

Rebalancing Britain's public finances

This evidence briefing is aimed at those concerned with balancing economic growth between social groups and regions, and building an internationally competitive skills base. It summarises the main findings of the National Equality Panel's 2010 report, *An Anatomy of Economic Inequality*. The research indicates where interventions could have long-lasting effects on people's life chances and increase equality.

Key findings

- Inequalities in earnings and incomes are high in Britain compared both with other industrialised countries and with 30 years ago. Over the last decade, earnings inequality narrowed a little and income inequality stabilised on some measures, but the big increases in inequality of the 1980s were not reversed.
 - 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. However, deep-seated and systematic differences in economic outcomes remain between social groups across all of the dimensions examined. Despite the elimination and even reversal of the qualification differences that often explain them, significant differences remain in employment rates and relative pay 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 forty years is mostly attributable to growing gaps within, rather than between, groups.
- Many of the inequalities examined accumulate through generations, especially those related to socio-economic background. Economic advantage and disadvantage reinforce themselves through people's lives, and often on to the next generation. Policy interventions to counter this are needed at each life stage. Achieving 'equality of opportunity' is very hard when there are such wide differences between the resources which people and their families have to help them fulfil their diverse potentials.



Policy relevance and implications

Public policy can make a difference to inequalities. Many of the issues suggest the importance of interventions that can have long-lasting effects on people's life chances and increase equality. At the same time, public policy can ensure that access to important aspects of life – from health care to safe public spaces – does not depend on individual resources.

Education

- Differences in school readiness by parental resources and social class underscore the importance of the early years and the challenges that policies face.
- Differences related to family resources widen through compulsory schooling, suggesting the importance of reducing child poverty and improving educational attainments of poorer children. The deteriorating position after 11 of low income White British and Black Caribbean boys is a particular concern, as is that of Gypsy and Traveller children.
- Considerable differences remain, even after allowing for attainment at 16, in entry into higher education, and the kind of institution attended by social class, ethnicity, and experience of private education.

Labour market

- The economic position of young people outside education has deteriorated. The recession creates the acute challenge of avoiding long-term 'scarring' from early unemployment.
- Differences in pay remain, unrelated to qualifications and occupation, by gender and ethnicity. Transitions from education to the labour market do not make best use of people's talents. The sectors and types of employment

that people end up in are crucial. There still appears to be discrimination in recruitment, for both minority ethnic groups and disabled people.

- Bangladeshi and Pakistani populations, cross-cutting with Muslim religious affiliation, are particularly disadvantaged in employment and pay.
- Low pay for part-time work is a key factor in gender inequality. It reflects the low value accorded to it and failure to create opportunities for training and promotion.
- The level of the National Minimum Wage is potentially powerful in reducing labour market inequality.
- The gender pay gap widens after age 30. Most women do not benefit from 'career progression', underlining the importance of policies related to parental leave, flexible employment and childcare.
- The deteriorating labour market position of disabled people with low qualifications, suggests a stronger focus on policies affecting their employment, particularly those with mental health conditions.
- Differential rates of disability, ill-health at the end of people's working lives and subsequent mortality underscore the importance of reducing earlier health inequalities.

Resources in later life

- Labour market inequalities are amplified into huge differences in household resources available for retirement. Recent pension reforms are essential, but cannot compensate for large inequalities in working lives.

Low-income neighbourhoods

- The profound gaps in all economic outcomes between more and less disadvantaged areas imply huge disparities in collective resources. The 'neighbourhood renewal' agenda itself needs renewal. We need to be more successful in supporting social tenants towards and into work, and in supporting saving and asset building, given tenants' very low levels of wealth.

Devolution

- There are few substantial differences in outcomes between England and the devolved nations, presenting a challenge to administrations that have set strong objectives of greater equality or social justice.

Distributional effect of taxes and spending

- The progressivity of taxes and the levels of benefits and tax credits relative to other

incomes are central to overall inequalities. How the public finances are rebalanced will probably be the most important influence on how economic inequalities evolve: will the costs of recovery be borne by those who gained least before the crisis, or by those in the strongest position to do so?

Economic advantage reinforces itself across generations. It matters more in Britain who your parents are than in many other countries. Intergenerational mobility appears lower in more unequal societies – moving up a ladder is harder if its rungs are further apart, and those who start higher up fight harder to ensure their children do not slip down. A fundamental aim of many political perspectives is to achieve 'equality of opportunity', but doing so is very hard when there are such wide differences in the resources which people and their families have to help them develop their talents and fulfil their diverse potentials.

Brief description of the project

The independent National Equality Panel was set up in October 2008 to investigate the relationships between the distributions of various kinds of economic outcome on the one hand and people's characteristics and circumstances on the other.

The panel's report addresses questions such as how far up or down do people from different backgrounds typically come in the distributions of earnings, income or wealth.

Further information

This briefing is a summary of the report of the independent National Equality Panel comprising leading academics and Economic and Social Research Council (ESRC) experts, and chaired by Professor John Hills, Director of the Centre for Analysis of Social Exclusion and an ESRC Professorial Fellow.

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The report is available at: sticerd.lse.ac.uk/case/_new/publications/series.asp?prog=CR

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