

# DIS-UNITED KINGDOM

*Inequality, growth, generations  
and the Brexit split*

*Addressing Social Divides*  
Session Five, QIISP 2017

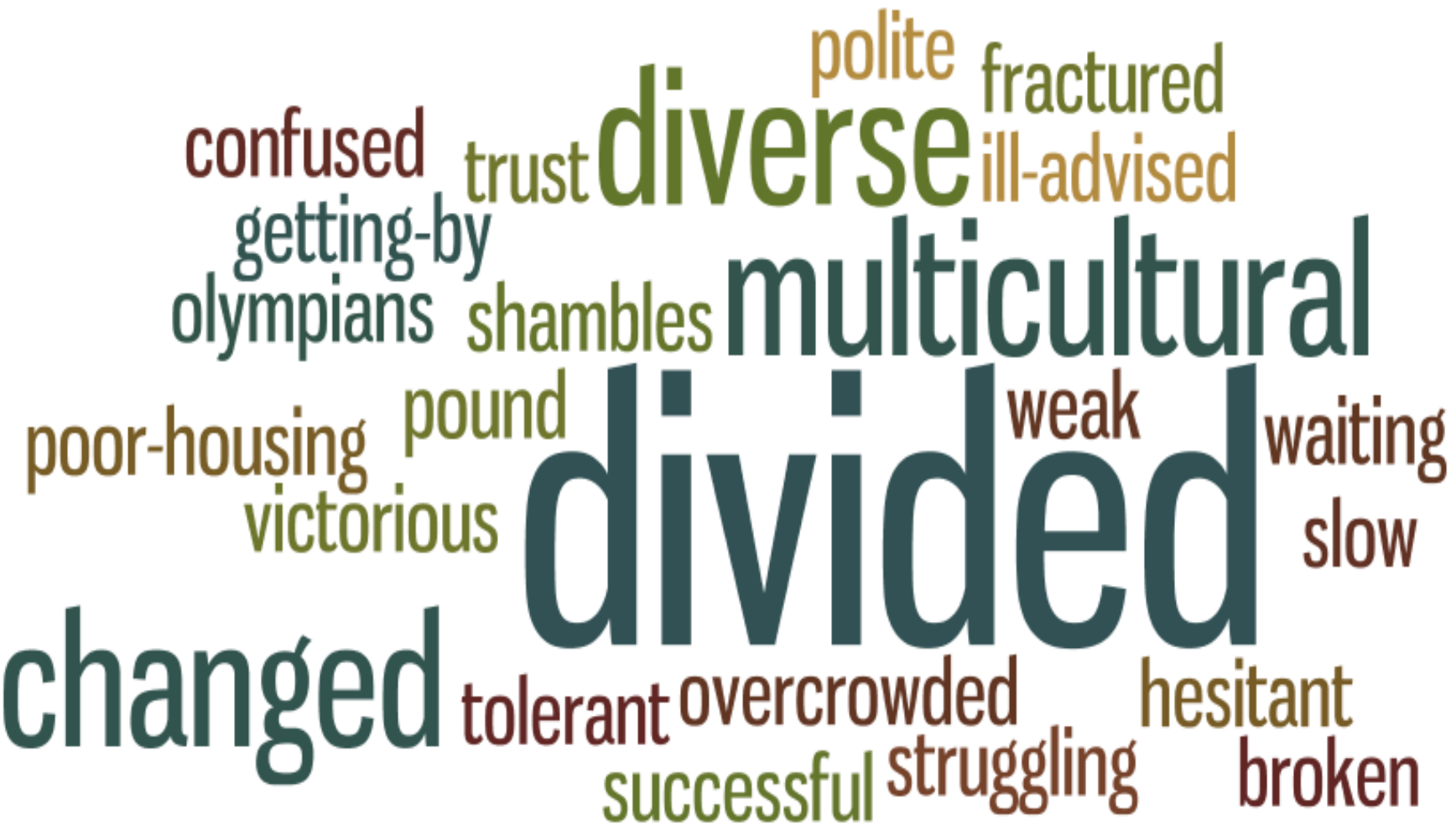
Matt Whittaker

August 2017

@MattWhittakerRF @resfoundation

Post-EU referendum, Britain appears divided: *a nation of people who describe themselves as 'haves' & 'have nots'*

RF



# SQUEEZED TOGETHER

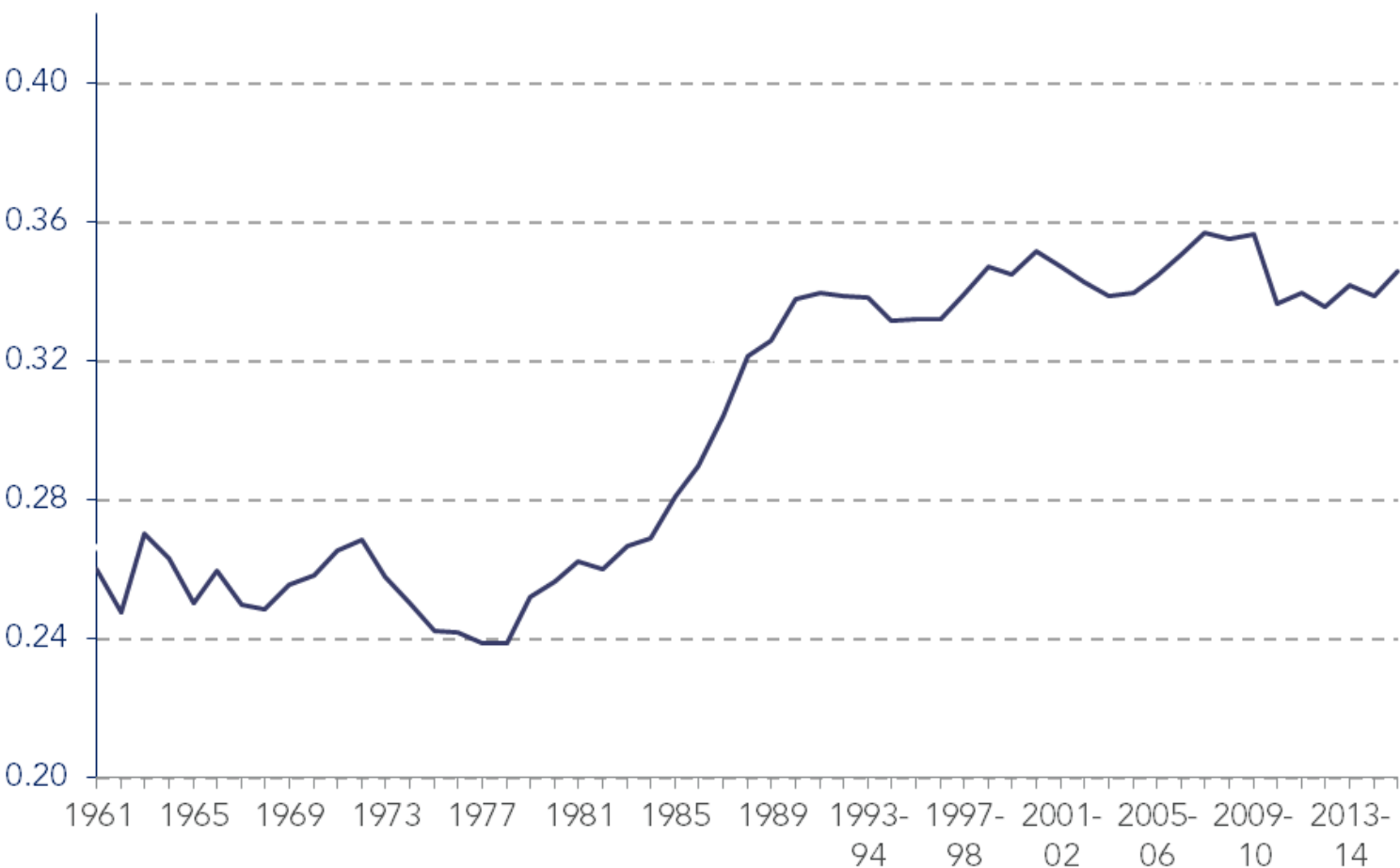
*Do living standards realities  
match the perceptions?*

# Headline UK income inequality has been broadly flat since 1990. A sense of division is understandable given level of inequality, but why *now*?

Gini coefficient measures the level of inequality (after taxes and benefits)

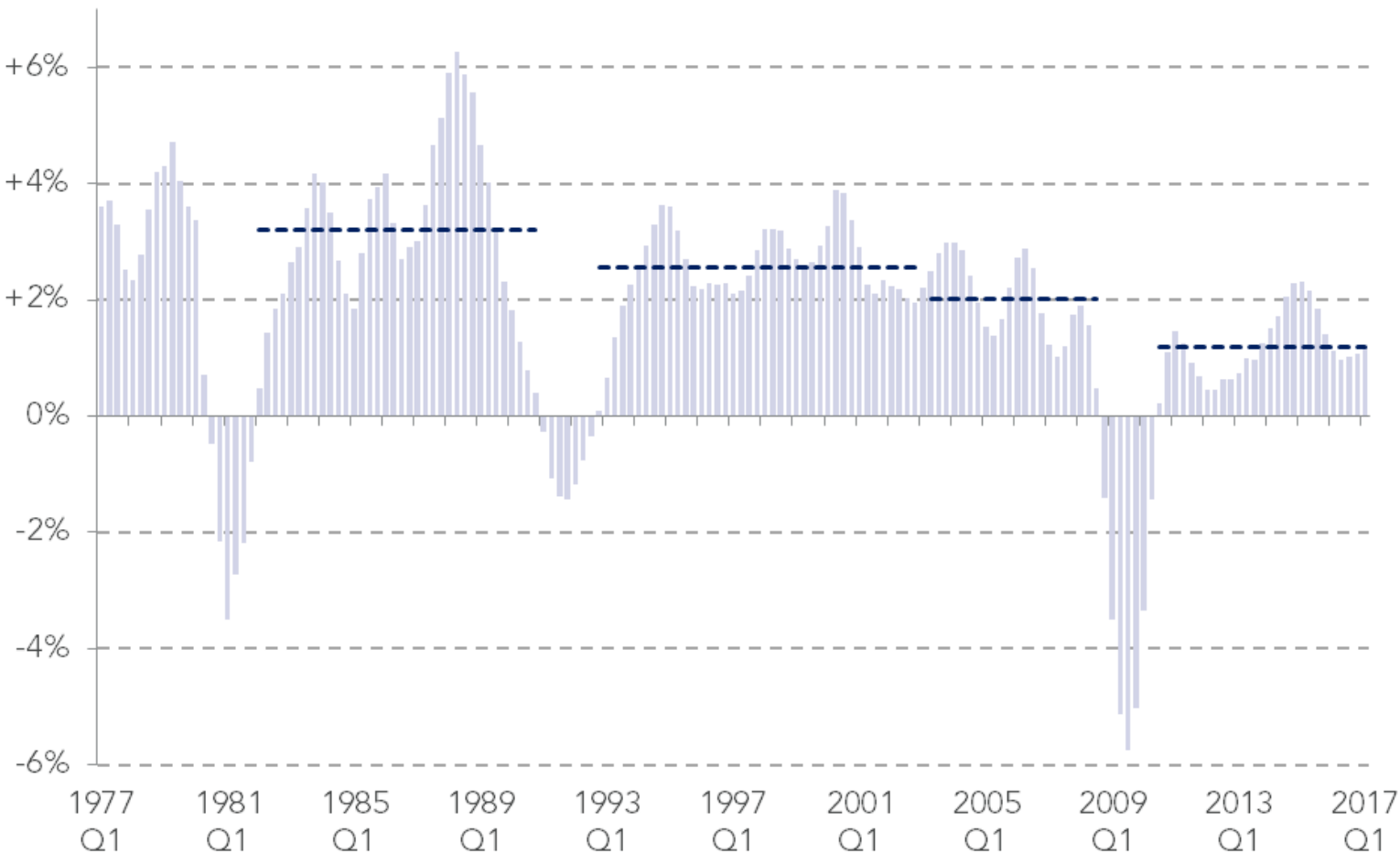
It climbed from 0.26 in 1980 to 0.34 in 1990 and has been broadly flat ever since (and is a bit higher than in Canada)

Gini coefficient (1= perfect inequality): UK



# (1) The size of the pie matters too – overall growth has slowed over recent decades

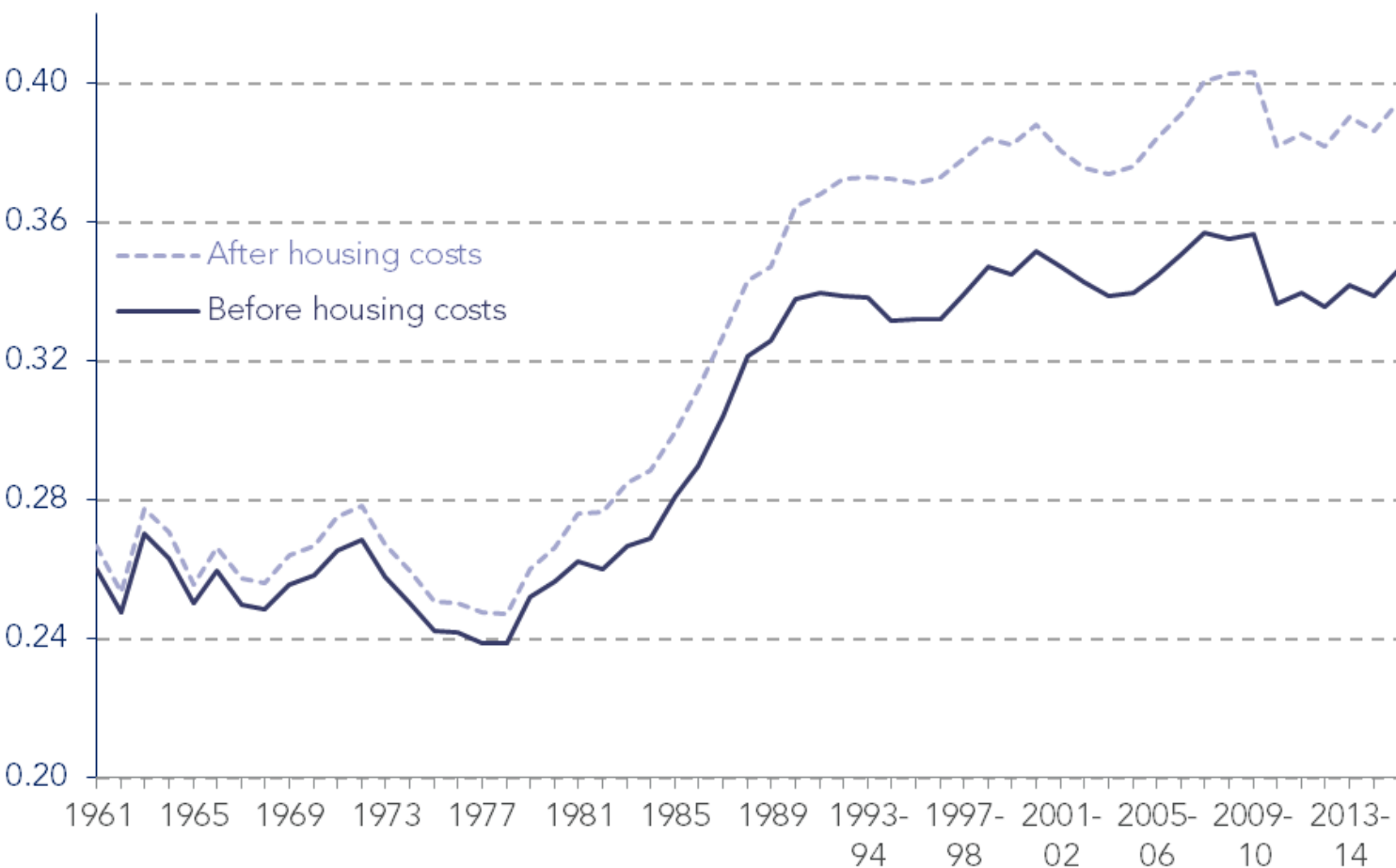
Annual growth in real-terms GDP per capita: chain-volume measure, seasonally adjusted: UK



Average annual growth in GDP per capita has slowed from 3.2% in the 1980s to just 1.2% since 2010

## (2) Housing cost pressures – after-housing cost income inequality *is* rising

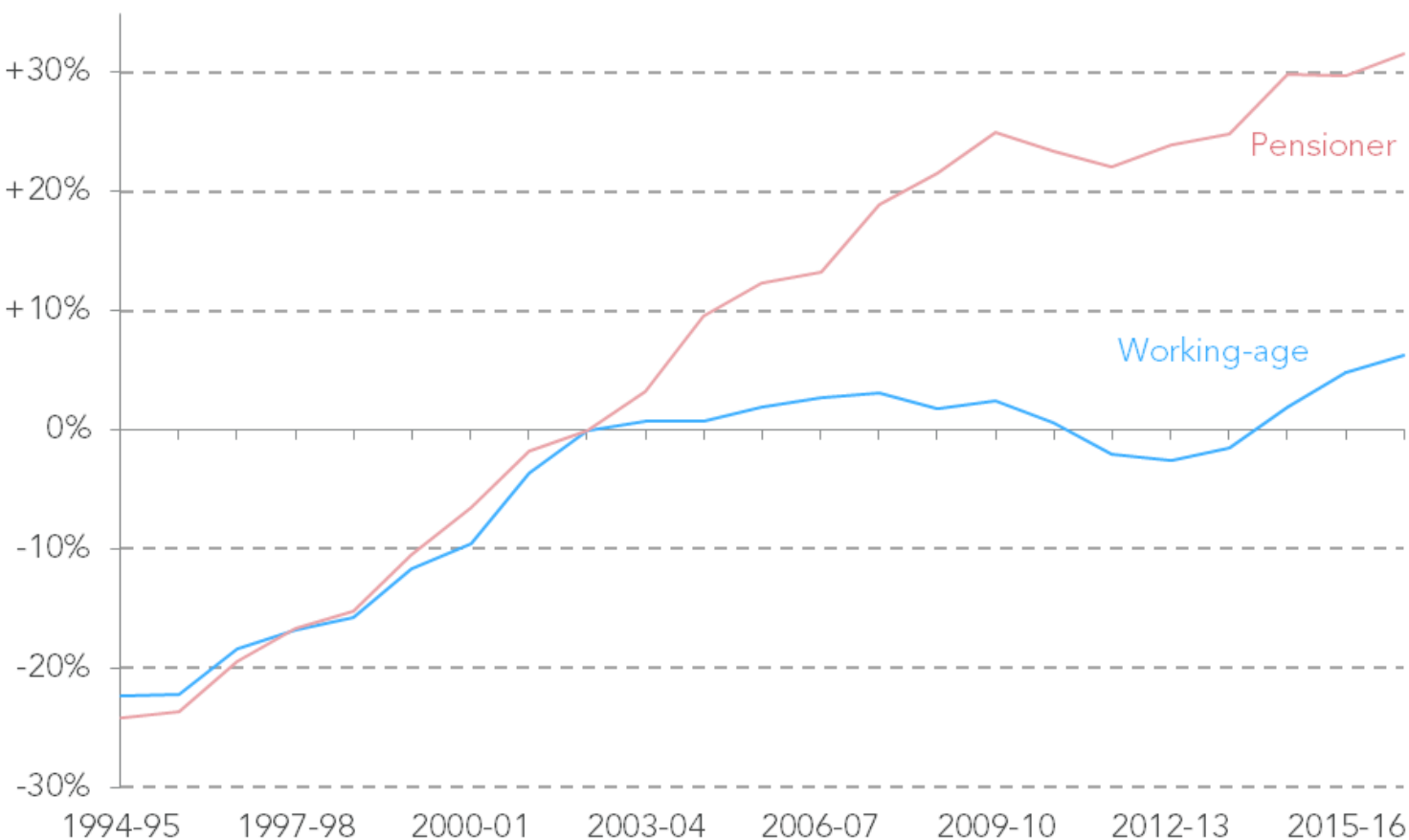
Gini coefficient (1= perfect inequality): UK



Housing cost to income ratios increased sharply in the 2000s, driven both by increases among mortgagors and renters and a compositional shift from owning to (relatively more expensive) renting

### (3) New divisions have opened up – with working-age households especially affected

Change in median net weekly household income after housing costs, relative to 2002-03 (CPIH-adjusted): UK

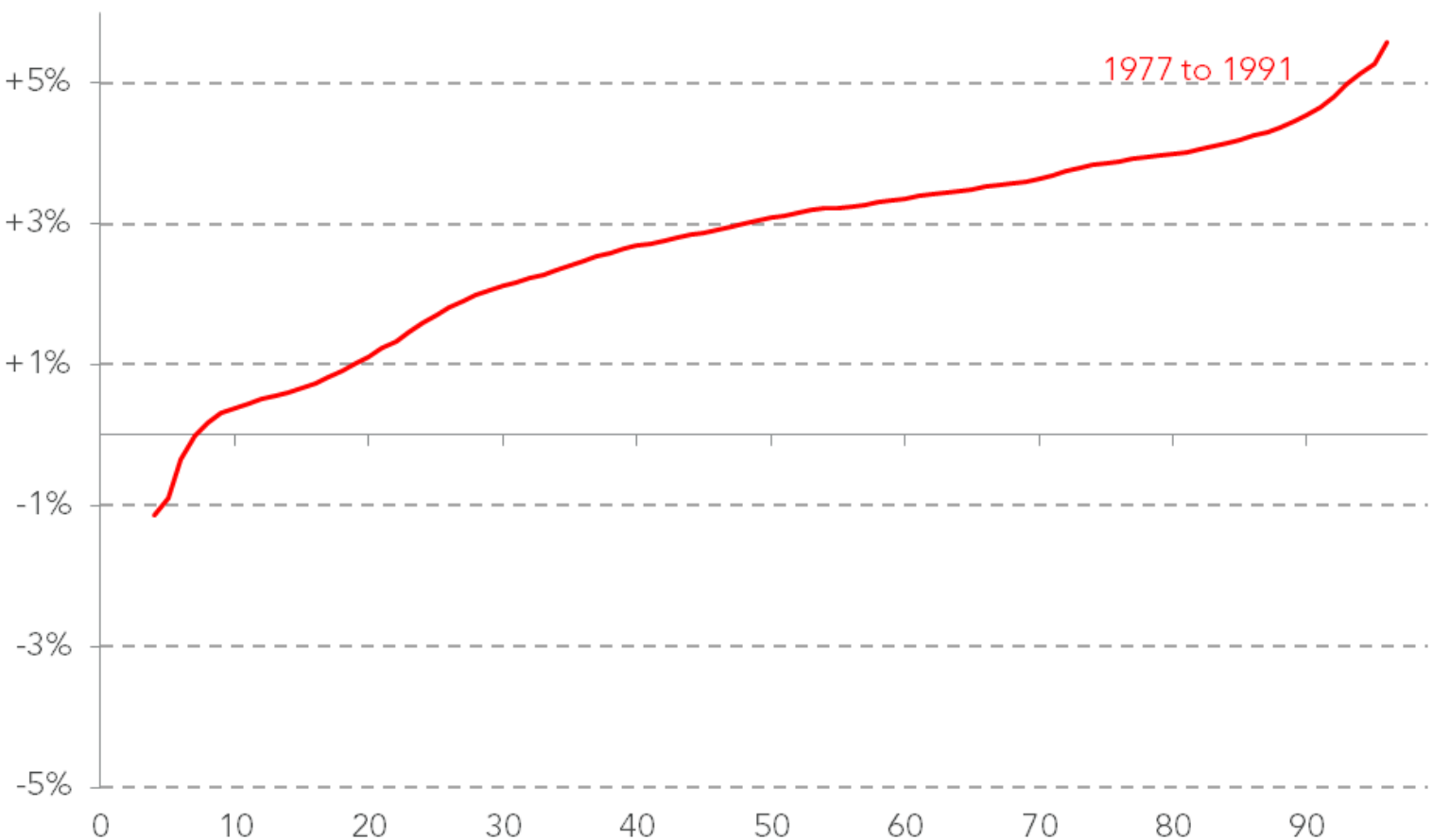


Pensioner income growth has been driven by the growing importance of private pension incomes among more recent retirees; by higher employment rates; and by protection of pensioner benefits during 'austerity'

# Focusing on working-age AHC income growth in different 'episodes' is illuminating –

## *(i) Strong but skewed growth in the 1980s*

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



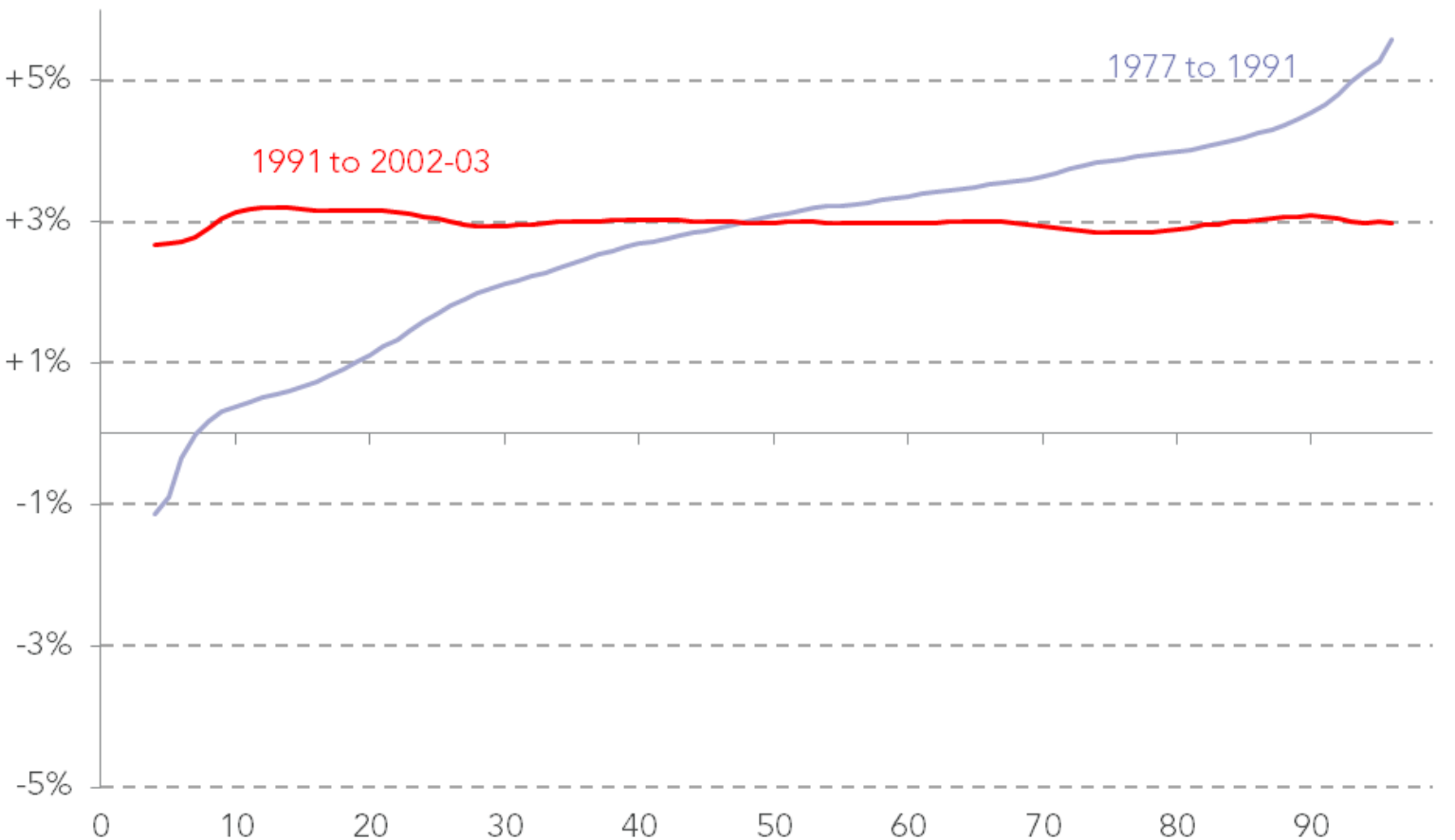
Strong economic growth; benign housing backdrop; deregulation and financialisation supporting strong income growth at the top; geographically concentrated unemployment



# Focusing on working-age AHC income growth in different 'episodes' is illuminating –

## *(ii) Strong and shared growth in the 1990s*

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

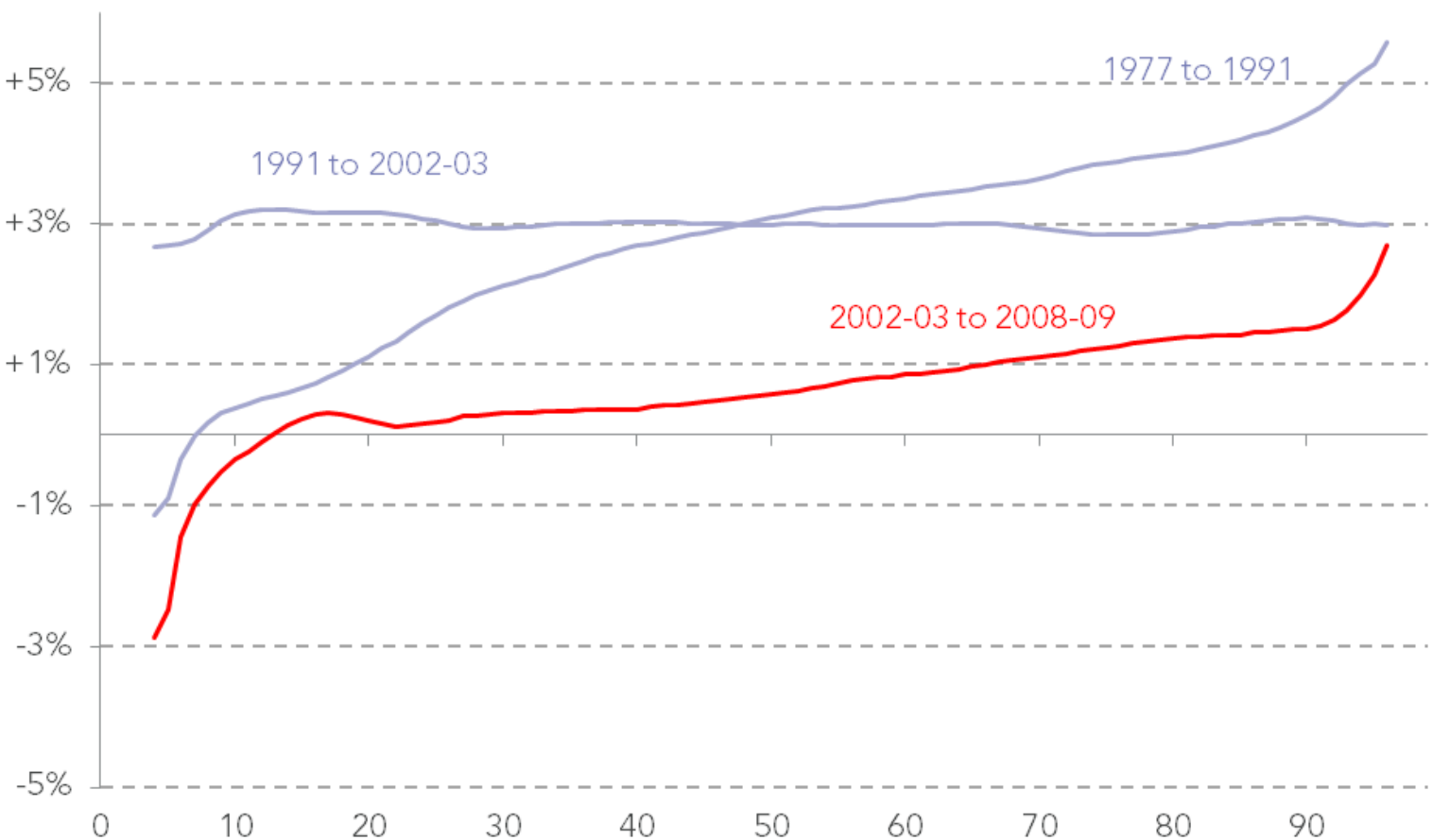


Rising  
employment;  
solid economic  
growth;  
introduction of  
the National  
Minimum  
Wage;  
development  
of tax credits;  
benign housing  
backdrop

# Focusing on working-age AHC income growth in different 'episodes' is illuminating –

## *(iii) Pre-crisis slowdown from the early 2000s*

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

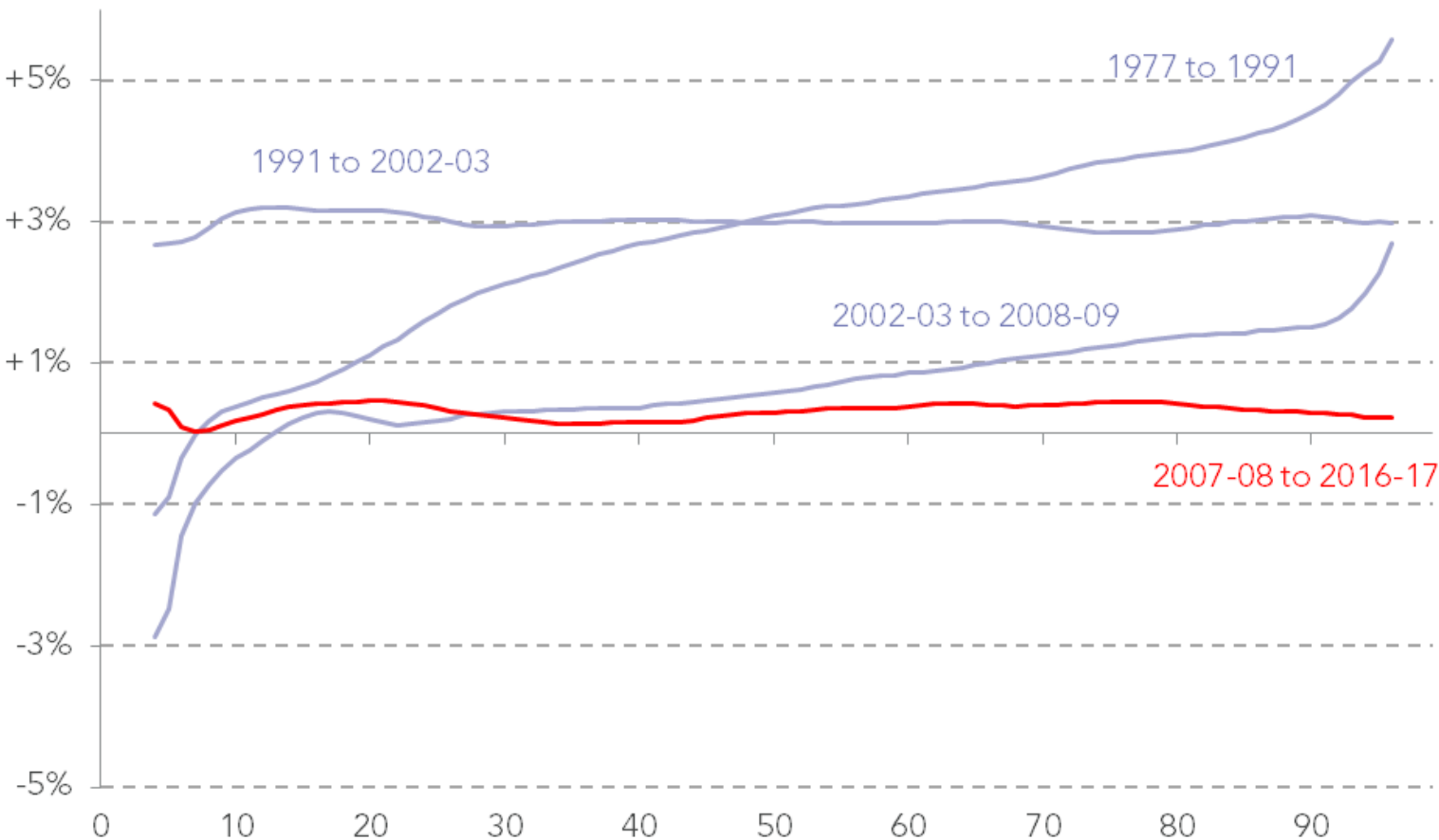


Employment plateau; continued tax credit and wage floor support; rapid increases in housing costs; productivity and pay growth slowdown

# Focusing on working-age AHC income growth in different 'episodes' is illuminating –

## *(iv) Post-crisis stagnation over the last decade*

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

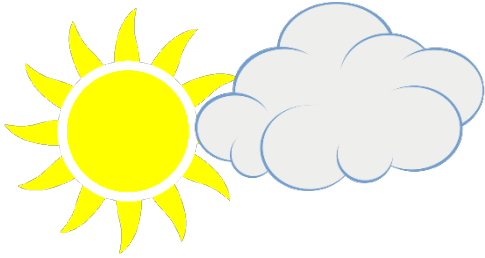


Record  
employment;  
flat-lining  
productivity;  
falling pay;  
mortgage rate  
cuts; start of  
benefit cuts

Initial post-  
crisis recovery  
ended by Brexit  
vote and  
sterling  
depreciation

Or...

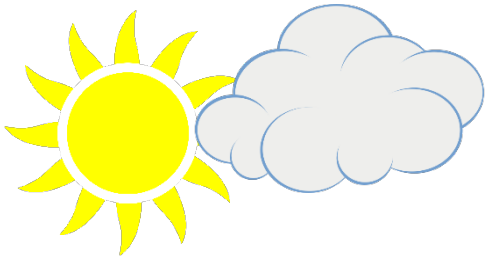
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**1980s:** a crack appeared in the UK's roof, but the sun shone for most people

Or...

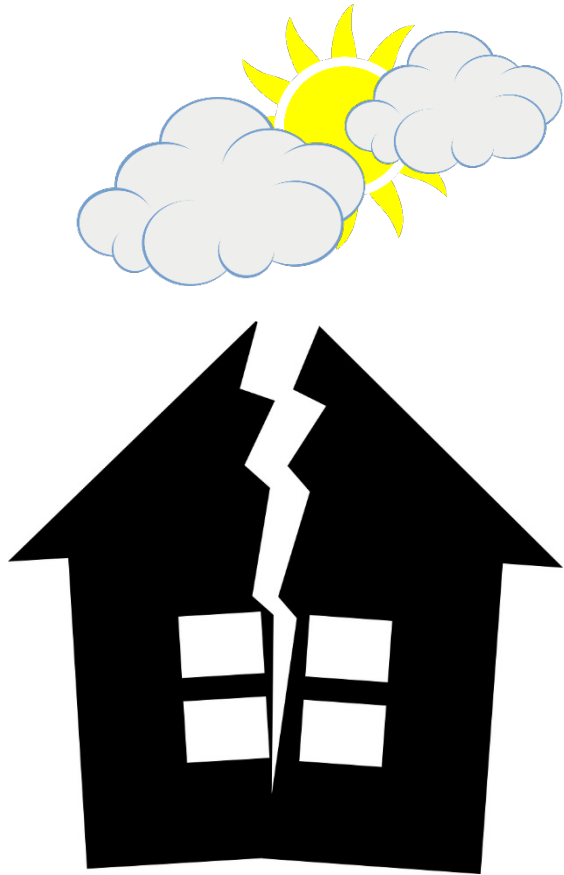
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**1990s:** strong and shared income growth kept the sun beating down

Or...

RF



**2000s:** the clouds started gathering as income growth slowed pre-crisis

Or...

RF



**2010s:** we've had a decade of rain post-crisis and people are getting wet

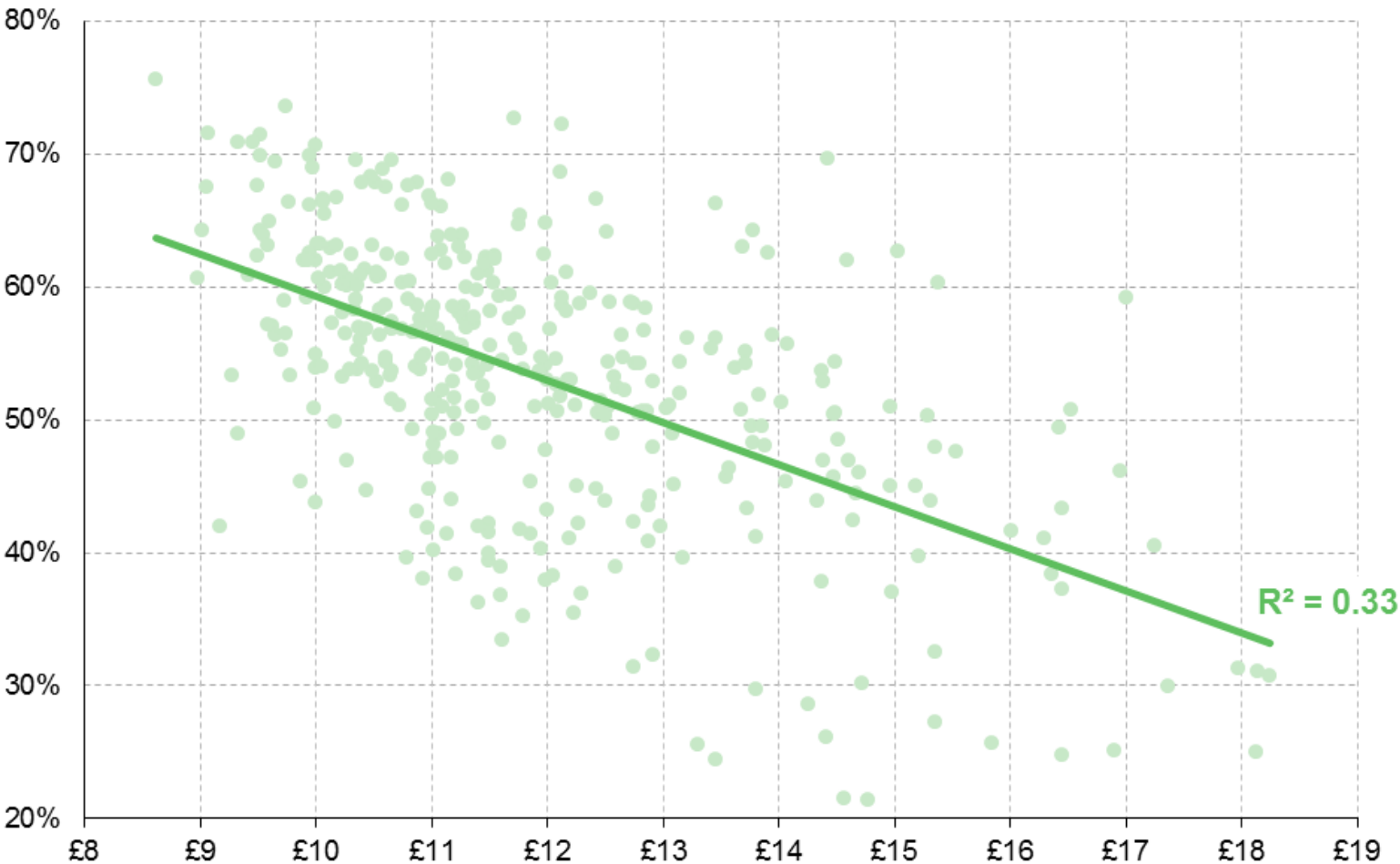
# NOT JUST ECONOMICS, STUPID

*Assessing the EU referendum  
vote by place*



# Economics (pay) appeared to play some role in the way different parts of the country voted in the referendum

*Leave vote in the local authority, by median hourly pay excluding overtime (Apr-15)*

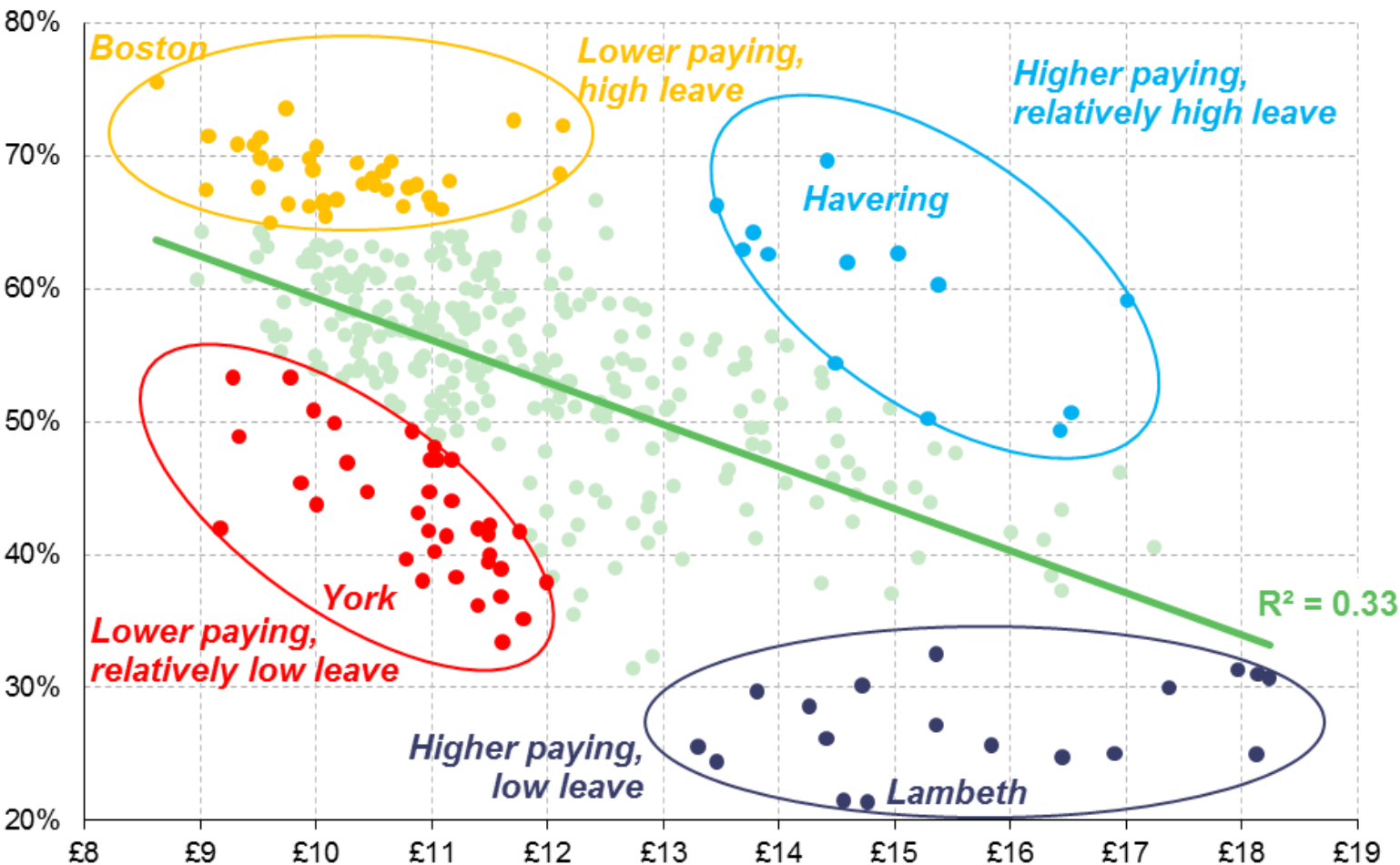


Looking across 378 of Britain's 380 local authorities, simple correlation shows that those with higher levels of median pay recorded lower votes for Leave

# There's more going on however... with a clear division between higher and lower paying groups

To get to the bottom of it, we can run some regression analysis - technically, a clustered standard errors approach

Leave vote in the local authority, by median hourly pay excluding overtime (Apr-15)



Source: ONS, NOMIS

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# Regression shows economics *did* matter for the Leave vote, with longer-established divisions standing out

## ECONOMICS



*Employment rate*

*Median pay*

*Change in median pay ('02-'15)*

*Manufacturing change ('95-'15)*

After controlling for all other factors, the employment rate in an area proved a statistically significant predictor of the vote – higher employment areas were less likely to vote Leave

No significant link to recent changes in economic factors, suggesting that the economic divide is long-established

# Demographics also mattered, with the pace of change in migration in an area mattering more than the level

## DEMOGRAPHICS

*Students*

Areas with high numbers of students posted lower Leave votes after controlling for other factors

*Ratio of old to young*

The share of the population born outside of the UK had no significant bearing on the vote, but the pace of change in the migrant population over the last decade did

*Non-UK born share of population*

*Change in non-UK share ('04-'15)*

Cultural differences played a role too, with some areas recording very different votes even after accounting for other factors

## CULTURE

'Cohesion'

Home ownership

Scotland

West Midlands

Areas were statistically less likely to vote Leave when reporting higher levels of 'cohesion' (where 'people tend to get on well with those from different backgrounds') and statistically more likely when homeownership rates were high

Even after controlling for everything else, some areas recorded unusually low Leave votes (Scotland) and some recorded unusually high ones (West Midlands), implying other factors were also important

# The biggest single predictor of the vote, education, straddled economics, demographics and culture

ECONOMICS

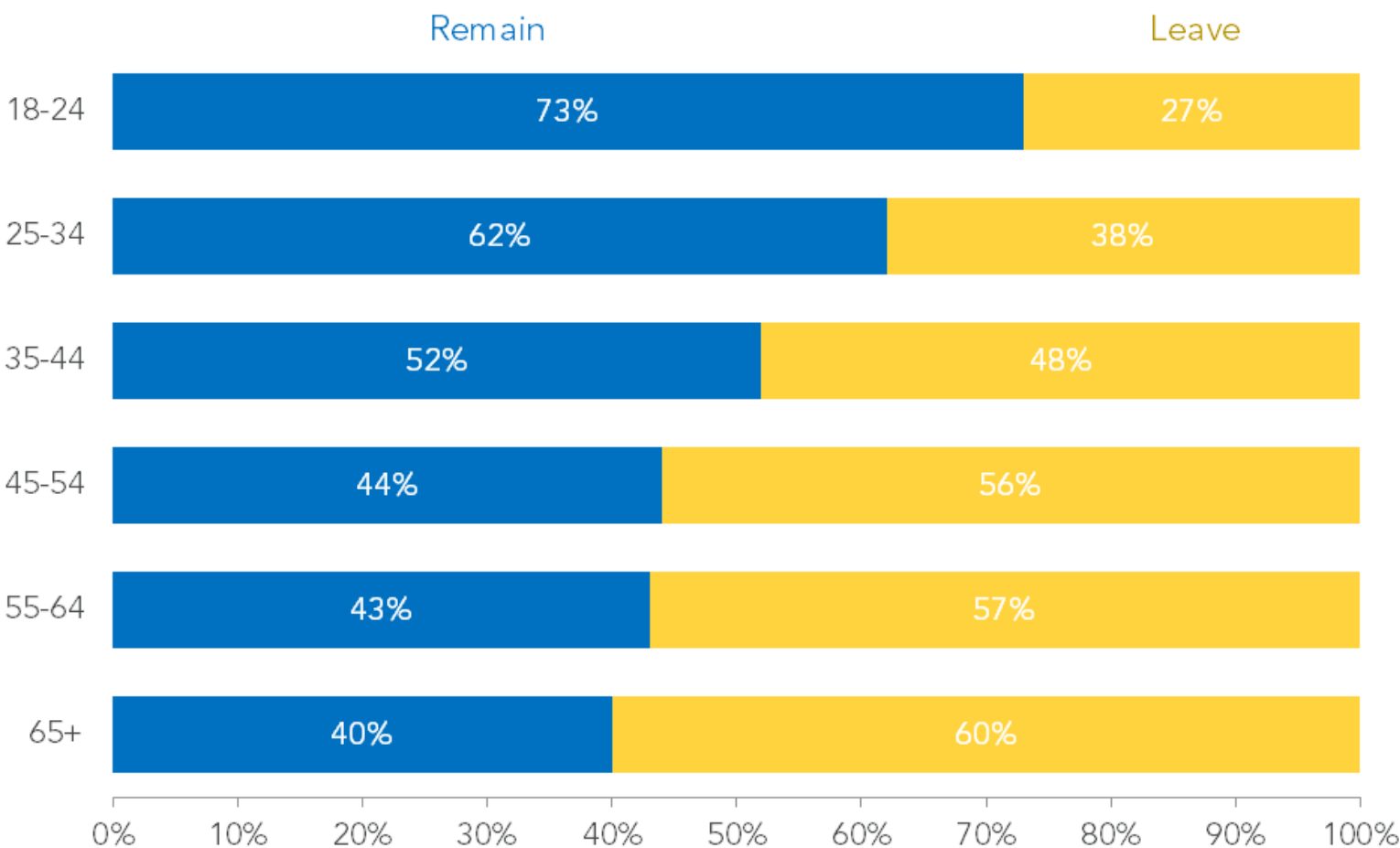
DEMOGRAPHICS

CULTURE

*Share of population with Level 4  
qualification (degree) and above*

# The Brexit vote also struck a match under the intergenerational debate

Voting in the EU referendum by age: UK, 2016



Age didn't factor in the regression when focusing on votes by *place*, but it was a clear dividing line in relation to how *individuals* voted

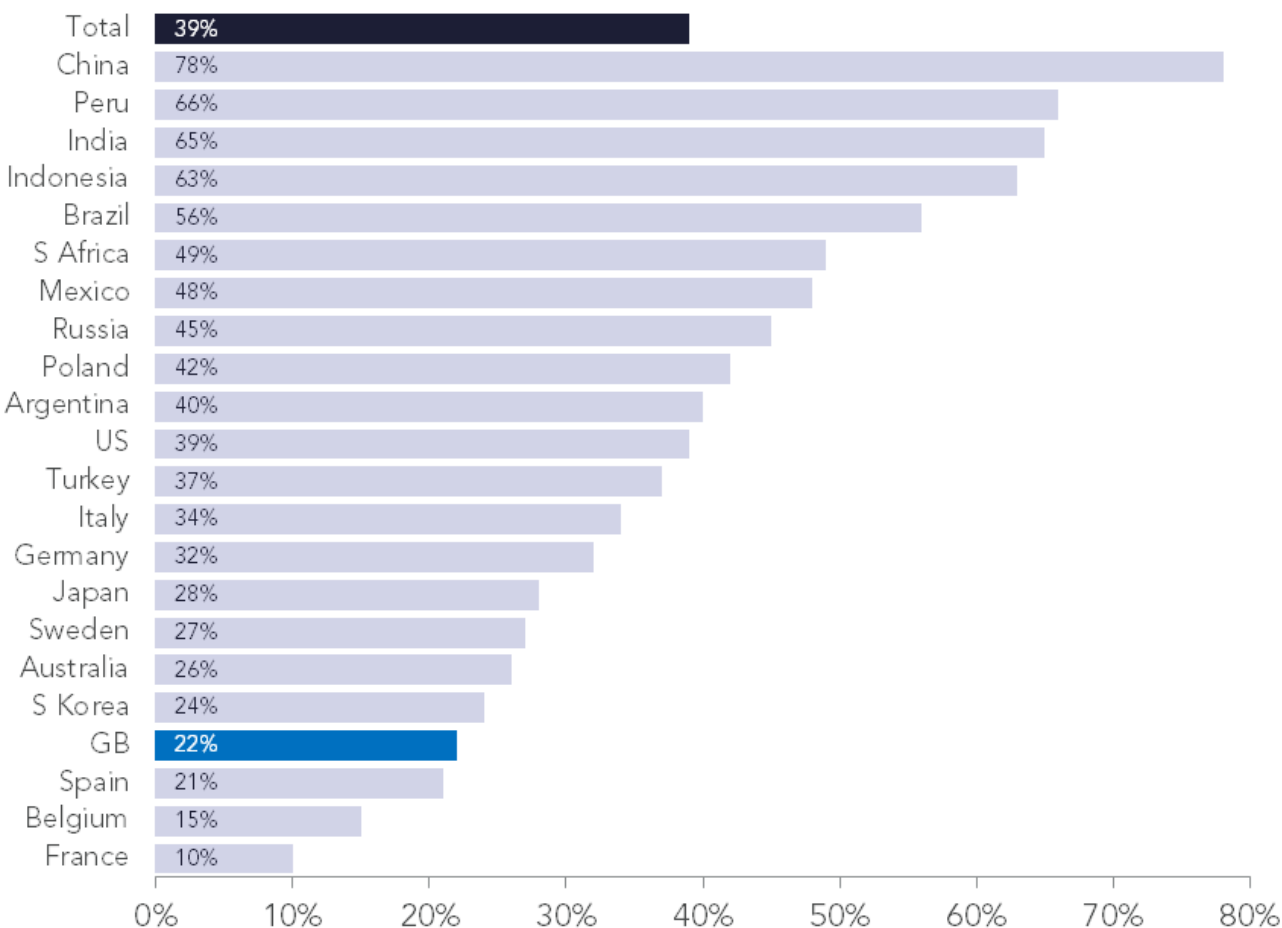
# STAGNATION GENERATION

*Britain's newest divide?*



# Britons have an especially pessimistic view of the prospects of the young

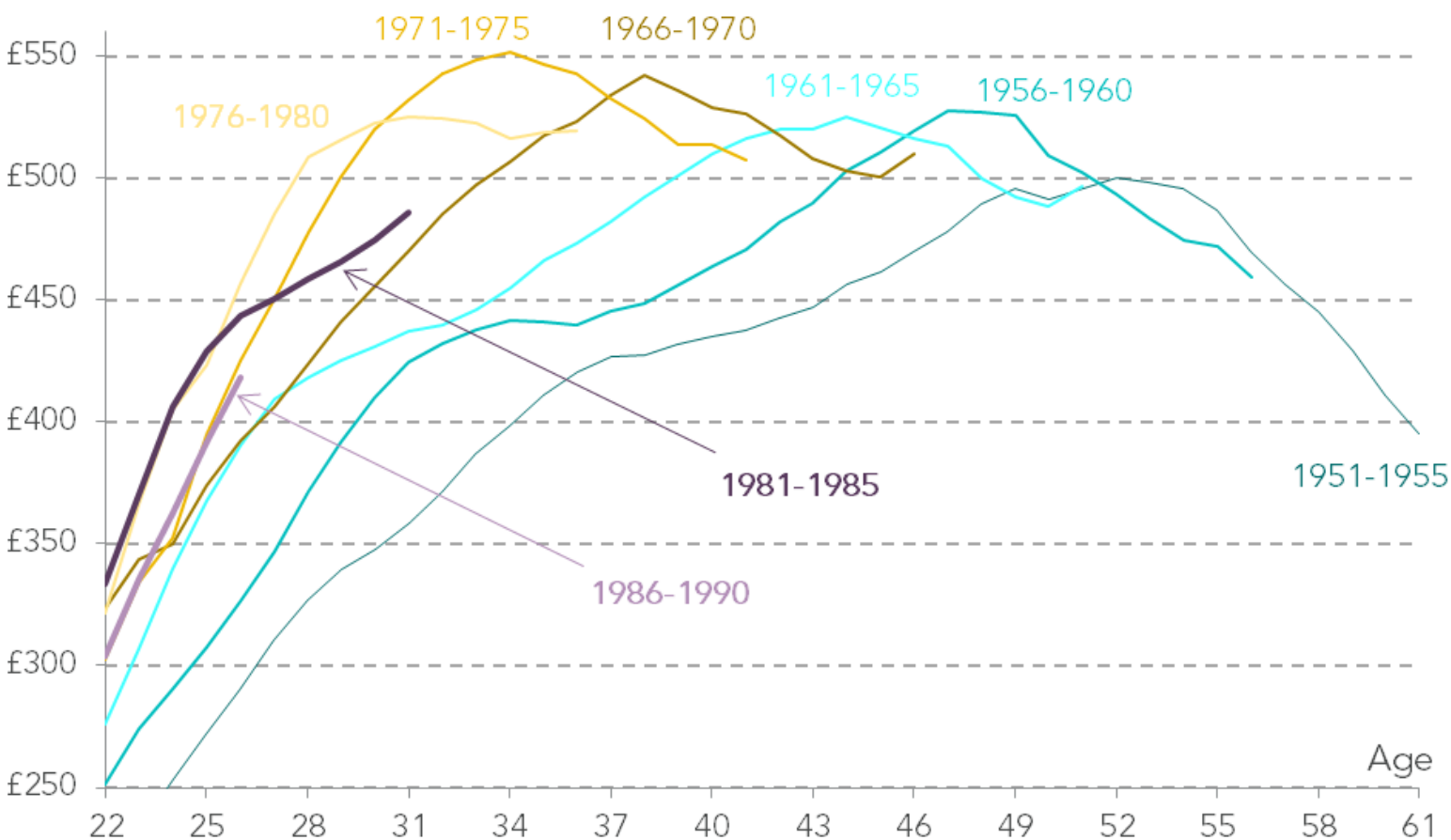
To what extent, if at all, do you feel that today's youth will have had a better or worse life than their parents, or will it be about the same? (Sep/Oct 2016)



Precisely half (50%) in GB said that they expected today's youth to have worse lives than their parents, compared with an overall average of 40%

# Potentially with good cause... employees in their late-20s earn less than those at the same age 15 years before them

Median real-terms weekly employee pay: 2017 prices (CPIH-adjusted): UK

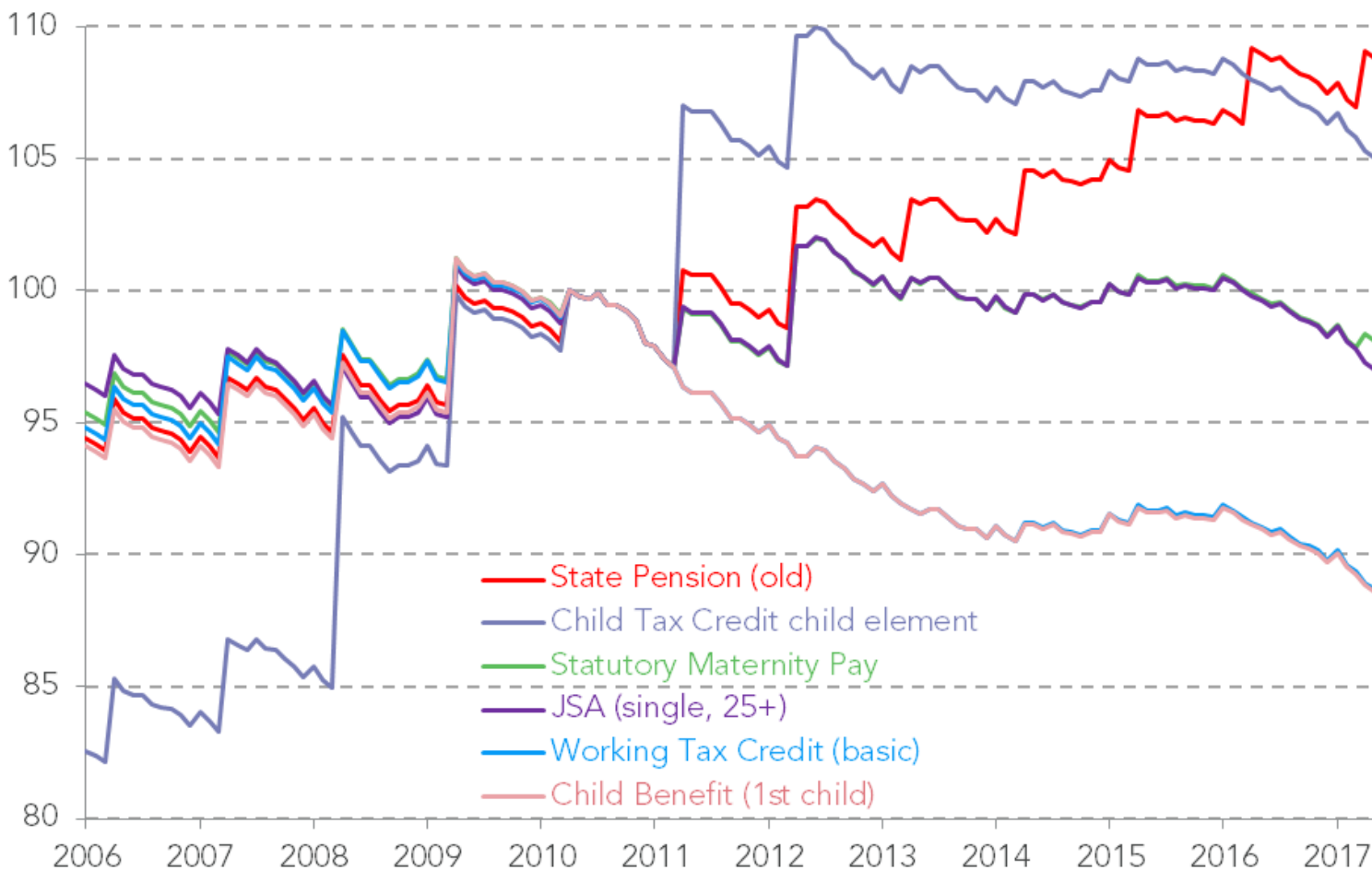


At age 31, those born in the early-1980s earn £40 a week less than those born ten years before them

Those born in the late-1980s earn less (at age 26) than those born fifteen years before them

# Alongside labour market challenges, younger groups have borne the brunt of benefit cuts in the name of austerity

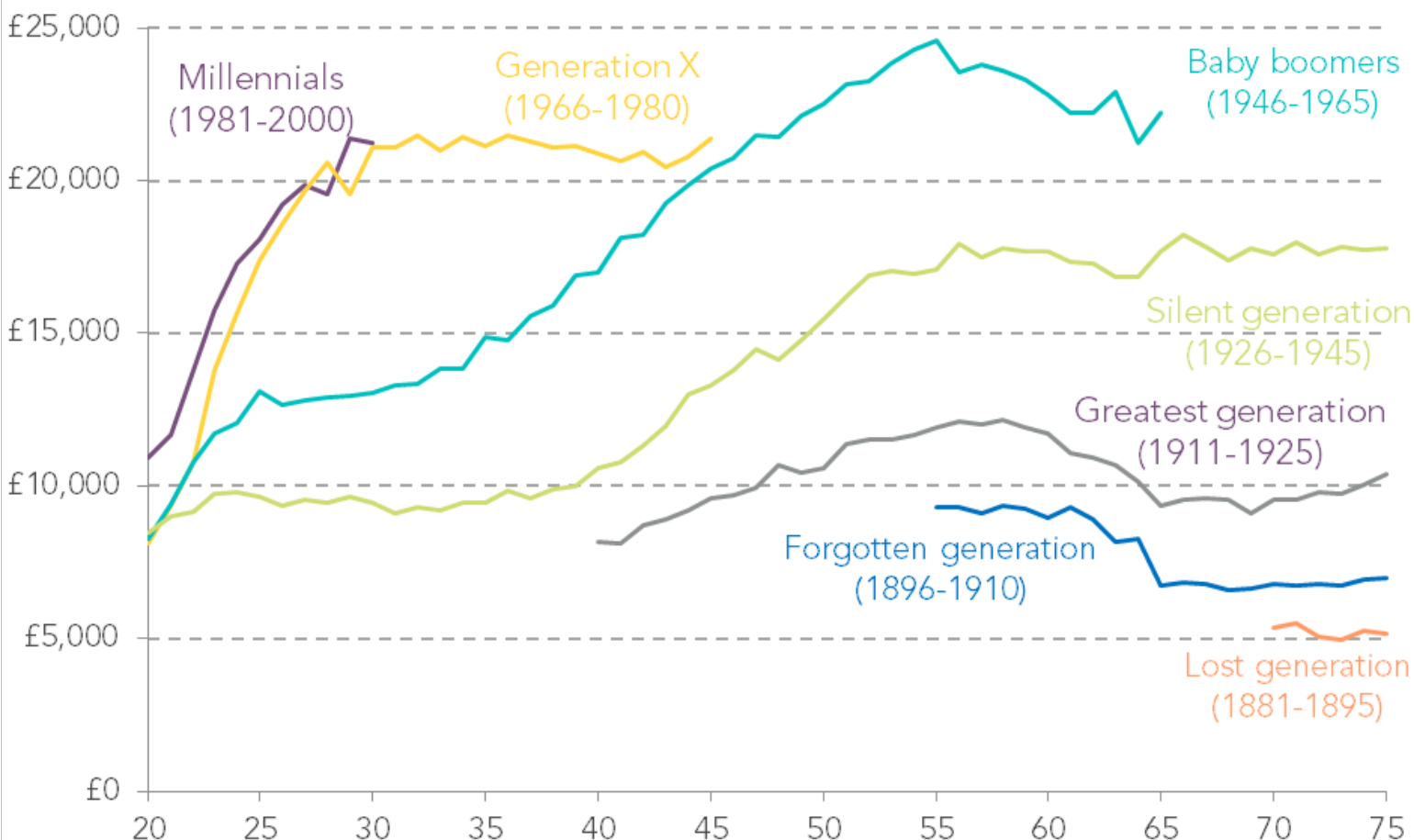
Indices of real-terms values of selected benefit payments (CPIH-adjusted): Apr-2010 = 100



The 'triple lock' has provided real-terms protection for the state pension since 2010, whereas benefits for other groups have been cut – and are set to fall substantially further in the coming years

# Overall, income trends suggest a stalling of the generational gains that characterised the 20<sup>th</sup> century

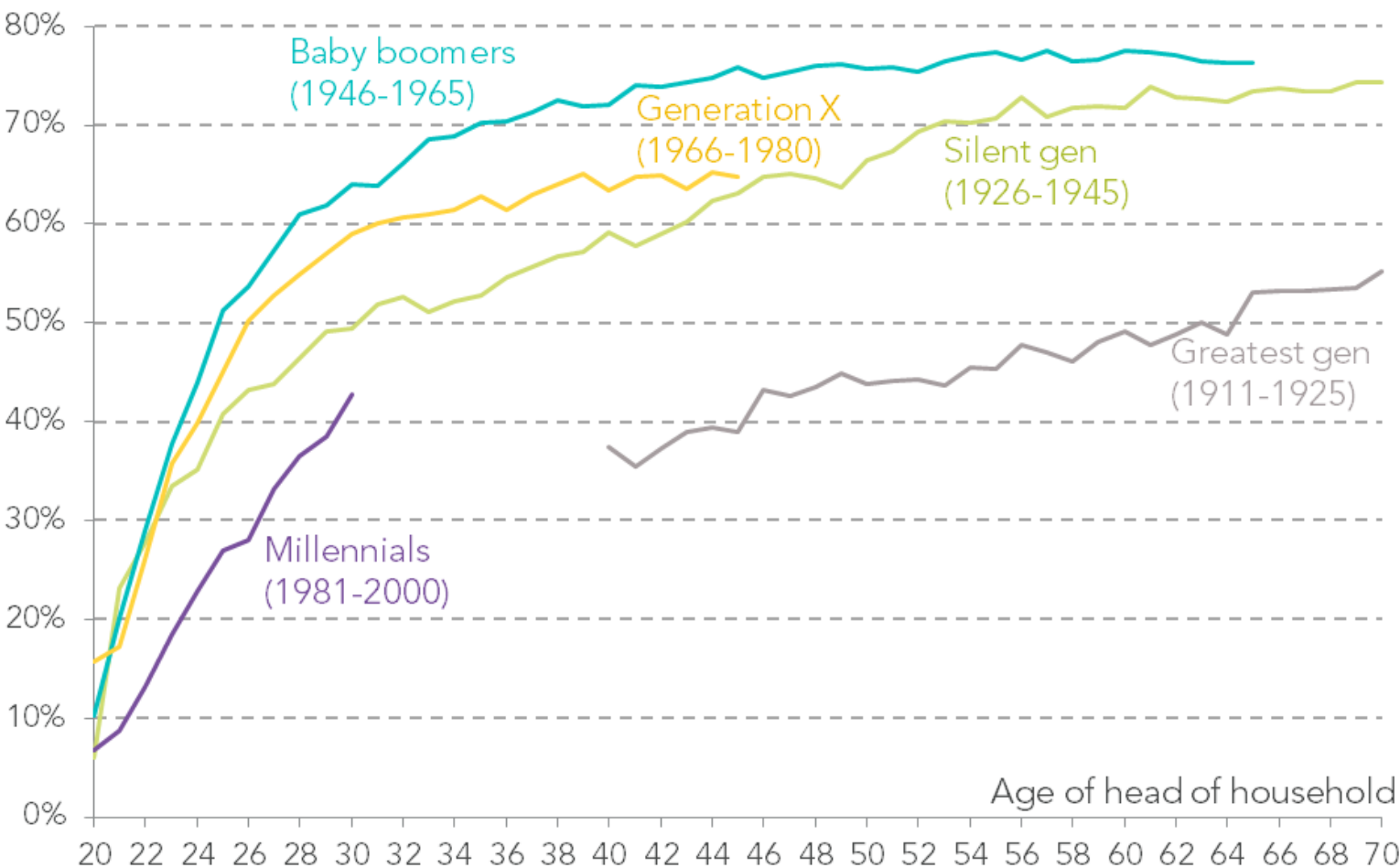
Median household income after housing costs , (CPI-AHC adjusted, 2016-17 prices): UK



Millennials at age 30 are faring no better than members of Generation X, while older members of Gen X record incomes broadly in line with boomers at the same age – in direct contrast to the generational progress we've been used to

# Younger cohorts have also recorded dramatic reductions in home ownership rates

Home ownership rates by age for each generation: UK



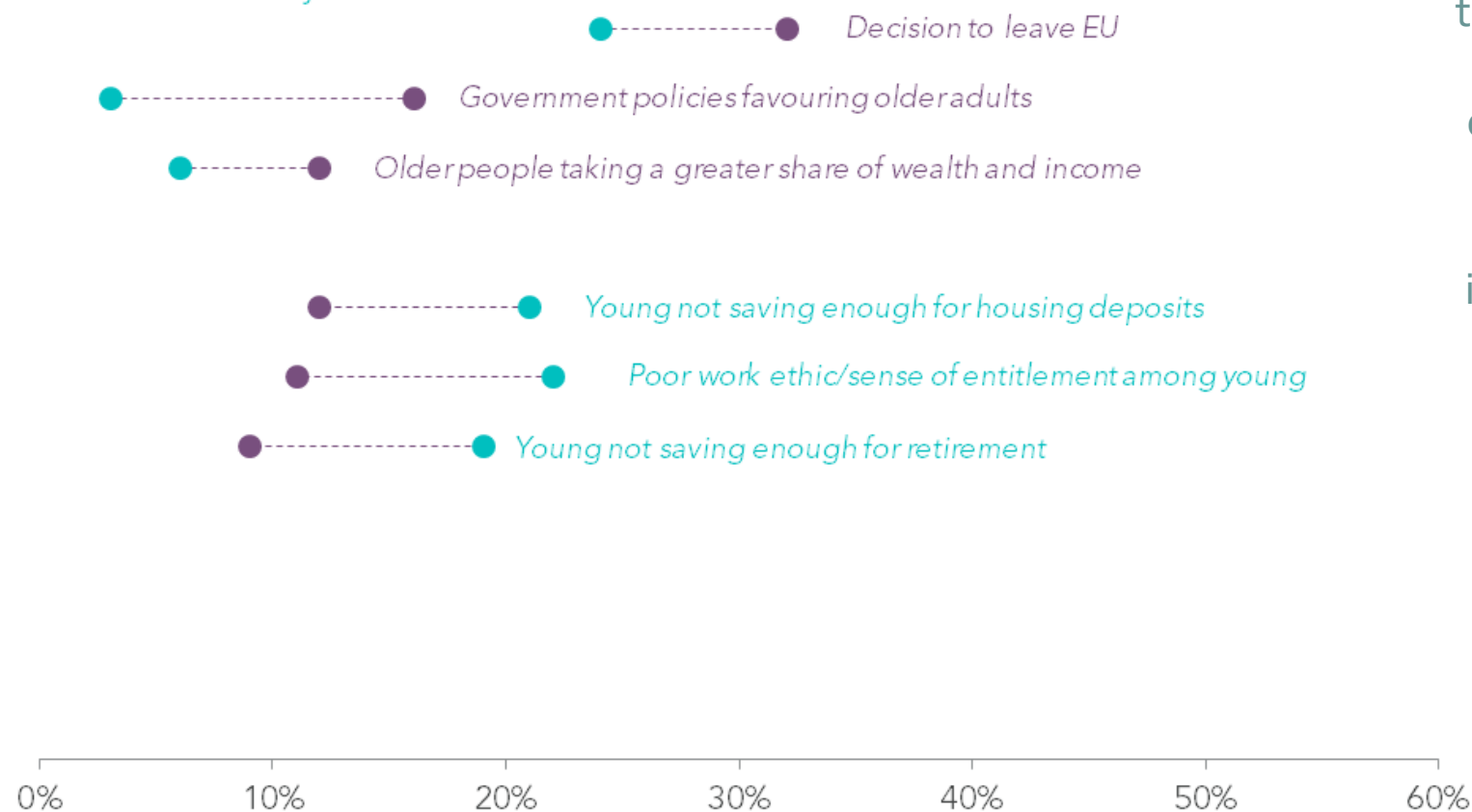
Baby boomer households were 50 per cent more likely to own a home at age 30 than millennials currently are

Means younger cohorts have higher housing costs than previously (via renting), and lower wealth

# There is *some* evidence of tension between the generations

Which two or three of the following reasons are most important in explaining why young adults will have a worse life than their parents?

● Millennials ● Baby boomers

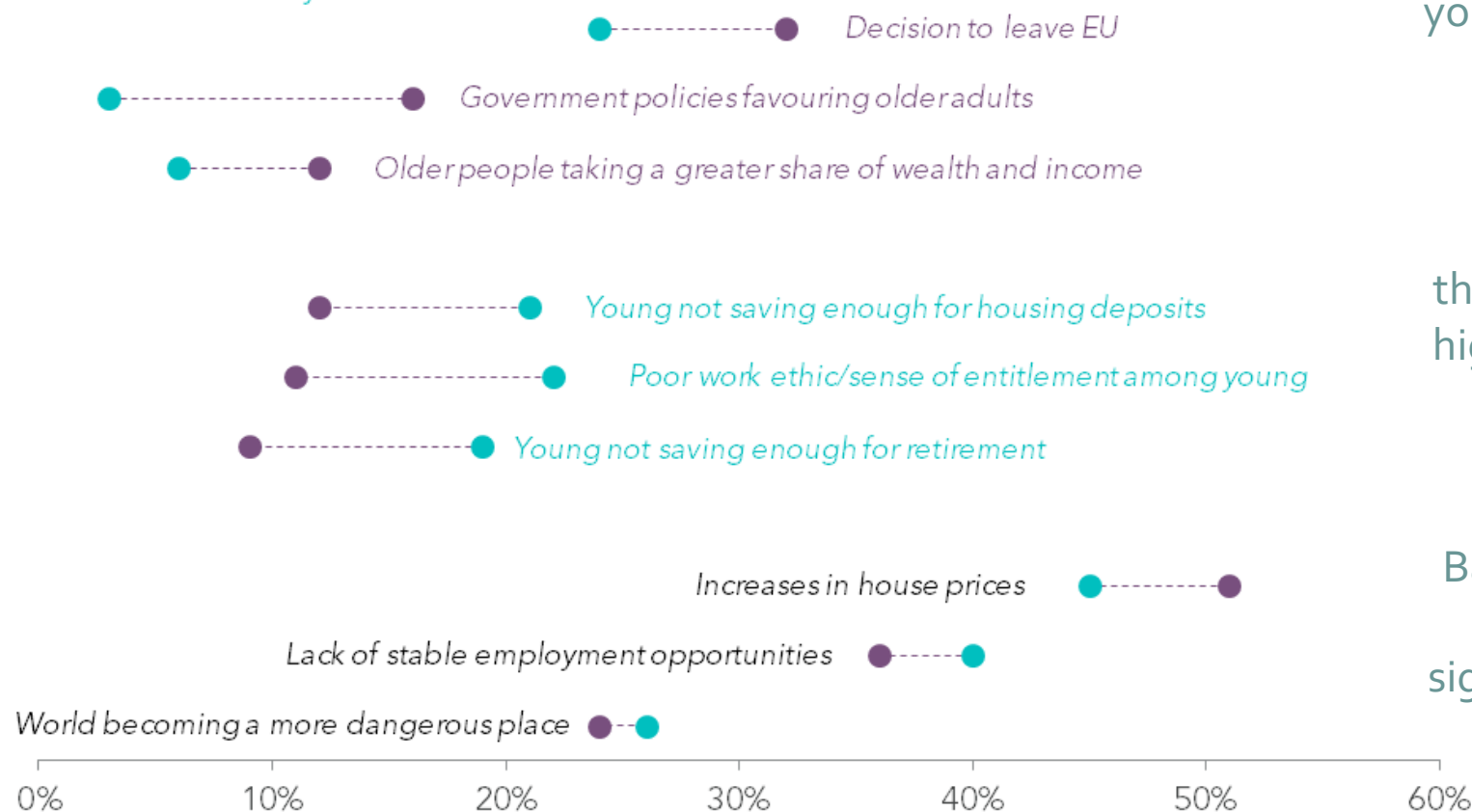


While all generations agree that younger adults face a potentially difficult time, Baby boomers are more likely to point to issues around work ethics and savings habits whereas Millennials are more likely to highlight political power

# But there is broad agreement over many of the strongest headwinds

Which two or three of the following reasons are most important in explaining why young adults will have a worse life than their parents?

● Millennials ● Baby boomers



Half (51%) of Millennials who think young adults will fare worse than their parents point to house prices as a cause, with more than one-third (36%) highlighting a lack of stable job opportunities

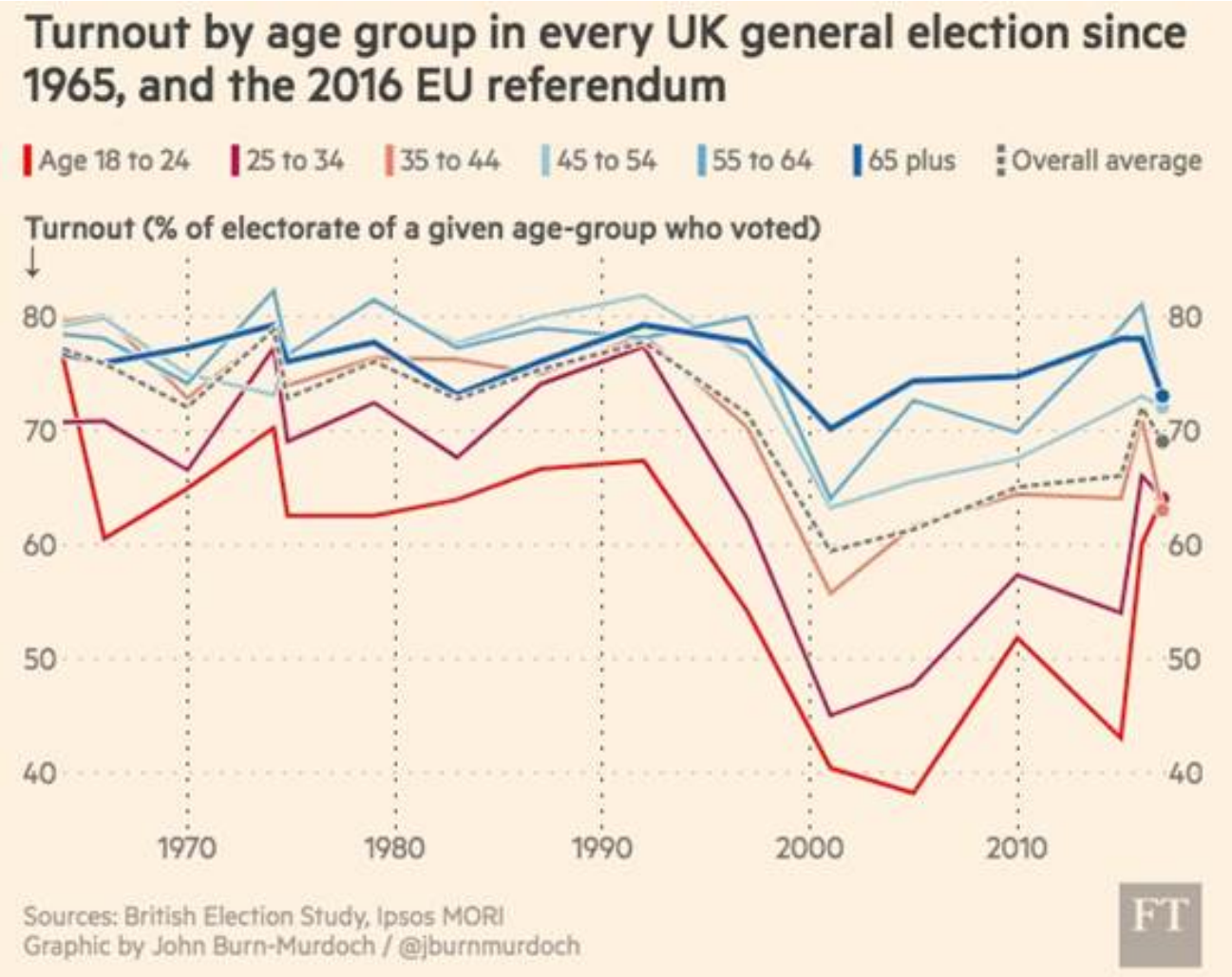
Baby boomers show no statistically significant difference



# The good news is, young people are responding to these trends by re-engaging with politics

Drop-off in election turnout among younger people started with Generation X in the 1990s

Millennials maintained these new lower turnout rates, until the June 2017 election

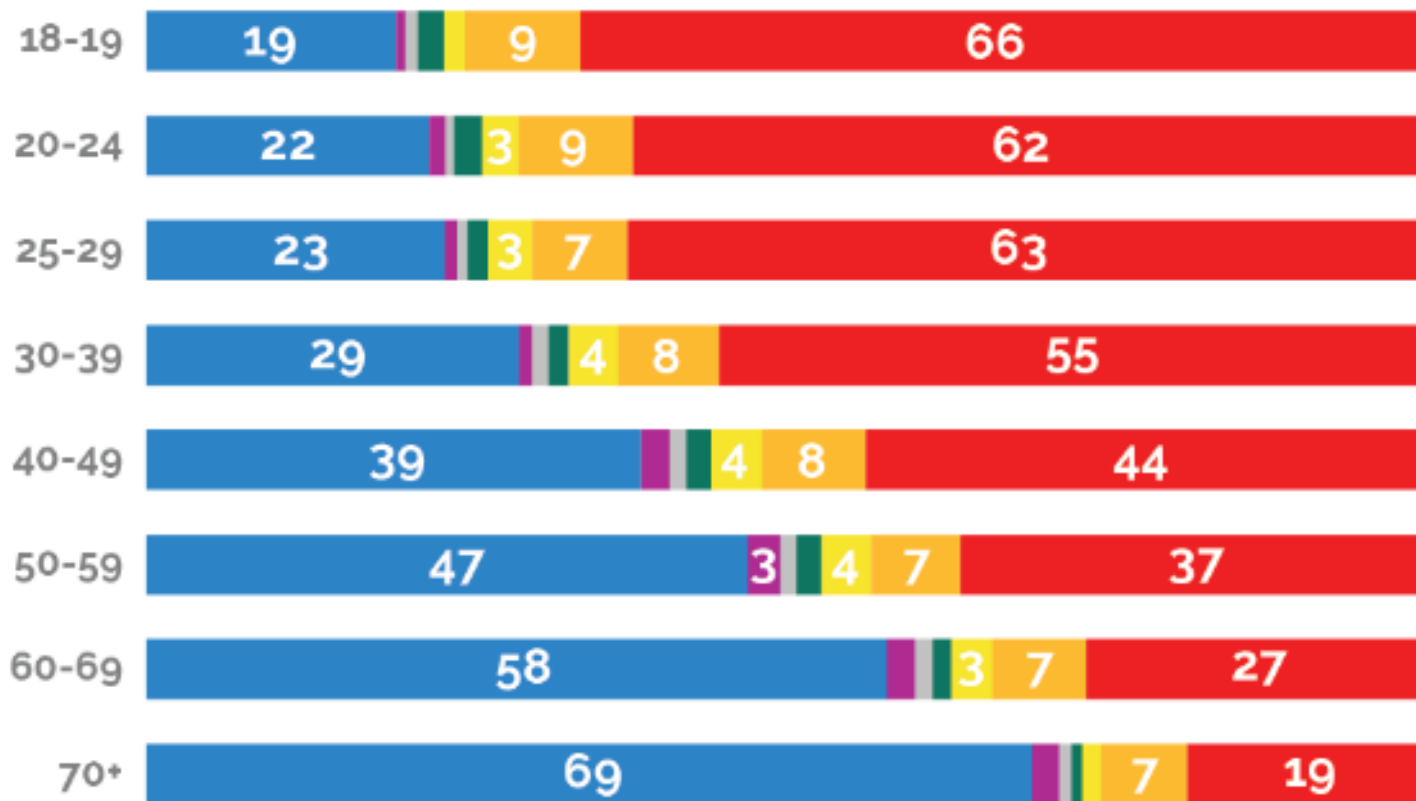




# Though this might in part reflect the 'outsider' appeal of Jeremy Corbyn

Party vote share in 2017 general election

■ Conservative ■ UKIP ■ Other ■ Green ■ SNP ■ Lib Dem ■ Labour



# DIS-UNITED KINGDOM?

*Some conclusions*

# Economic divisions haven't widened in the 21<sup>st</sup> century, but the general living standards backdrop has been tough

- Income inequality little altered in the last 15 years, but a historic divide helped to drive the Brexit vote
- However, the mood of the country is likely to have been affected by a generalised slowdown in income growth since ~2002 (and a painful post-crisis squeeze)
- This has been exacerbated for many by rising housing costs and reduced access to homeownership
- Likely to form part of a potentially growing divide between the living standard experiences of the generations
- It is yet to be seen how this will play out politically, particularly if – as projected – inequality starts growing again in the coming years

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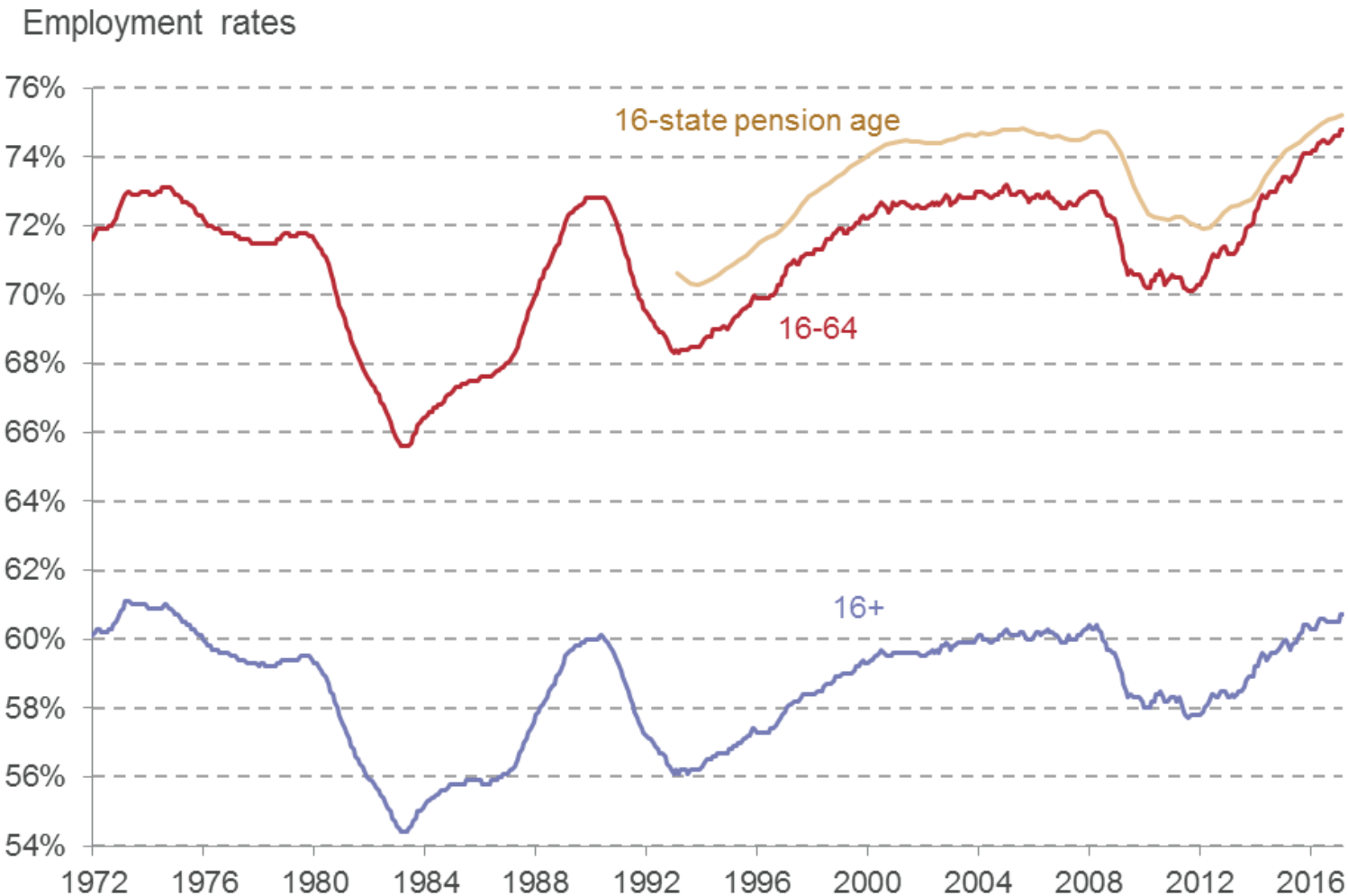
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# ANNEX

*Recent economic drivers and  
prospects for the future*

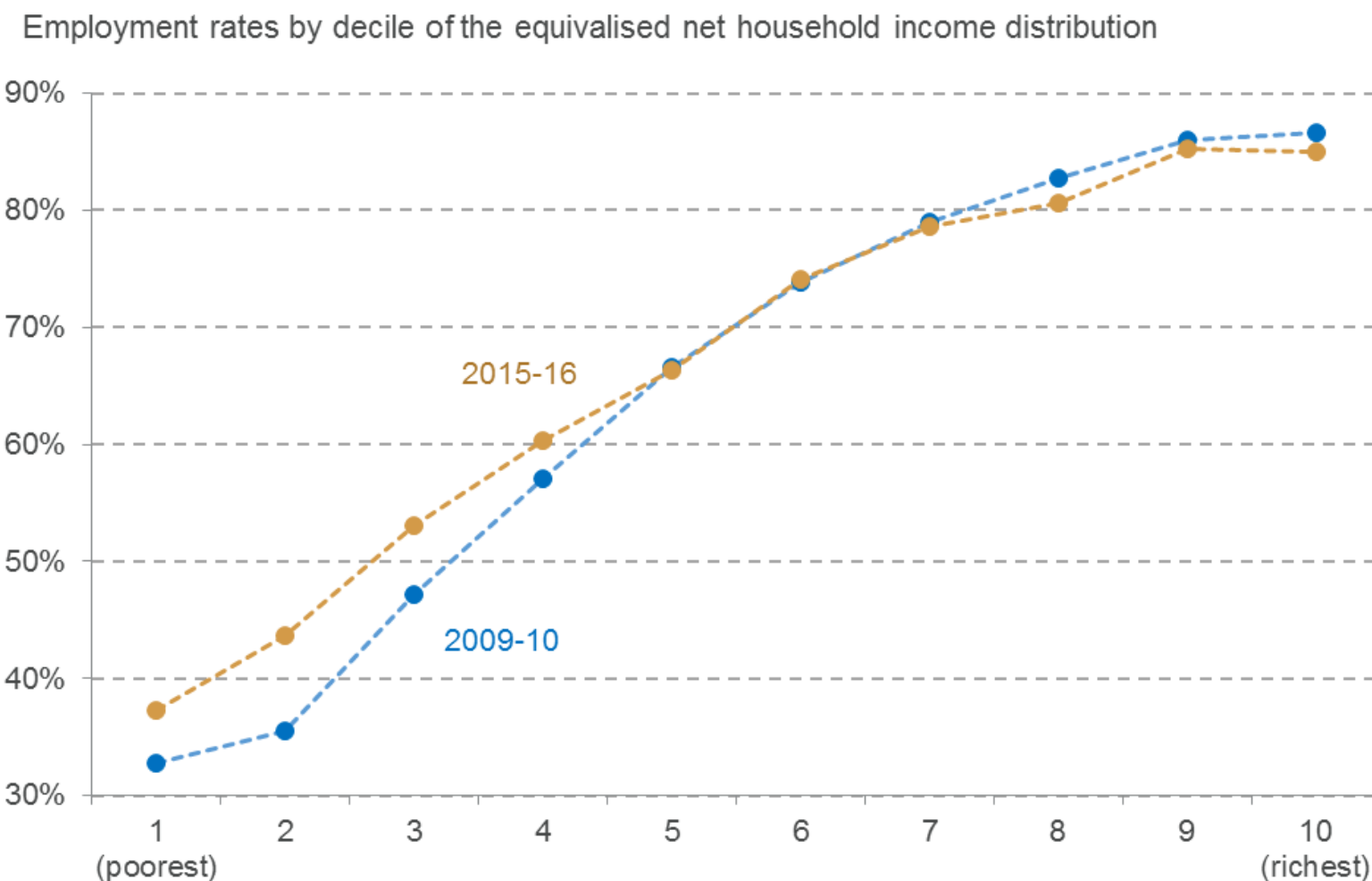
# Employment growth has been an important tailwind for household incomes in recent years

Some employment growth associated with rising SPA for women, but broader measures have also improved



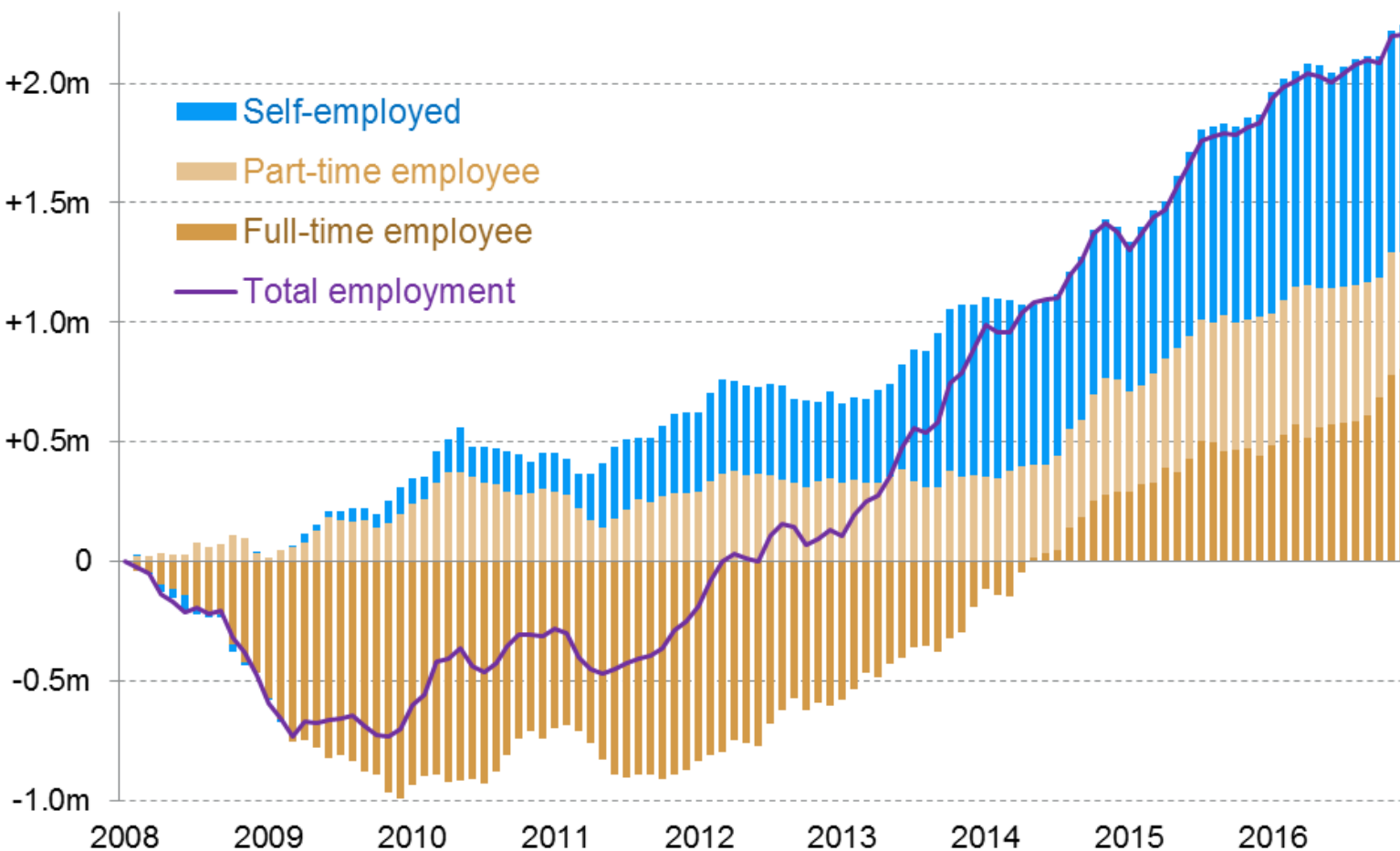
# And it has tended to be more pro-poor than in previous periods of sustained employment improvement

Employment growth in the 1990s was more evenly spread across the household income distribution



# But, there are question marks over the quality of the new jobs being created

Change in UK employee and self-employment numbers since May 2008

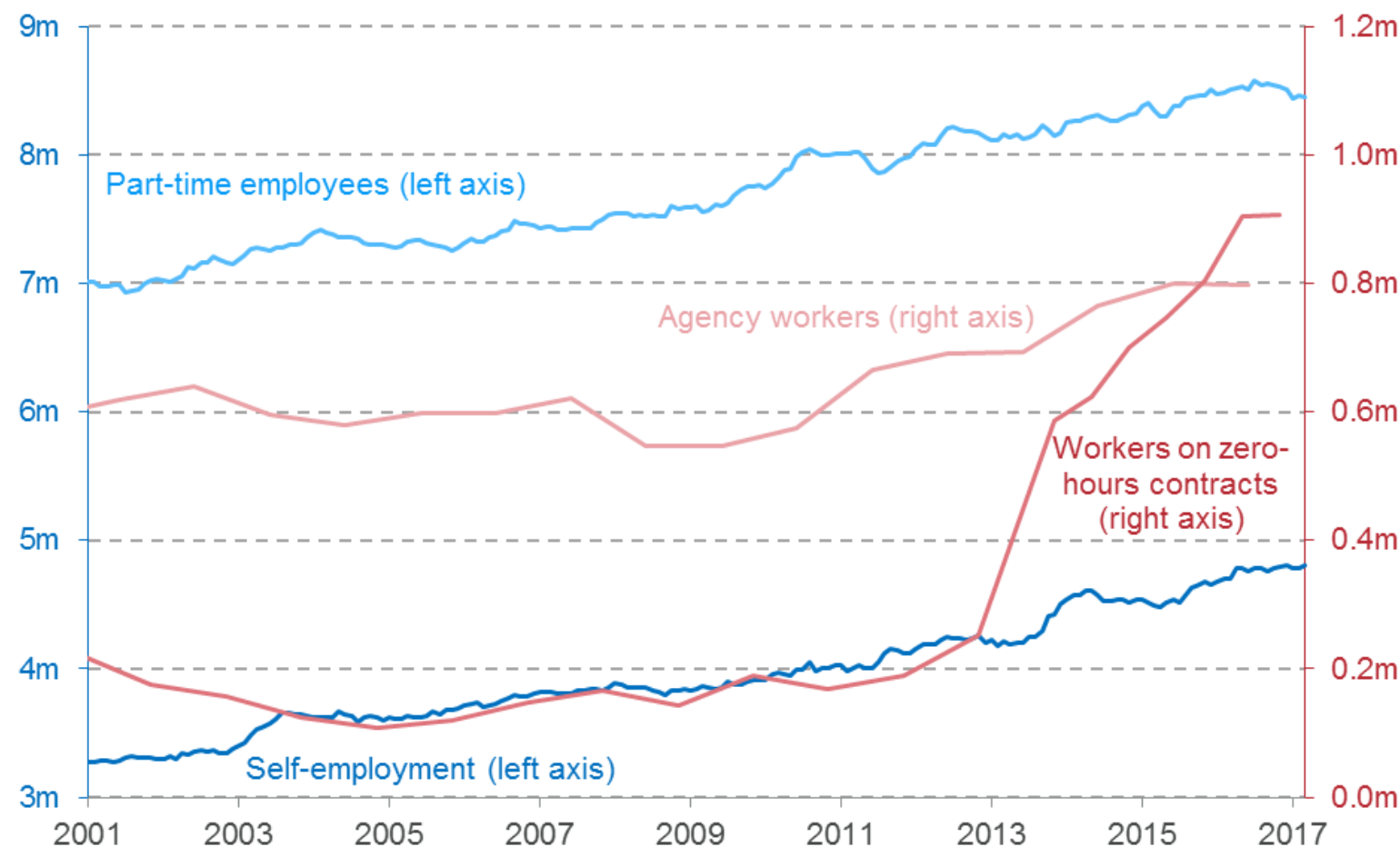


Full-time employees account for roughly 1/3 of total increase in employment since 2008



# But, there are question marks over the quality of the new jobs being created

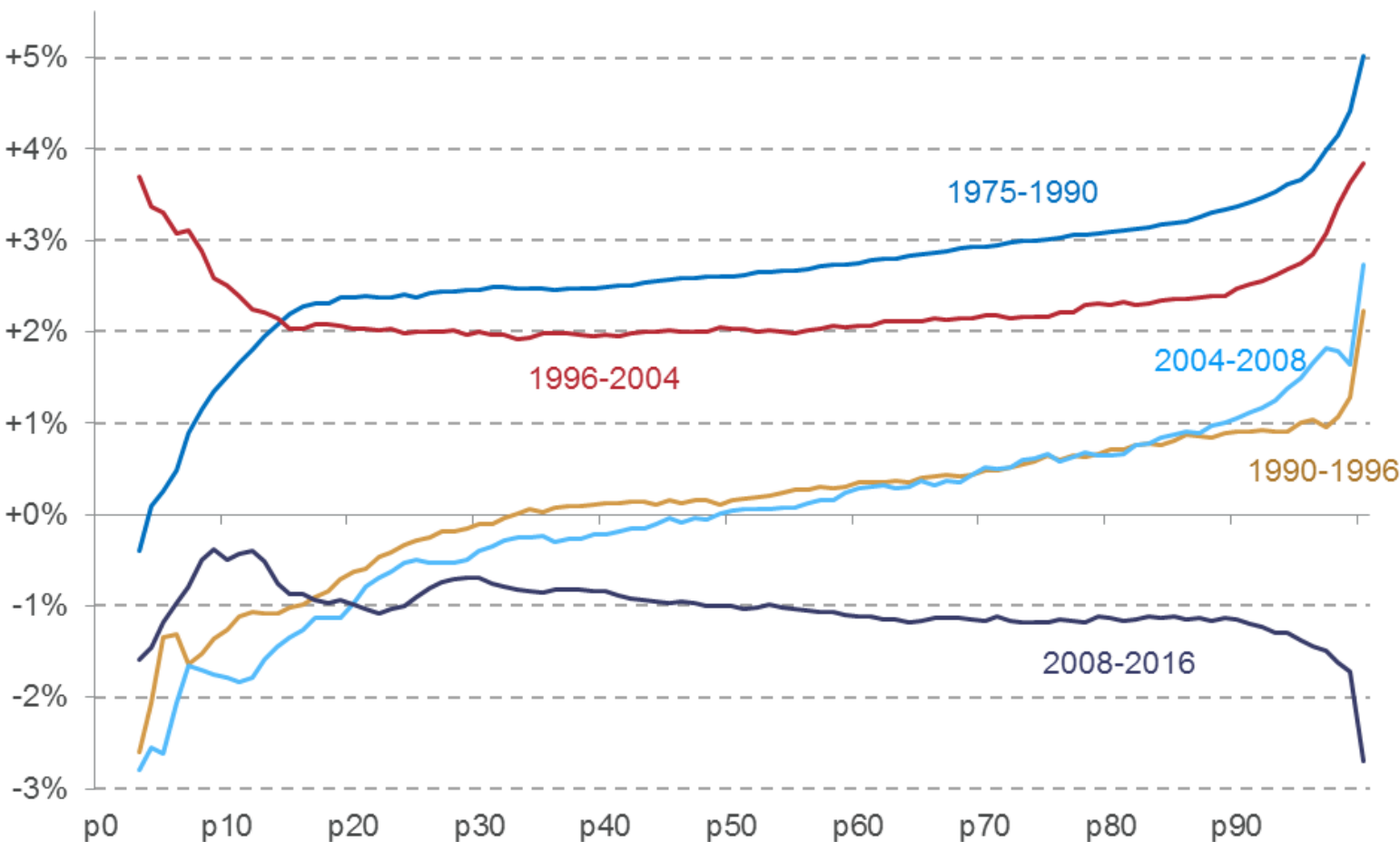
Changing nature of work in the UK, 2000-2017



Hard to interpret ZHC figures because of growing awareness among survey respondents... but including them and other 'atypical' jobs in the previous chart reduces the growth in standard FT employees still further

# Flip side of strong employment picture is terrible pay story – felt across the earnings distribution

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

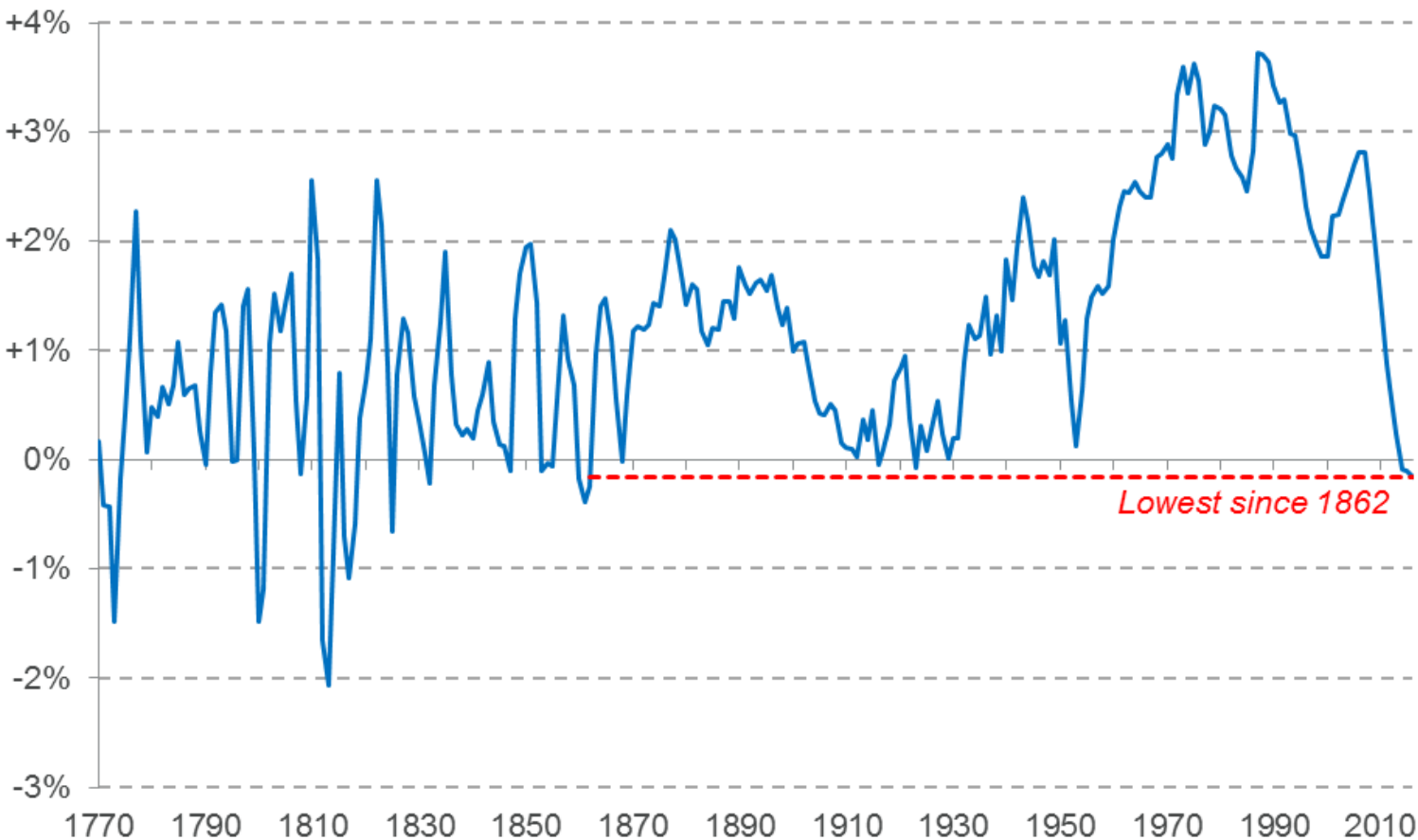


Hourly pay distribution looks different, with stronger growth at the bottom associated with the rising wage floor

Weekly trends reflect hourly rates and changing working patterns

# In fact, the past decade has been the worst for average pay growth in 150 years

Year-on-year growth in real-terms average earnings: GB (ten-year rolling average)  
(adjusted using CPI and predecessors)

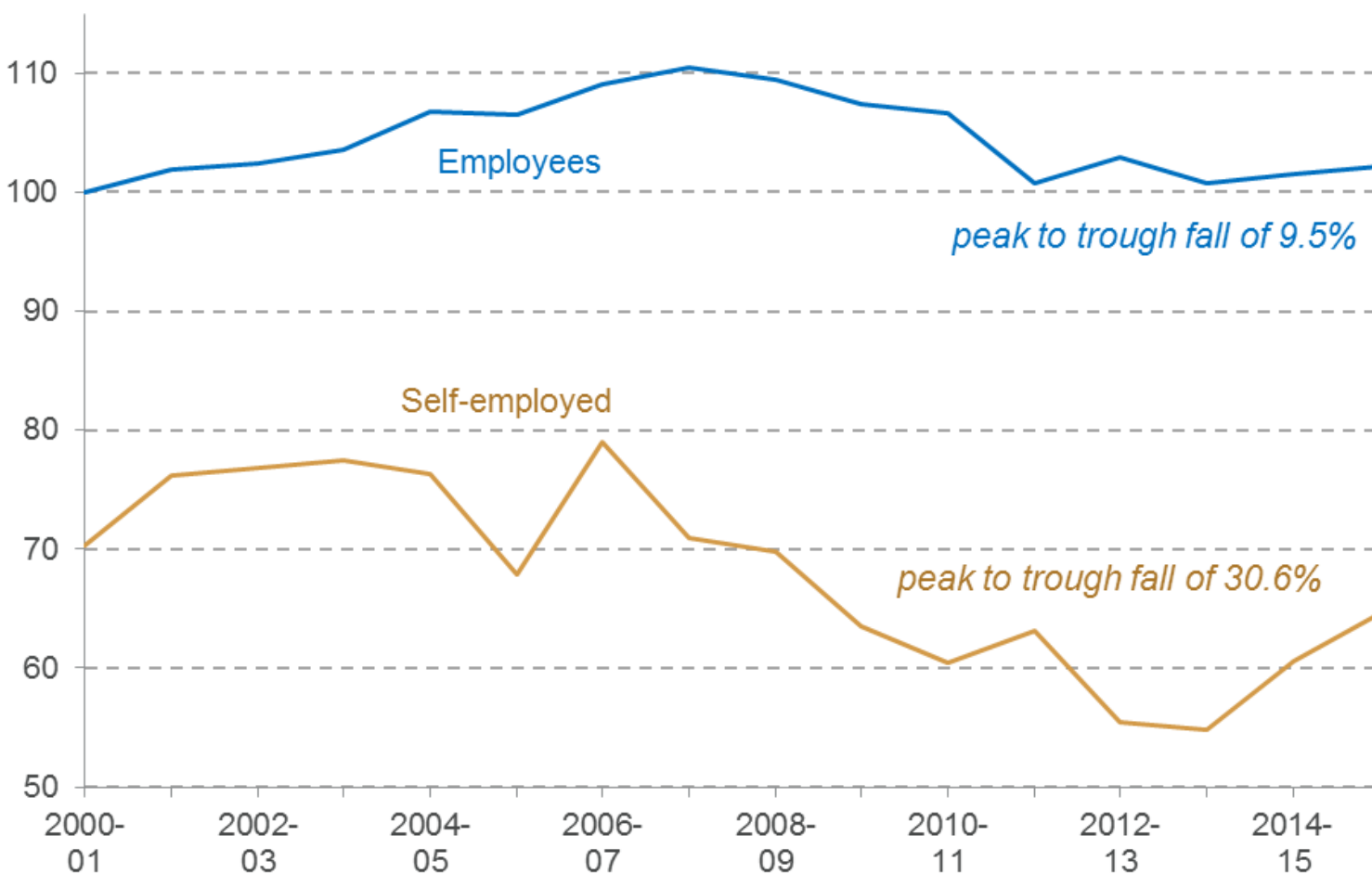


Tracking this forward using OBR projections imply things getting worse before they get better

# And that's before factoring in wider earnings impact associated with shift to self-employment

Self-employed 'earn' less and have recorded a bigger post-crisis fall (though there's been stronger growth in the last two years of data)

Indices of real-terms median wkly earnings (CPIH-adj): 2000-01 employee earnings = 100

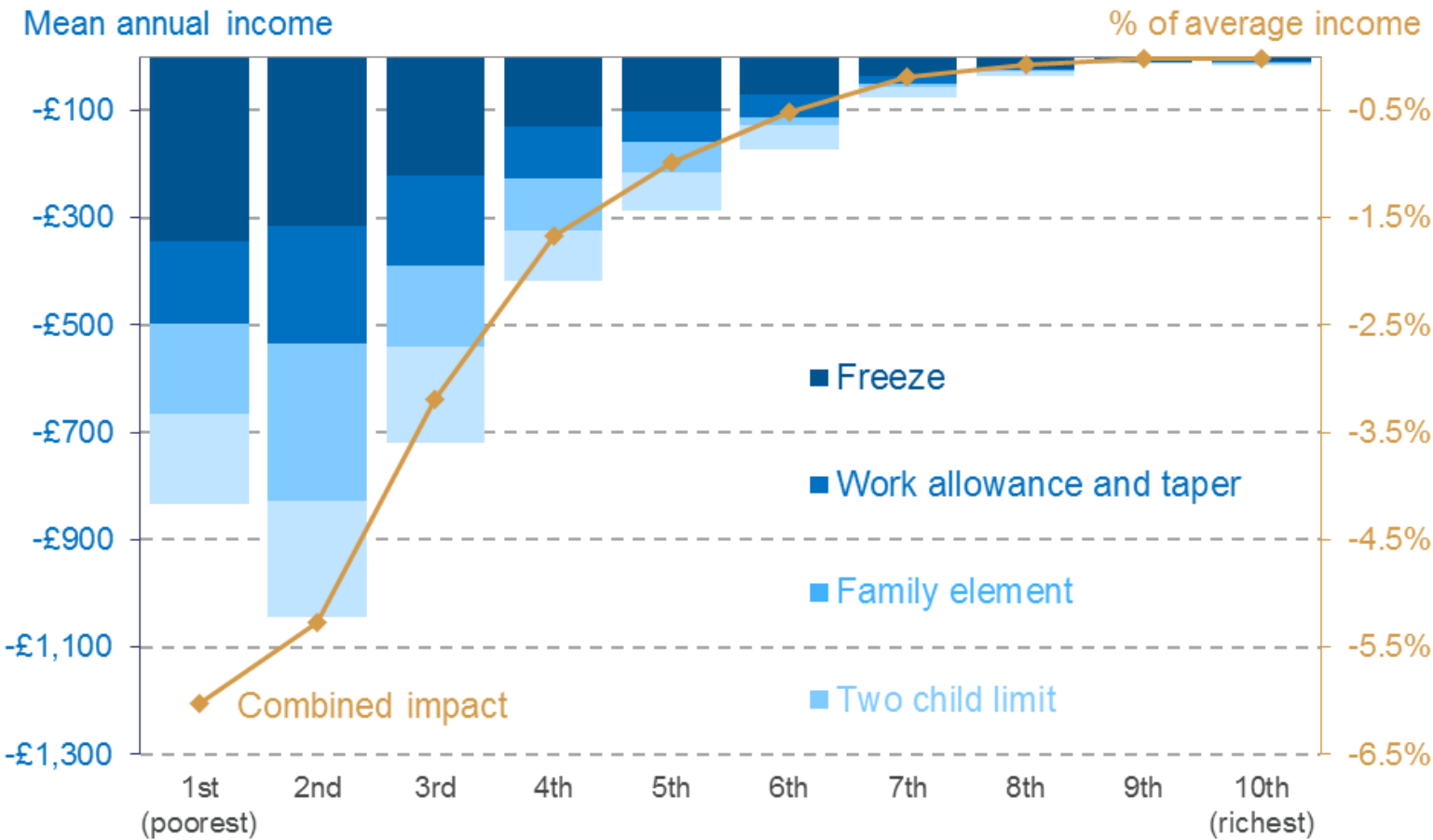


# And lots more benefit cuts to come...



Change in income in 2021-22 associated with selected post-2015 general election welfare cuts, by equivalised household income decile

Mean annual income



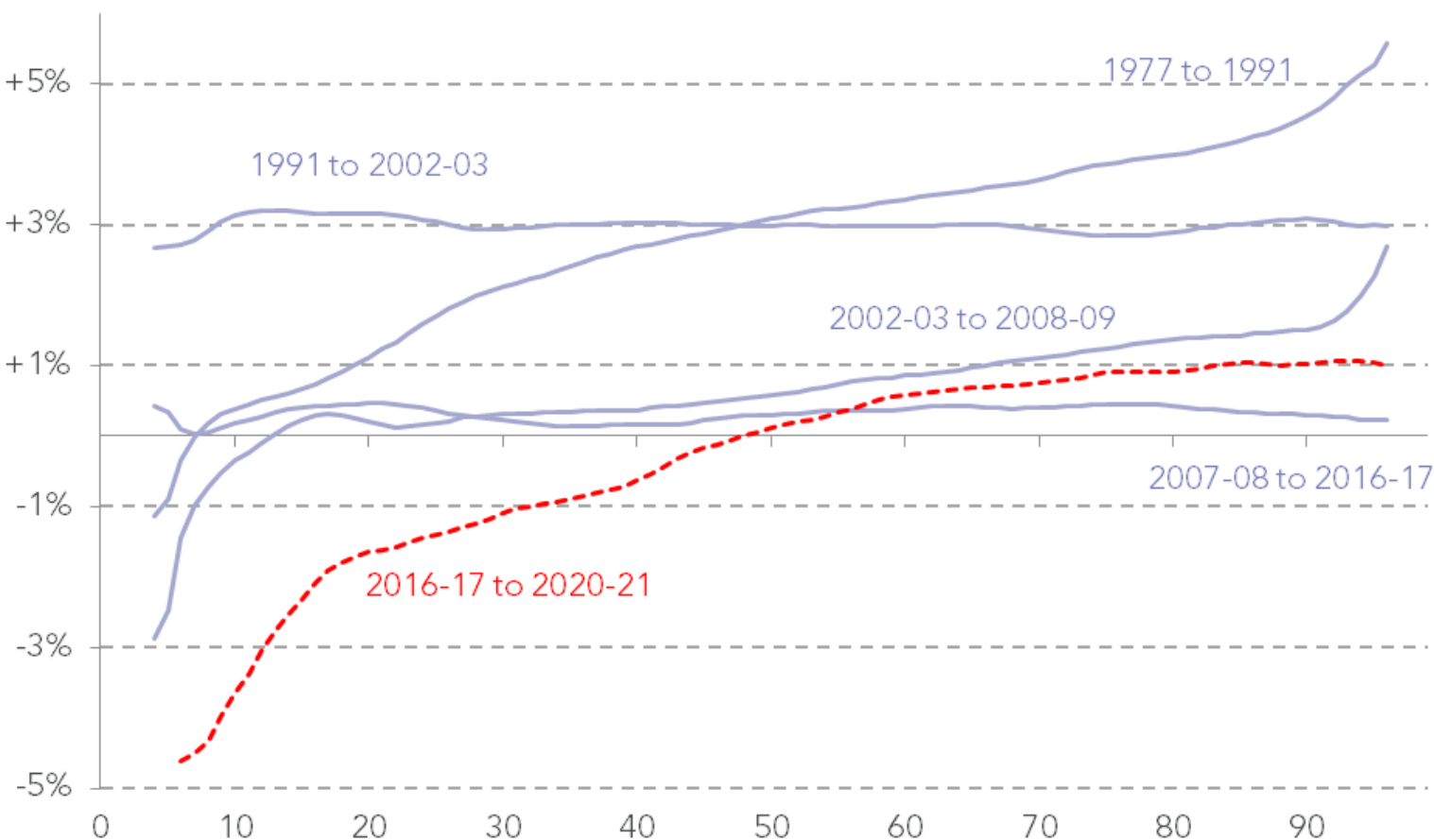
National Living Wage policy and income tax cuts will pull in the opposite direction

But it's nowhere near close enough to offset the losses and is slightly skewed towards the top half of the distribution

Source: RF modelling using Family Resources Survey and IPPR Tax/Ben model

# All of which adds up to a very bleak outlook for income growth in the coming years – especially in bottom half

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

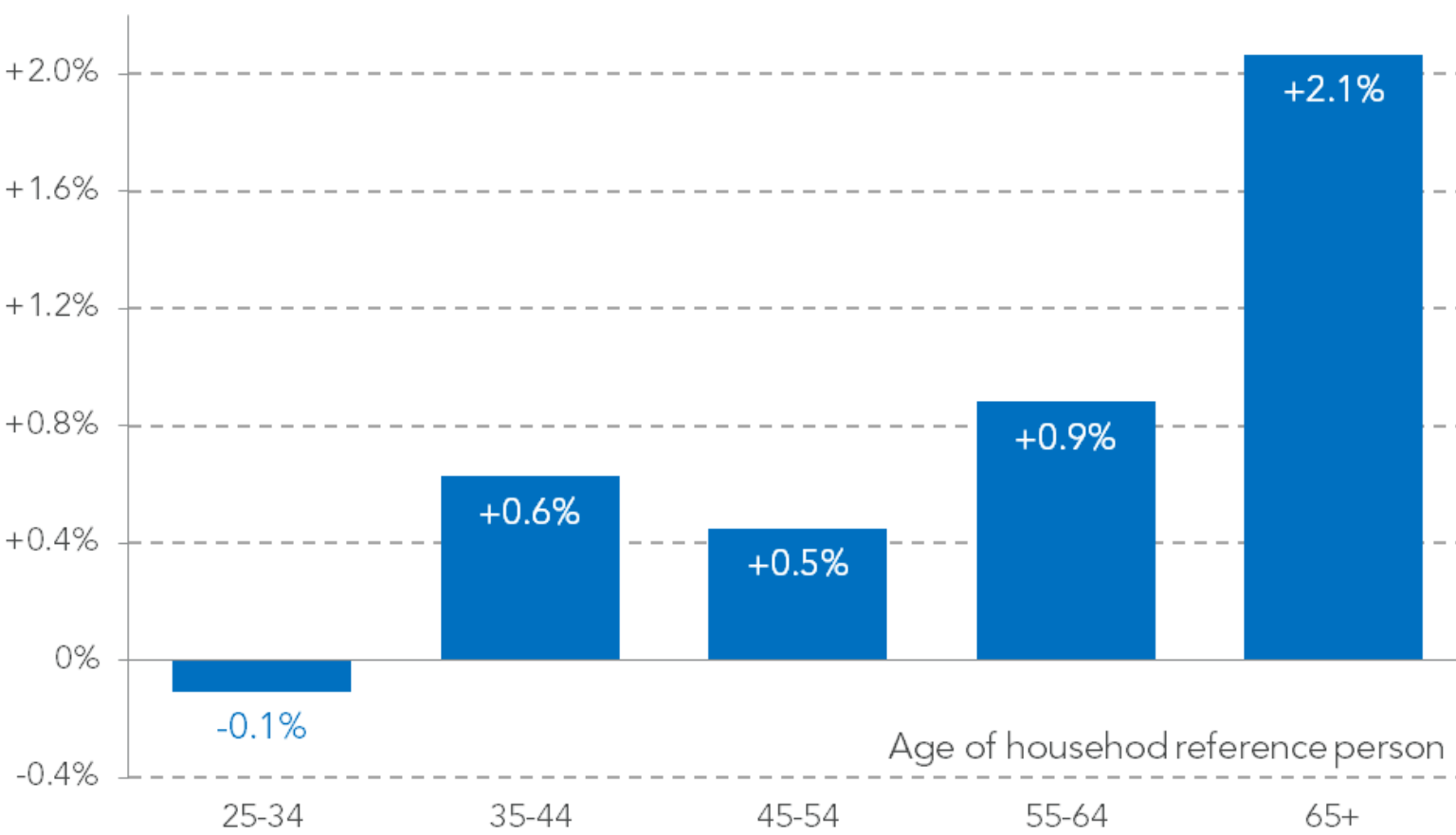


Projection would constitute worst growth performance for lower income households in entirety of income series

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

# Younger groups have been hardest hit in recent years, likely reflecting cyclical and structural issues

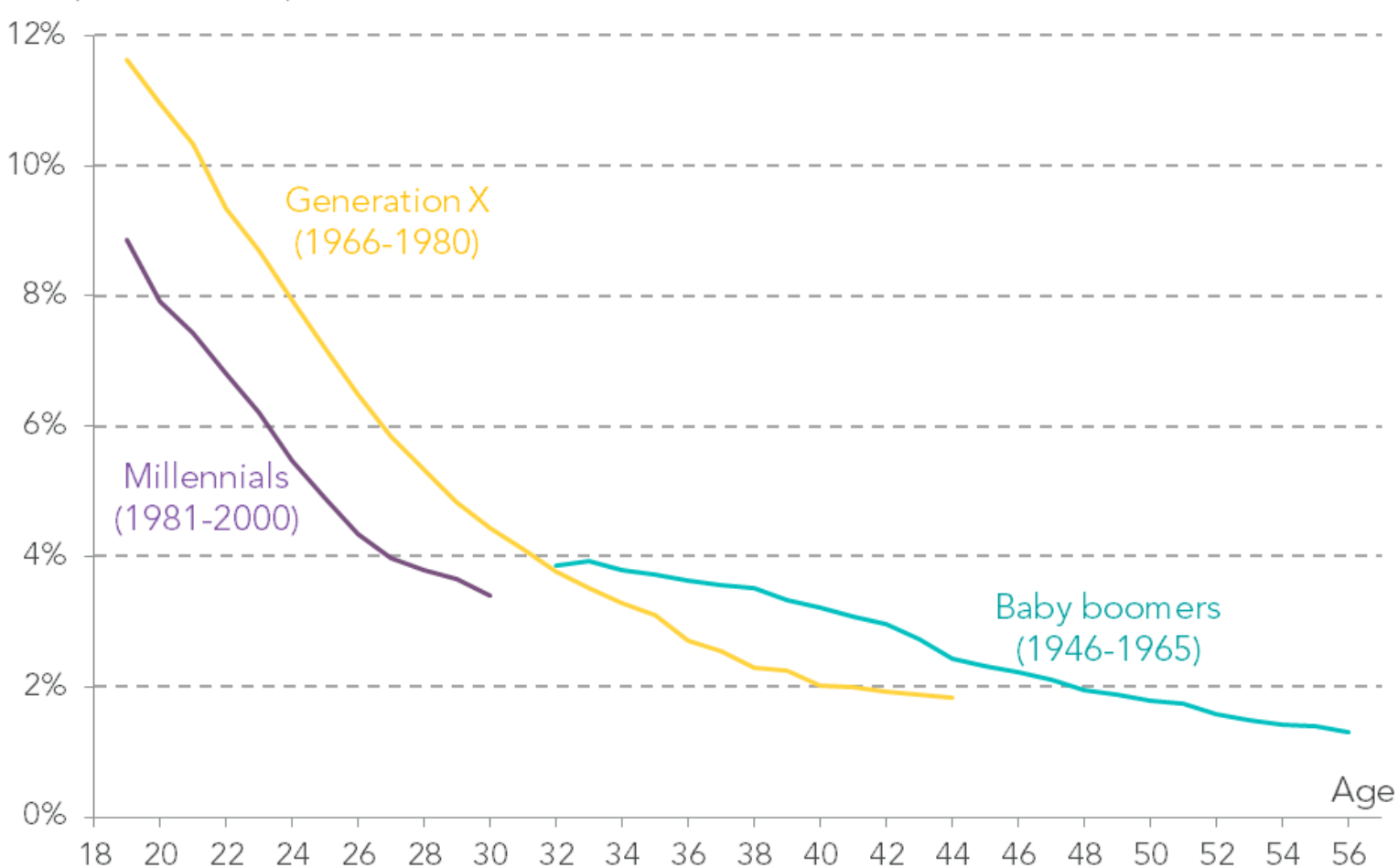
Average annual growth in median equivalised disposable income after housing costs, (CPI-AHC adjusted) 2002-03 to 2016-17: UK



The typical 25 to 34 year-old appears no better off today than in 2002-03. In comparison, typical incomes for all other age groups are now above, or very near, their pre-recession peaks

# Contrary to what we sometimes think, the earnings struggles of younger groups are in part related to *too much* job stability

Proportion of employees vountarily moving from one job to another each year: UK



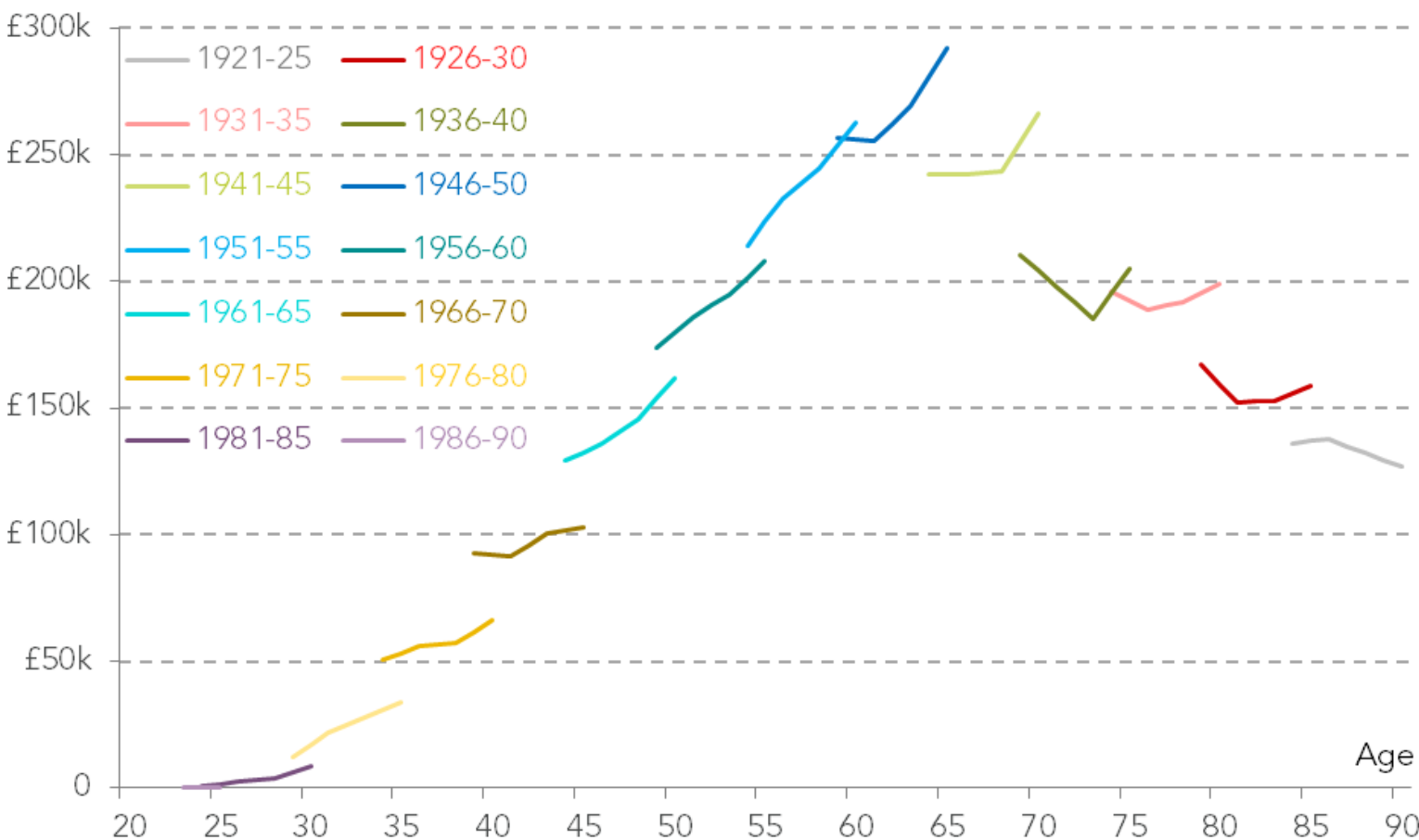
Job mobility has fallen especially fast for younger cohorts; Millennials have been about 30 per cent less likely to move jobs in their 20s than Generation X

Likely to reflect uncertainty and falling training intensity within firms



# And on wealth, *all* cohorts born since the late-1950s are falling behind their predecessors – not just the youngest

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



Combining property, financial and pension wealth, younger cohorts are significantly less wealthy than their predecessors were at the same age

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