

 THE EQUALITY TRUST



# A FAIRER, STRONGER ECONOMY

Built on Fair Chances; Fair Pay; Fair Business; and Fair Taxes.

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# FOREWORD

In the 34 years to 2011, the richest 1% saw their share of national income more than double, while real wages for everyone else barely shifted. The 1%'s share of total income is now greater than in any developed country except the USA<sup>1</sup>.

This isn't simply a matter of fairness. All people in more unequal countries, not just the poorest, can expect to live shorter lives, experience more crime, do worse at school and trust others less than those in more equal societies. And there is a growing recognition among economists<sup>2</sup> that inequality is damaging our economy, stifling innovation, choking off consumer spending and creating a disillusioned and demotivated workforce.

Put simply, a society that gives executives a 14% pay rise in one year<sup>3</sup>, but freezes real wages for ordinary workers for a decade, is both unfair and inefficient.

Over recent decades the UK has become a bargain basement economy: low-skilled, low-paid and low-productivity. We now have a higher proportion of low-skilled jobs than any other OECD country except Spain, one in five of our workers are low paid, and we have the second-lowest productivity in the G7.

We cannot, and should not, try to undercut developing countries. We urgently need an industrial policy with clear objectives to bring skilled, decently-paid jobs to the UK, and a complementary strategy to put in place the necessary infrastructure, especially in parts of the UK that have seen little benefit of recent growth. We also need to improve our second-rate systems of management and industrial relations.



Despite research from the IMF showing progressive tax systems support sustained economic growth, the UK's poorest 10% pay 8 percentage points more of their income in tax than the richest 10% do, as we agonise over asking the wealthiest to pay their fair share.

The hard work and perseverance of ordinary people throughout Britain is turning our economy around. But people are increasingly angry that people with middle and low incomes are not feeling the benefits of this growth. Seven out of ten people believe it is the government's role to address the income gap<sup>4</sup>.

People want to see a link between hard work and reward. They want to know that a job comes with a salary that allows them a roof over their heads, and the ability to save for a rainy day and a decent retirement. Education and training opportunities for all; jobs that provide a dignified living; businesses that value all employees; and taxes that are fair. These are achievable goals built on popular principles.

Economic inequality is an issue that will define the coming decade and beyond. Politicians who grasp this will be rewarded with a stronger and more stable economy and society.

**Duncan Exley**  
Director, Equality Trust

# EXECUTIVE SUMMARY

Building a **Fairer and Stronger Economy** means recognising the contribution of everyone to economic success. This means rebuilding the link between hard work and reward, and opening opportunity to everyone, not just the wealthy. A fairer economy is not only better for long-term prosperity, it is fundamental for a healthy and cohesive society, and is supported by a large majority of the public.

We propose that:

- Parties seeking to form the next government should include in their manifesto an explicit goal that the net impact of their policies will be to reduce the gap between the richest and the rest.
- Parties should produce an estimate of the net impact of their manifesto policies on UK inequality.
- Parties should commit to commissioning an Office for Budget Responsibility (OBR) estimate of the net impact of their annual budgets on UK inequality.

This report makes the case for an economy and society built upon **Fairer and Stronger Businesses**, a **Fair Chance** for everyone, **Fair Pay**, and **Fair Tax**

The UK workforce is low-paid, low skilled and has low productivity. Our systems of management and industrial relations are unfit for purpose in the 21<sup>st</sup> century. The economy is also worryingly unbalanced towards London and the South East, and the service sector.

Our **Fairer, Stronger Business** proposals include:

- An industrial policy with clear objectives to rebalance our economy towards skilled, high-value jobs in all regions.
- A complementary infrastructure strategy for economic activity within and between regions.
- A Workplace Commission, early in the next Parliament, to promote good practice in people management and development, initiatives such as bonus or share schemes which apply to the whole workforce, and structures that allow staff to contribute to decisions.
- Support for local authorities' initiatives to analyse and improve the impact of "anchor

institutions” on local economies and local employment.

- Re-evaluation of business rates mandated within the Government’s first hundred days.
- A working group to propose measures to support existing employee-owned businesses to operate and grow, and support those who wish to establish or convert to this model.
- Large and medium sized companies<sup>5</sup> should be required to have two or more employees on remuneration committees.

There remain supply-side barriers to the creation of a productive, skilled and decently paid workforce, including a lack of assistance and respect given to those who do aspire to skilled work. The UK has the joint lowest level of social mobility of any Organisation for Economic Co-operation and Development (OECD) country.

Our **Fair Chance** proposals include:

- Accredited vocational courses (including living expenses) should be included in the current student loans system.
- Organisations delivering government active welfare programmes should be subject to requirements, incentives and/or targets to encourage the placing of individuals in jobs which pay more than the legal minimum and which have a clearly defined progression plan.
- The Education Maintenance Allowance should be reinstated.

One in five workers in the UK is now low paid, one of the worst rates among developed countries, damaging people’s physical and mental health and imposing huge costs on the taxpayer. Low pay also suppresses consumer-driven growth, fuels debt, exacerbates regional inequality, reduces investment in skills and technology, and may suppress employment rates.

A small number of individuals are paid at levels that reflect culture and bargaining power rather than worth, which damages investment and workforce motivation.

Despite public support, few of the recommendations of Will Hutton’s Fair Pay in the Public Sector review have been implemented; especially those which apply to private sector providers, where excessive top pay and poverty pay at the bottom are common.

Our **Fair Pay** proposals include:

- The rate of National Minimum Wage should be increased to a Living Wage.

- Local authorities should be given powers, resources and financial incentives to prosecute National Minimum Wage evasion.
- Large and medium sized companies should be required to report on:
  - The relationship between the pay of the highest and median-paid employee;
  - The pay of the ten highest paid non-director roles;
  - Pay dispersion within the senior management team;
  - The number of workers paid below Living Wage and policy on this in subcontractors.
- Remuneration reports should be required to show how the remuneration of the median workforce member has changed year on year.
- The recommendations of the Hutton Review should be applied in full to all government and public bodies.
- Organisations that provide public services should be required to publish their top-to-median pay ratio, the number of their staff paid below Living Wage, and the reasons for any changes in these figures. This should be prioritised as a first measure, before similar requirements are placed on all private sector organisations.
- Government should establish a standard form of reporting top-to-median pay ratios.
- Public services which are moved from public sector to private or voluntary sector provision should have codes of pay practice requirements placed upon the new provider to ensure compliance with the above recommendations.

Finally, we cannot build a fairer, stronger economy by improving pay and conditions while ignoring how much money ordinary people take home. We must also therefore fix our regressive tax system<sup>6</sup>. Our **Fair Tax** proposals include:

- Parties seeking to form the government from 2015 should commit to the principle that any changes in tax policy are progressive.
- The 50p top rate of income tax should be reinstated.
- Council tax should be transformed into a progressive property tax by re-evaluating properties and creating new bands with higher rates for high value properties.

- The resources allocated to the HMRC to tackle corporate tax evasion should be significantly increased
- Country-by-country tax reporting (through OECD guidance) should be actively promoted. This is a necessary precondition for effectively preventing tax avoidance.
- The upper limit of National Insurance contributions should be raised, with the revenue used to offset a reduction in employer and employee National Insurance contributions for low-paid staff.

# WHY REDUCE INEQUALITY?

**THE SCALE OF THE PROBLEM** — In 40 years the UK has gone from having an average level of income inequality to being **one of the most unequal countries outside of the developing world** – in Europe, only Turkey and Portugal are worse<sup>7</sup>.

## HEALTH AND SOCIAL IMPACTS

There is strong evidence that reducing inequality would have major benefits in terms of **health and life expectancy**<sup>8</sup>, **educational performance**<sup>9</sup>, **citizenship and community**<sup>10</sup>, **social mobility**<sup>11</sup>, **poverty reduction**<sup>12</sup>, **law and order**<sup>13</sup> and **religious and racial harmony**<sup>14</sup>.

## ECONOMIC IMPACTS

There is a growing body of evidence indicating that high levels of income inequality increase **economic instability**<sup>15</sup>, **debt**<sup>16</sup> and **inflation**<sup>17</sup>. In recent months there have been warnings from the IMF<sup>18</sup> and OECD<sup>19</sup> that excessive inequality could **reduce economic growth**.

## PUBLIC OPINION

The UK public is both **concerned about inequality (82%)** and in favour of government action to address it. **69% think that it should be the government's responsibility to “reduce income differences between the rich and the poor”**<sup>20</sup>.

## **PROPOSALS:**

1. Parties seeking to form the next government should include in their manifesto an explicit goal that the net impact of their policies will be to reduce the gap between the richest and the rest.
2. Parties should produce an estimate of the net impact of their manifesto policies on UK inequality.
3. Parties should commit to commissioning an OBR estimate of the net impact of their annual budgets on UK inequality.

**Further information on inequality (scale, trends, drivers, impacts & attitudes) can be found at <http://www.equalitytrust.org.uk/about-inequality>**

# FAIRER, STRONGER BUSINESSES

**WHAT'S THE PROBLEM? — The UK workforce is low-paid, low-skilled and has low productivity.** We have a higher proportion of low-skilled jobs than any other OECD country except Spain<sup>21</sup>, the fifth highest proportion of workers in low-paid jobs out of 25 OECD countries<sup>22</sup>, and the second lowest productivity of the G7 countries<sup>23</sup>. To address these problems requires interventions to improve both demand and supply (supply-side measures are dealt with in the next section).

**Our systems of management and industrial relations are unfit for purpose in the 21<sup>st</sup> century.** The UK places little emphasis on training and developing managers compared to other European countries: 70% of managers report that their firms don't offer them a career development structure<sup>24</sup>. Lack of regard for people-management suggests a mindset that fails to recognise that a business relies upon the efforts of its entire staff. In recent decades senior executives have absorbed an increasing share of the payroll, and rarely seek to promote workforce 'ownership' of company strategy. The result is **a collapse in trust between employer and employee.** 56% agree that "management will always try to get the better of employees if it gets the chance" and only 17% disagree<sup>25</sup>. A third of employees say that their level of trust in senior management is weak<sup>26</sup>.

The UK economy is also **worryingly unbalanced towards London and the South East and on the service sector**, which creates damaging regional inequalities in prosperity, housing, employment and types of jobs. The median income in London is 28% higher than the national average and 41% higher than in Wales<sup>27</sup>. The average house price in London as of February 2014 was £428,000, up 17.7% in 12 months. This compared to £181,000 in Scotland, up only 2.3% over the same period<sup>28</sup>. London has outperformed the rest of the UK for job creation since 2008. The number of jobs in London since March 2008 has increased 8.9% compared to just 0.5% in the UK as a whole<sup>29</sup>.

## TOWARDS A FAIRER, STRONGER ECONOMY

The UK will not move to a more balanced and productive economy by accident. We need an **industrial policy with overt objectives to rebalance our economy towards skilled, high-value jobs in all regions, facilitated by a complementary strategy to create the infrastructure for economic activity within and between regions** (not just between regions and London). As has been made clear by Legal & General and others, investors are willing and able to finance such a strategy<sup>30</sup>.

The government can also strengthen those regions which have seen least benefit from growth, by **working with local authorities to build local economies** and by **redressing the outdated tax valuations that currently disadvantage businesses in less affluent areas.**

Twenty-first century industries require **twenty-first century people management and staff development**; encouraging the existing good practice of companies which recognise that people work better when well-managed and that success depends on the team spirit of the whole workforce. Our proposals call for government action to stimulate the adoption of **adequate people management practices and greater employee inclusion practices.** For example, First Group has had an employee director since the company was created in 1989<sup>31</sup>. The John Lewis Partnership has a “partnership board” including six members elected by employees<sup>32</sup>. A number of UK companies award bonuses for their employees - not just senior managers - when performance improves. For example JD Wetherspoon shared £14 million of bonuses between 30,000 staff after a 5.2% increase in sales<sup>33</sup>. Similar payments have been paid to the staff of Sports Direct<sup>34</sup> and Sainsbury’s<sup>35</sup>.

The “Fair Pay” section includes proposals for **pay policy** that incentivises innovative, high-value business.

## PROPOSALS:

**1. As part of an industrial and infrastructure policy, the government should set up a Workplace Commission, early in the next Parliament, to promote good practice in people management and development as a mechanism to generate increased productivity. This Commission's terms of reference must include recommending ways that government can incentivise companies to adopt:**

- Initiatives such as bonus or share schemes which apply to the whole workforce.
- Structures that allow staff to contribute to decisions.

As recommended by the CIPD<sup>36</sup> this commission would eliminate overlap and duplication of work among government departments on these issues.

**2. The government should support local authorities' initiatives to analyse and improve the impact of "anchor institutions" on local economies and local employment.**

- Using initiatives such as those being piloted by the Centre for Local Economic Strategies<sup>37</sup>.

**3. The long-delayed re-evaluation of business rates should be mandated within the government's first hundred days.**

**4. The government should set up a working group to propose measures to support existing employee-owned businesses to operate and grow, and support those who wish to establish or convert to this model.**

- This should include investigating measures to encourage retiring business owners to sell the company into employee ownership.

**5. Large and medium sized companies<sup>38</sup> should be required to have two or more employees on remuneration committees.**

- Employee representation is correlated with more moderate levels of CEO pay<sup>39</sup>, fewer days lost to strikes, higher business competitiveness ratings and higher labour market productivity per hour<sup>40</sup>.

# A FAIR CHANCE

**WHAT'S THE PROBLEM?** — The previous section suggests demand-side measures, but there remain **supply-side barriers to the creation of a productive, skilled and decently paid workforce**. The UK cannot, and should not, compete with developing countries as a low-wage, low-skill economy.

There is a **lack of assistance and respect given to those who do aspire to skilled work**. Over a quarter (26%) of parents and 34% of young people think that you only do vocational qualifications if you can't do A-levels<sup>41</sup>. People who study at university are given risk-free loans for fees and living costs, whereas those who invest in vocational training are typically left to bear some or all of the risk themselves.

Millions are prevented from having the opportunity to achieve their potential in the labour market. The richest in society are able to pass on privileges to their children at the expense of others. The **UK has the joint lowest level of social mobility of any OECD country**<sup>42</sup>, and the single greatest determinant of a person's income is that of their parents. Key professions from journalism to the judiciary remain dominated by the privately educated. A child going to private school is now 30 times more likely to be a High Court Judge and 11 times more likely to be a FTSE 100 CEO than one who went to a state school<sup>43</sup>.

## TOWARDS A FAIRER, STRONGER ECONOMY

The government must send a message that it **values non-graduate professions, and give practical help, beyond the apprenticeship stage**. It must provide **practical incentives to build a culture among service providers that favours decent jobs**.

Our proposals call for a route into a stable, rewarding job, with opportunities for training, promotion and advancement for everyone, not just those with expensive schooling or a degree.

## PROPOSALS:

### **1. Accredited vocational courses (including their living expenses) should be included in the current student loans system.**

- This proposal will encourage individuals to invest in their own skills through the reassurance that they will not be forced to pay back the cost until they can afford to do so (among the other benefits of the student loans system). 60% of people doing vocational education or training in the UK cited study costs and living expenses as an important factor in their decision<sup>44</sup>.

### **2. Organisations delivering government active welfare programmes should be subject to requirements, incentives and/or targets to encourage the placing of individuals in jobs which pay more than the legal minimum wage and which have a clearly defined progression plan.**

- This will help ensure that people aren't stuck in a low-pay-no-pay cycle<sup>45</sup>; and to encourage a focus throughout government on the quality as well as quantity of jobs.

### **3. The Education Maintenance Allowance should be reinstated**

- According to analysis by the Institute for Fiscal Studies (IFS) the Education Maintenance Allowance increased the proportion of eligible 17 year olds in education from 54% to 61% and improved A Level grades by 4 points on average in areas where it was available. The £560m cost was “completely offset” by these educational benefits even before the redistributive benefits of the policy are taken into account<sup>46</sup>.
- It would also send the signal that government is willing to invest in helping children from low income families to achieve.

# FAIR PAY 1: POVERTY PAY

**WHAT'S THE PROBLEM? – One in five workers in the UK is now low paid, one of the worst rates among developed countries<sup>47</sup>.** This includes 279,000 people who are paid below the National Minimum Wage<sup>48</sup>.

Our low-skilled, low-wage and low-productivity economy is trapping people in poverty. Extensive research has shown the long term physical and mental health effects of low pay<sup>49</sup>, which in turn **create huge costs for the taxpayer**. Most people in poverty are in working households, and it is estimated that child poverty costs the taxpayer £29 billion per year including £1.26 billion spent on the justice system and £2.75 billion spent on children's social services<sup>50</sup>.

**A high prevalence of low pay and insecure pay also suppresses consumer driven growth and/or fuels debt.** UK consumers have too low a disposable income to drive recovery without amassing unsustainable debt. Almost a third of UK families have savings of less than £500<sup>51</sup>. Due to the widely differing incidences of low pay between UK regions, **low pay and consequent low consumer spending exacerbates regional inequality**. Average weekly household spend in London is 40% higher than in the North East<sup>52</sup>.

In addition, **the prevalence of low-cost labour has effectively incentivised businesses not to invest in technology and skills**. A vicious cycle has been created, where taxpayers subsidise artificially low pay, low-skill jobs through the social security system, making it less attractive for businesses to invest in the alternative approach of staff development training or innovation.

**Contrary to many assertions, a low National Minimum Wage may also suppress employment rates.** As one assessment of the issue suggests: *“once the potential macroeconomic stimulus effects of extending the living wage to all employees are taken into account, it is more likely than not that a statutory living wage would result in a modest boost to aggregate employment”*<sup>53</sup>.

## TOWARDS A FAIRER, STRONGER ECONOMY

The UK's low-pay, low-skill, low-productivity model is self-perpetuating. Increasing the Minimum Wage is a key lever in breaking this cycle. There is evidence (above) that **extending the Living Wage to all employees would bring benefits to taxpayers, employees and employers**. Our proposals below explore how the short-term costs of transition to a better model can best be managed, and how wage floors can be more effectively enforced.

Some of the UK's worst-paid jobs are among the most vital to our society, including nursery nurses and care workers. They should be sufficiently paid and respected so that people actively choose them as a career path.

No employer should be able to pay a wage that prevents an employee from acquiring adequate food, fuel and accommodation. All jobs should pay enough for people to live in dignified circumstances. The main UK parties have voiced aspirations to raise the National Minimum Wage (NMW) to £7.00 or link its value to median pay<sup>54</sup>, this is a step forward, but should not be regarded as an end point.

## PROPOSALS:

- 1. The rate of National Minimum Wage (NMW) should be increased to a Living Wage, with costs shared between employers, government and those with high incomes. Government would bear some of this cost by raising the lower limit of employer and employee National Insurance contributions as the minimum wage rises. Part of this cost to Government would be offset by raising the upper limit of National Insurance contributions.**
  - The Low Pay Commission should be given forward guidance that the NMW should increase to the level of the equivalent Living Wage.
- 2. Local authorities should be given powers and resources to prosecute National Minimum Wage evasion, and given a proportion of the fines. Local Authorities should be given powers to charge daily default fines for employers that are found to be avoiding the National Minimum Wage.**
  - This is to take advantage of local authorities' local knowledge, while giving them the incentive and means to carry out this work.
  - This would also allow greater accountability of enforcement to civil society.

# FAIR PAY 2: PRIVATE SECTOR PAY INEQUALITY

**WHAT'S THE PROBLEM?** — The growth in low paid jobs is part of a larger problem. A widening pay gap between senior managers and other employees has meant **the incomes of the richest have increased, while real wages have stagnated for almost everyone else**. The richest 1% in the UK has a greater share of total income than in any developed country other than the USA, and their income share has almost tripled from 5.7% of income in 1977 to 15.4% in 2009<sup>55</sup>.

Treating management as “talent” that requires “reward”, and all other staff as a “cost” to be reduced, is bad business. As the Hutton Review of Fair Pay in the Public Sector pointed out, “*a wide range of academic studies [...] suggest there is **a strong correlation between narrower pay dispersion within an organisation and improved organisation performance** [...] there will be gains to morale and productivity in organisations where everyone is seen to be paid according to their contribution*”<sup>56</sup>.

**A small number of individuals are paid at levels that reflect culture and bargaining power rather than worth.** The costs are paid by shareholders, other employees, society and the wider economy. Systems need to be put in place to enable this to be challenged.

There is also compelling evidence, from Andrew Smithers<sup>57</sup> and others that **the growth of executive bonuses in the UK has compounded the problem, by acting as a disincentive to invest for the longer term, therefore damaging productivity.**

## TOWARDS A FAIRER, STRONGER ECONOMY

Our proposals seek to focus the attention of shareholders, managers and other stakeholders on pay throughout the workforce; a key metric in assessing whether the company is operating “as though the whole workforce matters,” and therefore likely to benefit in terms of productivity.

## PROPOSALS:

### **1. Large and medium sized companies<sup>58</sup> should be required to report on:**

The relationship between the pay of their highest paid employee and that of their median employee; the pay of the ten highest paid non-director roles; pay dispersion within the senior management team<sup>1</sup>; the number of workers paid below Living Wage<sup>2</sup> and policy on this in subcontractors.

Concerns have been raised that ratios may be misleading because they reflect differences in company size and sector more than policy. However, as investment advisors Pensions and Investment Research Consultants (PIRC) have said, “investors know they need to take account of factors such as industry sector, company size etc.” These metrics also allow stakeholders to analyse changes within a company’s pay dispersion over time.

### **2. Remuneration reports should be required to show how the remuneration of the median workforce member has changed.**

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1 To assess whether companies’ CEOs are paid disproportionately more than their colleagues within the senior management team, which tends to indicate poor team governance. For detail see “Here’s One Way to Get a Grip on CEO Pay”; Corporate Board Member magazine Julie Connelly 2009

2 Assuming Living Wage and National Minimum Wage rates do not converge

# FAIR PAY 3: PAY INEQUALITY – FAIR PAY IN PUBLIC SERVICES

**WHAT'S THE PROBLEM?** – Many of those working in our schools, hospitals and armed services have experienced a pay freeze in recent years. But while those on low and middle incomes struggle, some senior managers have received high and rising salaries.

The Government responded to public concern about the pay in public services by commissioning the Hutton Review of Fair Pay in the Public Sector. However, **many of the Review's recommendations have not been implemented**, resulting in a lack of reliable or comparable data. This is **preventing effective action being taken about either excessive pay at the top funded by taxpayers' money, or excessively low pay at the bottom** (which is subsidised by the taxpayer through the benefits system).

The issue of fair pay in the public sector, and in private providers of public services, remains a **matter of concern for the public and commentators across the political spectrum**, and therefore presents an opportunity, or threat, to policymakers<sup>59</sup>.

The largest private sector providers of public services receive huge incomes from taxpayer-funded contracts. But a disproportionate share goes to **executives – who are paid far more than their public sector equivalents. Ordinary workers are often paid so little that the taxpayer again steps in to fund benefits.** (If every low-paid worker was paid a Living Wage, the government would save £232 in social security spending and receive £445 in tax receipts per worker<sup>60</sup>). The public services industry cost £82 billion and accounted for 24% of all public services in 2011. **This is public money, and should be subject to the same scrutiny as other public spending.**

## PROPOSALS:

- 1. The key recommendations of the Hutton Review should be applied to all government and public bodies.**

*(Including requiring that public service organisations publish top to median pay multiples each year; publishing annual Fair Pay Reports and identifying organisations that fail to produce adequate explanations for pay multiples; establishing pay benchmarks for NDPB CEOs<sup>61</sup>).*

- 2. Organisations that provide public services (including private and third sector providers of public services, free schools and universities) should be required to publish their top-to-median pay ratio, the number of their staff paid below Living Wage, and the reasons for any changes in these figures. Public sector bodies should consider this data in their procurement decisions.**
- 3. Government should establish and enforce a standard form of reporting top to median pay ratios in public services, specifying which elements of remuneration must be included in the top pay figure. Government should collate and report these figures on a public website specifying the period which the figure covers, alongside figures for the number of employees paid below the Living Wage.**
- 4. Public services which are moved from public sector to private or voluntary sector provision should have codes of pay practice requirements placed upon the new provider to ensure compliance with the above recommendations.**

Currently Transfer of Undertakings (Protection of Employment) (TUPE) regulations safeguard pay when staff are moved to a new employer, but not all remuneration and conditions, and do not protect staff recruited subsequently.

# FAIR TAX

**WHAT'S THE PROBLEM? — The UK's tax system places a higher burden on those with low incomes than the rich.** The poorest 10 per cent pay 43% of their income in tax compared to 35% for the richest 10 per cent<sup>62</sup>.

This system is regressive, unfair and unpopular. The return of a 45p top rate of income tax effectively gave a big bonus to the richest 1%. At the same time, many ordinary people are struggling to make ends meet and to pay for basic necessities like food, energy and housing.

The Equality Trust's research has shown that **increasing the top rate of tax could decrease the share of income going to the top 1% without damaging economic growth, and may in fact strengthen the economy<sup>63</sup>.** Moreover, 55% of the electorate think that rich people are not paying enough tax and should pay more<sup>64</sup>. **A majority support a top rate of income tax of 50p or more.**

**Rising residential property prices are both a consequence and a cause of rising inequality.** Rent and mortgages are having large, adverse impacts on living costs. And a speculative market is diverting capital from productive investments, creating a housing market with growing numbers of landlords and renters and a shrinking class of owner-occupiers. This is laying the foundations for rocketing wealth inequality in future generations.

## TOWARDS A FAIRER, STRONGER ECONOMY

A fair tax system means a commitment to introduce progressive taxes only, to a fair tax rate on the wealthiest, and to address the growing inequality of unearned property wealth.

## PROPOSALS:

**1. Parties seeking to form the government from 2015 should commit to the principle that any changes in tax policy are progressive.**

- For example, government should reduce VAT when it has a budget surplus.

**2. The 50p top rate of income tax should be reinstated.**

- This should be regarded as a long-term measure for decreasing income inequality rather than a means of reducing the deficit.

**3. Council Tax should be transformed into a progressive property tax by re-evaluating properties and creating new bands with higher rates for high value properties.**

- This would reflect the growth of (unearned) property and increasing wealth inequality.
- A progressive property value tax would reduce the size of median gross bills by £279 a year compared to the Council Tax.<sup>65</sup>

**4. The resources allocated to HMRC to tackle corporate tax evasion should be significantly increased.**

- This would provide a net increase in income for the Treasury within a short period, and counter some of the public criticism of perceived government softness on this issue.

**5. The government should actively promote country-by-country tax reporting (through OECD guidance), which is a necessary precondition for effectively preventing tax avoidance.**

**6. Government should raise the upper limit of National Insurance contributions and use the revenue to offset a reduction in employer and employee National Insurance contributions for low paid staff.**

- National Insurance is currently a regressive tax above the 8th decile. This would help employers afford an increase in NMW (see “*Fair Pay: 1) Poverty Pay*”, above).

# A FINAL WORD...

There is a temptation to see inequality as inevitable, a natural consequence of people's unequal abilities. But the reality is that over the past 30 years, inequality has been exacerbated by political and economic policy.

Inequality today is at damagingly high levels, harming people's health and wellbeing, and stifling our economic recovery. It is driving the growth in personal debt, and fuelling an economy based on debt and volatility.

A rising tide does not necessarily lift all boats. In today's UK wealth is not trickling down. Politicians and businesses can no longer avoid the consequences of inequality on an increasingly angry and frustrated electorate.

But political action can reverse this inequality. By creating a system that increases opportunities for all, with fair pay, fairer businesses and fair tax, we can build a society that is happier, healthier and stronger. We can also build an economy that provides stable, long-term growth that benefits all.

We therefore call on all political parties to commit to one simple aim; to include in their manifestos an explicit goal that the net impact of their policies will be to reduce the gap between the richest and the rest.

# ABOUT THE EQUALITY TRUST

The Equality Trust is an independent organisation that works to improve the quality of life in the UK through reduced economic inequality.

We conduct robust research and analysis of the scale, drivers and effects of economic inequality in order to increase understanding of economic inequality among policy-makers, business and the public.

The Equality Trust was launched in 2009 by Bill Kerry, Richard Wilkinson and Kate Pickett. It is primarily funded by the Network for Social Change and the Joseph Rowntree Charitable Trust with additional support from many generous individuals, organisations and groups.

For more information about our work, please visit our website at <http://www.equalitytrust.org.uk/>



## NOTES AND SOURCES

### (Endnotes)

- 1 World Top Incomes Database, 2011
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