



The Centre for Economic Justice

The background features a large, stylized green scale of justice. The left pan is empty, while the right pan is filled with several stacks of coins. In the bottom left corner, there is a group of stylized human figures, some wearing face masks, rendered in various shades of green. The entire scene is set against a dark blue background with a subtle geometric pattern of hexagons.

PROSPERITY AND JUSTICE AFTER THE PANDEMIC

**George Dibb,
Carsten Jung,
Henry Parkes and
Shreya Nanda**

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THE IPPR CENTRE FOR ECONOMIC JUSTICE

The Centre for Economic Justice at IPPR is our ambitious initiative to provide the progressive and practical ideas for fundamental reform of the economy. We want an economy where prosperity and justice go hand in hand.

The Centre for Economic Justice is carrying forward the work of the acclaimed IPPR Commission on Economic Justice, producing rigorous research to show how the commission's ten-part plan for the economy can be put into practice.

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SUMMARY

‘BUILDING BACK BETTER’: A NEW ECONOMIC CONSENSUS

Covid-19 has exacerbated many of the existing challenges facing the UK economy - but it has also created an opportunity to ‘build back better’. The pandemic has brutally highlighted the structural weaknesses and injustices within our society. Whilst small businesses have faced closure, the big six tech firms added more than \$4 trillion to their market value. Those on the lowest wages were most likely to lose their job or be furloughed, yet more billionaires were created this year than ever before. As a result, people across the country are clear about their desire, as we emerge from the crisis, to ‘build back better’. Only 6 per cent of the population want to return to the ‘pre-pandemic’ economy, whilst 58 per cent want to see ‘changes in the way the economy is run’.

‘Building back better’ after the pandemic must mean creating an economy that delivers both prosperity and justice for all citizens. We envision a future better than the past: a society where everyone is able to lead a fulfilling life. Delivering on this vision after the pandemic must mean more than just delivering increases in economic growth. Instead, we must broaden our definition of prosperity to take into account of all of the dimensions of a ‘good life’. In recent months IPPR has hosted a series of citizens’ juries across the country. We asked people what a ‘good life’ meant to them. They spoke of fundamental goods like health, security, connection to others, access to nature and feeling in control of their own lives. This is what we must prioritise – for all people and places – as we emerge from the pandemic.

A new consensus on economic policy is beginning to emerge with the government embracing unprecedented stimulus measures during the crisis. Achieving this shift in the lives of people across the UK will require a fundamental shift in economic policy. We must move from a model built on consumption, extraction, and concentration, to one that’s built on investment, sustainability, and distribution of the gains from growth. In recent years, this shift has started to become visible. In particular, the government’s response to the pandemic involved rapid intervention in markets to support firms and individuals, successfully keeping unemployment low. They have also committed to addressing deep-set regional inequalities by ‘levelling up’, increasing R&D expenditure, and setting up a new ‘green’ infrastructure bank.

But, to really ‘build back better’ we will have to do much more than increase investment: we need to challenge damaging concentrations of power. The question we now face is not just whether the state should invest – the majority of economists and both major political parties agree that it should - but how can the economic benefits of that investment be shared in a just way? Simply increasing investment in an economy that has structural flaws won’t solve problems in the long-term. The state must act to structurally reform the economy to shift the balance in favour of the majority. This means shifting economic power in favour of ordinary people to ensure everyone shares in the rewards of a thriving economy.



IPPR's Centre for Economic Justice (CEJ) has identified four key power shifts that we believe policy makers should address. These are set out in more detail below. We believe that by speaking to people's concerns and their disempowerment, these shifts have the potential to build towards a better economy that works for everyone. We do not yet have all the answers. Instead, this paper aims to set out some initial policy responses that we believe could be enacted now as part of a national effort to 'build back better'. In the coming months and years we will undertake a new and exciting programme of work to develop this agenda and refine ambitious but realistic policy solutions to the deep structural challenges that we face as a country.

SHIFTING POWER IN OUR ECONOMY

1

Power needs to be shifted to employees and workers, from employers and shareholders. Remedying the imbalance of power between employees and their employers will enable workers to negotiate better pay and 'good' work. As a first step we propose government should target full employment where companies compete for workers, not workers competing for jobs. We also propose the introduction of sectoral collective bargaining to address poor pay and conditions, including the underpaid and undervalued key workers who kept us safe during the pandemic.

2

Power needs to be shifted to companies that work in the interest of society from those that extract from society. Levelling the playing field between large corporates and local businesses will help drive productivity, create new jobs, rebalance economic activity and ensure all firms pay their fair share. To begin this shift, we propose a windfall tax on excess profits reaped during the pandemic alongside a new industrial strategy – building on the vaccine success – that works with business to target 'moon shot' social problems.

3

Power needs to shift to those who are locked out of wealth from a system that has locked up wealth. Wealth is unequally distributed in the UK. Tackling this will help ensure that everyone has the opportunity to thrive and access to the basic goods, such as housing, needed for a good life. To begin to unlock wealth for the have-nots we propose the foundation of a Citizens' Wealth Fund, to invest in and share the benefits of the recovery of the UK economy. To tackle property wealth in particular we propose a new commitment to make secure housing available to all. This includes measures to increase housebuilding and a new house price inflation target for the Bank of England.

4

Power needs to be shifted to the nations, regions, and towns of the UK from Whitehall. The pandemic has once again exposed how geographically unbalanced our economy is. We need to empower places to fully grasp local economic opportunities and revitalise communities. To do this we propose transferring tax and borrowing powers away from Whitehall and matching London's levels of investment spending across England distributed by a fair formula. Local leaders should give citizens real power over decisions through new forms of economic democracy.



**INTRODUCTION:
SHIFTING POWER
TO BUILD A NEW
ECONOMY**



THE PANDEMIC AND THE ECONOMY

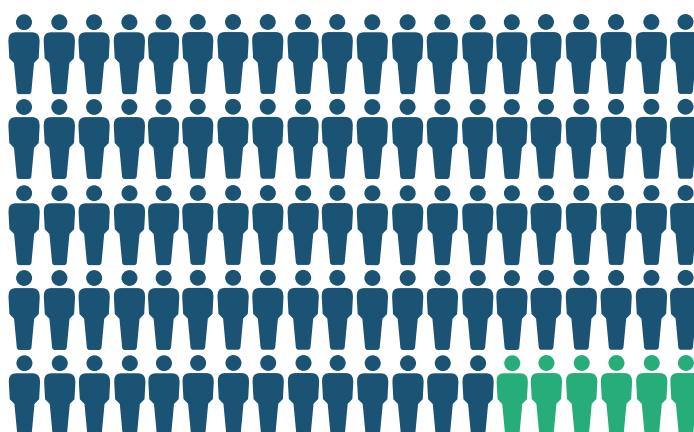
A good society is one that makes it possible for everyone to lead a fulfilling life. A global pandemic has been a 'shock to the system', prompting many to reflect on what makes up a good life; be it personal health and wellbeing, time with family or friends, or a satisfying and fulfilling job. The economy should enable people to live this life, not hold people back, and it should work for everyone. Only 6 per cent of the population want to return to the 'pre-pandemic' economy, while 58 per cent want to see 'changes in the way the economy is run' (Proctor 2020). For policymakers, the pandemic should be a point of reflection to consider how the economy can better share prosperity for all.

In the 20 months since the first cases of Covid-19 were detected in the UK, the economy has been through its second once-in-a-generation shock in just over a decade following the 2007/08 financial crisis. The pandemic brutally highlighted the ways in which unfairness is embedded within our economy. Whilst small businesses were more likely to close due to lockdowns (Bank of England 2020), the big six tech firms added more than \$4 trillion to their market value. Those on the lowest wages and in the most precarious jobs were most likely to lose their job or be furloughed, meanwhile more billionaires were created this year than ever before (Sunday Times Rich List 2021).

But if the past year and a half has taught us anything, it is that we as a society are adaptable. We can change the systems we have built if we want or need to. The pandemic has prompted many people to think differently about how they live their lives. They want politicians and policy makers to reflect similarly on our economic system (Proctor 2020): to ensure that it enables people and communities to flourish rather than holding them back. We need to hardwire our economy for prosperity and justice.



Only 6 per cent of the population want to return to the 'pre-pandemic' economy





Prosperity

Governments have historically used gross domestic product (GDP) (and GDP growth) as the main measure of economic success. However, while important, there is a growing recognition that GDP is far from the only measure of what really matters to most people in society. It fails to take account of the value of our shared natural environment, individual health, wellbeing, social connections, and informal care. Moreover, GDP growth has now decoupled from the earnings people receive as a result of growing economic inequality (IPPR Commission on Economic Justice 2018).

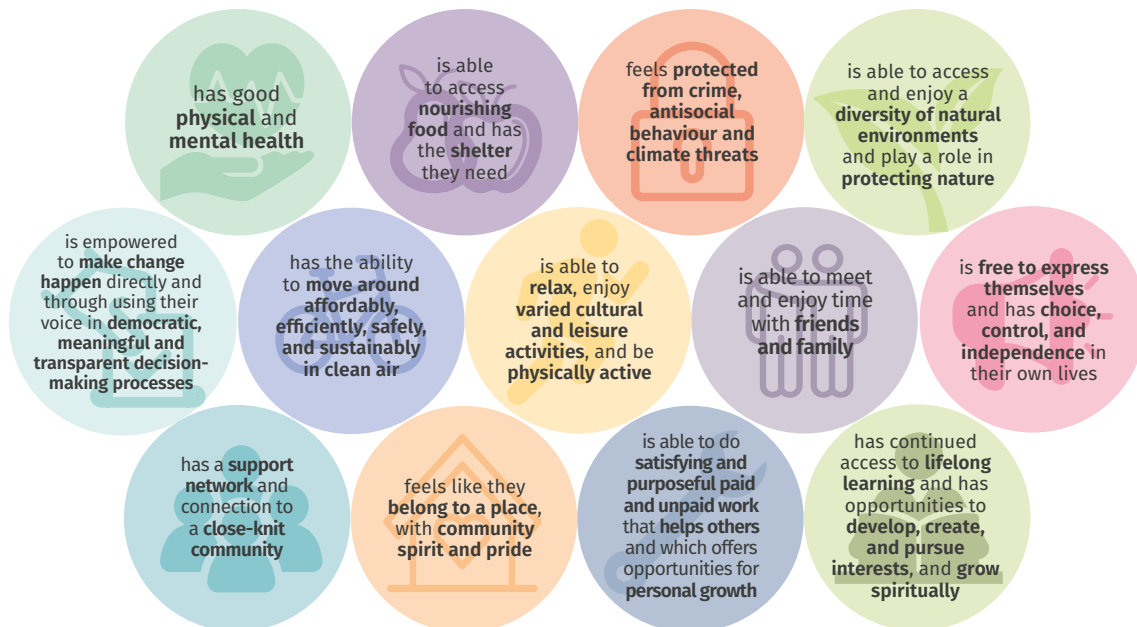
Creating a more prosperous society after the pandemic will therefore have to mean more than just economic growth. Instead, we must broaden our definition of prosperity to take into account of all of the dimensions of a 'good life'. In recent months IPPR has hosted a series of citizens' juries across the country. We asked people what a 'good life' meant to them. They prioritised fundamental goods like health, security, connection to others, access to nature and feeling in control of their own lives (figure I.1).

As we emerge from the pandemic citizens are making it abundantly clear: they want more than just a return to 'growth as normal'.

FIGURE I.1

The combined wellbeing framework of the IPPR Environmental Justice Commission's citizens' juries

We believe in a better life for all. This means a future where everyone:



Source: IPPR Environmental Justice Commission 2021



Justice

Prosperity alone is not enough; our economy must be fair. The pandemic must mark the end of the previous era of growing inequality and the beginning of a transition to a new one in which shared opportunity across people and places is a core objective of economic and social policy. We call this economic justice.

We define a just economy as one where:



no person lives in absolute poverty



everyone can have dignity, and no one is exploited in work or driven to destitution by insufficient welfare support



no group in society is systematically or institutionally excluded



inequalities of wealth, income, and power narrow over time



every place gets their say in determining the policies and institutions that impact them and no places are left behind



we look after the future – including the ability of future generations to live on a healthy planet.

Economic justice is essential on a moral basis, but there is growing evidence that a fairer economy is also a stronger, more resilient economy (Berg and Ostry 2011, Cingano 2014, Ostry, Berg and Tsangarides 2014). Finally, it is essential for the public to buy in to economic change. As set out by the IPPR Environmental Justice Commission, the public will not accept big change – such as addressing the climate and nature crises - if it is not fair, or they do not perceive it to be. The public have a veto on all policies – a veto they can exercise at the ballot box or in the streets.

PLENTY TO BE PROUD OF

There is much to be proud of in the UK economy, and many strengths to build on. The pandemic has shown us that the UK can be and is world-leading. The successful development of the Oxford-AstraZeneca Covid-19 vaccine alone is testament to the strength of the UK's life sciences industry and has been cited by the Industrial Strategy Council as a case study of government-private sector collaboration (Balawejder et al 2021). The UK is the 10th largest economy in the world.¹ Prior to the pandemic, the UK was both the fifth largest exporter and importer globally and attracted the third largest foreign inward investment. We have the world's second-largest financial centre and despite many preconceptions the UK remains the ninth largest manufacturer in the world.

“The pandemic brutally highlighted the ways in which unfairness is embedded within our economy”

We have outstanding universities and scientific expertise and are an international cultural powerhouse across film, music, and literature. We have established and respected institutions: our legal systems, the civil service, the NHS, and the BBC.

But we can do better: these clusters of success are not large enough and there are not enough of them. Earnings have not kept up with our rate of economic growth and too many remain in low-pay and insecure work. At least in part, this is due to the changing economic make-up of the UK. Since the middle of the 20th century, UK manufacturing has declined as an employer, supplemented by a vast increase in the service economy, in particular professional and technical services and hospitality (ONS 2019). Many of these newly created jobs haven't offered the same levels of status or pay as those they supplement, or aren't available in the places where manufacturing was strongest. The creation of the City of London as an international financial centre has not led to the creation of new world-leading firms in the real economy – quite the opposite (Edgerton 2020). As finance has become more dominant, productivity and innovation have stagnated (Christophers, 2020). The UK's clusters of success are not well distributed across the country. Almost half (46 per cent) of public R&D expenditure is in the London-Oxford-Cambridge 'golden triangle' (Forth and Jones 2020) and London accounts for 19 per cent of new jobs created but attracts 38 per cent of the highest achieving graduates (Swinney and Williams 2016).

1 Measured in GDP based on purchasing power parity. (IMF 2021)

A SHIFT IN THE CONSENSUS

In 2018 the IPPR Commission on Economic Justice called for the UK economy to move from a model built on consumption, extraction, and concentration, to one that's built on investment, sustainability, and distribution of the gains from growth. We argued that this would require a fundamental shift in economic policy. Since then, the start of such a shift has become visible. The government's response to the pandemic involved rapid intervention in markets to support firms and individuals, successfully keeping unemployment low. The UK government has committed to addressing deep-set regional inequalities by 'levelling up', increasing R&D expenditure, and setting up a new 'green' infrastructure bank.

But the evidence is clear that so far rhetoric has not been translated into the scale or kind of actions needed to make aspirations reality. To genuinely build back better, policy makers will have to go further than this in three main ways.



First, the UK government's actions have failed to live up to its ambition on investing in a better economy. The UK isn't set to achieve its pre-pandemic level of GDP until next year, whilst the USA – where Biden has pursued a more ambitious stimulus – has already achieved this milestone. Meanwhile, longer term levels of investment in the UK are amongst the lowest in the OECD – in 2019 only Italy, Greece, and Luxembourg invested less as a percentage of GDP.² Now is the time to 'boost it like Biden' and commit to an ambitious programme of long-term investment to protect the environment, develop new areas of industry and innovation, and create new high-quality jobs.



Second, a consensus is emerging on both left and right that state intervention can be good for businesses and workers while also achieving important societal goals. As Martin Sandbu argues, goals such as levelling up and building back better 'require confidence in the ability of the state to coordinate and steer private sector behaviour and a willingness to establish a desired destination' (Sandbu 2020). To solve the challenges that our society and economy face, we need a state that will work with businesses, communities, and workers to coordinate and direct the economy towards democratically determined societal goals.



And, finally, the question now is not just whether the state should invest but how can the economic benefits of that investment be shared in a just way? Of critical importance is how the crisis and the recovery will affect the balance of wealth and power in the economy. Simply increasing investment in an economy that has structural flaws won't solve problems in the long-term. The state must act to structurally reform the economy so that it works for everyone. This means shifting economic power in favour of ordinary people to remedy a lack of justice and ensure everyone shares in the rewards (in the broadest sense) of a thriving economy.

² The analysis is based on OECD figures for capital investment as a share of GDP, available on their Annual National Accounts database (<http://stats.oecd.org/>). 'Investment' corresponds to 'gross fixed capital formation' (System of National Accounts code 'P5').

POWER TO SHAPE THE ECONOMY

There is nothing inevitable about our economy. The system we have today was shaped by the rules and institutions established by successive governments and generations of policy makers. We can – and must – now reshape our economy for justice. This demands that we rethink how it is governed and managed. We believe that to *reshape* our economy for justice, those who have so far been unable to influence the system must be empowered to do so. Power is held by individuals and institutions and emerges through arrangements and relationships that shape our lives. We must rebalance economic power across the economy and across society. Citizens and communities must be empowered so they are able to influence how the economy works for them.

Citizens' juries hosted by IPPR told us that being empowered to engage in decision-making and creating change is one of the cornerstones of a good quality of life. People need to feel that they are part of change, that they have a sense of ownership over the actions taken and are committed to what comes next; they want to see that decisions will improve things for them and the people they care about. Change cannot be done *to* people; it must be done *with* and *by* them.

Today the economy is characterised by concentrations and imbalances of power that are both a cause of some of our economy's problems and a barrier to their solution. But where is power concentrated and who do we need to distribute it to?

In this report, we focus on four specific imbalances of power and the shifts we need to see to truly 'build back better'. In our view, in addition to measures to support and grow the economy, such as significant economic stimulus and long-term investment, these power shifts should be the priorities of economic policy through and after the recovery. We believe that by speaking to people's concerns and their disempowerment, these shifts have the potential to build towards a better economy that works for everyone. This views people across the UK as part of the solution, not a problem (electoral or otherwise) to be managed.

1 Power needs to be shifted **to employees and workers, from employers and shareholders**. Remedying the imbalance of power between employees and their employers, will enable workers to negotiate better pay and achieve 'good' work.

2 Power needs to be shifted **to companies that work in the interest of society from those that extract from society**. Levelling the playing field between extractors and innovators will help drive productivity, create new jobs, rebalance economic activity and ensure all firms pay their fair share.

3 Power needs to shift **to those who are locked out of wealth from a system that has locked up wealth**. Wealth is unequally distributed in the UK. Tackling this will help ensure that everyone has the opportunity to thrive and access to the basic goods, such as housing, needed for a good life.

4 Power needs to be shifted **to the nations, regions, and towns of the UK from Whitehall**. Geographical inequalities cut across these dimensions of power. Empowering places will allow them to fully grasp local economic opportunities and revitalise communities.

We believe that addressing these power imbalances is the only way to achieve prosperity for all as the UK recovers from the pandemic.

1



**TO
EMPLOYEES
AND WORKERS**

**FROM
EMPLOYERS AND
SHAREHOLDERS**



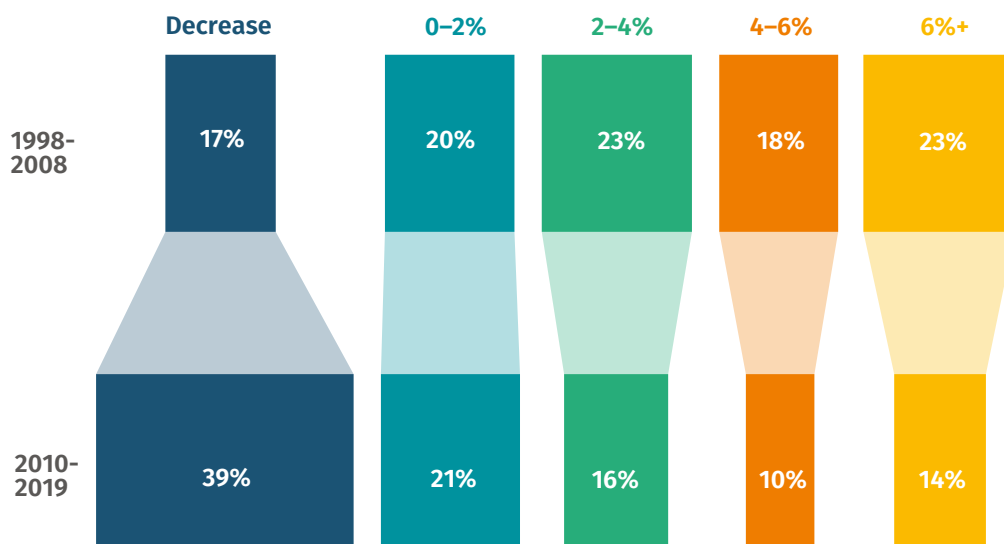
Good work provides people with a decent income and standard of living, purpose, and identity. Many employers across sectors offer this - good pay, working conditions, and prospects for progression. Pre-pandemic rates of unemployment were at a 45-year low (ONS 2021c).

Yet record low levels of unemployment have not triggered rising wages. For those who lack training, or who live in a post-industrial town with few large employers, work is failing to pay. If there is one statistic that epitomises the moribund state of the UK labour market, it is that in the decade since 2009 a shocking two in five employees have seen real terms *fall* in their hourly pay (figure 1.1). This is more than twice as high a proportion as saw a fall in the preceding decade.

FIGURE 1.1

Since the 2007/08 financial crisis almost 40 per cent of employees have seen a decline in incomes and a majority have seen less than 2 per cent real increase per year over that period

Compound average real-terms hourly pay growth



Source: IPPR analysis of University of Essex 2020 (Understanding Society Waves 2 & 9 and British Household Panel Survey Waves H and R). Incomes adjusted to CPI-H to January 2019 prices for 2009-2019 analysis, and August 2008 for 1998-2008 analysis. Growth rates are compound average annual growth (CAGR). Percentages may not sum to 100% due to rounding.

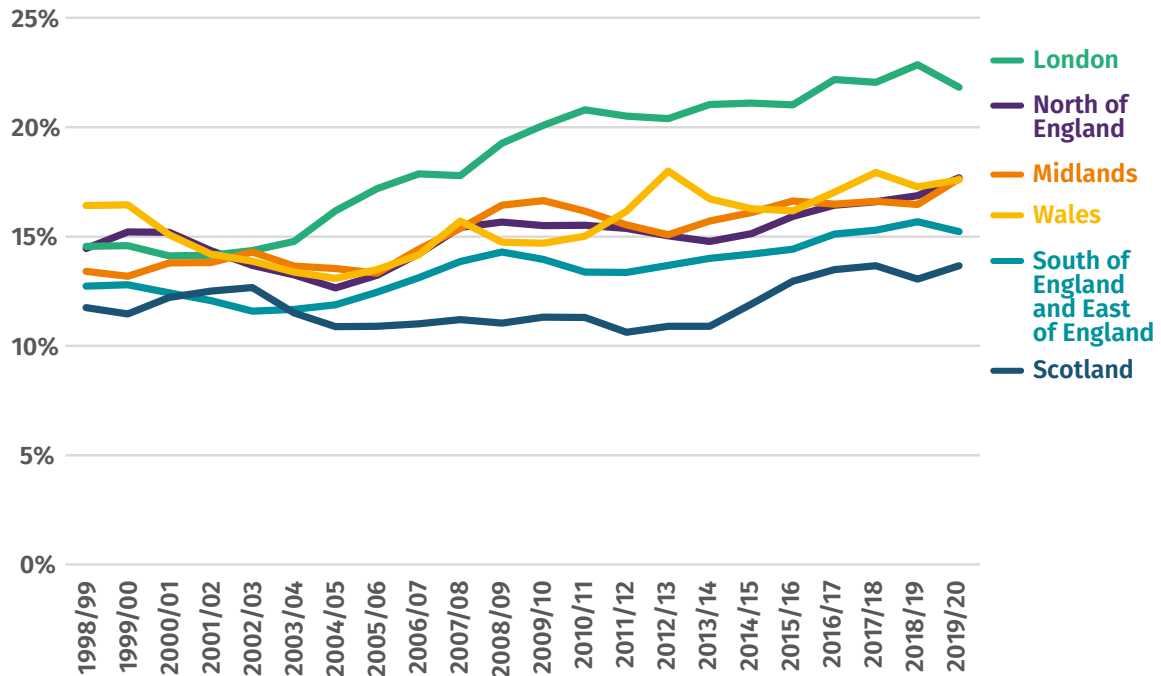
Our analysis underlying figure 1.1 shows that declining real wages were affecting people in a broad range of jobs. We find that about half of jobs in the 40th-80th percentile for pay saw a real decline between 2010 and 2019. This implies that the labour market is not working for people with very different skills and backgrounds. Taking for example, transport drivers and operatives – a bus driver earns about £27,000 per year compared to the median full-time salary of £31,000. Many above-median earners are also affected, in both the private sector (eg functional managers) and in the public sector (eg teachers and health workers).

Work is increasingly not a route out of poverty (McNeil et al 2021). This is a fundamental breach of the social contract that has underpinned our society: if you work hard, you will get on. Despite rises in the minimum wage, almost one in five people in working households were below the poverty line prior to the pandemic, up from 13 per cent 15 years prior, with the situation worse still in some parts of the UK (ibid) (figure 1.2).

FIGURE 1.2

In-work poverty has risen across the country but most notably in London

In-work poverty rates by geographic area, Great Britain



Source: IPPR analysis of Households Below Average Income (DWP) and Family Resources Survey, McNeil et al (2020)

Insecurity in the labour market has risen dramatically over the last decade: 5.5 million people are now estimated to be in insecure work such as temporary work, ‘bogus’ self-employment, non-standard contracts, agency and ‘gig’ work, or working on a zero-hours contract. The use of the latter has grown precipitously in recent years, such that now more than 960,000 people are employed this way – up from just 168,000 in 2010 (ONS 2021b). It is indicative of a labour market that has shifted risk from employers to individuals. Of those in insecure work, 2.5 million workers are underemployed in the UK³ (Jung and Collings 2021).

Headline numbers hide individual stories. For example, somebody working full-time in the social care sector – a crucial public service - makes on average £19,959 per year, far below the average of £31,461 (ONS 2021a), and there are often challenging working conditions, uncertain hours, and few prospects for progression. This is in part caused by historic underfunding of social care which must be addressed after the pandemic. But just as important is the imbalance of power in a fragmented sector between many providers of social care and workers who tend to be low skilled, un-unionised and often not from the UK. This allows large care providers to extract significant profits whilst underpaying staff (Dromey and Hochlaf 2018, Blakeley and Quilter-Pinner 2019).

From this poor starting position, the UK labour market was dealt a shock by Covid-19. During the pandemic the furlough scheme (or formally the Coronavirus Job Retention Scheme) has helped the economy to recover and kept people in jobs. Yet despite this level of state support, unprecedented in the post-war period, by the end of June the ‘jobs gap’ – defined as the number of jobs furloughed plus those lost since the beginning of the pandemic – was still about 2.1 million (HMRC 2021).

3 Using the ONS definition of underemployment that follows the International Labour Organisation

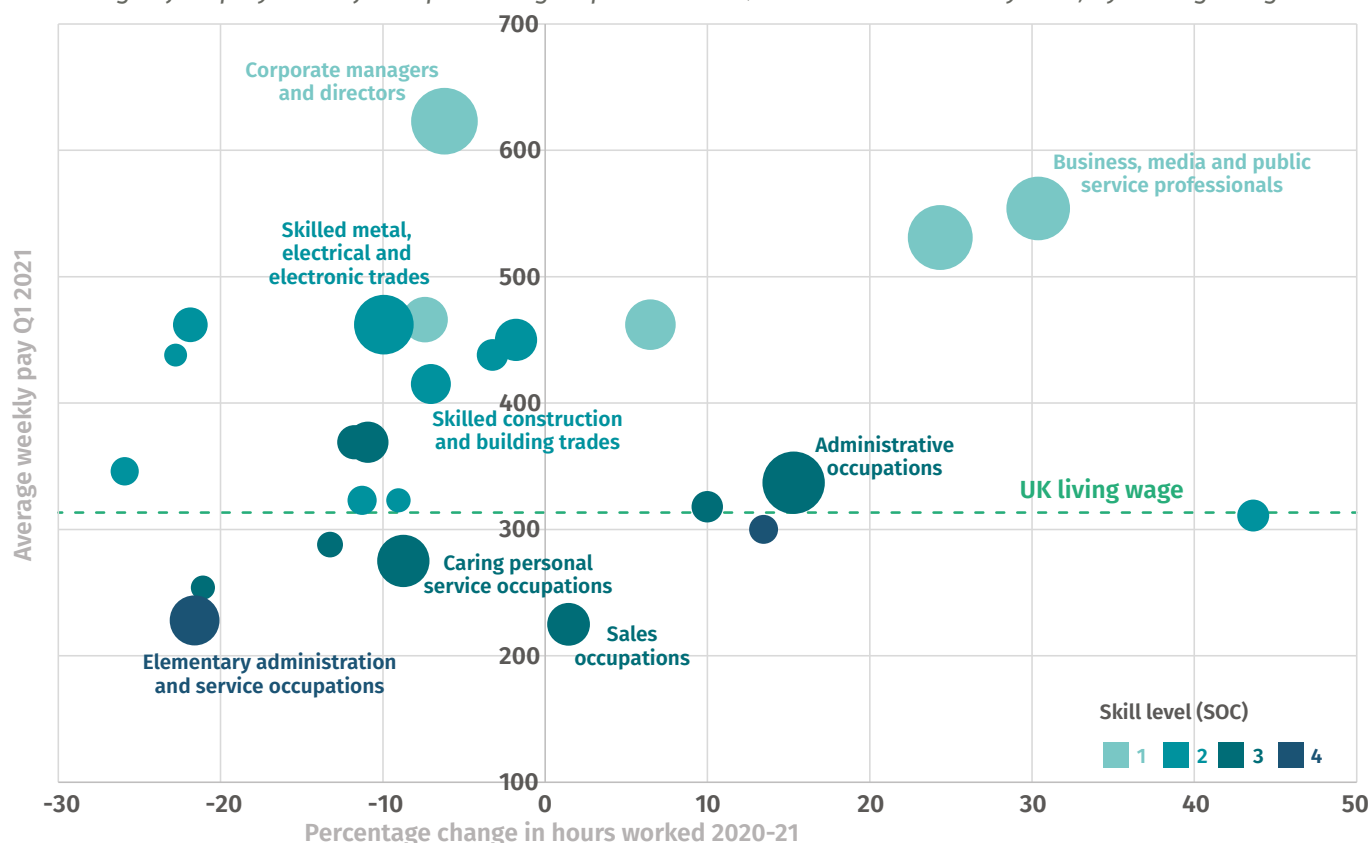
Existing economic injustices have been exacerbated whilst a focus on key workers raised questions about who was valued in our economy. **Those on low pay were much more likely to cease working during the crisis than those on high pay** (figure 1.3). At the same time, whilst the economy looks to be beginning a recovery and all coronavirus restrictions on businesses have been removed, there are still 1.9 million people on furlough who could potentially be plunged into unemployment.

The decline in employment has been unevenly spread across sectors. Figure 1.3 shows several striking trends. Firstly, there is a clear split along income lines with most jobs lost being low-paid and low-skilled, while most of the newly created roles are high-paid and high-skilled. But given the coincidence of low-pay with low qualification levels (shown in figure 1.3), most of those who have lost their job because of the pandemic might lack the skills and training needed to obtain one of the newly created roles. If the demand for these job remains subdued or precarious, then the pressures on low earners will continue.

FIGURE 1.3

The majority of jobs lost during the pandemic have been low-paid and low-skilled while those created have been highly-paid and largely high-skilled

Change of employment of occupational groups between Q1 2020 and March-May 2021, by average wage level



Note: The size of the bubbles shows the current size of employment by occupation.

Source: IPPR analysis of ONS LFS

The mistakes of the decade following the financial crisis must not be repeated. Any definition of ‘build back better’ in the UK must mean more than just creating more jobs to prevent unemployment and underemployment, but also creating better-quality jobs. This means higher pay, better progression, decent working conditions and greater autonomy and control for workers.

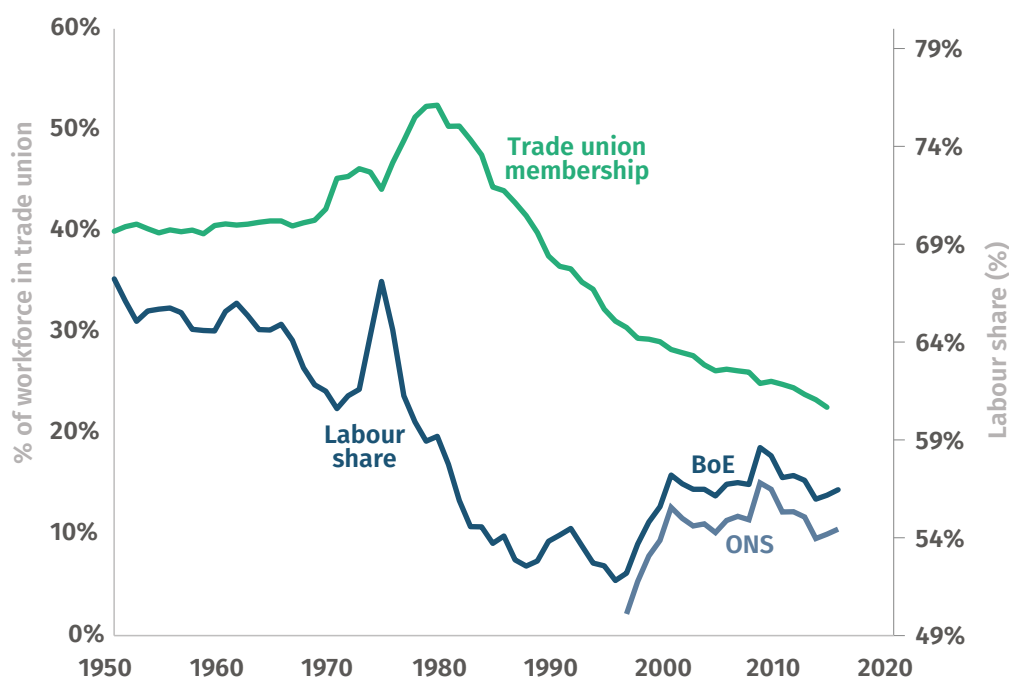
We believe the way of achieving this ambition is by empowering workers to negotiate for better pay and conditions of employment. Lack of worker power in the economy has been linked to stagnant wages (Bryson and Forth 2017), growing inequality across the entire economy (ibid), poor productivity improvements (Acas 2015), stagnant growth (Onaran et al 2015), and exploitation. It is reflected in the decline in labour’s share of national income by ten percentage points since the 1970s (figure 1.4). When workers are not empowered, their employers are able to keep pay low to reduce their costs. This might benefit company owners, but it does so at the expense of workers in terms of lost pay, and it costs the state who must pick up the welfare bill and the cost of treating health impacts (Dromey 2018).

There are two main mechanisms through which workers have lost power in the economy. Firstly, the way that workers have conventionally collectively fought for greater power in the workplace is through association through trade unions. Unions and collective bargaining allow workers to exert power and negotiate better conditions (Reeves 2018). Rates of trade union membership have been falling in the UK since the 1980s and were at an all-time low in the UK in 2017 (figure 1.4). The public sector is the main area where trade unions have retained a grip. Since 2017 there has been a small increase in membership (BEIS 2021) and some trade unions reported that the shock of pandemic job insecurity had driven a ‘revival’ in membership (Financial Times 2020) but workers with the lowest pay (<£250 per week) have the lowest proportion of unionisation (BEIS 2021). Trade unions played a prominent role working with government and business lobby groups on the furlough (job retention) scheme and there are opportunities as the economy emerges from the pandemic for unions to play a larger role in the discourse on ‘building back better’.

FIGURE 1.4

Union membership over the last century coincided with the falling income share going to labour

Trade union membership as a proportion of the total workforce (left axis) and labour share of GDP (right axis)



Source: ONS 2017, IPPR analysis of *A Millennium of UK Data*, Bank of England dataset (Thomas and Dimsdale 2017)

The second way workers can gain power relative to their employers is if there are fewer people competing with them for their job. In theory, when unemployment is high, it keeps wages low as there are more people seeking fewer jobs. When numbers of jobseekers are low – when the economy has a so-called ‘tight labour market’ – it means that companies have to fight for employees, rather than the other way round, driving up pay and conditions for workers.

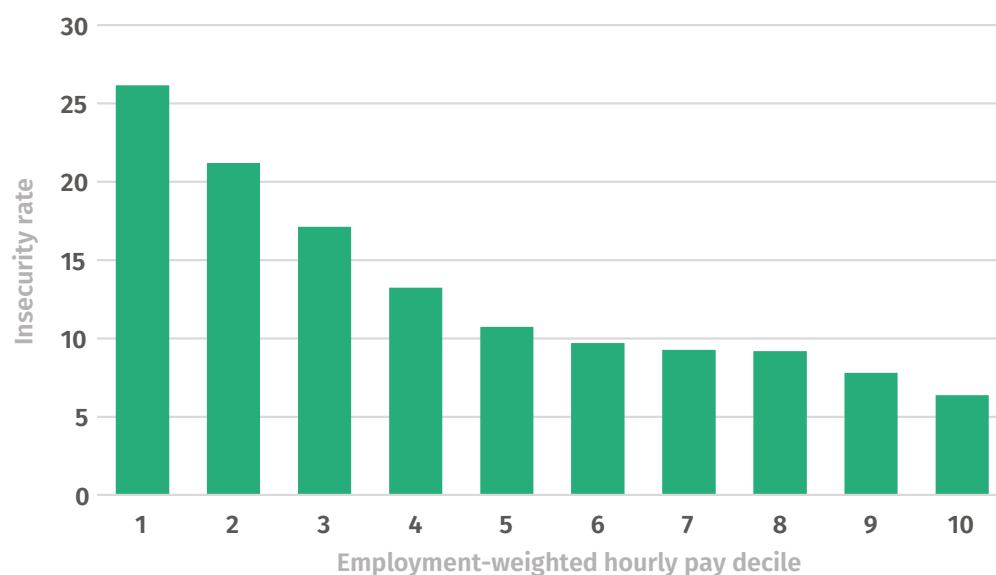
However, despite low levels of unemployment pre-pandemic, we failed to see an uptick in average worker pay, indicating the labour market was not ‘tight’ in the conventional sense. Low rates of overall unemployment disguise a malaise in the labour market of poorer job quality since 2008, fuelled by lack of business confidence to take on workers on a permanent and reliable basis (Stirling 2019). That business confidence is in turn linked to levels of aggregate demand across the economy. If people are employed but the work is precarious or they cannot get sufficient hours for example, they are in no place to bargain for greater wages, with efforts further undermined by a freeze in public sector pay and a weaker social safety net which have put a greater emphasis on an ‘any job’ economy.

Low pay is often associated with precarious work. Insecure work has decreased over the last 5 years but is still higher than before the financial crisis. As shown above, lower paid occupational groups are more likely to have been lost during the pandemic. More generally, low-paid jobs had significantly higher levels of insecure employment, as shown in figure 1.5. More than one in four workers in the lowest income decile were in insecure employment – almost twice the rate of median-income workers. This includes many hospitality jobs such as bar staff, kitchen porters and cleaners. Ethnic minorities were significantly more likely to be in insecure work. Ethnic minorities in the lowest wage decile were 13 per cent more likely to be in insecure jobs than people of white background.

FIGURE 1.5

About one in four jobs in the lowest pay decile are insecure

Share of jobs that are insecure, by wage decile Q2 2021



Note: For the purposes of our analysis, we defined a job as insecure if it is: temporary, agency work, on a zero-hours contract; or if a worker is, looking for another job because of lack of security or sufficient hours or looking for a job on top of their current job; or if a worker would work more hours at the job’s basic pay rate; or if a worker is classed as self-employed but paid by agency.

Source: IPPR analysis of ONS (2021g)

EMPLOYERS SHOULD BID FOR WORKERS, NOT WORKERS FIGHTING FOR JOBS

Building back better from the pandemic means more than simply being in a job. That is not enough. Workers need the power to negotiate for better conditions of employment; we need to rebalance power at work. In the US, the Biden administration is pursuing a bold and progressive policy agenda, premised on an era of full employment and a 'high pressure' economy. It is essential that government in the UK prioritises this transition as a way of truly building back better.

To achieve that we propose the following.



A right to a good job: commit to full employment

- **Government should target full employment in the post-pandemic world.** This means moving beyond the government's current objective to 'achieve strong, sustainable and balanced growth' (Bank of England 2021b) and include an additional focus on jobs. HM Treasury in close coordination with the Department for Business, Energy and Industrial Strategy (BEIS) should explicitly target and track progress towards full employment and associated tight labour market conditions. We define full employment as low levels of unemployment, low levels of underemployment and low levels of insecure work.
- **Government should 'boost it like Biden' by committing to new public investment to create good green jobs** (Roberts and Jung 2020). Government should pursue a targeted stimulus to achieve full employment, increasing annual public investment by £47 billion, which would take it to the level of countries such as Sweden (ibid). This includes £30 billion additional annual investment in green projects and about £17 billion investment in social infrastructure such as health and social care (ibid, IPPR Environmental Justice Commission 2021). These investments would have a rebalancing effect on the economy, countering job polarisation by creating mid-skilled jobs that could provide progression opportunities (Williams et al forthcoming).



More and better: a plan for good work

- **Government should introduce and fully fund a 'right to retrain' scheme for workers at risk of losing their job.**⁴ This should be available to anyone of any age, and contain elements targeted at workers impacted by the pandemic and upcoming changes driven by the push for net zero. It should focus not just on getting people into jobs but allowing people to transition from the low-paid low-skill roles that have been lost during the crisis to higher pay and higher skill roles in sectors that are set to grow in the future. This should include a roll-out of personal lifelong learning accounts (Dromey, McNeil and Roberts 2017) and a significant increase to the government's adult skills budget (Murray 2020).
- **Government should introduce sectoral collective bargaining** to address poor pay and conditions, including underpaid and undervalued key workers who kept us safe during the pandemic. Full employment means more than just more jobs. It means significantly driving down underemployment and improving conditions as well. BEIS should promote a renaissance of sectoral collective bargaining particularly in low-productivity, low-paid sectors, such as social care or retail, as well as more widespread firm-level bargaining (Dromey 2018). Government should explore sector-specific structures for achieving this; IPPR has previously proposed a license-to-operate model in the social care sector (Dromey and Hochlaf 2018) which could be combined with a Royal College for Care Workers (Reeves 2018) charged with bargaining for pay and conditions. Collective bargaining should be incorporated into future 'sector deals' within the Plan for Growth.

⁴ Equivalent funding should go to devolved nations.

2



**TO
COMPANIES
THAT WORK IN
THE INTEREST
OF SOCIETY**

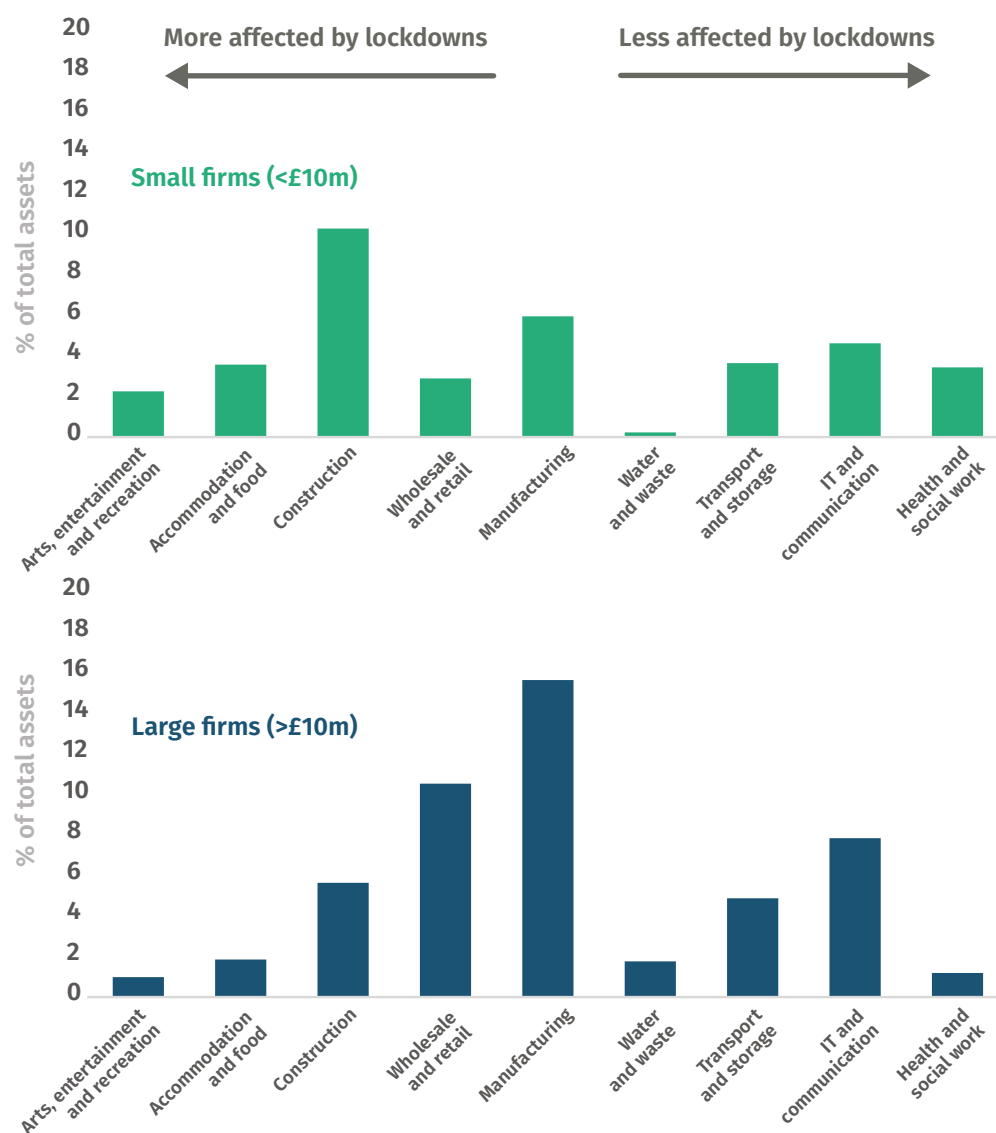
**FROM
THOSE THAT
EXTRACT FROM
SOCIETY**



The Covid-19 pandemic and the restrictions put in place to stop the spread of the virus have shaken businesses across the UK. Overwhelming state support has been needed to prevent the collapse of firms and in some cases entire sectors. But as with all stories of the pandemic, the effects, both negative and positive, have not been distributed equally. Some sectors have been able to continue operating during lockdowns – notably online retailers – and as a result have seen massive increases in sales, whilst businesses based on tourism or hospitality have been closed for months on end (figure 2.1).

FIGURE 2.1

Small firms are more concentrated in sectors affected by lockdowns than large firms
Share of total assets owned by sector for large (turnover of more than £10 million) and small (turnover of less than £10 million) firms with sectors ordered by the degree to which they were affected by lockdowns



Note: Sectors ranked based upon ONS (2021d) data on percentage of firms in each sector that had to close due to lockdowns from highest proportion on the left to lowest on the right. Assets are total assets reported on company balance sheets.

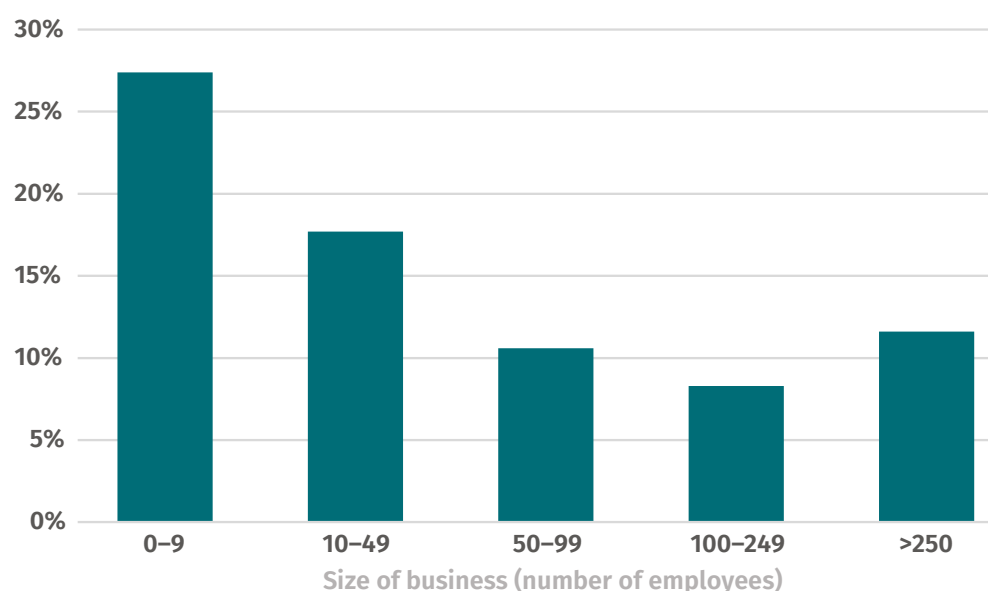
Source: Bureau van Dijk (2021), ONS (2021d)

Small businesses were more likely to close due to lockdowns (Bank of England 2020), disproportionately used government loans⁵ and were more likely to have higher debt repayments (figure 2.2). By comparison tech giants such as Amazon saw their profits triple (BBC 2021). Apple became the first trillion-dollar company in 2018 but added an additional \$1.1 trillion to its market value during the pandemic. Just six tech firms have added more than \$4 trillion to their market value since the pandemic began: Amazon, Microsoft (\$950 billion), Amazon (\$761 billion), Alphabet (parent company of Google) (\$643 billion), Facebook (\$433 billion), and PayPal (\$196 billion).⁶ Firms in the pharmaceutical, healthcare and gaming sectors also saw increases in value during the pandemic and some companies have reported significant increases in profits (Tax Justice UK 2021).

FIGURE 2.2

Small firms, with fewer than 50 employees, were more than twice as likely to have significantly larger debt repayment costs

Percentage of businesses reporting a more than 20 per cent increase in debt repayment costs compared to last year



Source: ONS (2021h)

It is vital that we ask whether these shifts will help or hinder our society as a whole. The behaviours of businesses have profound impacts on people and communities. **From paying their fair share of tax, to investing in high streets, the decisions taken in company boardrooms affect the lives of citizens.** A company may choose to invest its profits in new technology to reduce carbon emissions, or alternatively it may choose to shift those profits to an overseas tax haven (Dibb et al 2021). A firm might invest in training and upskilling for its workers, or equally it could pay those same funds out to a small number of shareholders. Companies may opt for sustainable investment plans that allow high streets to thrive. Alternatively, as we have seen in the case of Toys R Us, Topshop, and BHS, companies can be ‘asset stripped’ before going bankrupt allowing their owner to walk away with the assets and profits and hollowing out the high street.

⁵ In the form of Bounce Back Loans and Coronavirus Business Interruption Loans.

⁶ Values for market capitalisation gains are calculated by comparing values on 11 August 2021 to 31 December 2019 (CompaniesMarketCap 2021).

If we are to ‘build back better’, there’s an urgent need to tilt the playing field in favour of companies who do the right thing. **The context within which business decisions are made is affected by balances of power between companies, governments, and citizens. Critically, it is also driven by power imbalances between firms themselves**, where large firms are sometimes able to consolidate large amounts of market power. Unchecked, some firms, especially those that hold monopoly positions, are able to simply extract profit and value from society and give little back. We need to shift power in our economy away from those companies that extract from society, towards companies that work in the interest of society.

Some companies do the right thing for their employees, the environment, and society. They play a crucial role in prosperity and justice, and they should be held up as examples for the minority of companies who do not. When companies seek to focus on just maximising profits, there is a real harm to ordinary people. **This has increasingly been recognised by business leaders themselves.** Just before the pandemic 181 American CEOs came together to ‘redefine the purpose of the corporation’, moving emphasis away from shareholders and towards wider stakeholders (Business Roundtable 2019). The Covid pandemic has been a true test of this rhetoric. Taxpayers around the world have stepped in to support companies and entire sectors. We need companies to shift to contributing to wider society in order to build back better.

REWARDING INVESTMENT, PUNISHING EXTRACTION

Too often the ‘free market’ fails to reward companies that work in the interests of society. The state can use its power to correct this but too often governments have failed to do so. For example, people involved in IPPR’s citizens’ juries told us that government needs to show greater leadership in rewarding companies that do the right thing for the environment and punish those that don’t. However, in the UK, **57 per cent of all energy-related funding commitments since the pandemic started have gone towards fossil fuels with no conditions attached**, while only 4 per cent of fossil fuel support has green strings attached (Tearfund 2021).

Similarly, while the state stepped in to support asset markets, businesses, and wealthy asset owners, this came without any obligations on their part (Berry et al 2020). For example, the incomes of banks and property owners were underwritten without any obligation to shoulder risk, whilst tenants went unprotected. Small businesses took on financial debt but if they fail it is the lender who will be compensated by government. In effect, those least able to weather the crisis were being asked to make further sacrifices in order to protect the incomes of those most able to weather it.

Government can take back power from extractive companies. It can take an active role in coordinating and steering the economy towards shared societal goals, creating strong markets and fostering opportunities for businesses working towards those goals. It can use investment, taxation, regulation, and procurement to help create the right incentives and conditions to ensure doing the right thing for society aligns with the right thing for your business (Mazzucato and Willetts 2018). Indeed, the pandemic, and the UK’s government’s role in supporting British firms to create effective vaccines and treatments, is evidence of this (Balawejder et al 2021). The climate and nature crises and Covid-19 are the most urgent examples where this new partnership between the state and private sector is needed. But they are far from the only ones: markets need to be steered towards challenges such as geographical inequality, an ageing society, delivering financial stability, and the transition of digitalisation.

THE POWER TO EXTRACT VALUE

One way in which some companies fail to work in the interests of society is by opting to pay out large profits to shareholders rather than reinvest those profits. This matters because investment is crucial to improving productivity, skills and training, job creation and the shift to net zero. Additionally, many of these companies channelling profits to (overwhelmingly the wealthy) shareholders have also been the recipients of public funding, tax incentives, and direct grant support.

There are two notable ways this manifests: dividend payments which direct excess profits to shareholders and share buybacks where a company purchases its own shares to boost their price benefitting executives and investors. For example, between 2009 and 2018, on average, 25 per cent of FTSE100 firms paid out more money to their investors than they earned in net income over that same period (Baker et al 2020). In other words, firms were paying out their underlying financial buffers to investors even though they are crucial for their long-term sustainability. Relatedly, large multi-national firms are often able to avoid paying their fair share in corporation tax (Dibb et al 2021), funnelling profits away from where they are generated. Globally profit shifting to tax havens is estimated to cause \$500 billion in losses to public coffers each year – a number that has sharply increased over recent decades (Tax Justice Network 2020).



When companies seek to focus on just *maximising profits*, there is a real harm to *ordinary people*



During the pandemic, companies receiving public support through business rates relief or a state-guaranteed loan were paying this out to shareholders, yet the UK government didn't restrict firms in their dividend or buyback practices, as the Danish and French governments did. There have also been accusations of poor practices and potential corruption involved with outsourcing of test and trace and procurement of PPE (personal protective equipment) during the Covid-19 pandemic (Transparency International 2021). As the economy returns to growth after unprecedented public support, companies have returned to paying out large dividends. In 2021 30 UK-based companies have announced share buybacks totalling £8 billion in a 'share buyback bonanza' (Armitage 2021, Kasumov and Venkataramakrishnan 2021).

As we demonstrated in *Who wins and who pays*, the government's flagship support scheme during the pandemic, CBILS, secured £330 billion of loans from banks to businesses (Berry et al 2020). Crucially, these guarantees are for the lending bank, not the business itself. A business that found itself unable to make the repayments on a CBILS loan would still face bankruptcy whilst the lending bank would be unaffected. Businesses still bear the risk of borrowing during a downturn, while the bank's risk is substantially transferred to the state. In the words of Jamie Dimon, JPMorgan Chase chief executive, 'Our cup runneth over' (Kasumov and Venkataramakrishnan 2021). In July 2021 the Bank of England removed temporary 'guardrail' restrictions on banks paying out dividends and share buybacks, with an instant increase in the share prices of those banks (Jones and Milliken 2021).

BALANCE OF POWER BETWEEN LARGE AND SMALL COMPANIES

Another way in which extractive firms consolidate power is through their position and size within markets. When firms grow extremely large and monopolise a sector, competition between firms declines. This can manifest in many ways that matter to people; prices can rise as companies increase their profit margins free from competitors. If they have no chance of losing their dominant position, companies can rest on their laurels and cease investing in innovation and improving productivity. Workers in a place or sector that's dominated by just one major player face few options and therefore may have to accept worse jobs (Eckhout 2021). Unbalanced markets can also make macroeconomic policy less effective (Duvall, Fuceri and Tavares 2021) because, if firms have a lot of power, they react less strongly to market signals including monetary policy (Syverson 2018). And the shareholders of dominant firms can pull away from society in their wealth and power.

The pandemic is likely to exacerbate problems of concentrated market power.

As we have set out above, small and large firms experienced the pandemic differently, with the former more likely to be struggling as we emerge from the pandemic. For example, we know that small firms were more likely to be in sectors hit hard by lockdowns (Bank of England 2021a) and as a result were more likely to take out government loans in order to survive. Unsurprisingly, the majority of firms reporting significant increases in their debt repayment costs are those with less than 50 staff (figure 2.2). This could lead to smaller firms going bust or getting taken over and therefore greater market concentration.



Small firms were more likely to be in sectors hit hard by lockdowns



Indeed, the IMF (2021a) finds a global 'pandemic-driven rise in market power across multiple industries. Global price markups have risen by more than 30 per cent, on average, across listed firms in advanced economies since 1980. And in the past 20 years, markup increases in the digital sector have been twice as steep as economy-wide increases.' The Competition and Markets Authority (CMA) also finds that the pandemic could exacerbate inequality between firms and increase market concentration (CMA 2020). The increase in recent takeover activity, combined with weakened and highly indebted small firms, could be a harbinger of that.

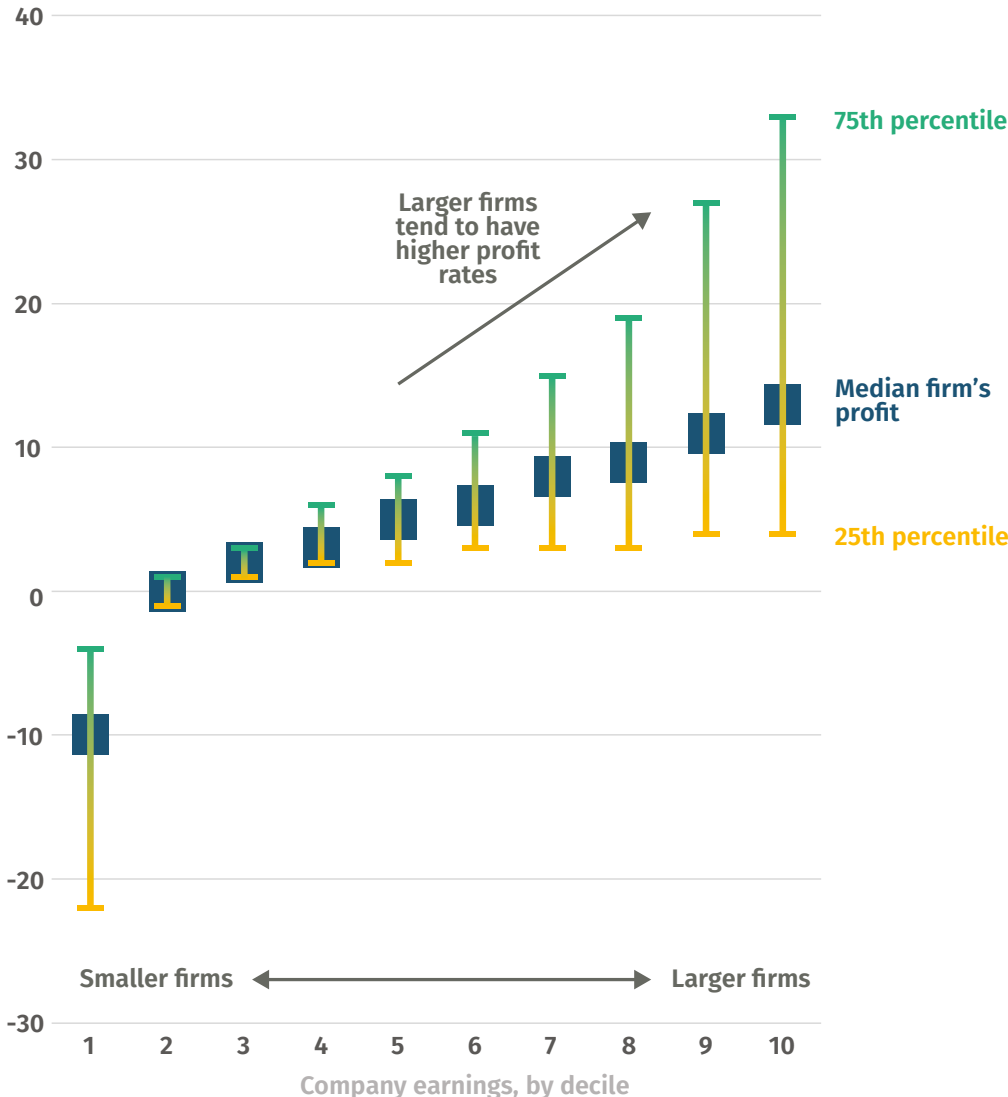
Figure 2.3 shows that higher profits margins indeed tended to be higher for bigger firms (as measured as the size of their revenues). But this was not uniformly so: some sectors with large businesses do have tight competition while in others regulation keeps market power at bay. This indicates that competition is one solution to dominance, but it's not the only solution. Changes to ownership, governance, and regulation can also be used to tame sectors that are extractive and unbalanced.

Indeed, competition when conceived of too narrowly or within a rigid ‘free market’ context can also facilitate the kinds of extractive business practices we seek to avoid. Competition has to be conceived of more widely than solely prices and should include the wider interests of consumers, suppliers and entrepreneurs, alongside taxpayers, workers and the wider public value of innovation (CEJ 2018). More competition may be good for some sectors but there are also areas which are simply not large enough to support effective competition (aerospace is a classic example of this) or natural monopolies make this impossible (Christophers 2020).

FIGURE 2.3

Larger firms tend to charge higher profit margins

Profit margins in 2019 for UK-based firms (median, 25th and 75th percentiles) by decile of earnings before interest, taxes, depreciation, and amortization (EBITDA)



Note: The figure is based on a sample of 41,793 UK-headquartered firms, with turnover over £10 million. The data only includes firms that have profit margins and turnover data listed.

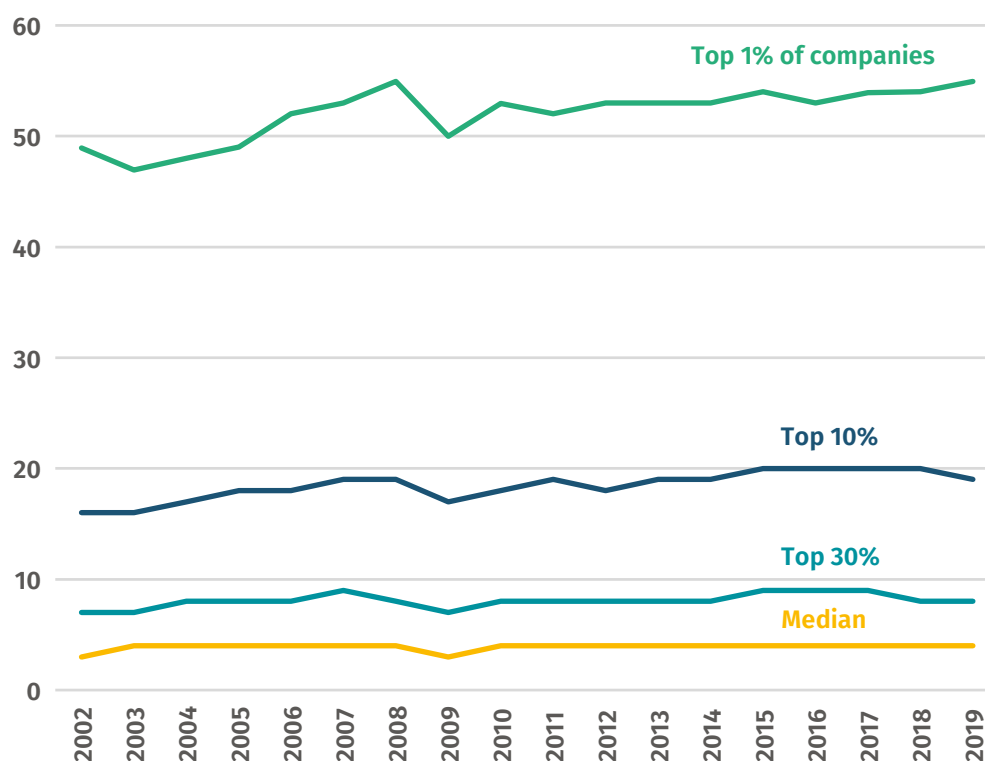
Source: IPPR analysis of Bureau van Dijk (2021)

In the UK, several sectors of the economy are dominated by large firms that are able to operate not by competing to be the best in a certain area but because they have risen to prominence purely through ownership of scarce assets (Christophers 2020). This form of economic concentration and asset-sweating is known as *rentierism*. Brett Christophers argues that these trends are particularly stark in this country: “in the UK today, the leading corporations are largely rentiers, and the biggest sectors of the economy are largely characterized by rentier dynamics” (ibid). Eight in 10 of the major consumer markets are highly concentrated (Corfe and Ghicheva 2017). Six energy companies share 82 per cent of the retail energy market. Four supermarkets have 69 per cent of the grocery trade. Five banks have 85 per cent of retail bank accounts. The increase in market power and profits itself is concentrated in an often small number of dominant firms across industries that are able to eclipse any competition (CMA 2020). Figure 2.4 shows how that there is a small group of firms that is able to persistently charge significantly higher profit margins than most other firms,⁷ which could be driven by their market power.

FIGURE 2.4

Profit margins for the largest and most dominant firms have risen over the past two decades

Profit margins for top 1 per cent, 10 per cent and 30 per cent, and median firms in the UK



Note: The figure is based on a sample of 9,105 UK-headquartered firms, with turnover over £10 million for whom profit margins were reported for every year in the series.

Source: IPPR analysis of Bureau van Dijk (2021)

7 There is some change over time in the composition of the group of firms with very high margins.



REWARD INVESTMENT, PREVENT EXTRACTION

We need to rebalance power in the corporate sector to favour companies that work in the interests of society. It is time to tilt the playing field in favour of companies working to solve the challenges we face, such as the climate and nature crises, and away from those who extract value from the public.



To do this we propose the following.

A pandemic excess profits tax on profiteering from the pandemic

- **We propose a one-off ‘windfall’ tax on firms who reported an excess increase in profits in the financial year 2020/21.** We need to ensure that those companies who made enormous profits because of their market positions during the pandemic pay their fair share for the recovery and don’t gain an unfair and permanent advantage. Covid-19 has affected different types of business in different ways, often meaning larger businesses (and their shareholders) making excess profits and widening the gap between them and competitors. Tech firms in particular because of the nature of social distancing have been able to consolidate their dominant market positions. This excess profits tax could be calculated based on either a firms’ profits above average incomes in previous years (Bangham et al 2020), or profits above a given rate of return on a firm’s investments. This is far from unprecedented. The Thatcher government in 1981 imposed a similar windfall tax on banks who profited during a recession, and Labour levied a windfall tax on recently privatised utilities in 1997. Excess profit taxes were levied during the first and second world wars in Britain to prevent profiteering.⁸ Given the fact that large multinational corporations are able to shift their profits overseas (Dibb et al 2021), the pandemic profits tax should include provisions to ensure that it captures the profits generated in the UK.



Learn from the vaccine: steering business towards success

- **Government should create new partnerships with business to achieve ‘moon-shot’ missions.** The state can direct and steer economic actors – including businesses – towards desirable outcomes (Mazzucato and Willetts 2019, Mazzucato and Dibb 2019). The development of the Covid-19 vaccine by Oxford University and AstraZeneca shows the potential of this approach. By offering funding, a procurement guarantee, and coordination, the public sector supported investment and innovation in the private sector (Balawejder et al 2021). We need to take the same approach by setting big new missions including achieving net zero and creating better health by tackling mental ill-health, cancer and dementia.
- **Government should introduce a new ‘good business’ charter with incentives for businesses to help achieve these missions.** Government spends £284 billion a year on buying goods and services from external suppliers – a third of all public expenditure and 14 per cent of GDP (Davies et al 2018). That should be spent with companies that work in the best interests of society, not simply at the cheapest provider. Government wastes funds when it spends money with companies who work against government policy or shift profits overseas. It should use its purchasing power to drive up environmental and labour standards and support ‘levelling up’. Public procurement should reward businesses that: pay workers the real living wage; have environmentally sustainable practices; and invest and contribute to their local communities.

8 In 1939 the tax was set at 60 per cent of excess profits and was raised to 100 per cent in 1942.

3





TO

**THOSE WHO
ARE LOCKED**

OUT OF WEALTH

FROM

**A SYSTEM THAT
HAS LOCKED**

UP WEALTH

The Covid-19 pandemic has had a profound effect on wealth and wealth inequalities. Those on low incomes were more likely to be made unemployed or put on furlough during the pandemic than those on high-incomes (see chapter 2). By contrast those on high incomes were not only at a lower risk of unemployment, but actually benefitted financially as a result of being able to work from home. As a result, one-third of households in the lowest income quartile reported a drop in savings, whilst almost half of households in the highest income quintile saw their savings grow (Leslie and Shah 2021). While house prices fell during previous recessions, average UK house prices are now close to 10 per cent higher than before the pandemic (ibid).

The pandemic has dealt those on high incomes and with wealth an incredible cash bonus, whilst poor households struggle. Between February 2020 and May 2021, those in the wealthiest decile saw their wealth increase on average by £44,000, compared to those in the poorest three deciles who saw their collective wealth decline or not grow at all (ibid). Whilst many feared for their jobs and livelihoods, the very richest in society gained through increases in asset prices, notably property and financial investments in sectors that benefitted from the pandemic. Sunday Times Rich List recorded 171 billionaires in the UK today, increasing 24 since last year in the biggest jump ever seen (Watts 2021). Between May 2020 and 2021, the combined wealth of those billionaires grew nearly 22 per cent to £597 billion (ibid).



**Those on low incomes were
more likely to be made
unemployed or put on furlough**



Wealth inequality and its causes

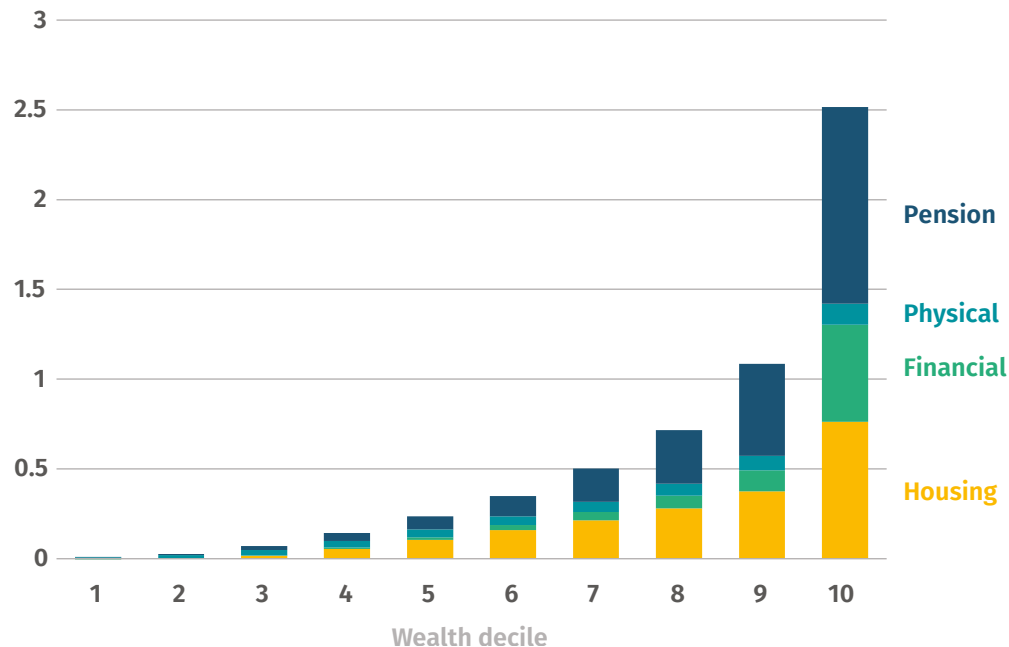
Growing wealth inequality is not new: the pandemic has just exacerbated a pre-existing problem. Prior to the pandemic, two-thirds of the UK's wealth was owned by just 20 per cent of the population (figure 3.1). The richest 1 per cent alone are estimated to own 23 per cent of total wealth (Advani, Bangham and Leslie 2020). By contrast, 15 per cent of adults have no or negative wealth (this means they owe more than they own). This gives them no security. They have no resources set aside for a 'rainy day' and many are forced to borrow, often at exorbitant interest rates, in order to get by.

Wealth inequality is often discussed between generations because every generation since the post war 'baby boomers' has had less wealth than the generation before them at the same age (CEJ 2018). But wealth inequalities reflect the wider cleavages present within our society. For example, the median wealth of people from White British backgrounds is about nine times that of people from Black African backgrounds and about five times that of people from Bangladeshi backgrounds ONS (2020b). Wealth is also divided along gender lines (Prospect 2020), and those in the South East have more than twice the wealth as those in the North East (CEJ 2018).

FIGURE 3.1

Before the pandemic, the wealthiest 20 per cent of households owned two-thirds of total wealth in the UK

£ millions of average wealth by decile and category of wealth, April 2016 to March 2018



Source: ONS (2019b)

Wealth inequality dynamics

Wealth inequality is so challenging because wealth begets even more wealth. In the UK today, the assets of the 'haves' grow fast, accumulating more wealth. The returns on wealth made by those who already own large fortunes tend to be significantly higher than those who own more modest wealth. This is a clear power dynamic: those not on the 'wealth ladder' are powerless and locked out, unable to benefit from a system that guarantees accumulating wealth for those already have it.

The causes of this dynamic are many and complex – but are in large part the result of economic policy choices our governments have made. For example, our tax system favours people who earn their income from capital over those that earn it from work (Nanda and Parkes 2019). Similarly, our monetary policy since the 2007/08 financial crisis, based on quantitative easing and ultra-low interest rates to stimulate economic growth, has had a similar impact, by pushing up valuations ranging from stocks to houses (Bank of England 2012). Those gains went primarily to those who were already wealthy, further increasing wealth inequality and putting asset ownership further out of reach for the propertyless.

This all matters because ownership and wealth have profound effects on people's lives. Wealth determines life chances and feelings of security, enabling those who have to weather unexpected life events. Wealth confers opportunity, as those who start their adult life with some wealth have better life outcomes in employment, earnings, physical and mental health, and even political agency (CEJ 2018). Because wealth is often inherited, inequalities in wealth are probably the biggest barrier to social mobility. But, perhaps most importantly, growing wealth inequalities are locking people out of key aspects of the 'good life', notably access to high quality and secure housing.

Wealth inequality locks out people from home ownership

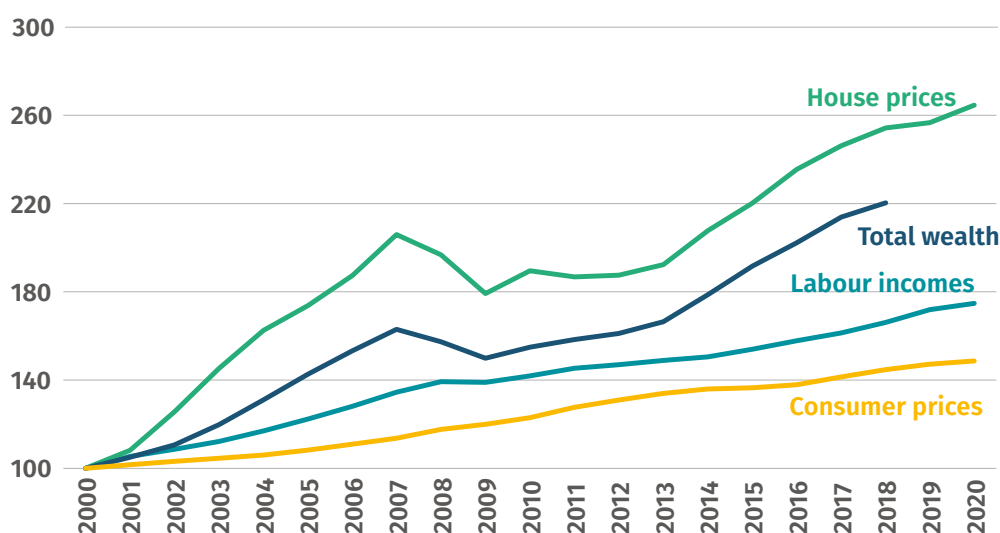
Whilst housing and house-prices do not represent the entirety of wealth – pensions, investments, and physical wealth matter too – the impacts of housing inequality are particularly visible and illustrate the manifest unfairness of those locked out of the system.

Housing prices have risen 50 per cent faster than labour income over the last two decades (figure 3.2). This has made it increasingly difficult to get on the housing ladder for those depending on labour income and who do not have existing or inherited wealth. With house prices reaching record peaks, those already owning one or several homes are benefitting, while those without wealth and on low incomes are effectively locked out of the housing market, more so than ever before.

During the pandemic UK house prices saw their biggest increase since 2004. **Between June 2020 and 2021 the average house price increased by £31,000 (ONS 2021f), approximately the same as the average UK salary of £31,461 (ONS 2021a).** During the peak years of the property price boom in the UK (2014 and 2017), the picture was even more stark. For example, between August 2013 and August 2014 an average London house increased in value by £69,011 (ONS 2021e), more than double the average salary at the time.

FIGURE 3.2

Wealth has risen much faster than labour income over the last two decades
Increase compared to levels in 2000 (2000 = 100)



Note: Total wealth refers to market value national wealth. House prices and labour incomes relate to Great Britain

Source: IPPR analysis of ONS (2021i, 2021j), WID (2021) and OECD (2021)

Getting on the housing ladder is now harder than ever. The average house price in the 1960s was around 2.5 times the average income, whereas today it is greater than five times the average income. Even for those that do make it on the property ladder, the picture is not rosy, with a greater proportion of earnings over a lifetime spent on housing. Also, as IPPR has previously demonstrated, rising housing costs for those on low incomes has been a primary driver of increasing rates of poverty for those in work (McNeil et al 2021). Housing costs for private tenants have risen by almost half (48 per cent) in real terms over 25 years resulting in a group of poor working families helping to grow the wealth of a rentier class of private property

owners. These property owners are also receiving at least £11.1 billion in state spending on housing support annually (ibid).

The result is that many people are locked out of the housing market (figure 3.3). The proportion of people not owning their home has more than doubled for all but the 65 years and older age groups. Four out of 10 young people aged between 25 and 34 do not own the home they live in. Only about 25 per cent of young people own their home – the lowest proportion since the beginning of data collection in the 1960s. While about 67 per cent of people of white and 72 per cent of Indian backgrounds own their homes, only 30 per cent of black people do.

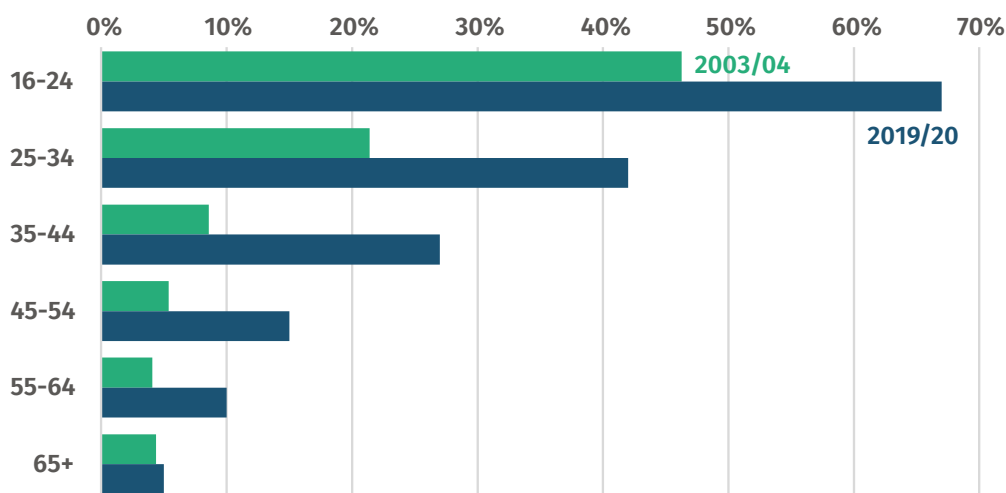
“ **The average house price increased by £31,000, approximately the same as the average UK salary** ”

The pandemic is likely to have made these inequalities worse. During the pandemic, the UK and devolved governments protected house prices by providing a boost to the property market. In England and Northern Ireland this was in the form of a stamp duty holiday, while Scottish and Welsh governments reduced the threshold on their land transaction tax. Specific protections were also offered to homeowners with guaranteed mortgage holidays with no equivalent policy to protect renters. Polling during the first wave of the pandemic found that six in 10 renters across the UK suffered financially because of the crisis. Of these, one in five were forced to choose between rent and food or bills, and one in four had felt compelled to leave their homes (Gayle 2020).

FIGURE 3.3

The proportion of private renters has more than doubled for many age groups, with very high rates for the young

Per cent of age group renting privately



Source: IPPR analysis of MHCLG (2020)

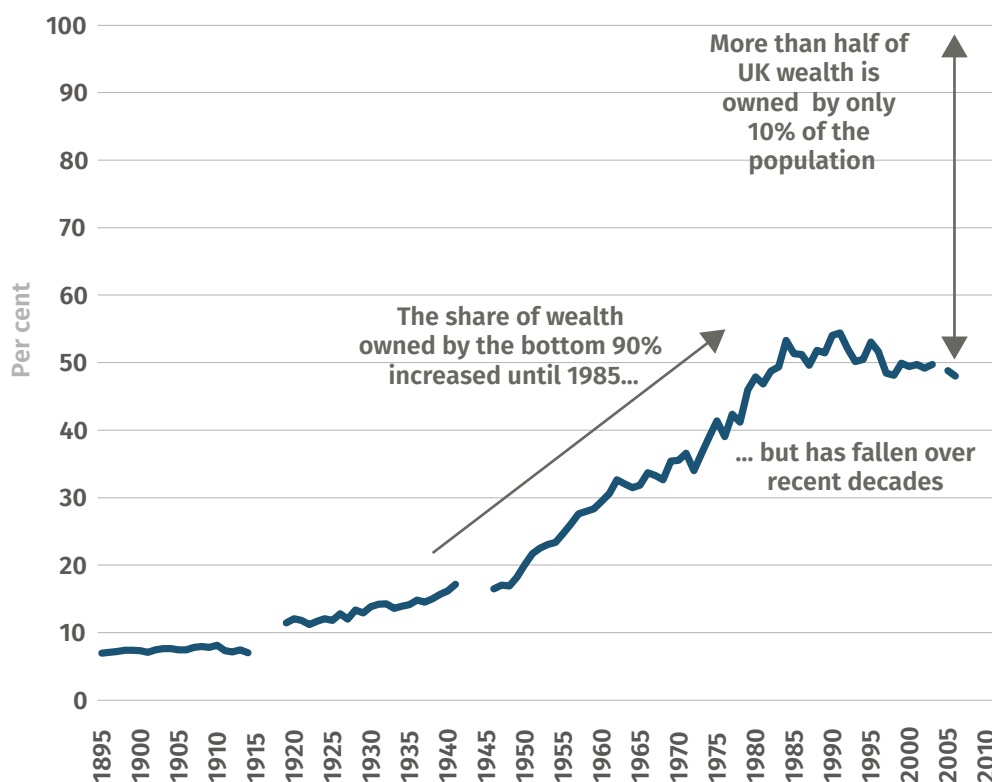
There is an alternative

While it may seem obvious to some that those who own the most assets see the biggest gains in wealth, this has not always been the case. Over the 20th century, a range of macroeconomic factors combined with strongly redistributive policies meant that for the first time in history wealth ownership became widespread, and wealth inequality fell (Piketty 2014). The share that the bottom 90 per cent of households own in national wealth increased from a less than 10 per cent at the beginning of the century to 53 per cent prior to 1980s (figure 3.4). But since the 1980s, inequality has been rising again in almost all developed economies. As the rate of return on financial assets and property has exceeded the growth rate of economies as a whole, those with greater wealth have pulled even further ahead of those dependent primarily on their earnings from work. We must take inspiration from the period in which wealth inequality *fell* to ensure that the 2020s is the decade when wealth and opportunity is once again growing and shared amongst the majority of people in the UK.

FIGURE 3.4

The share of wealth of the bottom 90 per cent increased sharply over the 20th century but began to fall again in the 1980s

Share of net personal wealth of the bottom 90 per cent



Source: IPPR analysis of WID (2020)

A TURNING POINT: SHARING IN THE RECOVERY

Tackling wealth inequality is a huge challenge. The problem is systemic in nature, and the types of assets that make up wealth are varied. Solving this problem will require a wide range of interventions and there is no single ‘magic bullet’. But we believe that if we are to ‘build back better’ we need to make the pandemic a turning point for wealth inequality in the UK.

To do this we propose the following.



Giving everyone a share in the recovery

- **The government should create a Citizens’ Wealth Fund, a sovereign wealth fund to invest in strategic sectors.** If monetary and fiscal policy are stimulating the growth and recovery in the post-pandemic economy, everyone should share equally in the benefits of that growth. We propose establishing a Citizens’ Wealth Fund⁹ that would offer long-term finance to firms in the form of equity investment (Lawrence and Mason 2017). Wealth funds can invest actively or passively, for example the government of Singapore operates both types; Temasek (active) and GIC (passive). This fund could invest actively, or at least part-actively, in sectors as part of a wider economic strategy (see page 31). This fund could be capitalised through an excess profits tax.
- **The returns from the Citizens’ Wealth Fund could be used to introduce a ‘universal inheritance’.** This could take the form of investment in shared, universal services that reduce the need for wealth, like house-building for first-time buyers. Alternatively, one option advocated by the Commission on Economic Justice (2018) is a lump-sum dividend provided to every young person in the country upon turning 25. This would spread wealth across the economy and support every young person – not just those with inherited wealth – in their future.



Housing as a right, not a privilege

- **Government should make a commitment to make secure housing available to all.** Solving the housing crisis so that everyone has access to a safe and secure home should be one of the government’s top priorities. **Making sure that homes do not become investment assets is a key part of this commitment.** For too many, housing is unaffordable; rents are too high and getting on the housing ladder is out of reach. Delivering on this commitment will require three interventions in particular.
 - Firstly, policies to moderate the cost of housing and ensure it better reflects local factors (such as average local income) and new models of intervention to increase the supply of housing.
 - Secondly, policies to moderate the price rises for housing as an asset, including reforms to property and land tax (Roberts, Blakeley and Murphy 2018).
 - Finally, monetary policy must address the role of quantitative easing in concentrating wealth ownership through boosting house prices and asset prices in general (Stirling 2018). The Bank of England’s Financial Policy Committee (FPC) should be given a house price inflation target of zero growth above or below the level justified by real activity effected through macro-prudential tools. This would aim to curb house price bubbles and speculative activity that locks out people from housing.

⁹ Over 70 governments around the world have sovereign wealth funds, including those of Norway, Australia, France, New Zealand, Ireland, Singapore and nine US states.

4





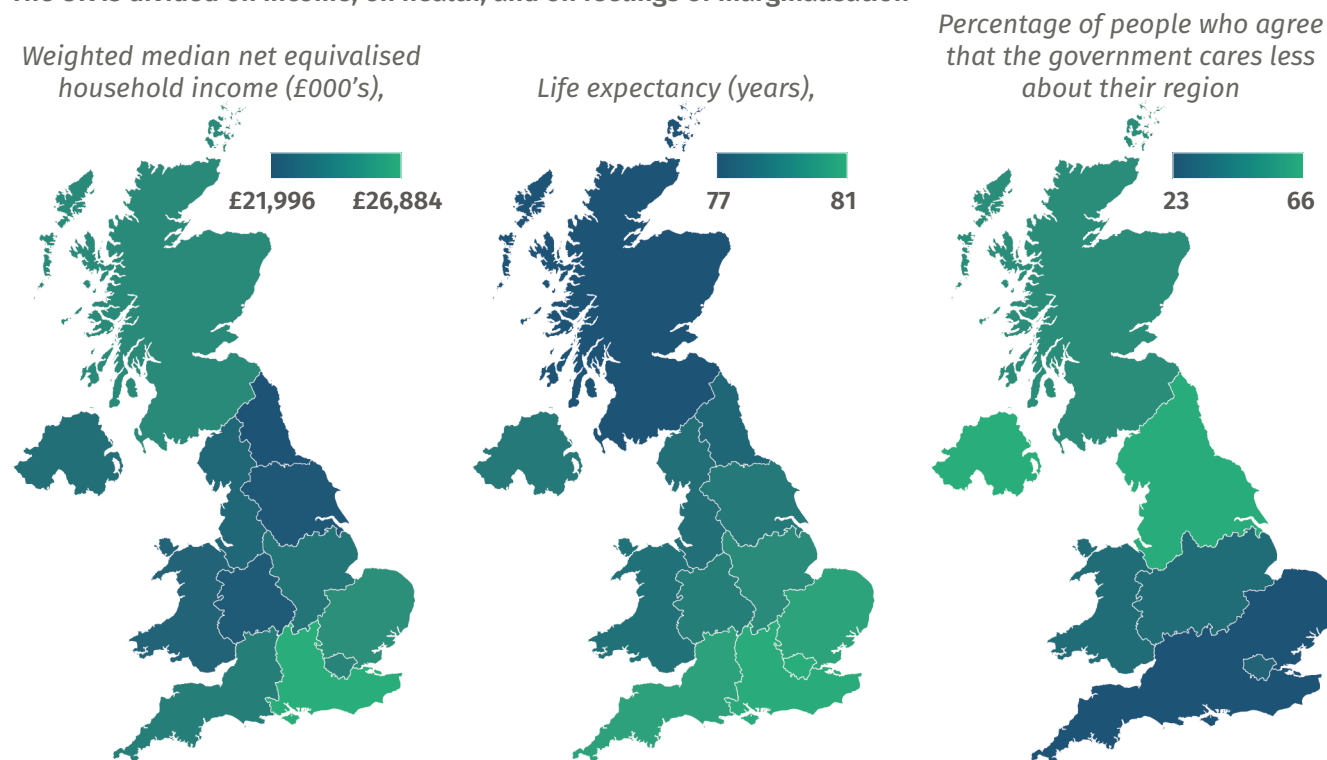
**TO
NATIONS,
REGIONS
AND TOWNS
OF THE UK**

**FROM
WHITEHALL**

The Covid-19 pandemic had devastating impacts across the country – but some places have suffered more than others. The pandemic has disproportionately affected those areas with higher levels of economic deprivation, hit hardest by austerity over the last decade, and with the highest levels of health inequalities. Whilst there is no simple story to tell of North vs South, England vs devolved nations, or urban vs countryside, what is clear is that the UK is grossly unequal, and the pandemic has further exacerbated these inequalities. There are risks that the same inequalities in health, education, investment, and productivity that meant we went into the pandemic unprepared, will also cause the recovery to be unequal.

FIGURE 4.1

The UK is divided on income, on health, and on feelings of marginalisation



Source: DWP (2021), ONS (2020c) and Jennings et al (2021)

PLACES THROUGH THE PANDEMIC

To understand the different impacts of the pandemic, we have to look at geographical inequalities across three separate dimensions; the dynamics of the spread of the virus itself; the measures taken to restrict the spread of the virus and its effect on jobs; and the resilience of places and their ability to bounce back from the pandemic.

The virus

Deprived areas have suffered significantly higher rates of infection and mortality during the pandemic (Rose et al 2020). Death rates in the first wave of the pandemic in the most deprived areas in the UK were more than double those in the least deprived tenth of areas (Blundell et al 2020) and were substantially higher across the 'Northern Powerhouse' regions than the rest of England (Bambra et al 2020). In post-industrial areas, rates of confirmed Covid-19 infections were 10-20 per cent higher and the cumulative death-toll 30 per cent above the UK average (Beatty et al 2020). These inequalities are true for both the first and second wave of the pandemic (Griffith et al 2021).

Death rates are higher in more deprived areas for all diseases, but the dependence for COVID-19 deaths has been considerably worse (Blundell et al 2020). The burden of poverty and chronic disease, unevenly distributed between places and social groups, meant the UK was unusually poorly prepared for a pandemic (Horton 2020). Increased susceptibility to Covid-19 may relate to other geographical inequalities such as pre-existing rates of chronic stress, smoking, obesity, and nutritional deficiencies (Rose et al 2020). COVID-19 may also have spread more quickly in these places because of an inability to work from home or proximity in living to elderly relatives upon whom they rely for childcare (Dorling & Davey-Smith 2020).

Lockdowns and jobs

As a result of the higher rates of infection (and in the views of some, the biases of politicians and policy makers in Westminster) areas of the north of England were put under the strictest 'tier 3' lockdown measures for the longest time (Johns et al 2020). As a result, these regions have been hit harder by the economic and social impacts of the pandemic (ibid). Areas particularly reliant on tourism or hospitality were harder hit by lockdowns and some of the industries that have been especially affected by government restrictions and changing consumer preferences, such as aviation, are also geographically concentrated (Davenport and Zaranko 2020). Greater London and South East England have the highest potential for remote working (OECD 2020, Costa Dias et al 2020), with 70 per cent of people who live in Richmond-on-Thames working from home during the first wave, while only 14 per cent of people living in Middlesbrough did.

Ability to recover

The same inequalities that made the effects of Covid-19 so unequal, also mean that some of the places worst affected by the pandemic are also the least able to recover. The linked health and jobs crisis, compounded by geographical inequalities in skills and investment, mean the pandemic risks exacerbating pre-existing divisions (Johns et al 2020, Davenport and Zaranko 2020) as some of the most deprived areas are where new jobs will be slowest to appear (Blundell et al 2021). Deprived town centres are the most fragile and are now further threatened by the boost to online commerce. (ibid)

Early signs of recovery are not encouraging. Sixty per cent of small businesses in Scotland and 59 per cent in the North East, North West and Yorkshire and Humberside felt positive about the UK's economic outlook, in comparison with 71 per cent in London and the South East (Wearden 2021). The recovery in consumer spending has been weakest in the North East and Scotland (with almost no year-on-year growth) with the Midlands, Wales doing only marginally better. The strongest recovery has been in the South and the home counties surrounding London (Gathergood et al 2021). Places that were in the tightest restrictions (tier 3) have experienced a much slower recovery in year-on-year spending, compared with the rest of the country (ibid).

The intrinsically interconnected nature of individuals' health and the economy (Thomas, Round and Longlands 2020) mean there is a significant risk that some of the challenges of the pandemic may be self-propagating. Health, economic and educational disadvantage come together in pockets of severe deprivation and vulnerability (Blundell et al 2020). Health underpins our economy in a fundamental way; productivity, growth and labour market participation are all closely linked to health and wellbeing. Bambra et al (2020) found that 'economic and health inequalities between the north of England and the rest of the country are, without significant intervention, likely to worsen for subsequent generations.'

It's clear that any plan to 'build back better' from the pandemic has to target the underlying economic drivers that manifest this geographical inequality.

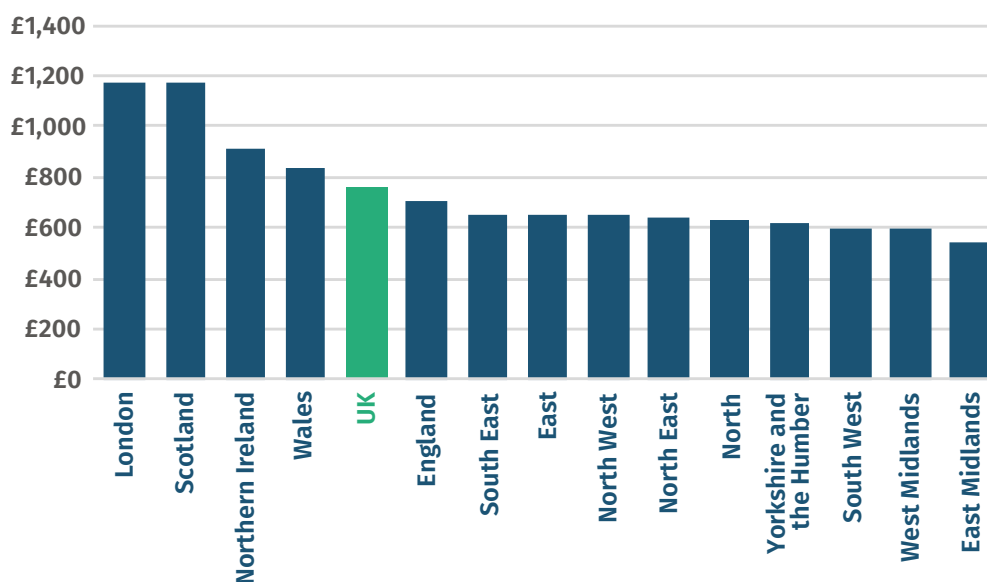
TRENDS IN GEOGRAPHICAL INEQUALITY BEFORE THE PANDEMIC

Whatever the metric used, the UK stands out as one of the most economically unequal countries when compared to similar nations. Be it productivity, disposable income, or unemployment, there are few developed countries with similar geographic inequalities (Raikes et al 2019). In 2018 London was the richest region in Northern Europe, but the UK was also home to six of the 10 poorest regions in the continent (CEJ 2018). Incomes in the North West, North East, West Midlands, Wales and the South East are more than 30 per cent lower than in London and the South East (ibid). These inequalities underpin the health inequalities – and in turn – the economic inequalities we have seen during the pandemic.

These inequalities cannot be separated from the fact that the UK has one of the most fiscally centralised systems in the world. The vast majority of economic decision-making is controlled from Westminster and Whitehall. In England, this means control over taxation and spending, as well as wider policymaking such as labour market policies, transport planning, and investment decisions are controlled from London. The result is vastly less spending in these areas – spending on economic affairs¹⁰ is £541 per person less in the North than it is in London – but also decisions which do not work for local communities.

FIGURE 4.2

Spending on economic affairs is £541 per person less in the north than in London
Spending on economic affairs per person, five-year average to 2018/19 (real terms 2018/19 prices)



Source: HM Treasury (2019)

These power imbalances are less pronounced in the devolved nations of Northern Ireland, Scotland and Wales compared to within England as a result of a policy of devolution under the New Labour government. However, many important powers in relation to shaping economy strategy remain reserved to Westminster,

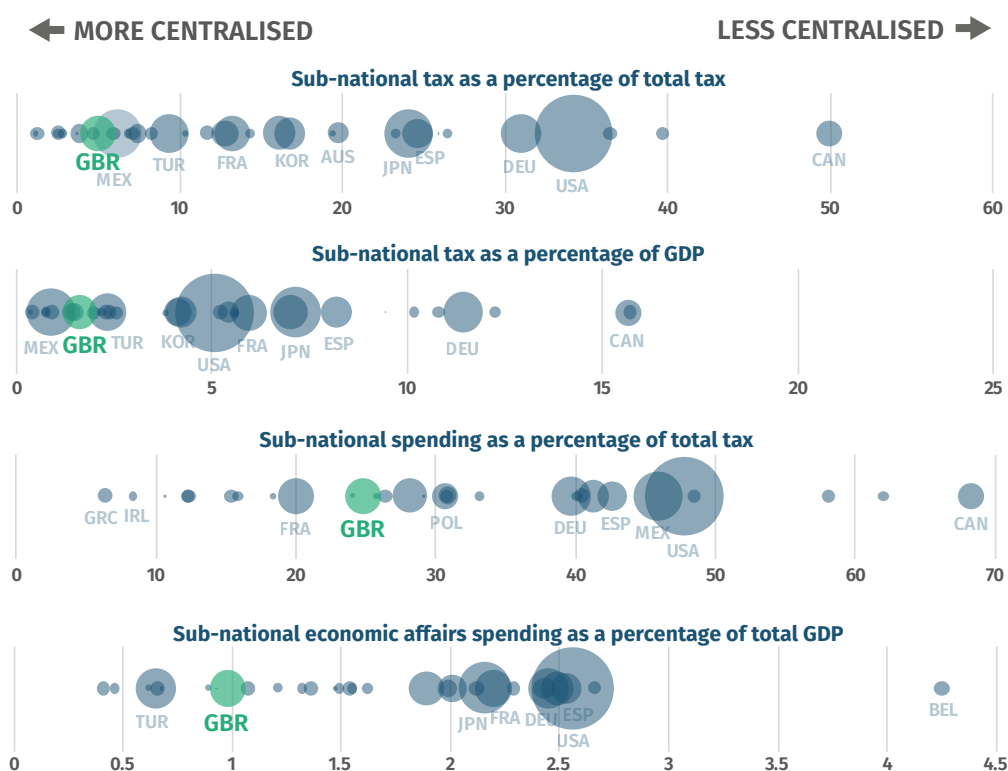
¹⁰ A national statistic encompassing public expenditure on enterprise and economic development, science and technology, employment policies, agriculture and food, and transport (HM Treasury 2019)

in particular to the Treasury. The Treasury is a finance ministry, not an economic development ministry, and as such it has sought to prioritise net aggregate growth and tax revenue rather than regional economic development (Berry et al 2016). Austerity cuts to local government funding dealt a blow to local public capacity for policymaking, further consolidating power in Whitehall (Raikes 2020). In England, attempts to address these power imbalances have been even more inadequate. The limited and piecemeal devolution processes that has taken place falls well short of passing down the powers and investment needed to reform our broken economic model – with most areas still not benefiting from even these arrangements. The reality is that the government is not taking the devolution agenda seriously.

FIGURE 4.3

The UK is the most fiscally centralised of comparable nations

Various measures of fiscal centralisation (bubble area = country population)



Source: Authors analysis of OECD (2019a, 2019b, 2019c, and 2019d)

Moreover, for several decades national policymaking has intentionally neglected the place-based consequences of economic policies. Since the late 1980s the UK's economic growth strategy has been based disproportionately on the growth of financial services in the City of London, whilst industrial and manufacturing sectors across the rest of the country were put into managed decline. This shift was linked to a flawed underlying economic orthodoxy where 'if a job in a factory in Luton was replaced by a higher-paid job in a bank in Canary Wharf, the net effect on social welfare was positive. These models had no room for the importance of place, identity and community, or the simple fact that most people affected by deindustrialisation were not in a position to benefit from these new jobs.' (Berry 2021)

MISSED OPPORTUNITIES

Because of these divides in decision-making power, we are missing opportunities *today* to remedy economic imbalances, to create the jobs of the future, and to help decarbonise our society. Unless we address this problem, we risk the economic recovery from Covid-19 being equally unbalanced. This would be in direct opposition to Boris Johnson's promise to 'level up'. The transition to net zero and to a cleaner, healthier future presents one of the biggest opportunities to create high-quality jobs in history (IPPR Environmental Justice Commission 2021). There is an opportunity to empower places to take advantage of this transition to not only recover economically, but to 'build back better'.

Analysis from the IPPR EJC suggests that the transition to net zero could create approximately 1.68 million jobs by 2035, 780,000 direct jobs and 905,000 indirect jobs in sectors for clean products and services. These indirect jobs figures can provide a useful estimate of the ripple effects of investment into low-carbon technologies. For example, in electric vehicle (EV) manufacturing and charging infrastructure, job creation would not only involve manufacturing and assembly of EVs and charging points but would also create jobs in the manufacturing of components for EVs like batteries (Unsworth et al 2020). IPPR have previously shown that jobs created as a consequence of decarbonising our economy and protecting our natural environments outnumber those lost as a consequence of the pandemic in all four nations of the UK (Jung and Murphy 2020)

Communities are often better able to understand the assets and opportunities available within their area (Webb et al 2021) yet are not empowered in decision making over the direction of their local economy. The UK government envisions a future in which the country grasps new high-tech growth opportunities (HMT 2021), yet investment in science, innovation, and R&D is heavily skewed towards the South East (Forth and Jones 2020). This must now change.

THE POLITICS OF GEOGRAPHICAL INEQUALITY

The inequalities across the UK – and the lack of devolution to regions and communities across the UK – is starting to play out in our politics. People do not believe that their voices are being heard and feel disempowered. This is not a distinctly regional phenomena: only one-quarter of people in England (27 per cent) said they felt they could influence decisions affecting their local area (DCMS 2020). More than twice as many British people say they 'almost never' trust governments than trust them 'most of the time' (34 per cent compared to 15 per cent, Curtice et al 2020). But the evidence is clear that the further you are from Westminster, the most likely you are to feel marginalised by it (figure 4.1) (Jennings et al 2021).

Citizens' juries in the IPPR Environmental Justice Commission reported that citizens want to be better informed of opportunities to engage in democratic processes beyond the ballot box, and that they want more control over the decisions that affect them (IPPR Environmental Justice Commission 2021). That desire manifested perhaps more strongly in the Brexit referendum than anywhere else. The Leave campaign's slogan of 'take back control' had such political salience because it spoke to a sense that a small elite shape society and to 'a deep-seated feeling that people have lost control of their lives, their communities, politics and the economy' (Berry 2020).



FROM WHITEHALL TO THE TOWN HALL

We need to rebalance the UK economy to share prosperity more widely and to seize opportunities of creating green jobs across the whole country. To do this we need to shift decision-making power from Whitehall to the regions, cities, towns, and communities of the country. This will also need a fair funding settlement in England that gives investment powers to places, rather than making them bid for levelling up funds from Westminster.

To do this we propose the following.



Take control: give places and people real decision-making power

- Government should end the centralisation of investment decisions being made in Westminster and give communities decision-making powers for tax and borrowing (Reeves 2018). This should include a range of policy areas, from transport to housing, from enterprise support to high streets. Local leaders should give citizens themselves real power over these decisions by experimenting with new forms of economic democracy such as participatory budgeting¹¹ and community ownership of local assets. People could be able to directly vote online to maximise participation on how some investment in their local area is spent, shaping their economy.



'Level up' investment

- **The government should commit to matching London's levels of investment spending across England distributed by a fair formula.** It's recently been proposed that levelling up the UK will take an effort approximate to the £2 trillion cost of German unification (Halliday 2021). Spending on infrastructure like transport and economic innovation such as R&D is inequitably distributed across the country. The government has committed to addressing this but has not committed the necessary level of spending. Furthermore, existing pots of funding such as the levelling up fund require areas to bid against other areas to the Treasury to secure resources. This results in a lack of transparency over investment decisions and a risk that they are seen to be being made for political reasons (Bounds and Smith 2021). We propose to replace and properly fund existing pots of funding with a fair formula determining allocations to cities and regions in England.

11 See, for example Decidim, a digital platform used for participatory democracy and budgeting by the Barcelona city government and other governments around the world: <https://decidim.org/>.

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