

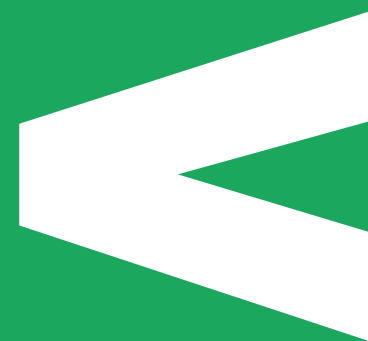
# Inequalities: what's been happening and what should we do?

Paul Johnson

An IFS initiative funded  
by the Nuffield Foundation

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Foundation



**Inequality**

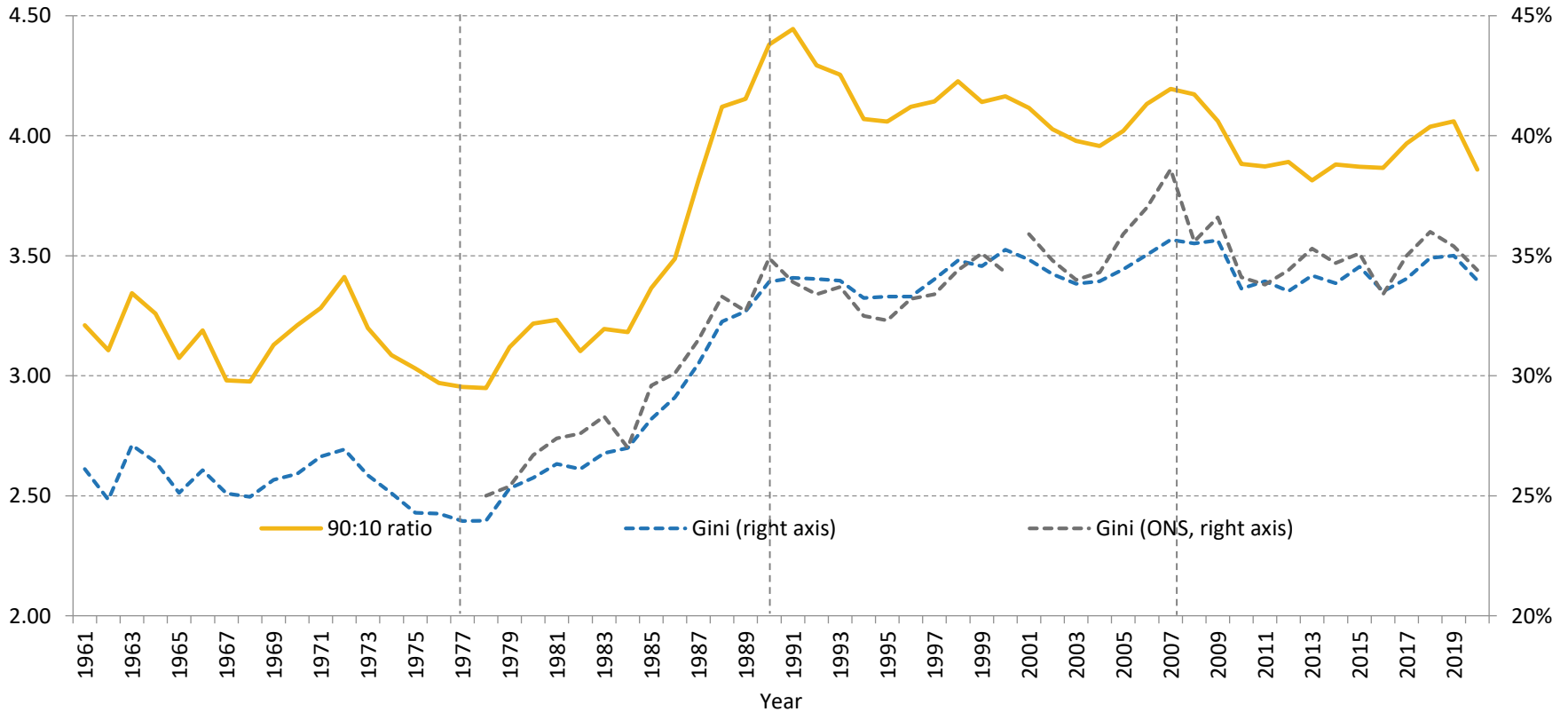
**The IFS Deaton Review**

# Income inequality has been stable for 30 years...

## Inequality in net household income in the UK, 1961–2020

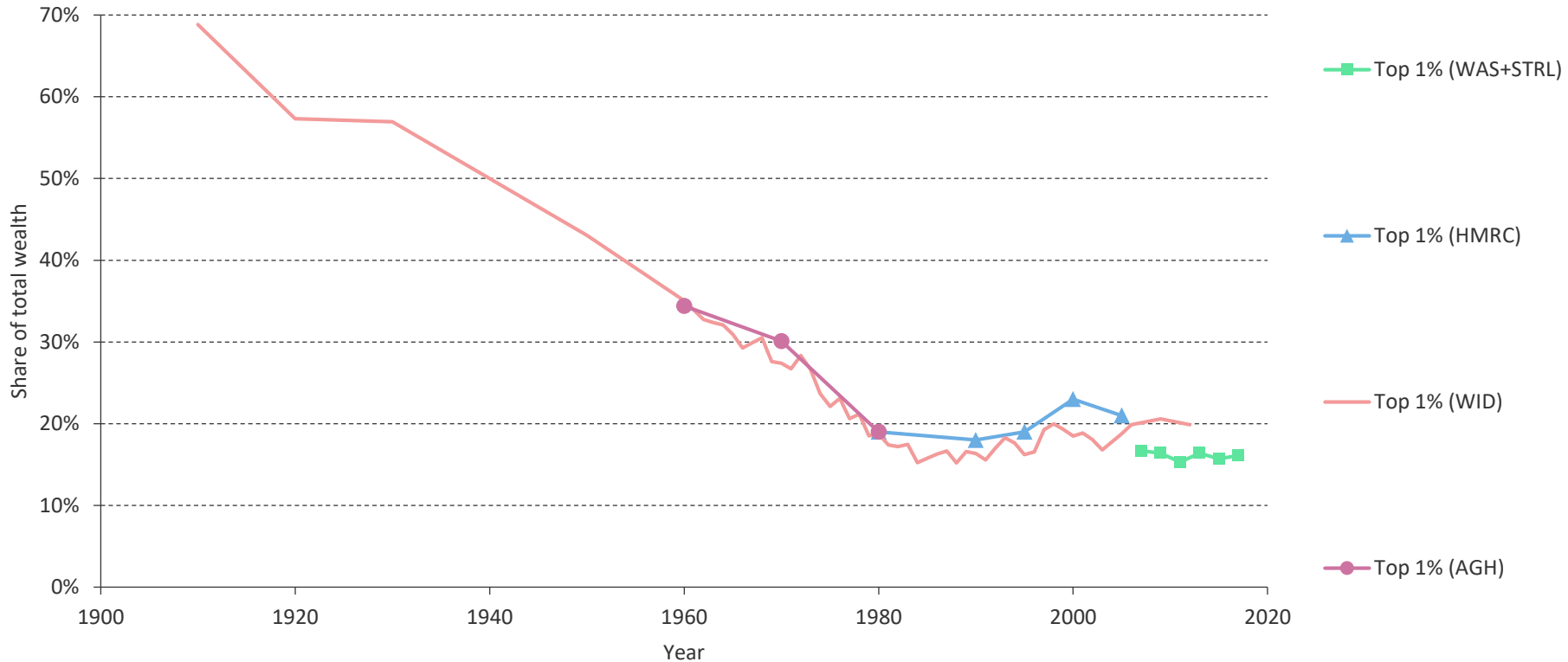


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# ...and (on some measures) wealth inequality is at a record low

## Top wealth shares in the UK since 1910



Note: The WID, AGH and HMRC series are for individual wealth, but the WAS series is per-adult family wealth.

Source: WID data are 'Net Personal Wealth' share (shweal). WAS+STRL data are from Advani, Bingham and Leslie (2021); AGH is Atkinson, Gordon and Harrison (1989).

# But that leaves out a lot!

## 1. Levels matter, not just change

- And of course the summary measures miss a lot

## 2. Absolute differences are important, as well as relative differences

- Growth in household incomes has been very slow since mid-late 2000s
- Household wealth from 3.5 times to 7 times GDP since early 1990s

## 3. Differences between groups also matter

- Differences between generations, sexes, ethnic groups etc

## 4. Sources of inequality matter

- Market power, inherited inequalities?

## 5. Not just inequality of incomes and wealth

- Health, political power etc

# Leaves out the very top where income shares rose from early 1980s until financial crisis

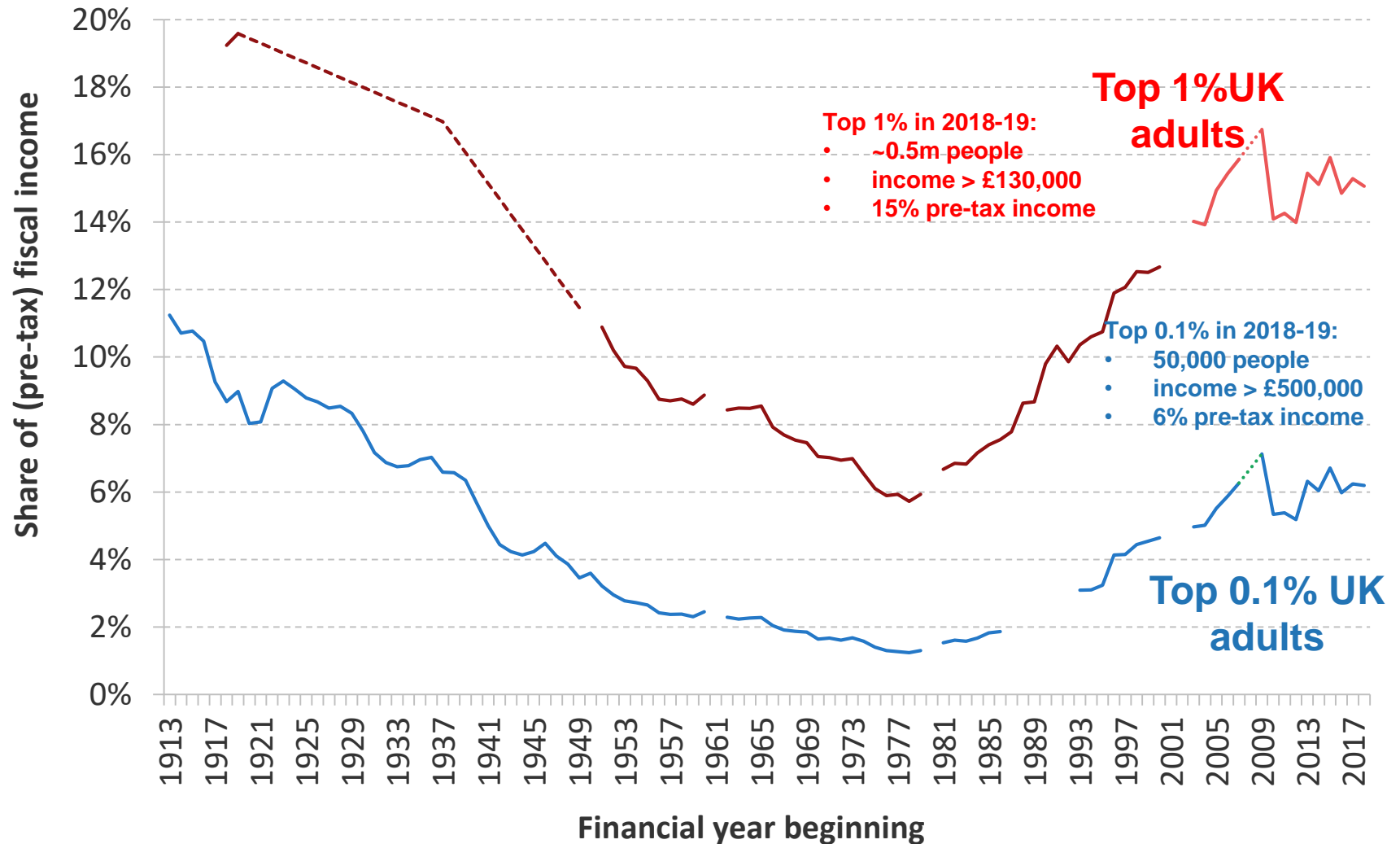


Figure 2, Delestre et al (2022)

# Business income is more important at the top

It is much less heavily taxed than employment income

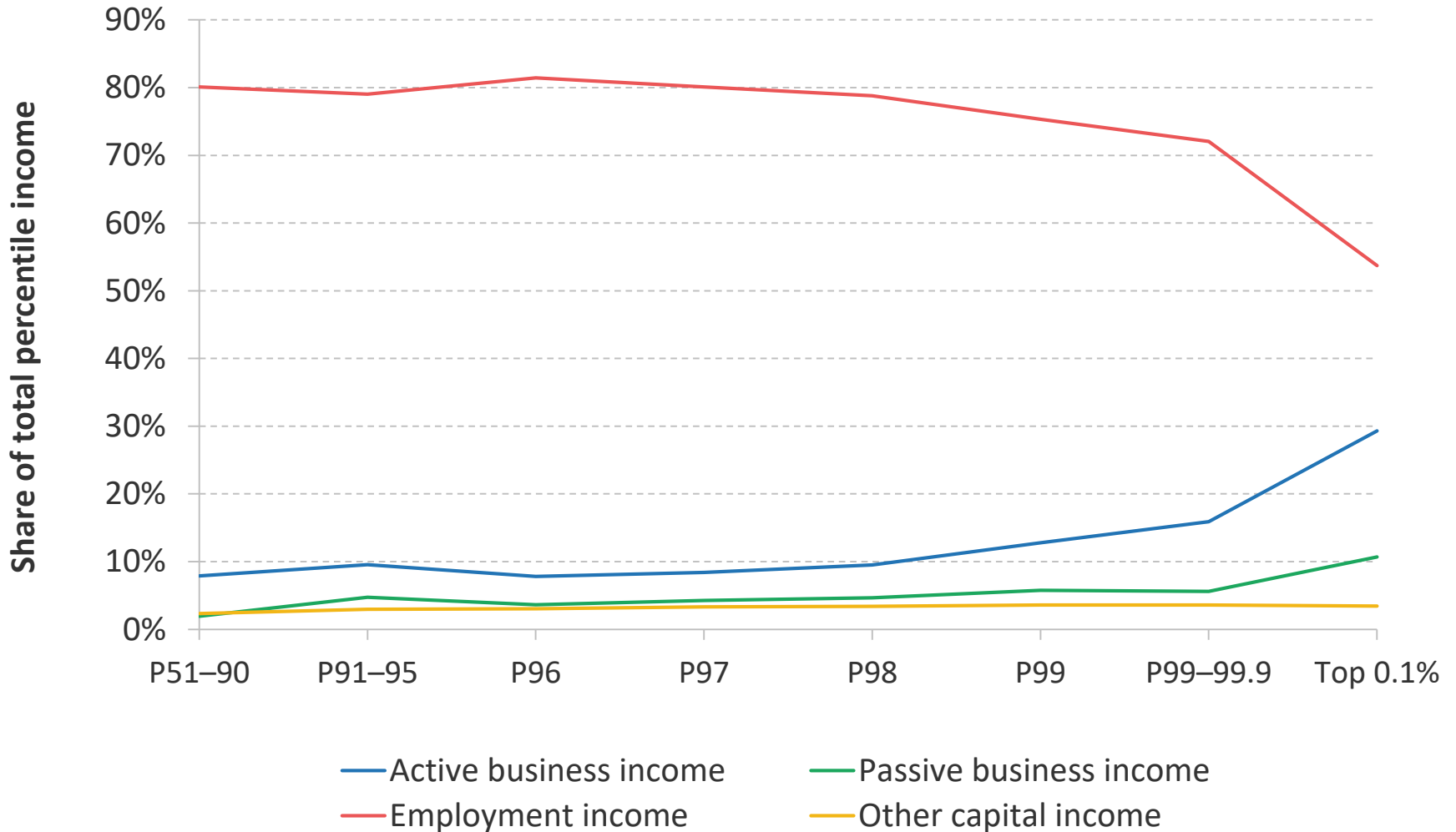
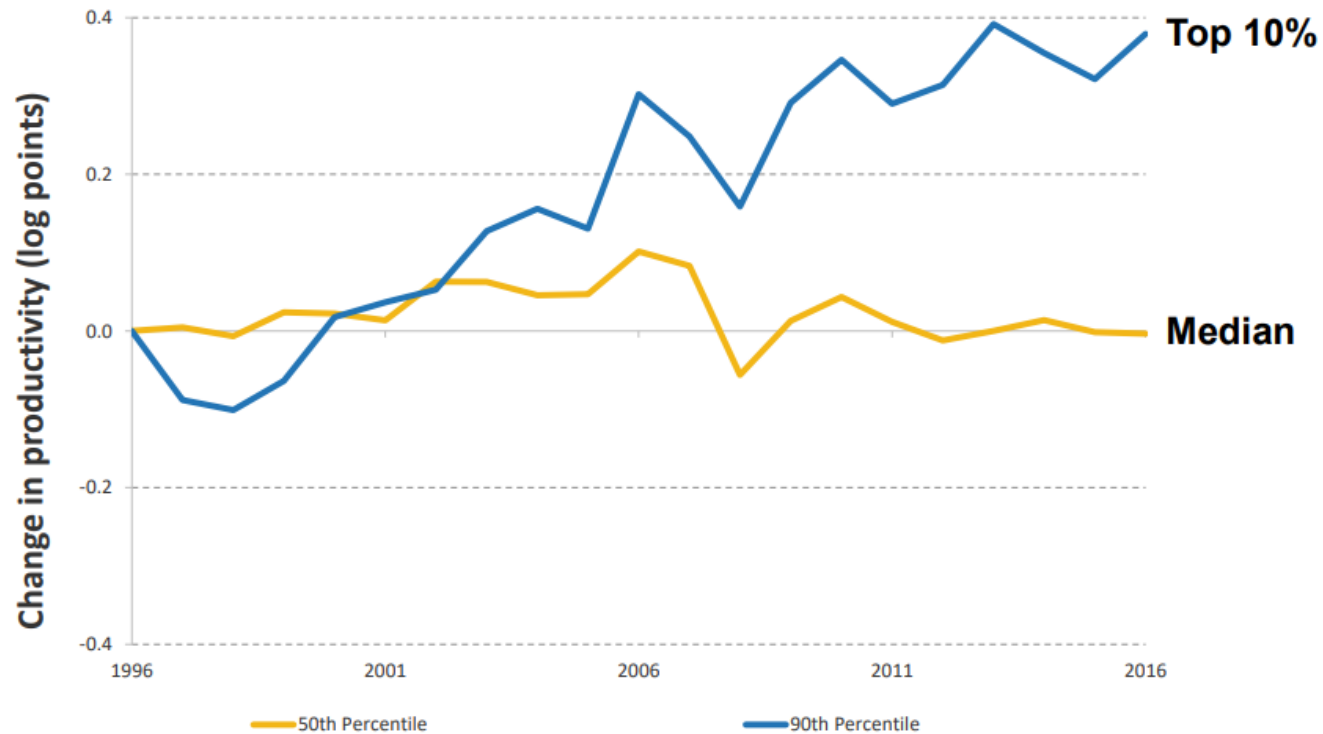


Figure 3, Delestre et al (2022)

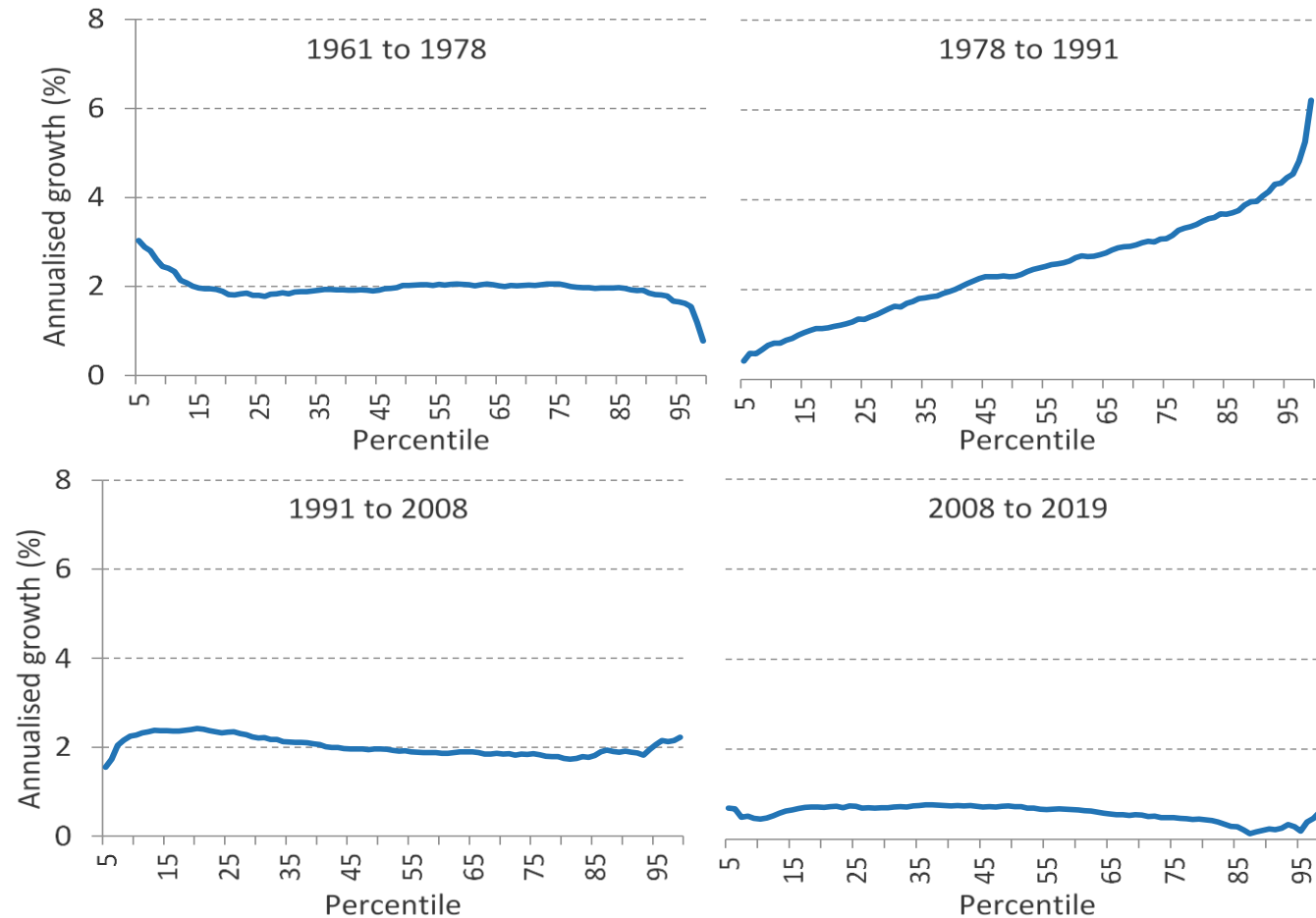
# Most productive *firms* have pulled away from the rest



**Notes:** Historical ORBIS,  $\ln(\text{value added}/\text{employee})$ , quantiles weighted by firm employment; values indexed to zero in 1996; Changes in log points, so 0.05 = about 5% growth;  $0.4 = (e^{0.04} - 1) \times 100 = 50\%$

# Income inequality hasn't grown – but nor has income

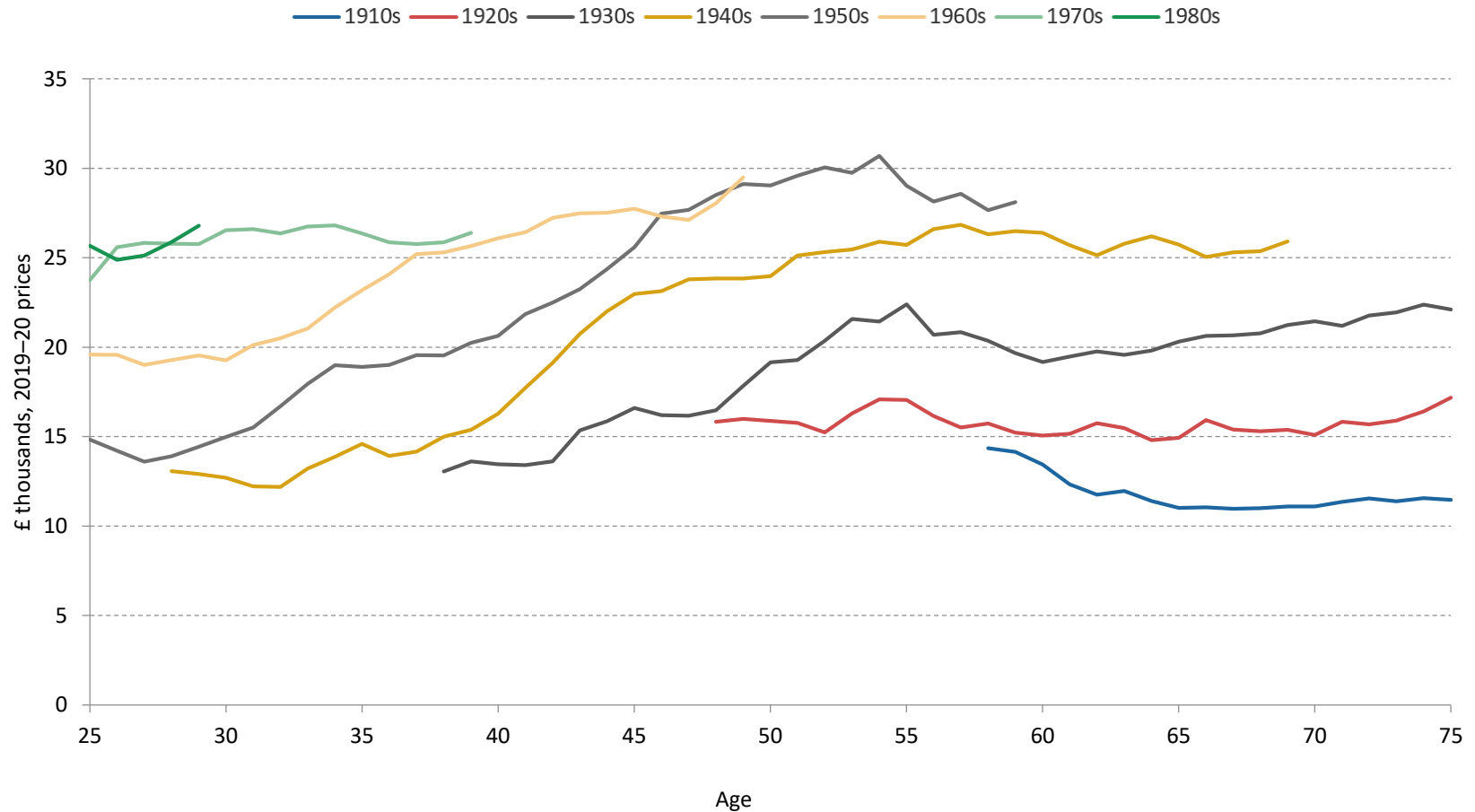
## Annualised growth in household income by income percentile





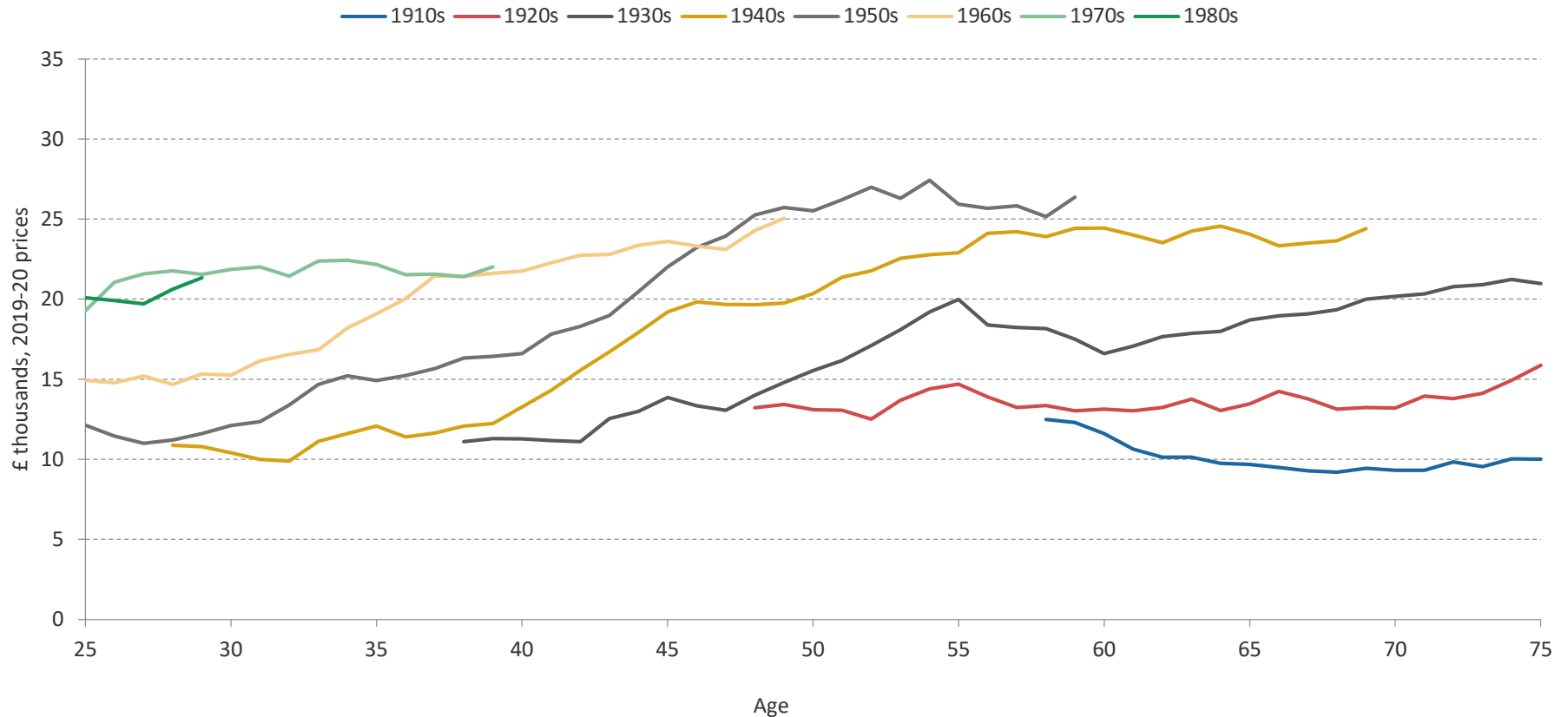
# Cohort-on-cohort progress has ground to a halt

Median equivalised disposable BHC household income, for people born in different decades



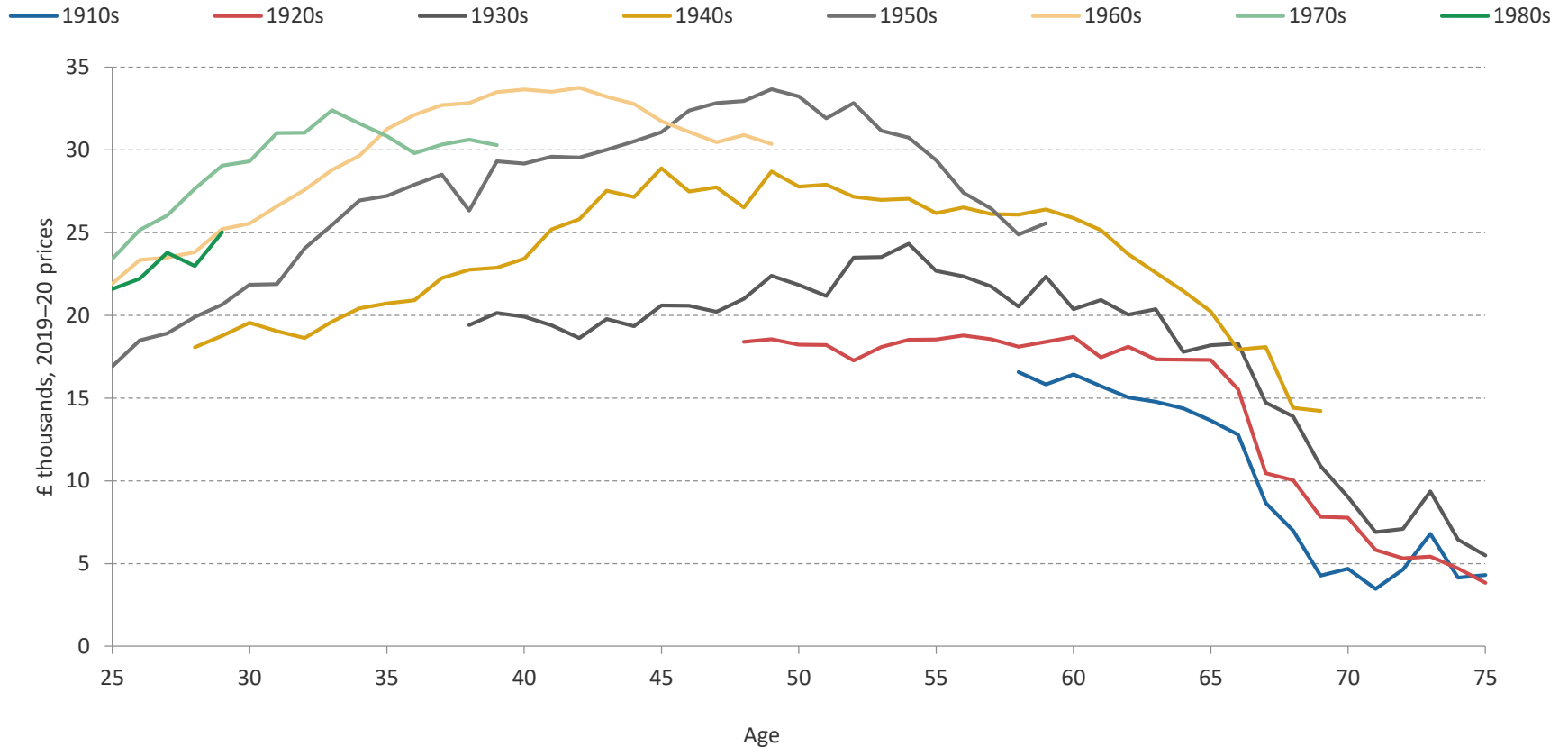
# ...especially after housing costs

Median equivalised disposable AHC household income, for people born in different decades, UK



# And looking at male median earnings

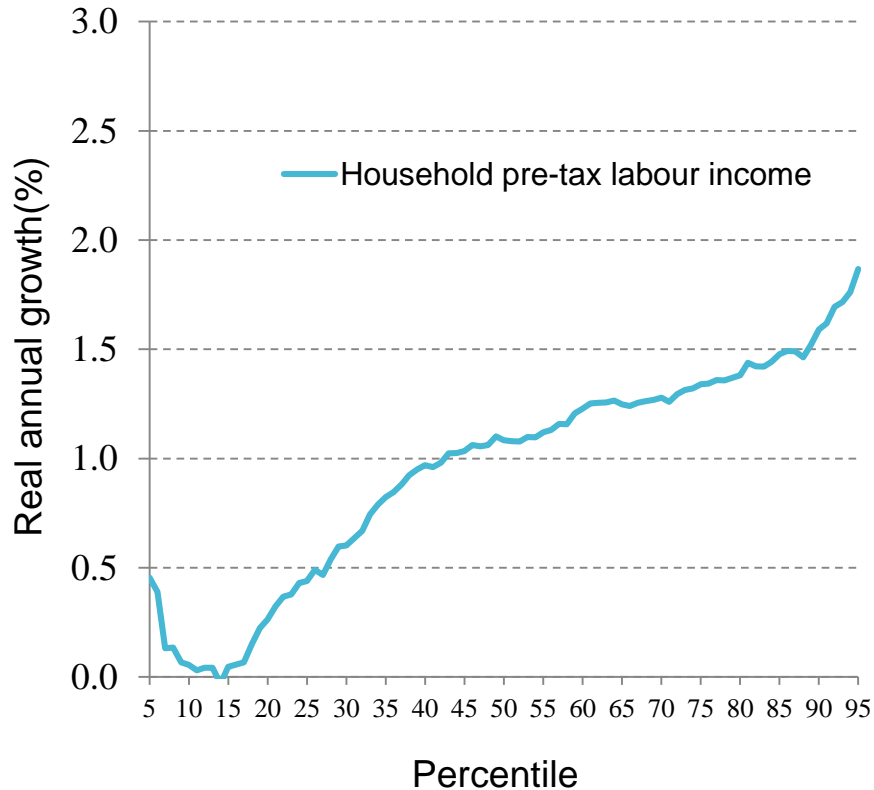
Real median gross individual earnings among those in work, for men born in different decades



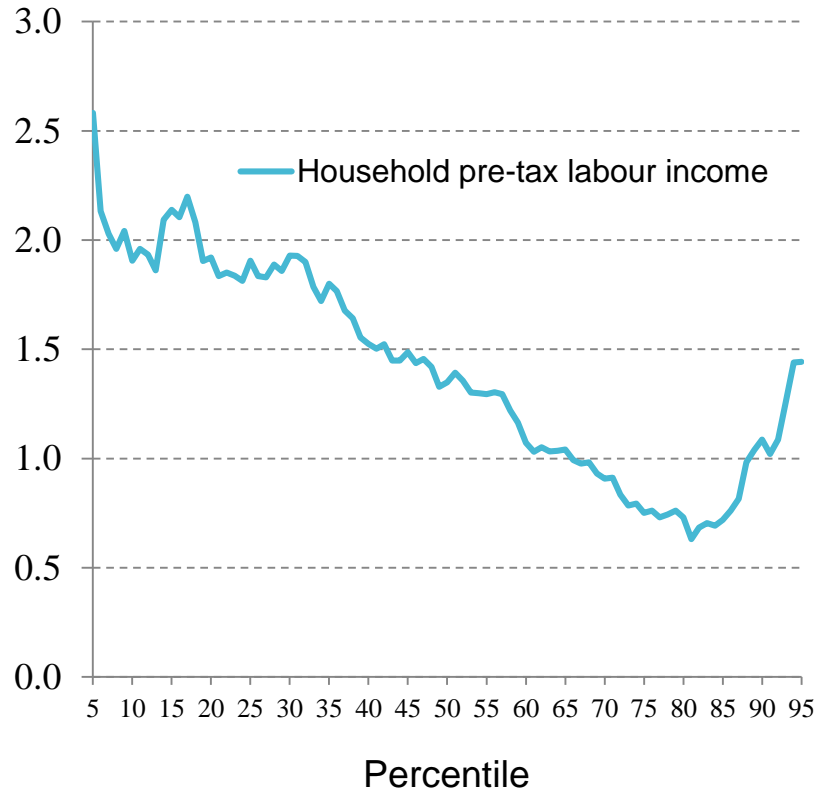
# Different patterns of earnings change

Changes in household pre-tax labour income vs net total income, by percentile (working households only)

1994-2011



2011-2019

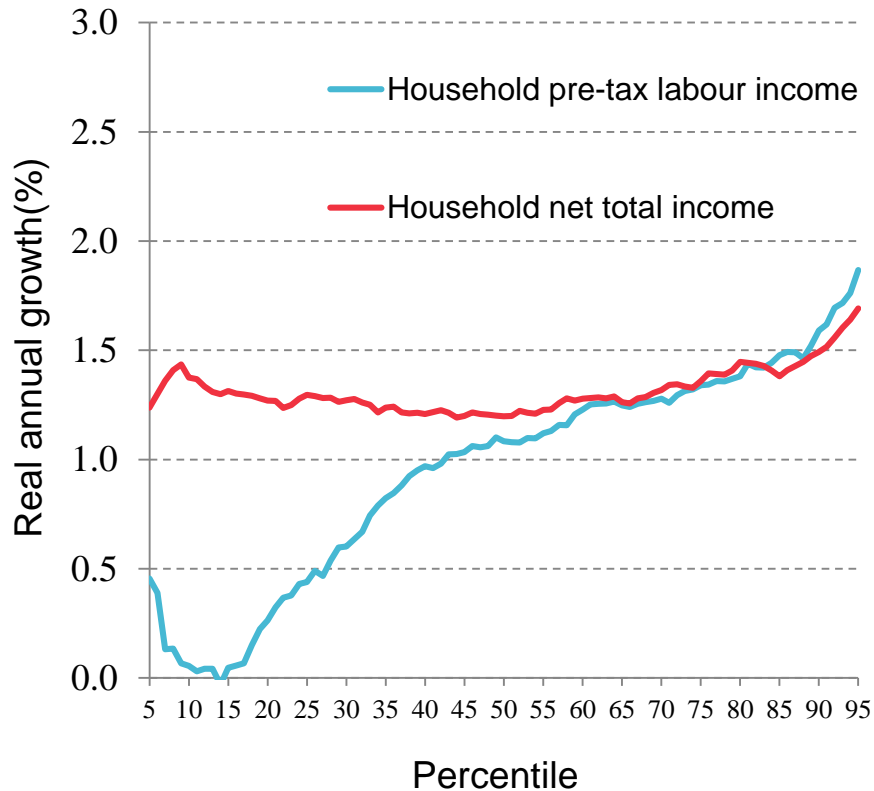


Source: Cribb, Joyce and Wernham (2022), 'Twenty-five years of income inequality in Britain: the role of wages, household earnings and redistribution', IFS Working Paper. Based on data from Family Resources Survey.

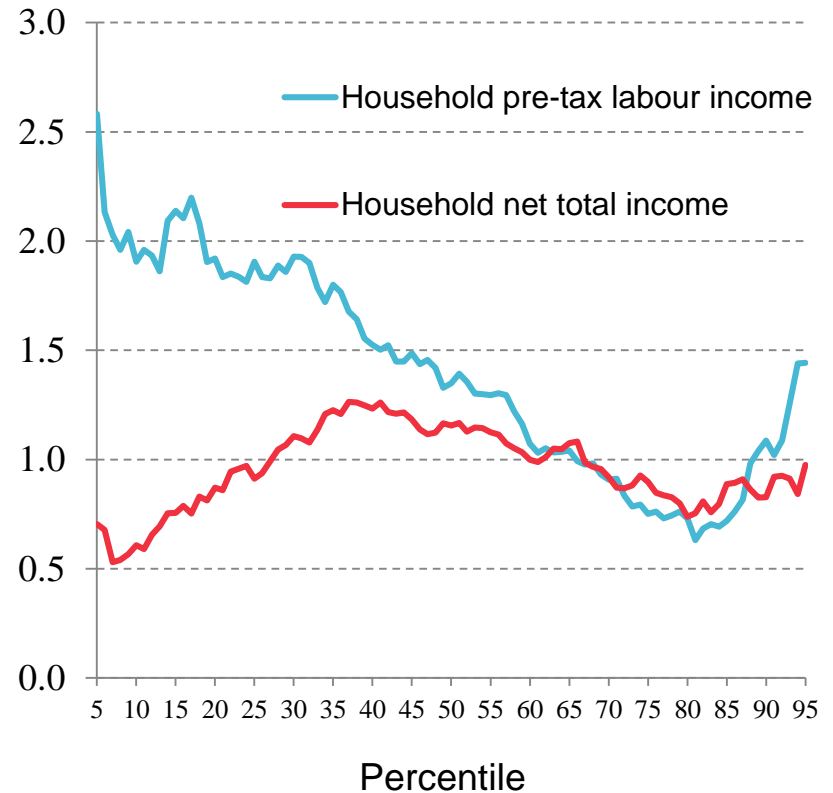
# What about the *incomes* of these households?

Changes in household pre-tax labour income vs net total income, by percentile (working households only)

1994-2011



2011-2019



Source: Cribb, Joyce and Wernham (2022), 'Twenty-five years of income inequality in Britain: the role of wages, household earnings and redistribution', IFS Working Paper. Based on data from Family Resources Survey.

# Lots more going on in the labour market



**Poor wage progression, and little training, for less-educated workers**

**Growing solo self-employment, platform work and outsourcing**  
with low rates of on-the-job training and fewer paths to good jobs.

**Increasing in-work poverty**  
with employment alone (increasingly) not enough to escape poverty

**Big differences in prosperity between regions**  
'left-behind' areas with low education outcomes, poor wage progression, and low mobility.

# Wealth

# Absolute wealth gaps have increased

Average values of different sources of wealth in each wealth decile, 2006–08 and 2016–18

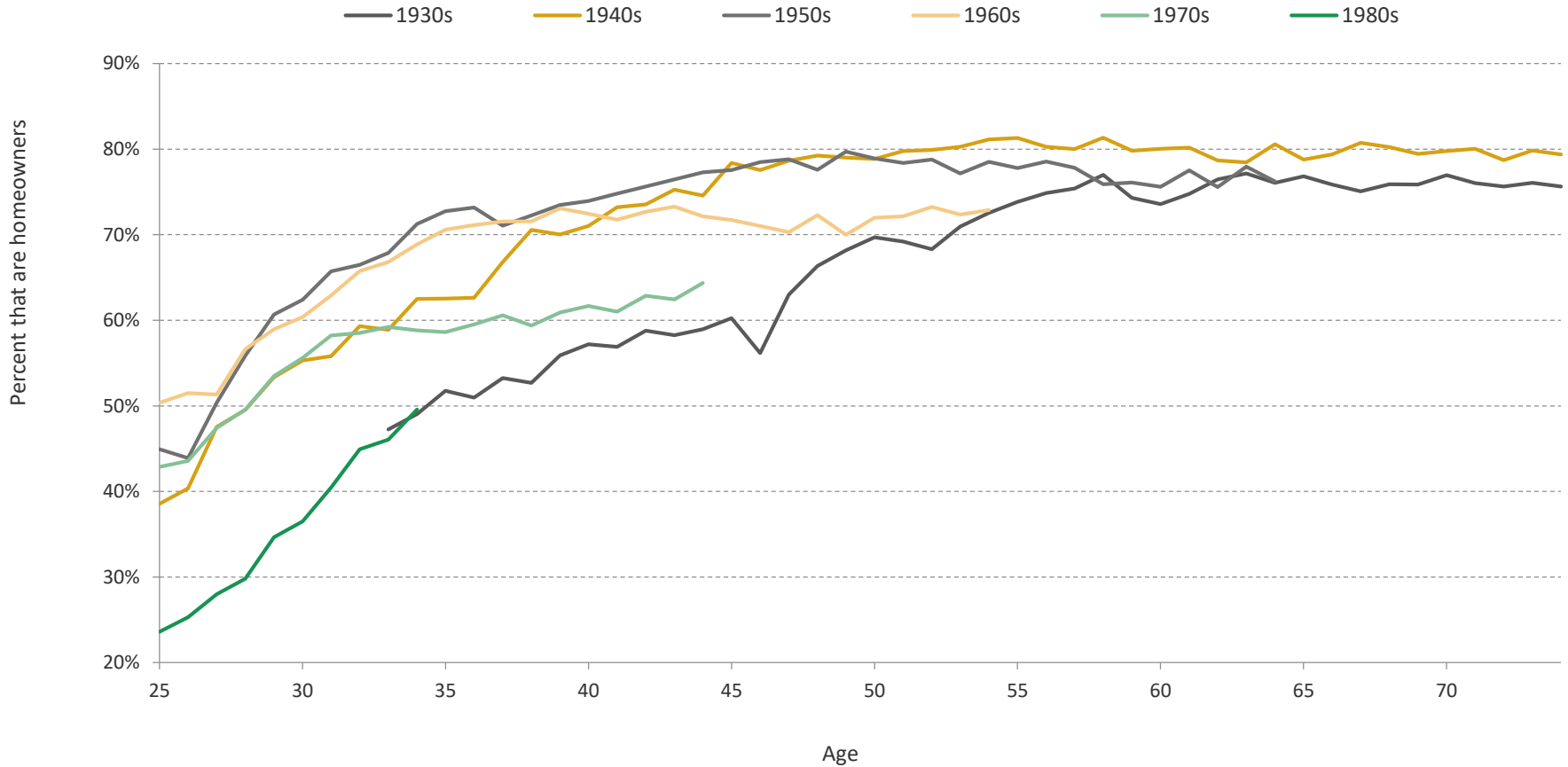


- In the decade since 2006-08, the mean wealth of the 5<sup>th</sup> decile grew by two-thirds of a typical full-time salary, but the mean wealth of the 10<sup>th</sup> wealth decile by 9 times a typical full-time salary

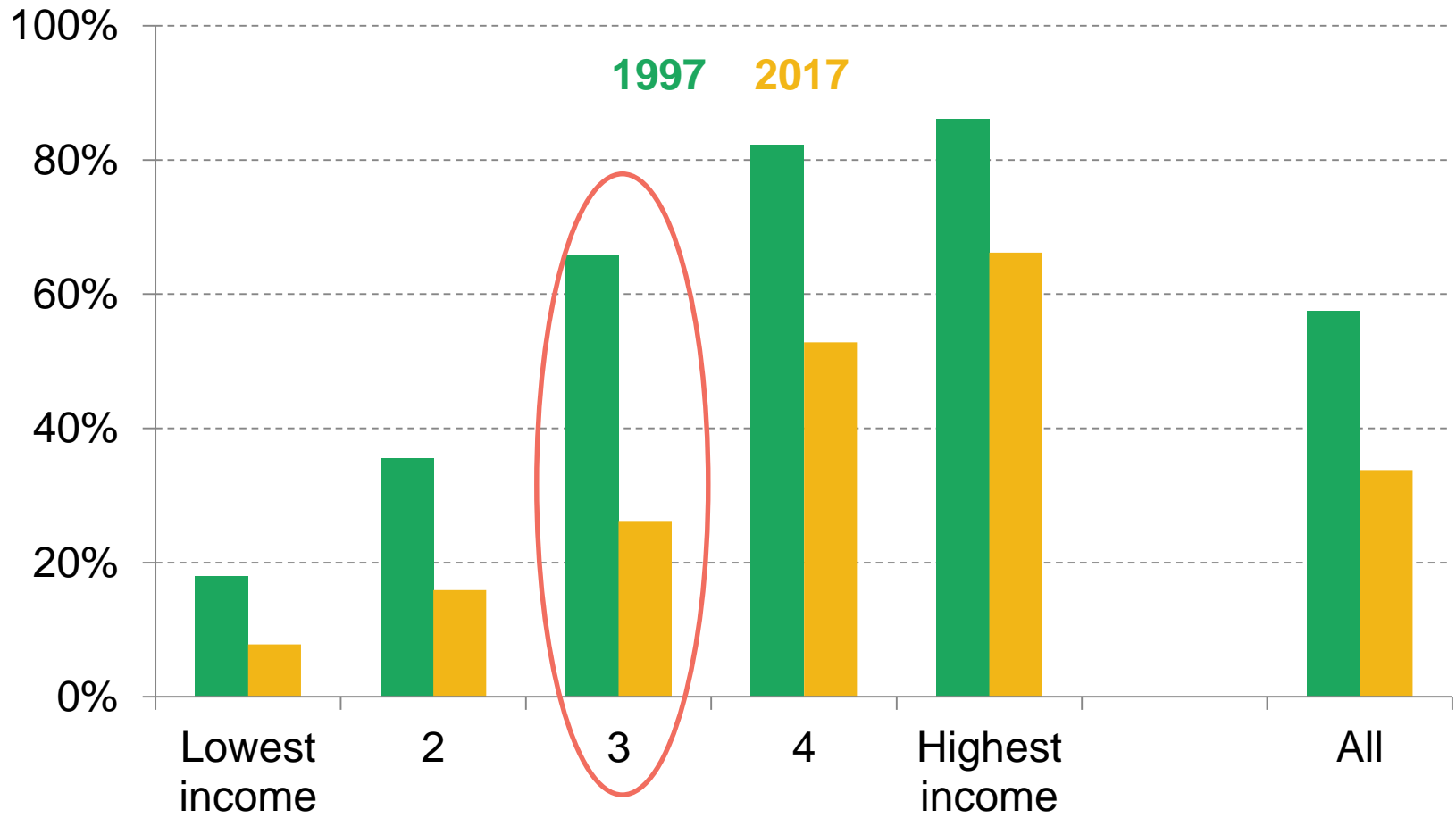


# Home ownership is in decline...

Average homeownership by age, for people born in different decades



# Home ownership down hugely among middle income 25-35 year olds



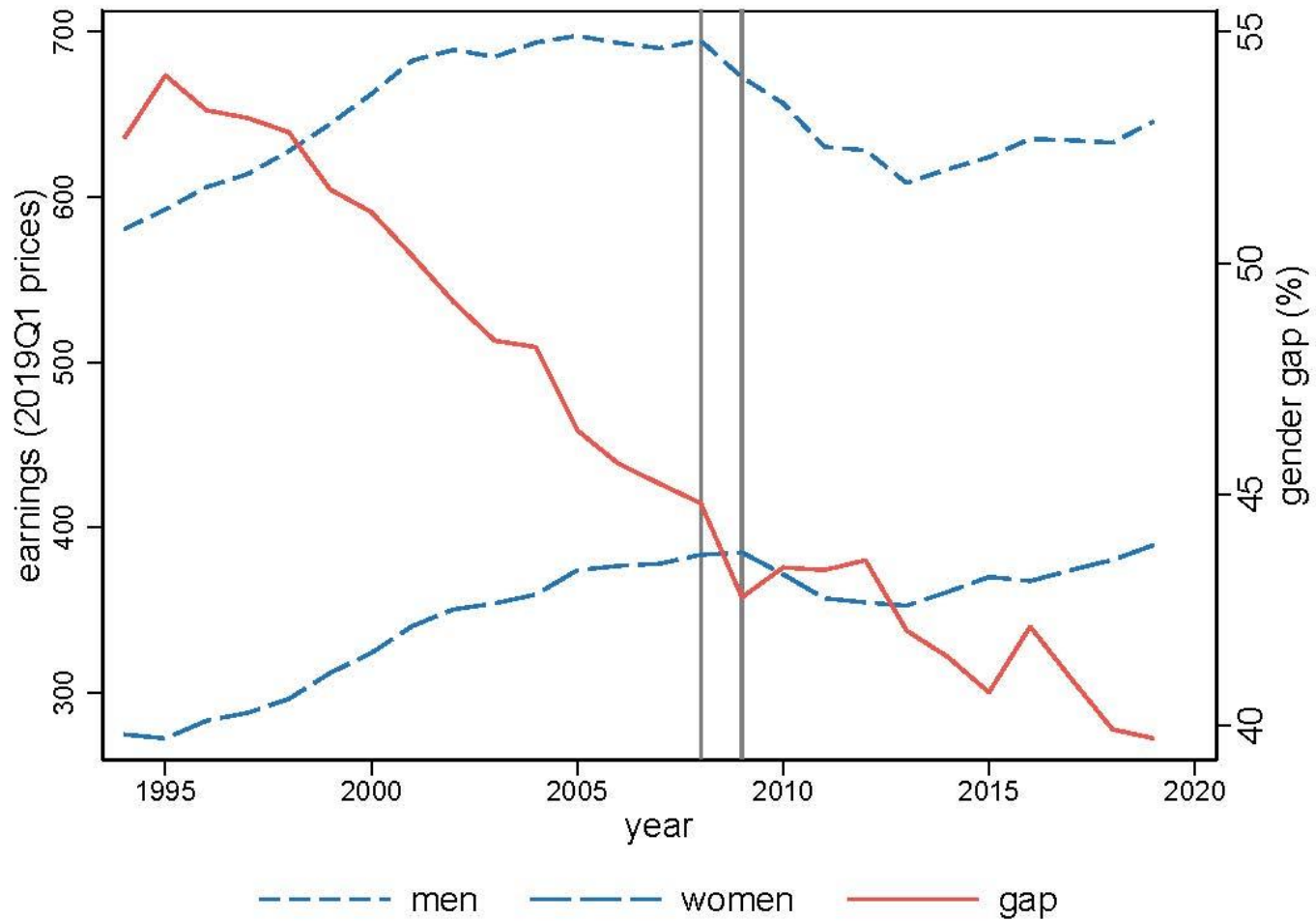
# So what is really happening?



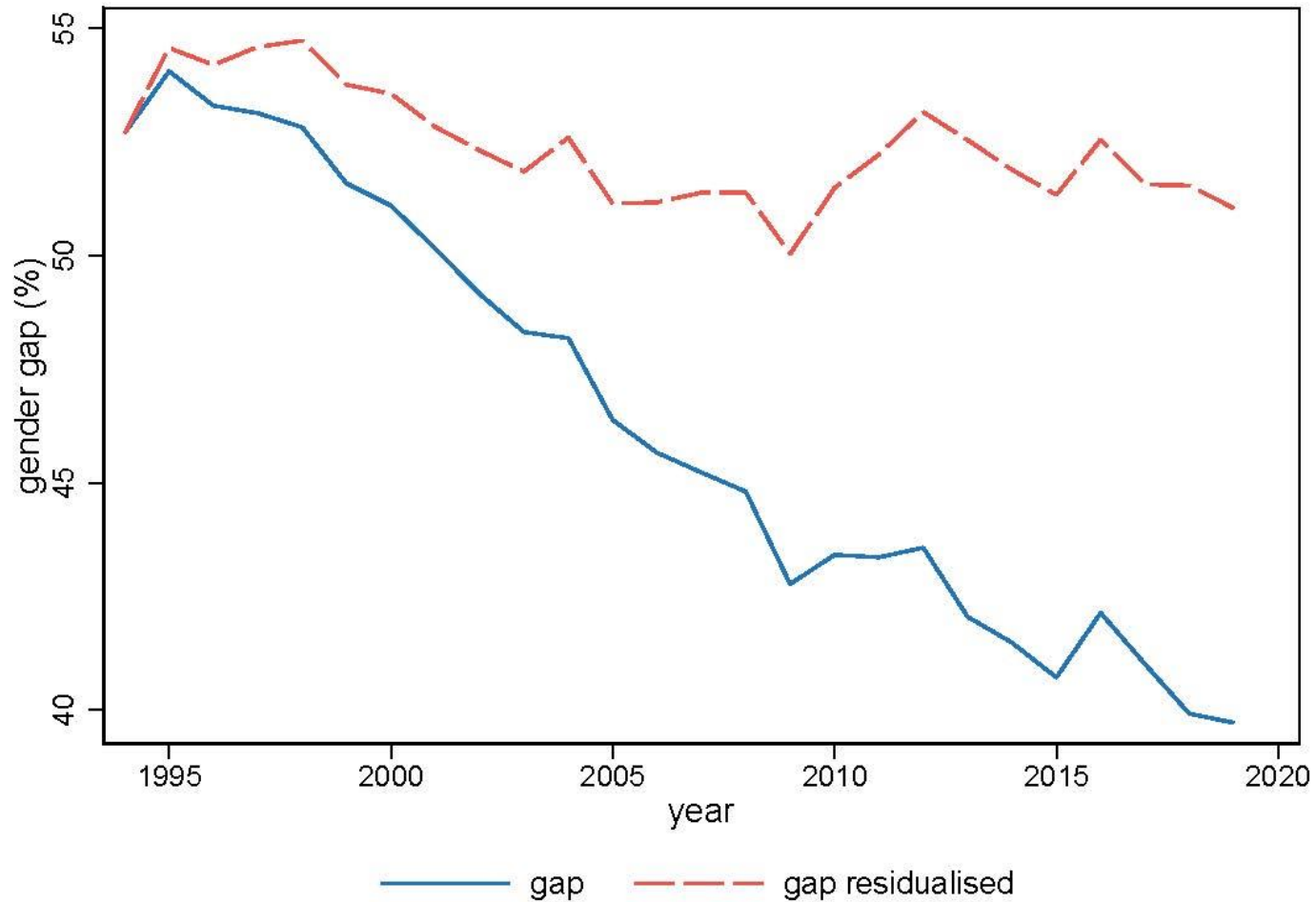
- Lack of earnings growth has resulted in stagnating incomes
- Rising asset prices are accelerating the gap between those with and without wealth, and has reversed the rise in home ownership
- Leading to a profound reversal of between-cohort differences in living standards and wealth
- Today's intergenerational inequality will be (is already) tomorrow's lack of social mobility

# Gender

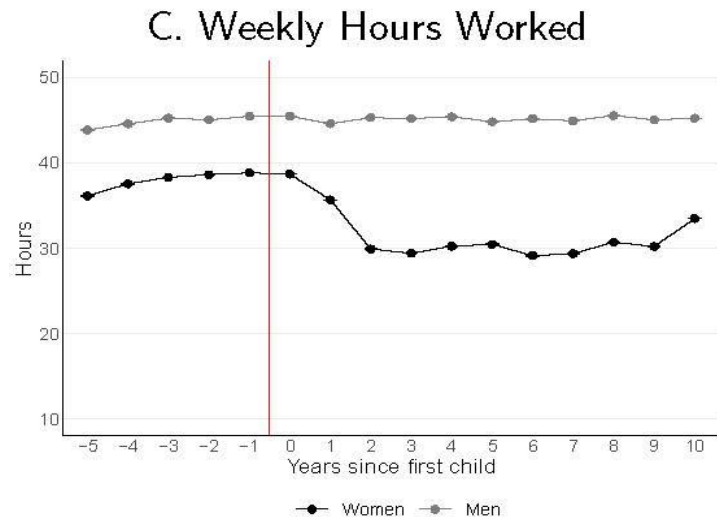
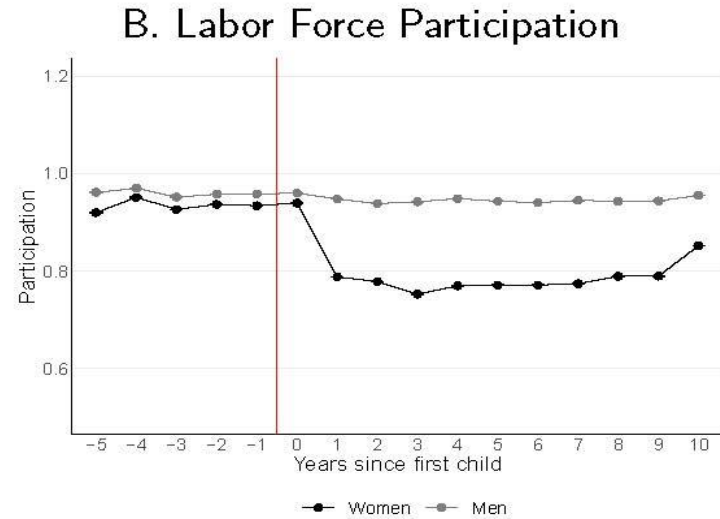
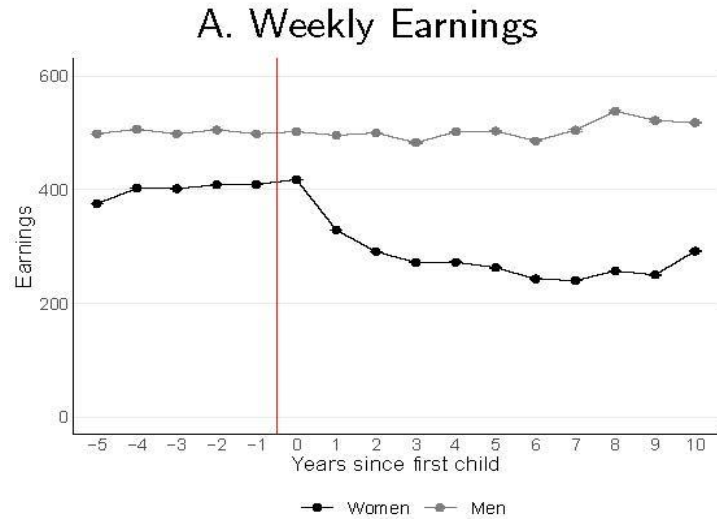
# Earnings Gap over Time



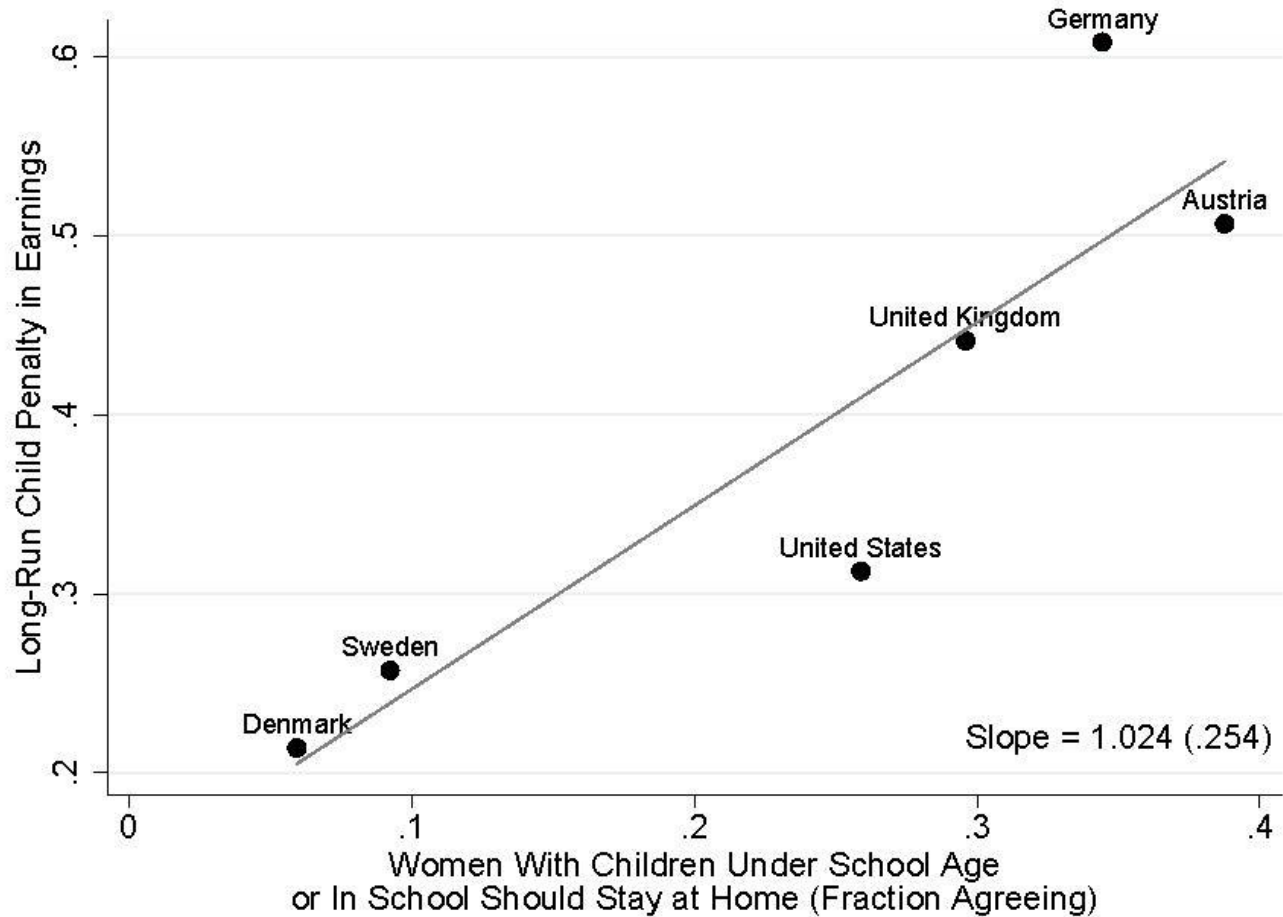
# This progress is almost entirely explained by changing education attainment of women



# Parenthood plays the central role



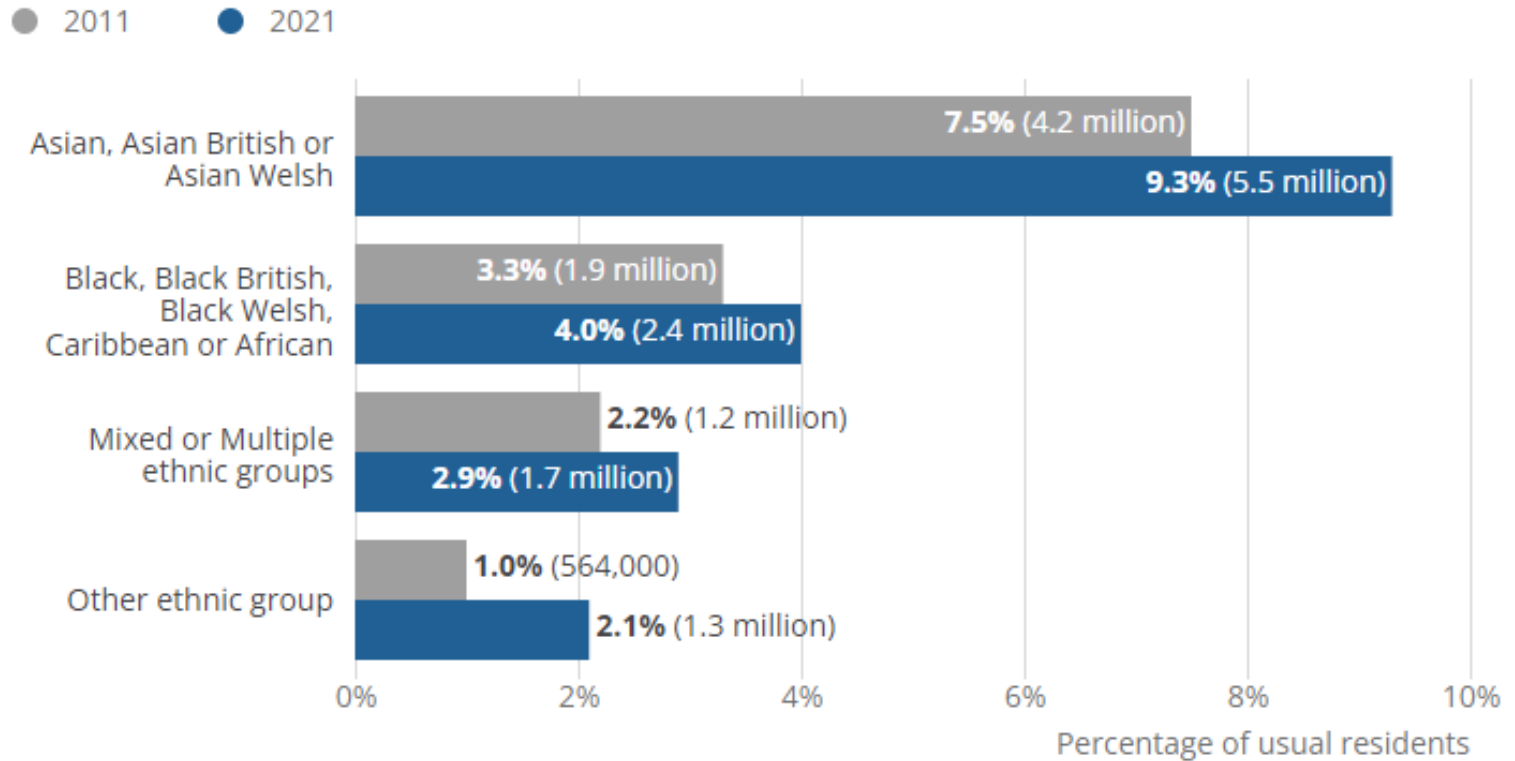
# Attitudes towards gender are correlated with child penalties





# Ethnicity

# 18% of population identified as other than white in 2021 census, up from 14% in 2011



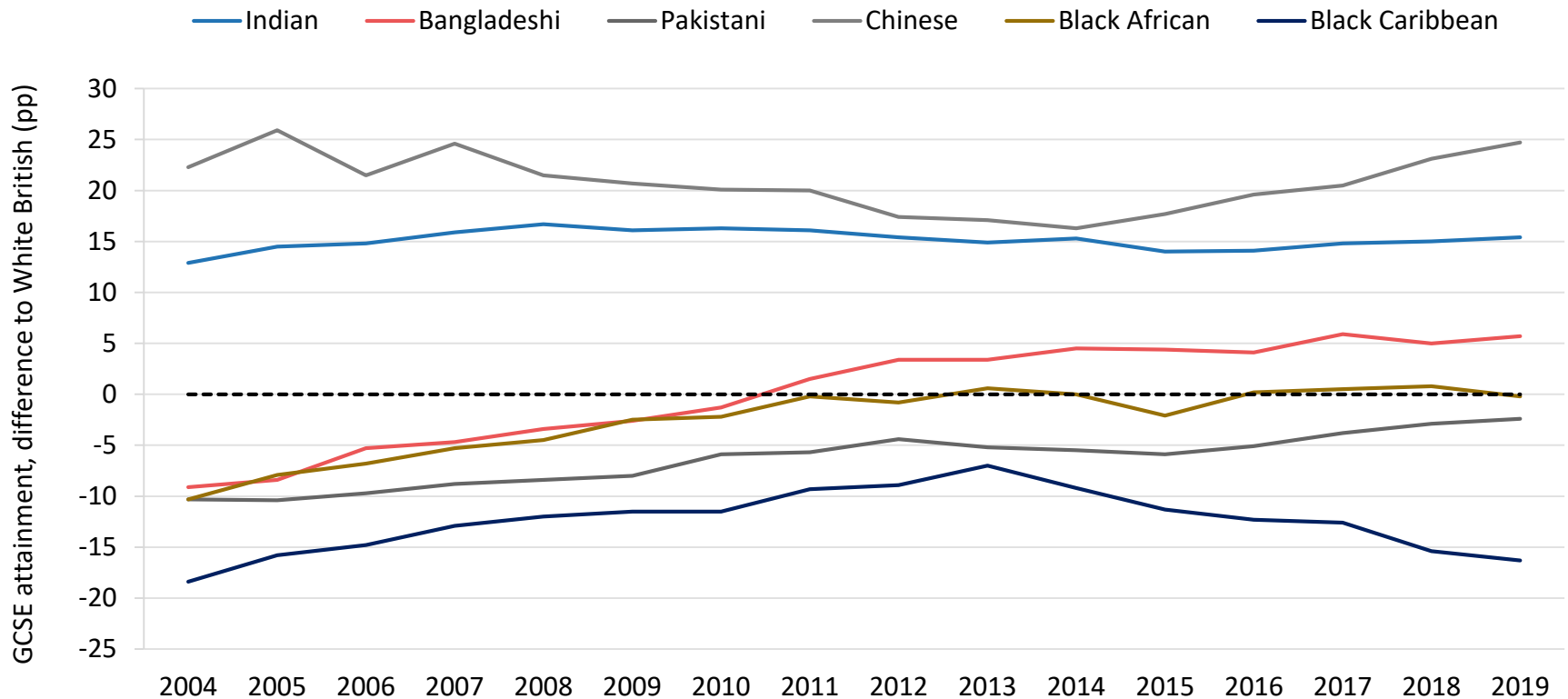
Source: Office for National Statistics – Census 2021

# Ethnic minority attainment at school



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## Percentage point difference in fraction gaining GCSE maths and English relative to White British students



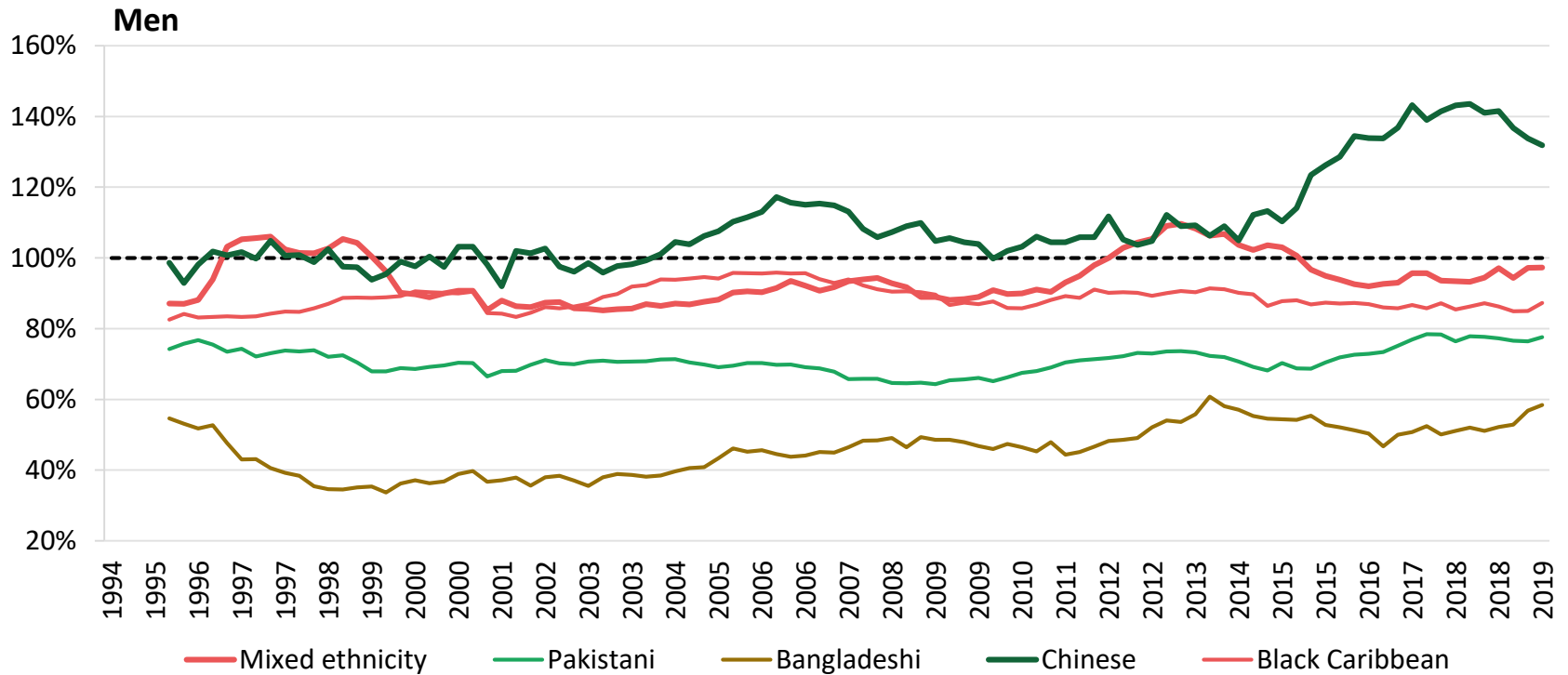
Source: Figure 24, 'Race and ethnicity', Mirza et al (2022).

# Earnings inequalities appear broadly more persistent

Indian men have seen fast earnings growth to overtake White British, and relative growth for Bangladeshis too, but other group inequalities persistent



## Median gross weekly earnings of employees by ethnic group as a percentage of White ethnic majority median, in England and Wales



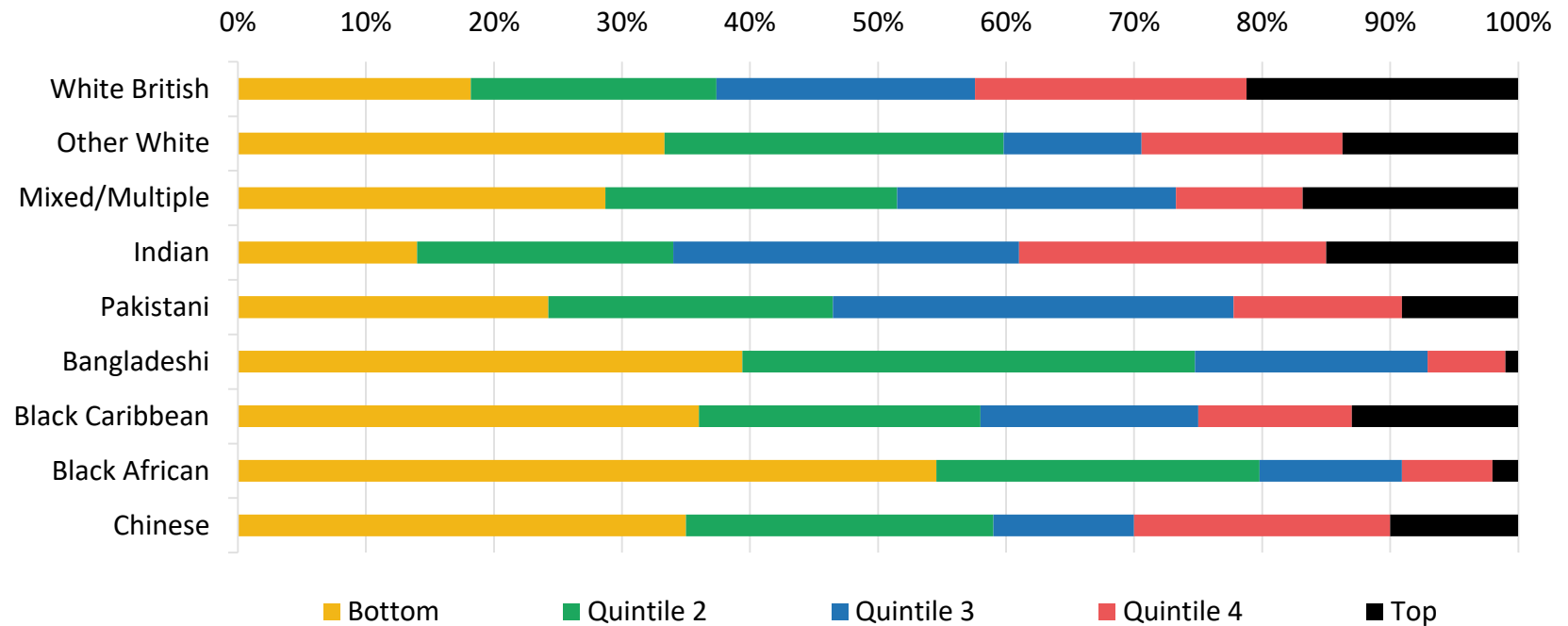
Source: Figure 41, 'Race and ethnicity', Mirza et al (2022).

# Wealth is likely to be especially sticky

All ethnic minority groups are underrepresented at the top, and the median Black household has zero net housing wealth.



## Distribution across wealth quintiles by ethnic group of household head in Great Britain, 2016–18



Source: Figure 56, 'Race and ethnicity', Mirza et al (2022).

# Ethnic inequalities are complex and changing fast



## THE DANGER OF A SINGLE STORY

- There are bigger differences between ethnic minority groups than between “whites” and “ethnic minorities” as a whole

## THE BEST OF TIMES

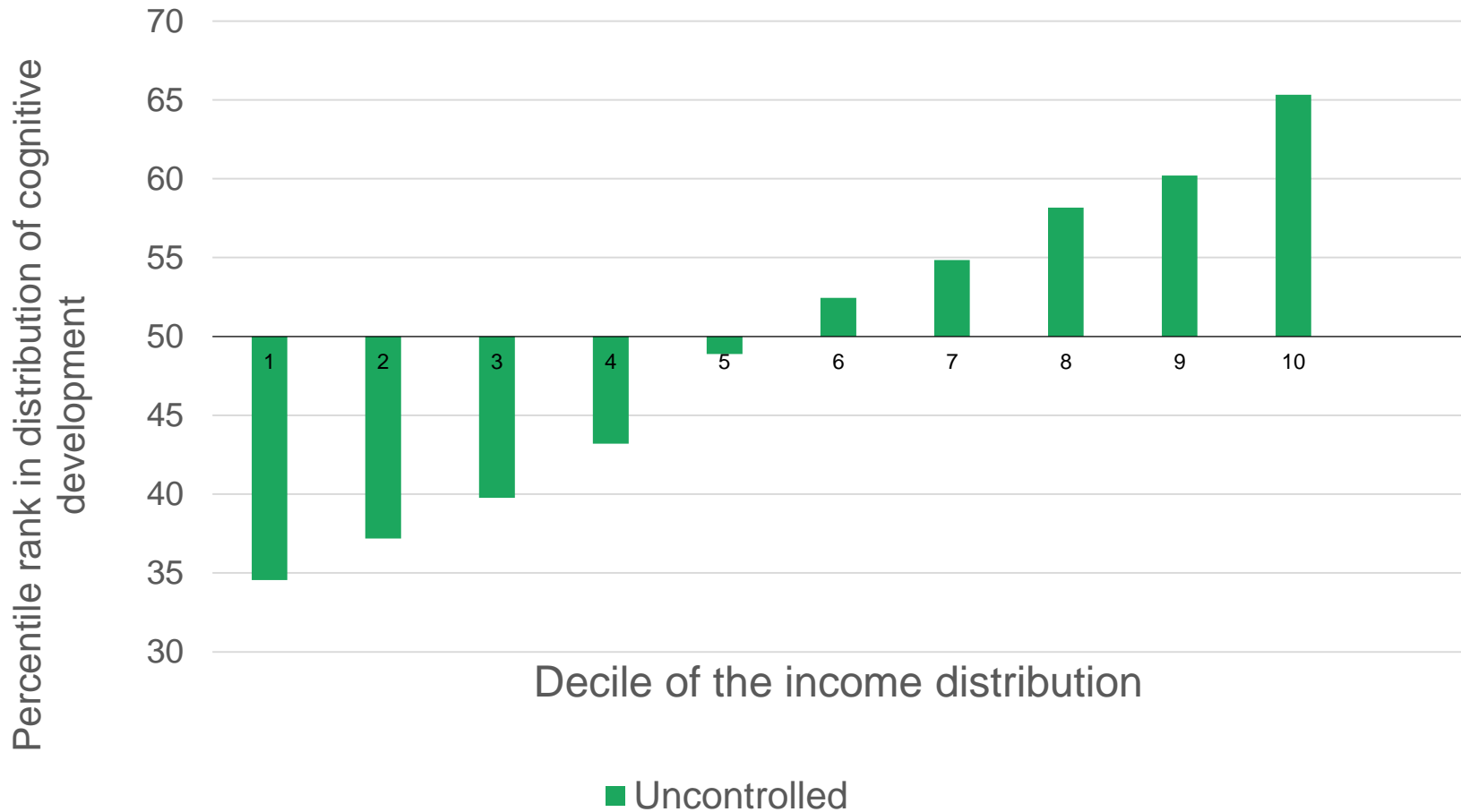
- Education is key to inter-generational social mobility, especially for some (e.g. Bangladeshi girls); and many are doing very well in education.
- Labour market outcomes are improving – but very slowly for some groups

## THE WORST OF TIMES

- There are still high levels of poverty for some, particularly Bangladeshi and Pakistani families. Caribbean men are not thriving economically and have average zero housing wealth.
- Multiple disadvantages were amplified during COVID as was vulnerability in terms of health

# Early years

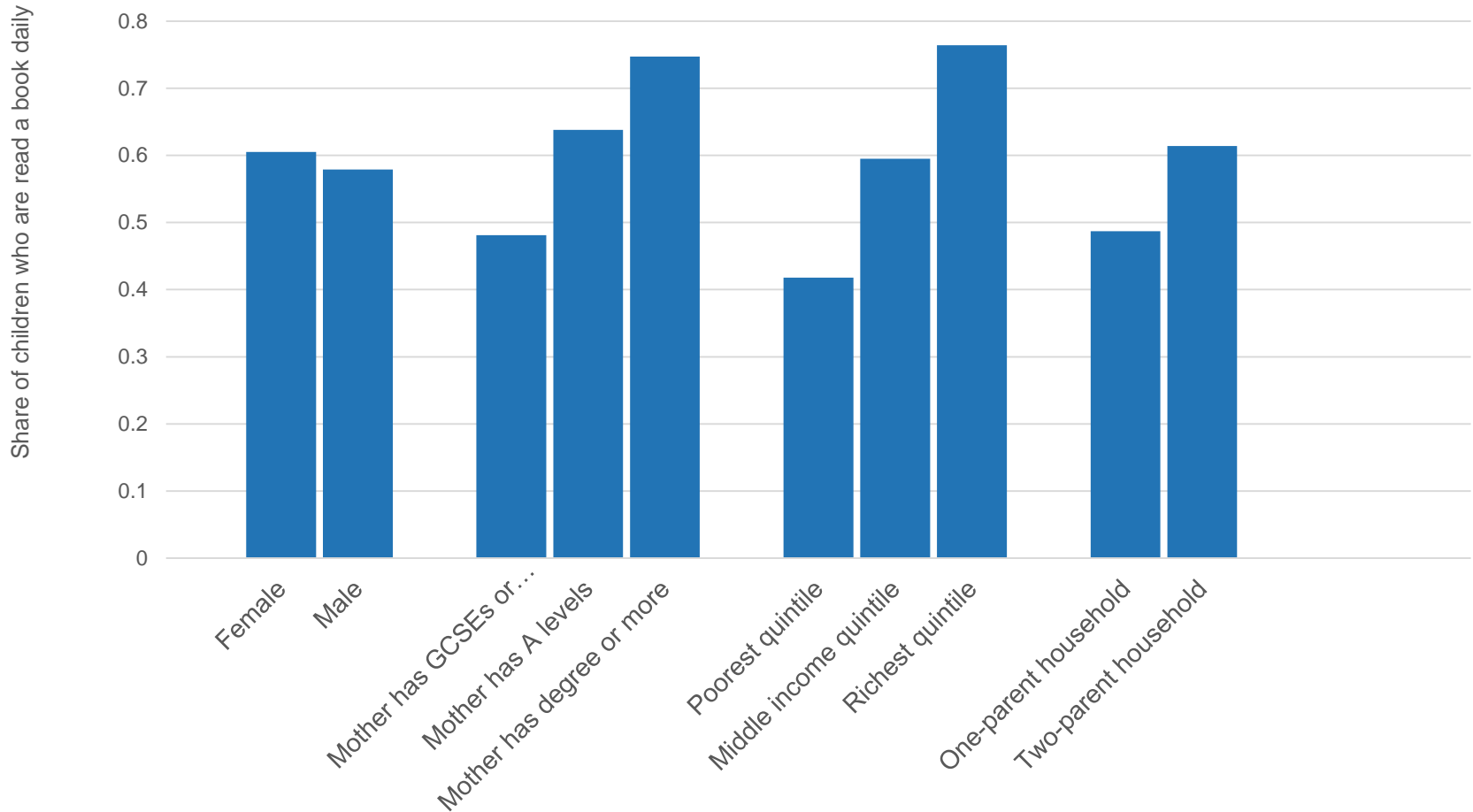
# Income gradient in early development





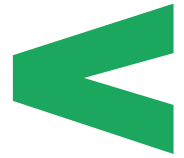
# Inequalities in environments at age 3

E.g. fraction of parents who read a book to their child daily



# Inequalities in environments at age 3

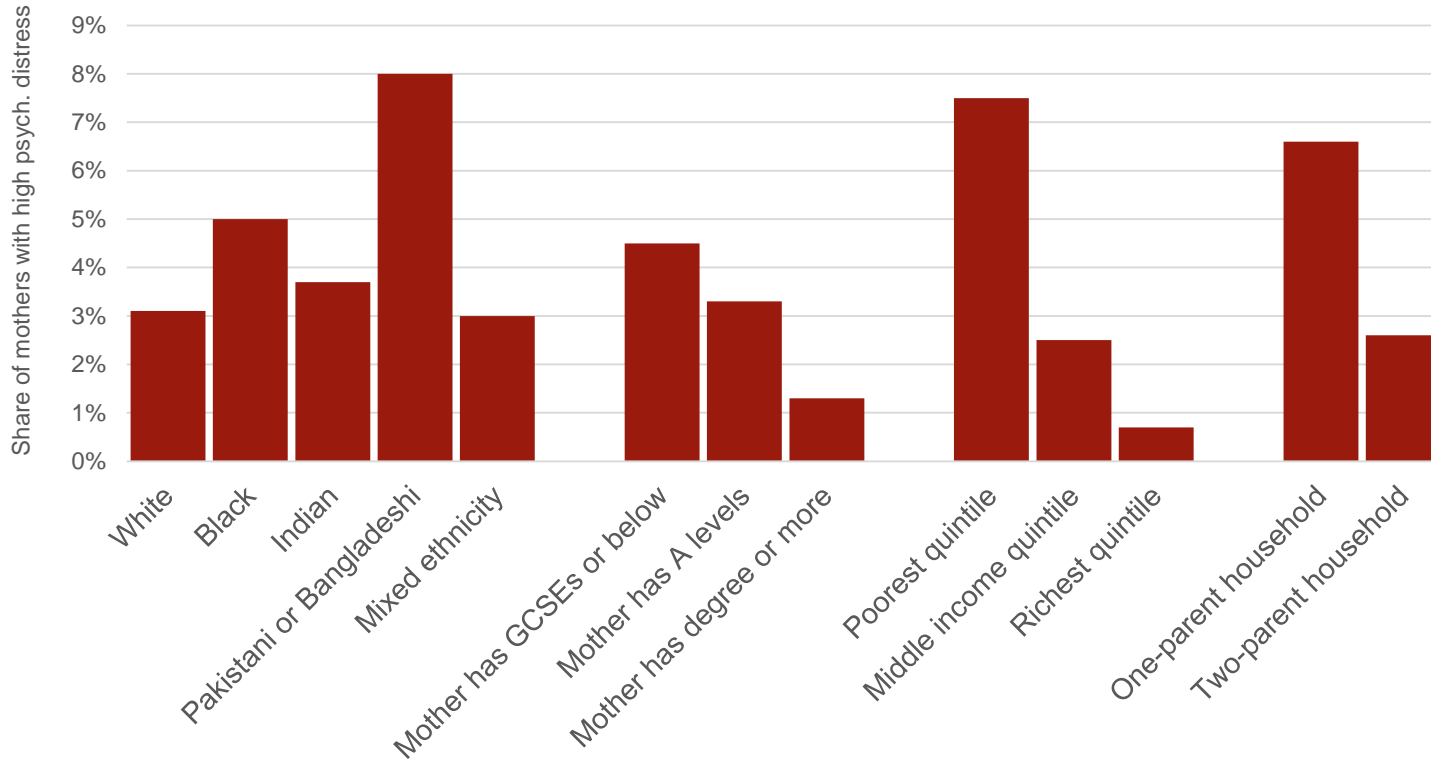
E.g. fraction of mothers suffering “high psychological distress”



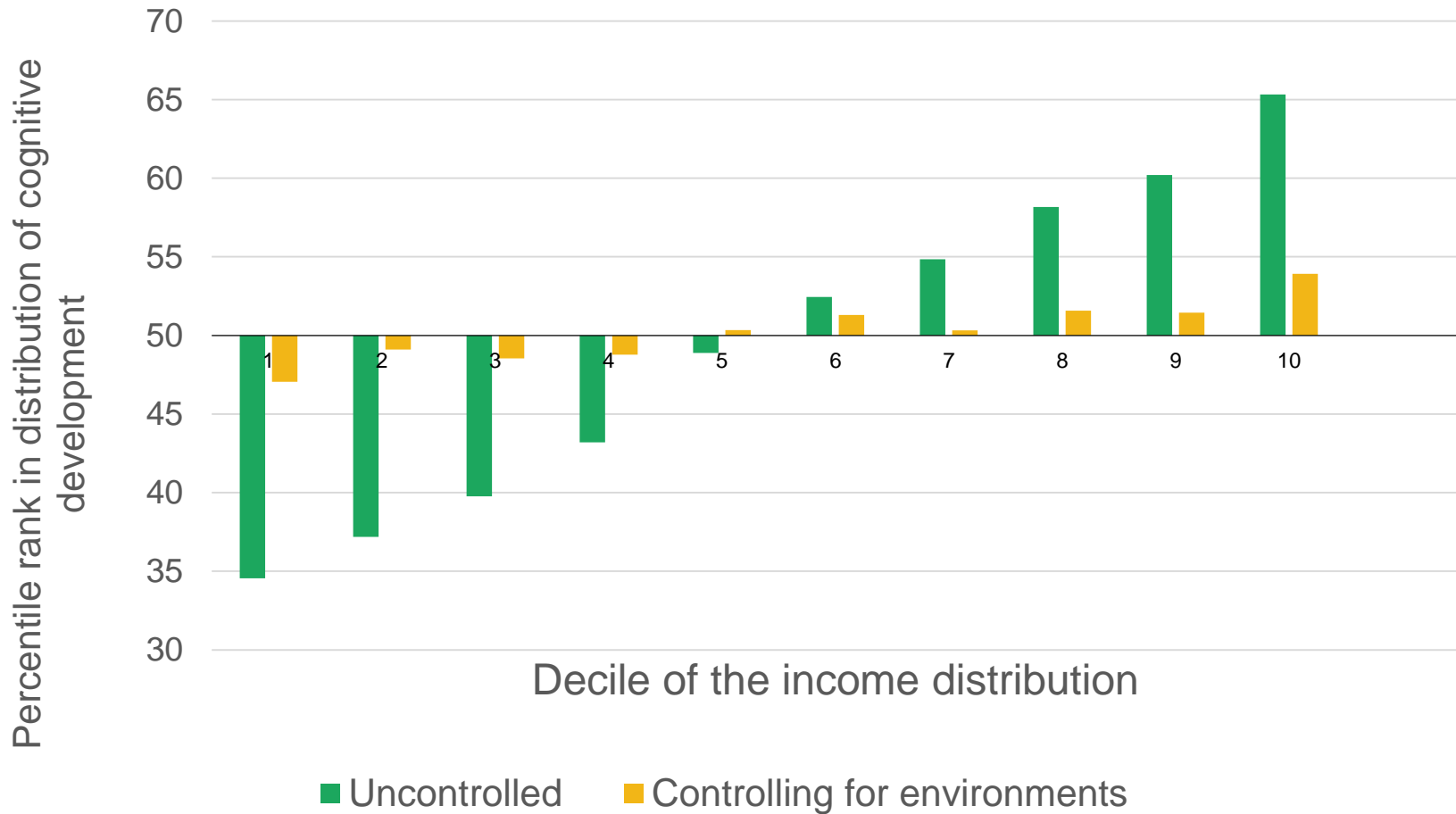
**Inequality**

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CENTRE FOR  
LONGITUDINAL  
STUDIES



# Income gradient in early development



# Recent policy has moved early years spending away from targeted to universal programmes

## There has been a shift in the composition of spending

- Away from cash benefits towards spending on services
- Away from low-income families towards working families

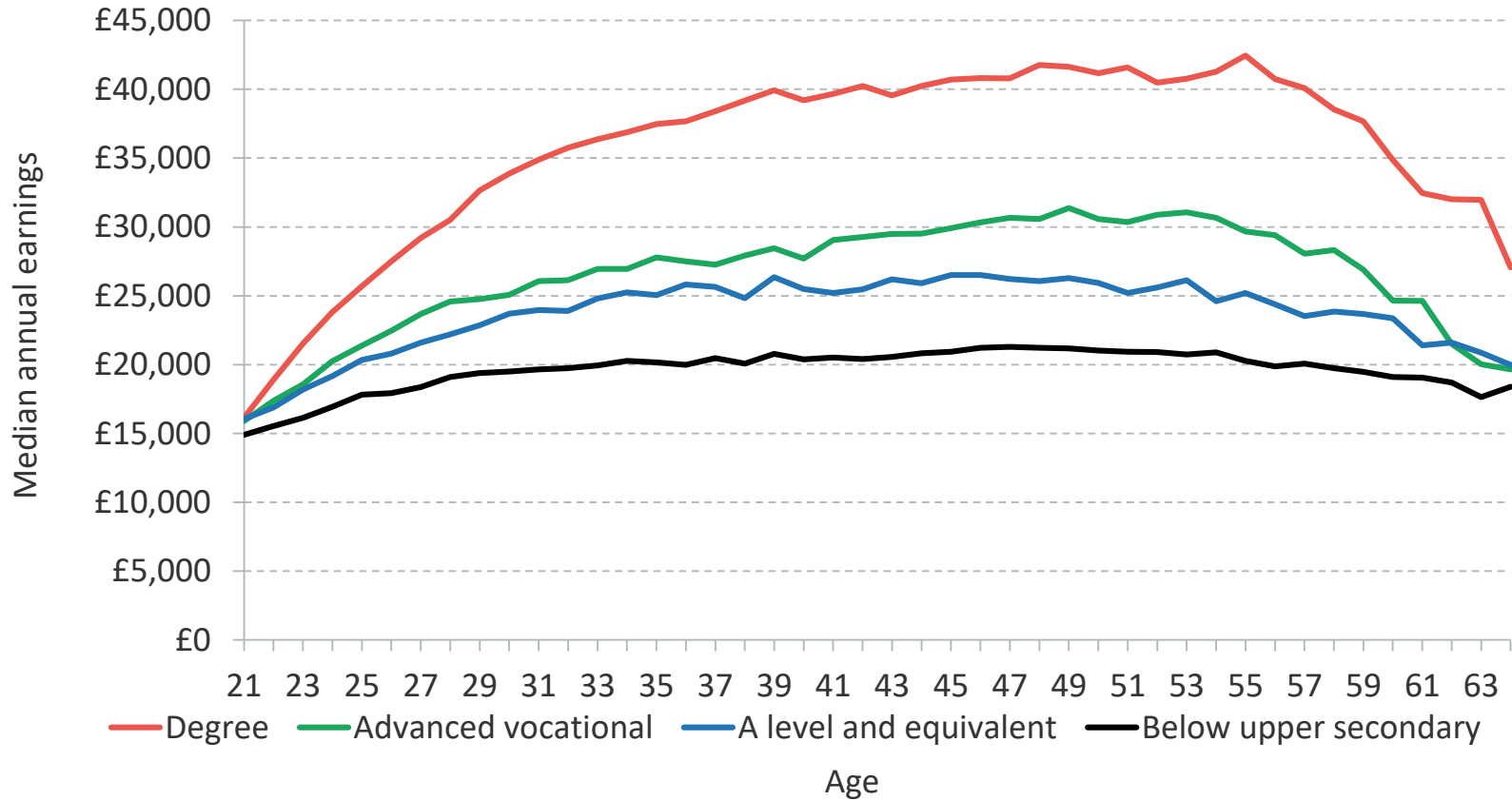
## Largest drivers of these shifts

1. Change in free entitlement to childcare policy
2. Decline in Sure Start spending
3. Cut to some child-contingent benefits

# Education

# Degree holders enjoy much higher earnings

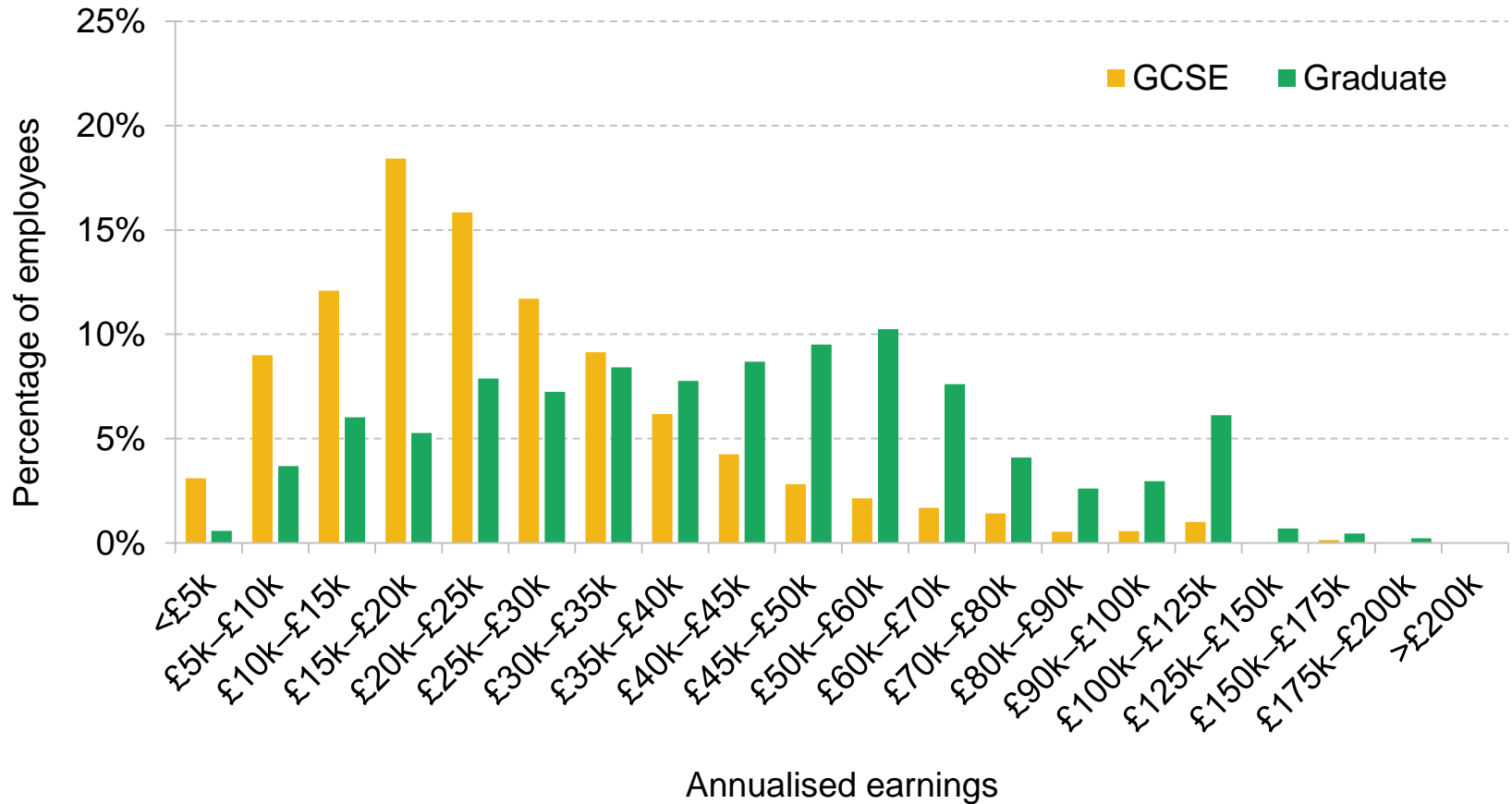
Median annualised earnings among employees, by age and qualification level



Source: Figures 14 and 15, Farquharson et al. (2022).

# ... with high earnings almost exclusively open to graduates

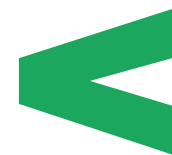
Distribution of annualised earnings among employees by qualifications, ages 45 to 50



Source: Figure 13, Farquharson et al. (2022).

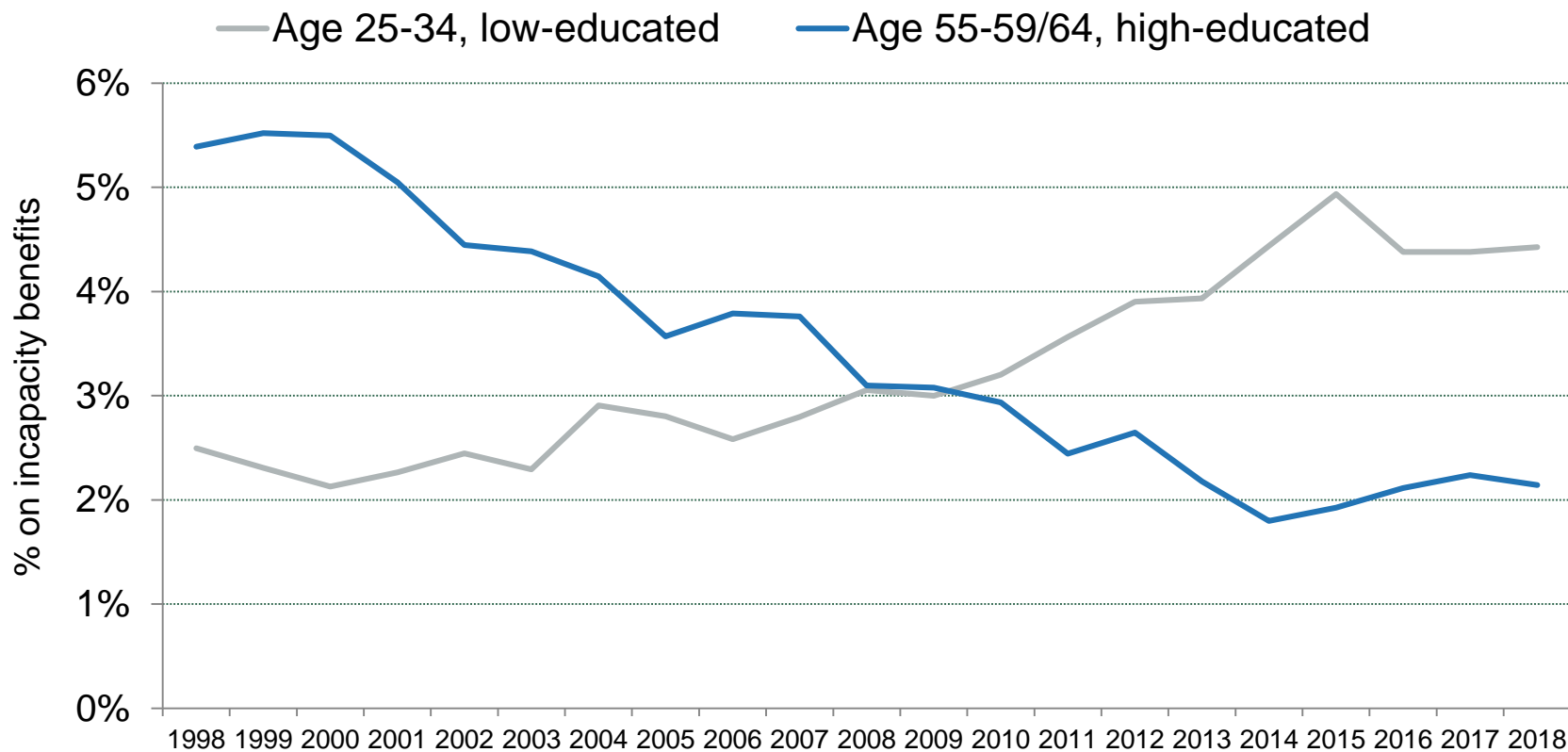
# Low education and poor outcomes increasingly highly correlated

Young low educated now more likely to be on Incapacity Benefits than old well educated



**Inequality**

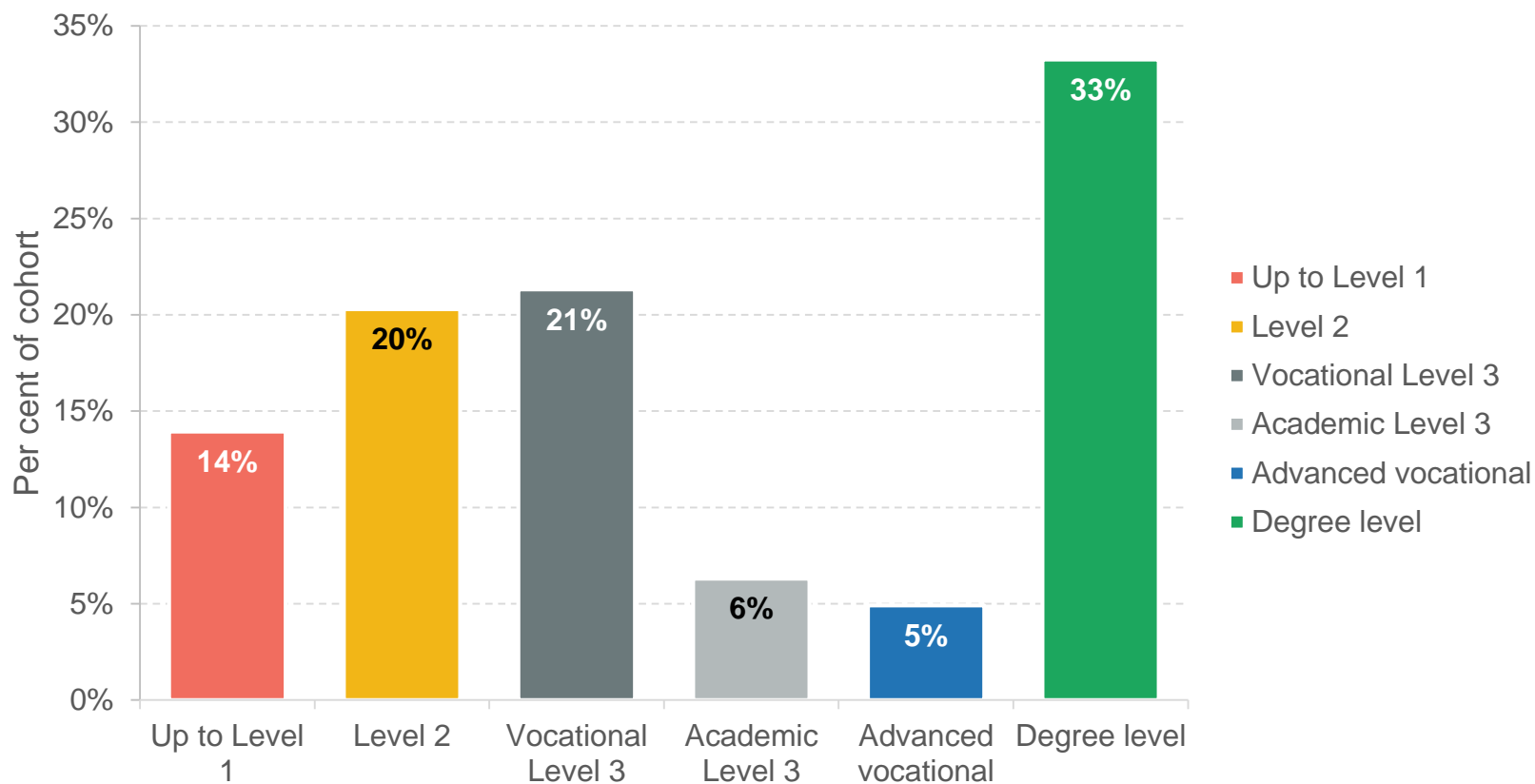
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# Big differences in how much education young people get

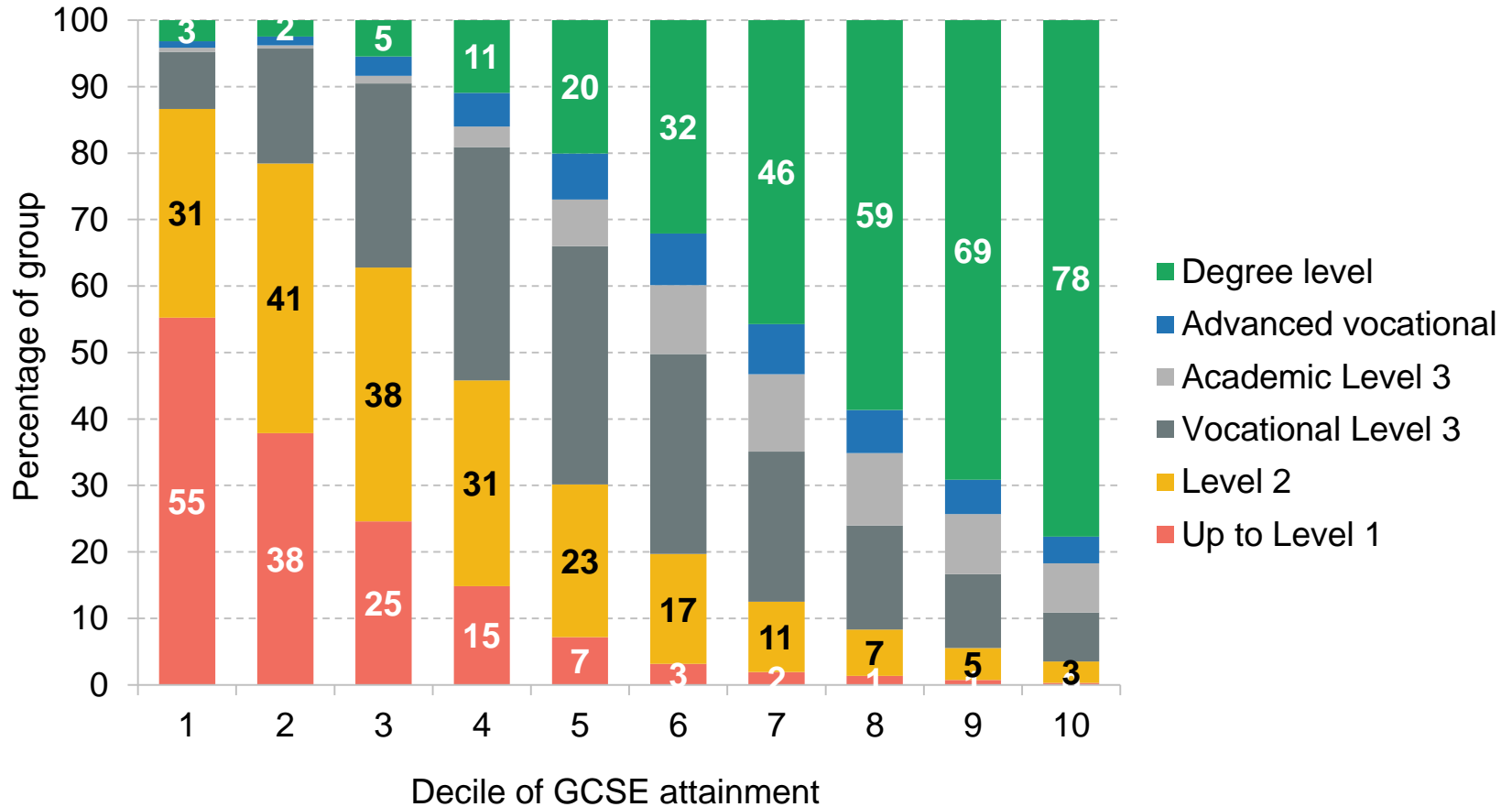
## Highest qualification at age 26 (2016)



Source: Authors' calculations using Table A1.9 in Espinoza et al. (2020).

# Differences which trace back to age 16...

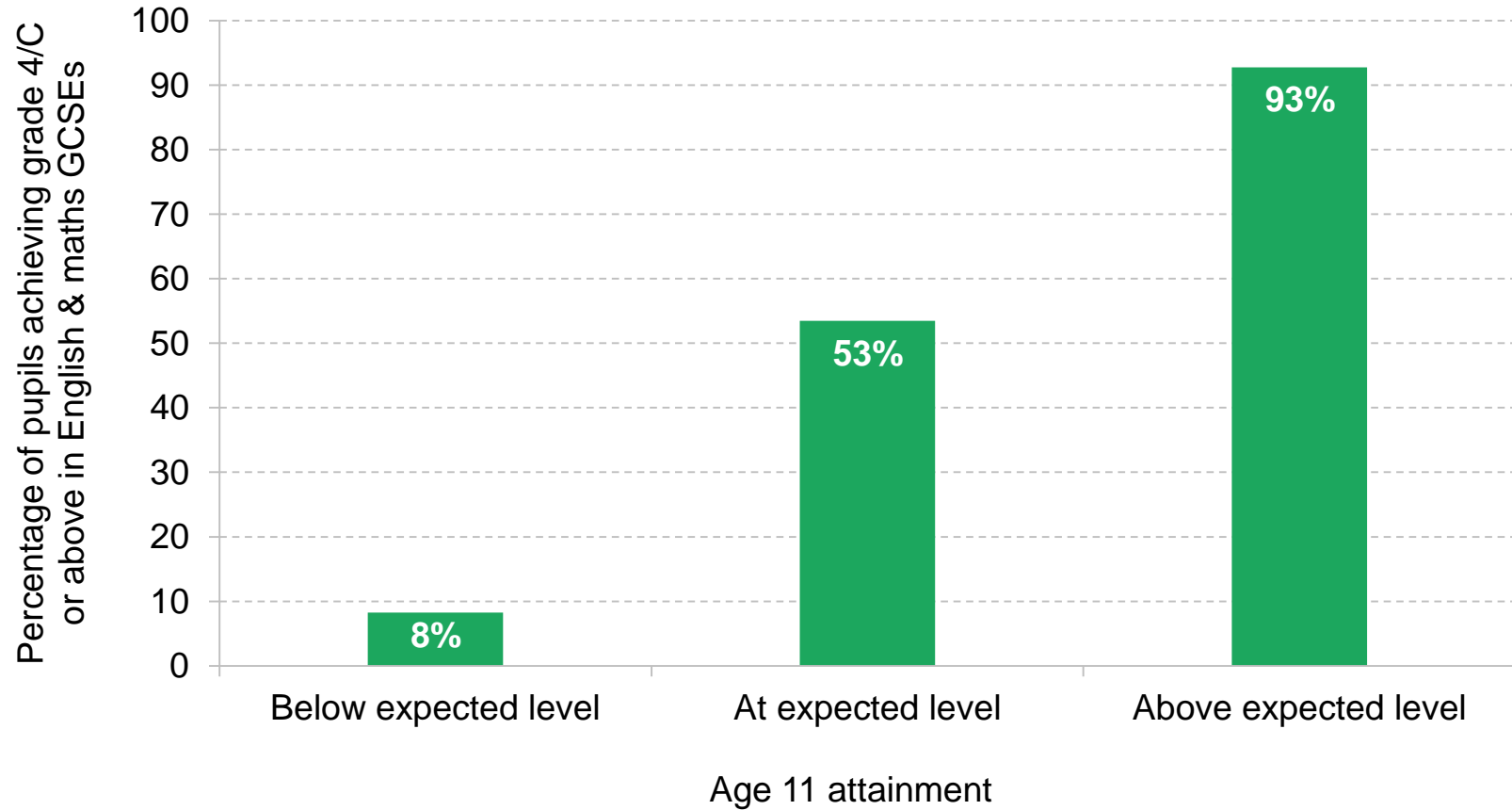
## Educational attainment at age 26, by GCSE attainment (2016)



Source: Figure 59, Farquharson et al. (2022).

... which traces back to age 11...

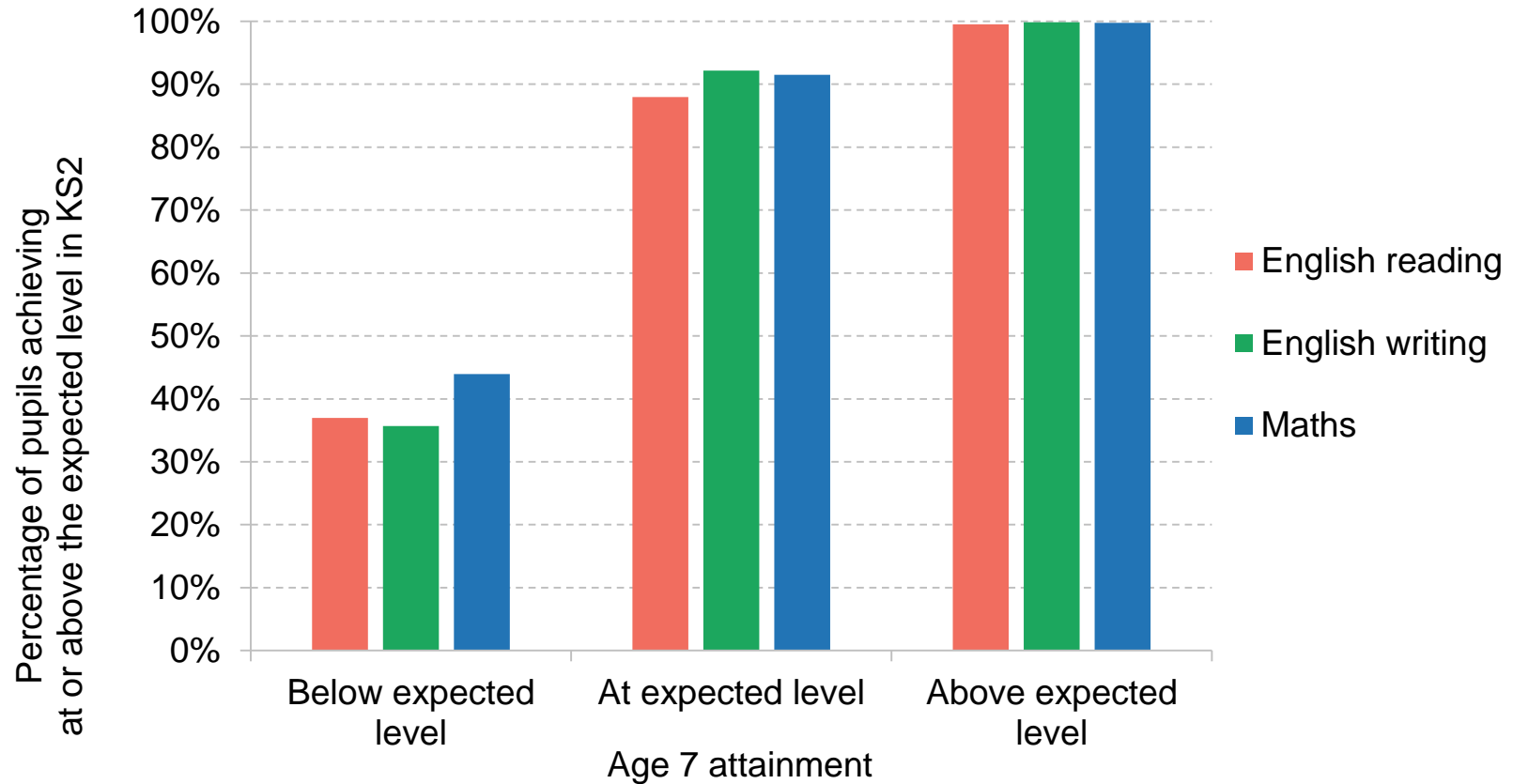
GCSE performance, by attainment at the end of primary school (2019)



Source: Figure 50, Farquharson et al. (2022).

... which traces back to age 7...

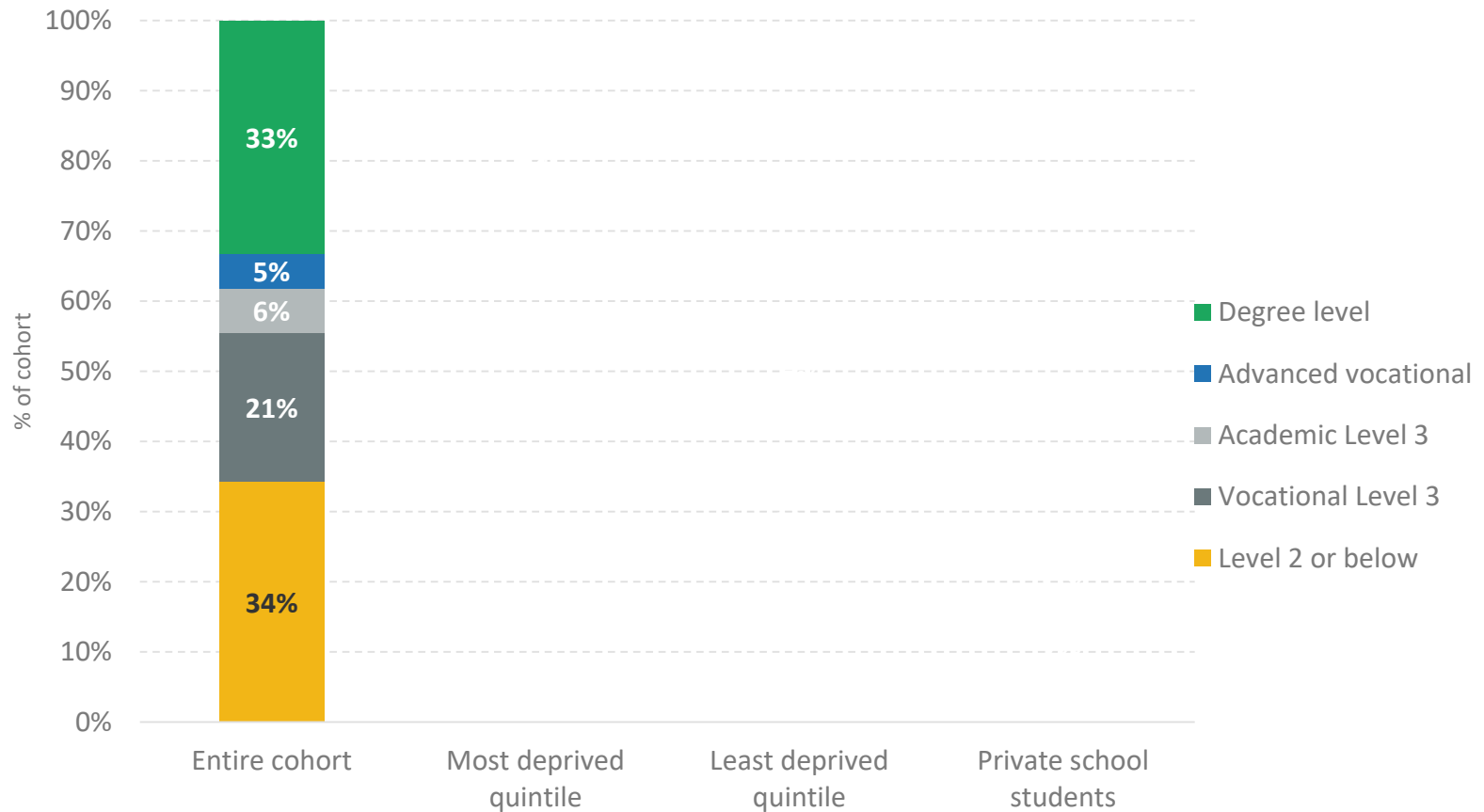
Attainment at the end of primary school, by level of attainment at age 7 (2019)



Source: Figure 49, Farquharson et al. (2022).

# There are sharp inequalities by socioeconomic status

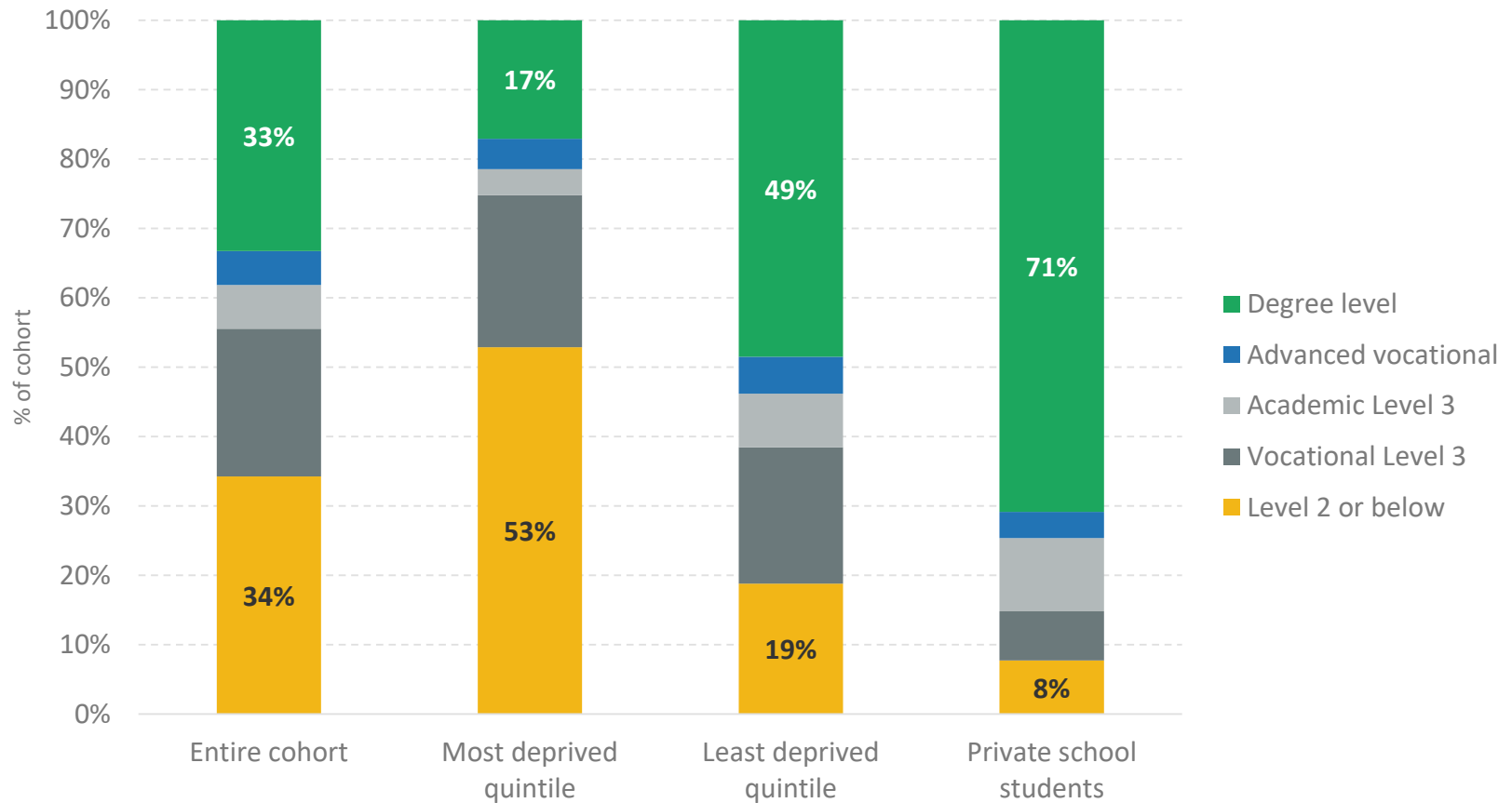
## Highest qualification at age 26 (2016)



Source: Figure 33, Farquharson et al. (2022).

# Sharp inequalities by socioeconomic status

The distribution of educational attainment among 26-year-olds in England by socioeconomic status, 2016



Source: Figure 33, Farquharson et al. (2022).

# English system entrenches these inequalities



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## Spending on schools has become less focused on disadvantaged

- Meaning with flat budgets schools with poorest pupils have faced cuts
- Less well qualified teachers in poorer schools (esp outside London)

## The transition post 16 is a disaster

- Just missing grade c/4 at GCSE maths has huge effect on future
- We have almost worst literacy and numeracy of young adults in OECD

## Few ways up if you fail at any hurdle

- Non HE routes are still confusing and often poor
- Big cuts in numbers in adult education

## The more privileged do better for any given level of education

# The results of all this



**Summary measures of income inequality tell us almost nothing useful**

**One off jump in income inequality in 1980s has had long lasting consequences**

**Asset price growth, earnings stagnation and policy have favoured old and asset rich over young and asset poor**

- New intergenerational divide, growing importance of wealth and inheritance

**Wide inequalities in health and longevity**

**Increasing gaps between highly and poorly educated**

- In incomes, but more importantly in employment, health, political attitudes and participation



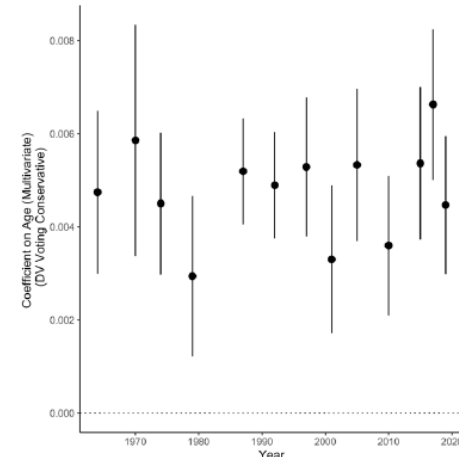
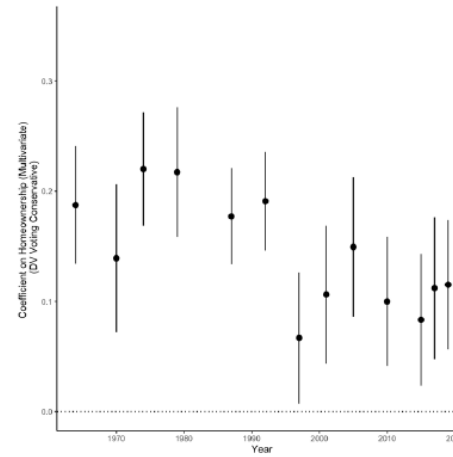
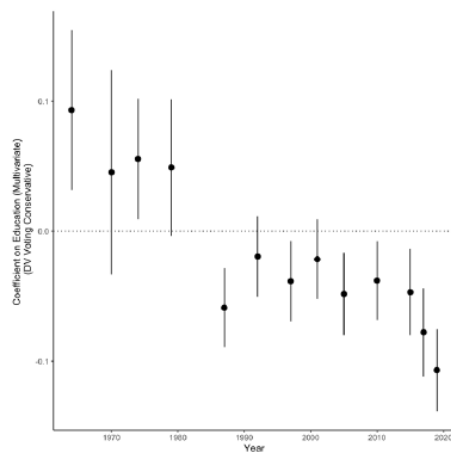
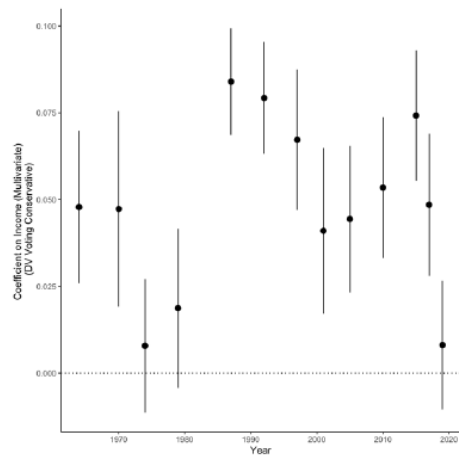
# Shifting politics of the highly educated

INCOME

EDUCATION

AGE

HOMEOWNER



Older and homeowners still drawn to Conservatives  
 Richer people also were, until 2019  
 But... education has completely flipped since 1980s

# Where next?



**Returning to productivity/earnings growth and normal monetary policy vital**

**It's not hard to improve tax policy**

**Getting people into work isn't enough – progress in good jobs is vital**

**Recognise different and changing experiences of different ethnic groups**

**Avoid fiscal and monetary policy both favouring older and wealthier (as they have over last 15 years)**

**Much to do on early years and education**

**But it can't just be education**