



# PERSPECTIVE

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*Are you better off now than you were four years ago?*

*Applying Ronald Reagan's "killer question" to the UK today*

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### SUMMARY

*In the 1980 US presidential debates, Ronald Reagan's most influential comment was judged to be his closing question to the audience: "Are you better off now than you were four years ago?" According to the memoirs of one of President Carter's aides,<sup>1</sup> this question was instrumental in turning Carter's opinion poll lead into a major Reagan landslide over the following weekend.*

Ronald Reagan's question still resonates today. The latest figures from the Office of National Statistics (ONS) show that:

- Average weekly gross income per household has grown by just £16 in real terms, rising from £600 in 2001/02 to £616 in 2005/06 (at 2005/06 prices).<sup>2</sup> This is a compound growth rate of just 0.5% a year. Households in the UK are hardly any better off than they were four years ago.

*Average earnings and disposable income both grew at an average compound rate of 4.7% a year in the first half of Labour's term in office. Since 2001/02, however, both earnings growth and disposable income growth have stagnated.*

- Real weekly disposable income per household has gone up by just £9 a week over the same period, rising from £491 to £500. This is a compound growth rate of just 0.35% a year.<sup>3</sup>

▪ These data contrast strongly with the higher growth rates in Labour's first term in office. Average real income per household rose from £499 a week in 1996/97 to £600 a week in 2000/01 (at 2005/06 prices). This was an average compound growth rate of 4.7% a year.

- Real disposable income per household increased from an average of £408 a week in 1996/97 to £491 in 2001/02. This was also a compound growth rate of 4.7% a year.
- Inequality in household income is unchanged since 1996/97. Then, the 20% of richest households had an income 10 times greater than that of the 20% of lowest income households. That is still the case today.

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<sup>1</sup> Jody Powell, *The Other Side of the Story*, William Morrow, 1984.

<sup>2</sup> "Gross income" includes all pre-tax earnings and benefits.

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<sup>3</sup> Disposable income is income after direct taxes and National Insurance Contributions.



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- ONS data also suggest that the lowest income households in Britain are paying a higher share of tax and receiving a lower share of benefits than they were in 1996/97.

So, for the average voter, the answer to Ronald Reagan's question is likely to be a resounding: "NO!"

## HOUSEHOLD INCOME STAGNATES

Average income per household has effectively stagnated over the four years since 2005/06. Table 1 and the charts on the back cover demonstrate the sharp fall in the growth of average real income per household between the first and second periods of the Labour government.

## INCOME INEQUALITY

Analysis of the income gap between household income groups demonstrates a remarkable stability over the ten years between 1996/97 and 2005-06. The following data are from the ONS *Family Expenditure Surveys* and are all at current prices.

### *The lowest income households*

In 1996/97, the bottom fifth of households had an average income of £85 per week, equivalent to 21% of average gross income per household. This rose to £113 per week in 2001/02, amounting to 22% of average gross income at that time. In 2005/06, it was £133 per week, again amounting to 22% of average gross income. Meanwhile disposable income went from £84 per week in 1996/97, to £111 per week in 2001/02 and then to £130 per week in 2005/06 – moving from 26% of average disposable income to 25% and then back to 26% of average disposable income.

### *Second lowest income households*

In 1997/97, the second lowest fifth of households had an average income of £179 per week, amounting to 45% of average gross income. In 2001/02, this rose to £245 per week, also amounting to 45% of average gross income per household. In 2005-06, it was £281 per week, amounting to 46% of average gross income. Meanwhile disposable income went from £168 per week in 1996/97, to £227 per week in 2001/02 and then to £260 per week in 2005/06 – moving from

**Table 1 – Average gross income per household and disposable income per household both stagnate**

	WEEKLY INCOME PER HOUSEHOLD			
	CURRENT PRICES		CONSTANT PRICES (2005/06)	
	Disposable income	Gross income	Disposable income	Gross income
	£	£	£	£
<b>1996-97</b>	<b>325</b>	<b>397</b>	<b>408</b>	<b>499</b>
1997-98	343	421	417	512
1998-99	371	457	438	539
1999-2000	391	480	454	557
2000-01	409	503	461	567
<b>2001-02</b>	<b>442</b>	<b>541</b>	<b>491</b>	<b>600</b>
2002-03	453	552	493	601
2003-04	464	570	491	603
2004-05	489	601	502	617
<b>2005-06</b>	<b>500</b>	<b>616</b>	<b>500</b>	<b>616</b>

Source: Table A47, *Family Spending Survey 2005-06*, ONS, January 2007.



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52% of average disposable income to 51% and then back to 52% of average disposable income.

### *Middle fifth of households*

In 1996/97, the middle fifth of households had an average gross income of £314 per week amounting to 79% of average gross income. In 2001/02, this became £423 per week amounting to 77% of average gross income. In 2005-06, they received an average of £476 per week, amounting to 77% of average gross income. Meanwhile disposable income went from £268 per week, to £364 per week and then on to £408 per week – moving from 82% of average disposable income in 1996/97, to 81% in 2001/02 and then back to 82% of average disposable income in 2005/06.

### *Second highest income households*

In 1996/97, the second highest fifth of households had an average gross income of £489 per week amounting to 123% of average gross income per household. In 2001/02 they received an average of £651 per week amounting to 119% of average gross income. In 2005-06, they received £738 per week,

amounting to 120% of average gross income. Meanwhile disposable income went from £395 per week in 1996/97, to £532 per week in 2001/02 and on to £600 per week in 2005/06 – moving from 119% of average disposable income to 122% and then back to 120% of average disposable income in 2005/06.

### *Highest income households*

In 1996/97, the highest fifth of households had an average gross income of £918 per week amounting to 231% of average gross income. In 2001/02 this became £1,300 per week amounting to 238% of average gross income. In 2005-06, they received an average income of £1,451 per week, amounting to 236% of average gross income. Meanwhile disposable income went from £709 per week in 1996/97 (218% of average) to £999 per week in 2001/02 to £1,103 per week in 2005/06 – moving from 218% of average to 223% and then to 221% of average disposable income.

*The income of the poorest households is ten times less than that of the richest households – just as it was both five years ago and ten years ago.*

The income of poorest households is still ten times less than the richest, just as it was five years and ten years ago.

**Table 2 – Inequality unchanged over the last ten years**

	WEEKLY HOUSEHOLD INCOME (£, CURRENT PRICES)											
	Lowest 20%		2 <sup>nd</sup> lowest 20%		Middle 20%		2 <sup>nd</sup> highest 20%		Highest 20%		Average	
	Disposable	Gross	Disposable	Gross	Disposable	Gross	Disposable	Gross	Disposable	Gross	Disposable	Gross
1996-97	84	85	168	179	268	314	395	489	709	918	325	397
2001-02	111	113	227	245	364	423	532	651	999	1300	447	547
2005-06	130	133	260	281	408	476	600	738	1,103	1,451	500	616

Sources: Table A42, *Family Spending Survey 2005-06*, ONS, 2007; Table 8.3 of *Family Spending Survey, 2000-01*, ONS 2002; and Table 8.3 of *Family Spending Survey 1996-97*, ONS, 1998.



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## **TAX AND BENEFITS**

While inequality of income is unchanged, data from *Economic Trends* indicate that the least well-off households now also pay proportionately more in tax and receive proportionately less in benefits than was the case ten years ago. However, these changes are small and are within the margin of error.

### ***Poorest fifth of households***

In 1996/97, the poorest fifth of households paid 6.8% of the total tax take. This rose to 7.2% in 2001/02 before falling back to 6.9% in 2004-05. Meanwhile their share of benefits has fallen from 28.1% in 1996/97, to 27.7% in 2001/02 and then to 27.1% in 2004/05. The extra tax paid by the poorest fifth of households, compared to 1996/97 was equivalent to £56 per household in 2004-05, while the benefits lost was equivalent to £475 per household per annum over the ten years to 2004/05.

### ***Second poorest households***

In 1996-97, the second poorest fifth of households paid 10.1% of the total tax take. This fell to 9.8% in 2001/02 before moving back to 10.1% in 2004-05. Meanwhile their share of benefits moved from 26.2% in 1996/97, rising to 26.4% in 2001/02 before falling back further to 25.3% in 2004/05. This fall in the share of benefits is the equivalent of £427 per household per annum over the ten years to 2004/05.

### ***Middle fifth of households***

In 1996-97, the middle fifth of households paid 16.9% of the total tax take – which had fallen to 16.4% in 2004-05 (it was 16.2% in 2001/02). Meanwhile their share of benefits rose from 20.8% in 1996/97 to 20.9% in

2001/02 and on to 21.5% in 2004/05. These gains mean that middle income households are paying the equivalent of £281 less in tax and are receiving £332 more in benefits – a total of £613 more per household.

### ***Second richest households***

In 1996-97, the second richest fifth of households paid 24.9% of the total tax take. This fell in 2001/02 to 24.3% and fell again in 2004-05 to 23.9%. Meanwhile their share of benefits rose from 14.7% in 1996/97 to 15.1% in 2001/02 and on to 15.3% in 2004/05. The second richest fifth of households are paying the equivalent of £562 less in tax while receiving £285 more in benefits. They are the equivalent of £847 a year better off.

### ***The richest households***

In 1996-97, the richest fifth of households paid 41.3% of the total tax take – which rose to 42.4% in 2001/02 and then on to 42.8% in 2004-05. Meanwhile their share of benefits rose from 10.1% to 10.9% (they were 9.8% in 2004/05). The richest households are paying the equivalent of £844 more in taxes but receive £379 more in benefits. They were therefore net losers by £465.

*The ONS data indicate that the least well-off today pay proportionately more in tax and receive proportionately less in benefits than was the case ten years ago.*



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**Table 3 –The least well-off are paying proportionately more in taxes and receiving less in benefits**

DISTRIBUTION OF TAXES AND BENEFITS BY HOUSEHOLD INCOME GROUP						
(CURRENT PRICES, ANNUAL)						
	Lowest 20%	2nd lowest	Middle 20%	2nd highest	Highest 20%	Average
<b>1996-97</b>						
Original income	£2,310	£6,450	£14,710	£22,220	£44,780	£18,490
Total taxes	£2,650	£3,920	£6,600	£9,680	£16,100	£7,790
% of total taxes	6.8%	10.1%	16.9%	24.9%	41.3%	100.0%
Total benefits	£8,650	£8,060	£6,390	£4,510	£3,120	£6,150
% of total benefits	28.1%	26.2%	20.8%	14.7%	10.1%	100.0%
Final income	£8,310	£10,600	£14,490	£19,040	£31,790	£16,850
<b>2001-02</b>						
Original income	£3,410	£9,140	£19,240	£32,000	£62,080	£25,180
Total taxes	£3,750	£5,030	£8,350	£12,490	£21,860	£10,300
% of total taxes	7.2%	9.8%	16.2%	24.3%	42.4%	100.0%
Total benefits	£10,730	£10,220	£8,100	£5,870	£3,800	£7,750
% of total benefits	27.7%	26.4%	20.9%	15.1%	9.8%	100.0%
Final income	£10,410	£14,320	£18,990	£25,390	£44,020	£22,620
<b>2004-05</b>						
Original income	£4,280	£11,200	£21,580	£34,460	£66,330	£27,570
Total taxes	£3,890	£5,680	£9,220	£13,420	£24,090	£11,250
% of total taxes	6.9%	10.1%	16.4%	23.9%	42.8%	100.0%
Total benefits	£12,870	£11,990	£10,190	£7,270	£5,160	£9,490
% of total benefits	27.1%	25.3%	21.5%	15.3%	10.9%	100.0%
Final income	£13,250	£17,520	£22,550	£28,320	£47,410	£25,810

Sources: ONS, Table B, "The effects of taxes and benefits on household income 1996/97", *Economic Trends*, 1998; ONS, Table 4, "The effect of taxes and benefits on household income 2001/02", *Economic Trends*, 2003; and ONS, Table 4, "The effect of taxes and benefits on household income 2004/05", *Economic Trends*, 2006.

Notes: Data for 2005/06 have not yet been published.

Data include direct taxes, indirect taxes, cash benefits and benefits in kind (e.g. the imputed value of education and health services).

Tax credits are treated as cash benefits for households paying little or no income tax – and negative taxation for households paying income tax and are thereby incorporated in the above data.

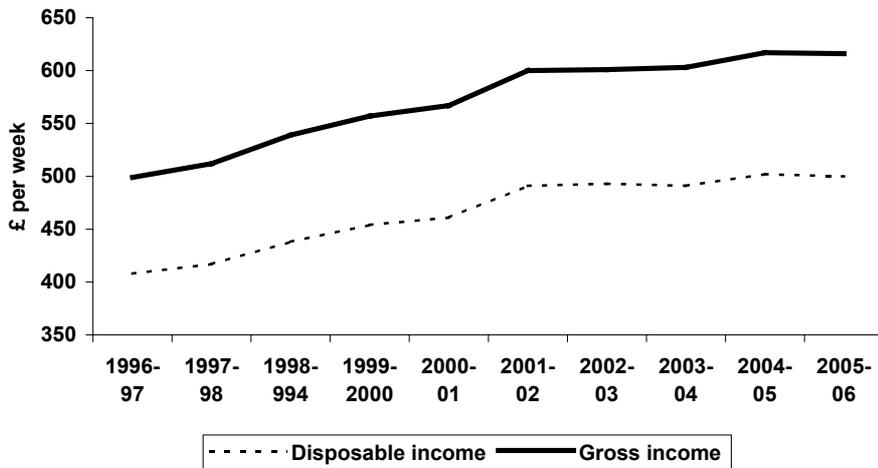


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## STRONG GROWTH IN AVERAGE INCOME PER HOUSEHOLD FOLLOWED BY STAGNATION

### AVERAGE INCOME PER HOUSEHOLD 1996/97 TO 2005/06

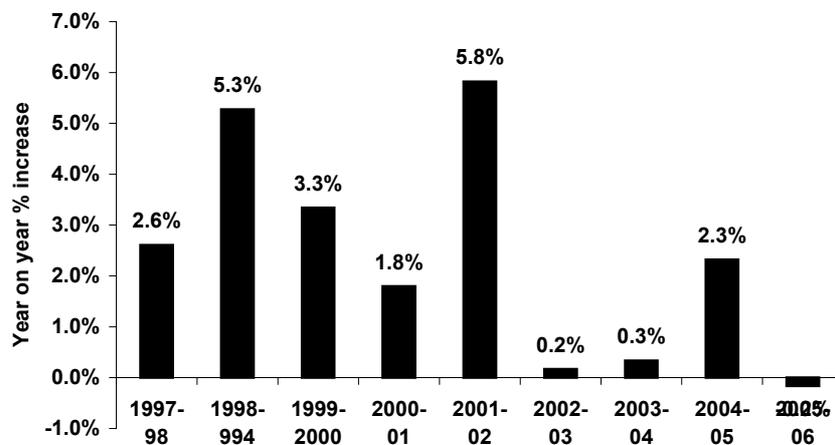
#### CONSTANT 2005/06 PRICES



Source: Table A47, *Family Spending Survey 2005-06*, ONS, January 2007.

### YEAR ON YEAR GROWTH IN AVERAGE INCOME PER HOUSEHOLD 1996/97 TO 2005/06

#### CONSTANT 2005/06 PRICES



Source: Table A47, *Family Spending Survey 2005-06*, ONS, January 2007.