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Inequality in the UK [1]

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As we all know inequality in the UK is higher than it is in almost every other European country. We must know this because people have been shouting this point at us from the pages of The Guardian (and other points left) for more than a generation now. However, there's a really rather good reason to think that it's not quite as true as they would have us think. This table from the Spectator is the beginning of the story [3]:

The point is that we don't so much have side by side inequality so much as we have very large regional inequality. Arguably much greater such regional inequality than most other European countries.

This leads on to a second point: we've also got very large differences in housing costs in the different regions of the country. Those two points together, regional inequality in incomes plus regional differences in housing costs mean that we've almost certainly got much less of the only sort of inequality that can possibly even matter: consumption inequality.

Just to make up some numbers to illustrate the point. Say that housing swallows up 25% of income (not too far off the truth). Say that London housing is twice the cost of not London housing. So, our not London household earns £100 and pays £25 in housing costs. For our London household to have the same disposable income of £75, the doubling of housing costs means that they need an income of £125 to have the same consumption as our not London household. And the more London housing costs are different from not London ones then the more the gross incomes need to be unequal in order to have exact equality in consumption.

But that isn't how we measure inequality: we're measuring inequality solely on the basis of those gross incomes, not on the equality or inequality of consumption driven by regional price differences (which are a lot more than just housing costs of course).

It's long been one of my working assumptions that if we adjusted UK incomes for regional prices then a lot of the inequality that we currently measure would simply disappear. For what we're currently measuring is income inequality and not the only form of inequality that can even possibly be important, consumption

inequality. It's all just an artefact of the way we're counting rather than anything actually important.

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