

UK Living Standards: Election Brief

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Summary

The change in UK living standards is one of the key contested issues in the May 2015 General Election. The Coalition government argues that living standards have increased since it came to power in 2010. The Labour Party and other opposition parties claim that living standards have fallen.

In March 2015, the Chancellor George Osborne presented evidence in his final Budget that living standards have increased. This evidence is misleading. Research from a range of reputable academic studies has shown that average income has fallen over the past five years and poverty has increased.

The latest available data clearly show that the living standards of the UK population have fallen, particularly since the April 2013 cuts in Social Security and other austerity measures took effect. More people in the UK are now in financial difficulties and increasing numbers are unable to afford both the necessities of life (such as two pairs of shoes) and minor luxuries, such as a one week holiday away from home. Both fuel poverty and utility bill arrears have increased. These are the stark conclusions from a comparison of the change in UK living standards between 2009 and 2013, based on early release data recently provided by the UK Government to the European Statistical Office (EUROSTAT).

The Chancellor's claim that living standards have risen is fallacious as the National Accounts household sector data he used are primarily a measure of the movement of money not the living standards of households. Real Household Disposable Income (RHDI) measures the total income of households compared with the rest of the economy. There is no information about how the total expenditure or income is distributed at the individual or household level. Thus, if only the richest 1% have a rise in their incomes, this will also increase the average income in the household sector by exactly the same amount as if the increase had been shared equally by everybody. RHDI cannot provide a good or adequate measure of living standards.

There is only one conclusion that can be drawn from the available scientific evidence – the majority of the UK population has suffered from a fall in their living standards during the current government's term of office. Both the poor and the majority have indeed 'all been in it together' - only the richest appear to have escaped.

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Introduction

The change in UK living standards is one of the key contested issues in the May 2015 General Election. The Joseph Rowntree Foundation has even called this ‘the living standards election’¹. The Labour Party and other opposition parties have claimed that living standards have fallen since the Coalition Government came to power, as a result of their economic policies, particularly austerity policies, including government expenditure and Social Security cuts. For example, in a keynote address to the Fabian Society on 17th January 2015, Ed Miliband argued that:

*“For the first time since the 1920s, working people will be worse off at the end of a government than they were at the start...Because they have failed to tackle the cost of living crisis, because wages have been pushed down for ordinary families, because the revenues haven’t come in, they haven’t balance the books....They have denied the cost of living crisis. They have been woefully out of touch with the daily struggles of families.”*²

However, in the 18th March 2015 Budget, the Chancellor (George Osborne) stated that:

*“Today, the latest projections show that living standards will be higher than when we came to office...To the question of whether people are better off at the end of this Parliament than they were five years ago we can give the resounding answer “yes”.. you can use the most up-to-date and comprehensive measure of living standards which is Real Household Disposable Income per capita. In other words, how much money families have to spend after inflation and tax. It is the living standards measure used by the Office for National Statistics and by the OECD. On that measure I can confirm, on the latest OBR 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.”*³

So who is correct? What does the available evidence show? The purpose of this election brief is to provide impartial scientific advice about this important but contested issue.

Real Living Standards

It is well known that the Coalition Government has cut government spending over the past five years and that the sharpest cuts have been in the poorest areas and affected some of the poorest people (Edwards, 2012; Reed & Portes, 2014; Innes and Tetlow, 2015). For example, the Campaign for a Fair Society estimates that ‘2% of the population - the people with the greatest needs - will bear the burden of 25% of all the cuts’⁴ (Duffy, 2014). The most deprived local authorities saw cuts of more than £220 per head compared with under £40 per head for the least deprived (Hastings et al, 2015). Real wages and incomes have fallen and about one million people⁵ are now having to use food banks, often as a result of welfare cuts, delays in benefits receipt and increased use of benefit sanctions (Lambie-Mumford & Dowler, 2014; Perry et al, 2014). The Coalition Government’s policies have resulted in

¹ Party leaders must close the living standards gap facing the worst-off families -

<http://www.jrf.org.uk/blog/2014/06/living-standards-gap>

² <http://labourlist.org/2015/01/ed-milibands-fabian-conference-speech-full-text/>

³ <https://www.gov.uk/government/speeches/chancellor-george-osbornes-budget-2015-speech>

⁴ <http://www.centreforwelfarereform.org/library/by-date/campaigning-for-a-fair-society.html>

⁵ The exact number of people using food banks in the UK is difficult to estimate as there are no national statistics collected (Lambie-Mumford et al, 2014)

income changes that *'were regressive'* and that *'the bottom half lost (with the poorest groups losing most as a proportion of their incomes) and the top half gained'* (De Agostini et al, 2014). The Institute for Fiscal Studies has estimated that real incomes in 2014/15 will, on average, be about 2% lower than in 2009/10 (Cribb et al, 2015). Unsurprisingly, over the last two years, poverty is estimated to have increased by 800,000 people, with deep poverty increasing by 700,000 (Aldridge et al, 2015). If the current trend continues, then absolute child poverty in the UK is projected to increase - from under 20% in 2012/13 to nearly 25% by 2020/21 (Browne et al, 2014).

However, the living standards debate concerns the whole UK population - not just the poorest of the poor. Living standards are about households' level of access to goods, services and recreational activities and they can be measured by *"what people have, what they do and where they live"* (Patsios and Hillyard, 2012, p. 3).

A series of UK Living Standards Surveys were carried out as part of the Poverty and Social Exclusion project (<http://www.poverty.ac.uk/>) and these have shown a widespread national consensus about the necessary possessions, activities and public and private services which currently constitute the minimum acceptable standard of living in the UK for both adults and children (Kelly et al, 2012; Besemer and Bramley, 2012; Gannon and Bailey, 2013; Mack et al, 2013; Main and Bradshaw, 2014; Lansley and Mack, 2015). A sub-set of these necessary possessions and activities are collected each year by the government in the Family Resources Survey and are used to directly measure UK living standards (POST 2015).

Unfortunately, the latest official data are from 2012/13 and the UK Government will not release the final results from the 2013/14 Family Resources Survey until after the May General Election. The Department for Work and Pensions turned down a request by Dr Peter Kenway and colleagues to publish the results prior to the General Election⁶.

This is important as, in October 2014, the Social Mobility and Child Poverty Commission report on the State of the Nation argued that:

"The majority of cuts announced in 2010/15 have been phased to take effect after April 2013 and so are not yet reflected in the official poverty statistics. This includes the below-inflation 1 per cent cap on benefit and tax credit up-rating and localisation of council tax benefit, which affects very large numbers of low-income households, as well as the removal of the spare room subsidy and the overall benefit cap, which will reduce the incomes of a comparatively small number of families but by a significant amount. Furthermore, the impact will become more pronounced over time of detaching Local Housing Allowance from market rents, thereby making increasing areas of the country unaffordable to families renting privately who are in low-income work and those out of work.

This means the full impact of fiscal consolidation to date on child poverty will not really begin to be seen in poverty statistics until 2013/14 data is published next in June 2015. The debate on the Government's success going into next year's General Election would be more informed if publication were to be brought forward" (p. 157).

Changes in UK Living Standards

Although no official UK standard of living data from 2013/14 are available, an early release dataset for 2013 has been provided by the UK Government to the European Statistical Office

⁶ Letter from the DWP to Dr Kenway dated 17th September 2014

(EUROSTAT) to allow for statistical comparisons between the UK and other EU countries. These data have been processed by EUROSTAT so that they can also be directly compared with similar UK standard of living data from 2009 (i.e. the year before the Coalition Government came to power). The analyses below are based on these preliminary early release data – which may of course change slightly in the future⁷.

Table 1 shows the percentage of people living in households in the UK that are experiencing a range of different financial difficulties in both 2009 and 2013. For example, in 2009, 45% of people lived in households which did not have sufficient money to pay an unexpected expense; by 2013 this had increased to almost half (49%) of the UK population. Table 1 shows that, for every single indicator of financial difficulty, more people were having problems in 2013 than in 2009. It is clear that both serious and more minor financial difficulties are increasing amongst the UK population, with over a third of people in 2013 having difficulties in making ends meet and over one in five people finding that their housing costs are a heavy burden.

Table 1: Financial Difficulties in the UK in 2009 and 2013

	2009 %	2013 %
Cannot pay unexpected expenses	45	49
Difficult to make ends meet	31	35
Housing cost are a heavy burden	17	22
Cannot afford a small amount of money to spend on yourself each week	14	21
In arrears on rent/mortgage, utility bills or HP during the last 12 months	9	13

Table 2 shows how the richest two-thirds of the UK populations' standard of living changed between 2009 and 2013. The percent of people who could make ends meet without any difficulties fell from 69% of the UK population to under two thirds (65%). Only the very richest (those who could make ends meet very easily) saw no perceived fall in their living standards.

Table 2: No difficulties Making Ends Meet in the UK in 2009 and 2013

Ability to make ends meet?	2009 %	2013 %
Fairly easily	39	36
Easily	19	18
Very easily	11	11
Total - no difficulties	69	65

Table 3 shows the change in the proportion of people going without a range of typical possessions and activities in the UK in 2009 and 2013. People lack these items because they cannot afford them rather than because they do not want them – for example, a significant number of people do not have or want a car, so they are not included in Table 3.

⁷ Appendix I compares the early release 2013 UK data with the 2012 PSE survey data which asked a similar set of standard of living questions – these questions were originally derived from the 1999 PSE study (Gordon et al, 2000; Pantazis et al, 2006). This analysis indicates that the 2013 UK EU-SILC data are unlikely to change a great deal in future releases.

Table 3: Going without due to a lack of income in the UK in 2009 and 2013

	2009 %	2013 %
Holiday – one week away from home	37	39
Replace broken or worn out furniture	24	32
Participate in leisure activities such as cinema, sport or concerts	13	17
Replace worn out clothes with some new (not all second hand) ones	5	12
Get together with friends or family for a drink/meal once a month	8	11
Car	5	10
A meal with meat/fish or vegetarian equivalent every second day	9	10
Two pairs of all-weather shoes	1	5

Table 3 shows that, for all these typical possessions and activities, more people went without in 2013 than in 2009 *due to a lack of money*. The standard of living of the UK population has fallen with increasing numbers of people unable to afford both necessities of life (such as two pairs of shoes) and minor luxuries, such as a one week holiday away from home.

One important measure of change in living standards is the proportion of people in the UK who are suffering from fuel poverty, i.e. those who cannot afford to keep warm at a reasonable cost. The price of electricity and gas rose significantly during the past five years but has only recently begun to fall. Table 4 shows the proportion of people in the UK living in households which had difficulties paying their utility bills and which could not afford to keep adequately warm.

Table 4: Not Keeping Warm in the UK in 2009 and 2013

	2009 %	2013 %
Cannot afford to keep house adequately warm	10	13
In arrears with utility bills (gas, electricity, etc.) during the last 12 months	5	9

Table 4 tells the same sad but familiar story: more people in 2013 could not afford to keep warm at home than in 2009. Being cold due to a lack of money is harmful to the health of both adults and children and, in particular, often makes people miserable and depressed (Gordon et al, 2013).

Money or People?

The Chancellor's claim that living standards have improved is based on changes in the Real Household Disposable Income (RHDI) per capita measure which forms part of the quarterly National Accounts, produced by the Office for National Statistics (ONS). National Accounts are designed to measure economic production – the value of goods and services produced (GDP) - '*GDP measures the output of the market economy, it is not designed to do anything more*' (Prescott Allen, 2001, p. 3). National Accounts primarily measure the movement of money not the living standards of households. It is possible that "*total welfare could fall even though GDP could increase*" (Neumayer, 1999, p. 90)

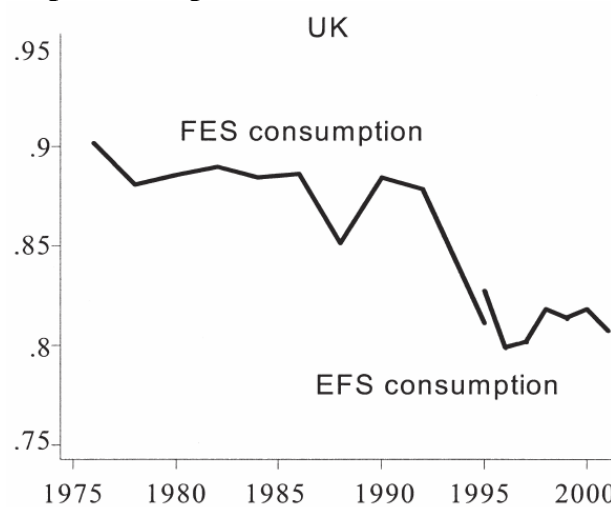
The System of National Accounts (SNA) is one of the most important economic inventions of the 20th Century. It was developed during WWII to help maximise war time production and provide policy makers with the information they needed to reconstruct the economies of Europe (and other countries) after the devastation of the war (Kuznets, 1948; Collins, 2000). The Household Sector of the National Accounts measures the total amount (i.e. the aggregate amount) of expenditure and income of all people in the UK (not just those living in households). There is no information about how the total expenditure or income is distributed at the individual or household level. Thus, if only the richest 1% have a rise in their incomes, this will also increase the average income in the household sector by exactly the same amount as if the increase had been shared equally by everybody.

Most statistics from the Household Sector of the National Accounts also include the incomes and expenditures of non-profit institution serving households (NPISH)⁸. In the UK, these are mainly charities and universities (Lee and McCrae, 2014; ONS, 2014a). Thus, if the income of universities increases due to a rise in student tuition fees (parliament voted to raise the tuition fee cap in England from £3,000 to £9,000 per year in December 2010), then household income in the national accounts will also increase - even though students fall deeper into debt.

Real Household Disposable Income (RHDI) measures the total income of households compared with the rest of the economy. However, it cannot provide a good or adequate measure of living standards. In almost every country in the world there are significant differences between the National Accounts estimates of household incomes and expenditures and those measured by social surveys (Deaton, 2005)

Figure 1 shows that, in 1975, estimates of expenditure per person in the UK from the Family Expenditure Survey were about 10% lower than the National Accounts estimates. However, the differences increased during the 20th Century and, by the 21st Century, average expenditure per person from survey data was about 20% lower than National Accounts estimates (Deaton, 2005).

Figure 1: Ratio of survey means to national accounts means of consumption expenditure per head in the UK: 1975 -2005



(Source: Deaton, 2005, p9)

⁸ In 2014, changes to the National Accounts increased the NPISH contribution to GDP by £24 billion (ONS, 2014b).

There are a number of reasons for these differences. For example, the Real Household Disposable Income (RHDI) measure includes imputed estimates (i.e. guesses) of the rental value of owner-occupied houses (i.e. it is assumed that people who own their own homes rent their house to themselves at market rates and pay themselves this rent – this imaginary ‘rent’ is then added to their incomes). If the cost of buying a house increases faster than the economy grows (i.e. house price inflation is high as it has been over the past five years) then the imaginary rents that owner-occupiers pay themselves will also increase and so will Real Household Disposable Income per person.

Thus, increases in university tuition fees or rapid house price inflation can result in increases in the National Accounts measures of Real Household Disposable Income per person. Similarly, tax cuts and income increases for very rich people will also increase Real Household Disposable Income per person⁹. Most ordinary voters would probably not consider that these kinds of changes increased average living standards.

Conclusion

There is only one conclusion that can be drawn from the available scientific evidence – the majority of the UK population has suffered from a fall in their living standards during the current government’s term of office. The economy may now be growing and the very richest may be better off than at any time in the past but the majority of people in the UK have received little benefit from the government’s attempts to improve peoples’ lives. In particular, there has been a substantial rise in the proportion of people suffering from very low living standards (e.g. those who cannot afford to buy two pairs of all-weather shoes or who are in arrears paying for their gas and electricity bills). The government has failed to protect the living standards of both the poorest people in the UK and also the majority of people in the UK. Both the poor and the majority have indeed ‘all been in it together’ - only the richest 10% appear to have escaped.

⁹ The Resolution Foundation details a number of additional problems with using RHDI per capita to measure changes in living standards – see <http://www.resolutionfoundation.org/media/blog/whats-in-store-for-household-incomes-in-2015/>

Appendix I:

Comparison of the PSE 2012 Data with the 2009 and 2013 EU-SILC data for the UK

Financial Difficulties in the UK in 2009, 2012 and 2013

	2009 %	2012 PSE %	2013 %
Cannot pay unexpected expenses	45	-	49
Difficult to make ends meet	31	-	35
Housing cost are a heavy burden	17	-	22
Cannot afford a small amount of money to spend on yourself each week	14	18	21
In arrears on rent/mortgage, utility bills or HP during the last 12 months	9	12	13

Going without due to a lack of income in the UK in 2009, 2012 and 2013

	2009 %	2012 PSE %	2013 %
Holiday – one week away from home	37	-	39
Replace broken or worn out furniture	24	32	32
Participate in leisure activities such as cinema, sport or concerts	13	-	17
Replace worn out clothes with some new (not all second hand) ones	5	14	12
Get together with friends or family for a drink/meal once a month	8	10	11
Car	5	10	10
A meal with meat/fish or vegetarian equivalent every second day	9	-	10
Two pairs of all-weather shoes	1	7	5

Not Keeping Warm in the UK in 2009, 2012 and 2013

	2009 %	2012 PSE %	2013 %
Cannot afford to keep home adequately warm	10	-	13
In arrears with utility bills (gas, electricity, etc.) during the last 12 months	5	7	9

Housing & Neighbourhood problems in the UK 2009, 2012 and 2013

	2009 %	2012 %	2013 %
Noise from neighbours/street	11	12	11
Crime/vandalism	13	-	11
Overcrowding	10	-	10
Damp home	8	10	9
Pollution	6	4	5
Dwelling too dark	6	5	3

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