Living standards and inequality

Ali Muriel, IFS
May 21st, 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
Source: ONS, Economic and Labour Market Review
GDP: shrunk 5% in 2008/09

Source: ONS, Economic and Labour Market Review
Unemployment

Source: ONS, Economic and Labour Market Review
Unemployment: up over 0.5m in 2008/09

What effect did this have on household incomes?

Source: ONS, Economic and Labour Market Review
Changes in average real incomes since 1996-97 (GB)

<table>
<thead>
<tr>
<th>Year</th>
<th>Mean (BHC)</th>
<th>Median (BHC)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997–98</td>
<td>2%</td>
<td>1%</td>
</tr>
<tr>
<td>1998–99</td>
<td>4%</td>
<td>2%</td>
</tr>
<tr>
<td>1999–00</td>
<td>4%</td>
<td>2%</td>
</tr>
<tr>
<td>2000–01</td>
<td>3%</td>
<td>1%</td>
</tr>
<tr>
<td>2001–02</td>
<td>6%</td>
<td>3%</td>
</tr>
<tr>
<td>2002–03</td>
<td>3%</td>
<td>1%</td>
</tr>
<tr>
<td>2003–04</td>
<td>2%</td>
<td>1%</td>
</tr>
<tr>
<td>2004–05</td>
<td>3%</td>
<td>2%</td>
</tr>
<tr>
<td>2005–06</td>
<td>2%</td>
<td>1%</td>
</tr>
<tr>
<td>2006–07</td>
<td>2%</td>
<td>1%</td>
</tr>
<tr>
<td>2007–08</td>
<td>3%</td>
<td>2%</td>
</tr>
<tr>
<td>2008–09</td>
<td>3%</td>
<td>2%</td>
</tr>
</tbody>
</table>

Real percentage increase
Changes in average real incomes since 1996-97 (GB)

- GDP per head - UK
- Mean HBAI (BHC) - GB
- Real household disposable income per head - UK

Source: ONS, Economic and Labour Market Review
Changes in average real incomes since 1996-97 (GB)

<table>
<thead>
<tr>
<th>Year</th>
<th>Mean (BHC)</th>
<th>Mean (AHC)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997-98</td>
<td>6%</td>
<td>2%</td>
</tr>
<tr>
<td>1998-99</td>
<td>8%</td>
<td>4%</td>
</tr>
<tr>
<td>1999-00</td>
<td>6%</td>
<td>2%</td>
</tr>
<tr>
<td>2000-01</td>
<td>7%</td>
<td>3%</td>
</tr>
<tr>
<td>2001-02</td>
<td>8%</td>
<td>4%</td>
</tr>
<tr>
<td>2002-03</td>
<td>6%</td>
<td>2%</td>
</tr>
<tr>
<td>2003-04</td>
<td>8%</td>
<td>4%</td>
</tr>
<tr>
<td>2004-05</td>
<td>2%</td>
<td>1%</td>
</tr>
<tr>
<td>2005-06</td>
<td>2%</td>
<td>1%</td>
</tr>
<tr>
<td>2006-07</td>
<td>2%</td>
<td>1%</td>
</tr>
<tr>
<td>2007-08</td>
<td>2%</td>
<td>1%</td>
</tr>
<tr>
<td>2008-09</td>
<td>2%</td>
<td>1%</td>
</tr>
</tbody>
</table>
Changes in average real incomes since 1996-97 (GB)

Real percentage increase

-2% 0% 2% 4% 6% 8% 10%


Types: Mean (BHC), Mean (AHC)

Institute for Fiscal Studies
Real growth in components of income (GB)

- Earnings: 66%
- Benefits: 19%
- Self-employment: 9%
- Savings: 11%
- Other: 3%
- Payments: -7%
- Total: 0%

% of total income

Source: HBAI data

2007/08 to 2008/09
Earnings growth: HBAI vs. AEI

HBAI (before tax)
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

Median, £407
Mean, £507

1.2 million individuals with income above £1,500 per week

Source: HBAI data
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
I MITIGATED THE INCREASE IN THE GAP BETWEEN RICH AND POOR, LEAVING THE GAP SMALLER THAN IT OTHERWISE WOULD HAVE BEEN (UNDER RPI UPRATING 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