

**TOUCH  
STONE**

**PAMPHLET#6**

80

60

40

20



# *Life in the Middle*

*The Untold Story of Britain's Average Earners*

**Thirty years ago, millions of middle earners delivered an historic election victory to Margaret Thatcher by ditching their Labour allegiance. Eighteen years later, that same group of voters switched back and helped Tony Blair to a huge parliamentary majority. It will be middle earners who once again determine the outcome of the next general election. But how has 'Middle Income Britain' been treated in return for their allegiance since 1979? Based on original research, *Life in the Middle* reveals a complex story of political promises only half met and a social group increasingly ignored in public debate, despite their continued political importance.**

#### **Stewart Lansley**

Stewart Lansley is the author of *Rich Britain: The Rise and Rise of the Super-Wealthy*, Politico's, 2006, and of the Touchstone Pamphlet, *Do The Super-Rich Matter?* published in 2008. He is also the co-author of *Londongrad: From Russia With Cash* – the story of the London-based Russian oligarchs – to be published in July by 4th Estate.

#### **Acknowledgements**

The author would like to thank David Phillips of the Institute for Fiscal Studies for providing a range of additional data relating to Figure 1 and Table 1; Steve Millington of National Readership Surveys for providing the background information for Appendix 2; William Nelson of 3000ft Strategic Insight for helpful comments on the definition of 'the middle'; the TUC for helping with sources; Dr Scott Newton of Cardiff University for providing the figures on the changing share of wages in GDP; the Market Research Society for providing a copy of MRS: *Occupation Groupings: A Job Directory*, 6th edition; Emily Luscombe of Camargue PR; Anne Rannie and Steve Schifferes for helpful comments on an earlier draft; and finally to Briony Gunstone and her colleagues at YouGov for conducting the TUC Middle Britain Survey.



TOUCH  
STONE

*Life in the*  
**Middle**

*The Untold Story of Britain's Average Earners*

# Contents

---

<i>Executive summary</i>	2
<i>Section 1 – The battle for the centre ground</i>	5
<i>Section 2 – What do we mean by Middle Britain?</i>	8
<i>Section 3 – How has Middle Income Britain fared since 1979?</i>	14
<i>Section 4 – Why has Middle Income Britain missed out?</i>	22
<i>Section 5 – Does Middle Income Britain now hold middle class values?</i>	36
<i>Section 6 – Conclusions and policy recommendations</i>	41
<i>Appendix 1 – Voting by class</i>	44
<i>Appendix 2 – The changing class structure</i>	45
<i>Appendix 3 – The TUC Middle Britain Survey</i>	46
<i>Notes</i>	47

# Foreword

by Brendan Barber, TUC General Secretary

I write this on the day that the House of Commons Speaker has been forced to resign. The MPs' expenses scandal will claim further victims by the time this is published.

The sheer outrage has taken many MPs by surprise. Compared to the corruption endemic in some countries this is pretty small beer. But that is not the point. The furore over MPs' expenses has crystallised a much wider anger. To find out why you should read this new Touchstone pamphlet by leading social researcher Stewart Lansley.

Mrs Thatcher discovered and won the support of what she called middle England in 1979. But people living on or around middle incomes were badly served by the Conservative government as inequality grew. When Labour came to power in 1997 with an appeal to a more accurately named middle Britain it stopped getting worse, but it has not got much better.

Meanwhile middle Britain has been subtly redefined. It no longer means people doing middle income jobs – many of them relatively new as mass manufacturing and its union culture has been replaced by a more diverse and service-led economy. Instead the electoral battleground has come to be seen as professional middle class people with incomes well above average, with the real middle Britain forgotten.

Public anger started with the recession. Economic cycles may be inevitable, but this recession is different. It was caused by irresponsible behaviour by bankers and allowed to happen by politicians in awe of those with vast amounts of wealth. But middle income Britain failed to benefit during the boom years. Much of the increase in this group's standard of living came from the growth of credit rather than real wages growth. Now they are in fear of losing their jobs and even their homes.

Our poll shows how mistaken it is to assume that the real middle Britain is right wing. Of course middle income Britain is not homogenous, but in general they are in favour of state action to reduce inequality. Paradoxically the public mood in recent months has moved to the left with anger at unregulated capitalism and growing inequality at the same time as voting intentions have moved to the right. Progressives will only resolve this paradox if they can once again get in touch with middle income Britain with policies that will make a difference to their lives and chime with their far from reactionary values.

# *Executive summary*

In May 1979 Mrs Thatcher won an historic general election with an appeal to a group of voters she dubbed 'Middle England'. In 1997 a re-invented Labour Party wooed back these lost voters – a mix of aspirational white collar and skilled manual workers – to bring Tony Blair a landslide victory. This was a group labelled by statisticians and sociologists as the C1s and C2s – people who were both somewhere in the middle of the UK's class and occupational hierarchy and earning middle incomes.

And yet the term 'Middle England' – more commonly 'Middle Britain' now – has changed its meaning over the years in the minds of politicians and journalists to mean a group that sits not in the middle but in the upper half of the income distribution. Middle Britain has become shorthand for the conservative, well-to-do citizen. Subtly and gradually, it is this different Middle Britain that has come to dominate cultural and political debate. But the original and real middle is still with us and they will still play a crucial role in the next election as a group of swing voters who will determine whether the Labour or Conservative Party forms the next government.

This pamphlet revisits that group to understand how they have fared since the 1979 election and to ask whether they have been well rewarded for the victories they have secured for the country's political leaders.

To do this, the pamphlet returns the term 'Middle Britain' to its roots by defining it as the group that straddles the middle person in the income hierarchy – the point which divides the population in two, with a half falling below and a half above this income level. To distinguish the group from the more common usage of the term 'Middle Britain' in use today, we call it 'Middle Income Britain'.

With the aid of a special survey of Middle Income Britain conducted by YouGov for the TUC, this pamphlet shows that the group differs very significantly from those just above them on the income scale. Middle Income Britain is much less likely to have had a university education, more likely to have experienced unemployment, much less likely to enjoy a final salary pension scheme and much less likely to hold shares and have significant levels of savings.

Although Middle Income Britain is materially better off, better housed and educated than their parents' generation, they have slipped further behind more privileged groups in a number of important aspects of social and economic life. Significantly, their relative incomes have fallen behind, opening up new income and wealth gaps between Middle Income and better off Britain, but most especially with the rich, the group that has prospered most in the last three decades.

The reason for this is the remarkable degree of economic repositioning which has changed the social shape of Britain since 1979. Although most of these changes took place before 1997, Labour has been unable to reverse them.

In the immediate post-war years British society resembled a 'pyramid' with a small and privileged group at the top, a larger but still small and comfortable middle and a large majority at the bottom. By the end of the 1970s, with the long term decline of the manual working class and the spreading of affluence, Britain had moved closer to a 'diamond' shape with a small group of the rich and the poor and a much fatter middle.

Since then there have been further significant shifts; first the rise of a small group of the super-rich; second, a much greater concentration of the population by income in the bottom half of the distribution. As a result, in just 30 years Britain has moved backwards from a 'diamond' to an 'onion-shaped' society.

There are two key causes of this repositioning. First, the last 30 years has seen a steady rise in the gap in earnings between the top and the bottom, together with a 'hollowing out of the middle' – a loss of jobs paying middling wages and the concentration of employment in high and low paying jobs. At the same time there has been a steady fall in the share of national output taken by wages, especially amongst wage-earners in the bottom half of the distribution.

Secondly, although all households enjoy greater *absolute* opportunities in modern Britain, *relative* social mobility has declined. The spread of opportunities – especially in education and through the growth of well-paid, secure professional work – has benefited higher earners to a greater extent than the bottom two-thirds. Middle Income Britain is aware of this – 40 per cent of survey respondents in this group say their job has a lower status than their father's, with only 29 per cent saying it has a higher status. Britain's longstanding 'cycle of privilege' (alongside its 'cycle of disadvantage') has become more entrenched, with higher earners securing the best schools, universities and jobs for their own offspring.

This may stand as the greatest failing of the last thirty years given that so much political rhetoric has suggested to Middle Income Britain that the policies on offer would secure them a bigger share of growing national wealth and well-being for them and their children. One might assume that the 'Middle Income Britain' of the 1970s and 1980s has genuinely been transformed into the well-to-do 'Middle Britain' of current imagining. In fact, this is not the case.

Maybe because of this, Middle Income Britain holds noticeably different values than those above them in the income hierarchy. The group is more pro-state and strongly supports government action to tackle inequality – if a little more circumspect about the methods.

To prevent Middle Income Britain slipping further behind the richest third, and improve their relative income and wider opportunities, government should ensure that all groups in society share in growing prosperity, not just the winners from structural economic change and movements in political favouritism. To achieve this requires a new set of government goals and policies:

- There should be a clear set of five-, ten- and twenty-year targets for reducing income and wealth inequalities to sit alongside the poverty reduction targets.
- There should be a new priority to tackle the 'cycle of privilege' and the stranglehold of the public school near-monopoly on the top universities and jobs, by setting targets in universities and key professions for the proportion of entrants with a comprehensive education and/or a low income/middle income background.
- To monitor progress, the Government should establish an Inequality Commission to determine, monitor and control pay relativities and wider inequalities.
- The Government should recast the tax system by reinstating a commitment to the principle of progressive taxation and raising a higher proportion of tax revenue from a reformed system of capital taxation.
- The Government should use the proceeds of higher capital taxation to build the asset base of those in the bottom half of the distribution by, for example, providing more bursaries at top universities and companies.



# *Section 1 – The battle for the centre ground*

This year has seen the 30th anniversary of the 1979 general election, an historic political moment that brought a landslide victory for Mrs Thatcher and ushered in 18 years of Conservative government. Mrs Thatcher's win was not merely to sweep away much of the prevailing governing philosophy of the post-war era, it was the first election to fully reflect longer term changes in the electoral landscape.

To win, Mrs Thatcher set out to broaden the Conservative party's support base with a social vision that would attract the middle layer of society – a group she dubbed 'Middle England'. With an appeal to what she saw as their key virtues of hard work and self-betterment, she set out to woo upwardly mobile, blue-collar workers with the promise of a home-owning democracy and better opportunities. Mrs Thatcher won the election not merely by securing a substantial majority of the Conservative's traditional middle class voters but also by gaining close to majority support amongst two other key socio-economic groups – white collar and skilled manual workers, who had mostly been traditional Labour voters.

From that point on, winning elections from 1979 meant not just relying on traditional voting patterns but capturing the rising numbers of floating voters, especially those in the middle of the class and income structure. The new 'battle for the centre' was won decisively by the Tories until 1997.

Labour's landslide victory in that year was achieved largely by winning back the group dubbed 'Sierra Man' by the popular press – the aspirant working class voters who helped Mrs Thatcher take power in 1979 (while also making inroads into the traditional Conservative-voting middle classes). As shown in Appendix 1, in 1997 (and in 2001), Labour enjoyed majority support amongst both C1s (lower middle class white collar workers) and C2s (skilled manual workers). Tony Blair's strategy of appealing to middle-England "paid off handsomely" according to one study of the election.<sup>1</sup>

Those at the centre ground of the British electorate have not only become increasingly decisive in terms of electoral outcome, they have also had a deep impact on the shape of the political agenda. They first forced the Conservative party to reconsider its traditional support base. Then Labour reinvented itself as the party of aspiration.

Although the origins of the term 'middle England' go back to Lord Salisbury in 1882, the phrase was not popularised until Mrs Thatcher re-coined it in 1979. She had adapted it from the term 'middle America', first used by Richard Nixon in his 1968 Presidential campaign to describe the country's 'silent majority', and a group later heavily and successfully wooed by Ronald Reagan. It then became more especially associated in Britain with John Major and "warm beer" and green suburbs. For these successive Prime Ministers, however, the term was used of England, not of Britain. The Welsh and Scottish – who were more likely to vote Labour – were not then seen as part of the centre ground of British politics.

Labour soon started adopting the phrase for its own purposes, though with a significant switch in its geographical coverage. Labour has been careful to refer to 'Middle Britain' thus embracing the Welsh and the Scottish. Taking account of Middle Britain soon became one of Labour's overriding pre-occupations.

This was largely to do with electoral expediency. With the long-term decline of the manual working class and the spreading of material prosperity, Labour could no longer rely on its traditional heartland, or it was claimed, its traditional preoccupations. In 1992, an influential Fabian pamphlet, *Southern Discomfort*, by Giles Radice, argued that Labour could only win power by responding to the apparently shifting attitudes of the popular vote. The pamphlet found that newly aspirant working class voters, especially in the south, associated Labour with holding people back and levelling down. "Labour did not understand people who wanted to better themselves," concluded Radice.<sup>2</sup>

It was a theme picked up by Philip Gould, Labour's chief pollster, who, writing in *The Guardian* in 1992, claimed that Labour must find a way of appealing to "our Basildon equivalent of the 'working middle class'". In his book, *The Unfinished Revolution*, Gould described his own politics as springing from his childhood in "the land that Labour forgot ... an unexceptional suburban town (Woking) where most people were neither privileged nor deprived". Labour was to betray these people who had "outgrown crude collectivism and left it behind in the supermarket car park."

To woo the critical electoral middle ground Labour adopted a new identity, rebranding itself New Labour. Re-focussing its appeal to meet rising social and economic aspirations was a strategy that yielded three back-to-back election victories.

Today the phrase 'Middle Britain' is in common use in political, marketing and media circles, though without any precision as to what it means. Although it was once used to as a description of the aspirant working class, it has gradually shifted to become a short-hand for the middle class, a group with incomes that take them well into the top half of the income distribution. In one report, *Middle Britain in 2008*, published by the insurance company AXA, middle Britain was defined as those households that "typically earn gross household incomes of between £40,000 and £100,000, and have an average income of £62,000." The report went on to recognise that by this definition, only those households "in the top 30 per cent could potentially be part of Middle Britain". Other commentators have defined middle Britain as the group on the brink of paying the higher, 40 per cent rate of income tax, even though only 7 per cent of adults pay this rate.

From its inception, the term has come to be used in diverse and contradictory ways, often embracing a variety of constituencies, mostly to fit the preconceptions and purposes of its users. The historian, David Cannadine, described the term as “essentially rhetorical”.<sup>3</sup> When Gordon Brown talks of “hard-working families” and David Cameron attacks the evils of inheritance tax, they are appealing to what Richard Reeves, the Director of the think-tank Demos, has called a “semi-mythical land”.<sup>4</sup> Martin Jacques, the former editor of *Marxism Today*, has observed that “Middle Britain is primarily a political invention ... a metaphor for respectability, the nuclear family, heterosexuality, conservatism, whiteness, middle age and the status quo.”<sup>5</sup>

Although political parties claim they are talking of ‘the very heartland of the nation’, the term is sufficiently elastic that a quite different set of values has been ascribed simultaneously to the same group. In the run-up to the 1997 election Labour talked of the middle as a “constituency of enlightened self-interest, perhaps even altruism, where voters would happily pay more taxes for better schools, hospitals and transport and more social justice.” For Conservatives, middle Britons preferred “tax cuts and for people to stand on their own two feet”.

## Section 2 – What do we mean by Middle Britain?

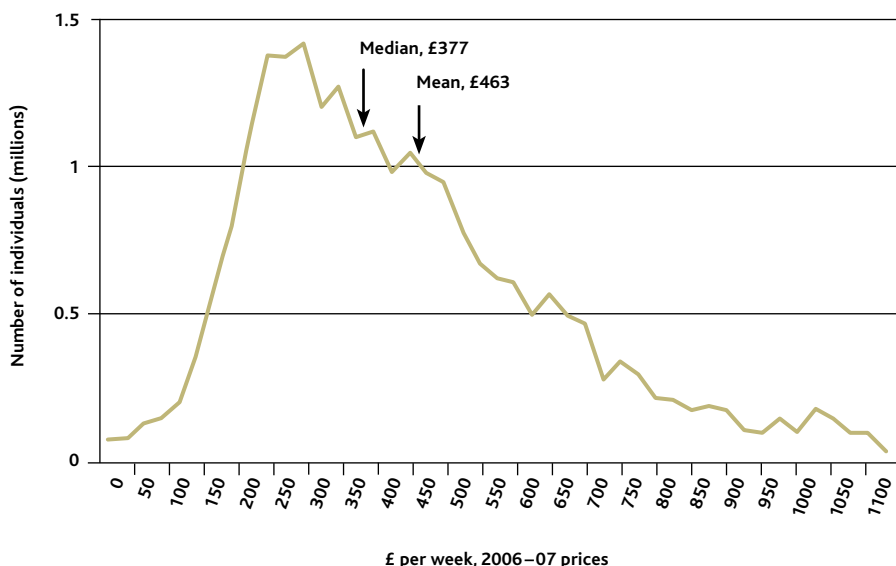
This pamphlet aims to retrain political and analytical focus on the original, more precise meaning of Middle England or Middle Britain, to lift it beyond its mythical status and give a sharper picture of the real middle's characteristics, values and political allegiances.

To do so it defines middle Britain in relation to its position in the distribution of income. Even this approach to categorise the population leaves two alternative ways of defining the centre. The most commonly used measure of the centre is what statisticians call the 'mean', calculated by dividing the total incomes of all people in the country by the number of people. It is this measure that is often implicitly used by journalists and commentators when they talk and write about Middle Britain.

In fact the mean, albeit widely used, is a poor measure of the middle. The alternative measure is the 'median' – the income level that divides the population in two when individuals are ranked by income. As the median income is literally the level enjoyed by the 'middle person' – half the population earns less than the median and half more – it is arguably a superior definition of where the centre actually lies.<sup>6</sup> Indeed it is the median not the mean that is used by the Government as the base for framing its key targets for reducing poverty, with the poverty line set at 60 per cent of median income.

If incomes were evenly distributed (corresponding to what statisticians refer to as a 'normal distribution', one which takes the shape of a bell curve and which characterises many natural and social phenomena such as human heights) the median and mean income would be the same, coinciding in the centre of the distribution. Thirty years ago, in 1979, the income distribution was closer in shape to a bell curve than it is today. In that year, the mean income was 7 per cent higher than the median. Today, as shown in Figure 1, incomes in Britain have assumed a different shape, the product of the sinking of the bottom half of the distribution and the pulling away of a small number of very rich people.<sup>7</sup> As a result, the mean has risen further away from the median. Thus, in 2006/7, the *mean* net household income stood at £463 per week, some 23 per cent higher than the *median* income of £377 per week.<sup>8</sup> Median households have steadily slipped further behind the top third.

**Figure 1: The distribution of net household incomes, 2006/7, UK**



**Source:** M Brewer et al, *Poverty and Inequality in the UK: 2008*, IFS, 2008, p 6

**Note:** Income is household income, net of tax, benefits and tax credit and before housing costs are deducted.<sup>9</sup>

Throughout this pamphlet we assume 'middle Britain' to be synonymous with the group clustered around the median income in the UK. To distinguish the group from its more common use we refer to middle Britain as 'Middle Income Britain'. To some extent the actual size of this group is arbitrary. For the purpose of this pamphlet – and to enable comparisons with other groups – we have taken 'Middle Income Britain' to be equivalent to the middle fifth of the population.

## ***'Pyramid-shaped' or 'diamond-shaped'?***

Figure 1 tells us a lot about the social character of modern Britain. Since the Second World War, two long-term structural changes – the displacement of manual work by white collar and the sharp rise in living standards – have led to important shifts in the nation's social structure and in the composition of the electorate. After the War, Britain was widely seen as a 'pyramid-shaped' society with a small and privileged group of the rich at the top, a larger but still small and comfortable middle group and a large majority at the bottom. Today it is widely argued that society now conforms to an 'egg' or 'diamond-shape' with a small group of the rich and the poor and a much fatter middle. In the process, it is sometimes argued, social and economic values among the bulk of the population have changed.

In 1996, former editor of the *Times*, William Rees-Mogg, wrote of the rise of the 'classless middle-class', calling them the largest group in Britain.<sup>10</sup> In the same year, the writer John Mortimer talked of the contemporary class system as one with a "‘fat-cat’ upper class, a huge middle class and an underclass. There’s no working class anymore."<sup>11</sup>

So does Britain conform to a society with a large and homogeneous centre – “neither privileged nor deprived” to quote Gould again – straddled by a small group of the poor and the rich? The six decades since the Second World War have brought dramatic changes in the social and class structure, resulting from the process of de-industrialisation and the emergence of a service economy. Thus the proportion of people working in manufacturing fell from 25 per cent in 1971 to 11 per cent in 2006. The effect has been an upward drift in the class classification of households, with a steady fall in the size of the traditional manual working class and a steady transfer from factory jobs to clerical and white-collar jobs.

In the four decades from 1965 to 2007, the proportion of the population classified by sociologists as working class (the traditional social classifications C2 + D + E) fell from nearly 70 per cent to some 44 per cent (Appendix Table A2). In contrast, the proportion defined as upper middle, middle or lower middle class (categories A + B + C1) rose from 31 per cent to 55 per cent. In 2007, some 26 per cent of the population fell into socio-economic categories A or B; 50 per cent were in categories C1 or C2; 24 per cent were in categories D or E. These changes would thus broadly support the idea that we have moved from a pyramid to a diamond-shaped society.

Figure 1, however, based on income rather than class, points to a very different interpretation of the shape of modern Britain. It shows that households are heavily concentrated within a narrow range of incomes in the bottom half of the distribution. Indeed, almost two thirds (65 per cent) have an income that is less than the national mean. As measured by income, the social shape of modern Britain is thus closer to the pyramid than the diamond-shape. Indeed, one group of academics describes Britain as 'onion-shaped' – with a few at the top, a bulge of people below the middle and fewer at the bottom, though more than in the diamond shape.<sup>12</sup>

The last half century has thus seen two distinct, but contradictory trends. On the one hand, there has been an upward drift in the shape of the class distribution with increasing proportions defined as middle class. On the other hand, those moving up the class ladder have not progressed to income levels enjoyed by the middle class. Instead there has been a rise in the proportion of the population living on incomes below the mean. Those who have risen through the class hierarchy to swell the ranks of the 'lower middle class' (clerical and administration workers, supervisors, lower-tier managers, owners of small establishments such as corner shops), have mostly ended up in a lower position by income distribution than where they would have been as members of the skilled working class a generation earlier.

The roots of this apparent contradiction will be explored in Section 4.

## The TUC Middle Income Britain Survey

The TUC Middle Britain Survey presents new evidence on the background, characteristics and wider social attitudes, values and aspirations of the nation's centre ground, and throws new light on the nature of the social repositioning of recent decades.

For comparison across income groups, respondents have been divided into five distinctive income groups called quintiles. Each group represents a fifth of the population – roughly 11 million people.<sup>13</sup> The table enables direct comparisons between Middle Income Britain (the third quintile) and higher and lower income groups.

The five groups are defined as follows:

1. The bottom quintile, corresponding roughly to those defined as '*poor*'. In 2006/7 the Government estimated that the proportion of the population in poverty (i.e. with incomes below 60 per cent of the median) stood at 18 per cent.<sup>14</sup>
2. The second quintile (*the 'lower middle'*) is the group that sits between the poor and the middle.
3. The third quintile (the '*middle*' or '*median*') is the group that straddles the median income; this is the group defined as 'Middle Income Britain' in this pamphlet.
4. The fourth is called the '*upper middle*'.
5. The fifth quintile contains a diverse group here called the '*affluent, rich and super-rich*'.

The TUC survey shows that respondents living in 'Middle Income' households are concentrated in socio-economic group C1/C2. 54 per cent are in this C1/C2 group, 20 per cent in group AB (the 'upper middle class' and 'middle class') and 26 per cent in group DE (the unemployed and those on state benefits). Only 14 per cent define themselves as 'middle class' while 20 per cent see themselves as 'lower middle class' and 40 per cent as 'working class'; 23 per cent say they "do not think they belong to a particular class".

Although there is some overlap on the basis of this survey, the 'middle classes' (the ABs) are most heavily concentrated in the two higher income groups, especially the top quintile. There is thus a clear distinction between Middle Income Britain and the middle classes.

In terms of work, 45 per cent of median income respondents are in full-time employment and 19 per cent in part-time employment; 20 per cent are retired while 12 per cent are unemployed or not working for health or other reasons (these proportions are close to the national average). Those in work have a variety of jobs, concentrated amongst white-collar and skilled manual jobs. The men work as customer service administrators, debt collectors, despatch clerks, retail managers, HGV drivers, IT workers, joiners, landscape gardeners, site maintenance engineers, warehouse supervisors. The women work as clerical and administrative workers, teaching assistants, care co-ordinators, caterers, librarians, nursery nurses, receptionists and shop assistants and are more likely to work part-time.

Table 1 shows how some of the characteristics of Middle Income Britain compare with other income groups. A significant proportion – 32 per cent – have been unemployed at some stage in the last ten years, while 28 per cent of those in work are members of a union. Middle Income Britain is slightly less well qualified than the nation as a whole, with 28 per cent having a degree or above (compared with an average of 33 per cent). Twelve per cent either have no qualifications or are below GCSE level. On the other hand, they are more likely to be home owners than on average, and are particularly likely to have bought through the Right to Buy scheme. Eight per cent rent from a private landlord and 9 per cent from a local authority or housing association.

**Table 1: Characteristics of different income groups (percentages)**

	Bottom quintile	Second quintile	MEDIAN	Fourth quintile	Top quintile	All households
	<i>'The Poor'</i>	<i>'The lower middle'</i>	<i>'Middle Income Britain'</i>	<i>'The upper middle'</i>	<i>'The affluent, rich and super-rich'</i>	
Proportion with degrees or above	20	17	28	32	61	33
Proportion owning/ buying home	42	56	77	75	81	68
Proportion who are members of a union	27	25	28	29	26	28
Proportion who have been unemployed in the last ten years	46	37	32	29	21	32
Proportion with a salary-related pension scheme	20	35	44	48	58	42
Proportion with no pension scheme	62	42	33	33	18	37
Proportion who own shares	12	18	19	25	43	24
Proportion with no savings	34	26	17	11	5	18
Proportion with savings over £1,000	22	33	51	51	71	41

Source: TUC Middle Britain Survey



When it comes to newspapers, 44 per cent read the *Sun*, *Mirror*, *Star* or *Daily Record*, 16 per cent the *Express* or the *Mail* while 11 per cent read a broadsheet; 14 per cent read another paper and 15 per cent no paper at all. Middle Britain does not conform to a single set of political beliefs: 24 per cent describe themselves as 'left wing' or 'left of centre'; 30 per cent as 'in the centre'; 17 per cent as 'right wing' or 'right-of-centre' while 30 per cent 'didn't know'.

In the last decade or so, it has become commonplace to characterise Middle Britons with emblematic labels usually defined by the town they live in or the car they drive. *The Observer* once described Chester as the "statistical heart of middle Britain."<sup>15</sup> In the 1990s typical labels included 'Worcester Woman' and 'Mondeo Man' or 'Galaxy Man', voting groups especially targeted in the run up to the 1997 general elections. The TUC survey reveals that however convenient, these epithets are great over-simplifications. Middle Income Britain is in some ways a diverse group of people, embracing a range of occupations, backgrounds, living styles, attitudes and political views. Importantly, however, this survey shows that Middle Income Britain is far closer to Mrs. Thatcher's original meaning of the term 'Middle England' (and the group that was so electorally central to the Thatcher and Blair election victories) than the current, popular use of the term 'Middle Britain'.

Despite some diversity, Table 1 shows that there are a number of important characteristics that distinguish Middle Income Britain from other groups – especially the 'upper middle' and the 'affluent, rich and super-rich', characteristics that reflect the widening gap in life chances of the last three decades. These are explored further in Section 4.

# *Section 3 – How has Middle Income Britain fared since 1979?*

So if Middle Income Britain has been an increasingly key constituency determining the outcome of successive elections since 1979, how have they prospered as a result? Have they been served well by the governments to which they delivered a mandate over the last thirty years?

## *Changes in real incomes*

Table 2 shows that despite giving their support, middle income groups fared poorly under Conservative Governments from 1979. They enjoyed annual rises in real take-home pay of just 1.6 per cent, well below the annual rate of economic growth over the period. This compares with 2.1 per cent for those on mean incomes and 3.9 per cent for the top one per cent. This means that over the 18-year period of Conservative governments, the real incomes of the top one per cent doubled while the incomes of households on mean incomes rose by 45 per cent and those on median incomes rose by a third. In effect, successive Conservative governments neglected the very constituency that had put them into power.

It is this differential experience that contributed to the sharp rise in income inequality under the Conservatives, opened up a larger gap between the centre and the middle class and helps explain the shape of the income distribution shown in Figure 1. Of course, the middle ground did well in other respects with increasing numbers becoming home-owners. The TUC survey shows that 12 per cent of home-owners in this group bought their homes through the controversial Right to Buy scheme championed by Mrs. Thatcher. Nevertheless, these trends suggest a poor return from the free market economic policies espoused from 1979.

Under Labour, Middle Income Britain has fared better in relation to higher income groups than under the Conservatives. Over the decade from 1996/7 to 2006/7, real median household income grew by 20 per cent while real mean household incomes grew by 23 per cent. These correspond to annual rates of 1.9 and 2.1 per cent respectively.

There is an important exception to this more even pattern of growth across incomes. Since 1997, the richest one per cent has continued the upward rise that began in the early 1980s. Over the three decades from 1979, the richest households outstripped all other groups, while households on mean incomes moved ahead of those on median incomes.

**Table 2: Annualised real average income growth (Great Britain)**

	Median	Mean	Top 1%
<b>Conservatives (1979–1996/7)</b>	1.6%	2.1%	3.9%
Of which:			
Thatcher (1979–1990)	2.1%	2.8%	
Major (1990–96/97)	0.6%	0.8%	
<b>Labour (1996/7–2006/7)</b>	1.9%	2.1%	3.2%
Of which:			
Blair I (96/7–00/01)	2.4%	3.1%	
Blair II (00/01–04/05)	2.0%	1.7%	
Blair III (04/05–06/07)	0.7%	1.1%	

**Notes:** Incomes are net equivalent household incomes, before housing costs have been deducted.

Changes have also been adjusted for inflation.

**Source:** M Brewer, A Murial, D Phillips and L Sibieta, *Poverty and Inequality in the UK: 2008*, IFS;

the source figures for the final column were provided by David Phillips at the IFS.

Thirty years ago Britain was one of the most equal of developed nations. Today it is one of the most unequal. Although the rise in inequality more or less levelled off after 2000 across most of the income range (though with the top one per cent continuing to pull away from the rest), income inequality overall was slightly higher in 2007 than the historically high level inherited by Labour in 1997.<sup>16</sup> In that year, the richest tenth enjoyed 30 per cent of the country's total net income (up from 28 per cent in 1996/7) while the poorest tenth had to manage on around 1.5 per cent (down from 2 per cent in 1996/7).<sup>17</sup>

Despite the improved record under Labour, Middle Income households have experienced a much more mixed pattern over shorter time periods. The biggest rises in take-home pay incomes came in Labour's first term – the 'feast years'. The second and third terms (up to 2007) brought lower rises (the 'lean years') while in the year to the end of 2008 households on average experienced cuts in real incomes levels (the 'famine year').

What Table 2 reveals is that the much heralded party for aspirant middle earners was concentrated in the early years of New Labour's rule. The party started well enough, never really got into a full swing, and then petered out. In the two years to 2006/7, median income households enjoyed annual rises of a mere 0.4 per cent – around £1 a week.<sup>18</sup>

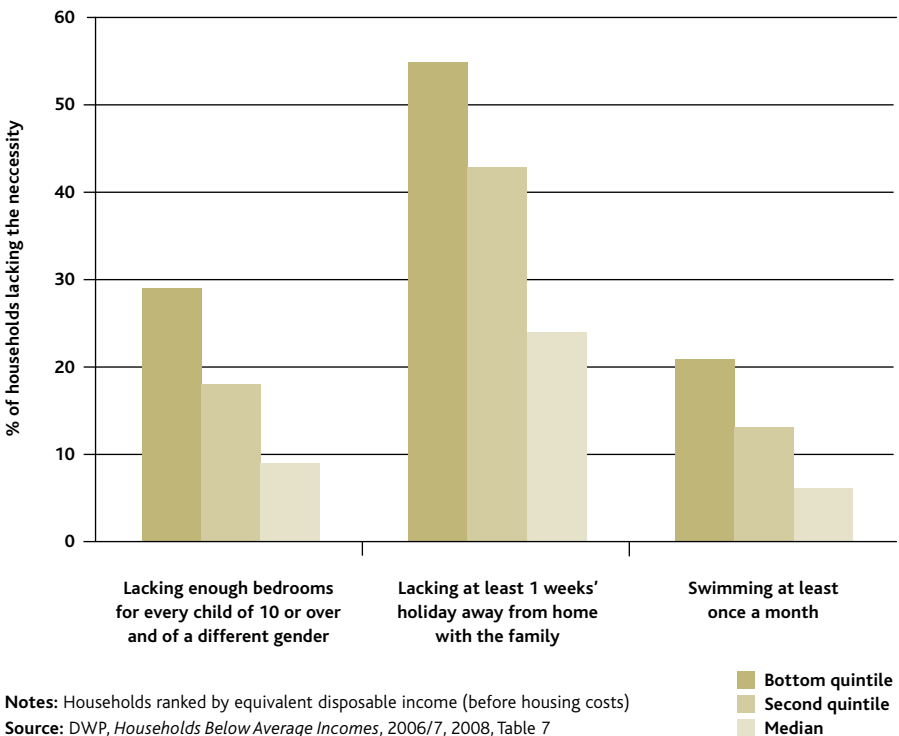
The main reason why real incomes have risen so sluggishly since 2004/5 is that earnings have barely kept pace with rising inflation. In the year to April 2007, median gross earnings grew by 2.9 per cent compared with a rise in prices – as measured by the Retail Price Index – of 4.5 per cent, resulting in a loss of real purchasing power.<sup>19</sup> In the year to October 2008, earnings grew by 3.3 per cent while prices rose by 4.2 per cent. One study has found that between 2002 and 2007, real hourly wage rates grew by a mere 0.1 per cent per annum amongst median earners.<sup>20</sup>

## Deprivation

There have also been limits to Middle Income Britain's participation in the trappings of contemporary consumer societies. Despite the growth in disposable incomes enjoyed by those on middle incomes over the last decade, and a general rise in living standards, a significant minority of families continue to experience deprivation in a number of key areas. Each year the government publishes data on households lacking each of a list of 21 items that surveys have found to be commonly perceived necessities for children. Those lacking these items who cannot afford them are deemed by the government to be experiencing real deprivation by contemporary standards. Figure 2 shows that deprivation is not just confined to poor and near-poor households: 9 per cent of families in the middle quintile could not afford enough bedrooms to avoid children over 10 of different gender sharing one; as many as a quarter could not afford at least one week's holiday away from home while 6 per cent could not afford to send their children swimming once a week.

Many other aspects of contemporary lifestyles remain, unsurprisingly, related to income levels. Eighty five per cent of those on weekly incomes over £1,000 own a computer, compared with only 15 per cent of those on incomes less than £200 a week.<sup>21</sup> Access to the internet is even more unequal. Such lack of access is one of the factors that has contributed to continuing educational under-achievement of children from middle and lower income households (see Section 5).

**Figure 2: Families lacking child necessities because they cannot afford them, 2006/7**



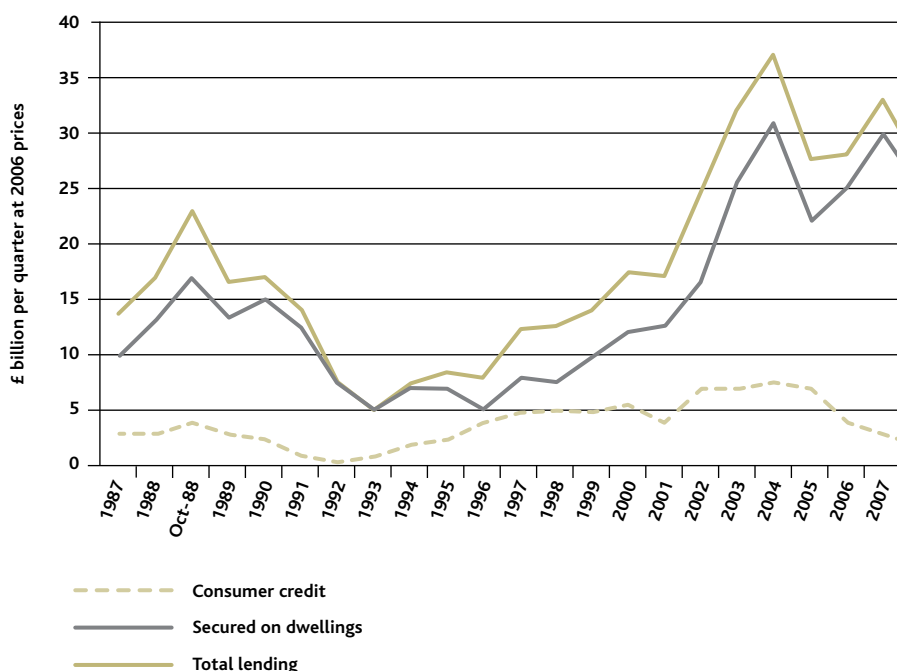
## The debt binge

Despite the deceleration in the rate of income growth from 2002, households, on average, maintained rising living standards at least until the end of 2007. From 2000 to 2007, consumer spending by individuals grew by £55 billion more than their income. Over the same period, the Government's index of retail sales by volume grew by no less than 35 per cent in constant prices, more than three times as fast as disposable incomes.<sup>22</sup> For a while Britons – across income groups – embarked on a mass spending spree while much of the nation appeared to drip with affluence. New shopping malls sprouted across Britain. The giant Westfield Centre in West London is the biggest urban, indoor retail outlet in western Europe, boasting no fewer than 50 restaurants and 255 shops, including flagship stores for leading designers including Dior and Tiffany. Yet in a telling symbol of the consumer bubble that was bursting across Britain, it opened its doors in November 2008, a few days after the Government announced the first quarterly downturn for 16 years.

So how was it possible to maintain spending when rises in purchasing power were slowing? The answer is by a sharp and unprecedented rise in debt.

Figure 3 shows how debt soared to record levels from the millennium, more than doubling (in real terms) in the next three to four years and peaking at a total of £36.9 billion in the first quarter of 2004.<sup>23</sup> In the middle of 2007 debt was still nearly double its 2000 level.

**Figure 3: Net lending to individuals, 1987–2007, UK**



**Notes:** Net lending secured on dwellings and consumer credit. Adjusted to 2006 prices using the RPI

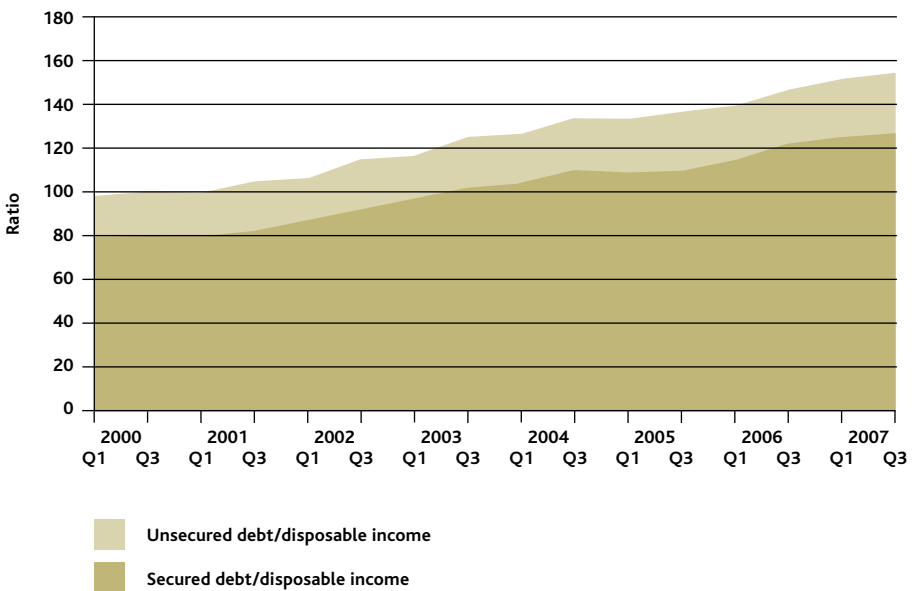
**Source:** Bank of England

Most of this rise in lending – some 86 per cent – was used to secure mortgages on dwellings. While higher rates of lending were being driven in part by inflation-busting rises in house prices, which doubled between 2002 and 2007, a significant proportion of this mortgage lending (as much as 43 per cent in 2006) was used for purposes other than purchase or home improvement. Existing home owners were securing loans against their properties to finance the purchase of cars, consumer durables or foreign holidays. Between 2002 and 2006, the amount of borrowing through this 'housing equity withdrawal' was equivalent to an additional 6 per cent of post-tax income. This was a key source of the way consumption levels were sustained as rises in disposable income slowed.<sup>24</sup>

Consumer credit (a mix of credit card lending, overdrafts and non-secured loans and advances) also rose from the mid-to-late 1990s, levelled off from 2002 to 2005, and then fell back.

These trends in personal debt have proved of particular significance to Middle Income Britain as the TUC survey suggests that it is this group that is the most heavily indebted social group, though levels of debt are not sharply correlated with income.

**Figure 4: Ratio of household personal debt to disposable income, 2000–2007**



Source: BERR, *Household Debt Monitoring Paper – H2 2007*, figure 8, p 15

Although new lending on housing and consumer credit fell back slightly from 2004, the total level of outstanding personal debt kept on soaring. By the beginning of 2008 it stood at £1,400 billion (£1.4 trillion), up from £574 billion in 1993.<sup>25</sup> Because of the relentless rise, the ratio of personal debt to household income has been on a rising trend for over a decade. Figure 4 shows it stood at 154 per cent in the fourth quarter of 2007 compared with 98 per cent in the first quarter of 2000.<sup>26</sup>

These high levels of debts have left a rising trail of individual insolvencies and debt write-offs amongst those unable to maintain repayments. Personal bankruptcies rose from an average of 22,000 a year throughout the 1990s to reach 106,700 in 2007.<sup>27</sup> It seems likely, given the findings above, that Middle Income Britain will have borne a significant part of these consequences of rising personal debt.

## Wealth

Labour's first 11 years in power not only saw a sustained rise in living standards, albeit one financed by a growing dependence on debt, it also brought a sharp rise in levels of personal wealth. Real household wealth (net of liabilities) in 2006 averaged £144,000, a rise of more than 60 per cent over 1996.<sup>28</sup>

While this rise was about three times faster than the rise in real net incomes over the period, it was much more unevenly shared than in the case of incomes. Indeed wealth is not just much more unequally distributed than income, it has become increasingly unequal in the last two decades. In 2003, the last year for which data has been provided by HMRC, the *bottom half* of the population owned a mere 7 per cent of the nation's wealth. In contrast the *top one per cent* enjoyed 21 per cent of wealth, a figure which almost certainly understates the real wealth holdings of the wealthiest.<sup>29</sup>

The two main sources of personal wealth in the UK are residential housing (after the value of any outstanding mortgage) and stocks and shares. The value of both rose sharply over the decade and then started to fall again from the end of 2007.<sup>30</sup> The evidence is that Middle Income Britain did not benefit nearly as much from the pre-2007 asset boom as those in the top third and especially the top tenth of the distribution:

- Their homes are worth less. For example, a report on Middle Britain for Liverpool Victoria in 2006 found that middle class households were much more likely to live in a detached house than the working class, while the average middle class house was worth some 70 per cent more than the average working class house.<sup>31</sup>
- They are much less likely to own shares. Although personal share ownership has tripled over the last 20 years, three-quarters of households do not own shares. Table 1 from the TUC survey shows that the richest fifth is more than twice as likely (43 per cent) to own shares as Middle Income Britain (19 per cent).
- They are less likely to have received an inheritance of significant value.<sup>32</sup>
- They are likely to be more vulnerable to the risk of home repossession, which, at a rate of 40,000 a year, rose in 2008 to its highest level since 1996.
- The TUC survey shows that the 'affluent' and the 'upper middle' have significantly higher levels of savings than lower income groups. Thus 71 per cent of the top fifth of households have savings/investments in excess of £1,000, compared with 51 per cent of median households and 22 per cent of poor households (Table 1). In contrast, only 5 per cent of the rich have no savings at all compared with 17 per cent of Middle Income Britain and a third of the poor.

## *Frustrated aspirations*

In search of the votes of Middle Britain, both main political parties have promised to meet rising social and economic aspirations. For Labour, appealing to what James Purnell, the culture secretary, has called 'the Aspiration Society' has become one of the party's central new goals.

The parties have been right to target aspiration. Polls have shown big majorities in favour of home ownership. The electorate want more fulfilling work and improved living standards. Consumer horizons have spread.

The TUC survey shows that more than three-quarters of respondents – spread evenly by income level – say it is an important goal 'to improve you/your family's living standard over the next ten years'. A smaller proportion – 46 per cent of all respondents (46 per cent of Middle Income Britain) – say it is important to 'achieve more in life than your parents'. Only 11 per cent say it is unimportant. Almost three-quarters of respondents with children under 18 say it is important for them to 'achieve more in life than you' – with no sharp differences across the income range.

Respondents were then asked to compare their own living standard with those of their parents 'when they were around the same age'. On average, real material living standards have risen sharply between these two generations, almost doubling since 1975. Over 90 per cent of the population have central heating and a washing machine while 70 per cent now own (or are buying) their own home. Significant majorities now own a car while the proportion owning a mobile phone rose from a fifth in 1997 to four-fifths today. Middle Income Britain is a well-established part of the consumer society.

Despite this, only a half of middle income respondents think that their own living standard is higher than their parents 'at the same age', 28 per cent think it is about the same and 17 per cent lower. This finding is positively correlated with income, with 75 per cent of the richest fifth saying their living standard is higher compared with 37 per cent of the poorest fifth.

The fact that close to a half of respondents judge their living standard to be the same or lower than their parents cannot be explained by static or falling living standards. The finding partly reflects a lack of awareness of the scale of the improvements in material well-being that they have enjoyed. But it also reflects the importance households place on their relative as well as their absolute position and the wider encouragement of rising expectations across all groups.

When it comes to their jobs, the survey also reveals that for a significant proportion, rising ambitions and expectations have been largely unfulfilled, especially in the case of those in the lower half of the income distribution. Respondents were asked how they think their job 'compares with the one your father had when he was the same age as you are now'. Amongst middle income households, a higher proportion (40 per cent) say it has a lower status than who say it has a higher status – 29 per cent. This finding is highly correlated with income – 52 per cent of the top quintile said their job was higher in status than that of their father's.



Thus although many on middle incomes have moved up a class rung compared with their parents, often working in white collar employment rather than as skilled manual workers, this has not often brought a rise in status or relative wages. This is despite a much more educated middle income workforce. Indeed, despite often being relatively less well paid than in the past and being relatively menial in nature, many of today's 'middling jobs' require much higher qualifications than their equivalents a generation ago. For those in these high qualification, middling pay jobs, as well as the third of graduates ending up with non-graduate jobs, the returns to education will have been small. Although there has been 'more room at the top' through the growth of well paid professional work in the last 30 years – jobs which carry greater status as well as pay – this growth has largely benefited those in the top two quintiles.

For the most part, the rewards of social, political and economic change in recent times have been pocketed not by Middle Income Britain but by groups higher up the income ladder, not just City financiers but those working in the growing number of highly paid professions.

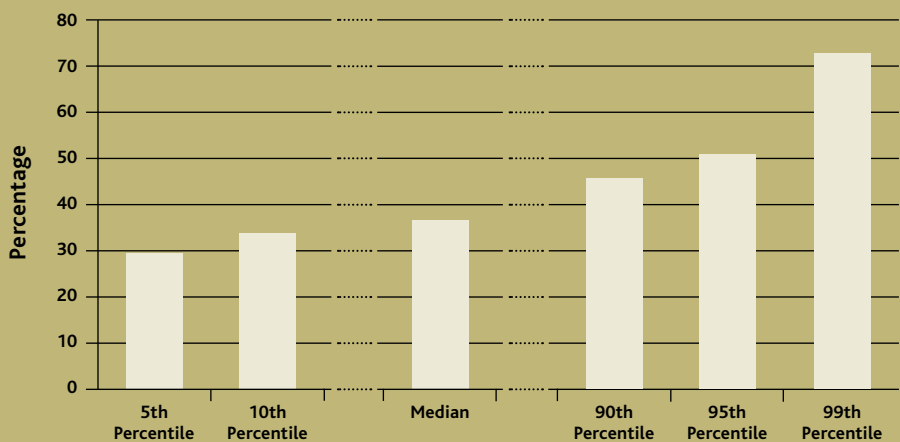
# Section 4 – Why has Middle Income Britain missed out?

In recent decades, Middle Income Britain have not enjoyed the gains they might have expected for their rising electoral power. As a group they have slipped back in the income hierarchy, become increasingly indebted and mostly missed out in the wider wealth boom. There are two key explanations for this trend: the changing nature of job opportunities and rewards and the further entrenchment of the 'cycle of privilege'. Adding to these structural shifts has been an important policy switch: from a progressive to a regressive tax system.

## Job opportunities and rewards

Underlying these trends has been a series of domestic and global economic shifts that has brought a changing pattern of incomes *before* taxes and benefits. Figure 5 shows that from 1996/7 to 2005/6, *pre-tax* incomes at the 99th percentile (the wage received by someone one per cent below the top of the wage distribution) rose by 73 per cent over the period compared with a rise of 36.8 per cent in the case of the median and 29.6 per cent for the 5th percentile.

Figure 5: The rise in *pre-tax* incomes, 1996/7–2005/6



Source: HMRC, Survey of Personal Incomes, 2005–6; the figures relate to individuals

### The rising wage gap

The main explanation for this pattern has been an ongoing rise in the gap between high and low wages. Table 3 shows:

- The sharpest burst of rising wage inequality occurred in the 1980s – in that decade the whole wage distribution widened with the gap growing in both the top and bottom half of the distribution.
- In the 1990s wage inequality continued to rise in both the top and bottom half of the distribution but at a slower pace.
- From 2000 to 2006, the pattern changed a little. The gap between the lowest paid and the median narrowed while the gap between the median and the top continued to widen. The gap between the top and the bottom also continued to increase. The improved position of the lowest paid is likely to be explained mainly by the introduction of the minimum wage in 1999.<sup>33</sup>

**Table 3: Real hourly wage trends by percentile (annualised percentage points), UK**

	1980s	1990s	2000–2006
5th percentile	1.8	1.0	3.0
10th percentile	1.6	1.1	2.6
Median	2.3	1.5	2.4
90th percentile	3.5	2.1	3.0
95th percentile	3.8	2.2	3.5

Source: S Machin & J Van Reenen, *Changes in Wage Inequality*, Centre for Economic Performance, LSE, 2007, Table 1

### The hollowing out of the middle

There are several reasons for the stretching of the earnings gap over the last three decades. One has been the increasing restraints placed on the capacity of trade unions to organise in workplaces.<sup>34</sup> Another is the technology-driven growth in the demand for skills, especially from the increased use of computer technology. This alone has benefited more skilled and educated workers at the expense of the less skilled.

But constrained union activity and technological change are only part of the story. Another key factor has been a dramatic shift in the *composition* of work.

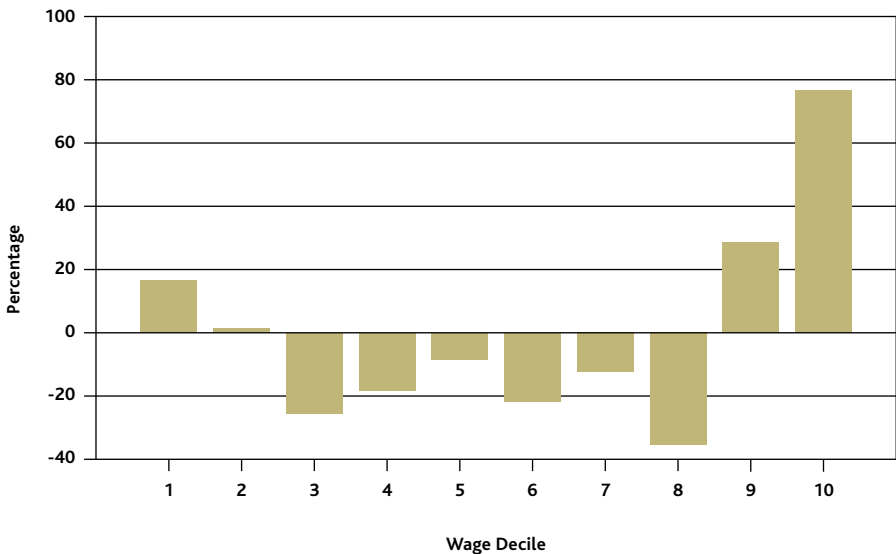
- First there has been a steady rise in the number of high-paying jobs ('lovely jobs' as some labour market economists have put it) in professional and managerial occupations in areas such as finance, law and business services.

- Secondly there has been a rise (though less pronounced) in low paying ('lousy') jobs in service occupations such as caring, security, sales, data entry and hotel portering that cannot be replaced by machines or computers. Many of these jobs may be white collar but have proved far from glamorous, well paid and secure.
- Thirdly there has been a decline in the number and wages of 'middling jobs', not just skilled jobs in manufacturing but also routine clerical jobs. This is especially the case with jobs that require routine tasks, which have been replaced by automation.

In the immediate post-war decades, there used to be more of a continuum in jobs, wages and opportunities in the labour market with more intermediate, middle-skill, middle-paying jobs that filled the gap between skilled blue-collar jobs and higher paying professional ones. This has been eroded by a process of 'job polarisation': an expansion in the employment shares of both the highest and lowest paid jobs.

The significance of what academics have described as the 'hollowing out of the middle' is shown in Figure 6 which charts the change in employment (up to 1999) in jobs ranked by their position in the 1979 wage distribution. This shows a growth in the number of 'lovely jobs' at the top tail of the distribution – business executives, lawyers, senior managers, consultants, data processors, software engineers; a smaller rise in the number of low paid 'lousy jobs' in the lower tail – cleaners, hairdressers, shop assistants and call centre workers; and sharp falls in the number of jobs paying wages between the third and eighth deciles in 1979 – machine setters, foundry labourers, plant operatives, textile operatives, print workers and rail signal operatives.

**Figure 6: Percentage change in employment share by wage decile, 1979–1999**



Source: M Goos & A Manning, "Lousy and Lovely Jobs: The Rising Polarisation of Work in Britain", *Review of Economics and Statistics*, 89, 2007, pp118–33, figure 1

Since 1999, there has been a slight moderation in this trend with a shift in jobs from the lowest paid decile to the second and third deciles, and a continuing, if slowing shift in jobs from the middle to the very top.<sup>35</sup>

It is this combination of the rise in the number of highly paid jobs at the top, and the hollowing out of the middle, which has driven the fall in median incomes relative to the mean and the changing shape of the income distribution in the last three decades. In the shifting economic climate of recent times, the losers have been concentrated amongst middle-paid earners and the winners amongst more highly paid professionals. Over this 30 year period, median earners have not merely faced a widening income gap between themselves and the highest paid City and business bankers and executives but between themselves and an increasing number of highly paid middle class professionals as well.

This trend has been accompanied by another significant structural shift – the steady fall in the share of wages (and steady rise in the share of profits) in GDP – one driven by technological change, outsourcing and globalisation. The share rose from a figure at or just below 60 per cent in the 1960s to hit a peak of 65.1 per cent in 1975. It then drifted downwards, hitting a low of 53 per cent in 1995 – a consequence of the rise in unemployment in the slump at the beginning of the decade. Under Labour the figure initially stabilised at around 55–56 per cent, though in 2007 it fell to 53.2 per cent – close to the post-war low. Since pay at the top has risen in relation to GDP, the brunt of this fall has been borne by middle and lower paid employees. In turn this process has contributed to the steady rise in asset inequality, and the emergence of large fortunes amongst City financiers and bankers.<sup>36</sup>

The UK's wider economic and growth strategy in the last twenty-five years has thus been built around a combination of historically low real wages on average, a growing concentration of wage incomes amongst high earners and a high dependence on debt. According to the economist Gerald Holtham, the way profits have outstripped wages in the new world of excess labour has contributed to the present economic crisis. "If profits and output rise persistently faster than wages, who will buy the output?"<sup>37</sup> This lack of effective demand contributed to the debt-fuelled boom in asset prices that brought the short-lived economic boom followed by the credit crisis and the subsequent recession. Holtham argues that the solution is to "shift more of the tax burden onto capital to offset the effects of a rising profit share."

The ultimate effect of these long term trends – the hollowing out of the middle and the declining wage share – can be seen in the United States. There the wage/GDP share had fallen to 45 per cent by 2006.<sup>38</sup> Moreover, in the last two decades, the proceeds of growth in the US have gone overwhelmingly to the richest 10 per cent of the population, with inequality rising even more sharply than in the UK. Real household median incomes fell continuously between 2000 and 2004, and although they recovered partially, they were still lower in 2007 than in 2000.<sup>39</sup>

As the American economist, Richard Freeman, has described the phenomenon:

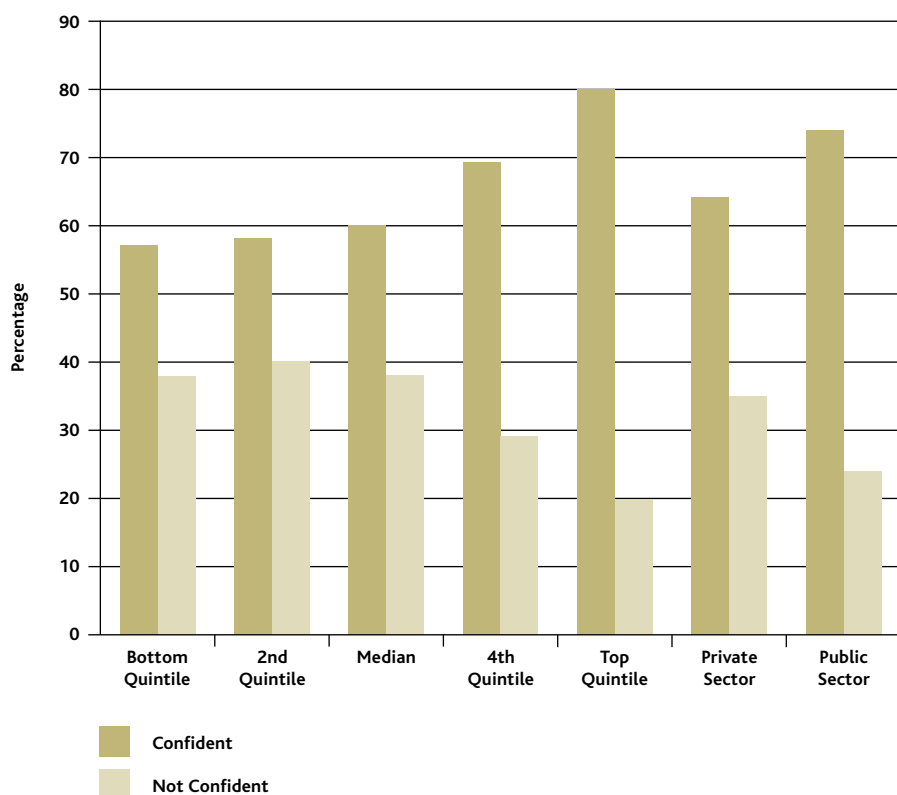
*"Falling or stagnating incomes for workers and rising inequality threatens American ideals of political 'classlessness', and shared citizenship. Left unattended, the new inequality threatens us with a two-tiered society – what I have called elsewhere an 'apartheid economy' – in which the successful upper and middle classes live lives fundamentally different from the working classes and the poor. Such an economy will function well for a substantial number, but will not reach our nation's democratic ideal of advancing the well-being of the average citizen."*<sup>40</sup>

Britain has not moved as far down this road as the United States: middle income groups and the poor in the UK have enjoyed real rises in incomes in the decade from 1997 that matched most of the top half of the distribution. Nevertheless, as shown in the next section, this has been achieved mainly by additional compensatory and expensive policies initiated by the Government.

How the recession will impact on Middle Income Britain is difficult to predict. The fiscal environment will be much tougher, making it more difficult to improve public services and sustain government programmes designed to limit inequality. Rising unemployment means that both the wage/GDP ratio and the relative median wage may fall further. The shedding of labour will lead to a slipping of the skill base of whole sections of the workforce. The risk is that existing wealth, income and educational gaps will widen further.

The downturn is leading to a rapid shedding of labour in the private sector but especially in financial services, the building industry, manufacturing and retail. The TUC survey shows that those in lower income households are much more concerned about their future job prospects than those in higher income households: 38 per cent of the poorest fifth are concerned, 38 per cent of middle income (median) households and 20 per cent of the richest households (Figure 7). Lower income groups are also much more likely to have been unemployed at some point in the past ten years than those on higher incomes, though there are no differences by gender. Among middle income households, more (36 per cent) expect their living standard to fall over the next five years than to rise (22 per cent).

Figure 7: How confident are you about your job prospects?



Source: TUC Middle Britain Survey

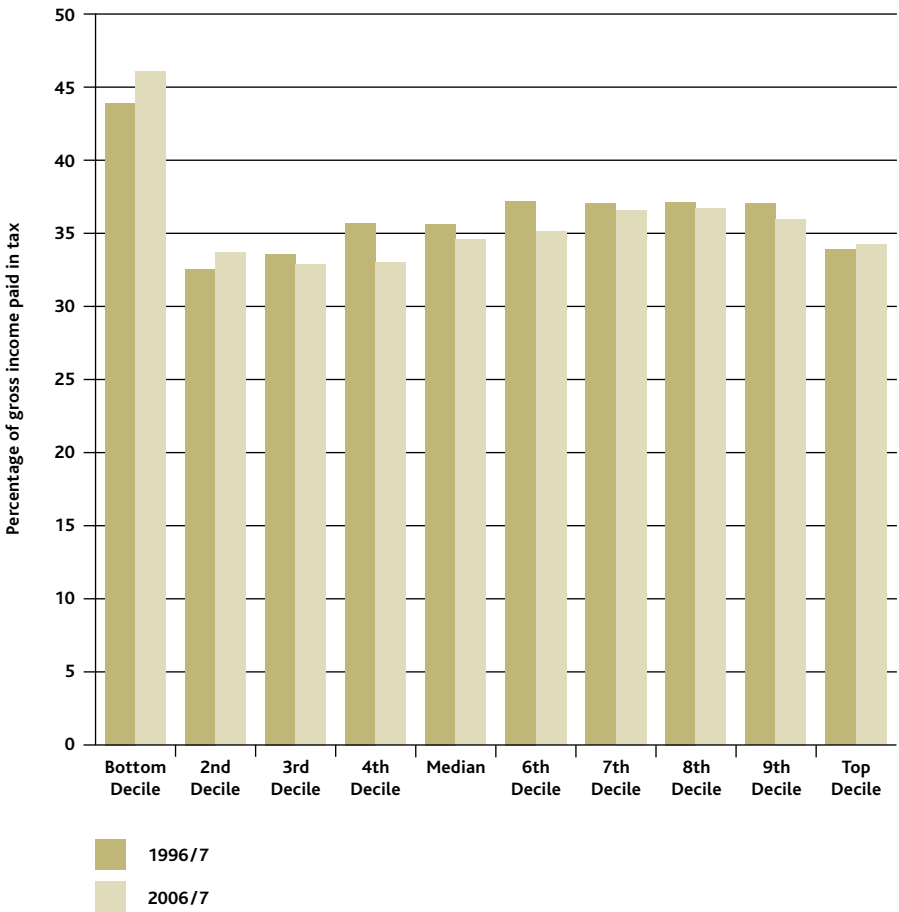
## The impact of taxes and benefits

Of course, the widening wage gap and the growth of low-paid employment is only part of the story of social and economic repositioning in Britain. Government policies on benefits and tax have meant that *disposable* incomes have always been more equally distributed than *earnings*. This is because cash benefits are concentrated amongst those on lower incomes while *direct* taxes (national insurance and income tax) are mildly progressive, bearing more heavily on higher than lower income groups.

But because of the growing wage gap, government policies have had to work much harder than in the past to reduce the level of poverty and check the extent of final income inequality. Without the extra measures Labour has introduced – including the minimum wage and tax credits – the disposable income gap and the level of poverty would have continued to rise. The Institute of Fiscal Studies has shown that, though Labour prefers not to shout about it, their combined tax and benefit changes from 1997 have been progressive, benefiting the poorest most with the heaviest losses incurred at the top of the income distribution.<sup>41</sup> Without such offsetting redistribution – albeit by stealth – inequality would have continued to rise sharply.

Despite this, the goal of reducing poverty and limiting inequality has been made more difficult by the character of the British tax system. This moved from being broadly progressive to regressive in the late-1980s when it started to take a higher proportion of income from lower than higher income households.<sup>42</sup> Figure 8 shows that despite Labour inheriting a tax system regressive at the top and bottom end in 1997, the system has kept its overall shape. In 2006/7, the rich continued to pay a lower proportion of their income in tax than the poor and the middle. If Labour had made correcting this fundamental flaw in the tax system one of its priorities, it would have found it easier to counter some of the more unequal trends generated by wider economic forces. In fact some of Labour's key tax policies, especially changes in the taxation of capital gains and inheritance, have been highly regressive.

**Figure 8: The share of gross income paid in tax by decile for all households, 1996/7–2006/7 (percentages)**



Source: Author's calculations from ONS, *The Effect of Taxes and Benefits on Household Income*, 1996/7 and 2006/7



The key reason for the shape of the tax burden is that, although the main direct taxes (income tax and employee national insurance contributions) are progressive, other taxes, especially council tax and VAT, are regressive, bearing much more heavily on the poor than the rich. In 2006/7 the bottom decile paid just over a third of their gross income in indirect taxes on consumption while those in the top decile paid only 8.8 per cent.<sup>43</sup> With a more progressive tax system, the government's task of tackling poverty and inequality would ease. This is because a higher proportion of the cost of redistribution would be shifted from the broad body of taxpayers to richer individuals.

## *The 'cycle of privilege'*

Over the last 30 years, creating wider opportunities for all sections in society has been a rallying cry of all political parties. Traditionally Labour has been committed to the twin goals of equality of *outcome* and equality of *opportunity*. Since 1997, the former has been downgraded in favour of the latter. Labour's task, as expressed by James Purnell, has been to move from a focus on income inequality to the creation of an empowering state – especially through improved housing, educational and employment choices – that sees “the greatest injustice as potential unfulfilled”. Over time, there has certainly been an extension of such opportunities. The proportion of households living in homes they own or are buying has continued its post-war increase, rising from 67 per cent in 1967 to 70 per cent in 2006. The number of students studying at universities rose by 135 per cent between 1990/91 and 2005/6 to reach 2.5 million.

For most of the last 100 years and more, Britain has been a relatively fixed society where opportunities for advancement through the class system and income hierarchy have been limited. One of New Labour's principal goals in power has been to tackle the hurdles that have kept Britain towards the bottom of the international league table for social mobility. It has launched a number of ambitious and expensive programmes aimed at the intractable problem of the 'cycle of deprivation' in which the children of the poor of one generation are very likely to end up as the poor of the next.

The downgrading of the former egalitarian goal has been controversial within Labour, but has the wider strategy worked? Has the opportunity gap closed with the expansion of choice? Has there been a steady improvement in social and class mobility along with rises in material well-being?

### *Absolute mobility*

To answer this question, it is necessary to distinguish between two types of 'social mobility' – absolute and relative. Sociologists have found a good deal of *absolute* upward class mobility over the longer term as a result of the decline in the number of unskilled manual and the swelling of white-collar jobs. Absolute mobility, however, is really only a measure of the changing nature of the class structure outlined in Appendix 2.<sup>44</sup>

The TUC survey reveals widespread awareness of the increased level of absolute class mobility. Respondents were first asked 'which class they thought their parents belonged to'. Across the whole sample, Table 4 shows that just over a half (a figure that falls as incomes rise) say their parents were working class, 13 per cent lower middle class and 21 per cent middle class. Only 12 per cent said their parents did not belong to a particular class.

**Table 4: Parents' class background (percentages)**

*'Which class would you say your parents belonged to?'*

	First Quintile	Second Quintile	MIDDLE INCOME BRITAIN	Fourth Quintile	Fifth Quintile	All
Do not see them as belonging to a particular class	18	9	12	13	7	12
Working class	53	61	56	52	39	52
Lower middle class	10	12	12	14	14	13
Middle / upper middle class	15	16	18	9	38	21

Source: TUC Middle Britain Survey

Next, respondents were asked about their own class position. Table 5 shows that a much higher proportion – 27 per cent – define themselves as not belonging to a particular class, and a smaller proportion – 32 per cent – define themselves as working class.

**Table 5: Self-defined class (percentages)**

*'Do you think of yourself as belonging to a particular class?'*

	First Quintile	Second Quintile	MIDDLE INCOME BRITAIN	Fourth Quintile	Top Quintile	All
Do not think of myself as belonging to a particular class	38	25	23	29	20	27
Working class	34	45	40	29	16	32
Lower middle class	10	11	20	13	13	13
Middle / upper middle class	12	17	14	24	47	24

Source: TUC Middle Britain Survey

These two tables reveal three important findings about class in Britain.

- There is clear awareness of the upward drift in the class structure with respondents less likely to define themselves as working class (32 per cent) than their parents (52 per cent). Britain is becoming less working class (and more middle class) not just on objective criteria, but also by perception.
- There has been a weakening of the traditional class base of society compared even with a generation ago. Once there was a fairly clear relationship between job, income and social status with a class hierarchy that ran from manual labourers to clerical workers and then professionals with aristocrats sitting at the top. That relationship still exists – with higher income households much more likely to define themselves as middle class than middle and lower income households – but is weaker than in the past. For example, 27 per cent say they don't belong to a class while only 12 per cent say that about their parents. One in six of those in the highest income group define themselves as working class while 12 per cent of the poor define themselves as middle class. Other studies have shown a similar erosion of the income/class relationship.
- Middle Income Britain does not see itself as anything like a distinctive or homogeneous class: 23 per cent do not think of themselves as a member of a particular class at all, 40 per cent see themselves as working class, 20 per cent as lower middle class and 14 per cent as middle class.

This weakening of the self-perception of socio-economic status reflects a number of significant trends in society: the decline in manual jobs and the class ambiguity of many jobs in the 'new economy'; the rise in educational qualifications; the decline of deference and the 'we know our place culture'; and the rise of affluence. All these have changed, in some ways transformed, perceptions of how people view their class position.

### *Relative mobility*

While there has been a steady upward drift in the proportion of the population working in service and white collar jobs, what about the chance of improving one's *relative* position in the class and income ladder? The evidence on relative mobility is that there is and always has been movement between classes and income groups. Alan Sugar, the Barclay Brothers and Brian Souter, who set up the bus company Stagecoach, have all reached the top of the *Sunday Times'* Rich List despite their humble origins. There are plenty of examples of the sons and daughters of miners and cleaners who have made it to the top professions in finance, law and politics.

Nevertheless, despite individual examples of progression, the broad picture is that the movement between income and class groups remains limited in the UK. Not only is Britain's record on intergenerational mobility poor by international standards – we sit next to the United States towards the bottom of the global league table of the richest nations – the evidence is that mobility has been declining in recent decades. Indeed, children born in the 1970s are likely to be socially less mobile than those born in the 1950s; their futures have been more closely correlated with their parent's income and class. More recent tentative evidence suggests that this decline may have been arrested, with the gap in performance between children from poor and rich parents levelling off, but not improving.<sup>45</sup> Despite this, Britain is less a mobile society than a stagnant one.

There are many reasons for Britain's lack of relative social mobility and the apparent lack of improvement despite a number of attempts to encourage it. One possible explanation is the widening level of inequality. As one expert has put it: "It may be harder to change places in a society where the rungs of the ladder are further apart."<sup>46</sup>

Fundamental to the hurdles to movement is that for middle and lower income individuals to progress to the top half of the distribution would require those born into the top half to slip back into the bottom half. Relative mobility is, by definition, a zero-sum game. For the poor and the middle to rise, the rich and the upper middle have to fall. This jostling for social position has been one of the big social battles of recent decades. It is a battle that has been won largely by the middle classes, who despite attempts by governments of both main political parties to open up opportunities, have moved to protect the position of their own children. The odds have always been stacked in favour of those born with middle class parents, but have become even more so in recent times.

Alongside Britain's apparently enduring 'cycle of disadvantage', lies an equally intractable 'cycle of privilege', a process by which the offspring of the middle class, the rich and the super-rich are secured the best opportunities, the best education and the best jobs in society, thereby ensuring that the family baton is passed onto the next generation.

Today, educational performance and workplace achievement remain strongly linked to parental education, income and background with an increasingly entrenched bias towards affluence. The expansion of educational opportunities and of professional jobs has disproportionately benefited the children of affluent parents, intensifying the divide between the life chances of the better-off and the rest of society. The mechanisms that protect middle class children from downward mobility through education, contacts, influence and money have become more effective.

According to the Cabinet Office, children from lower socio-economic backgrounds are less likely to leave school with 5+ good GCSEs and are less likely to go onto higher education, though there is also some limited evidence that the attainment gap has narrowed slightly across classes.<sup>47</sup>

One study of Britain's top universities found that, despite huge efforts to encourage lower and middle-income students to apply, entrants were disproportionately from white, middle class families. Children from the most affluent quarter accounted for 55 per cent of students at the prestigious universities while children from the poorest quarter of households made up only 6.6 per cent. These differences in early life chances are also reinforced on entry to the workplace. Those with the lowest skills also receive the least in-work training compounding their initial disadvantage.<sup>48</sup> Access to the top professions, including medicine and the law, remains highly class-determined. While only 7 per cent of the entire age population are educated privately in England and Wales, two-thirds of barristers in leading chambers and three-quarters of judges in appeal and high courts have a private education.<sup>49</sup>

Despite the blurring of class identities, Britain remains a society with a deep-seated hierarchy of opportunity and outcome based on income and class. Indeed, the life-chances of those lying in the bottom half of the income and class distribution has declined relative to those above them in the social and economic ladder. Class division and income and wealth backgrounds remain the best predictors of life chances.

The TUC survey reveals just how strongly many key social, economic and political factors are correlated with income:

- **Having a degree:** the richest fifth is more than twice as likely as middle income groups and three times as likely as the poor to have a degree.
- **Type of pension scheme:** 58 per cent of the top fifth are in a salary-related pension compared with 44 per cent of the middle and 20 per cent of the poor; middle income households are almost twice as likely as the affluent not to have any pension scheme.
- **Experience of unemployment in last ten years:** 46 per cent of the poor have experienced unemployment in the last ten years compared with 32 per cent of the middle and 21 per cent of the richest fifth.
- **Being a council tenant/housing association tenant:** 32 per cent of the poor compared with 9 per cent of the middle and 3 per cent of the richest fifth are council/HA tenants.
- **Right to buy:** the bottom 60 per cent is much more likely to have bought their home through the right to buy scheme than the top 40 per cent.

- **Being politically right-of-centre:** the richest fifth is nearly three times as likely as the poorest to describe themselves as right-of-centre or right-wing.
- **Owning stocks or shares:** the rich are more than twice as likely as middle income groups and almost four times as likely as the poor to own shares.
- **Value of savings:** 34 per cent of the poor have no savings compared with 17 per cent of the middle and 5 per cent of the rich; the rich are six times as likely as the poor to have savings of over £10,000.

Many middle income Britons have moved up a class rung compared with their parents and especially their grandparents and share some common characteristics and experiences with the middle classes and the affluent who still sit above them in the income stakes. Nevertheless, there are many crucial differences: Middle Income Britain is much less likely to have had a university education, is more likely to have experienced unemployment, is more than twice as likely to have bought their home through the right to buy scheme, is less likely to enjoy a final salary pension scheme, is less likely to be right-of-centre, is much less likely to hold shares and have significant levels of savings.

One of the most important drivers of the 'cycle of privilege' is Britain's increasingly concentrated asset base. The barriers to progress include the growing need for expensive postgraduate training and/or unpaid 'work experience', both of which depend heavily on parental financial support. The latter is especially prevalent in industries such as the media, the law and the arts.

Billy Nelson, the author of the Middle Britain report for Liverpool Victoria, found that assets were a critical differentiator when it comes to life chances and lifestyles.<sup>50</sup> "Assets are so much more unequally distributed than incomes and increasingly definitive in terms of life chances and what can be passed onto the next generation. We have seen family finances become increasingly dynastic and inter-generational support is becoming more and more important in the chance of getting to university, onto the housing ladder and building up assets for the future."

Not only is inter-generational mobility low, so is income mobility through the life cycle. Table 6 shows the extent of income movement by household between 1991 and 2005. It shows that 61 per cent of those in the bottom quintile in 1991 were still in the bottom *or* second quintile a decade and a half later. In contrast, 62 per cent of those in the top quintile in 1991 were still in the top or fourth quintile by 2005. Amongst third quintile (median income) households there was more movement: 23 per cent stayed in the same place, 41 per cent ended up in a lower income group and 36 per cent in a higher income group. According to the Office for National Statistics: "To move the whole length of the distribution from the bottom to the top or vice versa is relatively rare ... although the table indicates there is a considerable degree of mobility within the income distribution, many of these movements are short term and of short distance."<sup>51</sup>

**Table 6: Position of individuals in the income distribution by quintile in 2005 in relation to 1991, GB (percentages)**

		Position in 1991					
		Bottom Quintile	Second Quintile	Third Quintile	Fourth Quintile	Top Quintile	TOTAL
Position in 2005	Bottom Quintile	34	25	18	11	12	100
	Second Quintile	27	23	23	15	12	100
	Third Quintile	19	22	23	22	14	100
	Fourth Quintile	12	18	20	27	22	100
	Top Quintile	8	12	16	25	40	100
	TOTAL	100	100	100	100	100	

Source: DWP

New Labour's resetting of the party's traditional goals has had a mixed success. Labour is right to recognise a growing aspirational culture that embraces all sections of the population, but has been much less successful in meeting these rising expectations, leaving a widespread sense of frustration. Despite the priority given to this new goal, inequalities of opportunity have remained as deeply entrenched as inequalities of outcome. The gap between poverty and wealth continues to stand at historic levels in the post-war era. The means of fulfilling the higher aspirations encouraged by both social change and government rhetoric have remained limited for significant proportions of the population. It is here, in their failure to secure a bigger share of rising wealth and well-being, that Middle Income Britain has been the least rewarded for their political loyalties of the last 30 years.

## *Section 5 – Does Middle Income Britain now hold middle class values?*

In recent decades it has been widely argued that rising affluence and fundamental economic and social change has had a major impact on cultural and political values, eroding the collectivism of the post-war era. As they have moved up a rung of the class ladder, become home owners and experienced the kind of living standards denied as children, middle income Britons, it is claimed, have come to hold more individualistic values, become more hostile to the role of the state and less sympathetic to egalitarianism than the larger groups of the manual working class who they have replaced.

It is the perceived need to respond to the changing views of the swelled ranks of the new upwardly mobile that has led to New Labour's downgrading of its traditional support for a more equal society. A strong commitment to greater equality and redistribution, it has been argued, would not play well in a more aspirant culture and a more politically volatile electorate.

But this has left Labour with a dilemma – how to win the votes of the upwardly mobile without sacrificing the interests of their traditional supporters – the 'bottom third'? Labour's solution has been to prioritise the tackling of poverty by setting a new and firmer floor, while removing any sense of a ceiling at the top. The party relaxed its traditional commitment to greater equality through redistribution from the rich, and adopted a hands-off approach to the super-wealthy. It is this political strategy that paved the way for the escalating City and business fortunes of recent years. The impact of this policy shift has been to reduce the level of poverty from the historic high it inherited in 1997, but also to allow a rising concentration of wealth and a new class of super-rich at the top, while leaving income inequality at an historic and international high.

But is this shift in direction justified by the presumption of changing cultural and political values and a declining concern with economic and social inequality? Have middle income Britons adopted the attitudes and values of the middle class as they have become more affluent? The TUC survey suggests not. Far from becoming more individualistic, anti-state and anti-redistribution, Middle Income Britain is more supportive of the state and more concerned about inequality than both the 'upper middle' and the 'affluent'.



Table 7 shows that 62 per cent of those on middle incomes say 'responsibility for solving economic and social problems should lie mainly with government', while 26 per cent say it should lie 'mainly with ordinary people'. Fifty eight per cent say 'it is the responsibility of government to reduce inequalities in society' with only 13 per cent disagreeing. Support for both is lower amongst the top 40 per cent.

**Table 7: How cultural and political values vary between income groups (percentages)**

	Bottom Quintile	Second Quintile	MIDDLE INCOME BRITAIN	Fourth Quintile	Top Quintile	All
<b>Should responsibility for solving economic and social problems lie mainly with:</b>						
i. Government? or	47	52	62	56	48	53
ii. Ordinary people?	25	26	26	27	37	29
<b>It is the responsibility of government to reduce inequalities in society:</b>						
Agree	50	53	58	53	42	50
Neither agree/disagree	27	26	23	28	32	27
Disagree	17	15	13	14	25	17
<b>Ordinary working people do not get their fair share of the nation's wealth:</b>						
Agree	69	77	73	70	54	68
Neither agree/disagree	26	17	22	22	32	24
Disagree	5	5	5	8	14	8
<b>What is more important:</b>						
Making Britain more equal	54	52	46	45	25	44
Encouraging people to better themselves even if it makes for more inequality	34	36	44	45	65	45

	Bottom Quintile	Second Quintile	MIDDLE INCOME BRITAIN	Fourth Quintile	Top Quintile	All
<b>The Government should redistribute income from the better off to those who are worse off:</b>						
Agree	54	56	55	45	35	49
Neither agree/disagree	29	30	32	32	27	30
Disagree	18	14	13	22	38	21
<b>Do you think the government should impose a limit on how much wealth any individual in society can accumulate?</b>						
Support	24	22	25	26	17	22
Neither support/oppose	27	27	29	25	20	26
Oppose	42	44	43	45	61	47
<b>Do you think Britain's super-rich:</b>						
Deserve their wealth because they have become rich through merit or,	35	32	32	36	47	37
Don't deserve their wealth because they have become rich by unfairly exploiting others	31	32	37	32	24	31

**Notes:** The columns for individual questions do not always add to 100 per cent because those answering 'don't know' have been excluded

**Source:** TUC Middle Britain Survey

Nearly three-quarters of Middle Income Britain (73 per cent) agree that 'ordinary working people do not get their fair share of the nations' wealth' while only 5 per cent disagree. Even the rich are much more likely to agree (54 per cent) than disagree (14 per cent). This supports other evidence of a large, common and enduring concern about the size of the gap between rich and poor.<sup>52</sup>

The TUC survey also shows a clear majority (55 per cent) agreeing that the 'government should redistribute income from the better off to those who are worse off' with 13 per cent disagreeing. Here the top fifth (with 35 per cent agreeing and 38 per cent in support) is much less supportive of redistribution.

Both these questions – on wealth share and support for redistribution – are taken from the annual surveys conducted by British Social Attitudes (BSA).<sup>53</sup> These show declining support from the mid-1990s for redistribution, despite the continued public opposition to the size of the wealth and income gap. According to the BSA surveys the proportion supporting redistribution fell from a high of 51 per cent in 1994 to a low of 34 per cent in 2006.

Several explanations have been posited for this apparent paradox. One is that the population may not like inequality but has become less trustful of government to reduce it. Others have found that many in middle Britain are content as long as they are better off than their parents.<sup>54</sup> Another is that Britain has become less resentful of and more sympathetic to the rich. As academics at the LSE have put it: "British views are becoming more like the views of Americans: those in the middle are no longer envious of the rich – instead they aspire to be the rich".<sup>55</sup> In another view, Professor Ruth Lister of Loughborough University has suggested that the decline in support for redistribution may be "indicative of the limits of a policy of redistribution by stealth without a clear articulation of egalitarian values in mainstream political debate."<sup>56</sup>

The TUC survey suggests another explanation – that public opinion on the issue of the rich and redistribution is cyclical. During the period of the sharpest rise in inequality – the 1980s – public opinion turned from being broadly pro-rich to be more pro-welfare and pro-redistribution. Other evidence suggests that with top bankers and financiers amongst those being blamed for the recession, the public mood has again hardened against the rich.

Research by the Fabian Society at the end of 2008 found that 87 per cent of respondents viewed City bankers as overpaid, second only to Premiership footballers at 96 per cent; a clear majority wanted tighter rules on corporate pay; 69 per cent supported a higher top rate of tax of 50 per cent on those earning over £200,000 while 70 per cent agreed that 'those at the top are failing to pay their fair share towards investment in public services'.<sup>57</sup>

The TUC survey finds ambiguous attitudes towards the rich. Suspicion is mixed with a view that at least some of the rich deserve their wealth. Respondents were asked: 'What is more important for society: making Britain more equal or encouraging people to better themselves even if it makes for more inequality?' with 46 per cent of middle income respondents saying 'yes' to the first and 44 per cent 'yes' to the second. Nearly a third (32 per cent) say 'the super-rich don't deserve their wealth because they have become rich by unfairly exploiting others' while 37 per cent say 'the super-rich deserve their wealth because they have

become rich through merit'. Both sets of answers – especially in the case of the first question – are highly correlated with income, with the affluent taking a more pro-rich stance than the poor and the middle income group.

Nevertheless, there are clear limits to the type of policy response the public would support. Thus 43 per cent oppose the idea of a government-imposed limit on individual wealth accumulation, with a quarter in support.

One of the keenest patterns from these questions on attitudes to government and inequality is that the bottom 60 per cent of the population tend to be significantly more pro-equality and anti-rich than the top 40 per cent. Despite strong aspirations for themselves and their children, Middle Income Britain itself holds slightly more pro-government and pro-equality views than the 'upper middle' and, perhaps unsurprisingly, distinctly more compared with the richest fifth themselves.

Despite the usual ambiguous and sometimes contradictory views often associated with such polling, these results show that the centre ground of the electorate is overwhelmingly in support of the principle of government action to tackle inequality – if a little more circumspect about the methods – and holds very mixed views on the contribution of the rich towards society.

# Section 6 – Conclusions and policy recommendations

The post-war period up to the end of the 1970s was largely a time of progress for Middle Income Britain. They enjoyed rises in absolute living standards while these decades were also a time of reducing income and wealth inequality, with a shrinking gap between the middle and the top.

Since the end of the 1970s, the fortunes of Middle Income Britain have been much more mixed. As a group, they have continued to enjoy improvements in *absolute* terms, participating in the wider improvements in living standards, housing and educational opportunities of the period. Today middle income families enjoy a significantly higher living standard than their counterparts in the 1950s, 1960s and 1970s. Many have moved up a rung in the class ladder as well.

When it comes to progress in *relative* terms, however, the story is different. The gaps that were closing in the first three decades after the Second World War have opened up again. Middle Income Britain has fallen back in relation to the rich and the super-rich and has also slipped in important ways in relation to the wider middle class.

As a result, today's sinking middle is not as well placed as its equivalent in earlier generations. This relative slippage has been driven by long-term structural changes, especially the decline in relative wages in the middle of the earnings ladder and an absolute decline in the number of jobs paying middling wage levels. Middle Income Britons are earning less today in relation to the average than was the case in the 1960s and 1970s.

On top of this the strengthening of the 'cycle of privilege' means that Middle Income Britain now faces even tougher barriers to social and income advancement than in the past. Moreover, these structural changes have been accentuated by key policy decisions, including the move from a progressive to regressive tax system from the mid-1980s – so that the middle now pays a higher relative burden of the costs of redistribution than was the case in the past – and the canonisation of the rich by successive post-1979 governments.

Much of this relative worsening took place in the period from 1979 to the mid-1990s, a time when inequality rose especially sharply, mainly because of rising income and wealth levels at the top. In the decade up to the onset of the recession in the second half of 2008, Labour ensured that Middle Income Britain broadly held its own: its income and living standards kept pace broadly with all other groups in society with the exception of the rich and the super-rich.

Nevertheless, although Labour has held the line on further rises in inequality across the bulk of the income distribution (with the top few per cent continuing to pull away), the gaps inherited in 1997 have not been closed. Indeed the wage gap has continued to rise, while, despite a growth in employment levels overall, jobs in the middle of the earnings distribution have continued to shrink as a proportion of the total. Labour has been unable to recover the lost ground (in relative terms) suffered by Middle Income Britain in the two and a half decades from the late 1970s.

So what does this mean for policy? Many of the moving fortunes of recent times have been the product of powerful and often largely irresistible economic forces including technological change, de-industrialisation and globalisation. But part of the role of government should be to ensure that losers are protected from external changes that are not of their making. To prevent Middle Income Britain slipping further behind the richest third, and then improve their relative income and wider opportunities, Governments should give a clear and binding commitment that a central goal of policy is to ensure that all groups in society share in growing prosperity, not just the winners of structural economic change and shifting political favouritism.

More specific measures are needed in three areas – inequality, tax and social mobility.

#### **Inequality:**

- Public opinion could not be clearer: government should set a new goal of cutting inequality of outcome – in both income and wealth – as well as reducing poverty and promoting social mobility.
- The Government should set a clear set of five-, ten- and twenty-year targets for the reduction of wealth and income inequalities alongside its poverty reduction targets.
- Given the public's limited support for extensive redistribution, policy to reduce income inequality should concentrate on rebalancing rewards in society:
  - i. Much firmer steps are needed to crack down on excessive and unjustified pay and bonus packages amongst City bankers and financiers.<sup>58</sup>
  - ii. More needs to be done in the labour market to build skill levels for those without formal qualifications.
  - iii. A higher proportion of the workforce should be unionised. Strong trade unions and strengthened bargaining power are the most effective defence against the wage slippage of recent times.
  - iv. An Inequality Commission should be established – parallel to the Low Pay Commission – with a brief to monitor trends in inequality, recommend appropriate pay relativities and set targets. The Commission should also oversee the work of remuneration committees and monitor the social mobility targets suggested below.

### Social mobility:

- Tougher policy measures are needed to tackle an increasingly hierarchical society. While the commitment to introduce a new legal duty to combat inequality is to be welcomed, this cannot be achieved without tackling the 'cycle of privilege'. Just relying on a projected expansion of professional jobs is not enough.
- Success depends on tackling the stranglehold of the public school near-monopoly on the top universities and jobs. This now requires setting targets in universities and key professions for the proportion of entrants with a comprehensive education and/or a low/middle income background. The goal should be ensuring entry is representative of the population at large.
- The proceeds of capital taxation should be used to build the asset base of those in the bottom half of the distribution by, for example, providing more bursaries at top universities and companies.

### Tax:

- The Government should restate a commitment to the principle of progressive taxation – that tax should be related to ability to pay, with the rich paying a higher proportion of tax than the poor and the middle. This would mean reducing the share paid by the lowest earners, a war on tax havens and loopholes, ending higher-rate tax on pensions and a reform of council tax.
- To reduce the excessive concentration of wealth, a higher proportion of tax revenue should come from capital taxation with a reform of inheritance tax and the realignment of income tax and capital gains tax rates.

In recent times, British society has become increasingly aspirational, with individuals aiming for improved living standards and opportunities for themselves and their children. Yet many, if not most, of those on low and middle incomes have been denied the opportunity to fulfil these extended ambitions – in housing, education and work. For many, relative opportunities in these areas have declined. Successive governments have set out to fuel aspirations without willing the means. Now is the time to set out a new agenda that closes the gap between rising aspirations and the means to fulfilling them.

# Appendix 1 – Voting by class

*The class breakdowns of votes in the 1979, 1983, 1997, 2001 and 2005 general elections*

	1979			1983		
	ABC1	C2	DE	ABC1	C2	DE
Conservative	59	40	34	55	40	33
Labour	22	42	49	16	32	41
Liberal	16	15	13	28	26	24

	1997				2001				2005			
	AB	C1	C2	DE	AB	C1	C2	DE	AB	C1	C2	DE
Conservative	41	37	27	21	39	36	29	24	37	37	33	25
Labour	31	39	50	59	30	38	49	55	28	32	40	48
Liberal	27	18	16	13	25	20	15	13	29	23	19	18
Other									6	8	8	9

Source: The British General Election series



# Appendix 2 – The changing class structure

Table A2 shows the British class structure based on the most commonly used class-based classification, one developed by market researchers and opinion pollsters in the 1950s, and widely used in media, marketing and political circles. The structure divides the population into six groups: A, B, C1, C2, D and E. Although class differences are arguably also about background, culture and attitudes, the classification, along with the more sophisticated classifications used by academics and the government, is based on a comprehensive list of occupation groupings.<sup>59</sup>

**Table A2: The British Class Structure, 1965–2007**

Social grade	Social status	Occupation(s)	Job types	Official breakdown %		
				2007	1993	1965*
A	Upper-middle class	Higher managerial, administrative & professional	Doctor, accountant, university lecturer, systems analyst	4	3.1	
B	Middle class	Middle managerial, administrative & professional	Finance manager, personnel manager, senior sales manager, senior local government officer, teacher	22.3	16.8	12.7
C1	Lower-middle class	Supervisory, clerical, junior managerial, administrative & professional	Commercial traveller, shop assistant, nursery nurse, care assistant, paramedic	29.2	26.6	18.2
C2	Skilled-working class	Skilled manual workers	Building site foreman, plumber, train driver, hairdresser	20.6	24.5	37.1
D	Working class	Semi- & unskilled manual workers	Machine operator, assembler, waiter, call centre worker	15.7	16.5	32.1
E	Residual	Casual or lowest grade workers, pensioners & others dependent on state benefits		8.2	12.6	

Source: National Readership Surveys

\* The survey only published data for AB and DE combined prior to 1972

# *Appendix 3 – The TUC Middle Britain Survey*

YouGov interviewed a quota sample of 1,195 GB 18+ adults between 14 and 19 January 2009. Data have been weighted by age, gender, region, social grade, party identification and newspaper readership to be representative of the GB adult population. The survey was carried out online.

All respondents were asked for their net household income. These were then adjusted for household composition using the following equivalence scales: single adult: 0.67; adult couple: 1.00; other adults: 0.33; children under 18: 0.25. Respondents were then ranked by their equivalent household income and divided into five broad but distinctive income groups called quintiles. Each group represents a fifth of the population – roughly 11 million people.<sup>60</sup>

# Notes

- 1 A Geddes and J Tonge, (eds), *Labour's Landslide*, Manchester University Press, 1997, p16
- 2 Giles Radice, *Southern Discomfort*, Fabian Society, 1992, p5
- 3 D Cannadine, *Class in Britain*, Penguin, 1998, p183
- 4 Richard Reeves, *New Statesman*, 29 October 2007
- 5 *The Guardian*, 20 February 1997
- 6 See, e.g., Matthew Wakefield, *Is Middle Britain Middle-Income Britain?* IFS, Briefing Note No 38, 2003
- 7 In 2006/7, 2 million people – 3.3 per cent of the population – had incomes above £1,100 a week
- 8 Mike Brewer, Alistair Muriel, David Phillips, Luke Sibieta, *Poverty and Inequality in the UK*, 2008, Institute of Fiscal Studies, Fig 2.3 p 8; the 25 per cent is higher than the 23 per cent figure given earlier as the long-term series relates to GB rather than the UK
- 9 Because a family of several people needs a higher income than an individual in order to attain the same standard of living, incomes have been adjusted for the size of household using what are known as equivalent scales. An adult couple with no children is used as the benchmark and the equivalence scales used are 0.67 for a single adult, 0.33 for an additional adult, 0.2 for a child age 0–13 and 0.33 for a child aged 14–18. Thus a couple with 1 child aged less than 13 is assumed to need an income 20 per cent higher than a childless couple to attain the same material living standard.
- 10 *The Times*, 14 October, 1996
- 11 *Daily Mail*, 18 April 1996
- 12 Ray Pahl et al, *Inequality and Quiescence: A Continuing Conundrum*, ISER Working Paper, 2007-22
- 13 To some extent this is an arbitrary division in that the population could be split into different sized groups such as deciles. However, it is a useful starting point for comparing the relative fortunes of middle Britain
- 14 ONS, *Households On Below Average Incomes*, 2006/7, Table 3.1tr
- 15 *The Observer*, 3 November 1996
- 16 As measured by the Gini coefficient, a statistical summary measure of inequality. See ONS, *The Effects of Taxes and Benefits on Household Income*, 2006/7; Brewer et al, op cit, p20
- 17 [www.poverty.org.uk/09/index.shtml](http://www.poverty.org.uk/09/index.shtml)
- 18 M Brewer et al, *Poverty and Inequality in the UK: 2008*, IFS, 2008 p 9. There were also sharp differences between regions. Households in London fared the best, enjoying a 28 per cent increase in net incomes over the Labour decade. This compared with only 13.9 per cent amongst those living in the West Midlands and 17.7 per cent amongst those living in the rest of the South-East.
- 19 ONS, *Social Trends*, 2007, p67

- 20 J Hills et al (editors), *Towards a More Equal Society*, Polity Press, 2009, Table 2.1
- 21 ONS, *Family Resources Survey, 2006/7*
- 22 ONS: Volume of Retail Sales Index
- 23 This compares with a previous peak of £22.2 billion in the third quarter of 1988 before it fell back with the onset of the recession of the early 1990s
- 24 ONS, *Social Trends, 2007*, p88
- 25 *Social Trends* op cit, p88
- 26 The rise has been driven almost entirely by the expansion of secured debt. In 2007, the secured debt ratio stood at 129 per cent compared with the unsecured debt ratio of 24 per cent
- 27 *Social Trends* op cit p89
- 28 *Social Trends* op cit p64
- 29 S Lansley, *Rich Britain*, Politico's, 2006 p235
- 30 Indeed house prices during 2008 fell by 16 per cent, the largest annual fall since records began. The FTSE100 fell by 31 per cent, the worst annual stretch since the Index made its debut in 1984.
- 31 Future Foundation, *Middle Britain: Summary Report*, April 2006, p13
- 32 K Rowlingson & S McKay, *Attitudes to Inheritance in Britain*, JRS, 2005, Figure 3.3
- 33 R Dickens & A Manning, "The National Minimum Wage and Wage Inequality", *Journal of the Royal Statistical Society, Series A*, 167, 2004
- 34 H Grainger & M Crowther, *Trade Union Membership 2006*, DTI, 2007 Table 1
- 35 *How Have Employees Fared?* DTI Employment Relations Research Series No 56, 2006
- 36 S Lansley, *Do The Super-Rich Matter?* TUC Touchstone Pamphlet, 2008
- 37 G Holtham, "Workers of the World Compete", *Prospect*, December 2008
- 38 *New York Times*, August 26, 2006
- 39 Justin Wolfers, "Because Elections are Determined by the Median Voter", *New York Times*, August 26 2008
- 40 Quoted in George Irvin, *Super Rich*, Polity Press, 2008, p148
- 41 The IFS Green Budget, 2008, p284
- 42 Lansley op cit, p36
- 43 ONS, *The Effect of Taxes and Benefits on Household Income, 2006/7*, table 4 (appendix 1)
- 44 S Lansley, *Rich Britain*, op cit, ch 6
- 45 Jo Blanden & Stephen Machin, "Recent trends in intergenerational mobility", *Centrepiece*, LSE, 2008
- 46 Hills op cit p323
- 47 Cabinet Office, *Getting On, Getting Ahead*, November 2008
- 48 Cabinet Office, op cit
- 49 The Sutton Trust, *The Educational Backgrounds of the UK's Top Solicitors, Barristers and Judges*, 2005
- 50 Future Foundation, op cit

- 51 ONS, *Focus on Social Inequalities*, 2004, p47
- 52 M Orton & K Rowlingson, *Public Attitudes to Economic Inequality*, Joseph Rowntree Foundation, 2007
- 53 [www.britisocat.com](http://www.britisocat.com)
- 54 Pahl op cit
- 55 A Georgiadis & A Manning, "Spend it Like Beckham", London School of Economics, *Centrepiece*, Autumn 2008
- 56 Ruth Lister, "The Irresponsibility of the Rich", *Red Pepper*, September 2008
- 57 Louise Banfield, "The Underserving Rich", *Fabian Review*, Winter 2008/9, p29
- 58 See S Lansley, *Do The Super-Rich Matter?* op cit, Section 7
- 59 Other more sophisticated classifications include a seven-point hierarchy developed by Oxford academics and used by social scientists, and the new Socio-Economic Classification System – NS-SEC introduced by the Office for National Statistics in 2001
- 60 To some extent this is an arbitrary division in that the population could be split into different sized groups such as deciles. However, it is a useful starting point for comparing the relative fortunes of median Britain



Middle income earners played a crucial role in the historic election victories of 1979 and 1997. But have they been repaid for their allegiances? Through original research and compelling analysis, *Life in the Middle* shows that despite the promises, 'Middle Income Britain' is far from being the big economic winner of the last thirty years.



Trades Union Congress  
Congress House  
Great Russell Street  
London WC1B 3LS

[www.tuc.org.uk](http://www.tuc.org.uk)

© 2009 TUC  
ISBN 978 1 85006 858 7