



Pointmaker

A HOUSE DIVIDED

CHARLIE ELPHICKE

SUMMARY

- Figures published by the ONS show that the poorest 5 million households are paying more in tax and receiving less in benefits than before Labour came to power.

% of total taxes paid

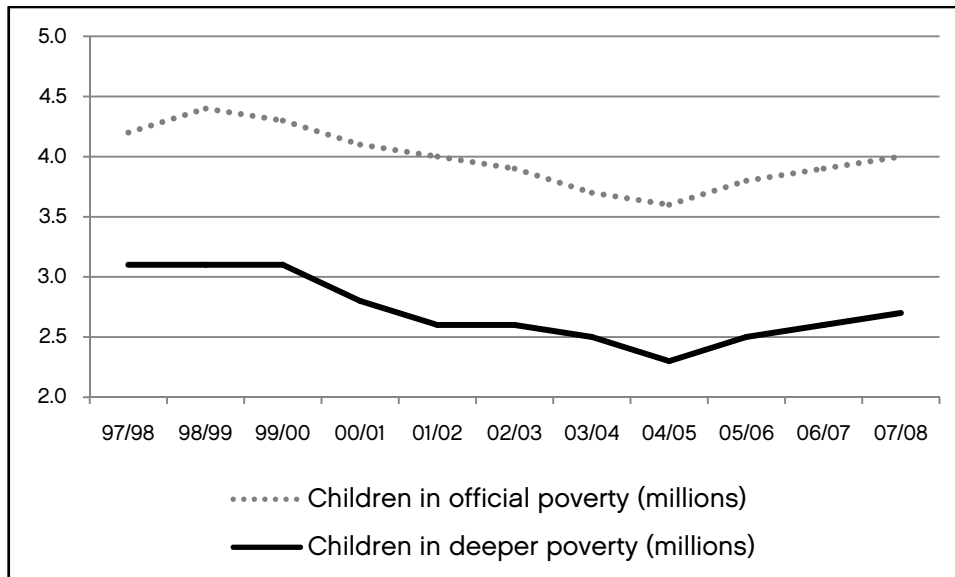
	1996-97	2007-08
Poorest households	6.8%	7.0%
Richest households	41.3%	42.2%

% of total benefits received

	1996-97	2007-08
Poorest households	28.1%	25.9%
Richest households	10.1%	10.6%

- 400,000 more children are living in official poverty than four years ago (i.e. children living in households with 60% of median earnings).
- The number of children in *deeper* poverty (50% of median earnings) has also risen by 400,000 higher since 2004-05.
- This number has not fallen for six years on the official benchmark.
- The Government should reconsider its target. The 60% median figure is an arbitrary definition of poverty. If such a measure is needed, it would be better to focus assistance to the poorest families (i.e. those on 50% of median income).
- The gap between the richest and poorest fifths of households is greater than it was before Labour came to power.
- Household income has been falling (or stagnating at best, depending on the measure taken) since 2004/05 on both the gross and disposable measures.

INCREASING CHILD POVERTY



DWP, *Households below Average Income*, 2009. Data are after tax, benefits and housing costs.

INCREASING CHILD POVERTY

The latest figures on child poverty were published in *Households Below Average Income (HBAI)*, published by the Department for Work and Pensions (DWP) in May 2009 and covered the period up to 2007-08. They show that, after tax, benefits and housing costs, in recent years:¹

- The number of children in official poverty has risen by 400,000 to 4 million since 2004-05.
- The number of children in deeper poverty has also risen by 400,000 to 2.7 million since 2004-05.

In other words, more children are living in poverty today than recently.

In contrast, some progress was made in the five years between 1997-98 and 2002-03. In

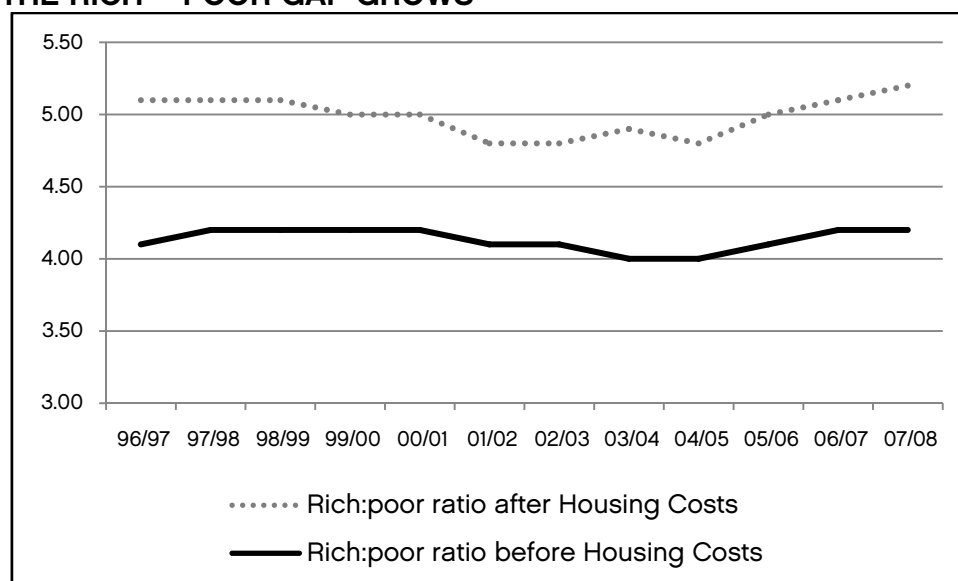
the first half of that period, the New Labour Government was sticking to the spending plans set out by the previous Conservative Government. In that time:

- The number of children in official poverty fell by 300,000.
- The number of children in deeper poverty fell by 500,000.

After the progress made five to 10 years ago, child poverty is back on the increase. More worrying is that while official and deeper child poverty have both risen by 400,000 since 2004-05, the pace of increase in deeper poverty is faster as it is from a lower base. A further concern is the Government's interest in figures which do not take into account housing costs. Everyone, especially children, must live somewhere. The most accurate measure of income should include resources available to households once the cost of housing is taken into account.

¹ Official poverty is the 60% median benchmark measure that the Government has chosen. Deeper poverty refers to children living below the 50% median of the population.

THE RICH – POOR GAP GROWS



DWP, *Households below Average Income*, 2009. Data are after tax, benefits and housing costs.

Furthermore, there is a risk with the Government's use of the 60% median measure. For policy is all too often set according to the targets chosen. In this case, there is a risk that children living in deeper and severe poverty will be left behind as attention may be focused on getting families close to the 60% median "over the line". Yet the children living in deeper and severe poverty are in households where help is most needed and where the energies of government could be most usefully directed. It is families in the deepest of deprivation who need help most.

THE POOR PAY MORE TAX

The 5 million poorest households in Britain are now paying a higher share of tax and getting a lower share of benefits than they were in 1996-97.

% of total taxes paid

	1996-97	2007-08
Poorest households	6.8%	7.0%
Richest households	41.3%	42.2%

% of total benefits received

	1996-97	2007-08
Poorest households	28.1%	25.9%
Richest households	10.1%	10.6%

See the Appendix to this paper for full tables, definitions and sources.

If the poorest households paid the same share of total taxes and got the same share of total benefits as they did in 1996-97, they would have been over £1,300 a year better off in 2007-08.

The poorest households had an average income of just £4,651 in 2007-08. These households are paying over £1,200 a year in tax on their income. Reform is needed to make the system of tax and benefits fairer and simpler with a view to cutting taxes for those on the lowest incomes.

THE RICH POOR DIVIDE GROWS

Figures in the DWP's 2009 HBAI Report show that the gap between the rich and the poor is now wider than it was before Labour came to power. The chart above shows how the ratio between the top and bottom

quintile medians is 4.2 before housing costs and 5.2 after housing costs. In 1996-97, the comparable figures were 4.1 and 5.2. Many will be concerned that inequality is greater now than it was back in 1994/95. The position is set out in the chart below:

STAGNATING HOUSEHOLD INCOME

Household income has been stagnating for some time. Even before the current recession, real household income had been falling for some five years. The latest *Family Spending* report shows that:²

- Average weekly gross income per household has not risen in the last four years. Gross weekly income was £660 in 2004/05, but £659 in 2007, at 2007 prices.³
- Real weekly disposable income per household was £537 in 2004/05, but £534 in 2007, at 2007 prices.

These data contrast strongly with the higher growth rates in Labour's first term in office. Average real income per household rose from £533 a week in 1996/97 to £642 a week in 2001/02 (at 2007 prices). This was an average compound growth rate of around 5% a year.

Real disposable income per household increased from an average of £436 a week in 1996/97 to £525 in 2001/02 (at 2007 constant prices). This was also a compound growth rate of around 5% a year.

CONCLUSION

For a Government that came to power promising "a Britain everyone can be part of", the data here show the Government's failure to reduce social division. Many millions are paying the price for that failure.

As Abraham Lincoln said, a house divided against itself cannot stand. After 12 years of failure, action not words are what will count.

² ONS, *Family Spending*, 2008.

³ It should be noted that this report has moved to a calendar year basis, although a time series table enables comparison to be made in connection with disposable income at Table A47 of the report.

APPENDIX

The Tables below set out the distribution of Taxes and Benefits by Household Income Group for the years: 1996-97, 2001-02 and 2007-08 (published today). These figures are compiled by the ONS and show the effect of taxes on each household income group. Each quintile today represents just over 5 million households, having gone up from 4.9 million households in 1996-97.

They cover direct taxes (e.g. income tax), indirect taxes (e.g. VAT), cash benefits (such as retirement pensions and housing benefit or Job seekers allowance) and benefits in kind (e.g. education and health services). Tax credits are treated as cash benefits for households paying little or no income tax – and negative taxation for households paying income tax. The overall effect of tax credits is therefore neutral as far as this analysis is concerned.

2007-08

Distribution of Taxes and Benefits by Household Income Group, (£)

	Quintile groups of all households					
	Poorest	2 nd	3rd	4th	Richest	Average
Original income	4,651	12,574	23,640	38,505	72,581	30,390
TAXES						
Total taxes	4,302	6,442	10,008	14,819	25,925	12,300
% of total taxes	7.0	10.5	16.3	24.1	42.2	100.0
BENEFITS						
Total benefits	13,947	13,733	11,515	8,902	5,716	10,763
% of total benefits	25.9	25.5	21.4	16.5	10.6	100.0
Final income	14,297	19,866	25,147	32,588	52,371	28,854

Source: http://www.statistics.gov.uk/downloads/theme_social/Taxes-Benefits-2007-2008/tax_benefits_0708_all_tables.xls

2001-02

Distribution of Taxes and Benefits by Household Income Group (£)

	Quintile groups of all households					
	Poorest	2 nd	3rd	4th	Richest	Average
Original income	3,410	9,140	19,240	32,000	62,080	25,180
TAXES						
Total taxes	3,750	5,030	8,350	12,490	21,860	10,300
% of total taxes	7.2	9.8	16.2	24.3	42.4	100
BENEFITS						
Total benefits	10,730	10,220	8,100	5,870	3,800	7,750
% of total benefits	27.7	26.4	20.9	15.1	9.8	100
Final income	10,410	14,320	18,990	25,390	44,020	22,620

Source: ONS, *The effect of taxes and benefits on household income 2001/02*, Table 4.

1996-97

Distribution of Taxes and Benefits by Household Income Group (£)

	Quintile groups of all households					
	Poorest	2 nd	3rd	4th	Richest	Average
Original income	2,310	6,450	14,710	22,220	44,780	18,490
TAXES						
Total taxes	2,650	3,920	6,600	9,680	16,100	7,790
% of total taxes	6.8%	10.1%	16.9%	24.9%	41.3%	100.0%
BENEFITS						
Total benefits	£8,650	£8,060	£6390	£4,510	£3,120	£6,150
% of total benefits	28.1%	26.2%	20.8%	14.7%	10.1%	100.0%
Final income	8,310	10,600	14,490	19,040	31,790	16,850

Source: ONS, "The effects of taxes and benefits on household income 1996/97", Table B, *Economic Trends* No 533, 1998.



THE AUTHOR

Charlie Elphicke is a partner at a leading global law firm and the Conservative candidate for Dover & Deal. Papers authored by Charlie include *Ending Pensioner Poverty* (CPS, 2003); *SAINTS can get Britain saving again* (CPS, 2005); with William Norton, *The Case for Reducing Business Taxes* (CPS, 2006); *The tax double whammy: more tax costs more than you think* (CPS, 2006); *Robin Hood or Sheriff of Nottingham? Winners and losers from tax and benefit reform over the last 10 years* (CPS, 2006); *Where has your pay rise gone?* (CPS 2006); *Are you better off now than you were four years ago?* (CPS 2007); *Why do we feel so broke?* (CPS 2008); and *Uh-Oh, We're In Trouble* (CPS 2008).

ISBN: 978-1-906996-05-5

Acknowledgements

Support towards research for this Study was given by
the Institute for Policy Research.

The aim of the Centre for Policy Studies is to develop and promote policies that provide freedom and encouragement for individuals to pursue the aspirations they have for themselves and their families, within the security and obligations of a stable and law-abiding nation. The views expressed in our publications are, however, the sole responsibility of the authors. Contributions are chosen for their value in informing public debate and should not be taken as representing a corporate view of the CPS or of its Directors. The CPS values its independence and does not carry on activities with the intention of affecting public support for any registered political party or for candidates at election, or to influence voters in a referendum.

© Centre for Policy Studies, July 2009