Inequalities: what’s been happening and what should we do?

Paul Johnson
Income inequality has been stable for 30 years…

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

Year

90:10 ratio

Gini (right axis)

Gini (ONS, right axis)
...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(value added/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

- 1961 to 1978
- 1978 to 1991
- 1991 to 2008
- 2008 to 2019
Cohort-on-cohort progress has ground to a halt

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

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…especially after housing costs

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

![Graph showing median equivalised disposable AHC household income for different decades, UK.](image-url)
And looking at male median earnings

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

£ thousands, 2019–20 prices

Age

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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

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

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\textsuperscript{th} decile grew by two-thirds of a typical full-time salary, but the mean wealth of the 10\textsuperscript{th} 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

<table>
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<th>Age</th>
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Percent that are homeowners

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

Trends in income and wealth inequalities

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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

- Men
- Women
- Gap
This progress is almost entirely explained by changing education attainment of women.
Parenthood plays the central role

A. Weekly Earnings

B. Labor Force Participation

C. Weekly Hours Worked

D. Hourly Wage Rate
Attitudes towards gender are correlated with child penalties

Slope = 1.024 (0.254)
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

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

Percentile rank in distribution of cognitive development

Decile of the income distribution

Uncontrolled

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Inequalities in environments at age 3

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

Share of children who are read a book daily

- Female
- Male
- Mother has GCSEs or more
- Mother has A levels
- Mother has degree or more
- Poorest quintile
- Middle income quintile
- Richest quintile
- One-parent household
- Two-parent household
Inequalities in environments at age 3

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

[Bar chart showing the share of mothers with high psychological distress across different categories such as ethnicity, education levels, income quintiles, and household types.]
Income gradient in early development

Decile of the income distribution

Percentile rank in distribution of cognitive development

- Uncontrolled
- Controlling for environments

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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

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<tr>
<th>Annualised earnings</th>
<th>GCSE</th>
<th>Graduate</th>
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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
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).

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… which traces back to age 11…

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

![Bar chart showing GCSE performance by age 11 attainment]

- Below expected level: 8%
- At expected level: 53%
- Above expected level: 93%

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).
The English system entrenches these inequalities

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
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

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