

Liberal Democrats Policy Consultation

Inequality

Consultation Paper 102



Background

This consultation paper is presented as the first stage in the development of new Party policy on inequality. It does not represent agreed Party policy. It is designed to stimulate debate and discussion within the Party and outside; based on the response generated and on the deliberations of the working group a full policy paper will be drawn up and presented to Conference for debate.

The paper has been drawn up by a working group appointed by the Federal Policy Committee and chaired by David Hall-Matthews. Members of the group are prepared to speak on the paper to outside bodies and to discussion meetings organised within the Party.

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Comments should reach us as soon as possible, and no later than 8th April 2011.

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Introduction

1.1 Liberal Democrats “seek to balance the fundamental values of liberty, equality and community.”¹ How, then, should we address the great socio-economic inequality that exists in our society, whilst strengthening communities and without compromising individual liberty? This question lies at the heart of British political debate, yet we have never spelt out our approach to it. Should our attempts to promote fairness necessarily seek to reduce inequality? How much does inequality constrain a liberal society? There are subtle disagreements within the philosophical traditions that inform the party, over why and how much inequality matters, what should be measured and what should be the nature and extent of the state’s role in addressing it. This consultation aims to define Liberal Democrat principles and aims, and set out areas in which we would like to develop policy.

1.2 The focus here is on socio-economic inequality as a general phenomenon, rather than inequality between specific groups, arising from factors such as race, gender or disability. This consultation paper aims to explore the causes and consequences of inequality and to consider where and how government policy is likely to be helpful and effective in addressing them. Complete economic equality is not feasible, and the pursuit of it by governments in history has had profoundly negative consequences for liberty, enterprise and growth. The Liberal Democrat ideal of equality, rather, is access to the opportunity to fulfil your potential. Liberals believe in a society where everyone can fulfil his or her potential, but also one in which those who, whether through bad luck or bad judgement, cannot achieve their full potential and are excluded or left behind. The question is therefore what can and should be done for people who are unable to achieve their potential. The answer to the question necessarily depends on identifying the chief obstacles to individual self-fulfilment. These may include poverty, low education levels, limited job opportunities, poor living environments, ill health and structural inequality itself. In seeking to develop policies to address these obstacles, it is important to recognise three things:

- Socio-economic inequality is not only a question of unequal material resources. More money does not necessarily alleviate inequality – indeed recent decades have seen great improvements in the incomes and assets of the lowest earners, but inequality has widened. It is therefore essential to focus attention, too, on social aspects of inequality, including the salience of perceived class divisions.
- There are limits to what central government can do to redress inequality through targeted policies. Rather, it is necessary to consider strategies to address the causes of inequality. These may centre on reinvigorating local communities, or on a fundamental restructuring of economic relationships between business, state and society.
- A distinction needs to be made between policies that improve the social mobility of individuals and those that seek to reduce overall inequality. Both are crucial, but the former would not necessarily lead to the latter.

1.3 In order to define areas in which we wish to develop policies in relation to inequality, it is first important to establish what philosophical approach to take. To what extent should the emphasis be on enhancing people’s capabilities, using welfare and education to overcome inherent disadvantage? To what extent could a Liberal Democrat government seek to tackle the causes of inequality? Should policy be designed primarily to help the poorest, or to constrain the

¹ Preamble to Liberal Democrat Constitution

rich and powerful, or to establish universal rights and access to opportunity? This consultation paper reviews how inequality, its causes and its effects can be conceived and measured. It sets out issues and policy options relating to tax, welfare, work, wealth and influence.

Questions:

1. *Why and how much does inequality matter to Liberal Democrats?*
2. *What are the main causes and effects of socio-economic inequality?*
3. *Which aspects of socio-economic inequality should most concern government? For example:*
 - a. *Income*
 - b. *Wealth*
 - c. *Work*
 - d. *Capabilities*
 - e. *Regional*
 - f. *Inter-generational*
 - g. *Social*
 - h. *Political influence*
4. *To what extent should Liberal Democrats focus attention specifically on equality of opportunity? If so, why and how?*
5. *To what extent should Liberal Democrats focus on improving social mobility, and to what extent on attacking the causes of inequality?*
6. *Is class still a cause of socio-economic inequality? If so, what is "class"?*
7. *What should be the balance between policies to help the poorest, to limit extreme wealth and to promote universalism? Which of these would be undesirable?*
8. *In what specific areas should Liberal Democrats seek to develop policy to address inequality? What policies should we oppose on principle?*
9. *To what extent should inequality policy be the remit of local government?*
10. *Where policies to tackle inequality might limit employment and economic growth, which should take priority?*

Approaches to Inequality

2.1 Why does socio-economic inequality matter? Different answers to this question point to different policy directions.

- Equality of opportunity/capability view: resource inequality matters at the bottom end for instrumental reasons: it prevents people from fulfilling their potential because everyone needs access to a certain amount of resources to be able to do this. Resource inequalities above the level required to fulfil potential, for example between high and middle income earners, are not deemed a problem requiring intervention.
- Social democratic outcomes view: resource inequality matters for its own sake: it's not fair that some people enjoy better resource outcomes than others when those better outcomes are often due to luck (e.g. being born with higher innate ability, being born to wealthier parents) rather than due to effort. This approach would take us beyond an equality of opportunity approach to inequality, and would require a political strategy which aimed to redistribute resources for its own sake.
- Whole society outcomes view: societies that have greater resource inequality tend to experience worse outcomes in aggregate, impacting on all of those in that society, including the very well off. Recent literature suggests that more unequal societies tend to have poorer health outcomes across the whole of society – including obesity and mental health, poorer levels of subjective wellbeing, a higher crime rate and greater inequality of political participation.² These are simple associations rather than causal links, and the evidence deployed to support the existence of causal links has been subject to criticism.³ Nonetheless, there is an argument that living in a more unequal society leads us all to think more about our own status in relation to one another, which has a negative impact on us all. This argument sits closer to the outcomes view than to the equality of opportunity view.
- Social attitudes view: People facing constraints on their self-fulfilment are liable to make life decisions that reinforce, rather than overcome, those constraints. These may include unhealthy living, limited engagement at school, inattentive parenting, lack of ambition and welfare dependency. These obstacles to social mobility and self-fulfilment can be seen as a response to entrenched socio-economic inequality: people perceive their relative lack of wealth and status to mean that they cannot ever take control over their own lives. This feeds into the whole society outcomes view.

2.2 Different policy implications follow from these varying approaches. An equality of opportunity or capabilities view of inequality would require policies to address the skills deficit amongst more deprived groups, and would probably include policies to boost resources for that group, given the relationship between access to resource and capabilities' development. But it would not necessarily require action to address concentrations of wealth at the top. A social democratic or outcomes view would require policies that would redistribute wealth from the top to the bottom, as concentrations of wealth are considered unfair in themselves, regardless of

² Wilkinson, R & Pickett, K, 2009, *The Spirit Level: Why More Equal Societies Almost Always Do Better*, Penguin

³ For example, Snowdon, C, 2010, *The Spirit Level Delusion: Fact-checking the Left's New Theory of Everything*, Little Dice; Saunders, P, 2010, 'Beware False Prophets: Equality, the Good Society and the Spirit Level', *Policy Exchange*, 8 July

their impact on well-being. The whole society view would also require a redistribution of resources, but based on the fact that concentrations of wealth alongside disadvantage have negative impacts on society. Policies flowing from the social attitudes view are more difficult to discern. The view implies policies seeking to reduce resource inequality, but also addressing perceptions of worth associated with status, employment type, local environment and so on. A government's capacity to affect this may be limited.

2.3 There are some connections between all of these approaches. The capabilities approach focuses on what limits individual capacity to achieve a range of outcomes e.g. being employed, owning a home, having a family.⁴ Capabilities are skills and attributes that impact on one's ability to exercise agency;⁵ the most important are application, empathy, self-regulation and confidence. In recent years, as the economy has moved away from industry and towards the service sector, these have become an increasingly better predictor of life chances than social class.⁶ They thus have the potential to enhance social mobility. However, evidence shows that, at the same time, inequality of capabilities has increased. This is directly linked to pre-existing socio-economic inequality. In particular, children's development of capabilities is affected by household wealth, both because of relative pressures on time and space and issues of esteem and behaviour. Similarly, financial security makes adults more likely to take productive risks, such as undergoing training or starting a business, that enhance capabilities. Inequality thus remains self-perpetuating to some extent: it is harder to escape poverty having grown up in it.⁷

2.4 Policies to address this again vary according to the approach taken, but may be complementary. A focus on social mobility would seek to address the capability gap primarily through education. Liberal Democrats in government are introducing the pupil premium; giving extra money to schools for every pupil from a low-income background they take on. This will act as an incentive for schools to take on poorer pupils, but it does not guarantee that they will succeed. This might be extended to reward secondary schools if pupils from poorer backgrounds achieve 5 A*-C grades at GCSE. That would incentivise schools to ensure that they develop their capabilities. A focus on social attitudes might seek, further, to broaden curricula to include a wider range of skills, so that less academically able children are still able to do well, maximising application and confidence. This could potentially help to increase social perceptions of skilled and semi-skilled manual jobs in wider society. Redistribution of resources might also be targeted to redress perceptions of geographical and inter-generational inequality. The whole society approach would logically use higher taxation not only for redistribution, but also to attempt to build social cohesion and mutual respect, based on experiences in countries such as Canada, Japan, New Zealand, South Korea and Sweden.

⁴ Sen, Amartya. 1993. "Capability and Well-Being," in M. Nussbaum and A. Sen, eds. *The Quality of Life*, pp. 30-53. New York: Oxford Clarendon Press.

⁵ Nussbaum, Martha C. 2003. "Capabilities as Fundamental Entitlements: Sen and Social Justice." *Feminist Economics* 9(2/3): 33-59.

⁶ Blanden, J et al (2006) Explaining Intergenerational Income Persistence: Non-cognitive skills, ability and education. CMPO; Duckworth, A. L., & Seligman, M. E. P. (2005). Self-discipline outdoes IQ in predicting academic performance of adolescents. *Psychological Science*, 16(12), 939-944.; Feinstein, L. (2003) 'Inequality in early cognitive development of British children in the 1970cohort', *Economica*, 70: 73-97; Heckman, J.J., J. Stixrud, and S. Urzua (2006). The effects of cognitive and noncognitive abilities on labor market outcomes and social behavior. *Journal of Labor Economics*; Margo J and Dixon M with Reed H and Pearce N 2006, *Freedom's Orphans* London: ippr

⁷ Lexmond, J & Reeves, R, 2009, *Building Character*, Demos

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Questions:

11. *Should Liberal Democrats take a balanced or mixed view of how and why inequality matters? Should we reject any approaches on empirical or ideological grounds?*
12. *Do we accept that unequal capabilities are a determinant of lifelong socio-economic inequality, liable to be passed on generationally?*
13. *Does inequality of resource affect the development of capabilities? Are wealth and savings (i.e. inequality in financial security) more important than disparities in income?*
14. *Do social perceptions of inequality affect the development of capabilities? Can government realistically seek to alter negative social perceptions?*
15. *Should inequality policy stop at a capabilities/equality of opportunity approach? Or should it go further and tackle resource inequality overall?*
16. *Is social class a useful way of understanding inequality in capability? Should we also look at other factors such as gender, geography, ethnicity as causes of variation?*
17. *Is resource redistribution practicable, or is it more feasible to explore skills-building approaches in schools and in the labour market?*

Measuring Inequality

3.1 The most common measure of socio-economic inequality is of relative poverty – defined as the number of people earning less than 60% of the median income. This has affected the perceived relationship between inequality and poverty. Since the 1960s, the number of UK residents unable to access basic needs such as shelter, clean water and food has declined sharply and incomes in the bottom quintile have risen. However measured, inequality has also increased, thanks to rises in the number of higher earners. As a direct consequence of this, social attitude surveys reveal that more people believe poverty to be a pressing concern in Britain today than did in the 1960s, meaning that poverty itself is now understood as “impeded social participation.”⁸

3.2 While this is consistent with a broad conception of inequality, Liberal Democrats do not see income as the only – or even most important – significant measure of inequality, though the government has to focus on it in assessing the fairness of taxation. It is hard to gather reliable data on asset inequality, however, let alone less tangible things like access to opportunity or influence. Relational statistics can also create perverse incentives. Relative poverty can be reduced by targeting those immediately below the notional poverty line, at the expense of the worst off – or even by lowering middle income earnings. Universal rights or benefits might have a significant impact on inequality, but require very careful measurement and evaluation. Social attitudes can be recorded by surveys, though they would have to be specifically tailored to capture how they are affected by perceptions of inequality as an obstacle to self-fulfilment.

3.3 It would therefore be useful to consider what would be most useful to measure in order to further understanding of the nature and causes of inequality. For example, we need a better understanding of how many families in the UK live in financial insecurity, in terms of their ability to draw upon finances when times are tough and to provide a stable and secure economic environment for their children. Related to this, it would be useful to contrast changing income levels with prices for different goods and services. For example, the costs of supermarket shopping, clothes, electrical goods and air travel have all fallen in recent years, to a point where people with sub-median incomes can afford them more easily. By contrast, housing – the greatest determinant of financial security – has moved far beyond their reach, with even urban rental markets at breaking point.

Questions:

18. *What measures of inequality would be most useful?*
19. *Are relational indices of poverty helpful or harmful?*
20. *How usefully could asset inequality be measured?*
21. *How useful would a life chances index be? How could one be developed? Are measures of social exclusion relevant?*

⁸ Niemietz, K, 2011, *A New Understanding of Poverty: Poverty measurement and policy implications*, Institute of Economic Affairs, p.27.

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22. *Is it possible to measure the impact of inequality on society in a conclusive way? How does socio-economic inequality relate to health or education inequality?*
23. *Can inequality be measured in relation to other socio-economic changes, such as prices, wages or growth?*
24. *How could we measure household financial security?*
25. *How can we measure the impact of specific policies on inequality?*
26. *Is it helpful or harmful to set and measure against policy targets?*

Tax, Benefits and Welfare

4.1 The Liberal Democrats have long campaigned for a fairer, simpler and more inclusive welfare and benefit system that encompasses our key values of fairness and equality. Social mobility – once expected to rise in a more affluent society – appears actually now to be in decline and an individual's income at age 30 is determined by their parents' income to a greater extent than in almost any other developed country (Policy paper 80). The lack of opportunity that accompanies inequality ensures that individuals do not reach their potential, which for an entrepreneurial society such as Britain is economically destructive in the long term. The current problem lies with stigma attached to claiming benefit and a self-fulfilling prophecy of a broken welfare system and unemployment.

4.2 Liberal Democrats have already fulfilled manifesto pledges by taking thousands of people out of paying income tax, with an ultimate goal to free three million people from income tax. This flows with the Liberal Democrat narratives of fairness and independence. Reducing the burden on the welfare system allows for those children, families and individuals who need help most, to receive it. Capital gains tax has been increased and brought into line with income tax systems, so that those that can afford to pay more do. This reverses the awful phenomenon of cleaners paying higher rates of tax than top earners, which served to perpetuate financial inequalities in society.

4.3 The benefit and welfare system has also been overhauled, creating a universal credit rather than a plethora of benefits and a labyrinthine administrative office. By removing the complicated nature of the application process and reducing the legislative burden, benefits can get to those that most require them and can have the biggest impact. This will help to bridge equality gaps and to turn the welfare system from a 'safety net' to a 'trampoline.'

4.4 Increased benefits and tax credits could be central to future policy to address inequality. Extra resource might be channelled to provide a 'capabilities boost' for children from disadvantaged backgrounds, for early years child care, parenting support, and throughout compulsory education. This could operate as a 'life premium' for these children in recognition of the disadvantage they face, and would help public service professionals to improve services for these children.

4.5 Policies will also be needed to enhance financial security and underpin capability development. These might include:

- Replacing the minimum wage with a Living Wage to improve the ability to save. The Joseph Rowntree Foundation has suggested a figure of £6.88 an hour.
- A more flexible system of paying child benefit to low income families with very young children, which recognizes the importance of early years. This could involve child benefit being paid at a higher rate for younger children, or a lump sum at birth.
- Extending the Saving Gateway to low-income families in social housing or privately rented accommodation to help them save towards a deposit for a house.
- Ring-fencing half of all income tax for those earning under £15,000 a year to go into a personal pension scheme.

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Questions:

27. *How can the government further transform the tax system to address inequality?*
28. *Reforming which of tax, benefits or welfare is the surest way to lasting improvements in social mobility and reduced inequality?*
29. *Can social inequalities within arenas such as education, within communities or in employment be overcome through financial incentives?*
30. *Should eligibility for benefits be judged on a principle of universality or on a case by case basis?*
31. *Steps have been taken to lift low earners out of income tax. What can be done to increase the amount of tax paid by those at the top end of the income scale?*
32. *Should the government look to move beyond the current 28% capital gains tax rate?*
33. *What taxes should be introduced to see a fairer distribution of wealth taxation?*
34. *Is widening the availability of benefits, and making them universal, the best way to reduce inequality?*
35. *Should benefit increases be designed to enhance capabilities and income security?*
36. *Could asset-based welfare work to reduce inequality?*

Wealth and Asset Inequality

5.1 Distribution of wealth and assets in the UK is more unequal than that of incomes. Yet the burden of taxation on unearned wealth – such as gains from rising property prices – remains relatively low, compared to taxes on incomes and production. At present, capital gains on primary residences are not taxed at all. This unfairly benefits those who already own a disproportionate share of national wealth, thereby significantly increasing inequalities. Combined with low interest rates, low taxes on unearned wealth also create perverse incentives to invest in non-productive assets instead of productive enterprise. This, in turn, contributes to endless cycles of property price inflation, which squeeze low income groups out of markets for housing that could enhance their financial security. Asset inequality may therefore be significant in perpetuating socio-economic inequality.

5.2 Total net wealth in the UK (real estate, financial assets, personal property and pensions, net of liabilities) was estimated in 2008 to be £8,957,800 million.⁹ The distribution is highly unequal. The top decile owned 44 percent; the bottom decile had no net wealth at all and actually owed £500 million. Breaking down the figures further, it was estimated in 2002 that the top 1 percent owned around 23 percent of total marketable wealth. There is no reason to think that this figure has materially changed; in fact the reverse. In the mid-1980s the top 1 percent owned 17-18 percent of total marketable wealth. The distribution of wealth in the form of financial assets and pensions assets is the most unequal. The total value of wealth in this form is estimated to be, respectively, £995,300 million and £3,518,900 million; thus a total of £4,514,200 million. In 2008 the top decile owned 54 percent of the total, whilst the bottom decile had no net assets in these forms and actually owed £8,200 million.

5.3 The distribution of net wealth held in real estate is – for the moment – less unequal. The total net value in 2008 was estimated to be £3,477,200 million. The top decile owned 37 percent; the bottom decile had no net property wealth and owed £7700 million. However, the static figures do not reveal the growing problem of affordability. Between 1995 and 2009, house prices doubled in real terms (whilst real GDP rose by approximately one-third). Likewise, the ratio of the price of first time buyers' housing to first time buyers' incomes also doubled from two to four (the latter figure actually representing a decline from 2008 when the ratio was five).¹⁰ If these trends continue, one would expect to see a growing concentration of housing wealth amongst the wealthier and middle-aged segments of the population, with younger and poorer households paying rent to private landlords (most likely in those groups). This also represents a transfer of resources from poorer to richer, thereby again increasing inequality.

5.4 This entrenched and increasing form of socio-economic inequality is likely to have a profound impact on social perceptions and cohesion. These may include feelings of worthlessness and alienation in those who have little or no wealth relative to others. Some studies suggest that those who are on the bottom rungs of economic hierarchies suffer more from mental illness and

⁹ Office of National Statistics, 2010, Social Trends, No.40

¹⁰ Appleyard, L & Rowlingson, K, 2010, *Home-ownership and the distribution of personal wealth*, Joseph Rowntree Foundation, <http://www.jrf.org.uk/sites/files/jrf/home-ownership-personal-wealth-full.pdf>

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generally die earlier.¹¹ Further, ownership of economic wealth confers on individuals a sense of security and the means to enjoy life more fully. Lack of wealth necessarily therefore diminishes individuals' sense of security and liberty.

5.5 Policy options include higher and new forms of progressive taxation of all financial assets, property and pensions. Capital gains tax could be extended to all property transactions, replacing largely regressive fixed stamp duties. A gift tax could be introduced for intergenerational resource transfers, to stop the very affluent avoiding death duties by gifting their wealth during their lifetimes. This would see an increase in the number of bequests and gifts that would become taxable – and if introduced in conjunction with a land tax could see a significant reduction in the 40 per cent rate currently applied.

5.6 The most radical way to shift the burden of taxation onto unearned wealth would be a land value tax. This would capture some of the huge gains in property value that derive from increases in land value, with fewer distortionary effects on buying and selling decisions than would arise from making people's homes eligible for capital gains tax. It could potentially have macroeconomic benefits by helping to stabilise property prices in high-demand areas, and increase investment on low-demand ones. It would also be difficult to avoid, as land cannot be moved offshore!

Questions:

37. *To what extent should Liberal Democrats be concerned about the adverse effects of unequal wealth and asset distribution?*
38. *In particular, should Liberal Democrats seek to redress growing inequalities in home ownership and its impact on wealth distribution?*
39. *Should there be a policy to tax capital gains on primary residences? What should the level of such a tax be? Should revenues raised be targeted to further reduce asset inequality, for example to help people onto the property ladder?*
40. *Would land value taxation be feasible and helpful?*
41. *What policies could help to address inequalities in financial assets and pensions?*
42. *Should there be a wealth tax? If so, on what and how would it be levied?*

¹¹ See for example, Theodossiou, I & Zangelidis, A, 2006, *The social gradient in health: the effect of absolute and relative income on the individual's health*, Centre for European Labour Market Research

Inequality and the World of Work

6.1 Government policies to address inequalities – whether of income, wealth or capabilities – are often *post hoc*; that is to say, redistributive taxation and spending are used to make society less unequal after the fact that unequal outcomes exist or are created by the market economy. Many of these unequal outcomes stem from the domain of work in various forms, including: disproportionate executive remuneration and the incentives this creates; unfair working conditions imposed particularly upon the low-paid; the acute loss of benefits and/or liability to income tax for people working for salaries below a Living Wage; unequal access to financial services such as bank accounts, loans and other services, for personal or business use. It is necessary to establish whether these issues can reasonably be seen as causes of socio-economic inequality, whether government should seek to tackle them and, if so, how. Liberal Democrats would like to see a rebalanced relationship between business and society, so that financial and social benefits are more widely shared, instead of accruing to individuals at the top of companies. Businesses need to be incentivised to be more responsive to the needs of their employees, local communities and to the sustainability of the UK economy.

6.2 High rates of executive pay in the public and private sector are widely perceived both to reflect and to reinforce inequality and social divisions. Will Hutton recently published a government-commissioned report into executive remuneration in the public sector, recommending a maximum 20:1 ratio between top and median salaries. Pay disparity is greater in the private sector, now being investigated by the High Pay Commission, though government has limited powers. One option would be to compel employers to disclose salary levels of each post in their organisation, to strip away the culture of secrecy around top earners and stimulate greater wage equality.

6.3 Inequality is often exacerbated by insecurity of employment and pay far below the minimum living wage. Combined with the withdrawal of many benefits and liability to income tax even at low pay, low labour flexibility is seen as a significant barrier to equality of capability. Those trapped in cycles of low-skilled employment are also least likely to benefit from flexible working hours or opportunities for training. Government could choose to generate work stabilization and capability-building incentives, rewarding employers for keeping staff on for longer periods, and for releasing employees from each rung of their pay scale for voluntary work (potentially boosting their skill sets). Another option would be setting up a 'good work' accreditation scheme that measures an employers' commitment to enhancing employees' control over their work and stamping out monotony. Free or subsidised childcare and a living wage would also benefit those in insecure jobs.

6.4 Unequal access to financial services can also be an impediment to equality of capability; financial exclusion by mainstream providers creates dependence on extortionate pay-day loans and inability to access the finance required to sustain small and medium enterprises. It is Liberal Democrat policy to make use of regional stock exchanges, credit unions and mutual societies to revive local credit markets and therefore businesses. The principles of mutualism and co-production could also be encouraged across all sectors, including the provision of local services, with direct impacts on workplace inequality.

Questions:

43. *What can be done to better align the interests of employers, employees and wider society?*
44. *Should there be a maximum pay ratio in the public sector? Is 20:1 appropriate? Would a maximum pay cap be more effective?*
45. *Should government impose a similar ratio in the private sector? Would compulsory reporting of top and average pay settlements and levels be effective? How could greater industrial democracy be encouraged within firms? How can they be made more accountable to shareholders?*
46. *Should components of the government's new universal credit be tapered in line with income to ensure that taking low-paid work is always beneficial?*
47. *Would financial incentives to improve employees' conditions and prospects be effective?*
48. *Should public-sector procurement entail 'fair wage' and/or 'fair competition' requirements on suppliers?*
49. *What should be done to ensure fair treatment of temporary and agency workers?*
50. *How can the 'loan shark' market be better regulated?*
51. *Would it be efficient and/or achievable to mutualise publicly owned banks?*

Inequality and Political Power

7.1 Central to Liberal concerns about inequality is the relationship between wealth and power. The very wealthy have vast political power: they can pressure governments by threats to take their wealth elsewhere (the mega-bonuses of bankers); they can influence political parties through donations, and, through those donations, influence elections, or, through, for example, funding research and think-tanks, influence the climate of opinion; they can even, at least in Britain, effectively buy themselves seats in the legislature, in the form of seats in the House of Lords. Above all, they can buy power through the media, power to set the political agenda or power to undermine the careers of individual politicians while at the same time protecting their own privacy. More generally, the super-rich enjoy access to political leaders. The average income of those received at Chequers by the Prime Minister – a list dominated by bankers, celebrities and business leaders even under a Labour government – would make for an interesting calculation.

7.2 At the other end of the spectrum, the very poor are excluded from politics. At its most extreme, homeless people are often not registered to vote, and even if they are registered, rarely cast a ballot. Their daily struggle for basic existence tends to crowd out the time and energy needed for political involvement. More generally, low income is associated with failure to engage in politics, whether through discouragement (a sense of inability to influence events), disruption (those who move frequently in the private rented sector are often not registered), or alienation (lack of parties or candidates whose views are attractive and lack of the wherewithal to engage directly in politics). All mainstream political parties have noticed that their active membership is overwhelmingly middle-class. The poor have little or no access to the powerful.

7.3 Some of these inequalities can be dealt with by trying to insulate the political system from the influence of wealth – for example by controlling donations and by ending nomination of members of the Lords. For the most part however, these problems, especially the political exclusion of the poor, can only be dealt with at their economic root.

7.4 Concentration on the political effects of inequality has implications for policy. The most important is that it provides a reason to be more troubled about the extremes of the distribution of wealth and income than the middle. There is little difference in terms of political power between families on £20,000 p.a. and £30,000 p.a., but there is an enormous difference in power between a person struggling to obtain benefits and the chief executive of a major bank. The precise points at which wealth or the lack of it inappropriately impacts on political power might be disputed (at the top end, for example, is it the point at which a person could buy control of a national newspaper or the point at which a threat by them to leave the country would win them a meeting with the Chancellor of the Exchequer?) but it is clear that the approach should be to start at the extremes and work inwards.

7.5 Some aspects of the problem concern absolute levels of wealth or poverty. For example, making sure that all citizens have the opportunity to think about political issues requires that no one falls into levels of absolute poverty so great that their entire time and energy is directed towards survival. But other aspects concern relativities, for example a sense of inability to influence political events arises largely from a feeling that other, richer, people have the political system sewn up. It could not be tackled without action to diminish the relative power, and thus wealth, of others.

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Questions:

52. *Is there convincing evidence that policies to reduce concentrated wealth will help society?*
53. *Is there evidence that political empowerment reduces inequality?*
54. *What checks and balances would help to minimise the influence of the affluent?*
55. *Should opinion-forming organisations such as think tanks and media houses be subject to special scrutiny to prevent concentration of influence?*
56. *Is it necessary to tackle extreme wealth in order to help the extreme poor?*

