THE EQUALITY TRUST

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A SUBMISSION FROM THE EQUALITY TRUST
TO THE IPPR CONSULTATION ON WEALTH AND OWNERSHIP

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How is wealth inequality likely to change between now and 2030 in the absence of policy intervention?

Unless things change, we expect wealth inequality to worsen with ever greater concentration of wealth in the hands of fewer individuals and families. Our own Wealth Tracker research, which monitors the wealth of the 1,000 individuals recorded in the Sunday Times Rich List, has shown substantial increases in recent years to the extent that these people now hold as much wealth as the poorest 40% of households. In the last year alone, the wealth of the richest 1,000 people increased by £82.5 billion, and according to the most recent data from the ONS, wealth inequality has begun to rise again for the first time in a decade.

Wealth Tracker 2017: https://www.equalitytrust.org.uk/wealth-tracker-2017-0

At present, the countervailing social and political forces that might prevent wealth inequality worsening seem weak, although we note that this might be changing when one considers the UK general election of 2017 and the apparent mood shift towards more optimism that inequality and poverty can be tackled – and, in fact, will have to be tackled. As the journalist George Eaton has noted recently, it is hard to sell capitalism to those with no capital – and he could have added, even harder to sell capitalism to those with *no prospect* of obtaining capital.

What features of our current economic model and policies best explain the current distribution of wealth and likely future changes? (eg. Impact of interest rates, quantitative easing, housing policy, fiscal policy)

We see the four main drivers of wealth inequality as being:

1. The profit-maximising shareholder model of business which prioritises dividend payments to rentiers over wages to workers and that, within the wage bill, sees senior management as talent to be rewarded and ordinary workers as costs to be reduced (via casualisation and/or poverty pay). It is worth noting that excessive top incomes in private business and some other sectors (eg. universities) very quickly convert to wealth as these senior managers use their vast incomes and bonuses to purchase property and other assets. In other words, the UK's vast income inequality should very much be factored in when considering UK wealth inequality;

2. Wholly inadequate and insufficiently progressive taxation of income and wealth; including the failure to tackle avoidance and evasion;

3. Reduction in social security support which traps workers in poverty, meaning they cannot work towards solvency, let alone aspire to savings and the acquisition of property or other assets. This includes, for example, rates of marginal taxation faced by Universal Credit recipients which are far higher than those faced by the richest 1% of the population;

4. Housing inequality is likely to be a continuing driver of wealth inequality, with home ownership falling and housing stock increasingly in the hands of a small group of people able to extract significant rents from those locked out of ownership. The UK does not really have a coherent housing policy at present, hence the market is dysfunctional. Home ownership (which can be regarded as a proxy for the spread of wealth) is now only accessible to the relatively well-off leaving the less well-off to pay very high rents or teeter on the edge of (or fall into) homelessness. To that extent, housing inequality is a both a symptom of underlying income and wealth inequality and a cause.

We also note that Quantitative Easing appears to be an exacerbating factor that has inflated the value of assets already held by the rich.

In addition to Wealth Tracker, our other relevant research in these areas is as follows:

Taxation:
- https://www.equalitytrust.org.uk/britains-poorest-households-pay-more-their-income-tax-richest
- https://www.equalitytrust.org.uk/unfair-and-unclear-effects-and-perceptions-uk-tax-system
- https://www.equalitytrust.org.uk/course-correction-pre-distributive-case-50p-top-income-tax-rate

Social Security:
- https://www.equalitytrust.org.uk/aspiration-tax-how-our-social-security-system-holds-back-low-paid-workers

Housing:
- https://www.equalitytrust.org.uk/house-divided-how-unaffordable-housing-drives-uk-inequality

Savings:
- https://www.equalitytrust.org.uk/walking-tightrope-savings-and-debt-inequality-great-britain

Excessive high pay:
- https://www.equalitytrust.org.uk/pay-tracker-comparing-ceo-pay-ftse-100-average-pay-and-low-pay-uk

How could the tax system be reformed to spread wealth and income from wealth more equally, and to incentivise savings in productive assets? Specifically, we are looking at potential reform to capital gains tax, inheritance tax and an alternative gift tax, script taxes, land value tax and reform of council tax.

All taxes should be made much more progressive and the UK’s complicated system of tax reliefs should be reviewed to make sure that these are not simply operating as handouts for the rich. They should instead encourage productive activities, especially those that create employment and, thereby, benefit as large a number of working people as possible.

In particular, we have called for council tax to be turned into a proper, progressive, property tax based on (a long overdue) revaluation of our housing stock.

We also believe that Land Value Taxation (LVT) is a very under-explored area and note that it could benefit from having its own high-profile national campaign. For example, the Positive Money campaign is a good example of a radical, heterodox, economic issue that has been gathered in from the margins of debate and given a public voice. LVT would benefit from something similar.

- Should the UK have a sovereign wealth fund (SWF)?
- What should the goals of this fund be?
- How should a SWF for the UK be funded?
- How should the returns be used in order to share wealth more equally?

With regard to the issue of SWF (we prefer the term Social Wealth Fund) we agree with the economist Stewart Lansley that a social or citizens wealth fund can make a major contribution to tackling inequality in the UK (please see: https://policypress.co.uk/a-sharing-economy).

The main obstacle to setting up an SWF is that wealth will have to be taken off the rich in order to fund it and they, and their political supporters, will strongly resist this. A powerful and attractive narrative will need to be developed and deployed in order to win the inevitable political arguments to come.

In terms of what an SWF might fund, we think it could be devoted towards three main areas:

1. All forms of essential infrastructure, including social housing and effective transport links (especially in deprived areas);

2. Plugging the many gaping holes in our social security provision to bring support up to decent and humane levels, and;

3. Developing our human capital - in particular to create a world-class, comprehensive education system, a permanent fund for skills development and the provision of lifelong educational opportunities.

More radically, and probably some way off, if the case for a Universal Basic Income (UBI) becomes stronger and better evidenced as a result of the various pilots going on around the world, or there are significant changes in the state of wider employment that drive us towards a UBI, the SWF could contribute to funding a UBI, or to pump-priming a more democratically owned and controlled economy (see next section).

We also think that an SWF should be structured in a decentralised way so that it can play a part in addressing the UK's huge regional inequalities by prioritising poorer areas. If it was done in this way it could also make provision for the democratic involvement of local people in the composition of the SWF governing body and, by extension, the running of what would be "their SWF". This would hopefully lend additional legitimacy and popularity to the SWF and the decisions it would take about what to - and what not to – fund (decisions which, in some cases, could be controversial).

- How can companies be encouraged or required to share more wealth with their employees?
- How can government support the expansion of cooperatives, mutuals, and plural forms of ownership at the firm level?

As with reintroducing properly progressive taxation we think the key requirement, here, will be clearly stated political will in order to win the argument across the country and within Westminster and other key power centres (eg. the City of London, devolved/regional/local government, business groups and trade unions for example). This way, a climate can be generated that is conducive to democratising our economy such that existing companies will want to democratise and new start-ups will consider and favour more democratic models of ownership and operation.

We would like to see the Government and all political parties adopting the following policies to promote the greatest possible level of worker-ownership and control in the UK economy:

1. To celebrate the current and ongoing contribution of the worker-owned business sector to the UK economy and to promote this, actively, to the wider public.

2. To make an explicit commitment to growing worker-owned business to the fullest extent possible within the overall UK economy. We recommend the setting of a target, say 25% of all private sector business to be democratically owned by 2050.

3. To implement a worker-buyout law to allow the simplest possible transfer of businesses to their employees as part of planned succession (as recommended by Co-ops UK).

4. To encourage and incentivise shareholder-owned businesses to transfer <u>voting</u> shares to their employees.*

5. To establish a workers' ownership bank or mutual, nationally or regionally structured, to provide finance to worker buy-outs.

6. To endow a workers' ownership fund for longer term, strategic investment to help worker-owned businesses grow.

7. To launch a co-operative entrepreneurs' programme to identify and support people who have the passion and skills to set up worker-owned businesses (again, as recommended by Co-ops UK).

8. To create and promote a one-stop, online portal that provides easy access to all the information, advice and forms that anyone would need to start a worker-owned business.

9. To create and promote education packs and learning modules for schools, colleges and universities about worker-owned businesses and how to set one up.

10. To thoroughly review and, where necessary, update current legislation and associated legal forms to ensure they facilitate worker-owned business.

* We also believe that listing rules (so mostly applying to larger companies) could be changed to require that a significant proportion of voting shares are allocated to workers at the point when a company lists on a recognised stock exchange. Listing rules could also require that companies do not outsource employment, or pay below the real living wage as recommended by the Living Wage Foundation.

Listing is a measure of corporate success and the efforts of the whole workforce in achieving that success should be rewarded.

We also note that listing is a privilege, effectively granted and facilitated by the state. Incorporation, limited liability and PLC status (the right to issue shares to the public) are all conferred by the issuing of a certificate by Companies House in accordance with company law. Companies House is an agency of government and, in a wider sense "us" the people. There is a strong case for requiring that companies (which we permit to exist and operate, via our laws and our government) should meet their social responsibilities by spreading their wealth as equitably as possible.

Conclusions

To make any significant progress in distributing wealth in the UK more fairly we will need both pre-distributive and re-distributive measures that are radical and far reaching in scale. This brings us up hard against the realities of power and politics as they are now.

With regards to redistribution, a massive economic, social and political argument will need to be won that defeats the prevailing idea of redistribution being some sort of penal confiscation. The case for taxation being the price we pay for civilisation will have to be massively ramped up and relentlessly promoted such that those arguing against it are seen as selfish, wrong and even dangerous in their recklessness. They should be cast as being morally, economically and socially on the wrong side of history and also as ignoring the best available evidence that favours a transition to a more just and equitable society.

Even in terms of the pre-distributive changes needed, there will be considerable resistance to what will be seen as infringements on the rights of property owners. For example, why would a company or its current shareholders agree to give even a portion of its share to the workforce? What would the world have to look like - what economic, social and political changes would need to be in place for such a scenario to happen on a regular basis?

We welcome this initiative from IPPR and we hope our submission helps and we also hope that the final work that flows from this consultation will address the hard power realities of the world as it is and recommend equally tough political actions to change it.

END OF SUBMISSION