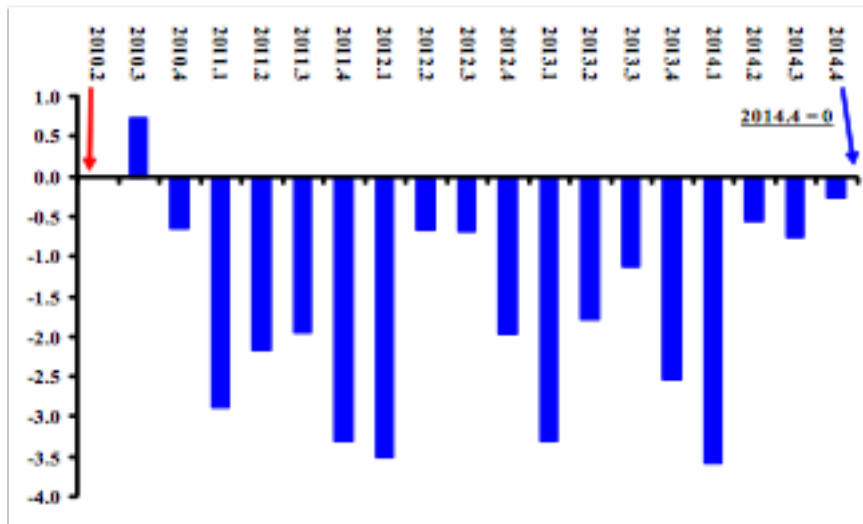


Happy Days are not here again - UK Living Standards Stagnate

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UK Real Household Disposable Income per capita per Quarter, 2010-2014
(percentage points)



Source: [ONS national accounts](#)

The Chancellor managed to grab headlines in his Spring Budget speech with [the claim that his policies have brought a rise in living standards](#). He claimed that the "most up-to-date and comprehensive measure of living standards...[is] real household disposable income", and

On that measure I can confirm, on the latest OBR [Office for Budget Responsibility] data today, living standards will be higher in 2015 than in 2010. And it confirms they are set to grow strongly every year for the rest of the decade.

There are two major shortcomings of his "most up-to-date and comprehensive measure".

First, it does not account for indirect taxes (i.e. VAT which was raised by him to 20% in 2010), which is subtracted from disposable income to obtain "post-tax income"; and second, does not include any non-cash benefits public or private. For the average household in fiscal year 2012/13 post-direct tax income was 19% less than disposable income.

Second, for the average household non-cash benefits raised post-tax income by about 25%, to 3.5% above disposable income ("final income", all explained in [an ONS document](#)). Because the Chancellor has substantially cut public services, we can infer that final income of households has risen less than disposable income. Examples are 1) reductions in NHS funding that result in [less or slower access to care](#); 2) the astronomical [increase in private cost of higher education](#) due to eliminating much of the budget support for universities in 2010; and 3) reduction in social workers in a range of services, [most notably for youth](#). The National Association of Welfare Rights Advisors has a [quick-reference table](#) explaining most of the cash and non-cash benefit cuts.

Because of cuts in social services and the increase in VAT it is likely that the relevant measure of household living standards, final income, has increased less than the Chancellor's preferred measure, disposable income. The Chancellor chose a measure to not because of its appropriateness but because it is more likely to support his claim of rising living standards.

Household "living standards" by any reasonable definition should exclude *all* taxes (not just income taxes as for disposable income) and include non-cash benefits. There are better measures than "final income", but it is indisputably superior to disposable income.

Even if one uses the Chancellor's dubious measure, the result does not show that living standards have risen materially during the life of the Coalition government – he only claims this will have occurred at some point this year; i.e., not even by the end of the Coalition's parliamentary term! The chart below shows percentage point differences in real per capita disposable income compared to the second quarter of 2010 when George Osborne moved into Number 11 Downing Street. The first thing to note is that disposable income collapsed during the first 6 quarters of Coalition government, briefly recovered in mid-2012, then collapsed a second time. Finally, it began to rise, almost returning to its 2010Q2 level at the end of 2014 (but not quite, still down by 0.3%).

Thus, the Chancellor's legitimate claim is that since he took office real per capital disposable income has returned to close to where it was when he took office. He needed almost 5 years to do this. If the economy grows during 2015 at approximately the rate the Chancellor announced in his budget speech, he will be able to claim he achieved a 2% improvement in household income in 5½ years.

If George Osborne in 2010 had offered UK voters an increase in real income of under 2% by the final days of the Coalition's five years, few if any would have been impressed. This nothing-to-brag-about performance is easily explained. As of January this year, real weekly earnings in the private sector rested at a full five percent below their level in April 2010 (details in ONS, [Economic Review March 2015](#)), a decline intimately linked to austerity policies (but that's for another article).

Wages down, household income stagnant for five year. Does the Chancellor have any more good news for households?