

Inequality: the issue set to dominate the investment agenda

Our survey responses have revealed that inequality is an underlying, long-term thread weaving through many apparently shorter-term issues.

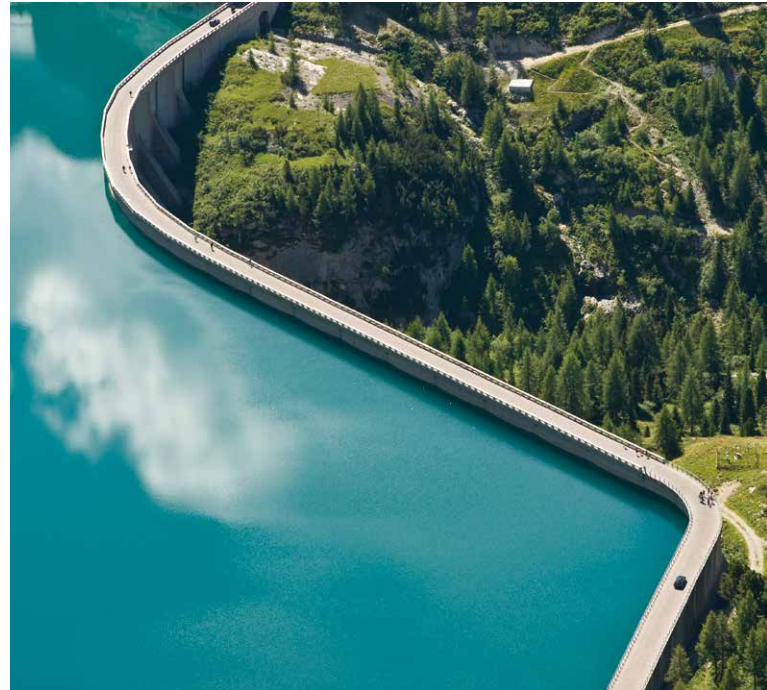


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Inequality may not be the first topic to spring to mind for many investors but in fact the implications of inequality, both actual and perceived, have clear consequences: they relate directly to government spending in areas such as housing, transport and infrastructure, to name but a few, and to levels of government borrowing to fund these pledges. We commissioned this survey to gain insights into the public perception of inequality, in order to help inform our longer-term view of possible pressures upon government spending, and to highlight in broader terms areas of the UK economy which might be affected by particular risks or opportunities.

Our survey has uncovered a polarised state of affairs, fragmented by age, housing status and gender. Some trends do emerge, though, with the UK public now seemingly keener on nationalisation than privatisation for some industries, and with a preference for public spending over lower taxation.



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Although income inequality has exhibited little change in recent years, income is only one facet of equality. Our survey focused on more wide-reaching and qualitative aspects than income alone, and has therefore painted a very different picture; furthermore, many of the conclusions to which our survey points are not yet priced into markets. As long-term investors assessing the future economic landscape, we believe such insights help us to formulate our views on future risks and opportunities.

About the survey

Conducted via online panel between September and October 2019 in conjunction with Survation, the survey collated over 2,000 responses, all of whom were over the age of 18 and living in the UK.

Inequality reaches further than income

Our poll data has revealed that the UK general population broadly believes inequality is a problem, and that it is getting worse.

Figure 1: Which of the following statements is closest to your view?

Inequality is a problem in the UK	74%
Inequality is not a problem in the UK	17%
Don't know	9%

Source: LGIM and Survation, October 2019

Figure 2: Which of the following statements is closest to your view?

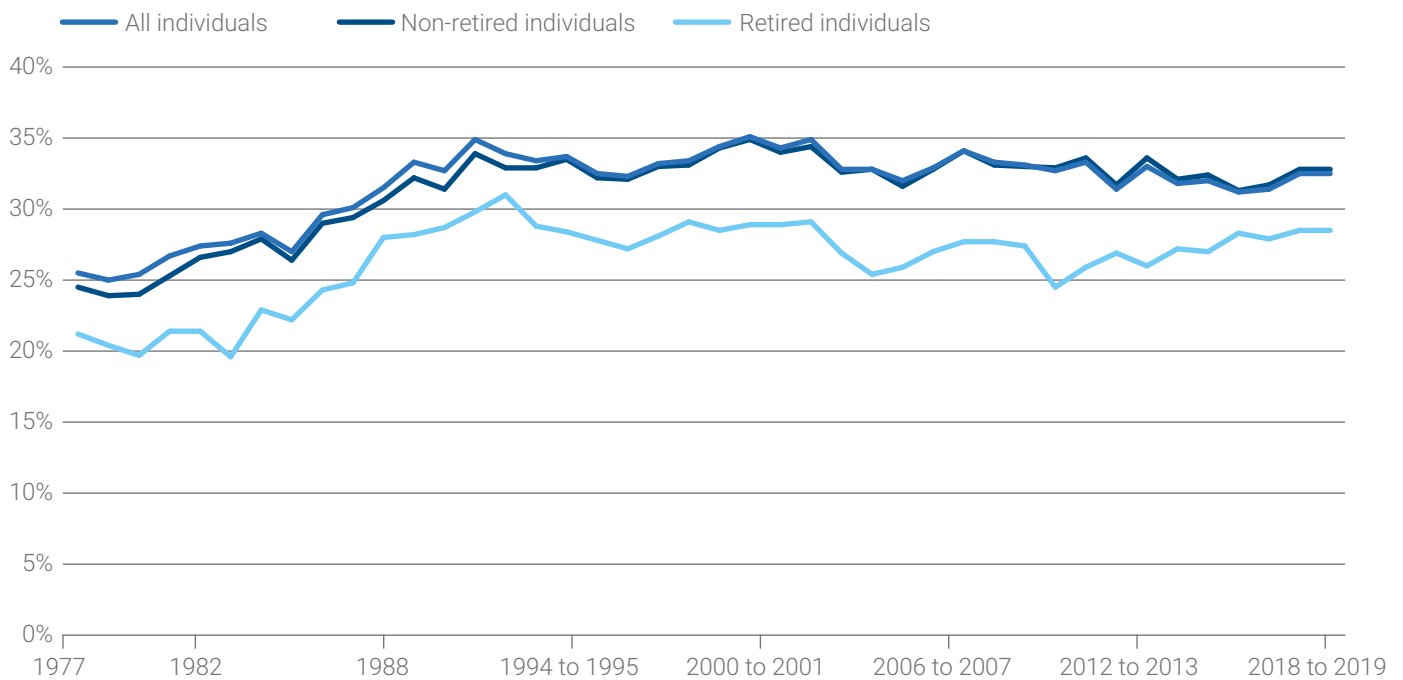
Inequality has increased in the past 10 years	50%
Inequality has decreased in the past 10 years	18%
Inequality has not changed much in the past 10 years	20%
Don't know	12%

Source: LGIM and Survation, October 2019

However, a commonly used metric when looking at national inequality is the Gini coefficient, which measures income inequality. The scale runs between zero, (where everybody is equal) and 1 (where the whole of a nation's income is earned by a single person). On this measure, as figure 3 shows, income inequality is broadly unchanged in the UK since the late 1980s.

Figure 3: Income inequality has remained unchanged in financial year ending (FYE) 2019.

Gini coefficients for equivalised disposable income of all individuals, 1977 to financial year ending 2019



Source: ONS, latest available as at November 2019.

So how can this apparent contradiction be explained? The answer, as it so often does, lies in the detail. The Gini coefficient takes account only of income, not of wealth or opportunity, whereas both are important parts of the definitions of equality for most of us. In addition, the calculation shown in figure 3 was made only **after** government transfer payments such as unemployment benefit or old age pensions have been paid. It can also be calculated **before** the impact of these transfers, which makes the UK appear far more unequal.

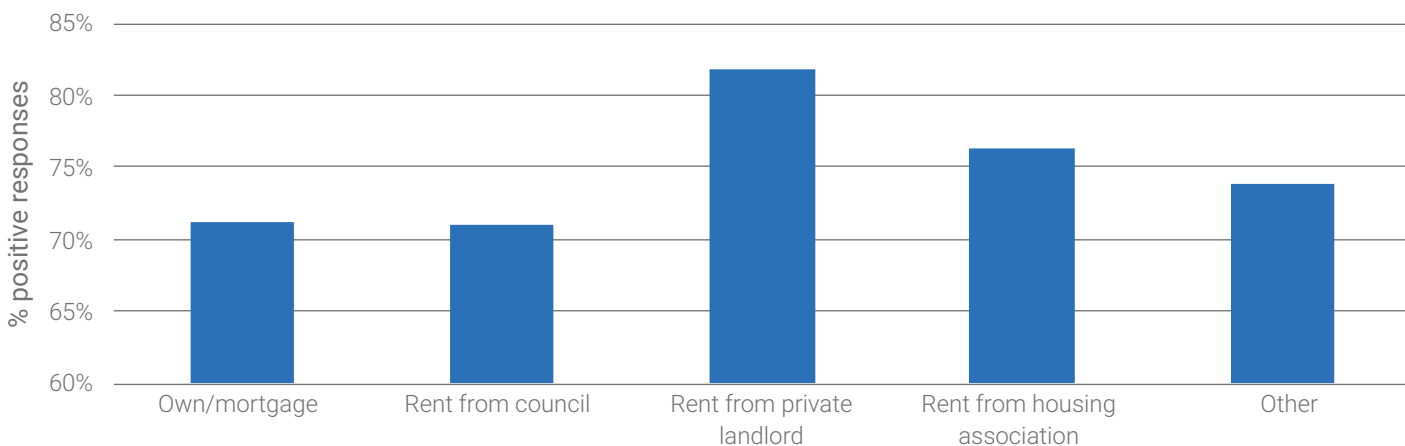
Our survey indicates that the UK population is highly polarised in the way it perceives inequality and in its views of what potential solutions may look like. It is also clear that inequality

(or the perception of it) is a broader consideration than income alone. Economic and demographic circumstances appear to underpin much of this thinking, and we highlight some of the starkest divisions below.

Inequality begins at home

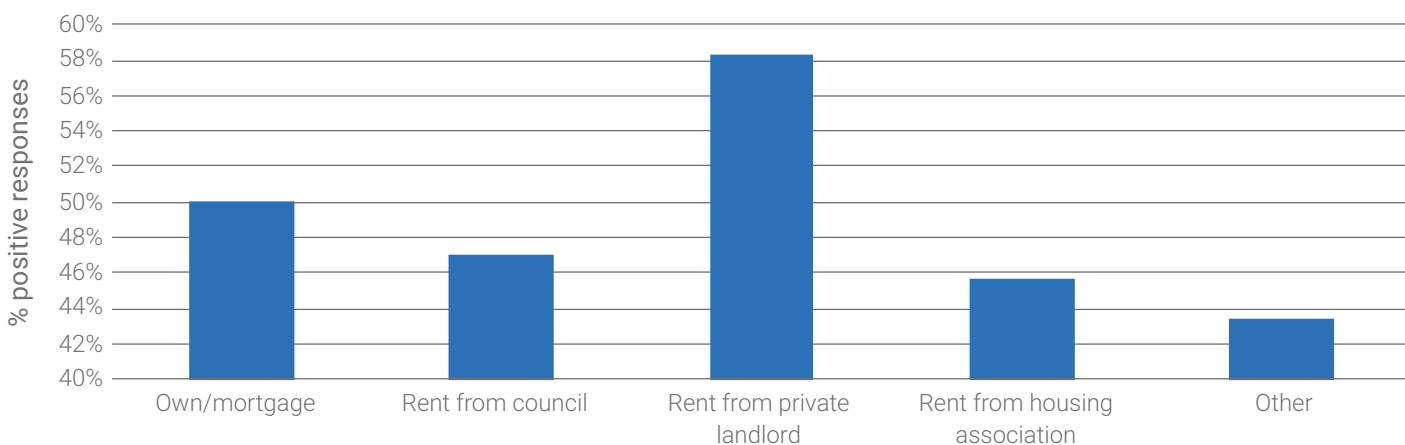
Figure 4 shows the difference in perceptions of inequality between homeowners and renters, though the differences are perhaps not what you expect. Among those renting from the council, the proportion who believe inequality is a problem is the same as for homeowners (just over 70%), while over 80% of those renting from private accommodation see the country as having an inequality problem.

Figure 4: Percentage of respondents agreeing that inequality is a problem in the UK



Source: LGIM and Survation, October 2019

Figure 5: Percentage of respondents agreeing that inequality has increased in the past 10 years

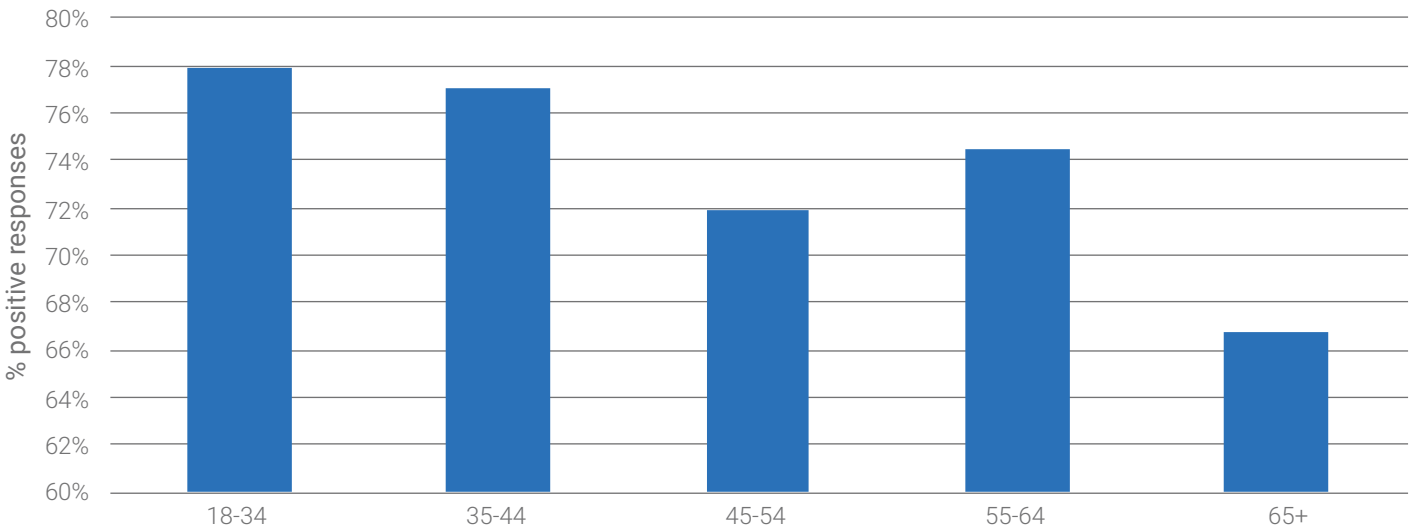


Source: LGIM and Survation, October 2019

The impression of a frustrated and dissatisfied cohort of private renters is frequently repeated in our full dataset. One of our biggest findings is that this group, which has grown rapidly in size as home ownership rates in the UK have fallen, views the UK as a far less equal place than other groups.

But if frustration at the UK's high house prices and dissatisfaction from renting is one driver of inequality, then participant age is clearly another. While age is hard to separate fully from housing status (home ownership rates are higher for older cohorts), there are clear and significant generational differences in the view of the UK as a more or as a less equal place.

Figure 6: Percentage of respondents agreeing that inequality is a problem in the UK



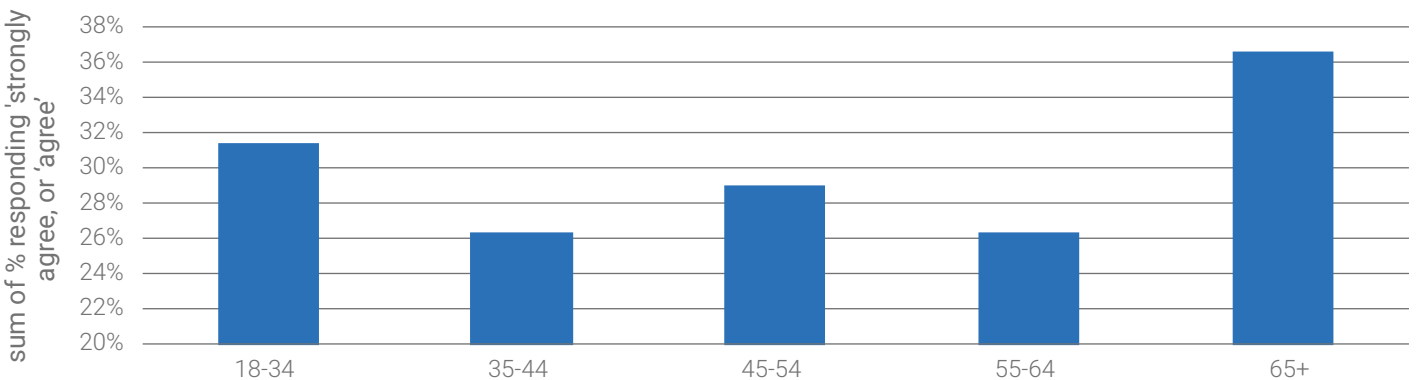
Source: LGIM and Survation, October 2019

The good old days

As figure 6 shows, while around 65% of over 65s believe inequality is a problem in the UK, the equivalent figure for 18-34s is far higher, closer to 80%. In answer to the question

“nowadays in our country there are equal opportunities for getting on in life”, (figure 7 below), the eldest group in our survey is again most satisfied.

Figure 7: Percentage of respondents agreeing that nowadays in our country there are equal opportunities for getting on in life



Source: LGIM and Survation, October 2019

Overall, over 65s in our survey appear to view the UK as a more equal place than other age groups, but immigration is one area where this trend is reversed, with a clear division between the

younger generation, who on the whole thought that immigration did not have a significant impact on inequality, and older generations, where opinion reverses.

Appetite for change

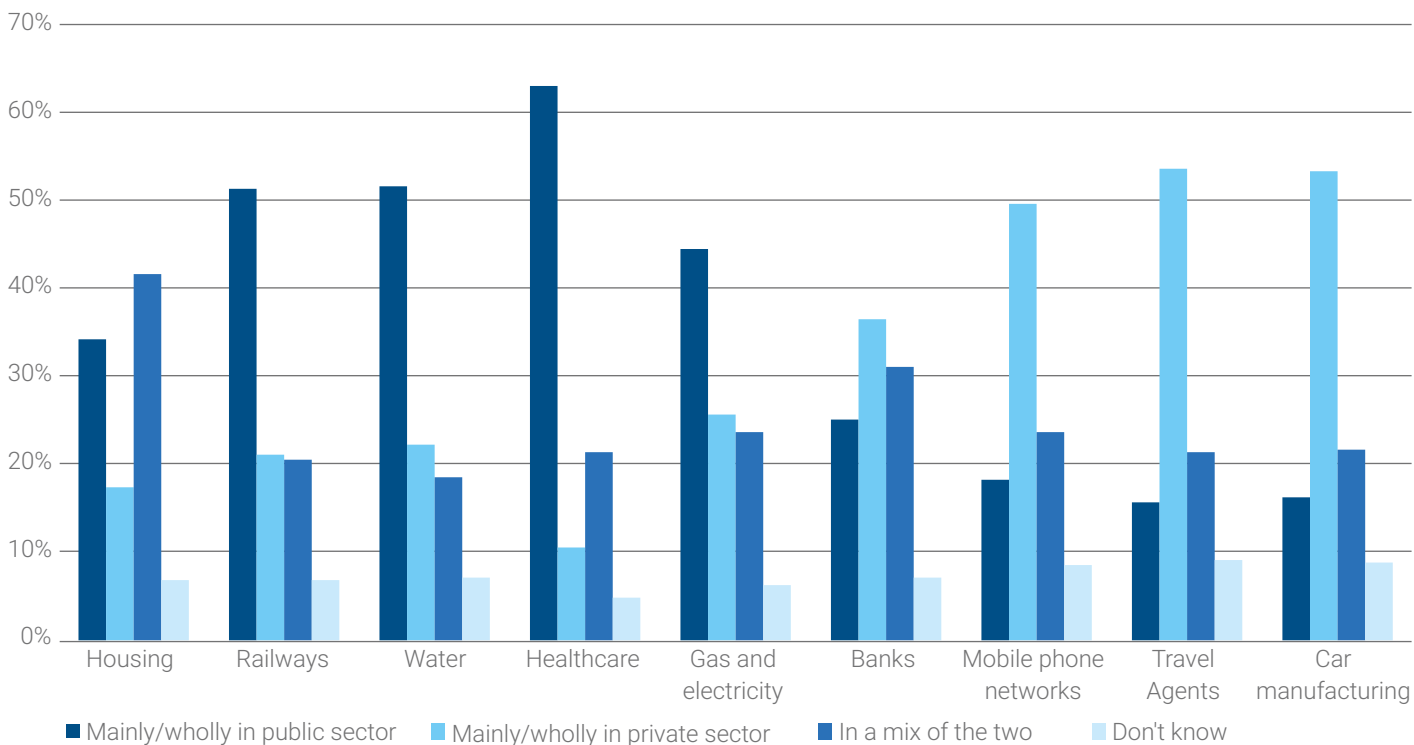
Broadly speaking, while older respondents, homeowners and men surveyed tended to view inequality as less of a problem than the young, private renters and women, this did not translate directly into an appetite for change.

From the results of our survey, we can distinguish a return to greater acceptance of government intervention in the economy, which we believe could have important implications for investors. While private renters seemed consistently to be most in favour of more progressive taxation and greater intervention in the economy, the policy preferences among older citizens in particular were more nuanced. Some questions, however, drew a strong response across the spectrum.

One of the most clearly popular policies across all cohorts was a partial return towards nationalised industries. The relative popularity of re-nationalisation is a trend that we think may strengthen if public opinion continues to harden against systems or methods seen as “crony capitalism”. As figure 8 demonstrates, a majority of individuals we surveyed would prefer the UK’s railways and water utilities to return to national ownership. For gas and electricity utilities, the number is short of an outright majority, but it remains by far the most popular option.

When we break this down further, we find that older citizens are more in favour of returning railways and utilities to public ownership, but also that private renters are most keen for change, which is unsurprising, based on our polling data. Figure 9 shows the breakdown for the railway industry, but the pattern holds for utilities too.

Figure 8: Views on the extent to which an industry should be in the private sector or the public sector



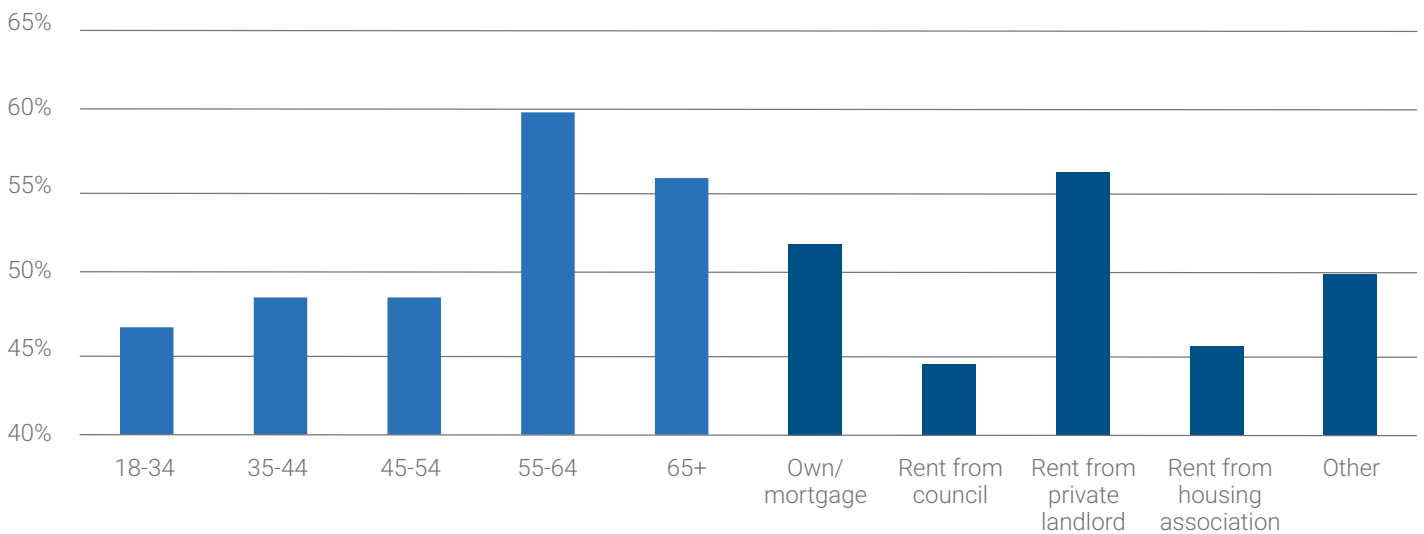
Source: LGIM and Survation, October 2019

For housing, the picture is less clear-cut, as figure 10 shows. While there are stronger preferences for more public ownership of housing among private and council renters, the over 65s are far less keen to see radical change in this sphere. Again, this may correlate to the higher proportion of homeowners among older age groups.

For investors, increased government intervention has implications for asset allocation: nationalisation in particular could have severe consequences for equity investors in the affected companies or sectors. For owners of corporate bonds, however, the picture is less clear cut: there could even be potential for some owners of the most senior debt benefit from possible rating upgrades of these bonds, which would in effect become quasi-UK government debt.

Figure 9: Thinking about the following industries, to what extent do you think they should be run mainly or wholly in the public sector?

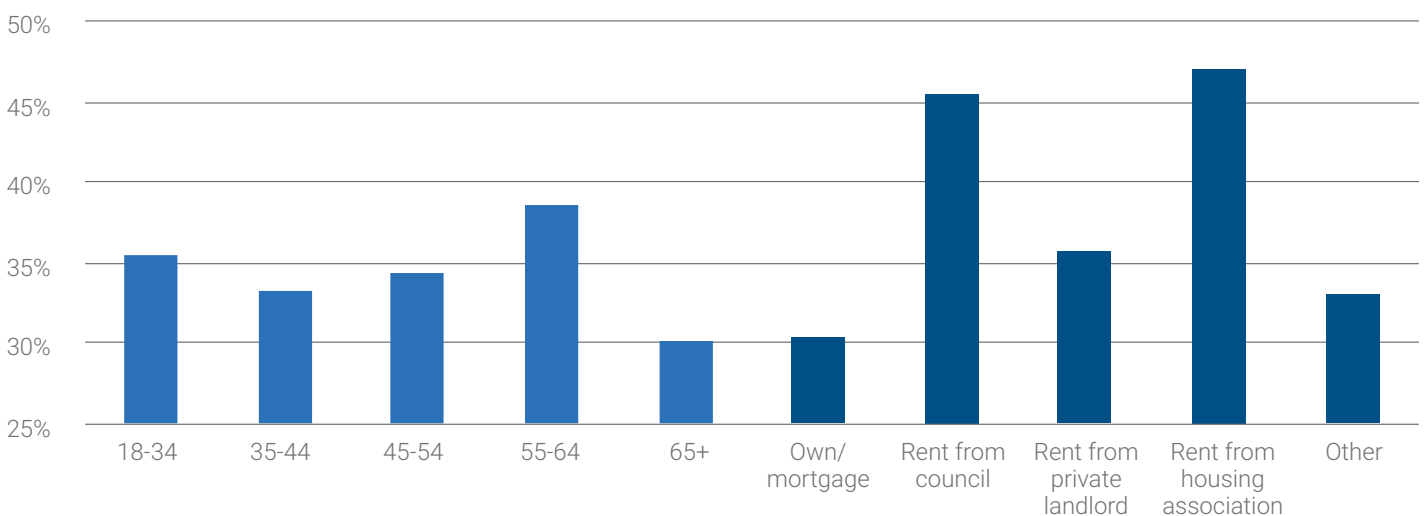
Railways



Source: LGIM and Survation, October 2019

Figure 10: Thinking about the following industries, to what extent do you think they should be run mainly or wholly in the public sector?

Housing



Source: LGIM and Survation, October 2019

Money, money, money

As with nationalisation, there is also a fairly widespread belief in the effectiveness of progressive taxation as a means to reduce inequality. As figure 11 shows, the progressive options of decreasing income tax for those earning less than £50,000 and a higher tax rate on second and empty homes are seen as

the most effective taxation choices for reducing inequality by respondents to our survey. The more regressive options of increasing VAT and increasing stamp duty are the least popular options.

Figure 11: On a scale of 0-10 (where 0 means 'no impact' and 10 means 'a lot of impact'), to what extent do you think each of the following taxes would reduce inequality in the UK?

	0-3	4-6	7-10	Mean score	Don't know
An increase in income tax	23%	32%	38%	5.6	7%
An increase in VAT	32%	27%	33%	5.1	8%
An increase in corporation tax	20%	33%	37%	5.7	10%
An increase in stamp duty	27%	35%	27%	5	11%
An increase in income tax for those earning above £150,000 a year	20%	29%	46%	6	5%
Replacing council tax with a tax based solely on the value of properties	18%	35%	38%	5.8	10%
A higher tax on second homes and empty houses	18%	29%	48%	6.2	6%
A tax on wealth above £1 million	22%	25%	47%	6.1	6%
A decrease in income tax for those earning below £50,000 a year	15%	32%	48%	6.3	6%

Source: LGIM and Survation, October 2019

In broad terms, it is the older age groups and those in private rental accommodation that favour the more progressive taxation options most heavily. From an investment perspective, changes in taxation can have an impact upon economic activity and GDP, although disentangling the precise relationship can be tricky.

Beyond the headlines

The past ten years have shown investors the importance of understanding the impact of political decisions on markets. With monetary policy now even closer to exhaustion, we are beginning to see the growing importance of fiscal expansion in the toolkit of governments both in the UK and abroad. With the after-effects of austerity still fresh in public memory, the

strengthening perception of inequality may put pressure on governments to increase public spending. In turn, for investors, this will create both risks and opportunities, neither of which appear to be priced into markets. The era of quantitative easing has been an exceptional period for investment returns, but a move into an era of fiscal expansion may mean that future returns could be harder to come by, especially for fixed income. Our insights into the persistent trends driving markets form a crucial part of our long-term investment views; through our research, we can see that the true nature of inequality is more deeply embedded into UK society than headline figures may suggest and as such, we believe it will become an increasingly important factor in policy decisions of the future.

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