Reducing income inequality

Income inequality is higher in the UK than in several other European countries, and is set to increase over the coming years. Child poverty is increasingly concentrated among one-earner couples, and policies supporting this group could have the most impact on reducing poverty in future.

**Policy implications**

- A key underlying trend for low household income is the extremely slow growth in men’s pay levels, primarily affecting one-earner couples with children who have higher poverty rates than other working families. Incomes for this group have performed particularly badly over the last 20 years. There are no single easy policy solutions to boost the living standards of this group.

- Policies to support non-working partners back into work could be explored, such as addressing the weak financial incentives (for instance the cost of childcare), discrimination or cultural barriers to maternal employment.

- Means-tested benefits for one-earner couples could be increased. However, targeting additional means-tested support specifically at this group would further weaken the financial incentives for both parents to seek paid work.

**About the research**

Reducing inequality and poverty are important objectives for UK policy. Although income inequality across the majority of the UK population is lower than it was 20 years ago, the top 1% have continued to pull away from the rest. UK income inequality also remains high by international standards. OECD figures, for example, show income inequality in the UK is higher than in most European countries including Latvia, Estonia and Greece, while Eurostat data show it is higher than the EU average (although lower than in some other EU countries).

Since average incomes started to recover in 2011–12, income growth has been modest and evenly spread across the majority of the population, leaving income inequality broadly unchanged. Average incomes are now only a few per cent higher than they were before the recession. Increases in employment over this period have not been followed by increases in pay levels. As a result, employees are less likely to earn enough to stay out of poverty, leading to more focus on the issue of ‘in-work poverty’.

A recent report from the Institute for Fiscal Studies, *Living Standards, Poverty and Inequality in the UK: 2017*, has studied the distribution of household incomes in the UK, changes in inequalities between different regions and trends in low income. The analysis is based on data from two main UK household surveys – the Family Resources Survey and the ESRC-funded longitudinal survey Understanding Society.
Key points

- Average (median) income in 2015-16 (the latest data available) was only 3.7% higher than before the recession (2007-08).

- Overall, the top 1%’s income share more than doubled over 30 years, from 3.4% in 1980 to 8.7% in 2009-10 before falling back during the recession.

- The Midlands has fared worst in terms of income growth over the last 40 years. Average incomes in the East and West Midlands are now 6% and 9% below the national average respectively.

- The difference between high and low earners is largest in London, but since the late 2000s there has been a large fall in income inequality – due to falls in real earnings and strong employment growth.

- Absolute poverty has changed little over the last decade, reflecting the general lack of real income growth.

- Low income is more likely to last for multiple years for pensioners, lone parents, and those with more than three children.

- Extended periods of parental worklessness or low earnings are both important factors in explaining persistent child poverty.

BRIEF DESCRIPTION

A recent report by the Institute for Fiscal Studies, commissioned by the Joseph Rowntree Foundation, examined trends and changes in the distribution of household incomes in the UK. The analysis included average living standards, inequality in household incomes and measures of income poverty and deprivation. The analysis is based on data from the Family Resources Survey and the ESRC-funded longitudinal survey Understanding Society.

Jonathan Cribb, Andrew Hood, Robert Joyce, Agnes Norris Keiller: Living standards, poverty and inequality in the UK: 2017

Web: www.ifs.org.uk/publications/9540

FURTHER INFORMATION

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The Institute for Fiscal Studies (IFS) is Britain’s leading independent microeconomic research institute. It is core-funded by the ESRC.
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The Economic and Social Research Council is the UK’s leading agency for research funding and training in economic and social sciences.

The views expressed in this evidence briefing are those of the authors and not necessarily those of the ESRC.

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