

Wealth and income inequality: the fundamentals

[All graphs can be found here](#)

Introduction

Wealth and income in the United Kingdom are not distributed equally. But what does this really mean for people across the country? And how do the levels of inequality compare to the past, as well as to other countries?

On the face of it, income inequality is a simple concept: the extent to which incomes are spread unevenly in a group of people. Similarly, wealth inequality is the extent to which wealth is distributed unevenly in a group of people.

Looking at a single measure of inequality might give a part of the story, but the picture becomes richer when we combine both income and wealth along with data on relative poverty, home ownership rates, and inheritances. This allows us to better interpret what might be happening ‘under the hood’ and to paint a more detailed, and ultimately useful, picture of inequality across the UK.

These 10 fundamental facts show the impact that income and wealth inequality have on different generations now, and crucially, will have in the future as we look ahead to 2040.

Understanding how these two different forces interact is essential for policymakers looking to address concerns about inequality and to improve living standards. For example, looking at the trends in income growth alongside the evolution of wealth accumulation (such as house prices and inheritances) helps to illustrate the ways in which it is increasingly difficult for many to get ahead. At the same time, we can see how these combined forces may mean that an individual's outcomes in life are much more dependent on the circumstances of their own parents or grandparents than was the case in previous decades.

Inequality is, of course, so much broader than just wealth and income. We are addressing inequalities explicitly and consciously in all of the themes covered in UK 2040 Options. However, as politicians (and people) are faced with wide gaps between those that have and will have in future, and those that do not and will not, policy options that can tackle the challenges presented by income and wealth inequality will be needed as we look out to 2040.

Fundamental Facts:***Income inequality***

1. On several measures, the UK has very high levels of income inequality compared to other similar countries.
2. The level of income inequality in the UK in recent decades has remained high and it is likely to increase over the next five years.
3. The richest 1% earn 13% of the UK's total income.
4. Rates of relative poverty have fallen over the past decades although child poverty rates remain persistently high.
5. Median incomes vary widely between regions, ethnic groups and disability status.

Wealth inequality

6. Wealth is much more unequally distributed in the UK than income.
7. The wealth gap in the UK has widened over the past 40 years.
8. Some ethnic groups and geographical areas are much more wealthy than others.
9. The growth in house prices in the UK since the mid-1990s means young people today are much less likely to own their own home.
10. The value of inheritances have doubled over the past twenty years, and are now worth over £100 billion. This amount is likely to double again by 2040.

1. On several measures, the UK has high levels of income inequality compared to other similar countries

This includes countries that we consider to be our economic peers, or to have similar living standards to us

Income inequality is the extent to which income is distributed unevenly within a society. Drawing on a number of different measures, we can see the same picture: the UK has internationally high levels of income inequality.

Zeroing in on measuring income inequality

There is no consensus on how best to measure income inequality, with experts using a variety of different approaches to gauge the level of inequality in a particular setting. We can use a number of different summary and ratio measures to ascertain how incomes are distributed within the UK.

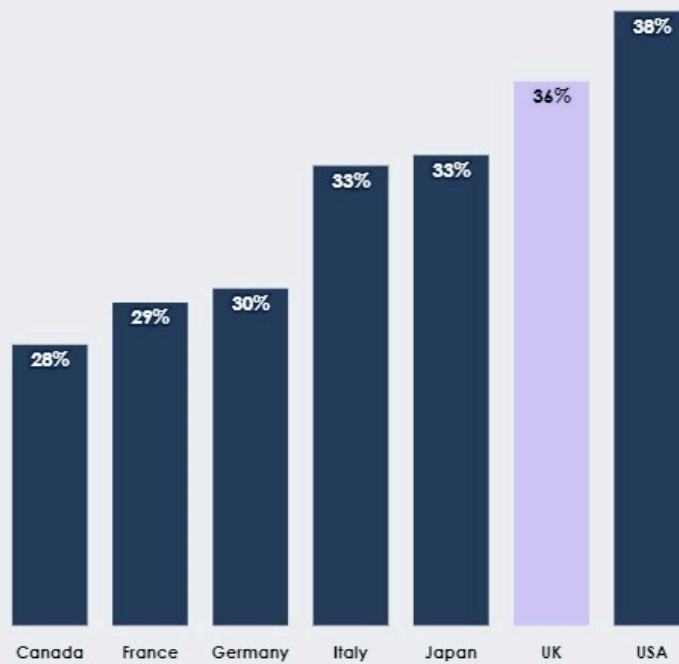
- The Gini coefficient, the most commonly used summary statistic of income inequality, [was most recently measured at 35.5%](#) for the United Kingdom. (A value of 0% would express perfect equality, where everyone has the same income while a value of 100% would be extreme inequality, where one person had all of the income).
- [The Palma Ratio for 2020/21 was 1.5](#). This tells us that the richest 10% of the UK population have an income that is 1.5 times greater than the bottom 40% of the population.
- Using a different ratio, [the P90/10](#), we can tell that in 2020/21 the top 10% of incomes had an income that was 4.5 times greater than the bottom 10% of incomes.
- Again using a different measure, [the quintile share ratio](#), we can see the income share received by the top 20% of the population in 2021 was 6.3x greater than the income share received by the bottom 20% of the population.

These ratio measures can make this disparity feel abstract, so, [putting this into 'pounds and pence'](#), in 2021/22 the weekly disposable income of a household of a couple with no children in the richest 10% of incomes was greater than £1000. For those in the bottom 10%, weekly disposable income was below £270.

While globally, most countries' income inequality has deepened in recent decades, [inequality in the UK has grown more than in most OECD countries](#). The UK now has one of the [highest levels of income inequality in Europe](#), and the second highest in the G7 – countries that we normally consider to be our peers in terms of economic opportunity and living standards. The [United States](#), however, remains more unequal.

The UK has the second highest income inequality in the G7

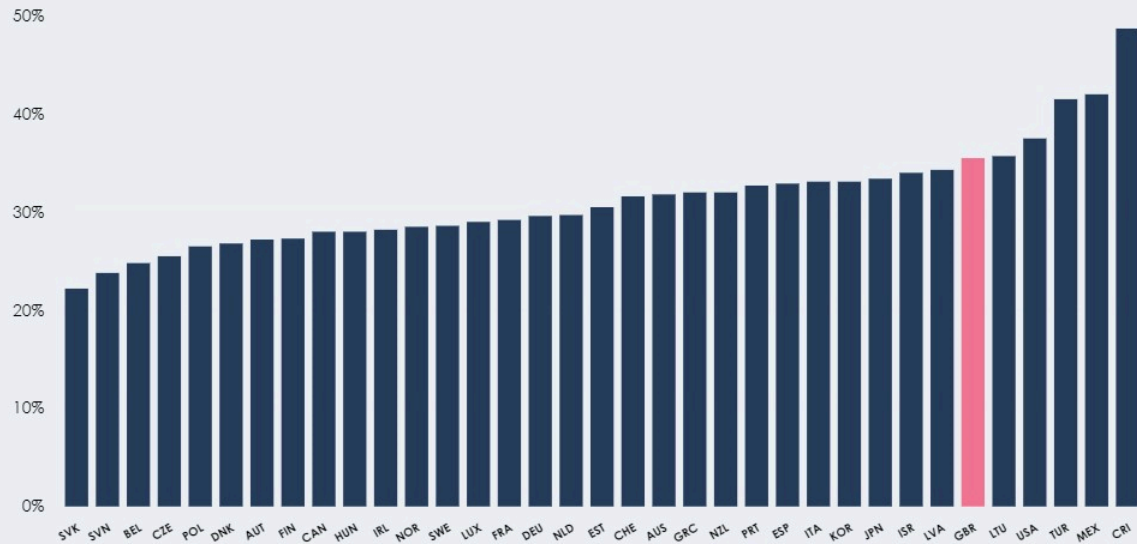
Gini coefficient, 2021 or latest available, for all G7 nations. A Gini coefficient of 100% represents complete inequality, while a Gini coefficient of 0% represents complete inequality.



Source: OECD (2023), Income inequality (indicator). doi: 10.1787/459aa7f1-en (Accessed on 18 August 2023)

The UK's income inequality is among the highest in the OECD

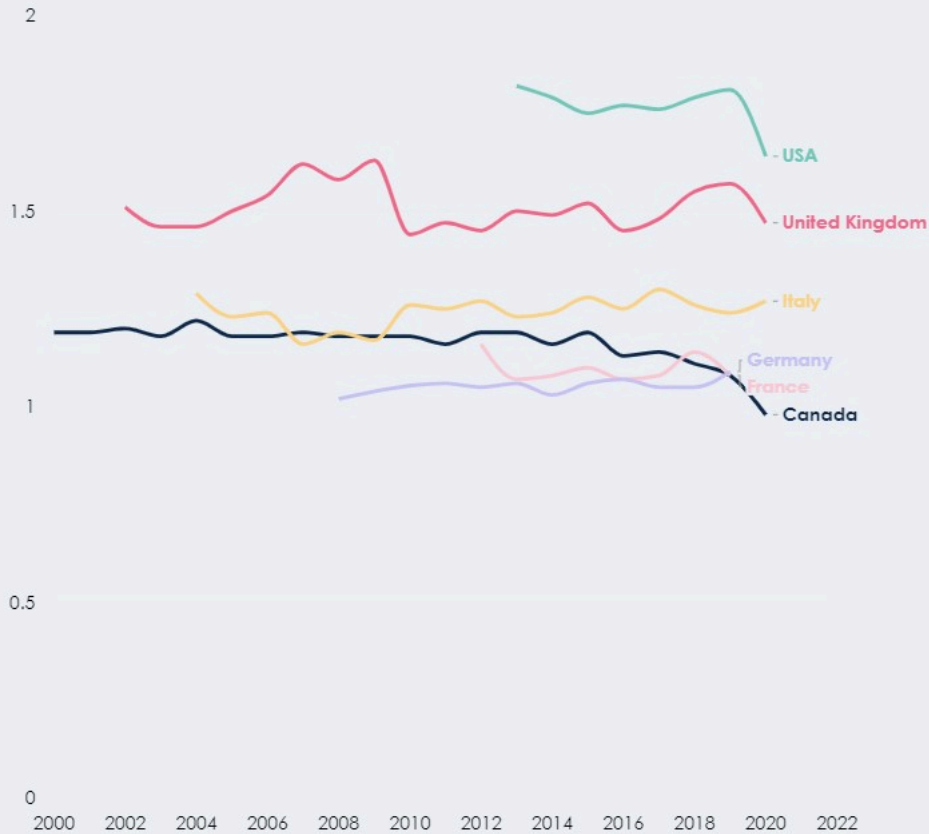
Gini coefficient, 2021 or latest available, for all OECD countries. A Gini coefficient of 100% represents complete inequality, while a Gini coefficient of 0% represents complete equality.



Source: OECD (2023), Income inequality (indicator)

On many measures, the UK has high levels of income inequality internationally

Palma ratio, a measure of inequality that divides the share received by the richest 10% by the same of the poorest 40%, 2000 - 2020 with earliest and latest available data used

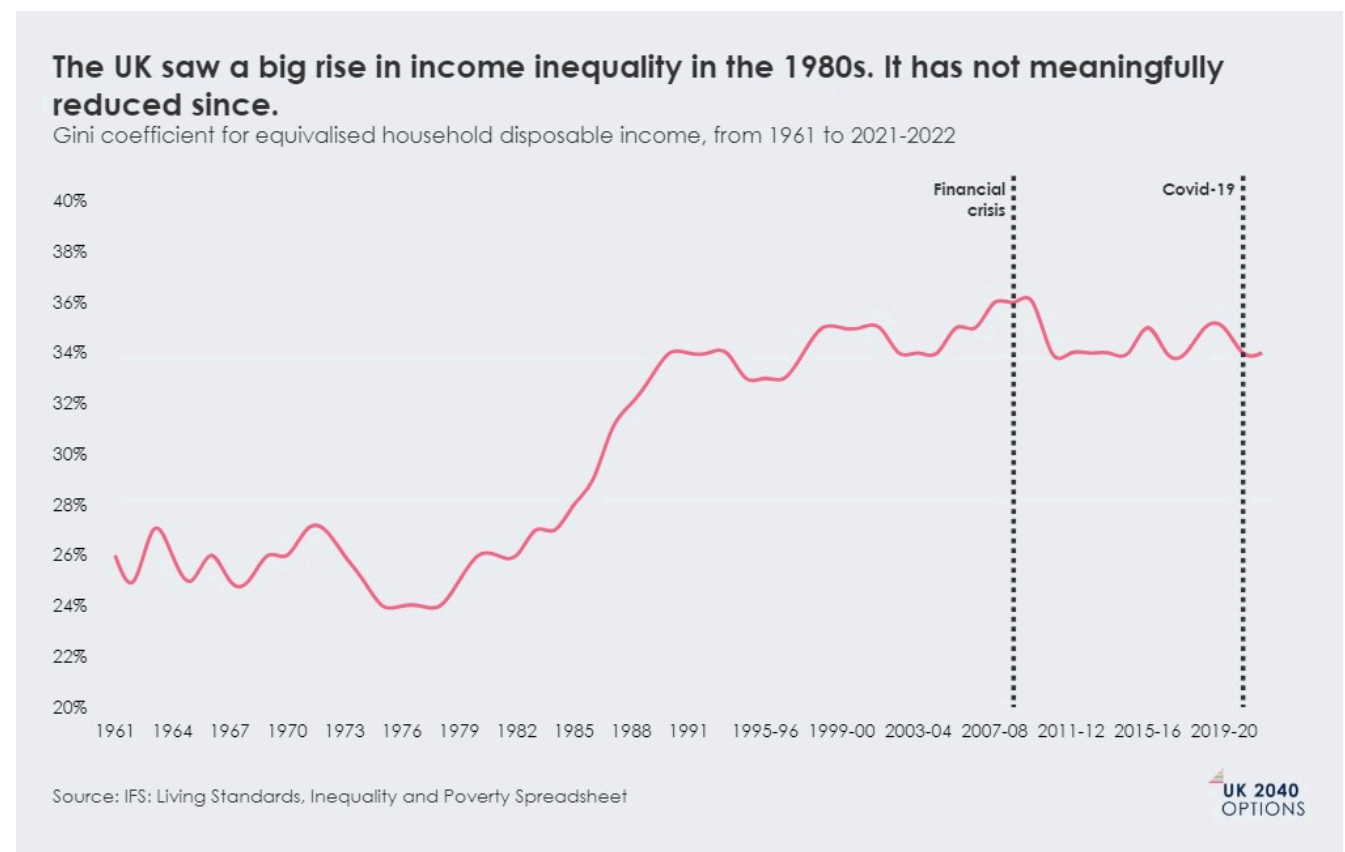


Source: OECD (2023), Income inequality (indicator).

2. The level of income inequality in the UK in recent decades has remained high and is likely to increase over the next five years

A rapid growth in investment income, driven by rising interest rates, is likely to drive higher incomes among richer households

Income inequality in the UK [has not always been this high](#). The increase has been driven largely by extensive and rapid growth in income inequality in the 1980s.



We can roughly separate the trends in changes to income inequality in the UK since the 1960s into [four time periods](#).

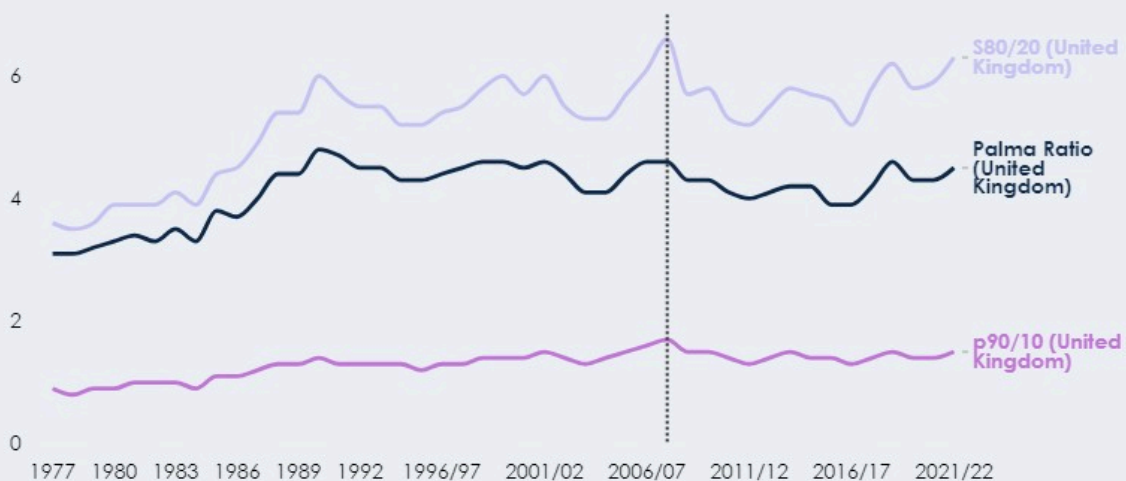
- In the 1960s and 1970s, incomes grew at similar rates for low-, middle- and high-income households, meaning that the Gini coefficient remained relatively stable.
- In the 1980s, income inequality increased both rapidly and substantially across the board. The 1980s has been described as a [“transformative decade”](#) for income inequality in the UK, with the major increase in inequality driven by increased

inequality in hourly wages and earnings.

- From the early 1990s until the 2007/8 financial crisis, incomes changed in a way that flattened the distribution, with the financial crisis stalling the rise in income inequality. This was not the case for incomes at the very top (the top 1%), which continued to pull away from the incomes of the richest 10%.
- From the late 2000s until the Covid-19 pandemic, the UK's weak income growth was evenly spread across the income distribution (see below for wage growth), and there has been little change to the level of income inequality when looking at the Gini coefficient. However, some measures of inequality in this timeframe show a clear upwards trend in income inequality since the financial crisis, with some now again at a ten-year high (see the graph below).

After the financial crisis, many measures of income inequality fell back - but some still show an upward trend

P90/10 ratio, Palma ratio, and Share 80/20, equivalised disposable income, all people, UK 1977 through to financial year ending 2022



Source: DWP: Household Below Average Income (statistics) • S80/S20 ratio is the ratio of the average income received by the richest 20% of people to that received by the poorest 20%. The P90/P10 ratio compares the ratio of the income of the person at the bottom of the top 10% with that of the person at the top of the bottom 10%. The Palma Ratio compares the income or wealth share of the top 10% of the population (the richest) to the income or wealth share of the bottom 40% of the population (the poorest).

It is very difficult to look forward and to accurately predict what will happen to income inequality in the UK through to 2040. But in the very short-run, [it is likely that it will continue to deepen](#). [The Resolution Foundation predicts that](#) the rapid growth in investment income, which is driven by rising interest rates, will drive higher incomes among richer households. Although a prediction, and therefore inherently uncertain, the Resolution Foundation forecasts the Gini coefficient will reach a [record high of 40.8% in 2027-2028](#). This would make the UK almost as unequal in terms of income distribution as the United States is now.

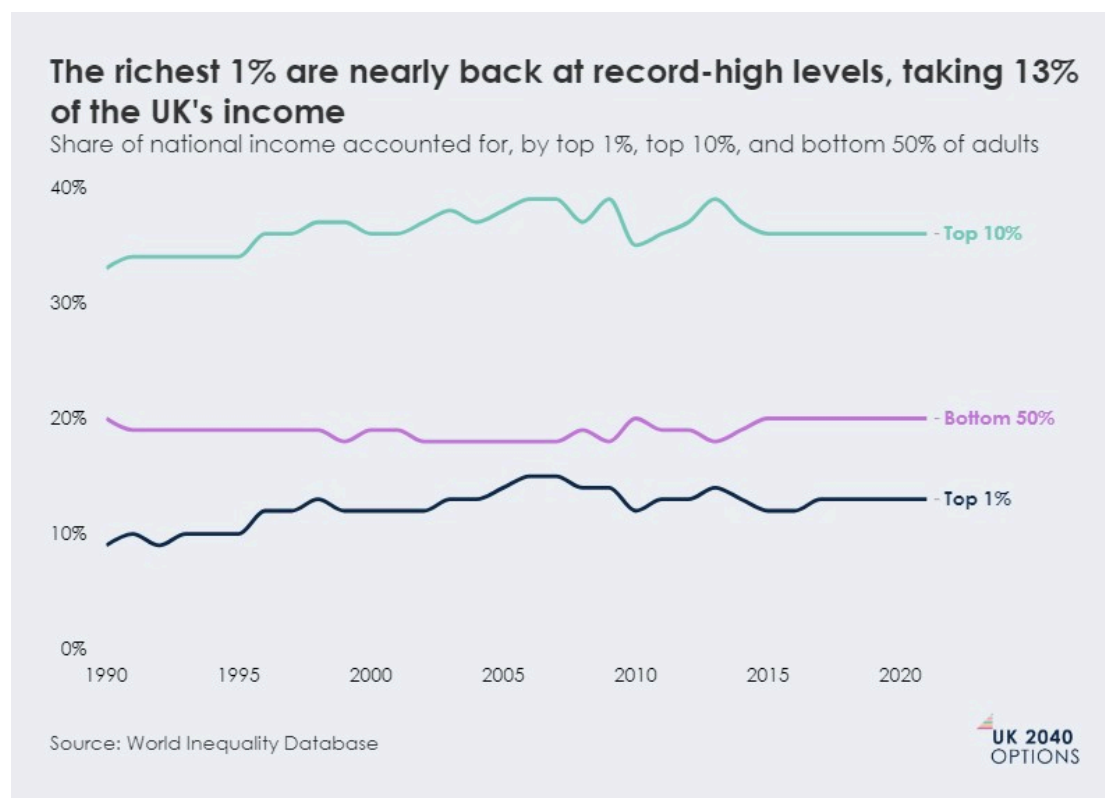
3. The richest 1% earn 13% of the UK's total income

This is despite real wages stagnating for most people since 2009.

The people who make up the top 1% of the income distribution in the UK accounted for approximately 13% of national income in 2021. In stark contrast, the share of income earned by the entirety of the bottom 50% stood at 20%.

To be in the top 1% of income tax payers in the UK in 2019, a [taxable income of at least £160,000 was required](#). (By way of comparison, in 2019 43% of UK adults did not have an income that was high enough to pay tax, the threshold for which [in 2019 was £12,500](#), and [median income \(after tax\) was £29,600](#)).

It is very difficult to accurately measure the exact incomes of the top 1%, and not much is generally known about them as a group. However, [research from the Institute for Fiscal Studies](#) (IFS) found that the 1% of income earners in the UK tend to be disproportionately White, male and concentrated in London, making top incomes unequal across geography, ethnicity and gender.



But as we articulated in our [Economic Growth and Productivity Fundamentals](#), real wages (what people are paid when inflation is taken into account) have stagnated since 2009 for most people. Between 2001-2008, real wages grew an average of 2.17% per year. Between

2009-2023 they grew just 0.06% per year on average, meaning that people's incomes, on average, when taking costs into account, have hardly grown at all for the last 13 years.

Real wages have grown at just 0.06% per year on average since 2009

Growth in real total pay, 2001-2023



Source: ONS Data

4. Rates of relative poverty have fallen over the past decades although child poverty rates remain high

Relative poverty increased in the 1980s, but has fallen slowly over the past three decades.

Rates of poverty – the proportion of households on low incomes – have remained relatively stable in recent decades. The [most common measure of relative poverty](#) is the proportion of people with a household income below 60% of the median income. This means that relative poverty can also be viewed as a measure of income inequality between middle-income households, and those on low incomes.

[Using data from the IFS](#), we can see from the graph below that one in five individuals were in relative poverty in 2020/21. This is a statistic that has remained relatively constant since the 1990s, after poverty increased (for most) during the 1980s. However, separating this group out into different demographics tells us a different story: groups have had very different experiences. For example, we can see that there has been a significant decline in the number of pensioners in relative poverty, from 38% in 1990 to 18% in 2020/21. On the other hand, the number of children in poverty has remained relatively high, with 31% of children in relative poverty in 1990 through to 29% in 2020/21.

One in five British people were in relative poverty in 2021/22

Percentage of demographic group in relative poverty (after housing costs) over time. Relative poverty is the percentage of individuals below 60% of contemporary median income.



Source: Institute for Fiscal Studies - Living Standards, Inequality and Poverty Spreadsheet

Poverty is a highly challenging concept and lived experience to measure. While the measure of relative poverty helps us understand the differences between different groups in the UK, it still has limitations. For example, it is highly sensitive to the median income — so gains made by the poorest will not show up in the measure, if the median income also rises. At the same time, in times of economic recession, it can sometimes seem like fewer people are in poverty because the median income might drop.

It is also extremely difficult to project forward to understand what might happen to the relative poverty rate by 2040. [As the Joseph Rowntree Foundation points out](#), trends in poverty depend on what might happen to the drivers of poverty: employment, earnings, benefits and tax credits and housing costs. It will also depend on how the cost of living changes. Given ever-increasing housing costs and the current cost-of-living pressures on households, [it is unlikely that there will be significant change to this rate any time soon](#).

5. Median incomes vary widely between regions, ethnic groups and disability status

Meaning that what region you live in, your ethnicity, and whether or not you have a disability could have a significant impact on your income

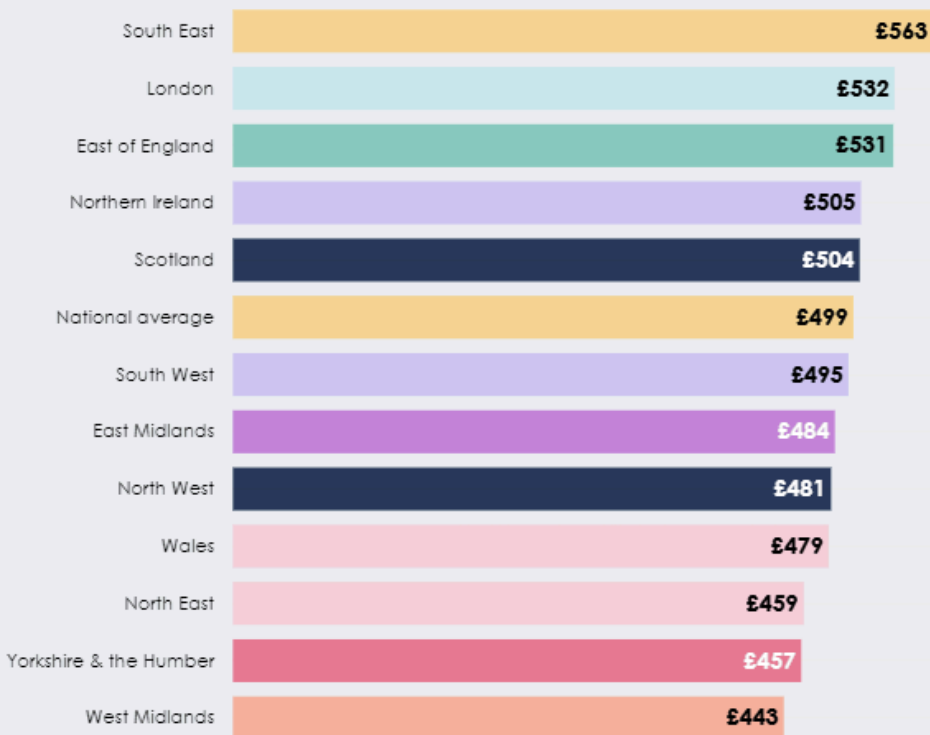
Median incomes are distributed highly unevenly across the UK

On many measures, the UK [is one of the most regionally unequal developed countries in the world](#). (We explored the impact of this as part of our [Economic Growth and Productivity Fundamentals](#), where we considered how regional inequality plays out in the UK's productivity statistics). This trend also holds true for income inequality: [median disposable incomes differ vastly between UK regions and devolved nations](#).

We can see this in the graph below. We can see that the median household income (after housing costs) in the West Midlands is 27% less than that of the South East. If we look at median household incomes *before* housing costs, London comes out on top, as high housing costs in the capital lower the median income once housing costs are taken into consideration.

Even after taking housing costs into account, people in the richest regions are on average more than 25% better off than the poorest regions

Median weekly income after housing costs: 2019/20 to 2021/22, equivalised 2021/22 prices



Source: DWP, Households Below Average Income, 2019/20

While median incomes are only one part of the story, they can give us a partial insight into the standard of living in different parts of the country. The distribution of incomes roughly maps onto the relative poverty rate for different parts of the country: for example, in the [North East](#), the relative poverty rate is at 26%, for [Yorkshire and the Humber](#) it is 24% and for the [West Midlands](#) it is 23%. This is compared to the relative poverty rate for the [South West](#), which stands at 19%.

Many minority ethnic groups have lower median incomes than the White majority

There is also a significant income difference in the UK between ethnic groups. As the graph below shows, the ethnic groups with the lowest median incomes were Bangladeshi and Pakistani, while White, Chinese and Indian ethnic groups had the highest median income.

Average income for some ethnic groups are double what they are for other ethnic groups in the UK

Median income by ethnic group: 2019/20 to 2021/22 prices



Source: DWP, Households Below Average Income, Income Inequality in the UK

 **UK 2040
OPTIONS**

There is also a disparity in the proportion of people in different ethnic groups who are in different parts of the income distribution. [Research from the London School of Economics](#) has identified that nearly half (46%) of people from a Bangladeshi or Pakistani ethnic group were in the bottom fifth of the national income distribution, compared to only 18% of those from a White ethnic group. 31% of those from a Black ethnic group were in the bottom fifth of incomes.

Again, the disparities in income play a part in impacting individual living standards. Looking again at the relative poverty rate, a similar pattern is shown: around [half of all people in households headed by someone of Bangladeshi ethnicity](#) were in poverty in 2021/21. Rates for people in households headed by someone of Pakistani or Black ethnicity were also [very high with more than 4 in 10 in relative poverty](#). (This is more than [twice the rate of people in households headed by someone of White ethnicity](#)).

Being disabled has a huge impact on household earnings

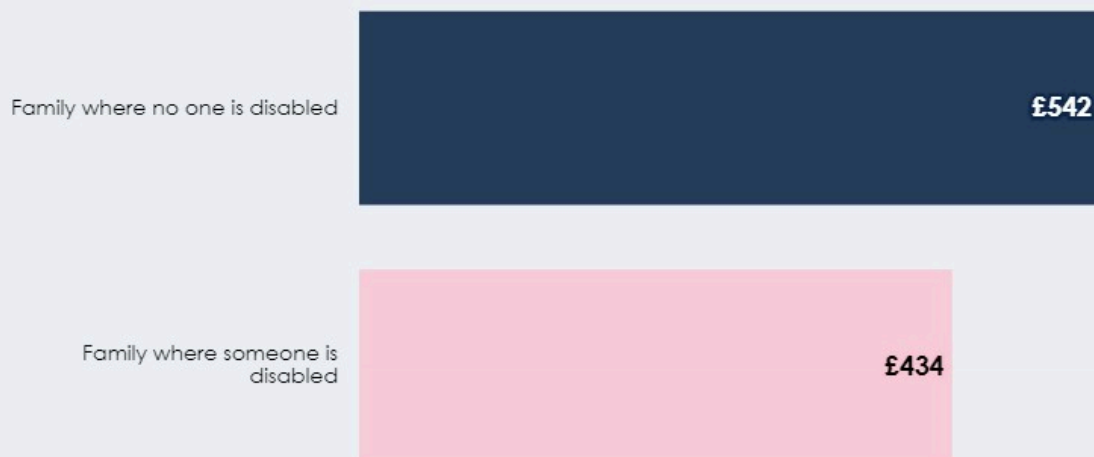
Being disabled, or living in a household where a member is disabled, means you have a significantly lower median income than a family where nobody is disabled.

[As the graph below estimates](#), in 2019/20 to 2021/22, households with a disabled family member had an income of £485 before housing costs, which is £119 less than households with no disabled members.

Families with a disabled member are worse off

Median income by disability status, 2019/20 to 2021/22

■ Family where no one is disabled ■ Family where someone is disabled



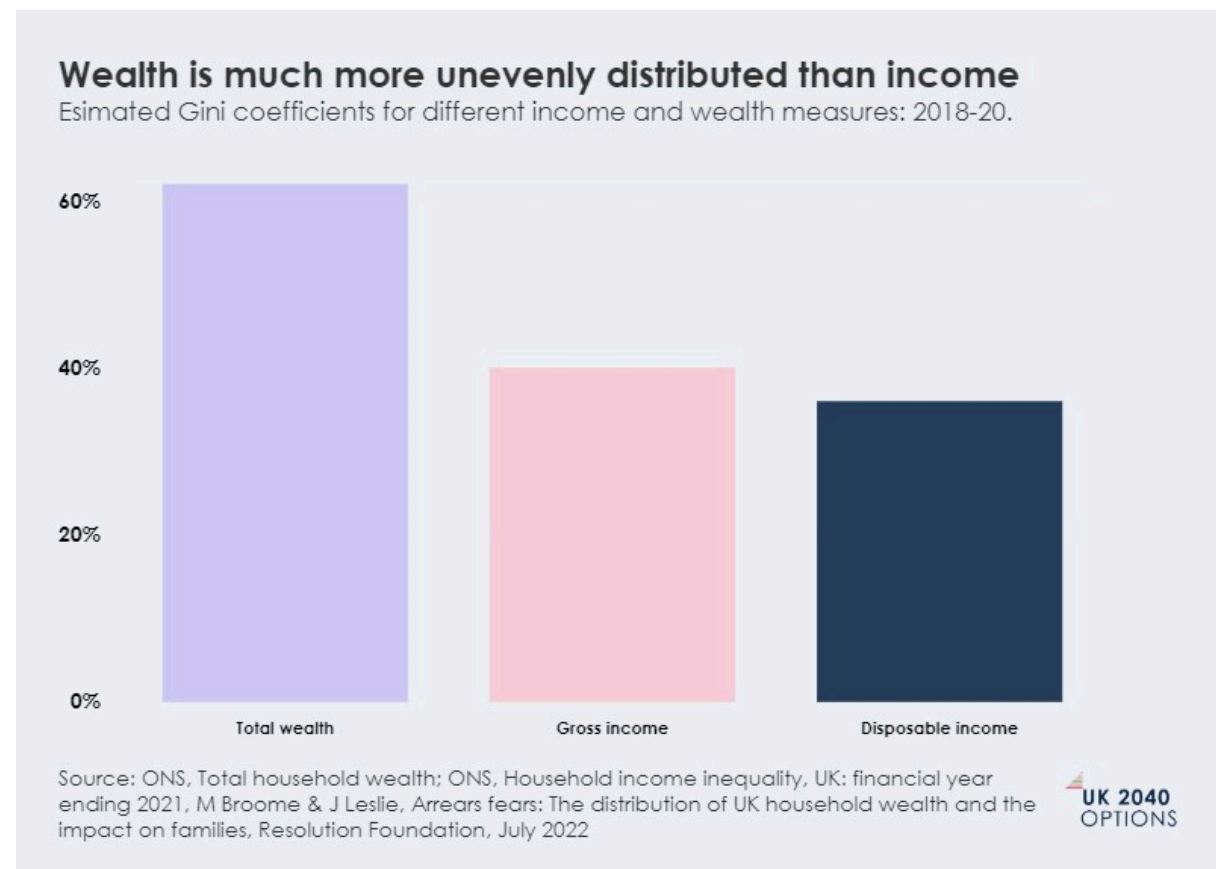
Source: DWP, Households Below Average Income, Francis-Devine, B. Orme, S. "Income Inequality in the UK", Commons Library Research Briefing, 14 April 2023, Number 7484

6. Wealth is much more unequally distributed in the UK than income

Income inequality only tells us part of the story. Wealth is increasingly a dominant force shaping inequalities within the UK, likely to become even more important as we look to 2040

At its simplest, income measures the flow of money (such as wages) to a household at a single point in time. Wealth on the other hand, can be accumulated and held over many years, like a house. [Wealth is distributed much more unequally than income in the UK.](#)

[The UK has a wealth Gini coefficient of 62%](#), which is roughly average compared to other OECD countries. Using this measure, levels of wealth inequality in the UK have remained [high, but stable, since the 1980s](#), with the richest 10% consistently owning more than half of total wealth. In 2020, [ONS](#) calculated that the richest 10% of households hold 43% of all wealth in the UK. The poorest 50%, by contrast, own just 9%.



6. The wealth gap in the UK has widened over the past 40 years

Although higher interest rates may be now prompting a reversal to this decades-long trend

The big change over the past [40 years has been the growing wealth gap](#). This trend isn't shown in the relative stability of the Gini coefficient for wealth (which we have seen in the fact above).

Since 1991, [net household wealth has almost doubled relative to GDP, from about three-and-a-half times the GDP in 1991 to over seven times now](#) (based on the most recent ONS data). In 2022, [our absolute wealth gap was the second largest in the OECD](#), as the gap in average wealth between the richest tenth and the poorest 40 percent is 107 times median income levels – compared to an OECD average of 62 times income. The difference in growth in wealth at different deciles is visible, and stark (see the graph below).

Total wealth for the wealthiest 10% grew by nearly £3 trillion between 2006-2008 and 2018-2020, nearly 25 times more than wealth grew for the bottom 30%

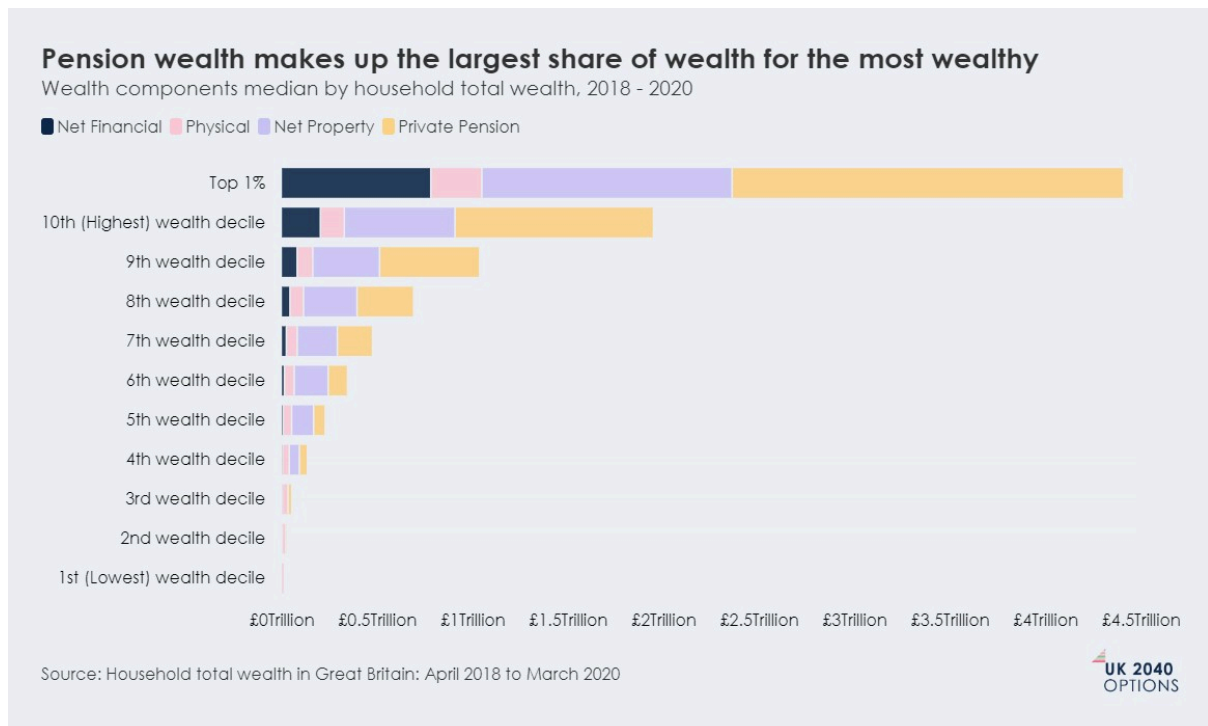
Growth in total wealth and the factors that make it up, 2006-2008 to 2018-2020 - highest wealth decile (top 10%) and lowest 30% wealth decile shown

■ Growth in aggregate property wealth
 ■ Growth in aggregate financial wealth
 ■ Growth in aggregate physical wealth
 ■ Growth in aggregate private pension wealth



Source: ONS Data on Household total wealth in Great Britain • The growth in wealth for just Decile 1 is too small to be visible in comparison to the growth in wealth for Decile 10.

In higher wealth households, much of the growth in wealth can be attributed to growth in aggregate private pension wealth (what can be seen in the yellow in the graph above). This now makes up a much higher proportion of median household wealth in higher deciles.



[Analysis by the Resolution Foundation](#) has identified that the wealth gap in the UK was by 2020 the largest on record: in 2006 the richest 10% of families held accumulated wealth of close to £1 million more per adult, on average, than a family in the middle (fifth) decile of families. By 2020, this wealth gap had increased to over £1.4 million per adult ([even when we account for inflation](#)).

The wealth gap between the richest and the poorest has widened

Aggregate household total wealth (£ million), by decile share of bottom 50% of households compared to top 10% of households



Source: ONS Wealth and Assets Survey 2022

As overall wealth has been growing at a faster rate than income, which as above, has stagnated since 2009, some wealthier households have been able to pull further ahead. This combination has made it much harder for the average household: [analysis by the Institute for Fiscal Studies \(IFS\)](#) found that in 2008 it took 10 years' worth of typical full-time gross earnings for a family to move from the middle of the wealth distribution to the top. By 2018, this had increased to almost 16 years.

In real terms, [this wealth gap matters](#). Persistently high wealth gaps can impact an individual's ability to own property or to save for their retirement. A lack of wealth, too, can impact an individual's ability to withstand unexpected shocks (such as losing a job or a death) and rising cost pressures, which many families are currently experiencing.

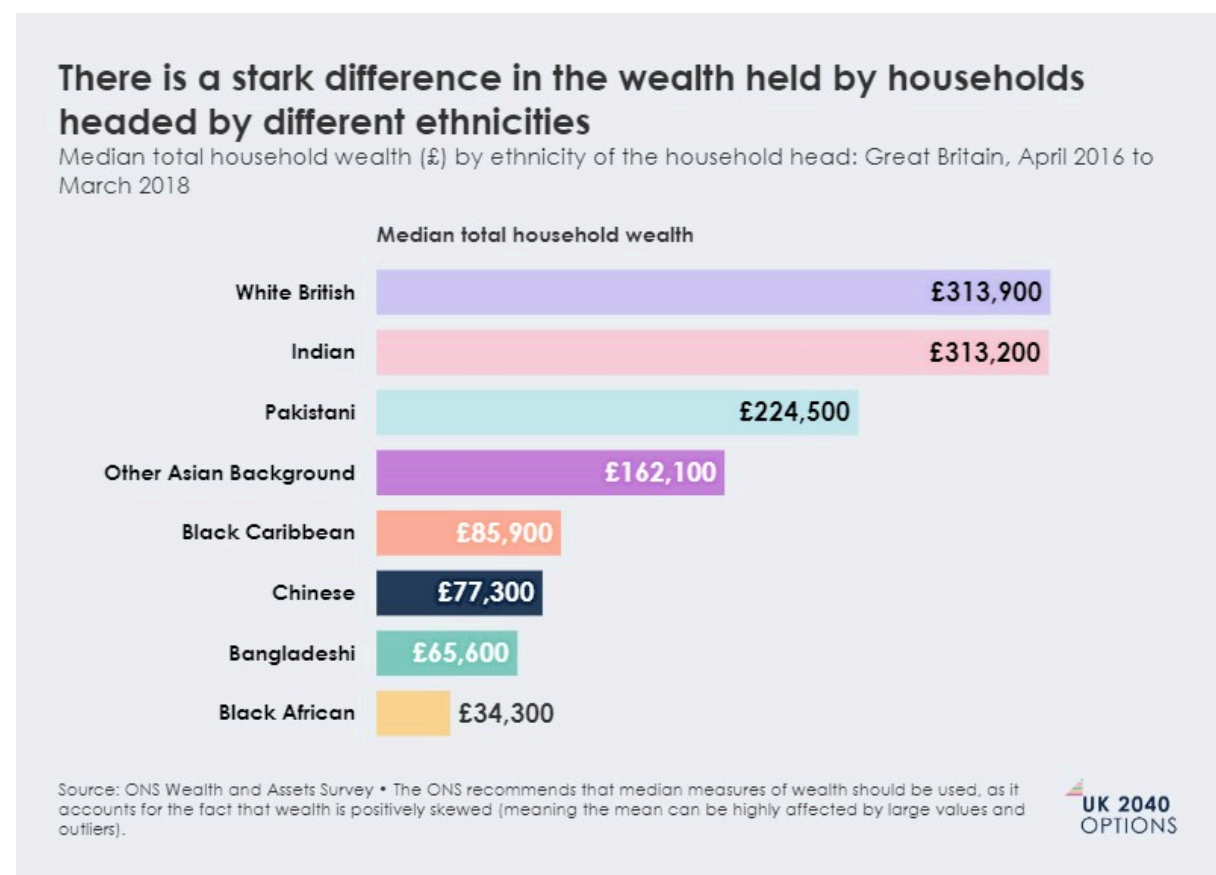
[Recent analysis by the Resolution Foundation](#) has identified that higher interest rates are likely to have prompted a reversal to the decades-long trend of rising wealth. The ONS data is only current through to 2020, meaning there is a lag in what the data can tell us. But [the Resolution Foundation analysis](#) suggests that the wealth gap has decreased by approximately £200,000 (six times median household disposable income), leaving it at just over £1.2million. This sudden decrease shows that the UK's wealth gap is not inevitable – that policy choices can, and do, make a significant difference.

8. Some ethnic groups and geographical areas are much more wealthy than others

We can see stark differences in wealth when we consider who holds it, and where those people live.

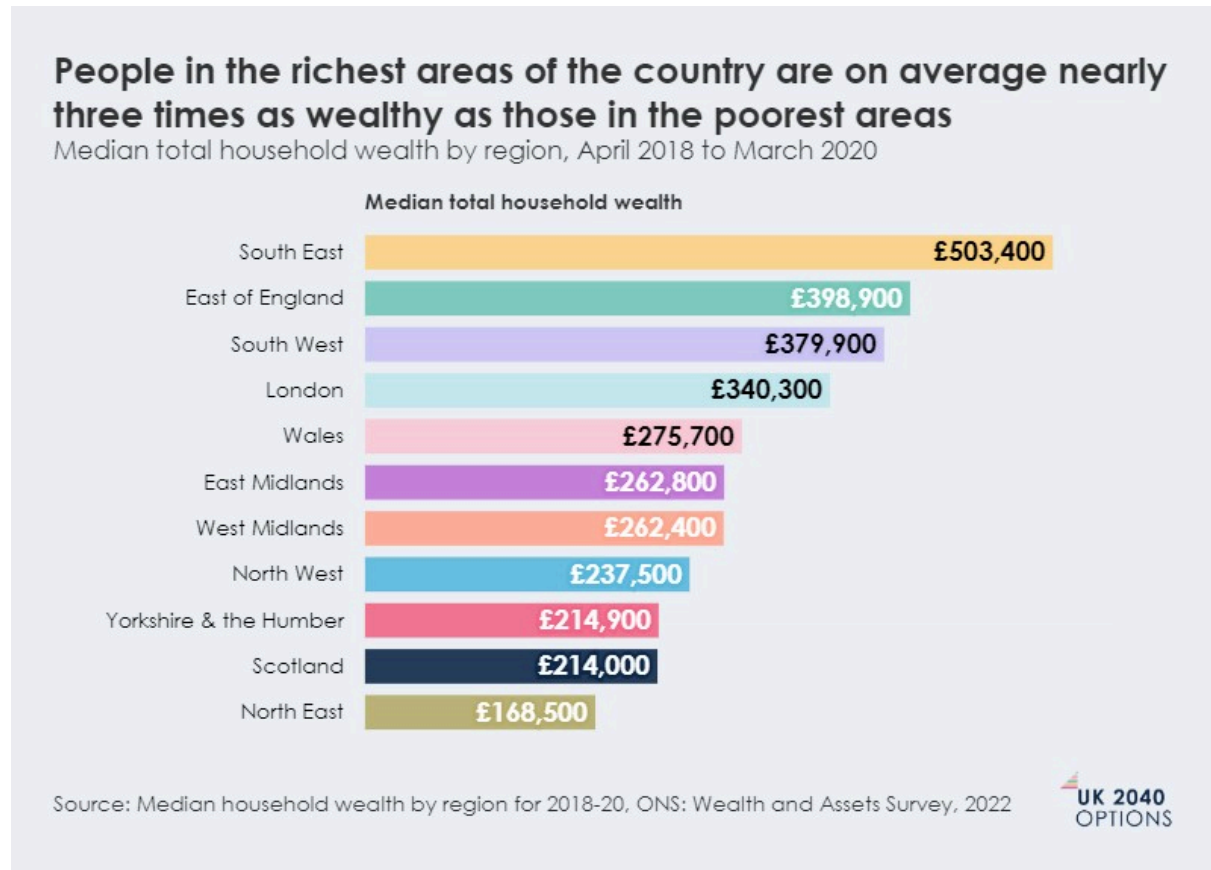
Most ethnic minority groups hold substantially less wealth than the White British majority

On average, households headed by an individual from an ethnic minority group, with the exception of the households headed by an individual in the Indian ethnic group, have substantially less wealth than the White British majority.



This pattern holds true at all parts of the wealth distribution: [research by the London School of Economics](#) has found that the level of household wealth for the wealthiest 5% of individuals who are in the White British ethnic group is £895,000, nearly three times higher than the £304,000 reported for the wealthiest 5% of people in the Black African ethnic group. Again, the same patterns exist at the other end of the wealth distribution: only 11% of individuals in the Indian ethnic group and 15% of individuals in the White British and Pakistani ethnic groups are in net debt (ie, their assets are less than their debts overall),

compared to 31%, 38% and 44% of individuals in the Black Caribbean, Bangladeshi and Black African ethnic groups.



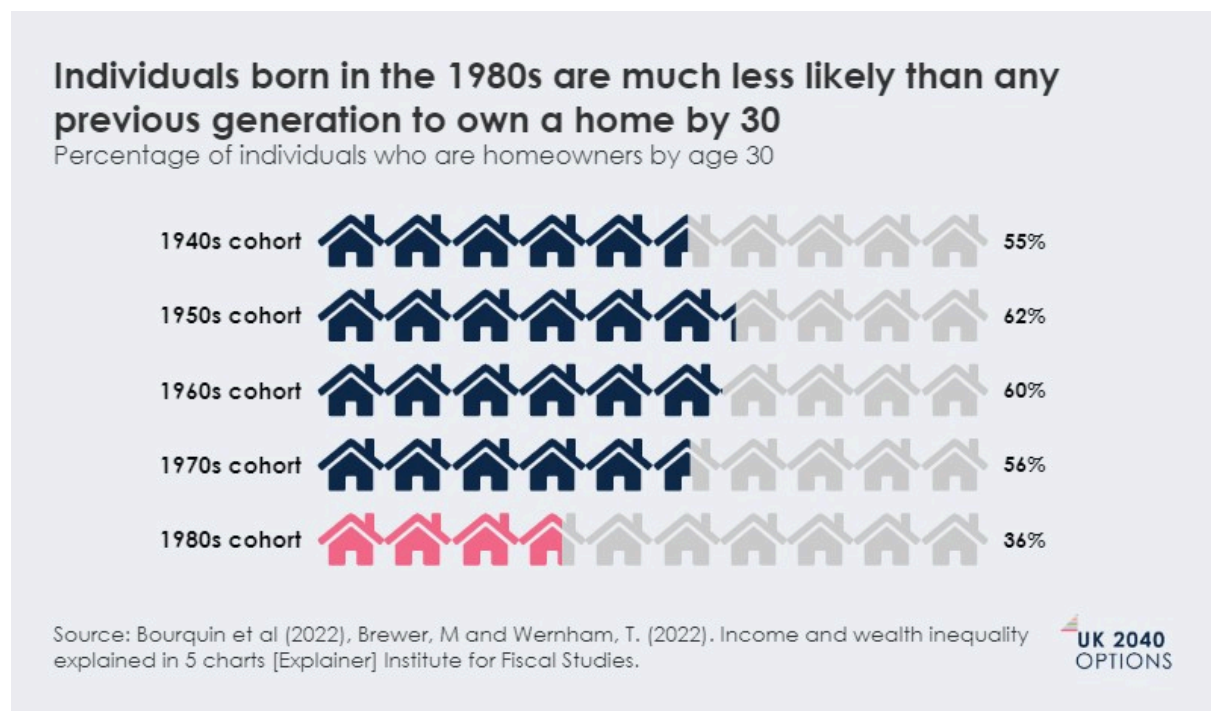
Great Britain has some very wealthy pockets, but wealth is not distributed evenly throughout the country

Again, similar to median incomes, [the distribution of wealth throughout Great Britain is highly uneven](#). While household median wealth in Great Britain between 2018 - 2020 was £302,500, it was almost three times higher in the South East (£503,400) than in the North East (£168,000). And the growth in wealth since 2006 has not been uniform: median wealth in the South East rose 43% between 2006 and 2020 (even after adjusting for inflation), while in Scotland and the North East, median wealth decreased by 7% and 12% respectively (again, even after adjusting for inflation). We can see clearly from the data: wealth has not yet been 'levelled up'.

9. The growth in house prices in the UK since the mid 1990s mean young people today are much less likely to own their own home.

The growth in house prices in the UK since the mid-1990s is contributing to changing patterns of homeownership.

Historically, rates of home ownership in the UK were higher than they are currently, with [over 60% of those born in the 1950s and 1960s owning homes by age 30](#). Now only 36% of those born in the 1980s are homeowners by age 30. This gives this generational cohort the lowest rate of home ownership since the 1940s.



These declining rates of home ownership have been driven, in part, by the growth in house prices since the mid-1990s: [the value of land in the UK has increased five-fold between 1995-2016, which has contributed to driving up the cost of housing](#).

A consequence of this is that wealth is becoming increasingly concentrated among older generations who are more likely to own homes, [while over half of all working-age adults rent](#). This is contributing to generational inequality within the UK. Inheritances will, in time, transfer some of the wealth held by older generations to younger cohorts (see below), but this is now likely to happen much later in life [due to greater life expectancy](#).

Home ownership is also contributing to the wealth gap between different income deciles, and is likely to act, too, as a force that reduces social mobility. [Research by the IFS](#) has identified that the gap between the percentage of homeowners in the top income decile, which is 73%, and the percentage of those in the middle income decile, which is 50%, has never been greater. Those from low-wealth families are also less likely than those from higher-wealth families to own a home, impacting their ability to assist their children into home ownership.

These differences are again made much more stark when we consider ethnicity. With the exception of the Indian ethnic group, all other ethnic minority groups are much less likely than the White British majority to own their home, across all age cohorts. Research by [the London School of Economics](#) has found that current homeownership rates, not separated by generational cohort, are the largest among people in the Indian (73%) and the White British (at around 69%) ethnic groups, and the lowest among people in the Black African (just 19%), Bangladeshi (around 26%) and the Black Caribbean (37%) groups. Homeownership rates among people in the Pakistani and other Asians groups stands somewhere in between at around 50%-56%.

10. The value of inheritances have doubled over the past twenty years, and are now worth over £100 billion. This amount is likely to double again by 2040.

The changes to how, and how much, people are inheriting will be have a wide-ranging and ongoing impact on UK society

The value of inheritances (adjusted for inflation) passed on annually in the UK has doubled roughly every twenty years since 1979, and is [now worth over £100 billion](#). Analysis by the Resolution Foundation has found that it is expected to double again in England by 2040.

What some households will stand to inherit will be significant, giving some the ability to buy houses, take on debt, or retire early. A typical household led by people born in the 1960s is expected to inherit an amount throughout their lifetimes equivalent to four years the average household earnings for that generation, [according to the IFS](#). For those born in the 1980s, this is even greater: a typical household is expected to inherit an amount equivalent to eight years of average household earnings for their generation.

But inheritances will not stand to impact all in the same way. While the amount of money being passed on has grown, receiving an inheritance is far from a universal experience, with over [53% of adults](#) saying that they did not expect to receive an inheritance at all over their lifetimes.

Whether, what, and how much a household may stand to inherit (or receive as a cash transfer) is likely to follow traditional socio-economic divides in the UK, with disparities based on income and wealth, on region and on ethnicity. For example, wealthier families are much more likely to benefit from an inheritance, with the [wealthiest 20% four or five times more likely to receive an inheritance transfer than the poorest 20% of families](#). This also holds true for those from higher *income* families, with the lower income deciles inheriting less than their peers in higher income deciles. Again, individuals in ethnic minority groups will tend to receive, on average, [significantly smaller intergenerational wealth transfers than those of white British ethnicity](#). And [Demos has identified that](#) a typical person in the south of England born in the 1970s is set to inherit about three and a half times as much as a typical person in the North East: this accords with what we know about wealth accumulation in the UK, with the North East holding the lowest median wealth, and the south of England (South East and South West) the highest.

As we look forward to 2040, inheritances could also impact social mobility. The IFS suggests that intergenerational wealth transfers are strengthening the link in living standards between younger cohorts and their parents' circumstances, [much more so than was the case for those in earlier cohorts](#). This may be making inheritances in the UK a force that, like homeownership, will act to reduce social mobility, making it harder again for some individuals and households to get ahead.