How unequal is the UK – and should we care?

*Royal Statistical Society Cathie Marsh Lecture*

David Willetts

November 2017

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INEQUALITY OF WHAT?
Inequality of what?

- Inequality of income
- Inequality of wealth
- Intergenerational inequality
- Inequality between graduates and non-graduates
- Other types include geographic, gender, opportunity
Recent trends in UK living standards and inequality
The distribution of pay growth in recent decades

Average annual growth in real-terms weekly pay: (CPIH-adjusted)

Source: DWP, Households Below Average Income
The outlook for income growth in coming years is bleak – especially in bottom half

Average annual growth in real-terms working-age household income: after housing costs: (CPI-AHC adjusted)

Projection would constitute worst growth performance for lower income households in entirety of income series

Combined with sharpest increase in inequality since Thatcher’s final term

Source: DWP, Households Below Average Income
What has this done to inequality?

Housing cost to income ratios increased sharply in the 2000s, driven by increases among mortgagors and renters and a compositional shift from owning to (relatively more expensive) renting.
The top 1% income share has risen in the last 30 years

Top one per cent’s share of income (equivalised household income)

Note: HBAI data is UK from 2002-03 onwards, GB before then.
Source: RF analysis of HBAI.
Other income ratios describe the changing structure of inequality

*Inequality ratios before and after housing costs (all ages)*

Other income ratios describe the changing structure of inequality

Inequality ratios before and after housing costs (all ages)

Adding housing costs again changes the picture

A NEW DIMENSION OF INEQUALITY — BETWEEN THE GENERATIONS
Since 2008 everyone has gone backwards on pay, but millennials have done worst

Median real weekly pay (CPIH-adjusted to 2017 prices) for five-year birth cohorts: UK

Source: RF analysis of ONS, New Earnings Survey; ONS, Annual Survey of Hours and Earnings; ONS, Labour Force Survey
For more see: L Gardiner & P Gregg, Study, Work, Progress, Repeat? How and why pay and progression outcomes have differed across cohorts, Resolution Foundation, February 2017
The post-crisis pay squeeze hit young people hardest

Change in real hourly pay (CPIH-adjusted) between 2009 and 2014 by age: UK

- 22-29: -9%
- 30-39: -7%
- 40-49: -5%
- 50-59: -3%
- 60+: 0%

Source: RF analysis of ONS, Annual Survey of Hours and Earnings
Rising housing costs mean it takes young people longer to get on the housing ladder.

**Estimated number of years required to save for a first time buyer deposit among young (27-30 year old) households: UK**

- Calculated by applying median first time buyer loan-to-value to average first time buyer house price in each year.
- Level of young person household savings based on putting aside 5% of disposable income a year at five-year average interest rate.
- Appropriate stamp duty charges are added to the cost of the required deposit.

Source: RF analysis of DWP, Family Resources Survey
For more see: A Corlett & L Judge, Home Affront, Resolution Foundation, September 2017
... leading to falling rates of home ownership

Source: RF analysis of ONS, Family Expenditure Survey; ONS, Labour Force Survey
For more see: A Corlett & L Judge, Home Affront, Resolution Foundation, September 2017
Costs are the real disaster

Proportion of income spent on housing costs, by age and generation: GB

- Gen X (1966-1980)
- Baby boomers (1946-1965)
- Silent gen (1926-1945)
- Greatest gen (1911-1925)
- Forgotten gen (1896-1910)
- Lost gen (1881-1895)

Source: RF analysis of ONS, Family Expenditure Survey, DWP, Family Resources Survey
For more see: A Corlett & L Judge, Home Affront, Resolution Foundation, September 2017
The cumulative impact of jobs and housing trends mean living standards progress has stalled

Average real household income (after housing costs), by age and generation: GB

Source: RF analysis of ONS, Family Expenditure Survey, DWP, Family Resources Survey
For more see: A Corlett, As time goes by: Shifting incomes and inequality between and within generations, Resolution Foundation, February 2017
Wealth accumulation (crucial for future living standards) is also falling cohort-on-cohort

Median family total net wealth per adult, by cohort (CPIH-adjusted to 2017 prices): 2006-08-2012-14, GB

Source: RF analysis of ONS, Wealth and Assets Survey
For more see: C D’Arcy & L Gardiner, *The generation of wealth: Asset accumulation across and within cohorts*, Resolution Foundation, June 2017
Generational progress is going backwards for all cohorts born after 1955

Median family total net wealth per adult in 2012-14 as % of preceding cohort’s wealth at the same age (CPIH-adjusted): 2006-08–2012-14, GB

Source: RF analysis of ONS, Wealth and Assets Survey
For more see: C D’Arcy & L Gardiner, The generation of wealth: Asset accumulation across and within cohorts, Resolution Foundation, June 2017
INEQUALITY BETWEEN GRADUATES AND NON-GRADUATES
Graduate earnings figures

<table>
<thead>
<tr>
<th>Aged 16-64</th>
<th>Median salary (nearest £500)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Graduates</td>
<td>£32,000</td>
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<tr>
<td>Postgraduates</td>
<td>£38,000</td>
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<tr>
<td>Non-graduates</td>
<td>£22,500</td>
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</table>

<table>
<thead>
<tr>
<th>Aged 21-30</th>
<th>Median salary (nearest £500)</th>
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<tbody>
<tr>
<td>Graduates</td>
<td>£25,000</td>
</tr>
<tr>
<td>Postgraduates</td>
<td>£29,000</td>
</tr>
<tr>
<td>Non-graduates</td>
<td>£19,000</td>
</tr>
</tbody>
</table>

Source: DfE graduate labour markets statistics 2016.
ATTITUDES TO INEQUALITY
How much income inequality is a problem?

Hume’s principle of envy:

“A common soldier bears no such envy to his general as to his sergeant or corporal; nor does an eminent writer meet with so great jealousy in common hackney scribblers, as in authors, that more nearly approach him. It may, indeed, be thought, that the greater the disproportion is, the greater must be the uneasiness from the comparison.”

_Treatise of Human Nature_ (1738-40)
Attitudes to intergenerational inequality

Belief in the principle of generational living standards progress, by generation: 2017, GB
Q: To what extent do you agree or disagree with the following statement?: Every generation should have a higher standard of living than the one that came before it.

- **Strongly agree / tend to agree**
  - Total: 59%
  - Millennials: 64%
  - Generation X: 57%
  - Baby boomers: 55%

- **Strongly disagree / tend to disagree**
  - Total: 8%
  - Millennials: 8%
  - Generation X: 8%
  - Baby boomers: 7%

*Notes: Base of 2,179 adults aged 16-75. Source: Ipsos MORI*
Britons are not optimistic about intergenerational progress

**Q: To what extent, if at all, do you feel that today’s youth will have a better or worse life than their parents, or will it be about the same?**

<table>
<thead>
<tr>
<th>Country</th>
<th>Better</th>
<th>Worse</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>39%</td>
<td>40%</td>
</tr>
<tr>
<td>China</td>
<td></td>
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</tr>
<tr>
<td>Peru</td>
<td>66%</td>
<td>23%</td>
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<tr>
<td>India</td>
<td>65%</td>
<td>20%</td>
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<tr>
<td>Indonesia</td>
<td>63%</td>
<td>25%</td>
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<tr>
<td>Brazil</td>
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<tr>
<td>South Africa</td>
<td>49%</td>
<td>39%</td>
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<tr>
<td>Mexico</td>
<td>48%</td>
<td>44%</td>
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<tr>
<td>Russia</td>
<td>45%</td>
<td>30%</td>
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<td>Poland</td>
<td>42%</td>
<td>37%</td>
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<td>Argentina</td>
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<td>US</td>
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<td>Italy</td>
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<td>Germany</td>
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<td>Sweden</td>
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<td>Australia</td>
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<td>43%</td>
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<td>South Korea</td>
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<td>58%</td>
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<tr>
<td>Great Britain</td>
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<td>50%</td>
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<tr>
<td>Spain</td>
<td>21%</td>
<td>55%</td>
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<tr>
<td>Belgium</td>
<td>15%</td>
<td>60%</td>
</tr>
<tr>
<td>France</td>
<td>10%</td>
<td>71%</td>
</tr>
</tbody>
</table>

Notes: Base of 18,810 adults aged 16+ in 22 countries, fieldwork conducted September-October 2016.
Source: Ipsos Global Trends Survey 2017
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