

Inequality and Poverty in the UK Debate on 13 June 2019

Summary

This House of Lords Library Briefing has been prepared in advance of the debate due to take place on 13 June 2019. Lord Dubs (Labour) is to move that:

this House takes note of inequalities in income, wealth and living standards in the UK since the 2008 financial crisis; and further takes note of the Institute for Fiscal Studies Deaton Review of inequalities in the 21st century in the UK and the final report of the UN special rapporteur on extreme poverty and human rights.

The Institute for Fiscal Studies' (IFS) review is expected to take five years. Announced on 14 May 2019, the IFS said it would be "the most comprehensive scientific analysis of inequalities yet attempted". The IFS' introductory report contained a summary of recent statistics on inequality. These included comparisons suggesting that the UK was the third most unequal country out of 32 based on incomes. The statistics also suggested that income inequality has fallen since 2008. Official government statistics also indicate that income inequality has been falling since 1999/2000. The IFS Deaton report will also consider wider definitions of inequality, including in relation to health, gender, region and age.

The UN's special rapporteur's report was published on 22 May 2019. The report said that 14 million people, one fifth of the UK population, live in poverty. It stated that "the UK Government's policies have led to the systematic immiseration of millions across Great Britain". The Government rejected the report, describing it as "barely believable" and "completely inaccurate". Official poverty statistics suggested that the percentage of individuals living in poverty ranged from 15% to 22% in 2017/18, depending on the measure used. Looking at trends over time, the percentage of the population in absolute poverty has fallen since 2002/03. The percentage in relative poverty has stayed broadly stable.

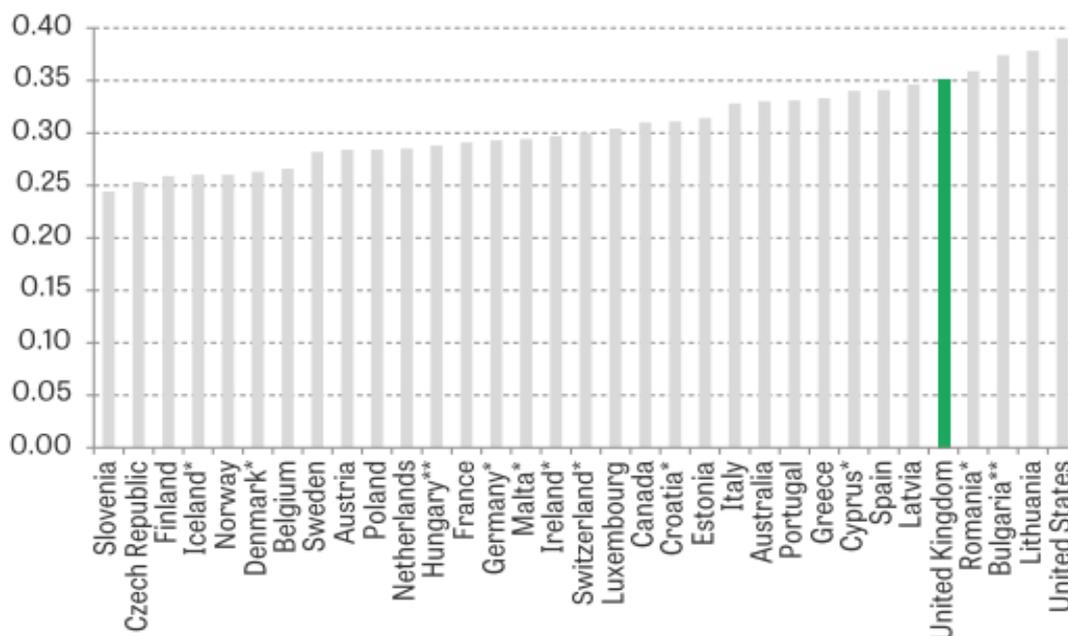
Commentators have noted that too much weight should not be placed on any single measure of poverty. The Office for National Statistics has recently announced that it will produce experimental poverty statistics on a new basis from 2020.

Institute for Fiscal Studies Report

On 14 May 2019, the Institute for Fiscal Studies (IFS) announced a new review of inequality.¹

In an introductory report, the IFS presented a summary of recent statistics on inequality, including international comparisons.² For example, it provided what it described as "perhaps the most well-known statistic on inequality", the Gini coefficient of income, for 32 countries. The UK's coefficient of 0.35 was the third highest in 2014 to 2016, making it the third most unequal on this measure. Figure 1 reproduces the IFS chart showing international comparisons of the Gini coefficient.

Figure 1: Gini Coefficient of Equivalised Net Household Incomes in Selected Countries, 2016^{a3}

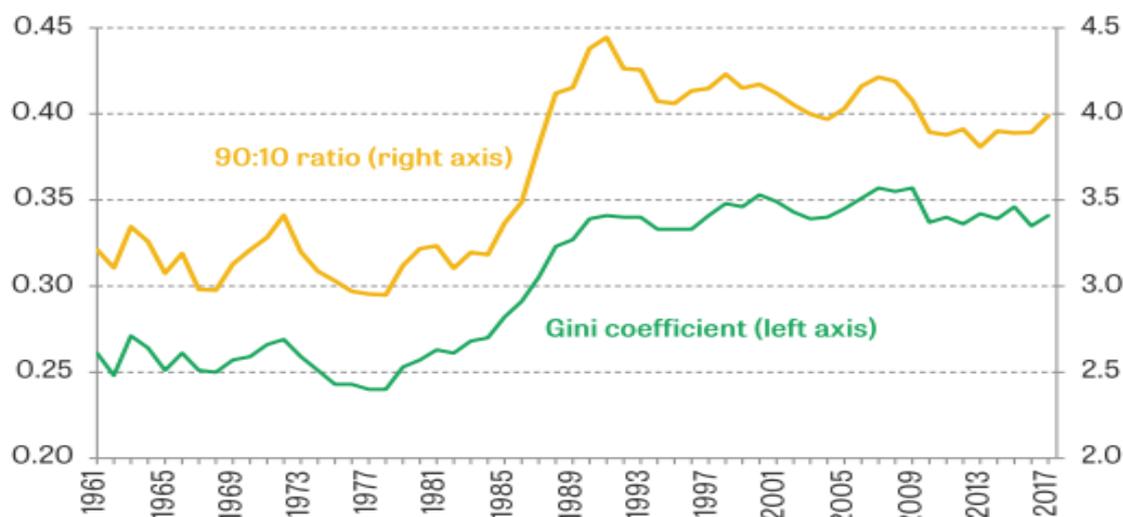


^a Figures from 2015 are marked with an asterisk (*). Figures from 2014 are marked with two asterisks (**).

Note: Data on EU states that joined in or before 2004 are from the OECD. Data on other countries are from the World Bank.

The report also considered trends in inequality over time.⁴ It suggested that the Gini coefficient in the UK rose in the 1980s but has been broadly stable since. The report also looked at another measure: the ratio of the income of the person at the 90th percentile of the income distribution to the income of the person at the 10th percentile.⁵ This rose in the 1980s, but has fallen since the early 1990s. However, a further statistic, the share of total income going to the top 1% of earners, showed a rising trend from 1980 to the start of the financial crisis.⁶ On all three of these measures, the report suggested that income inequality has fallen since 2008.⁷ Figure 2 reproduces the IFS chart showing the Gini coefficient and the 90:10 ratio over time.

Figure 2: Gini Coefficient and the 90:10 Ratio in Great Britain, 1961–2017⁸



Note: Years refer to calendar years up to and including 1992 and to financial years from 1993–94 onwards.

The report compared these trends over the last forty years with those seen in other countries. Looking at the income shares of the top 1% of earners, it concluded that these have:

[R]isen in other English-speaking countries such as the US and Canada, but have remained more stable in continental European countries such as Denmark and the Netherlands.⁹

The report also considered other aspects of inequality, stating that it is “not just about money”.¹⁰ For example, it discussed inequalities in health (including mental health) and life expectancy, in prospects for social mobility and in family structures. The report also summarised available data on inequality by gender and region, and on intergenerational inequality.¹¹

The report then explored reasons for current levels of inequality and possible government policies to combat it.¹² As causes, it included shifts in employment patterns, perhaps themselves driven by globalisation and technological change. It discussed reduced union membership and new forms of employment, such as the ‘gig economy’. The report also considered the increase of market power in the largest firms, potentially due to a failure of competition policy and/or the use of patents.¹³

Finally, on policy, the report argued that governments “can play an important role” in increasing or reducing inequality.¹⁴ It suggested that policies in a range of areas could have an effect. These include direct redistribution through taxes and benefits, but also policies on trade, regional development, competition, regulation, education and labour market institutions.¹⁵ A separate article by the IFS concluded that taxes and welfare benefits both act to reduce inequality, with benefits having the larger effect.¹⁶

In an article published at the review’s launch, its chair, Professor Angus Deaton, described how the review will be conducted.¹⁷ He stated that it will bring together “a distinguished group of scholars and writers from different disciplines”. Deaton also suggested that while the review’s main focus will be on the UK, it will draw on thinking and evidence from other countries. At the launch, the IFS described the review as “the most comprehensive scientific analysis of inequalities yet attempted”. The “IFS Deaton Review” is expected to take five years.

Inequality Statistics in the UK

Official inequality statistics are contained in two publications. The first is the Office for National Statistics’ (ONS) *Household Income Inequality*.¹⁸ On its headline measure, the ONS reported the Gini coefficient for disposable income as 0.325 in 2017/18. This was an increase from 0.314 in 2016/17, but below the peak of 0.349 in 1990.

The ONS also provided Gini coefficients for two other measures of income (original and gross), as well as three different income ratios. All showed small increases in inequality in 2017/18 compared to a year earlier, but all showed a falling trend since 1999/2000.¹⁹

The second official publication is the Department for Work and Pensions’ *Households Below Average Income (HBAI)*.²⁰ This publication uses the Gini coefficient and the 90/10 ratio. Each of these is calculated using income measured in two ways, either before or after allowing for the costs of housing. This gives four inequality measures in total. In 2017/18, the Gini coefficient was 0.34 before housing costs and 0.39 after housing costs. The 90/10 ratio was 4.0 before housing costs and 5.2 after.²¹

UN Special Rapporteur's Report on UK

Summary of Report

On 22 May 2019, the UN's special rapporteur on extreme poverty and human rights, Philip Alston, published a report on the UK.²² The report followed a visit to the UK in November 2018.²³ The press release accompanying the report said that "the UK Government's policies have led to the systematic immiseration of millions across Great Britain".²⁴ The report stated that 14 million people, one fifth of the UK population, live in poverty, and 1.5 million "experienced destitution" in 2017.²⁵ It also said that "close to 40% of children are projected to be living in poverty by 2021". It attributed these figures to the "policies of austerity introduced in 2010", which, it suggested "continue largely unabated, despite the tragic social consequences". These consequences, according to the report, include a growth in food banks, large increases in homelessness and rough sleeping, falling life expectancy for certain groups and a "decimated" legal aid system. It also reported "drastic cuts" to local authority budgets, leading to reduced or eliminated social services, policing, libraries and community and youth centres. It concluded that:

The bottom line is that much of the glue that has held British society together since the Second World War has been deliberately removed and replaced with a harsh and uncaring ethos.²⁶

Government Response

In response, the Comptroller of Her Majesty's Household, Mark Spencer, standing in for the Leader of the House of Commons at business questions, stated that "I wholly reject the report".²⁷ The Department for Work and Pensions was quoted as saying that:

This is a barely believable documentation of Britain, based on a tiny period of time spent here. It paints a completely inaccurate picture of our approach to tackling poverty.²⁸

On 5 December 2018, in response to the UN's preliminary report, the Prime Minister had said that "what we actually see in our country today is absolute poverty at record lows".²⁹

It was also reported that the Secretary of State for Work and Pensions, Amber Rudd, planned to lodge a formal complaint with the UN.³⁰ The report suggested that the Secretary of State believed that the special rapporteur was "politically biased and did not do enough research".

Poverty Statistics in the UK

As stated above, the UN special rapporteur reported that 14 million people, or a fifth of the UK population, were living in poverty. These figures were taken from a report published in September 2018 by the Social Metrics Commission (SMC).³¹ The SMC is led by Baroness Stroud (Conservative). The statistics resulted from what the SMC described as a "new approach to poverty measurement".³² The SMC found that, using this measure, rates of persistent poverty were particularly high for children, working-age adults who live in workless families and the disabled.³³

Official UK statistics, in HBAI, currently measure the number and percentage of people living in low income households.³⁴ They define 'low income' in two different ways:³⁵

- Below 60% of contemporary median income ('relative low income'); and
- Below 60% of the median income in 2010/11, adjusted for inflation ('absolute low income').

As with inequality, each of these can be assessed using income before or after housing costs, giving four measures in total. In 2017/18, the percentage of individuals living in poverty under these four measures ranged from 15% to 22%.³⁶ The percentage of the population in absolute poverty fell between 2002/03 and 2017/18, but the percentage in relative poverty stayed broadly stable.

The website Full Fact provided an analysis of the merits and demerits of various measures of poverty, including the official statistics on low income and the SMC approach.³⁷ It concluded that "often it helps not to become too wedded to specific numbers". As an illustration, it said that the SMC produced its figure of 14.2 million in poverty using a poverty line set at 55% of median income. Full Fact reported that the SMC itself described this as "largely arbitrary". Full Fact said that if the threshold had been 50%, there would have been 11.7 million people in poverty, and that if the threshold had been 60% the figure would have been 16.5 million.

On 17 May 2019, the Government announced that it would be publishing new statistics on poverty that will "take the current SMC measure as a starting point".³⁸ It said that these would be available from 2020 and would be on an experimental basis.

Parliamentary Material

- House of Commons, '[Written Question: Poverty: Children](#)', 4 June 2019
- House of Lords, '[Written Question: Social Mobility](#)', 22 May 2019, HLI5604
- [Debate on 'Equality of Opportunity for Young People'](#), HL Hansard, 16 May 2019, cols 1707–46
- [Oral Questions on 'Engagements'](#), HC Hansard, 15 May 2019, cols 220–3
- [Oral Question on 'Poverty'](#), HC Hansard, 13 May 2019, cols 15–16
- [Oral Question on 'Health Inequalities: Life Expectancy'](#), HC Hansard, 26 March 2019, cols 161–2

Press Articles

The following is a non-exhaustive selection of comments on the launch of the IFS Deaton Review:

- Ed Conway, '[Ignore the "Wealth Gap" Prophets of Doom](#)' *Times* (£), 17 May 2019
- Ryan Bourne, '[Jeremy Corbyn's Narrow Focus on Solving Inequality Misses the Point](#)', *Telegraph* (£), 17 May 2019
- Kate Pickett et al, '[Why We Are Troubled by Elitist Inequality Review](#)', *Guardian*, 16 May 2019
- Richard Partington, '[Britain Risks Heading to US Levels of Inequality, Warns Top Economist](#)', *Guardian*, 14 May 2019

The following is a non-exhaustive selection of comments on the UN special rapporteur's report:

- Kevin Rawlinson, '[Philip Hammond Accused of Being Blind to Scale of UK Poverty](#)', *Guardian*, 3 June 2019

- Robert Booth, '[UN Report Compares Tory Welfare Policies to Creation of Workhouses](#)', *Guardian*, 22 May 2019

Other recent press articles on inequality and poverty include:

- *Financial Times* (£), '[How to Bridge England's North-South Divide](#)', 4 June 2019
- George Monbiot, '[Want to Tackle Inequality? Then First Change Our Land Ownership Laws](#)', *Guardian*, 4 June 2019
- Daniel Hannan, '[No, Poverty Isn't Rising—But I Can't Persuade Anyone to Believe It](#)', *Telegraph* (£), 2 June 2019
- Oliver Kamm, '[The Biggest Creator of Inequality in the UK Isn't Regional, but Generational](#)', *Times* (£), 24 May 2019

Further Information

The House of Commons Library has recently produced a briefing on income inequality in the UK. It includes data, a discussion of different measures, prospects for future changes in inequality and international comparisons:

- House of Commons Library, '[Income Inequality in the UK](#)', 20 May 2019

The Organisation for Economic Co-operation and Development has a webpage which contains three statistics for each member country (Gini coefficient, ratio of income of top 20% to bottom 20% and "relative income poverty"). It also contains links to many further articles on inequality:

- Organisation for Economic Co-operation and Development, '[Inequality](#)', accessed 4 June 2019

Other sources of information on inequality and poverty include:

- Fahmida Rahman, '[The Generation of Poverty: Poverty Over the Life Course for Different Generations](#)', Resolution Foundation, 22 May 2019
- End Child Poverty, '[Child Poverty is Becoming the New Normal in Parts of Britain](#)', 15 May 2019
- Social Mobility Commission, '[State of the Nation 2018–19: Social Mobility in Great Britain](#)', April 2019
- Fahmida Rahman and Matthew Whittaker, '[To Understand Inequality, We Need to Understand Its Intersections Too](#)', Resolution Foundation, 6 March 2019
- Contact, '[Stark Financial Inequality Faced by Disabled People and Their Families](#)', 27 February 2019
- Adam Corlett, '[What Does New Office for National Statistics Data Tell Us About Incomes and Inequality?](#)', Resolution Foundation, 26 February 2019

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- ¹ Institute for Fiscal Studies, '[Press Release: Are the Inequalities Seen Today a Sign of a Broken System? Launch of the IFS Deaton Review of Inequalities](#)', 14 May 2019.
- ² Robert Joyce and Xiaowei Xu, '[Inequalities in the Twenty-first Century: Introducing the IFS Deaton Review](#)', Institute for Fiscal Studies, 14 May 2019, pp 4–15.
- ³ *ibid*, p 5.
- ⁴ *ibid*, pp 5–6.
- ⁵ *ibid*, p 5.
- ⁶ *ibid*, p 6.
- ⁷ *ibid*.
- ⁸ *ibid*, p 5.
- ⁹ *ibid*, p 6.
- ¹⁰ *ibid*, p 4.
- ¹¹ *ibid*, pp 7–14.
- ¹² *ibid*, pp 16–26.
- ¹³ *ibid*, pp 17–21.
- ¹⁴ *ibid*, p 22.
- ¹⁵ *ibid*, pp 22–4.
- ¹⁶ Pascale Bourquin and Tom Waters, '[The Effect of Taxes and Benefits on UK Inequality](#)', Institute for Fiscal Studies, 27 May 2019.
- ¹⁷ Angus Deaton, '[Inequality and the Future of Capitalism](#)', Institute for Fiscal Studies, 14 May 2019.
- ¹⁸ Office for National Statistics, '[Household Income Inequality, UK: Financial Year Ending 2018](#)', 26 February 2019.
- ¹⁹ *ibid*, figure 3.
- ²⁰ Department for Work and Pensions, '[Households Below Average Income: An Analysis of the UK Income Distribution: 1994/95 to 2017/18](#)', 28 March 2019.
- ²¹ *ibid*, p 4.
- ²² United Nations Human Rights Council, '[Visit to the United Kingdom of Great Britain and Northern Ireland: Report of the Special Rapporteur on Extreme Poverty and Human Rights](#)', 22 May 2019.
- ²³ *ibid*, p 1.
- ²⁴ United Nations Human Rights Office of the High Commissioner, '[UN Expert Laments UK's "Doubling Down on Failed Anti-poor Policies"](#)', 22 May 2019.
- ²⁵ United Nations Human Rights Council, '[Visit to the United Kingdom of Great Britain and Northern Ireland: Report of the Special Rapporteur on Extreme Poverty and Human Rights](#)', 22 May 2019, p 1.
- ²⁶ *ibid*, p 4.
- ²⁷ [HC Hansard, 23 May 2019, col 825](#).
- ²⁸ BBC News, '[Poverty in the UK is "Systematic" and "Tragic", Says UN Special Rapporteur](#)', 22 May 2019.
- ²⁹ [HC Hansard, 5 December 2018, cols 879–80](#).
- ³⁰ Robert Booth, '[Amber Rudd to Lodge Complaint Over UN's Austerity Report](#)', *Guardian*, 22 May 2019.
- ³¹ Social Metrics Commission, '[A New Measure of Poverty in the UK](#)', September 2018, p 7, referred to in United Nations Human Rights Council, '[Visit to the United Kingdom of Great Britain and Northern Ireland: Report of the Special Rapporteur on Extreme Poverty and Human Rights](#)', 22 May 2019, p 3.
- ³² *ibid*, p 4.
- ³³ *ibid*, p 5.
- ³⁴ Department for Work and Pensions, '[Households Below Average Income: An Analysis of the UK Income Distribution: 1994/95 to 2017/18](#)', 28 March 2019.
- ³⁵ *ibid*, p 7.
- ³⁶ *ibid*.
- ³⁷ Full Fact, '[Poverty in the UK: A Guide to the Facts and Figures](#)', 17 May 2019.
- ³⁸ Department for Work and Pensions, '[Development of a New Measure of Poverty: Statistical Notice](#)', 17 May 2019.
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