

Living standards, poverty and inequality 2016

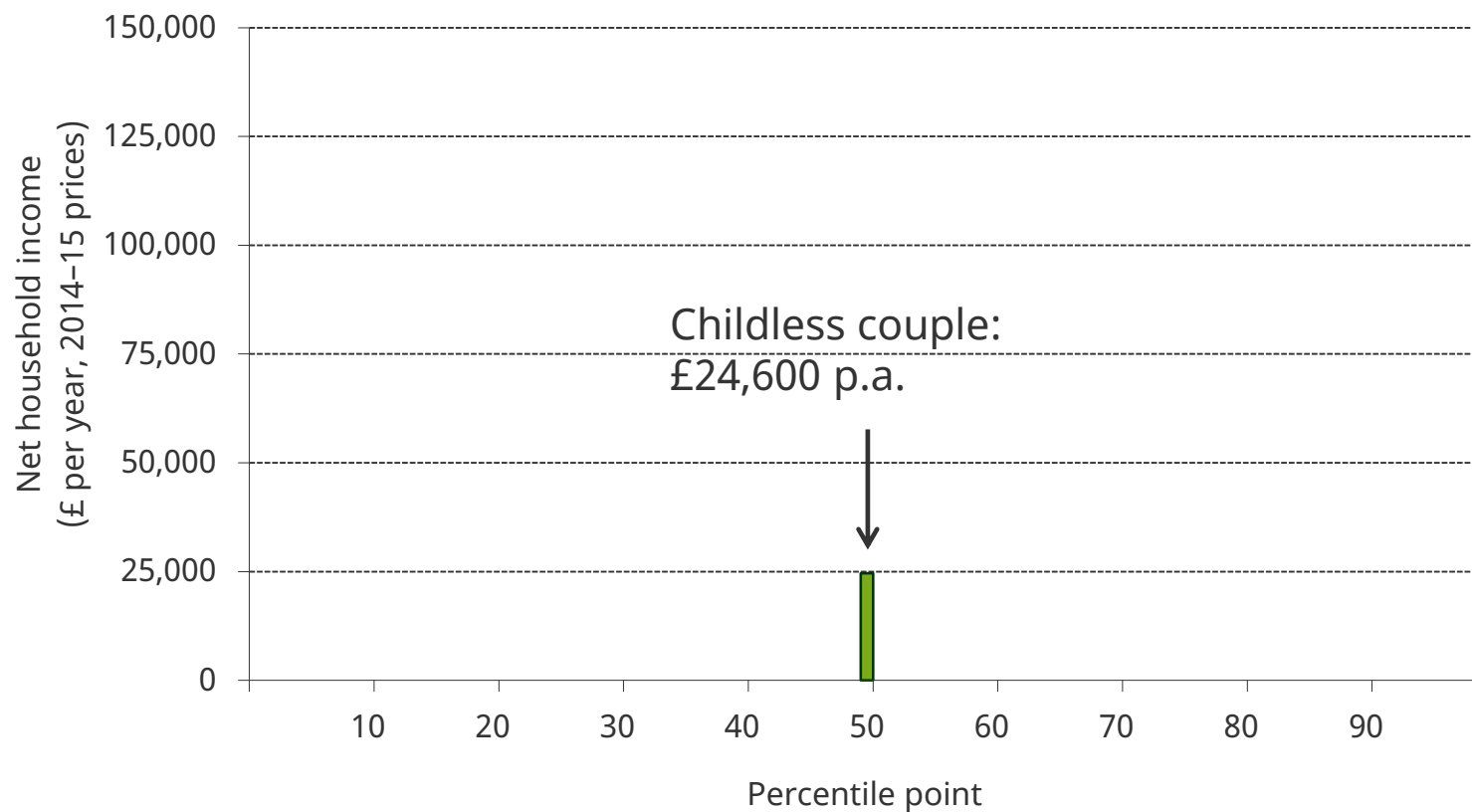
Chris Belfield
Jonathan Cribb
Andrew Hood
Robert Joyce

19 July 2016

Income inequality

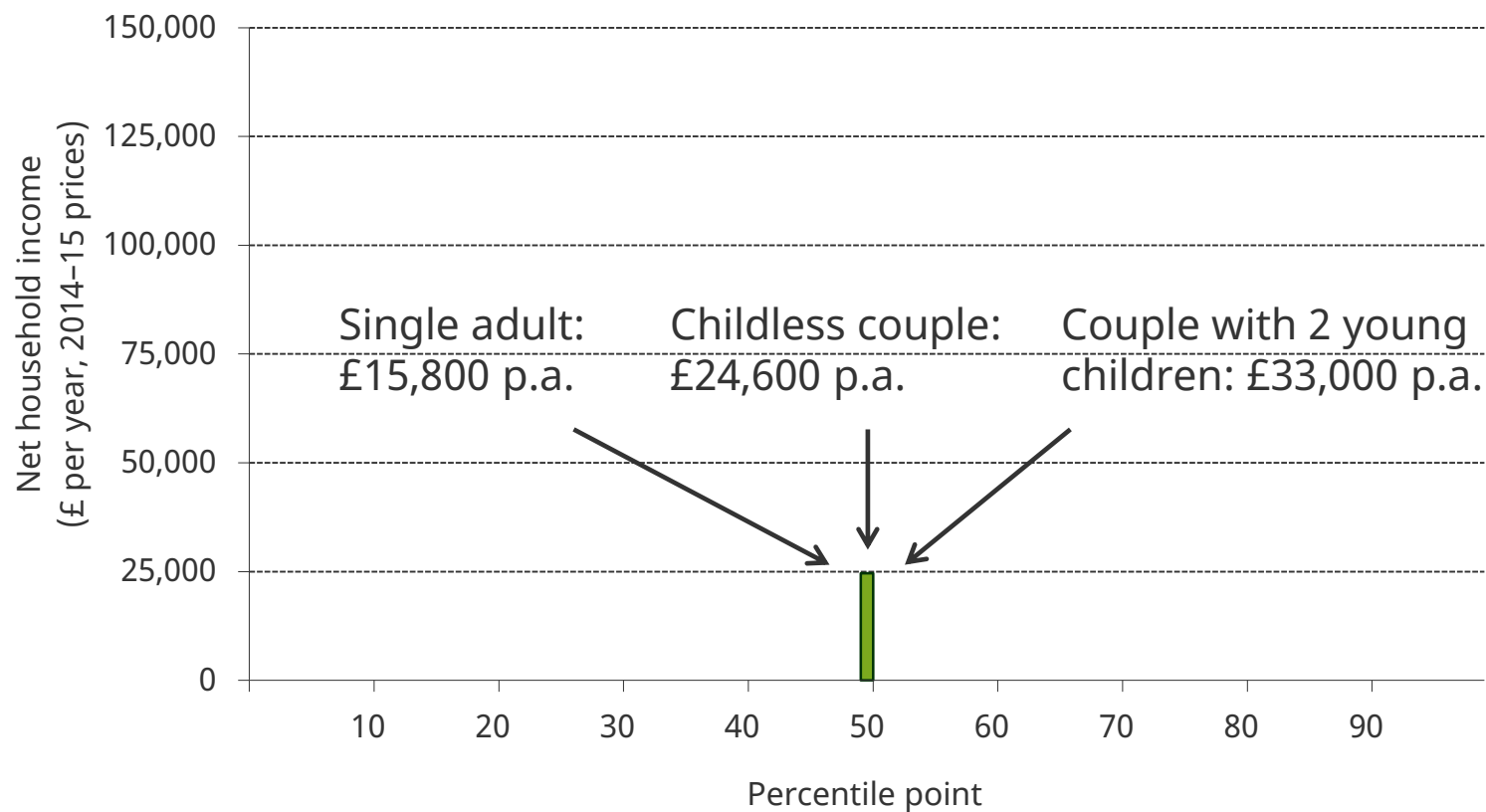
Andrew Hood

The UK income distribution in 2014-15



Source: Figure 3.1 of *Living Standards, Poverty and Inequality: 2016*

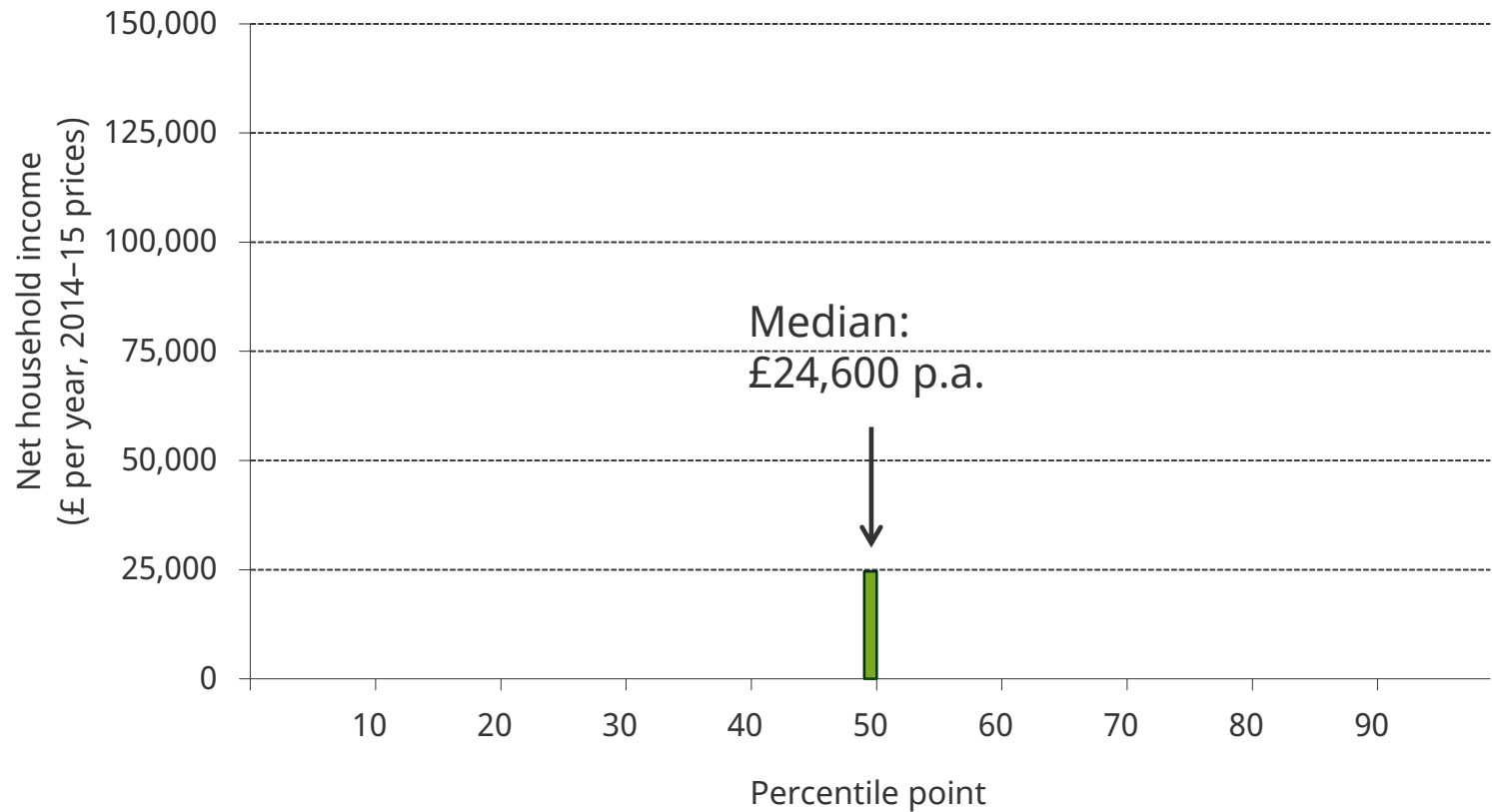
The UK income distribution in 2014-15



Source: Figure 3.1 of *Living Standards, Poverty and Inequality: 2016*

The UK income distribution in 2014–15

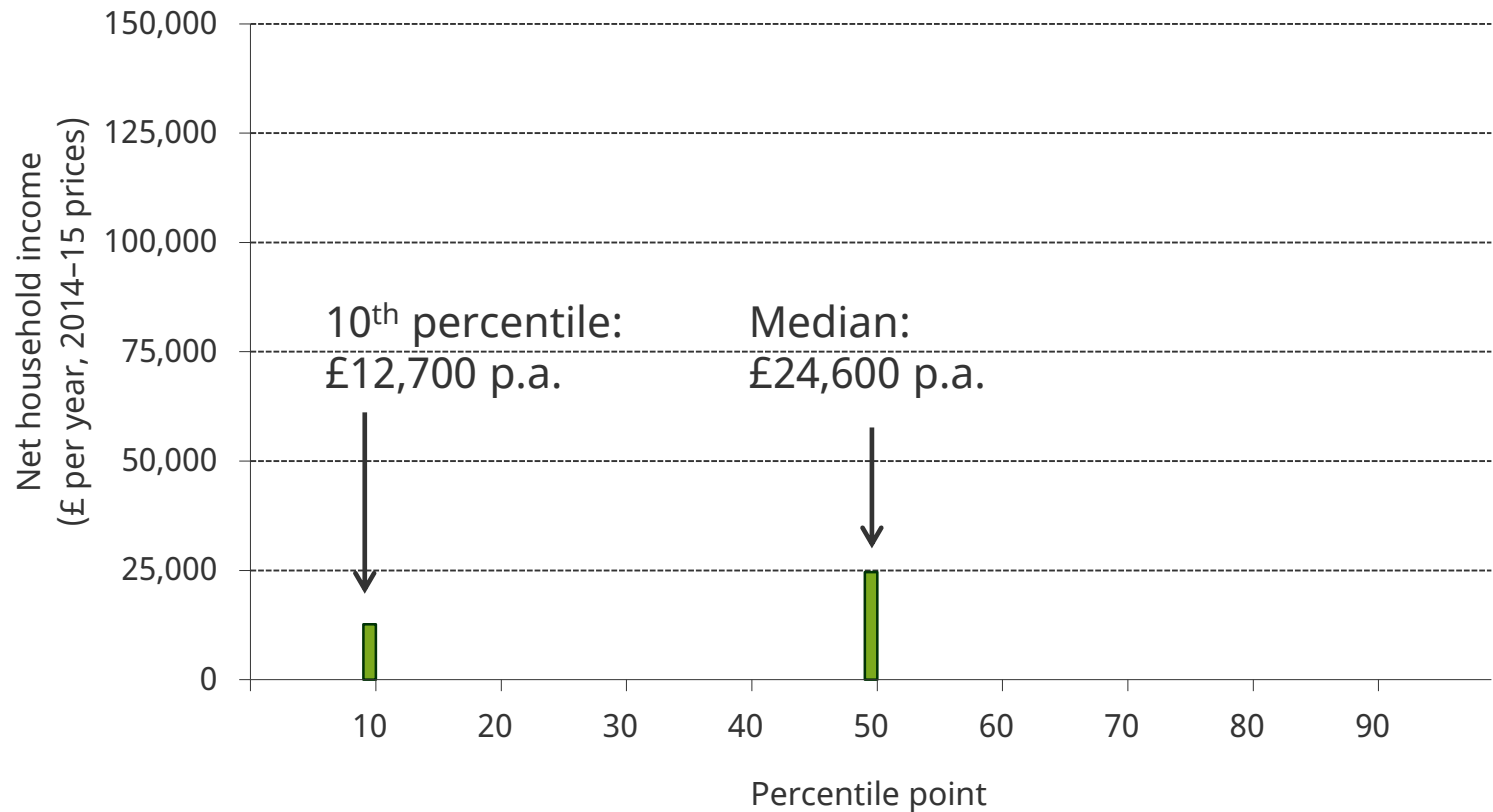
Expressed as equivalent living standards for a childless couple



Source: Figure 3.1 of *Living Standards, Poverty and Inequality: 2016*

The UK income distribution in 2014-15

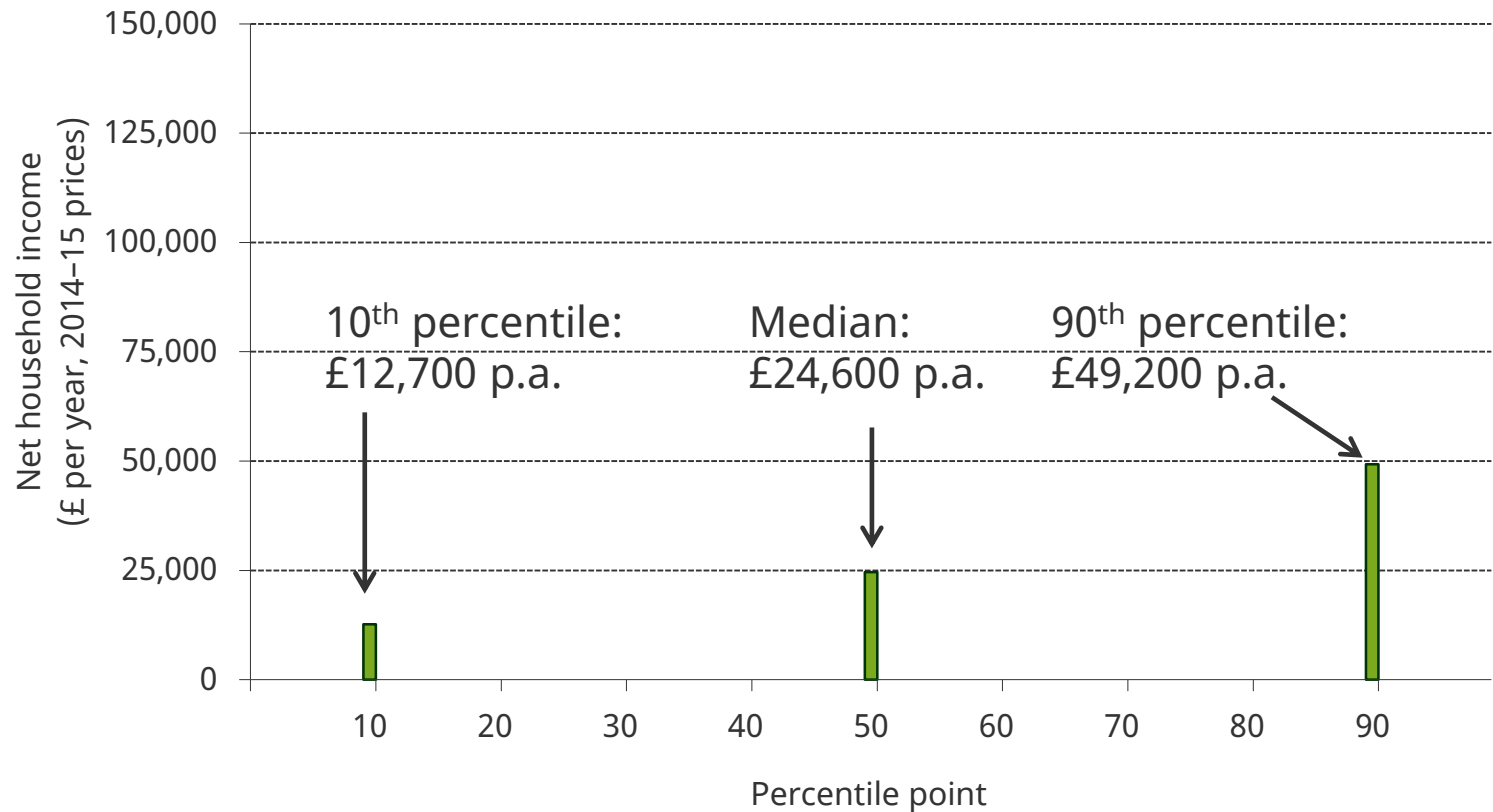
Expressed as equivalent living standards for a childless couple



Source: Figure 3.1 of *Living Standards, Poverty and Inequality: 2016*

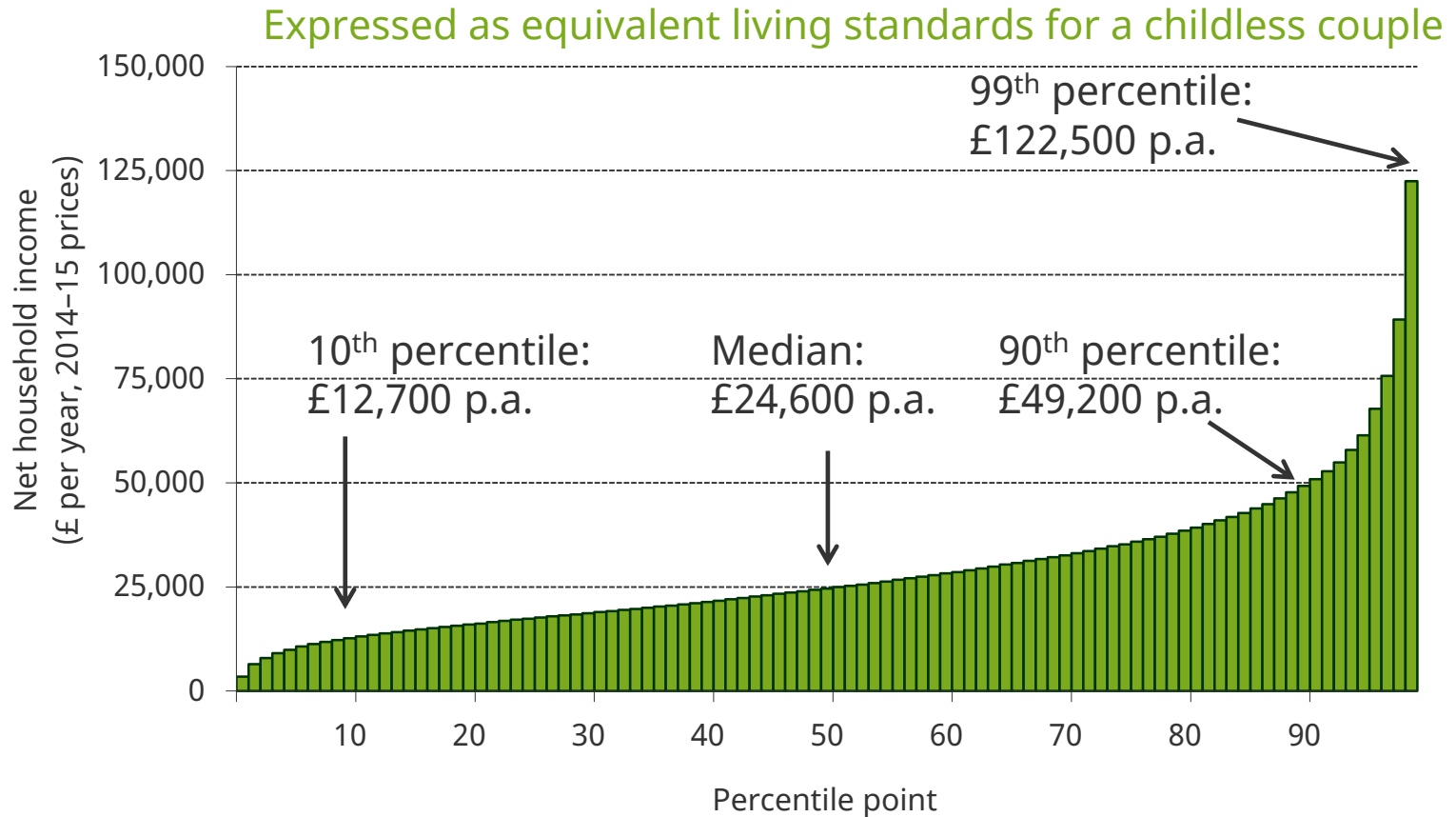
The UK income distribution in 2014-15

Expressed as equivalent living standards for a childless couple



Source: Figure 3.1 of *Living Standards, Poverty and Inequality: 2016*

The UK income distribution in 2014-15



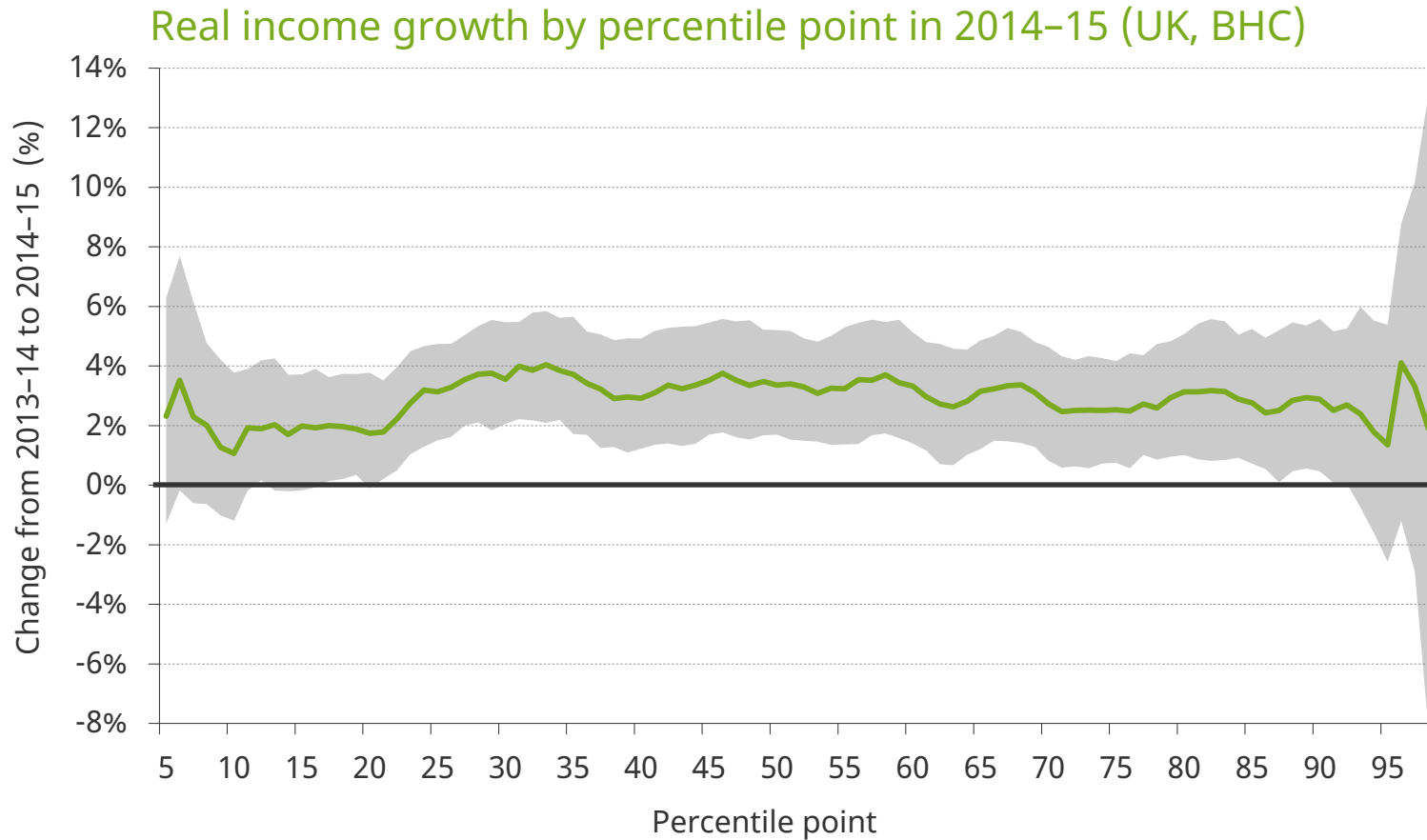
Source: Figure 3.1 of *Living Standards, Poverty and Inequality: 2016*

Sources of net income across the distribution: 2014-15



Source: Figure 3.2 of *Living Standards, Poverty and Inequality: 2016*

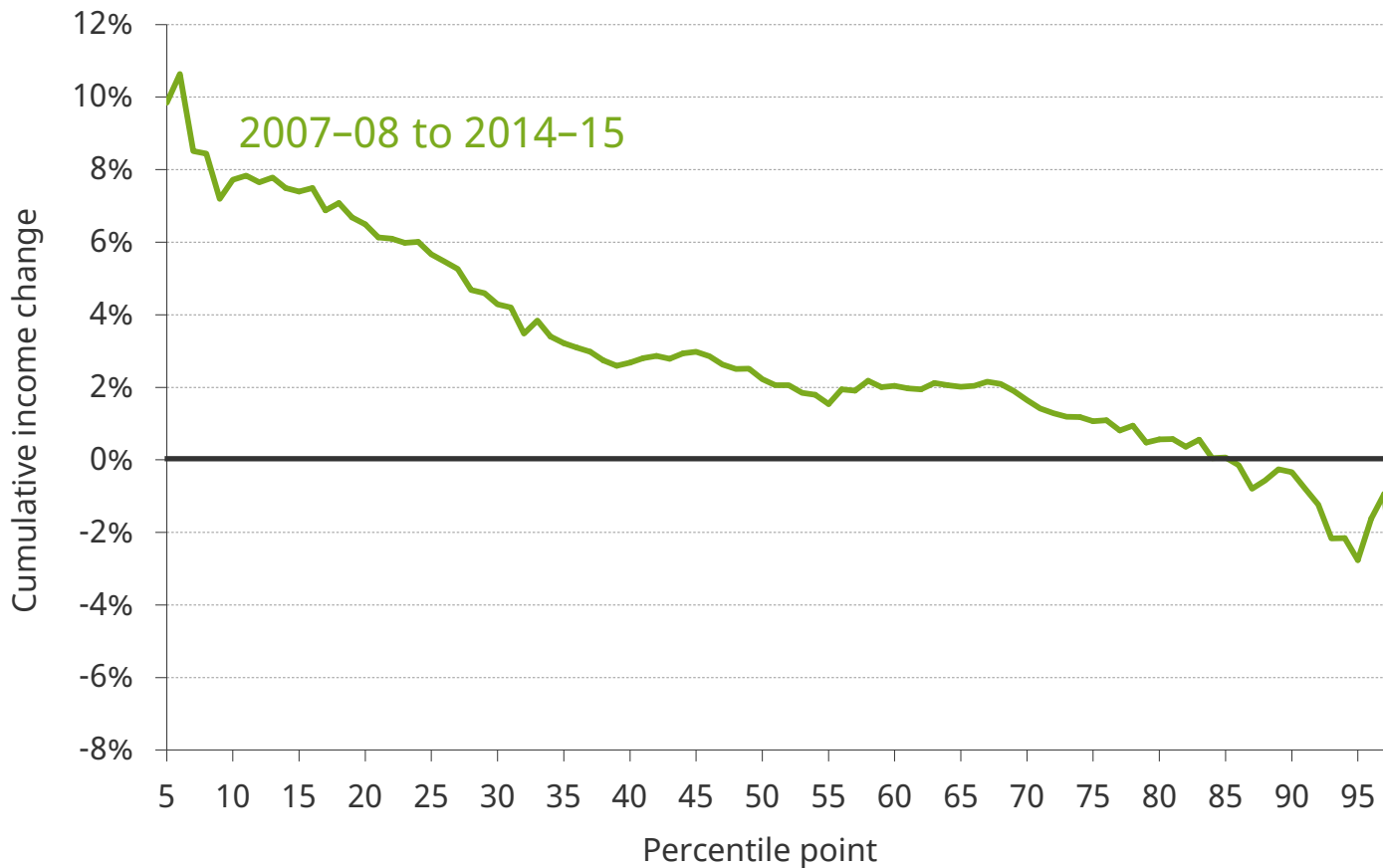
Inequality broadly unchanged in 2014-15



Source: Figure 3.3 of *Living Standards, Poverty and Inequality: 2016*

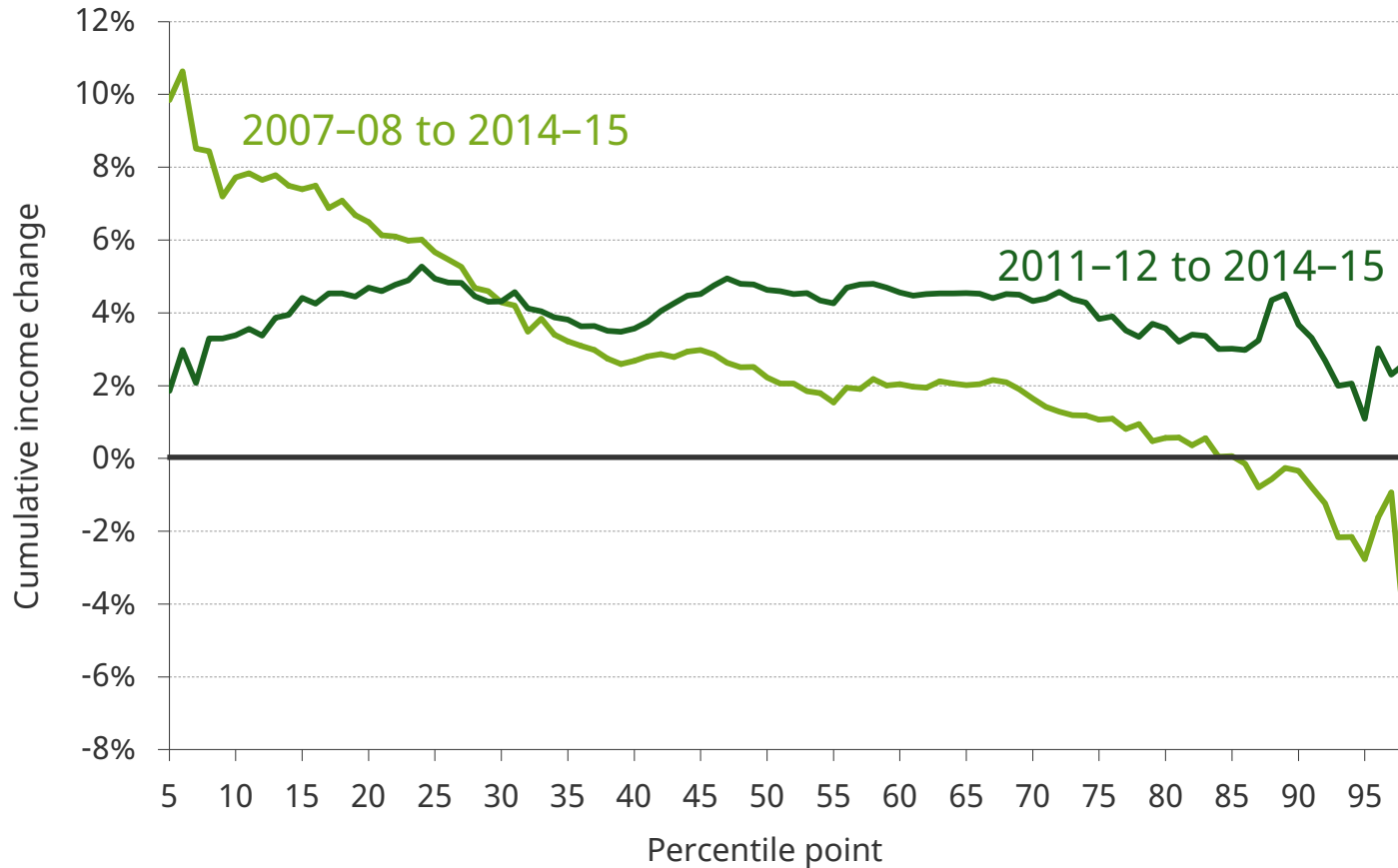
Note: Shaded area represents 95% confidence intervals

Inequality is lower than before the recession... Institute for Fiscal Studies



Source: Figure 3.1 of *Living Standards, Poverty and Inequality: 2016*

...and has not risen during the recovery



Source: Figure 3.4 of *Living Standards, Poverty and Inequality: 2016*

Why has inequality not increased during the recovery?

1. Remarkably strong employment growth

Change in % of non-pensioners living in a workless household around last three recessions (GB)



Source: Figure 3.9 of *Living Standards, Poverty and Inequality: 2016*

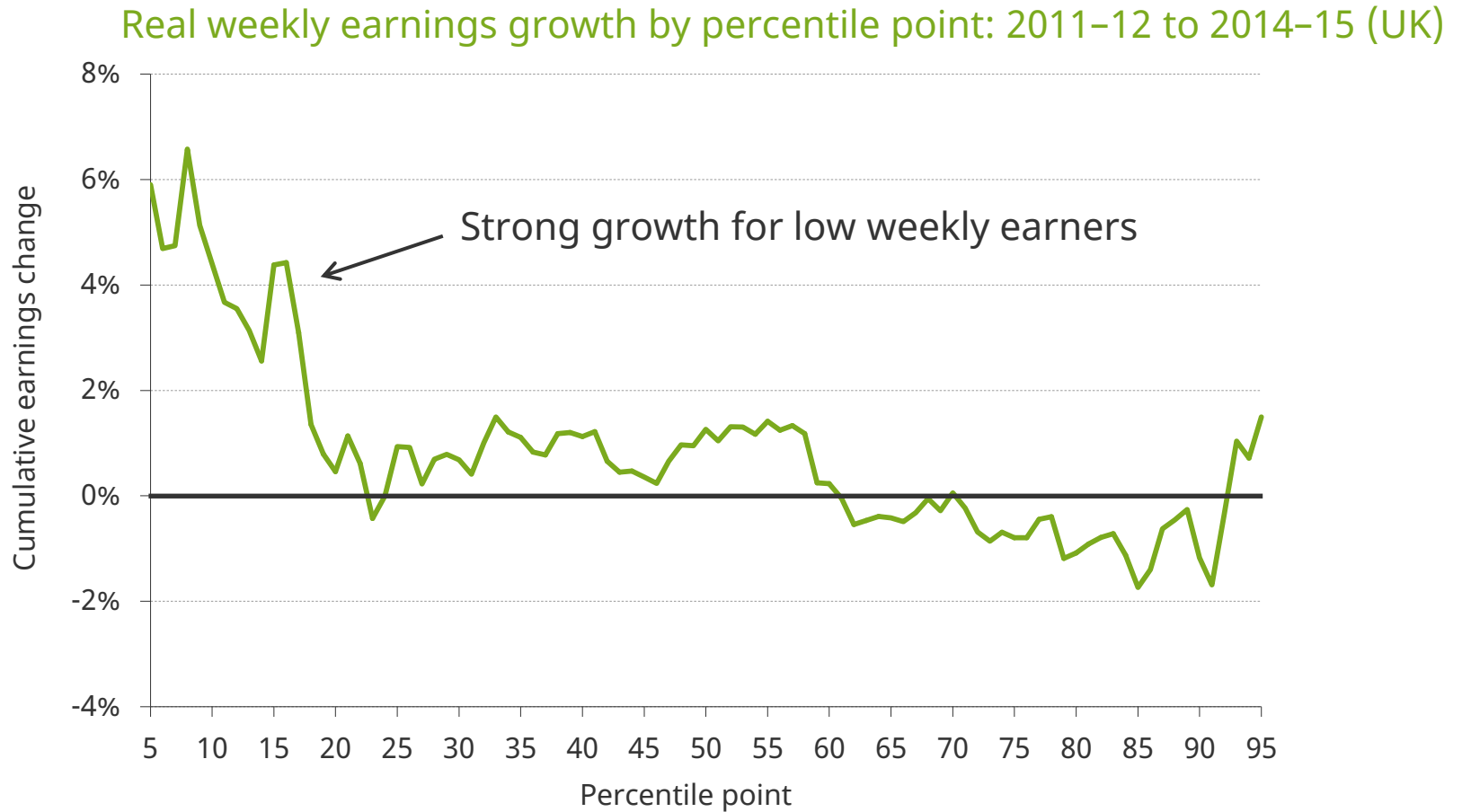
Why has inequality not increased during the recovery?

1. Remarkably strong employment growth
 - Mainly boosted the incomes of low-income households

2. Weak individual earnings growth
 - Strong earnings growth would have led high-income households to pull away, though less so than in the past
 - Average gross employee earnings unchanged in real terms between 2011–12 and 2014–15

3. Stronger earnings growth for low earners

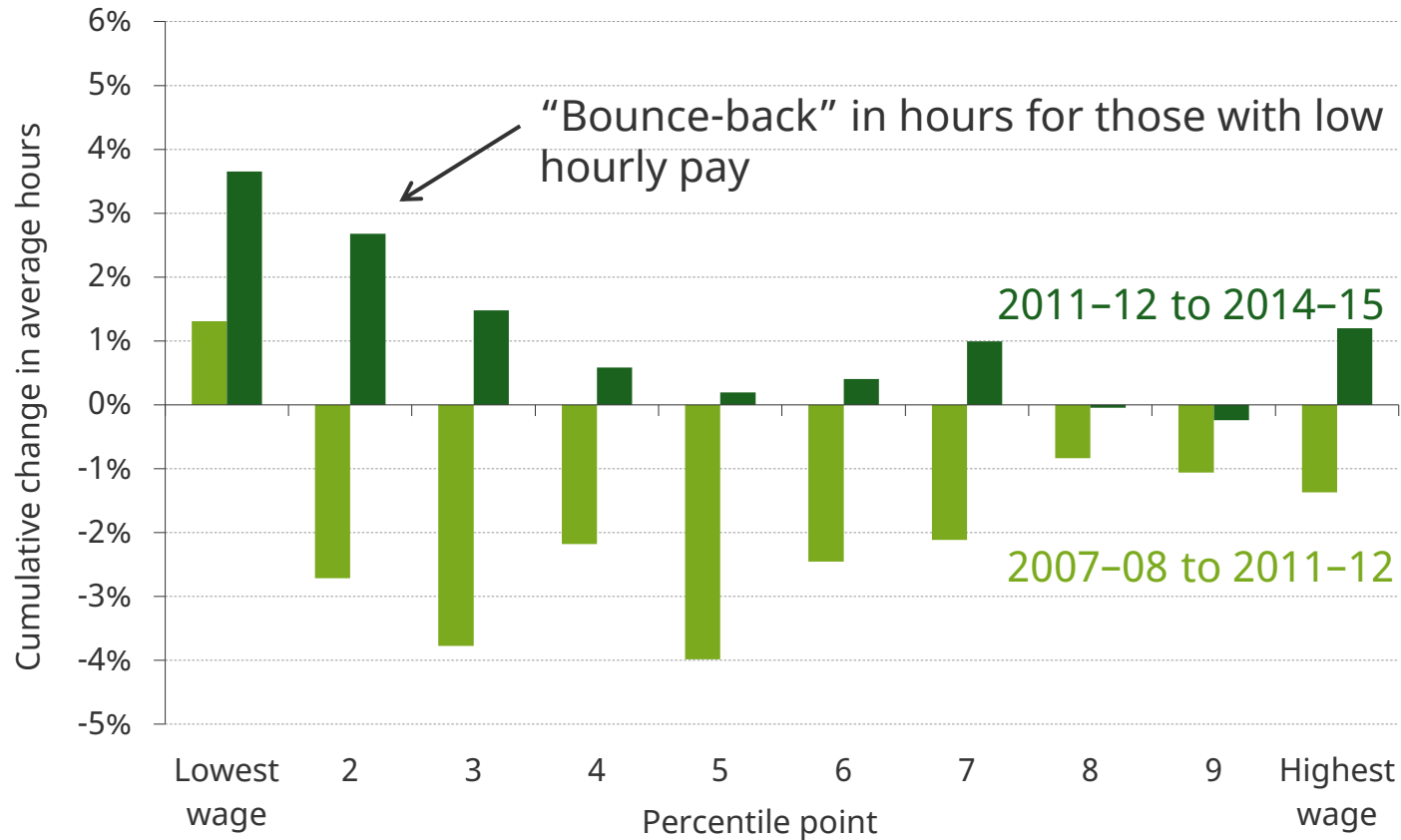
Inequality in weekly individual earnings fell...



Source: Figure 3.14 of *Living Standards, Poverty and Inequality: 2016*

...driven by a recovery in hours for low-paid workers

Change in hours worked by hourly wage decile (UK)



Source: Figure 3.15 of *Living Standards, Poverty and Inequality: 2016*

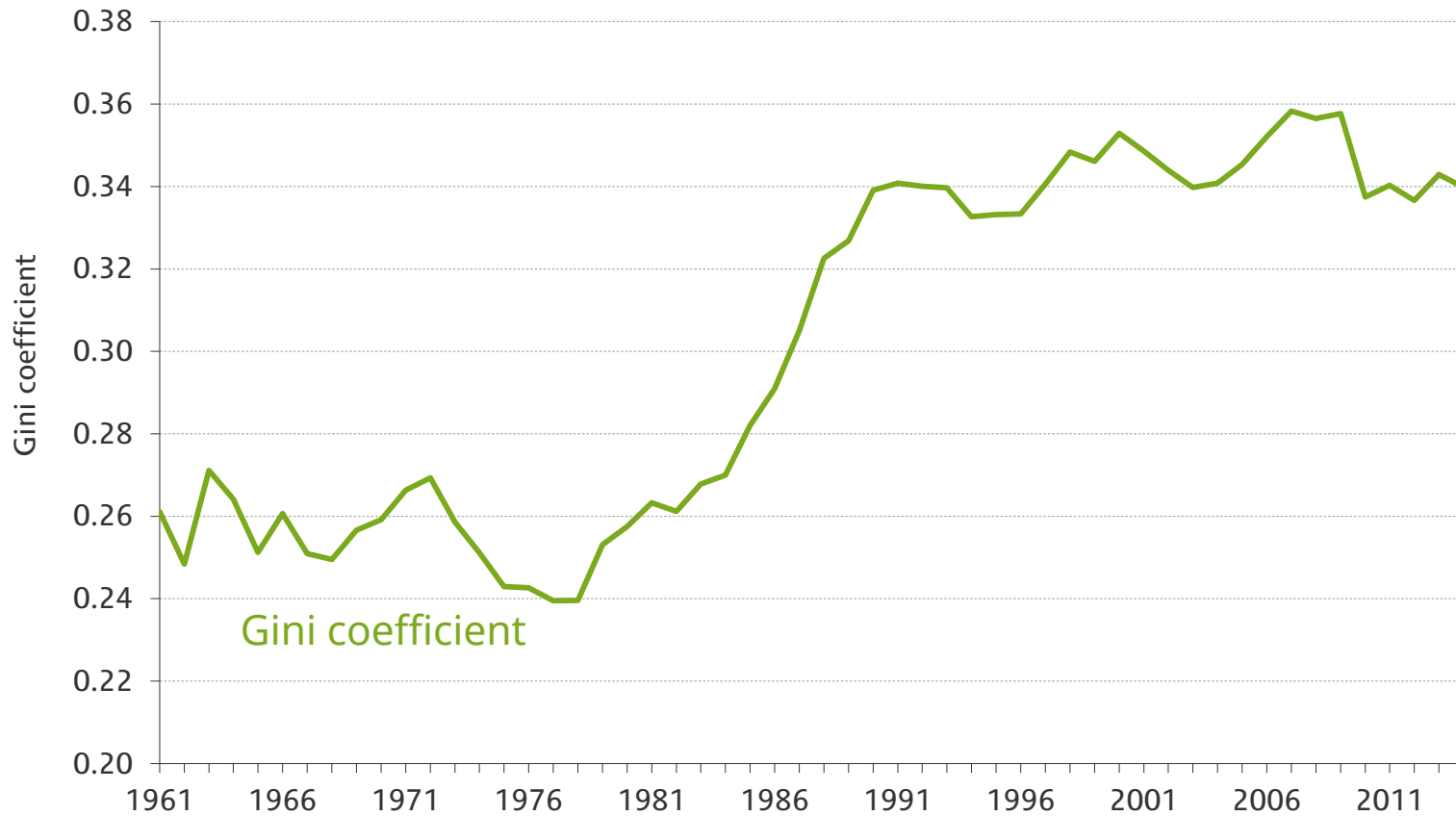
Why has inequality not increased during the recovery?

1. Remarkably strong employment growth
 - Both falling household worklessness and ‘added workers’ have mainly boosted the incomes of low-income households

2. Weak individual earnings growth
 - Average gross employee earnings unchanged in real terms between 2011–12 and 2014–15
 - Strong earnings growth would have led high-income households to pull away, though less so than in the past

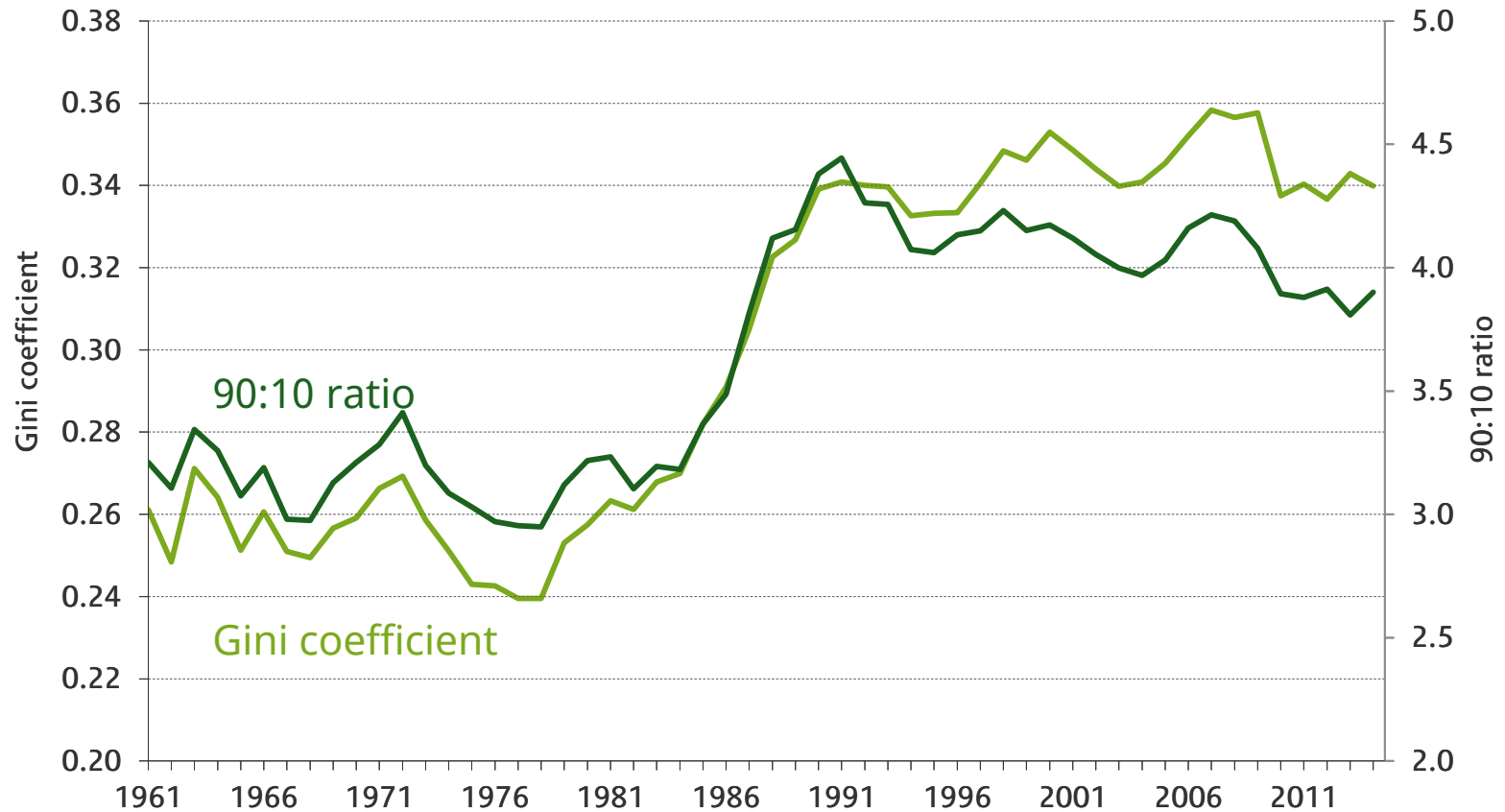
3. Stronger earnings growth for low earners
 - Explained by a recovery in hours worked among those with low hourly pay

Long-run inequality: 1961 to 2014-15 (GB)



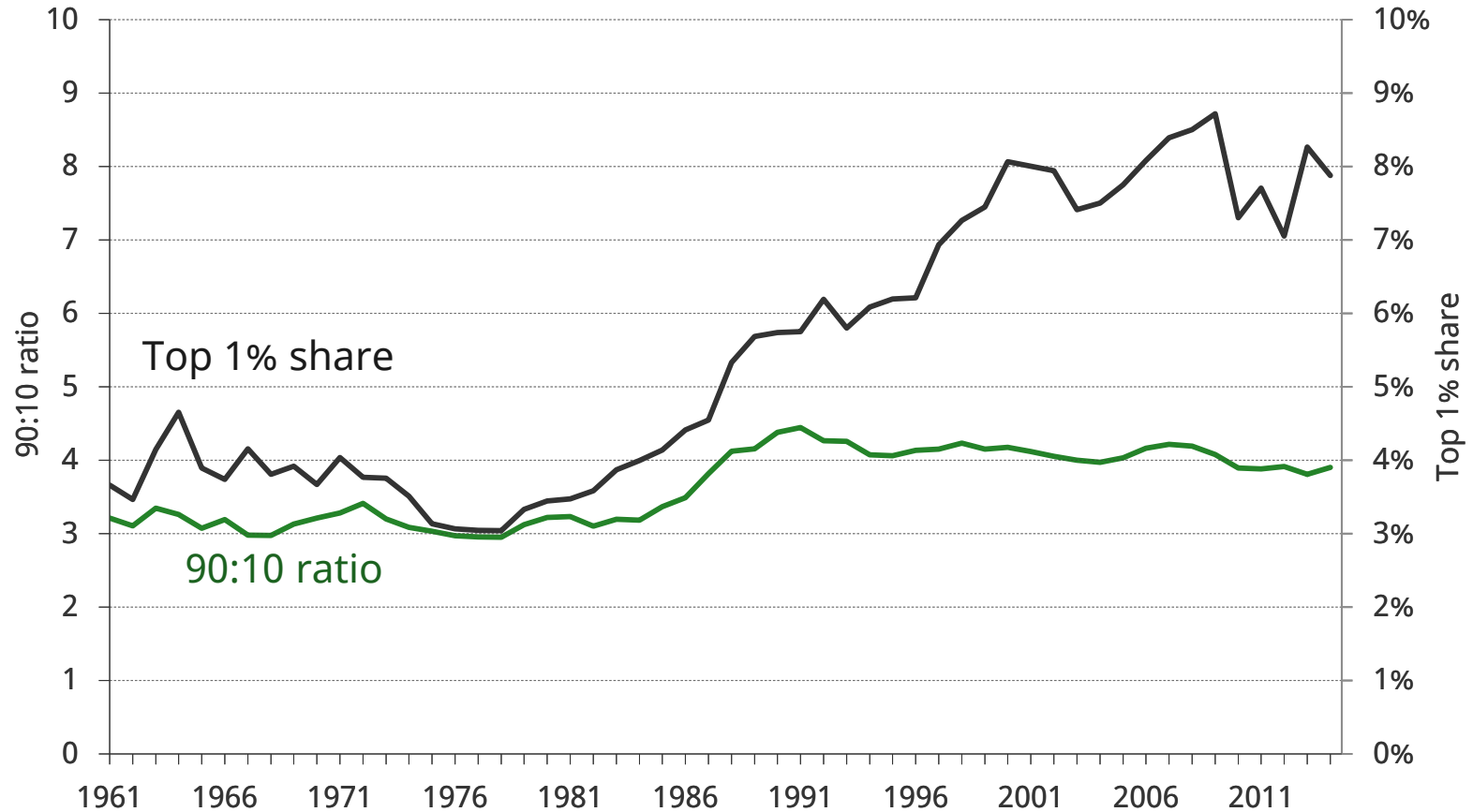
Source: Figure 3.6 of *Living Standards, Poverty and Inequality: 2016*

Long-run inequality: 1961 to 2014-15 (GB)



Source: Figures 3.6 and 3.7 of *Living Standards, Poverty and Inequality: 2016*

Long-run inequality: 1961 to 2014-15 (GB)



Source: Figure 3.7 of *Living Standards, Poverty and Inequality: 2016*

Conclusions

- Income inequality across most of the distribution still lower than before the recession
 - Recovery has seen weak earnings growth and strong employment growth, preventing rise in income inequality
- Over the long run the top 1% have pulled away
 - But inequality across most of the distribution lower than 25 years ago
- Effect of earnings and employment changes on inequality are complex
 - Combined with macroeconomic uncertainty, makes it almost impossible to predict future trends in inequality