

Inequality and poverty
Measuring resources and well-being
Taxes and benefits and the income distribution

Mike Brewer (with Stuart Adam, James Browne, Ali Muriel, David Phillips, Luke Sibieta and former colleagues)

Inequality and poverty: relevant IFS work

- Income inequality and poverty
 - Annual reports (since early 2000s) on income inequality or relative poverty [all IFS Commentaries or IFS Briefing Notes]
 - Ad hoc articles/reports (usually superseded by later reports)
 - Goodman and Webb (1994, IFS Commentary 42 & FS article), Goodman, Johnson and Webb (1997, OUP), Clark and Taylor (1999, FS), Goodman and Oldfield (2004, IFS Report)
- Inequality of spending
 - Goodman and Webb (1995, FS), Goodman, Johnson and Webb (1997, OUP), Goodman and Oldfield (2004, IFS Report)
- Inequality of gross income
 - Goodman, Shaw and Shephard (2005; ippr book “Maintaining Momentum”); also ONS articles (Jones, various years)

Income as measure of resources/well-being: relevant IFS work

- Differential inflation and living standards
 - Leicester, O’Dea and Oldfield (2008, IFS Commentary 106), Crawford and Smith (2002, IFS Commentary 90)
- Consumption, income or material deprivation?
 - Blundell and Preston (1996, FS), Brewer, Goodman and Leicester (2006, Policy Press), Attanasio et al (2006, NPC conference paper), Brewer et al (2008, IFS Commentary 105), on-going work for Child Poverty Unit (published Spring 2009)
- HBAI not capturing all income from benefits and tax credits
 - Brewer et al (2008, IFS Commentary 105), latest FRS annual reports

Headlines: income inequality and poverty

- Changes in inequality since 1990 much less dramatic than in 1980s (see also ONS articles (Jones, various years))
- Since 1996/7
 - inequality rose, fell and is now rising again
 - It rose (1996/7 – 2000/1) while the economy boomed, the top decile soared away, and benefits & TCs rose slowly
 - Then it fell (2000/1 – 2004/5) while the economy slowed, and Brown poured money into benefits & TCs
 - Then it rose (2004/5 – 2006/7) as the rich crept away, living standards stagnated at the middle, and accelerating inflation eroded benefits & TCs at the bottom
 - Recessions usually lower inequality, but note recent volatility of real value of benefits & TCs
 - relative poverty has fallen for pensioners, esp AHC, (cohort effects and policy), for children/parents (policy) but not for others
 - trends in living standards and poverty vary across regions

However...

- Inequality in spending does not mirror inequality in income. Not sure I know why.
- Gini of gross income largely unchanged since 1996/7 AND the tax and benefit system is a lot more redistributive YET Gini of net income unchanged
 - The gross income distribution has changed shape but with constant Gini, and the new shape responds less to the tax and benefit system
- HBAI missing a lot of income from benefits and TCs; overwhelming evidence that lowest income households not those with least resources
- Allowing for variation in CoL (across regions) or inflation (across households) affects conclusions

“Explaining” changes in inequality

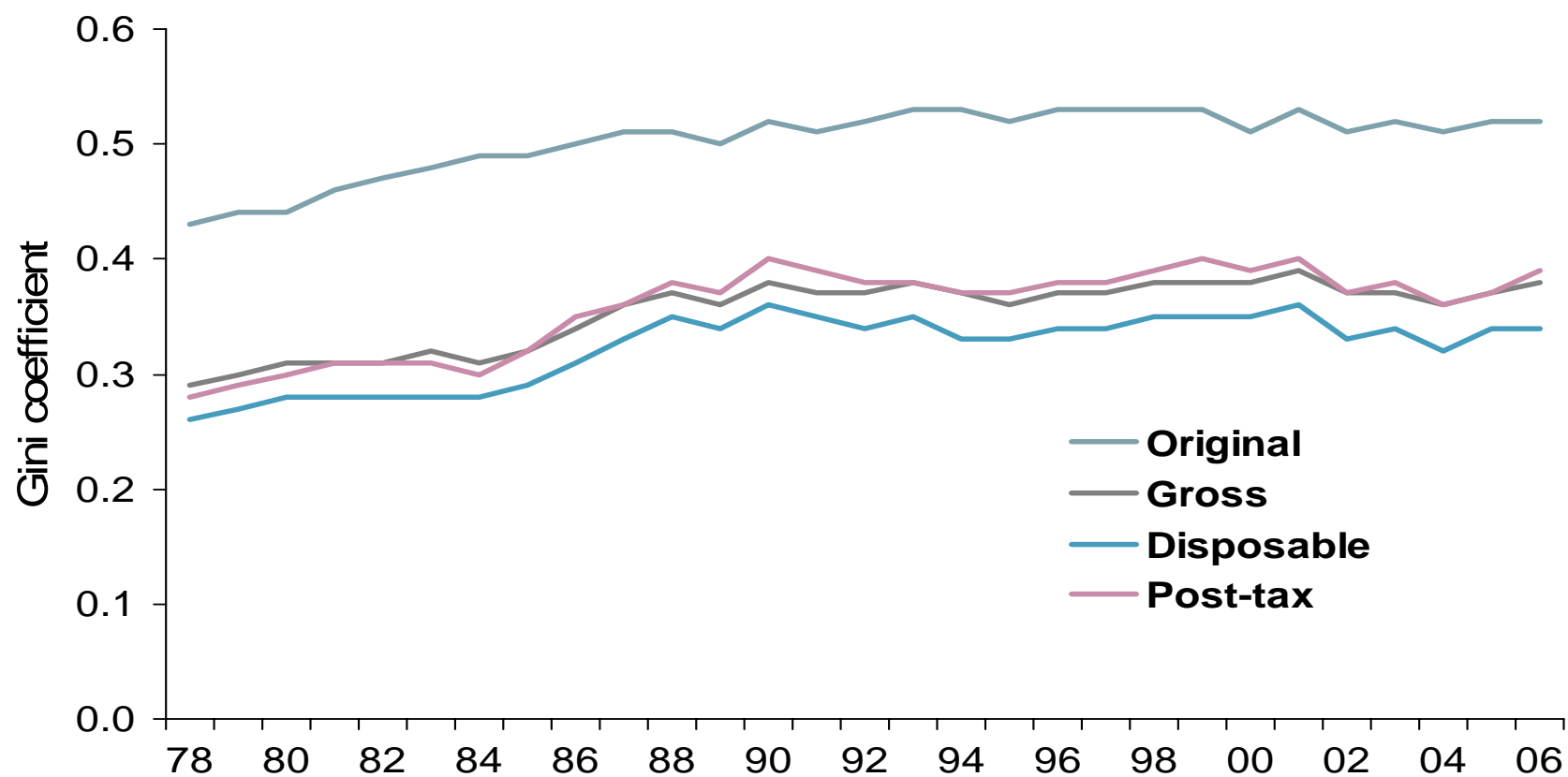
- Demographic & economic changes
 - Goodman, Johnson and Webb (1997, OUP), Clark and Taylor (1999, FS)
- Have explored decompositions of inequality / contribution to inequality across/by income sources and household characteristics in unpublished work
- Taxes and benefits ...

Impact of taxes and benefits on inequality

- Two main approaches
- ‘Actual payments’ approach
 - Goodman, Johnson and Webb (1997), ‘Inequality in the UK’, OUP; Hills (2004), ‘Inequality and the state’, OUP; Jones (forthcoming), ‘The distribution and redistribution of income, 1977 – 2006/07’, ONS
 - Looks at effect of taxes and benefits in different years on incomes of different income groups
 - Tends to find that tax and benefit system has not made distribution of income more unequal
- Microsimulation approach
 - Clark and Leicester (2004), ‘Inequality and two decades of British tax and benefit reform’, *Fiscal Studies* vol.25 no.2 pp129-158; Adam, Browne and Heady (2008), ‘Taxation in the UK’, <http://www.ifs.org.uk/mirrleesreview/reports/uktax.pdf>
 - Conclude that tax and benefit reforms can explain one third of the rise in income inequality depending on which counterfactual used

Effect of tax and benefit system on income inequality

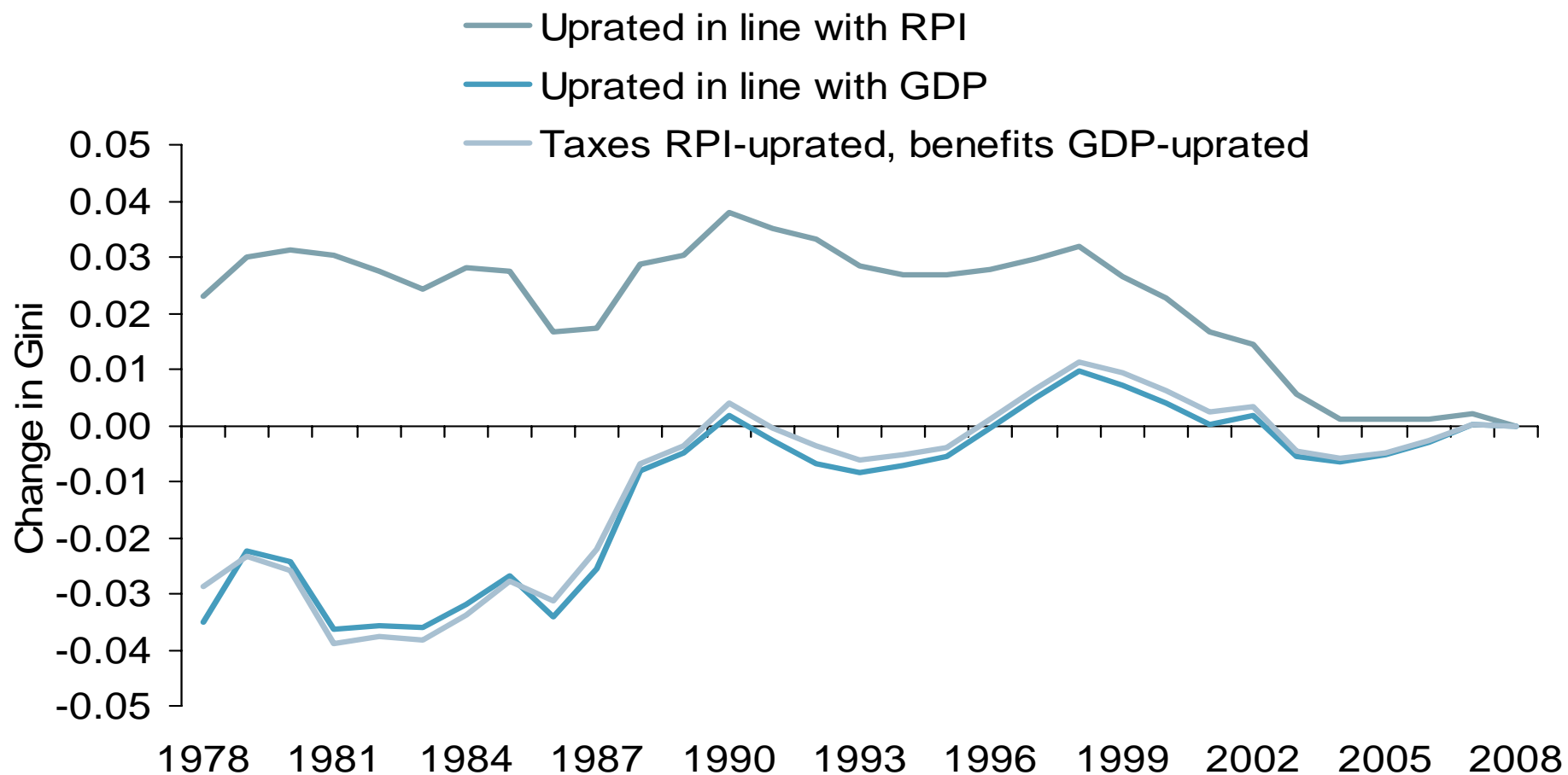
Excluding most 'business taxes'



Source: Jones F. (2008), 'The effect of taxes and benefits on household income',
Economic and Labour Market Review vol.2 no.7.

Effect of tax and benefit changes on income inequality

Personal direct taxes and benefits only, 2005-06 population



Source: Adam, Browne and Heady (2008)

Relevant IFS resources

- Resources
 - HBAI micro-data back to 1961 (should be identical to what is at UKDA)
 - Summary statistics <http://www.ifs.org.uk/bns/bn19figs.zip>
 - Tax and benefit static micro-simulation model (TAXBEN; like POLIMOD or PSM) to estimate personal direct tax liabilities, and entitlement to benefits and tax credits
 - Very happy to be commissioned to do short pieces of analysis using either of these!