

Institute for  
Fiscal Studies



## Living standards and inequality

---

Ali Muriel, IFS

May 21<sup>st</sup>, 2010

## What's coming up

### Living standards

- Household income data from the first year of the UK recession

### Income inequality

- How evenly has income growth been distributed?

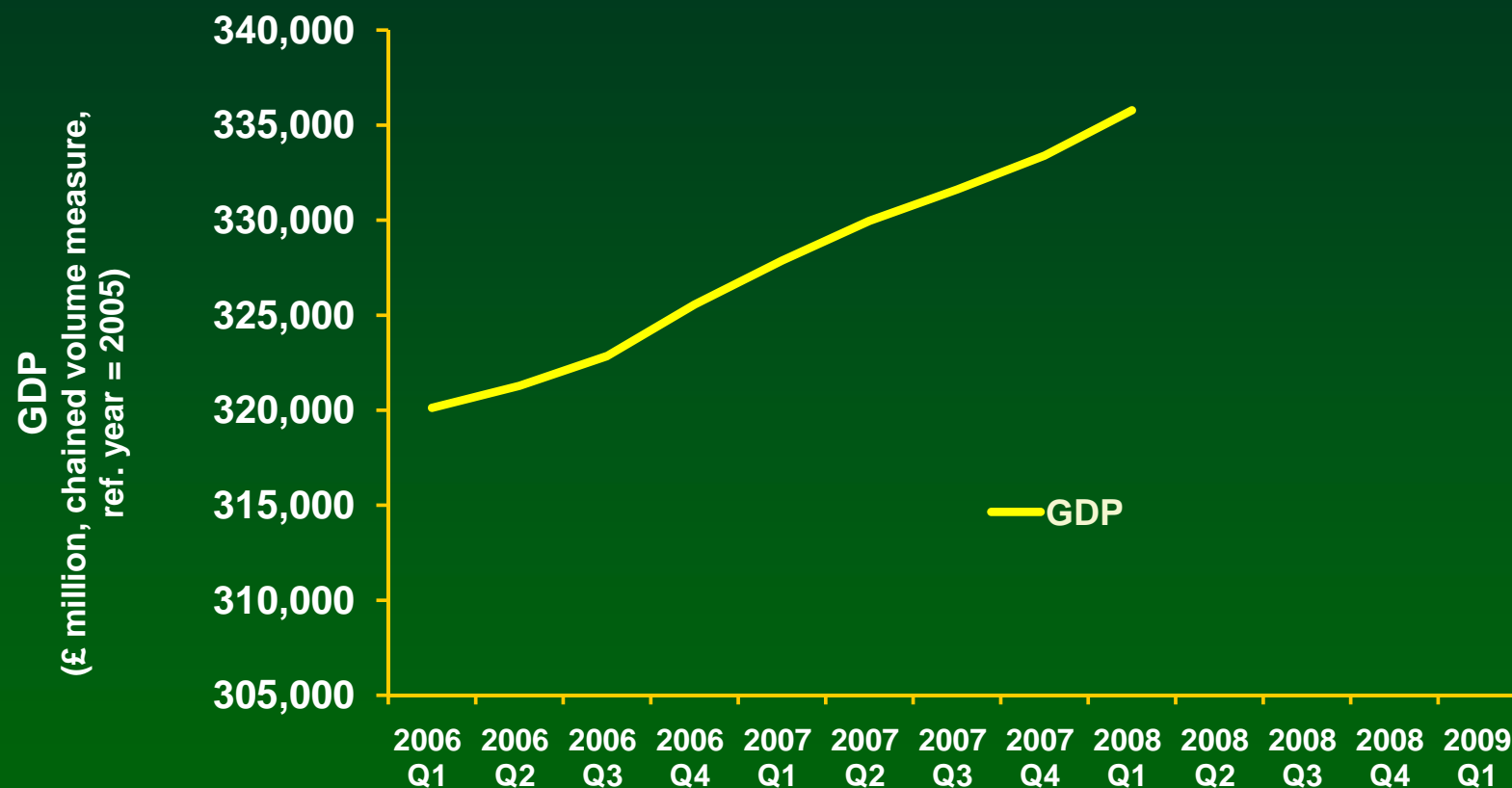
### Poverty

- The story under Labour
- Regional trends

## How incomes are calculated

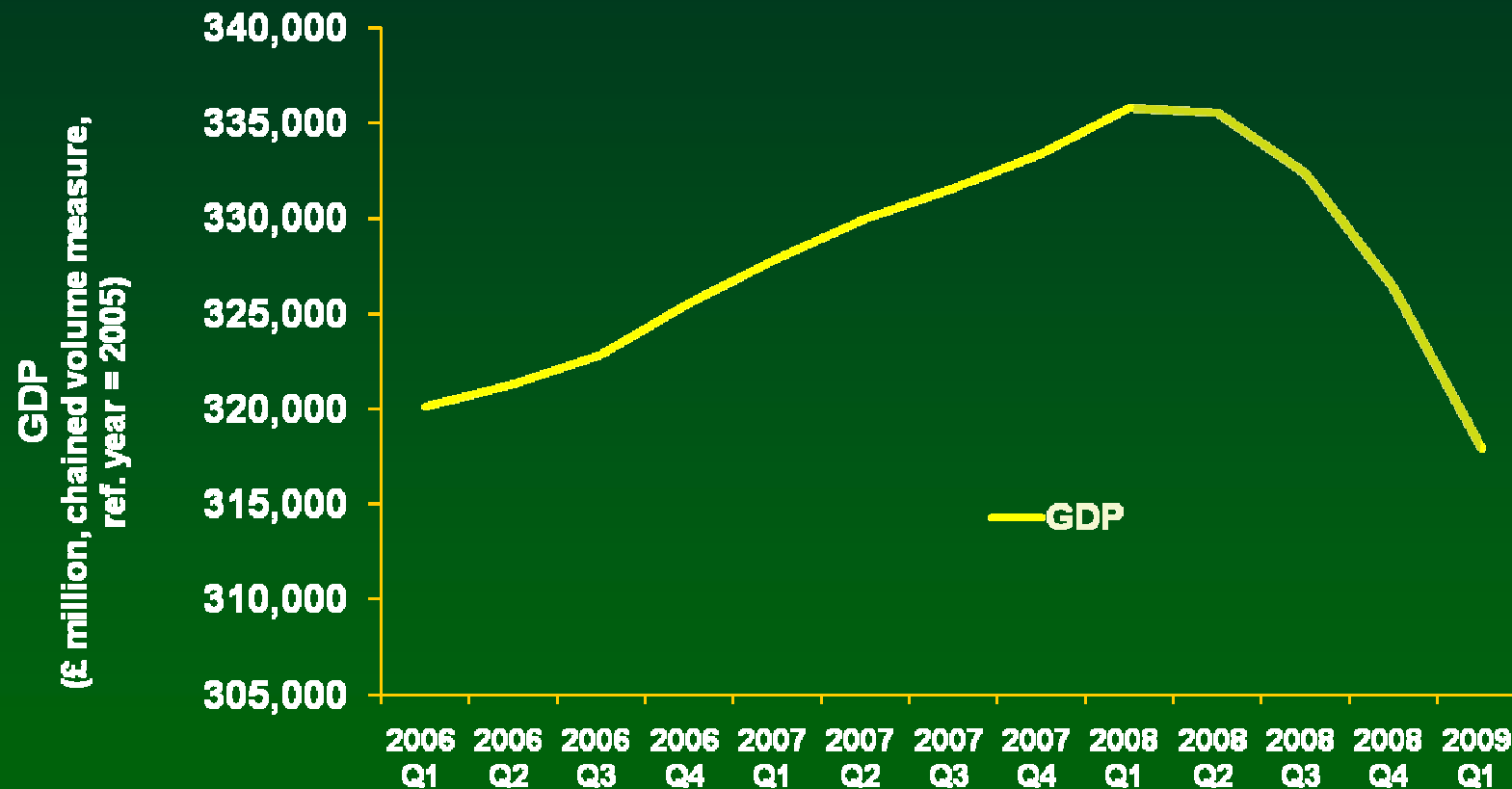
- Net of all direct taxes and benefits
- Measured at the household level
- Adjusted for household size ( )
- Presented both before and after housing costs
- UK figures from 2002-03, GB only in earlier years
  - Report income trends on a GB basis
  - Report poverty trends focusing on proportions
- Based on Family Resources Survey (FRS)
  - All statistics subject to sampling error

# GDP



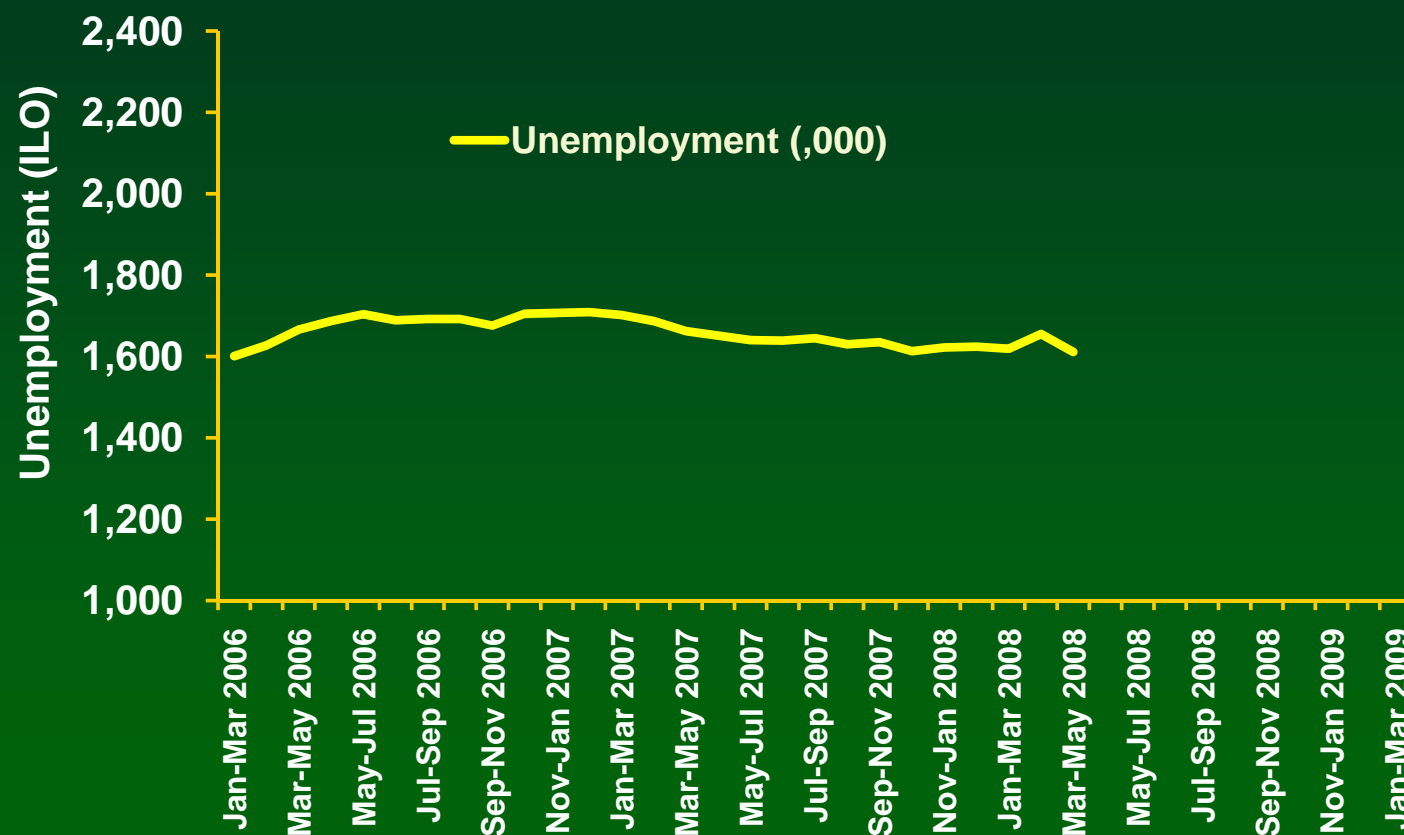
Source: ONS, Economic  
and Labour Market Review

## GDP: shrank 5% in 2008/09

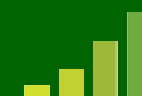


Source: ONS, Economic  
and Labour Market Review

# Unemployment



Source: ONS, Economic  
and Labour Market Review



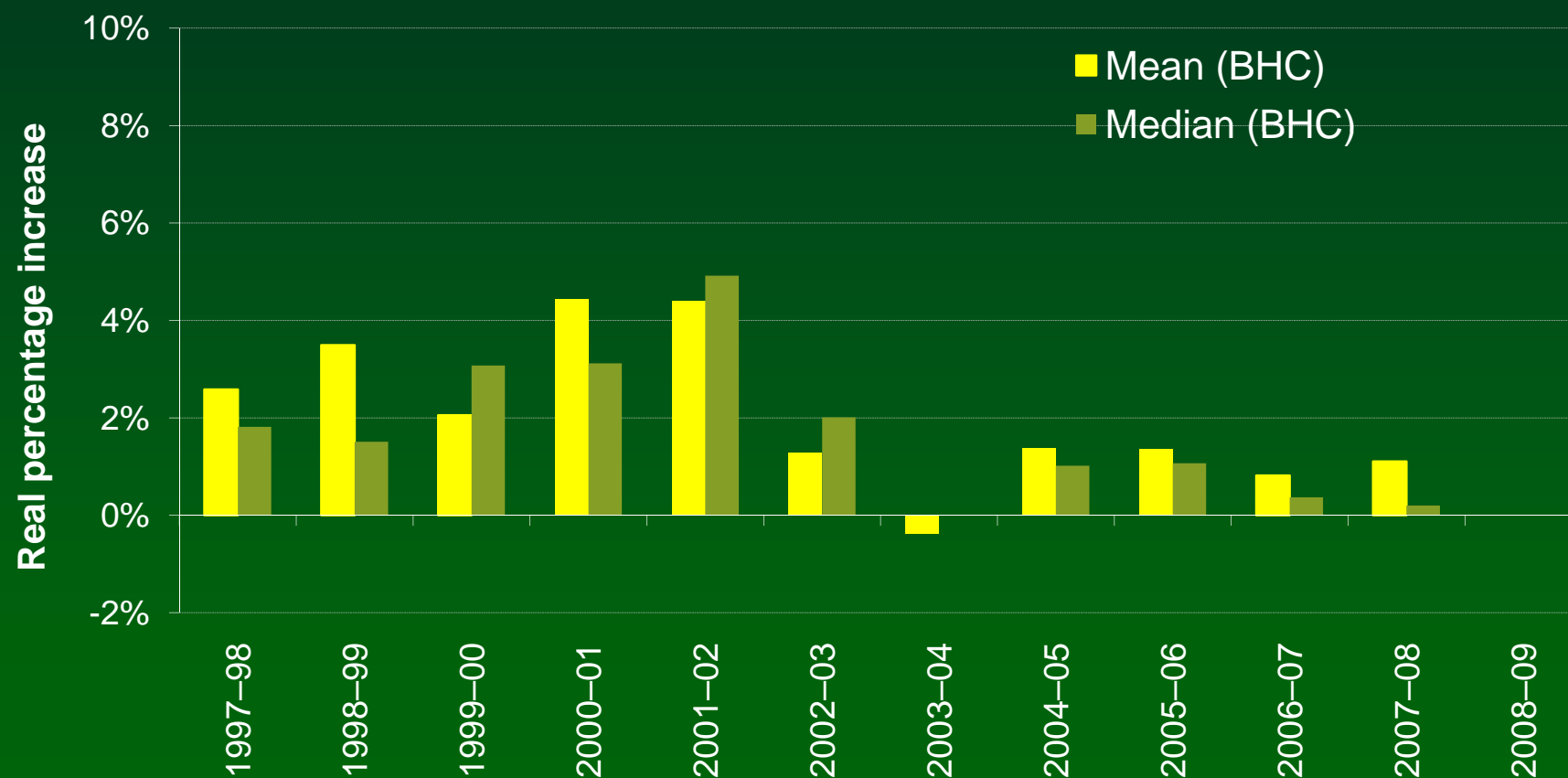
Institute for  
Fiscal Studies

## Unemployment: up over 0.5m in 2008/09



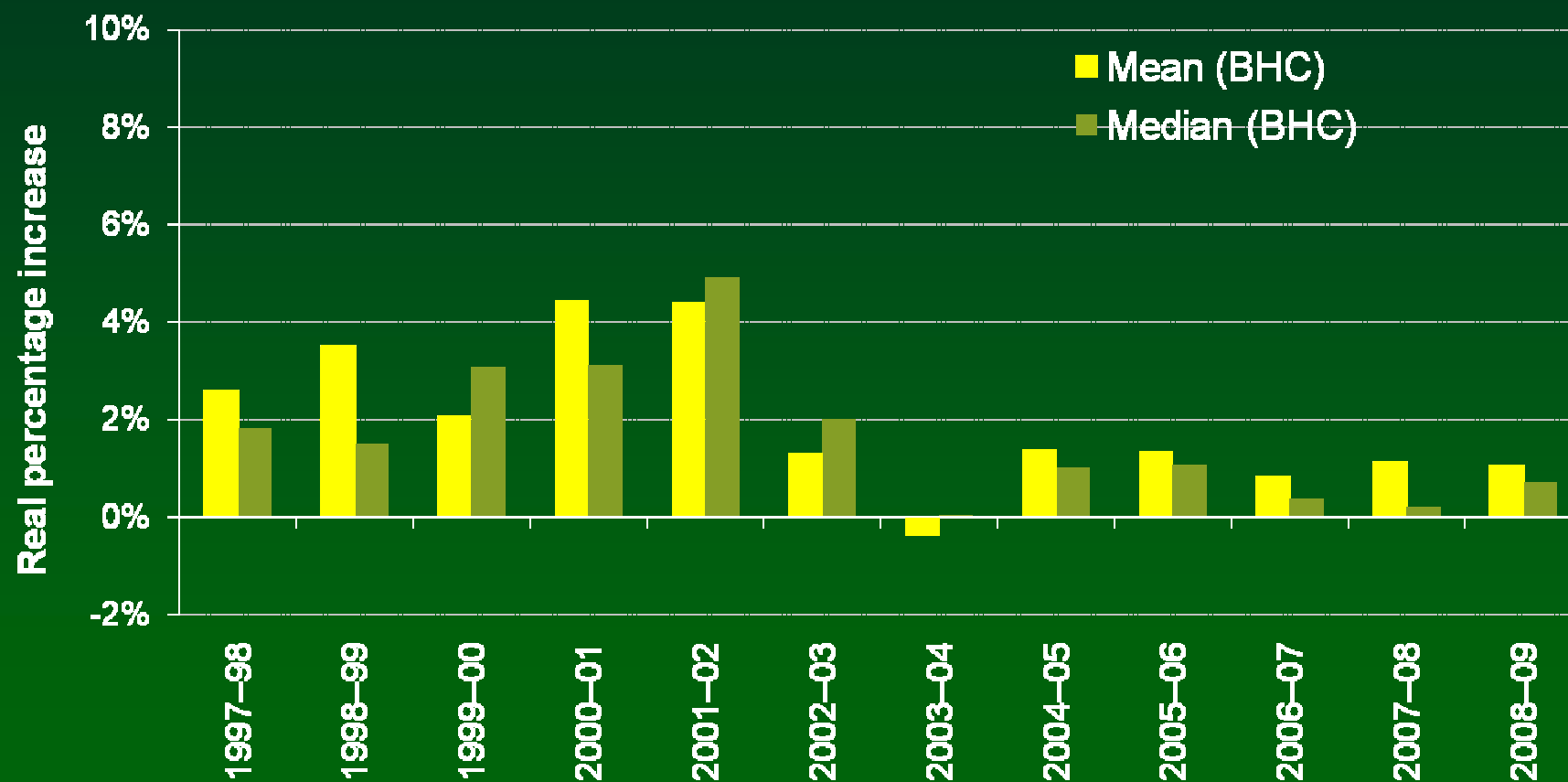
Source: ONS, Economic and Labour Market Review

# Changes in average real incomes since 1996-97 (GB)

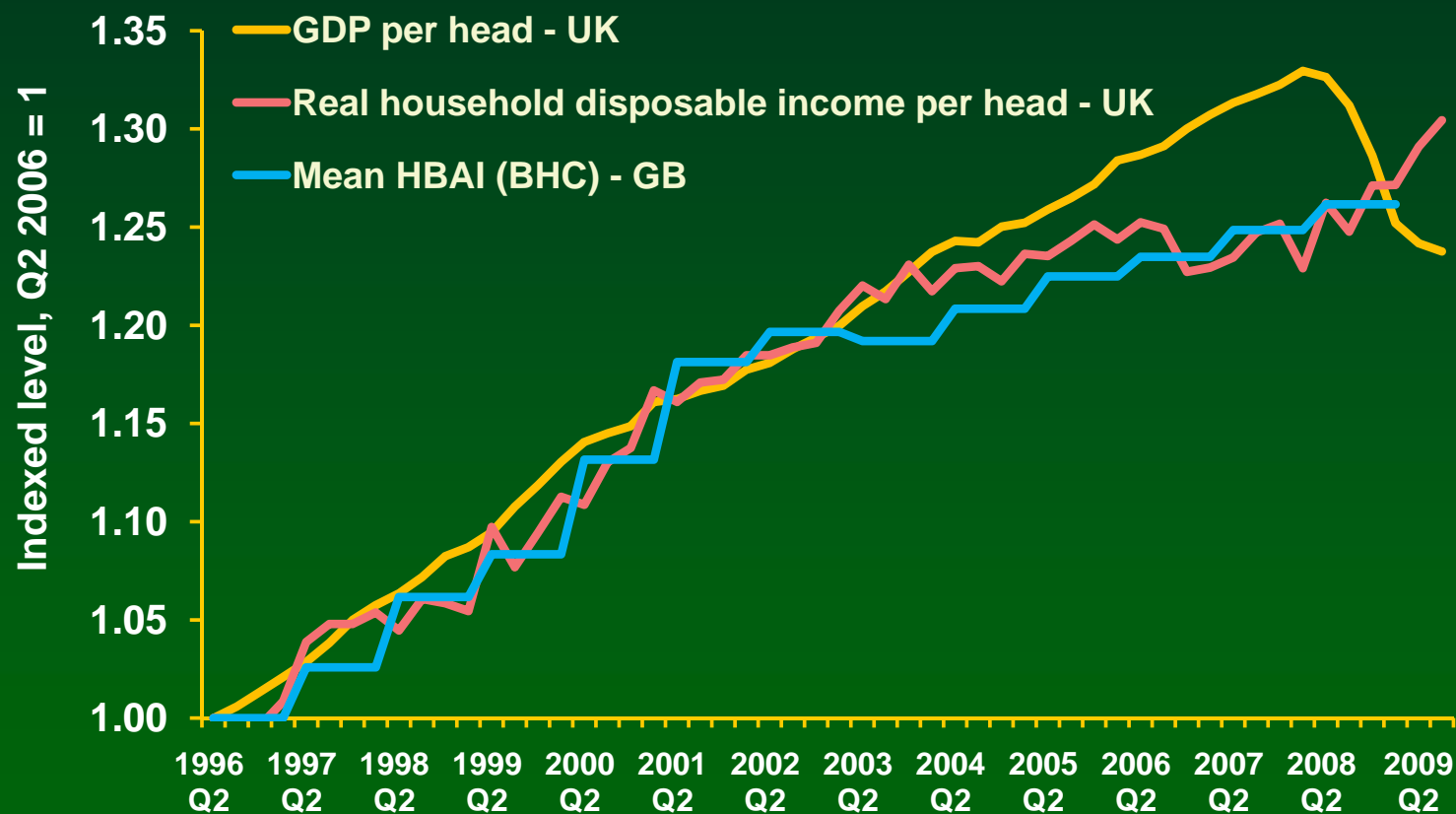




## Changes in average real incomes since 1996-97 (GB)

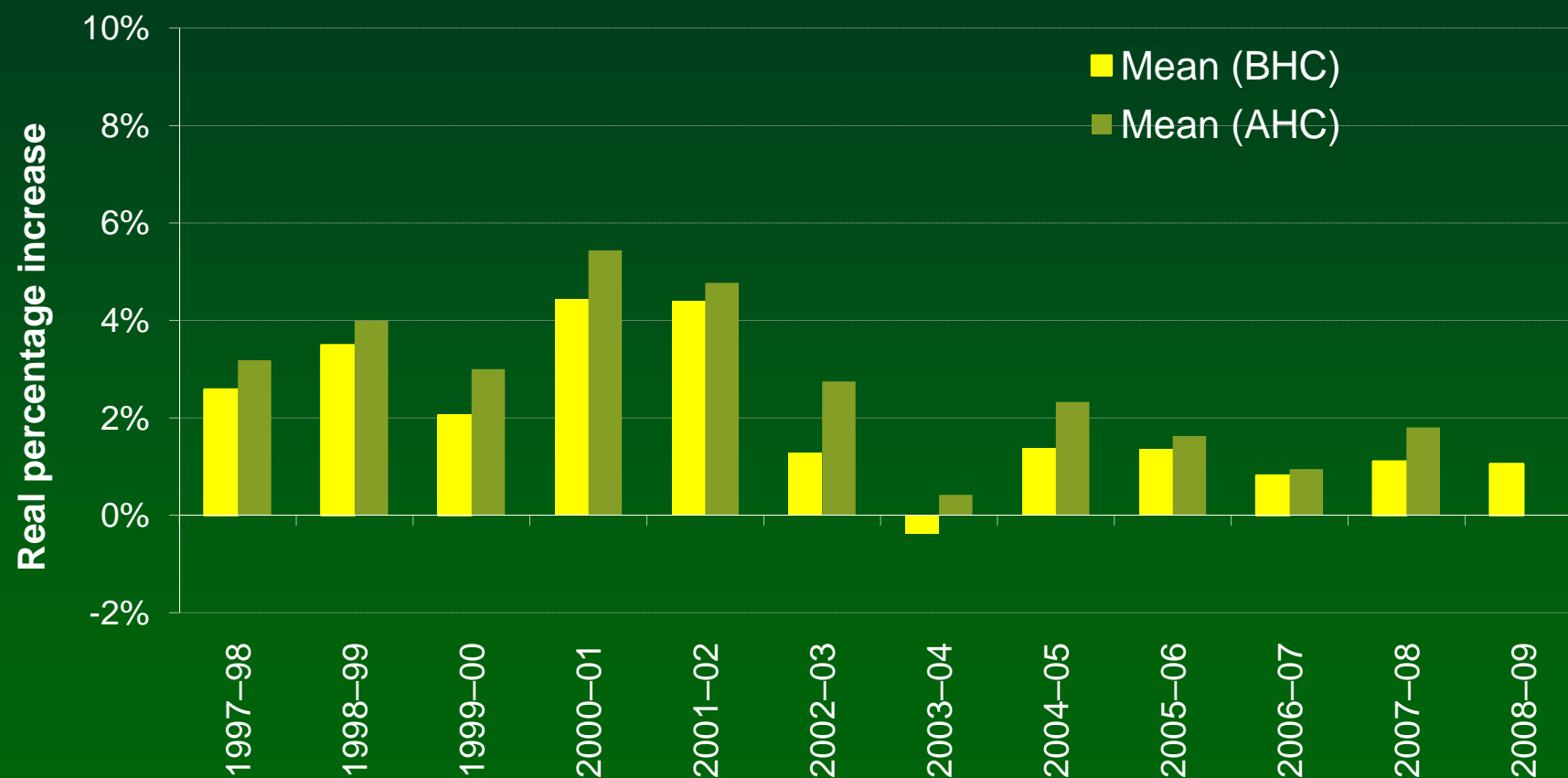


## Income growth: 1996/97 – 2008/09

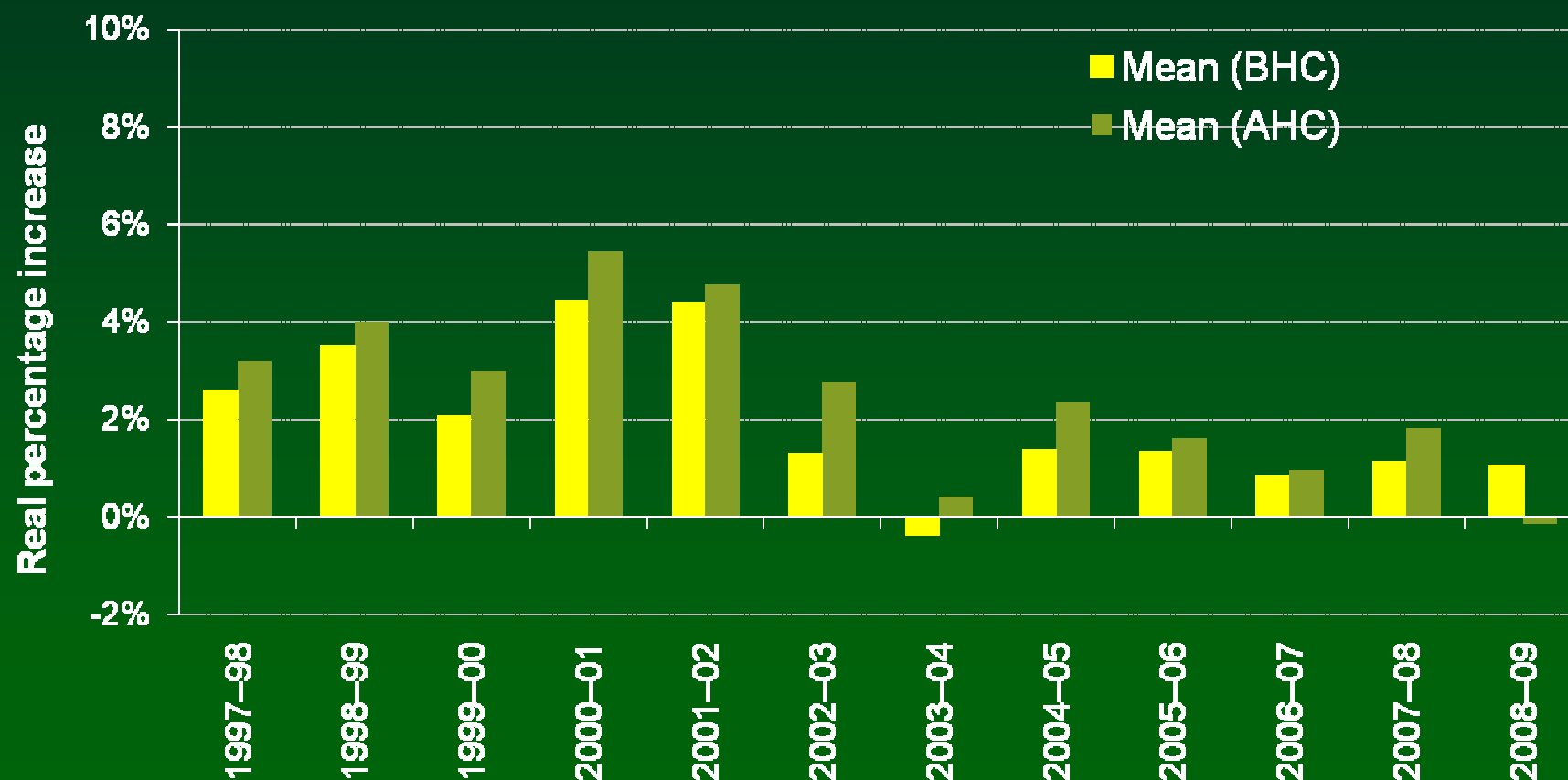


Source: ONS, Economic  
and Labour Market Review

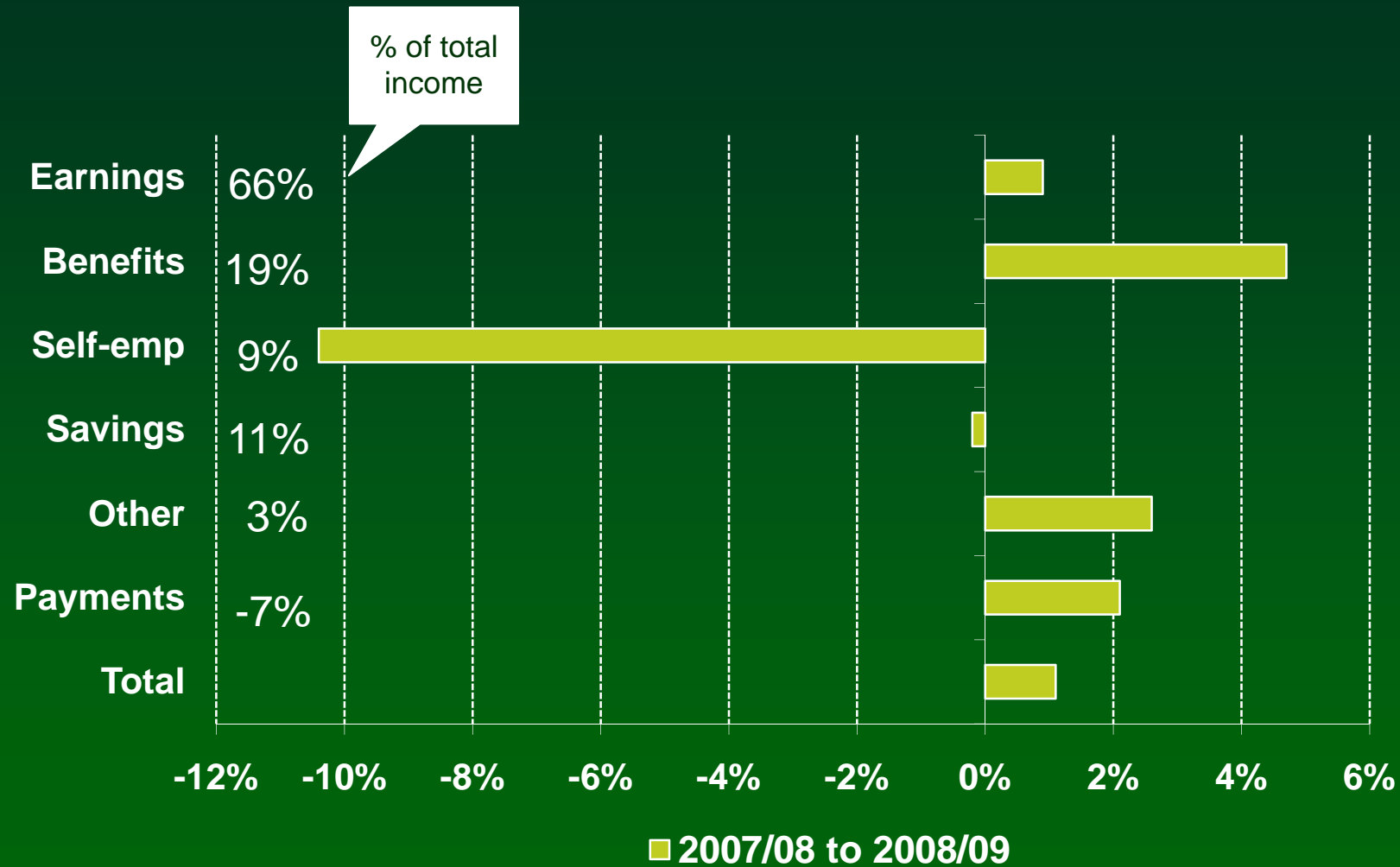
# Changes in average real incomes since 1996-97 (GB)



## Changes in average real incomes since 1996-97 (GB)

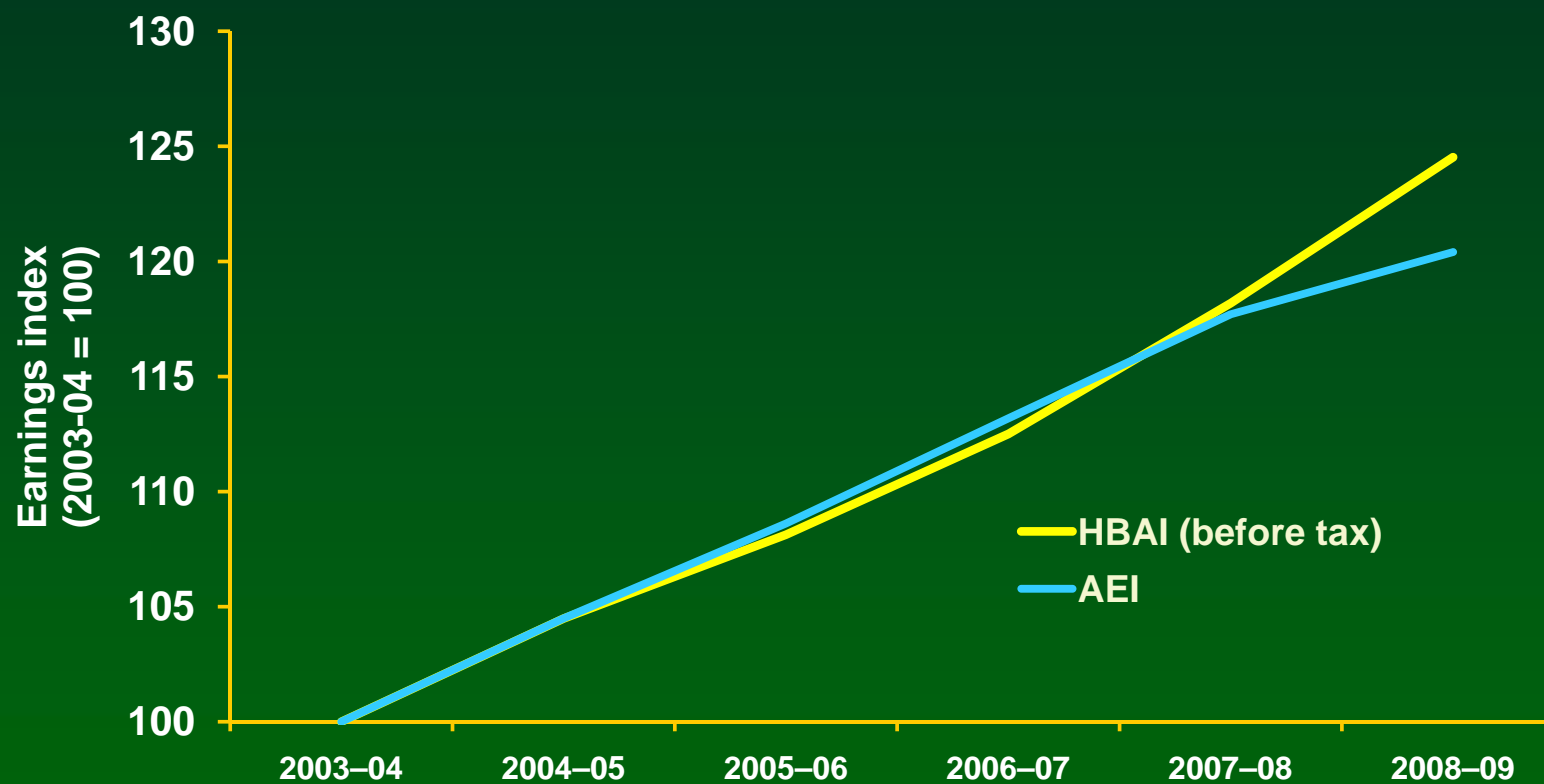


# Real growth in components of income (GB)



Source: HBAI data

## Earnings growth: HBAI vs. AEI



Source: ONS, HBAI data

## Living standards: summary

- Average incomes grew in 2008-09, despite the recession
- Growth **not** due to lower housing costs in HBAI
- Strong growth in income from benefits
- Growth in income from earnings (stronger in HBAI than in AEI)

## Looking ahead:

- Unemployment continued to rise during 2009-10
- GDP per head continued to fall
- Real households' disposable income per head stagnated
- Prospects for continued income growth reasonably weak



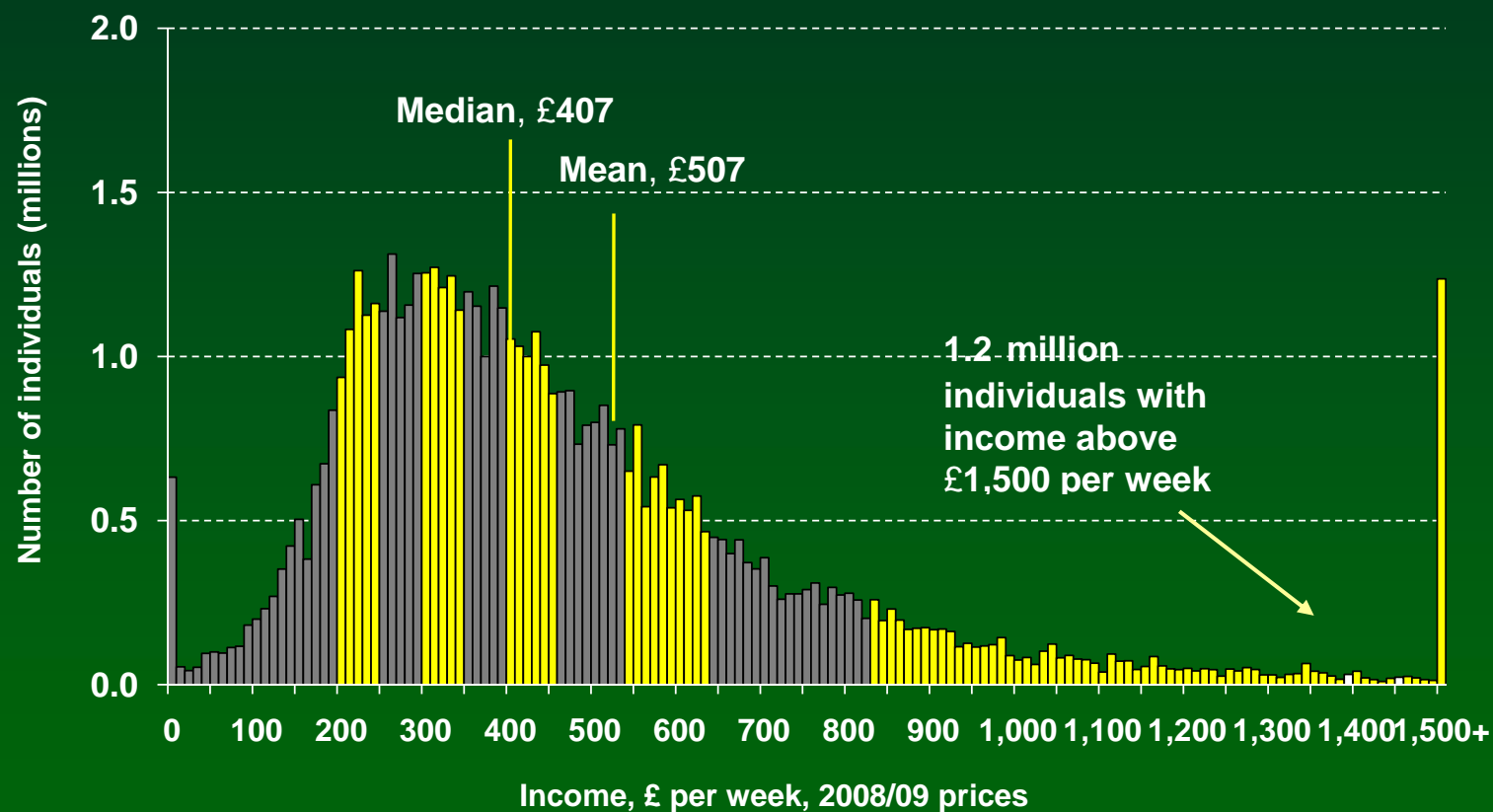
# Inequality

## Income inequality

- Popularly defined as ‘the gap between rich and poor’



# The UK income distribution in 2008/09

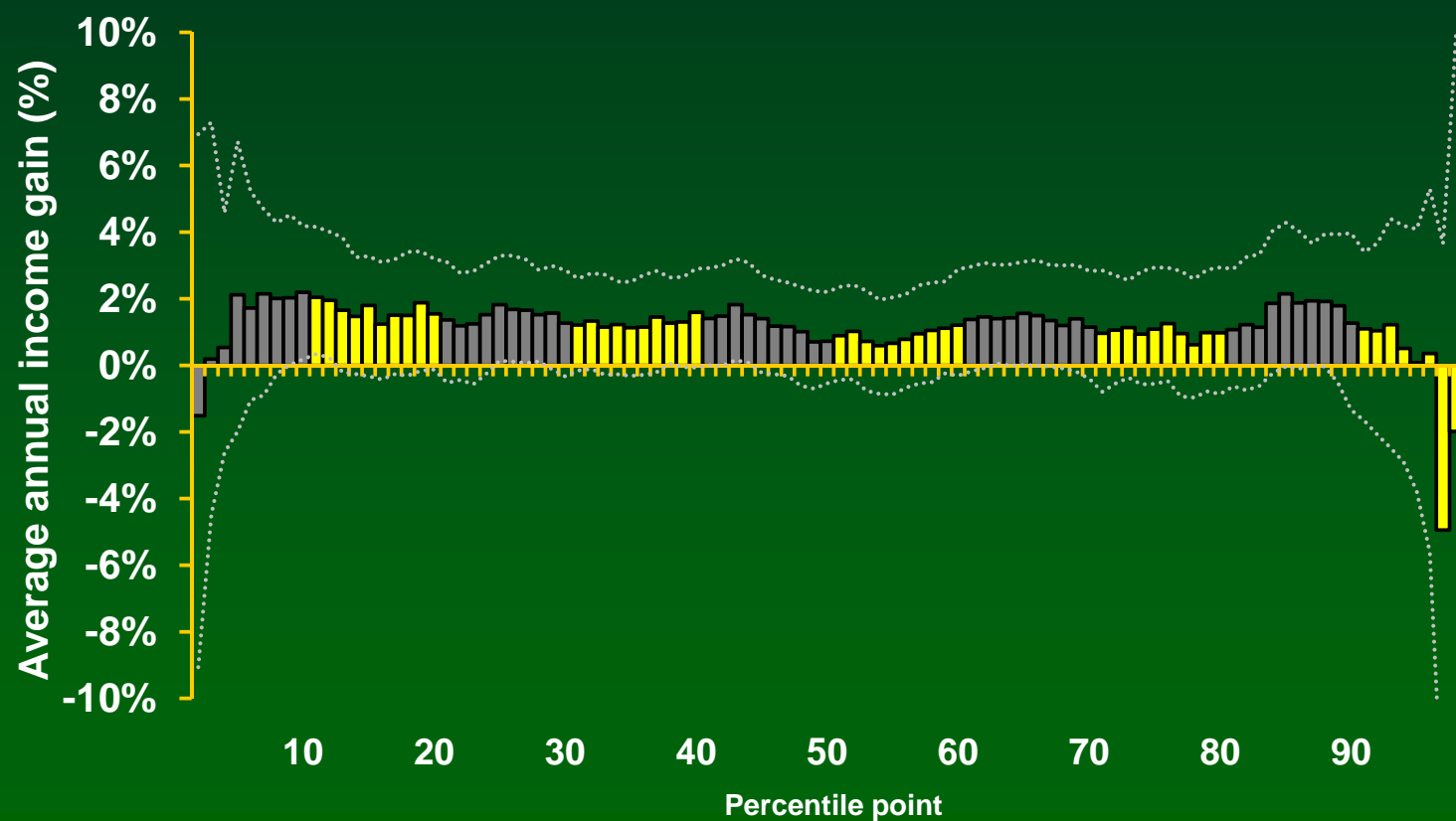


Source: HBAI data



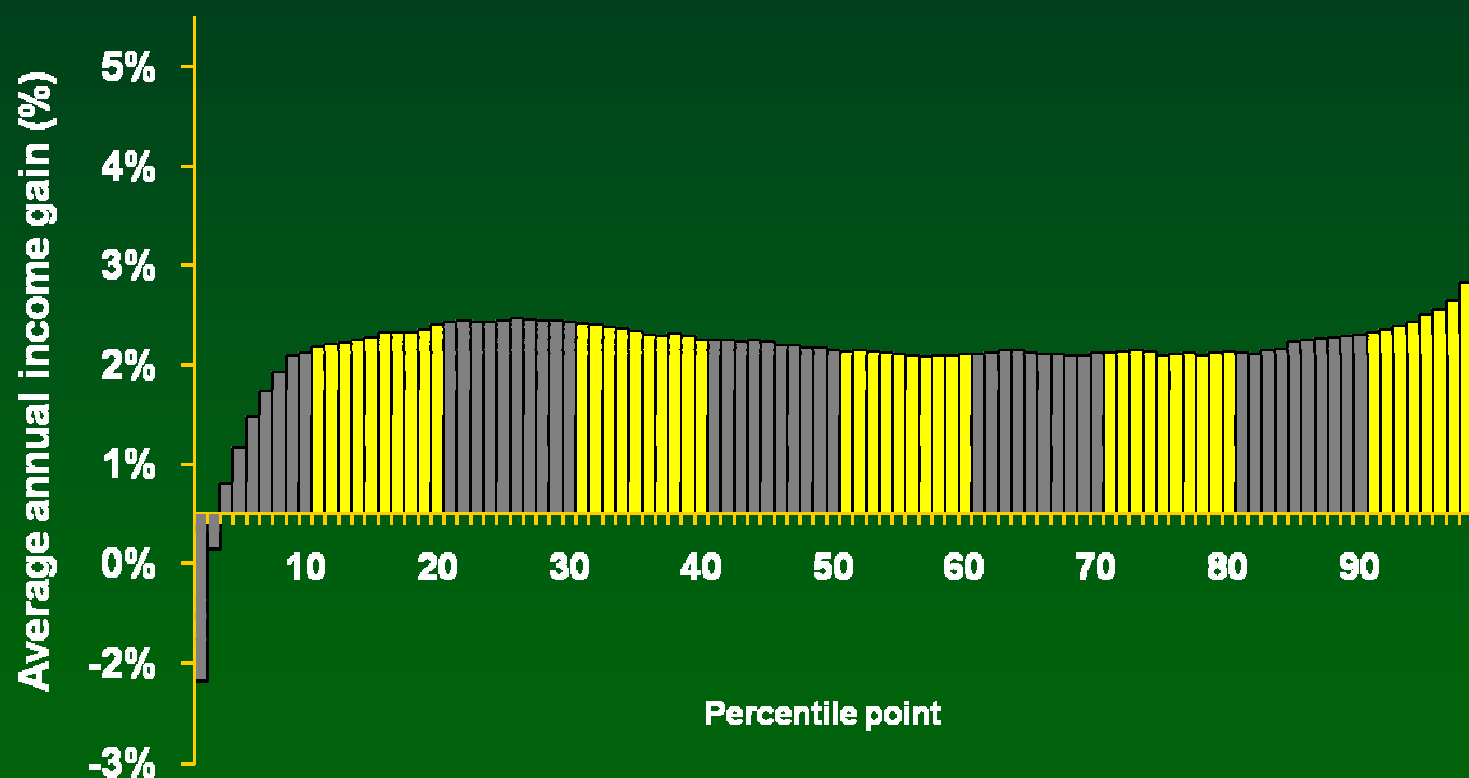
Institute for  
Fiscal Studies

## Income changes by percentile group: 2007/08 – 2008/09 (GB)



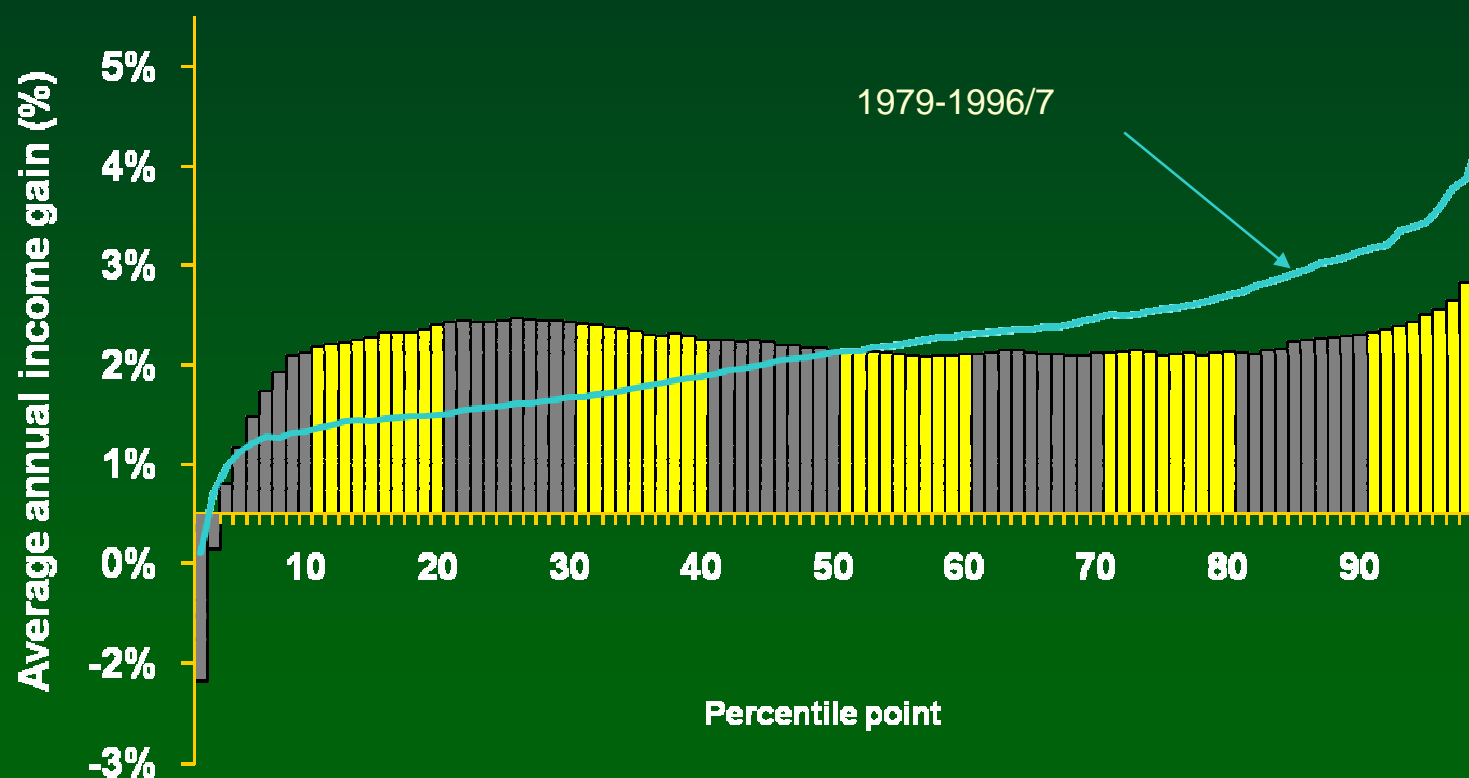
Source: HBAI data

## Income changes by percentile group: 1996/97 – 2008/09 (GB)



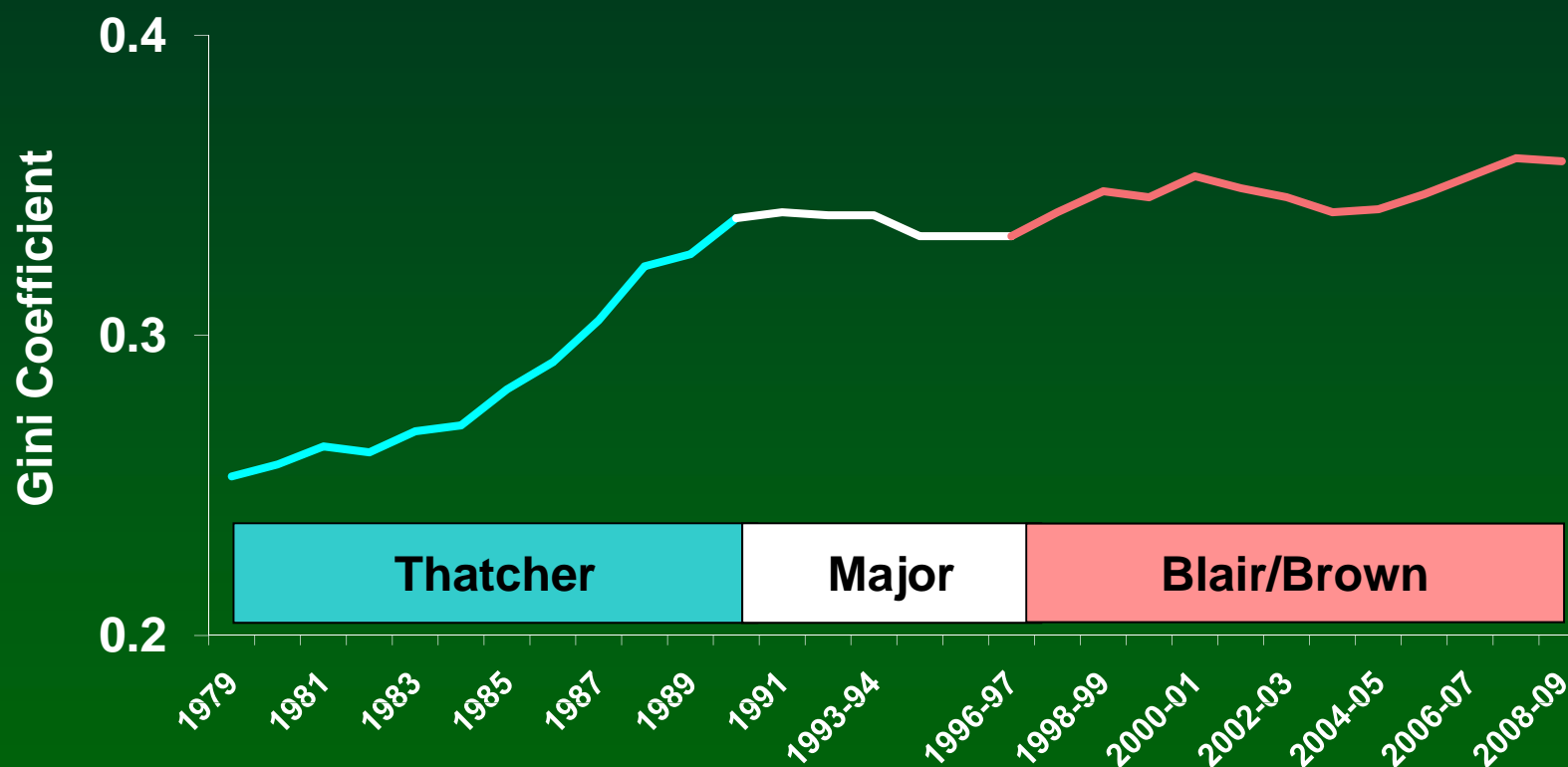
Source: HBAI data

## Income changes by percentile group: 1996/97 – 2008/09 (GB)



Source: HBAI data

# The Gini Coefficient: 1979–2008/09 (GB)



Source: HBAI data

## Did Gordon Brown ‘increase the gap?’

- Inequality has gone up since 1996-97
- **But** – inequality would be even higher without changes to the tax and benefit system since 1996-97
- Simulations for the Mirrlees Review suggest:
  - Gini would be 0.03 higher if the tax and benefit system had simply been uprated in line with RPI
  - Gini would be 0.01 higher had the system simply been uprated in line with GDP



**I INCREASED  
THE GAP BETWEEN  
RICH AND POOR  
VOTE FOR ME**

Or vote for change. Vote Conservative



Institute for  
Fiscal Studies

I MITIGATED THE INCREASE IN  
THE GAP BETWEEN RICH AND  
POOR, LEAVING THE GAP  
SMALLER THAN IT OTHERWISE  
WOULD HAVE BEEN (UNDER  
RPI UPDATING OF THE 1996-97  
TAX AND BENEFIT SYSTEM)

**VOTE FOR ME**



## Inequality: summary

- Even (modest) income growth across most of the distribution between 2007-08 and 2008-09
- Some evidence of a decline in incomes at the top of the distribution
- Income inequality remains near its highest level since our series began in 1961