Income and wealth

Chapter 5

- Between 2003 and 2004, UK real household disposable income per head rose by 2.1 per cent, compared with growth in GDP per head of 3.1 per cent. (Figure 5.1)
- Although the gap between men's and women's incomes is still substantial in Great Britain, it narrowed between 1996/97 and 2003/04. Median net income of women increased by 29 per cent in real terms compared with an increase of 13 per cent for men. (Table 5.4)
- In spring 2005, average gross weekly earnings in the United Kingdom for both men and women with a degree or equivalent were double those of men and women with no qualifications. (Table 5.8)
- A relatively small proportion of deaths in the United Kingdom result in the payment of inheritance tax – only 6 per cent of deaths in 2004/05, or 34,000 estates. (Table 5.11)
- The proportion of people living in households below 60 per cent of median disposable income in Great Britain has been stable between 2000/01 and 2003/04, at 17 per cent. (Figure 5.17)
- Around three in five men aged between 35 and 54 in the United Kingdom were contributing to a non-state pension in 2003/04, compared with less than half of women of the same age. (Table 5.23)

People's income plays an important role in their social well-being, because it determines how much they have to spend on the goods and services that together make up their material standard of living. Household income depends on the level of activity within the economy as a whole each year – the national income – and on the way in which national income is distributed. Income represents a flow of money over a period of time, whereas wealth describes the ownership of assets, such as housing or pension rights, valued at a point in time.

Household income

Gross domestic product (GDP) is the most commonly used measure of overall economic activity. The total income generated is shared between individuals, companies and other organisations (for example in the form of profits retained for investment), and government (in the form of taxes on production). If GDP is growing in real terms (in other words, after taking out the effect of inflation) this means that the economy is expanding and there is more 'cake' available for distribution. Household disposable income per head represents the amount of this 'cake' that ends up in people's pockets – in other words it is the amount they have available to spend or save. Analysis of the trends in UK GDP may be found in the final section of this chapter.

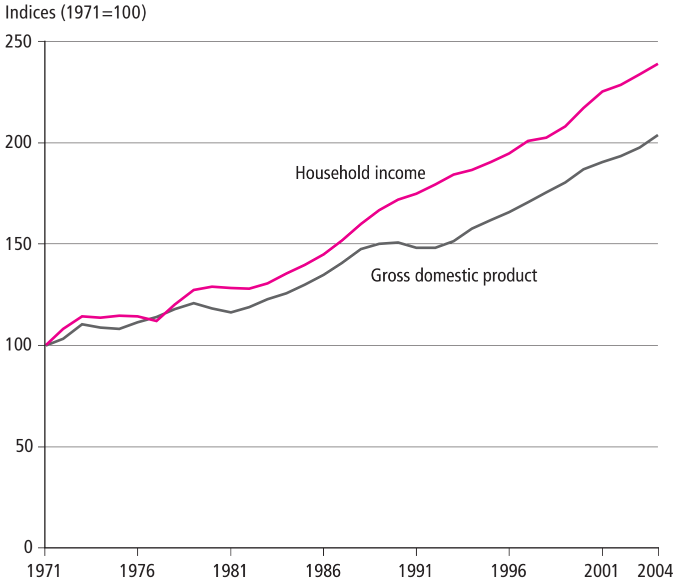
Household income is derived directly from economic activity in the form of wages and salaries and self-employment income, and through transfers such as social security benefits. It is then subject to a number of deductions such as income tax, council tax (domestic rates in Northern Ireland), and contributions towards pensions and national insurance. The amount of income remaining is referred to as household disposable income – the amount people actually have available to spend or save – and it is this measure that is commonly used to describe people's 'economic well-being'.

Household disposable income per head, adjusted for inflation, increased more than one and a third times between 1971 and 2004 (Figure 5.1). During the 1970s and early 1980s growth fluctuated, and in some years there were small year on year falls, such as in 1974, 1976, 1977, 1981 and 1982. Since 1982 there has been growth each year. Over the period as a whole since 1971, growth in household disposable income per head has been stronger than that in GDP per head, indicating that there has been a small shift between the shares of households and organisations in GDP in favour of households. However, between 2003 and 2004, real household disposable income per head grew by 2.1 per cent compared with growth in GDP per head of 3.1 per cent.

Figure 5.1

Real household disposable income per head[1] and gross domestic product per head[2]

United Kingdom



1 *Adjusted to real terms using the expenditure deflator for the household sector. See Appendix, Part 5: Household income data sources.*
2 *Adjusted to real terms using the GDP deflator.*

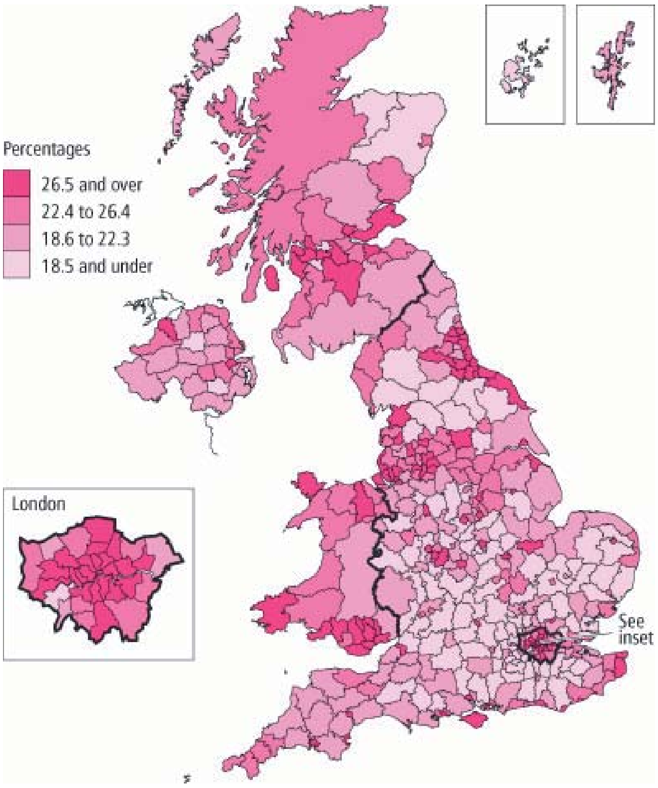
Source: Office for National Statistics

Household disposable income differs considerably across the United Kingdom. In 2003, the London region had disposable income per head that was 21 per cent above the UK average in current prices, while in Northern Ireland and the North East it was only 86 per cent of the UK average. However, there are often greater income differences between the local areas within regions than between regions (Map 5.2). For example, within the London region, Inner London-West had household disposable income per head that was 78 per cent above the UK average in 2003 – the highest of all the areas shown on the map. Inner London-East was only 3 per cent above the UK average. In general, the highest household incomes were recorded in and around London, the South East and East of England, though values of 10 per cent or more above the UK average were also recorded in the City of Edinburgh and in Solihull in the West Midlands.

Blackburn with Darwen had the lowest household disposable income per head of all the areas shown, at 73 per cent of the UK average. There were 55 areas out of 133 with disposable income per head lower than 90 per cent of the UK average, spread across virtually all regions within the United Kingdom though with concentrations in Wales, Northern Ireland, Scotland and the major conurbations of England outside London.

Map 5.2

Household disposable income per head, 2003[1,2]



1 NUTS (Nomenclature of Territorial Statistics) level 3. NUTS is a hierarchical classification developed to allow comparisons between economic territories of the European Union.
2 Excludes Extra-regio: parts of UK economic territory that cannot be attached to any particular region.

Source: Office for National Statistics

Despite strong growth in household disposable income since 1987, there has been considerable stability in its composition. Although there was a fall in the proportion derived from wages and salaries, from 52 per cent in 1987 to 48 per cent in 1996, this has since risen to remain at around 51 per cent between 1999 and 2004. In addition, the proportion of income derived from social benefits has remained at around 19 per cent over the last decade. Taxes on income as a proportion of household income have also remained stable since 1987, at around 11 per cent, as have social contributions (that is, employees' national insurance and pension contributions) at around 7 per cent of household income.

The data in Figure 5.1, Map 5.2 and in the previous paragraph are derived from the UK National and Regional Accounts. In these statistics, households are combined with the non-profit making institutions serving households such as universities, charities and clubs, and it is not presently possible to separate the two sectors. Non-profit making bodies receive income mainly in the form of property income (that is, investment income) and of other current receipts. The household sector includes people living in institutions such as nursing homes, as well as people living in private households. In most of the remainder of this chapter, the tables and figures are derived directly from surveys of households (such as the Family Resources Survey, the Expenditure and Food Survey and the British Household Panel Survey) and surveys of businesses (such as the Annual Survey of Hours and Earnings). Data from these surveys cover the population living in households and some cover certain parts of the population living in institutions, but all exclude non-profit making institutions. They can be used to analyse the distribution of household income between different sub-groups of the population, such as pensioners. Appendix, Part 5: Household income data sources, describes the main differences between household income as defined in the National Accounts and as defined in most survey sources.

The composition of household income varies between different types of households. Among households where the household reference person is of working age, wages and salaries are by far the most important component of gross (before any deductions) household income in the United Kingdom, followed by self-employment income (Table 5.3 overleaf). Income from employment (wages, salaries and self-employment income) was the most important element of income for all socio-economic groups in 2003/04, with the exception of households headed by someone who has never worked or is long-term unemployed. Benefits and pensions were the most important sources of income for this latter group, making up nearly four fifths of their total income.

Pensions are also the major component of the incomes of pensioner households in Great Britain. The Pensioners' Income Series produced by the Department for Work and Pensions (DWP) shows that in 2003/04, just over half the average gross income of pensioner units (pensioner couples where the man is over 65, or single pensioners over state pension age) came from state benefits, including the State Retirement Pension, and a further quarter came from occupational pensions (see also Table 8.8). Pensioner units have experienced strong income growth over the last nine years. Their gross income rose by 29 per cent in real terms between 1994/95 and 2003/04, compared with an increase of about 15 per cent in real average earnings. The fastest growing sources of income over this period were occupational pensions, which grew by over two fifths in real terms; personal pensions, which more than doubled, though still only a small minority of pensioners receive them; and earnings, which have also increased by nearly a half, though again this type of income is concentrated among a small group of pensioners. It should be noted that changes in

Table 5.3

Sources of gross weekly income: by socio-economic classification,[1] 2003/04

United Kingdom Percentages

	Wages & salaries	Self-employment	Investment income	Tax credits	Retirement pensions[2]	Private pensions	Disability benefits	Other benefits	Other income	All income
Higher managerial and professional occupations	84	8	2	-	-	2	-	1	1	100
Lower managerial and professional occupations[3]	87	5	1	1	-	2	-	2	2	100
Intermediate occupations	85	2	1	2	1	3	1	3	2	100
Small employers and own account workers	23	66	2	2	1	2	1	2	3	100
Lower supervisory and technical occupations	89	2	1	2	1	1	1	3	1	100
Semi-routine occupations	79	2	1	5	1	2	2	6	3	100
Routine occupations	82	1	1	4	1	2	2	6	1	100
Never worked and long-term unemployed	11	3	1	1	1	5	10	61	6	100
All households[4]	74	10	2	1	-	3	2	5	3	100

1 Of the household reference person. Males aged 20 to 64, females aged 20 to 59. See Appendix, Part 1: National Statistics Socio-economic Classification.
2 Includes any payments from minimum income guarantee or pension credit.
3 Includes those who are in a 'Higher supervisory occupation'.
4 Includes households where the reference person is a full-time student, and those whose occupation was inadequately stated or not classifiable.

Source: Family Resources Survey, Department for Work and Pensions

average income do not simply reflect changes experienced by individual pensioners, but also reflect changes in the composition of the group, for example as new retirees with greater entitlement to occupational pensions join the group.

Most of the information presented so far has been in terms of household income. This is generally considered to be the unit across which resources are shared, so that total household income can be taken as representing the (potential) standard of living of each of its members. The assumption of equal sharing of resources between each member of the household is difficult to test. Using certain assumptions it is possible to use household survey data to derive estimates of the income accruing to individuals, but it is not possible to infer their living standards from these.

The results of such an exercise are shown in Table 5.4, which compares the median net incomes of men and women by family type. See Appendix, Part 5: Individual income, for details of how these estimates were derived, and the analysing income distribution box on page 76 for explanation of median. Note also that, as explained further in the Appendix, the term net income is used in place of disposable income because the term disposable income for this series has a different definition from elsewhere in this chapter.

On average, men's incomes exceed women's irrespective of the type of family that they live in. Overall the median net income of women was 60 per cent of that of men in 2003/04 in Great Britain. However, the difference between men's and women's

Table 5.4

Median net individual income:[1] by sex and family type, 2003/04

Great Britain

	£ per week		Percentage change in income, 1996/97 to 2003/04[2]	
	Men	Women	Men	Women
Single without children	188	180	18	28
Single pensioner	164	141	26	27
Single with children	248	203	26	48
Couple without children	306	185	13	21
Pensioner couple	199	77	18	29
Couple with children	333	160	11	38
All individuals	250	151	13	29

1 See Appendix, Part 5: Individual income.
2 Change in real terms, deflated using the retail prices index less council tax.

Source: Individual Incomes, Department for Work and Pensions

net incomes was narrowest for single people under pension age without children, for whom women's incomes were very nearly equal to those of men, at 96 per cent. The gap was largest for pensioner couples, where women's median net income was 39 per cent that of men. This arises as a result of historic factors leading to lower entitlements among wives for both state and occupational pensions while their husbands are alive, but higher incomes in their own right when they are widowed because of entitlements to widows' pensions.

Although the gap between men's and women's incomes is still substantial, Table 5.4 shows that it has narrowed between 1996/97 and 2003/04. Over this period median net income of women has increased by 29 per cent in real terms, whereas that of men has increased by 13 per cent. The difference is most marked for single women with children, whose incomes have increased by nearly 50 per cent. A major factor behind this is increased labour market participation and reduced reliance on benefits for this group of women.

Earnings

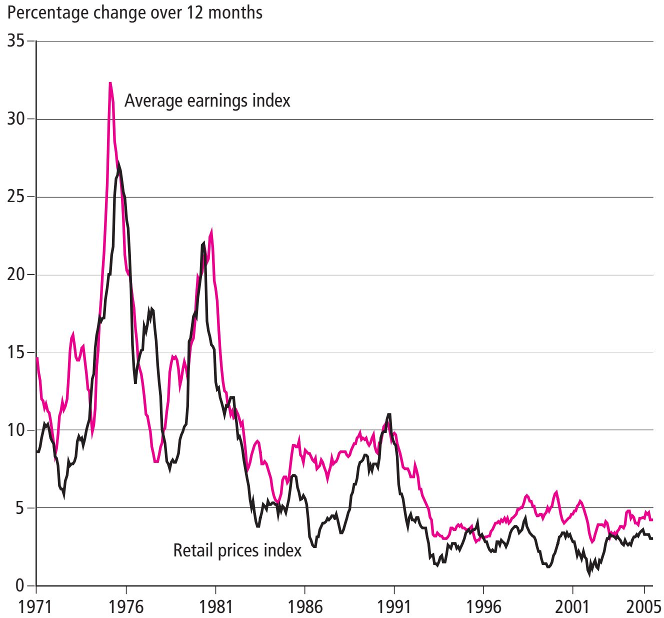
Income from employment is the most important component of household income overall. The average earnings index (AEI), a monthly measure of the pay of a representative sample of all employees across all sectors of the economy, is one of the indicators used to judge the state of the UK economy. If the index rises rapidly, this may indicate that the labour market is under-supplied with employees in the right numbers and with the right skills to meet the level of demand within the economy. In addition, a rapid rise may indicate that wage settlements are higher than the rate of economic growth can sustain and thus create inflationary pressures. A fall in the index may be a reflection of reduced demand within the economy and may be a warning that GDP is about to fall and unemployment is about to increase. The relationship between the AEI and the retail prices index (RPI) is also of importance. If the AEI rises faster than the RPI, this means that employees' pay is increasing faster than the prices they have to pay for goods and services and that therefore, all things being equal, their purchasing power will rise and they will feel 'better off'.

During the two decades from 1971, the AEI and RPI showed similar patterns of change, but with the RPI generally showing slower growth (Figure 5.5). For example, the peak in earnings growth over this period occurred in February 1975 when it reached an annual rate of 32 per cent. The peak in the RPI occurred in August that year at 27 per cent. During most of the 1990s, the AEI outpaced the RPI. This was made possible mainly through increases in productivity, enabling employers to pay higher wages while not increasing their prices to the same extent to finance their wage bill. The periods during which prices have risen faster than earnings – for example in the latter

Figure 5.5

Retail prices index and average earnings index[1]

United Kingdom/Great Britain[2]



1 Whole economy, seasonally adjusted, 3-month average.
2 Data for the retail prices index are for United Kingdom and the average earnings index data are for Great Britain.

Source: Office for National Statistics

half of 1995 – have been times of economic downturn, when a fall in demand for labour depressed earnings growth. Although the RPI did not overtake the AEI in the period February to July 2003, the gap between the two narrowed appreciably, with the indices being less than 0.5 percentage points apart. Since August 2003, they have moved further apart, so that in August 2005 the annual increase in the AEI stood at 4.2 per cent compared with 2.8 per cent for the RPI.

A variety of factors influence the level of earnings that an employee receives, such as their skills and experience, their occupation, the economic sector in which they work and the hours they work. The area of the United Kingdom where they work and their sex may also have an impact. The remainder of this section explores some of these factors. However, it should be noted that all factors are interlinked, and no attempt is made here to disentangle the effect that any single factor may have.

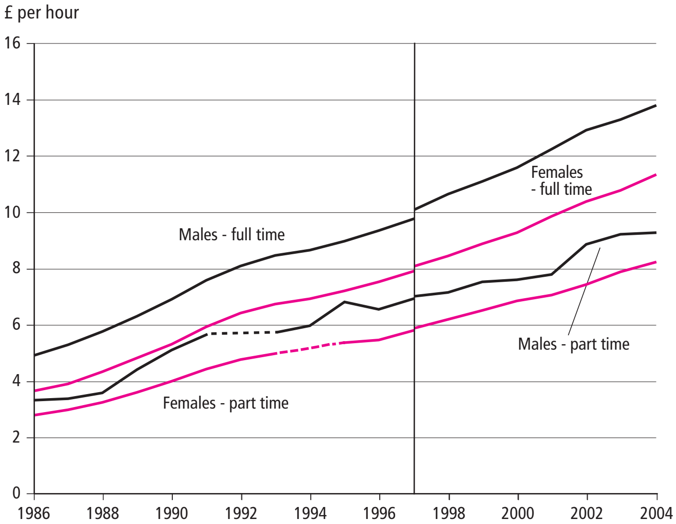
Government legislation can affect wages. The *Equal Pay Act 1970* and subsequent revisions, together with the *Sex Discrimination Act 1975*, established the principle of equal pay for work that can be established to be of equal value to that done by a member of the opposite sex, employed by the same employer, under common terms and conditions of employment. The impact of this legislation, together with other factors such as the opening up of higher paid work to women, has been to narrow the differential between the hourly earnings of men and women (Figure 5.6). In 2004, the hourly earnings of women working full time in Great Britain were 82 per cent of those of men, a rise from 74 per cent in 1986. On average, part-time employees receive lower hourly earnings than full-time employees, and the differential between men and women working part time is smaller. For example part-time women's hourly earnings were 89 per cent those of men in 2004. However this proportion fluctuates from year to year and shows no clear trend over the 19 years shown in the chart. It should be noted that coverage of part-time employees by the New Earnings Survey (NES) was not comprehensive because many employees with earnings below the income tax threshold were excluded, and the extent to which they are included or excluded in each survey contributes to the volatility of the data.

In 2004, the Office for National Statistics (ONS) replaced the New Earnings Survey (NES) with the Annual Survey of Hours and Earnings (ASHE) – see Appendix Part 5: Earnings surveys, for a summary of the differences between the two. In Figure 5.6 the NES has been used for data from 1986 to 1996 inclusive, and for 1998 to 2003 a series has been used that applies ASHE methodology to NES data. Data for 1997 are presented on both bases, and data for 2004 are from the ASHE but excluding supplementary information that was not available in the NES (for example on employees in businesses outside the PAYE system).

Figure 5.6

Gross hourly earnings:[1] by sex and whether working full time or part time

Great Britain



1 *Average gross hourly earnings for employees on adult rates at April each year. Data are not available for male part-time earnings for 1992, or for female part-time earnings for 1994.*

Source: New Earnings Survey (1986–1997) and Annual Survey of Hours and Earnings (1997–2004), Office for National Statistics

Table 5.7

Median hourly earnings:[1] by industry

United Kingdom Median hourly earnings excluding overtime (£)

	1997	1998	1999	2000	2001	2002	2003	2004
Financial intermediation	10.50	11.02	11.52	11.86	12.65	13.13	13.28	14.04
Electricity, gas and water supply	9.76	9.99	10.25	11.00	11.00	11.29	11.97	13.02
Education	10.94	11.04	11.36	11.53	11.65	12.01	12.57	12.94
Real estate, renting and business activities	8.51	8.96	9.32	9.65	10.51	11.12	11.34	12.19
Public administration and defence, and compulsory social security	9.63	9.67	10.06	10.31	10.62	11.02	11.00	11.70
Mining and quarrying	8.86	9.35	9.06	9.53	10.20	10.31	11.19	10.63
Health and social work	7.60	7.88	8.21	8.70	9.11	9.62	9.90	10.40
Construction	7.19	7.39	7.75	8.10	8.68	9.21	9.75	10.20
Manufacturing	7.56	7.95	8.26	8.46	8.88	9.21	9.61	10.03
Transport, storage and communication	7.29	7.60	8.00	8.15	8.59	8.95	9.22	9.93
Other community, social and personal service activities	6.76	7.25	7.61	7.79	8.11	8.79	8.92	9.22
Wholesale and retail trade, and repair of motor vehicles, motorcycles and personal and household goods	6.21	6.50	6.76	6.99	7.34	7.68	7.81	8.18
Agriculture, hunting, forestry	4.95	5.16	5.32	5.56	5.90	6.16	6.30	6.70
Hotels and restaurants	4.62	4.98	5.09	5.25	5.49	5.75	6.03	6.34
All industries and services	7.83	8.16	8.50	8.76	9.21	9.64	9.96	10.47

1 *Full-time employees on adult rates, whose pay for the survey period was unaffected by absence.*

Source: Annual Survey of Hours and Earnings, Office for National Statistics

Wage rates can vary considerably between industrial sectors. The hotel and restaurant sector is the lowest paid industry in the United Kingdom, with median hourly earnings of £6.34 in April 2004, followed by agriculture with median hourly earnings of £6.70 per hour (Table 5.7). The wholesale and retail trade is also relatively low paid with median earnings of £8.18 per hour. At the other end of the scale, median earnings of those in financial intermediation were just over £14 per hour. Averaged over all industries and services, hourly earnings increased by 34 per cent between 1997 and 2004, but the increase was highest in the construction industry at 42 per cent and lowest in education, at 18 per cent. However, these data are affected by changes over time in the mix of lower and higher paid workers within a sector and so do not necessarily indicate changes in wage rates for particular employees or jobs.

The broad industrial groupings in Table 5.7 can hide substantial variation within sectors. Analysis of the ASHE at a more detailed level indicates that in addition to those employees in the electricity, gas and water supply sector and the financial intermediation sector shown already in Table 5.7, full-time employees involved in the extraction of crude petroleum and natural gas, and computer and related activities were among the highest paid per week in April 2004. Various branches of the manufacturing, hotel and restaurant, and agriculture and fisheries sectors make up much of the ten lowest paid industries, though people employed in private households were the lowest paid of all.

Although average hourly pay provides a useful comparison between the earnings of men and women, it does not reveal differences in rates of pay for comparable jobs. This is because these averages do not reflect the different employment characteristics of men and women, such as the proportions in different occupations and their length of time in jobs. Also, for many employees, overtime and other additions can supplement basic weekly pay. Overtime, bonuses and commissions and shift payments accounted for 8 per cent of average (mean) weekly earnings of adults working full time in Great Britain in April 2004, but they were a larger component of men's than women's pay: 10 per cent compared with 5 per cent.

A person's qualifications can have a substantial impact on their earning power. In spring 2005, average gross weekly earnings for male employees with a degree were £726 per week (Table 5.8). These fell as educational attainment fell, so that male employees with no qualifications had earnings of £342 per week. There was a large increase in earnings for men aged 25 to 34 compared with those aged 16 to 24, across all attainment levels. Among female employees, the relationship

Table 5.8

Average gross weekly earnings: by sex, highest qualification attained and age, 2005[1]

United Kingdom £ per week

	16–24	25–34	35–44	45–54	55–59/64	All working age
Men						
Degree or equivalent	356	619	810	862	732	726
Higher education below degree level	366	501	588	619	583	554
GCE A level or equivalent	290	446	545	536	436	470
GCSE grades A* to C or equivalent	253	410	469	463	503	410
Other (including GCSE below grade C)	253	389	453	435	417	407
No qualifications	250	325	359	366	335	342
All men[2]	283	483	574	575	487	506
Women						
Degree or equivalent	319	528	627	679	651	561
Higher education below degree level	267	384	464	491	488	440
GCE A level or equivalent	250	353	421	364	390	347
GCSE grades A* to C or equivalent	227	330	331	329	309	308
Other (including GCSE below grade C)	187	378	299	315	302	313
No qualifications	182	300	235	262	259	251
All women[2]	253	425	433	424	381	397
All working age[2]	270	459	524	515	457	464

1 At spring. Data are not seasonally adjusted and have been adjusted in line with population estimates published in spring 2003. See Appendix, Part 4: LFS reweighting. Males aged 16 to 64, females aged 16 to 59.
2 Includes people who did not state their highest qualification.

Source: Labour Force Survey, Office for National Statistics

between earnings and qualifications was similar; those with a degree had average earnings over twice as much as those with no qualifications, £561 compared with £251 per week. However, for both men and women there was little difference in the earnings between those whose highest qualification was GCSE grades A* to C or equivalent and those with other qualifications including GCSE below grade C.

Taxes

Taxation is the main means by which governments raise revenue. There are a wide variety of taxes levied on both individuals and institutions. The major taxes paid by individuals are income tax and taxes on expenditure. However, every individual is entitled to a personal allowance and those with income below this do not pay any income tax. In 2005/06 the personal allowance was set at £4,895 for those aged under 65, with further allowances for people aged over 65. The income tax regime on earnings for 2005/06 includes three different rates of tax. Taxable income of up to £2,090 (that is, after the deduction of allowances and any other tax relief to which the individual may be entitled) is charged at 10 per cent. Taxable income above £2,090 but less than £32,400 is charged at 22 per cent, while income above this level is charged at 40 per cent. Special rates apply to savings and dividend income.

HM Revenue and Customs estimates that in 2005/06 there will be around 30.5 million taxpayers in the United Kingdom (Table 5.9). Given the progressive nature of the income tax system, the amount of tax payable increases both as a proportion of income and in cash terms as income increases, averaging £126 per year for taxpayers with taxable incomes between £5,000 and £7,499 and £71,100 for those with incomes of £100,000 and over.

National insurance contributions are paid according to an individual's earnings rather than their total income, and for employees, payments are made both by the individual and by their employer. In 2005/06, employees with earnings less than £94 per week pay no contributions, and neither do their employers. Employees pay contributions equal to 11.0 per cent of their earnings between £94 and £630 per week, and an additional 1.0 per cent on earnings above £630 per week. Employers pay contributions equal to 12.8 per cent of earnings above £94 per week.

In addition to direct taxes such as income tax, households pay indirect taxes through their expenditure. Indirect taxes include value added tax (VAT), customs duties and excise duties and are included in the prices of consumer goods and services. These taxes are specific to particular commodities: for example, in 2003/04 VAT was payable on most consumer goods at 17.5 per cent of their value, though not on most foods, books and newspapers, and children's clothing, and was payable at a reduced rate on heating and lighting. Customs and excise duties on the other hand tend to vary by the volume rather than value of goods purchased.

Table 5.9

Income tax payable: by annual income,[1] 2005/06[2]

United Kingdom

	Number of taxpayers (millions)	Total tax liability after tax reductions[3] (£ million)	Average rate of tax (percentages)	Average amount of tax (£)
£4,895–£4,999	0.1	1	*0.1*	5
£5,000–£7,499	2.9	369	*2.0*	126
£7,500–£9,999	3.5	1,580	*5.1*	445
£10,000–£14,999	6.1	7,560	*9.8*	1,220
£15,000–£19,999	5.1	11,500	*13.0*	2,260
£20,000–£29,999	6.4	24,000	*15.4*	3,760
£30,000–£49,999	4.3	28,900	*17.9*	6,690
£50,000–£99,999	1.5	25,900	*25.7*	17,000
£100,000 and over	0.5	34,200	*33.4*	71,100
All incomes	30.5	134,000	*18.2*	4,390

1 Total income of the individual for income tax purposes including earned and investment income. Figures relate to taxpayers only.
2 Based on projections in line with the March 2005 Budget.
3 In this context tax reductions refer to allowances given at a fixed rate, for example the Married Couple's Allowance.

Source: HM Revenue and Customs

High income households are more likely to devote a larger proportion of their income to investments or repaying loans, and low income households may be funding their expenditure through taking out loans or drawing down savings. As a result, the proportion of income paid in indirect taxes tends to be higher for those on low incomes than for those on high incomes. In 2003/04, households in the top fifth of the income distribution were paying 14 per cent of their disposable income in indirect taxes, compared with 31 per cent for those in the bottom fifth of the distribution.

A further means of raising revenue from households is through council tax (domestic rates in Northern Ireland). These taxes are raised by local authorities to part-fund the services they provide. For both council tax and domestic rates, the amount payable by a household depends on the value of the property they occupy. For those on low incomes, assistance is available in the form of council tax benefits (rates rebates in Northern Ireland).
In 2003/04, the average council tax/rates payable (excluding payments for water and sewerage) in the United Kingdom was

Table 5.10

Net council tax[1] paid by households: by region, 2003/04

	Net council tax[1] (£ per year)	Net council tax[1] as a percentage of gross household income
United Kingdom	760	*2.5*
England	780	*2.5*
North East	620	*2.8*
North West	720	*2.6*
Yorkshire & the Humber	660	*2.5*
East Midlands	740	*2.6*
West Midlands	730	*2.6*
East	830	*2.5*
London	840	*2.1*
South East	900	*2.6*
South West	810	*2.9*
Wales	600	*2.3*
Scotland	810	*2.9*
Northern Ireland	460	*1.8*

1 Council tax net of council tax benefit in Great Britain; domestic rates net of rates rebate in Northern Ireland.

Source: Office for National Statistics

Table 5.11

Estates passing on death and paying inheritance tax[1]

United Kingdom

	Proportion of deaths where tax paid (percentages)	Estates which paid inheritance tax (thousands)
1971/72[2]	*6*	38
1981/82	*4*	24
1991/92	*3*	19
1996/97	*2*	15
2001/02	*4*	23
2004/05	*6*	34

1 By year that tax was paid. The tax payable in 1971/72 was estate duty. The tax payable in 1981/82 was capital transfer tax.
2 Figures for 1971/72 are for Great Britain only.

Source: HM Revenue and Customs

£760 per household, after taking into account the relevant benefit payments (Table 5.10). Net council tax varied from £900 per year in the South East to £600 in Wales. Net domestic rates in Northern Ireland, which are based on a quite different valuation system, averaged £460, representing 1.8 per cent of gross income. Within Great Britain, council tax as a percentage of gross household income varied from 2.1 per cent in London to 2.9 per cent in the South West and in Scotland.

Taxes are also paid on certain forms of wealth, generally when assets are realised. For example, capital gains tax is payable when the difference between the proceeds from the sale of shares and the cost of purchasing them exceeds a certain level. When a person dies and someone inherits their assets – generally known as their estate – inheritance tax may be payable. In 2004/05 inheritance tax was payable on estates valued at more than £263,000. Table 5.11 shows that a relatively low proportion of deaths result in the payment of inheritance tax – only 6 per cent in 2004/05, or 34,000 estates. However, both the number of estates paying inheritance tax and the proportion of deaths where tax was paid have risen considerably between 1996/97 and 2004/05, and have now reached similar levels to those of 1971/72 – though the relevant tax then was estate duty rather than inheritance tax.

Research from the Joseph Rowntree Foundation has investigated people's attitudes to inheritance. People like the idea of being able to leave a bequest, but most do not think that older people should be careful with their money just so that they have something to bequeath. People's knowledge of inheritance law and taxation is poor. The research found that most people either had no idea how the inheritance tax system worked or thought that more people pay it, and pay more, than actually do – only 6 per cent of respondents to the survey knew that fewer than one in ten estates pay inheritance tax.

Income distribution

The first two sections of this chapter demonstrated how the various components of income differ in importance for different household types and how the levels of earnings vary between individuals. The result is an uneven distribution of total income between households, though the inequality is reduced to some extent by the deduction of taxes and social contributions and their redistribution to households in the form of social security benefits. The analysis of income distribution is therefore usually based on household disposable income, that is total income less payments of taxes and social contributions. In the analysis of Households Below Average Income (HBAI) carried out by the Department for Work and Pensions (DWP), on which most of the tables and figures in this and the next section are based, payments of income tax, council tax (domestic rates in Northern Ireland) and employee national insurance contributions are deducted to obtain disposable income. For more details see Appendix, Part 5: Households Below Average Income.

In the HBAI analysis, disposable income is also presented both before and after the further deduction of housing costs.

It can be argued that the costs of housing at a given time may or may not reflect the true value of the housing that different households actually enjoy. For example, the housing costs of someone renting a property from a private landlord may be much higher than those for a local authority property of similar quality for which the rent may be set without reference to a market rent. Equally, a retired person living in a property that they own outright will enjoy the same level of housing as their younger neighbour in an identical property owned with a mortgage, though their housing costs will be very different. Thus estimates are presented on both bases to take into account variations in housing costs that do not correspond to comparable variations in the quality of housing. Neither is given pre-eminence over the other. For more details, see Appendix, Part 5: Households Below Average Income.

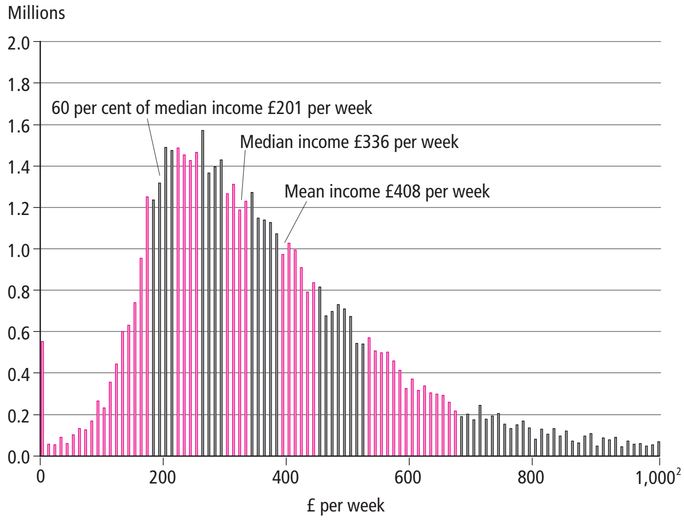
The picture of the income distribution in Great Britain in 2003/04, summarised in Figure 5.12, shows considerable inequality. Each bar represents the number of people living in households with equivalised weekly disposable income in a particular £10 band. There is a greater concentration of people at the lower levels of weekly income and the distribution has a long tail at the upper end. The upper tail is in fact longer than shown: there are estimated to be an additional 1.8 million individuals living in households with disposable income greater than £1,000 per week who are not shown on the chart. The highest bar represents nearly 1.6 million people with incomes between £260 and £270 per week. If housing costs are deducted, the concentration of incomes towards the lower end of the distribution is even greater, because housing costs for low income households form on average a higher proportion of their income.

The shape of the income distribution and the extent of inequality have changed considerably over the last three decades. In Figure 5.13, the closer the percentiles are to the median line, the greater the equality within the distribution. During the early 1970s the distribution of disposable income among households was broadly stable. During the mid to late 1970s there was a gradual decrease in inequality, but this was reversed during the early 1980s and the extent of inequality in the distribution continued to grow throughout the 1980s. During the first half of the 1990s the income distribution appeared to be stable again, albeit at a much higher level of income dispersion than in the 1970s. The early 1990s were a period of economic downturn when there was little real growth in incomes anywhere in the distribution. Between 1994/95 and 2002/03, income at the 90th and 10th percentiles and at the median all grew by around 23 per cent in real terms. The Gini coefficient – a widely used measure of inequality – increased between 1994/95 and 2000/01 (implying an increase

Figure 5.12

Distribution of weekly household disposable income,[1] 2003/04

Great Britain



1 Equivalised household disposable income before deduction of household costs (in £10 bands). See Appendix, Part 5: Households Below Average Income, and Equivalisation scales.
2 There were also 1.8 million individuals with income above £1,000 per week.

Source: Households Below Average Income, Department for Work and Pensions

Analysing income distribution

Equivalisation – in analysing the distribution of income, household disposable income is usually adjusted to take account of the size and composition of the household. This is in recognition of the fact that, for example, to achieve the same standard of living a household of five would require a higher income than would a single person. This process is known as equivalisation (see Appendix, Part 5: Equivalisation scales).

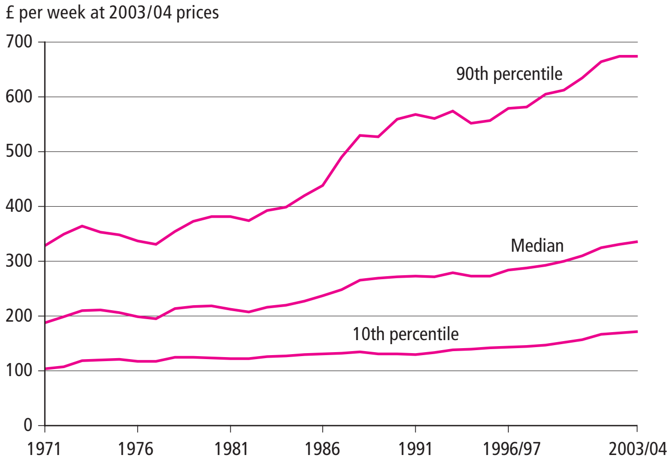
Quintile and decile groups – the main method of analysing income distribution used in this chapter is to rank units (households, individuals or adults) by a given income measure, and then to divide the ranked units into groups of equal size. Groups containing 20 per cent of units are referred to as 'quintile groups' or 'fifths'. Thus the 'bottom quintile group' is the 20 per cent of units with the lowest incomes. Similarly, groups containing 10 per cent of units are referred to as 'decile groups' or tenths.

Percentiles – an alternative method also used in the chapter is to present the income level above or below which a certain proportion of units fall. Thus the 90th percentile is the income level above which only 10 per cent of units fall when ranked by a given income measure. The *median* is then the midpoint of the distribution above and below which 50 per cent of units fall.

Figure 5.13

Distribution of real[1] disposable household income[2]

United Kingdom/Great Britain[3]



1 Adjusted to 2003/04 prices using the retail prices index less local taxes.
2 Equivalised household disposable income before deduction of housing costs. See Appendix, Part 5: Households Below Average Income, and Equivalisation scales.
3 Data from 1993/94 onwards are for financial years. Source of data changed in 1994/95, definition of income changed slightly and geographic coverage changed from United Kingdom to Great Britain.

Source: Institute for Fiscal Studies from Family Expenditure Survey, Office for National Statistics (1971 to 1993/94); Households Below Average Income, Department for Work and Pensions (1994/95 onwards)

in inequality) with indications of a slight fall (implying an increase in equality) between 2000/01 and 2003/04. (See Appendix, Part 5: Gini coefficient.)

The Institute for Fiscal Studies (IFS) has investigated some of the possible explanations for these changes in inequality. They found that changes to the labour market have played an important role. In particular inequality rose during the 1980s when the incomes of the higher paid grew much more rapidly than those of the lower paid or of households where no one was working. Growth in self-employment income and in unemployment were also found to be associated with periods of increased inequality. It would appear that demographic factors such as the growth in one person households make a relatively unimportant contribution compared with labour market changes. However, the IFS has found that changes in the tax and benefit system have had an impact. The income tax cuts of the 1970s and late 1980s worked to increase income inequality while direct tax rises in the early 1980s and 1990s – together with the increases in means-tested benefits in the late 1990s – produced the opposite effect.

During the 1980s the higher the income the greater was income growth, and it was this that drove the increase in inequality. Between 1996/97 and 2003/04, income growth has been much more evenly spread across the whole of the income distribution, with exceptions only at the very top and

Table 5.14

Individuals in the top and bottom quintile groups of household disposable income:[1] by selected risk factors,[2] 2003/04

Great Britain Percentages

	Bottom quintile	Top quintile
Economic status of adults in the family		
Single or couple, all in full-time work	*3*	*38*
Couple, one full-time work, one part-time work	*4*	*23*
Workless, head or spouse aged 60 or over	*29*	*7*
Workless, head or spouse unemployed	*70*	*2*
Workless, other inactive	*52*	*4*
Family type		
Single pensioner, female	*28*	*6*
Couple without children	*11*	*38*
Single with children	*38*	*5*
Ethnic group of head of household		
Asian or Asian British	*42*	*14*
Black or Black British	*32*	*12*
Chinese or Other ethnic groups	*32*	*22*
Disability		
One or more disabled children and one or more disabled adults in family	*32*	*8*
All individuals	*20*	*20*

1 Equivalised household disposable income before deduction of housing costs has been used to rank individuals. See Appendix, Part 5: Households Below Average Income, and Equivalisation scales.
2 Where the proportion of individuals in the top or bottom quintile groups are more than 10 percentage points either side of the expected 20 per cent threshold for these groups were there to be an even distribution.

Source: Households Below Average Income, Department for Work and Pensions

bottom of the distribution. Changes at the very bottom of the distribution are difficult to disentangle from measurement error. There is evidence from these data, based on the Family Resources Survey (FRS) and also from data from tax returns, that there has been much more rapid growth in the top 1 per cent of incomes than for the rest of the distribution. The reasons for this growth are not yet well understood, but possible explanations include changes in the nature of executive remuneration and the dynamic effects of the cut in top rates of tax over the 1980s on capital accumulation.

There are a variety of factors that influence an individual's position in the income distribution. For example, single person and couple families all in full-time work had nearly twice the expected likelihood of being in the top quintile group in 2003/04 (Table 5.14). Being unemployed increased the risk of being in the bottom quintile group more than threefold

Table 5.15

People's perceptions of the adequacy of their income[1]

Great Britain — Percentages

	1986	1994	2002	2003	2004
Living comfortably	*24*	*29*	*39*	*44*	*40*
Coping	*50*	*49*	*45*	*43*	*46*
Finding it difficult to manage	*18*	*15*	*13*	*10*	*11*
Finding it very difficult to manage	*8*	*6*	*3*	*3*	*3*
Other answer	-	-	-	-	-

1 *Respondents were asked, 'Which of these phrases would you say comes closest to your feelings about your household's income these days? Living comfortably, coping, finding it difficult to manage, or finding it very difficult to manage on present income'. Excludes those who responded 'Don't know' or did not answer.*

Source: British Social Attitudes Survey, National Centre for Social Research

and being economically inactive but under pension age increased the risk by two and a half times compared with the average. All ethnic minority groups had greater than average likelihood of being in the bottom quintile group, with the Pakistani/Bangladeshi group being particularly at risk. Other groups with greater than average risks of being in the bottom quintile group were single parents and families containing both disabled adults and one or more disabled children. Couples without children had a greater than average likelihood of being in the top quintile group.

Income is important to people's overall well-being in terms of the access that it provides to goods and services. People's satisfaction with their income will depend on their material needs and expectations, and the extent to which the income available to them enables these to be met. It is therefore possible that individuals with the same income but different needs, real or perceived, may differ in how they think about their income. The same may be true of those who are faced with different prices for the same level and quality of goods or services, for example housing. Table 5.15 explores trends in people's perception of economic hardship or lack of it. The proportion of respondents who said that they were 'living comfortably' rose from 24 per cent in 1986 to a peak of 44 per cent in 2003, but fell back to 40 per cent in 2004. In contrast, the proportion who were finding it difficult or very difficult to manage fell from 26 per cent in 1986 to 14 per cent in 2004. This is of course not necessarily inconsistent with a widening of the distribution – as Figure 5.13 showed, the 90th, 50th (median) and 10th percentiles have moved apart, but each has increased in real terms.

The DWP's Households Below Average Income analysis from which Figures 5.12, 5.13 and Table 5.14 are derived, provides an annual cross-sectional snapshot of the distribution of income based on the Family Resources Survey. The British Household Panel Survey (BHPS) complements this by providing longitudinal information about how the incomes of a fixed sample of individuals change from year to year. This enables people to be tracked as they move through the income distribution over time, and to identify the factors associated with changes in their position in the distribution.

Table 5.16

Position of individuals in the income distribution[1] in 2003 in relation to their position in 1991

Great Britain — Percentages

	1991 income grouping					
	Bottom fifth	Next fifth	Middle fifth	Next fifth	Top fifth	All individuals
2003 income grouping						
Bottom fifth	***37***	*24*	*17*	*11*	*11*	*100*
Next fifth	*28*	***27***	*22*	*14*	*10*	*100*
Middle fifth	*17*	*19*	***25***	*25*	*15*	*100*
Next fifth	*11*	*18*	*19*	***26***	*26*	*100*
Top fifth	*7*	*12*	*18*	*25*	***38***	*100*
All individuals	*100*	*100*	*100*	*100*	*100*	

1 *Equivalised household disposable income before deduction of housing costs has been used for ranking the individuals. See Appendix, Part 5: Households Below Average Income, and Equivalisation scales.*

Source: Department for Work and Pensions from British Household Panel Survey, Institute for Social and Economic Research

Around 38 per cent of those adults in the top quintile group of net equivalised household income in 1991 were also in that group in 2003, and a very similar proportion were in the lowest quintile group in both years (Table 5.16). By the end of the 13-year period, over the whole of the distribution individuals were more likely to end up in the quintile group they started in than any other quintile group. There is more movement in and out of the three middle quintile groups, simply because it is possible to move out of these groups through either an increase or a decrease in income. Movement out of the top group generally only occurs if income falls – an individual will remain in the group however great the increase in their income. The converse is true at the bottom of the distribution. About one in ten of those in the bottom quintile group in 2003 had been in the top group in 1991, whereas a slightly smaller proportion moved from the bottom group to the top quintile group. This does not necessarily mean that the individual's income has changed to this extent, but that the total income of the household in which they live has changed. This can happen in a wide variety of ways – for example, a young person living with their parents in 1991 then setting up their own household might move from the top to the bottom quintile group. While the picture painted of income mobility is a complicated one, for the majority of individuals their position in 2003 in relation to 1991 – that is whether it was lower, higher or the same – was generally indicative of where they had spent the majority of the 13-year period.

Low incomes

Low income could be defined as being in the bottom quintile or decile group, but these definitions are not generally used because of their relative nature. It would mean that 20 or 10 per cent of the population would always be defined as poor. Other approaches generally involve fixing a threshold in monetary terms, below which a household is considered to be 'poor'. This threshold may be calculated in variety of ways. In countries at a very low level of development it may be useful to cost the bare essentials to maintain human life and use this as the yardstick against which to measure income. This 'basic needs' measure is of limited usefulness for a developed country such as the United Kingdom.

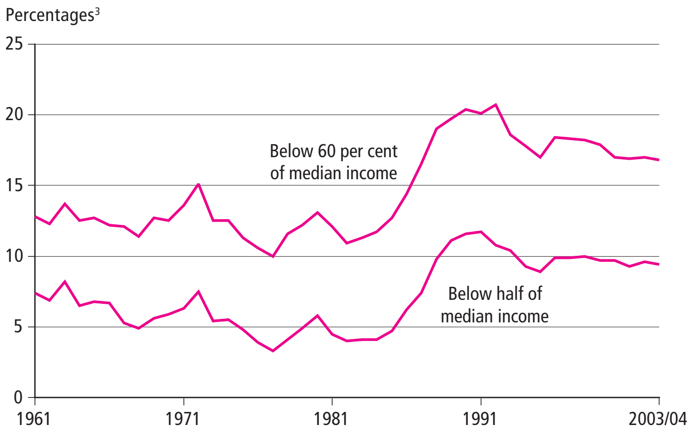
The approach generally used in more developed countries is to fix a low income threshold in terms of a fraction of population median income. This threshold may then be fixed in real terms for a number of years, or it may be calculated in respect of the distribution for each successive year. The Government's Opportunity for All (OfA) indicators use both approaches. The proportions of people living in households with incomes below various fractions of contemporary median income are monitored, referred to as those with relative low income. In addition, the proportions with incomes below various fractions of median income in 1996/97, known as those with absolute low income, are also monitored. A third OfA indicator measures the number of people with persistent low income, defined as being in a low income household in three out of the last four years. In addition, the Government has announced that to monitor progress against its child poverty target, it will add to these measures one that combines material deprivation and relative low income. There is a strong relationship between material deprivation and persistent low income. This is explored in Table 5.21 later on.

In this section, the low income threshold generally adopted is 60 per cent of contemporary equivalised median household disposable income before the deduction of housing costs. In 2003/04, this represented an income of £201 per week, just below the lowest quintile (£214 per week). As well as being one of the OfA indicators, this definition was adopted by the Laeken European Council in December 2001 as one of a set of 18 statistical indicators for social inclusion. Using this threshold, the Institute for Fiscal Studies calculates that the proportion of the population living in low income households rose from 11 per cent in 1982 and 1983 to reach a peak of 21 per cent in 1992 (Figure 5.17). Official estimates made by DWP indicate

Figure 5.17

Proportion of people whose income is below various fractions of median household disposable income[1]

United Kingdom/Great Britain[2]



1 Equivalised contemporary household disposable income before deduction of housing costs. See Appendix, Part 5: Households Below Average Income, and Equivalisation scales.
2 Data from 1993/94 onwards are for financial years. Source of data changed in 1994/95, definition of income changed slightly and geographic coverage changed from United Kingdom to Great Britain.
3 Figures for 1994/95 to 2002/03 have been subject to minor revisions due to the new grossing regime which was introduced in 2003/04.

Source: Institute for Fiscal Studies from Family Expenditure Survey, Office for National Statistics (1961 to 1993/94); Households Below Average Income, Department for Work and Pensions (1994/95 onwards)

that it has since fallen back to 17 per cent in each of the four years 2000/01 to 2003/04. This pattern is also reflected in the proportion of people with incomes less than 50 per cent of the median. Note that from 1994/95 onwards these figures exclude Northern Ireland. However, the proportion of individuals living in low income households in Northern Ireland in 2003/04, at 18 per cent, was very similar to that in Great Britain.

Children are disproportionately present in low-income households: 21 per cent of children (2.6 million) were living in households with below 60 per cent of median income (before deduction of housing costs) in Great Britain in 2003/04 (Figure 5.18). This compares with 17 per cent of all individuals. The proportion of children in low income households rose steeply between 1979 and 1981 from 12 per cent to 18 per cent and continued to rise to reach a peak of 27 per cent in 1991–92 and 1992–93. It fell back during the first half of the 1990s but then rose again to 25 per cent in 1996/97 and 1997/98, since when there was again a gradual fall to 21 per cent in 2000/01, a level that has been unchanged since. If housing costs are deducted from income, the pattern of annual change during the 1990s is much the same, but at a level around 10 percentage points higher, resulting in 3.5 million children living in low-income households in 2003/04 on this basis. This is principally because housing costs for low income households are large in relation to their income as a whole. This relationship applies to the results in Table 5.19 as well as to Figure 5.18.

Children are at greater than average risk of living in a low income family if they are part of a large family, have one or more disabled adults in the family, or are in a family where the head of household comes from a ethnic minority group, particularly if of Pakistani or Bangladeshi origin. However, the greatest risk factor is being in a workless family. Around half of children in workless lone-parent families and just under two thirds of children in workless couple families in 2003/04 were living in households with below 60 per cent of median income (before deduction of housing costs). If housing costs are deducted, these proportions rise to around three quarters for children in both workless couples and lone-parent families.

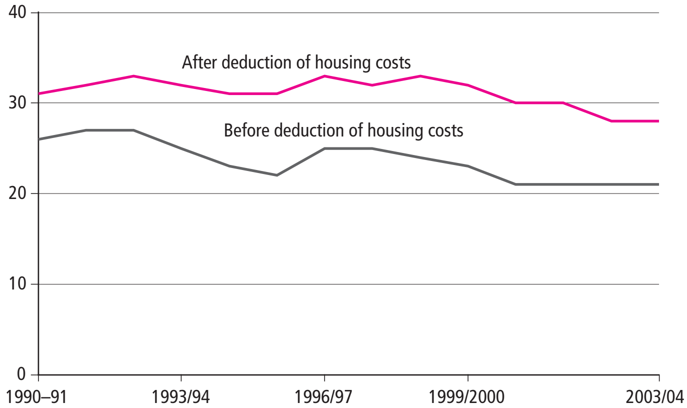
People living in workless households are over-represented among low income households in Great Britain whatever their age (Table 5.19). Overall, 17 per cent of the population were living in low-income households in 2003/04, compared with 3 per cent of those living in families where two adults were in full-time work or one was in full-time work and one was working part-time (income measured before deducting housing costs). In contrast, 63 per cent of people in families where the head or spouse were unemployed had low incomes.

Figure 5.18

Children living in households below 60 per cent of median household disposable income[1]

United Kingdom/Great Britain[2]

Percentages[3]



1 Equivalised contemporary household disposable income before and after deduction of housing costs. See Appendix, Part 5: Households Below Average Income, and Equivalisation scales.
2 Data from 1993/94 onwards are for financial years. Source of data changed in 1994/95, definition of income changed slightly and geographic coverage changed from United Kingdom to Great Britain.
3 Figures for 1994/95 to 2002/03 have been subject to minor revisions due to the new grossing regime which was introduced in 2003/04.

Source: Institute for Fiscal Studies from Family Expenditure Survey, Office for National Statistics (1990–91 to 1993/94); Households Below Average Income, Department for Work and Pensions (1994/95 onwards)

This proportion has fallen since the 1991/92 estimate of 71 per cent. About a quarter of people in families where the head or spouse were aged 60 or over had low incomes in 2003/04. The relationship between income and economic status was similar in 1981, though as Figure 5.17 showed, the overall risk of low income was lower at that time.

When income is measured after the deduction of housing costs, the proportions of individuals with low incomes are generally higher than before the deduction of housing costs, whatever their economic status.

The existence of income from employment is not always sufficient to lift a household out of low income. The national minimum wage, which came into force in April 1999, aims to combat the phenomenon of the 'working poor'. As of 1 October 2005 the minimum wage rates were set at £3.00 for 16 to 17 year olds (for whom special conditions apply), £4.25 per hour for 18 to 21 year olds and £5.05 for those aged 22 and over.

For some people, such as students and those unemployed for only a brief period, the experience of low income may be a relatively transient one, but for others it may be more permanent. The British Household Panel Survey (BHPS) provides longitudinal data that allow income mobility and the persistence of low income to be analysed. The definition of

Table 5.19

Individuals in households with incomes below 60 per cent of median disposable income:[1] by economic activity status

United Kingdom/Great Britain[2] Percentages[3]

	1981	1991/92	1996/97	2001/02	2003/04
Before deduction of housing costs					
Workless, head or spouse unemployed	52	71	62	64	63
Workless, head or spouse aged 60 or over	19	31	25	26	24
One or more in part-time work	24	26	25	25	23
Self-employed[4]	13	19	18	19	19
One in full-time work, one not working	8	12	16	12	13
One in full-time work, one in part-time work	2	3	3	4	3
Single or couple, all in full-time work	1	2	2	2	3
Workless, other inactive[5]	36	51	42	42	44
All individuals	13	21	18	17	17
After deduction of housing costs					
Workless, head or spouse unemployed	57	76	79	75	78
Workless, head or spouse aged 60 or over	23	36	31	27	23
One or more in part-time work	27	32	33	33	29
Self-employed[4]	15	24	22	22	23
One in full-time work, one not working	9	17	21	18	18
One in full-time work, one in part-time work	3	5	5	6	5
Single or couple, all in full-time work	1	2	3	3	4
Workless, other inactive[5]	45	62	64	64	62
All individuals	15	25	25	22	21

1 Equivalised contemporary household disposable income before and after deduction of housing costs. See Appendix, Part 5: Households Below Average Income, and Equivalisation scales.
2 Data for 1981 and 1991/92 are based on the Family Expenditure Survey, which covers the United Kingdom. Data for 1996/97 onwards are based on the Family Resources Survey, which covers Great Britain only.
3 Figures for 1994/95 to 2002/03 have been subject to minor revisions due to the new grossing regime that was introduced in 2003/04.
4 Those in benefit units that contain one or more adults who are normally self-employed for 31 or more hours a week.
5 Includes long-term sick and disabled people and non-working single parents.

Source: Households Below Average Income, Department for Work and Pensions

the Government's Opportunity for All indicator for persistent low income is 'at least three years out of four below thresholds of 60 or 70 per cent of median income'. Between 2000 and 2003, around 11 per cent of individuals experienced persistent low income and this figure has changed little since 1991 to 1994 (Table 5.20 overleaf). However, the risk of different family types experiencing persistent low income has changed over the last decade. In particular, the proportion of single people with children experiencing persistent low income has fallen substantially, from 40 per cent during 1991 to 1994 to 23 per cent during 2000 to 2003. Those living in couple households without children – at least in the first year of each four year period – were at least risk of persistent low income. Pensioner families, whether single or couples, were at greater than average risk of persistent low income, and the risk for pensioner couples seems to have risen slightly over the period, despite the overall growth in income for pensioners as discussed in the Household Income section at the beginning of this chapter.

Table 5.20 shows entry rates into and exit rates from low income over the period 1991 to 2003. For the purposes of this analysis, persistent low income for an individual is defined as having lived in a household with equivalised income below 60 per cent of contemporary median income for at least three consecutive years. An entry into persistent low income is defined as where an individual spent two consecutive years above the threshold followed by three further consecutive years below the threshold. An exit from persistent low income is defined as where an individual spent three consecutive years below the low income threshold followed by two further consecutive years above the threshold.

Table 5.20

Persistent low income: by family type,[1] 1991–2003

Great Britain Percentages

	3 out of 4 years below 60 per cent of median income[2]			Entry rate into persistent low income[3]	Exit rate from persistent low income[3]
	1991–94	1996–99	2000–03	1991–2003	1991–2003
Pensioner couple	13	17	17	2	9
Single pensioner	21	23	21	3	10
Couple with children	13	11	10	1	17
Couple without children	3	3	4	1	21
Single with children	40	27	23	3	16
Single without children	5	7	7	1	34
All individuals	12	11	11	1	16

1 Families are classified according to their type in the first year of the relevant period.
2 Equivalised contemporary household disposable income before housing costs. See Appendix, Part 5: Households Below Average Income, and Equivalisation scales.
3 Persistent low income is defined as experiencing low income for at least three consecutive years. An entry occurs during the first year of a persistent low income period, following a period of two years not in low income. An exit occurs as the first year of two not in low income, following a persistent low income period.

Source: Department for Work and Pensions from the British Household Panel Survey, Institute for Social and Economic Research

The exit rate from persistent low income, at 16 per cent, was considerably greater than the entry rate of 1 per cent. Single people with children and single pensioners had the highest entry rates into persistent low income, at 3 per cent, whereas single people without children were the most likely to exit. Couples without children also had a relatively high exit rate. Pensioners were less likely to exit persistent low income than all other family types. Overall, the events most frequently associated with an exit from persistent low income were a rise in the earnings of the head of household and a rise in benefit income. Conversely an entry into persistent low income was most often associated with a fall in the head of household's earnings.

Although low income is an important measure of poverty, it does not present the whole picture. Material hardship provides a wider measure of people's living standards, reflecting the inability of families to afford to buy essential goods or to participate in leisure activities. The DWP's Families and Children Study (FACS) analyses the affordability of 34 'deprivation items', covering four dimensions of material deprivation: food and meals; clothing and shoes; consumer durables; and leisure activities. For more details see Appendix, Part 5: Material hardship. The data can be used to calculate the total number of all deprivation items a family would like but could not afford. The survey also provides data on income that allow the same definition of low income to be applied as for the Households Below Average Income series used above, and since it is a longitudinal survey incomes can also be tracked over time. It is thus possible using this data source to explore the relationship between income and material hardship over time.

Table 5.21 shows that being in material hardship is related to poverty, though the relationship is not altogether straightforward. Being in severe hardship increases as the number of years spent in poverty increases. A quarter of families who spent all the years between 1999 and 2002 in a low income household were in severe hardship compared with virtually none of those who had not spent any years in poverty. However, not all families who had spent four years in a low income household experienced severe or even moderate hardship at the end of that period. Although 85 per cent of families who had not spent any years in poverty were not in

Table 5.21

Relationship between material hardship[1] and years spent in poverty,[2] 2002

Great Britain Percentages

	Number of years between 1999 and 2002 spent in poverty				
	None	One	Two	Three	Four
Not in hardship	85	68	42	38	31
Moderate hardship	14	25	42	42	45
Severe hardship	1	7	16	21	25
All families	100	100	100	100	100

1 See Appendix, Part 5: Material hardship.
2 Families are classified as being in poverty if their income is below 60 per cent of median equivalised disposable income before housing costs.

Source: Families and Children Study, Department for Work and Pensions hardship in 2002, 31 per cent of families who had spent all four years in a low income household were also not in hardship.

This analysis of the FACS also studied how movements in and out of both low income and material hardship are related to each other. Among families who had moved in and out of poverty, the risk of hardship at the end of the period varied according to the number of years poor, but it hardly mattered whether the experience of low income was recent or some time ago. Only a small proportion of families who moved out of low income between one year and the next, also moved out of hardship at the same time. On the other hand there was a general drift out of hardship over the four year period, as levels of hardship seem to decline even among low income families.

Wealth

Although the terms 'wealthy' and 'high income' are often used interchangeably, they relate to quite distinct concepts. 'Income' represents a flow of resources over a period, received either in cash or in kind, while 'wealth' describes the ownership of assets valued at a particular point in time. Wealth can be held in the form of financial assets, such as savings accounts or shares, which provide a flow of current income, or pension rights that provide entitlement to a future income flow. These types of asset form financial wealth. Ownership of non-financial wealth may provide financial security even if it does not provide a current income flow; a house or a work of art, for example, could be sold to provide income if necessary. In this section the term 'wealth' includes both financial and non-financial assets. There is a further distinction sometimes made between marketable and non-marketable wealth. Marketable wealth comprises assets that can be sold and their value realised, whereas non-marketable wealth comprises mainly pension rights that often cannot be 'cashed in'. Wealth may be accumulated either by the acquisition of new assets, through saving or by inheritance, or by the increase in value of existing assets.

Aggregate data on the wealth of the household sector compiled in the UK National Accounts indicate that of total assets of over £7,000 billion in 2004, nearly 55 per cent were held in the form of non-financial assets, primarily housing (Table 5.22). Even when account is taken of the loans outstanding on the purchase of housing, this form of wealth has shown strong growth between 1991 and 2004. This reflects the buoyant state of the housing market, as well as the continued growth in the number of owner-occupied dwellings. Note that in Table 5.22, as in Figure 5.1, households are combined with the non-profit making institutions serving households.

The second most important element of household wealth is financial assets held in life assurance and pension funds,

Table 5.22

Composition of the net wealth[1] of the household sector

United Kingdom £ billion at 2004 prices[2]

	1991	1996	2001	2002	2003	2004
Non-financial assets	1,958	1,718	2,666	3,163	3,468	3,829
Financial assets						
Life assurance and pension funds	822	1,212	1,601	1,423	1,520	1,625
Securities and shares	351	515	610	453	503	553
Currency and deposits	528	575	712	753	803	858
Other assets	110	118	132	133	142	143
Total assets	3,769	4,138	5,721	5,924	6,436	7,008
Financial liabilities						
Loans secured on dwellings	438	476	617	689	783	875
Other loans	117	106	166	184	188	208
Other liabilities	62	59	64	77	90	111
Total liabilities	617	640	847	951	1,061	1,194
Total net wealth	3,152	3,498	4,874	4,974	5,375	5,814

1 See Appendix, Part 5: Net wealth of the household sector.
2 Adjusted to 2004 prices using the expenditure deflator for the household sector.

Source: Office for National Statistics

Table 5.23

Ownership of occupational and personal pensions:[1] by sex and age,[2] 2003/04

Great Britain Percentages

	16–24	25–34	35–44	45–54	55–59	60–64	All aged 16–59/64
Men							
Personal pension	*2*	*12*	*20*	*20*	*21*	*11*	*15*
Occupational pension	*9*	*36*	*44*	*42*	*29*	*13*	*33*
Any non-state pension	*11*	*46*	*61*	*59*	*48*	*23*	*46*
Women							
Personal pension	*2*	*7*	*9*	*10*	*9*	.	*8*
Occupational pension	*11*	*35*	*37*	*38*	*27*	.	*32*
Any non-state pension	*13*	*41*	*44*	*46*	*35*	.	*38*

1 Working age adults.
2 Age at last birthday.

Source: Family Resources Survey, Department for Work and Pensions

amounting to £1,625 billion in 2004. This element of household wealth grew strongly in real terms during the 1990s, as a result of increases in the contributions paid into occupational pension schemes as well as increased take-up of personal pensions. It fell by 11 per cent in real terms between 2001 and 2002, reflecting the fall in stock market values over this period, but had recovered to exceed its 2001 level in 2004.

Occupational and private pensions are important determinants of where older people appear in the income distribution, and so the extent to which people of working age are making provision for their retirement is of considerable policy interest – one of the Government's Opportunity for All indicators is the proportion of working age people contributing to a non-state pension. In 2003/04 the Family Resources Survey found that 44 per cent were doing so in Great Britain, with more men (48 per cent) than women (40 per cent) making contributions.

Around three in five men aged between 35 and 54 were making contributions to a non-state pension in the United Kingdom in 2003/04, compared with less than half of women the same age (Table 5.23). Men and women's membership of occupational pensions is very similar for the under 35s, but differences in employment patterns mean that male membership is higher in the older age groups. Except in the youngest age group where very few people have provision, men are twice as likely as women to be making contributions to personal pensions, and are more likely to have higher fund values. The value of personal pension funds generally increases with age and earnings, though the oldest age groups are more likely to have other pension wealth in the form of deferred occupational pension entitlements.

Over the 20th century as a whole, the distribution of wealth became more equal. In 1911, it is estimated that the wealthiest 1 per cent of the population held around 70 per cent of UK wealth. By 1936–38, this proportion had fallen to 56 per cent, and it fell again after the Second World War to reach 42 per cent in 1960. Using different methodology from the historic data, during the 1970s and 1980s the share of the wealthiest 1 per cent of the population fell from around 22 per cent in the late 1970s to reach 17 to 18 per cent during the second half of the 1980s. Since then the distribution appears to have widened again, with proportions of 22 to 23 per cent recorded during the period 1997 to 2002 (Table 5.24).

Even during the 1970s and 1980s when the distribution was at its most equal, these estimates indicate that wealth is very much less evenly distributed than income. Half the population owned only

Table 5.24

Distribution of marketable wealth[1]

United Kingdom Percentages

	1991	1996	2001	2002
Percentage of wealth owned by:[2]				
Most wealthy 1%	*17*	*20*	*22*	*23*
Most wealthy 25%	*71*	*74*	*72*	*74*
Most wealthy 50%	*92*	*93*	*94*	*94*
Total marketable wealth (£ billion)	1,711	2,092	3,477	3,464

1 See Appendix, Part 5: Distribution of personal wealth. Estimates for individual years should be treated with caution as they are affected by sampling error and the particular pattern of deaths in that year.
2 Adults aged 18 and over.

Source: HM Revenue and Customs

6 per cent of total wealth in 2002. To some extent this is because of life cycle effects. It usually takes time for people to build up assets during their working lives through savings and then draw them down during the years of retirement with the residue passing to others after their death. If the value of housing is omitted from the wealth estimates, the resulting distribution is even more concentrated at the top of the distribution, indicating that housing wealth is rather more evenly distributed than the remainder.

These wealth distribution estimates are based on inheritance and capital transfer taxes rather than direct measurement through sample surveys. As such they cover only marketable wealth and so some important elements such as pension rights are excluded. Although some surveys carry questions on some elements of wealth there is as yet no comprehensive source of UK data on wealth, savings and debt. ONS, together with other government departments, is planning to undertake a comprehensive household Wealth and Assets Survey (WAS). This new survey will directly measure household assets, liabilities and wealth in Great Britain.

National income and expenditure

Gross domestic product (GDP) measures the level of income generated by economic activity in the United Kingdom in accordance with international conventions. Figure 5.1 at the beginning of this chapter showed that, when adjusted for inflation, the trend in GDP per head since 1971 has generally been one of steady growth. Within this long-term trend the United Kingdom is subject to cycles of weaker and stronger growth, usually referred to as the economic or business cycle.

The year on year growth rates for total GDP, adjusted to remove the effects of inflation, suggest that the UK economy contracted in the mid-1970s, at the time of the OPEC oil crisis, and again in the early 1980s and early 1990s (Figure 5.25). However, growth has exceeded 4 per cent per year ten times in the post-war period, most recently in 1994. The long-term average annual growth rate was 2.6 per cent between 1950 and 2004. Growth between 2001 and 2002 fell to 2.0 per cent, the lowest rate since 1992, but by 2004 it had recovered to 3.2 per cent. In 2002, the base year for these figures, almost three quarters of gross value added was from the services sector, compared with a fifth from the production sector. Construction accounted for about 6 per cent, and agriculture for about 1 per cent. Gross value added is GDP less taxes and plus subsidies on products.

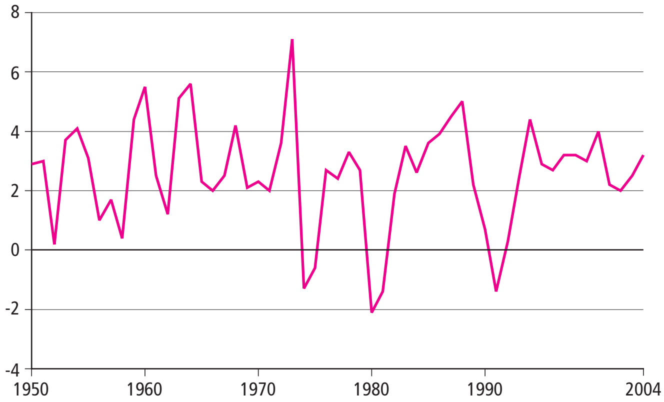
A comparison of GDP per head across the countries of the EU in 2003 shows that Luxembourg, where the financial sector dominates the economy, had the highest level of economic activity (Table 5.26). This was nearly 60 per cent higher than Ireland, which had the second highest GDP per head. Nine out

Figure **5.25**

Annual growth in gross domestic product in real terms[1]

United Kingdom

Percentages



1 Chained volume measures.

Source: Office for National Statistics

Table **5.26**

Gross domestic product[1] per head: EU comparison

€ per head

	1991	1996	2003
Luxembourg	25,200	28,200	45,500
Ireland	12,200	16,700	29,000
Netherlands	16,900	19,100	26,900
Denmark	17,600	20,200	26,100
Austria	18,500	20,600	25,900
Belgium	17,000	19,200	25,400
United Kingdom	15,000	17,800	25,300
Sweden	17,200	18,900	24,600
Finland	15,700	16,900	24,200
France	16,900	18,400	23,800
Germany	17,600	19,200	23,300
Italy	16,500	18,300	22,700
Spain	12,500	14,000	21,100
Cyprus	..	13,500	17,500
Greece	10,800	11,400	17,300
Portugal	10,500	12,200	16,600
Slovenia	9,430	11,300	16,500
Malta	..	..	15,400
Czech Republic	..	11,400	14,600
Hungary	7,310	7,900	12,900
Slovakia	..	7,400	11,100
Estonia	..	5,900	10,400
Lithuania	7,460	5,600	9,800
Poland	..	6,700	9,700
Latvia	9,500	4,900	8,700

1 Gross domestic product at current market prices using current purchasing power standard and compiled on the basis of the European System of Accounts 1995.

Source: Eurostat

of the ten new Member States that joined the EU in 2004 had GDP per head lower than each of the original EU-15 in 2003.

The exception was Cyprus, where GDP per head was higher than Greece and Portugal. Poland, Estonia, Lithuania and Latvia all had GDP per head less than half of the average for the 25 Member States (21,600 euro). UK GDP per head was 17 per cent higher than the EU-25 average. These figures have been converted to a common basis making adjustments for the relative purchasing power of national currencies.

To examine trends in GDP per head within the EU it is necessary to restrict the analysis to the EU-15 because data are unavailable for early years for the ten new members. The gap between Luxembourg and EU-15 grew during the 1990s: in 2003, its GDP per head was 94 per cent above the EU-15 average compared with 58 per cent in 1991. At the other end of the scale, Portugal and Greece both had GDP per head about a third below the EU-15 average in 2003, though in both countries it has grown relative to the EU average during the 1990s. The most dramatic increase in GDP per head was in Ireland, where it rose from 77 per cent of the EU-15 average in 1991 to 24 per cent above average in 2003, and from being thirteenth to second. The United Kingdom has also risen in the ranking, from being eleventh to seventh.

One of the features of GDP as conventionally calculated is that it does not measure and place a monetary value on the outputs produced by households where these are unpaid – for example, unpaid childcare, house maintenance, food preparation and transport services. The household satellite account (HHSA) produced by the Office for National Statistics measures and values unpaid household production in the United Kingdom, providing a means by which the influence of changing patterns of unpaid work on the economy can be measured. The HHSA is separate from, but conceptually consistent with the UK National Accounts. Details of the methodology may be found in the Appendix, Part 5: Household satellite account.

Housing services (which represent the value of clean, warm, furnished accommodation provided by owner occupied households as well as the provision of furnishings and maintenance by tenants) form the largest contribution to gross unpaid household production, followed by informal childcare (Table 5.27). Nutrition represents the value of meals and hot drinks prepared in the home, and clothing, a very minor contribution to household value added, represents the value of clothes made or repaired at home. In total, unpaid household production, valued at current prices, is estimated at £877 billion in 2000, an increase of 40 per cent from £629 billion in 1995. This increase stems from a combination of both price and volume changes. Childcare rose in value by around twice the average increase largely due to an increase in the market rate – the cost of childcare provided by nannies is used to calculate the value. The only fall in value was for voluntary activity, which fell by just over 25 per cent reflecting a fall in the number of hours volunteered. However, the data are drawn from two different sources, both of which have considerable sampling variability, so this drop has to be treated with caution.

Table 5.27

Gross unpaid household production[1]

United Kingdom £ billion

	1995	2000	Percentage change 1995–2000
Housing	195	263	*35.0*
Transport	113	156	*38.6*
Nutrition	126	164	*29.7*
Clothing	1	1	*0.0*
Laundry	44	46	*4.5*
Childcare	122	221	*80.8*
Adult care	11	14	*31.0*
Voluntary activity	18	13	*-25.6*
Total unpaid production	629	877	*39.5*

1 At current prices. See Appendix, Part 5: Household satellite account.

Source: Office for National Statistics

Government receives income primarily through transfers from individuals, companies and other organisations in the form of taxes, national insurance contributions and other payments, though they may also engage in economic activity from which income is derived. This revenue is then spent on the provision of goods and services such as health care and education, on servicing government debt, and on transfer payments such as social security benefits. The present Government's main measure of public expenditure is total managed expenditure (TME). TME is the sum of government current expenditure (for example on goods and services, subsidies, social benefits and interest payments), depreciation, and net investment.

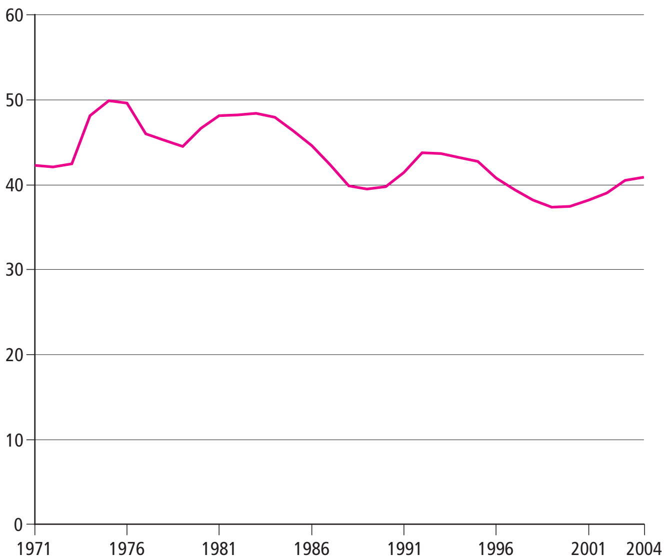
TME rose as a proportion of GDP during the economic downturn in the first half of the 1970s, in particular between 1973 and 1974, and reached nearly 50 per cent in 1975 and 1976 (Figure 5.28). Between 1983 and 1989 the proportion fell, but there was a slight rise in the early 1990s during another period of economic downturn. Between 1993 and 1999 it fell again to reach 37 per cent, the lowest figure since the early 1960s. It has since risen to 41 per cent in 2004.

Figure 5.28

Total managed expenditure as a percentage of gross domestic product

United Kingdom

Percentages



Source: Office for National Statistics

Table 5.29

European Union expenditure:[1] by sector

Percentages

	1991	1996	2001	2003	2004
Agricultural Guarantee	*58*	*51*	*52*	*50*	*44*
Structural funds					
Agricultural guidance	*4*	*4*	*2*	*3*	*3*
Regional policy	*12*	*14*	*11*	*15*	*16*
Social policy	*8*	*8*	*5*	*7*	*7*
Cohesion Fund	..	*2*	*2*	*2*	*3*
Other	*3*	*4*	*8*	*4*	*6*
All structural funds	*26*	*32*	*28*	*31*	*34*
Research	*3*	*4*	*4*	*4*	*4*
External action	*4*	*5*	*7*	*7*	*9*
Administration	*5*	*5*	*6*	*6*	*6*
Other	*4*	*3*	*3*	*3*	*3*
All expenditure (=100%) (€ billion)	53.5	77.0	80.6	89.4	100.1

1 At current prices. Data prior to 2004 relate to EU-15, data for 2004 relate to EU-25.

Source: European Commission

As well as expenditure for purely domestic purposes, TME also includes the contributions made by the United Kingdom to the EC budget. Figures published by the European Commission show that in 2004 the United Kingdom contributed €11.7 billion (£7.9 billion) and had receipts amounting to €7.1 billion (£4.8 billion). Germany was the largest net contributor, with contributions exceeding receipts by €8.5 billion. The European Commission figures show that Luxembourg, Belgium, Ireland, Portugal, Greece, and Spain were net recipients from the EC budget in 2004, as were the ten new Member States that joined in May 2004.

Of total EU expenditure in 2004, 44 per cent was spent in support of agriculture in the form of Agricultural Guarantee (Table 5.29). Although still substantial, this proportion has fallen by 14 percentage points since 1991, while Structural Funds expenditure has risen by 8 percentage points over this period. Structural Funds aim to reduce regional disparities and to achieve a more even social and economic balance across the EU. The areas within the United Kingdom eligible for EU Structural Funds between 2000 and 2006 include Cornwall and the Isles of Scilly, West Wales and the Valleys, South Yorkshire and Merseyside.

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The Office for National Statistics (ONS) is the government agency responsible for compiling, analysing and disseminating economic, social and demographic statistics about the United Kingdom. It also administers the statutory registration of births, marriages and deaths in England and Wales.

The Director of ONS is also the National Statistician and the Registrar General for England and Wales.

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