assistance from middle- and upper-income households was (like the claw back of profits from energy producers and traders) largely ineffectual. In Belgium or the UK there was no discussion of, for example, raising the higher rates of income tax to claim back what middle- and upper-income households had gained from energy cheques and price capped energy units.

Thus, we have in crisis discovered the unacknowledged new principles of European liberal democratic government which are that “the corporate pursuit of shareholder value is sacrosanct” and “middle income households also deserve our support”. The two principles are interconnected because middle- and upper-income households are, via pension funds and such like, the shareholders and fund investors who benefit from shareholder value which delivers nothing for low-income households who would typically have few assets.

In the long period of cheap energy and food, FE4 was non-welfare/ welfare outside the sphere of active government policy. Now after the cost-of-living crisis, it has become post-welfare/ welfare. The lower deciles are not the main recipients of the crisis assistance because governments are concerned with pleasing middle-income voters, not rolling out policies which secure social cohesion around effective minima so that no household goes without. Active governments of left, right and centre perform Matthew 13.12 “to him that hath shall be given” in the hope of electoral reward or at least avoiding electoral punishment while accepting that corporates should be encouraged by all kinds of privileges.

The end result is that energy becomes a vector of further inequality in a context of permanent austerity. This takes different forms, including the two-year increases in pension age in Belgium and France or public sector pay restraint in the UK. Meanwhile, there is also no evidence of debate about taking back control over energy production, let alone a different approach to other essentials like food, housing and transportation. Thus the “cost of living crisis” has simply deepened the current mess.

6. Conclusion: how the foundational matters

The Covid pandemic highlighted the importance of the foundational economy as a matter of universal provision when it was key workers who kept the economies functioning in essential services that all households relied on. The current crisis highlights the importance of the foundational in a different way as a matter of distribution when governments are failing to safeguard the entitlement of low-income households.

Before the current crisis FE4 analysis highlights the weight and variability of housing costs and thus the importance of whether the national housing settlement makes good quality, low-cost housing accessible to low-income households. If housing cost could be driven down this would, in low-income households, free up money which often now goes on private rents often to the property owners in higher decile households. This reduction would allow money to be spent on the much needed (collective) energy system overhaul and retro fit insulation works.

It would also allow lower income groups to pay more for food rather than rely on cheap global imports which are not securely available.

The current short-term crisis about unliveability is caused by volatile energy and food prices squeezing residual income. Managing residual income is an important objective of foundational policy. But, as we have argued in *When Nothing Works*³², simply raising incomes is not enough for liveability when households need essential services and social infrastructure provided within planetary limits by viable and capable producers. The qualification about planetary limits has policy implications because income cannot operationalise (and higher incomes may undermine) the eco-social linkages which are necessary to planetary habitability.

The foundational economy is therefore of central strategic importance going forward. Our policy agenda for FE4 includes not only (a) partial decommodification of housing; but also (b) greater public and citizen control of energy and other utilities which have a lien on household income and (c) development of national and regional food systems to increase food sovereignty while staying within boundaries of the planet.

³² Calafati, L., Froud, J., Haslam, C., Johal, S. and Williams, K. (2023), *When Nothing Works: from cost of living to foundational liveability*, Manchester University Press