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Who won and who lost as the economic crisis hit? Changing inequality in the UK, 2007-2010

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Despite being better qualified than previous generations, people in their twenties were worst hit by the crisis in terms of unemployment, pay and incomes. A detailed analysis of economic inequalities, comparing 2010 with three years earlier, shows that:

- Gaps between the lowest and highest-paid workers grew wider. Median (middle) hourly wages fell by 1.6 per cent in real terms, but by nearly 3 per cent for the lowest paid full-time men and women and by over 4 per cent for the worst paid male part-timers. Weekly earnings of the lowest paid full-timers fell by more than 5 per cent.
- Net incomes after taxes and benefits, fell by 2 per cent for those on middle incomes, before allowing for housing costs. Benefit increases in line with inflation insulated some of the poorest households from the recession, and their income increased before allowing for housing costs. But after housing costs are taken into account, their incomes fell by 2 per cent – although the incomes of better-off households fell further.
- More detailed analysis reveals significant geographical differences. After allowing for their housing costs, the poorest Londoners became as much as 24 per cent worse off, while the incomes of the poorest people living in the most deprived three-tenths of neighbourhoods nationally declined by more than 10 per cent.
- Children and pensioners were better protected against the recession than other groups. Young adults, despite being more likely than previous generations to hold degree qualifications or higher, were not. Among those in their early 20s:
 - The proportion in full-time employment fell by 9 percentage points for men and 7 points for women.
 - Hourly wages fell by more than 5 per cent for both men and women
 - Weekly full-time earnings fell 6 per cent for both men and women
 - Net income fell by 11 per cent before housing costs and 17 per cent after housing costs.

The impact of the crisis was uneven

After the economic crisis hit in 2007, unemployment rose, average pay rises fell behind inflation, the stock market crashed, and the boom in house prices came to an end. Overall living standards declined. But the impact of the crisis was uneven. Organisations stopped hiring new workers, but many people held on to their jobs. Some groups gained real pay increases. There were winners as well as losers. And the value of price-linked social security benefits – which had often fallen behind as pay increased during the boom years – was protected.

The task of discerning how the earnings, incomes and wealth of different kinds of people were affected by the onset of the economic crisis is complex. We have investigated this by comparing the position people had reached in 2010 with the picture (generally for three years earlier) described by the National Equality Panel (NEP) in *An Anatomy of Economic Inequality in the UK*. That report looked systematically at inequalities ranging from educational qualifications to hourly wages, household incomes, and personal wealth. It examined differences *between* groups defined by characteristics such as gender, age, or ethnicity, and differences *within* the groups.

The data used by NEP generally related to outcomes on the eve of the economic crisis around 2007. By extending the analysis to 2010, we show in detail how inequalities changed in the first three years of the crisis. A complete set of tables and charts updating those in the original NEP report can be found on our website www.casedata.org.uk.

In this summary we highlight key changes concerning qualifications, employment, earnings, incomes, and wealth – describing how inequalities changed and who was most affected. We also focus on two issues. One is how far the, then, government succeeded in shielding vulnerable groups in hard economic times. The other is the way young people, still in their 20s, were worst hit by the crisis – not just in terms of falling employment, but across most of the other outcomes we examine.

Fewer low achievers in schools

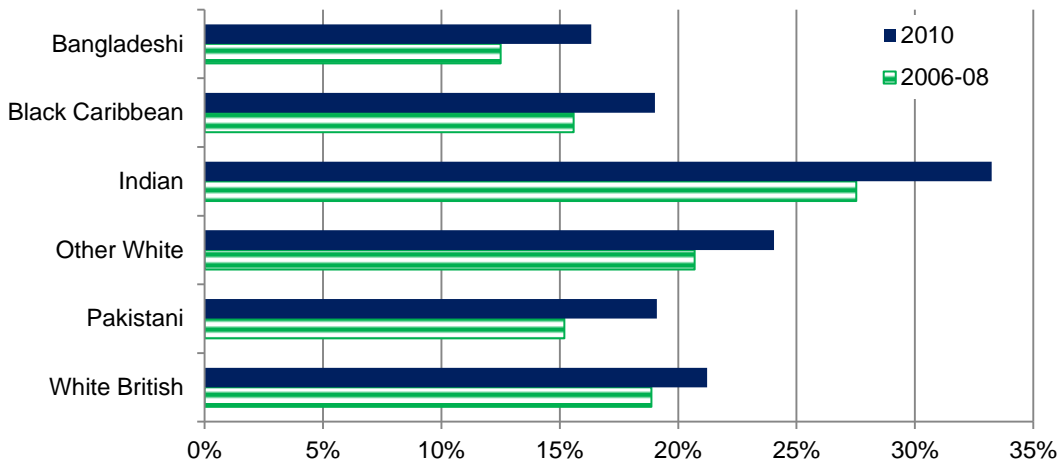
We start with a success story. Examination (GCSE) results at age 16 in England in 2010 were better for pupils at all levels than those in 2008. But this was particularly true for the ‘tail’ in the distribution of low-performing pupils in state schools. As a result the performance gap between state and independent schools narrowed, especially for the lowest achievers. The gap between boys from low-income families receiving free school meals and other pupils narrowed. However, differences in attainment between boys and girls in the upper part of the distribution continued to grow wider. Among ethnic groups, the results achieved by Indian and Chinese girls stayed at a notably high level. Differences between pupils living in the poorest neighbourhoods and those in other areas narrowed for both boys and girls, but remained wide.

A better qualified workforce

By 2010, 22 per cent of the UK’s working-age population had a degree (or higher degree). This was 2.6 percentage points higher than just three years earlier (the average for 2006-2008). For the first time, working age graduates outnumbered those with low-level or no qualifications. These changes were driven by the arrival each year of increasingly well-qualified young adults in the labour market, displacing the less-qualified generation reaching state pension age. The proportion of working age women with a degree qualification or higher rose by 3.3 percentage points, so by 2010 women had overtaken men in degrees and in higher degrees. Figure 1 shows that by 2010 a third of Indian working age adults held a degree or higher degree (as did half of those with Jewish religious affiliation). However only 5 per cent

of working age adults living in social housing had degrees, and 41 per cent had low or no qualifications; twice the national proportion. London was more polarised than other regions, with a third of working-age adults holding degrees, but a fifth only low or no qualifications.

Figure 1: Working age population with degrees and above by ethnicity, 2006-08 and 2010

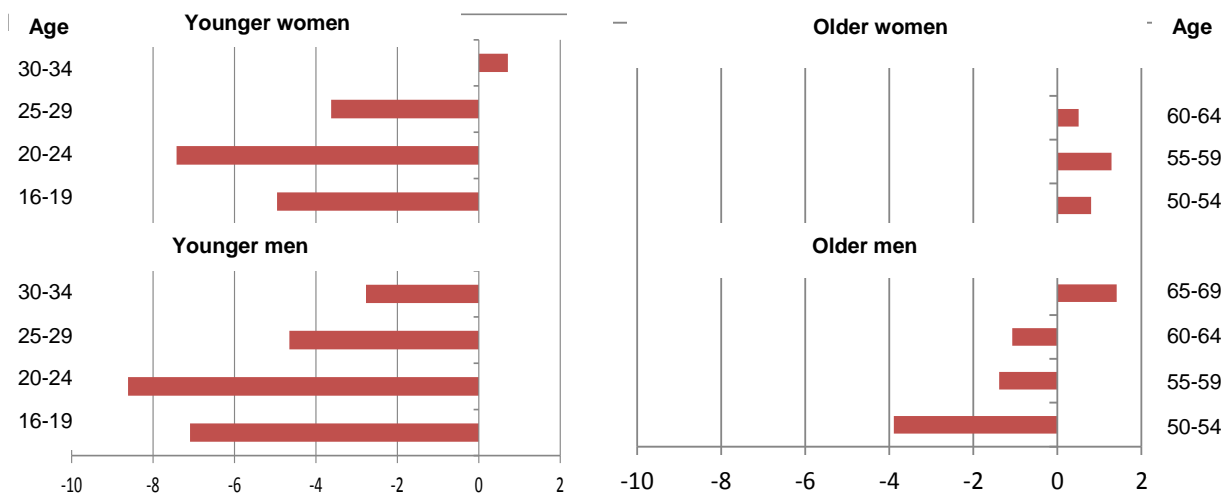


Source: Labour Force Survey

Unemployment rose fastest among young adults

Comparing 2010 with the average for 2006-2008, full-time employment among men in the UK fell by 4.1 percentage points, while unemployment grew by 2.4 percentage points, reaching 7 per cent. Among women, full-time employment fell less dramatically, by 2.6 percentage points, while unemployment increased by 1.3 percentage points to 4.9 per cent. However, this trend was not evenly shared. In particular, by far the largest drop in full-time employment and rise in unemployment occurred among young adults aged 16-29. As Figure 2 shows, full-time employment among 20 to 24-year olds fell by more than 8 percentage points for men and nearly as much for women. Yet employment levels over the same period rose among women in their 50s and early 60s. At the opposite end of the scale, full-time employment fell by nearly 8 percentage points for Black African men and 6 points among Black African women. Regional contrasts were also striking with a fall in full-time employment of only 1.7 percentage points in London, compared with nearly 4 points in Scotland and the West Midlands. Meanwhile, only 26 per cent of working age adults who lived in social housing were working full-time by 2010, plus a further 14 per cent working part-time, giving a total of 40 per cent in work, down from 42 per cent in 2006-08.

Figure 2: Full-time employment fell fast for younger men and women, but rose for older women (change in percentage points, 2006-8 to 2010)



Source: Labour Force Survey

Low earners were hit hardest by the onset of recession

Middle (median) hourly wages for all UK employees fell by 1.6 per cent in real terms between 2006-2008 and 2010. For women the fall was only 0.4 per cent at the median. However, Table 1 shows that wages for the worst paid men and women working full-time (at the tenth percentile) fell by nearly 3 per cent – and by more than 4 per cent for the worst paid male part-time workers. By contrast, those for the best paid women part-timers rose by nearly 3 per cent. In other words, the start of recession hit the lowest-paid hardest. Wage patterns also became more heavily related to age. For men, the median hourly wage was £7.25 for those in their early 20s, but peaked at £13.70 for those in their late 30s. For women, the median wage was £6.98 an hour for those in the early 20s, peaking at £10.72 among those in their early 30s. By social class the biggest falls in the median wage for low-skilled ‘routine’ workers, but also at the other end of the occupational scale, among for higher managerial and professional workers.

Table 1: Changes in real hourly wages, 2006-2008 to 2010, UK (%)

		Lowest paid	Middle	Highest paid
All employees	Men	-2.7	-1.6	-0.4
	Women	-0.9	-0.4	0.4
Full-time	Men	-2.7	-1	0.3
	Women	-2.9	-0.3	-0.5
Part-time	Men	-4.6	1.5	0.1
	Women	-1.5	1	2.8

Note: ‘Lowest paid’ shows change in the 10th percentile; ‘Highest paid’ shows change in the 90th percentile.
Source Labour Force Survey

As might be expected from the hourly pay figures, median full-time *weekly* earnings also fell between 2006-2008 and 2010 – by 1 per cent in real terms. However, this measure shows how earnings for the lowest paid were hit by reductions in number of hours they could work as well as pay rates. Table 2 shows a 5.1 per cent drop in weekly earnings for the lowest paid (at the tenth percentile). Median full-time earnings for women grew slightly at a time when they fell (by 2.9 per cent) among men, making the gender wage gap somewhat narrower. However, earnings increased by 1.6 per cent for the highest-paid men, at the same time as it declined by 4.8 per cent among the lowest-paid, thereby widening inequality. Age-related gradients were also greater in 2010 than in 2006-08, reflecting a more substantial fall in weekly earnings for those in their 20s (by more than 6 per cent) than those in their 40s and 50s.

Table 2: Changes in real weekly earnings of full-time employees, 2006-2008 to 2010, UK (%)

	Lowest paid	Middle	Highest paid
All	-5.1	-1.0	-0.8
Men	-4.8	-2.9	+1.6
Women	-3.6	+0.5	-1.6

Note: ‘Lowest paid’ shows change in the 10th percentile; ‘Highest paid’ shows change in the 90th percentile.
Source: Labour Force Survey.

Regional differences were marked. While median weekly earnings grew by 2.4 per cent in London, they fell by nearly 4 per cent in Wales and the West Midlands, and by more than 6 per cent in Northern Ireland. Among the minority of social housing tenants who were in full-time work, they fell by 4 per cent. They also fell by more than 8 per cent among those in 'routine' occupations, but less than 2 per cent for managerial and professional workers. The smallest decline in weekly earnings was recorded among the best paid tenth of higher managerial and professional workers.

Benefits protected some low-income households, but less so after housing costs

Changes in earnings patterns have big effects on the overall distribution of incomes, but are not the only factor. Whether households have two, one or no earners can make a big difference. So, too, can other incomes including from benefits, pensions and investments. Direct taxes also affect disposable income, and have the potential to reduce inequalities. To look at the living standards made possible by a given income, we also need to take account of the number of people, including children living in a household. This is allowed for in the Department for Work and Pensions' measure of 'equivalent net income' used to compile its *Households Below Average Income* statistics. Table 3 shows how incomes measured this way changed between 2007-08 and 2010-11. It presents the data for all individuals and then separately for men, women and children (all based on the income of the household they live in). As can be seen, there are major differences depending on whether their net income is assessed before or after taking account of their housing costs.

Before housing costs, average incomes fell by 3 per cent and middle (median) incomes by nearly 2 per cent. But we can see in Table 3a that they fell more at the top of the income distribution, and actually rose by 4 per cent at the bottom. As a result, income inequality fell sharply, despite the growing inequalities we saw in earnings. For women and children, the lowest incomes rose by more than 5 per cent. These figures suggest that benefits policy succeeded in protecting the poorest from the initial impacts of the recession. However, these figures can be misleading. This is because when rents rise for low-income tenants, their Housing Benefit goes up, increasing their incomes measured this way, even though they are not actually any better off.

After allowing for housing costs, we see in Table 3b that incomes fell faster - by 6 per cent on average and by 5 per cent in the middle and top of the income distribution. The poorest as a whole were less well protected on this measure - with real incomes falling by 2 per cent (although still not by as much as others). Some groups did better than others - the poorest children were *better off* than three years before, but men lost more than others, particularly at the bottom.

Table 3: Changes in real household equivalent net income, 2007-08 to 2009-10, UK (%)

	Average	Bottom	Middle	Top
(a) Before Housing Costs				
All	-3.3	+4.1	-1.8	-3.4
Men	-5.0	+0.4	-3.6	-4.5
Women	-3.0	+5.2	-1.3	-3.7
Children	-1.1	+6.7	+1.0	-2.1
(b) After Housing Costs				
All	-6.0	-2.0	-4.8	-5.0
Men	-7.9	-7.8	-6.0	-5.6
Women	-5.8	-1.1	-4.3	-5.0
Children	-2.7	+2.0	-1.7	-0.7

Note: Bottom is change at 10th percentile, middle at median, and top at 90th percentile.

Source: DWP, based on Family Resources Survey

By *region*, average incomes fell most in London both before (5 per cent) and after housing costs (8 per cent). After housing costs, the poorest Londoners did worst, with incomes at the bottom tenth percentile falling by a startling 24 per cent. By *tenure* the trends before and after housing costs differ greatly. The potentially misleading part played by Housing Benefit increases is demonstrated by the fact that the poorest social tenants were 5 per cent better off before housing costs, but 6 per cent worse off after allowing for them.

The picture by *neighbourhood deprivation* (after housing costs) is, meanwhile, complicated. Generally, households in the most deprived neighbourhoods did worse than those in less deprived areas, but middle households in the least deprived areas did worst than those in the most deprived ones. But the biggest drop was for the poorest households in the poorest neighbourhoods – more than 10 per cent for each of the bottom three tenths of neighbourhoods.

Household wealth

The available data for wealth cover a different period from the other variables, allowing us to look at differences between a period around 2007 and a second period around 2009. The patterns this shows are rather different from the other outcomes examined here. Total wealth – including the value put on private pension rights as well as housing and financial assets – rose by 10 per cent in nominal terms over the two years, faster than either general prices or earnings. In absolute terms, the cut off for the wealthiest 10 per cent of households (the 90th percentile) grew by £107,000, or by 12 per cent. The increase at the 10th percentile was only £4,000, but this was actually 44 per cent of the starting value. Overall therefore wealth inequality as measured by the ratio between the two fell from nearly 100 to one in 2006-08 to just over 75:1 in 2008-10, even though the absolute gaps widened across the distribution considerably.

The largest increases in wealth in both absolute and percentage terms were in London (and the South East in absolute terms). In absolute terms, the increase in median wealth was greatest for those aged 55-64 at £37,000, compared to an increase of only £9,000 for those aged 25-34. However, this represented a rise of 13 per cent for the younger group, compared to 12 per cent for the older one. Both were faster percentage increases than for other age groups.

Protection of the poorest groups – but not all of them

The recession hit different groups of people in different ways. Looking at the whole population, Table 4 shows sharp contrasts that occurred between what happened to market incomes and what happened to net incomes after allowing for taxes and benefits. Hourly wages and weekly earnings fell in real terms – by most at the bottom and least at the top, with the result that labour market inequality grew, as well as the unequal distribution of unemployment. Yet the operation of direct taxes and benefits meant that household incomes became *less* unequal after allowing for them; partly because pensions and other benefits were protected against inflation, but also with some time lags in adjustment for past inflation. At the bottom, before allowing for housing costs, real incomes grew. But the system was less successful in insulating the poorest from the recession once the cost of housing is taken into account. Once this is done, the poorest were worse off, albeit proportionately less so than those higher up the income distribution.

Some groups, notably children and pensioners, were better protected than others. However, young adults were not among them. Moreover, when we look more at the data in finer detail we find that some of the poorest groups became sharply worse off. After allowing for their housing costs this included a fall of 24 per cent for the poorest Londoners, and of more than 10 per cent for the poorest people in the poorest three-tenths of neighbourhoods more generally.

Table 4: Changes in economic outcomes by position in distribution, various years (% , 2010 prices)

	Lowest	Middle	Top
Hourly wages (all employees)	-1.2	-1.6	-0.4
Weekly earnings (full-time employees)	-5.1	-1.0	-0.8
Equivalent net income			
- Before housing costs	+4.1	-1.8	-3.4
- After housing costs	-2.0	-4.8	-5.0

Note: Hourly wages and weekly earnings show change between 2006-2008 and 2010; equivalent net incomes show change 2007-08 to 2010-11. Figures are for UK. Left column shows change in the 10th percentile; middle change at the median; and right column change at the 90th percentile.

Born in the 1980s: Bearing the brunt of recession

Clearly the biggest change comparing people's circumstances just before the economic crisis with 2010 was the deterioration in the position of young adults. This is summarised in Figure 3. For example, among those in their early 20s:

- The proportion in full-time employment fell 9 percentage points for men and 7 points for women.
- Hourly wages fell 5.5 per cent in real terms for men and 5.3 per cent for women.
- Weekly full-time earnings were down by 6.1 per cent in real terms for men and women.
- Household (equivalent net) income declined by 10.8 per cent before housing costs and 16.5 per cent after housing costs.

Losses of employment, pay and income were only slightly less severe among young adults in their late 20s – and they generally affected those who were better-off as well as those bottom of the distributions.

The disproportionately adverse economic experiences of young adults at the start of recession came despite their being better educationally qualified than any preceding generation.

Figure 3: Changes in economic outcomes, selected ages, various years



Note: Employment is percentage point change 2006-2008 to 2010; Wages and earnings are real percentage change 2006-2008 to 2010; Household incomes are real percentage change 2007-08 to 2010-11. BHC is before housing costs; AHC is after housing costs. All figures for UK.

Across Europe the effect of the crisis on young people has been severe. While unemployment in the UK has not reached the levels seen, for example, in Southern Europe, the way in which young adults have been disproportionately affected is similar. There is some irony that those who have been worst affected were born in the 1980s when financial liberalisation was set in train – ultimately contributing to the financial crash that precipitated the economic crisis.

Background

The full version of this paper is available at <http://sticerd.lse.ac.uk/dps/case/spcc/WP02.pdf>. The data on which it is based are available at www.casedata.org.uk. This is one of a series of papers produced as part of CASE's research programme *Social Policy in a Cold Climate* (SPCC). The research, concluding in 2015, examines the effects of the major economic and political changes in the UK since 2007, focusing on the distribution of wealth, poverty, inequality and social mobility.

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