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Introduction

“Gap between Britain’s rich and poor now wider than ever” (Headline: The i, March 14, 2016) 1

An important area of social and economic research is economic inequality between people and places, and the sense it is growing. Two reports from Oxfam have made the headlines. The first said that the combined wealth of the worldwide richest 1 per cent is equal to the total for the remaining 99 per cent. 2 A second said that the richest 1 per cent of Britons has received more than one-quarter of the £4 trillion increase in national wealth since the year 2000. 3

What the reports claim is that there is a growing gap between the wealthiest individuals and the rest. This is not to say that the differences between countries are growing also. In fact, the UN Millennium Development Goals Report (2014) says, “in 1990, almost half of the population in developing regions lived on less than $1.25 a day. This rate dropped to 22 per cent by 2010, reducing the number of people living in extreme poverty by 700 million.” 4 There is a long way to go before extreme poverty is eliminated and all people can claim their right to food, safe drinking water, shelter, protection from violence, and the opportunity for employment. Yet, significant progress has been made.

Nevertheless, whereas inequalities between countries seem to be decreasing, those within countries are said to be expanding, with some commentators voicing concern that the gap between the wealthiest and the poorest has become too great. A report by the think-tank, The Equality Trust, suggested that the effects of inequality can be measured through its impact on health, wellbeing and crime rates, and that it is costing the British economy more than £39bn a year. 5 In no society is it likely that everyone will have an exactly equal share of the national income or have the same wealth. Nevertheless, the talk is about the growth of the ‘super rich’.

A growing number of academic books have been published about inequality, its causes and consequences, and what might be done to reduce it. Some of these are by the Oxford geography professor and social commentator, Danny Dorling 6 (RGS-IBG School Members can view a lecture by Danny Dorling about inequality via www.rgs.org/SchMemArea). The purpose of this report is not to take a political position on the national and international policies that, depending upon your point-of-view (and who you read), fuel or restrain social and economic inequalities; nor about

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1 You can view the headlines for that day at http://news.sky.com/story/1659220/mondays-national-newspaper-front-pages
5 http://www.theguardian.com/society/2014/mar/16/inequality-costs-uk-billions
6 For example, Dorling D (2014) Inequality and the 1%. London: Verso Books.
whether economic inequality is an unfortunate but better-than-the-alternative by-product of trade and economic growth. This is something you could discuss in class, perhaps in the context of Sir Anthony Atkinson’s fifteen proposals to tackle inequality (which does, of course, presuppose that something should be done).  

Instead, this report takes inequality, and data about it, as a context for discussing a number of statistical ideas and concepts, understandings of which are important not just for geography but across the sciences, social sciences and humanities. The case for why knowledge of quantitative methods is important for geographers is made in another report, available here. Whereas that report provided a general introduction to quantitative geography, this report looks at some specific methods, taking as good practice the opportunity to teach them not in the abstract but embedded in a topic of substantive interest to geography within the GCSE and A Level specifications. In doing so, it will be possible to bring greater understanding to key areas of geographical enquiry, be it inequality in this case study or other areas of geographical study for which data provide knowledge and inform discussion.

**How is income distributed?**

To talk of an inequality is to say that two or more ‘things’ are not of equal value. In the case of economic inequality we are saying that income or wealth are not the same for different groups within society. For example, there has been a disproportionate rise in the number of ‘ethnic minority’ groups in England and Wales that live in areas of high unemployment and, where work is available, it is characterised by part-time jobs. (The increase in the number who find themselves in these neighbourhoods has risen at a rate greater than the growth of these population groups).  

A 2007 report by the Joseph Rowntree Foundation showed that the around two-fifths of people from ethnic minorities lived in income poverty, twice the rate for white people. 

Income is not the same as wealth. Income most easily can be understood as the amount declared on a tax return (assuming all earnings are declared) – it is the amount received through wages and other earnings such as shareholdings, bonds, capital gain through the sale of second homes, and so forth. Factors affecting peoples’ ‘take home’ income include their salary, whether they work full or part time, tax rates and any bonuses they receive. Some nations also have a legal minimum for salary levels, though there has been concern about the use of ‘zero hour contracts’ to reduce wages and other in-job benefits.

Wealth is wider and includes other assets such as the value of a home, of cars, of art and jewellery, and of things that are owned or invested in and that have a monetary value (including savings, investments, pensions and shares). Income, because it forms the basis of a tax return, is the easier to measure. It may reasonably be assumed that wealth inequalities exceed income ones.

Because not all incomes are the same, they have a **distribution** – some incomes are above the **average**, and some are below it. Someone will have the lowest income, which is the **minimum** for the data, and someone will have the highest, which is the **maximum**. From the minimum to the maximum is the **range** of the data.

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10 In Britain the national minimum wage in 2015 was £6.50 for 21 year olds and over, and £5.13 for 18–20 year olds. [www.gov.uk/national-minimum-wage-rates](http://www.gov.uk/national-minimum-wage-rates)

The average may be understood as the value at the centre of the data. That is why it is sometimes described as a measure of **central tendency**. There are many ways to measure an average. The most common is to take a set of numbers, add them together, and divide by how many numbers there are in the set. That generates the **mean**. The mean income for UK taxpayers in 2013–14 was about £24,169 after tax. However, that value is inflated by the very large incomes paid to a small group of people. It is the distorting effect of these **outliers** – values that are a long way from the rest – which is why, in statistical terminology, the mean is not regarded as a robust statistic.\(^{12}\) That’s not to suggest it never should be used. In fact, it is foundational to very many statistical methods. It is just to recognise that it is influenced by outliers. The **median** average is the middle income, the one obtained by sorting all incomes from lowest to highest and finding the one halfway. In 2013–14, it was about £19,300, which, being robust to outliers is lower than the mean. It is robust because the value in the middle is still in the middle regardless of how extreme are the other values around it.

The range is a measure of how much the data **spread** out around the centre. The range in 2013–14 was from **less than** £9,660 to **more than** £107,000. The data we are looking at – which is from HM Revenue and Customs (HMRC) – doesn’t actually report the extremes (presumably because it would disclose somebody’s income if they did: we wouldn’t know who is the top earner but we would know what their income is).\(^{13}\) What it shows instead is the income, after tax, of taxpayers at various points along the income distribution. Imagine arranging all tax payers in a line from lowest to highest earners, and then, starting from the lowest, walking one per cent of the way along the line. There we would find the person whose income is at the first **percentile** (i.e. the lowest 1 per cent). Their income (according to the HMRC percentile points spreadsheet) is £6,660. Walking the same distance again takes us two per cent along the line, reaching the person whose income is at the second percentile. Their income is £9,900. And so we can continue, working our way along all the percentiles until we reach the hundredth and highest earner. As we know, that amount is not reported but it must be greater than the 99th percentile, which is £107,000.\(^{14}\)

Figure 1 shows the percentiles as a **bar plot**. Note that the total height of the bar represents the income after tax in the fiscal year 2013–14. Also shown are the incomes in 2007–8. That is the height to the top of the dark grey bar. The top of the light grey bar shows incomes in 1999–2000. The broken line across the chart is at the height of the median (middle) income in 2013–14. By definition, the groups to the right of the median have incomes higher than the middle earner. Observe how the height of the bars curves upwards at an increasing rate, with the difference between adjacent bars increasing. This shows that the distribution of incomes is **skewed**: it is not symmetrical around the average but has a ‘tail’ of high earners. Over the period 1999–2000 to 2013–14, all groups have seen an increase in their incomes over the three reported periods. However, the greatest increases were experienced by the highest earners (to the right of the graph) up to the period 2007–8.

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\(^{12}\) Outliers may occur at the bottom or the top range of any data set (or both) although sometimes the distribution of the data constrains where they can fall (sometimes it is impossible or hard for there to be any very high or very low values in the data).


\(^{14}\) In principle the 99th and 100th percentiles could be equal but only if all the highest earners happened to have exactly the same incomes.
Figure 1. The income distribution, after tax, of UK taxpayers in the tax years 2013–14, 2007–8 and 1999–2000. The median income in 2013–14 is shown by the broken line.

Figure 2 plots the data in a different way, using histograms. The skew in the data is now more evident – more frequently taxpayers have incomes to the left and lower end of the charts but there are a few with much higher incomes that appear to the right. Over the time period, incomes have increased: observe how the bars for 2013–14 are higher than for other years and that the distributions shown by the histograms shifts rightwards. This does not mean that people are necessarily wealthier. To know the real worth of the ‘pound in their pocket’ we have to adjust for inflation (see below). Nevertheless, we can still see that the gap between the richest and the rest does seem to have grown from 1999–2000 but perhaps not from 2007–8, after the financial crisis. The income ratio between the highest earners (at the 99th percentile) and the middle group was 5.5 in 2013-14, telling us that the highest earners earned 5.5 times the median average. That ratio was greater than in 1999-2000 (a ratio of 5.4:1) but less than in 2007-8 (a ratio of 6.4:1).
The distribution is skewed with a ‘tail’ of highest earners.

One way to adjust for inflation is to look at the annual change in the consumer price index. If a person receives a salary of £20,000 for two consecutive years but the price of consumer goods rises by 1.5 per cent over the period, then in real terms that person’s salary (their buying power) has shrunk because of the price increases. Figure 3 shows, as a series of boxplots, the incomes adjusted (somewhat crudely) for inflation for all years in the data set.

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15 Inflation is a measure of whether the price of goods and services in an economy are increasing (rising inflation), or decreasing (negative inflation)
Boxplots are a good way of illustrating the median, ‘mid-spread’, range and any skew of the data, and also to identify potential outliers. The median is the vertical line near the centre of the box. The width of the box is showing how spread out the middle 50 per cent of the data are, from the first quarter (first quartile, also 25th percentile) to the third quarter (third quartile, 75th percentile). The distance from the first to third quarters of the data is known as the interquartile range. We might regard this as the typical range for the data. However, the actual range is greater and that is what ‘the whiskers’ extending out from the box are indicating. In some circumstances they will extend to the minimum and/or maximum values but not if the data are skewed with what are then highlighted as outliers (the square blocks).

For the incomes data we can see that the whiskers extend out to the right of the median further than they do to the left but even then there are outliers beyond them. It is not surprising that the skew is at the higher end: the lowest taxable income cannot be less than zero (actually, some value greater than zero because of the minimum wage and also various forms of social security benefit), whereas the maximum income is, in principle, unlimited. Of relevance is the amount of skew, which is indicative of the level of income inequality. We can see that the highest incomes were steadily pulling away from the rest until the time of the financial crisis in 2008. (The data for 2008–9 are missing). They then fell back but may be rising again. Looking closely at the median income, we can see evidence of a decline in real wages after 2009–10, when the median and the interquartile range fall.

Figure 3. The income distributions shown as box plots for the tax years 1999-2000 to 2013-14 (the year 2008-9 is missing).

Figures 4 and 5 offer a longer-term perspective; both appear in a House of Commons briefing paper (their original sources are credited below them). Figure 4 shows the share of the total national incomes going to each of five groups: the most wealthy 20 per cent; the next 20 per cent; the next; and so forth down to the bottom 20 per cent. In a financially equal society each group would receive a share of their income in proportion to their size, and since the size of each group is equal (each contains 20 per cent of taxpayers), that expected share would be 20 per cent. In fact, the ‘top’ 20 per cent regularly got double that, and the ‘bottom’ 20 per cent, less than half.

16 A box plot is sometimes known as a stem and whisker plot
17 McGuinness F (2016) Income inequality in the UK.  
http://researchbriefings.parliament.uk/ResearchBriefing/Summary/CPB-7484
The top and bottom grew apart from the 1970s to the early 1990s but after that the gap appears to stabilise, perhaps even narrow.

**Figure 4.** Graphic published in a House of Commons Briefing Paper about Income Inequality in the UK.

Figure 4 might imply that concern about growing inequality isn’t warranted in the UK, with the distribution of wealth between the five groups being relatively static for the last 15 years (with a slight uplift for the middle three groups in 2013–14). However, what happens when we look within the top 20 per cent and concentrate only on the most wealthy amongst them? Figure 5 provides the answer and it is graphs like this that raise concern about the super-rich growing apart from the rest. As a trend, it seems clear that from 1977 the share of disposable income going to the top 1% has risen in all but four years.

However, we should add a few caveats. First, even within the top 1 per cent there is growing inequality – for example, the difference in earnings of the top 0.1 per cent and the next 0.9. An infographic by Oxfam shows a falling number of billionaires who together own the same wealth as half the world’s population: 388 in 2010 to 62 in 2016. Even amongst the ‘super rich’ the richest seem to be growing apart. Second, the trend does not mean that the same people are getting wealthier year-on-year. It is possible that people are dropping in and out of the wealthiest groups.

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Figure 5. Graphic published in a House of Commons Briefing Paper about Income Inequality in the UK.

The Spirit Level

The Spirit Level, by Richard Wilkinson and Kate Pickett has been an influential book about the potential social consequences of economic inequality within countries. Its subtitle, ‘Why More Equal Societies Almost Always Do Better’ makes no secret of their point of view. Whether you agree with that or not, there can be no denying that their publication provides a master class in using relatively simple statistics – ones that can be easily visualised and comprehended – to send out a clear and challenging message, and to promote debate.

The basic tool in their book is a scatter plot, like the one shown to the left of Figure 6. It uses some of the authors’ data (available for a donation from The Equality Trust). What it suggests is a negative relationship between life expectancy and income inequality, where income inequality is measured by comparing how much richer the top 20 per cent of people are when compared to the bottom 20 per cent. The word negative is not a social comment on the nature of the relationship (although that might be valid); it means only that there is evidence of a negative correlation: above-the-mean values of income inequality are associated with below-the-mean values of life expectancy, whereas below-the-mean values of income inequality are associated with above-the-mean values of life expectancy. In short, countries with higher income inequality tend to have lower life expectancies according to the data here. Whether one causes the other is a matter for debate. Here we are just highlighting the association, not the causality. An effective way to highlight it – and a second statistical tool in Wilkinson’s and Pickett’s book – is to add a line of best fit, as in the right of Figure 6.

20 https://www.equalitytrust.org.uk/civicrm/contribute/transact?reset=1&id=5
Figure 6. Using data from The Spirit Level book with a scatter plot and a regression line (right) to imply a negative relationship between income inequality and life expectancy in various countries.

The line of best fit is a **regression line**. It is a line of best fit, not of perfect fit, which is evidenced by the variation around it (some of the points are above the line, some are below it). The idea of regression is to place the line in the position that minimises that variation – to get it as close to as many of the points as possible. There are different ways of plotting a regression line from placing it ‘by eye’ to mathematically calculating its position. How this is done is not something we need to go into here. We can simply accept it as something that provides a summary of the relationship between income inequality and life expectancy for the data shown.

Of the two variables in the scatter plot, it is customary to describe the one along the horizontal axis as the **X variable** (also the predictor and independent variable), and the one along the vertical axis at the **Y variable** (the dependent variable and the response). When the regression line is fitted, the values of the X variable are used to explain (and to predict) the values in the Y variable. That implies that X leads to Y not the other way around. The Spirit Level book considers a number of relationships, showing, for example, how increased inequality is associated with decreased social trust but increased levels of obesity. Whether one is causative of the other is a matter of some debate. The regression line in Figure 6 is downwards sloping – the gradient, and therefore the relationship between X and Y, is negative. If the gradient was in the other direction we would describe the relationship between X and Y as positive.

A feature of the regression line in Figure 6 is that it is **statistically significant** at an agreed upon level. The concept of statistical significance takes a little explaining and getting used to. Many statistical methods, including chi-square, the Mann Whitney U test and Spearman’s rank correlation (each of which have a long history in geography curricula) generate a **test statistic** – the number that arises as a result of the calculations that are followed in order to complete the test. In very loose terms, the interest is then in whether the test statistic has arisen due to chance or suggests something more concrete. For the regression line, the test statistic is related to the gradient of the line, and we ask whether the gradient might actually be zero, given what we know about the variation around the line, as well as the number of **observations** in the data set (there are 23 in the Spirit Level data, which is the number of countries shown in Figure 6).

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21 The relationships they look at can be viewed and discussed by downloading the slides at [https://www.equalitytrust.org.uk/spirit-level](https://www.equalitytrust.org.uk/spirit-level)
If the gradient is zero then the regression line would be flat and that would mean we could not predict a country’s life expectancy from its income inequality; there would be no relationship between the two.

In what sense might the gradient be zero when clearly, in Figure 6, it is not? To understand this we have to allow for the possibility that the observations are a random sample of some larger number of countries about which data could have been collected. If we allow this, then the gradient we observe in Figure 6 could be due to happenstance: a freak result arising from a peculiar sample of data; not because there truly is a relationship between the X and Y variables (if we had collected other data).

Most statistical tests report a p-value, which, for the regression line, is the probability that we have made a mistake in assuming the gradient is not equal to zero if, in fact, it is. It is usual to judge the results to be statistically significant if the probability is less than 0.05 (if there is a less than 5 per cent chance that we are wrong to assume a relationship between income inequality and life expectancy when, in fact, there isn’t one).

Assessing statistical significance in this way is a little abstract and not without criticism. For example, in what sense are the data for the 23 countries actually a random sample of anything? The countries were not randomly selected at all.\(^22\) This is not unusual for secondary datasets, which are those compiled by other people and not necessarily for the purpose for which they are now being used. More particularly, the idea of statistical significance doesn’t actually tell us what we to know, which is whether the result really matters or not. For that we need to consider the effect of the X variable on the Y, which is the expected increase or decrease in life expectancy given a change in inequality.

The equation of the line shown in Figure 6 provides the measure of effect. It is \(y = -0.315x + 80.4\), where \(-0.315\) is the gradient and 80.4 is the y-intercept.\(^23\) The y-intercept is the value of y when x is equal to zero. (It is not shown in Figure 6 where the x-axis begins above three). The y-intercept predicts average life expectancy in a country of zero income inequality (the prediction is 80.4 years). The gradient predicts the change in life expectancy for a one-unit change in the inequality ratio. It is the gradient that measures the effect size. For the data, if the 20:20 income ratio increases by one then life expectancy is predicted to fall, by 0.315 years. Does this matter? There’s no measure of statistical significance that can really answer that. It’s a matter for social and political debate. You might wish to discuss it in class.

But is the relationship really as it seems? Regression analysis can be affected by outliers and, in this case, a potential outlier is Japan, which has an unusually high life expectancy for even its low income inequality (note that it is a long way above the line in Figure 6). Removing Japan from the data leaves the regression line as no longer statistically significant at any conventionally accepted level, and the effect of income inequality on life expectancy falls: a one-unit increase in the 20:20 income ratio is now associated with a 0.197 decrease in life expectancy. Does this invalidate the relationship? Not necessarily. There is still a correlation between inequality and life expectancy of \(-0.319\) where previously it was \(-0.439\).\(^24\) The negative sign indicates that the relationship is negative: as one variable increases, the other decreases. Ignoring any negative sign, then correlations range from zero to one. Zero implies one variable cannot be used to predict the other.

\(^22\) On the basis that no measurement is perfect but prone to error, we could argue that the randomness lies in the measurements themselves. In which case, and this all gets a bit head hurting, we are basically arguing that the data are a random sample of themselves.

\(^23\) The gradient of any straight line can be written in the form \(y = mx + c\), where \(m\) is the gradient of the line and \(c\) is the y-intercept. In statistical texts this is more likely to be written as \(y = \beta_0 + \beta_1x\), where \(\beta_0\) is the y-intercept and \(\beta_1\) is the gradient.

\(^24\) The correlations aren’t evident from the regression line but they are from the sort of statistical output that regression analysis generates.
One means that the two variables are interchangeable; one can be used as a substitute for the other because essentially they are measuring the same thing.

With Japan removed, the value of –0.319 is not strong but still indicates a moderate degree of correlation. Some critics of The Spirit Level have questioned whether some of the apparent social effects of income inequality are evidence of a general relationship or driven by unusual cases (such as Japan). These arguments and the authors’ defence are interesting examples of how quantitative approaches don’t necessarily settle debates but they do raise and allow us to participate in important areas of discussion.25

See for yourself

The relationship between income inequality and life expectancy can be seen in the accompanying Excel spreadsheet. The data both include and omit Japan.

- By looking at the columns of data, can you identify Japan in the first scatter plot (the one that includes Japan)?
- In what way does Japan seem to be unusual in comparison to the other countries?
- Can you see how it is an outlier in the sense that it seems a long way out from the regression line of best fit and also from where the other points (the other countries) cluster on the scatter plot?
- Compare the equation of the regression line with and without Japan in the data. What effect does removing Japan from the data have on the gradient of the line?
- As the line becomes flatter, what happens to the p-value and to the statistical significance of the relationship?
- Is there a stronger correlation between income inequality and life expectancy with or without Japan in the data? (A stronger correlation is one that moves closer to –1 in the case of a negative correlation or to +1 in the case of a positive correlation)
- A correlation between –0.3 and –0.5 (or between 0.3 and 0.5) is sometimes described as moderate. Is this true of the relationship between income inequality and life expectancy even omitting Japan from the data?

Closing comments

This report has used debates about rising income inequality in the UK and elsewhere as a way into describing some important statistical methods and principles, how they might be applied in geographical research, what they reveal, how they help with the interpretation and analysis of data, and their potential limitations. These methods include visual and numeric methods to describe the centre (average) and spread of data, to consider their distribution, to identify skew, to look at the relationship between variables, and to introduce the idea of statistical significance (as well as some of its shortcomings). An important underlying principle is that statistical methods are far better taught within a geographical context – in relation to a topic of substantive geographic interest – than in isolation from the sorts of themes and debates with which geographers engage.

The quantitative ideas covered were: averages (mean and median), distributions, the range (minimums and maximums), outliers, percentiles, skew, bar plots, histograms, (income) ratios, boxplots, interquartile range, scatter plots, correlation, regression lines of best fit, X variables, Y variables, statistical significance, test statistics and p-values.

Follow-up activities

A collection of slides in regard to The Spirit Level book and exploring some of the possible consequences of inequality can be downloaded from https://www.equalitytrust.org.uk/resources/the-spirit-level. Take a look at them and see if the class is persuaded by the regression relationships they show. Can the class offer explanations as to how inequality can cause the outcomes that are suggested (assuming that it does)?

The Spirit Level has inspired a documentary film: The Divide. You could watch and discuss the trailer at http://thedividedocumentary.com

The documentary Don’t Panic – How to End Poverty in 15 Years argues, with data and visualisation that “that recent global progress is ‘the greatest story of our time – possibly the greatest story in all of human history.’” It can be viewed at http://www.gapminder.org/videos/dont-panic-end-poverty/

About the author

Richard Harris is a Professor of Quantitative Social Geography at the School of Geographical Sciences, University of Bristol, where he also is director of the University of Bristol Q-Step Centre, part of a multimillion pound national initiative intended to provide a step change in the quality of quantitative training provided to social science students. He also is author of the books Quantitative Geography: the basics (published by Sage, 2016), and co-author of Statistics for Geography and Environmental Science (Routledge, 2011). He was the recipient, in 2014, of the Royal Geographical Society’s (with IBG) Taylor & Francis Award for excellence in the promotion and practice of teaching quantitative methods.

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