

## GDP and Household Incomes: What's happened to UK living standards?

One important measure of the size and health of a country's economy is its gross domestic product or GDP for short. GDP is the total value of all the goods produced and services provided over a given period. The Office for National Statistics (ONS) calculates it every quarter by collecting data from thousands of UK companies. In 2022 the UK's GDP was about £2,414 billion. This meant it was the 6th largest economy in the world after the United States, China, Japan, Germany and India.<sup>1</sup>

An even more important measure of an economy's health is GDP per person. This is the country's GDP divided by its population and it gives an insight into people's standard of living. In 1950 the UK was ranked sixth among the world's advanced economies for GDP per person.<sup>2</sup> By 1980 the UK had dropped to 16<sup>th</sup> place,<sup>3</sup> even though its GDP per person had risen by 75% from £10,254 to £17,905.<sup>4</sup> What happened was that in the 1950s and 1960s Britain had been caught up and overtaken by a number of European countries. During that period these countries had particularly high rates of growth of GDP per person – France 4%, Germany 5%, Italy 5% and Japan 8%. Britain's growth rate, although impressive by today's standards, was only 2.5%.<sup>2</sup> *"Britain was, for most of the 1950s and 1960s, like the USA, a leader being caught up by Western European laggards....."*<sup>5</sup> Since 1980 the UK's ranking among advanced economies has continued to decline. By 1997 the UK had fallen to 19<sup>th</sup> place and in 2019 and again in 2022 it was ranked 21.<sup>3</sup>

**Table 1:** Average yearly % increase in GDP per person: Conservative and Labour governments 1955-2019

1956 - 1964	Conservative – Anthony Eden (from April 1955), Harold Macmillan (from January 1957), Sir Alex Douglas-Home (from October 1963)	2.64%
1965 - 1969	Labour – Harold Wilson (from October 1964)	2.20%
1970 - 1974	Conservative - Ted Heath (from June 1970)	2.64%
1975 - 1979	Labour – Harold Wilson (from October 1974), James Callaghan (from October 1976)	2.30%
1980 - 1997	Conservative – Margaret Thatcher (from May 1979), John Major (from November 1990)	1.82%
1998 - 2010	Labour – Tony Blair (from May 1997) Gordon Brown (from June 2007)	1.33%
2011 - 2019	Conservative – David Cameron (from May 2010) Theresa May (from July 2016) Boris Johnston (from December 2019) Liz Truss (from September 2022) Rishi Sunak (from October 2022)	1.28%

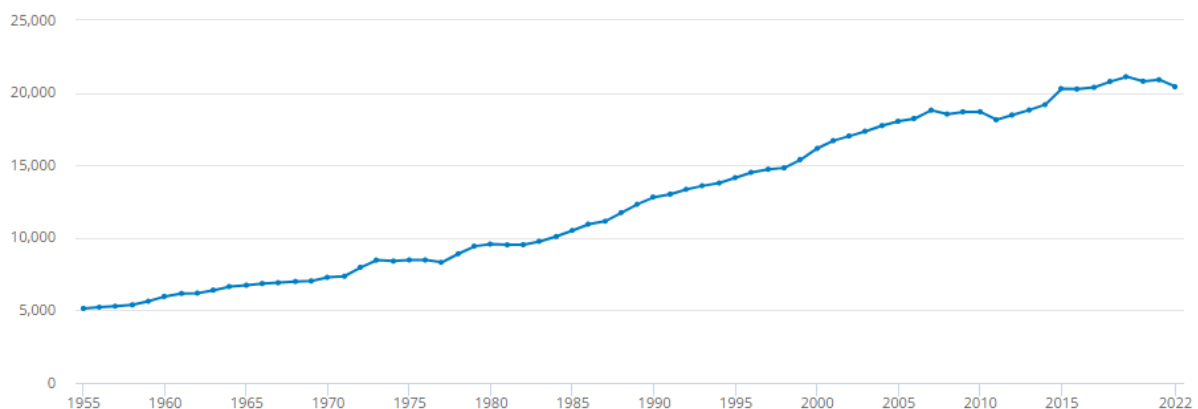
The tables <sup>6</sup> show the average percentage increases in GDP per person between 1955 and 2019 just before the pandemic. Table 1 shows the average percentage increases for the periods of Conservative and Labour governments. Table 2 compares the average increases across the whole periods 1956 to 1979 and 1980 to 2019, as well as the 1970s and 1980s.

**Table 2:** Average yearly % increase in GDP per person

1956 – 1979		2.44%
1980 – 2019		1.48%
1970 - 1979		2.47%
1980 - 1989		2.16%

The period up to 1979 saw the largest increases - the average increase for the whole of the period 1956 to 1979 was 2.44%. As one economic historian has written: “*For a quarter of a century or so after the Second World War the British people enjoyed full employment, no major recessions and the fastest rate of economic growth ever experienced, as well as its most egalitarian distribution.*”<sup>7</sup> The period from 1980 onwards saw the growth of GDP per person gradually getting smaller - it reached 1.28% between 2011 and 2019. The average increase for the whole of the period 1980 to 2019 was 1.48%. The 1970s saw an increase of 2.47% compared to the 1980s which was 2.16%.<sup>6</sup>

### Real Disposable Income per person 1955 - 2022



Another measure of living standards is real disposable income per person. It tells us what households have available to spend after taxes have been deducted and benefits added. It also takes account of inflation. The chart<sup>8</sup> shows disposable income per person from 1955 to 2022. In 1955 disposable income per person was £5,131. It rose continuously from then through to 1973 reaching £8,461 before falling for the first time in 1974. It fell again in 1976 and 1977 then rose by 7.1% in 1978 and 5.8% in 1979 to reach £9,421.

In the 50 years or so between 1955 and 2010 real disposable income per person fell on only 5 occasions.<sup>9</sup> Since 2010 however it has already fallen on four occasions – in 2011 by 2.9%, 2016 by 0.2%, 2020 by 1.5% and in 2022 by 2.3% - and is expected to fall again in 2023. The turning point for disposable incomes appears to have been around 2001/2 at the start of New Labour’s second term in office. Taxes were increased to fund increased spending on public services, which benefitted households and individuals but slowed down the growth of disposable income.<sup>10</sup> Since 2001 annual percentage growth has been around 1% compared to 2.7% in each of the periods 1955 to 1979 and 1979 to 2001. Between 2001 and 2022 real disposable income per person has grown from £16,699 to £20,417, an increase of 22%. This compares with an increase of 62% and 63% respectively in the two periods since 1955.<sup>11</sup>

The fall of 2.3% in 2022 and the expected fall in 2023 will represent the largest two-year fall in real living standards since records began in 1956. The Office for Budget Responsibility (OBR) expects real disposable income per person to recover somewhat by 2028 but it will still be over 0.5% below the level it was in 2020 before the pandemic.<sup>12</sup>

Household incomes in the UK are now below those in other European countries such as Germany, Netherlands, France, Denmark and Ireland. Although the top 10% of households in Britain, those earning around £62,500 a year, have higher incomes than the top 10% in these European countries, middle and low-income households have lower incomes. The typical income in Germany is 19% higher than in the UK, and in France it is 10% higher. Ireland has overtaken the UK to be 6 per cent higher, and Finland and the Netherlands have also overtaken the UK.<sup>13</sup>

## References

1. Gross Domestic Product (GDP), Trading Economics, December 2022  
<https://tradingeconomics.com/country-list/gdp>
2. The British Economy since 1945, Roger Middleton (2000) pages 3-6 and Table 1.1 on page 4, panel B Real GDP per capita
3. World Economic Outlook Database, International Monetary Fund (IMF) April 2023; gross domestic product per capita, current prices, purchasing power parity, covering 41 advanced economies [International Monetary Fund](https://www.imf.org/en/Data/Tables/WEO/WeoData.aspx)
4. Gross domestic product (Average) per head, ONS May 2023  
<https://www.ons.gov.uk/economy/grossdomesticproductgdp/timeseries/ihxw/pn2>
5. Managing the Economy, Managing the People: Narratives of Economic Life in Britain from Beveridge to Brexit, Jim Tomlinson (2017) page 46
6. Gross domestic product (average) per head, year on year growth rate, Office for National Statistics, 30 June 2023. Averages in tables calculated by the authors.  
<https://www.ons.gov.uk/economy/grossdomesticproductgdp/timeseries/n3y6/ukeya>
7. The British Economy since 1945, page 25
8. Households: Real disposable Income per head, ONS 30 June 2023  
<https://www.ons.gov.uk/economy/grossdomesticproductgdp/timeseries/crxx/ukeya>
9. Households: Real Disposable Income per head, year on year growth rate, ONS 30 June 2023  
<https://www.ons.gov.uk/economy/grossdomesticproductgdp/timeseries/crxy/ukeya>
10. Poverty and Inequality in the UK: 2010, Institute for Fiscal Studies, May 2010, pages 10 and 11, and Figure 2.5  
[https://ifs.org.uk/sites/default/files/output\\_url\\_files/comm116.pdf](https://ifs.org.uk/sites/default/files/output_url_files/comm116.pdf)
11. Are you better off today? Real income growth under different governments since 1955, Adam Corlett, Resolution Foundation November 2021, Table 1: Real household disposable income per person by parliament  
<https://www.resolutionfoundation.org/publications/are-you-better-off-today/>
12. Economic and fiscal outlook, Office for Budget Responsibility (OBR), March 2023 pages 43 and 44 [https://obr.uk/docs/dlm\\_uploads/OBR-EFO-March-2023\\_Web\\_Accessible.pdf](https://obr.uk/docs/dlm_uploads/OBR-EFO-March-2023_Web_Accessible.pdf)
13. The Living Standards Audit, Resolution Foundation, July 2022, page 20 and Figure 4  
<https://www.resolutionfoundation.org/app/uploads/2022/07/Living-Standards-Audit-2022.pdf>

## Notes

1. Averages for GDP per person have been calculated up to 2019. The pandemic and ensuing lockdown which began in March 2020 resulted in GDP per person falling by 11.4%, although it rebounded by 7.2% in 2021. Calculations based on this would have given an even lower value for the period 1980 onwards and 2011 onwards. The 1980-2022 figure would have been 1.33% and the 2011-2022 figure would have been 1.08%.
2. In her autobiography, Margaret Thatcher summarised the period from the end of the second world war until she became Prime Minister in 1979. She wrote: *“No theory of government was ever given a fairer test or a more prolonged experiment in a democratic country than democratic socialism received in Britain. Yet it was a miserable failure in every respect”*.  
‘The Downing Street Years’, Margaret Thatcher (1993) page 7
3. The higher rates of growth of GDP per person before 1979 were achieved with policies which after 1979 were regarded as bad for economic growth – high income tax rates particularly the top rate of tax, wage and price controls, fixed exchange rates, greater public ownership, as well as a much worse record of strikes and industrial disputes. The policies introduced by the Conservatives after 1979 included low personal taxes, fewer financial controls and regulations, restrictions on the activities of trade unions and privatisation.  
See ‘The Macroeconomic Impact of Liberal Economic Policies in the UK’, Ken Coutts and Graham Gudgin (2015) pages 16-17