DIS-UNITED KINGDOM

Inequality, growth, generations and the Brexit split

Addressing Social Divides
Session Five, QIISP 2017

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

Source: Britain Thinks
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 (1 = perfect inequality): UK

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).

Source: Institute of Fiscal Studies
The size of the pie matters too – overall growth has slowed over recent decades.

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

Source: Office for National Statistics
(2) Housing cost pressures – after-housing cost income inequality is rising

Source: Institute of Fiscal Studies

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

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’

Source: RF modelling using Family Resources Survey
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)

1977 to 1991

Source: RF modelling using Family Resources Survey
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)

Source: RF modelling using Family Resources Survey

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)

Source: RF modelling using Family Resources Survey

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)

Source: RF modelling using Family Resources Survey

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…

1980s: a crack appeared in the UK’s roof, but the sun shone for most people
Or...

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

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

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

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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.

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.

Source: ONS, NOMIS

\[ R^2 = 0.33 \]
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

Source: ONS, NOMIS
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.

Source: RF modelling
Demographics also mattered, with the pace of change in migration in an area mattering more than the level.

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

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.

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

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.

Source: RF modelling
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

Source: RF modelling
The Brexit vote also struck a match under the intergenerational debate.

Voting in the EU referendum by age: UK, 2016

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Remain (%)</th>
<th>Leave (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>18-24</td>
<td>73%</td>
<td>27%</td>
</tr>
<tr>
<td>25-34</td>
<td>62%</td>
<td>38%</td>
</tr>
<tr>
<td>35-44</td>
<td>52%</td>
<td>48%</td>
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<tr>
<td>45-54</td>
<td>44%</td>
<td>56%</td>
</tr>
<tr>
<td>55-64</td>
<td>43%</td>
<td>57%</td>
</tr>
<tr>
<td>65+</td>
<td>40%</td>
<td>60%</td>
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</tbody>
</table>

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.

Source: Lord Ashcroft Polls, EU Referendum ‘How Did You Vote’ Poll, 21-23 June 2016
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)

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage</th>
</tr>
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<tbody>
<tr>
<td>China</td>
<td>78%</td>
</tr>
<tr>
<td>Peru</td>
<td>66%</td>
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<tr>
<td>India</td>
<td>65%</td>
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<tr>
<td>Indonesia</td>
<td>63%</td>
</tr>
<tr>
<td>Brazil</td>
<td>56%</td>
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<tr>
<td>S Africa</td>
<td>49%</td>
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<tr>
<td>Mexico</td>
<td>48%</td>
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<tr>
<td>Russia</td>
<td>45%</td>
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<tr>
<td>Poland</td>
<td>42%</td>
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<tr>
<td>Argentina</td>
<td>40%</td>
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<td>US</td>
<td>39%</td>
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<td>Turkey</td>
<td>37%</td>
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<td>Italy</td>
<td>34%</td>
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<tr>
<td>Germany</td>
<td>32%</td>
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<tr>
<td>Japan</td>
<td>28%</td>
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<tr>
<td>Sweden</td>
<td>27%</td>
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<tr>
<td>Australia</td>
<td>26%</td>
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<tr>
<td>S Korea</td>
<td>24%</td>
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<tr>
<td>GB</td>
<td>22%</td>
</tr>
<tr>
<td>Spain</td>
<td>21%</td>
</tr>
<tr>
<td>Belgium</td>
<td>15%</td>
</tr>
<tr>
<td>France</td>
<td>10%</td>
</tr>
</tbody>
</table>

Source: IPSOS Global Trends Survey 2017
Potentially with good cause... employees in their late-20s earn less than those at the same age 15 years before them.

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.

Source: RF for the Intergenerational Commission
Alongside labour market challenges, younger groups have borne the brunt of benefit cuts in the name of austerity.

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.

Source: RF analysis

The indices of real-terms values of selected benefit payments (CPIH-adjusted) from April 2010 to April 2018 show a trend of decline for most categories except the State Pension (old), which has been protected.

- **State Pension (old)**: showed a slight increase in 2011 and then a steady decline.
- **Child Tax Credit child element**: showed a significant drop in 2008 and then a gradual decline.
- **Statutory Maternity Pay**: showed a drop in 2008 and then a steady decline.
- **JSA (single, 25+)**: showed a drop in 2008 and then a gradual decline.
- **Working Tax Credit (basic)**: showed a drop in 2008 and then a gradual decline.
- **Child Benefit (1st child)**: showed a drop in 2008 and then a gradual decline.

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Overall, income trends suggest a stalling of the generational gains that characterised the 20th century. 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.

Source: RF for the Intergenerational Commission
Younger cohorts have also recorded dramatic reductions in home ownership rates

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.

Source: RF for the Intergenerational Commission @resfoundation
There is some evidence of tension between the generations.

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.

Source: IPSOS Mori for the Intergenerational Commission (forthcoming)
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

- Decision to leave EU
- Government policies favouring older adults
- Older people taking a greater share of wealth and income
- Young not saving enough for housing deposits
- Poor work ethic/sense of entitlement among young
- Young not saving enough for retirement
- Increases in house prices
- Lack of stable employment opportunities
- World becoming a more dangerous place

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.

Source: IPSOS Mori for the Intergenerational Commission (forthcoming)
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

Source: YouGov

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DIS-UNITED KINGDOM?

Some conclusions
Economic divisions haven’t widened in the 21st 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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ANNEX

Recent economic drivers and prospects for the future

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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.

Source: Office for National Statistics
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.

Source: RF modelling using Family Resources Survey
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

Source: ONS, Labour Market Statistics
But, there are question marks over the quality of the new jobs being created

Changing nature of work in the UK, 2000-2017

Part-time employees (left axis)

Agency workers (right axis)

Workers on zero-hours contracts (right axis)

Self-employment (left axis)

Source: Office for National Statistics

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.

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.

Source: RF analysis of ONS, Annual Survey of Hours and Earnings and New Earnings Survey

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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)

Source: Bank of England, Three Centuries of Data
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).

Source: RF modelling using Family Resources Survey
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

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

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: RF modelling using Family Resources Survey
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.

Source: RF modelling using Family Resources Survey
Contrary to what we sometimes think, the earnings struggles of younger groups are in part related to too much job stability.

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.

Source: RF for the Intergenerational Commission
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.

Source: RF for the Intergenerational Commission
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