Funding the Future

Inequality is not falling

Published: January 12, 2026, 8:45 pm

The background

The claim that inequality is falling is a claim that is often trotted out by right-wing commentators, backed by selective income statistics. It happened in a comment on this blog in the last few days. Yet for millions of households, the lived reality is rising financial stress from the increasing cost of essential household supplies, soaring debts, remortgaging at punishing rates, and rents rising ahead of inflation.

The claims right-wingers make are misleading because they ignore what really matters, which is the fact that people really are falling behind and society is getting more divided as a result.

Data

Official data from the **ONS** **reports that in the financial year ending 2024, disposable income inequality (measured by the Gini coefficient) did fall slightly from 32.9% on that index compared to 33.1% in the prior year. It appears that this is the basis for the claim that inequality is falling, but that change is, of course, statistically insignificant. Over the longer term, the trend is flat: inequality is hardly collapsing.**

The House of Commons Library has also noted that incomes fell across the distribution in 2023/24, with the bottom decile suffering most, and the Institute for Fiscal Studies (IFS) has warned that median household income (before housing costs) in real terms has stagnated or fallen since 2019.

In short, the official statistics do not support the bold claim that inequality is in retreat. There are, however, other factors to consider as well.

The misinformation

Firstly, the income statistics used for these comparisons omit many major forms of income derived from wealth. Capital gains, hidden returns in trusts and companies and pension funds, rents, and asset price growth - all of which have a significant influence on the well-being of the wealthiest - are poorly captured (or not captured at all) in the standard income measures. A wealthy investor may see enormous gains that never show up in “income” as conventionally measured. Failing to include those sources of increased well-being hides part, if not most, of the true story of inequality.

Second, unequal inflation and cost burdens distort the real picture. Even if nominal incomes were equal, those with lower incomes usually face steeper inflation on energy, food, rent, transportation, phone use, and essential services than those who are wealthier. Importantly, these types of spending comprise a much higher proportion of their expenditures. The costs of essentials usually rise faster for those with lower incomes, less bargaining power and the inability to travel to find a bargain. The official “average inflation” adjustment conceals this. The **IFS** **estimates that when you allow for household-specific inflation, income falls more steeply at the bottom than the headline data suggest.**

Third, debt dynamics and financial fragility matter. The expansion of unsecured debt, arrears, and remortgaging stress are symptoms that the bottom and middle are being squeezed. Debt is not an offset to inequality but is instead a magnifier of precarity.

By relying on headline income alone, the Gini coefficient of inequality is akin to assessing health by just looking at height: it makes no sense at all.

The mounting pressures on households: evidence

There are concrete signs that households are under strain. For example:

*
Utility and energy arrears. As of June 2025, **Ofgem** **reports that energy debts owed to suppliers stand at a record £4.4 billion, with sharply rising arrears.** **Earlier in the year, the default rate on direct-debit energy payments hit 2.7 %, triple the pre-Covid crisis level. More than one million households are behind on their gas or electricity bills without a repayment plan.**

*****
Mortgage stress is pushing people into poverty. A **report by the IFS and Joseph Rowntree Foundation** **estimates that the surge in mortgage rates has pushed around 320,000 people into poverty, which is many more than the official counts suggest, because the latter use one average interest rate across all households.**

*****
Flat or falling real incomes. Between 2021–22 and 2022–23, median household income (before housing costs) fell by 0.5 % in real terms. Combined with prior years,

the median is now estimated to be 1.6 % below its 2019 level.

*

Wealth concentration is escalating. Wealth inequality is **far more extreme than income inequality. In the UK, the bottom 50 % of the population owns less than 5 % of wealth, while the top 10 % owns 57 %. The top 1 % alone hold 23 % according to the Joseph Rowntree Foundation. Over an eight-year span, the wealth gap reportedly grew by 50 %.**

*

Debt burdens are rising in absolute and relative terms. The House of Commons Library notes that household debt as a ratio of income has been climbing again after a brief post-pandemic pause. For those without wealth buffers, even small shocks now force reliance on expensive credit or arrears.

These are not isolated issues. They are markers of an economy under structural stress, which functions well for those who already possess wealth and access to credit, and hardly at all for those who do not.

Consequences

First, the gap between income-based measurements of inequality and lived reality becomes politically corrosive. Claims that “inequality is falling” based on statistically insignificant changes in official data that ignore a great deal of economic reality, feed complacency and obstruct reform, most especially when people are seeing their finances worsening.

Second, the deepening fragility of households erodes democratic legitimacy. When more people feel economically powerless, as many do now, resentment grows, as is all too apparent.

Third, the growing leverage of debt transforms inequality into a self-reinforcing dynamic. Those who own assets absorb the resulting gains; those who borrow absorb interest costs. Wealth amplifies itself; debt compounds insecurity.

Fourth, the failure to properly tax or regulate returns on wealth becomes ever more pernicious. The wealthy use trusts, companies, offshore, and capital gains or unremunerated equity returns to inflate their wealth, none of which are well captured in standard tax or statistical regimes.

Fifth, in macroeconomic terms, demand is squeezed. When large fractions of the population struggle to service debt and pay for necessities, consumer spending inevitably falters, meaning weakened growth prospects in an already sluggish economy.

What should we do?

Five possible reforms stand out, all of which are required now. We need to:

*
Reform measurement and statistics. We must develop national accounts that accurately reflect wealth distribution, including capital gains, trust income, hidden returns, and household-specific inflation burdens. Only then can we see the whole picture of inequality and challenge the currently complacent narratives.

*
Strengthen taxation of wealth and capital. We need to address this issue in the ways described in my **[Taxing Wealth Report](#).**

*****
Enhanced debt relief and stronger protections for those in financial crisis. We need to:

*
establish energy-debt forgiveness schemes given the scale of the issues in this sector;

*
regulate predatory credit, including in the housing and even mortgage sectors;

*
and introduce more broadly based social tariffs for utilities.

In particular, the state must act as a guarantor where households face structural pressures on issues like energy or housing costs that have moved beyond their control, and through no fault of their own. It is unacceptable for the state to offer loan guarantees to luxury car maker JLR when it became stressed due to its own folly, when it will not do so for households in financial crisis, usually for reasons unrelated to any choice they have made.

*
Counteract inequality of cost burdens. This requires recognition that those on low incomes face steeper inflation on essential goods and services. This requires targeted compensation and indexing for lower-income households, including for those on benefits, minimum wages, and pensions: universally based indexing is inappropriate.

*
Deliver public investment to reduce structural burdens. That requires investment in insulation, renewable energy, public transport and regional infrastructure, all of which are measures that cut living costs and reduce vulnerability to inflation shocks.

Summary

We must challenge the complacent rhetoric that "inequality is receding" based on partial metrics. Only by rebuilding the state's capacity to measure and to act can we create an economy that delivers genuine security and well-being for all.

The reality is that we are living in an economy where inequality is growing, and that is toxic for everyone, which is why the issue needs to be addressed as a matter of social and political, as well as economic, priority.

Taking further action

If you want to write a letter to your MP on the issues raised in this blog post, there is a ChatGPT prompt to assist you in doing so, with full instructions, **here.**

One word of warning, though: please ensure you have the correct MP. ChatGPT can get it wrong.

Comments

When commenting, please take note of this blog's comment policy, **which is available here. Contravening this policy will result in comments being deleted before or after initial publication at the editor's sole discretion and without explanation being required or offered.**