GENERAL SYNOD

Background Paper: Leeds Diocesan Synod Motion on the Wealth Gap

Introduction

1. The motion refers to the **Wealth** Gap between rich and poor. Wealth is usually defined as people's assets – savings, other financial assets, housing equity, and pension rights. The "wealth gap" may also refer here to other forms of economic inequality, including income inequality and pay differentials. The scope of this paper reflects this wider view of economic inequality.
2. The most common measure of economic inequality is income inequality, usually measured on a household basis and looking at all the money received from employment and investments, as well as state benefits and pensions, net of taxation.
3. The UK has a very high level of **income** inequality compared to most other developed countries – lower than in the US, but significantly higher than other major European countries. The UK's **wealth** distribution is roughly average compared to other OECD countries.
4. This paper explores some of the key statistics about economic inequality in the UK today. It considers some reasons why greater economic equality might be beneficial. It then goes on to consider some of the practical and ideological factors which affect the ability of governments to address the issues.

Wealth inequality – statistics

Summary:

- Overall income inequality is high compared to other countries and much higher than in the 1970s, though it has been broadly stable since the late 1980s (except at the very top of the distribution).
- Wealth is even more unequally distributed than income and has become more unequal since the mid-1980s (though is still considerably lower than at the end of WWII, let alone the Victorian period). The wealthiest 0.1% own as much wealth as the poorest 50%.
- Pay differentials at the very top are also very large and higher than 20 years ago, though have declined somewhat in recent years.
- Britain is highly unequal, but there is little evidence to support a contention that inequality has been growing and/or is higher than ever before.

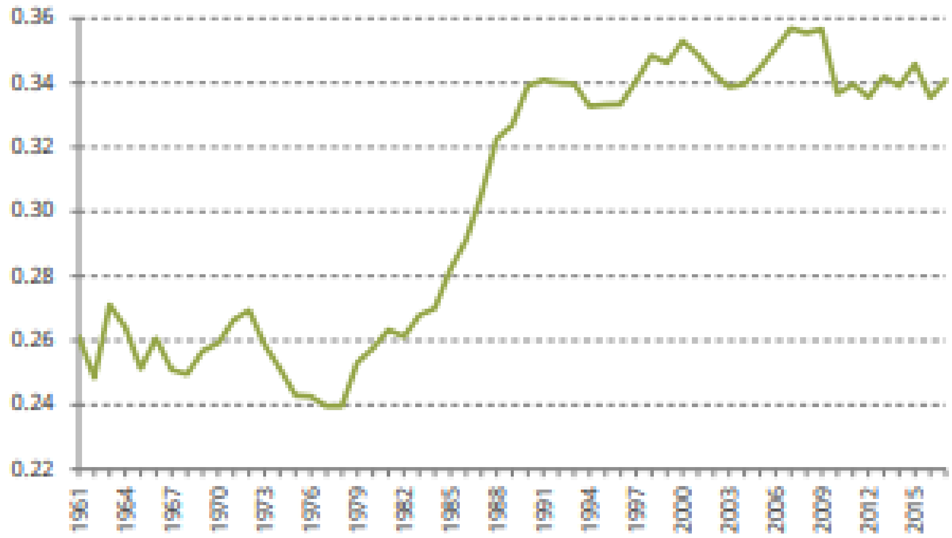
5. **These facts raise the question of why perceptions of growing inequality persist, when overall levels of income inequality have been broadly stable for around 30 years.** People may be more aware of inequality when their own earnings/incomes are stagnating or falling, as has happened over the last decade. Another possible reason is that wealth – as opposed to income - inequality has continued to rise and perhaps become a more important marker of economic well-being (not least in terms of declining home ownership). Income inequality at the very top of the income distribution – the top 1% or even the top 0.1% - has continued to rise until recently and receives

disproportionate media coverage compared to inequalities across the whole income distribution. Regional and intergenerational inequalities also play into this sense that inequality is growing.

6. According to the latest government statistics, the richest fifth of households receive more than eight times the income as the poorest fifth. **The poorest fifth of households received just 5% of all income in 2017/18, compared with 44% for the richest fifth** - and 29% for the richest 10%, which is more than the combined share for the poorest half of all households (25%).
7. On the strict definition of wealth (i.e. people's financial and other assets), Britain is more unequally divided than by income. **In 2016, the richest tenth of households hold 44% of all wealth, whilst the poorest 50% own just 9%.** The top 0.1% alone own 9% of all GB wealth.
8. Income inequality rose sharply in the 1980s and has remained broadly stable since then. On the most common aggregate measure of income inequality – the Gini coefficient – inequality is at the same level as in the late '80s, though substantially higher than in the 1970s (see graph). The financial crisis and subsequent recession had relatively little impact on overall levels of inequality.
9. **The income share of the very richest households – the top 1% - continued to rise in the 1990s and 2000s – up from around 3% in the late 1970s to 8% at the turn of the previous decade.** (Subsequent changes are difficult to interpret due to the effect of recent tax changes.)
10. Wealth inequality has increased significantly since the mid-1980s, having fallen steadily since the end of the previous century. Current levels of wealth inequality are still well below Victorian levels when the top 10% of households owned over 90% of all wealth.
11. **Pay disparities at the very top of the earnings distribution are very large, with FTSE 100 CEOs receiving more than 117 times more than the average worker**, according to the High Pay Centre's latest analysis in August 2019. It would take just three days for these chief executives to earn what the average worker earns in a year. CEO pay has fallen in recent years, though remains very high to the level of 20 years ago: http://highpaycentre.org/pubs/new-report-pay-for-ceos-of-uks-biggest-companies-falls-by-13
12. **84% of the population believe that the income gap in the UK is too large.** This proportion has remained relatively stable since the mid 1980s: https://www.equalitytrust.org.uk/what-do-people-think

GENERAL SYNOD

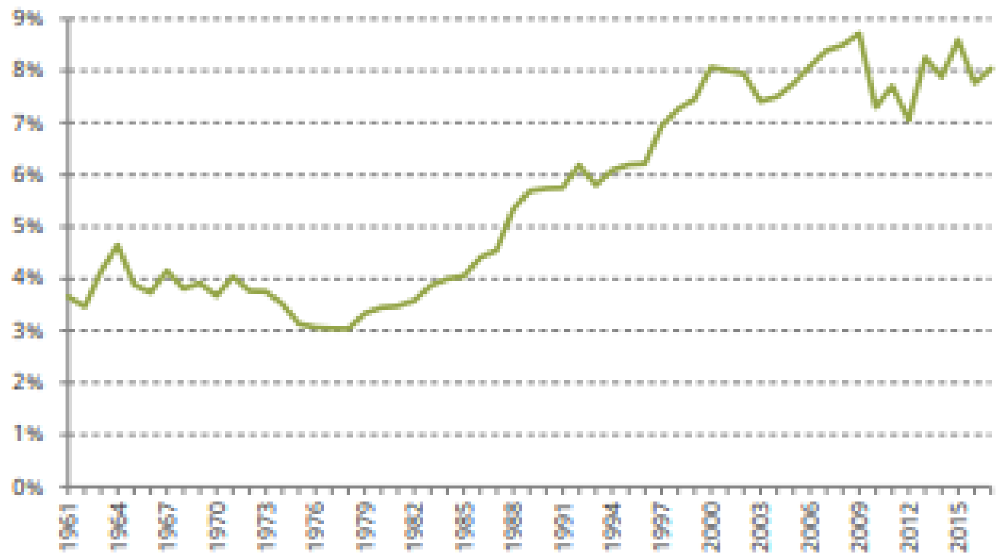
Changes in overall income inequality: 1961-2018 (as measured by the Gini coefficient)



Note: Years refer to calendar years up to and including 1992 and to financial years from 1993–94 onwards. Figures relate to UK households from 2002–03 onwards and to GB households for earlier years.

Source: Authors' calculations using the Family Expenditure Survey and Family Resources Survey, various years.

Changes in the Top 1%'s share of the income (GB): 1961-2018

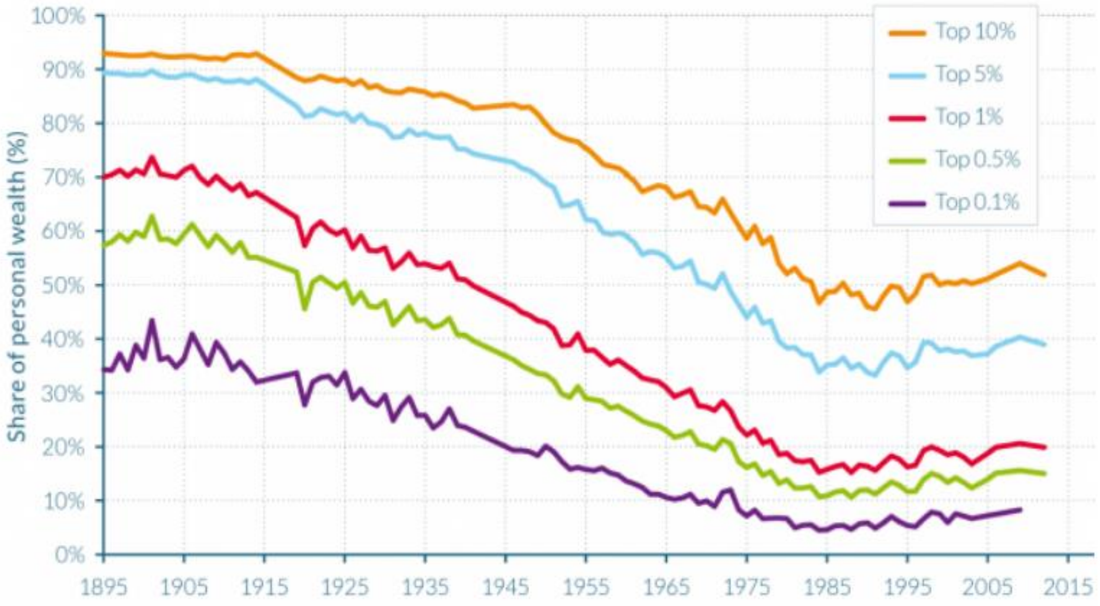


Note: Years refer to calendar years up to and including 1992 and to financial years from 1993–94 onwards.

Source: Authors' calculations using the Family Expenditure Survey and Family Resources Survey and a 'top incomes' adjustment using administrative tax data (see Appendix A), various years.

Changes in the wealth distribution: 1895-2015

GENERAL SYNOD



Source: Alvaredo, Atkinson and Morelli (2017). See wir2018.wid.world/methodology.html for data series and notes.
In 2013, the Top 10% owned 47% of personal wealth.

Benefits of Greater Equality

13. For many years, from the early 1980s, the dominant view amongst politicians and many economists was that economic inequality (relative poverty) was unimportant and that it was more important to address absolute poverty. This view gained traction across the political spectrum. Although there had always been dissenting views, the publication in 2009 of *The Spirit Level*, by two academics, Richard Wilkinson and Kate Pickett, helped popularise the economic and social arguments in favour of greater economic equality.[1]
14. Wilkinson and Pickett found that greater inequality is correlated with a range of negative social outcomes, including lower life expectancy, poorer health and lower happiness. Countries that are more unequal have higher rates of teenage pregnancy, violence, obesity, imprisonment and addiction.
15. *The Spirit Level* was not without critics who questioned both its statistical methodology and its political conclusions. Not all such critiques were subject to rigorous peer review in the way that Wilkinson and Pickett's research had been. However, the debate about the reliability of their findings has continued.
16. In 2011, the Joseph Rowntree Foundation commissioned a review of the literature on the social impact of inequality with particular reference to *The Spirit Level*. It concluded that there was a strong correlation between inequality and health and social problems, but that more research was needed to establish whether this effect is independent of other factors.[2] It is a fundamental statistical principle that correlation does not imply causation.

[1] Wilkinson R. and Pickett K. *The Spirit Level: Why More Equal Societies Almost Always Do Better*, Allen Lane, 2009.
[2] 'Does income inequality cause health and social problems?', http://www.jrf.org.uk/publications/income-inequality-health-social-problems

GENERAL SYNOD

Addressing Economic Inequality

17. Behind the economic and political focus on absolute, rather than relative, poverty lay the concerns of the Cold War and the stark contrast between the command economies in the Soviet bloc and the economic liberalism of the West. Thinkers like Friedrich Hayek came strongly into vogue.[3]
18. For Hayek, attempts to secure specific economic outcomes through taxation and other interventions constituted an assault on freedom. This was because, in a plural society, there was unlikely to be widespread agreement about what constituted economic and social justice – and so interventions would always reflect the views of whichever social group had access to power. Rather, the operation of the market delivered distributional outcomes that were neither moral nor immoral since market outcomes are neither consciously willed nor the result of identifiable human agency. The market therefore embodied freedom over against sectional interest and, if it led to greater inequality, that was not a moral matter.
19. In the 1980s, Prof Raymond Plant worked with the Church of England to help the church understand the moral nature of the then government's economic project, and to understand how it might be critiqued.[4] But it remains that, thirty years later and after the end of the Cold War, that kind of market-based economics is still the orthodox position among most of the world's economic thinkers. Those who want to challenge that orthodoxy and argue that the inequality generated by market economics is "immoral", have to show that Hayek and his followers were wrong in arguing that distributional outcomes are neither moral nor immoral.
20. Challenges to current levels of economic inequality must also give an account of how, and how far, economic freedoms are to be traded off against socially beneficial outcomes. Who will decide what an acceptable level of inequality might be? How will the politics surrounding the inevitable "winners and losers" play out in a democracy? How do economic incentives work in a global marketplace? As noted, 84% of the population believes that the current income gap is too wide. It is less clear whether that support for change translates into support for particular policies that might narrow the gap.
21. Despite the growth of alternative economic theories and ideologies, especially since the 2008 crash, it is not clear that arguments for greater intervention on questions of distributional justice have gained strong political traction, although support for new interventionist approaches may be growing.

The Current Political Context

22. Having won in a number of hard-pressed and marginalised communities at the 2019 General Election, the Conservative administration will be looking

[3] For example: F A Hayek, *The Road to Serfdom*, Routledge & Keegan Paul, 1962 (originally pub. 1944)
[4] See: Raymond Plant and others, "Conservative Capitalism: Theological and Moral Challenges" in (ed. Anthony Harvey, *Theology in the City*, SPCK, 1989.

hard at the needs of those places. Questions of improving economic equality are likely to be “in play” in ways we have not experienced in recent decades.

23. A good deal has been made of the government’s “Levelling Up” agenda, although the substantive content remains somewhat vague. Large-scale infrastructure developments have figured in some of the rhetoric, but these may not be the most effective ways to address inequality.
24. Considering wealth inequality in the broadest sense, the gap could be narrowed through action in numerous fields – housing policy, pensions policy, the ways that public assets are shared in society, and so on. Action on these fronts may be politically easier than attempts to close the income gap, given the difficulty of holding an informed debate across society about the role of taxation, although developments in Minimum/Living Wage legislation should also be watched for.
25. It should also be borne in mind that the discontents in some hard-pressed communities are only partly about wealth disparities and include a general sense of having been forgotten and ignored. Policies which demonstrate that these communities are valued and that their voices are genuinely being heard, should form part of any “levelling up” process.
26. The Mission and Public Affairs team continues to monitor government policy and to assess areas where the church should be supportive or critical, given the Christian commitment to the flourishing of individuals, families and neighbourhoods and the desire to balance the virtues of social cohesion with the importance of human freedoms. MPA is currently collecting data on the contribution churches make to “levelling up” and exploring how best to engage with the government’s agendas as they emerge.

The Church and the Wealth Gap

27. The 20% most deprived parishes receive approx. £4.50 per capita in ordained ministry spending, compared to the least deprived 20% receiving £7.50 in ordained ministry spending. Lower investment results in lower attendance and giving in more deprived areas, creating a feedback loop of downward pressure on sustainable investment in these areas. The national church has funding streams aimed at alleviating some of this disparity. To date, Strategic Development Funding (SDF) programmes have invested £56m in deprived areas and in 2020 Lowest Income Communities Funding (LInC) provided £26.3m for ministry in deprived parishes. However as these remain a small part of the overall church economy, there remains significant work to do in this area.

William Nye LVO
Secretary General
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