

A WEALTH OF OPPORTUNITIES

A centre-right prospectus for spreading wealth



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Edited by Thomas Nurcombe
and Ryan Shorthouse

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We fund research, campaigning and policy work to improve the living standards and personal finances of people struggling to make ends meet.

We believe in collaboration, working with our partners to make the UK a more financially fair place for people on low-to-middle incomes.

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Design: Chris Solomons

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Contributors do not necessarily agree with the arguments and ideas expressed by other authors, and the views expressed in the essays are those of the authors, not necessarily those of Bright Blue or abrdn Financial Fairness Trust.

FOREWORD

The Rt Hon Sir Sajid Javid MP

This is a country of enterprise and innovation, freedom and democracy. We have a history to be proud of and a future to look forward to.

But we also face significant challenges. A global pandemic and a war in Europe have caused unique pressures. At the same time, they have also exposed deep-rooted problems in our economy and society.

Serious remedies are required, but at the same time, the scope for providing them is narrowing. For decades, the UK has been sleepwalking into a big state, high tax, low growth social democratic style model. This risks us becoming a middle-income economy by the 2030s, with subsequent consequences for wealth creation and equity.

The Conservative mission is to extend freedom, prosperity and opportunity to all. Central to this are the ideals of decency, personal responsibility and social justice. However, without a compelling centre-right vision on spreading wealth, we risk creating a generation that turns its back on the politicians who failed them. A generation that, without any capital of its own, becomes resentful of capitalism and capitalists.

The centre-right now faces a critical question: Can we build a free enterprise, free trading, faster-growing economy whilst also spreading wealth and strengthening community bonds? The answer must be yes.

We need a plan for Britain over the next decade which has freedom and opportunity for all people and places at its heart – delivering a revolution in economic prosperity and social mobility.

Kickstarting an increase in the trend rate of growth is the starting point.

But only through fundamental reform can we ensure it is sustainable and long-lasting. This is why the case for accessing and benefiting from wealth creation is so important to this mission.

“ We risk creating a generation that turns its back on the politicians who failed them. A generation that, without any capital of its own, becomes resentful of capitalism and capitalists ”

At the same time, we know stronger families and communities are built when people possess an active stake in society. The wealth and health of the nation are therefore fundamentally connected, and this extends to broader policy areas, including social cohesion, well-being and happiness.

The Prime Minister has recognised this and set out a long-term plan to transform the economy, particularly in sectors with high-growth potential. At the next General Election, we must put forward a vision that will make our country fairer, stronger and more united. This issue of wealth creation and equity will be essential to that.

The best days of our country are ahead of us. But it requires us to build the foundations of success today. Many ideas in this important collection can help be part of securing that future.

The Rt Hon Sir Sajid Javid MP is the former Chancellor of the Exchequer. He was also previously Secretary of State for Health and Social Care, the Home Secretary, the Secretary of State for Housing, Communities and Local Government, the Secretary of State for Business, Innovation and Skills and the Secretary of State for Culture, Media and Sport. He was elected as the Conservative MP for Bromsgrove in 2010.

INTRODUCTION

Ryan Shorthouse and Thomas Nurcombe

Britain is in trouble. The luck of birth rather than effort at work is becoming more important in determining life outcomes. This country is becoming an inheritocracy rather than a meritocracy.

For those from the wealthiest fifth of households, inheritances are forecast to make up 17% of lifetime income for those born in the 1960s, rising to 30% of lifetime income for those born in the 1980s.¹ Meanwhile, ordinary working families are facing rising prices and the highest tax burden in decades. Unlike those who are affluent, they cannot really fall back on the safety net of *inter vivos* transfers and inheritances.²

Those fortunate to receive financial support through gifts and inheritances are given proven advantages in education and employment. The American political scientist Professor Robert Putnam argued that family wealth is a type of “informal insurance” which allows those with more affluent parents to take more risks for greater reward.³ Indeed, it is estimated that almost 20% of business start-ups relied on parental funding, 10% on money from grandparents and 14% from a family trust.⁴

There is nothing wrong, of course, with building wealth and passing it on to those you love. It is something to be saluted. But there is a

1. Arun Advani and David Sturrock, “Reforming inheritance tax”, <https://ifs.org.uk/sites/default/files/2023-09/Reforming-inheritance-tax-1.pdf> (2023), 1

2. *Ibid.*, 9

3. Liam Byrne, *The Inequality of Wealth: Why it Matters and How to Fix it* (London: Head of Zeus, 2024), 65.

4. Anna Wise, “Two fifths of UK business owners have parents who are founders – survey”, *The Independent*, 4 January, 2024, <https://www.independent.co.uk/money/two-fifths-of-uk-business-owners-have-parents-who-are-founders-survey-b2472956.html>.

problem when wealth inequality is at the extent it is today. It creates a circumstance where people from modest backgrounds are deprived of the opportunities to achieve meaningful social mobility and security. Back in 1910, the former US President Teddy Roosevelt argued “ruin in its worst form is inevitable if our national life brings us nothing better than swollen fortunes for the few.”⁵

Personal wealth – which the Office for National Statistics identified as the stock of all financial and physical assets a person owns, including property and private pensions – is at rather substantial levels in this country. Indeed, household wealth has risen as a proportion of GDP from 300% during the 1960s to almost 700% today.⁶

Wealth provides a number of benefits: a cushion to fall back on in hard times, or the ability to take risky decisions and investments that yield long-term benefits, or to have much greater control over monthly incomes and outgoings.

A radical centre-right prospectus should want to see the total wealth in this country better shared across the population, so the benefits of wealth can flow to a wider group of people. In essence, a mission to open up the opportunities that wealth brings, rather than penalising those who have it.

The levels of wealth inequality in contemporary Britain mean there is a strong case for some redistribution of wealth, however. Traditionally, it has been the political left that has made this argument, while the centre-right has shied away from bold thinking or reforms on wealth.

Considering the profound implications of wealth for equity and efficiency, there is an urgent need for new centre-right attention on – and policies to address – wealth inadequacy and inequality.

Indeed, there ought to be a unique and strong centre-right case for celebrating wealth – specifically, the acquisition of it and ensuring more people from modest incomes can access and benefit from it. Instead of

5. Theodore Roosevelt, “New nationalism speech”, 31 August 1910, <https://obamawhitehouse.archives.gov/blog/2011/12/06/archives-president-teddy-roosevelts-new-nationalism-speech>.

6. Sam Robinson and Ryan Shorthouse, “A vision for tax reform in the 2020s”, <https://www.brightblue.org.uk/a-vision-for-tax-reform-in-the-2020s-2/> (2022).

wasting political capital and fiscal resources on cutting Inheritance Tax – which only helps people who already have lots of wealth – the focus should be on bold policies to help those with no or little wealth better obtain it and then leverage it.

This collection of essays from leading decision makers and opinion formers from different political and professional backgrounds offers a fresh and radical centre-right vision for wealth: supporting those from modest backgrounds by lowering the barriers to acquiring assets, empowering people to leverage their assets effectively, sharing wealth and helping people to draw down their assets safely.

Contributors may not necessarily agree with others in this essay collection. Yet, they form a powerful coalition arguing for change.

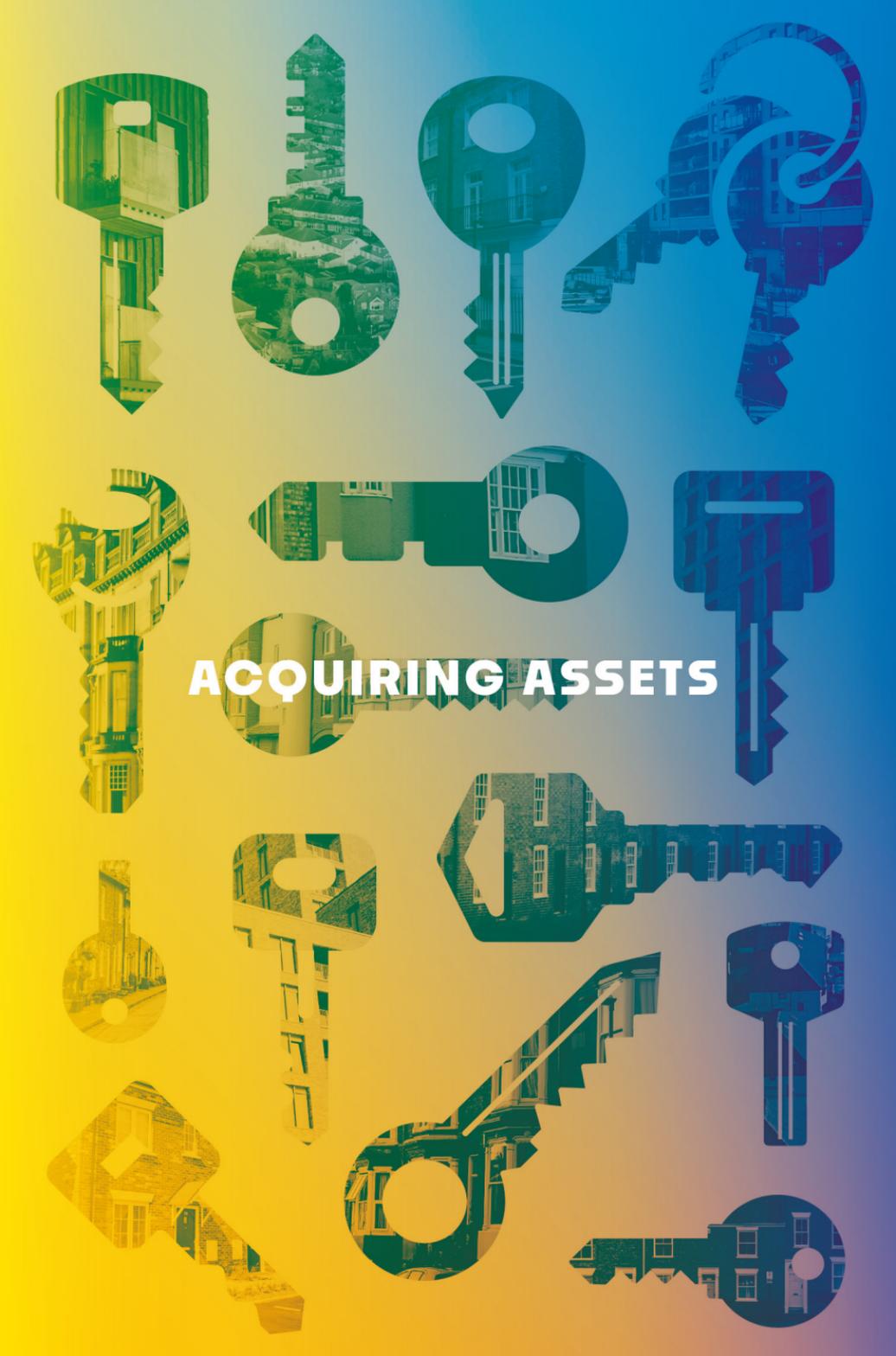
We see this book as a first step to developing a prospectus that can capture public imagination and support for reforming wealth. The challenges we face will not be solved overnight. Bold steps are needed. This book is simply the start.

The American writer F. Scott Fitzgerald wrote: “Let me tell you about the very rich. They are different from you and me.”⁷ Indeed they are. Time for more ordinary folks, working day in and day out to achieve a better life for themselves and their family, to finally have some of the privileges the rich have long enjoyed.

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7. F. Scott Fitzgerald, “The rich boy”, <https://gutenberg.net.au/fsf/THE-RICH-BOY.html> (1926).



ACQUIRING ASSETS

PASSING ON WIDELY

The case for a citizen capital grant

The Rt Hon Lord David Willetts

Two big trends are reshaping the British political economy. First, the rising value of assets. And second, the state is revolving around pensioners. These together pose a substantial burden to younger generations. This makes the case for a citizen capital grant.

First, the value of assets has risen from three times the national income thirty years ago to seven times the national income now.⁸ As such, assets matter much more than they ever did before. However, they are also distributed much less evenly than incomes. With no change in the distribution of either, the overall effect is to make our country feel less equitable.

Acquiring a house or building up a decent pension out of earnings is harder so inheritance matters more. This rise in the significance of wealth has particularly benefitted older people who own most of it. Indeed, of the £5.9 trillion increase in total household wealth between 2006-08 and 2018-20, around 40% went to cohorts born in 1956-65 and 33% to those born in 1966-75.⁹

These gains by older generations are reinforced by a second big trend: the state is being reshaped to favour the old. Benefits for young people are cut and for pensioners are boosted. The NHS particularly provides services for older people and it takes an ever greater share of public spending. This is the opposite of our personal choices – the working-age

8. Resolution Foundation, "An intergenerational audit for the UK: 2023", <https://www.resolutionfoundation.org/app/uploads/2023/11/An-intergenerational-audit-for-the-UK-2023.pdf> (2023), 11.

9. *Ibid.*, 55

generation devotes less time to caring for older people and more to child care. We are socialising old age and privatising youth.

“ A citizen’s inheritance would double the net wealth of over half of young adults. And this money could be worth far more out of the South East – it is indeed a levelling up policy ”

Those on the centre-right have historically believed in a property-owning democracy. That has been promoted with bold and generous initiatives to promote access to assets, such as council houses, and spreading share ownership through privatisation. Now property ownership amongst young people is in decline and we need to give it a fresh boost. Our research at Resolution shows that homeownership rates for individuals aged 30-34 dropped by 20 percentage points between 1986 and 2021. Meanwhile, rates increased by 48 percentage points among those aged 75-79.¹⁰ That is the difference between a cohort that received real help in obtaining home ownership and one that is not presented with the same luxury.

The surge in property wealth amongst older people carries on. The typical person in their early 60s in 2018-20 had nearly £170,000 more wealth than their counterparts of the same age in 2006-08 but the typical person in their late 30s in 2018-20 had almost £30,000 less wealth than those of the same age in 2006-08.¹¹

The Resolution Foundation’s Intergenerational Commission, which I chaired, therefore proposed a £10,000 capital grant for every young person.¹² They could receive it at perhaps age twenty-five or thirty – the age at which, in the 1980s, most young people were getting onto the property ladder.¹³ The grants would be placed in government-approved

10. Ibid., 48.

11. Ibid., 12.

12. Resolution Foundation, “A new generational contract: the final report of the Intergenerational Commission”, <https://www.resolutionfoundation.org/app/uploads/2018/05/A-New-Generational-Contract-Full-PDF.pdf> (2018).

13. Patrick Collinson, “Collapse in number of young homeowners revealed”, *The Guardian*, 22 January, 2015, <https://www.theguardian.com/money/2015/jan/22/collapse-homeownership-property-own-report>.

interest-bearing savings accounts and could be spent at a time of a recipient's choosing on any combination of four permitted uses: education and training, deposits for house rental or purchase, pension saving, or starting up a new business. It would cover 40% of the average first-time buyer's home deposit and more than 50% of the average first-time buyer deposit in half of the regions and nations of the UK.¹⁴

“ Assets matter much more than they ever did before. However, they are also distributed much less evenly than incomes. With no change in the distribution of either, the overall effect is to make our country feel less equitable ”

The number of people reaching the age of entitlement ranges between 700,000-800,000 per year, setting the cost to the Treasury between £7 billion and £8 billion per annum.¹⁵ This is a significant sum of money but less than 1% of public spending.¹⁶ Nevertheless, there are equitable ways of financing this. For instance, it could be financed by removing some of the exemptions from inheritance tax or restoring Nigel Lawson's 40% rate of Capital Gains Tax for higher-rate taxpayers, as recommended previously by Bright Blue.¹⁷

There is a logic to financing it out of measures on unearned income because these are low relative to taxes on earnings.¹⁸ For instance, tax on earned income can be twice as heavy as tax on unearned income.¹⁹ Someone earning £35,000 through work pays double the tax as someone who earns the same amount through rental income.²⁰

14. Resolution Foundation, "A new generational contract", 18.

15. *Ibid.*, 18.

16. Institute for Fiscal Studies, "What does the government spend money on?", <https://ifs.org.uk/taxlab/taxlab-key-questions/what-does-government-spend-money> (2023).

17. Sam Robinson and Ryan Shorthouse, "Rightfully rewarded: reforming taxes on work and wealth", <https://www.brightblue.org.uk/wp-content/uploads/2022/06/Rightfully-rewarded.pdf> (2022).

18. HM Government, "Capital Gains Tax: what you pay it on, rates and allowances", <https://www.gov.uk/capital-gains-tax/rates>.

19. Thomas Nurcombe, "Rather than scrapping them, the Tories should reform wealth taxes", <https://capx.co/rather-than-scrapping-them-the-tories-should-reform-wealth-taxes/> (2023).

20. Alec Haglund, "Play fair: equalising the taxation of earned and unearned income", https://www.if.org.uk/wp-content/uploads/2023/08/Play_Fair-Equalising_the_taxation_of_earned_and_unearned_income_FINAL.pdf (2023), 5.

The new capital grant would promote a ‘citizen’s inheritance’. It really is a modest sum compared with the latest shift in the distribution of income driven by higher interest rates. Total pre-tax interest income is likely to reach £60 billion in 2024–25 up from £5 billion in 2021–22. In the current setting, most of this will accrue to older people.²¹

One objection to all this is that we do not need it as young people are going to inherit all these assets anyway. The argument is that instead of using inheritance tax to help finance it we should be cutting inheritance tax so there is more for young people to inherit. It is indeed the case that the value of the total amount being inherited is doubling every twenty years. The IFS estimates that for individuals born in the 1980s average inheritances are estimated to be nearly twice as large relative to lifetime income compared with individuals born in the 1960s.²² However, the average age of inheritance is sixty-one so this money does not come through at the time it is most needed.²³

There is, of course, increasing generation-skipping with grandchildren benefitting but families have to be quite affluent to be able to do this. Gifts from parents to children made up 83% of the value of intergenerational wealth transfers, compared to just 3% from (great-)grandparents to grandchildren.²⁴ Moreover, half of the older generation’s wealth is in the form of pension rights and most of these are not heritable: the younger generation is unlikely ever to build up a pension asset like the defined benefit pension scheme.

This points to the other big problem of relying on inheritance. The millennials who are already wealthy are set to inherit more than four times as much as those with no property wealth. Almost half of 20- to 35-year-old non-homeowners do not have parents with any property wealth.²⁵ These trends are even more marked if you look not at individuals but at

21. Resolution Foundation, “An intergenerational audit for the UK”, 62.

22. Pascale Bourquin, Robert Joyce and David Sturrock, “Inheritances and inequalities within generations”, https://ifs.org.uk/sites/default/files/output_url_files/R173-Inheritances-and-inequality-within-generations.pdf (2020), 6.

23. Office for National Statistics, “Intergenerational transfers: the distribution of inheritances, gifts and loans, Great Britain: 2014 to 2016”, <https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/articles/intergenerationaltransfersdistributionofinheritancesgiftsandloans/2018-10-30> (2018).

24. Bee Boileau and David Sturrock, “Who gives wealth transfers to whom and when? Patterns in the giving and receiving of lifetime gifts and loans”, https://ifs.org.uk/sites/default/files/2023-02/Who%20gives%20wealth%20transfers%20to%20whom%20and%20when_1.pdf (2023), 2.

25. Resolution Foundation, “Millennials are set for an ‘inheritance boom’ but it won’t solve their home ownership and inequality woes”, <https://www.resolutionfoundation.org/press-releases/millennials-are-set-for-an-inheritance-boom-but-it-wont-solve-their-home-ownership-and-inequality-woes/> (2017).

households, as people tend to couple up with others expecting similar-scale inheritances to their own. The IFS has shown a very similar pattern with gifts to the younger generation: the lowest income fifth receives on average £30 per year, worth 0.5% of income during their 20s and early 30s whereas the highest income fifth receives £790 per year or 2.6% of income.²⁶ They are particularly concentrated on helping with home ownership.

When we first launched the proposal for a capital grant I got another challenge that £10,000 was not much and would not make any difference. That line of questioning actually revealed how serious the problem is. Well-paid commentators in the South East did not think £10,000 would help much. But actually, such an amount makes a big difference to many young people. A citizen's inheritance would double the net wealth of over half of young adults.²⁷ And this money could be worth far more out of the South East – it is indeed a levelling up policy.

This policy is not going to create a culture of sustained dependence on the state. If anything it is the opposite. A modest cushion of some assets actually helps people take some risk, helping them to start businesses and invest for long-term gains. One of the weaknesses of our economy is that self-employment and entrepreneurship are hereditary. One reason is that rich parents help out by guaranteeing loans or informally funding start-ups themselves. It is much harder if you do not have that kind of access to parental support.

There is a strong case for helping the younger generation to acquire assets and the capital grant is a practical and affordable way of doing it.

Lord David Willetts is President of the Resolution Foundation. A second version of his book *The Pinch: How Baby Boomers Took Their Children's Future – And Why They Should Give It Back* was published in 2019. He was the Minister for Universities and Science, Paymaster General and Lord Commissioner of the Treasury.

26. Boileau and Sturrock, "Who gives wealth transfers to whom and when?", 2.

27. NimbleFins, "Average household savings & wealth UK 2023", <https://www.nimblefins.co.uk/savings-accounts/average-household-savings-uk> (2023).

GETTING A FOOT IN THE DOOR

Helping more people onto the property ladder

Dr Gerard Lyons

The UK has a housing crisis. Addressing it needs to be a central focus for parliamentarians. The problems faced are somewhat similar for renters and also for those who wish to become first-time buyers: a combination of expense, not enough supply in the face of ever-rising demand and, sometimes, poor quality housing. Helping boost the rental market as well as helping first-time buyers should be complementary aims.

In the years before the 2008 financial crisis, first-time buyers were around one-third of all buyers. They accounted for over half of all buyers in 2022.²⁸ The number of first-time buyers averaged around 350,000 in the years immediately before the pandemic, dipped to 303,000 in 2020, then soared to a fifteen-year high of 408,000 in 2021 and reached 370,000 in 2022.²⁹

Such numbers may be testimony to success, aided by governmental schemes like Help to Buy, but the problem is still stark. The numbers should be higher, given population growth and housing demand. The average price paid last year by a first-time buyer was close to £246,000 across the UK and £467,000 in London.³⁰ Constraining supply feeds higher prices. Unsurprisingly, the average age of first-time buyers has

28. Damian Shepherd, "First-time buyers made up more than half of UK home purchases last year", *Bloomberg*, 3 January 2023, <https://www.bloomberg.com/news/articles/2023-01-03/first-time-buyers-made-up-over-half-of-uk-home-purchases-in-2022?leadSource=verify%20wall> (2023).

29. Statista, "Total number of first-time homebuyers in the United Kingdom (UK) from 2009 to 2022", <https://www.statista.com/statistics/557862/total-first-time-buyers-united-kingdom/> (2023)

30. Claire Flynn, "First-time buyer statistics and facts: 2023", <https://www.money.co.uk/mortgages/first-time-buyer-mortgages/statistics> (2023).

risen this century from 29 to close to 34.³¹

Addressing this crisis necessitates more supply. There are not enough properties: both new and the need to increase turnover among existing properties. Plus, the population has continued to soar, with immigration into the UK, and the attraction of the UK as an investment destination adding to property price pressures.

“ It is possible to have your rent count towards your credit score and this should be made compulsory so renters with good credit scores can access mortgages, even without a deposit ”

Reform of the planning system is crucial but currently appears impossible politically. There are additional barriers to building new homes, such as property developers who land bank, having permission to build without doing so.³²

Solving the housing crisis requires more than using brownfield sites. The idea that this alone can solve the shortage of housing is nonsense. We need to accept that parts of the green belt need to be built on, but transport infrastructure is often needed first, and this requires joined-up policy thinking.

New-builds need to be affordable and in places where people want to live, such as in London and the South East. Also, social changes have seen a shift in the type of housing required, to multiple units to suit first-time buyers: whether it be for a single person, couples with no children or single-parent households. Any rush to build more should not be at the expense of quality.³³

It is also not just about new properties but also the need to improve

31. Ibid.

32. Oliver Wainwright, "Britain has enough land to solve the housing crisis – it's just being hoarded", *The Guardian*, 31 January 2017, <https://www.theguardian.com/cities/2017/jan/31/britain-land-housing-crisis-developers-not-building-land-banking>.

33. House of Commons Library, "New-build housing: construction defects – issues and solutions (England)", <https://researchbriefings.files.parliament.uk/documents/CBP-7665/CBP-7665.pdf> (2022).

the use of existing properties by increasing turnover, which has fallen dramatically in recent decades.

It is not as if ideas are not forthcoming. For instance, the Government has proposed ‘street-votes’, whereby a majority of residents can vote on removing the need for planning permission for local developments, such as extensions. While these are not aimed at first-time buyers, it suggests there is scope to think innovatively about increasing the supply of living space. Indeed, there was an announcement in the 2023 Autumn Statement to make splitting a house into two flats easier.³⁴ Taxes that deter turnover are unwelcome. It would be a mistake to think that this is not relevant for first-time buyers, because it is zero for properties worth up to £250,000.³⁵ Stamp Duty has become a significant cost to the buyer and can deter people from moving or even downsizing.

Even if supply increases, it is important to ensure sufficient financing is available for those who wish to become first-time buyers. The Government should aim to remove regulations that hinder the market, while ensuring no systemic build-up of risk within the system as regulations are eased. This could include relaxing the constraints on high loan to income (LTI) mortgages. There may even be scope to ease prudential regulations that deter banks from high loan to value (LTV) lending. It should be a priority to remove hurdles that inhibit the ability of borrowers to access finance and allow the market to provide the greater flexibility that is needed by borrowers.

Even if prudential regulations are not changed, the capital markets have the solution with blended mortgages. Investors and more financial firms from across the globe that have different appetites for risk and maturity can join our high-street banks in providing mortgage funding. Retail banks like low-risk lending, pension funds prefer low-risk and long-term and investment banks like higher risk but shorter-term. If

34. Alexa Phillips, “‘One house, two flats’ planning revolution a ‘win-win for all generations’”, *The Telegraph*, 22 November 2023, <https://www.telegraph.co.uk/money/property/convert-house-flats-planning-landlords-first-time-buyers/> (2023).

35. HM Government, “Stamp Duty Land Tax”, <https://www.gov.uk/stamp-duty-land-tax>.

funding is blended from each of these parties, then mortgages can be matched to the borrowers' needs. There are enough lenders who will lend to UK buyers. People would still get their mortgages in the same way as now, without complexity, by going to one provider. But it is behind the scenes that all the innovation occurs. The blended mortgage provides more flexible and efficient mortgages for the borrower.

One approach is expanding a mortgage insurance scheme, aimed at sufficient insurance protection to encourage more lending to first-time buyers. It allows lenders to purchase a government guarantee for properties worth under £600,000 where the deposit is between 5% and 9%.³⁶ It can be viewed as protecting the lender from perceived credit risk while ensuring high-value mortgages are provided. Some suggest copying countries like Canada, with the cost of the insurance being passed onto the borrower. But this would make it even more costly for first-time buyers once they access finance. Perhaps leave it to the market, and not add a high-cost compulsory scheme. For now, the Government's Mortgage Guarantee Scheme – which aims to increase the supply of low-deposit mortgages – has just been extended.³⁷

The unambiguous losers of the lack of access to finance are those who are renting and who wish to become property owners. This even includes people who may have saved for a deposit but work in sectors the banks deem not stable enough to justify lending to – such as people in the arts or the creative sector. These are unfairly treated.

Or it may include people with a long history of paying rent, but who do not have funds for a deposit. One area is to facilitate the ability of people who cannot afford a deposit to access a mortgage. It is possible to have your rent count towards your credit score and this should be made compulsory so renters with good credit scores can access mortgages, even without a deposit. It should be a prelude to working with the market

36. HM Treasury, "The mortgage guarantee scheme: outline", https://assets.publishing.service.gov.uk/media/603cf9ece90e07055e595008/210301_Budget_Supplementary_Doc_-_mortgage_guarantee_scheme.pdf (2021).

37. HM Government, "The mortgage guarantee scheme", <https://www.gov.uk/government/publications/the-mortgage-guarantee-scheme> (2023).

to ensure the provision of 100% LTV mortgages to this group of potential buyers. Yet a 95% LTV is currently seen as a de facto limit and high LTV are often viewed as borrowings above 80%.

“ It should be a priority to remove hurdles that inhibit the ability of borrowers to access finance and allow the market to provide the greater flexibility that is needed by borrowers ”

If one views a property price of four times earnings as the threshold for affordability, the January 2023 Nationwide Affordability Report shows there are only 10% of local authorities where the average first-time buyer home is below this threshold.³⁸ In fact, the ratio of house prices to median earnings is 8.4 across the country and 13.9 in London, as of 2022.³⁹ This suggests facilitating current schemes where buyers initially own a part of the property makes sense. Across the UK, the average deposit paid by a first-time buyer in 2022 was £61,000.⁴⁰ The finances of raising a deposit have shifted and are a huge hurdle for first-time buyers. A deposit used to be equivalent to about 20% of annual income, based on the norm of raising a deposit of 5% of the purchase price at a time when properties cost four times average incomes. Now that deposit would need to be over 160% of a person's annual income, based on a more normal deposit of 20% and prices of eight or more times the average income.⁴¹

We have now moved away from a prolonged period of cheap money. Thus, mortgage payments have soared, adding to affordability problems. One aim should be to encourage longer-term fixed-rate mortgages to become more widespread, with a move to say twenty-year fixes with the ability to refinance, as in the US.

38. Nationwide, "Nationwide Building Society affordability report: mortgage rate rises add to affordability pressures", <https://www.nationwidehousepriceindex.co.uk/reports/nationwide-building-society-affordability-report-mortgage-rate-rises-add-to-affordability-pressures> (2023).

39. Office for National Statistics, "Housing Purchase Affordability, UK: 2022", <https://www.ons.gov.uk/peoplepopulationandcommunity/housing/bulletins/housingpurchaseaffordabilitygreatbritain/2022> (2023).

40. Flynn, "First-time buyer statistics and facts: 2023"

41. Nationwide, "Nationwide Building Society affordability report".

Addressing the UK's housing challenge needs to figure prominently. It is clearly of political importance, with the housing crisis felt most acutely by younger voters. Addressing it is also a vehicle for economic growth. The immediate issues are ensuring the market can provide finance for first-time buyers and more supply of affordable properties on a massive scale. A house-building boom is needed.

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HOW FAR DOES HARD WORK TAKE YOU?

Improving asset acquisition among younger people

John Oxley

Building wealth should be a lifelong affair. Though income fluctuates through life, laying strong foundations early in one's career, combined with the power of compound interest, can make a huge difference to lifelong prosperity. Yet, younger generations are now struggling more than ever before to build wealth, threatening both their own futures and the wider economy.

This is not because of profligacy, but rather because younger generations, especially those under about 35 are caught in the trap of stalling wages, stagnant growth and rising prices. The cost of living, especially around housing, has reduced their ability to save – and excluded them from home ownership, which has formerly been the most assured way for working people to build asset wealth. Without changing this dynamic, government initiatives to encourage saving are likely to fail because young people simply do not have the disposable income to take advantage of it.

Since the global financial crisis in 2008, wage growth in Britain has almost always been matched by inflation.⁴² For those who joined the workforce around that time or later, there has never been a cohort-wide above-inflationary increase. The average worker would be around

42. Amy Austin "Real term wages have 'gone nowhere in 12 years'", *FT Adviser*, 13 October, 2020, <https://www.ftadviser.com/your-industry/2020/10/13/real-term-wages-gone-nowhere-in-12-years/?page=1>

£3,600 per year better off if pay had kept pace with the OECD average.⁴³ Carried across the entire period, this amounts to a significant amount of money that could have been saved for the future.

In that time, however, millennials and Gen Zers have suffered even more than those figures suggest. They have borne the brunt of house prices rising faster than inflation and wage growth, which has squeezed their incomes and left many unable to build wealth through property ownership.

“ When acquiring assets feels so impossible, there is little incentive to make any effort towards saving towards it ”

It is hard to overestimate the scale of this challenge. By June 2023, the average house cost just over six times the average earnings.⁴⁴ The average throughout the 2010s was 4.5 times, compared with 3.5 times in the 2000s and less than three times in the nineties.⁴⁵ In more expensive parts of the country, such as London, it is higher still with the capital's price-to-earnings ratio averaging around ten.⁴⁶ With mortgages normally offered at around four to five times one's salary, this excludes many from homeownership. Consequently, affordability is lower than at any point since the mid-Victorian era.⁴⁷

This is reflected in rates of home ownership. Of those born in the late seventies, around 40% owned a home by the age of 27, that falls to 33% for those born in the early eighties, while just a quarter of

43. Trade Union Congress, "UK workers will miss out on £3,600 in pay this year as a result of wages not keeping pace with the OECD", <https://www.tuc.org.uk/news/uk-workers-will-miss-out-ps3600-pay-year-result-wages-not-keeping-pace-oecd> (2023).

44. Tom Dunstan, "House price to income ratio eases from record high", *FT Adviser*, 23 August, 2023, <https://www.ftadviser.com/mortgages/2023/08/23/house-price-to-income-ratio-eases-from-record-high/#:~:text=The%20house%20price%20to%20income,research%20from%20Halifax%20has%20revealed>

45. Valentina Romei, "UK house price affordability worsens over past decade", *The Financial Times*, 7 January, 2020, <https://www.ft.com/content/afead1e2-3143-11ea-9703-eea0cae3f0de>;

46. Nationwide, "Nationwide Building Society affordability report: mortgage rate rises add to affordability pressures", <https://www.nationwidehousepriceindex.co.uk/reports/nationwide-building-society-affordability-report-mortgage-rate-rises-add-to-affordability-pressures> (2023).

47. Duncan Lamont, "What 175 years of data tell us about house price affordability in the UK", <https://www.schroders.com/en-gb/uk/individual/insights/what-174-years-of-data-tell-us-about-house-price-affordability-in-the-uk/> (2023).

those born in the late eighties did.⁴⁸ The proportion of people renting in their thirties and forties has trebled since the late 1990s, with around a quarter of that cohort now living in rented accommodation.⁴⁹ Homeownership has fallen most sharply among those with middling incomes.⁵⁰

Even where home ownership is achievable, the greater cost of housing relative to previous generations significantly impacts younger savers. Higher house prices mean bigger deposits, more stamp duty and increased mortgage payments – with much higher borrowing and cancelling out any benefit from lower interest rates. Though interest rates in the late 1980s hovered at around ten percent, current principal borrowing is now significantly higher.⁵¹ Overall, the average family now pays twice as much of household income towards housing costs than in 1980.⁵²

When it comes to wealth generation, the rising unaffordability of housing bites in several ways. The most obvious is through increased time spent renting. Rent is an expense while paying to own a house is an investment. Money paid to a landlord will never be seen by a young worker – and they are paying it for longer and at higher rates than ever before. Rents have risen considerably in real terms in recent years, with a large spike after the Covid-19 pandemic.⁵³

Previous government efforts to help this have largely focused on demand subsidies, such as Help to Buy. While this has provided a leg up to some, it has simultaneously helped to drive prices higher to some

48. Sarah O'Connor, "Millennials poorer than previous generations, data show", *The Financial Times*, 23 February, 2018, <https://www.ft.com/content/B1343d9e-187b-11e8-9e9c-25c814761640>.

49. Office for National Statistics, "Living longer: changes in housing tenure over time", <https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/ageing/articles/livinglonger/changesinhousingtenureovertime#increases-in-the-private-rental-sector-at-middle-ages> (2020).

50. Jonathan Cribb, Andrew Hood and Jack Hoyle, "The decline of homeownership among young adults", https://ifs.org.uk/sites/default/files/output_url_files/BN224.pdf (2018).

51. Bank of England, "Official bank rate history", <https://www.bankofengland.co.uk/boeapps/database/Bank-Rate.asp>.

52. Robert Booth, "Millennials spend three times more of income on housing than grandparents", *The Guardian*, 20 September, 2017, <https://www.theguardian.com/society/2017/sep/20/millennials-spend-three-times-more-of-income-on-housing-than-grandparents>.

53. Valentina Romei, "UK rental costs in August rose at fastest pace since records began", *The Financial Times*, 20 September, 2023, <https://www.ft.com/content/b739f413-1885-4593-bd95-eceff9b930a4>.

extent.⁵⁴ Ultimately, without significant supply-side reforms, measures like this simply add another layer to the property boom pyramid, transferring the problem to the next generation. Any policy action to help younger voters become wealthier must start by addressing this, primarily by liberalising planning.

Any government serious about helping young people to build wealth will need to solve the housing crisis. Housing is the only major investment most people can make on a leveraged basis (through borrowing) and provides security and a return. For younger people, however, housing has become an expense, not an investment, paying vast sums to landlords and taking on larger, more costly mortgages than ever before. Equally, those currently buying property should not expect the same gains enjoyed over the last forty years, as doing so will only inflate the problem for those even younger than them.

Housing is not the only disadvantage younger workers face when trying to build wealth. For those who are graduates (around 40% of the workforce),⁵⁵ the student loan system works as a *de facto* extra form of taxation. The precise impact varies according to circumstances, but someone earning £50,000 per year with a Plan 2 loan – loans for undergraduate degrees since 2012 – would take home around £2,000 less per year than they otherwise would. This is a particular penalty for moderately high earners who have neither the income nor capital to pay the loans off in full quickly. Even without this penalty, younger workers suffer from the skew towards taxing earned income rather than unearned income or capital.⁵⁶

Research bears out the fact that young people's ability to build wealth is suffering from this squeeze. Nearly 40% of those aged 25-34 have a negative household wealth.⁵⁷ Indeed, around half of young people have

54. Felipe Carozzi, Christian Hilber and Xiaolun Yu, "The economic impacts of Help to Buy", <https://www.inrev.org/system/files/2019-10/NTRP-The-Economic-Impacts-of-Help-to-Buy-2019.pdf> (2019).

55. CIPD, "What is the scale and impact of graduate overqualification in the UK?", <https://www.cipd.org/uk/knowledge/reports/graduate-overqualification/> (2022).

56. Alec Haglund, "Play fair: equalising the taxation of earned and unearned income", https://www.if.org.uk/wp-content/uploads/2023/08/Play_Fair-Equalising_the_taxation_of_earned_and_unearned_income_FINAL.pdf (2023).

57. Alec Haglund, "The savings squeeze: young people locked out from the benefits of saving", https://www.if.org.uk/wp-content/uploads/2022/10/IF_Savings_FINAL_3_Oct_FINAL.pdf (2023), 31.

reduced, or completely stopped, saving in response to rising prices.⁵⁸ Anecdotally, this becomes self-reinforcing: when acquiring assets feels so impossible, there is little incentive to make any effort towards saving towards it. Fundamentally, government also needs to take action to address the savings crisis for younger generations.

“ We should want younger people to grow their wealth. It is morally right to make them more prosperous, but it also gives them a bigger stake in the national economy and, from a centre-right perspective, binds them into the sort of political economy that we wish to promote ”

This could be addressed with specific policies which encourage younger people to save. Already, auto-pension enrolment has been a success, raising both the proportion of workers with private pensions and the amounts saved.⁵⁹ The proposed changes to lower both the age and earnings threshold at which enrolment kicks in would be welcome.⁶⁰ So too would specific products aimed at young savers.

Previous Governments used so-called ‘Granny Bonds’ to encourage older people to save – with a rate of return fixed above market rates, restricted to savers over 65. Around a quarter of a million savers took up this opportunity.⁶¹ Something similar could be offered to those under 30 to encourage them to get into the habit of saving. The Government should also expand the Lifetime ISA by lifting the price cap for houses bought using it in a way which is pegged to property values.

58. Yoana Cholteeva, “Young adults deprioritise savings and pensions amid cost of living crisis, analysis finds”, <https://www.peoplemanagement.co.uk/article/1798190/young-adults-deprioritise-savings-pensions-amid-cost-living-crisis-analysis-finds> (2022).

59. London Economics, “Auto-enrolment in the UK: A decade of success but what next?”, <https://londonconomics.co.uk/blog/publication/auto-enrolment-in-the-uk-a-decade-of-success-but-what-next/#:~:text=Over%20the%20past%20ten%20years,the%20stipulated%20minimum%20contribution%20rates> (2023).

60. House of Commons Library, “Pensions: automatic enrolment – current issues”, <https://commonslibrary.parliament.uk/research-briefings/sn06417/> (2022).

61. NS&I, “NS&I’s one-year Guaranteed Growth Bonds and Guaranteed Income Bonds withdrawn from general sale”, <https://nsandi-corporate.com/news-research/news/nsis-one-year-guaranteed-growth-bonds-and-guaranteed-income-bonds-withdrawn#> (2023).

The evidence is that millennials and the cohorts after them are building wealth more slowly than previous generations. This is not primarily driven by a lack of will to save, or of products available. In many ways, the internet has made investment more accessible than ever. The bigger issue is a lack of disposable income, resulting from both stagnating wages and the penalty of higher housing costs. Those who have come of age after the financial crisis have borne the brunt of this.

We should want younger people to grow their wealth. It is morally right to make them more prosperous, but it also gives them a bigger stake in the national economy and, from a centre-right perspective, binds them into the sort of political economy that we wish to promote. The primary challenge towards doing this is leaving them with the surplus income to do so.

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FALLING BEHIND?

Racial disparities in savings and wealth

Deven Ghelani

I learned in my first economics undergraduate lecture that the biggest driver of living standards is where you are born.

This lesson has stuck with me because I was born in India. It highlighted how lucky I was to have grown up in the UK, and the role that luck – where you are born, who your parents are, whether you fall ill – plays in how well you can do in life.

Everyone, whatever their background, should be able to take a full stake in society and build wealth for themselves, their family and their community.

My work on social security means that I typically talk about building financial resilience, rather than building wealth. As a relatively new topic for me, I thought it would be useful to reflect on my own journey to building a business and owning my home, before setting out how these lessons can be applied to policy.

Analysis from the Office for National Statistics (ONS) seems to show that ethnicity appears to play a role in wealth accumulation. ONS statistics on racial disparities in savings and wealth find that White British people tend to be wealthier than others, and there are big differences between people from different ethnic backgrounds.⁶²

The statistics suggest that as a British Asian, I am luckier than some

62. Office for National Statistics, "Household wealth by ethnicity, Great Britain: April 2016 to March 2018", <https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/articles/householdwealthbyethnicitygreatbritain/april2016tomarch2018> (2020).

other ethnic groups in terms of wealth accumulation, but not as lucky as White British people. But when you dig into the ONS figures you see that Indians like me tend to outperform Brits, at least in financial and property wealth, though not pensions. This is partly down to how long Indians have been here (since the 1960s or earlier), where we moved to such as the Midlands or London and what we did back home, commonly business owners or professionals.

“ Even when you are earning, it does not seem to be hard work that is rewarded ”

But all of that was less true for me. My family arrived when I was three and I grew up on a rough council estate. My siblings and I went to an average local school and my parents did not have high-paying jobs. As a family, we spent most of my childhood in debt. Many of my neighbours have struggled to do well and – having founded a successful company and being lucky enough to own my own home – I seem to be an outlier in doing as well as I have.

That is why I believe that looking at these figures solely through the lens of race misses the mark. The ONS figures miss out an essential group – the White British working class. If we look at the most deprived areas in the country, including my old neighbourhood, white communities feature as prominently as any other group.

So what has enabled me to build wealth, while my old neighbours and too many of the friends I grew up with have struggled?

Discussing with friends, I have drawn together three pathways to prosperity: A strong family with big expectations, support from the state that covers the basics and builds community and an economic system that rewards effort and reduces the role of luck.

Let us start with family. My parents were both hard-working and centred on their children doing well. While it was not ideal that my father was rarely home when I woke up or went to bed, my mother was. She taught us a love of cooking and, most importantly, why we needed to

focus on our education. She went on to work as a carer for over thirty years after my sister and I went to school.

Like many children of immigrants, my drive for success comes from seeing my parents work so hard. I owe it to them to be a success. But many parents work hard for their children. The drive and belief needed to start and grow a business came from others' high expectations of me.

For me, this came from my grandparents and my teachers. My father's father was a lawyer in Uganda, while my maternal grandfather built a family grain wholesaler business that is still around in India today. Because my family had professional jobs and started businesses, and I was told their stories, I could see myself able to achieve these same things.

Due to my family's support and high expectations, I did well from day one at school and this meant that teachers had continuing high expectations of me.

For policymakers, these lessons are important because many of my neighbours did not have these same advantages. Teachers can only build on the foundation that the family provides. Teachers should, at a minimum, give children the basics in English and Maths, but capability when you start school sets the foundation, and all too often sets the course for a child's life chances and opportunities.

Second, the state should ensure that a community is built and the basics are covered.

We received quite a bit from the state growing up. We had a council house which, despite the challenges of the estate, was a huge positive and something I am grateful for. My mother benefited from English language classes which helped her to settle and make friends, as well as learn the language. Meanwhile, my sisters and I had free school meals, including free milk for a short while.

Unsurprisingly, it is essential that the state continues to invest in services like these. For me, today's anti-immigration policies fail on two key fronts.

Typically, it is the immigrants themselves, and their children, who pay

for the services they consume. In my case, I have founded a business employing forty people that helps people to access financial support, and a recent report by the Entrepreneur's Network found that four in ten of the UK's fastest-growing companies were founded by immigrants.⁶³ These services are not, and should not be, just for recent migrants. My neighbours could and should have benefited from greater investment in housing, libraries, adult education, parks and a host of other services. We should not be competing to access these services, it is not a zero-sum game.

Social mobility is not set in stone. Broadening access to work experience and making it easier to build relationships by investing in these 'third space' services can help to bridge the gap for people with different family backgrounds. They are also one of the few ways the state can level the playing field by helping all families give their children the best start in life. Whether we call them family hubs or children's centres, they can support school readiness and connect communities.

This brings me to the economy.

Work has always been hugely important to building wealth. It helped my family find a way out of debt when I was growing up.

But work needs to be financially rewarding. Thanks to big increases in the minimum wage, investment in Universal Credit and cuts to National Insurance, people on lower incomes can keep more of their income from work.

But where does that money go? A lot of the worry around work is that we never seem to be doing enough of it. As our earnings have risen so have our costs which have served to keep real incomes flat for the last 15 to 20 years.⁶⁴

Even when you are earning, it does not seem to be hard work that is rewarded. The best example of this is in access to housing. The biggest

63. The Entrepreneurs Network, "Job creators: the immigrant founders of Britain's fastest growing businesses", <https://www.tenentrepreneurs.org/immigrantfounders>.

64. Kevin Rawlinson, "UK workers £11,000 worse off after years of wage stagnation – thinktank", *The Guardian*, 20 March, 2023, <https://www.theguardian.com/business/2023/mar/20/uk-workers-wage-stagnation-resolution-foundation-thinktank>.

driver of wealth in the UK is now also the clear dividing line between ‘haves’ and ‘have nots’. Increasingly, owning property is being driven more by parental wealth than by effort.

Individuals from the wealthiest backgrounds are three times as likely to be homeowners by the age of 35. This affects immigrant communities, particularly those from more disadvantaged communities. While 68% of White British households are homeowners, only 20% of Black African households, 40% of Black Caribbean households and 46% of Bangladeshi households are homeowners.⁶⁵

“ Like many children of immigrants, my drive for success comes from seeing my parents work so hard. I owe it to them to be a success ”

Even accessing a social housing scheme requires luck. In my case, I was lucky to have built savings while working overseas, thanks to a favourable exchange rate and tax treaty with Japan. I became a policy expert when the government wanted to help people get a foot on the ladder. My wife and I were earning just enough right after our daughter was born. These circumstances together enabled me to buy a 25% share of our flat in an otherwise completely unaffordable new build in London.

What does it say when the best financial decision I have made in the ten years since I founded Policy in Practice, a business that has grown to employ over forty people, has been to buy a home?

Simply put, you cannot look at wealth solely through the lens of race.

The ability to build wealth is what really matters and framing the question solely in the context of race misses more fundamental drivers and leads to bad policy.

Most immigrants recognise that they are lucky to be in the UK. Many are lucky to have a strong family with big expectations. But the state

65. Joseph Rowntree Foundation, “New research highlights ‘shameful’ racial disparities in housing system”, <https://www.jrf.org.uk/news/new-research-highlights-shameful-racial-disparities-in-housing-system> (2021).

plays an important role to play in giving people a good start in life.

The ability to build wealth, for people from all backgrounds, depends on policies that reward hard work, invest in education, the early years and services, particularly housing, that bring people from different backgrounds together.

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STANDING ALONE?

How the self-employed can build assets

Sam Robinson

A cursory glance at Office for National Statistics (ONS) figures on household wealth might leave you with the impression that there is little to worry about when it comes to the ability of self-employed people to accumulate wealth. According to the latest Wealth and Assets Survey, the median wealth of households with a self-employed head stands at £333,700, compared to the median wealth of £287,200 for those headed by employees.⁶⁶

“ Retirement saving among the self-employed is nowhere near sufficient to build enough wealth for later life. This is a ticking time bomb that needs to be addressed ”

Sweeping statistics like this do not tell the whole story, however. First, composition effects are likely driving much of this observed difference, as self-employed people tend to be older than employees, with the average age of a self-employed person being 47.6, compared to 40.9 for employees.⁶⁷ The ongoing effects of the COVID-19 pandemic and high

66. Office for National Statistics, "Household total wealth in Great Britain: April 2018 to March 2020", <https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/totalwealthingreatbritain/april2018tomarch2020#wealth-by-characteristics> (2022).

67. Office for National Statistics, "Understanding changes in self-employment in the UK: January 2019 to March 2022", [https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/understandingchangesinselfemploymentintheuk/january2019tomarch2022#:~:text=Despite%20this%2C%20the%20average%20\(mean,years%20and%2040.9%20years%2C%20respectively](https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/understandingchangesinselfemploymentintheuk/january2019tomarch2022#:~:text=Despite%20this%2C%20the%20average%20(mean,years%20and%2040.9%20years%2C%20respectively) (2022).

inflation on self-employed people are further hints that all is not well. Incomes among self-employed people remain stagnant years after the pandemic hit,⁶⁸ even as the post-pandemic recovery in working hours was slower among self-employed people than for employees,⁶⁹ and the number of people in self-employment continues to lag behind its pre-pandemic total by over 600,000.⁷⁰ Over half of self-employed people reported a deterioration in their financial situation during the pandemic compared to 26% of employees,⁷¹ echoing the finding from Bright Blue's report *A work in progress* that over a third of self-employed people sustained a fall in living standards during the pandemic.⁷²

Additionally, recent analysis by Hargreaves Lansdown and Oxford Economics has shown that households headed by a self-employed person have lower financial resilience than those headed by employees in terms of their ability to save for a rainy day, control debt, protect their family and plan for later life.⁷³ There are several factors behind this, but three stand out. The economic changes wrought by the pandemic hit the self-employed particularly hard; for example, earnings in construction – which employs a sixth of all self-employed people in the UK – were slow to recover relative to the economy overall, with wages in the sector growing by 9.7% from 2019-2022 compared to an average of 14.6% economy-wide.⁷⁴ A further challenge is a lack of workplace benefits such as sick pay or redundancy pay. Finally, self-employed people are less likely to hold a pension (and of course are not supported by employer contributions even if they do).

A closer reading of the evidence, then, shows that self-employed people are notably less financially resilient, on average, than employees.

68. Robert Blackburn, Stephen Machin and Maria Ventura, "The self-employment trap?", <https://cep.lse.ac.uk/pubs/download/cep-covid-19-030.pdf> (2023).

69. Sam Robinson, "A work in progress", <https://www.brightblue.org.uk/wp-content/uploads/2022/11/A-work-in-progress.pdf> (2022).

70. Brigid Francis-Devine, Isabel Buchanan and Andrew Powell, "UK labour market statistics", <https://researchbriefings.files.parliament.uk/documents/CBP-9366/CBP-9366.pdf> (2023), 11.

71. Lloyds Banking Group, "Financial resilience APPG evidence submission", <https://www.abi.org.uk/globalassets/files/appg/lloyds-banking-group-plc---financial-resilience-appg-evidence-submission.pdf>

72. Robinson, "A work in progress".

73. Nathan Long (2023), "Self-employed resilience barometer report", <https://www.hl.co.uk/features/5-to-thrive/savings-and-resilience-comparison-tool/self-employed-financial-resilience> (2023).

74. Ibid.

But if there is a need to support self-employed households to accumulate and build wealth, what should be the policy priority for doing so?

Arguably, the biggest Achilles' heel in wealth accumulation for the self-employed is retirement saving. Private pension participation has fallen steeply among the self-employed, who are not in the scope of pensions auto-enrolment: whereas in 2005-06 33% of self-employed people were actively contributing to a private pension of some kind, by 2014-15 this figure had reduced to around 14%, compared to 57% of employees.⁷⁵ Other research has shown that over a third of self-employed people do not have a pension at all.⁷⁶ Indeed, while households led by self-employed people are just as – if not more – likely than employees to own their home, own another property, or hold financial and business assets, they are much less likely to hold a pension.⁷⁷ Even among those self-employed people who do hold a pension, the median value of their accumulated pension is just £35,000 compared to £78,000 for employees.⁷⁸ As for whether these pensions are enough for retirement, Oxford Economics suggests that just 22.3% of self-employed people have adequate pensions compared to double that for employee households.⁷⁹

Put all of this together and retirement saving among the self-employed is nowhere near sufficient to build enough wealth for later life. This is a ticking time bomb that needs to be addressed. Failing to address this problem not only means many self-employed individuals will struggle in later life to maintain a decent standard of living, but it will also entail significant challenges for the state, which will have to support these individuals through the state pension and welfare system. In order to design effective interventions, it is worth thinking about what principles should inform new policies. That requires understanding why self-employed people are not adequately saving for retirement in the first place.

75. Jonathan Cribb and Heidi Karjalainen, "Understanding pension saving among the self-employed", <https://ifs.org.uk/sites/default/files/2023-02/IFS-R248-Understanding-pension-saving-among-the-self-employed.pdf> (2023), 4.

76. Interactive Investor, "The Great British Retirement Survey 2023", <https://www.ii.co.uk/pensions/iiGBRS> (2023).

77. Long, "Self-employed financial resilience".

78. Office for National Statistics, "Household total wealth in Great Britain".

79. APPG for financial resilience, "Saving, Spending, Surviving: a holistic view of people's financial resilience during the pandemic", <https://www.abi.org.uk/globalassets/files/appg/saving-spending-surviving---appg-financial-resilience-report.pdf> (2022), 23.

One explanation is that self-employed people earn less than employees: median pre-tax earnings among the solo self-employed in 2018–19 were 30% lower than those among employees.⁸⁰ The main reason self-employed people give for not contributing into a pension is that they feel they cannot afford to.⁸¹ But there is much that the lower earnings theory does not explain. For example, recent research from the IFS found that in 2014–15, pension participation among the self-employed was lower than for employees at all earnings levels above £5,000.⁸²

Volatility in incomes is also an important piece in the puzzle. Common sense would suggest it is harder to commit regular savings into a pension when your income varies from month to month, and this is echoed in many interviews with self-employed people.⁸³ This is borne out by statistics too: a ‘good’ earnings year – that is, higher than the five-year average – is associated with higher pension participation, while more income volatility is associated with lower participation.⁸⁴

Another key factor is attitudes towards pensions. Self-employed people take a different and broader view of how to save for retirement than employees. They are less likely than employees to expect private pensions to be their main source of income in retirement and are more favourable towards other forms of saving for retirement such as property.⁸⁵ This is evident in the mix of strategies the self-employed use to save: while around a third use a pension, another third use an ISA while one in seven rely on property or stocks and shares.⁸⁶ The lower reliance on pensions partly reflects the belief among the self-employed that alternative approaches, particularly property, represent a better strategy for retirement. But there is also widespread suspicion about pensions among self-employed people: qualitative research reveals

80. Giulia Giupponi and Xiaowei Xu, “What does the rise of self-employment tell us about the UK labour market?”, <https://ifs.org.uk/inequality/what-does-the-rise-of-self-employment-tell-us-about-the-uk-labour-market/#:~:text=The%20solo%20self%20employed%20earn,lower%20than%20those%20among%20employees> (2020).

81. Office for National Statistics, “Household total wealth in Great Britain”.

82. Cribb and Karjalainen, “Understanding pension saving among the self-employed”, 4.

83. Robinson, “A work in progress”.

84. *Ibid.*

85. Office for National Statistics, “Household total wealth in Great Britain”.

86. IPSE, “How to solve the self-employed pensions crisis”, <https://www.ipse.co.uk/policy/research/the-self-employed-landscape/how-to-solve-the-self-employed-pensions-crisis.html>

concerns over a lack of transparency around the value of a pension pot, the risk of savings being inaccessible during an emergency and the risk of a low-value pot at the end.⁸⁷

“ Arguably, the biggest Achilles’ heel in wealth accumulation for the self-employed is retirement saving ”

Given these challenges, how should policymakers respond? Central to any approach to building wealth for self-employed people should be flexibility. Not only are there good financial reasons for this, given the volatility of self-employed earnings, but ensuring flexible options to build wealth for later life also goes with the grain of self-employed attitudes towards saving for retirement.

The success of auto-enrolment at widening pension saving among employees makes it a promising policy approach to transforming saving among the self-employed. The idea of pensions tailored to the self-employed has appeal: in Bright Blue’s *A work in progress*, pension schemes designed specifically for self-employed people were the preferred option among self-employed people for improving commercial financial support for the self-employed.⁸⁸

However, blindly copying and pasting the standard auto-enrolment template to the self-employed might prove to be a mistake. While not strongly opposed to the idea of auto-enrolment, the self-employed are ambivalent about it. According to the Association of Independent Professionals and the Self-Employed (IPSE), “36% would remain enrolled if [auto-enrolment] was extended to the self-employed, whilst 25% would choose to opt-out. A further 38% do not know.”⁸⁹ In these circumstances, there is a risk that full auto-enrolment for the self-

87. Krishna Dabhi, Yasmin White, Jayesh Shah, Stephen Finlay and Sarah Tipping, “The drivers of saving behaviour for retirement among the self-employed”, https://assets.publishing.service.gov.uk/media/5c17c122ed915d0b7268eee7/Drivers_of_saving_behaviour_for_retirement_by_self-employed_-_HMRC_Research_Report_513.pdf (2018), 2.

88. Robinson, “A work in progress”.

89. IPSE, “How to solve the self-employed pensions crisis”.

employed could backfire and harden attitudes towards pension saving.

There are ways of taking the best aspects from both auto-enrolment and flexible saving. An auto-enrolment scheme tailored to the self-employed could look something like this: first, lower mandatory contributions for the self-employed. Given that the self-employed do not have access to workplace benefits and an employer to provide additional contributions, it makes sense that the contribution rate should match that of employees, rather than that of employees and employers combined. Otherwise, eligibility for auto-enrolment would look similar, with contributions calculated based on a minimum auto-enrolment trigger threshold of £10,000. Annual tax returns could be used to determine eligibility and calculate annual contributions. Eventually, with the rollout of Making Tax Digital, the calculation period could be brought down to quarterly intervals.

Second, offer self-employed people a way to access some of their pot in an emergency. One option to do this is to give the option to place up to half of auto-enrolment contributions into an ISA instead. This is very similar to the idea of ‘side-car’ pensions,⁹⁰ which ties an instant savings account to a pension, with contributions going to the pension pot only after the savings account is ‘filled up’ beyond its cap. However, under this model, contributions would be made in parallel rather than sequentially. This means that if a self-employed person was auto-enrolled with a contribution rate of 4%, they could choose to split this between a 2% pension contribution and a 2% ISA contribution.

Another principle that should guide efforts to help build wealth among the self-employed is targeted support for those on low incomes. Contributions from self-employed people could be matched by the Government to provide a savings top-up. Such a scheme would be akin to the ‘Help To Save’ scheme, which is a type of savings account open to Universal Credit and Working Tax Credit recipients that offers a bonus

90. Rajiv Prabhakar, “Sidecar savings”, <https://commonslibrary.parliament.uk/research-briefings/cbp-9410/> (2021).

of 50p for every £1 saved over four years.⁹¹ The main difference would be that this savings top-up scheme would be more precisely targeted at pension saving among the self-employed. Such a scheme need not be expensive; the Treasury could specify a cap on the total value of top-ups it provides or time-limit top-ups. But, given the power of compounding, steps to boost the initial savings of low-income self-employed people shortly after they enter auto-enrolment would pay dividends in the long run, reducing their reliance on the state when they reach retirement.

Taken together, these alterations to the standard auto-enrolment model could help to ensure more buy-in from the self-employed, shifting the dial from ambivalence to support. It would strike a balance between understanding the needs of the self-employed, who typically have lower and more volatile incomes than employees, and taking important steps to support self-employed people to build wealth for later life.

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91. HM Government, "Get help with savings if you're on a low income (Help to Save)", <https://www.gov.uk/get-help-savings-low-income#:~:text=Help%20to%20Save%20is%20a,in%20the%20scheme%20are%20secure>.

The background is a complex, layered composition of abstract elements. It features a central vertical beam of light that transitions from yellow at the top to cyan at the bottom. To the left, there are several overlapping circular and semi-circular shapes in shades of red, orange, and teal, with intricate line patterns radiating from their centers. To the right, a large, textured circular shape in shades of red and orange is visible, with a smaller, more detailed circular structure inside it. The overall aesthetic is modern and digital, with a focus on geometric forms and vibrant colors.

LEVERAGING ASSETS

SAVING SAVINGS

Improving opportunities to save for low-income households

Sacha Romanovitch

Over 14 million people have less than £100 in savings and over 15 million people hold no savings account.⁹² Without a buffer, a financial shock such as a job loss or an unexpected expense runs the risk of tipping you into long-term debt or distress.

Savings levels are lower among people with lower incomes. Among Fair4All Finance's segmentation of 17.5 million adults in financially vulnerable circumstances, we estimate that 61% have less than £1,000 in savings and 33% have none at all.⁹³

This lack of a financial buffer to deal with the ups and downs of life has a real impact on people's lives. Two million households, or 4.8 million people, are living without at least one essential household appliance – a fridge, a freezer, a cooker or a washing machine.⁹⁴ The impact on children is acutely felt. In the last year, over 681,000 families have had children sharing a bed with their parent, parent's partner or sibling over the last 12 months as they could not afford to buy them a bed or bedding.⁹⁵

It is important to ground ourselves in the reality of people's lives – it is

92. Moneyzine, "Eye-opening UK savings statistics & facts for 2024", <https://moneyzine.com/uk/banking/savings-statistics-uk/> (2024); Financial Conduct Authority, "Financial lives 2022 survey", <https://www.fca.org.uk/publication/financial-lives/financial-lives-survey-2022-key-findings.pdf> (2023).

93. Fair4All Finance, "Fair4All Finance segmentation model", <https://fair4allfinance.org.uk/segmentation/>.

94. Turn2Us, "Living without: the scale and impact of appliance poverty", <https://www.turn2us.org.uk/Turn2Us/media/Downloads/Living-Without-Report-Final-Web.pdf> (2020), 4.

95. Barnardos, "What is bed poverty?", <https://www.barnardos.org.uk/blog/what-bed-poverty> (2023).

easy to fall into the trap of the world of what people should do divorced from what is possible. We can be seduced into writing policy for those fantasy people – rational economic beings without any of the human foibles. Even though there may be a rational choice, such as do not drink too much to avoid a hangover, there are human reasons why we do not always make the rational choice.

“ Addressing the savings gap among low-income households requires a multifaceted approach that recognises the complex interplay of financial circumstances, behaviours and systemic barriers ”

I think we can all agree that if people were able to build savings of up to three months' salary, this, alongside appropriate credit and insurance, would build a financial resilience buffer to enable people to both withstand life's ups and downs – that broken boiler, washing machine, those things that always seem to come like buses in threes – and to seize life's opportunities, such as that school trip, that deposit for a nursery place, that training course.

What is great is that we know it is possible to provide stepping stones for people towards saving – when interventions are designed for real people's lives rather than fantasy people. The situation in the real world is far from positive.

19.2 million people are living in households bringing in below the estimate by the Joseph Rowntree Foundation of £29,500 that a single person needs to earn to sustain a minimum standard of living.⁹⁶ Meanwhile, 51% of people seeking support from Citizen's Advice are now in an income deficit and it, therefore, costs more to be poor. The poverty premium, where poorer people often have to pay more for the things they

96. Joseph Rowntree Foundation, "A minimum income standard for the United Kingdom in 2023", <https://www.jrf.org.uk/report/minimum-income-standard-uk-2023> (2023).

need, is on average £430 per year.⁹⁷

These realities give us some insight into the barriers to saving and what could make it possible for people to start on the savings journey.

There are key moments in people's lives where saving can become possible – such as starting your first job, getting a promotion and having another earned joining your household to share costs. There is a role for family, educators, financial institutions and employers in signposting and guiding people. It could be made clearer for financial institutions to point people to helpful choices in the moment as part of generalised guidance without it being deemed to fall into personalised financial advice. This is known as the guidance/advice boundary. For example, when starting a first job or getting a pay rise, a simple nudge to put a percentage of your salary into a savings account. Some organisations are already building such interventions into their well-being strategies for their employees.

A great example of this working well is the incredible journey that the team at Nest Insight, the Money and Pension Service and other partners developing workplace savings approaches have been on. First, Nest Insight piloted an opt-in sidecar savings model – savings alongside your pension auto-deductions from salary – underpinned by proactive engagement programmes by employers and the provider. If people wanted to start saving, they needed to sign up to do so. The result: 46% of people thought that the product would benefit them, but only 1% actually signed up.⁹⁸

So to try to address the behavioural barriers to getting started with savings that were shown in the first pilot, Nest Insight explored an innovative opt-out model. In this approach, people still have the choice of whether or not to save, but the default is switched to support people who want to, so they can get started with saving. If an employee wants to save, they do not have to do anything and will start saving automatically.

97. Fair by Design, "The cost of living and levelling up: why the poverty premium matters for local economies", https://fairbydesign.com/wp-content/uploads/2022/11/NOV_22_Local-poverty-premium-summary-report_v02.pdf (2022), 3.

98. Nest Insight, "Workplace sidecar saving in action", <https://www.nestinsight.org.uk/wp-content/uploads/2023/04/workplace-sidecar-saving-in-action.pdf> (2023), 7.

It is the people who do not want to save who have to take action and opt-out. And the results are striking.

Across three trials with employers SUEZ, the Co-operative Group and Bupa Care Services, savings participation jumped by a massive 50 percentage points. From very low numbers of employees saving before, they saw up to seven in ten employees saving.⁹⁹ Only with the opt-out model do savings behaviours increase in line with people's needs and intentions to save.

Sometimes the issue with saving is people simply do not have anything left to save. Counterintuitively, the first stepping stone to saving can be by providing access to small amounts of unsecured credit.

Let's ground our thinking in a practical example. The number one reason people seek small (under £500) amounts on unsecured credit is to buy white goods. With millions living without a fridge, freezer, cooker or washing machine, one can see why that tops their list.

The average A-rated washing machine (with lower running costs and environmental impacts) costs between £250 and £400. If you saved roughly £5 to £10 per week to buy a new washing machine, it would take you roughly a year to save up. While saving up, you would still need to wash your clothes and perhaps visit the laundrette, which could cost between £5 and £8 a time. The ongoing costs of doing the laundry mean that there is no money left over to save.

Through access to affordable credit, whereby people with poorer credit scores can purchase essential items in a way that works for them, saving for a rainy day can become a more achievable aim. For instance, one could borrow the money needed for a new machine and make repayments over the year. An individual could borrow £350 and set the payments that work for them, say £9 a week and repaying £448 overall. It is cheaper to have the machine rather than going to the laundrette – and the reduction in costs means people actually have some money left to create the possibility of saving. The impact evaluation conducted by Fair

⁹⁹ Ibid., 44.

For You found much more extensive benefits from access to the right credit at the right time. People were able to manage their costs within budget, build their credit-worthiness and also experience better physical and mental health.

“ Of 17.5 million adults in financially vulnerable circumstances, we estimate that 61% have less than £1,000 in savings and 33% have none at all ”

The credit union ‘save as you borrow’ model is a popular and well-established approach, where someone who wants to borrow has to open a credit savings account at the same time, putting away a small amount alongside their regular loan repayments. At the end of their loan term, the borrower has saved a modest amount and will have greater financial resilience in the future. For some people, this will be the first time they have saved regularly.

Earlier this year, Fair4All Finance published research into credit union deduction lending, where people’s loan repayments are deducted at source either from their payroll, through a partnership between the credit union and their employer, or through non-means tested Child Benefit payments. Prior to borrowing with the credit union, overall levels of saving were low, with 72% of benefit loan borrowers and 54% of payroll loan users saying they rarely or never saved. Additionally, only 23% of borrowers previously had a savings account. Yet, 73% of those repaying by Child Benefit and 72% of payroll deduction agree that the loan had helped them to save more regularly. Importantly, a vast majority of borrowers said they intended to continue saving after they paid their loan.¹⁰⁰

The lessons that can be learned from these approaches are to make saving as simple, frictionless and automatic as possible, and to work with

100. Fair4All Finance, “Deduction lending: does it add up for low-income borrowers”, <https://fair4allfinance.org.uk/wp-content/uploads/2023/03/Deduction-Lending-Payroll-and-Benefits-Borrowing-Amongst-Low-Income-Households-FINAL-FULL-REPORT-V1.4.pdf> (2023).

people's behaviours rather than against them. For example, integrating the opening of a savings account into a loan application process means that people who would never see themselves as savers can start to put money away for the first time.

There have also been some schemes exploring incentives to save, the most recent being the Help to Save scheme, launched by the Government in September 2018, whereby people on low incomes secure matched savings. This is a great idea and yet take-up had been low, with just 359,000 people accessing this up to the latest data in 2023, compared to over three million people who could be eligible for the scheme.¹⁰¹ There is currently a government consultation in progress on how to adjust this, and two things would both enable greater take up and also secure the sustainability of savings.

First, the Government should look to expand the range of providers that can offer Help to Save accounts. For example, allowing the scheme to be run through credit union accounts, and linked to payroll and benefit deduction savings schemes, would allow the Government to harness the huge success of the community finance movement in promoting savings among people with low incomes. Similarly, we should let a bank market and offer current account holders a Help to Save account, accessible in the same app they do their everyday banking in.

Second, is the scheme setting the savings range in the art of the possible, at around £5 to £10 a week, anchoring advertising of the scheme to the minimum rather than the maximum amount. For many, saving £5 to £10 a week would be a stretch yet in the realms of the possible, whereas £50 would be an insurmountable barrier.

Addressing the savings gap among low-income households requires a multifaceted approach that recognises the complex interplay of financial circumstances, behaviours and systemic barriers. By offering accessible savings options, integrating savings with borrowing and leveraging

101. HM Revenue and Customs, "Help to Save extended to April 2025", <https://www.gov.uk/government/news/help-to-save-extended-to-april-2025> (2023).

government initiatives like the Help to Save scheme, we can empower individuals to build financial resilience and seize opportunities for a brighter future. As we continue to navigate the challenges of economic inequality, designing inclusive financial solutions that ensure everyone has the opportunity to thrive, save and secure their financial well-being.

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FRIENDS IN THE RIGHT PLACES?

The role of social capital in building wealth

Dr Rakib Ehsan

When discussing financial wealth, the British political right has traditionally focused on individual initiative and personal responsibility. Of course, these are vital ingredients of socio-economic advancement. Indeed, they are principles which drive much of the entrepreneurial activity which I come across daily in my multi-ethnic and religiously diverse hometown of Luton. However, what is an overlooked factor in asset ownership and wealth accumulation is the role of social capital.

What is deeply ingrained in my worldview is the central belief that no man is an island – ‘the individual’ has the best chance to make progress and excel in life when part of a stable family unit and high-trust networks of social support. A great deal can be taken from a sermon delivered by the seventeenth-century English author John Donne: “no one is self-sufficient; everyone relies on others”.¹⁰² More times than not, one must rely on the company and comfort of others to thrive – especially in competitive, market-oriented environments.

While social capital does not have a clear and definitive meaning, the consensus in relevant literature is that it is fundamentally about how people interact with one another. The generally agreed core definition of social capital is “the networks of relationships among people who live and work in a particular society, enabling that society to function

102. John Donne, “Devotions upon emergent occasions”, <https://www.gutenberg.org/files/23772/23772-h/23772-h.htm>.

effectively”.¹⁰³ It can incorporate the effective functioning of social groups through interpersonal relationships – a shared sense of identity, values and norms which are supported by bonds of mutual understanding and common obligations. From the perspective of the individual, it can also be described as the potential ability to obtain resources, information and opportunities from one’s personal connections.

The reality is that our society has undergone significant forms of social and cultural transformation in the last few decades. There has been a rapid change in the social mainstream – an unquestionable process of ‘de-Christianisation’. At the beginning of the twenty-first century, in the 2001 England and Wales Census, over seven in ten residents – 71.7% – were categorised as ‘Christian’. This fell to under six in ten residents – 59.3% – in the 2011 edition. In the most recent Census in 2021, for the first time in the history of the Census, under half of residents living in England and Wales affiliated themselves with the Christian faith – 46.2%.¹⁰⁴ The fall has been precipitous over a twenty-year period. We may be a European society with an established church, but the figures suggest a society undergoing full-throttle secularisation.

During that time, the UK has unfortunately established itself as an international hotspot for family fragility and multi-generational disconnection – worryingly levels of loneliness among both the young and old paint a depressing picture of societal decline and a loss of community spirit.¹⁰⁵ A stable and loving home is the finest social safety net known to humankind – even the most effective welfare state and highly practical forms of state intervention cannot possibly compensate for the current situation in Britain when it comes to unformed families and family breakdown. Neither can it be a credible substitute for concerning levels of social separation between the young and old, which

103. Judith Hellerstein and David Neumark, “IZA DP No. 13413: Social capital, networks, and economic wellbeing”. <https://www.iza.org/publications/dp/13413/social-capital-networks-and-economic-wellbeing#:~:text=One%20definition%20of%20social%20capital,that%20society%20to%20function%20effectively%22.> (2020).

104. Office for National Statistics, “Religion, England and Wales: Census 2021”, <https://www.ons.gov.uk/peoplepopulationandcommunity/culturalidentity/religion/bulletins/religionenglandandwales/census2021> (2022).

105. Stephanie Kramer, “U.S. has world’s highest rate of children living in single-parent households”, <https://www.pewresearch.org/short-reads/2019/12/12/u-s-children-more-likely-than-children-in-other-countries-to-live-with-just-one-parent/> (2019).

is further compounded by age-based political polarisation within the British electorate.¹⁰⁶

“ More times than not, one must rely on the company and comfort of others to thrive – especially in competitive, market-oriented environments ”

Britain’s youth could benefit from being exposed to the knowledge and wisdom that can be found in abundance among the elderly – older men and women who can tell uplifting stories of how to bounce back from multiple forms of loss and trauma over the course of life. Meanwhile, in an era of fast-paced technological change, the young could be more than useful for some members of the older population – not only in a caring capacity but also in terms of developing their digital literacy and various forms of ‘e-competence’. Also, strong familial bonds across the generations can provide the basis for informal forms of care which can be shore up financial stability for the elderly in retirement – avoiding personal expenditure on extortionate caring costs which have the potential to plunge materially deprived pensioners into deeper economic insecurity. A recent study has shown that nearly one in five pensioners live in relative poverty – 2.1 million people.¹⁰⁷ Robust localised family networks and multi-generational living could provide effective antidotes.

The reality is that social capital can play an integral part in wealth accumulation and asset ownership – and is anything but uniform across the plethora of ethnic and religious groups living in the UK’s increasingly heterogeneous society. While contemporary debates on wealth creation and possession of assets are all too often consumed by obsessions with racial identity, there should be a much stronger focus on social capital

106. David Kingman, “Generations apart?: The growth of age segregation in England and Wales”, https://www.if.org.uk/wp-content/uploads/2016/09/Generations-Apart_Report_Final_Web-Version-1.pdf (2016).

107. Age UK, “Briefing: poverty in later life”, <https://www.ageuk.org.uk/globalassets/age-uk/documents/reports-and-publications/reports-and-briefings/money-matters/poverty-in-later-life-briefing-june-2023.pdf> (2023).

and cultural values, which are fundamentally intertwined. This would be a perfect antidote to identitarian creep in ongoing social policy debates and would provide a stronger pathway to building wealth.

No discussion on the relationship between social capital and asset ownership would be considered a serious one without specific mention of the highest-performing sizeable ethnic group in the UK – British Indians. Admittedly, they are diverse in terms of migratory background and subcontinental region of origin. But whether it is Hindus in Harrow, Sikhs in Coventry, Muslims in Blackburn or Roman Catholics in Swindon, British Indians – collectively – are a national success story, spanning spheres of life such as politics, business, healthcare, education, media, entertainment, and sport. Recent UK Government data showed that British-Indian workers are one of the highest-earning ethnic groups in the UK economy (based on average hourly pay) – right up there with their Asian-heritage counterparts of Chinese origin.¹⁰⁸ UK Government data released in 2022 showed that households in the Indian ethnic group were most likely to have a weekly income of £1,000 or more (41%). The corresponding figure for the white-British mainstream was 29%.¹⁰⁹

The 2021 England and Wales Census revealed that the Indian ethnic group held the highest rate of home ownership. ONS data published this decade revealed that households with an Indian-heritage head had the highest net property wealth (median of £176,000) – with four in five Indian-headed households having net property wealth (80% – the largest figure for all ethnic groups). These figures underscore the reality that many British Indians are model citizens who believe in the concept of a ‘property-owning democracy’ and consider bricks and mortar to be at the heart of financial security.¹¹⁰

108. HM Government, “Average hourly pay”, <https://www.ethnicity-facts-figures.service.gov.uk/work-pay-and-benefits/pay-and-income/average-hourly-pay/latest/#by-ethnicity-over-time> (2022).

109. HM Government, “Household income”, <https://www.ethnicity-facts-figures.service.gov.uk/work-pay-and-benefits/pay-and-income/household-income/latest/#by-ethnicity> (2022).

110. Office for National Statistics, “Ethnic group differences in health, employment, education and housing shown in England and Wales’ Census 2021”, <https://www.ons.gov.uk/peoplepopulationandcommunity/culturalidentity/ethnicity/articles/ethnicgroupdifferencesinhealthemploymenteducationandhousingshowninenglandandwalescensus2021/2023-03-15> (2023).

To understand the fundamentals of many British-Indian cases of upward mobility and socio-economic advancement, we should refer to the traditional triad of family, community and faith. ONS data from 2019 showed that 6% of Indian-heritage children aged 16 and under lived in a lone-parent household – the lowest figure out of all sizeable ethnic groups.¹¹¹ To put this in perspective, the figure rises to 12% for Bangladeshi-heritage children, around one in seven for those of Pakistani origin (14%), nearly one in five for their White British peers (19%), and all the way up to 63% for their counterparts of Black Caribbean origin, exposing the hopelessly reductive nature of the ‘BAME’ acronym.¹¹² This is not to stigmatise single parents, many of whom provide for their children to the best of their ability – but the reality is that two-parent households (headed by a married couple) are more strongly associated with positive youth outcomes such as level of school attainment, labour market integration and general life satisfaction.¹¹³ In this sense, British-Indian children are placed in a position of relative advantage – generally enjoying high levels of family-oriented social capital which enables wealth creation for younger people.

Furthermore, religious activities and cultural celebrations are mainstream features of British-Indian life – bringing together the generations and providing a sense of belonging, meaning and purpose. Indeed, these forms of social connectedness can assist with the development of contacts which can pave the way towards fresh economic opportunities. This could involve established business-owning ‘elders’ providing younger members of the community with the opportunity to develop their work experience. There is a healthy pressure that comes with such ‘in-the-community’ openings – with young people having the responsibility to represent their ‘family name’ in a good and proper way,

111. Office for National Statistics, “Proportion of children in lone parent families by ethnic group, England and Wales, 2019”, <https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/families/adhocs/12947proportionofchildreninloneparentfamiliesbyethnicgroupenglandandwales2019> (2021).

112. *Ibid.*

113. Branwen Jeffreys, “Do children in two-parent families do better”, *BBC News*, <https://www.bbc.co.uk/news/education-47057787>.

when performing in work-related roles within tight-knit social networks. In this sense, the British-Indian ethnic group is, overall, in greater shape than much of the general population in terms of family social capital, community-based belonging and spiritual health.

“ We may be a European society with an established church, but the figures suggest a society undergoing full-throttle secularisation ”

Of course, this is not to say social capital is the sole factor in British-Indian success – other ethnic-minority groups have high levels of social capital too. Migratory background and socio-economic resources of first-generation migrants – such as English language proficiency, educational standards in foreign region of origin and history of business ownership (especially the case for those who were the backbone of the Ugandan private sector before being expelled by racial-nationalist dictator Idi Amin) – also matter here. These other factors can provide a group with a vital ‘head start’ over other minorities which primarily originate from comparatively impoverished and underdeveloped contexts. One could argue that much of the UK’s Indian-heritage population has been able to strike the ‘sweet spot’ when it comes to migrant integration in a society where all is not well in the so-called mainstream. Equipped with the language skills and entrepreneurial know-how to integrate, many British-Indian families have over decades managed to foster and establish useful connections in mainstream society and the wider economy, whilst placing an importance on faith, family and community which has endured over the generations. This calls for us to break away from simplistic and outmoded calls for minorities to directly assimilate and absorb themselves into mainstream culture.

It can be argued that there has been a quietly traditional religio-cultural resistance to some of the contemporary and undesirable developments

in British society – largely insulating itself from accelerated forms of atomising secularisation, growing family fragility and increased loneliness across the generations. Fundamental changes to how families and communities are structured must inform the debate on the value of social capital and the accumulation of wealth. Indeed, this does not only shed light on the importance of social capital for ethnic-minority socio-economic development, but calls for fresh thinking in our broader national conversation on multiculturalism, integration and identity in modern Britain.

Moving forward, we must place family social capital and local community bonds at the heart of debates on wealth accumulation in modern Britain. The transfer of knowledge and wisdom across generations tied together by civic responsibility and mutual affection is an asset for advancing ethnic minorities – especially British Indians, who have taken a positive approach to integration whilst maintaining religio-cultural values to be admired by all.

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BOOMING BUSINESS?

Making it easier to start and grow companies

Emma Jones CBE

Today entrepreneurs sit at the heart of our society and economy. Last year almost 900,000 new companies were registered at Companies House, nearly a 10% increase on the year before and it has been on a consistent upward trajectory since 2012.¹¹⁴

Whether they are launching a tech start-up, an artisanal Etsy shop or starting out as a self-employed consultant, increasing numbers of people are being driven to become their own boss, boosting their household wealth while exploring their creativity.

When I started my first business at the height of the dot com boom in the early 2000s, it was an exciting time. The media was filled with stories of founders raising funds to change the way the world worked. Inspired by this entrepreneurial 'call to action', I jumped straight in.

Based in Manchester, back then, I carried out market research at the local library, queuing up for free hourly time slots at a desktop terminal before queuing again for the next session. I built the business at nights and weekends whilst holding down a day job and much of the work to build the business relied on finding out for yourself how it was done – mainly through reading books by Americans who had chartered their own path and offered tips to others on how to do the same.

Fast forward to 2024 and the UK now looks like a truly different and

114. Enterprise Nation, "UK enjoys another record year for new company start-ups, an analysis finds", <https://www.enterprisenation.com/press/uk-enjoys-another-record-year-for-new-company-start-ups/> (2024).

more enterprising nation where millions of people operate a side hustle business alongside employment and full-time founders leverage low or no-cost technology to build a brand, sell products and services and connect with customers across the globe.¹¹⁵ We still look to the United States for inspiration when it comes to how to scale, but for millions of everyday entrepreneurs, the United Kingdom is their business base as well as their home.

Behind this surge in entrepreneurship is the fact that becoming your own boss and starting a business has become truly accessible for many.¹¹⁶

As witnessed by the now almost mainstream side hustlers who take an idea or turn a passion into a way of making a living alongside employment, the UK has become a place where people can start a business in their own time. Indeed, even employers are now encouraging this to happen based on the benefits of staff becoming more entrepreneurial, with examples such as Unilever's U-Works which offers training to employees on how they can start a part-time business.¹¹⁷

You now can start a business for less than £100 using existing equipment and do something that offers freedom, flexibility and financial reward. Platforms such as Instagram, TikTok, eBay, Amazon and Etsy offer an online route for customers to build a profile that forms the basis for a successful business. Getting started simply requires the evolution of an idea and an internet connection.

Along with technology that allows anyone to get started in their spare time and on a low budget, the other major shift in the small business landscape over the past two decades has been the provision of support. The Government has experimented with various models; from Business Link to Regional Development Agencies and now Growth Hubs which have all been forms of local enterprise agencies that have seen mixed

115. Enterprise Nation, "On the rise: more than a third of Brits are thinking about starting a business in 2024", <https://www.enterprisenation.com/learn-something/than-third-brits-thinking-starting-a-business-in-2024/> (2024).

116. Natwest Group, "Global enterprise monitor: UK entrepreneurship on the up", <https://www.natwestgroup.com/news-and-insights/news-room/press-releases/economic-analysis/2022/sep/global-entrepreneurship-monitor-uk-entrepreneurship-on-the-up.html> (2022).

117. Avivah Wittenberg-Cox, "Flexibility for all: Unilever's vision for the future of work", *Forbes*, 23 May, 2021, <https://www.forbes.com/sites/avivahwittenbergcox/2021/05/23/flexibility-for-all--unilevers-vision-of-the-future-of-work/>.

results. This has been complemented by a significant increase in support from the private sector with free training, mentorship and funding on offer from the likes of Google Digital Garage, Vodafone's business.connected, Uber's Black Business Fund, Santander's Go Global and Mastercard's Strive programme. I could go on. In short, large corporates have truly stepped up to ensure small businesses are supported to start and grow on the basis of the economic contribution and vital social importance of millions of small firms operating productively.

“ We have succeeded in building a vibrant community of millions of self-starters and small business owners who are creating wealth and enriching their own communities ”

Take Karis Theophane, founder of Jerk Chicken, who started her business from her mum's kitchen in Hackney. After six months trading from her local community centre, she is about to launch her own restaurant. She was awarded a share of Uber's Black Business Fund in 2024 as well as mentoring and support to take her business to the next level.¹¹⁸ Taken together, the current scene is one where government works alongside corporate brands to ensure small businesses get the right support at the right time. Long may this continue as the benefits of starting and growing businesses are clear. Founders deliver creativity, innovation, employment, exports and an entrepreneurial approach that the UK so desperately needs to remain relevant in the world. Small businesses today create almost half of all employment and have a combined turnover of £1.6 trillion.¹¹⁹

There is also evidence to show that business owners have a disproportionately positive impact on their local community as well as

118. James Kelly, "Hackney restaurant wins grant supporting black-owned eateries", *BBC News*, 12 January, 2024, <https://www.bbc.co.uk/news/uk-england-london-67949524>.

119. Department for Business and Trade, "Business population estimates for the UK and regions 2023: statistical release", [https://www.gov.uk/government/statistics/business-population-estimates-2023/business-population-estimates-for-the-uk-and-regions-2023-statistical-release#:~:text=UK%20private%20sector,-At%20the%20start%20of%202023%3A,%C2%A30.8%20trillion%20\(17%25](https://www.gov.uk/government/statistics/business-population-estimates-2023/business-population-estimates-for-the-uk-and-regions-2023-statistical-release#:~:text=UK%20private%20sector,-At%20the%20start%20of%202023%3A,%C2%A30.8%20trillion%20(17%25) (2023).

dedicating time and funds to local charities and causes. A Whitley Bay-based sustainable gift shop and online sales platform, For the Love of the North, was launched after co-founder Paul Hull lost his job when local Tourist Information Centres were closed due to local authority cost cuts. He and his co-founder wife Lucy ploughed their savings and redundancy money into the shop in a bid to put the North East Beauty spot and local creatives on the map. They have formed a collective with local artists to produce an iconic range of products. They also work with charities, schools and community groups to promote the region.¹²⁰

We should prioritise preserving our entrepreneurial environment, ensuring it continues to develop – and never allow ourselves to get complacent. There are some areas that would benefit from our attention.

First of all, we need to support the next generation to start and grow businesses so that they can achieve a prosperous life. Younger people show an innate appetite and talent for entrepreneurship. Enterprise Nation's research found almost half (48%) of those 18-24 say they expect to start a business at some point in their career.¹²¹ They are natural with technology and have strong opinions that lend themselves to company formation as they put things right by starting businesses with purpose. Entrepreneurship as a career path can bring unique opportunities to disadvantaged young people. Mickela Hall-Ramsay started the award-winning social enterprise, HR Sports Academy in 2008 when she was 21. She had been motivated by the rise in youth crime and cuts to youth services she saw in Tottenham. Her business has touched the lives of 40,000 young people in the local community and she now employs 16 people, many of whom have come through her own programmes.¹²²

Yet there is a gap in the education system around enterprise. There

120. Enterprise Nation, "Whitley Bay creative business boosts sustainability and profits following Help to Grow: management mentoring", <https://www.enterprisenation.com/press/for-the-love-of-the-north-help-to-grow-management-mentoring/> (2024).

121. Enterprise Nation, "An enterprising nation! A third of UK adults are thinking about starting a business in 2023", <https://www.enterprisenation.com/learn-something/a-third-of-uk-adults-are-thinking-about-starting-a-business-in-2023/> (2023).

122. Mickela Hall-Ramsay, "London's youth crime continues to painfully soar despite it being a 'key priority'", <https://www.linkedin.com/pulse/londons-youth-crime-continues-painfully-soar-despite-key-hall-ramsay/> (2018).

have been calls for entrepreneurship to be introduced into the school curriculum and for more founders to speak in schools. This is an objective that sits well with the agenda for the Careers & Enterprise Company – a government organisation which seeks to inspire and prepare children for the world of work – with its national network of enterprise advisers and now well-established relationship with schools in England. We should learn from the experience in Wales where a Youth Entrepreneurship Strategy was developed to “provide an ongoing vision and structure to equip young people aged 5-25 with entrepreneurial skills and attitudes to raise their aspirations”.¹²³ The strategy exceeded targets. The more we can open young minds to entrepreneurship, the more people are likely to choose this route as a way of working and living.

We also need to consider how to equalise business opportunities for those from more disadvantaged backgrounds. When the New Enterprise Allowance was introduced in 2011, it supported thousands of people on Jobseeker’s Allowance to move from unemployment into self-employment by accessing a loan to help with start up costs.¹²⁴ When the scheme was closed in December 2021, it reported “299,000 starts on the NEA programme by 276,000 individuals.” Indeed, over a quarter of a million new businesses were formed by helping the unemployed get a start.¹²⁵ There is a current work programme – Restart – which does not place enough focus on self-employment as an option.¹²⁶ This leaves a national gap when it comes to a specific governmental programme to support the unemployed to become their own boss.

Lastly, it is all well and good helping businesses to start, but we also need to support them to grow. As mentioned at the beginning of this

123. Arad Research, “Review of Welsh Government Youth Entrepreneurship Programme 2016-2022”, <https://www.gov.wales/sites/default/files/publications/2022-11/review-of-welsh-government-youth-entrepreneurship-programme-2016-2022-final-report.pdf> (2022); Business Wales, “Youth Entrepreneurship Strategy”, <https://businesswales.gov.wales/bigideas/partnerarea/youth-entrepreneurship-strategy>.

124. HM Government, “New Enterprise Allowance: start your own business”, <https://www.gov.uk/government/collections/new-enterprise-allowance-campaign>.

125. Department for Work and Pensions, “New Enterprise Allowance statistics: April 2011 to December 2021”, <https://www.gov.uk/government/statistics/new-enterprise-allowance-april-2011-to-december-2021/new-enterprise-allowance-statistics-april-2011-to-december-2021> (2022).

126. Department for Work and Pensions, “Restart scheme”, <https://www.gov.uk/government/publications/restart-scheme> (2022).

essay, the UK has become a strong performer when it comes to people starting businesses with data showing almost 900,000 new businesses were registered in 2023, marking another record-breaking 12 months for start-ups.¹²⁷

“ Whether they are launching a tech start-up, an artisanal Etsy shop or starting out as a self-employed consultant, increasing numbers of people are being driven to become their own boss ”

It is in growing a business that friction appears; whether that be in getting paid on time, onboarding with larger clients, hiring and retaining staff, or going global. These moments of business expansion also require access to funding. The UK is doing a good job to a point. Yet, access to finance for female founders, for example, or for those seeking angel investment as grow-on finance, or in fact for any founder, simply knowing which forms of finance to access at which time, could be better. Today only 3.5% of total equity investment in the UK goes to women.¹²⁸ In all these areas, we believe data can help. The UK leads when it comes to developments in financial data technology and Open Banking, with London being the global centre of fintech commerce. However, this data is not currently being used in a small business support application, for example, leveraging bank transaction data to serve the right services and solutions to small businesses at the right time.

The vision the government should work towards is one where a small business owner does not have to think long and hard about the type of support that will have the greatest impact as it will be served to them. When transactions show payroll being introduced in an account, the owner will receive information on HR checklists and how to build a winning team.

127. Enterprise Nation, "StartUp tracker", <https://www.enterprisenation.com/startupuk/>.

128. The Entrepreneurs Network, "About the female founders forum", <https://www.tenentrepreneurs.org/aboutfff#:~:text=We%20were%20the%20first%20organisation,going%20to%20male%20led%20teams.>

When exports show in transaction data, the owner will receive international trade checklists and trade missions operating in their area or sector and for which they are eligible. This is a vision we are acting on in the hope that building a 'one-stop shop' for small businesses will increase productivity by saving business owners time and money in getting connected to the resources they need in one place, meaning the owner can instead direct time to increasing sales, employment and exports.

There is so much potential and it is clear the future for the UK's entrepreneurial culture is a bright one if we get this right. We have succeeded in building a vibrant community of millions of self-starters and small business owners who are creating wealth and enriching their own communities. If we now focus on ensuring a strong pipeline of new company formations by building enterprise into early years and supporting those from all backgrounds and with all budgets to give business ownership a go, whilst delivering leading-edge support to those wanting to grow, we will, in turn, reap the rewards in the form of a vibrant economy and a stronger society.

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ALL ABOARD?

Widening participation in pension schemes

John Godfrey

The UK ranks seventh in the international table of pension assets to GDP ratios – coming in at just over 80% – standing at a muscular £2.5 trillion.¹²⁹ Nevertheless, the Netherlands boasts double that ratio, with Switzerland, Canada, Australia, the US and Finland also ahead in terms of the size of the pension savings pot compared to national GDP.¹³⁰ One can quibble with the metrics; for example about what is included and what is excluded, but the clear inference is that we need to both widen and deepen participation in pension saving in the UK.

This should not come as news to policymakers. The secular decline of the old Defined Benefit (DB) model, and its replacement with Defined Contribution (DC) saving has fostered a culture of under-saving. At a macro-level, on one basis of calculation, just over half the population are projected to have a retirement income below the Pensions and Lifetime Savings Association's 'Moderate' Retirement Living Standard (RLS), while 88% are projected to have an income below the 'Comfortable' RLS.¹³¹ These figures, it should be noted, model the triple lock state pension remaining in place.

Dig below the headlines, and the statistics become more worrying

129. HM Treasury, "Chancellor's Mansion House reforms to boost typical pension by over £1,000 a year", <https://www.gov.uk/government/news/chancellors-mansion-house-reforms-to-boost-typical-pension-by-over-1000-a-year> (2023).
130. Thinking Ahead Institute, "Global Pension Assets Study 2023", <https://www.thinkingaheadinstitute.org/research-papers/global-pension-assets-study-2023/> (2023), 14.

131. Department for Work and Pensions, "Analysis of future pension incomes", <https://www.gov.uk/government/statistics/analysis-of-future-pension-incomes/analysis-of-future-pension-incomes> (2023).

still. The gender pension gap is well-known and amounts to a 40.5% difference between average pension income between men and women, with the average female pensioner receiving an income of £7,100 per year.¹³² Ethnicity gaps exist in parallel. While the average saver from a White British background has pension savings of just shy of £115,000, those from an ethnic minority background have an average pension pot of just over £50,000.¹³³

“ It may be a pipe dream to suggest that one day, pub conversations about pensions will be as lively as those about house prices, but it would be a good direction of travel ”

The simplistic answer is that contribution rates in auto-enrolment need to rise from 8% today to the Australian equivalent of 12%. This is a tall order in a cost-of-living crisis where pension saving reflects a decision to defer gratification as against coping with more urgent needs. At some point, however, it is a nettle that will need to be grasped.

Meanwhile, there is a strong rationale for widening access to pension saving. Auto-enrolment has already played a key role in doing this, and we should not ignore the achievement – a rare example of a policy success across successive governments of different colours. However, as NEST demonstrated, 40% of people work for employers who contribute only the minimum 3% employer contribution.¹³⁴ There are sometimes good reasons, such as a prioritisation of salary, but the minimum represents a strong default position, especially for small employers, and for the lower-paid. There is clear room for more innovative approaches – matching higher employee contributions, auto-escalation and indeed salary sacrifice to broaden access to better pension savings.

132. Prospect, “New figures show gender pension gap remains stubbornly high”, <https://prospect.org.uk/news/new-figures-show-gender-pension-gap-remains-stubbornly-high> (2023).

133. Rupert Jones, “Huge ethnicity pension gap revealed in UK figures”, *The Guardian*, 29 October, 2023, <https://www.theguardian.com/money/2023/oct/29/huge-ethnicity-pension-gap-revealed-in-uk-figures>.

134. NEST Insight, “Employer pension contributions in the UK”, <https://www.nestinsight.org.uk/wp-content/uploads/2022/10/Employer-pension-contributions-in-the-UK.pdf> (2022), 5.

Auto-enrolment has moreover excluded or at least actively discouraged certain categories of employee: the young (those aged 16-21) and the old (those aged between the state pension age and 74) do not automatically join and can choose to opt out of a workplace pension – as the majority of workers do – but have to consciously opt-in. This is a more difficult decision which does not use the powerful force of inertia. The same difference affects employees earning below £10,000 per year. People in these categories therefore miss out on the employer contribution and any tax help. This deserves review.

The reasons for the gender pensions gap have been written about extensively – it is in part a derivative of the gender pay gap, but also exacerbated by employment gaps due to, for example, caring responsibilities. Government needs to consider, therefore, how to plug these gaps for caregivers.

Today's pension system is designed, understandably enough, for a classic employer/employee relationship. But the world is more complicated than that. We have an economy with quite a large number of self-employed people: 4.3 million of them compared with 28.5 million working as employees.¹³⁵ Many would benefit from better arrangements to, effectively, auto-enrol themselves into a pension – this was proposed by Matthew Taylor, in his government-commissioned review on “Good work” in 2017,¹³⁶ which remains to be implemented.

If the exam question is how to increase the size of pension pots, two answers suggest themselves.

The first is to enable pension investments to earn higher returns – which grow through what is still described as ‘the miracle of compounding’. The Chancellor's 2023 Mansion House Reforms are designed to do exactly this – enabling a larger part of the pension funds allocation to be directed at more productive, higher-yielding assets –

135. House of Commons, “UK labour market statistics”, <https://researchbriefings.files.parliament.uk/documents/CBP-9366/CBP-9366.pdf> (2023), 11.

136. Matthew Taylor, “Good work: the Taylor review of modern working practices”, <https://assets.publishing.service.gov.uk/media/5a82dcde5274a2e87dc35a4/good-work-taylor-review-modern-working-practices-rg.pdf> (2017).

typically equity and real assets alongside debt.¹³⁷ This can be delivered as part of a virtuous circle which fosters greater company start-ups and especially scale-ups, to the benefit of the broader economy. Of course, higher returns imply higher risks, but it is important to note that pension investments are made over multi-decades, not over the one-year ‘Value at Risk’ view favoured by regulators in their risk models.

“ There is a strong rationale for widening access to pension saving. Auto-enrolment has already played a key role in doing this, and we should not ignore the achievement – a rare example of a policy success across successive governments of different colours ”

This approach could also deepen engagement with pensions. If pensions have a local element, and some exposure and investment into known assets such as train tracks or local businesses, it is more likely savers will take an interest. It may be a pipe dream to suggest that one day, pub conversations about pensions will be as lively as those about house prices, but it would be a good direction of travel and one that may become more realistic if technology enables savers to be more easily and conveniently informed about what their hard-won savings are supporting. We see elements already of this as part of the approach to climate change – it will become increasingly possible for retail pension savers, as ultimate shareholders, to have a voice and a vote on Environmental, Social and Governance or other corporate issues.

A second answer would be to seed a pension fund for every individual at birth. A junior pension (or ‘SIPP’ – a self-invested personal pension) can offer a good way in – again the miracle of compounding gets several decades’ headstart. It was at one time apocryphal in pensions that a

137. Michael O’Dwyer, George Parker and Josephine Cumbo, “Jeremy Hunt to set out City reforms to drive UK growth and investment”, *The Financial Times*, 10 July, 2023, <https://www.ft.com/content/7148a715-2ee0-48a8-8e71-0611496d2915>.

parent's Child Allowance contributions from birth to 18 would fund that child's future pension in its entirety. This of course favours those with parents or grandparents with the resources to contribute but the idea of a broadly-based, untouchable lump sum has serious proponents.

The pensions industry and its regulators could undoubtedly do more to broaden and deepen engagement. Technology is helping, but still, much of the advertising of pensions is undifferentiated. Communication is often in unintelligible legalese, designed to remove risk but not to attract savers. And while the government is taking steps to help people reunite disparate pots of pension savings, it is still all too easy, in a working life characterised by a dozen changes of job, to mislay savings along the way. Addressing these issues requires a change of regulatory approach – one that emphasises value for the saver rather than just the avoidance of any risk and the minimisation of cost, and one which for the provider enables clear and transparent communication which talks about the benefits of pension saving rather than just its possible pitfalls.

Most of all, we have lost in the UK any affordable access to pensions advice. The Money and Pensions Service (MaPS) does what it can, but this does not offer the range of support that once existed – before concerns about retrospective advice risk drove industry players out of the market. Naturally, there have to be rules to prevent poor, fraudulent or self-serving advice, but the pendulum has swung too far in the opposite direction to help any but the most high-net-worth customers.

While we have discussed the widening and deepening of engagement with pensions in the accumulation or saving phase, the same arguments are true – more so perhaps – in decumulation, as pensions are spent in retirement. Pension freedoms opened a range of choices to replace the automatic switch into an annuity income. But choices around household income in retirement can be complicated, even daunting.

These are not simple questions. With absent professional advice, the individual is expected to be their own investment manager and their own actuary. These are almost impossible asks for someone who has not been engaged with their pension. No wonder many take out too much

cash and sit on it, even as it is eroded by inflation. The answer is two-fold: again better advice in the run-up to and at the point of retirement including via the famous ‘Mid-life MOT’ and secondly something that feels counter-intuitive in a discussion of greater financial engagement: a standard default or auto-enrolment into decumulation.

By relieving some of the stress of pension saving and de-mystifying it, we can deepen and broaden engagement. After all, twenty years ago, technology and the internet were closed books to many people – today 80% of people over 65 in the UK own a smartphone device, with numbers higher still in younger age groups,¹³⁸ and phone stores in every high street. Pensions can learn from the technology companies if they are to achieve their full potential.

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138. USwitch, “UK mobile phone statistics, 2023”, <https://www.uswitch.com/mobiles/studies/mobile-statistics/> (2023).

A hand holding a photograph of a smiling woman, with other photos scattered around on a blue background.

SHARING WEALTH

STRENGTHENING OUR ONE NATION

The centre-right case for spreading wealth

The Rt Hon Baroness Nicky Morgan

Why has the word ‘wealth’ become such a controversial term for the centre-right to use positively? The dictionary definition of wealth – “an abundance of valuable possessions or money” – leads us to an immediate assumption that the wealthy person has ‘too much’ or ‘more than they (or anyone) might need’. ‘Wealthy’ is often used in the media to provoke an instant judgement about the life the person being described must lead because of that status.

“ The uneven spread of assets in Britain, particularly housing and between generations, makes the delivery of social mobility exceptionally challenging. It is critical that, as the centre-right, we challenge this ”

And yet, we also draw a distinction between different types of wealth. We do not seem to have a problem with the footballer or actor being paid hundreds of thousands of pounds, but we are quicker to judge those who inherit their wealth or live a perceived wealthy lifestyle as a result of a position they hold. Presumably, the view is that paying someone per month more than most people earn in a decade, on the basis of their hard work and talent can be rationalised. Meanwhile, inherited wealth brings into play all sorts of wider issues about background and birthright.

The ambition to spread wealth can also reinforce concerns about an increasingly unequal society – this is despite inequality in household incomes in the UK remaining at a roughly similar level since the early 1990s.¹³⁹ But as wealth inequality rises while income inequalities remain consistent, it is becoming increasingly clear that inheritances and family background are the pathways to wealth rather than hard work and talent.¹⁴⁰ Simply, acquiring wealth is more unattainable for Britain's less affluent youth and, therefore, the centre-right should start to focus more on spreading wealth.

Although used for hundreds of years, the term 'wealth' is also strongly associated with Adam Smith's seminal work *The Wealth of Nations* which, in itself, is an explanation of how the free market and the 'invisible hand' of individual self-interest create a wealthy nation. The centre-right has an attachment to both concepts meaning that we open ourselves up to the criticism that what we seek is wealth regardless of how well spread it is. If that was the case, our critics argue that we must be careless about inequality and who holds the wealth of the nation. This is wrong, however.

We do not want wealth to be concentrated in a few hands. To make this case, we talk about levelling up and social mobility.

When we talk about levelling up, what we are really saying is that we want those parts of the country that often feel economically undervalued and left behind, and the people who live there, to feel better off and to share in the economic opportunities that wealthier parts of the country do.

The aim to increase social mobility is an intention to improve a person's socio-economic situation – often demonstrated by the acquisition of money and assets. Mobility is most often judged by the income or occupation of a person's parents when they were 14 and the position that individual ends up in later in life. The uneven spread of

139. House of Commons Library, "Income inequality in the UK", <https://researchbriefings.files.parliament.uk/documents/CBP-7484/CBP-7484.pdf> (2023).

140. Mike Brewer and Tom Wernham, "Income and wealth inequality explained in 5 charts", <https://ifs.org.uk/articles/income-and-wealth-inequality-explained-5-charts> (2022).

assets in Britain, particularly housing and between generations, makes the delivery of social mobility exceptionally challenging. It is critical that, as the centre-right, we challenge this.

“ Those of us on the centre-right need to give voice to what wealth enables those with money and possessions to do – have greater security, less reliance on the state and more choice and freedoms – and why we want everyone to benefit in those ways ”

As a lifelong conservative, I believe it is a fundamental tenet of our worldview that if people own money and assets which increase their net worth, this enhances their sense of security, ability to provide for themselves and their dependents, reduces reliance on the state and gives freedom to make choices about their lives without unnecessary interference.

Should people be dependent on the state or in a position of financial instability, it restricts the choices open in life, attaches more conditionalities to possibilities and increases vulnerability. The centre-right should encourage people to have the means to increase their opportunities and choices.

Centre-right governments have historically set out ways to encourage people to acquire assets – we want to help them buy houses and build pension pots. We like to encourage people to save and invest, becoming shareholders in companies and having a stake in the wider economy.

Margaret Thatcher wanted Britain to become a ‘property-owning democracy’ as a way of spreading opportunity and giving people a stake in society. Anyone who has been an MP or a candidate should be able to tell the story of knocking on the doors of those who were the first generation to own their homes as a result of the Right-to-Buy policy and understand the security that comes from not being subject to the whim of a landlord.

Wealth is, at its most basic, about having cash in hand. It is not about being filthy rich. The ability to build savings and invest for the future is essential if people are to feel more secure and to deal with the unexpected.

In 2018, I chaired a House of Commons Treasury Select Committee inquiry into household finances. In our final report, we said: “The Government and the Treasury needs to take full and active responsibility for helping households to ensure that their finances are as resilient as possible and well-placed to support their standard of living throughout their lives.” Sadly, not enough has changed.

The Resolution Foundation found in 2020 that 41% of families had savings of less than one month’s income, while just over a quarter had no savings and 19% of families did not have the savings to cover an unexpected major expense.¹⁴¹

Helping people to save is life-enhancing. One of the most important policy decisions of the last 15 years has been the workplace pension revolution. It is a rare example of cross-party collaboration and deliberate long-term thinking which has delivered a growing safety net for thousands of employees who need to be supported in keeping their saving habits going, even as the increased cost of living bites.

If the argument for spreading wealth is strong, how should the centre-right make the case for it?

We need to talk about the ‘why’ of our political decisions. Why do we think owning a home is important? Why is having a pension pot or savings something that the state should incentivise? Why should people be able to share their assets with the next generation? Why should we recognise those who decide to use their wealth to philanthropically benefit others? And most importantly, why does the centre-right believe that the acquisition of money and assets by everyone is an answer to narrowing inequalities rather than widening them?

141. Moly Broome and Jack Leslie, “Arrears fears: the distribution of UK household wealth and the impact on families”, <https://www.resolutionfoundation.org/app/uploads/2022/07/Arrears-fears.pdf> (2022), 39.

Those of us on the centre-right need to give voice to what wealth enables those with money and possessions to do – have greater security, less reliance on the state and more choice and freedoms – and why we want everyone to benefit in those ways.

***The Rt Hon. Baroness Nicky Morgan** was the Member of Parliament for Loughborough between 2010 and 2019. Nicky is the former Chair of the Treasury Select Committee as well as Secretary of State for Digital, Culture, Media and Sport, Secretary of State for Education and Minister for Women and Equalities.*

A CAPITAL IDEA?

Rebalancing the taxation of work and wealth

John Penrose MP

Most of us work for a living and, if we are successful, we expect to pay a bit more in tax than people who are not doing quite as well. Those with the broadest shoulders carry more of the load. That's the deal, right?

Well no, not really: that is not what happens in the real world. In modern Britain, workers pay income tax at 20%, 40% or 45%,¹⁴² but the rich pay a lot less: just 8.75%, 33.75% and 39.35% on dividends,¹⁴³ 10% and 20% on capital gains,¹⁴⁴ and 18% and 28% on gains from property excluding first homes.¹⁴⁵ The only people who benefit from these lower rates are the ones who are already rich.

The situation is even worse for the least well-off families in Britain, who pay higher rates than anyone else because their benefits are reduced for every pound they earn, on top of the taxes they pay. This combined rate is called the Marginal Effective Tax Rate (METR) and, even though Rishi Sunak made big improvements, with a whopping 8% cut when he was Chancellor, this combined tax rate is still between 55% and 70% depending on the types of benefits being claimed and the number of hours someone works.¹⁴⁶

This is not remotely fair and means Britain taxes income in a thoroughly

142. HM Government, "Income tax rates and personal allowances", <https://www.gov.uk/income-tax-rates>.

143. HM Government, "Tax on dividends", <https://www.gov.uk/tax-on-dividends>.

144. HM Government, "Capital Gains Tax: what you pay it on, rates and allowances", <https://www.gov.uk/capital-gains-tax/rates>.

145. Ibid.

146. House of Commons Library, "Reducing the Universal Credit taper rate and the effect on incomes", <https://commonslibrary.parliament.uk/reducing-the-universal-credit-taper-rate-and-the-effect-on-incomes/> (2022).

regressive way by systematically giving a better deal to the rich at the expense of the poor. The ‘haves’ are being subsidised by the ‘have-nots’. It undermines the fairness and legitimacy of our economy, our tax system and our society overall. Indeed, a glass ceiling is created by making it much harder for poor people to climb the economic ladder out of poverty than for already well-off people to rise even higher.

This is an area where things have become worse rather than better: Britain’s tax system used to tax earned and unearned income (although not benefits) equally from 1988 to 1998, starting when Nigel Lawson was Chancellor.¹⁴⁷ Lawson argued that taxing different types of income at different rates was nothing more than political favouritism; a taxpayer-funded subsidy for whichever side has the best Westminster lobbyists. And, unsurprisingly, that tends to mean the rich. He said: “In principle, there is little economic difference between [earned] income and capital gains ... And in so far as there is a difference, it is by no means clear why one should be taxed more heavily than the other.”¹⁴⁸

“ Britain taxes income in a thoroughly regressive way by systematically giving a better deal to the rich at the expense of the poor ”

Lawson also pointed out that very high tax rates have a terrible effect on work incentives, and set about reducing the highest rates of Income Tax from 60% to 40% to put the problem right.¹⁴⁹ We have gone backwards since then; a 70% marginal rate means less well-off families have weaker reasons than rich ones to apply for a promotion, or work extra hours, because they keep much less of the extra money that they would earn if they did. Due to these sky-high tax rates applying to such

147. Phillip Inman, “Earned income taxed twice as heavily as capital gains for some in the UK, study finds”, *The Guardian*, 20 August, 2023, <https://www.theguardian.com/money/2023/aug/20/earned-income-taxed-more-heavily-than-capital-gains-in-uk-thinktank-finds>.

148. *Ibid.*

149. Larry Elliott, “How Nigel Lawson turned postwar economic consensus on its head”, *The Guardian*, 4 April, 2023 <https://www.theguardian.com/politics/2023/apr/04/how-1980s-chancellor-turned-postwar-economic-consensus-on-its-head>.

a large number of less well-off households, the damage caused to our economy by stunting their work incentives is very significant indeed.

The way to break this big, thick and enormously unfair glass ceiling is to tax all income the same, whether it comes from benefits, work or wealth. The advantages would be huge.

The new and simpler system would be clearly and transparently fairer, more progressive and more legitimate too, because it would not be rigged in favour of a gilded elite. We would have stopped subsidising the rich at the expense of the poor.

Even better, the new approach would create clearer and stronger work incentives, because everyone would know it always pays to work those extra hours or apply for that promotion. The results would be vastly better social mobility and social justice because every less-well-off family would have a better chance of moving up the income ladder than ever before.

Moreover, it would reduce in-work poverty because it would mean less well-off families keep more of any extra money they earn. And this would be a big step towards solving Britain's post-Covid labour shortages which saw half a million workers become economically inactive between the end of 2019 and the end of 2022.¹⁵⁰ By allowing people to keep hold of more of their hard-earned money, it would always make it worthwhile for people to come back into the workforce after becoming less active during the pandemic.

More fundamentally, these changes would boost the efficiency of our economy, making everybody richer by raising Britain's productivity and rate of growth because investment and jobs would flow to wherever they could be deployed most productively, without distortions from the tax system.

Last but by no means least, taxing all income the same would mean simpler, lower tax rates as well. Our current spaghetti bowl of different tax rates and thresholds on multiple types of incomes would vanish, as

150. International Monetary Fund, "The recent decline in UK labor force participation: causes and potential remedies", [https://www.elibrary.imf.org/configurable/content/journals\\$002f002\\$002f2023\\$002f253\\$002farticle-A004-en.xml](https://www.elibrary.imf.org/configurable/content/journals$002f002$002f2023$002f253$002farticle-A004-en.xml?t:ac=journals%24002f002%24002f2023%24002f253%24002farticle-A004-en.xml) (2023).

would the birds-nest like complexity of benefits withdrawal rates. Taxes would become simpler and harder to dodge because we would have removed the incentives for the rich to reclassify income as capital gains or dividends to avoid higher tax rates.

“ Lawson argued that taxing different types of income at different rates was nothing more than political favouritism; a taxpayer-funded subsidy for whichever side has the best Westminster lobbyists ”

We could use the money from all that simplification to cut taxes: the first priority would have to be those sky-high 55%-70% rates which benefit claimants currently face. After cutting them, we could use any leftover cash to cut other taxes too. Perhaps the basic 20% Income Tax rate could be reduced.

The point is that by rebalancing our tax system from work to wealth, we would be better off. Our economy would be more efficient and grow faster and our society would be fairer and more mobile. And perhaps even Lord Nigel Lawson, looking down on us from his special place in heaven, would nod approvingly too.

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MONEY FOR NOTHING?

Critically assessing inheritance tax reliefs and wealth inequality

Professor Arun Advani and David Sturrock

Few taxes are as deeply emotional as inheritance tax. Every parent, rightly, wants to do the best they can for their children. At the end of life, among those who have the resources, parents make one final contribution to the well-being of their descendants by passing on their worldly possessions. Inheritance tax inhibits this, in pursuit of another conservative value: equality of opportunity. While the wealthiest fifth of parents will pass on an average of £380,000 in wealth to each child, children of the poorest fifth will receive only £2,000 on average.¹⁵¹ Inheritance tax is the main way of, slightly, reducing this gap.

One of the main objections to inheritance tax is that it does not actually work very well. A poll of *Telegraph* readers highlighted this as a major source of concern, with one reader writing “it’s only the little people who pay the tax...the really rich avoid it completely.”¹⁵² This anecdotal evidence aligns with more scientific analysis: work by Professor Karen Rowlingson with Ipsos Mori found among a representative sample of UK adults that by far the biggest objection to taxing wealth more in the UK was the concern that the wealthy would avoid it.¹⁵³

This concern is not misplaced: estates leaving more than £10 million

151. Arun Advani and David Sturrock, “Reforming inheritance tax”, <https://ifs.org.uk/sites/default/files/2023-09/Reforming-inheritance-tax-1.pdf> (2023), 3.

152. Tara Thorpe, “Britain’s most unjust tax – Telegraph readers deliver their verdict”, *The Telegraph*, 21 November, 2023, <https://www.telegraph.co.uk/money/tax/news/britain-unjust-tax-inheritance-stamp-duty/>.

153. Rowlingson et al., “Public attitudes to a wealth tax: the importance of “capacity to pay””, *Fiscal Studies* (2021), 452.

in wealth pay an average effective tax rate of 17%, lower even than estates leaving £2-3 million.¹⁵⁴ The reason for this regressivity, with the tax rates actually falling above £7.5 million,¹⁵⁵ is the myriad of reliefs that riddle the inheritance tax system.

“ Each generation of older people is wealthier than the last – and has fewer children between which their estates will be split – so inheritances are set to continue to grow compared to the earnings of those who receive them ”

The bare bones of inheritance tax are simple. When you die, everything you pass to your spouse is tax free. For transfers to anyone else, there is nothing to pay on the first £325,000, and then a 40% tax rate above that.¹⁵⁶ Those in couples can pass on any unused part of their tax free allowance to their partner, so that they can collectively pass on £650,000 tax free. If that was it, inheritance would affect around 9% of deaths.

But that is far from the end of the story. Exemptions and reliefs abound, varying with what assets you pass on, when you pass them on, who you pass them to, the cumulative value of what else you passed on, where the money that you passed on came from, and more. The effect is to skew the system in favour of the well-off and well-advised, who can take steps to substantially reduce their tax bills, at the cost of overall productivity.

Principled Lawsonian reform to simplify and streamline this system is long overdue. Three simple steps could take us most of the way there, making the tax fairer and less distortive, while providing additional revenue either for public services or for reducing tax bills.

The first, most straightforward reform would be to reduce or remove the complete exemption given for certain asset classes. Agricultural land,

154. HM Revenue and Customs, "Inheritance Tax statistics: commentary", <https://www.gov.uk/government/statistics/inheritance-tax-statistics-commentary/inheritance-tax-statistics-commentary> (2023).

155. Advani and Sturrock, "Reforming inheritance tax", 31.

156. HM Government, "How Inheritance Tax works: thresholds, rules and allowances", <https://www.gov.uk/inheritance-tax>.

as highlighted in a recent Bright Blue report, is currently completely tax free, even when the farm is a recent purchase and not farmed by the owner.¹⁵⁷ The complete exemption after seven years even for those with no connection to the land only serves to drive up the price of that land for those who actually want to own it to farm it. With a cost of £400 million per year, this relief also necessitates higher taxes elsewhere.¹⁵⁸

A similar exemption applies to ‘business assets’, either where the individual owns the majority of the company, or owns shares in unlisted businesses. While the typical image is of a small business owner toiling away, in practice, 80% of business relief is claimed on shares in the Alternative Investment Market (AIM), where the deceased is not involved at all in running the company.¹⁵⁹ Some companies offer even AIM Inheritance Tax ISAs, which use an ISA wrapper to benefit from tax free status in life as well as on death.¹⁶⁰ The effect is that significant capital is moved into particular investments not because they are productive and hence offer the best financial return, but just because they offer a serious, and expensive, tax break. This break costs £1.1 billion annually.¹⁶¹

Abolishing these reliefs entirely could raise around £1.5 billion.¹⁶² This is substantial when set against inheritance tax revenues of £7 billion.¹⁶³ If abolition were a bridge too far, because of concerns about genuine small businesses and small farms, capping the reliefs at £500,000 per person and only including assets where the individual is actually involved in running the business or farming the land, would go most of the way. For business relief, such a cap would reduce the cost of the current relief by 80%, and almost all the additional tax paid would come from the top 1% wealthiest at death, whose estates are worth over £2 million.¹⁶⁴

A second necessary reform is to treat pension pots passed on at

157. Sam Robinson and Ryan Shorthouse, “Rightfully rewarded: reforming taxes on work and wealth”, <https://www.brightblue.org.uk/wp-content/uploads/2022/06/Rightfully-rewarded.pdf> (2022), 79.

158. Advani and Sturrock, “Reforming inheritance tax”, 21.

159. *Ibid.*, 20.

160. Robinson and Shorthouse “Rightfully rewarded: reforming taxes on work and wealth”, 79.

161. Advani and Sturrock, “Reforming inheritance tax”, 47.

162. *Ibid.*, 47.

163. Office for Budget Responsibility, “Inheritance tax”, <https://obr.uk/forecasts-in-depth/tax-by-tax-spend-by-spend/inheritance-tax/> (2023).

164. Advani and Sturrock, “Reforming inheritance tax”, 2.

death in the same way as other assets. Pension savings are built up without any tax applied in life because we defer the tax until someone draws the pension as an income. However, if passed on at death, they avoid inheritance tax. If the death occurs before age 75, the recipient also avoids income tax. This naturally discourages the use of pensions for their primary purpose: providing an income in old age. The growth of private pension wealth means the cost of this exemption will grow rapidly over time: it currently costs £200 million, but is expected to rise to £1 billion by 2025.¹⁶⁵

A third step is to remove the fudge of the ‘residence nil-rate band’ (RNRB). This provides an additional tax free amount of £175,000 per person (£350,000 per couple, taking the overall inheritance tax threshold to £1 million) if the individual owns – or has recently owned – a property, and is passing it to their children or grandchildren. The relief applies even where the home has been sold, or is instructed to be sold in the will, so it is clearly not about passing on the family home itself.

Unsurprisingly, differences in house prices across the country create big differences in who can benefit from the RNRB: even among people who do have £500,000 in assets, almost half of those in Wales are not able to make full use of this relief. Even in London and the South East one in twenty who have £500,000 do not get the full value, largely because they do not have (living) direct descendants.¹⁶⁶ Removing the RNRB, and extending the general tax free allowance to £500,000 would be a more sensible design. On its own, this would cost around £900 million, but this could be combined with other reforms into a revenue-neutral package.¹⁶⁷

Putting these reforms together would result in taxation at death that was fairer, less distorting of people’s choices about how to hold their wealth, and harder to avoid. It would shift the burden of inheritance taxation away from those with smaller taxable estates and substantially increase the tax rate on estates worth over £5 million. Combining these

165. *Ibid.*, 19.

166. *Ibid.*, 17-18.

167. *Ibid.*, 38.

reforms is necessary, as shutting down one avoidance channel is less effective if people can simply shift to using others instead. Together, this package of reforms to inheritance tax would raise the tax threshold to £500,000 for everyone, and raise around half a billion in revenue. This could fund an even larger tax free amount or lower inheritance tax rate, or be used to fund more spending or tax cuts elsewhere.

These reforms would only be the first step in a larger project needed to improve taxation on the transfer of assets, and at death. Currently, individuals are strongly incentivised to hold on to assets, even when the direct financial returns may no longer be high, because on death any capital gains tax they would owe is wiped out. If they are going to transfer the asset away, they should try to do it early: gifts made more than seven years in advance of death are entirely tax free. This is actually how much of the most consequential gifting is done – not on death, when the parent is eighty-plus and ‘child’ is in their early sixties, but bank-of-mum-and-dad cash when the child is in their twenties or thirties and parental wealth is a major factor in whether they can get onto the housing ladder. The highest-income fifth of young adults (in their twenties and early thirties) receive an average of £790, or 3% of their income, in parental gifts each year, while the lowest-income fifth receive an average of £30, or 0.5% of their income.¹⁶⁸ These amounts can have an outsized effect on wealth accumulation for a young person who has sufficient income to afford mortgage repayments but is unable to put down a house deposit due to limited savings. Furthermore, transfers are often used to buy with a lower loan-to-value ratio, meaning that the interest rate paid on the mortgage is reduced.¹⁶⁹

Even with these reforms, inheritance tax would remain a small tax, with over 90% of deaths unaffected.¹⁷⁰ The counterpart to this is that – outside of the very top end – inheritance tax can do little to address the substantial wealth inequalities between those with richer and poorer

168. See Boileau and David Sturrock, “Who gives and receives substantial financial transfers in Britain”, <https://ifs.org.uk/sites/default/files/2023-03/WP202308-Who-gives-and-receives-substantial-financial-transfers.pdf> (2023), 12.

169. See Boileau and David Sturrock, “Help onto the housing ladder: the role of intergenerational transfers”, <https://ifs.org.uk/sites/default/files/2023-12/Help-onto-the-housing-ladder-IFS-report.pdf> (2023).

170. Advani and Sturrock, “Reforming inheritance tax”, 2.

parents. Next year the wealthiest fifth of parents to die will on average bequeath almost £400,000 per child and pay an average inheritance tax rate of 10%, while children of the poorest fifth will inherit next to nothing.¹⁷¹ And by the time these sums arrive, typically when people are in their late fifties or early sixties, inequalities between these recipients are already very large. Children of the wealthiest fifth will have wealth of more than £800,000 on average, more than four times that of children of the poorest fifth.¹⁷² Inheritance tax is 'too little, too late' with respect to these important wealth inequalities.

The need for improved design of inheritance tax will only become more pressing in the coming years. Each generation of older people is wealthier than the last – and has fewer children between which their estates will be split – so inheritances are set to continue to grow compared to the earnings of those who receive them. For a child from the wealthiest fifth of parents, the inheritance they will receive makes up a quarter of all the money they will receive across their entire lifetime. Whether and how we tax that money is therefore particularly important. From both equity and efficiency standpoints, the status quo does not do it well.

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171. *Ibid.*, 3.

172. *Ibid.*, 44.

BUILDING A FAIRER UK

Levelling up the UK with property tax reform

John Stevenson MP

The words ‘Poll Tax’ can still send a shiver down the spines of Conservative politicians, of a certain age, at least. A policy reform that turned the country from largely backing the Prime Minister to largely being against her, it is believed by many to have cost Margaret Thatcher her premiership. And it nearly led to a Labour victory in 1992.¹⁷³

“ By unintended effect, Council Tax has almost become the Poll Tax in all but name. It is time for the Conservative Party to finally put this right ”

The Poll Tax (or Community Charge to give it its proper title) was a deeply unpopular policy because, at its most basic level, it felt unfair. The political consequences were huge – but I believe that we are now in a position where its replacement, Council Tax, has morphed to a large degree into a new version of the Poll Tax. And because of hugely imbalanced property prices across the country, I also believe this new Poll Tax acts as a drag on rebalancing our regional economies and levelling up the areas of the country that need it the most.

The Poll Tax was an attempt to replace what was a somewhat effective residential property tax with a community charge. It meant

173. Nick Higham, “National Archives: Thatcher’s poll tax miscalculation”, *BBC News*, 30 December, 2016, <https://www.bbc.co.uk/news/uk-38382416>.

that everyone was taxed at a single flat rate set by the local authority. The problem was that the new system simply did not reflect an individual's ability to pay. The poorest families and the richest families were expected to contribute an equal amount, meaning that, as a proportion of one's income, the poorest were much worse off. This was particularly damaging to young people who were more likely to rent and lose out on the rebates that they received under the old system, making them the primary victims of the tax change.

Does this sound familiar? Whilst Council Tax is somewhat more progressive – property value is banded and it is levied on capital value as opposed to notional rental value – it still fails to properly compensate for differences in actual income and wealth. Worse still, because of regional imbalances in property values that have only grown larger, the current system of Council Tax ingrains disparity between the North and the South – and could threaten any chance we have of levelling up our communities. The overarching reality is that, because property values have not been updated for over 30 years, Council Tax suffers from almost the same regressivity as the Poll Tax.

This is due to many features relating to the design of Council Tax. For example, the difference between bands is extremely small, making it resemble a per capita tax. Accordingly, the difference in payments between rich and poor is extraordinarily small. The fact that it is levied equally within bands means that the lowest-valued properties in each band pay a significantly higher amount as a percentage of their property value than the highest-valued property in that same band.

This is all before we look at the disproportionate effect that the tax has on the different regions of the UK, where property prices vary to such a wild degree. As property value in the South East of England has sky-rocketed, the relative cost of Council Tax to property value has plummeted in comparison to the rest of the country. In fact, it is not just in relative terms; right now, someone in a £150,000 home in Bolton pays

£1,000 more a year in Council Tax than someone living in an £8 million mansion in Westminster.¹⁷⁴

On top of these disparities, like a Poll Tax, our current Council Tax is particularly pronounced on young people and renters who will spend a greater proportion of their income on Council Tax compared to other working-aged adults. In fact, the young were actually protected under the old residential property tax, largely through rebates for renters. This is no longer the case.

“ The Conservative Party should never be seen as the party of high tax. Instead, we should aim to be seen as the party of fair tax ”

So, by unintended effect, Council Tax has almost become the Poll Tax in all but name. It is time for the Conservative Party to finally put this right – by listening to their MPs, Bright Blue and their voters and introducing a proportional property tax. One idea, spearheaded by Fairer Share and backed by a number of my colleagues, would be to create a flat 0.48% tax on residential property value.¹⁷⁵ This would provide more than £550 of annual tax savings for 77% of households.¹⁷⁶

A huge number of these households would be in the North and Midlands of England – meaning a substantial annual cash boost to those working families who pay Council Tax on top of all the other obligations they currently have. Levelling up, or any incarnation of that concept, can only happen when the people of those areas which need to be boosted become richer themselves and so have more money to spend.

Furthermore, the incentive to live in an area where property prices are not only lower but where the tax attached to them is also lower would mean a huge rebalancing in the workforce – at once easing the burden

174. Larry Elliott, “A property tax based on annually uprated values would be a gamechanger”, *The Guardian*, 9 April, 2023, <https://www.theguardian.com/money/2023/apr/09/uk-property-tax-based-annually-uprated-values-gamechanger>.

175. Fairer Share, “The proportional property tax manifesto”, https://fairershare.org.uk/wp-content/uploads/2021/10/Fairer-Share_Manifesto.pdf (2021), 11.

176. Fairer Share, “What we are proposing”, <https://fairershare.org.uk/proportional-property-tax/>.

in the South of England and opening up opportunities in the rest of the country, especially for those areas that have traditionally found it more difficult to attract skilled labour and talent.

As an added benefit, this policy would allow for the abolition of another unpopular tax – Stamp Duty. It would support the housing market by making it easier for people to both downsize and upsize into homes more appropriate for their families. According to research by WPI Economics, this reform could free up as many as 600,000 homes, going some way to easing the housing crisis, and ultimately making houses across the country more affordable.¹⁷⁷

Not only is this the right thing to do for the country, but there is also a politically necessary element to the reform. Recent polling has indicated that adopting this policy would be popular amongst a large number of voters, with a plurality (41%) supporting a proportional property tax and only 8% opposing it.¹⁷⁸ This is not surprising as 90% of households in key constituencies would see a tax cut from this policy.¹⁷⁹ This reform is fully costed, will help to fund new infrastructure and, perhaps most importantly, will provide the Treasury with additional fiscal breathing room – a surplus of £5.6 billion.¹⁸⁰

Finally, by linking domestic rates properly to property value, we might at last begin to see a rebalancing of the country – giving people an increased incentive to move to other parts of the country outside of London and the South East.

Some 32 years later, the Poll Tax riots still haunt the Conservative Party – which is why I think governments of all colours are loath to meddle with Council Tax. But there has to be a reckoning with Council taxes that are increasingly incommensurate with their relative

177. WPI Economics, "Taxing times: a fairer deal for future generations", https://fairershare.org.uk/wp-content/uploads/2021/09/WPI-Economics-Taxing-Time_-A-Fairer-Deal-for-Future-Generations.pdf (2021), 27.

178. JL Partners, "Fairer Share: proportional property tax", <https://jlparters.com/polling-results> (2022).

179. Fairer Share, "Fairer Share's response to the Levelling Up White Paper", https://fairershare.org.uk/wp-content/uploads/2022/02/Report_Levelling-Up_v4.pdf (2022), 11.

180. Fairer Share, "New polling: scrapping council tax key to winning 'Red Wall' seats", <https://fairershare.org.uk/new-polling-scrapping-council-tax-key-to-winning-red-wall-seats/> (2022).

property value.

The Conservative Party should never be seen as the party of high tax. Instead, we should aim to be seen as the party of fair tax. It being an unfair tax is what did for the Poll Tax – and Council Tax is now basically replicating this unfairness across the country. It is time to be bold and finally right the wrong that Council Tax has become.

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A REASONABLE RETIREMENT?

Reforming the incentives to save for retirement

Michael Johnson

In 2021-22, HM Treasury provided just over £48 billion in total net pension Income Tax and National Insurance Contributions (NIC) relief.¹⁸¹ In 2022-23, this figure increased to just over £51 billion.¹⁸² Outcome? The UK has one of the lowest household savings ratios in the developed world.

Not only is pensions tax relief expensive and an ineffective use of scarce Treasury resources, but it is inevitably regressive, and therefore iniquitously distributed. Most of it goes to those in the least need of an incentive to save, with nearly 60% being harvested by higher- and additional-rate taxpayers – only 14% of all taxpayers.¹⁸³ In addition, the language of tax relief is incomprehensible to most adults, and employer NIC rebates are invisible to employees. Consequently, many people are unmoved by the Treasury's largesse.

From the Treasury's perspective, an equally serious issue concerns Income Tax 'band shifting', whereby high-earning workers become basic-rate taxpayers upon retirement. Recipients of higher- and additional-rate tax relief pay an average tax rate of less than 17% on their pension incomes, while 39% of basic-rate tax-paying workers become

181. HM Revenue and Customs, "Private pension statistics commentary: September 2023", <https://www.gov.uk/government/statistics/personal-and-stakeholder-pensions-statistics/private-pension-statistics-commentary-september-2022#the-estimated-cost-of-pension-relief> (2023).

182. HM Revenue and Customs, "Non-structural tax relief statistics (December 2023)", <https://www.gov.uk/government/statistics/main-tax-expenditures-and-structural-reliefs/non-structural-tax-relief-statistics-december-2023#headline-statistics> (2024).

183. Stuart Adam et al, "A blueprint for a better tax treatment of pensions", <https://ifs.org.uk/publications/blueprint-better-tax-treatment-pensions> (2023), 32.

non-taxpayers in retirement.¹⁸⁴ This fiscal gap is only going to widen as the population ages.

“ The 25% tax free lump sum is available and, each year, £10,000 of pension pot drawings can be recycled back into the pot to secure more tax relief ”

We need to catalyse a broad-based savings culture which means more people saving increased amounts as opposed to just the wealthy saving more. One solution is to detach the incentive to save from tax-paying status, through the introduction of contributions-based bonuses.

Historically, there has been a tacit agreement between the Treasury and the people regarding pension reliefs. The Treasury summarised in 2006: “The fundamental reason for giving tax relief is to provide a pension income. Therefore when an individual comes to take their pension benefits they can take up to 25 per cent of the pension fund as a tax free lump sum; the remainder must be converted into a pension – or in other words annuitised.”¹⁸⁵

A year earlier, Lord Turner’s Pensions Commission report made the same point: “Since the whole objective of either compelling or encouraging people to save, and providing tax relief as an incentive, is to ensure people make adequate provision, it is reasonable to require that pensions savings are turned into regular pension income at some time.”¹⁸⁶

The arrival of pension freedoms in 2015 put an end to the annuitisation requirement – whereby retired people were effectively required to buy into a scheme which provided them with regular income from pension pots – and with it the main mechanism through which the Treasury is

184. *Ibid.*, 47.

185. HM Treasury, “The annuities market”, http://news.bbc.co.uk/1/shared/bsp/hi/pdfs/06_12_06_pbr06_annuities.pdf (2006), 2.

186. The Pensions Commission, “A new pension settlement for the twenty-first century: the second report of the Pensions Commission”, <https://archive.org/details/newpensionsettle0000unse/page/n10/mode/1up> (2005), 227.

repaid for its earlier tax reliefs.

Gone is the concept that tax relief is a reward for saving. Today, one can contribute to a pension pot just before reaching the age of 55, receive tax relief and shortly thereafter limit annual pot drawdowns to less than the Personal Allowance threshold of £12,570, thereby paying no Income Tax. In addition, the 25% tax free lump sum is available and, each year, £10,000 of pension pot drawings can be recycled back into the pot to secure more tax relief.¹⁸⁷

All this makes no sense from a Treasury perspective and provides strong justification for a significant redeployment of incentives to boost their effectiveness and efficiency.

In the House of Commons Treasury Select Committee's response to the 2014 Budget, which introduced pension freedoms, it commented that in light of pensions' improved flexibility, ISAs and pensions will become increasingly interchangeable in their effect. It went on to suggest that the Government should work towards a single tax regime to reflect this.¹⁸⁸ The then Committee chairman, Andrew Tyrie MP, was clear: "in particular, there may be scope in the long term for bringing the tax treatment of savings and pensions together to create a 'single savings' vehicle that can be used – with additions and withdrawals – throughout working life and retirement. This would be a great prize."¹⁸⁹

This coincided with my proposal for the Lifetime ISA, with a bonus incentive disconnected from tax-paying status.¹⁹⁰

As the current pension reliefs are inequitable and an ineffective use of Treasury resources, there need to be solutions. First, we should replace all tax relief and NICs rebates with a simple bonus, detached from tax-paying status.

187. Abrdn, "Recycling tax free cash or income", <https://techzone.abrdn.com/public/pensions/tech-guide-recycle-tax-free-cash> (2023).

188. House of Commons Treasury Committee, "Budget 2014 report", <https://publications.parliament.uk/pa/cm201314/cmselect/cmtreasy/1189/1189.pdf> (2014), 72.

189. UK Parliament, "Treasury Committee published report on 2014 Budget", <https://committees.parliament.uk/committee/158/treasury-committee/news/183273/budget2014report/> (2014).

190. Michael Johnson, "Introducing the Lifetime ISA", <https://cps.org.uk/wp-content/uploads/2021/07/140915191102-IntroducingtheLifetimeISA.pdf> (2014).

Bonuses would be paid on individual and employer post-tax contributions, capped at £2,500 per year. A bonus rate of 25% would facilitate an incentivised annual savings capacity of up to £10,000, more than adequate for 95% of all adults.¹⁹¹ Alternatively, to encourage those who find it hardest to save anything at all, a more aggressively progressive approach would be to pay a 50% bonus on the first £2,000 saved, and 25% thereafter – making for an incentivised annual savings capacity of £8,000. Further, a five-year ‘roll up’ on unused incentivised capacity could be introduced to accommodate those with less regular annual incomes.

“ Not only is pensions tax relief expensive and an ineffective use of scarce Treasury resources, but it is inevitably regressive, and therefore iniquitously distributed. Most of it goes to those in the least need of an incentive to save ”

Replacing tax relief with bonuses, which would disconnect the incentive to save from tax-paying status, would put an end to many tax-related pension complexities. This would provide a huge simplification of the savings arena: there would, for example, no longer be a need for the high earners’ annual allowance taper.

Further, an incentivised annual savings capacity of £10,000 would adversely impact a tiny minority of the population. Only the very highly paid are in a position to save more than this in a single year, and they do not need to be incentivised to do so.¹⁹²

Crucially, it is an idea that would provide a more equitable spread of wealth. The alternative incentive structure of a 50% bonus on

191. The Investors Centre, “The compelling reasons to aim for a £10k savings goal”, <https://www.theinvestorscentre.co.uk/blog/how-to-save-10k-in-a-year-uk/#:~:text=The%20truth%20is%2C%20having%20a%20precise%20and%20ambitious,to%20set%20your%20sights%20on%20this%20significant%20milestone%3A>

192. NimbleFins, “Average household savings and wealth UK 2023”, <https://www.nimblefins.co.uk/savings-accounts/average-household-savings-uk> (2023).

the first £2,000, and 25% on the next £6,000, would be significantly redistributive. It would also be politically very attractive because, on the first £2,000 saved, it would double the rate of savings incentives for basic rate taxpayers – 84% of Income Tax payers.¹⁹³

Moreover, NIC rebates on employer contributions directly benefit company shareholders. Invisible to employees, they are an ineffective incentive to save and have long been considered for abolition.

The seminal Mirrlees Review, for example, suggested “ending the excessively generous treatment of employer contributions”.¹⁹⁴ A more effective use of Treasury resources would be to redeploy NIC rebates within a budget for savings bonuses on employer contributions, paid directly into pension pots, where they would be visible and therefore more engaging.

In addition, scrapping NIC rebates would put an end to salary sacrifice schemes. Such schemes are unfair because they are only available to those with an employer-sponsor, thereby excluding, for example, the self-employed. Unlike employer contributions, employee contributions do not attract NIC relief. Consequently, employees accept a salary cut in return for a larger pension contribution from the employer, so that both parties save on NICs.

Bonuses, as envisaged, would help low earners because, unlike tax relief, they would now be eligible, even if total annual income fell below the Personal Allowance.¹⁹⁵ Not only is this an economic matter but a social one. Indeed, it would help promote gender inequality because pensioner poverty is far more prevalent among women than men.¹⁹⁶

From a fiscal perspective, moving from tax relief to a simple bonus-based saving incentive would provide the Treasury with scope

193. Antonio Voce and Ashley Kirk, “UK income tax: how fiscal drag leads to people falling into higher rates?”, *The Guardian*, 22 November, 2023, <https://www.theguardian.com/business/ng-interactive/2023/oct/02/uk-income-tax-how-fiscal-drag-leads-to-people-falling-into-higher-rates>.

194. James Mirrlees et al, “Tax by design”, https://ifs.org.uk/sites/default/files/output_url_files/taxbydesign.pdf (2011), 345.

195. Michael Johnson, “Reinforcing automatic enrolment: a response to the DWP’s consultation”, <https://cps.org.uk/wp-content/uploads/2021/07/170712155527-Reinforcingautomaticenrolment.pdf> (2017).

196. Age UK, “Briefing: poverty in later life”, <https://www.ageuk.org.uk/globalassets/age-uk/documents/reports-and-publications/reports-and-briefings/money-matters/poverty-in-later-life-briefing-june-2023.pdf> (2023), 2.

to realise a net saving of at least £10 billion per year, depending upon the precise bonus structure.¹⁹⁷ This arises because of the significant reduction in the incentive that would be available to those on high incomes.

Pensions tax relief is expensive, inequitable, illogical, incomprehensible to many and incompatible with the end of the annuitisation requirement. Consequently, it is an ineffective incentive to encourage saving, and therefore an inefficient use of scarce Treasury resources.

Replacing tax relief with a bonus-based framework disconnected from tax-paying status makes eminent sense, particularly for the low-paid and the self-employed. This would boost the effectiveness of the Treasury-funded incentive to save. It would mean more people, especially the low-paid, saving more – so crucial at a time when so many have so little in their pots.

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197. Funding the Future, "Ending higher rates of tax relief on pension contributions would raise £14.5 billion in tax a year", <https://www.taxresearch.org.uk/Blog/2023/09/06/ending-higher-rates-of-tax-relief-on-pension-contributions-would-raise-14-5-billion-in-tax-a-year/> (2023).

SHARED SUCCESS

Employee ownership as a supercharged 'all-party' solution to bolster wealth

Graeme Nuttall OBE

Employee ownership is a UK success story. We have seen a decade of accelerating growth in the number of employee-owned private companies, from around 140 in 2014 to over 1,650 by October 2023.¹⁹⁸ This business model has moved from pioneering experiments into the mainstream, largely due to the Coalition Government's decision to promote employee ownership.

The UK's success is prompting other countries to do more to promote employee ownership.¹⁹⁹ This may seem like 'job done' but it is only a start. The number of UK employee-owned companies needs to increase to achieve impact at a national level and understanding their role in reducing inequality and boosting household wealth can provide the political willpower to make this happen.

The Coalition Government commissioned an independent review – *The Nuttall Review of Employee Ownership* – of what was needed to promote employee ownership in private companies and supported its recommendations. *The Nuttall Review* defined an employee-owned company as requiring “a significant and meaningful stake in a business for all its employees.” What is ‘meaningful’ goes beyond financial participation. The employees’ stake must “underpin organisational

198. Employee Ownership Association, “People powered growth report”, <https://employeeownership.co.uk/kp/> (2023).

199. Graeme Nuttall, “How the UK is encouraging employee ownership internationally” <https://www.fieldfisher.com/en/insights/how-the-uk-is-encouraging-employee-ownership-inter> (2022).

structures that ensure employee engagement”.²⁰⁰

A business owned and governed in this way has wide-ranging benefits, for the business, its employees, communities and the economy as a whole, as set out in Bright Blue’s report, *Mind your business*. For example, they are more innovative, have greater business performance, greater resilience in the face of economic pressure, better employee satisfaction and they make our economy more competitive, to name a few benefits.²⁰¹

“ The benefits of employee ownership can be considered as universal and uncontroversial. Features of employee ownership may align more with some politicians than others, such as the promotion of personal freedom, legitimacy and property by the centre-right ”

Prominent among the benefits is reducing inequality. The adverse impacts of differences, especially in income levels, within society are well documented.²⁰² Employee ownership addresses these problems head-on. If a company is wholly or partly employee-owned then profits otherwise payable to investors are available as pay to employees. Instead of relying solely on the rewards from an employment relationship, employees in a company with employee ownership can also benefit from the financial (and non-financial) rewards of that ownership structure.

The main reason why employee ownership works so neatly to reduce income inequality is that it is self-financing. The profits of the company provide additional income for that company’s employees, which helps reduce income inequality. For instance, the annual cash

200. Graeme Nuttall, “Sharing success: the Nuttall review of employee ownership”, <https://assets.publishing.service.gov.uk/media/5a79ab1b40f0b63d72fc7918/12-933-sharing-success-nuttall-review-employee-ownership.pdf> (2012).

201. Bartek Staniszewski and Thomas Nurcombe, “Mind your business? Expanding democratic business in the UK”, <https://www.brightblue.org.uk/portfolio/mind-your-business-expanding-democratic-business-in-the-uk/> (2024).

202. The Equality Trust, “Impacts”, <https://equalitytrust.org.uk/about-inequality/impacts>.

bonuses paid by the John Lewis Partnership over the 50 years to 2020 averaged 14.8% of salary.²⁰³ What is not fully appreciated is how effective the employee ownership model is at increasing the financial rewards available to employees. It is not just that there are no, or fewer 'external' shareholders, it is how all the elements of the employee ownership model combine to supercharge the reduction of inequality.

Given that employee-owned businesses generally have higher levels of productivity, sometimes as much as 12%,²⁰⁴ these increased profits are available for distribution amongst employees, whilst their governance structure ensures they are distributed fairly among all employees and not simply among senior executives.

One of the reasons cited for extreme income differentials is excessive executive pay, especially in the financial sector. For example, the CEOs of Britain's largest listed companies earned, on average, 57 times more than the median employee salary in 2022. In a third of cases, this was over 100 times.²⁰⁵

The pay policies in an employee-owned company address such concerns. Employee bonuses are not at the expense of regular pay and benefits and do not accrue mainly to senior or key executives. Consequently, bonuses for employees are, on average, twice as large in employee-owned businesses than in non-employee-owned businesses.²⁰⁶

There is, however, a broader set of benefits of employee ownership identified by research, such as a higher average wage, being twice as likely to have diversity and inclusion policies, having fairer pay differentials and being more likely to give cost-of-living support.²⁰⁷ Combining many of these proven characteristics shows how an employee-owned company

203. John Lewis Partnership, "Partnership bonus rates", https://jlpmemorystore.org.uk/content/being_a_partner/co-ownership/partnership_bonus/partnership_bonus_rates

204. Employee Ownership Association, "People powered growth report".

205. Jamie Nimmo, "Pay gap widens between CEOs and employees at top UK firms", *Bloomberg*, 18 December, 2023, <https://www.bloomberg.com/news/articles/2023-12-18/pay-gap-widens-between-ceos-and-employees-at-top-uk-firms?leadSource=verify%20wall>.

206. Employee Ownership Association, "People powered growth report".

207. *Ibid.*

can create a powerful financial multiplier effect, to generate extra income for employees over a prolonged period.

From an individual employee's point of view, they can look to the all-employee nature of employee ownership and their company's governance arrangements and be confident they will reap the rewards from their work. These will not be one-off rewards paid at the whim of owners: they are rewards arising because of the ownership structure.

The evidence also points to lower staff turnover rates, meaning that employees are likely to remain employed to receive these payments and not be made redundant during periods of economic difficulty. This is evidenced by the resilience of employee numbers after the 2000s global financial crisis and during the 2020s COVID-19 pandemic. Between 2005 and 2009 – the years immediately preceding and during the financial crisis – employee-owned businesses saw their total employment number increase by 7.5%, compared to 3.9% in non-employee-owned businesses.²⁰⁸

Employee-owned businesses also spend on average 12% more on training and development, and thus, employees generally receive better skills training so can receive higher pay through promotion.²⁰⁹

There is also a broader impact on an employee's overall wealth. Employees receiving these rewards will have less need to borrow and they appear more able to manage their finances. They can save and invest more. Research into the impact of employee share plans shows a positive impact on wealth. A 'wealth premium' is found, across all income levels, that exceeds the value of the employee shares.²¹⁰ Repeated studies show minority employee share ownership can significantly increase the wealth of employees.²¹¹ Where companies are employee-owned the

208. The Ownership Commission, "Plurality, stewardship and engagement", <http://www.mutuo.coop/wp-content/uploads/2012/03/Ownership-commission-2012.pdf> (2012), 72.

209. Employee Ownership Association, "People powered growth report".

210. Scott Corfe, "A stake in success: employee share ownership and the post-COVID economy", <https://www.smf.co.uk/wp-content/uploads/2021/05/A-stake-in-success-May-21.pdf> (2021), 18-22.

211. National Centre for Employee Ownership, "Research on employee ownership" <https://www.nceo.org/article/research-employee-ownership>.

wealth premium will be greater.

In the UK most employee-owned companies are 100% employee-owned.²¹² Almost all conversions to employee ownership in the UK arise from business succession. So, any future increase in capital value in the employee-owned company and the income arising from that wealth will belong to the many, not the few. Over time and at scale this should also have a rebalancing effect on income and wealth differentials.

“ The number of UK employee-owned companies needs to increase to achieve impact at a national level and understanding their role in reducing inequality and boosting household wealth can provide the political willpower to make this happen ”

The benefits of employee ownership can be considered as universal and uncontroversial. Features of employee ownership may align more with some politicians than others, such as the promotion of personal freedom, legitimacy and property by the centre-right.²¹³ In practice, there has been long-standing support for employee ownership across the political spectrum.²¹⁴

The UK experience is that existing owners will willingly convert companies to employee ownership as a business succession solution.²¹⁵ What is needed are continuing nudges to do this, through the UK tax system, and other support for growing the number of employee-owned companies.

Employee ownership is clearly not the only solution to inequality and

212. Andrew Pendleton, Andrew Robinson and Graeme Nuttall, "Employee ownership in the UK", *Journal of Participation and Employee Ownership* (2023), 196.

213. Staniszewski and Nurcombe, "Mind your business? Expanding democratic business in the UK", 97-106.

214. Examples include an All-Party Parliamentary Group on Employee Ownership between 2007 and 2015, support for public service mutuals from both Labour and Coalition Governments and political contributions to the Oxford Symposium on Employee Ownership – an annual international gathering of employee ownership policymakers.

215. Pendleton, Robinson and Nuttall, "Employee ownership in the UK", 208.

wealth inadequacy, but it is a proven successful business model and at scale could produce big results to reduce inequality and increase household wealth.

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DRAWING DOWN

A REDUCED RETIREMENT?

Housing equity in an era of falling house prices

Dr Tim Leunig

Owning a house has three important economic aspects.

First and foremost, it is a place to live. Housing is a consumption good. Unlike owning shares, owner-occupiers derive direct benefit from the house they own. It is a place to sleep at night. A place to be safe. A place to write book chapters.

Housing is also an investment and in many cases a very profitable one. That said, unless you are going to sell the house you live in, owner-occupation is a hopeless investment in that you cannot easily realise your gains. From my window, I can see five houses, each with four or five bedrooms, and worth around £1 million. Each is lived in by a pensioner or a pensioner couple. They could downsize and realise a large financial gain but do not. These houses have memories of happy marriages and children growing up. They are the embodiment of lives well-lived – and therefore investments only to the next generation. By and large, a house is only valuable as an investment for the pensioner if they need to move into a care home: a London house buys a lot of care.

Finally, owner-occupation is a hedge against house prices rising. For sure, mortgage rates can change, but the purchase price is fixed from the moment you exchange contracts. Most people need one house to live in, no more and no less. Buying one house, therefore, is a perfect hedge against future house price inflation.

As well as the three direct economic aspects, owning your own house gives independence. This is particularly important in retirement, when you would not want a landlord evicting you because you wish to live in the property, or because the rent has risen to a level you cannot afford.

“ One effect of lower house prices is that people will have more ‘human family wealth’, that is, more children who may well provide some caring and companionship for them in their dotage. That too is a form of wealth ”

Conversely, private renters face many risks in retirement, especially as they age. They face the risk that their rent will rise – forcing them to move house at an age when that is difficult. They face the risk that their landlord will evict them. Even if the Government acts on its long-standing and much-delayed promise to ban no-fault evictions,²¹⁶ people can still be evicted if the landlord wants to sell the property or live in it themselves.

Furthermore, people in retirement often need modifications to their homes. These might be small things, such as installing handrails by the front door, or larger projects, such as a walk-in bath, a wet room or a downstairs bathroom. Negotiating these with a landlord will not always be easy, and the tenant – who does not want to move – will do so from a position of weakness.

Renting in retirement has one more major downside: you must pay rent. A small one-bedroom flat where I live in Surbiton costs around £1,300 a month – so you need an additional gross pension of £19,500 a year to cover the rent alone. That is a lot. Poverty for private renters in retirement in the South East is going to be the norm.

216. Department for Levelling Up, Housing and Communities, “Tenancy reform: Renters Reform Bill”, <https://www.gov.uk/guidance/tenancy-reform-renters-reform-bill> (2023).

The number of pensioners living in private rented housing is on course to double in the next few years.²¹⁷ Given a 20-year retirement life expectancy, there is a very real prospect that rising rents will force many pensioners into a precarious position, relying on children to pay their rent, or forcing them to move long distances to find a place they can afford. Another way to look at it is to think of the pension pot you would need to maintain living standards. According to the insurer Royal London, someone who owns their home outright needs a pension pot of £260,000, while someone who rents privately needs almost double this, at about £445,000.²¹⁸

Meanwhile, a majority of owner-occupier retirees have paid off their mortgages. Indeed, over three-quarters of pensioners own their homes outright.²¹⁹ For sure, there are some costs – the annual boiler service, for example – but these are much smaller than the costs of paying rent.

Let us turn now to think about the effects of falling house prices. The main thing to note is that a bit of a fall will make very little difference to any retired person. Whether the average house in London is worth £500,000 or £600,000 does not matter. Either is enough to pay for care except in the most exceptional circumstances.

Let us think instead about what would happen if house prices across the UK were far more affordable. Imagine that house prices were half their current averages. That would mean that a small Victorian terraced house was £125,000, a suburban semi £150,000 and most detached houses cost £250,000. This would have the following effects. These prices are already typical in the North East, and although it is not possible or desirable to halve house prices in

217. Gareth Corfield, "Number of pensioners renting to more than double", *The Telegraph*, 4 December, 2023, <https://www.telegraph.co.uk/money/retirement/number-pensioners-renting-property-retirement-double-2041/>.

218. Richard Partington, "Home ownership among people aged 35-44 has plunged – ONS", *The Guardian*, 10 February, 2020, <https://www.theguardian.com/money/2020/feb/10/home-ownership-ons-rent>.

219. Statista, "Share of adults that own their dwelling outright in the United Kingdom (UK) in 2020, by age", [https://www.statista.com/statistics/793681/home-ownership-by-age-uk/#:~:text=There%20is%20a%20clear%20correlation%20between%20age%20and,24%20only%20one%20percent%20own%20their%20home%20outright%20\(2023\)](https://www.statista.com/statistics/793681/home-ownership-by-age-uk/#:~:text=There%20is%20a%20clear%20correlation%20between%20age%20and,24%20only%20one%20percent%20own%20their%20home%20outright%20(2023).).

the short run, a period of nominal price stability so that real prices fall would be welcome. If that were to happen, we would see the following effects.

First, and most importantly, far more people would own their house by the time they retired. Owner occupation among working-age people has fallen substantially since the early 1990s, coinciding with the rise in prices. We know that people overwhelmingly want to own their own house, but that many are priced out by current levels of house prices. Lower house prices mean that far more people would have wealth in retirement because they would own their own house. They would no longer need to assign £19,500 of their pension just to cover the rent because they would own their property outright.

Second, because houses are cheaper to buy, people will have accessed wealth earlier. They will be able to get on the property ladder at an earlier age, they will pay less in mortgage repayments while they are young and they will pay off the mortgage earlier. What they do with this extra money cannot be predicted with any certainty. In all probability, they will spend some and save some. Saving more means that they will enter retirement with more money in their pension and in other forms of savings. Indeed, one of the many reasons that so many people have so little pension provision is the cost of housing. We have a double pension time bomb – low pensions, large rent.²²⁰ In short, they will have more assets and lower outgoings than in the high house price alternative.

Third, the evidence from the US and UK is that high house prices deter people from having as many children as they would otherwise have. One effect of lower house prices is that people will have more ‘human family wealth’, that is, more children who may well provide some caring and companionship for them in their dotage. That too is a form of wealth.

220. Jonathan Cribb et al., “Major new pensions review warns of substantial risks to finances of future generations of pensioners”, <https://ifs.org.uk/news/major-new-pensions-review-warns-substantial-risks-finances-future-generations-pensioners> (2023).

Fourth, more owner-occupiers means fewer retirees in need of housing benefit. There are over one million pensioner households on housing benefits.²²¹ This number is not currently rising, because those young enough to be hit by high house prices have not reached retirement age, but it will. It is plausible that significant action now to increase housing supply will, in due course, reduce the pensioner housing benefit bill by £10 billion from levels it would otherwise reach. Remember, no government is going to allow mass evictions of pensioners from the private rented sector, caused by an inability to pay. Saving the Government billions means that there is more money to be spent on the one thing that high house prices do help with – paying for adult social care. In the context of social care, a reduction in house prices is, therefore, not the destruction of wealth or assets, it is a reallocation.

“ By and large, a house is only valuable as an investment for the pensioner if they need to move into a care home: a London house buys a lot of care ”

Fifth, lower house prices means fewer housing assets that can be used to pay for care for those who would own a house even in the high housing cost scenario. At present, if you go into a care home, the value of your house may well be used to cover the costs of your care. Lower house prices means less money will be available from that source to cover these costs.

Lower house prices would, however, change the best way for government to approach care as a policy. With lower monthly bills for mortgages and rents for people of working age, the Government could more easily extend national insurance to cover care costs, with less

221. Department for Work and Pensions, "DWP benefits statistics: August 2022", [https://www.gov.uk/government/statistics/dwp-benefits-statistics-august-2022/dwp-benefits-statistics-august-2022#:~:text=Housing%20Benefits%20claimants%20by%20age%20group%20at%20May%202022&text=At%20May%202022%2C%20there%20were,to%20Universal%20Credit%20\(%20UC%20\) \(2022\).](https://www.gov.uk/government/statistics/dwp-benefits-statistics-august-2022/dwp-benefits-statistics-august-2022#:~:text=Housing%20Benefits%20claimants%20by%20age%20group%20at%20May%202022&text=At%20May%202022%2C%20there%20were,to%20Universal%20Credit%20(%20UC%20) (2022).)

of a chance of political backlash. That could either be a pay-as-you-go scheme, like the state pension, or an asset-backed individualised approach, akin to defined contribution pensions, with an insurance option available on retirement. Something akin to the Dilnot Report – suggesting a cap on individual care contributions with government covering the costs above the cap – which has surely been kicked into the long grass at present, or a more comprehensive system could then be afforded.²²² With lower mortgages – and probably an earlier date of purchase – people will have more time in middle age to save for retirement, including saving for care. Those savings will be cash or other reasonably liquid investments, rather than in housing, which makes paying for care easier.

Finally, if lower housing costs have been achieved through liberalising the planning system, the cost of a care home place in areas where care homes themselves are currently expensive will fall, simply because it will be cheaper to buy or rent the care home. The huge variation in care home costs around the country can largely be explained by differences in housing costs, rather than differences in wages.

Meaningfully lower house prices will therefore affect wealth in retirement in the following ways. Above all, they will increase the number of people with wealth in retirement, because they will increase the number of owner-occupiers. Further, lower mortgage and rental costs earlier in life will increase people's ability to save via financial instruments such as pensions and ISAs, rather than being overly invested in owner-occupied property. That gives them more freedom and more choice in retirement. Finally, it would change the way that government should approach paying for care homes for the elderly. Rather than expect the cost to be covered by housing assets, it should be covered by financial savings or government. With lower

222. Andrew Dilnot, "Fairer care funding: the report of the Commission on Funding of Care and Support", https://webarchive.nationalarchives.gov.uk/ukgwa/20130221121529mp_/https://www.wp.dh.gov.uk/carecommission/files/2011/07/Fairer-Care-Funding-Report.pdf (2011).

mortgage and rental costs earlier in life, people would be in a stronger position to cover these costs.

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FLEXIBILITY OR FOOLISHNESS?

Making the most of pension freedoms

Sir Steve Webb

It is not often that a government policy is popular and also generates extra tax revenue. But, when the then Chancellor, George Osborne, announced the policy known as ‘pension freedoms’ in his 2014 Budget, it received widespread praise. Since then, it has raised billions of pounds in extra tax revenue.²²³

So, what exactly are ‘pension freedoms’, and what more do we need to do to make them a success?

Most private sector workers are now saving into a ‘pot of money’ type pension. This is usually a Defined Contribution pension, where contributions are invested and the money can be accessed beyond a minimum pension age – usually 55 but rising to 57 in 2028. A quarter of the pot can be taken tax free, whilst the remainder is treated as taxable income when it is drawn out.

Prior to the ‘pension freedoms’ rule change, most people had a limited choice about what to do with their pension pot. Those with ‘trivially’ small pots could cash them out, whilst those with the largest pots had greater flexibility. Nevertheless, for the vast majority, there was only one option: to buy an annuity.

An annuity is simply a guaranteed income for life. Previously, savers were effectively forced down a single route when they came to draw on

223. Sharing Pensions, “Pension freedoms tax receipts exceed expectations at £1.5bn”, <https://www.sharingpensions.co.uk/pension-freedoms-tax-receipts-exceed-hmrc-expectations.htm> (2017).

their pension. There were two big problems with this.

First, for much of the decade between 2010 and 2020, annuity rates were exceptionally poor. This meant that, for any given pension pot, the amount of income you could draw each year was very low. For example, in May 2018, someone with a £100,000 pot would get an annuity of just under £5,500 per year, with no annual increases. By contrast, the same pot would have secured an annuity of nearly £7,400 back in 2003.²²⁴

“ We cannot have a situation where people who may be elderly or vulnerable or suffering from cognitive decline have to make tricky financial decisions into their eighties and beyond ”

The second problem was more fundamental. Whilst there is nothing wrong with having a guaranteed income for life, there are many reasons why someone might want to do something different with the pension pot that they have worked so hard to build up.

For instance, they may wish to clear the balance on a mortgage, leaving them mortgage free in retirement.

Additionally, helping the next generation with things like getting on the housing ladder features heavily in the thinking of older generations; pension freedoms allow parents and grandparents to use some or all of their savings to benefit the next generation.

Further, retirees may wish to ‘front load’ spending. Those who have worked hard to build up a decent pension pot can use pension freedoms to enjoy retirement, especially when they are still young enough to get out and about. This could help fund the trip of a lifetime, for example, at a time when one may be most able to enjoy it, and without having to count every penny.

224. Nathan Long, “Annuity index: 15 years of change”, <https://www.thehrdirector.com/business-news/pensions/annuity-index-15-years/> (2018).

There is also the fact that many wish to retire at a time of their choosing rather than being forced to 'work until they drop'. Provided you have saved enough, accessing your pension pot before the state pension age could enable you to flex your retirement. For example, you might be able to retire early, using your 'pot of money' pension pot as a 'bridge' to give you financial security until state and occupational pensions cut in at a later age.

There are many positives about pension freedoms, and it remains a popular policy. However, it is not quite a finished product. There remains more that can be done to make it even more successful. The key is to enable people to make maximum use of this newfound freedom. There are several risks which need to be addressed.

First, few of us are well equipped to manage an investment fund over an uncertain time horizon which could run into decades; the individual saver has to deal with investment risk, for the pot value could go down through market movements; inflation risk, whereby rising prices could erode the value of the pot; and longevity risk, under which they may have to make the fund last for more years than they expect.

Second, taking lump sums out of a pension pot is not necessarily very efficient from a tax point of view; aside from the tax free lump sum, withdrawals are treated as taxable income.²²⁵ Large withdrawals can even take people into the higher tax rate of 40% and they lose a good chunk of their hard-earned savings as a result.

Third, having easy access to large amounts of cash may tempt some people to 'blow the lot'. Whilst there is little evidence of a surge in 'Lamborghini sales',²²⁶ there is some data which suggests that some pension pots are being run down at an unsustainable rate. For example, the Financial Conduct Authority reports that even for pension pots in the range of £100,000-£250,000, over one in three were taking out 8% or

225. Morgan Liang, "How much tax will I pay on my pension withdrawals?", <https://www.standardlife.co.uk/articles/article-page/tax-on-pension-withdrawals> (2023).

226. BBC News, "Minister fuels pension debate with Lamborghini comment", <https://www.bbc.co.uk/news/uk-politics-26649162> (2014).

more of the pot each year.²²⁷ If a similar sum was taken year after year, this could lead to the pension pot being exhausted in not much more than a decade – well short of the average life expectancy of someone who reaches pension age.

“ There is growing interest in hybrid post-retirement products which include an element of annuity to help secure a core income – possibly commencing later in retirement – alongside a more flexible earlier phase of retirement ”

Fourth, all of us are at risk of cognitive decline, and there may come a point in our retirement at which we are not well equipped to make complex decisions about our finances. This has not yet been a major issue because those yet to draw their pensions when pension freedoms were introduced in 2015 are still not especially elderly, but this problem will grow over time.

Given the huge potential upsides of this policy, how can we make sure that it continues to deliver good outcomes whilst mitigating the risks?

There should be two main priorities.

The first is to improve the individual saver’s access to personalised guidance, preferably tailored financial advice, especially at the point of retirement.

Today’s retirees face complex choices. They can choose when to retire, perhaps taking different pensions at different ages and not being bound by a single date such as state pension age. They can partially retire, perhaps combining some continuing work with drawing one or more pensions. Where they are homeowners, they can consider whether tapping into some of the housing equity they have built up could help to support their retirement. Further, they may want to consider a whole

227. Financial Conduct Authority, “Retirement income market data 2021/22”, <https://www.fca.org.uk/data/retirement-income-market-data-2021-22> (2022).

range of other factors, such as tax planning, funding of bequests and the financing of future long-term care.

Getting all of these things right can be challenging, even for financial experts. At present, individuals can access a free and impartial guidance session from the PensionWise service.²²⁸ Although this service achieves good customer satisfaction scores, it is inevitably very limited in scope and can only offer general information and guidance and not personalised financial advice.

We urgently need to overcome the barriers to taking financial advice, which include cost, reputational issues around the advice industry and a lack of knowledge about the potential advantages of taking advice. Despite years of government initiatives, including a major Financial Advice Market Review launched in 2015, take-up of advice remains low, with only 8% of all UK adults receiving financial advice as of 2020.²²⁹

We need to see some fresh thinking, almost certainly involving behavioural nudges, to make sure that more people access tailored financial advice at this key point in their lives.

The second priority should be what happens not just 'at' retirement but also 'through' retirement. It is one thing to set off on the right path at retirement, but many people have 20 or 30 years after this point in which they have to manage their pension savings.

One idea under active consideration at present by the Department of Work and Pensions is for all pension savers to have a 'default post-retirement journey'. The idea is that people would retain full flexibility over the use of their pension savings, but that those who made no active choices would be 'defaulted' into a post-retirement pension product or pension regime.

For example, there is growing interest in hybrid post-retirement

228. Money Helper, "Welcome to pension wise", <https://www.moneyhelper.org.uk/en/pensions-and-retirement/pension-wise>.

229. Financial Conduct Authority, "FCA publishes evaluation of its work on the financial advice market", <https://www.fca.org.uk/news/press-releases/fca-publishes-evaluation-financial-advice-market> (2021).

products which include an element of annuity to help secure a core income – possibly commencing later in retirement – alongside a more flexible earlier phase of retirement. This ‘flex first, fix later’ approach could be a good fit for many people.²³⁰

We cannot have a situation where people who may be elderly or vulnerable or suffering from cognitive decline have to make tricky financial decisions into their eighties and beyond. The beauty of a default journey – ideally entered into at retirement with full knowledge and understanding, and with flexibility along the way – is that it gets most people into a good place to enjoy their retirement and make sensible decisions with their finances at the same time.

The principles of pension freedoms are good ones, and have even made pension saving seem rather attractive – no mean feat. There is, nevertheless, no doubt that more needs to be done to ensure that people can take full advantage of these new-found freedoms.

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230. Lane Clark & Peacock, “On point paper: The “Flex First, Fix Later” pension – is this the future of retirement”, <https://www.lcp.com/media-centre/2022/09/on-point-paper-the-flex-first-fix-later-pension-is-this-the-future-of-retirement> (2022).

DESERVING OR DYNASTIC?

How to make inheritances fairer

Andrew O'Brien

Conservatives and inheritance have a complicated relationship.

On the one hand, the very idea of inheritance is part of the foundations of modern intellectual conservatism. It was Edmund Burke who argued that “the idea of inheritance furnishes a sure principle of conservatism and a sure principle of transmission, without at all excluding a principle of improvement.”²³¹ For Burke, and for practically all conservatives, the act of leaving an inheritance is morally virtuous. It shows that we care about others, that we are prepared to make sacrifices for them and that we have our eye on our responsibilities to future generations.

On the other hand, inheritance can also encourage behaviour that is deeply unconservative. For example, receiving an inheritance can encourage the pursuit of self-interested pleasure or luxury, a hedonism anathema to a conservative. The pursuit of inheritance can lead to a myopic focus only on the interests of our own family or friends, a selfishness that runs counter to conservative values of duty to the wider community and the nation. A glance at various newspaper headlines can find stories of people receiving significant inheritances (in some cases worth over a hundred thousand pounds) and wasting them on clothes, cars, partying and, sadly, drugs.²³²

231. Edmund Burke, *Reflections on the Revolution in France*, (Oxford: Oxford University Press, 1790).

232. Daily Record, “Scot, 24, blew £100k inheritance on cars, clothes and drugs before being busted for dealing cocaine”, <https://www.dailyrecord.co.uk/news/scottish-news/scot-24-blew-100k-inheritance-4841961> (2014).

For the classical liberal, all inheritance is universally good, because it is the free disposal of property by an individual. For the socialist, all inheritance is universally bad, because it naturally creates inequality between those who receive and do not receive an inheritance. For a conservative, inheritance is never black or white. Rather, it is a constantly evolving interaction between different obligations.

“ Conservatives should not be worried about whether people feel responsibility for their families: this sense of duty is alive and well. Instead, conservatives should be worried about the legacy we are leaving our communities and the country as a whole ”

Given this, how can a conservative design a policy environment to make inheritance fairer?

In my paper, *Lost ideals: conservatives in the new age of inheritance*, I outline two principles that I believe should guide conservatives in designing policies for inheritance.²³³

The first is the ‘duty principle’. The idea of duty is foundational to conservatism. Duty is a recognition that we have an ethical responsibility to others, beyond our self-interest. Our first duty is to our family. This is often where conversations about inheritance are concentrated. However, conservatives do not believe that duty ends at the threshold of our front door. We have a wider responsibility to our neighbours and the place where we live and to the nation, as citizens. Ultimately, conservatives believe that there are times of crisis when our obligation to the nation exceeds our narrower responsibilities. When we think about inheritance, a fair approach means balancing these different obligations.

233. Andrew O’Brien, “Lost ideals: conservatives in the new age of inheritance”, <https://demos.co.uk/wp-content/uploads/2023/07/lost-ideals-demos-july-2023-1.pdf> (2023), 7.

The second is the ‘partnership principle’. The partnership principle is a recognition that, as Burke regarded, society is a partnership between those who are dead, those who are living, those who are yet to be born. In essence, this principle is rooted in a conservative belief that we should look after the inheritance we have received from previous generations, be good custodians of them and the country as a whole and think about how we can help the next generation.

Taken together, these principles embody the vision of society as a ‘dutiful partnership’, where we encourage people to take responsibility for themselves, their families and wider society. Further, we think about the long term, seeing our role as stewards and custodians, rather than only thinking about our own needs and desires in the present.

Unfortunately, the recent history of Conservative Party policy on inheritance is the narrowing of the idea of inheritance itself, away from conservatism and towards a self-interested libertarianism; most notably, growing calls to abolish inheritance tax as “immoral” because it infringes upon the free disposal of assets by individuals.²³⁴

The Conservative Party used to recognise that fairness must involve a reasonable level of taxation on inheritances, so that those with the most money contributed to the provision of institutions that future generations rely on, to pay down our collective debts after the cost of two world wars.

Conservatives also recognised that duty does not end with taxation. It is the responsibility of those who have the most to take care of others in society and to contribute to the maintenance of the social, cultural and civic institutions that we all benefit from. Instead, the policy debate about inheritance has become narrowly focused on family homes. There are now those on the centre-right that claim the only fair approach to inheritance taxation is no taxation or that link fairness to the size of the properties that can be disposed of tax free

234. Nadhim Zahawi, “Inheritance tax is a spectre that haunts Britain – it must be abolished”, *The Telegraph*, 31 May, 2023, <https://www.telegraph.co.uk/money/tax/inheritance/inheritance-tax-haunts-britain-abolished/>.

– a threshold that at present stands at £1 million, over three times the national average house price.

Advocates for abolishing or slashing taxes on wealth cite a variety of arguments. A favourite one being the taxation of wealth or inheritance as being a “tax on aspiration”. However, not only is this framing essentially anti-social but it is also circular. Aspiration is only something that can be achieved through individual freedom. Anything that inhibits me inhibits my aspiration, therefore my aspirations can only be realised through the removal of all restrictions – particularly taxation. The idea that we may (and the conservative would argue, should) aspire to be good citizens and realise our aspirations through our sacrifices on behalf of the common good is barely considered. It is the duty of the conservative to make the case for aspiration in a broader sense.

A fair conservative approach to inheritance taxation must be rooted in our current circumstances.

There is no crisis in inheritance. According to the latest data, at least £100 billion in inheritance and gifts are being transferred between generations every year, a figure that has more than doubled since 2000.²³⁵ It is projected to rise still further in the decades ahead. Conservatives should not be worried about whether people feel responsibility for their families: this sense of duty is alive and well. Instead, conservatives should be worried about the legacy we are leaving our communities and the country as a whole.

At present, our national economy is in a fragile and perilous position. The national debt has rocketed due to the global financial crisis in the noughties and the Covid-19 pandemic in the twenties. We are still on track to be running a deficit in 2028, nearly two decades from when Conservatives promised to close the deficit in 2010.²³⁶ The last time our national debt was this high, the inheritance tax rate was

235. Dan Goss and Ben Glover, “A new age of inheritance: what does it mean for the UK?”, <https://demos.co.uk/research/a-new-age-of-inheritance-what-does-it-mean-for-the-uk/> (2023), 5.

236. Larry Elliott, “UK national debt will continue to rise over next five years, says IMF”, *The Guardian*, 12 April, 2023, <https://www.theguardian.com/business/2023/apr/12/uk-national-debt-will-continue-to-rise-over-next-five-years-says-imf>.

double the size it is today – 80% v 40%.²³⁷ This was a rate that the Conservatives maintained, alongside Labour, for several decades. A tax rate of 80% is unrealistic in the current circumstances, but a fair conservative approach to inheritance tax would see a level of taxation on inheritances higher than it is today, not lower. Politicians should be talking about the need to increase the tax on inheritance to 50% or 60%, given our ballooning public debt, which rose from 70% of GDP in 2010 to nearly 100% in 2023. We are also in the midst of a crisis in our public services, with NHS waiting lists at record levels, crumbling public infrastructure and recruitment crises in key areas of the public sector such as education.

“For the classical liberal, all inheritance is universally good, because it is the free disposal of property by an individual. For the socialist, all inheritance is universally bad, because it naturally creates inequality between those who receive and do not receive an inheritance. For a conservative, inheritance is never black or white. Rather, it is a constantly evolving interaction between different obligations ”

This is not politically impossible. Although inheritance tax is unpopular in the abstract, people accept that it is necessary. When asked about specific amounts of inheritance that should be tax free, only one-fifth of the public (21%) said that all inheritances should be tax free.²³⁸ Conservatives were just as likely to say that some inheritance should be taxed.²³⁹ Conservative voters are not substantially different to the rest of the country on this principle. Moreover, when asked to set the

237. Helen Thornley, “Playing the long game with inheritance tax”, <https://www.accountingweb.co.uk/tax/personal-tax/playing-the-long-game-with-inheritance-tax> (2023).

238. Dan Goss and Ben Glover, “The inheritance tax puzzle: challenging assumptions about public attitudes to inheritance”, <https://demos.co.uk/wp-content/uploads/2023/06/finalinheritance.pdf> (2023), 5.

239. *Ibid.*

threshold for where inheritance tax should be paid, the median response was close to the current levels.²⁴⁰ It is an obvious truth in politics that people may not like something, but they can accept that it is necessary and fair. Demos' research found, for example, that even those sceptical of inheritance tax recognised that if you cut it or abolished it, revenue would simply have to be raised elsewhere.²⁴¹ The public knows that there is no such thing as a free lunch.

Our civic inheritance – the social, cultural and civic institutions that make for a rich community life and are passed on from one generation to the next – is also under threat.

A report by the Institute for Fiscal Studies found that there was a £700 million annual gap in cultural and leisure budgets in local authorities in England, resources on which many museums, galleries and cultural institutions depend.²⁴² Arts organisations are also facing a £2.4 billion funding gap, according to the Local Government Association.²⁴³ Moreover, a survey of 3,000 grassroots sports clubs and youth centres in England found that one in ten may have to close due to financial pressures.²⁴⁴ Conservatives should be deeply concerned about the viability of these local institutions.

Yet, despite the increase in wealth for the richest in society, philanthropy, on which many of these institutions depend, is waning. According to a study undertaken on behalf of the Law Family Commission on Civil Society, the richest 1% of earners reduced the value of their donations by 21% in real terms between 2011-12 and 2018-19, despite their income on average increasing by 10% in real terms during the same period.²⁴⁵ The same research estimated that

240. Ibid.

241. Ibid.

242. Museum Association, "English councils predict £700m gap in cultural and leisure budgets", <https://www.museumassociation.org/museums-journal/news/2020/08/english-councils-predict-700m-gap-in-culture-and-leisure-budgets-due-to-pandemic/#> (2020).

243. Local Government Association, "Cornerstones of culture", <https://www.local.gov.uk/topics/culture-tourism-leisure-and-sport/cornerstones-culture> (2022).

244. Sean Ingle, "Cold swimming pools and youth clubs closing – tale of two sporting Britains shames us all", *The Guardian*, 27 February, 2023, <https://www.theguardian.com/sport/blog/2023/feb/27/energy-crisis-exposes-plight-of-two-sporting-britains-that-must-be-tackled>.

245. Anoushka Kenley, Jamie O'Halloran and Karl Wilding, "Minding the gap", <https://www.probonoeconomics.com/Handlers/Download.ashx?IDMF=f924bb16-1180-4496-9ee0-4ee1313409e9> (2021), 1.

if the richest in society all gave 1% of their earnings to charities, that could be worth up to £1.4 billion a year for UK charities. Civil society plays a critical role in our society, providing the social and cultural capital that we depend upon from everything from strengthening relationships within communities to boosting economic growth.²⁴⁶ Conservatives should urgently seek to address this issue. An idea we have floated at Demos is building on behavioural insights and the power of ‘nudge’, to create a ‘National Legacy Fund’. Research on ‘nudging’ people to give more to charity through their wills by Remember A Charity found that legacies to charities trebled when people were prompted by their solicitor, but not everyone uses a solicitor or has access to independent financial advice.²⁴⁷ This would be a charitable trust to preserve the social, cultural and civic institutions of the UK.

Upon death, estates that qualify for inheritance tax and that have not left money to charitable institutions would be asked to contribute 5% of the estate value to this National Legacy Fund. As this would be a charitable donation, it would be tax free. This would be a prompt or reminder to those recipients who may have, for various reasons, forgotten or been unable to think about using their inheritance to support good social causes. All those who contributed to the fund would be thanked and invited to an annual celebration event to thank them for their contribution alongside the families of others who have left legacies for charitable causes.

Depending on the take-up, this could raise hundreds of millions a year that could help to grow and maintain the social, cultural and civic organisations so that future generations can enjoy them. Importantly, a public fund of this kind would be a strong signal to society about the values that we wish to promote. This would be a genuinely conservative

246. New Social Covenant Unit, “Social capitalism: how a community-powered economy drives growth”, https://www.newsocialcovenant.co.uk/wp-content/uploads/2022/10/PDF-Social-Capitalism_Final-PDF.pdf (2022).

247. The Cooperative Group, “Gifts in wills to charities treble in new ‘nudge’ study”, <https://www.co-operative.coop/media/news-releases/gifts-in-wills-to-charities-treble-in-new-nudge-study> (2023).

institution, signalling to wider society the importance of our civic responsibilities.

Conservatives need to rediscover their principles if they want to chart a course towards a fair policy on inheritances. In doing so, they might find it takes them to surprising places.

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Wealth plays a critical and growing role in shaping individual opportunities, resilience and prosperity in this country. Indeed, wealth continues to rise as incomes remain stagnant, meaning inheritances are increasingly shaping life chances. Considering the profound implications of wealth for equity and efficiency, there is an urgent need for new centre-right attention on – and policies to address – wealth inadequacy and inequality.

This report sets out a fresh, radical and compelling centre-right prospectus for wealth. It assembles a coalition of leading decision-makers and opinion-formers from different political and professional backgrounds to lay the foundation for a body of new centre-right arguments and ideas that can successfully support the acquisition, leveraging, draw down and sharing of wealth in favour of those with modest means.

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