

Addressing economic inequality at root

5 goals for a fairer UK



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Summary

Spiralling economic inequality is undermining our economy, society and democracy. Now seen by many as one of the world's most pressing challenges – the time has come for action.

Is it any surprise that four out of five British citizens want the government to act on inequality? The richest 1% of the UK population are now wealthier than the poorest 50% put together – a disparity that has been growing steadily since the 1970s, and on current trends is set to get even worse.

But this isn't about the politics of envy; nor is it purely about what is morally right or wrong. We have convincing evidence that extreme economic inequality is contributing decisively to financial instability, wasted human capital, lower well-being and mental health, domination of politics by an elite few and low voter turn out.

We can no longer afford to ignore our inequality problem. It's time for action.

The authors of this report call on the government to start with two key steps. The first is to [set a tangible target to reduce economic inequality](#), as they have for child poverty. The second is to establish a [high-level commission on economic inequality](#) tasked with devising a broad policy agenda to tackle the drivers of inequality.

We then identify five high-level goals that must be achieved to address some of the root drivers of economic inequality. Each goal is accompanied with a set of policy area priorities:

- **Universal provision of high-quality childcare that is affordable for all.** High-quality childcare can transform life opportunities for children and will help to address unequal starting points. Making it equally available and affordable to all families would give parents more choices about balancing their families' needs and their working lives.

Policy priorities: Public funding supporting the supply of childcare in order to cap family childcare expenditure at 15% of income; increased standards of training and qualifications to ensure childcare is always high quality; and better working conditions for childcare workers, including a Living Wage, stable contract hours and career and pay progression opportunities.

- **Narrow the difference between top-to-bottom earnings and rebuild the link between economic prosperity and wages.** Over time, the proportion of UK economic prosperity shared out as wages has shrunk in favour of

shareholder profits. Within this smaller wage share median wages have fallen while pay at the top has sky-rocketed. Concerted action to restore wages and shrink the income gap would create a healthier economy and address in-work poverty.

Policy priorities: Ensure workers have a collective voice in workplace decision-making by law; establish a Department of Labour tasked with restoring wages in the economy and improving working conditions; establish a stronger wage-floor to eliminate in-work poverty; and enforce pay ratio reporting to address wage differentials.

- **Access to valued careers for all with opportunities for progression and skills development.** Non-graduates are being increasingly funnelled into low-paid, dead-end jobs with little or no prospects of future progression. Addressing the lack of investment in training and development for staff and managers would broaden opportunities for purposeful and rewarding work.

Policy priorities: Promote pooled training investment by sector; invest in incentive structures to improve high-quality management skills at different levels; use state support to ensure apprenticeship schemes lead to progression at work across more industries; and establish better education, training and employment links at the local level.

- **Creation of good jobs for all that benefit workers, the economy and society.** Everyone should have the right to a well-paid, secure and meaningful job. But the current jobs market is hugely unbalanced, both in terms of geography and job quality. We need to invest in good, environmentally sustainable jobs around the country.

Policy priorities: Co-ordinate and co-produce a national industrial strategy; establish a state investment bank with regional focus; funding for better jobs and training to guarantee full employment; and reform business to ensure workers have a collective voice.

- **A fairer, more progressive tax system.** When you take account of direct and indirect taxes, those on low incomes in the UK are being hit too hard, while billions of pounds each year are being lost through tax avoidance and evasion at the top. Progressive tax reforms would help to address inequality at root as well as redistributing economic power.

Policy priorities: Strengthen legislation and resources to abolish tax avoidance and evasion; implement and co-ordinate more progressive income and wealth taxes; establish a Land-Value Tax; and shift the tax burden onto environmentally unfriendly activities through green taxes.

There is no silver bullet for tackling economic inequality: the interconnections between different areas mean that a package of bold interventions is required, with each policy step reinforcing the next. While not exhaustive, we believe this report covers the most pressing issues and provides a clear starting point for determined, coordinated action.

Introduction

This report sets out goals and policy priorities to kick-start decisive, coherent action on tackling economic inequality. These have been shaped by conversations with a range of leading childcare, labour market and economic experts.

In December 2013, a partnership between the New Economics Foundation (NEF) and the Friedrich-Ebert-Stiftung convened 60 European experts from across academia, policy, civil society, trade unions and the media to discuss how to tackle economic inequality at root.

The conference, *Addressing Inequality and the Living Standards Crisis*, held in London, combined plenary and roundtable discussions on five specific areas: childcare and the early years; wages and working conditions; skills and progression pathways; job creation; and taxation. Each roundtable was tasked with drawing up a goal and practical policy priorities. The focus was on UK requirements especially, but with applicable learning from other governments facing similar challenges.

We are grateful to all those who took part in the conference. This report publishes our analysis of the roundtable discussions. It also builds on NEF's programme of research on economic inequality. The report should not be read as representing a consensus among the participants at the conference, nor should it hold any of the experts to the views expressed. Responsibility for the content and analysis rests solely with the authors.

Our analysis does not claim to be definitive. This is for good reason; we believe that the detail of policy in each area needs to be worked out with a dedication of resources and collaboration among social partners and policy-makers. However, we believe the goals provide an ambition and a valid framework that policy-makers should sign up to without delay. The policy priorities, such as implementation of a statutory basis for ensuring a collective voice for workers, and commitment of public funding for a universal system of childcare, provide a platform for instigating action in some of the most critical areas for addressing economic inequality at root. The policy priorities are where the detail of specific interventions needs to be built in but we call for adoption of the agenda as the first major step.

The report is aimed directly at policy-makers but can also strengthen public debate and pressure for work to begin to tackle economic inequality. It is evident that policy-makers must recognise that there is no silver bullet to

resolve the economic inequality challenge and equally that nothing short of deep-seated reforms are required. Systemic action on a number of levels is needed because economic inequality extends from and into economic and social processes, structures and institutions. This means that a comprehensive strategy is required if we are to decisively tackle economic inequality at root.

The report is structured in three parts.

- The first part gives an overview of the evidence on why tackling economic inequality matters and what is driving the growth in economic inequality. From here we go on to explain what this means for taking action now and how the different policy areas we have examined come together into a coherent agenda for change. The first part concludes with a discussion around setting a measurable target for reducing economic inequality.
- The second part of the report sets out more detail on each of the policy areas we have looked at: childcare and early years intervention; wages and working conditions; building skills and progression pathways; job creation; and taxation. These dedicated sections are followed by a short discussion of the considerations and barriers that experts believe need to be addressed in order to move the agenda forward.
- The report concludes with practical recommendations for immediate next steps.

Part 1

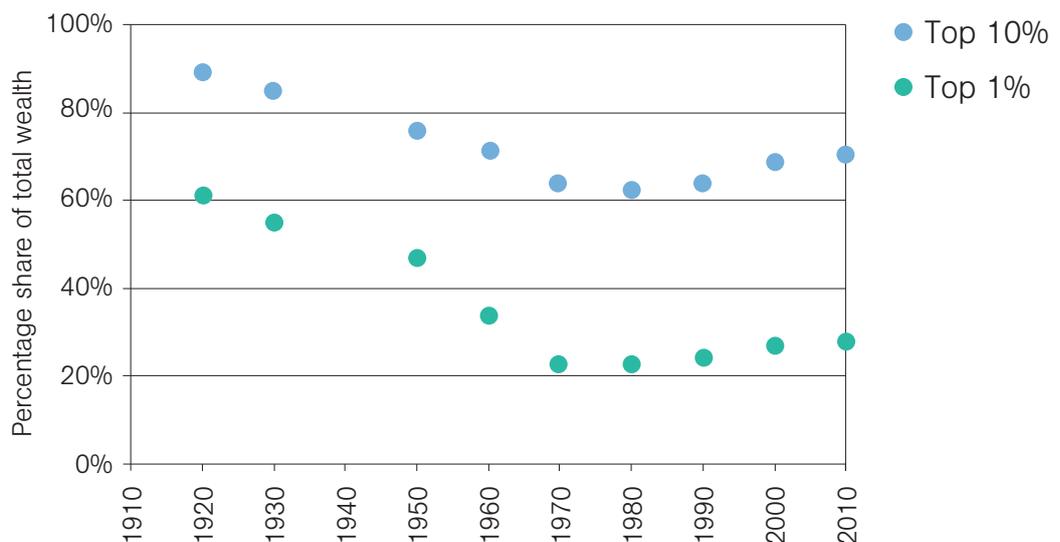
Time for action

The cycle of reinforcing drivers of economic inequality means we need a coherent policy agenda to create a 'virtuous cycle' for positive change. This must be spearheaded by a clear reduction target to clarify ambition and hold policy-makers to account.

Why tackling economic inequality matters

Economic inequality has risen in most OECD countries in the past several decades and in the UK it is at historically high levels. Recent revelations drawn from UK tax records and described in Thomas Piketty's bestselling book, *Capital in the twenty-first century*, demonstrate that the concentration of wealth among the richest 1% and 10% in the UK has been rising since the 1970s (see Figure 1).¹ The Office for National Statistics (ONS) Wealth and Assets Survey, which underestimates wealth at the top of the spectrum, still finds that the richest 1% now has more wealth than the poorest 50% put together.² Increasingly people struggle to understand how such wealth at the top is fair when the majority have experienced a real-term decline in wages since 2008.

Figure 1: Share of total wealth for the top 1% and 10% in the UK 1910–2010



Source: Piketty, T. (2014). Technical appendix, *Capital in the twenty-first century*³

According to the Gini coefficient measure, where a score of 0 means absolute equality and 1 absolute inequality, income inequality stopped growing and remained stable between 2008 and 2010 at around 0.35.⁴ This is in part because of the impact of the recession on incomes for the top 10% of earners, and the way incomes at the bottom are protected by welfare provision. However, this stabilisation is more of a respite than a new trend. The Organisation for Economic Co-operation and Development (OECD) and the Institute for Fiscal Studies (IFS) expect income inequality to rise again as incomes at the top recover and austerity measures mean the poor are less protected. The signs are certainly there that this is the case: average pay for the chief executive officers (CEOs) of the 15 leading banks increased by 10% in 2013⁵ yet the number of meals given to people in food poverty increased by 54%.⁶

In light of these figures, it should come as no surprise that the majority of the British public support action to reduce disparities. A recent ICM Research poll shows that 80% of the British public now support action to reduce economic inequality, higher than the number who support action on immigration or benefits.⁷

Justification for action on economic inequality can also be found in the growing evidence that extreme economic inequality is damaging for our economy, society and democracy. Chief among these impacts is the way high economic inequality lowers social mobility, divides communities, lowers well-being, increases instability in the economy and reduces voter turnout among the poor.⁸

Economic inequality is also self-perpetuating, making intervention increasingly difficult as time goes by. It is becoming increasingly apparent that the rich influence policy-makers and policy through lobbying to fortify and extend the institutional structures that promote economic inequality. One recent example of this is the endeavour made by the UK's coalition government to block the EU from limiting bankers' bonuses.⁹ This pressure on policy-makers or 'political capture' by the rich is no longer considered to be a conspiracy theory but a fact.¹⁰

Now is the time to act. The UK is already one of the most unequal countries in the developed world, only slightly more equal than the US.¹¹ If, as predicted, economic inequality continues to grow, we will undermine our ability to build a meritocratic and cohesive society, resilient economy and healthy democracy.¹²

What is driving the growth in economic inequality?

Tackling economic inequality at root means identifying and understanding the factors driving current trends. Until recently, the mainstream literature explaining economic inequality almost exclusively focused on globalisation and skill-biased technical change. There is now a growing recognition that these factors fail to satisfactorily explain why economic inequality is rising in the majority of high-, middle- and low-income countries, and the excessive increases in pay and wealth among the richest. New, competing explanations point to deeper structural shifts in the economy and political economy, the latter reflecting choices that are being made about society and our management of the economy. Below we briefly consider the role of globalisation and technology as well as financialisation, declining trade union membership, redistribution policies and political capture. This overview of the mechanics of economic inequality illuminates the scale of the policy challenge and signals the need for multiple interventions to disrupt the surge in economic inequality.

Globalisation

The term globalisation can mean many things. Here we focus on the connections with increasing integration at the international level and impacts on the movement of labour and capital. We consider the issue of growing financial flows separately, under the financialisation heading below.

The basic explanation of how globalisation is driving economic inequality is that opening up economies to developing countries undermines the position of low-skilled workers in richer nations. On the other hand, skill-intensive sectors become more concentrated in higher-income countries where a greater proportion of the population is highly qualified. Fewer opportunities for those without many formal qualifications, alongside more opportunities for those with graduate skills, lead to growing economic inequality.

Despite its popularity as an explanation for increased income disparities, the data on globalisation does not suggest that it is the central factor. The OECD's statistical analysis found that higher imports from low-income countries only caused wage dispersion in countries with weaker employment protection legislation.¹³ Furthermore, the lowest wages and poorest working conditions are not found in sectors where jobs are at risk of flight overseas to cheaper labour markets, but rather in the care and hospitality sectors where jobs, by their nature, remain within the domestic economy.¹⁴ The inability of globalisation to explain economic inequality growth has a silver lining – it opens up the space for policy discussions and solutions. This is because if globalisation was key to driving economic inequality, then tackling it would require measures to address globalisation. Not only would this be very difficult it would widely be considered undesirable.

Technology

Product innovation has resulted in new technologies in the workplace that favour more educated workers. In response, employers have increased demand for more skilled workers who complement the new technology. The result is that the wages and employment of the more-skilled has risen relative to their less-skilled counterparts. This bias is further skewed by process innovations which have led to increased mechanisation, such as those on factory lines and supermarkets, resulting directly in job losses.

Again, just as with globalisation, the assertion that technological change is the key driver of growing economic inequality leaves very little space for policy intervention and makes rising economic inequality seem inevitable. However, there is debate over how big a piece technology is in the puzzle of increased economic inequality. For example, economic inequality grew at a much faster rate in the 1980s than in the 1990s and 2000s, yet technological change has been ongoing.¹⁵ It is also hard to see how skill-biased technical change can explain the exponential increases in wages among CEOs.¹⁶

We do not wish to completely dismiss the role of technology in driving economic inequality. It is clear that newer technologies, when compared to the electromechanical revolution, for example, are creating fewer jobs and much higher returns for entrepreneurs. The former Chair of the Financial Services Authority, Lord Adair Turner, has spoken of the new technological age as contributing to a winner-takes-all society. For example, Mark Zuckerberg, founder of Facebook, made almost inconceivable returns on a company that required very little capital investment.¹⁷ However, this is not simply the outcome of new technology, but technology combined with the functioning of our financial system.

Financialisation

Financialisation can be understood as the increasing size and influence of financial markets, actors and institutions in domestic and international economies. It is often seen as a negative phenomenon, linked to “speculative and excessively liquid financial flows that create debt-laden balance sheets, overly short-term perspectives, volatility and mispricing of important asset prices, including exchange rates, and subsequent misallocation of resources and unstable economic growth”.¹⁸ In short, the liberalisation of capital movements results in financial bubbles.

Financialisation has resulted in greater economic inequality predominantly by causing protracted country current account deficits, resulting in the inflation of assets. In the UK, the inflation of assets has been particularly skewed towards housing, but other types of assets have also seen considerable increases in value.

The French economist, Thomas Piketty, has recently popularised the fact that the rate of return on capital is greater than the rate of economic growth (and hence wage growth). The rising value of capital has distorted behaviour such that it makes more sense to invest in capital accumulation than in productive assets and job creation. Furthermore, as wealth is always more unequally

distributed than income, this rising value of capital is allowing the rich to get richer at an increasing velocity, compounding wealth concentration at the top.

The growth of the finance sector has also contributed considerably to income inequality. It is no longer controversial to say that pay in the finance sector and for CEOs is bloated. There has been a tenfold increase in pay for the CEOs of the four largest banks since 1989. It would be disingenuous to argue that this increase is a reflection of rising productivity among CEOs. Instead, it is becoming increasingly clear that those in the financial sector, perhaps because of the opaque nature of their work, are able to command high wages without delivering value to society.¹⁹

Declining trade union membership and labour market liberalisation

The liberalisation of markets from the 1980s onwards was not confined to the finance sector but also the labour market. One key underlying trend explaining growing economic inequality is the fall of the wage-to-profit ratio across OECD economies.²⁰ The trigger for this is widely believed to be declining levels of collective bargaining as the power of trade unions has waned.²¹ It is noticeable that the few OECD countries that have managed to contain economic inequality are those that continue to have a strong union presence.²² The OECD and others find that the shift towards more 'flexible' labour markets – with reduced employment legislation and weakened collective bargaining – is the main driver of falling wages.

Redistribution policies

Since the late 1970s there has been renewed popularity for low taxes, which fits with the broader shift to liberalised markets. Top marginal tax rates have almost halved – from 83% to 45% in the UK – since the mid-1970s. This has undoubtedly contributed to rising economic inequality. Other taxes that the rich are also more likely to be subject to, such as dividend income (domestic profits) tax and corporate taxes have also fallen across OECD countries.²³

Welfare provisions play an important part in protecting incomes at the very bottom of the income scale. Until recently, welfare spending as a share of GDP was increasing in the UK and most other OECD countries, in large part due to an ageing population. However, austerity measures introduced in the UK and many European nations in the past four years will undermine the ability of the state to uphold incomes at the bottom. It has been noted that no OECD country achieves high redistribution with low social spending²⁴ so austerity will almost certainly have a regressive effect. Studies have consistently found that, where the state has dismantled welfare systems and retrenched public services, both equality and social mobility have fallen.²⁵

Political capture

One of the most disturbing impacts of economic inequality is its ability to affect our democracies. Research has shown that high levels of economic inequality are associated with lower voter turnout among the poor.²⁶ On the flipside, there is growing evidence to show that the rich are able to use their wealth and incomes to lobby governments to fortify and extend policies that protect their privileges.²⁷ This phenomenon is most obvious in

the US where there is very little regulation on how much money individuals and corporations can give to politicians for their election campaigns.²⁸ This mechanism, alongside the falling number of low-income citizens voting, makes economic inequality self-perpetuating.

Implications for policy

Of course, the factors listed above do not completely solve the puzzle of why economic inequality is increasing. As always, there is a need for more empirical research to be done, in particular about the relative importance of these different factors. However, based on this discussion we can draw several conclusions. Firstly, addressing economic inequality is not simply about increasing wages at the bottom or addressing low educational attainment. We need a concerted effort to address these outcomes, but we also need to address tax, high pay and wealth accumulation, while ensuring that the rich elite do not command disproportionate influence over our democracies.

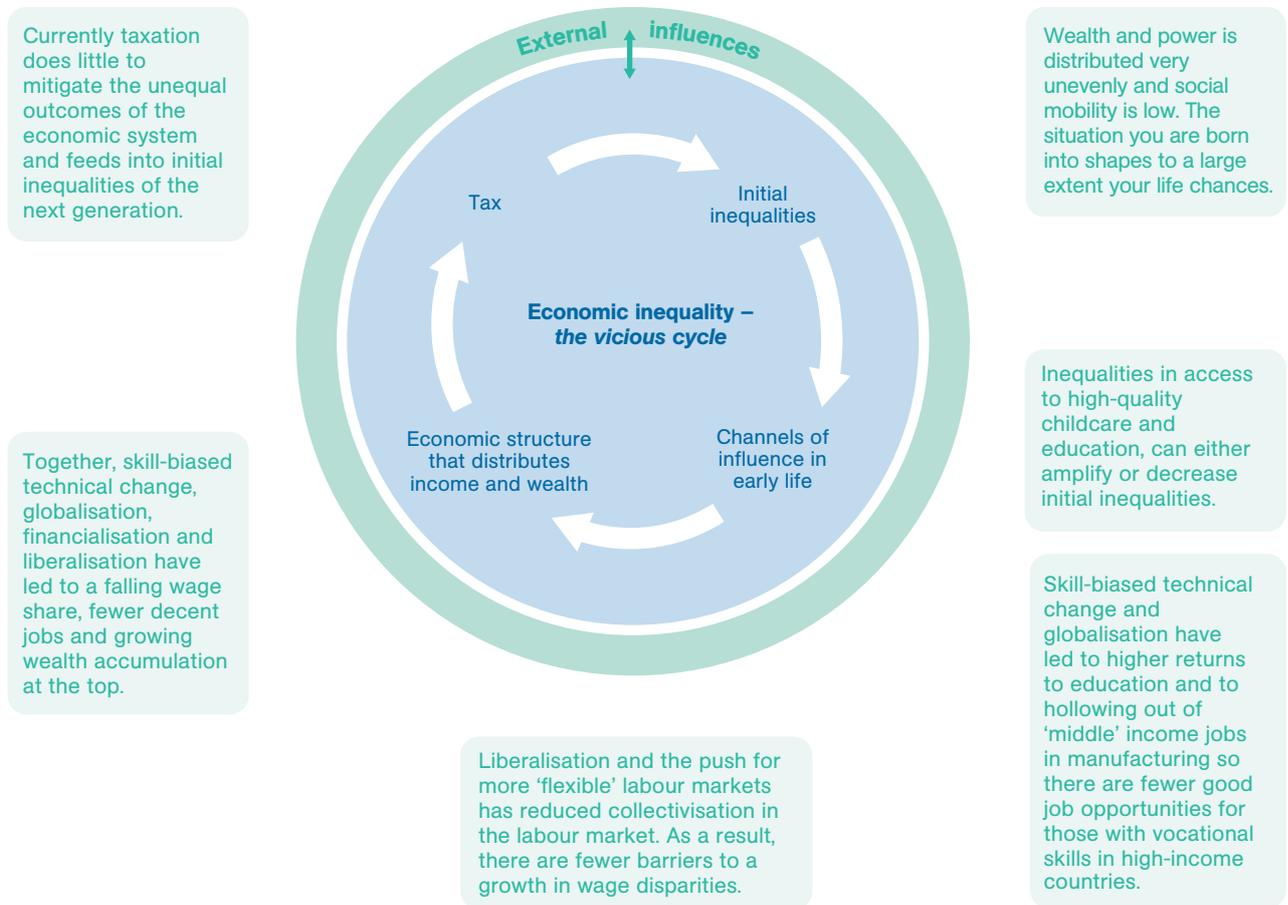
Organising the drivers of economic inequality through the life cycle

Given the complexity and intertwining nature of the drivers of economic inequality, it is helpful to connect factors in an intuitive way to provide some grounding for a policy framework. We have chosen to group them under five headings which relate to the way these factors can affect an individual's life course:

- 1. Initial conditions:** the economic situation that people are born into, including their family store of wealth.
- 2. Channels of influence in early life:** the routes that could potentially inflate unequal starting points, most notably early childhood education and care, primary and secondary education. These are important in the context of globalisation and skill-biased technical change.
- 3. External influences:** financialisation and liberalisation are two major external forces that have both directly fuelled economic inequality and played a considerable role in shaping the UK economy and labour market.
- 4. The national economic system:** Including the make-up of sectors and profile of the labour market.
- 5. The political system and tax:** the extent to which the political system has been captured by the wealthy elite dictates the likelihood of governments tackling economic inequality. This in turn influences the progressive or regressive tilt of tax policy.

The connection between these groups of factors is best illustrated through a circular diagram, where initial wealth inequalities then dictate the channels of influence in early childhood. Included in this cycle are external influences, such as financialisation and labour market liberalisation, which have pushed the economic system to develop in an uneven way and restricted the number of quality jobs available in the economy. Finally, the structure of taxes further entrenches inequalities for this and the next generation.

Figure 2: The vicious cycle of economic inequality



With each rotation of the cycle through the life-course, and as each new generation is exposed to the outcomes of the previous one, the momentum of processes that cause economic inequality increases. For example, once there are considerable wealth and income disparities, different socioeconomic groups begin to segregate spatially. Once this occurs, access to decent childcare and education becomes less likely for the poorest, which in turn amplifies the next stages in the cycle. This means that, the longer this cycle continues, the harder and more expensive it becomes to bring it to a halt, let alone reverse it.

The interplay of factors driving economic inequality means that there is no easy resolution. But it is clear from international examples that UK levels of economic inequality are not inevitable. Some developed countries have successfully designed policies to help mitigate economic inequality, even in the face of strong global forces. However, this report concludes that it is not enough to intervene at the end of this cycle through redistributing tax. To break the cycle and prevent economic inequality, interventions are needed throughout.²⁹

Time to act on the evidence

The wealth of evidence, together with expert and public opinion as outlined in the previous sections, demonstrates the scale of the economic inequality challenge ahead. It is no longer sustainable for policy-makers to avoid the issue. A number of senior politicians agree on this. And yet, despite many statements of concern and some of good intent, we are still without a guarantee of forceful commitment to action by governments.

Creating a virtuous cycle for change

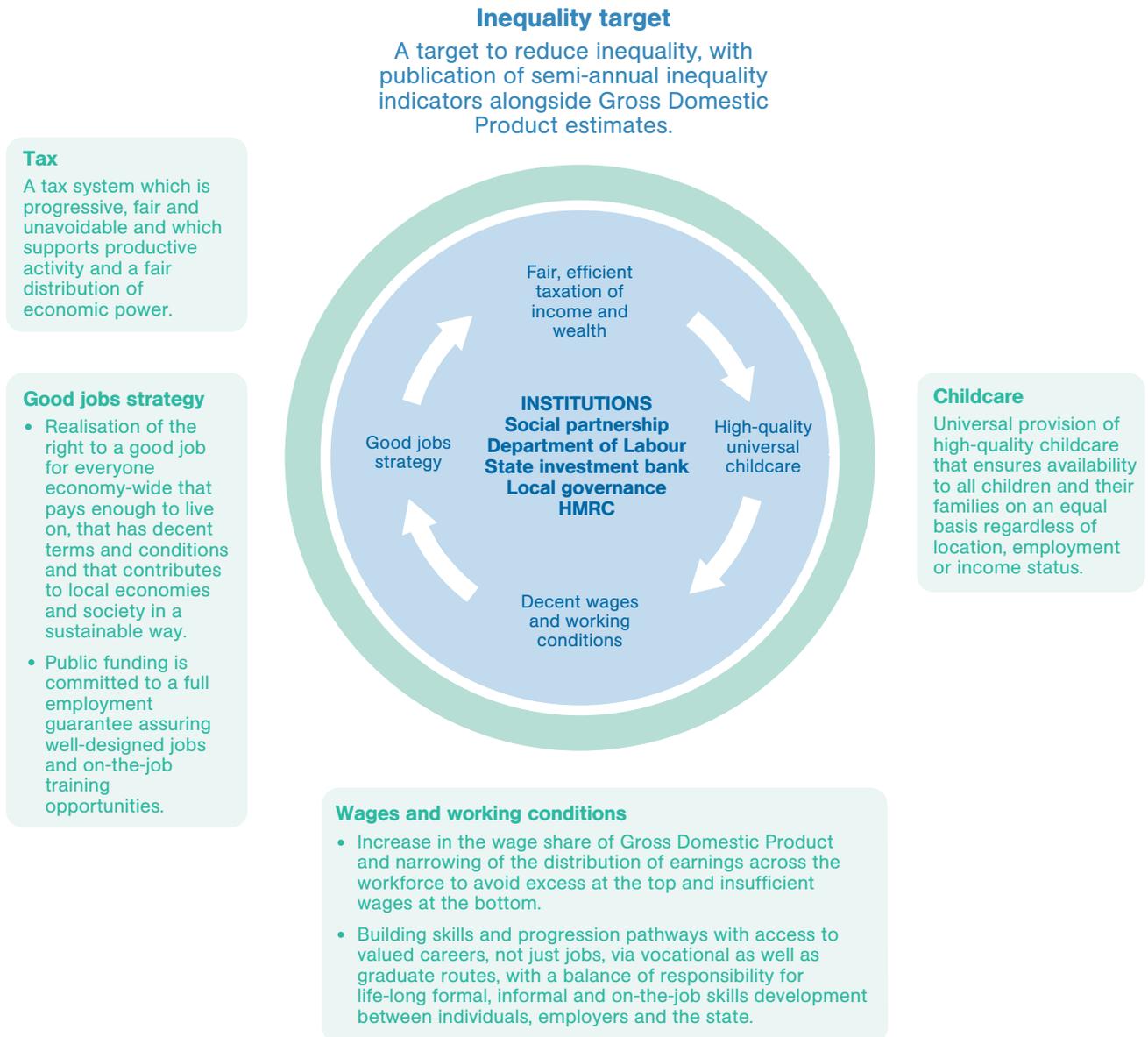
The previous section set out how a vicious cycle of systemic factors is driving escalating economic inequality. The reality of a cycle of factors which interconnect and reinforce one another through the life course and across generations implies that truly meaningful efforts to tackle economic inequality must address all fronts through a package of interventions. The risk otherwise is that good outcomes from measures in one part of the cycle will be lost or dampened in the strong tides pushing in from other parts of the system. This will not only weaken the impact of change in any given area but also fail to address the overall challenge of economic inequality. So, for example, tackling the extremes of high and low wages is vital to addressing income inequality, but the potency of its benefits will be much less if wealth inequalities and associated unearned incomes are not simultaneously addressed through the taxation system alongside.

This report brings together a set of goals and policy priorities in key areas that together provide a coherent agenda for tackling economic inequality at root. This agenda draws on the work of a host of experts as referenced in each section, a number of whom attended our conference in December 2013. Our aim in this report is to reinforce the validity of individual priorities and the value of acting on them in concert.

The specific design, content and implementation of individual policy interventions will of course be critical. It is beyond the scope of this report to propose detailed interventions; in our view the detail should be shaped in close consultation with social partners (see our final section on Next steps for practical action). Designing individual policies and targets in each priority area, which are effective on their own terms but also work well as part of a coherent package, will require dedication of resources and time for adequate deliberation and testing. However important the detail will be though, adoption of an agenda and priorities remains the first necessary step.

The diagram below summarises the way our goals and policy priorities can create a virtuous cycle for change, capable of meeting the challenge of economic inequality.

Figure 3: A virtuous cycle of action for tackling economic inequality at root



From childcare to the labour market

Beginning with childcare, we know that social and economic inequalities are affected not only by the quality of childcare different groups can access, but also by what childcare costs mean for patterns of parental employment and family incomes. The impact of the childcare system on families is one issue but this sits alongside the concern about the way the sector depends on a low-paid, low-status, undervalued workforce which is predominantly female.

There is strong evidence that a universal system of childcare of good quality across the country would pay dividends for children's outcomes in the early years. This good start in life can help with a positive transition to formal education. Universal, affordable childcare would allow parents more choice in the balance of paid and unpaid work, allowing them to meet their commitments and optimise their family income. Transforming pay and conditions for the childcare workforce would directly benefit some of our key workers who nevertheless are among the lowest paid in the economy, and

it would contribute to raising the quality of childcare. Tackling low pay and poor conditions for childcare workers also offers the possibility for leading a broader change across low-paid sectors in the economy through a positive demonstration effect.

Similar to Nordic countries, the UK can choose its approach to wages and working conditions. The functioning of the labour market and the treatment of people within it is especially decisive in creating, entrenching and widening economic inequality. For the vast majority of people, earned income is their principal material support. Our current labour market is polarised, with one in five workers on low incomes, a top rung of high-earners taking home extraordinary salaries, and a missing middle of jobs which have been lost. Action on multiple fronts is required. This means supporting better incomes and job security at the bottom of the pay distribution while containing pay at the top to achieve a fairer distribution of prosperity across all those who contribute to the economy.

To create a strong labour market, balancing power in decision-making is fundamental. Currently employers are firmly in the driving seat when it comes to determining pay and conditions for staff. As unionisation rates have declined in the UK but also across Europe, the collective counterweight in decision-making has weakened. Evidence shows that countries with a fairer balance of power between employers and employees achieve a fairer distribution of the gains from economic activity. This matters for individuals and families but it matters for the economy too. Wages need to be fully recognised as the backbone of the economy. Provision for a collective voice laid down in statute and highlighted by good practice can help move us back to a healthier share of wages versus profits in national income.

Work is at the core of life for most people, and much rides on it – our material comfort, our relationships with others through work, and our well-being and sense of purpose. It is just as important, if not more important, than any other area for domestic policy. That is why a Department of Labour has much to recommend it – to ensure that matters of work and working lives are at the heart of government.

System design can also significantly improve on skills development, training and progression routes in different sectors. We can look to improve the design and support of apprenticeship schemes to incentivise more employers in a wider range of industries to participate, and to clarify the benefits to apprentices, including pay progression paths. Ideas for extending the use of pooled training budgets among employers to new sectors offer a mutualised approach to levelling up skills.

Experts highlight Britain's relatively poor performance on management. An incentive structure for organisations to invest in their managers could have multiple benefits. It opens up the possibility for an approach to staff development and consultation that holds the promise of better employee relations and productivity gains. It could also help organisations and sectors move towards good job design for employees, as we see in sectors such as retail in Germany, food-processing in Denmark, and cleaning in Norway.

A good-jobs strategy

Good job creation – meaning generation of new jobs and conversion of poor jobs into good ones – must run alongside the establishment of strong labour market institutions and policies on pay. This is no simple task and requires a full and well-designed programme of interventions. That is why our expert roundtable recommended a bold strategy for good jobs designed and delivered with social partners. At the heart of this is an industrial strategy. This is not about the much-criticised idea of ‘picking winners’ in the form of investment in specific businesses or even sectors but rather about establishing a solid platform for supporting innovation, learning and creativity that can cut across sectors and generate activity and advantage.³⁰ It is about investing in coordination, with a view to achieving carefully defined and measurable objectives with good job creation high on the list.³¹ To leverage the industrial strategy to best advantage, experts envisage well-supported local governance frameworks and a state investment bank to provide financial backing to strategic objectives, and to support innovation and learning at the local and regional as well as national level.

An economy and labour market for full employment

Expert recommendations for ensuring decent wages and working conditions and a sound good-jobs strategy could go a long way to resolving inequality of incomes and opportunities for career satisfaction and progression. Restoration of the wage share is also fundamental to supporting sustainable economic activity by maintaining domestic demand. Nevertheless, shortfalls in work are still likely to occur, especially for young people, for whom unemployment rates have been markedly higher than for the general workforce.

Investment in a meaningful jobs guarantee could not only provide good job experience for those who would otherwise be unemployed, but also ensure that important work that is needed can take place as an investment in today’s communities and tomorrow’s society. We only have to look back to President Roosevelt’s New Deal programmes to see the legacy from full employment guarantees.

Fair taxation

A number of the policy priorities put forward in this report could be achieved with minimal state investment. Devising a statutory framework for a collective voice in the workplace and across sectors, for example, should not require a significant up-front investment, and similarly for reforms to corporate governance aimed at promoting transparency.

Nevertheless, other priorities, such as universal childcare and a full employment guarantee, would unavoidably involve significant investment. Our strongly held belief is that this is investment, often preventative in nature, which is well worth making for the health and stability of the economy and society today and in the long run. Research also suggests that investment can reap net returns. A recent study modelled the impact of moving from minimum wage to the living wage and estimated a net benefit to the Exchequer of £2.8 billion.³² Even so, calling for public investment upfront presents a challenge to prevailing political views on the haste and methods with which the deficit should be tackled.

The need to address failures and inefficiencies in our taxation system is an immediate place to start. This is not only in order to find the money needed for investment, but also to improve one of the principal mechanisms for redressing inequalities in income and wealth towards a more level playing field in disposable incomes.

Tackling tax evasion and avoidance, along with greater progression in tax rates, and new approaches to wealth taxation would make a huge difference to our ability to invest in society. An overhaul of the tax system and resources for enforcing compliance could help generate the funds for some of the core investments we need, such as collective provision of childcare, higher public service wages, or a Department of Labour.

A target for reducing economic inequality

A national target for reducing economic inequality is important for focusing decisive action on the issue. As well as providing a barometer of success, it would provide an all-important means of holding government to account. This section explores what a target on inequality might look like and how progress towards it could be measured.

An important step in achieving any ambition is to clearly articulate that aim. There is currently no stated goal to reverse, or even slow, economic disparities between the rich and the poor in the UK. Goals are important because they focus minds, provide a barometer of progress and offer the public a tool for holding the government accountable. We advocate that the government publicly state a target for the reduction of economic inequality, as they have done for child poverty.³³

Finding indicators that measure economic inequality

It is now universally accepted across Labour, Liberal Democrat and Conservative political parties that reducing economic inequality is a positive outcome. In his 2014 budget speech, the Chancellor, George Osborne, used ONS statistics on the difference between the top and bottom 20% of households³⁴ to state that “under this government income inequality is at its lowest level for 28 years”³⁵ – thus implicitly admitting that a decline in economic inequality levels is something to be proud of. While the Chancellor’s concern about income inequality is a positive development, this statement points to one of the central challenges to setting a goal for inequality reduction – measurement.

The measure that the Chancellor used is one that is easy to communicate but misses the scale and type of income inequality that has grown. The income distribution has morphed into a particular shape in the UK, and indeed many other countries, which is one with a very long tail at the top end of the distribution – that is, with very high incomes at the top. This so-called 1% of earners, a term popularised by the Occupy movement, is fundamental to understanding how economic inequality has grown and why it is harmful to society.³⁶ As such, measures that take the average for the top 20% of income earners are not only distorting true levels of economic inequality; by hiding incomes at the very top, they are not reflecting economic inequality in its most relevant form.

Our recent report, *Reducing economic inequality as a Sustainable Development Goal* on measuring economic inequality for the post-2015 development agenda finds that, while no measure is ever perfect, there are a number of inequality indicators that would help tell the story of economic inequality in a robust, concise and easy-to-understand way.³⁷ The criteria we used to judge possible indicators are:

1. To be technically effective, indicators should be:

- a. analytically sound, with a strong theoretical basis
- b. statistically reliable and valid
- c. sensitive to change
- d. designed and implemented using methods that minimises measurement error.

2. To be politically effective, indicators should:

- a. be simple, clear and easily understood
- b. measure something important to deliver the change society wants to see, for example, a growth in the share of the income of the bottom deciles
- c. offer a way that people can hold politicians and policy-makers to account
- d. be designed to facilitate comparisons over time and between places
- e. inspire public confidence in their neutrality – they must not be seen as part of government or institutional propaganda, and there should be an appropriate distance between official production of the figures and political reaction to them.

3. For policy effectiveness, indicators:

- a. need to be seen as robust, credible and important in the context of key policy goals
- b. should represent the subject in its most relevant form, in particular, direct attention to the aspect that is particularly destructive
- c. need to be fit for purpose within the policy process itself, so that there are clear ‘connecting rods’ between inequality indicators and other measures of societal progress, such as well-being indicators.

Another possible criterion is that indicators are deducible from existing data. However, inequality data is problematic in terms of its quality and timeliness. As such, we advocate that indicators of economic inequality are not restricted by what data is available. If we decide that something is important to measure for societal progress, we should be willing to invest the resources to get the data right.

Indicators of economic inequality

Using the aforementioned criteria to judge indicators, we recommend a three-pronged approach to measuring economic inequality in the UK. These are summarised in Box 1.

Box 1: Proposed indicators to measure economic inequality

- 1. Income inequality:** The Palma ratio, the ratio of richest 10% of the population's share of gross national income (GNI) divided by the poorest 40% of the population's share.
- 2. Inclusive growth:** Change in real median household incomes to gauge if and how the population is benefitting from economic growth or being hit by recession.
- 3. Wealth inequality:** The concentration of wealth in the top 1%, captured using tax records and ONS surveys.

1. A headline measure of income inequality

The Palma ratio scored best against our criteria when compared to the Gini coefficient, P90: P10 income ratio,³⁸ coefficient of variation³⁹ and Atkinson index.⁴⁰ The Palma ratio is defined as the ratio of richest 10% of the population's share of GNI divided by the poorest 40% of the population's share. A ratio of 1 indicates that people in the top 10% on average earn four times the income of people in the bottom 40%. In more unequal societies, the after-tax income ratio is higher – for example, it is 7 in South Africa and 4.8 in Bolivia.⁴¹ By the same measure, the UK is currently 1.44 and more equal countries, such as Denmark, tend to have a Palma ratio of just under 1.⁴² The Palma ratio has quickly gained popularity in development policy circles due to its transparency and simplicity. We believe it should gain traction in the high-income country context too.

The Palma ratio is named after Gabriel Palma,⁴³ a Chilean economist who observed that middle-income groups (defined as the five 'middle' deciles, 5 to 9) tend to capture around half of GNI in most countries. The other half of national income is shared between the richest 10% and the poorest 40% but the share of those two groups varies considerably across countries.

The Palma ratio scores higher than the well-known Gini coefficient which is insensitive to changes in the top and bottom of the income distribution which is where most movement occurs,⁴⁴ while it is oversensitive to changes in the middle of the distribution.⁴⁵ The obscure nature of the Gini coefficient, partly because of the way it is calculated, means it performs poorly against political and policy effectiveness. In contrast, the Palma ratio offers a highly communicable indicator.

The Palma ratio has been gaining in popularity, but several shortcomings have been noted. One issue is the way it may hide economic inequality within the bottom 40% or in the top 10%. As we have poverty measures in place, this challenge can be overcome.

Another problem is the way it ignores the middle 50%. While the shape of current economic inequality may mean that the middle is largely homogenous, this may not always be the case. If there is further hollowing out in the middle of the income spectrum, the use of the Palma ratio may hide an important part of the economic inequality story. In the UK, the share of the middle five deciles declined only very gradually from 56.6% in 1977 to

53.7% in the 2000s. However, since the financial crisis, the share has seen a relatively sharp drop from 54.4% in 2008–09 to 52.9% in 2010–11.⁴⁶ It is not clear if this is a recession-related dip, or part of a longer-term shift. As such, it would be prudent to supplement the Palma ratio with an indicator measuring real median household incomes (see 2. A measure of inclusive growth below).

2. A measure of inclusive growth

Inclusive growth has become an important part of the post- financial crisis economic narrative. It helpfully questions how growth benefits the wider population. Several development organisations have considered how it can be best measured, with possibilities including a measure of the job output of growth or a measure of consumption growth between different deciles.⁴⁷ However, given the need for simplicity, the measure we prefer is the change in real median household incomes.

The median income measure, rather than a mean measure, is more relevant because it demonstrates the situation for the typical person or household. The London School of Economics (LSE) Growth Commission,⁴⁸ set up in the aftermath of the Great Recession, recommends that governments publish median household income alongside the data on GDP on a regular basis. The income figure would be the inflationadjusted median. Equivalised disposable income derived would provide an immediate impression of income growth for a typical citizen.⁴⁹ The median measure is already a popular indicator, due in part to discussions on the ‘squeezed middle’.⁵⁰

A median measure would also sit well alongside the Palma ratio⁵¹ which, as discussed, ignores the middle of the distribution. Together these measures would build a strong and highly communicable narrative of what is happening to the income distribution.

3. A measure of wealth inequality

Our criteria ask that indicators portray goals in the most relevant form. Given recent evidence on the damage that high wealth concentration does, including dampening social mobility,⁵² increasing rent-seeking and political capture,⁵³ it would be optimal for a goal to reduce economic inequality to include a measure of the proportion of wealth concentrated in the top 1% wealthiest individuals. We choose individuals over households simply because this is easier to decipher from tax records.⁵⁴ The global Occupy movement popularised the use of the 1% slogan, making measures such as these highly communicable to the public.

The target for reduction

Unlike child poverty, which should clearly be eradicated in the UK, it is difficult to say just how much we need to reduce economic inequality by. In truth there is very little scientific evidence to suggest what is enough economic inequality to reward entrepreneurial activity and drive progress, but not enough to damage society and undermine the ability of others to fulfil their potential. A handful of studies have found that a Gini coefficient of 0.3 is the point at which economic inequality begins to result in negative social outcomes⁵⁵ and

it is worth noting the relatively equal Nordic nations have a Gini coefficient of around 0.26 and Palma ratios of roughly 1 (meaning that the top 10% have the same share of national income as the bottom 40%).

Many philosophers over the centuries have tried to establish what a just society would look like⁵⁶ – often this hinges on how much economic inequality is acceptable within a particular society. This is why, given the absence of firm evidence, we advocate a process of collective deliberation. This would involve setting a target for reduction, in line with public preferences, through a process of consultation. While some may think this could risk the emergence of relatively light targets for reducing economic inequality, or that targets will be tainted by adaptive preferences (altering of preferences according to what are seen as the options available), studies in the US⁵⁷ and UK⁵⁸ suggest that the public tend to prefer relatively equal distributions of income and wealth.⁵⁹

Part 2

Setting the agenda

This part of the report looks at our goals and policy priorities for tackling economic inequality. We propose a practical set of priorities for improving childcare and early years intervention; wages and working conditions; building skills and progression pathways; job creation; and taxation. In each area, we consider the case for action and suggest ways these policies can move the agenda forward to begin to address economic inequality in a practical and realistic way.

Childcare and early years intervention

Goal 1

Universal provision of high-quality childcare that ensures availability to all children and their families on an equal basis, regardless of location, employment or income status.

Policy priorities

- 1. Funding:** Commitment of public funding for supply-side support of high-quality childcare provision at a level sufficient to implement a cap on family expenditure on childcare at 15% of family income.
- 2. Quality:** Standards of in-work training and qualification requirements for all childcare workers reviewed and increased to a level commensurate with evidence on provision of high-quality care.
- 3. Employment standards:** Pay for childcare workers is set at a minimum of the living wage, with terms and conditions of employment to ensure stable contracts with defined hours and career and pay progression opportunities.

Case for action

The way childcare is provided can play a pivotal role in either entrenching or reducing social, economic, and gender inequalities. Different groups are affected not only by the quality of childcare they can access, but also by the impact of childcare costs on patterns of parental employment.⁶⁰ The cost and conditions of childcare across Britain mean that not everyone has access to high-quality provision. Unequal access triggers and intensifies a range of income, gender, and social inequalities.⁶¹ Impacts on families run alongside the way our childcare system depends on a low-paid, low-status, undervalued workforce which is predominantly female.

A substantial body of research has made it clear how important the early years of life are to health and fulfilment across the life course.⁶² Childcare has become an important feature in the early years' experience. In wealthier nations, caring for children outside the home has grown in recent decades. According to the United Nations Children's Fund (UNICEF) 80% of 3- to 6-year-olds in richer countries are now in some form of early care and education setting and for the OECD as a whole the proportion of under threes in early care is around 25%.⁶³ As NEF has noted previously, any inequality in the provision of or access to good childcare can have important impacts on early life and subsequent life chances and outcomes.⁶⁴

Research suggests that high-quality childcare is especially beneficial for children from more deprived backgrounds. It helps parents to flourish, too, knowing that their children are being well cared for while they go out to work.

Academic research also finds that high-quality universal childcare can improve social mobility later in life.⁶⁵

Despite our knowledge about the positive impacts of consistently good childcare, provision in the UK is diverse compared with other countries. The mix of types and providers of care runs alongside very different prices and cost packages.⁶⁶ Analysis shows that childcare costs account for a large proportion of household spending after housing costs – up to 30–40% of disposable income for a couple with two children.⁶⁷ Average childcare costs in the UK have risen twice as fast as general inflation and by an overall 77% in the past decade.⁶⁸

In sum, childcare in the UK presents a conundrum characterised by:

- growing and widely accepted evidence that the early years are critical
- low pay and often poor employment conditions for those who provide childcare
- an association between the pay and training of workers and childcare quality
- prohibitive costs for many families which exacerbate income inequalities.

The goal

Our expert panel overwhelmingly agreed that, in seeking to reduce very high costs for families and inequality in society, the goal must be universal provision of high-quality childcare to ensure availability to all children and their families on an equal basis.

There is a strong case for publicly funded, high-quality childcare, for two main reasons. First, it is a social good that will improve the well-being of children, parents, and childcare workers immediately and over time. Secondly, it is a sound investment to prevent harm and thereby avoid heavier public expenditure in the future.⁶⁹ A universal childcare system would be expressly designed to help sustain flourishing families. This means supporting parents to undertake manageable hours of paid work and fulfil other responsibilities, and children to gain early stimulation and learning opportunities outside the home. It means childcare that fits well with parental care at home and with the needs of different individuals and families. The universal childcare system we need is one which ensures:

- high quality everywhere in the country (contributing to social cohesion)
- a valued, well-trained workforce which enjoys decent pay, terms and conditions of employment to help ensure high quality of care
- affordability for everyone regardless of income or employment status (potentially this means it is free for those on low incomes and paid for on a sliding scale, with the maximum parental contribution at 15% of household income)
- integration into society's whole approach to childhood, early education, family life and equality
- sufficient flexibility to meet the needs of different families, for example, parents working shifts.

Extending the concept of a high-quality childcare system could also lead to an accompanying goal for a system of well-supported, shared parental leave allowances that gives mothers and fathers the option of enough time (via provision of adequate financial support) to spend with their infants in the early years.⁷⁰ Along with well-structured transitions between early years care and formal education, this would help ensure an integrated approach to childhood.

It is no surprise to refer to the Nordic countries for examples of successful systems of universal childcare. They have striven for an integrated approach towards meeting the demands of working life, gender equality and the best interests of children, not least through the design of their systems of childcare. This integrated approach, together with evidence of success in achieving higher levels of equality between women and men, as well as relatively high scores in terms of child well-being, have helped to make Nordic policies exemplars of good practice. This includes the provision of childcare and parental leave entitlements.⁷¹

The dominant impression of the childcare debate in the UK is that the emphasis is on getting primary carers – mainly mothers – back to work and contributing to the economy and the Exchequer. Experts consulted for this report recommended situating the need for universal childcare within a bigger story about all that makes for quality of life. This is a story that recognises what comprises a good childhood and parenthood, and also the place of both paid and unpaid work in making for good lives and relationships. It is interesting to consider a description of Nordic childcare as “an example of the Nordic societies’ attempt to liberate people from the labour market in certain ways, to enable everyone to live a relatively high-quality life regardless of their labour market attachment”.⁷²

In the context of an ambition for UK childcare, experts we consulted were clear that access to a universal system should be independent of parents’ employment status, just as it should be accessible to all regardless of income. As a longer term ambition beyond the childcare system itself, experts recognised the value of a reduction in working hours via a shorter working week to benefit parents, children and society at large, a vision explored in NEF’s *21 Hours report* (2010).

Policy priorities

1. Funding: Commitment of public funding for supply-side support of high-quality childcare provision at a level sufficient to implement a cap on family expenditure on childcare at 15% of family income.

In the UK, childcare is predominantly offered by private providers in a market system where parents choose and buy childcare. Research suggests that UK government expenditure on childcare and early years support is relatively high compared to other countries, but that family expenditure on childcare is still particularly high, even after accounting for subsidies. For the same level of state funding, greater efficiency and equity can be achieved with a shift in the funding model to support supply-side or direct provision rather than market competition and parental or demand-side subsidies.^{73, 74} Ultimately, however, experts agreed that state investment is required to a level that can reduce family expenditure on childcare to a maximum of 15% of family income.

A supply-side approach would also support investment in raising the quality of many childcare premises, and providing an expansion of facilities, particularly in more deprived areas. Experts spoke, for example, about the lack of outside space in nurseries across Britain, an issue that is especially acute in London.

2. Quality: Standards of in-work training and qualification requirements for all childcare workers reviewed and increased to a level commensurate with evidence on provision of high-quality care.

Studies have provided strong evidence for the association between high-quality childcare and staff training and qualifications as well as standards of pay.⁷⁵ Childcare workers are almost all women in low-paid jobs with minimal training and few opportunities for advancement. We propose graduate and non-graduate routes and opportunities in childcare provision to raise status and standards.

The need to improve quality is reflected in recent government policy (2013). This includes: reforming qualifications for early years childcare workers by introducing early years teachers; ensuring new and better qualifications at level 3, to qualify people to become early years educators; and reforming the Ofsted inspection system.⁷⁶ However, this only begins to address the problems inherent in our current childcare system, whereas we need a thorough framework approach to training, qualifications and progression pathways across a universal system.

Assurance of standards of training and qualifications would ideally sit with a wider assurance of standards of regulation for childcare providers. The UK childcare system is relatively lightly regulated.⁷⁷

3. Employment standards: Pay for childcare workers is set at a minimum of the living wage, with terms and conditions of employment to ensure stable contracts with defined hours and career and pay progression opportunities.

Tackling the prevalence of low pay and other poor terms and conditions in the childcare sector is essential to a strategy for increasing the status of the childcare profession, attracting people to the work (including more men), retaining talent and ensuring high-quality provision. This is important for the material well-being of staff and for the societal recognition of the value of the profession. It is also an important part of redressing the gender imbalance in pay and conditions across the economy.

Since childcare is a labour-intensive industry – wages are the most important cost component – and with little room for technological improvements, providers who want to remain profitable can only expand the volume of service by keeping wages low.⁷⁸ The limitation on enhancing productivity therefore offers a compelling reason for supply-side state interventions. There are important crossovers here to policy priorities in the next section on Wages and working conditions where fair-wage models and a collective voice for employees in the childcare sector offer models for real improvement.

Wages and working conditions

Goal 2

To increase the wage share of GDP and narrow the distribution of earnings across the workforce to avoid excess at the top and insufficient wages at the bottom.

Policy priorities

- 1. Decision-making:** Implementation of a statutory basis for ensuring a collective voice for workers in all sectors and workplaces.
- 2. Institutional framework:** Establishment of a Department of Labour, tasked with improving working conditions across the economy, including through available instruments such as Information and Consultation of Employees (ICE) regulations and re-ratification of International Labour Organization (ILO) Convention 94, concerning labour clauses in public contracts.
- 3. Wage-floor:** Establishment of minimum wage rates in line with a living wage to eliminate in-work poverty and ensure that workers can earn sufficient to live on.
- 4. Wage differentials:** Regulatory reform of company/organisational reporting to include mandatory reporting on pay ratios.

Case for action

Wage inequality is a major driver of overall levels of inequality. Income inequality⁷⁹ across European countries has risen substantially since the 1980s, with within-country inequality appearing more important than between-country inequality. By the end of 2010, income inequality in Europe was higher than in the average OECD country, albeit less than in the US.⁸⁰

From 2000 to 2013, the pay gap between the top 10% of earners and the bottom 10% increased by 5% across the UK as a whole, while in London it soared by 14%.⁸¹ This not only reflects higher increases in pay at the top but also the fact that between 2008 and 2011 the UK had the largest fall in real wages of any developed country, with stagnation in median wages dating back to before the financial crisis.⁸²

Now with indications of recovery in the economy, the improvements are not being felt by ordinary workers who still face high costs of energy, food and housing that continue to outstrip wage settlements. Those suffering in-work poverty now make up the largest group of those living below the poverty line. Yet at the top of the income scale, pay continues to rise substantially for those who, like bankers and chief executives, are already among the best paid in society. In the past decade, a typical CEO will have seen their pay almost double, in contrast to the flatlining of pay for ordinary workers.⁸³ The income share taken by the very top 0.1% has risen by a factor of four in the UK, similar to the US.⁸⁴

Low wages and income inequality have significant economic and social consequences. We need to consider how to better share the benefits of economic activity via a wage-led recovery that can ensure a healthy, stable and sustainable economy.

The goal

The goal for tackling income inequality decisively comprises two complementary elements. Firstly, at the level of the macro-economy, it is essential to [increase the overall wage share](#) relative to the profit share in GDP and return it to former levels achieved in the 1960s and 1970s of at or near 60%.⁸⁵ Secondly, within and across organisations, [a more equal distribution of earnings](#) across the workforce is required to avoid excess at the top and poor, insufficient wages at the bottom.

In terms of the macro-economy, OECD research has shown that the share of wage compensation in national income declined in 26 of 30 developed countries between 1990 and 2009.⁸⁶ In a direct challenge to the predominant narrative around the imperative of keeping labour costs down in the interests of competitiveness, evidence reveals that many economies are ‘wage-led’. This means that a decrease in the wage-share results in lower growth. Conversely, sharing prosperity better with workers rather than taking a greater share as profits offers more potential for a sustainable recovery than holding wages down.⁸⁷ The positive implication of this is that it helps the case for an approach to competitiveness built on quality rather than one built on a view of wages as a cost to be driven down.

In redressing this in the UK and elsewhere, the exact share of national income to be targeted for wages is a matter for careful consideration and negotiation among social partners. Nevertheless, from a UK point of view, experts we consulted saw potential to increase the wage share by as much as 7 or 8 percentage points. This increase in the wage share would directly support domestic demand in the national economy to sustain activity, start to redress the decline in living standards, and avoid further accumulation of household debt. Raising the wage share in national income has the prospect of concerted action across European partners. The EU has convened discussions on wage developments to expressly explore these issues.⁸⁸

Policy priorities

The list of policy priorities is not exhaustive, but it would put in place some of the main building blocks for a progressive transformation of work and wages. These policies interlock for traction, so, for example, collective voice helps establish solid wage floors and prospects for an overall increase in the wage share.

1. Decision-making: Implementation of a statutory basis for ensuring a collective voice for workers in all sectors and workplaces.

As discussed earlier, there is clear evidence that the erosion of labour market institutions, especially trade unions, has contributed substantially to the problems of low-pay, in-work poverty and income inequality.⁸⁹ In a context where union strength has declined and needs to rebuild, government can take direct action to start to redress the harm. A policy

ensuring the legal right to a collective voice for negotiation and decision-making at work, enshrined in statute and promoted through best practice, would immediately reflect the legitimacy of a countervailing perspective from employees to that of employers. It would also establish the importance of a collective solution to the challenge of inequality and the living standards crisis. Action on collective decision-making is effectively a precondition for many of the other policies recommended here.

We can draw on empirical evidence that wage gaps (including the gender-pay gap) tend to be smaller where worker representation and collective bargaining are embedded, even where union membership has been relatively low or falling, such as in the Netherlands, Denmark and France, noting that this does not have to come at a cost of higher unemployment.⁹⁰ These models reveal that countervailing forces do exist and are a possible response to the predominant hierarchy of decision-making in the UK context, where power is concentrated with employers and labour costs are driven down.

In reality, experts believe that there are few workplaces that do not have scope for taking proper account of workers' voices and resolving decisions about pay and conditions collectively. Even where workers are not co-located in the workplace, there are few areas which do not face collective issues. Within organisations and sectors, serious consideration needs to be given to assuring the right to organise. Worker representation and inclusion in decision-making needs to avoid tokenism, which means it has to come from a basis of legitimacy, whereby any representative has the backing of the main body of workers in the organisation.

2. Institutional framework: Establishment of a Department of Labour, tasked with improving working conditions across the economy, including through instruments such as Information and Consultation of Employees (ICE) regulations and re-ratification of ILO Convention 94.

A Department of Labour would ensure that work and working lives receive a focus of attention across government at different levels, and could be directed to targeting improvement in working conditions as a headline political priority.

A Department of Labour would have as part of its remit to restore a higher wage share in national income and initiate a wage-led recovery, not just nationally, but potentially across the EU through coordination with other European governments. Experts suggest that raising the wage share would be achieved by specific measures to bring wages across sectors into line with overall productivity (recognising that a form of sharing across sectors should be considered since some, such as childcare, cannot increase productivity in its conventional sense). This could be through targeted incomes policies, redistributive mechanisms, and by enforcing the statutory basis for collective bargaining across the economy.

A new institutional framework could also help to set an agenda of public sector leadership on pay and conditions across public services. This would achieve higher wages for low-paid public sector workers directly, while also ensuring decent pay and conditions throughout public services by setting appropriate criteria in commissioning and procurement contracts

with non-public sector providers. An agenda for public services could include re-ratification of ILO Convention 94, and re-introduction of a fair-wage model which prevailed through much of the 20th century to ensure implementation of wage floors and decent conditions across supply chains.⁹¹

3. Wage-floor: Establishment of minimum wage rates in line with a living wage to eliminate in-work poverty and ensure that workers can earn sufficient to live on.

A policy to establish a decent wage floor for all workers – including temporary and agency staff – would operate alongside a political commitment to ensuring a collective voice and a threshold for pay across the workforce. It would actively mitigate a ‘race to the bottom’ in wage competition at the lowest end of the earnings distribution. The aim is to achieve a minimum wage sufficient to make a living. In practice, and in line with existing measures of the poverty line, experts suggest a minimum wage rate equivalent to 60% of median wages. But the ambition should ultimately be greater than this and towards establishing the living wage as the norm, and as quickly as possible for profitable companies and the public sector. This is an area where we could look to the public sector as a leader of best practice and standards in pay and terms of employment, as described in the policy above, through the implementation of fair-wages policies.

To secure higher basic rates of pay across the workforce, it is important to recognise the particular position of female workers and the relatively high incidence of low-pay, short-term contract, and zero-hours work patterns. An imperative for a progressive agenda would refresh and build on a robust equal pay framework. Policy-makers would also have to pay close attention to the risk that an increase in hourly pay rates could simply lead to a reduction in contracted hours or an increase in zero-hours contracts leaving workers as badly, or possibly worse off, because of greater uncertainty. Experts also highlight the role of social wages in effectively tackling economic inequality and high costs of living. This would require a gender-sensitive approach to investment in the social infrastructure and not just the physical infrastructure of the economy. This means public investment in systems that best support family and core economy responsibilities, such as housing, childcare and healthy living environments.

4. Wage differentials: Regulatory reform of company/organisational reporting to include mandatory reporting on pay ratios.

The executive pay gap is a major concern and research demonstrates how far away from ordinary incomes executive pay is, and furthermore how it has grown exponentially while ordinary incomes have stagnated.

In order to tackle excessive pay at the top of the income distribution, we need to think about radical reform of corporate governance, including worker representation and consultation as described under policy 1. Decision-making above. A good place to start on the specific issue of wage differentials is with a policy to mandate annual reporting by organisations on pay transparency, including pay differentials, top to bottom and top to median, and numbers of workers on different types of contracts, including

low-pay contracts. By equipping social partners with information, the intention is to recognise and use the power of transparency, knowledge and benchmarking to catalyse discussion and change within and across organisations.⁹²

A requirement for greater transparency on pay differentials would certainly be met with hostility and push-back from many businesses, but it is important to note that there is a history of such approaches. And there are current examples of firms which use top-to-bottom ratios in pay-setting, such as the American supermarket chain Whole Foods Market, and the Mondragon Corporation network of cooperatives in the Basque region of Spain. In addition, France has imposed a maximum 20:1 ratio on top-to-bottom pay in public sector organisations which has resulted in falling pay for a number of chief executives.⁹³

Building skills and progression pathways

Goal 3

Access to valued careers, not just jobs, via vocational as well as graduate routes with with shared responsibility for life-long formal, informal and on-the-job skills development between the individual, the state and employers.

Policy priorities

- 1. Sectoral investment:** Establishment of means for pooling employer strategies and budgets for training by industry and sector.
- 2. Management skills:** Establishment of an incentive structure for organisations to invest in development of high-quality management skills at different levels and across equalities groups.
- 3. Trainee schemes and apprenticeships:** Reform of apprenticeship schemes with state funding support to secure a greater range of industry coverage and to build in progression opportunities pathways and pay structures to reflect advancement.
- 4. Local governance:** Creation of commissioning frameworks for linking education, training and employment at the local level.

Case for action

Previous NEF research found that, in a number of sectors, non-graduates are increasingly funnelled into low-paid jobs without career progression opportunities.⁹⁴ A main reason for the lack of progression in terms of pay and/or career is because too little attention and investment is committed to training and development, both for new starters and those who have been in the workforce for some time. Poor job design is also a culprit in a blind-alley approach to skills and progression that we see too often in the UK.

The focus on skills in current debate tends to be mostly about improving readiness to be competitive in an increasingly high-tech world. This skills bias in favour of the technical and scientific risks ignoring or sidelining other important areas of skills development, areas we know we will need in the future world of work. Clearly with a greater care burden in future, skills for dealing with and managing people will become more essential. This suggests a starting point for thinking about an agenda that values different types of skills as being essential for the economy and society, thereby broadening the basis of quality on which to build a more sustainable economy.

The goal

The goal for driving the skills agenda is to create access to valued careers not just jobs, and for such access to be readily available for vocational as well as graduate routes into work. From the point of view of a career and not

just a job, experts identified the need to balance responsibility and support for life-long formal, informal and on-the-job skills development between the individual, the state and employers.

Evidently this goal has a number of facets which together describe an inclusive agenda towards the skills-mix in the labour force. The goal is for investment by different actors in society in a skills-mix that reflects what businesses need but also the types of skills that people have and wish to develop. In this respect there is a close connection with the approach that we take to job creation.

Policy priorities

1. Sectoral investment: Establishment of means for pooling employer strategies and budgets for training by industry and sector.

A pooled approach to training and career progression within industries and sectors provides a mutualised approach to skills development and reward that can benefit workers and businesses and fit well with a robust industrial strategy (see the next section on Job creation). The concept of sector-skills development is to allow businesses within a sector to establish quality frameworks and leverage productivity gains from basic and technical skills advancement across the workforce. Recent examples include the establishment of a training academy for construction skills in the East Midlands involving a number of companies, and the Sector Skills Councils for finance and legal services.^{95, 96}

Learning from examples that exist in the UK and abroad, policy-makers at local, regional and national levels are called on to consider how policy frameworks can help develop sector-skills strategies more broadly across the economy. This could include, for example, considering the value of and approach to employer training levies and training boards beyond current examples in construction and engineering.

2. Management skills: Establishment of an incentive structure for organisations to invest in development of high-quality management skills at different levels and across equalities groups.

The quality of management and the impacts that sub-optimal investment in management can have on overall productivity in firms and the economy at large are a subject of debate in the UK. Research by the UK Commission for Employment and Skills (UKCES) has found that UK employers lag behind international competitors in terms of management skills.⁹⁷ A 2011 survey found that only a third (36%) of UK leaders and one in five (18%) UK HR professionals rated the quality of leadership as 'high' in their organisations.⁹⁸

A broad-minded approach to improving management skills would include not just task-specific skills development but skills in leadership, employee relations, business strategy, communications and finance. The Chartered Institute of Personnel and Development (CIPD) highlights the growing importance of firms investing in progression and succession of managers as opposed to relatively costly external recruitment, which shows a higher failure rate.

The CIPD also flags how effective management development includes opening up decision-making and creating a shared sense of direction with employees. This chimes with our recommendations for strengthening a collective voice within organisations and sectors. Management skills are known to be highly relevant to strategies for developing the workforce, an issue that is important in thinking about youth employment, apprenticeships and vocational training.⁹⁹

Experts cite a mismatch in the treatment of management roles in certain fields and of certain types. In more technical fields, such as engineering, the status of, investment in and rewards from management tend to exceed those in roles that involve dealing with people. This also plays into inequalities by group, with more technical roles tending to be performed by men and more people-intensive roles involving a greater number of women. Greater value and status conferred on high-quality people-management skills could not only help close equality gaps and opportunities by equality groups, but also enhance productivity. In this respect, evidence has shown that line managers play an important informal role in encouraging staff to progress when more formal training is unavailable. Greater recognition of and organisational buy-in to this informal support could help generate additional status for managers.

UKCES has opened a £4 million fund for businesses to incentivise co-investment in management skills development.¹⁰⁰ A more radical review of how policy can support management training and leadership across the economy would, however, fit with a coherent industrial strategy as essential to improving working lives, the prospects for generating good jobs and boosting productivity.

3. Trainee schemes and apprenticeships: Reform of apprenticeship schemes with state funding support to secure a greater range of industry coverage and to build in progression opportunities pathways and pay structures to reflect advancement.

It is increasingly recognised across Europe that pathways from education to work need to be better, particularly for non-graduates. In a combined paper, the Trades Union Congress (TUC), Institute for Public Policy Research (IPPR) and CIPD have argued that northern European states with relatively low youth unemployment have strong transition systems and workforce planning strategies that should inform the UK approach.¹⁰¹

Part of any strategy is likely to have a focus on apprenticeships and vocational training. In the UK, despite a lot of political attention on apprenticeships as an important route to work for young people, they involve many fewer employers than in other European countries. Both the quantity and quality of opportunities in UK apprenticeship offers have been called into question, as has the real value to participants, given unclear pathways into secure work. The Work Foundation describes the limitations of schemes in the UK particularly in terms of their low educational content as well as poor adaptation to service industries, which account for 85% of UK employment.¹⁰²

Part of the problem in the UK is structural, with the low status and low pay prevalent in a number of areas, particularly service-related sectors. These

structural issues need to be tackled through an overall labour market strategy, comprising reforms for decent work and job creation and recognising the interplay between economic, labour market and social policies. In terms of skills for young people, however, experts largely agree that policy needs to counter the false dichotomy between the vocational versus academic elements of training and skills. This has tended to cast apprenticeships (know-how) in place of higher education (knowledge) instead of seeing that the two can reinforce each other in today's economy.¹⁰³

European examples can help guide an approach to overcoming this dichotomy. For example, apprenticeship schemes in Germany, the Netherlands and Scandinavia provide structured training pathways into skilled jobs but deploy a broad curriculum of skills development, not a narrow, task-based perspective. In a world where predicting future jobs is difficult, and where firms may need to change direction or strategy, employees are better served by a breadth of knowledge and expertise.¹⁰⁴

The role of social partners in transition to work is also critical as employers provide work experience and on-the-job training, and state-funded vocational colleges provide the underpinning theoretical and knowledge-based learning. In Switzerland, apprenticeships offer routes into a wide range of professions and occupations, far beyond traditional apprenticeship sectors such as manufacturing.¹⁰⁵

For the UK to better succeed with apprenticeship schemes, greater support is needed to attract more and different types of employers to participate. The structure of apprenticeships in terms of duration and pay progression, as well as links to higher education, requires fresh thinking involving social partners and young people themselves. Changes need to be underpinned by a determination that the state has a stake and a leadership role in creating the terms and conditions for the transition to work.

4. Local governance: Creation of commissioning frameworks for linking education, training and employment at the local level.

There is a rationale for linking up commissioning of education and training provision for young people but also the existing workforce with local and regional employer needs and a jobs strategy. This works with our vision for an industrial strategy designed to tackle spatial as well as overall economic inequality as discussed in our next section on Job creation. Better linking of commissioning of education, training and employment would energise and empower local agencies.

An important precondition that experts identified for making the connections work better is to combine training and skills budgets in city regions. One example, discussed in recent research, is to unlock the £2 billion adult skills budget to support progression for those in work.¹⁰⁶

Experts also highlighted the need for a combined programme on education, training and employment to include more responsive and integrated career advice, delivered through schools and colleges but coordinated more proactively. This was seen as a serious gap at the local as well as the national level.

Job creation

Goal 4

To realise the right to a good job for everyone, economy-wide, that pays enough to live on, that has decent terms and conditions and that contributes to local economies and society in a sustainable way.

Policy priorities

- 1. Industrial strategy:** Development of a coordinated national industrial strategy co-produced by social partners – government, employers and trade unions.
- 2. Investment:** Establishment of a state-owned investment bank with regional distribution to support the implementation of the industrial strategy.
- 3. Full employment guarantee:** Public funding for well-designed jobs and on-the-job training opportunities.
- 4. Reform of corporate governance:** Guaranteed worker representation in businesses to ensure a collective voice.

Case for action

Current government policy towards job creation is based on the mantra of economic growth. Unfortunately this approach has resulted in unbalanced job growth – both in terms of wages and geography. Four out of five of the new jobs created in the economy since 2010 have been in low-paid sectors and an increasing number of people are working on short-term and zero-hour contracts. Women, and those without graduate degrees, have been particularly affected by these trends. Job forecasts show that these trends will intensify further. The big question then is: how can we create good jobs?

The goal

The goal we define for job creation is to realise the right to a good job for everyone, economy-wide. A good job is one that we can define as offering enough pay to live on, decent terms and conditions, including work–life balance, progression opportunities, equal treatment for different groups (for example, by gender), an acceptable level of security, and worker representation in decision-making. In addition, a good job may be described as contributing to meaningful and sustainable activity for local economies and society, which also reflects on the types of businesses that a policy approach might wish to encourage.

Altogether the concept of good jobs defines the notion of full employment in a particular way – that is, it has the ambition of creating enough work while also determinedly departing from the notion that any job is better than no job. The pursuit of good job creation ultimately involves two strands for thinking

and action: creating new, good jobs to ensure enough work exists; converting current poor or bad jobs into good ones.

In a total departure from the idea that people should ‘get on their bike’ to look for work, experts consider it essential to create jobs for people where they are. This matters in the pursuit of stable communities and personal and social well-being, but in the UK context, there is also an imperative to act on redressing the spatial imbalances in economic prosperity and jobs, generally referred to as the ‘North-South divide’.

We can look to examples overseas for how jobs that are low-paid and low-status in a UK context are respected and valued in other countries. This includes cleaning in Norway, retail in Germany and food processing in Denmark.¹⁰⁷ These examples help to reveal that the design of jobs can determine whether or not they are ‘good’ and hence desirable and valued. In its broadest sense, an approach to job creation needs to be guided from the start by the premise of the dignity of work.

To achieve good jobs economy-wide is to recognise the social value of the plethora of different occupations and skills that we need for a balanced and healthy society – intellectual skills, as well as skills of patience, caring and physical input. This social value needs to be better reflected in the wages people earn, which in turn has a strong bearing on the esteem with which they are held in society, and on our ability to achieve greater income equality.¹⁰⁸

In the current paradigm, the focus of attention is on skill-biased growth which largely refers to activities drawing on science, maths and technology. However, for a goal to ensure decent work for everyone, we need a more balanced view that can consciously coordinate supply and demand not just by re-skilling workers but by investing in different types of jobs adapted to the skills people have. In Germany attention is paid, for example, to jobs that can help people age in a healthy way and make a transition through to retirement. This expressly attempts to link jobs with people rather than always operating the other way round. An agenda for job creation also offers the opportunity to invest in socially valuable domains, including activities to transform to a low-carbon economy, and to provide high-quality care services.

Policy priorities

We propose policy action in the following areas:

1. Industrial strategy: Development of a coordinated national industrial strategy co-produced by social partners – government, employers and trade unions.

An industrial strategy is expressly intended to create transformation through a comprehensive, well-worked plan for action that is legitimised by being co-produced. It can amount to much more than a collection of tweaks and minor policy changes that tend to predominate. An industrial strategy for the 21st century is not about the much-criticised idea of ‘picking winners’ in the form of investment in specific businesses or even sectors, but rather about establishing a solid platform for supporting innovation, learning and creativity that can cut across sectors and generate activity and

advantage.¹⁰⁹ It is about investing in coordination with a view to achieving carefully defined and measurable objectives with good job creation high on the list.¹¹⁰ Asian examples help to show that industrial policy can be part of an integrated economic policy approach that works to support both public and private sectors. In the UK context, for example, this could mean better aligning NHS objectives with incentives for the pharmaceutical industry.¹¹¹

Parties of government and opposition all agree on the need for an industrial strategy.^{112, 113} To be truly transformative, however, we need a strategy that explicitly embeds an objective for reducing economic and spatial inequalities and recognises the shared space occupied by people and business that means genuine co-determination with social partners is essential.

2. Investment: Establishment of a state-owned investment bank with regional distribution to support the implementation of the industrial strategy.

There is a wide body of literature that supports a national investment bank in the UK.¹¹⁴ Part of its remit would be to support the industrial strategy at the regional and national level and to tackle the need for good job creation alongside investment for sustainability, including in new, clean technologies.

In order to create a joined-up policy approach, existing state investment banks (the Green Investment Bank and British Business Bank) should have good jobs included in their mandates. Measures of the quantity and quality of jobs created directly and indirectly by beneficiaries of state banks' investment should be tracked on a regional basis. To ensure good job creation throughout the country, state banks must ensure that products are distributed in the localities and economic sectors that need them. Evidence from other countries¹¹⁵ suggests that this requires either direct distribution through the banks' own branch networks (Canada and Japan) or through a strong local banking sector (Germany, US). In the UK we need to consider how best to implement a regional approach with the banking infrastructure that we have or that would best be created.

3. Full employment guarantee: Public funding for well-designed jobs and on-the-job training opportunities.

There is a strong history of thought around public provision of work opportunities where there is a shortfall. Keynes proposed "on-the-spot" employment, while Hyman Minsky proposed a concept of "employer of last resort". These ideas have fed into thinking about job guarantees as a pathway towards full employment.¹¹⁶

The concept of a job guarantee is helpful because it separates the question about whether there is enough work in the economy for the people who need it, from the issue of whether there is work in society that would be valuable even if there are not current paid job roles to produce it. This touches on notions of public purpose where it is legitimate for government to invest. In this regard, we would challenge claims that there was little or no potential value to be gained from additional work in communities and public organisations. We can look back to President Roosevelt's

New Deal jobs programmes as good examples of targeted job creation approaches which were socially productive. But at the same time, there is no underestimating the need to design opportunities carefully so that there is a real offer to those who take them and an efficient means of integration with the benefits system.

4. Reform of corporate governance: Guaranteed worker representation in businesses to ensure a collective voice.

This policy priority echoes the first policy priority in addressing wages and working conditions (see that section above). In the context of good job creation, it is relevant not only as new jobs are created, but as a primary means for converting poor-quality jobs into good ones by reforming structures of governance that embed low wages, insecurity, and poor terms and conditions. At the same time, we also refer to investing in high-quality management in our section above on Building skills and progression pathways. Part of this is about building a common cause across the workforce and opening up decision-making; it is also about rethinking the design of jobs by referring to other country's sectors, such as retail in Germany, to show how job design and skills development are instrumental in achieving good jobs.

Taxation

Goal 5

A tax system which is progressive, fair and unavoidable and which supports productive activity and a fair distribution of economic power.

Policy priorities

- 1. Minimising evasion and avoidance:** Strengthened tax legislation and better-resourced HM Revenue & Customs (HMRC).
- 2. Fair and progressive tax:** Implementation of a coordinated system of progressive taxation of both income and wealth.
- 3. Taxing rent-seeking:** Implementation of a land value tax.
- 4. Taxing non-renewable natural resources and pollution:** Measures to shift the burden of taxation onto environmentally costly, extractive and polluting activities.

Case for action

As noted in Part 1, top marginal tax rates in most OECD countries, including in Europe, have declined considerably in recent decades.^{117, 118} Research has found that this not only increases the post-tax shares of top incomes in many countries, but that there is a negative correlation between top marginal tax rates and the pre-tax shares of top incomes.¹¹⁹ Several countries have also abolished or reduced net wealth and inheritance taxes.¹²⁰

In the UK, once indirect and direct taxes are taken into account, the current taxation system is regressive. Those on high incomes, as well as corporations, pay lower levels of tax in the UK than in many social democratic states. Wealth taxes do little to address the vast inequality in housing wealth and financial assets.

Tax avoidance in the UK and elsewhere is also a major issue – at individual level and also for firms. It is officially estimated that tax avoidance and evasion cost the UK public purse £35 billion per year, although other tax experts estimate it to be much higher at £95 billion, of which the illegal activity of tax evasion makes up the lion's share.^{121, 122} The £95 billion is not far below the annual spend on the NHS.

The Mirrlees Review published in 2011 provided a thorough analysis of the UK tax system and found that it was poorly designed and inefficient in the incentives and distortions it creates.¹²³ Since taxation has a long history as a redistributive mechanism, its role in addressing economic inequality is well-established, but for the reasons set out by Mirrlees, its power in this respect, is not as effective or efficient as it could be.

The goal

Experts agree that we should be creating a tax system which is progressive, fair and unavoidable and which supports productive activity and a fair distribution of economic power.

This goal encompasses important principles. In the first place, the basic principle that those with greater economic and financial resources – who arguably benefit most from all that society and the economy has to offer – should give proportionately more back into society in the form of public finances. In the second place, our taxation system is an important mechanism for influencing incentives and the type of activity we pursue. This points to taxing less socially valuable and outright damaging activities more heavily in order to discourage them and mitigate their impacts, and lightening the tax burden on more socially valuable activities and outcomes. Ultimately, design of taxation along these lines could increase the possibilities for reducing taxation on jobs and ordinary livelihoods – fundamental social goods.

It is increasingly recognised, from the perspective of economic inequality, that the design of the taxation system is vulnerable to capture by wealthy elites who, having more resources at their disposal, hold strong lobbying power and have greater access to influence through networks.¹²⁴ This has tended to strengthen the pressure for tax cuts and reduce the power of the redistributive system to tackle economic inequality.

Policy priorities

Four main areas for attention on taxation present themselves as essential for tackling economic inequality at root:

1. Minimising evasion and avoidance: Strengthened tax legislation and better-resourced HMRC.

Concern about tax evasion and avoidance is rightly widespread among the public and politicians but concerted action has not yet taken place. Lost revenue on the scale of many tens of billions (officially £35 billion but potentially as high as £95 billion – see the Case for action above) prevents a decisive addition to economic and social investment and feeds income and wealth inequalities.

Measures to tackle evasion and avoidance require stronger legislation and regulation to enhance and enforce corporate transparency, particularly among large companies and multinationals. Some of the most important measures include: establishing a general anti-avoidance principle in tax regulation; enforcing corporate transparency, beginning with country-by-country reporting by multinationals; and tackling tax havens decisively.¹²⁵ The last of these is an area where Britain can show real leadership since it has more tax havens under its care than any other country in the world.¹²⁶ To be most effective, this would require the maximum possible international cooperation.

Evidently the capacity to investigate tax matters and enforce compliance depends on the resources made available to the task. This means the

scale of the government's workforce dedicated to the task at HMRC. This workforce has been reduced from 99,309 in 2005 to 68,520 in 2013. Even allowing for a reasonable reduction for online returns and reduced processing requirements, the cuts are significant.¹²⁷ Resources need to be commensurate with the task of investigating and enforcing tax compliance if we are to have a hope of reclaiming the many billions lost each year and make the principles behind redistribution work. There is a broader economic benefit to be had, too, through levelling the playing field for businesses and increasing the vibrancy of the economy itself via the tax system.¹²⁸

2. Fair and progressive tax: Implementation of a coordinated system of progressive taxation of both income and wealth.

Recent polling suggests that 96% of the public would like to see a more progressive tax system than we have now.¹²⁹ The taxation system needs to work better to ensure that, across the board, the wealthier pay more as a proportion of their resources as their incomes rise. This would help level down disparities in market incomes to a fairer spread of disposable income, such as we see resulting from the French system where pre-tax incomes show wide differentials but post-tax income differentials are substantially narrowed.¹³⁰

Achieving a more progressive system would mean combining better tiering of direct taxes on income, with an increase in rates at the top end. It would also mean paying attention to resolving the regressive nature of indirect taxation which currently results in the least well-off households paying the greatest proportion of their income in tax.¹³¹

Experts at our roundtable discussion suggested first steps on a more progressive system with a rate of taxation on incomes above £50,000 set at 50% and progression in the marginal rate above that. It has been suggested that a top tax rate, on the top 1% incomes could be as high as 83% without impacting on productive activity.¹³² The rationale behind this suggestion is that capture of more income at the top does not reflect greater productive activity or an addition to national income, but rather straightforward greed. Taxing these incomes more sharply would reduce the incentives for the very highly paid to try to gain a bigger portion of the pie and reduce income inequalities once the tax system had done its work.

Tax rates up to 80% are not unthinkable; they were the rates applied in the US and the UK until the 1970s. Evidence that taxing more progressively does not impact negatively on national income counters the narrative that higher taxes will dampen growth, and makes higher marginal rates a legitimate option for policy-makers once again.

Evidently to ensure the effective operation of a more progressive taxation system means combining higher rates with fewer loopholes for tax avoidance, because at higher rates, the incentives for avoidance are likely to be greater.

3. Taxing rent-seeking: Implementation of a land value tax.

Rent-seeking means making income or profits not from activity that increases the overall economic pie, but simply from the possibility of taking a bigger share of what there is. Rent-seeking behaviour appears in different guises in different elements of the economy, for example, on a range of capital gains and financial transactions. One of the areas most highlighted is the unearned income enjoyed simply from owning land.

One of the ways of tackling rent-seeking that has been gaining interest in the UK and elsewhere is to tax the value of land – since ownership of land – separate from activity to improve it in some way – offers up a rich source of gain to owners simply from the increase in the price of land. Churchill spoke about this compellingly over 100 years ago.¹³³ According to the Mirrlees Review: “The economic case for taxing land itself is very strong and there is a long history of arguments in favour of it. Taxing land ownership is equivalent to taxing an economic rent – to do so does not discourage any desirable activity.”¹³⁴

Payment to the Exchequer based on land value has arguably more to do with a payment for the unearned benefit of holding land wealth than payment of tax per se. Approaches to land value taxation are demonstrated in other countries – Denmark and Australia, for example. The benefit of a land value tax is essentially to encourage productive land use, starting with the most valuable land in city centres. This would combine the benefits of avoiding speculative land hoarding at the same time as acting against urban sprawl and promoting greater care of natural resources.

Since land and property wealth is a major contributor to growing economic inequality in the UK and other countries, a system of land value taxation would directly address a critical aspect of the problem.¹³⁵

4. Taxing non-renewable natural resources and pollution: Measures to shift the burden of taxation onto environmentally costly, extractive and polluting activities.

As well as raising revenue, taxation has a purpose in acting on price incentives which can be useful in encouraging more socially beneficial activities and discouraging harmful activity or activity that destroys overall value for society. Tobacco and alcohol taxation which attempt to limit poor health outcomes are good examples of taxes intended to reduce harm.

In the case of natural resources and the costs of pollution, the problem of externalities means that market prices do not capture the true costs of their use, leading to undervaluation and overuse. Taxing use of non-renewable natural resources and pollution more heavily embeds the polluter-pays principle. It is an important tool in acting to preserve the planet’s assets and its capacity to absorb waste, even if raising the price of natural resources and pollution this way is unlikely to be sufficient on its own to ensure environmental protection. Taxation of carbon is an obvious example.¹³⁶

Currently in the EU, member states charge very low rates of taxation on non-renewable resources.¹³⁷ Given the pressure of environmental limits on

a sustainable future, serious consideration needs to be given at all levels of government to rates appropriate for achieving key objectives for the environment, economic stability and human health and well-being.

In the long-run, efficient taxation of non-renewable resources and pollution offers the possibility of shifting tax away from the things we want more of – especially jobs, and on to what we want less of, such as poor health outcomes or natural resource depletion and pollution.

Considerations and barriers

As well as deliberating on appropriate goals and policy priorities, each roundtable of experts at our December event was asked about the considerations that would have to be addressed in each subject area, including any barriers to action that they foresaw. This section provides a summary of the considerations that arose across the different roundtables. There was some distinct overlap in the factors that were raised and so we summarise them here under seven headings.

- 1. The public impact of the prevailing economic narrative:** Though public opinion is in favour of tackling inequality, the prevailing economic narrative has a powerful hold. This means there is strong belief in the efficiency of the market, the danger of state intervention, the power and responsibility of individuals and their self-interest, and the forces of globalisation. These tenets are imbued with a sense of the natural order of things which leads many people to believe that attempting to overcome them will fail.
- 2. Confronting the market and vested interests:** Experts spoke about the fear of confronting the markets and especially the capital markets. This fear is difficult to overcome under the prevailing economic narrative which maintains an approach towards liberalising the markets as much as possible. Confronting the market means confronting strong vested interests and the lobbying power of big corporations, including the media.
- 3. The austerity story:** There is no doubt that tackling economic inequality decisively would require an investment of public resources. This sits uneasily in the middle of accepted wisdom about cutting the deficit. To counter this, a compelling case needs to be made that the deficit is not a technical issue where choice is removed but rather a direct issue of political choice around the fiscal space that is required and can be made available to create a stronger, more stable, more equitable society.
- 4. The attack on trade unions:** There has been a concerted attack on trade unions over the past 30 years in the UK. This has severely weakened the balance of power between employers and employees and coincided with more precarious working conditions, a hollowing out of the labour market and a prevalence of low pay. But still public opinion about the unions appears to be mixed and those in favour of their demise are likely to evoke images of disruption in the 1970s and 1980s.
- 5. Poor narrative around taxation:** The subject of taxation is generally viewed as boring, difficult and burdensome. Within a wider narrative that lauds individualism, tax becomes a major imposition, at the extreme akin to stealing what people have rightfully earned for themselves. Added to this is the story about the imperative of a competitive (that is, light) tax system that suggests reforms would lead to mass emigration of those corporations and entrepreneurs we believe create our wealth.

6. Lack of a long-term view in policy-making: Short-termism in policy-making is a deep systemic problem.¹³⁸ In particular, it works against preventative investment in, for example, high-quality early years services for children. Combined with austerity, this creates extremely difficult terrain for progressives to navigate.

7. Lack of evidence of what works: We can look overseas for many examples of what has worked in the field of childcare, labour markets, economic strategies and tax reform. However, the particular set of circumstances in the UK means simply transplanting policies that work elsewhere is not guaranteed to be successful. We need to have confidence to involve social partners in appropriate design of new methods or approaches which can be trialled and assessed.

A number of these barriers relate to beliefs about how the economy operates and what is required for effective economic management. Creating a credible strategy, workable, effective policies and the detail of implementation are absolutely essential if we are to resolve economic inequality. The conceptual and technical details have to be in place and alongside them, a compelling vision for the change being sought. This needs to be strong in engaging majority support not just for the notion of reducing inequality but for the actions required to tackle it given powerful voices in favour of the status quo.

In the first place this vision would make clear that current arrangements, and equally alternative ones, are a matter of choice. This is summed up well by Joseph Stiglitz:

“Inequality is not inevitable... rather it is something that we create, by our policies, by what we do. We created this inequality – chose it really – with laws that weakened unions, that eroded our minimum wage ... With laws that allowed CEOs to take a bigger slice of the corporate pie... [and] taxed gamblers in the stock market at lower rates than workers.”¹³⁹

The lifestyles, position and power of the wealthiest 1% reveal the gulf between them and ordinary people. This was powerfully encapsulated by the Occupy movement: “We are the 99%”. Now is the time to build on this momentum by building a solid platform for tackling economic inequality definitively.

Next steps for practical action

The real barrier to decisive action to reduce economic inequality is not a gap in evidence, the absence of public support, or a lack of policy ideas: it is lack of political will. We suggest two practical recommendations for immediate action by politicians to show a genuine commitment to tackling economic inequality.

Our recommendations for first steps towards fulfilling the goals described in this report are:

- 1. For political parties to commit to reducing economic inequality by 2020:** At this stage, the exact measure and target does not need to be decided. A commitment will signal that politicians are taking the issue seriously and put in motion the types of policies set out in this report.
- 2. For government to set up a high-level commission on economic inequality for devising a fully detailed and workable agenda to tackle economic inequality at root:** This report could not, and was not devised to present a complete detailed policy agenda. Clearly this is a significant task that will require commitment of resources and full engagement of social partners. That is why we call for establishment of a government commission to take this vital work forward as quickly as possible. This needs to be an independent body with a prominent and respected chair.

Annex

Expert participants in December 2013 conference: Tackling economic inequality and the living standards crisis

Filippo Addarii – The Young Foundation
Carys Afoko – NEF
David Arnold – UNISON
Brhmie Balaram – Royal Society for the encouragement of Arts,
Manufactures and Commerce (RSA)
Natalie Bennett – Green Party
Paula Black – NEF
Sioned Churchill – Trust for London
Mike Clancy – Prospect
David Clarke – ShareAction
David Coats – Work Matters Consulting
Anna Coote – NEF
Yannis Dafermos – University of the West of England
Stephen Devlin – NEF
Danny Dorling – University of Oxford
John Earls – Unite the union
John Evans – Trade Union Advisory Committee (TUAC)
Duncan Exley – The Equality Trust
Tony Greenham – NEF
Deborah Hargreaves – High Pay Centre
Anne Henow – PRIME Economics
Luke Hildyard – High Pay Centre
Juliette Hough – NEF
Dennis Kaetzel – SPD London
Christina Kampmann – SPD
Helen Kersley – NEF
Martin Kettle – The Guardian
Ben Kind – UNISON
Kayte Lawton – Institute for Public Policy Research (IPPR)
Ruth Lister – House of Lords
Eva Lloyd – University of East London (UEL)
Sarah Lyall – NEF
Denise McGuire – Prospect
Jeannette Meyer – Friedrich-Ebert-Stiftung
Torsten Müller- European Trade Union Institute (ETUI)
Richard Murphy – Tax Research LLP
Gina Netto – School of the Built Environment, Heriot-Watt University
Chris Norris – Nesta
Ozlem Onaran – University of Greenwich
Helen Penn – UEL
Diane Perrons – London School of Economics (LSE)
Ania Plomien – LSE
Lydia Prieg – NEF/Oxfam
Howard Reed – Landman Economics

David Schoibl
Charles Seaford – NEF
Faiza Shaheen – NEF
Hannah Slater – Children England
Frank Soodeen – Joseph Rowntree Foundation
Tim Stacey – The Equality Trust
Ulrich Storck – Friedrich-Ebert-Stiftung
Shama Tatler – Fabian Women’s Network
Jane Thomas – Friends of the Earth
Tiffany Tsang – The Work Foundation
Owen Tudor – Trades Union Congress (TUC)
Sarah Vero – Living Wage Foundation
Dan Vockins – NEF
Kat Wall – NEF
Stewart Wallis – NEF

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