

Press Release

Tel: +44 (0) 20 7291 4800
Fax: +44 (0) 20 7323 4780

mailbox@ifs.org.uk
www.ifs.org.uk

7 Ridgmount Street
London WC1E 7AE

Better-off hit hardest by recession initially; poor feeling the squeeze now

Falls in real earnings hit well-off households particularly hard after the recession, while many poorer households were initially relatively protected by the benefits system. But poorer households are the hardest hit by the benefit cuts being implemented in the years to 2015–16. The likely net result is that income losses resulting from the recession will be spread quite evenly across income groups.

These are among the key findings of new IFS research published today, in a pre-released article from a special issue of Fiscal Studies to be launched on Wednesday 12th June. This research provides the first comprehensive estimate of what the distributional impact of the recession will be in the medium term.

The main findings include:

- For those on middle and higher incomes, falls in real income happened largely between 2009–10 and 2011–12 because real earnings fell sharply. For example, income at the 90th percentile grew by 8.0% less than the Retail Prices Index (RPI) over those two years. For those on lower incomes, more dependent on income from the state, falls in real income will happen largely as a result of welfare cuts that began after the initial recession and are continuing up to and beyond 2015–16.
- Consequently, income inequality fell substantially between 2007–08 and 2011–12, but is projected to rise again from 2011–12, almost (but not quite) reaching its pre-recession level by 2015–16. Overall then, it is the *timing* of income losses – rather than the magnitude – that varies most strikingly across the income distribution.
- Our central projection is that the 10th percentile of household incomes will have increased by 3.4% less than the RPI between 2007–08 and 2015–16, compared to 5.4% at the median (middle) and 5.5% at the 90th percentile. Hence, in the medium term, falls in income look set to be spread quite evenly across income groups. If anything, incomes will have fallen slightly less towards the bottom than the top.

Robert Joyce, a Senior Research Economist at IFS and one of the authors of the paper, said: “If the OBR’s macroeconomic forecasts are correct, then most of the falls in real incomes associated with the recession have now happened for middle- and higher-income groups. But much of the pain for lower-income groups is occurring now or is still to come, because these groups are the most affected by the ongoing cuts to benefits and tax credits. Overall, we expect the period of recession followed by austerity to leave income inequality in 2015–16 about the same, or slightly lower, than in 2007–08.”

Embargo

Until 00.01 am
Tues 4 June 2013

Contacts

Bonnie Brimstone
Institute for Fiscal Studies

020 7291 4800
07730 667013 (out of
hours)

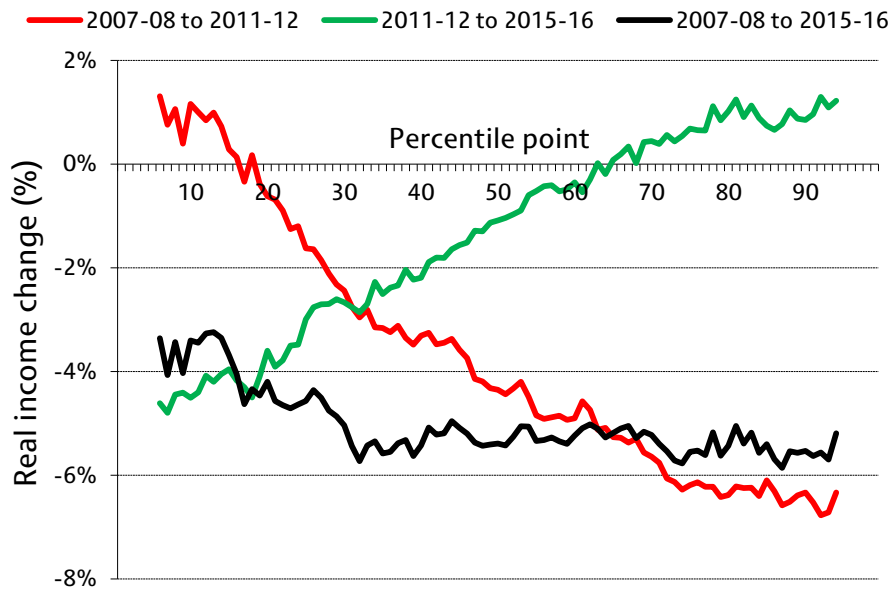
Director:
Paul Johnson

Research Director:
Richard Blundell

The Institute for Fiscal Studies
Limited by Guarantee,
Registered in England: 954616
7 Ridgmount Street
London
WC1E 7AE

Registered Charity: 258815
VAT no: GB 394 5830 17

Figure: Projected income changes across the income distribution, 2007–08 to 2015–16



Source: Authors' calculations based on Family Resources Survey, 2007–08 and 2010–11.

Note: Income growth at the top and bottom 5 percentile points is not shown due to uncertainty from sampling and measurement error. See also notes to editors, numbers 3-6.

Table: numbers underlying the Figure

Position in income distribution	Change in real income			Weekly income level (equivalent income for childless couple, 2013–14 prices)	
	2007–08 to 2011–12	2011–12 to 2015–16	2007–08 to 2015–16	2007–08	2015–16
10 th percentile	+1.2%	-4.5%	-3.4%	£231	£224
20 th	-0.6%	-3.6%	-4.2%	£294	£282
30 th	-2.4%	-2.7%	-5.0%	£352	£335
40 th	-3.3%	-2.2%	-5.4%	£409	£388
50 th	-4.4%	-1.1%	-5.4%	£474	£450
60 th	-4.9%	-0.4%	-5.2%	£545	£518
70 th	-5.6%	+0.4%	-5.2%	£632	£601
80 th	-6.4%	+1.0%	-5.4%	£755	£715
90 th percentile	-6.3%	+0.9%	-5.5%	£973	£919

Notes and source: as for the Figure.

ENDS

Notes to Editors:

1. For embargoed copies of the chapter or other queries, contact:
Bonnie Brimstone at IFS: 020 7291 4800 / 07730 667 013.
bonnie_b@ifs.org.uk.
2. This is a pre-released chapter from the *Fiscal Studies* journal vol. 34, Issue 2, which will be published on 12th June and will be available that day at:
<http://onlinelibrary.wiley.com/journal/10.1111/%28ISSN%291475-5890>
3. Figures in this press release refer to the measure of net household income used in the government's official household income statistics, equivalised using the modified OECD equivalence scale and measured before deducting housing costs.
4. Note this measure of income bases real-terms comparisons of income levels over time on the Retail Prices Index (RPI). The RPI is generally thought to overstate the true level of inflation faced by households. This would tend to make measured real-terms falls in income appear larger than the actual fall in households' purchasing power, but it would not affect the measured distributional pattern of income changes, which is the focus of this paper.
5. This work does not attempt to project incomes within the top and bottom five percentiles of the distribution. There is typically thought to be sampling and/or measurement error in the underlying survey data for those with the highest and lowest incomes. The paper does not project income statistics such as mean income or the Gini coefficient, as they are sensitive to these small groups at the extremes of the income distribution. IFS work has shown that a group of very high-income households (who would largely fall within the top 5%) have been hit particularly hard by tax and benefit changes during the fiscal consolidation (see <http://www.ifs.org.uk/publications/6653>). Anticipating trends in incomes for that very high-income group is extremely difficult, not only because of the lack of robust data on them, but also because there is much uncertainty over the economic responses to the tax rises that have hit them.
6. The projections of income were produced accounting for tax and benefit policy and the Office for Budget Responsibility's macroeconomic forecasts up to and including the December 2012 Autumn Statement and Economic and Fiscal Outlook.

