General Certificate of Education
January 2004
Advanced Level Examination

GENERAL STUDIES (SPECIFICATION A) GSA6/PM
Unit 6 Society, Politics and the Economy

Tuesday 27 January 2004 Morning Session

Case Study Source Material

- This Case Study Source Material should be issued to candidates **on or after 1 December 2003**;
- A clean copy of the Source Material will be provided at the start of the Unit 6 examination.

For use with **Section A**

- The material consists of 6 extracts (A - F) on the subject of *Earnings, wealth distribution and poverty*. These extracts are being given to you in advance of the Unit 6 examination to enable you to study the content and approach of each extract, and to consider the issues which they raise, in preparation for the questions based on this material in Section A.
- Your teachers are **not** permitted to discuss the material with you before the examination.
- You may write notes in this copy of the Source Material, but you will **not** be allowed to bring this copy, or any other notes you may have made, into the examination room. You will be provided with a clean copy of the Source Material at the start of the Unit 6 examination.
- You are not required to carry out any further study of the material than is necessary for you to gain an understanding of the detail that it contains and to consider the issues that are raised. It is suggested that three hours' detailed study is required for this purpose.
- In the examination you will have approximately 45 minutes in which to answer a range of questions based on the material.

Case Study Source Material on **Earnings, wealth distribution and poverty.**

EXTRACT A

SELECTED STATISTICS

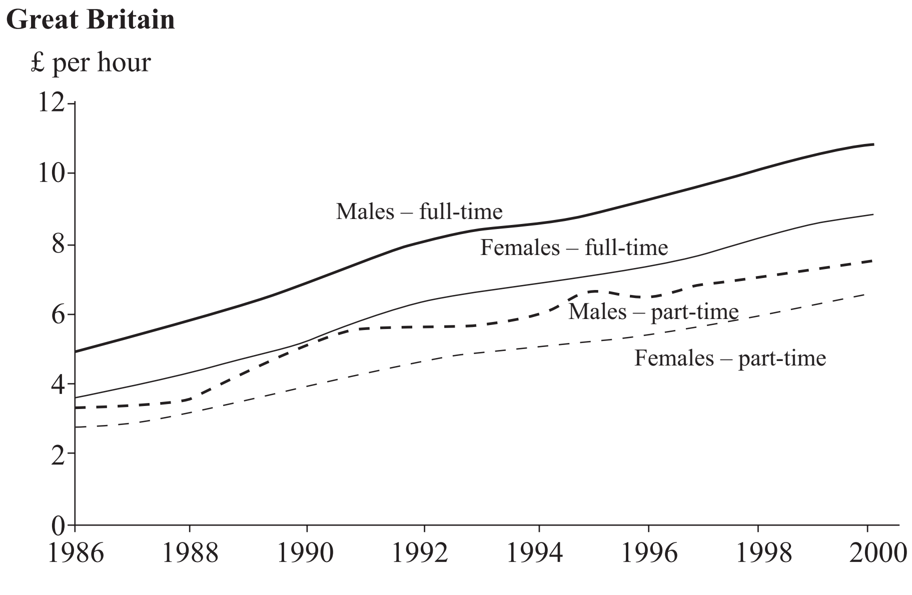
Figure 1 Unemployment rates by ethnic group and age, 2000-01.

United Kingdom					Percentages
	16-24	**25-34**	**35-44**	**45-59/64***	**All aged 16-59/64***
White	11	5	4	4	5
Black	32	14	11	10	15
Indian	13	5	7	6	7
Pakistani/Bangladeshi	28	14	12	–	17
Other groups	24	9	11	7	12
All ethnic groups	12	5	4	4	6

* Males up to the age of 64, females up to the age of 59

Source: Labour Force Survey, Office for National Statistics

Figure 2 Gross earnings: by gender and whether working full-time or part-time.



Source: New Earnings Survey, Office for National Statistics

Figure 3 Highest and lowest paid occupations, April 2000.

Great Britain	Average gross weekly pay (£)
Highest paid	
Treasurers and company financial managers	1059
Medical practitioners	964
Organisation and methods and work study managers	813
Management consultants, business analysts	812
Underwriters, claims assessors, brokers, investment analysts	775
Police officers (inspector or above)	766
Computer systems and data processing managers	757
Solicitors	748
Marketing and sales managers	719
Advertising and public relations managers	690
Lowest Paid	
Educational assistants	212
Other childcare and related occupations	205
Counterhands, catering assistants	196
Launderers, dry cleaners, pressers	196
Hairdressers, barbers	190
Waiters, waitresses	189
Petrol pump, forecourt attendants	189
Retail cash desk and check-out operators	185
Bar staff	184
Kitchen porters, hands	184

Source: New Earnings Survey, Office for National Statistics

Figure 4 Distribution of wealth

United Kingdom								Percentages
	1976	1981	1986	1991	1996	1997	1998	1999
Marketable wealth								
Percentage of wealth owned by*								
Most wealthy 1%	21	18	18	17	20	22	23	23
Most wealthy 5%	38	36	36	35	40	43	43	43
Most wealthy 10%	50	50	50	47	52	54	55	54
Most wealthy 25%	71	73	73	71	74	75	75	74
Most wealthy 50%	92	92	90	92	93	93	94	94
Total marketable wealth (£ billion)	280	565	955	1711	2092	2248	2594	2752
Marketable wealth less value of dwellings								
Percentage of wealth owned by*								
Most wealthy 1%	29	26	25	29	26	30	32	34
Most wealthy 5%	47	45	46	51	49	54	58	58
Most wealthy 10%	57	56	58	64	63	66	70	71
Most wealthy 25%	73	74	75	80	81	83	85	86
Most wealthy 50%	88	87	89	93	94	95	96	97

* Adults aged 18 and over

Source: Inland Revenue

Turn over

Figure 5 Effects of changes in family composition on household income by gender, 1991 to 1999.

Great Britain				Percentages
	Income fell 1 or more quintile[1] groups	Income stable	Income rose 1 or more quintile groups	All
Joined with partner				
Males	31	42	27	100
Females	20	34	45	100
Separated from partner				
Males	23	40	36	100
Females	49	31	19	100

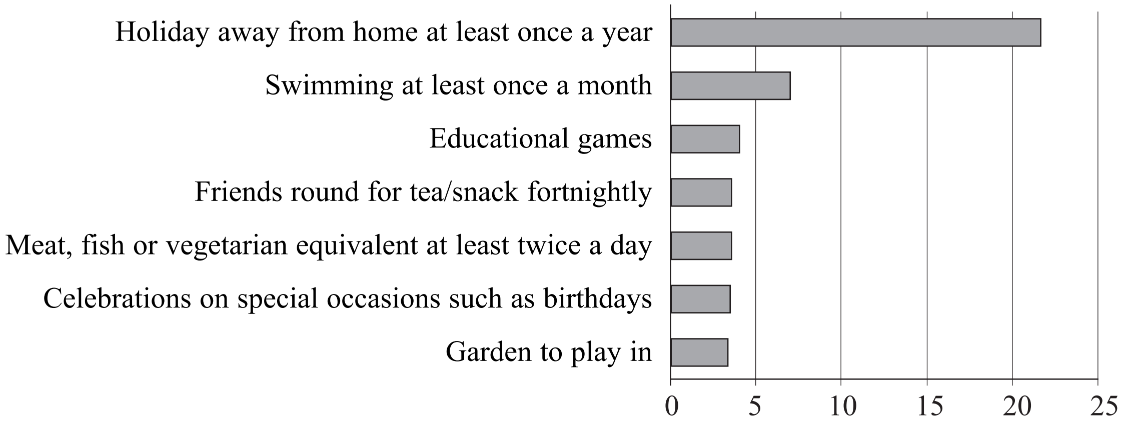
[1]A quintile group is created by dividing the whole range by 5. In this table the lowest quintile group comprises the lowest 20% in terms of income.

Source: British Household Panel Survey, Institute for Social and Economic Research

Figure 6 Proportion of children lacking selected necessities[1] through inability of their parents to afford them, 1999.

Great Britain

Percentages



[1]Items considered by over 50 per cent of all parents as 'necessary', which all parents should be able to afford to provide for their children and their children should not have to do without.

Source: Poverty and Social Exclusion Survey of Britain, Joseph Rowntree Foundation.

Source: Crown Copyright

EXTRACT B

Perks that go too far

CEOs are paid more than enough – they should be able to buy their own umbrella stands.

One of the most extraordinary features of the modern chief executive's remuneration is not the huge amounts of money and share options, but the extras that go with them.

That companies should pay chief executives' relocation expenses is understandable, but why should they pay for their apartments? Why can't people who earn that much pay their own rent? And why should chief executives who retire or are sacked continue to have the use of those apartments, together with company-funded country club memberships, cars, drivers, secretaries, laptops and tickets to Wimbledon?

A common answer is that these perks are negotiated when chief executives are recruited. Why chief executives demand what they could so easily afford themselves is a complex question that these typically unreflective people would find difficult to answer. One reason they may demand them is that when the financial rewards are so high that they lose all meaning, chief executives look for other, more concrete proofs that the companies they are joining value them. Another is that the headhunters tell them that everyone else gets these benefits and anyone who doesn't is a sucker.

Why do companies agree to such extravagances? Because they are convinced chief executives are hard to find, that the number of people who can run large companies is small and that analysts, investors and the business press set huge store by their appointment. If the recruitment of a star chief executive is going to add 15 per cent to the share price, why deny shareholders the benefit for the sake of a box at the opera?

But as Rakesh Khurana of Harvard Business School points out, the superstar chief executive is a new phenomenon. Until the 1980s, Mr Khurana says in the September issue of the Harvard Business Review, the typical chief executive was an insider who worked his way up the ranks and "was no better known to the general public than his secretary".

Falling corporate profits led to disillusionment with these "organisation men". The growth of mutual funds and equity-related pensions led to a demand for corporate leaders who could deliver a better return.

Lee Iacocca, who became chief executive of Chrysler in 1979, was the first of the celebrity bosses, but there were many more. They led the US to new heights of innovation and competitiveness, but the signs are everywhere that their time is past, except that the perks continue.

Source: adapted from an article by MICHAEL SKAPINKER, *Financial Times*, 25 September 2002

Turn over ▸

EXTRACT C

The wealth of the nation?

Two new surveys investigate household wealth in the UK today. The averages look good – we are all getting wealthier. Is this the whole story?

October 1999 saw the publication of two new reports which revealed that income and wealth inequalities are still very much a feature of British society.

Although a number of government initiatives have targeted those on the lowest incomes, the focus has been on those in employment, in low-paying jobs. Those dependent on benefits, or unable or not required to work (pensioners, disabled, unemployed), have seen their incomes fall further and further behind average earnings.

These latest surveys show that much remains to be done – particularly as individuals and families are increasingly required to take on more responsibility for providing for their long-term financial security.

The 1999 *Wealth of the Nation* report, from information services company CACI Information Solutions, surveys the gross household income of 4 million households nationwide.

The second report, *Household Savings in the UK*, by the Institute for Fiscal Studies, provides a comprehensive picture of savings and wealth in the UK, focusing on the bottom half of the wealth distribution.

The IFS report cites data from Inland Revenue inheritance tax returns, and shows that the wealthiest 1 per cent of the individuals own approximately one-fifth of the wealth of the nation, while the wealthiest 50 per cent own around 92 per cent.

While these statistics give a fair impression of the scale of inequality in wealth distribution, they say far less about the income and wealth of the majority and in particular of the poorest members of society.

They do not tell us, for example, how wealth varies according to age, gender, and economic status. It is this omission that the IFS report sets out to address, using data from the official *Family Expenditure Survey* and National Opinion Polls' *Financial Research Survey*.

The CACI report shows that in the three years since their 1996 survey, average household income has risen 9.7 per cent, well above the rate of inflation.

The IFS study finds average wealth has risen since the 1980s and inequality in wealth decreased. It identifies several factors which contribute to this:

- a rise in home ownership from half to two-thirds of all households between 1978 and 1996;
- private pension provision becoming more common;
- share ownership increasing from one in ten households to one in five.

Government intervention has had an impact here: successive Conservative governments in the 1980s and 90s encouraged council tenants to buy their homes and promoted share ownership and private pensions.

These policies have had a mixed impact on the wealth of their participants, however, as the mis-selling of private pensions shows.

Average figures can be very misleading: they are prone to distortion by the inclusion of extreme values – in this case very high and very low incomes.

While both surveys show a rise in average income and wealth, a look behind the headline figures reveals enduring, and in some cases increasing, inequalities.

The CACI survey reveals wide variations in household income across the country with Liverpool emerging as the poorest area. Nine of the country's 20 poorest postcodes are there.

High household incomes are concentrated in central London. Only one of the top twenty wealthiest postcodes was outside London, and that was in Berkshire.

Average household incomes in Greater London were 40 per cent higher than those in the north of England. The north-south divide is alive and well in the UK today.

At the extremes, average incomes in Surrey are £29,700 – 71 per cent higher than in Tyne and Wear (£17,400).

Living in a deprived locality and having a 'poor' postcode may actually lead to further financial exclusion.

It is alleged, for example, that insurance companies 'redline' applicants with the 'wrong' postcode. Residents may be asked to pay double the premiums of low-crime areas. Those who can afford least are asked to pay most.

While the insurance industry denies that this takes place, the Treasury was sufficiently concerned to condemn the practice in a report on social exclusion.

The IFS report concentrates on liquid savings – cash in bank deposit accounts and building societies, stocks and shares etc – rather than wealth locked up for the longer term (in pensions and housing).

According to IFS, while average financial wealth increased during the 1980s, and now stands at £7,136, this owes much to the rising wealth of the richest; median financial wealth is far lower at £750. That is, half the population has less than £750 in liquid savings.

This is worrying as it reveals that half of the population have few financial resources to cushion them from adverse changes such as job loss, bereavement or incapacity.

Most alarmingly, the IFS data reveal that the proportion of people with no savings – not even a bank deposit or building society account, let alone a pension or a home – increased during the 1980s.

In 1978, 6 per cent of households had no wealth at all. By 1996, this had risen to 10 per cent.

This is extremely worrying and calls into question the validity of government policies designed to promote individual savings and financial planning for retirement.

Who are the 10 per cent who have no financial wealth at all? What barriers do they face in saving for their future? The IFS shows that the rise in the number of these people has been greatest among 20-34 year-olds.

It may be that younger people simply haven't had time to accumulate savings and wealth, and lifestyle changes such as extended education and later marriage may exacerbate this.

The rise is disturbing, however, given that it is this generation that is increasingly expected to to provide for its own future security, in particular for retirement. To what extent are they aware of this shift in responsibilities, and in a position to meet these responsibilities?

Finally, what about those who simply can't afford to save? For those who are struggling to meet day-to-day living costs, savings are, quite literally, a luxury they can't afford.

Lone parents and workless couples are amongst those least likely to have any savings. The IFS report analyses the assets of the 20-34 age group, which shows that 54 per cent of single unemployed people (with or without children) and 55 per cent of unemployed couples with children have no savings.

This is in stark contrast to households in employment: only 5 per cent of employed couples without children, and 8 per cent of employed couples with children, have no savings. A dramatic difference.

The IFS report concludes: *The groups who make up the new poor in terms of income are also the least likely to have any wealth. The fact that they are not able to save means that they are more likely to be poor and dependent on means-tested benefits in the future as well as now.*

This is an enormously important point that has not been acknowledged by politicians. Too often the debate focuses on incentives to save.

This implies that households have the resources to save but are choosing not to. The IFS study shows that this is simply not true for a significant minority of households.

Source: adapted from an extract from *The New Review*, Nov/Dec 1999

Turn over

EXTRACT D

Child poverty in Britain

Explaining the huge increase since the 1960s

By the mid-1990s, three times more British children were living in poverty than in 1968, according to new research presented to the Royal Economic Society's Annual Conference at the University of Nottingham on Wednesday 31 March 1999. Steve Machin, Paul Gregg and Susan Harkness find that the number of children living in poor households increased from 1.3 million in 1968 to 4.3 million in 1996. This represents a rise in child poverty from one in ten to one in three of all children.

What explains this rapid increase in childhood poverty? The research reveals that:

- In 1996, 54% of poor children lived in a household with no working adult. In 1968, the proportion of poor children without a working adult in the household was significantly lower at 31%. The rise in worklessness accounts for one half of the overall rise in child poverty.
- Of the 54% of poor children living in workless households in 1996, 20% lived in workless two-parent households and 34% in workless lone-parent households. This corresponds to a fall in the proportion of children in households with at least one adult worker, which fell from 98% to 90%. Among children in lone-parent households, the fall in the rate of parental employment was much more dramatic - from 70% to 42%.
- The period from 1968-96 also saw a rapid increase in the proportion of children living with just one parent - from 6% to 22%. Children in lone-parent households were much more likely to be poor than those living with two parents.
- Over the period, children have become more likely to live with lone parents and, given family type, more likely to live in workless and/or poor households. Breaking the rise in childhood poverty down into its component parts indicates that 20% of the increase is due to the rise in lone parenthood *per se*. Changing rates of employment among single and two-parent families have, however, been much more important in determining the increasing incidence of childhood poverty.
- Finally, contrasting the fortunes of families with and without children, it is apparent that poverty rates among families with children are markedly higher than those without – in 1996, 28% of households with children were poor compared to 15% of those without. Moreover, the gap in poverty rates between families with and without children has been growing, particularly since the late 1970s.

It is well known that since the late 1970s there have been a rapid increase in income inequality and dramatic rises in rates of adult poverty and unemployment. There have also been important demographic shifts with more children being brought up by lone parents. But the impact of these changes on the welfare of children (as opposed to the impact of children on the welfare of adults) has gone largely unrecorded.

- Young adults who, as children, suffered financial hardship, were in trouble with the law or played truant, have significantly greater than average chances of earning lower wages, being unemployed, spending time in prison (men) or becoming a lone parent (women). These associations exist independently of socio-economic background or experiences in early childhood. They are only partly accounted for by lower educational attainment.
- Parents who have themselves been disadvantaged in childhood are more likely to have children who do poorly early on at school.

The level of spending on children's items is a good indication of the direct impact of family poverty on child welfare. Data showing family expenditure on toys, clothing, shoes and fruit and vegetables reveals that the poorest 20% of children have seen no real increase in spending on these items since 1968.

Source: Royal Economic Society, January 2000

EXTRACT E

The Source Material for Question 3 is not produced here due to third-party copyright constraints. The full copy of this paper can be obtained by ordering GSA6 from our publications section. Tel: 0161 953 1170.

EXTRACT F

Our unequal society

Andrew Dilnot Despite Labour's success in boosting the income of the poor, inequalities are still growing

CYCLING up and down a hill in Leeds. That's how I've spent the last few weeks, making a documentary about inequality and the future of services such as health and education. We saw snow, hail, rain, wind, and in the end even some sunshine. But what we didn't find was much sign of a serious debate about how we can have the health and education that we all seem to want.

We went to a hill in Leeds because we wanted to show what the distribution of income in the UK really looks like. We spoke to four families, starting with a single parent at the bottom of the hill and the income distribution, and ending at the top with a millionaire. In between were a bus driver and his family one third of the way up the income scale, and a council employee and mobile phone company employee two thirds of the way up.

It was a commonplace in the 1980s that income inequality was rising rapidly, and it was. Then in the first half of the 1990s, as recession bit, inequality stopped growing, and may even have fallen slightly. Since the mid-1990s, with the economy growing, inequality also seems to have been growing again.

The changes during the Conservative years were dramatic, and they weren't just a pulling apart of those at the top and the bottom. The incomes of the top 10% did roughly double in real terms over the period, while the average change was about half that, and incomes at the bottom hardly changed.

But since the Labour government came to power there have been many changes aimed at helping those on low incomes. The working families' tax credit, the children's tax credit, the minimum income guarantee for pensioners, increased child benefit, increased income support for children, cuts in national insurance contributions for the low paid, and the national minimum wage. These changes have made a real difference, and increased the incomes of people at the bottom of the scale.

So if Labour has been so good for the incomes of the poor, why has inequality not fallen sharply? For just the same reason as it rose sharply under Mrs Thatcher. It was not the tax cuts for the rich that drove the rising inequality of the late 1980s, but the widening underlying distribution of income. The earnings of those with higher skills rose much faster than did those of people with fewer marketable skills, and it was that which pulled incomes apart, although the tax cuts and relatively small benefit increases accentuated this trend. Affecting this underlying distribution of income is not easy for governments, even in the longer term, although focusing on education may be one way to narrow the distribution of skills.

But if the incomes of those at the bottom are now growing, as they certainly are, why would inequality be a concern? The main parties seem to be concentrating on making sure that those most in need, in their view, are looked after, and there seems to be little appetite for saying that inequality in income is itself a bad thing. But there are other objectives that might be threatened by growing inequality, or at least where inequality has an effect on what might work.

Take the example of pensions. The balance between public and private provision of pensions has shifted steadily towards the private sector for many decades, and it is now government policy to expect the share of national income taken up by private provision to grow, while concentrating state resources on pensioners on lower incomes. This seems quite consistent with a world where governments worry about poverty, not inequality, and where few would begrudge those who have had higher incomes in their working lives a higher income in retirement.

This drift to privatisation has been driven by a range of forces. But among them, the trend towards increased affluence and growing inequality have been significant. As individuals grow better off they find it easier to save for retirement. And as inequality grows, the better off will tend to find the benefits provided by the state a less attractive option, which is just what we found when making our film, and not just for those at the very top. This outcome is one which most of the main parties seem content with in pensions.

But if we saw the same happen in health and education, would they still be happy? In the late 1970s around 2m individuals had private health insurance cover, now the figure is nearly 7m. This is largely topping up of state provision, but presumably still allowing these people a better quality of service, just as most with a private pension are topping up what the state provides. In education the figures for the numbers of children at private schools have not grown much in the past decade, but there is some evidence of growing topping up through use of private tuition. Our millionaires had full private health cover and had used private schools for their children. The family one third from the top couldn't afford private schools, but had spent £8,000 in recent years on private tuition, and was paying into a private health scheme. And our bus driver said he would have private health insurance if he could afford it.

If we go on as we are now and inequality either stays roughly stable or grows, these trends are likely to continue. We will see more opting out, and those who can afford it will get better health and education. We are some way from the situation with pensions, where we see and accept massive inequalities, but all the main parties say they are committed to world class health and education services. There are two possible routes to ensuring that those on lower incomes are as well cared for and educated as those who can afford to look after themselves. One accepts a world of growing private provision, and looks to focus state help on those who cannot afford this. The other looks to spend more in the public sector, and therefore tax more.

In America, public spending as a share of national income is about 30%, in the UK about 40%, and in continental Europe in many cases around 50%. We cannot have European levels of service with British levels of tax, or American levels of tax and British levels of service. The election debate in the UK is between Labour, who seem to want public spending roughly constant as a share of GDP, the Lib Dems who advocate an increase of about 0.8% of GDP, and the Conservatives who advocate a cut of the same size. None of these seems to address the scale of the real choices we face, and ignoring those is a risky business, unlikely to find favour on the hills of Leeds.

• Andrew Dilnot is director of the Institute for Fiscal Studies.

Source: ANDREW DILNOT, *The Guardian*, 2 July 2001

END OF SOURCES

Copyright © 2004 AQA and its licensors. All rights reserved