

The Changing Anatomy of Economic Inequality in London (2007-13)

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This report examines changing patterns of inequality in London during the economic downturn and its aftermath.

- Londoners experienced a continuing squeeze on their living standards between 2007/8 and 2012/13. Median incomes fell by 11 per cent after taking account of housing costs and 3 per cent before housing costs are included. The poorest Londoners were worse off than their counterparts in the rest of the UK in 2012/13.
- Taking account of housing costs in the capital, income inequality grew substantially. After housing costs incomes of the poorest ten per cent living in privately rented accommodation in 2012/13 were as much as 53 per cent lower in real terms than in 2007/8. For those in social housing the fall was 17 per cent. The poorest disabled people also appear to have been hard hit.
- In terms of physical, financial and property wealth, London residents in the bottom third of the distribution (30% of Londoners) were not as rich in 2010/12 as their counterparts in the rest of the UK. Those near the top of the wealth distribution were not only richer than their counterparts elsewhere, but also 26% wealthier than in 2006/8. When pension wealth is included, one in ten London households owned total wealth worth more than £1 million.
- Unemployment grew less rapidly in London than elsewhere between 2007/8 and 2012/13, but started from a higher level. Young Londoners and those from African, Bangladeshi, Caribbean, Pakistani and Mixed ethnic backgrounds were more affected by unemployment than others.
- The proportion who were paid less than the London Living Wage increased substantially. Bangladeshi, Pakistani and Black African, Caribbean or British workers and individuals who experience a disability were especially likely to be paid below the threshold.
- The capital moved further ahead of the rest of the England on educational qualifications. Four out of ten (42%) of Londoners had a degree in 2012/13 compared with 24% elsewhere.
- Neighbourhoods across London became poorer during the economic crisis. But poverty levels in inner London were quicker to improve than those in the outer boroughs. Neighbourhoods where the poverty rate increased up to 2012/13 were a minority, but they were concentrated in outer London.

Introduction

This summary examines changing patterns of inequality in London between 2007 and 2013. It is part of a wider research project assessing the impact of the economic crisis and recession on social policy. In relation to the capital's politics, it covers the last 16 months served by Labour's Ken Livingstone as Mayor, who was succeeded by Boris Johnson in 2008 for the Conservatives. A previous report, covering 2000/1 to 2010/11, found the poorest Londoners were hit particularly hard after the economic crisis took hold from 2007. Although London's economy and labour market proved more resilient than elsewhere, income and wealth inequalities widened faster. Using the latest statistics which can be disaggregated by a wide range of individual characteristics including ethnic group and disability status, this summary moves the assessment forward to a period when the recession was ending and the UK economy began to grow again.

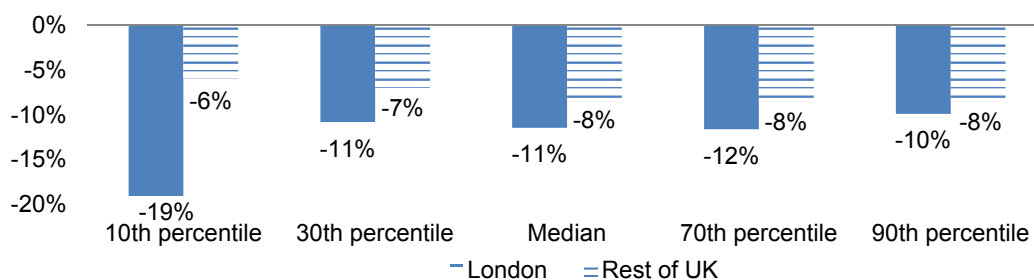
Changes in income

Londoners experienced a continuing squeeze on their living standards between 2007/8 and 2012/13. Incomes in the middle of the distribution (using "equivalised" household data which adjusts for household size and composition) fell by 3 per cent before taking account of housing costs and 11 per cent with housing costs included. The poorest Londoners continued to be worse off in income terms than their counterparts outside the capital, as they had been before the recession. Weekly household income at the tenth percentile in 2012/13 stood at £112 after housing costs, compared with £161 for the rest of the country. Even at the 30th percentile, the equivalent weekly income figure for London households was £236 compared with £270 elsewhere.

Inequality – assessed by calculating a "90:10 ratio" from incomes towards the top and the bottom of the distribution – increased on some measures, but fell on others. For example, incomes before housing costs fell faster near the top of the distribution than near the bottom. This was partly because the Coalition continued to uprate most benefits and pensions in line with prices – though only for its first two years.

If account is taken of housing costs, the figures suggest that inequality increased. For the poorest Londoners, there was a 19% fall in net income after housing at the 10th percentile in London – a greater fall than for the most well off in London (with a 10% fall at the at the 90th percentile) and a greater fall than amongst the poorest elsewhere in the UK (Figure 1).

Figure 1: Percentage changes in net equivalised household weekly income after housing costs, London and the rest of the UK, 2007/8–2012/13



Source: CASE / DWP analysis of HBAI dataset

The incomes of the poorest ten per cent in privately rented accommodation in 2012/13 were as much as 53 per cent lower in real terms than for their counterparts in 2007/8. They dropped from £83 a week at the 10th percentile (one-tenth of the way up the income distribution) to £39. This compared with an equivalent fall of 17 per cent among those renting their homes from councils and housing associations. It also contrasted with the situation among homebuyers with mortgages at the 10th percentile whose incomes after housing costs were higher than in 2007/8.

Definition changes mean income statistics for individuals who experience a limiting, long-standing illnesses or disability (LLID) must be treated with caution. However, best estimates suggest that in London in 2007/08 disabled people had a weekly after housing costs income of £141 at the 10th percentile. By 2012/13, this figure had fallen to £100. That is, best estimates point towards a fall in income after housing costs among the poorest 10 per cent of disabled people in London of around £41 a week (29 per cent) between 2007/8 and 2012/13. This was double the equivalent figure for Londoners who are not disabled, and more pronounced than elsewhere in the UK.

Changes in wealth

It is well known that wealth at the top of the distribution is higher in London than the rest of the country. However, this is not true at the bottom end of the wealth distribution. Figures for 2010/12 show that in terms of their financial and physical wealth (the value of their possessions), London households were less wealthy than their counterparts elsewhere up to the 50th percentile. Even with property and pensions added to the calculation, London households remained less wealthy at the 30th percentile. By contrast, the wealthiest Londoners were not only much richer than their counterparts outside the capital, but also wealthier by a wider margin in 2010/12 than in 2006/08. Taking account of financial, physical and property wealth, London households towards the top of the wealth distribution (90th percentile) were 26 per cent wealthier in 2010/12 than in 2006/08. Total personal wealth (including pension wealth) for this group crossed the £1 million threshold in 2010/12 to reach £1,088,900.

While wealth inequality in London remained greater than the rest of the UK, the 90:10 ratios for 2006/8 and 2010/12 reveal a narrowing in wealth inequality within the capital itself. For example, nominal financial, physical and property wealth at the 10th percentile grew by 45 per cent to £4,500, whereas the increase at the 90th percentile was less at 26 per cent – though it made households near the top of the distribution £152,000 more wealthy.

Employment

Unemployment in London grew from 5 per cent in 2007/8 to 7 per cent in 2012/13. This was a lower rate of increase than in the rest of the country, but started from a higher base. Young Londoners and disabled people were especially likely to be unemployed. People defining their ethnicity as African, Bangladeshi, Caribbean and Pakistani were also more severely affected, as were people from mixed ethnic backgrounds. Increases in part-time working and self-employment during the economic downturn were particularly noticeable in London. While the proportion of Londoners in full-time work decreased by 1.74 per cent from 2007/8 to 2012/13, part-time work grew by 0.95 per cent and self-employment by 0.13 per cent. Most of the increase in part-time working related to lower-skilled jobs.

Weekly and hourly pay

In London, as elsewhere, gross weekly earnings and hourly wages (both full and part-time) fell considerably between 2007/8 and 2012/13. Full-time earnings inequality in the capital increased. The fall in part-time pay for the lowest paid Londoners was particularly marked. At the 10th percentile, full-time weekly earnings in 2012/13 were down 8 per cent compared with five years earlier, and part-time earnings were 4 per cent lower. But while pay for men towards the bottom of the part-time distribution fell by 17 per cent, there was a small increase among women.

As a consequence, there was an increase from 17 to 23 per cent in the proportion of workers whose wages fell below the London Living Wage— an assessment of the minimum pay needed to live and work in the capital. Based on the cost of living, this threshold rose from £7.20 an hour in 2007 to £8.80 in 2013. Applying low pay thresholds based on the London Living Wage¹, the proportion of men below it, meanwhile,

¹ The following thresholds have been applied for LFS interviews: £8.80 for 2013 interviews; £8.55 2012 interviews; £7.45 for 2008 interviews; and £7.20 for 2007 interviews. See main paper for further details.

grew from 16% to 18 %, and from 21 per cent to 27 per cent among women. The ethnic groups most strongly affected by low pay included Bangladeshi (47 % below the threshold) and Pakistani (44% below), as well as Black, African, Caribbean or Black British workers (31% below). More than one in five workers who experience both a limiting longstanding illness or disability (LLID) and a work limiting disability were paid below the threshold (in the relevant year). Overall, 15% of full-time workers earned less than the London Living Wage in 2012/13, but as many as 50% of part-timers.

Educational achievement

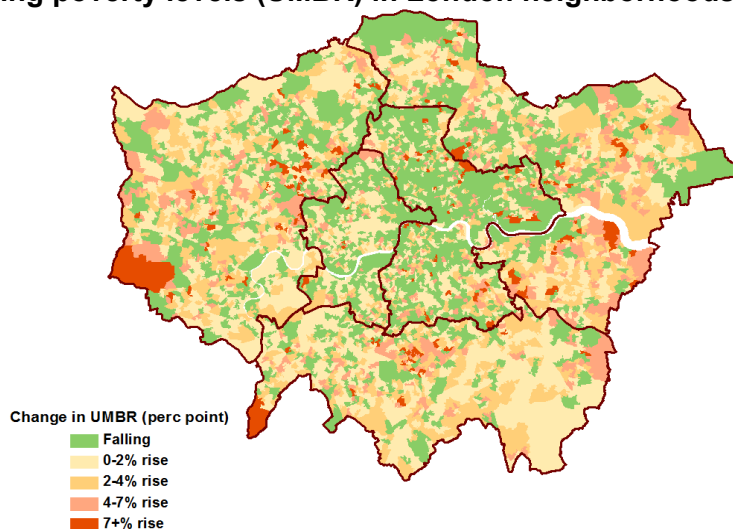
London already had a higher proportion of adult residents with university degrees as their highest level of educational qualification in 2007/8 (21 per cent) than elsewhere in England (13 per cent). By 2012/13 the gap was even wider as the proportion with university degrees as their highest level of educational qualification reached 30 per cent in London, and 17 per cent outside the capital.

The proportion of adults without qualifications also fell rather faster in the capital (down 5 percentage points) than elsewhere in England (down 4 percentage points). There were significant increases over five years in adults from minority ethnic group with degree -level qualifications, including those identifying as Pakistani, Bangladeshi or Black/African/Caribbean/Black British. In London’s schools there was also a marked improvement in attainment levels at GCSE level (Key Stage 4). A steep gradient, nevertheless, remained in terms of social background between the lowest and highest achievers.

Poverty across London

Patterns of poverty and inequality across London have altered in the past 15 years. Poverty rates in inner city neighbourhoods were declining before the economic crisis, while increases occurred in some of the less disadvantaged parts of outer London. Statistics to 2012/13 show this trend continuing in the wake of recession. Mapping the proportion of households receiving Income Support and other types of means-tested benefit (which provides a poverty proxy, the “unadjusted means-tested benefit rate”) shows how London neighbourhoods generally became poorer as the economic crisis took hold. By 2013 the poverty rate had fallen. This fall was seen first in inner London, the fall in the rate in outer areas taking longer. In the outer boroughs to the south of the capital there was no fall in the poverty rate before 2013 (Figure 2 below). Areas where poverty rates increased were concentrated in the outer London boroughs.

Figure 2: Changing poverty levels (UMBR) in London neighborhoods, 2008-13



Further information The full version of this paper, by Polly Vizard, Eleni Karagiannaki, Amanda Fitzgerald, Jack Cunliffe, Polina Obolenskaya, Stephanie Thompson, Chris Grollman and Ruth Lupton is available at <http://sticerd.lse.ac.uk/dps/case/spcc/RR06.pdf>. 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, concluded 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. *Social Policy in a Cold Climate* is a research programme 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.