

# Economic Trends

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# United Kingdom Balance of Payments: preliminary figures for the fourth quarter 1990

## Current Account

In the fourth quarter the current account deficit (seasonally adjusted) was £0.8 billion (£2.4 billion in the third quarter).

In 1990, the deficit is preliminarily estimated to be £12.8 billion (£19.9 billion in 1989).

## Visible Balance

The visible trade deficit in the fourth quarter was £3.0 billion (£3.7 billion in the third quarter); within this the surplus on oil was £0.3 billion (£0.4 billion in previous quarter).

The 1990 deficit was £17.9 billion (£24.0 billion in 1989); within this the surplus on oil was £1.6 billion (£1.3 in 1989).

## Invisible Balance

First estimates of invisibles in the fourth quarter showed a surplus of £2.1 billion (£1.3 billion in previous quarter); within this, **Services** (Table A5) showed a surplus of £0.9 billion (£1.0 billion in third quarter), a smaller deficit on the travel account being broadly offset by larger deficits for sea transport and general government.

**Interest, profits and dividends** (Table A6) showed a surplus of £2.3 billion (£1.5 billion in third quarter); within this net direct investment earnings rose to £3.5 billion (£2.7 billion in the third quarter) with UK overseas earnings (especially of oil companies) remaining at a high level and UK earnings attributable overseas falling back.

**UK banks' net interest payments** abroad fell to £1.4 billion (£1.8 billion in third quarter).

**Transfers** (Table A7) showed a deficit of £1.1 billion (as in the third quarter).

The surplus on invisibles in 1990 was £5.1 billion (£4.1 billion in 1989); within this **Services** showed a lower surplus of £4.4 billion (£4.9 billion in 1989).

Interest, profits and dividends showed a higher surplus of £5.1 billion (£3.8 billion), mainly reflecting higher net direct investment earnings.

Transfers showed a slightly smaller deficit of £4.4 billion (£4.6 billion in 1989).

## Capital account (transactions in external assets and liabilities)

Identified transactions in the fourth quarter showed a net outflow of £2.9 billion (net inflow of £1.6 billion in the third quarter). Within this, **Direct investment overseas** was £4.0 billion (£2.8 billion in the third quarter) and **overseas direct investment in the UK** was £1.7 billion (£5.6 billion in the third quarter).

**Portfolio investment overseas** was £12.6 billion (disinvestment of £0.6 billion in the third quarter) and **overseas portfolio investment in the UK** was £1.2 billion (£2.4 billion in previous quarter).

**UK banks' transactions** other than direct and portfolio invest

ment (Table A11) showed a net inflow of £12.6 billion - £8.4 billion in foreign currency and £4.2 billion in sterling - (net outflow of £4.5 billion, predominantly foreign currency in the third quarter).

**Official reserves** decreased by £0.3 billion (increased by £0.4 billion in the third quarter).

Identified transactions in 1990 showed a net inflow of £9.4 billion (£4.7 billion in 1989); within this, **Direct investment overseas** (£9.5 billion) was substantially lower than in 1988 and 1989 (£20.9 billion and £21.6 billion respectively), while overseas direct investment in the UK (£18.0 billion) remained broadly at the high 1989 level (£17.5 billion).

Portfolio investment overseas (£15.0 billion) was well under half the 1989 level (£36.1 billion), while overseas portfolio investment in the UK (£5.3 billion) was close to half its 1989 level (£10.9 billion).

Net borrowing by banks and other UK residents was substantially lower, while the official reserves showed little change (decrease of £5.4 billion in 1989).

## Balancing item (not seasonally adjusted)

**Errors and omissions** in the fourth quarter, representing unidentified net inflows over the current and capital accounts, were £2.1 billion (£1.6 billion in the third quarter).

Errors and omissions in 1990 were £3.4 billion (£15.2 billion in 1989).

The balancing item has been substantially positive (indicating unidentified net inflows) in most years since 1984.

Careful interpretation of the balance of payments accounts - both current and capital - is needed because of the persistently large and positive balancing items. These large errors and omissions throw doubts on the quality of a number of figures in the accounts.

## Note

The figures for the invisible balance in the fourth quarter replace the projection included in the current account press notice for January 1991 published on 28 February. They continue to incorporate the national accounts statistical adjustments introduced in the 1989 Pink Book as part of the adjustments to improve the coherence of the national accounts. The annual adjustments to net exports of goods and services (shown for convenience under exports of services) are allocated over the quarters of 1988 and 1989 on a proportionate basis.

The preliminary estimates of invisibles are subject to revision for several years, sometimes substantial, as new information becomes available. The CSO keeps these revisions constantly under review and bias adjustments are currently made to early estimates of direct investment income and net exports of services. Despite this, early estimates have tended to be revised upwards in recent quarters (i.e. increasing the surplus on invisibles), but the CSO currently considers that there is insufficient evidence to make a further bias adjustment.

The estimates now incorporate the results of the annual 1989 inquiries into the portfolio investment of insurance companies and pension funds, together with revisions to the results of the corresponding 1988 inquiries.

The estimates also incorporate the results of the annual 1989 inquiries into overseas direct investment and earnings. More details on these figures will be published subsequently in a Business Bulletin and in Business Monitor MA4. The estimates for 1990 based on the quarterly sample survey have been revised in the light of the 1989 survey results. These estimates are based on a quarterly inquiry which, as part of the package of measures announced under the Chancellor's Initiative, was expanded and made compulsory with effect from the third quarter of 1990. Information available from the extended quarterly inquiry also provided the basis of revisions to the figures on direct investment flows for the first half of 1990.

The estimates of securities dealers' transactions in short-term assets and liabilities (and related interest payments) have been revised in the light of information on transactions with overseas affiliates obtained in the 1989 direct investment inquiry.

The series on direct investment earnings for oil companies have been affected by sharply fluctuating prices for crude oil. Rises in the price of crude oil have led to stock gains, and subsequent reductions in the oil price are likely to lead to stock losses. However,

the timing and extent of these effects and the relationship with reported profits are difficult to predict and this element of the accounts has been more volatile than usual.

The revised method of allowing for exchange rate effects in estimating UK banks' foreign currency lending and borrowing flows has now been incorporated into the figures from 1987.

Net transactions in assets and liabilities should, with reversal of sign, equal the (unadjusted) balance on the current account. In practice, because the information comes from different sources, there is a discrepancy - the balancing item. This mismatch between identified current transactions and their (capital account) financing reflects errors and omissions which are likely, to varying degrees, to affect most entries in the accounts (see Pink Book 1990 pages 5 and 6).

A programme of work to improve balance of payments statistics is now underway (see Pink Book 1990, page 6).

CSO Databank identifiers are shown against the series included in the tables. The data in this issue, and those for earlier periods, can be obtained in computer readable form via CSO Databank service. Details of this service and a schedule of charges can be obtained from the Databank Manager, CSO/E1, Room 52/4, Government Offices, Great George Street, London, SW1P 3AQ (Telephone : 071-270 6386).

*Central Statistical Office*



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# A1 Balance of payments summary

£ million

	Seasonally adjusted						Not seasonally adjusted						
	Invisibles (balance)					Current balance	Current balance	Capital transfers	UK external assets and liabilities			Allocation of SDRs and gold subscription to IMF	Balancing item
	Visible trade (balance)	Services	I.P.D.	Transfers	Total				Trans- actions in assets <sup>1</sup>	Trans- actions in liabilities <sup>1</sup>	Net trans- actions		
	AIMA	AIMC	AIMD	AIME	AIMB	AIMF	AIMG	AAAZ	HEPZ	HEQW	HEQU	AIMI	AASA
1981	3 252	3 792	1 251	-1 547	3 496	6 748	6 748	-	-50 769	43 334	-7 436	158	530
1982	1 910	3 022	1 460	-1 741	2 741	4 649	4 649	-	-31 407	28 820	-2 589	-	-2 060
1983	-1 537	4 064	2 854	-1 593	5 325	3 787	3 787	-	-30 172	25 622	-4 551	-	764
1984	-5 336	4 519	4 379	-1 730	7 168	1 832	1 832	-	-32 041	24 119	-7 923	-	6 091
1985	-3 345	6 687	2 507	-3 111	6 083	2 738	2 738	-	-52 919	46 290	-6 629	-	3 891
1986	-9 485	6 696	4 881	-2 157	9 420	-66	-66	-	-92 888	85 886	-7 001	-	7 067
1987	-11 224	6 628	3 677	-3 402	6 903	-4 322	-4 322	-	-83 877	88 256	4 380	-	-58
1988	-21 077	4 545	4 536	-3 546	5 535	-15 542	-15 542	-	-55 625	63 620	7 996	-	7 546
1989	-23 998	4 891	3 781	-4 578	4 094	-19 904	-19 904	-	-88 653	93 319	4 665	-	15 239
1990	-17 911	4 406	5 134	-4 421	5 119	-12 794	-12 794	-	-69 957	79 386	9 429	-	3 365
1981 Q1	1 684	1 043	260	-52	1 251	2 935	2 664	-	-15 112	10 800	-4 313	158	1 491
Q2	1 281	900	381	-588	693	1 974	1 662	-	-8 535	6 032	-2 503	-	841
Q3	-148	1 046	294	-671	669	521	625	-	-13 849	13 132	-717	-	92
Q4	435	803	316	-236	883	1 318	1 797	-	-13 273	13 370	97	-	-1 894
1982 Q1	262	939	93	125	1 157	1 419	1 157	-	-11 602	11 324	-278	-	-879
Q2	138	776	433	-743	466	604	154	-	-37	1 216	1 178	-	-1 332
Q3	549	591	402	-647	346	896	921	-	-18 416	16 418	-1 999	-	1 078
Q4	961	716	532	-476	772	1 730	2 417	-	-1 352	-138	-1 490	-	-927
1983 Q1	-217	1 080	806	53	1 939	1 722	1 462	-	-10 722	8 454	-2 269	-	807
Q2	-575	973	382	-675	680	105	-386	-	-193	376	183	-	203
Q3	-142	938	1 004	-417	1 525	1 382	1 369	-	-11 468	11 864	396	-	-1 765
Q4	-603	1 073	662	-554	1 181	578	1 342	-	-7 789	4 928	-2 861	-	1 519
1984 Q1	-448	1 189	883	-309	1 763	1 315	867	-	-14 082	12 895	-1 187	-	320
Q2	-1 387	1 009	884	-649	1 244	-143	-704	-	-8 914	6 855	-2 060	-	2 764
Q3	-1 534	1 124	957	-636	1 445	-90	102	-	-597	-568	-1 165	-	1 063
Q4	-1 967	1 197	1 655	-136	2 716	750	1 567	-	-8 448	4 937	-3 511	-	1 944
1985 Q1	-1 962	1 456	893	-835	1 514	-448	-787	-	-17 219	13 586	-3 633	-	4 420
Q2	-214	1 747	613	-651	1 709	1 495	852	-	-6 778	6 293	-486	-	-366
Q3	-538	1 797	712	-881	1 628	1 090	1 239	-	-16 019	10 036	-5 982	-	4 743
Q4	-631	1 687	289	-744	1 232	601	1 434	-	-12 903	16 375	3 472	-	-4 906
1986 Q1	-1 580	1 735	1 028	67	2 830	1 250	653	-	-15 796	13 878	-1 918	-	1 265
Q2	-2 103	1 532	1 171	-544	2 159	56	-217	-	-15 339	12 471	-2 867	-	3 084
Q3	-2 916	1 676	1 350	-803	2 223	-693	-848	-	-43 570	43 298	-272	-	1 120
Q4	-2 886	1 753	1 332	-877	2 208	-679	346	-	-18 183	16 239	-1 944	-	1 598
1987 Q1	-1 752	1 727	1 085	-766	2 046	293	17	-	-17 639	19 121	1 483	-	-1 500
Q2	-2 760	1 701	872	-759	1 814	-947	-1 203	-	-26 271	27 117	846	-	357
Q3	-2 974	1 802	905	-982	1 725	-1 249	-1 613	-	-26 308	25 164	-1 144	-	2 757
Q4	-3 738	1 398	815	-895	1 318	-2 419	-1 523	-	-13 659	16 854	3 195	-	-1 672
1988 Q1	-4 182	1 200	839	-1 052	987	-3 195	-3 479	-	-5 213	9 053	3 840	-	-361
Q2	-4 797	1 273	1 277	-894	1 656	-3 141	-3 434	-	-20 003	19 914	-89	-	3 523
Q3	-5 499	1 146	1 136	-209	2 073	-3 426	-3 809	-	-23 083	26 303	3 220	-	589
Q4	-6 599	926	1 284	-1 391	819	-5 780	-4 820	-	-7 326	8 350	1 025	-	3 795
1989 Q1	-6 210	1 089	1 248	-708	1 629	-4 581	-4 421	-	-29 243	32 068	2 824	-	1 597
Q2	-6 610	1 509	1 173	-844	1 838	-4 772	-5 390	-	-16 065	15 128	-936	-	6 326
Q3	-6 424	1 268	455	-1 396	327	-6 097	-6 830	-	-19 952	29 796	9 844	-	-3 014
Q4	-4 754	1 025	905	-1 630	300	-4 454	-3 263	-	-23 393	16 327	-7 067	-	10 330
1990 Q1	-5 905	1 376	669	-925	1 120	-4 785	-5 165	-	-14 926	24 366	9 440	-	-4 275
Q2	-5 284	1 191	673	-1 303	561	-4 723	-5 151	-	-3 194	4 488	1 294	-	3 857
Q3	-3 748	961	1 456	-1 112	1 305	-2 443	-3 250	-	-31 570	33 179	1 609	-	1 641
Q4	-2 974	878	2 336	-1 081	2 133	-843	772	-	-20 267	17 353	-2 914	-	2 142

<sup>1</sup> Prior to 1979 foreign currency lending and borrowing abroad by UK banks (other than certain export credit extended) is recorded on a net basis under liabilities.

# A2 Visible trade in the balance of payments

£ million

	Not seasonally adjusted						Seasonally adjusted					
	Total goods			Oil			Non-oil			Total goods		
	Exports (f.o.b.)	Imports (f.o.b.)	Visible balance	Exports (f.o.b.)	Imports (f.o.b.)	Visible balance	Exports (f.o.b.)	Imports (f.o.b.)	Visible balance	Exports (f.o.b.)	Imports (f.o.b.)	Visible balance
	CGJP	CGGL	HCHL	CGQE	CGQG	CGQI	CGQF	CGQH	CGQJ	CGKG	CGHK	AIMA
1981	50 668	47 416	3 251	9 092	5 987	3 105	41 576	41 429	147	50 668	47 416	3 252
1982	55 331	53 421	1 911	10 671	6 032	4 639	44 660	47 389	-2 729	55 331	53 421	1 910
1983	60 700	62 237	-1 537	12 486	5 514	6 972	48 214	56 723	-8 509	60 700	62 237	-1 537
1984	70 265	75 601	-5 336	14 834	7 901	6 933	55 431	67 700	-12 269	70 265	75 601	-5 336
1985	77 991	81 336	-3 345	16 115	8 014	8 101	61 876	73 322	-11 446	77 991	81 336	-3 345
1986	72 656	82 141	-9 383	8 189	4 119	4 070	64 467	77 900	-13 433	72 656	82 141	-9 485
1987	79 446	90 670	-11 224	8 445	4 262	4 183	71 001	86 408	-15 407	79 446	90 670	-11 224
1988	80 776	101 853	-21 077	6 018	3 221	2 797	74 758	98 632	-23 874	80 776	101 853	-21 077
1989	92 831	116 829	-23 998	5 919	4 616	1 303	86 912	112 213	-25 301	92 831	116 829	-23 998
1990	102 746	120 657	-17 911	7 509	5 933	1 576	95 237	114 724	-19 487	102 746	120 657	-17 911
1981 Q1	11 699	10 238	1 461	2 068	1 325	743	9 715	8 774	941	11 783	10 099	1 684
Q2	12 263	11 171	1 092	2 208	1 314	894	10 006	9 619	387	12 214	10 933	1 281
Q3	12 678	12 835	-157	2 429	1 652	777	10 740	11 665	-925	13 169	13 317	-148
Q4	14 028	13 172	856	2 387	1 696	691	11 115	11 371	-256	13 502	13 067	435
1982 Q1	13 211	13 246	-35	2 362	1 690	672	10 972	11 382	-410	13 334	13 072	262
Q2	13 752	13 849	-97	2 420	1 492	928	11 350	12 140	-790	13 770	13 632	138
Q3	13 448	12 911	537	2 849	1 504	1 345	11 007	11 803	-796	13 856	13 307	549
Q4	14 920	13 415	1 505	3 040	1 346	1 694	11 331	12 064	-733	14 371	13 410	961
1983 Q1	14 652	15 071	-419	2 921	1 353	1 568	11 655	13 440	-1 785	14 576	14 793	-217
Q2	14 750	15 681	-931	3 022	1 389	1 633	11 771	13 979	-2 208	14 793	15 368	-575
Q3	14 768	15 085	-317	3 089	1 418	1 681	12 351	14 174	-1 823	15 450	15 592	-142
Q4	16 530	16 400	130	3 444	1 354	2 090	12 437	15 130	-2 693	15 881	16 484	-603
1984 Q1	16 835	17 566	-731	3 418	1 394	2 024	13 162	15 634	-2 472	16 580	17 028	-448
Q2	16 816	18 636	-1 820	3 596	1 926	1 670	13 414	16 471	-3 057	17 010	18 397	-1 387
Q3	16 683	18 395	-1 712	3 923	2 055	1 868	13 942	17 344	-3 402	17 865	19 399	-1 534
Q4	19 931	21 004	-1 073	3 897	2 526	1 371	14 913	18 251	-3 338	18 810	20 777	-1 967
1985 Q1	19 956	22 031	-2 075	4 370	2 959	1 411	15 500	18 873	-3 373	19 870	21 832	-1 962
Q2	20 192	20 927	-735	4 589	1 896	2 693	15 899	18 806	-2 907	20 488	20 702	-214
Q3	17 897	18 681	-784	3 631	1 580	2 051	15 266	17 855	-2 589	18 897	19 435	-538
Q4	19 946	19 697	249	3 525	1 579	1 946	15 211	17 788	-2 577	18 736	19 367	-631
1986 Q1	17 532	19 552	-1 966	2 850	1 198	1 652	15 341	18 516	-3 175	18 191	19 771	-1 580
Q2	18 305	20 599	-2 299	1 853	1 029	824	16 097	19 001	-2 904	17 950	20 053	-2 103
Q3	16 663	19 863	-3 180	1 646	871	775	15 974	19 644	-3 670	17 620	20 536	-2 916
Q4	20 156	22 127	-1 948	1 840	1 021	819	17 055	20 739	-3 684	18 895	21 781	-2 886
1987 Q1	19 432	21 471	-2 039	2 087	1 067	1 020	17 656	20 428	-2 772	19 743	21 495	-1 752
Q2	19 348	22 363	-3 015	2 116	1 019	1 097	17 230	21 087	-3 857	19 346	22 106	-2 760
Q3	19 286	22 740	-3 454	2 216	1 096	1 120	18 176	22 270	-4 094	20 392	23 366	-2 974
Q4	21 380	24 096	-2 716	2 026	1 080	946	17 939	22 623	-4 684	19 965	23 703	-3 738
1988 Q1	19 246	23 753	-4 507	1 658	780	878	17 657	22 717	-5 060	19 315	23 497	-4 182
Q2	20 192	25 203	-5 011	1 678	782	896	18 437	24 130	-5 693	20 115	24 912	-4 797
Q3	19 839	25 806	-5 967	1 504	852	652	19 461	25 612	-6 151	20 965	26 464	-5 499
Q4	21 499	27 091	-5 592	1 178	807	371	19 203	26 173	-6 970	20 381	26 980	-6 599
1989 Q1	21 422	27 686	-6 264	1 225	963	262	20 636	27 108	-6 472	21 861	28 071	-6 210
Q2	22 876	29 953	-7 077	1 409	1 252	157	20 973	27 740	-6 767	22 382	28 992	-6 610
Q3	22 090	29 278	-7 188	1 532	1 158	374	22 108	28 906	-6 798	23 640	30 064	-6 424
Q4	26 443	29 912	-3 469	1 753	1 243	510	23 195	28 459	-5 264	24 948	29 702	-4 754
1990 Q1	24 986	31 206	-6 220	1 894	1 511	383	23 456	29 744	-6 288	25 350	31 255	-5 905
Q2	25 995	31 560	-5 565	1 647	1 213	434	24 220	29 938	-5 718	25 867	31 151	-5 284
Q3	23 902	28 692	-4 790	1 782	1 337	445	23 806	27 999	-4 193	25 588	29 336	-3 748
Q4	27 863	29 199	-1 336	2 186	1 872	314	23 755	27 043	-3 288	25 941	28 915	-2 974

# A3 Volume, Implied price and unit value indices

1985 = 100

	Seasonally adjusted				Not seasonally adjusted						
	Volume indices				Implied price indices <sup>1</sup>			Unit value indices <sup>2</sup>		Terms of trade <sup>3</sup>	
	All goods	Non-oil goods	Services	Goods and services	Goods	Services	Goods and services	All goods	Non-oil goods	All goods	Non-oil goods
<b>Exports</b>											
	CGTR	CGSV	CGSI	HHCX	HHCZ	CGTA	HDTV	CGTO	CGSX	CGTQ	CGSZ
1981	83.3	86.7	95.1	86.0	78.0	72.3	76.6	76.2	75.3	103.4	102.7
1982	85.6	87.8	90.2	86.7	82.8	78.9	81.9	81.4	80.6	101.9	101.8
1983	87.6	88.2	91.8	88.6	88.8	87.0	88.4	88.0	87.4	100.7	100.1
1984	94.7	94.8	93.5	94.4	95.1	95.4	95.2	95.0	94.0	99.7	98.8
1985	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1986	104.0	104.0	106.0	104.6	89.6	99.7	91.9	90.4	101.4	94.5	100.6
1987	109.7	111.9	113.6	110.6	92.8	101.0	94.9	93.8	104.7	95.9	101.7
1988	111.8	116.2	108.2	110.9	92.6	105.0	95.5	93.9	108.1	97.1	104.8
1989	117.3	128.2	111.5	115.9	101.5	112.9	104.1	101.2	114.8	97.9	105.0
1990	125.3	136.7	109.6	121.5	105.2	119.4	108.3	106.8	119.4	99.5	105.8
1986 Q1	99.8	100.5	104.5	101.9	92.5	99.1	94.0	93.3	99.7	97.1	100.8
Q2	105.3	104.3	104.9	104.4	88.7	97.8	90.7	88.9	100.8	94.5	101.7
Q3	104.5	103.0	107.2	105.0	86.3	100.1	89.9	88.2	101.5	93.7	100.9
Q4	106.2	108.1	107.6	107.3	90.9	101.8	93.1	91.3	103.5	92.8	99.0
1987 Q1	110.1	112.2	110.4	110.1	91.6	99.9	93.5	93.1	104.0	93.5	99.2
Q2	107.3	109.0	114.5	109.0	92.9	100.2	94.7	93.5	104.3	96.2	102.1
Q3	111.0	113.9	117.8	112.6	93.9	103.0	96.5	94.7	105.2	97.1	102.7
Q4	110.5	112.4	111.6	110.8	93.0	100.5	94.7	93.9	105.4	96.7	102.9
1988 Q1	109.2	111.1	111.0	109.6	90.3	101.1	92.8	92.7	106.2	96.6	103.9
Q2	113.5	116.1	111.1	112.9	91.3	102.7	93.9	93.3	107.0	97.4	104.9
Q3	114.4	120.0	106.1	112.4	93.8	108.1	97.6	94.9	109.3	97.6	105.6
Q4	110.2	117.7	104.8	108.9	95.1	107.7	97.8	94.7	110.0	97.0	105.3
1989 Q1	113.6	124.9	114.1	113.7	98.1	106.3	100.0	97.8	112.0	98.7	106.2
Q2	113.0	124.3	114.1	113.2	101.9	111.5	104.2	100.8	113.8	98.5	105.6
Q3	118.8	129.3	111.3	117.0	102.0	115.8	105.7	102.2	116.2	97.3	104.7
Q4	123.8	134.5	106.6	119.7	103.6	117.3	106.3	103.9	117.1	96.9	103.6
1990 Q1	124.8	134.6	113.9	122.2	103.7	117.3	106.6	105.5	118.8	97.4	104.0
Q2	126.6	137.7	110.4	122.7	104.9	120.1	108.1	105.4	120.4	97.6	104.9
Q3	123.7	136.2	106.9	119.7	106.1	121.0	109.8	107.4	120.1	101.5	107.3
Q4	125.8	138.2	107.2	121.4	106.0	119.0	108.5	108.7	118.4	101.6	107.1
<b>Imports</b>											
	CGTS	CGSW	CGSP	HHCY	HHDA	CGTB	HDWN	CGTP	CGSY		
1981	75.8	73.7	95.4	79.4	77.0	76.4	76.9	73.7	73.3		
1982	80.1	79.2	97.5	83.3	82.2	82.6	82.3	79.9	79.2		
1983	87.0	87.7	96.4	88.7	87.9	90.3	88.4	87.4	87.3		
1984	96.9	96.5	100.0	97.5	95.9	97.2	96.1	95.3	95.2		
1985	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0		
1986	107.1	106.7	104.7	106.9	94.4	103.0	95.6	95.7	100.8		
1987	115.3	116.3	114.9	115.3	96.6	105.0	98.1	97.8	103.0		
1988	131.0	133.6	125.3	130.0	95.6	104.4	97.1	96.7	103.1		
1989	141.5	143.9	130.4	139.5	101.5	111.8	103.2	103.4	109.3		
1990	143.4	144.5	133.9	141.7	103.4	116.0	105.5	107.3	112.9		
1986 Q1	102.8	104.6	104.0	102.2	96.2	100.8	96.9	96.1	98.9		
Q2	105.0	104.5	105.7	106.1	93.5	99.9	94.4	94.1	99.1		
Q3	110.0	108.0	103.3	108.7	91.9	106.3	94.5	94.1	100.6		
Q4	110.6	109.7	105.8	110.5	96.0	104.4	97.0	98.4	104.5		
1987 Q1	108.7	109.1	107.7	108.5	97.6	104.8	98.8	99.6	104.8		
Q2	112.9	114.2	113.2	113.0	96.6	104.4	98.0	97.2	102.2		
Q3	118.6	120.0	116.9	118.3	96.5	107.7	98.9	97.5	102.4		
Q4	121.2	122.1	121.9	121.3	95.9	102.2	96.9	97.1	102.4		
1988 Q1	121.8	124.3	124.1	122.3	95.1	102.6	96.3	96.0	102.2		
Q2	129.1	132.0	123.3	128.0	95.3	104.1	96.8	95.8	102.0		
Q3	134.9	137.9	122.5	132.7	96.1	107.9	98.4	97.2	103.5		
Q4	138.1	140.3	131.3	136.9	95.8	102.1	96.8	97.6	104.5		
1989 Q1	141.6	144.0	136.8	140.8	97.5	104.3	98.6	99.1	105.5		
Q2	141.5	143.7	128.1	139.1	101.3	110.4	102.8	102.3	107.8		
Q3	143.2	145.8	128.5	140.6	102.9	116.1	105.5	105.0	111.0		
Q4	139.7	142.1	128.2	137.6	104.3	115.0	105.9	107.2	113.0		
1990 Q1	146.5	147.1	132.5	144.0	104.8	115.1	106.3	108.3	114.2		
Q2	146.4	147.4	132.0	143.8	105.3	118.0	107.4	108.0	114.8		
Q3	142.0	142.6	131.8	140.1	101.4	118.7	104.9	105.8	111.9		
Q4	138.9	140.7	139.3	139.0	102.0	111.3	103.5	107.0	110.5		

1 Current price value as a percentage of value at 1985 prices. Shows the price difference compared with 1985 for the current pattern of trade.

2 Shows the price difference compared with 1985 for the 1985 pattern of trade (the 1980 pattern up to 1982). Not available for services.

3 Export unit value indices as a percentage of import unit value indices. These values are shown against "exports" for convenience.



# A4 Invisibles: summary

£ million

Seasonally adjusted												Not seasonally adjusted		
Invisibles credits				Invisibles debits				Invisibles balance				Total invisibles		
									Private sector and PC: services and IPD	Gen. govt. transactions and private transfers	Total	Credits	Debits	Balance
	Services	IPD	Transfers		Services	IPD	Transfers							
	CGKS	CGKL	CGKT	CGKR	CGHU	CGHJ	CGHV	CGHT	CGIV	CGIS	AIMB	CGJY	CGGY	CGIK
1981	16 948	37 529	2 792	57 269	13 156	36 278	4 339	53 773	5 876	-2 380	3 496	57 269	53 773	3 496
1982	17 561	44 397	3 402	65 360	14 539	42 939	5 143	62 621	5 943	-3 202	2 741	65 360	62 621	2 741
1983	19 570	42 470	3 763	65 803	15 506	39 617	5 356	60 479	8 394	-3 069	5 325	65 803	60 479	5 325
1984	21 838	51 634	4 044	77 516	17 319	47 255	5 774	70 348	10 591	-3 423	7 168	77 516	70 348	7 168
1985	24 499	52 123	3 535	80 157	17 812	49 616	6 646	74 074	11 234	-5 151	6 083	80 157	74 074	6 083
1986	25 905	47 473	3 870	77 248	19 209	42 593	6 027	67 829	13 888	-4 468	9 420	77 248	67 829	9 420
1987	28 115	47 790	3 952	79 857	21 487	44 114	7 354	72 955	13 017	-6 114	6 903	79 857	72 955	6 903
1988	27 851	56 326	3 822	87 999	23 306	51 790	7 368	82 464	11 736	-6 201	5 535	87 999	82 464	5 535
1989	30 839	73 716	3 893	108 448	25 948	69 935	8 471	104 354	11 410	-7 316	4 094	108 448	104 354	4 094
1990	32 063	82 180	3 993	118 236	27 657	77 048	8 414	113 119	12 282	-7 163	5 119	118 236	113 119	5 119
1981 Q1	4 001	7 198	1 033	12 232	2 958	6 938	1 085	10 981	1 435	-184	1 251	11 868	10 665	1 203
Q2	4 135	8 414	433	12 982	3 235	8 033	1 021	12 289	1 476	-783	693	12 926	12 356	570
Q3	4 381	10 254	533	15 168	3 335	9 960	1 204	14 499	1 554	-885	669	15 726	14 944	782
Q4	4 431	11 663	793	16 887	3 628	11 347	1 029	16 004	1 411	-528	883	16 749	15 808	941
1982 Q1	4 340	10 394	1 380	16 114	3 401	10 301	1 255	14 957	1 329	-172	1 157	15 741	14 549	1 193
Q2	4 425	11 242	526	16 193	3 649	10 809	1 269	15 727	1 572	-1 106	466	16 118	15 867	251
Q3	4 323	11 241	672	16 236	3 732	10 838	1 319	15 889	1 412	-1 066	346	16 803	16 419	385
Q4	4 473	11 520	824	16 817	3 757	10 991	1 300	16 048	1 630	-858	772	16 698	15 786	912
1983 Q1	4 822	11 479	1 280	17 581	3 742	10 673	1 227	15 642	2 234	-295	1 939	17 141	15 260	1 881
Q2	4 770	9 960	720	15 450	3 797	9 578	1 395	14 770	1 698	-1 018	680	15 403	14 858	546
Q3	4 977	10 351	844	16 172	4 039	9 348	1 261	14 648	2 313	-788	1 525	16 829	15 143	1 686
Q4	5 001	10 680	919	16 600	3 928	10 018	1 473	15 419	2 149	-968	1 181	16 430	15 218	1 212
1984 Q1	5 277	11 352	1 063	17 692	4 088	10 469	1 372	15 929	2 471	-708	1 763	17 440	15 842	1 598
Q2	5 287	11 966	757	18 010	4 278	11 082	1 406	16 766	2 333	-1 089	1 244	17 818	16 702	1 116
Q3	5 494	13 610	772	19 876	4 370	12 654	1 408	18 432	2 514	-1 069	1 445	20 587	18 773	1 814
Q4	5 780	14 706	1 452	21 938	4 583	13 050	1 588	19 221	3 273	-557	2 716	21 671	19 031	2 640
1985 Q1	6 075	14 465	972	21 512	4 619	13 572	1 807	19 998	2 853	-1 339	1 514	21 242	19 954	1 288
Q2	6 126	13 455	777	20 358	4 379	12 842	1 428	18 649	2 829	-1 120	1 709	20 118	18 531	1 588
Q3	6 089	12 404	977	19 470	4 292	11 692	1 858	17 842	3 066	-1 438	1 628	20 332	18 309	2 022
Q4	6 209	11 799	809	18 817	4 522	11 510	1 553	17 585	2 486	-1 254	1 232	18 465	17 280	1 185
1986 Q1	6 364	11 740	1 059	19 163	4 629	10 712	992	16 333	3 360	-530	2 830	18 741	16 068	2 673
Q2	6 303	11 467	1 041	18 811	4 771	10 296	1 585	16 652	3 243	-1 084	2 159	18 637	16 560	2 077
Q3	6 504	11 939	949	19 392	4 828	10 589	1 752	17 169	3 569	-1 346	2 223	20 294	17 942	2 353
Q4	6 734	12 327	821	19 882	4 981	10 996	1 698	17 675	3 716	-1 508	2 208	19 576	17 259	2 317
1987 Q1	6 809	11 722	1 270	19 801	5 082	10 638	2 036	17 756	3 411	-1 365	2 046	19 429	17 373	2 055
Q2	7 056	11 902	1 087	20 045	5 355	11 031	1 846	18 232	3 202	-1 388	1 814	19 881	18 069	1 813
Q3	7 323	12 039	890	20 252	5 521	11 134	1 872	18 527	3 426	-1 701	1 725	21 327	19 486	1 842
Q4	6 927	12 127	705	19 759	5 529	11 311	1 600	18 440	2 978	-1 660	1 318	19 220	18 027	1 193
1988 Q1	6 933	12 861	904	20 698	5 733	12 022	1 956	19 711	2 649	-1 662	987	20 233	19 205	1 029
Q2	7 021	13 490	1 047	21 558	5 748	12 213	1 941	19 902	3 210	-1 554	1 656	21 445	19 868	1 577
Q3	6 919	14 743	1 028	22 690	5 773	13 607	1 237	20 617	2 929	-856	2 073	23 806	21 648	2 157
Q4	6 978	15 232	843	23 053	6 052	13 948	2 234	22 234	2 948	-2 129	819	22 515	21 743	772
1989 Q1	7 513	17 029	1 228	25 770	6 424	15 781	1 936	24 141	3 054	-1 425	1 629	25 229	23 386	1 843
Q2	7 634	18 430	1 105	27 369	6 325	17 257	1 949	25 531	3 304	-1 466	1 838	27 161	25 474	1 687
Q3	7 776	18 170	710	26 656	6 508	17 715	2 106	26 329	2 427	-2 100	327	27 959	27 601	358
Q4	7 716	20 087	850	28 653	6 691	19 182	2 480	28 353	2 625	-2 325	300	28 099	27 893	206
1990 Q1	8 258	19 763	1 151	29 172	6 882	19 094	2 076	28 052	2 680	-1 560	1 120	28 383	27 328	1 055
Q2	8 155	19 858	810	28 823	6 964	19 185	2 113	28 262	2 560	-1 999	561	28 684	28 270	415
Q3	7 765	20 600	891	29 256	6 804	19 144	2 003	27 951	3 098	-1 793	1 305	30 606	29 066	1 540
Q4	7 885	21 959	1 141	30 985	7 007	19 625	2 222	28 854	3 944	-1 811	2 133	30 563	28 455	2 109

	General government			Sea transport			Civil aviation		
	Credits	Debits	Balance	Credits	Debits	Balance	Credits	Debits	Balance
	CGJR	CGGI	CGIG	CGJW	CGGW	HBTO	CGJO	CGGG	HDJA
1981	401	1 264	-863	3 731	3 818	-87	2 359	2 005	354
1982	404	1 754	-1 350	3 215	3 589	-374	2 471	2 184	287
1983	470	1 522	-1 052	3 043	3 665	-622	2 665	2 363	302
1984	474	1 655	-1 181	3 244	3 600	-356	2 931	2 676	255
1985	483	1 781	-1 298	3 211	3 508	-297	3 078	2 877	201
1986	511	1 920	-1 409	3 216	3 308	-92	2 786	3 194	-408
1987	521	2 141	-1 620	3 282	3 313	-31	3 159	3 775	-616
1988	551	2 351	-1 800	3 526	3 571	-45	3 192	4 097	-905
1989	449	2 698	-2 249	3 870	3 837	33	3 758	4 261	-503
1990	430	2 750	-2 320	3 819	4 092	-273	4 359	4 678	-319
Not seasonally adjusted									
1985 Q1	155	456	-301	773	961	-188	618	605	13
Q2	93	414	-321	827	904	-77	784	721	63
Q3	110	466	-356	808	843	-35	941	848	93
Q4	125	445	-320	803	800	3	735	703	32
1986 Q1	181	509	-328	743	772	-29	618	703	-85
Q2	87	451	-364	840	875	-35	648	790	-142
Q3	99	436	-337	811	831	-20	820	964	-144
Q4	144	524	-380	822	830	-8	700	737	-37
1987 Q1	239	500	-261	758	783	-25	580	781	-201
Q2	102	512	-410	835	829	6	796	915	-119
Q3	103	541	-438	884	868	16	1 043	1 181	-138
Q4	77	588	-511	805	833	-28	740	898	-158
1988 Q1	221	551	-330	821	844	-23	617	921	-304
Q2	92	601	-509	886	895	-9	790	944	-154
Q3	112	560	-448	920	948	-28	1 021	1 193	-172
Q4	126	639	-513	899	884	15	764	1 039	-275
1989 Q1	157	667	-510	908	969	-61	696	935	-239
Q2	79	646	-567	1 007	986	21	944	999	-55
Q3	112	682	-570	1 003	1 010	-7	1 198	1 277	-79
Q4	101	703	-602	952	872	80	920	1 050	-130
1990 Q1	165	652	-487	953	920	33	840	1 110	-270
Q2	72	691	-619	986	1 038	-52	1 094	1 142	-48
Q3	91	670	-579	963	1 047	-84	1 377	1 337	40
Q4	102	737	-635	917	1 087	-170	1 048	1 089	-41
Seasonally adjusted									
	CGKK	CGHH	CGIP	CGKP	CGHR	HHCS	CGKE	CGHF	HHCT
1985 Q1	116	456	-340	813	970	-157	771	684	87
Q2	114	414	-300	802	894	-92	795	724	71
Q3	118	466	-348	783	821	-38	761	715	46
Q4	135	445	-310	813	823	-10	751	754	-3
1986 Q1	130	509	-379	778	801	-23	779	791	-12
Q2	115	451	-336	829	859	-30	656	796	-140
Q3	111	436	-325	783	806	-23	661	795	-134
Q4	155	524	-369	826	842	-16	690	812	-122
1987 Q1	180	500	-320	791	813	-22	723	880	-157
Q2	142	512	-370	821	821	-	804	932	-128
Q3	116	541	-425	848	839	9	829	975	-146
Q4	83	588	-505	822	840	-18	803	988	-185
1988 Q1	165	551	-386	861	863	-2	776	1 033	-257
Q2	140	601	-461	864	886	-22	796	966	-170
Q3	118	560	-442	883	918	-35	809	986	-177
Q4	128	639	-511	918	904	14	811	1 112	-301
1989 Q1	102	667	-565	949	1 002	-53	881	1 044	-163
Q2	123	646	-523	983	963	20	949	1 027	-78
Q3	119	682	-563	963	966	-3	951	1 061	-110
Q4	105	703	-598	975	906	69	977	1 129	-152
1990 Q1	111	652	-541	1 000	942	58	1 062	1 238	-176
Q2	113	691	-578	965	1 024	-59	1 099	1 177	-78
Q3	99	670	-571	924	1 015	-91	1 086	1 110	-24
Q4	107	737	-630	930	1 111	-181	1 112	1 153	-41

	Travel			Financial and other services				National accounts statistical adjustment	Total services				of which, balance for private sector and public corporations
	Credits	Debits	Balance	Credits	Debits	Balance			Credits	Debits	Balance		
	CGKA	CGHA	HBYE	HHDE	HBVH	HHCW	HCGM		CGJZ	CGGZ	CGIN	CGIL	
1981	2 970	3 272	-302	7 487	2 797	4 690	-		16 948	13 156	3 792	4 655	
1982	3 188	3 640	-452	8 283	3 372	4 911	-		17 561	14 539	3 022	4 372	
1983	4 003	4 090	-87	9 389	3 866	5 523	-		19 570	15 506	4 064	5 116	
1984	4 614	4 663	-49	10 575	4 725	5 850	-		21 838	17 319	4 519	5 700	
1985	5 442	4 871	571	12 285	4 775	7 510	-		24 499	17 812	6 687	7 985	
1986	5 553	6 083	-530	13 839	4 704	9 135	-		25 905	19 209	6 696	8 105	
1987	6 260	7 280	-1 020	14 893	4 978	9 915	-		28 115	21 487	6 628	8 248	
1988	6 184	8 216	-2 032	14 398	5 071	9 327	-		27 851	23 306	4 545	6 345	
1989	6 945	9 357	-2 412	15 317	5 795	9 522	500		30 839	25 948	4 891	7 140	
1990	7 477	9 907	-2 430	15 448	6 230	9 218	530		32 063	27 657	4 406	6 726	
<b>Not seasonally adjusted</b>													
1985 Q1	900	845	55	3 111	1 199	1 912	-		5 557	4 066	1 491	1 792	
Q2	1 330	1 152	178	2 975	1 206	1 769	-		6 009	4 397	1 612	1 933	
Q3	2 064	1 876	188	3 115	1 164	1 951	-		7 038	5 197	1 841	2 197	
Q4	1 148	998	150	3 084	1 206	1 878	-		5 895	4 152	1 743	2 063	
1986 Q1	937	897	40	3 365	1 135	2 230	-		5 844	4 016	1 828	2 156	
Q2	1 278	1 458	-180	3 324	1 165	2 159	-		6 177	4 739	1 438	1 802	
Q3	2 095	2 543	-448	3 620	1 173	2 447	-		7 445	5 947	1 498	1 835	
Q4	1 243	1 185	58	3 530	1 231	2 299	-		6 439	4 507	1 932	2 312	
1987 Q1	1 015	1 086	-71	3 662	1 201	2 461	-		6 254	4 351	1 903	2 164	
Q2	1 497	1 797	-300	3 653	1 224	2 429	-		6 883	5 277	1 606	2 016	
Q3	2 371	2 991	-620	4 045	1 260	2 785	-		8 446	6 841	1 605	2 043	
Q4	1 377	1 406	-29	3 533	1 293	2 240	-		6 532	5 018	1 514	2 025	
1988 Q1	1 047	1 348	-301	3 627	1 274	2 353	-		6 333	4 938	1 395	1 725	
Q2	1 463	1 970	-507	3 542	1 295	2 247	-		6 773	5 705	1 068	1 577	
Q3	2 230	3 212	-982	3 790	1 235	2 555	-		8 073	7 148	925	1 373	
Q4	1 444	1 686	-242	3 439	1 267	2 172	-		6 672	5 515	1 157	1 670	
1989 Q1	1 183	1 583	-400	3 770	1 361	2 409	120		6 834	5 515	1 319	1 829	
Q2	1 567	2 212	-645	3 856	1 446	2 410	120		7 573	6 289	1 284	1 851	
Q3	2 537	3 693	-1 156	4 112	1 484	2 628	130		9 092	8 146	946	1 516	
Q4	1 658	1 869	-211	3 579	1 504	2 075	130		7 340	5 998	1 342	1 944	
1990 Q1	1 380	1 696	-316	3 980	1 512	2 468	130		7 448	5 890	1 558	2 045	
Q2	1 862	2 526	-664	3 775	1 539	2 236	140		7 929	6 936	993	1 612	
Q3	2 575	3 830	-1 255	3 963	1 574	2 389	130		9 099	8 458	641	1 220	
Q4	1 660	1 855	-195	3 730	1 605	2 125	130		7 587	6 373	1 214	1 849	
<b>Seasonally adjusted</b>													
	CGKU	CGHW	HHCU	HHDD	CGHN	HHCV			CGKS	CGHU	AIMC	CGIT	
1985 Q1	1 329	1 287	42	3 046	1 222	1 824	-		6 075	4 619	1 456	1 796	
Q2	1 404	1 142	262	3 011	1 205	1 806	-		6 126	4 379	1 747	2 047	
Q3	1 382	1 134	248	3 045	1 156	1 889	-		6 089	4 292	1 797	2 145	
Q4	1 327	1 308	19	3 183	1 192	1 991	-		6 209	4 522	1 687	1 997	
1986 Q1	1 365	1 381	-16	3 312	1 147	2 165	-		6 364	4 629	1 735	2 114	
Q2	1 342	1 504	-162	3 361	1 161	2 200	-		6 303	4 771	1 532	1 868	
Q3	1 414	1 614	-200	3 535	1 177	2 358	-		6 504	4 828	1 676	2 001	
Q4	1 432	1 584	-152	3 631	1 219	2 412	-		6 734	4 981	1 753	2 122	
1987 Q1	1 497	1 680	-183	3 618	1 209	2 409	-		6 809	5 082	1 727	2 047	
Q2	1 578	1 867	-289	3 711	1 223	2 488	-		7 056	5 355	1 701	2 071	
Q3	1 596	1 906	-310	3 934	1 260	2 674	-		7 323	5 521	1 802	2 227	
Q4	1 589	1 827	-238	3 630	1 286	2 344	-		6 927	5 529	1 398	1 903	
1988 Q1	1 523	2 022	-499	3 608	1 264	2 344	-		6 933	5 733	1 200	1 586	
Q2	1 544	2 006	-462	3 677	1 289	2 388	-		7 021	5 748	1 273	1 734	
Q3	1 497	2 030	-533	3 612	1 279	2 333	-		6 919	5 773	1 146	1 588	
Q4	1 620	2 158	-538	3 501	1 239	2 262	-		6 978	6 052	926	1 437	
1989 Q1	1 715	2 364	-649	3 746	1 347	2 399	120		7 513	6 424	1 089	1 654	
Q2	1 671	2 259	-588	3 988	1 430	2 558	120		7 834	6 325	1 509	2 032	
Q3	1 700	2 273	-573	3 913	1 526	2 387	130		7 776	6 508	1 268	1 831	
Q4	1 859	2 461	-602	3 670	1 492	2 178	130		7 716	6 691	1 025	1 623	
1990 Q1	2 007	2 527	-520	3 948	1 523	2 425	130		8 258	6 882	1 376	1 917	
Q2	1 913	2 533	-620	3 925	1 539	2 386	140		8 155	6 964	1 191	1 769	
Q3	1 746	2 436	-690	3 780	1 573	2 207	130		7 765	6 804	961	1 532	
Q4	1 811	2 411	-600	3 795	1 595	2 200	130		7 885	7 007	878	1 508	



# A6 Interest, profits and dividends

£ million

Credits - earnings on:

	Portfolio investment				Lending etc to overseas residents by UK banks	Of which: identified foreign currency lending	Deposits and lending overseas by UK residents other than banks and general government			Other external assets of central government	Total credits	Of which:	
	Direct investment	UK banks	Other UK residents	Total			Transactions with banks abroad	Other assets	Official reserves			Private sector and public corporations	General government
	HHBY	HESH	HHHR	CGNV	HERG	HHIJ	HERH	HERJ	HHCB	HERI	CGJS	CGNT	CGNR
1981	5 417	200	790	990	28 740	27 587	1 158	253	858	114	37 529	36 559	971
1982	4 805	350	1 300	1 651	34 504	33 161	1 595	865	761	217	44 397	43 419	979
1983	6 198	840	1 822	2 662	30 710	29 098	1 388	748	589	175	42 470	41 706	765
1984	7 824	1 423	2 199	3 622	36 665	34 660	1 707	1 001	586	230	51 634	50 818	818
1985	7 747	2 301	2 510	4 811	35 823	32 787	1 975	1 030	538	197	52 123	51 387	735
1986	7 807	2 621	2 878	5 499	30 906	28 107	1 673	823	607	158	47 473	46 708	765
1987	10 953	2 476	4 998	28 535	25 390	1 733	1 733	640	854	78	47 790	46 858	931
1988	13 849	2 485	3 029	5 514	32 986	29 210	1 868	652	1 351	105	56 326	54 869	1 456
1989	16 701	2 901	4 346	7 247	44 023	38 648	3 050	748	1 913	35	73 716	71 768	1 948
1990	17 878	3 085	5 124	8 209	48 753	42 454	4 705	828	1 732	78	82 180	80 372	1 810
Not seasonally adjusted													
1985 Q1	2 323	651	647	1 298	10 067	9 326	555	285	144	32	14 706	14 529	176
Q2	2 098	582	628	1 210	9 118	8 390	518	257	131	61	13 393	13 201	192
Q3	1 918	548	608	1 156	8 365	7 551	467	248	123	43	12 319	12 153	166
Q4	1 408	520	627	1 147	8 273	7 520	435	240	140	61	11 705	11 504	201
1986 Q1	1 624	615	678	1 293	8 072	7 366	437	226	150	33	11 835	11 652	183
Q2	1 895	618	704	1 322	7 441	6 727	438	203	152	33	11 484	11 299	185
Q3	2 134	675	737	1 412	7 577	6 907	392	201	151	41	11 908	11 716	192
Q4	2 154	713	759	1 472	7 816	7 107	406	193	154	51	12 246	12 041	205
1987 Q1	2 640	662	657	1 319	7 147	6 386	420	173	159	25	11 883	11 698	184
Q2	2 801	621	644	1 265	7 081	6 310	426	162	217	12	11 964	11 735	229
Q3	2 813	595	622	1 217	7 137	6 347	441	156	208	19	11 990	11 764	226
Q4	2 699	598	599	1 197	7 170	6 347	446	149	270	22	11 953	11 661	292
1988 Q1	3 027	607	699	1 306	7 710	6 884	474	152	295	32	12 996	12 669	327
Q2	3 523	593	737	1 330	7 829	6 988	414	153	350	26	13 625	13 249	376
Q3	3 611	626	779	1 405	8 682	7 659	449	180	353	24	14 705	14 327	377
Q4	3 688	659	814	1 473	8 765	7 679	531	167	353	23	15 000	14 624	376
1989 Q1	4 111	721	960	1 681	10 131	8 831	624	181	422	18	17 167	16 727	440
Q2	4 583	685	1 033	1 718	10 776	9 545	730	176	498	2	18 483	17 983	500
Q3	3 634	776	1 137	1 913	11 140	9 843	812	193	460	5	18 157	17 692	465
Q4	4 373	719	1 216	1 935	11 976	10 429	884	198	533	10	19 909	19 366	543
1990 Q1	3 988	745	1 282	2 027	12 021	10 509	1 064	194	468	22	19 784	19 294	490
Q2	3 956	772	1 301	2 073	11 990	10 450	1 230	207	471	19	19 945	19 456	490
Q3	5 052	821	1 331	2 152	11 608	10 013	1 180	215	389	21	20 616	20 206	410
Q4	4 882	747	1 210	1 957	13 134	11 482	1 231	212	404	16	21 835	21 416	420
Seasonally adjusted													
	HHBZ	HHAS	HHHS	CGGS	HHHQ	HHJK			HHCC	HHHW	CGKL	CGMI	CGMG
1985 Q1	2 095	651	647	1 298	10 050	9 326	555	285	144	36	14 465	14 284	181
Q2	2 157	582	628	1 210	9 112	8 390	518	257	131	70	13 455	13 254	201
Q3	1 997	548	608	1 156	8 369	7 551	467	248	123	44	12 404	12 237	167
Q4	1 498	520	627	1 147	8 292	7 520	435	240	140	47	11 799	11 612	186
1986 Q1	1 536	615	678	1 293	8 058	7 366	437	226	150	40	11 740	11 550	190
Q2	1 874	618	704	1 322	7 437	6 727	438	203	152	41	11 467	11 274	193
Q3	2 162	675	737	1 412	7 579	6 907	392	201	151	41	11 939	11 746	192
Q4	2 235	713	759	1 472	7 832	7 107	406	193	154	36	12 327	12 138	190
1987 Q1	2 494	662	657	1 319	7 131	6 386	420	173	159	27	11 722	11 536	186
Q2	2 742	621	644	1 265	7 075	6 310	426	162	217	15	11 902	11 670	232
Q3	2 859	595	622	1 217	7 139	6 347	441	156	208	19	12 039	11 812	227
Q4	2 858	598	599	1 197	7 190	6 347	446	149	270	17	12 127	11 840	286
1988 Q1	2 893	607	699	1 306	7 710	6 884	474	152	295	31	12 861	12 535	326
Q2	3 387	593	737	1 330	7 829	6 988	414	153	350	27	13 490	13 113	377
Q3	3 649	626	779	1 405	8 682	7 659	449	180	353	24	14 743	14 365	377
Q4	3 920	659	814	1 473	8 765	7 679	531	167	353	23	15 232	14 856	376
1989 Q1	3 974	721	960	1 681	10 131	8 831	624	181	422	17	17 029	16 590	439
Q2	4 529	685	1 033	1 718	10 776	9 545	730	176	498	3	18 430	17 929	501
Q3	3 646	776	1 137	1 913	11 140	9 843	812	193	460	6	18 170	17 704	466
Q4	4 552	719	1 216	1 935	11 976	10 429	884	198	533	9	20 087	19 545	542
1990 Q1	3 967	745	1 282	2 027	12 021	10 509	1 064	194	468	22	19 763	19 273	490
Q2	3 868	772	1 301	2 073	11 990	10 450	1 230	207	471	19	19 858	19 368	490
Q3	5 037	821	1 331	2 152	11 608	10 013	1 180	215	389	20	20 600	20 191	409
Q4	5 006	747	1 210	1 957	13 134	11 482	1 231	212	404	17	21 959	21 540	421



# A6 Interest, profits and dividends

continued

£ million

Debits - earnings on:															Balance of IPD	
Direct investment				Overseas borrowing by UK banks		Borrowing from overseas by UK residents other than banks and general government		Of which:								
Non-oil companies		Oil companies and misc.	Total	Portfolio investment	Foreign currency	Sterling	Transactions with banks abroad	Other liabilities	Other external liabilities of general government	Total debits	Private sector and public corporations	General government	Private sector and public corporations	General government	Total	
CGNX	HHCF	HHCH	HERN	HHID	HHIE	HERO	HERQ	HERR	CGGK	HHII	HERS	CGQD	HERV	CGOA		
1981	1 961	2 741	4 702	1 173	27 157	1 527	1 437	53	230	36 278	35 338	940	1 221	30	1 251	
1982	2 081	2 586	4 667	1 293	32 932	1 879	1 751	124	294	42 939	41 847	1 090	1 571	-112	1 460	
1983	2 308	2 958	5 266	1 356	28 893	2 032	1 631	137	304	39 617	38 429	1 188	3 278	-424	2 854	
1984	2 965	3 314	6 279	1 538	34 731	2 286	1 890	200	333	47 255	45 927	1 329	4 891	-511	4 379	
1985	3 502	4 005	7 507	1 889	34 282	3 560	1 807	267	304	49 616	48 138	1 479	3 249	-744	2 507	
1986	2 982	2 211	5 193	2 558	29 038	3 551	1 664	294	295	42 593	40 925	1 668	5 783	-902	4 881	
1987	4 171	2 680	6 851	3 619	27 183	4 007	1 779	369	308	44 114	42 089	2 024	4 769	-1 092	3 677	
1988	6 317	2 019	8 336	4 730	30 756	4 927	1 957	709	374	51 790	49 478	2 312	5 391	-856	4 536	
1989	5 619	3 283	8 902	6 230	41 504	8 168	2 963	1 548	620	69 835	67 498	2 437	4 270	-489	3 781	
1990	3 928	3 478	7 404	7 132	45 071	10 773	3 556	2 204	906	77 048	74 815	2 232	5 556	-423	5 134	
Not seasonally adjusted																
1985 Q1	898	1 459	2 357	446	9 740	717	485	62	65	13 872	13 492	380	1 037	-204	834	
Q2	1 026	870	1 896	436	8 912	883	471	69	73	12 740	12 421	319	780	-127	654	
Q3	647	669	1 316	535	7 985	1 000	405	67	56	11 363	10 958	405	1 195	-239	955	
Q4	931	1 007	1 938	472	7 645	960	446	69	110	11 641	11 267	375	237	-174	64	
1986 Q1	573	732	1 305	622	7 471	890	407	69	62	10 827	10 363	464	1 289	-281	1 008	
Q2	804	461	1 265	580	6 958	900	427	65	64	10 258	9 924	334	1 375	-149	1 226	
Q3	726	310	1 036	717	7 224	883	380	71	53	10 364	9 904	460	1 812	-267	1 545	
Q4	879	708	1 587	639	7 385	878	450	89	116	11 144	10 734	410	1 307	-205	1 102	
1987 Q1	985	891	1 876	828	6 526	956	424	84	61	10 754	10 188	566	1 510	-382	1 128	
Q2	1 068	508	1 576	878	6 910	1 031	440	88	67	10 990	10 613	376	1 122	-147	975	
Q3	1 030	464	1 494	1 016	6 813	939	448	91	66	10 865	10 265	600	1 499	-373	1 126	
Q4	1 088	817	1 905	897	6 934	1 081	469	106	114	11 505	11 023	482	638	-190	448	
1988 Q1	1 419	571	1 990	1 052	7 376	972	459	147	74	12 070	11 405	665	1 265	-338	927	
Q2	1 552	449	2 001	1 136	7 381	1 066	439	160	78	12 262	11 823	439	1 425	-63	1 363	
Q3	1 613	437	2 050	1 299	7 965	1 279	492	189	83	13 357	12 665	692	1 662	-315	1 347	
Q4	1 733	562	2 295	1 243	8 034	1 610	567	213	139	14 101	13 585	516	1 039	-140	899	
1989 Q1	1 356	704	2 060	1 482	9 446	1 699	639	267	116	15 709	15 029	660	1 698	-240	1 458	
Q2	1 448	834	2 282	1 471	10 318	1 966	719	375	138	17 269	16 783	486	1 200	-14	1 214	
Q3	1 282	598	1 880	1 666	10 537	2 004	785	429	145	17 446	16 744	702	948	-237	711	
Q4	1 533	1 147	2 680	1 611	11 203	2 499	820	477	221	19 511	18 942	569	424	-26	398	
1990 Q1	1 333	672	2 005	1 812	11 196	2 540	855	505	174	19 087	18 443	644	851	-154	697	
Q2	1 029	660	1 689	1 811	11 452	2 635	901	539	206	19 234	18 679	554	776	-64	712	
Q3	827	1 117	1 944	1 760	10 645	2 668	887	554	242	18 700	18 151	549	2 055	-140	1 916	
Q4	739	1 027	1 766	1 749	11 778	2 930	913	606	284	20 027	19 542	485	1 874	-65	1 809	
Seasonally adjusted																
CGEU	HHCG	HHCH	HHIA	HHIV	HHIH	HHHX	HHHZ	HHHY	CGHJ	HHHK	HHHL	CGMW	HHHM	AIMD		
1985 Q1	897	1 112	2 009	407	9 740	763	508	62	82	13 572	13 227	344	1 057	-164	893	
Q2	950	1 044	1 994	461	8 912	876	453	69	78	12 842	12 472	370	782	-169	613	
Q3	704	988	1 692	491	7 985	961	425	67	72	11 692	11 316	378	921	-209	712	
Q4	951	861	1 812	530	7 645	960	421	89	72	11 510	11 123	389	489	-202	289	
1986 Q1	571	578	1 149	585	7 471	931	427	89	79	10 712	10 304	408	1 246	-218	1 028	
Q2	740	568	1 308	597	6 958	887	413	65	69	10 296	9 899	397	1 375	-204	1 171	
Q3	779	461	1 240	651	7 224	936	396	72	70	10 589	10 179	410	1 568	-218	1 350	
Q4	892	604	1 496	725	7 385	797	428	88	77	10 996	10 543	453	1 594	-262	1 332	
1987 Q1	984	768	1 752	768	6 526	992	441	85	74	10 638	10 172	486	1 364	-280	1 085	
Q2	991	595	1 586	916	6 910	1 028	432	89	69	11 031	10 540	491	1 131	-259	872	
Q3	1 097	677	1 774	935	6 813	984	457	94	78	11 134	10 613	521	1 199	-294	905	
Q4	1 098	640	1 739	1 000	6 934	1 003	449	101	87	11 311	10 764	546	1 075	-259	815	
1988 Q1	1 403	481	1 884	1 055	7 376	1 000	473	148	85	12 022	11 472	550	1 063	-224	839	
Q2	1 450	500	1 950	1 133	7 381	1 072	432	162	82	12 213	11 636	577	1 476	-200	1 277	
Q3	1 688	631	2 299	1 203	7 965	1 352	498	192	97	13 607	13 024	582	1 341	-205	1 136	
Q4	1 796	407	2 203	1 339	8 034	1 503	554	207	110	13 948	13 346	603	1 511	-227	1 284	
1989 Q1	1 341	632	1 973	1 576	9 446	1 735	654	269	128	15 781	15 190	591	1 400	-152	1 248	
Q2	1 359	953	2 312	1 408	10 318	1 988	712	377	142	17 257	16 657	600	1 272	-99	1 173	
Q3	1 348	795	2 143	1 541	10 537	2 115	789	433	157	17 715	17 108	607	596	-141	455	
Q4	1 571	903	2 474	1 705	11 203	2 330	808	469	193	19 182	18 543	639	1 002	-97	905	
1990 Q1	1 278	578	1 856	1 907	11 196	2 578	865	507	185	19 094	18 510	584	763	-94	669	
Q2	972	735	1 707	1 716	11 452	2 663	895	541	210	19 185	18 576	608	791	-118	673	
Q3	881	1 407	2 288	1 705	10 645	2 805	891	558	252	19 144	18 625	519	1 566	-110	1 456	
Q4	797	756	1 553	1 804	11 778	2 727	905	598	259	19 625	19 104	521	2 436	-101	2 336	

Credits										Debits					Balance		Of which: with EC institutions <sup>1</sup>
General government								General government									
European Community institutions								EC institutions									
Private	Agri- cultural Fund	Social Fund	Regional Develop- ment Fund	Negotia- ted refunds	Other	Total	Private	Bilateral aid	Before VAT abatement	VAT abatement	Other	Total	Total				
CGJV	HCOW	HDIZ	HBZA	CGPI	HHAA	HDKD	CGGV	CGEG	HHHO	HHHP	HHAB	CGGJ	CGIO	CGII			
1981	1 117	683	107	145	693	47	1 675	1 057	584	2 188	-	510	3 282	-1 547	-513		
1982	1 248	791	152	111	1 019	81	2 154	1 200	496	2 878	-	569	3 943	-1 741	-724		
1983	1 528	1 082	128	139	807	79	2 235	1 191	534	2 994	-	637	4 165	-1 593	-759		
1984	1 652	1 353	283	184	528	44	2 392	1 283	560	3 213	-	718	4 491	-1 730	-821		
1985	1 775	1 151	256	274	61	18	1 760	1 459	614	3 955	-166	784	5 187	-3 111	-2 029		
1986	1 732	1 385	335	298	-	120	2 138	1 656	656	4 513	-1 701	903	4 371	-2 157	-674		
1987	1 670	1 345	428	404	-	105	2 282	1 795	570	5 219	-1 153	923	5 559	-3 402	-1 784		
1988	1 707	1 379	277	370	-	89	2 115	2 005	756	5 150	-1 595	1 052	5 363	-3 546	-1 440		
1989	1 750	1 315	406	347	-	75	2 143	2 050	837	5 599	-1 156	1 141	6 421	-4 578	-2 300		
1990	1 800	1 496	227	440	-	30	2 193	2 100	856	5 850	-1 697	1 305	6 314	-4 421	-1 960		
Not seasonally adjusted																	
1985 Q1	440	277	101	85	61	15	539	348	290	1 137	-	241	1 668	-1 037	-598		
Q2	442	231	4	39	-	-	274	359	73	721	-	241	1 035	-678	-447		
Q3	445	305	147	78	-	-	530	370	124	1 090	-	165	1 379	-774	-560		
Q4	448	338	4	72	-	3	417	382	127	1 007	-166	137	1 105	-622	-424		
1986 Q1	438	488	8	94	-	34	624	398	292	936	-657	256	827	-163	345		
Q2	435	326	184	2	-	29	541	409	57	1 069	-225	253	1 154	-587	-303		
Q3	431	339	13	140	-	18	510	419	113	1 347	-478	230	1 212	-690	-359		
Q4	428	232	130	62	-	39	463	430	194	1 161	-341	164	1 178	-717	-357		
1987 Q1	419	626	86	125	-	36	873	433	299	1 565	-299	270	1 835	-976	-393		
Q2	418	332	226	56	-	2	616	443	66	1 312	-287	268	1 359	-768	-409		
Q3	417	294	24	119	-	37	474	454	104	1 307	-284	199	1 326	-889	-549		
Q4	416	93	92	104	-	30	319	465	101	1 035	-283	186	1 039	-769	-433		
1988 Q1	423	336	51	87	-	7	481	489	387	1 265	-283	339	1 708	-1 293	-501		
Q2	426	445	121	51	-	4	621	497	76	1 285	-270	313	1 404	-854	-394		
Q3	428	402	65	73	-	60	600	505	141	954	-648	191	638	-115	294		
Q4	430	196	40	159	-	18	413	514	152	1 646	-394	209	1 613	-1 284	-839		
1989 Q1	433	555	83	138	-	19	795	508	353	1 294	-289	296	1 654	-934	-210		
Q2	436	336	215	98	-	20	669	511	80	1 295	-289	319	1 405	-811	-337		
Q3	439	222	8	26	-	15	271	514	189	1 317	-289	278	1 495	-1 299	-757		
Q4	442	202	100	85	-	21	408	517	215	1 693	-289	248	1 867	-1 534	-996		
1990 Q1	443	470	19	198	-	21	708	518	441	1 512	-451	331	1 833	-1 200	-353		
Q2	448	305	18	36	-	3	362	523	73	1 507	-451	448	1 577	-1 290	-694		
Q3	452	340	34	64	-	1	439	527	158	1 351	-370	242	1 381	-1 017	-542		
Q4	457	381	156	142	-	5	684	532	184	1 480	-425	284	1 523	-914	-371		
Seasonally adjusted																	
1985 Q1	HHAC	HHAD				HHAE	HHAH		CGEM	HHHT		HHAG	CGHI	AIME	CGIR		
Q2	440	270	101	85	61	15	532	348	149	1 137	-	173	1 459	-835	-605		
Q3	442	292	4	39	-	-	335	359	155	721	-	193	1 069	-651	-386		
Q4	445	307	147	78	-	-	532	370	168	1 090	-	230	1 488	-881	-558		
Q4	448	282	4	72	-	3	361	382	142	1 007	-166	188	1 171	-744	-480		
1986 Q1	438	485	8	94	-	34	621	398	139	936	-657	176	594	67	342		
Q2	435	391	184	2	-	29	606	409	127	1 069	-225	205	1 176	-544	-238		
Q3	431	347	13	140	-	18	518	419	153	1 347	-478	311	1 333	-803	-351		
Q4	428	162	130	62	-	39	393	430	237	1 161	-341	211	1 268	-877	-427		
1987 Q1	419	604	86	125	-	36	851	433	140	1 565	-299	197	1 603	-766	-415		
Q2	418	385	226	56	-	2	669	443	157	1 312	-287	221	1 403	-759	-356		
Q3	417	293	24	119	-	37	473	454	144	1 307	-284	251	1 418	-982	-550		
Q4	416	63	92	104	-	30	289	465	129	1 035	-283	254	1 135	-895	-463		
1988 Q1	423	336	51	87	-	7	481	489	199	1 265	-283	286	1 467	-1 052	-501		
Q2	426	445	121	51	-	4	621	497	189	1 285	-270	240	1 444	-894	-394		
Q3	428	402	65	73	-	60	600	505	192	954	-648	234	732	-209	294		
Q4	430	196	40	159	-	18	413	514	176	1 646	-394	292	1 720	-1 391	-839		
1989 Q1	433	555	83	138	-	19	795	508	172	1 294	-289	251	1 428	-708	-210		
Q2	436	336	215	98	-	20	669	511	189	1 295	-289	243	1 438	-844	-337		
Q3	439	222	8	26	-	15	271	514	243	1 317	-289	321	1 592	-1 396	-757		
Q4	442	202	100	85	-	21	408	517	233	1 693	-289	326	1 963	-1 630	-996		
1990 Q1	443	470	19	198	-	21	708	518	221	1 512	-451	276	1 558	-925	-353		
Q2	448	305	18	36	-	3	362	523	184	1 507	-451	350	1 590	-1 303	-694		
Q3	452	340	34	64	-	1	439	527	217	1 351	-370	278	1 476	-1 112	-542		
Q4	457	381	156	142	-	5	684	532	234	1 480	-425	401	1 690	-1 081	-371		

1 This series does not have the same coverage as that shown in Table 20.1 of *The Government's Expenditure Plans 1990-1991 to 1992-1993 (Cm 1018)*. The main differences are that the latter excludes the United Kingdom's

contribution to the Community Budget expenditure on overseas aid (which is attributed to the aid programme) and includes the services credits shown in Table A5.

# A8 Summary of transactions in UK external assets and liabilities<sup>1</sup>

£ million, not seasonally adjusted

	Transactions in external assets							Transactions in external liabilities							Net trans- actions
	UK investment overseas		Lending etc to overseas residents by UK banks <sup>2</sup>	Deposits and lending overseas by UK residents other than banks and general government <sup>3</sup>	Official reserves	Other external assets of central government	Total	Overseas investment in the United Kingdom		Borrowing etc from overseas residents by UK banks <sup>2</sup>	Borrowing from overseas by UK residents other than banks and general government <sup>3</sup>	Other external liabi- lities of general government	Total		
	Direct	Portfolio						HHBV	CGOS					HEYN	
1981	-6 005	-4 467	-39 919	-2 890	2 419	93	-50 769	2 932	257	39 260	1 089	-206	43 334	-7 436	
1982	-4 091	-7 565	-20 540	-472	1 421	-161	-31 407	3 027	-11	24 325	1 070	409	28 820	-2 589	
1983	-5 417	-7 193	-18 394	702	607	-478	-30 172	3 386	1 701	21 137	-18	-584	25 622	-4 551	
1984	-6 033	-9 869	-14 372	-1 932	908	-743	-32 041	-181	1 288	24 797	-1 745	-40	24 119	-7 923	
1985	-8 456	-19 426	-21 835	-712	-1 758	-730	-52 919	3 865	9 527	29 461	3 412	24	46 290	-6 629	
1986	-11 780	-23 072	-53 840	-794	-2 891	-509	-92 888	4 987	12 234	64 155	4 332	178	85 886	-7 001	
1987	-19 198	3 323	-50 548	-4 645	-12 012	-796	-83 877	8 478	20 801	53 967	3 436	1 572	88 256	4 380	
1988	-20 861	-9 899	-19 324	-1 889	-2 761	-891	-55 625	10 235	14 394	33 542	4 531	920	63 620	7 996	
1989	-21 556	-36 105	-27 004	-8 487	5 439	-942	-88 653	17 544	10 937	42 792	20 235	1 812	93 319	4 665	
1990	-9 475	-15 049	-37 092	-7 043	-71	-1 227	-69 957	17 984	5 324	45 337	10 258	481	79 386	9 429	
1981 Q1	-1 535	-1 447	-11 199	-697	-319	85	-15 112	377	-6	9 905	484	39	10 800	-4 313	
Q2	-1 328	-1 080	-6 737	-808	1 448	-30	-8 535	1 181	-160	5 444	-523	90	6 032	-2 503	
Q3	-1 345	-810	-12 182	-709	1 167	30	-13 849	662	51	11 932	476	10	13 132	-717	
Q4	-1 797	-1 130	-9 801	-676	123	8	-13 273	712	372	11 979	652	-345	13 370	97	
1982 Q1	-1 161	-1 962	-9 827	1 379	11	-42	-11 602	1 355	-235	11 306	-958	-144	11 324	-278	
Q2	-840	-1 631	1 700	49	699	-15	-37	875	-138	-27	406	100	1 216	1 178	
Q3	-1 031	-1 771	-14 920	-358	-288	-48	-18 416	529	-389	15 666	223	389	16 418	-1 999	
Q4	-1 059	-2 201	2 507	-1 542	999	-56	-1 352	268	751	-2 620	1 399	64	-138	-1 490	
1983 Q1	-1 958	-2 051	-7 279	117	652	-203	-10 722	636	297	7 830	86	-395	8 454	-2 269	
Q2	-462	-2 011	2 085	410	-142	-74	-193	1 352	994	-1 393	-609	32	376	183	
Q3	-1 568	-1 330	-8 315	-132	-33	-89	-11 468	1 191	346	10 137	81	109	11 864	396	
Q4	-1 429	-1 801	-4 885	307	130	-112	-7 789	207	64	4 563	424	-330	4 928	-2 861	
1984 Q1	-1 673	-3 799	-9 136	710	77	-262	-14 082	1 292	285	11 521	-348	145	12 895	-1 187	
Q2	-636	-152	-7 499	-1 333	857	-151	-8 914	-2 940	-522	11 032	-866	150	6 855	-2 060	
Q3	-1 854	-2 780	5 013	-1 119	279	-135	-597	1 497	349	-2 568	-80	235	-568	-1 165	
Q4	-1 870	-3 138	-2 750	-190	-305	-195	-8 448	-30	1 176	4 812	-451	-570	4 937	-3 511	
1985 Q1	-3 353	-6 501	-6 236	-1 005	90	-214	-17 219	2 212	1 685	9 420	125	143	13 586	-3 633	
Q2	-1 666	-4 880	658	-96	-607	-186	-6 778	382	3 316	390	2 194	11	6 293	-486	
Q3	-1 982	-3 705	-10 763	556	-49	-76	-16 019	613	1 071	8 744	-411	19	10 036	-5 982	
Q4	-1 455	-4 340	-5 494	-167	-1 192	-254	-12 903	658	3 455	10 907	1 504	-149	16 375	3 472	
1986 Q1	-828	-6 542	-8 857	949	-580	63	-15 796	1 303	1 898	11 607	-1 064	134	13 878	-1 918	
Q2	-1 741	-6 434	-6 060	-655	-296	-153	-15 339	977	2 560	7 597	1 207	130	12 471	-2 867	
Q3	-3 766	-7 271	-28 758	-1 293	-2 321	-160	-43 570	1 505	3 858	33 762	4 063	111	43 298	-272	
Q4	-5 445	-2 825	-10 165	205	306	-259	-18 183	1 202	3 918	11 189	126	-197	16 239	-1 944	
1987 Q1	-2 607	-4 266	-7 424	-1 606	-1 523	-213	-17 639	1 695	5 053	11 352	1 026	-5	19 121	1 483	
Q2	-5 763	-208	-15 139	-533	-4 469	-159	-26 271	451	4 555	20 662	684	764	27 117	846	
Q3	-7 605	502	-16 997	-1 771	-269	-167	-26 308	2 487	8 102	13 354	1 194	26	25 164	-1 144	
Q4	-3 223	7 295	-10 988	-735	-5 751	-257	-13 659	3 845	3 091	8 599	532	787	16 854	3 195	
1988 Q1	-4 902	-1 579	1 217	912	-653	-208	-5 213	4 431	2 701	1 329	1 020	-427	9 053	3 840	
Q2	-5 603	-3 737	-8 744	-1 088	-631	-200	-20 003	1 236	3 019	13 786	1 697	176	19 914	-89	
Q3	-3 941	-933	-16 741	-258	-995	-215	-23 083	1 541	6 754	17 021	1 103	-116	26 303	3 220	
Q4	-6 415	-3 650	4 944	-1 455	-482	-268	-7 326	3 027	1 920	1 406	711	1 287	8 350	1 025	
1989 Q1	-6 887	-6 765	-15 134	-766	502	-193	-29 243	4 746	-832	22 778	5 163	213	32 068	2 824	
Q2	-5 835	-9 005	1 265	-4 334	2 134	-290	-16 065	5 366	4 148	-2 283	7 838	60	15 128	-936	
Q3	-4 288	-8 589	-7 971	744	357	-206	-19 952	2 380	5 324	17 430	4 082	580	29 796	9 844	
Q4	-4 546	-11 746	-5 164	-4 131	2 446	-253	-23 393	5 052	2 297	4 867	3 152	959	16 327	-7 067	
1990 Q1	-2 481	-2 386	-8 516	-1 530	129	-142	-14 926	7 038	587	11 517	5 522	-298	24 366	9 440	
Q2	-106	-708	-371	-1 478	-76	-455	-3 194	3 592	1 072	-2 438	1 208	1 053	4 488	1 294	
Q3	-2 842	622	-22 780	-5 963	-432	-175	-31 570	5 614	2 416	18 271	5 440	1 438	33 179	1 609	
Q4	-4 046	-12 577	-5 425	1 928	308	-455	-20 267	1 740	1 249	17 987	-1 912	-1 712	17 353	-2 914	

1 UK assets: increase/-decrease+. UK liabilities: increase+/-decrease-.

2 Prior to 1979 foreign currency lending abroad (other than certain export credit extended) is recorded on a net basis under liabilities. Prior to 1982 includes transactions by "other financial institutions", which are subsequently included in transactions by UK residents other than banks and general government.

3 Only partial coverage for the most recent quarter - see Table A12.

# A9 Direct Investment

£ million, not seasonally adjusted

	Investment overseas by UK residents (Transactions in assets)			Investment in UK by overseas residents (Transactions in liabilities)					
	All companies and miscellaneous		Total direct investment	In non-oil companies		In oil companies		Miscell- aneous	Total direct investment
	Unremitted profits	Other		Unremitted profits	Other	Unremitted profits	Other		
	HHDR	HHDS	HHBV	CGLU	CGLM	HERX	HEYZ	CGLO	HHBU
1985	-4 848	-3 608	-8 456	1 661	-92	2 079	127	90	3 865
1986	-4 552	-7 228	-11 780	732	2 133	501	1 429	192	4 987
1987	-7 331	-11 867	-19 198	2 116	4 280	1 171	448	463	8 478
1988	-8 223	-12 638	-20 861	1 363	5 734	843	1 849	446	10 235
1989	-9 082	-12 474	-21 556	1 914	12 430	1 657	374	1 169	17 544
1990	-10 122	647	-9 475	2 454	11 428	2 093	890	1 119	17 984
1987 Q1	-2 001	-806	-2 607	509	268	814	-99	203	1 695
Q2	-1 805	-3 958	-5 763	765	337	55	-755	49	451
Q3	-1 856	-5 749	-7 605	748	1 400	95	192	52	2 487
Q4	-1 669	-1 554	-3 223	94	2 275	207	1 110	159	3 845
1988 Q1	-1 857	-3 045	-4 902	528	584	320	2 926	73	4 431
Q2	-1 576	-4 027	-5 603	238	1 321	48	-405	34	1 236
Q3	-2 372	-1 569	-3 941	1 071	556	307	-473	80	1 541
Q4	-2 418	-3 997	-6 415	-474	3 273	168	-199	259	3 027
1989 Q1	-1 669	-5 218	-6 887	1 007	2 516	541	575	107	4 746
Q2	-2 332	-3 503	-5 835	1 068	3 170	559	209	360	5 366
Q3	-2 446	-1 842	-4 288	835	1 627	404	-775	289	2 380
Q4	-2 635	-1 911	-4 546	-996	5 117	153	365	413	5 052
1990 Q1	-2 713	232	-2 481	1 051	3 995	534	1 189	269	7 038
Q2	-1 918	1 812	-106	803	2 763	430	-504	100	3 592
Q3	-3 430	588	-2 842	589	3 225	1 001	299	500	5 614
Q4	-2 061	-1 985	-4 046	11	1 445	128	-94	250	1 740

# A10 Portfolio Investment

£ million, not seasonally adjusted

	Investment overseas by UK residents (Transactions in assets)				Investment in UK securities by overseas residents (Transactions in liabilities)							
	UK banks	Other financial institutions <sup>1</sup>	Other	Total portfolio investment	British government stocks		British government foreign currency notes and bonds	Local author- ities' securities	Public corpor- ations' securities	UK companies' securities		
					Overseas monetary author- ities	Other overseas residents				Bonds etc	Ordinary shares	Total portfolio investment
HHAL	HHAM	HHAN	CGOS	AING	CGLV	HEZP	HHIG	HEZX	HGDY	HGDZ	HEYR	
1985	-10 120	-7 224	-2 082	-19 426	1 482	1 438	294	-3	-10	3 678	2 649	9 527
1986	-7 563	-14 370	-1 139	-23 072	278	1 904	1 153	-1	-4	3 246	5 659	12 234
1987	294	7 549	-4 521	3 323	1 322	3 027	-556	-1	-113	3 755	13 367	20 801
1988	-1 163	-5 708	-3 028	-9 899	505	335	569	-	-56	7 744	5 297	14 394
1989	-5 885	-21 406	-8 814	-36 105	-683	-1 214	-50	-	-409	9 100	4 193	10 937
1990	-6 360	-1 653	-7 036	-15 049	-300	-4 153	19	-	-7	7 000	2 765	5 324
1987 Q1	116	-2 103	-2 279	-4 266	30	624	-170	-1	-76	500	4 146	5 053
Q2	73	644	-925	-208	583	542	-25	-	4	1 300	2 151	4 555
Q3	-112	1 910	-1 296	502	1 302	1 063	-208	-	-40	800	5 185	8 102
Q4	217	7 098	-21	7 295	-593	798	-153	-	-1	1 155	1 885	3 091
1988 Q1	-209	-311	-1 059	-1 579	398	96	-25	-	4	1 444	784	2 701
Q2	-1 106	-2 363	-268	-3 737	62	458	175	-	-9	2 200	133	3 019
Q3	541	-580	-894	-933	-83	26	285	-	-8	2 900	3 634	6 754
Q4	-389	-2 454	-807	-3 650	128	-245	134	-	-43	1 200	746	1 920
1989 Q1	-1 213	-3 832	-1 720	-6 765	-481	123	88	-	-245	1 500	-1 817	-832
Q2	-1 152	-5 941	-1 912	-9 005	-282	-758	-50	-	-26	800	4 464	4 148
Q3	-1 052	-6 265	-1 272	-8 589	67	550	-308	-	23	4 800	192	5 324
Q4	-2 468	-5 368	-3 910	-11 746	13	-1 129	220	-	-161	2 000	1 354	2 297
1990 Q1	-2 424	1 585	-1 547	-2 386	14	-1 559	-61	-	11	1 500	682	587
Q2	706	-945	-469	-708	-494	-360	78	-	-24	1 500	372	1 072
Q3	-211	2 307	-1 474	622	436	-959	1	-	6	2 300	632	2 416
Q4	-4 431	-4 600	-3 546	-12 577	-256	-1 275	1	-	-	1 700	1 079	1 249

<sup>1</sup> Includes securities dealers from 1984.



# A11 Transactions of UK banks (excluding direct and portfolio investment)

£ million, not seasonally adjusted

	Transactions in external assets							Transactions in external liabilities					Net transactions			
	Foreign currency lending abroad			Sterling lending abroad				Borrowing and deposit liabilities abroad					Total	Foreign currency	Sterling	Total
	Identified long-term export credit	Other	Total	Identified export credit	Other	Total	Total	Foreign currency	Overseas authorities' exchange reserves	Sterling						
										Other	Total					
HEZY	HGCD	HEZZ	HHIL	HCAE	HCAD	HEYN	HCAF	HCHE	CGDI	HEPD	HEYS	HCAG	HCAH	HCAI		
1985	505	-20 705	-20 200	90	-1 725	-1 635	-21 835	25 306	150	4 005	4 155	29 461	5 106	2 520	7 626	
1986	699	-48 584	-47 885	-116	-5 839	-5 955	-53 840	58 550	-283	5 888	5 605	64 155	10 665	-350	10 315	
1987	657	-46 567	-45 910	518	-5 156	-4 638	-50 548	45 430	1 681	6 856	8 537	53 967	-480	3 899	3 419	
1988	260	-15 034	-14 754	247	-4 817	-4 570	-19 324	19 998	2 132	11 412	13 544	33 542	5 244	8 974	14 218	
1989	271	-24 388	-24 117	217	-3 104	-2 887	-27 004	32 510	274	10 008	10 282	42 792	8 393	7 395	15 788	
1990	25	-33 382	-33 357	382	-4 117	-3 735	-37 092	33 213	1 754	10 370	12 124	45 337	-144	8 389	8 245	
1987 Q1	286	-6 448	-6 162	97	-1 359	-1 262	-7 424	8 904	434	2 014	2 448	11 352	2 742	1 186	3 928	
Q2	98	-15 261	-15 163	118	-94	24	-15 139	19 322	-417	1 757	1 340	20 662	4 159	1 364	5 523	
Q3	190	-14 559	-14 369	158	-2 786	-2 628	-16 997	10 505	343	2 506	2 849	13 354	-3 864	221	-3 643	
Q4	83	-10 299	-10 216	145	-917	-772	-10 988	6 699	1 321	579	1 900	8 599	-3 517	1 128	-2 389	
1988 Q1	125	3 420	3 545	75	-2 403	-2 328	1 217	-1 993	545	2 777	3 322	1 329	1 552	994	2 546	
Q2	63	-4 303	-4 240	45	-4 549	-4 504	-8 744	4 988	831	7 967	8 798	13 786	748	4 294	5 042	
Q3	64	-15 637	-15 573	72	-1 240	-1 168	-16 741	14 584	-27	2 464	2 437	17 021	-989	1 269	280	
Q4	28	1 486	1 514	55	3 375	3 430	4 944	2 419	783	-1 796	-1 013	1 406	3 933	2 417	6 350	
1989 Q1	3	-16 350	-16 347	-155	1 368	1 213	-15 134	19 296	1 359	2 123	3 482	22 778	2 949	4 695	7 644	
Q2	64	4 349	4 413	127	-3 275	-3 148	1 265	-5 451	-824	3 992	3 168	-2 283	-1 038	20	-1 018	
Q3	101	-8 347	-8 246	105	170	275	-7 971	13 308	452	3 670	4 122	17 430	5 062	4 397	9 459	
Q4	103	-4 040	-3 937	140	-1 367	-1 227	-5 164	5 357	-713	223	-490	4 867	1 420	-1 717	-297	
1990 Q1	91	-7 498	-7 407	182	-1 291	-1 109	-8 516	6 525	268	4 724	4 992	11 517	-882	3 883	3 001	
Q2	31	1 403	1 434	42	-1 847	-1 805	-371	-3 711	1 094	179	1 273	-2 438	-2 277	-532	-2 809	
Q3	7	-22 382	-22 375	35	-440	-405	-22 780	16 992	-289	1 568	1 279	18 271	-5 383	874	-4 509	
Q4	-104	-4 905	-5 009	123	-539	-416	-5 425	13 407	681	3 899	4 580	17 987	8 398	4 164	12 562	

# A13 Transactions of general government (excluding portfolio liabilities)

£ million, not seasonally adjusted

	Transactions in external assets					Transactions in external liabilities									
	Official reserves	Inter-government loans by UK	Export credit	Other	Total	IMF	Inter-government loans to UK	Borrowing from banks etc overseas by		Treasury bills		Non-interest bearing notes	Other	Total	Net transactions
								HM Government	Local authorities <sup>1</sup>	Sterling	ECUs				
	AIPA	HEUC	HEPF	HHIC	HEUI	AION	HEUL	HCJN	HEUQ	AARB	HHNW	HCHO	HHIB	HEUR	HCCG
1985	-1 758	52	-573	-209	-2 488	-	-86	-	85	-13	-	28	11	24	-2 464
1986	-2 891	69	-352	-227	-3 401	-	-86	-	99	207	-	-248	207	178	-3 223
1987	-12 012	84	-671	-210	-12 808	-	-69	-	102	1 104	-	273	162	1 572	-11 236
1988	-2 761	66	-702	-255	-3 652	-	-73	-	-10	25	753	-70	295	920	-2 733
1989	5 439	47	-604	-384	4 497	-	-83	-	-65	888	780	205	87	1 812	6 308
1990	-71	51	-864	-414	-1 298	-	-71	-396	-65	251	433	-194	523	481	-817
1987 Q1	-1 523	21	-149	-85	-1 736	-	-	-	7	-11	-	131	-132	-5	-1 741
Q2	-4 469	22	-164	-17	-4 628	-	-1	-	96	375	-	179	115	764	-3 864
Q3	-269	24	-144	-47	-436	-	-	-	-6	40	-	-39	31	26	-410
Q4	-5 751	17	-214	-61	-6 008	-	-68	-	5	700	-	2	148	787	-5 221
1988 Q1	-653	23	-148	-83	-861	-	-	-	22	-335	-	-29	-85	-427	-1 289
Q2	-631	16	-156	-60	-831	-	-	-	-12	179	-	53	-44	176	-655
Q3	-995	15	-169	-61	-1 210	-	-	-	-6	-119	-	-10	19	-116	-1 326
Q4	-482	12	-229	-51	-750	-	-73	-	-14	300	753	-84	405	1 287	537
1989 Q1	502	17	-98	-113	309	-	-	-	-6	-161	553	130	-303	213	521
Q2	2 134	6	-227	-68	1 844	-	-	-	-15	231	-110	-46	-	60	1 904
Q3	357	11	-105	-112	151	-	-	-	-12	451	-237	-43	421	580	731
Q4	2 446	13	-174	-91	2 193	-	-83	-	-32	367	574	164	-31	959	3 152
1990 Q1	129	13	-94	-60	-13	-	-	-129	-21	-356	182	-54	80	-298	-311
Q2	-76	14	-335	-134	-531	-	-	-249	-16	1 183	136	-46	45	1 053	522
Q3	-432	10	-116	-69	-607	-	-	-11	-8	1 142	262	-53	106	1 438	831
Q4	308	14	-319	-151	-147	-	-71	-7	-20	-1 718	-147	-41	292	-1 712	-1 859

1 Including Northern Ireland central government.

# The Budget: 19 March 1991

The following are the proposed changes in taxation and national insurance as set out in the *Financial Statement and Budget Report 1991-92* (HMSO March 1991) (Price £9.25)

## Income tax

The personal allowance will be increased in line with the statutory indexation provisions (based on the increase of 9.3 per cent in the RPI in the year to December 1990). So will the higher rates of the personal allowances and the married couple's allowances for those aged 65 and over. Other allowances will remain at their present levels. The allowances for 1991-92 will be:

- personal allowance £3,295 (up £290);
- married couple's allowance, additional personal allowance and widow's bereavement allowance £1,720 (no change);
- for those aged 65 to 74: personal allowance £4,020 (up £350) and married couple's allowance £2,355 (up £210);
- for those aged 75 and over: personal allowance £4,180 (up £360) and married couple's allowance £2,395 (up £210);
- the income limit for age-related allowances £13,500 (up £1,200);

The basic rate limit will be increased from £20,700 to £23,700 of taxable income, £1,000 more than under statutory indexation.

## Mortgage interest relief

Tax relief on mortgage interest will be limited to the basic rate of income tax from 6 April 1991.

## Benefits-in-kind

Car benefit scale charges will be increased by 20 per cent from 6 April 1991.

A standard benefit-in-kind charge for mobile telephones, including those fitted in cars, will be introduced from 6 April 1991.

The arrangements for setting the "official rate" of interest, which is used to measure the taxable benefit of cheap loans provided by employers, will be revised to bring it more into line with typical mortgage rates.

## Training

Income tax relief for fees paid by trainees for qualifying vocational training courses will be introduced from 6 April 1992.

## Employee participation

The rate of relief for profit-related pay under a registered scheme will be doubled so that all of it will be tax free, subject to the existing limits.

An incentive will be introduced for employers to set up all-employee share schemes and tax reliefs associated with approved employee share schemes will be extended.

## Savings

The PEP scheme will be extended to allow investment of up to £3,000 a year in a single company Personal Equity Plan, over and above the present limit of £6,000 in an ordinary PEP. It will be possible to transfer shares in an all-employee scheme to a single company PEP without incurring capital gains tax. The range of eligible investments in a PEP will be extended to include equities quoted in other EC states.

The premium limit on all tax-exempt policies issued by friendly societies will be raised from £150 to £200 a year and restrictions on policies for children will be lifted.

## Charitable giving

The upper limits for tax relief for single donations from companies or individuals will be abolished from 19 March 1991.

## Foreign earnings

The foreign earnings deduction will be extended to enable those forced to break off employment in Iraq or Kuwait because of the Gulf crisis to qualify for relief.

The period seafarers can spend at home while still qualifying for the foreign earnings deduction on overseas earnings will be doubled.

## Business taxation

The main rate of corporation tax for 1990-91 will be reduced from 35 per cent to 34 per cent; and for 1991-92 to 33 per cent.

Companies will be allowed to carry back trading losses for three years, instead of one year.

The profits limit for the small companies' corporation tax rate of 25 per cent will be raised from £200,000 to £250,000 for 1991-92 and the limit for marginal relief will be raised from £1 million to £1.25 million.

Unincorporated traders will be allowed to set trading losses against capital gains from 6 April 1991.

Employers whose average monthly PAYE/NIC bill is less than £400 will be allowed to pay PAYE/NIC quarterly rather than monthly.

The turnover limit below which only a simple three-line statement of account is required for business or rental income will be raised for accounts received after 6 April 1992.

## Building societies

Legislation will be introduced to establish that interest and dividends paid by certain building societies in transitional periods on the change to the present system of accounting for composite rate tax in 1986 may be charged to tax at rates in force for 1985-86.

## Capital gains tax

The capital gains tax annual exempt amount for 1991-92 will be increased in line with the statutory indexation provisions from £5,000 to £5,500 in the case of individuals and from £2,500 to £2,750 in the case of most trusts.

The qualifying age for capital gains tax retirement relief will be reduced from 60 to 55; and the relief will be available for 100 per cent of the first £150,000 (up £25,000) of real gain, and on 50 per cent of the next £450,000 (up £75,000).

The period after moving out during which a home can be sold without the owner's private residence relief for capital gains tax being affected will be extended from two to three years. The maximum exemption available when a taxpayer lets part of his or her home will be increased from £20,000 to £40,000.



### **Trusts**

Measures will be introduced to counter avoidance of capital gains tax through non-resident trusts.

### **Inheritance tax**

The threshold for inheritance tax will be increased in line with the statutory indexation provisions from £128,000 to £140,000 from 6 April 1991.

### **Stamp duties**

The abolition of the duties on securities, announced in the last Budget, is now assumed to take place from 1 April 1992, rather than 1 January 1992 as assumed in the Financial Statement and Budget Report 1990-91. Stamp duties on transfers of property other than land and buildings will be abolished from the same day as the duties on securities. Stamp duty on Northern Ireland bank notes will be abolished from 1 January 1992.

### **Value added tax**

The standard rate of value added tax (VAT) will be raised from 15 per cent to 17½ per cent from 1 April 1991.

The turnover limit for VAT registration will be raised from £25,400 to £35,000 from 20 March 1991.

The waiting period for relief on written-off bad debts will be reduced from two years to one year from 1 April 1991.

The rate of serious misdeclaration penalty will be temporarily reduced from 30 to 20 per cent from 20 March 1991 pending the outcome of a review of the penalty. Administrative changes will be made so that the penalty operates more fairly.

From 1 April 1991, VAT relief for charities will be extended to television, radio and cinema advertising; the sale of donated goods by all charities; one-off fund-raising events by charities' trading subsidiaries; donated medical and scientific equipment used in veterinary research; and certain donated equipment directly used in veterinary research.

### **Excise duties**

The rate of pool betting duty will be reduced from 40 per cent to 37½ per cent, for a period of four years, provided that the pools promoters pass the full amount saved to a new foundation to be used for the benefit of sports and the arts together with a further contribution of twice that amount which they will collect. The cut will be conditional upon satisfactory arrangements being made, including the terms and conditions for a trust.

The duty on beer, wines and spirits will rise by 9.3 per cent, in line with the increase in the RPI in the year to December 1990. As already announced, the duty on beer will be levied on the finished product, instead of the "worts", from a date to be announced.

The duty on cigarettes, cigars, hand-rolling tobacco and pipe tobacco will rise by 15 per cent.

The duty on leaded petrol, unleaded petrol and derv will rise by 15 per cent.

### **Vehicle excise duties**

Duty on cars, buses, light vans, lorries and most other vehicles will remain unchanged. Consequently, the overall increase in motoring duties (fuel duties and vehicle excise duties) will be 11.4 per cent.

### **Benefits-in-kind**

Employers will pay contributions on the benefit of cars provided for the private use of employees from 1991-92, based on the scale charges set for income tax. Employees will be exempted from contributions.

Employers' current liability to contributions on free fuel available for employees' private use in company cars will be assessed from 1991-92 using the scale charges set for income tax. Employees will be exempted from contributions. Changes to national insurance contributions will be included in a separate Bill to be presented to Parliament.

### **Community charge**

The community charge throughout Great Britain will be reduced by £140 in 1991-92. The details are set out below.

### **Community charge reduction**

The Government's review of local government has concluded that the level of the community charge is unsustainably high, and that the immediate priority is to reduce it. It is therefore proposed to reduce the charge substantially from 1991-92.

The headline community charge for 1991-92 will be reduced throughout Great Britain by £140. The average headline charge will fall from £385 to £245 and the average amount actually paid, after taking account of rebates and reliefs, to below £175. Domestic rates in Northern Ireland will also be reduced. The yield of the community charge and Northern Ireland rates, net of reliefs and rebates, will be reduced by some £4.3 billion in 1991-92 and £4.5 billion in 1992-93, as set out in Table 4.1.

The Government proposes to take powers to pay extra grant to local authorities, and to ensure that this is fully reflected in reduced community charges. This will raise the public expenditure planning total, but there will be an offsetting reduction in local authority self-financed expenditure so that total general government expenditure will be unaffected. The public expenditure consequences are explained in detail in Chapter 5.

The reduction in the community charge will be financed by an increase in central government taxation. The main source of additional revenue proposed in the Budget is an increase in the standard rate of VAT from 15 per cent to 17½ per cent from 1 April.



## Direct effects of Budget measures

£ million			
Estimated effect on receipts in:			1992-93
1991-92			
Changes from a non-indexed base	Changes from an indexed base		Changes from an indexed base
<b>INLAND REVENUE</b>			
<b>Income tax</b>			
1 Increase in personal allowance of £290	- 1420	-	-
2 No change in married couple's allowance (for those aged under 65), additional personal allowance and widow's bereavement allowance	-	+ 360	+ 490
3 Increases for those aged 65 to 74 of £350 in personal allowance and £210 in married couple's allowance	- 140	-	-
4 Increases for those aged 75 and over of £360 in personal allowance and £210 in married couple's allowance	- 60	-	-
5 Increase in income limit for age-related-allowances of £1200	- 15	-	-
6 Increase in basic rate limit of £3000	- 470	- 140	- 240
7 Restriction of mortgage interest relief to basic rate	+ 220	+ 220	+ 420
8 Mortgage interest relief: caravans	*	*	*
9 Benefits-in-kind: increase in car scales of 20 per cent	+ 190	+ 190	+ 250
10 Benefits-in-kind: standard charge for mobile telephones	+ 10	+ 10	+ 65
11 Benefits-in-kind: revised arrangements for beneficial loans	- 5	- 5	- 10
12 Relief for vocational training fees	-	-	- 15
13 Full relief for profit-related pay	- 35	- 35	- 60
14 Linkage between approved discretionary and all-employee share schemes	*	*	- 15
15 Increase in approved all-employee share scheme limits	*	*	*
16 Foreign earnings deduction: extension for employees in Kuwait or Iraq	- 5	- 5	-
17 Foreign earnings deduction: extension for seafarers	- 10	- 10	- 10
18 Quarterly payments for small employers (PAYE)	- 120	- 120	*
19 Increase in turnover limit for simplified accounts	-	-	*
20 Building societies: 1986 transitional provisions	+ 250	+ 250	-
21 Abolition of CRT: penalties for false registration for gross payment	*	*	*
<b>Income tax and corporation tax</b>			
22 Life assurance companies	*	*	+ 20
23 Friendly societies	*	*	*
24 Abolition of upper limit on relief for single donations to charities	*	*	*
25 Relief for gifts of equipment to educational establishments	*	*	*
26 Capital allowances for VAT adjustments on capital goods	*	*	*
27 Capital allowances for toll roads	*	*	*
28 Investment managers: changes to rules	*	*	*
29 Options: relaxation of anti-bondwashing rules	-	-	*
30 Interest on new issues of securities	*	*	*
31 Stock lending and manufactured dividends	*	*	*
<b>Income tax and capital gains tax</b>			
32 Improvements to Personal Equity Plans	*	*	- 10
33 Set off of trading losses against capital gains	-	-	- 35
<b>Income tax, corporation tax and capital gains tax</b>			
34 Building societies' permanent interest bearing shares	*	*	*
<b>Corporation tax</b>			
35 Reduction in main rate for 1990-91 to 34 per cent	- 380	- 380	- 480
36 Reduction in main rate for 1991-92 to 33 per cent	*	*	- 350
37 Extension of carry back for trading losses	*	*	- 250
38 Increase in profits limits for small companies' rate and marginal relief	*	*	- 20
39 Extension of definition of normal commercial loan	*	*	*
40 Increase in limits for provident benefits paid by trade unions	*	*	*
41 Relief for costs of introducing employee share schemes	*	*	*
<b>Capital gains tax</b>			
42 Indexation of the annual exempt amount	-	-	-
43 Improvement of retirement relief	*	*	- 45
44 Extension of private residence relief	*	*	*
<b>Capital gains tax and corporation tax</b>			
45 Non-resident trusts: anti-avoidance measures	*	*	+ 10
46 Rebasing of capital gains: technical issues	*	*	*
47 Convertible bonds: changes to exempt status rules	*	*	*
48 Business start-up scheme shares	*	*	*
49 Unremittable gains: technical changes	-	-	-
<b>Oil taxation</b>			
50 Oil field abandonment	*	*	*
51 Proceedings for PRT penalties	*	*	*
<b>Inheritance tax</b>			
52 Indexation of threshold	- 45	-	-
<b>Stamp duties</b>			
53 Postponement of abolition of duties on securities	+ 165	+ 165	+ 60
54 Abolition of minor duties	-	-	- 15
<b>TOTAL INLAND REVENUE</b>	<b>- 1870</b>	<b>+ 500</b>	<b>- 240</b>

\* = Negligible

- = Nil

# Direct effects of Budget measures (continued)

£ million

	Estimated effect on receipts in:		1992-93
	1991-92		
	Changes from a non-indexed base	Changes from an indexed base	Changes from an indexed base
<b>CUSTOM AND EXCISE</b>			
<b>Value added tax</b>			
55 Increase in standard rate to 17½ per cent	+ 3900	+ 3900	+ 5515
56 Increase in registration limit	- 25	- 25	- 40
57 Revised bad debt relief provisions	- 190	- 190	- 50
58 Revision of VAT penalty regime	- 30	- 30	- 30
59 Minor business measures	*	*	*
60 Reliefs for charities	- 5	- 5	- 5
61 Extension of group treatment	*	*	*
62 Road fuel for business journeys	-	-	-
63 Statutory provision for ex-gratia payments	- 5	- 5	- 5
<b>Car tax</b>			
64 Relief for cars where lessor is a charity	*	*	*
65 Relief for cars used for research	*	*	*
<b>Excise duties</b>			
66 Increase in duty on cigarettes, cigars, hand-rolling tobacco and pipe tobacco of 15 per cent	+ 735	+ 290	+ 335
67 Increase in duty on leaded petrol of 15 per cent	+ 665	+ 260	+ 265
68 Increase in duty on unleaded petrol of 15 per cent	+ 470	+ 180	+ 230
69 Increase in duty on derv of 15 per cent	+ 290	+ 110	+ 130
70 Increase in duty on rebated oils of 9.3 per cent	+ 15	-	-
71 Increase in duty on beer of 9.3 per cent	+ 145	+ 5	+ 5
72 Increase in duty on wine and made wine of 9.3 per cent	+ 55	-	-
73 Increase in duty on spirits of 9.3 per cent	+ 105	+ 5	+ 5
74 Increase in duty on cider and perry of 9.3 per cent	+ 5	-	-
75 Reduction in rate of pool betting duty to 37½ per cent	- 15	- 15	- 20
76 Restructuring of gaming licence duty	+ 10	+ 10	- 5
77 Introduction of registered excise dealers and shippers	*	*	*
<b>TOTAL CUSTOMS AND EXCISE</b>	<b>+ 6125</b>	<b>+ 4490</b>	<b>+ 6330</b>
<b>Vehicle excise duty</b>			
78 No change in rates for cars, buses, lorries and other vehicles	-	- 270	- 280
79 Increase in rates for motorcycles	+ 5	+ 5	+ 5
80 Single increased rate for tricycles	*	*	*
81 Increase in rates for special machines and recovery vehicles	+ 5	+ 5	+ 5
<b>TOTAL VED</b>	<b>+ 10</b>	<b>- 260</b>	<b>- 270</b>
<b>National insurance contributions</b>			
82 Employers' contributions on private benefit of company cars	-	-	+ 550
83 Employers' contributions on free fuel for private use	-	-	+ 60
84 Quarterly payments for small employers	- 90	- 90	*
<b>TOTAL NATIONAL INSURANCE CONTRIBUTIONS</b>	<b>- 90</b>	<b>- 90</b>	<b>+ 610</b>
<b>TOTAL CENTRAL GOVERNMENT TAXATION AND NATIONAL INSURANCE</b>	<b>+ 4175</b>	<b>+ 4640</b>	<b>+ 6430</b>
<b>Community charge</b>			
85 Charge reduced by £140 in 1991-92	- 4345	- 4345	- 4540
<b>TOTAL GENERAL GOVERNMENT RECEIPTS</b>	<b>- 170</b>	<b>+ 295</b>	<b>+ 1890</b>

\* = Negligible

- = Nil

# ANNEX

## How the figures have been calculated

The table gives the direct effects on receipts of changes in taxation, national insurance and the community charge. Estimates are rounded to the nearest £5 million. 'Negligible' means less than £3 million. Measures are costed in the order in which they appear in the table.

The direct effect of a tax change is the difference between the yield of tax which would arise on the basis of the rates of tax, allowances, etc prevailing before the Budget (the pre-Budget regime) and the yield after the changes proposed in the Budget (the post-Budget regime). The difference in yield is generally calculated by applying the pre- and post-Budget regimes to the same tax base. This base is the post-Budget base—that is, the levels of income, consumption, profits, etc forecast for future years on the assumption that all the measures proposed in the Budget take effect.

Thus the direct effects are estimated subject to the constraint that, in general, total incomes and total expenditure are fixed at their post-Budget levels. In other words the estimates in the table do not include income effects—that is, effects arising solely from the impact of changes in tax on disposable income. Nor do they include the effects of changes in the tax base arising from changes in pre-tax incomes, the general level of prices or other macro-economic variables which may result from the proposed tax changes.

Other behavioural effects are taken into account where it is thought that they will have a significant effect on the yield, for example tax changes which alter the allocation of savings between different financial instruments or affect the composition of expenditure. Some change between the pre- and post-Budget tax bases is thus implicitly allowed for in these cases, subject to the overall constraint on total incomes and expenditure outlined above.

For Customs and Excise taxes and duties, all the estimates of yield incorporate the effects of the tax changes on relative prices and associated changes in the pattern of consumers' expenditure. Aggregate income and consumers' expenditure at factor cost are assumed not to change. Examples where behavioural effects are taken into account for Inland Revenue taxes include changes involving the take-up of a new or modified relief and the abolition of stamp duties on securities.

Most of the figures for direct effects shown in the table represent the change in the yield of the tax in question. Where appropriate, however, the effects on the yield of other taxes are also incorporated. For example, the direct effect of a change in the excise duties on tobacco incorporates, in addition to the change in the yield from tobacco duties, the change in the yield of VAT and other excise duties resulting from changes in the composition of consumers' expenditure. As a general rule, only repercussions on the yield of other taxes of the same type are allowed for, such as other taxes on expenditure in the case of tobacco duties but not taxes on income or profits.

The figures in the first column of the table show the direct effect of the Budget proposals on receipts in 1991-92. Budget proposals are compared with a non-indexed base—that is, with the pre-Budget regime of allowances, thresholds and rates of duty at 1990-91 levels.

The figures in the second column show the direct effect of the Budget proposals on receipts in 1991-92, measured against an indexed base. The indexed base for 1991-92 is obtained by increasing allowances, thresholds and rates of duty in line with the increase in the RPI over the year to December 1990 (9.3 per cent).

The figures in the third column show the direct effect on receipts in 1992-93, also measured against an indexed base. For this comparison, both the Budget proposals and the indexed base for 1991-92 have been further indexed by the forecast movement in the RPI between the fourth quarters of 1990 and 1991.

The following paragraphs refer by number to individual line entries in the table.

## Income tax

1 and 3 to 5 The increases in the personal allowance, the age-related personal and married couple's allowances (for those with incomes below the income limit), and the income limit for age-related allowances are all in line with the statutory indexation provisions (based on the increase of 9.3 per cent in the RPI in the year to December 1990.)

2 The married couple's allowance for those aged under 65, the additional personal allowance and the widow's bereavement allowance are all unchanged at £1720.

6 The increase in the basic rate limit is 14.5 per cent.

7 Higher rate relief for mortgage interest will be withdrawn from 6 April 1991. Higher rate relief for interest on loans for the purchase or improvement of let property is not affected. Transitional higher rate relief on an existing loan will be allowed where relief restricted to the basic rate is also allowable on a second (bridging) loan made before 6 April 1991. Employees paying higher rate tax will be taxed at the difference between basic and higher rates on the benefit of the first £30,000 of beneficial home loans from their employers. The entries in the table are calculated on the basis that current mortgage interest rates (assumed to be 13.75 per cent) remain unchanged.

8 Mortgage interest relief will be allowed on a loan for the purchase of a small caravan used or intended to be used as a person's main residence without any requirement for the caravan to be a rateable hereditament.

9 For 1991-92 the scales for taxing car benefits will be increased by 20 per cent from their 1990-91 levels.

10 A new benefit-in-kind charge will be introduced from 6 April 1991 to tax the benefit from the private use of a telephone fitted in a car provided by an employer. Tax will be paid on a standard amount of £200. The same charge will be used to value the private benefit of a mobile telephone, which is already taxable.



11 The arrangements for setting the "official rate" of interest, which is used to calculate the taxable benefit of loans made by employers and the "additional charge" in respect of accommodation provided by employers which costs more than £75,000, will change from 6 April 1991. The present formula (average base rate plus 1.5 per cent) will be discontinued, and the "official rate" will be specified in a Treasury order. The intention is that this will broadly reflect typical mortgage rates. The de minimis limit, under which small benefits from cheap loans (such as those for season tickets) are disregarded, will be increased from £200 to £300 from 1991-92.

12 From 6 April 1992 fees paid by trainees for courses leading to national and Scottish vocational training qualifications up to level 4 will qualify for tax relief. Relief at the basic rate will be given by deduction at source from fees paid; higher rate relief where applicable, will be given separately. Costs are likely to increase in future years as more qualifying courses become available and with take-up. The cost shown in the table excludes an estimated public expenditure cost of £5 million in 1992-93 in respect of relief at source for non-taxpayers.

13 With effect for profit periods starting on or after 1 April 1991, the rate of tax relief for an employee's profit-related pay which is paid under a scheme registered by the Inland Revenue will be doubled to give full tax relief, subject to existing limits. The cost is estimated on the basis that the number of employees in registered schemes will rise by one third in 1992-93.

14 From 1 January 1992 any company participating in both an approved discretionary share option scheme and an approved all-employee scheme (of which the eligible employees have been informed) will be able, in the discretionary scheme, to provide for the grant of options over shares at a price representing a discount of up to 15 per cent of the market value of the shares concerned at the date of grant.

15 The annual limit on the value of shares which may be given to an employee under an approved all-employee profit-sharing scheme will be increased, with effect from 6 April 1991, from the greater of £2,000 or 10 per cent of pay (up to a maximum of £6,000) to the greater of £3,000 or 10 per cent of pay (up to a maximum of £8,000). The limit on monthly savings made by an employee under an approved all-employee savings-related share option scheme will be increased, from a day to be appointed, from £150 to £250.

16 The tax relief for foreign earnings will be extended so that employees in Kuwait and Iraq forced to return to the UK early because of the Gulf crisis, or unable to return to those countries because of it, will be relieved of UK tax on their foreign earnings up to the date of their return to the UK.

17 From 6 April 1991 the limits on the availability of the foreign earnings deduction to seafarers who work abroad for a qualifying period of 365 days will be relaxed. They will lose the deduction only if they return to the UK either for more than 183 days (previously 90 days) or for a period longer than one half (previously one quarter) of the combined time spent overseas and in the UK.

18 For deductions made after 6 April 1991 employers whose average monthly PAYE/NIC bill is less than £400 will be allowed to make payments to the Inland Revenue quarterly rather than monthly. This line shows the effect on income tax receipts. The effect on receipts of national insurance contributions is at line 84 in the table.

19 Individuals or partnerships who are trading with a total annual turnover of under £10,000, or people with rent from property where gross income is less than £10,000 are able to submit simplified accounts. For accounts received after 6 April 1992 these limits will be increased to a figure to be announced later.

20 Legislation will be introduced to establish that interest and dividends paid by certain building societies on the change to the present system of accounting for composite rate tax in 1986 may be charged to tax at rates in force for 1985-86. This will mean that the Exchequer will not repay amounts collected under the transitional arrangements except to any society which commenced judicial review proceedings before 18 July 1986 challenging the validity of Regulations bringing these payments into charge. The estimate allows for consequential effects on corporation tax.

21 A penalty will be introduced for making a false declaration in order to receive interest from building societies and deposit takers without deduction of basic rate tax.

#### **Income tax and corporation tax**

22 A measure will be introduced to give life offices an entitlement within an accounting period to repayments of tax deducted from, and payments of tax credits attaching to, their pension business income. This will give the companies treatment comparable to the self-administered pension schemes. The measure will be linked to the introduction of Pay and File. There will also be changes in the tax rules for general annuity business; and relief as management expenses will be allowed for levies paid under investor protection schemes. The yield in 1992-93 will change to a cost in subsequent years.

23 The limit on premiums payable under tax-exempt life insurance policies with friendly societies will increase from £150 a year to £200 a year. It will be possible to vary existing policies taken out after 31 August 1987 so as to take advantage of the new limit without losing their beneficial tax treatment. The current restrictions on the extent to which friendly societies can write policies for children where the maturity proceeds are free of tax will be removed. These changes will apply to policies written after Royal Assent. From 19 March 1991, societies will also be able to offer small taxable policies to members who already have a tax-exempt policy.

24 The upper limit of £5 million a year or, for non-close companies 3 per cent of dividends for income tax or corporation tax relief for single donations to charities by individuals or companies will be abolished for donations made on or after 19 March 1991.

25 Relief will be provided for gifts by businesses to educational establishments of equipment which is made, used or sold in the course of the donor's trade.

26 Capital allowances given on computers or buildings will be adjusted where the amount of VAT payable in respect of such assets is retrospectively changed under the VAT capital goods scheme introduced in April 1990.

27 Expenditure on the construction of toll roads will qualify for industrial buildings allowance from 6 April 1991, bringing their treatment into line with other privately financed projects such as toll bridges and tunnels.

28 The rules which exempt UK investment managers acting for non-resident clients will be extended.



29 The anti-bondwashing rules will be relaxed to make it easier to buy or sell shares using options without a tax charge arising.

30 The tax rules governing interest calculated by reference to a period prior to the issue of securities will be amended.

31 Stock lending of overseas securities will be facilitated by removing the limit of three parties in an approved lending chain. In addition, the arrangements for accounting for tax on the manufactured dividends paid by the borrower to the lender will be given firmer statutory backing.

#### **Income tax and capital gains tax**

32 With effect from 1 January 1992 it will be possible to subscribe up to £3,000 a year to a Personal Equity Plan (PEP) investing in the shares of a single company, in addition to up to £6,000 (as at present) to an ordinary PEP. It will be possible to transfer shares held in an approved all-employee scheme into a single company PEP without incurring capital gains tax. From late 1991 the range of PEP investments will be extended to equities quoted in other EC states, and to unit and investment trusts with at least half their holdings in EC equities. And, from 6 April 1991, the limit on investment in unit and investment trusts not meeting the investment requirements will be increased from £900 to £1,500. The cost of these measures is expected to rise in later years.

33 After 5 April 1991, if an unincorporated trader makes a loss which can be set off against his or her other income of the same or the following year, any unused loss can be set against his or her capital gains of those years.

#### **Income tax, corporation tax and capital gains tax**

34 Building societies' permanent interest bearing shares that are denominated in sterling will be exempt from tax on capital gains. Interest on these new building society shares will be paid after deduction of income tax.

#### **Corporation tax**

35 The rate for 1990-91, which was set in the Finance Act 1990 at 35 per cent, will be reduced to 34 per cent.

36 The rate for 1991-92 will be reduced to 33 per cent.

37 The period for which trading losses can be carried back will be extended from up to one year to up to three years.

38 The profits limit for small companies' rate of corporation tax of 25 per cent for 1991-92 will be raised from £200,000 to £250,000 and the limit for the marginal relief will be raised from £1 million to £1.25 million.

39 A technical change will be made to the definition of a normal commercial loan for group relief and other purposes.

40 The limits for tax exemption for trade unions and employers' associations which pay provident benefits will be raised from £3,000 to £4,000 for gross sums and from £625 to £825 for annuities.

41 Costs incurred by companies on or after 1 April 1991 in establishing approved employee share schemes or statutory employee share ownership plans (ESOPs) will be relieved of tax.

#### **Capital gains tax**

42 The capital gains tax annual exempt amount will be increased in line with the statutory indexation provisions (based on the

increase of 9.3 per cent in the RPI in the year to December 1990) to £5,500 (2,750 for most trusts). The estimated full year cost of indexation in respect of 1991-92 liabilities is £10 million.

43 The qualifying age for retirement relief on the disposal of businesses and interest in family companies will be reduced from 60 to 55. The ceiling for the relief will be increased so that, where the full conditions are met, the first £150,000 of gains will be fully exempt and half of any further gains up to £600,000 will be exempt. The present ceilings are £125,000 and £500,000 respectively. The cost of these changes in a full year is £70 million.

44 Three changes will be made to the relief for principal private residences. First, the period after moving out during which a home can be sold without a reduction in the owner's entitlement to this relief will be increased from two to three years. Second, the present exemption, where owners let part or all of their main home, of up to £20,000 of any gains which do not attract the private residence relief will be increased to £40,000. Third, the maximum amount of land which can normally qualify for private residence relief will be changed from one acre to half a hectare.

#### **Capital gains tax and corporation tax**

45 A charge to capital gains tax will be made on a trust which ceases to be resident in the UK, and on a settlor who retains an interest in a non-resident trust. The existing rules for charging the gains of non-resident trusts on beneficiaries will be strengthened, and a supplementary charge introduced on payments and benefits which are received. Without these measures there could be a significant loss of tax. The measures themselves may produce a direct yield of £15 million in a full year.

46 The rule in the Finance Act 1988 for rebasing the charge on capital gains to 31 March 1982 includes a provision allowing certain gains deferred between 31 March 1982 and 6 April 1988 to be halved. Technical changes will be made to ensure that the benefit of this relief cannot be given twice in respect of the same gains, and that the value of the relief cannot be increased by the taxpayer making a claim for it on a later rather than an earlier occasion. The changes will prevent a possibly significant future loss of tax.

47 Changes will be made to the definition of the range of bonds exempt from charges on capital gains. Bonds convertible into shares of a quoted parent company will cease to be exempt. Bonds convertible into exempt bonds will themselves be exempt. These changes will counter possible developments which could lead to a significant loss of tax.

48 Shares acquired under the business start-up scheme will be excluded from the arrangements for share pooling.

49 The provisions enabling tax to be deferred where gains are unremittable to the United Kingdom will be amended to make it clear that the relief is available where the unremittability arises in the country where the assets concerned are situated.

#### **Oil taxation**

50 A more comprehensive definition of oil field abandonment costs allowable for petroleum revenue tax (PRT) purposes will be introduced. PRT and corporation tax relief will be given on the costs of obtaining guarantees of field abandonment costs. PRT and corporation tax relief will be given where participants in a field meet the abandonment costs of a fellow participant defaulting on his obligations.

51 Doubts about the law on taking PRT penalties by proceedings before the Special Commissioners will be removed.

### **Inheritance tax**

52 The increase in the threshold is in line with the statutory indexation provisions (based on the increase of 9.3 per cent in the RPI in the year to December 1990). The estimated full year cost of indexation attributable to taxable estates in 1991-92 is £125 million.

### **Stamp duties**

53 Under the Finance Act 1990 the abolition date for duties on securities is to be appointed by Treasury order; it will coincide as closely as possible with the introduction of the Stock Exchange's new system for paperless share transfers (TAURUS). Abolition was previously assumed to take effect from 1 January 1992. Following the Stock Exchange's announcement of postponement of the introduction of TAURUS, it is now assumed to take effect from 1 April 1992.

54 Stamp duties on transfers of property other than land and buildings will be abolished from the same date as the duties on securities, assumed to be 1 April 1992. The duty on Northern Ireland bank notes will be abolished from 1 January 1992.

### **Value added tax**

55 The standard rate of VAT will be increased from 15 per cent to 17½ per cent from 1 April 1991.

56 The turnover limit for VAT registration will be raised from £25,400 to £35,000 from 20 March 1991, and the deregistration threshold from £25,400 to 33,600 from 1 May 1991.

57 The waiting period for relief on bad debts written off in traders' accounts will be reduced from two years to one year from 1 April 1991.

58 The rate of serious misdeclaration penalty will be temporarily reduced from 30 per cent to 20 per cent from 20 March 1991 pending the outcome of a review of the penalty. In addition, a period of grace will be introduced during which penalties will not normally be applied on errors found by Customs in the latest accounting period; and a penalty will not normally be charged where a mistake is cancelled out by a mistake in the next return with no overall loss of VAT.

59 From a date to be announced the turnover threshold for annual accounting will be raised from £250,000 to £300,000; there will also be increases in the threshold for using some retail schemes, the limit below which less detailed tax invoices may be issued by retailers, and the limit below which a tax invoice is not required for payments or purchases through a coin-operated machine.

60 From 1 April 1991 VAT relief for charities will be extended to television, radio and cinema advertising; the sale of donated goods by all charities; one-off fund-raising events by charities' trading subsidiaries; donated medical and scientific equipment used in veterinary research; and certain donated equipment directly used in veterinary research.

61 From Royal Assent group treatment will be extended to overseas companies established in the UK.

62 The right of businesses to reclaim VAT on mileage allowances paid to employees to cover road fuel bought for business use will be put on a statutory basis.

63 Taxpayers who pay too much VAT as a result of official error will have a statutory entitlement to interest on the VAT overpaid, from Royal Assent. Such payments are currently made ex-gratia from Vote and will in future be made out of Revenue. The effect shown is the cost to Revenue, but there is a corresponding saving to public expenditure of £5 million.

### **Car tax**

64 The existing relief from car tax for cars supplied for leasing to the handicapped will be extended from Royal Assent to cover leasing agreements which end within three years.

65 From Royal Assent cars used by or on behalf of a car tax registered person for the purposes of commercial or industrial research will be relieved from car tax.

### **Excise duties**

66 Price effects shown below are for the increase in excise duties (and consequential VAT at 15 per cent) from 19 March. The increased VAT standard rate will apply from 1 April. The duties on cigarettes, cigars and hand-rolling tobacco and pipe tobacco will be increased by 15 per cent. The increases in duty plus VAT are equivalent to about 16p on a packet of 20 cigarettes, about 8p on a packet of 5 small cigars, about 24p on a 25 gram packet of hand-rolling tobacco and about 11p on a 25 gram packet of pipe tobacco.

67 The duty on leaded petrol will be increased by 15 per cent, equivalent to an increase in duty plus VAT of 3.9p a litre.

68 The duty on unleaded petrol will be increased by 15 per cent, equivalent to an increase in duty plus VAT of 3.4p a litre. The tax differential in favour of unleaded petrol will consequently rise from 3.3p a litre to 4.0p a litre.

69 The duty on derv will be increased by 15 per cent, equivalent to an increase in duty plus VAT of 3.3p per litre.

70 The duty on gas oil and fuel oil will rise by 9.3 per cent, equivalent to about 0.1p per litre. This is exclusive of VAT since gas oil and fuel oil supplied to domestic users are zero-rated.

71 The duty on typical beer will be increased by 9.3 per cent, equivalent to an increase in duty plus VAT of about 2p a pint. Duty on beer will be levied on the finished product, instead of the "worts", from a date beyond 1991-92 to be announced later.

72 The duties on wine and made wine will be increased by 9.3 per cent, equivalent to an increase in duty plus VAT of about 9p on a 75cl bottle of still wine, about 15p on a 75cl bottle of sparkling wine, about 14p on a 70cl bottle of sherry and about 18p on a 75cl bottle of port.

73 The duty on spirits will rise by 9.3 per cent, equivalent to an increase in duty plus VAT of about 56p on a 75cl bottle of spirits.

74 The duty on cider and perry will be increased by 9.3 per cent, equivalent to an increase in duty plus VAT of about 1p a pint.

75 The rate of pool betting duty will be reduced from 40 per cent to 37½ per cent for a period of four years, provided that the pools promoters pass the full amount saved to a new foundation to be used for the benefit of sports and the arts together with a further contribution of twice that amount which they will collect. The cut in the rate of duty is assumed to take effect from 1 August 1991; it will be conditional upon satisfactory arrangements being made, including the terms and conditions for a trust.

76 Gaming licence duty will be restructured from 1 October 1991. Casinos will be required to make quarterly interim payments of duty based on accrued gross gaming yield, with liability being finally assessed half-yearly. The duty band thresholds will be raised by 20 per cent, so that duty will be payable at the rate of 2½ per cent on the first £450,000 of gross gaming yield for each half-year; 12½ per cent on the next £2,250,000; 25 per cent on the next £2,270,000; and 33½ per cent on any remainder. The fixed amount of duty payable on application for a gaming licence will be reduced from £250 to £10.

77 A new category of excise trader, to be known as a registered excise dealer and shipper, will be established. Registration with Customs and Excise will allow a trader to import and pay excise duties on goods from other EC countries outside the bonded warehousing system. Registration will take place during 1992 to become effective on 1 January 1993 on completion of the Single Market.

#### **Vehicle excise duties**

78 Duty on cars, buses, lorries and most other vehicles will remain unchanged. Mine rescue vehicles will be exempt from duty. Private fire engines will be subject to the rate of duty on cars. Pedestrian-controlled mowing machines will cease to be liable to registration and licensing.

79 The duty on motorcycles will be raised from £10, £20 and £40 (according to engine capacity) to £15, £30 and £50 with effect from 20 March 1991.

80 The two duty rates for tricycles of £10 and £40 will be replaced by one rate of £50, with effect from 20 March 1991.

81 Duty on special machines (agricultural machines, mobile cranes and similar vehicles) will be increased from £16 to £30, and on recovery vehicles from £50 to £75, with effect from 20 March 1991.

#### **National insurance contributions**

82 Employers' contributions on the private benefit of cars they provide for employees will be introduced from 1991-92 at the employers' main rate (10.4 per cent for 1991-92). Contributions will be assessed annually, and collected in the following year. They will be based on the income tax car benefit scales. Employees will be exempted from contributions.

83 Employers' existing liability to contributions on the benefit of free fuel made available for employees' private use will be assessed using the income tax fuel scales from 1991-92. Contributions on free fuel will no longer be payable by employees. The estimated yield is net of contributions that would have arisen under existing legislation.

84 For deductions made after 6 April 1991, employers whose average monthly PAYE/NIC bill is less than £400 will be allowed to make payments to the Inland Revenue quarterly rather than monthly. This line shows the effect on receipts of national insurance contributions. The effect on income tax receipts is at line 18 in Table 4.1.

#### **Community charge**

85 The community charge for 1991-92 will be reduced throughout Great Britain by £140. Domestic rates in Northern Ireland will also be reduced. The cost shown is the effect on receipts of the reduction in the community charge and in Northern Ireland rates, net of savings on reliefs and rebates.



# The Economy: recent developments and prospects to mid-1992

The following notes and tables are taken from the *Financial Statement and Budget Report 1991-92* (HMSO, March 1991) (Price £9.25):

## Summary

### Inflation

Retail price inflation has fallen from its peak last autumn. It is set to fall sharply in 1991, to 4 per cent in the fourth quarter, and to 3½ per cent by mid-1992.

### Demand and activity

GDP fell in the second half of 1990, with weakening domestic demand, and is likely to continue to fall in the first half of 1991. Activity should recover in the second half of the year, though in 1991 as a whole GDP is forecast to be 2 per cent lower than in 1990. The recovery is likely to gather pace in 1992.

### Labour market

Unemployment has risen sharply since the autumn, reflecting the weakness of activity. With the prospect of a further fall in activity in the first half of 1991, unemployment may continue rising this year, though at a slower rate than recently.

### Current account

The current account deficit is forecast to halve in 1991 to £6 billion, as imports fall in response to falling domestic demand.

### Financial developments

Sterling entered the Exchange Rate Mechanism (ERM) on 8 October. Since then the sterling index has been within a narrow range around 94. Over the same period interest rates have fallen. Monetary growth fell in the second half of last year, and M0 is well within its target range. The public sector is estimated to have been in broad balance in 1990-91 and a public sector borrowing requirement of £8 billion is forecast for 1991-92, largely as a result of the weakness of activity.

### World economy

The world economy was slowing even before the Gulf crisis and the associated rise in oil prices. Oil prices have now fallen back, and are assumed in this forecast to stay close to recent levels. Growth in the major seven economies is expected to fall to 1¼ per cent in 1991, the lowest rate since 1982. With slower growth and lower oil prices, inflation is likely to edge down.

### Recent developments

After several years of buoyant activity, the growth rate of the major seven economies slowed in 1990. Although growth remained strong in Japan and Germany, output was falling towards the end of the year in the US, Canada and France, as well as in the UK. In Japan and Germany there are now tentative indications of slower growth. The growth of world trade in manufactures is estimated to have fallen to about 5 per cent in 1990, its lowest rate since 1986 and well below that of recent years.

Current account surpluses and deficits in the major three countries narrowed significantly in 1990, partly reflecting the relative strengths of activity. The Japanese surplus fell to 1¼ per cent of GNP, its lowest since 1982, and in Germany the surplus fell to its lowest level as a proportion of GNP since 1985. The fall in the US deficit was less than might have otherwise been expected because of a deterioration in the terms of trade in response to the lower dollar.

Non-oil commodity prices weakened in the second half of 1990; in SDR terms they fell by more than 13 per cent in the year to February 1991. The doubling of oil prices between July and October led to an increase in consumer price inflation in the major seven economies in the same period of about 1 to 1½ percentage points. More recently, the fall in oil prices has helped to ease inflationary pressure. But even excluding oil price effects, inflation has started to decline, especially in those countries where growth has now slowed.

Since the autumn, US short term interest rates have fallen and German rates have risen. Real interest rates in most of the major European countries rose in 1990, to around 6 to 7 per cent by the end of the year, well above the levels seen for most of the 1980s. In contrast US real interest rates fell to less than 2 per cent.

## Forecast

The recession in the US is forecast to be quite short-lived and relatively mild. Growth is expected to resume by the second half of this year, helped by an upturn in consumers' expenditure, which has been little changed since late 1989. In France and Italy growth in 1991 is expected to be around 1½ per cent, somewhat slower than in 1990. In Japan and Germany growth is expected to moderate, to about 3 per cent in the second half of the year. For the G7 as a whole the forecast GNP growth of 1¼ per cent this year would be the slowest since the 1982 recession. Slower growth of business investment is expected to be a common feature among the G7 countries.

The recovery in North America, albeit uncertain in its timing and extent, is the main reason why G7 growth is forecast to increase to 2½ per cent in the first half of 1992. Growth of world trade in manufactures follows the path of G7 activity closely, falling to 3½ per cent in 1991 before recovering in the first half of 1992 to a rate a little below the average of the last ten years.

Table 1 World economy

	Percentage changes on a year earlier			
	Estimates		Forecasts	
	1989	1990	1991	1992 H1
<i>Major seven countries<sup>1</sup></i>				
Real GNP	3¼	2½	1¼	2½
Domestic demand	3	2½	1	2½
Industrial production	3½	1½	½	2½
Consumer price inflation	4½	5	4½	3½
<i>World trade, at constant prices</i>				
Total imports	7½	5	3¼	5
Trade in manufactures	8½	5	3¼	5½

<sup>1</sup> US, Japan, Germany, France, UK, Italy and Canada.

The forecast assumes that the Brent oil price averages \$18 a barrel and that other commodity prices remain close to their recent low levels. These factors, together with weakening activity and high real interest rates in most countries, provide a favourable background for a reduction in consumer price inflation.



The forecast is for inflation to average 3½ per cent in the G7 countries by the first half of 1992. This would be the best inflation performance since 1988. The US and German current account balances should continue to narrow, reflecting dollar depreciation in 1990 and weak domestic demand in the US, and the continuing effects of unification in Germany.

### UK demand and output

After signs of seemingly renewed vigour early in 1990, domestic demand fell through the final six months as persons and businesses cut their spending. These developments tipped the economy into recession, with GDP falling 1¾ per cent between the first and second halves of 1990. Even so, GDP rose ½ per cent in the year as a whole.

Domestic demand is forecast to go on falling in the early months of 1991, but at a slower rate than in late 1990. While it is always difficult to predict turning points, a recovery is forecast from around the middle of the year. It could be slow initially, and domestic demand may fall by 2¾ per cent in 1991 as a whole. Over the same period GDP is forecast to fall by 2 per cent. The recovery is expected to gather pace next year, with both domestic demand and GDP forecast to rise by over 2 per cent in the year to the first half of 1992.

The initial source of the recovery is likely to be a revival of consumer confidence in response to falling inflation and lower interest rates. This will stimulate both consumer spending and activity in the housing market. There should also be a contribution from stocks — slower destocking in the first instance — but other business spending may not pick up until 1992. Export growth too should begin to pick up later in the year with the recovery in the US and other major countries.

The fall in GDP in the second half of 1990 was spread across most sectors. Manufacturing output, which is usually more cyclical than GDP, fell by 5 per cent between March and December 1990, and by ½ per cent in the year as a whole. Output of the service and construction sectors of the economy, both of which enjoyed very rapid growth during the late 1980s, fell by nearly 1 per cent in the second half of last year. Manufacturing output is expected to fall by 5 per cent in 1991, though growth is projected to pick up during the year, and into 1992.

### Personal sector

Consumer spending fell by 1¾ per cent in the second half of 1990. The fall occurred despite continued strong growth in real personal disposable incomes, and the personal saving ratio picked up quite sharply to nearly 11 per cent. The personal sector is clearly adjusting to the combination of tight monetary policy over the last two years and increased debt servicing needs following substantial borrowing during the late 1980s. The weakness of the housing market last year also probably contributed to consumers cutting back on their spending. The ratio of the personal sector wealth (including housing) to income fell back in 1990 after extremely rapid growth in the late 1980s.

Consumer spending is projected to go on falling into the early months of 1991, and to fall by 1¾ per cent in the year as a whole. Much slower growth in real personal disposable incomes and a sustained high savings ratio are likely to inhibit spending. Nonetheless spending is expected to recover from mid-1991. The pick-up is associated with an expected slow recovery in the housing market, which helps stabilise the wealth to income ratio at historically high levels. This, along with falling inflation and lower

interest rates, is likely to regenerate consumer confidence after a prolonged period in the doldrums. The personal saving ratio may decline a little from its high level at the end of 1990. Housing investment may also continue to fall in early 1991 before starting to recover from mid-year.

### Company expenditure and income

Business investment rose by a total of 43 per cent in the three years to 1989, prompted by rising real rates of return, rapid growth in output, buoyant business optimism and tightening capacity constraints. After peaking at record levels in early 1990, it fell through the rest of the year as the economy slowed and profitability declined. Companies also faced the need to correct a difficult financial situation, partly induced by their strong borrowing to finance the investment and take-over booms of the late 1980s.

Recent CBI Industrial Trends Surveys reveal a weakening of business confidence, probably exacerbated by the Gulf crisis and associated uncertainties about the economic outlook. The same surveys point to a decline in investment in the manufacturing sector this year. That is likely to be true of business investment as a whole. Rates of return are expected to fall again in 1991 as companies are caught between weak turnover and high unit labour cost growth. Capacity utilisation will also remain low. Business investment is thus expected to fall by nearly 10 per cent in 1991. Even so, it will still be at historically very high levels. It is forecast to rise only slowly in early 1992; it is usual for the recovery in business investment to lag the general cycle in activity. Rates of return should start to recover in 1992, creating the climate for stronger growth investment later.

### Government investment

General government investment again rose sharply in 1990. It is forecast to fall in 1991, with higher central government investment more than offset by lower local authority investment.

Table 2 Gross domestic fixed capital formation

	Weights in 1990	Percentage changes on previous year	
		1990	Forecast 1991
Business <sup>1</sup>	71	- 1¼	- 9¼
Private dwellings <sup>2</sup>	15	- 13	- 11¼
General government <sup>3</sup>	14	10	- 6½
<b>Total fixed investment</b>	<b>100</b>	<b>- 1¼</b>	<b>- 9¼</b>

<sup>1</sup> Includes public corporations.

<sup>2</sup> Includes purchases less sales of land and existing buildings for the whole economy.

<sup>3</sup> Excludes purchases less sales of land and existing buildings.

### Stockbuilding

Destocking contributed to the moderation of GDP growth in late 1989 and 1990, reflecting adjustment by companies to their difficult financial situation. Destocking may continue throughout 1991 for much the same reason. Nonetheless, stocks are likely to play a much smaller role than in previous recessions, and to contribute less to the subsequent recovery. Firms probably entered the present recession with fewer stocks to disgorge, and may enter the recovery with less need to rebuild them.

### Companies' financial position

Industrial and commercial companies' profits (net of stock appreciation) are estimated to have fallen by 1½ per cent in 1990. Saving also fell, and was insufficient to cover companies' spending on fixed investment and stocks. For the third year running, therefore, companies ran a financial deficit. Profits are likely to

remain weak in 1991. Saving, however, is expected to recover as companies face lower tax and interest payments and profits due abroad. Along with reduced spending on fixed investment and stocks, the projected recovery in saving means that the financial deficit should be substantially reduced in 1991, with a further reduction expected in early 1992.

### Trade and the balance of payments

The current account is estimated to have been in deficit by £13 billion in 1990, down from £20 billion in 1989. The visible deficit fell sharply through the year as imports responded to weak domestic demand. By the fourth quarter, the manufactures deficit was around 1 per cent of GDP, the lowest since 1985. Estimates of the invisibles surplus for 1990 have been revised upwards substantially. They now suggest a rise in the surplus between 1989 and 1990, and a particularly buoyant performance in the second half of last year.

### Competitiveness

UK relative unit labour costs in manufacturing rose during 1990, as the exchange rate firmed and UK unit labour costs rose more rapidly than those in other major industrial countries. Nevertheless, the level of relative unit labour costs against ERM countries remains lower than on average in the 1980s, and close to the average over the past 25 years. UK unit labour cost growth is expected to fall substantially as earnings growth slows and productivity recovers with activity. By the first half of 1992 it is expected to be similar to that in other major countries.

### Non-oil trade

The volume of exports of manufactures rose by 7¼ per cent in 1990, following growth of 10½ per cent in 1989, and the UK volume share of world trade in manufactures rose for the second year running. Exports of passenger cars were particularly strong, up 20 per cent in 1990 as a whole. Export growth has, however, eased in recent months as the world economy has slowed. With a further slow-down in world trade in prospect, and the somewhat higher level of the real exchange rate, exports are forecast to grow only slowly in 1991. However, they pick up as world trade growth recovers; by the first half of 1992, the volume of exports of manufactures is forecast to be 4 per cent higher than a year earlier. The UK's share of world trade in manufactures is forecast to be close to the average level of the last three years.

Following a rise early in 1990, non-oil import volumes fell steadily through the rest of the year, and by the fourth quarter were a little lower than a year earlier. There were particularly sharp falls in imports of passenger cars and capital goods, as consumers and companies cut back their expenditure. Non-oil import volumes are forecast to fall by 2¼ per cent in 1991, reflecting the forecast of domestic demand. Import volumes are likely to pick up more rapidly than domestic demand as the economy recovers in the first half of 1992. This implies a continuation of the historical upward trend in import penetration, which all industrialised economies have experienced, reflecting increasing openness of the world economy.

Current account adjustment over the past year has also been helped by a rise in the non-oil terms of trade, as sterling import prices fell sharply in response to the firmer exchange rate. Sterling export prices also fell through the year, though by less, as companies reduced export margins to try to maintain their export market share in the face of falling domestic demand.

Table 3 Visible trade volumes

	Percentage changes on previous year					
	Non-oil goods		Oil		All goods	
	Exports	Imports	Exports	Imports	Exports	Imports
1989	10¼	7¾	- 20½	11¾	5	8
1990	6½	½	8¼	12	6¾	1¼
1991 Forecast	2½	- 2¼	- 3¾	- 1¾	1¼	- 2¼

### Oil production and trade

North Sea oil production in 1990 was about the same as in 1989, but considerably lower than forecast in the 1990 FSB. The large programme of work to fit new safety equipment required longer than expected shutdowns in some fields. This work is continuing in 1991 and oil production is forecast to be slightly below its 1990 level, close to the centre of the Department of Energy Brown Book range.

With little change in oil production, and the rise in dollar oil prices in 1990 partly offset by the rise in the dollar-sterling exchange rate, the oil trade surplus in 1990 remained at around £1½ billion. The sterling oil price is assumed to be lower in 1991 than in 1990 and the oil trade surplus is forecast to decline to £1 billion.

### Invisibles and net overseas assets

Following a weak performance in the first half of 1990, the invisibles surplus is estimated to have doubled to £3½ billion in the second half of the year. In 1990 as a whole the surplus was £5 billion, up £1 billion on the previous year. The rise mainly reflected buoyant net earnings from direct investment. There was little change in the transfers deficit but the services surplus fell in 1990, largely as a result of reduced earnings by the insurance sector.

The invisibles surplus is forecast to rise to £6 billion in 1991. This forecast partly discounts the buoyancy of net earnings from interest, profits and dividends (IPD) at the end of 1990, which may not be sustained. Little change in IPD is expected overall, even though lower sterling interest rates should reduce banks' net interest payments overseas. The services surplus is likely to begin to recover during 1991, but not sufficiently to prevent a further fall in the surplus year on year. However, the transfers balance should benefit substantially from a rebate of EC contributions and from financial contributions by other governments to the UK's Gulf expenditure.

The rise in the exchange rate during 1990, particularly against the dollar, and the fall in world stock markets, contributed to an estimated fall in the sterling value of identified net overseas assets to £41 billion at the end of 1990, compared with £103 billion a year earlier. This reduction followed substantial increases, reflecting large capital gains, in the previous two years. The recent revival of the dollar and world stock markets will have partly reversed this fall. The difficulties in measuring certain capital flows (reflected in the balancing item in the overseas account) and in valuing direct investments mean, however, that estimates of net overseas assets are subject to wide margins of error.

### Current account

The current account deficit is forecast to fall from £13 billion (2¼ per cent of GDP) in 1990, to £6 billion (1 per cent) in 1991. This mainly reflects a further fall in the deficit on trade in manufactures as a result of lower domestic demand.



**Table 4 Current account**

£ billion							
	Manu- factures	Oil	Other	Total Visibles	Invisibles	Current balance	Balancing item
1989	- 17	1½	- 8½	- 24	4	- 20	15
1990	- 11	1½	- 8½	- 18	5	- 13	3½
1991	- 6	1	- 7	- 12	6	- 6	
Forecast							

**Financial balances and the current account**

Over the three years to 1989 the private sector (persons and companies) ran increasingly large financial deficits, with spending rising faster than income. The deterioration in its financial position was without precedent in the last seventy years, and had its counterpart in a worsening current account deficit. With private sector income forecast to rise faster than spending, the private sector financial balance is expected to return to its traditional surplus in 1991 and early 1992. This is reflected in a smaller current account deficit. Within the private sector, both persons and companies are expected to improve their position, with persons increasing their surplus and companies reducing their deficit.

**Inflation**

Producer output price inflation (excluding food, drink and tobacco) was 6¼ per cent in February, ½ per cent higher than its rate through the summer. This recent pick up in inflation is surprising. It may reflect efforts by producers to defend their profit margins. Margins have been under pressure for some time from the recession and rising costs, especially labour costs.

Retail price inflation has fallen sharply in recent months, from almost 11 per cent in October to 9 per cent in January. This partly reflects reduced mortgage interest rates in November 1990, and the effects of the mortgage rate rise of November 1989 dropping out of the twelve-month comparison. Petrol prices have also declined as world oil prices have fallen back from their peak in October. But even allowing for these factors, retail price inflation has slowed in response to weak consumer demand and a sharp reduction in food price inflation as supply conditions have improved after the drought of 1989.

Provisional CBI data show a marked fall in pay settlements in manufacturing to 8¼ per cent in the first quarter of 1991, from around 9 per cent in the previous three quarters. In addition, an increasing number of firms have reached agreements which provide either for no increase in pay or defer any increase until later in the year. Whole economy underlying earnings growth fell to 9½ per cent in January from a peak rate of 10¼ per cent in July, as overtime and bonus payments fell in response to the slow-down in activity.

**Prospects**

Unit labour cost growth in manufacturing is likely to slow sharply through 1991 and beyond, principally as productivity growth rebounds with the recovery in activity. Earnings growth is also expected to moderate as settlements respond to falling inflation and companies further rein back overtime and bonuses. The CBI's Survey of manufacturers in February suggests that underlying inflationary pressures are abating rapidly. The balance of firms expecting to increase prices in the immediate months ahead was at its lowest ever level. With manufacturing output likely to fall further for a while, the recent pick up in producer output price inflation is unlikely to be maintained. It is expected to fall to 4¾ per cent in the fourth quarter of 1991, declining further to 4 per cent by mid-1992.

Weak consumer demand will exert strong downward pressure on retail price inflation throughout 1991. Recent cuts in mortgage rates, the mortgage rate rise of March 1990 dropping out of the twelve month comparison, and the net impact of the Budget measures will also contribute to sharply falling inflation. RPI inflation is forecast to be 4 per cent in the fourth quarter of 1991 and 3¾ per cent by the middle of 1992.

**Table 5 Retail and producer output price inflation**

	Weights in 1991 <sup>1</sup>	Percentage changes on a year earlier		
		Forecast		
		1990 Q4	1991 Q4	1992 Q2
Food	15	6%	4%	3½
Housing <sup>2</sup>	19½	19½	- 6½	1½
Other	65%	8	6%	4½
<b>Total RPI</b>	<b>100</b>	<b>10</b>	<b>4</b>	<b>3½</b>
<b>Producer output prices<sup>3</sup></b>		<b>6%</b>	<b>4%</b>	<b>4</b>

<sup>1</sup> The weights used here are provisional. They are unlikely to differ significantly from the final weights which became available from the CSO on 22 March.

<sup>2</sup> Includes community charge.

<sup>3</sup> Excluding food, drink and tobacco.

The GDP deflator, which measures the price of domestic value added (principally unit labour costs and profits per unit of output), is forecast to rise by 7¾ per cent in 1990-91, boosted by the rise in oil prices and the improvement in the terms of trade. The increase in VAT in the Budget adds about 1 per cent to the GDP deflator. Even so the growth in the deflator is expected to fall to 7 per cent in 1991-92.

**Exchange rates and interest rates**

For most of the period since the UK joined the ERM sterling has traded in a relatively narrow range. The sterling effective index remains close to its level just before ERM entry. Short term interest rates which were reduced by 1 percentage point at the time of ERM entry, have since fallen further. Long rates have also fallen back since the early autumn, by over 1 percentage point, in part reflecting growing confidence about the prospects for low inflation.

**Money and credit**

The year on year growth rate of M0 has fallen from 7½ per cent last spring to around the centre of its target range in early 1991. Broad money growth began to fall in early 1990 from a peak of around 19 per cent. By January the annual growth of M4 was down to 11 per cent. Bank and building society lending had begun to respond to tight monetary policy earlier, as high interest rates reduced lending for house purchase. During 1990 the decline in the growth of credit gathered pace, as industrial and commercial companies also cut back sharply on their borrowing. By the start of 1991 the growth of bank and building society lending was down to 13 per cent, little more than half its peak of two years earlier.

**Asset prices**

Following strong rises in the second half of the 1980s, asset prices weakened during 1990, reflecting the tightness of monetary policy. There was a substantial fall in the ratio of house prices to average earnings, and real equity prices fell sharply. More recently, however, there have been signs that the housing market may be close to its trough and equity prices have risen strongly since mid-January.

## Employment and unemployment

Latest data from the Department of Employment indicate that employment probably peaked around mid-1990. By then employment had risen by 3¼ million since March 1983, on the back of sustained strong growth in activity through most of the 1980s. Employment started to fall in the second half of 1990 as recession gathered pace and companies took action to control unit labour costs. Productivity has fallen, as it usually does when the economy goes into recession. Unemployment started to rise last spring; since March 1990 it has risen by 370 thousand. Employment is expected to go on falling in 1991, even after the economy starts to recover; employment usually lags the cycle in output. Unemployment is expected to rise further. How much it may rise, and for how long, depends in part on the speed with which wage settlements moderate.

## Forecast and outturn

Table 6 compares the main elements of the forecast published in the 1990 FSBR with the outturns for 1990 or the latest estimates for 1990-91.

Errors on the forecasts of demand, activity and the current account were within, in some cases well within, the average errors from past forecasts. GDP growth was a little less than forecast. Domestic demand was stronger, reflecting unexpected resilience in the first half of the year, but net exports were weaker than forecast. The error on inflation was bigger than average, largely due to a slower than usual response of underlying inflation to the fall in demand, but also because of the effect of the Gulf crisis on petrol prices. The public sector debt repayment is likely to be well below last year's Budget forecast, with large errors on both the income and expenditure sides of the account.

Table 6 Forecast and outturn

	Percentage changes on a year earlier unless otherwise stated		
	1990 FSBR	Outturn or latest estimate	Average errors from past forecasts
GDP (1990)	1	½	1
Non-North Sea GDP (1990)	¾	½	¾
Domestic demand (1990)	- ½	0	1¼
RPI (1990 Q4)	7¼	10	1¼
Money GDP (1990-91) <sup>1</sup>	7½	7¼ <sup>2</sup>	1¼
Balance of payment current account (1990, £ billion)	- 15	- 13	5½
PSBR (1990-91, £ billion)	- 7	- ¾ <sup>2</sup>	5¼

<sup>1</sup> Adjusted to remove the discontinuity arising from the abolition of domestic rates.

<sup>2</sup> Partly forecast.

## Risk and uncertainties

Table 7 shows average errors from past forecasts. These provide a rough guide to possible margins of error on the new forecasts, and should be borne in mind when interpreting and assessing the forecasts. On this occasion there is added uncertainty about the effects of the Gulf war and its aftermath, and the difficulty of predicting turning points in economic activity.

Table 7 Economic prospects: summary

	Percentage changes on a year earlier unless otherwise stated			Average errors from past forecasts <sup>1</sup>
	Forecast		1992 H1	
	1990	1991		
<b>GDP and domestic demand at constant prices</b>				
Domestic demand	0	- 2%	2¼	1
<i>of which:</i>				
Consumers' expenditure	1	- 1%	2¼	1¼
General government consumption	1%	1½	1¼	1
Fixed investment	- 1%	- 9%	1¼	3
Change in stockbuilding (as per cent of GDP)	- ¾	- ¼	½	½
Exports of goods and services	4%	1	4%	1%
Imports of goods and services	1½	- 1½	4%	2¼
<b>Gross domestic product (average measure)</b>				
Non-North Sea GDP	½	- 2	2	1
Manufacturing output	- ½	- 5	2¼	1¼
<b>Balance of payments current account (£ billion)</b>				
	- 13	- 6	- 8 <sup>3</sup>	4½
<b>Inflation</b>				
Retail prices index (fourth quarter)	10	4	3¾ <sup>4</sup>	1½
GDP deflator at market prices (financial year) <sup>2</sup>	7¾	7		¾
<b>Money GDP at market prices (financial year)<sup>2</sup></b>				
£ billion	7¼	6		1½
	547	580		
<b>PSBR (financial year)</b>				
£ billion	- ¾	8		5¾
per cent of GDP	- ¼	1¼		1

<sup>1</sup> Average absolute errors over the previous ten years.

<sup>2</sup> Estimates of money GDP and the GDP deflator for periods before the second quarter of 1990 have been adjusted to remove the discontinuity arising from the abolition of domestic rates.

<sup>3</sup> At an annual rate.

<sup>4</sup> Q2 on Q2.



Table 8 Gross domestic product and its components

£ billion at 1985 prices, seasonally adjusted											
	Consumers' expenditure	General government consumption	Total fixed investment	Change in stocks	Domestic demand	Exports of goods and services	Total final expenditure	Less imports of goods and services	Less adjustment to factor cost	Plus statistical adjustment	GDP at factor cost (average measure)
1986	231.7	75.2	61.5	0.8	369.1	107.3	476.4	106.0	52.0	- 0.6	317.8
1987	243.5	76.2	67.6	1.2	388.5	113.4	501.9	114.3	55.3	- 0.6	331.7
1988	260.3	76.7	77.1	3.7	417.8	113.7	531.5	128.9	57.6	0.6	345.6
1989	270.3	77.1	80.2	2.2	429.8	118.8	548.6	138.3	59.3	0.5	351.4
1990	272.9	78.4	78.7	- 0.7	429.3	124.5	553.8	140.5	59.8	- 0.2	353.3
1991	268.2	79.6	71.1	- 1.5	417.4	125.7	543.1	138.3	58.3	0.0	346.5
1989 H1	134.7	38.1	40.6	2.2	215.6	58.2	273.7	69.4	29.4	0.3	175.2
H2	135.6	39.0	39.6	0.1	214.2	60.6	274.9	68.9	29.9	0.2	176.2
1990 H1	137.6	39.4	40.8	- 0.7	217.1	62.8	279.8	71.3	30.3	- 0.1	178.2
H2	135.3	39.0	37.9	0.0	212.2	61.8	274.0	69.2	29.5	- 0.2	175.2
1991 H1	133.5	39.8	35.6	- 1.1	207.8	62.1	269.9	68.3	29.0	0.0	172.6
H2	134.7	39.9	35.4	- 0.4	209.6	63.6	273.2	70.0	29.3	0.0	173.9
1992 H1	136.6	40.3	36.1	- 0.3	212.6	65.0	277.6	71.6	29.8	0.0	176.2
Percentage changes on a year earlier <sup>1</sup>											
1989	3%	½	4	- ½	3	4½	3¼	7¼	3	0	1%
1990	1	1%	- 1%	- ¾	0	4%	1	1½	¾	- ¼	½
1991	- 1%	1½	- 9%	- ¼	- 2%	1	- 2	- 1½	- 2½	0	- 2
1992 H1	2¼	1¼	1%	½	2¼	4%	2%	4%	2%	0	2

<sup>1</sup> For stockbuilding and the statistical adjustment, changes are expressed as a per cent of GDP.

# THE EFFECTS OF TAXES AND BENEFITS ON HOUSEHOLD INCOME, 1988

## The main points are:

(1) The effect of government expenditure and taxation is to reduce the differences in income amongst households. In 1988 taxes and benefits (including NI pensions) increased the share of total income of the bottom fifth of households from 1.9 per cent of original income to 6.9 per cent of post-tax income (Table C). Cash benefits play the largest part in reducing income differences.

(2) The joint impact of taxes and benefits is greatest for retired households and for those non-retired households containing no economically active people.

(3) Results for the period 1977-1988, reworked using the new methodology, show that the distribution of household income has become more unequal. The bottom quintile group's share of disposable income fell from 9.7 per cent to 7.6 per cent whilst the share of the top fifth of households went up from 36 per cent to 42 per cent (Table N).

## Introduction

The aim of this analysis is to examine how the distribution of income amongst households in the UK is modified as a result of Government expenditure and taxation. During 1988 the Government raised and spent £177 billion; most of this revenue was raised, directly or indirectly, from UK households who also benefited, directly or indirectly, from the associated Government expenditure. In this article over half of this expenditure is allocated to households (see Table 1 in Appendix 1). Although greater equality of incomes is not necessarily a primary aim of this process, it is nevertheless one of its consequences. This article is the latest in an annual series published in *Economic Trends* since the early 1960s. Each year the article covers the same main ground but also has a special topic.

Last year (ie 1987 results) we made some fundamental changes to the article after reviewing the methodology of the analysis. The most important change was to introduce equivalisation (ie adjusting income to allow for household size and composition) into the ranking process. The effects of equivalisation formed last year's special topic. A related change was to restrict the ranking process to just one income measure, disposable income - the previous methodology used original income as well as gross income and disposable income for ranking purposes in different tables. Other notable changes were to the definitions of an 'adult', and 'disposable income' (which now has domestic rates deducted). We have re-worked the data for previous years using this new methodology, and the trends in the income distribution over the period 1977-1988 form this year's special topic.

### Equivalisation

Equivalisation means adjusting household income to allow for household size and composition.

For example: consider two married couples, both earning £15,000 a year, the Jones with no children and the Smiths with two children (aged 3 and 5). The Jones have an equivalence factor of 1.00 whereas the Smiths have a factor of 1.39 (where the 0.39 accounts for the children). The Smiths have a lower equivalised income at £10,791 ( $=£15,000/1.39$ ) than the Jones at £15,000 ( $=£15,000/1.00$ ).

## The contents are as follows:

Part I	Detailed description of results for 1988 for all households, and for retired and non-retired households separately.
Part II	Trends in income distribution, 1977-1988: re-worked on the new basis.
Appendix 1	Detailed tables with fine breakdown of income components for quintile and decile groups, and results for different types of household.
Appendix 2	Methodology and definitions.
Appendix 3	Three tables for 1988, ranked using <i>unadjusted</i> disposable income.
Appendix 4	Summary of the effects of taxes and benefits, 1977-1988.

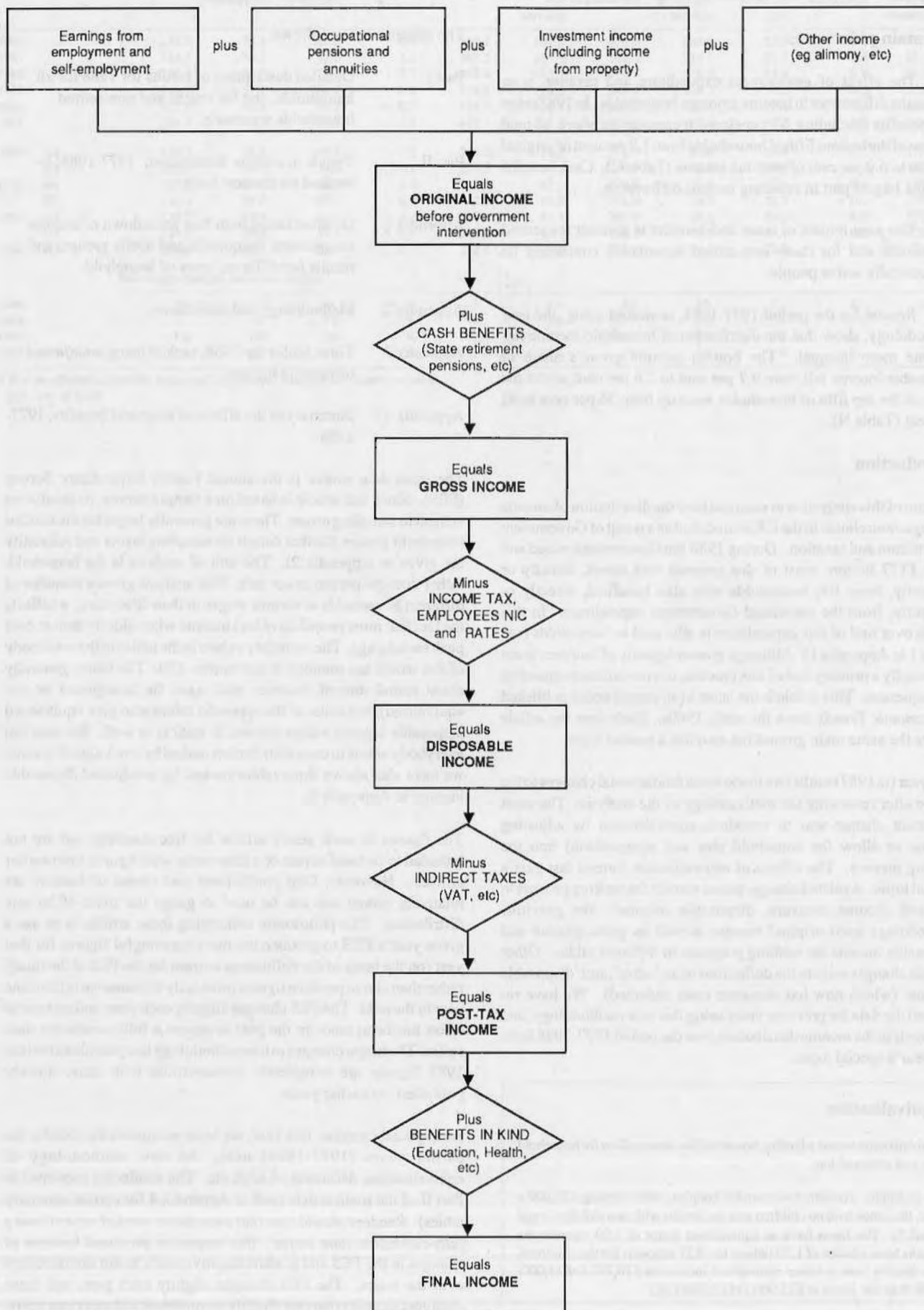
The main data source is the annual Family Expenditure Survey (FES). Since this article is based on a sample survey, its results are subject to sampling errors. These are generally larger for the smaller household groups (further details on sampling errors and reliability are given in Appendix 2). The unit of analysis is the household, rather than the person or tax unit. This analysis gives a snapshot of different households at various stages in their lifecycles; it reflects the fact that most people have less income when elderly than at their peak earning age. The monetary values in the tables in the main body of the article are rounded to the nearest £10. The tables generally show actual annual incomes and taxes (ie unadjusted or unequivalised), but some of the appendix tables also give equivalised disposable income values (shown in *italics*) as well. Because not everybody wants to use a distribution ranked by equivalised income, we have also shown three tables ranked by unadjusted disposable income in Appendix 3.

The figures in each year's article are free standing and are not intended to be used as part of a time series with figures from earlier articles. However, Gini coefficients and shares of income are relatively robust and can be used to gauge the trend of income distribution. The philosophy underlying these articles is to use a given year's FES to produce the most meaningful figures for that year (on the basis of the definitions current for the FES at the time), rather than aim to produce figures on exactly the same basis from one year to the next. The FES changes slightly each year, and no special effort has been made in the past to ensure a fully-consistent time series. The major changes to the methodology last year mean that the 1987 figures are completely incompatible with those already published for earlier years.

As a special exercise, this year, we have re-worked the data for the earlier years (1977-1986) using the new methodology of equivalisation, definition of adult etc. The results are presented in Part II of the main article (and in Appendix 4 for certain summary tables). *Readers should note that even the re-worked series is not a fully-consistent time series* - this cannot be produced because of changes in the FES and gradual improvements to our methodology over the years. The FES changes slightly each year, and these changes can make one year slightly inconsistent with previous years:

CHART 1

Stages of redistribution



for example in 1988 questions were introduced for retrospective recall of certain large expenditure items (eg furniture) which gave better quality data than the usual fortnightly diary recording, but which introduced an unbridgeable dis-continuity with previous years' figures.

Over the years many improvements have been made to the analysis behind the figures in this article; for example in estimating mortgage interest payments when the FES respondent can only give the last payment (which includes interest and capital in unknown proportions). In many cases, however, it is not practicable to re-work earlier years' results to incorporate improvements in methodology because of prohibitive cost or changes in the FES.

## Summary of methodology and sources

Chart 1 illustrates the stages of redistribution which form the structure of this analysis. Initially, household members receive income from their employment (wages and salaries, self-employment income); from occupational pensions; from their investments and from other households (eg alimony payments). Total income from these sources constitutes original income. The flow chart shows the various ways in which Government then raises revenue from households and distributes benefits to them both in cash and in kind.

The main source of data for this analysis is the Family Expenditure Survey (FES) 1988. This is a continuous household survey which collects information on the income, expenditure and direct tax payments of each household member aged 16 years and over, and on household composition and other characteristics such as tenure. In 1988 some 7,300 households participated in the UK - about 1 in every 3,000 households. The response rate was 71 per cent in Great Britain: the FES in Northern Ireland is a separate exercise to the rest of UK, with a much larger sampling fraction, and only a proportion

of these cases go into the UK analysis. Studies have indicated that the FES suffers from some non-response bias, for example through under-representation at the very top of the income distribution, the elderly and the self-employed. However, in general, comparisons of survey results over successive years justify confidence in their general reliability, and examination of the characteristics and expenditure and income patterns of various groups of households shows a high degree of internal consistency. The data presented in this article have not been reweighted to take account of non-response bias, with the exception of some indirect taxes (see below).

The data on household income, cash benefits, income tax, National Insurance contributions and domestic rates are used directly from the FES. In contrast, the figures for indirect taxes (eg VAT, duty on beer) and benefits in kind (eg from state education) are calculated using an imputation process - which uses FES data, for example on households' expenditure and characteristics. This imputation process is carried out within the framework of the National Accounts aggregates, and involves many assumptions (for example on incidence and grossing up for non-response on alcohol expenditure). Some of these assumptions are doubtful, and hence the results of this part of the analysis are subject to a wide margin of error. Tables 1 and 2 in Appendix 1 give government expenditure and its financing for 1988, derived from the National Accounts. Appendix 2 gives more detail on the methodology.

## PART I

### RESULTS FOR ALL HOUSEHOLDS

The level of original income varies widely between households. Table A shows this and other income measures for quintile groups ranked by equivalised disposable income (the lowest quintile group contains the 20 per cent of households with the lowest equivalised

## Summary of the effects of taxes and benefits, 1988

TABLE A

					Quintile groups of households ranked by equivalised disposable income					All households
					Bottom	2nd	3rd	4th	Top	
Average per household (£ per year) <sup>(1)</sup>										
Original income .. .. .					1 210	4 440	10 750	16 260	29 170	12 360
plus cash benefits .. .. .					3 210	2 800	1 760	1 080	720	1 910
Gross income .. .. .					4 430	7 240	12 500	17 340	29 880	14 280
less direct taxes <sup>(2)</sup> & employees' NIC .. .. .					670	1 220	2 450	3 790	6 690	2 960
Disposable income .. .. .					3 760	6 020	10 050	13 540	23 190	11 310
less indirect taxes .. .. .					1 080	1 470	2 410	2 900	3 710	2 320
Post-tax income .. .. .					2 680	4 540	7 650	10 640	19 480	9 000
plus benefits in kind .. .. .					2 120	2 020	2 060	1 720	1 220	1 830
Final income .. .. .					4 800	6 570	9 700	12 360	20 700	10 830
Average per household (number)										
Children <sup>(3)</sup> .. .. .					0.6	0.6	0.8	0.6	0.4	0.6
Adults .. .. .					1.6	1.7	2.1	2.1	2.0	1.9
Persons .. .. .					2.2	2.3	2.9	2.7	2.4	2.5
People in full-time education .. .. .					0.5	0.5	0.6	0.5	0.3	0.5
Economically active people .. .. .					0.3	0.7	1.4	1.7	1.7	1.2
Retired people .. .. .					0.7	0.7	0.4	0.2	0.1	0.4

1 All the tables in Part I of this article show unequivalised income: equivalised income has only been used in the ranking process to produce the quintile groups (and to produce the percentage shares and Gini coefficients).

2 These are income tax (which is after tax relief at source on mortgage interest and life assurance premiums) and gross domestic rates.

3 Children are defined as persons aged under 16 or aged between 16 and 18, unmarried and receiving non-advanced further education.



## The composition of each quintile group of households, 1988

TABLE B

	Quintile group of households ranked by equivalised disposable income					All households
	Bottom	2nd	3rd	4th	Top	
Percentages						
Household type						
Retired	51	45	19	9	6	26
Non-retired						
1 adult	10	7	7	14	18	11
2 adults	7	12	18	27	41	21
1 adult with children <sup>(1)</sup>	10	5	3	2	-	4
2 adults with children	16	21	34	29	20	24
3 or more adults <sup>(2)</sup>	5	10	19	20	15	14
Total	100	100	100	100	100	100

1 This group is smaller than the category of "one parent families" because some of these families will be contained in larger household types.

2 With or without children

disposable incomes). In the lowest quintile group the average number of economically active people is 0.3 and hence the average original income is low (£1,210 per annum). In the highest quintile group, there are an average of 1.7 economically active people and average original income is £29,170. In the lowest quintile group, half of the households are retired (Table B) - defined as households where at least half the total gross income comes from retired people - and the majority of these have virtually no original income since the state retirement pension (including any graduated or additional pension) is a cash benefit.

Chart 2 illustrates the declining importance of cash benefits in gross income as income rises.

Chart 3 shows how the dispersion of incomes is reduced at each stage of the tax-benefit system, so that the average final income for each quintile group ranges from £4,800 to £20,700, a ratio of about 1:4 compared with the ratio for original incomes of about 1:25.

An alternative way to illustrate the extent of income redistribution is to examine how income shares are modified by the tax-benefit system (Table C). For example, households in the highest quintile group (when ranked by equivalised disposable income) receive 50 per cent of all original income. After taking into account cash benefits, this same group's share falls to 43 per cent. At the other end of the scale, the share of the lowest quintile group rises from 1.9 per cent to 7.1 per cent. A further, but comparatively smaller, compression of the income distribution occurs at the stage of disposable income, but this is reversed after indirect taxes are taken into account. This table is calculated using equivalised incomes, and hence 'final income' has not been included. The McClements equivalence scales, which were estimated using household spending patterns, are arguably inappropriate for equivalising non-spendable amounts of income eg benefits from education. Estimates for quintile shares may be subject to relatively large sampling errors and comparisons should therefore be made with caution (see Appendix 2).

The Gini coefficient is the most widely used summary measure of the inequality of the distribution of income (see paragraph 37 of Appendix 2). It takes values between 0 and 100 per cent - the higher values indicating greater inequality. In this article, Gini coefficients are now calculated using equivalised incomes (using the same equivalence scale that is applied to equivalise disposable income). The fall from 51 per cent to 37 per cent shown in Table C shows that cash benefits contribute the most to the reduction in income inequality.

CHART 2

Sources of gross income, by quintile groups of equivalised disposable income, 1988

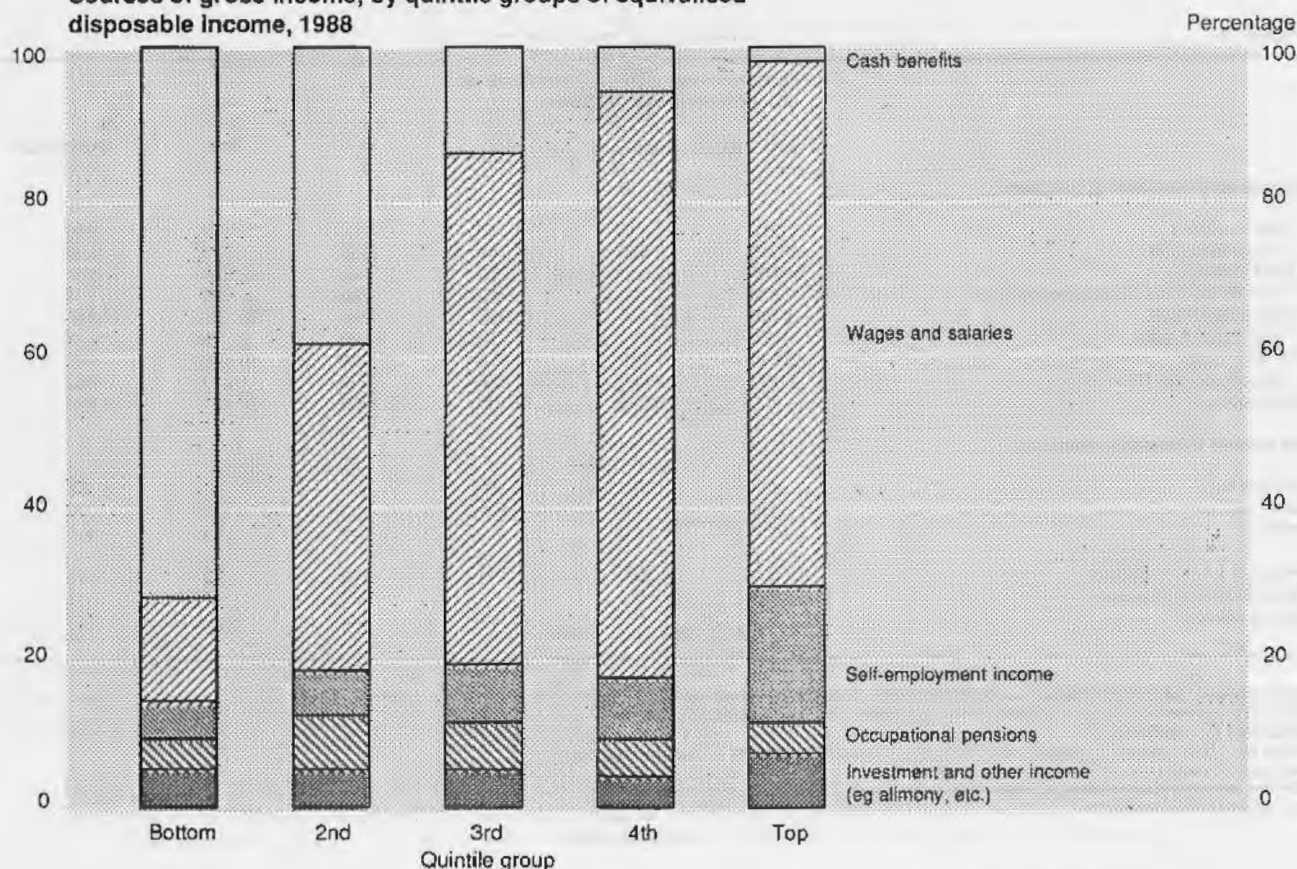
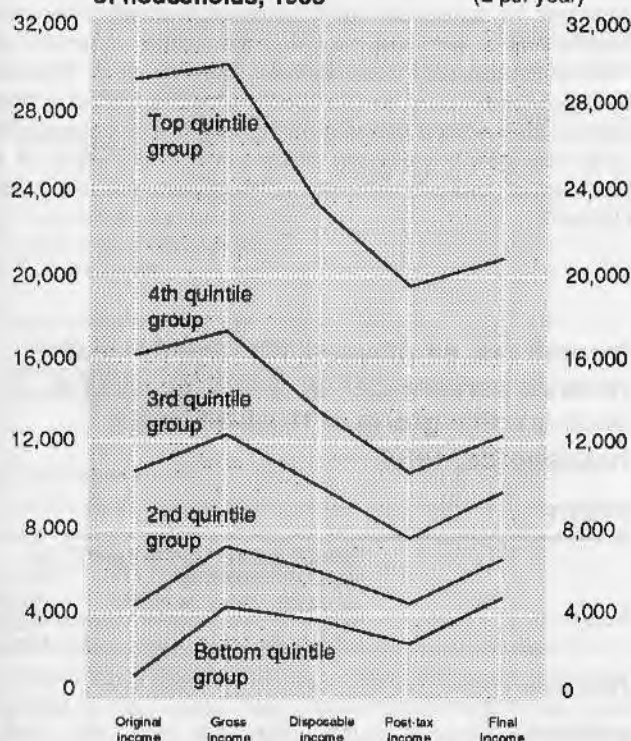


CHART 3

### The effects of taxes and benefits on quintile groups<sup>1</sup> of households, 1988

Average income per household (£ per year)



1. Households are ranked throughout by their equivalised disposable incomes.

Attention has already been drawn to the preponderance of retired households in the lower ranges of the distribution of original income; nearly half of the households in the bottom two quintile

### Percentage shares of total household income and Gini coefficients<sup>(1)</sup>, 1988

TABLE C

Percentage shares of total equivalised income for households ranked by equivalised disposable income				
	Original income	Gross income	Disposable income	Post-tax income
Quintile group				
Bottom ..	1.9	7.1	7.6	6.9
2nd ..	7	11	11	11
3rd ..	16	16	16	16
4th ..	25	23	23	22
Top ..	50	43	42	44
All households	100	100	100	100
Decile group				
Bottom ..	0.8	3.1	3.2	2.7
Top ..	32	27	27	29
Gini coefficient (percent) ..	51	37	35	39

1 This is a measure of the dispersion of each definition of income. Unlike the percentage shares analysis where the household incomes are ranked only once, the Gini coefficient calculation needs a separate ranking for each income definition. For example the coefficient for original income is produced by first equivalising the original income of all the households, then this distribution is ranked and this ranked distribution is used to calculate the coefficient.

groups are retired (Table B). The income pattern of the retired is very different from that of households whose head is of working age, as is their expenditure pattern (which is reflected in their indirect tax payments). For this reason in the detailed examination of each stage of the tax-benefit system which follows, retired and non-retired households are analysed separately.

### Summary of the effects of taxes and benefits on NON-RETIRED households, 1988

TABLE D

						Quintile groups of NON-RETIRED households ranked by equivalised disposable income	All non-retired house- holds				
						Bottom		2nd	3rd	4th	Top
Average per household (£ per year)											
Original income ..	..	..	..	..	..	3 120	9 810	14 380	18 960	32 000	15 650
plus cash benefits ..	..	..	..	..	..	2 970	1 710	1 140	680	550	1 410
Gross income ..	..	..	..	..	..	6 090	11 520	15 510	19 640	32 550	17 060
less direct taxes <sup>(1)</sup> and employees' NIC	..	..	..	..	..	1 030	2 190	3 290	4 380	7 240	3 630
Disposable income ..	..	..	..	..	..	5 060	9 330	12 230	15 260	25 310	13 440
less indirect taxes ..	..	..	..	..	..	1 550	2 350	2 810	3 220	3 850	2 760
Post-tax income ..	..	..	..	..	..	3 510	6 980	9 420	12 040	21 450	10 680
plus benefits in kind ..	..	..	..	..	..	2 650	2 440	2 020	1 560	1 170	1 970
Final income ..	..	..	..	..	..	6 170	9 420	11 440	13 600	22 620	12 650
Average per household (number)											
Children <sup>(2)</sup> ..	..	..	..	..	..	1.2	1.1	0.8	0.6	0.4	0.8
Adults ..	..	..	..	..	..	1.8	2.2	2.2	2.1	2.0	2.1
Persons ..	..	..	..	..	..	3.0	3.2	3.1	2.7	2.4	2.9
People in full-time education ..	..	..	..	..	..	1.0	0.9	0.7	0.5	0.3	0.7
Economically active people ..	..	..	..	..	..	0.7	1.5	1.8	1.9	1.8	1.6
Retired people ..	..	..	..	..	..	0.1	0.1	0.1	0.1	0.1	0.1

1 These are income tax (which is after tax relief at source on mortgage interest and life assurance premiums) and gross domestic rates.

2 Children are defined as persons aged under 16 or aged between 16 and 18, unmarried and receiving non-advanced further education.

## RESULTS FOR NON-RETIRED HOUSEHOLDS

### Original income

The distribution of original income amongst non-retired households is more equal than among all households, ranging from an average of £3,120 per annum in the lowest quintile group to £32,000 in the highest (Table D), a ratio of 1:10 compared to the ratio of 1:25 for the distribution over all households. There is a relatively strong relationship between the original income of a household and the number of economically active people it contains and Table K (at the end of this section) gives a breakdown by the number of economically active people per household. There is also a strong relationship between the number of children per household and household income: the number of children falls steadily as income rises.

### Average value of cash benefits for each quintile group of NON-RETIRED households, 1988

TABLE E

	Quintile group of NON-RETIRED households ranked by equivalised disposable income					All non-retired households
	Bottom	2nd	3rd	4th	Top	
Average per household (£ a year)						
Contributory						
Retirement pension ..	130	300	220	150	140	190
Sickness/ injury related ..	280	220	120	100	80	160
Unemployment benefit ..	130	80	60	20	20	60
Other .. .. .	70	70	70	60	30	60
Total contributory ..	610	670	480	340	270	470
Non-contributory						
Income support, etc ..	1 010	220	100	30	20	280
Child benefit .. ..	460	400	320	220	160	310
Housing benefit .. ..	560	130	50	10	10	150
Sickness/ disablement related	130	160	90	30	50	90
Other .. .. .	200	130	90	50	40	100
Total non-contributory ..	2 360	1 050	660	350	280	940
Total cash benefits ..	2 970	1 710	1 140	680	550	1 410
Cash benefits as a percentage of gross income .. ..	49	15	10	3	2	8

### Cash benefits

Cash benefits are of two types: contributory, paid from the National Insurance Fund to which individuals and their employers make contributions while working, and non-contributory (Table E). For non-retired households, non-contributory benefits form the most important source of cash benefit income. An important item, child benefit, is concentrated towards the bottom of the income distribution, in proportion to the number of children per household (Table D). The other non-contributory benefits are mainly income-related, in particular Income Support (formerly Supplementary Benefit) and so payments are concentrated in the lowest quintile group, although the presence of some individuals with low incomes in high income households means that some payments are recorded further up the income distribution. Most contributory benefits, for which contribution records rather than income are the criteria for payment, are highest for the second quintile group. On average, cash benefits formed some 10 per cent of the gross income of non-retired households: their payment resulted in a significant reduction in income inequality.

## Income tax, NI Contributions and domestic rates

Both income tax payments and employees' National Insurance contributions are closely related to the size of original income. The payments by households of employees' National Insurance contributions in particular vary with the number of persons in employment and with their earnings. However, since National Insurance contributions are only levied on the first £305 of weekly earnings (the ceiling in operation during most of 1988), households in the top quintile group pay rather less in contributions as a percentage of gross income than the middle 60 per cent of households (Table F).

### Income tax, employees' NIC and domestic rates as percentages of gross income for each quintile group of NON-RETIRED households, 1988

TABLE F

	Quintile groups of NON-RETIRED households ranked by equivalised disposable income					All non-retired households
	Bottom	2nd	3rd	4th	Top	
Percentages						
Income tax <sup>1</sup>	6.3	9.4	11.9	13.6	16.1	13.2
Employees' NIC	2.8	5.2	5.8	5.8	4.0	4.8
Gross domestic rates	7.7	4.4	3.5	2.9	2.2	3.3
Total	16.9	19.0	21.2	22.3	22.2	21.3

1 After tax relief at source on mortgage interest and life assurance premiums.

In 1988 over one-third of working age individuals had insufficient income to pay income tax, and marginal tax rates for taxpayers ranged from 25 per cent to 40 per cent. The analysis of households when ranked by equivalised disposable income shows average rates were 6.3 per cent in the lowest quintile, rising steadily to 16.1 in the top quintile. This pattern arises chiefly because the quintile groups are based on (after-tax) equivalised disposable income, which means that even the lowest quintile is shown as paying some income tax. Additional reasons are the grouping together of sizeable and diverse populations of individuals into quintile groups of households, and the expression of tax as a proportion of gross (rather than taxable) income.

Domestic rates, which were an indirect tax, are included here with income tax and NICs on the grounds that this will be the appropriate treatment for the community charge in future articles. Rate rebates, (treated as a cash benefit), were an integral part of the domestic rates regime, designed to attenuate the regressive impact of rates at the lower end of the income distribution. The treatment of rates in Table F is thus unusual, and overstates their regressive impact.

### Indirect taxes

In total, indirect taxes expressed as a proportion of disposable income fall as disposable income rises (Table G), ranging from 30 per cent in the bottom quintile group to 15 per cent in the highest, though the highest quintile pay most in indirect taxes in absolute terms. However, individual taxes have different effects.



# Indirect taxes as a percentage of disposable income for each quintile group of NON-RETIRED households, 1988

TABLE G

Percentages	Quintile groups of NON-RETIRED households ranked by equivalised disposable income					All non- retired house- holds
	Bottom	2nd	3rd	4th	Top	
VAT.. .. .	10.3	9.1	8.7	8.4	6.6	8.6
Duty on beer and cider .. ..	1.2	1.1	1.2	0.9	0.5	1.0
Duty on wines and spirits .. ..	0.9	0.8	0.8	0.9	0.8	0.8
Duty on tobacco .. .. .	5.4	3.1	2.3	1.7	0.7	2.6
Duty on hydrocarbon oils .. ..	1.9	2.0	1.9	1.8	1.1	1.7
Car tax and vehicle excise duty ..	1.2	1.3	1.2	1.2	0.8	1.1
Other taxes on final goods and services	1.2	1.9	1.6	1.4	1.0	1.4
Intermediate taxes .. .. .	7.4	5.9	5.3	4.9	3.9	5.5
Total indirect taxes <sup>(1)</sup> .. ..	29.5	25.2	23.0	21.1	15.2	22.8

<sup>1</sup> The corresponding figures using total expenditure as the denominator are :  
22.1, 22.3, 22.7, 22.5, 20.3 (top group) and 21.8 per cent.

VAT, tobacco duty, beer duty and intermediate taxes (see box below) all fall as a percentage of disposable income as income rises. The fall in tobacco duty payments as a percentage of income is particularly marked. For expenditure items relating to motoring (ie car tax and duty on hydrocarbon oils), the tax as a proportion of income is similar for the bottom four quintile groups but much lower for the top group.

## INTERMEDIATE TAXES

Some indirect taxes, such as VAT and excise duties on petrol, alcohol, tobacco, etc have a direct effect on the final price of goods and services. However, the producers of these goods and services also incur costs such as employers' National Insurance contributions, non-domestic rates, and duty on hydrocarbon oils, part of which they may pass on to households in the price of their products. These are called intermediate taxes.

The incidence assumptions used for these taxes are more difficult and contentious than those used for other taxes, so the figures must be regarded as very rough estimates.

Although some indirect taxes are less regressive than others, Table G shows that the impact of virtually all the indirect taxes declines for the top quintile group compared with the fourth quintile group. This is so partly because higher income households tend to spend a smaller proportion of their income than households with smaller incomes. If the incidence of indirect taxes were to be expressed in terms of expenditure rather than income, they can be shown to be much less regressive.

## Benefits in kind

Government current expenditure in providing certain goods and services to households either free at the time of use or at subsidised prices is converted by imputation into the equivalent of an income

flow to individual households in order to arrive at final income. The largest two items for which such imputations are made are the health and education services, which together accounted for 23.7 per cent of total general government expenditure in 1988. Other items for which imputations are made are school meals and welfare milk, the housing subsidy and travel subsidies, together accounting for a further 1.8 per cent of general government expenditure.

Education benefit to individual households is imputed by reference to the number of pupils and students in the state sector in the households (students living away from home are not included as part of their parents' household), and to the type of education they are receiving, though no allowance is made for differing costs between local authorities. No benefit is allocated for pupils at private schools. The bottom quintile group contains the highest number of children and consequently the highest number of those in full-time education (Table D). This is the main reason for this quintile group being allocated the highest average imputed benefit (Table H). Another important factor is the presence of the majority of student-only households, for whom the costs of education are greatest. Similarly the impact of expenditure on school meals and welfare milk is greatest in the lower income groups where children are more likely to take school meals and have them provided free of charge.

Data are available on the average cost to the Exchequer of providing the various types of health care - hospital inpatient/outpatient care, GP consultations, dental services etc - and it is possible to estimate the use made of each service on average by individuals of different ages and sex. Using this information, an imputed benefit from the state health service can be allocated to each individual in the FES sample; no allowance is made for the use of private health care services. These benefits are then aggregated for members of the household to yield figures on a household basis, so that not only the sex and age composition but also the size of the household determines the attribution of health service benefits.

Age and sex are by no means the only possible determinants on which to base the allocation, but age is certainly a very important factor. Data availability also limits the choice of determinants - the FES collects little information on health or use of health services. Table H indicates that these benefits decline steadily with income.



Housing subsidy is the sum of Exchequer subsidy and local authority determined rate fund contributions to the housing revenue account. Thus housing subsidy as defined here has been spread between public sector tenants, and since such households tend to be concentrated in the lower half of the income distribution this is where the subsidy is highest. In these articles, tax relief on mortgage interest is treated as an adjustment to income tax, not as part of the housing subsidy analysed in Table H.

### Average value of benefits in kind for each quintile group of NON-RETIRED households, 1988

TABLE H

	Quintile groups of NON-RETIRED households ranked by equivalised disposable income					All non-retired households
	Bottom	2nd	3rd	4th	Top	
<b>Average per household (£ a year)</b>						
Education ..	1 530	1 380	1 020	740	400	1 010
National health service	870	940	890	730	680	820
Housing subsidy <sup>1)</sup> ..	120	60	40	20	10	50
Travel subsidies ..	30	40	50	50	70	50
School meals and welfare milk ...	100	30	20	10	10	30
<b>Total</b>	<b>2 650</b>	<b>2 440</b>	<b>2 020</b>	<b>1 560</b>	<b>1 170</b>	<b>1 970</b>
<b>Benefits in kind as a percentage of post-tax income ..</b>	<b>75</b>	<b>35</b>	<b>21</b>	<b>13</b>	<b>5</b>	<b>18</b>

<sup>1)</sup> Does not include tax relief at source on mortgage payments. These are taken into account in the income tax payments shown in Table F.

Travel subsidies cover the passenger element of the grants made to various public operations covering both buses and railways. The use of public transport by non-retired households is partly related to the need to travel to work and thus to the number of economically active people in a household and so the combined effect of these travel subsidies increases over the income distribution.

Table H shows that taken together the absolute values of these benefits in kind clearly decline as household income increases. As a proportion of post-tax income, benefits decrease from 75 per cent in the lowest quintile group to 5 per cent in the highest quintile group, indicating that this expenditure contributes to the reduction in income inequality.

### Summary

The overall effect of the various stages of the tax-benefits system on non-retired households is summarised in Table J. Households in the highest quintile group (when ranked by equivalised disposable income) receive 44 per cent of all (equivalised) original income, compared with 3.5 per cent received by the lowest quintile group. However, after direct taxes and benefits are taken into account, the share of the lowest quintile group rises to 7.4 per cent and that of the highest falls to 41 per cent. Cash benefits are the major factor underlying these changes, causing the Gini coefficient to fall from 42 per cent based on original income to 35 per cent based on gross income. Income tax, employees' National Insurance contributions and rates produced a further reduction in inequality, but payment of indirect taxes increases inequality.

### Percentage shares of total household income and Gini coefficients<sup>(1)</sup> for NON-RETIRED households, 1988

TABLE J

Percentage shares of total equivalised income for NON-RETIRED households ranked by equivalised disposable income				
	Original income	Gross income	Disposable income	Post-tax income
<b>Quintile group</b>				
Bottom ..	3.5	7.0	7.4	6.5
2nd ..	11	12	13	12
3rd ..	17	17	17	16
4th ..	24	23	22	22
Top ..	44	41	41	43
<b>All non-retired households</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Decile group</b>				
Bottom ..	0.9	2.8	3.0	2.4
Top ..	28	26	26	28
<b>Gini coefficient (percent) ..</b>	<b>42</b>	<b>35</b>	<b>33</b>	<b>38</b>

<sup>1)</sup> This is a measure of the dispersion of each definition of income. Unlike the percentage shares analysis where the household incomes are ranked only once, the Gini coefficient calculation needs a separate ranking for each income definition. For example, the coefficient for original income is produced by first equivalising the original income of all the households, then this distribution is ranked and this ranked distribution is used to calculate the coefficient.

### Economic activity

As already mentioned, the size of original income is largely determined by the number of economically active people in the household - even though someone may be defined as economically active if they have been out of work for up to a year as long as they are seeking work. This relationship between income and economic activity amongst non-retired households is explored further in Table K, in which households are classified according to the number of economically active people they contain.

Original income ranges from an average of £1,070 per annum in households where there are no economically active people to an average of £24,950 for households where there are three or more. Cash benefits are concentrated in households where no-one is economically active and here they form 79 per cent of gross income; but they remain important, at 10 per cent of gross income, for those where one household member is economically active. This latter group will contain a number of households where no-one is currently in work.

Not only does average original income differ widely between the four household groups in Table K, but there is also a considerable difference in the degree of variation of income within the groups. As measured by the Gini coefficient, variability in original income is very high amongst households where no-one is economically active but where two or more persons are economically active the variability is considerably less. Equally, the tax-benefit system has the effect of substantially reducing inequality between the different types of households within the economically inactive group. This results largely from the diverse nature of the economically inactive group, which ranges from single parents with young children, single full-time students, the disabled, and households where no member has been able to find work during the 12 months prior to interview, to a small number of households where income from other sources such as investments means that they have no need to work.

# Average incomes, taxes and benefits by the number of economically active people per NON-RETIRED household, 1988

TABLE K

	Number of economically active people <sup>1)</sup> per household				All non-retired households
	None	One	Two	Three or more	
<i>Number of households in the sample</i>	606	1 948	2 233	594	5 381
<b>Average per household (£ per year)</b>					
Original income .. .. .	1 070	12 150	20 190	24 950	15 650
plus cash benefits .. .. .	4 130	1 410	810	910	1 410
Gross income .. .. .	5 190	13 560	21 000	25 870	17 060
less direct taxes <sup>2)</sup> & employees' NIC	490	2 950	4 580	5 450	3 630
Disposable income .. .. .	4 700	10 610	16 420	20 420	13 440
less indirect taxes .. .. .	1 210	2 220	3 200	4 400	2 760
Post-tax income .. .. .	3 490	8 390	13 210	16 010	10 680
plus benefits in kind .. .. .	2 580	1 730	1 910	2 340	1 970
Final income .. .. .	6 070	10 120	15 130	18 360	12 650
<b>Gini coefficients (percent)</b>					
Equivalised original income .. .. .	87	41	33	23	42
Equivalised gross income .. .. .	23	35	31	22	35
Equivalised disposable income .. .. .	23	33	30	21	33
Equivalised post-tax income .. .. .	30	38	34	25	38

1 Economically active people comprise employees, the self employed and others not in employment but who are seeking or intending, when able, to seek work.

2 These are income tax (which is after tax relief at source on mortgage interest and life assurance premiums) and gross domestic rates.

## RESULTS FOR RETIRED HOUSEHOLDS

Retired households have quite distinct income and expenditure patterns and so the tax-benefit system affects them in a different way from non-retired households (Table L). Few retired households have substantial original income; those who do are concentrated in the top two quintile groups and are receiving occupational pensions. The majority of retired households are dependent on cash benefits, in the form of state retirement pensions and income-related benefits such as Housing Benefits and Income Support to pensioners.

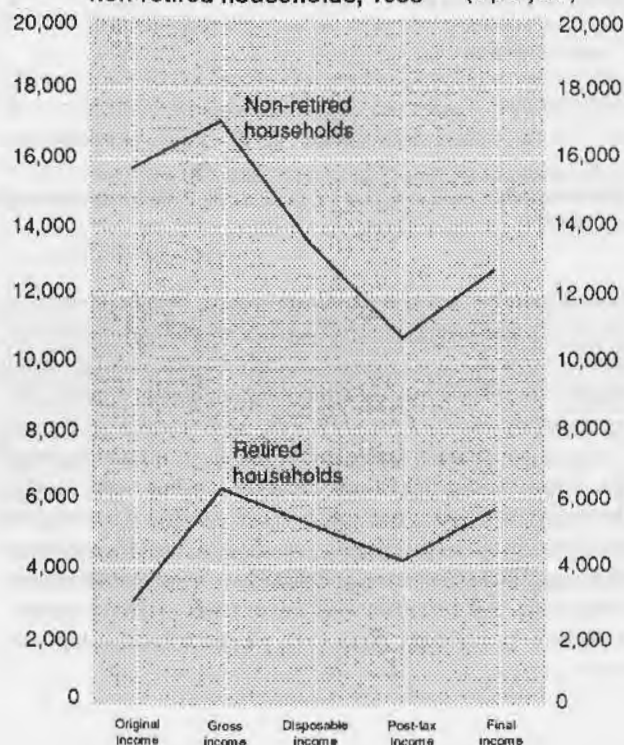
Cash benefits form a very high proportion of gross income for all but the better-off retired households. However, unlike non-retired households, the bulk of these cash benefits are paid from the National Insurance Fund into which the recipients will have made contributions throughout their working lives.

People over pensionable age do not pay National Insurance contributions so the small payments recorded are made by non-retired people living in households defined as retired (see Appendix 2 paragraph 7 for details of definition). All households except those in the highest quintile group of retired households pay very little income tax, because their income is unlikely to exceed their tax allowances unless they have significant income from investments or occupational pensions in addition to their state retirement pension. The largest indirect tax payment made by retired households is VAT, and the top quintile group pays more than twice as much as the average for all retired households.

CHART 4

## The effects of taxes and benefits on retired and non-retired households, 1988

Average income per household (£ per year)



# Effects of taxes and benefits on RETIRED households, 1988

TABLE L

	Quintile groups of RETIRED households ranked by equivalised disposable income					All retired house- holds
	Bottom	2nd	3rd	4th	Top	
<b>Average per household (£ per year)</b>						
Original income .. .. .	440	620	830	2 700	10 270	2 970
<i>plus cash benefits</i>						
Contributory						
Retirement pension .. ..	2 480	2 800	2 460	2 630	2 670	2 610
Sickness/ injury related .. ..	50	60	60	140	200	100
Unemployment benefit .. ..	10	10	-	-	20	10
Other .. .. .	20	20	30	50	30	30
Non-contributory						
Income support/ Supplementary benefit	110	80	90	90	40	80
Child benefit .. .. .	10	-	-	-	-	-
Housing benefit .. .. .	160	480	660	330	40	340
Sickness/ disablement related .. ..	-	60	100	250	240	130
Other .. .. .	20	40	50	40	60	40
Gross income .. .. .	3 300	4 170	4 310	6 230	13 580	6 320
<i>less income tax<sup>(1)</sup> .. .. .</i>	100	40	90	370	2 130	550
<i>less employees' NIC .. .. .</i>	-	-	-	10	30	10
<i>less domestic rates(gross) .. .. .</i>	480	440	450	500	680	510
Disposable income .. .. .	2 710	3 680	3 770	5 350	10 740	5 250
<i>less indirect taxes</i>						
VAT .. .. .	250	240	210	410	800	380
Tobacco duty .. .. .	50	100	80	100	70	80
Other taxes on final goods & services	200	210	180	320	590	300
Intermediate taxes .. .. .	230	220	210	310	530	300
Post-tax income .. .. .	1 990	2 920	3 080	4 200	8 750	4 190
<i>plus benefits in kind</i>						
Education .. .. .	20	-	10	-	40	10
National health service .. .. .	1 430	1 330	1 230	1 220	1 200	1 280
Housing subsidy <sup>(2)</sup> .. .. .	40	110	140	90	20	80
Travel subsidies .. .. .	50	60	50	50	60	60
Final income .. .. .	3 530	4 410	4 510	5 570	10 080	5 620

1 After tax relief at source on mortgage interest and life assurance premiums.

2 Does not include tax relief at source on mortgage payments, which is included in the income tax payments shown above.

Retired households derive significant benefits from health services and, to a lesser extent, the housing subsidy and travel subsidies, though of course virtually none from the education service. Health benefit is spread fairly evenly within the group of retired households, as a result primarily of the attribution method used, but housing subsidy is substantially higher for the middle three quintile groups since they have the highest concentration of public sector tenants. The benefits received by retired households from travel subsidies are mainly for bus travel, particularly in the form of concessionary fares, passes, etc, for senior citizens, and since these are not usually means-tested but depend instead on what sort of scheme is being operated by their local authority, there is no particular relationship with income.

Table M shows the extent to which income inequality amongst retired households is reduced by the tax-benefit system. Cash benefits play by far the largest part in bringing about this reduction and income tax payments make a further, though much smaller, contribution. Payments of indirect taxes result in an increase in dispersion.

A comparison of Table M with Table J shows that although the distribution of original income amongst retired households is much more unequal than that within the non-retired household group, the distribution of post-tax income is more equal amongst the retired than amongst the non-retired. Chart 4 illustrates the different impact which the tax-benefits system has on retired and non-retired households.



## Percentage shares of total household income and Gini coefficients<sup>(1)</sup> for RETIRED households, 1988

TABLE M

		Percentage shares of total equivalised income for RETIRED households ranked by equivalised disposable income			
		Original income	Gross income	Disposable income	Post-tax income
Quintile group					
Bottom ..	..	3.2	11.1	10.8	9.9
2nd ..	..	4	13	14	14
3rd ..	..	6	15	16	17
4th ..	..	19	20	20	20
Top ..	..	68	40	39	39
All households		100	100	100	100
Decile group					
Bottom ..	..	1.3	5.1	4.8	4.2
Top ..	..	48	26	25	26
Gini coefficient (percent)		69	29	27	30

<sup>1</sup> This is a measure of the dispersion of each definition of income. Unlike the percentage shares analysis where the household incomes are ranked only once, the Gini coefficient calculation needs a separate ranking for each income definition. For example, the coefficient for original income is produced by first equivalising the original income of all the households, then this distribution is ranked and this ranked distribution is used to calculate the coefficient.

## PART II

### TRENDS IN INCOME DISTRIBUTION, 1977-1988: RE-WORKED ON THE NEW BASIS

This part of the article examines the changes which have taken place between 1977 and 1988 in the impact of taxes and benefits on household incomes; the pre-1987 data have been re-worked using the new methodology of equivalisation etc. However, as we noted in the Introduction, even the re-worked series is not a fully-consistent time series - though it is sufficiently consistent to shed light on broad trends in income distribution. The main conclusion is that the distribution of household income has become more unequal over the 11 years. The bottom quintile group's share of total disposable income fell over the period from 9.7 to 7.6 per cent, whilst the share of the top quintile group rose from 36 to 42 per cent (Table N).

As the percentage shares of income of quintile groups are subject to sampling errors they are given only to the nearest integer. However, because the percentage shares for the bottom quintile groups are small these are given to the nearest tenth of one per cent. This should not be taken to indicate that the figures for the bottom quintile groups can be estimated more accurately than for other quintile groups. A full discussion of the margin of error of the estimates is given in Appendix 2. The scale of the errors can be seen in Tables 1 and 2 of that appendix.

Cash benefits have had the most important role to play in reducing income dispersion, and they increased in importance over the period.

In 1977 the bottom quintile group of households accounted for 3.6 per cent of total original income (Table N), and by 1988 this share of total income had fallen to 1.9 per cent. The original income of the top quintile group grew much faster than that of the other quintile groups, so that its share of total original income rose from 43 to 50 per cent, whilst the shares for the other quintile groups have declined. The story is similar for all the four measures of income shown in Table N but original income shows the strongest trend. The Gini coefficients shown in Table O give a summary of the distribution of income, and they also show increasing income inequality. The coefficients increased (signifying a more unequal distribution of income) for all four measures of income, but here the one for post-tax income went up the most.

Over the period 1977 to 1988 there has been a shift in the balance of personal taxation from income to expenditure, particularly for the lower income groups, and this is reflected in Table P. Income tax, National Insurance and rates fell from 23 per cent of gross income in 1977 to 21 per cent in 1988, averaged over all households. The largest change was between 1977 and 1979, when there was a cut in the rate of income tax and real increases in personal allowances. Indirect taxes rose as a percentage of disposable income for the lowest four quintile groups, with the bottom group showing the most marked rise. The main shift occurred between 1979 and 1981, reflecting the rise in the VAT rate in 1979. But changes in indirect payments in relation to income between 1977 and 1988 also reflect changes in saving behaviour and in the pattern of expenditure, particularly for the top quintile, as well as changes in tax rates.

Table P also shows the increasing importance of cash benefits to households in the lowest two quintile groups: cash benefits as a percentage of gross income rose from 58 to 73 per cent for the bottom quintile group, and from 27 to 39 per cent for the second quintile.

### Composition and housing tenure type of the top and bottom quintile groups

This short section looks at the changes in composition and housing tenure that have taken place in the top and bottom quintile groups over the period 1977-1988. The composition (ie household type) of the top and bottom quintile groups has changed only slightly (Table Q), with the retired households continuing to dominate the bottom quintile group and '2 adult non-retired' households being the largest type in the top quintile.

The tenure type has shown more change over the period (Table R), with the proportion of owner-occupiers in the top quintile group rising from 71 to 91 per cent of the group whilst the proportion of public sector renters fell from 17 to 4 per cent. In the bottom quintile group, there were increases in owner-occupation (from 38 to 41 per cent) and public-sector renting (from 44 to 49 per cent) at the expense of private-sector renting which fell from 17 to 8 per cent. Table R also gives the average number of people per household: the bottom quintile group has consistently less adults (around 1.7 per household) than the top quintile group (around 2.1 per household).

# Percentage shares of original, gross, disposable and post-tax income by quintile groups of households<sup>(1)</sup>, 1977-1988

TABLE N

	1977	1979	1981	1983	1985	1987	1988
<b>Equivalised original income</b>							
Quintile group							
Bottom	3.6	2.4	2.9	3.0	2.5	2.1	1.9
2nd	10	10	9	8	7	7	7
3rd	18	18	17	17	17	16	16
4th	26	27	26	26	27	25	25
Top	43	43	46	47	47	50	50
All households	100	100	100	100	100	100	100
<b>Equivalised gross income</b>							
Quintile group							
Bottom	8.9	8.5	8.4	8.5	8.3	7.5	7.1
2nd	13	13	12	12	12	11	11
3rd	18	18	17	17	17	16	16
4th	24	24	23	23	24	23	23
Top	37	37	39	39	40	43	43
All households	100	100	100	100	100	100	100
<b>Equivalised disposable income</b>							
Quintile group							
Bottom	9.7	9.4	9.3	9.5	9.2	8.2	7.6
2nd	14	13	13	13	13	12	11
3rd	18	18	17	17	17	16	16
4th	23	23	23	23	23	23	23
Top	36	36	38	38	38	41	42
All households	100	100	100	100	100	100	100
<b>Equivalised post-tax income</b>							
Quintile group							
Bottom	9.4	9.5	9.0	8.9	8.6	7.6	6.9
2nd	14	13	13	13	13	12	11
3rd	17	18	17	17	17	16	16
4th	23	23	22	22	23	22	22
Top	37	37	39	39	39	43	44
All households	100	100	100	100	100	100	100

1 Ranked by equivalised disposable income.

## Gini coefficients for the distribution of income at each stage of the tax-benefit system, 1977-1988

TABLE O

	1977	1979	1981	1983	1985	1987	1988
<b>Gini coefficients (per cent)</b>							
Equivalised original income	43	44	46	48	49	51	51
Equivalised gross income	29	30	31	32	32	36	37
Equivalised disposable income	27	27	28	28	29	33	35
Equivalised post-tax income	29	29	31	31	32	36	39

# Taxes and benefits as percentages of income by quintile groups of households<sup>(1)</sup>, 1977-1988

TABLE P

	1977	1979	1981	1983	1985	1987	1988
<b>Cash benefits as percentages of gross income:</b>							
Bottom quintile group .. .. .	58	68	64	66	72	72	73
2nd .. .. .	27	29	33	41	43	42	39
3rd .. .. .	12	13	14	17	16	16	14
4th .. .. .	6	8	7	9	8	7	6
Top .. .. .	3	3	3	4	3	3	2
Average over all households .. .. .	13	14	14	17	16	15	13
<b>Income tax, NIC and domestic rates as percentages of gross income:</b>							
Bottom quintile group .. .. .	18	12	14	13	13	13	15
2nd .. .. .	20	16	17	16	16	16	17
3rd .. .. .	22	20	21	22	20	20	20
4th .. .. .	24	22	23	24	23	22	22
Top .. .. .	24	23	24	25	25	24	22
Average over all households .. .. .	23	20	22	22	22	21	21
<b>Indirect taxes as percentages of disposable income:</b>							
Bottom quintile group .. .. .	23	21	26	27	27	27	29
2nd .. .. .	21	21	23	23	23	23	25
3rd .. .. .	21	22	23	24	23	23	24
4th .. .. .	20	21	22	23	22	21	21
Top .. .. .	17	19	19	19	18	16	16
Average over all households .. .. .	20	21	22	22	21	20	20
<b>Benefits in kind as percentages of final income:</b>							
Bottom quintile group .. .. .	40	39	43	41	39	42	44
2nd .. .. .	30	30	31	31	29	30	31
3rd .. .. .	23	22	23	23	22	21	21
4th .. .. .	16	15	16	16	14	14	14
Top .. .. .	9	8	8	9	7	6	6
Average over all households .. .. .	20	19	20	20	18	17	17

<sup>1</sup>Ranked by equivalised disposable income.

## The composition (ie household type) of the top and bottom quintile groups of households<sup>(1)</sup>, 1977-1988

TABLE Q

	1977	1979	1981	1983	1985	1987	1988
<b>Percentages</b>							
<b>Bottom quintile group</b>							
Household type							
Retired .. .. .	56	65	53	45	47	48	51
Non-retired							
1 adult .. .. .	5	6	5	9	9	7	10
2 adults .. .. .	7	5	6	8	9	8	7
1 adult with children .. .. .	7	6	7	8	7	9	10
2 adults with children .. .. .	21	16	22	22	21	19	16
3 or more adults <sup>(2)</sup> .. .. .	5	4	7	8	6	8	5
All households in the bottom quintile group .. .. .	100	100	100	100	100	100	100
<b>Top quintile group</b>							
Household type							
Retired .. .. .	4	4	5	7	7	8	6
Non-retired							
1 adult .. .. .	13	14	14	16	15	18	18
2 adults .. .. .	43	44	42	38	41	40	41
1 adult with children .. .. .	1	1	1	1	1	-	-
2 adults with children .. .. .	20	18	19	22	20	20	20
3 or more adults <sup>(2)</sup> .. .. .	20	19	18	16	16	14	15
All households in the top quintile group .. .. .	100	100	100	100	100	100	100

<sup>1</sup> Ranked by equivalised disposable income.  
<sup>2</sup> With or without children.

## Tenure type and average household size for the top and bottom quintile groups of households<sup>(1)</sup>, 1977-1988

TABLE R

	1977	1979	1981	1983	1985	1987	1988
<b>Bottom quintile group</b>							
Tenure type (per cent)							
Public sector rented .. .. .	44	47	51	44	47	47	49
Privately rented .. .. .	17	15	11	11	10	9	8
Owner occupied .. .. .	38	37	36	44	41	43	41
Rent-free .. .. .	2	2	2	2	2	2	1
All tenure types .. .. .	100	100	100	100	100	100	100
Average per household (number)							
Persons .. .. .	2.4	2.2	2.5	2.6	2.4	2.4	2.2
Adults .. .. .	1.6	1.6	1.7	1.7	1.7	1.7	1.6
Children .. .. .	0.7	0.6	0.8	0.8	0.7	0.7	0.6
Economically active .. .. .	0.5	0.4	0.6	0.4	0.4	0.3	0.3
Retired .. .. .	0.8	0.9	0.8	0.7	0.7	0.7	0.7
<b>Top quintile group</b>							
Tenure type (per cent)							
Public sector rented .. .. .	17	14	11	8	5	4	4
Privately rented .. .. .	10	8	7	5	4	5	4
Owner occupied .. .. .	71	77	80	85	89	89	91
Rent-free .. .. .	2	2	2	2	2	1	1
All tenure types .. .. .	100	100	100	100	100	100	100
Average per household (number)							
Persons .. .. .	2.5	2.5	2.5	2.5	2.4	2.4	2.4
Adults .. .. .	2.1	2.1	2.1	2.0	2.1	2.0	2.0
Children .. .. .	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Economically active .. .. .	1.9	1.9	1.8	1.7	1.7	1.7	1.7
Retired .. .. .	0.1	0.1	0.1	0.2	0.2	0.2	0.1

<sup>1</sup> Ranked by equivalised disposable income.



## Detailed tables with fine breakdown of income components for quintile and decile groups, and results for different types of household, 1988

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# General government expenditure in 1988

TABLE 1 (Appendix 1)

										£ million	Percentage of total expenditure
<b>Allocated expenditure<sup>(1)</sup></b>											
Allocated cash benefits											
Contributory (National Insurance, etc)											
Retirement .. .. .	..	..	..	..	..	..	..	..	..	19 470	11.0
Widows and guardians ..	..	..	..	..	..	..	..	..	..	890	0.5
Unemployment .. .. .	..	..	..	..	..	..	..	..	..	1 260	0.7
Sickness/ Statutory sick pay ..	..	..	..	..	..	..	..	..	..	1 050	0.6
Invalidity .. .. .	..	..	..	..	..	..	..	..	..	3 370	1.9
Maternity .. .. .	..	..	..	..	..	..	..	..	..	260	0.1
Disablement .. .. .	..	..	..	..	..	..	..	..	..	460	0.3
Other .. .. .	..	..	..	..	..	..	..	..	..	280	0.2
Non-contributory											
Family benefits .. .. .	..	..	..	..	..	..	..	..	..	5 270	3.0
Supplementary benefits ..	..	..	..	..	..	..	..	..	..	8 020	4.5
War pensions .. .. .	..	..	..	..	..	..	..	..	..	570	0.3
Other .. .. .	..	..	..	..	..	..	..	..	..	2 430	1.4
Student maintenance grants <sup>(2)</sup>											
Rent rebates and allowances ..	..	..	..	..	..	..	..	..	..	850	0.5
	..	..	..	..	..	..	..	..	..	3 690	2.1
Allocated benefits in kind											
Health services .. .. .	..	..	..	..	..	..	..	..	..	21 800	12.3
Education .. .. .	..	..	..	..	..	..	..	..	..	20 280	11.4
School meals and welfare milk ..	..	..	..	..	..	..	..	..	..	660	0.4
Housing subsidy .. .. .	..	..	..	..	..	..	..	..	..	1 400	0.8
Travel subsidies <sup>(3)</sup> .. .. .	..	..	..	..	..	..	..	..	..	1 080	0.6
										93 100	52.5
<b>Unallocated expenditure</b>											
Other current expenditure .. .. .	..	..	..	..	..	..	..	..	..	59 210	33.4
Capital expenditure .. .. .	..	..	..	..	..	..	..	..	..	4 020	2.3
Debt interest .. .. .	..	..	..	..	..	..	..	..	..	18 030	10.2
Non-trading capital consumption ..	..	..	..	..	..	..	..	..	..	2 890	1.6
Total expenditure .. .. .	..	..	..	..	..	..	..	..	..	177 250	100.0

- 1) Including benefits to people not living in private households. It is not possible (for the reasons given in Appendix 2, paragraph 1) to allocate all of Government expenditure to households.
- 2) Estimated.
- 3) Including concessionary fares expenditure.

Source: United Kingdom National Accounts, 1989 edition, Table 9.4

# Financing of general government expenditure in 1988

TABLE 2 (Appendix 1)

	£ million	Percentage of total financing
<b>Allocated financing <sup>(1)</sup></b>		
Income tax <sup>(2)</sup> .. .. .	43 720	24.7
Employees' and self-employed NI contributions .. .. .	15 170	8.6
Indirect taxes		
Domestic rates (net of rebates) .. .. .	8 850	5.0
Taxes on final goods and services		
VAT .. .. .	20 470	11.5
Duty on beer and cider .. .. .	2 040	1.2
Duty on wines and spirits .. .. .	2 130	1.2
Duty on tobacco .. .. .	4 760	2.7
Duty on hydrocarbon oils .. .. .	3 970	2.2
Car tax and vehicle excise duty .. .. .	2 480	1.4
Other .. .. .	2 730	1.5
Taxes and NI contributions on intermediate goods and services		
Employers' NI contributions .. .. .	5 420	3.1
Commercial and industrial rates .. .. .	4 500	2.5
Duty on hydrocarbon oils .. .. .	2 290	1.3
VAT .. .. .	1 480	0.8
Vehicle excise duty .. .. .	600	0.3
Other .. .. .	660	0.4
	121 270	68.4
<b>Unallocated financing</b>		
Employers' NI contributions not allocated .. .. .	11 090	6.3
Indirect taxes		
Commercial and industrial rates not allocated .. .. .	5 230	2.9
Other taxes on expenditure not allocated		
VAT .. .. .	6 150	3.5
Duty on hydrocarbon oils .. .. .	2 060	1.2
Other .. .. .	4 630	2.6
Other taxes		
Corporation tax .. .. .	15 810	8.9
Petroleum revenue tax .. .. .	1 510	0.8
Taxes on capital .. .. .	4 760	2.7
Other receipts <sup>(3)</sup> .. .. .	10 740	6.1
Non-trading capital consumption .. .. .	2 890	1.6
Government borrowing requirement .. .. .	-8 890	-5.0
<b>Total financing .. .. .</b>	<b>177 250</b>	<b>100.0</b>

1 Including taxes paid by people not living in private households.

2 Net of tax relief at source on mortgage interest and life assurance premiums.

3 Receipts of rent, royalties and licence fees on oil and gas production, interest, dividends, trading income and miscellaneous transactions (net).

Source: United Kingdom National Accounts, 1989 edition, Table 9.1



# Average incomes, taxes and benefits, 1988

## By quintile groups of households

TABLE 3 (Appendix 1)

				Quintile groups of households ranked by equivalised disposable income					All households
				Bottom	2nd	3rd	4th	Top	households
Average per household (£ per year)									
Quintile points (equivalised £)				4 816	6 910	9 594	13 701		
Number of households in the sample				1 453	1 453	1 453	1 453	1 453	7 265
Original income									
Earnings of main earner .. ..				740	3 089	7 400	10 829	19 499	8 311
Other earnings .. ..				86	471	1 942	3 827	6 195	2 504
Occupational pensions, annuities ..				160	503	788	830	1 304	717
Investment income .. ..				158	263	480	594	1 953	690
Other income .. ..				67	115	136	174	216	142
Total .. ..				1 211	4 440	10 746	16 255	29 166	12 364
Direct benefits in cash									
Contributory									
Retirement pension .. ..				1 374	1 312	679	406	298	814
Unemployment benefit .. ..				75	62	55	38	20	50
Invalidity pension and allowance ..				123	175	118	56	29	100
Statutory sick pay .. ..				3	18	33	42	35	26
Industrial injury disablement benefit ..				2	13	18	14	8	11
Sickness, industrial injury benefit ..				12	11	5	6	8	8
Widows' benefits .. ..				38	39	36	61	25	40
Statutory Maternity allowance/pay ..				3	6	11	12	10	9
Miscellaneous contributory benefits ..				8	9	4	3	2	5
Non-contributory									
Income support/ Supplementary benefit ..				675	249	125	57	19	225
Child benefit .. ..				244	228	298	242	154	233
Housing benefit .. ..				478	400	95	21	6	200
Invalid care allowance .. ..				2	10	11	1	2	5
Attendance allowance .. ..				7	42	52	14	16	26
Mobility allowance .. ..				14	42	40	16	15	25
War pensions .. ..				6	8	16	5	8	9
Severe disablement allowance .. ..				35	64	52	28	21	40
Student maintenance awards .. ..				37	30	28	21	27	29
Government training schemes .. ..				28	28	47	20	7	26
Family credit/ income supplement ..				29	27	10	3	-	14
Other non-contributory benefits .. ..				22	26	24	14	6	18
Total cash benefits .. ..				3 215	2 798	1 756	1 080	715	1 913
Gross income .. ..				4 426	7 239	12 501	17 336	29 881	14 277
Direct taxes and Employees' NIC									
Income tax .. ..				185	579	1 497	2 603	5 293	2 032
less: Tax relief at source (1) .. ..				35	68	192	325	514	227
Employees' NI contributions .. ..				53	229	613	944	1 214	610
Domestic rates (gross) .. ..				465	480	530	569	696	548
Total .. ..				667	1 220	2 448	3 792	6 689	2 963
Disposable income .. ..				3 759	6 019	10 053	13 544	23 192	11 313
Equivalised disposable income .. ..				3 836	5 741	8 228	11 423	21 323	10 110
(Standard error .. ..)				44	71	100	136	685	162
Indirect taxes									
Taxes on final goods and services									
VAT .. ..				358	511	891	1 125	1 589	895
Duty on tobacco .. ..				168	196	254	249	177	209
Duty on beer and cider .. ..				33	58	109	131	116	89
Duty on wines .. ..				7	9	22	35	81	31
Duty on spirits .. ..				28	44	62	80	109	65
Duty on hydrocarbon oils .. ..				62	99	192	243	277	174
Car Tax .. ..				7	16	37	52	68	36
Vehicle excise duty .. ..				33	50	95	111	126	83
Television licences .. ..				43	47	53	54	55	50
Stamp duty on house purchase .. ..				6	8	20	29	56	24
Customs' duties .. ..				20	26	40	48	60	39
Betting taxes .. ..				20	29	54	48	41	38
Other .. ..				9	13	15	18	20	15
Intermediate taxes									
Commercial and industrial rates .. ..				88	114	174	210	293	176
Employers' NI contributions .. ..				100	130	201	244	343	204
Duty on hydrocarbon oils .. ..				45	56	84	101	136	84
Vehicle excise duty .. ..				11	14	21	25	34	21
Other .. ..				42	55	83	99	136	83
Total indirect taxes .. ..				1 081	1 475	2 408	2 902	3 714	2 316
Post-tax income .. ..				2 678	4 544	7 645	10 642	19 478	8 997
Benefits in kind									
Education .. ..				793	792	961	812	416	755
National health service .. ..				1 122	1 062	977	822	717	940
Housing subsidy .. ..				104	104	47	28	11	59
Rail travel subsidy .. ..				9	11	28	27	52	25
Bus travel subsidy .. ..				33	34	23	20	15	25
School meals and welfare milk .. ..				62	22	20	13	8	25
Total .. ..				2 124	2 024	2 056	1 722	1 219	1 829
Final income .. ..				4 802	6 568	9 701	12 363	20 697	10 826

1 On mortgage interest and life assurance premiums.

# Average incomes, taxes and benefits, 1988

## By decile groups of households

TABLE 4 (Appendix 1)

	Decile groups of households ranked by equivalised disposable income										All households
	Bottom	2nd	3rd	4th	5th	6th	7th	8th	9th	Top	
Average per household (£ per year)											
Decile points (equivalised £)	4 018	4 816	5 667	6 910	8 202	9 594	11 320	13 701	17 860		
Number of households in the sample ..	727	726	727	726	727	726	727	726	727	726	7 265
Original income											
Earnings of main earner .. ..	487	994	1 804	4 375	6 584	8 217	10 013	11 647	14 277	24 728	8 311
Other earnings .. ..	62	111	241	702	1 498	2 387	3 236	4 419	5 687	6 703	2 504
Occupational pensions, annuities ..	110	210	354	652	697	879	793	866	974	1 633	717
Investment income .. ..	163	152	202	324	467	494	548	641	1 038	2 870	690
Other income .. ..	67	68	90	140	158	113	170	179	200	232	142
Total .. ..	888	1 534	2 691	6 192	9 404	12 089	14 760	17 753	22 176	36 166	12 364
Direct benefits in cash											
Contributory											
Retirement pension .. ..	1 147	1 603	1 552	1 071	764	594	488	324	306	290	814
Unemployment benefit .. ..	82	68	59	65	47	64	53	22	26	13	50
Invalidity pension and allowance ..	103	143	147	203	129	107	60	52	42	17	100
Statutory sick pay .. ..	1	4	12	24	29	37	38	46	41	30	26
Industrial injury disablement benefit ..	3	-	12	13	17	19	9	18	9	6	11
Sickness, industrial injury benefit ..	18	5	17	5	6	4	4	7	8	8	8
Widows' benefits .. ..	35	41	26	52	46	27	64	58	32	17	40
Statutory Maternity allowance/pay ..	3	4	3	9	10	13	16	9	12	9	9
Miscellaneous contributory benefits ..	6	10	9	8	5	4	3	3	2	2	5
Non-contributory											
Income support/Supplementary benefit ..	795	554	267	231	150	100	83	32	19	19	225
Child benefit .. ..	275	212	172	283	311	284	273	211	164	144	233
Housing benefit .. ..	390	566	549	252	117	73	28	15	7	5	200
Invalid care allowance .. ..	5	-	8	12	11	10	-	2	2	2	5
Attendance allowance .. ..	3	11	38	47	60	44	18	10	19	14	26
Mobility allowance .. ..	10	18	21	63	50	30	22	10	14	15	25
War pensions .. ..	3	9	8	8	19	13	5	6	4	12	9
Severe disablement allowance .. ..	16	53	61	67	61	42	42	14	21	21	40
Student maintenance awards .. ..	53	22	27	32	37	19	21	21	44	11	29
Government training schemes .. ..	25	31	17	38	46	48	23	18	10	5	26
Family credit/ income supplement ..	24	34	28	26	10	9	-	5	-	-	14
Other non-contributory benefits .. ..	14	29	36	15	24	24	20	8	5	7	18
Total cash benefits .. ..	3 013	3 417	3 070	2 526	1 947	1 564	1 270	891	786	644	1 913
Gross income .. ..	3 901	4 951	5 761	8 718	11 351	13 654	16 029	18 644	22 962	36 810	14 277
Direct taxes and Employees' NIC											
Income tax .. ..	223	147	379	779	1 253	1 742	2 322	2 885	3 923	6 665	2 032
less: Tax relief at source <sup>(1)</sup> .. ..	37	34	49	88	165	219	292	358	434	594	227
Employees' NI contributions .. ..	32	73	123	336	518	708	872	1 015	1 204	1 223	610
Domestic rates (gross) .. ..	474	455	463	497	515	546	560	579	623	768	548
Total .. ..	693	641	916	1 524	2 121	2 776	3 462	4 122	5 317	8 063	2 963
Disposable income .. ..	3 208	4 311	4 845	7 194	9 230	10 878	12 568	14 521	17 645	28 747	11 313
Equivalised disposable income .. ..	3 236	4 436	5 207	6 275	7 562	8 896	10 415	12 432	15 606	27 048	10 110
(Standard error .. ..	56	42	56	91	99	107	126	156	218	1 291	162)
Indirect taxes											
Taxes on final goods and services											
VAT .. ..	370	346	384	638	806	975	1 049	1 201	1 402	1 776	895
Duty on tobacco .. ..	162	175	166	226	248	260	240	258	202	152	209
Duty on beer and cider .. ..	31	36	43	74	95	123	128	134	116	116	89
Duty on wines .. ..	7	8	7	11	20	24	30	39	55	107	31
Duty on spirits .. ..	26	29	39	48	55	70	84	77	103	115	65
Duty on hydrocarbon oils .. ..	63	61	69	128	178	206	225	261	275	278	174
Car tax .. ..	10	4	6	25	31	44	43	61	68	67	36
Vehicle excise duty .. ..	34	33	36	64	85	105	104	118	128	124	83
Television licences .. ..	43	43	45	49	53	54	54	54	54	56	50
Stamp duty on house purchase .. ..	7	5	6	10	18	23	25	34	45	66	24
Customs' duties .. ..	21	19	19	33	37	43	46	50	58	63	39
Betting taxes .. ..	19	22	23	36	51	57	42	55	44	37	38
Other .. ..	9	8	12	15	14	15	18	18	17	22	15
Intermediate taxes											
Commercial and industrial rates .. ..	90	86	92	135	164	184	199	220	252	334	176
Employers' NI contributions .. ..	102	98	105	156	190	212	231	257	294	392	204
Duty on hydrocarbon oils .. ..	45	44	46	66	82	87	94	107	116	155	84
Vehicle excise duty .. ..	11	10	11	16	20	21	23	27	29	40	21
Other .. ..	43	41	44	66	79	87	95	104	118	154	83
Total indirect taxes .. ..	1 094	1 068	1 154	1 796	2 225	2 591	2 730	3 075	3 376	4 053	2 316
Post-tax income .. ..	2 115	3 242	3 691	5 399	7 004	8 287	9 838	11 447	14 270	24 694	8 997
Benefits in kind											
Education .. ..	939	648	529	1 055	1 047	875	915	708	500	332	755
National health service .. ..	1 098	1 147	1 083	1 041	997	957	865	779	734	701	940
Housing subsidy .. ..	93	115	122	85	53	40	33	23	15	7	59
Rail travel subsidy .. ..	9	8	12	10	17	39	24	29	49	55	25
Bus travel subsidy .. ..	28	38	38	30	24	22	21	20	15	14	25
School meals and welfare milk .. ..	83	42	21	22	22	18	15	11	10	5	25
Total .. ..	2 250	1 997	1 805	2 244	2 160	1 952	1 874	1 570	1 323	1 114	1 829
Final income .. ..	4 364	5 240	5 496	7 642	9 165	10 239	11 711	13 017	15 592	25 808	10 826

<sup>1</sup> On mortgage interest and life assurance premiums.

# Average incomes, taxes and benefits, 1988

## By quintile groups within household type

TABLE 5 (Appendix 1)

				Quintile groups of households ranked by equivalised disposable income					All groups
				Bottom	2nd	3rd	4th	Top	
<b>Average per household (£ per year)</b>									
<b>(i) 1 adult retired</b>									
Quintile points (equivalised £)				4 023	4 843	5 345	6 811		
Number of households in the sample ..				205	206	205	206	205	1 027
Original income .. ..				304	404	465	1 164	6 122	1 690
Direct benefits in cash									
Contributory									
Retirement pension .. ..				2 117	2 156	2 144	2 162	2 068	2 129
Sickness/ injury related .. ..				6	21	7	21	75	26
Unemployment benefit .. ..				-	-	-	-	6	1
Other .. ..				19	14	46	13	68	32
Total contributory .. ..				2 142	2 191	2 196	2 196	2 216	2 188
Non-contributory									
Income support/ Supplementary benefit ..				50	42	74	84	39	58
Child benefit .. ..				-	-	-	-	-	-
Housing benefit .. ..				148	505	796	673	116	448
Sickness/ disablement related .. ..				-	22	15	73	200	62
Other .. ..				-	32	30	10	104	35
Total non-contributory .. ..				198	600	914	841	459	603
Gross income .. ..				2 644	3 194	3 576	4 202	8 798	4 481
Income tax <sup>(1)</sup> and Employees' NIC .. ..				106	35	45	157	1 315	331
Domestic rates(gross) .. ..				481	410	419	464	581	471
Disposable income .. ..				2 057	2 749	3 112	3 581	6 902	3 679
Equivalised disposable income .. ..				3 373	4 506	5 101	5 870	11 314	6 031
Taxes on final goods and services .. ..				352	327	355	410	758	440
Intermediate taxes .. ..				186	159	168	199	321	207
Post-tax income .. ..				1 520	2 263	2 589	2 971	5 822	3 032
Benefits in kind									
Education .. ..				-	-	-	-	-	-
National health service .. ..				1 193	1 049	1 046	1 003	944	1 047
Housing subsidy .. ..				39	102	150	129	57	95
Travel subsidies .. ..				37	43	46	44	44	43
School meals and welfare milk .. ..				-	1	-	-	-	-
Final income .. ..				2 789	3 458	3 831	4 147	6 866	4 217
<b>(ii) 2 or more adults retired</b>									
Quintile points (equivalised £)				4 155	4 833	6 253	8 699		
Number of households in the sample ..				171	172	171	172	171	857
Original income .. ..				647	822	2 086	4 769	14 263	4 514
Direct benefits in cash									
Contributory									
Retirement pension .. ..				3 043	3 425	3 370	3 061	3 000	3 180
Sickness/ injury related .. ..				104	96	150	295	319	193
Unemployment benefit .. ..				31	22	11	15	35	23
Other .. ..				29	18	17	45	28	27
Total contributory .. ..				3 207	3 561	3 548	3 417	3 382	3 423
Non-contributory									
Income support/ Supplementary benefit ..				169	137	136	73	27	108
Child benefit .. ..				15	-	7	-	7	6
Housing benefit .. ..				185	444	263	108	12	203
Sickness/ disablement related .. ..				7	99	314	407	256	217
Other .. ..				41	60	78	61	24	53
Total non-contributory .. ..				417	740	797	649	326	586
Gross income .. ..				4 271	5 123	6 432	8 834	17 971	8 523
Income tax <sup>(1)</sup> and Employees' NIC .. ..				101	58	268	726	2 990	828
Domestic rates(gross) .. ..				496	472	511	556	780	563
Disposable income .. ..				3 674	4 592	5 653	7 552	14 201	7 132
Equivalised disposable income .. ..				3 573	4 478	5 469	7 307	13 243	6 812
Taxes on final goods and services .. ..				721	741	931	1 324	2 017	1 146
Intermediate taxes .. ..				296	272	329	448	700	409
Post-tax income .. ..				2 657	3 579	4 394	5 780	11 484	5 577
Benefits in kind									
Education .. ..				51	-	22	-	88	32
National health service .. ..				1 772	1 587	1 597	1 465	1 374	1 559
Housing subsidy .. ..				46	115	90	60	4	63
Travel subsidies .. ..				66	74	71	65	75	70
School meals and welfare milk .. ..				7	-	2	-	-	2
Final income .. ..				4 599	5 355	6 176	7 370	13 025	7 303

<sup>1</sup> After tax relief at source on mortgage interest and life assurance premiums.



# Average incomes, taxes and benefits, 1988

By quintile groups within household type

TABLE 5 (Appendix 1) (continued)

				Quintile groups of households ranked by equivalised disposable income					All groups
				Bottom	2nd	3rd	4th	Top	
<b>Average per household (£ per year)</b>									
<b>(iii) 1 adult non-retired</b>									
Quintile points ( <i>equivalised £</i> )				4 925	8 943	12 213	16 902		
Number of households in the sample				162	162	163	162	162	811
Original income				607	3 732	8 108	11 430	18 911	8 557
Direct benefits in cash									
Contributory									
Retirement pension				25	102	73	43	39	56
Sickness/ injury related				165	250	73	37	78	121
Unemployment benefit				121	65	12	5	5	42
Other				170	126	154	120	66	127
Total contributory				481	543	313	205	188	346
Non-contributory									
Income support/ Supplementary benefit				796	265	35	13	2	222
Child benefit				-	-	2	5	-	1
Housing benefit				649	364	40	3	11	213
Sickness/ disablement related				84	219	61	11	24	80
Other				138	35	13	2	25	43
Total non-contributory				1 666	883	150	33	62	558
Gross income				2 755	5 158	8 571	11 667	19 161	9 461
Income tax <sup>(1)</sup> and Employees' NIC				62	620	1 730	2 508	3 795	1 743
Domestic rates(gross)				386	404	441	433	538	441
Disposable income				2 307	4 134	6 399	8 727	14 827	7 278
<i>Equivalised disposable income</i>				3 781	6 777	10 491	14 306	24 307	11 931
Taxes on final goods and services				533	805	1 232	1 400	1 826	1 159
Intermediate taxes				188	249	362	408	610	363
Post-tax income				1 585	3 080	4 805	6 919	12 391	5 755
Benefits in kind									
Education				337	143	-	41	-	104
National health service				283	283	268	252	252	264
Housing subsidy				99	85	50	22	20	55
Travel subsidies				22	31	25	24	59	32
School meals and welfare milk				-	-	-	-	-	-
Final income				2 306	3 622	5 149	7 259	12 723	6 210
<b>(iv) 2 adults non-retired</b>									
Quintile points ( <i>equivalised £</i> )				7 320	10 220	13 525	18 227		
Number of households in the sample				304	304	304	304	304	1 520
Original income				4 031	9 851	15 058	20 306	36 950	17 239
Direct benefits in cash									
Contributory									
Retirement pension				574	598	267	199	191	366
Sickness/ injury related				476	216	122	91	62	193
Unemployment benefit				106	55	23	21	15	44
Other				38	50	55	24	5	34
Total contributory				1 194	920	468	335	272	638
Non-contributory									
Income support/ Supplementary benefit				407	75	37	17	1	107
Child benefit				-	3	-	2	10	3
Housing benefit				282	103	23	8	-	83
Sickness/ disablement related				269	195	27	75	21	117
Other				162	62	10	22	23	56
Total non-contributory				1 120	438	97	124	56	367
Gross income				6 345	11 209	15 623	20 765	37 278	18 244
Income tax <sup>(1)</sup> and Employees' NIC				626	1 737	3 023	4 321	7 597	3 461
Domestic rates(gross)				469	504	528	580	740	564
Disposable income				5 250	8 968	12 072	15 864	28 941	14 219
<i>Equivalised disposable income</i>				5 140	8 787	11 867	15 650	28 711	14 031
Taxes on final goods and services				1 238	1 720	2 169	2 555	3 052	2 147
Intermediate taxes				368	509	636	759	1 049	664
Post-tax income				3 644	6 739	9 267	12 551	24 840	11 408
Benefits in kind									
Education				303	136	55	45	34	115
National health service				766	698	584	549	557	631
Housing subsidy				78	46	27	18	1	34
Travel subsidies				37	77	43	64	61	56
School meals and welfare milk				-	-	-	-	-	-
Final income				4 829	7 696	9 977	13 228	25 492	12 244

<sup>1</sup> After tax relief at source on mortgage interest and life assurance premiums.

# Average incomes, taxes and benefits, 1988

## By quintile groups within household type

TABLE 5 (Appendix 1) (continued)

				Quintile groups of households ranked by equivalised disposable income					All groups
				Bottom	2nd	3rd	4th	Top	
<b>Average per household (£ per year)</b>									
<b>(v) 3 or more adults non-retired</b>									
Quintile points (equivalised £)				7 171	9 074	11 410	14 656		
Number of households in the sample				128	129	128	129	128	642
Original income				6 887	14 008	18 679	24 866	40 060	20 896
Direct benefits in cash									
Contributory									
Retirement pension				704	539	499	341	258	468
Sickness/ injury related				668	347	277	257	147	339
Unemployment benefit				206	134	132	33	31	107
Other				67	52	58	52	11	48
Total contributory				1 645	1 071	966	684	448	963
Non-contributory									
Income support/ Supplementary benefit				718	305	127	58	47	251
Child benefit				9	12	6	9	6	8
Housing benefit				265	75	33	3	11	77
Sickness/ disablement related				356	212	262	61	96	197
Other				505	320	209	119	78	246
Total non-contributory				1 852	924	636	250	237	779
Gross income				10 384	16 002	20 282	25 801	40 745	22 637
Income tax <sup>(2)</sup> and Employees' NIC				1 189	2 555	3 556	5 139	8 596	4 206
Domestic rates(gross)				509	513	518	562	802	581
Disposable income				8 686	12 934	16 208	20 099	31 347	17 851
Equivalised disposable income				5 570	8 182	10 115	12 900	20 280	11 407
Taxes on final goods and services				1 999	2 764	3 098	3 501	3 782	3 029
Intermediate taxes				593	741	837	907	1 239	863
Post-tax income				6 094	9 429	12 273	15 691	26 326	13 958
Benefits in kind									
Education				1 276	666	637	387	443	681
National health service				1 039	995	980	939	907	972
Housing subsidy				86	62	47	26	18	48
Travel subsidies				73	72	62	91	129	85
School meals and welfare milk				1	-	-	-	-	-
Final income				8 569	11 224	13 999	17 134	27 823	15 745
<b>(vi) 1 adult with children<sup>(1)</sup></b>									
Quintile points (equivalised £)				3 899	4 502	5 155	7 781		
Number of households in the sample				56	57	56	57	56	282
Original income				239	475	772	4 158	11 523	3 425
Direct benefits in cash									
Contributory									
Retirement pension				-	-	-	-	-	-
Sickness/ injury related				62	-	82	33	43	44
Unemployment benefit				5	-	-	12	15	6
Other				162	92	37	177	312	156
Total contributory				229	92	119	222	371	206
Non-contributory									
Income support/ Supplementary benefit				1 379	2 077	2 005	779	436	1 336
Child benefit				809	742	639	694	715	720
Housing benefit				970	1 040	1 224	514	320	813
Sickness/ disablement related				-	-	23	22	-	9
Other				144	151	110	469	30	182
Total non-contributory				3 302	4 010	4 001	2 477	1 500	3 060
Gross income				3 770	4 577	4 893	6 857	13 394	6 691
Income tax <sup>(2)</sup> and Employees' NIC				-39	-2	1	300	1 888	428
Domestic rates(gross)				510	468	472	502	527	496
Disposable income				3 299	4 111	4 420	6 054	10 979	5 768
Equivalised disposable income				3 237	4 193	4 776	6 197	11 355	5 946
Taxes on final goods and services				699	628	626	1 158	1 472	916
Intermediate taxes				255	242	238	394	532	332
Post-tax income				2 345	3 241	3 556	4 503	8 975	4 519
Benefits in kind									
Education				1 712	1 678	1 844	2 264	2 010	1 902
National health service				878	896	818	575	574	748
Housing subsidy				256	156	172	146	30	152
Travel subsidies				31	18	21	17	18	21
School meals and welfare milk				276	235	198	108	58	175
Final income				5 498	6 224	6 608	7 612	11 664	7 517

1 This group is smaller than the category of "one parent families" because some of these families will be contained in larger household types.

2 After tax relief at source on mortgage interest and life assurance premiums.

# Average incomes, taxes and benefits, 1988

## By quintile groups within household type

TABLE 5 (Appendix 1) (continued)

				Quintile groups of households ranked by equivalised disposable income					All groups
				Bottom	2nd	3rd	4th	Top	
<b>Average per household (£ per year)</b>									
<b>(vii) 2 adults with 1 child</b>									
Quintile points (equivalised £)				6 199	8 463	10 662	14 268		
Number of households in the sample				114	113	114	113	114	568
Original income				4 677	10 113	13 494	18 329	35 391	16 408
Direct benefits in cash									
Contributory									
Retirement pension				19	40	-	20	6	17
Sickness/ injury related				253	99	109	41	75	116
Unemployment benefit				209	97	112	42	18	95
Other				185	97	100	94	81	111
Total contributory				665	333	320	197	179	339
Non-contributory									
Income support/ Supplementary benefit				902	168	84	-	70	245
Child benefit				380	368	378	390	378	379
Housing benefit				455	74	49	4	15	120
Sickness/ disablement related				52	53	11	30	86	46
Other				149	30	17	43	169	82
Total non-contributory				1 938	693	540	468	717	872
Gross income				7 279	11 139	14 354	18 994	36 287	17 620
Income tax <sup>(1)</sup> and Employees' NIC				1 326	1 756	2 303	3 605	7 438	3 288
Domestic rates(gross)				488	480	540	611	715	567
Disposable income				5 466	8 904	11 511	14 779	28 133	13 765
Equivalised disposable income				4 496	7 439	9 652	12 242	23 143	11 400
Taxes on final goods and services				1 352	1 720	1 840	2 241	2 900	2 011
Intermediate taxes				425	504	589	727	1 046	658
Post-tax income				3 689	6 679	9 082	11 811	24 187	11 096
Benefits in kind									
Education				1 038	726	785	899	702	830
National health service				960	946	986	904	1 067	973
Housing subsidy				96	57	32	11	13	42
Travel subsidies				40	24	30	28	60	36
School meals and welfare milk				52	15	11	20	19	23
Final income				5 876	8 447	10 926	13 673	26 048	13 001
<b>(viii) 2 adults 2 children</b>									
Quintile points (equivalised £)				5 999	7 680	9 525	12 451		
Number of households in the sample				174	174	174	174	174	870
Original income				5 078	11 345	14 550	18 970	33 857	16 760
Direct benefits in cash									
Contributory									
Retirement pension				-	13	-	-	31	9
Sickness/injury related				337	55	35	46	24	99
Unemployment benefit				125	36	16	41	26	49
Other				6	40	8	11	28	19
Total contributory				469	144	59	98	109	176
Non-contributory									
Income support/ Supplementary benefit				810	92	5	74	8	198
Child benefit				757	750	735	742	735	744
Housing benefit				394	81	17	10	1	101
Sickness/ disablement related				112	33	57	-	33	47
Other				79	56	27	30	16	41
Total non-contributory				2 151	1 012	840	856	793	1 130
Gross income				7 698	12 501	15 448	19 923	34 759	18 066
Income tax <sup>(1)</sup> and Employees' NIC				963	1 914	2 590	3 573	6 256	3 059
Domestic rates(gross)				487	549	584	666	807	619
Disposable income				6 247	10 037	12 274	15 685	27 697	14 388
Equivalised disposable income				4 370	6 982	8 567	10 880	19 237	10 007
Taxes on final goods and services				1 574	1 813	2 096	2 394	2 963	2 168
Intermediate taxes				485	610	655	780	1 133	733
Post-tax income				4 188	7 614	9 523	12 511	23 601	11 487
Benefits in kind									
Education				2 033	2 076	2 051	2 127	1 507	1 959
National health service				1 069	1 023	1 150	1 038	1 062	1 068
Housing subsidy				109	50	12	13	3	37
Travel subsidies				21	26	22	32	63	33
School meals and welfare milk				128	54	49	45	36	62
Final income				7 547	10 843	12 807	15 766	26 272	14 647

1 After tax relief at source on mortgage interest and life assurance premiums.



# Average incomes, taxes and benefits, 1988

## By quintile groups within household type

TABLE 5 (Appendix 1) (continued)

							Quintile groups of households ranked by equivalised disposable income					All groups
							Bottom	2nd	3rd	4th	Top	
<b>Average per household (£ per year)</b>												
<b>(ix) 2 adults with 3 or more children</b>												
Quintile points (equivalised £)							4 542	6 334	8 160	10 933		
Number of households in the sample							65	65	64	65	65	324
Original income							3 034	10 080	13 472	18 594	34 385	15 921
Direct benefits in cash												
Contributory												
Retirement pension							-	-	-	-	-	
Sickness/ injury related							200	132	54	79	13	96
Unemployment benefit							325	47	23	45	26	93
Other							22	-	7	44	6	16
Total contributory							548	179	84	169	45	205
Non-contributory												
Income support/ Supplementary benefit							1 483	83	100	181	46	380
Child benefit							1 355	1 315	1 140	1 204	1 106	1 224
Housing benefit							556	169	32	18	29	161
Sickness/ disablement related							129	111	94	84	-	84
Other							260	190	15	43	44	111
Total non-contributory							3 784	1 869	1 383	1 530	1 225	1 960
Gross income							7 365	12 128	14 939	20 292	35 655	18 086
Income tax <sup>(1)</sup> and Employees' NIC							374	1 899	2 313	3 704	6 349	2 930
Domestic rates(gross)							478	544	549	630	860	612
Disposable income							6 513	9 685	12 078	15 958	28 447	14 544
Equivalised disposable income							3 654	5 478	7 108	9 264	17 021	8 509
Taxes on final goods and services							1 365	1 836	1 791	2 323	3 096	2 083
Intermediate taxes							447	576	630	806	1 398	772
Post-tax income							4 702	7 274	9 657	12 828	23 952	11 689
Benefits in kind												
Education							3 842	3 387	3 784	3 391	2 961	3 472
National health service							1 584	1 370	1 408	1 480	1 378	1 444
Housing subsidy							157	157	53	34	10	82
Travel subsidies							25	15	21	44	72	35
School meals and welfare milk							298	91	58	80	72	120
Final income							10 609	12 294	14 981	17 857	28 445	16 843
<b>(x) 3 or more adults with children</b>												
Quintile points (equivalised £)							6 014	7 946	9 796	12 292		
Number of households in the sample							73	73	72	73	73	364
Original income							7 280	14 380	19 400	24 615	39 177	20 975
Direct benefits in cash												
Contributory												
Retirement pension							221	263	126	314	181	221
Sickness/ injury related							246	137	162	59	183	158
Unemployment benefit							226	195	113	42	45	124
Other							37	57	61	81	8	49
Total contributory							730	652	461	495	418	551
Non-contributory												
Income support/ Supplementary benefit							1 480	455	192	150	23	461
Child benefit							801	587	474	525	568	591
Housing benefit							356	77	35	16	-	97
Sickness/ disablement related							75	169	236	78	111	134
Other							401	380	220	305	91	280
Total non-contributory							3 112	1 667	1 157	1 074	793	1 562
Gross income							11 122	16 699	21 018	26 185	40 388	23 088
Income tax <sup>(1)</sup> and Employees' NIC							1 295	2 791	3 768	5 273	7 797	4 186
Domestic rates(gross)							482	568	587	619	885	628
Disposable income							9 345	13 339	16 663	20 292	31 706	18 274
Equivalised disposable income							4 527	6 998	8 850	10 785	16 595	9 553
Taxes on final goods and services							2 323	2 814	3 208	3 338	4 216	3 180
Intermediate taxes							711	805	922	926	1 409	954
Post-tax income							6 311	9 721	12 533	16 029	26 080	14 139
Benefits in kind												
Education							3 268	2 694	2 081	2 381	2 254	2 537
National health service							1 536	1 206	1 143	1 156	1 297	1 268
Housing subsidy							126	59	50	45	15	59
Travel subsidies							91	48	71	76	71	71
School meals and welfare milk							208	47	35	28	16	67
Final income							11 539	13 776	15 914	19 715	29 733	18 141

1 After tax relief at source on mortgage interest and life assurance premiums.

# Distribution of households<sup>(1)</sup> co-operating in the Family Expenditure Survey, 1988

## By decile groups of households ranked by equivalised disposable income

TABLE 6 (Appendix 1)

				Retired households		Non-Retired households								
				1 adult	2 or more adults	1 adult	2 adults	3 or more adults	1 adult with children	2 adults with 1 child	2 adults with 2 children	2 adults with 3 or more children	3 or more adults with children	All households
Decile groups of households ranked by equivalised disposable income														
Bottom	..	..	..	204	135	80	62	17	69	38	59	42	21	727
2nd	..	..	..	192	206	71	45	14	79	28	36	34	21	726
3rd	..	..	..	305	119	48	57	30	39	26	58	26	19	727
4th	..	..	..	127	107	51	114	53	27	53	96	53	45	726
5th	..	..	..	53	95	50	122	79	21	68	151	42	46	727
6th	..	..	..	51	70	57	143	99	17	64	127	41	57	726
7th	..	..	..	34	39	93	162	88	16	95	113	26	61	727
8th	..	..	..	23	32	105	223	103	8	72	95	25	40	726
9th	..	..	..	17	31	116	270	100	4	71	69	15	34	727
Top	..	..	..	21	23	140	322	59	2	53	66	20	20	726
All households				1 027	857	811	1 520	642	282	568	870	324	364	7 265

1 See Appendix 2 for definitions of retired households, adults and children.

## METHODOLOGY AND DEFINITIONS

### The allocation of government expenditure and its financing

1. There are considerable difficulties in moving from the aggregates of government expenditure and financing published in the United Kingdom National Accounts - the CSO Blue Book - to apportioning taxes and benefits to individual households. We can obtain information about the types of household that receive cash benefits and pay direct taxes through surveys such as the Family Expenditure Survey (FES). From the replies respondents give to questions on their expenditure we can impute their payments of indirect taxes, and from information they supply about such factors as their ages and number of children in the household we can estimate the average costs of providing them with social services, such as health and education. But there are other kinds of financing, such as corporation tax and government receipts from public corporations: no attempt is made in this analysis to apportion them to households because it would be too difficult. Similarly, there are other items of government expenditure, such as capital expenditure and expenditure on defence and on the maintenance of law and order, for which there is no clear conceptual basis for allocation, or for which we do not in any event have sufficient information to make an allocation. In all, 68 per cent of government financing (including the Borrowing Requirement) and 53 per cent of expenditure are allocated to households in this analysis.

### Family Expenditure Survey(FES)

2. The estimates in this article are based mainly on data derived from the FES. The FES is an annual survey of the expenditure and income of private households. People living in hotels, lodging houses, and in institutions such as old peoples' homes are excluded. Each person aged 16 and over keeps a full record of payments made during 14 consecutive days and answers questions about hire purchase and other payments. The respondents also give detailed information, where appropriate, about income (including cash benefits received from the state) and payments of income tax. Information on age, occupation, education received, family composition and housing tenure is also obtained. The survey covers the whole 12 month period.

3. One of the main purposes of the FES is to produce information on household expenditure patterns which is used to derive the weights for the index of retail prices. The survey is conducted by the Office of Population Censuses and Surveys on behalf of the Central Statistical Office who analyse and report on it (prior to July 1989, the FES was the responsibility of the Department of Employment). The Family Expenditure Survey Report for 1988, containing detailed data on household characteristics, income, and expenditure, was published in February 1990. Details of the survey method are set out in 'The Family Expenditure Survey Handbook' by W F F Kemsley, R U Redpath and M Holmes. Both are published by Her Majesty's Stationery Office.

4. The number of households in the United Kingdom responding to the FES in 1988 was 7,265. The response rate in Great Britain was 71 per cent: the FES in Northern Ireland is done as a separate exercise to the rest of UK, with a larger sampling fraction, and only a proportion of these cases go into the UK analysis. To count as a co-operating household, all members aged 16 and over must fill in the diaries for both weeks and give full details of income etc. The available evidence suggest that older households, households

where the head is self-employed, those without children and higher income households, are less likely to co-operate than others (see 'Family Expenditure Survey: a second study of differential response, comparing Census characteristics of FES respondents and non-respondents' by Bob Redpath, *Statistical News* No 72 February 1986. (HMSO)). In addition response in Greater London is noticeably lower than in other areas. However, at present, the results in this article are based on the responses of those households which actually co-operated in the survey and they are not reweighted. This means that some of the figures differ from those produced by other surveys such as the Survey of Personal Incomes from the Inland Revenue.

### Unit of analysis

5. The basic unit of analysis in the article is the household, and not the family, individual or tax unit. A household is defined in the FES as comprising people who live at the same address and who share common catering for at least one meal a day. Spending on many items, particularly on food, housing, fuel and light, is largely joint spending by the members of the household. Without further information or assumptions it is difficult to apportion indirect taxes between individuals or other sub-divisions of households.

6. In classifying the households into various types, a child (ie a dependant) is defined as:

either aged under 16

or aged 16,17 or 18 not married, and receiving full-time non-advanced further education.

[The definition used in the pre-1987 articles was a person aged under 16].

Most of the 'extra' adults in households with at least three adults are sons or daughters of the head of household rather than retired people.

7. A retired household is defined as one where the combined income of retired members amounts to at least half the total gross income of the household, where a retired person is defined as anyone who describes themselves as 'retired' or anyone over minimum NI pension age describing themselves as 'unoccupied' or 'sick or injured but not intending to seek work'.

8. By no means all retired people are in retired households: about one in five households comprising three or more adults contain retired people, for example, and households comprising one retired and one non-retired adult are often classified as non-retired.

9. The sample households have been classified according to their compositions at the time of the interview. This classification is sensible for the vast majority of households, but it can be misleading for the very small number of cases (26 in 1988) where a spouse is absent from the household at the time of interview. The absent spouse may well be working away from home (eg on an oil rig), or living separately - but contributing financially to the household's upkeep. These contributions would be picked up as part of the household's original income. Also, it is likely that some households will have changed their composition during the year.

10. Economically active people comprise employees, the self-employed and others not in employment but who are seeking or intending, when able, to seek work. In 1982 there were changes in the FES in the definition relating to economic activity. The effect of



these changes is to exclude all those out of employment for more than a year rather than five years. This exclusion applies regardless of the fact that they may still describe themselves as seeking work. Also excluded are those who have not been in paid employment since leaving full-time education unless they have worked within the previous year; certain of the part-time self-employed with very small incomes; and those whose only economic activity is working as mail-order agents or baby-sitters.

### Income: redistributive stages

#### 11. Stage one:

Original income plus cash benefits = Gross income.

#### Stage two:

Gross income minus income tax, employees' National Insurance contributions and domestic rates = Disposable income.

#### Stage three:

Disposable income minus indirect taxes = Post-tax income.

#### Stage four:

Post-tax income plus 'benefits in kind' = Final income.

12. The starting point of the analysis is original income. This is the annual income in cash of all members of the household before the deduction of taxes or the addition of any state benefits. It includes income from employment, self-employment, investment income, occupational pensions and annuities. Employment income is based on the last payment received before the interview or, where different, the amount usually received. Allowance is made for any periods of absence from work through sickness and unemployment in the preceding 12 months, and for bonuses. Income from self-employment is recorded in the FES for a past period. This is brought up to current levels using the average earnings index. Income from interest, dividends and rent is taken as the amount received in the 12 months before the interview. Income from occupational pensions is based on the last payment received.

13. About 99 per cent of original income comes from earnings, occupational pensions (including annuities) and investment income. The tiny bit remaining comes from a variety of sources: trade union benefits, income of children under 16, private scholarships, earnings as a mail order agent or babysitter, regular allowance from a non-spouse, allowance from an absent spouse and the imputed value of rent-free accommodation. Households living in rent-free dwellings are each assigned an imputed income based on the rateable value of the dwelling. This is counted as employment income if the tenancy depends on the job.

14. The next stage of the analysis is to add cash benefits to original income to obtain gross income. This is slightly different to the 'gross normal weekly income' used in the FES Report, mainly because it excludes the imputed rent of owner-occupiers. Cash benefits are:

#### Contributory:

Retirement pension and Christmas bonus, unemployment benefits, sickness and industrial injury benefit, statutory sick pay, invalidity pension and allowance, industrial injury disablement benefits, widows' benefits, and statutory maternity pay.

#### Non-contributory:

Supplementary benefit, child benefit, housing benefit, attendance allowance, mobility allowance, war pensions, severe

disablement allowance, family income supplement, old persons pension, government training scheme allowances (YTS etc), student maintenance awards, maternity grant.

15. Statutory Sick Pay and Statutory Maternity Pay are classified as cash benefits even though they are paid through the employer.

16. Income from short-term benefits is taken as the product of the last weekly payment and the number of weeks the benefit was received in the 12 months prior to interview. Income from long-term benefits, and from housing benefit, is based on current rates.

17. Income tax, domestic rates and employees' and self-employed contributions to National Insurance and National Health services are then deducted to give disposable income. Taxes on capital, such as capital gains tax and inheritance tax, are not included in these deductions because there is no clear conceptual basis for doing so, and the relevant data is not available from the FES.

18. The figures for domestic rates include, as well as local authority rates, charges made by water authorities for water, environmental and sewerage services. Rates are shown in full with any rebates given in housing benefit.

[In pre-1987 articles, domestic rates have been included in the 'indirect' tax category. They are now deducted in the derivation of disposable income in anticipation of their replacement by the community charge from 1989. The National Accounts system, which strongly influences this article, will be showing the community charge as a deduction before disposable income is produced].

19. The tax estimates are based on the amount deducted from the last payments of employment income and pensions, and on the amount paid in the last 12 months in respect of income from self-employment, interest, dividends and rent. The income tax payments recorded will therefore take account of a household's tax allowances, with the exception of tax relief obtained in this way 'at source'. In 1988 there were two types of tax relief obtained in this way: mortgage interest relief and life assurance premium relief. Where households are eligible for these reliefs imputations are made and deducted from recorded income tax payments. In the case of mortgage interest relief obtained through the MIRAS scheme, which was introduced in April 1983, these imputations are based on the interest component of the latest mortgage repayment.

20. The next step is to deduct indirect taxes to give post-tax income. Indirect tax on final consumer goods and services include:

- Duties on beer, wines, spirits, tobacco, oil, betting, etc
- Value Added Tax (VAT)
- Customs (import) duties
- Car tax
- Motor vehicle duties
- Driving licenses
- Stamp duties
- Gas levy

21. Taxes levied on final goods and services are assumed to be fully incident on the consumer, and can be imputed from a household's FES expenditure record. For example, the amount of VAT which is paid by the household is calculated from the household's total expenditure on goods and services subject to VAT.

22. VAT and car tax affect the prices of secondhand cars and are therefore assumed to be incident on the purchasers of such cars as well as on the purchasers of new cars. In allocating taxes,

expenditures recorded in the FES on alcoholic drink, tobacco, ice cream, soft drinks and confectionery are grossed up to allow for the known under-recording of these items in the sample. The true expenditure in each case is assumed to be proportional to the recorded expenditure. This approach has its drawbacks because there is some evidence to suggest that heavy drinkers, for example, are not picked up by the FES.

23. The incidence of stamp duty on house purchase on an owner-occupying household has been taken as the product of the hypothetical duty payable on buying their current dwelling (estimated from rateable values) and the probability of a household of that type moving in a given year (estimated from the General Household Survey).

24. Indirect taxes on intermediate goods and services are:

- Local authority rates on commercial and industrial property
- Motor vehicle duties
- Duties on hydrocarbon oils
- Employers' contributions to National Insurance, the National Health Service, the industrial injuries fund and the redundancy payments scheme
- Customs (import) duties
- Stamp duties
- VAT

25. These are taxes that fall on goods and services purchased by industry. Only the elements attributable to the production of subsequent goods and services for final consumption by the UK personal sector are allocated in the article, being assumed to be fully shifted to the consumer. Their allocations between different categories of consumers' expenditure are based on the relation between intermediate production and final consumption using estimated input-output techniques. This process is not an exact science, and many assumptions have to be made.

26. Finally, we add those notional benefits in kind provided to households by government for which there is a reasonable basis for allocation to households, to obtain final income. Benefits in kind are:

- State education
- School meals and welfare milk
- National Health service
- Housing subsidy
- Railway travel subsidy
- Bus travel subsidy (including concessionary fares schemes)

27. Education benefit is estimated by the Department of Education and Science as the cost per pupil or student in special schools, primary and secondary schools, universities, and other further education establishments. The value of the benefits attributed to a household depends on the number of people in the household recorded in the FES as receiving each kind of state education (students away from the household are excluded). No benefit is allocated for pupils attending private schools.

28. The value of school meals and other welfare foods is based on their costs to the public authorities. Any payment by the individual household is subtracted to arrive at a net contribution.

29. Each individual in the FES is allocated a benefit from the National Health Service according to the estimated average use made of the various types of health service by people of the same age and sex, and according to the total cost of providing those services.

The benefit from maternity services is assigned separately to those households containing children under the age of 12 months. No allowance is made for the use of private health care services.

30. In this article public sector tenants are defined to include the tenants of local authorities, New Town Corporations, the Scottish Special Housing Association (SSHA), Northern Ireland Housing Executive (NIHE) and housing associations. The total housing subsidy includes the contribution from rate funds and from central government to the housing revenue accounts of local authorities; and grants paid to the New Town Corporations, the SSHA, the NIHE and housing associations. Within Greater London, the rest of England, Wales, Scotland and Northern Ireland each public sector tenant has been allocated a share of the region's total relevant subsidy based on the gross rateable value of this dwelling. Housing subsidy does not include mortgage interest tax relief, rent rebates and allowances or rate rebates included in housing benefit (see paragraphs 14 and 18 respectively).

31. The rail travel subsidies allocated are those to British Rail passenger operations and the London Underground. The subsidy to London and South East services is allocated to households living in the area and subsidies to provincial services to households living outside the South East, in proportion to households' expenditure on rail fares as recorded in the FES. A single allocation of the subsidy to inter-city services was made by dividing that subsidy between all households in proportion to their recorded expenditure on rail fares. In making both these allocations allowances are made for the use of rail travel by the business sector, tourists and the institutional part of the personal sector.

32. In this article, bus travel subsidy covers both the cost of concessionary travel schemes for senior citizens and others, and subsidies to operators. Separate allocations are made for Greater London, the other metropolitan areas and the rest of the United Kingdom. The subsidy is divided between households according to recorded expenditure on bus travel and the types of concessionary passes held.

33. We must emphasise that the analysis in this article provides only a very rough guide to the kinds of household which benefit from government expenditure, and by how much, and to those which finance it. Apart from the fact that large parts of expenditure and receipts are not allocated, the criteria used both to allocate taxes and to value and apportion benefits to individual households could be regarded as too simplistic. For example, the lack of data forces us to assume that the incidence of direct taxes falls on the individual from whose income the tax is deducted. This implies that the benefit of tax relief for mortgage interest, for example, accrues directly to the taxpayer rather than to some other party, for instance, the vendor of the land. It also implies that the working population is not able to pass the cost of the direct tax back to employers through lower profits, or to consumers through higher prices. And, in allocating indirect taxes we assume that the part of the tax falling on consumers' expenditure is borne by the households which buy the item or the service taxed, whereas in reality the incidence of the tax is spread by pricing policies and probably falls in varying proportions on the producers of a good or service, on their employees, on the buyer, and on the producers and consumers of other goods and services. Another example is that we know only an estimate of the total financial cost of providing benefits such as education, and so we have to treat that cost as if it measured the benefit which accrues to recipients of the service. In fact, the value the recipients themselves place on the service may be very different to the cost of providing it: moreover, there may be households in the community, other than the immediate beneficiaries, who receive a benefit indirectly from the general provision of the service.



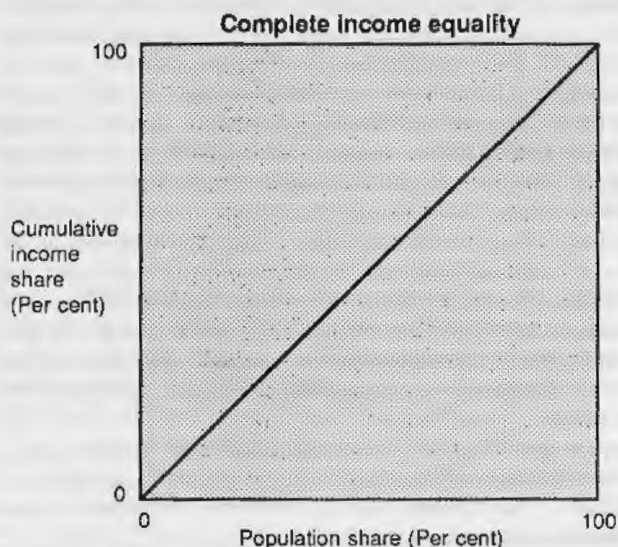
## Equivalence scale

34. The equivalence scale used in this analysis is the *McClements scale* (before housing costs are deducted). The scales (separate ones for before and after housing costs) were developed by Dr L D McClements at the Department of Health and Social Security (DHSS) in the mid-seventies, based on expenditure data from the 1971 and 1972 FES. They are based on the assumption that it is possible to estimate equivalence scales from people's spending behaviour as recorded in the FES without making any specific assumption about the criteria for equivalence. These scales are in regular use, though it is recognised that they are based on what is now rather old expenditure data and that it might be desirable to update them. The scales are regarded as plausible and they are well within the range of equivalence scales developed at different times in a number of countries. Hence their use is fully justified for broad statistical standardisation pending any re-calculation.

35. The equivalence values are given below:

Type of household member	Equivalence value
a. <u>married head of household</u> (ie a married couple of 2 adults)	1.00
1st additional adult	0.42
2nd (or more) additional adult	0.36 (per adult)
b. <u>single head of household</u> (ie 1 adult)	0.61
1st additional adult	0.46
2nd additional adult	0.42
3rd (or more) additional adult	0.36 (per adult)
c. <u>Child aged:</u>	
16-18	0.36
13-15	0.27
11-12	0.25
8-10	0.23
5-7	0.21
2-4	0.18
Under 2	0.09

Diagram A



The values for each household member are added together to give the total equivalence number for that household. This number is then divided into the disposable income for that household to give **equivalised disposable income**. For example, a household has a married couple with 2 children (aged 6 and 9) plus one adult lodger. The household's equivalence number is  $1.0 + 0.21 + 0.23 + 0.42 = 1.86$ . The household's disposable income is £20,000, and so its equivalised disposable income is £10,753 ( $=£20,000/1.86$ ).

36. This quantity is used to produce the single ranking used in all the tables in this article (apart from the Gini coefficients which have to be ranked afresh for each different definition of income).

[In pre-1987 articles, three types of ranking were used: the main one was using original income but gross income and disposable income were also used. In addition, the tables showing income shares were re-ranked for each separate income measure].

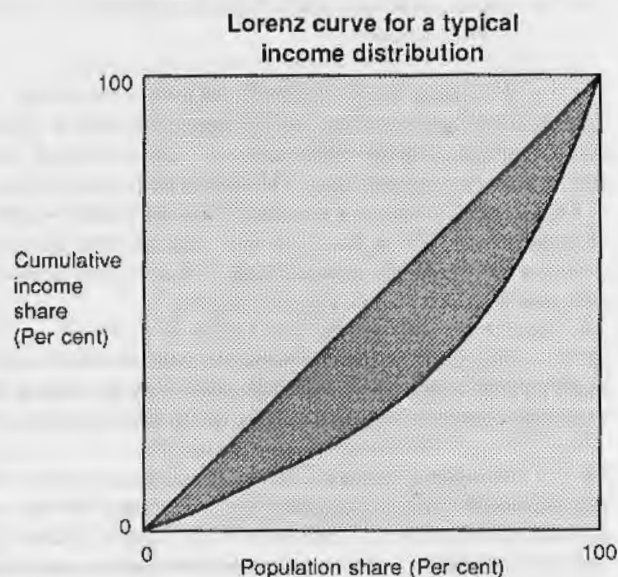
It is important to note that most monetary values shown in the article are ordinary (ie un-equivalised) £ a year, not equivalised £ a year. Where equivalised £ a year do appear (eg the quintile points in Table 3 of Appendix 1), they are shown in italics.

## Gini coefficient

37. The Gini coefficient is the most widely used summary measure of the degree of inequality in an income distribution. It can more easily be understood by considering a Lorenz curve of the income distribution, (see Diagram B) ie a graph of the cumulative income share against the cumulative share of households. The curve representing complete equality of income is thus a diagonal line while complete inequality (with only one recipient of income) is represented by a curve comprising the horizontal axis and the right-hand vertical axis (see Diagram A). The area between the Lorenz curve and the diagonal line of complete equality, as a proportion of the triangular area between the curves of complete equality and inequality, gives the value of the Gini coefficient. Thus a distribution of perfectly equal incomes has a Gini coefficient of zero; as inequality increases (and the Lorenz curve bellies out), so does the Gini coefficient until, with complete inequality, it reaches its maximum value of 1 (or 100 per cent).

38. To calculate the Gini coefficient for an income distribution, the first step is to rank that distribution in ascending order. All the Gini coefficients shown in this article are based on distributions of

Diagram B





equivalised income eg the coefficient for original income is calculated after dividing the original income for all the households by their appropriate equivalence values.

[In pre-1987 articles, no such equivalisation was used].

39. Strictly speaking, one could argue that the equivalence scales used here are only applicable to disposable income because this is the only income measure relating directly to spending power. Since the scales are often applied, in practice, to other income measures, we are content to use them to equivalise original, gross and post-tax income for the purpose of producing Gini coefficients (and in the tables giving percentage shares of total income). However, we do not think it is appropriate to equivalise the final income measure because this contains notional income from benefits in kind (eg state education): the equivalence scales used in this article are based on actual household spending and do not, therefore, apply to such items as notional income.

### Sampling errors and reliability

40. As the FES is a sample survey, data from it will differ in varying degrees from those of all households in the UK. The degree of difference will depend on how widely particular categories of income and expenditure vary between households. This 'sampling error' is smallest in relation to, say, the average expenditure of large groups of households on items purchased frequently (when spending does not vary greatly between households). Conversely, it is largest for small groups of households, and for items or services purchased infrequently (for which expenditure varies considerably between households). A broad numerical measure of the amount of variability is provided by the quantity known as the standard error.

41. It is difficult to calculate these standard errors exactly because of the multi-stage design of the FES, but we have made a good approximation by combining the simple random formula with the appropriate design factor from the FES analysis. [The design factor is the ratio of the standard error using the detailed formula that takes account of the full complexity of the sample design to the standard error using the simple random sample formula]. The most appropriate design factor from the FES work is for 'gross normal weekly household income'. The standard error of the mean for N households in Table 1 is given by:

$$(\text{design factor}) * S/\sqrt{N}$$

where the design factor is 1.36 for 1988, and  $S^2$  is the estimate of the population variance.

This simple formula is applicable to a complete group of households, but for quintile or decile groups a more complex formula is required (see paragraph 43).

42. The standard errors can be used to give an idea of the reliability of a mean by quoting a confidence interval of the form:

$$\text{estimate of mean} \pm (1.96 * \text{standard error})$$

where the factor 1.96 corresponds to the 95% confidence interval.

For example: the mean disposable income for all households is £11,313 (see Table 3 in Appendix 1), and its standard error is £188 (from Table 1). So the confidence interval for the population value

is £11,313  $\pm$  £368 ie about (£10,950 to £11,700). It is very likely that the mean disposable income for the whole population (ie all UK private households) will lie in this range.

43. The standard errors for the household types are larger than for the whole sample, mainly because the sample sizes concerned are smaller. For quintile groups of given household types, the sample sizes are of course smaller still, which would tend to increase sampling variability. On the other hand, the income values are by definition in a narrower range which would tend to reduce the sampling error. Precise estimates of standard errors for averages for quintile groups are complicated to produce. As well as the variability of the observations between the quintile points, we should also take account of the randomness which exists because the sample quintile points are themselves subject to random variation. We have used a formula for the asymptotic variance of a 'randomly trimmed' mean. This formula gives a good approximation where the total sample size is around 1,000 (when the variance is under-estimated by about 2 per cent on average), and a reasonable approximation for samples of 100-500 (when the variance is under-estimated by about 5 per cent on average). The formula for the variance of a mean ( $\bar{x}$ ) calculated between two sample percentiles,  $Q_1$  and  $Q_2$ , corresponding to proportions  $p_1$  and  $p_2$  is:

$$\begin{aligned} & [n(p_2 - p_1)]^{-1} * \\ & \{S^2 \\ & + p_1(\bar{x} - Q_1)^2 \\ & + (1 - p_2)(Q_2 - \bar{x})^2 \\ & + [p_1(1 - p_2)/(p_2 - p_1)](Q_2 - Q_1)^2 \} \end{aligned}$$

where  $S^2$  = variance calculated from observations between  $Q_1$  and  $Q_2$ , and

$n$  = total sample size.

The square root of this quantity is then multiplied by the design factor (as described in paragraph 41) to give the standard errors shown in the tables for quintile and decile groups.

44. The 'complex' standard errors for quintile and decile groups are quite a bit larger than the simple random sample estimates, as shown below:

Ratio of 'complex' standard error to simple random sample estimate for equivalised disposable income, 1988

Decile group		Quintile group	
Bottom	1.82	Bottom	1.95
2nd	4.83	2nd	4.41
3rd	6.32	3rd	4.91
4th	6.74	4th	4.43
5th	7.07	Top	1.45
6th	7.16	All	1.36
7th	6.83		
8th	6.25		
9th	4.91		
Top	1.45		
All	1.36		

For the 'all households' group the ratio merely reflects the fact that the simple random sample figure is multiplied by the design factor (1.36 in 1988) to produce the 'complex' standard error. For the middle quintile group, the quoted standard error is about five times larger than it would have been if we had merely used the simple random sample estimate (as we did in last year's article). The quoted standard errors for the middle decile groups are about seven times higher than the simple random sample estimates.

45. Table 2 gives standard errors for quintile groups of households within household type. The standard errors of the top quintile group are often much larger than for the other quintile groups. This is not surprising as, in general, any distribution of incomes has a long positive tail. The standard errors for the top quintile groups of some household types are so large that it is doubtful whether the averages for these groups are reliable enough to be worth quoting in the tables in Appendix 1.

46. Another aspect of sampling errors and reliability is the variation from year to year. Table 3 gives the standard error of the mean (expressed as a percentage of the mean) for disposable income for the years from 1977 to 1988. The two groups with consistently high proportionate standard errors are one adult with children, and two adults with 3 or more children. Relatively small groups like these are more likely to be strongly influenced by unusually large income and expenditure values.

If the change between years were to be considered, then it is the standard error of the difference between years that is relevant. This is about 1.4 times the size of the standard error for a particular year (assuming the two standard errors are about the same) - because the

variance of a difference between years equals the sum of the variances for those individual years.

## Previous articles

47. This article is the latest in an annual series. Earlier articles covering the years 1957 to 1986 (using the old methodology) were published in the following issues of *Economic Trends*:

November 1962, February 1964, August 1966, February 1968, 1969, 1970, 1971, 1972, November 1972 and 1973, December 1974, February 1976, December 1976, February 1978, January 1979, 1980, 1981 and 1982, December 1982, November 1983, December 1984, December 1985, July 1986, November 1986, July 1987 and December 1988.

48. The results for 1987 (the first year of using the new methodology) were published in the May 1990 edition of *Economic Trends*. This year's and last year's articles have such a marked change in methodology that the results are completely incompatible with those for earlier years.

49. The results in all articles are intended to be free standing; they were not designed for direct comparison with other years except where some limited comparisons were made in the articles. Such comparisons are fraught with difficulty because of changes in definitions eg housing benefit in 1983. However, some broader measures like the Gini coefficients are relatively robust and will stand comparison with other years: this year's article gives such a comparison for the years 1977-1988. Enquiries should be addressed to Dave Westcott, Branch E2, Central Statistical Office, Room 1936, Millbank Tower, Millbank, London SW1P 4QQ.

# Standard errors of the mean, 1988

TABLE 1 (Appendix 2)

				Standard error of the mean of the five income measures (£ per year)						
				Number in sample	Original income	Gross income	Disposable income		Post-tax income	Final income
							Unadjusted	Equivalised		
Household type/ Quantile group										
All households	..	..	..	7 265	241	231	188	162	175	180
Non-retired	..	..	..	5 381	298	288	238	209	225	230
Retired	..	..	..	1 884	165	166	126	124	107	113
Quintile groups <sup>(1)</sup>										
Bottom	..	..	..	1 453	114	107	90	44	85	163
2nd	..	..	..	1 453	550	469	315	71	251	421
3rd	..	..	..	1 453	658	570	432	100	363	534
4th	..	..	..	1 453	725	706	538	136	464	609
Top	..	..	..	1 453	908	906	780	685	761	772
Decile groups <sup>(1)</sup>										
Bottom	..	..	..	727	130	132	110	56	116	236
2nd	..	..	..	726	439	377	310	42	247	501
3rd	..	..	..	727	1 022	896	490	56	372	683
4th	..	..	..	726	1 122	932	696	91	583	993
5th	..	..	..	727	1 200	1 000	780	99	656	1 068
6th	..	..	..	726	1 395	1 244	931	107	786	1 101
7th	..	..	..	727	1 502	1 453	1 087	126	949	1 303
8th	..	..	..	726	1 435	1 422	1 100	156	943	1 220
9th	..	..	..	727	1 418	1 417	1 066	218	947	1 128
Top	..	..	..	726	1 676	1 674	1 460	1 291	1 436	1 450
Household type										
1 adult retired	..	..	..	1 027	138	131	95	156	88	89
2 or more adults retired	..	..	..	857	309	298	222	196	192	197
1 adult non-retired	..	..	..	811	345	311	241	395	216	215
2 adults non-retired	..	..	..	1 520	664	649	582	581	570	569
3 or more adults non-retired	..	..	..	642	902	859	581	383	536	560
1 adult with children	..	..	..	282	499	431	329	342	303	356
2 adults and 1 child	..	..	..	568	1 150	1 131	893	687	868	871
2 adults and 2 children	..	..	..	870	589	569	474	325	449	444
2 adults with 3 or more children	..	..	..	324	964	906	703	424	638	651
3 or more adults with children	..	..	..	364	937	878	653	329	598	610

1) Households ranked by equivalised disposable income.



# Standard errors for disposable income for quintile groups<sup>(1)</sup> within household type, 1988

TABLE 2 (Appendix 2)

				Standard error for mean unadjusted disposable income for quintile groups of households ranked by equivalised disposable income (£ per year)					All groups	
Number in sample				Bottom	2nd	3rd	4th	Top		
Household type										
All households	..	..	..	7 265	90	315	432	538	780	188
Non-retired	..	..	..	5 381	164	392	585	700	1 016	238
Retired	..	..	..	1 884	92	214	273	368	508	126
1 adult retired	..	..	..	1 027	47	44	30	78	390	95
2 or more adults retired	..	..	..	857	116	158	268	372	840	222
1 adult non-retired	..	..	..	811	92	249	221	286	734	241
2 adults non-retired	..	..	..	1 520	203	225	295	369	2 638	582
3 or more adults non-retired	..	..	..	642	425	794	1 154	1 276	2 139	581
1 adult with children	..	..	..	282	270	459	571	886	1 275	329
2 adults with 1 child	..	..	..	568	300	396	515	651	4 080	893
2 adults 2 children	..	..	..	870	292	330	458	600	1 876	474
2 adults with 3 or more children	..	..	..	324	418	731	895	1 650	2 429	703
3 or more adults with children	..	..	..	364	642	1 082	1 363	1 327	2 128	653

<sup>1</sup> Ranked by equivalised disposable income.

## Standard errors for unadjusted disposable income expressed as a percentage of the mean, 1977 to 1988

TABLE 3 (Appendix 2)

				Number in sample (1988)	Standard error for mean unadjusted disposable income expressed as a percentage of the mean (%)						
					1977	1979	1981	1983	1985	1987	1988
<b>Household type</b>											
All households	..	..	..	7 265	1.0	1.0	1.2	1.1	1.2	1.2	1.7
Non-retired	..	..	..	5 381	1.0	1.0	1.2	1.1	1.2	1.2	1.8
Retired	..	..	..	1 884	2.0	1.9	2.0	2.0	2.2	2.7	2.4
1 adult retired	..	..	..	1 027	2.0	2.0	2.1	2.1	2.0	4.0	2.6
2 or more adults retired	..	..	..	857	2.5	2.3	2.4	2.6	2.9	3.3	3.1
1 adult non-retired	..	..	..	811	3.1	3.2	3.9	3.4	3.3	4.0	3.3
2 adults non-retired	..	..	..	1 520	2.0	1.6	2.9	2.4	2.0	2.0	4.1
3 or more adults non-retired	..	..	..	642	2.0	2.3	2.1	2.4	2.5	3.1	3.3
1 adult with children	..	..	..	282	5.3	5.9	13.0	4.9	4.6	4.4	5.7
2 adults with 1 child	..	..	..	568	2.4	2.4	2.7	2.6	3.0	3.0	6.5
2 adults 2 children	..	..	..	870	2.0	2.2	1.9	2.3	2.6	3.1	3.3
2 adults with 3 or more children	..	..	..	324	3.2	3.1	3.9	3.7	5.7	5.0	4.8
3 or more adults with children	..	..	..	364	2.2	2.3	2.8	2.5	3.1	3.2	3.6

Three tables for 1988, ranked using *unadjusted* disposable income

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# Average incomes, taxes and benefits, 1988

## By quintile groups of households (ranked by UNADJUSTED disposable income)

TABLE 1 (Appendix 3)

				Quintile groups of households ranked by UNADJUSTED disposable income					All households
				Bottom	2nd	3rd	4th	Top	
<b>Average per household (£ per year)</b>									
<b>Quintile points</b>				<b>4 144</b>	<b>7 339</b>	<b>11 162</b>	<b>16 296</b>		
Number of households in the sample				1 453	1 453	1 453	1 453	1 453	7 265
Original income									
Earnings of main earner				289	2 451	7 278	11 135	20 404	8 311
Other earnings				18	115	1 130	3 293	7 965	2 504
Occupational pensions, annuities				256	750	818	726	1 034	717
Investment income				184	391	504	678	1 691	690
Other income				46	101	151	141	269	142
Total				793	3 808	9 881	15 973	31 363	12 364
Direct benefits in cash									
Contributory									
Retirement pension				1 552	1 340	613	312	252	814
Unemployment benefit				34	68	65	50	33	50
Invalidity pension and allowance				65	187	133	82	33	100
Statutory sick pay				1	13	32	43	42	26
Industrial injury disablement benefit				4	15	14	9	12	11
Sickness, industrial injury benefit				5	14	5	8	9	8
Widows' benefits				34	61	46	38	19	40
Statutory Maternity allowance/pay				2	6	11	14	11	9
Miscellaneous contributory benefits				10	8	4	2	2	5
Non-contributory									
Income support/ Supplementary benefit				369	440	159	98	59	225
Child benefit				63	190	294	323	296	233
Housing benefit				538	332	91	32	9	200
Invalid care allowance				3	3	11	7	3	5
Attendance allowance				5	47	38	23	19	26
Mobility allowance				14	45	27	23	17	25
War pensions				7	11	10	6	9	9
Severe disablement allowance				22	72	45	29	32	40
Student maintenance awards				20	27	32	19	45	29
Government training schemes				6	18	29	37	39	26
Family credit/ income supplement				7	35	20	5	2	14
Other non-contributory benefits				19	40	16	15	2	18
Total cash benefits				2 778	2 973	1 695	1 175	944	1 913
Gross income				3 571	6 781	11 576	17 149	32 307	14 277
Direct taxes and Employees' NIC									
Income tax				154	536	1 433	2 508	5 526	2 032
less: Tax relief at source <sup>(1)</sup>				15	60	197	348	514	227
Employees' NI contributions				17	167	563	936	1 370	610
Domestic rates (gross)				448	483	516	568	725	548
Total				604	1 126	2 315	3 664	7 108	2 963
Disposable income				2 967	5 654	9 261	13 485	25 199	11 313
Indirect taxes									
Taxes on final goods and services									
VAT				247	487	808	1 157	1 774	895
Duty on tobacco				100	199	237	262	246	209
Duty on beer and cider				21	54	93	125	153	89
Duty on wines				6	12	21	35	81	31
Duty on spirits				22	47	55	82	117	65
Duty on hydrocarbon oils				34	95	173	248	322	174
Car tax				3	15	33	56	72	36
Vehicle excise duty				19	53	85	114	144	83
Television licences				40	48	53	56	57	50
Stamp duty on house purchase				5	9	21	34	52	24
Customs' duties				13	23	38	50	69	39
Betting taxes				14	29	49	47	53	38
Other				8	11	14	18	23	15
Intermediate taxes									
Commercial and industrial rates				67	110	161	214	327	176
Employers' NI contributions				76	125	186	249	382	204
Duty on hydrocarbon oils				33	54	78	103	153	84
Vehicle excise duty				8	13	19	26	39	21
Other				32	53	78	101	152	83
Total indirect taxes				747	1 437	2 203	2 976	4 217	2 316
Post-tax income				2 220	4 217	7 059	10 510	20 982	8 997
Benefits in kind									
Education				202	572	908	1 060	1 033	755
National health service				978	1 020	912	885	905	940
Housing subsidy				104	95	51	29	15	59
Rail travel subsidy				6	11	24	31	53	25
Bus travel subsidy				32	34	20	19	19	25
School meals and welfare milk				17	44	25	22	18	25
Total				1 339	1 775	1 940	2 046	2 043	1 829
Final income				3 559	5 992	8 999	12 556	23 026	10 826

<sup>1</sup> On mortgage interest and life assurance premiums.



# Average incomes, taxes and benefits, 1988

## By decile groups of households (ranked by UNADJUSTED disposable income)

TABLE 2 (Appendix 3)

	Decile groups of households ranked by UNADJUSTED disposable income										All households
	Bottom	2nd	3rd	4th	5th	6th	7th	8th	9th	Top	
Average per household (£ per year)											
Decile points	3 050	4 144	5 604	7 339	9 343	11 162	13 340	16 296	21 089		
Number of households in the sample	727	726	727	726	727	726	727	726	727	726	7 265
Original income											
Earnings of main earner .. ..	228	350	1 236	3 668	6 150	8 407	10 254	12 016	14 833	25 982	8 311
Other earnings .. ..	18	18	45	185	689	1 573	2 602	3 986	6 368	9 565	2 504
Occupational pensions, annuities ..	141	370	615	885	894	742	750	702	704	1 365	717
Investment income .. ..	175	193	351	431	492	516	566	791	763	2 620	690
Other income .. ..	34	58	87	115	156	146	106	177	193	345	142
Total .. ..	596	990	2 334	5 284	8 380	11 384	14 277	17 672	22 862	39 877	12 364
Direct benefits in cash											
Contributory											
Retirement pension .. ..	1 447	1 657	1 607	1 073	730	496	316	307	229	276	814
Unemployment benefit .. ..	33	36	66	69	63	67	41	60	42	25	50
Invalidity pension and allowance ..	43	86	137	237	173	94	110	54	50	17	100
Statutory sick pay .. ..	1	1	5	20	28	35	45	41	43	41	26
Industrial injury disablement benefit	1	6	12	18	21	7	11	8	14	11	11
Sickness, industrial injury benefit..	5	6	18	9	3	8	10	5	4	13	8
Widows' benefits .. ..	42	27	55	67	49	44	44	32	21	18	40
Statutory Maternity allowance/pay	3	1	2	10	11	11	13	14	16	5	9
Miscellaneous contributory benefits	8	11	9	7	5	3	2	2	2	2	5
Non-contributory											
Income support/ Supplementary benefit	272	466	531	350	195	123	129	67	64	54	225
Child benefit .. ..	31	95	173	207	257	331	324	322	286	305	233
Housing benefit .. ..	435	640	438	226	123	59	37	26	13	5	200
Invalid care allowance .. ..	3	2	2	4	16	6	4	11	2	4	5
Attendance allowance .. ..	2	8	36	59	52	23	21	25	23	15	26
Mobility allowance .. ..	7	21	35	55	32	22	29	18	24	10	25
War pensions .. ..	9	5	11	12	16	3	4	8	7	10	9
Severe disablement allowance .. ..	13	30	52	91	57	32	23	35	36	28	40
Student maintenance awards .. ..	30	10	27	28	20	45	20	17	43	47	29
Government training schemes ..	6	5	18	18	32	26	35	40	51	28	26
Family credit/ income supplement	2	12	19	52	31	9	7	3	0	3	14
Other non-contributory benefits ..	18	19	57	24	22	10	18	12	0	3	18
Total cash benefits .. ..	2 411	3 144	3 309	2 636	1 936	1 453	1 244	1 106	970	917	1 913
Gross income .. ..	3 007	4 134	5 642	7 920	10 317	12 837	15 521	18 778	23 831	40 794	14 277
Direct taxes and Employees' NIC											
Income tax .. ..	188	120	281	792	1 197	1 670	2 176	2 841	3 882	7 173	2 032
less: Tax relief at source <sup>(1)</sup> ..	15	15	41	80	159	236	302	395	446	581	227
Employees' NI contributions .. ..	13	21	82	253	456	669	851	1 020	1 306	1 433	610
Domestic rates (gross) .. ..	440	456	471	495	503	528	543	593	631	819	548
Total .. ..	626	581	793	1 460	1 997	2 632	3 267	4 060	5 373	8 845	2 963
Disposable income .. ..	2 381	3 552	4 850	6 460	8 319	10 205	12 254	14 718	18 458	31 950	11 313
Indirect taxes											
Taxes on final goods and services											
VAT .. ..	227	268	381	593	742	875	1 063	1 251	1 497	2 052	895
Duty on tobacco .. ..	83	118	183	215	224	250	258	266	268	224	209
Duty on beer and cider .. ..	19	23	42	67	79	106	121	129	161	146	89
Duty on wines .. ..	5	6	9	15	19	22	29	40	52	110	31
Duty on spirits .. ..	20	24	34	59	49	62	79	84	111	124	65
Duty on hydrocarbon oils .. ..	26	41	74	117	162	184	235	260	303	342	174
Car tax .. ..	5	2	7	24	34	31	52	61	72	72	36
Vehicle excise duty .. ..	16	23	45	62	79	91	109	119	141	146	83
Television licences .. ..	39	41	48	48	52	54	56	55	56	57	50
Stamp duty on house purchase ..	5	4	6	12	17	24	28	40	46	58	24
Customs' duties .. ..	12	14	19	28	35	41	47	52	62	76	39
Betting taxes .. ..	12	15	27	32	40	59	50	44	61	45	38
Other .. ..	7	8	11	11	13	15	18	19	19	28	15
Intermediate taxes											
Commercial and industrial rates ..	62	72	93	126	148	174	199	229	266	387	176
Employers' NI contributions .. ..	70	81	106	145	170	203	231	266	309	455	204
Duty on hydrocarbon oils .. ..	31	36	47	61	70	86	97	108	125	182	84
Vehicle excise duty .. ..	7	8	11	15	17	22	24	27	31	46	21
Other .. ..	30	34	45	61	72	83	95	108	125	179	83
Total indirect taxes .. ..	676	819	1 186	1 689	2 023	2 383	2 792	3 159	3 705	4 730	2 316
Post-tax income .. ..	1 706	2 733	3 664	4 771	6 297	7 822	9 462	11 559	14 753	27 220	8 997
Benefits in kind											
Education .. ..	184	221	525	618	780	1 037	1 001	1 118	1 043	1 023	755
National health service .. ..	906	1 049	1 094	946	914	911	884	887	871	939	940
Housing subsidy .. ..	88	120	111	79	57	45	27	31	16	14	59
Rail travel subsidy .. ..	7	5	8	13	17	32	27	35	39	68	25
Bus travel subsidy .. ..	28	36	41	27	21	20	20	18	17	22	25
School meals and welfare milk ..	7	27	50	37	22	27	26	18	19	16	25
Total .. ..	1 220	1 459	1 828	1 721	1 809	2 071	1 986	2 107	2 006	2 081	1 829
Final income .. ..	2 925	4 192	5 492	6 492	8 106	9 893	11 448	13 666	16 759	29 302	10 826

1 On mortgage interest and life assurance premiums.

# Cross-tabulation of households ranked by disposable income, unadjusted and equivalised, 1988

TABLE 3 (Appendix 3)

## (i) Quintile groups

n/ Quintile groups				Quintile groups of <b>equivalised</b> disposable income					All house- holds
				Bottom	2nd	3rd	4th	Top	
Number of households									
Quintile groups of <b>unadjusted</b> disposable income									
Bottom	..	..	..	915	538	-	-	-	1 453
2nd	..	..	..	479	519	287	168	-	1 453
3rd	..	..	..	53	326	658	269	147	1 453
4th	..	..	..	6	68	452	620	307	1 453
Top	..	..	..	-	2	56	396	999	1 453
All households	..	..	..	1 453	1 453	1 453	1 453	1 453	7 265

## (ii) Decile groups

m) Decile groups				Decile groups of <b>equivalised</b> disposable income										All house- holds
				Bottom	2nd	3rd	4th	5th	6th	7th	8th	9th	Top	
Number of households														
Decile groups of <b>unadjusted</b> disposable income														
Bottom	..	..	..	368	265	93	-	-	-	-	-	-	-	726
2nd	..	..	..	202	80	275	170	-	-	-	-	-	-	727
3rd	..	..	..	107	252	167	15	107	79	-	-	-	-	727
4th	..	..	..	38	82	91	246	69	32	128	40	-	-	726
5th	..	..	..	8	33	71	121	202	148	5	88	51	-	727
6th	..	..	..	3	9	24	110	163	145	175	1	82	14	726
7th	..	..	..	1	5	4	46	127	152	113	215	1	63	727
8th	..	..	..	-	-	2	16	47	126	170	122	203	40	726
9th	..	..	..	-	-	-	2	12	41	110	197	208	157	727
Top	..	..	..	-	-	-	-	-	3	26	63	182	452	726
All households	..	..		727	726	727	726	727	726	727	726	727	726	7 265

## Summary of the effects of taxes and benefits, 1977-1988

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# Summary of the effects of taxes and benefits, 1977-1988

TABLE 1 (Appendix 4)

	Quintile groups of households ranked by equivalised disposable income					All households
	Bottom	2nd	3rd	4th	Top	
Average per household (£ per year)						
1977						
Original income .. ..	762	2 186	3 966	5 344	7 955	4 043
plus cash benefits .. ..	1 033	801	527	347	223	586
Gross income .. ..	1 795	2 987	4 493	5 690	8 178	4 629
less direct taxes <sup>(1)</sup> & employees' NIC	316	596	1 008	1 386	1 994	1 060
Disposable income .. ..	1 479	2 390	3 486	4 305	6 184	3 569
Equivalised disposable income ..	1 457	2 052	2 664	3 458	5 451	3 016
less indirect taxes .. ..	344	499	748	864	1 057	702
Post-tax income .. ..	1 135	1 892	2 737	3 441	5 127	2 866
plus benefits in kind .. ..	764	801	827	671	500	713
Final income .. ..	1 899	2 692	3 564	4 112	5 627	3 579
1979						
Original income .. ..	674	2 683	5 112	7 229	10 292	5 198
plus cash benefits .. ..	1 454	1 121	736	472	327	822
Gross income .. ..	2 128	3 804	5 848	7 701	10 619	6 020
less direct taxes <sup>(1)</sup> & employees' NIC	257	622	1 178	1 688	2 408	1 231
Disposable income .. ..	1 871	3 182	4 669	6 013	8 211	4 789
Equivalised disposable income ..	1 934	2 749	3 656	4 783	7 354	4 095
less indirect taxes .. ..	397	673	1 033	1 292	1 560	991
Post-tax income .. ..	1 474	2 509	3 636	4 722	6 651	3 798
plus benefits in kind .. ..	947	1 067	1 041	850	574	896
Final income .. ..	2 422	3 576	4 677	5 572	7 225	4 694
1981						
Original income .. ..	1 141	3 354	6 613	9 587	14 868	7 113
plus cash benefits .. ..	2 013	1 651	1 045	744	442	1 179
Gross income .. ..	3 154	5 005	7 658	10 332	15 310	8 292
less direct taxes <sup>(1)</sup> & employees' NIC	427	858	1 638	2 410	3 705	1 807
Disposable income .. ..	2 728	4 147	6 020	7 922	11 605	6 485
Equivalised disposable income ..	2 586	3 621	4 764	6 287	10 424	5 537
less indirect taxes .. ..	699	956	1 396	1 778	2 226	1 411
Post-tax income .. ..	2 029	3 191	4 624	6 144	9 378	5 074
plus benefits in kind .. ..	1 502	1 464	1 398	1 199	830	1 279
Final income .. ..	3 531	4 654	6 023	7 343	10 209	6 352
1983						
Original income .. ..	1 267	3 191	7 136	10 226	16 870	7 738
plus cash benefits .. ..	2 467	2 181	1 433	1 042	618	1 548
Gross income .. ..	3 734	5 372	8 569	11 267	17 488	9 286
less direct taxes <sup>(1)</sup> & employees' NIC	498	867	1 850	2 654	4 411	2 056
Disposable income .. ..	3 236	4 505	6 719	8 613	13 077	7 230
Equivalised disposable income ..	2 990	4 162	5 411	7 122	11 857	6 309
less indirect taxes .. ..	875	1 054	1 591	1 988	2 518	1 605
Post-tax income .. ..	2 361	3 450	5 127	6 625	10 559	5 625
plus benefits in kind .. ..	1 648	1 541	1 543	1 250	1 090	1 415
Final income .. ..	4 009	4 991	6 671	7 875	11 649	7 039
1985						
Original income .. ..	1 156	3 323	8 317	12 382	20 050	9 045
plus cash benefits .. ..	2 925	2 514	1 638	1 038	675	1 758
Gross income .. ..	4 081	5 837	9 955	13 420	20 726	10 803
less direct taxes <sup>(1)</sup> & employees' NIC	522	920	2 015	3 098	5 117	2 334
Disposable income .. ..	3 559	4 917	7 940	10 323	15 609	8 469
Equivalised disposable income ..	3 413	4 726	6 337	8 573	14 126	7 435
less indirect taxes .. ..	945	1 123	1 853	2 297	2 819	1 807
Post-tax income .. ..	2 615	3 794	6 087	8 025	12 790	6 662
plus benefits in kind .. ..	1 685	1 585	1 673	1 321	1 016	1 456
Final income .. ..	4 300	5 379	7 760	9 346	13 805	8 118

<sup>1</sup> After tax relief at source on mortgage interest and life assurance premiums and including gross domestic rates.

# Summary of the effects of taxes and benefits, 1977-1988

TABLE 1 (Appendix 4) (continued)

	Quintile groups of households ranked by equivalised disposable income					All households
	Bottom	2nd	3rd	4th	Top	
<b>Average per household (£ per year)</b>						
<b>1987</b>						
Original income .. ..	1 223	3 851	9 473	14 506	25 469	10 904
plus cash benefits .. ..	3 173	2 776	1 870	1 072	668	1 912
Gross income .. ..	4 396	6 627	11 343	15 578	26 136	12 816
less direct taxes <sup>(1)</sup> & employees' NIC	582	1 061	2 241	3 431	6 396	2 742
Disposable income .. ..	3 815	5 566	9 102	12 146	19 740	10 074
<i>Equivalised disposable income</i> ..	<i>3 725</i>	<i>5 372</i>	<i>7 446</i>	<i>10 228</i>	<i>18 539</i>	<i>9 062</i>
less indirect taxes .. ..	1 038	1 303	2 122	2 592	3 183	2 048
Post-tax income .. ..	2 776	4 263	6 980	9 555	16 557	8 026
plus benefits in kind .. ..	2 045	1 815	1 890	1 520	1 101	1 674
Final income .. ..	4 821	6 078	8 871	11 075	17 658	9 700
<b>1988</b>						
Original income .. ..	1 211	4 440	10 746	16 255	29 166	12 364
plus cash benefits .. ..	3 215	2 798	1 756	1 080	715	1 913
Gross income .. ..	4 426	7 239	12 501	17 336	29 881	14 277
less direct taxes <sup>(1)</sup> & employees' NIC	667	1 220	2 448	3 792	6 689	2 963
Disposable income .. ..	3 759	6 019	10 053	13 544	23 192	11 313
<i>Equivalised disposable income</i> ..	<i>3 836</i>	<i>5 741</i>	<i>8 228</i>	<i>11 423</i>	<i>21 323</i>	<i>10 110</i>
less indirect taxes .. ..	1 081	1 475	2 408	2 902	3 714	2 316
Post-tax income .. ..	2 678	4 544	7 645	10 642	19 478	8 997
plus benefits in kind .. ..	2 124	2 024	2 056	1 722	1 219	1 829
Final income .. ..	4 802	6 568	9 701	12 363	20 697	10 826

1 After tax relief at source on mortgage interest and life assurance premiums and including gross domestic rates.

# Standard errors for the five income measures given in Table 1, 1977-1988

TABLE 2 (Appendix 4)

				Quintile groups of households ranked by equivalised disposable income					All house- holds
				Bottom	2nd	3rd	4th	Top	
(£ per year)									
1977									
Original income	..	..	..	58	197	221	216	157	53
Gross income	..	..	..	48	157	195	207	157	48
Disposable income	..	..	..	32	114	147	155	121	36
Equivalised disposable income	..	..	..	15	18	24	30	94	27
Post-tax income	..	..	..	28	92	124	133	110	31
Final income	..	..	..	56	152	188	182	120	35
1979									
Original income	..	..	..	66	276	305	325	206	73
Gross income	..	..	..	60	228	284	320	207	67
Disposable income	..	..	..	48	177	221	247	158	50
Equivalised disposable income	..	..	..	20	33	38	49	102	36
Post-tax income	..	..	..	41	143	185	213	143	43
Final income	..	..	..	79	247	269	273	155	47
1981									
Original income	..	..	..	88	331	391	433	335	108
Gross income	..	..	..	78	272	347	413	334	100
Disposable income	..	..	..	63	207	259	305	284	78
Equivalised disposable income	..	..	..	26	34	48	64	251	64
Post-tax income	..	..	..	54	159	215	253	270	69
Final income	..	..	..	107	268	320	335	281	73
1983									
Original income	..	..	..	100	394	471	503	358	119
Gross income	..	..	..	93	323	402	466	355	108
Disposable income	..	..	..	80	244	296	343	269	79
Equivalised disposable income	..	..	..	35	35	57	71	216	63
Post-tax income	..	..	..	69	193	242	282	248	68
Final income	..	..	..	126	348	376	367	268	75
1985									
Original income	..	..	..	103	432	578	602	463	147
Gross income	..	..	..	96	347	506	580	460	134
Disposable income	..	..	..	79	259	383	432	345	99
Equivalised disposable income	..	..	..	36	45	73	94	237	74
Post-tax income	..	..	..	90	204	316	370	318	86
Final income	..	..	..	140	340	458	469	340	92
1987									
Original income	..	..	..	107	459	608	635	595	179
Gross income	..	..	..	100	370	526	609	596	167
Disposable income	..	..	..	88	285	401	456	445	124
Equivalised disposable income	..	..	..	37	58	82	119	382	105
Post-tax income	..	..	..	77	226	338	403	423	111
Final income	..	..	..	161	382	485	505	438	116
1988									
Original income	..	..	..	114	550	658	725	908	241
Gross income	..	..	..	107	469	570	706	906	231
Disposable income	..	..	..	90	315	432	538	780	188
Equivalised disposable income	..	..	..	44	71	100	136	685	162
Post-tax income	..	..	..	85	251	363	464	761	175
Final income	..	..	..	163	421	534	609	772	180



# Number of households in the FES sample for each year, 1977-1988

TABLE 3 (Appendix 4)

	1977	1979	1981	1983	1985	1987	1988
<b>i) Numbers in sample</b>							
<b>Household type</b>							
Non-retired .. ..	5 623	5 196	5 764	5 264	5 220	5 459	5 381
Retired .. ..	1 575	1 581	1 761	1 709	1 792	1 937	1 884
1 adult retired .. ..	860	878	951	908	966	1 059	1 027
2 or more adults retired .. ..	715	703	810	801	826	878	857
1 adult non-retired .. ..	564	618	607	671	694	799	811
2 adults non-retired .. ..	1 615	1 424	1 584	1 380	1 444	1 490	1 520
3 or more adults non-retired .. ..	640	538	710	616	635	682	642
1 adult with children .. ..	190	196	228	250	230	284	282
2 adults with 1 child .. ..	680	623	649	622	604	592	568
2 adults 2 children .. ..	926	892	986	887	864	874	870
2 adults with 3 or more children .. ..	466	396	426	388	336	340	324
3 or more adults with children .. ..	542	509	574	450	413	398	364
All households.. ..	7 198	6 777	7 525	6 973	7 012	7 396	7 265
<b>ii) Percentages</b>							
<b>Household type</b>							
Non-retired .. ..	78	77	77	75	74	74	74
Retired .. ..	22	23	23	25	26	26	26
1 adult retired .. ..	12	13	13	13	14	14	14
2 or more adults retired .. ..	10	10	11	11	12	12	12
1 adult non-retired .. ..	8	9	8	10	10	11	11
2 adults non-retired .. ..	22	21	21	20	21	20	21
3 or more adults non-retired .. ..	9	8	9	9	9	9	9
1 adult with children .. ..	3	3	3	4	3	4	4
2 adults with 1 child .. ..	9	9	9	9	9	8	8
2 adults 2 children .. ..	13	13	13	13	12	12	12
2 adults with 3 or more children .. ..	6	6	6	6	5	5	4
3 or more adults with children .. ..	8	8	8	6	6	5	5
All households .. ..	100	100	100	100	100	100	100

# Distribution of households<sup>(1)</sup> in the FES sample each year, 1977-1988

## By decile groups of households ranked by equivalised disposable income

TABLE 4 (Appendix 4)

				Retired households		Non-Retired households								
				1 adult	2 or more adults	1 adult	2 adults	3 or more adults	1 adult with children	2 adults with 1 child	2 adults with 2 children	2 adults with 3 or more children	3 or more adults with children	All households
1977														
Decile groups of households ranked by equivalised disposable income														
Bottom	..	..	..	211	167	38	53	13	61	40	53	57	27	720
2nd	..	..	..	236	189	40	43	10	33	31	55	64	19	720
3rd	..	..	..	216	120	29	82	21	22	48	85	59	37	719
4th	..	..	..	81	79	44	116	42	23	66	133	70	66	720
5th	..	..	..	31	48	50	146	55	12	84	144	68	82	720
6th	..	..	..	24	30	45	149	89	13	90	130	44	106	720
7th	..	..	..	16	31	62	186	89	7	99	112	36	82	720
8th	..	..	..	19	18	71	224	106	9	93	101	22	56	719
9th	..	..	..	8	14	68	293	128	5	83	62	20	39	720
Top	..	..	..	18	19	117	323	87	5	46	51	26	28	720
All households	..	..	..	860	715	564	1 615	640	190	680	926	466	542	7 198
1979														
Decile groups of households ranked by equivalised disposable income														
Bottom	..	..	..	227	190	59	32	9	48	18	24	60	11	678
2nd	..	..	..	277	189	17	30	7	28	19	52	37	21	677
3rd	..	..	..	190	116	39	65	19	28	48	80	53	40	678
4th	..	..	..	73	72	47	112	34	19	70	111	72	68	678
5th	..	..	..	28	45	46	119	34	19	95	161	54	77	678
6th	..	..	..	34	34	74	108	61	12	86	141	41	86	677
7th	..	..	..	10	17	71	161	73	16	109	117	31	73	678
8th	..	..	..	13	18	69	204	107	10	70	96	23	68	678
9th	..	..	..	13	15	79	286	102	8	57	63	14	40	677
Top	..	..	..	13	7	117	307	92	8	51	47	11	25	678
All households	..	..	..	878	703	618	1 424	538	196	623	892	396	509	6 777
1981														
Decile groups of households ranked by equivalised disposable income														
Bottom	..	..	..	177	162	50	54	12	58	29	71	91	49	753
2nd	..	..	..	253	209	31	39	15	41	25	60	55	24	752
3rd	..	..	..	252	132	30	61	23	24	33	93	50	55	753
4th	..	..	..	113	85	43	96	54	34	67	129	67	64	752
5th	..	..	..	51	69	49	146	48	13	103	146	45	83	753
6th	..	..	..	29	42	57	151	84	18	92	161	37	81	752
7th	..	..	..	28	38	64	186	112	8	89	126	23	79	753
8th	..	..	..	22	24	69	214	156	13	72	81	24	76	751
9th	..	..	..	15	30	78	296	113	9	79	76	16	42	754
Top	..	..	..	11	19	136	341	93	10	60	43	18	21	752
All households	..	..	..	951	810	607	1 584	710	228	649	986	426	574	7 525
1983														
Decile groups of households ranked by equivalised disposable income														
Bottom	..	..	..	152	117	81	63	23	52	30	58	82	39	697
2nd	..	..	..	165	190	46	47	17	59	36	56	51	31	698
3rd	..	..	..	224	132	31	58	19	42	39	74	48	30	697
4th	..	..	..	159	92	49	80	39	30	46	101	51	50	697
5th	..	..	..	62	72	38	117	67	17	84	137	34	70	698
6th	..	..	..	47	50	60	133	69	16	83	134	38	67	697
7th	..	..	..	40	52	71	155	95	7	72	109	28	68	697
8th	..	..	..	22	40	78	194	106	11	90	82	22	52	697
9th	..	..	..	15	27	94	239	116	9	83	72	19	24	698
Top	..	..	..	22	29	123	294	65	7	59	64	15	19	697
All households	..	..	..	908	801	671	1 380	616	250	622	887	388	450	6 973

<sup>1</sup> See Appendix 2 for definitions of retired households, adults and children.

# Distribution of households<sup>(1)</sup> in the FES sample each year, 1977-1988

## By decile groups of households ranked by equivalised disposable income

TABLE 4 (Appendix 4) (continued)

				Retired households		Non-Retired households								
				1 adult	2 or more adults	1 adult	2 adults	3 or more adults	1 adult with children	2 adults with 1 child	2 adults with 2 children	2 adults with 3 or more children	3 or more adults with children	All households
<b>1985</b>														
Decile groups of households ranked by equivalised disposable income														
Bottom	..	..	..	152	134	66	74	16	42	37	71	76	33	701
2nd	..	..	..	166	211	60	51	17	59	39	45	28	25	701
3rd	..	..	..	278	120	37	57	25	38	37	62	30	18	702
4th	..	..	..	163	102	39	78	45	30	57	103	44	40	701
5th	..	..	..	66	61	62	110	72	17	74	119	48	72	701
6th	..	..	..	40	66	56	114	79	13	80	138	43	72	701
7th	..	..	..	30	36	74	185	104	18	80	92	26	56	701
8th	..	..	..	25	37	88	203	102	4	85	97	17	44	702
9th	..	..	..	28	34	94	253	101	5	62	80	13	31	701
Top	..	..	..	18	25	118	319	74	4	53	57	11	22	701
All households	..	..	..	966	826	694	1 444	635	230	604	864	336	413	7 012
<b>1987</b>														
Decile groups of households ranked by equivalised disposable income														
Bottom	..	..	..	195	122	59	69	25	58	43	70	60	39	740
2nd	..	..	..	211	188	51	50	23	79	26	44	39	28	739
3rd	..	..	..	286	118	64	55	19	50	29	49	36	34	740
4th	..	..	..	144	139	50	85	56	36	46	98	47	38	739
5th	..	..	..	71	93	69	122	63	25	69	126	47	55	740
6th	..	..	..	38	62	63	140	105	11	82	128	43	68	740
7th	..	..	..	42	54	86	159	106	10	90	123	19	50	739
8th	..	..	..	21	40	87	217	117	8	81	106	15	48	740
9th	..	..	..	20	34	113	276	101	5	65	74	25	26	739
Top	..	..	..	31	28	157	317	67	2	61	56	9	12	740
All households	..	..	..	1 059	878	799	1 490	682	284	592	874	340	398	7 396
<b>1988</b>														
Decile groups of households ranked by equivalised disposable income														
Bottom	..	..	..	204	135	80	62	17	69	38	59	42	21	727
2nd	..	..	..	192	206	71	45	14	79	28	36	34	21	726
3rd	..	..	..	305	119	48	57	30	39	26	58	26	19	727
4th	..	..	..	127	107	51	114	53	27	53	96	53	45	726
5th	..	..	..	53	95	50	122	79	21	68	151	42	46	727
6th	..	..	..	51	70	57	143	99	17	64	127	41	57	726
7th	..	..	..	34	39	93	162	88	16	95	113	26	61	727
8th	..	..	..	23	32	105	223	103	8	72	95	25	40	726
9th	..	..	..	17	31	116	270	100	4	71	69	15	34	727
Top	..	..	..	21	23	140	322	59	2	53	66	20	20	726
All households	..	..	..	1 027	857	811	1 520	642	282	568	870	324	364	7 265

1 See Appendix 2 for definitions of retired households, adults and children.