



The **RICH** get **RICH** and the **POOR** get... **RICHER!**

Is inequality increasing? Has social mobility hit reverse? Are the poor really getting poorer? Quite the reverse, says **CHRISTOPHER SNOWDON** – author of the IEA publication *Selfishness, Greed and Capitalism*

The general secretary of the Trades Union Congress, Frances O’Grady, said last year that Britain is a country in which ‘inequality soars’ and ‘social mobility has hit reverse’.

The *Guardian* tells us that Britain is ‘Europe’s sweatshop’, a country where workers put in the longest hours in the EU.

And it is a perennial lament that ‘the rich get richer while the poor get poorer’.

Taken together, these assertions encourage a counsel of despair about the prospects of workers in the UK today, but they are all empirical claims and can be tested against the facts.

The well-worn assertion that the rich get richer while the poor get poorer echoes Karl Marx’s theory of immiseration which said that capitalists could only become richer by lowering wages, thereby reducing the living standards of workers until they had no choice but to revolt. Marx was wrong.

Today, no one seriously argues that the poor are poorer than their Victorian counterparts, but some claim that they are poorer – and that there is more poverty – than twenty, thirty or forty years ago. It is not true.

There has been a steady increase in wage rates for more than 150 years. Average earnings have risen more than four-fold since the start of the twentieth century despite two world wars and intermittent recessions.

Wages declined or stagnated in the mid-1970s, early 1990s and, above all, during the recent economic downturn: average earnings for full-time workers were 7.5 per cent lower in 2013 than they had been in 2009.

Initially (2009-11), the poorest 10 per cent – but not the poorest 2 per cent – saw a larger than

average fall in wage rates, but this pattern was reversed in 2011 and 2013 when the richest decile saw their earnings fall by more than four per cent while the poorest decile saw earnings fall by less than two per cent.

As painful as these pay cuts have been in recent years, it is unlikely that posterity will view them as anything more than a blip in the upward march of progress.

The bigger picture is quite clear. Since 1975, average real wages have more than doubled for full-time workers and nearly doubled for part-time workers.

Amongst the poorest decile, full-time wages rose from £3.40 to £6.67 between 1975 and 2013 (in 2013 prices) and part-time wages rose from £2.83 to £5.83.

Put another way, whilst only two per cent of full-time workers earned the minimum wage of £6.19 in 2013 45 per cent of full-time workers in 1975 earned less than £6.19 (in 2013 prices).

And, whilst 30 per cent of full-time workers earned less than £10

NOT ONLY HAS POVERTY REDUCED... INCOME INEQUALITY IS FALLING TOO

an hour in 2013, 85 per cent earned less than the equivalent of £10 an hour in 1975.

Wage rates do not tell the full story. Many people do not work and many workers have their incomes supplemented by benefits.

If we look at household disposable incomes (i.e. income after direct taxes and benefits have been taken into account), we see a similar story of rising prosperity.

Between 1977 and 2011/12, the

incomes of the poorest twenty per cent (the bottom quintile) rose by 93 per cent in real terms. Those of the top quintile rose by even more – 149 per cent – so it is true that the rich have got richer, but it is clear that the poor have also got richer.

State benefits play a major role in cushioning the poor from the impact of declining wages.

The post-2007 fall in earnings has been due to inflation rising at a faster rate than nominal wages, but, since benefit payments tend to be tied to inflation rather than wages, those who depend on benefits for most of their income have been protected from much of the decline in pay.

The Office for National Statistics records that average real disposable incomes fell by four per cent between 2007/08 and 2012/13 but that ‘the largest fall in incomes over this period has been for the richest fifth of households, whose disposable income has fallen by £3,300 (or 5.2 per cent) in real terms’.

By contrast, the ONS says, ‘the

average income of the poorest fifth has risen by £400 (or 3.5 per cent) since 2007/08.’

It is inarguable that the poor have become richer in the long-term and doubtful whether they have become poorer even during the recent economic slowdown, despite incomes falling amongst every other group.

Whether measured in cash or real terms, whether looked at in terms of hourly, weekly or annual earnings, and whether taken before or after housing costs have been deducted, the last forty years have been an era of rising prosperity across the board.

Is income inequality rising?

Because it is difficult to maintain the notion that the incomes of the poor have been falling in the long-term, critics of capitalism often base their argument regarding poverty around concepts such as ‘relative poverty’. However, reductions in relative poverty typically coincide with periods of general impoverishment.

The official (relative) poverty line is generally understood to be 60 per cent of the median income, but this



is essentially a measure of inequality and does not tell us whether or not the poor are getting poorer.

In 1979, thirteen per cent of the population was living below the relative poverty threshold. By 2005, the real disposable incomes of the poorest fifth had risen by more than fifty per cent and yet eighteen per cent of the population was now officially living in poverty.

In other words, raising the incomes of Britain's poorest people by half did not prevent the official poverty rate rising by half.

Just as the relative poverty rate

THERE IS SOME DEBATE ABOUT WHETHER FLUIDITY BETWEEN THE CLASSES HAS INCREASED... BUT THERE IS CERTAINLY NO EVIDENCE OF A DECLINE

can rise despite the poor becoming richer, so too can the relative poverty rate fall as long as the wages of the poor fall less sharply than those on median incomes.

This is precisely what happened during the recent financial crisis. In 2010/11, Britain's (relative) poverty rate fell to 16 per cent and the child poverty rate fell to 18 per cent. Both figures were the lowest they had been since the mid-1980s, despite - or rather because of - wages falling across the board.

In short, the poverty rate has very little to do with how much money the poor have.

The UK's official poverty rate in 2012 (16 per cent) was higher than that of Bangladesh (14 per cent), Azerbaijan (2 per cent) and Namibia (0 per cent). But, where would you like your children to be born?

Not only has poverty reduced but income inequality, as measured by the Gini coefficient which is the standard measure of inequality, is falling too: it peaked in 1990. By 2011/12 it had dropped to 32.3, the lowest since 1986.

Contrary to popular belief, the modern peak of income inequality was twenty five years ago. There was a significant rise in the 1980s, but since then rates have been quite stable except when a weak economy brings them down. It is simply untrue to say that 'inequality soars' in modern Britain.

Does Britain have the longest working hours in Europe?
In 1900, workers spent around 3,000

hours a year on the job. In most developed societies today, they work fewer than 1,800 hours a year.

Amongst OECD countries, average weekly hours range from 48.9 in Turkey to 30.5 in the Netherlands. Britain fits comfortably in the middle of this range. In 2011, the average number of hours worked by British workers was 36.4 per week, down from 37.7 hours in 2000, which was itself less than the 38.1 hours worked in 1992.

The picture is only slightly different if we look at full-time employment. Full-time workers in

Japan (29.5 per cent). As in most wealthy nations, the proportion of Britons working so many hours has fallen since the mid-1990s.

Average working hours in Britain have been falling for decades and are similar to those in comparable rich countries.

Those who choose to work longer hours than average tend to be employed in well remunerated professions. This is in stark contrast to earlier eras when the poor tended to work the longest hours out of financial necessity.

Has social mobility hit reverse?

'Sadly, we still live in a country where, invariably, if you're born poor, you die poor', says Britain's 'social mobility tsar' Alan Milburn. This assertion reflects a conventional wisdom that is constantly

reinforced by politicians, journalists and pressure groups - that accidents of birth rigidly determine people's fate and what little social mobility ever existed is now in decline.

Rafael Behr writes of Britain's 'soul-sapping immobility' in the *New Statesman*. Polly Toynbee tells *Guardian* readers that the British have become 'more hermetically sealed into the social class of their birth' since the 1970s.

This message from politicians and pundits is entirely at odds with the academic literature on social mobility. Consensus opinion in academia is that there is more 'room at the top' than ever before and that movement between the classes is as fluid as it has been since studies began.

There are two aspects to social mobility which are easily conflated. Politicians tend to be interested in increasing 'absolute mobility' which refers to the total number of opportunities higher up the ladder in well-paid professions. Sociologists tend to be interested in 'relative mobility' which refers to how easily people move up and down the ladder. Both are important.

In the 20th century, structural changes to the labour market greatly expanded the size of the middle class. As the working class shrank and the number of white collar jobs rose, there was a revolution in absolute mobility which meant that far more people could be upwardly mobile than ever before.

The odds of working class children becoming middle class adults became significantly shorter by virtue of there being more middle class jobs available.

With regards to relative mobility, there is some debate about whether fluidity between the classes has increased in recent decades, but there is certainly no evidence of a decline.

This was confirmed again last year in a study of people born between 1980 and 1984. It found that

IT IS IMPORTANT TO LOOK BEYOND THE HEADLINES ... TO ASCERTAIN THE FACTS

about 78 per cent of the men had moved out of the class of their birth by the time they were 27 years old. This is almost exactly the same degree of mobility enjoyed by men born in 1946, 1958 and 1970.

For women, the mobility rate exceeded 80 per cent and is higher than for any generation on record. The authors concluded that 'if intergenerational mobility is considered in terms of social class, then, with relative just as with absolute rates, *there is no evidence at all to support the idea of mobility in decline*' (emphasis in the original).

The important lessons from the social mobility literature are:

- The expansion of white collar work created more 'room at the top'.
- This expansion has inevitably slowed down over time and must eventually stop altogether.
- The great majority of people move out of the class of their birth by the time they are thirty years old
- There has been no decline in either absolute or relative mobility.

All of this runs counter to the conventional wisdom for several reasons.

Firstly, there is one piece of conflicting evidence that has been afforded a privileged position in the debate.

An analysis of one dataset concluded that there had been a decline in income mobility for those born in 1970 compared with those born in 1958. Several similar studies based on the same dataset have been heavily promoted by the Sutton Trust, a think tank which focuses on social mobility.

There has been a vigorous academic discussion about the strengths and weaknesses of this dataset, but the fact remains that the rest of the evidence does not support it.

John Goldthorpe, a sociologist at Oxford University who has published many studies on social

mobility, has argued that 'just one piece of research comparing the experience of two birth cohorts only twelve years apart' does not trump 'a whole series of studies using different designs and data sources but covering the experience of men and women within the British population at large from the 1930s through to the 1980s, and producing remarkably consistent findings'.

Conclusion

Science is not settled by sheer weight of numbers, but economists should not base policy on mere impressions.

It is important to look beyond the headlines and polemic produced by journalists to ascertain the facts.

It is wrong to say that 'social mobility has hit reverse'; that people are working longer hours than anywhere else in Europe; that inequality is increasing; or that the poor are getting poorer. A large body of evidence shows otherwise •

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