

Inequality – What can be Done?

A B Atkinson

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

- 1. The extent of income inequality**
2. Why should we be concerned?
3. The economics of inequality
4. Proposals: Taxation and welfare state
5. Proposals: Employment and wages
6. Proposals: Capital and wealth
7. Assessment: *what can be done?*

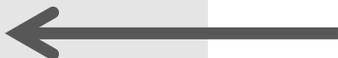
Inequality of what among whom?

Total household gross income

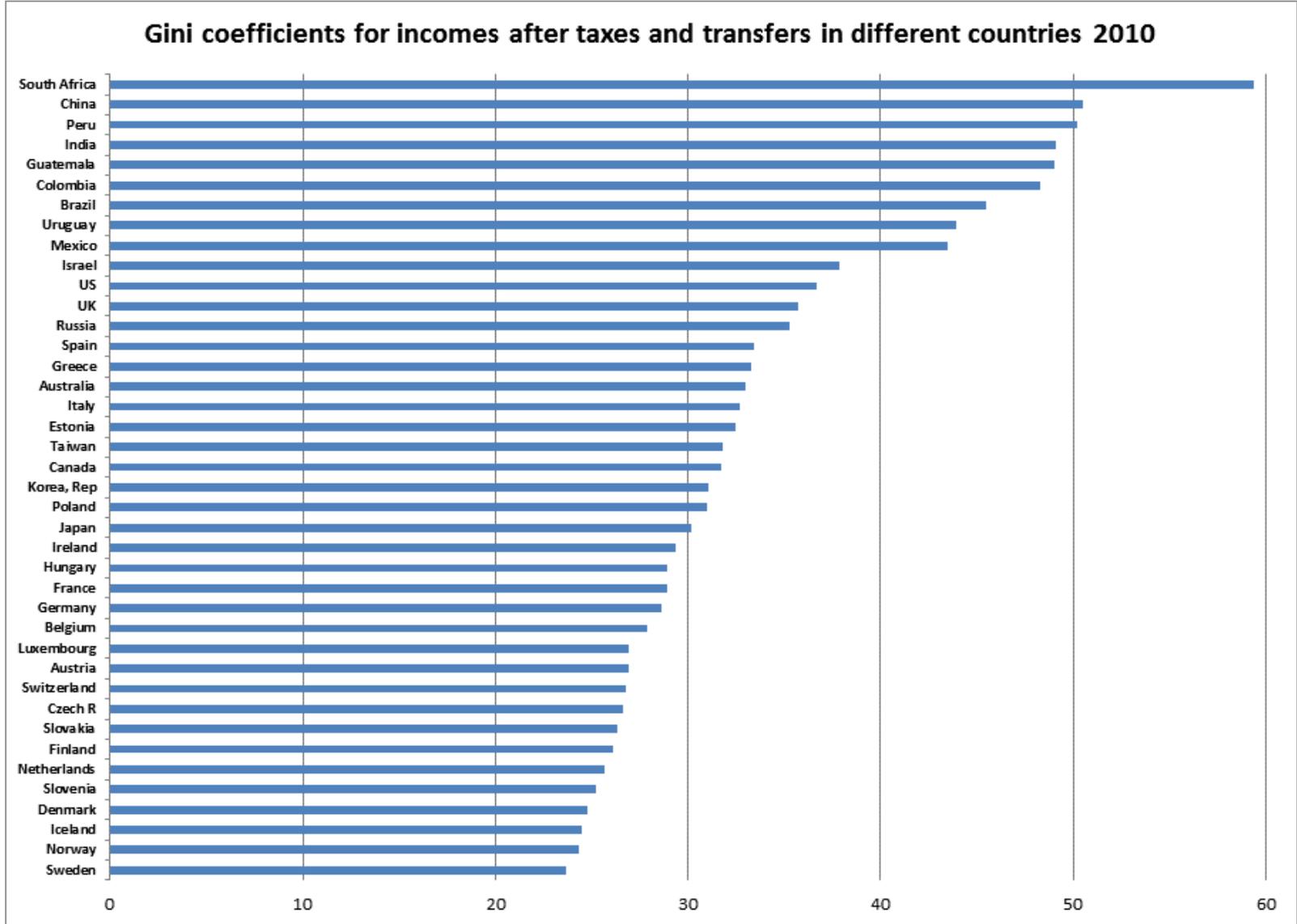
Total household disposable income

$$\begin{aligned} & \text{Earnings of Person 1} \\ & + \text{Earnings of Person 2} \\ & + \text{Income from Capital} \\ & + \text{State transfers} \\ & - \text{Direct taxes} \\ & = \\ & \text{Disposable income} \\ & / \\ & \text{Number of equivalent adults} \\ & = \\ & \text{Household equivalent disposable income} \end{aligned}$$

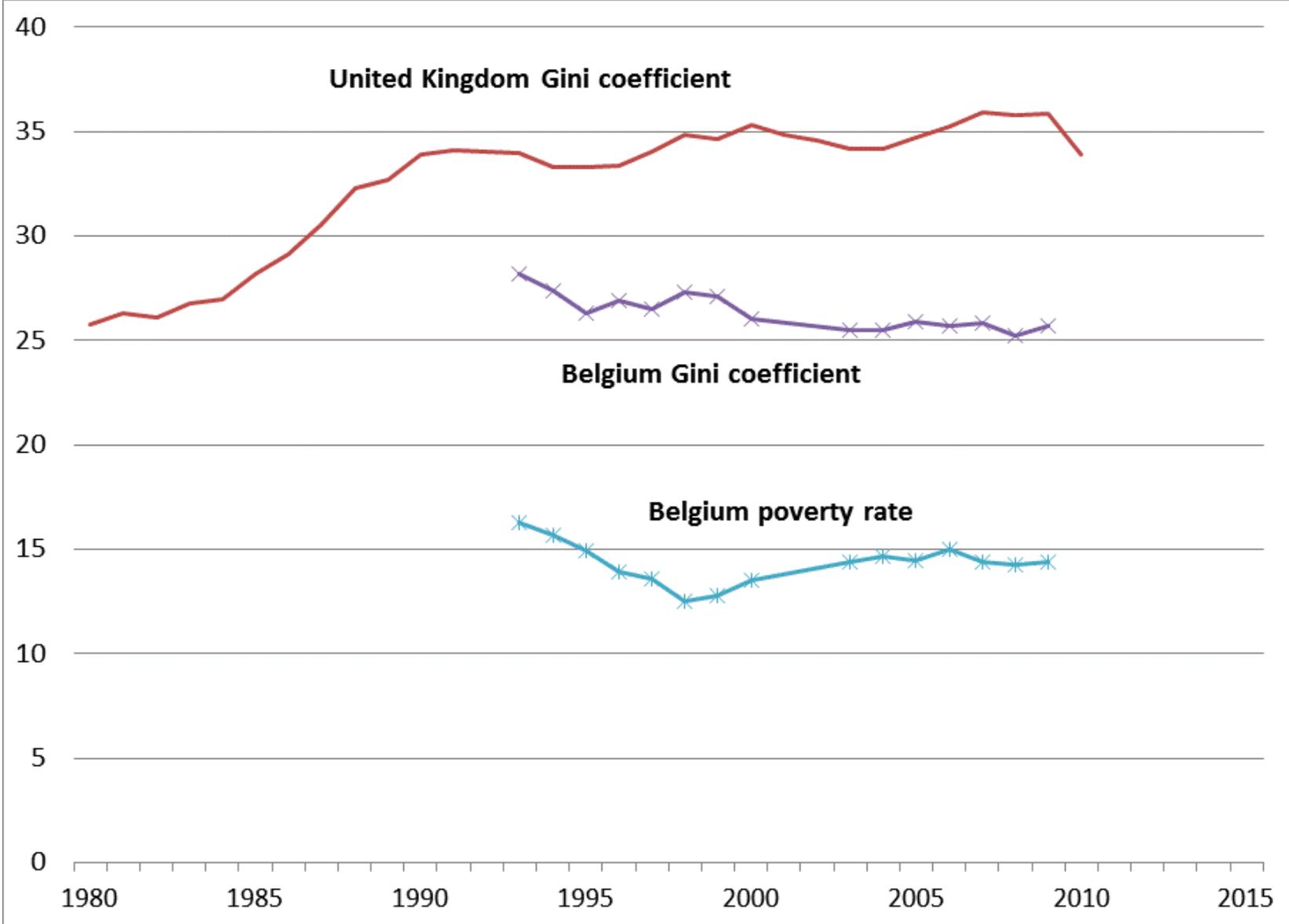
Individual earnings



Income inequality compared



Income inequality since 1980



Plan of talk

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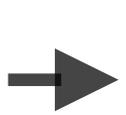
- Intrinsic reasons:
- Instrumental reasons:
 - Economic
 - Social
 - Political
- Inequality of opportunity:
 - Inconsistent with excessive inequality of outcome

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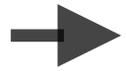
Many forces in operation

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

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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.
- A participation (citizen's) income should be introduced, complementing existing social protection, coupled with an EU-wide basic income for children.
- **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.

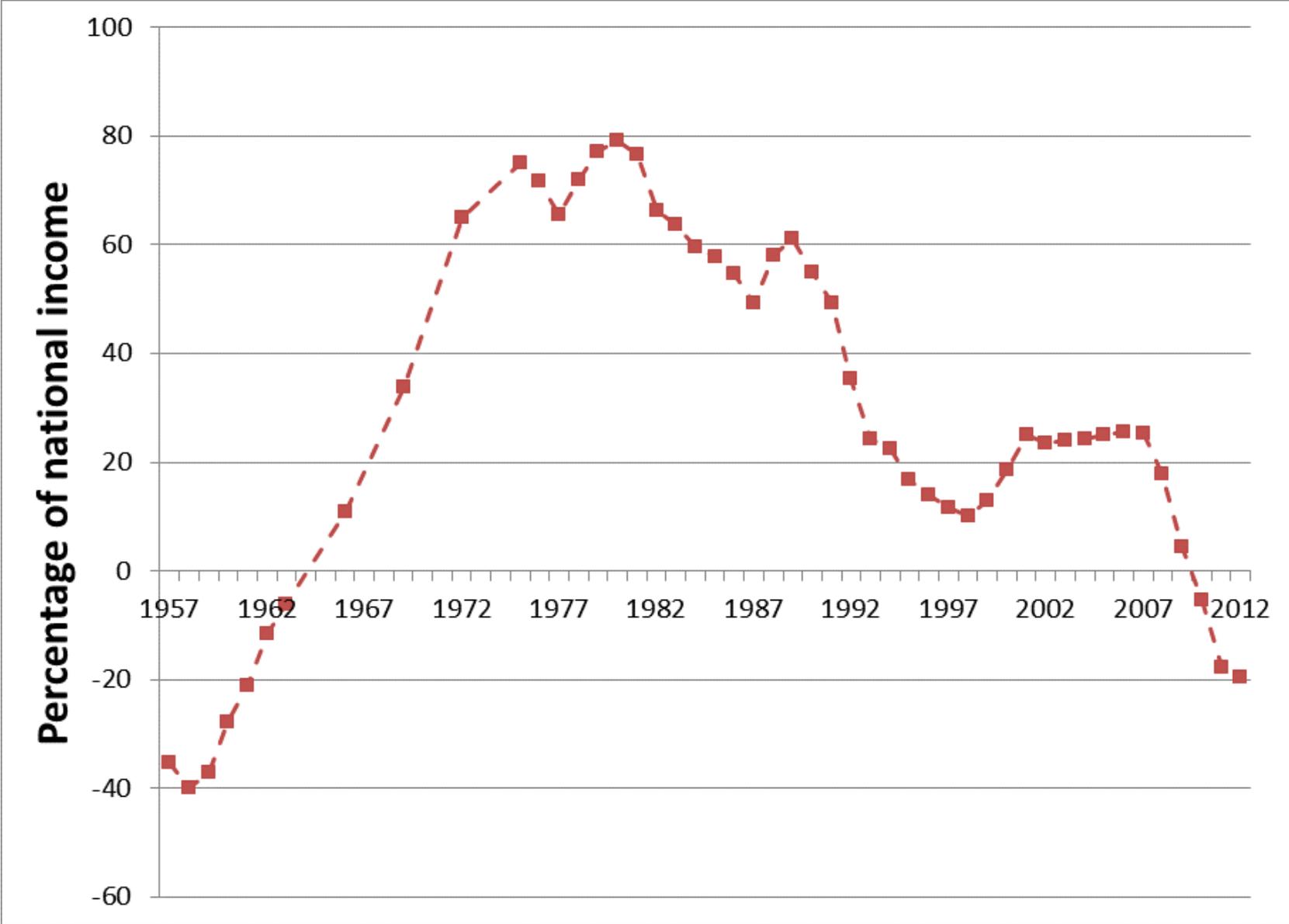
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Proposals: Capital and wealth

- (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 UK Social and Economic Council with wide representation.
- 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.

Decline in net worth of the UK state as % national income



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Are these proposals “off-the-wall”?

SUPPORTERS:

Competition policy and distribution: US Senator Sherman

Social and Economic Council: 22 EU countries (including Belgium)

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

Property tax: Most US local governments

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.*