

INCOME DISTRIBUTION DATA REVIEW–UNITED KINGDOM

1. Available data sources used for reporting on income inequality and poverty

1.1. OECD reporting:

OECD Income distribution and poverty indicators for the United Kingdom are computed by the UK Department for Work and Pensions (DWP) from the annual Family Resources Survey (FRS). FRS data are available from 2000-01 in the OECD database, from 1992 at DWP. OECD data for 1975, 1985, 1990, 1994-95 (and 2000-01) are from the FRS predecessor: the Family Expenditure Survey (FES). To obtain a consistent series over the whole period, FES data prior to around 2000 have been interpolated for the current FRS definition.

1.2. National reporting and reporting in other international agencies:

Income distribution and poverty indicators for the United Kingdom are also available from:

- ONS's Living Costs and Food survey (LCF), formally known as the Expenditure and Food Survey (EFS). This series is published in "The Effects of Taxes and Benefits on Household Income" (ETB)
- DWP's Household Below Average Income based on an adapted version of the FRS and BHPS
- Eurostat's EU-SILC annual survey since 2005, from 1995 to 2001 from Eurostat's ECHP annual survey. Between the end of ECHP and start of EU-SILC (2002, 2003 and 2004), data was provided by ONS (probably from FRS).
- LIS database, using the FRS in 1999 and 2004, and FES in 1969, 1974, 1979, 1986, 1991, 1994 and 1995

The below table 1 presents the main characteristics of those four datasets:

Table 1. Characteristics of datasets, United Kingdom

	OECD & LIS series	National ONS series	DWP-HBAI	Eurostat
Name	Family Resources Survey (FRS) from 2000/1 and Family Expenditure Survey (FES) before 2000/1 for UK always	Living Costs and Food survey (LCF), formally known as the Expenditure and Food Survey (EFS)	Households Below Average Income, from adapted FRS and BHPS	EU-SILC
Name of the responsible agency	sponsored by the Department for Work and Pensions	Office for National Statistics (ONS)	Department for Work and Pensions	Eurostat
Year (survey and income/wage)			1994/95 - 2010/11	EU-SILC 2005-2010 representing 2004-2009 income, and ECHP 1995-2001. Between the end of ECHP and start of EU-SILC (2002, 2003 and 2004), data was provided by ONS (probably from FRS).
Period over which income is assessed	April X-March X+1			Annual income for the all year N-1
Covered population	all UK private households	all UK private households	all UK private households	all UK private households
Sample size	approximately 25,000 households were interviewed in 2010/11	around 5,000 private households in the UK		in 2010: 12261 addresses, 8109 eligible households, 15120 persons aged 16+
Sample procedure	stratified clustered probability sample design in Great Britain, systematic stratified sample design in Northern Ireland			GB: stratified two-stage sample design; Northern Ireland: simple random sample
Response rate	59% in 2010/11			
Imputation of missing values	yes			yes: total and partial
Unit for data collection	Household and individual	household		Household and individual
Break in series	Family Resources Survey (FRS) from 2000/1 and Family Expenditure Survey (FES) before 2000/1 for UK			
Web source:	http://research.dwp.gov.uk/asd/frs/	http://www.ons.gov.uk/ons/guide-method/method-quality/quality-quality-information/economic-statistics/quality-and-methodology-information-for-the-effects-of-taxes-and-benefits-on-household-income/	Households Below Average Income (HBAI) 1994/95-2010/11 http://research.dwp.gov.uk/asd/hbai/hbai2011/index.php?page=chapters	
		The Effects of Taxes and Benefits on Household Income™ (ETB): http://www.ons.gov.uk/ons/rel/household-income/the-effects-of-taxes-and-benefits-on-household-income/index.html		

2. Comparison of main results derived from sources used for OECD indicators with alternative sources

2.1 Income

2.1.1 Time series of Gini coefficients and other inequality indicators

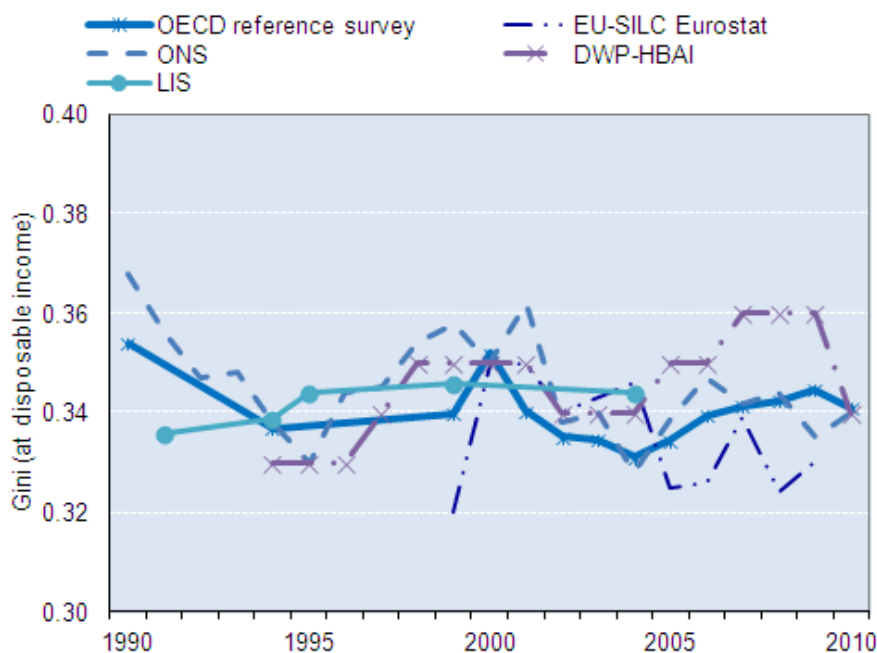
According to the OECD income distribution database, income inequality among total population has risen faster in the United Kingdom than in any other OECD country between 1975 and 2000. From a peak

in 2000 (0.35) and subsequent fall at 0.33 in 2004, it has been rising again since 2005 at 0.34, above the OECD average of 0.31.

The four other series of Gini coefficients on disposable income in the United Kingdom generally show similar levels and trends since the mid90s. The LIS series (also coming from FES & FRS) shows slightly higher levels of inequality throughout, so does the DWP series particularly from 2005 to 2009. The ONS, the DWP and the EU-SILC series fluctuate around the OECD series across time.

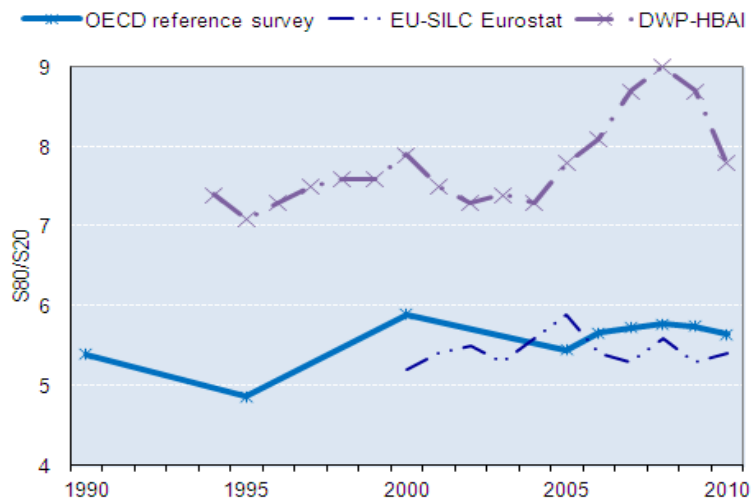
Note that Eurostat identifies a break between the 1999 data point at 0.32 and 0.35 in 2000, so the 1999 data point does not seem comparable with figures from 2000 onwards for this series.

Figure 1.1 Trends in Gini coefficient (disposable income)



Also, when comparing the income quintile share ratio (S80/S20) from the OECD reference survey and the Eurostat EU-SILC since 2000, as for the Gini series, the EU-SILC series from Eurostat fluctuates around the OECD series at around 5.5. Also again, the DWP-HBAI series follows the same trend - but at much higher levels - up to 2005 where there is a sharp increase, before a decrease in 2009 and 2010. The 1-to-2 points difference in S80/S20 between the OECD/Eurostat series and the DWP-HBAI series is still to be determined.

Figure 1.2 Trends in income share quintile ratio S80/S20

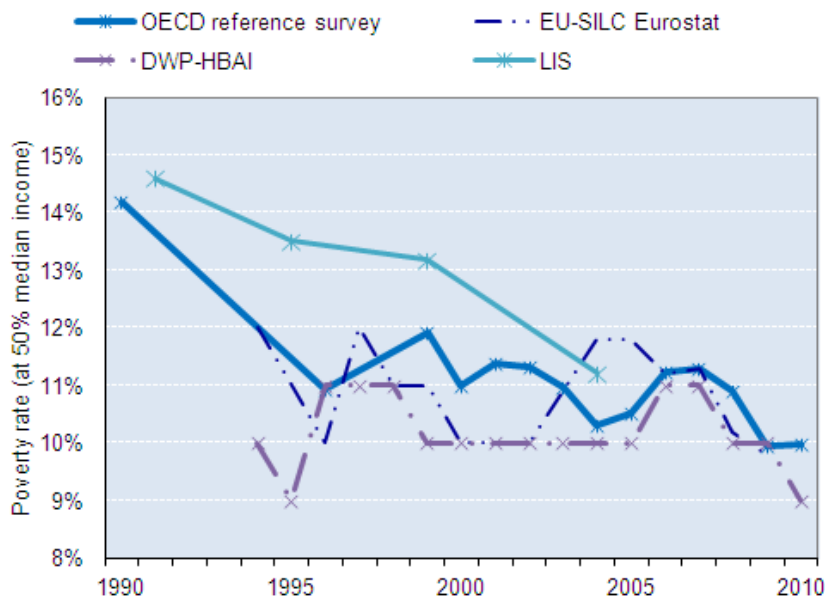


2.1.2 Time series of poverty rates

According to the OECD income distribution database, the share of the UK population living with less than 50% of the median equivalised income (8 166 £ per year in 2010) decreased sharply from 14% in 1990 to 11% in 1996, and it gradually decreased (with fluctuations) to 10% in 2010.

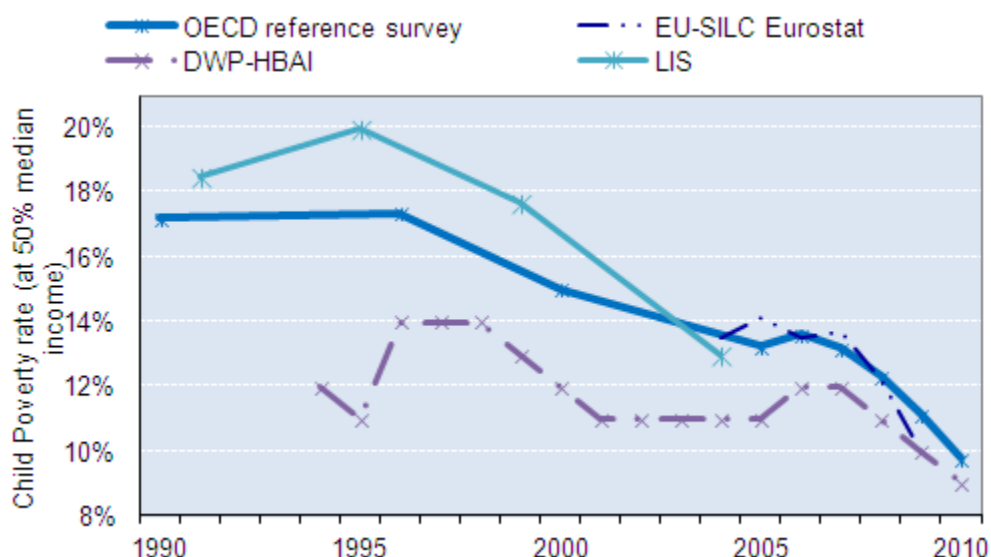
The OECD reference series show similar trends than other series, similar levels than the Eurostat EU-SILC series, but lower levels than the LIS series and slightly higher levels than the ONS-DWP-HBAI (Households Below Average Income) series.

Figure 2.1 Trends in poverty rates



The child poverty series show similar differences than the above poverty rates for total population. The DWP-HBAI child poverty series reported lower rates in the 1990s and 2000s (3 to 5 percentage points), but these differences have reduced to 1 percentage point in 2010.

Figure 2.2 Trends in Child poverty rates



2.2 Wages

See Part II of the present Quality Review.

3. Consistency of income components shares with alternative data sources

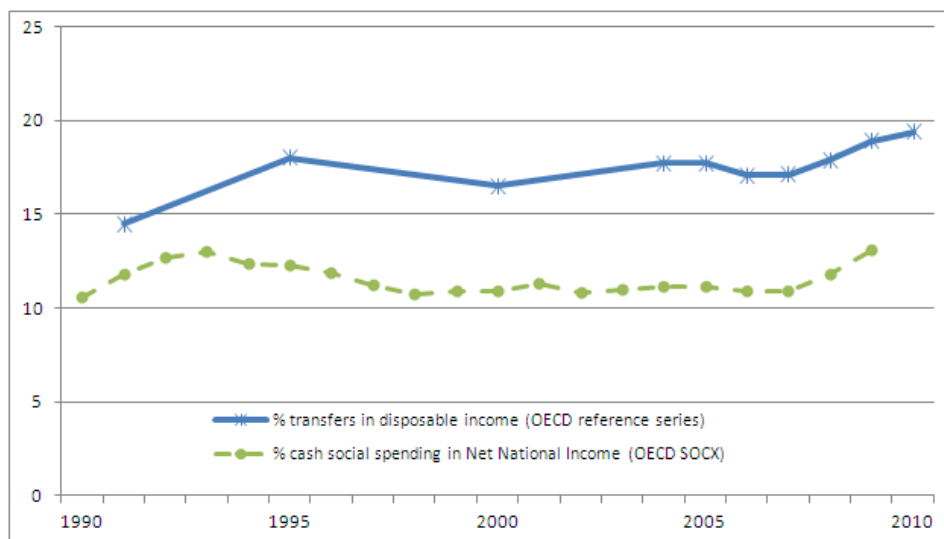
3.1. Comparison of main aggregates: earnings, self-employment income, capital income, transfers and direct taxes

Table 2 shows shares of income components for 2008, according to the OECD benchmark series. When comparing the composition of the average equivalised disposable income of the OECD reference series (based on FRS) with the EU-SILC series, there are differences (between 6-8% of HDI) in shares of capital income (higher in OECD series), transfers and taxes (higher in EU-SILC series).

Table 2. Shares of income components in total disposable income, OECD reference series

Survey	Year	Unit	Wages	Capital	Self Employment	Transfers	Taxes	Disposable income (HDI)
			% av HDI	% av HDI	% av HDI	% av HDI	% av HDI	
OECD reference survey	2008	natcur	16 456	2 338	2 124	3 431	-5 029	19 317
		% av HDI	85%	12%	11%	18%	-26%	
Other INCOME survey	2008	natcur	18 833	867	2 681	5 209	-6 685	21 107
		% av HDI	89%	4%	13%	25%	-32%	

Figure 3 compares the trend in shares of public cash transfers in equivalised disposable income from the OECD reference series with the share of total cash social spending in net national income, reported from the OECD Social Expenditure database (OECD SOCX). OECD SOCX series include pensions, incapacity, family, unemployment, social assistance. Both series show similar trends throughout the period.

Figure 3 Trends in shares of public social transfers

4. Metadata of data sources which could explain differences and inconsistencies

Definitions, methodology, data treatment

The ONS series use a national-specific equivalence scale: 0.67 for first adult, 0.33 for other persons aged 14 and over, 0.20 children under 14 years old. The DWP-HBAI stopped using the McClements equivalence scale in 2004/05 and uses the modified OECD equivalence since. Eurostat uses the OECD modified equivalence scale – whereas the OECD reference series uses the square root of household size.

The ONS series defines a child as a individual aged under 16 or aged 16-19, single, living with parents and in full-time education –whereas the OECD reference series defines a child as under 18 years old.

5. Summary evaluation

Despite several methodological concepts, the OECD reference series of inequality and income poverty generally shows similar trends in inequality and poverty than both the series reported on a national level and the Eurostat series (except a few data points for the latter).