



October 2020

Xiaowei Xu, IFS

@TheIFS

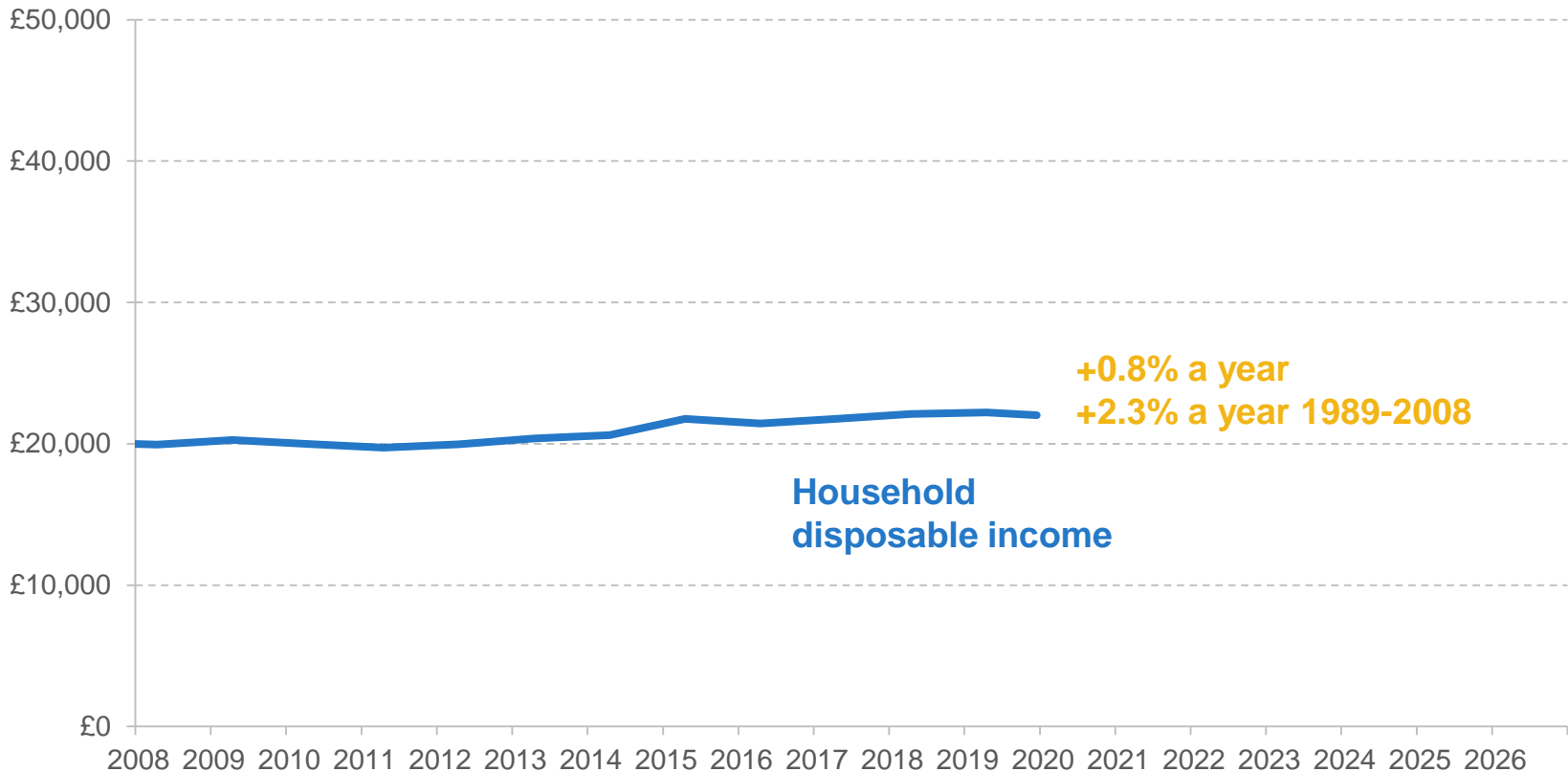
Living standards



Economic
and Social
Research Council

Stagnation in incomes and earnings

Average (mean) annual gross earnings and household disposable income, current prices

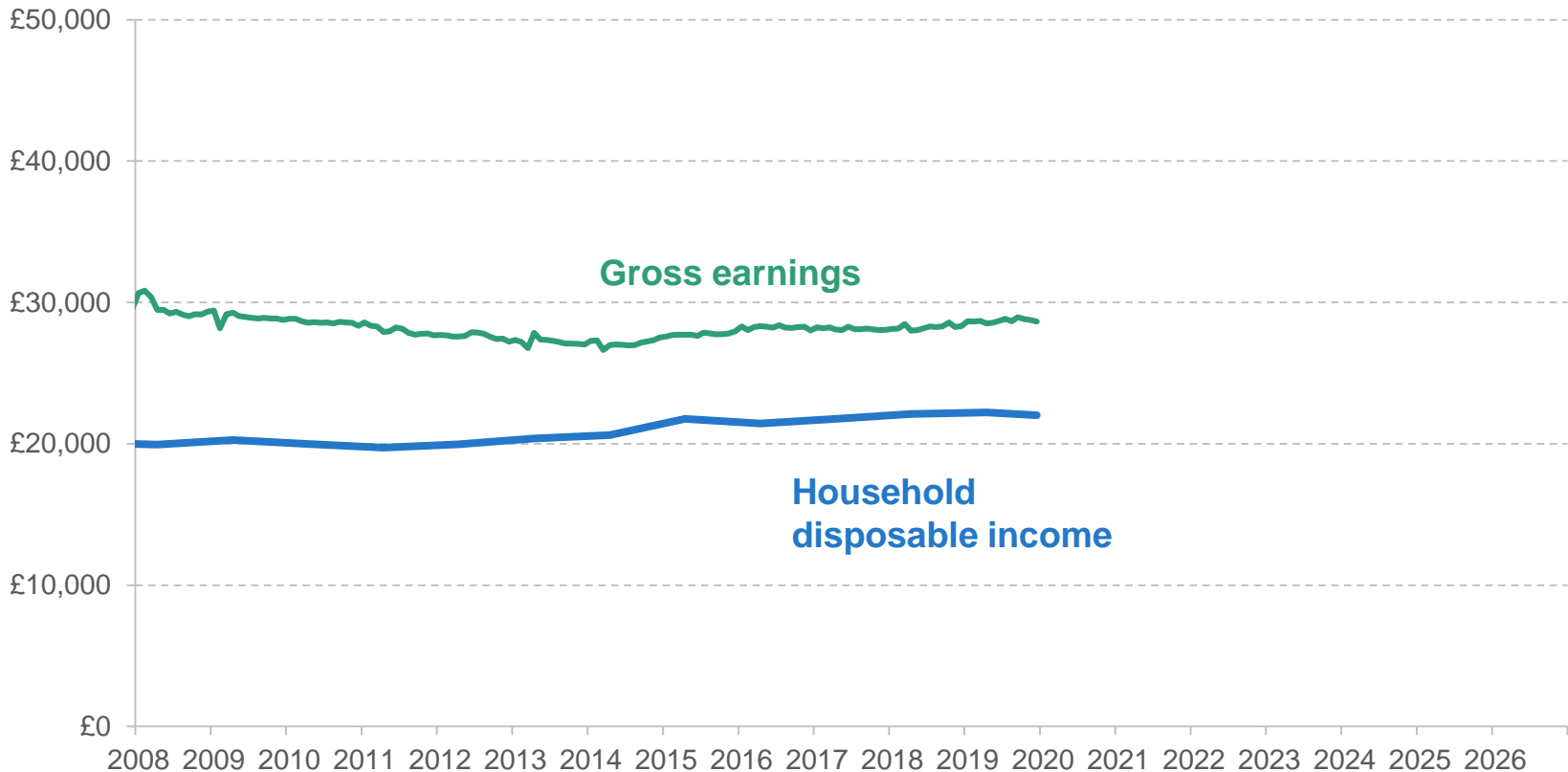


Source: ONS AWE, ONS RHDI, OBR EFO

Notes: Historical series deflated using CPIH. Forecasts deflated using CPI. AWE before 2000 not seasonally adjusted.

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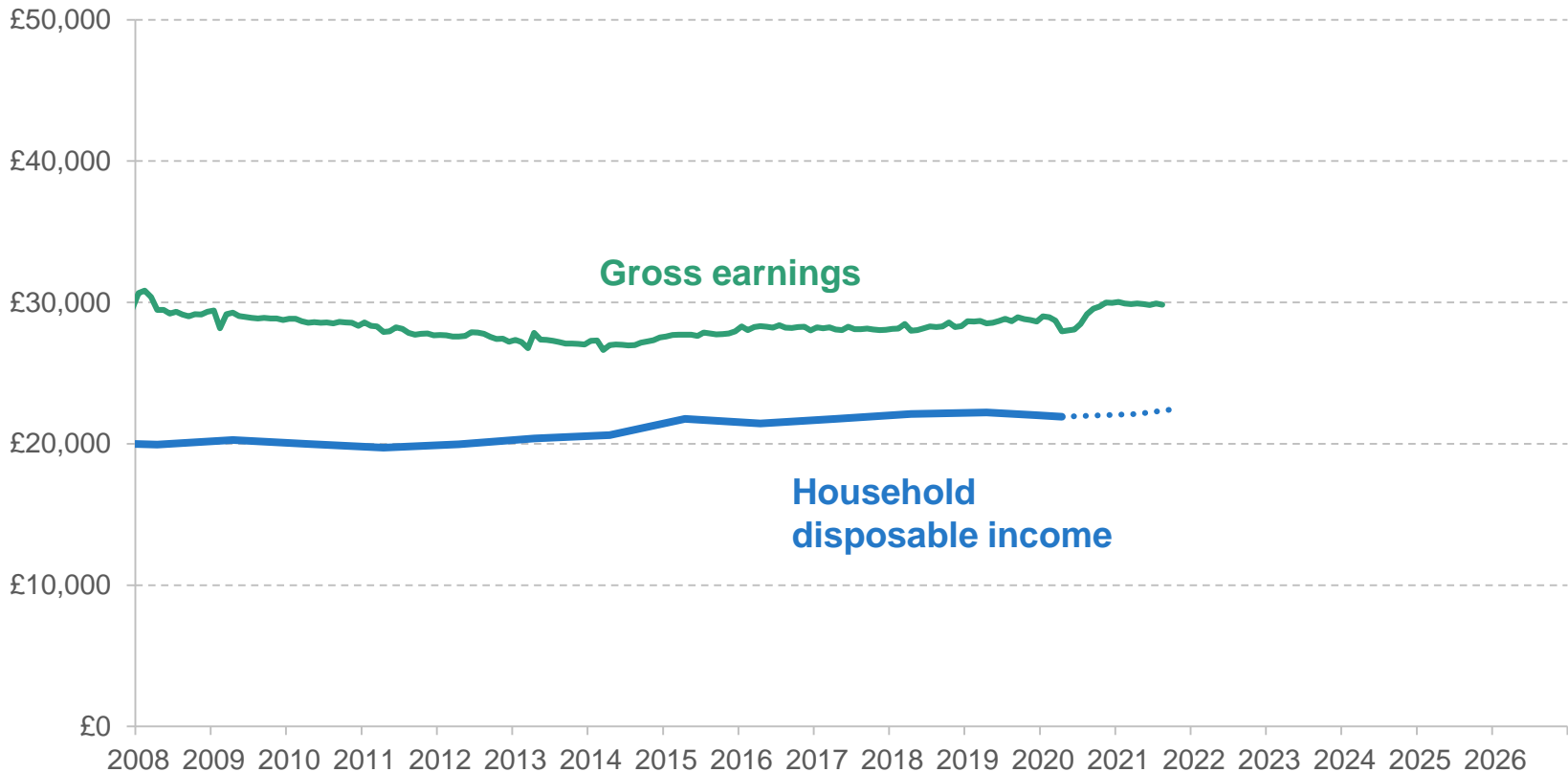


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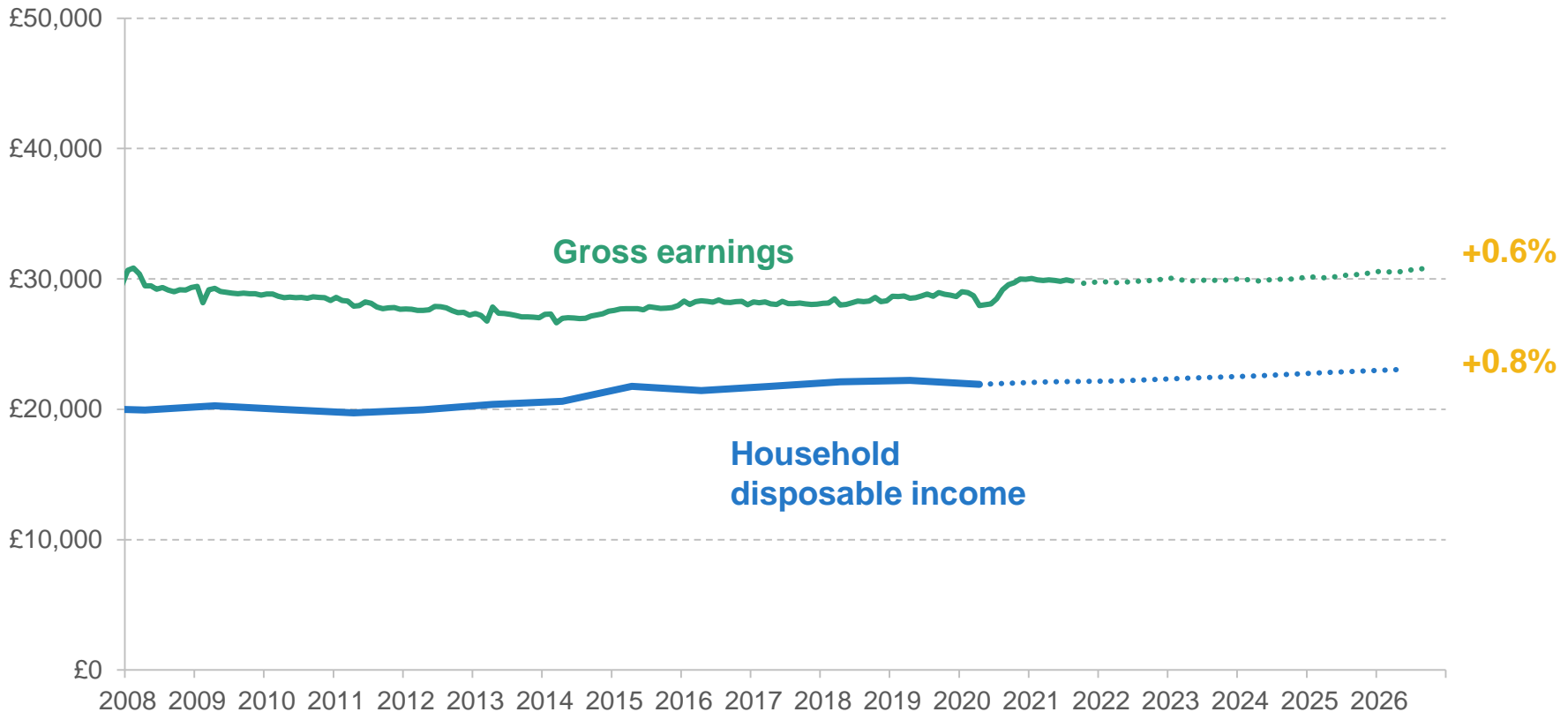


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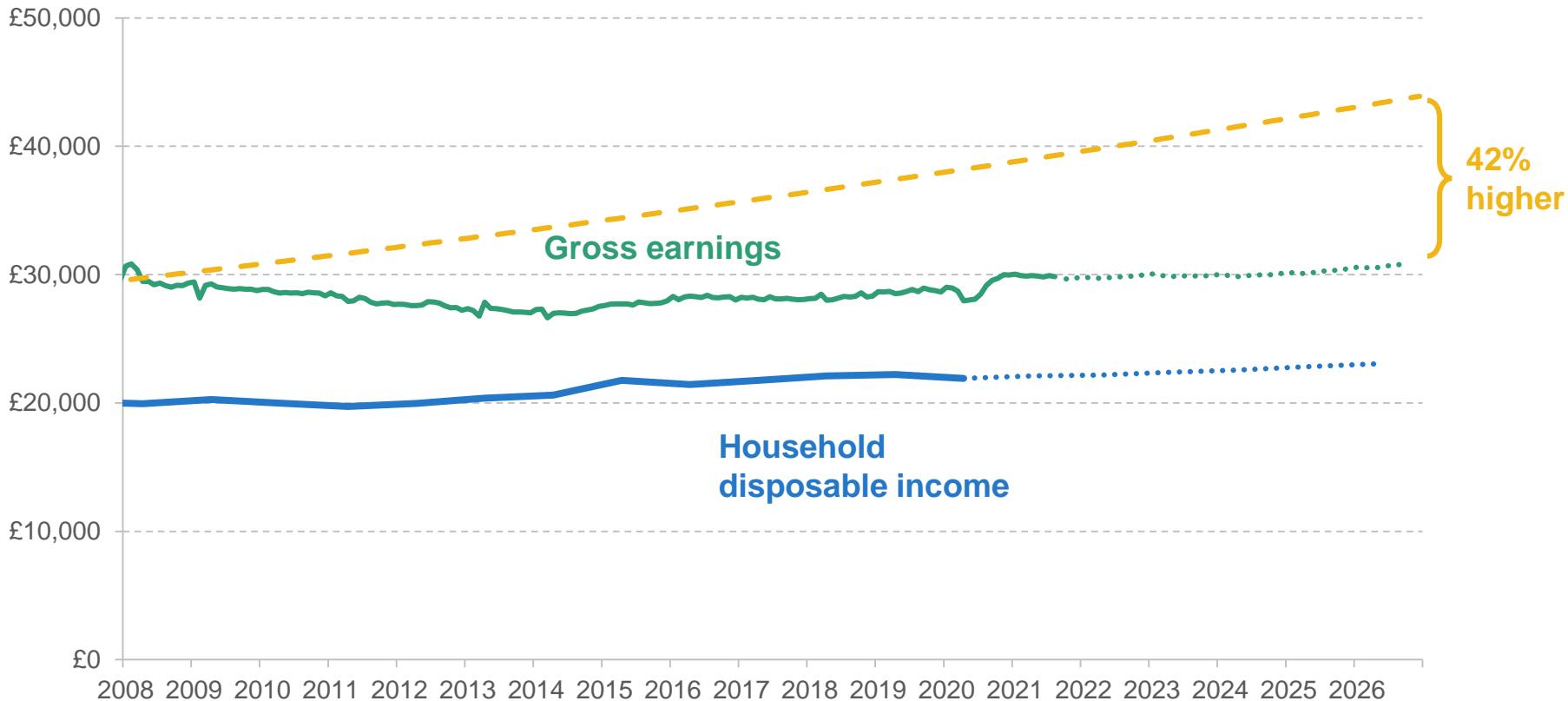


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Tax and benefit changes

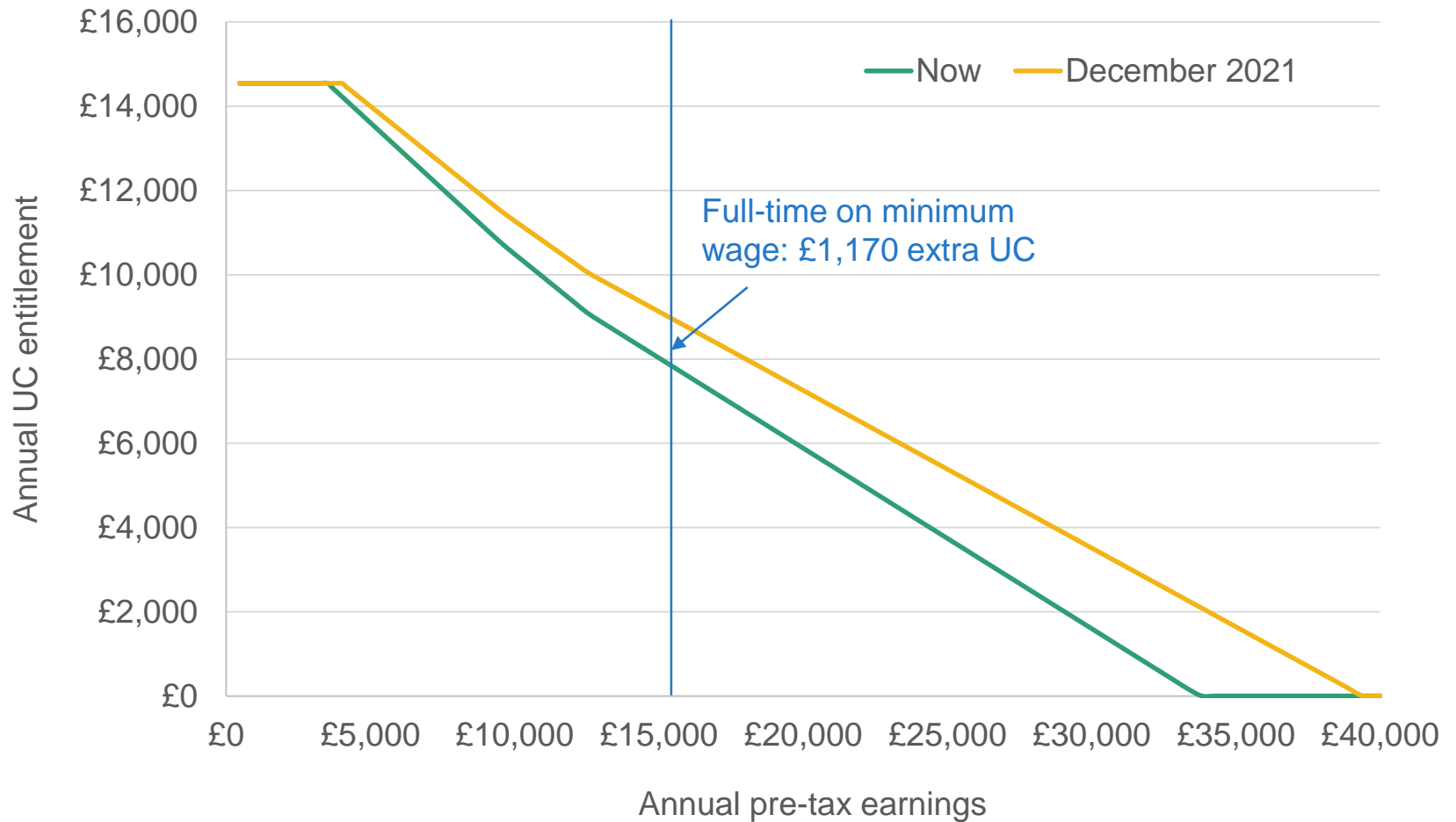


Tax and benefit changes

Increase in UC work allowance (£500/year), reduction in taper rate (63% to 55%)

- Cost £2.8bn in 2025-26

Example: changes to UC work allowance and taper rate for lone parent with 1 child



Notes: Assumes rent of £150 per week.

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1.25% Health and social care levy

- Raise £13bn in 2025-26
- Earnings over £9,880 next year

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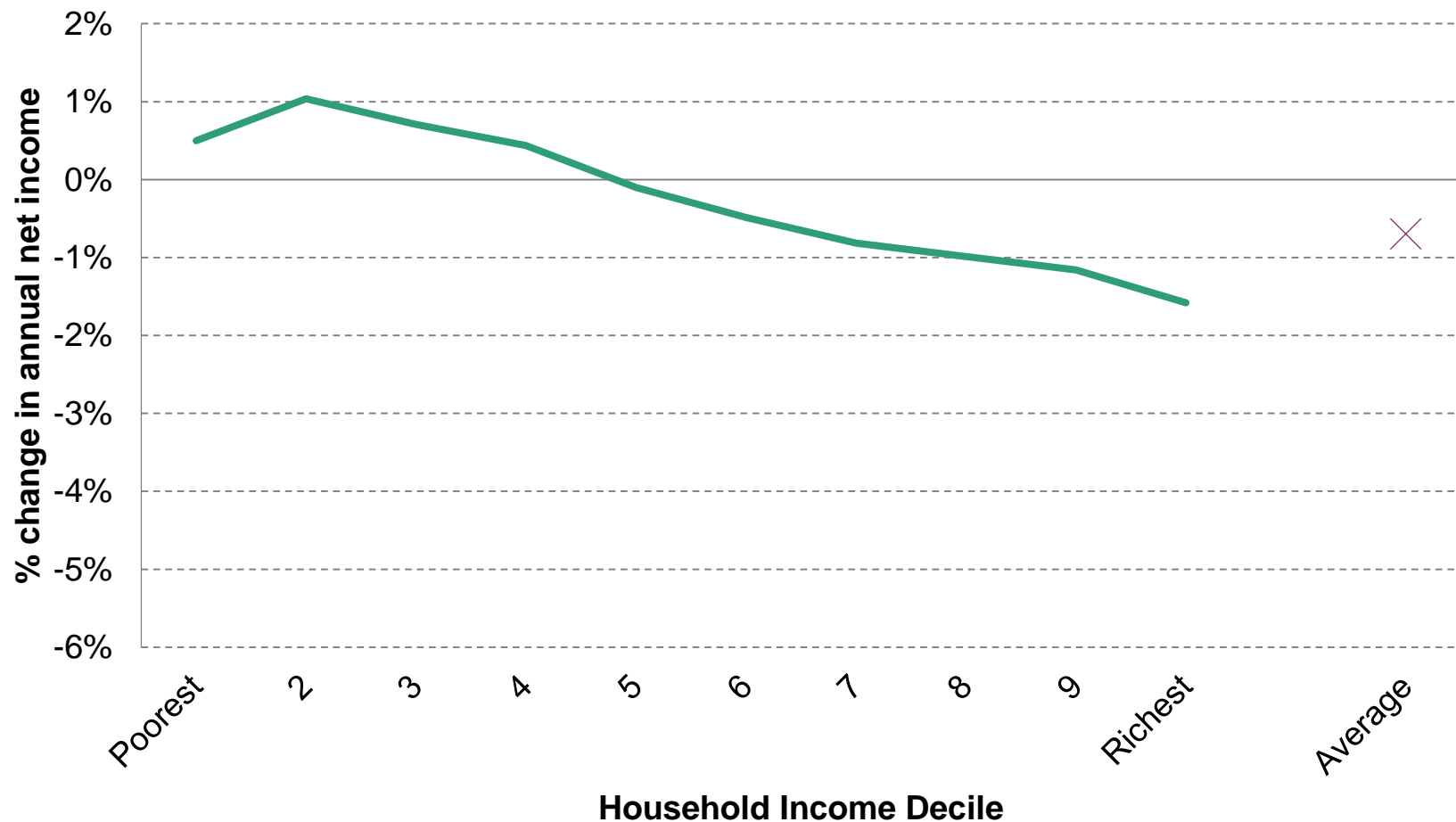
- Raise £13bn in 2025-26
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PA and HRT frozen

- 10% real cut by 2025-26 (previously forecast 7%)
- Raise £11bn in 2025-26 (previously forecast £7bn)

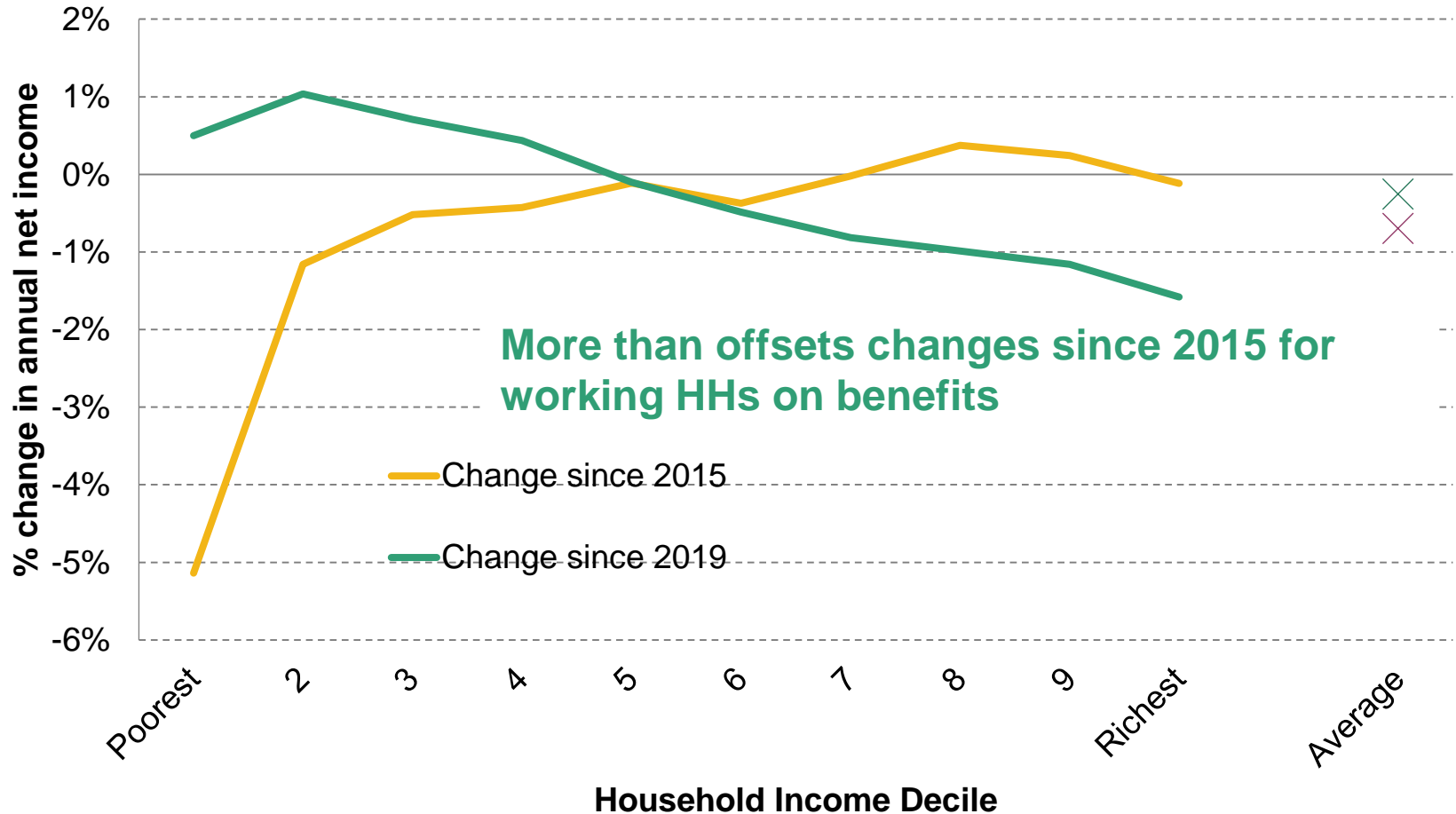
Gains at bottom of income distribution and large falls at top

Change in net income from 2021-22 to 2022-23

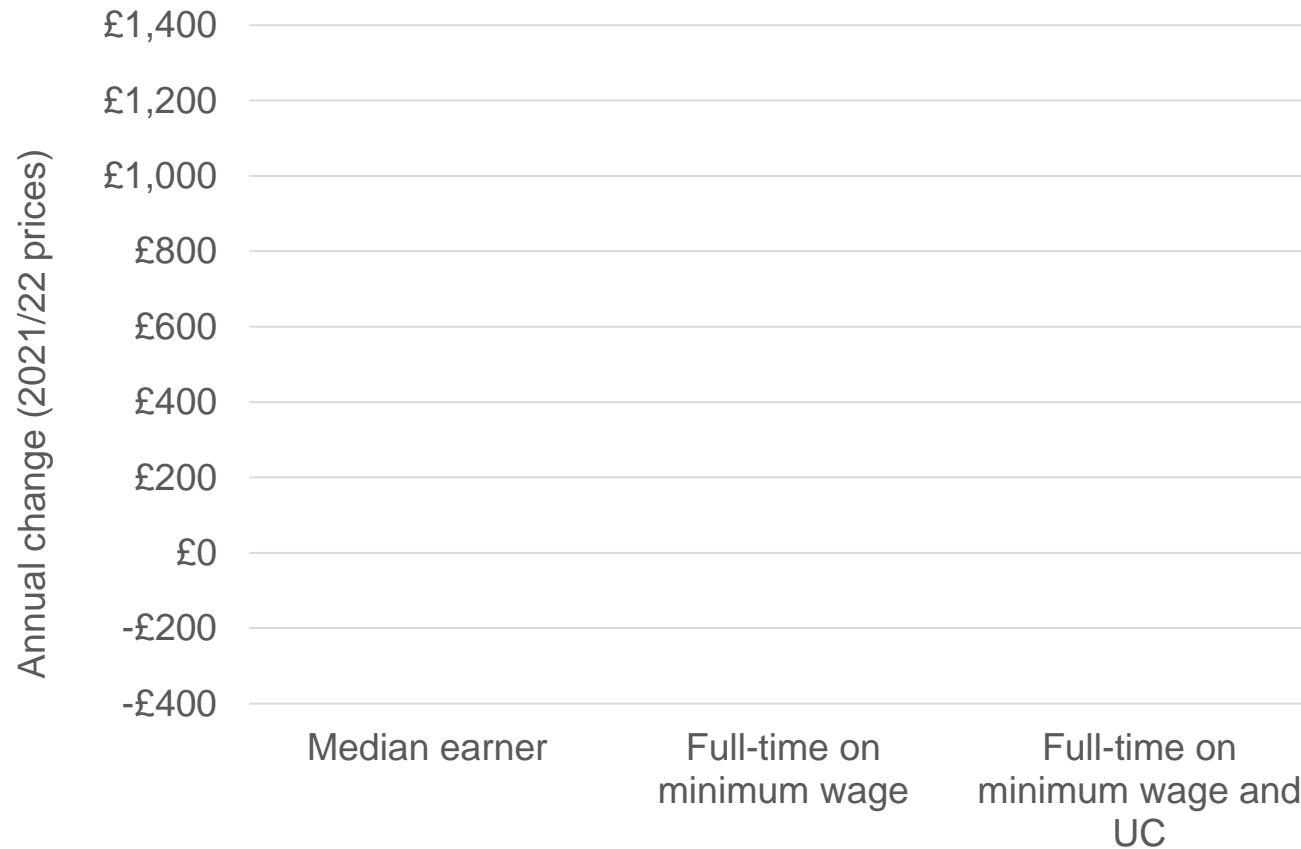


Gains at bottom of income distribution and large falls at top

Change in net income from 2021-22 and 2015-16 to 2022-23

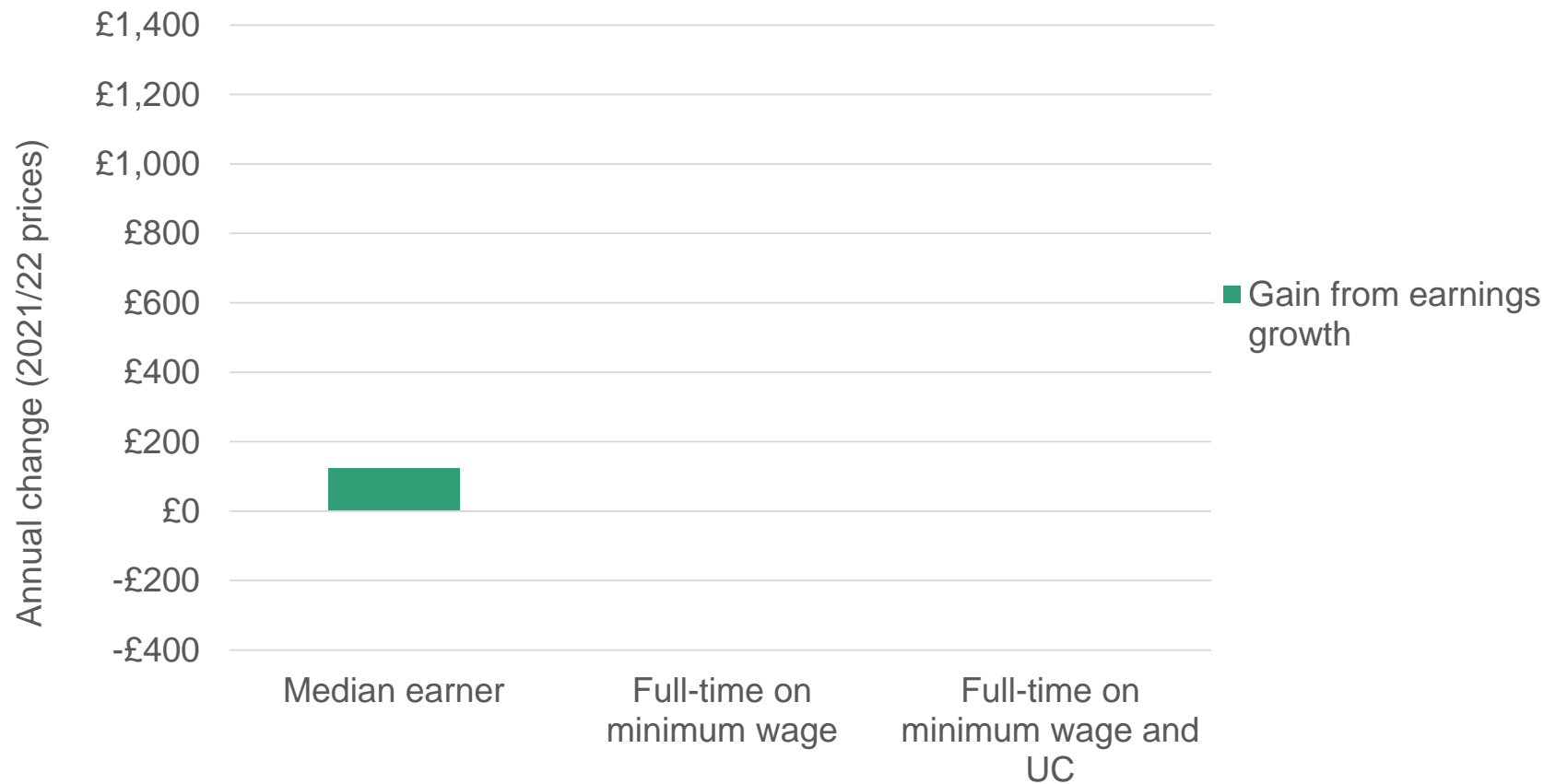


What does this mean for real incomes?



Notes: We use the OBR forecasts for earnings growth and inflation between 2021Q4 and 2022Q4. “Full-time” is defined as 35 hours per week. Earnings, direct tax liability and universal credit entitlement all interact with each other, so the order in which they are modelled affects the apportionment: effects are modelled in the order listed on right hand side. The minimum wage worker on UC is assumed to be a renter and to be on the UC taper both before and after reforms

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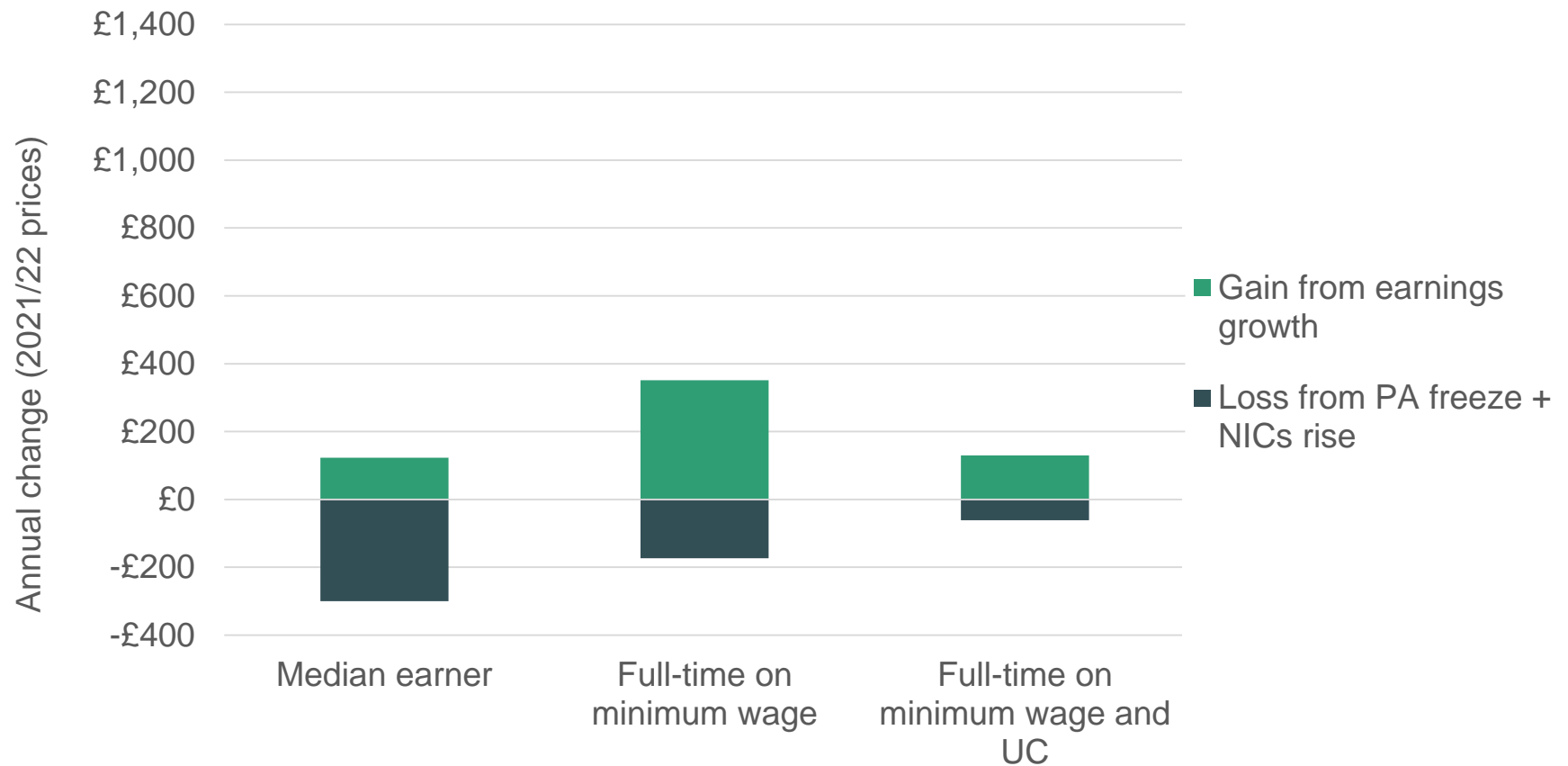
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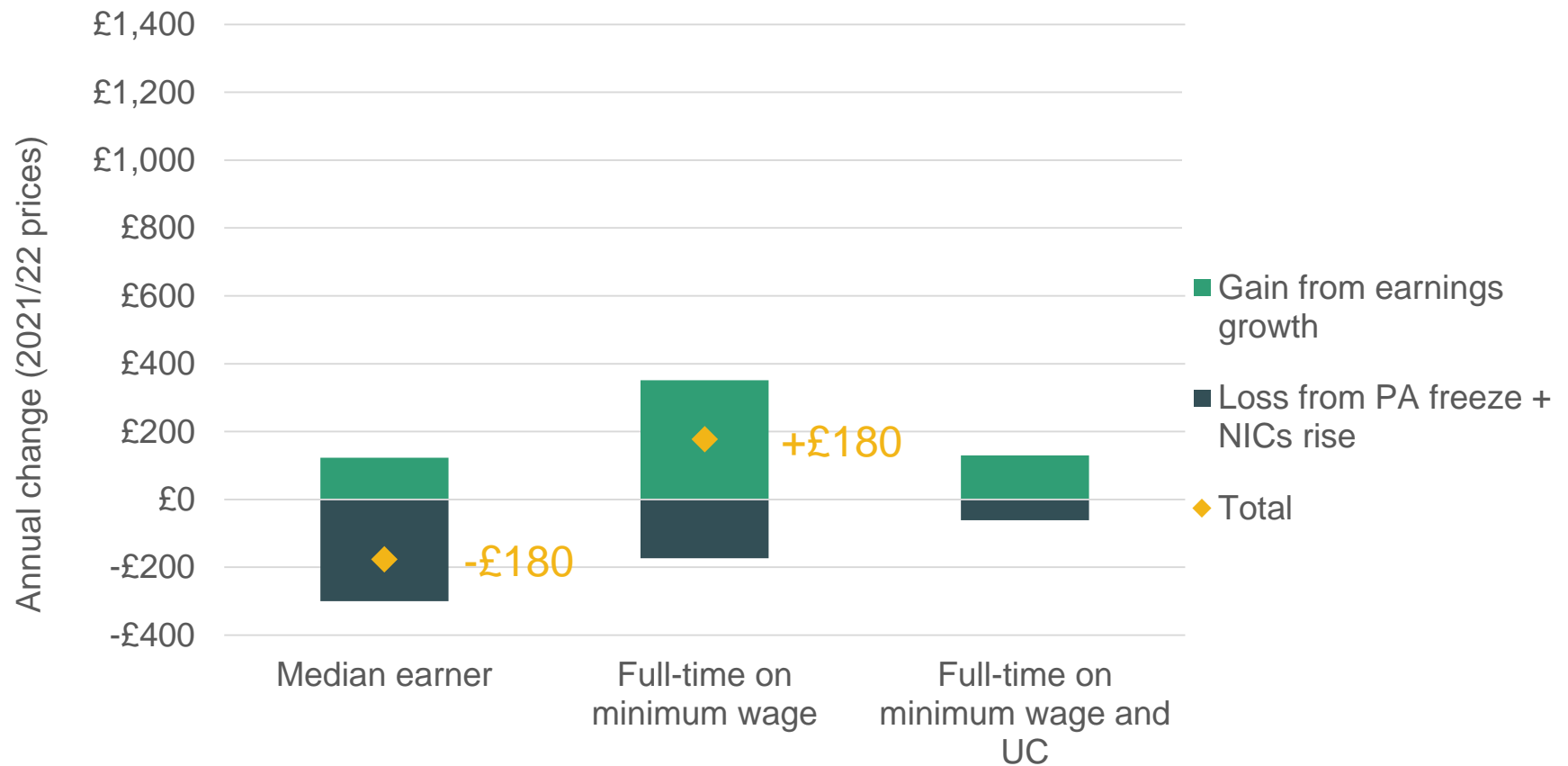
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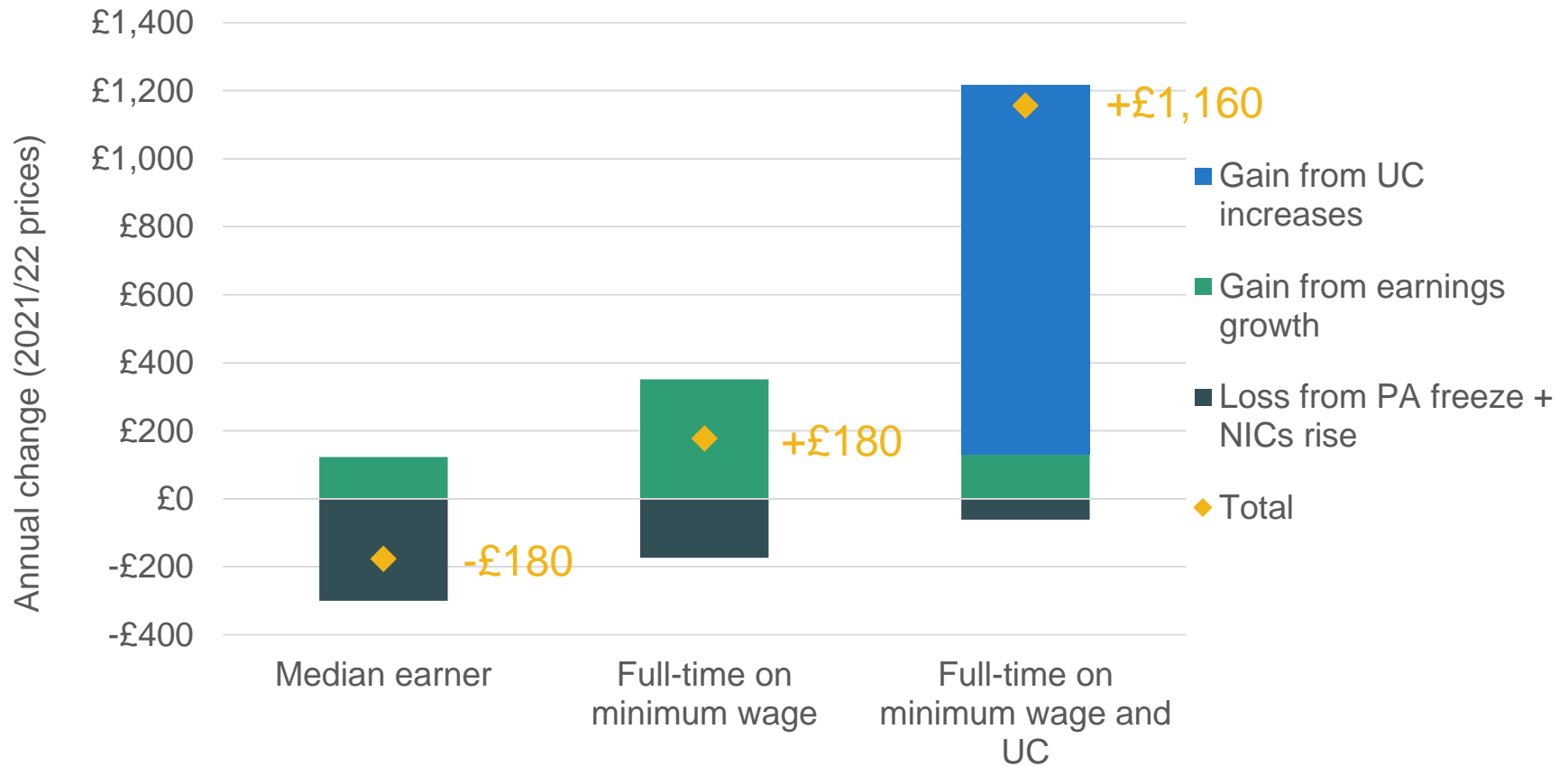
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No respite for workless households

- ~4 million workless families on UC
- Just lost temporary £1,000/year Universal Credit uplift
- On top of that, rising inflation eroding value of benefits
 - This means they lose *additional* 1% in real terms by April 2022 compared to a year earlier
 - Another 3% by March 2023 (before benefits catch up in April)
- Continued shift towards in-work households
- Benefits for out-of-work adults without children has not increased in real terms since 1975

Summary



- Continued stagnation in incomes and earnings
- High inflation means many households will see living standards fall
- Households on low incomes, low pay will see modest gains
- Workless households will struggle in coming years

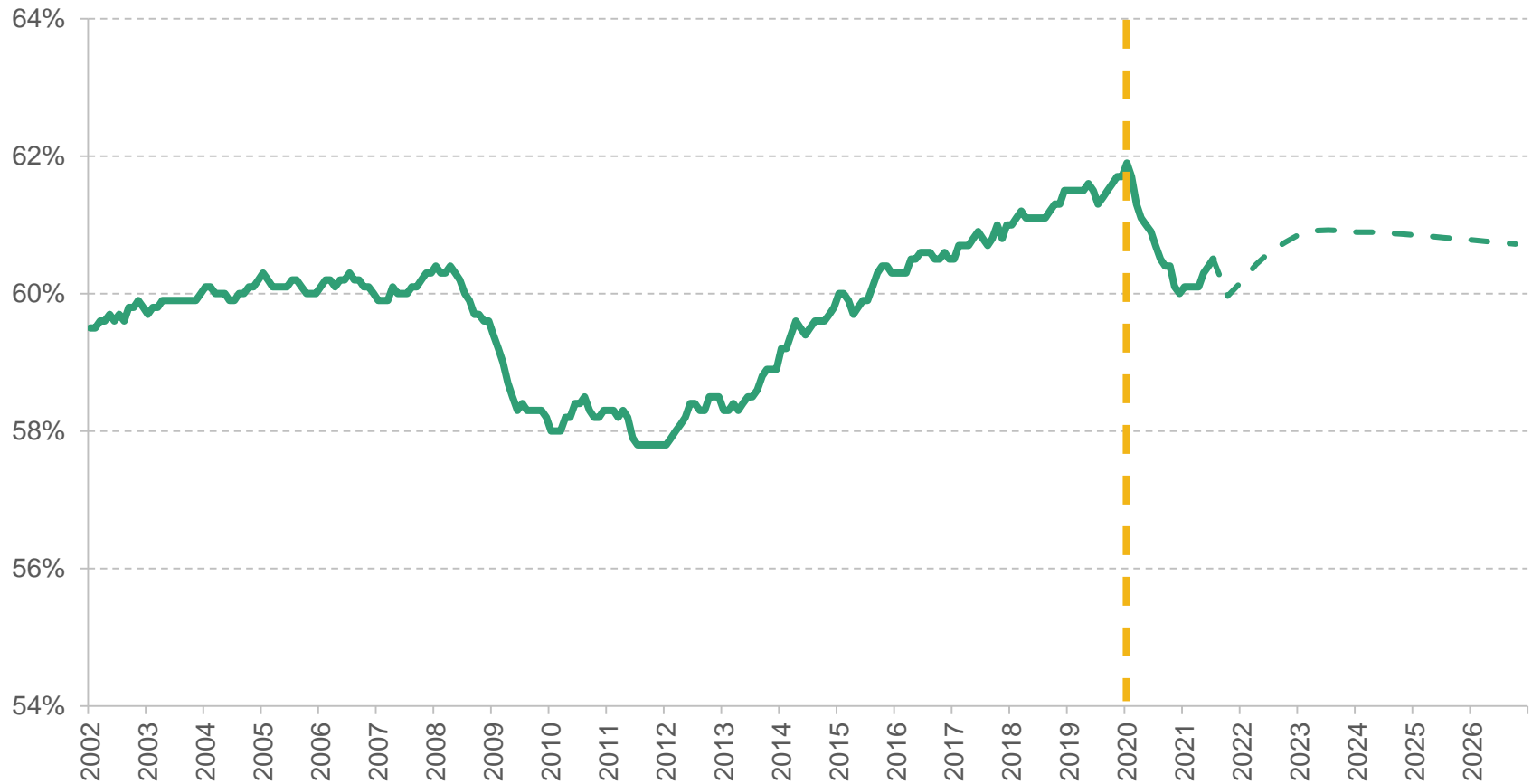
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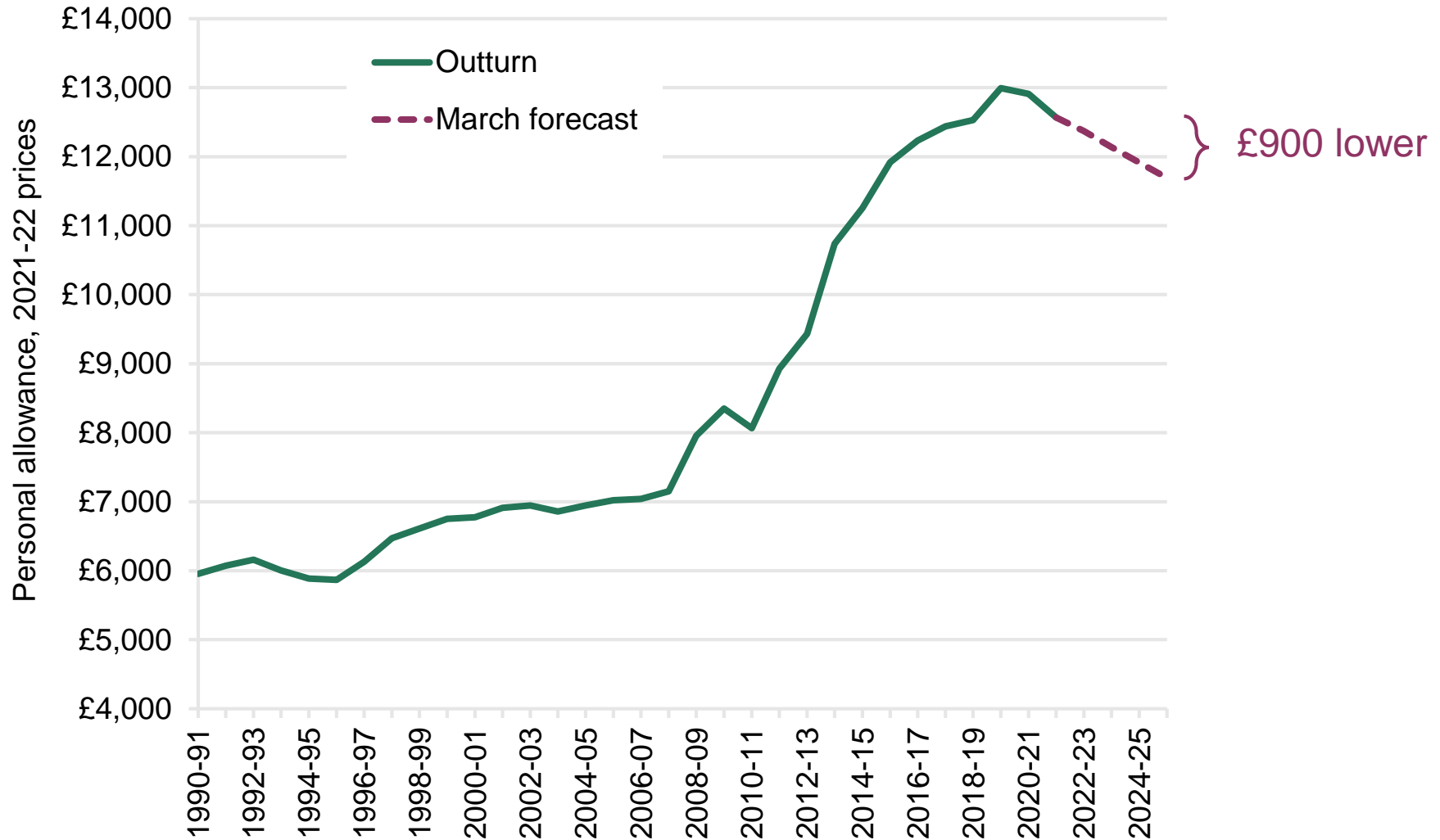
Employment rate

Employment rate, 16+

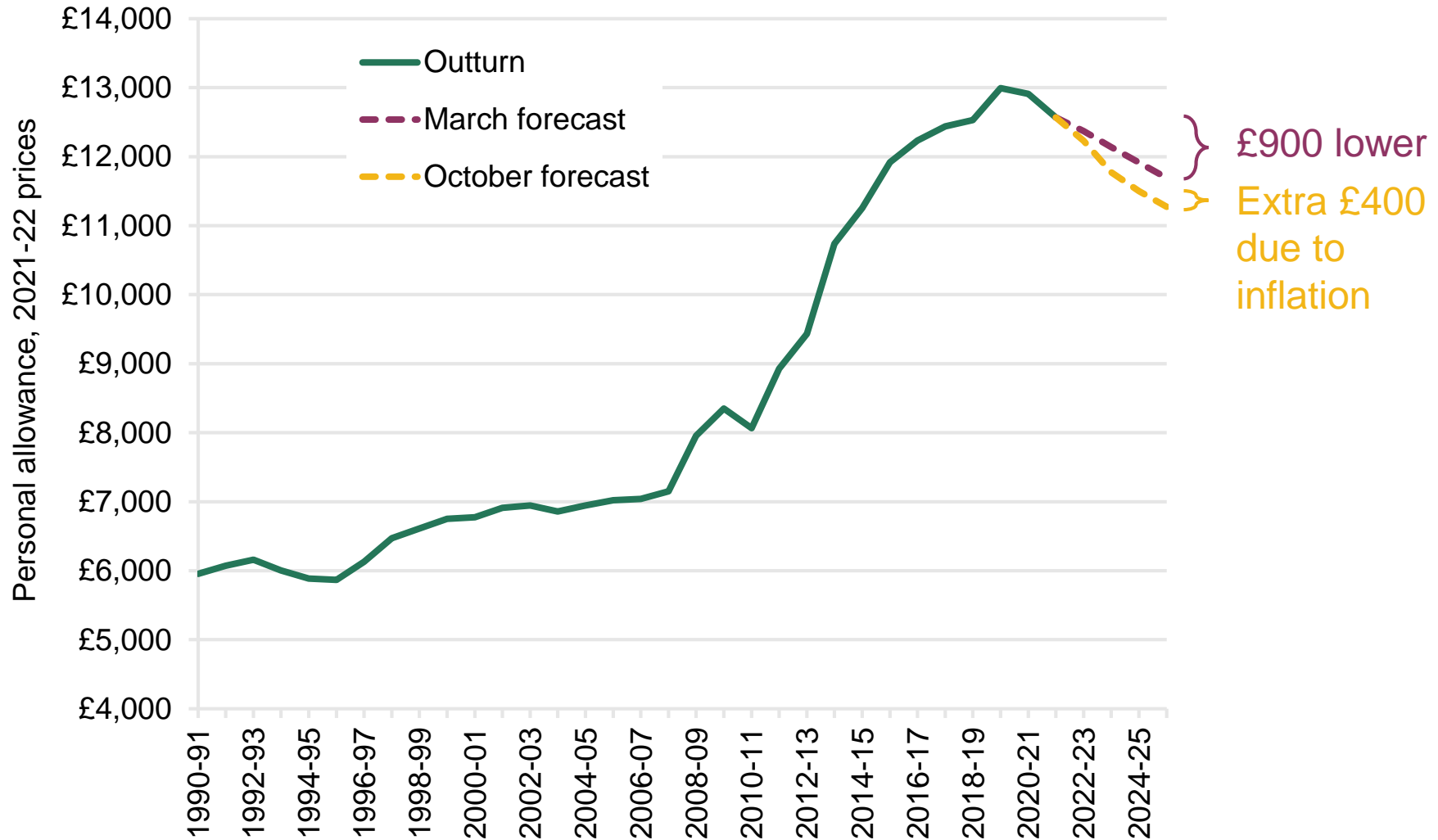


Source: ONS

Fall in personal allowance larger due to inflation

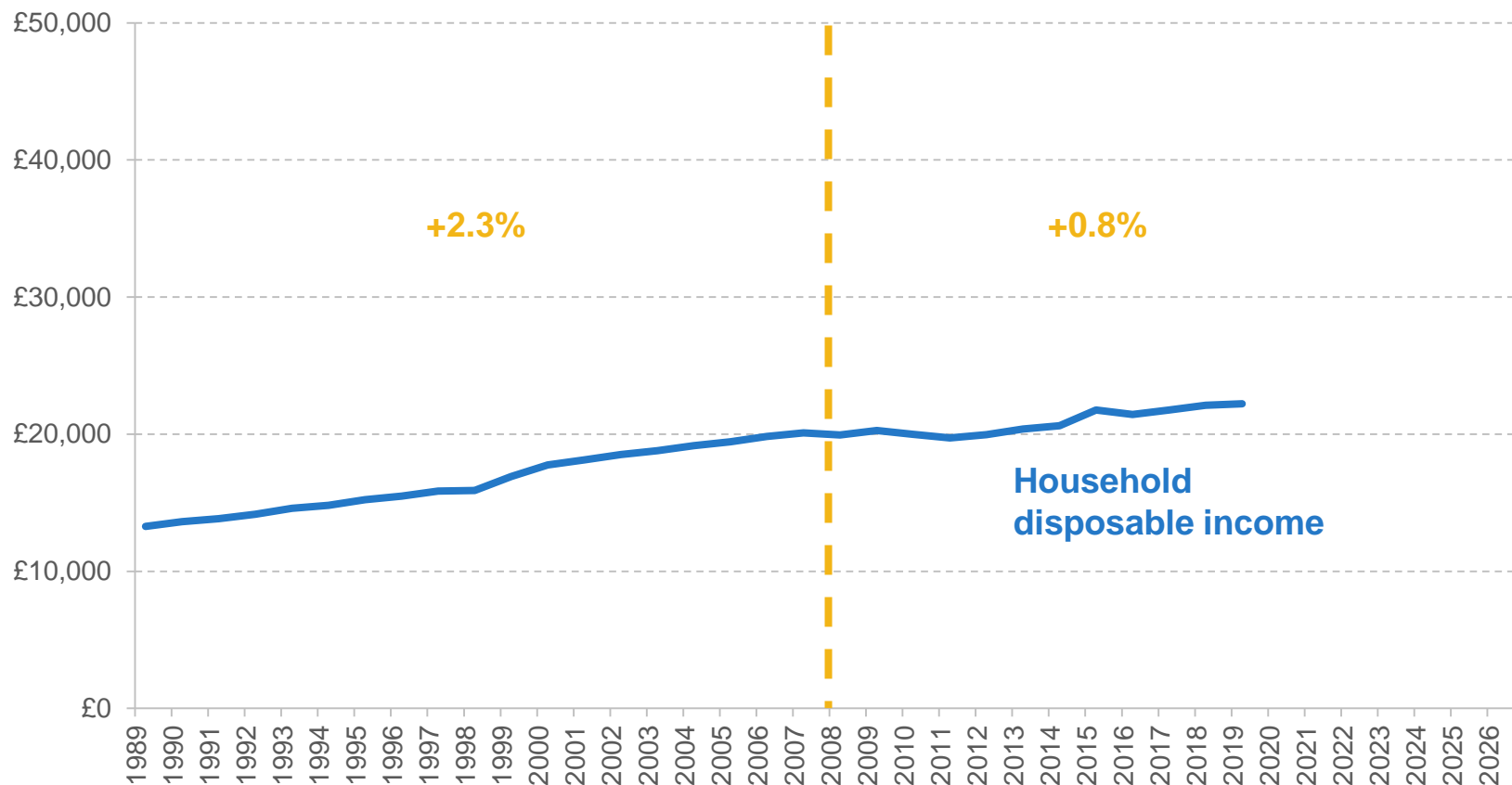


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Stagnation in incomes and wages

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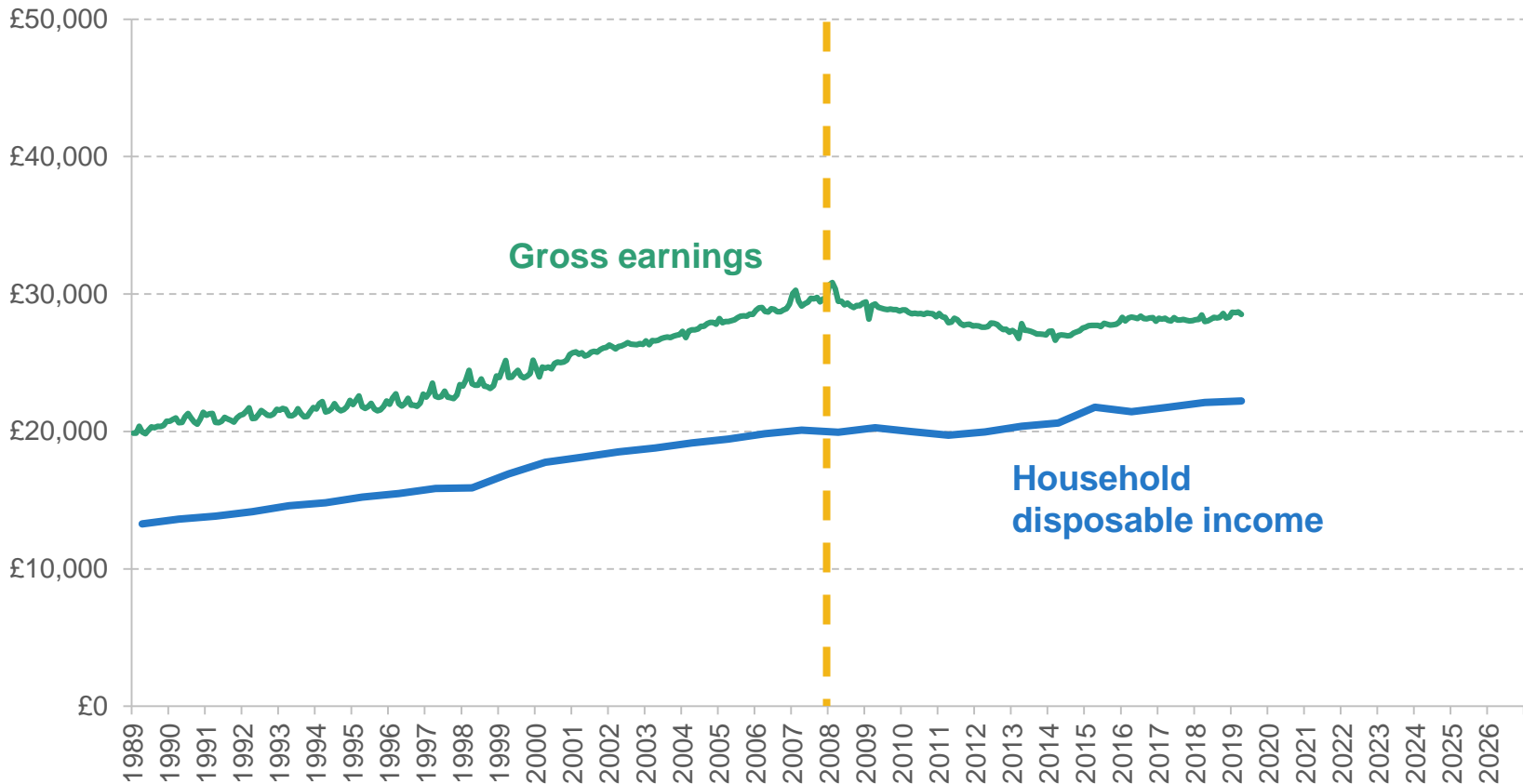


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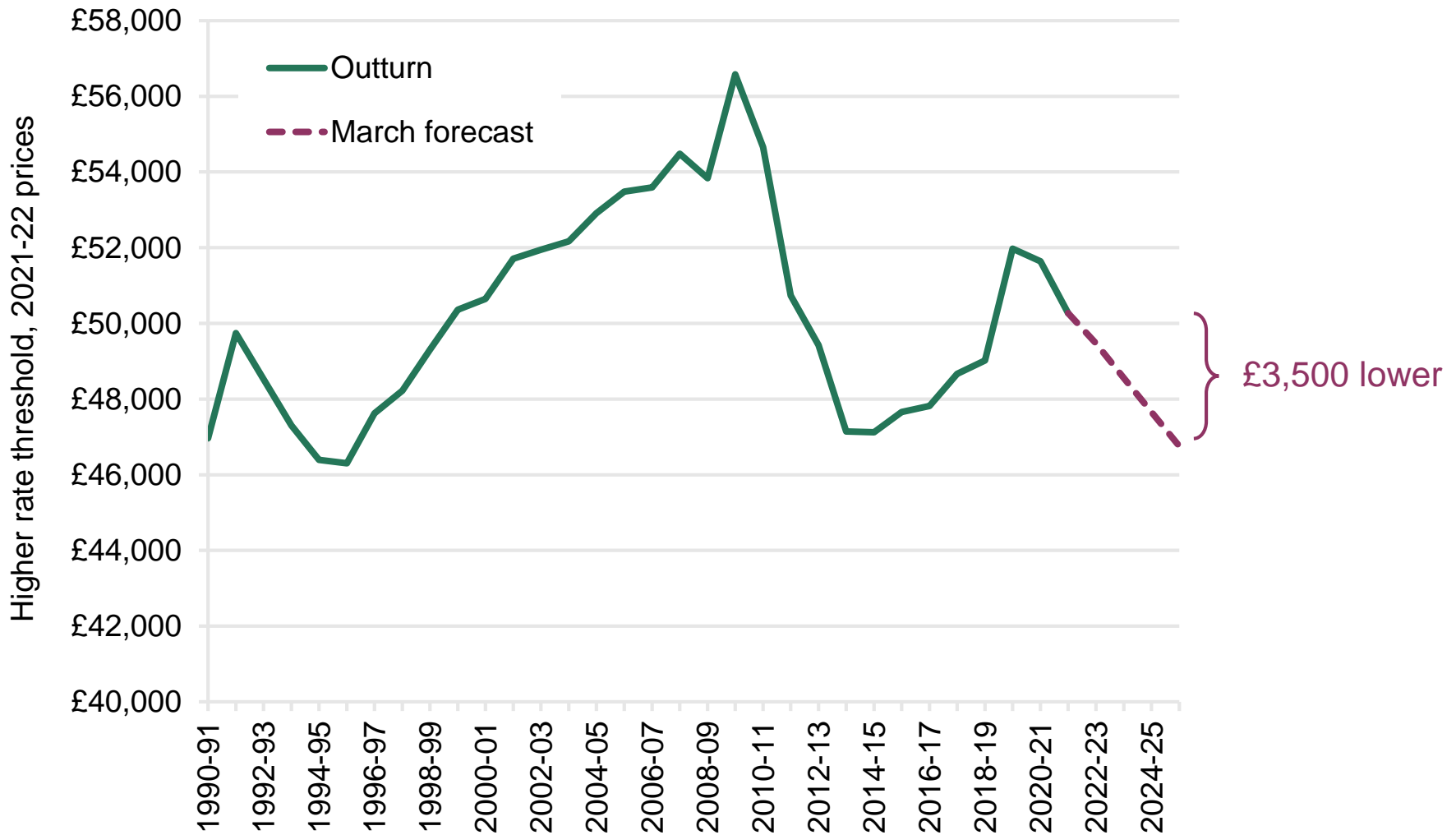
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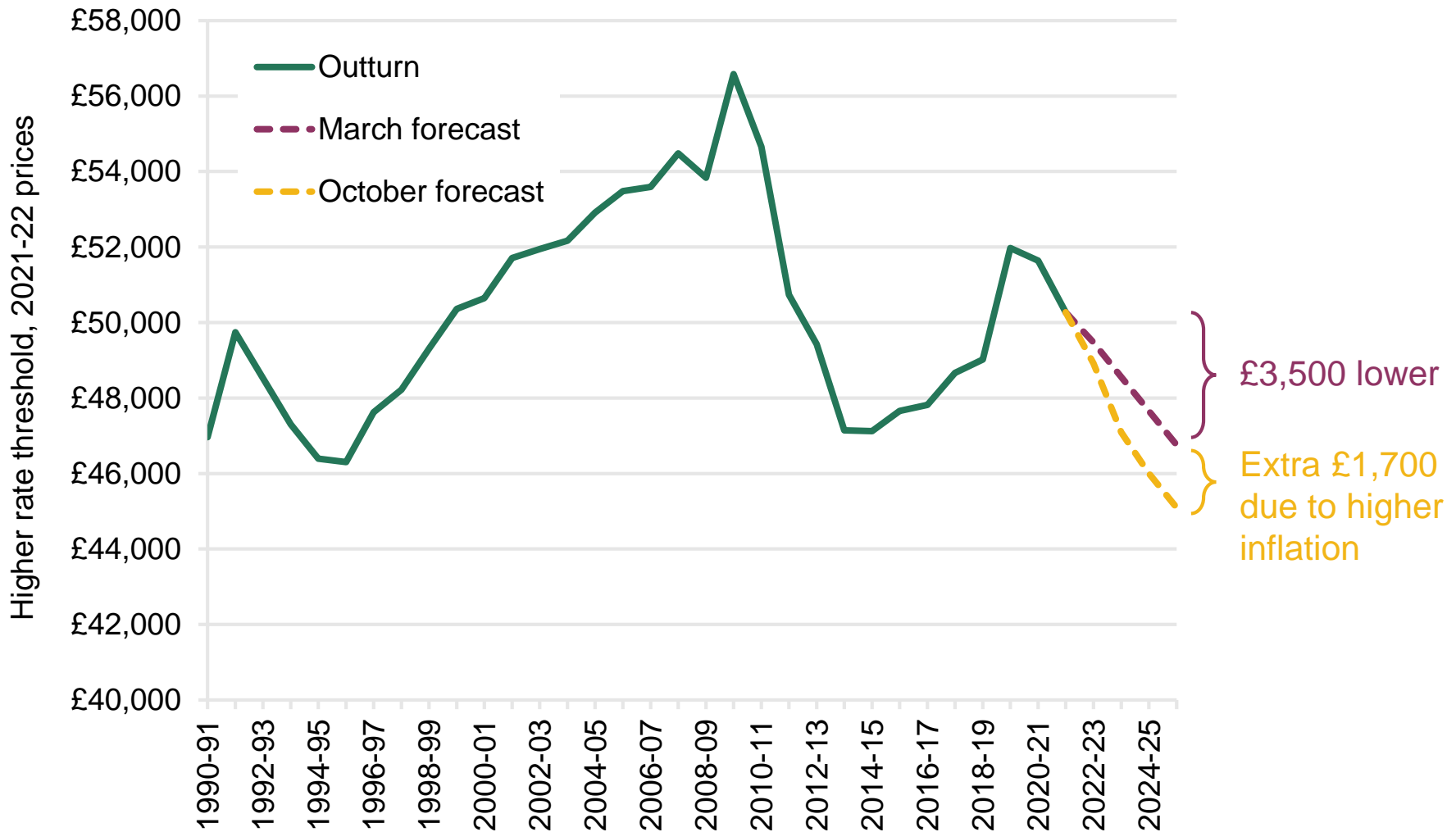
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Higher rate threshold lower than ever in real terms



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