



Living together in an age of inequalities : an overview of economic inequalities and poverty in the United Kingdom

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Living together in the UK in the 2020s

3. Living together in a neoliberal age of inequalities and social fragmentation

Living together in an age of inequalities : an overview of economic inequalities and poverty in the United Kingdom

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Résumé

This article presents and analyses recent figures about inequality and poverty in the United Kingdom, which are both central issues in the ability of members of a society to live together. It points out that Britain did experience a significant increase in income inequality in the 1980s in particular, although since then the UK's overall income inequality has been essentially stable – albeit with a pulling away of the Top 1%. A fairly similar picture emerges for wealth, for which inequality fell for much of the 20th century (due significantly to expanding home ownership), although there has been some reversal in this long-term trend since the turn of the century. The article then discusses some of the causes for this rise in inequality following the shift to neoliberal capitalism, brought on by the Thatcher governments in the 1980s. It briefly presents the IFS Deaton Review of inequalities launched in 2019, which seeks to get a broader understanding of *inequalities* as social and political – and not just economic – phenomena. Lastly, it presents some key policy prescriptions for how inequality and poverty could be tackled. (The article considers these issues before the massive global cataclysm of the Covid-19 pandemic, as of March 2020.)



Entrées d'index

Keywords: inequality, poverty, income, wealth, United Kingdom, neoliberalism

Texte intégral

Introduction

- 1 The issue of inequality became increasingly pressing in the years following the global financial crisis (GFC), and has weighed heavily on Britons' ability to live together in the 2010s. Entrenched inequalities are one of the key background factors cited for the Brexit vote, which has left Britain bitterly divided¹. This is somewhat paradoxical as "headline" income inequality in the UK actually fell following the GFC and Great Recession, and has in fact been relatively stable since the early 1990s. This article therefore hopes to provide some useful information to help the reader grasp the key trends in inequality in the UK over recent decades, and understand aspects of this seemingly paradoxical situation.
- 2 Indeed as Sir Angus Deaton has noted (see below), trying to get a grip on the issues of inequality and poverty has been a problem for researchers (especially economists). Most of the poverty and inequality set out in the national statistics of the old industrialised countries is largely unseen, hidden behind closed doors, often forgotten in far-flung suburbs and distant declining cities. Rarely do the daily grind of having very little money or living perpetually with very limited possibilities of benefitting from life penetrate the media.
- 3 This article mainly reviews recent trends in levels of inequality and poverty in the UK, based on the standard indicators of income and wealth. There follows a brief discussion of: the causes of the rise in inequality linked to neoliberalism in the UK; a succinct presentation of the on-going IFS Deaton Review of inequalities which the Review examines in a much broader way; and a short summary of some key policy proposals to tackle inequality and poverty. The article only covers the period up to early 2020, before the global outbreak of the Covid-19 pandemic which is rapidly leading to a much-changed situation. Some speculative comments concerning this worldwide upheaval are kept for the conclusion.

Key facts and figures about inequality in the UK today

- 4 The main characteristics of inequality and poverty in the UK since the shift to neoliberal capitalism (by the Conservative governments beginning in 1979) is that there was a strong rise in inequality during the 1980s. This led to a more unequal distribution of income, which has fluctuated over the last three decades, without showing any particular trend to greater or lesser inequality since. In the run-up to the global financial crisis and Great Recession (2007-2009), headline inequality did grow further during the boom years of the "noughties" when New Labour was in power. But the financial crash reversed this peak and had the overall effect of reducing income inequality, although its impact on different age groups varied significantly, as incomes for older persons held up, while incomes for younger persons were hit especially hard. Overall, the GFC Great Recession led to a long period of income stagnation, with incomes only really rising again in the mid-2010s, before stagnating once more, as



British growth slowed following the Brexit referendum in June 2016.

Headline income inequalities

- 5 There are two primary sources for UK statistics on inequality and poverty: i) the Living Costs and Food Survey conducted by the Office of National Statistics of around 5,000 private households; and ii) the Department of Work and Pensions' (DWP) Family Resources Survey, with a sample of over 19,000 households for the DWP's data on "Households Below Average Income". Given the larger sample size of the latter, it is considered as more precise. However, data for the Living Costs and Food Survey stretch back to the late 1970s, making it possible to witness the change in equality since the beginning of neoliberal policies in the UK, whereas the DWP only goes back to the early 1990s. That said, the divergences in figures are marginal, as shown in Table 1.
- 6 This table provides data on the most common measure of inequality, namely the Gini coefficient, which can be used for both income and wealth, although data on income are generally more prevalent. A Gini coefficient of 0 (or 0%) indicates a completely equal distribution, in which each percentage share of the population has the same percentage share of income (or wealth): e.g. each 1% of the population gets 1% of national income; each decile (i.e. 10% of the population) has 10% of the income, etc. When the Gini coefficient is 1 (or 100%), income (or wealth) is shared completely unequally: in this case, the Top 1% have 100% of the income. This seems simple enough, although some points need to be made. In terms of income, there is a practical upper limit the Gini coefficient of about 0.7 (70%) as all members of a society need some income to survive, and this is indeed shown by measures of total global inequality². Similarly, in his review of historical data in a number of old industrialised countries, Branko Milanovic shows that the Gini coefficient for disposable income has rarely exceeded 0.6 (or 60%) over the last 200 to 300 years³. Unlike income, however, people do not need much wealth to survive. This fact, and the dynamics of wealth distribution which are marked by historical accumulation mean that Gini coefficients for wealth distribution – where available – are far higher.

Table 1 : Headline Inequality Using the Gini Coefficient

	ONS Original*	ONS Gross*	ONS Disposable*	DPW HBAI BHC	DPW HBAI AHC
1978	37.1	27.6	25		
1980	38.3	28.8	26.7		
1990	46.7	36.6	34.9		
1994/95				33	37
2000 - 2001	47.9	36.9	34.3	35	39
2007 - 2008	53.5	43	38.6	36	40
2010 - 2011	51.4	39	34.1	34	38
2018 - 2019	50.2	40.2	34.7	35	39



* ONS figures are “adjusted” allowing for better insight into inequality, such as the income share of the Top 1% of people.

Source : ONS, Household income inequality, UK : financial year ending 2019, 5 March, 2020; and DWP, Households Below Average Income, 2018/19, 26 March 2020.

Returning to the current situation in the UK then, Table 1 clearly indicates the strong rise in the inequality of disposable household income which occurred during the 1980s: disposable income being calculated after all transfers/benefits (notably pensions) have been added to original income to provide a figure for gross income, and taxes have been subsequently subtracted). From a low level of inequality in 1978 with a Gini of 25%, inequality rose to 34.9% in 1990. At the turn of the century, it was still about this rate (34.3% ONS; and 35% DWP HBAI data, before housing costs (BHC)). As Britain’s long boom, which began under the Conservative governments of John Major, continued under New Labour government, disposable income inequality rose further, peaking in 2007/08 at 38.6% (ONS) or at 40% after housing costs are taken into account (AHC, with HBAI data). Putting these figures into an international perspective, the UK moved from inequality levels in the 1970s which still exist today in some Scandinavian countries (Iceland (26%) and Finland (27%)) or in central Europe (Czech Republic (25%) and Slovak Republic (24%)), towards a situation shared by other English-speaking economies (Australia (33%), New Zealand (35%), but still quite far behind the US (39%): these OECD figures are for 2017, when the corresponding UK Gini coefficient was 35.7%⁴.

An important feature of UK inequality statistics concerns the impact of housing costs. When these are taken into account, the Gini coefficient rises by 4%. This figure has been surprisingly stable since the DWP HBAI time series began. Yet it constitutes a significant aggravation of inequality, stemming mainly from the fact that owner-occupiers have tended to benefit from low interest rates in recent years, which have reduced their relative housing costs.

Inequalities in households of pensioners have followed a similar trend to the UK population as a whole (see Table 2), although as we shall see later, pension guarantees meant that incomes in this age group held up following the global financial crisis.

Other measures of income inequality paint a broadly similar picture since the late 1970s, with one important caveat, namely the clear narrowing of the disposable income gap between households following the GFC and Great Recession. Thus the S80/S20 ratio, which indicates how much higher incomes of the top fifth of the population (i.e. above the 80 percentile) are to the bottom fifth (i.e. below the 20 percentile), shows a narrowing of income spreads from 2007-2008 to 2010-2011 (down from 6.6 to 5.3), though this was followed by a renewed widening (up to 6.1 in 2018-2019). For its part, the P90/P10 ratio compares the ratio of the income of the person at the bottom of the Top 10% with the income of the person at the top of the bottom 10%; while the Palma ratio is the relationship between the richest 10% of households to the poorest 40%. Finally, the ONS also now gives the income share going to the Top 1%, a concept developed by the team which constructed the World Top Incomes Database (2011-2015), now the World Inequality Database (WID)⁵. These figures too show how the share of income by the Top 1% increased during the boom years of the 2000s, before falling in the wake of the GFC and Great Recession. Longer term data from the WID also bear testimony to the staggering rise in inequality since the late 1970s, with the share in pre-tax national income by the Top 1% more than doubling (from 6% to 12.6%).

Table 2 : Inequality in Retired Households and other Inequality Measures*

	People in	S80/S20	Palma	Top 1%	Top 1%



	retired households		ratio	disposable share* (%)	pre-tax share** (%)
1978	20.4	3.5	0.8		6.0
1980	21.4	3.9	0.9		6.9
1990	29.8	6	1.4		8.1
2000-2001	28.9	5.7	1.4	7.8(2001/2)	11.1(2000)
2007-2008	29.7	6.6	1.7	9.8	13.9(2008)
2010-2011	27.2	5.3	1.4	7.0	11.8(2010)
2018-2019	31.6	6.1	1.5	8.0	12.6(2017)

Source : ONS, ibid. *Based on equivalised disposable income. **WID database, pre-tax national income Top 1% share, [20 May 2020].

The gender pay-gap

- 11 The literature on inequality does not usually mention the gender inequality directly, and when it does so, it mainly concerns the pay-gap between women and men. In the UK, the situation here is one of very, very slow improvement, as in most old industrialised countries. Thus, the ONS notes that there was a 0.6 percentage point decline in the gender pay-gap for full time employees between 2012 and 2018, which therefore stood at 8.9%. For *all* employees, the gap in 2019 was still 17.3%. More specifically, for full-time employees the gap for age groups under 40 was close to zero. After this age, the gender-pay gap increases, as women are more likely to work in lower-paid occupations, compared to younger women, and are less likely to hold managerial or senior positions⁶. It should be noted however that the gender pay-gap is only the tip of the iceberg. As Katrine Marçal has, among others, shown brilliantly and wittily, mainstream economics and national accounting largely fail to account for women's unpaid yet absolutely essential work in all societies⁷.

Wealth inequalities

- 12 Compared to income inequalities, it is usually much harder to obtain data about wealth inequalities. There are several reasons for this. Unlike income, wealth is a stock, and does not generate the same annual data as income flows do, in terms of company pay rolls, social security contributions, net income payments, etc. Wealth is therefore by definition often harder to evaluate in real time: how much is a house, or a company, or a piece of art, etc. worth at any given moment? Moreover, holders of wealth are also of course reluctant to declare their wealth. This problem exists for incomes too, with under-reporting affecting the assessment of top incomes. Yet, with wealth, the problem is even more significant. Moreover, wealth very often tends to be held by families as much as by individuals. To these factors, it is necessary to add the question of what exactly constitutes wealth. According to the latest figures by the ONS's Wealth and Asset Survey (WAS), median household net wealth in Great Britain stood at £286,000 in the



period April 2016 to March 2018, and total wealth was £14.6 trillion. Yet as Table 3 shows, one of the main components of wealth are private pension assets. These accounted for 42% of the total private net wealth of households in Great Britain⁸! This is a striking figure for a number of reasons. Firstly, the share of pension assets in total wealth has grown strongly since the first WAS in July 2006 to June 2008, when pensions accounted for 34% of total wealth, with this expansion in the share of total wealth being driven notably by the increase in active adults contributing to a private pension, up from 43% of working adults in July 2010 to June 2012, to 53% in the last survey period⁹. Secondly, the calculation of such wealth is surely somewhat hypothetical because the real value of assets in the future and their income streams from investments over the very long term is subject to uncertainty, depending on growth rates, inflation rates, asset price changes, etc.

Table 3 : Wealth by Main Component, Great Britain, April 2014 to March 2018

Total wealth by component (£ trillions)	April 2014 to March 2016	April 2016 to March 2018	Change in component	Contribution of component to total
Property Wealth (net)	4.49	5.09	13%	35%
Financial Wealth (net)	1.84	2.12	16%	15%
Physical Wealth	1.25	1.32	5%	9%
Private Pension Wealth	5.36	6.10	14%	42%
Total Wealth (incl. pensions)	12.94	14.63	13%	-
Total Wealth (excl. pension)	7.58	8.53	13%	-

Source : ONS, Total wealth in Great Britain: April 2016 to March 2018, 5 December 2019.

Table 4 : Gini Coefficients of Wealth

	July 2006 to June 2008	April 2016 to March 2018 ⁹
Total Wealth	61%	63%
Pension Wealth (net)	77%	72%
Property Wealth (net)	62%	66%
Financial Wealth	89%	91%
Physical Wealth	46%	47%

Source: ONS, *ibid.*

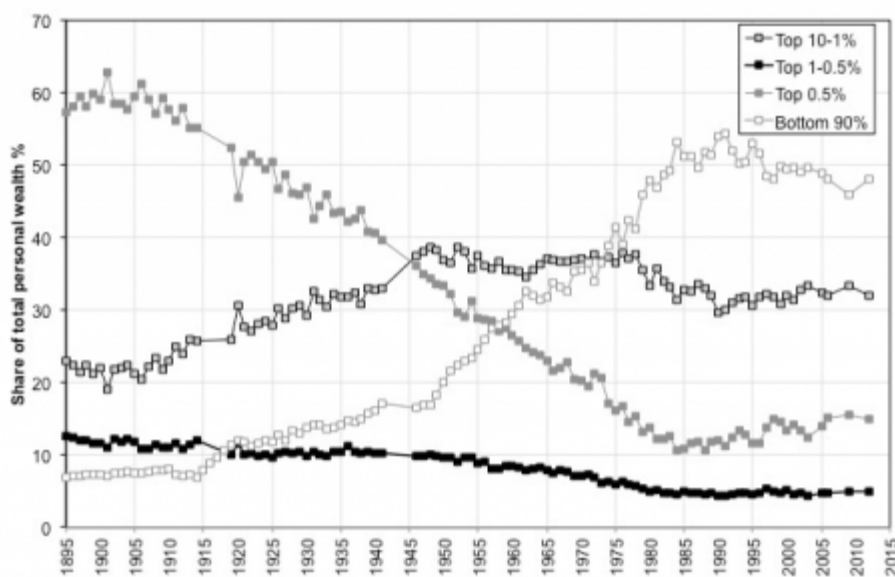
- ¹³ In terms of the distribution of wealth, the Wealth and Assets Survey by the ONS has recorded an overall increase in inequality since the first survey in July 2006 to June 2008, with the Gini coefficient rising slightly from 61% to 63% (see Table 4). This overall figure, however, masks significant increases in wealth inequality in property wealth and especially in financial wealth, which are offset by a fall in the highly unequal distribution of private pension wealth (the Gini coefficient going down from 77% to 72



percent).

- 14 More generally, the role of the housing market in the UK and owner-occupation, as well as the spread of ownership of durable goods (cars and household appliances) played an important role during the 20th century in the rising property ownership of the middle classes: shown in Graph 1 by the wealth ownership of the “bottom 90%”. Conversely, the private rental market for housing fell steadily, with council (social) housing becoming ever-more important in the rental sector. Further access to property wealth during the 1980s was then encouraged by the sale of council housing – the Conservatives’ largest privatisation programme. Since the 1990s, however, wealth has again been concentrating, as the private property rental market has been expanding once more, and as ownership of financial assets has both grown, although concentrated in the hands to top wealth households¹⁰.

- 15 **Graph 1 : Wealth Shares of the Top 1% etc. and Bottom 90%**



Source : Alvaredo, F., Atkinson, A., and Morelli, S. *Top Wealth Shares in the UK over more than a Century*, December 2016, WID.world Working Paper Series No 2017/2.

- 16 Lastly, wealth inequality between men and women is also starker than income inequality. Thus, according to a study by the Enterprise Investment Scheme Association (EISA) reported by Yahoo Finance UK in late 2018, women in Britain only had £43,000 in investible assets - excluding properties and pensions – while men had £75,000, nearly twice as much¹¹. Perhaps more striking still is the predominance of men at the top of *The Sunday Times Rich List 2020*. There are only five women listed in the top 20 individual/family fortunes, with none being listed individually (the list also shows very clearly – albeit somewhat anecdotally – the way families hold wealth)¹². The Rich List also reveals the gigantic fortunes held by the very rich, headed in the UK by Sir James Dyson and family (£16.2 billion).

Key facts and figures about poverty and low-incomes in the UK



The UK uses two main ways of measuring poverty. The first, more established way, is

the European definition of the poverty threshold expressed as a percentage share of the median household, equivalised disposable income – usually 60% (although 50% and 70% may also be used sometimes): the median value being the value which divides the population in half, with half of all households having a higher than median income and half a lower-than median income. The calculation is also “equivalised” meaning that it takes into account different types of household composition¹³. This measure of poverty is of course a relative measure, which changes over time as incomes tend to rise. As a relative measure it connects more clearly to the related question of inequality. The second measure of poverty to be adopted in Britain is an absolute measure¹⁴. This is done by calculating the number of households living below 60% of the median income in a base year (currently 2010/11), adjusted for inflation. Other things being equal, general economic growth should reduce this number over time. Once again, housing costs play an important role in the poverty rates – both relative and absolute.

Table 5 : Changes in Relative and Absolute Poverty Rates

	Individuals in household percentage (millions)				Children %		Pensioners %	
	relative (BHC)	absolute (BHC)	relative (AHC)	absolute (AHC)	Rel (AHC)	Abs (AHC)	Rel (AHC)	Abs (AHC)
1994/95	19(10.4)	37(20,3)	24(13,5)	41(22,4)	33	51	28	53
2000/01	18(10,4)	26(14,6)	23(13)	29(16,4)	31	38	26	35
2007/08	18(11)	18(10,9)	22(13,5)	22(13,3)	31	31	18	17
2010/11	16(9,8)	16(9,8)	21(13)	21(13)	27	27	14	14
2016/17	16(10,4)	14(10,4)	22(14,3)	19(12,4)	30	26	16	13
2017/18	17(11,1)	15(11,1)	22(14)	19(12,5)	30	26	16	14
2018/19	17(11)	15(10)	22(14,5)	20(12,9)	30	26	16	13

Source : DWP, *Households Below Average Income, 2018/19*, The Income Distribution Summary Tables, 26 March 2020.

Total numbers of persons living in poverty

- ¹⁸ Table 5 shows the evolution of the UK’s population in poverty (referred to now more as low-income) since the early 1990s, when the DWP began its annual Family Resources Survey. The overall picture is one of considerable stability in terms of relative poverty/low income: in 1994/95, 19% of the population (some 10.4 million people) were living in relative poverty, before housing costs; by 2018/19, the share had fallen to 17% (11 million people). Again, housing costs have a significant, yet uniform, impact of raising the share of persons in poverty by about 5 percentage points. Table 5 also shows a marginal improvement concerning the share of children living in poverty (the figures here are only AHC), with the percentage falling from 33% in 1994/95 to 27% in 2010/11, before rising again to 30% as of 2016/17. By contrast, the situation of pensioners has changed quite substantially: in 1994/95, 28% were living in poverty (AHC), a share which fell substantially to 16% as of 2016/17, reflecting political support by successive governments for maintaining pensions, notably the “triple lock” on the basic State



pension introduced in 2007, which ensured that pensions would keep up with wages, or inflation or rise by 2.5% per year.

19 By contrast, figures for absolute poverty indicate quite strong falls in all groups. This is even true when housing costs are taken into account: for example, while in 1994/95, 22.4 million people were living in absolute poverty under this measure (i.e. less than 60% of the real median, disposable equivalised household income in 2010/11), this figure had fallen to 12.9 million people by 2018/19.

20 What does this mean in money terms? According to DWP HBAI data, the median disposable equivalised income was £514 per week, before housing costs (£447 after housing costs): see Graph 2. The 60% poverty threshold was therefore £308.

Graph 1 : Distribution of weekly incomes before housing costs



Source : DWP HBAI, 2018/19, *The Income Distribution*.

21 Table 6 shows the equivalent values of annual income on the basis of these weekly earnings. The figures indicate different income levels for various percentiles in the income distribution shown in Graph 2, as well as a calculation of the 60% poverty threshold for the various combinations of household types. It should be noted that these thresholds have been calculated using the 50th percentile: i.e. the median incomes shown.

Table 6 : Annual Equivalent Household Incomes by Different Household Types, BHC, 2018/19

Percentile	Equivalised weekly income	Single individual	Couple with no children	Couple with two children
10th	£256	£8,900	£13,300	£18,700
60% threshold*	£308	£10,700	£16,000	£22,500
50th (median)	£514	£17,900	£26,800	£37,500
90th	£1,035	£36,200	£54,000	£75,600
97th	£1,601	£55,900	£83,500	£116,900

Source : DWP HBAI, *An analysis of the UK income distribution: 1994/95-2018/19*, 26 March 2020. * The 60%



threshold figures are calculated here using the median.

Other dimensions of poverty

- 22 Numerous other measures of poverty and manifestations of poverty also merit attention. For example, the DWP's *Households below average income* report also discusses levels of material deprivation among children and pensioners (as well as for adults). Thus Table 7 indicates the percentage of children whose parents "want but cannot afford specific goods or services for their children or for themselves". While these self-declared wants may also exist not only within households that are below the official quality line, they give some indication of what poverty actually means in practical terms, which is missing in aggregate statistics.

Table 7 : Percentage of Children Whose Parents Want to Provide Them with Specific Goods and Services but Cannot: UK, 2018/19

One week's holiday away from home with family	30%
Bedrooms for every child aged 10+ of different gender	17%
Attend organised activity once a week	8%
Outdoor space/facilities to play safely	7%
Leisure equipment, e.g. sports equipment or a bicycle	6%
Hobby or leisure activity	6%
Have friends round for tea or a snack once a fortnight	5%
Go on school trip at least once a term	4%
Go to a playgroup at least once a week	4%
Celebrations on special occasions	2%
Eat fresh fruit and/or vegetables every day	2%
Have a warm winter coat	1%

Source : House of Commons Library, *Poverty in the UK: statistics*, Briefing Paper, No 7096, 29 April 2020, based on DWP HBAI data.

- 23 The Joseph Rowntree Foundation's latest report on poverty in the UK points to numerous other specific issues with deserve more attention. For example, it notes that in-work poverty has risen from 9.9% of workers in 1997/98 to 12.7% today, so that 56% of people in poverty are actually living in a working family, compared to 39% twenty years ago. The report also draws attention to the nearly 4.5 million informal adult carers in the UK (in 2017/18), equivalent to 7% of the population – who are living in poverty. In addition, it notes that there has been a strong increase in "children" aged between 20 and 34 years old living with parents or grand-parents. These "concealed households" expanded from a quarter of the age cohort twenty years ago (2.4 million) to more than a third today (3.8 million people in 2017/18)¹⁵.

Table 8 : Poverty and persistent poverty in the UK and the EU



Year	EU28 - Persistent poverty	UK - Persistent poverty	EU28 poverty rate	UK Poverty rate
2008	8.7	8.5	16.6	18.7
2009	9.2	8	16.4	17.3
2010	10	7.4	16.5	17.1
2011	9.8	6.9	16.9	16.2
2012	10.3	8.6	16.8	16
2013	10	7.8	16.7	15.9
2014	10.3	6.5	17.2	16.8
2015	10.9	7.3	17.3	16.6
2016	11	9.4	17.3	15.9
2017	11.3	7.8	16.9	17

Source : ONS, Persistent poverty in the UK and EU: 2017, 6 June 2019.

Persistent poverty in the UK

- 24 One final aspect of poverty which is worth mentioning in this brief overview concerns so-called persistent poverty, defined as experiencing relative low income both in the current year and at least two out of the three preceding years. Table 8 provides data comparing the UK with the rest of the EU, taken from Eurostat's European Union Statistics on Income and Living Conditions (EU-SILC). It shows that the UK poverty rate is broadly in line with the EU average. Yet at the same time, the UK's performance on persistent poverty is somewhat better, returning to pre-GFC levels in 2017: moreover, the share of people in the UK who were in persistent poverty in 2017 (46 percent) was the sixth lowest among EU member states, and 21 percentage points below the EU average (67 percent). These features of poverty in the UK perhaps reflect the more dynamic growth of the UK economy which began in the second half of 2013, and perhaps also its more flexible labour market (though these are hypotheses which would need quite sophisticated and robust econometric testing to verify).

Discussion

- 25 The various tables and graphs above have tried to present the main figures used to indicate levels of inequality and poverty in the UK. They provide the most common data, but in many ways do not really provide a full picture of what lies behind the statistics. Nor are any evident scoops or inexorable trends visible. Inequality in the UK rose clearly in the 1980s, but has demonstrated no discernible trend since.



The “usual suspects” as causes for greater

inequality

- 26 The causes for this rise were varied, although Thomas Piketty points to tax cuts in particular¹⁶. This fits in of course with his latest publication – *Capital et idéologie* – which argues that inequality stems primarily from ideological, rather than economic causes¹⁷. Indeed, it should be recalled that the first Thatcher government brought down the top rate of income tax from 83% to 60%, and the basic rate from 33% to 30%. This was much financed by a near- doubling of VAT, from 8% to 15%; with the Tories stating at the time that people should be taxed on what they spent, not on what they earned, thus masking the far more regressive nature of indirect taxes like VAT. Subsequently, in 1988, the third Thatcher government brought down the top tax rate to 40%.
- 27 Atkinson for his part has stressed the way various social benefits were reformed and restricted by the Conservative governments during the 1980s. He notes for example that unemployment benefit expressed as a share of average household consumption expenditure per head fell from 40% in around 1980, to 30% by the early 1990s, before almost falling to 20% prior to the GFC¹⁸. The re-indexation of pensions and benefits from earnings growth to price inflation as of 1980 similarly contributed to an erosion in the value of pensions relative to wages over time.
- 28 Numerous other factors also played a part in the rise of inequalities during this decade, including: industrial restructuring with its attendant job-losses in traditional industries; the expansion of low-tech, low-pay jobs in services, the increasing higher rates of return on higher education as wages in low-skilled jobs were squeezed, trends later compounded by globalisation, and the deliberate weakening of unions, etc. Thus, in a summary article about inequality trends, François Bourguignon notes that “almost by definition, globalisation and technological progress are the most obvious common factors of income distribution across countries”, and that “[i]n the developed countries, globalisation and skill-based technological progress are certainly responsible for a rise in the share of total income going to capital and for the slow growth of wages and employment of unskilled labour”¹⁹. According to OECD figures he quotes, globalisation and technological change were partly responsible for the rise in earnings inequalities that caused 40% of the average increase in the Gini coefficient among OECD countries (from the late 1970s through to the early 2010s). A further 22% rise in the average Gini coefficient was due to changes in “assortative mating” and the “structure of household composition”. Furthermore, Bourguignon too observes how some countries like the UK (and New Zealand) experienced a “one step” rise in inequality, in contrast to other countries (like the US, France and others) which have experienced a more gradual, persistent rise in inequality since the shift to neoliberal policies.

The IFS Deaton Review and the multidimensional nature of inequality

- 29 Given the seeming stability of income and wealth inequality in the UK since the 1990s on the basis of the aggregate statistics presented here, it may be asked why inequality has become such a key political issue in recent years. It is to answer such questions and to get a better grasp of the economic and social issues related to inequality, that the Institute for Fiscal Studies (IFS) launched its IFS Deaton Review in 2019, chaired by Sir Angus Deaton. As Sir Angus put it in his address opening this enquiry:



As at no other time in my lifetime, people are troubled by inequality... Yet [...], it is frequently unclear what they mean or why they care. Economists think they know

what they mean when they talk about inequality, and they produce charts of gini coefficients of income and of wealth, and when other social scientists say that they have wider concerns, economists — among whom I count myself — have often been too ready to tell them that they don't know what they are talking about. What we would like to do in this review, even with its large quota of economists, is to get a better understanding of exactly what it is that bothers people about inequality²⁰.

- 30 Accordingly, the Review is set to examine *inequalities* more broadly. Its introductory document specifically acknowledges that inequality is not just about money, but that it “exists in the stresses and strains on family life, which shape the environment in which children grow up. In the divergences in life expectancy between deprived and affluent areas, and the growing burden of poor mental health among disadvantaged groups”. Tellingly, the document points out that while various types of benefits and tax credits have ensured that household incomes at the bottom of the income distribution have broadly kept up with those further up, “evidence suggests that people care about not only the total income they received but also the form in which they receive it”²¹.
- 31 The Review will therefore examine a whole range of issues, including: health issues and especially diverging life expectancies, and the stalling of rising life expectancy since 2011; the erosion of family structures among low-income, low-education households and the attendant rise in children growing up with parents who are in unstable relationships; the improved opportunities for women in the labour market, even though the wage-gap opens up markedly when first children are born; the decline in homeownership for young people aged 25 to 34, which means their capacity to accumulate net wealth is less than previous generations; the connected importance of inheritance on young people's living standards; geographical inequality, etc. Such inequalities in turn are likely to reinforce each other, while also stemming from other inequalities in cultural capital, social networks and political voice.
- 32 Another significant factor which seems to explain the deleterious impact of poverty and inequality (and which seems to me to be absolutely central) concerns the insecurity low income causes. The Joseph Rowntree Foundation's latest report highlights clearly how insecurity affects single parent families, persons in precarious work and renters in the private sector whose ability to “feel at home” is undermined²².

Some key policy proposals for dealing with inequality and poverty

- 33 Given the stability of income and wealth inequalities in the UK (and indeed the wider world) within the current neoliberal regime of capitalism, over-coming them is no small matter. And yet, the “great compression” of inequalities during the much of the 20th century indicates that high – and possibly increasing – inequality is not absolutely inevitable. Nor, given the post-war boom, is lower inequality necessarily economically inefficient: even during Britain's somewhat thwarted “stop-go” era, growth was higher at the time than it has been since the advent of neoliberalism.
- 34 A plethora of policies has been put forward to tackle the present state of rising inequalities in the old industrialised countries, including in the UK. For Piketty, whose work has profoundly affected the way the many economists view the capacity for economic development to reduce inequality, greater taxation has a key role in overcoming the present situation. Specifically, he argues that progressive taxation should be increased not just on incomes, but also for inheritance, and on existing (stocks of) wealth. On top of this, capitalism should be transformed by expanding worker participation in the management of companies (as indeed already exists in



Germany, and Scandinavia). Finally, to put capital into the hands of all members of society, he proposes that all young people (say at the age of 25) should be given a grant, financed by progressive taxation of private property²³.

35 For Anthony Atkinson (writing in 2015), reducing inequality and alleviating poverty in the UK involves a mix of more progressive taxation, and raising certain benefits – notably child benefit. Atkinson very specifically rules out recourse to a universal basic income, citing the rule-of-thumb calculation by James Tobin that a grant of y % of average (i.e. mean) income, coming on top of government spending of x % of GDP, would by definition require a flat rate tax rate of $y + x$ %. For example, if all other government spending takes 20% of GDP, and the universal basic income is 30% of the average income, then total taxation would need to be equivalent to a 50% flat tax rate. To be sure, progressivity could alter the distribution of taxation. Yet for Atkinson, a universal income is a “chimera”. Instead, he argues for a citizen’s “participation income” that complements existing social transfers, where appropriate. Such an income would be conditional on “participation”: i.e. making a social contribution (including activities like work, education, training, job-search, home-care or voluntary work for a recognised association)²⁴.

36 The Joseph Rowntree Foundation, for its part, sets out four solutions in its latest report based on improving jobs and benefits. Specifically, it calls for: helping people who are unemployed, underemployed or in low-pay work (in some parts of the country) to get support to “be in good jobs”; improving workers’ security through training and opportunities to progress, in order to tackle in-work poverty; strengthening the benefits system, so that it can be an essential public service, receiving sustainable investment to provide adequate support for people; and lastly, increasing the availability of low-cost housing²⁵.

37 Finally, it is especially worth mentioning the ground-breaking work by Kate Raworth on *Doughnut Economics*. She calls for substantial, structural policies to move beyond existing capitalism so that national and global societies get to the point at which a series of basic needs are met for all (the inner circle of the doughnut), while not exceeding the sustainability constraints of what the planet can provide (the outer circle of the doughnut). On the specific issue of inequality, Raworth argues that numerous key institutions of our society need to be profoundly restructured and “design[ed] to distribute”. This begins by thinking of society as a network of flows that will allow income and wealth to be distributed more equally, and which strikes a better balance between efficiency and resilience. Referring to the GFC, Raworth notes that too much efficiency makes a system vulnerable, and this should be counterbalanced by the “diversity and redundancy” of “resilience”, which accordingly provides alternative connections and options in systems in times of shock or change: this argument is especially prescient in view of the Covid-19 crisis. Her prescriptions for redistributing income and wealth, however, go beyond taxes and benefits, and entail elements of land taxation and redistribution (and common ownership); deep changes in finance, including 100% reserve banking (i.e. loans made by banks should be fully backed up by deposits) along with state ownership of part of the banking system to channel investment into productive activities (instead of into property and asset speculation); policies to make employees – the people who actually work in businesses – the “insiders” of companies in place of the shareholders who usually do not take part directly in running firms; new regulations on robots, the providers of information technology and intellectual property that would favour labour and more common ownership; taxation of global wealth holders to fight global poverty; and the nurturing of “common pool” resources²⁶.



Conclusion

- 38 This article was mainly written in spring 2020, when much of the world was experiencing some form of lockdown to limit the spread of Covid-19. All the data and ideas presented – no matter how recent – therefore belong to a different age, which disappeared almost within a few days. Everything written here is in many ways already profoundly out of date.
- 39 Indeed, it seems likely that the Covid-19 crisis will have an even greater impact on the world than the global financial crisis and the Great Recession, although what exactly its impact – or impacts – will be is hard to tell at this point. What we do know so far, is that the Covid-19 pandemic is hitting poorer households and poorer countries more. What we also see, is that there is some hope that the Covid-19 may rein in some of the worst aspects of globalisation and neoliberalism. Air travel is set to be affected for quite some time, as are a whole range of activities requiring cheap transport or people coming together in large numbers. Meanwhile, supermarket employees, waste collectors and lorry drivers are now viewed as essential workers, along with nurses and doctors. So could this be the moment that humanity strikes out to take a different path? To adopt some of the radical policy prescriptions of Raworth, for example, as the city of Amsterdam has said it will²⁷?
- 40 Following Piketty's argument that the "great compression" of inequalities was due to exceptional circumstances (the World Wars, the Russian Revolution, and the Great Depression), Walter Scheidel has argued that major cataclysms – wars, social upheaval and disease – are history's key drivers of greater equality²⁸. Peter Clarke makes a similar, though more focused, argument on how the World Wars set in train the rise of rule-based international liberalism and Keynesian economics²⁹. In an interview with *The Guardian* at the end of April 2020, Scheidel reckoned that if the Covid-19 crisis turns out to be short, then it will be hard to resist the temptation to go back to business as usual (as happened after the GFC and Great Recession). Only a protracted upheaval could lead to change, although this would entail real clashes of interests³⁰.

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Notes

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5 This team now has many members internationally. In alphabetical order, its co-directors include: Facundo Alvaredo, Lucas Chancel, Thomas Piketty, Emmanuel Saez and Gabriel Zucman. Anthony Atkinson, for decades one of Britain's leading experts on inequality, was also a co-director of the WID, until his death in 2017.

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12 The top 20 of the list published 17 May 2020 includes: 1) James Dyson and family; 2) Sri and Gopi Hinduja and family; 3) David and Simon Reuben; 4) Leonard Blavatnik; 5) Jim Ratcliffe; 6) Kirsten and Jorn Rausing; 7) Alisher Usmanov; 8) Guy, George and Galen Jr Weston and family; 9) Charlene de Carvalho-Heineken and Michel de Carvalho; 10) The Duke of Westminster and Grosvenor family; 11) Mikhail Fridman; 12) Roman Abramovich; 13) Marit Rausing and family; 14) Ernesto and Kirsty Bertarelli; 15) Anil Agarwal; 16) Denise, John and Peter Coates; 17) David and Frederick Barclay; 18) Earl Cadogan and family; 19) Lakshmi Mittal and family; and 20) John Fredriksen and family <https://www.thetimes.co.uk/sunday-times-rich-list> [22 May 2020].

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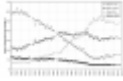
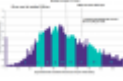
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Table des illustrations

	Titre	Graph 1 : Wealth Shares of the Top 1% etc. and Bottom 90%
	Crédits	Source : Alvaredo, F., Atkinson, A., and Morelli, S. <i>Top Wealth Shares in the UK over more than a Century</i> , December 2016, WID.world Working Paper Series No 2017/2.
	URL	http://journals.openedition.org/osb/docannexe/image/5110/img-1.jpg
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	Titre	Graph 1 : Distribution of weekly incomes before housing costs
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