Income inequality in the UK

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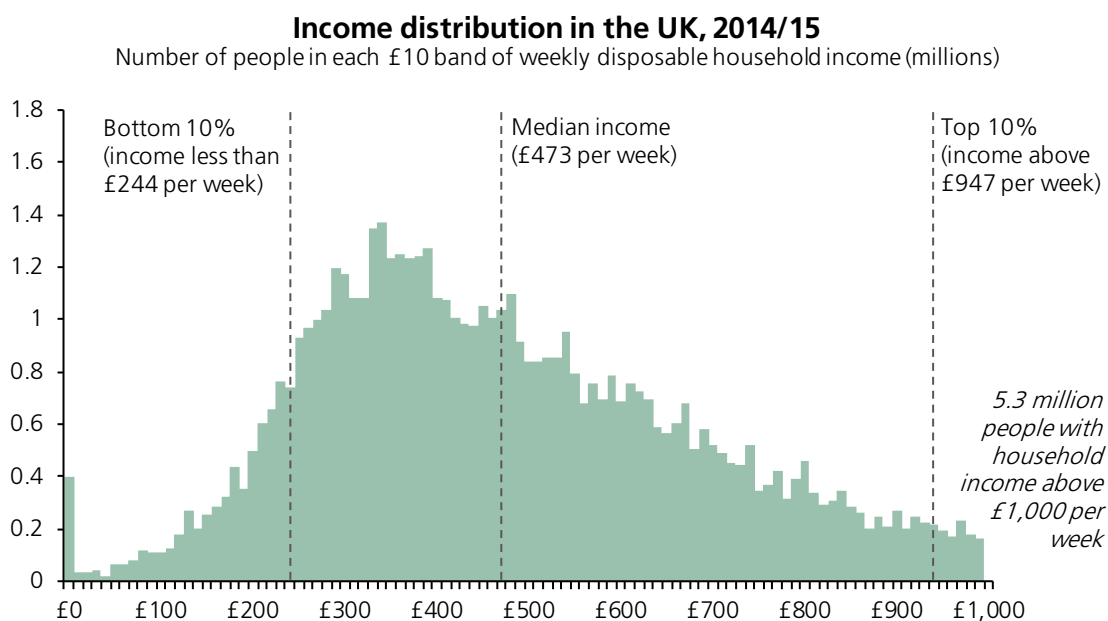
Contents

Summary

This briefing paper presents statistics on income inequality. In the UK, inequality in household incomes has remained at a roughly similar level since the early 1990s, but is higher than during the 1960s and 1970s. Following the 2008 recession, there was a small reduction in income inequality (based on income before deducting housing costs) as higher income households saw a larger real terms fall in income than households at the bottom of the distribution. This can be explained by the sharp fall in real earnings after the recession, while benefits levels remained more stable.

Measurement of income inequality is generally concerned with inequality in disposable incomes (after benefits and after direct taxes). The tax and benefit system acts to reduce inequality: disposable income is distributed more equally than income excluding benefits or before deducting taxes.

Various indicators may be used to track income inequality. For example, the Gini coefficient summarises income inequality into a single number between 0 and 100%. Other indicators discussed in this briefing paper include the ratio of incomes for individuals at different points on the household income distribution (how does the income of someone with a relatively high income compare to that of someone with a relatively low income?), and the share of total income going to different groups of households. By looking at these different indicators together, a more complete picture of income inequality is obtained.

OECD figures suggest income inequality in the UK is higher than in most European countries but is lower than in the United States, based on the Gini coefficient for equivalised disposable income (i.e. disposable income adjusted for differences in household size and composition). Data published by Eurostat gives a slightly different picture, indicating income inequality in the UK is lower than in some other EU countries but is still higher than the EU average.

Income distribution in the UK, 2014/15
Number of people in each £10 band of weekly disposable household income (millions)

Notes: weekly equivalised disposable household income, before housing costs.
Source: DWP, Households below average income, 1994/95 - 2014/15, Figure 2.1
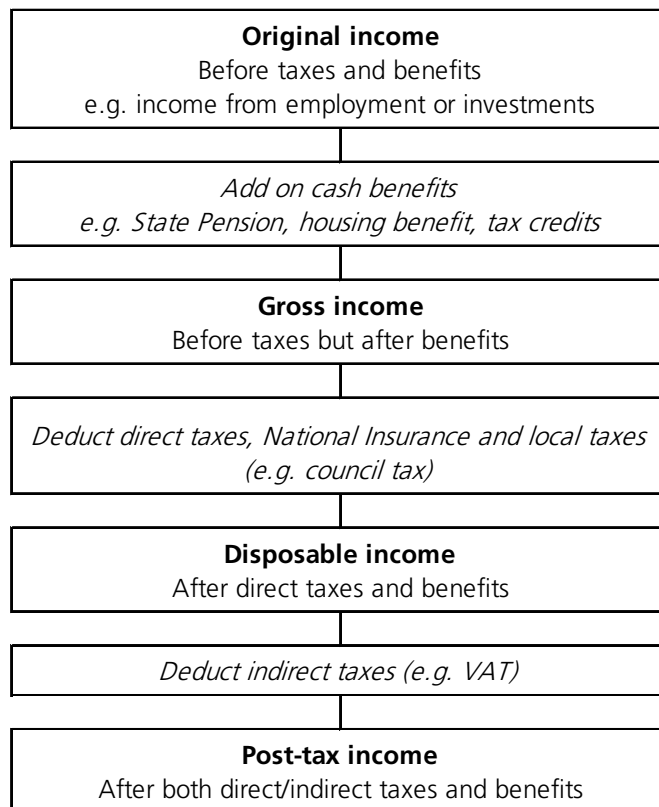
1. A picture of income in the UK

1.1 What do we mean by income

Individuals and households can obtain income from a range of sources. These include earnings from employment, cash benefits (for example the State Pension, housing benefit, tax credits, etc), investments, private pensions and other forms of income. Some of this income may be taxed.

The two most common measures of income are:

- **Gross income** means the sum of all income before tax, including cash benefits.
- **Disposable income** means the amount of money left out of gross income after direct taxes, National Insurance contributions and council tax (or Northern Ireland rates).

The flowchart summarises the different stages of household income:[1]

Original income Before taxes and benefits e.g. income from employment or investments
Add on cash benefits *e.g. State Pension, housing benefit, tax credits*
Gross income Before taxes but after benefits
Deduct direct taxes, National Insurance and local taxes *(e.g. council tax)*
Disposable income After direct taxes and benefits
Deduct indirect taxes (e.g. VAT)
Post-tax income After both direct/indirect taxes and benefits

Household living standards

This note focuses on household incomes, rather than incomes of individuals. Household income is likely to prove a better guide to living standards than income of individuals, since we may expect income to be shared between household members. Certain forms of income are also determined by household composition – for example, tax credit awards or child benefit payments.

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[1] Adapted from ONS, *The Effects of Taxes and Benefits on Household Income, Financial Year Ending 2014*, 29 June 2015, Diagram A

Larger households need larger incomes

Statistics on household incomes are often **equivalised** (adjusted for household size and composition) to enable better comparisons of living standards. A large household is likely to need a higher level of income in order to enjoy the same standard of living as a smaller household.

Income before and after housing costs

Disposable income may be measured before or after deducting housing costs. There is more inequality in income after housing costs (AHC) than in income before housing costs (BHC), as poorer households tend to spend a higher share of their income on housing than those higher up the income distribution.

A BHC measure acknowledges that some households may choose to pay more for housing so that they can have a better quality of accommodation. On the other hand, variations in housing costs do not always reflect differences in housing quality – in which case an AHC measure is more helpful.

Income and wealth

This note does not discuss inequalities in household wealth. While income measures the flow of money to a household at a single point in time, wealth can be built up and retained over many years. Consequently, inequality in household wealth tends to be greater than inequality in income. Statistics on the distribution of household wealth are provided in Chapter 2 of ONS report, *Wealth in Great Britain Wave 4, 2012 to 2014* (18 December 2015). Chapter 7 looks at the extent to which wealth is distributed more unequally than income.

Measuring living standards: an expenditure approach?

Measurement of inequality in household living standards tends to focus on differences in income. However, income may not be the best guide to a household's standard of living as some families have high or low incomes only temporarily. A practical problem is the difficulty of collecting accurate data, particularly at the bottom end of the income distribution, as households may under-report their income.

An alternative is to assess living standards based on household expenditure. Households experiencing a temporary drop in income may sustain their previous expenditure patterns to some degree by drawing on savings or taking on debt (in the expectation that their income is soon to increase again). Under-reporting also appears to be less of a problem when measuring expenditure than when measuring income: survey data finds that households with the lowest reported incomes are not the lowest spenders.

To expenditure we can also add benefits derived from goods bought previously that are still being 'consumed' (for example, housing or cars). This gives a more positive picture of living standards for households who may be on low incomes but own their own home.

Nevertheless, an expenditure approach is not perfect. As with income-based measures, it does not take into account improvements in living standards arising from investment in public services. The accurate measurement of household expenditure brings its own problems and the survey used to collect data on household spending, the Living Costs and Food Survey, has fewer respondents than the Family Resources Survey used to collect incomes data. One could also argue that measuring poverty based on household expenditure is less intuitive than an approach based on household income.[2]

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2   For further information on the relative merits of assessing living standards based on consumption instead of income see: Mike Brewer and Cormac O'Dea, *Measuring living standards with income and consumption: evidence from the UK*, ISER Working Paper 2012-05, March 2012; Mike Brewer, Ben Etheridge and Cormac O'Dea, *Why*

1.2 What counts as high and low income?

As noted above, analysis of the income distribution tends to concentrate on equivalised disposable household incomes. Equivalisation adjusts reported income figures according to household size and composition (using a reference point of a childless couple) because a larger household is likely to need a higher income to enjoy the same standard of living as a smaller household.[3] So what income is received by different family types at different points along the distribution?

Disposable income (before housing costs)

An individual was at the **middle** of the distribution in 2014/15 if his or her disposable weekly household income was:[4]

- £473 for a couple with no children
- £317 for a single person with no children
- £506 for a single person with two children aged under 14
- £662 for a couple with two children aged under 14.

An individual was in the **bottom 10%** if he or she had household income less than:

- £244 for a couple with no children
- £163 for a single person with no children
- £261 for a single person with two children aged under 14
- £342 for a couple with two children aged under 14.

An individual was in the **top 10%** if he or she had household income greater than:

- £947 for a couple with no children
- £634 for a single person with no children
- £1,013 for a single person with two children aged under 14
- £1,326 for a couple with two children aged under 14.

Gross income

Disposable income is net of income tax, National Insurance, council tax and domestic rates, contributions to occupational pension schemes and student loan repayments, among other items. Therefore it is not perfectly correlated with gross income: households with the same gross income may face different deductions (for example, a household with two earners on £10,000 per year will pay less in income tax than a household with one earner on £20,000).

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are households that report the lowest incomes so well-off?, University of Essex Department of Economics Discussion Paper series, No 736, April 2013

[3]   Figures are adjusted using the OECD equivalence scale for income before housing costs. A single adult is given a weight of 0.67; each additional adult in the household or child aged 14 and over is given a weight of 0.33; each child under 14 years has a weight of 0.2. Therefore a couple without children has a weight of 0.67+0.33 = 1; a couple with two children under 14 has a weight of 0.67+0.33+0.2+0.2 = 1.4. Different equivalence scales may be applied to income after housing costs.

[4]   DWP, *Households below average income, 1994/95 – 2014/15*, Table 2.2db. Figures for other family types have been calculated by the Library based on equivalence scales.

The figures below show gross income for certain family types at different points on the gross income distribution. They are not directly comparable with estimates of gross household income as published in the National Accounts or other sources.[5]

An individual was at the **middle** of the distribution in 2014/15 if his or her gross weekly household income was:[6]

- £576 for a couple with no children
- £386 for a single person with no children
- £616 for a single person with two children aged under 14
- £806 for a couple with two children aged under 14.

An individual was in the **bottom 10%** if he or she had household income less than:

- £277 for a couple with no children
- £186 for a single person with no children
- £296 for a single person with two children aged under 14
- £388 for a couple with two children aged under 14.

An individual was in the **top 10%** if he or she had household income greater than:

- £1,311 for a couple with no children
- £878 for a single person with no children
- £1,403 for a single person with two children aged under 14
- £1,835 for a couple with two children aged under 14.

1.3 Sources

Official statistics on household incomes are primarily collected through two large household surveys: the *Family Resources Survey* and the *Living Costs and Food Survey*. This note uses data from both surveys.

The two surveys use slightly different definitions of income so results are not directly comparable. The Family Resources Survey also has a larger survey sample of around 20,000 households which allows it a greater level of precision, compared to the Living Costs and Food Survey which collects information from around 5,500 households.

Incomes data from the Family Resources Survey is published in an annual publication from the Department for Work and Pensions, *Households below average income*. The latest data are for 2014/15 and were published on 28 June 2016.

Data from the Living Costs and Food Survey is published by the Office for National Statistics (ONS) in its annual bulletin, *The effect of taxes and benefits on household incomes*. The latest data are also for 2014/15 and were published on 24 May 2016. The Living Costs and

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5   Figures are based on the same equivalisation scale as for disposable income before housing costs. There is no specific equivalisation scale for gross income.

6   House of Commons Library analysis of survey microdata (Department for Work and Pensions. (2016). *Households Below Average Income, 1994/95-2014/15*. [data collection]. *9th Edition*. UK Data Service. SN: 5828, http://dx.doi.org/10.5255/UKDA-SN-5828-7)
    Analysis is based on rounded data so may differ slightly to any equivalent figures published by the Government.

Food Survey also collects data on household expenditure as presented in the ONS *Family Spending* release.

For further information on the surveys and related publications see ONS, *A guide to sources of data on earnings and income* (January 2015).

2. Indicators of income inequality

2.1 Gini coefficient

A widely used indicator of income inequality is the Gini coefficient. This summarises inequality in a single number which takes values between 0 and 100%. A higher value indicates greater inequality.

In the UK, inequality as measured by the Gini coefficient increased during the 1980s but from 1990 onwards has remained more stable, based on data from the *Family Resources Survey*. The latest data are for 2014/15 and show that the Gini coefficient for the UK is about the same as the previous year, but is lower than immediately before the economic downturn in 2008.
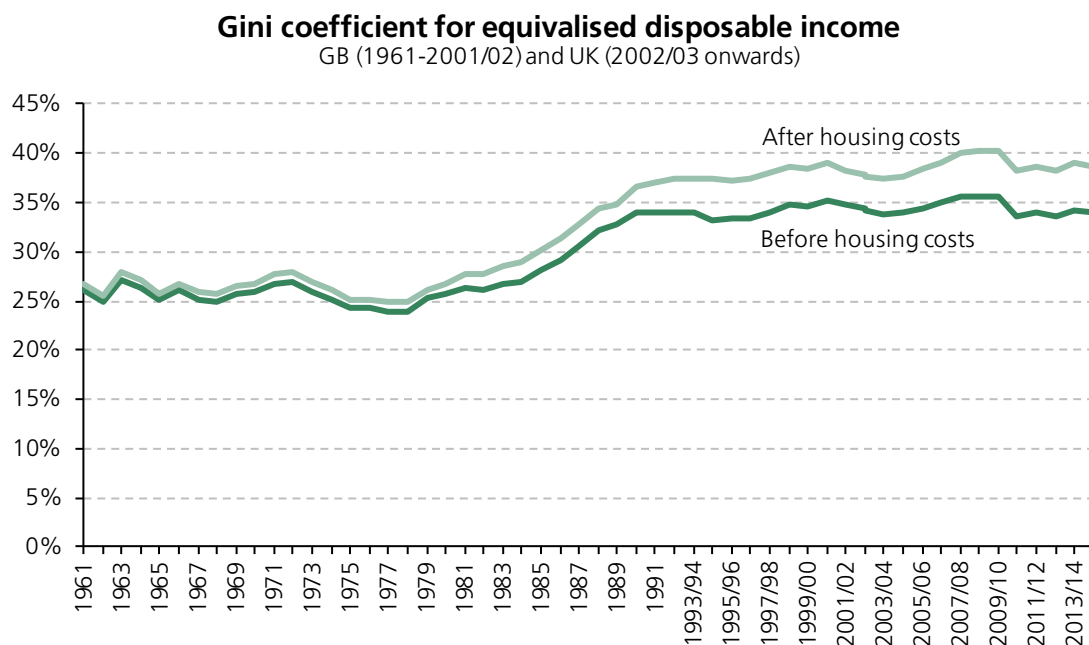
Gini coefficient for equivalised disposable income
GB (1961-2001/02) and UK (2002/03 onwards)

Source: Institute for Fiscal Studies, using data compiled from Family Expenditure Survey and Family Resources Survey

Between 2009/10 and 2010/11, the Gini coefficient fell by 2% points based on incomes before housing costs (from 36% to 34%) as a result of real incomes at the top of the distribution falling by more than at the bottom of the distribution.[7] The Institute for Fiscal Studies (IFS) explains:

> The primary reason for the fall in inequality was that real earnings fell sharply while benefit entitlements remained relatively stable. Median income for non-working households (including pensioners) was 60% of that of working households in 2007/08, but 67% by 2012/13.[8]

The Gini coefficient is higher based on income after housing costs, because households at the lower end of the income distribution tend to spend a larger share of their income on housing than higher-income households.

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7   DWP, *Households below average income, 1994/95 to 2014/15* (and 2010/11 edition)
8   C Belfield, J Cribb, A Hood and R Joyce, *Living standards, poverty and inequality in the UK: 2014*, 15 July 2014, IFS Report R96, Chapter 3, p34

These figures are based on analysis of the Family Resources Survey although a similar picture emerges using data from the Office for National Statistics' *Living Costs and Food Survey*. There are small differences arising between the two sources which partly reflect different methodologies. The latest Living Costs and Food Survey data is for 2014/15 and shows little change in the Gini coefficient compared to the previous year. ONS has published a time series from 1977 onwards (figures are on a before housing costs basis only):[9]

Gini coefficient for equivalised disposable income
UK, 1977-2014/15 - based on income before housing costs
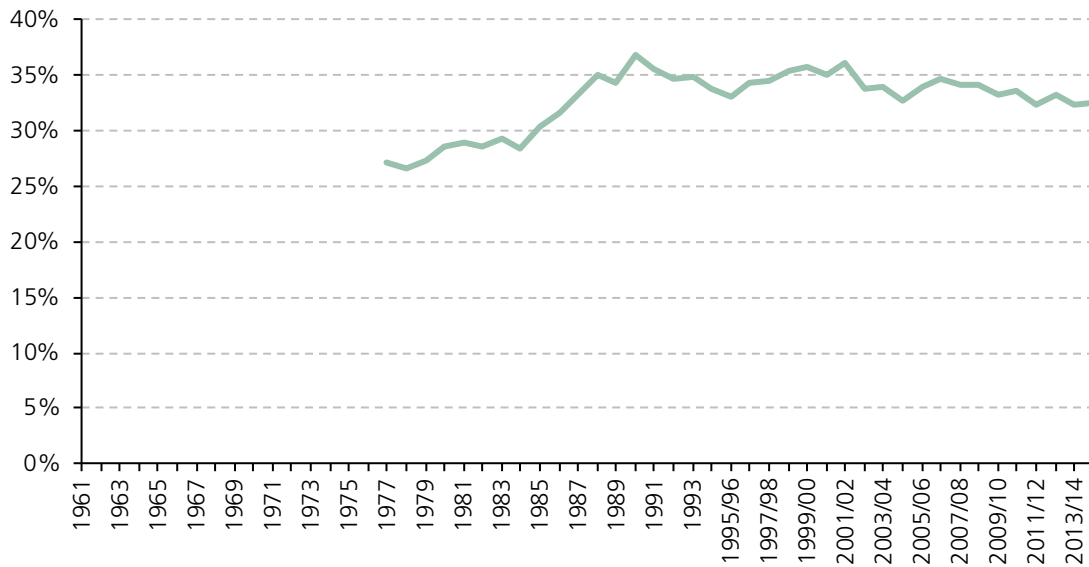
Source: ONS, *Household disposable income and inequality, financial year ending 2015*, using data from the Living Costs and Food Survey and Family Expenditure Survey

2.2 Percentile ratios

An alternative way of looking at inequality is to compare incomes at different points along the income distribution, for example an income near the top compared with the middle or the bottom.

The P90/P10 ratio compares the 90th percentile (the point at which 90% of individuals have a lower household income and 10% have a higher income) with the 10th percentile (10% have a lower household income, 90% a higher income). For example, a ratio of 3.0 would mean someone at the 90th percentile has a household income three times larger than someone at the 10th percentile.
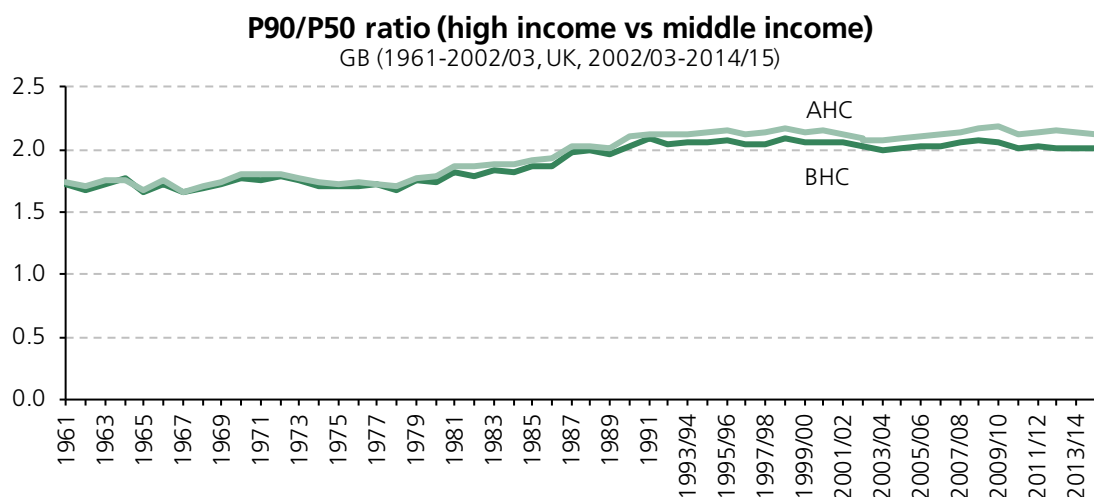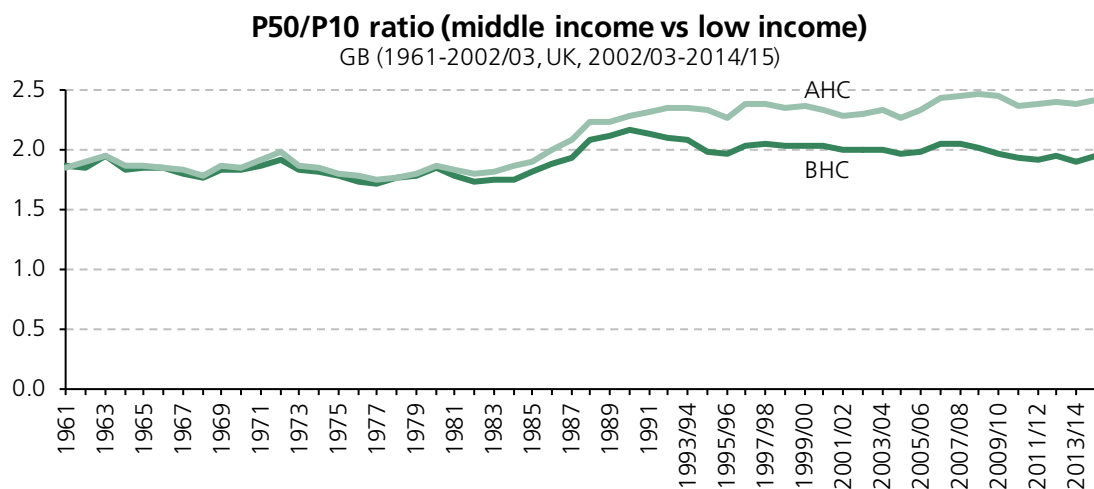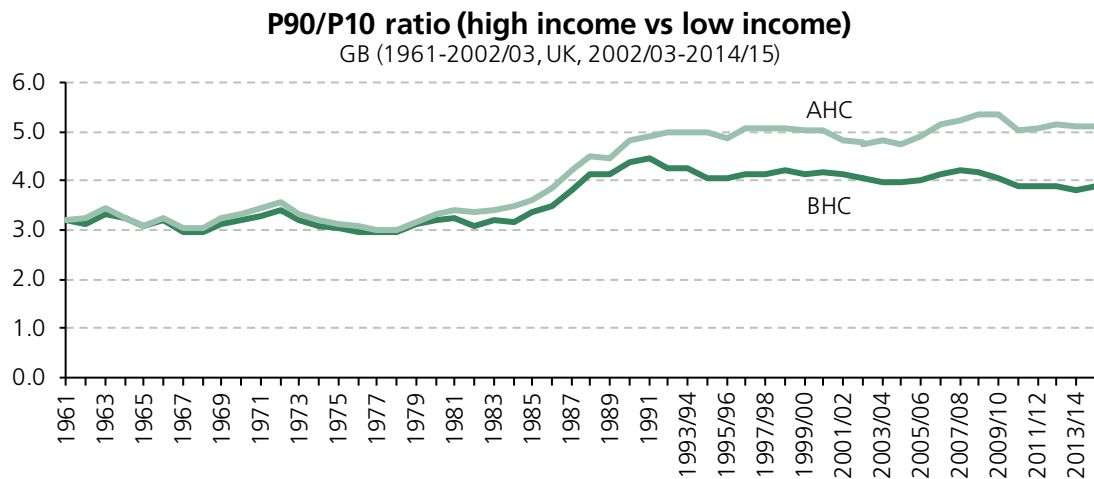
Similarly, the P90/P50 ratio compares the 90th percentile with the 50th percentile (i.e. the median), and the P50/P10 ratio compares the median with the 10th percentile.

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[9]   ONS, *Household disposable income and inequality, financial year ending 2015*. ONS previously attempted to 'nowcast' figures for 2014/15 so as to provide provisional incomes data significantly ahead of estimates produced from the Living Costs and Food Survey and Family Resources Survey. This nowcasting approach combined Living Costs and Food Survey data for previous years with more recent statistics on earnings and the labour market, adjusted to reflect changes to the tax and benefit system. For more information, see ONS report, *Nowcasting household income in the UK: Financial year ending 2015*, 28 October 2015.

The charts show the change in the ratios over the past fifty years. All three ratios increased during the 1980s, although the sharp increase in the P50/P10 ratio during the second half of the decade contrasts with a more gradual rise in the P90/P50 ratio from the end of the 1970s. Based on income before housing costs (BHC), the P90/P10 and P50/P10 ratios are slightly lower than in 1990.

Income ratios for individuals at different points along the income distribution

P90/P10 ratio (high income vs low income)
GB (1961-2002/03, UK, 2002/03-2014/15)

P50/P10 ratio (middle income vs low income)
GB (1961-2002/03, UK, 2002/03-2014/15)

P90/P50 ratio (high income vs middle income)
GB (1961-2002/03, UK, 2002/03-2014/15)

Source: Institute for Fiscal Studies, using data compiled from Family Expenditure Survey and Family Resources Survey

These percentile ratios show inequality is higher when income is measured after housing costs (AHC). The inclusion or exclusion of housing costs matters more at the lower end of the distribution, as can be seen by comparing the P50/P10 chart with the P90/P50 chart.

In contrast to the trend in income before housing costs, the P90/P10 and P50/P10 ratios for AHC income were slightly higher in 2014/15 than in the mid-2000s. Since the recession, there has been a substantial fall in housing costs for higher-income households: these households are more likely to own their own home and so have benefited to a greater extent from the low mortgage rates offered in recent years. Consequently, when we measure incomes AHC, real incomes of households at the bottom end of the distribution have not increased as much relative to those at the top of the distribution.[10]

2.3 Income shares

An alternative way of looking at inequality is to examine the share of all income going to different groups. In 2014/15, 42% of total disposable household income (before housing costs) in the UK went to the 20% of individuals with the highest household incomes, while 8% went to the bottom 20% (based on the Family Resources Survey).[11]

As may be expected given trends in other inequality indicators above, the share of income going to the top income quintile (i.e. top 20%) increased during the 1980s while the share going to lower-income households decreased.

ONS estimates for 1977 onwards are shown in the chart. Note the composition of each quintile group is in flux: households may move in and out of the top 20% (or other 20% bands) from year to year:

Quintile shares of equivalsed disposable income
UK, 1977-2014/15, based on income before housing costs
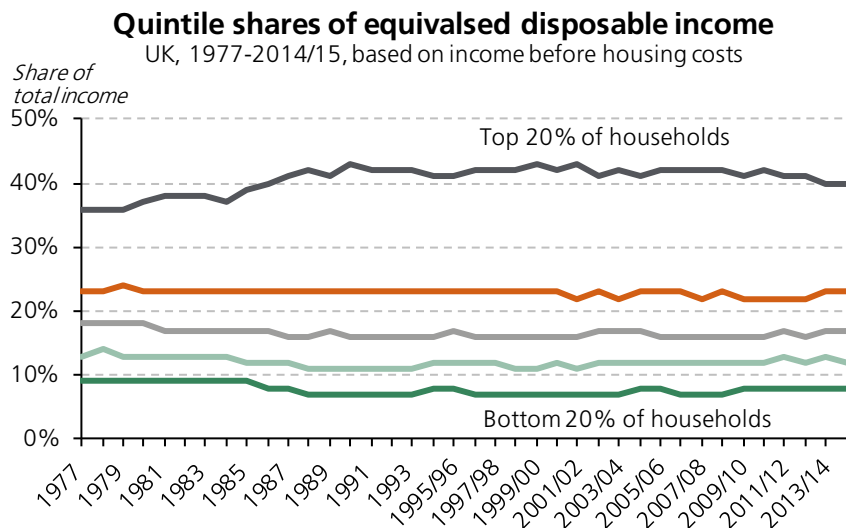
Source: ONS, *The Effects of Taxes and Benefits on Household Income, financial year ending 2015*, using data from the Living Costs and Food Survey and Family Expenditure Survey

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[10] For further discussion, see: C Belfield, J Cribb, A Hood and R Joyce, *Living standards, poverty and inequality in the UK: 2014*, 15 July 2014, IFS Report R96, pp41-44

[11] Living Costs and Food Survey data suggests 40% of disposable income went to the top 20% of households and 8% went to the bottom 20% in 2014/15. Note the Living Costs and Food Survey estimates refer to households rather than individuals.

Top 1% income share

The indicators discussed so far only capture to a very limited extent the inequality between individuals with the very highest incomes and the rest of the population. Although the share of income going to the top 20% levelled off from the start of the 1990s, the share of income going to the top 1% continued to increase into the 2000s.

The Institute of Fiscal Studies (IFS) has calculated the share of income going to the top 1% of **households** since 1961, although it notes the household surveys used to produce these estimates are not a robust source of information on incomes of the very rich. The chart below is taken from its report *Living standards, poverty and inequality in the UK, 2016* (19 July 2016) and contrasts the trend in the top 1% share with the P90/P10 ratio (the ratio of income at the 90th percentile of the distribution to income at the 10th percentile, as discussed in section 2.2 above):

Share of equivalised disposable household income going to top 1% of individuals by income

Great Britain, before housing costs
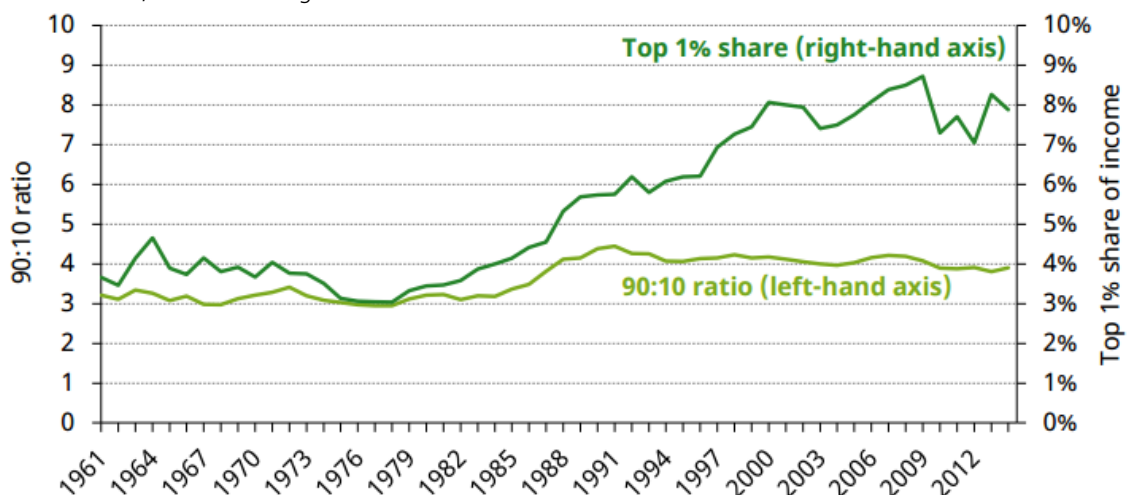
Source: chart taken from Institute for Fiscal Studies, *Living Standards, Poverty and Inequality in the UK, 2016*
Figures have been calculated by Institute for Fiscal Studies based on data from the Family Resources Survey and Family Expenditure Survey

Some of the dip in the top 1% share in 2012 and the increase in 2013 is likely to be a result of high-income individuals shifting some of their income from 2012/13 to 2013/14, in order to benefit from a reduction in the top rate of income tax from 50% to 45%. Similarly, some of the fall in the top 1% share in 2010 is likely to reflect high income individuals bringing income forward into the 2009/10 tax year in order to avoid the increase in the top rate of income tax to 50% in 2010/11.[12]

The increase in the share of income going to the top 1% during the 1990s and 2000s contrasts with the relative stability in the Gini coefficient and the modest decrease in the P90/P10 ratio. This suggests that if we exclude the very top end of the income distribution, then incomes must have become more equal across the rest of the income

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[12]   J Cribb, A Hood, R Joyce and D Phillips, *Living Standards, Poverty and Inequality in the UK: 2013*, 14 June 2013, IFS Report R81, pp39-40

distribution over this period. This was demonstrated in previous IFS research:

> To get a sense of the difference the 'racing away' of top incomes over the long run has made to changes in the Gini coefficient, we can calculate the Gini just for the bottom 99%, excluding the effect of increasing inequality between the top 1% and the bottom 99% (and changes in inequality within the top 1%). Over the past two decades, income inequality among the whole population has remained unchanged: the Gini coefficient in 2011-12 was not statistically significantly different from its 1991 value. However, inequality among the bottom 99% has fallen: the Gini coefficient for the bottom 99% was 5% lower in 2011-12, at 0.30, than in 1991, when it was 0.314 (and the difference was statistically significant).[13]
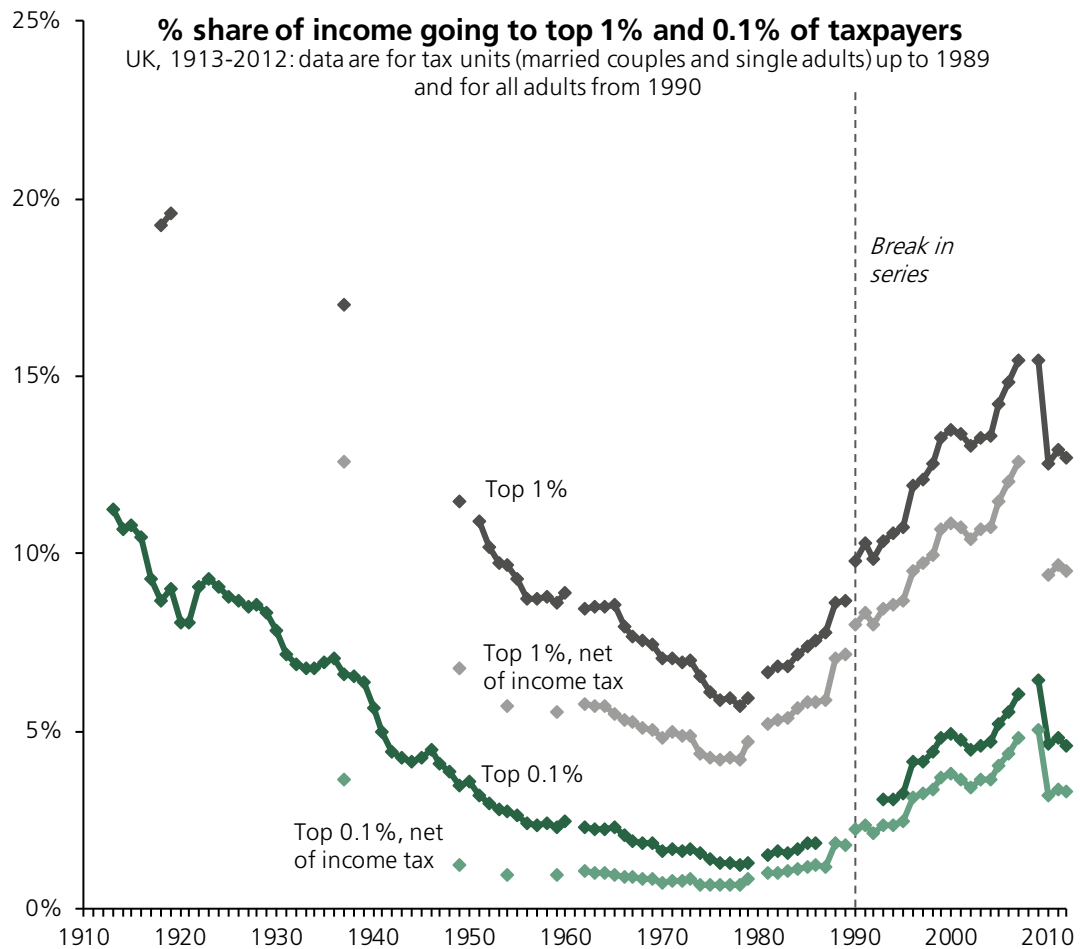
Top income shares over the century

The extent to which we can look at how inequality has evolved over time based on the above measures is limited according to the availability of survey data. However, researchers at the *World Top Incomes Database* have constructed a longer time series using tax returns. The chart below shows the share of income going to the top 1% and 0.1% of taxpayers from the start of the twentieth century. Unlike the IFS data above, figures are for income of individuals or married couples rather than households and only count income reported for tax purposes.

Figures up to 1989 are based on the top 1% and 0.1% of 'tax units' (the group of married couples or single adults with the highest incomes) while those from 1990 are based on the top 1% of all adults with the highest incomes. This reflects a change in the taxation system in 1990, which moved from treating couples as a tax unit to an individual base, and may explain part of the reported increase in the share of income going to the highest income individuals during the 1980s and 1990s.

As noted above, some of the dip in income shares of the top 1% and 0.1% in 2010 is likely to reflect high income individuals bringing income forward into the 2009/10 tax year in order to avoid the increase in the top rate of income tax to 50% in 2010/11.

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[13]   Ibid, p40. See also M Brewer, L Sibieta and L Wren-Lewis, *Racing away? Income inequality and the evolution of high incomes*, 17 January 2008, IFS Briefing Note 76

% share of income going to top 1% and 0.1% of taxpayers
UK, 1913-2012: data are for tax units (married couples and single adults) up to 1989
and for all adults from 1990

Break in series

Top 1%

Top 1%, net of income tax

Top 0.1%

Top 0.1%, net of income tax

Source: Facundo Alvaredo, Anthony B. Atkinson, Thomas Piketty, Emmanuel Saez, and Gabriel Zucman, *The World Wealth and Income Database* , http://www.wid.world, accessed 3/12/2015. Data for the UK are from Atkinson, Anthony B. (2007), *The Distribution of Top Incomes in the United Kingdom 1908-2000*; in Atkinson, A. B. and Piketty, T. (editors) *Top Incomes over the Twentieth Century. A Contrast Between Continental European and English-Speaking Countries* , Oxford University Press, chapter 4; series updated by the same author.
Note: Up to 1920, estimates include what is now the Republic of Ireland. Until 1974, estimates relate to income net of certain deductions; from 1975, estimates relate to total income.

3. Redistribution

We can examine the extent to which the tax and benefit system reduces inequality by looking at inequality in different types of income. The data in the previous section are based on households' equivalised disposable income (i.e. after direct taxes and benefits, adjusted for family size and composition). Disposable income is distributed more equally than original incomes (before taxes and before benefits) and gross incomes (before taxes but after benefits).

In 2014/15, the Gini coefficient was:[14]

- 50% for equivalised original income
- 36% for equivalised gross income (including benefits)
- 33% for equivalised disposable income (after direct taxes)

As noted above, disposable income is net of direct taxes which are mostly based on income. However, households also pay indirect taxes, for example Value Added Tax and duties on alcohol and fuel, based on their expenditure. Poorer households tend to spend a higher proportion of their income in indirect taxes than richer households. Consequently, there is more inequality in 'post-tax incomes' (net of both direct and indirect taxes) than in disposable incomes: the Gini coefficient for equivalised post-tax income was 36% in 2014/15.

Gini coefficients for household income

UK, 1977-2014/15; income figures are equivalised, before housing costs
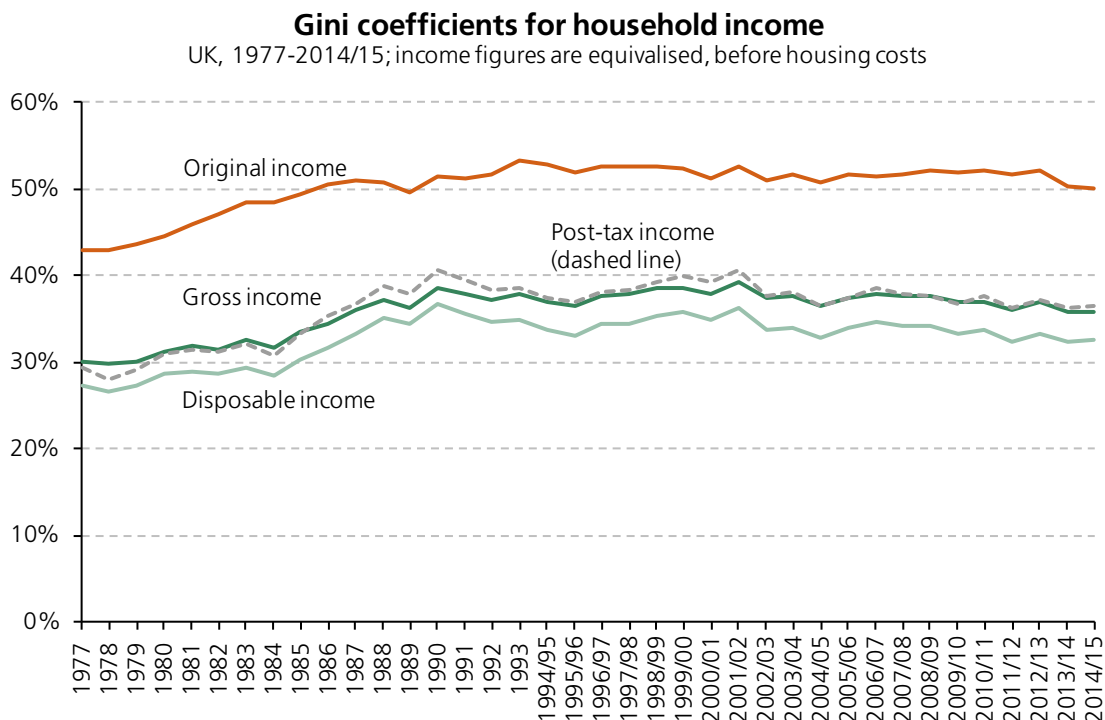
Source: Living Costs and Food Survey, data published in ONS, *The effects of taxes and benefits on household income, financial year ending 2015*, Table 11

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[14]   Based on Living Costs and Food Survey data, published in ONS, *The effect of taxes and benefits on household income, financial year ending 2015*, Table 11

4. Prospects for income inequality

Projections produced by the Institute for Fiscal Studies (IFS), prepared in February 2016, suggest that income inequality in the UK is likely to have remained largely unchanged between 2013/14 and 2015/16 based on incomes before housing costs.[15] Earnings increased above inflation for most of this time, primarily benefiting higher-income households who draw most of their income from employment (by contrast, households at the lower end of the income distribution draw more of their income from state support). However, this was balanced out by increases in employment among poorer households and by most benefits increasing in line with or above inflation (owing to very low inflation during much of this period).

After 2015/16, income inequality is projected to increase. Growth in inequality between 2015/16 and 2020/21 is expected to reverse the fall previously seen between 2007/08 and 2015/16. The P90/P10 ratio (which compares household income at the 90th percentile of the distribution to household income at the 10th percentile) is projected to rise from 3.8 in 2015/16 to 4.2 in 2020/21, the same as in 2007/08. Most of the projected rise in inequality on this measure is attributable to earnings growing in real terms, which, as explained above, benefits higher-income households more than it does lower-income households. Around a quarter of the increase in inequality is attributable to tax and benefit changes.

However, since the IFS prepared its projections, the Office for Budget Responsibility (OBR) and other forecasters have revised down their forecasts for average earnings growth between 2015/16 and 2020/21. This could mean that earnings growth has less impact on inequality over the period than indicated by the projections. Of course, other factors could also mean income inequality evolves differently to the projected path, for example if there are further changes to taxes and benefits or changes in the composition and level of employment.

The chart below, taken from the IFS report, shows the cumulative change in household income between 2007/08 and 2020/21 is projected to be fairly similar for households across the income distribution. Real household incomes at the higher end of the income distribution decreased between 2007/08 and 2015/16, but these households are expected to see the largest percentage increases in real income after 2015/16. Conversely, poorer households saw the largest increases after 2007/08 but real income growth is expected to be very weak from 2015/16.

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[15]   James Browne and Andrew Hood, *Living Standards, Poverty and Inequality in the UK: 2015-16 to 2020-21*, IFS Report R114, 2 March 2016

Figure 3.6. Change in real household income by percentile point: 2007–08 to 2020–21
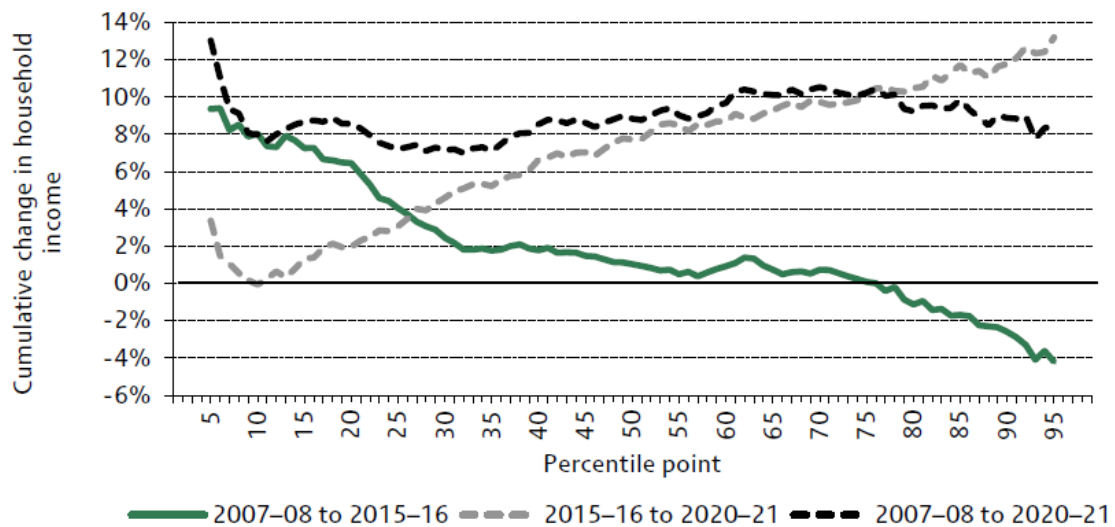
These projections are based on household incomes before deducting housing costs. However, lower-income households have been less likely to benefit from large falls in mortgage interest costs since 2007/08 compared to those on higher incomes. The IFS report observes that the decrease in inequality between 2007/08 and 2015/16 is much smaller once this is taken into account.[16]

The "National Living Wage" (NLW), introduced in April 2016 and which is in effect a higher minimum wage for people aged 25 and over, is projected to have very little impact on inequality in household incomes, even though it is likely to significantly increase the earnings of some low-paid individuals. Part of the reason for this is that some of the beneficiaries of the NLW live in higher-income households. The authors explain:[17]

> …the NLW is projected to have a very small impact on incomes right across the household income distribution, with incomes being affected by less than 1% at almost all percentile points. This is partly because household incomes are larger than individual earnings in most cases, partly because some of the gains from the NLW are captured by the exchequer in higher tax payments and lower benefit entitlements, and partly because gains from the NLW are much more widely spread across the income distribution than across the individual earnings distribution, with similar gains between the 20th and 60th percentiles. This reflects that those who benefit from the NLW have low hourly pay, but not necessarily low household incomes. For example, those paid less than the NLW who have a higher-earning partner may benefit from the NLW but have a household income sufficient to be in the top half of the income distribution.

Limitations

These estimates do not attempt to show the changes in income that are likely to be experienced by individual families. People will move up and

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[16] Ibid, p19
[17] Ibid, p35

down the income distribution from year to year: a family which finds itself at the top or bottom of the distribution in one year may not be there in the next.

The projections are of course highly uncertain. They build on macroeconomic forecasts produced by the Office for Budget Responsibility (OBR) and demographic projections from the Office for National Statistics (ONS), which are themselves subject to much uncertainty.

As the projections were prepared in February 2016, they do not take into account any policy announcements made after that date (including announcements made at the 2016 Budget or Autumn Statement) or more recent economic and demographic forecasts. Nor do they factor in any possible impacts resulting from a UK withdrawal from the European Union.

Instead, the projections offer an estimate of the future path for inequality in a scenario where policy remains unchanged. They do not account of possible behavioural responses to forthcoming tax and benefit changes, which could alter the shape of the income distribution.
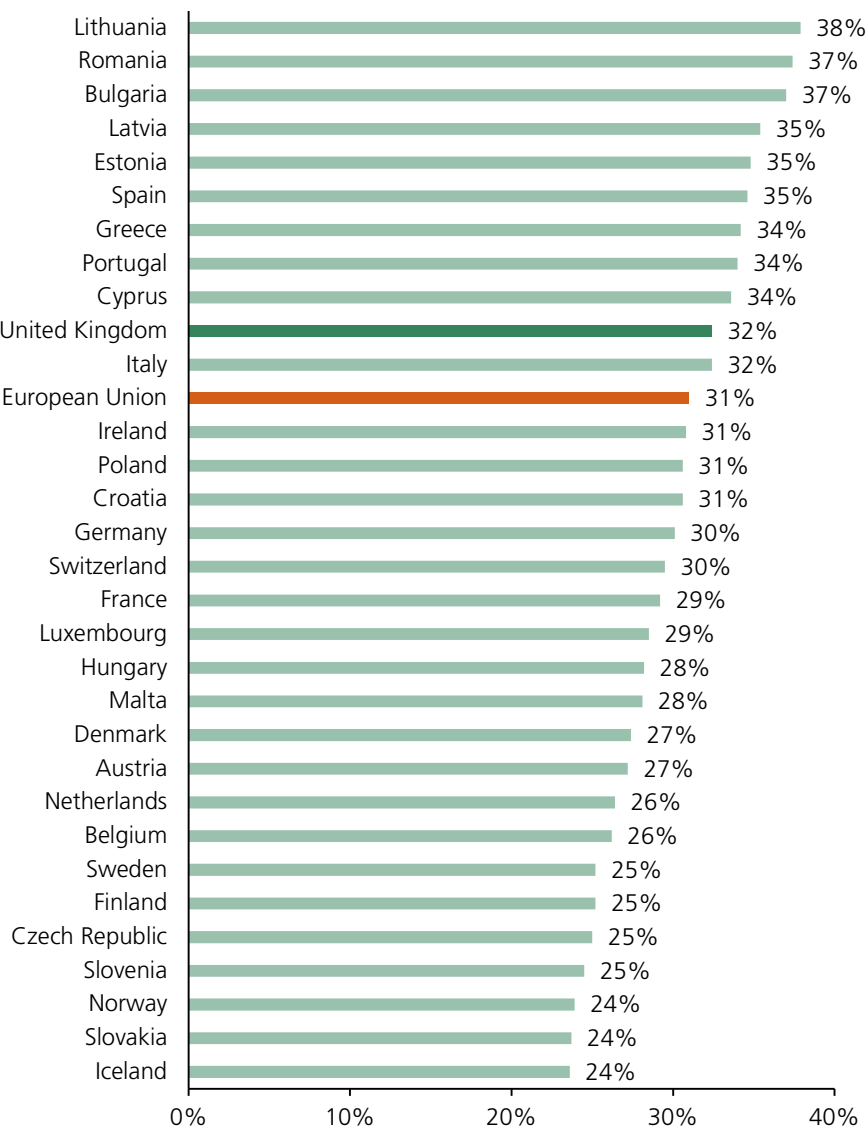
5. International comparisons

Comparable data on income inequality in different countries is published by Eurostat and OECD. The two sources give different estimates and the UK compares less favourably based on the OECD data than using the Eurostat data. Figures are also published by the World Bank, with a particular focus on developing economies.

5.1 Eurostat data

In 2015, the Gini coefficient for equivalised disposable income in the UK was slightly higher than that for the whole of the European Union (28 countries). On this measure, income inequality was highest in the Baltic states, Romania and Bulgaria and countries in southern Europe. Slovakia had the lowest levels of income inequality in the EU in 2015, similar to Iceland and Norway.

Gini coefficient for equivalised disposable income (Eurostat)
EU and selected other countries, 2015

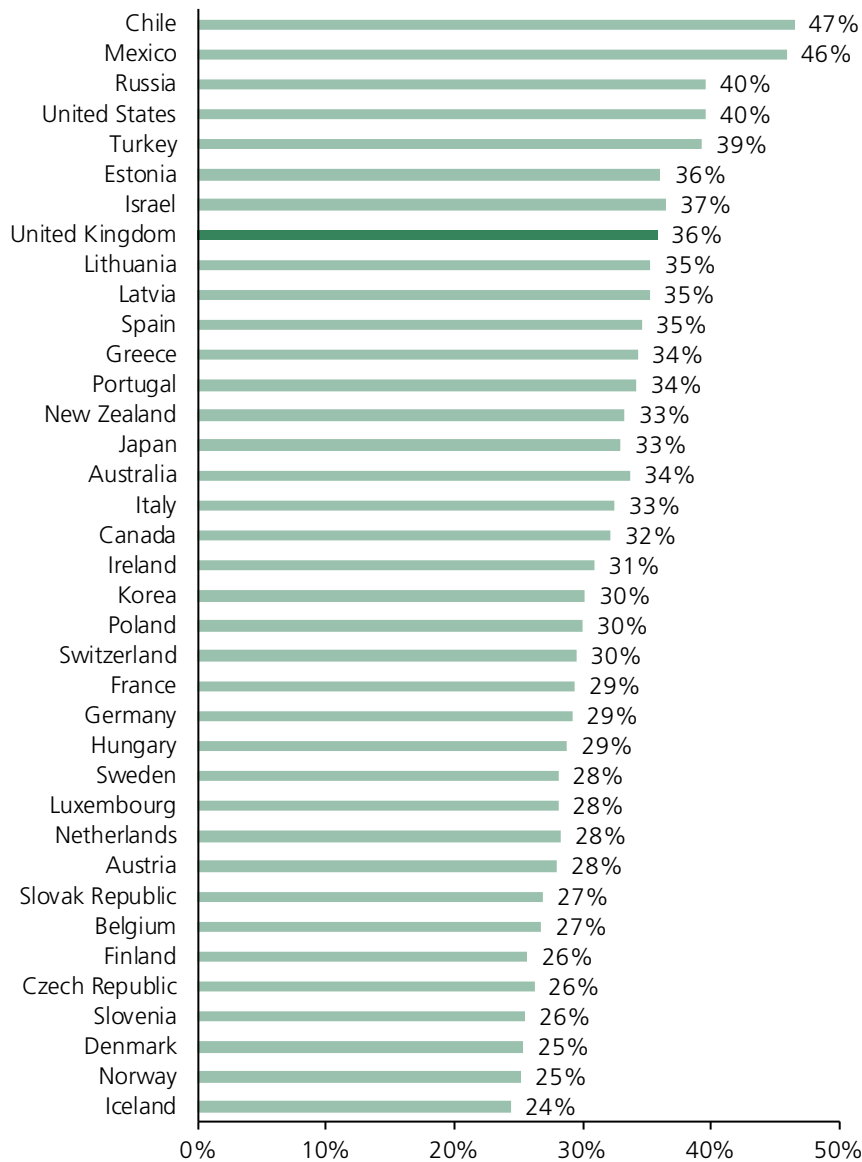| Country	Value
Lithuania	38%
Romania	37%
Bulgaria	37%
Latvia	35%
Estonia	35%
Spain	35%
Greece	34%
Portugal	34%
Cyprus	34%
United Kingdom	32%
Italy	32%
European Union	31%
Ireland	31%
Poland	31%
Croatia	31%
Germany	30%
Switzerland	30%
France	29%
Luxembourg	29%
Hungary	28%
Malta	28%
Denmark	27%
Austria	27%
Netherlands	26%
Belgium	26%
Sweden	25%
Finland	25%
Czech Republic	25%
Slovenia	25%
Norway	24%
Slovakia	24%
Iceland	24%

5.2 OECD data

OECD data indicates the UK had a higher level of income inequality than most European countries in 2013 based on the Gini coefficient for disposable income, but a lower level than the United States.

Gini coefficient for equivalised disposable income (OECD)
Data at 2013

Country	%
Chile	47%
Mexico	46%
Russia	40%
United States	40%
Turkey	39%
Estonia	36%
Israel	37%
United Kingdom	36%
Lithuania	35%
Latvia	35%
Spain	35%
Greece	34%
Portugal	34%
New Zealand	33%
Japan	33%
Australia	34%
Italy	33%
Canada	32%
Ireland	31%
Korea	30%
Poland	30%
Switzerland	30%
France	29%
Germany	29%
Hungary	29%
Sweden	28%
Luxembourg	28%
Netherlands	28%
Austria	28%
Slovak Republic	27%
Belgium	27%
Finland	26%
Czech Republic	26%
Slovenia	26%
Denmark	25%
Norway	25%
Iceland	24%

Figures for Finland, the Netherlands, Hungary, Korea, Australia, Israel and Mexico are for 2014. Figures for Japan and New Zealand are for 2012. Figure for Russia is for 2010 and is based on a slightly different methodology to the rest of the data.

Source: OECD