Applied Geography 61 (2015) 24–34

Contents lists available at ScienceDirect

Applied Geography

journal homepage: www.elsevier.com/locate/apgeog

Income inequality in the UK: Comparisons with five large Western European countries and the USA

Danny Dorling*

University of Oxford, OUCE, South Parks Road, Oxford OX1 3QY, UK

ARTICLE INFO

Article history:
Available online 26 February 2015

Keywords:
Inequality
United States
United Kingdom
France
Germany
Italy

ABSTRACT

This paper concentrates on the 1% richest households in the UK in a comparison with the other four large Western European countries: Germany, France, Italy and Spain. In the European context the UK is an outlier of extreme inequality. Individual level tax data has shown this previously, but earlier research did not make comparisons at the household level, or in as much detail as it is possible to show now given new survey findings.

In the UK the geographical separation of the 1% from mainstream society increased in recent decades as their incomes levels diverged widely from that of the mainstream. There is now acute socioeconomic polarization in the UK as compared to the other large European states because of the current extent of income and wealth inequalities in the UK. Not so long ago members of the best-off 1% within the UK were far more evenly spread across both the space and society of the UK than they are today.

The UK is now the European country most similar to the USA in terms of income inequalities. Along with Sweden it was least like the USA in the 1960s. This paper concludes by considering what might happen (if current trends continue) to standards of living in general, social spatial polarization, fear and mistrust. Growing income inequalities increase wealth inequalities. Some info-graphics aimed at showing the contemporary extent of wealth inequalities in the UK and USA are presented in conclusion and for use in teaching

Introduction

Geographers have long been interested in poverty and inequality. Their focus moved from more abstract reasoning in the 1970s towards concrete applied work in more recent years (DeVerteuil, 2009; Havey 1973; Hay, 2013; Li & Wei, 2010; Philo, 1995; Wyly, 2009). Outside of Geography there is a vast array of studies of inequality. It remains a mainstay of Sociology, and is of great interest to many historians, anthropologists, economists and epidemiologists (Nowatzki, 2012; Sassen, 2014; Sayer, 2014). Thomas Piketty's best selling 2014 blockbuster, Capital in the Twenty-First Century, has brought the subject of economic inequality to the top agenda of social science (Piketty, 2014) and a number of science journals have covered the issue, most often as concerns health inequalities (for a very recent review see Pickett & Wilkinson, 2015).

In 2014 world leaders ranging from presidents of America and China, the Pope, the Business leaders who meet at Davos and even those who now run the World bank all ranked economic inequality as an issue of importance among the top three in the world. Inequality ranks alongside climate change in importance, and then – depending on context, unemployment, species depletion or other environmental degradation, after which concerns tend to focus next on possible further crises of capitalism, communism or globalization (Dorling, 2014).

In early 2014 the charity Oxfam published research suggesting that just 85 people in all of humanity were now so rich that their wealth equated to that of the poorest half of humanity. During that year Forbes Magazine corrected that figure to 67 and then 66 of the world's richest people having such greater and growing wealth. The wealth of a few billionaires was rising so quickly that new statistics on global inequality both stagger and quickly date (Moreno, 2014).

Later in 2014 the bank Credit Suisse reported that the richest 1% of people in the globe had increased their share of world wealth

* Tel.: +44 (0)1865 285070; fax: +44 (0)1865 275885.
E-mail addresses: enquiries@geog.ox.ac.uk, danny.dorling@ouce.ox.ac.uk.
URL: http://www.geog.ox.ac.uk

http://dx.doi.org/10.1016/j.apgeog.2015.02.004

from 41% to 48% in just twelve months. Such an increasing concentration is clearly unsustainable; another seven years of 7% point increases would result in the best-off 1% holding 97% of all global wealth (48% + 7% × 7). It should be clear that current polarizing trends cannot continue for very long at all (Dorling, 2015). At the Davos meeting of January 2015 Oxfam created headlines by showing that by 2016 the best-off 1% of people in the world would own half of all global assets. They also updated their estimate of how few people it takes to hold the same wealth as the poorest half of humanity. Forbes magazine had been a little to quick with their figures and it was now the richest 80 billionaires who held the same wealth as the poorest 50% of people.

Beneath the world's richest are the extremely rich, numbering roughly 1 in 1000 people on the planet (the 0.1%). Within the rich countries of the world these equate to about 1 in 100 people, colloquially known as “the 1%”, the group that is likely to be holding 50% of all global wealth at the point this paper is published. Academics can often be surprised how near to the global 1% they – individually – are. Often the principals and vice chancellors of their universities are members, as well as several of their highest paid colleagues; especially those with well-paid spouses.

To qualify to be in the best-off 1% in the world requires a far lower level of income or wealth than is required to be a member of the richest 1% in an affluent country. If you are reading this paper in the USA then it may help to know that to be among the best-off 1% of all households there you need a gross household income, before tax, of at least $394,000 a year. Below that you are a member of the ‘99%’. Because economic inequalities are lower in every European nation (as compared to inequality in the USA) the qualifying sum of money in pounds or euros is much lower than the dollar figure in the States. This is not because pounds and euros are worth less than dollars. You need even less to be a member of the best off 1% in Japan, a far more economically equitable country than anywhere in Europe even (Ballas, Dorling, Nakaya, Tunstall, & Hanaoka, 2013).

In this paper I concentrate on defining the 1% in Europe and especially the UK. I compare the larger five European countries and then compare these results to the USA. In short how much do the 1% have in each country compared to the rest of the population? What are divisions like within the 1% of each country, the 0.1%, 0.01% and 0.001%? And, finally what are the geographical implications of rising economic polarization?

Definitions of the 1%

The 1% are one of the best-defined categories in social science. Within any population their size is know exactly, as well as the exact definition of income or wealth employed, and data sources used. The least well defined groups tend to have labels such as “the middle class”. In this paper the 1% are defined by annual income level as the best-off one in one hundred people among a particular group, and this is done for groups of people when people are clustered into households. Thus, if a household is considered to be in the best-off 1%, everyone in that household is so categorized. There are, of course, often gross inequalities within households, but it would be confusing not to include a grown son living in the household with a millionaire (earning) mother as rich, just because it was the mother (and not the son) who is earning.

There are many other issues that need to be tackled when the 1% are defined other than whether to call all members of a rich family who live under the same roof in the same household rich, or just those who might hold the cheque book, trust fund or employment contract. Then there is a basic question of whether to measure riches by wealth or income. In practice this is easily addressed because – although the *wealth* of the super-rich is assessed by several well known data sources and reported in many publications – the *wealth* of the 1% most affluent is not well recorded, and so by default we are left with income as our best enumerated measure. To study the very best-off across a group of societies we have to define them by their annual income, we cannot achieve a reliable in depth and comparable study across countries with current measures of wealth.

Finally there is the question of what income, what sources of income to consider. Here I've been able to use surveys to include all income received from all sources before tax is taken and before all other deductions are taken from original income. A case can be made for looking at income after housing costs. However, many of the housing costs of the best-off 1% are not essential. Almost all could quite *happily* live in more modest homes – or, if not happily, at least *comfortably*. Academics like to go further to try to explain the causes of inequality and growing inequality. That is outside the scope of this paper and requires a very long book to be written (say with a subtitle such as “on why social inequality still persists”, Dorling, 2015); but before such books are written it helps to know what is happening, especially if the situation is changing rapidly.

So, to give an example, here is the situation where I am based as best as I can ascertain it as I am writing in early 2015. By 2013, in the UK, living in a household with two adults with an annual income of at least £160,000 would qualify you as being a member of the 1% best-off group. You would need a little more money should you have children (Cribb, Hood, Joyce, & Phillips, 2013). The equivalent annual sum required to enter the best-off 1% by income in the USA at the same time was $394,000 (Currid-Halkett, 2013). These figures are income received before tax and are for entire households. The Institute for Fiscal Studies has calculated the UK statistics, but I verify them here by crosschecking with other sources and extend those analyses done by that Institute to other large countries in Europe.

Data for Europe

Using data from the European Union Survey of Income and Living Conditions (EU-SILC) new estimates where made for this paper of the household income distributions of all large European countries for the year 2012. The methods used to analyse this data are described below. First a summary of the findings is put in context.

For the UK just over 8000 households were included in the European sample and each household has been assign a cross-sectional weight such that the sample, when weighted, would produce national estimates of the population which were representative. The best-off 1% of all households by income all had an annual income of – at minima – £189,000 (or €227,000). Knowing that many will have contained children the IFS UK figure of £160,000 for households without children appears very plausible.

Table 1 suggests that the UK is an outlier because the threshold to be a member of the best-off 1% of households by income is so much higher in the UK, at 6.3 times median UK household income

Table 1
Summary of income inequalities in the five countries 2012.

	Sample	All HH	1% Cut-off	Median	Ratio
Germany	13,512	0.03%	€154,000	€36,400	4.2
France	11,360	0.04%	€189,000	€39,000	4.8
Italy	19,399	0.08%	€164,000	€33,400	4.9
Spain	13,109	0.08%	€105,000	€22,700	4.6
UK	8058	0.03%	€227,000	€36,300	6.3

Note: Median income shown in €'000s and “All HH” column is the percentage of the entire households in the country in this sample.
Source: Calculations by Author EU-SILK weighted household sample.