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Introduction: after the turning point

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New Inequalities

The Changing Distribution of Income and Wealth in the United Kingdom

Edited by John Hills

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Chapter

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1 Introduction: after the turning point

John Hills

More than 20 years ago the then Labour government established a Royal Commission on the Distribution of Income and Wealth (RCDIW). The final reports of that commission were published in the summer of 1979. The most recent data to which it had access related to 1978 for earnings dispersion, 1977 for the distribution of household income using *Family Expenditure Survey* (FES) data, the financial year 1976–77 for the overall distribution of income based largely on tax records (the 'Blue Book' series), and 1976 for the distribution of wealth.

The picture painted by the Commission's reports was one of substantial inequalities in the distribution of income and wealth, but one where those inequalities had been narrowing. The 'Gini coefficient' inequality index[1] for the distribution of post-tax income between tax units in the Blue Book series had fallen from 36.6 per cent in 1964 to 31.5 per cent in 1975–76 and 1976–77, well below its 1949 level of 35.5 per cent, indicating reduced income inequality (RCDIW, 1979, table 2.3). The ratio between the top and bottom deciles[2] of male full-time gross weekly earnings was 2.36 in 1978 compared to 2.46 in 1970, but up slightly from 2.32 in 1977. For women the ratio had fallen to 2.34 in 1978, its lowest point in the series examined, compared to 2.57 in 1970 (RCDIW, 1979, table 2.16). The inequality of the personal wealth distribution had reduced substantially between the 1920s and the mid-1960s, and narrowed again between the early and mid-1970s (RCDIW, 1979, tables 4.4 and 4.5).

In 1979 the new Conservative government was elected. One of its earliest actions was the abolition of the Royal Commission, reflecting the changed priority towards distributional issues. From official statistics published through the 1980s, it became apparent, however, that major changes were occurring, particularly in the distribution of income. By 1984–85 (the latest year for which the series was published) the Gini coefficient for post-tax income had reached 36.2 (CSO, 1987), up by 3.6 percentage points from its low point in 1975–76 and 1977–78 (allowing for a change in definitions which added about 1.1 percentage points to the coefficient). The annual CSO *Economic Trends* articles analysing the 'distribution and redistribution of income' using the FES showed rising inequality throughout the 1980s, and a new DSS series, also based on the FES, looking at the position of *Households Below Average Income* (HBAI), showed negligible real income growth at the bottom of the distribution after 1979, despite significant rises in average incomes.

In 1992 the Joseph Rowntree Foundation, an independent research foundation, decided to establish a research programme on different aspects of trends in the distribution of income and wealth. A series of research projects started in 1993 and were completed between the summer and autumn of 1994. The results of the research programme informed the work of the *Income and Wealth Inquiry Group*, also established by the Foundation, whose report was published early in 1995. The chapters of this book bring together the results of twelve of those projects, together with a chapter commissioned by the Inquiry Group from Professor Tony Atkinson (a member of the Royal Commission at the time of its abolition). In the descriptions of these chapters below, footnotes give a reference to the more detailed reports which are available on the findings of some of the projects.

1.1 Overall changes in income distribution

The dramatic changes in income distribution explored in much of this book are illustrated in figure 1.1. This shows the Gini coefficient for the distribution of income from three series:

- The CSO *Blue Book* series for the distribution of post-tax income between 'tax units' (married couples or single people) between 1949 and 1984–85 (there is a break in the series when definitions changed)
- The CSO *Economic Trends* FES-based series for the distribution of equivalised disposable income between households (that is, total household disposable income adjusted by a factor reflecting the size and composition of the household) from 1977–93[3]
- The series derived by Goodman and Webb from the Institute for Fiscal Studies (IFS) (in another project within the Rowntree programme) for the distribution of equivalised net household income between *individuals* using FES data using a three-year moving average from 1961–91, and using broadly the same income definitions as the DSS's *Households Below Average Income* analysis (on the 'before housing costs' (BHC) measure).

Because the three series are based on different units of analysis and different income definitions, their *levels* differ. However, for the years where they overlap there is substantial agreement in the *trends* which they

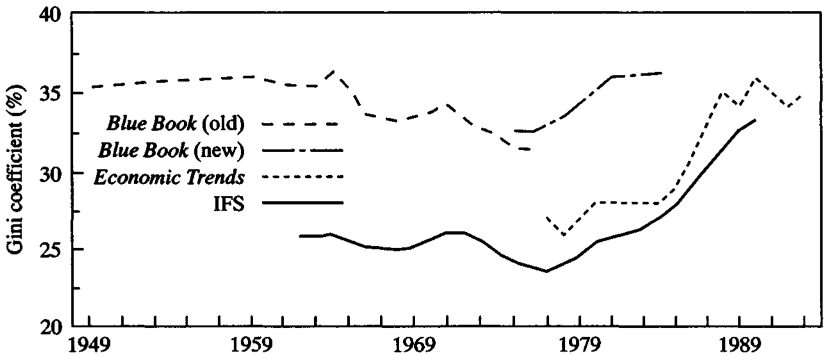

Figure 1.1 Trends in income inequality
Sources: Atkinson and Micklewright (1992, table BI1); CSO (1994, pp. 64–5); Goodman and Webb (1994, appendix figure 2.2).

show. As figure 1.1 illustrates, there was a marked turning point in the second half of the 1970s, coinciding – as it happens – with the latest years for which the Royal Commission had data. Whereas the Blue Book series was about 4 percentage points lower in 1975–76 and 1976–77 than it had been in 1949, between 1978 and 1990 the Gini coefficient in the *Economic Trends* series rose by 10 percentage points, and the IFS series rose by 9.8 percentage points between 1977 and 1990. The latest years of the *Economic Trends* series begin to suggest that this rise halted in the early 1990s, but it is too early to judge whether a new turning point has been reached, or whether the figures simply show a temporary phenomenon.

The implications of the rise in inequality during the 1980s for the real living standards of different income groups are illustrated by figure 1.2. This compares (in the bottom panel) the change in living standards by income group between 1979 and 1991/92 (the average of the two years 1991 and 1992) shown by the latest HBAI analysis (DSS, 1994) with the comparable changes over the period 1961–79 from the IFS analysis using the same methodology (Goodman and Webb, 1994). In each case, income is shown both before deducting housing costs (BHC) and after deducting them (AHC), the latter definition giving a better measure of the change in living standards for certain groups, particularly low income tenants in the 1980s when real rents were rising.[4] The changes shown are for the growth in real incomes at the decile group medians (i.e. at the mid-points of each tenth of the distribution). The actual people in each tenth of the distribution will not, of course, be the same in each year.

Again, figure 1.2 suggests that what was happening to incomes in the 1980s was very different from what had happened in the previous two

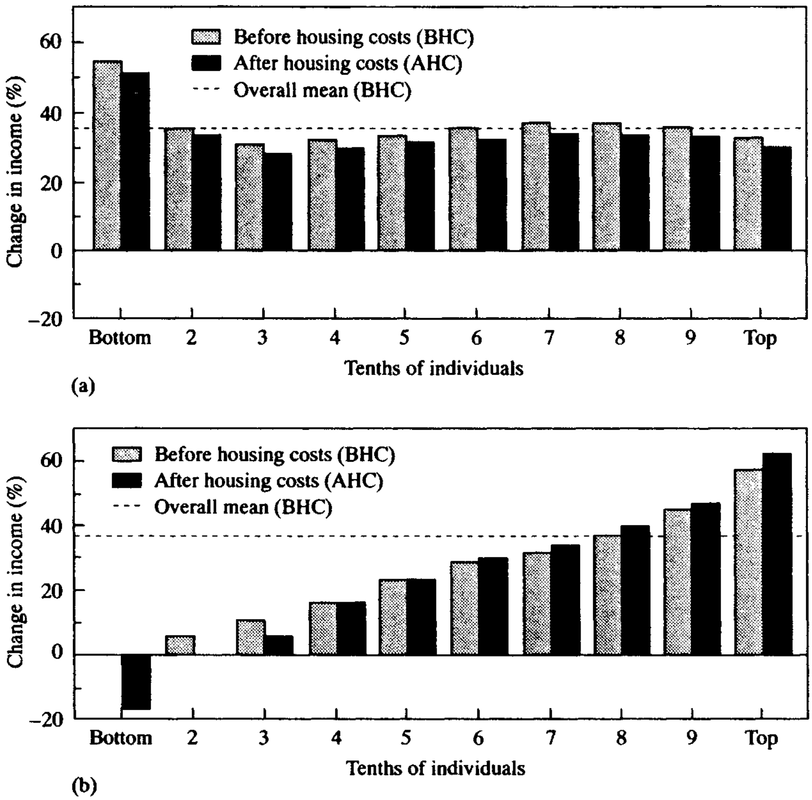

Figure 1.2 Change in real net income, by income group
(a) 1961–79
Source: Goodman and Webb (1994, appendix figure 2.4).
(b) 1979–1991/92
Source: DSS (1994, table A1 and appendix 10).

decades. In the earlier 18-year period shown in the top panel, average incomes rose by 35 per cent (BHC). For no income group was the increase less than 28 per cent, and for the poorest group, incomes rose by over 50 per cent. By contrast, in the 12–13-year period covered by the official DSS series, average incomes rose by 36 per cent – as much over this shorter period as over the previous one – but for the bottom seven-tenths of the distribution, incomes rose more slowly than the average. Right at the bottom, incomes stagnated. Measured after allowing for housing costs, real incomes at the mid-point of the poorest tenth were 17 per cent *lower* in 1991/92 than in 1979. There is some doubt about the accuracy of some of the reported incomes of the self-employed – an issue examined in chapter 9 by Nigel Meager, Gill Court and Janet Moralee – but even excluding the self-employed, real incomes after housing costs fell for the poorest tenth by 9 per cent.

Regardless of the precise figures and definitions, the implication of these figures is clear: since the late 1970s, the living standards of those in the bottom two- or three-tenths of the income distribution have failed to rise significantly, while those at the top of the distribution have risen much more rapidly than the average. The nearer the top an income group lies, the faster its income has risen. The chapters of this book explore this new phenomenon from a variety of angles, looking at the changes in overall income inequality in part I, at different components of income distribution in part II, at geographical/spatial aspects in part III, and at issues connected with wealth distribution – and the links between income and wealth – in part IV.

1.2 The overall income distribution

In chapter 2, Tony Atkinson explores the economics of income distribution from several perspectives. He sets the growth in income inequality in the United Kingdom shown in figure 1.1 in an international context using national studies for other countries, highlighting the difference between the scale of the growth of inequality in the United Kingdom and that in other countries, and shows that rising inequality in the 1980s was *not* a universal phenomenon.

Atkinson argues that economic theory does not at present provide an adequate basis to explain the inequality changes of recent years. The chapter sets out six major reasons why theories of factor incomes (wages, profit and rent) do not provide a theory of personal distribution: heterogeneity of incomes, human capital, diversity of sources, intervening institutions, income from abroad, and the impact of the state budget. Atkinson then goes on to examine in detail three areas. The first is inequality of earnings, including the changing skill differential, deindustrialisation, and the influence of labour market institutions. The second is the impact of rising real interest rates and share prices, discussing the behaviour of companies, pension funds and other intervening institutions. The third is the distributional role of the government budget and public choice explanations. The chapter concludes that the existing literature provides valuable insights but that we lack at present an overall framework to relate the different parts of the income distribution story.

Frank Cowell, Stephen Jenkins and Julie Litchfield present in chapter 3 the revealing results of a new way of analysing empirical information on income distribution, applied to the dataset on which the Department of Social Security's analysis of *Households Below Average Income* between 1979 and 1988/89 is based (DSS, 1992).[5] They use the data for individual households to build up the frequency distribution for incomes in the two years, and show how the richness of the data can be exploited to give a much more detailed picture of the distribution than comes, for instance, from conventional fixed-interval bar charts.

Cowell *et al.*'s analysis shows how the *shape* of the distribution changed over the 1980s. In 1979 the pattern could be summarised roughly as a (rather bumpy) peak of incomes concentrated around a single level, and then a long 'tail' of comparatively few people with relatively high incomes. If all that had happened over the 1980s had been an equal growth in all incomes, the picture for 1988/89 would be of much the same shape, but shifted to the right. In fact what happened was that part of the initial peak stayed in the same place – incomes at the bottom did not grow – but the size of the initial peak became smaller, and the tail of higher incomes became much more substantial. The picture presented suggests that the overall income distribution is, in fact, the product of several sub-distributions, which changed in different ways over the 1980s. The chapter goes on to explore different ways of splitting the population between groups to identify these sub-distributions. Partitioning the population by source of income turns out to be particularly informative.

Chapters 4 and 5 are concerned with different aspects of the link between the incomes of different groups and changes in their living standards. Results like those shown in figure 1.2 are based on the differences in the 'real' incomes for those in each income group using the *same* price index for all income groups: implicitly, they assume that inflation is the same for all households.

In chapter 4 Ian Crawford explores whether inflation has, in fact, been the same for those at the top and bottom of the income distribution, if one allows for the great differences between the kinds of goods which they buy (but not for factors like region – discussed below – or the kinds of shops used).[6] Crawford's results show that there can be quite noticeable differences in inflation rates between the groups from year to year. In some periods – such as the early 1980s – 'inflation' was faster for the poor than the rich. In others – such as the late 1980s – the reverse was true. The exact time period chosen can therefore make a large difference to the results. So, crucially, can the way in which housing is allowed for in calculating 'the cost of living'. Crawford compares the differences between price indices constructed using the way in which the Retail Prices Index (RPI) allows for owner-occupiers' housing costs and those using an alternative measure, the 'user cost of capital' approach. The chapter also looks at the contribution which changes in indirect taxes made to the rise in the cost-of-living for different groups over the 1980s. This brings out the importance of exemptions from VAT for those with low incomes, which protected them from the effects of the rises in VAT rates and slowed the rise in their cost-of-living compared to the average, but also the regressive nature of some of the other indirect tax changes, having the opposite effect.

This analysis is on a national scale, allowing for differences in consumption patterns between rich and poor. In chapter 5, Vani Borooah, Patrick McGregor, Patricia McKee and Gwyneth Mulholland examine the effects of regional differences in prices, using data collected by the Reward Group for prices of the same items in different locations across the United Kingdom.[7] They show both that prices for some commodity groups vary across the United Kingdom, and that many of these differences widened over the 1980s. This has a number of implications. First, as the higher income regions like London and the South East also tend to have a higher cost-of-living, regional income differences are somewhat reduced by allowing for differential costs. Second, inflation was higher in these richer regions over the 1980s than in poorer regions. As high income households are more concentrated in the richer regions, a part of the growth in income inequality of the 1980s illustrated in figure 1.2 would be removed by allowing for regional differences in the cost-of-living. The scale of this effect depends again on the way in which housing is allowed for. If the 'user cost of capital' approach is allowed for (taking into account the rate at which house prices had risen over a 20-year period), the narrowing effect is slightly larger than that produced using the RPI's method for dealing with owners' housing costs.

1.3 Components of income distribution

As Tony Atkinson points out in chapter 2, it is not possible to read straight from changes in the distribution of a single component of income (such as the dispersion of individual earnings) to changes in the overall distribution of income. As figure 1.3 shows,[8] there are several intervening stages between the two. Not only are there other sources of income, such as self-employment, investment income or pensions, but an important role is played by the way in which income from these sources is associated. For instance, investment income may become more equally distributed between those receiving it, but if its receipt becomes more closely correlated with high incomes from other sources, the ultimate result may be a widening of the overall income distribution.

In this context, it is important to note that measures of income like those shown in figure 1.2 or used in the DSS's *Households Below Average*

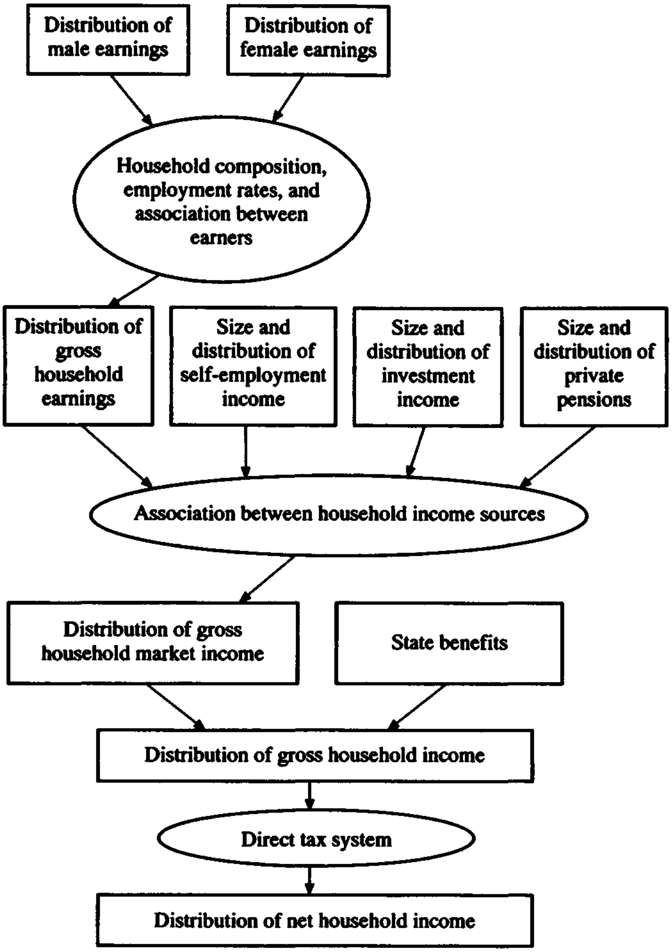

Figure 1.3 Factors affecting distribution of net household income

Income analysis are based on *household* incomes, even if in the analysis each individual is given equal weight. The association between the incomes of household members is therefore of great importance, particularly that between the earnings of partners in a couple: whether high-earning men live with high-earning women, or whether men and women without any earnings at all are in the same households, and changes in these associations, become critical questions (and are explored in chapters 7 and 8).

In chapter 6, Amanda Gosling, Stephen Machin and Costas Meghir concentrate on what happened to the distribution of male hourly earnings between 1966 and 1992, highlighting in particular the period after 1978 when the gaps between high paid and low paid men widened sharply.[9] This followed a period of roughly 90 years during which surveys of earnings suggested that there was considerable stability in earnings differentials (for manual workers, at least). Gosling *et al.* use evidence from the *Family Expenditure Survey* to examine the relationships between earnings differentials and skills groups (as measured by occupational group and, after 1978, number of years of full-time education).

Their analysis explores not only the widening gaps between skill categories, but also those which have occurred *within* skill categories, suggesting that more was going on in the 1980s than simple shifts in the supply and demand for labour in broadly defined categories. While the analysis does for instance, confirm the rising differentials between different skill groups found by other researchers,[10] it shows that this only explains the smaller part of the rise in dispersion. A particular feature of the analysis is the examination of the changing experience of successive cohorts of workers newly entering the labour market. This leads Gosling *et al.* to suggest that the widening gap between older and younger workers seen in cross-sectional data does not necessarily represent a general rise in the premium placed on experience within the labour market. Instead, what may be occurring is a cohort effect, with younger generations of workers at a disadvantage compared to older generations. Particularly for those with low levels of skill or qualifications, this disadvantage, they suggest, may be permanent rather than being remedied by later experience effects.

Chapter 7, by Susan Harkness, Stephen Machin and Jane Waldfogel, concentrates on women's earnings and their contribution to family incomes, using data for couples and single women aged 24–55 from the *General Household Survey* over the period 1979–91.[11] During this period there were major changes in women's labour force participation and in the relative contribution of women's earnings to family incomes. First, the authors report the decline of the male 'breadwinner' – male earnings fell as a share of gross family income for couples aged 24–55 from nearly 73 per cent in 1979–81 to 61 per cent in 1989–91, while the shares from female earnings and from other sources rose. Female earnings are now a much more important part of family incomes and this is the case for many couples, not just for the wives of relatively well paid men. In fact, over the 1980s the share of family income from women's earnings rose most rapidly for the wives of men with low earnings (but not for those with no earnings).

This, Harkness *et al.* argue, has two important implications. First, the growth in female labour force participation in the 1980s had an equalising effect on the distribution of income (within this particular population group).[12] Second, women's earnings cannot be regarded as simply 'pin money' and therefore irrelevant to the incidence of low family incomes: without the contribution of women's earnings, they show, poverty rates for these couples would have been far higher. The chapter also examines the changing labour market position of single women (both with and without children) over the 1980s, examining whether what has been most important has been the rising incidence of lone parenthood (that is, changing family structure) or changes in behaviour within groups, concluding that the latter has been the more important.

Paul Gregg and Jonathan Wadsworth in chapter 8 pick up the theme of rising female participation for couples where the man is earning, but falling participation where he is not, to look more generally at the problem that earners are becoming concentrated in a smaller number of households. This was one of the contributory factors behind the growth in overall income inequality in the 1980s. Quite apart from the effects of rising earnings dispersion overall, household incomes became more unequal because some had two wages coming in, while others had none, and this polarisation between 'work-rich' and 'work-poor' increased over the 1980s.

Gregg and Wadsworth use data from the *Labour Force Survey* between 1975 and 1993 for adults not in full-time education and aged under 60 to explore the reasons behind this shift. They examine first the rise in non-employment for those without an employed partner (either because they are single or because their partner is not employed), and then focus on the way in which this appears to have occurred mainly because of a collapse in their exit rates from non-employment. For instance, far fewer couples who start a year with no earner now end the year with one or two earners than used to be the case. The authors then investigate a number of potential explanations of this phenomenon, although the data allow more by the way of rejection of some explanations than of confirmation of others.

Another striking feature of the 1980s was the large rise in self-employment in the United Kingdom. This is investigated by Nigel Meager, Gill Court and Janet Moralee in chapter 9.[13] This affected the overall distribution of income significantly because families with self-employed members are to be found disproportionately at both the bottom and the top of the income distribution. Jenkins (1995) found that between 1981 and 1986 changes in self-employment incomes were the largest single contributor to overall inequality growth. However, as discussed above, it has been suggested that because some of the self-employed may misreport their incomes to official surveys this may have contributed a spurious component to the growth in the number of people living in households with relatively low incomes.

Meager *et al.* report the results of their investigation of a number of data sources, in particular the new ESRC *British Household Panel Survey*, as well as the 1988 survey of *Retirement and Retirement Plans*. These sources include those where the authors expected under-reporting to be less of a problem than with, say, returns to official surveys which might be seen as linked to taxation. One finding is that data from a variety of sources confirm the existence of a substantial group of the self-employed with low incomes when in work (and also in retirement for some of the formerly self-employed). This group has particular characteristics, and it was the self-employed with these characteristics who were one of the most rapidly growing groups in the 1980s. Using multivariate analysis, the authors investigate whether self-employment has an influence separate from other linked characteristics in determining the odds that someone will be at the top or bottom of the income distribution (which it appears to for the latter, but not the former). They also point to the important implications of the wide dispersion of self-employment incomes, and of the way in which state pensions are not well-adapted for the self-employed, for continued inequality in retirement.

Finally in this part of the book, Martin Evans in chapter 10 examines a further important component of gross incomes, that determined by the benefit system.[14] He looks in particular at the effects of the reforms to means-tested benefits which were implemented in 1988 following the results of the 'Fowler reviews' of the social security system. These reforms were billed as the 'most radical since Beveridge', so they might have been expected to have had a major effect on income distribution. In fact, Evans concludes, their effect was more to move certain kinds of household around within the lower part of the income distribution, rather than to make any significant difference to the numbers with incomes below particular thresholds or poverty lines. The chapter shows various ways in which the reforms succeeded in their objective of making the system simpler to administer, and in which they targeted more resources on some groups rather than others. However, it also raises the question of whether the reforms created gaps in the minimum income safety net which the social security system is supposed to guarantee.

Taken together with other studies of particular aspects of UK income distribution,[15] the findings reported in this part of the book show that it would be a mistake to single out one particular factor as having been responsible for the substantial changes over the 1980s. What was remarkable was that changes in most of the factors determining income distribution were pushing in the same direction.

1.4 Spatial aspects of income and wealth distribution

Chapters 11 and 12 examine whether the growth in income inequality described at a national scale in earlier chapters has been accompanied on the ground by an increasing polarisation between areas, as measured by available indicators of deprivation or affluence. In chapter 11 Anne Green presents findings from her study of the Censuses of 1981 and 1991.[16] The Census does not contain direct information on income levels or people's stock of wealth, but it does contain information on a number of factors which are known from other sources to be correlated to a greater or lesser extent with high or low incomes. Using these indicators, Green presents results by geographical area over the 1980s in Great Britain at two scales, by local authority district, and at ward (neighbourhood) level.

At local authority district scale, Green's findings indicate both continuity and change in which districts are to be found at the top of a variety of 'league tables' by deprivation indicators. Some feature high up the rankings in both years, and feature highly on a variety of rankings. There are, however, districts which substantially improved their position over the 1980s – notably including (on some indicators) areas associated with closures in the steel industry in the early 1980s. For others, their position deteriorated between 1981 and 1991, notably including several Inner London boroughs. In general, the results for indicators of affluence are rather more stable: areas which appeared affluent in 1981 were still so in 1991.

While these results do not indicate any greater distance in 1991 than in 1981 between 'best' and 'worst' areas at this scale, the results analysed at the much finer ward scale do indicate an increase in geographical polarisation over the period. Green's results suggest that what is occurring is more complex than any simple 'North–South divide', with significant changes happening *within* cities and towns, related to the kinds of labour market changes explored in earlier chapters.

This theme is picked up by Michael Noble and George Smith in chapter 12. They present results from their micro-level study of Oxford and Oldham.[17] This is based not only on the use of Census data (this time at the even finer 'enumeration district' level) for 1981 and 1991, but also on the use of computerised and post-coded Housing Benefit records from the two towns. This allows them to build up very detailed maps using the same kinds of indicators of deprivation and affluence used in chapter 11, as well as showing the proportion of the population receiving Income Support at six-monthly intervals.

Their results confirm at a finer scale some of the conclusions reached by Green's national study. First, there is considerable stability over time in which areas within each town are classified as better- or worse-off, but at

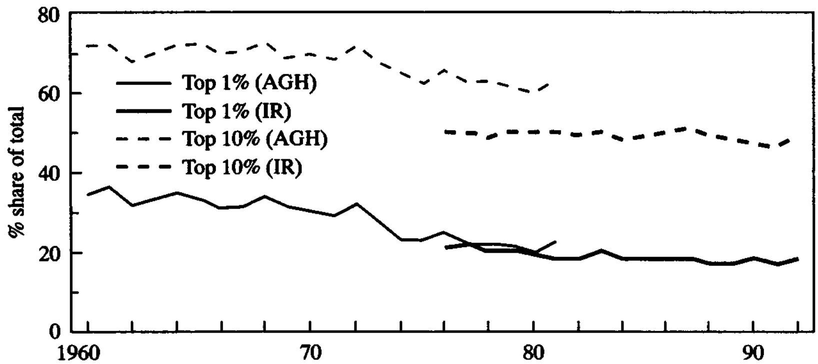

Figure 1.4 Distribution of marketable wealth, 1960–90
Sources: AGH from Atkinson *et al.* (1989, table 1) (GB); IR from Good (1990, table C) and Inland Revenue (1994, table 13.5) (UK).

the same time there is clear evidence of an increasing gap between 'best' and 'worst' areas over time at this scale, with this increased polarisation particularly pronounced in Oldham. The results also suggest the importance of the connection between housing tenure and income in this process. Because council housing tends to take the form of large single-tenure estates, as council tenants have increasingly become concentrated in the lower income groups,[18] so polarisation on the ground has increased.

1.5 Wealth and its links with income

Chapters 13 and 14, the final two chapters, examine aspects of the distribution of people's wealth, in the sense of their *stock* of assets (as opposed to their flow of income), and look in particular at the links between income and wealth levels. Figure 1.4 presents the most recent Inland Revenue figures for the shares of marketable wealth owned by the top 1 per cent and 10 per cent of wealth-holders, as revealed by data on the size of estates, together with earlier trends taken from Atkinson *et al.*'s (1989) study. Figure 1.4 suggests that the distribution of marketable wealth narrowed significantly in the 1960s and early 1970s, but that the long-term trend towards reduced inequality ended in the mid-1970s, since when there has been very little change. Using a wider definition of wealth, including the value of people's accrued rights to occupational and state pensions, inequalities in wealth increased between 1976 and 1992 (Inland Revenue, 1994, table 13.7).

There are, however, limitations to the information which can be drawn from the estate-based wealth distribution series. First, its coverage of the total of marketable wealth is quite high, but it excludes a large proportion of the population who have low (but positive) levels of wealth. Second, because the source of the data is records of estates as assessed for taxes when they are passed on at death, they provide no direct information on the links between income and wealth.

In chapter 13, James Banks, Andrew Dilnot and Hamish Low present the results of analysis of a survey which allows these gaps to be filled, at least in part. They present findings from the *Financial Research Survey*, carried out by National Opinion Polls. This survey asks respondents about both their incomes and the level and types of their financial assets. Banks *et al.* point out that the survey appears to omit the richest wealth-holders, who account for much of the total of marketable wealth, but suggest that their results are broadly representative of the position of the 'bottom 90 per cent' of the population. They also use data from the first wave of the *British Household Panel Survey* to estimate levels of housing wealth, which they combine with the information on financial assets to give a picture of marketable wealth more broadly defined. These surveys allow them to present new findings on the way in which wealth distribution is linked separately to both income and age, in terms of the kinds of asset held and in the overall value of assets, and to examine the shift in asset-holdings between 1987–88 and 1991–92.

Both life-cycle factors and income level are important determinants of people's wealth levels. This is particularly important in the case of net equity in owner-occupied housing, which for many people represents their most important asset. Data from the *British Household Panel Study* on housing assets are explored in more detail in chapter 14, by Chris Hamnett and Jenny Seavers. They describe the two different ways in which the capital values of owner-occupied property can be derived from the survey – original purchase price adjusted for subsequent house price increase on a regional basis, and the owner's own estimate of current market value – and discuss the problems of establishing the value of outstanding mortgages to give reliable estimates of net housing wealth (or housing equity). Hamnett and Seavers's results show that age and income are not the only factors which have strong links with the level of net housing wealth (other factors include socio-economic group, region, and year of purchase), and that it is very important to distinguish between outright owners and mortgagors in analysing these links. The survey also allows examination of the rather different position of those owners who were originally tenants of their house, but have subsequently purchased under schemes such as the Right to Buy.

The chapters in this book shed new light on the substantial distributional changes in the United Kingdom over recent years. The gradual, and uneven, reduction in the inequality of income ended in the late 1970s, and income inequality in the United Kingdom grew rapidly in the 1980s, more than reversing the previous post-war fall. Meanwhile, the inequality of wealth distribution reduced substantially up to the mid-1970s, but has since levelled out. While it is possible that the evidence available at the moment precedes a new turning point or change of trend, as with that surveyed by the Royal Commission of the 1970s, these changes have already had major implications both for the economy and for the social fabric. Understanding the complexity of the factors which have contributed to them is a crucial step on the way to designing policies which could begin to cope with their effects.

Notes

1. The Gini coefficient is one of the most commonly used indices of the inequality of a distribution, taking a value of zero if all the units (individuals, tax units or households) under investigation have the same income (under whatever definition being used), rising to a maximum of one (or 100 per cent) if a single unit has all of the income, and the rest none.
2. 10 per cent of earners have earnings below the bottom decile, and 10 per cent have earnings above the top decile.
3. Incomes are adjusted using the DSS's 'McClements' equivalence scale. Note that the figures for individual years are rounded to integers, and that income definitions vary between years, so that the differences between years are subject to some uncertainty.
4. This is because for tenants receiving Housing Benefit covering all of their rents, a rise in rents causes an increase in Housing Benefit, and hence in BHC incomes, even though their living standards are unchanged. Using AHC incomes removes this problem.
5. See Jenkins and Cowell (1994) and Jenkins (1994) for further results from the study on which this chapter is based, including results for intervening years between 1979 and 1988/89 and extension to 1990/91.
6. See Crawford (1994) for more details of the study reported here.
7. See Borooah *et al.* (1994) for more discussion of the results described here.
8. Figure 1.3 is a simplified version of an equivalent diagram presented in Gardiner (1993).
9. See Gosling *et al.* (1994a and 1994b) for more details of the study reported here.
10. See, for instance, Schmitt (1994).
11. See Machin and Waldfogel (1994a) and Harkness *et al.* (1994) for more details of the study on which this chapter is based.
12. As far as *overall* income distribution is concerned, the effect is less clear, as the phenomenon also contributed to a rising gap between the incomes of this group and other population groups.

13. See Meager *et al.* (1994) for the full report of the study on which this chapter is based.
14. See Evans *et al.* (1994) and Evans (1994) for more detailed discussion of the results presented here.
15. See the discussion of some of these factors in chapter 2 and in Atkinson (1993a), and see Jenkins (1995) for an overview of changes between 1971 and 1986 and of the relative importance of different components. For aspects related to changes in the taxation system, see Johnson and Webb (1993), Giles and Johnson (1994), and Redmond and Sutherland (forthcoming). For a discussion of the evolution of relative benefit rates, see Hills (1993).
16. See Green (1994) for a full report of the results of the study.
17. See Noble *et al.* (1994) for further details of the study.
18. Hills (1993), figure 49.