

The effects of taxes and benefits on household income, 1981

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Summary of main results

During 1981 the Government raised and spent £117 billion. Directly or indirectly, most of the revenue is raised from UK households, and the expenditure benefits households. For any one household, payments and benefits will not necessarily be equal; the aim of this article is to determine how the balance varies by income level, and therefore how the distribution of income is altered by the tax-benefit system.

The main results of the analysis are:

- (i) Taken together, taxes and benefits reduce income inequality. In 1981 they increased the share of total income to the bottom fifth of households on the income scale from $\frac{1}{2}$ per cent to 7 per cent, and reduced the share to the top fifth from 46 per cent to 39 per cent. (Pages 95–97).
- (ii) The position of a household on the household income scale depends to a large extent on its size and composition. When households are divided into ten types according to their composition, it can be seen that cash benefits, direct taxes and expenditure on the main social services all reduce income inequality within each type. However, indirect taxes (eg domestic rates and duty on tobacco) have an opposite, but much smaller, effect for most types of household. (Pages 97–101).
- (iii) The spread of incomes *before* taxes and benefits has widened in recent years. While the share of such incomes to the bottom fifth of households has remained at $\frac{1}{2}$ per cent, the share going to the top fifth has increased from 44 $\frac{1}{2}$ per cent in 1977–79 to 45 $\frac{1}{2}$ per cent in 1980 and 46 per cent in 1981. Incomes *after* taxes and benefits were also more unequally distributed in 1981 than in 1977, although slightly less so in 1981 than in 1980. (Pages 101–103).
- (iv) Over half the households are in broadly the same *relative* position on the income scale after taxes and benefits as before redistribution. Larger households are likely to improve their position relative to smaller households. (Pages 103–105).

Introduction

The analysis in this article is based on the answers given by the 7,525 households in the Family Expenditure Survey (FES) in 1981. The survey collects information about the composition of each household and the income, direct tax and expenditure of household members. Response to the survey in 1981 was higher than in recent years, mainly because the payment for participating was increased, however this does not affect the broad pattern of the results. No correction for non-response bias in the FES has been made, except that purchases of certain items (notably of alcohol and tobacco) have been adjusted to bring the totals in line with the National Accounts.

The analysis starts with each household's *original* income – that is, its pre-tax income from earnings, investments and private pensions. Adding state pensions and all other state cash benefits yields *gross* income, and deducting income tax and National Insurance contributions gives *disposable* income. *Final* income is derived by (a) deducting payments of local rates, and estimates of payments of other indirect taxes (such as VAT) based on recorded expenditure, and (b) adding imputed benefits from public expenditure on education, health etc.

Altogether it has been possible to allocate only 60 per cent of revenue and 48 per cent of expenditure (Table A) and so the interpretation of these results should take account of two qualifications. First, the amount of taxes allocated to households exceeds the amount of benefits, so more significance should be attached to the broad patterns of redistribution than to the exact figures of gains and losses particularly in the middle of the distribution. The inclusion of other taxes and benefits might alter the detailed picture. Second, the methods used to allocate some of the taxes and benefits have been limited by the availability of data. It has not been possible to introduce more refined procedures that take account of, for example, second order effects of taxes and benefits on households other than those immediately affected.

The methods used in preparing the estimates are explained in Appendix 1 and the detailed results are given in Appendix 4.

Allocated and unallocated items of government revenue and expenditure,¹ 1981

TABLE A

	Percentage of total revenue		Percentage of total expenditure	
	Allocated	Other	Allocated	Other
Revenue				
Income tax	24	—		
National Insurance contributions	9	5		
Local rates	6	3		
Other taxes on expenditure	21	10		
Other receipts (net)	—	12		
Borrowing requirement	—	10		
Total	60	40		
Expenditure				
Final goods and services	20 ²	25		
Grants to persons in UK	25	2		
Subsidies	2 ²	3		
Capital expenditure	—	8		
Debt interest	—	11		
Other	—	3		
Total	48	52		

¹ Appendix 4, Tables 1 and 2 give fuller details of government revenue and expenditure

² Principally on education, health and housing

Summary of the effects of taxes and benefits, 1981

TABLE B

	Decile groups of households ranked by original income										Average over all households
	Bottom	2nd	3rd	4th	5th	6th	7th	8th	9th	Top	
Average per household (£ per year)											
Original income	10	390	1,780	4,020	5,720	7,130	8,650	10,540	12,900	20,190	7,130
plus cash benefits	2,500	2,230	2,060	1,290	830	690	570	560	490	440	1,170
Gross income	2,510	2,620	3,830	5,310	6,550	7,820	9,220	11,100	13,390	20,640	8,300
less direct taxes	—	30	240	750	1,120	1,480	1,900	2,330	3,010	4,880	1,570
Disposable income	2,510	2,590	3,590	4,560	5,420	6,340	7,320	8,760	10,380	15,760	6,720
less indirect taxes	650	660	1,020	1,270	1,480	1,680	1,830	2,080	2,490	3,320	1,650
plus benefits in kind	1,180	1,030	1,100	1,280	1,360	1,340	1,340	1,360	1,320	1,430	1,270
Final income	3,040	2,970	3,670	4,570	5,300	6,000	6,830	8,050	9,210	13,870	6,350
Percent that are public sector tenants	69	44	39	39	37	35	28	18	20	14	34
Average per household (number)											
Children (i.e. under 16)	0.4	0.2	0.4	0.8	1.0	1.0	0.9	0.9	0.7	0.7	0.7
Adults	1.4	1.5	1.7	1.9	2.0	2.1	2.2	2.4	2.5	2.9	2.0
Retired people	0.9	1.1	0.8	0.4	0.2	0.1	0.1	0.1	0.1	0.1	0.4
Economically active people ¹	0.2	0.2	0.6	1.1	1.4	1.6	1.8	2.0	2.1	2.5	1.4

¹ Comprising employees, the self-employed and others not in employment but who are seeking or intending to seek work

Results for all households

There is wide variation in the size of households' original incomes (Table B). In 1981, the tenth of households with the lowest original incomes (the bottom 'decile group') had an average original income in the year of only £10, and the next decile group had an average of only £390. More than one in every five households is retired – defined as households where at least half the total income comes from retired people (Table C). Many such households have little or no original income (their state pensions are counted as cash benefits).

Retired households comprise three quarters of the households in the bottom two decile groups (that is, the bottom fifth, or 'quintile group'). The remainder are other households with no earners in them (mainly single adult and single parent households), and households whose only earners are out of work for all or part of the year or who have low earnings.

At the other end of the income scale, households comprising the top quintile group had an average original income of £16,500 in 1981. Nearly half these households contain three or more adults; and they have, on average, nearly 2½ economically active people each.

The composition of each quintile group of households ranked by original income,¹ 1981

TABLE C

	Quintile group					Total
	Bottom fifth	Next fifth	Middle fifth	Next fifth	Top fifth	
Percentages						
Household type						
1–2 adults retired	76	32	3	2	1	23
1 adult (other)	6	16	10	6	2	8
2 adults (other)	3	17	28	29	27	21
2 adults with children	6	19	42	38	22	26
3 or more adults	3	11	14	25	47	20
1 adult with children	6	5	2	1	—	3
Total	100	100	100	100	100	100

¹ Appendix 4, Table 8 gives fuller details

So the wide spread of original incomes springs in part from the numbers of households of different types within the total, the various types being concentrated in different parts of the income distribution. Comparing the spread of original incomes with the spread of final incomes (Table B) shows that taxes and benefits make the distribution of income between households much more equal. The different mix of household types within each quintile group again provides the key to understanding how this happens.

Cash benefits

Most cash benefits are designed to help the *aged*, the *sick* and *disabled*, and people on *low incomes* (Table D). Such people are concentrated in households in the lowest income groups, although some are in households further up the income scale; households in the lowest income groups thus receive, on average, the highest amounts from these benefits. Households in the middle and at the top of the income scale contain, on average, more children than those at the bottom (Table B), and hence receive on average more *Child Benefit*. However, in aggregate, cash benefits are much higher for low income than for high income households which is why they play such a large part in reducing income inequality.

Average value of cash benefits¹ for each quintile group of households ranked by original income, 1981

TABLE D

	Quintile group					Total
	Bottom fifth	Next fifth	Middle fifth	Next fifth	Top fifth	
£ per household						
Age-related	1,410	950	250	140	120	570
Income-related	670	350	130	90	90	270
Child-related	80	160	260	250	200	190
Other ²	210	210	110	80	60	130
Total	2,370	1,670	760	560	470	1,170
Cash benefits as a percentage of gross income	92	37	11	6	3	14

¹ Appendix 4, Table 6 gives more details of cash benefits

² Mainly related to sickness and disability

Direct taxes

Direct taxes are assessed mainly on original income. Although retirement pensions are also subject to income tax, the personal tax allowances (including age allowances) are large enough to prevent households in the bottom fifth paying much tax. The percentage of gross income paid in *income tax* rises from 0.5 per cent for the bottom fifth to 19.0 per cent for the top fifth (Table E). The percentage paid as *employees' National Insurance contributions* also generally rises with household income (mainly because lower quintile groups include fewer economically active people), although it falls off for the top fifth. So direct taxes further reduce income inequality.

Direct taxes as a percentage of gross income for each quintile group of households ranked by original income, 1981

TABLE E

	Quintile group					Total
	Bottom fifth	Next fifth	Middle fifth	Next fifth	Top fifth	
Income tax	0.5	8.6	13.6	15.9	19.0	15.0
National Insurance contributions	—	2.3	4.5	4.9	4.2	3.9
Total	0.6	10.9	18.1	20.8	23.2	19.0

Indirect taxes

Unlike direct taxes and cash benefits, indirect taxes do not reduce income inequality. Overall they form a broadly similar proportion of disposable income for households at all income levels, so that their effect on redistribution is not great. However, proportionally they fall most heavily on the next-to-bottom fifth of households and are lightest on the top fifth. The individual taxes shown in Table F all have different effects and only *tobacco* and *intermediate* taxes (see box) fall most heavily on the next-to-bottom fifth and lightest on the top fifth of households. The proportion of disposable income paid as tobacco duty, in particular, is twice as high for the next-to-bottom fifth as for the top fifth. The impact of *domestic rates* (together with water etc charges, but net of rebates), is greatest on the bottom fifth of households and decreases as income rises. The proportion for the lowest fifth of households is reduced if rate payments received as part of Supplementary Benefit are

INDIRECT TAXES

Intermediate taxes

Some taxes such as VAT and excise duties on petrol or spirits, have a direct effect on the final price of goods and services. However, the final price also reflects taxes incurred by producers in their capacity as employers, rate-payers and buyers of goods and services. Some part of these taxes will eventually be paid by households. These are called intermediate taxes: examples are employers' National Insurance contributions and surcharge, non-domestic rates, hydrocarbon oils duty, etc. (Appendix 2 explains how the effects of these taxes are related to households' expenditure patterns.)

Supplementary Benefit and Rates

Supplementary Benefit (SB) tops up a household's income to match a 'needs' total which usually includes rent and rates. SB and rates are both included in full in the main tables. However, it can be argued, at the other extreme, that households receiving SB pass on the whole (or as much as possible) of their rates to the DHSS so that their effective rates burden is lower or even nil. Ranges are shown in Tables F and P for rates and total indirect taxes to reflect upper and lower extremes (Appendix 1, paragraph 23).

excluded (see box). However, domestic rates are still higher as a proportion of disposable income at lower income levels than at higher income levels. Other taxes on final goods and services (eg television licences) also fall most heavily on the bottom fifth of households.

In contrast, excise duties on *wines* and *spirits* fall most heavily on the top fifth of households. Households in the middle of the distribution pay the largest proportion of disposable income in excise duties on *beer*, *petrol* and *vehicles*. The impact of all these taxes and of VAT is substantially lighter on the bottom fifth of households.

Benefits in kind

The average of all benefits in kind imputed to households increases with household income – from £1,100 for the bottom fifth to £1,380 for the top fifth (Table G). Different

Indirect taxes¹ as a percentage of disposable income for each quintile group of households ranked by original income, 1981

TABLE F

	Quintile group					Total
	Bottom fifth	Next fifth	Middle fifth	Next fifth	Top fifth	
Domestic rates (net) ^{2,3}	3.7-7.1	4.9-5.5	4.1-4.3	3.4-3.5	2.7	3.5-3.9
VAT	5.2	7.0	7.3	7.1	7.1	7.0
Duty on beer	0.5	0.9	1.1	1.0	0.9	0.9
Duty on wines and spirits	0.7	1.1	0.9	1.1	1.3	1.1
Duty on tobacco	2.9	3.3	3.0	2.1	1.6	2.3
Duty on hydrocarbon oils	0.7	1.3	1.6	1.7	1.4	1.5
Car tax and vehicle excise duty	0.4	0.9	0.9	0.9	0.8	0.8
Other taxes on final goods and services	1.6	1.5	1.4	1.3	1.0	1.2
Intermediate taxes	6.4	6.6	6.2	5.6	5.4	5.8
Total ²	22.8-25.5	27.6-28.0	26.7-26.9	24.2-24.3	22.2	24.2-24.5

¹ Appendix 4, Table 7 gives more detailed figures on indirect taxes

² Net of rate rebates, but including water, etc. charges

³ The ranges reflect the alternative treatment of rates – see box above

Average value of benefits in kind¹ for each quintile group of households ranked by original income, 1981

TABLE G

	Quintile group					Average over all households
	Bottom fifth	Next fifth	Middle fifth	Next fifth	Top fifth	
£ per household						
Education	220	390	610	660	640	510
Welfare foods	30	30	20	20	20	30
Health	670	610	550	510	530	570
Housing subsidy	170	130	120	80	70	110
Other	10	30	50	70	120	60
Total	1,100	1,190	1,350	1,350	1,380	1,270
Benefits in kind as a percentage of final income	37	29	24	18	12	20

¹ Appendix 4, Table 7 gives more detailed figures on benefits in kind.

patterns emerge, however, for the individual benefits. For *education*, households have been allocated a share of total expenditure based on the number of pupils and students in the household (students away from the household are not counted). As households in the upper half of the income range have, on average, more children than those in the lower half they are credited with a higher average education benefit. Children in the lower income groups are most likely to take school meals, or to have them free of charge; this is why the pattern of *welfare foods* benefits differs from that for education.

Expenditure on *health* services has been allocated between households according to the average cost to the Exchequer of each type of service, and the estimated average use of the service by people of different types ie by age and sex. Old people tend to use health services much more than the young. This is why households in the bottom fifth, which include a high proportion of retired households, receive an average benefit of £670, compared with an average of £530 received by households in the top fifth.

The *housing* subsidy is, roughly, the amount by which local authority expenditure on council houses (including loan charges) exceeds income from council house rents and interest from sales. The total subsidy which includes both that from the Exchequer and that from the local authority rate fund has been allocated between public sector tenants¹. As these tenants are concentrated towards the bottom end of the income scale, the lowest quintile group is credited with the highest average benefit from the housing subsidy of £170 (the averages being taken over all households, not just public sector tenants), compared with an average of £70 for the top fifth.

The 'other' element of benefits in kind comprises the passenger rail travel subsidy and expenditure on the option mortgage scheme and on life assurance premium relief. These tend to benefit people of working age most of whom are in the middle and upper parts of the income range. The average benefit per household, thus increases from £10 in the lowest fifth to £120 for the top fifth.

In total, then, the higher income groups are allocated the highest average benefits from the public expenditure covered in Table G. However, as a proportion of final

Percentage shares of total household income, 1981

TABLE H

	Percentage in each quintile group of households, re-ranked at each stage			
	Original income	Gross income	Disposable income	Final income
Quintile group				
Bottom fifth	0.6	5.6	6.7	7.1
Next fifth	8	11	12	12
Middle fifth	18	17	18	18
Next fifth	27	25	24	24
Top fifth	46	41	39	39
Total	100	100	100	100
Decile group				
Bottom tenth	—	2.3	2.7	2.8
Top tenth	28	25	24	23
Gini coefficient (per cent)	46.8	36.0	32.9	31.9

income the benefit decreases from 37 per cent for the lowest fifth to 12 per cent for the top fifth, which implies that this expenditure contributes to the reduction in income inequality.

An alternative way of illustrating the extent of income redistribution is given in Table H, which shows how income *shares* are modified by the tax-benefit system. For example, the top fifth of households in the ranking by *original* income receives 46 per cent of all original income. With cash benefits, the share of the top fifth falls to 41 per cent of all gross income. At the other end of the scale, the share of the bottom fifth rises from 0.6 per cent to 5.6 per cent. Further, but comparatively smaller, reductions in inequality occur at the stages of *disposable* and *final* income.

Though not without its drawbacks, the Gini coefficient is the most widely used single summary measure of the inequality of the distribution of income (see paragraph 37 of Appendix 1). It takes values between 0 and 100 per cent – the higher values indicating greater inequality. While it is dangerous to seek to draw detailed conclusions from isolated changes in the Gini coefficient, the Gini values shown in Table H clearly confirm that cash benefits account for the largest reduction in inequality.

Redistribution within each household type

The foregoing section looked at the distribution and redistribution of income between households irrespective of their compositions, or of their needs. As mentioned above, the position of a household in the income ranking depends on its composition as much as on the rates of pay etc. of its members. Furthermore, a household with three or more adults near the top of the income distribution is not necessarily 'better off' than a household with two adults lower down the income scale. The analysis in this section therefore looks at redistribution within groups of households of similar size and type.

Households are first divided into ten types according to their composition (Table J). The rankings by income level and the analysis of redistribution can then be repeated for each type separately. The ten groups comprise two retired types, three types with adults only, and five types containing children (aged under 16). Their exact definitions are given in Appendix 1 (paragraphs 6 to 10).

¹ See Appendix 1 paragraph 32. Housing subsidy does not include mortgage interest tax relief, rate rebates, or rent rebates and allowances.

The ten household types, 1981

TABLE J

	1 adult		2 adults		2 adults with children			3 or more adults		1 adult with children	All households
	Retired	Non-retired	Retired	Non-retired	1 child	2 children	3 or more children	With no children	With children		
Sample numbers	957	599	775	1,567	610	927	383	853	639	215	7,525
Average per household											
Children	—	—	—	—	1.0	2.0	3.3	—	1.6	1.8	0.7
Adults	1.0	1.0	2.0	2.0	2.0	2.0	2.0	3.4	3.4	1.0	2.0
Economically active people ¹ – full-time	—	0.7	—	1.3	1.1	1.1	1.1	2.1	2.0	0.4	1.0
Economically active people ¹ – part-time	—	0.2	—	0.3	0.4	0.5	0.4	0.5	0.6	0.2	0.3
Retired people	1.0	—	1.8	0.2	—	—	—	0.4	0.1	—	0.4
Average original income (£ per year)	700	5,250	1,780	9,230	8,260	8,460	7,590	12,150	11,170	3,380	7,130
Percentage that are public sector tenants	47	28	37	26	30	28	46	34	39	60	34

¹ See footnote¹ to Table B for definition of economically active

Percentage shares of income at each stage within each household type,¹ 1981

TABLE K

	Percentages in each quintile group of households, re-ranked at each stage										
	1 adult		2 adults		2 adults with children			3 or more adults		1 adult with children	
	Retired	Non-retired	Retired	Non-retired	1 child	2 children	3 or more children	With no children	With children		
Original income											
Bottom fifth	—	2	—	6	7	8	3	6	6	—	
Next fifth	1	11	3	13	15	15	13	14	14	2	
Middle fifth	6	18	9	18	18	19	18	19	19	13	
Next fifth	17	26	21	24	23	24	24	24	24	25	
Top fifth	77	43	67	38	37	35	42	36	37	61	
Total	100	100	100	100	100	100	100	100	100	100	
Gross income											
Bottom fifth	13	7	12	9	10	10	9	9	10	8	
Next fifth	16	13	14	14	15	15	14	14	15	12	
Middle fifth	17	17	16	18	18	18	17	19	19	16	
Next fifth	20	24	20	23	23	23	22	23	23	21	
Top fifth	35	39	38	37	35	34	37	34	34	43	
Total	100	100	100	100	100	100	100	100	100	100	
Disposable income											
Bottom fifth	14	8	13	10	11	11	10	10	11	9	
Next fifth	16	13	15	14	15	15	15	15	15	13	
Middle fifth	18	17	17	18	18	19	18	19	19	16	
Next fifth	20	23	21	23	22	22	21	23	22	20	
Top fifth	32	38	34	36	34	33	36	33	33	41	
Total	100	100	100	100	100	100	100	100	100	100	
Final income											
Bottom fifth	12	8	12	9	11	11	11	11	12	9	
Next fifth	17	14	16	14	15	16	16	15	16	14	
Middle fifth	19	17	18	18	18	19	19	18	19	18	
Next fifth	22	23	22	22	22	22	22	23	22	21	
Top fifth	30	38	32	36	33	31	32	34	32	38	
Total	100	100	100	100	100	100	100	100	100	100	
Gini coefficients (per cent)											
Original income	75	41	66	32	29	28	38	30	30	63	
Gross income	21	33	25	28	25	24	28	25	24	35	
Disposable income	17	30	21	26	23	22	26	22	22	32	
Final income	17	31	19	27	22	20	21	23	20	28	

¹ Appendix 4, Table 5 gives more data for each household type

Average number of economically active¹ people per household by quintile group of original income within household type, 1981

TABLE L

	Household type ²					
	1-2 adults retired	1 adult non-retired	2 adults non-retired	2 adults with children	3 or more adults	1 adult with children
Average per household (number)						
Bottom fifth	—	0.6	1.2	1.3	1.7	0.1
Middle three-fifths	—	1.0	1.7	1.6	2.7	0.7
Top fifth	—	1.0	1.8	1.7	3.3	0.9

¹ See footnote¹ to Table B for definition of economically active

² In Tables L to P some of the ten household types have been combined. The quintile groups have not been recalculated; the figures shown are

simply weighted averages of the quintile groups of the constituent household types

The distribution of original (pre-benefit) income within the *retired* household types is very unequal (Table K), with over two thirds of the income going to the top quintile groups. This is because only some retired households (particularly the younger ones) have occupational pensions: most have extremely low original incomes, remembering that their state pensions are counted as cash benefits.

For *non-retired* household types the inequality of the distribution of original income is related to the variation in the number of earners per household. Substantial numbers of single adults and single parents are either unemployed or not economically active and this is one reason why the distributions of original income are particularly unequal for these household types. Even for non-retired household types with two or more adults, the top fifth of households accounts for at least 35 per cent of all original income in each case largely because of the variation in the number of earners per household. For two-adult households, for example, the top fifth of households have on average 1.8 economically active people and the bottom fifth have 1.2 (Table L).

Table K shows that, within each household type, taxes and benefits again reduce income dispersion. However, the individual components of the tax-benefit system do not all play the same part in this reduction as they played in the all-households analysis. The following paragraphs elaborate.

Cash benefits

Age-related benefits to retired households, and *child-related* benefits, are fairly evenly distributed within the household types concerned (Table M). *Income-related* benefits are, of course, concentrated on the lowest fifth of households within each type, as are benefits to the *sick and disabled* (who often have low incomes).

So, in total, as a proportion of gross income much the highest average cash benefit goes to the lowest fifth within each household type. This means that cash benefits reduce income inequality within each type. The reduction is particularly large for retired households, where cash benefits form a very high proportion of gross income.

Cash benefits by quintile group of original income within each household type, 1981

TABLE M

	Household type ¹					
	1-2 adults retired	1 adult non-retired	2 adults non-retired	2 adults with children	3 or more adults	1 adult with children
Average per household (£ per year)						
Age-related						
Bottom fifth	1,750	570	870	90	910	30
Middle three-fifths	1,790	290	200	10	260	230
Top fifth	1,650	60	70	—	140	160
Child-related						
Bottom fifth	—	—	10	530	260	550
Middle three-fifths	—	—	—	510	230	550
Top fifth	—	—	—	490	210	440
Income-related						
Bottom fifth	540	700	450	980	1,070	2,030
Middle three-fifths	250	50	70	60	250	870
Top fifth	40	—	20	30	120	80
Other²						
Bottom fifth	150	190	290	220	660	—
Middle three-fifths	170	20	90	50	140	80
Top fifth	130	—	40	20	90	20
Total cash benefits as a percentage of gross income						
Bottom fifth	100	72	36	40	45	100
Middle three-fifths	79	7	4	7	7	44
Top fifth	30	1	1	3	3	6

¹ See footnote² to Table L

² Mainly related to sickness and disability

Direct taxes as a percentage of gross income by quintile group of original income within each household type, 1981

TABLE N

	Household type ¹					
	1-2 adults retired	1 adult non-retired	2 adults non-retired	2 adults with children	3 or more adults	1 adult with children
(a) Income tax						
Bottom fifth	—	2.4	7.5	6.2	7.0	—
Middle three-fifths	2.4	17.1	16.1	14.2	15.6	4.5
Top fifth	16.9	21.6	20.2	18.3	19.6	10.7
(b) National Insurance contributions						
Bottom fifth	—	0.5	2.8	3.4	2.7	—
Middle three-fifths	—	4.6	5.0	5.0	4.8	1.9
Top fifth	—	4.0	3.9	3.7	4.3	2.7

¹ See footnote² to Table L.

Indirect taxes as a percentage of disposable income by quintile group of original income within each household type, 1981

TABLE P

	Household type ³					
	1-2 adults retired	1 adult non-retired	2 adults non-retired	2 adults with children	3 or more adults	1 adult with children
(a) Domestic rates (net) ²						
Bottom fifth ¹	2.4- 7.1	6.7- 9.0	4.8- 5.6	3.9- 5.3	2.2- 3.9	1.6- 9.3
Middle three-fifths ¹	5.1- 6.7	5.4	3.7	4.0	2.8- 3.0	4.2- 6.1
Top fifth ¹	5.5- 5.7	3.9	2.7	3.0	2.2- 2.3	3.2
(b) VAT						
Bottom fifth	4.2	6.7	7.0	8.4	7.6	4.4
Middle three-fifths	5.1	7.0	7.2	6.9	8.1	6.0
Top fifth	6.6	6.6	6.4	6.6	7.4	4.0
(c) Duty on beer						
Bottom fifth	0.7	0.8	1.0	1.1	1.4	0.1
Middle three-fifths	0.4	0.9	1.1	0.9	1.5	0.3
Top fifth	0.3	0.7	0.6	0.6	1.1	0.2
(d) Duty on wines and spirits						
Bottom fifth	0.5	1.0	1.0	0.7	1.0	0.2
Middle three-fifths	0.9	1.1	1.3	0.8	1.3	0.5
Top fifth	1.4	1.6	1.4	1.0	1.2	0.6
(e) Duty on tobacco						
Bottom fifth	2.7	4.0	3.5	5.0	4.6	4.5
Middle three-fifths	2.0	2.2	2.5	2.4	2.8	3.1
Top fifth	1.3	0.8	1.1	1.1	1.7	1.1
(f) Duty on hydrocarbon oils						
Bottom fifth	0.4	1.0	1.3	1.8	1.4	0.4
Middle three-fifths	0.7	1.3	1.7	1.7	1.7	1.1
Top fifth	1.2	1.7	1.2	1.3	1.6	0.8
(g) Car tax and vehicle excise duty						
Bottom fifth	0.3	0.6	0.8	0.9	0.7	0.3
Middle three-fifths	0.6	0.9	0.9	0.9	0.9	0.5
Top fifth	1.2	0.9	0.7	0.7	0.8	0.6
(h) Other taxes on final goods and services						
Bottom fifth	1.4	1.9	1.5	1.7	1.4	1.3
Middle three-fifths	1.6	1.3	1.2	1.4	1.2	1.7
Top fifth	1.3	1.2	0.9	1.2	0.9	1.0
(j) Intermediate taxes						
Bottom fifth	5.8	7.6	6.7	7.6	6.7	6.4
Middle three-fifths	6.0	6.1	5.5	6.0	6.2	7.1
Top fifth	5.7	4.8	4.8	5.6	5.3	4.3
(k) Total						
Bottom fifth ¹	19.1-22.9	30.8-32.6	27.8-28.4	31.5-32.5	27.3-28.5	20.5-26.7
Middle three-fifths ¹	22.8-24.1	26.2	25.0	25.0	26.4-26.6	24.8-26.2
Top fifth ¹	24.5-24.6	22.1	19.8	21.0	22.3	15.7

¹ The ranges reflect the possible different treatment of rates — see box on page 96.

² Net of rate rebates but including water, etc. charges.

³ See footnote² to Table L.

Direct taxes

For retired households the sums paid as direct taxes are very small, except for the top fifth (Table N). For non-retired types *income tax* taken as a percentage of gross income generally increases with income. For National Insurance contributions, however, the percentage paid by the top fifth of households is lower than that for the middle income groups because of the income ceiling on contributions, and of the greater proportion of income earned by married women and by the self-employed. Taking these two taxes together, direct taxes reduce income inequality within each household type, although by less than do cash benefits.

Indirect taxes

For *retired* households payments of most indirect taxes rise as a proportion of disposable income as income rises (Table P). This is so because the lower income retired households spend a high proportion of their disposable income on items which carry little indirect tax eg food and heating. Apart from domestic rates, which are covered by Supplementary Benefit for many households, only duty on tobacco and beer have their largest impact on low income retired households. So within retired household types indirect taxes reduce income inequality.

In contrast, for *non-retired* household types indirect taxes as a proportion of disposable income is higher for low income households than for high income households. For most non-retired household types, this picture holds true for individual indirect taxes such as domestic rates and water etc charges, tobacco duty (tobacco consumption per adult is, if anything, higher in low income households than in high income households), for intermediate taxes, and, less markedly, beer duty. The lower proportion of disposable income taken in the form of intermediate taxes for high income households is because these households spend a relatively low proportion of income on consumer goods and services and save more in various forms. For similar reasons, VAT also takes proportionately less of the disposable incomes of high income households within each household type. However, the bottom fifth of most non-retired household types in 1981 spent a higher proportion of their disposable income on food and housing which are zero rated for VAT than did households in the middle of the distribution.

Duties on *petrol* and *vehicles* as a proportion of disposable income vary little between income levels. Duties on *wines* and *spirits* tend to have greater impact on high income households. Overall indirect taxes increase income inequality within the non-retired household types.

Benefits in kind

Broadly speaking, the benefits from expenditure on *education* and *health* are fairly evenly distributed between the households within each composition type, although for a variety of reasons low income households tend to have slightly larger benefits. The highest average benefits from *welfare foods* go to households with the lowest incomes because of their higher than average use of school meals, or the greater proportion getting them free of charge. The average benefit from the *housing* subsidy is also substantially higher for low income households than for high income households within each type, because more of the low income households are public sector tenants. The average value of the 'other' benefits (passenger rail travel subsidy, option mortgage expenditure and life assurance premium relief) is much higher for high income than for low income house-

holds. In total, benefits in kind reduce income inequality for each household type (see Appendix 4, Table 5).

TRENDS IN REDISTRIBUTION 1977-81

Last year's article¹ containing an analysis of trends in redistribution between 1976 and 1980 concluded that, while national household *original* income rose in real terms between 1976 and 1980, its distribution between households became somewhat more unequal. It also concluded that there was much the same increase in the inequality of the distribution of final income, as taxes and benefits did not counteract the trend increase in the spread of original incomes. In this year's article, trends between 1977 and 1981 have been studied and the conclusion is that the distribution of original income continued to become more unequal in 1981, although national household original income fell in real terms in that year compared with 1980. Final income was however, distributed slightly more equally in 1981 than in 1980. Before considering these results in detail we need to consider recent changes to the macro-economic aggregates of incomes, taxes and benefits and study how these and factors such as unemployment affect the analysis. It should be noted that revisions have been made to some of the figures for allocated taxes and benefits quoted in earlier articles (see Appendix 2).

Economic aggregates

According to the *National Accounts*, over the country as a whole household disposable income rose in cash terms throughout the period 1977-81 (Table Q). Taking account of inflation, real household disposable income grew by about 15 per cent from 1977 to 1979 and by 1 per cent in 1980, then fell by 2 per cent in 1981 to a lower level than in 1979. The purchasing power of gross (ie pre-tax) income also fell by 2 per cent in 1981 compared with 1980.

The *cash benefits* allocated in this article represented 13.6 per cent of gross household income in 1981 compared with about 11.9 per cent in 1977 (Table Q). There was a small increase to 12.3 per cent in 1978 caused by the introduction of Child Benefit (which is a cash benefit) to replace tax allowances for children (which were not). Between 1978 and 1980 gross household income and cash benefits both grew strongly and the proportion of gross

¹ *Economic Trends* No. 339, January 1982.

Incomes, taxes and benefits, 1977 to 1981

TABLE Q

	1977	1978	1979	1980	1981
Gross ¹ household income £ billion	111.3	128.5	153.1	182.2	199.9
Household disposable income £ billion	87.7	103.0	124.0	146.9	159.4
At 1975 prices (Index numbers, 1975 = 100) ²	97	106	112	114	111
Allocated taxes and benefits as percentages of gross household income					
Allocated cash benefits	11.9	12.3	12.1	12.2	13.6
Allocated direct taxes	19.1	17.7	16.3	16.4	17.4
Allocated indirect taxes	15.4	15.0	15.9	16.4	17.5
Allocated benefits in kind	13.8	13.5	13.1	13.8	14.2

¹ 'Total household income' in the National Accounts, which is defined similarly to gross income.

² Percentage changes quoted in the text are based on unrounded data.

income derived from cash benefits remained much the same. In 1981 cash benefits increased sharply as a proportion of gross income. This was partly so because the major cash benefits continued to increase in line with price inflation, while gross income increased more slowly, and partly because the increase in the number of unemployed led to greater dependence on unemployment and supplementary benefit in 1981 than in previous years. Households with the lowest incomes in nearly all household types were generally more dependent on cash benefits in 1981 than in 1979.

The proportion of gross household income taken as *direct tax* fell between 1977 and 1979 – from 19.1 per cent to 16.3 per cent. The reduction was caused by two factors. First, the basic rate of income tax was cut from 34 per cent in 1977/78 to 30 per cent in 1979/80 and a lower (25 per cent) rate band was introduced in 1978/79. This led to a real fall in the burden of income tax for most households despite the withdrawal of tax allowances for children and a slight fall in the value of other allowances. Second, employees' National Insurance contributions fell as a proportion of gross household income. However, since 1979/80 the direct tax burden has increased. The lower rate band of income tax was abolished in 1980 and personal tax allowances were not raised in line with inflation in 1981. Furthermore, the rate of employees' National Insurance contributions was raised in both years. Income tax and National Insurance contributions took in aggregate a greater proportion of gross household income in 1981 than in 1979.

For the period 1977–81 as a whole, while the basic rate of income tax was lower in 1981 than in 1977, National Insurance contributions increased and the real value of tax allowances was reduced. The net effect of these changes, together with the increase in unemployment, is to reduce the proportion of gross household income taken in direct tax between 1977 and 1981. Households in the top fifth of nearly all household types paid 2–3 per cent less in direct tax in 1981 than in 1977 and there was a small reduction in tax for many of the lower income groups. Some households in the middle of the distribution pay slightly more tax.

Indirect taxes have increased as a proportion of gross income since 1977. After falling in 1978, the proportion increased in 1979 and 1980, mainly as a result of the increase in the standard rate of VAT in June 1979. There was a further increase to 17.5 per cent in 1981 due to large increases in local authority rates and in a number of specific duties, particularly on alcohol, tobacco and hydrocarbons. The increase in indirect taxation in 1981 was more marked as a proportion of gross income than of expenditure because real gross income fell whereas expenditure remained unchanged.

The increase in indirect taxes since 1979 has affected all households, particularly those with the lowest incomes within each household type. In 1981 for example, the lowest quintile groups of the two-adults-with-children household types paid 5 per cent more of their disposable income as indirect tax than in 1977 or 1979.

The direct and indirect taxes allocated in this article accounted for 34.9 per cent of gross household income in 1981, only slightly more than in 1977. However, the combined proportion had decreased to 32.2 per cent in 1979.

Benefits in kind accounted for a greater proportion of gross income in 1981 than in 1979 or 1977. Public expenditure on education and health rose in line with

increases in pay for education and health service employees throughout the period. In addition there were substantial increases in housing subsidies until 1981, when they were reduced. Between 1977 and 1979 'allocated' expenditure on benefits in kind decreased from 13.8 to 13.1 per cent of gross income. Between 1979 and 1981 benefits in kind grew much faster than gross income, despite the reduction in housing subsidy in 1981, and in 1981 it formed a higher proportion of gross income than in 1979 for most household types. Benefits in kind were relatively more important to lower income households in 1981 than in 1979.

In summary the period 1977–81 divides into two fairly distinct parts. From 1977 to 1979, real original income grew and so did cash benefits at about the same rate. Direct taxes fell as a percentage of gross income, partly offset by increased payments of indirect taxes. Benefits in kind fell slightly as a proportion of gross income. From 1979 to 1981, household original income fell in real terms and, although cash benefits grew strongly, gross income also fell. Direct and indirect taxes both increased as a percentage of gross income, partly offset by an increase in benefits in kind.

Results for all households

The mix of household types responding to the FES varies from year to year which can complicate the interpretation of short term trends for the all-households distribution. In 1981 in particular, the FES contained an above average proportion of large households, tending to over represent the top of the income distribution. These effects can be studied by imposing a standard mix of households in each year. Such a standardisation was carried out and the following paragraphs are based on these 'standardised' data. The technique is explained in Appendix 3.

While *original income* fell in real terms between 1979 and 1981, its distribution between households became somewhat more unequal (Table R). The share going to the top tenth of FES households, which was 27 per cent from 1977 to 1979, increased to 27½ per cent in 1980 and 28 per cent in 1981. There was a corresponding fall in the share of original income going to households in the middle and lower income groups. However, other households in the higher income groups maintained their share of original income throughout the period. Between 1977 and 1979, when real national original income was rising, the distribution was much the same.

Percentage shares of total household standardised original income by quintile group of households ranked by original income, 1977 to 1981

TABLE R

	1977	1978	1979	1980	1981
Quintile group					
Bottom fifth	0.6	0.6	0.6	0.6	0.6
Next fifth	9.1	9.1	9.0	8.6	8.4
Middle fifth	18.9	18.8	18.8	18.6	18.1
Next fifth	26.9	26.8	27.0	26.9	26.8
Top fifth	44.5	44.7	44.6	45.4	46.1
Total	100	100	100	100	100
Decile group					
Bottom tenth	—	—	—	—	—
Top tenth	26.7	26.9	26.8	27.6	28.1
Gini coefficient (per cent)	44.7	44.8	44.8	45.7	46.4

Percentage shares of total household standardised final income by quintile group of households ranked by final income, 1977 to 1981

TABLE S

	1977	1978	1979	1980	1981
Quintile group					
Bottom fifth	7.3	7.3	7.1	6.9	7.1
Next fifth	12.5	12.7	12.4	12.3	12.5
Middle fifth	18.2	18.1	18.1	18.0	17.9
Next fifth	24.1	24.1	24.4	24.1	24.0
Top fifth	37.9	37.8	38.0	38.7	38.5
Total	100.0	100.0	100.0	100.0	100.0
Decile group					
Bottom tenth	2.9	2.9	2.8	2.7	2.8
Top tenth	22.5	22.3	22.5	23.2	23.2
Gini coefficient (per cent)	31.0	30.9	31.5	32.2	31.8

Final income (Table S) shows a small increase in inequality between 1977 and 1979 and a slightly larger increase between 1979 and 1980, but a small decrease in 1981. The effect of changes in taxes and benefits was to make the distribution of final income slightly more unequal in 1979 than in 1977 and in 1978. However in 1981, the combined effect of taxes and benefits, produced a more equal distribution of final income than in 1980, despite the increase in inequality of original income. The remainder of this section looks at the ten household types separately.

Recent trends by household type

All non-retired household types showed an increase in the spread of their *original incomes* between 1979 and 1981 (Table T). In contrast, both retired household types showed a reduced spread in their original incomes.

Between 1977 and 1980 inequality in final incomes increased within nearly all household types, as it did for the overall distribution. However in 1981, not all household types experienced a decrease in inequality in final incomes, indeed five out of ten household types experienced a further increase. The reduction in inequality in the all-households analysis must therefore owe rather more to a shift in the relative levels of income between the household

types than to changes in inequality within household types; retired households, in particular, improved their final income relative to other households in 1981.

Unemployment has been an important factor in the increase in inequality of original income within household types. One of the conclusions of last year's article¹ was that cash benefits and direct taxes substantially reduce, but do not eliminate, the increase in inequality in the distribution of original income due to unemployment and the consequent loss of earnings. This is illustrated in Table T.

MOVEMENTS OF HOUSEHOLDS BETWEEN ORIGINAL AND FINAL INCOME GROUPS

Earlier sections of the article have shown that households on low incomes gain from redistribution. This section looks at which types of household gain most. Similarly, households with high original incomes are worse off after redistribution, but some lose more than others. Table V shows each household classified according to both its original and final income. For example, the top row shows the final income ranking of the 20 per cent of households with the lowest original incomes. We can see that 13 per cent of these remained in the lowest income group after redistribution, whereas the rest moved up into higher final income groups. The leading diagonal shows the percentages of households in the same quintile group before and after redistribution; just over half the households are on this diagonal, though, in line with the overall pattern of redistribution, most households remaining in lower income groups will be a little better off, and most remaining in higher groups a little worse off.

As shown in Table W, an important conclusion of this exercise is that, the households gaining most from redistribution tend to be the larger households within each original income group. Looking at households in the middle original income group for example, we can see that households remaining in it after redistribution have an average of 3.0 persons per households, whereas those moving up one final income group have 4.0 and those moving down one group have 2.1. Therefore larger households, including most households with children, tend to improve their quintile group position as a result of redistribution. Conversely, one and two adult households

¹ *Economic Trends*, No. 339, January 1982.

Gini coefficients for the distributions of original and final income of each household type, 1977 to 1981

TABLE T

	Original income					Final income				
	1977	1978	1979	1980	1981	1977	1978	1979	1980	1981
Gini coefficients (per cent)										
Household type										
1 adult retired	79	77	78	78	75	18	17	18	18	17
1 adult non-retired	38	39	39	40	41	27	28	28	29	31
2 adults retired	70	66	69	68	66	19	18	18	20	19
2 adults non-retired	30	30	29	31	32	24	23	22	25	27
2 adults, 1 child	25	27	26	29	29	21	20	21	22	22
2 adults, 2 children	25	24	26	25	28	19	18	20	20	20
2 adults, 3 or more children	32	31	31	34	38	19	17	17	19	21
3 or more adults	29	27	28	29	30	21	21	22	23	23
3 or more adults with children	25	28	25	28	30	18	19	17	19	20
1 adult with children	62	59	57	59	63	25	22	26	26	28

Households classified by their ranking according to original and final income, 1981

TABLE V

	Quintile groups of households ranked by final income					Total
	Bottom fifth	Next fifth	Middle fifth	Next fifth	Top fifth	
Percentage of all households						
Quintile groups of households ranked by original income						
Bottom fifth	13	5	1	—	—	20
Next fifth	6	8	4	1	—	20
Middle fifth	1	6	8	4	1	20
Next fifth	—	1	6	9	4	20
Top fifth	—	—	1	5	15	20
Total	20	20	20	20	20	100

NB Figures do not sum to totals due to rounding.

tend to move down the rankings. The final column of Table W also shows that the average number of persons per household increases with original income. This is because larger households tend to have more earners.

The reason why some households benefit more than others with similar original income are not the same in each group, although the main reason is often benefits in kind. In the group with the lowest original income, for example, the few households with very high final income (i.e. moving up three or four groups) are those with children, receiving, amongst other things, substantial benefit in kind from education expenditure. Cash benefits can also determine which households gain most. Two retired adult households for example receive a larger state retirement pension than single adults and their final income is therefore higher. In some cases a combination of cash benefits and benefits in kind provides the explanation.

The following paragraphs look in some more detail at two of the original income groups, the bottom and the top

Number of persons per household 1981: households classified by their ranking according to original and final income

TABLE W

	Quintile groups of households ranked by final income					Total
	Bottom fifth	Next fifth	Middle fifth	Next fifth	Top fifth	
Quintile groups of households ranked by original income						
Bottom fifth	1.3	2.0	3.4	5.1	5.8	1.7
Next fifth	1.5	2.2	3.1	4.6	6.0	2.4
Middle fifth	1.7	2.1	3.0	4.0	5.2	3.0
Next fifth	1.7	2.0	2.4	3.2	4.3	3.2
Top fifth	3.0	2.0	2.5	2.6	3.7	3.4
Total	1.4	2.1	2.8	3.4	3.9	2.7

The lowest original income group

Cash benefits are the main source of income for these households and are highest for those improving their position most. The amounts of benefit in kind also vary

The lowest original income group 1981

TABLE X

	Quintile group ranked by final income				
	Bottom fifth	Next fifth	Middle fifth	Next and top fifths	Total
Percentages					
Household type					
1 adult retired	44	5	—	—	49
2 adults retired	10	15	2	—	27
Other households without children	7	2	1	—	10
1 adult with children	2	2	1	1	6
Other households with children	1	2	2	2	8
Total	65	26	6	3	100
£ per year					
Original income	200	210	150	270	200
Cash benefits	1,930	2,880	3,830	4,570	2,370
Direct taxes	20	10	10	10	10
Indirect taxes	590	680	940	1,250	650
Benefits in kind	710	1,330	2,460	5,060	1,100

steeply. Education benefits, in particular, are substantial for households with children and most of them move into higher final income groups. Taxes have little effect.

Half the households in the bottom original income group consist of one retired adult and almost all of these remain in the bottom group of final income. A further quarter of the households consist of two adults retired, who receive larger retirement pensions and more health benefit and are more likely to improve their relative position. Households with children are more likely to move up one group than to stay in the bottom group and larger households benefit most; they receive substantial amounts of education benefit and are very likely to move up several income groups.

The top original income group

All the households in the top fifth of households ranked by original income have very high original incomes and expenditure, so that cash benefits are relatively unimportant, but direct and indirect taxes are both substantial (Table Y).

The top original income group 1981

TABLE Y

	Quintile group ranked by final income				
	Bottom & next fifths	Middle fifth	Next fifth	Top fifth	Total
Percentages					
Household type					
1 adult with or without children	—	—	1	1	2
2 adults	—	2	11	15	28
2 adults with children	—	—	3	19	22
3 or more adults	—	1	6	22	29
3 or more adults with children	—	—	2	16	18
Total	1	3	23	73	100
£ per year					
Original income	13,300	12,990	17,800	16,540	
Cash benefits	130	190	570	470	
Direct taxes	3,630	3,230	4,160	3,940	
Indirect taxes	4,200	2,700	2,840	2,900	
Benefits in kind	540	680	1,640	1,380	

The range of incomes is much wider than in other groups, and the amounts of direct tax paid show more variation. Some households with very high original incomes pay substantial amounts of tax and still remain in the top final income group. Indirect taxes are also substantial. Benefits in kind do not add substantially to income, although education expenditure has a significant effect on households with children and students.

Overall, three quarters of the households remain in the top final income group. Households with children comprise half the group and are almost certain to remain

in the top final income group, helped by benefits in kind from education and to a lesser extent by child related cash benefits. The larger adult only households are also very likely to remain in the top final income group, because many of them contain an above average number of workers and have higher original income. Many also contain a student, who receives substantial education benefit. Nearly half the one and two adult households on the other hand, will be in lower final income groups.

APPENDIX 1

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 *National Income and Expenditure* 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 the 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, which are not covered in the FES and which are difficult to apportion to individual households. Indeed, most people would probably not think of these as leading to a reduction in their personal incomes. 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.

Family Expenditure Survey

2. The estimates in this article are based mainly on data derived from the FES. The FES is a continuous survey of the expenditure of private households. People living in hotels, lodging houses, and in institutions such as old peoples' homes are excluded. Each adult keeps a full record of payments made during 14 consecutive days and answers questions about hire purchase and other payments. He also gives 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.

3. One of the main purposes of the FES is to yield information on household expenditure patterns to produce the weights used in compiling the index of retail prices. The survey is conducted by the Office of Population Censuses and Surveys on behalf of the Department of Employment who analyse and report on it. The *Family Expenditure Survey Report* for 1981, containing detailed data on household characteristics, income, and expenditure, will be published shortly. Details of the survey method are set out in *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 co-operating in the FES in 1981 was 7,525. The response rate was 72 per cent. This compares with 6,944 and 67 per cent in 1980. The increase in response was brought about mainly by raising the payment to individuals taking part in the survey from £2 to £5. The increased payment will also partly explain the increase in the proportion of large households responding to the FES. (See Appendix 4, Table 8.)

5. The available evidence suggests 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. In addition response in Greater London is noticeably lower than in other areas (see 'Family Expenditure Survey: a study of differential response based on a comparison of the 1971 sample with the census' by W F F Kemsley, *Statistical News* No. 31, November 1975 (HMSO)). It is not practicable at present to correct for any consequential non-response bias: the results in the article are based on the responses of those households which actually co-operated in the survey. This means that some of the figures differ from those produced by other surveys (see also 'Differential response in the Family Expenditure Survey: the effect on estimates of redistribution of income' by R Harris in *Statistical News* No. 39, November 1977 (HMSO)).

Unit of analysis

6. The basic unit of analysis in the article is the household, and not the family or the individual. 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 housing, fuel and light and food, is largely joint spending by the members of the household. Without further information or assumptions it is impossible to apportion indirect taxes between individuals or other sub-divisions of households. It would also be far from simple to apportion income, direct taxes and benefits.

7. In classifying the households, adults have been taken as all people aged 16 and over. 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.

8. A *retired* household is defined as one in which the combined income of members who are at least 60, and who describe themselves as retired or unoccupied, amounts to at least half the total gross income of the household; or in which the head is over state pension age, and more than three quarters of the household's income consists of national insurance retirement and similar state pensions, or related supplementary benefit.

9. By no means all retired people are in retired households; about one in three 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.

10. The sample households have been classified according to their compositions at the time of the interview; it is particularly important to bear this in mind for households comprising one adult with children - it is likely that many of these households changed their composition at some time during the year.

Income: redistributive stages**11. Stage one**

Original income *plus* cash benefits = Gross income.

Stage two

Gross income *minus* direct taxes = Disposable income.

Stage three

Disposable income *minus* indirect taxes *plus* other benefits = Income after all taxes and benefits (final income).

12. The starting point of the analysis is *original income*. This is the annual income in cash and kind 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 and occupational pensions. 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 twelve 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 an index of income from self-employment derived from the National Accounts. 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. Households living in rent-free dwellings are each assigned an imputed income based upon 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 on *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:

Age-related

Retirement and old persons' pension. Widows' benefit, Christmas bonus for pensioners.

Child-related

Child benefit, Maternity allowance, Maternity grant.

Income-related

Unemployment benefit, Family Income Supplement, Supplementary benefit, Electricity discounts, Rent rebates and rent allowances, Student maintenance awards.

Other cash benefits

War pension, Invalidity pension, Non-contributory invalidity pension, Housewives non-contributory invalidity pension, Invalid care allowance, Attendance allowance, Sickness benefit, Industrial injury disablement benefit, Death grant, other benefits.

15. This division involves some arbitrary allocations (for example, most income-related benefits depend on the number of children in the household), and it differs from classifications used elsewhere. It is adopted in the article purely for the purpose of shedding further light on the redistributive effects of cash benefits.

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 rent rebates and allowances, is based on current rates. The National Accounts (and Table 1 of Appendix 4) include payments made by local authorities to the Department of Health and Social Security in respect of recipients of Supplementary Benefit as 'rent rebates and allowances'. Supplementary Benefit includes all supplementary allowances where they are separately distinguished by respondents.

17. *Direct taxes* are then deducted to give *disposable income*. Direct taxes are:

Income tax

Employees' and self-employed contributions to national insurance and national health services.

18. The 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 including tax relief on mortgage interest, but not on life assurance premiums, where administrative arrangements are different.

19. As original income includes some elements not actually received in cash, disposable income as defined here does not correspond exactly to money available for the household to spend. It does however give an indication of the resources which are available to the household, and which influence spending decisions.

20. The order in which the remaining allocated items are presented is to some extent arbitrary.

21. *Indirect taxes on final consumer goods and services* are:

Local authority rates on dwellings (after rebates)
Duties on beer, wines, spirits, tobacco, oil, betting, etc.
Value added tax (VAT)
Protective (import) duties
Car tax
Motor vehicle duties
Driving licences
Television licences
Stamp duties

22. These taxes are either levied directly on the consumer (for example domestic rates) or are assumed to be fully incident on the consumer. 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.

23. The figures for *domestic rates* include, as well as local authority rates, charges made by water authorities for water, environmental and sewerage services, although these charges to households in England and Wales are no longer counted as general government receipts in the National Accounts. (In Scotland these payments go to the local authorities and are so counted.) As explained in the article, local authority rates are paid in full by most recipients of supplementary benefit, as the supplementary benefit payments they receive include an allowance for this item. Where ranges are shown (in Tables F and P) for the burden of rates (and total indirect taxes), the lower end has been calculated by excluding the rates payments of most SB households, and by subtracting corresponding sums from their gross incomes. For each household where the SB received is less than the total rent and rates bill, however, its gross income and rates payment have been reduced by only a proportion of the SB – the proportion that rates represents of rent and rates combined.

24. VAT and car tax affect the prices of secondhand cars and are therefore assumed to be incident on the purchasers and vendors of such cars. In allocating taxes, expenditures recorded in the FES on alcoholic drink, tobacco, ice cream, soft drinks and confectionery are weighted 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.

25. 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 the 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).

26. *Indirect taxes on intermediate goods and services* are:

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

27. 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 input-output techniques. See Appendix 2 for a note on recent revisions.

28. Finally, we add the effects of *benefits in kind* for which there is a reasonable basis for allocation to households, to obtain *final income*. Benefits in kind are:

- State education
- School meals, milk and other welfare foods
- National Health Service
- Housing subsidy
- Rail travel subsidy
- Option mortgage expenditure
- Life assurance premium relief

29. *Education benefit* is estimated by the Department of Education and Science as the cost per pupil or student in special schools, primary, secondary and direct grant schools, universities, and other further education establishments. The value of the benefit attributed to a household depends on the number of people in the household recorded in the FES as receiving each kind of education (students away from home are not counted).

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

31. Each individual in the FES is allocated a benefit from the *National Health Service* according to the estimated average use made of health services by people of the same age and sex, and according to the total cost of providing those services. The benefit from the maternity services is assigned separately to those households receiving maternity grant.

32. In this article public sector tenants are defined to include the tenants of local authorities, New Town Corporations, the Scottish Special Housing Association (SSHA) and the Northern Ireland Housing Executive (NIHE). The total *housing* subsidy includes the excesses of current account expenditures on housing by local authorities over the unrebated rents due and interest on council house sales; and grants paid to the New Town Corporations, the SSHA,

the NIHE and the Housing Corporation. 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 his dwelling. The grant to the Housing Corporation has been similarly allocated to housing association tenants in the UK. Housing subsidy does not include mortgage interest tax relief, rent rebates and allowances or rate rebates (see paragraphs 18, 14 and 23 respectively).

33. The *rail travel subsidies* allocated are those to British Rail and to London Transport railways (the Underground). They are estimated by calculating the ratio of the cost of the subsidy to consumers' expenditure on rail fares. In allocating the British Rail subsidy the total subsidy paid is apportioned between freight and passenger services by the receipts of British Rail for their freight and passenger business, and then a further apportionment between the personal and the business and other sectors is made. This gives the amount of subsidy attributable to rail travel by the personal sector. In allocating the subsidy to London Transport railways the total subsidy to London Transport is apportioned between tube and bus services by the receipts of these sectors, with an allowance for the use of the Underground for business purposes.

34. *Option mortgages* are those where the building societies (or other bodies) charge a low rate of interest, being compensated for this by payments from central government. The interest payments do not then qualify for tax relief, the scheme being primarily for the benefit of non-taxpayers. The benefit to each household holding an option mortgage is assumed to be in proportion to its last interest payment.

35. Central government makes payments to *life assurance* funds enabling them to reduce their premiums to most policy-holders. The benefit to each household of this expenditure is assumed to be in proportion to its premium payments.

36. It must be emphasised 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 tax payer rather than to some other party, for example, 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.

Gini coefficient

37. The Gini coefficient is the most widely used summary measure of the degree of inequality in an income distribution. It can most easily be understood by considering a Lorenz curve of the income distribution, i.e. a graph of the cumulative income share against the cumulative household share. The curve representing complete equality of income is thus a diagonal line, as in Diagram A, while complete inequality (with only one recipient of income) is represented by a curve comprising the horizontal axis and the right-hand vertical axis.

38. A more typical Lorenz curve is illustrated in Diagram B. 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. This is the shaded

area in Diagram B. 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).

Previous articles

39. This article is the latest in an annual series. Earlier articles covering the years 1957 to 1980 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. The January 1981 article contains a comprehensive account of the changes in treatment over the years. As far as is practicable with the resources available, the Central Statistical Office will provide on request analyses for 1981 on a basis comparable with those for earlier years. Enquiries should be addressed to D. Westcott, Branch 8, Central Statistical Office, Great George Street, London SW1P 3AQ, Telephone 01-233 8300.

DIAGRAM A

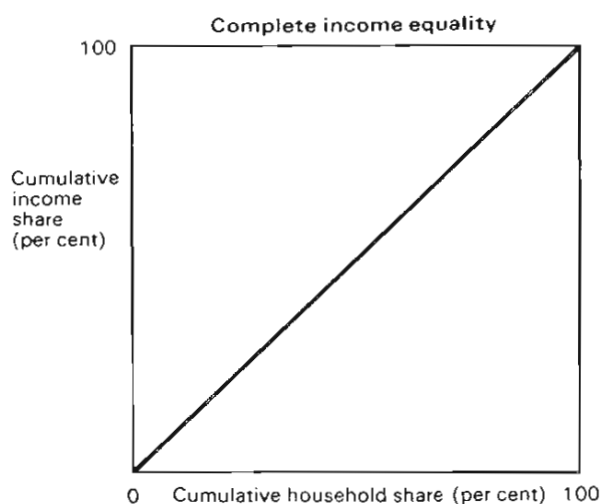
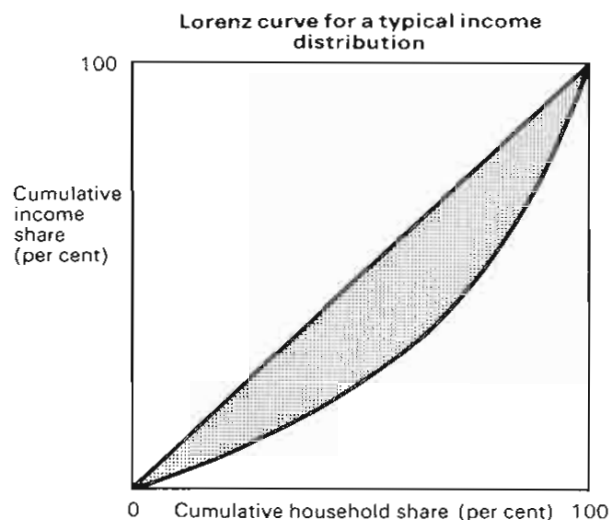


DIAGRAM B



APPENDIX 2

The treatment of intermediate taxes

Each year the National Accounts show¹ how total *taxes on expenditure* (also known as indirect taxes) are borne by four types of expenditure – consumers' expenditure, general government final consumption, gross domestic capital formation and exports. These allocations include both taxes borne *directly* and *indirectly*. For instance, in the case of taxes allocated to consumers' expenditure, duty on petrol may be paid directly when petrol is bought at a filling station or indirectly in the form of higher prices passed on to cover petrol duty paid by commerce and industry for a wide range of other goods and services bought by the personal sector. The allocations to the four types of expenditure are estimated by the CSO using input-output techniques.

The National Accounts also show² an allocation of the expenditure taxes borne directly by consumers' expenditure analysed by categories of consumers' expenditure. This is used in the article as the framework for the allocation of individual taxes such as VAT, tobacco duty, etc to households according to their spending patterns as recorded in the FES. These are called *taxes on final goods and services* in the article. However, the article requires estimates of the *full incidences* of expenditure taxes on households.

The method of allocating that part of the residual of each expenditure tax which falls indirectly on consumers' expenditure is based on input-output techniques.

The input-output analysis of individual expenditure taxes provides an allocation to consumers' expenditure analysed by categories of commodities or products defined by industry. The reconciliation between these commodities and the categories of consumers' expenditure (which can be linked to FES expenditure items) is made by reference to Table 0 of Input-output tables for the United Kingdom 1974³. There are several practical problems in using this table. For example, the products of certain industries are not commonly bought by households, although the production costs include expenditure taxes which must eventually be passed on to households. Difficulties also arise with the treatment of the considerable amount of expenditure taxes borne by the distributive trades. National Insurance payments by retailers for example, could be allocated to consumers' expenditure in a variety of ways.

Nevertheless, the factors for application to items of household expenditure so derived seem reasonably plausible – judging by such criteria as labour cost content (which would be reflected in the factors for National Insurance surcharge), or transport cost content (which would be reflected in the factors for duty on petrol). These taxes on expenditure borne indirectly by consumers' expenditure are called *intermediate taxes* in the article.

In one important respect the allocation of intermediate taxes in the article differs in coverage from the National Accounts. No allocation of employers' National Insurance contributions is made by the National Accounts as these

contributions are not classified as an expenditure tax; although the National Insurance surcharge is so classified and is allocated. In the article both employers' National Insurance contributions and the surcharge are treated as intermediate taxes and allocated accordingly. Essentially the same methodology has been used in the allocation of both of these items of government receipts in the article.

For the 1981 study the basis of the method of allocating intermediate taxes to households has been updated to make use of the latest input-output analyses derived from the 1974 Census of Production. Figures for 1981 are not therefore completely comparable with those for earlier years which are based on input-output analyses derived ultimately from the 1968 Census of Production, although the methods used were essentially the same. Comparability between 1981 and earlier years, has, however, been improved in other ways for the section on 'trends in redistribution 1977–81' and Appendix 4 Table 4, by bringing 1977–80 figures onto the 1981 Blue Book basis. This entailed some revisions to Blue Book figures and some relatively minor changes in coverage and methodology. Amongst these changes to 1977–80 intermediate tax data has been the allocation of the National Insurance surcharge predominantly as an intermediate tax rather than directly to consumers' expenditure as was initially done in the 1977 National Accounts, and the deletion of any allocation of North Sea Oil Royalties as an intermediate tax following their reclassification under government receipts of rent, etc rather than as a tax on expenditure in the 1981 National Accounts. In addition, the allocation of employers' National Insurance contributions to households has been brought into line with the current National Accounts treatment of the National Insurance surcharge. The effect of these changes is shown in the table below.

Finally, it should be noted that, in allocating expenditure taxes in the article, it has been assumed, as in the National Accounts tables, that the incidence of these taxes are fully shifted to the final consumer, whether consumers' expenditure of the personal sector, general government, capital formation or exports. In reality, it is likely that the incidence of such a tax is spread by pricing policies and probably falls in varying proportions on the producers of the good or service taxed, on their employees, on the buyer, and on the producers and consumers of other goods and services.

Intermediate taxes 1977 – 1980: revised estimates with originally published figures in parentheses

	1977	1978	1979	1980
£ per household				
Commercial and industrial rates	58(52)	63(64)	72(74)	91(91)
Employers' NI contributions (including surcharge)	104(112)	119(141)	151(175)	182(209)
Duty on hydrocarbon oils	25(22)	27(25)	25(29)	35(41)
Other	19(19)	21(26)	22(23)	24(28)
Total	207(205)	230(257)	271(301)	331(368)

¹ *National Income and Expenditure*, 1982 edition, Table 9.5.

² *National Income and Expenditure*, 1982 edition, Table 4.8.

³ *Input-output tables for the United Kingdom 1974*. Business Monitor, PA 1004 (HMSO, price £7.10).

APPENDIX 3

Standardisation of income distributions to take account of changes in household composition

Households of different types have very different original incomes and it is difficult to interpret recent trends when the mix of households is fluctuating from year to year. Such variations can be eliminated by imposing a standard mix of households. As the FES data show no clear trends in the importance of various household types (Table 1), the standard chosen was the average of the five years being studied. This process will also have removed any genuine changes in household composition and if in fact the number of small retired households has been increasing since 1977,

inequality in original and final income has been understated here. However any changes within a five year period would not be large enough to have a substantial effect on the results. The results of the exercise could, alternatively, be viewed as a study of the tax benefit system over time excluding demographic changes in the mix of households.

The approach adopted to produce standardised estimates of the distribution of original and final income for each year is generally called shift-share analysis.¹ The method is to calculate the income distribution of each of the ten

¹ An earlier article using this method was published in *Economic Trends* December 1975. The effect of changes in household composition on the distribution of income 1961-73.

Distribution of households co-operating in the Family Expenditure Survey 1977 - 81 Each household type as a percentage of all households responding

TABLE 1

Percentage ⁵	1977	1978	1979	1980	1981	Average 1977-81
1 adult retired	11.9	12.0	12.9	12.9	12.7	12.48
1 adult non-retired	7.8	8.6	9.2	8.2	8.0	8.34
2 adults retired	9.4	9.5	9.9	9.4	10.3	9.71
2 adults non-retired	22.4	22.5	21.0	21.6	20.8	21.65
2 adults, 1 child	9.0	8.6	8.9	9.0	8.1	8.73
2 adults, 2 children	12.3	12.5	12.6	12.5	12.3	12.42
2 adults, 3 or more children	5.8	4.8	5.4	5.2	5.1	5.27
3 or more adults with no children	10.2	9.9	9.4	10.4	11.3	10.26
3 or more adults with children	8.7	8.5	8.1	8.0	8.5	8.36
1 adult with children	2.4	3.0	2.7	3.0	2.9	2.78
All households	100.0	100.0	100.0	100.0	100.0	100.0
Number of households	7,198	7,001	6,777	6,944	7,525	

Distribution of households by range of original income and household type 1981, actual and standardised distributions

TABLE 2

Range of original income £ per year	1 adult		2 adults		2 adults with children				3 or more adults			1 adult with children		All households								
	Retired	Non-retired	Retired	Non-retired	1 child	2 children	3 or more children	With no children	With children	With no children	With children	With no children	With children									
0 - 68	384	377	41	43	163	154	19	20	15	16	19	19	32	33	11	10	10	10	59	57	753	739
69 - 372	194	190	16	17	117	110	11	12	5	5	6	6	2	2	9	8	4	4	12	12	376	366
374 - 837	163	160	26	27	129	122	15	16	5	5	5	5	7	7	6	5	6	6	14	14	376	367
838 - 1,765	103	100	37	39	126	119	40	42	10	11	13	13	13	13	11	10	10	10	13	13	376	370
1,766 - 2,901	62	61	53	55	86	81	62	65	21	23	19	19	12	12	18	16	18	18	26	25	377	375
2,902 - 4,070	25	25	72	75	49	46	72	75	22	24	38	38	19	20	32	29	24	24	23	22	376	378
4,071 - 4,935	8	8	77	81	29	27	81	84	32	35	57	57	25	26	30	27	18	18	19	18	376	381
4,935 - 5,734	5	5	41	43	14	13	111	115	49	53	69	70	30	31	24	22	20	20	13	12	376	384
5,735 - 6,416	3	3	44	46	8	7	100	104	55	59	70	71	39	40	32	29	20	20	6	6	377	385
6,417 - 7,127	1	1	37	39	13	12	108	112	62	67	77	78	25	26	21	19	24	23	8	8	376	385
7,128 - 7,853	—	—	32	33	6	6	103	107	47	51	83	84	32	33	36	33	31	30	6	6	376	383
7,854 - 8,617	2	2	29	30	7	7	99	103	54	58	89	90	22	23	39	35	33	32	2	2	376	382
8,618 - 9,535	1	1	26	28	9	8	112	116	44	47	69	70	27	28	40	37	45	44	4	4	377	383
9,536 - 10,543	2	2	16	17	2	2	109	113	42	45	82	83	18	19	52	47	51	50	2	2	376	380
10,544 - 11,547	1	1	19	20	4	4	114	117	41	44	63	64	18	19	54	49	59	58	3	3	376	379
11,548 - 12,811	—	—	8	9	8	8	113	117	36	39	51	51	14	14	81	73	64	63	1	1	376	375
12,812 - 14,589	1	1	14	15	4	4	116	121	28	30	43	43	15	15	98	89	58	57	—	—	377	375
14,590 - 17,743	1	1	8	8	—	—	95	99	24	26	42	42	17	18	114	103	74	73	1	1	376	371
17,744 or more	1	1	3	3	1	1	87	91	18	19	32	32	16	17	145	131	70	69	3	3	376	367
Total	957	939	599	628	775	731	1,567	1,629	610	657	927	935	383	396	853	772	639	629	215	209	7,525	7,525

household types according to any given set of income ranges and to reweight the ten together to a new total distribution according to the standard mix of households. This can be understood more easily by referring to Table 2, which shows the actual and standardised (in italics) distributions for original income in 1981. For example, the number of households consisting of three or more adults without children in the FES was 853. This has to be reduced to 10.26 per cent of the total sample or to 772 households. The number of three or more adult households in each income band is then reduced in the same proportion as the total ie 853 : 772. Summation of the adjusted data in each income band gives the standardised distribution for original income in 1981. The same procedure is carried out for final income and for other years, but calculations are not shown here for reasons of space. Statistics for these standardised distributions cannot be calculated with the same accuracy as usual, but are thought to be good estimates. Deciles have been estimated by interpolation and Gini coefficients approximated.

The main effect of the standardisation as illustrated in Table 3 is to lessen the increase in inequality of original income suggested by the unstandardised data between 1977 and 1981.

Gini coefficients for the distributions of original and final incomes 1977-81, actual and standardised data

TABLE 3

	1977	1978	1979	1980	1981
Gini coefficients (per cent)					
Original income					
Actual data	44.0	44.5	45.2	45.9	46.8
Standardised data	44.7	44.8	44.8	45.7	46.4
Final income					
Actual data	30.8	30.8	31.6	32.2	31.9
Standardised data	31.0	30.9	31.5	32.2	31.8

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General government expenditure in 1981

TABLE 1

	£ million	Percentage of total expenditure
Allocated expenditure		
Allocated cash benefits ¹		
Social security benefits		
National Insurance (contributory)		
Retirement	11,990	10.2
Widows and guardians	700	0.6
Unemployment	1,760	1.5
Sickness	640	0.5
Invalidity	1,360	1.2
Maternity	180	0.2
Disablement	320	0.3
Other	220	0.2
Non-contributory		
Child benefit	3,430	2.9
Supplementary benefit	4,190	3.6
War pension	460	0.4
Other	710	0.6
Student maintenance grants	600	0.5
Rent rebates and rent allowances	650	0.6
Allocated benefits in kind ¹		
Health services	12,610	10.8
Education	12,340	10.6
School meals, milk, welfare foods	520	0.4
Option mortgage scheme	250	0.2
Housing subsidy	2,230	1.9
Rail travel subsidy	450	0.4
	55,610	47.6
Unallocated expenditure		
Other current expenditure on social, environmental and protective services		
Social services		
Social security benefits administration	1,270	1.1
Personal social services	2,380	2.0
Other	30	—
Environmental services		
Housing	210	0.2
Water, sewerage, land drainage and public health	1,130	1.0
Parks, etc.	670	0.6
Miscellaneous local authority services	870	0.7
Libraries, museums, and arts	570	0.5
Protective services		
Police	2,510	2.2
Parliament, courts and prisons	1,310	1.1
Fire services	480	0.4
	11,430	9.8
Capital expenditure on social, environmental and protective services		
Social services	1,580	1.3
Environmental services		
Housing	2,430	2.1
Other	1,230	1.1
Protective services	220	0.2
	5,460	4.7
Other current expenditure		
Defence and external relations	14,510	12.4
Roads, transport and communications	2,580	2.2
Industry, trade, agriculture, research and employment	5,910	5.1
Other	2,020	1.7
	25,020	21.4
Other capital expenditure	4,320	3.7
Debt interest	13,090	11.2
Non-trading capital consumption	1,910	1.6
Total expenditure	116,840	100.0

¹ Including benefits to people not living in private households.

Financing of general government expenditure in 1981

TABLE 2

	£ million	Percentage of total financing
Allocated financing		
Allocated taxes ¹		
Direct taxes		
Income tax	27,730	23.7
Employees' and self-employed NI contributions	7,020	6.0
Indirect taxes		
Domestic rates (net of rebates)	4,750	4.1
Taxes on final goods and services	21,520	18.4
Taxes on intermediate goods and services	8,730	7.5
	<u>69,750</u>	<u>59.7</u>
Unallocated financing		
Unallocated taxes		
Corporation tax and petroleum revenue tax ²	8,200	7.0
Taxes on expenditure not allocated to consumers' expenditure	11,510	9.8
Employers' NI contributions not allocated to consumers' expenditure	5,950	5.1
Taxes on capital	1,580	1.4
	<u>27,240</u>	<u>23.3</u>
Other receipts ³	8,640	7.4
Government borrowing requirement	11,210	9.6
Total financing	<u>116,840</u>	<u>100.0</u>

¹ Including taxes paid by people not living in private households.² Including supplementary petroleum duty.³ Receipts of rent, royalties and licence fees on oil and gas production, interest, dividends, trading income and miscellaneous transactions (net).Source: *National Income and Expenditure, 1982 edition*, Table 9.1

Average incomes, taxes and benefits, 1981

By decile groups of households ranked by original and disposable incomes

TABLE 3

	£ per year											Average over all decile groups
	Decile groups											
	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th		
(i) Ranked by original income												
All households												
Decile points (£)		68	837	2,901	4,935	6,416	7,853	9,535	11,547	14,589		
Number of households in the sample	753	752	753	752	753	752	753	752	753	752	753	752
Original income	10	390	1,778	4,017	5,721	7,131	8,652	10,538	12,898	20,195	7,132	
Direct benefits in cash												
Age-related	1,245	1,570	1,290	612	280	223	167	115	135	103	574	
Child-related	103	54	116	209	260	262	256	250	204	201	192	
Income-related	940	407	422	281	145	123	77	113	93	80	268	
Other	215	201	227	187	140	80	70	81	58	60	132	
Gross income	2,514	2,621	3,833	5,307	6,547	7,819	9,222	11,096	13,388	20,639	8,298	
Direct taxes	1	27	244	751	1,123	1,477	1,898	2,333	3,007	4,882	1,574	
Disposable income	2,512	2,594	3,589	4,556	5,424	6,342	7,324	8,764	10,380	15,757	6,723	
Domestic rates (net of rebates) ¹	192	169	214	231	245	261	273	289	326	386	259	
Taxes on final goods and services	297	321	556	743	895	1,027	1,138	1,302	1,584	2,110	997	
Intermediate taxes	158	167	246	292	344	388	424	484	583	820	391	
Benefits in kind												
Education	272	177	286	494	592	622	646	671	620	668	505	
National Health Service	644	696	642	579	574	522	508	519	515	541	574	
Welfare foods	38	19	27	37	27	23	25	22	21	20	26	
Housing subsidy	210	129	128	134	126	119	98	66	78	57	115	
Other allocated benefits	11	12	18	34	46	51	63	81	90	146	55	
Final income	3,042	2,971	3,675	4,566	5,304	6,003	6,829	8,048	9,210	13,873	6,351	
(ii) Ranked by disposable income												
All households												
Decile points (£)		2,266	3,125	4,047	5,018	5,979	6,927	8,041	9,495	11,787		
Number of households in the sample	753	752	753	752	753	752	753	752	753	752	753	752
Original income	362	815	2,107	3,924	5,543	6,980	8,529	10,407	12,775	19,889	7,132	
Direct benefits in cash												
Age-related	1,147	1,348	1,067	612	451	250	292	201	191	182	574	
Child-related	28	51	133	220	255	277	256	242	224	229	192	
Income-related	349	496	500	372	216	216	137	122	153	122	268	
Other	51	123	155	203	182	170	124	127	91	93	132	
Gross income	1,937	2,833	3,961	5,331	6,647	7,892	9,339	11,098	13,434	20,515	8,298	
Direct taxes	100	139	386	790	1,149	1,461	1,886	2,338	2,930	4,565	1,574	
Disposable income	1,837	2,694	3,575	4,541	5,497	6,431	7,452	8,760	10,504	15,950	6,723	
Domestic rates (net of rebates) ¹	168	191	210	232	247	261	274	296	320	388	259	
Taxes on final goods and services	237	342	544	758	871	1,053	1,123	1,348	1,560	2,137	997	
Intermediate taxes	139	174	234	299	333	395	429	495	582	826	391	
Benefits in kind												
Education	75	119	298	457	597	688	660	738	664	756	505	
National Health Service	522	633	645	596	594	547	545	506	557	596	574	
Welfare foods	7	15	34	40	29	34	25	27	22	25	26	
Housing subsidy	128	158	161	137	138	116	95	75	75	63	115	
Other allocated benefits	12	12	22	37	43	55	61	76	90	144	55	
Final income	2,036	2,923	3,748	4,519	5,446	6,163	7,012	8,041	9,448	14,184	6,351	

¹ Together with water, etc. charges.

Average incomes, taxes and benefits, 1977-1980

By decile groups of households ranked by original income

TABLE 4

	£ per year										Average over all decile groups
	Decile group										
	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th	
(i) 1977											
All households											
Decile points (£)		49	597	2,019	3,055	3,847	4,587	5,363	6,379	7,994	
Number of households in the sample	720	720	719	720	720	720	720	719	720	720	7,198
Original income	6	255	1,285	2,575	3,447	4,220	4,982	5,838	7,111	10,654	4,037
Direct benefits in cash											
Age-related	761	905	705	281	146	107	105	81	69	92	325
Child-related	20	11	22	49	61	70	63	62	60	53	47
Income-related	433	214	156	139	65	48	45	41	41	43	123
Other	149	97	151	104	90	61	51	55	48	46	85
Gross income	1,370	1,482	2,319	3,149	3,809	4,505	5,246	6,077	7,329	10,888	4,617
Direct taxes	1	22	214	477	713	894	1,089	1,370	1,697	2,800	928
Disposable income	1,369	1,460	2,105	2,671	3,097	3,611	4,157	4,706	5,632	8,088	3,690
Domestic rates (net of rebates) ¹	93	85	111	115	127	135	143	150	163	204	132
Taxes on final goods and services	125	167	287	411	448	525	600	636	805	959	496
Intermediate taxes	73	86	128	162	187	211	236	262	311	413	207
Benefits in kind											
Education	110	74	173	283	263	346	350	351	404	435	279
National Health Service	339	334	298	276	295	278	277	265	263	289	291
Welfare foods	17	10	18	26	24	29	27	26	29	25	23
Housing subsidy	130	82	84	91	75	77	80	68	71	56	81
Other allocated benefits	9	10	13	21	26	31	31	33	35	52	26
Final income	1,684	1,633	2,166	2,679	3,018	3,500	3,942	4,401	5,155	7,369	3,555
(ii) 1978											
All households											
Decile points (£)		40	686	2,163	3,431	4,351	5,241	6,134	7,292	9,279	
Number of households in the sample	698	702	700	700	700	701	700	700	700	700	7,001
Original income	4	296	1,403	2,856	3,907	4,785	5,660	6,715	8,176	12,381	4,618
Direct benefits in cash											
Age-related	837	1,029	799	330	172	137	79	88	75	74	362
Child-related	42	24	48	74	113	122	122	110	100	95	85
Income-related	507	263	204	124	90	66	51	47	46	49	145
Other	174	129	169	108	82	65	82	38	58	38	94
Gross income	1,565	1,741	2,623	3,492	4,364	5,175	5,994	6,999	8,455	12,638	5,304
Direct taxes	1	12	185	524	772	963	1,145	1,432	1,827	3,064	993
Disposable income	1,564	1,729	2,438	2,968	3,592	4,212	4,848	5,567	6,627	9,573	4,312
Domestic rates (net of rebates) ¹	103	96	126	125	144	152	156	170	179	221	147
Taxes on final goods and services	143	175	310	402	489	547	633	727	839	1,079	535
Intermediate taxes	85	96	144	169	208	227	257	295	349	471	230
Benefits in kind											
Education	183	101	189	223	319	359	416	383	424	468	306
National Health Service	371	390	346	300	322	316	300	296	289	319	325
Welfare foods	28	16	22	24	27	28	29	26	23	21	24
Housing subsidy	144	105	96	90	94	89	73	76	74	60	90
Other allocated benefits	3	3	5	12	16	20	22	23	31	39	17
Final income	1,961	1,975	2,517	2,921	3,528	4,098	4,641	5,178	6,102	8,710	4,163

¹ Together with water, etc. charges.

Average incomes, taxes and benefits, 1977-1980

By decile groups of households ranked by original income

TABLE 4 (continued)

	£ per year										Average over all decile groups
	Decile group										
	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th	
(iii) 1979											
All households											
Decile points (£)		46	608	2,413	3,780	4,924	5,941	7,005	8,375	10,602	
Number of households in the sample	678	677	678	678	677	678	678	678	677	678	678
Original income	6	270	1,394	3,160	4,378	5,431	6,456	7,672	9,365	14,039	5,217
Direct benefits in cash											
Age-related	957	1,231	978	363	186	125	109	84	103	112	425
Child-related	55	26	61	157	201	242	204	198	187	165	150
Income-related	508	248	206	137	73	63	59	33	45	51	142
Other	181	113	186	150	68	64	63	54	45	48	97
Gross income	1,707	1,889	2,825	3,968	4,907	5,925	6,891	8,040	9,745	14,414	6,031
Direct taxes	1	17	167	548	853	1,080	1,328	1,570	1,987	3,246	1,080
Disposable income	1,706	1,871	2,658	3,420	4,054	4,845	5,563	6,470	7,758	11,168	4,951
Domestic rates (net of rebates) ¹	117	103	139	153	159	173	182	197	210	249	168
Taxes on final goods and services	164	219	364	501	631	727	819	969	1,106	1,474	697
Intermediate taxes	91	106	154	203	248	274	309	359	405	558	271
Benefits in kind											
Education	143	80	219	316	412	430	464	462	469	455	345
National Health Service	434	476	387	364	363	380	342	332	346	377	380
Welfare foods	21	10	16	32	26	33	32	31	28	23	25
Housing subsidy	179	116	115	126	127	98	93	86	74	76	109
Other allocated benefits	4	6	10	23	34	35	38	55	62	95	36
Final income	2,116	2,131	2,749	3,423	3,977	4,646	5,222	5,909	7,015	9,914	4,710
(iv) 1980											
All households											
Decile points (£)		52	760	2,762	4,591	5,928	7,180	8,520	10,073	12,923	
Number of households in the sample	694	695	694	695	694	694	695	694	695	694	694
Original income	8	329	1,640	3,774	5,255	6,557	7,821	9,263	11,311	17,579	6,353
Direct benefits in cash											
Age-related	1,134	1,373	1,160	446	260	138	94	104	112	87	491
Child-related	77	38	79	170	225	229	236	214	185	193	165
Income-related	622	329	234	182	91	72	68	50	55	66	177
Other	204	161	175	193	101	80	74	63	65	36	114
Gross income	2,046	2,229	3,289	4,765	5,932	7,077	8,293	9,694	11,718	17,961	7,300
Direct taxes	2	15	202	639	999	1,332	1,609	1,975	2,473	4,088	1,333
Disposable income	2,044	2,215	3,087	4,126	4,933	5,745	6,685	7,719	9,245	13,873	5,967
Domestic rates (net of rebates) ¹	154	141	184	195	206	212	226	236	259	325	214
Taxes on final goods and services	229	287	476	681	812	896	1,040	1,174	1,386	1,780	876
Intermediate taxes	114	135	199	257	301	334	370	424	503	675	331
Benefits in kind											
Education	232	163	222	401	471	527	575	611	594	659	446
National Health Service	571	581	542	475	487	453	439	436	426	479	489
Welfare foods	40	17	24	29	32	25	25	26	19	21	26
Housing subsidy	206	144	131	139	134	115	106	97	73	71	122
Other allocated benefits	7	9	18	38	40	55	63	68	86	132	52
Final income	2,602	2,565	3,166	4,075	4,778	5,478	6,257	7,123	8,293	12,454	5,679

¹ Together with water, etc. charges.

Average incomes, taxes and benefits, 1981

By quintile groups of original income within household type

TABLE 5

	£ per year					Average over all quintile groups
	Quintile group					
	1st	2nd	3rd	4th	5th	
(i) 1 adult retired						
Quintile points (£)	—	68	366	971		
Number of households in the sample	382 ²		192	192	191	957
Original income		12	194	600	2,710	705
Direct benefits in cash						
Age-related		1,384	1,418	1,446	1,409	1,408
Child-related		—	—	—	—	—
Income-related		535	304	137	26	307
Other		112	83	62	76	89
Gross income		2,042	2,000	2,245	4,221	2,509
Direct taxes		1	12	63	627	141
Disposable income		2,041	1,987	2,182	3,593	2,368
Domestic rates (net of rebates) ¹		182	155	166	248	187
Taxes on final goods and services		145	171	206	508	235
Intermediate taxes		113	117	126	236	141
Benefits in kind						
Education		—	—	—	—	—
National Health Service		575	590	539	545	565
Welfare foods		—	—	—	—	—
Housing subsidy		199	137	112	62	142
Other allocated benefits		5	4	8	7	6
Final income		2,380	2,275	2,343	3,215	2,518
(ii) 1 adult non-retired						
Quintile points (£)	1,711	3,948	5,656	7,910		
Number of households in the sample	120	120	119	120	120	599
Original income	565	2,966	4,741	6,725	11,250	5,250
Direct benefits in cash						
Age-related	572	562	202	91	56	297
Child-related	2	—	—	9	4	3
Income-related	698	115	20	7	1	169
Other	191	23	11	13	5	48
Gross income	2,028	3,665	4,973	6,845	11,315	5,767
Direct taxes	60	597	1,163	1,599	2,892	1,262
Disposable income	1,968	3,068	3,811	5,246	8,424	4,504
Domestic rates (net of rebates) ¹	178	205	216	238	325	233
Taxes on final goods and services	313	502	534	750	1,135	647
Intermediate taxes	150	208	229	296	406	258
Benefits in kind						
Education	234	18	36	—	—	58
National Health Service	223	203	156	151	153	177
Welfare foods	—	—	—	—	—	—
Housing subsidy	132	101	113	76	42	93
Other allocated benefits	19	22	41	49	76	41
Final income	1,935	2,497	3,178	4,236	6,830	3,736

¹ Together with water, etc. charges.² More than a fifth of these households had no original income, so the bottom group is undefined.

Average incomes, taxes and benefits, 1981

By quintile groups of original income within household type

TABLE 5 (continued)

	£ per year						Average over all quintile groups
	Quintile group						
	1st	2nd	3rd	4th	5th		
(iii) 2 adults retired							
Quintile points (£)		56	464	1,194	2,865		
Number of households in the sample	155	155	155	155	155	155	775
Original income	10	241	756	1,884	5,998		1,778
Direct benefits in cash							
Age-related	2,173	2,370	2,235	2,184	1,946		2,181
Child-related	—	—	—	—	3		1
Income-related	552	239	142	53	53		208
Other	303	146	254	284	205		239
Gross income	3,038	2,996	3,387	4,404	8,205		4,407
Direct taxes	1	17	58	275	1,492		369
Disposable income	3,037	2,979	3,329	4,129	6,713		4,038
Domestic rates (net of rebates) ¹	173	168	182	232	323		216
Taxes on final goods and services	382	384	436	594	854		530
Intermediate taxes	181	183	203	268	342		235
Benefits in kind							
Education	—	—	—	—	—		—
National Health Service	940	944	924	870	810		898
Welfare foods	—	—	—	—	—		—
Housing subsidy	182	128	115	90	34		110
Other allocated benefits	14	9	8	10	8		10
Final income	3,437	3,325	3,556	4,005	6,046		4,074
(iv) 2 adults non-retired							
Quintile points (£)		5,023	7,187	9,614	12,586		
Number of households in the sample	313	314	313	314	313	313	1,567
Original income	2,843	6,135	8,359	11,049	17,745		9,225
Direct benefits in cash							
Age-related	865	331	179	84	66		305
Child-related	7	7	3	1	4		4
Income-related	451	128	50	39	21		138
Other	289	127	84	52	40		118
Gross income	4,456	6,728	8,675	11,224	17,875		9,791
Direct taxes	459	1,256	1,835	2,523	4,321		2,079
Disposable income	3,997	5,472	6,839	8,701	13,555		7,712
Domestic rates (net of rebates) ¹	223	245	253	282	368		274
Taxes on final goods and services	646	975	1,079	1,280	1,675		1,131
Intermediate taxes	267	334	378	436	647		412
Benefits in kind							
Education	97	39	21	19	21		39
National Health Service	528	411	369	309	330		389
Welfare foods	—	—	—	—	—		—
Housing subsidy	132	126	105	55	23		88
Other allocated benefits	23	40	58	85	118		65
Final income	3,641	4,535	5,681	7,169	11,357		6,476

¹ Together with water, etc. charges.

Average incomes, taxes and benefits, 1981

By quintile groups of original income within household type

TABLE 5 (continued)

	£ per year						Average over all quintile groups
	Quintile group						
	1st	2nd	3rd	4th	5th		
(v) 2 adults, 1 child							
Quintile points (£)		5,142	6,777	8,320	11,186		
Number of households in the sample	122	122	122	122	122	122	610
Original income	2,875	6,034	7,559	9,694	15,139		8,260
Direct benefits in cash							
Age-related	219	6	27	—	—		51
Child-related	313	309	282	302	279		297
Income-related	858	76	29	38	35		207
Other	216	59	33	51	43		80
Gross income	4,481	6,484	7,929	10,085	15,497		8,895
Direct taxes	454	1,139	1,587	2,137	3,506		1,764
Disposable income	4,028	5,345	6,343	7,949	11,991		7,130
Domestic rates (net of rebates) ¹	208	245	248	291	350		268
Taxes on final goods and services	728	816	1,034	1,124	1,592		1,059
Intermediate taxes	287	321	383	430	656		415
Benefits in kind							
Education	435	356	370	411	491		413
National Health Service	683	595	556	569	497		580
Welfare foods	36	11	18	20	21		21
Housing subsidy	177	117	120	51	36		100
Other allocated benefits	59	53	66	77	117		74
Final income	4,194	5,094	5,808	7,232	10,555		6,577
(vi) 2 adults, 2 children							
Quintile points (£)		5,290	7,109	8,751	11,294		
Number of households in the sample	185	186	185	186	185		927
Original income	3,256	6,219	7,886	9,958	14,981		8,459
Direct benefits in cash							
Age-related	32	12	—	7	—		10
Child-related	520	515	510	514	495		511
Income-related	739	68	33	12	27		176
Other	121	69	32	29	21		54
Gross income	4,666	6,881	8,461	10,521	15,524		9,210
Direct taxes	515	1,129	1,632	2,195	3,437		1,781
Disposable income	4,151	5,752	6,829	8,326	12,087		7,428
Domestic rates (net of rebates) ¹	217	253	278	310	388		289
Taxes on final goods and services	854	909	1,006	1,171	1,369		1,062
Intermediate taxes	318	389	400	476	654		447
Benefits in kind							
Education	950	1,011	1,039	1,131	1,072		1,041
National Health Service	758	648	640	578	538		632
Welfare foods	87	45	46	47	52		55
Housing subsidy	187	113	76	56	35		94
Other allocated benefits	44	72	73	73	128		78
Final income	4,787	6,094	7,019	8,254	11,502		7,530

¹ Together with water, etc. charges.

Average incomes, taxes and benefits, 1981

By quintile groups of original income within household type

TABLE 5 (continued)

	£ per year						Average over all quintile groups
	Quintile group						
	1st	2nd	3rd	4th	5th		
(vii) 2 adults, 3 or more children							
Quintile points (£)		3,481	5,990	7,740	10,685		
Number of households in the sample	77	76	77	76	77	383	
Original income	1,128	5,001	6,814	9,002	15,998	7,592	
Direct benefits in cash							
Age-related	35	—	—	—	—	7	
Child-related	875	855	837	808	792	833	
Income-related	1,770	257	79	88	36	447	
Other	464	80	57	33	6	128	
Gross income	4,272	6,194	7,788	9,931	16,832	9,008	
Direct taxes	210	875	1,331	2,154	3,525	1,620	
Disposable income	4,063	5,318	6,457	7,777	13,307	7,389	
Domestic rates (net of rebates) ¹	226	213	281	291	385	279	
Taxes on final goods and services	801	820	1,070	1,072	1,785	1,111	
Intermediate taxes	334	343	427	442	833	476	
Benefits in kind							
Education	2,078	2,019	2,016	1,977	1,893	1,997	
National Health Service	816	955	840	750	743	821	
Welfare foods	295	161	70	77	91	139	
Housing subsidy	257	193	177	157	61	169	
Other allocated benefits	28	37	57	76	168	73	
Final income	6,176	7,309	7,839	9,009	13,260	8,722	
(viii) 3 or more adults with no children							
Quintile points (£)		6,335	10,180	13,055	17,110		
Number of households in the sample	171	170	171	170	171	853	
Original income	3,665	8,384	11,702	14,873	22,117	12,149	
Direct benefits in cash							
Age-related	1,349	476	383	223	124	512	
Child-related	36	48	39	50	43	43	
Income-related	844	307	233	178	128	338	
Other	587	199	180	80	67	223	
Gross income	6,481	9,415	12,537	15,405	22,479	13,265	
Direct taxes	689	1,724	2,622	3,524	5,489	2,810	
Disposable income	5,793	7,691	9,916	11,881	16,990	10,455	
Domestic rates (net of rebates) ¹	216	260	303	315	388	296	
Taxes on final goods and services	1,038	1,407	1,582	2,156	2,531	1,743	
Intermediate taxes	373	483	588	695	885	605	
Benefits in kind							
Education	611	351	483	388	514	470	
National Health Service	852	598	609	596	594	650	
Welfare foods	3	4	1	2	1	2	
Housing subsidy	153	116	117	124	67	115	
Other allocated benefits	30	46	89	108	148	84	
Final income	5,815	6,657	8,740	9,933	14,511	9,133	

¹ Together with water, etc. charges.

Average incomes, taxes and benefits, 1981

By quintile groups of original income within household type

TABLE 5 (continued)

	£ per year						Average over all quintile groups
	Quintile group						
	1st	2nd	3rd	4th	5th		
(ix) 3 or more adults with children							
Quintile points (£)		6,338	9,432	11,761	15,054		
Number of households in the sample	128	128	127	128	128	128	639
Original income	3,453	8,007	10,581	13,227	20,582		11,171
Direct benefits in cash							
Age-related	319	207	84	89	150		170
Child-related	557	487	471	457	438		482
Income-related	1,378	270	385	162	116		462
Other	761	170	107	94	112		249
Gross income	6,469	9,140	11,628	14,029	21,398		12,534
Direct taxes	557	1,517	2,186	3,073	4,975		2,462
Disposable income	5,912	7,623	9,442	10,957	16,424		10,073
Domestic rates (net of rebates) ¹	241	259	286	317	371		295
Taxes on final goods and services	1,064	1,348	1,637	1,840	2,389		1,656
Intermediate taxes	412	519	610	681	883		621
Benefits in kind							
Education	1,726	1,824	1,674	1,546	1,538		1,661
National Health Service	863	682	709	711	752		743
Welfare foods	131	52	48	53	45		66
Housing subsidy	203	156	116	122	108		141
Other allocated benefits	54	53	63	83	141		80
Final income	7,172	8,264	9,524	10,633	15,365		10,193
(x) 1 adult with children							
Quintile points (£)		—	856	3,360	5,325		
Number of households in the sample	43	43	43	43	43	43	215
Original income	—	284	2,152	4,227	10,212		3,375
Direct benefits in cash							
Age-related	33	290	227	173	158		176
Child-related	548	480	574	595	440		527
Income-related	2,035	1,798	690	125	78		945
Other	—	157	23	45	17		48
Gross income	2,616	3,010	3,666	5,165	10,904		5,072
Direct taxes	—	7	143	608	1,455		443
Disposable income	2,616	3,003	3,523	4,557	9,449		4,630
Domestic rates (net of rebates) ¹	242	223	203	244	299		242
Taxes on final goods and services	290	457	434	561	775		503
Intermediate taxes	167	247	242	296	407		272
Benefits in kind							
Education	1,120	1,273	1,241	1,497	940		1,214
National Health Service	434	397	380	359	344		383
Welfare foods	229	194	163	110	61		151
Housing subsidy	290	203	238	230	126		217
Other allocated benefits	7	38	12	36	64		31
Final income	3,998	4,181	4,676	5,688	9,503		5,609

¹ Together with water, etc. charges.

Average incomes, taxes and benefits, 1981

By decile groups of households ranked by original income

TABLE 6

	£ per year										Average over all decile groups
	Decile group										
	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th	
Decile points (£)	68	837	2,901	4,935	6,416	7,853	9,535	11,547	14,589		
Original income											
Earnings of main earner	1	62	729	2,957	4,633	5,676	6,536	7,392	8,444	12,375	4,880
Other earnings	—	—	33	145	495	933	1,591	2,543	3,575	6,336	1,565
Occupational pensions, annuities	1	166	584	484	228	232	197	235	260	320	271
Investment income	8	135	328	322	245	231	268	304	521	942	330
Other income	1	26	103	110	120	59	61	64	97	222	86
Total	10	390	1,778	4,017	5,721	7,131	8,652	10,538	12,898	20,195	7,132
Cash benefits											
Child benefit	101	52	111	198	246	249	247	238	198	197	184
Retirement and old persons' pension	1,201	1,503	1,204	514	246	186	143	102	125	91	532
Widows' pension	34	55	77	93	32	35	22	12	9	11	38
Disablement and war disability pension	14	21	25	5	3	10	6	4	9	8	11
Invalidity pension and allowance	88	89	104	90	60	16	9	19	9	7	49
Mobility allowance	8	9	10	8	6	5	6	7	3	3	6
Non-contributory invalidity pension	12	12	4	7	2	—	—	3	—	2	4
Housewives non-contributory invalidity pension	2	—	1	2	2	1	2	3	1	1	2
Invalid care allowance	1	1	2	—	—	—	1	—	—	—	1
Attendance allowance	22	16	19	19	9	7	5	7	3	9	12
Unemployment benefit/TOPS etc awards	71	51	157	112	71	65	39	60	56	37	72
Sickness/Industrial injury benefit	8	10	24	32	32	34	35	32	27	24	26
Industrial injury disablement pension	19	27	20	10	14	4	5	6	6	4	11
Family income supplement	2	1	12	9	4	1	—	1	—	1	3
Supplementary benefit	788	252	174	113	45	43	20	39	19	19	151
Maternity allowance	2	1	4	10	12	11	7	11	6	4	7
Death grant	1	1	1	—	—	—	—	—	—	—	—
Maternity grant	—	—	1	2	2	1	1	1	1	—	1
Rent rebates and allowances	47	89	54	34	11	6	4	1	3	—	25
Student maintenance grants	33	14	24	13	14	8	14	13	15	22	17
Christmas bonus for pensioners	9	11	10	5	2	2	1	1	1	1	4
Other cash benefits	40	15	17	13	11	3	1	—	—	3	10
Total	2,503	2,232	2,055	1,290	826	688	570	559	490	445	1,166
Gross income	2,514	2,621	3,833	5,307	6,547	7,819	9,222	11,096	13,388	20,639	8,298
Direct taxes	1	27	244	751	1,123	1,477	1,898	2,333	3,007	4,882	1,574
Disposable income	2,512	2,594	3,589	4,556	5,424	6,342	7,324	8,764	10,380	15,757	6,723
Indirect taxes	646	657	1,016	1,267	1,485	1,676	1,835	2,075	2,494	3,316	1,646
Benefits in kind	1,176	1,033	1,101	1,277	1,364	1,337	1,340	1,359	1,324	1,432	1,274
Final income	3,042	2,971	3,675	4,566	5,304	6,003	6,829	8,048	9,210	13,873	6,351

Average incomes, taxes and benefits, 1981

By decile groups of households ranked by gross income

TABLE 7

	£ per year										Average over all decile groups
	Decile group										
	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th	
Decile points (£)	2,318	3,303	4,609	5,984	7,254	8,562	10,163	12,106	15,151		
Number of households in the sample	753	752	753	752	753	752	753	752	753	752	7,525
Original income	234	628	1,864	3,936	5,618	7,060	8,558	10,449	12,864	20,118	7,132
Cash benefits											
Age-related	1,180	1,434	1,110	577	364	258	283	207	163	164	574
Child-related	25	67	144	229	256	263	251	248	220	213	192
Income-related	389	542	558	346	204	166	135	109	127	106	268
Other	56	130	235	210	172	152	100	92	85	88	132
Total	1,650	2,173	2,048	1,362	995	839	768	657	594	572	1,166
Gross income	1,883	2,801	3,912	5,298	6,613	7,899	9,326	11,106	13,459	20,690	8,298
Direct taxes											
Income tax	24	61	225	540	819	1,111	1,438	1,787	2,386	4,078	1,247
National Insurance contributions	5	13	62	180	277	358	439	531	621	789	328
Disposable income	1,855	2,727	3,624	4,577	5,517	6,430	7,450	8,788	10,452	15,823	6,723
Indirect taxes											
Domestic rates (net of rebates) ¹	168	186	212	233	248	262	274	294	325	386	259
Taxes on final goods and services											
VAT	98	155	237	328	392	474	540	617	767	1,100	471
Duty on tobacco	43	80	122	160	166	194	174	179	194	216	153
Duty on beer	7	18	27	46	57	70	77	85	106	133	63
Duty on wines	3	5	9	12	14	17	23	27	38	66	21
Duty on spirits	8	15	26	35	40	43	62	68	98	131	53
Duty on hydrocarbon oils	11	22	44	66	88	107	123	137	168	212	98
Car tax	1	2	5	9	13	14	15	24	29	41	15
Vehicle excise duty	7	13	22	31	40	44	48	55	62	77	40
Television licences	19	21	24	26	28	28	29	30	31	32	27
Stamp duty on house purchase	1	2	3	4	5	8	11	16	20	29	10
Protective duties	8	11	16	21	24	29	32	36	44	59	28
Other	7	11	16	16	19	22	24	26	29	28	20
Intermediate taxes											
Commercial and industrial rates	40	54	71	91	102	118	130	146	178	244	117
Employers' NI contributions	64	86	115	148	168	195	214	240	296	408	193
Duty on hydrocarbon oils	18	24	31	40	44	51	54	60	76	105	50
Motor vehicle duties	5	7	9	11	13	15	16	18	23	32	15
Other	5	7	9	12	13	15	17	19	23	30	15
Total indirect taxes	512	718	995	1,289	1,473	1,706	1,862	2,077	2,505	3,329	1,646
Benefits in kind											
Education	69	140	358	517	592	682	640	685	663	706	505
Welfare foods	7	20	39	42	28	28	27	24	21	22	26
National Health Service	531	678	644	594	566	555	535	518	539	577	574
Housing subsidy	138	161	157	132	136	112	95	74	79	61	115
Rail travel subsidy	4	4	5	13	8	11	16	18	32	55	16
Option mortgage scheme	3	2	7	10	14	17	18	27	15	16	13
Life assurance premium relief	4	6	10	17	19	25	29	34	42	72	26
Total	755	1,011	1,219	1,325	1,363	1,429	1,361	1,381	1,391	1,511	1,274
Final income	2,097	3,021	3,848	4,614	5,407	6,153	6,948	8,092	9,338	14,005	6,351

¹ Together with water, etc. charges.

Distribution of households co-operating in the Family Expenditure Survey, 1981

By decile groups of households ranked by original, gross, disposable and final incomes

TABLE 8

	1 adult		2 adults		2 adults with children			3 or more adults		1 adult with children	All households
	Retired	Non-retired	Retired	Non-retired	1 child	2 children	3 or more children	With no children	With children		
Decile groups of original income											
Bottom	384	41	163	19	15	19	32	11	10	59	753
2nd	357	42	246	26	10	11	9	15	10	26	752
3rd	165	90	212	102	31	32	25	29	28	39	753
4th	33	149	78	153	54	95	44	62	42	42	752
5th	8	85	22	211	104	139	69	56	40	19	753
6th	1	69	19	211	109	160	57	57	55	14	752
7th	3	55	16	211	98	158	49	79	78	6	753
8th	3	35	6	223	83	145	36	106	110	5	752
9th	1	22	12	229	64	94	29	179	122	1	753
Top	2	11	1	182	42	74	33	259	144	4	752
Total	957	599	775	1,567	610	927	383	853	639	215	7,525
Decile groups of gross income											
Bottom	601	85	15	16	4	5	5	1	1	20	753
2nd	232	68	304	42	18	18	8	2	3	57	752
3rd	76	105	245	104	40	54	32	28	14	55	753
4th	26	112	90	184	74	112	57	31	31	35	752
5th	9	71	43	212	116	131	61	50	41	19	753
6th	4	55	23	197	103	151	60	80	67	12	752
7th	2	45	20	218	77	146	54	103	83	5	753
8th	2	29	18	223	76	141	38	110	109	6	752
9th	3	18	13	208	62	95	33	181	136	2	753
Top	2	11	4	163	40	74	35	267	152	4	752
Total	957	599	775	1,567	610	927	383	853	639	215	7,525
Decile groups of disposable income											
Bottom	586	95	11	21	5	6	8	1	2	18	753
2nd	270	104	258	35	14	12	5	2	4	48	752
3rd	57	117	251	117	45	61	23	18	8	56	753
4th	24	87	110	197	82	100	55	33	21	43	752
5th	9	65	61	207	110	132	65	48	41	15	753
6th	1	48	31	200	107	155	65	66	63	16	752
7th	4	35	15	218	70	156	58	114	80	3	753
8th	3	20	22	227	79	134	32	115	112	8	752
9th	2	23	12	198	55	90	34	190	145	4	753
Top	1	5	4	147	43	81	38	266	163	4	752
Total	957	599	775	1,567	610	927	383	853	639	215	7,525
Decile groups of final income											
Bottom	460	153	41	57	8	13	3	5	3	10	753
2nd	339	128	154	71	19	11	3	6	—	21	752
3rd	117	100	244	153	39	32	6	20	7	35	753
4th	24	83	164	245	91	58	9	38	8	32	752
5th	8	54	89	233	108	112	25	62	20	42	753
6th	2	22	37	217	103	149	40	106	43	33	752
7th	3	25	18	182	85	160	67	122	76	15	753
8th	3	19	11	173	67	164	85	109	109	12	752
9th	—	12	11	134	54	135	76	167	157	7	753
Top	1	3	6	102	36	93	69	218	216	8	752
Total	957	599	775	1,567	610	927	383	853	639	215	7,525