

Permanent differences? Income and spending inequality revisited

A new report, published by the Institute for Fiscal Studies on 23rd June 2004, sheds light on how the gap between the rich and the poor changed over the 1990s and early 2000s, comparing patterns in household incomes and spending.

The picture of what happened to the gap between the rich and the poor over the 1990s and early 2000s depends on whether income or spending is used as the preferred measure of living standards. Although income is very often used for assessing living standards in this country, spending can be more informative, because many people can choose to borrow, save or run down their savings at any given time, in order to adjust their standard of living.

We find that:

1. When living standards are measured by income, the gap between rich and poor grew slightly over the 1990s. On the most commonly used measure of inequality, the gap was greater in 2002/03 (the latest year for which we have data) than it was both in 1996/97 when Labour came to power and in 1990. But the increase in inequality was *much smaller* than the increase in income inequality that took place in the 1980s, and was mostly due to income changes amongst the very richest and the very poorest. Amongst the large majority, incomes became a little bit more equal over the decade.
2. When living standards are measured by household spending, we find that the gap between rich and poor *fell* overall in the 1990s. This was mostly due to a drop in spending differences in the early 1990s, with a slightly rising gap mirroring the pattern for income in the second half of the 1990s.
3. These patterns suggest a halt in the large and sustained growth in inequality in income and spending that took place in the 1980s. But our findings also show that the level of inequality inherited after the big inequality rise of the 1980s has not been much reversed, and remains at a 40-year high.

Notes to Editors:

1. The report, 'Permanent differences? Income and expenditure inequality in the 1990s and 2000s ', will be available online from 14.00 hours, 23rd June 2004. To download a copy of this report, please go to www.ifs.org.uk. This report will be published in full in July 2004.
2. A briefing to discuss this work and other inequality issues will be held on Wednesday 23rd June at 14.00. Details can be found at <http://www.ifs.org.uk/conferences/ineqspend.shtml>. Please contact Bonnie Brimstone if you would like to attend.
3. Financial support from the Nuffield Foundation ('Inequality in the 1990s', grant number OPD/00111/G) and from the ESRC-funded Centre for the Microeconomic Analysis of Public Policy at IFS (grant number M535255111) is very gratefully acknowledged.
4. This report is launched as part of the ESRC's Social Science Week. Social Science Week 2004 will take place across the UK from 21st to 25th June. The week is about highlighting research from the UK's social scientists and how this can contribute to better policymaking and, ultimately, a better society. It is an initiative from the Economic and Social Research Council. For a programme of events, see www.esrc.ac.uk/socialscienceweek.