

Report of the National Equality Panel: Executive summary

January 2010

The independent National Equality Panel was set up to examine how inequalities in people's economic outcomes – such as earnings, incomes and wealth – are related to their characteristics and circumstances – such as gender, age or ethnicity. The Panel's report, *An Anatomy of Economic Inequality in the UK*, finds that:

- Inequalities in earnings and incomes are high in Britain, both compared with other industrialised countries, and compared with thirty years ago. Over the most recent decade, earnings inequality has narrowed a little and income inequality has stabilised on some measures, but the large inequality growth of the 1980s has not been reversed.
- Some of the widest gaps in outcomes between social groups have narrowed in the last decade, particularly between the earnings of women and men, and in the educational qualifications of different ethnic groups. However, deep-seated and systematic differences in economic outcomes remain between social groups across all of the dimensions we examine. Despite the elimination and even reversal of the qualification differences that often explain them, significant differences remain in employment rates and relative pay between men and women and between ethnic groups.
- Differences in outcomes between the more and less advantaged *within* each social group, however the population is classified, are much greater than differences *between* social groups. Even if all differences between groups were removed, overall inequalities would remain wide. The inequality growth of the last forty years is mostly attributable to growing gaps within groups rather than between them.
- Many of the inequalities we examine accumulate across the life cycle, especially those related to socio-economic background. Economic advantage and disadvantage reinforce themselves across the life cycle, and often on to the next generation. Policy interventions to counter this are needed at each life cycle stage. Achieving 'equality of opportunity' is very hard when there are such wide differences between the resources which people and their families have to help them fulfil their diverse potentials.

The members of the National Equality Panel are: John Hills (Chair), Mike Brewer, Stephen Jenkins, Ruth Lister, Ruth Lupton, Stephen Machin, Colin Mills, Tariq Modood, Teresa Rees and Sheila Riddell.



CENTRE FOR ANALYSIS OF SOCIAL EXCLUSION



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Background

Our report documents the relationships between the distributions of various kinds of economic outcome on the one hand and people's characteristics and circumstances on the other. The outcomes we examine are:

- educational outcomes (the range of achievement of young people at 16 and adults' highest educational qualifications);
- employment status of adults;
- hourly wages and weekly full-time earnings;
- individual incomes (received by adults in their own right);
- 'equivalent net income' (based on that of the household, adjusted for its size);
- wealth (financial or housing assets and private pension rights).

We explore differences by gender, age, ethnicity, religion or belief, disability status, sexual orientation, social class, housing tenure, nation or region, and neighbourhood deprivation.

To measure inequality, we focus on the '90:10 ratio' measure. This shows how much larger an outcome is for someone nine-tenths of the way up a distribution than for someone a tenth of the way up; the larger this ratio, the greater is inequality. To compare groups, we focus on the 'median' outcome for each group – that for the person in the middle. For the whole population:

- The median **gross hourly wage** is £9.90. The 90:10 ratio is 3.9: 10 per cent have wages below £5.50 and 10 per cent above £21.30. 1 per cent has wages above £43 per hour.
- The median for **gross weekly earnings** among those employed full-time is £448. The 90:10 ratio is 3.7: 10 per cent have earnings below £240 and 10 per cent above £893 (£47,000 per year). 1 per cent has earnings above £1,910 per week.
- The median **net individual income** received by adults is £223 per week. The 90:10 ratio is 9.6: 10 per cent have individual incomes below £56 per week and 10 per cent above £542. 1 per cent has an individual net income above £1,300 per week.

- Among the whole population (adults and children), median **equivalent net income** is £393 per week. The 90:10 ratio is 4.2: 10 per cent of people have an equivalent net income below £191 and 10 per cent above £806 per week. 1 per cent has an equivalent net income above £2,000 per week.
- Median **total household wealth** is £205,000. The 90:10 ratio is almost 100: 10 per cent of households have wealth below £8,800, and 10 per cent above £853,000. 1 per cent has total wealth over £2.6 million.

For earnings and equivalent net income these are high levels of inequality by comparison with a generation ago, when the ratio for equivalent net income was just over 3 to 1, for instance. Most of this increase occurred during the 1980s. Over the last decade, trends have been more complex. According to some measures, including the 90:10 ratio, earnings inequality has narrowed, and income inequality stabilised. Other inequality measures, that include the very top and very bottom of the distribution, have widened. At the very top, the after-tax income share of the top one in every two thousand fell from 2.4 per cent in 1937 to under 0.5 per cent in 1969. By 2000, it had returned to 2.5 per cent. By comparison with other developed nations, earnings and income inequality in the UK are now high, although wealth inequality does not appear to be exceptional in international terms.

The position of different groups

Gender: Girls now have better educational outcomes than boys at school, are more likely to enter higher education and to achieve good degrees. Up to age 44 women are better qualified than men. However, women's median hourly pay is 21 per cent less than men's. Women's hourly wages are highest in their late twenties, and lower for each subsequent age group. Only highly qualified women in the public sector have 'career progression' in wages. A crucial factor is low pay for part-time work: under £7.20 per hour for half of part-timers. However, women's median net individual income rose from 53 to 64 per cent of that for men between 1995-1997 and 2006-2008. There is almost as much inequality between

well- and low-paid women as between well- and low-paid men.

Age: The economic position of young people outside education has declined. Women over 25 and older men most improved their relative positions in the last decade. Poorer middle-aged men slipped back. Median equivalent net income is now highest for people in their late twenties or in their early fifties. Figure 1 shows median income and the spread of incomes within each age group. This illustrates the way in which inequalities within groups are often much greater than those between groups. Wealth is highest for those close to retirement. Median household wealth is £66,000 for 25-34s, but £416,000 for 55-64s. As Figure 2 shows, there are considerable differences within each age group and these build up over people's lives: a tenth of households aged 55-64 have under £28,000, but a tenth over £1.3 million (including pension rights).

Ethnicity and religious affiliation: Some minority ethnic groups with school test scores starting below the national average catch up between ages 7 and 16. However, Pakistani, Black African and Black Caribbean boys have results at age 16 well below the median in England. Traveller and Gypsy children fall further behind by 16. White British pupils with GCSE results around or below the national median are less likely to go on to higher education than those from minority ethnic groups. However, nearly all minority ethnic groups are less likely to be in paid work than White British men and women. Recent experiments show discrimination in who is offered job interviews depending on apparent ethnicity in CVs. For some groups, differences in unemployment rates are as great for the 'second generation' as for those born outside the UK. Compared to a White British Christian man with the same qualifications, age and occupation, Pakistani and Bangladeshi Muslim men and Black African Christian men have pay 13-21 per cent lower. Women from most ethno-religious backgrounds have hourly pay between a quarter and a third less than a White British Christian man with the same qualifications, age and occupation. Nearly half of Bangladeshi and Pakistani households are in

poverty. However, variation in incomes *within* ethnic groups is generally as wide as across the population as a whole.

Disability status: Employment rates for disabled people are less than half those of non-disabled people and median hourly wages 20 per cent lower for men and 12 per cent lower for women. The disability employment 'penalty' has grown over the last quarter century, particularly for those with low or no qualifications.

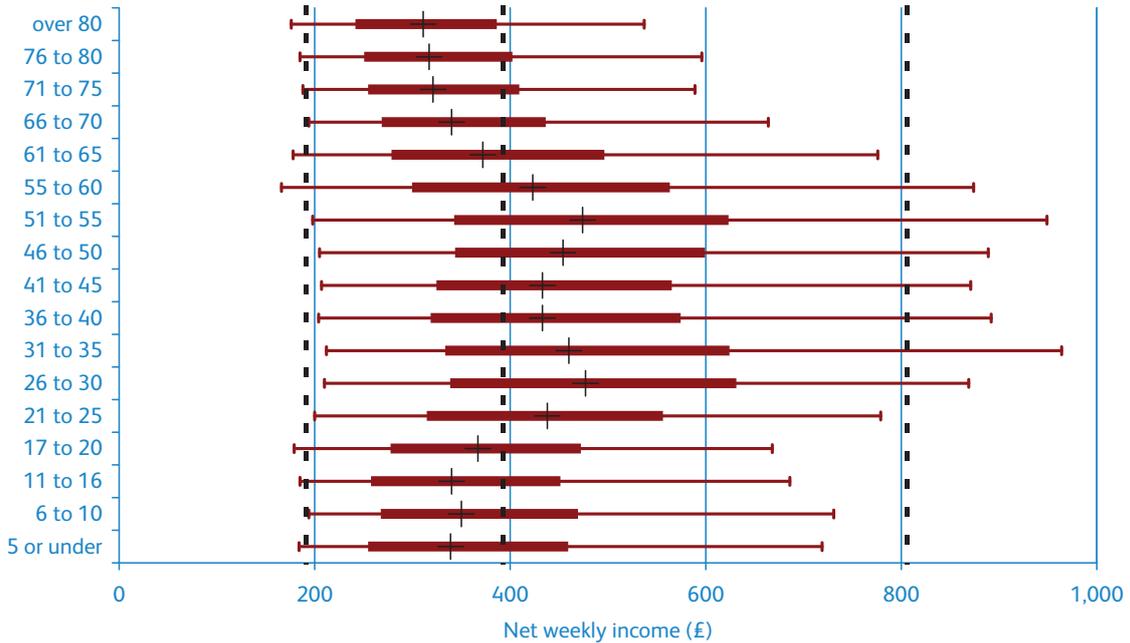
Sexual orientation: Information on economic outcomes by sexual orientation is limited. People reporting living in a same sex couple have higher qualifications, employment rates and earnings than others, but these differences appear to reflect who is most likely to have the self-confidence to live in and report their status in this way. Allowing for qualifications and other characteristics, men in same sex couples were paid less than others in the late 1990s, but that penalty has now disappeared. For women in same sex couples, pay remains higher than for other women, but this difference has narrowed.

Occupational social class: Social class is both a labour market outcome and affects how people's lives develop. Intergenerational mobility in terms of both incomes and occupations is low in the UK in international terms. There are large differences in 'school readiness' before and on reaching school by parental income, occupation and education. Rather than being fixed at birth, these widen between ages 3 and 14 (in contrast to differences related to ethnicity). By age 16, White British, Black Caribbean and mixed White and Black Caribbean boys receiving Free School Meals have the lowest average assessment of any group by gender, ethnicity and Free School Meals status, apart from Gypsy and Traveller children.

The median hourly wage for men from higher professional and managerial households is 2.5 times higher than that for men in routine occupations. Median equivalent net income for higher professional and managerial households is 80 per cent higher than that for those with routine occupations. By age 55-64, median wealth for higher professional and managerial households is over £900,000, but under

Figure 1: Equivalent net income, by age group, £ per week, UK, 2007-08

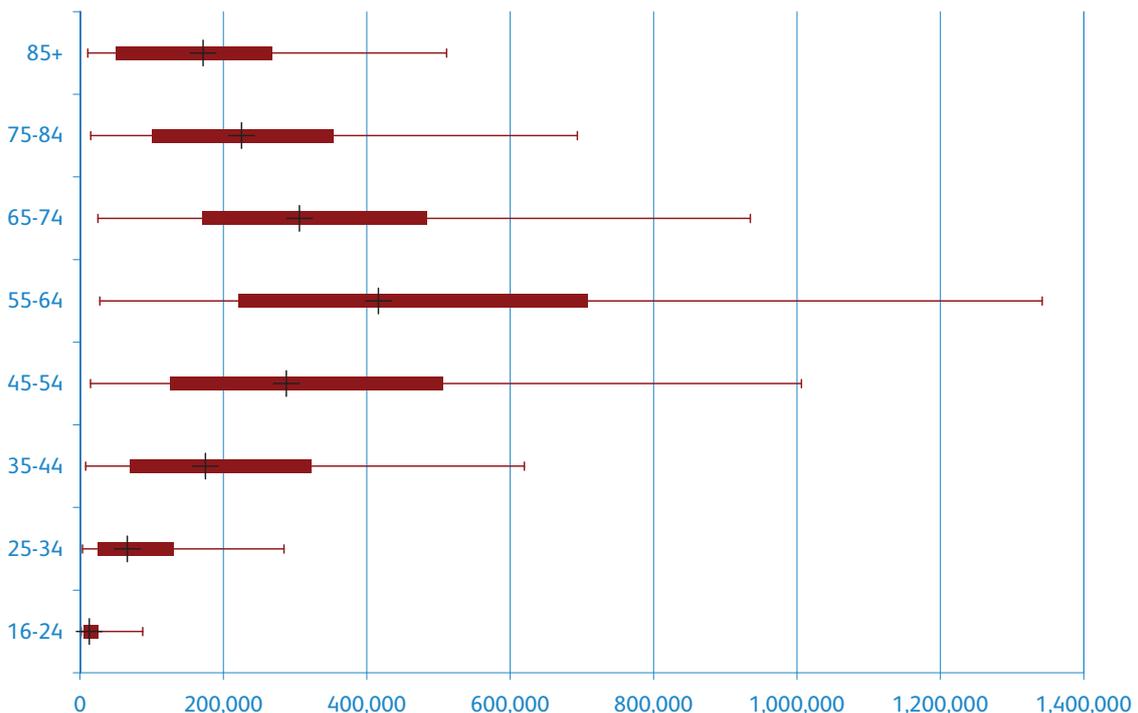
Incomes (adjusted for household size) are highest on average for people in their late twenties and early fifties



Source: DWP, based on HBAI dataset. Incomes are before housing costs. Incomes are adjusted to be equivalent to those for a couple with no children. For a single person, divide actual net income by 0.67; for a couple with child under 14 by 1.2; for a couple with 2 children under 14 by 1.4, etc. (allowing 0.2 for each additional child under 14, and 0.33 for children aged 14 or over, or additional adults).
 Note: For each group, the black cross marks the group median. The thin horizontal bar shows the range between the 10th and the 90th percentiles. The thicker bar shows the range between the 30th and the 70th percentiles. The three vertical lines running from the top of the chart to the bottom show the 10th, 50th (median) and 90th percentiles of the overall population. The poorest tenth are below and the richest tenth are above these ranges.

Figure 2: Total household wealth by age group, GB, 2006-08, £

Wealth is highest for households aged 55-64, but there is a substantial range within every age group



Source: ONS from Wealth and Assets Survey. For each age group, the black cross marks the median and the bars show the ranges of wealth as described above. Age is that of 'household reference person'. Total wealth includes net financial assets, property and possessions, houses (net of mortgages), and non-state pension rights (occupational and personal).

£220,000 for semi-routine or routine occupation households. Mortality then closely relates to wealth: more than twice as many men, and nearly four times as many women, from the least wealthy fifth of over-50s die within a six-year period as of those from the wealthiest fifth.

Housing tenure: Nearly half of those working age living in social housing have no or only low qualifications. Only half of men and 42 per cent of women in social housing are in paid work, compared with over 80 per cent of mortgagors. A third of social tenants are in poverty. Median household wealth for social tenants is only £18,000 compared to £270,000 for mortgagors and £410,000 for outright owners.

Nation and region: Inequality is slightly greater in England than within the devolved nations. However, recent trends are similar, whichever outcome is examined, despite the constitutional commitments to equality in devolution legislation, partly because policies most affecting distribution are UK-wide. Differences in median incomes are not very great, but median wealth ranges between £151,000 in Scotland, £206,000 in Wales and £211,000 in England. Looking across the English regions, inequality in any dimension is wider in London than any other, and inequality in earnings and incomes increased fastest in London over the last decade.

Area deprivation: There are profound and startling differences between areas of high and low deprivation. Only 55 per cent of working age adults in the most deprived tenth of areas in England are employed. Median hourly wages in the most deprived tenth of areas are 40 per cent lower than in the least deprived areas. Median equivalent net income in the poorest tenth of areas in England is 30 per cent below that elsewhere. Median total wealth in the poorest tenth of areas is only a sixth per cent of the national figure; in the least deprived tenth wealth is more than twice the national median.

Challenges for policy

In commenting on the implications of our findings, we reject the idea that public policies make no difference. Many of the issues suggest the importance of interventions with long-run effects on people's life chances. Equally, public policy can ensure that access to important aspects of life – from health care to safe public spaces – does not depend on individual resources.

Education

- (1) Differences in school readiness by parental resources and social class underscore the importance of the early years and the challenges that policies face.
- (2) Differences related to family resources widen through compulsory schooling, suggesting the importance of reducing child poverty and improving educational attainments of poorer children. The deteriorating position after 11 of low-income White British and Black Caribbean boys is a particular concern, as is that of Gypsy and Traveller children.
- (3) Considerable differences remain, even after allowing for attainment at 16, in entry into higher education, and the kind of institution attended by social class, ethnicity, and experience of private education.

Labour market

- (4) The economic position of young people outside education has deteriorated. The recession creates the acute challenge of avoiding long-term 'scarring' from early unemployment.
- (5) Differences in pay remain, unrelated to qualifications and occupation, by gender and ethnicity. Transitions from education to the labour market do not make best use of people's talents. The sectors and types of employment that people end up in are crucial. There still appears to be discrimination in recruitment, for both minority ethnic groups and disabled people.

- (6) The Bangladeshi and Pakistani populations, cross-cutting with Muslim religious affiliation, are particularly disadvantaged in employment and pay.
- (7) Low pay for part-time work is a key factor in gender inequality. It reflects the low value accorded to it and failure to create opportunities for training and promotion.
- (8) The level of the National Minimum Wage is potentially powerful in reducing labour market inequality.
- (9) The gender pay gap widens after age 30. Most women do not benefit from 'career progression', underlining the importance of policies related to parental leave, flexible employment and childcare.
- (10) The deteriorating labour market position of disabled people with low qualifications, suggests a stronger focus on policies affecting their employment, particularly those with mental health conditions.
- (11) Differential rates of disability, ill-health at the end of people's working lives and subsequent mortality underscore the importance of reducing earlier health inequalities.

Resources in later life

- (12) Labour market inequalities are amplified into huge differences in household resources available for retirement. Recent pension reforms are essential, but cannot compensate for large inequalities in working lives.

Low-income neighbourhoods

- (13) The profound gaps in all economic outcomes between more and less disadvantaged areas imply huge disparities in collective resources. The 'neighbourhood renewal' agenda itself needs renewal.

- (14) We need to be more successful in supporting social tenants towards and into work, and in supporting saving and asset-building, given tenants' very low levels of wealth.

Devolution

- (15) There are few substantial differences in outcomes between England and the devolved nations, presenting a challenge to administrations that have set strong objectives of greater equality or social justice.

The distributional effect of taxes and spending

- (16) The progressivity of taxes and the levels of benefits and tax credits relative to other incomes are central to overall inequalities. How the public finances are rebalanced will probably be the most important influence on how economic inequalities evolve: will the costs of recovery be borne by those who gained least before the crisis, or by those in the strongest position to do so?

Our report shows the way economic advantage reinforces itself across the life cycle, and on to the next generation. It matters more in Britain who your parents are than in many other countries. Intergenerational mobility appears lower in more unequal societies – moving up a ladder is harder if its rungs are further apart, and those who start higher up fight harder to ensure their children do not slip down. A fundamental aim of many political perspectives is to achieve 'equality of opportunity', but doing so is very hard when there are such wide differences in the resources which people and their families have to help them develop their talents and fulfil their diverse potentials.

The Panel's report and a summary are available on the websites of the Centre for Analysis of Social Exclusion at the London School of Economics and the Government Equalities Office at: sticerd.lse.ac.uk/case and www.equalities.gov.uk

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