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## Social Policy in a Cold Climate

### Summary Research Report 5

March 2015

# Falling Behind, Getting Ahead: The Changing Structure of Inequality in the UK, 2007-2013

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**Detailed examination of the qualifications, employment, pay, incomes and wealth of different groups since the economic crisis reveals an uneven legacy. Young people in their twenties have lost out most across a wide range of outcomes, despite gaining higher qualifications than previous generations.**

- By 2013 more than a third of young people in their thirties had a degree, and those in their twenties were on course to become even better qualified. But full-time employment of those aged 20-24 fell by 10 percentage points for men and 8 points for women between 2006-08 and 2013.
- Hourly wages and weekly earnings fell fastest among younger workers. This affected the highest-paid under 35s, as well as the lowest-paid. After allowing for housing costs, typical incomes for those in their twenties in 2012/13 were 18 per cent lower than five years before.
- Wealth changes tilted away from younger households too. By 2010-12, median total wealth for households aged 55-64 had grown to £425,000, but had fallen to £60,000 for those aged 25-34. Bridging the £365,000 gap would require young households to save or make pension contributions of £33 every day for the next thirty years.
- Council and housing association tenants fared worst in the labour market. By 2013, fewer than half of adults in social housing were employed or self-employed. But allowing for increased rents, the incomes of private tenants fell fastest – by 13 per cent in real terms from 2007/08 to 2012/13.
- Employment fell less in London than in other regions, but the gaps between low-paid and high-paid Londoners grew fastest. Allowing for housing costs, the lowest-income Londoners were 18 per cent worse off in 2012/13 than five years earlier. The top tenth of London households had total wealth over £1 million, but the bottom tenth less than £6,300.
- Experiences of ethnic groups varied considerably. A smaller proportion of White working-age adults now have degrees than any other group apart from Bangladeshis. But White men had the smallest rise in unemployment and a much higher proportion of White adults were employed than of other groups. Chinese and Indian households now have the highest wealth.

## Introduction

This summary examines what has changed since the situation described in the 2010 report of the National Equality Panel, *An Anatomy of Economic Inequality in the UK*. That looked at how economic outcomes varied between different kinds of people, not just between groups, such as those defined by gender, age and ethnicity, but also *within* groups. The data then available centred around 2007 – showing what the anatomy of inequality in the UK looked like immediately *before* the financial and economic crisis. Much has changed since then. The report summarised here uses 2013 data (or for the financial year 2012/13 in the case of incomes, or July 2010-June 2012 for wealth) to show how different groups have been affected over the six years. Which have fallen behind and which have got ahead?

We compare the positions around 2007, 2010 and 2013. We examine: the highest qualifications of the working age population; employment patterns; hourly wages and weekly earnings for those who are full-time employed; people's net incomes based on those of the household in which they live both before and after housing costs; and household wealth. The results look at the population as a whole, by gender, by age group, ethnicity, housing tenure, region, and disability status.

### A more unequal labour market, but incomes of the poorest initially protected

Changes in overall economic inequalities during and since the economic crisis have been complex. As a backdrop, qualification levels of the working age population have continued to rise, particularly for women, who are now better qualified than men in terms of higher education and degrees. The rise makes the continuing falls in real wages all the more striking. While men were worst hit in terms of employment between 2006-08 and 2010, they gained more between 2010 and 2013 than women.

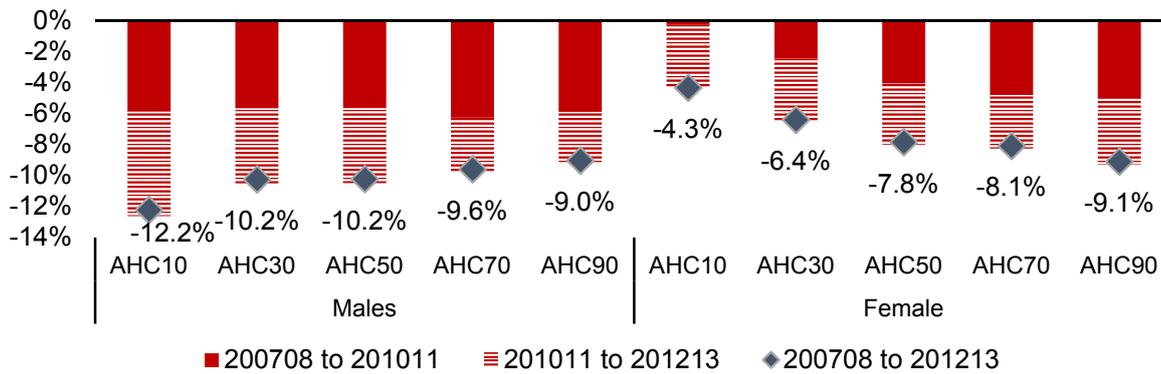
Pay distribution became more unequal for both men and women, with real hourly wages down by 8.4 per cent for the worst-paid men and 7.1 per cent for the worst-paid women, but by 4.2 per cent for the best-paid men and 5.0 per cent for the best-paid women. What happened to the gender pay gap is ambiguous: the gap in mean hourly wages narrowed, but the gap in median pay widened slightly.

With falling hours for those in full-time work, weekly earnings for full-timers fell even faster – by 7.6 per cent overall, and more for men than women. Inequalities in full-time weekly earnings grew – earnings fell by more than 8 per cent for the lowest paid men and women, but by only 2.2 per cent for the best-paid men, and only 3.5 per cent for the best-paid women (in the survey used here).

But this did not mean rising inequalities in household incomes, up to 2012/13, at least, as through that period the Labour and Coalition Governments continued to protect most benefit and pension levels in real terms (before the main cuts in benefits and tax credits were introduced from April 2013). This meant reduced inequality over the period as whole. Before allowing for housing costs, real incomes grew near the bottom of the income distribution between 2007/08 and 2010/11, while they fell in the top half of the distribution. They then fell by similar proportions for all income groups between 2010/11 and 2012/13.

Measured after allowing for housing costs, however, real incomes fell across the distribution; particularly at the top before 2010 and at the bottom afterwards. As a result, the overall reduction in inequality was much smaller after taking account of housing costs than before. There was also a clear reduction in gender inequalities at the bottom and middle of the income distribution over the period (Figure 1). In particular, this reflected single men experiencing a much larger fall in income than other household types, while single women with children and pensioners benefited from the price-linked protection of benefits.

Figure 1: Changes in net income after housing costs by gender, 2007/08 to 2012/13 (adults, %)



Source: DWP/CASE analysis of HBAI dataset. Bars show the fall in real income (adjusted for household size).

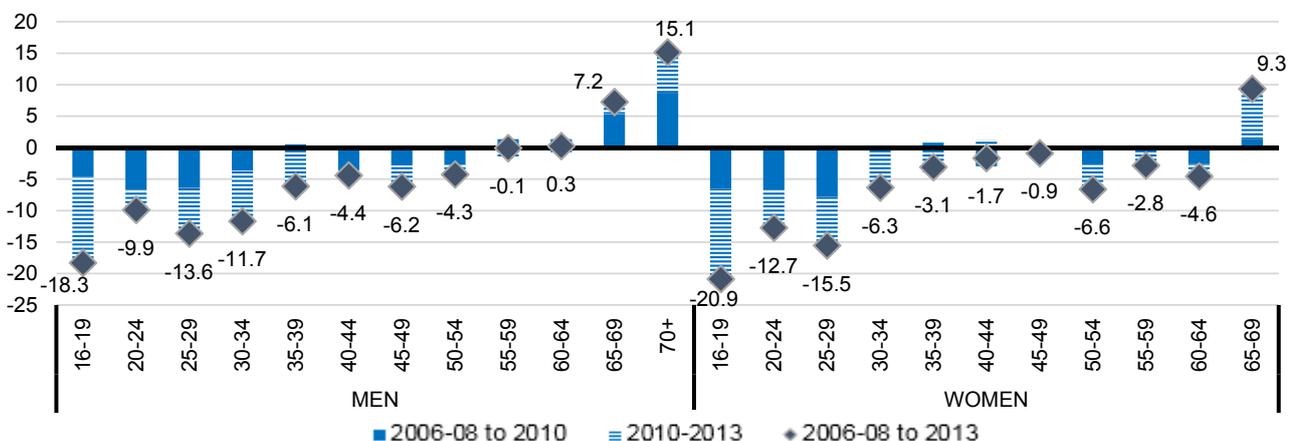
Inequality in wealth (assets as opposed to income), considered in its own terms, generally fell between 2006-08 and 2010-12. However, bigger absolute gaps in wealth between wealthier and less wealthy households meant that it would take more years of annual income to move up the wealth ladder.

### Rapidly falling real wages, incomes and wealth for those in their twenties

Of all the breakdowns we examine in this report, the differences between age groups are the clearest and most consistent. The following stand out:

- Qualifications of those in their twenties and thirties compared to their predecessors six years earlier improved rapidly. By 2013 more than a third of those in their thirties had a degree or higher degree. Those in their twenties were even more likely to be graduates than their predecessors at that age, indicating they were heading towards even higher levels of attainment.
- Full-time employment fell fastest between 2006-08 and 2013 for men and women aged 16-29: for example, by 10 percentage points for men aged 20-24 and 8 points for women. By 2013 unemployment for those aged 20-24 had reached 12 per cent, the joint highest (with 16-19 year-olds) for any age group. By contrast, employment rose for those in their sixties and a fifth of those aged 65-69 were employed or self-employed by 2013.

Figure 2: Change in median hourly pay by age, full-time employees, 2006-08 to 2013 (%)



Source: Labour Force Survey (UK).

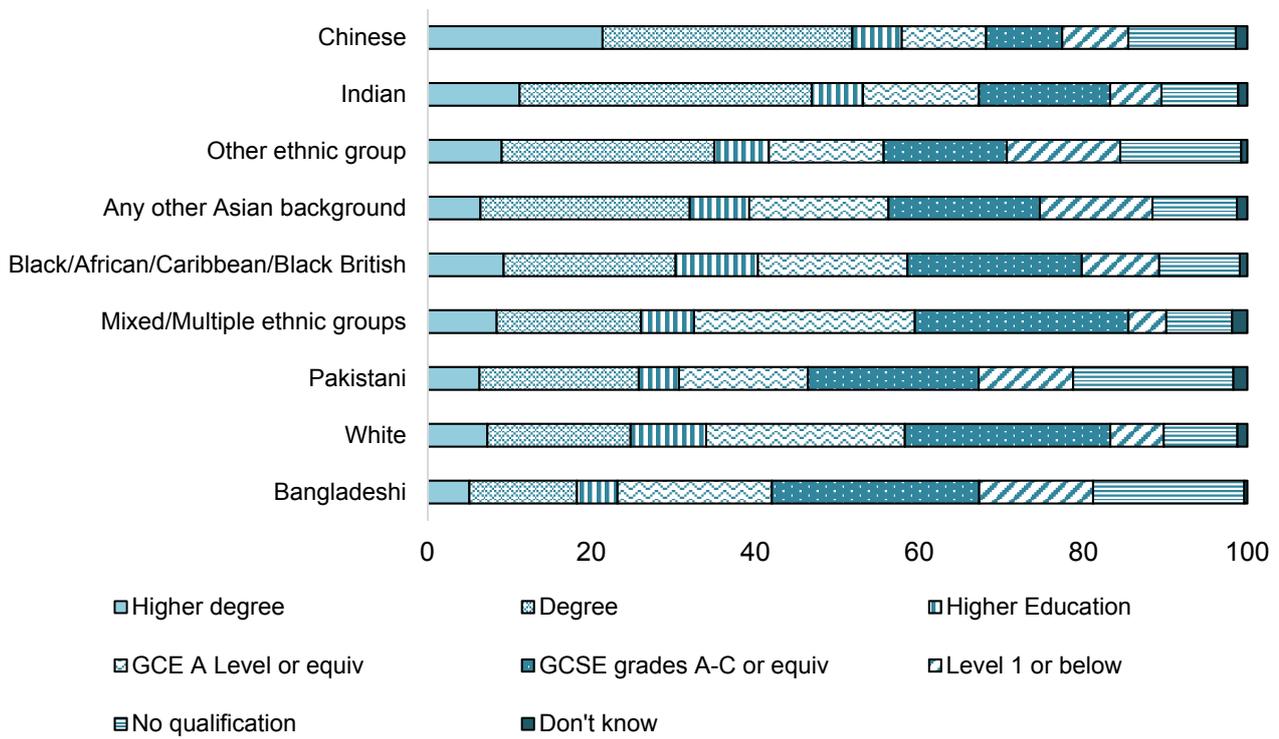
- For those employed full-time, hourly wages fell faster the younger workers were (Figure 2). At the median, men and women aged under 30 were paid more than 10 per cent less than their predecessors six years before. For the worst paid 16-19 year-olds the drop was approaching 30 per cent. This affected the highest paid aged under 35, as well as the low-paid. By contrast, the best-paid men in their early sixties gained 10 per cent. Inequalities in wages within age groups grew, however, for those aged over 35, rather than for younger workers.
- The age gradient was even stronger for median weekly full-time earnings, with falls of more than 15 per cent for men and women in their late twenties over the period.
- Looking at the net incomes for all age groups, the biggest falls from 2007/08 to 2012/13 before allowing for housing costs were for middle- and higher-income people in their twenties; totalling more than 12 per cent in real terms. After allowing for housing costs, median incomes for those in their twenties were 18 per cent or more lower than five years before. They fell by almost as much for those with the lowest incomes, as well as those with the highest incomes in their twenties and early thirties.
- Wealth changes also tilted sharply against younger households; rising for age groups over 55, but falling for younger ones. By 2010-12, median non-pension wealth for those aged 55-64 had grown to £233,000, but had fallen to £43,000 for those aged 25-34. Including pension rights the figures were £425,000 and £60,000 respectively – a £365,000 gap between generations 30 years apart.

### Differences by ethnicity: contrasting patterns of qualifications and incomes

The ethnic groupings used in the different surveys vary, but some broad patterns emerge showing that the experiences of different ethnic groups have varied considerably since the start of the economic crisis. They do not reduce to a simple message that some groups have done uniformly better than others.

- More than half of *Chinese* adults of working age in 2013 had degrees (Figure 3). Chinese men in full-time employment also had the highest hourly wages (£16.75) and weekly earnings (£673). The highest income 'Chinese and other' adults had greater income than any other ethnic group (before housing costs), but income inequality was larger for this (rather varied) group than for the others shown in the data. Median household non-pension wealth rose most rapidly for Chinese households, reaching £200,000 by 2010-12.
- Partly as a result of their older average age, *White* adults had the slowest increase in qualifications of any ethnic group. A smaller proportion of White working age adults had degrees than any other group, apart from Bangladeshis (Figure 3). But White men had one of the smallest increases in unemployment over the whole period, with a fall after 2010, unlike several other groups. A much greater proportion of White adults were employed than of other groups. Net incomes remained higher for White adults than for other groups before and after housing costs, and across most of the income distribution. Household non-pension wealth was lower than for Indian and Chinese households.
- *Indian* men and women showed the largest increase in the proportion with degrees, reaching nearly half. However, the least well-paid Indian men and women had the largest falls in hourly wages (by 8 and 14 per cent), leaving both hourly wages and weekly earnings more unequal in 2013 than for other groups (where this can be calculated). Household non-pension wealth reached £195,000 for Indian households in 2010-12.

Figure 3: Highest qualifications by ethnicity (men and women, working age), 2013



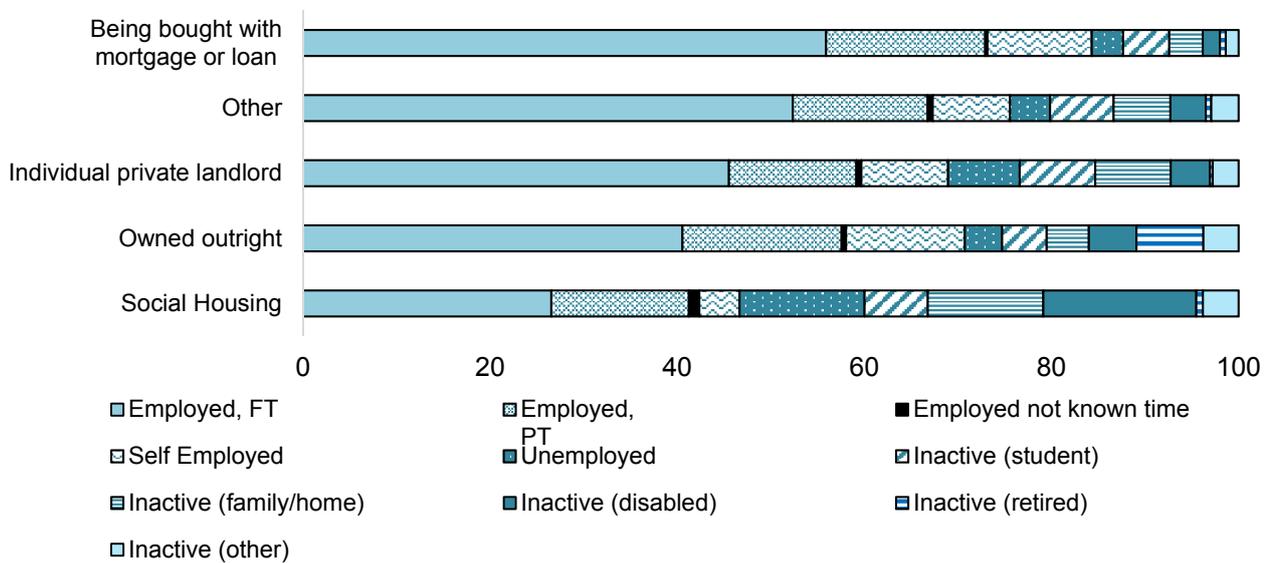
Source: Labour Force Survey (UK).

- Black* men experienced the largest (5.4 percentage points) fall in full-time employment from 2006-08 to 2013, and Black women one of the largest falls (4.1 points). Black men had the second largest increase in unemployment (3.0 percentage points), all coming after 2010. Their real median hourly wages fell by 6.9 per cent – more than for any other group of men. Apart from ‘Chinese and others’, median net household incomes of Black adults fell by more than any other group – by 5.4 per cent than before housing costs and 12.3 per cent after housing costs. For the poorest Black adults, it fell by 22 per cent after housing costs. Non-pension wealth only averaged £34,000 for Black Caribbean and £21,000 for Black African households in 2010-12.
- Pakistani* men experienced the largest increase in unemployment over the period. Also, by 2013, the lowest proportion (36 per cent) of Pakistani adults were full- or part-time employees. Median male hourly wages – £10.04 – were the second lowest, while median household incomes before housing costs were the lowest for the combined ‘Asian and Asian British group’. But non-pension wealth increased by £42,000 to an average £129,000 for Pakistani households by 2010-12.
- Bangladeshis* saw the greatest fall in the proportion without qualifications, but still remained the most likely to have no qualifications in 2013. Bangladeshi men experienced the greatest increase in unemployment (5.4 percentage points) and Bangladeshi adults had the lowest full-time employment rate; just 20 per cent in 2013. With Pakistani adults, they also had the greatest proportion who were economically inactive, ‘looking after family/home’. Bangladeshi men had the lowest full-time median hourly wages (£10.00) and lowest median weekly earnings (£404). Non-pension wealth was only £21,000 for Bangladeshi households in 2010-12.

### Housing tenure: Social tenants fare worst in labour market, but private tenants' incomes fall fastest after allowing for rents

Economic divisions by housing tenure were already wide before the economic crisis and have widened further since. Social tenants generally have much lower levels of qualifications than those in other tenures, and much lower levels of employment. Full-time employment fell and unemployment rose by twice as much for male social tenants as for owner-occupiers and private tenants. By 2013 fewer than half of all working-age adults in social housing were in any kind of employment or self-employment (Figure 4). For those social tenants that were in full-time employment, real hourly wages had fallen by 8 per cent for men and 9 per cent for women since 2006-08, to only £8.48 for men and £7.77 for women. This was 40 per cent or more below the wages of men and women with mortgages. Falls in weekly full-time earnings were even faster – by 11 per cent for men and 9 per cent for women in social housing.

**Figure 4: Employment status in 2013 by housing tenure, men and women (%)**



Source: Labour Force Survey (UK).

Nevertheless, a higher proportion of social tenants' incomes comes from social security benefits than in other tenures – and the real value of many of those benefits was protected until the end of 2012-13. This meant that median net incomes before housing costs rose slightly for social tenants, while falling (roughly in proportion to weekly earnings) for those in other tenures. But after deducting housing costs, median incomes fell as much for social tenants as for owner-occupiers, while those of private tenants fell even further, by 13 per cent. The best-off private tenants lost 19 per cent between 2007/08 and 2012/13 after housing costs, but the poorest social tenants also lost nearly 10 per cent.

Wealth differences between tenures widened in absolute terms between 2006-08 and 2010-12, with median non-pension wealth for outright owners reaching £307,000, compared to less than £20,000 for social and private tenant households.

### Regional differences: London has smallest employment fall, but becomes even more unequal

Looking across regions, two things stand out – differences *between* London and other regions – with Northern Ireland often in the least favourable position – and differences *within* London:

- Londoners had the most rapid increase in qualifications levels. By 2013, nearly half of Londoners of working age had a degree or other higher education qualification, compared to fewer than 30 per cent in Northern Ireland.
- London had the smallest drop in male full-time employment and the smallest increase in unemployment between 2006-08 and 2013. Northern Ireland had the largest rise in male unemployment, but one of the smallest increases for women. However, London still had the lowest full- and part-time employment rate in 2013, although now jointly with Northern Ireland.
- Median hourly wages fell most for men in the South West and Eastern regions, but most for women in Northern Ireland. But low wages for men fell the most – by 9 per cent – in London, and high wages by one of the least. Consequently, wage dispersion grew rapidly in London, with the 90:10 ratio reaching 4.7 for men (and 3.9 for women) in 2013.
- By 2013 median weekly earnings in London were 43 per cent higher than in Northern Ireland for men, and 56 per cent higher for women.
- *Before* allowing for housing costs, real household incomes fell fastest in Northern Ireland between 2007/08 and 2012/13, by more than 8 per cent. They actually grew in Wales, the East Midlands and the North East.
- *After* allowing for housing costs, the picture was very different. Median incomes fell by 12 per cent in London, and – despite some recovery after 2010/11 – by 18 per cent for the poorest Londoners. By 2012/13 the best-off tenth of Londoners had incomes above £1,027 per week after housing costs, but the poorest tenth less than £113; by some margin the lowest in the country. This meant that income inequality was far greater in London after housing costs than elsewhere – with a 90:10 ratio of 9.1 (compared to 5.1 nationally).
- Median non-pension wealth in London grew by a quarter in nominal terms, between 2006-08 and 2010-12, far more than in any other region. The wealthiest tenth of London households had non-pension wealth of more than £750,000 in 2010-12 and total wealth (with pensions) of more than £1 million, while the least wealthy had less than £6,300 of total wealth – a 90:10 ratio of 173 to 1 (compared to 70 to 1 nationally). However, median non-pension wealth was greatest in the South East (£219,000), more than twice as much as in the North East (£95,000).

### Disability status: continuing disadvantage for disabled people

Interpreting results by disability status is harder than for other characteristics, both because of definition variations between surveys and over time, and because many of the raw differences are heavily related to age. However, there are clear differences between disabled groups and others in the positions shown by the most recent data:

- People of working age classed as disabled (if both ‘work-limiting’ and ‘Disability Discrimination Act’-disabled) were less than half as likely in 2013 to have degrees as those not classed as disabled, and approaching three times as likely to have no or only low-level qualifications.
- Only 37 per cent of that group were in any kind of employment or self-employment in 2013, less than half the proportion of those who were not disabled.
- Even when they were in full-time employment, median hourly wages were 16 per cent lower for men and 11 per cent lower for women, if classed as disabled under both definitions, than for those who were not disabled. Weekly full-time earnings were 14 per cent lower for men, and 10 per cent lower for women.

- Even including benefits intended to compensate for extra costs of disability, median net incomes were 16-17 per cent lower in 2012/13 for those in households with a disabled member than those without a disabled member.
- Non-pension wealth was 21 per cent lower in 2010-12 for households with a disabled member than for other households (despite their age profile, which would normally mean higher wealth).

## Conclusions

Many of the inequalities we examine in this report remain wide, and some have widened since the economic crisis. But the clearest change has been the deteriorating economic position of young adults, and in differences between the way younger and older people have been affected. At older ages, rising employment is encouraging as a response to increased longevity. For the generation approaching retirement or recently retired, rising wealth levels are an advantage, but are very unequally distributed.

At the other end of adulthood, those in their twenties and early thirties are better qualified than any previous generation. But they were hit harder by far than any other age group after 2007, with the greatest drop in full-time employment, largest rises in unemployment, and greatest falls in real wages. While wealth rose for households aged over 65 between 2006-08 and 2010-12, it fell for younger ones.

These generational developments have ramifications across society and for many social policies. What can be done to improve the position of even well-qualified young people in today's labour market? Is there a generation who entered the labour market in the toughest times who will now be 'scarred' by comparison with younger, future cohorts who may enter in better times? If real wages for people in their twenties and early thirties are so much lower than they were in the late 2000s, what does that mean for the assumptions that were made when designing the current student loan system. Was it predicated on a level of graduate wages which no longer exists?

Meanwhile, the generational wealth divide has grown immense in relation to annual incomes. Median wealth (including pension rights) of households aged around 60 reached £425,000 in 2010-12. For those aged around 30 it was £60,000. For the younger generation to bridge the gap between the two would require them to find £365,000. To do that through their own savings or pension contributions would mean putting aside £33 every day for the next thirty years. For most people, this is unlikely to happen. Instead, what will matter most will be the wealth of older generations, and to whom it is passed on. That wealth is, however, highly unequally distributed. Therefore the way it is passed as financial assistance or inheritance to a younger generation most affected by the earnings squeeze will also be highly uneven.

The economic crisis and its aftermath have not affected everyone equally. These differences in economic fortune and misfortune over the last seven years will form a key part of the social inheritance of whatever government is elected, or re-elected, in the coming General Election. That in turn will affect the way society and public policies evolve over years and decades to come.

## Further information

The full version of this paper *Falling Behind, Getting Ahead: The Changing Structure of Inequality in the UK, 2007-2013*, is available at <http://sticerd.lse.ac.uk/dps/case/spcc/RR05.pdf>. Further detailed tables and breakdowns, and an interactive web-tool for their analysis will be available on [www.casedata.org.uk](http://www.casedata.org.uk).

The paper is part of CASE's research programme *Social Policy in a Cold Climate* (SPCC), funded by the [Joseph Rowntree Foundation](#), the [Nuffield Foundation](#), and [Trust for London](#). The views expressed are those of the authors and not necessarily those of the funders.