



In It Together

Why Less Inequality Benefits All

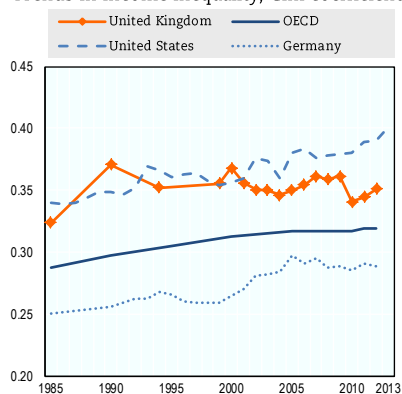
...in the United Kingdom

What is the issue?

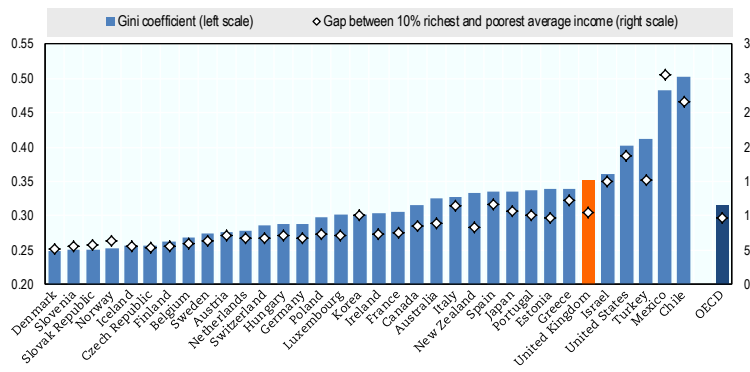
- ▶ **Income inequality in the United Kingdom is the sixth largest in the OECD, in terms of the Gini coefficient, and has been well above the OECD average in the last three decades.** In 2012, the average income of the top 10% was 10.5 times higher than that of the bottom 10%, up from a ratio of 7 to 1 in the mid-1980s and 9 to 1 in the mid-1990s. This compares to an OECD average of 9.6 to 1 in 2013 (Figure 1).
- ▶ Wealth inequality is higher than income inequality. In the UK, the top 10% owns around 47% of all net wealth, while the top 10% of income earners get 28% of income. **The financial crisis has exacerbated the concentration of wealth at the top.** While on average net wealth has declined since 2007, the net wealth of the top percentiles has increased.
- ▶ **Income poverty** (measured as half of the national median household income), concerns around 10.5% of the population in the United Kingdom, a rate close to the OECD average of 11%.
- ▶ Between 2007 and 2012 **the average household disposable income fell by accumulated 8.6%**, less at the bottom tenth of the distribution (6%) and more at the top tenth (11%).
- ▶ While the average household income in the UK is about 10% lower than in Germany and France, **the average income of the bottom 10% in the UK is 40% lower than in France and 49% in Germany.**

Figure 1: [Trends and levels of disposable income inequality](#)

Trends in income inequality, Gini coefficient



Level of income inequality, 2013 or latest year



The Gini coefficient scores 0 when everybody has identical incomes and 1 when all the income goes to only one person.

Why is it important for the UK?

The UK economy has been effective in creating jobs in the recovery from the Great Recession. Unemployment is low relative to other countries and total employment is at an all-time high. However, many of the new jobs are **self-employed and part-time jobs** (see Figure 2).

Non-standard workers (employees in temporary and part-time contracts and self-employed) earn considerably less than standard workers (employees in full-time jobs). In the UK, the annual earnings of self-employed workers are 50% lower than of standard workers (Figure 3). Temporary workers earn 20% less per hour than their standard counterparts, while this reaches 30% less for part-time workers.

Part-time jobs and self-employed work do not improve the chances of getting a permanent full-time job compared to being unemployed. In fact, in the UK, the self-employed are less likely of moving into a standard job than the unemployed.

Non-standard work increases inequality and poverty. In the UK, despite the **strong poverty-reducing effect that the tax-benefit system has on households with non-standard workers**, the poverty rate for households relying solely on non-standard work is 20%. That is 5 ½ times higher than for households relying on standard work.

The tax and benefit system discourages the transition from part-time to full-time work in the UK as over two-thirds of additional earnings would be taken away by higher taxes and reduced benefits, in particular income tax, housing and family benefits. **Self-employed workers face considerably different fiscal treatment.** Although they are not eligible for statutory sick pay, they pay considerable lower social insurance contributions.

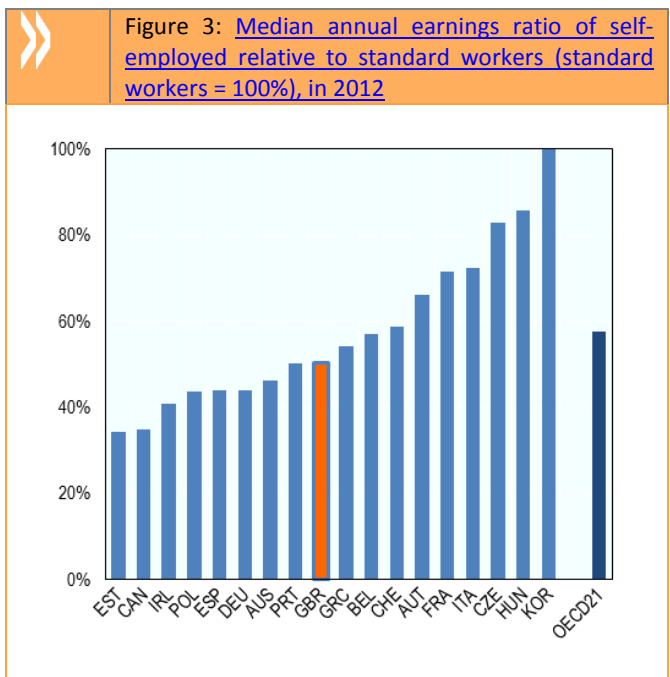
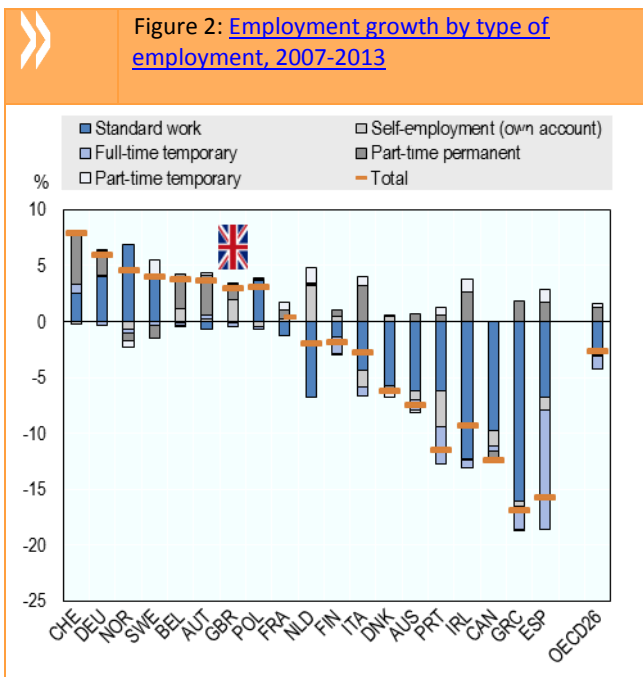
Taxes and benefits reduce income inequality among the working-age population by a quarter in the UK. This is in line with the OECD average, but below other European countries such as France (33%), Germany (29%) or the Nordic countries (33%).

Changes in taxes and benefits have reduced household income on average in the UK since 2007. **Main losers were unemployed low-earning families without children and**

higher-earning families. Middle-earnings families benefited from the rise of the income tax basic allowance. While in other countries income tax changes played an important role, **in the UK fiscal consolidation was driven mainly by changes in benefits.**

The appreciation of property prices well above inflation has been a key factor leading to higher median wealth in the UK compared to other OECD countries.

The increase in female employment participation and narrowing of the gender wage gap had a strong equalising effect on the distribution of household income in the UK. Had the proportion of households with working women and the gender wage gap remained the same as 20 years ago, inequality would have been almost 5 Gini points higher, i.e. approaching 0.40.



What can policy makers do?

To tackle inequality and promote opportunities for all, countries should adopt a comprehensive policy package, centred around four main areas: Promoting greater participation of women into the labour market, fostering employment opportunities and good-quality jobs; strengthening quality education and skills development and adaptation during the working life; and a better design of tax and benefits systems for efficient redistribution. In the United Kingdom, this would include initiatives such as:

- ▶ Improve work incentives for part-time workers, particularly women. Reform of childcare elements of working tax credit by increasing refund rate, reducing taper rate or introducing a disregard for second earners in couples.
- ▶ Increase the value of free childcare by increasing flexibility for users and reduce the cost by increasing flexibility of provision.
- ▶ Close monitoring of implementation, distributive and labour market incentive effects of the universal credit reform, designed to simplify the means-tested benefit system
- ▶ Reduce youth labour market problems by investing in qualification, reduce school dropouts. Improve career guidance and encourage the combination of work and study.
- ▶ Increase taxes on wealth rather than labour. For example, update property valuations of the council tax to support public finances, improve equity and dampen large swings in house prices.