**Unintuitive trends in income inequality**

**Why don’t official statistics show an increase in inequality?**

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Why are the UK official statistics not showing an increase in income poverty given the trends Peter Taylor-Gooby describes in The Inequality Paradox? The ONS historical series ‘*The effects of taxes and benefits on household incomes’* shows the Gini coefficient of net disposable income increasing sharply in the 1980s, broadly stable in the 1990s and fluctuating downwards since around 2000. (The Gini coefficient is a statistical measure of the degree of variation represented in a set of values, used especially in analysing income inequality. It describes inequality in a single number between 0 and 1: the higher the number, the greater the degree of income inequality.) This is also true of original income (before taxes and benefits), gross income (after benefits) and post- tax income (after indirect taxes). The same series also gives us two alternative inequality measures: the 80/20 ratio – the ratio of the disposable income of the richest 20% divided by the share of the poorest 80% and the 90/10 ratio. They both show the same pattern the share of the richest has fallen since 2000.

**Trends in income inequality**

*Source: ONS (2019) The effects of taxes and benefits on household incomes*

What are the possible explanations for this? The Family Resources Survey on which this data is based under-reports incomes at the top and there are very few top earners in the survey. The inequality measures are not very sensitive to the very top of the distribution – even the top 10% are not all rich. But we also know from Resolution Foundation work that benefit receipt is also under-reported at the bottom of the distribution. The series is not up to date - it takes us to 2017/18 when there was actually a slight increase in inequality and this may be the start of a trend given the freeze in working age benefits from 2016 and the roll-out of Universal Credit, the two-child limit, and the benefit cap. Indeed, we need to concentrate on benefits because they do most of the heavy lifting on redistribution. Work by the Child Poverty Action Group has shown that the redistributive effects of direct taxes are largely cancelled out by the negative effects of indirect taxes.

But there have also been countervailing factors to the huge income increases for the ‘fat cats’. Unemployment is at a record low. Employment rates are at a record high, with a big increase in female labour supply and dual earning households. There has also been a big increase in lone parent employment and, despite the insecurity at the bottom end of the labour market, the minimum wage has risen faster than average earnings. Also, pensioner incomes have been increasing, partly thanks to the UK government’s pensions ‘triple lock’, whereby the basic state pension is raised by average earnings, inflation or 2.5%, whichever is higher. It may be that the Institute for Fiscal Studies Commission on Inequality chaired by Angus Deaton will get to the bottom of all this.

There is very worrying evidence of increasing inequality of other kinds. As well as wealth, spatial and generational inequalities are certainly growing. So are life-cycle inequalities, with children the main victims of austerity. Child poverty is rising rapidly, both in terms of poverty rates (how many are in poverty) and poverty gaps (how far below the poverty line a person is). The evidence is there in the excellent report of the UN Rapporteur on extreme poverty. Perhaps most worrying of all is the increase in inequalities in life expectancy, partly driven by an increase in the infant mortality over the last two years, after decades of improving rates. This is mainly driven by increases for the lowest socio-economic groups and a growing gap in health outcomes.

Like Taylor-Gooby I am not much motivated by the social mobility discourse. If we remake the welfare state as it was in the 1970s as a strong redistributive state, with effective taxation on the rich and high earners, and improved living standards for the poor through adequate wages, decent benefits and restored public services, then social mobility will follow. It has been done before and can be done again.

**References**

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