

Living standards, poverty and inequality in the UK: 2018

20 June 2018

<http://www.ifs.org.uk>

 @TheIFS #livingstandards

 Institute for Fiscal Studies

Wifi details:

Network name: **The Building Centre**
(Open network)

Living standards and income inequality

Jonathan Cribb

What do we mean by “income”?

Income is measured:

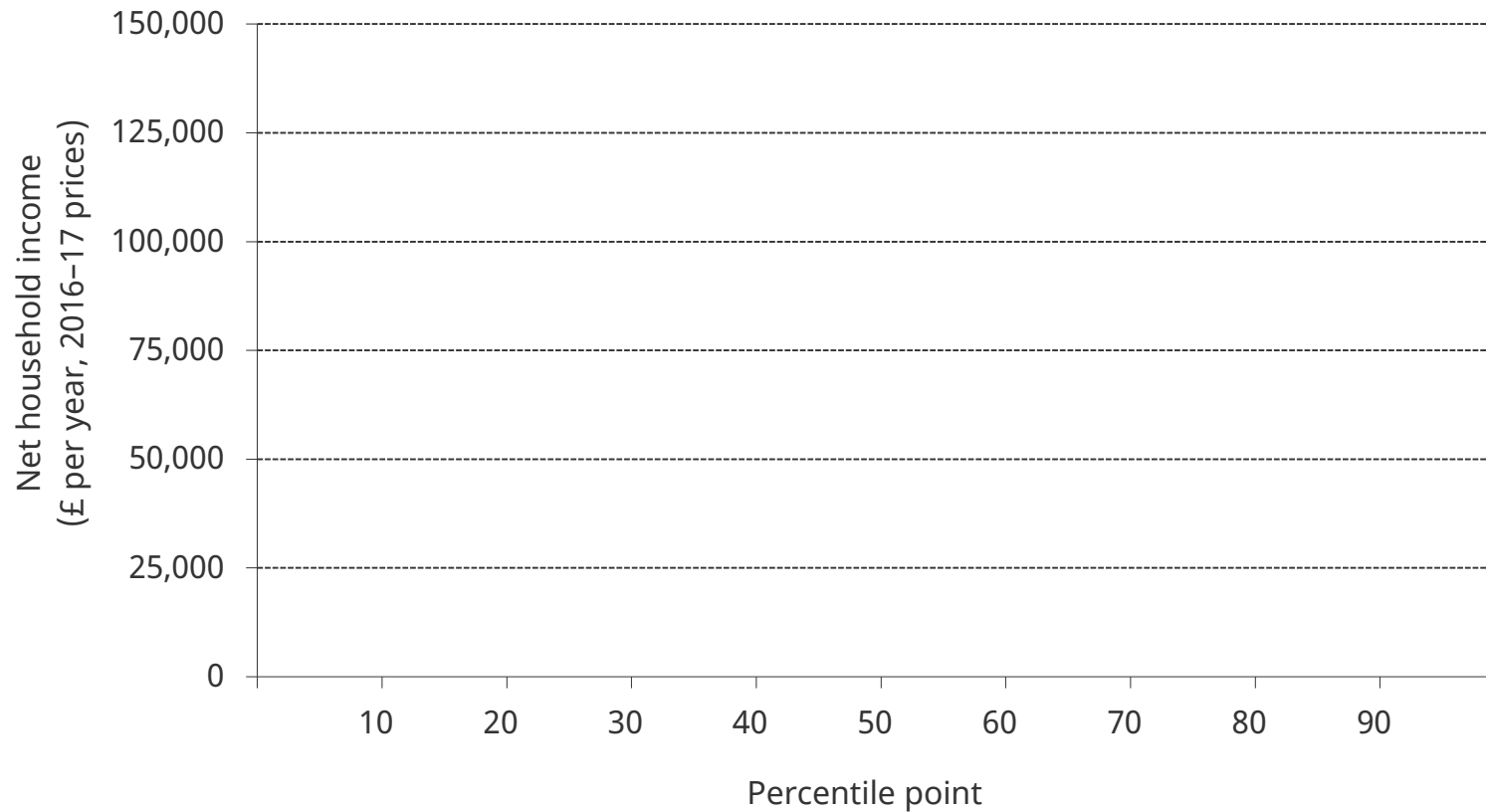
- Net of direct taxes and benefits
- At the household level
- Before and after housing costs have been deducted (“BHC” and “AHC”)

Income is adjusted to account for:

- Differences in household size and structure (“equivalisation”)
- Inflation over time (using variants of the CPI)

Latest official income data – based on a survey of 20,000 households – are available for 2016–17

The UK income distribution in 2016-17



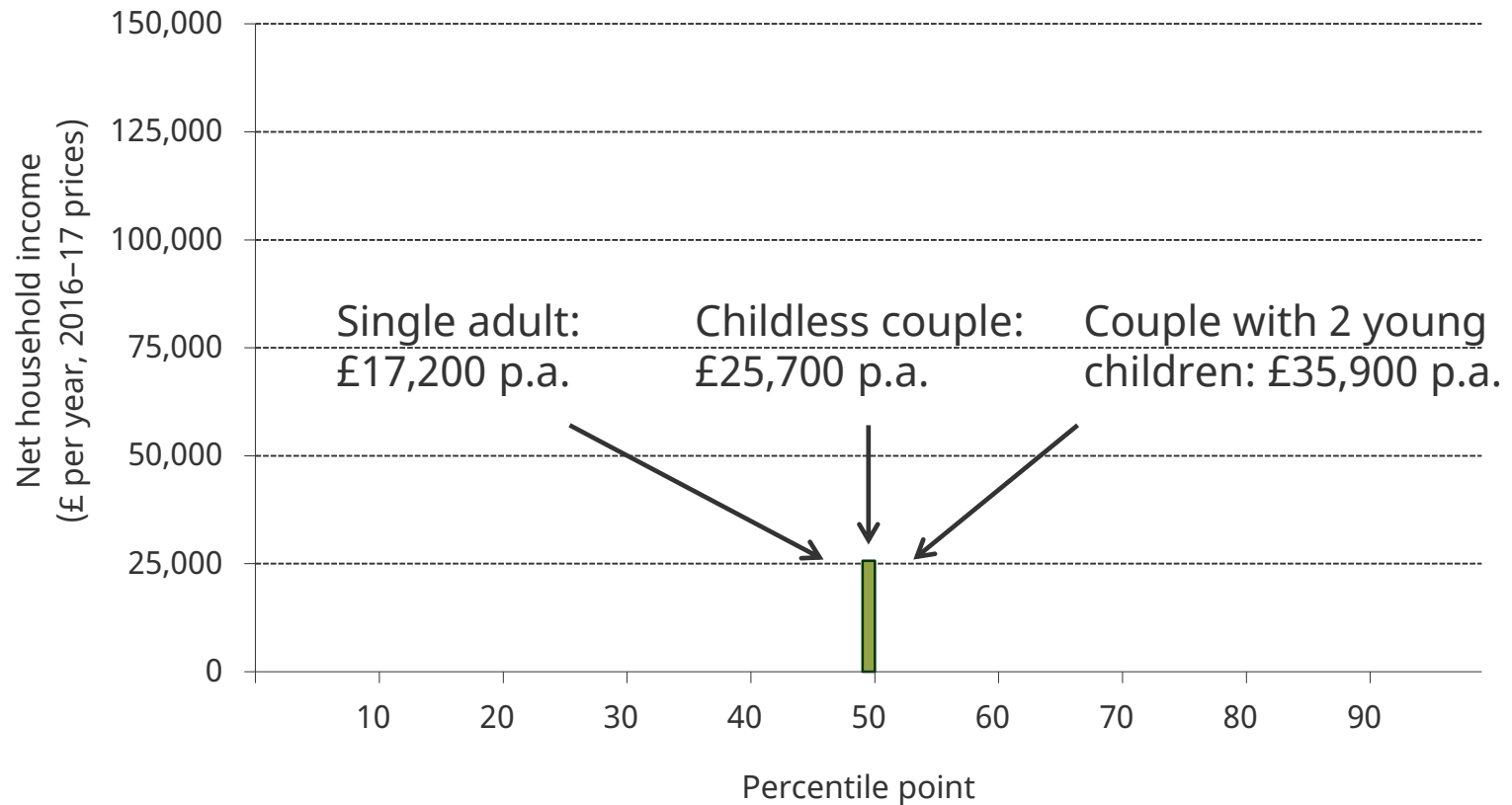
Source: Figure 3.1 of *Living Standards, Poverty and Inequality in the UK: 2018*

The UK income distribution in 2016-17



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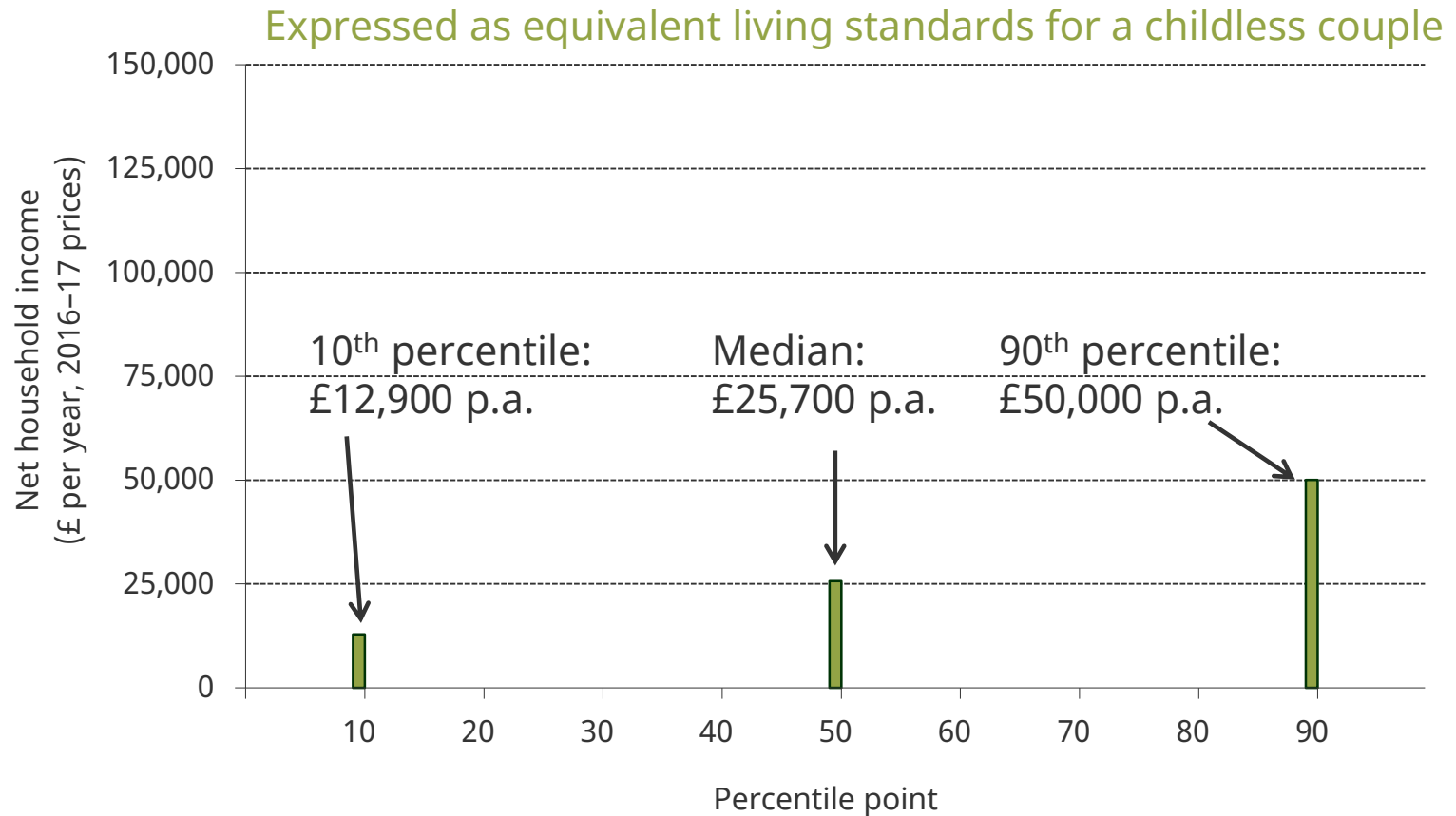
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The UK income distribution in 2016-17



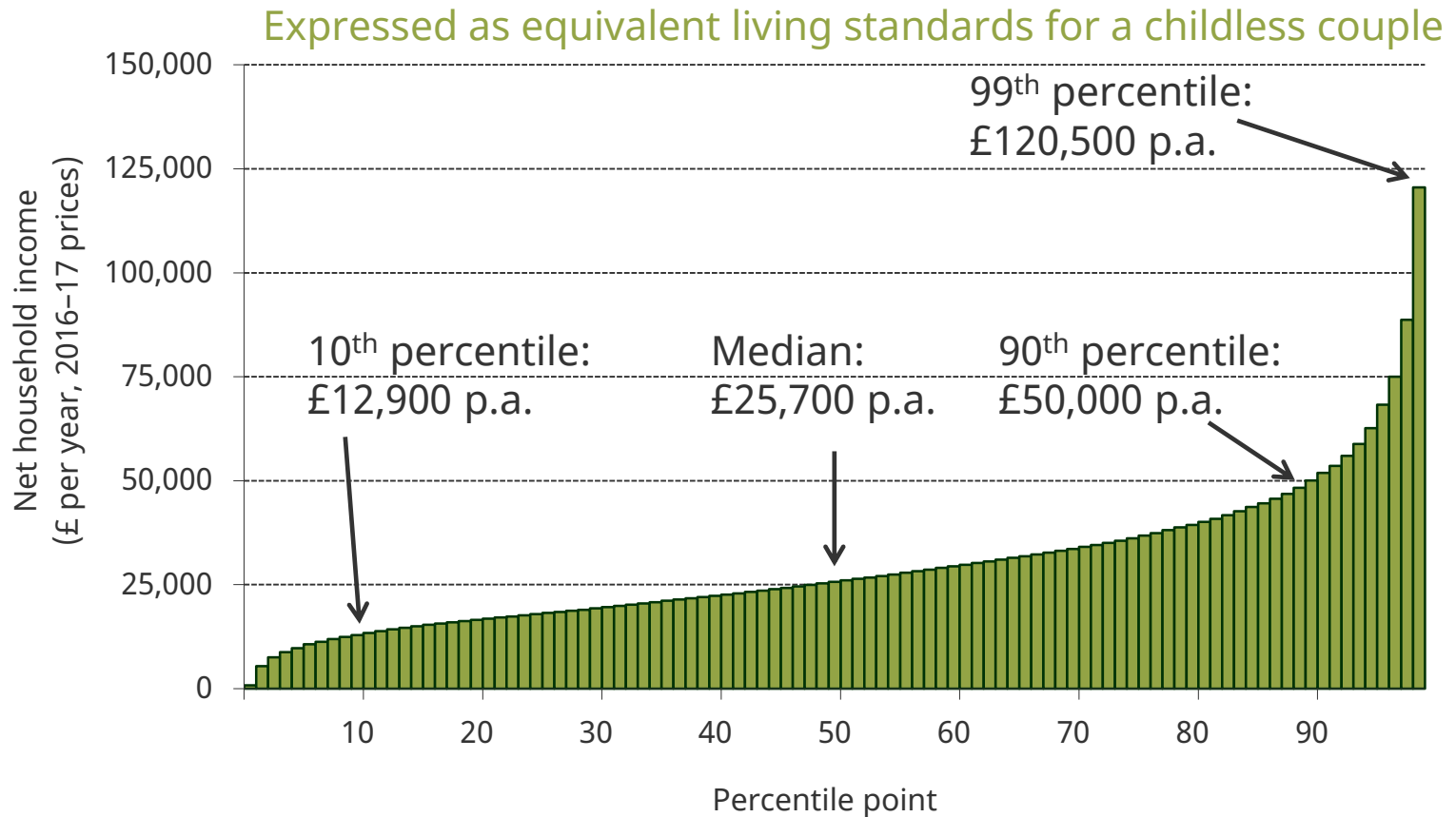
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This presentation

What has happened to average incomes in recent years?

- What has driven recent income growth?
- How has average income growth compared to previous periods?
- How has it differed for working age people and pensioners?

How has income growth differed for high and low income people?

- What implications has that had for income inequality?
- What has driven recent changes in income inequality?

This presentation

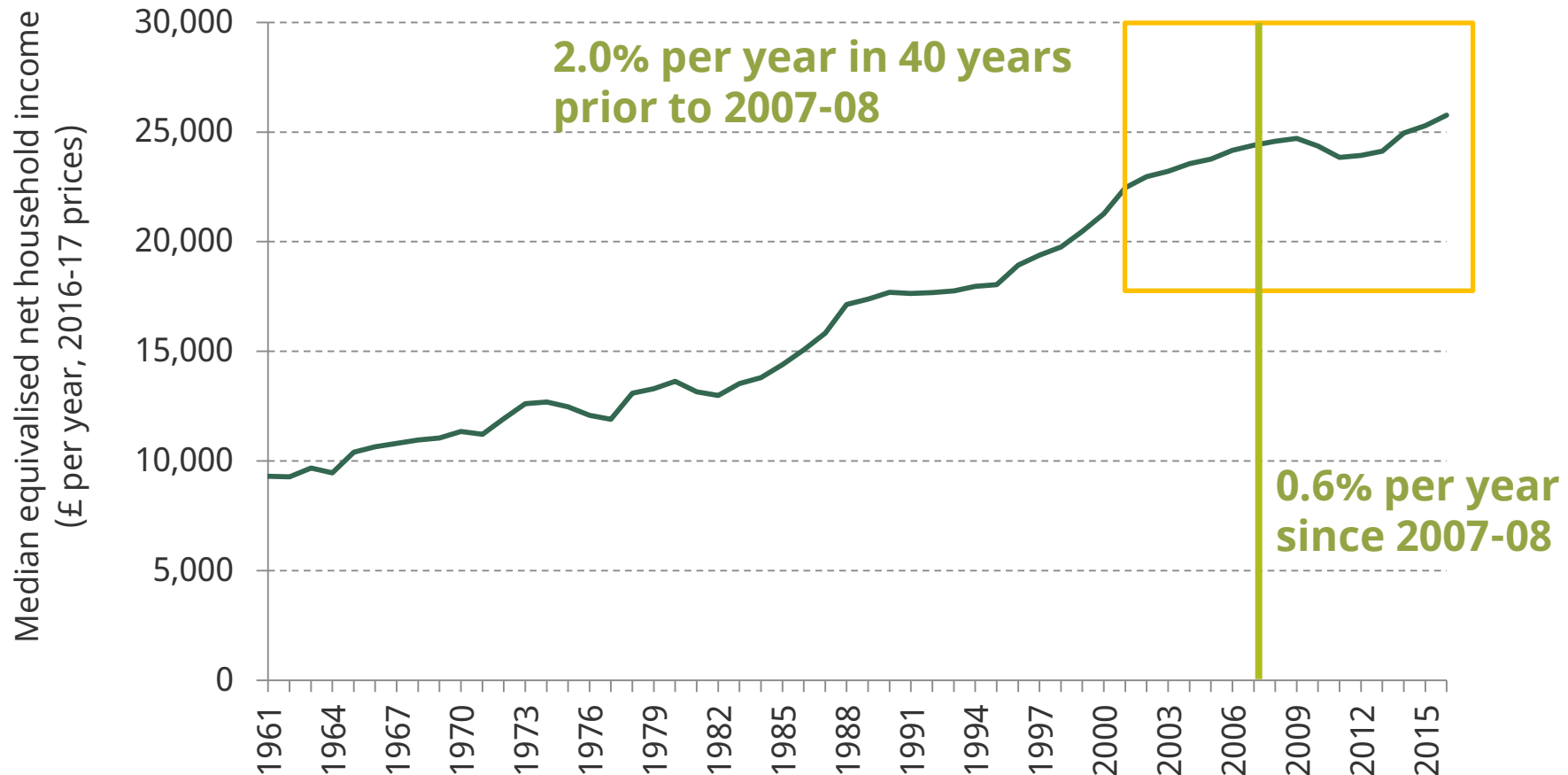
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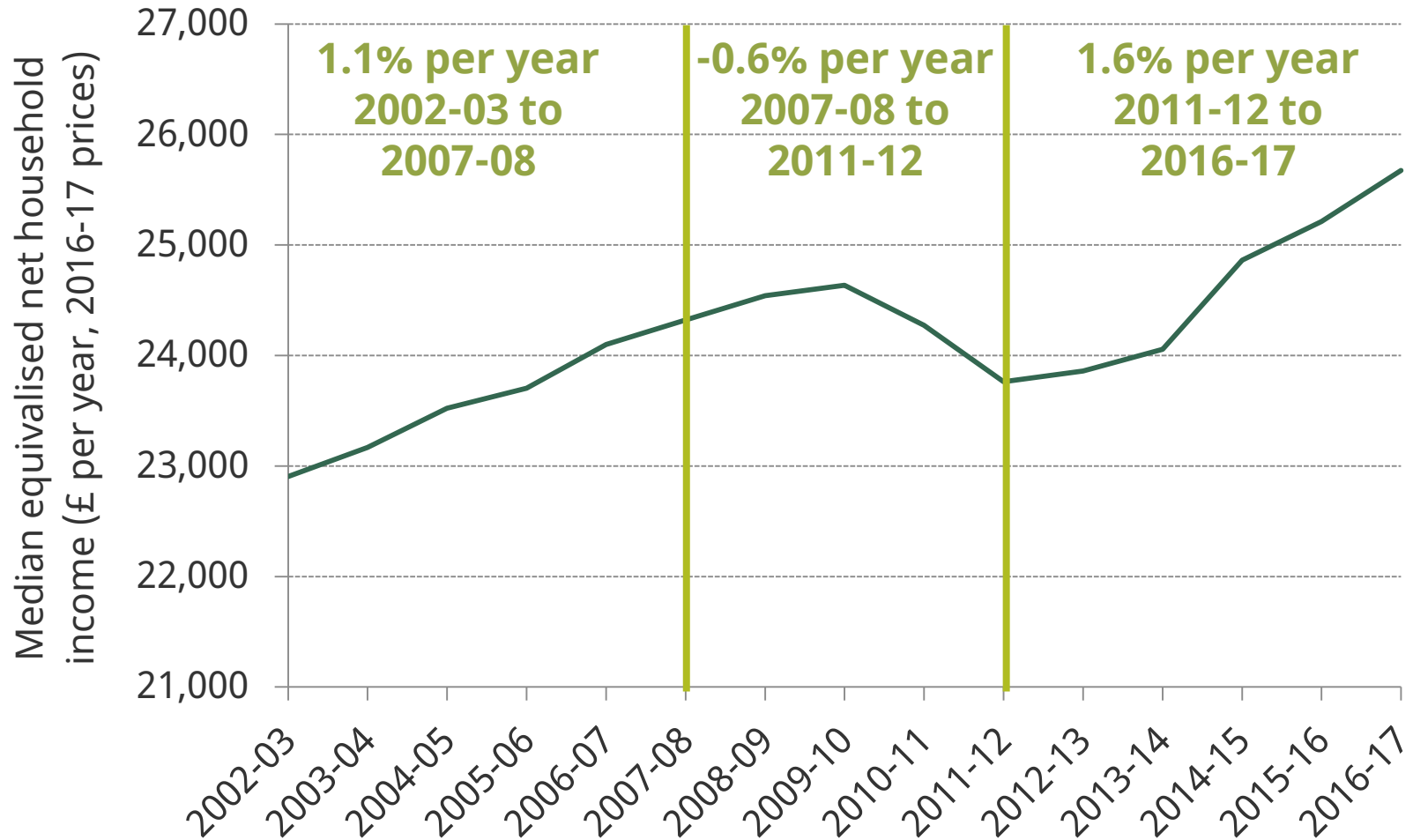
Median income in Britain since the 1960s



Note: Great Britain only

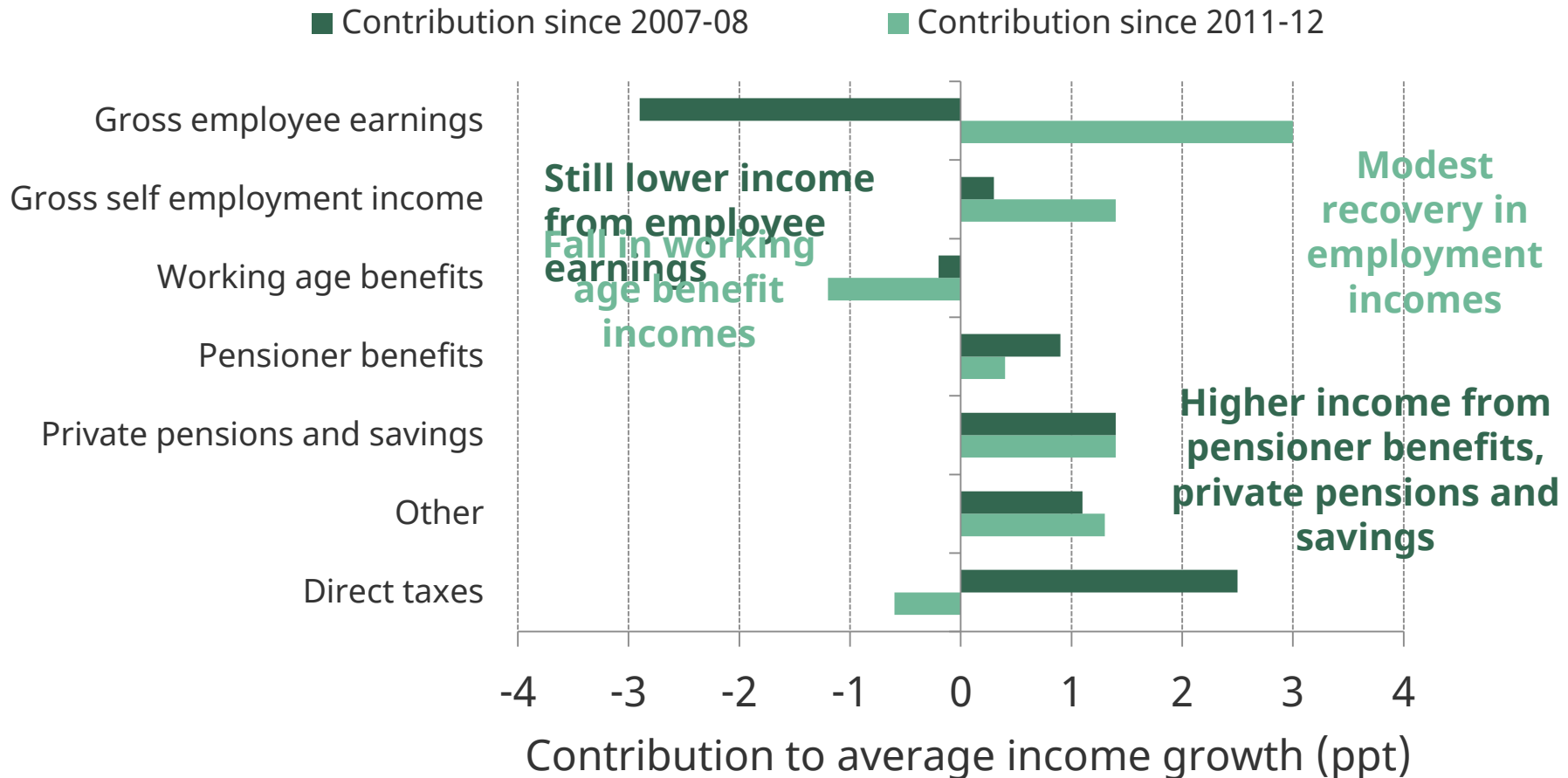
Source: Authors calculations using the Family Expenditure Survey and Family Resources Survey, various years.

Median income in the UK since 2002-03



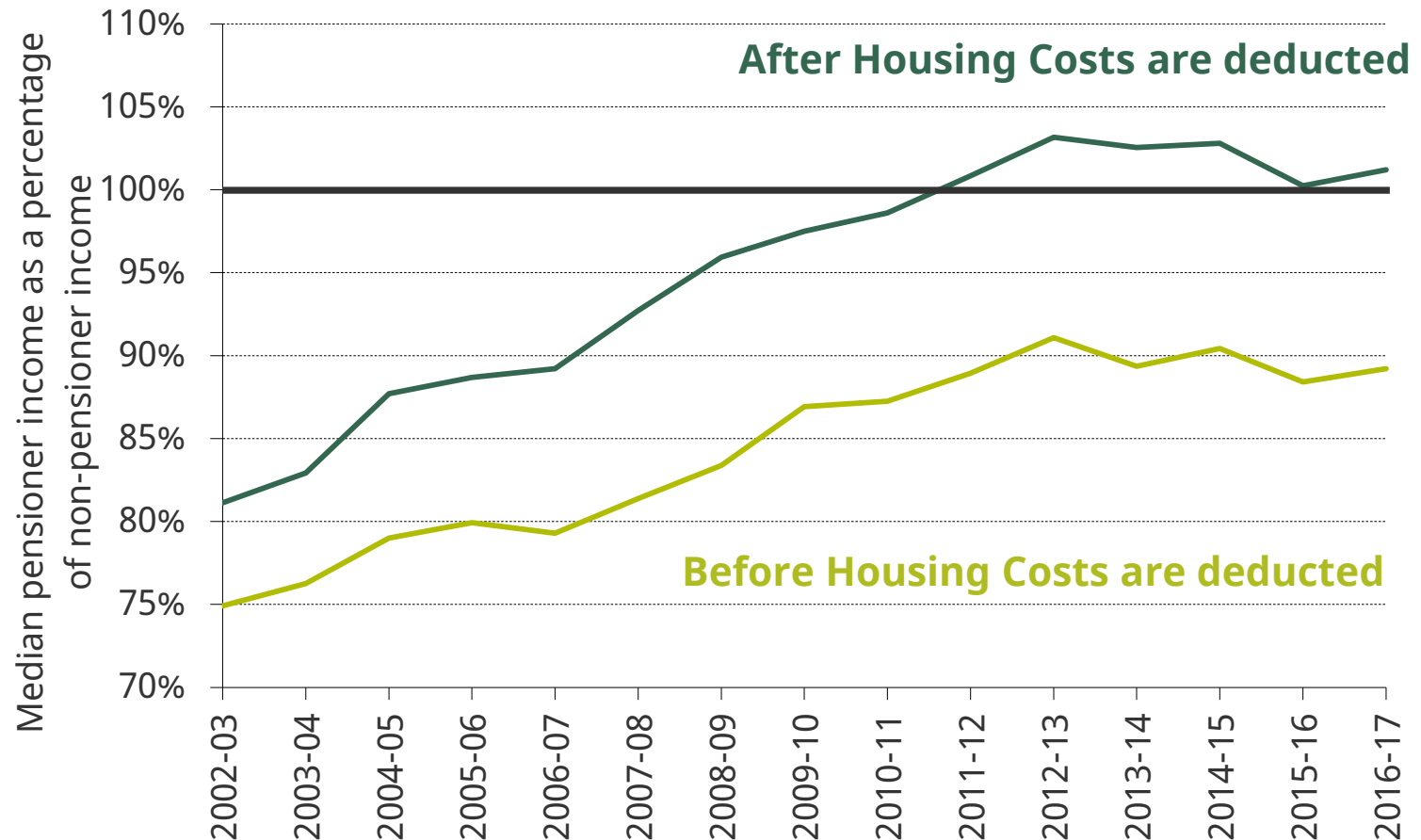
Source: Figure 2.2 of *Living Standards, Poverty and Inequality in the UK: 2018*

Explaining average (mean) income growth



Note: Excludes individuals subject to the top income (SPI) adjustment due to responses to dividend taxation in 2016-17
Source: Table 2.1 of *Living Standards, Poverty and Inequality in the UK: 2018*

Average pensioner vs non-pensioner incomes



Source: Figure 2.7 of *Living Standards, Poverty and Inequality in the UK: 2018*

This presentation

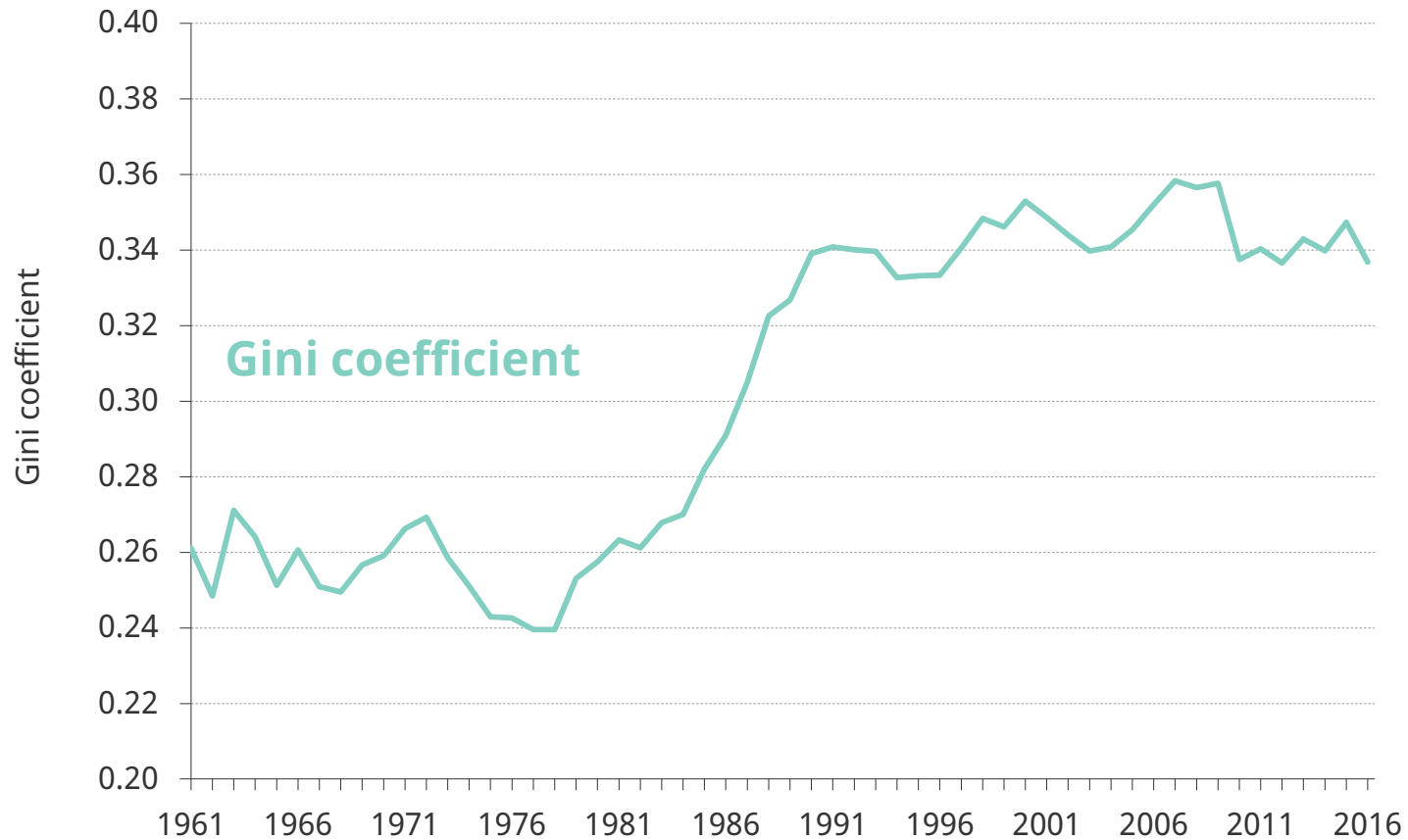
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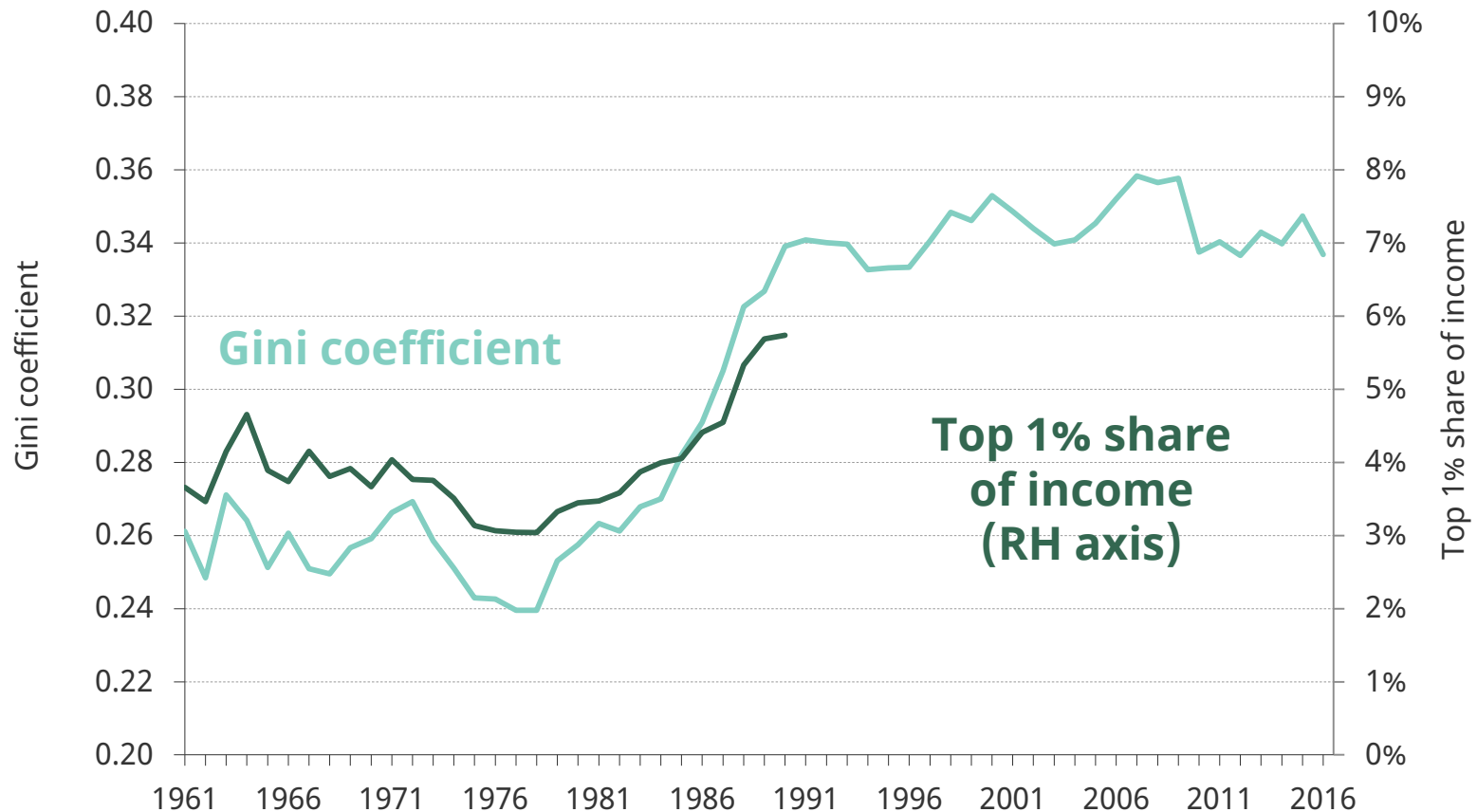
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Long-run inequality: 1961 to 2016-17 (GB)



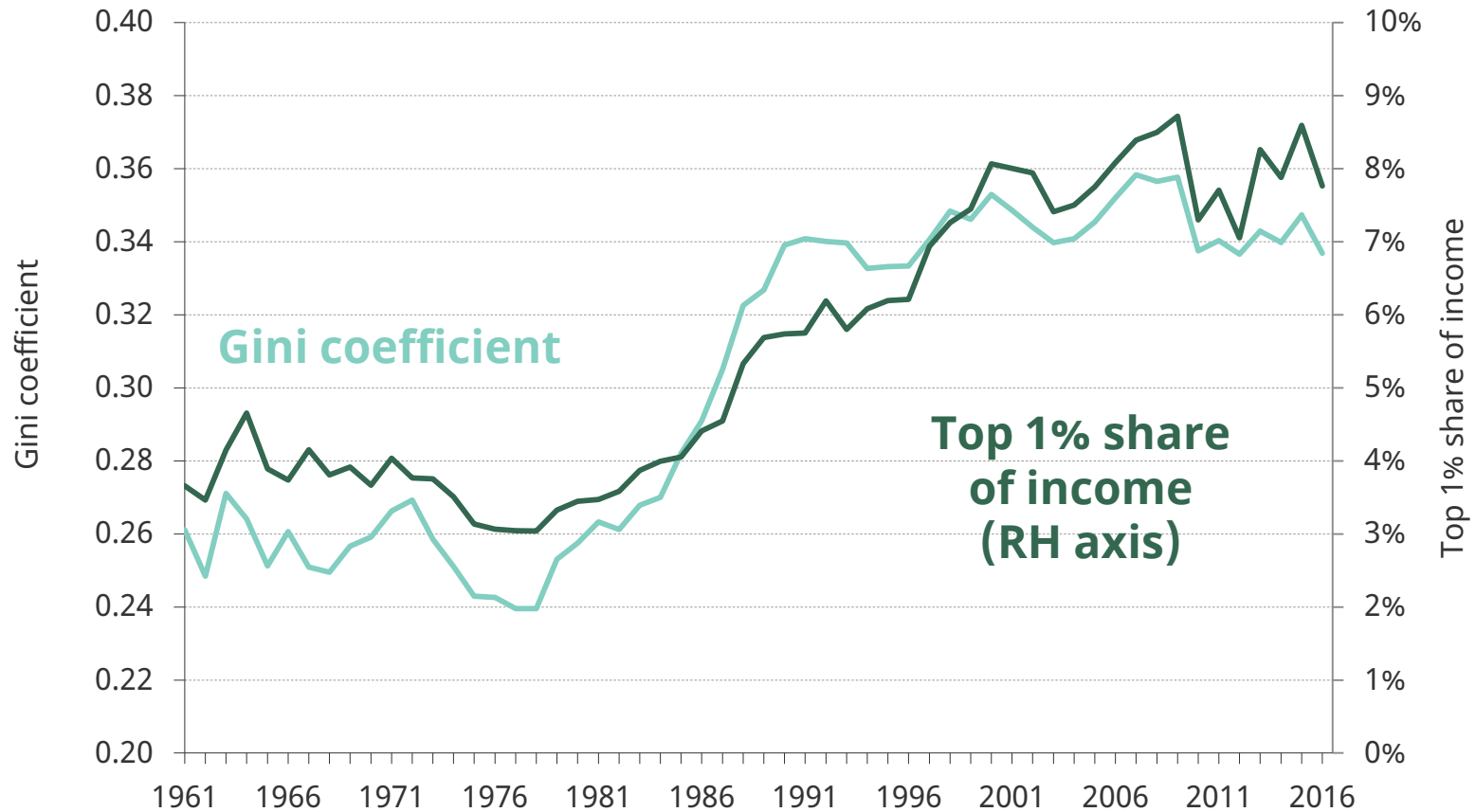
Source: Figures 3.7 and 3.8 of *Living Standards, Poverty and Inequality in the UK: 2018*

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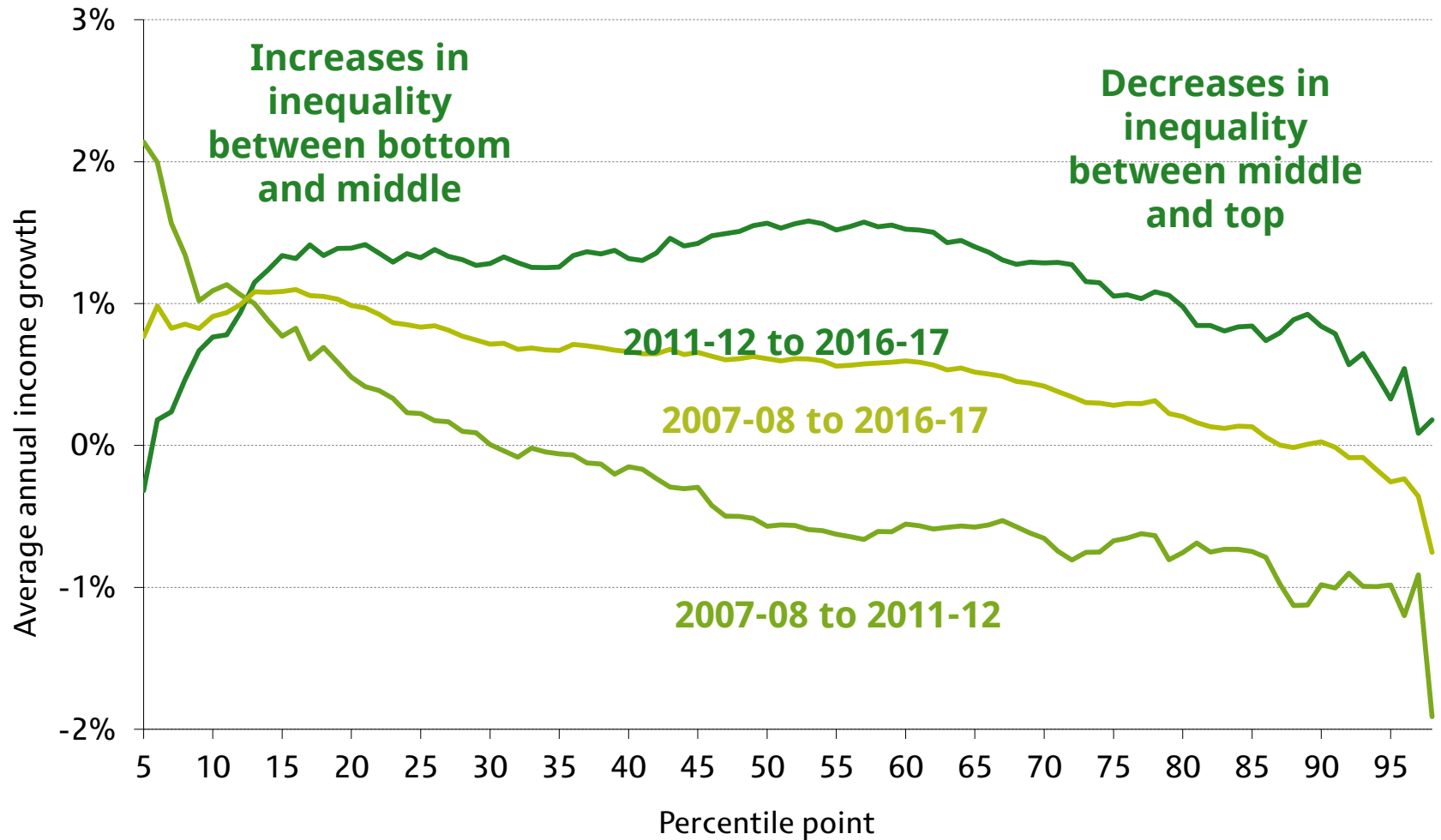
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Long-run inequality: 1961 to 2016-17 (GB)



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Changes in income inequality in the recovery

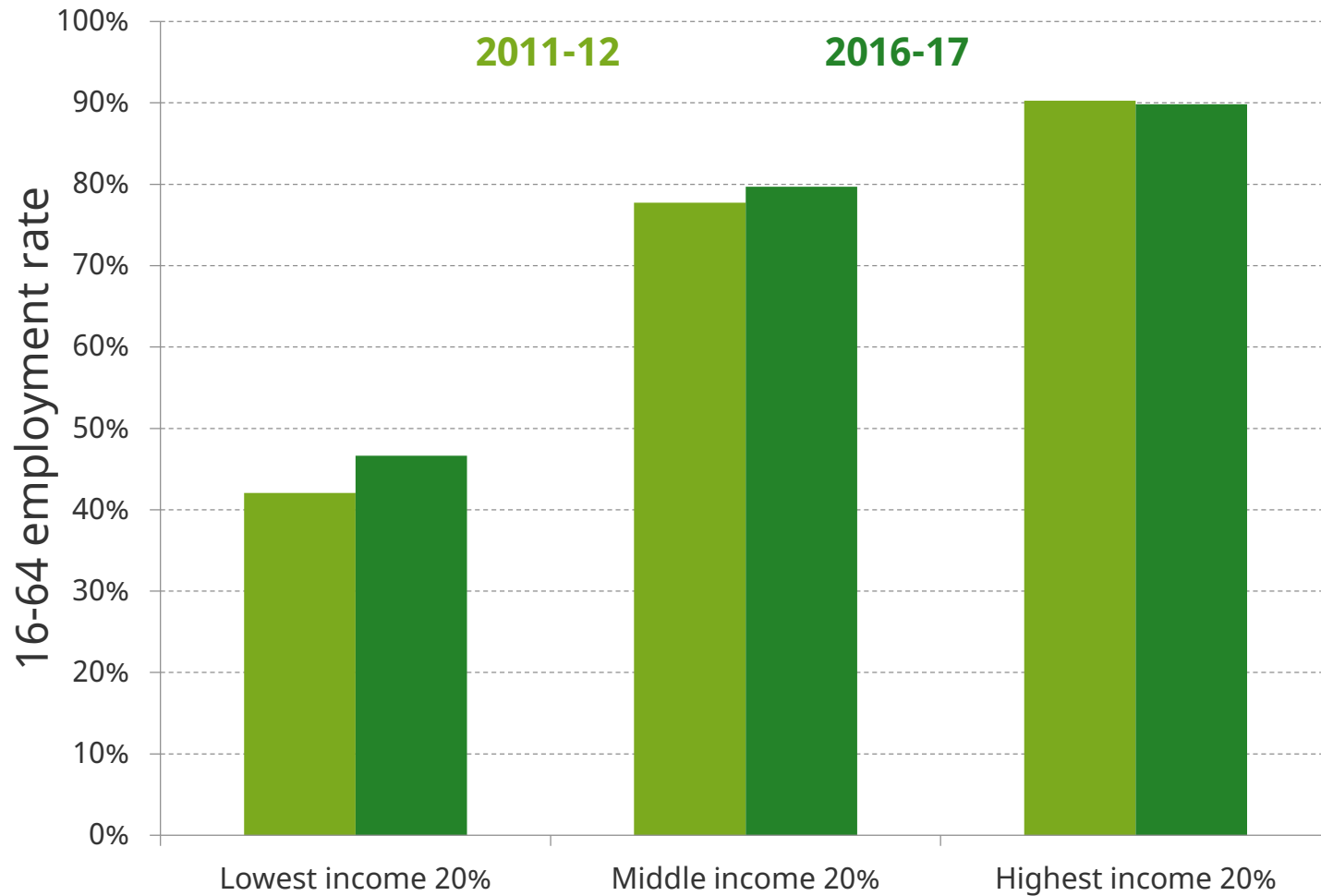


Source: Figure 3.10 of *Living Standards, Poverty and Inequality in the UK: 2018*

Why did middle incomes grow faster than low or high incomes during the recovery?

- 1. Employment growth much larger in low (and middle) income households**

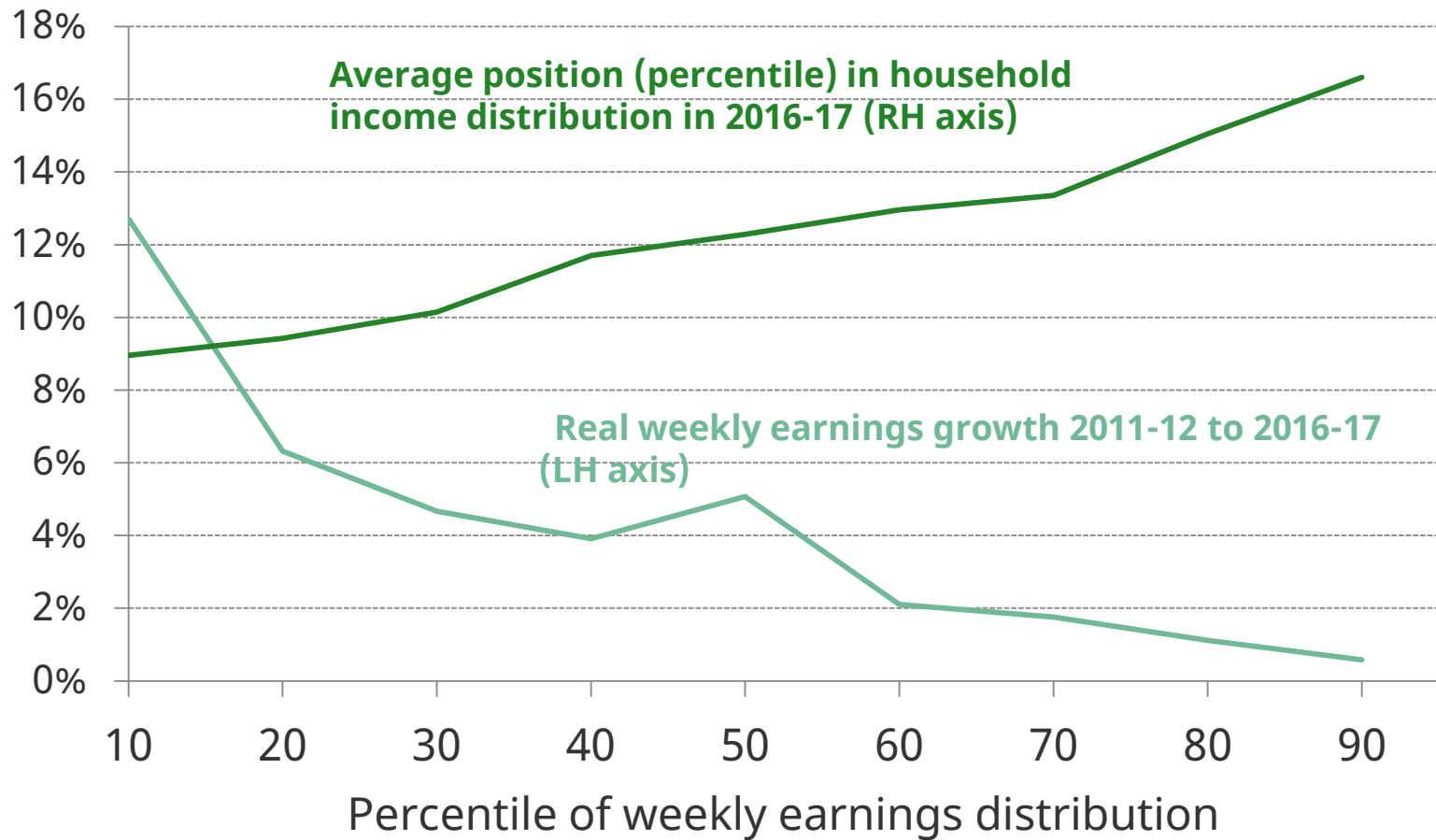
Growth in employment favoured bottom and middle



Why did middle incomes grow faster than low or high incomes during the recovery?

- 1. Employment growth much larger in low (and middle) income households**
- 2. Earnings growth has been strongest for low earners, which particularly benefits middle income households (!)**
- 3. Earnings growth has been weak for high earners, which suppresses incomes of high income households**

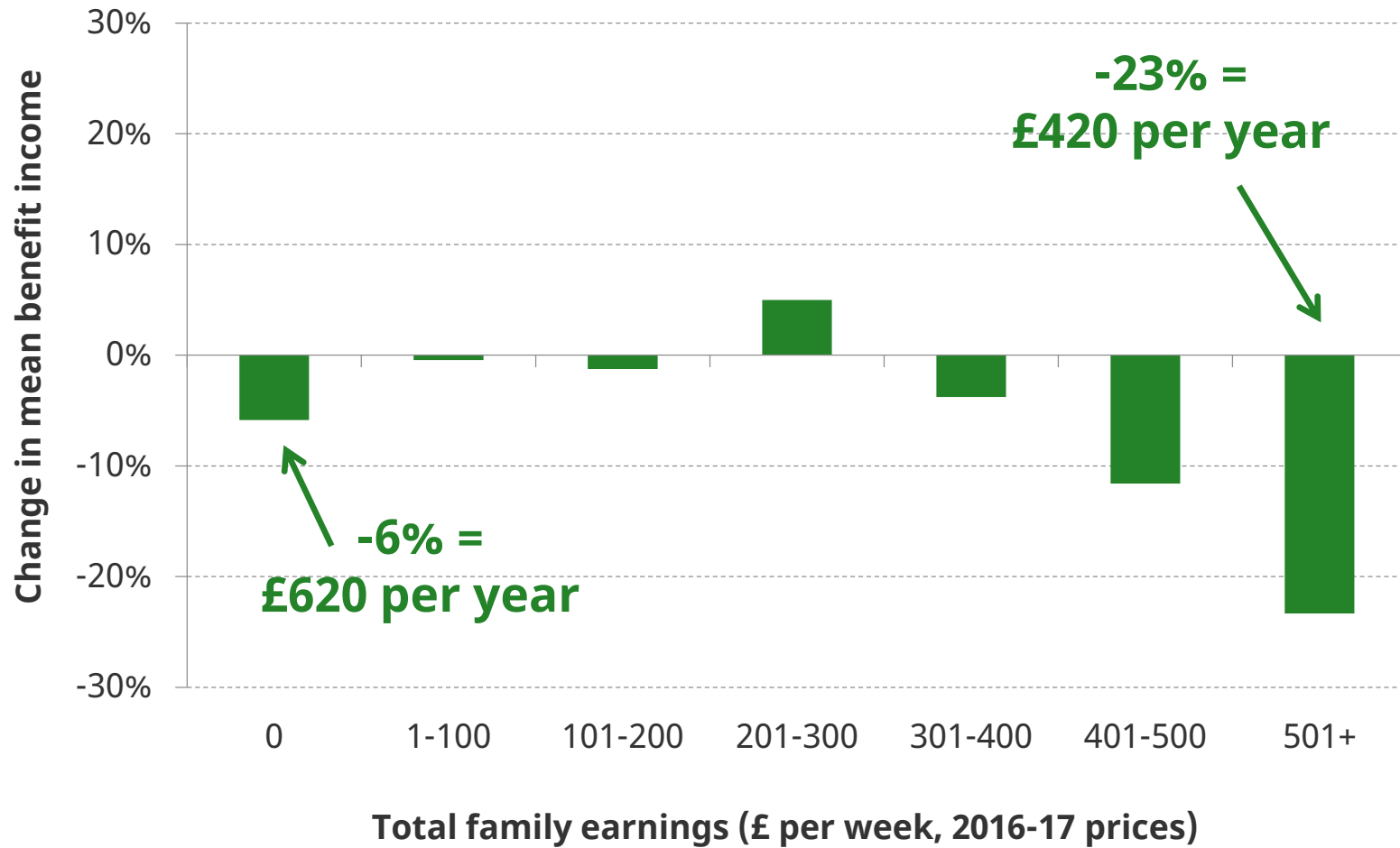
Real weekly earnings growth



Why did middle incomes grow faster than low or high incomes during the recovery?

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- 4. Benefit incomes have fallen for lowest income households**

Changes in working age benefit incomes since 2011-12



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Summary

Income growth during the recovery has been slow by long run historical standards, but faster than in the run up to the recession

- Driven by (relatively weak) growth in employment incomes
- If OBR forecasts are correct, expect relatively slow income growth in coming years

Income inequality much higher than it was late 1970s, little change overall since 1990

During the recovery from the recession, inequality rising between middle and bottom, falling between top and middle

- Due to trends in employment and earnings, and falls in benefit incomes
- Modest earnings growth + working age benefit cuts suggest increasing inequality in coming years

Poverty

Agnes Norris Keiller

Measuring poverty

Measure of low material living standards

- Proxy living standards with net household income
- Focus on income measured after housing costs are deducted (AHC)

Absolute income poverty (poverty line fixed in real terms)

- Income less than 60% of 2010–11 median income (CPI adjusted)
- £7.2k p.a. for childless single adult; £17.5k p.a. for couple with 2 kids

Relative income poverty (moving poverty line)

- Income less than 60% of the contemporary median income

This presentation

How has poverty changed in recent years?

- How does this compare to previous periods?
- How has it differed for children and pensioners?

How have housing costs among low-income children changed?

- What does this mean for measuring poverty?

How have the living standards of low-wage employees changed following the introduction of the National Living Wage?

- How have these changes impacted poverty?

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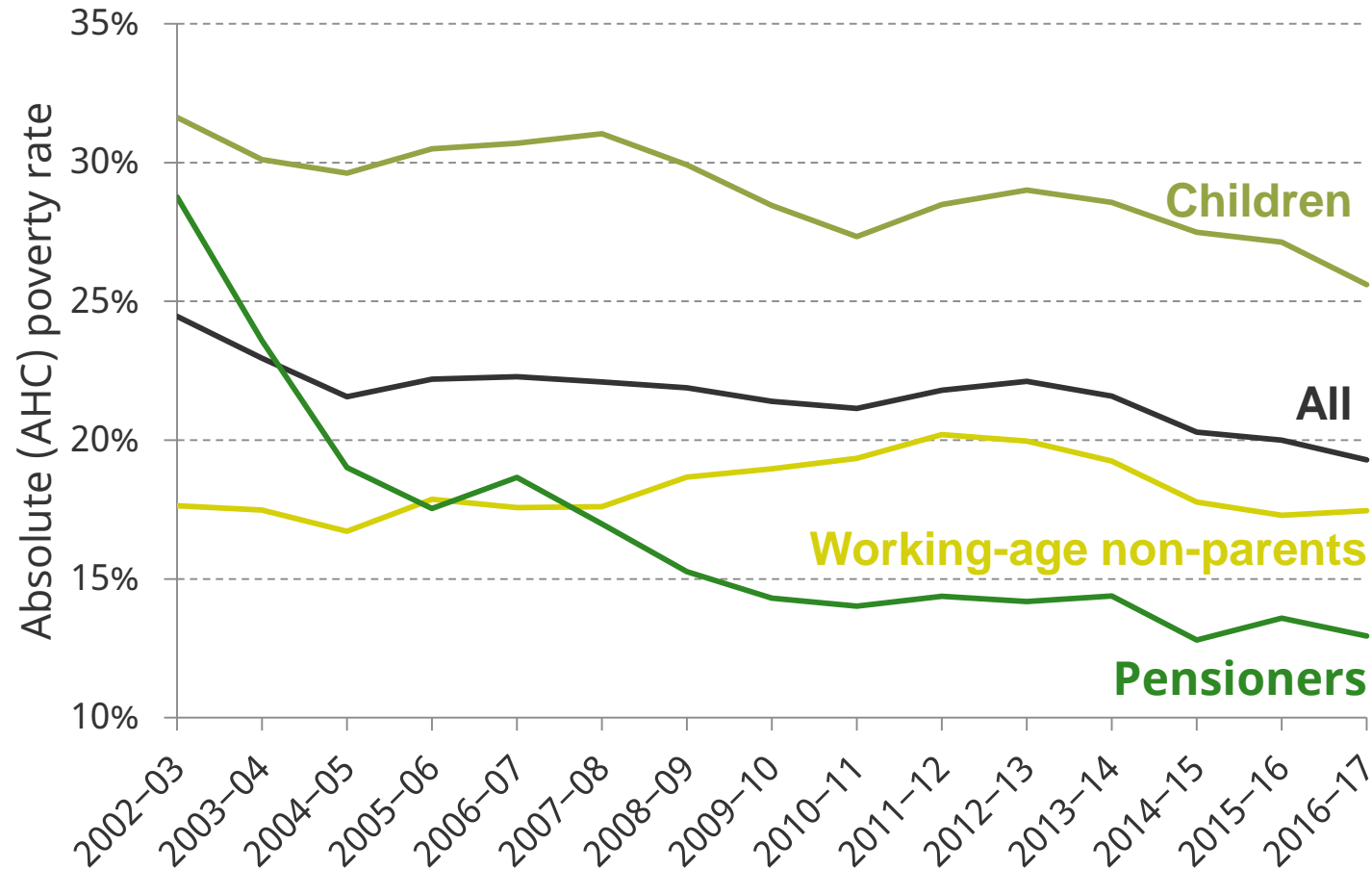
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Absolute AHC poverty in the UK since 2002-03



Source: Figure 4.1 of *Living Standards, Poverty and Inequality in the UK: 2018*

Recent falls in poverty vs earlier trends



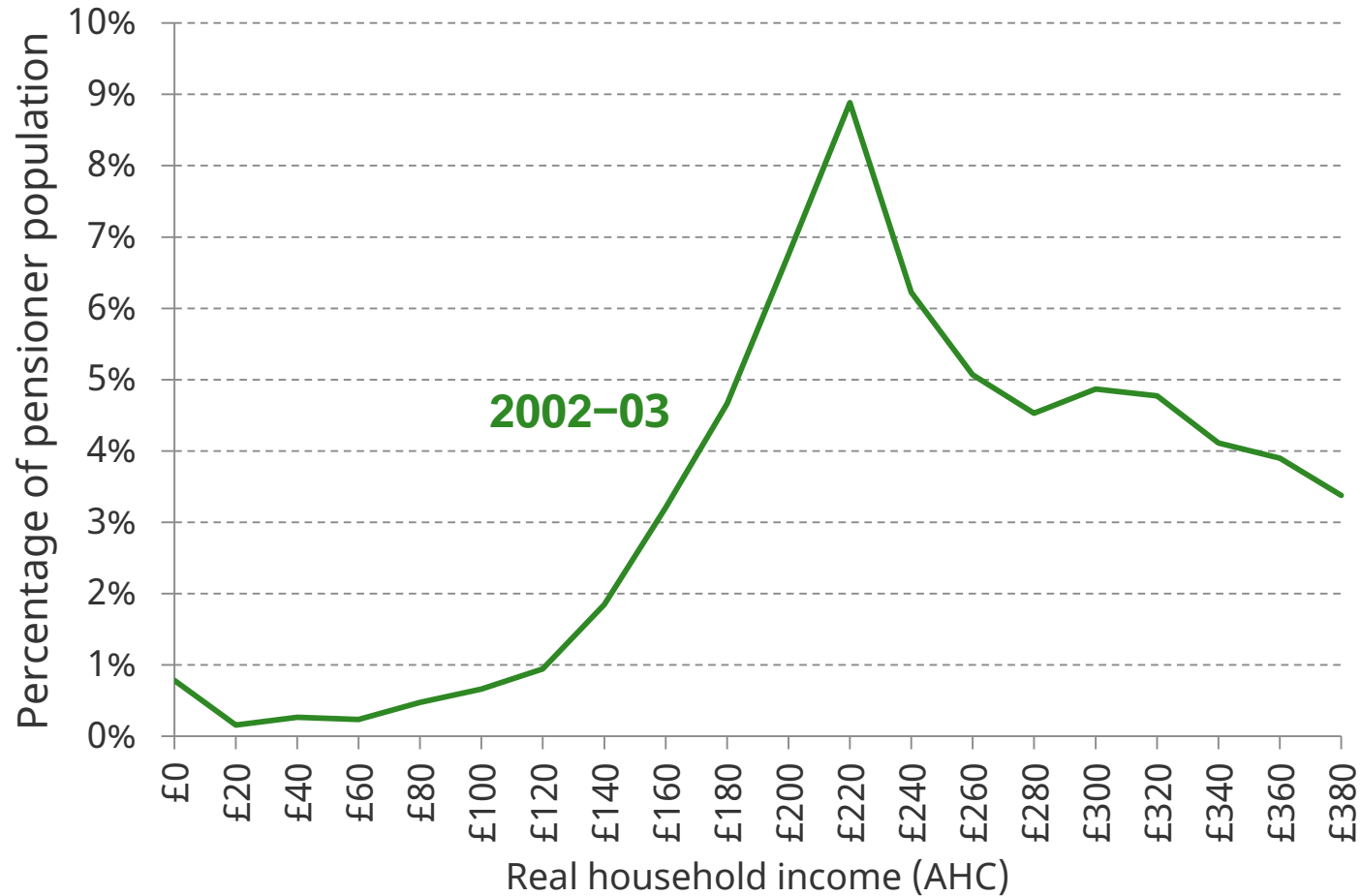
Source: Figure 4.2 of *Living Standards, Poverty and Inequality in the UK: 2018*

Why has pensioner poverty reduction slowed?



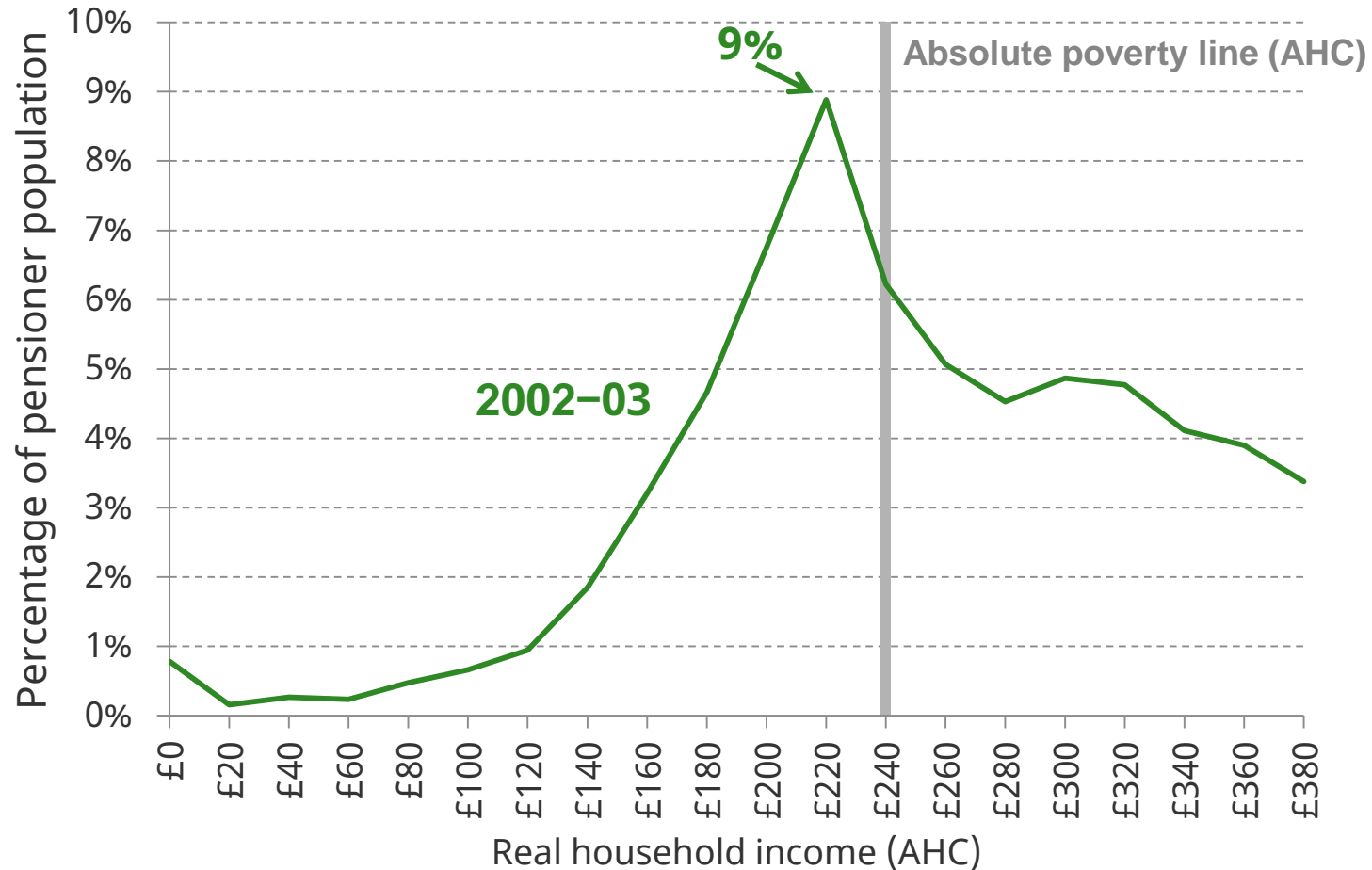
Many pensioners in 2002–03 had incomes slightly below poverty line

Why has pensioner poverty reduction slowed?



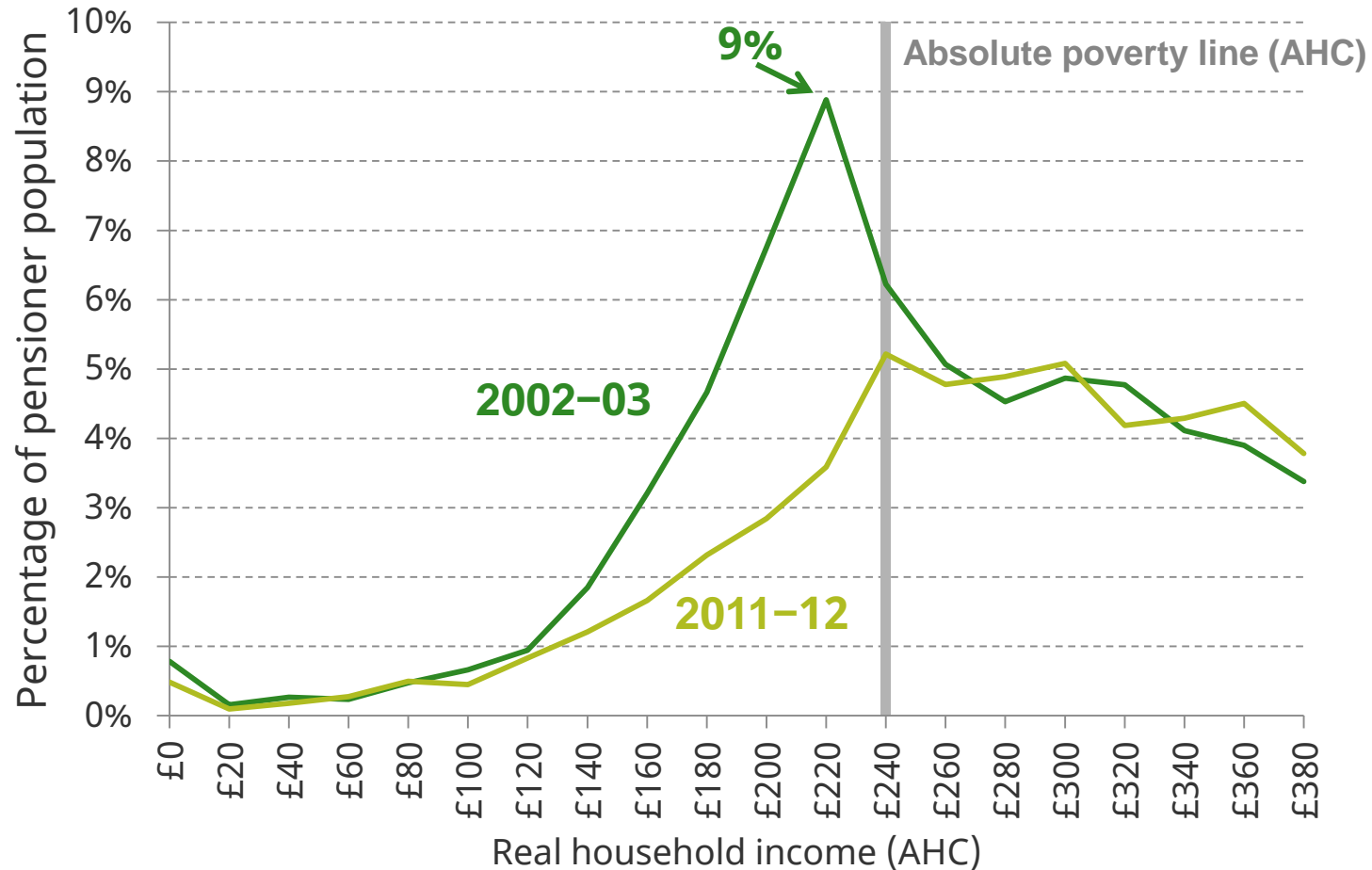
Source: Figure 4.4 of *Living Standards, Poverty and Inequality in the UK: 2018*

Why has pensioner poverty reduction slowed?



Source: Figure 4.4 of *Living Standards, Poverty and Inequality in the UK: 2018*

Why has pensioner poverty reduction slowed?



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Why has pensioner poverty reduction slowed?

Many pensioners in 2002–03 had incomes slightly below poverty line

- Only small income growth needed to pull many out of poverty

Income growth among lowest-income fifth of pensioners has slowed

- 8% between 2002–03 and 2007–08; 1% between 2011–12 and 2016–17
- Largely due to slower growth in private pension and saving income

Why has child poverty reduction accelerated?

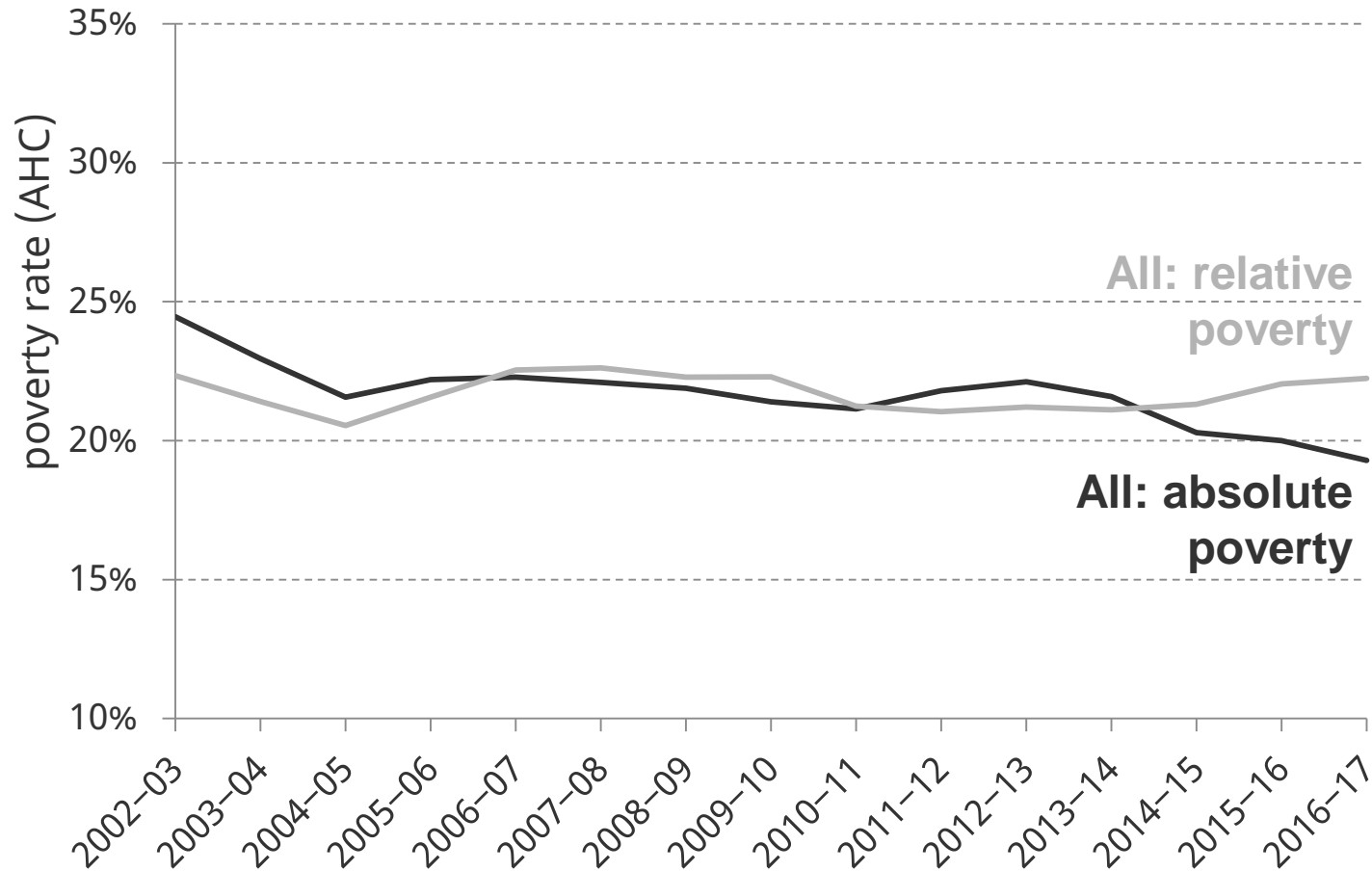
Between 2011–12 and 2016–17:

- Falls in child poverty among both working and workless households
- Rises in parental employment

Between 2002–03 and 2007–08:

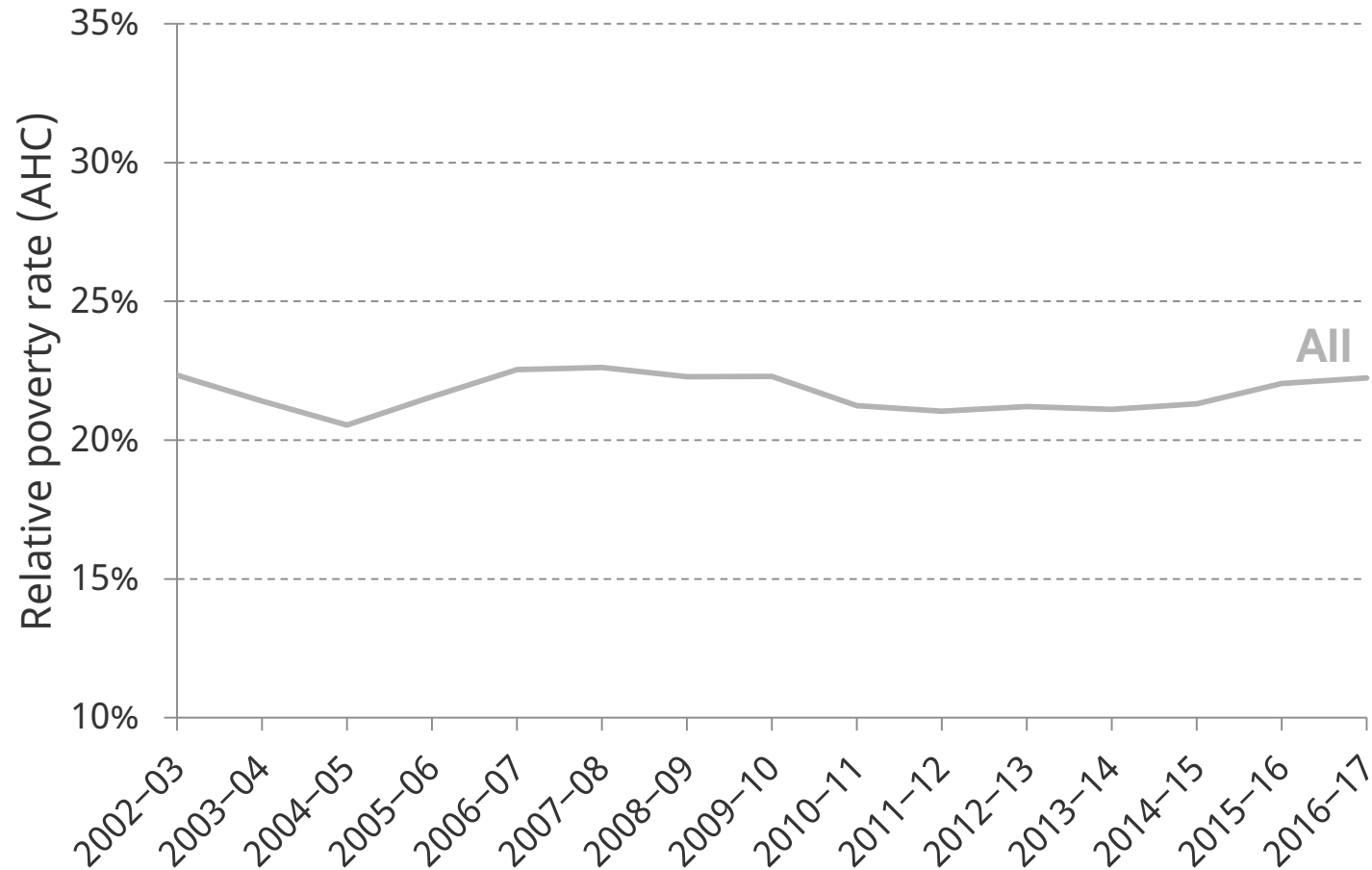
- Child poverty fell among workless households only
- Little change in parental employment

AHC poverty in the UK since 2002-03



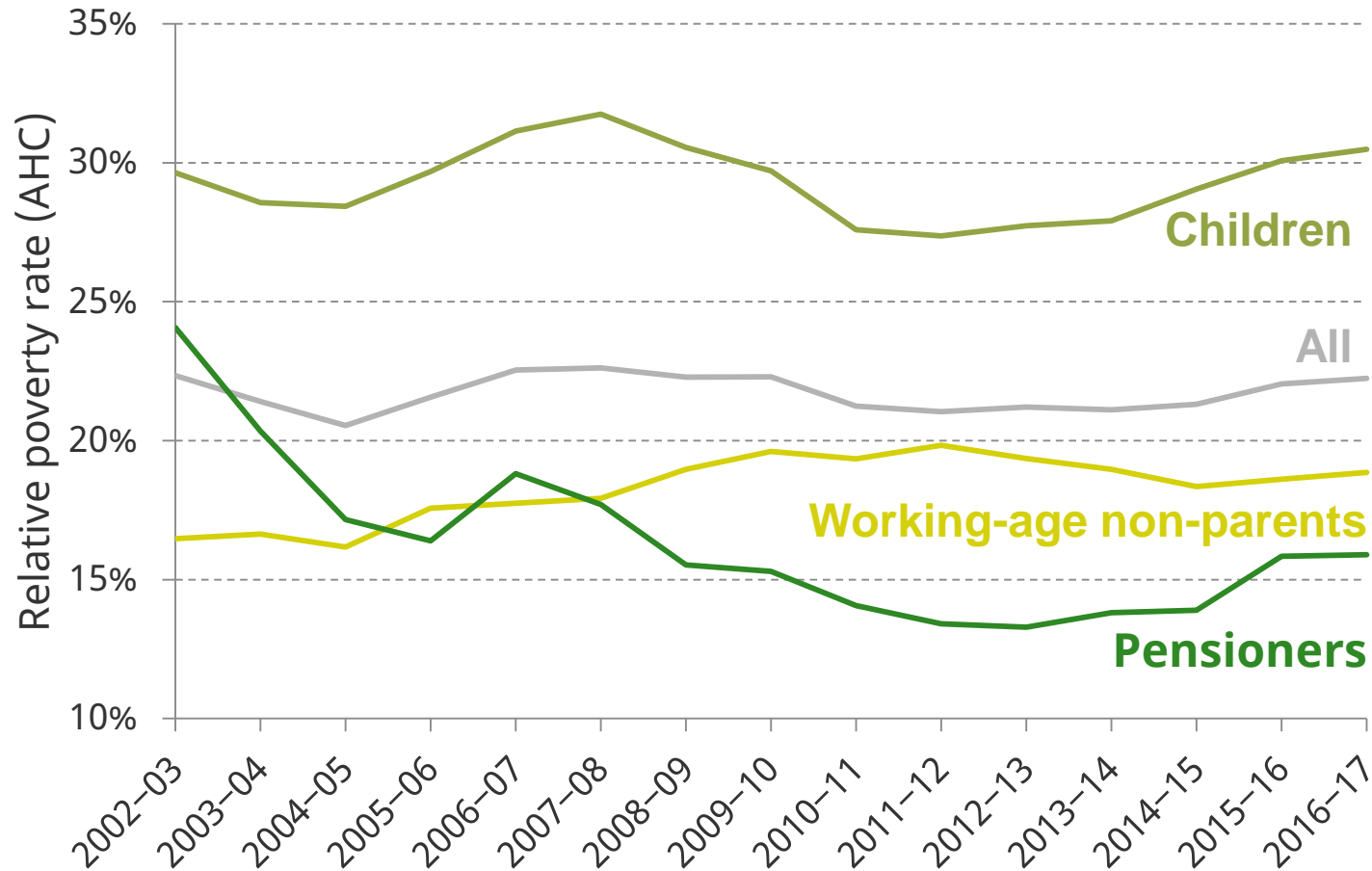
Source: Figures 4.1 and 4.6 of *Living Standards, Poverty and Inequality in the UK: 2018*

Relative AHC poverty in the UK since 2002–03



Source: Figure 4.6 of *Living Standards, Poverty and Inequality in the UK: 2018*

Relative AHC poverty in the UK since 2002–03



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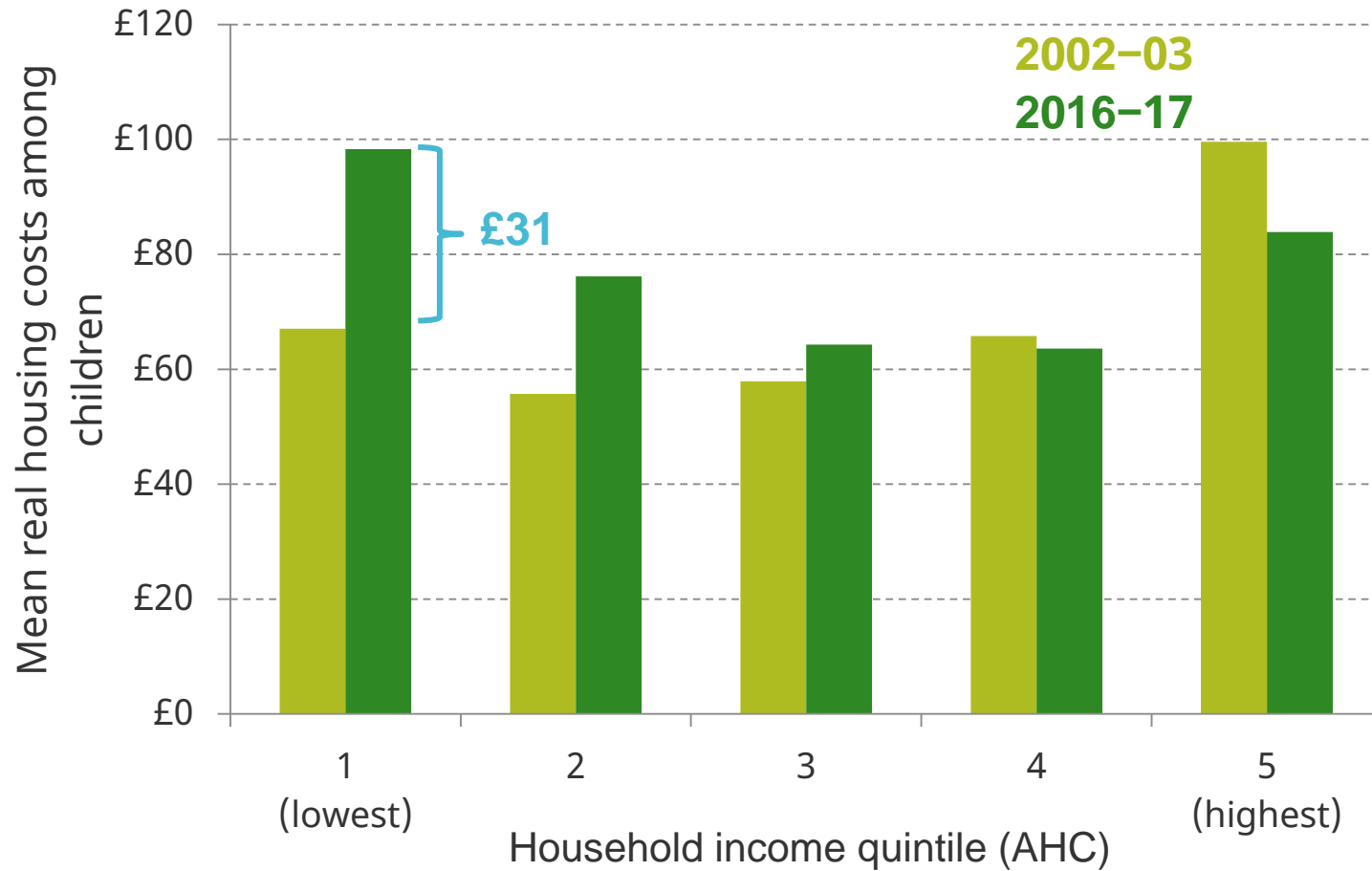
- How have these changes impacted poverty?

Fast growth in housing costs among low-income hhs. with children



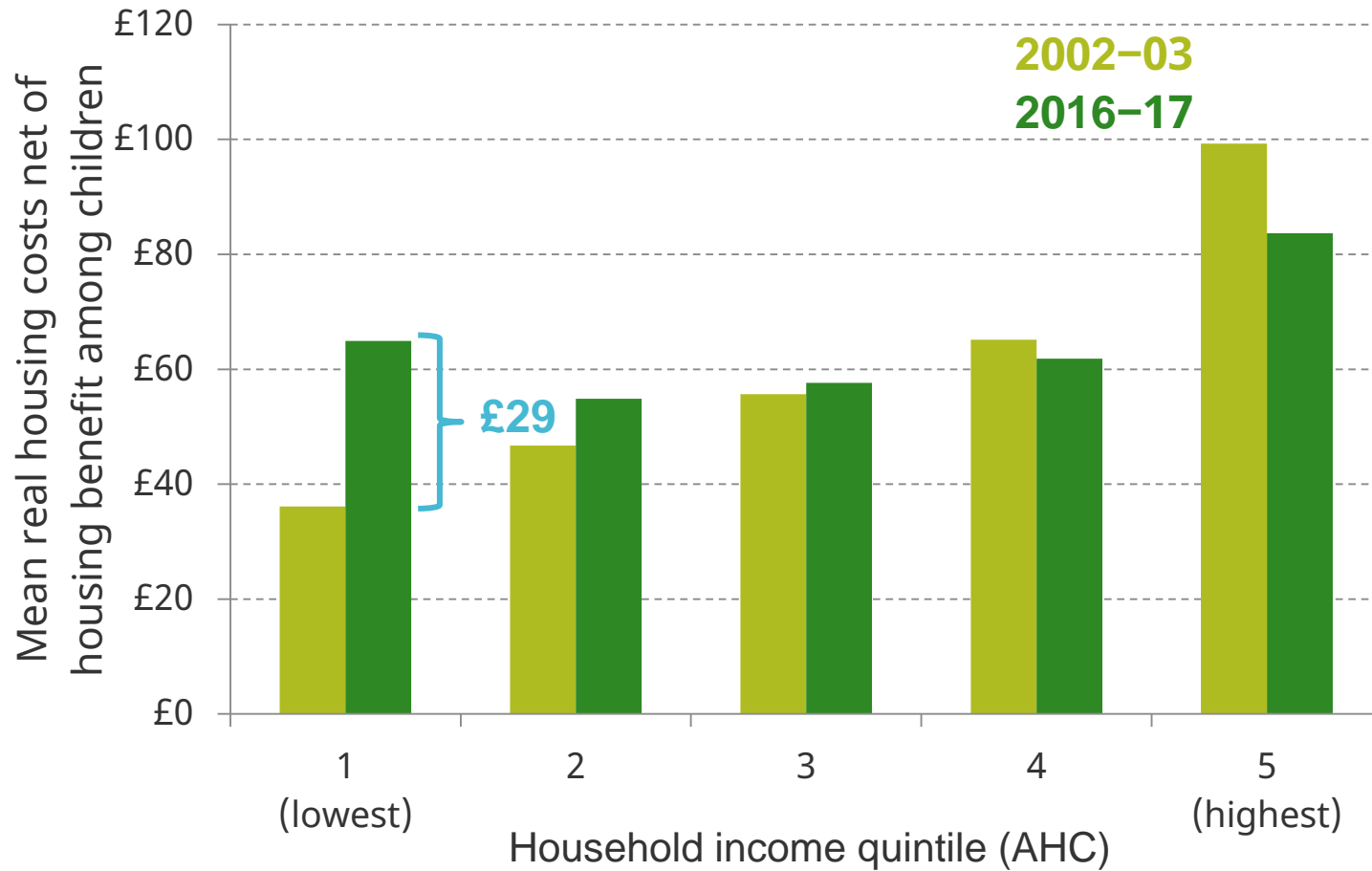
Source: Figure 4.9 of *Living Standards, Poverty and Inequality in the UK: 2018*

Fast growth in housing costs among low-income hhs. with children



Source: Author's calculations using the Family Resources Survey 2002-03 and 2016-17

Fast growth in housing costs among low-income hhs. with children



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Housing tenure of low-income children

More live in social rented housing than higher-income children

- 38% of children in bottom income quintile

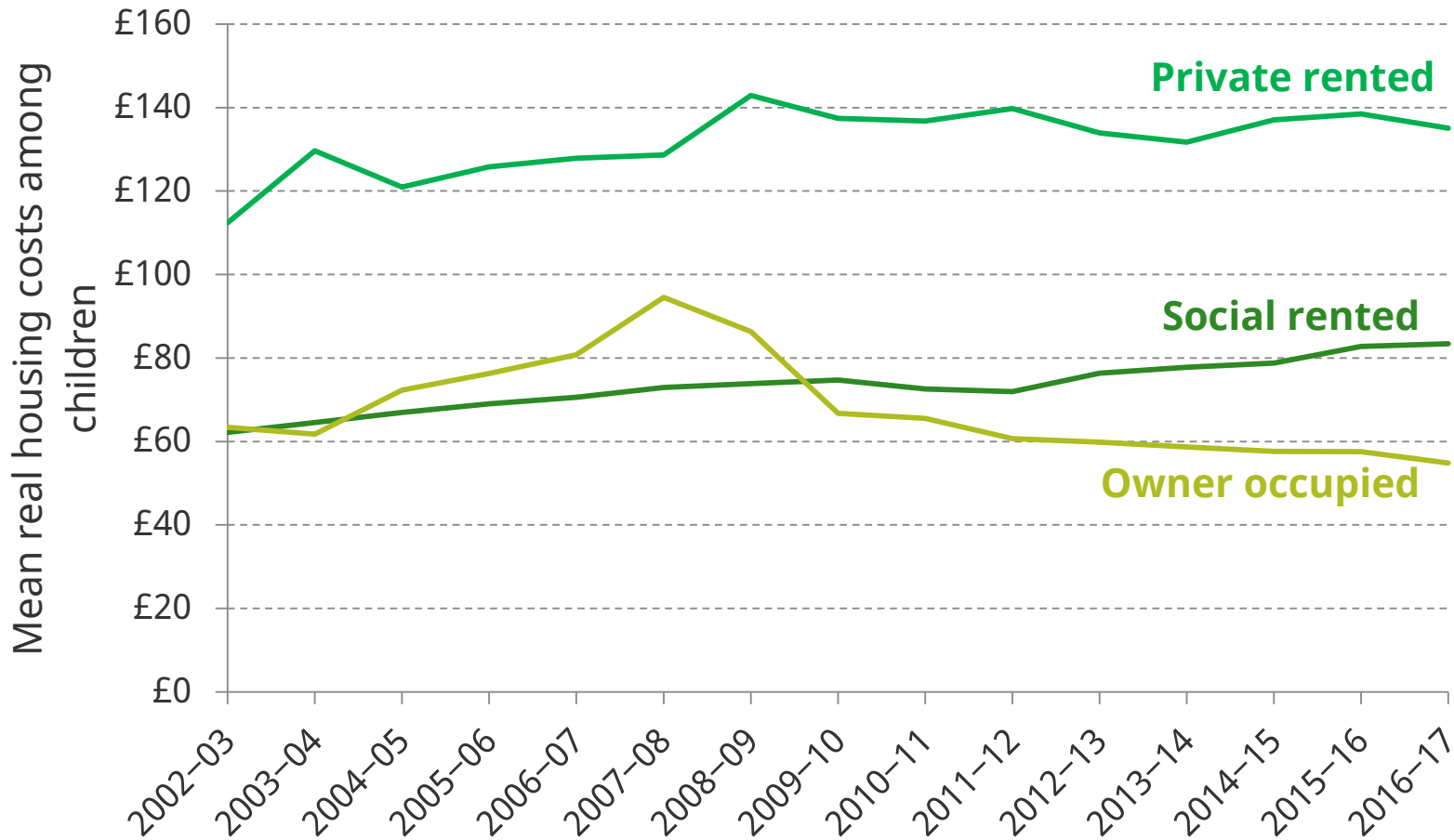
Less live in owner-occupied housing than higher-income children

- 25% of children in bottom income quintile

Low-income children have seen biggest shift towards private renting

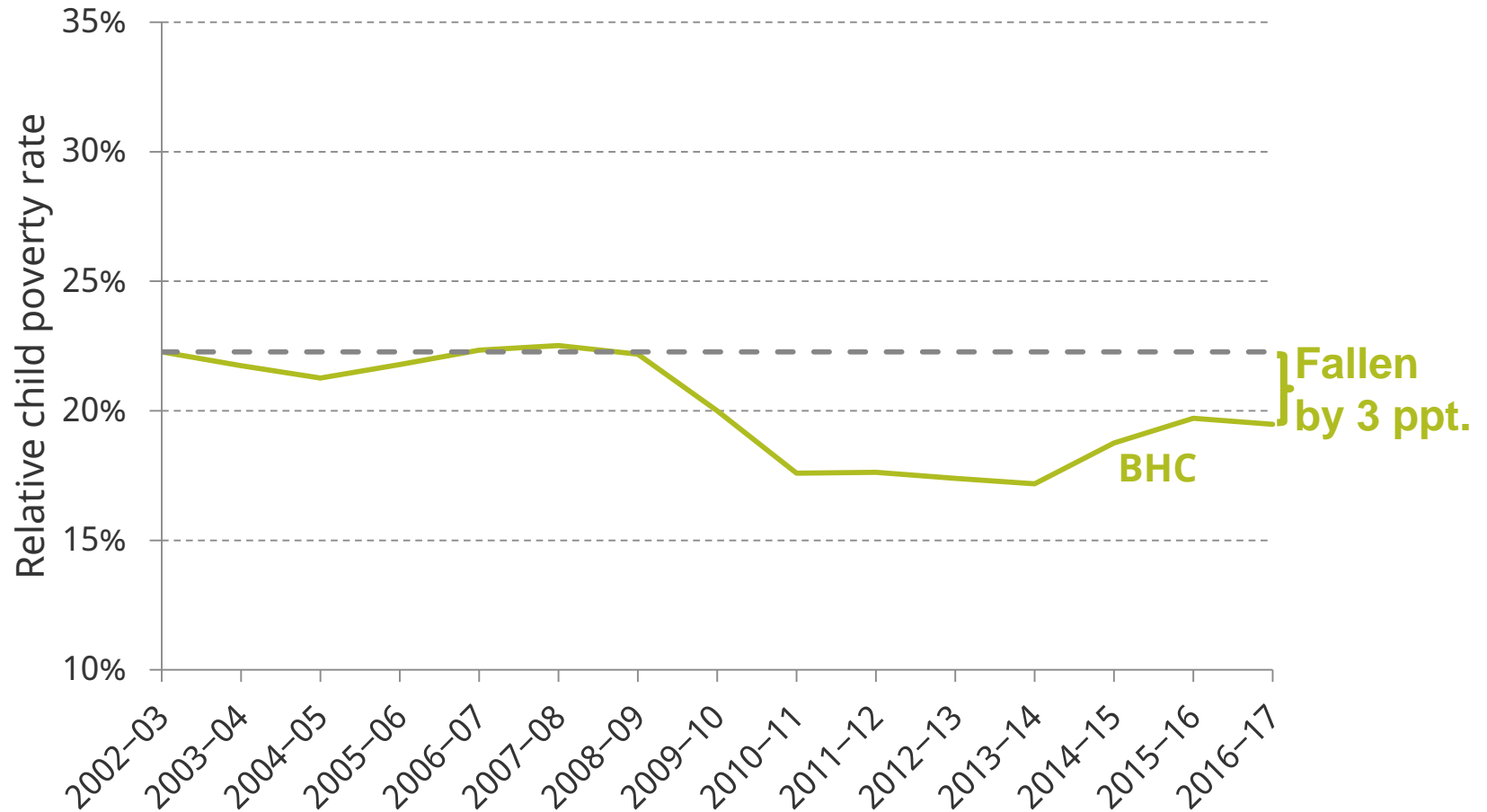
- Children in bottom income quintile: 15% in 2002–03; 36% in 2016–17

Large differences in costs between tenures



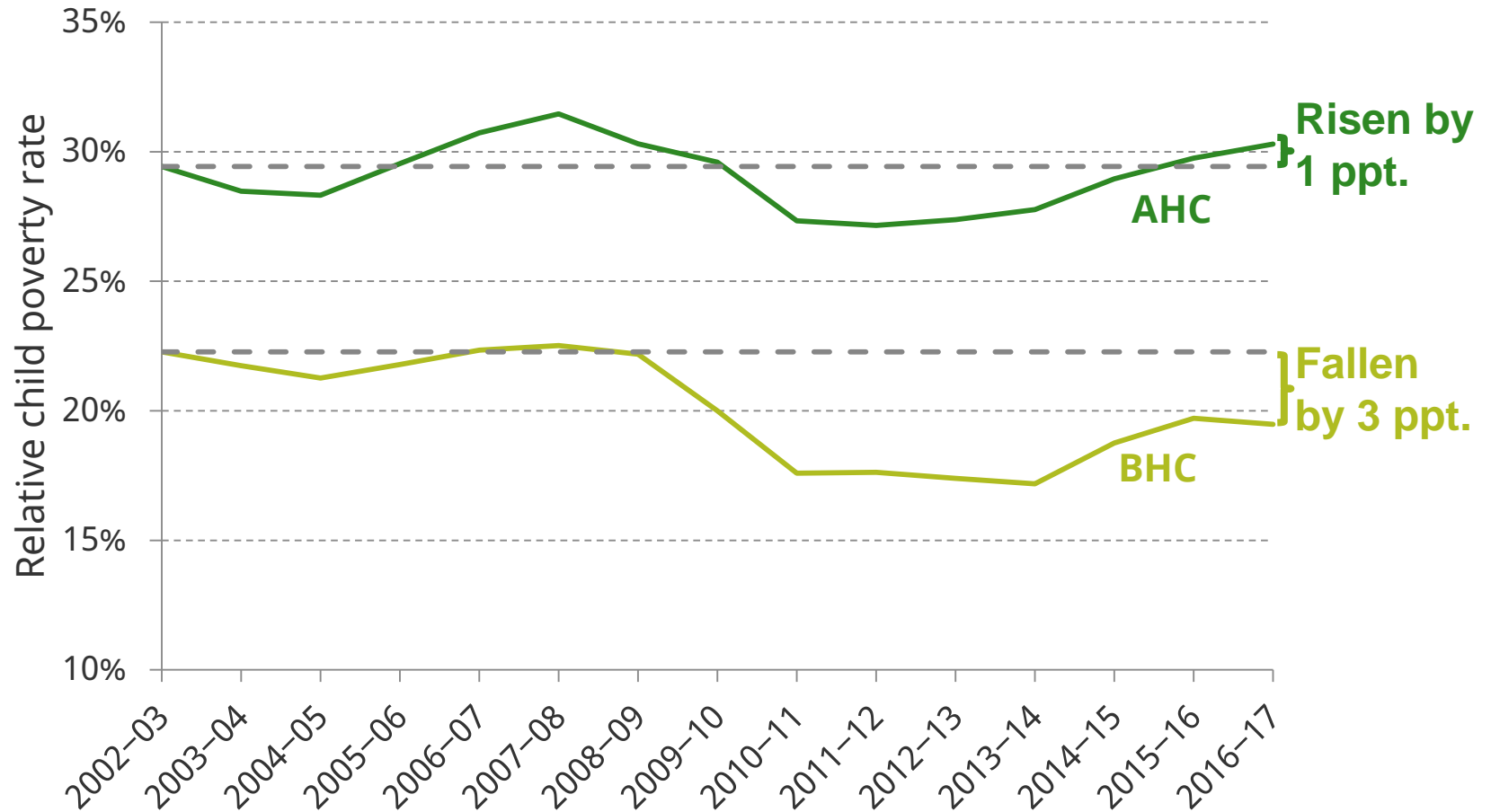
Source: Figure 4.11 of *Living Standards, Poverty and Inequality in the UK: 2018*

Has relative child poverty fallen or risen?



Source: Figure 4.7 of *Living Standards, Poverty and Inequality in the UK: 2018*

Has relative child poverty fallen or risen?



Source: Figure 4.7 of *Living Standards, Poverty and Inequality in the UK: 2018*

AHC better at tracking changes in poverty than BHC

Fast growth in housing costs among low-income households

- Likely to have reduced living standards
- Overlooked in BHC measures of income poverty

Changes in BHC poverty do not always reflect changes in living standards of low-income households

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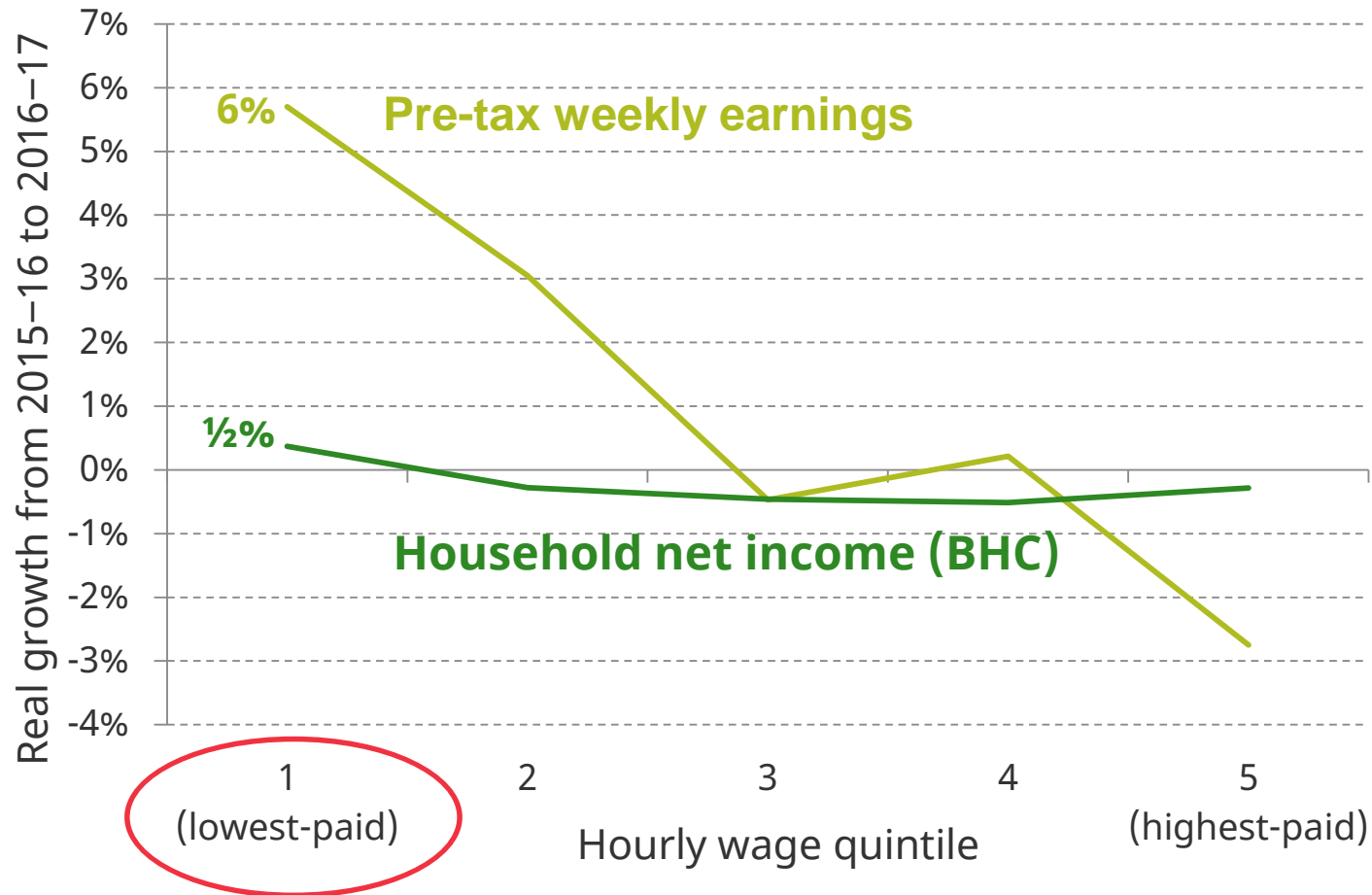
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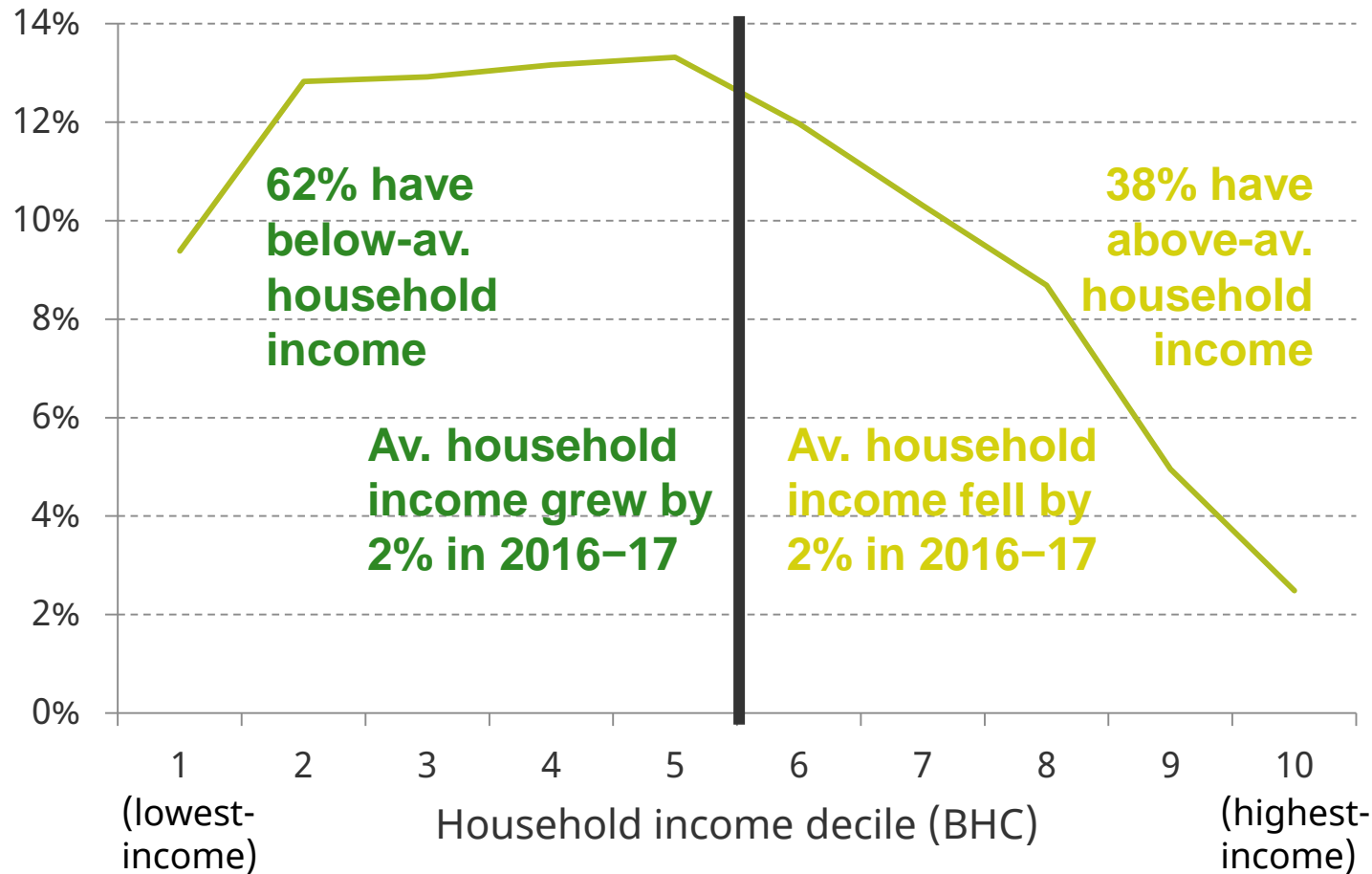
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Fast pay growth among low-wage employees but little change in av. living standards



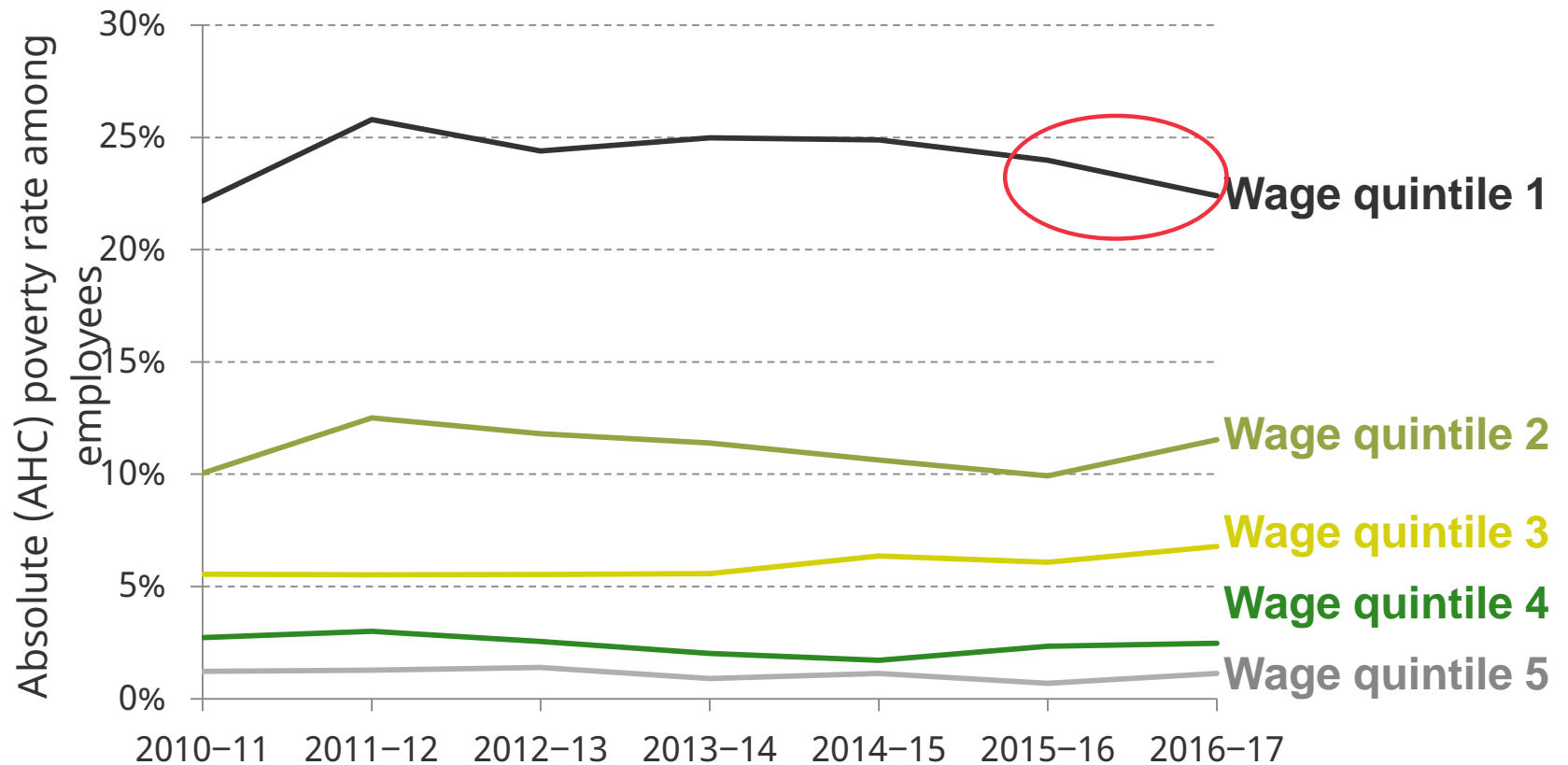
Source: Figures 6.5 and 6.6 of *Living Standards, Poverty and Inequality in the UK: 2018*

Where are low-wage employees in the income distribution?



Source: Figure 6.10b of *Living Standards, Poverty and Inequality in the UK: 2018*

Poverty among low-wage employees has fallen Institute for Fiscal Studies



Source: Figure 6.7 of *Living Standards, Poverty and Inequality in the UK: 2018*

Summary

Absolute (AHC) poverty down from 22% in 2011–12 to 19% in 2016–17

Relative (AHC) poverty up slightly from 21% in 2011–12 to 22% in 2016–17

Fast growth in housing costs for low-income children have caused AHC and BHC poverty rates to diverge

NLW followed by strong pay growth for low-wage employees, little change in their av. living standards but falls in absolute poverty

Poverty among working-age adults in poor health

Tom Waters

Working age adults in poor health

Increasingly important policy issue:

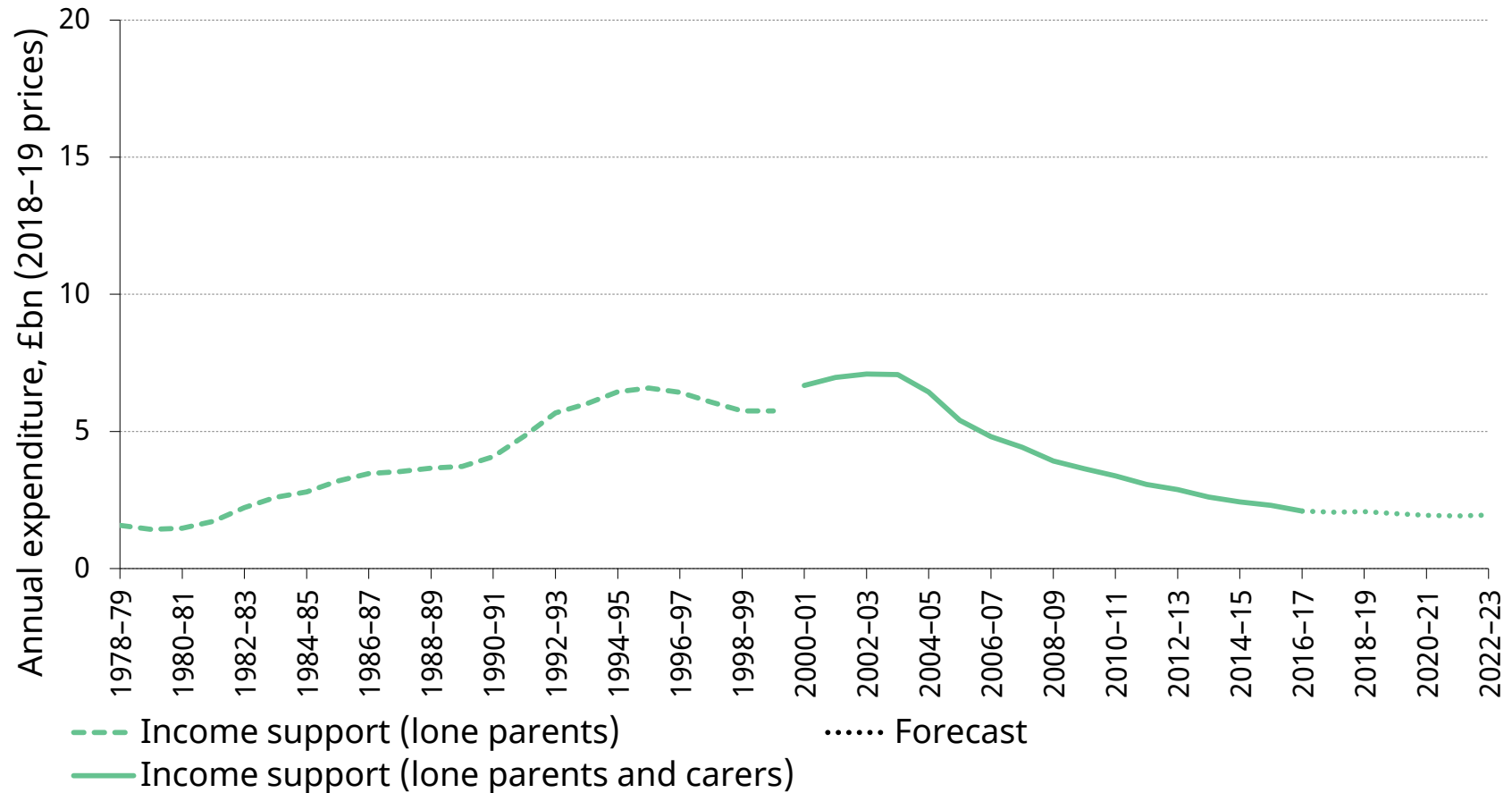
1. More 25-54 year olds out of work because of sickness & disability than because they cannot find a job.

Working age adults in poor health

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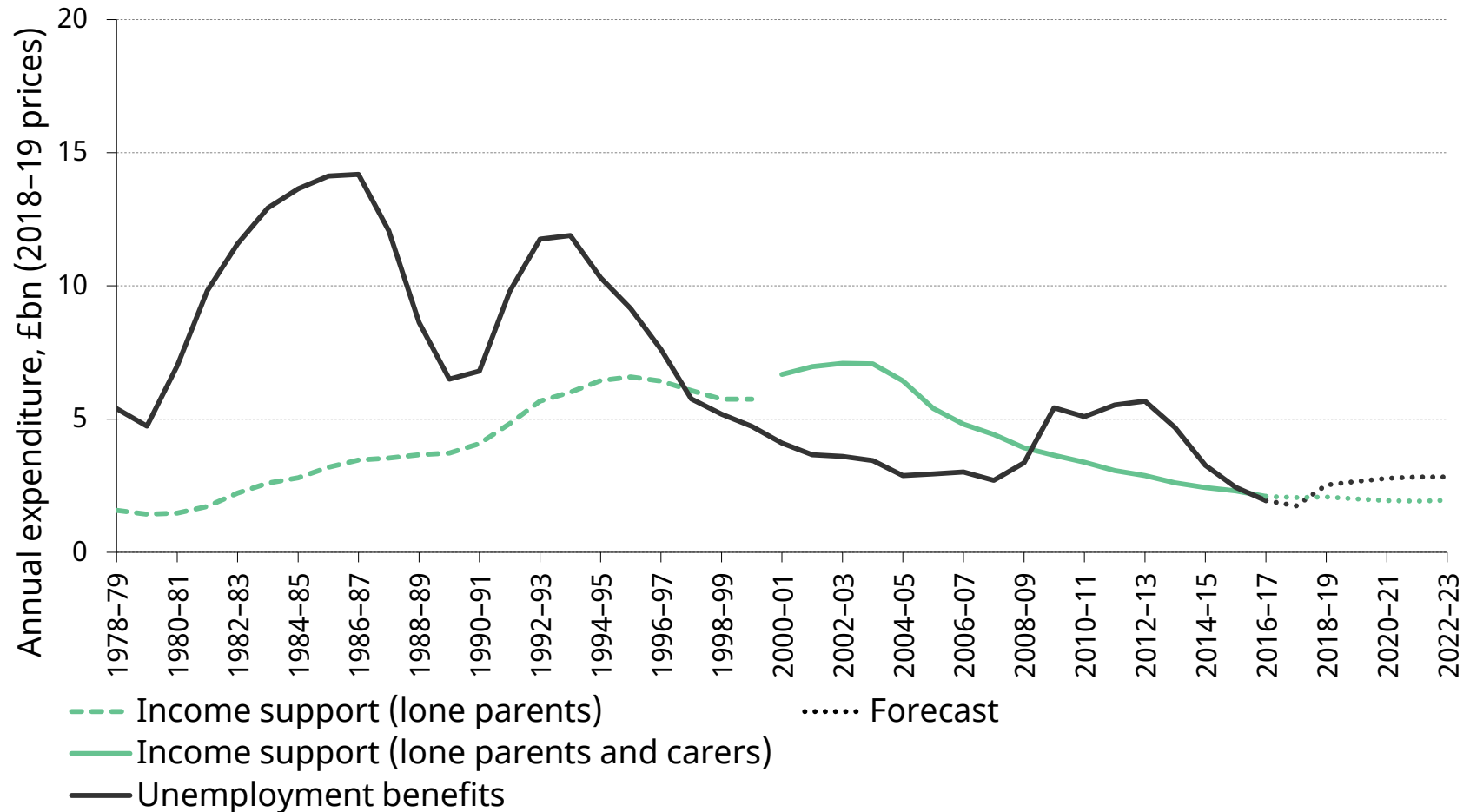
1. More 25-54 year olds out of work because of sickness & disability than because they cannot find a job.
2. Working-age health-related benefit (incapacity and disability) spending on the rise; spending on other working-age benefits falling.

Spending on working-age income replacement and disability benefits



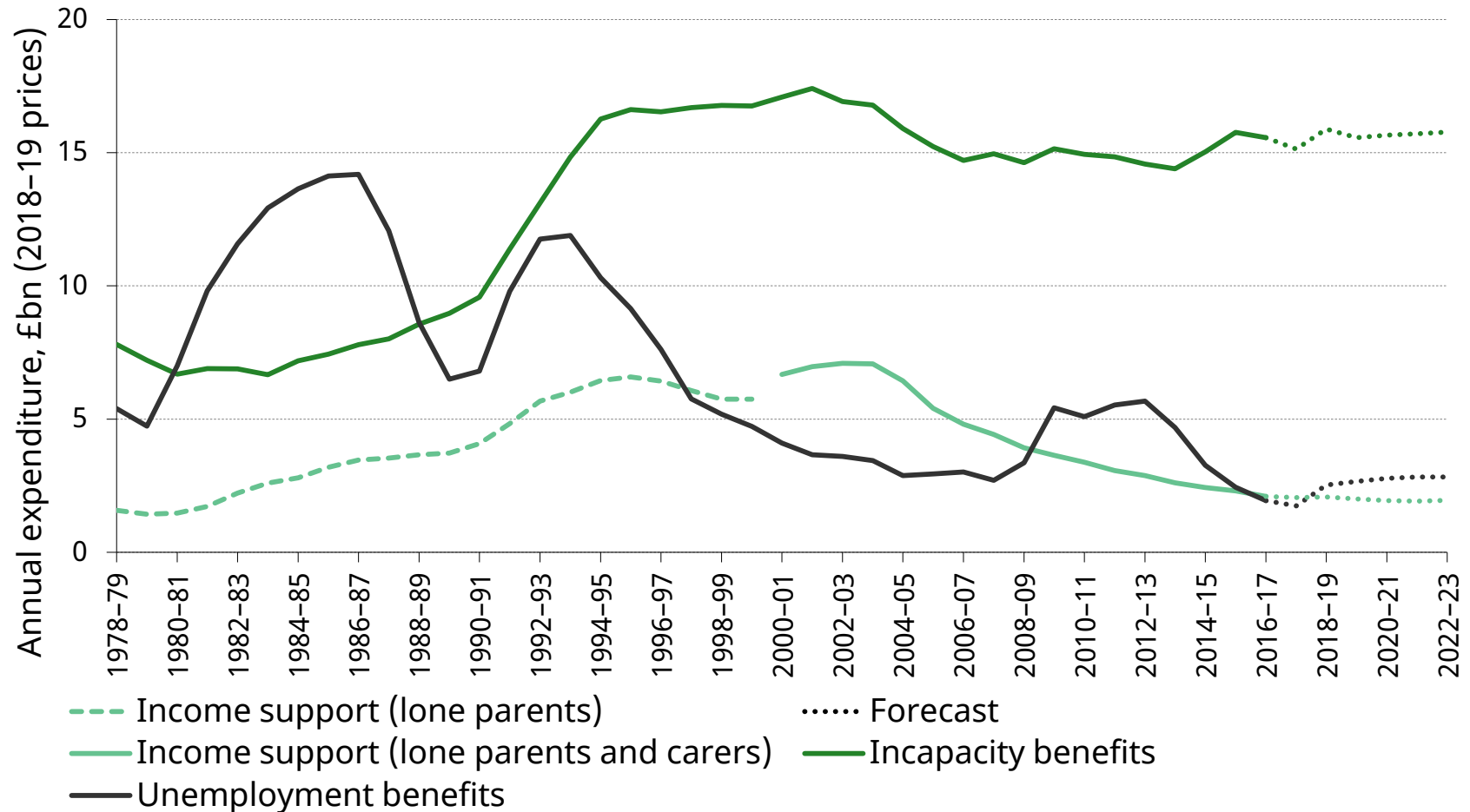
Source: Figure 5.3 of *Living Standards, Inequality and Poverty in the UK: 2018*

Spending on working-age income replacement and disability benefits



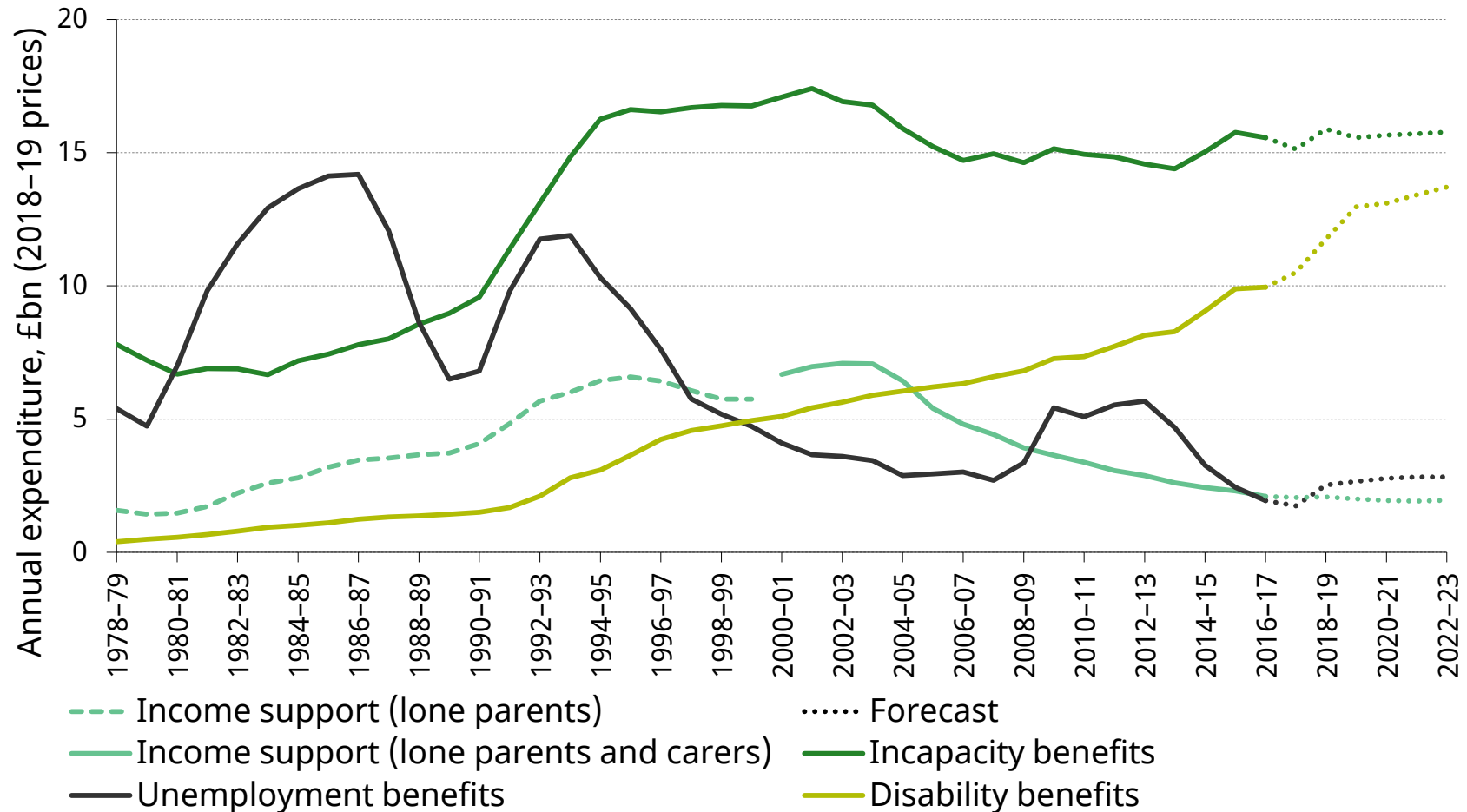
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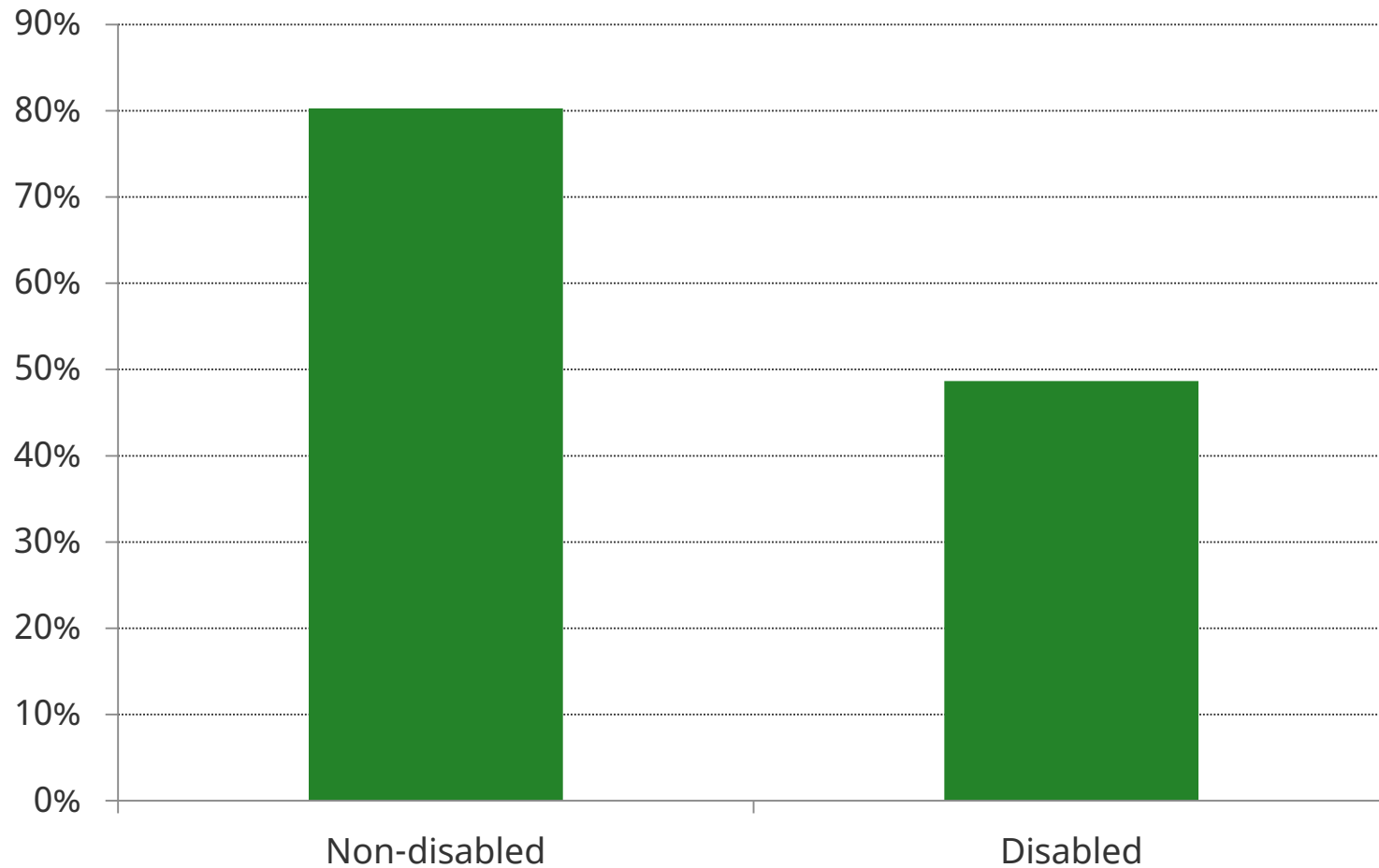
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Working age adults in poor health

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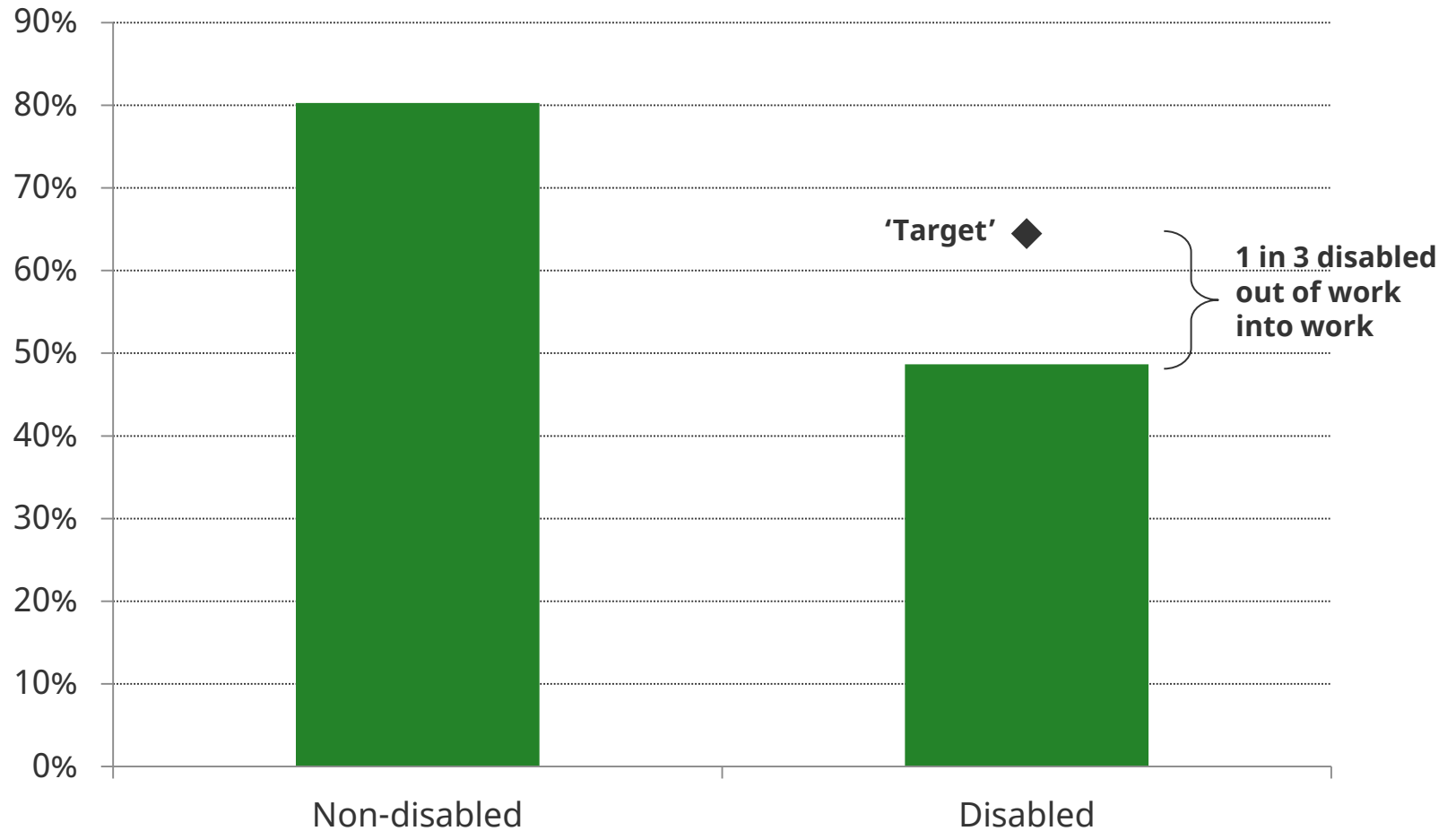
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3. Government committed to halving 'disability employment gap'.

Employment rates, disabled and non-disabled



Source: Office for National Statistics, *UK labour market: May 2018*

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This presentation

Measure health according to self-reported mental/physical condition lasting 12+ months – “longstanding illness”.

- e.g. Diabetes, respiratory problems, mental health problem.

Focus on the 25-54 year old population.

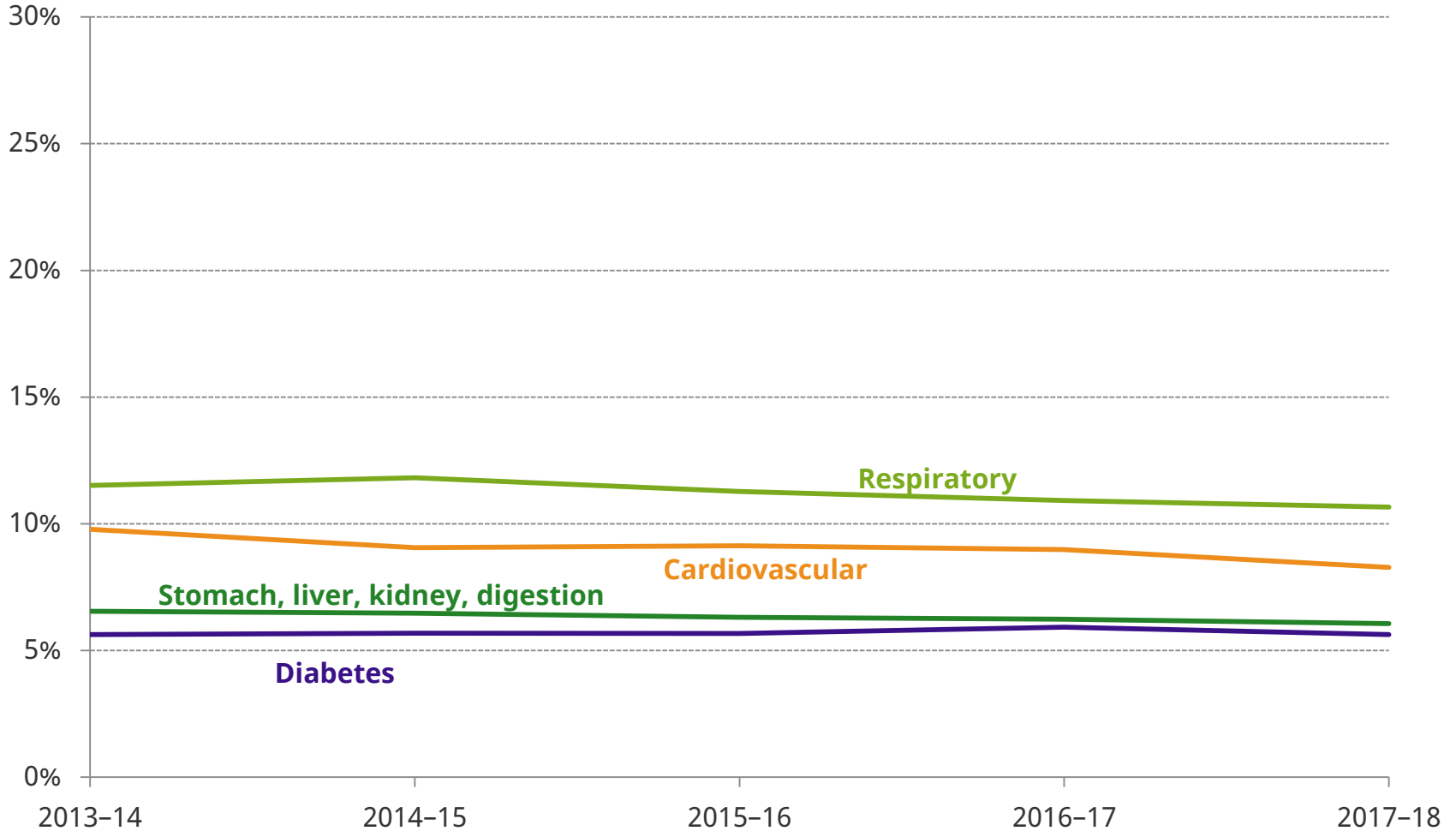
Questions to answer in this presentation:

- Who has a longstanding illness?
- How do they do in the labour market?
- How do their living standards compare to healthy people?

Who has a longstanding illness?

What kind of conditions do they have?

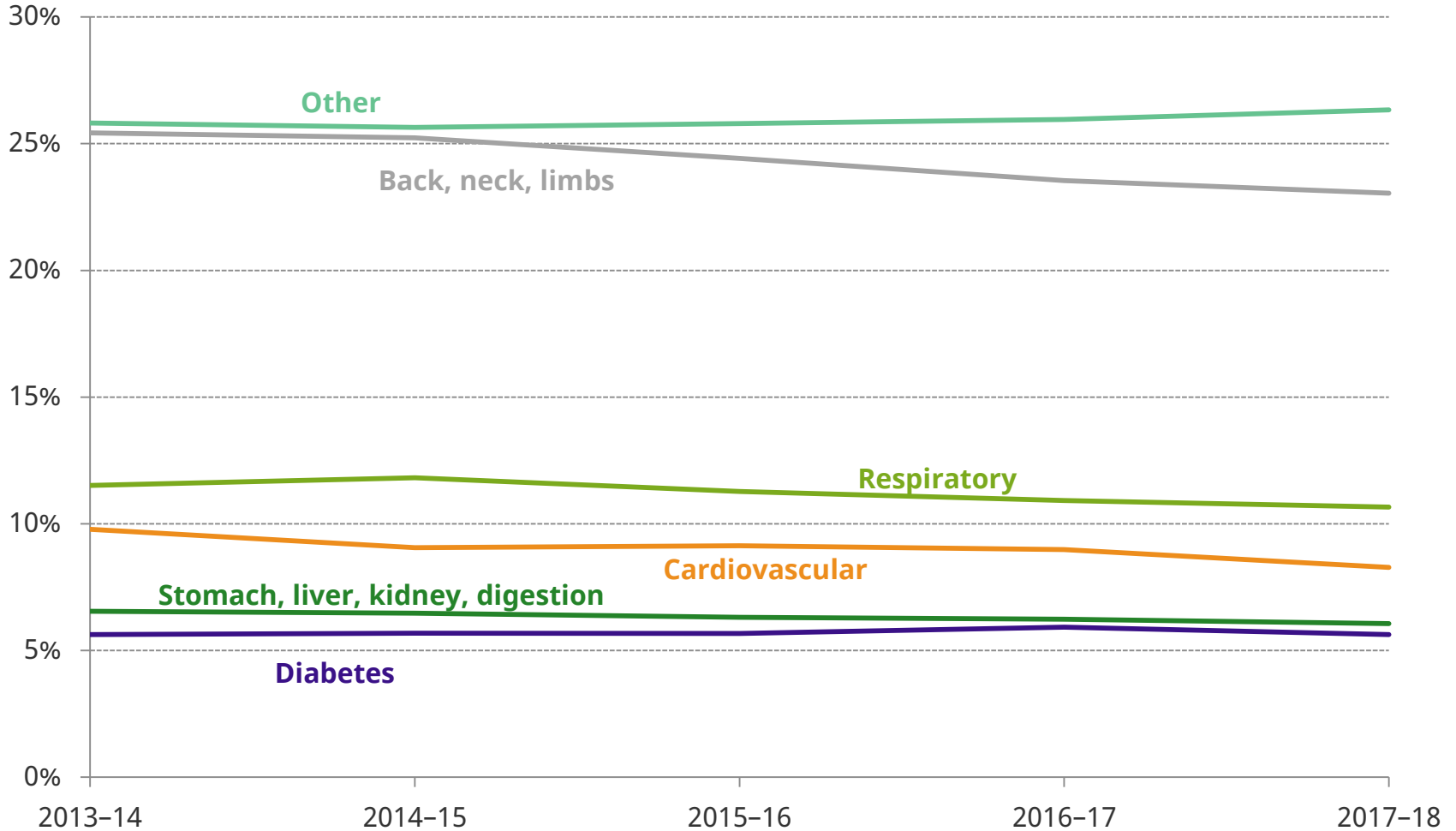
Share of 25-54 year olds with a longstanding illness



Source: Figure 5.4 of *Living Standards, Inequality and Poverty in the UK: 2018*

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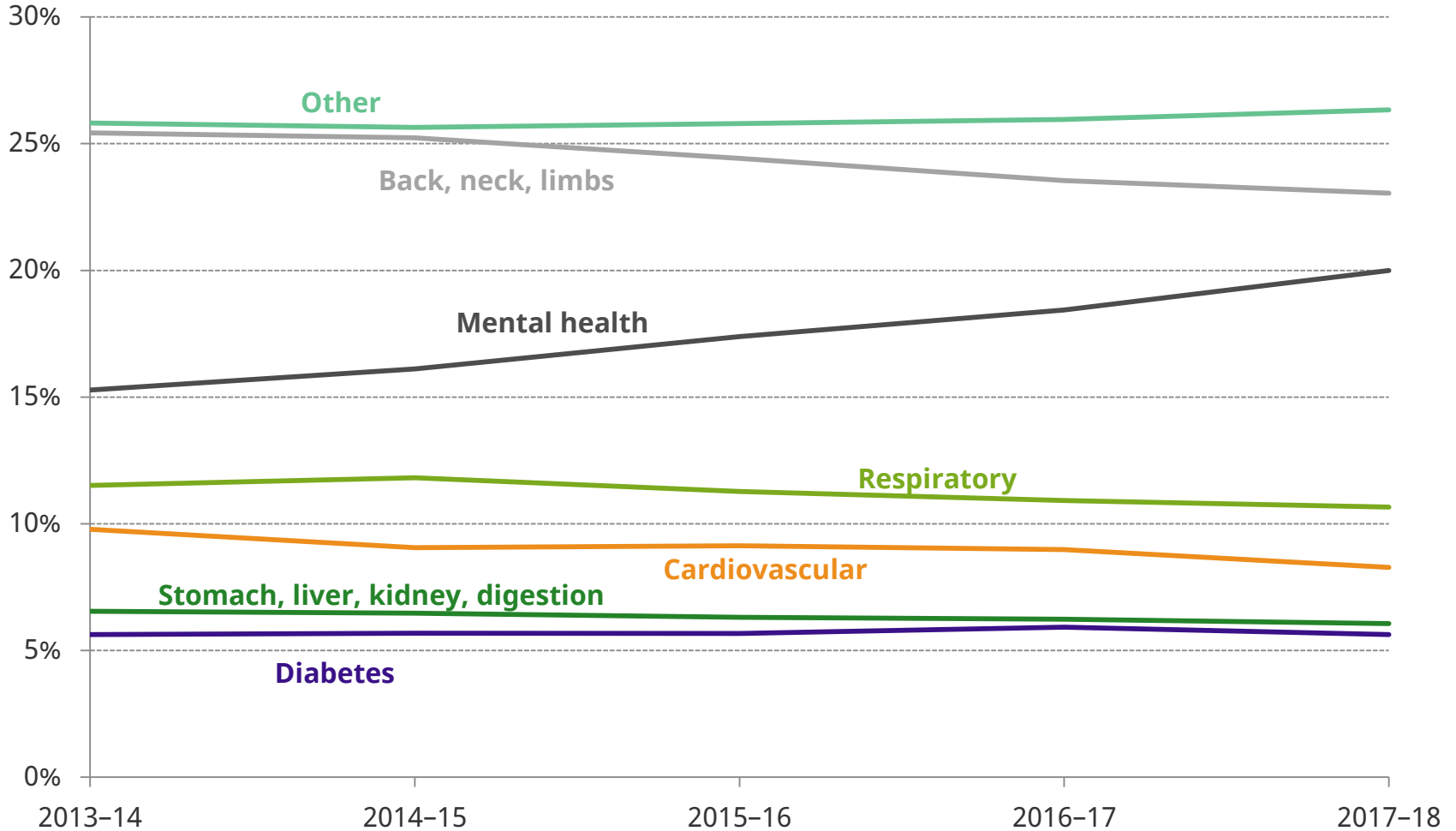
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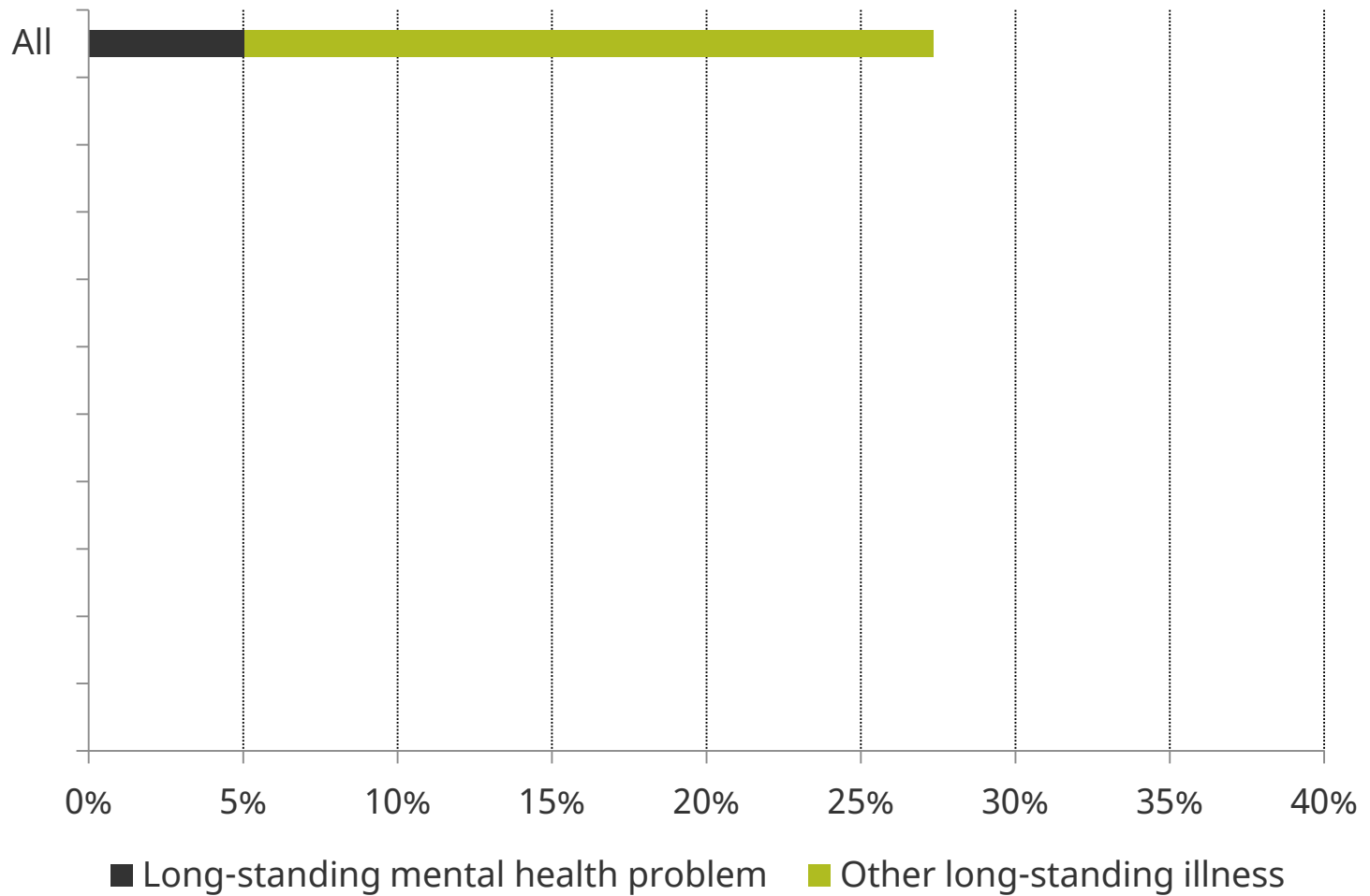
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Demographics and illness

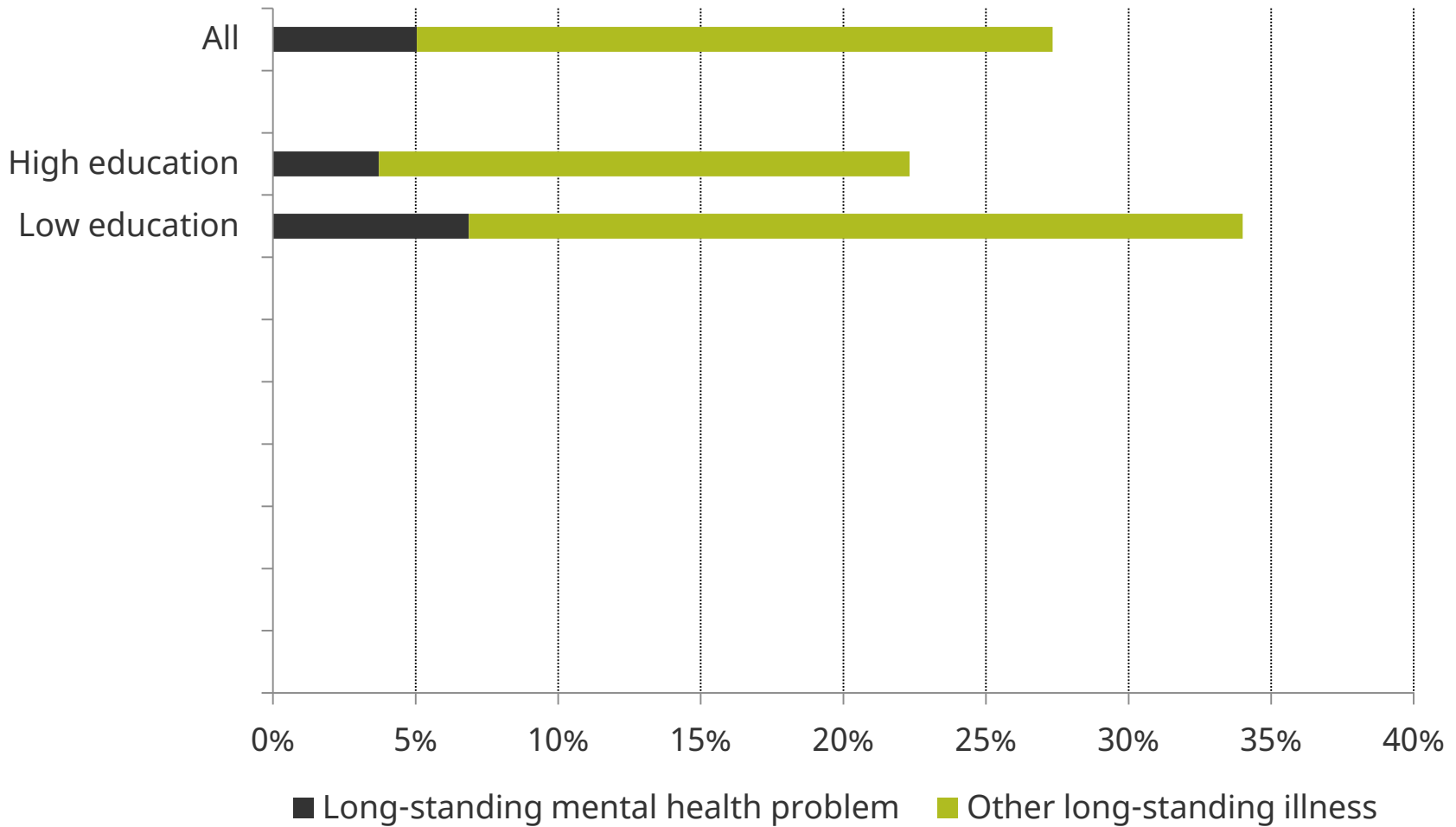
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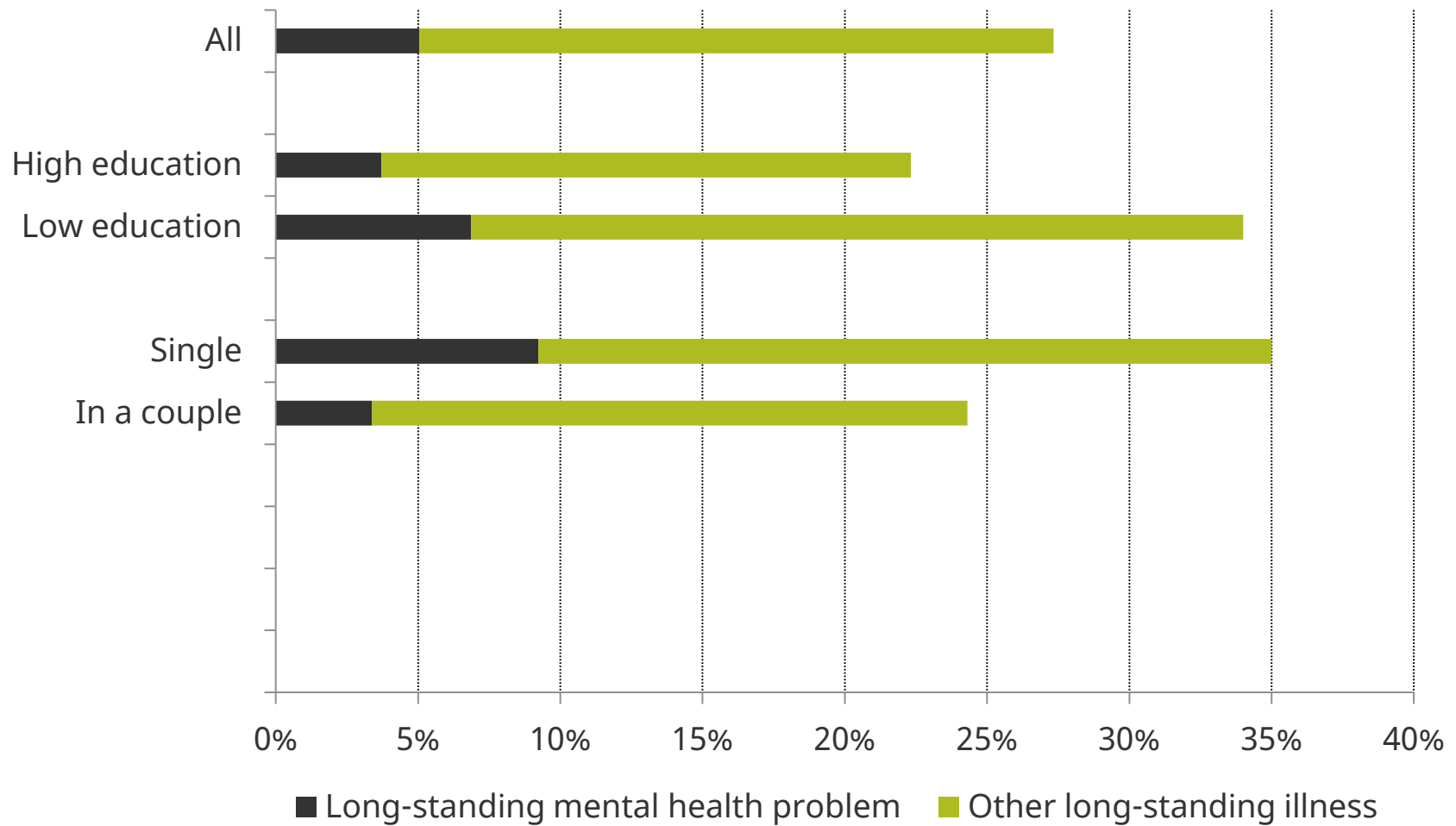
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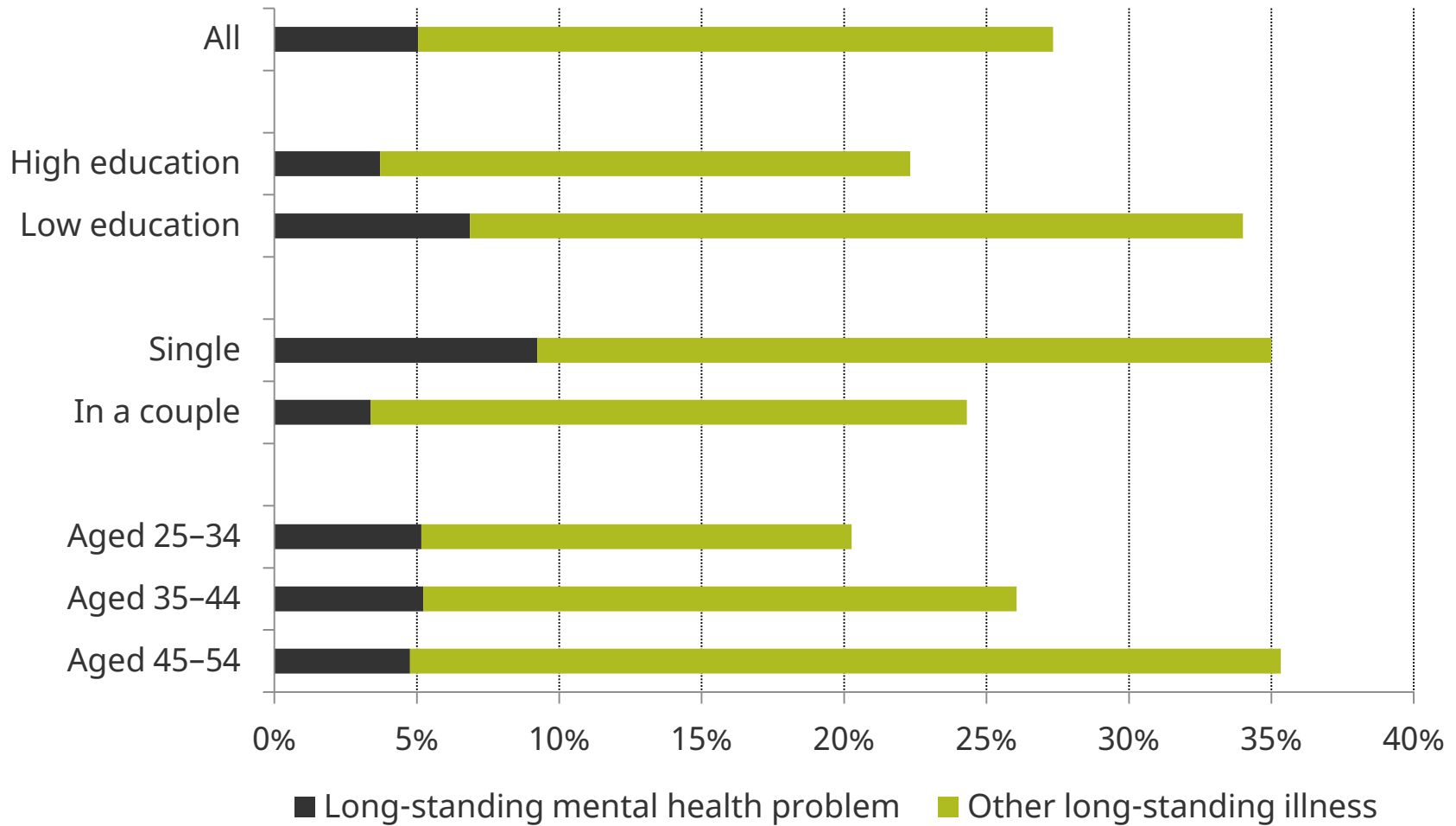
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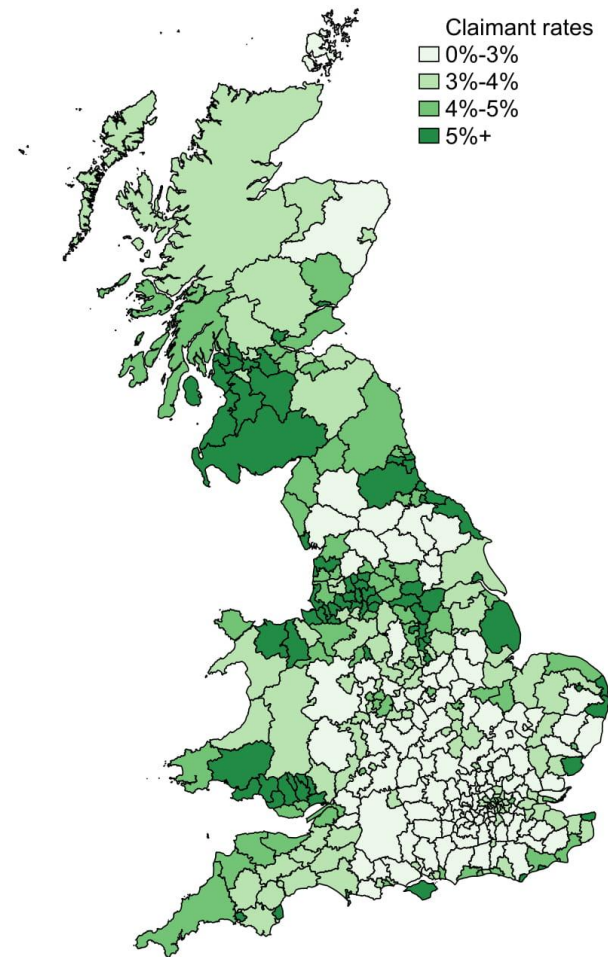
Demographics and illness

Share of 25-54 year olds with a long-standing illness



Source: Figure 5.5 of *Living Standards, Inequality and Poverty in the UK: 2018*

Geographical variation in health-related out of work benefits



Employment and support allowance (support group)

Source: Figure 6.7 of Emmerson et al. (2017) *Working-age incapacity and disability benefits*

Who are the unwell population?

Back, neck, and limbs problems are the most common conditions.

Mental health problems on the rise.

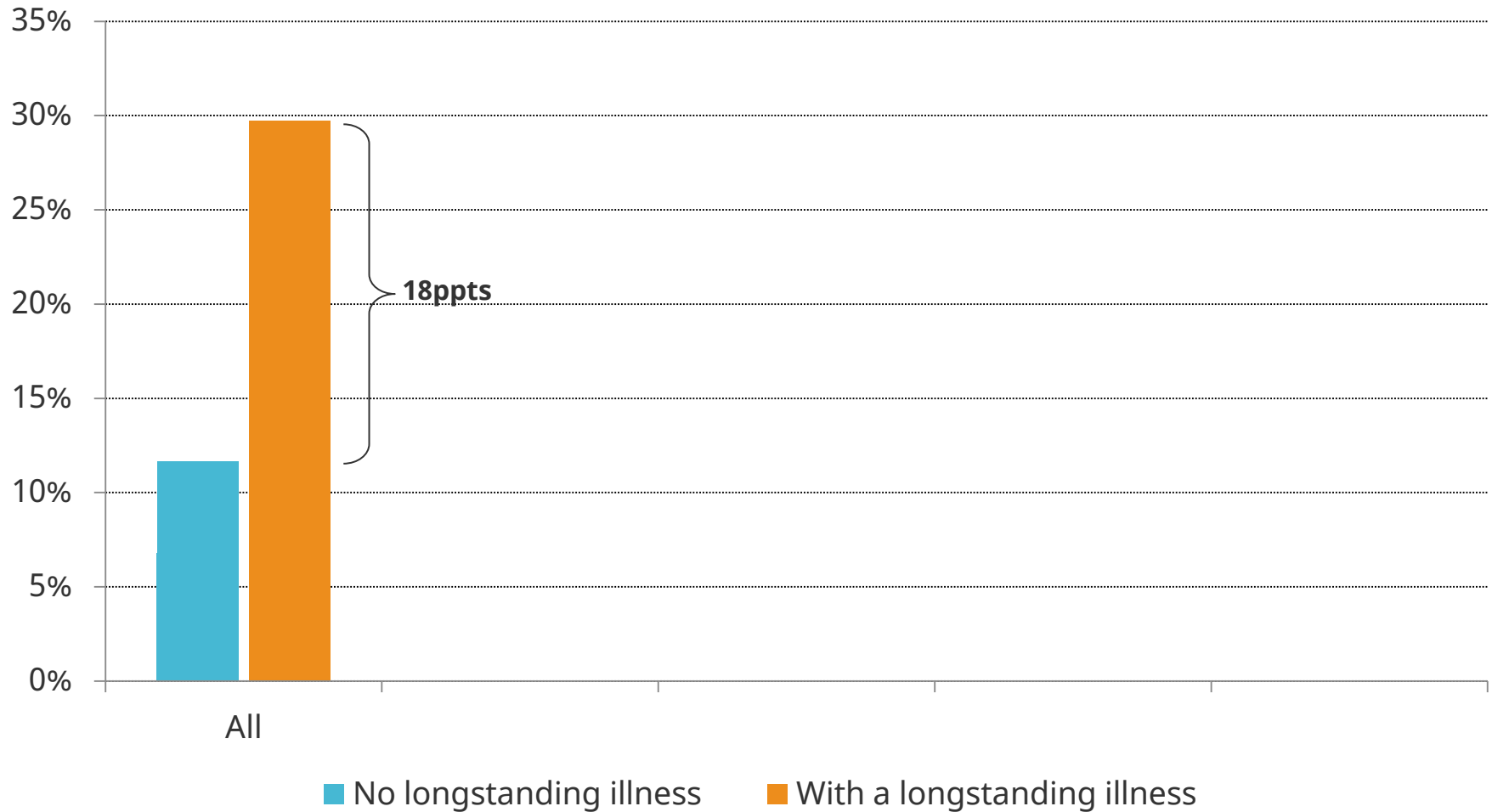
Those with a longstanding illness are generally less educated, more likely to be single, and older.

Incapacity benefit claimants concentrated in West of Scotland, South Wales, North of England

How do they do in the labour market?

Out-of-work rates and longstanding illness

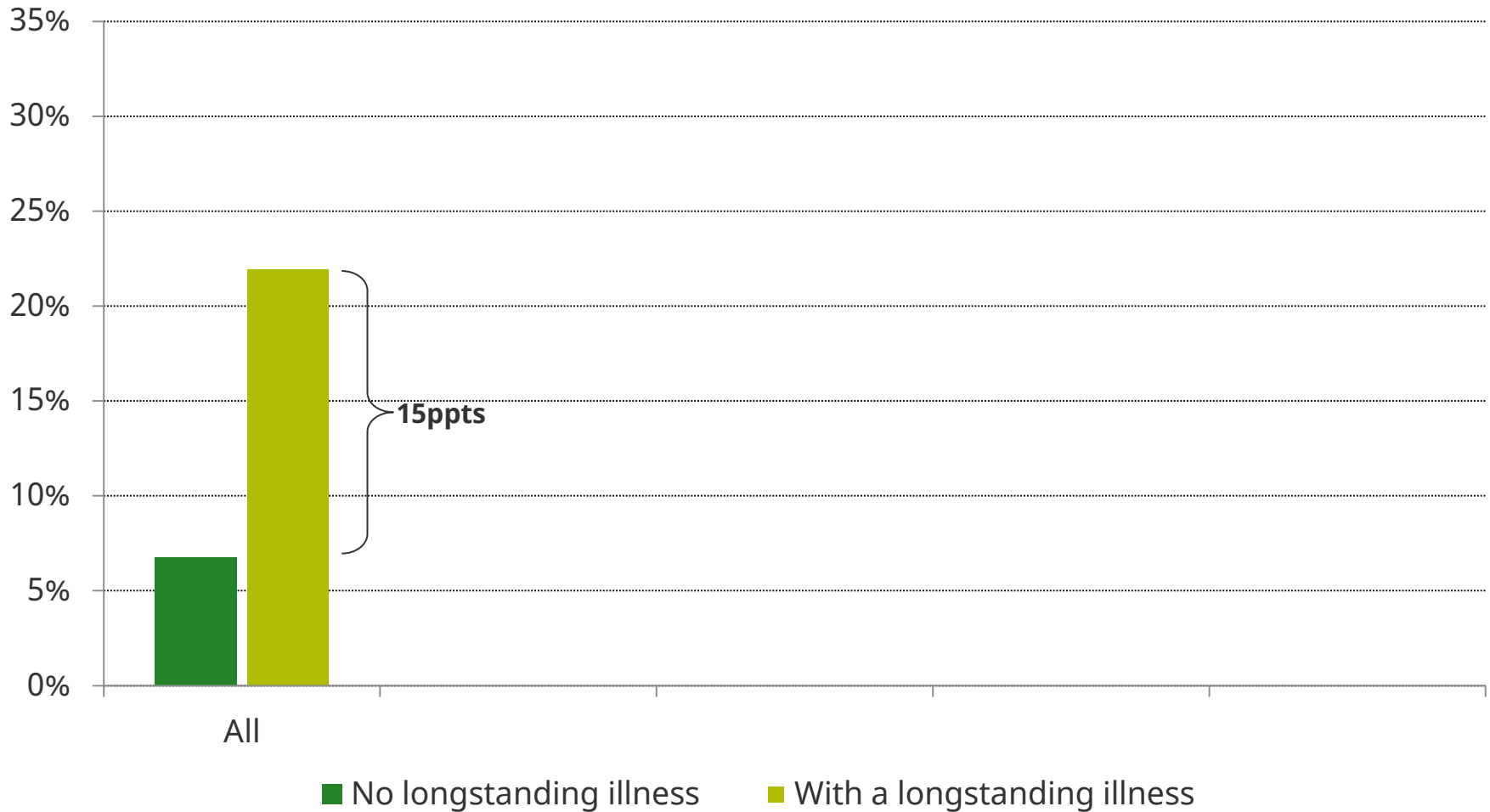
Share of 25-54 year olds out of work



Source: Figure 5.8 of *Living Standards, Inequality and Poverty in the UK: 2018*

Long-term out-of-work rates and illness

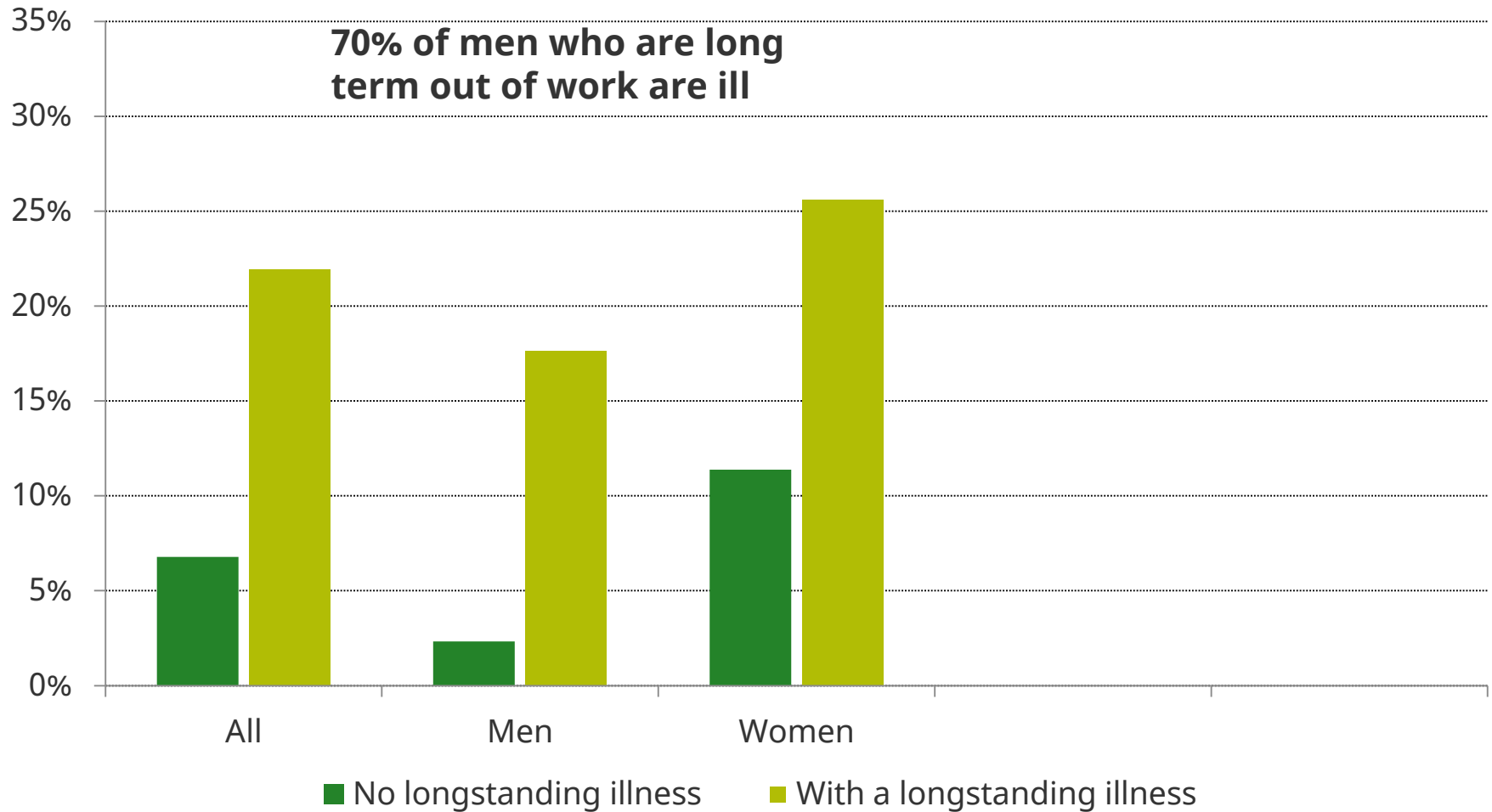
Share of 25-54 year olds out of work for 3+ years



Source: Figure 5.8 of *Living Standards, Inequality and Poverty in the UK: 2018*

Long-term out-of-work rates and illness

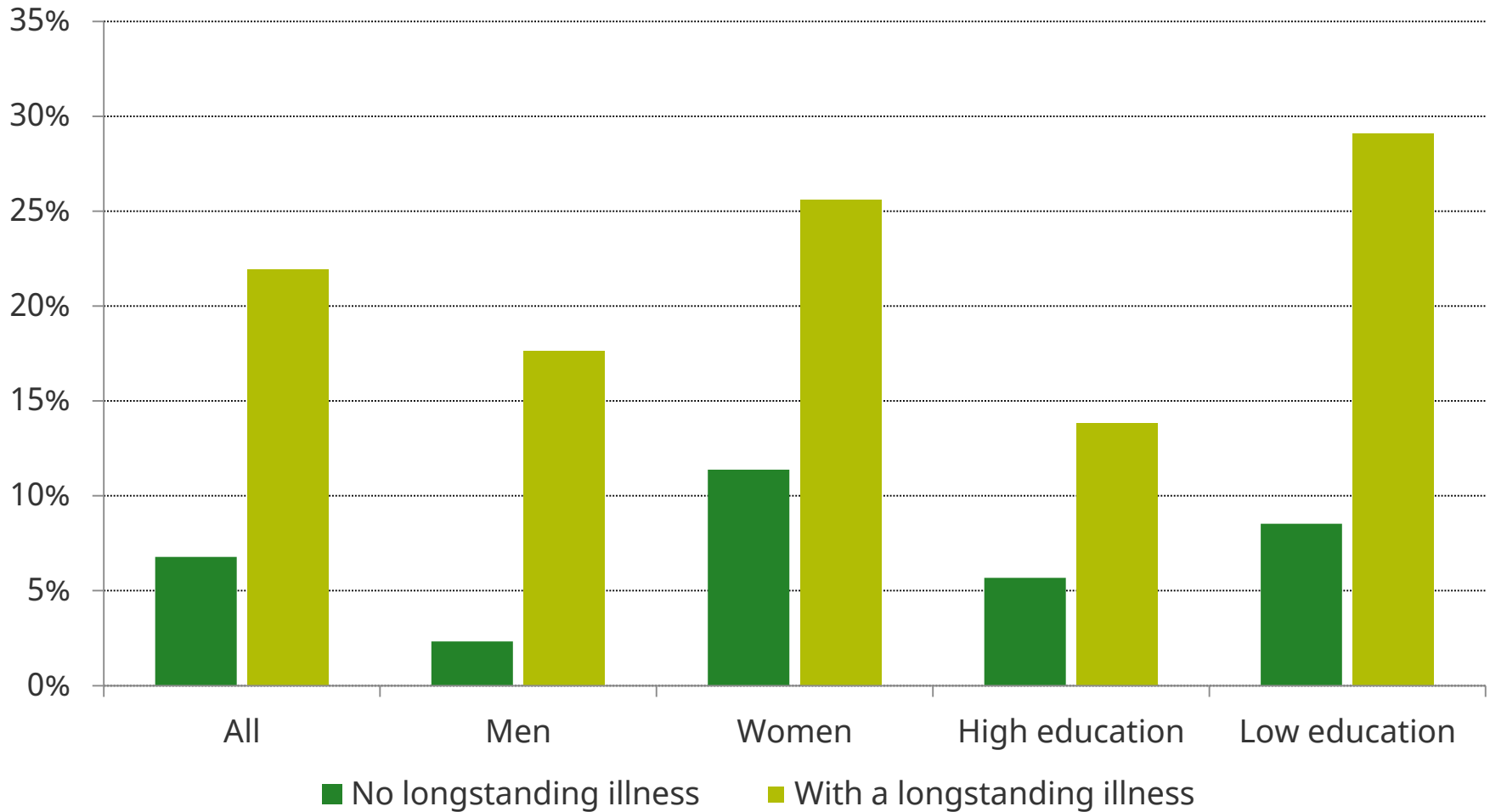
Share of 25-54 year olds out of work for 3+ years



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Long-term out-of-work rates and illness

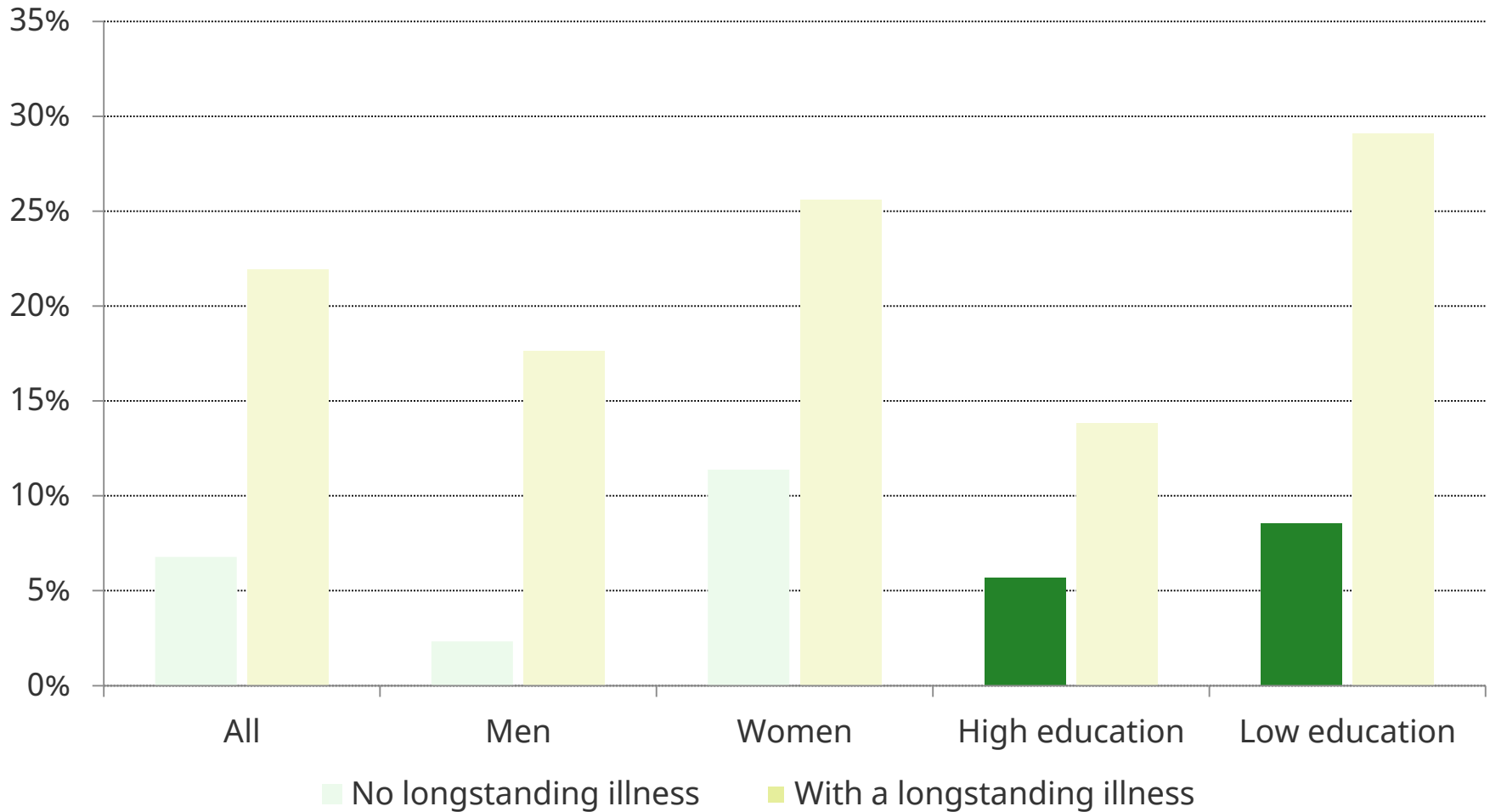
Share of 25-54 year olds out of work for 3+ years



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Long-term out-of-work rates and illness

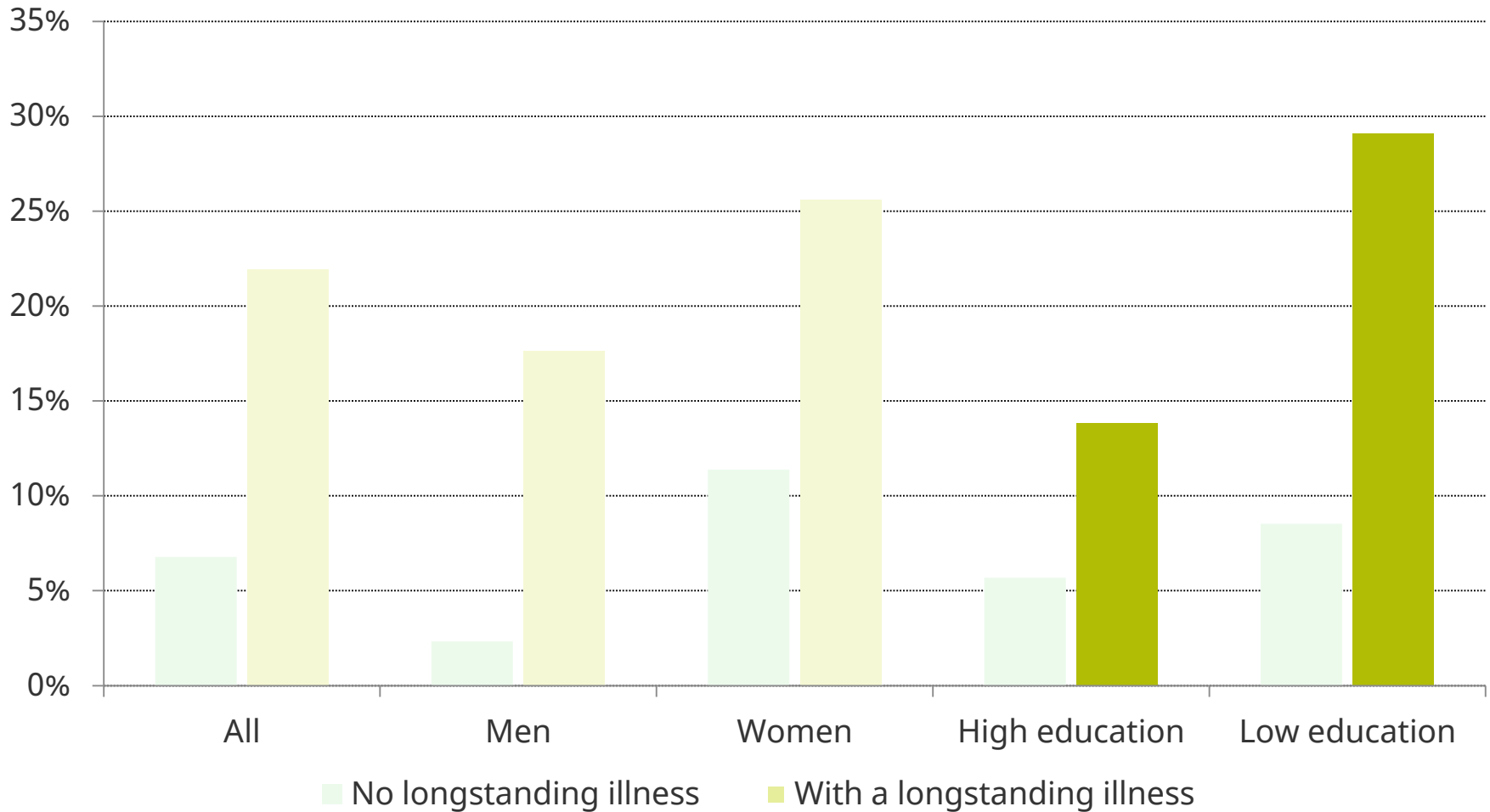
Share of 25-54 year olds out of work for 3+ years



Source: Figure 5.8 of *Living Standards, Inequality and Poverty in the UK: 2018*

Long-term out-of-work rates and illness

Share of 25-54 year olds out of work for 3+ years



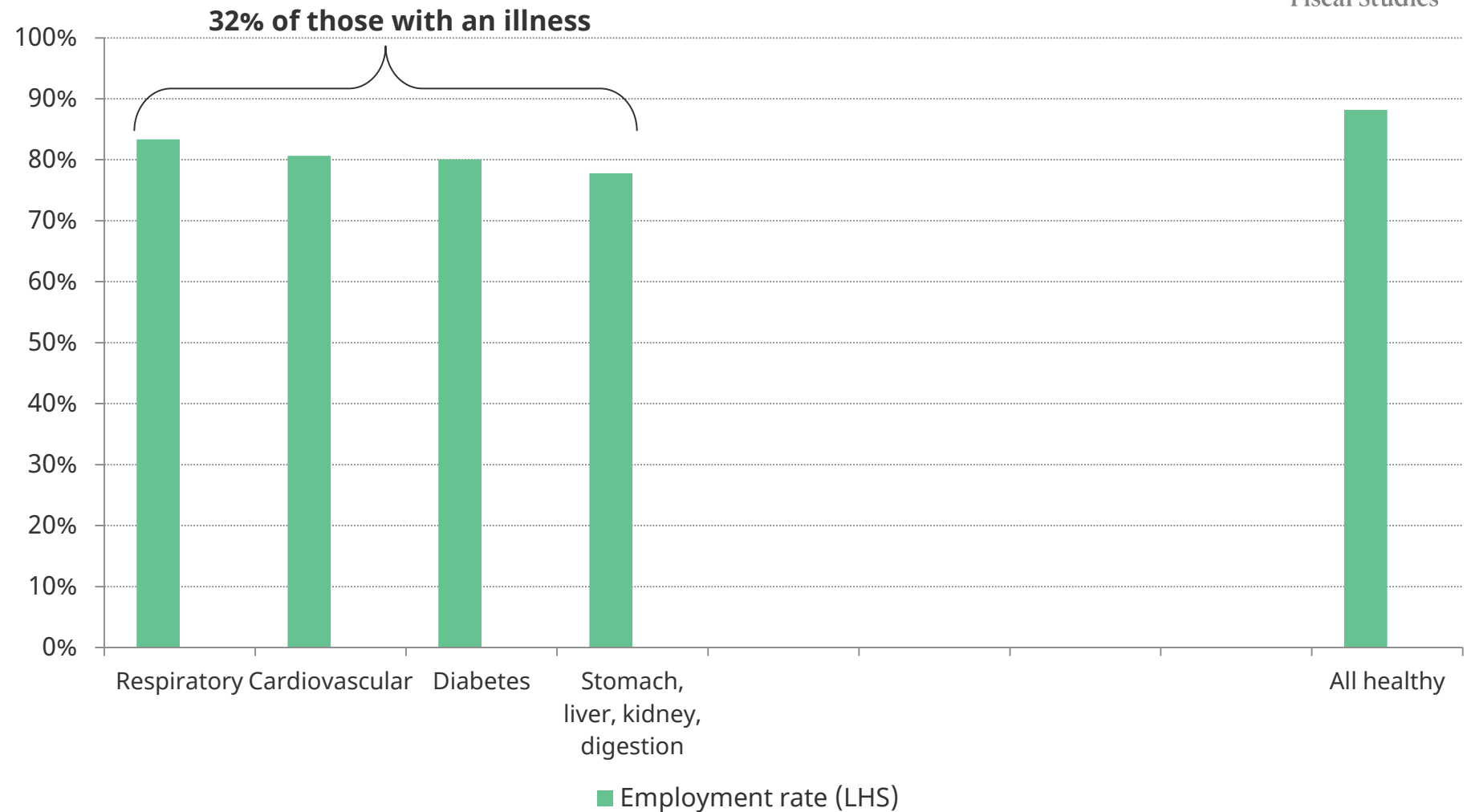
Source: Figure 5.8 of *Living Standards, Inequality and Poverty in the UK: 2018*

Labour market outcomes by condition



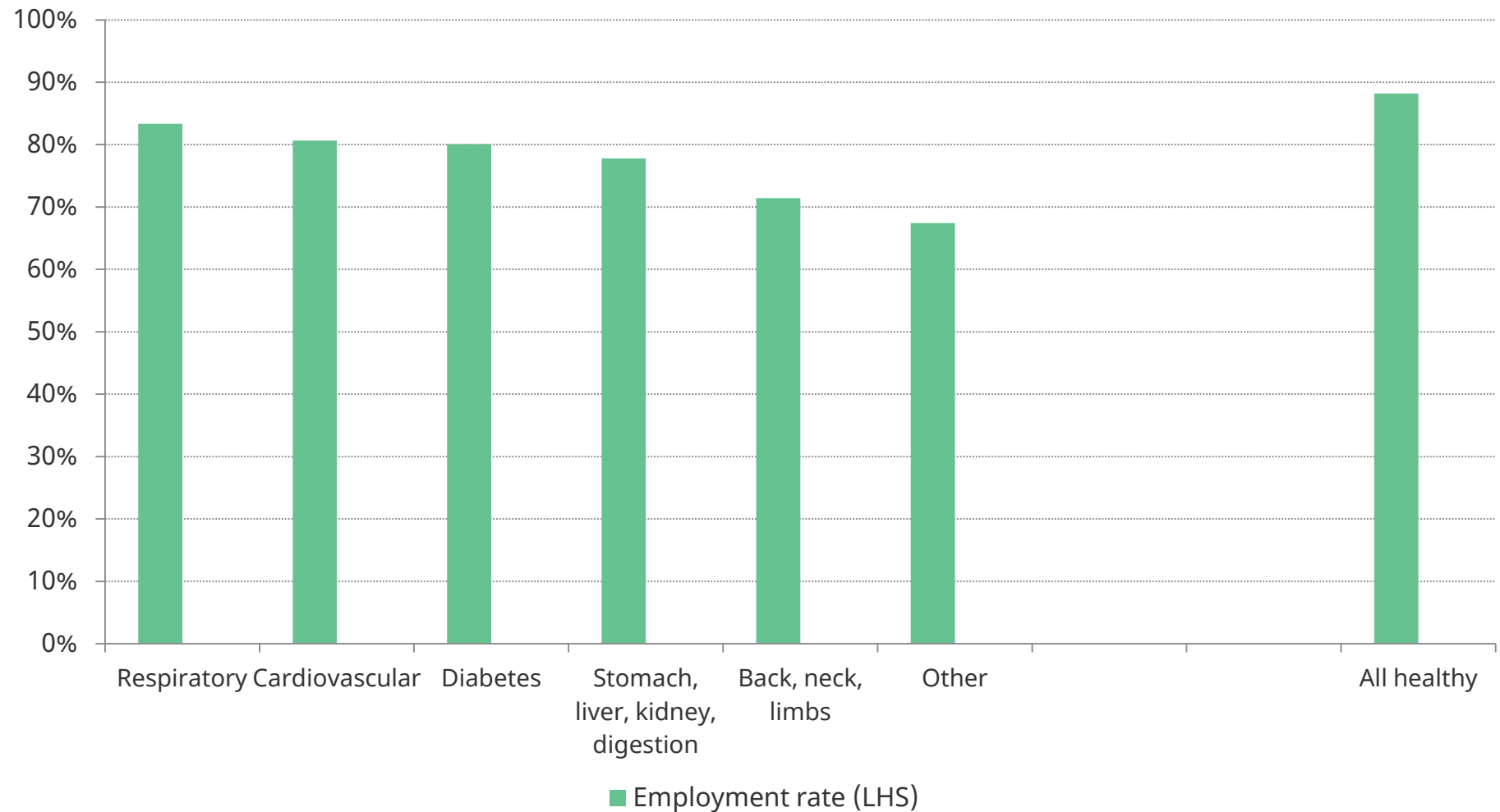
Source: Table 5.1 of *Living Standards, Inequality and Poverty in the UK: 2018*

Labour market outcomes by condition



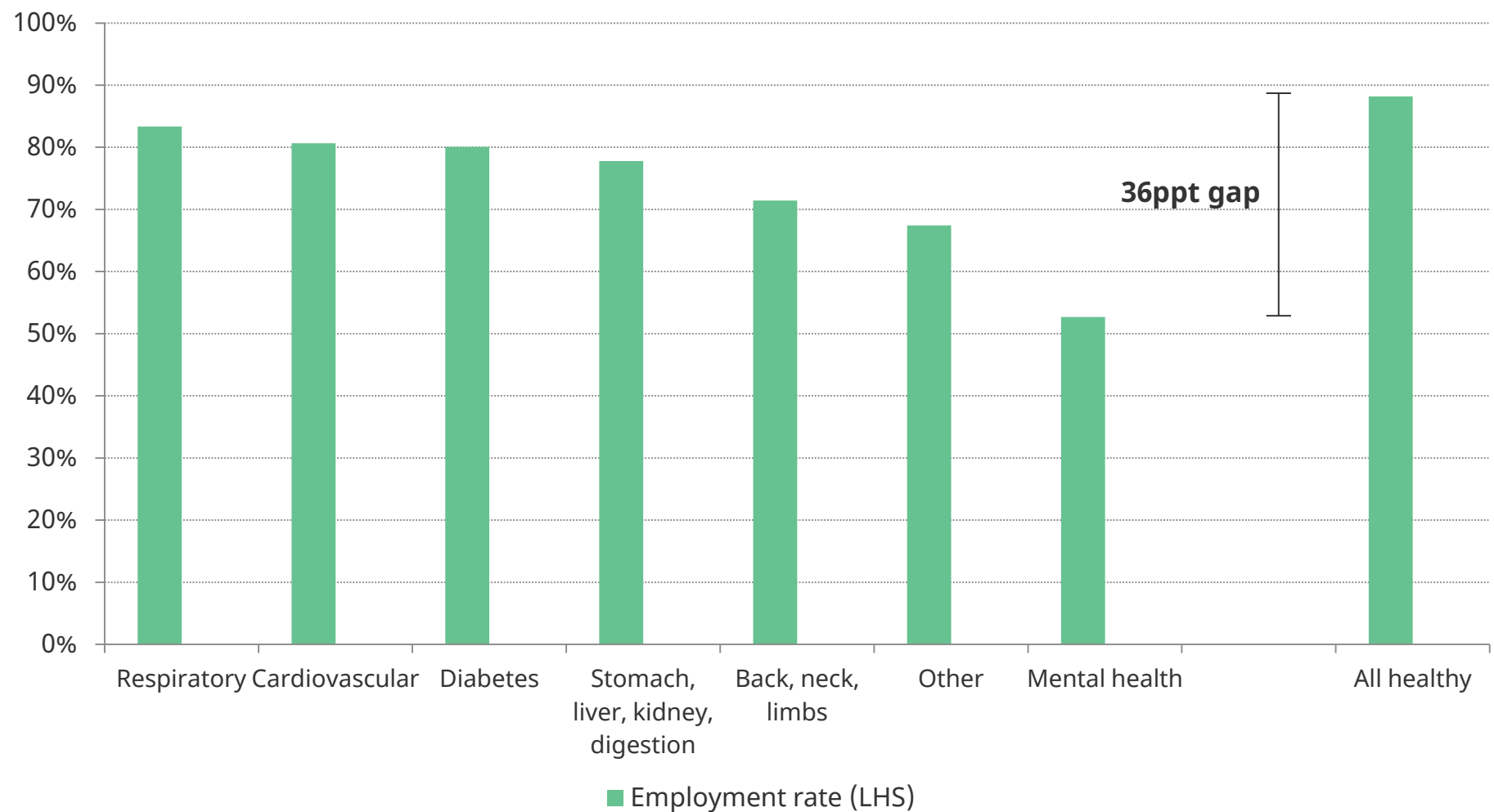
Source: Table 5.1 of *Living Standards, Inequality and Poverty in the UK: 2018*

Labour market outcomes by condition



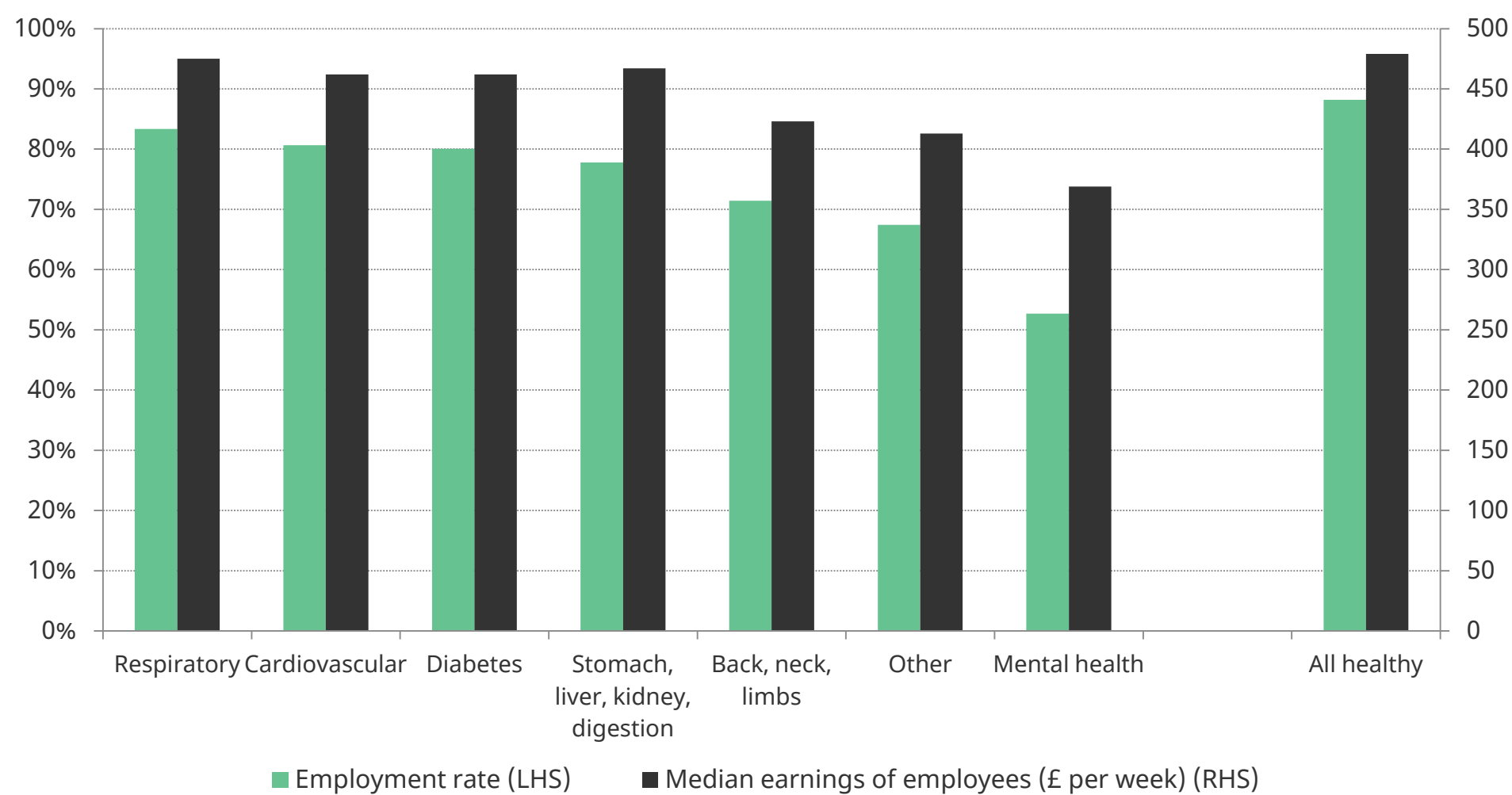
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Labour market outcomes by condition



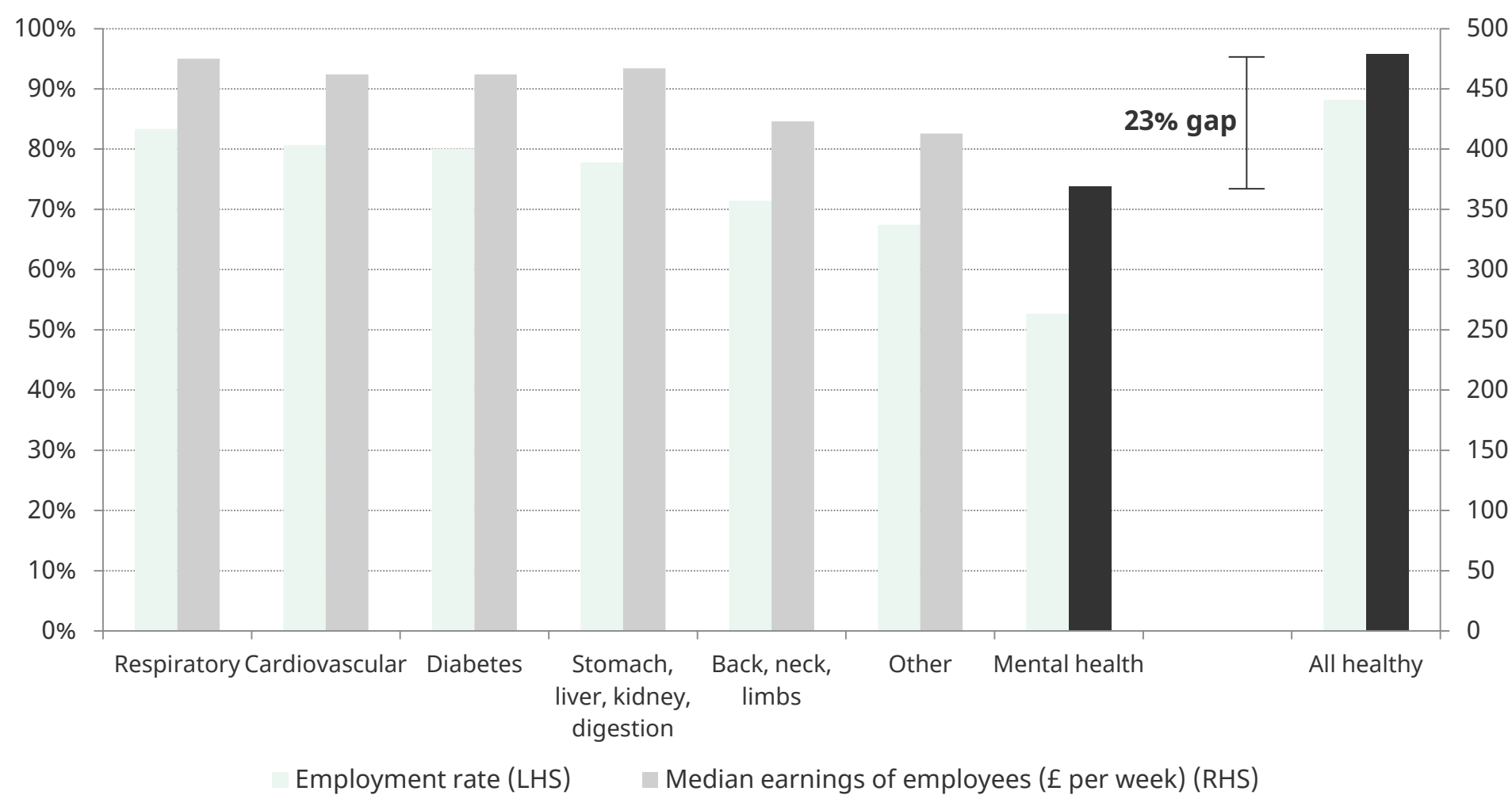
Source: Table 5.1 of *Living Standards, Inequality and Poverty in the UK: 2018*

Labour market outcomes by condition



Source: Table 5.1 of *Living Standards, Inequality and Poverty in the UK: 2018*

Labour market outcomes by condition



Source: Table 5.1 of *Living Standards, Inequality and Poverty in the UK: 2018*

How do those with an illness do in the labour market?

People with a longstanding illness are more likely to be out of work, and much more likely to be long-term out of work than those without.

Men & low educated especially likely to be long-term out of work if they have a longstanding illness.

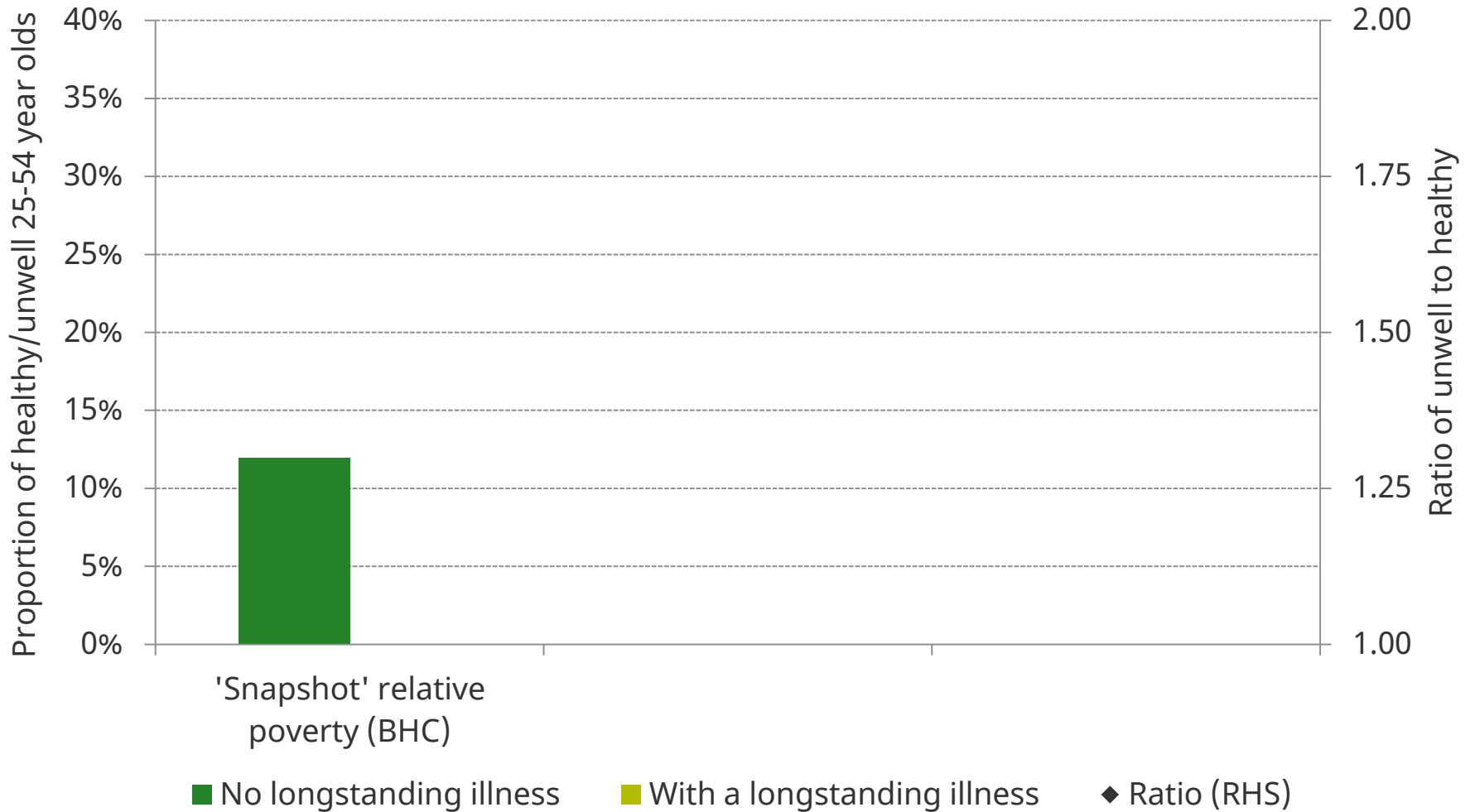
Those with mental health conditions experience considerably worse labour market outcomes than people with other conditions.

How do their living standards compare to healthy people?

Living standards and poor health

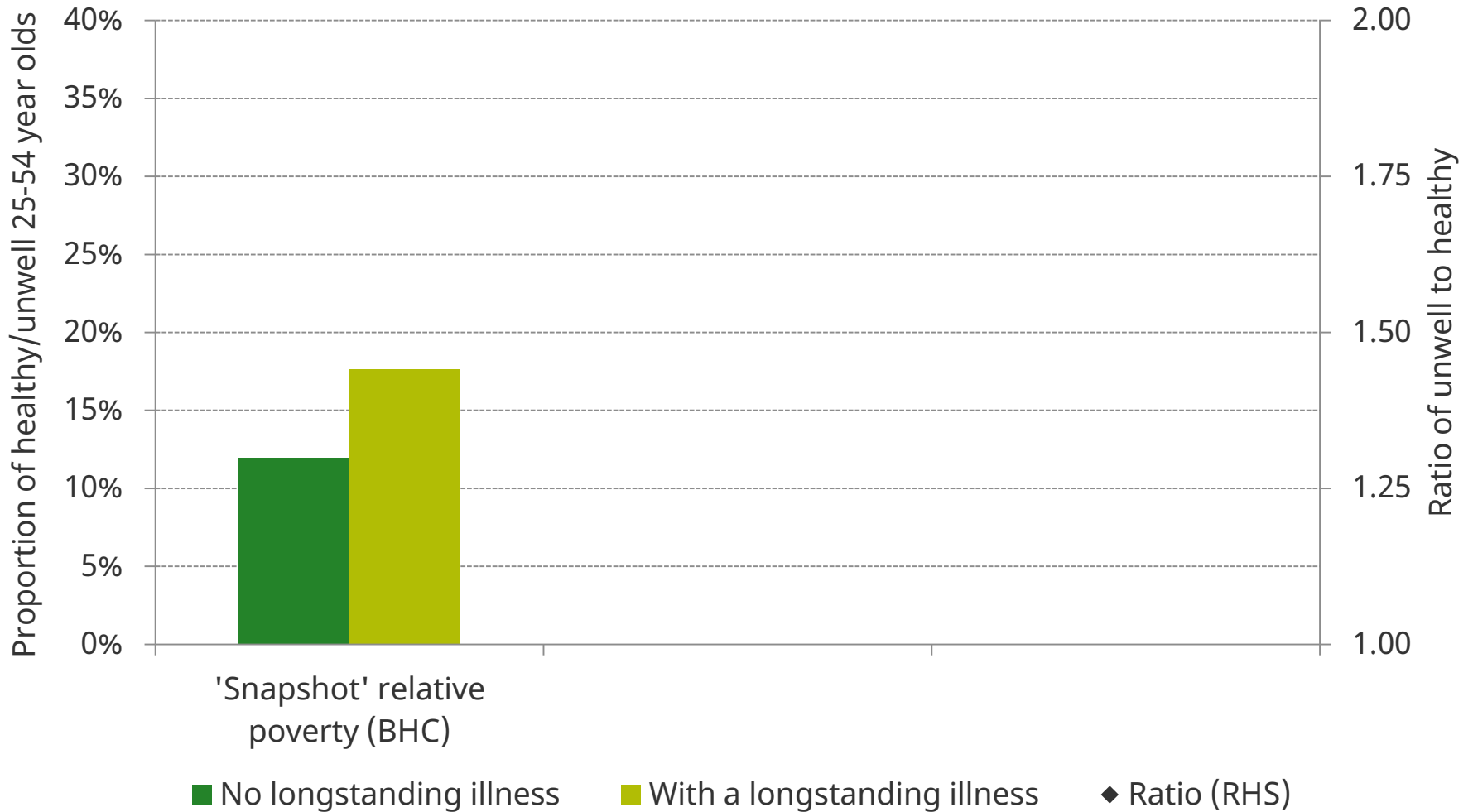
Given poorer labour market outcomes of those with longstanding illness, likely to lead to lower incomes & living standards.

Living standards and poor health



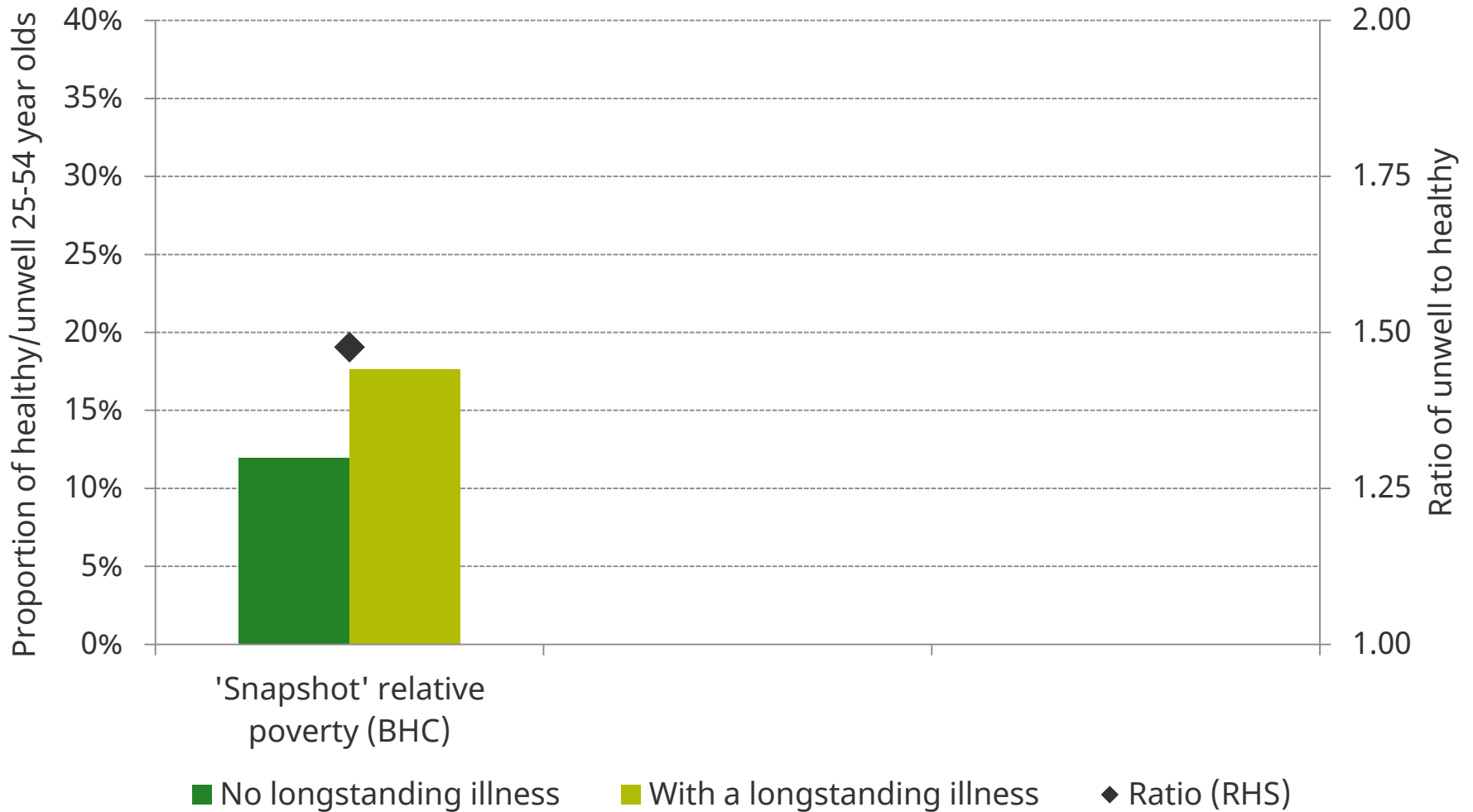
Source: Figure 5.11 of *Living Standards, Inequality and Poverty in the UK: 2018*

Living standards and poor health



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Living standards and poor health



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Living standards and poor health

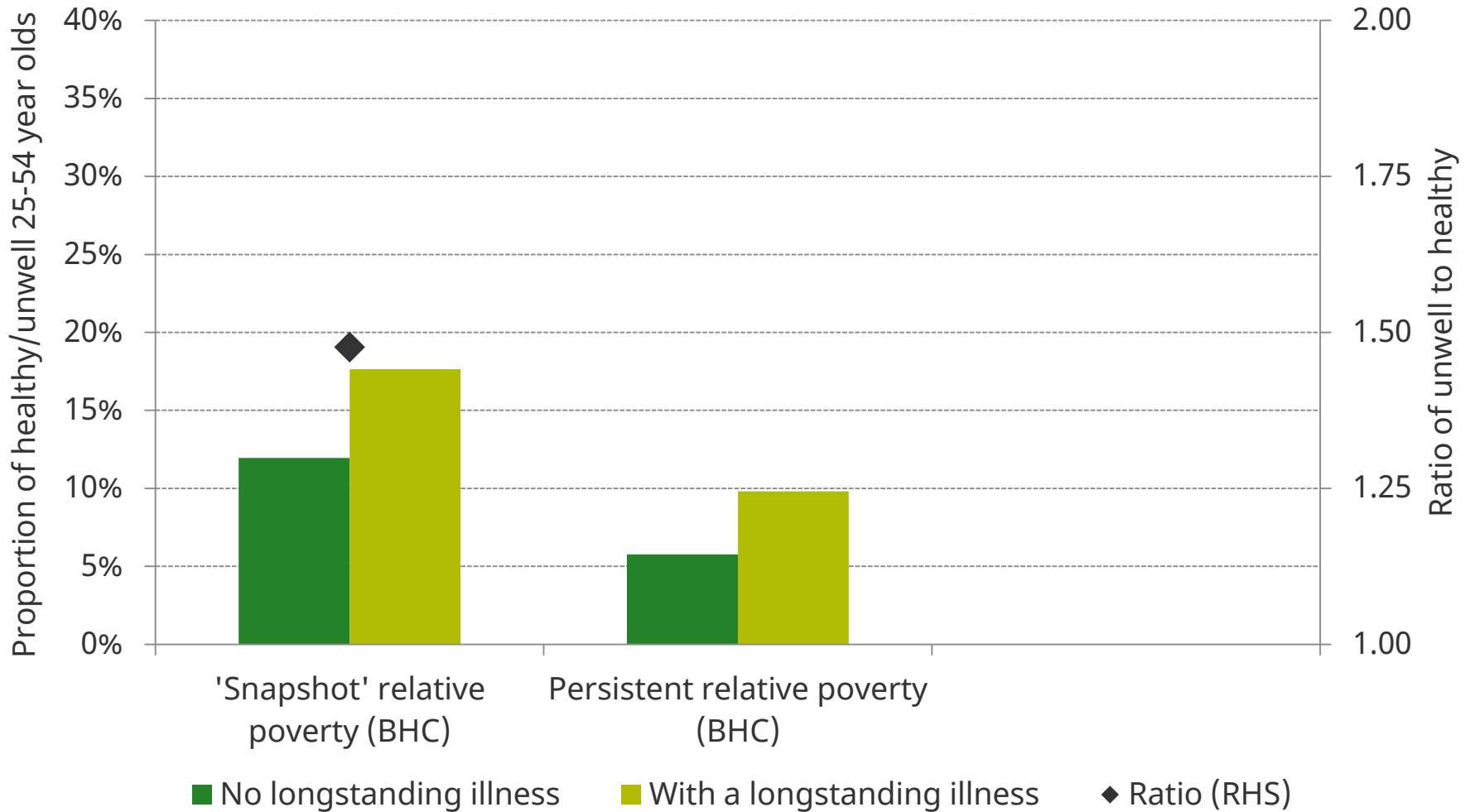
Given poorer labour market outcomes of those with longstanding illness, likely to lead to lower incomes & living standards.

But other ways illness related to living standards, including:

- Low income for longer periods
- Expenditure on health-related goods & services

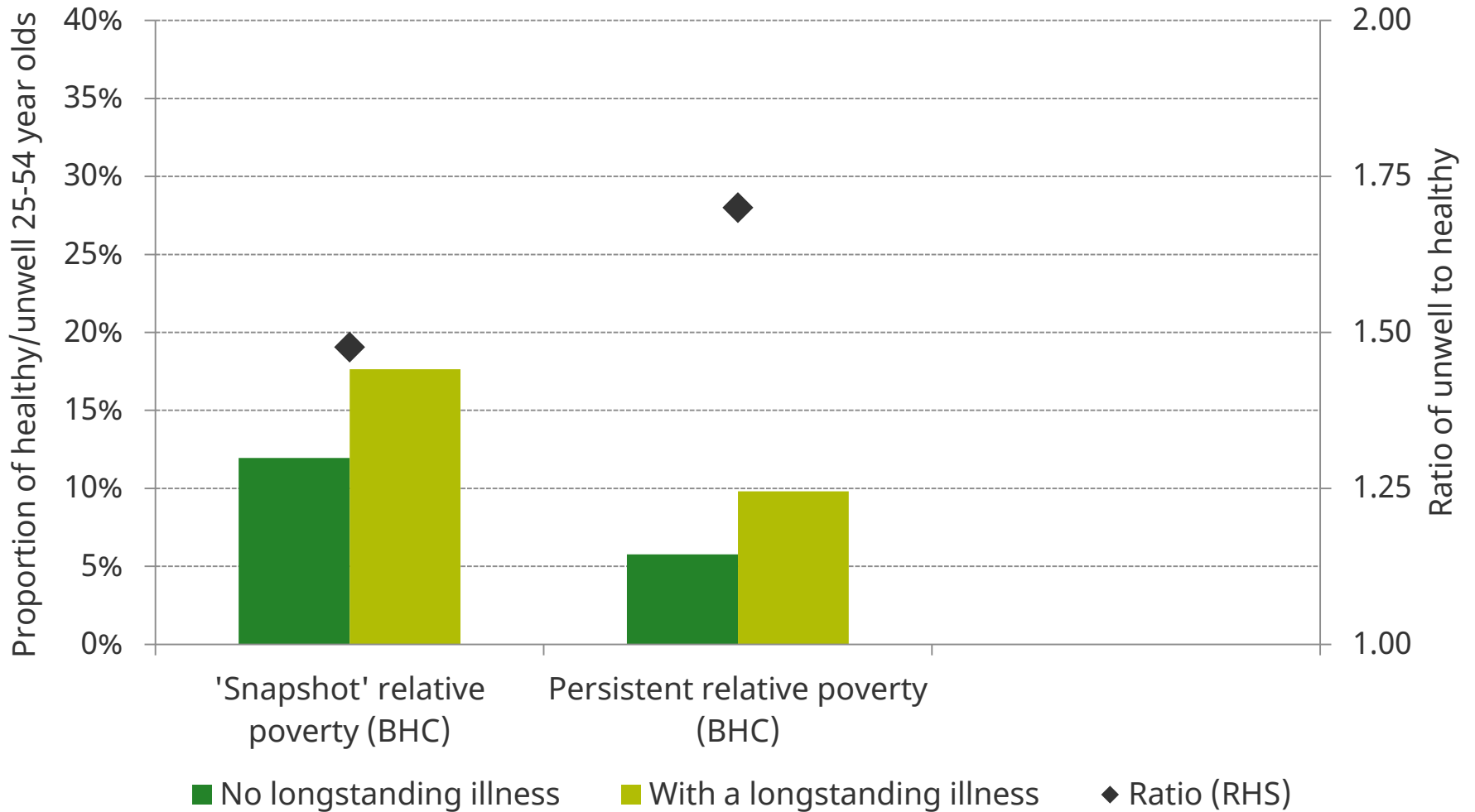
Therefore, 'snapshot' (income) poverty doesn't tell the whole story.

Living standards and poor health



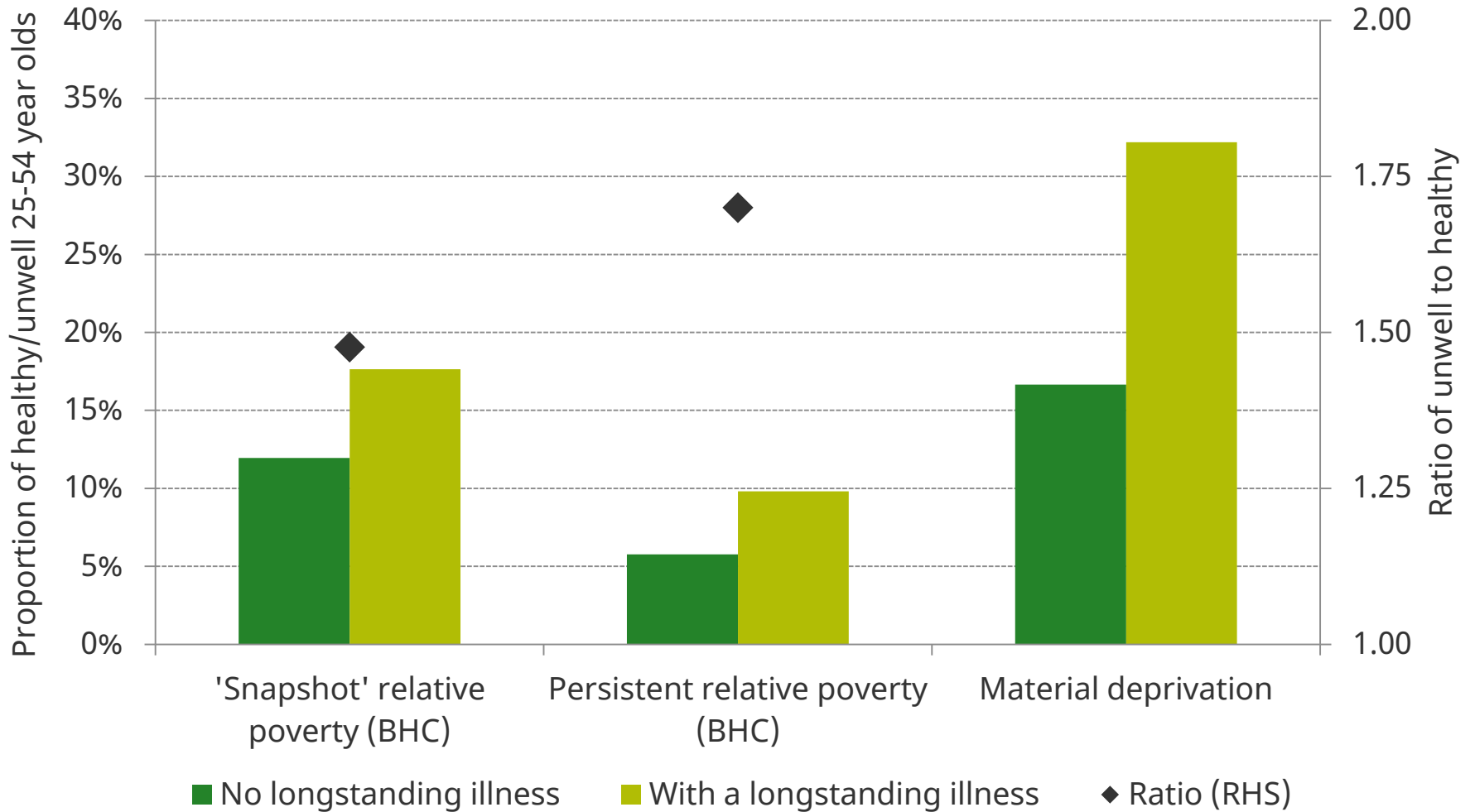
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Living standards and poor health



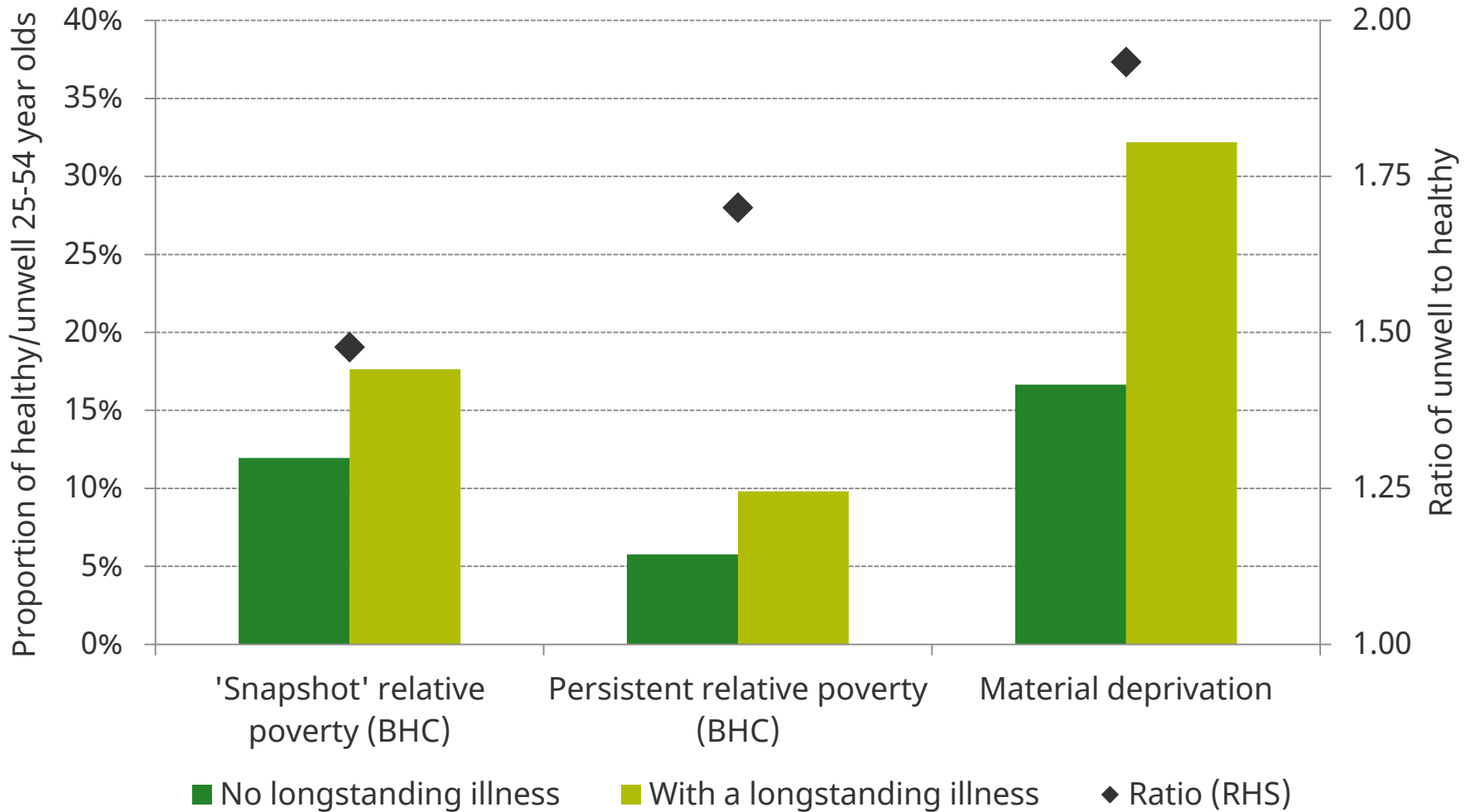
Source: Figure 5.11 of *Living Standards, Inequality and Poverty in the UK: 2018*

Living standards and poor health



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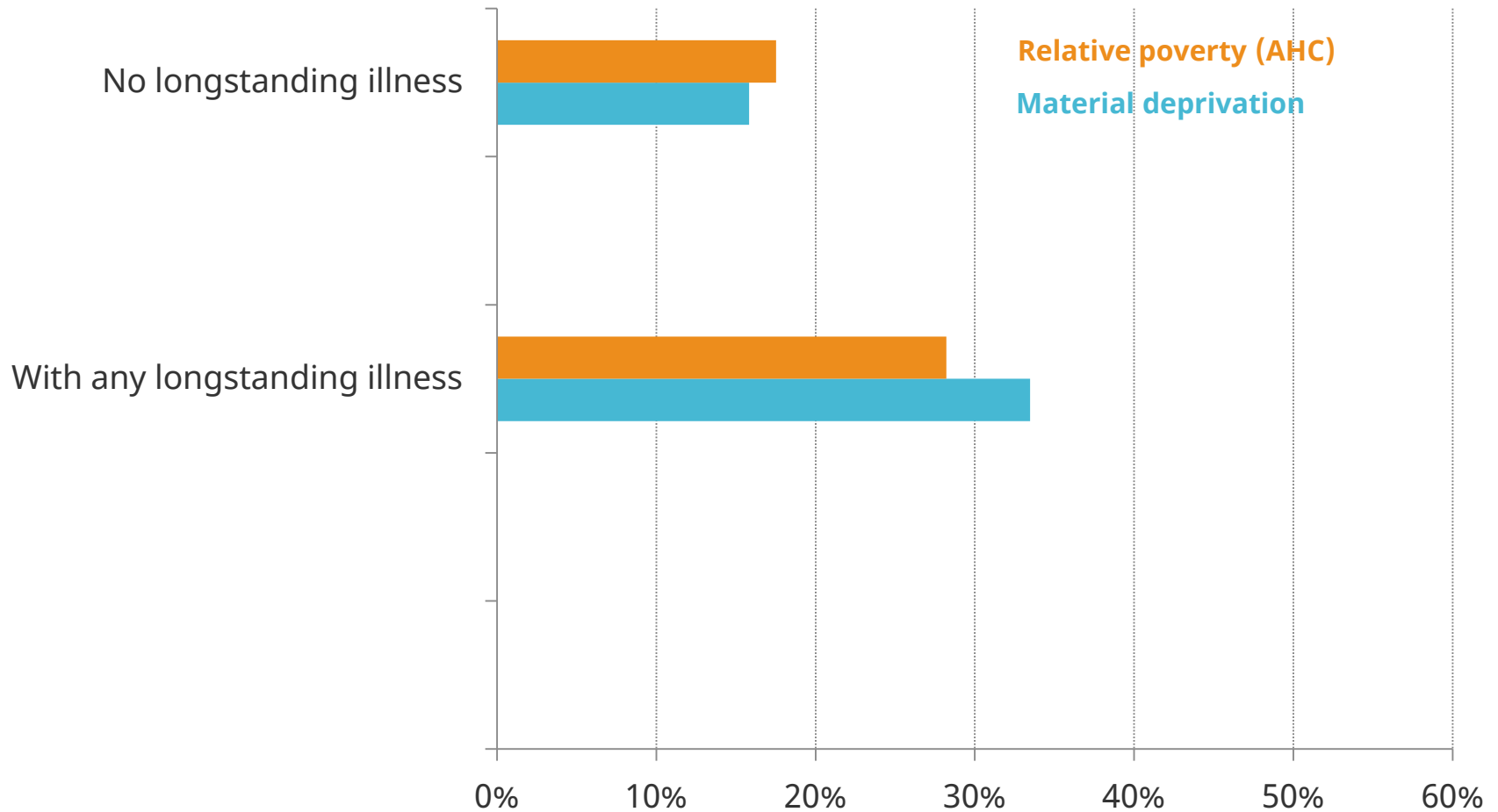
Living standards and poor health



Source: Figure 5.11 of *Living Standards, Inequality and Poverty in the UK: 2018*

Poverty, mental health, and multiple illnesses

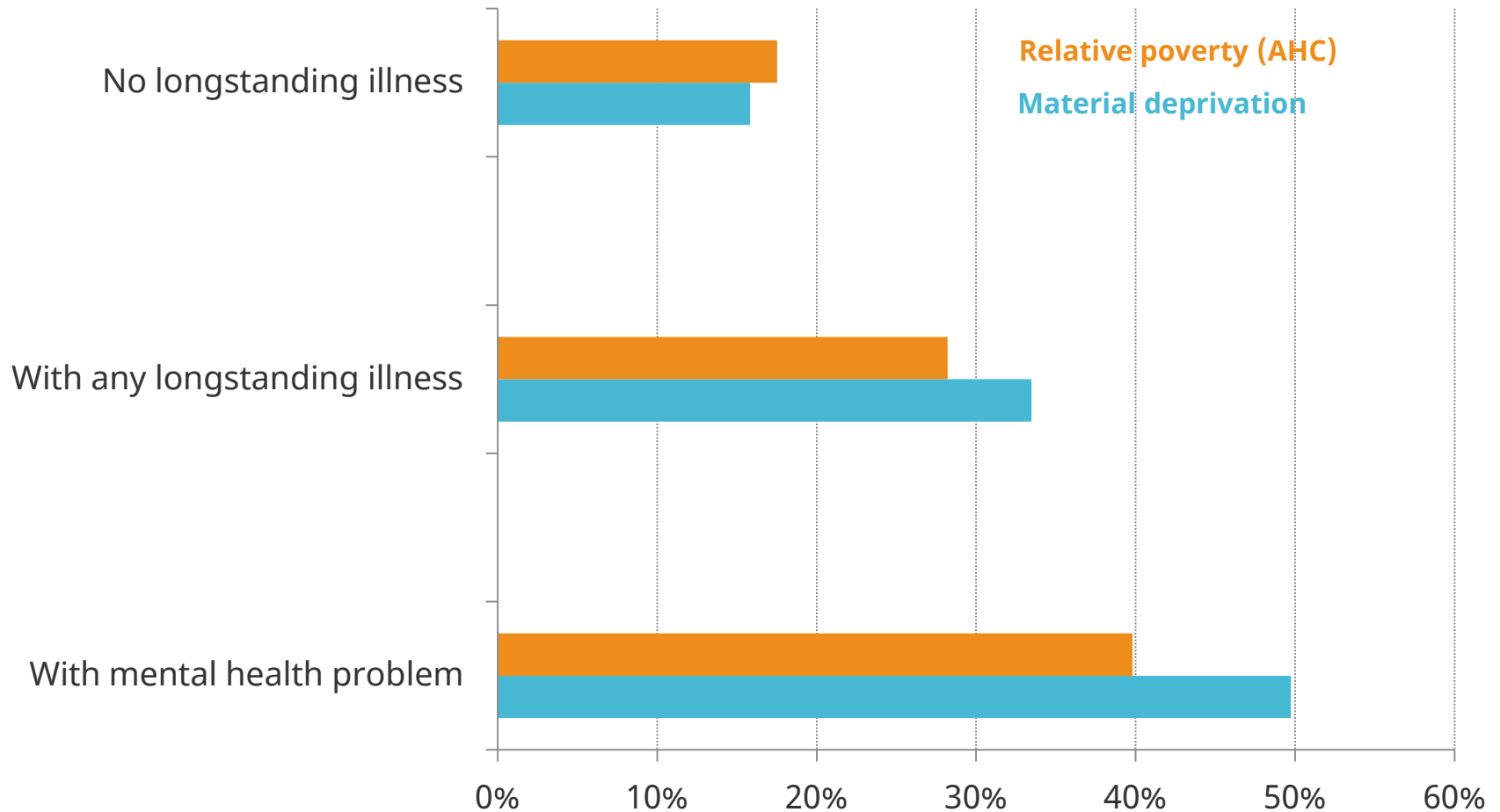
Share of 25-54 year olds in relative poverty and material deprivation



Source: Figure 5.13 of *Living Standards, Inequality and Poverty in the UK: 2018*

Poverty, mental health, and multiple illnesses

Share of 25-54 year olds in relative poverty and material deprivation



Source: Figure 5.13 of *Living Standards, Inequality and Poverty in the UK: 2018*

Summary

Poor health is associated with significantly lower living standards

Those with mental health problems see markedly worse outcomes

- Employment, earnings, living standards
- Particularly concerning as mental health problems on the rise

Snapshot measures understate poor outcomes among those with a longstanding illness

- Much more likely to be long term out of work
- Large differences in persistent poverty & material deprivation

Living standards, poverty and inequality in the UK: 2018

20 June 2018

<http://www.ifs.org.uk>

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Wifi details:

Network name: **The Building Centre**
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