WEALTH INEQUALITY AND THE GROWTH MISSION

Briefing note for parliamentarians | December 2024

FAIRNESS FOUNDATION

SUMMARY: Wealth inequality is a barrier to the government's Plan for Change and especially its growth mission. This briefing sets out how and why this is and what the government can do about it.

The gap between the wealthiest and the rest of us is getting worse

Rising wealth has created large gaps between those with wealth and those without it; the wealth gap presents a growing risk to the UK

- While relative wealth inequality has remained stable (the richest 10% still own about 60% of the nation's wealth) over recent decades, the absolute wealth gap has widened dramatically. Soaring asset prices have triggered a massive surge in UK private wealth. Combined with stark disparities in asset ownership, this has led to the absolute gap in wealth between the top 10% and the bottom half of the population growing by nearly 50% between 2011 and 2019. This gap also drives and magnifies other forms of inequality, especially regional divides.

If we want wealth creation, then we need to tackle wealth inequality

Wealth inequality is bad for growth and productivity

- Contrary to the orthodox view that inequality is necessary for a dynamic economy, growing evidence suggests that inequality, especially wealth inequality, has significantly undermined the UK's economic potential, and will continue to do so in the future.

Wealth inequality subverts competition and investment

- Over the past few decades, most UK industries have become more concentrated, stifling competition. At the same time, the UK's corporate governance system, which prioritizes shareholder interests and executive compensation over long-term growth, has led to low investment levels (the lowest among G7 countries).

Wealth inequality distorts the housing market, and weakens the rest of the economy

- The UK disproportionately favours mortgage lending over business loans compared to similar countries. This imbalance fuels passive housing market appreciation, creating a self-reinforcing cycle. Consequently, more productive sectors that could boost long-term growth struggle for financing. Additionally, rising house prices and rents, driven by this lending bias, erode consumer spending power in other sectors as more income is diverted to housing costs.

Wealth inequality obstructs the supply of talent, ideas and capital

- The UK's stratified education system blocks talent and innovation, preventing the financially disadvantaged from reaching their full potential and contributing effectively to the economy. Uneven capital distribution, especially across regions, limits entrepreneurial efforts, hindering new enterprise development and innovation.

Solutions that spread wealth will also stimulate growth

There are a number of ways to both reduce the level of wealth inequality in the UK and improve growth

- Significant structural flaws in current taxes on wealth discourage investment. Addressing these issues, like aligning capital gains tax rates with those on employment income, could eliminate distortions and promote productive investment.

- Demand side banking reforms would help break the cycle of increasing house prices and wealth concentration. Adjusting capital requirements to favour business lending over mortgages, or reintroducing credit guidance policies to channel funds into productive sectors, would curb speculative property investment while fostering business growth and innovation.

- Reforming infrastructure appraisal methods would allow for investment in less productive regions, unlocking future growth. As would mechanisms like public wealth funds that ensure that income-generating assets are shared more equitably.

The public aren't aware of the full scale of wealth inequality

Public awareness of wealth inequality and its impact on growth is limited

- People have an intuitive sense that wealth inequality is getting worse and is unfair in terms of both its causes and its consequences – even if the true extent of wealth inequality and its impacts on our economy, society and democracy is not widely recognised.

Attitudes are likely to harden as the impacts of wealth inequality become increasingly obvious

- The large and very unequally distributed transfer of inherited wealth that is set to take place over the coming decades will dramatically increase the size of the wealth gap. This will likely undermine popular justifications of wealth being the result of skill or effort.

SUGGESTED PARLIAMENTARY QUESTIONS

- How does the government assess the impacts of wealth inequality on its growth mission, and what specific measures are being considered to address these impacts, to ensure inclusive growth?
- What recent discussions has the government had on the relationship between wealth inequality and its Plan for Change, particularly in relation to its growth mission?

MORE INFORMATION ABOUT WEALTH INEQUALITY

- We published a *Wealth Gap Risk Register* on Tuesday 15 October, with a webinar featuring Liam Byrne MP, Sonia Sodha of the Observer and Graham Hobson of the Patriotic Millionaires.
- You can read the *Wealth Gap Risk Register* online at https://fairnessfoundation.com/risks, including interactive data visualisations, or download a PDF version of the full report or the executive summary.

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