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Ed Miliband recently addressed the subject of pay inequality in a speech at the Resolution Foundation's launch of the Commission on Living Standards, highlighting the growing gap between the top and bottom wage earners in the country and concluding that the benefits of economic growth are not shared fairly. **Jenni Viitanen** *argues that observations about the way in which economic growth tends to disproportionately benefit a narrow section of the wealthiest in society underscore the question of who and what remain in the shadows of the UK economy.*

Recent research by IPPR North demonstrates that there is a distinctive geographical element which illustrates the shape and size of the problem of economic inequality in the UK. The North is poorer and contributes far less to the national GDP than the Greater South East, but compared to the national pay gap, it is fairer up North.

Overall, in 1998-2006, the top 20 per cent of wage earners have increased their wages at more than double the rate (11 per cent) than the bottom 20 per cent of earners (5 per cent) in the UK. However, broken down by region, London shows a remarkable trend of rising incomes for the richest. Here, the top earners have boosted their weekly wage by 17 per cent (or £163pw), which is in stark contrast with the 8 per cent increase in the corresponding group in the North East (£55pw) or the 9 per cent increase in the North West, Yorkshire and Humber, and West Midlands (£60-61pw). Compared with the scant 2 per cent increase for the bottom earners in the West Midlands, whose pay package increased by £5pw in the same time period, the regional picture of inequality begins to take shape. Table 1 ranks the regions in the order of the pay gap as at 2006, illustrating that the North of England remains fairer than the South, particularly the Greater South East, mainly due to the more modest increases in wages for the top 20 per cent.

Table 1: Regional pay gap, weekly wages 1998-2006

	Bottom 20%			**Top 20%**			
Region	1998	2006	Change	1998	2006	Change	Gap
Yorkshire and The Humber	£315	£328	4.33%	£655	£715	9.19%	£386
North East	£305	£318	4.41%	£652	£708	8.49%	£389
East Midlands	£316	£333	5.14%	£660	£736	11.46%	£403
South West	£315	£337	7.17%	£693	£742	7.02%	£404
West Midlands	£326	£331	1.65%	£684	£745	8.90%	£414
North West	£314	£327	4.25%	£688	£749	8.80%	£422
East	£332	£351	5.55%	£732	£802	9.57%	£451
South East	£348	£369	6.17%	£793	£879	10.86%	£510
London	£395	£434	9.92%	£959	£1,123	17.04%	£688

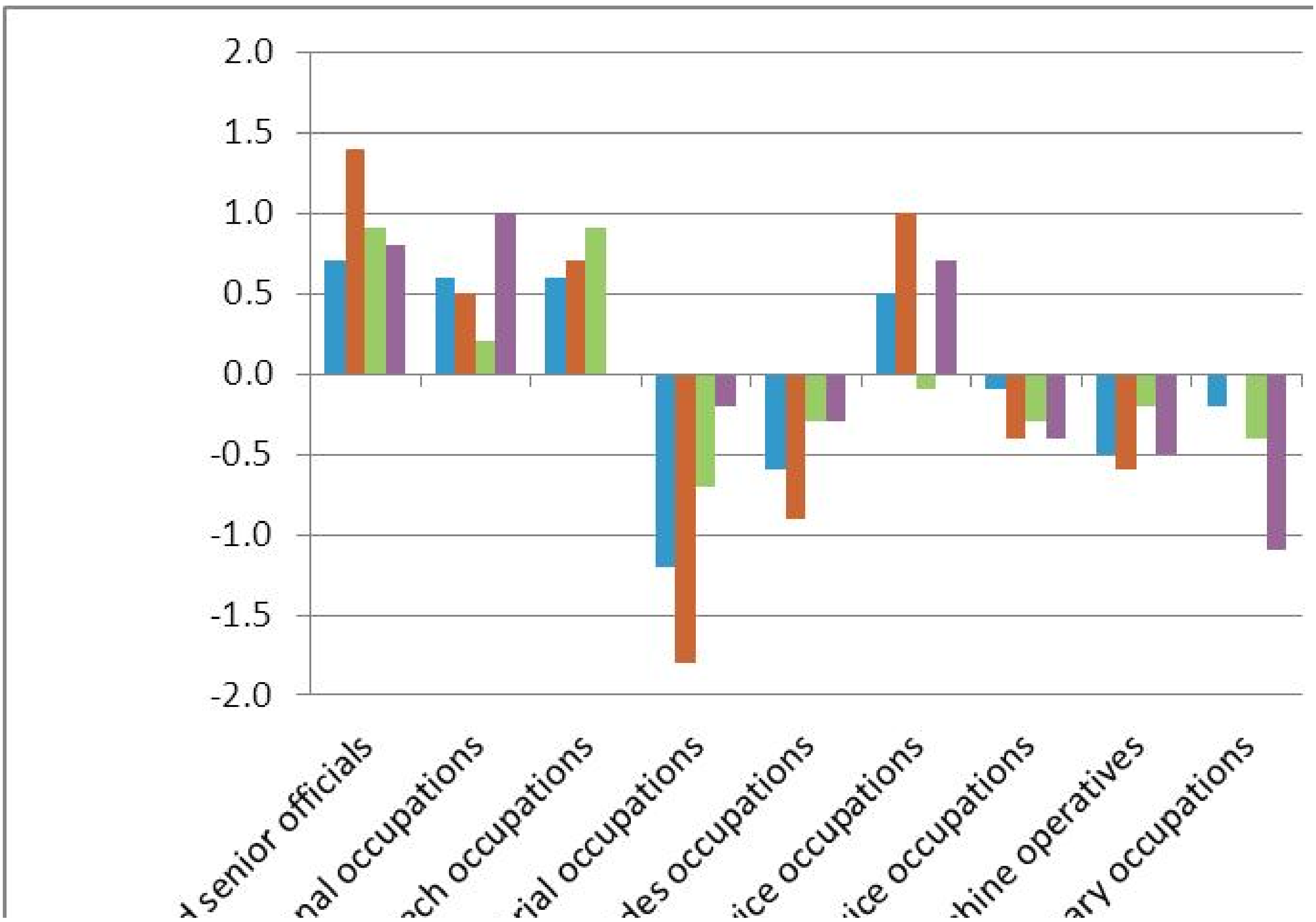
Even more alarming is the finding that at a neighbourhood level, there is a relationship between increased income inequality and weakened social fabric. In the North of England, those areas with higher income polarisation reported a weaker sense of belonging and community cohesion. The bottom line is that during a period of economic growth, inequality has increased, and this could affect everyone, not just the poor neighbourhoods. We need a strategy for a more sustainable growth that addresses not only the gap between the regions, but also the gap between the rich and the poor.

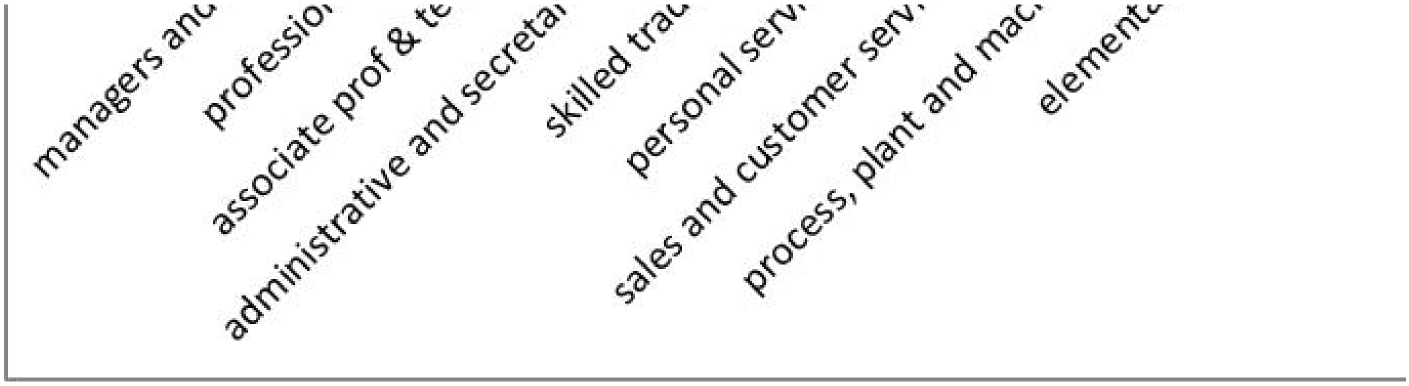
There are a range of policy responses which could be adopted in order to stem the tide of increasing inequality among the wage-earning population and the regions. Pay ratios are one possibility, and the coalition government appointed Will Hutton to conduct an inquiry into fair pay in the public sector but with a view to establishing some wider social norms too. Looking at pay differentials is important, and the public sector surely can lead the way in this field. However, public sector pay is unlikely to provide an answer to the growing inequality, since approximately a fifth of the country's workforce is in public service, in the future this is going to reduce. Indeed, where pay inequality is starkest (London) the share of public sector jobs is below the national average. For tackling economic inequality, we should be focusing on private enterprise.

The Labour leader is right to call for an industrial strategy to provide well-paid and high-quality jobs in growth sectors. High-tech manufacturing has been touted as such a high-productivity sector. Whilst the manufacturing sector is a likely source of growth (measured as Gross Value Added per head) and it contributes to the ever-important exports to lead the national economy towards recovery, it is doubtful whether the sector will address the pay inequality concerns which are at the heart of the Resolution Foundation's Living Standards Commission. The productivity gains in manufacturing in recent years have been largely based on a reducing work force, therefore the scope and reach of this sector is limited.

In the UK, the service sectors are the largest drivers of employment growth, representing approximately 65 per cent of overall private sector output. Analysis of the labour market shows that low paid personal service occupations have increased, a trend linked to the polarisation or 'hollowing out' of the labour market where there are fewer opportunities near the median wage, and increased opportunities at both extremes of the pay scale, as depicted in Figure 1.

Figure 1: Change in occupational share, 2004–08





In order to address inequality, central government holds many of the key levers, such as taxation, minimum wage, welfare and industrial policies. Regarding the latter, we need geographically sensitive sectoral policies for driving productivity and job growth, but more could be done below the national level too. The private-sector led Local Enterprise Partnerships established to drive sub-regional growth should be equipped to promote local solutions to tackle inequality. For example, they should take an active role in promoting fairer pay and reward mechanisms, including the uptake of a ‘living wage’ within their area. Crucially, those without work should not be left out of the debate. Work remains the surest route out of poverty for most, and at present there are reduced opportunities both in terms of policy tools and actual jobs in the economy. It is right to focus on economic policy and growth to reduce inequality, but the strategy needs to engage the most disadvantaged and create opportunities and rising incomes for many, not few.