

The shifting patterns of UK inequality

Chris Giles

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Inequalities in Britain give us “much to worry about”, said Angus Deaton, professor of economics at Princeton University and a Nobel laureate, as he launched a five-year review on the subject on Tuesday.

Sir Angus, who is teaming up with the Institute for Fiscal Studies, with funding from the Nuffield Foundation, a charity, intends the review to be the “most comprehensive scientific analysis of inequalities yet attempted”, examining not just the gaps between the rich and poor, but also differences in health outcomes, political power and economic opportunities in British society and across the world.

It will attempt to answer which inequalities are beneficial, providing incentives for people to strive harder, and which should be stamped out because they are derived from luck or cronyism and, according to Sir Angus, “make a mockery of democracy”.

How bad is inequality in Britain?

Pretty bad, according to the IFS. To coincide with the launch of the review, the independent think-tank published a report highlighting a litany of “stark” inequalities in the UK.

The IFS noted that wealth and income inequality had not really changed in the past 25 years, but added that this period followed a rapid divergence in the late 1980s. It pointed out that of the major economies, the UK’s income inequality was exceeded only by the US, and had been kept in check because tax credits had been effective.

Borrowing the tone of Theresa May in her 2016 speech that highlighted the “burning injustices” in British society, the report focused on levelling off rising life expectancy in the UK and compared a rise in the death rates of low income middle-aged males to the opioid “deaths of despair” in the US.

With inequalities in incomes and health, happiness is also showing signs of splintering. Not everyone lives as a couple in middle age, but the chances of those without degree-level qualifications being in a partnership between the ages of 40 and 45 is now almost 10 percentage points lower than for graduates.

Younger generations are also finding that their wealth is falling behind that of the newly retired and baby boomers at the same age. “Inequalities in different dimensions are likely to reinforce one another,” the IFS said.

Is it all doom and gloom?

No. When launching a five-year review of inequalities, it was natural for the IFS to highlight aspects of society where they are high or rising. This does not describe all of Britain.

While earnings gaps between well and poorly paid men have been increasing, they have been narrowing for women — something the economics profession's traditional focus on men regularly overlooks. This has left overall earnings inequality stable. Official figures show indicators of life satisfaction have been rising in Britain, especially outside London.

Unemployment rates have fallen across the UK and unlike in the 1980s, when there was a big North South divide, the chances of being jobless is now much more evenly spread across Britain. Moreover, it is privileged graduates, rather than their less qualified peers, who are increasingly feeling the pinch in many parts of Britain — unlike in the US where wages for less educated have not risen in real terms in decades.

There are parts of Britain that are booming, and others that are left behind, but the gaps are not always obvious at first sight. While real output rose twice as fast in London as in other regions over the 10 years to 2017, this was solely because the city attracted more people and jobs. The output per worker in the capital fell during the same period, showing that it has one of the country's biggest productivity problems.

How much should we worry?

That is a difficult question. The Deaton review is explicit that not all inequalities are bad. In a YouGov poll of social attitudes, 85 per cent of the British public believed that a fair society would offer more to people who had greater talents and worked harder.

Sir Angus and the IFS also believe that inequalities based on luck or rigging the system are far worse than those based on the skills of individuals.

“If working people are losing out because corporate governance is set up to favour shareholders over workers, or because the decline in unions has favoured capital over labour and is undermining the wages of workers at the expense of shareholders and corporate executives, then we need to change the rules,” Sir Angus said.

This assumption that cronyism and malicious activities of the rich have left others in poverty has raised hackles in some free-market circles. Ryan Bourne, economist at the Cato Institute, said Sir Angus and the IFS should be careful not to assume wrongdoing just from data showing rising inequalities. “Income inequality, for example, can be increased through entrepreneurs making fortunes off hugely welfare-enhancing new products,” he said.

Whether or not this is correct, many UK officials are concerned that the market economy is in danger of becoming rigged against ordinary people. Andrew Tyrie, chair of the Competition and Markets Authority, the competition watchdog, admitted last week that the authorities had been “slow” to address shortcomings in competition and rip-offs and would in future “be doing and saying a lot more”.

Will new policies be needed?

The outcome of the review will not come for five years, but no one should hold their breath. The IFS's major review of the tax system, undertaken by James Mirrlees in 2010, received

widespread acclamation as an intellectual triumph but its recommendations quickly got filed in the “too difficult to contemplate” drawer somewhere in the bowels of the Treasury.