The cost-of-living crisis in the UK and Ireland: on inflation, indexation and one-off policy responses

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Abstract

This paper compares social policy responses to the cost-of-living crisis in the UK and Ireland. In seeking to protect citizens from an inflationary shock, a series of fundamental social policy questions arise. What would the aims of support packages be? To what extent should support be universal or targeted? If targeted, did existing policy architectures facilitate or frustrate the targeting of support?

As the scale and persistence of the inflationary shock became evident, smaller and near-universal responses gave way to larger support packages with a greater reliance on targeting. Social security systems played an important role in policy responses, though often by passporting one-off payments rather than a strengthening of these core programmes. Passporting led both to improved distributional outcomes vis-à-vis the more universal elements but created new administrative challenges and led to rough justice in some circumstances. The reliance on one-off payments underlined the temporary nature of policy responses.

Introduction

The timing of the cost-of-living crisis, beginning before life had fully returned to normality after the COVID-19 pandemic, could scarcely have been worse. Having navigated a truly unique policy challenge in seeking to supress the Coronavirus, nations were forced to confront the emergence of a once-in-a-generation inflationary crisis.

In this contribution to the themed section on Social Policy and the Cost-of-Living crisis, we compare policy responses in the UK and Ireland. Our focus is from mid-to-late 2021, when inflationary pressures began to emerge, to early 2023 and is on responses to these inflationary pressures and not on longer-term cost-of-living issues – for instance, in relation to rising housing costs or poverty. In one sense, the cost-of-living crisis presents an orthodox challenge: social security indexation mechanisms (and wage bargaining systems, where they exist) are designed to deal with inflationary pressures. The cost-of-living crisis is distinct, however, in that the sharp rise in energy prices created problems for those well beyond the poorest segment of society and thus it was far from clear that limiting state support to those in receipt of social security would be sufficient. The price shock was rapid, raising questions about the timing of responses, including those relating to the indexation of social security payments. Moreover, the inflationary shock was lopsided, comprised significantly of increases in the cost of energy and, to a lesser degree, food. Faced with rising prices for all citizens, but with price increases most acutely felt by the poorest, a series of fundamental social policy questions arise: to what extent could indexation mechanisms

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provide a sufficient response to this crisis? If bespoke response packages were required, what should the aims of support packages be? To what extent should support be universal or targeted? If targeted, to what extent did existing policy architectures facilitate or frustrate the targeting of support?

The UK and Ireland make meaningful cases for comparative research given the common origin of their welfare systems (during the period of British rule in Ireland) and positioning within the liberal groupings in both the worlds of welfare and varieties of capitalism literatures. These similarities notwithstanding, the enactment of social policies evolved at different times and in distinctive directions in the twentieth and early twenty-first centuries in these two nations and there is a literature dedicated to comparing social policies in these nations (Daly and Yeates, 2003; Dukelow and Heins, 2017; Author). The more limited aims of social policy in these nations also means they make for interesting cases in times of crisis: previous research has argued that during the pandemic, it was some of the Liberal welfare states that enacted more novel and substantial social policy responses (Béland *et al*., 2023), compensating for the essential inadequacy of existing social programmes when faced with a society-wide challenge such as the need to impose lockdowns.

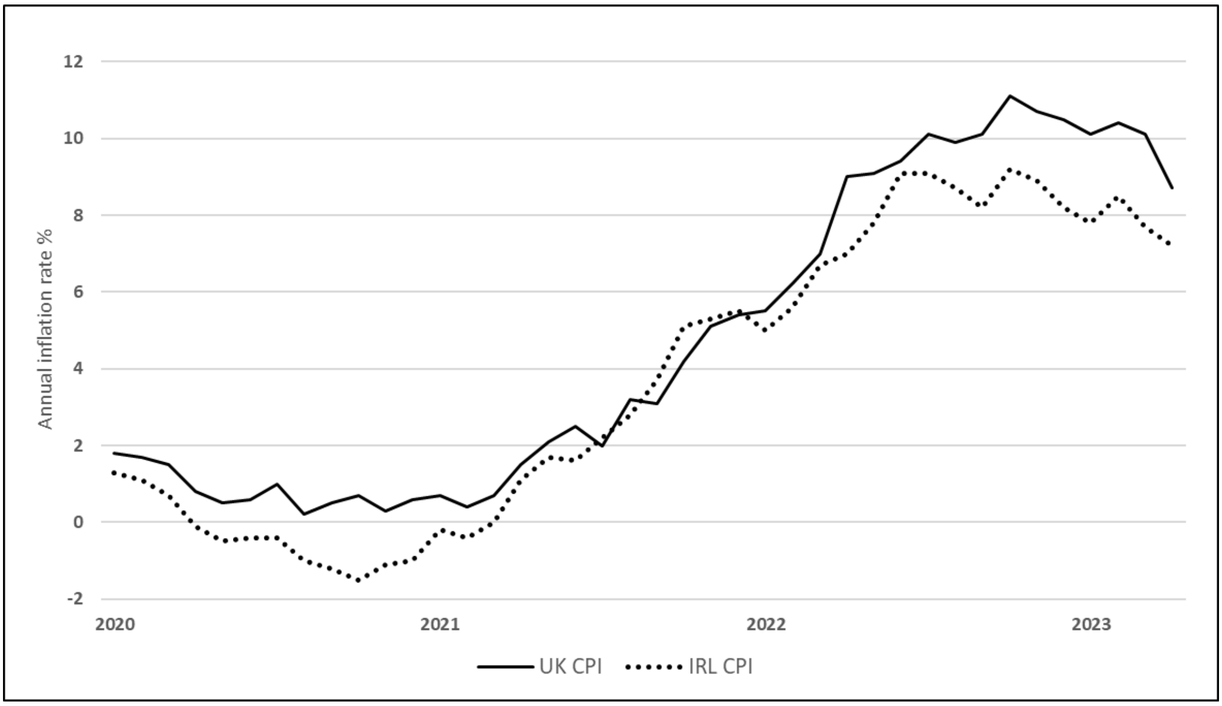
The response to the cost-of-living crisis can be viewed through the prism of a social learning approach (see also Helco, 1974). Social learning has relevance here as, first, a lesson of the pandemic – that governments could provide expansive social support to citizens; indeed, that citizens might expect this – served as a starting point for dealing with the cost-of-living crisis. Thereafter, policy-makers in the UK and Ireland sought to find the right balance, in political terms, between universalism and targeting and, in policy terms, how policy should be delivered in ways that supported families without contributing to inflationary pressures. The 'puzzling' that this entailed is brought to the fore in our account, which traces the evolution of responses in both nations.

Our paper is structured in four sections. In the next section, we outline the backdrop to this crisis in terms of inflationary pressures, indexation approaches and social security systems in the UK and Ireland. The following section details the evolution of policy responses in each country. The penultimate section compares and analyses these responses, while the concluding section highlights what we learn from the responses to this inflationary episode.

Inflation, indexation and social security in the UK and Ireland

Inflation in both the UK and Ireland, which had been subdued throughout the COVID-19 pandemic, re-emerged from mid-2021 in both countries (see Figure 1). In Ireland it breached the European Central Bank (ECB) 2 per cent annual target in July 2021, for the first time since March 2012, remaining above this target throughout the remainder of 2021 and 2022. In the UK inflation exceeded the Bank of England 2 per cent inflation target in May 2021, for the first time since July 2019. During the time period examined in this paper, in both countries inflation peaked in October 2022, reaching 9.2 per cent in Ireland and 11.1 per cent in the UK. This similar and steep increase in inflation, and its subsequent persistence, frame the policy responses in both countries that we explore later in the paper.

Figure 1: Annual Consumer Price Inflation in the UK and Ireland, January 2020-April 2023



Source: ONS (CPI, indicator D7G7), CSO (CPI, indicator CPM01)

In the UK, the centrepiece of the working-age social security system is Universal Credit (UC), which amalgamated six previously separate means-tested payments for people in and out of work. The UC reform has deepened the long-standing emphasis on means-tested payments for people of working age. Since the early Thatcher years, social security payments have nominally been indexed in line with prices, meaning that living standards of social security claimants have lagged behind those in employment for most of this period (Deeming, 2015). Social security benefits are uprated in April of each year based on the inflation rate for the year to the preceding September. As the Office for Budget Responsibility (2022: 49) note 'This means that there is a lag of up to 18 months in terms of how quickly benefit rates reflect changes in inflation in periods when it is rising or falling'.[1] On coming to power in 2010, the Conservative-led Coalition government, while not departing formally from the principle of price indexation, legislated for slower-than-price-indexation rises or outright welfare freezes, meaning that 'in eight of the ten April upratings between 2013 and 2022, the basic rate of unemployment benefits has lost value' (Matejic, 2023: 2). The net effect of these, and other, changes, was to sharpen work incentives by reducing welfare generosity. The indexation of pensions has followed a different rule, governed since 2010 by the 'triple lock', which guaranteed that pensions would increase by the greater of prices, earnings or 2.5%. The cumulative effect has been to increase the generosity of provision for pensioners at the same time as cutting it for people of working age and for children. With the exception of the temporary "£20 uplift" to UC during the pandemic, working-age social security has been declining in real-terms for years (Leslie and Holdsworth, 2022: 3).

Ireland's social security system is largely built around working-age social insurance and social assistance payments with some universal payments to children and pensioners. In contrast to the UK it lacks any formal social security indexation policy with changes to payments dependent on annual pre-Budget lobbying and negotiations, predominantly focused on the headline jobseekers and old-age pension payments. Changes tend to lag income changes elsewhere in society, meaning that households which depend on social welfare payments are in permanent catch-up mode relative to broader living standards. Increases are announced in budget statements in the autumn, with most increases applying from the subsequent January. The resulting outcome tends to be pro-cyclical, with larger increases provided in good times and lower, none or negative changes in poorer economic periods – in 2010 and 2011 weekly rates were cut during Ireland's economic crisis for all bar pensioners (Author; NESC, 2021); rates remained static between 2011 and 2016, as Ireland recovered from its banking and property fuelled economic crash, and rose in the four annual Budgets prior to the pandemic.

In these cases, welfare increases were essentially determined by the available 'fiscal space', an EU-derived public-finance measure of the available resources given taxation levels and recurring expenditure commitments. Policy over these years delivered equivalent nominal increases in weekly welfare payments and weekly decreases in income taxation, such that all individuals, either working or in receipt of a welfare payment, received €4 to €5 per week in additional disposable income (Social Justice Ireland, 2022a). The resulting outcomes were progressive leading to small reductions in income inequality and poverty (Roantree *et al.*, 2021). However, the lack of any formal indexation infrastructure leaves the living standards of those relying on social welfare payments exposed to ad hoc income changes which are determined in the context of competition for other public spending resources and taxation changes. Such households are particularly vulnerable when challenging economic times appear.

Cost-of-living responses in the UK and Ireland

<u>Response to the cost-of-living crisis in the UK</u>

The cost-of-living response package in the UK evolved in over four stages. While inflation had been rising since early 2021 (see Figure 1), a significant moment came in February 2022 when Ofgem, the energy regulator, signalled that it would substantially increase the energy price cap, so that annual bills would, for a typical family, rise from £1,277 to £1,971 from that April (Brewer *et al.*, 2022: 2).

That very day, the Chancellor, Rishi Sunak, responded by announcing a £9bn emergency package-the first stage of the inflationary shock response (see Table 1). This provided for a universal £200 repayable credit – a loan – to be paid to all households from October 2022 via their energy accounts. Sunak emphasised in this statement that the aim of this scheme would be to 'spread over time' the rising price of energy; the credit would be repaid through a levy on bills over a five-year period from 2023. It also provided a £150 Council Tax (CT) rebate for all households in bands A-D. Though the latter was not similarly targeted on energy costs, Sunak was explicit that the purpose of this rebate was 'to help with the cost of energy'. Since almost 80% of households fall into these four Council Tax bands, most households received, through these two measures, a package worth £350, or about half of the anticipated increase in energy prices for the typical family. This was claimed by Sunak to provide 'more help, faster, to those people who need it most'. £150m was provided to local authorities to provide targeted support to lower-income families who missed out on the Council Tax rebate and there was a modest increase in targeted support via the Warm Homes Discount. Sunak emphasised the breadth of this package: 'we are deliberately not just giving support to people on benefits. Lots of people on middle incomes are struggling right now too'.

In his Spring Statement in March 2022, Sunak likened the cost-of-living response to that of the COVID-19 pandemic, claiming that 'People should know that we will stand by them, as we have throughout the last two years'. The Spring Statement was a motley set of announcements, which made limited attempts to target support at the most vulnerable and came in for considerable criticism. The Joseph Rowntree Foundation claimed that the Chancellor's inaction would lead to 600,000 people being pulled into poverty (Hetherington, 2022) while the Resolution Foundation decried the 3.1 per cent indexation that had been applied to social security rates in April 2022, arguing for indexation to be implemented in real time rather than retrospectively (Leslie and Holdsworth, 2022: 6). The failure to do this implied a significant real-terms cut of £15bn, they suggested, from the social security budget.

Overall, this first stage was characterised by a desire to maintain the course on post-pandemic recovery, supporting many households partially, with only weak targeting, and with the formal social security system being asked to do very little.

There was, then – a second stage – the announcement of the Energy Bills Support Scheme in May 2022. This provided £400 for every household, paid directly to households' energy accounts in instalments between October 2022 and March 2023 and now non-refundable. Households using pre-payment meters – typically lower-income households – would receive vouchers, sent by SMS, email or post. Ensuring payments reached those on pre-payment meters presented another targeting challenge and PayPoint, who process these payments, warned that a substantial proportion were going unclaimed (Jolly, 2022). This universal component of the support package was then supplemented by targeted cost-of-living elements: £650 in two instalments for recipients of Universal Credit (and legacy benefits or Pension Credit), an extra £300 for pensioners who receive the Winter Fuel Payment, and an extra £150 to people in receipt of disability benefits (Francis-Devine *et al.*, 2022). After the false dawn of the Spring Statement, Rishi Sunak, the then Chancellor, had finally come up with a sizeable package, with one-off elements targeted using the social security system. He rejected calls to bring forward the indexation of social security payments to account for in-year inflation, but committed that indexation by prices would apply in April 2023, something that was far from certain given the evolution of social security rates after 2010.

The adequacy of this package came under further scrutiny in the summer when Ofgem announced that the energy price cap would to rise from £1,971 to £3,549 in October 2022.[2] Evidently, further support would be needed and when Liz Truss became Prime Minister in early September, she announced an Energy Price Guarantee within days of taking office. This guarantee set the unit price of energy such that a typical household would pay £2,500 p.a. on their energy bills – still an increase of 27% over the summer rate. This cap was to last two years and was the third stage of the policy response, with the government in essence regulating the energy market from the cabinet table. Since what was fixed was the unit price, the benefits were expected to accrue disproportionately to higher-income households, who spend greater nominal amounts on energy (Corlett *et al.*, 2022: 3).

The chaotic fall of the Truss administration after only seven weeks following a financial market fallout in the wake of the 'mini-Budget' led to uncertainty about the policy direction but, despite suggestions that support could be significantly cut back, the subsequent Autumn Statement, made by Chancellor Jeremy Hunt under the helm of a newly-installed Sunak administration, confirmed that the Energy Price Guarantee would be extended after April 2023, but at a higher rate of £3,000 per annum (see Table 1). In terms of social security, Hunt announced £1bn for the Household Support Fund, a local authority-administered discretionary payment scheme, and a round of further one-off payments (see Table 1). Having wavered in public discussion, it was confirmed that social security payments (and the benefit cap) would increase from April 2023 in line with the

September 2022 inflation rate: 10.1%. The universal price subsidies and targeted payments for lower-income households would now stretch until spring 2024; the universal energy credits having been discontinued in spring 2023. An initiative to reduce prices for those on pre-payment meters through price equalisation was also announced.

The policy response, then, centred on two planks of support, announced in the second and third stages: the first, supporting household incomes through the Energy Bills Support Scheme and the various targeted cost-of-living supports; the second, limiting price rises through the Energy Price Guarantee. Social security indexation followed its typical course and was sufficiently retrospective to play only a secondary role in the crisis response.

Table 1: Key Cost-of-Living Responses for Individuals and Households in the UK, February 2022 – March 2023

3rd February 2022

- All households to receive £200 repayable credit to their energy accounts from October 2022.
- The Warm Homes Discount, a discount on energy bills for selected low-income households, expanded in coverage, from 2.2m to 3m households, and in value, from £140 to £150. This was paid for through a levy on energy bills.
- £150 Council Tax (CT) rebate for all households in bands A-D.
- £150m provided to local authorities to provide targeted support to families.

Spring Statement – 23rd March 2022

- Increase in the National Insurance threshold from £9,880 to £12,570 from July.
- 5p cut to fuel duty.
- £500m provided to local authorities from April, doubling the size of the Household Support Fund.
- Announcement of intention to reduce basic rate of income tax, from 20 to 19 per cent, no later than the end of the current parliament in late 2024.

26th May 2022

- Announcement of Energy Bills Support Scheme: non-refundable £400 for every household, paid directly to households' energy accounts in instalments between October 2022 and March 2023.
- In addition, targeted cost-of-living elements:
    - £650 in two instalments for recipients of Universal Credit (and legacy benefits or Pension Credit),
    - an extra £300 for pensioners who receive the Winter Fuel Payment,
    - an extra £150 for people in receipt of disability benefits
- Commitment that welfare indexation by prices would apply in April 2023

8th September 2022

- Announcement of two-year Energy Price Guarantee: setting a limit on the unit price of energy such that a typical household would pay £2,500 p.a. on their energy bills.

17th October 2022

- Revision to Energy Price Guarantee – would run to March 2023 only and from April 2023 would be replaced by a targeted scheme.

Autumn Statement – 17th November 2022

- Revision to Energy Price Guarantee – would run for 12 months from April 2023, but at a higher ceiling of £3,000 per annum.
- A further £1bn for the Household Support Fund and a series of further one-off payments:
    - £900 for recipients of Universal Credit (and legacy benefits or Pension Credit),

- £300 for pensioners who receive the Winter Fuel Payment, and
- £150 for people in receipt of disability benefits

- Confirmation that social security payments and the benefit cap would increase from April 2023 in line with the September 2022 inflation rate: 10.1%.

Spring Budget – 15th March 2023

- The Energy Price Guarantee of £2,500 would be extended until June, and would then run for one year at the higher £3,000 cap.
- Initiatives to reduce prices for those on pre-payment meters through price equalisation.
- Fuel duty reduction extended.
- A series of social security announcements were made – in relation to childcare and disability payments, but not specific to the cost-of-living crisis.

Source: Compiled by authors from UK Government announcements across 2022-2023.

Response to the cost-of-living crisis in Ireland

By early 2023 the Irish Government's response to the cost-of-living crisis had also evolved over four stages, each representing a gradual shift from broad-based and tentative measures to interventions targeted at those on the lowest incomes (see Table 2).

The first set of cost-of-living initiatives emerged between December 2021 and February 2022 as a response to rapidly rising electricity and fuel prices. In this stage the measures essentially reflected a knee-jerk response to energy price increases while still viewing the crisis as a short-term issue which should shortly dissipate.[3 4] Unlike the UK, Ireland has no regulatory enforced household price caps and increases were rapidly passed on to households. Government announced a €100 domestic energy credit, subsequently increased to €200, to be paid to all domestic electricity account holders in Spring 2022, delivered via a credit to household's electricity bills as more-or-less all households are connected to the national electricity grid whereas not all have a gas supply. Unlike the UK, the credit was not expected to be incrementally repaid. The February package also included a temporary 20 per cent reduction in public transport fares and a lump-sum "exceptional payment" to households receiving the fuel allowance – a means-tested benefit paid to some welfare recipients (pensioners, long-term ill and disabled, long-term unemployed and one-parent families). Although most of the additional funding provided for the universal energy payment, the existing social security supports were used as gateways to facilitate some households receiving assistance rather than serving as a means to provide support; setting an approach that persisted across all of the stages. There plans were critiqued by opposition parties and NGOs given its predominantly universal approach. In particular, they highlighted how the assistance was small relative to the challenges lower-income households faced and that the universal measures were inefficient, for example meaning that better-off holiday homeowners would receive two energy credits.[5]

The Russian invasion of Ukraine (February 24th) intensified the energy-related price increases and triggered a second stage of responses characterised by rapid incrementalism. In early March an incorporeal cabinet meeting (over the phone) approved an overnight temporary reduction in excise duties on petrol and diesel.[6] One month later, as energy costs continued to increase, a series of further measures were announced. They included a mix of universal measures (reduced VAT and excise on gas and electricity, an extension of March's excise reduction on petrol and diesel) and a targeted measure whereby fuel allowance recipients received a further €100 lump sum.[7] The tenor of both these announcements marked a notable change in the language used by Government. Gone was talk of a soon-to-end crisis; greater focus was given to the impact on business as well as households, and the sustainability of these supports was highlighted. Commenting on the March initiative, the Minister for Finance noted: "The causes of these price pressures are not within our control. The Government has limited resources…we cannot cushion citizens and businesses from the entire impact" (Department of Finance, 2022a)

The third stage of Ireland's response evolved across the summer of 2022 culminating in the presentation of Budget 2023 in September 2022; two weeks earlier than initially scheduled. The shift to a slightly earlier Budget date reflected increasing pressure on Government to provide a more coherent and comprehensive respond to the crisis alongside providing an opportunity to break the relentless stream of cost-of-living announcements and initiatives that commenced the previous December. It also recognised how the cost-of-living crisis had evolved given the sustained increased in price levels (see Figure 1) that had spread beyond energy and food to almost all goods and services (IFAC, 2022: 13).

By the time the 'Cost of Living Budget' was delivered, the overall package had climbed from €6.7bn to €11bn of which €4.bn was 'once-off measures' to address the rising cost of living across society (Department of Finance, 2022c). For individuals and families the package included: income tax reductions, increases in core welfare payments, once-off universal measures, and a series of once-off measures targeted on social welfare recipients. Collectively, these measures delivered a substantial cushion of resources to households both in the latter part of 2022 and into 2023. Core welfare payments were increased by €12 per week, higher than in previous years but well below the amount needed to index them for inflation. Taken together, the measures demonstrate a progressive distribution of resources although that outcome reverses once a distinction is made between permanent changes, which will remain until altered by future budgetary policy, and temporary one-off payments that ceased in early 2023. Commenting on the Budget, Social Justice Ireland (2022b: 3) observed how its "temporary measures hide [a] regressive shift" while the Economic and Social Research Institute (2022) noted that the allocated resources would be insufficient for low-income households should the crisis persist into mid-2023 (Doolan *et al.*, 2022).

Although the Budget measures represented a shift towards using more of the established taxation and social security infrastructure, a preference for one-off payments mainly delivered outside of the core social security system remained central. The overall package reflected a shift towards more targeted interventions, however, the objective to provide some resources to all households remained its defining characteristic.

A fourth package of measures, announced in February 2023, demonstrated a shift to a fully targeted approach using the existing social security system as a means to provide one-off support to households with members in receipt of a social welfare payment and households with children. The package also included plans for the phasing out of the some supports including the temporary VAT and excise reductions for fuel, gas and electricity such that all would be eliminated in advance of Budget 2024 (October 2023).

Table 2: Key Cost-of-Living Responses for Individuals/Households in Ireland, December 2021 – February 2023

14th December 2021

- All households to receive Domestic Energy Credit of €100, payable in Spring 2022.

10th February 2022

- Domestic Energy Credit increased to €200, payable in April 2022.
- 20% reduction in all public transport fares to end 2022.
- €125 lump-sum payment to all means-tested Fuel Allowance welfare recipients.

9th March 2022

- Overnight reduction in excise duties on petrol and diesel until end-August 2022.

13th April 2022

- VAT reduced on gas and electricity until end-October 2022.
- Excise duty reductions announced in March extended to Budget Day (September).
- €100 lump-sum payment to all Fuel Allowance welfare recipients.

Budget 2023 - 27th September 2022

- Budget 2023 announced as a 'Cost of Living Budget' involving a total of €11bn in resources - €6.9bn for 2023 measures and €4.1bn for once-off cost-of-living measures occurring in late 2022 and 2023.
- Reduction in income taxation via increased standard band and increased tax credits.
- Increase in core welfare payments of €12 per week.
- Once off measures:
    - Three Domestic Energy Credits for all households, worth €200 each and payable in November 2022, January 2023 and March 2023.
    - Double Child Benefit payment for all children in November 2022.
    - A double payment of all weekly welfare payments in mid-October 2022.
    - €400 lump-sum payment to all Fuel Allowance welfare recipients.
    - €200 lump-sum payment to all welfare recipients receiving the Living Alone Allowance.
    - €500 lump-sum payment to recipients of Working Family Payment, Carer's Support Grant, and Disability Support Grant.
    - Double third-level grant payment and increased postgraduate payment.
- 20% reduction in all public transport fares extended until end-2023; 50% reduction for under 18s; fuel excise duty reductions extended.
- VAT reduction on gas and electricity extended until end-February 2023.

21st February 2023

- €200 lump-sum payment to all welfare recipients in April 2023.
- €100 lump-sum Child Benefit payment in June 2023.
- €100 one-off increase in the Back-to-School Clothing and Footwear Allowance for welfare recipient families, payable in July 2023
- VAT reduction on gas and electricity extended until end-October 2023.
- Phased restoration of the excise duty reductions on petrol and diesel in June, September and end-October 2023.
- Other measures including once-off waiving of state examination fees and reduced charges for school transport.

Source: Adapted from Author, 2022.

Comparison and analysis

In comparing the social policy responses in the UK and Ireland, three immediate similarities are apparent. First, in both states, the policy response evolved in an expansionary direction as initial hopes of a short-lived inflationary shock gave way to an appreciation of the longer-lasting nature of the crisis. Second, a desire that cost-of-living supports would not aggravate inflationary pressures contributed to an emphasis on short-term or one-off measures that did not imply longer-term funding commitments. Third, the policy packages in both countries might be characterised in broad terms as *progressive universalism* – that is, that there is some universal provision made available to everyone, but that those on the lowest incomes received additional support; over time, both states moved towards greater targeting of their income/credit supports towards lower-income households.

Social security indexation played a limited role in the response in each country until the budget statements for 2023. In the UK, social security rates were indexed in line with the previous year's inflation figure; an unremarkable response, though even this seemed generous given the public questioning of the short-lived Truss administration over whether to maintain price indexation. In Ireland weekly rates were increased by a nominal amount, €12 for most payments; a figure unrelated to any inflation index. Although presented as a substantial increase, it implies a real income decline for these households in 2023 with, for example, the increase for jobseekers (5.8%) and pensioners aged under-80 (4.7%) below the annualised 2022 inflation rate of 7.8%. Faced with a severe inflationary shock, neither country departed from its traditional indexation approaches and in both countries there was a significant reliance on ad hoc payments. This is arguably easier to account for in the UK than in Ireland given the significant lag in indexation the former relative to the latter, as we have noted. Yet despite Ireland's greater flexibility in this regard, it too opted to rely on passported one-off payments rather than a significant hike in across-the-board social welfare rates.

The central difference in the policy response is reflected in the imposition of an energy price guarantee in the UK but not in Ireland. The fixing of unit prices might be understood as a response to the salience of the Ofgem-set price cap in public debate in the UK. In Ireland, by contrast, households were exposed to market energy prices throughout, but supported in terms of their energy consumption through the package of credits and payments discussed above. Ireland's more cautious approach is routed in its experience during the 2008-2011 banking crisis, where an open-ended guarantee was issued overnight in September 2008 for all bank deposits; notionally exposing the state to liabilities almost three times national income (Author). The ensuing controversy removed any policy or political willingness to 'write blank cheques' to underpin policy measures including energy supports, a lesson learned through bitter experience. Consequently, while the UK Treasury was unable to quantify the cost of its energy cap supports with any certainty, Ireland's approach allowed its Department of Finance to determine a known cost from the outset.

Discussion and conclusion

A number of lessons can be identified from this episode which are relevant to the framing of future policy responses.

First, the (near-)universal supports provided in the early phases of the crisis led to concern about the distributional consequences of support packages and about their aggregate cost, especially as the scale of the inflationary shock became clearer. Over time, both countries turned to greater targeting as inflation continued to increase and both struggled to adequately target their support packages. Much of the support for those on lower-incomes came as ad hoc payments which used the main social security system as a targeting system rather than delivering support via increases to existing payments. But targeting successfully using the social security system proved to be challenging. Targeting by low income is the not the same as targeting on households with high energy costs or experiencing fuel poverty (Keung and Bradshaw, 2023; Barrett et al, 2022). There were implementation challenges, too: in the UK, local government found it difficult to apply Council Tax reductions; in Ireland the extension of public transport cost reductions to private operators was delayed, and in both countries the delivery of energy credits to households on pre-payment meters, mostly lower-income households, proved problematic. Policy-makers struggled to identify and pursue pathways to better assist these households and learning through the cost-of-living crisis centred on what balance of universalism and targeting was desirable, and how targeting might be achieved. The obvious exception to trend towards targeting – and it was a striking exception – was the setting of a ceiling on unit energy prices in the UK. Even though the application of the guarantee concluded 'prematurely' in July 2023 when the Ofgem-set price cap fell below £3,000, recent estimates suggest that the cost to July may reach £820 per household (OBR, 2023: 57). This was the single largest component of any of support packages, contributing significantly to what is likely to prove to be the UK's greater total support package size. It was also obviously regressive in terms of impact.

Second, relying on the social security system to target supports led to significantly improved distributional outcomes compared to the quasi-universal elements. Equally, the reliance on existing schemes for passporting purposes implied distributional consequences that were not always recognised. In both countries, targeting emphasised those working-age recipients in receipt of means-tested social security payments only, bypassing contributory payments, but was more generous to pensioners by passporting one-off payments to recipients of contributory pensions too. The treatment of children was notably different: while in Ireland one-off payments were made on the back of the universal Child Benefit payment and thus on a per-child basis; in the UK, support for children came via targeted payments via Universal Credit, and were made on a per-household basis. In both countries, there could be 'sharp edges' and rough justice: since lump-sum payments were not pro-rated, unlike the means-tested payments they were often dependent upon, families in quite similar circumstances could gain or lose entitlement to (sometimes substantial) lump-sum payments based on modest differences in circumstance – for example, income at levels marginally above or below an entitlement threshold, or receipt of a payment being used for passporting purposes in one month but not the next.

Third, within the context of these novel developments, there were signs of path dependence in relation to social security policy. This was especially apparent in relation to indexation, where the UK adhered to the scheduled timetable for indexation, with the government resisting calls to bring this forward. In Ireland, no attempt was made to index welfare payments to inflation levels, and the pre-pandemic budgetary agenda of small nominal increases in welfare payments and income tax reductions resumed. Two prominent theoretical accounts of policy change emphasise, on the one hand, the cumulative impact of gradual change (e.g. Streeck and Thelen, 2005) and, on the other, the significance of 'critical junctures', where exogenous shocks may disrupt path-dependent equilibria, setting policy on a new path (Capoccia and Keleman, 2007). In the latter, the absence of change is considered a possible response at these junctures – for instance, where 'change was possible and plausible, considered, and ultimately rejected' (Capoccia and Keleman, 2007: 352). But what we see here is somewhat different: like the COVID-19 pandemic, a shock generated a substantial and creative response to a distinct policy challenge. But rather than triggering a process of incremental change or setting policy on a new equilibrium, what we appear to see are agile, but explicitly temporary, responses that do not suggest longer-term path departure, and appear likely to give way to the status quo ex-ante.

Uncertainty regarding the duration, nature and depth of the cost-of-living crisis has influenced the iterative responses we observe in the UK and Ireland. This uncertainty informed puzzles around the scale and optimal distribution of the policy response. Many of the initial measures were in effect welfare for all and welfare by other means, providing universal, or at least broad-based, support; the pivot to greater targeting began in late 2022 and continued into 2023. These responses, creative as they were, did not fully shield households from the inflationary shock to living standards. Now, these temporary structures are in the process of being dismantled. It remains to be seen whether, once this occurs, the foundations of longer-term change become visible.

Endnotes

1. This has generally been applied to headline rates of the main schemes, though in reality more complex reality applies across various elements of the social security system.

2. 'Price cap' here is something of a misnomer – what is capped are *unit* prices, but figures are typically expressed as what is spent by an average (or indicative) family. There is no cap on a household's aggregate energy bills.

3. See Department of Environment, Climate and Communications (2021).

4. See Department of Public Expenditure, NDP Delivery and Reform (2022).

5. See response from Social Justice Ireland (2022b) and parliamentary contribution from opposition TD Jennifer Whitmore (2022).

6. See Department of Finance (2022a).

7. See Department of the Taoiseach (2022).

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