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Living standards and inequality

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What's coming up

Living standards

- Household income data from the last financial year of the recent recession
- How household incomes evolved during the 13 years of Labour's government

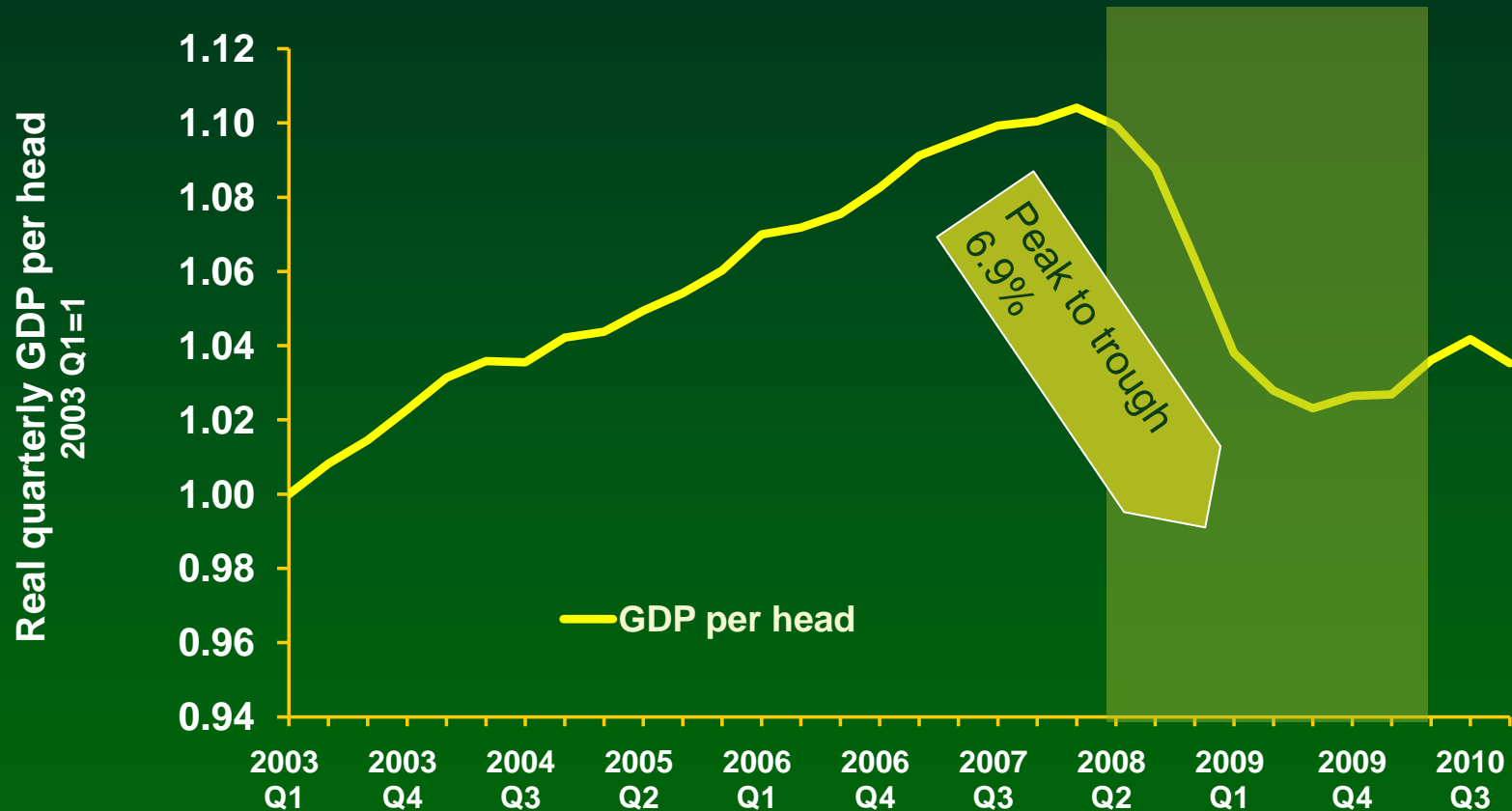
Income inequality

- How has the gap between rich and poor evolved?

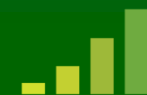
How incomes are calculated

- Net of direct taxes and benefits
- Measured at the household level
- Adjusted for household size (*equivalised*)
- Both before and after housing costs
- Adjusted for inflation
- Based on Family Resources Survey (FRS)
 - All statistics subject to sampling error
- UK figures from 2002-03, GB only in earlier years
 - Report income trends on a GB basis

GDP per head shrank substantially



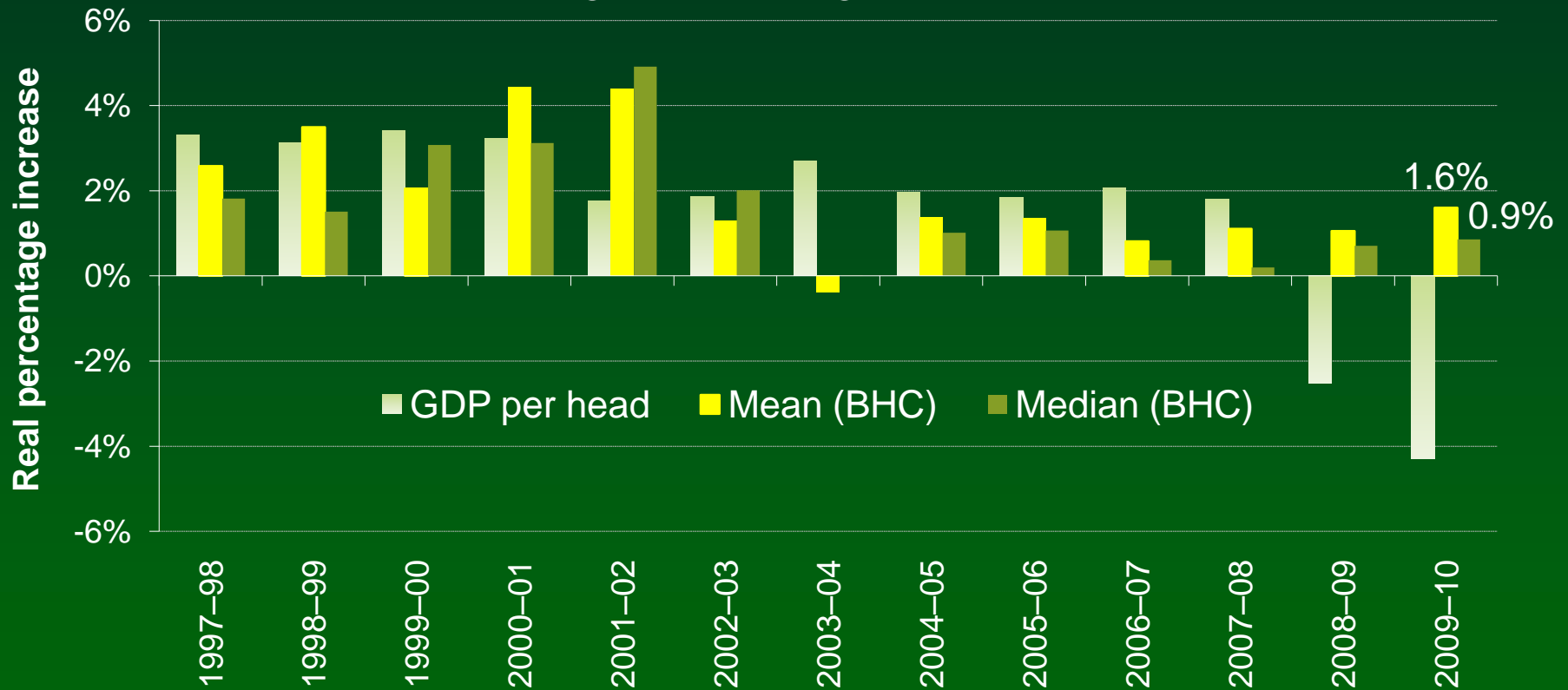
Source: ONS, Economic and Labour Market Review



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How does the GDP growth compare with household income growth?

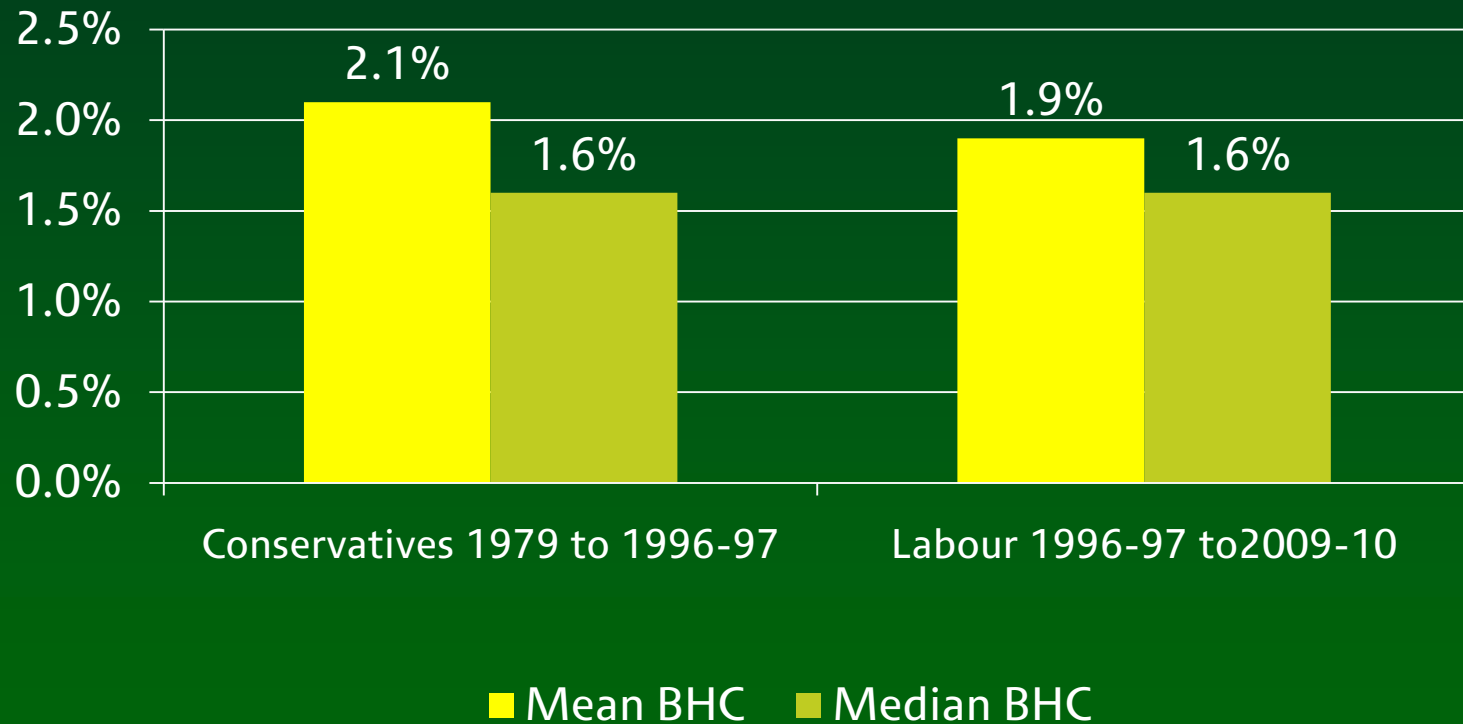
Annual changes in average real incomes (GB)



Source: ONS and HBAI data

Income growth by different periods

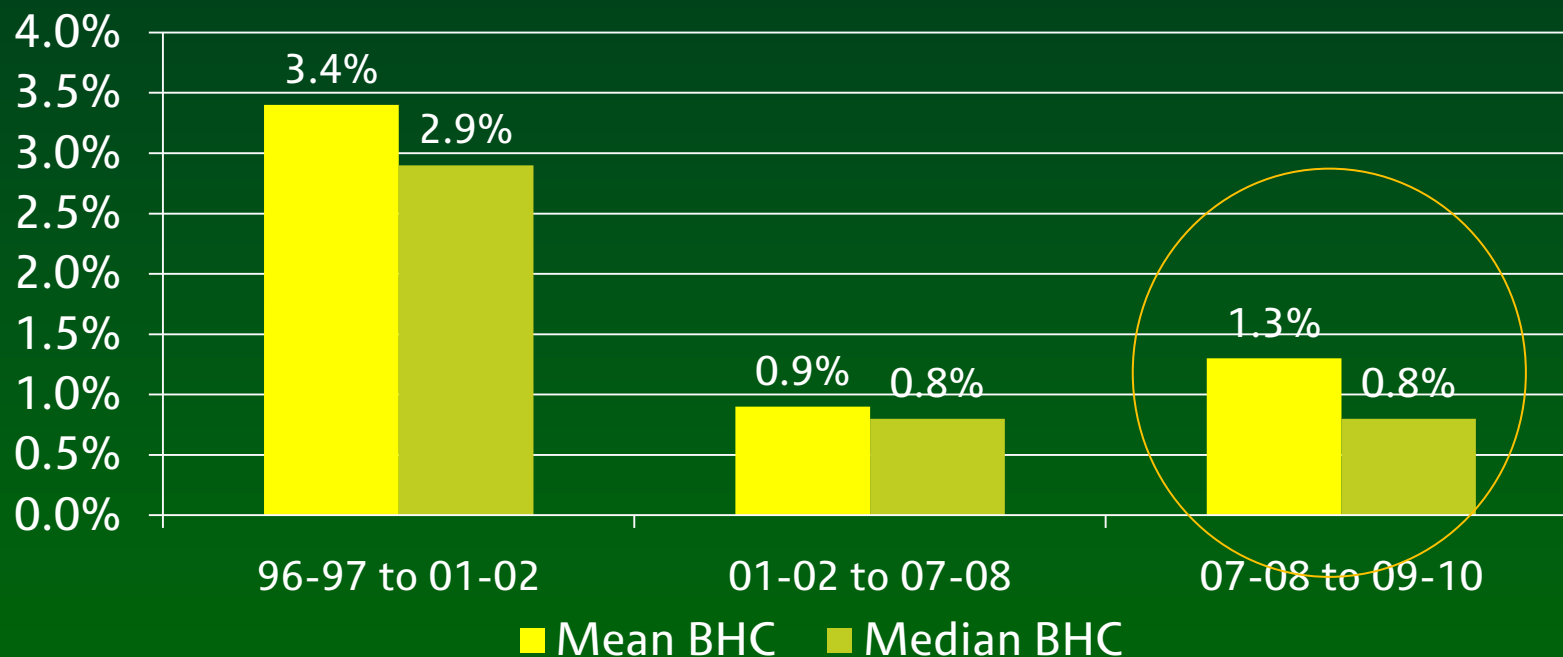
Annualised changes in average real incomes (GB)



Source: HBAI data

Did growth differ during Labour's 13 years?

Annualised changes in average real incomes (GB)

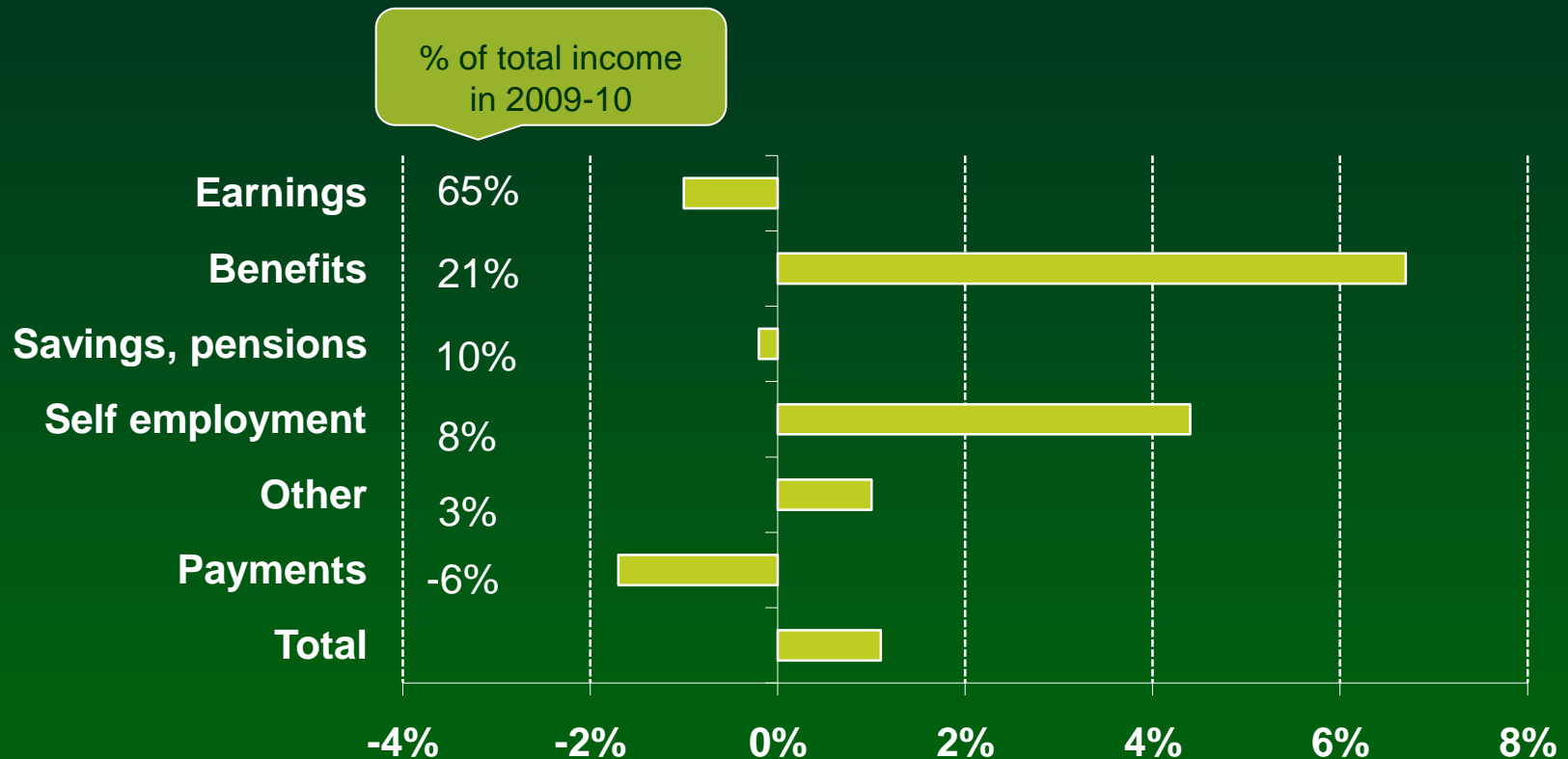


Source: HBAI data

So why did household incomes grow in 2009-10 and during the two recession years?

- Not due to earnings
 - Official statistics imply household incomes from earnings stagnated or fell slightly between 2007-08 and 2009-10
- Partly due to a methodological change
 - Mean income growth = 1.2% rather than 1.6% if use old methodology
 - little difference in median income growth => little impact on poverty statistics

So where did growth in 2009-10 come from?



Real growth in components of income (GB) 2009-10

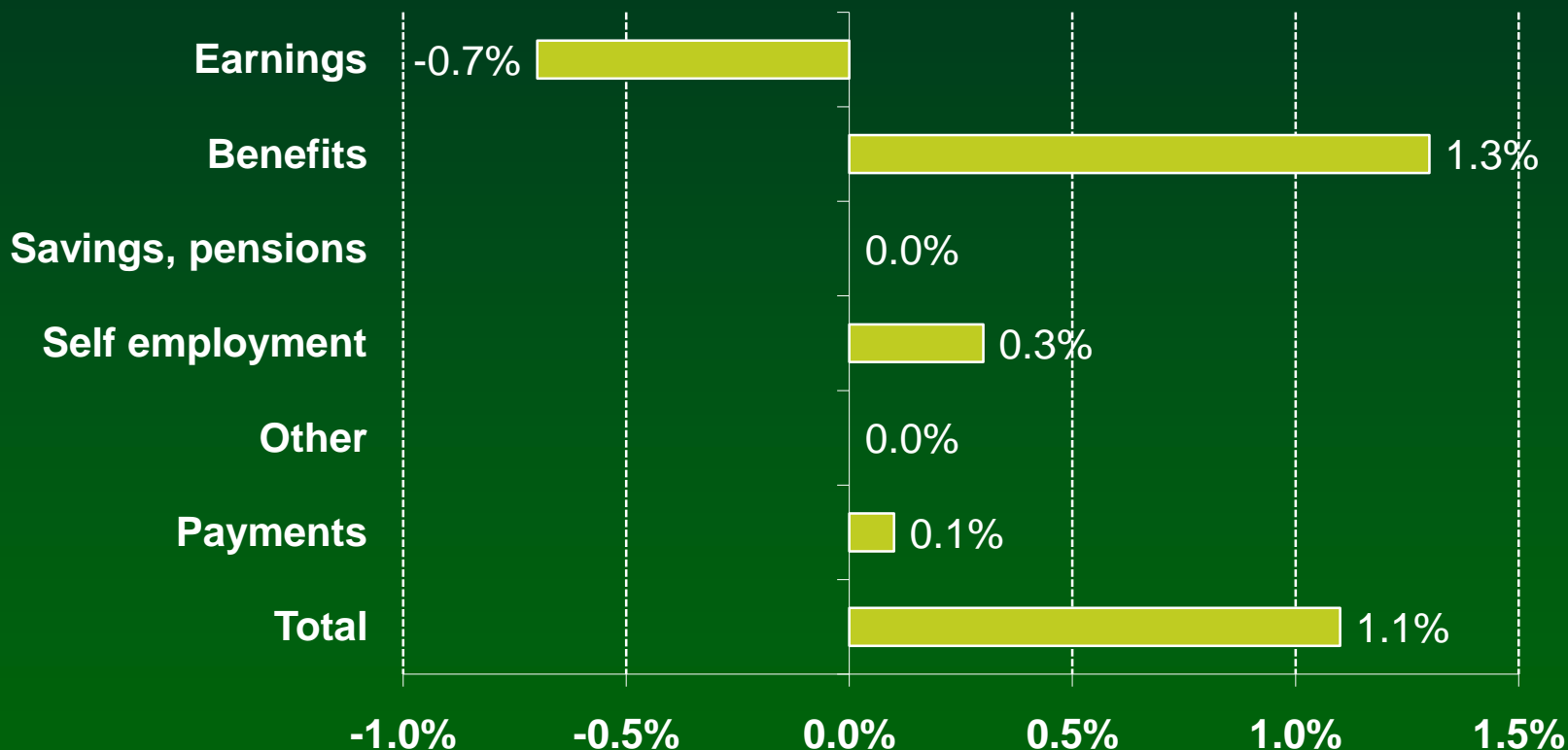
Note: excluding households whose incomes were adjusted under HBAI methodology



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How did the change in each income component affect total growth in 2009-10?

Contribution to growth by income component in 2009-10

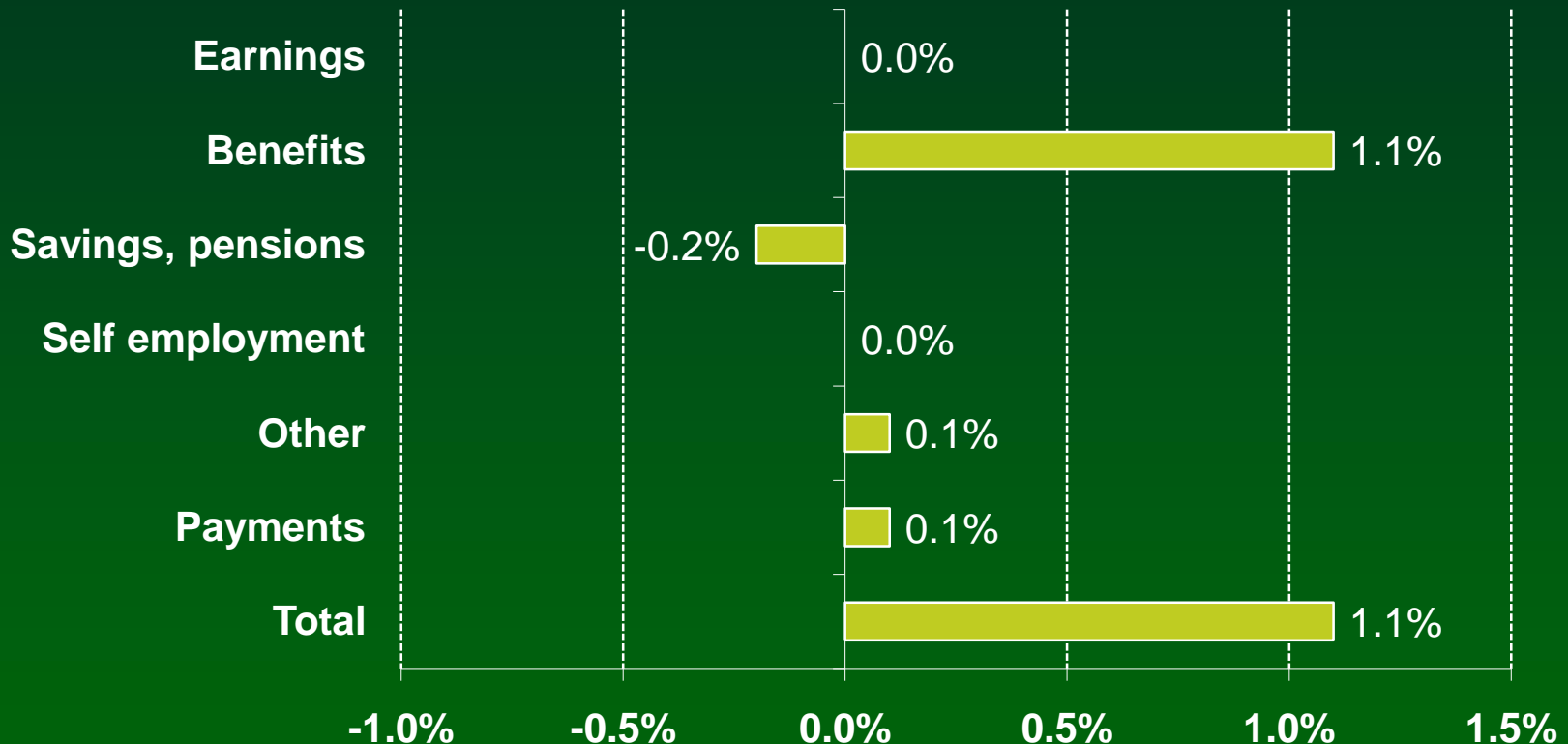


Note: excluding households whose incomes were adjusted under HBAI methodology



And during the recession?

Contribution to annualised growth by income component,
between 2007-08 and 2009-10



Note: excluding households whose incomes were adjusted under HBAI methodology



Why did income from benefits and tax credits rise so significantly?

- Income from benefits and tax credits rose by 6.7% in 2009-10 in real terms; and 5.6% per year between 2007-08 and 2009-10
- Why?
 - Up-rating rules and falling inflation during the recession
 - Discretionary changes
 - Rising unemployment

So far so good.....

But,

Pain is yet to come (or to appear in data):

- Inflation measured by RPI averaged 5.0% in 2010-11 => but most benefits and tax credits uprated by around 2% in April 2010
- Real average earnings fell by 3.8% while employment rate stagnated in the first 11 months of 2010-11
- Previous IFS work forecast a real-terms 2.2% fall in median income between 2008-09 and 2010-11
 - implies a real fall by 3.1%, greatest since 1981
- Planned welfare cuts and tax rises to take effect gradually over the parliament



Living standards: summary

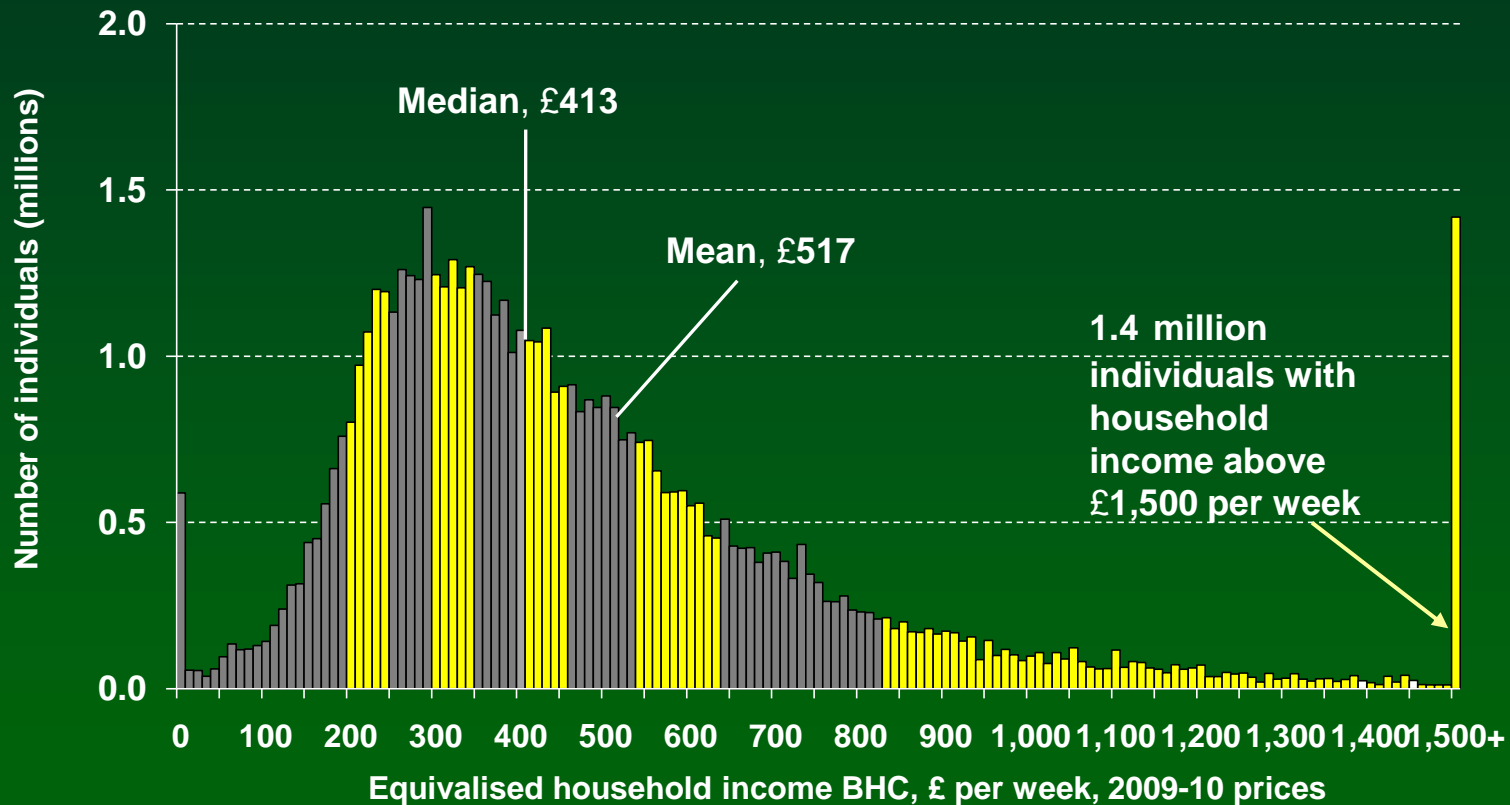
- Average household incomes continued to grow in 2009-10, despite the recession
- Robust growth in income from benefits and tax credits during the recession
- Significant fall in average incomes in 2010-11 looks likely

Inequality



Picture source: the New York Times

The UK income distribution in 2009-10



Source: HBAI data



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Income growth by percentile group: 2009-10 (GB)

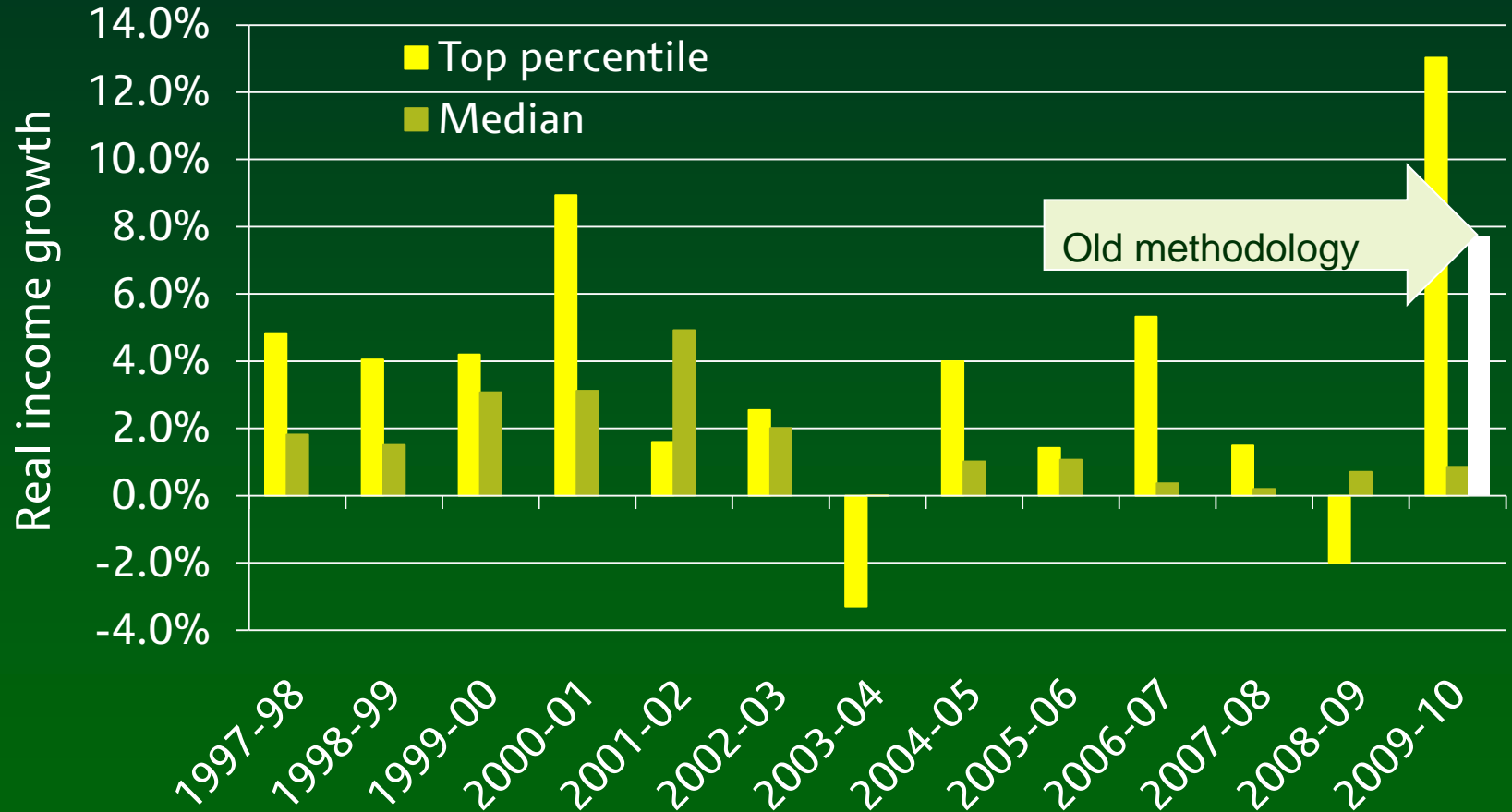


Notes: The changes in income at the 1st, 2nd and 99th percentiles are not shown on this graph due to very high levels of statistical uncertainty. Incomes have been measured before housing costs have been deducted.

Source: Authors' calculations using Family Resources Survey, 2008-09 and 2009-10.

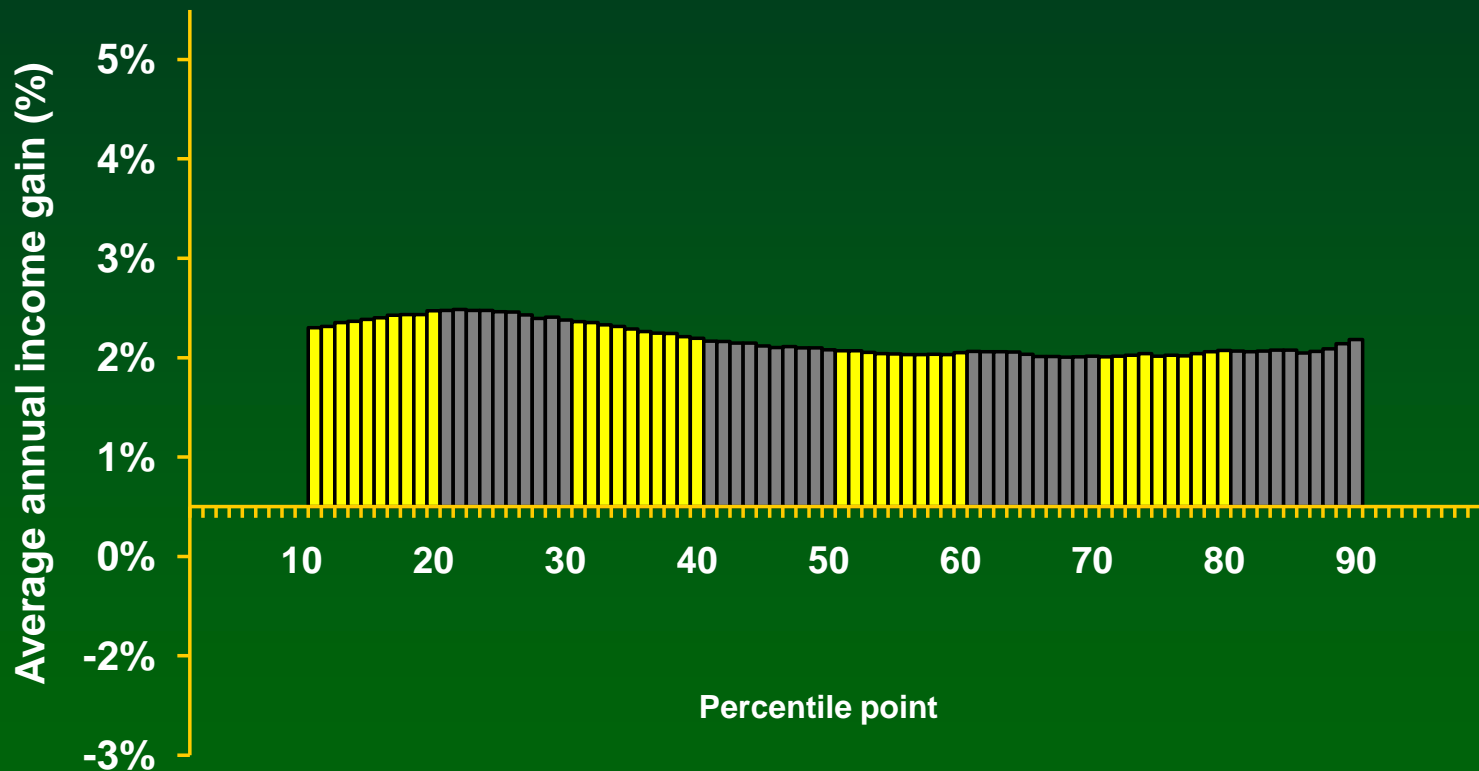


Top percentile income growth highest in a decade



Note: incomes are measured before housing cost.
Source: HBAI data

Income changes by percentile group: from 1996-97 to 2009-10 (GB)



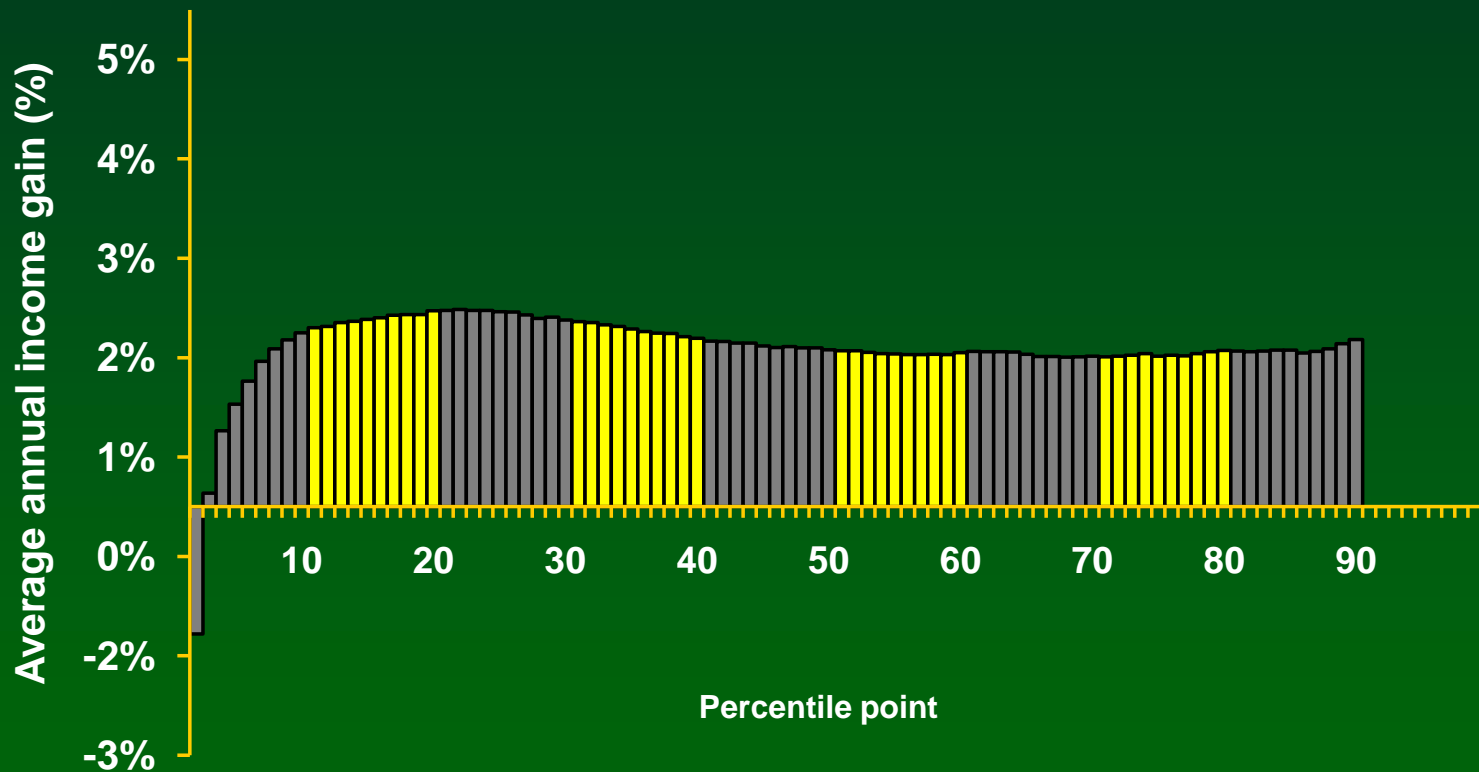
Notes: The change in income at the 1st percentile is not shown on this graph due to very high level of statistical uncertainty.

Source: HBAI data



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Income changes by percentile group: from 1996-97 to 2009-10 (GB)



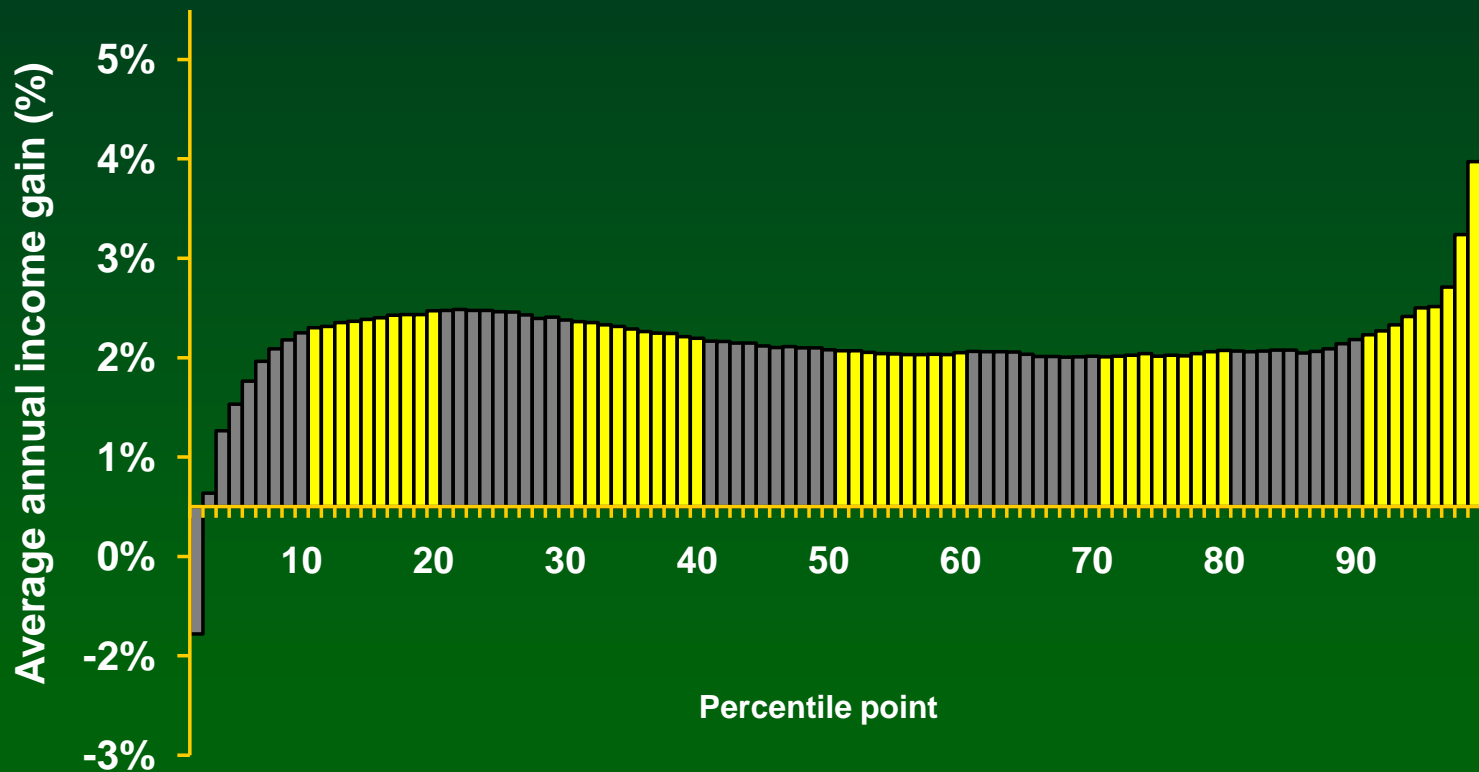
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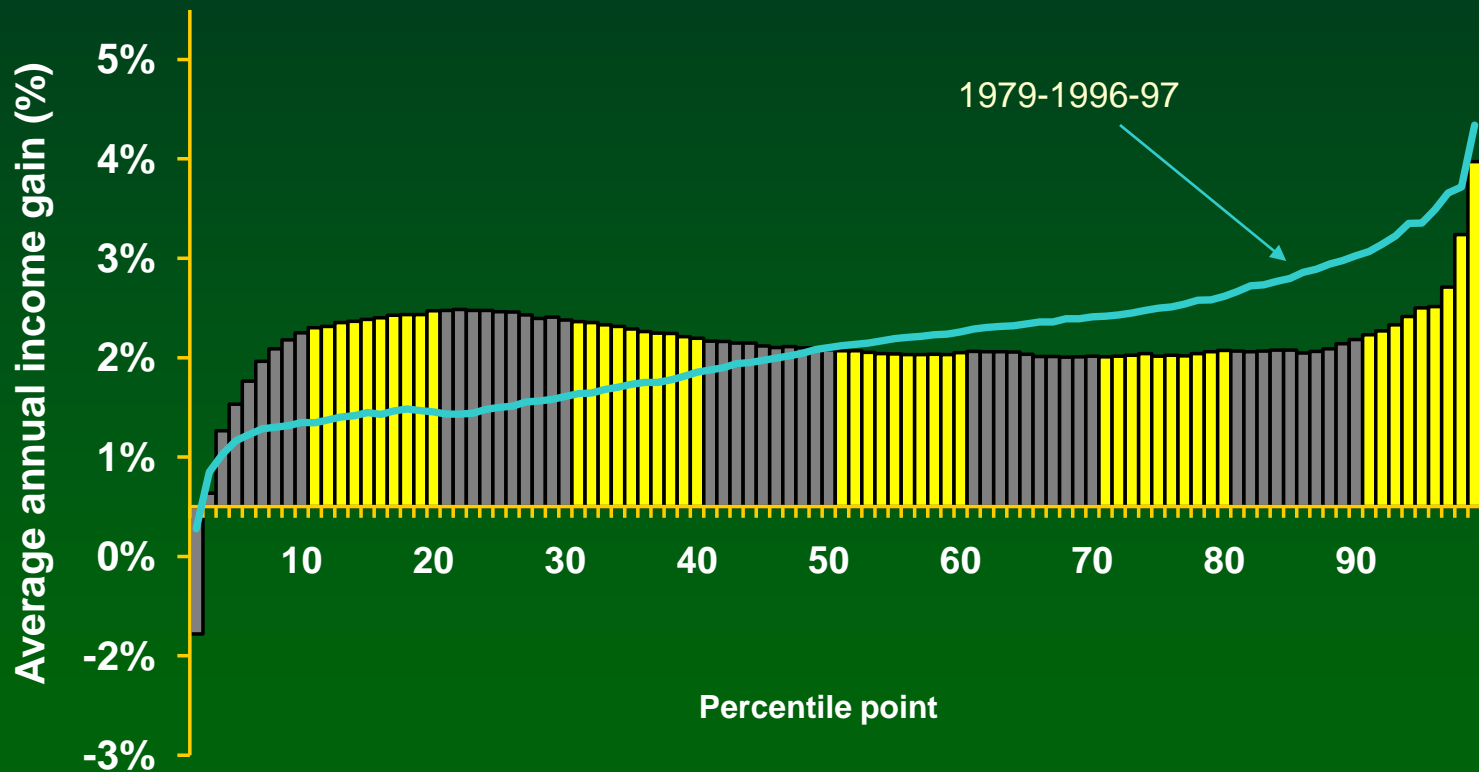
Notes: The change in income at the 1st percentile is not shown on this graph due to very high level of statistical uncertainty.

Source: HBAI data



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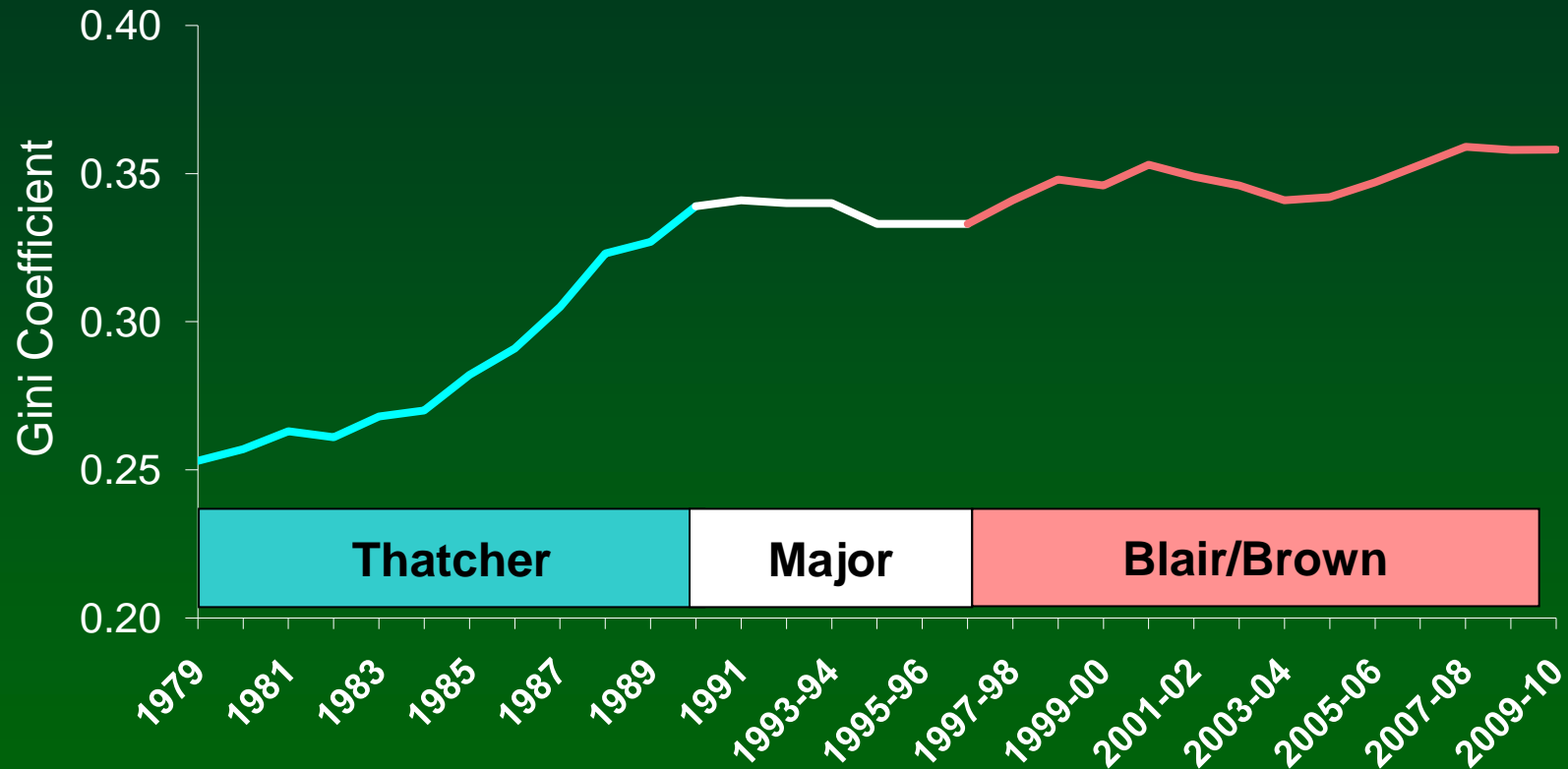
Notes: The change in income at the 1st percentile is not shown on this graph due to very high level of statistical uncertainty.

Source: HBAI data



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The Gini Coefficient: 1979 to 2009-10 (GB)



Source: HBAI data and Family Expenditure Survey, various years

Did Labour increase the rich-poor gap?

- Gini has gone up from 0.33 in 1996-97 to 0.36 in 2009-10
- Many possible reasons; and IFS analysis suggests:
 - Gini would be 0.03 higher if the tax and benefit system had simply been updated in line with RPI
 - Gini would be 0.01 higher had the system simply been updated in line with GDP
- Labour's changes to the tax and benefit system acted to mitigate the rise in inequality

Looking ahead

- New tax measures including the 50p tax rate from April 2010 will reduce income growth at the very top of the distribution
- Changes to the income tax personal allowance will have ambiguous impact on inequality
- Significant cuts to welfare spending likely to increase inequality year after year; especially the switch to CPI indexation

Inequality: summary

- Robust income growth towards the bottom of the distribution in 2009-10, but also exceptional growth among the richest
- Significant increase in Gini under Labour; but mitigated by their benefit and tax policies
- Uncertain future for inequality