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How to Close Great Britain's Great Divide

The business of tackling inequality

Britain is a divided nation, with a massive disconnect between people and politicians and between those with money and those without. The richest one percent of the UK population own more than 20 times more wealth than the poorest 20 percent of the population – nearly 13 million people – own between them.[1]

The EU referendum vote brought home just how polarized our society is. Millions of people demonstrated their frustration at being left behind and locked out of politics and economic opportunity. The economy clearly is not working for everyone, and many people feel they have not benefitted from economic growth over recent decades.

It is encouraging then that Theresa May has acknowledged this by committing to create a society that works for everyone and promising to address the gap between the 'haves' and 'have-nots'. However, if action is not taken to reduce inequality things will get much worse – nearly 400,000 more households could be living in poverty by 2030.[2]

In the aftermath of Brexit, the Prime Minister has called for more sharing of the proceeds of growth and the need to ensure we no longer leave people behind. She has also criticized the irresponsible behaviour of big business, which is one of the major driving factors of inequality in the UK. Oxfam welcomes the fact the government is embracing this agenda and believes that efforts to address inequality, particularly by looking at the role of businesses, can help reunite the country and ensure we have an economy that works for everyone.

The UK is one of the most unequal developed countries in the world.[3] Three decades of high-level inequality have had a profound impact, leading many people to believe that they have little stake in society and to feel locked out of politics and economic opportunity. Whatever your views on Brexit, the referendum brought divisions within our country to a head, with many people expressing distrust and disconnection with political processes and voting for change in the hope that it would improve their economic position. A report from the Joseph Rowntree Foundation, published last month,[4] found that people on low incomes with low skills and a lack of opportunity were more likely than others to endorse Brexit. The vote exposed strong and clear dividing lines within society: between different parts of the country, between the different social classes and between old and young. These divisions were not created overnight, but have been driven by decades of persistently high levels of economic inequality.

The ‘haves’ and the ‘have-nots’

Continued increases in wealth inequalities in recent years and the failure to properly tackle the large increase in income inequalities that occurred in the 1980s have left the UK with an unequal economy that is not working for everyone.[5] Despite the fact that the UK is one of the richest countries in the world, one in five people live below the poverty line, struggling to pay for essential bills and put food on the table. According to data from the widely respected Credit Suisse, the richest 10 percent of the UK population own over half of the country’s total wealth (54 percent), and the richest one percent own nearly a quarter (23 percent), while the poorest 20 percent of the population – nearly 13 million people – share just 0.8 percent of the country’s wealth between them.[6]

While data from the Office for National Statistics puts the richest one percent’s share at a lower figure of 13 percent, other data from their *Wealth in Great Britain* report, which looks at aggregate total wealth, shows that the wealthiest 20 percent of UK households have well over 100 times more wealth than the poorest 20 percent of UK households.[7] Whichever data sets you look at, they paint a clear picture of an unequal Britain.

A generational divide is opening up, with young people increasingly struggling to build up their wealth and assets. Successes in reducing, and keeping low, pensioner poverty have not been replicated among children and people of working age, with reductions in child poverty since the end of the 1990s now increasing again. More than one-quarter (28 percent) of children in the UK are living in poverty today.[8]

Although the risk of poverty is greater for those without employment, the labour market has serious challenges, meaning that having a job is not a guaranteed way to lift people above the poverty line. In over half of low income households in the UK, at least one adult is working. Persistent low wages, increasingly insecure work and the rising cost of living, especially housing costs, mean work does not provide the route out of poverty it should.

While many ordinary workers are finding it difficult to make ends meet, it is a different story at the other end of the spectrum. Oxfam figures published earlier this year revealed that a quarter of all new wealth generated in the UK is going straight into the pockets of people who are already millionaires.[9] Boardroom pay has been soaring, with FTSE100 bosses earning 150 times more than their employees.[10] On average, the lowest paid workers in the FTSE100 companies were paid (valued at) roughly a third of a percent of the annual salary enjoyed by chief executives of those companies.[11]

Oxfam believes these concentrations of income and wealth must be addressed, because higher levels of inequality are a huge barrier to reducing poverty. This is not just the case in Britain. Across the globe, inequality has spiralled to such an extreme that one percent of the world’s population now owns more than rest of us combined. And while the number of billionaires has doubled since the financial crisis, almost 800 million people go to bed hungry every night.[12]

Projections of income inequality

In recent years **wealth inequality** has increased, driven by an accumulation of wealth at the top of the income distribution and younger households being priced out of the housing market due to a combination of falling real incomes, house price inflation and limited access to credit. And, while **income inequality** has been broadly stable since the 1980s (following large increases during that decade), **income inequality and poverty are expected to go up in the coming years.** It is predicted* that by 2030:

- An extra 390,000 households will be in relative poverty (after housing costs), taking the total number of households in poverty to 8.77 million.
- An extra 310,000 households with children will be in relative poverty (after housing costs) taking the total number of households with children in poverty to 3.3 million.
- The level of income inequality in the UK (measured using the Gini coefficient) will rise from 0.357 to 0.364.

* According to research from the National Institute of Economic and Social Research, commissioned by Oxfam, taking into account policies announced in the June 2015 Budget.

Poverty and inequality – intrinsically linked

Research carried out for Oxfam by the London School of Economics, to be published later this year, shows empirical evidence that poverty rates tend to be higher when inequality is higher and increases in income inequality are associated with increases in income poverty rates. There is also a growing body of evidence that high and rising inequality is harmful to growth. The Oxfam report based on the LSE research will set out how Britain has become an increasingly atomized society.

'Inequality is a massive barrier to tackling poverty and has created an economy that clearly isn't working for everyone. The UK is one of the richest countries in the world, but it's a nation divided into the 'haves' and have-nots'. While executive pay soars, one in five people live below the poverty line and struggle to pay their bills and put food on the table.'

– Rachael Orr, Head of Oxfam's UK Programme

Cheryl, 31, is a care worker.

After help from her union she got her pay topped up to the minimum wage, but before then she found it hard to pay her rent and bills. Even on the minimum wage she is struggling and feels frustrated:

'I want [...] work that is going to give me security and enable me to do all the things that we were brought up to think that you'd be able to do when you were younger – like your parents did: go on holiday once a year, own your own home. I can't do that at the moment.

'I feel what I do is valuable, I think I do my job well and I'm contributing to society by doing it. But I don't think I'm rewarded enough for doing it. In some ways I'm not even getting my basic rights.'

Role of Big Business

From the working practices of Sports Direct, branded as 'Victorian' by a damning Select Committee inquiry, to the collapse of BHS, which revealed a litany of failures of corporate governance and greed, UK companies have been increasingly coming under scrutiny, not least from the Prime Minister herself. Theresa May has criticized the 'irresponsible behaviour of big business' and has promised 'changes in the way big businesses are governed'.

Many companies have driven up inequality by working for the benefit of their senior executives and shareholders to the exclusion of their staff and broader society. More often than not, profits are accrued at the expense of workers, farmers and society at large, both in the UK and overseas. The ratio of CEO pay has doubled in the last decade, with the average total pay of a FTSE100 CEO now at £6m per year, or 150 times the average worker income. Meanwhile, dividends paid by UK companies have gone from 10 percent of profits in the 1970s, to 70 percent today.[13] Although many people do own shares through pension funds, this represents only three percent of the value of UK listed shares.[14] By and large, shareholders are not the average worker and prioritizing only their interests will only lead to greater inequality.

Theresa May's suggestion that consumers and workers need to have seats on boards is exactly the kind of structural redesign of the company that can lead to materially better outcomes. To tackle inequality, corporate structures must ensure that stakeholders other than shareholders and senior managers hold greater power. Employee-owned businesses such as John Lewis ensure that prosperity and profits are shared more broadly.

And if structural changes reach beyond the boardroom, employers and the government have a real opportunity to ensure all employees can share in the profits and successes of big businesses. Employers must ensure work is the viable route out of poverty it should be, creating decent jobs that pay a living wage, honour workers' rights and don't use exploitative zero-hours contracts.

Government recognition for employers offering 'decent work' needs to go hand in hand with incentives for businesses to invest in their staff to help them progress. Too many employees are trapped for their entire working lives in low-paid jobs without a means of progression. These training opportunities should be made widely available to staff and in particular, more part-time employees, who are typically low paid[15] and women.[16] Training opportunities should emphasize transferable skills to ensure employees can better utilize skills within other sectors. This would also act to address the productivity challenges facing the UK economy, to which the skills gap contributes.[17] Businesses should also consider how both they and their staff can benefit from offering flexible work to those with caring responsibilities, predominantly women.

Oxfam's call to action

Addressing the practices of big business – from closing wage gaps to incentivizing investment in their staff to making sure they pay their fair share of taxes – should be a central part of the government's plans to even up the economy.

Oxfam is calling for the government and businesses to adopt a four-point plan to tackle the gap between the 'haves' and 'have-nots' by:

1. Delivering on Theresa May's pledge to give a greater voice to employees through greater employee representation on company boards.

Rebalancing power relationships within the workplace and strengthening the democratic voice of employees could play an important role in improving terms and conditions for low paid workers and ensuring people have a greater stake in company profits and the wider economy.[18]

2. Incentivizing employers to up-skill low skilled jobs and low skilled workers to ensure more people can access decent work.

The government needs to support employers, in particular those in low paying sectors that employ large numbers of women such as retail, childcare and social care, to provide opportunities for flexible employment and progression to staff to boost living standards and tackle in-work poverty.

The social security system should also encourage and enable people to increase their pay and skills to become more resilient against poverty in the long term. As part of this, redesigning Universal Credit so that it incentivizes people to up-skill by accessing training and educational opportunities would support more sustainable progression in the jobs market.

3. Addressing pay disparities through the adoption of pay ratios, curbing of excessive pay at the top and addressing pay levels at the bottom.

Rates of pay have remained low for many people, while the incomes of the richest have continued to rise. Tackling low pay and improving terms and conditions generally can result in significant business benefits. Better paid employees are more engaged and more productive.[19]

Companies should publish data on the ratio of highest to median pay, and aim to meet the ratio of 20:1. Widespread adoption of the voluntary Living Wage would speed up the reduction of the gender pay gap[20] and would result in other benefits such as a reduction in the social security bill[21] and increased productivity and staff retention.[22]

4. Tackling corporate tax avoidance and putting an end to the era of tax havens

Theresa May needs to accelerate progress made under David Cameron to tackle aggressive tax avoidance and harden the UK's stance further if we are to really support an economy that works for everyone. The government needs to put an end to the era of UK-linked tax havens which allow rich individuals and companies to avoid paying their fair share to society.

Notes

1 According to data from the *Global Wealth Databook 2015*, published October 2015 by Credit Suisse. Retrieved September 2016 from http://publications.credit-suisse.com/tasks/render/file/index.cfm?fileid=C26E3824-E868-56E0-CCA04D4BB9B9ADD5

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5 According to research carried out for Oxfam by the London School of Economics, to be published later this year.

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