

Trends in income and wealth inequalities

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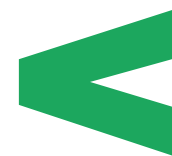
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The IFS Deaton Review

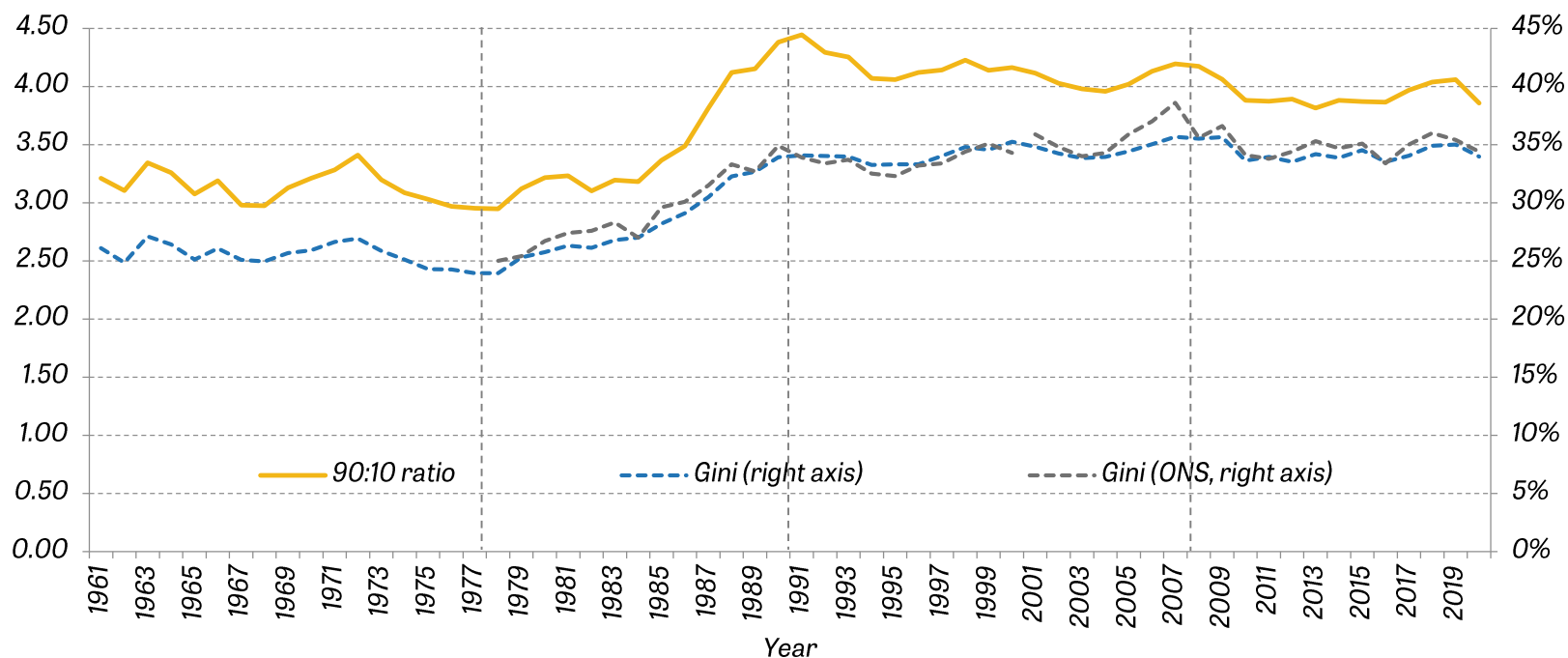
Income inequality has been stable for 30 years...

Inequality in net household income in the UK, 1961–2020



Inequality

The IFS Deaton Review

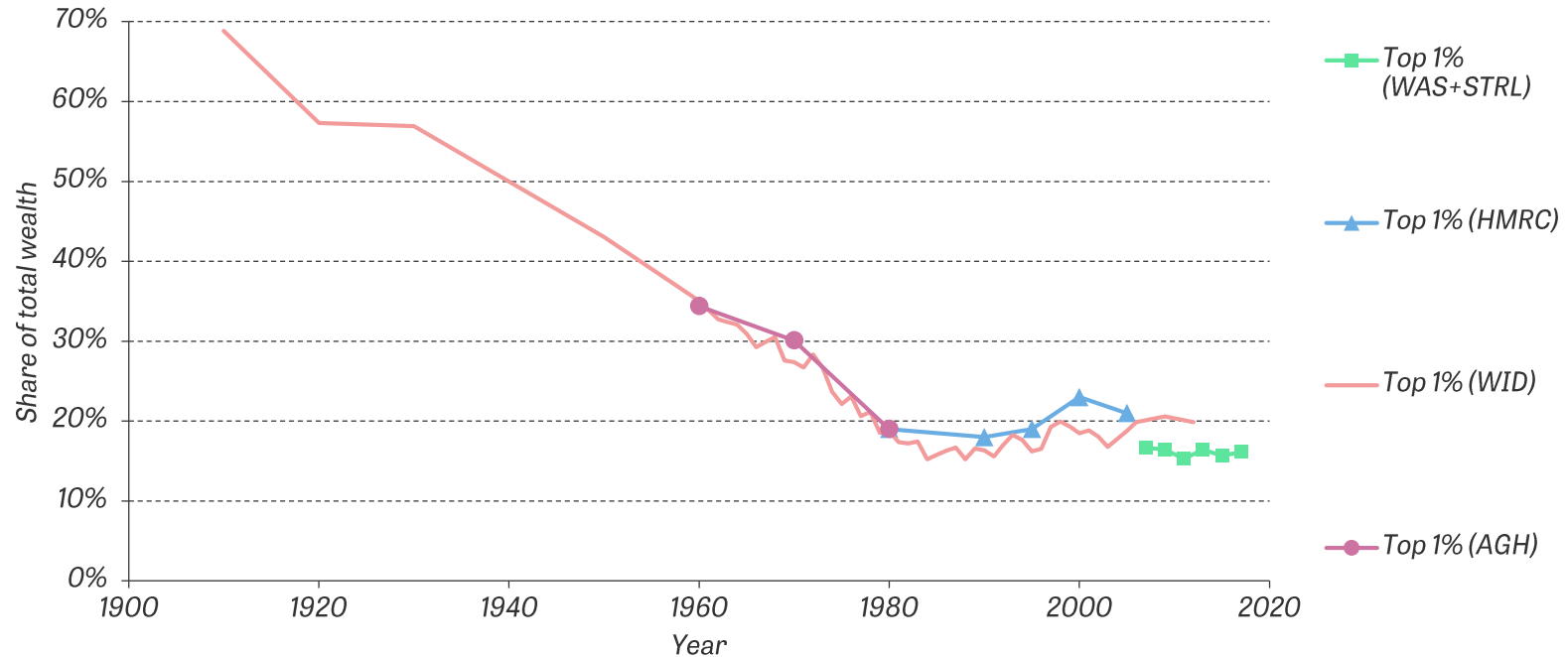


Note: The inequality measures are based on incomes measured net of taxes and benefits but before housing costs have been deducted. All incomes have been equivalised using the modified OECD equivalence scale. Years refer to calendar years up to and including 1992 and to financial years from 1993–94 onwards. Data are representative of households in the UK from 2002–03 onwards and in Great Britain for earlier years.

Source: Series labelled Gini-ONS is from table 9 of the ONS published data set 'The effects of taxes and benefits on household income, disposable income estimate' (2021), which includes a 'top incomes' adjustment from 2001–02. The other series are authors' calculations using the FES for 1961–93 and the FRS for 1994–2020 and a 'top incomes' adjustment using administrative tax data.

...and wealth inequality is at a record low

Top wealth shares in the UK since 1910



Note: The WID, AGH and HMRC series are for individual wealth, but the WAS series is per-adult family wealth.

Source: WID data are 'Net Personal Wealth' share (shweal). WAS+STRL data are from Advani, Bingham and Leslie (2021); AGH is Atkinson, Gordon and Harrison (1989).

But that leaves out a lot!

1. Levels are important, not change

- The UK has one of the most unequal income distributions among comparable countries

2. Single, summary measures hide a great deal

- Top incomes have continued to grow since 1990s
- Position of different groups has changed

3. Absolute differences are important, as well as relative differences

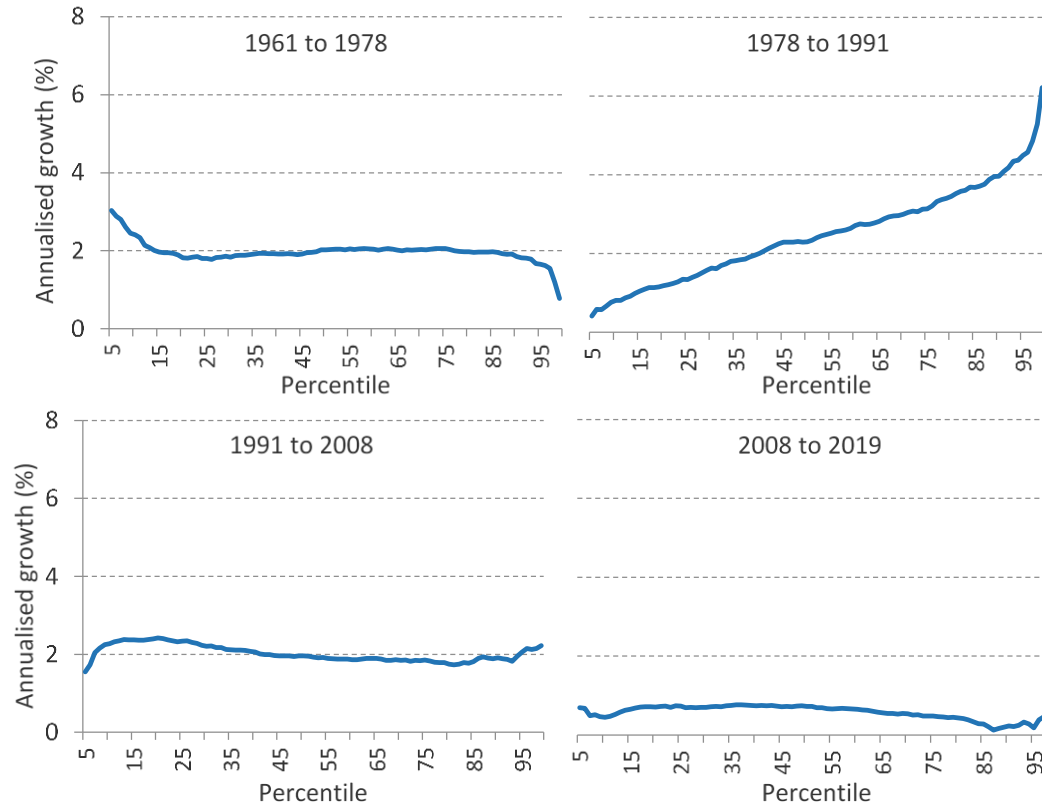
- Growth in household incomes has been very slow since mid-late 2000s
- Household wealth has doubled in importance since early 1990s

4. Exploring detail of income and wealth together reveals new generational differences

- Asset price surge and absence of wage growth has led to a profound reversal of between-cohort differences in living standards and wealth

Income growth has been very poor since mid/late 2000s

Annualised growth in household income by income percentile, various periods



Note: Incomes have been measured net of taxes and benefits but before housing costs have been deducted. All incomes have been equivalised using the modified OECD equivalence scale. Years refer to calendar years up to and including 1992 and to financial years from 1993–94 onwards. Data are representative of households in the UK from 2002–03 onwards and in Great Britain for earlier years.

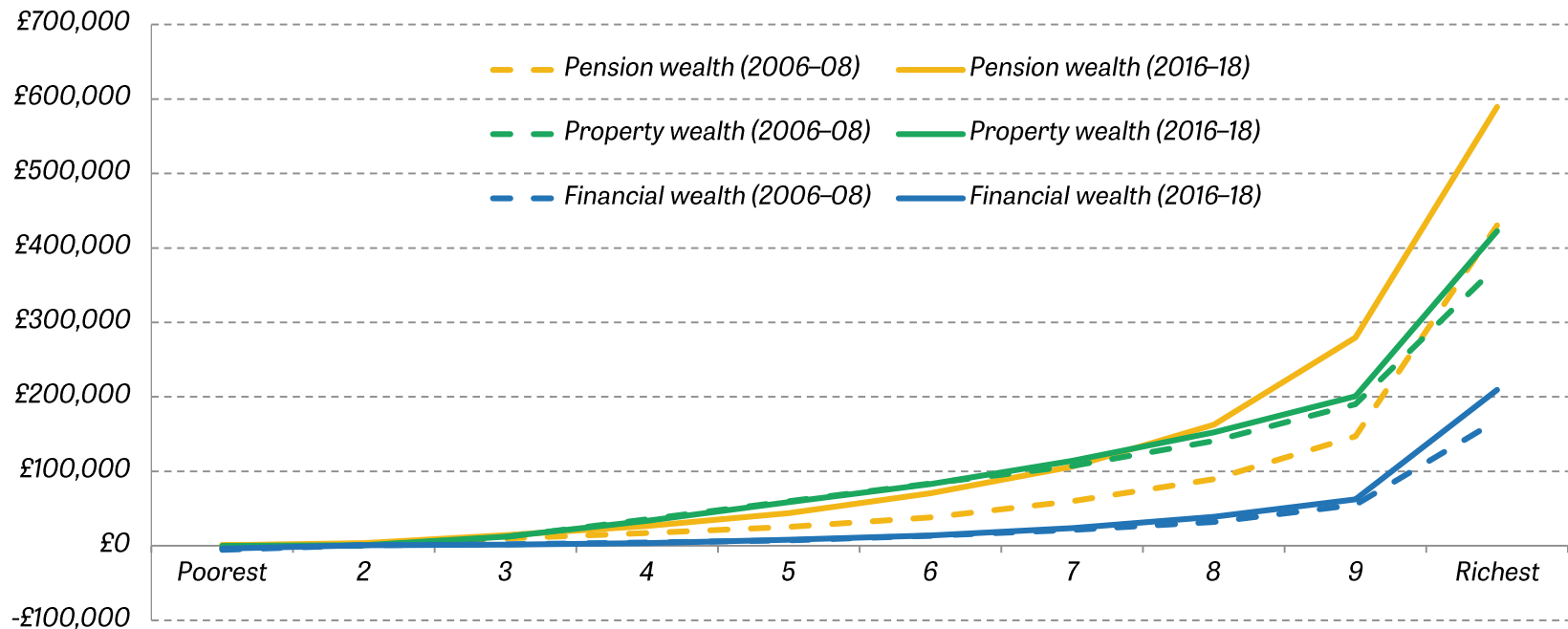
Source: Authors' calculations using the FES for 1961–93 and the FRS for 1994–2019 and a 'top incomes' adjustment using administrative tax data.

Household wealth is growing in importance

- Since 1991, household wealth has almost doubled relative to GDP (from about three and a half times as large to seven times as large).
 - Capital gains more important than active saving

Absolute wealth gaps have increased

Average values of different sources of wealth in each wealth decile, 2006–08 and 2016–18



Note: Wealth is calculated at the household level and expressed per adult (16 and 17 year olds not in full-time education, plus all aged 18 and above). Wealth includes pension, property and financial wealth. Physical wealth is excluded.

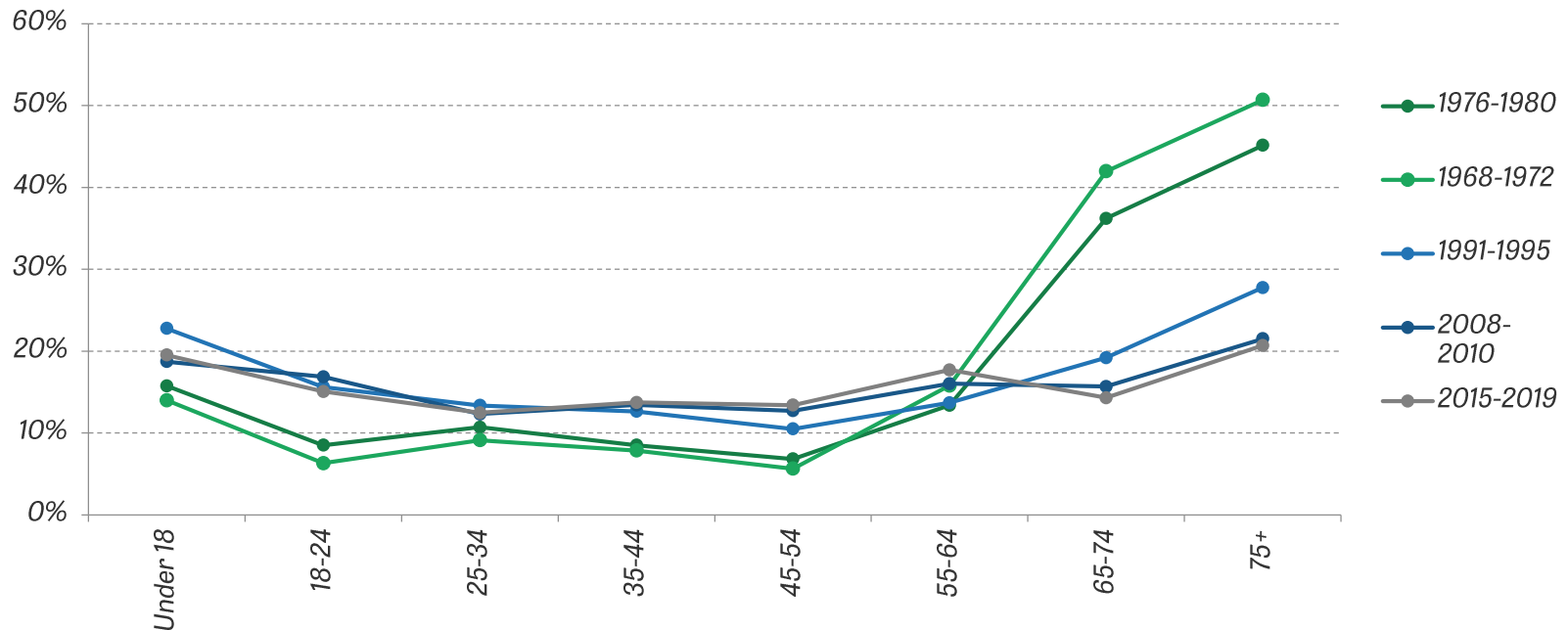
Source: Authors' calculations using the WAS, wave 1 and round 6.

And absolute wealth gaps are increasing rapidly, even with unchanged relative inequality

- In the decade since 2006-08, the mean wealth of the 5th decile grew by two-thirds of a typical full-time salary, but the mean wealth of the 9th wealth decile grew by 5.4 times, and the mean wealth of the 10th wealth decile by 8.9 times a typical full-time salary
- The gap between the 5th and 9th wealth deciles has increased from 10 to almost 16 years' worth of typical full-time earnings
 - It means saving your way up the wealth distribution even less feasible (and don't count on inheritances to solve this either)

Older people are not the poorest any more...

Proportion of individuals in the bottom 15% of the BHC household income distribution, by age and year

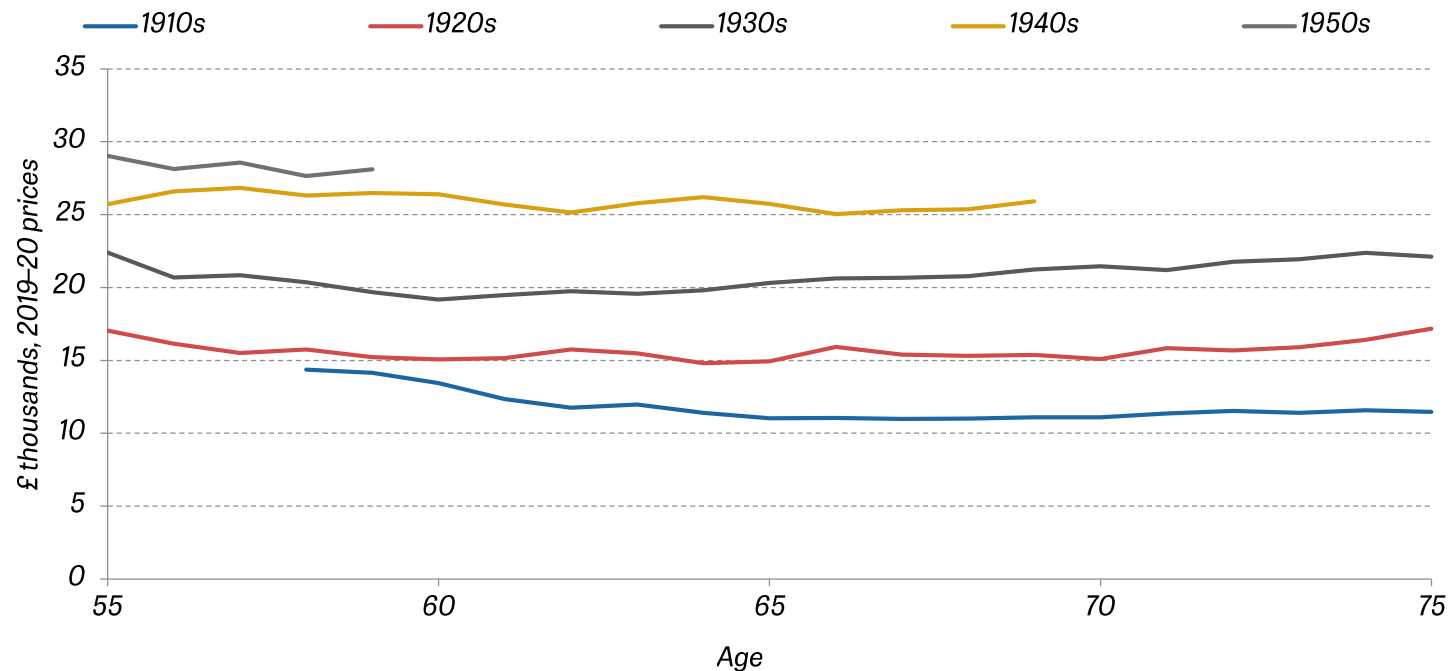


Note: Incomes have been measured net of taxes and benefits, before housing costs have been deducted, and have been equivalised using the modified OECD equivalence scale. Years refer to calendar years up to and including 1992 and to financial years from 1993–94 onwards. Figures relate to households in the UK from 2002–03 onwards and to households in Great Britain for earlier years. We show the five-year rolling average.

Source: Authors' calculations using the FES up to 1993, and the FRS from 1994–95 to 2019.

...driven by cohort effects

Median equivalised disposable BHC household income, for people born in different decades

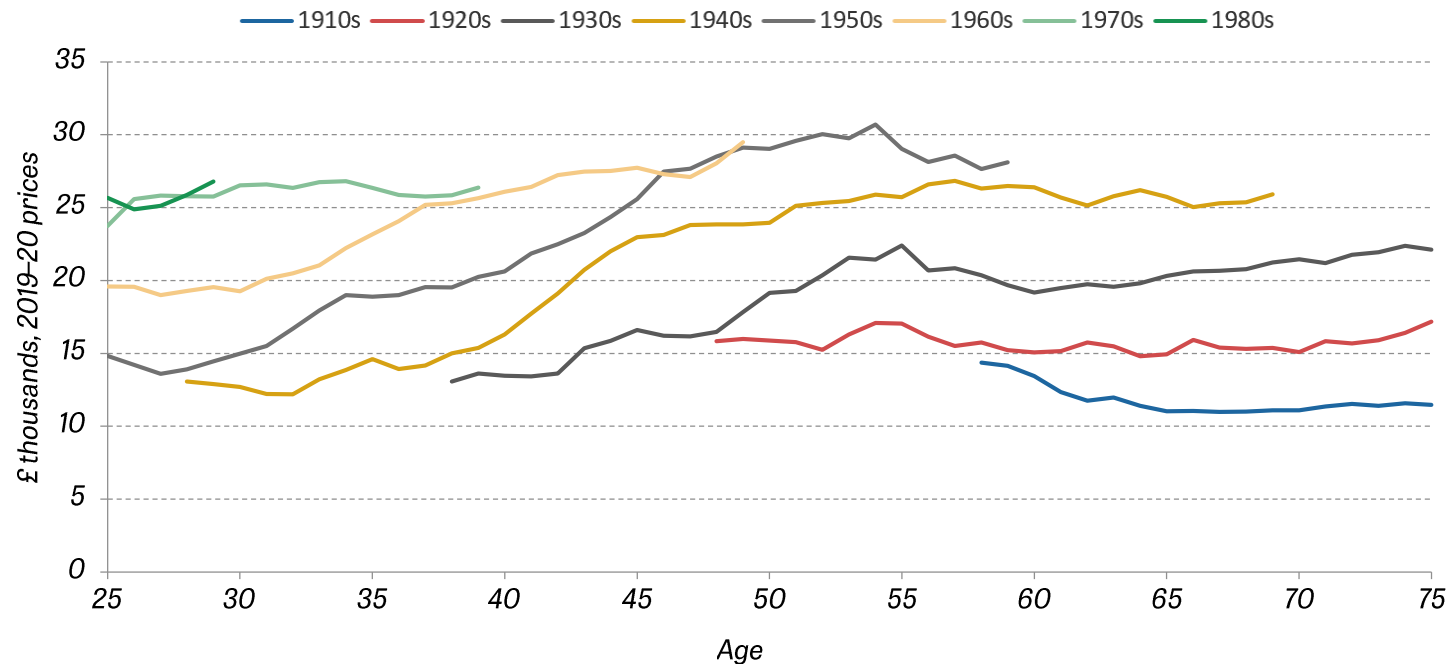


Note: Cohort of birth is approximated based on age and year of interview. Age is not the age recorded in the microdata, but the average age of the cohort in the year observed to allow the most recent data for each cohort. Incomes have been measured net of taxes and benefits, before housing costs have been deducted, and have been equivalised using the modified OECD equivalence scale. Years refer to calendar years up to and including 1992 and to financial years from 1993–94 onwards. Figures relate to households in the UK from 2002–03 onwards and to households in Great Britain for earlier years. We show the five-year rolling average. All incomes are adjusted to 2019–20 prices using a variant of the CPI that includes mortgage interest repayments.

Source: Authors' calculations using the FES up to 1993, and the FRS from 1994–95 to 2019.

But cohort-on-cohort progress has stopped...

Median equivalised disposable BHC household income, for people born in different decades

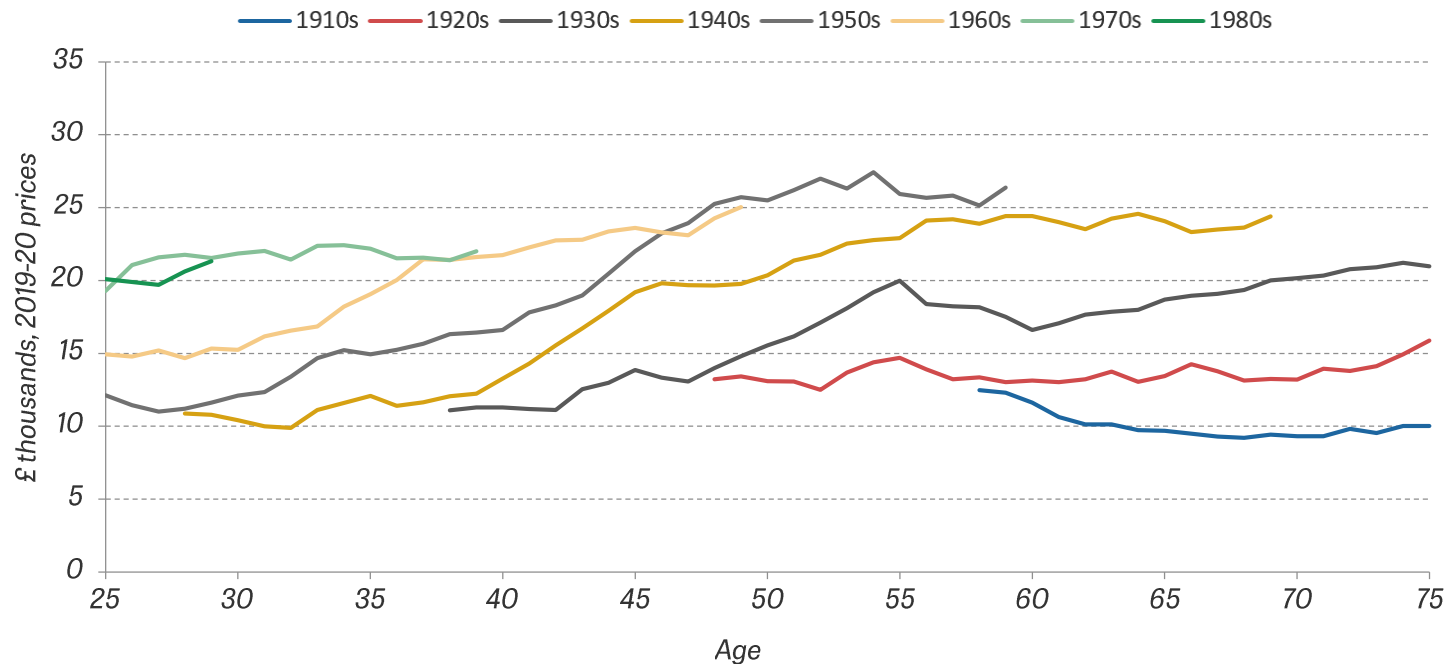


Note: Cohort of birth is approximated based on age and year of interview. Age is not the age recorded in the microdata, but the average age of the cohort in the year observed to allow the most recent data for each cohort. Incomes have been measured net of taxes and benefits, before housing costs have been deducted, and have been equivalised using the modified OECD equivalence scale. Years refer to calendar years up to and including 1992 and to financial years from 1993–94 onwards. Figures relate to households in the UK from 2002–03 onwards and to households in Great Britain for earlier years. We show the five-year rolling average. All incomes are adjusted to 2019–20 prices using a variant of the CPI that includes mortgage interest repayments.

Source: Authors' calculations using the FES up to 1993, and the FRS from 1994–95 to 2019.

...especially after housing costs

Median equivalised disposable AHC household income, for people born in different decades, UK

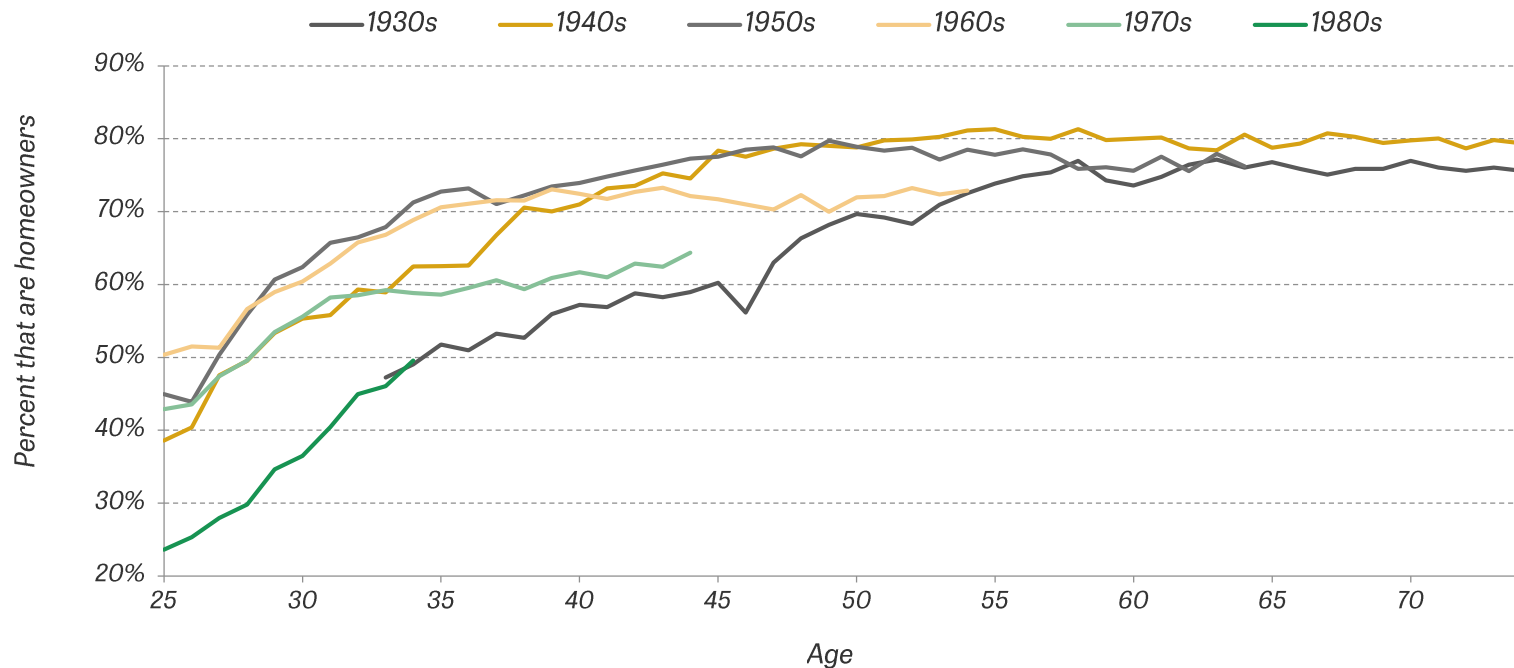


Note: Cohort of birth is approximated based on age and year of interview. Age is not the age recorded in the microdata, but the average age of the cohort in the year observed to allow the most recent data for each cohort. Incomes have been measured net of taxes and benefits, before housing costs have been deducted, and have been equivalised using the modified OECD equivalence scale. Years refer to calendar years up to and including 1992 and to financial years from 1993–94 onwards. Figures relate to households in the UK from 2002–03 onwards and to households in Great Britain for earlier years. We show the five-year rolling average. All incomes are adjusted to 2019–20 prices using a variant of the CPI that includes mortgage interest repayments.

Source: Authors' calculations using the FES up to 1993, and the FRS from 1994–95 to 2019.

Home ownership is in decline...

Average homeownership by age, for people born in different decades

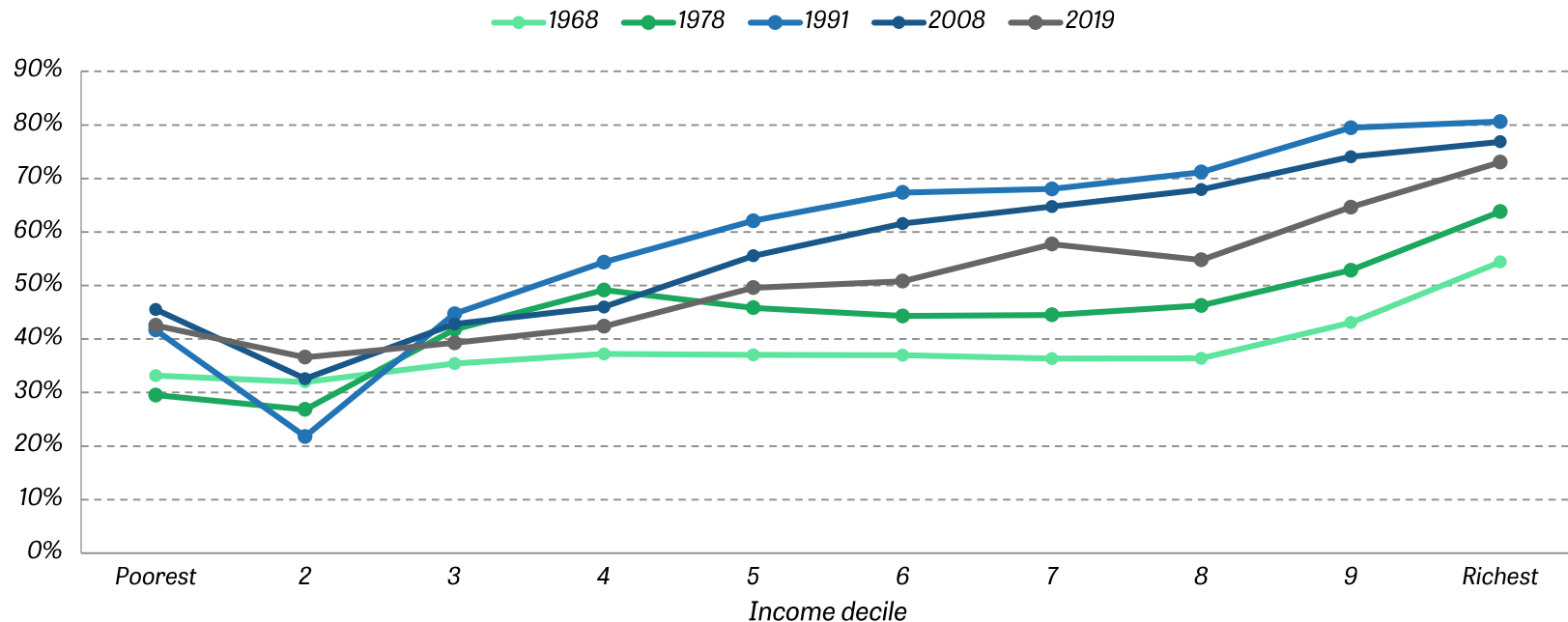


Note: Cohort of birth is approximated based on age and year of interview. Age is not the age recorded in the microdata, but the average age of the cohort in the year observed to allow the most recent data for each cohort. A 'homeowner' is defined as an individual, living in owner-occupied housing, who is either the household reference person or their partner.

Source: Updated by Jonathan Cribb from Cribb (2019).

...especially among middle-income Britain

Proportion of non-pensioner adults who are homeowners, by income decile



Note: A 'homeowner' is defined as an individual, living in owner-occupied housing, who is either the household reference person or their partner. Sample includes adults in non-pensioner households, but income deciles are defined for the whole population. Incomes have been measured net of taxes and benefits, before housing costs have been deducted, and have been equivalised using the modified OECD equivalence scale. Years refer to calendar years up to and including 1992 and to financial years from 1993–94 onwards. Figures relate to households in Great Britain only.

Source: Authors' calculations using the FES up to 1993, and the FRS for 1994–95 to 2019.

Where does that leave us?



- The UK has one of the most unequal income distributions among comparable countries
- Rising asset prices are accelerating the gap between those with and without wealth, and has reversed the rise in home ownership
- Wealth increases for those who already owned some wealth has coincided with a long-term stagnation in earnings, leading to a profound reversal of between-cohort differences in living standards and wealth
- Today's intergenerational inequality may be tomorrow's lack of social mobility

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