



Covid-19: Improving Income Equality and Sustainability Debate on 6 May 2020

On 6 May 2020, the House of Lords is due to debate a motion moved by the Archbishop of York that “the Virtual Proceedings do consider the case for increasing income equality and sustainability in the light of the recent health emergency”.

Political and economic debates on the acceptability of different levels of income inequality have been ongoing for many years. Over the past decade in particular, a range of authors and bodies have suggested measures to reduce income inequality and improve income security in the light of various employment trends and strategic challenges. This work has received renewed focus due to Covid-19.

[The Resolution Foundation](#) has estimated that lower-paid people, young people, and women will disproportionately experience the negative economic effects of the pandemic. [Other analysis](#) has estimated that unemployment resulting from the pandemic and use of the Government’s furlough scheme are both set to be concentrated in some lower-paying sectors, such as hospitality and (non-food) retail. This could exacerbate existing inequalities.

In background to this, various measures [indicate](#) that incomes are more equal in the UK than in countries such as the United States but more unequal than in a majority of EU countries. [Recent statistics](#) indicate that income inequality in the UK increased slightly over the two years to the financial year ending 2019 but remains lower than the levels reached prior to the financial crisis.

The Government has introduced a range of measures since the budget because of Covid-19. Key measures include the introduction of a coronavirus job retention scheme; changes to the rules for statutory sick pay; and a self-employment income support scheme. A list of announcements made in response to the public health emergency is [available on GOV.UK](#).

On 22 April 2020, over 100 opposition MPs and peers signed a [letter](#) calling for the Government to introduce a “recovery universal basic income” to limit economic and social damage arising from the Covid-19 pandemic. However, it has been [reported](#) that Chancellor Rishi Sunak is opposed to such a scheme.

Thomas Brown | 30 April 2020

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I. What is inequality?

Inequality can be defined as the difference in social status, wealth or opportunity between people or groups.¹ This can come in many forms and be the cause or consequence of a huge range of issues. Inequality of income and the security of that income are two forms. Others include differences in:

- overall wealth;
- living standards;
- health;
- family environments;
- life chances;
- political influence; and/or
- legal rights.²

In recent years, discussion of the inequalities that permeate societies, together with their impact, has increasingly come to define economic and political debate.³ As the Institute for Fiscal Studies' Deaton Review, which is considering inequalities in the round, has put it: "concerns abound that the poor are being left behind by the rich, the young by the old, the regions by the metropolis, the unskilled by the highly educated". Echoing many of the concerns raised in the relevant literature, particularly over the past decade or so, Sir Angus Deaton has gone as far as to suggest that "today's inequalities are signs that democratic capitalism is under threat [...] in much of the rich world".⁴

However, policy makers and commentators have disagreed about the relative merits of addressing inequalities where they exist.⁵ And where they have agreed on the need for interventions, disagreements have often followed about the most appropriate approach to take to avoid undesirable outcomes.

Economic inequalities

Like other inequalities, economic inequalities have been present both within and between societies for much of recorded history. In the modern era, and particularly since the financial crisis, they have featured prominently in ongoing economic and political debates about what levels of inequality may be acceptable. They have also featured heavily in related debates about social mobility.

There are three main types of economic inequality:

- **Income inequality:** the extent to which income from all sources is distributed unevenly

¹ Collins Dictionary, '[Inequality](#)', accessed 27 April 2020.

² See, for example: Robert Joyce and Xiaowei Xu, '[Inequalities in the twenty-first century: introducing the IFS Deaton Review](#)', IFS Deaton Review, 14 May 2019; and United Nations, '[Concepts of Inequality](#)', 21 October 2015.

³ Robert Joyce and Xiaowei Xu, '[Inequalities in the twenty-first century: introducing the IFS Deaton Review](#)', IFS Deaton Review, 14 May 2019.

⁴ Professor Sir Angus Deaton, '[Inequality and the future of capitalism](#)', IFS Deaton Review, 14 May 2019.

⁵ For example, some see income inequality as beneficial in that it can provide an incentive for people to work hard (Karen Rowlingson, '[Does Income Inequality Cause Health and Social Problems?](#)', Joseph Rowntree Foundation, September 2011, p 7).

in a group of people.

- **Pay inequality:** the difference between individuals' pay, within an organisation or across all pay received in an economy.
- **Wealth inequality:** the unequal distribution of assets in a group of people, including financial assets and property.⁶

A huge range of factors can affect economies and the incomes, pay and wealth of those living within them. These include globalisation, technological change, corporate behaviour, family structures and education systems.⁷ Policies in respect of taxation and benefits, trade, regional development and competition and labour market regulation can also have a significant impact. As can personal characteristics, such as gender, ethnicity and disability.⁸ The current health emergency is another factor that is certain to have a significant influence.

Given the wide-ranging nature of this subject, this briefing cannot provide a comprehensive picture of the causes of income inequality and insecurity and potential remedies. Instead, it should be read as an introduction to the issue. To this end, a selection of further reading is suggested in the final section.

2. Economic inequalities and coronavirus

Covid-19 is having a profound impact around the world, including on British society and the UK economy. However, the virus and associated measures have had a disproportionate effect on some sections of society. As the Resolution Foundation has noted, the “relationship between the kind of job people have and their exposure to big economic or health risks in this crisis is by no means uniform”.⁹

In a report published on 28 April 2020, the Resolution Foundation attempted to measure the economic impacts of the current public health emergency on different groups of workers. The authors of the report identified four main groups within the working population:

- **Key workers**, who are “most exposed to the health risks from coronavirus because they continue to work in jobs where social distancing is very difficult”.
- **People working in shutdown sectors**, who are the “most likely to be feeling the economic effects of the crisis acutely”.
- Workers not in these groups, who are “more likely to be able to continue working with some form of normalcy”, including some **able to work from home** and some **still having to go out to work**.

The report included the following key findings based on analyses of these groups:

- **Key workers are disproportionately likely to be female**, with employed women

⁶ Equality Trust, '[How is economic inequality defined?](#)', accessed 27 April 2020.

⁷ Robert Joyce and Xiaowei Xu, '[Inequalities in the twenty-first century: introducing the IFS Deaton Review](#)', IFS Deaton Review, 14 May 2019.

⁸ *ibid*; and Institute for Fiscal Studies, '[Inequality: The IFS Deaton Review](#)', accessed 27 April 2020.

⁹ Maja Gustafsson and Charlie McCurdy, '[Risky business: economic impacts of the coronavirus crisis on different groups of workers](#)', Resolution Foundation, 28 April 2020.

more than twice as likely to be in this group as employed men.

- **Parents are more likely to be key workers than non-parents**, and mothers even more so; 39% of working mothers were key workers before this crisis began, compared to just 27% of the working population.
- **Workers in shutdown sectors are the lowest paid across the workforce.** Typical pay for workers in shutdown sectors is less than half that of those able to work from home—£348 a week compared to £707 a week.
- **Those in shutdown sectors are younger**—their average age of 39 is four years below the average age of those who can work from home. **Differences are even more pronounced at the very bottom of the age distribution:** nearly two in five of every 16–24-year-old who works are in these sectors and for those born after 2000 this figure is over three-fifths.
- **Workers with little job security are some of the most likely to be in the most exposed groups.** Almost three-quarters of those on zero-hours contracts are either key workers or work in shutdown sectors.
- And a similar trend is visible when looking at housing security: **private renters**, who generally face the greatest insecurity in their housing situation, **are 40% more likely to work in shutdown sectors than homeowners.**
- With schools and day-care closed to all except key workers, **parents have been facing extra challenges.** People born in the early 1980s are the most likely to be parents of children under nine. It should not be forgotten that this is the same cohort of adults who experienced the sharpest deterioration in cohort-on-cohort pay progress in the aftermath of the financial crisis.¹⁰

The authors suggested that key workers and workers in shutdown sectors were “experiencing the most acute consequences of this crisis”. They added lower-paid people, young people and women “stand out as the hardest hit” across these groups; concluding with a call for the Government to “recognise the financial challenges and personal sacrifices that some groups of workers are much more likely to be making than others”.¹¹

In addition, Resolution Foundation analysis published on 20 April had estimated that unemployment resulting from the pandemic and use of the Government’s furlough scheme were both set to be concentrated in some lower-paying sectors.¹² These included hospitality and the (non-food) retail, wholesale and motor trades.

The following sections provide background information on income inequality and income security prior to the pandemic.

¹⁰ Maja Gustafsson and Charlie McCurdy, [‘Risky business: economic impacts of the coronavirus crisis on different groups of workers’](#), Resolution Foundation, 28 April 2020.

¹¹ *ibid.*

¹² Daniel Tomlinson, [‘Launching an economic lifeboat: the impact of the Coronavirus Job Retention Scheme’](#), Resolution Foundation, 20 April 2020.

3. Income inequality

3.1 Why does it matter?

Income inequality is one type of economic inequality.¹³ It has long been diagnosed as a potential issue within economies but was thrown into sharp relief in the aftermath of the financial crisis.¹⁴

As a result, it has been the focus of a number of books and other research work over the past decade by academics, researchers and international bodies such as the Organisation for Economic Cooperation and Development (OECD).¹⁵ Some of these studies have found that income inequality within societies correlates with a range of health and social problems, including rates of murder, imprisonment, infant mortality, teenage pregnancy and obesity.¹⁶

UK studies

For example, *The Spirit Level* by Richard Wilkinson and Kate Pickett, first published in 2009, argued that income inequality was associated with a range of health and social problems across populations.¹⁷ The central thesis of the book was not universally accepted at the time.¹⁸ Professor Peter Saunders, writing for the Policy Exchange think tank, argued that the statistical analysis used in the book was “heavily flawed” and did not, as claimed, explain a causal relationship between inequality and a range of social ills prevalent in unequal societies.¹⁹ Nevertheless, the book did receive political attention at the time of its publication. For example, BBC News reported that then prime minister David Cameron and leader of the opposition Ed Miliband had both taken an interest.²⁰ Political debates on how best to support those on low incomes continue to this day.

Other well-known books to have considered income inequality include *The Price of Inequality* (2012), by Nobel laureate Joseph Stiglitz, and *On Rock or Sand?: Firm Foundations For Britain’s Future* (2015), a series of essays edited by John Sentamu, the Archbishop of York. Justin Welby, the Archbishop of Canterbury, contributed to the latter volume. As did Lord Adonis (Labour); former Parliamentary Commissioner for Standards Sir Philip Mawer; the economist Andrew Sentance; director of the Hansard Society Ruth Fox; and Julia Unwin, then chief executive of the Joseph Rowntree Foundation.²¹

¹³ Equality Trust, ‘[How is economic inequality defined?](#)’, accessed 27 April 2020.

¹⁴ See, for example: R H Tawney, *Equality*, 1931.

¹⁵ See, for example: OECD, *Growing Unequal? Income Distribution and Poverty in OECD Countries*, October 2008; *Divided We Stand: Why Inequality Keeps Rising*, December 2011; *In It Together: Why Less Inequality Benefits All*, May 2015; and ‘[Inequality and income](#)’, accessed 27 April 2020.

¹⁶ Christopher Meyer and Julia Kirby, ‘[Income inequality is a sustainability issue](#)’, *Harvard Business Review*, 28 January 2014.

¹⁷ Richard Wilkinson and Kate Pickett, *The Spirit Level: Why Equality is Better for Everyone*, 2009; and Equality Trust, ‘[The Spirit Level](#)’, accessed 27 April 2020.

¹⁸ See, for example: John Kay, ‘[Review: The Spirit Level](#)’, *Financial Times* (£), 23 March 2009.

¹⁹ Peter Saunders, *Beware False Prophets: Equality, the Good Society and The Spirit Level*, Policy Exchange, 7 August 2010. The report was edited by Natalie Evans, now Baroness Evans of Bowes Park, Leader of the House of Lords and Lord Privy Seal.

²⁰ Mukul Devichand, ‘[The Spirit Level: Britain’s new theory of everything?](#)’, BBC News, 12 October 2010.

²¹ Joseph Stiglitz, *The Price of Inequality*, 2009; and John Sentamu (ed), *On Rock or Sand?: Firm Foundations For Britain’s Future* (2015). See also: Helen Warrell et al, ‘[English archbishops attack government over rising inequality](#)’, *Financial Times* (£), 15 January 2015.

Writing 18 months before the publication of *On Rock or Sand?*, the Archbishop of York had argued that “we need to remember that not all in our society are blessed with good jobs, incomes, housing and leisure opportunities”.²² He called for the introduction of a nationwide living wage in response to existing disparities, as a “first and vital step in challenging inequality”. In early 2015, at the time *On Rock or Sand?* was published, the Archbishop of York argued that income inequality was the “biggest hindrance to the wellbeing of this nation”.²³ He has continued to call for measures to address income inequality at regular intervals since.²⁴

International studies

The OECD has published reports that consider income inequality.²⁵ In *Divided We Stand: Why Inequality Keeps Rising*, published in 2011, the OECD identified that income inequality in OECD countries was at its highest level in 50 years.²⁶ Angel Gurría, OECD Secretary-General, said at the time that “sustained inequality inhibits growth and social cohesion”. He noted that the “single most important driver” of income inequality had been greater inequality in wages and salaries. Mr Gurría added that an increase in the incidence of part-time and low-paid work was a contributing factor, as was the fact that the distribution of non-wage incomes, especially capital income, had become more unequal. He contended that fostering the employment of under-represented groups and investing in human capital, particularly via upskilling, would be key to countering rising inequality. As would reform of tax and benefit policies; the provision of high-quality public services; and reducing regional disparities.

In 2015, during the launch of the OECD’s follow-up report, *In It Together: Why Less Inequality Benefits All*, Mr Gurría stated that the world had “reached a tipping point” and argued that inequality could “no longer be treated as an afterthought”.²⁷ He identified four key policy areas to “promote opportunities for more inclusive growth”. These included in relation to women’s participation in economic life; labour market policies in respect of working conditions, wages and their distribution; education and skills; and the use of taxes and transfers to moderate differences in income and wealth. He added that “decisive action” was needed to “promote inclusive growth”. This was a sentiment echoed more recently by Christine Lagarde, the then managing director of the International Monetary Fund.²⁸

More recently, in January 2020 the World Economic Forum published a report that identified social mobility as a key driver of income inequality.²⁹ It argued that increases in social mobility could benefit

²² John Sentamu, ‘[In a decent society, all workers must be paid a fair wage they can live on](#)’, Yorkshire Post, 22 July 2013.

²³ BBC News, ‘[Low earners are being left behind, say archbishops](#)’, 15 January 2015; Helen Warrell et al, ‘[English archbishops attack government over rising inequality](#)’, *Financial Times* (£), 15 January 2015; and John Bingham, ‘[Archbishop of York Dr John Sentamu: Income inequality is the biggest problem in Britain](#)’, *Telegraph*, 14 January 2015.

²⁴ See, for example: John Sentamu, ‘[We must use the living wage to slay the ogre of income inequality](#)’, *Guardian*, 31 October 2015; and Harriet Sherwood, ‘[Archbishop of York calls for voluntary top-up tax plan to fight inequality](#)’, *Guardian*, 23 January 2018.

²⁵ OECD, *Growing Unequal? Income Distribution and Poverty in OECD Countries*, October 2008; *Divided We Stand: Why Inequality Keeps Rising*, December 2011; *In It Together: Why Less Inequality Benefits All*, May 2015; and ‘[Inequality and income](#)’, accessed 27 April 2020.

²⁶ Angel Gurría, ‘[Divided We Stand: Why Inequality Keeps Rising \(Speech\)](#)’, OECD, 5 December 2011.

²⁷ Angel Gurría, ‘[Launch of “In It Together: Why Less Inequality Benefits All”](#)’, OECD, 21 May 2015.

²⁸ World Economic Forum, ‘[Inequality is a global crisis. Here’s how we can tackle it](#)’, 16 May 2019. Ms Lagarde is now president of the European Central Bank.

²⁹ World Economic Forum, ‘[Revealed: Why economies benefit from fixing inequality](#)’, 19 January 2020.

the UK economy by almost \$130 billion by 2030, and lead to increased social cohesion.

3.2 Statistics

Measures of income inequality and latest UK figures

Income can be obtained from a variety of sources. In addition to wages and salaries from employment, it can come from investments, private pensions and cash benefits amongst others.³⁰ Statistics on income inequality tend to concentrate on measures of disposable household income. This is received by a household from all sources after taxes and benefits have been applied.

Gini coefficient

Various indicators may be used to measure inequality in household incomes. The Office for National Statistics (ONS) notes that one of the most widely used measures is the Gini coefficient.³¹ This produces a score between 0% and 100%. The lower the value, the more equally household income is distributed. Conversely, a higher value indicates greater inequality.

The most recent ONS release on household income inequality, published in March 2020, found the following in respect of the Gini coefficient measure:

- Income inequality in the UK **increased slightly** over the two years to financial year ending (FYE) 2019, to reach 34.7% according to estimates from our Living Costs and Food Survey. This means that levels of income inequality are broadly comparable with their FYE 2011 levels.
- Income inequality **remains lower than the levels reached prior to the economic downturn**. Over the four years to FYE 2008 income inequality increased by an average of 1.2 percentage points per year to reach 38.6%, before falling to 34.1% by FYE 2011.
- Income inequality for people in **retired households has increased** by 4.2 percentage points to reach 31.6% over the five years to FYE 2019. Income inequality for people in **non-retired households has been broadly stable** over this period.³²

³⁰ House of Commons Library, [Income Inequality in the UK](#), 20 May 2019, p 4.

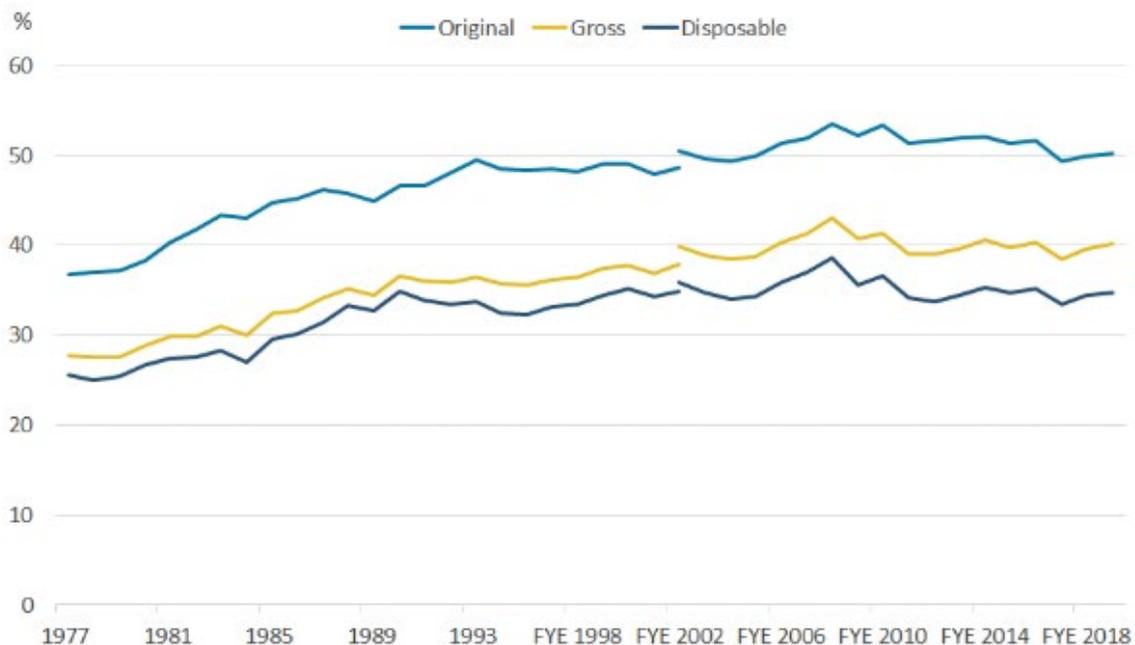
³¹ Office for National Statistics, [Household income inequality, UK: Financial year ending 2019](#), 5 March 2020.

³² *ibid.*

The following chart shows that income inequality has remained broadly unchanged over the past seven years:

Figure 1: Income inequality is up slightly in financial year ending 2019, but broadly unchanged over past seven years³³

Gini coefficients for measures of original, gross, and disposable income, UK, 1977 to FYE 2019



(Note: Original income includes all sources of income from employment, private pensions, investments and other non-government sources. The receipt of cash benefits is then added to original income to estimate gross income. Finally, direct taxes are subtracted from gross income to estimate disposable income).

Alternative measures

The ONS has noted that the Gini coefficient is useful for making comparisons over time, However, one drawback is that it “cannot distinguish between different-shaped income distributions”. For that reason, the ONS suggests, it is useful to look at this index alongside other measures of inequality:

- One such measure is the **S80/S20 ratio**, which is the ratio of the total income received by the richest 20% of people to that received by the poorest 20%.
- In addition, the **P90/P10** compares the ratio of the income of the person at the bottom of the top 10% to that of the person at the top of the bottom 10%.

³³ Office for National Statistics, [‘Household income inequality, UK: Financial year ending 2019’](#), 5 March 2020. See also: Office for National Statistics, [‘The effects of taxes and benefits on income inequality: 1977 to financial year ending 2015’](#), 8 April 2016.

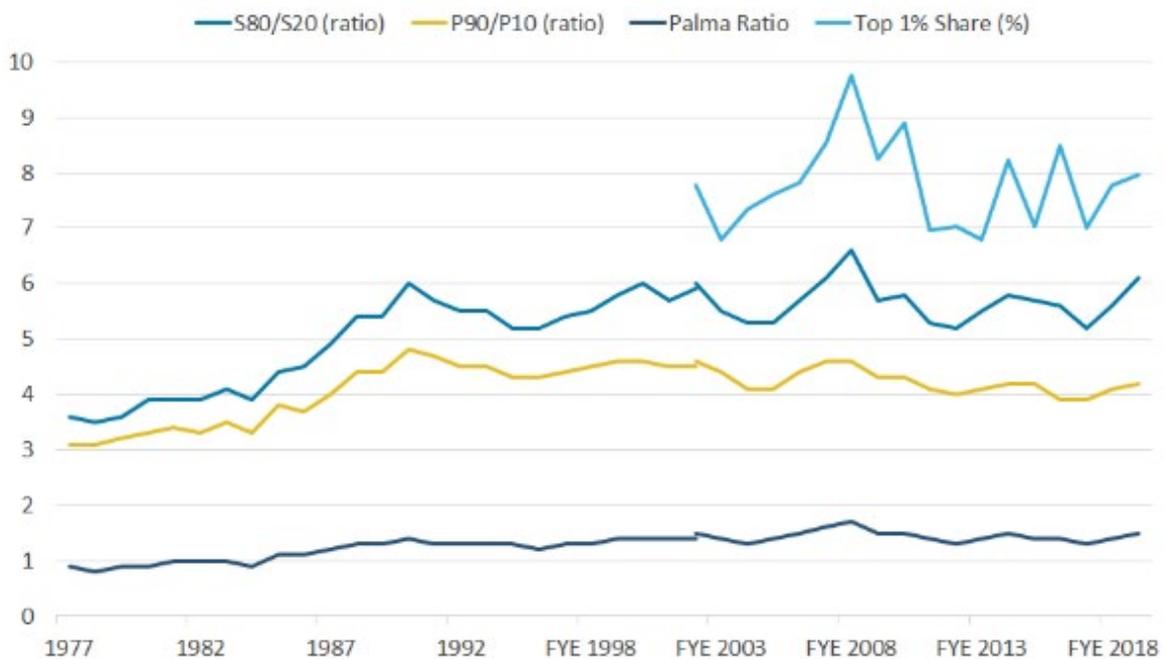
- Finally, the **Palma ratio** takes the ratio of the income share of the richest 10% of households to that of the poorest 40% of households.³⁴

Together, the ONS suggests, these measures “provide further evidence on how incomes are shared across households and how this is changing over time”. It added that these measures show that:

[...] income inequality increased during the two years up to FYE 2019. In particular, the ratio of total income received by the richest 20% compared with the bottom 20% (the S80/S20 ratio) **increased** from 5.2 to 6.1. Similarly, the P90/P10 and Palma ratios **increased** from 3.9 to 4.2 and 1.3 to 1.5 respectively over the same period. Despite these increases, these measures are still below the levels reached during the period before the economic downturn in FYE 2008.

Figure 2: Alternative measures also show income inequality increasing over past couple of years³⁵

S80/S20 ratio, P90/P10 ratio, Palma ratio, and top 1% share, equivalised disposable income, all people, UK, 1977 to financial year ending 2019



The figures in the cited ONS release provide headline estimates of average disposable income derived from the Living Costs and Food Survey (LCF). This is a voluntary sample survey of around 5,000 private households in the UK. The ONS has noted that the LCF survey is “known to suffer from under-reporting at the top and bottom of the income distribution”. For example, it does not include those that live in institutionalised households, such as care homes and hostels, and the homeless. “As such, it is likely that many of the poorest in society are not captured, which users should bear in mind when interpreting these statistics”. In addition, it tends not to capture the very richest.

³⁴ Office for National Statistics, ‘[Household income inequality, UK: Financial year ending 2019](#)’, 5 March 2020.

³⁵ Office for National Statistics, ‘[Household income inequality, UK: Financial year ending 2019](#)’, 5 March 2020.

For these reasons, the ONS considers the Department for Work and Pensions' *Households Below Average Income* (HBAI) publication as a "better source for looking at income-based analysis that does not need a longer time series". This series is derived from the Family Resources Survey (FRS), which has a larger sample size than the LCF at approximately 19,000 households.

The most recent edition of the HBAI publication, issued on 26 March 2020, included the following main findings in respect of income inequality:

- The BHC [before housing costs] and AHC [after housing costs] Gini coefficient measures continued to be **below their recent high point in 2009/10**, although there were slight increases across these inequality measures as a whole between 2017/18 and 2018/19.
- Income changes across the entire distribution were **quite muted** between 2017/18 and 2018/19, with the largest falls in incomes for those below the 10th percentile and between the 45th and 50th, with these percentiles seeing a reduction of between 0.5% and 2.6%.
- In 2018/19, those in the 10th and 90th percentiles saw **divergences in average household income**: those at the 90th percentile saw an increase compared to 2017/18, while the 10th percentile saw a reduction. These changes resulted in a rise in the 90/10 ratio (AHC), which increased between 2017/18 and 2018/19 to 5.3. However, the 90/10 ratio (BHC) remained at 4.0 rounded to 1 decimal place.
- Income BHC at the 10th percentile is **around half** of the median (50th percentile) implying that around 10% of the population **have less than half** of the median household income BHC.
- Incomes **increase sharply** past the 90th percentile BHC. In 2018/19, income at the 90th percentile is about double that of the median, whilst the top 3% of the population (97th percentile and above) **have at least three times** that of the median.
- Larger families require a higher level of household income to achieve similar 'living standards' (based on a household income measure) to smaller families. To lie in the top half of the income distribution in 2018/19, a **single individual** needed a net income over £17,900, compared to a **couple with two young children** who required a combined net income over £37,500.
- In 2018/19, a **single individual** with an annual net household income of over £36,200 would sit above the 90th percentile in the distribution, implying their income exceeded that of **90% of the UK population**. A **couple with two children** receiving the same level of combined annual net household income would lie **just below the middle** of the income distribution and be considered to have slightly less than average (median) household income.³⁶

Other statistical releases provide context to the overall picture provided by the measures above. For example, the latest ONS release on average household incomes, also published in March 2020, found:

- Median household disposable income in the UK was **£29,600** in financial year ending (FYE) 2019, based on estimates from the Living Costs and Food Survey.
- Growth in median income **stalled** between FYE 2017 and FYE 2019 growing on average

³⁶ Department for Work and Pensions, [Households Below Average Income: An Analysis of the UK Income Distribution: 1994/95–2018/19](#), 26 March 2020.

- by 0.4% per year, compared with 3.0% per year between FYE 2013 and FYE 2017.
- Median income for the **poorest fifth of people fell** by 4.3% per year over the two years up to FYE 2019, following average annual growth of 3.4% over the four years leading up to FYE 2017.
 - Median income of the **richest fifth also fell** between FYE 2017 and FYE 2019 (0.4% per year), meaning that despite average annual growth of 1.7% per year between FYE 2013 and FYE 2017, average income remains **lower** than levels reached prior to the economic downturn in FYE 2008.
 - Median income for people living in retired households and non-retired households over the two years leading up to FYE 2019 **increased** by 0.5% and 0.3% per year respectively; this compares with the period between FYE 2013 and FYE 2017, where average annual growth for these groups was 3.1% and 2.7% respectively.³⁷

Trends over time

The IFS Deaton Review has considered household income inequality in the UK over time. In a report published in May 2019, it noted that the UK's Gini coefficient was relatively stable in the 1960s and 1970s.³⁸ It rose steeply in the 1980s, before remaining broadly unchanged since the early 1990s. However, household income inequality using the P90/P10 measure had “actually fallen” since the early 1990s, meaning that “household incomes are now more evenly distributed across most of the distribution than they were 25 years ago”. However, this has been accompanied by a “runaway rise in top incomes”, with the share of income going to the 1% richest households nearly tripling over the past 40 years—from 3% in the 1970s to around 8% in 2017.

International comparisons

Comparable data on income inequality in different countries is published by Eurostat and the OECD.³⁹

- According to Eurostat data, in 2017 the **Gini coefficient for equivalised disposable income in the UK was slightly higher than that for the whole of the European Union (28 countries)**. On this measure, income inequality was highest in Bulgaria followed by Lithuania and Latvia. Slovakia and Slovenia had the lowest levels of income inequality in the EU in 2017.
- OECD data indicates **the UK had a higher level of income inequality than most European OECD members in 2016** based on the Gini coefficient for disposable income, but a lower level than the US.⁴⁰

The IFS Deaton Review has noted that the UK's Gini coefficient of 0.35 was relatively high by European standards. Figure 3 below reproduces the review's chart showing an international comparison with selected countries:

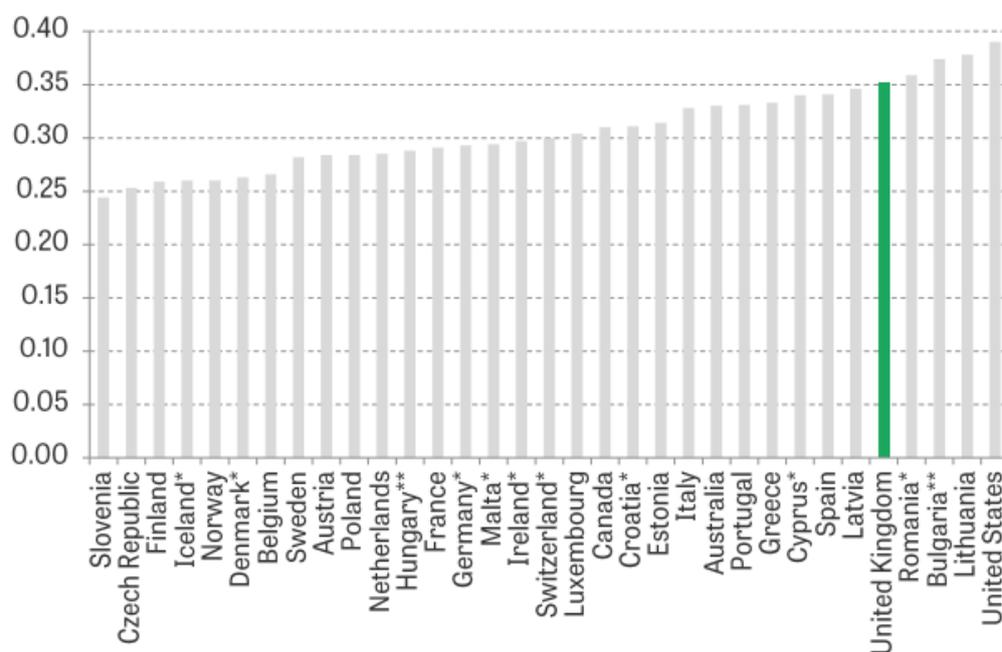
³⁷ Office for National Statistics, '[Average household income, UK: financial year ending 2019](#)', 5 March 2020. See also: Valentina Romei, '[Income inequality increases in UK](#)', *Financial Times* (£), 5 March 2020.

³⁸ Robert Joyce and Xiaowei Xu, '[Inequalities in the Twenty-first Century: Introducing the IFS Deaton Review](#)', IFS Deaton Review, May 2019, pp 4–6.

³⁹ House of Commons Library, '[Income Inequality in the UK](#)', 20 May 2019, p 23.

⁴⁰ *ibid*, pp 23–4.

Figure 3: Gini coefficient of equivalised net household incomes in selected countries, 2016⁴¹



(Note: Figures from 2015 are marked with an asterisk (*). Figures from 2014 are marked with two asterisks (**)).

3.3 Government policies on incomes

Minimum and living wages

The national minimum wage (NMW) was first introduced in 1999. In 2015, David Cameron's Conservative government amended the relevant regulations to introduce a new mandatory national living wage (NLW) for workers aged 25 and above from April 2016.⁴² Initially set at £7.20, it has since risen to £8.72 as at April 2020. This brings the NLW to the target rate of 60% of median earnings originally set in 2015.⁴³ The current Conservative government, led by Boris Johnson, has since set a new target for the NLW to reach two-thirds (66%) of median earnings by 2024. The Low Pay Commission has set out its approach to achieving this target.⁴⁴ In the meantime, the NMW still applies to those under the age of 25. It is currently £8.20.

The Living Wage Foundation (LWF), which campaigns for a higher rate of hourly pay, suggests that a real living wage (RLW) of £9.30 should be paid across the UK, rising to £10.75 in London, for anyone aged 18 or over. This figure results from a calculation made according to the cost of living, based on a

⁴¹ Robert Joyce and Xiaowei Xu, *Inequalities in the Twenty-first Century: Introducing the IFS Deaton Review*, IFS Deaton Review, May 2019, pp 4–6.

⁴² Department for Business, Energy and Industrial Strategy, '[National living wage \(NLW\)](#)', 1 April 2016.

⁴³ Low Pay Commission, '[The National Minimum Wage in 2020](#)', 1 April 2020.

⁴⁴ Low Pay Commission, '[The National Minimum Wage in 2020](#)', 1 April 2020.

basket of household goods and services.⁴⁵ The LWF's website lists 6,376 employers who have voluntarily opted to pay RLW rates.⁴⁶ The RLW rates remain optional for employers.

Other measures

In recent years successive administrations have pursued other policies relating to incomes. The following policies are examples that have aimed to increase incomes and improve pay transparency:

- The **personal allowance for income has risen** for most taxpayers in recent years. For 2020/21, the allowance is £12,500. **National insurance contribution rates** were also raised for the 2020/21 tax year.⁴⁷
- **Indexation of benefits in line with the Consumer Prices Index (CPI) resumed** for all inflation-linked benefits and tax credits in 2020, resulting in a 1.7% increase. This follows a four-year period (2015/16–2019/20) during which most working-age benefits (except for disability and carers' benefits) were held at their 2015/16 cash value, and a three-year period before that (2013/14–2015/16) when increases were limited to 1% per annum.⁴⁸
- In January 2019, **new pay ratio regulations came into force that obliged UK listed companies with over 250 employees to disclose annually the ratio of their chief executive officer's pay to the median, lower quartile and upper quartile pay of their UK employees.**⁴⁹ In August 2019, a report by the Chartered Institute of Personnel and Development (CIPD) found that the average salary for FTSE 100 chief executives fell by 13% between 2017 and 2018, but that they still earned 117 times more than the average UK full-time worker over the course of a year.⁵⁰

Budget 2020

In March 2020, the Treasury published a distributional analysis showing the impact that the measures announced in the Budget 2020 would have on households.⁵¹ The following points were highlighted in the document's executive summary:

- Disposable household income growth between 2009/10 and 2017/18 has been strongest for those on lower and middle incomes.
- Employment has risen to record levels, increasing by 3.9 million since 2010, and

⁴⁵ Living Wage Foundation, '[What is the real living wage?](#)', accessed 28 April 2020. The LWF appoints a commission to oversee the calculation of RLW rates in London and the UK. The Archbishop of York is a former chair of the commission.

⁴⁶ Living Wage Foundation, '[Accredited living wage employers](#)', accessed 28 April 2020.

⁴⁷ House of Commons Library, '[Direct Taxes: Rates and Allowances 2020/21](#)', 6 April 2020; and HMRC, '[Rates and allowances: National Insurance contributions](#)', 6 April 2020.

⁴⁸ House of Commons Library, '[Benefits Uprating 2020](#)', 2 April 2020, p 3.

⁴⁹ Department for Business, Energy and Industrial Strategy, '[New executive pay transparency measures come into force](#)', 1 January 2019. See also: Paul Holcroft, '[Executive pay ratio reporting: what do you need to know?](#)', *The Gazette*, 9 January 2020.

⁵⁰ CIPD, '[Executive Pay in the FTSE 100: Is Everyone Getting a Fair Slice of the Cake?](#)', August 2019; and BBC News, '[UK bosses earn 117 times average worker despite pay cut](#)', 21 August 2019.

⁵¹ HM Treasury, '[Impact on Households: Distributional Analysis to Accompany Budget 2020](#)', 11 March 2020.

unemployment rates have fallen in every region and nation in the UK, with the largest falls being seen in Wales, and Yorkshire and the Humber.

- Growth in employment rates has overwhelmingly benefitted the poorest 20% of households, whose employment rate is now more than 9 percentage points higher than in 2009/10.
- Supported by the National Living Wage (NLW), the lowest earners have seen their wages grow by 11% above inflation between April 2015 and April 2019.
- The proportion of jobs that are low paid has fallen in every region and nation in the UK since 2010, with the largest falls in Scotland and Wales.
- On average, in 2020/21, our modelling shows households in the lowest income decile will receive over £4 in public spending for every £1 they pay in tax, while households in the highest income decile will contribute over £5 in tax for every £1 they receive in public spending.
- Households in each income decile are better off as a result of decisions taken at Budget 2020 and Spending Round 2019, with the poorest income deciles gaining the most as a percentage of net income.⁵²

Covid-19

The Government has introduced a range of measures since the budget in the light of the spread of Covid-19 in the UK. Key measures include:

- the introduction of a coronavirus job retention scheme, allowing employers to claim a grant from HMRC to cover 80% of the wages of ‘furloughed workers’ (up to £2,500 per month);
- changes to the rules for statutory sick pay; and
- a self-employment income support scheme.⁵³

Other measures to mitigate the impact of the public health measures instituted in recent weeks include temporary changes to benefits including employment and support allowance and universal credit.⁵⁴ A list of announcements made in response to the public health emergency is available on the Government’s website.⁵⁵ The ONS has also released experimental indicators on the impact of coronavirus and associated measures on the UK economy and society.⁵⁶

On 22 April 2020, over 100 opposition MPs and peers signed a letter to the *Financial Times* calling for the Government to introduce a “recovery universal basic income” to limit economic and social damage arising from the Covid-19 pandemic.⁵⁷ The 110 signatories included Ian Blackford,

⁵² HM Treasury, [Impact on Households: Distributional Analysis to Accompany Budget 2020](#), 11 March 2020, pp 2–3. The House of Lords debated the Budget on 18 March 2020: [HL Hansard, 18 March 2020, cols 1465–530](#).

⁵³ House of Commons Library, [Coronavirus: Support for Household Finances](#), 8 April 2020, pp 16–19.

⁵⁴ *ibid*, pp 21–2.

⁵⁵ GOV.UK, [‘Coronavirus \(Covid-19\): News and communications’](#), accessed 28 April 2020.

⁵⁶ Office for National Statistics, [‘Coronavirus, the UK economy and society, faster indicators’](#), 23 April 2020.

⁵⁷ Jim Pickard, [‘More than 100 UK opposition politicians call for universal basic income after lockdown’](#), *Financial Times* (£), 22 April 2020; and [‘Letter: We have to put plans in place for a recovery universal basic income’](#), *Financial Times* (£), 27 April 2020.

Westminster leader of the Scottish National Party; Ed Davey, acting leader of the Liberal Democrats; former shadow chancellor John McDonnell; and all MPs from Plaid Cymru and the Alliance, SDLP and Green parties. However, it has been reported that Chancellor Rishi Sunak is opposed to such a scheme.

4. Income security and sustainability

4.1 Why does it matter?

Within economies, there are often disparities in employment security alongside disparities in incomes. Such disparities are being exacerbated by strategic challenges, such as automation and globalisation.⁵⁸ In addition, the very health of consumer-driven economies and their overall sustainability can be linked to the security of disposable incomes amongst consumers.⁵⁹

Indeed, some commentators have gone as far as to suggest that a focus on inequality alone is a “diagnostic error” when looking at societal instability.⁶⁰ For example, Albenaz Azmanova, an associate professor of politics at the University of Kent’s Brussels School of International Studies, has argued that “economic instability, not inequality, is what ails the 99 percent”. She argues that improved economic stability, security and sustainability for workers is required, rather than a simple redistribution of purchasing power.

4.2 Statistics

- In March 2019, the ONS noted that around **1.5 million jobs in England were at “high risk of some of their duties and tasks being automated in the future”**.⁶¹ It added that “women, young people and those who work part-time” were most likely to work in roles that were at high risk of automation by technology such as computer programs, algorithms or robots.
- In July 2019, a report by the Trades Union Congress (TUC) found that **3.7 million people in the UK were in insecure work** “due to being among the ranks of the low-paid self-employed, agency, casual and seasonal workers, or on zero-hours contracts”.⁶² This translated to one in nine of the workforce. Such workers have been referred to as the “precariat”.⁶³
- Data from the ONS suggests that **974,000 people, or 3% of the workforce, were in employment on a zero-hours contract** in October–December 2019. This was an all-time high.⁶⁴

⁵⁸ See earlier cited work by the OECD.

⁵⁹ See, for example: Christopher Meyer and Julia Kirby, ‘[Income inequality is a sustainability issue](#)’, *Harvard Business Review*, 28 January 2014.

⁶⁰ Albenaz Azmanova, ‘[Precarity, not inequality, is what ails the 99%](#)’, *Financial Times* (£), 27 April 2020.

⁶¹ Office for National Statistics, ‘[Which occupations are at highest risk of being automated?](#)’, 25 March 2019.

⁶² Tim Sharp, ‘[Insecure work](#)’, TUC, 29 July 2019.

⁶³ Sarah O’Connor, ‘[One in 10 UK workers in insecure employment, says TUC](#)’, *Financial Times* (£), 16 December 2016; and Sarah O’Connor, ‘[The new world of work: recovery driven by rise in temp jobs](#)’, *Financial Times* (£), 4 August 2015.

⁶⁴ Office for National Statistics, ‘[EMPI7: People in employment on zero-hours contracts](#)’, 18 February 2020.

4.3 Government policy

In 2016, Theresa May, then prime minister, commissioned Matthew Taylor, chief executive of the Royal Society of the Arts, to lead an independent review into modern working practices. The review's final report was published in July 2017.⁶⁵ It contained 53 recommendations on a range of issues including agency workers, employment status, the enforcement of employment rights, maternity discrimination and zero-hours contracts.⁶⁶

The review received a mixed response on publication.⁶⁷ Business groups welcomed some recommendations but cautioned against reforms that could damage job prospects. For example, the Confederation of British Industry stated that “businesses agree that flexibility must be matched with fairness”, but expressed concerns about several proposals, including those relating to agency workers and reforming employment status.⁶⁸ At the same time, trade unions welcomed some recommendations but criticised other aspects of the report for not going far enough. For example, the Trades Union Congress welcomed the commitment to improve relative rates of pay for agency workers, but added that “it’s no secret that we wanted this review to be bolder” and the review was “not the game-changer needed to end insecurity at work”.⁶⁹

The Government responded in January 2018.⁷⁰ It stated that it accepted 51 of the report’s 53 recommendations. It later implemented measures to give effect to some of these commitments, including passing secondary legislation to amend agency work rules and to give workers the right to a written statement of employment rights.⁷¹ However, many of the core recommendations in the Taylor Review have yet to be implemented.⁷²

Following the 2019 general election, Boris Johnson’s administration undertook to introduce an employment bill that will address issues raised in the report. In particular, the Government said immediately following the December 2019 Queen’s speech that the main elements of the bill would be to:

- Create a new, single enforcement body, offering greater protections for workers.
- Ensure that tips left for workers go to them in full.
- Introduce a new right for all workers to request a more predictable contract.
- Extend redundancy protections to prevent pregnancy and maternity discrimination.

⁶⁵ Department for Business, Energy and Industrial Strategy, ‘[Good work: the Taylor review of modern working practices](#)’, 11 July 2017.

⁶⁶ House of Commons Library, [Insecure Work: the Taylor Review and the Good Work Plan](#), 28 February 2020, p 3.

⁶⁷ *ibid*, pp 58–63.

⁶⁸ WiredGov, ‘[CBI: “Labour market flexibility is a key strength of the UK economy, driving better outcomes for everyone”](#)’, 12 July 2017.

⁶⁹ Trades Union Congress, ‘[TUC comment on Taylor Review](#)’, 11 July 2017.

⁷⁰ Department for Business, Energy and Industrial Strategy, ‘[Government response to the Taylor review of modern working practices](#)’, 7 February 2018.

⁷¹ House of Commons Library, [Insecure Work: the Taylor Review and the Good Work Plan](#), 28 February 2020, p 3; and Abigail Hubert, ‘[Five upcoming employment law changes your company needs to be aware of in 2020](#)’, *The Gazette*, accessed 28 April 2020.

⁷² House of Commons Library, [Insecure Work: the Taylor Review and the Good Work Plan](#), 28 February 2020, p 4.

- Allow parents to take extended leave for neonatal care; and introducing an entitlement to one week's leave for unpaid carers.
- Subject to consultation, the bill will make flexible working the default unless employers have good reason not to.⁷³

The bill has not yet been introduced.⁷⁴

5. Further Reading

Reports

- OECD, [Growing Unequal? Income Distribution and Poverty in OECD Countries](#), October 2008; [Divided We Stand: Why Inequality Keeps Rising](#), December 2011; and [In It Together: Why Less Inequality Benefits All](#), May 2015; and 'Inequality and income', accessed 27 April 2020
- Paul Johnson, 'The Deaton Review', Institute for Fiscal Studies, 4 February 2019; Nuffield Foundation, 'The Deaton Review: Inequalities in the twenty-first century', 4 February 2019; and IFS Deaton Review, [About the review](#), accessed 28 April 2020
- Maja Gustafsson and Charlie McCurdy, [Risky Business: Economic Impacts of the Coronavirus Crisis on Different Groups of Workers](#), Resolution Foundation, 28 April 2020; and Daniel Tomlinson, [Launching an Economic Lifeboat: the Impact of the Coronavirus Job Retention Scheme](#), Resolution Foundation, 20 April 2020

Statistics

- Office for National Statistics, 'Household income inequality, UK: Financial year ending 2019', 5 March 2020
- Department for Work and Pensions, [Households Below Average Income: An Analysis of the UK Income Distribution: 1994/95–2018/19](#), 26 March 2020
- Office for National Statistics, 'Coronavirus, the UK economy and society, faster indicators', 23 April 2020

Parliamentary questions and debates

- [Oral Question on 'Income Inequality'](#), HL Hansard, 31 January 2018, cols 1584–6
- [Oral Question on 'Employment: Automation'](#), HL Hansard, 1 April 2019, cols 9–12
- [Debate on 'Employment'](#), HL Hansard, 6 June 2019, cols 229–64
- [Debate on 'Inequalities'](#), HL Hansard, 13 June 2019, cols 525–67
- [Oral Question on 'Inequality'](#), HL Hansard, 3 October 2019, cols 1775–8
- [Debate on 'Economy and Jobs'](#), HC Hansard, 20 January 2020, cols 38–141

⁷³ Prime Minister's Office, [Queen's Speech 2019: Background Briefing Notes](#), December 2019, p 44.

⁷⁴ UK Parliament, [Bills before Parliament 2019–21](#), accessed 28 April 2020.

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- House of Commons Library, [Income Inequality in the UK](#), 20 May 2019
- House of Lords Library, [Inequality and Poverty in the UK](#), 6 June 2019
- House of Commons Library, [Insecure Work: the Taylor Review and the Good Work Plan](#), 28 February 2020
- House of Commons Library, [Coronavirus: Support for Household Finances](#), 8 April 2020
- House of Commons Library, [Coronavirus: Impact on the Labour Market](#), 24 April 2020
- House of Commons Library, [Coronavirus: Self-Employment Income Support Scheme](#), 28 April 2020
- House of Commons Library, [FAQs: Coronavirus Job Retention Scheme](#), 28 April 2020