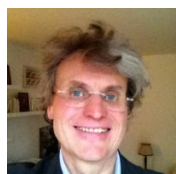


Economic inequalities in Britain – from the 2008 Financial Crisis to Brexit



Nicholas Sowels provides an up-to-date account of inequalities in the UK since the financial crisis and explains how the current trends compare internationally, as well as among different social and age groups.

Income growth in the UK has been weak since the financial crisis. It is a trend which seems likely to continue through to the early 2020s. But in overall terms, this has not been accompanied by a worsening of income inequalities. [Official data](#) from the DWP indicate a broad stability in the inequality of disposable household income, equivalised (i.e. weighted) for household composition. In 2006/07, the [Gini coefficient](#) before housing costs was 35% and after housing costs it was 39%. In 2015/16, these rates were [exactly the same](#).

Other data [published by the ONS](#) actually indicate a slight decrease in income inequality in recent years. According to this data series, the Gini coefficient has fallen from a peak of 36% in 1999-2000, to 35% in 2006-07, to 32% in 2015-16. This is the same level as in 1986, the 1980s being the decade which saw income inequality rise significantly before reaching a plateau in the 1990s.

Britain's comparative position internationally

According to the standardised data of the OECD, despite a fall in its Gini coefficient from 37% in 2007 to 36% in 2014, the UK is Europe's most unequal country in terms of disposable income (apart from Estonia). Figures for 2014 (or the latest available) for the other major European countries were: France (29%), Germany (29%), Italy (32.5%), Poland (30%), and Spain (35%). Britain is also the most [unequal English-speaking country](#) within the OECD, except the United States.

Contrasting experiences between income and age groups

The ONS figures attribute the marginal reduction of overall income inequality to a rise of incomes of the bottom quintile (the 20% of households with the lowest incomes), and a fall in incomes in the top quintile. The former experienced a rise of £1,600 between 2007/08 and 2015/16 (+13%), while the latter faced a fall of £1,900 (-3%). For all households, the [median disposable real income](#) in 2015/16 was £1,000 higher than in 2007/08. According to the [Institute for Fiscal Studies](#), the improvement in low incomes has been due mainly to the performance of the labour market, which experienced strong job growth from late 2013 onwards.

Yet the overall figures mask differences between social groups, especially pensioners and young people. [The IFS notes](#) that the median income of the over-60s rose by 11% between 2007-08 and 2014-15. This resulted from an 8% rise in pensioner benefits. But it also stems from real growth in private pensions and increases in employment of older people. In stark contrast, workers aged 22 to 30 have suffered most since the financial crisis: in 2014-15, their real median income was still 7% below the pre-recession level.

Wealth inequality and the impact of housing

Most information about inequality concerns incomes, which are flows and easier to identify. Wealth inequalities by contrast are stocks, and harder to measure. Data are also difficult to come by, as wealth-holders are reticent about declaring their assets. Wealth inequality is, however, a burning issue, as it is far greater than income inequality. According to [Rowena Crawford et al.](#), the Gini coefficient of wealth in 2010-12 stood at 64% – nearly twice the income level. Using the latest wave of the Wealth and Assets Survey covering 2010-12, they go on to note that the poorest 1% of households had a net negative wealth of £12,000; the net median wealth was equal to £104,000; while the 95th percentile owned £0.7 million and the top 1% £1.4 million.

In the UK, the question of wealth is particularly important in terms of its impact on housing costs. These tend to aggravate income inequalities as poorer people pay a greater share of their income towards housing. According to [DWP data](#), housing costs have increased the income Gini coefficient by an average 4% since the mid-1990s.

Trends in poverty

The [latest figures](#) indicate that median equivalised net disposable income before housing costs in the UK was £481 per week in 2015/16. Taking the 60% threshold of median income as a measure of poverty, the poverty income was thus £288. Respective weekly amounts after housing costs were £413 and £248.

Accordingly, there were 10.4 million people living in relative poverty before housing costs in 2015/16, equal to 16% of the population. After housing costs, these figures rise to 12.8 million. Notably, there has been a slight decline in the last two decades. In 1994/95, 19% of the population was living below the 60% threshold before housing costs; in 2006/07 the figure was 18%. The after housing costs numbers were 24% and 22%.

An alternative measure of poverty shows a greater absolute improvement. When taking the nominal value of the 60% income threshold in 2010/11 and adjusting it for inflation, the number of people living at or below this real level of income after housing costs fell from 41% of the population in 1994/95, to 22% in 2006/07, to 20% in 2015/16.



Future trends and Brexit

While it is still too early to measure the impact of Brexit on inequality and poverty statistics, both [the IFS](#) and the [Resolution Foundation](#) published studies suggesting that the diverging experiences of pensioners and young people are likely to persist in the medium term. The Resolution Foundation study indicates that higher inflation following the devaluation of the pound will squeeze real incomes, especially for poorer households, while the IFS estimates that earnings growth will favour higher incomes. At the same time, low-income private renters are likely to be hit especially through to the early 2020s.

Note: the above draws on the author's chapter in [Inequalities in the UK: New Discourses, Evolutions and Actions](#) and appeared originally on [LSE British Politics and Policy](#). This article gives the views of the author(s), and not the position of LSE Brexit, nor of the London School of Economics and Political Science. Featured image: [Pixabay](#) (public domain).

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