

in brief...

Economic inequality in the UK

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. CEP's research director **Stephen Machin**, one of the panel members, summarises its report.

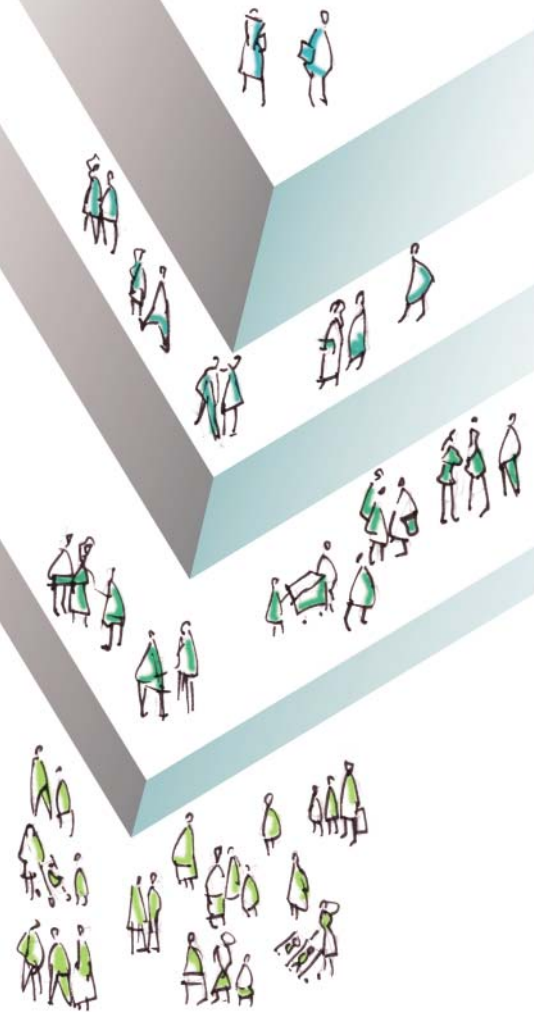
Inequalities in earnings and incomes are high in the UK, both compared with other industrialised countries, and compared with 30 years ago. That is the central finding of *An Anatomy of Economic Inequality in the UK*. Over the most recent decade, earnings inequality has narrowed a little and income inequality has stabilised on some measures, but the large inequality growth of the 1980s, where all parts of the distribution significantly widened, has not been reversed.

The report finds that 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. But deep-seated and systematic differences in economic outcomes remain. Despite the elimination and sometimes even reversal of the qualification differences that often explain them, significant differences in employment rates and relative pay remain 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 40 years is mostly attributable to growing gaps within groups rather than between them.

Many of the differences examined tend to accumulate across the lifecycle, especially those related to socio-economic background. Economic advantage and disadvantage reinforce themselves across the lifecycle, and often on to the next generation. Policy interventions to counter this are needed at each lifecycle stage. Achieving 'equality of opportunity' is very hard when there are such wide differences between the resources that people and their families have to help them fulfil their diverse potentials.

One part of the report looks at how changes to taxes and benefits since 1996/7 have affected households.



The analysis suggests that compared with unchanged policies that involved price indexation, those who would have been in the poorest half of the income distribution were better off under the actual structures of 2008/9 – by up to 25% for those who would have been in the poorest tenth of the population. Against an earnings-linked base, those who would have been in the poorest three tenths were still better off on average, but to a smaller extent – by up to 8% for the bottom tenth.

Overall, the report brings together and interprets a sizeable body of empirical evidence, painting a picture of key aspects of economic and social inequality over time. It offers the kind of evidence base that policy-makers from all political parties really need to make progress in formulating coherent policies – policies to tackle the negative effects that increased inequality has caused.

The report of the National Equality Panel, *An Anatomy of Economic Inequality in the UK* (http://sticerd.lse.ac.uk/case/_new/publications/NEP.asp), was published in January 2010.

CEP researchers **Sandra McNally**, **Richard Murphy** and **Jonathan Wadsworth** contributed to the report along with CEP's research director **Stephen Machin**, who is a member of the National Equality Panel.