

# Income inequality in the UK and Scotland: Trends and implications

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# Income inequality

What is income inequality?

- Not relative poverty or income poverty
- Focus on *distribution* as well as relative and absolute levels

Can be analysed in a variety of ways (The Poverty Site):

- Changes in income over time across the distribution
- Shares of total income across the distribution
- Ratios of incomes between top, middle and bottom
- Gini coefficient (measure of overall income inequality)

# Measuring income inequality

What we measure and how we measure it is important:

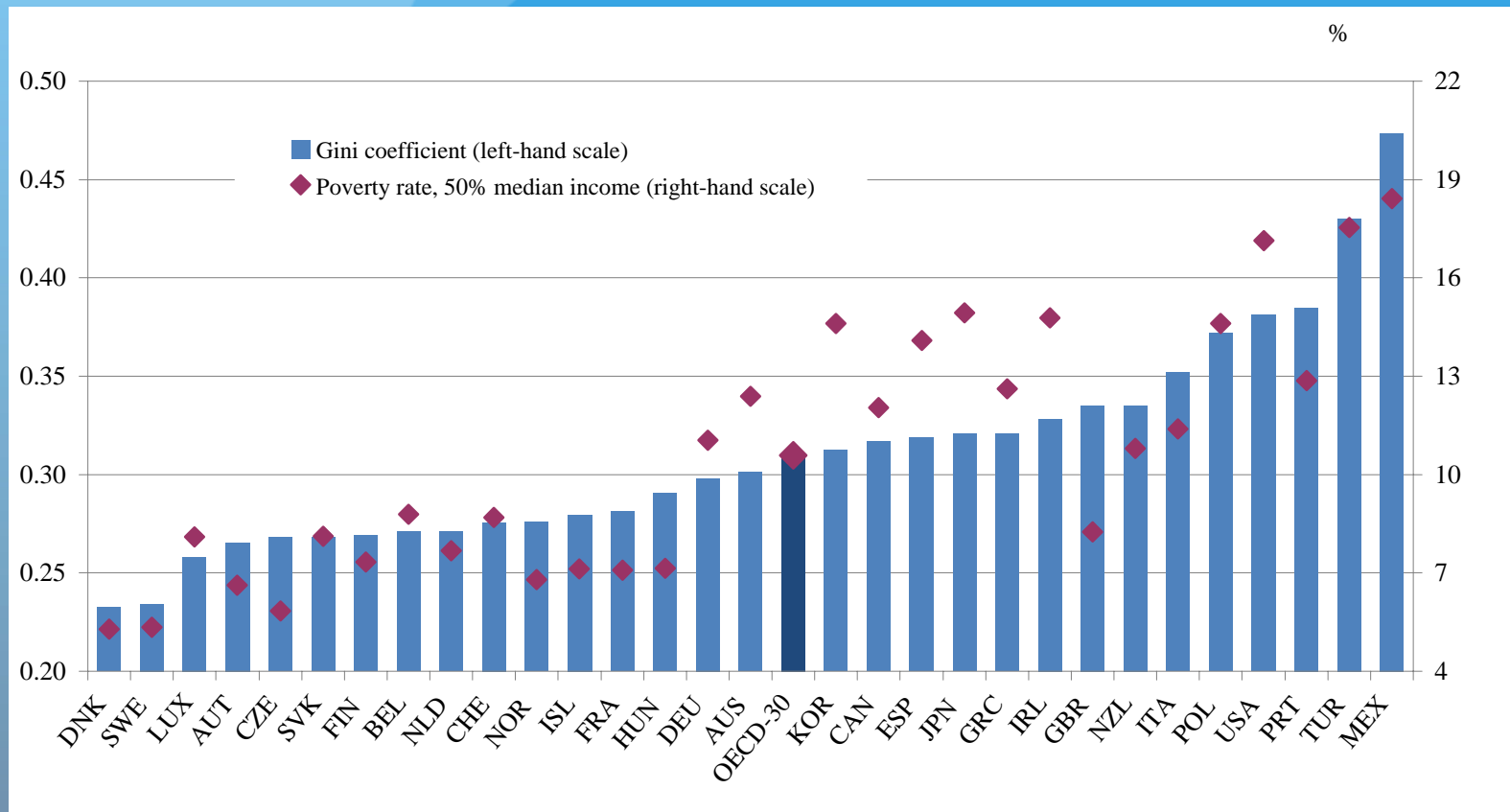
“there has been an increase in income inequality ... since at least the mid-1980s ... The widening has affected most (but not all) countries, with big increases recently in Canada and Germany, for example, but decreases in Mexico, Greece and the United Kingdom.” (OECD, *Growing Unequal*, 2008)

“The overall message ... is simple: income inequalities have been increasing, both recently and over longer time periods. These ...have been increasing at both ends of the spectrum. ... the poorest have fallen further behind the average, and the richest have moved further ahead.” (The Poverty Site, United Kingdom, *Income Inequalities*)

# Income inequality in the UK: data and trends

- During the past decades income inequality (measured by Gini) for all households in the UK increased from 28 in 1983 to 34 in 2008/09 (ONS, *Income Inequality*, 2010).
- The UK had relatively low levels of poverty mid-decade, but relatively high inequality (compared with the OECD average) (OECD, 2008).
- Earnings dispersion increased between the mid-1980s and mid-1990s, meaning wage inequality increased (unevenly) (ONS, 2010; CentrePiece, *Rising Wage Inequality*, 2008).
- Policies implemented by Labour mitigated income inequality between 1997 - 2010, but inequality was still higher in 2007-08 than when they came to power.

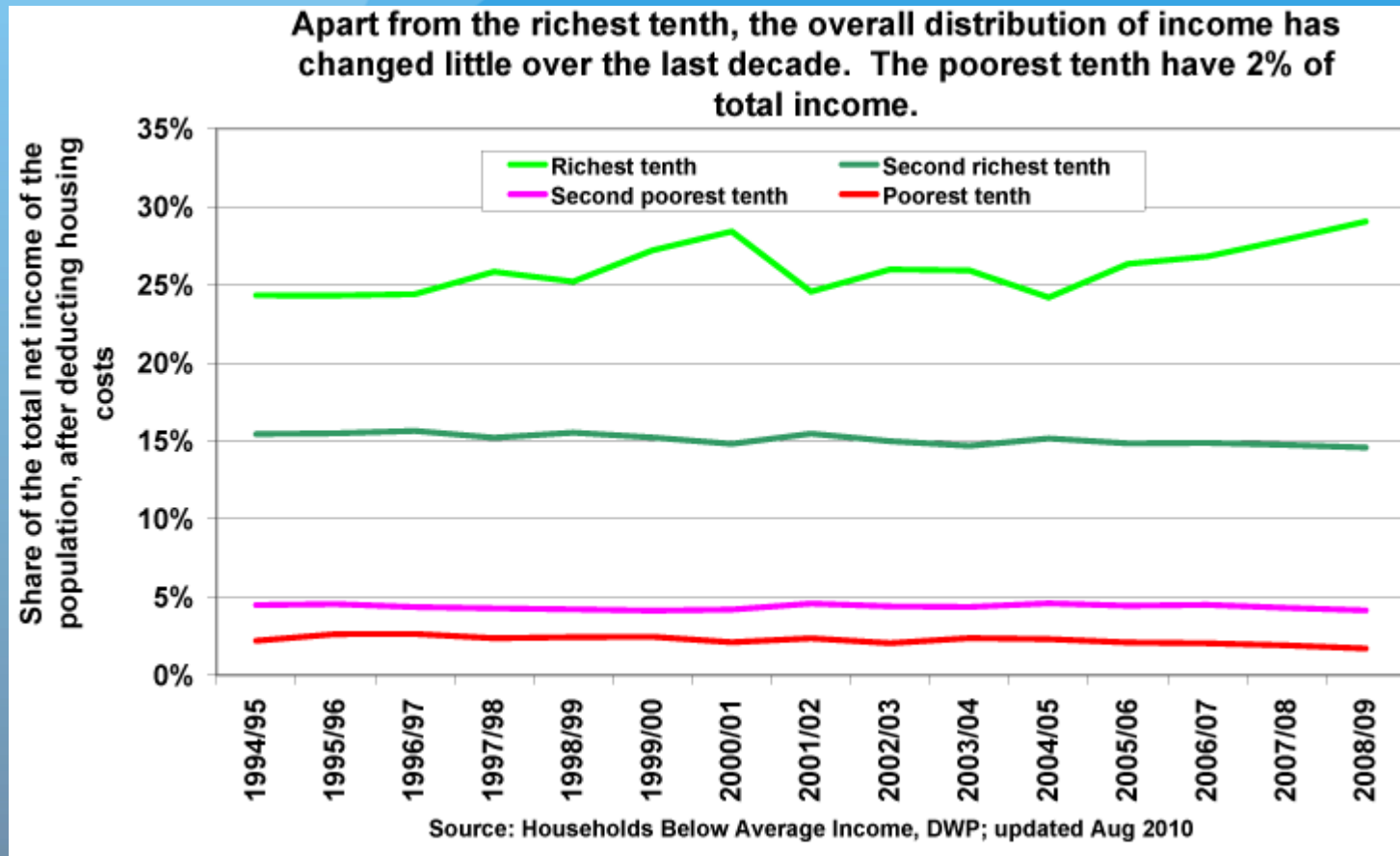
# Levels of income inequality and poverty in OECD countries, mid-2000s (OECD, 2008, Figure 11.1)



# Income inequality in Scotland

- Between 1998/99 - 2008/09 the proportion of total income received by those in the bottom three income deciles remained fairly constant at around 13 or 14 percent (Scottish Government, *Poverty and Inequality in Scotland 2008/09*).
- The top three income deciles received between 50 and 53 percent of total income each year.
- The poorest tenth of the population have, on average, seen their real incomes remain broadly unchanged; the richest tenth have seen much bigger proportional rises in their incomes than any other group (The Poverty Site).
- So while inequality in Scotland is less pronounced than in the rest of the UK, it depends on who you are looking at.

# Total income over time (The Poverty Site, Scotland, *Income Inequalities*) Graph 3, Total income over time)



# Implications and conclusions (1)

- Income inequality is less pronounced in Scotland than in most other parts of the UK, but inequality between the very top and very bottom was rising prior to the recession and cuts to public spending.
- There is a demographic component to income inequality, and some groups have fared better than others (pensioners, children relative to young workless adults); this is likely to worsen (e.g. for the young).
- Earnings dispersion does not capture many sources of income amongst the highest earners.
- Tax and spending policies clearly matter (IFS, *Poverty and Inequality in the UK*) and can change things *quickly*; effects are relational.

# Implications and conclusions (2)

- For Scotland, the focus on the bottom *three* quintiles needs to be unpicked - bottom two look different from the third.
- Countries with lower levels of income inequality also have lower levels of pre-tax and benefit inequality: structure and regulation of labour markets, education, class and social inequalities all matter.
- Globalisation is not only affecting wage and income inequality but security and social mobility.
- Quantitative measures do not capture well-being and resilience *but* these are interrelated.

“some of the ‘adaptive flexibility’ that is an essential component of getting by on a low income, and living in a relatively deprived community, is in danger of becoming more compressed or exhausted in the face of the current downturn - especially as the full ‘downstream’ effects on jobs, incomes and housing may not be seen for some time to come.” (JRF, *Resilience and the recession in six deprived communities*, 2010).

“A poll by the BBC in February 2008 suggested that about two-thirds of the population in 34 countries thought that “the economic developments of the last few years” have not been shared fairly.” (OECD, 2008)