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

Net household income (£ per year, 2014–15 prices)

Percentile point

Single adult: £15,800 p.a.
Childless couple: £24,600 p.a.
Couple with 2 young children: £33,000 p.a.

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

Median: £24,600 p.a.

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

Net household income (£ per year, 2014-15 prices)

Percentile point

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

Net household income (£ per year, 2014–15 prices)

150,000
125,000
100,000
75,000
50,000
25,000

Percentile point

10th percentile: £12,700 p.a.
Median: £24,600 p.a.
90th percentile: £49,200 p.a.

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

Net household income (£ per year, 2014–15 prices)

10th percentile: £12,700 p.a.
Median: £24,600 p.a.
90th percentile: £49,200 p.a.
99th percentile: £122,500 p.a.

Source: Figure 3.1 of Living Standards, Poverty and Inequality: 2016
Sources of net income across the distribution: 2014–15

- **Private pensions, savings and investments**
- **State pensions**
- **Benefits**
- **Employment**

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

40% employment, 45% benefits

80% employment, 1% benefits
Inequality broadly unchanged in 2014–15

Real income growth by percentile point in 2014–15 (UK, BHC)

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...

![Graph showing cumulative income change from 2007-08 to 2014-15.](image)

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...

Real weekly earnings growth by percentile point: 2011–12 to 2014–15 (UK)

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)

“Bounce-back” in hours for those with low hourly pay

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

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

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

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