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A Tale of Two Britains

The gap between rich and poor is growing- income and wealth are concentrated at the top while those at the bottom face increasingly hard times

Inequality is a growing problem in the UK. Whilst austerity measures in Britain continue to hit the poorest families hardest, a wealthy elite have seen their incomes spiral upwards, exacerbating income inequality which has grown under successive governments over the last quarter of a century.

Since the mid 1990s the incomes of the top 0.1 percent have grown almost 4 times faster than the incomes of the bottom 90 percent of the population. In real terms, that means the richest 0.1 percent have seen their income grow by more than £461 a week, the equivalent of over £24,000 a year. That's enough to buy a small yacht or a sports car. By contrast the bottom 90 per cent have experienced a real terms increase of only £147 a year – insufficient to insure a family car. That equates to £2.82 a week – the average cost of a large cappuccino.

Today, the five richest families in the UK are wealthier than the bottom 20 per cent of the entire population. That's just five households with more money than 12.6 million people – almost the same as the number of people living below the poverty line in the UK.

The extreme levels of wealth inequality occurring in Britain today threaten to exclude the poorest, whose standards of living are being squeezed as they are hit by increasing costs for basics like food and energy bills and cuts to services and support when they are most needed.

Starting with this week's Budget, the Government needs to re-balance the books by raising revenues from those who can afford it - by clamping down on companies and individuals who avoid paying their fair share of tax and starting to explore greater taxation of extreme wealth – rather than relying on cuts to services that disproportionately impact on the poorest in society, some 13 million people who are currently classed as living below the poverty line.

Britain in the 21st Century is a deeply divided nation. Whilst a handful of people at the top have never had it so good, millions of families are struggling to make ends meet.

Growing numbers of Britons are turning to charity-run foodbanks, yet at the same time the highest earners in the UK have had the biggest tax cuts of any country in the world. And whilst low-paid workers are seeing their wages stagnate, the super rich are seeing their pay and bonuses spiral up.

Oxfam's new figures show just how stark the divide between Britain's richest and the rest is.

- The most affluent family in the UK (Gerald Cavendish Grosvenor and family), have more wealth than the poorest 10 percent of the population, 6.3 million people (£7.9 and £7 billion respectively).
- The richest 5 families in Britain are wealthier than the bottom 20 percent of the population in the UK (with a wealth of £28.2 billion and £28.1 billion respectively).
- Incomes for the bottom 90 percent increased by 27 percent between 1993 and 2011. Incomes for the richest 0.1 percent increased by 101 percent over the same time period. In other words, the incomes of the top 0.1 percent have grown almost 4 times faster than for the bottom 90 percent of the population.
- Once you factor in increases in the cost of living over the last ten years, then the real squeeze for the majority of Britons becomes apparent as does the divide between those at the top and the rest. Since 2003 the majority of the British public (95 percent) have seen a 12 percent real terms drop in their disposable income (after housing costs), whilst the richest 5 percent of the population have seen their disposable income increase.

Oxfam's analysis: numbers and methodology

Oxfam used the latest [list of billionaires from Forbes](#) released on March 4, 2014 to calculate the accumulated wealth of the richest families in Britain and data from Credit Suisse Global Wealth Databook to calculate the wealth of the bottom 10 and 20 percent of the population.

To calculate changes in income since 1993 (the earliest year with comparable data on income), Oxfam used the Top Income Database. For the changes in income for 95 percent of the population after housing costs, Oxfam used data from the Family Resources Survey 2002-2003 to 2011-2012 (data for which the survey has comparable methodology) as reported by the Institute For Fiscal Studies' "Living Standards, Poverty and Inequality in the UK: 2013."

The richest and the rest – a global perspective

Economic inequality is far from being a UK only problem - a similar picture of a rapidly increasing gap between rich and poor can be seen in most countries across the globe. The entire wealth of the world is divided in two: almost half going to the richest 1 percent; the other half to the remaining 99 percent. *Working For the Few*, an Oxfam report published ahead of this year's World Economic Forum in Davos, revealed that the richest 85 people on the planet own the same amount between them as half the world's population – that's 3.5 billion people.

This widening inequality is creating a vicious circle where wealth and power are increasingly concentrated in the hands of a few, leaving the rest behind. Our report showed that increasing inequality is allowing the wealthy to capture government policymaking. This means the rules are constantly rewritten in favour of the rich, for example through policies such as like lower taxes for high earners.

Seven out of 10 people in the world live in countries where economic inequality has increased in the last 30 years.

Inequality has shot up the global agenda recently, with leaders and influential figures from President Obama to the Pope making the issue a key priority for 2014.

Taxing times

Tax evasion, by companies and individuals, costs the UK economy billions of pounds every year. The 'tax gap' – the total amount of missing tax money the Treasury is owed – is estimated to be around £35 billion a year.

Of that tax gap, Oxfam estimates that at least £5.2 billion a year is being evaded by wealthy individuals who use tax havens. That's the equivalent of £200 a year for every single household in the UK.

The Government has made a good start on cracking down on tax evasion, including at the 2013 G8, but needs to continue to increase transparency and accountability – for instance with effective legislation on Beneficial Ownership – and ensure that HMRC are well resourced for the task.

Surviving on a shoestring

One in five people in the UK are living in poverty - cuts to social security and public services are combining with falling incomes and rising costs for basics like food and fuel bills to create a deeply damaging situation in which millions are struggling to get by. Although unemployment numbers are falling, the number of people in insecure jobs is on the rise and many are on wages that don't pay enough to make ends meet. For the first time, more working households are living in poverty in the UK than non-working ones. In 2012 just over half of the 13 million people in poverty were from working families.

Austerity policies are massively increasing poverty and inequality in the UK - damage that could take two decades or more to reverse. Our research suggests 800,000 children and an extra 1.9 million adults in the UK could be pushed into poverty by 2020. The unprecedented rise of over 500,000 Britons needing emergency aid from food banks is just one example among many of what poverty looks like in the UK.

There is significant public concern about the lack of say ordinary people have in the changes that affect their lives. According to a recent Oxfam poll, more than two thirds of the British population think the rich have too much influence over where the country is headed.

Case Study: “The bills are going up but the money isn't”

Anna, 35, lives in Devon, with her partner Mike and their children. Mike works full time at an electronics company, whilst Anna is a stay at home mum.

“They've been laying off people at Mike's work at the minute, so he's constantly terrified that he's going to lose his job. He brings home between £1000 and £1100 a month. It's alright, but not great when you consider that our rent is £800 per month, it doesn't go very far at all. We get help with tax credits but it's getting harder and harder to pay the bills every month and not charge things on the credit cards. The bills are going up and the money isn't.

“Personally, I feel so strongly about how there is so much inequality in our society and it's getting worse. There are all these people looking down their noses at the 'undeserving poor' and it really makes me cross. We're being kept poor. We're being kept in a position where we aren't able to improve our lives.

“I mean who's the real scrounger? Someone who might get seventy pound per week because they haven't got a job, or someone who gets a ridiculous amount of money in bonuses after they bankrupted the country? I'd like to be able to earn a wage myself... there is no way for us to get out of this position until somebody does something about the cost of housing and other stuff. The people who can afford to pay for it are getting away scot free.”

Why does Oxfam care about inequality?

Extreme economic inequality is damaging because of the negative impact it has on poverty reduction and overall prosperity. It multiplies social problems and compounds other inequalities such as those between men and women. In many cases extreme economic inequality causes unequal political representation: those with the most money are able to rig the rules, and influence government policy in their favour, often at the expense of everyone else.

For many workers across the globe, doing a day's work doesn't necessarily mean they earn enough to live on, and companies are making profits whilst workers wages and conditions are not enough to live decent lives.

Whilst the opportunity to prosper is an important incentive that helps drive the economy and implies some level of inequality, even the International Monetary Fund's recent study finds that extreme income inequality undermines both the pace and sustainability of economic growth. The IMF also made the case that redistribution efforts – including progressive taxation and spending on health and education – are pro-growth.

In developed and developing countries alike we are increasingly living in a world where the lowest tax rates, the best health and education and the opportunity to influence are being given not just to the rich but also to their children.

For decades, Oxfam has worked to increase access to high-quality health care and education. Despite great progress, millions of families in the poorest countries are not able to send their children to school or pay for healthcare should anyone fall sick. Governments don't have the money to pay for these basic essential services - not because the money isn't there, but because the richest and most powerful aren't paying their fair share.

While many rich people use a portion of their wealth to support individual good causes, this should not be used as an excuse for governments failing to tackle the problem of growing inequality.

Oxfam's call to action

All parties need to focus on reducing inequality and consider how they will:

Tackle unfair tax rules to combat inequality and ensure those who can afford it are paying their fair share: Clamp down on tax dodgers by improving transparency and accountability standards in global and UK tax rules and increasing government capacity to tackle tax evasion.

Look at ways of raising revenue through progressive taxation and balancing the books on the shoulders of those who can afford it: In particular, the Government should implement a financial transactions tax to ensure the financial sector contributes its fair share, and focus on the greater taxation of wealth, by exploring things like a land value tax.

Ensure that the strategy to reduce the deficit does not hitting the poorest hardest: Use the revenue from more progressive taxation to prevent long-term damage caused by cuts to social security and public services. Support women and parents to be part of the country's return to growth through the provision of universal affordable childcare.

Ensure that work really pays for the poorest: Outline a long-term strategy for raising the minimum wage to a living wage, using tools such as government procurement to promote a living wage. Ensure that increasing the tax allowance really works for the poorest by also increasing the earnings disregard by £200 per year.

Audit policy to ensure it is being designed to improve equality: We would like to see party manifestos include an analysis of the impact of their pledges on economic inequality in the UK.

As a first step, we are calling on the Government to continue taking tough action to tackle tax dodging as part of this week's Budget.