

# An anatomy of economic inequality in the UK – Summary

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CASereport60 Summary

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## Foreword



Equality matters:

**For individuals**, who deserve to be treated fairly and have the opportunity to fulfil their potential and achieve their aspirations;

**For the economy**, because the economy that will succeed in the future is one that draws on the talents of all, not one which is blinkered by prejudice and marred by discrimination;

**For society**, because an equal society is more cohesive and at ease with itself.

We are determined to tackle the unfairness that holds people back and give everyone the opportunity to succeed – make sure everyone has a fair chance.

We know that disadvantage can come from your gender or ethnicity; your sexual orientation or your disability; your age or your religion or belief or any combination of these. But overarching and interwoven with this is the persistent inequality of social class – your family background and where you were born.

Action to tackle inequality must be based on the most robust and sophisticated analysis of its roots and how it affects people's lives. In order to provide that detailed and profound analysis, in 2008, the Government set up the National Equality Panel, chaired by Professor John Hills.

This report of the National Equality Panel shows clearly how inequality is cumulative over an individual's lifetime and is carried from one generation to the next.

But the report also shows that public policy intervention works. It has played a major role in halting the rise in inequality which was gaining ground in the 1980s. Public policy has narrowed gaps in educational attainment, narrowed the gap between men and women's pay and tackled poverty in retirement.

The National Equality Panel Report shows the key stages in people's lives where public policy intervention is most important and most effective – during the pre-school years, at the transition from education to the workplace and re-entering the labour market after having children.

This National Equality Panel Report sets out undoubted challenges. The important thing now is to acknowledge the importance of those challenges and to use the National Equality Panel's report as the guide to addressing them.

In response to the challenge set out in this report, the Government, building on substantial progress to date, will continue to make the choices that prioritise fairness and aspiration. This challenge will need to be addressed by Government, but also by working in partnership with others including with local government and the voluntary sector. The scale of the challenge set out in the National Equality Panel Report cannot be addressed overnight. It will demand sustained public policy commitment.

I want to warmly thank Professor Hills and his panel for their comprehensive report. This is important work done to the highest standard of professionalism. It is the responsibility of we in Government to match the scale of the challenges with the commensurate focus of Government action.

The work of the National Equality Panel will underpin the response by all strategic public authorities to Clause One of the Equality Bill which places a new legal duty on key public bodies to consider, in all the important decisions they make and all important actions they take, how they can tackle socio-economic inequality.

This is a big challenge which requires sustained and focused action. But for the sake of the right of every individual to reach their full potential, for the sake of a strong and meritocratic economy and to achieve a peaceful and cohesive society, that is the challenge which must be met.



**Harriet Harman**  
**Minister for Women and Equality**  
**January 2010**

## Overview

The National Equality Panel was set up to document the relationships between inequalities in people's economic outcomes – such as earnings, incomes and wealth – and their characteristics and circumstances – such as gender, age or ethnicity. How does who you are affect the resources and opportunities available to you?

We map out in detail what these relationships look like in a way never done before. In this summary we bring together the key findings from our main report, and the challenges they create for the development of policy. There are several over-arching themes:

- Inequalities in earnings and incomes are high in Britain, both compared with other industrialised countries, and compared with thirty years ago. Over the most recent decade according to some measures, earnings inequality has narrowed a little and income inequality has stabilised, but the large inequality growth between the late 1970s and early 1990s has not been 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, there remain deep-seated and systematic differences in economic outcomes between social groups across all of the dimensions we have examined – including between men and women, between different ethnic groups, between social class groups, between those living in disadvantaged and other areas, and between London and other parts of the country.
- Despite the elimination and even reversal of the differences in educational qualifications that often explain employment rates and relative pay, significant differences remain between men and women and between ethnic groups.
- Importantly, however, differences in outcomes between the more and less advantaged *within* each social group, however the population is classified, are usually only a little narrower than those across the population as a whole. They are much greater than differences *between* groups. Even if all differences between such groups were removed, overall economic inequalities would remain wide.
- The inequality growth of the last forty years is mostly attributable to growing gaps within social groups, however those groups are defined. The pattern of the last decade has been more mixed, with the effects of growing inequality within some groups offset by narrowing gaps between them.
- Many of the differences we examine cumulate across the life cycle, especially those related to people's socio-economic background. We see this before children enter school, through the school years, through entry into the labour market, and on to retirement, wealth and resources for retirement, and mortality rates in later life. Economic advantage and disadvantage reinforce themselves across the life cycle, and often on to the next generation. By implication, policy interventions to counter this are needed at each life cycle stage.
- A fundamental aim of people with widely differing political perspectives is to achieve 'equality of opportunity', but doing so 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.

# Aims

Britain is an unequal country, more so than many other industrialised countries and more so than it was a generation ago. This is manifest in many ways – most obviously in the gaps between those who are well off and those who are less well off. But inequalities in people’s economic positions are also related to their characteristics – such as whether they are men or women, their age, ethnic background, and so on. The independent National Equality Panel was established at the invitation of the Rt. Hon. Harriet Harman, Minister for Equality, to report on the relationships between inequalities in economic outcomes and social differences of this kind. Boxes S1 and S2 at the end of this summary list the membership of the Panel and present our terms of reference.

Our main report documents the relationships between the distributions of various kinds of economic outcome on the one hand and people’s characteristics and circumstances on the other. It addresses questions such as how far up or down do people from different backgrounds typically come in the distributions of earnings, income or wealth? Specifically, the outcomes we examine are:

- educational outcomes, including the range of achievement of young people at 16 and the highest educational qualifications of adults;
- employment status of the adult population;
- earnings of those in paid employment, both hourly wages and weekly earnings;
- individual incomes, received by each adult in his or her own right from all sources, both before and after deducting direct taxes<sup>1</sup>;
- incomes calculated from the total receipts of the household of which someone is a member, adjusted for the size of the household and after allowing for benefits and direct taxes – known as ‘equivalent net income’;
- wealth – the stock of assets of households taking the form of financial or housing assets, including private pension rights.

In our main report, we present information on the distributions of these outcomes for the population as a whole. Where possible we indicate how they have changed in the last decade or more, and how the UK compares with other industrialised countries. But our main focus is on the position of different social groups within the distributions of each outcome. We present the information that we have been able to assemble showing breakdowns not only relating to six of the ‘strands’ covered by equalities legislation – gender, age, ethnicity, religion or belief, disability status, and sexual orientation – but also by socio-economic class, housing

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<sup>1</sup> Box 7.1 discusses issues concerned with the ‘equal sharing’ assumption used in analysing incomes on a household basis. Where incomes are not equally shared, individual incomes can give useful insights into the position of household members, particularly by gender.

tenure, nation or region, and level of deprivation in the neighbourhood<sup>2</sup>. In this summary we highlight and illustrate some of our key findings and suggest the challenges they pose for the development of policy.

We set out at the start of Chapter 1 in our main report why we believe that inequality in the kinds of outcome we have investigated matters. Readers will have different views about what kinds of inequality are justified or unjustified. Some might argue that inequalities of the kind we describe are inevitable in a modern economy, or are functional in creating incentives that promote overall economic growth. However, comparisons with other equally or more economically successful countries, but with lower inequality, undermine such arguments. Moreover, the view that greater equality would stifle diversity has to be set against the counter view that it is inequality that suppresses the ability of many individuals to develop their talents. Where only certain achievements are valued, and where large disparities in material rewards are used as the yardstick of success or failure, it is hard for those who fall behind to flourish.

For some readers, the sheer scale of the inequalities in outcomes which we present will be shocking. Whether or not people's positions reflect some form of 'merit' or 'desert', the sheer scale of differences in wealth, for instance, may imply that it is impossible to create a cohesive society. Wide inequalities erode the bonds of common citizenship and recognition of human dignity across economic divides. A number of analysts have pointed to the ways in which large inequalities in the kinds of economic outcome we look at are associated with societies having lower levels of happiness or well-being in other respects, and to the social problems and economic costs resulting from these.

When considering whether the degree of inequality is 'justified' or not, an important distinction lies in how people judge inequalities between groups such as between women and men or between ethnic groups, and how they judge inequalities within those groups. Where differentials in, say earnings, reflect differences in work experience, creating differences by age, this might be seen as reasonable. But systematic differences between groups – for instance, by gender, ethnicity or religion – unrelated to experience or qualifications, constitute what would be seen by some as being the most central issue, violating fundamental principles of social justice, rooted in recognition of equal worth and respect. At the same time, even if such differences were eliminated completely so that, for instance, men and women enjoyed equal incomes, but there remained large gaps between low and high income men and low and high income women respectively, many would still not regard the resulting distribution as fair.

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<sup>2</sup> We discuss the limitations of the data available to us and the analysis we can carry out in Chapter 1 of the main report. In particular, most of our analysis is drawn from large-scale national surveys covering the household population. This omits those who do not live in households (see Appendix 3 of our main report). It means that the particular ethnic and other categories are as collected in the original surveys, which is not always ideal, and that we cannot analyse the position of groups whose size is small relative to the population as a whole, or where information was not collected. Where possible we present data for the whole of the United Kingdom, and for its constituent nations, but some breakdowns are only available for England or are not comparable between nations. We comment on data issues in Box 12.1 in the final chapter of our main report.

This is, in part, because the crucial test of whether inequalities in outcomes are seen as fair or unfair will depend on whether they reflect choices made against a background where the opportunities open to people were equal to start with, or whether they stem from aspects of their lives over which they have manifestly little control. Most people and all the main political parties in Britain subscribe to the ideal of ‘equality of opportunity’. The systematic nature of many of the differentials we present, and the ways in which advantages and disadvantages are reinforced across the life cycle (as we describe in Chapter 11 of the main report), make it hard, however, to sustain an argument that what we show is the result of personal choices against a background of equality of opportunity, however defined. Inequality in turn then acts as a barrier to social mobility.

Whatever degree of inequality people find acceptable or unacceptable, the overall picture we have described is one of considerable differences, even if one ignores those with the very highest earnings or incomes, such as the bankers’ bonuses or Chief Executives’ pay that often attract most attention<sup>3</sup>. The measure of inequality we concentrate on most in this report is the ‘90:10 ratio’. If people are lined up in order from poorest to richest, the ‘10<sup>th</sup> percentile’ is the value of the outcome for the person one-tenth of the way up the line, and the ‘90<sup>th</sup> percentile’ is the value for the person nine-tenths of the way up. The 90:10 ratio shows how many times larger the 90<sup>th</sup> percentile is than the 10<sup>th</sup> percentile, and provides a measure of inequality. The larger the ratio, the higher is inequality. Although it focuses on just two points in the distribution, this measure of inequality captures differences across the bulk of the population and can also be used to make robust comparisons between what are sometimes relatively small population groups. When looking at the population as a whole in Chapter 2 of our main report, we are able to look at distributions in more detail: we also include statistics summarising the positions of those within the bottom and top tenths of the distributions and some inequality measures that are affected by all outcomes across a distribution, such as the well-known ‘Gini coefficient’. When comparing between groups, we usually look at the ‘median’ outcome for members of the group: within any group, half have outcomes below its median, and half above its median.

While compiling this report has been a challenging exercise, our focus on economic inequalities is in some respects a narrow one. These are not necessarily the most important aspects of people’s lives, well-being or happiness. Nevertheless, economic inequalities shape, constrain, and are intertwined with, fundamental aspects of people’s lives. We can also only present most of our results in terms of one or two aspects of people’s lives at a time. However, no person is defined by their identity in a single dimension, and they may be advantaged in one respect, but disadvantaged in another. Where possible, we present our results separately for men and women when looking at the impact of other factors, and often by age group. But the impact of other intersections between people’s characteristics and circumstances will also be important.

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<sup>3</sup> See Box 2.2 in the main report for discussion of the highest incomes and earnings.

## Overall inequalities<sup>4</sup>

Figure S1 shows what these measures mean in terms of the distribution of 'equivalent net income' as measured by the Department for Work and Pensions in its annual *Households Below Average Income* publication<sup>5</sup>. Median income in 2007-08 was £393 per week (at 2008 prices) – in other words, half the population was in households where income adjusted for household size put them in a position that was less favourable than a couple without children with a net weekly income of £393 (£20,500 per year), and half was in a more favourable position. A tenth had incomes below £191 and a tenth had incomes of more than £806 per week (including more than 5 per cent above £1,000 per week). Thus the 10<sup>th</sup> percentile was just under half the median, and the 90<sup>th</sup> percentile was just over twice the median, and so the 90:10 ratio was more than four.

The lower panel shows the income levels at each 'percentile' of the distribution – the income level below which that percentage of the population come when their incomes are ranked in order. The last bar, for the 99<sup>th</sup> percentile, shows that the top 1 per cent had equivalent net incomes above £2,000 per week.

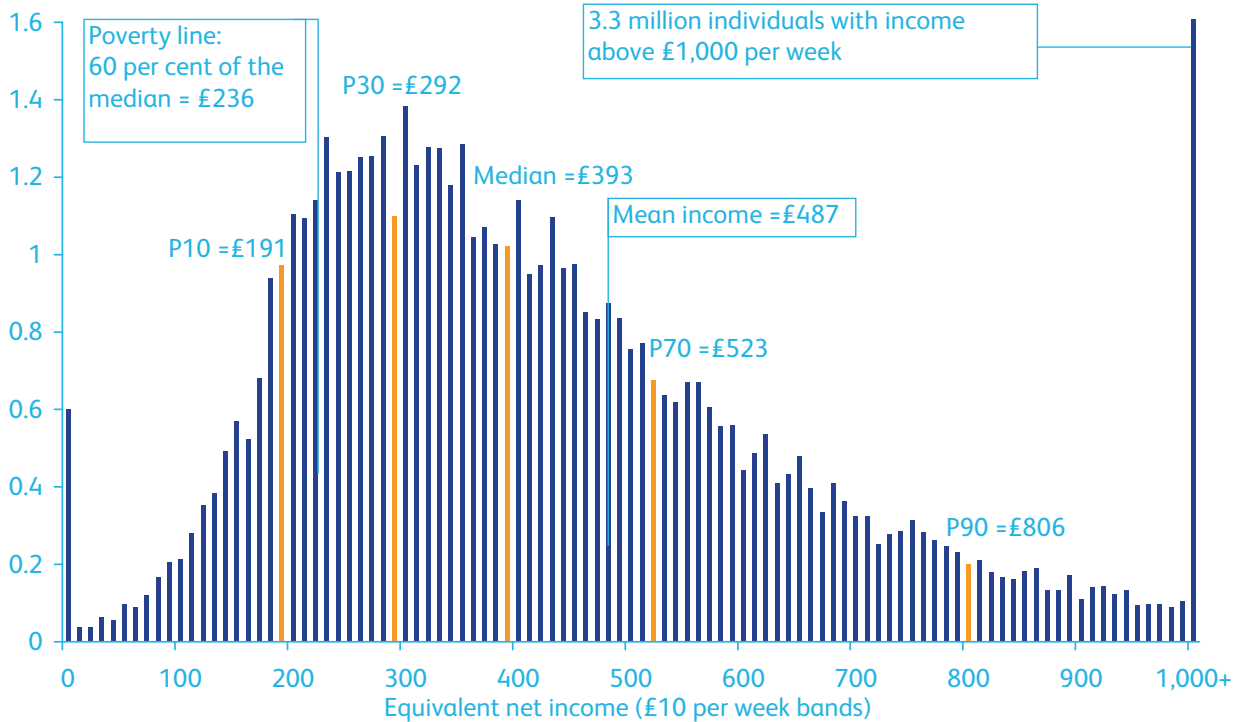
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<sup>4</sup> Note that Chapter 12 of the main report, which summarises our findings in the same way as here, contains more detailed cross-references to the sources of the material summarised here and below.

<sup>5</sup> In this measure, individuals are allocated an income level based on the net income of the household in which they live, adjusted by household size to show the value that would give a couple without children the same standard of living. The measure used assumes equal sharing within households, and is before deducting housing costs. See Box 2.1 of our main report for more explanation.

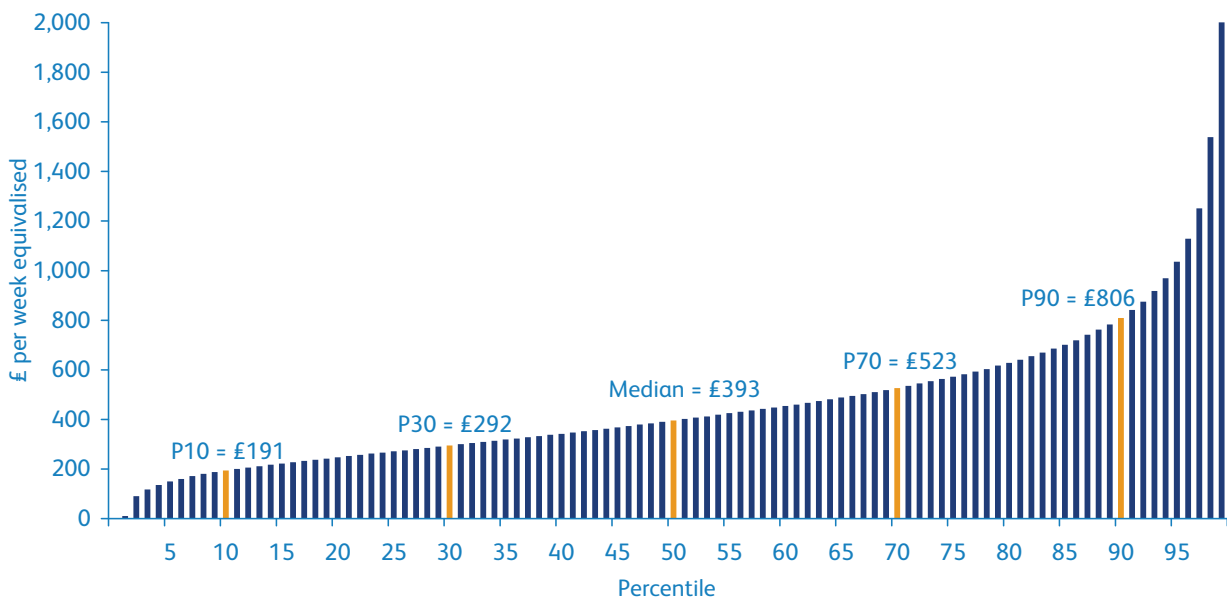
Figure S1: Equivalent net income, UK 2007-08 (at 2008 prices, before housing costs)  
 (a) Number of individuals with income in each range (millions)

Half of the population has income below and half above £393 per week (adjusted for household size)



(b) Income level at each percentile (£/week) at 2008 prices

People at the cut-off for the top tenth have incomes more than four times those at the cut-off for the bottom tenth. The top 1 per cent has incomes more than five times the median



Source: DWP, based on HBAI dataset. Incomes are adjusted to be equivalent to those for a couple with no children. For a single person, divide actual net income by 0.67; for a couple with child under 14 by 1.2; for a couple with 2 children under 14 by 1.4, etc. (allowing 0.2 for each additional child under 14, and 0.33 for children aged 14 or over, or additional adults).

For the five distributions of earnings, incomes and wealth we look at in detail, generally using data for the three years 2006-2008<sup>6</sup>:

- The median **gross hourly wage** is £9.90. The 90:10 ratio is **3.9**, with 10 per cent having wages below £5.50 and 10 per cent above £21.30 per hour. The top 1 per cent has wages above £43 per hour. Figure S2 shows this distribution in more detail.
- The median for **gross weekly earnings** for those employed full-time is £448. The 90:10 ratio is **3.7**, with 10 per cent having earnings below £240 and 10 per cent above £893 per week (equivalent to annual earnings of £47,000). The top 1 per cent has earnings above £1,910 per week.
- The median **net individual income** received by adults in their own right, including those not employed or above pension age, is £223 per week. The 90:10 ratio is **9.6**, with 10 per cent of adults having individual incomes below £56 per week and 10 per cent above £542 per week. 1 per cent of adults has individual net incomes above £1,300 per week.
- For the whole population, median **equivalent net income** on a household basis is £393 per week. The 90:10 ratio is **4.2**, with 10 per cent of people having equivalent net incomes below £191 and 10 per cent above £806 per week. 1 per cent has equivalent net incomes above £2,000 per week.
- Median **total wealth** (including personal possessions, net financial assets, housing and private pension rights) is £205,000. The 90:10 ratio is almost **100**, with the top tenth of households having wealth above £853,000, and the bottom tenth having less than £8,800. The 90:10 ratio is so high because the poorest households have such little wealth. However, even looking more narrowly at the top half of the wealth distribution, those in the top tenth have more than 4.2 times as much wealth as those in the middle, twice the corresponding ratios for earnings or household income. 1 per cent of households has total wealth of more than £2.6 million<sup>7</sup>.

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<sup>6</sup> Wages and earnings figures are from three years of pooled Labour Force Survey data, from the beginning of 2006 to the end of 2008. Using three years of data increases the sample size we can analyse, allowing us to provide more reliable statistics for relatively small population groups. Similarly, individual income figures are from three years of pooled Family Resources Survey data, from 2005-06 to 2007-08. Equivalent income figures are from the latest available Household Below Average Income (HBAI) dataset, 2007-08 apart from the figures by ethnicity, which are averages of three years of HBAI, 2005-06, 2006-07 and 2007-08. Wealth figures are from the July 2006 to June 2008 Wealth and Assets Survey. All figures are given in 2008 prices, or 2007-08 prices in the case of net individual incomes and equivalent net income. Wealth figures are cash averages for 2006-08.

<sup>7</sup> Wealth inequality is affected by life cycle savings patterns. Inequality within age groups is presented in Figure S8 below and specifically of households just before retirement in Table S2.

Figure S2: Hourly wages, all employees, UK, 2006-2008 (at 2008 prices):  
Wage levels at each percentile of the distribution

A tenth of employees are paid less than £5.50 per hour and a tenth more than £21.30. One per cent is paid more than £43 per hour



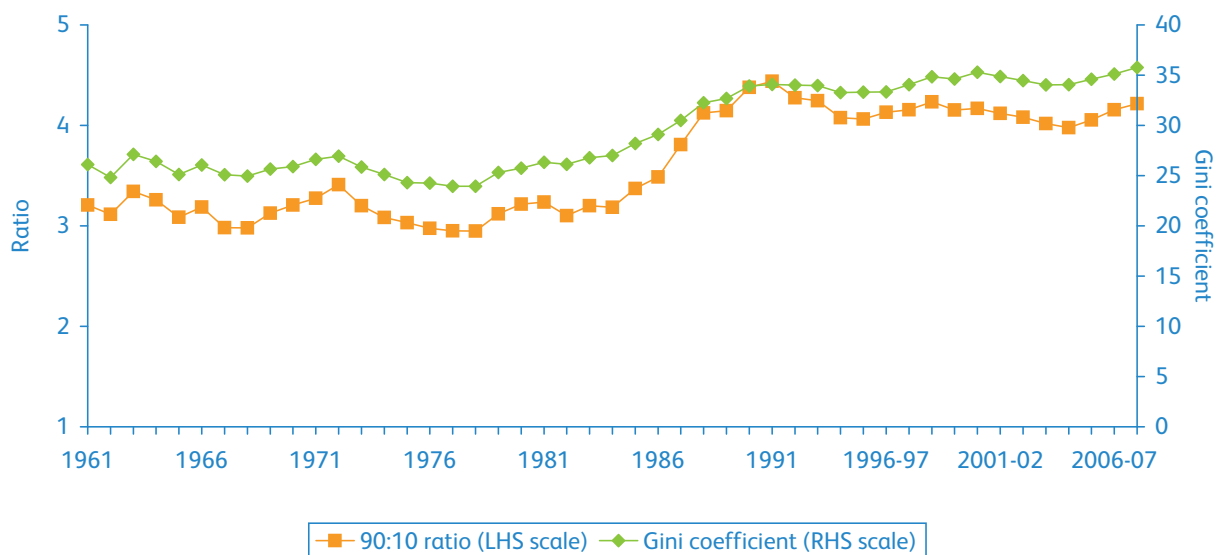
Source: NEP, based on LFS 2006-2008.

For earnings and equivalent net income, these represent high levels of inequality by comparison with those in the UK a generation ago, when, for instance, the ratio for equivalent net income was just over 3 to 1 (Figure S3). As the figure shows, most of this increase occurred during the 1980s. Over the last decade, trends have been complex. On some measures, including the 90:10 ratio described above, earnings inequality has narrowed, and income inequality stabilised. On other measures, particularly those for income inequality which look across the whole distribution, inequality has widened.

Looking at the top of the income distribution, using data from tax records, the share of the top 1 per cent in after tax income fell from 12.6 per cent of the total in 1937 to 4.7 per cent by 1979, but rose again to 8 per cent in 1990 and 10 per cent in 2000. The share of the top 0.05 per cent (the top one in every two thousand) fell from 2.4 per cent of the total in 1937 to under 0.5 per cent in 1969. By 2000, their share had risen back to 2.5 per cent. A similar gain in the shares of those with the highest incomes occurred in other English-speaking countries in the 1980s and 1990s, but not in continental Europe (Box 2.2). Earnings and income inequality in the UK are now high in international terms, compared with other industrialised countries (Figure S4), although wealth inequality does not appear to be so exceptional.

Figure S3: Changes in overall income inequality measures for equivalent net income, 1961 to 2007-08

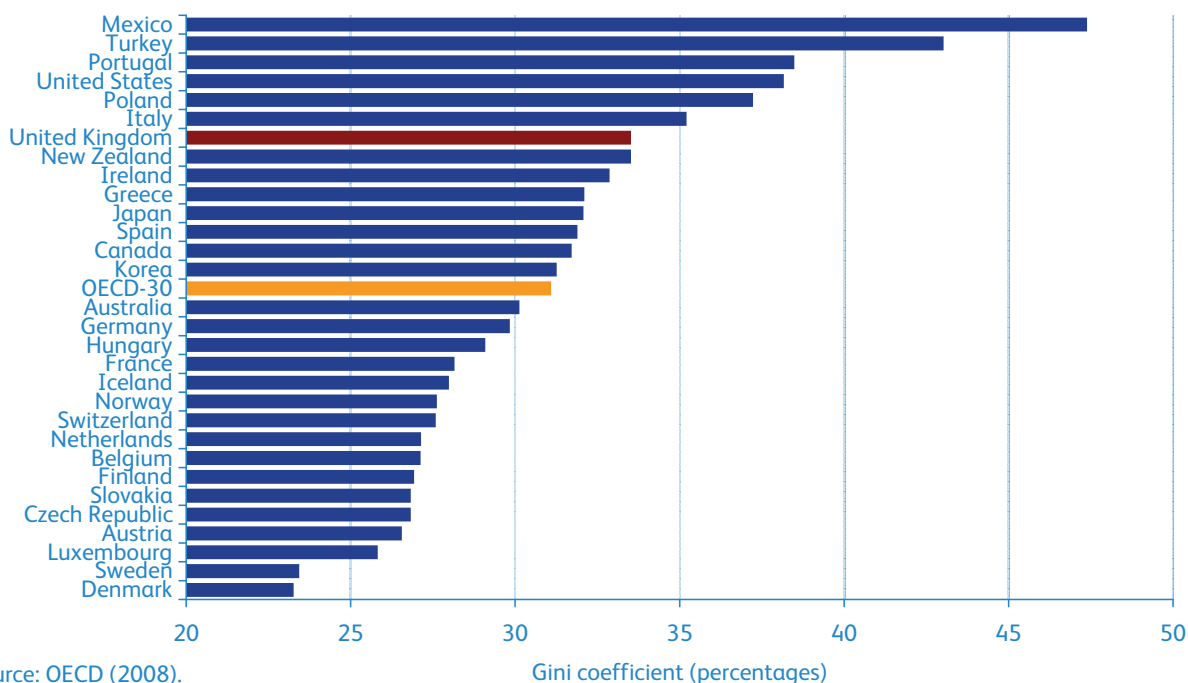
Since the late 1980s income inequality has remained much higher than in the 1960s and 1970s; on some measures it is the highest in last 50 years



Source: IFS, <http://www.ifs.org.uk/bns/bn19figs.zip>.

Figure S4: Income inequality in OECD countries, mid-2000s (Gini coefficients)

The UK had income inequality in the highest quarter of industrialised countries in the mid-2000s



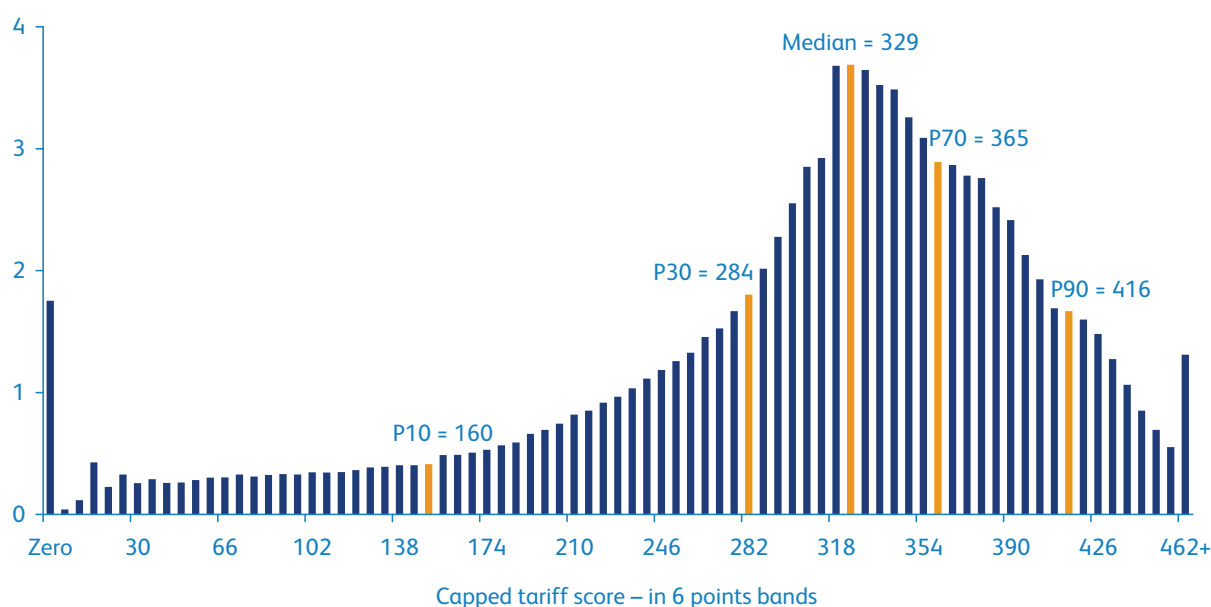
Source: OECD (2008).

Note: UK figures based on FRS.

Some, but by no means all, of these inequalities have their origins in variations in skill levels and qualifications. Despite recent improvements in results at age 16, there is a ‘long tail’ of low achievement amongst 16 year-olds (Figure S5). The UK lags behind other countries in the proportion of the working age population with upper level secondary qualifications (equivalent to GCSE passes at A\*-C or above), especially amongst the generation now aged 25-34.

Figure S5: Key stage 4 (GCSE) results, England, 2008: Percentage with results in each band of total GCSE points

There is a ‘long tail’ of low educational achievement: a tenth of pupils in England have GCSE results equivalent to no more than 5 passes at grade F and 3 at grade G



Source: DCSF, based on National Pupil Database. Results are for maintained (state) schools only.

Note: Total points ‘capped’ by DCSF to show those from a pupil’s best 8 GCSE (or equivalent) passes at age 16. The system awards 16 points for a pass at G, 22 for an F, up to 52 for an A and 56 for an A\*.

## The position of different groups

Tables S4 and S5 at the end of this summary bring together measures of inequality *between* different groups, when the population is classified in different ways, and of inequality *within* each group. Below we summarise some of the key findings related to each dimension in which groups can be defined, on how inequalities have changed over time (where data are available to do this), and how they develop across the life cycle. Of course, people can be described in terms of many of their characteristics (age group, gender, ethnicity, and so on), and so are members of many different ‘groups’ of these kinds at once. In our main report we look in particular at the interaction between people’s gender and their other characteristics.

### (a) Gender

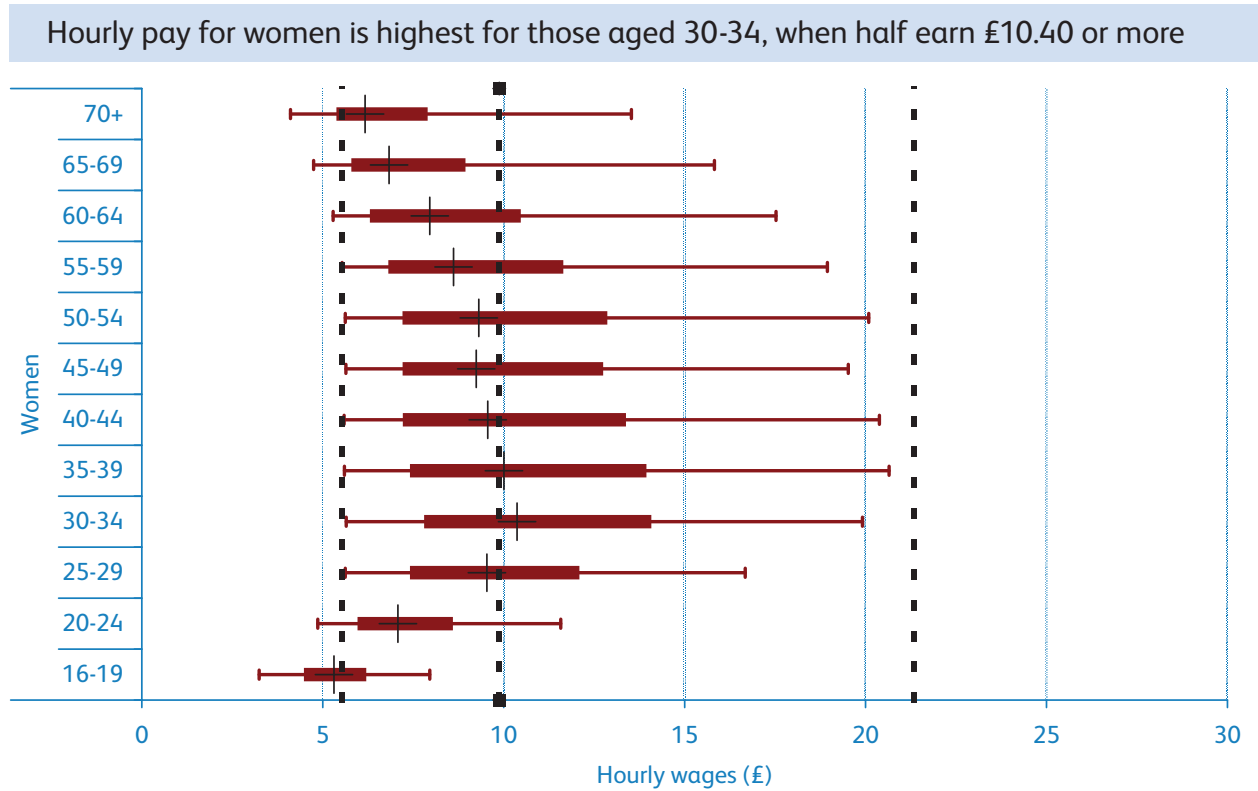
Girls now have better educational outcomes than boys at 16. Out of every 100 pupils, girls have median achievement ranked between 8 and 12 places higher than the median achievement for boys (depending on which nation is examined). Reflecting these results, women are more likely to go on to tertiary education than men, and are more likely to achieve good (first or upper second class) degrees. More women now have higher education qualifications than men in every age group up to age 44, and fewer have no or only low qualifications, reversing the pattern in older generations.

However, women are paid less than men – 21 per cent less in terms of median hourly pay for all employees (and 13 per cent less than men for those working full-time). Allowing for shorter working hours, weekly earnings of women in full-time employment are 22 per cent less than those of men (using data from the Labour Force Survey; see Box 10.1 in Chapter 10 of the main report for trends in other measures). For women in their twenties, the gender gap is much smaller (6-7 per cent in weekly full-time earnings at the median), but within four years of graduation, nearly twice as many men have earnings over £30,000 as women. It is sometimes assumed that wages tend to grow with age and experience. However, hourly wages for women are highest for those in their early thirties, and lower for each subsequent age group. Figure S6 shows the ranges of hourly wages for men and women at each age. It is only for women with high qualifications and working in the public sector that one sees ‘career progression’ in wages. While it is not the only factor, women’s pay relative to men’s declines not just at the moment of first becoming a mother, but through most of the first child’s childhood. There is, however, almost as much inequality between well-paid and low-paid women as there is between the well-paid and the low-paid overall (Table S5).

Figure S6: Hourly wages by gender and age group, UK, 2006-2008, £  
 (a) Men



(b) Women



Source: LFS 2006-2008 at 2008 prices.

Note: For each group, the black cross marks the group median. The thin horizontal bar shows the range between the 10<sup>th</sup> and the 90<sup>th</sup> percentiles. The thicker bar shows the range between the 30<sup>th</sup> and the 70<sup>th</sup> percentiles. The three vertical lines running from the top of the chart to the bottom show the 10<sup>th</sup>, 50<sup>th</sup> (median) and 90<sup>th</sup> percentiles of the overall population in paid employment (men and women).

A crucial factor in all of this – and also in the earnings of disabled people and those from certain minority ethnic groups – is the low level of part-time pay. Half of those working part-time earn less than £7.20 per hour. Few part-timers have hourly wages above the median of £9.90 for all employees.

The current position of women is, none the less, an improvement on what it was in the late 1990s. Looking, for instance, at net individual incomes received by adults in their own right (from all sources including benefits and tax credits as well as wages), the median for women rose from 53 per cent of that for men in 1995-1997 to 64 per cent in 2006-2008 (Table S1). The table also shows that in most respects there is nearly as much inequality in these outcomes between women as there is between men.

Table S1: Inequality in earnings and incomes by gender, 1995-1997 and 2006-2008

	Median for group as % of men's median		Inequality within groups (90:10 ratio)	
	1995-1997	2006-2008	1995-1997	2006-2008
<b>(a) Hourly wages (all employees)</b>				
Men	100	100	4.2	4.1
Women	73	79	3.7	3.5
<b>(b) Weekly earnings (full-time)</b>				
Men	100	100	3.7	3.7
Women	73	78	3.5	3.5
<b>(c) Net individual incomes (adults)</b>				
Men	100	100	7.1	7.7
Women	53	64	11.4	8.9
<b>(d) Equivalent net income (all individuals)</b>				
Men	100	100	4.2	4.3
Women	92	95	4.1	4.2

Source: Labour Force Survey (UK 1995 to 1997; 2006 to 2008), DWP from Individual Income Series (GB 1996-97 to 1998-99; UK 2005-06 to 2007-08), Family Resources Survey (GB 1997-98; UK 2007-08).

Note: The time frame is 1996-97 to 1998-99 and 2005-06 to 2007-08 for net individual incomes; 1997-98 and 2007-08 for equivalent net income. Equivalent net incomes are before housing costs.

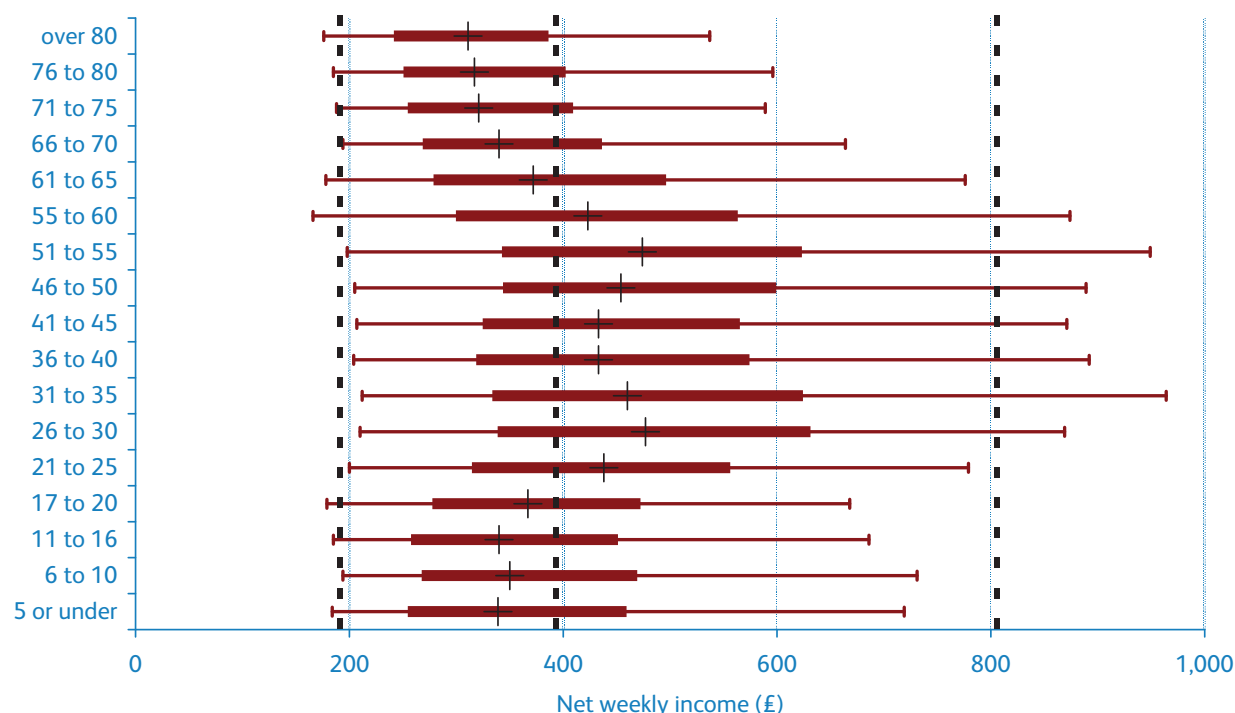
Given the size of the 'trans population', national sample survey evidence of the kind used in this report is unable to shed light on their economic position. However, evidence of other kinds suggests substantial difficulties in employment for some members of that population (see Box 9.1 in Chapter 9 in the main report).

## (b) Age

The position of young people (aged under 25) in the labour market and in equivalent net income has declined both over the longer-term and in the last decade, for some because of longer periods in education, but not for others. Those who have most improved their relative positions in the last decade have been women of all ages over 25 (particularly those with middle and higher incomes in their thirties) and older men. Men aged 25-69 (especially poorer middle-aged men) slipped back. Median equivalent net incomes – in many ways the best summary of differences in average living standards among the measures we examine – now have a ‘crown’ shape with age, with the highest levels for those both in their early thirties and in their early fifties when viewed at any one time (Figure S7). Many of those in their thirties and forties have lower equivalent incomes as family sizes are then at their largest. However, other surveys that follow the same people over time show that rising general living standards mean that those in their forties tend actually to experience this as a flattening, rather than dip, in their own incomes.

Figure S7: Equivalent net income, by age group, £ per week, UK, 2007-08

Incomes (adjusted for household size) are highest on average for people in their late twenties and early fifties



Source: DWP, based on HBAI dataset. Incomes are before housing costs.

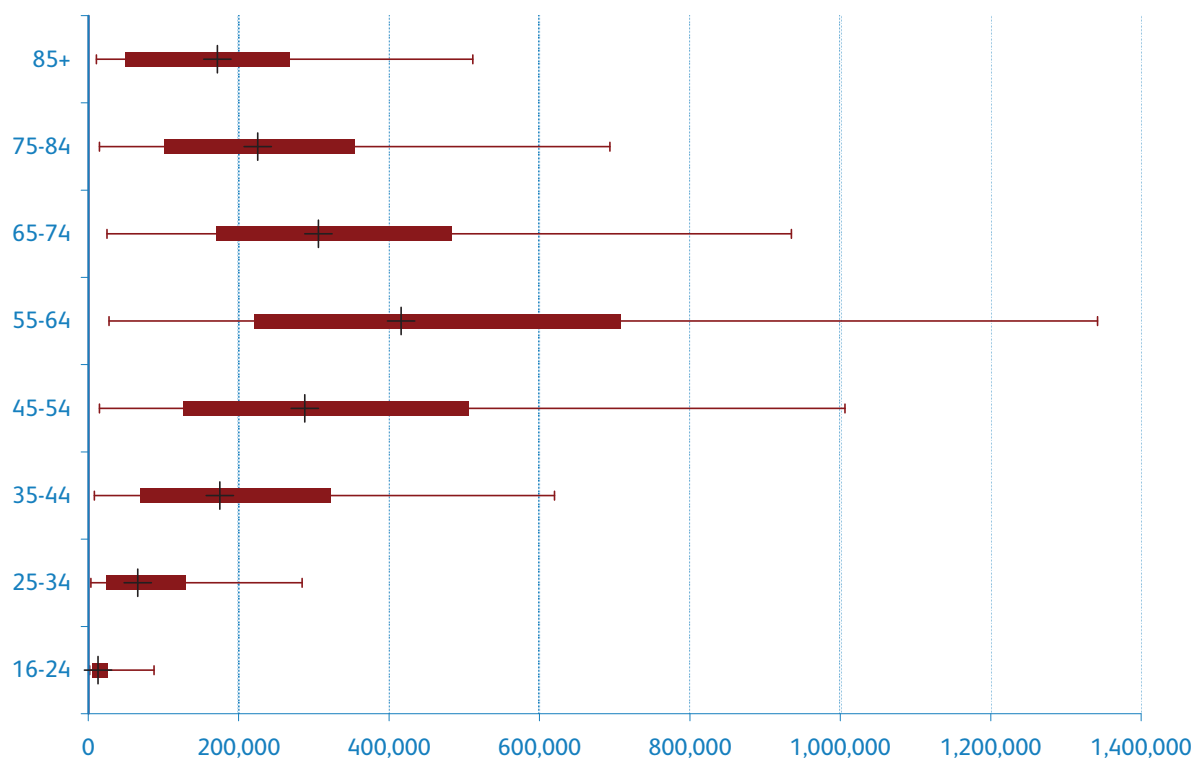
Note: For each group, the black cross marks the group median. The thin horizontal bar shows the range between the 10<sup>th</sup> and the 90<sup>th</sup> percentiles. The thicker bar shows the range between the 30<sup>th</sup> and the 70<sup>th</sup> percentiles. The three vertical lines running from the top of the chart to the bottom show the 10<sup>th</sup>, 50<sup>th</sup> (median) and 90<sup>th</sup> percentiles of the overall population.

As one would expect, Figure S8 shows that wealth is highest for those in their late fifties and early sixties, when people are close to retirement. Including private pension rights, median wealth is £66,000 for those aged 25-34, but £416,000 for those aged 55-64. However, there

are very considerable differences in wealth within each age group, with a range from £28,000 to £1.3 million between the 10<sup>th</sup> and 90<sup>th</sup> percentiles of those aged 55-64.

Figure S8: Total household wealth by age group, GB, 2006-08, £

Wealth is highest for households aged 55-64, but there is a substantial range within every age group



Source: ONS from Wealth and Assets Survey. Age is that of 'household reference person'. Total wealth includes net financial assets, property and possessions, houses (net of mortgages), and non-state pensions (occupational and personal).

### (c) Ethnicity and religious affiliation

The detailed results in Chapters 3 to 8 of our main report show the complexity of differences between ethnic groups when they are defined quite narrowly and, by implication, the dangers in conflating ethnic categories (although the data available to us are sometimes only for broad categories). It is often valuable to look at differences by ethno-religious group, rather than by ethnicity by itself, and to look at the interaction between gender and ethnicity.

Looking at particular groups as they move through compulsory schooling, some of the minority ethnic groups that start with test scores well below the national average improve their relative position between 7 and 16<sup>8</sup>. Figure S9 shows the average results for some of the main ethnic

<sup>8</sup> These results are taken from records for all children in England, not from surveys. See Burgess, Wilson and Worth (2009). Section 11.3 of our main report discusses these results in more detail and shows them for a wider range of ethnic groups.

groups, for pupils not receiving Free School Meals<sup>9</sup>. At 16, however, Pakistani, Black African and Black Caribbean boys in England have median results well below the national figure for all pupils. Other groups have results well above the national average. A tenth of Chinese girls have results in the top 1 per cent overall. Children recorded as having Traveller or Gypsy backgrounds<sup>10</sup> have assessments that fall further behind during the school years, resulting in much worse results at 16 than others. This gap appears to have widened in recent years.

Those from minority ethnic groups with GCSE results around or below the national median are much more likely to go on to higher education than White British pupils with similar results (Box 11.3 in Chapter 11). However, Black and Pakistani/Bangladeshi students are less likely to go to more prestigious universities or to get higher class degrees. A larger proportion of those of working age from several minority ethnic groups, including those with Chinese, Indian and Black African backgrounds, have higher education qualifications than the White British population.

Despite this, nearly all minority ethnic groups are less likely to be in paid employment than White British men and women. 44 per cent of Pakistani and 49 per cent of Bangladeshi women are economically inactive, because they are looking after family or home, compared to 20 per cent or fewer of other groups. Around 80 per cent of White British, other White, and Indian men are in paid work, but between 60 and 70 per cent of other groups. 17 per cent of Bangladeshi men are employed part-time and 21 per cent of Pakistani men are self-employed. For some groups differences in unemployment rates are as great for the 'second generation', as for those who were born outside the UK (see Box 9.2 in Chapter 9).

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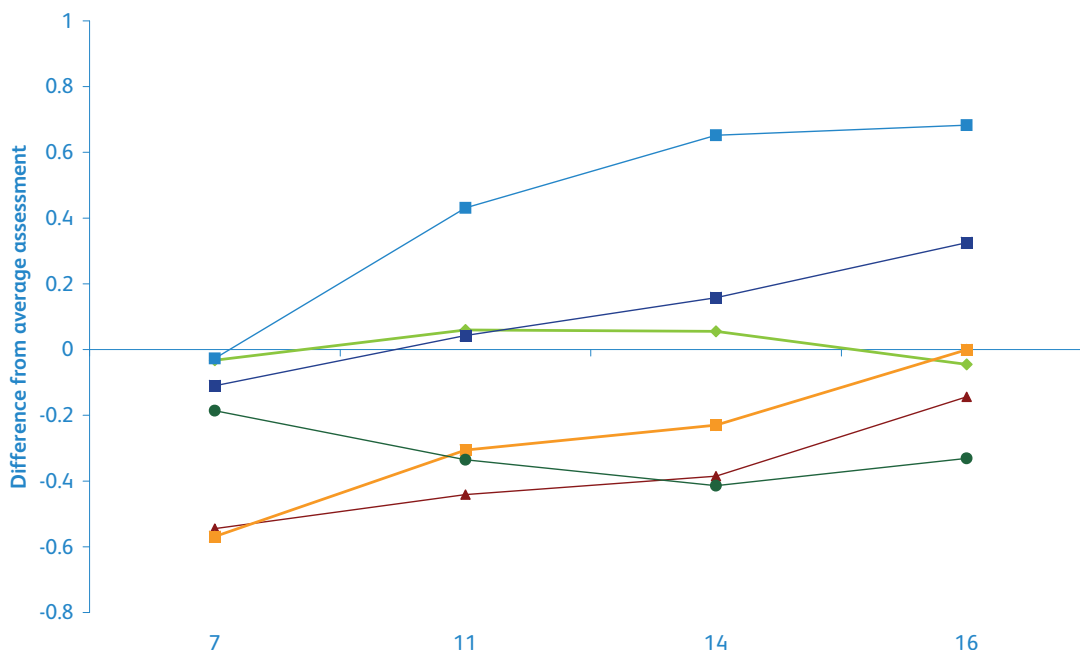
<sup>9</sup> The results for those receiving Free School Meals are shown in Figure S14 below, where we discuss the effects of family background.

<sup>10</sup> There are only 141 pupils recorded as having Traveller or Gypsy backgrounds in the data for the cohort examined.

Figure S9: Differences from average assessments, age 7-16: Children not on Free School Meals (England)

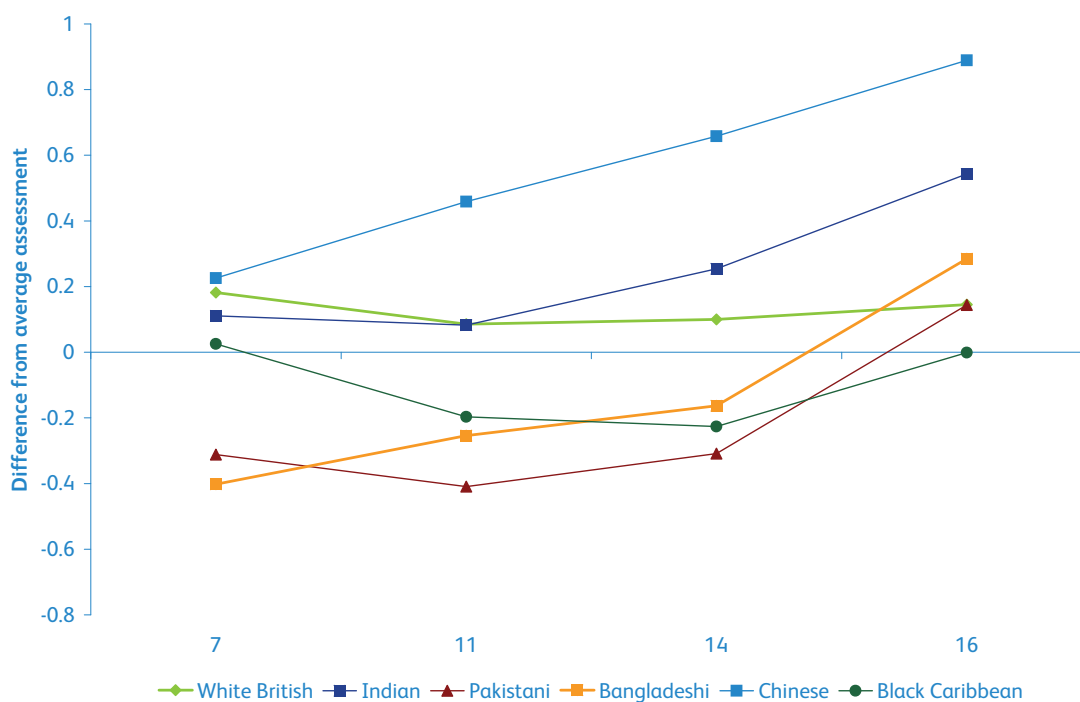
(a) Boys

Pakistani and Bangladeshi boys (not on Free School Meals) catch up with average test results between 7 and 16; Black Caribbean boys fall behind between 7 and 14



(b) Girls

Girls from nearly all ethnic backgrounds (not on Free School Meals) reach or exceed average test results by 16; Indian and Chinese girls move well above the average between 7 and 16

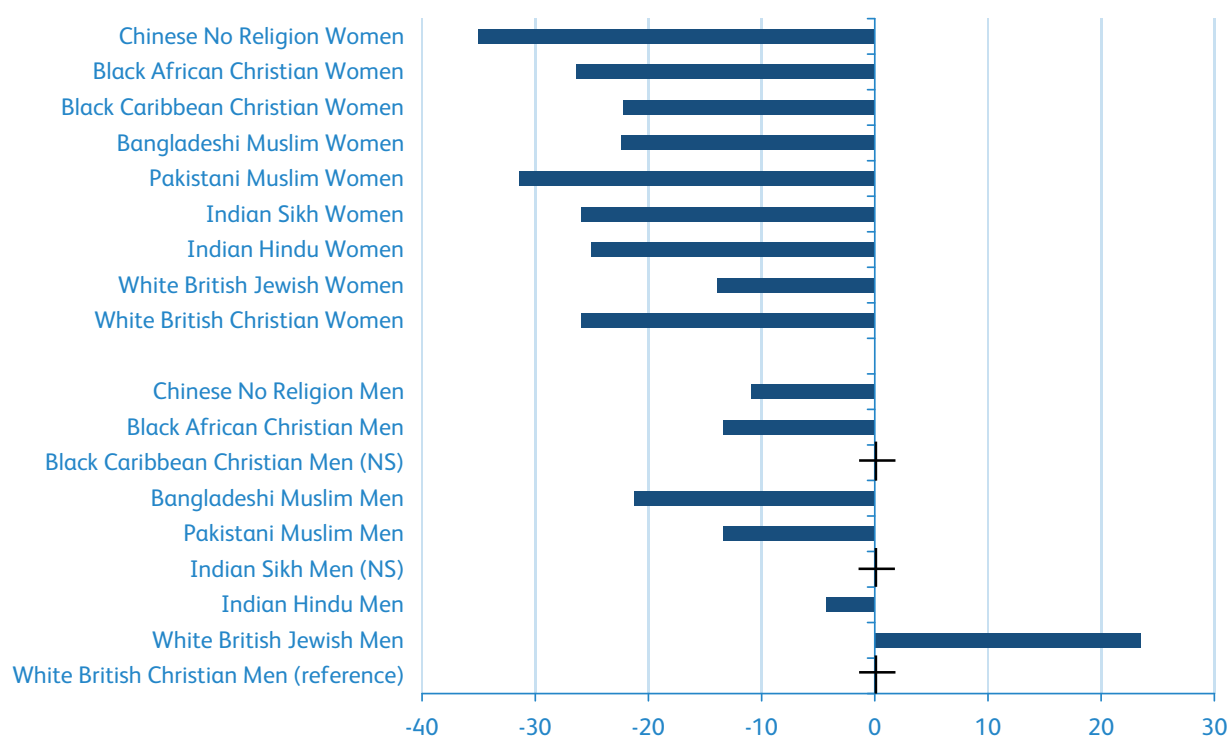


Source: Burgess, Wilson and Worth (2009), figures 7a and 7b. Results are for the cohort of children who were aged 16 in 2007 (aged 7 in 1998). The vertical scale shows the difference between the average score for a group and the overall average at that age, expressed as a proportion of the standard deviation of scores at that age.

When employed, nearly all other groups have hourly pay less than White British men, although several groups (including Black Caribbean women) have higher pay than White British women. Figure S10 shows what wage levels would be predicted for people who have the same age, occupation, and qualifications (given the actual wages seen across each group). After controlling for differences in age, occupation and qualifications in this way, Indian Hindu and Sikh men, and Black Caribbean Christian men have similar hourly wages to White British Christian men. White Jewish men are paid 24 per cent more. However, Pakistani and Bangladeshi Muslim men and Black African Christian men have a ‘pay penalty’ (see Box 9.3 in Chapter 9 of the main report), earning 13-21 per cent less than White British Christian men. Although Chinese men are one of the highest paid groups, they are paid 11 per cent less than would be expected allowing for their qualifications. Women from nearly all ethno-religious backgrounds have pay between a quarter and a third less than a White British Christian man with the same qualifications, age and occupation.

Figure S10: Hourly pay differences by ethno-religious group, UK (% differences from White British Christian men predicted for those with matching qualifications and other characteristics)

Pakistani and Bangladeshi Muslim men have hourly pay 13-21 per cent less than White British Christian men with the same qualifications, age and occupation. Women from nearly all ethno-religious groups are paid less than the least well-paid group of men



Source: Longhi and Platt (2008), figure 4.1.

Note: The differences shown by the bars in the chart are all statistically significant. Pay penalties for Indian Sikh men and Black Caribbean Christian men compared to White British Christian men are not statistically significant. The figures show the difference in pay predicted for people from each ethno-religious group with the following shared characteristics: born in the UK; non-disabled; married or cohabiting; without dependent children; aged 40-44; level 2 qualifications; and in a skilled trade occupation.

These differences are smaller for the children of migrants (the ‘second generation’) than for first generation migrants, and some of the largest differences in pay by ethnicity appear smaller than they were only a decade ago. However, as with the position of women in general, improving or high qualifications for people from several minority ethnic groups do not appear to be translating into the labour market position one would expect. A major factor in this is not just somewhat lower pay, allowing for qualifications and type of employment, but whether people are employed at all, and if they are, in which sector. Recent experiments show clear evidence of discrimination in whether people are offered job interviews depending on the apparent ethnicity in their CVs (see Box 9.5 in Chapter 9 of the main report).

The end result of all this is that some minority ethnic groups still have equivalent net incomes that are well below those of the rest of the population. Those from Bangladeshi and Pakistani households have a median equivalent net income of only £238 per week, compared to the national median of £393. Nearly half are below the official poverty line. As with the other outcomes we examine, however, there is generally as wide – or even wider – variation in the equivalent net incomes within ethnic groups as within the population as a whole (Table S5).

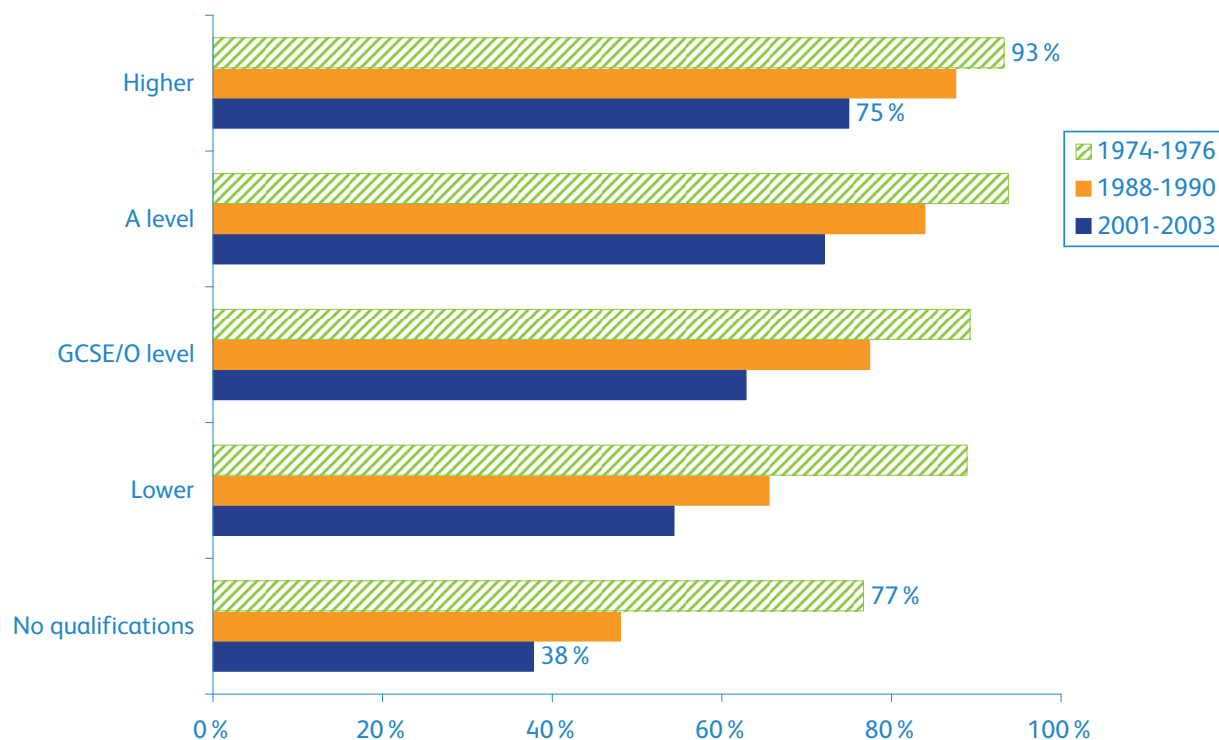
### (d) Disability status

There are several ways to measure disability status, and the data available to us vary in the definitions used. For those at school the categories of ‘Special Educational Needs’ and ‘Additional Support Needs’ are very broad, and there are substantial differences between the children covered by them and in their attainments. For instance, for pupils with sensory impairments or physical needs, differential attainment at the end of secondary school is largely predicted by their attainment levels at the end of primary school. By contrast, those with Behavioural and Emotional Support Needs have attainment levels which fall further behind in secondary school (Box 11.2 in Chapter 11).

In terms of both employment and wages, there are large differences between those reporting a ‘work-limiting disability’ and others. Differences for others who would be classed as disabled under the Disability Discrimination Act (DDA) definition are much smaller. Nearly half of those reporting both ‘work-limiting’ and ‘DDA’ disability have no or only low qualifications, twice the proportion of those who are not disabled. Their paid employment rates are less than half those of people who are not disabled. When employed, disabled people have median hourly earnings 20 per cent lower for men and 12 per cent lower for women. The disability employment ‘penalty’ has grown steadily over the last quarter century. Disabled people with low or no qualifications have been particularly strongly affected, and more so than non-disabled people (Figure S11). Again, recent experiments suggest that those disclosing a disability are less likely to be called for interview than those with otherwise identical CVs (see Box 9.5 in Chapter 9 in main report).

Figure S11: Proportion of men with limiting long standing illness who are in work, by highest educational qualifications (%)

Employment rates for disabled men with no qualifications have halved in the last 25 years



Source: Berthoud (2007). Disability is based on reported limiting long-standing illness.

According to official definitions, working age adults who are ‘DDA-disabled’ have a median equivalent net income that is 30 per cent lower than that for other working age adults (Table S4). This is a considerable fall relative to the national median since the late 1990s. However, even this understates the relative disadvantage of disabled people. As we explain in Box 7.3 in Chapter 7 of the main report, this income measure includes social security benefits, including those paid to disabled people on the grounds that they face extra costs in achieving a given standard of living compared to non-disabled people. It seems perverse to include such benefits in an income measure that attempts to give a guide to relative living standards, without adjusting for the extra needs they reflect (as the measure does for household size). If Extra Costs Benefits are excluded from net income, the net income of disabled people is reduced by more than 10 per cent, and their poverty rate would be more than 30 per cent (compared to 25 per cent under the usual definition). Box 9.7 in Chapter 9 in our main report discusses the related issue of the position of carers, and the parts of the population they come from.

### (e) Sexual orientation

There is very little information on the economic position of people in terms of their sexual orientation (although information by sexual orientation is now being collected by ONS in its regular household surveys, so this will change in the near future). The limited information that is available is potentially misleading because it relates to the position of the small proportion of the population who report to the Labour Force Survey that they live in a same sex couple. People reporting this status have higher qualification levels, higher rates of employment and higher earnings than others. However, these differences appear to reflect who is most likely to have the self-confidence to live and to report their status in this way. In Box 9.8 in Chapter 9 of the main report, we present evidence on trends in relative employment and earnings for people reporting they live in same sex couples allowing for their qualification levels and other characteristics. This shows that men in same sex couples were less likely to be employed and paid significantly less than would have been expected given their other characteristics in the late 1990s, but that this penalty has now disappeared. For women in same sex couples, pay remains higher than for other women, but this difference has also narrowed. By implication, there is no reason from this kind of evidence to expect the spread of earnings or incomes for lesbian, gay or bisexual people to be much different from that of the population as a whole.

### (f) Occupational social class

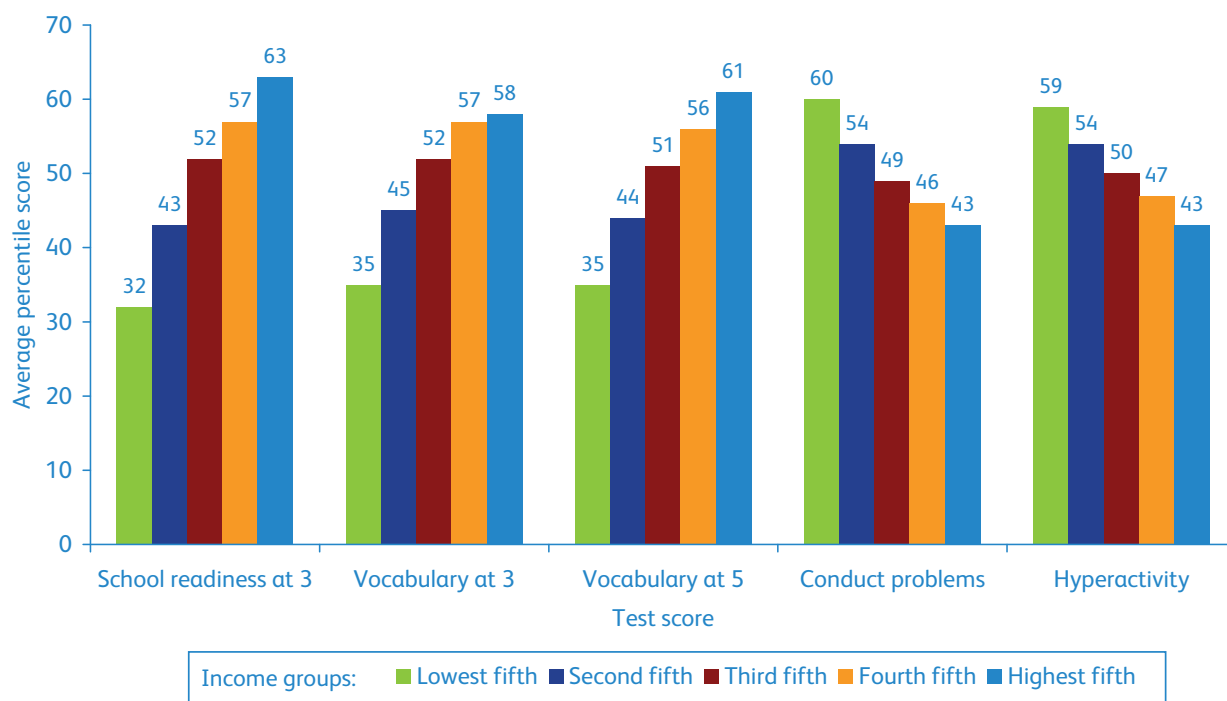
Social class is different from some of the other dimensions we examine in that it is both an outcome of the labour market and part of the transmission mechanism that affects how people's lives develop. As one would expect, there are considerable differences in qualifications, employment rates, earnings and incomes between those from different occupational social classes (Table S4). The median hourly wage for men from higher professional and managerial households is 2.5 times higher than that for men in routine occupations. For women the corresponding figure is 2.9 times higher. The median equivalent net income of those in higher professional and managerial households is 80 per cent higher than that for those with routine occupations, putting half of them in the top sixth of the population overall. Occupational social class is the only breakdown where within-group variation is generally substantially less than that within the population as a whole, although it remains large (Table S5). Growing inequality between broad occupational classes was one of the important contributors to the growth in earnings inequality over the 1980s.

## (g) The impact of social background

The evidence we examine confirms that social background really matters. There are significant differences in ‘school readiness’ before and when children reach school by parental income and mother’s education (Figure S12). Children entering primary school in 2005-2006 whose mothers had degrees were assessed 6 months ahead of those who had no qualifications above Grade D at GCSE. In addition, every extra £100 per month in income when children were small was associated with a difference equivalent to a month’s development. Rather than being fixed at birth, these differences widen through childhood. For recently born children a similar process seems at work to that already observed in the 1970s. Children with a higher social class background who start with a low assessment of relative cognitive ability when young eventually overtake those with a lower social class background who were initially assessed as having high ability. Looking from age 3 to age 14, differences in assessment related to family income, father’s occupation and mother’s education widen at each stage (although they then narrow slightly between 14 and 16), in contrast to differences related to ethnicity, which narrow or even reverse during childhood (Figure S13).

Figure S12: Indicators of school readiness by parental income group, UK: Average assessment for group as percentile of overall range of assessments

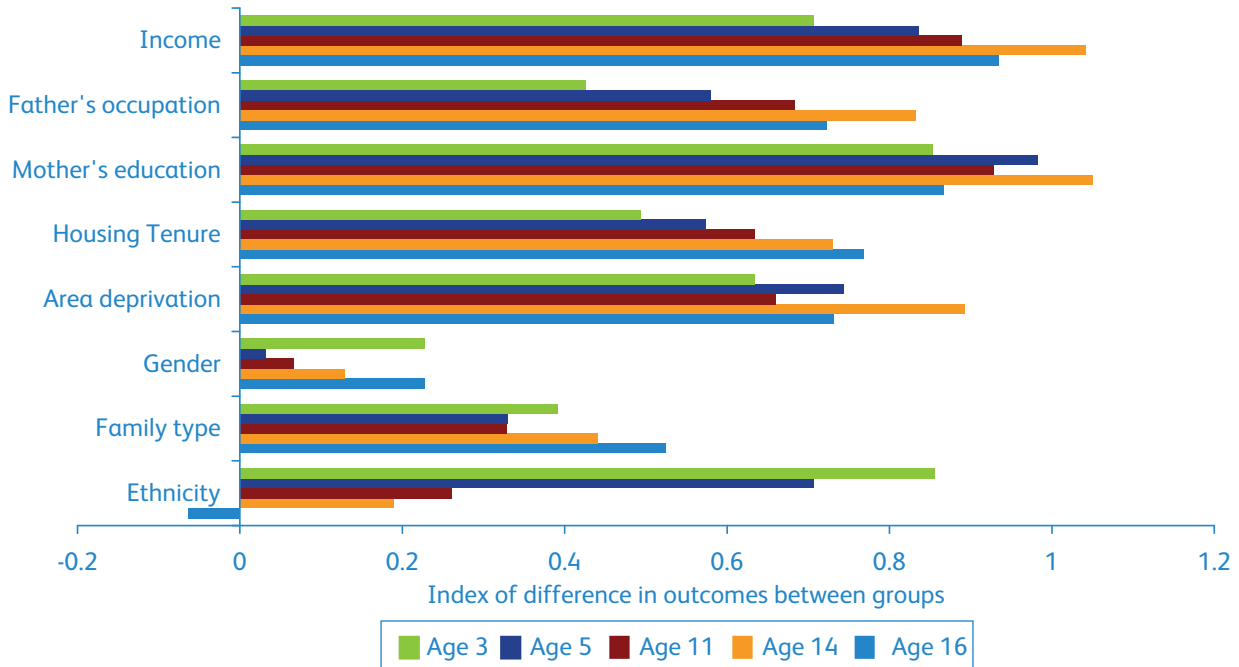
There are already substantial gaps in school readiness at ages 3 and 5 between children from poorer and richer families



Source: Waldfogel and Washbrook (2008).

Figure S13: Differences in assessments of children by age and background

Educational differences related to social background and income widen between age 3 and 14 while those related to ethnicity narrow



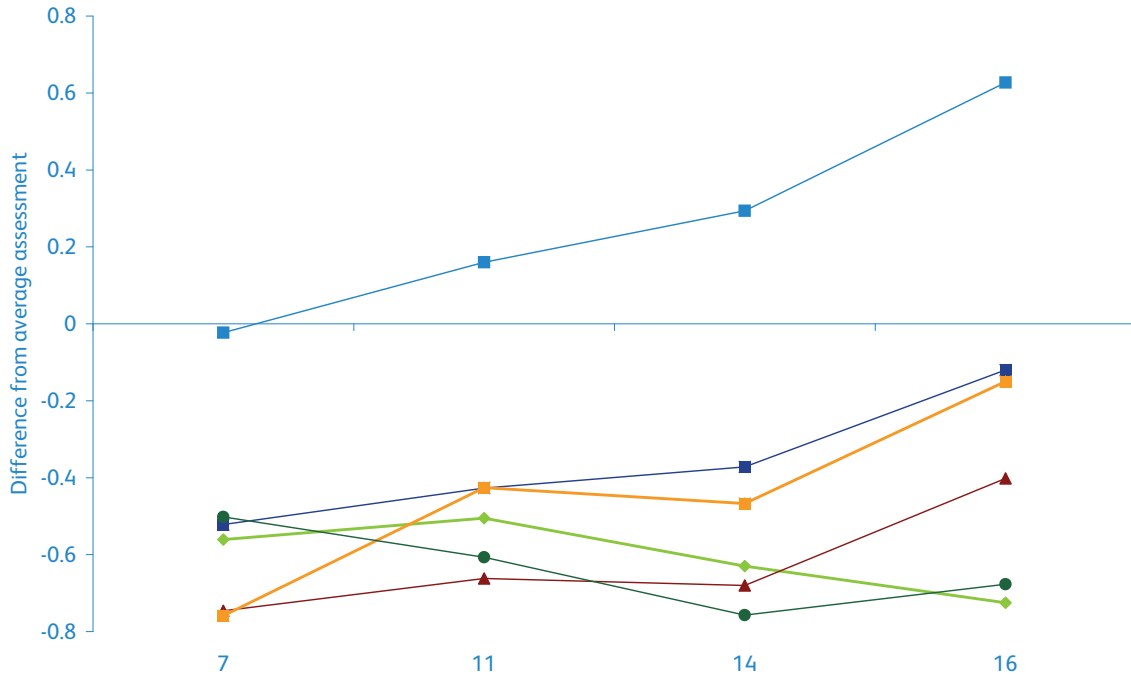
Source: Goodman, Sibieta and Washbrook (2009).

In the main data available on performance at school, the best available indicator of socio-economic background is whether children receive Free School Meals. By age 16, half of boys receiving Free School Meals have results in the bottom quarter in England (and in the bottom fifth in Wales). However, it is boys on Free School Meals from certain ethnic backgrounds that slip back through secondary school (Figure S14). By 16 White British, Black Caribbean and mixed White and Black Caribbean boys receiving Free School Meals have the lowest average assessment of any group identified by gender, ethnicity and Free School Meals status, apart from Gypsy and Traveller children. The social class and Free School Meals gaps in GCSE attainment are, however, a little smaller than they were a few years ago.

Figure S14: Differences from average assessments: Children on Free School Meals (England)

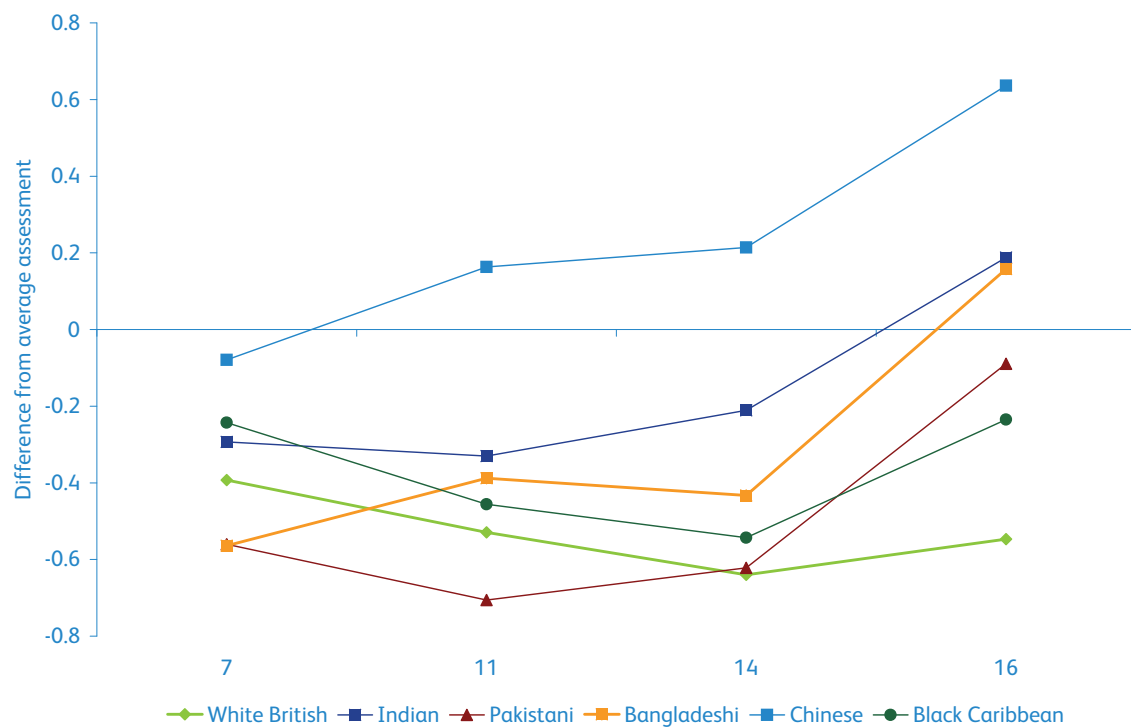
(a) Boys

White British and Black Caribbean boys who receive Free School Meals fall further behind through secondary school



(b) Girls

Girls receiving Free School Meals from most ethnic backgrounds improve their results between 14 and 16, but White British girls on Free School Meals remain well behind



Source: Burgess, Wilson and Worth (2009), figures 6a and 6b. Results for the cohort of children aged 16 in 2007 (aged 7 in 1998). The vertical scale shows the difference between the average score for a group and the overall average at that age, expressed as a proportion of the standard deviation of scores at that age.

Low income acts as a barrier to post-compulsory education. Young people with GCSE results above the national median who have been on Free School Meals are less likely to go on to higher education than others with the same results (Box 11.3 in Chapter 11 of the main report). Those with manual worker parents who do go to university are less likely than others to go to prestigious universities or to get higher class degrees. Within four years of graduation, men who went to private schools earn more than 8 per cent more than one would expect *after* allowing for their gender, ethnicity, social class, degree class, subject taken, occupation, industry and region of employment. As the Panel on Fair Access to the Professions recently observed, those entering the professions who had been born in 1970 came from families whose relative incomes were substantially higher than those for their predecessors born in 1958.

However one looks at the evidence on social mobility, it is clear that we live in a far from perfectly mobile society. People's occupational and economic destinations in early adulthood depend to an important degree on their origins. Moreover, rates of intergenerational mobility in terms of incomes are low in international terms, and in terms of occupation are below the international average for men and at the bottom of the range for women.

Parental help can also make a large difference to access to owner-occupation – nearly half of young first time buyers had received help from family and friends with their deposit in 2005. Someone's chance of receiving an inheritance – particularly a substantial one – is higher, the greater the wealth they already have. Membership of an occupational pension scheme increases rapidly with income. As a result of such processes, combined with the ability to save more out of higher incomes, for those aged 55-64, the median wealth (including pension rights) of higher professional and managerial households is more than twice the median for all households, and over four times that of semi-routine households (Table S2).

Table S2: Total household wealth by occupational social class, households aged 55-64, GB, 2006-08 (including housing and non-state pensions, £000s)

	Total household wealth		
	10 <sup>th</sup> percentile	Median	90 <sup>th</sup> percentile
Large employers/higher managerial	370	990	2430
Higher professional	290	910	2170
Lower managerial/professional	190	670	1720
Intermediate	84	400	1070
Small employers/own account workers	37	360	1060
Lower supervisory/technical	20	300	820
Semi-routine	13	220	640
Routine	8	150	520
Never worked/long-term unemployed	*	59	*
<b>All</b>	<b>28</b>	<b>420</b>	<b>1340</b>

Source: ONS, based on Wealth and Assets Survey, July 2006-June 2008. Households where 'household reference person' is aged 55-64. \* = sample size too small for accurate reporting.

In turn, differences in wealth are highly correlated with mortality rates after age 50. More than twice as many men, and nearly four times as many women, from the least wealthy fifth of over-50s die within a six-year period as of those from the wealthiest fifth.

### (h) Housing tenure

Housing tenure also has a dual role, being something that both shapes people's lives and an outcome of their levels of advantage and disadvantage in other respects. In particular, access to social housing has been heavily rationed towards those in the greatest need for the last quarter century, and access to owner-occupation depends on capacity to borrow on a mortgage and sometimes on inheritance or help from families. As a result, there are now very substantial differences in economic outcomes between those living in different tenures, and these often reflect other characteristics. Only 4 per cent of those of working age living in social housing have degrees, and nearly half have no or only low qualifications. Only half of men and 42 per cent of women of working age living in social housing are in paid work, compared with 89 per cent of men and 81 per cent of women in households with a mortgage. The median hourly wage for women in social housing is in the bottom fifth of wages overall, while the median wage for male owners with a mortgage is in the top 35 per cent. A third of social tenants have equivalent net incomes (before housing costs) below the official poverty line, and only a fifth of social tenants are in the top half of the income distribution (before or after housing costs). However, income differences between tenures are slightly smaller than they were a decade ago.

It is not surprising that social tenants have much lower total household wealth, including housing, than owner-occupiers – a median of £18,000 compared to £270,000 for mortgagors and £411,000 for outright owners. But they have little wealth in other forms too. Median financial and physical wealth is only £15,000 for social tenants, compared to £54,000 for mortgagors and £75,000 for outright owners. Private pension rights only raise the median wealth of social tenants by £3,000, but add £126,000 to the median for outright owners once property wealth has been accounted for.

Growing up in social housing has become more strongly associated with poorer economic outcomes in adulthood than it was for previous generations. This reflects in large part the increasing levels of relative disadvantage found in the sector compared with a quarter of a century ago.

### (i) Nation and region

Levels of inequality are slightly higher within England than within the devolved nations. However, recent trends are similar, whichever outcome one examines, despite the constitutional commitments to equality in the legislation establishing the Scottish Government and Welsh Assembly Government. This partly reflects the way in which some

of the policies which most affect distributional outcomes are in fact UK-wide. There have been some, relatively small, differences in the last decade, and it is notable that Scotland is the only one of the four nations where inequalities in all four of the aspects of earnings and income on which we focus have fallen a little over that period (Table S3). While differences in median incomes are not very great between the nations, those in median total wealth are considerable, between £151,000 in Scotland, £206,000 in Wales and £211,000 in England.

Looking across the English regions does not show a simple 'North-South divide' in outcomes and their inequality. However, inequality in any dimension is wider in London than in any other region, and inequality in earnings and incomes has increased faster in London over the last decade than anywhere else.

Table S3: Inequality in earnings and income by nation, 1995-1997 and 2006-2008

	National median as % of UK/GB median		Inequality within nation (90:10 ratio)	
	1995-1997	2006-2008	1995-1997	2006-2008
<b>(a) Hourly wages</b>				
England	102	101	4.2	3.9
Northern Ireland	84	90	3.9	3.3
Scotland	96	98	4.0	3.7
Wales	93	92	3.8	3.4
<b>(b) Weekly earnings</b>				
England	102	102	3.8	3.8
Northern Ireland	81	86	3.6	3.3
Scotland	94	96	3.6	3.5
Wales	92	91	3.5	3.3
<b>(c) Net individual incomes</b>				
England	101	102	9.9	10.0
Scotland	96	98	8.9	8.6
Wales	89	93	8.6	8.9
<b>(d) Equivalent net income (BHC)</b>				
England	101	101	4.2	4.2
Scotland	98	99	3.9	3.8
Wales	92	91	3.7	3.8

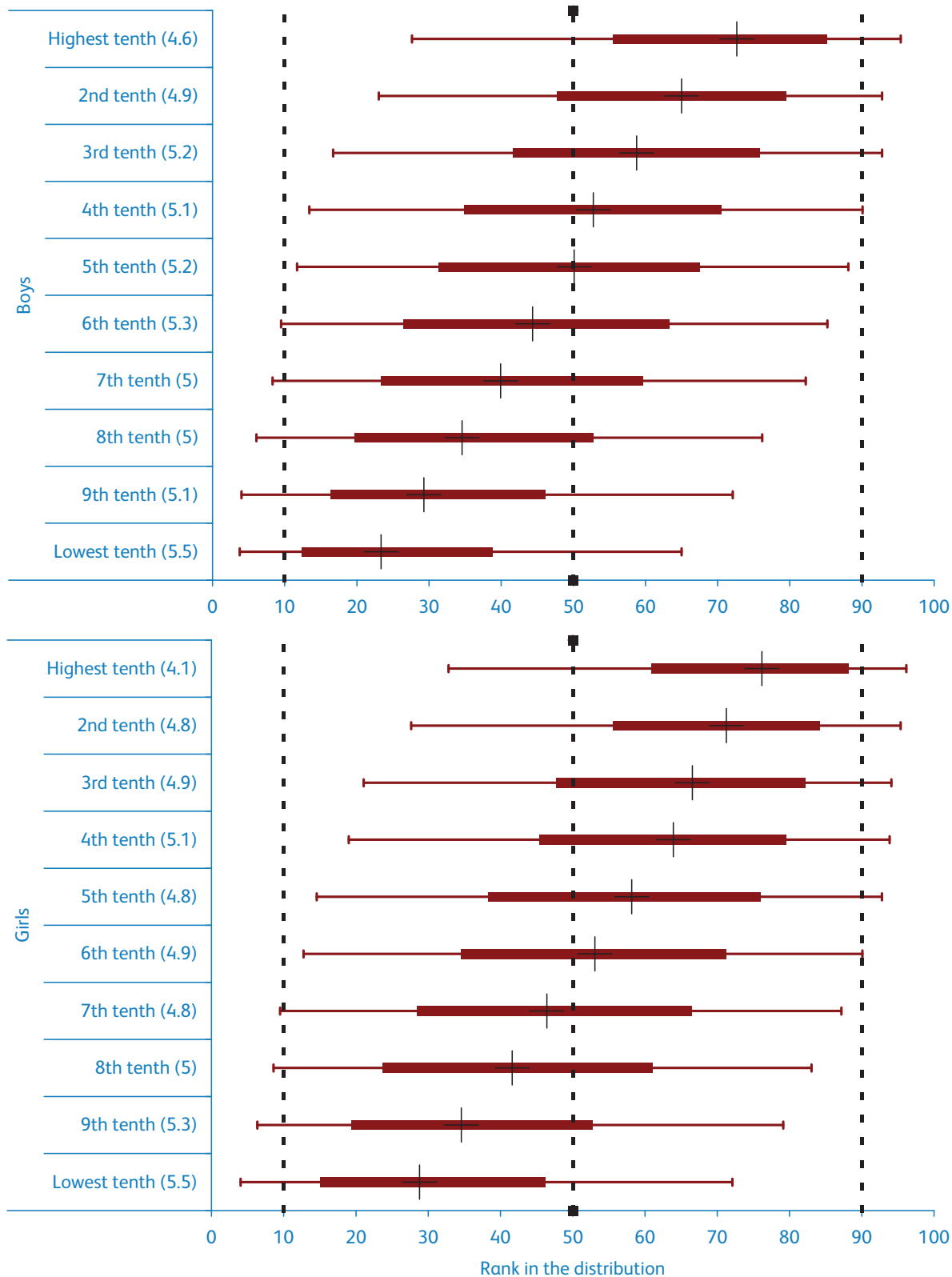
Source: Labour Force Survey (UK) and Family Resources Survey (GB 1995-1997; UK 2006-2008).

### (j) Area deprivation

By contrast, in all of the outcomes we examine, from education at 16 to total wealth, there are profound differences at neighbourhood level, between areas with higher and lower levels of deprivation. There is some circularity here – deprived areas are judged as such because many of the people living in them have low levels of qualifications, employment, or incomes. None the less we found the differences startling. In Scotland, for instance, the difference in educational performance at 16 between median outcomes for those in the most and least deprived tenths of areas is equivalent to crossing half of the overall range in attainment (Figure S15). Only 55 per cent of adults in the most deprived tenth of areas in England are employed. The median hourly wages for people living in the most deprived tenth of areas of England, Scotland and Wales are 40 per cent lower than those in the least deprived areas. The median equivalent net income in the poorest tenth of areas in England is 30 per cent below that for the rest of the country. Median total wealth in the poorest tenth of areas is only 16 per cent of the national median. In the least deprived tenth of areas total wealth is more than twice the national median (Table S4).

Figure S15: Secondary 4 (age 16) results, Scotland, 2008, by deprivation level of neighbourhood (tenths of Scottish Index of Multiple Deprivation)

The differences between median results in the most and least deprived neighbourhoods in Scotland are equivalent to crossing half of the overall range of achievement



Source: Scottish Government. Note: For each group, the black cross marks the group median. The thin horizontal bar shows the range between the 10<sup>th</sup> and the 90<sup>th</sup> percentiles. The thicker bar shows the range between the 30<sup>th</sup> and the 70<sup>th</sup> percentiles. The three vertical lines running from the top of the chart to the bottom show the 10<sup>th</sup>, 50<sup>th</sup> (median) and 90<sup>th</sup> percentiles of the overall population.

## Summary

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It is also striking that inequality in earnings and incomes is greater, the more prosperous an area. The earnings and incomes of those in the poorest tenth within all areas, whatever the level of area deprivation, are similar – it is the middle and high incomes within the less deprived areas that are much higher than elsewhere, and so the range within them is greater.

## Summary

Tables S4 and S5 at the end of this document bring together some of our findings for each outcome in a comparable form across different kinds of social group, showing differences in median outcomes between groups and inequality within groups respectively. These are discussed and explained in more detail in Section 9.10 in Chapter 9 of our main report. There are pervasive inequalities between social groups that manifest themselves repeatedly across the different outcomes we have examined. At the same time, the scale of inequality within each group is usually little or no smaller than it is across the population as a whole.

## Challenges for policy

We have written this report against a back-drop of widespread public ignorance of the scale of inequality in the dimensions we have examined. Most people are unaware, for instance, either of their own position in the income distribution or of the true scale of differences between the high-paid and the low-paid<sup>11</sup>. This lack of awareness runs through society, from rich to poor, and acts as a constraint on any policies designed to contribute to reducing inequality. We hope that one result of the Panel's work is to provide a source of information that improves that knowledge. By the same token, public awareness would be improved by measures that increase the transparency of relative rewards for people across businesses and public organisations – not just for a few at the very top, but also across the whole range of wages and salaries.

A second conclusion is that averages can be misleading. Differences in outcomes within each social group, however the population is classified, are usually only a little narrower than those across the population as a whole, and are much greater than those between groups. The inequality growth of the last forty years is mostly attributable to growing gaps within groups rather than between them. By implication, achieving a more equal society than we have now would require not only narrowing gaps between the average outcomes for particular groups, as defined for instance in equalities legislation. It would also require gaps to be narrowed between the more and less advantaged within each social group.

None the less, there remain deep-seated and systematic differences in economic outcomes between social groups across all of the dimensions we have examined – including between men and women, between different ethnic groups, between social class groups, and between those living in disadvantaged and other areas. Some of the widest gaps in outcomes between groups narrowed in the last decade, particularly between women and men and, although the data are not completely robust, the same seems true of those between the most disadvantaged ethnic groups and others. But, despite the elimination and even reversal of the qualification differences that often explain relative levels of employment and pay, significant unexplained differences in labour market outcomes remain. Such differences suggest that people are not receiving equal treatment in some way, and that the opportunities open to some are constrained in a way that they are not for others.

Fourth, economic advantage reinforces itself across the life cycle. While there is nothing deterministic in what we have described, the evidence we have looked at shows the long arm of people's origins in shaping their life chances, stretching through life stages, literally from cradle to grave. Differences in wealth in particular are associated with opportunities such as the ability to buy houses in the catchment areas of the best schools, or to afford private education, with advantages for children that continue through and beyond education. At the other end of life, wealth levels are associated with stark differences in life expectancy

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<sup>11</sup> Hills (2004), Chapter 2, section 2.5; Sefton (2005); Toynbee and Walker (2008), Chapter 2.

after 50. By implication, policy responses aimed at equalising life chances are needed across the full range of life stages and transitions between them. This is not just about differences in opportunities between the very top and bottom of society, but also between those who are quite well-off and those who are below the average, but not at the bottom.

We were asked to comment on the implications of our findings for the direction of policy, rather than to make specific recommendations. Below, we highlight particular challenges for policy. In doing so, we reject the idea that public policies cannot make a difference. Recent reviews of the impact of policies towards inequality with which some of us have been involved suggest that they can and have made a difference, although their scale has sometimes been small by comparison with the challenges.

A recent assessment of the overall impact of tax and benefit reforms since 1979 finds that policy over the 1979 to 1997 period was equivalent to increasing benefits in line with price inflation, while policy since then has been equivalent to increasing benefits in line with the growth of national income<sup>12</sup>. Reforms since 1997 have tended to reduce income inequality, while those in the earlier period tended to increase it. Another assessment of the reforms in tax and benefit policies between 1996-97 and 2008-09 suggests that, compared with what would have happened if the 1996-97 structures had been maintained, adjusted for only price inflation, those who would have been in the poorest tenth were up to 25 per cent better-off (see Box 2.4 in Chapter 2)<sup>13</sup>. However, compared to a benchmark in which the 1996-97 system was adjusted in line with earnings growth, gains at the bottom were still positive, but much smaller, for instance 8 per cent for the poorest tenth. This redistribution was selective, with the biggest beneficiaries being pensioners and families with children.

Many of the issues we point to emphasise the importance of policy interventions, often aimed at having long-run effects on people's life chances. The closing of the gender gaps in pay and individual incomes illustrated in Table S1 – albeit slowly and from high levels – show that the kinds of difference we describe are not immutable.

Equally, public policy can ensure that access to important aspects of life – from health care to safe parks and public spaces – does not depend on income, and so is not affected by the inequalities we have described.

## Schooling and education

(1) Differences in school readiness by parental resources and social class are apparent in the early years and widen before school entry. But they are not set in concrete. This underscores both **the importance of early years policies** and the scale of the challenges they continue to face.

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<sup>12</sup> Adam and Browne (2009).

<sup>13</sup> Sefton, Hills and Sutherland (2009).

- (2) In the school years:
- Differences by family parental resources widen through the years of compulsory schooling, resulting in what remain – despite some recent progress – wide gaps between, for instance those receiving Free School Meals and others by 16. This evidence supports both the need to **reduce child poverty** and to improve the **educational attainment of poor children** in general, and substantially to improve **staying-on rates after 16** of low-income children in particular.
  - Britain has a long tail of low achievement among school-leavers, especially those with low literacy, numeracy and information technology skills. **The deteriorating position through secondary school of low-income boys from White British and Black Caribbean backgrounds is a particular concern within this.**
  - The overall economic position of the Gypsy and Traveller community is clearly very poor in other respects (although the main data sources available to us do not allow precise assessment), but the low – and apparently deteriorating – educational achievement of **children from Gypsy or Traveller families** is very troubling.
  - The position of those with **particular forms of Special Educational/Additional Support Needs is of concern**, particularly those with Behavioural and Emotional Support Needs in secondary school.
- (3) Considerable differences remain, even after allowing for attainment at 16, **in entry into higher education, and the kind of institution attended by social class and ethnicity, and experience of private education.**

## The labour market

- (4) In several respects the economic position of young people has deteriorated in recent years. For some, low incomes are temporary, reflecting longer periods in education. But for other young people it reflects their very weak position in – or in attempting to enter – the labour market. The recession appears to have exacerbated these trends, raising the acute challenge of **avoiding longer-term ‘scarring’ effects from early unemployment.**
- (5) Pay levels for women and for those from most minority ethnic groups do not reflect their qualification levels or improvements in them in recent years. **Differences in pay by gender and ethnicity remain that are unrelated to qualifications and occupation. The transition from education to the labour market is failing to make the best use of people’s talents.** There are many reasons for this, but we would highlight **the processes that affect or constrain the sectors and types of employment that people end up in – or find difficult to access. There still appears to be straightforward discrimination in recruitment,** affecting both minority ethnic groups and disabled people, particularly in the private sector.
- (6) The particularly disadvantaged position of the **Bangladeshi and Pakistani working age populations**, cross-cutting with Muslim religious affiliation, was evident across each of the labour market outcomes we examined.

(7) **The low-level of hourly pay for part-time work** reflects both the low value accorded to it and a failure of the way we organise work, including the lack of opportunities for training and promotion. We need to open up part-time opportunities beyond routine and low-paid occupations, and to open up career progression for part-time workers. For some, part-time work is their preferred option, but for others, working part-time is the result of constrained choices reflecting limited childcare options and assumptions about gender roles.

(8) We were struck across all of the breakdowns of hourly wage levels within different social groups by the way in which the National Minimum Wage has created a floor, protecting the bottom tenth of earners. **Improving the level of the minimum wage relative to other wages is a potentially powerful weapon in reducing labour market inequality.**

(9) While a gender pay gap emerges soon after labour market entry, it widens steadily through people's thirties and forties. This is partly a result of lack of career progression for most women, underlining the potential importance of a whole series of policies related to **parental leave and flexible employment as well as childcare provision, availability and cost.**

(10) The way in which the disability employment penalty has risen in recent years, in contrast to those related to gender and ethnicity, suggests **the need for a stronger focus on policies affecting the employment of disabled people**, particularly those with mental health conditions. As with other disadvantaged groups in the labour market, the problem is most intense for those with low and with no qualifications, in turn a greater issue for older generations. This again suggests the importance of policies that support **lifelong learning and training that extends beyond the already well-qualified.**

(11) Differential rates of disability and ill-health towards the end of people's working lives, and in life-expectancy after them, have many earlier roots, underscoring policies to **reduce health inequalities earlier throughout adulthood** being addressed by the Strategic Review of Health Inequalities in England, chaired by Sir Michael Marmot.

## Resources in later life

(12) Inequalities affecting different groups in the labour market are magnified in the resources people reaching retirement have through pensions, housing and savings. The end result is huge differences in the resources, including pension rights, with which people enter retirement. **Recent pension reforms, designed to provide a more generous and more secure base on which people with average and low incomes can more easily build their own retirement savings, are essential.** However, they will still leave gaps, affecting the self-employed in particular (affecting some ethnic groups more than others), and they cannot compensate for large-scale inequalities in people's working lives.

### Low income neighbourhoods

(13) In 2001, the Government set out a vision that, ‘within 10 to 20 years, no-one should be seriously disadvantaged by where they live’. **The evidence we have presented on the profound differences in all economic outcomes between more and less disadvantaged areas suggests we are still a very long way from achieving this goal.** Whatever the source of these differences, they imply huge disparities in the collective resources available from one area to the next, and the need for investments that counter their effects. **The ‘neighbourhood renewal’ agenda itself needs renewal,** especially as the impact of recession becomes clear.

(14) Related to this is the very high level of disadvantage in the labour market which we have described for tenants of social housing, related to the way in which access to it is now heavily based on showing high levels of need. We need to be more successful in using the advantages of security and work incentives that social housing can offer to **support tenants in moving towards and into employment.** Most social tenants have very low levels of assets of any kind, not just of housing equity. **Measures to support saving and asset-building by tenants are needed to address this.**

### Devolution

(15) Differences in outcomes between the four nations of England, Scotland, Wales and Northern Ireland open up the **possibility of learning from one-another’s experiences,** an opportunity which so far is under-exploited. As yet, however, few of those differences have been large enough to show in terms of the inequalities we have examined at national scale. This in itself presents a challenge to administrations that have set strong objectives of greater equality or social justice.

### The distributional effect of taxes and spending

(16) Through the structure of taxes and benefits, the government narrows the range of incomes that would otherwise result from the market, although less in the UK than in many other European countries. Who benefits and tax credits are paid to also affects distribution within the household, where resources are not shared equally. **The progressivity of the tax system and the level of social security benefits and tax credits in relation to other incomes are central to this, and to the levels of inequality within social groups** of the kind that we have observed throughout our work. In the wake of the financial crisis and the recession Government faces the challenge of re-balancing the public finances. How this is done will probably be the most important influence on how the inequalities both within and between groups evolve from those we have described in this report. **A fundamental question is now whether the costs of recovery will be borne by those who gained least in the period before the crisis, or by those who gained most, and are in the strongest position to bear them.**

Britain has moved from being a society where those near the top had three times the incomes of those near the bottom in the 1960s and 1970s to one where, since the start of the 1990s, they have four times as much. We have still not seen the full results of this shift, as the gainers and losers from this process have still only had half their careers within this more unequal world.

Much of what we have described in this report shows the way economic advantage and disadvantage reinforce themselves across the life cycle, and often on to the next generation. It matters more in Britain who your parents are than in many other countries. More generally, intergenerational mobility appears lower in societies such as ours which are more unequal – moving up a ladder is harder if its rungs are further apart, and those who start higher up the ladder will, unsurprisingly, fight harder to make sure their children do not slip down it. A fundamental aim of those people with differing 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.

### Box S1: Members of the National Equality Panel

- Chair: John Hills, Director of the Centre for Analysis of Social Exclusion and Professor of Social Policy at the London School of Economics.
- Mike Brewer, Director of the Direct Tax and Welfare Programme at the Institute for Fiscal Studies.
- Stephen Jenkins, Professor of Economics at the Institute for Social and Economic Research, University of Essex.
- Ruth Lister, Professor of Social Policy at Loughborough University.
- Ruth Lupton, Senior Research Fellow in the Centre for Analysis of Social Exclusion at the London School of Economics.
- Stephen Machin, Professor of Economics at University College London and Research Director of the Centre for Economic Performance at the London School of Economics.
- Colin Mills, Reader, Sociology Department, University of Oxford.
- Tariq Modood, Professor in the Centre for the Study of Ethnicity and Citizenship, at the Bristol Institute for Public Affairs, University of Bristol.
- Teresa Rees, Professor in the School of Social Sciences and Pro Vice Chancellor (Research) at Cardiff University.
- Sheila Riddell, Professor of Inclusion and Diversity, Director of the Centre for Research in Education Inclusion and Diversity at the University of Edinburgh.

### Box S2: Terms of reference for the National Equality Panel

The UK Government is committed to promoting a more equal society.

The Equalities Review, which reported in 2007, was a fundamental review of equalities in the UK. It focused on the major 'equality strands' that are subject to formal anti-discrimination measures (gender, race, disability, age, sexual orientation and religion or belief). New legislation addressing inequalities in these areas will be set out in the forthcoming Equalities Bill. The Minister for Women and Equality now wishes to consider the relationship between these 'equality strands' and other key dimensions of equality.

Specific questions to be asked:

- What does the best available evidence reveal about the relationships between the 'equality strands', other dimensions of equality such as class, tenure and geography, and employment, income and wealth?
- What does the evidence reveal about how these have changed over time?
- What are the gaps in the evidence relating to these questions and how should they be addressed?

These questions need to be considered in the context of the Public Service Agreements' focus on narrowing gaps, including:

- PSA 15: 'To address the disadvantage that people experience because of their gender, race, disability, age, sexual orientation, and religion or belief';
- PSA 8: "Narrowing the gap between the employment rates of the following disadvantaged groups and the overall rate: disabled people, lone parents, ethnic minorities, people aged 50 and over, those with no qualifications, those living in the most deprived local authority wards";
- PSA 11: "Narrow the gap in educational achievement between children from low income and disadvantaged backgrounds and their peers;
- PSA 18: "reduce health inequalities by 10 % by 2010".

#### Remit

The National Equality Panel will:

1. assemble the best available evidence relating to the questions set out above;
2. commission new research as delegated authority allows;
3. engage with key stakeholders identified in conjunction with the Government Equalities Office (GEO);
4. provide an independent analysis of the evidence;
5. provide advice to government on the implications for the direction of policy;
6. report to the Minister for Women and Equality by the end of 2009.

Table S4: Median for each population group as percentage of overall median by outcome (UK unless specified)

	Hourly wages <sup>1</sup>	Weekly earnings (FT) <sup>1</sup>	Weekly net individual income <sup>2</sup>	Weekly equivalent net income <sup>3</sup>	Total wealth <sup>4</sup>
<b>a) Overall Median</b>	£9.88	£448	£223	£393	£204,500
<b>b) Gender</b>					
Male	113	110	126	103	n/a
Female	90	86	81	97	n/a
<b>c) Age (bottom of range)<sup>5</sup></b>					
16	54	48	43	93	} 6
20	73	68	81	111	
25	99	93	116	121	} 32
30	114	110	130	117	
35	115	114	131	110	} 86
40	114	114	131	110	
45	110	110	129	116	} 141
50	108	109	118	121	
55	100	99	100	108	} 203
60	92	92	85	95	
65	76	82	79	87	} 150
70	65	64	78	82	
<b>d) Disability</b>					
Not disabled	101	101	112	105 (107) <sup>6</sup>	103
DDA and WLD	85	85	65	82 (75) <sup>6</sup>	97
<b>e) Ethnicity (selected)<sup>7</sup></b>					
White British	101	101	101	105	108
Indian	103	101	97	106	99
Pakistani	80	78	59	} 61	{ 47
Bangladeshi	74	75	56		

**Notes:**

1. Source: LFS 2006-2008 at 2008 prices.
2. Source: Individual Income series 2005-06 to 2007-08 at 2008 prices, based on Family Resources Survey.
3. Source: DWP from HBAI dataset, based on Family Resources Survey.
4. Source: ONS from Wealth and Assets Survey 2006-08.
5. Age ranges for equivalent net income are one year higher. Wealth gives the total wealth by age of the household reference person; this is only available in 10 year age bands.
6. Equivalent net income categories are by whether DDA-disabled or not DDA-disabled. Figures in brackets are for positions **excluding** extra costs benefits.
7. Definitions of categories vary between surveys. Net equivalent income figures are for adults within whole population distribution.

Table S4: (Continued)

	Hourly wages <sup>1</sup>	Weekly earnings (full-time) <sup>1</sup>	Weekly net individual incomes <sup>2</sup>	Weekly equivalent net income <sup>3</sup>	Total wealth <sup>4</sup>
<b>e) Ethnicity (Continued)</b>					
Black Caribbean	106	98	97	91	37
Black African	98	97	98	89	10
Chinese	111	113	92	97	32
<b>f) Occupational social class<sup>8</sup></b>					
Higher managerial and professional	191	167	242	174	220
Lower managerial and professional	135	118	171	145	159
Intermediate	90	77	115	121	98
Lower supervisory/technical	90	88	137	114	79
Semi-routine	69	65	95	99	42
Routine	70	73	101	96	36
Never worked, etc	59	79	38	63	7
<b>g) Housing tenure</b>					
Social housing	71	70	69	67	9
Private rented	87	85	93	87	12
Owned outright	95	95	90	96	201
Owned with mortgage	112	110	134	121	132
<b>h) Area deprivation (England)<sup>9</sup></b>					
Most deprived tenth	78	75	76	71	16
2nd	84	82	86	83	30
3rd	91	89	93	88	60
4th	95	95	98	100	78
5th	99	99	103	101	108
6th	105	105	106	108	137
7th	107	109	111	109	154
8th	111	114	114	114	160
9th	117	118	120	120	193
Least deprived tenth	128	132	129	136	235

**Notes: (Continued)**

8. Net equivalent income figures are for adults within whole population distribution.

9. By Index of Multiple Deprivation.

Table S5: Inequality within each population group (90:10 ratios), by outcome (UK, unless specified)

	Hourly wages <sup>1</sup>	Weekly earnings (FT) <sup>1</sup>	Weekly net individual incomes <sup>2</sup>	Weekly equivalent net income <sup>3</sup>	Total wealth <sup>4</sup>
<b>a) All</b>	3.9	3.7	9.6	4.2	97
<b>b) Gender</b>					
Men	4.1	3.7	7.7	4.3	n/a
Women	3.5	3.5	8.9	4.2	n/a
<b>c) Age (bottom of range)<sup>5</sup></b>					
16	2.5	2.7	*	3.7	} 46
20	2.4	2.4	18.4	3.9	
25	3.0	2.8	8.3	4.1	} 80
30	3.6	3.3	9.9	4.5	
35	4.0	3.7	9.7	4.4	} 77
40	4.1	3.9	9.9	4.2	
45	4.0	3.8	9.4	4.3	} 68
50	4.0	3.8	12.2	4.8	
55	3.8	3.6	19.1	5.3	} 48
60	3.6	3.4	8.6	4.4	
65	3.9	3.7	6.4	3.4	} 37
70	4.0	n/a	5.9	3.1	
<b>d) Disability</b>					
Not disabled	3.9	3.7	10.6	4.3 (4.4) <sup>6</sup>	84
DDA and WLD	3.3	3.4	7.2	3.4 (3.7) <sup>6</sup>	104
<b>e) Ethnicity (selected)<sup>7</sup></b>					
White British	3.9	3.7	9.2	4.1	72
Indian	4.1	4.1	32	5.4	57
Pakistani	3.8	3.8	*	} 3.6	n/a
Bangladeshi	3.4	*	159		n/a

Notes: \* Denotes ratios which cannot be computed because the 10th percentile is zero.

1. Source: LFS 2006-2008 at 2008 prices.
2. Source: Individual Income series 2005-06 to 2007-08 at 2008 prices, based on Family Resources Survey.
3. Source: DWP from HBAI dataset, based on Family Resources Survey.
4. Source: ONS from Wealth and Assets Survey.
5. Age ranges for equivalent net income are one year higher. Wealth gives the total wealth by age of the household reference person; this is only available in 10 year age bands.
6. Equivalent net income categories are by whether DDA-disabled or not DDA-disabled. Figures in brackets are for positions excluding extra costs benefits.
7. Definitions of categories vary between surveys. Net equivalent income figures are for adults within whole population distribution.

Table S5: (Continued)

	Hourly wages <sup>1</sup>	Weekly earnings (full-time) <sup>1</sup>	Weekly net individual incomes <sup>2</sup>	Weekly equivalent net income <sup>3</sup>	Total wealth <sup>4</sup>
<b>e) Ethnicity (Continued)</b>					
Black Caribbean	3.4	3	10.3	4.0	183
Black African	3.4	3.1	28	4.1	n/a
Chinese	4.7	4.3	320	6.4	n/a
<b>f) Occupational social class<sup>8</sup></b>					
Higher managerial and professional	3.3	3.4	4.3	4.1	25
Lower managerial and professional	3.0	2.9	3.7	3.3	31
Intermediate	2.4	2.4	3.6	2.9	44
Lower supervisory/technical	2.7	2.8	3.5	2.8	60
Semi-routine	2.2	2.5	4.4	3.1	88
Routine	2.3	2.7	5.5	3.2	92
Never worked, etc	3.5	4.0	*	3.6	117
<b>g) Housing tenure</b>					
Social housing	2.4	2.4	2.7	2.6 - 2.7	42
Private rented	3.4	3.4	3.4	3.7 - 5.0	86
Owned outright	3.9	3.9	3.8	4.6	7
Owned with mortgage	3.9	3.9	3.7	3.8	12
<b>h) Area deprivation (England)<sup>9</sup></b>					
Most deprived tenth	2.8	2.9	8.9	3.3	104
2 <sup>nd</sup>	3.1	3.2	8.8	3.6	112
3 <sup>rd</sup>	3.3	3.2	8.7	3.7	71
4 <sup>th</sup>	3.5	3.4	9.1	4.0	86
5 <sup>th</sup>	3.6	3.5	9	4.1	52
6 <sup>th</sup>	3.8	3.6	9.6	4.0	54
7 <sup>th</sup>	4.0	3.7	10.5	4.1	38
8 <sup>th</sup>	4.1	3.8	10.3	4.1	31
9 <sup>th</sup>	4.4	4.1	10.9	4.2	23
Least deprived tenth	4.6	4.2	12.4	4.5	19

**Notes: (Continued)**

8. Equivalent net income figures are for adults within whole population distribution.

9. By Index of Multiple Deprivation.

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