

The immediate and long-term impact of the great recession on the distribution of household income in the UK

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We study the immediate and longer-term impacts of the recent UK recession on the distribution of net household income. We first document trends in the distribution of income during and immediately after the economy's 6.5% contraction between 2008 Q1 and 2009 Q3, using official household income data. We then use a tax and benefit micro-simulation model combined with official macroeconomic and demographic forecasts to estimate trends in the distribution of income over the decade following the recession up to 2020. We show that, as in other countries, immediate impacts of the recession on net household incomes are remarkably hard to detect, but that the pain was only delayed. Between 2009-10 and 2012-13, we expect the largest 3-year fall in real median income in the UK for 35 years, with the median still 5% below its 2009-10 level in 2015-16 - a collapse in average incomes unprecedented since consistent records began in 1961. Largely as a result of welfare cuts planned by the government in an attempt to repair the public finances that deteriorated so rapidly during the recession, we also forecast rises in both absolute and relative poverty over the next decade, despite the relative stability of these indicators during the recession itself. We explore the sensitivity of the simulation results to different scenarios for employment and average earnings, as well as to the pattern of earnings growth across the earnings distribution. These factors matter, but the central and qualitative conclusions are largely unchanged.