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Income, Wealth & Inequality

There are many ways of defining ‘income’, and a number of sources of income and income-related statistics for the UK.

This paper presents findings on UK income and income distribution/inequality data from the two main sources, with summaries of some additional sources. Available wealth inequality statistics are also included.

Comparisons with European countries are also included, along with signposts to useful sources for further international comparisons.

Poverty statistics based on income measures are not featured here, but this paper complements Research Paper 04/23 *Poverty: Measures and targets*. This paper gives an overview of UK and international statistics.

Ian Townsend

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Summary of main points

Part I defines income and wealth, and outlines the various ways income can be measured: gross or net of taxes, before or after housing costs, at the household or individual level. The two main ways of measuring inequality used are the Gini coefficient, a single figure from 0% (equal) to 100% (unequal), and percentile ratios which compare two points of the income distribution. The two main social survey sources, the *EFS* and the *FRS* are also compared.

Part II summarises income and inequality from the results of these two surveys (data for income tax-payers and from the National Accounts are also summarised). Inequality (Gini) is higher on all four income measures than in 1979: the Gini coefficient for original income fell from 53% in 1996/97 to 51% in 2002/03, with some fluctuation in between. Inequality (percentile ratios) follows a similar pattern, with other datasets suggesting a slight fall in income inequality (after housing costs) since 1996/97.

Recent discussion about inequality and findings from the Institute for Fiscal Studies are summarised in **Part III**. The Gini coefficient (income before housing costs), rose between 1996/97 and 2000/01 and has since fallen back to between 34% and 35%, a level comparable with 1999/2000. Between 1979 and 1990 it increased from 25% to 34%. Real incomes grew by 19% between 1996/97 and 2002/03, but this growth was not shared equally: in the middle 70%, poorer people gained more than richer people, but this pattern was reversed in the richest and poorest 15%. **Part III** also looks at the effect of tax/benefit reform between 1979 and 2001, and recent IPPR reports.

There is a great deal of interest in income below the national level and for small areas, such as constituencies. However, such data are at present limited, and **Part IV** summarises available data from the National Accounts, at regional level, and at ward level. With no official income statistics at the constituency level, the constituency-level proxy of earnings, from the *New Earnings Survey*, is signposted, with appropriate provisos.

The movement of specific individuals around the income distribution over time, or income mobility, is examined in **Part V**. Between 1991 and 2002, 5% remained in the same quintile (20% band). Those in the top quintile in 1991 were more likely to stay there than those in the bottom quintile. Those in the middle three quintiles (60%) in 1991 were less likely than the top/bottom quintiles to have remained in the same quintile for the majority of the period.

Part VI looks at wealth inequality. The Gini coefficient for marketable wealth rose from 66% in 1976 to 70% in 2001. The top 5% and 10% saw their share of wealth rise by 5 and 6 percentage points respectively over that period.

European comparisons of income inequality (**Part VII**) show that the UK does not have the most unequal income distribution, ranking fourth most unequal in 2001 after Spain, Greece and Portugal, with a Gini coefficient of 31% (the EU15 average was 28%). Denmark (22%) and Sweden (24%) had the lowest Gini coefficients. Other measures and data for the new EU members and accession countries are also summarised.

Other international comparisons and recent US findings are signposted from **Part VIII**.

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I Definition & measurement

A. Income & wealth

Although the terms are often used interchangeably, income and wealth are distinct concepts:

‘Income’ represents a flow of resources over a period, received either in cash or in kind. ‘Wealth’ on the other hand describes the ownership of assets valued at a particular point in time. These assets may provide the owner with a flow of income, for example interest payments on a building society account, or they may not, for example the ownership of works of art – unless of course the asset is sold.¹

There are significant practical difficulties in measuring wealth, reflected in the prominence of income over wealth inequality statistics. The content of this paper reflects this, although chapter VI summarises the available wealth statistics. Despite the fact that income does not account for asset stocks, it is nonetheless a good proxy for consumption and living standards, and therefore useful as a means to measure inequality and poverty.

Similarly, the terms earnings and income are often used interchangeably, but earnings refer to one aspect of a person or household income stream, that received from paid work. There are other sources of income, such as that from savings and investments, benefits and occupational pensions, in addition to wages.²

Earnings account for the majority of most people’s income, with 93% of the total income received by those paying income tax being earned income. However, income from investments is disproportionately received by those higher up the income distribution: almost 70% of investment income is received by those incomes above £20,000 a year.³ Therefore the inclusion of non-earned income is important when looking at distributions and inequality.

Income statistics are generally derived from large social surveys, with two such surveys, the *Expenditure and Food Survey (EFS)* and the *Family Resources Survey (FRS)*, used for the majority of UK income and inequality statistics. There are also many ways of defining ‘income’: it can be gross or net, that is after taxes and benefits/credits have been taken into account. One source presents incomes data at five different stages of

¹ National Statistics, *Social Trends 34*, 2004, p89;

http://www.statistics.gov.uk/downloads/theme_social/Social_Trends34/Social_Trends34.pdf

² As with income inequality, UK wage inequality has risen since the late 1970s, particularly in the 1980s, and more slowly in the 1990s (see Machin, S. “Wage inequality since 1975”, in Dickens et al. *The Labour Market Under New Labour*, 2003, pp191-200).

³ 2001/02 data, from Inland Revenue Statistics, table 3.4;

http://www.inlandrevenue.gov.uk/stats/income_distribution/table-35-2001-02.pdf

redistribution, from original income, through the addition of cash benefits and the deduction of first direct then indirect and intermediate taxes, to ‘final’ income (see part II(A)). Some sources also allow both income measures before and after housing costs have been deducted.

Each measure has strengths and weaknesses, and no single measure is necessarily correct or incorrect: the choice of a given measure will vary depending on the purpose of the figures.

A recent National Statistics quality review of income and redistribution statistics recognised the problems caused by the availability of a range of datasets. It concluded that a ‘Guide to Income and Redistribution statistics’ should be developed, featuring data from the disparate sources on incomes.⁴

B. Measuring inequality

1. The ‘Gini coefficient’

The ‘Gini coefficient’ is the most widely used indicator of income inequality, although there a number of other measures.⁵ It summarises, or condenses, the overall deviation from equality in a given income distribution into a single figure. Gini coefficients are commonly expressed as a percentage between 0% and 100%, rising with increasing inequality: 0% representing complete equality, and 100% representing complete inequality (or all income received by one person).⁶

Changes in Gini coefficients do not mean that income inequality has actually increased or fallen by, say, 1% or 2%, between any two given years. These percentages refer only to changes in the value of the coefficient.

Gini coefficients have the advantage of simplicity – expressing inequality in a single number. However, they also have a disadvantage in that two different income distributions, with differing ‘inequalities’ within them, can have the same coefficient. Because of this, and to give a fuller picture, Gini coefficients are often supplemented by alternative measures of inequality, such as income ratios.

⁴ National Statistics, “Issues in Measuring Household Income and the Redistribution of Income”, *Quality Review Series Report No 31*, 19 March 2004, para 101;

http://www.statistics.gov.uk/methods_quality/quality_review/downloads/CombinedReviewReport.doc

⁵ For example, the Mehran, Piesch, Kakwani and Atkinson inequality indices.

⁶ See http://www.statistics.gov.uk/about/methodology_by_theme/gini/default.asp

2. Income ratios

Alternative measures of inequality include ratios of incomes at two different points in a given income distribution, giving a slightly different perspective on the inequality within an income distribution.

For example, one might compare incomes at the bottom of the upper decile (top 10%) of the income distribution with those at the top of the lowest decile (bottom 10%), or the ratio of the 90th percentile compared with the 10th percentile, or ‘P90/P10’. Other popular ratios of points are the top quarter to the bottom quarter (the ratio of the 75th percentile to the 25th percentile, or ‘P75/P25’) and the ratio of the top quintile (top fifth/20%) to the bottom quintile (P80/P20)

These measures have the advantage of being unaffected by extreme values at either end of the income distribution, which are thought to be measured less accurately in the surveys. One disadvantage is the arbitrary nature of the choice of percentiles. Also, any such measure does not allow for changes taking place in the section of the income distribution between the two percentiles chosen.

C. Main sources⁷

Generally, incomes data in this country are derived from the two large social surveys run by National Statistics, the *Expenditure and Food Survey (EFS)* and the *Family Resources Survey (FRS)*.

Aside from their detailed methodologies, there are some key differences between these sources:

	FRS-derived	EFS-derived
<i>Unit</i>	Individuals (within household types)	Household
<i>Equivalisation</i> (i.e. adjusted for household size/structure to reflect living standards) ⁸	Generally presented on an ‘equivalised’ basis; equivalised income used extensively in measuring income poverty	Uses equivalised <u>disposable</u> income to rank households, then unadjusted (money) incomes used for the component parts of the resulting income distribution
<i>Coverage</i>	Great Britain only (UK-wide data available from 2002/03) ⁹	UK-wide
<i>Sample size</i>	c. 24,000 households (2000/01)	c. 6,000 households (2000/01)

⁷ An alternative summary of income and wealth statistics can be found in the relevant chapters in successive editions of National Statistics’ *Social Trends*;

see <http://www.statistics.gov.uk/StatBase/Product.asp?vlnk=5748&Pos=&ColRank=1&Rank=422>

⁸ An approach that is standard in poverty analysis. For example, a single person on a given income is likely to enjoy a higher standard of living than a family of four on the same income.

⁹ The *FRS* was extended to Northern Ireland from April 2002. However, some publications still publish GB-only data for consistency with previous surveys (e.g. the DWP’s *Households Below Average Income* series, which now includes UK-wide results as an appendix)

Because of these differences, results from the two sources are not comparable. Some alternative sources to these are also outlined.

National Statistics' quality review of income statistics assessed the nine official income-related series: the two series above, the tax record-derived *Survey of Personal Incomes (SPI)*, and five secondary analyses: *Households Below Average Income*, *Pensioners' Incomes*, *Individual Incomes*, and the *Tax Benefit Model Tables*.

One recommendation that emerged from the review was to examine the possibility of producing official income redistribution statistics based on the *FRS*, using indirect tax data from the *EFS*.¹⁰

¹⁰ National Statistics, *Quality Review Series Report No 31*, 2004, op. cit., para 62-64

II Statistics & trends

A. “Effects of taxes and benefits” figures (*EFS*-derived)

National Statistics publishes an annual article on incomes and inequality, *The effects of taxes and benefits on household income*. This is published around May each year with the latest giving results for 2002/03.¹¹ Broadly consistent data are available back to 1996/97, although articles since 1997/98 only are available online.¹² The series is derived from *EFS* data.

The *Effects of taxes and benefits* series presents detailed household income information for all households, as well as non-retired and retired households separately, for five distinct ‘stages’ running from ‘original’ through to ‘final’ income:

<i>Stage</i>	Definition
<i>Original income</i>	that received directly (primarily from earned employment, self-employment, savings and investments), but not benefit income
<i>Gross income</i>	the above plus direct cash benefits (contributory, such as pensions, and non-contributory, e.g. child benefit, housing benefit and income support) and tax credits
<i>Disposable income</i>	the above less direct payroll taxes (income tax and National Insurance contributions) and local taxes, such as council tax (domestic rates in Northern Ireland)
<i>Post-tax income</i>	the above less indirect and ‘intermediate’ taxes
<i>Final income</i>	The above plus estimates of the value of so-called ‘benefits in kind’ (e.g. state education, the NHS, school meals and transport subsidies)

These data include, for retired, non-retired and all households, detailed average annual incomes, amounts received in benefits and paid in taxes. This information is presented by decile (ten groups, each consisting of 10% of households in each case) and quintile (five groups each with 20% of households).

The article also presents data on the overall level of income inequality in the UK back to 1979, as well as certain data at different stages of income redistribution. Consistent data prior to 1979 are only available from analyses based on *Family Resources Survey* by the Institute for Fiscal Studies (see chapter III).

1. Income

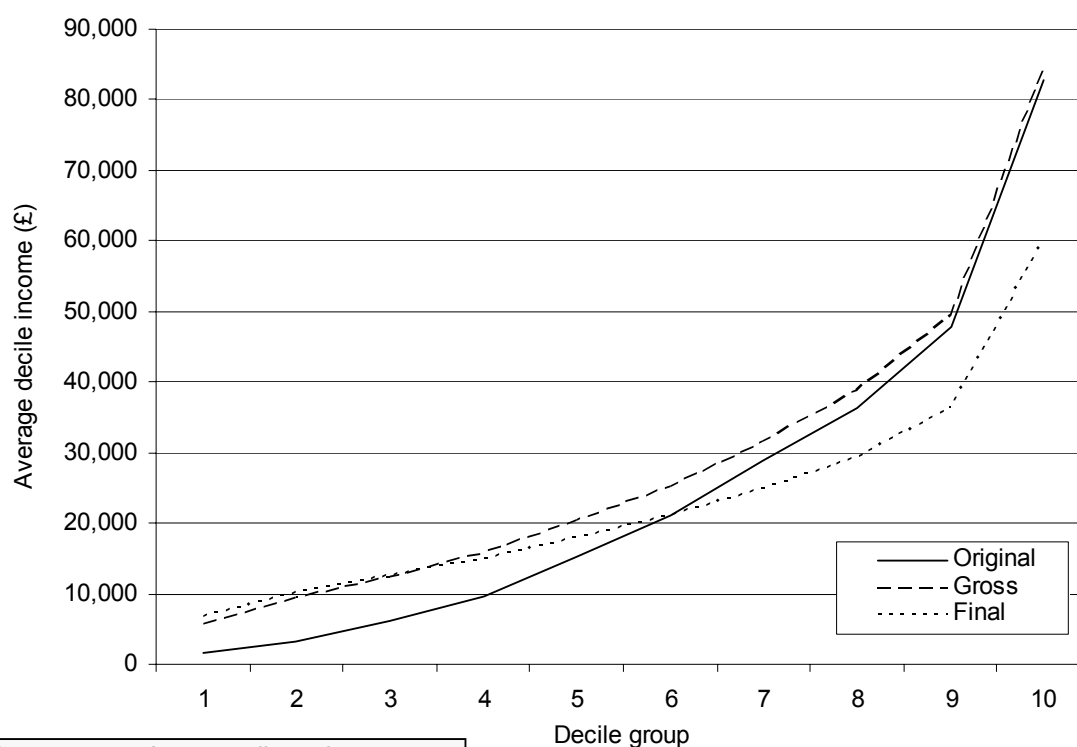
Figure 1 below shows average household incomes by decile (10% bands) for 2002/03 for three of the redistribution stages outlined above:

¹¹ National Statistics, *The effects of taxes and benefits on household income*, May 2004 (also published in *Economic Trends June 2004*, no 607, pp 39-84);

http://www.statistics.gov.uk/articles/economic_trends/ET607Lakin.pdf

¹² Prior to 2001/02, the Family Expenditure Survey (FES) was used, but the survey questions are consistent; articles from

<http://www.statistics.gov.uk/CCI/SearchRes2.asp?IPS=5&CT=6&Term=effects%20of%20taxes>

Fig 1: Average incomes by decile, 2002/03

Source: National Statistics, *Effects of Taxes and Benefits on Household Income*, May 2004, table 14

This graph gives a rough representation of the income distribution based on the average incomes within each of the ten deciles. The gross income line shows that, unsurprisingly, average incomes are higher at lower deciles than for original income. As the final income line shows, the lower half of the distribution has a higher income after the operation of the tax/benefit system while the top four deciles have less income than at the start of the process.

The underlying data is included in an appendix (table A1), along with a similar table based on unadjusted incomes (table A2) to illustrate the effect of using unadjusted (unequalised) household income data to rank households within the overall income distribution. Also, a graphical summary of 2002/03 data by quintile (20% bands) is available from the National Statistics website.¹³

2. Inequality

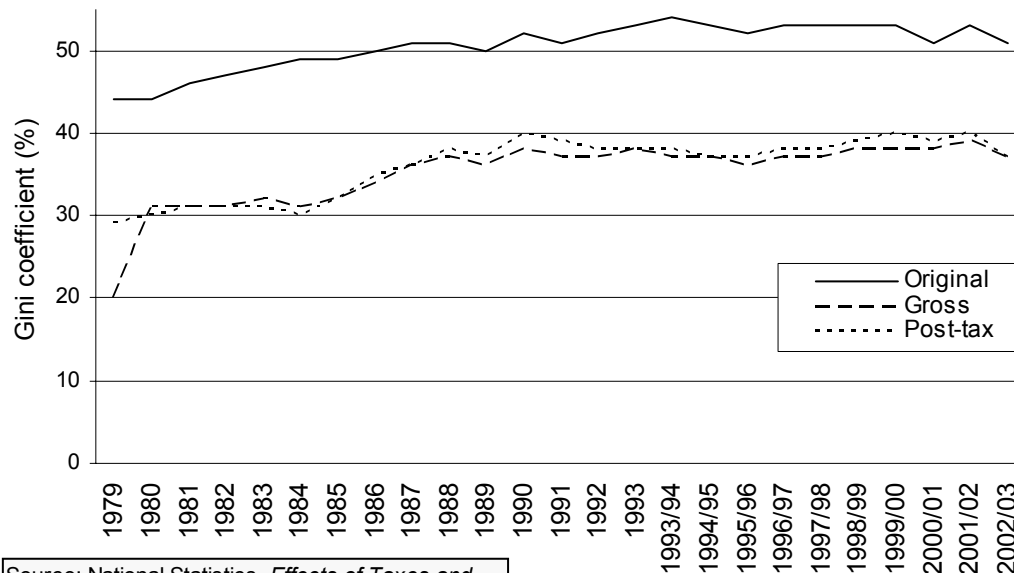
Figure 2, below, shows Gini coefficients, as defined in part I(B)1, for original, gross and post-tax income. Although specific year-on-year comparisons are discouraged, trends can be identified over longer periods.¹⁴ The underlying data for these three measures and

¹³ <http://www.statistics.gov.uk/cci/nugget.asp?id=334> & National Statistics, *Social Trends 34*, op. cit., table 5.8

¹⁴ National Statistics, *The effects of taxes and benefits...*, 2004, op. cit., table 27

disposable income are given in the appendix (table A3), but coefficients for final income are not published.

Fig 2: Inequality - Gini coefficients (%)



Source: National Statistics, *Effects of Taxes and Benefits on Household Income*, May 2004, table 14

As might be expected, given that it measures income prior to the redistributive affect of taxes and benefits, original income is the most unequal. Changes in the Gini coefficients throughout the period have been broadly similar all four income definitions for which data are published: rising overall since 1979, and then remaining fairly stable since around 1993. There has been some fluctuation in recent years, and although all three measures fell in 2002/03, data for 2003/04 will be needed to establish this as a trend.

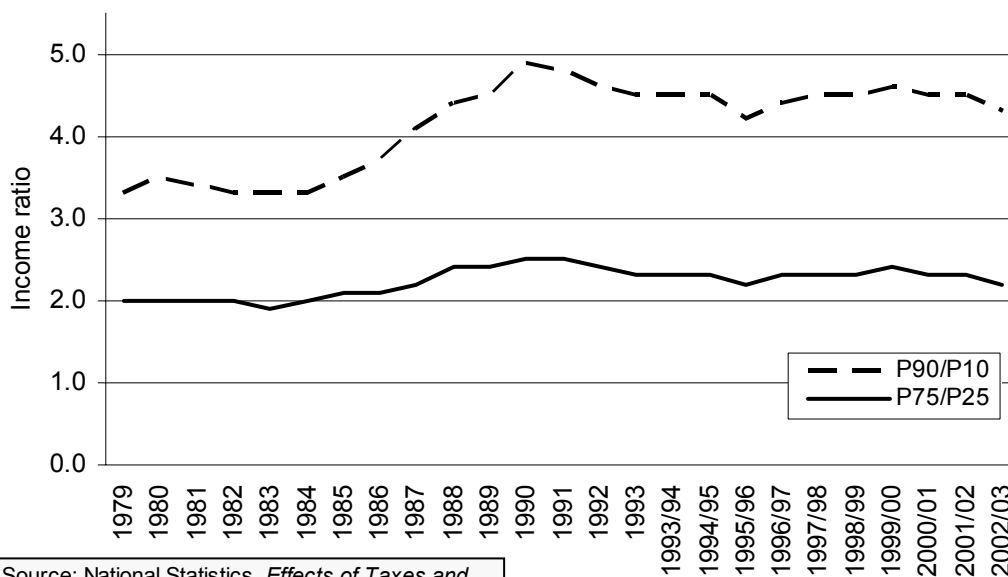
An Institute for Public Policy Research report examined the redistributive effects of direct cash benefits received and direct/local taxes paid with reference to the difference between inequality on the original and disposable income measures. This identified three breaks in trend:¹⁵

- In 1984/5 tax and benefit policy turns from having an increasingly equalising effect to having less of an impact.
- In 1988 the effect of tax and benefit policy first levels off and then has an increased impact throughout the first half of the 1990s.
- Most importantly, from around the time the Labour government was elected the welfare state appears to have had a gently declining impact on inequality. In 2000/1 the change in the Gini from original to disposable income was only 16 points, compared with 19 points in 1996/7.

¹⁵ Paxton, W. & Dixon, M. *State of the Nation 2004: An Audit of Injustice in the UK*, 2004, IPPR, p22; <http://www.ippr.org.uk/research/files/team41/project193/The%20State%20of%20the%20Nation,%20An%20Audit%20of%20Injustice%20in%20the%20UK.pdf>

Income ratios are also published for disposable incomes on the P90/P10 and P75/P25 measures. Figure 3 shows movements in these ratios since 1979, again the underlying data are in the appendix (table A3):

Fig 3: Inequality - Percentile ratios



Source: National Statistics, *Effects of Taxes and Benefits on Household Income*, May 2004, table 14

Generally, the trend over the period is similar to that for Gini coefficients. From a peak on the P90/10 measure of 4.9 in 1990, the ratio has fallen to the current level of 4.3. This compares with 4.4 in 1996/97 and 4.6 in 1999/2000.

The P75/25 ratio compares less extreme points of the income distribution and so the ratios are lower, and fluctuations less marked. This ratio stood at 2.0 in 1979 and is currently higher (at 2.2) having peaked at 2.5 in 1990 and 1991, and slightly down on the 1996/97 figure of 2.3.

These figures cover the period to the financial year 2002/03, and so measures set out in the 2003 and 2004 Budgets and implemented since are not reflected.

B. Official *FRS*-derived data

One of the main outputs from the *FRS* is the Department for Work and Pensions' annual *Households Below Average Income* publication. This focuses on the number and composition of households in income poverty as judged against a threshold based on mean (arithmetic average) or median (the mid-point of the income distribution) income, most commonly 60% of the median.¹⁶

¹⁶ For more detail, see RP04/23, *Poverty: Measures and targets*; <http://www.parliament.uk/commons/lib/research/rp2004/rp04-023.pdf>

Such threshold approaches do measure a certain aspect of inequality, but because of its focus on the lower end of the income scale *HBAI* has only limited analyses of overall income and inequality. However, more extensive research has been published by the Institute for Fiscal Studies (IFS), as outlined in the box below and discussed further in chapter III.

‘Equivalised’ incomes derived from the *FRS* dataset do not represent actual money income values, but are an attempt to convert incomes into a more accurate measure of living standards for a given household. This works by weighting incomes on the basis of household size and structure, on the basis that a single person on a given income is likely to enjoy a higher standard of living than a family of four on the same income.

The IFS provide a useful online tool enabling one to see where a household, given information on its size, actual annual income and council tax payments, would lie in the income distribution.¹⁷ The IFS have also published income inequality statistics using this equivalised measure (see chapter III).

The *FRS* also allows for income to be measured before or after housing costs have been taken into consideration.¹⁸ The underlying survey data can also be used in unequivalised form, e.g. the Women & Equality Unit’s annual *Individual Incomes of Men and Women* report, which presents a range of measures of incomes by gender.¹⁹

Fully consistent data are available back to 1994/95, although the IFS have published a spreadsheet with equivalised household incomes data for 1961 to 2001/02.²⁰ This gives mean/median and incomes at selected percentiles for each year, along with inequality measures (including Gini coefficients and P90/10 ratios) and decile income shares. These are all given on both before and after housing costs bases.

A useful summary table, showing data back to 1971 for the median and the main percentile points (10th, 25th, 75th and 90th), is also published.²¹

1. Income

HBAI includes median weekly net²² equivalised household income by decile (10% bands). Figures for selected years are given in table 1 (below) alongside the overall median and

¹⁷ IFS, *Where do you fit in?*; <http://www.ifs.org.uk/wheredoyoufitin>; see also Wakefield, M. “Is middle Britain middle-income Britain?”, *IFS Briefing Note 38*, 2003; <http://www.ifs.org.uk/inequality/bn38.pdf>

¹⁸ See DWP, *HBAI 2001/02*, 2003, appendix 1, pp224-5

¹⁹ WEU/DTI, *Individual Incomes of men and women 1996/97 to 2002/03*, June 2004; index at http://www.womenandequalityunit.gov.uk/indiv_incomes/index.htm (statistical tables at http://www.womenandequalityunit.gov.uk/research/II_Report04.pdf)

²⁰ Goodman A. & Shepherd, A. “Inequality & living standards in Great Britain: Some facts”, *IFS Briefing Note 19*, December 2002; <http://www.ifs.org.uk/inequality/bn19.pdf> (Data at <http://www.ifs.org.uk/inequality/bn19figs.xls>)

²¹ National Statistics, *Social Trends 34*, op. cit., table 5.14, p81; (Data at http://www.statistics.gov.uk/downloads/theme_social/Social_Trends34/05_14.xls)

mean, presented both before and after housing costs bases. These figures are in constant 2002/03 prices. Note that figures in italics are subject to particular uncertainty.²³

Table 1: Median household income by decile, 2002/03 prices*
net equivalised income, £ per week & %, before/after housing costs

	Before Housing Costs				After Housing Costs			
	1994/5	1996/7	2002/03	change (%)	1994/5	1996/7	2002/03	change (%)
				1996/7- 2002/03				1996/7- 2002/03
Bottom (1st)	115	118	130	<i>10% *</i>	69	76	88	<i>(10%-20%) *</i>
2nd	152	156	186	19%	113	114	146	28% *
3rd	181	187	224	20%	138	141	183	30% *
4th	211	220	260	18%	170	177	223	26%
5th	247	257	301	17%	205	215	266	24%
6th	287	298	347	16%	243	254	309	22%
7th	332	343	398	16%	285	297	358	21%
8th	390	402	462	15%	337	351	420	20%
9th	473	492	567	15%	410	431	516	20%
Top (10th)	678	704	830	18%	592	623	762	22%
Overall population								
Median	266	277	323	17%	223	234	286	22%
Mean	321	333	396	19%	270	283	352	25%

Note: * estimates subject to particular uncertainty are in italics
Source: DWP, *HBAI 2002/03*, op. cit., March 2004, table A2

Household (equivalised) income rose in real terms for all deciles between 1996/7²⁴ and 2002/03, although at lower deciles the data are subject to sampling error and are particularly uncertain. On the before housing costs basis, the 3rd decile saw their incomes rise the most, with the 8th and 9th deciles seeing the lowest increase (apart from the 1st decile, which is subject to sampling error).

Overall, the median income rose 17% between 1996/7 and 2002/03, while the mean income rose 19%, on the before housing costs basis. Using figures after housing costs, the median rose 22% and the mean 25% between 1996/7 and 2002/03.

As with the *EFS* data, these figures cover the period up to 2002/03 only and so measures implemented since April 2003 are not yet reflected.

²² Income is net of income tax, National Insurance contributions, local taxes, occupational pension contributions, maintenance/child support payments and parental contributions to students living away from home.

²³ Full decile data and quintile figures available from: Department for Work and Pensions, *HBAI: An analysis of income distribution 1994/5-2002/03*, March 2004, tables A1 & A2; <http://www.dwp.gov.uk/asd/hbai.asp>

²⁴ The notation 19XX/Y is used in *HBAI* for data derived from the *FRS* from 1994/95 up to 1999/2000. This is to avoid confusion with the *FES*-derived data prior to that financial year, which were notated 19XX/YY, although this represented two years' *FES* results, rather than a single financial year.

2. Inequality

The *Households Below Average Income (HBAI)* series gives limited overall income inequality figures based on a ratio of the median income of the top to the bottom quintiles, equivalent to a P90/10 ratio:

Table 2: P90/10 ratios, 2002/03 prices*
net equivalised household income, before/after housing costs

	1994/5	1996/7	2002/03
Before Housing Costs	4.0	4.0	4.0
After Housing Costs	4.9	4.9	4.7

Source: DWP, *HBAI 2002/03*, op. cit., March 2004, table A2

The 2002/03 ratios are broadly unchanged since both 1994/5 and 1996/7, although the ratio after housing costs fell slightly from both 1994/5 and 1996/7.

C. Taxpayers incomes (*SPI*-derived)

One further source covers income taxpayers only, and is derived from the annual *Survey of Personal Incomes*.

The *SPI* is essentially a sample of Inland Revenue tax records. The latest data are for 2001/02, and full analyses are published online at www.inlandrevenue.gov.uk/stats.

Clearly, a limitation of this dataset for measuring incomes is that it covers the incomes of those paying income tax in any given year only. Using data for spring 2002, only around 77% of the working age population paid income tax (28.6 million income taxpayers in the UK in 2001/02, and a working age population of just under 37 million).

However, one major advantage of this dataset is that it supports more sub-national aggregation than available from other surveys (see chapter IV).

The table below shows selected years' total pre- and post-tax incomes for certain percentile points of the income distribution, including the median, with percentage changes between 1996/97 and 2001/02:²⁵

²⁵ Inland Revenue Statistics, table 3.1; http://www.inlandrevenue.gov.uk/stats/income_distribution/table-31.pdf

Table 3: Pre- & Post-tax income distributions, 1990/91 - 2001/02
£ per year, taxpayers only

Percentile	Pre-tax income				Post-tax income			
	1990/91	1996/97	2001/02	change (%) 1996/7- 2001/02	1990/91	1996/97	2001/02	change (%) 1996/7- 2001/02
1st	3,190	4,000	4,780	20%	3,150	3,950	4,760	21%
5th	3,890	4,900	5,850	19%	3,720	4,690	5,730	22%
10th	4,650	5,650	6,860	21%	4,300	5,390	6,650	23%
50th (median)	10,600	12,500	15,500	24%	8,980	10,800	13,600	26%
90th	23,200	28,300	36,200	28%	18,700	23,100	30,000	30%
95th	30,100	37,200	49,200	32%	23,300	29,000	38,000	31%
99th	57,200	76,100	107,100	41%	40,400	53,400	74,300	39%

Source: Inland Revenue Statistics, table 3.1, op. cit.

P90/10 ratios, based on the income of taxpayers at the 90th percentile compared with that of the 10th, have risen since 1996/97, from 5.0 to 5.3 (pre-tax) and 4.3 to 4.5 (post-tax). However, as these data cover taxpayers only, this does not take into account the composition of those paying income tax compared with the population as a whole, and fluctuations in this composition over time.

Figures showing the share of total income tax liabilities of the top 1%, 5%, 10%, the next 40% and bottom 50% are also published.²⁶ Between 1996/97 and 2004/05 (projections), the share of total income tax liabilities of the top 10% rose by 3 percentage points, and while it also rose slightly for the top 1% and 5%, the lower 90% of the distribution saw their share of total liabilities fall.

D. Income data from the National Accounts

Limited non survey-derived income data can be obtained from the National Accounts. Although this does not extend to distributional measures, some geographical disaggregation is supported (see part IV(A)).

Data are not for the household sector alone, but also include non-profit institutions serving households (also known as 'NPISH').

The National Statistics review of income statistics highlighted the need to be able to separate household and NPISH accounts to make it "possible to derive measures from the National Accounts that truly reflect the incomes of the UK population."²⁷ The review suggested separate estimates should be produced in 2005.

²⁶ Inland Revenue Statistics, table 2.4; http://www.inlandrevenue.gov.uk/stats/income_tax/table2-4.pdf

²⁷ National Statistics, *Quality Review Series Report No 31*, 2004, op. cit., para 81

Table 4 shows the total gross income, taxes paid, and total disposable household income received after these have been paid for selected years for all UK households/NPISH:

Table 4: Composition of UK household income (National Accounts)
£ billion, at 2002 prices (a) & %

	1996	2000	2001	2002
Total household income	850	993	1,025	1,041
<i>% of total household income</i>				
Taxes on income	10%	11%	11%	11%
Social contributions (b)	8%	8%	8%	7%
Other current taxes	2%	2%	2%	2%
Other current transfers	4%	3%	2%	3%
Total household disposable income	592	678	710	720

Notes: (a) deflated using the expenditure deflator for the household sector

(b) other than employers' social contributions

Source: National Statistics, *Social Trends 34*, 2004, table 5.3 (op. cit.)

III Income inequality: Recent commentary

According to the *British Social Attitudes Survey*, since 1989 at least 80% of adults have seen the gap between rich and poor as too large. A majority, albeit a smaller proportion (58%), believed that it was a government responsibility to reduce this gap, although when asked explicitly whether government should redistribute from richer to poorer people only 39% of respondents agreed. This proportion has been stable since 1998, but was somewhat higher previously, fluctuating between 43% and 51%.²⁸

Commenting on their most recent analysis, *Poverty & Inequality in Britain: 2004*,²⁹ Robert Chote, Director of the IFS, noted that although child and pensioner poverty were falling:³⁰

[...] income inequality in Britain is still higher than at any time in the previous 18 years of Conservative rule - and probably for at least 20 years before.

They found that the Gini coefficient, based on income measured before housing costs (BHC), rose between 1996/97 and 2000/01 and has fallen back more recently to between 34% and 35%, a level comparable with that in 1999/2000. The recent fall was judged not to be statistically significant. However, the overall change between 1996/97 and 2002/03, a slight increase in the Gini coefficient (of less than 1 percentage point) was judged to be significant. By contrast, over the period 1979 to 1990, the Gini coefficient increased from 25% to 34%. Average equivalised household incomes grew by 19% in real terms between 1996/97 and 2002/03, or an annualised rate of 2.9%. Median income grew slightly less (17%, or an annualised rate of 2.6%).

This income growth was not shared equally across the whole income distribution.³¹ The IFS found that within the ‘middle 70%’ – those between the 15th and 85th percentiles – poorer people gained more than richer people. However, this did not lead to falling inequality overall because “the pattern is reversed for both the richest and poorest 15% of individuals, where income growth is increasing with income”.³²

Therefore, changes in incomes at the extremes of the distribution drove the increase in the Gini coefficient since 1996/97. Average annual real income growth in the top 1% of the

²⁸ Bromley C., “Has Britain become immune to inequality?”, in National Centre for Social Research, *British Social Attitudes: The 20th Report*, 2004, pp71-92, tables 4.4, 4.9 & 4.10

²⁹ Brewer et al. “Poverty & Inequality in Britain: 2004”, *IFS Commentary 96*, 2004; <http://www.ifs.org.uk/inequality/comm96.pdf>; and <http://www.ifs.org.uk/inequalityindex.shtml>

³⁰ Chote, R. “The UK’s wage poverty paradox”, *BBC News Online*, 30 March 2004; <http://news.bbc.co.uk/1/hi/business/3582295.stm>

³¹ After housing costs: mean up 25%, median up 22%.

³² Brewer et al. *IFS Commentary 96*, op. cit., para 3, p1

distribution was particularly high at 4.2%, and significantly greater than for any other percentile.³³ As Robert Chote explained:

Part of the explanation is that incomes before tax and benefit payments have become more unequal. Mr Brown has had to run to stand still. If he had simply uprated the tax and benefit system in line with inflation the rise in inequality under Labour would have been twice as big [...]

At the top, incomes have risen rapidly – perhaps reflecting demand for educated workers outstripping supply and greater acceptability for big increases in executive pay. At the bottom, incomes have grown much more slowly, possibly due to non-take-up of means-tested benefits, in part by people whose incomes are temporarily low.³⁴

The P90/10 ratio has remained fairly stable at about 4.0 since 1996/97, because income growth at these two percentiles has been fairly similar. The P95/5 ratio has risen slightly over the same period.³⁵

The IFS also modelled an alternative ‘status quo’ scenario, removing the effects of tax/benefit changes since 1996/97 by applying the tax system as it stood then up-rated appropriately to 2002/03 incomes.

Although the actual and modelled Gini coefficients were broadly similar from 1996/97 to 1999/2000, there has since been a divergence that coincides with the introduction of tax credits. Inequality is now lower, by around 1.5 percentage points, than it would have been had changes over this period not been implemented.³⁶

While the actual level of inequality as measured by the Gini coefficient is similar in 2002/03 to its level three or four years earlier, the simulations suggest that [it] would have increased considerably if the tax and benefit system had remained unchanged [...]. It is sobering to note that even the relatively large redistributive programme introduced by Labour since 1997 has only been sufficient to just about halt the growth in inequality, and certainly not reduce it.

The post-1996/97 analysis was also compared with the period 1979-1990. The earlier period saw mean incomes before housing costs rise 2.9% a year, and median income increase 2.1% a year, but “the incomes of richer individuals grew faster than those of poorer individuals throughout the income distribution, and income inequality rose

³³ *ibid.* p17 & fig 2.6; income changes at the lower end of the distribution are harder to judge due to measurement errors for those on low incomes.

³⁴ *BBC News Online*, 30 March 2004, op. cit.

³⁵ Additional analyses in the report include income growth by quintile under different Prime Ministers (see fig 2.3, p13).

³⁶ Shaw, J. & Shepard, A. “More or less unequal?”, *IFS Update*, Summer 2004, p9

sharply.³⁷ The report also noted that the Gini coefficient in 1998/99 was at its highest level since 1961.

Further IFS research looked at the effect on inequality of tax and benefit reforms between 1979 and 2001, and it also found that tax/benefit changes alone were insufficient in themselves to explain to rise in inequality post-1979.³⁸

However, the ‘inequality effect’ of tax/benefit reforms depends on how one defines the ‘status quo’ scenario that the current system is to be compared against. Up-rating historical tax/benefit systems in line with inflation

[...] suggests that the overall effect of reforms has been minimal, if anything slightly reducing inequality, as regressive income tax changes have been more than offset by changes to benefits and to employers National Insurance contributions.³⁹

However, the authors found that if the current system is compared with an alternative where benefits rise with incomes, and taxes with inflation, in line with ‘the post-war historic trend’, then

[...] tax and benefit reforms since 1979 look very regressive. Indeed, our results suggest that – looked at in this way – they may have contributed more than 40 per cent of the overall rise in income inequality.⁴⁰

The analysis is only to 2001, and therefore reforms with redistributive potential since are not included. The authors note that these recent changes “would further reduce the regressive impact of all reforms since 1979, but would be most unlikely to be sufficient to offset it completely, given the scale of the overall increase in inequality” found.⁴¹

A recent report from the Institute for Public Policy Research (IPPR) examined poverty and inequality as part of an assessment of social justice in the UK. Acknowledging significant progress on child poverty, it noted that

[...] despite these improvements, Britain is far from being a progressive or just society. Levels of child poverty continue to surpass those of many of our more

³⁷ *ibid.*

³⁸ Clark, T. & Leicester, A. “Inequality and two decades of British tax and benefit reforms”, *Fiscal Studies* 25:2 (June 2004), pp129-158

³⁹ *ibid.*, p156; the 1985 Budget removed the upper limit on employer NICs – employer contributions are assumed to be fully borne by the employee through changes in wages.

⁴⁰ *ibid.*, p156; the authors note that this is a relatively robust, both in terms of inequality measure used and potential statistical error.

⁴¹ *ibid.*, p157

successful European partners, and inequalities in income, wealth and well-being remain stubbornly high.⁴²

The IPPR report stimulated some debate on inequality in the UK, particularly on the extent to which reductions in inequality and further reductions in child poverty can be achieved through current policies. Writing in *The Guardian*, David Clark noted:

The success with which the better off are now able to entrench their social advantages and pass them on to their children means that any strategy for equalising life chances must necessarily involve a concerted effort to reduce inequalities of material wealth.

New Labour's refusal to come to terms with this fundamental truth has allowed it to avoid the really tough questions about taxation, redistribution and the management of capitalism that have traditionally preoccupied the left.⁴³

Following the report, some have advocated more progressive taxation to combat inequality. Suggestions have included:

- a new 50% income tax rate on annual incomes of around £100,000;
- increasing the rate of National Insurance contributions (NICs) for high earners by removing the upper earnings limit, effectively increasing the contribution rate from 1% to 11% for earnings above £610 a week (£31,720 a year).⁴⁴

The latter option is given greater credence by the fact that a long-standing principle of capped contributions was breached from April 2003 with the 1% increase in employee NICs. This increase in was levied on all earnings above the primary threshold, applying also to earnings above the Upper Earnings Limit, which had until that point not been subject to contributions.⁴⁵ Also, no such differential rate exists for employer NICs. Making the change proposed about could raise almost £7 billion in revenue.⁴⁶

The IFS have also compared inequality of income and expenditure in their report, *Permanent Differences? Income & Expenditure Inequality in the 1990s and 2000s*.⁴⁷

The authors note that expenditure is a useful proxy for consumption which is more likely to reflect more 'permanent circumstances of individuals'.⁴⁸

⁴² Paxton & Dixon, *State of the Nation*, 2004, op. cit., p5

⁴³ "Unto him that hath", *The Guardian*, 6 August 2004;
<http://society.guardian.co.uk/socialexclusion/comment/0,11499,1277564,00.html>

⁴⁴ See Malcolm Dean "Opinion: Britain has no fixed underclass but the fight against poverty must go on", *The Guardian*, Society section, p5

⁴⁵ For details, see article "Changes to National Insurance Contributions, April 2003", in RP03/33, *Economic Indicators*, April 2003, pp.ii-ix; <http://hcl1.hclibrary.parliament.uk/rp2003/rp03-033.pdf>

⁴⁶ £6.8 billion in full year 2004/05 or £7.7 in 2005/06 (Source: Inland Revenue Statistics, table 1.6.

⁴⁷ Goodman, A. & Oldfield, O. "Permanent Differences? Income & Expenditure Inequality in the 1990s and 2000s", IFS/Nuffield Foundation, 23 June 2004;
http://www.ifs.org.uk/inequality/permanent_differences.pdf

Although income is very often used for assessing living standards in this country, spending can be more informative, because many people can choose to borrow, save or run down their savings at any given time, in order to adjust their standard of living.⁴⁹

Unlike income inequality, expenditure inequality fell over the 1990s, with the expenditure Gini coefficient falling by around 2.5 percentage points (7%) from the level in 1990, but 3 percentage points (10%) above the 1980 level. Between 1995/96 and 1999/2000, movements in the two different Gini measures of inequality have mirrored each other. The report also features some additional measures of inequality on these two measures.

⁴⁸ *ibid.*, p22

⁴⁹ “Permanent differences? Income and spending”, *IFS Press Release*, 23 June 2004;
http://www.ifs.org.uk/press/permanent_differences.pdf

IV Sub-national income statistics

The recent National Statistics quality review of income statistics noted that the “need for geographically disaggregated data has long been a gap in the availability of income and redistribution statistics.”⁵⁰

There is a great deal of interest in income below the national level and for small areas, such as constituencies, to support policy analysis and the demands of devolution. However, existing survey-derived official sources are often unable to offer sufficiently robust estimates at the required level.⁵¹ Only the *New Earnings Survey* can provide reliable regional and sub-regional statistics, and has a major limitation in its coverage of earnings only.⁵²

This chapter outlines the available official sources of sub-national incomes data.

A. Income data at country/region level

1. National Accounts-derived

Sub-national income estimates can be derived from the National Accounts, although this does not allow any distributional analyses. The latest comprehensive data are for 1999, and give estimates for total household income and gross disposable household income (GDHI) at the region/country (NUTS1) level, as well as estimates for 37 ‘sub-regions’, or NUTS2 areas.⁵³

Income here refers to the total of the various categories of income in the National Accounts,⁵⁴ whereas GDHI is that income available for consumption or saving by the household sector, allowing for taxes and social contributions paid, income from property, and insurance premiums.

⁵⁰ National Statistics, *Quality Review Series Report No 31*, 2004, op.cit. para 110

⁵¹ The review noted that surveys could support disaggregation, but that in many cases the methodology has not been designed for this. The smaller *EFS* only allows limited regional output, while *FRS* results are variable based on variations in regional response in different years (the *FRS* grossing method is under review with a view to producing more reliable estimates at the country/region level)

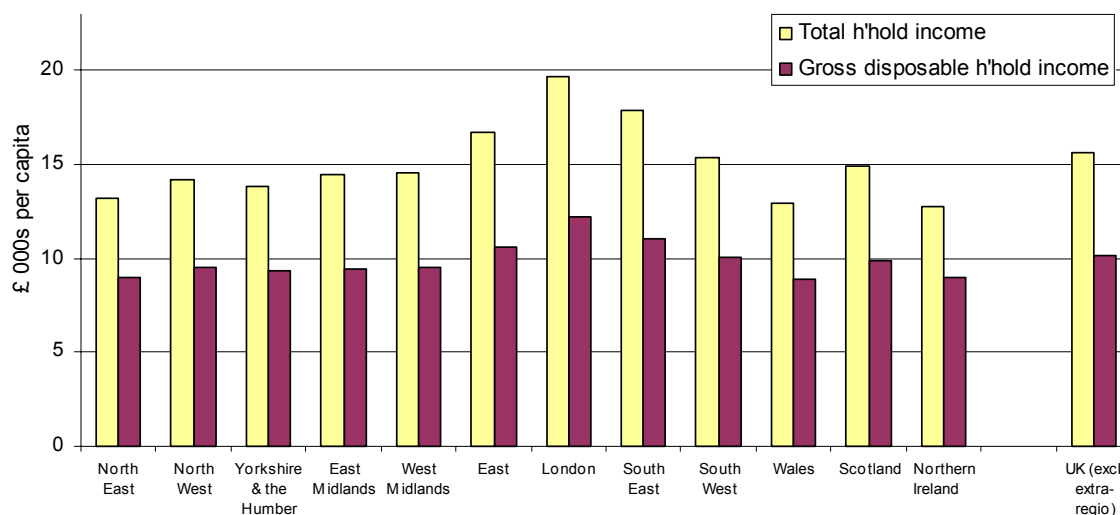
⁵² National Statistics, *New Earnings Survey: Analyses by geography*, various years; see <http://www.statistics.gov.uk/StatBase/Product.asp?vlnk=5753&Pos=6&ColRank=1&Rank=272> (analyses by both residential and work postcodes available from 2002; previously work postcodes only).

⁵³ National Statistics, *Regional, sub-regional and local area household income*, 26 March 2002, tables 3a (total) & 3b (total per capita), 4a (gross disposable) & 4b (gross disposable per capita); <http://www.statistics.gov.uk/pdfdir/reg0302.pdf>

⁵⁴ Namely: Gross Operating Surplus + Mixed Income + Compensation of Employees + Property Income: Receipts + Pensions + Social Security benefits (other than pensions) + Miscellaneous transfers and Insurance claims received

Figure 4, below, shows per capita total income and GDHI for 1999 at the region/country level. The underlying data are included in the appendix (table A4).

Fig 4: Regional per capita household income, 1999



This shows that London has the highest per capita income on both measures, although the gap is somewhat less on the gross disposable measure, followed by the South East and the East of England. At the other extreme, Wales and Northern Ireland have the lowest levels of income on both counts.

Limited data were published in March 2002 for the lower NUTS3 level – 133 areas that are groupings of unitary authorities and local authority districts. These are indices based on UK levels for each of the components of total and gross disposable household income, averaged over the three years 1997, 1998 and 1999 for each NUTS3 area.⁵⁵

2. Survey-derived

To differing degrees, both the *EFS* and the *FRS* support certain income-related country/region breakdowns.

The *FRS* gives the geographical distribution by regions/country of households within various band of weekly household income, which in this case includes income from wages/salaries, self-employment and investment, as well as private pensions, state benefits and payable tax credits, and is not adjusted for household size and structure. This is given in table 5, below. No mean or median income data are given at this geography.

⁵⁵ *ibid.*, table 6 (gross disposable)

Table 5: Regional weekly household income distributions, 2002/03*% of households in weekly total income bracket*

	< £100	≥£100 but <£200	≥£200 but <£300	≥£300 but <£400	≥£400 but <£500	≥£500 but <£600	≥£600 but <£700	≥£700 but <£800	≥£800 but <£900	≥£900 but ≥£1,000	All house- holds	
England	83	81	82	82	85	83	85	84	87	85	88	84
North East	5	6	6	5	4	5	3	3	5	4	2	5
North West	12	13	13	13	12	12	11	9	11	12	8	12
Yorkshire and the Humber	8	10	10	9	10	8	10	7	9	8	6	9
East Midlands	10	7	8	7	7	8	8	8	6	6	5	7
West Midlands	9	9	9	8	9	8	8	8	8	6	8	8
East	9	7	7	8	9	10	8	9	10	9	11	9
London	13	10	12	12	12	11	12	15	16	17	20	13
South East	10	10	10	12	13	13	15	17	16	15	21	13
South West	8	8	8	9	10	8	8	8	7	8	7	8
Wales	4	6	6	6	4	6	5	5	3	5	2	5
Scotland	10	10	9	9	8	8	8	8	7	8	7	9
Northern Ireland	3	2	3	3	3	3	2	2	2	2	2	3
United Kingdom	100	100	100	100	100	100	100	100	100	100	100	100

Notes: Percentages within each band may not sum due to rounding
 Sources: DWP, *Family Resources Survey UK 2002/03*, 2004, table 3.6

The *FRS* report does not show the distribution within regions. Figures on this basis are published in National Statistics' *Regional Trends*, although this is based on aggregated *EFS* data for the three years from 1999/2000 to 2001/02:⁵⁶

Table 6: Regional weekly household income distributions 1999/2000-2001/02*% of households in weekly income bracket & £/wk*

	<£100	≥£100 but <£150	≥£150 but <£250	≥£250 but <£350	≥£350 but <£450	≥£450 but <£600	≥£600 but <£750	≥£750	All incomes	average household income* per household (£/wk)	per person (£/wk)
England	9	9	15	12	11	14	10	21	100	526	224
North East	16	11	16	11	11	15	8	12	100	406	171
North West	10	10	17	12	12	13	9	16	100	444	190
Yorkshire and the Humber	9	10	16	14	12	14	10	14	100	436	186
East Midlands	8	8	15	13	13	15	11	17	100	480	205
West Midlands	9	10	16	10	12	15	10	19	100	476	196
East	8	7	14	11	10	15	12	23	100	538	229
London	9	8	13	9	9	10	10	33	100	676	283
South East	7	8	11	11	10	14	11	29	100	630	276
South West	7	9	16	13	11	16	10	17	100	483	209
Wales	9	11	19	14	11	15	10	11	100	407	175
Scotland	11	10	17	11	11	14	9	16	100	446	194
Northern Ireland	10	13	20	13	11	13	9	12	100	399	152
United Kingdom	9	9	15	12	11	14	10	20	100	510	217

Notes: Based on aggregated *EFS/FES* survey data
 * gross income excl. Housing Benefit/Council Tax Benefit (rates rebate in Northern Ireland)
 Sources: National Statistics, *Regional Trends 38* (2004), table 8.2

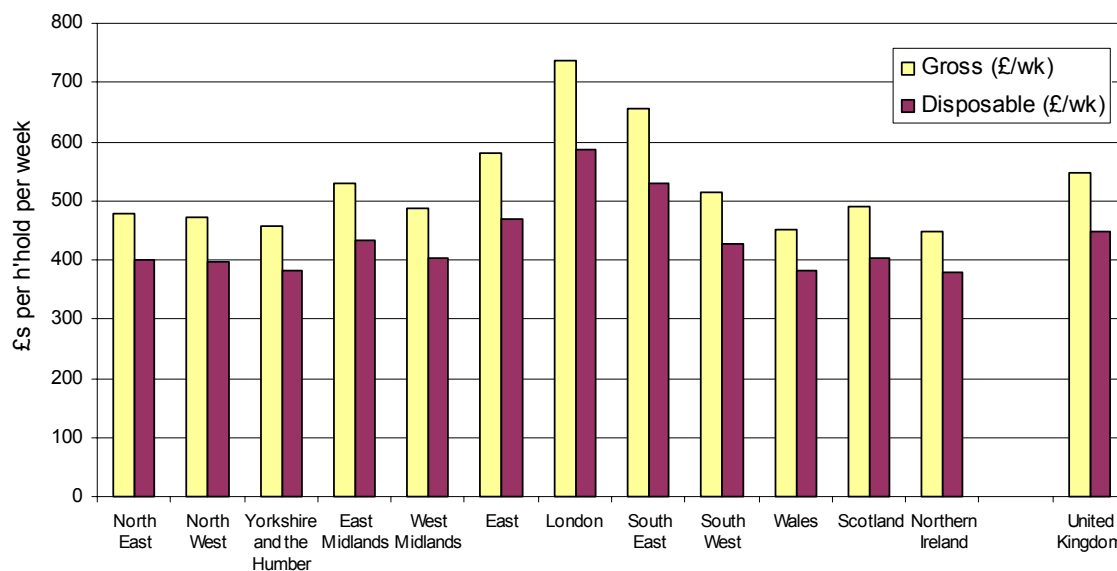
Limited gross and disposable incomes data at the region/country level are given in National Statistics' *Family Spending 2002/03*.⁵⁷ These are based on aggregation of only

⁵⁶ National Statistics, *Regional Trends 38*, 2004, table 8.2;
http://www.statistics.gov.uk/downloads/theme_compendia/Regional_Trends_38/rt38.pdf

⁵⁷ National Statistics, *Family Spending 2002/03*,
http://www.statistics.gov.uk/downloads/theme_social/Family_Spending_2002-03/Family_Spending_2002-03_revised.pdf

two years worth of *EFS* data, and are based on unadjusted income. Disposable income is gross income less income tax, National Insurance contributions and other deductions at source. These figures are summarised in figure 5, below, with the underlying data included in the appendix (table A5):

Fig 5: Regional weekly household income, 2001/02-2002/03



On both measures, average weekly household income is below the UK level in the North West, Yorkshire and the Humber, the East Midlands, the South West, Wales, Scotland and Northern Ireland, whereas income were above the UK level in the East of England, London and the South East (and also in England when taken as a whole). The differentials between average incomes in each region/country and the UK average were less on the disposable income measure than on the gross income measure.

In the past, written answers have included limited income distribution data for London derived from the *EFS*. Release of these data is limited to quintiles (rather than deciles), and it is likely that such data are only sufficiently reliable for London due to its relatively large share of population, and it would probably not extend to other regions/countries of the UK.⁵⁸

The *Individual Incomes* series gives region/country-level median weekly incomes for those of each gender, for total, net and disposable income,⁵⁹ as well as tables showing quintile distributions among men and women in each region/country (total income only).⁶⁰

⁵⁸ For example, HC Deb 11 December 2003 c550W giving numbers of adults below income thresholds (equivalised, BHC) in London, 1996/7-2001/02; http://www.publications.parliament.uk/pa/cm200304/cmhansrd/cm031211/text/31211w04.htm#31211w04.html_wqn4

⁵⁹ Latest edition features 1996/97 and 2001/02 data alongside the latest 2002/03 figures. Women & Equality Unit/DTI, *Individual Income, 1996/97-2002/03: Standard Tables*, 2004, tables S5.1 & S5.7;

B. Constituency-level income & proxies

Although there is significant demand for them, there are no official income statistics available at the Parliamentary constituency level – a response to a written question asking for average household incomes by constituency stated that the information was not available.⁶¹

Asked in a PQ about research into average incomes by constituency, the National Statistician, Len Cook, replied:⁶²

The Office for National Statistics (ONS) has not commissioned any research on average household incomes by parliamentary constituencies [...] However, estimates of average household income and household disposable income are available at regional, sub-regional and local area levels (NUTS levels 1, 2 and 3 respectively), and were published in a news release on 26 March 2002, available on the National Statistics website at: <http://www.statistics.gov.uk/pdfdir/reg0302.pdf>.

In most cases, NUTS level 3 areas are groups of administrative areas that are also local education authorities, but this is not the case throughout the UK.

ONS has also conducted work to develop estimates of average incomes at the ward level, and the results should be published within the next three months. However, these estimates cannot simply be aggregated to parliamentary constituencies or local education authorities. These results will be the best estimates at the ward level, and to produce the best estimates for parliamentary constituencies or local education authorities, different methodologies are likely to be more appropriate.

These ward-level estimates are outlined in the following section.

The only related data available for constituencies are earnings, which are often used as a proxy for incomes, despite important differences regarding income sources other than wages and salaries, such as those from investment and savings. As explained in part I(A)1, the inclusion or otherwise of these other sources of income have important implications for measures of inequality.

Analyses of earnings are available based on either residential or work-based postcodes for constituencies, although publication is dependent on statistical accuracy of survey results.⁶³

http://www.womenandequalityunit.gov.uk/research/II_Stand_Tables.pdf

⁶⁰ *ibid.*, tables S5.10 & S5.11

⁶¹ HC Deb 20 March 2003 c911W

⁶² HC Deb 19 November 2003 c1006W

⁶³ See *ibid.*

C. Ward-level estimates

As noted in the response to the PQ above and their Quality Review of income statistics, National Statistics have produced statistically modelled estimates of average weekly household income for all wards in England and Wales only for 1998/99.

These modelled statistics include gross and net household income on an unequivalised basis, and net household income, before and after housing, on an equivalised basis. These have been published online, although they remain experimental statistics.⁶⁴

It should be noted that these figures are quite different from those directly derived from surveys, although the 1998/99 *FRS* dataset formed part of the underlying data. They are synthetic in nature, based on correlative datasets that are available at lower levels of disaggregation.

The quality review recommended an extension of this programme to include distributional measures and more frequent output.⁶⁵ An initial update, to 2001/02, is planned.⁶⁶

⁶⁴ Published via ONS *Neighbourhood Statistics* website, 'People & Society > Income & Lifestyles' domain, February 2004: www.statistics.gov.uk/neighbourhood. A user guide for these statistics is also available at http://neighbourhood.statistics.gov.uk/information/income_estimates.pdf.

⁶⁵ National Statistics, *Quality Review Series Report No 31*, 2004, op.cit. paras 6 & 117

⁶⁶ National Statistics press release, 25 February 2004; <http://www.statistics.gov.uk/pdfdir/ahi0204.pdf>

V Income mobility

The focus in the preceding chapters was on comparisons of incomes within the population as a whole or across specific groups over time. However, there is much interest in how specific individuals' incomes change over time, and how those individuals move within the income distribution over time.

The *British Household Panel Survey*, run by the University of Essex's Institute of Social and Economic Research, is the primary source of longitudinal data on incomes in the UK.⁶⁷ It is also the source for official persistent income poverty data.⁶⁸ An annual report on income mobility is published, *Low Income Dynamics*, the latest giving income mobility statistics for the period 1991-2002.⁶⁹ The measure of income used here is adjusted for household size and structure (i.e. equivalised), and income is measured before housing costs have been allowed for.

Table 7: Income mobility, 1991 to 2002

%, GB only, before housing costs

	1991 quintile group					All individuals
	Bottom (1st)	2nd	3rd	4th	Top (5th)	
All years in the same quintile as 1991	6	1	1	1	14	5
Majority of years in same quintile as 1991 (a)	41	27	21	26	41	31
Majority of years above 1991 quintile	46	31	24	13	...	23
Majority of years below 1991 quintile	...	12	25	33	38	22
None of the above (b)	7	28	29	27	7	20

Notes: (a) 6+ years (from 11) in same quintile as 1991 (excl. 'All years in same quintile')

(b) Neither remained in same quintile as 1991, nor been in a higher/lower quintile for 6 years 1991-2001

Sources: DWP, *Low Income Dynamics 1991-2002*, 2004, table 3

Overall, 5% of the population were in the same quintile throughout the 12-year period as they were in 1991. Those who were in the top quintile in 1991 were more likely to stay there than those who were in the bottom quintile, although those in between were least likely to stay in the same income group. Also, those in the middle three quintiles in 1991 were less likely than the top/bottom quintiles to have been in the same quintile for the majority of years.

⁶⁷ Since 1997 this survey has also been used as the source for the UK element of the *European Community Household Panel* (ECHP) survey, see chapter VII.

⁶⁸ See Library research paper 04/23, *Poverty: Measures and targets*; <http://www.parliament.uk/commons/lib/research/rp2004/rp04-023.pdf>

⁶⁹ DWP, *Low-Income Dynamics 1991-2002*, 2004, table 3 (also gives data after housing costs) http://www.dwp.gov.uk/asd/hbai/low_income/first_release_L.pdf

VI Wealth inequality in the UK

Income is only one measure of standards of living. Wealth, the ownership of assets that may or may not provide an income flow (such as interest payments) is another, different measure than can be used to assess inequality.

A recent IPPR report noted the importance of wealth inequality:⁷⁰

At one end of the life cycle, wealth can be important in providing greater security for people in their old age. Over the last decade individuals have been asked to take more responsibility for their retirement income and needs. At the other end of the life cycle, government is starting to recognise the important impact that asset-holding can have on life chances. The Child Trust Fund (CTF) is one of the most innovative recent policy developments.

Although the majority of inequality-rated statistics are income-based, there are limited statistics on wealth inequality in the UK published by the Inland Revenue and are based on estate values at death.⁷¹ These are summarised in this chapter.⁷²

The total gross capital value of estimated wealth of UK individuals was an estimated £2,465,839 million in 2001.⁷³ The latest figures on the distribution of wealth are for 2001 (provisional). Table 8 gives various distributional measures of and Gini coefficients for wealth in selected years since 1976, the first year for which comparable data are available:

Table 8: Distribution of marketable wealth, various years

% of wealth owned by adult population by proportions of most wealthy

	1976	1979	1987	1992	1997	1998	1999	2000 (a)	2001 (a)
Top 1%	21	20	18	18	22	22	23	22	23 (b)
Top 2%	27	26	25	25	30	28	30	29	30
Top 5%	38	37	37	38	43	44	43	42	43
Top 10%	50	50	51	50	54	56	55	55	56
Top 25%	71	72	74	73	75	75	74	74	75
Top 50%	92	92	91	93	93	94	94	94	95
Gini coefficient	66	65	66	66	69	69	70	69	70

Notes: (a) provisional; (b) An estimated 230,000 adults have a marketable wealth of £1 million or more
Source: Inland Revenue Statistics, table 13.5

⁷⁰ Paxton & Dixon, *State of the Nation*, 2004, op. cit., p25

⁷¹ Statistics based on the 'estate-multiplier method': data on the wealth of those who die is derived from inheritance tax returns, which is assumed to be a sample of the wealth held by the population as a whole. The sample is grossed-up using the inverse of the mortality rates for various groups (classified by age, sex, marital status) to produce estimates for the adult population. See Inland Revenue Statistics, table 13.5; http://www.inlandrevenue.gov.uk/stats/personal_wealth/03ir135_final_oct03_1.pdf

⁷² Data on savings are available from the *FRS*, see 2002/03 report, op. cit., tables 5.1-5.12

⁷³ Inland Revenue Statistics, table 13.1;
http://www.inlandrevenue.gov.uk/stats/personal_wealth/03ir131_final_oct03_1.pdf

The Gini coefficient (see part I (B1)) for marketable wealth has generally risen gradually over the period, from 66% in 1976 to 70% in 2001 (provisional), although it has been relatively stable since 1997. Within the overall changes, the proportions of marketable wealth owned by the various proportions of the adult population have also all increased, although the increased share was slightly higher (in percentage point terms) for the top 5% and 10%. These groups saw their share rise by 5 and 6 percentage points respectively.

These high Gini coefficients for indicate that wealth is far more unevenly distributed than is income on either main way of determining the income coefficient. On the most unequal *EFIS*-derived measure, original income, the coefficient stood at 53% in 2001/02, and the highest coefficient for 2001/02 from IFS research, based on the FRS, of just over 38%.⁷⁴ These compare with a provisional coefficient for wealth in 2001 of 70%.

These figures all relate to marketable wealth, but some important aspects of wealth – such as occupational and state pensions – are not marketable. If these were to be included in the wealth distribution it would be significantly less unequal. Up until 1997, alternative estimates of wealth distribution reflecting non-marketable wealth were published, but the shift towards money purchase pension schemes has made it more difficult to value pensions. As a result, publication of this alternative measure has ceased.

The table below compares the distribution of marketable wealth, as shown in the table above, and marketable wealth excluding the value of dwellings.⁷⁵

Table 9: Marketable wealth distributions, 2001

% of wealth owned by adult population by proportions of most wealthy

	Marketable Wealth	less value of dwellings
Top 1%	23	33
Top 5%	43	58
Top 10%	56	72
Top 25%	75	86
Top 50%	95	97

Notes: (a) provisional

Source: National Statistics, *Social Trends 34*, 2004, table 5.26

As this shows, when the value of dwellings is deducted from marketable wealth the share of total wealth held by each group is consistently higher. This is particularly so within the top 25%.

The IPPR report identified the strong housing market as a concern, as higher prices and price to earnings ratios are likely to prevent people from buying houses:

⁷⁴ After Housing Costs, the 2001/02 coefficient was 38.1% (or 34.6% Before Housing Costs), from Goodman & Shepherd, *IFS Briefing Note 19*, op. cit.; see <http://www.ifs.org.uk/inequality/bn19figs.xls>

⁷⁵ National Statistics, *Social Trends 34*, op. cit., table 5.26

People who do not own a house are also more likely not to have financial assets. Three quarters of those who had no financial wealth in 2000 also did not own a house, and hence had no increase in housing wealth either (IFS 2002). This has remained unchanged since 1995. These trends could worsen existing inequalities, with some who have substantial housing assets receiving windfall gains as the value of their property increases and those who are unable to afford a mortgage faced with increased rents and decreasing chances of ever owning property or accumulating other assets. At the same time, the recent downturn in the stock market, which will not have fed through into the latest data, could have the opposite impact – dampening growth in inequalities.

By its nature, wealth is not evenly distributed over the life-cycle: wealth is generally accumulated during one's working life, then 'run down' after one retires. Therefore young people would generally be expected to hold less wealth than older persons. However, the IPPR note:

But significantly inequality of wealth holding within age groups remains high and overall levels of inequality are higher than can simply be explained by life cycle effects. The differences among older people tend to be larger, but even younger age groups display significant variation. In 2000 the mean amount of financial wealth held by those under 35 and in the lowest fifth of the income distribution was minus £457. For the same age group, but in the richest quintile, the mean was £6,392 (IFS 2002).

Wealth exclusion – people with no savings or investments at all – also grew in the 1990s. Between 1979 and 1996 the percentage of people, across the income distribution, who did not have any assets rose from five to ten per cent. For those between 20 and 34, the number increased from ten to 20 per cent. More recently the percentage of young and low-income people with no savings has not changed significantly. Between 1996/7 and 2000/1 the proportion of 16-24 year olds with no savings has remained constant at 56 per cent⁷⁶

There has been some recent discussion of reform of Inheritance Tax (IHT), which has been advocated as a means of addressing wealth inequality. An IPPR report examined the case for reform of IHT as a “crucial counter-weight to the accumulation of wealth”, and recommended a new graduated system, rather than the current flat rate of 40% on estates worth in excess of £263,000, with rates ranging from 22%, to 50% for estates over £763,000.⁷⁷ Under this scheme, 87% of estates would pay less, but revenues would rise by around £150 million from the estates of the wealthiest.⁷⁸ The report also explored

⁷⁶ Paxton & Dixon, *State of the Nation*, 2004, op. cit., p27

⁷⁷ Maxwell, D. *Fair Dues: Towards a more progressive inheritance tax*, IPPR report, August 2004; <http://www.ippr.org.uk/research/files/team27/project203/Fair%20dues.pdf>

⁷⁸ “Fairer inheritance tax needed to respond to rising wealth inequality”, *IPPR Press Release*, 22 August 2004; <http://www.ippr.org.uk/press/index.php?release=334¤t=2004>

options for closing IHT loopholes, and also potential hypothecation of the additional £150 million from the reformed structure to the Child Trust Fund:⁷⁹

An extra £140 million per year, approximately the amount raised by the new banding proposed in section two, would give every child an additional £150, and £300 for the poorest third. After 18 years of investment, this would grow to £332 and £662 respectively, using the Inland Revenue illustrative assumption of 4.5 per cent real growth.

However, it noted that the idea “must overcome the serious stumbling block of weak intuitive and public support.”⁸⁰

The Institute for Fiscal Studies have also published reports on the UK wealth distribution based on *BHPS* data,⁸¹ and comparing the wealth distributions in the UK and the US.⁸²

⁷⁹ Maxwell, D./IPPR, 2004, op.cit., pp27-28 and pp32-33

⁸⁰ *ibid.*

⁸¹ Banks, Smith & Wakefield, “The distribution of financial wealth in the UK: evidence from 2000 BHPS data”, *IFS Working Paper WP02/21*; <http://www.ifs.org.uk/workingpapers/wp0221.pdf>

⁸² Banks, Blundell & Smith, “Wealth inequality in the United States and Great Britain”, *IFS Working Paper WP02/21*; <http://www.ifs.org.uk/workingpapers/wp0020.pdf>

VII Comparisons of European income inequality

Eurostat, the statistical office of the European Commission, compiles data on incomes,⁸³ income inequality and poverty derived from the European Community Household Panel (ECHP) Survey, a longitudinal household survey with consistent methodology across Member States.

A. S80/20 ratios

The Laeken European Council adopted a set of indicators to help combat social exclusion and poverty in the EU in December 2001.

One of the ten primary indicators is the ‘S80/20 ratio’, which compares the share of total equivalised income received by the top 20% with that received by the bottom 20%. These should not be confused with the percentile ratios, such as P90/10, used previously, which compare incomes at different points of the income distribution rather than shares.

Table 11, below, shows selected years’ S80/20 ratios for all 25 EU countries, and Bulgaria, Norway, Romania and Turkey. Figures are available for intervening years for some of the countries from Eurostat’s *Structural Indicators* website.⁸⁴

The UK’s S80/20 income ratio has fluctuated slightly since 1995, although it has remained around the 5.0 mark.

This is higher than most of other countries for which data has been published. Among the former EU15 in 2001, the UK was 12th most unequal among the 15 countries, more equal than only Spain (5.5), Greece (5.7) and Portugal (6.5). The lowest levels of inequality on this measure were found in Norway (3.2) and Denmark (3.0).

Bearing possible methodological differences between the EU15 and the new members/accession countries shown in mind,⁸⁵ some of these countries have lower inequality on this measure. However, Estonia, Latvia and Turkey (both 2002 data), and Slovakia (2003 data) all had higher income share ratios. Turkey had the most unequal income ratio, far higher than any of the other countries shown at 11.2 (2002 data).

⁸³ Eurostat have published per capita primary and disposable incomes at the national, regional and sub-regional levels for 2000, see Eurostat, *Income of private households and gross domestic product in Europe’s regions*, 6 June 2003, pp4-7; http://europa.eu.int/comm/eurostat/Public/datashop/print-product/EN?catalogue=Eurostat&product=KS-DN-03-007-_-N-EN&mode=download

⁸⁴ See <http://europa.eu.int/comm/eurostat/structuralindicators>, ‘Social cohesion’ domain.

⁸⁵ Note: Statistics are not yet fully available for new EU and candidate countries; those that are should not be considered fully comparable see <http://europa.eu.int/newcronos/suite/info/notmeth/en/theme0/strind/socohe-sc01.htm> for detail.

Table 10: S80/20 ratios, EU & candidate countries
Ratios of top quintile to bottom quintile income shares

	S80/20 ratio				
	1995	1997	1999	2001	2002
Austria	4.0	3.6	3.7	3.5	..
Belgium	4.5	4.0	4.2	4.0	..
Bulgaria	..	..	3.8	3.8	..
Cyprus	..	4.4	..	..	..
Czech Republic	..	..	..	3.4	..
Denmark	2.9	2.9	3.0	3.0	..
Estonia	..	7.0	6.5	6.1	6.1
Finland	..	3.0	3.4	3.5	..
France	4.5	4.4	4.4	4.0	..
Germany	4.6	3.7	3.6	3.6	..
Greece	6.5	6.6	6.2	5.7	..
Hungary	..	..	..	3.4	..
Ireland	5.1	5.0	4.9	4.5	..
Italy	5.9	5.3	4.9	4.8	..
Latvia	..	4.8	5.1	..	5.5
Lithuania	..	4.6	5.0	4.9	..
Luxembourg	4.3	3.6	3.9	3.8	..
Malta	..	..	..	..	..
Netherlands	4.2	3.6	3.7	3.8	..
Norway	3.3	3.4	3.3	3.2	..
Poland	..	..	4.2	4.5	..
Portugal	7.4	6.7	6.4	6.5	..
Romania	..	..	4.4	4.6	..
Slovakia	..	..	..	..	5.4 (2003)
Slovenia	..	3.2	3.2	..	..
Spain	5.9	6.5	5.7	5.5	..
Sweden	..	3.1	3.1	3.4	..
Turkey	10.9 (1994)	..	..	..	11.2
United Kingdom	5.2	4.7	5.2	4.9	..
EU15*	5.1	4.7	4.6	4.4	..
EU25*	..	..	4.5	4.4	..

Note: * Eurostat estimate (weighted average); .. Not available
 Sources: Eurostat, *Structural Indicators*, as at 15 August 2004

B. Gini coefficients

Income-based Gini coefficients are one of eight secondary Laeken indicators. These have been published for EU countries, but do not form part of the core indicators presented in Eurostat's *Structural Indicators*.

Table 12 shows the Gini coefficients that are available, for the EU15 for selected years. The 2001 data are the most recent available:⁸⁶

⁸⁶ Commission of the European Communities, *Draft Joint Inclusion Report: Statistical Annex*, SEC (2003) 1425, table 7, p14

Table 11: Gini coefficients, EU15

	%			
	1995 (a)	1997	1999	2001
Austria	27	25	26	24
Belgium	29	27	29	28
Denmark	20	20	21	22
Finland	22	22	24	24
France	29	29	29	27
Germany	29	25	25	25
Greece	35	35	34	33
Ireland	33	33	32	29
Italy	33	31	30	29
Luxembourg	29	25	27	27
Netherlands	29	26	26	26
Portugal	37	36	36	37
Spain	34	35	33	33
Sweden (b)	..	21	22	24
United Kingdom	32	30	32	31
EU15 (c)	31	29	29	28

Note: (a) Finland is 1996; EU15 average for 1995 excludes Finland/Sweden

(b) 1996, 1999 & 2000 data

(c) Eurostat estimate (weighted average of available countries' data)

Sources: Commission of the European Communities, *Draft Joint Inclusion Report: Statistical Annex*, SEC (2003) 1425, table 7, p14

On the 2001 figures, the UK income distribution was ranked fourth most unequal with a Gini coefficient of 31%. This was three percentage points higher than the weighted average for the EU15 (28%). Spain, Greece and Portugal were all more unequal than the UK on this measure, while the lowest Gini coefficients were found in Denmark (22%) and Sweden (24%).

Similar data has recently been released for the new EU Member States and candidate countries, for 2001.⁸⁷ These figures are not fully comparable with those for the EU15 above, and data for Slovakia is considered provisional, and the reference year also varies for some of the countries (as indicated).

As table 12 shows, Turkey, a candidate country, has the highest Gini, at 46%, with the lowest coefficients being found in the new Member States of Slovenia (22%) and Hungary (23%). The average Gini coefficient among the new members is in line with that of the former EU15, although it is much higher among the candidate countries, primarily due to Turkey's comparatively high income inequality.

⁸⁷ See Eurostat, *Monetary poverty in new Member States and Candidate Countries*, 23 July 2004; <http://europa.eu.int/comm/eurostat/Public/datashop/print-product/EN?catalogue=Eurostat&product=KS-NK-04-012--N-EN&mode=download>. For 1999 data, see: Eurostat, *Monetary poverty in EU Accessing & Candidate countries*, 7 July 2003; http://www.eu-datashop.de/download/EN/sta_kurz/thema3/nk_03_21.pdf

Table 12: Gini coefficients, new members & candidate countries, 2001, %

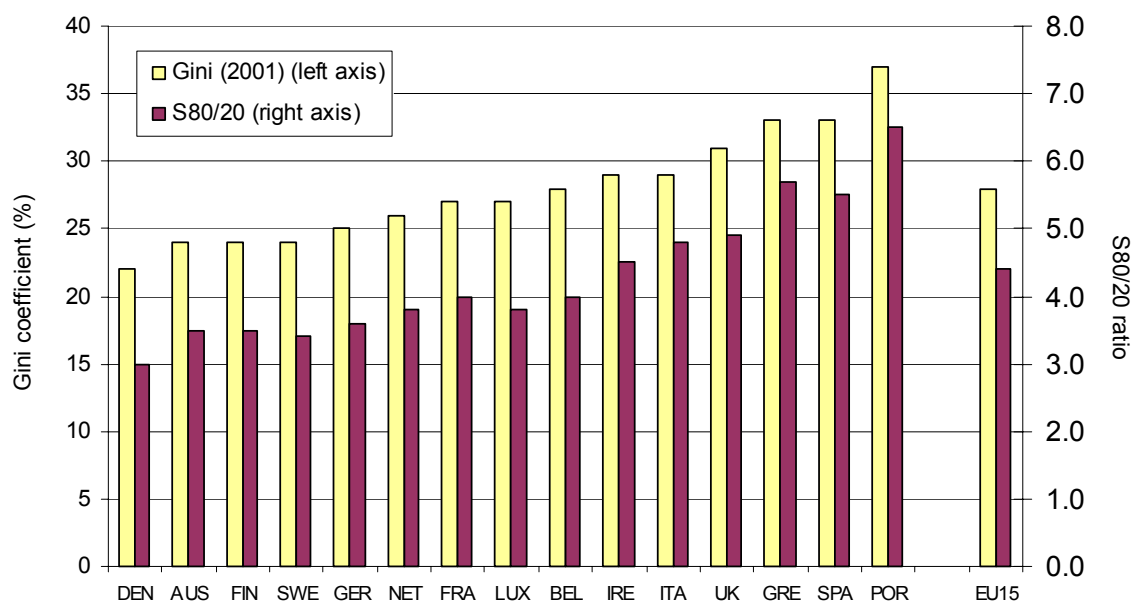
	Gini (%)
Cyprus	29 (1997)
Czech Republic	25
Estonia	35
Hungary	23
Latvia	34 (2002)
Lithuania	32
Malta	30 (2000)
Poland	30
Slovakia	31 (2003)
Slovenia	22
<i>New Member State 10*</i>	28
Bulgaria	26
Romania	30
Turkey	46 (2002)
<i>Candidate Countries*</i>	41
EU15*	28
EU25*	28

Note: * mean of relevant countries values in each case

Source: Eurostat, *Monetary poverty in new Member States and Candidate Countries*, July 2004, fig 6

Figure 6, overleaf, shows the EU15 countries ordered by increasing inequality on the Gini coefficient measure, alongside the S80/20 ratios, for 2001. As one might expect, those countries with the highest Gini coefficients also have the highest S80/20 income share ratios.

Fig 6: Inequality in the EU15, 2001
Gini coefficients (%) & S80/20 ratios



VIII Other international comparisons

A. Inequality in the US⁸⁸

The US Census Bureau produces an annual report on incomes and income poverty in the United States. The latest report, published in August 2004, features statistics for 2003.⁸⁹

The report found that real median household money income remained unchanged between 2002 and 2003. 'Money income' is measured before deductions for taxes or other expenses and does not include lump-sum payments or capital gains.⁹⁰

Although money income inequality measured by the Gini coefficient also remained unchanged, at just over 46%, the share of total income received by the lowest quintile (20%) of households fell slightly, from 3.5% to 3.4%.

Historical data is provided in an appendix to the report, along with a range of other inequality indicators and distributional data, and in a further US Census Bureau report, *The Changing Shape of the Nation's Income Distribution, 1947-1998*, from June 2000.⁹¹

The previous year's report included four sets of inequality statistics based on four alternative definitions of income, allowing for other aspects of income: capital gains/losses, taxes paid, non-cash benefits received, and the annual benefit of converting home equity into annuities.⁹²

These saw income inequality fall between 2001 and 2002: the Gini coefficient fell, and the share of aggregate household income increased for households in the middle 60% of the distribution, and fell for the highest 20%.⁹³

⁸⁸ This LIS paper may also be of interest: Burtless & Jencks "American Inequality and Its Consequences", *LIS Working Paper No 339*, March 2003; <http://www.lisproject.org/publications/liswps/339.pdf>

⁸⁹ US Census Bureau, *Income, Poverty, and Health Insurance Coverage in the United States: 2003*, August 2004; <http://www.census.gov/prod/2004pubs/p60-226.pdf>, and links from <http://www.census.gov/hhes/www/income03.html>

⁹⁰ Money income includes earnings, unemployment compensation, workers' compensation, social security, supplemental security income, public assistance, veterans' payments, survivor benefits, pension or retirement income, interest, dividends, rents, royalties, income from estates, trusts, educational assistance, alimony, child support, assistance from outside the household, and other miscellaneous sources.

⁹¹ <http://www.census.gov/hhes/www/p60204.html>

⁹² See US Census Bureau, *Income in the United States: 2002*, September 2003, p2; <http://www.census.gov/prod/2003pubs/p60-221.pdf>

⁹³ *ibid.*, pp14-16

B. OECD & developed countries

An OECD study from 2002 looked at income distribution and poverty in 20 countries in the OECD. Although the study was based on data to the mid-1990s only, the study included data on Gini coefficients and P90/10 ratios for these countries, as well as analyses of disposable and market income by quintile for certain countries.⁹⁴

In 2002, the Luxembourg Income Study (LIS),⁹⁵ a database of household income surveys from a number of countries, published a report into inequality in richer countries with particular reference to globalisation. This found that:

[...] modest and sometimes dissimilar changes in the distribution of income have taken place within most advanced nations, with most finding a higher level of inequality in the mid-to-late 1990s than in the 1980s. Inequality, however, has not risen markedly in some nations (e.g., Denmark, Germany, France, and Canada) over this period, while its rise has slowed in several other nations during the late 1990s. The explanations for rising inequality in rich countries are many, and no one single set of explanations is ultimately convincing. In particular, there is no evidence that we know of that trade and globalization is bad for rich countries.

This suggests that rising economic inequality is not inevitable, or that it necessarily hurts low skill-low income families. Rather it suggests that globalization does not force any single outcome on any country. Domestic policies and institutions still have large effects on the level and trend of inequality within rich and middle-income nations, even in a globalizing world economy.⁹⁶

The report features a range of analyses of income distributions, although again the data dates from the mid- to late-1990s.⁹⁷

The LIS also provides a summary table of headline inequality measures – Gini coefficients, Atkinson indices, percentile ratios (P90/10, P90/50 and P80/20) – for the countries in the project group.⁹⁸ The most recent data available are for 2000, although UK data only goes up to 1999.

⁹⁴ Förster, M. & Pearson, M. “Income distribution and poverty in the OECD area: trends and driving forces”, *OECD Economic Studies* 34, 2002/1; <http://www.oecd.org/dataoecd/16/33/2968109.pdf>

⁹⁵ See <http://www.lisproject.org/>; Working Papers at <http://www.lisproject.org/publications/wpapersh.htm>.

⁹⁶ Smeeding, T. M. “Globalization, Inequality and the Rich Countries of the G20: Evidence from the Luxembourg Income Study (LIS)”, *LIS Working Paper No 320*, 30 July 2002; <http://www.lisproject.org/publications/liswps/320.pdf>

⁹⁷ Heshmati, A. “Measurement of a Multidimensional Index of Globalization and its Impact on Income Inequality”, *UN WIDER Discussion Paper 2003/69*, September 2003; <http://www.wider.unu.edu/publications/dps/dps2003/dp2003-069.pdf>

⁹⁸ <http://www.lisproject.org/keyfigures/ineqtable.htm>

C. Global & less developed countries

One of the UN's Millennium Development Goals (MDGs) is the eradication of extreme poverty and hunger. Target 1 of this goal is to halve the proportion of people living on less than \$1 a day between 1990 and 2015. Under this target, one of the indicators for monitoring progress is the share of the poorest (bottom) quintile, or 20%, in national consumption.

The United Nations' annual *Human Development Report (HDR)* features a number of Human Development Indicators (HDIs).⁹⁹ For those countries for which data were available, *HDR 2004* summarises, in table 14, a number of inequality-related measures:¹⁰⁰

- Share of income or consumption of poorest 10% and 20% (MDG), and richest 10% and 20%
- Ratios of the share of the richest 10% to poorest 10%, and richest 20%/poorest 20%
- Gini coefficients

However, indicators for a number of countries, particularly less developed countries, are based on much older data than others. The most recent survey year varies significantly from country to country, from 1989 in one case, through to 2001.

In October 2003, the World Bank published a study, *Inequality in Latin America and The Caribbean: Breaking with History?*, which concluded that “deep institutional and policy reforms are needed to solve the region's persistent inequality.”¹⁰¹

The richest one-tenth of the population of Latin America and the Caribbean earn 48 percent of total income, while the poorest tenth earn only 1.6 percent, the research team found. In industrialized countries, by contrast, the top tenth receive 29.1 percent, while the bottom tenth earn 2.5 percent. Using the “Gini Index” of inequality in the distribution of income and consumption, the researchers found that Latin America and the Caribbean, from the 1970s through the 1990s, measured nearly 10 points more unequal than Asia, 17.5 points more unequal than the 30 countries in the Organization for Economic Cooperation and Development, and 20.4 points more unequal than Eastern Europe.

The data show that inequality in the least unequal LAC country—Uruguay—is higher than in the most unequal country in Eastern Europe and the industrialized countries. On average, income inequality has tended to worsen slightly in the region, though experiences have varied. Some relatively equal countries, including Argentina, Uruguay and Venezuela have experienced rises in

⁹⁹ United Nations Development Programme, *Human Development Report 2004: Cultural Liberty in Today's Diverse World*, 2004, table 14, p188; <http://hdr.undp.org/reports/global/2004/>

¹⁰⁰ See http://hdr.undp.org/reports/global/2004/pdf/hdr04_HDI.pdf

¹⁰¹ World Bank, *Inequality in Latin America and The Caribbean: Breaking with History?*, October 2003; <http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:20131287~menuPK:34457~pagePK:34370~piPK:34424~theSitePK:4607,00.html>

inequality—Argentina dramatically so. By contrast Brazil, historically the most unequal country in the region, experienced a modest, but significant improvement. Mexico may also have enjoyed a small improvement.

Also, the UN University has a World Institute for Development Economics Research (WIDER) unit. A number of publications regarding development, incomes and inequality are available from the WIDER website.¹⁰²

WIDER also runs a *World Income Inequality Database*, with data for developed, developing, and transition countries. The current version is from September 2000, but this is currently being updated and is due to be available ‘during autumn 2004’.¹⁰³

Lastly, the final report of the Canberra Group, a collection of a number of countries’ statistical offices and organisations along with the LIS, World Bank and UN, gives a comprehensive methodological assessment of international inequality statistics. The report made a number of recommendations about standardisation of international household income statistics, such as the basic unit and income definitions to be used.¹⁰⁴

¹⁰² <http://www.wider.unu.edu/publications/publications.htm>

¹⁰³ <http://www.wider.unu.edu/wiid/wiid.htm>

¹⁰⁴ Expert Group on Household Income Statistics (the Canberra Group), *Final Report & Recommendations*, 2001; <http://www.lisproject.org/links/canberra/finalreport.pdf>

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Appendix A: Additional tables

Table A1 is the underlying data for figure 1, which is based on a household income distribution based on equalivalised household incomes (although the average income figures are not equalivalised). The change in average incomes for each decile between gross (after benefits) and post-tax (after all direct and indirect taxes) is also given:

Table A1: Average household income by decile*, 2002/03
all households, £ per year (from EFS)

	Income stage					Change (gross to post-tax), %
	Original	Gross	Disposable	Post-tax	Final	
Bottom (1st)	2,735	7,580	6,878	4,043	9,916	30.8%
2nd	5,330	11,765	10,639	7,969	13,494	14.7%
3rd	7,462	13,935	12,529	9,652	14,857	6.6%
4th	11,763	17,315	14,924	11,523	16,239	-6.2%
5th	16,830	21,451	18,019	14,103	18,580	-13.4%
6th	21,801	25,674	21,113	16,668	20,925	-18.5%
7th	29,303	32,324	25,980	20,803	25,000	-22.7%
8th	36,865	38,839	30,642	25,131	28,883	-25.6%
9th	46,040	47,619	37,053	30,841	34,271	-28.0%
Top (10th)	74,585	75,786	57,052	49,284	51,984	-31.4%
All households	25,271	29,229	23,483	19,002	23,415	-19.9%

Notes: * ranked by **equalised disposable income**

Source: National Statistics, *Effects of taxes and benefits on household income, 2002/03*, table 14

Table A2 is similar to table A1, except that in this case households are ranked by unadjusted, rather than equalised income.

Table A2: Average household income (unadjusted) by decile, 2002/03
all households, £ per year

	Income stage					Change (gross to post-tax), %
	Original	Gross	Disposable	Post-tax	Final	
Bottom (1st)	1,687	5,667	5,127	3,212	6,557	15.7%
2nd	3,159	9,306	8,542	6,591	10,278	10.4%
3rd	6,048	12,331	11,042	8,415	12,683	2.9%
4th	9,710	15,775	13,707	10,519	14,916	-5.4%
5th	15,307	20,182	17,056	13,290	17,936	-11.1%
6th	21,212	25,134	20,745	16,225	21,105	-16.0%
7th	28,735	31,403	25,187	19,974	24,789	-21.1%
8th	36,302	38,670	30,672	24,907	29,428	-23.9%
9th	47,812	49,500	38,867	31,911	36,384	-26.5%
Top (10th)	82,739	84,320	63,883	54,972	60,074	-28.8%
All households	25,271	29,229	23,483	19,002	23,415	-19.9%

Note: ranked by **unadjusted income**

Source: National Statistics, *Effects of taxes and benefits on household income, 2002/03*, table 14

Table A3: Income inequality (from EFS), 1979-2002/03 (a)
all households, % (Ginis) & ratios

	Gini coefficients, various income stages				Ratios (disposable income) (b)	
	Original	Gross	Disposable	Post-tax	P90/P10	P75/P25
1979	44	30	27	29	3.3	2.0
1980	44	31	28	30	3.5	2.0
1981	46	31	28	31	3.4	2.0
1982	47	31	28	31	3.3	2.0
1983	48	32	28	31	3.3	1.9
1984	49	31	28	30	3.3	2.0
1985	49	32	29	32	3.5	2.1
1986	50	34	31	35	3.7	2.1
1987	51	36	33	36	4.1	2.2
1988	51	37	35	38	4.4	2.4
1989	50	36	34	37	4.5	2.4
1990	52	38	36	40	4.9	2.5
1991	51	37	35	39	4.8	2.5
1992	52	37	34	38	4.6	2.4
1993	53	38	35	38	4.5	2.3
1993/94	54	37	34	38	4.5	2.3
1994/95	53	37	33	37	4.5	2.3
1995/96	52	36	33	37	4.2	2.2
1996/97	53	37	34	38	4.4	2.3
1997/98	53	37	34	38	4.5	2.3
1998/99	53	38	35	39	4.5	2.3
1999/00	53	38	35	40	4.6	2.4
2000/01	51	38	35	39	4.5	2.3
2001/02	53	39	36	40	4.5	2.3
2002/03	51	37	33	37	4.3	2.2

Notes: (a) From 1990 includes company car benefit and beneficial house purchase loans from employers; from 1996/97 based on estimates for the sample grossed to population totals.

(b) P90/P10 = ratio of the income at 90th percentile to 10th; P75/P25 = ratio of 75th percentile to 25th

Sources: National Statistics, *Effects of taxes and benefits on household income, 2002/03*, table 27

Table A4: Regional household income, 1999*£m, £ per capita & index*

	Total household income			Gross disposable household income		
	Total (£m)	per capita		Total (£m)	per capita	
		£	Index (UK=100)		£	Index (UK=100)
England	793,435	15,948	102	511,651	10,284	101
North East	34,111	13,215	85	23,278	9,018	89
North West	97,705	14,200	91	65,372	9,501	94
Yorkshire & the Humber	70,011	13,872	89	47,061	9,325	92
East Midlands	60,480	14,430	92	39,436	9,409	93
West Midlands	77,569	14,538	93	50,909	9,541	94
East	90,712	16,740	107	57,647	10,638	105
London	143,088	19,641	126	88,930	12,207	120
South East	144,133	17,844	114	89,299	11,055	109
South West	75,627	15,323	98	49,718	10,073	99
Wales	37,926	12,913	83	26,051	8,870	87
Scotland	76,325	14,910	95	50,529	9,870	97
Northern Ireland	21,642	12,792	82	15,223	8,998	89
UK (excl. Extra-regio*)	929,329	15,619	100	603,453	10,142	100
Extra-Regio*	1,558	-	-	1,090	-	-

Notes: * Parts of UK economic territory that cannot be attributed to a region

Sources: National Statistics, *Regional, sub-regional and local area household income*, 2002; table B**Table A5: Regional weekly household income, 2001/02-2002/03***£ per week*

	Gross (£/wk)	Disposable (£/wk)
England	561	459
North East	477	401
North West	473	396
Yorkshire and the Humber	458	382
East Midlands	528	433
West Midlands	487	404
East	581	470
London	736	587
South East	657	528
South West	514	428
Wales	451	381
Scotland	490	404
Northern Ireland	448	380
United Kingdom	546	448

Notes: Based on weighted EFS (FES) survey data for the two years

Sources: National Statistics, *Family Spending 2002/03*, 2004, table 8.5