Income distribution: recent trends and future prospects

Robert Joyce, Senior Research Economist, Institute for Fiscal Studies

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This draws heavily on IFS’ most recent annual analysis of trends in the income distribution:

‘Living Standards, Poverty and Inequality in the UK: 2013’
http://www.ifs.org.uk/publications/6759
Outline

• Income changes over past 15 years
  – By income and family type

• Sub-periods
  – Turning point in early 2000s
  – The recession and immediate post-recession period

• More detail on the recession
  – Key labour market trends
  – Changes in different income sources
  – Changes in income inequality; and changes by age

• Prospects
1996-97 to 2011-12: pensioners did relatively well; working-age childless relatively badly

Average annual real income change

Notes and source: see Figure 5.2 of *Living Standards, Poverty and Inequality in the UK: 2013*
...and on an after-housing-cost (AHC) basis

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Trends not uniform: slower growth from early 2000s

Source: Family Resources Survey, various years
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Source: Family Resources Survey, various years
... and large falls after the recession

Source: Family Resources Survey, various years

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Inflation and living standards: RPI vs. RPIJ

Source: Figure 2.4 of *Living Standards, Poverty and Inequality: 2013*
Notes: The RPI line is in fact RPI minus council tax, the inflation measure currently used to adjust HBAI incomes
Income sources, 2007–08 to 2009–10: steady income growth due to benefits/tax credits

Contribution to income growth between 2007–08 to 2009–10
(in percentage points)

Source: Table 2.4 of *Living Standards, Poverty and Inequality: 2013*

Notes: This is a very slightly different sample to the overall income statistics. Households with negative incomes are dropped. This makes a small difference to falls in income.
Income sources, 2009–10 to 2011–12: large income falls due to falling earnings

Source: Table 2.4 of Living Standards, Poverty and Inequality: 2013
Notes: This is a very slightly different sample to the overall income statistics. Households with negative incomes are dropped. This makes a small difference to falls in income.
Income sources: 2007–08 to 2011–12

- **Earnings**
  - Contribution to income growth between 2007–08 to 2011–12 (in percentage points)
  - Total income: -5.3
  - Benefits and tax credits
  - Savings and private pension income
  - Self-employment income
  - Other
  - Taxes and other deductions
  - 2.7

Notes: This is a very slightly different sample to the overall income statistics. Households with negative incomes are dropped. This makes a small difference to falls in income.
Weekly earnings inequality (among workers) rose between 2007-08 to 2011-12...

Notes and source: see Figure 3.10 of *Living Standards, Poverty and Inequality in the UK: 2013*
...but net result was still a big fall in income inequality

Source: Figure 3.5 of *Living Standards, Poverty and Inequality: 2013*
Different age-groups have fared differently too

Notes and source: see Figure 5.9 of *Living Standards, Poverty and Inequality in the UK: 2013*
Median income changes by age (BHC, GB)

Notes and source: see Figure 5.7 of *Living Standards, Poverty and Inequality in the UK: 2013*
Prospects: simulations up to 2015–16

Note: Figure taken from Brewer et. al. (2013), published before the latest HBAI release. The 2011–12 income distribution is therefore a simulation, but is extremely similar to the actual data.
Summary

• **Background to recession:**
  - Income growth had slowed in early 2000s
  - Pensioners/working-age childless were doing relatively well/badly

• **During recession and immediately afterwards:**
  - Real earnings for those in work fell sharply; benefits/tax credit incomes were robust
  - Employment rates fell for young adults; not for older ones
  - As a result:
    a) income inequality fell (despite rise in earnings inequality among workers)
    b) young adults did worst; pensioners did best (again)

• **Inequality trends likely to be reversing now (at least across vast majority of distribution)**
  - Most falls in real earnings have already happened (if OBR is right)
  - More than £20 bn year of benefit cuts by end of this parliament
  - Trends by age maybe more durable, e.g. pensioner benefits protected