

Centre for Analysis of Social Exclusion (CASE) and International Inequalities Institute public lecture

Inequality: what can be done?

Professor Sir Tony Atkinson

*Centennial Professor, LSE
Fellow of Nuffield College, Oxford*

Tom Clark

*Writer, The Guardian and author, Hard
Times: the divisive toll of the economic
slump*

Professor Lord Stern of Brentford

Chair, LSE

Ruth Lister

*Baroness of Lister of Burtersett
Professor of Social Policy, Loughborough
University*

Suggested hashtag for Twitter users: **#LSEinequality**





Inequality – What can be Done?

A B Atkinson

“We are suffering just now from a bad attack of economic pessimism” – J M Keynes, 1930

Plan of talk

1. History of UK income inequality
2. The economics of inequality
3. Taxation and welfare state
4. Employment and wages
5. Capital and wealth
6. Assessment: what can be done?

Inequality of what among whom?

Total household gross income



Earnings of Person 1
+ Earnings of Person 2
+ Income from Capital
+ Private transfers
+ State transfers
- Direct taxes



Individual earnings

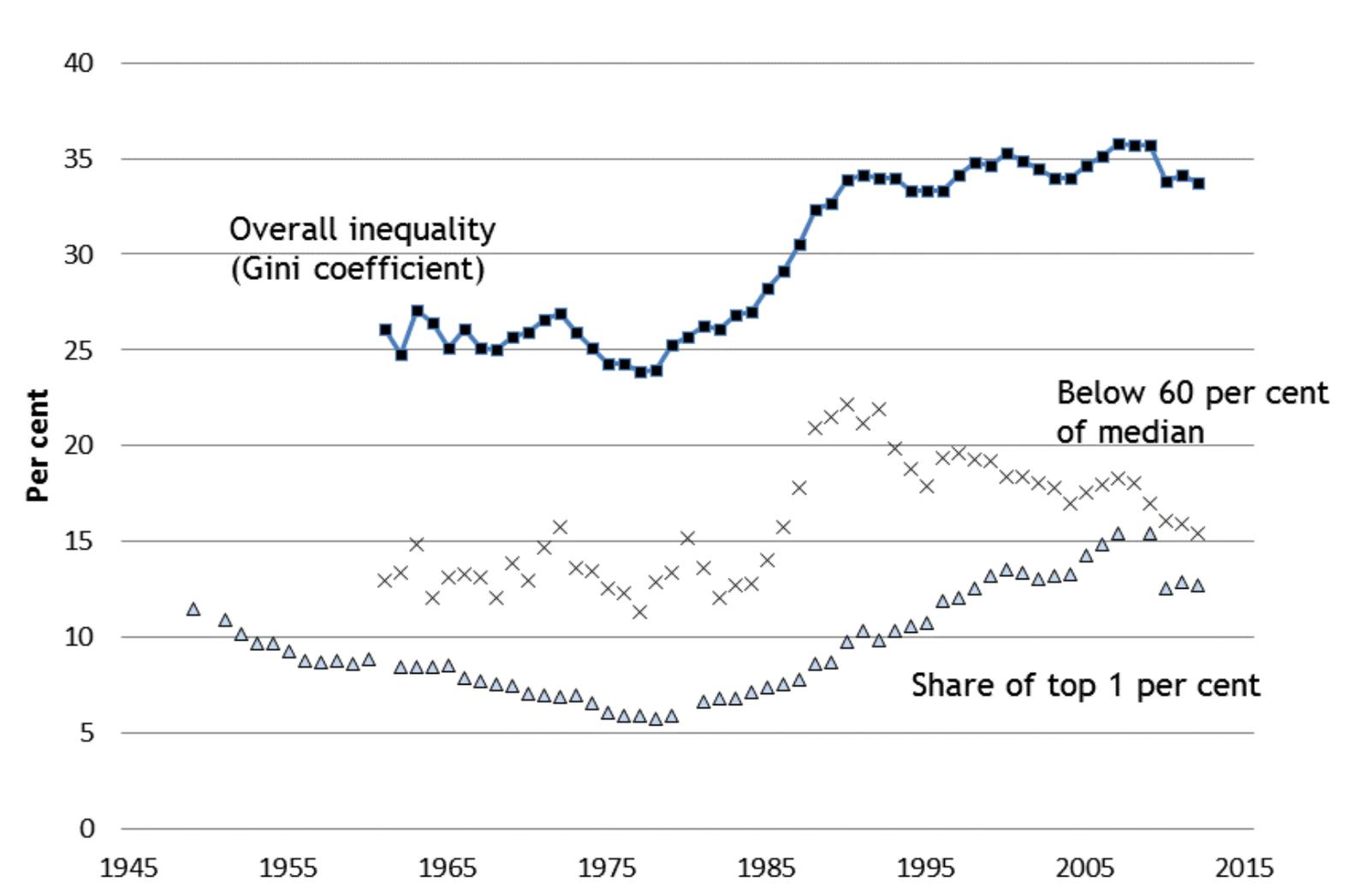
Total household disposable income

=
Disposable income
/
Number of equivalent adults
=

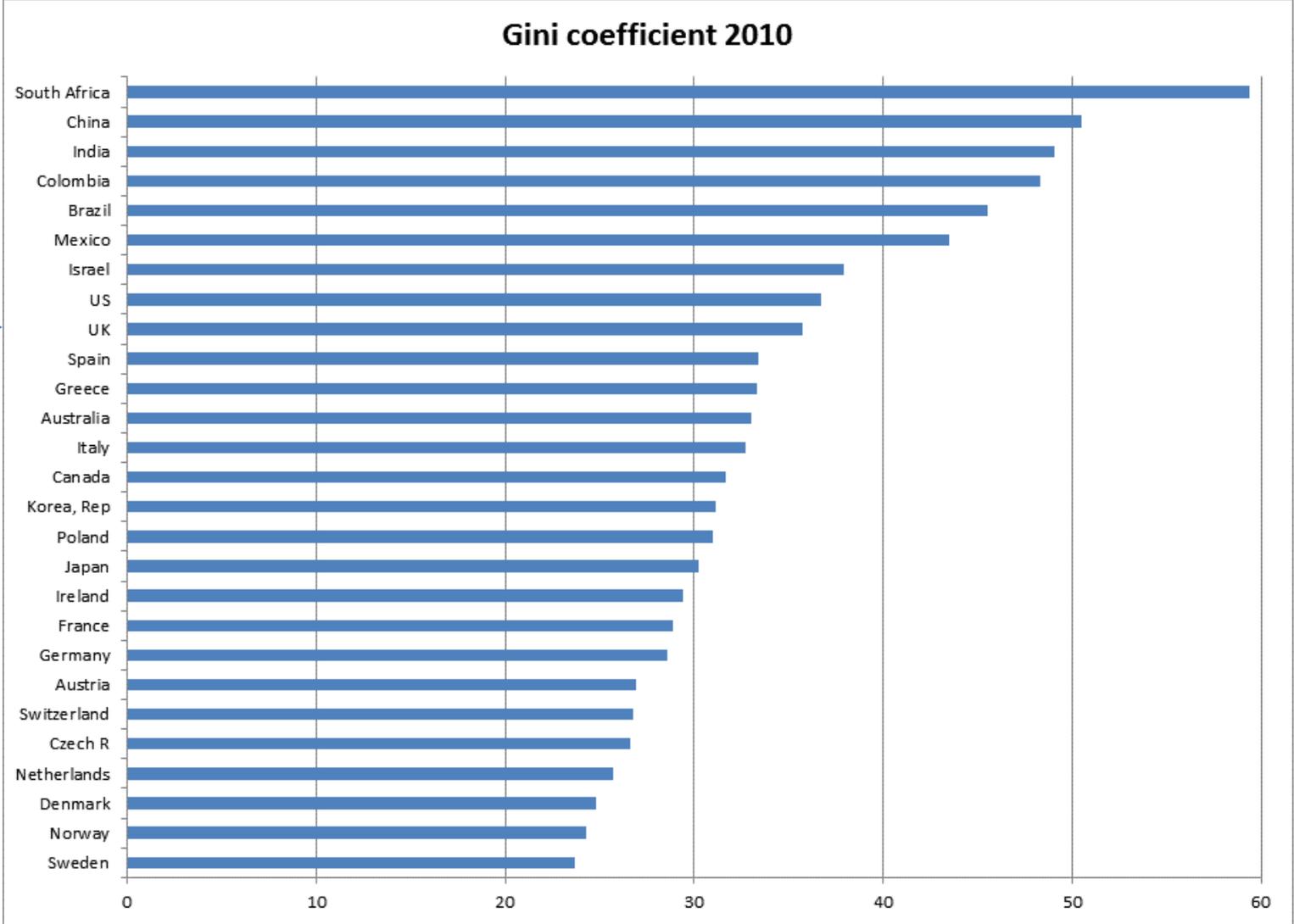
Household equivalent disposable income

Inequality in UK since 1945

Figure 1 Inequality in the United Kingdom from 1945

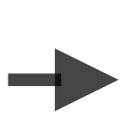


Inequality in UK compared



Many forces in operation

2. *Jobs and pay*



Earnings of Person 1
+ Earnings of Person 2

3. *Ownership and transmission of wealth*



+ Income from Capital
+ Private transfers

1. *Welfare state and taxation*



+ State transfers
- Direct taxes

=

Disposable income

/

Number of equivalent adults

=

Household equivalent disposable income

Proposals: Taxing more

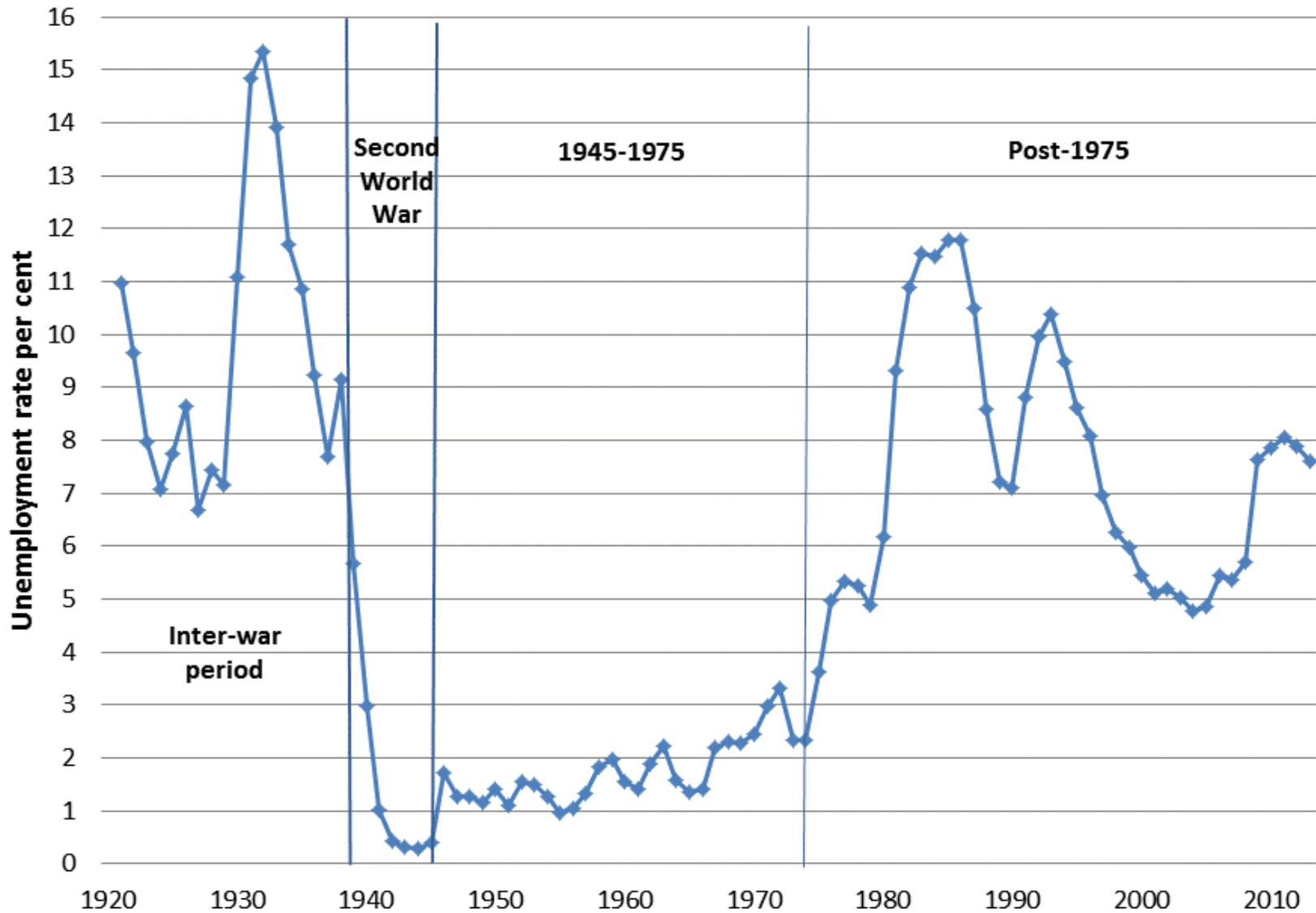
- Return to a more progressive rate structure for the income tax, with increasing marginal rates of tax up to a top rate of 65 per cent, accompanied by a broadening of the tax base.
- Introduce into the personal income tax an Earned Income Discount, limited to the first tranche of earnings.
- Change Inheritance Tax from a tax on giving to a tax on receiving, with a progressive lifetime capital receipts tax.
- Council Tax to be replaced by a proportional property tax based on up-to-date property assessments.

Proposals: Spending more

- Child benefit should be paid for all children at a substantially higher rate, and taxed as income.
- A participation (citizen's) income should be introduced, complementing existing social protection, with the prospect of an EU-wide child basic income.
- **OR** Restore social insurance to reduce dependence on means-tested benefits.
- Rich countries should raise their target for Official Development Assistance to 1 per cent of Gross National Income.

Britain isn't working

Figure 5.1 UK Unemployment rate 1921-2013



Proposals: employment and wages

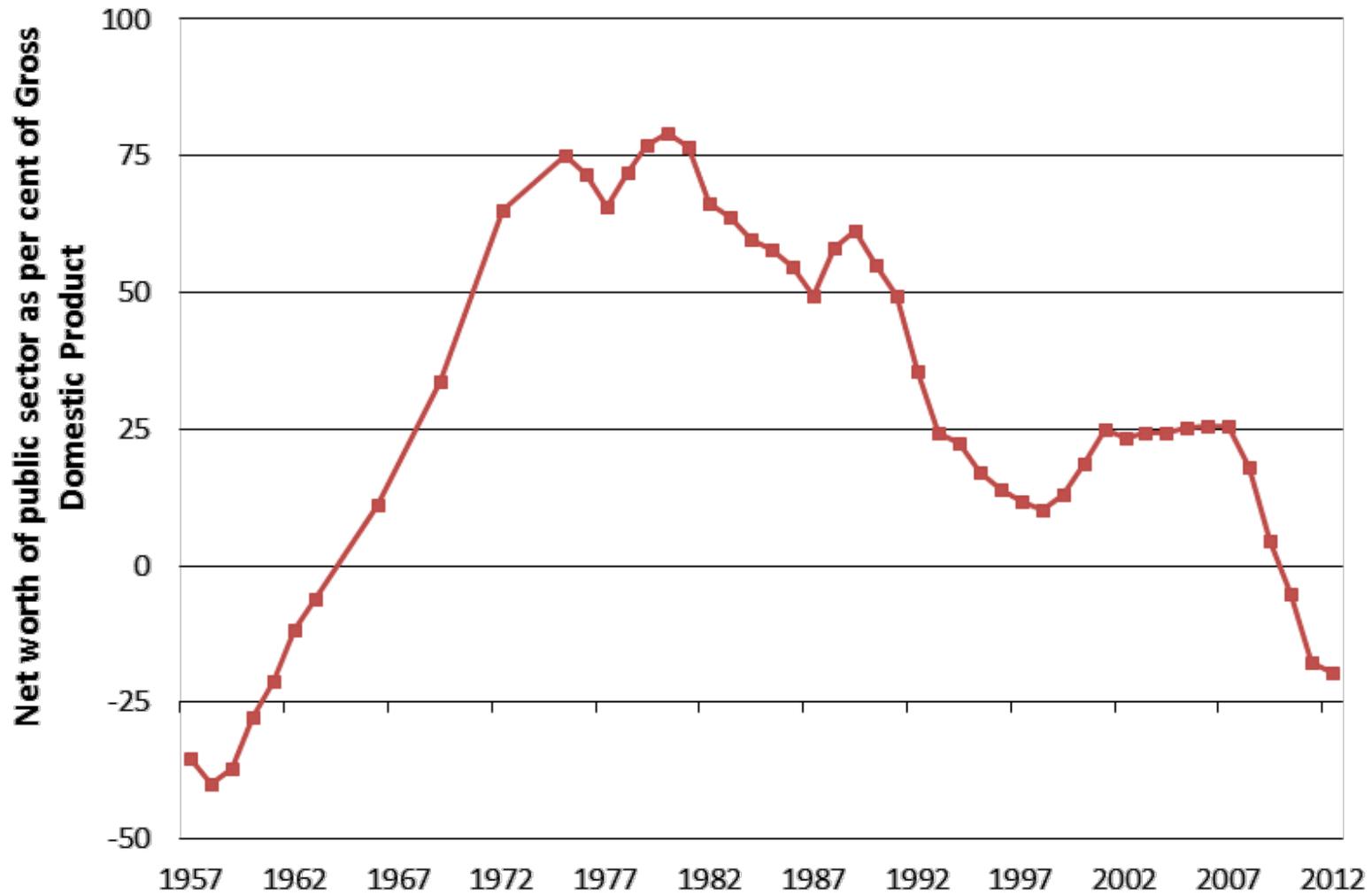
- The government should adopt an explicit target for reducing unemployment, and offer guaranteed public employment.
- There should be a national pay policy: with the minimum wage set at the Living Wage, and a code of practice for pay above the minimum.
- The direction of technological change should be an explicit concern of policy-makers, encouraging innovation in a form that increases the employability of workers, emphasising the human dimension of service provision.

Proposals: Capital and wealth

- (a) Introduce a distributional dimension into competition policy, (b) ensure a legal framework that allows trade unions to represent workers on level terms, and (c) establish a Social and Economic Council.
- The government should offer via national savings bonds a guaranteed positive real rate of interest on savings, with a maximum holding per person.
- There should be a capital endowment (minimum inheritance) paid to all at adulthood.
- Creation of a public Investment Authority, operating a sovereign wealth fund to build up the state net worth.

Selling the family silver

Figure 6.3 Net worth of UK public sector 1957 - 2012



Are these proposals “off-the-wall”?

SUPPORTERS:

Competition policy and distribution: Senator Sherman

Social and Economic Council: 22 EU countries

Public Employment Programme: US Humphrey-Hawkins Act 1978

Living wage: Archbishop Sentamu and Chelsea FC

Lifetime capital receipts tax: J S Mill and Lord Randolph Churchill

Minimum inheritance: Thomas Paine and previous Labour Government

Sovereign wealth fund: Boris Johnson

Property tax: Most US local governments

Participation (Citizen’s) Income: James Meade and Green Party

Are these proposals debatable? YES!

a) Objection: “The equity/efficiency trade-off means that national income/growth will be reduced”.

Response: *standard economic models tend to exclude the ways in which equity and efficiency can be complementary, and ignore the safeguards introduced in the institutional design of redistributive policies.*

b) Objection: “In a globalized economy, one country cannot pursue such a path”.

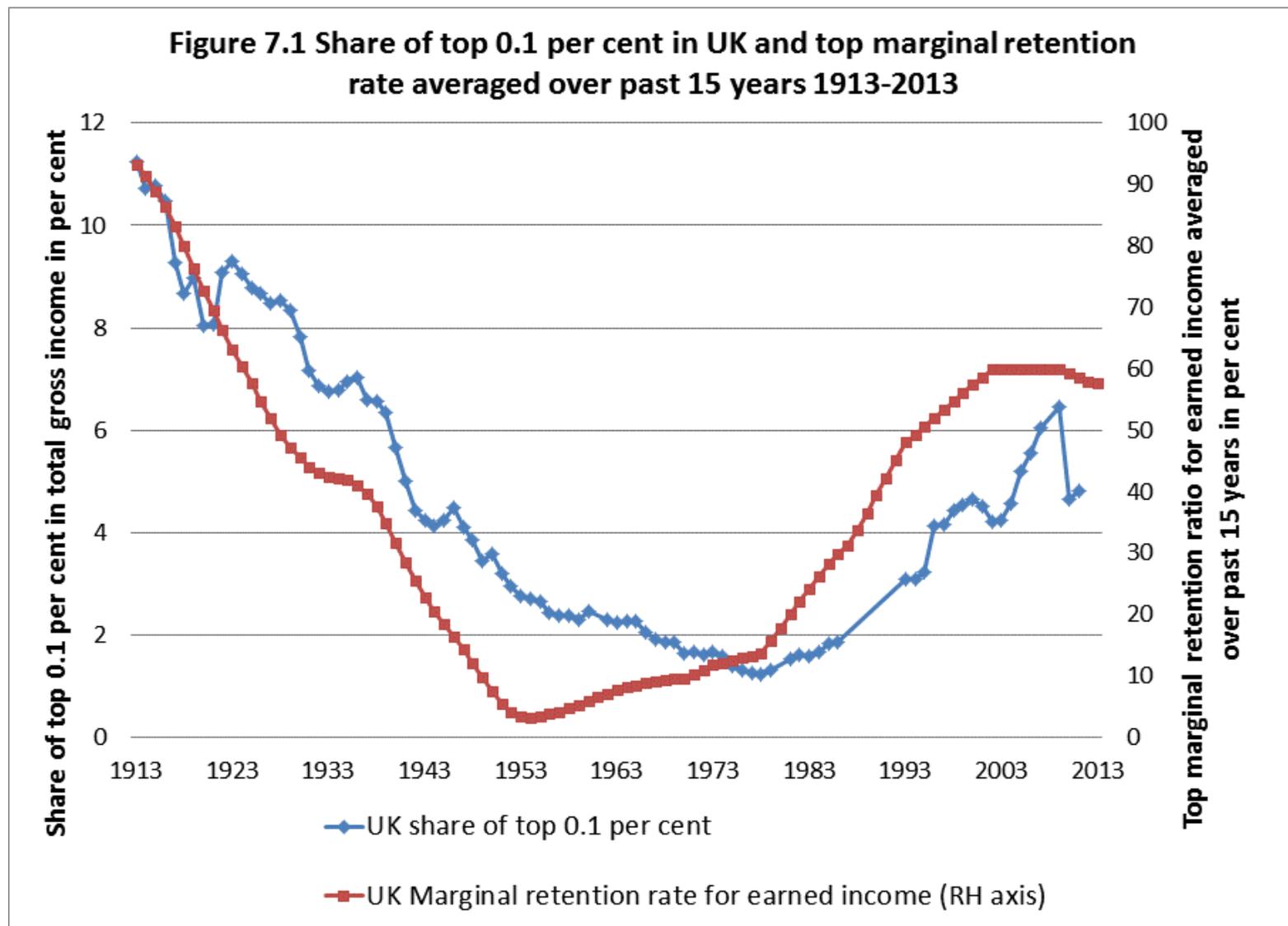
Response: *countries are not simply passive agents in the face of world developments.*

a) Objection: “We cannot afford it”.

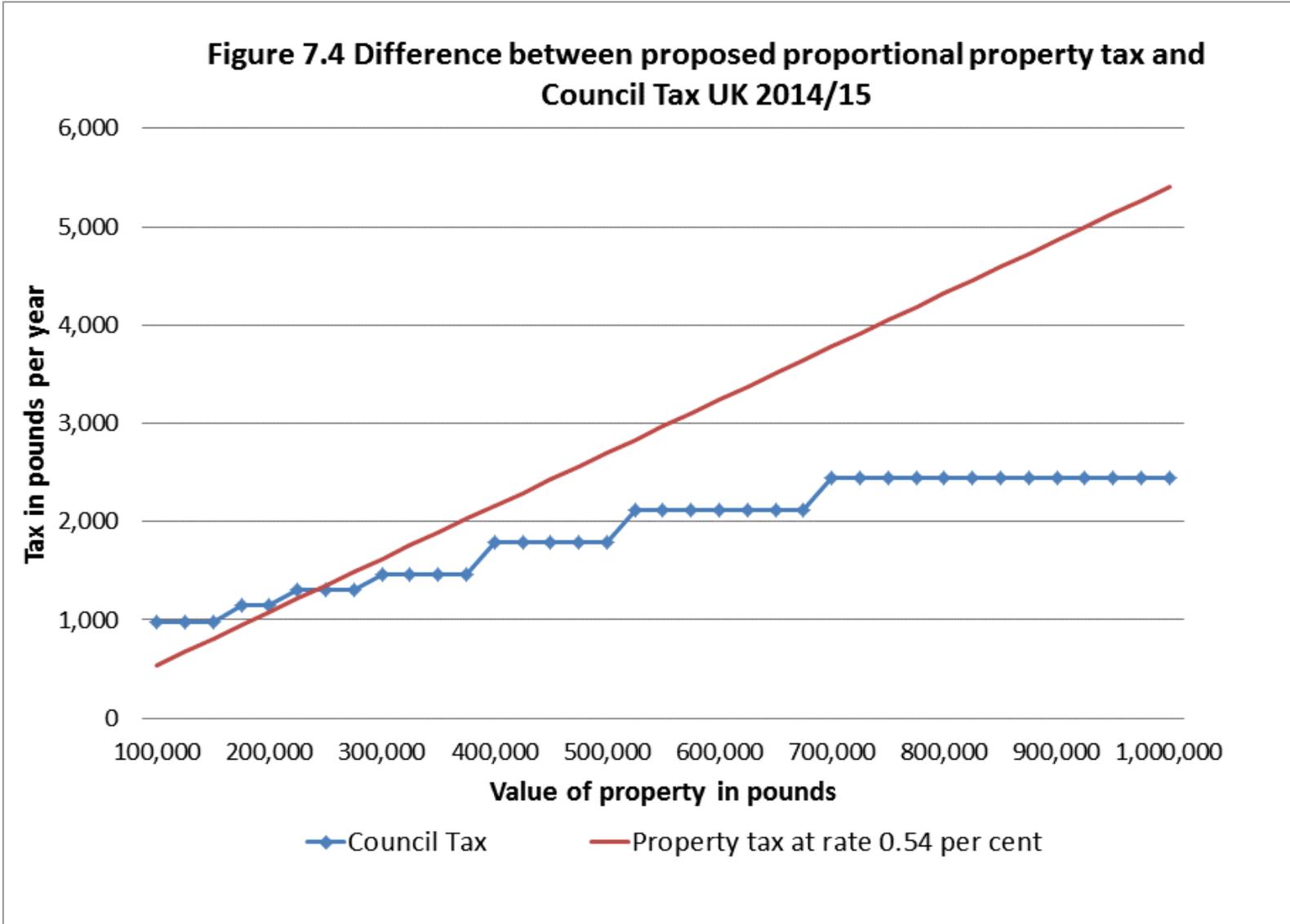
Response: *Costed programmes where the tax and transfer elements would reduce the Gini coefficient and the rate of poverty by 4 percentage points.*



Top taxes and top incomes

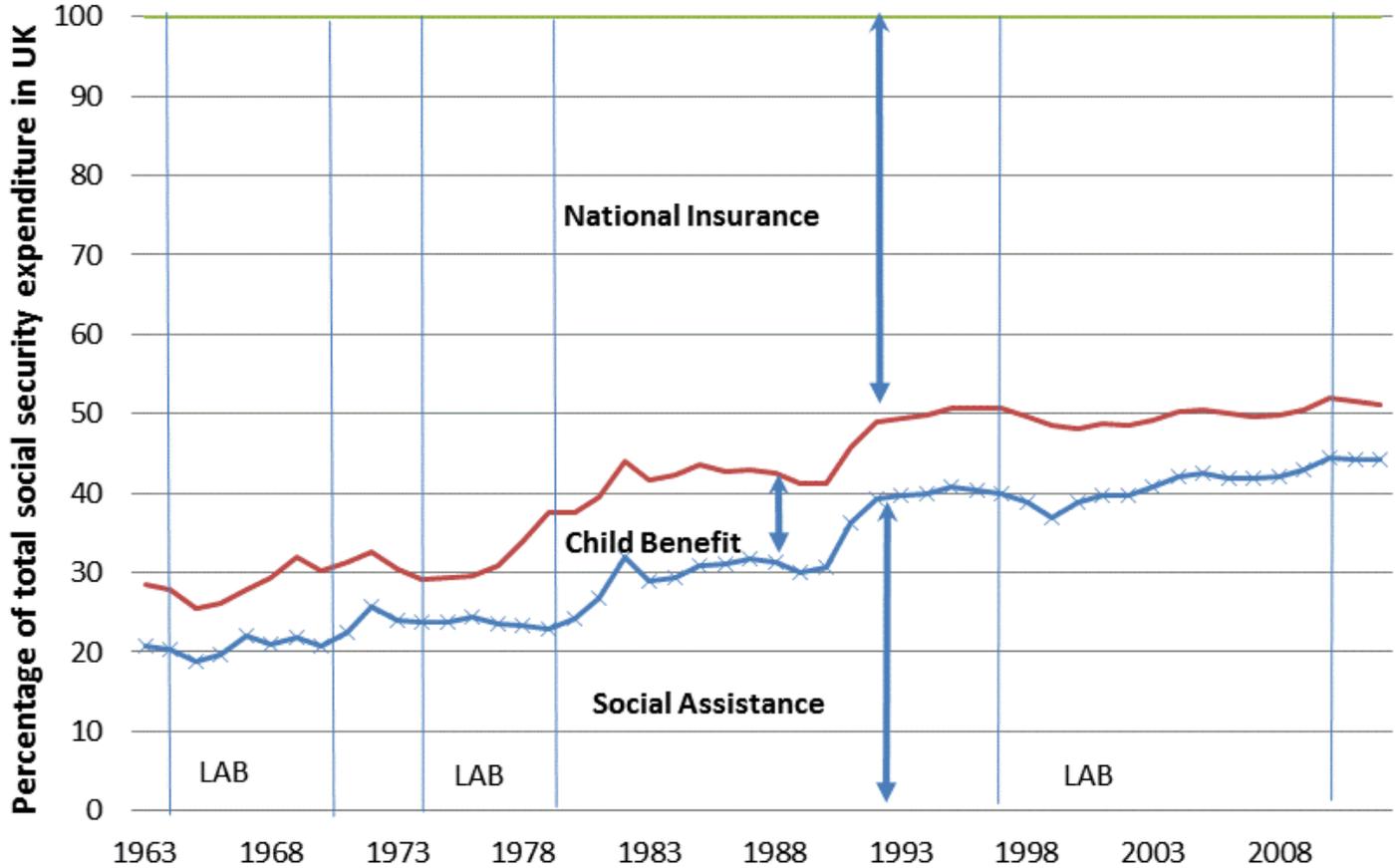


A property tax (not a mansion tax)



Changing nature of the welfare state

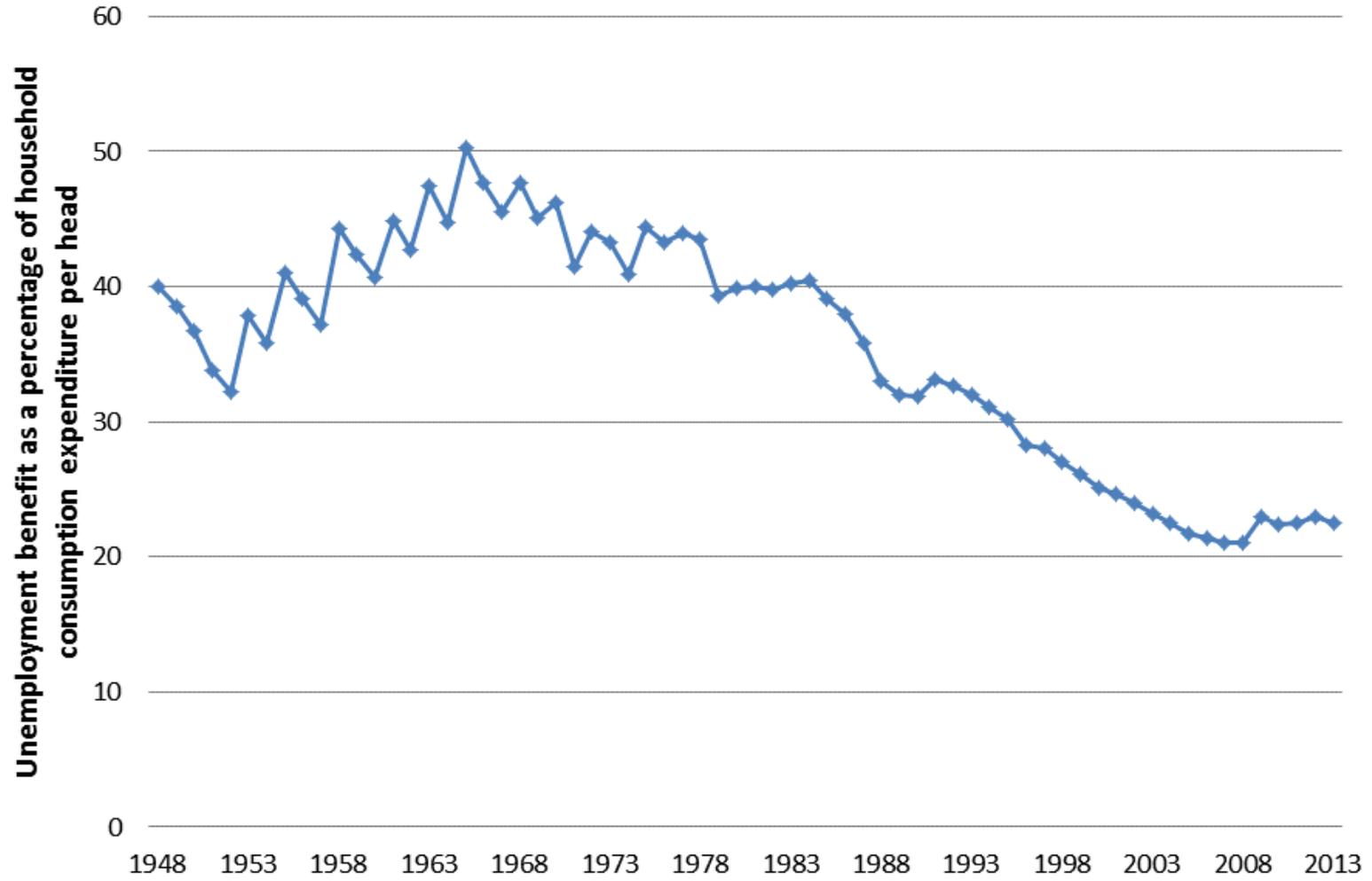
Figure 8.1 Composition of total social security expenditure UK 1963-2012



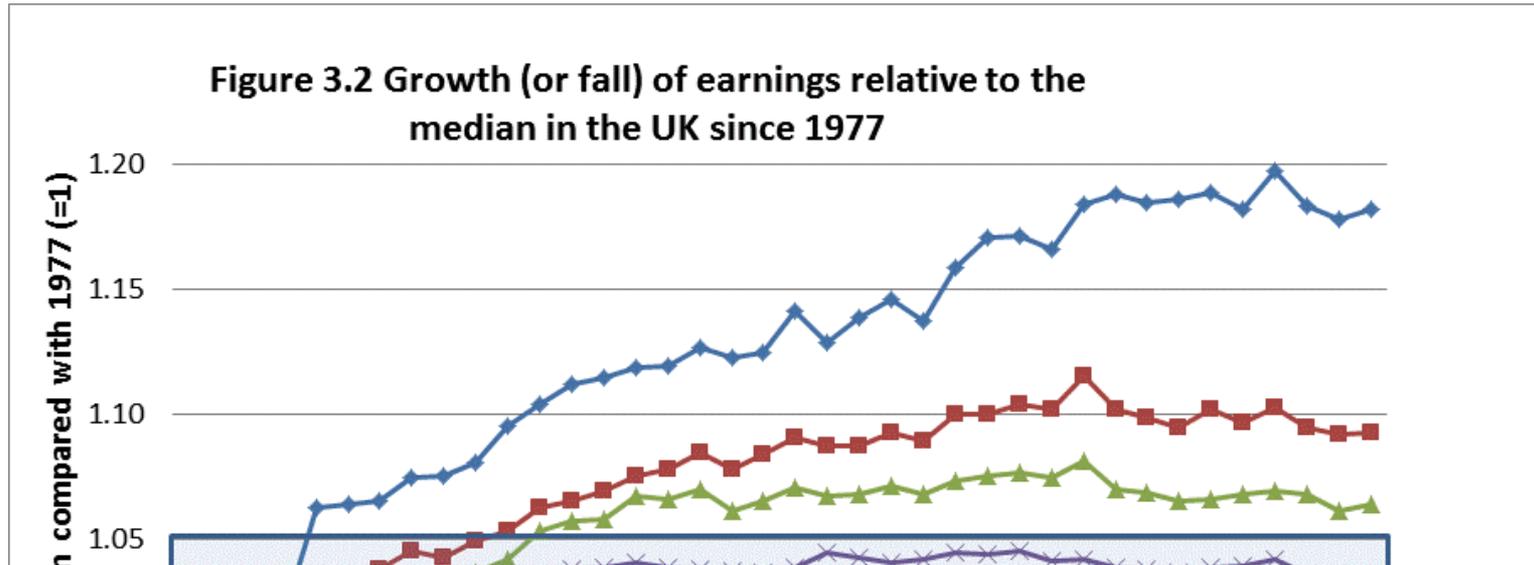
Note LAB denotes Labour Government; the remaining periods were Conservative, except from 2010 when Coalition of Conservative and Liberal Democrat.

What has happened to unemployment benefit?

Figure 8.4 UK unemployment benefit as per cent of average household consumption expenditure per head 1948 to 2013

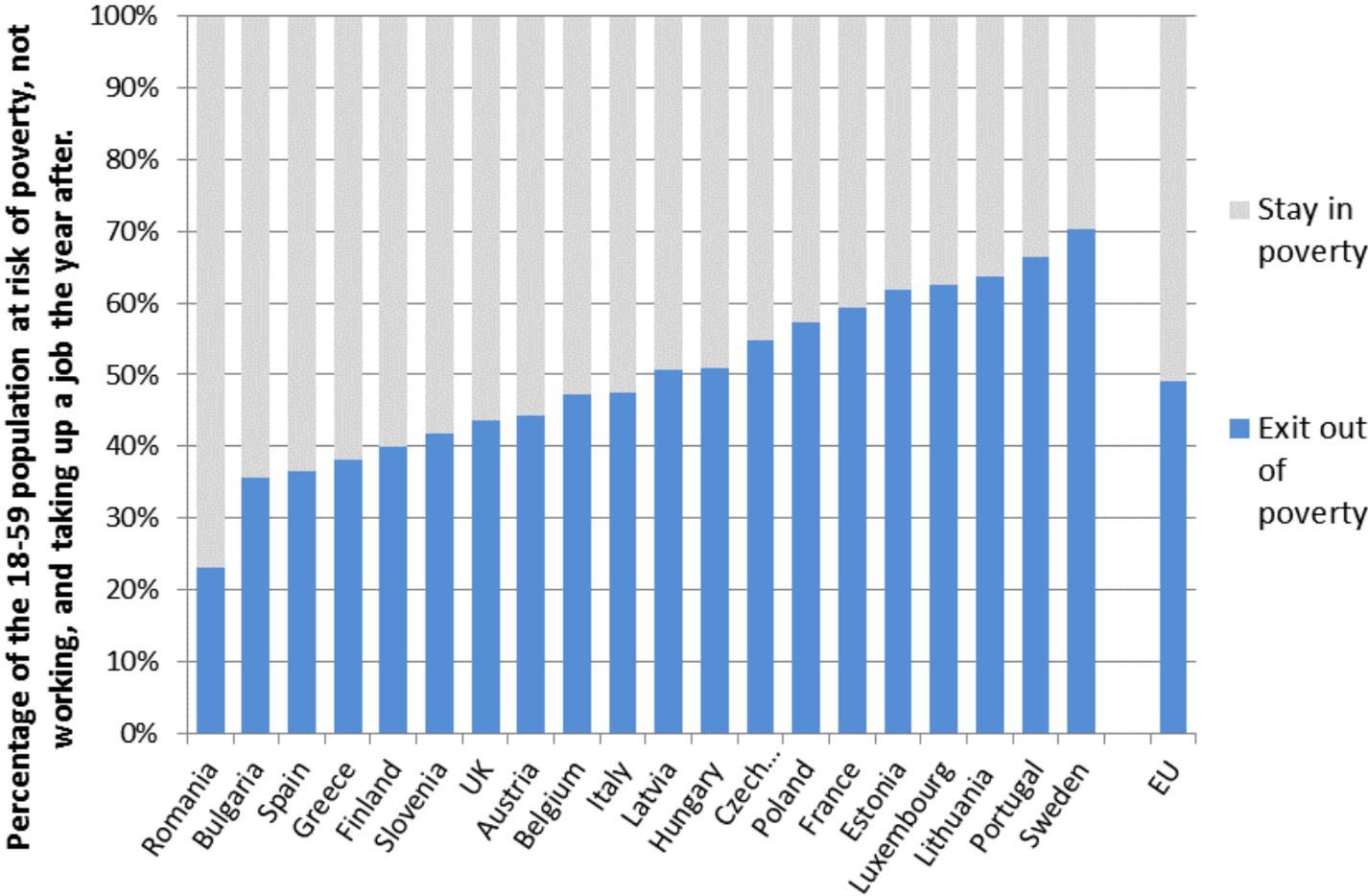


UK Earnings distribution



A job gives 50% chance of escaping poverty

Figure 5.3 Proportion escaping poverty on taking up a job between 2008 and 2009 in different EU countries



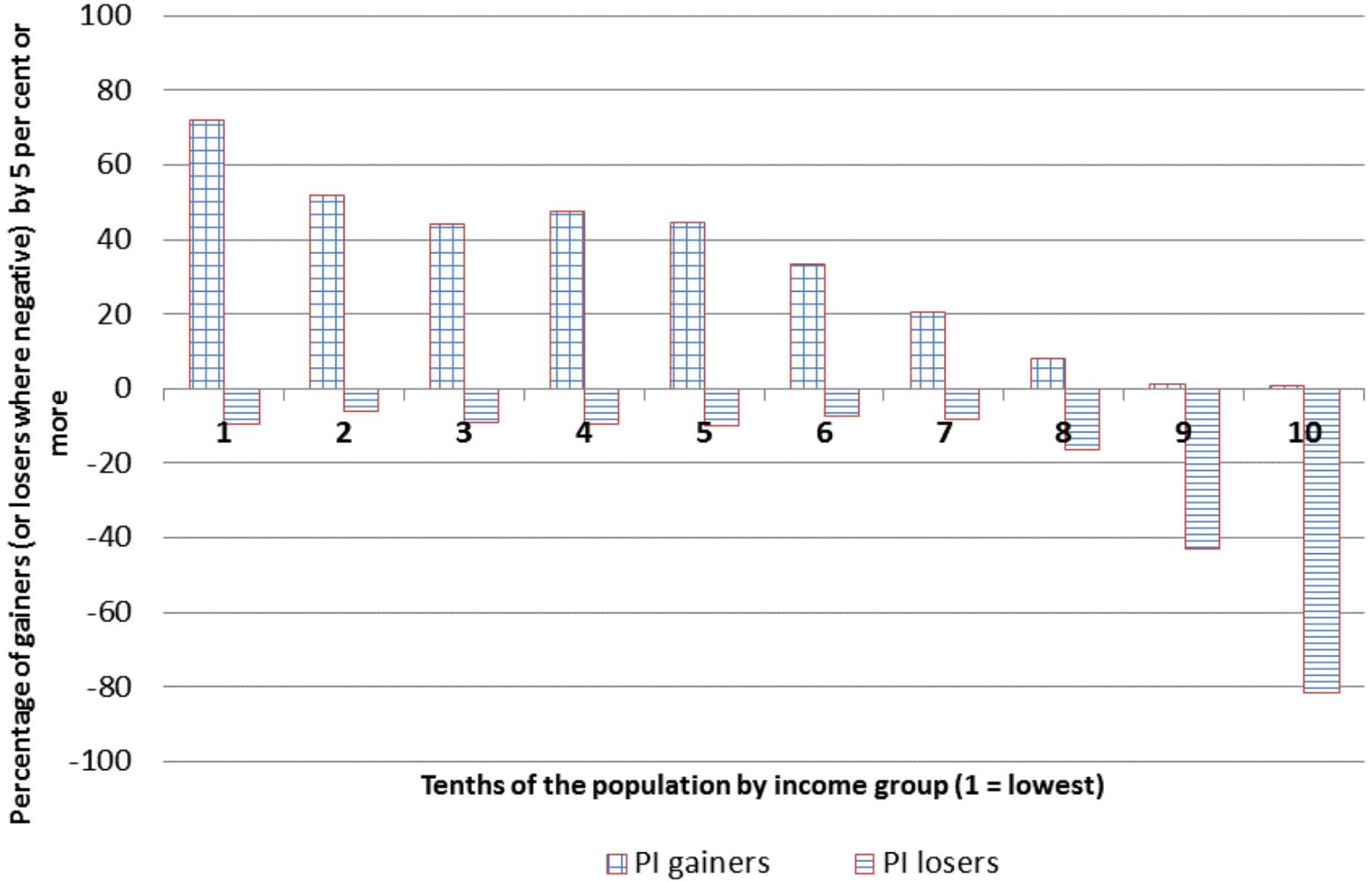
What has happened to the rate of interest?

Figure 6.2 Real rate of interest in UK 1996 - 2014



PI, child benefit and tax changes

Figure 11.2 Gainers and losers by income group from Participation Income (PI)



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