

Economic Inequality in the UK: Has It Gone Too Far?

Stefan Joseph Lygdopoulos

University of Essex

Acknowledgements:

Dr David Axelsen-Senior Lecturer at the University of Essex: Interviewed on 8 February 2023

Richard Burgon- British Member of Parliament for Leeds East: Contacted on 1 March 2023

Abstract

Economic injustice refers to the unfair distribution of wealth, opportunities, and resources which generates inequality and poverty. Economic injustice in the UK manifests in many ways: the ‘cost of living crisis’, poverty, low wages, and discrimination.

Keywords: Child poverty, Economic injustice, Education levels, Fiscal policy, Inequality, Labour market inefficiencies, Privatisation, Progressive taxation, Social mobility

Background

In 2010, soon-to-be Prime Minister David Cameron declared that the debt collected by the Labour Party was a “manifestation of our economic mistakes” and an “unfair” burden on the British public (Watt, 2010). The following year, he asserted that his Conservative economic policies would lead to “a fairer Britain” (Burchardt. T, 2011). This promise seemed reasonable and gave hope for a more equitable future. Yet, eight years on, when UNICEF expressed grave concerns about the rising rate of child poverty (Gibbs, 2019), the UK could not have been humiliated more egregiously. The UK government, seemingly never commented on the matter with the first response by the Leader of the opposition ‘Labour’ party Angela Rayner: “In one of the richest countries in the world, it’s a disgrace that UNICEF has to come and feed starving children” (Storer, 2020). Shortly after this statement, it was revealed in the 2021 national

consensus that over half the kids in ‘Tower Hamlet-London’ were living in poverty (Peach, 2022). This made people wonder how would these people live if life got worse? What is the price of survival?

The Price of Survival: “The Cost-of-Living Crisis”

In his 2021 Christmas message, then-Prime Minister Boris Johnson proclaimed that the best gift to get one’s family was to get vaccinated to ensure that the next Christmas would be the best in years. The success of the vaccination programme meant there was genuine optimism (Praveen, 2022) that 2022 would host the first Christmas since 2019 when a grandmother could hug her grandchildren whilst celebrating, as the Christmas song *Rockin’ Around the Christmas Tree* describes, in the new old-fashioned way with a plethora of presents watching movies by the fireplace, eating a big Christmas dinner, and ushering in a New Year on a new footing. This vision did not come to bear as Russia’s military aggression in Ukraine in February 2022 led to a villainous rise in gas and food prices, dubbed “The Cost-of-Living Crisis”, which stole the joy from many families in a way far worse than the Grinch’s wildest dreams.

Russian President Vladimir Putin’s land grab in neighbouring Ukraine caused “a massive humanitarian crisis [...] pushing inflation to levels not seen in decades” (Lefort, 2022). This war not only broke 70 years of peace in the European continent (Storch, 2017), but the political chess between Putin and his perceived Western foes also disrupted global economic peace through their efforts to curtail each other through rising stakes and sanctions. The effects of this conflict have been felt far beyond Ukraine’s borders. The UK’s already-dire problem of food bank reliance, which reached an all-time high in the year preceding the invasion - with over 2.5 million people depending on donations to feed their families - worsened for the most vulnerable due to increased prices of food (increased up to 16.8% between May 2021-Nov 2022), and energy (increasing 129.4% for gas and 66.7% for electricity) (ONS, 2023). Ultimately, this meant food bank reliance increased to just under 3 million people in 2022-2023 (Statista, 2023).

A Tsunami of Economic Inequality

Given the desperate situation of the economically disadvantaged, one can't help but wonder how those elected to represent their interests have fared. A 2022 report highlighted that Boris Johnson earned £1 million per month post-tenure as Prime Minister, largely from public speaking

engagements (Sky News, 2023). This example underscores the pressing issue of economic inequality in the UK, which has been on the rise for some years.

According to the Office for National Statistics (ONS, 2022), the top 10% of UK households hold 43% of the country's wealth, while the bottom 50% hold just 9% of the pie. This is partly due to reforms that reduced inheritance tax and lowered the top rate of income tax, as reviewed by David Stuckler, a scholar from the University of Oxford (Stuckler *et al.*, 2017). The impact of this inequality has been catastrophic, with 14.5 million people in the UK living in poverty, including 4.3 million children (Joseph Rowntree Foundation, 2022). This figure is likely to worsen (Skinner *et al.*, 2023) as society's poorest have less access to quality education (Aiyar & Ebeke, 2020) and limited social mobility (Bloome, 2017), which according to scholars from Cambridge (Fetzer *et al.*, 2019) is partially linked to the rise in homelessness.

Cruel as it is, the link between the reduced quality of education for disadvantaged kids and social mobility will live for generations to come, given the vicious cycle that makes it harder for a child of poor parents to gain the qualifications (academic or non-academic) to escape the poverty trap. Those at the bottom of the pyramid rarely see their progeny gain access to higher education because “children growing up in poorer families emerge from school with substantially lower levels of educational attainment than those who don’t” (Goodman & Gregg, 2010). Such decreases in social mobility and expected future earnings - which will likely be passed onto their children - solidify structural inequality.

To make matters worse, British billionaires saw their wealth soar by £25 billion during the first COVID-19 lockdown imposed in April 2020 (Williams, 2020). In my interview with Dr David Axelsen, a senior lecturer at the University of Essex; individuals who accumulate such vast wealth tend to wield significant political influence, using it to further their own interests even if it means harming the environment or winning medical contracts which present issues of morality and social justice. If all this wasn't enough, the unequal access to healthcare facilities ended up being too much for those who are disadvantaged during covid as those who were from the poorest 10% of areas in England were almost four times more likely to die from COVID-19 than those in the richest (Finch & Tinson, 2022).

How to Best Tackle Economic Inequality

This isn't to say that the top 1% shouldn't be able to expand their wealth. But many would see that post-Covid, a nurse must work full-time for 20,000 years to match the wealth of the UK's current Prime Minister Rishi Sunak as a social injustice (Richard Burgon, 2023). So how can economic inequality be addressed?

Tackling inequality requires a rethink, starting with fiscal policies and progressive taxation (Georgieva, 2020). Emmanuel Saez argues that the US and UK are taxing below their optimal point on the Laffer curve (Saez *et al.*, 2012), contending that the optimal tax rate for top earners is 50% and above. Taking up this notion, increasing top marginal income tax rates would have a positive impact on the UK's long-term economic growth (Saez *et al.*, 2014) because tax revenues could be used to fund public investment, redistribution could increase economic growth through increased demand, and higher tax rates could reduce rent-seeking behaviour. Others following a limitarianism path would advocate for a cap on individual wealth to fix economic inequality and its accompanying social woes (Axelsen, 2023). Axelsen is convinced that, eventually, money just becomes a tool to enhance social status, and as such, should not be allowed to accumulate past such a point, as the added welfare bonus of reallocating such funds would be a far better redress for economic injustice. Member of Parliament Richard Burgon (who I contacted on 1st March 2023) more modestly suggested that:

An annual tax of just 1% on all net wealth above £10m would raise nearly £10bn per year, according to the UK Wealth Tax Commission. It would affect just the wealthiest 0.04% of the population. £10bn per year is 10x the figure it would take to fund free school meals for every primary school-aged child in the country and would be a huge aid in the fight against child poverty.

This could replace "Britain's most hated tax", (Magnus. E, 2021) which is the inheritance tax (around 50% British rated as either Unfair or Very Unfair) (YouGov, 2023).

Another solution could be to improve education levels for those disadvantaged and target labour market inefficiencies, given the clear link between grade attainment and social mobility. As this is influenced by family incomes, improving public schools could be a way forward. Ranked 25 of 41 in quality of education (OECD Better Life Index, 2020), the UK clearly lags behind many

developed nations, with a surplus of unskilled workers and a shortage of skilled workers. Currently, 12% of Brits aged 25-34 have below upper secondary qualifications (OECD, 2021), helping create 9 million unskilled workers with 4 million unemployed (OECD, 2020). In the UK, 49% of workers are over- or under-qualified for their role with 37% being over-qualified, and 12% under-qualified (CIPD, 2018), evidence of a clear misallocation of labour market resources. This phenomenon is less common in nations like Switzerland where workers are specialised for skilled and unskilled jobs (O'Neill, A, 2023). With the right qualifications, unskilled workers can easily get a job, although over-qualified workers find it harder to be granted lower-paid jobs. Gaps in the market for certain occupations are filled using seasonal and skill-based immigration policies (Fragomen, 2023) – an approach that could be implemented in the UK.

This approach has led to the cost of living being 36.8% lower in the UK than in Switzerland (My Life Elsewhere, 2023), where people typically pay \$53.94 for one kilogram of beef (Numbeo, 2023). This is even seen in budget supermarkets like Aldi where they price 300g of rib eye steak at CHF14.37 (Aldi, 2023) but with a minimum wage that is double that of the UK, the Swiss have a far higher standard of living (OECD Better Life Index, 2020). Switzerland's GDP per capita is double that of the UK whilst having a better Gini coefficient (the measure of how well income is distributed across a population) than the UK (OECD, 2021) as employers can afford to pay the unskilled a much higher minimum wage. This reduces income inequality and the poor's dependence on food banks.

Along with their tools to better locate labour, Switzerland, in comparison to the UK, has witnessed substantially less privatisation in various sectors (Gilchrist, 2023). In contrast to the UK, where the domains of Transport, Energy, Water/Sewage, and Telecommunications have undergone either full or partial nationalisation, Switzerland has consciously sustained a comparatively lower level of privatisation. Such a strategic choice has been pivotal in endowing Switzerland with a greater degree of economic stability, particularly in the face of economic shocks. By contrast, the UK's reliance on external sources for essential goods, including gas, has exposed it to mass economic shocks, thereby impairing its stability. The outcome is that Switzerland is better equipped to offer lower prices (Gilchrist, 2023) and is less susceptible to market fluctuations than the UK. Consequently, the impact of these lower prices on disposable income during periods of economic uncertainty has been relatively minor in Switzerland, thereby

attenuating the associated hardships for the disadvantaged sections of the populace. Translating the Swiss model into the British setting would take some time. Paying a higher minimum wage would eventually increase the amount of money in circulation and could be paid back through taxes as opposed to falling out of the economy through holes that resemble Swiss cheese.

Final Thoughts

In summation, the issue of economic inequality in the United Kingdom has reached an alarming level and requires immediate attention. The country's top 10% of households possess 43% of the nation's wealth, while the bottom 50% own a mere 9%. The resulting impact of this inequality has been dire, with 14.5 million individuals, including 4.3 million children, living in poverty. The recent cost of living crisis, which was exacerbated by Russia's military aggression in Ukraine in 2022, has worsened the situation, particularly for the most vulnerable population due to increased prices of food and energy. The lack of social mobility, limited access to quality education, and reduced future earnings for those at the bottom of the socioeconomic pyramid have further solidified structural inequality. Meanwhile, the wealthiest in society have seen their wealth soar during the COVID-19 pandemic, drawing attention to the growing issue of economic injustice in the UK. While it is unlikely that a singular solution will expeditiously mitigate the current cost of living crisis in the UK if a shift in political neglect does not occur, the country's significant surge in economic inequality will continue to exacerbate, as well as all other related socio-economic factors such as the inequalities in the quality of healthcare and education. This is particularly concerning, given that those who are disproportionately impacted by inequality are not being heard by politicians. Therefore, it is imperative that some form of change takes place.

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