

Economic Inequality

A Quaker Concern



The United Kingdom (UK) is one of the most unequal societies in the developed world. High levels of economic inequality present a fundamental challenge to Quaker testimony. It is also bad for us in social, economic and environmental terms.

This briefing provides an overview of the current and historical trends for economic inequality in the UK. It explains why inequality is bad for us and highlights some of the things that could be done to make our society more equal.



Lancaster Quakers, joined by members of the local Green Party, giving out leaflets to raise awareness of the need to pay the Living Wage.

Photo © Lancaster Quaker Meeting

1. UK Inequality in context

For most of the 20th century the UK made great strides in reducing economic inequality. We were at our most equal around 1977; however, since then inequality has risen sharply.¹ Some evidence suggests that the UK is now as unequal as it was in the 1930s.²

There has been much debate about the effect of the financial crisis on inequality. On some measures the UK is slightly more equal than it was in 2008. However, because the social security system offers some protection to people on low incomes, it is normal for inequality to fall during a recession. Inequality rose slightly in 2012/2013 and, as security cuts continue to bite, this is likely to continue in the short term.³

Rising inequality is a global problem. Its causes are complex and are thought to include globalisation, deregulation, the decline in trade unions, the growth of the financial sector, political capture by wealthy individuals and a more individualistic culture. Nevertheless, the UK remains one of the most unequal countries in the developed world. Of the 33 or so countries in the OECD for which statistics are available, only the United States, Chile, Turkey and Israel are more unequal.⁴

“We are angered that the United Kingdom now has a greater disparity in income than at any time since the Second World War and are compelled to speak out against government policy that makes cuts in spending that promote inequality. We challenge the culture and ethos that enable the leaders of finance and industry to take salaries and bonuses that are many hundreds of times larger than those of their employees.”

Britain Yearly Meeting statement on equality, March 2012

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For more information or additional copies, contact Suzanne Ismail at Suzannei@quaker.org.uk or call 020 7663 1055.

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UK Inequality in context (continued)

Figure 1: UK economic inequality 1961–2012

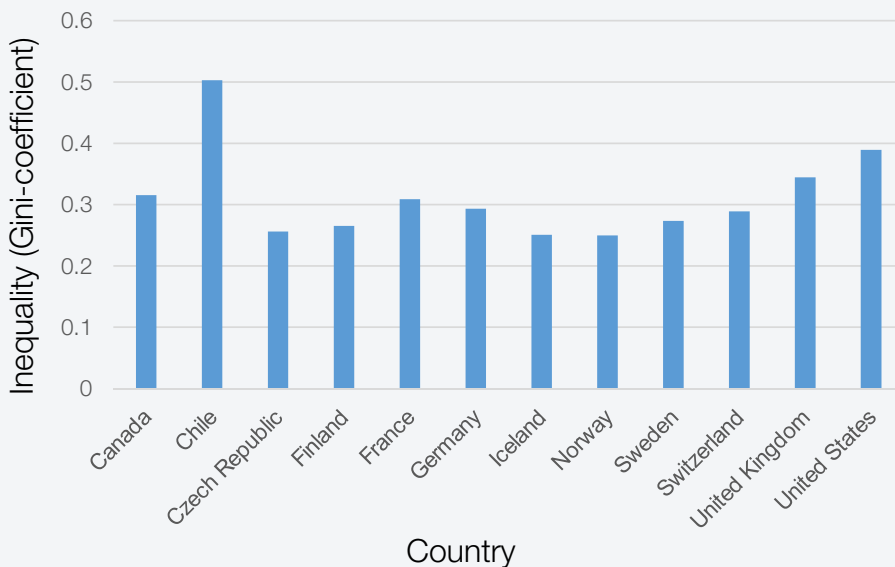
Economic Inequality has risen substantially since the 1960s, as shown by the graph below.



Data taken from the Department for Work and Pensions Family Resources Survey. With thanks to the Equality Trust.

Figure 2: UK inequality compared

The UK is one of the most unequal countries in the industrialised world.



Data taken from OECD income distribution database.

What do we mean by economic inequality?

Economic inequality usually refers to the extent to which income or wealth is shared unevenly across a society.

Income refers to money that people or households receive from employment, savings and investments, pensions, social security payments, sale of property, etc.

Wealth refers to assets held by individuals or households. These could include property, investments such as shares, art, private pension funds, etc.

Wealth inequality is usually higher than income inequality. However, because wealth can be more easily hidden than income, wealth inequality is harder to measure. Official inequality statistics therefore tend to focus on income inequality.

2. What's the problem with inequality?

High levels of inequality are problematic from many perspectives. There is often a complex web of relationships between economic inequality and other forms of inequality such as gender and race inequality, inequalities in health, education, housing and access to power.

Studies show that health and social problems including infant mortality, obesity, and violent crime tend to be greater in more unequal societies. They also tend to be less trusting, less altruistic, and have lower levels of happiness and social mobility. Greater equality could bring multiple benefits that would be felt by wealthy people and people on lower incomes alike.⁵

Recently, the International Monetary Fund expressed concern that high levels of inequality are damaging prospects for economic growth.⁶ The World Economic Forum has highlighted inequality as being one of the biggest risks facing the global economy.⁷

But there are also more fundamental spiritual and ethical reasons to be concerned about inequality. High levels of inequality encourage us to compete with and judge each other based on comparisons of material wealth and possessions. It also increases the likelihood of the richest and poorest in society becoming physically separate – living in different places and using different education, health and leisure services, for example. That people in the same country, or even the same neighbourhoods, can have completely different life experiences has profound implications for social cohesiveness and our ability to live together in community. It also presents a significant challenge to the Quaker conviction and our ability to recognise that “there is that of God in everyone”.

High levels of inequality also contribute to environmental degradation. The authors of *The Spirit Level*, for example, suggest that inequality drives consumerism; an important factor behind the depletion of natural resources and climate change.⁸ Quakers in Britain have committed to work towards an economic system that operates within the constraints of a finite planet. This will require us to limit our exploitation of natural resources such as land, water and carbon stored as oil, coal and gas. It will be much easier to manage this transition peacefully if we share access to and benefits from natural resources more equally.

3: Public policy to reduce inequality

Economic inequality is a multifaceted problem with complex roots. Tackling it will require concerted and sustained action on numerous levels. We all have a role to play; but for the best chance of success, we need explicit political commitments and, ideally, a high-level national strategy around which to focus our collective efforts.

Many elements of Quaker Peace & Social Witness' (QPSW) work and that of individual Friends and Quaker Meetings throughout Britain have sought to address economic inequality. From that experience we consider that a strategy to reduce inequality should, amongst other things, include a focus on our social security system, tax, fair pay and fair markets.

The social safety net: a vital foundation

Central to reducing inequality must be a decent social safety net. Yet benefit cuts, sanctions and delays probably forced over half a million people to use food banks last year.⁹ Both government and opposition parties have indicated that further cuts are planned. Although the details and scale of these are unclear, it is impossible to see how further cuts will do anything other than compound problems of poverty and inequality.

In 2013, as part of the End Hunger Fast campaign, Quakers in Britain joined other church groups in calling for a review of social security 'reforms' with a view to ensuring that they do not contribute to increased hunger.

How is inequality measured?²⁶

Inequality can be measured in many different ways. The most common measure is the **Gini coefficient**. This uses a single number (sometimes expressed as a percentage) to show the extent of inequality across a particular population.

A Gini coefficient of 1 (or 100 per cent) indicates that one person has all of the income. Conversely a Gini coefficient of 0 (or 0 per cent) indicates that income is shared absolutely equally. Figures 1 and 2 are based on the Gini coefficient.

Some economists believe that the Gini coefficient fails to reflect the extent to which in many countries there are large inequalities within the wealthiest five or even one percent of the population. The **Palma ratio** – a measure traditionally used in international development – has been put forward as a possible alternative. This compares the income share of the richest 10 per cent of a population to that of the poorest 40 per cent. In 2011 the US had a Palma ratio of 1.74, Norway 1.11 and the UK 1.4, meaning that the richest 10 per cent of the population enjoyed 1.74, 1.11 and 1.4 times the income of the poorest 40 per cent respectively.

There are several other ways of measuring inequality. A good summary can be found on the Equality Trust website; see www.equalitytrust.org.uk/about-inequality/scale-and-trends.

This is still necessary, but there were also considerable problems with the 'pre reform' system. Many Friends who use, work in, or support people using the social security system report that it has long struggled to treat claimants as individuals with different needs and circumstances. This has become worse in the current political climate, central to which is a narrative that often denigrates and makes sweeping and false assumptions about benefit claimants.

"There is a need revisit the basic premise and principles of the social security system."

As such, there is also a need revisit the basic premise and principles of the social security system. This should not only aim to ensure that the system prevents hunger and destitution. It must also be centred on the principle of human dignity and actively work to ensure that everyone can contribute to and be valued as members of our society.

A fairer tax system

Together with the social security system, the tax system plays a fundamental role in redistributing income and wealth. However, in the UK this has become far less redistributive in recent decades.¹⁰



Alison Prout, QPSW programme manager, at the tax justice tour with Christian Aid and Church Action on Poverty. Photo: Christian Aid

The period since April 2010 has seen a number of controversial changes to income tax, including the reduction of the Additional rate from 50p to 45p. More recently there have been substantial increases to the Personal Allowance threshold (the amount someone can earn before having to pay income tax). Although promoted as a measure to help the lowest paid workers, in reality the latter does more to help high and middle income earners.¹¹ These changes, together with the social security cuts, have caused the poorest half of the population to lose out while the richest half have, generally, gained.¹²

Although our income tax system is progressive (i.e. people on higher incomes pay a higher proportion of tax), once other taxes such as Value Added Tax are taken into account the poorest 20 per cent of the population actually pay a higher percentage of their income in tax.¹³ Such anomalies clearly require attention.

As well as redistributing income and wealth, tax is important because it enables us to take collective responsibility for the infrastructure and services that facilitate functioning, cohesive communities. Reducing our tax base at the same time as pursuing a vigorous deficit reduction plan undermines our ability to do this. To the extent to which a deficit reduction strategy continues, it should prioritise increasing tax revenue over public service reduction.

A good starting point for strengthening our tax base would be to put greater effort and resources into tackling tax dodging. Estimates of the UK tax gap¹⁴ vary between £34 billion and over £100 billion per year.¹⁵ To put this in perspective, the NHS budget for 2012/13 was £108.9 billion.¹⁶

In helping to put the issue of tax dodging onto the international political agenda, and by introducing measures aimed at tackling some of the most egregious schemes, the government has made some progress in this area. However, this does not go far enough and there remains a particular need to tackle corporate tax dodging to ensure that large multinational companies pay a fair share.

Fair pay

In 2013/4 the average chief executive of the UK's top 100 companies was paid £4.7 million. At the same time, around 5 million people (about 20 per cent of the British workforce) were being paid less than a living wage.¹⁷ This is just one symptom of a fractured labour market where pay and terms and conditions for those 'at the top' are completely divorced from those 'at the bottom'.

Increases in the cost of living and the growth of precarious forms of employment such as 'zero hours' contracts have compounded the effect of low wages. This has led to more people being forced to turn to food banks.¹⁸ It has also had implications for the social security system: the number of claimants and costs associated with Working Tax Credits now far outweigh those associated with Jobseeker's allowance.¹⁹ It effectively means that the social security system is subsidising low-wage employers.

Initiatives like the Living Wage Campaign have highlighted the human and social costs of low pay. Around 900 companies and other organisations have now become certified Living Wage employers. However, take-up amongst the largest companies has been low. There is clearly scope for more employers to join the scheme. But there are limits to what voluntary initiatives can achieve. Ultimately, the only way to make sure that work

Minimum wage vs Living Wage

The UK national minimum wage for workers over the age of 21 is £6.50 per hour. Rates are set annually according to recommendations made by the Low Pay Commission, whose aim is to help as many low-paid workers as possible without causing significant adverse effects on employment or the economy²⁷. The cost of living is not taken into account.

The UK Living Wage is £7.85 per hour nationally and £9.15 in London. These figures are based on research into what households need in order to enjoy a minimally acceptable standard of living.²⁸ Accredited 'Living Wage' employers pay all directly employed employees a Living Wage and are working to ensure this for contract and agency staff regularly employed on their sites.

"Increases in the cost of living and the growth of precarious forms of employment such as 'zero hours' contracts have compounded the effect of low wages."



Stroud Friends organised a 'foodless dinner party' to raise awareness of increased levels of hunger in Britain. Photo: Monica Jones

pays is if the minimum wage adequately reflects the cost of living. As well as the obvious social benefits, extending a living wage to all workers would be beneficial for public finances, delivering savings of approximately £3.6 billion.²⁰

There has been much debate about the speed and extent to which wages can be raised without increasing unemployment. The independent Commission on Child Poverty and Social Mobility recommends that the UK should become a 'Living Wage economy' by 2025. This should be possible, it states, if government, employers, trade unions, and others work together to develop a comprehensive 'national pay progression strategy'. The public sector should lead by example, both as an employer and by using its procurement practices to spread good practice.

Fair markets and energy justice

Another factor that both contributes to inequality and compounds its effects is the 'poverty premium'. Markets for essential goods and services like food, finance and funerals often fail to work in the interests of people on lower incomes. Church Action on Poverty research shows that this can cost up to £1,500 a year for an average family.²¹

QPSW is particularly concerned about fuel poverty. Most energy tariffs are structured in a way that means people who use lots of energy often pay the least per unit. Conversely, people who use small amounts pay a premium. A particular concern is the large number of people being forced onto prepayment meters – often to recover debt. Prepayment meters can be up to five times more expensive than paying by direct debit.²² This no doubt contributed to the fact that over 4.5 million households were classed as living in fuel poverty in 2012.²³

“Ultimately, the only way to make sure that work pays is if the minimum wage adequately reflects the cost of living.”



Part of the Quaker presence at a vigil outside the Houses of Parliament to mark the end of the End Hunger Fast campaign. Photo: Quaker Peace & Social Witness

Church Action on Poverty (CAP) is calling on The Department for Business, Innovation and Skills to develop a strategy for substantially reducing the 'poverty premium' in relation to food, fuel and finance. This is a vital starting-point which could address some of the inequalities within our energy system.

In the context of climate change we also need to decarbonise our energy system and reduce our collective demand for energy. QPSW has also been working with Fuel Poverty Action to promote their 'Energy Bill of Rights.'²⁴ This calls for a radical rethink of our energy system so that everyone has access to enough affordable, clean energy to meet their basic needs.

One possible solution for tackling the twin problems of fuel poverty and climate change has been proposed by the 'million climate jobs' coalition. This calls on the government to set up a National Climate Service, creating one million new jobs to help bring about direct cuts in carbon emissions. These could include insulating and retrofitting buildings, replacing coal-fired power stations with wind farms and improving public transport.²⁵

4. Conclusion

There is a growing recognition that the high levels of economic inequality seen in the UK today are damaging the fabric of our society. Yet such levels of inequality are not inevitable. This briefing has spelled out just a few of the public policies and other actions that could help us become a more just and equal society. We all have a role to play in helping to bring this about. Ensuring that there is sufficient political will and commitment will be key.

“Deepening economic inequality cannot continue indefinitely without a risk of violence and oppression. We are dismayed that the government is giving so little consideration to the long-term impacts of spending cuts on whole communities. Under-investment and short-term accounting are putting the wellbeing of future generations at risk.”

Britain Yearly Meeting statement on equality, March 2012

What else can I do?

Much of this briefing focusses on changing public policy and a key task for Quakers and others will be to demonstrate that there is public appetite for such changes. However, there are also other things we can do as individuals or Quaker meetings. Here are a few ideas:

Quaker Equality Week: 6–15 March 2015

A week of Quaker vigils and other activities to raise awareness of the need to tackle inequality. Find out how your meeting can get involved at www.quaker.org.uk/economic-inequality.

Engage with politicians

Use this briefing and BYM's *Quaker Vote* election guide to raise the issue of inequality with politicians and parliamentary candidates in the run-up to the 2015 general election and beyond. See www.quaker.org.uk/quakervote.

Challenge the 'skivers vs strivers' rhetoric

Use the Lancaster Friends' t-shirt and QPSW briefing to start conversations and challenge assumptions about the nature of our social security system. For more information see <http://www.quaker.org.uk/files/Welfare-t-shirt-leaflet-Nov-2014.pdf>.

Consider becoming a Living Wage employer

If your meeting employs people, consider becoming a Living Wage employer. This could be particularly useful if your meeting plans to do wider campaigning on Living Wage issues. For more information contact Richard Summers richards@quaker.org.uk.

Join a credit union

Credit unions play an important role helping to tackle financial exclusion; an important element of the 'poverty premium'. Find out more from the Association of British Credit Unions www.abcul.org/home or Scottish League of Credit Unions www.scottishcu.org.

Endorse the 'Energy Bill of Rights'

Quaker meetings and other groups can endorse Fuel Poverty Action's (FPA) 'Energy Bill of Rights'. You can also share FPA resources within your community to help make sure everyone, particularly people who may be vulnerable to fuel poverty, know their energy rights. For more information see www.quaker.org.uk/energy-bill-rights.

For more action suggestions see www.quaker.org.uk/economic-inequality.

Endnotes

1. Unless otherwise stated statistics in section 1 are taken from *The Effects of Taxes and Benefits on Household Income, 2012/13* Office for National Statistics, June 2014. See www.ons.gov.uk/ons/rel/household-income/the-effects-of-taxes-and-benefits-on-household-income/2012-13/index.html.
2. Because of changes in data collection, comparable statistics are hard to obtain, but this view is borne out by various sources including the Paris School of Economics' World Top Incomes database at <http://topincomes.g-mond.parisschoolofeconomics.eu> and the Chartbook of economic inequality, see www.chartbookofeconomicinequality.com/inequality-by-country/united-kingdom/.
3. *Living standards, poverty and inequality in the UK: 2014*, Institute for Fiscal Studies, 2014, p. 4. See www.ifs.org.uk/uploads/publications/comms/r96.pdf.
4. 2012 data taken from OECD income distribution database at www.oecd.org/social/income-distribution-database.htm.
5. See for example the evidence put forward by Richard Wilkinson and Kate Pickett in *The Spirit Level*, Penguin, 2009. A helpful summary can be found at <http://www.equalitytrust.org.uk/about-inequality/effects>.
6. 'IMF study finds inequality is damaging to economic growth', *The Guardian*, 26 February 2014. See www.theguardian.com/business/2014/feb/26/imf-inequality-economic-growth.
7. *Global risks 2014*, World Economic Forum, 2014, p. 10. See www3.weforum.org/docs/WEF_GlobalRisks_Report_2014.pdf.
8. *A Convenient Truth*, Richard Wilkinson and Kate Pickett, Fabian Society, 2014. See www.fabians.org.uk/publications/a-convenient-truth/.
9. 47.9% of the 913,138 people who received emergency food from Trussell Trust foodbanks in 2013–14 were referred due to benefit changes or delays. As the Trussell Trust is just one (albeit the largest) provider of food aid in the UK this figure probably substantially underestimates the true scale of the problem.
10. OECD research shows that between the 1970s and mid 1980s the UK tax and benefit system offset more than 50% of the rise in income inequality. By the late 2000s it only offset about a quarter. *Divided we stand: why inequality keeps rising*, United Kingdom, OECD, 2011. Available at www.oecd.org/els/soc/49170234.pdf.
11. 'Green Budget 2014', Institute for Fiscal Studies, February 2014, p. 141. See www.ifs.org.uk/publications/7072.
12. *The distributional effects of the UK Coalition government's tax-benefit policy changes*, London School of Economics and University of Essex, November 2014. See www.lse.ac.uk/newsAndMedia/news/archives/2014/11/Poorlose_richgain.aspx.
13. In 2012/13 the poorest fifth of households paid 37.4% of their income in tax. The richest fifth paid 35.1%. *The Effects of Taxes and Benefits on Household Income, 2012/13* Office for National Statistics, June 2014. See www.ons.gov.uk/ons/rel/household-income/the-effects-of-taxes-and-benefits-on-household-income/2012-13/index.html.
14. The Tax gap refers to the difference between what a government actually receives in tax and what it would receive if everyone and every company paid what they owed in full, on time and in the right place.
15. £34 billion relates to official government estimate for 2012–13. In September 2014, in a report for the Public and Commercial Services Union, tax expert Richard Murphy estimated the gap to be at least £119.4 billion.
16. NHS England website: www.nhs.uk/NHSEngland/thenhs/about/Pages/overview.aspx.
17. For example 85% of bar and waiting staff and 70% of cleaners and like hospitality, cleaning and retail assistants are paid less than a living wage. Data in this paragraph is taken from *Using Ethical Investment to Close the Gap: Fair Pay*, The Ecumenical Council for Corporate Responsibility, 2014, p. 11.
18. Nationally 20.29% of referrals to Trussell Trust foodbanks in 2012/13 were made because people were on a low income. This varies considerably across the country; for example in Truro this accounted for over 30% of referrals. Data from a presentation made at the Devon and Cornwall Area Meeting regional gathering, October 2014.
19. In 2013/14 there were 1,220,000 income- and contribution-based Jobseeker's Allowance claimants, costing £4,387 million (GB Figures). In the same period there were 2,465,000 working tax credit claimants costing £6,316 million (UK Figures). Figures taken from *A survey of the GB Benefit System*, Institute for Fiscal Studies, October 2014, p.8: www.ifs.org.uk/uploads/publications/bns/BN13_Benefits_Survey_2014.pdf.
20. See *Beyond the bottom line: The challenges and opportunities of a living wage*, IPPR and Resolution foundation, January 2013, p. 42. See www.ippr.org/assets/media/images/media/files/publication/2013/01/beyond-bottom-line_living-wage_Jan2013_10162.pdf.
21. *Food, Fuel, Finance: tackling the poverty premium*, Church Action on Poverty, December 2014, p. 5. See www.church-poverty.org.uk/foodfuelfinance/report/read/fffreport.
22. *Food, Fuel, Finance: tackling the poverty premium*, Church Action on Poverty, December 2014, p. 11. See www.church-poverty.org.uk/foodfuelfinance/report/read/fffreport.
23. *DECC Annual Report on Fuel Poverty Statistics*, DECC, 2013. In this period a household was defined as being fuel poor if it needed to spend more than 10 per cent of its income on fuel to maintain an adequate level of warmth. DECC has since changed the definition of fuel poverty, one implication of which is that more recent statistics show that the number of household living in fuel poverty has fallen.
24. *The Energy Bill of Rights* is a campaigning tool that is being used to highlight the need for a clean, affordable and renewable energy system. It sets out eight principles that should underpin this. For more information see www.quaker.org.uk/energy-bill-rights.
25. *One million climate jobs: tackling the environmental and economic crisis*, third edition, Campaign Against Climate Change, 2014. See www.climate-change-jobs.org.
26. Data in this section taken from OECD income distribution database: www.oecd.org/social/income-distribution-database.htm.
27. Low Pay Commission terms of reference: www.gov.uk/government/organisations/low-pay-commission/about/terms-of-reference.
28. These Minimum Income Standards are calculated by Loughborough University's Centre for Research in Social Policy: www.lboro.ac.uk/research/crsp/mis/thelivingwage/.