

Tackling Inequality at its Roots

Policies on Inequality

Policy Paper 107



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Executive Summary

For Liberal Democrats, inequality matters when it is an obstacle to individuals determining their own destinies and reduces aspirations. It also matters when it prevents talent from fulfilling its potential to the detriment of the economy and society. Further, it can create a sense of unfairness, weakening the fabric of society and setting groups of people against each other. Addressing socio-economic inequality benefits everyone.

Inequality often perpetuates itself between generations as well as through individual lifetimes. This is in part due to the harmful effects of child poverty on future life chances, but it is not only to do with income levels but also inequality of aspirations and individual capabilities, which evidence shows are determined in the earliest years of people's lives.

Liberal Democrats therefore propose to invest heavily in enhancing the capabilities of those who are most disadvantaged. Lack of capabilities such as confidence, empathy and self-discipline – as well as educational qualifications – is the biggest obstacle to social mobility and the biggest cause of entrenched inequality. This paper accordingly suggests ways to strengthen everybody's capabilities when they need that support most.

We would like to see a Capabilities Index and a Life Chances Indicator in order to measure the key obstacles that inequality creates. This would be more nuanced than established measures of poverty and inequality because they would capture the complex and multi-dimensional nature of the problems people face in their real lives. However, it remains essential to measure income inequality because it reveals extreme poverty and because income inequality is often though not always) a cause of other forms of inequality.

Given the complexities of socio-economic inequality, this paper identifies the major strands of public policy which could play a part in reducing inequality and the harm it causes. It recognises that the causes of inequality are multi-faceted and require ongoing work to identify and address. It does not enter into great detail in specific areas. In some it points to more detailed policy in other policy papers. In others it highlights Liberal Democrat goals, the achievement of which will require further work to flesh out.

Because the early years of life are so important in determining people's futures, we will make the strongest effort to give support to **pre-school children and their parents**. This will include:

- Creating a 'Nursery Premium' to target extra resources towards improved pre-school provision and parenting support for the most disadvantaged families
- Encouraging volunteer 'parenting champions' to work in schools and share successful experiences, information and good ideas with other parents
- Extending the entitlement to parental leave to a total of eighteen months to be shared between parents provided that each parent takes at least six months.

One of the most damaging aspects of inequality is unequal **access to services**, both publicly and privately provided. We will take steps to promote fair access to services including by:

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- Promoting co-provision and the involvement of voluntary groups in helping people to access services and support
- Placing obligation on private sector service providers to develop social tariffs which would offer their lowest rates to those in most need
- Requiring financial services providers to tackle financial exclusion for example by ensuring reasonable access to free cash point facilities in low income areas.

Inequality is often strongly experienced in the **workplace**. This is partly because of increasing disparities between the pay and rewards of top executives and the majority of the workforce and an imbalance between the dominant financial services sector and the rest of the economy. Many also feel insecure in a difficult labour market because of low demand for their existing skills. We will tackle inequality and insecurity at work by:

- Increasing the power of shareholders to hold senior management to account
- Requiring companies with over 250 employees publish average pay in each quintile – and provide a rationale for the ratios between them and the top earners at both board and sub-board level
- Investing in training or re-skilling both for those in work and during periods of unemployment.

Inequality in **wealth and assets** is greater than that in incomes. Liberal Democrats seek to address this in part by switching the balance of taxation towards those with the broadest shoulders, and in particular increasing taxes on unearned income and wealth.

Liberal Democrats have always recognised the close relationship between political and economic power. Inequality and privilege in one sphere cannot be tackled effectively without also addressing the other. Our whole approach to **political reform** is based on widening participation from the bottom up and stimulating community politics. To tackle the undue political influence of big money in politics we will:

- Devolve power and resources to the lowest possible levels and encourage community representation in participatory democracy and budget planning
- Work to achieve reform of party funding with caps on large donations and strict limits on campaign expenditure
- Press for an effective registration and publication of contacts between ministers and lobbyists
- Reform the House of Lords to end political patronage and make politics more accountable to the people.

Introduction

1.1 Inequality matters. For Liberal Democrats, inequality matters, first, in principle. Our core purpose is “to build and safeguard a fair, free and open society, in which we seek to balance the fundamental values of liberty, equality and community.”¹ Our goal has always been to create a society in which everyone has a fair chance to fulfil their own potential and to receive fair reward for their efforts and talents, without being hampered by discrimination or self-interested concentrations of power and influence. Liberal Democrat policies seek to deliver fair outcomes because fairness makes for a better, more inclusive, society.² Second, inequality matters because it is inefficient. If some people are bound to succeed despite having limited ability, while others are prevented from developing and applying their skills, the nation and the economy are the poorer for it. Third, inequality matters because it creates stresses for the whole of society.³ Widening economic gaps between different groups reduce the opportunity for community cohesion and social interaction, as well as for holding the powerful properly to account. Increased perception of inequality and a sense of injustice stimulate resentment, insecurity, fear and ‘us against them’ attitudes, which weaken the fabric of society. Liberal Democrats do not believe in the politics of self-interest, in which different groups or classes compete against each other for preferential treatment from government. History has shown that, over time, class competition rarely reduces inequality – and can reinforce it. We do not aim for complete economic equality in society – but we believe that current levels of inequality are unacceptably high. Liberal Democrats seek to reduce inequality for the benefit of everyone.

1.2 This policy paper addresses socio-economic inequality, which by 2008 had reached its highest level in the UK since the 1930s, and despite having fallen back a little since the recession is still very high by post-war standards. Other forms of inequality, such as race, disability, gender and sexuality, are not the main focus, but often have a direct causal relationship with economic inequality. Our main concerns are the causes and consequences of unequal opportunities and capabilities. This paper proposes measures to address both, focusing primarily on those facing most disadvantages, with the goal of creating fairer life chances for everyone. Our approach is to help people to enhance their capabilities throughout their lives, targeted when they most need it, including early years and periods of unemployment. Liberal Democrats aim to increase social mobility, not just for some, but for all citizens – both between generations and within generations. We also seek to address inequalities that deny people access to decent jobs and living conditions. We are also concerned to reduce inequalities in political life. Politicians need to listen more to the voices of empowered citizens and less to the rich and powerful, whose self-interest is too often to reinforce inequality.

1.3 Inequality is often self-perpetuating. Consequences of inequality include poor health, lifestyles, living conditions and reduced life expectancy; inadequate educational attainment and skills; limited self-esteem and aspiration; low participation in social, political and community life; and a sense of lack of control over people’s own lives. These are also the key drivers of inequality. Inequality can create cultures of impoverishment and dependency that result in unequal outcomes. People’s ability to withstand personal (or wider, national) setbacks also varies according to their past experiences, including bad luck and bad choices, but also structural disadvantages. Thus inequality often persists over the whole of people’s lives and between generations. Inequality is multi-dimensional, including inequality of resources, opportunities, access, attributes and skills. Some can be addressed through better state provision, but others do not require money so much as shifts in unequal attitudes that are culturally embedded at all levels of society. Policy to redress inequality therefore needs to be wide-ranging; addressing

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inequalities at all stages of people's lives, in and through education, services, work, pay, tax, wealth and power. We recognise that some important aspects of inequality are beyond the capacity of government to resolve. It is therefore all the more important to instil a political culture that does not tolerate inequality and seeks to prioritise reducing it in all areas of social and economic policy. Liberal Democrats at all levels of government work both to ensure the provision of excellent services that are accessible to all, and to stimulate community engagement and social networks.

1.4 Liberal Democrats are particularly concerned to increase people's capabilities and aspiration. Having already introduced the Pupil Premium for schoolchildren from disadvantaged backgrounds, we propose measures to increase targeted support for parents and children in the first years of their lives. These include improvements to Sure Start and health visiting, designed to give direct support and advice on parenting skills, improved parental leave and the encouragement of volunteer 'parenting champions' to work in schools and communities. We also explore ways to improve the Liberal Democrat Education Credit and better target Child Benefit and other support for families with children.

1.5 As well as capabilities, Liberal Democrats seek to improve access to high quality, better targeted services. We want citizens to be empowered to demand better of service providers – whether public, private or voluntary – leading to improvements in key areas where poor services perpetuate inequalities, such as health, housing, education, transport and financial services. We also propose measures to improve work opportunities and job security, in all regions, through strategic investment in training and the provision of incentives to employers and others to recruit, train and retain the long-term unemployed. This is more important than ever during a time of austerity, which disproportionately affects those with low capabilities and skills. We also seek to make workplaces more equitable and cohesive environments by encouraging workplace democracy. We believe that large companies should have representatives from all sections and pay levels on strategy and remuneration committees and should publish what they pay at different levels.

1.6 Liberal Democrats believe that a fairer society would result from switching the burden of taxation progressively towards taxes on wealth and unearned income. Taxing wealth puts the greatest burden on those who can most afford it, without stifling entrepreneurialism and growth. It is also harder to evade. The purpose of such taxation is not to attack the rich, but to generate the resources needed to assist those who face unfair obstacles to self-fulfilment. Such barriers are too often perpetuated through the political system. Power is heavily concentrated in too few hands, while people most in need of support are least engaged with politics. Liberal Democrats seek to redistribute power and enable all people to make a difference to their own lives. At the same time, we strive to promote social cohesion and reinvigorate community politics. Our ultimate goal is to ensure that no-one's voice is unheard.

¹ Preamble to the Liberal Democrat Constitution

² Rawls, J, 1971, *A Theory of Justice*, Harvard University Press

³ Wilkinson, R & Pickett, K, 2009, *The Spirit Level: Why More Equal Societies Almost Always Do Better*, Penguin

Inequality Measurement: In the Eye of the Beholder?

2.1 Following the recent publication of a report outlining the failure to meet the Child Poverty Target by 2010,⁴ the government has announced a consultation on holistic approaches to reducing child poverty, and on exactly what should be measured. Previous measures were of relative income poverty – which in fact measures inequality rather than absolute poverty, but in a way that misses out much of what people feel about inequality. Inequality is multi-dimensional, affecting people's whole life experiences. Focussing on income-based measures of inequality alone is not helpful, as expenditure-based measures may better reflect material deprivation. However, income is often a significant determinant of other forms of inequality and it can also be a consequence, for example, of discrimination on the grounds of age, gender, ethnicity, class and so on. Income is most important in relation to expenditure, which may better reflect material deprivation. For example, as much as half the UK population cannot afford to save to buy property. One of the most concerning aspects of income inequality is how it affects those at the bottom end of the scale and creates barriers to opportunity.

2.2 What is measured is important as it tends to shape policy responses and perceptions of the success of policy. It is therefore dangerous to be prescriptive. As inequality is multidimensional, lots of possible measures are available. The Department for Work and Pensions currently uses 59 indicators to measure poverty and social exclusion. Sometimes measures of socio-economic inequality indicate underlying problems, such as social discrimination. Yet it is also possible to have severe inequality without any material deprivation. Measurement should follow from political conceptions of why and which inequality matters most. This should include inequalities in things that people most care about, such as their health or living conditions. We welcome the new indicators focused on Social Mobility and life chances that have recently been implemented by the Deputy Prime Minister as an important addition to measuring non material facets of inequality.⁵ Which precise measures are used should then be driven by their utility in measuring the impact and effectiveness of policy, and both methods and results should be transparent. We recommend the adoption of a multi-dimensional poverty index that will support cross-cutting and holistic policy interventions – and explode the myth that poverty or inequality can be overcome by applying one size fits all solutions.

2.3 Nations vary in their approach to public policy regarding inequalities, whether of income, wealth or capabilities. In countries such as Sweden there is a greater emphasis on redistributive taxation and spending to address the inequality in society. In others, such as Japan (where life expectancy is the highest in the OECD), the legislative and cultural framework is designed to minimise such inequalities arising in the first place. Recent policy in the United Kingdom has mainly addressed existing problems, relying on redistributive tax-and-spend. Evidence suggests that such policies have largely failed to prevent the gap between the rich and poor from widening. This suggests that *post-hoc* policies, particularly those that focus only on redistributing income whilst taking little account of wider capabilities, fail to prevent inequalities in societal outcomes.

2.4 Liberal Democrats seek instead to tackle inequality at its roots for the benefit of the whole of society. It is not sufficient for a few individuals to have the social mobility to overcome obstacles created by their background. Our ideal is that no-one should face such

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barriers to self-fulfilment because of structural inequalities in society, passed on to them from birth. Our approach is to help all people to develop their capabilities, starting from early years. 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.⁶ Capabilities are skills and attributes that impact on the ability to achieve your life objectives;⁷ 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.⁸ 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.⁹

2.5 Where an indicator measures socio-economic inequality, it should be defined as inequality, not poverty. This will bring government language more in line with public understanding of terms. Equating the two alienates the public, undermining the utility of such tools to build consensus and drive change. Liberal Democrats would support a set of Life Chance Indicators that is broadly based, including income, wealth, expenditure and capabilities-based measures of inequality alongside measures of absolute deprivation. We would also welcome a capabilities index as a tool to measure the relative importance of, for example, poverty and early years attainment in determining life chances. This would require inequality to be measured over whole lifetimes, in addition to snapshot measures such as the Gini coefficient. This would also assist in measuring the impact of policy interventions.

2.6 It is also important to be sensitive to how inequality is perceived by different groups. It is just as important to be seen to be promoting fairness – a fundamental Liberal Democrat principle – as it is to measure material changes, some of which are driven by external factors. Liberal Democrats seek to combat disadvantage actively and effectively because of our commitment to social justice. We recognise that, for many people, social inequalities related to background, race, gender, disability and so on reinforce their insecurity, economic hardship or lack of opportunity. Inequality can be experienced in terms of relationships, which are hard to measure. Some people care most about how well they are doing in relation to others in their own community, immediate neighbourhood or workplace. Some relationships serve to reinforce unequal, hierarchical distribution of resources. Others work to reduce the psychological harm caused by inequality. Strong families and communities based on trust can serve to reduce the significance and reality of inequality. Poor parenting and social fragmentation can increase inequality and stifle aspiration.

⁴ DWP and DfE, 2012, *Child Poverty in the UK: the report on the 2010 target*, <http://media.education.gov.uk/assets/files/pdf/c/child%20poverty%20in%20the%20uk%20the%20report%20on%20the%202010%20target.pdf>.

⁵ Cabinet Office, 2011, *Opening Doors, Breaking Barriers: A Strategy for Social Mobility*

⁶ Sen, A, 1993, 'Capability and Well-being' in Nussbaum, M & Sen, A (eds), *The Quality of Life*, Oxford Clarendon Press, pp. 30-53.

⁷ Nussbaum, M, 2003, 'Capabilities as Fundamental Entitlements: Sen and Social Justice', *Feminist Economics*, 9 (2/3), pp. 33-59.

⁸ Blanden, J et al, 2006, *Explaining Intergenerational Income Persistence: Non-cognitive skills, ability and education*, CMPO; Duckworth, A & Seligman, M, 2005, 'Self-discipline outdoes IQ in predicting academic performance of adolescents', *Psychological Science*, 16 (12), pp. 939-44; Feinstein, L, 2003, 'Inequality in early cognitive development of British children in the 1970 cohort', *Economica*, 70, pp. 73-97; Heckman, J, Stixrud, J & Urzua, S, 2006, 'The effects of cognitive and noncognitive abilities on labor market outcomes and social behavior', *Journal of Labor Economics*; Margo, J with Dixon, M & Pearce, N, 2006, *Freedom's Orphans*, IPPR

⁹ Lexmond, J & Reeves, R, 2009, *Building Character*, Demos

Inequality of Education and Aspiration: Helping Parents and Children in their Early Years

3.1 Liberal Democrats believe that the best way to reduce inequality over whole life cycles is to enhance people's potential and remove barriers to its fulfilment. Individual capabilities and aspirations are determined very early in most people's lives.¹⁰ This is why we put so much emphasis on primary education and have introduced the Pupil Premium, targeted at children from the poorest households. Evidence suggests, however, that even by the age of three, children's aptitude in tests reflects their socio-economic status. This cannot be explained solely by genetic advantage. Educational attainment – as well as motivation – is significantly affected by children's immediate environment. Home circumstances, including resource pressures and low capabilities among parents are therefore the most important perpetuator of existing inequalities over generations. As this affects society as a whole, it is legitimate – and liberal – for the government to support parents of children in their early years. Indeed support is already provided by health visitors. Enhancing the life chances of young children from disadvantaged circumstances, even before the start of formal education, is our top priority in addressing inequality. We need a new Nursery Premium.

3.2 The last decade has witnessed the building of a much-improved infrastructure for delivery of early years services, including free universal access to early years education for three and four year olds, health visitors and Sure Start Children's Centres. However, it was revealed in June 2012 that the last government's goal of halving child poverty by 2010 fell short by some 600,000.¹¹ Liberal Democrats take a progressive universal approach, targeting resources at those who most need them, without undermining parents' freedom to raise their children as they see fit. In Government, we have recognised the importance of high-quality early years education in improving child development, which has a significant positive impact on life chances. That is why we have secured the extension of the 15 hours of free early years education to the 40% most disadvantaged two-year-olds, and made it more flexible by extending the times of the day that it is available. When resources allow, we aim to extend the free early years entitlement from fifteen to twenty hours a week, and to make it available for children from the age of 18 months for all families. We would conduct an inclusion campaign to ensure that all communities access this entitlement, including those who have not utilised it much until now. The new Nursery Premium would seek to add extra resources for children from disadvantaged backgrounds or with particular special needs.

3.3 It is also important to nudge parents to encourage their children's aspirations and help them to learn. The impact of intensive parenting of young children on attainment – for example reading to children every night, playing, singing and physical affection – is well-established. But some good ideas are less well known – such as the long-term benefits of maintaining eye contact with children in backwards-facing push chairs or prams. Liberal Democrats in government have introduced free parenting classes and also free parenting support by email. We will further seek to stimulate a culture of positive parenting by:

- Scaling up Sure Start, when resources allow. The principles of Sure Start are consistent with the Liberal Democrat emphasis on investment in early years in order to improve

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equality of opportunity over whole lifetimes. We will be proactive in seeking to extend Sure Start further into harder-to-reach communities, with a goal of making it opt-out instead of opt-in. We will encourage Sure Start centres to act as hubs for all voluntary and private nurseries in their area, in order to reach out to where parents are. In this way we will communicate the benefits of the scheme, particularly to the poorest families, emphasising that they already have free membership.

- Focusing on children from large families (with four or more children), which are far more likely to have low incomes and attainment levels. Liberal Democrats in Government are introducing summer schools for children from poorer backgrounds to provide a secure and stable environment for learning and personal development. Evidence shows that attainment of children from disadvantaged backgrounds drops sharply relative to more advantaged children during school holidays.¹² Those whose parents' first language is not English will be prioritised.
- Introduce parenting as a topic into school curricula, under Personal, Social and Health Education, from primary school onwards, and encourage schools and local authorities to create parenting discussion evenings for parents and children. Particular attention will be given to boys and men in single parent families.
- Increasing parental involvement in schools, including encouraging volunteer 'parenting champions' to work in schools and share information, positive experiences and good ideas with other parents.
- Introducing extended parental leave, when resources allow. Couples would be entitled to up to eighteen months of leave, not necessarily consecutive, provided that each parent takes at least six months of it (see policy paper 88 *The Best Start for Children*).

3.4 Parenting can also be supported through the existing health visiting system. For example, ante- and post-natal services can play a critical role in stimulating positive parenting. We aim to allow statutory time off work to enable fathers to attend ante-natal classes. Health visitors can also do more to identify post-natal mental health problems, which are three times more common among young mothers from poorer backgrounds than average. Liberal Democrats in Government have already secured a commitment to an additional 4,200 health visitors. We aim to improve the range and volume of training places for health visitors and introduce caps on caseloads for health visitors in deprived areas. We will additionally seek to roll out parenting support teams, focusing on child development as well as health. We will explore ways to build on the current check of two year olds, to develop a high quality professional screening and support system at two and five years old, linked to the capabilities index.

3.5 We aim to shift the emphasis of Child Benefit towards families with a youngest child under five, to create stronger work incentives when they will be most beneficial, when children are older. The costs of raising children under five (childcare in particular) are also considerably greater than for older children. We will therefore also explore ways to restructure Child Benefit payments, so that support for early years is substantially increased. Current payments are at a flat rate from birth to 16 (or 19 for children in full-time non-advanced education), with extra support for first-born children. We will consider giving an additional 40% boost to Child Benefit for early years (under fives), financed by reducing payments for children aged 11-19. The rates for children aged 5-10 would be unchanged. Previous rates would still apply throughout for those who had already started on them, ensuring that no-one would lose out. The new rates would therefore take a full generation of children to roll out, with the transition costs spread over 20 years, after which annual costs to government would be the same. This change would target those families who need help most at the most critical

time in children's lives, significantly enhancing parents' ability to invest time and resources into their children's future life chances.

¹⁰ This case is well made in Paterson, C, 2011, *Parenting Matters: Early Years and Social Mobility*, CentreForum

¹¹ DWP and DfE, 2012, *Child Poverty in the UK, op.cit.*

¹² Gladwell, M, 2008, *Outliers: The Story of Success*, Allen Lane

Inequality of Access: Targeting Services Better

4.1 Inequality is reproduced by unequal availability and provision of adequate healthcare, housing, education, transport and financial services. People with low incomes and assets are more likely to live in overcrowded housing in areas of high crime, with fewer outstanding schools and poorly targeted health services. Geographical inequality has become much starker in recent decades, as manifested in startling variations in life expectancy within many large cities, as well as in profoundly inadequate service provision in many rural areas. As well as directly affecting people's capabilities and opportunities, the day-to-day experience of poor services is likely to reduce people's sense of a stake in society and aspirations. Liberal Democrats support measures to create space for communities to support each other and encourage a range of good customer-focused service providers from across the public, private and voluntary sectors.¹³ We aim to facilitate rather than regulate. However, we also seek to ensure that all providers are accountable to the communities they serve.

4.2 Poor health is the most obvious direct consequence of inequality.¹⁴ People from the lowest socio-economic backgrounds are more likely both to need healthcare and to act as carers, at all ages. Yet those from poorer backgrounds are often least able to voice concerns about health provision. We will strive to ensure that those identifying local healthcare needs always pay special attention to the needs of the poorest. However, we recognise that unequal health outcomes are more strongly associated with poor living conditions generally – notably inadequate housing and high levels of environmental pollution – than they are with poor health service provision. Increased spending across the range of public services is seven times better correlated with improvements in life expectancy and disability-free life expectancy than economic growth is.¹⁵ Opportunities have been missed by governments to invest in participatory health service reform during periods of prosperity. Health inequality is also strongly associated with behaviour harmful to health, including smoking, high alcohol consumption, poor diet, lack of exercise and addiction, as well as with stress, poor mental health and suicide. Liberal Democrats will direct additional investment, as resources become available, into services that demonstrate the best value support in the areas of greatest need for disadvantaged households. This will include providing multi-faceted services for particular vulnerable groups, such as needle exchanges that also provide counselling and support; and foyer housing services that identify and provide skills training. Good quality, affordable housing is of the utmost importance in reducing inequality of living conditions. Policies to improve the national housing stock are set out in policy paper 104, *Decent Homes for All*

4.3 Recognising that the capacity for public spending is likely to remain constrained for some time, we will explore and encourage opportunities for co-provision of services, such as co-ordination of post-operation visits to older people living alone and single parents. This would help to build strong social networks and reduce social isolation for both visitors and visited. The Glasgow 'Adopt a Granny' scheme generated health and educational attainment benefits for older people and young families. It is recognised, however, that voluntary networks in deprived areas need strong initial investment of time and skills from professionals. It is essential that new GP consortia and Health and Wellbeing Boards pay attention to wellness services involving whole communities (as piloted successfully in the North West). Links between health professionals and community groups (including faith groups) is essential for adequate take-up

of tailored services, as seen in diabetes campaigns in Newham and Tower Hamlets. Liberal Democrats will improve mechanisms to share local best practice.

4.4 Liberal Democrats will continue to invest in excellent education, raising aspirations and attainment for all, as in Finland or South Korea. We believe that education has the greatest potential of any service to increase social mobility and reduce inequality. That is why the Liberal Democrats have overseen the introduction of the Pupil Premium, as promised in our General Election manifesto, to provide schools with significant extra resources for every child they enrol from a disadvantaged background. Under the last government, children eligible for Free School Meals on the grounds of low household incomes were less than half as likely to attain five good GCSEs including English and Maths as those from better off backgrounds. Such early outcomes reinforce socio-economic inequality and damage aspiration. That is why we are also proposing a new Education Credit, to provide holistic targeted support across public service provision to all disadvantaged children and their families. In addition, we hope that schools will use the extra £2.5 billion of investment via the Pupil Premium to create inclusive spaces for the development of self-esteem. This will require, among other things:

- Secure, orderly environments with a strong emphasis on both self-discipline and self-respect.
- Rigorous and rapid response to all absenteeism.
- Efforts to overcome social isolation for individuals and cultural communities. Liberal Democrats recognise the potential for ethnic monocultures in areas of economic deprivation to depress aspiration.
- Attachment of value to all skills and potential career choices, without stigmatisation created by the false distinction between 'academic' and 'vocational' pathways.
- Greater emphasis on Personal, Social and Health Education, including encouragement of aspiration for all children and parents, and advice on options and costs related to raising families.

4.5 Inadequate public transport is a significant barrier to jobs, services and affordable goods and services, especially for the young, disabled and ethnic minorities. 30% of the UK population does not own a car, but – outside London – most social and economic opportunities depend on car access. Those on low incomes are particularly dependent on bus services; 13% of the distance travelled by those in the lowest income group was by bus, compared with 2% by those in the highest group. Yet between 1980 and 2009, bus and coach fares increased by 54% in real terms, while routes covered were reduced. In the same period, the real cost of motoring, including vehicle purchase, reduced by 17%. Liberal Democrats will empower and encourage local authorities to run their own bus services, or to licence and regulate bus services in partnership with private sector providers under a franchise or concession model, allowing the authority to specify and monitor core bus routes and service levels. We aim to expand the role of Passenger Focus, to include responsibility for all public transport and highways, and would support a petition system so that collection of an agreed number of signatories would oblige Passenger Focus to investigate the need for new or improved services. We will seek to build public transport access into planning rules for all public amenities. We will also do more to develop safe, free walking and cycling facilities, across the UK, in order to help reduce health inequalities.

4.6 A further source of inequality is unequal access to financial and other essential private sector services, often referred to as the 'poverty premium'. The experience of inequality is deepened by feelings of powerlessness in dealing with, for example, banks and utility

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companies, driven by lack of economic muscle and social self-worth. Many poor, inner-city and rural areas lack fee-free cash machines provided by major national banks – this means families and businesses are forced into the hands of alternative providers of financial services, who often charge high charges and interest rates. Similarly, utility tariffs that are higher for low users exacerbate inequality. Such divisions are accentuated by social cleavages and discrimination, including race, gender, disability and class. Millions of people may be angry at such treatment, but have little opportunity to come together to take collective action. Others do not even know that they are being discriminated against. Liberal Democrats will seek to oblige companies to charge flat and transparent rates – or taper the other way, with higher charges for the biggest users. We aim to introduce a community banking act that will create a Universal Banking Guarantee, providing essential services free or at low cost, possibly through the Post Office network, and take action against financial exploitation and loan sharking. Improved personal banking services will develop in the context of a more diverse and competitive banking sector generally – proposals to make it easier for alternative banking providers to enter the market are set out in policy paper 105 *Sources of Sustainable Prosperity and Jobs*. They include:

- Giving the new Financial Conduct Authority a statutory responsibility to foster a diverse banking system in the UK.
- Opening up the payment system to be genuinely accessible to new financial institutions.
- Facilitating the emergence and growth of new lenders, in particular by restructuring parts of RBS into local and community banks.

¹³ Open Public Services White Paper, 2011, http://files.openpublicservices.cabinetoffice.gov.uk/HMG_OpenPublicServices_web.pdf.

¹⁴ 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.

¹⁵ *Fair Society, Healthy Lives: the Marmot Review*, The Strategic Review of Health Inequalities in England post-2010, <http://www.instituteofhealthequity.org/projects/fair-society-healthy-lives-the-marmot-review/fair-society-healthy-lives-full-report>.

Inequality in the Workplace: Increasing Democratic Scrutiny, Security and Skills

5.0.1 Many people's sense that they are being unfairly treated comes from their experiences at work. Inequality at work is manifest in the form of unequal treatment, unfair working conditions and poor job security, particularly for the low-paid; and in the loss of benefits and liability to income tax upon taking jobs with low salaries – creating a disincentive to work. In the UK, child poverty within households with at least one working adult is among the highest among advanced economies.¹⁶ Everyone is entitled to expect that they will have reasonable opportunities to earn enough to enjoy a decent standard of living – and that broadly similar jobs will be rewarded with broadly similar wages, proportionate to the skills and responsibilities they entail. Liberal Democrats will encourage employers to introduce the Living Wage wherever possible, in addition to the measures to support working parents set out in Section three of this policy paper.

5.0.2 Many unequal outcomes also stem from the domain of work. Most of the financial returns from economic growth between 2003 and 2008 went to capital investors; median incomes remained static during that period and are now falling. At the same time, wages at the top level have spun out of control. This has been caused in part by the huge growth of the financial services sector in relation to the rest of the economy, allowing financial elites to extract huge benefits, without providing for the legitimate needs of the real economy. Indeed the short-term demands of this excessively dominant sector have greatly increased the insecurity of employees in all areas. Liberal Democrats in government have sought to address this by introducing measures to separate domestic and investment banking. Our aim is to implement all the recommendations of the Vickers Report¹⁷ in full and to introduce a global financial transactions tax. Detailed proposals to radically reform the UK's financial services sector are found in policy paper 105, *Sources of Sustainable Prosperity and Jobs*.

5.0.3 People's sense of injustice at ever-increasing executive pay in a time of austerity is a clear indicator of the need to address inequality for the good of society as a whole. Liberal Democrats have taken steps to make take-home pay fairer, by raising the threshold for income tax and targeting a greater burden of taxation on the wealthy. We aim to continue to raise the income tax threshold beyond the current government commitment of £10,000 per year, towards the level implied by fulltime work on the minimum wage. We also strongly welcome and endorse the report of the High Pay Commission and its recommendations for greater transparency, accountability and fairness in corporate governance and remuneration structures.¹⁸

5.1 Executive Pay in the Public and Private Sector

5.1.1 In the context of the long-lasting economic downturn since the financial crisis of 2007 – and the consequent freezing of wages in much of the public and private sector – ever-increasing executive pay and bonuses are an affront. In 1964, FTSE 100 CEOs were paid on average ten times more than their companies' average salary – as they are today in Japan. In the UK in 2011, the ratio was 145-1. In that year alone, executive pay rose by an average of 49%. Recent shareholder rejection of reward packages for top executives is most welcome. Liberal Democrats also endorse the findings of the Hutton Review that high level public sector pay must not be

Tackling Inequality at its Roots

driven up by an 'arms race' with the private sector.¹⁹ In particular, where new public roles are created – such as arms-length bodies with public functions – scrutiny must be carried out to ensure that they are not paid significantly above the salary of their most equivalent predecessors.

5.1.2 Liberal Democrats do not believe that government could or should impose salary caps or arbitrary limits on executive pay. Nonetheless we recognise the harmful effects that extreme inequality of income has on society – and especially on workplace relations. There is an onus on institutions in both the public and private sector to ensure fair distribution of pay and dispersal of rewards for success. Liberal Democrats in Government have given shareholders powers to engage effectively with companies on pay, in particular by granting them binding votes on pay policy and exit payments, so they can hold companies to account and prevent rewards for failure; and boosting transparency so that what people are paid is easily understood and the link between pay and performance is clearly drawn. Liberal Democrats also believe that greater employee ownership and influence in company policy and strategy will help to ensure fair distribution of rewards. Improved workplace democracy could enable millions of people to regain a sense of control over their own lives, and engage more broadly in politics and society. Proposals to achieve this are set out in Policy Paper 106: *Mutuals, Employee Ownership and Workplace Democracy*. In addition, we will seek ways to increase pay transparency. We would like to see companies with over 250 employees publish average pay in each quintile – and provide a rationale for the ratios between them and the top earners at both board and sub-board level. Forcing companies to justify their salary ratios – and how they change year-on-year – would help to open up internal debates and deepen evaluation of how much specific jobs are worth, from the perspective of different employees.

5.2 Flexicurity and Skills Training

5.2.1 Unemployment contributes to inequality. Long-term unemployment creates inevitable social as well as economic divides that are unfair for both workers and the unemployed, and bad for the economy. Those who are laid off – some repeatedly – due to the vicissitudes of the global economy feel that it is unfair that their particular skills are no longer valued. The Liberal Democrat solution lies in increasing lifelong opportunities for training – with a particular focus on re-skilling for the unemployed and vulnerable workers. We aim to strike a balance between flexibility, rights, skills training and incentives. The potential benefits of a flexible labour market are offset for many by the personal consequences of low-job security and of the 'benefits trap' where the sharp withdrawal of benefits and tax credits make low-paid work unattractive. Inequality at work is as much of a barrier to social mobility as inequality of access to work. Low job satisfaction, failure to develop networks and insecurity of contracts create stress and exacerbate existing inequality, especially as loss of high-paid work is likely to be accompanied by generous redundancy payments, whereas low-paid work is often linked to a succession of short-term contracts, with limited rights and benefits. The higher premiums put on educational qualifications and vocational training in many areas of work has exacerbated divisions between rewarding and unrewarding work. Our aim is to increase the aspirations of both workers and employers. We will explore ways to support companies to enable workers to remain in in-work training and re-skilling when their roles become redundant, so that they can be redeployed, not laid off, whenever possible. We will seek to galvanise all companies and institutions to be civic-minded in providing flexible skills for workers on short-term contracts as well as long, in collaboration with local authorities and the voluntary sector.

5.2.2 Liberal Democrats strongly support workers' rights and will seek to extend them for part-

time and short-term employees – although we recognise that, for some, low-paid or part-time work can be a useful stepping stone into the job market. Following the European principles of 'flexicurity', which aims to enhance both flexibility and workers' personal job security, we will seek to work with industry to ensure that employees are fully trained to withstand significant changes in the labour market. Life-long training, well-enforced flexible employment contracts and well-funded out-of-work programmes are essential to mitigate the unequal distribution of job security. The Government is investing substantial new resources in apprenticeships, especially for young people, which have a demonstrable positive effect on aspiration across whole communities. We are keen to help particular disadvantaged groups – including those from ethnic minorities, people with disabilities and young mothers – to stay in work. We have successfully argued for the introduction of the universal credit, focused on helping those entitled to it to participate fully in the economy and society. We will continue to explore means to finance further flexicurity measures, whether through employer contributions, trade union resources, or public funding.

5.2.3 However, increased individual capabilities will not reduce inequality unless there are socially valued jobs available. We recognise the invaluable wider range of educational, training and employment opportunities available to UK citizens because of our membership of the EU. We also aim to simplify public procurement processes to make them more accessible to Small and Medium-sized Enterprises (SMEs) that guarantee to increase their permanent workforces. We also plan to encourage SMEs to take the risk of expanding and moving up value chains, to make them more globally competitive. We will consider ways for government to support this, including regional investment banks and underwriting of well-planned upgrading programmes, which are likely to benefit the UK economy as a whole by creating diversified growth. Many SMEs are also struggling to find sources of finance. Policy paper 105, *Sources of Sustainable Prosperity and Jobs* sets out in more detail proposals Liberal Democrats to facilitate alternative credit provision, including: giving the new Financial Conduct Authority a statutory responsibility to foster a diverse banking system in the UK, developing an off-the-shelf package for banking start-ups, and setting out a new regulatory framework for local authorities that want to start banks in their own areas for investment in local businesses. Mutuels and Co-operatives like Mondragon in Spain attract significant private investment, because their employees' good working conditions and sense of ownership result in high levels of productivity, as well as beneficial relationships with local communities. We are setting out proposals for encouraging more mutual and co-operative enterprises in policy paper 106 *Mutuals, Employee Ownership and Workplace Democracy*.

¹⁶ UNICEF, 2012, *Measuring Child Poverty: New league tables of child poverty in the world's rich countries*, <http://www.unicef.org.uk/Documents/Publications/RC10-measuring-child-poverty.pdf>. Compare Figure 10c (p.24) in which the UK has the 2nd lowest rate of child deprivation among jobless households, with Figures 1a (p.2) and 1b (p.3) in which the UK has only the 9th lowest overall child deprivation rate and the 22nd lowest rate of relative child poverty.

¹⁷ Independent Commission on Banking, 2011, *Final Report*, <http://bankingcommission.s3.amazonaws.com/wp-content/uploads/2010/07/ICB-Final-Report.pdf>

¹⁸ High Pay Commission Final Report, 2011, *Cheques with Balances: Why tackling high pay is in the national interest*, http://highpaycommission.co.uk/wp-content/uploads/2011/11/HPC_final_report_WEB.pdf

¹⁹ Hutton Review of Fair Pay in the public sector, 2011, http://www.hm-treasury.gov.uk/d/hutton_fairpay_review.pdf

Inequality of Wealth and Assets: Shifting Taxation onto Wealth

6.1 Distribution of wealth and assets in the UK is more unequal than that of incomes. Inequalities in wealth and unearned income, having fallen for most of the twentieth century, have risen in recent decades. This is partly due to the effects of home ownership, but also reflects increasingly unequal distribution of non-property assets. 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. Combined with low interest rates, low taxes on unearned wealth create perverse incentives to invest in non-productive assets instead of productive enterprise. This in turn contributes to cycles of property price inflation, which squeeze low income groups out of markets for housing that could enhance their financial security. Asset inequality is therefore significant in perpetuating socio-economic inequality.

6.2 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.²⁰ The distribution is highly unequal. The tenth decile owned 44 percent; the first 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 one percent owned around 23 percent of total marketable wealth. In the mid-1980s the top one 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 tenth decile owned 54 percent of the total, whilst the bottom decile had no net assets in these forms and actually owed £8,200 million.

6.3 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. These 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).²¹ House price inflation is historically far higher in the UK than the rest of Europe, because of larger income multiplier mortgage offers, restrictive planning laws and strong cultural attachment to ownership. Rising house prices are a far greater driver of intergenerational and socio-economic inequality than income disparities. Asset wealth is an even better predictor of health outcomes than household income is. The property divide also impacts on people's sense of security and ability to invest or take risks in pursuance of personal goals. Thus wealth inequality is particularly self-perpetuating – and also has very long-standing close associations with elite capture of power and influence.

6.4 Liberal Democrats believe that the tax system must play a bigger part in reining in inequality. Tackling socio-economic inequality will require well-targeted expenditure and tax reductions for the lowest earners. We believe that the wealthiest should shoulder the greatest burden of new taxation because it is fair, and necessary to raise the required resources, not because we are seeking to punish them. Poorly targeted taxation – or tax cuts – run the risk of increasing inequality. Once additional resources become available to government through deficit reduction and economic recovery, Liberal Democrats will prioritise tax measures that

reduce inequality. We will work with our EU partners and EU anti-fraud rules to pursue tax evasion relentlessly and close loopholes that favour the highest earners.

6.5 Our long-term goal will remain to shift the balance of the national tax burden fundamentally from the poor to the rich – and off earned income and onto unearned income and wealth. Liberal Democrats believe, like Warren Buffett, that no-one is entirely self-made. Successful businesses rely on public goods, such as a healthy and well-educated workforce. We welcome philanthropy and entrepreneurial activity that creates jobs, but we also expect the wealthy to pay their fair share of tax. France and some American states have demonstrated that this is feasible by levying net asset taxes of up to 0.5% per annum. In government, Liberal Democrats have taken immediate steps to address wealth inequality by increasing capital gains tax for the rich. We will continue to seek ways to re-balance taxation between taxing income and taxing wealth, including when it is inherited.

6.6 This is also why Liberal Democrats advocate an annual 'mansion tax' on the value of residential properties over £2 million. Such properties are heavily concentrated in London and the South East of England. They are increasingly being bought by foreign owners, who see London as one of the safest places to keep their wealth – in the shape of real estate – while benefiting from their non-domiciled tax status. This drives up prices for everybody else, thus worsening inequality, and should be reflected in appropriate property taxes. At present, a multi-million pound house attracts the same council tax as much more modest homes. For example, a £90 million pound house in Kensington is charged at just £41.50 a week. The mansion tax is, in effect, a first step towards wealth taxation, designed to reduce inequality. Liberal Democrats will continue to press for its immediate introduction.

6.7 The party's policy working group on taxation will build on these principles in proposals it will bring forward in 2013.

²⁰ Office of National Statistics, 2010, Social Trends, No.40

²¹ 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>

Inequality and Political Power: Strengthening Communities and Increasing Transparency

7.1 Central to Liberal Democrat concerns about inequality is the relationship between wealth and power. The Leveson Inquiry has revealed just how close and unhealthy relationships have been between leading politicians and public servants and rich and powerful individuals. It is inherently divisive when money buys influence and connections, and decisions are perceived to be made in the interests of the rich and well-connected. This makes most people – not just those with low incomes or wealth – feel less engaged with society, therefore reducing community cohesion. Liberal Democrats aim to create an open society, with a voice and opportunity for all. The first ever goals of Liberalism as a political philosophy were to address political inequality and injustice, before turning to economic and social injustice. The latter can never be achieved until the former have been. It is inevitable that unequal access to political influence – whether direct or via the media – will mean that inequality itself is insufficiently addressed in policy-making. Worse, those who seek a closed society – with ever-greater concentration of earnings, assets and opportunities, reinforced by advantageous tax regimes and inheritance laws – are able to do so because they have influence over sources of political power and patronage, which are themselves still excessively centralised. This explains why banks, media corporations and oil companies, for example, have been so inadequately held to account for their egregious failures in recent years.

7.2 At the other end of the spectrum, the very poor are excluded from politics. Feelings of powerlessness – at home, at school, at work, as consumers and within and between communities – can lead to lack of aspiration and a sense that there is no point in making claims on society or state. At its most extreme, homeless people are often not registered to vote, and even if they are registered, rarely cast a ballot. 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). Professional workers are far more likely to vote, stand for office and perceive their capacity as individuals to effect change than lower-paid groups.

7.3 Liberal Democrats believe that the harmful effects of inequality can best be addressed through local community politics. Technical solutions to reduce inequalities of resources or access are meaningless if they are not combined with strengthening people's relationships and capacity to engage and make claims on a more equal footing. We have long argued for decentralisation of power, not just to local government, but beyond. Our aim is to revive politics from the bottom up – informal as well as formal. As reconfirmed at the September 2011 Federal Conference, Liberal Democrats aim to "help empower, enable and encourage people in communities to take and use power." We aim to act as catalysts and identify community leaders, particularly in less well-off areas, encouraging participation in discussions and networks within neighbourhoods, for example encouraging greater participation in residents' associations, street committees, event planning, group meals and so on. We will encourage local authorities and voluntary groups to reach out to the most isolated and stimulate people's confidence and capacity to take responsibility and represent others – our detailed policies for developing the

voluntary sector are set out in policy paper 98 *Community Futures* (2011). We will explore the potential for statutory entitlements to time off work for those who do. All of these things can boost both individual capabilities and social cohesion. They may also inspire collective discussion about inequality and how to address it. We will endeavour to increase awareness of issues and point people towards publicly available information that shows how inequality is perpetuated and affects them. Beyond the local level, but also reinforcing community politics, we strongly welcome the rise of internet and social media-based campaign groups, which have made a significant contribution to opening up the lobbying process and challenging the powerful.

7.4 At the formal level, our aim is to devolve financial power to Parish Councils and encourage the use of inclusive and participatory mechanisms for participatory democracy, community representation and budget planning. We aim to increase access to decision-making for all citizens and to strengthen the capacities of local authorities to, communicate more inclusively. Liberal Democrat elected officials will seek to develop community networks that include people currently disengaged in politics. We aim to encourage far greater use of public meetings at election times, including for party primaries, especially at local levels. We welcome the move to Individual Electoral Registration in Great Britain and the opportunities this presents to improve the accuracy and completeness of the electoral roll. The Government should implement data-matching with other government databases (in particular, the DWP) where this has been subject to a successful pilot, and provided that information is only shared in one direction for the sole purpose of maintaining the electoral register. Additionally, we want to see returning officers given access to information about 'attainers' (those who are turning 18) from secondary schools, as is the present practice in Northern Ireland. The Government should also examine ways in which other under-registered groups can be reached, the most substantial of these being those who rent in the private sector. We also support the continuation of an annual canvass to maintain a complete and accurate register.

7.5 Liberal Democrats also seek to make political – as well as economic and social – power more open and accountable. In particular, we seek to insulate the political system from the influence of wealth. We supported the recommendations of the Hayden Phillips report into party funding, and were disappointed that they were not able to be implemented because of vested interests in other parties. It is crucial that the current inter-party talks result in major reform, including caps on individual donations. Reform of the House of Lords is also essential to making the political system accountable and ending the use of political patronage, which biases the legislature towards the already influential or wealthy. Following the conclusion of the current government consultation process, we will also seek the early introduction of a statutory register of lobbyists, open to the public, to include information on who is lobbying whom, on whose behalf, on what issues and how much they are spending. We will also seek measures to record and publish direct lobbying by companies. In principle, all politicians – especially ministers – and senior civil servants should publish regular and timely lists of all their meetings. It is important to show which organisations are granted most meetings and which the fewest. As well as opening access up to scrutiny, such publication must itself be made accessible. In order to reduce inequality, government consultation and communication at all levels needs to do more to engage with people who do not instinctively put themselves forward, including to those who do not have internet access.

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This paper has been approved for debate by the Federal Conference by the Federal Policy Committee under the terms of Article 5.4 of the Federal Constitution. Within the policy-making procedure of the Liberal Democrats, the Federal Party determines the policy of the Party in those areas which might reasonably be expected to fall within the remit of the federal institutions in the context of a federal United Kingdom. The Party in England, the Scottish Liberal Democrats, the Welsh Liberal Democrats and the Northern Ireland Local Party determine the policy of the Party on all other issues, except that any or all of them may confer this power upon the Federal Party in any specified area or areas. The Party in England has chosen to pass up policy-making to the Federal level. If approved by Conference, this paper will therefore form the policy of the Federal Party on federal issues and the Party in England on English issues. In appropriate policy areas, Scottish, Welsh and Northern Ireland party policy would take precedence.

Many of the policy papers published by the Liberal Democrats imply modifications to existing government public expenditure priorities. We recognise that it may not be possible to achieve all these proposals in the lifetime of one Parliament. We intend to publish a costings programme, setting out our priorities across all policy areas, closer to the next general election.

Working Group for Inequality

Note: Membership of the Working Group should not be taken to indicate that every member necessarily agrees with every statement or every proposal in this Paper.

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