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## **One Society response to: Call for evidence - Independent Review on Social Mobility and Child Poverty**

### **Summary:**

Following the remit of One Society, we have focused on the evidence around the links between low (and/or insecure) pay and the persistence of child poverty and reduced social mobility. We also offer suggested means of addressing these issues in a financially and politically feasible manner.

We also examine the analysis of the link between income inequality and social immobility contained in the Government's social mobility strategy, and outline our concern that the evidence cited in the strategy may have been misinterpreted, with potential adverse consequences for the cost and efficacy of policy-making.

### **Responses to questions**

#### **2) What do you think are the links between social mobility and child poverty?**

While the remit of One Society does not cover child poverty in general, we have carried out significant analysis on pay inequality, which does have relevant implications for child poverty and social mobility. We would therefore raise the following points.

We note the widespread recognition (in the Government's social mobility strategy and elsewhere) that a stable, supportive and encouraging family life is key to allowing children to develop the abilities and aspirations necessary for upward social mobility and/or to escape poverty in later life. However, we should also recognise that excessively low pay not only traps families in poverty, but presents significant challenges to the sort of family life which encourages upward mobility. For example:

#### **Low pay and parents' excessive working hours / increased stress**

- ⤴ Recent research for UNICEF found that parents in the UK are “*struggling to find time to be with their children or to help them participate in outdoor, sporting or creative activities and lacking in time to establish and enforce the rules and roles operating within the family household...UK parents find it difficult to spend time with their families for lots of different reasons. One of these was low wages. Where parents are paid at, or close to the minimum wage they often must work long hours or take several jobs in order to make ends meet and this can impact on their ability to spend quality time with their children*”<sup>ii</sup>
- ⤴ As family budgets have come under pressure from stagnating incomes and rising costs, this (along with issues of changing workforce structure) will tend to drive increasing numbers to work longer, family-unfriendly hours. Figures from the Family and Parenting Institute (FPI) show that: “*In 2010, 11.1 per cent (an increase from 10.8 per cent in 2009) of the UK population in employment worked at night; 25.3 per cent (an increase from 24.8 per cent in 2009) worked in the evening; 22.2 per cent (an increase from 21.6 per cent) worked on Saturday and 12.1 per cent (an increase from 11.2 per cent) worked on Sunday.*”<sup>iii</sup>
- ⤴ The Family and Parenting Institute also carried out polling which found that “*more than half of parents (54%) believe family life is in crisis. 76% say that stress is undermining family life in the UK, with the main reasons cited being financial pressures (67%), long working hours (37%) and concerns about possible unemployment (24%)*”<sup>iii</sup>.

## Low paid parents and children's negative perceptions of work

- ⤴ It is commendable that the government has stated an intention to address the phenomenon of children who grow up in communities without working adult role models. We are also concerned that there are communities where any working adults receive such low pay (and/or are subject to the insecurity of the “*low-pay no-pay cycle*”<sup>iv</sup>) that children's perception of legitimate work as a route to prosperity may be damaged, so that criminality, the informal economy and/or benefits appear relatively more attractive.
- ⤴ One mechanism through which pay may affect children's perceptions is that of employee engagement. Large-scale research by Towers Watson found much higher rates of engagement (77%) on the part of employees who felt that pay decisions were fair compared to those who felt that pay decisions were unfair (45%)<sup>v</sup>. It would be difficult for employees who felt disengaged with work to avoid having their children pick up on these feelings.

## Low pay and parents' mental health

- ⤴ We are also concerned that about the potential impact on children of the mental health impacts of parents' pay. This concern is based on research showing that (for example) *“those in the poorest quality jobs showed greater decline in mental health than those who were unemployed”*<sup>vi</sup>.

It should be noted that many of the effects outlined above are relevant to low relative (as well as absolute) income levels.

## **3) What are the main barriers which stop people moving out of poverty or which prevent people from slipping into poverty?**

Many of the mechanisms by which low pay suppresses social mobility which we have outlined in our response to the question above remain relevant here.

We would also draw attention to the effect of low pay and the low-pay-no-pay cycle in preventing people from building up savings which will overcome 'poverty premiums'<sup>vii</sup> or which can fund training or enterprise opportunities for the individual or their family members. The scale of the problem of inability to save is illustrated by research published in July by the Chartered Institute of Personnel and Development, which found that nearly a fifth (18%) of employees run out of money at the end of the week or month either always or most of the time.

## **4) Do you think the Government's policies, in particular the social mobility and child poverty strategies, will improve people's life chances?**

While we welcome the Government's focus on social mobility and child poverty, we are concerned that the social mobility strategy document, “Opening Doors, Breaking Barriers”<sup>viii</sup>, appears to dismiss the relationship between income inequality and social mobility (for example, in saying that *“the key components of a more mobile society [...] do not appear to be related to simple measures of income inequality”*<sup>ix</sup>). This is concerning because:

- ⤴ The use of evidence in “Opening Doors...” to analyse the relationship between income inequality and social mobility is questionable, and may be seen as misleading.
- ⤴ A faulty analysis of the relationship between income inequality and social mobility is likely to lead to faulty analysis of the likely comparative efficacy of potential policy solutions. It means that policies are likely to be implemented which will not represent the most cost-effective use of taxpayers' money. Also, some of these solutions will be undermined by factors related to income inequality, unless the latter is also addressed.

These points are addressed in more detail below/overleaf.

**i) The use of evidence in “Opening Doors...” to analyse the relationship between income inequality and social mobility is questionable, and may be seen as misleading.**

We welcome the Government's intention to "*adopt a ruthlessly evidence based approach*"<sup>x</sup>. However, we argue that "Opening Doors..." may have misinterpreted the evidence around the relationship between income inequality and social mobility, resulting in misleading conclusions.

The statement that "*Academic studies [...] have found a correlation between high levels of income inequality and low levels of social mobility, although some have criticised the validity of this finding*"<sup>xi</sup> could lead the casual reader to agree that "*the key components of a more mobile society [...] do not appear to be related to simple measures of income inequality*"<sup>xii</sup>. However, the balance of evidence is not nearly as one-sided as the above quotations suggest:

The studies referenced by "Opening Doors..." which "*found a correlation between high levels of income inequality and low levels of social mobility*" include a number of studies from peer-reviewed sources. Unfortunately, they do not include some of the strongest evidence. For example, it is disappointing that "Opening Doors..." did not mention that a review of the academic evidence on social mobility was recently carried out by the Institute for Fiscal Studies on behalf of BIS, and that this review found "*countries with higher income inequality tend to have lower social mobility*" and "*it is likely to be very hard to increase social mobility without tackling inequality*"<sup>xiii</sup>. It appears that the IFS/BIS document was known to the authors of "Opening Doors" (it is referenced 8 times): this being the case, it is troubling that the review's findings on income inequality were not mentioned, despite being extremely prominent on page 1 of that document.

In contrast, there are only two sources referenced which "*have criticised the validity of this finding*" [the correlation between high levels of income inequality and low levels of social mobility]. These are a paper by Professor Gary Solon<sup>xiv</sup> and a report by Professor Peter Saunders<sup>xv</sup>. Of these:

- ▲ The Solon paper actually concludes that there is a correlation between income inequality and low social mobility ("*The model therefore supports [the...] conjecture that contrasts between Sweden and the United States in both inequality and intergenerational social mobility may be related*"<sup>xvi</sup>). Our colleagues in the Equality Trust recently contacted Professor Solon to request a clarification on this matter, and received the following reply: "*Your interpretation is correct. A few of my papers, including the JEP paper you cited, say that there are good reasons to expect connections between cross-sectional inequality and intergenerational mobility*".
- ▲ The report by Saunders did deal with social mobility, but as part of a wide-ranging attack on Wilkinson & Pickett's Book "The Spirit Level"<sup>xvii</sup> (the authors of which have in turn accused Saunders of "*serious methodological errors*"<sup>xviii</sup>). Unlike many of the articles which did find a connection between income inequality and social mobility, Saundser's report was not peer-reviewed. Saunders has also published a report which states that "*social mobility is common in Britain*", that "*Britain does not compare unfavourably with other countries*" and that "*Social mobility has not been falling*"<sup>xix</sup>.

It should also be noted that it is now routine to find that interest groups who dislike the conclusions of academic evidence voice dissent in order to make issues appear 'controversial'. The debates around anthropogenic climate change and the links between smoking and cancer provide illustrations of why one should not assume that both sides of the argument carry equal weight, nor assume that controversy is sufficient reason for inaction.

"Opening Doors..." states that "*There are also a number of countries, such as Australia and Canada, that have relatively high levels of income inequality but also high levels of social mobility*". However, the OECD document which "Opening Doors..." cites as a source of this data<sup>xx</sup> also makes it clear that while there are some outliers, the overall trend is clearly that "*Intergenerational social mobility tends to be lower in more unequal societies*"<sup>xxi</sup>.

In order to believe that the UK could become one of the (rare) exceptions to the rule, policymakers must be willing and able to pull levers which are strong enough to overcome the inequality-immobility link and which previous governments haven't already tried. While the OECD paper does suggest some means of increasing social mobility that are addressed in "Opening Doors.." (such as "*early childhood education and care*"<sup>xxxii</sup> and "*how resources are spent for schooling rather than how much*"<sup>xxxiii</sup>) these areas have been the subject of previous policy initiatives. Furthermore, other policies suggested by the paper may be politically and/or financially challenging, such as "*increasing the social mix of students within schools*"<sup>xxxiv</sup> and the strengthening of "*redistributive and income support policies*"<sup>xxxv</sup>. This suggests that the UK is unlikely to become one of the exceptions.

"Opening Doors..." also states that "*correlation [between income inequality and social immobility] is not the same as causation*"<sup>xxxvi</sup>. However:

- There is evidence that income inequality does cause reduced social mobility: the paper cited in "Opening Doors..." to demonstrate the UK's low social mobility relative to other countries makes clear, as one of its major conclusions, that the evidence "*work[s] against the hypothesis that inequality and mobility only vary together because they are driven by the same processes*"<sup>xxxvii</sup>, (in other words, there is a causal relationship).
- A number of mechanisms by which income inequality causes reduced mobility have been identified, including the ability of some families to buy their way into independent schools or the catchment areas of certain state schools, the cultural forces which cause expectations to become ossified (explored below) and the increased difficulty of leaping across income gaps if these gaps are wide.
- An OECD literature review<sup>xxxviii</sup> identifies a number of variables which have a "*large and significant*" effect on social mobility (a number of these are also identified in "Opening Doors..."). In most of these cases, there is an established correlation between these variables and income inequality levels (e.g. level of education, wealth, social conditions, health status)<sup>xxxix</sup>.

While "Opening Doors..." is dismissive of the income inequality /mobility link, it states that wealth is a factor ("*wealth inequality can act as a barrier to social mobility by opening up opportunities to some that are unavailable to others*"<sup>xxx</sup>). This appears to be at least partly contradictory, because income is obviously a major factor in wealth, and one of the initiatives which "Opening Doors..." cites as a response to wealth inequality is raising *income tax allowances*<sup>xxxi</sup>.

**ii) A faulty analysis of the relationship between income inequality and social mobility is likely to lead to faulty analysis of the likely comparative efficacy of potential policy solutions. It means that policies are likely to be implemented which will not represent the most cost-effective use of taxpayers' money. Also, some of these solutions will be undermined by factors related to income inequality, unless the latter is also addressed.**

We note the the 'value for money' test outlined by the Government's Adviser on Social Mobility, Alan Milburn: "*social progress depends on governments being able to answer a simple question: what will give the biggest social mobility bang for the taxpayers buck?*"<sup>xxxii</sup>.

A number of the initiatives advocated in "Opening Doors..." are expensive. For example, the Pupil Premium is expected to cost £2.5 billion in 2014/15<sup>xxxiii</sup>. Also mentioned are a "*£110m Education Endowment Fund*"<sup>xxxiv</sup>, "*increasing funding for disadvantaged learners post-16 [...] to £770 million in 2011/12*"<sup>xxxv</sup>, that "*from 2012/13, new students from families with incomes of £25,000 or less will be entitled to a more generous full maintenance grant of £3,250 a year*"<sup>xxxvi</sup>, a National Scholarship Programme, to provide "*financial assistance to students from disadvantaged backgrounds*" to which the government will contribute £300m between 2012/13 and 2014/15<sup>xxxvii</sup>, "*investing £4.5 billion in affordable housing*"<sup>xxxviii</sup> and "*free early education for disadvantaged two-year-olds*"<sup>xxxix</sup>.

Few would begrudge an investment in social mobility, but there are factors which will tend to reduce or cancel the efficacy of such measures. ("Opening Doors.." contains an example of such phenomena under the previous Government, when "*gaps in educational performance have narrowed only very slightly despite significant investment*"<sup>xi</sup>).

One of the reasons why initiatives to promote social mobility (and/or educational performance) have produced disappointing results is that some tools are only useful when combined with others (for example, children with high educational aspirations will be held back unless they also have a suitable space in which to study). However, there are also psychological and social barriers to social mobility which are particularly strong when there are wide income gaps between different communities. Lynsey Hanley, an author and columnist with personal experience of social mobility from a childhood spent in a Birmingham social housing estate, as well as a wide-ranging knowledge of the academic discourse on the subject, provides compelling examples, particularly in her "Wall in the Mind" series<sup>xii</sup>. There is also evidence, most famously summarised in *The Spirit Level*<sup>xiii</sup>, that inequality has physiological effects on individuals which reduce their capacity to fulfil their potential.

"Opening Doors..." says "*income alone does not determine outcomes*"<sup>xiii</sup>. While this is true, and while we recognise that non-income-based initiatives may also be helpful, the strong evidence of a causal relationship between income inequality and social mobility (as demonstrated above) means that efforts to increase social mobility are likely to be inefficient and unnecessarily expensive if the influence of income inequality is neglected.

**5) Are there other policies that could be implemented for the same cost which would ensure that all citizens have the same opportunities?** and

**6) How can we create the right mix of practical and financial support to ensure that all people have opportunities to get on in life?** and

**7) What are the best examples of projects which have brought about real progress in creating a fairer, more mobile society?**

We commend the initiatives undertaken by politicians across the political spectrum to promote the adoption of the Living Wage (prominent examples including the Mayor of London Boris Johnson, and his predecessor Ken Livingstone). There is the potential for similar initiatives to be adopted at a national scale.

We also commend initiatives to limit pay ratios (as exemplified by the current Government's commissioning of the Hutton Review of Fair Pay), for their potential to address some of the drivers that contribute to the development of an alienated strata at the top of the income scale that can pay for the expensive 'tickets to success' (unpaid internships, enterprise start-up capital etc) and therefore monopolise opportunities.

There are strong financial arguments for such initiatives: There is widespread evidence<sup>xliv</sup> that countries with higher levels of income inequality experience a greater incidence of health and social problems that are expensive to ameliorate. In addition to this are costs associated with low income (for example, the Institute for Fiscal Studies estimates that below-living-wage pay costs the taxpayer around £6 billion a year in benefits and foregone revenue<sup>xlv</sup> and the Marmot Review refers to "*additional NHS healthcare costs [...] well in excess of £5.5 billion per year*"<sup>xlvi</sup>).

## **9) What more should businesses, civil society and other non-government institutions be doing to improve social mobility and tackle child poverty?**

There are a number of mechanisms through which non-government organisations can address the impact of low pay on decreased social mobility and increased child poverty. These include exploring the feasibility of adopting the Living Wage (which has financial benefits<sup>xlvii</sup> as well as costs) and policies on pay in procured services.

Because social mobility and child poverty are affected by rates of income inequality (as well as absolute income levels), we would recommend that organisations consider means of monitoring, reporting and managing pay ratios, in order to address the extremes of pay inequality. Guidelines for implementation of such practices can be found in the final report of the Hutton Review of Fair Pay in the Public Sector<sup>xlviii</sup> (which contains a 'fair pay code' which the author suggests could be adapted for use by private sector employers) or in LVSC / One Society's best practice guidance for voluntary sector organisations<sup>xlix</sup>.

## **10) What would be the best way to measure progress on social mobility and child poverty?**

and

## **11) Do you think the indicators set out in the child poverty strategy and social mobility strategy are the right measures?**

Given the strong negative correlation between income inequality and social mobility, it is important that the relative poverty measure is retained.

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### **About One Society:**

One Society's work is based on a wealth of research which shows that large divides in income at the top and bottom of society – beyond 'proportional rewards' - are damaging to our economy and society, not just those at the bottom but right the way up. We work to promote policy and practice which reduce excessive income inequality. One Society works in partnership with The Equality Trust.

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- i Ipsos MORI & Dr Agnes Nairn, "Children's Well-being in UK, Sweden and Spain: The Role of Inequality and Materialism", June 2011, report prepared for UNICEF. (<http://www.unicef.org.uk/Latest/News/Research-shows-UK-children-caught-in-materialistic-trap/>) P70.
- ii Family & Parenting Institute, "The UK Family Friendly Report Card 2011" ([http://www.familyandparenting.org/our\\_work/Families-in-the-Age-of-Austerity/Family+Friendly+Report+Card+2011](http://www.familyandparenting.org/our_work/Families-in-the-Age-of-Austerity/Family+Friendly+Report+Card+2011)) P3.
- iii Family & Parenting Institute, website: ([http://www.familyandparenting.org/our\\_work/Families-in-the-Age-of-Austerity/Family+Friendly+Report+Card+2011](http://www.familyandparenting.org/our_work/Families-in-the-Age-of-Austerity/Family+Friendly+Report+Card+2011))
- iv For more on this subject, see T Shildrick et al, "The low-pay, no-pay cycle: Understanding recurrent poverty" 2010, Joseph Rowntree Foundation. (<http://www.jrf.org.uk/publications/understanding-recurrent-poverty>)
- v Hutton review of Fair Pay in the public sector, Interim Report, 2010, p 26 ([http://www.hm-treasury.gov.uk/d/hutton\\_interim\\_report.pdf](http://www.hm-treasury.gov.uk/d/hutton_interim_report.pdf))
- vi Butterworth, Leach, Stazdins, Olesen, Rodgers & Broom: "The psychosocial quality of work determines whether employment has benefits for mental health: results from a longitudinal national household panel survey" Occupational and Environmental Medicine, 2011 (<http://oem.bmj.com/content/early/2011/02/26/oem.2010.059030.abstract>)
- vii For more information on the poverty premium, see J Perry, "Paying over the odds? Real-life experiences of the poverty premium", 2010, Church Action on Poverty (<http://www.church-poverty.org.uk/overtheodds/view> )
- viii "Opening Doors, Breaking Barriers: a Strategy for Social Mobility" HM Government, April 2011 (<http://download.cabinetoffice.gov.uk/social-mobility/opening-doors-breaking-barriers.pdf>)
- ix "Opening Doors, Breaking Barriers..." p22
- x "Opening Doors, Breaking Barriers..." p12
- xi "Opening Doors, Breaking Barriers..." p22
- xii "Opening Doors, Breaking Barriers..." p22
- xiii Crawford, Johnson, Machin & Vignoles, 2011, p1.
- xiv G Solon, "Cross-country differences in intergenerational earnings mobility", *Journal of Economic Perspectives* 16(3):59–66 (2002) (<http://www.depeco.econo.unlp.edu.ar/maestria/topicosdis/pdfs/guillermo/solon%20JEP%20symposium%20Cross-Country%20Differences%20in%20Intergenerational%20Earnings%20Mobility.pdf>)
- xv P Saunders, "Beware False Prophets: Equality, the Good Society and The Spirit Level" Policy Exchange (2010). ([http://www.policyexchange.org.uk/assets/Beware\\_False\\_Prophets\\_Jul\\_10.pdf](http://www.policyexchange.org.uk/assets/Beware_False_Prophets_Jul_10.pdf))
- xvi Solon, 2002, p65
- xvii R Wilkinson & K Pickett, "The Spirit Level", 2010 (edition 2), Penguin
- xviii See, for example, <http://www.equalitytrust.org.uk/saunders-response>
- xix "Britain IS socially mobile" Civitas press release, 1<sup>st</sup> June 2010 (<http://www.civitas.org.uk/press/prSocMobJune10.htm>)
- xx OECD: "Economic Policy Reforms: Going for Growth", 2010. ([http://www.imamidejo.si/resources/files/jobs-crisis\\_2010.pdf](http://www.imamidejo.si/resources/files/jobs-crisis_2010.pdf)) p17.
- xxi OECD, 2010, p17.
- xxii OECD, 2010, p13
- xxiii OECD, 2010, p12
- xxiv OECD, 2010, p15
- xxv OECD, 2010, p16
- xxvi "Opening Doors, Breaking Barriers..." p22
- xxvii J. Blanden, "How Much Can We Learn From International Comparisons Of Intergenerational Mobility?" Centre for the Economics of Education Discussion Paper III, 2009, p28 (<http://cee.lse.ac.uk/ceedps/ceedp111.pdf>). This paper is cited in "Opening Doors" as the source of the data in Figure 1.3 ("The relationship between the incomes of parents and their children is stronger in Great Britain than in many other countries") on p17
- xxviii OECD: "Growing Unequal? Income Distribution and Poverty in OECD Countries", 2008, pages 208-209
- xxix See The Marmot Review "Fair Society Healthy Lives", full report, 2010, (<http://www.marmotreview.org/AssetLibrary/pdfs/Reports/FairSocietyHealthyLives.pdf>) & Wilkinson & Pickett, 2010, Chapters 5-7. See also the papers cited by the latter source.
- xxx "Opening Doors, Breaking Barriers..." p61
- xxxi "Opening Doors, Breaking Barriers..." p62
- xxxii Alan Milburn. Speech delivered 25 January 2011 "Social mobility in an age of austerity" (transcript available at <http://www.progressonline.org.uk/articles/article.asp?a=7466>)
- xxxiii "Opening Doors, Breaking Barriers..." p38
- xxxiv "Opening Doors, Breaking Barriers..." p40
- xxxv "Opening Doors, Breaking Barriers..." p47
- xxxvi "Opening Doors, Breaking Barriers..." p49

- xxxvii"Opening Doors, Breaking Barriers..." p49
- xxxviii"Opening Doors, Breaking Barriers..." p64
- xxxix"Opening Doors, Breaking Barriers..." p79
- xl "Opening Doors, Breaking Barriers..." p20
- xli Lynsey Hanley "Wall in the Mind" BBC Radio 4, Broadcast November 2010. Available at <http://soundcloud.com/user6547683> this quotation – part two 6 mins 10 secs
- xlii R Wilkinson & K Pickett 2010
- xliii"Opening Doors, Breaking Barriers..." p22
- xliv The most famous of these is The Spirit Level (referenced above), but as the authors of that work point out, there are also “around 200 papers in peer-reviewed academic journals testing the relationship between inequality and health in many different settings, more than 50 papers on violence and inequality and quite a few on inequality in relation to trust and social capital” Wilkinson & Pickett, 2010, p279
- xlv Brewer And Phillips, "IFS analysis on the 'living wage'", 2010, Institute for Fiscal Studies (<http://www.ifs.org.uk/publications/5244> )
- xlvi The Marmot Review “Fair Society Healthy Lives”, full report, 2010, page 18 (<http://www.marmotreview.org/AssetLibrary/pdfs/Reports/FairSocietyHealthyLives.pdf>)
- xlvii See, for example:
- London Economics, “*An independent study of the business benefits of implementing a Living Wage policy in London* February 2009
  - J Wills, N Kakpo & R Begum, “*The business case for the living wage: The story of the cleaning service at Queen Mary, University of London*” January 2009, QMUL
- xlviii Hutton Review of Fair Pay in the Public Sector, “*Final Report*”, 2011, ([http://www.hm-treasury.gov.uk/indreview\\_willhutton\\_fairpay.htm](http://www.hm-treasury.gov.uk/indreview_willhutton_fairpay.htm))
- xlix LVSC & One Society, “*Pay ratios and income inequality: Risks, opportunities and best practice for voluntary & community sector organisations*”, 2010, (<http://www.lvsc.org.uk/policy-areas/reducing-inequality-in-london/vcs-pay-ratios.aspx>)