Income inequality in the UK

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30 November 2021
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Summary

This briefing presents statistics on income inequality, focussing on disposable incomes, (income including benefits and after direct taxes).

In 2019/20, 42% of all disposable household income in the UK went to the fifth with the highest household incomes, while 7% went to the lowest-income fifth (based on disposable income before housing costs have been deducted).

The Gini coefficient for income inequality was 35% before housing costs and 39% after housing costs in 2019/20.

A couple without children with disposable income below £264 per week before housing costs were in the 10% of people with the lowest household incomes in 2019/20. To be in the highest-income 10% required an income just over four times higher, of at least £1,070 per week.

Trends in income inequality

Inequality in household incomes in the UK has remained at a roughly similar level since the early 1990s but is higher than during the 1960s and 1970s. While the share of income going to the top 1% of individuals by household income increased during the 1990s and 2000s, there was some reduction in inequality among the rest of the population (based on incomes before housing costs) with the result that inequality overall was fairly stable during this period.

Impact of coronavirus

During the coronavirus lockdowns, the wages of low-income households were disproportionately affected by the economic fallout. However, the benefits system means that the incomes of low-income households were not more affected than other households.

The removal of the Universal Credit uplift in October 2021 will therefore increase income inequality. In July 2021, the Resolution Foundation estimated that the removal of the £20 uplift and the ending the equivalent boost to Working Tax Credit would mean households in the bottom fifth would lose 5.7% of their weekly incomes, an average of £800 in the following year.

Income inequality between regions, ethnic groups, and disability status

Household income varies significantly between regions and countries in the UK, ethnic groups, and the disability status of households. The North East (£480) had the lowest median income before housing costs in 2017/18-
2019/20, while London (£615) had the highest. Households from a Pakistani ethnic group (£350) had the lowest median incomes before housing costs while households from an Indian ethnic group (£558) had the highest. Families with a disabled member had a median income of £467 before housing costs during this period, compared to £577 for households where nobody was disabled.

**Measuring inequality**

Measurement of income inequality is generally concerned with inequality in disposable incomes. The tax and benefit system acts to reduce inequality: disposable income is distributed more equally than income excluding benefits or before deducting taxes.

Household income statistics are adjusted for the number of people in the household because this affects how much income the household needs in order to experience a given standard of living.

Various indicators may be used to track income inequality. For example, the Gini coefficient summarises income inequality into a single number between 0 and 100%. Other indicators discussed in this briefing paper include the ratio of incomes for individuals at different points on the household income distribution (how does the income of someone with a relatively high income compare to that of someone with a relatively low income?), and the share of total income going to different groups of households. By looking at these different indicators together, a more complete picture of income inequality is obtained.

**International comparisons**

OECD figures suggest that the UK has among the highest levels of income inequality in the European Union (as measured by the Gini coefficient), although income inequality is lower than in the United States.
1 A picture of income in the UK

1.1 What do we mean by income?

Individuals and households can obtain income from a range of sources. These include earnings from employment, cash benefits, income from investments, private pensions, and other forms of income. Some of this income may be taxed.

The two most common measures of income are:

- **Gross income** means the sum of all income before tax, including cash benefits.
- **Disposable income** means the amount of money left after direct taxes, National Insurance contributions and council tax (or Northern Ireland rates) are deducted from gross income.

The flowchart summarises the different stages of household income:

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1 Adapted from ONS, *The Effects of Taxes and Benefits on Household Income, Financial Year Ending 2014*, 29 June 2015, Diagram A
Household living standards

This note focuses on household incomes, rather than incomes of individuals. Household income is likely to prove a better guide to living standards than income of individuals, since we may expect income to be shared between household members. Certain forms of income are also determined by household composition – for example, tax credit awards or child benefit payments.

Equivalisation: larger households need larger incomes

Statistics on household incomes are often **equivalised** (adjusted for household size and composition) to enable better comparisons of living standards. A large household is likely to need a higher level of income in order to enjoy the same standard of living as a smaller household.

Income before and after housing costs

Disposable income may be measured before or after deducting housing costs. There is more inequality in income after housing costs (AHC) than in income before housing costs (BHC), as poorer households tend to spend a higher share of their income on housing than those higher up the income distribution.
A BHC measure acknowledges that some households may choose to pay more for housing so that they can have a better quality of accommodation. On the other hand, variations in housing costs do not always reflect differences in housing quality (for example, due to geographical variations), in which case an AHC measure is more helpful.

**Income and wealth**

This note does not discuss inequalities in household wealth. While income measures the flow of money to a household at a single point in time, wealth can be built up and retained over many years. Consequently, inequality in household wealth tends to be greater than inequality in income. Statistics on the distribution of household wealth are provided in the ONS report, *Wealth in Great Britain Wave 5, 2014 to 2016* (1 February 2018).

### 1 Measuring living standards: an expenditure approach

Measurement of inequality in household living standards tends to focus on differences in income. However, income may not be the best guide to a household’s standard of living as some families have high or low incomes only temporarily. A practical problem is the difficulty of collecting accurate data, particularly at the bottom end of the income distribution, as households may under-report their income.

An alternative is to assess living standards based on household expenditure. Households experiencing a temporary drop in income may sustain their previous expenditure patterns to some degree by drawing on savings or taking on debt (in the expectation that their income is soon to increase again). Under-reporting also appears to be less of a problem when measuring expenditure than when measuring income: surveys find that households with the lowest reported incomes are not the lowest spenders.

To expenditure we can also add benefits derived from goods bought previously that are still being 'consumed' (for example, housing or cars). This gives a more positive picture of living standards for households who may be on low incomes but own their own home.

Nevertheless, an expenditure approach is not perfect. As with income-based measures, it does not take into account improvements in living standards arising from investment in public services. The accurate measurement of household expenditure brings its own problems and the survey used to collect data on household spending, the Living Costs and Food Survey, has fewer respondents than the Family Resources Survey used to collect incomes data.²

² For further information on the relative merits of assessing living standards based on consumption instead of income see: Mike Brewer and Cormac O’Dea, *Measuring living standards with income and*
1.2 What counts as high and low income?

As noted above, analysis of the income distribution tends to concentrate on equivalised disposable household incomes. The chart shows the distribution of incomes on this basis in the latest year.

Chart 1

The distribution of household income in the UK, 2019/20
Number of people in each £10 band of weekly disposable household income (millions)

The equivalisation process adjusts reported income figures according to household size and composition (using a reference point of a childless couple). This is because a larger household is likely to need a higher income to enjoy the same standard of living as a smaller household. So what income is received by different family types at different points along the distribution?

Notes: Income figures are equivalised and are measured before deducting housing costs
Source: DWP, Households below average income, 1994/95 to 2019/20, data behind chart 2.1 (BHC)

The equivalisation process adjusts reported income figures according to household size and composition (using a reference point of a childless couple). This is because a larger household is likely to need a higher income to enjoy the same standard of living as a smaller household. So what income is received by different family types at different points along the distribution?

Notes: Income figures are equivalised and are measured before deducting housing costs
Source: DWP, Households below average income, 1994/95 to 2019/20, data behind chart 2.1 (BHC)


3 Figures are adjusted using the OECD equivalence scale for income before housing costs. A single adult is given a weight of 0.67; each additional adult in the household or child aged 14 and over is given a weight of 0.33; each child under 14 years has a weight of 0.2. Therefore, a couple without children has a weight of $0.67 + 0.33 = 1$; a couple with two children under 14 has a weight of $0.67 + 0.33 + 0.2 + 0.2 = 1.4$. Different equivalence scales may be applied to income after housing costs.
Disposable income (before housing costs)

An individual was at the middle of the distribution in 2019/20 if he or she lived in a household which had total disposable weekly household income of:

- £547 for a couple with no children,
- £366 for a single person with no children,
- £585 for a single person with two children aged under 14,
- £766 for a couple with two children aged under 14.

An individual was in the bottom 10% if they had household income less than:

- £264 for a couple with no children,
- £177 for a single person with no children,
- £282 for a single person with two children aged under 14,
- £370 for a couple with two children aged under 14.

An individual was in the top 10% if they had household income greater than:

- £1,070 for a couple with no children,
- £717 for a single person with no children,
- £1,145 for a single person with two children aged under 14,
- £1,498 for a couple with two children aged under 14.

Gross income

Disposable income is net of income tax, National Insurance, council tax and domestic rates, contributions to occupational pension schemes and student loan repayments, among other items. Therefore, it is not perfectly correlated with gross income: households with the same gross income may face different deductions (for example, a household with two earners on £10,000 per year will pay less in income tax than a household with one earner on £20,000). Therefore, someone with a relatively high gross income may occupy a lower position on the distribution of disposable income, and vice versa.  

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4 DWP, *Households below average income: 1994/95 - 2019/20*, Table 2.2db and Library calculations using the OECD equivalence scale for income BHC

5 There is no specific equivalisation scale for gross income so when comparing between family types, we must use the same equivalisation scale as for disposable income before housing costs. Estimates are not directly comparable with estimates for gross household income published in the National Accounts or other sources.
An individual was at the **middle** of the gross income distribution in 2018/19 if his or her gross weekly household income was:6

- £680 for a couple with no children,
- £456 for a single person with no children,
- £728 for a single person with two children aged under 14,
- £952 for a couple with two children aged under 14.

An individual was in the **bottom 10%** if he or she had household income less than:

- £308 for a couple with no children,
- £206 for a single person with no children,
- £330 for a single person with two children aged under 14,
- £431 for a couple with two children aged under 14.

An individual was in the **top 10%** if he or she had household income greater than:

- £1,487 for a couple with no children,
- £996 for a single person with no children,
- £1,591 for a single person with two children aged under 14,
- £2,082 for a couple with two children aged under 14.

### 1.3 Collecting data on incomes via surveys

Official statistics on household incomes are primarily collected through two large household surveys: the *Family Resources Survey* and the *Living Costs and Food Survey*. This note uses data from both surveys, although Family Resources Survey data may generally be considered superior.

The two surveys use slightly different definitions of income, so results are not directly comparable. The Family Resources Survey also has a larger survey sample of over 19,000 households which allows it a greater level of precision. The Living Costs and Food Survey collects information from around 5,500 households.

Surveys may not perfectly record all income received by a household and may struggle to obtain accurate data for certain groups of households. Collecting

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accurate data on incomes of very high-income or low-income households is a particular challenge. Therefore, the Family Resources Survey adjusts the reported incomes figures for those households in the survey with the very highest incomes, using data on individual income from HMRC’s Survey of Personal Incomes (which is based on tax returns). This helps correct for volatility in the survey figures.\(^7\) There is no such adjustment in the Living Costs and Food Survey. Neither survey applies an adjustment to income figures for households reporting the lowest income.

Additionally, the surveys underestimate the total amount of benefit income received by households compared to administrative data for government expenditure on benefits. Analysis by the Resolution Foundation indicates that there was an unexplained gap of £37 billion between benefit income reported in the Family Resources Survey in 2016/17 and what the government actually spent. This represented around 4% of total disposable household income as recorded in the survey. The gap has also increased over time, from around 2% of total income at the start of the 2000s.\(^8\) The box in section 2.1 looks at how this under-reporting might affect estimates of income inequality levels in the UK.

**Sources**

Incomes data from the Family Resources Survey is published in an annual publication from the Department for Work and Pensions, *Households below average income*. The latest data are for 2019/20 and were published on 25 March 2021.

Data from the Living Costs and Food Survey is published by the Office for National Statistics (ONS) in *Household income inequality, UK: Financial year ending 2020*, which provides data for 2019/20. The Living Costs and Food Survey also collects data on household expenditure, published in the ONS *Family Spending* release.

For further information on the surveys and related publications see ONS, *A guide to sources of data on earnings and income*.

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\(^7\) For more details, see DWP, *Households Below Average Income (HBAI) Quality and Methodology Information Report, 2017/18*, p20

\(^8\) Adam Corlett et al, *The Living Standards Audit 2018*, Resolution Foundation Report, 24 July 2018
2 Indicators of income inequality

2.1 Gini coefficient

A widely used indicator of income inequality is the Gini coefficient. This summarises inequality in a single number which takes values between 0 and 100%. A higher value indicates greater inequality.

In the UK, inequality as measured by the Gini coefficient increased during the 1980s but from 1990 onwards has remained more stable, based on data from the Family Resources Survey. The latest estimate is for 2019/20 and shows that the Gini coefficient for the UK was 35% based on income before housing costs and 39% based on income after housing costs. Inequality levels are higher based on income after housing costs because lower-income households tend to spend a larger share of their income on housing than higher-income households.

The Gini coefficient in 2019/20 was the same as the previous year.

The IFS finds that since 2011-12 there has been little growth in incomes in the bottom half of the income distribution, particularly the bottom 10%, where there was essentially no growth between 2013-14 and 2019-20. This is partly because the growth rate in employment income was lower for lower-income households, and partly because employment income makes up a lower share of net income for poorer households, as poorer households also receive benefits.9

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9 IFS, Living standards, poverty, and inequality in the UK: 2021, 8 July 2021
Income inequality on this measure was lower in 2019/20 than it was immediately before the economic recession began in 2008. Between 2009/10 and 2010/11, the Gini coefficient fell by 2 percentage points based on incomes before housing costs (from 36% to 34%) as a result of real incomes at the top of the distribution falling by more than at the bottom of the distribution.\(^\text{10}\) The IFS explains:

The primary reason for the fall in inequality was that real earnings fell sharply while benefit entitlements remained relatively stable. Median income for non-working households (including pensioners) was 60% of that of working households in 2007/08, but 67% by 2012/13.\(^\text{11}\)

The longer-term picture shows that income inequality rose sharply during the 1980s, before largely stabilising in the 1990s.\(^\text{12}\)

These figures are based on analysis of the Family Resources Survey although a broadly similar picture emerges using data from the Office for National Statistics’ Living Costs and Food Survey. There are small differences arising between the two sources which partly reflect different methodologies. ONS has published a time series from 1977 onwards – figures are on a before housing costs basis only.

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\(^\text{10}\) DWP, *Households below average income, 2018/19* (and 2010/11 edition)


\(^\text{12}\) Resolution Foundation, *Last year saw living standards stagnate and poverty rise, blog post by Adam Corlett*, 28 March 2019
2 Are levels of income inequality overstated? The effect of under-reporting of benefit income in household surveys

As discussed in section 1.3, the surveys used to collect data on household incomes appear to underestimate the amount of benefit income received by households compared to what the government actually spends on benefits. The size of this discrepancy has increased over time.

There is no easy way to correct for the discrepancy as we cannot know which households in the survey under-reported their income from benefits. Nevertheless, the Resolution Foundation has attempted to adjust Family Resources Survey data for 1994/95 to 2016/17 so that total benefit income in the survey balances with administrative data on benefit expenditure.

Their analysis shows that levels of income inequality are reduced once we factor in the missing benefit income in the survey data. (This is not surprising, as we would expect benefits to have a redistributive effect.) The Gini coefficient was around 2-3% points lower over the period based on the adjusted data, both before and after housing costs. Other measures of income...
2.2 Percentile ratios

An alternative way of looking at inequality is to compare incomes at different points along the income distribution: how much more income is received by those near the top compared with people at the middle or the bottom?

The P90/P10 ratio compares income for someone at the 90th percentile of the distribution (the point at which 90% of individuals have lower household income and 10% have higher income; a relatively high income) with the 10th percentile (the point at which 10% have lower income and 90% have higher income; a relatively low income).

- The **P90/P10 ratio** was 4.1 in 2019/20 based on incomes before housing costs (BHC), meaning someone at the 90th percentile had a household income more than four times larger than someone at the 10th percentile. The ratio was 5.2 on an after housing costs (AHC) basis.
- Similarly, the **P90/P50 ratio** compares the 90th percentile with the 50th percentile (i.e. the median). This ratio was 2.0 based on incomes BHC and 2.1 AHC in 2019/20.
- The **P50/P10 ratio** compares the median with the 10th percentile. This ratio was 2.1 based on incomes BHC and 2.5 AHC in 2019/20, a joint record high.

All three ratios increased during the 1980s (see charts below). However, the sharp increase in the P50/P10 ratio during the second half of the decade contrasts with a more gradual rise in the P90/P50 ratio since the late 1970s. Based on income BHC, the P90/P10 and P50/P10 ratios were slightly lower in 2019/20 than in 1990.

After housing costs, the p50/10 ratio reached a record high of 2.54 in 2018/19 and stayed at a similar level in 2019/20. In contrast, the 90/10 and 90/50 have largely stayed at a similar level since just before the financial crisis. This inequality are also revised down. However, inequality still remains some way above the levels seen in the 1960s and 1970s.

Trends in inequality since 1994/95 also appear slightly more favourable using the adjusted data, although the Resolution Foundation comments, “The big picture remains that inequality has been broadly flat but high over this period”.

A person at the 90th percentile of the income distribution (a relatively high income) had an income more than 4 times higher than someone at the 10th percentile (a relatively low income) in 2019/20, before housing costs.
suggests the middle is catching up to the top and the bottom is falling further behind. 13

These percentile ratios show inequality is higher when income is measured AHC. The inclusion or exclusion of housing costs makes a greater difference at the lower end of the distribution, as can be seen by comparing the P50/P10 chart with the P90/P50 chart.

Since the 2008 recession, there has been a substantial fall in housing costs for higher-income households: these households are more likely to own their own home and so have benefited to a greater extent from the low mortgage rates offered in recent years. This has acted to increase incomes at the top of the distribution relative to incomes at the bottom, thus offsetting some of the fall in inequality in BHC income since the recession.14

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Chart 4

### Income ratios for people at different points on the income distribution

Data for Great Britain, 1961 to 2002/03, and UK, 2002/03 to 2018/19

**P90/P10 ratio (high income vs low income)**

- **After housing costs**
- **Before housing costs**

**P50/P10 ratio (middle income vs low income)**

- **After housing costs**
- **Before housing costs**

**P90/P50 ratio (high income vs middle income)**

- **After housing costs**
- **Before housing costs**

Source: [Institute for Fiscal Studies](https://www.ifs.org.uk), using data compiled from Family Expenditure Survey and Family Resources Survey, Households below average income, 2019/20
Income inequality in the UK

2.3 Income shares

Income inequality can also be considered in terms of the share of total household income going to different groups.

In 2019/20, 42% of total disposable household income (before housing costs) in the UK went to the fifth of individuals with the highest household incomes, while 7% went to the bottom fifth.\(^\text{15}\)

Based on income after housing costs, 45% of total income went to the highest-income fifth and 6% went to the lowest-income fifth.

The share of income going to the top income quintile (i.e. top fifth) increased during the 1980s while the share going to lower-income households decreased. ONS estimates for 1977 onwards are shown in the chart.

Note the composition of each quintile group is in flux: households may move in and out of the top fifth (or other 20% bands) from year to year.

Chart 5

Quintile shares of equivalised disposable income

% share of total income (before housing costs) going to each quintile: UK, 1977-2019/20


\[^\text{15}\] Based on data from the Family Resources Survey. By comparison, Living Costs and Food Survey data suggests 41% of disposable income BHC went to the top 20% of individuals and 8% went to the bottom 20%.
Top 1% income share

The indicators discussed so far only capture to a very limited extent the inequality between individuals with the very highest incomes and the rest of the population. Although the share of income going to the top 20% levelled off from the start of the 1990s, the share of income going to the top 1% continued to increase into the 2000s.

The Institute for Fiscal Studies (IFS) has calculated the share of household income going to the top 1% of individuals from 1961 up to 2019/20, although it has noted the household surveys used to produce these estimates are not a robust source of information on incomes of the very rich. The chart below is taken from the IFS report *Living standards, poverty, and inequality in the UK: 2021.*

Chart 6

![Chart 6](image)

This series is sensitive to changes in the tax system. Most recently, some of the decrease in the top 1% share between 2015/16 and 2016/17 may reflect individuals bringing income forward into 2015/16 to avoid paying higher taxes on dividends after April 2016.

Likewise, the fall in the top 1% share in 2010/11 may be partly explained by the introduction of the 50% additional rate of income tax in April 2010, as high income individuals brought income forward into 2009/10 in order to pay less

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16 Institute for Fiscal Studies, *Living standards, poverty and inequality in the UK: 2021,* 8 July 2021

17 See for example H Miller and B Roantree, *Tax revenues: where does the money come from and what are the next government’s challenges?*, IFS Briefing Note BN198, 1 May 2017
tax on it. The reduction in the additional rate of income tax in April 2013 (from 50% to 45%) is similarly likely to explain some of the dip in the top 1% share in 2012/13 and subsequent increase in 2013/14, as individuals shifted income between years in order to benefit from the change.\(^\text{18}\)

The increase in the share of income going to the top 1% during the 1990s and 2000s contrasts with the relative stability in the Gini coefficient and the modest decrease in the P90/P10 ratio. This suggests that if we exclude the very top end of the income distribution, then incomes must have become more equal across the rest of the income distribution over this period. Previous IFS research explains:

> To get a sense of the difference the ‘racing away’ of top incomes over the long run has made to changes in the Gini coefficient, we can calculate the Gini just for the bottom 99%, excluding the effect of increasing inequality between the top 1% and the bottom 99% (and changes in inequality within the top 1%). Over the past two decades, income inequality among the whole population has remained unchanged: the Gini coefficient in 2011-12 was not statistically significantly different from its 1991 value. However, inequality among the bottom 99% has fallen: the Gini coefficient for the bottom 99% was 5% lower in 2011-12, at 0.30, than in 1991, when it was 0.314 (and the difference was statistically significant).\(^\text{19}\)

**Top income shares over the century**

The extent to which we can look at how inequality has evolved over time based on the above measures is limited according to the availability of survey data. However, researchers at the World Wealth & Income Database have constructed a longer time series using tax returns. The chart below shows the share of income going to the top 1% and 0.1% of taxpayers from the start of the twentieth century, up to 2014. Unlike the data above, figures cover taxpayers only rather than all individuals and only count income reported for tax purposes.

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Income inequality in the UK

Chart 7

% share of income going to top 1% and 0.1% of taxpayers
UK, 1913-2014: data are for tax units (married couples and single adults) up to 1989 and for all adults from 1990


Note: Up to 1920, estimates include what is now the Republic of Ireland. Until 1974, estimates relate to income net of certain deductions; from 1975, estimates relate to total income.

Estimates up to 1989 are based on the top 1% and 0.1% of ‘tax units’ (the group of married couples or single adults with the highest incomes) while those from 1990 are based on the top 1% of all adults with the highest incomes. This reflects a change in the taxation system in 1990, which moved from treating couples as a tax unit to an individual base and may explain part of the reported increase in the share of income going to the highest income individuals during the 1980s and 1990s.

As noted above, some of the dip in income shares of the top 1% and 0.1% in 2010 and the increase in 2013 is likely to reflect individuals shifting income between years in order to benefit from changes in the top rate of income tax.

2.4 IFS Deaton Review of inequality

In May 2019, the Institute for Fiscal Studies (IFS) launched a new in-depth research project on inequalities in the UK. Chaired by the Nobel Laureate economist Sir Angus Deaton, the review aims to address a multitude of
questions over its five-year lifespan. The IFS explain what the review is seeking to do:

Crucially, we will examine the role of policies, from taxes and benefits through to trade policy, education policies, the labour market, regional development, competition policy and regulation. This will give the UK government, and those in other developed countries, a far clearer and more holistic view of the effectiveness of available policy options, how they can best work alongside each other and the trade-offs between them.20

The Deaton review has since published reports including Unequal Britain, exploring attitudes towards inequalities among the UK public, and COVID-19 and inequalities, which focuses on the impact of the pandemic.

20 IFS, About The IFS Deaton Review [accessed 20 May 2019]
Redistribution

We can examine the extent to which the tax and benefit system reduces inequality by looking at inequality in different types of income. The data in the previous section are based on households' equivalised disposable income; that is, income after direct taxes and benefits, adjusted for family size and composition. Disposable income is distributed more equally than original incomes (before taxes and before benefits) and gross incomes (before taxes but after benefits).

In 2019/20, provisional estimates of the Gini coefficient were:

- 50.5% for equivalised original income,
- 40.8% for equivalised gross income (including benefits),
- 36.3% for equivalised disposable income (after direct taxes).

In 2019/20, the Gini coefficient was (based on data from the Living Costs and Food Survey):
- 40.6% for equivalised post-tax income.

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21 Provisional estimates for 2019/20 are made by the ONS using a microsimulation model based on the Living Costs and Food Survey data, up to date information on tax and benefits policy and the latest economic data in FYE 2020.
Chart 8

The tax and benefit system acts to reduce income inequality
Gini coefficients for different stages of household income: UK, 1977 to 2019/20

Note: Income figures are equivalised and measured before deducting housing costs.

Source: ONS, Effects of taxes and benefits on UK household income: financial year ending 2020, using data from the Living Costs and Food Survey and Family Expenditure Survey.
Income inequality between regions and countries in the UK

Median disposable incomes differ between UK countries and regions. In the three year period 2017/18-2019/20, the North East had the lowest median weekly household income before housing costs, at £480. London had the highest, at £615. The UK median disposable income for this period was £533.

Chart 9

<table>
<thead>
<tr>
<th>Region</th>
<th>Median weekly income 2017/18-2019/20</th>
</tr>
</thead>
<tbody>
<tr>
<td>London</td>
<td>£615</td>
</tr>
<tr>
<td>South East</td>
<td>£595</td>
</tr>
<tr>
<td>East</td>
<td>£560</td>
</tr>
<tr>
<td>South West</td>
<td>£539</td>
</tr>
<tr>
<td>Scotland</td>
<td>£533</td>
</tr>
<tr>
<td>East Midlands</td>
<td>£524</td>
</tr>
<tr>
<td>North West</td>
<td>£502</td>
</tr>
<tr>
<td>Northern Ireland</td>
<td>£498</td>
</tr>
<tr>
<td>Wales</td>
<td>£492</td>
</tr>
<tr>
<td>West Midlands</td>
<td>£488</td>
</tr>
<tr>
<td>Yorks &amp; Humber</td>
<td>£482</td>
</tr>
<tr>
<td>North East</td>
<td>£480</td>
</tr>
<tr>
<td>UK</td>
<td>£533</td>
</tr>
</tbody>
</table>

Source: DWP, *Households Below Average Income, 2019/20*, Table 2.5ts

After housing costs, the North East still had the lowest median weekly income, at £426, while the South East had the highest, at £517. High housing costs in London means that after housing costs, incomes in London are lower than the South East, East, and Scotland.
Income inequality in the UK

Chart 10

Median weekly income 2017/18-2019/20
After housing costs, equivalised 2019/20 prices

<table>
<thead>
<tr>
<th>Region</th>
<th>Median Weekly Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>South East</td>
<td>£517</td>
</tr>
<tr>
<td>East</td>
<td>£486</td>
</tr>
<tr>
<td>Scotland</td>
<td>£480</td>
</tr>
<tr>
<td>London</td>
<td>£474</td>
</tr>
<tr>
<td>South West</td>
<td>£469</td>
</tr>
<tr>
<td>East Midlands</td>
<td>£459</td>
</tr>
<tr>
<td>Northern Ireland</td>
<td>£453</td>
</tr>
<tr>
<td>North West</td>
<td>£446</td>
</tr>
<tr>
<td>Wales</td>
<td>£440</td>
</tr>
<tr>
<td>West Midlands</td>
<td>£431</td>
</tr>
<tr>
<td>Yorks &amp; Humber</td>
<td>£428</td>
</tr>
<tr>
<td>North East</td>
<td>£426</td>
</tr>
<tr>
<td>UK</td>
<td>£462</td>
</tr>
</tbody>
</table>

Source: DWP, Households Below Average Income, 2019/20, Table 2.5ts
5 Income inequality between ethnic groups

There is significant income inequality between ethnic groups in the UK.

5.1 Median incomes

The chart below shows the three year average of median household income for each ethnic group. It shows that in 2017/18-2019/20, people from Pakistani and Bangladeshi ethnic groups had the lowest median incomes, while people from White, Chinese, and Indian ethnic groups had the highest.

Chart 11

<table>
<thead>
<tr>
<th>Median income by ethnic group</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>By ethnic group of the head of the household, 2017/18-2019/20 (2019/20 prices)</td>
<td>£</td>
</tr>
<tr>
<td>Indian</td>
<td>558</td>
</tr>
<tr>
<td>Chinese</td>
<td>552</td>
</tr>
<tr>
<td>White</td>
<td>547</td>
</tr>
<tr>
<td>Mixed/multiple ethnic groups</td>
<td>533</td>
</tr>
<tr>
<td>Other Asian group</td>
<td>475</td>
</tr>
<tr>
<td>Other Ethnic Group</td>
<td>453</td>
</tr>
<tr>
<td>BlackAfrican/Caribbean/British</td>
<td>440</td>
</tr>
<tr>
<td>Bangladeshi</td>
<td>363</td>
</tr>
<tr>
<td>Pakistani</td>
<td>350</td>
</tr>
</tbody>
</table>

Source: DWP, Households Below Average Income, via Stat-Xplore

The Resolution Foundation measures median incomes after housing costs by ethnic group and finds that income gaps are prevalent and persistent. As shown in the chart below, incomes for Pakistani and Bangladeshi households have increased in recent years, but incomes in these households are still over 40% lower than incomes of White households.\(^{22}\)

\(^{22}\) Resolution Foundation, The Living Standards Audit 2021, 1 July 2021
5.2 Income distribution

As well as a difference in median incomes, there is also a disparity between the proportion of people in different ethnic groups at the top and bottom of the income distribution.

The charts below show the percentage of people in each ethnic group who were in the bottom fifth and the top fifth of all incomes in the years 2017/18-2019/20.

Nearly half (47%) of people from the Pakistani ethnic group were in the bottom fifth of incomes, compared to 18% of people from a White ethnic group. 42% of people from the Bangladeshi ethnic group and 31% of people from a Black ethnic group were in the bottom fifth.
At the other end of the income distribution, only 3% of people from the Bangladeshi ethnic group and 5% of people from the Pakistani ethnic group were in the top fifth of incomes, compared to 31% of people from a Chinese ethnic group, 25% of people from an Indian ethnic group, and 21% of people from a White ethnic group.

Source: DWP, Households Below Average Income, via Stat-Xplore

If there was complete income equality between ethnic groups, every value would be 20%.

Source: DWP, Households Below Average Income, via Stat-Xplore
Families where a member is disabled have significantly lower median incomes than families where nobody is disabled.

The chart below shows that in 2017/18-2019/20, households with a disabled family member had an income of £467 before housing costs, £110 less than households with no disabled members. After housing costs, households with a disabled family member had an income of £406, £94 less than households with no disabled members.

**Chart 15**

<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>In a family where no-one is disabled</td>
<td>£577 Before housing costs, £500 After housing costs</td>
</tr>
<tr>
<td>In a family where someone is disabled</td>
<td>£467 Before housing costs, £406 After housing costs</td>
</tr>
</tbody>
</table>

Source: DWP, Households Below Average Income, via Stat-Xplore
7 The impact of the coronavirus pandemic on income inequality

7.1 Income inequality decreased at the beginning of the pandemic

During the coronavirus lockdowns, the wages of low-income households were disproportionately affected by the economic fallout and low-income households were much more likely to have been affected by a labour market shock. However, the benefits system means that the incomes of low-income households were not more affected than other households.23 The Resolution Foundation estimated that the Gini coefficient was 37.9% in 2020/21, down from 39.1% in 2019/20.24

This partly reflects the temporary increase in benefits, which lasted until October 2021, as well as the Coronavirus Job Retention Scheme and Self Employment Income Support Scheme. It also reflects the fact that the benefits system replaces a relatively large share of lost earnings for the lowest earners.25

The IFS found that households in the poorest fifth before the coronavirus experienced a fall in earnings of 15% (£160 a month), but that they saw very little change in income between January and May 2020. Their data shows that the second poorest fifth experienced the largest falls in income (around 6%), and in the top three fifths median incomes fell by 2-3%.26

The Resolution Foundation estimates that over half of workers in the lowest income households have had their work affected in some way by coronavirus, compared to 30% of those in the highest-income households. Incomes of the poorest 15% however, were unchanged or slightly higher as a result of the pandemic. Incomes of the middle and upper parts of the income distribution are estimated by the Resolution Foundation to have fallen by 4-5% on average.

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25 Resolution Foundation, The Living Standards Audit 2021, 1 July 2021

26 Note that furlough payments are counted as earnings in the IFS data, and not as benefits.

26 IFS, The effects of coronavirus on household finances and financial distress, 29 June 2020
As well as benefits, after housing costs incomes have also been affected by a fall in interest rates for mortgages, caused by the Bank of England cutting the base rate from 0.75% to 0.1% in March 2020, and by mortgage holidays provided by UK lenders. This effect is mostly felt by higher income households. In addition, the Government has increased the Local Housing Allowance to offer additional help for renters, which helps mostly lower income households.

7.2 The end of the Universal Credit uplift

As discussed in the section above, the £20 a week Universal Credit uplift boosted the incomes of low income households and reduced income inequality.

The removal of the Universal Credit uplift in October 2021 will therefore increase income inequality. In July 2021, the Resolution Foundation estimated that the removal of the £20 uplift and the ending the equivalent boost to Working Tax Credit would mean households in the bottom fifth would lose 5.7% of their weekly incomes, an average of £800 in the following year.

Source: Cost of living squeeze 2021
In autumn 2021, the withdrawal of the £20 Universal Credit uplift coincided with the end of coronavirus support like the Coronavirus Job Retention Scheme. This along with the increase National Insurance Contributions in April 2022 will mean incomes, particularly of the lowest-income households will decrease.

As well as this, rising inflation due to supply chain issues and rising energy prices mean the cost of living will become more expensive for these households. These cost of living pressures are outlined further in the Library’s Background to the Autumn Budget and Spending Review 2021 paper, October 2021.

7.3 Spending, savings, and debt

To get a full picture of the effect of the pandemic on inequality across the income distribution, it is important to take into account changes in household spending, savings, and debt.

The spending most affected by the pandemic lockdowns was ‘social consumption’; things like eating out or live entertainment, which accounts for a larger proportion of high-income households’ spending. Meanwhile, low-income households spend a higher proportion of their incomes on essentials, so did not experience the same drop in spending.

This means that higher income households were more likely to see savings increase during the pandemic. The Resolution Foundation found that between February 2020 and June 2021, 32% of people with the lowest incomes saw a fall in savings and 12% saw a rise. 9% of people with the highest incomes saw a fall, and 47% saw a rise in savings.

Lower-income families were also more likely to have seen significant increase in their debt levels. The Resolution Foundation found that 54% of adults in families from the lowest income fifth borrowed more in March-June 2020 to cover everyday costs like food and housing.

The Library paper Coronavirus: impact on household savings and debt provides more information and statistics.

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27 Institute for Fiscal Studies, The cost of living crisis – who is hit by recent price increases?, 17 November 2021
29 Resolution Foundation, The Living Standards Audit 2021, 1 July 2021
30 Resolution Foundation, Return to spender, Findings on family incomes and spending from the Resolution Foundation’s coronavirus survey, 9 June 2020
7.4 Easing restrictions

The start of the economic recovery as lockdown restrictions eased has meant income gains for families, and the Resolution Foundation finds that incomes across the income distribution were more likely to have improved than deteriorated between February and June 2021.\(^\text{31}\) The long-term impacts of the pandemic and its aftermath on income inequality remain to be seen.

**Chart 17**

**Change in family income between February and June 2021**

<table>
<thead>
<tr>
<th>By February 2020 family income quintile</th>
<th>Decreased significantly (more than 25%)</th>
<th>Decreased a little (0-10%)</th>
<th>Unknown</th>
<th>Increased a little (0-10%)</th>
<th>Increased moderately (10-25%)</th>
<th>Increased significantly (more than 25%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lowest income</td>
<td>8%</td>
<td>6%</td>
<td>3%</td>
<td>51%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>2</td>
<td>7%</td>
<td>5%</td>
<td>3%</td>
<td>55%</td>
<td>5%</td>
<td>15%</td>
</tr>
<tr>
<td>3</td>
<td>6%</td>
<td>4%</td>
<td>4%</td>
<td>54%</td>
<td>4%</td>
<td>18%</td>
</tr>
<tr>
<td>4</td>
<td>7%</td>
<td>6%</td>
<td>4%</td>
<td>54%</td>
<td>3%</td>
<td>17%</td>
</tr>
<tr>
<td>Highest income</td>
<td>9%</td>
<td>5%</td>
<td>3%</td>
<td>52%</td>
<td>3%</td>
<td>17%</td>
</tr>
<tr>
<td>All</td>
<td>6%</td>
<td>4%</td>
<td>3%</td>
<td>47%</td>
<td>20%</td>
<td>12%</td>
</tr>
</tbody>
</table>

Source: Resolution Foundation, *The Living Standards Audit 2021*, 1 July 2021

\(^{31}\) Resolution Foundation, *The Living Standards Audit 2021*, 1 July 2021
8 International comparisons

Comparable data on income inequality in different countries is published by Eurostat and OECD. The two sources give different estimates and the UK compares less favourably based on the OECD data than using the Eurostat data. Figures are also published by the World Bank, with a particular focus on developing economies.

8.1 Eurostat data

In 2018, the Gini coefficient for equivalised disposable income in the UK was higher than that for the European Union (27 countries). On this measure, income inequality was highest in Bulgaria followed by Latvia and Lithuania. Slovakia and Slovenia had the lowest levels of income inequality in the EU.
OECD data

OECD data indicates the UK had a higher level of income inequality than most European OECD members in 2019 based on the Gini coefficient for disposable income, but a lower level than the US.
Income inequality in the UK

Chart 19

Gini coefficient for equivalised disposable income (OECD)
2018 or latest year

<table>
<thead>
<tr>
<th>Country</th>
<th>Gini Coefficient</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>62.0%</td>
</tr>
<tr>
<td>China *</td>
<td>51.0%</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>50.0%</td>
</tr>
<tr>
<td>India *</td>
<td>50.0%</td>
</tr>
<tr>
<td>Brazil *</td>
<td>47.0%</td>
</tr>
<tr>
<td>Chile *</td>
<td>46.0%</td>
</tr>
<tr>
<td>Mexico</td>
<td>42.0%</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>41.0%</td>
</tr>
<tr>
<td>Turkey *</td>
<td>40.0%</td>
</tr>
<tr>
<td>United States</td>
<td>39.0%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>37.0%</td>
</tr>
<tr>
<td>Lithuania</td>
<td>36.0%</td>
</tr>
<tr>
<td>Romania</td>
<td>35.0%</td>
</tr>
<tr>
<td>New Zealand *</td>
<td>35.0%</td>
</tr>
<tr>
<td>Israel</td>
<td>35.0%</td>
</tr>
<tr>
<td>Korea</td>
<td>35.0%</td>
</tr>
<tr>
<td>Latvia</td>
<td>34.0%</td>
</tr>
<tr>
<td>Japan *</td>
<td>33.0%</td>
</tr>
<tr>
<td>Spain</td>
<td>33.0%</td>
</tr>
<tr>
<td>Italy</td>
<td>33.0%</td>
</tr>
<tr>
<td>Russia</td>
<td>33.0%</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>32.0%</td>
</tr>
<tr>
<td>Portugal</td>
<td>32.0%</td>
</tr>
<tr>
<td>Russia</td>
<td>32.0%</td>
</tr>
<tr>
<td>Greece</td>
<td>31.0%</td>
</tr>
<tr>
<td>Estonia</td>
<td>31.0%</td>
</tr>
<tr>
<td>Canada</td>
<td>30.0%</td>
</tr>
<tr>
<td>France</td>
<td>30.0%</td>
</tr>
<tr>
<td>Switzerland</td>
<td>30.0%</td>
</tr>
<tr>
<td>Ireland</td>
<td>29.0%</td>
</tr>
<tr>
<td>Germany</td>
<td>29.0%</td>
</tr>
<tr>
<td>Hungary</td>
<td>29.0%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>29.0%</td>
</tr>
<tr>
<td>Poland</td>
<td>28.0%</td>
</tr>
<tr>
<td>Sweden</td>
<td>28.0%</td>
</tr>
<tr>
<td>Austria</td>
<td>28.0%</td>
</tr>
<tr>
<td>Finland</td>
<td>27.0%</td>
</tr>
<tr>
<td>Denmark</td>
<td>26.0%</td>
</tr>
<tr>
<td>Norway</td>
<td>26.0%</td>
</tr>
<tr>
<td>Belgium *</td>
<td>26.0%</td>
</tr>
<tr>
<td>Iceland</td>
<td>25.0%</td>
</tr>
<tr>
<td>Slovenia</td>
<td>25.0%</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>25.0%</td>
</tr>
<tr>
<td>Slovak Republic</td>
<td>24.0%</td>
</tr>
</tbody>
</table>

* Estimates for Costa Rica are for 2020; the UK, Latvia, Canada, and Sweden are for 2019; Estimates from Chile, USA, Russia, Switzerland, and Hungary are for 2017; the estimate for the Netherlands is for 2016; the estimate for South Africa is for 2015; New Zealand’s estimate is for 2014; Brazil’s estimate is for 2013; estimates for China, and India are for 2011. Source: OECD

Source: OECD data, income distribution and poverty, accessed 18 October 2021
By comparing inequality in original incomes (before the effect of taxes and benefits) with inequality in disposable incomes (after taxes and benefits), we can get some indication of the extent to which different countries’ tax and benefit systems redistribute income between households. The UK has a similar level of inequality in original income to Germany and France. However, in these countries there is less inequality in disposable incomes indicating a greater degree of redistribution:

**Chart 20**

The UK tax and benefit system redistributes income to a lesser extent than countries with similar inequality in original incomes

Gini coefficients for inequality in "original income" (before taxes and benefits) and "disposable income" (after taxes and benefits): higher values indicate greater inequality. 2018 or latest year

Source: OECD data, *income distribution and poverty*, accessed 18 October 2021
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