



PERSPECTIVE

CENTRE FOR POLICY STUDIES

57 Tufton Street • London SW1P 3QL • Tel: 020 7222 4488 • Fax 020 7222 4388
website: www.cps.org.uk email: mail@cps.org.uk

Where has your pay rise gone?

Disposable income stagnates while personal debt soars

CHARLIE ELPHICKE

- According to the ONS, real earnings (average earnings index, adjusted for RPIX) grew by just 1% a year between 2001 and 2005.
- The proportion of income per employee that is disposable income (after non-discretionary tax and housing costs) has fallen from 58.0% in 2001 to 55.4% in 2005.
- The result is that real discretionary disposable income per employee has been flat in real terms for the last five years – moving from £22,710 per employee in 2001 to £22,807 in 2005.
- Meanwhile total personal debt has soared, increasing from £742 billion at the end of 2001 to £1,178 billion at the end of 2005. By the end of the second quarter in 2006, it had climbed further to £1,227 billion. Personal debt is now equivalent to almost £52,000 per household in today's Britain.

Against the backdrop of continued economic growth, the low earnings increase is surprising. The flatlining of income after tax and housing costs means that the average household is no better off in real terms than it was in 2001.

Over the last five years, taxes have, in nominal terms, increased by 23.5% and housing costs by 23.2%. Earnings have only increased by 16% over the same period. In real terms, disposable income after taxes and housing costs has been static despite continued economic growth.

Taxpayers in Britain are running to stand still. Over the last five years, taxes per employee have gone up by 23.5% and housing costs by 23.2% in nominal terms. With earnings per employee increasing by just 16% over the same period, taxes and housing costs have in effect consumed all the increase in the average pay packet.

In addition, gross personal debt has increased by 59% over the same period. Between 2001 and 2005, unsecured debt increased by 40%, while mortgage borrowings increased by nearly two-thirds. There is a further concern that personal debt will become increasingly hard to service for many households in the light of slow earnings growth.



PERSPECTIVE

| Year | 2001 | 2002 | 2003 | 2004 | 2005 | Change 2001-2005 |
|---|---------------|---------------|---------------|---------------|---------------|---------------------|
| Real average earnings have risen by by 1% a year in real terms | | | | | | |
| Average earnings index | 105.8 | 109.5 | 114.2 | 119 | 124 | 17.2% |
| Real average earnings index (RPIX, 2005 prices) | 117 | 118 | 119 | 121 | 124 | 6.3% |
| Discretionary disposable income has not changed | | | | | | |
| Income per employee before tax (nominal) (RPHP) (£) | 35,496 | 36,452 | 37,767 | 39,141 | 41,192 | 16.0% |
| Taxes (£) | 10,714 | 11,043 | 11,505 | 12,192 | 13,228 | 23.5% |
| Disposable income per employee (nominal - RPHQ) (£) | 24,782 | 25,409 | 26,262 | 26,949 | 27,964 | 12.8% |
| Housing costs per employee (actual and includes bills etc) (nominal) (£) | 4,185 | 4,345 | 4,578 | 4,859 | 5,157 | 23.2% |
| Proportion of income per employee that is disposable after tax and housing costs | 58.0% | 57.8% | 57.4% | 56.4% | 55.4% | |
| Discretionary Disposable income after tax and housing costs (nominal) | 20,597 | 21,065 | 21,685 | 22,091 | 22,807 | 10.7% |
| Discretionary Disposable income after tax and housing costs (RPIX to 2005) | 22,710 | 22,610 | 22,687 | 22,541 | 22,807 | 0.4% |
| Number of people in employment (m) | 27.7 | 27.9 | 28.2 | 28.4 | 28.7 | 3.6% |
| RPIX | 172.5 | 177.2 | 181.8 | 186.4 | 190.2 | 10.3% |
| Total personal debt (£, millions), of which: | 741.7 | 843.9 | 954.9 | 1,076.1 | 1,177.9 | 58.8% |
| – unsecured debt (£, millions) | 150.3 | 168.7 | 180.3 | 198.6 | 210.7 | 40.2% |
| – mortgage debt (£, millions) | 591.4 | 675.2 | 774.6 | 877.5 | 967.2 | 63.5% |

SOURCES

Average earnings figures are drawn from ONS historical series and "Labour Market Statistics" press release of 15 November 2006 LNMQ series. This is the average earnings index including bonuses where 2000=100 and are adjusted by inflation (RPIX).

Data for employee income and employee disposable income are drawn from ONS series on household income (ie including benefits) RPHP and RPHQ in Table 2.5 of *Economic Trends* Edition 636 (ONS) (November 2006). These figures have been adjusted by reference to the number of people in employment to arrive at discretionary disposable income (after housing and tax have been paid). Real discretionary disposable income is arrived at by reference to RPIX.

Data for housing costs per employee come from ONS, *Consumer Trends* – www.statistics.gov.uk/downloads/theme_economy/CT2006Q2.pdf

Figures for total household personal debt are derived from adding together series VZRI (unsecured debt) and AMWT (debt secured on a dwelling) on table 6.6 of ONS *Economic Trends* Edition 636 (November 2006) page 134. All data are for the 4th quarter of the year.

Data for numbers in employment are from Labour Force Survey, Table A.1, series MGRZ, seasonally adjusted.

THE AUTHOR

Charlie Elphicke is a tax partner at a leading global law firm and a Research Fellow of the CPS. He is a member of the Corporation Tax Sub Committee of the Law Society's Revenue Law Committee. He is the author of *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); and *Robin Hood or Sheriff of Nottingham? Winners and losers from tax and benefit reform over the last 10 years* (CPS, 2006).

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, December 2006

ISBN 1 905389 43 4

Printed by the Centre for Policy Studies, 57 Tufton Street, London SW1P 3QL