Inequality – What can be Done?

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

1. Reasons for concern
2. The economics of inequality
3. Proposals: Taxation and welfare state
4. Proposals: Employment and wages
5. Proposals: Capital and wealth
6. Assessment: what can be done?
Inequality of what among whom?

\[
\text{Individual earnings} = \text{Total household gross income} + \text{Earnings of Person 1} + \text{Earnings of Person 2} + \text{Income from Capital} + \text{State transfers} - \text{Direct taxes} \]

\[
\text{Disposable income} = \frac{\text{Household equivalent disposable income}}{\text{Number of equivalent adults}}
\]
Income inequality compared: Luxembourg Income Study

Gini coefficient 2010

Source: LIS Key Statistics
Sources: Statistics Sweden (SCB Gini and poverty rate), Roine and Waldenstrom (top 1% share of gross income and top 1% share in wealth), OECD Income Distribution Database (OECD Gini), and Chartbook of Economic Inequality (earnings).
Proportion of women in top income groups

Denmark Top 10%

UK Top 10%

Denmark Top 0.1%

UK Top 0.1%

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Many forces in operation

MARKET INCOMES

2. Jobs and pay

3. Ownership and transmission of wealth

1. Welfare state and taxation

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

= Disposable income
/ Number of equivalent adults

= Household equivalent disposable income
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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 (UK) Inheritance Tax from a tax on giving to a tax on receiving, with a progressive lifetime capital receipts tax.

- (UK) Council Tax to be replaced by a proportional property tax based on up-to-date property assessments.
Proposals: Spending more

- A substantial child benefit should be paid for all children, and taxed as income, as part of an EU-wide basic income for children.

- **EITHER** A participation (citizen’s) income should be introduced for adults, complementing existing social protection, and taking account of differences in needs.

- **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.
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Proposals: employment and wages

- Governments should adopt an explicit target for reducing unemployment (as there is a target for inflation), 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.
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Proposals: Capital and wealth

- Introduce a distributional dimension into competition policy, and ensure a legal framework that allows trade unions to represent workers on level terms in negotiations such as those concerning TTIP.

- The government should offer national savings bonds to small savers guaranteeing a 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, financed by the wealth transfer tax.

- Creation of a public Investment Authority, operating a sovereign wealth fund to build up the state net worth.
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Are these proposals “off-the-wall”?

SUPPORTERS:

**Competition policy and distribution:** US Senator Sherman

**Public Employment Programme:** US Humphrey-Hawkins Act 1978

**Living wage:** UK Premier League football clubs

**Lifetime capital receipts tax:** J S Mill

**Minimum inheritance:** Thomas Paine and previous UK Labour Government

**Sovereign wealth fund:** Boris Johnson, Conservative Mayor of London

**Participation (Citizen’s) Income:** James Tobin and Milton Friedman
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 for the UK where the tax and transfer elements would reduce the Gini coefficient and the rate of poverty by 4 percentage points.