

# 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. 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?

Total household gross income

Earnings of Person 1  
+ Earnings of Person 2

Individual earnings

+ Income from Capital  
+ State transfers  
- Direct taxes

Wealth of the household

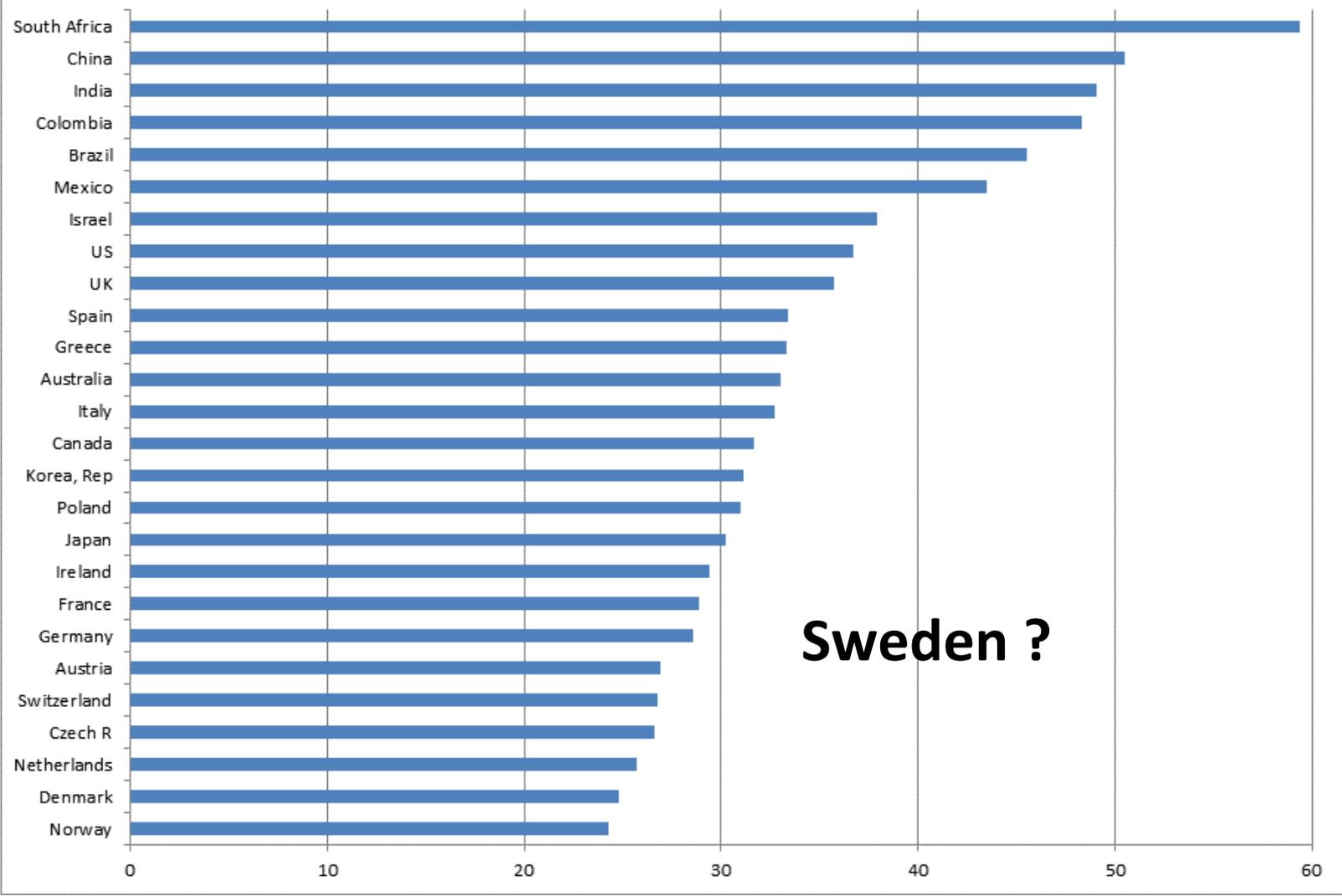
Total household disposable income

=  
Disposable income  
/  
Number of equivalent adults  
=

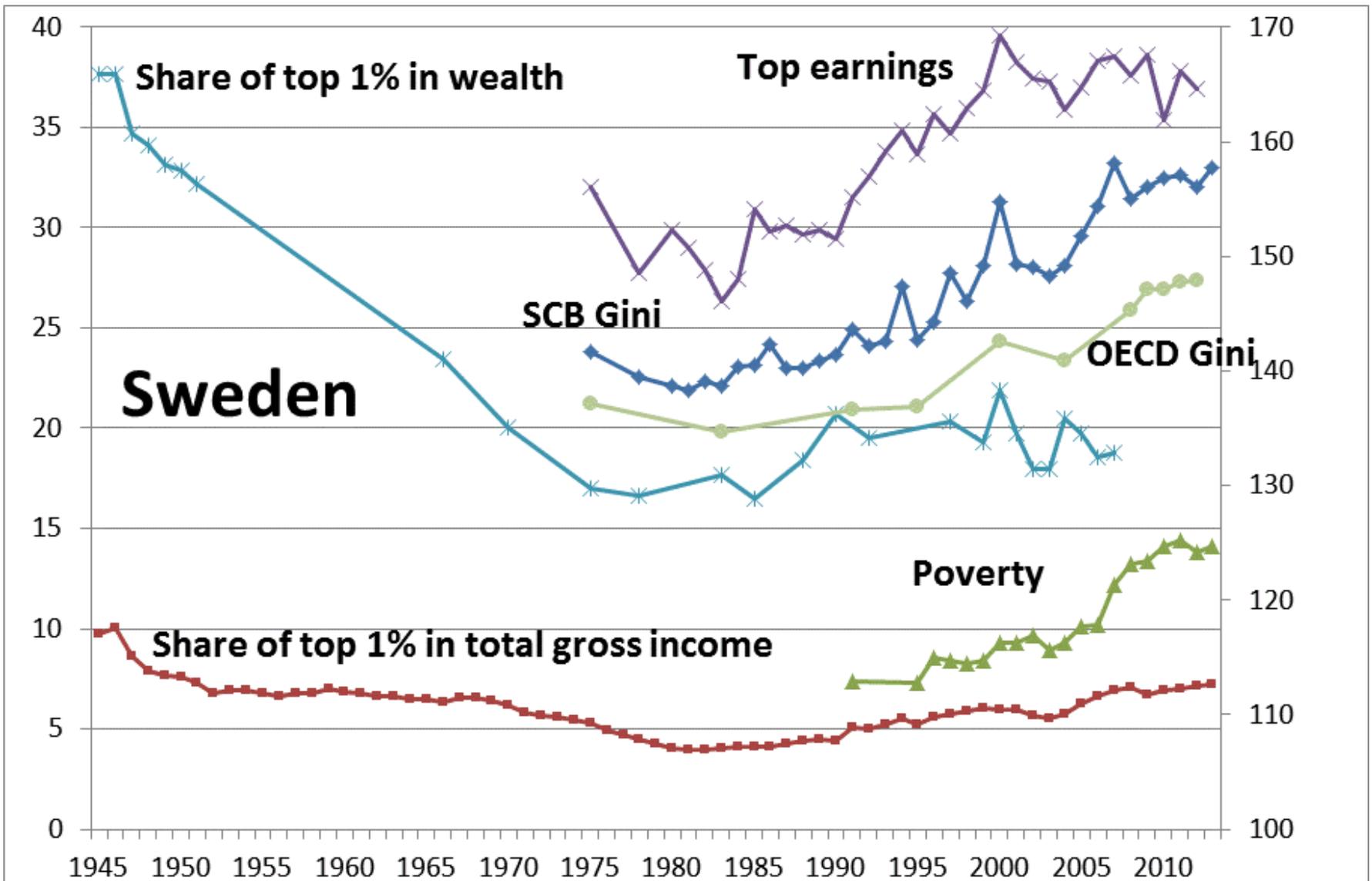
**Household equivalent disposable income**

# Income inequality compared: Luxembourg Income Study

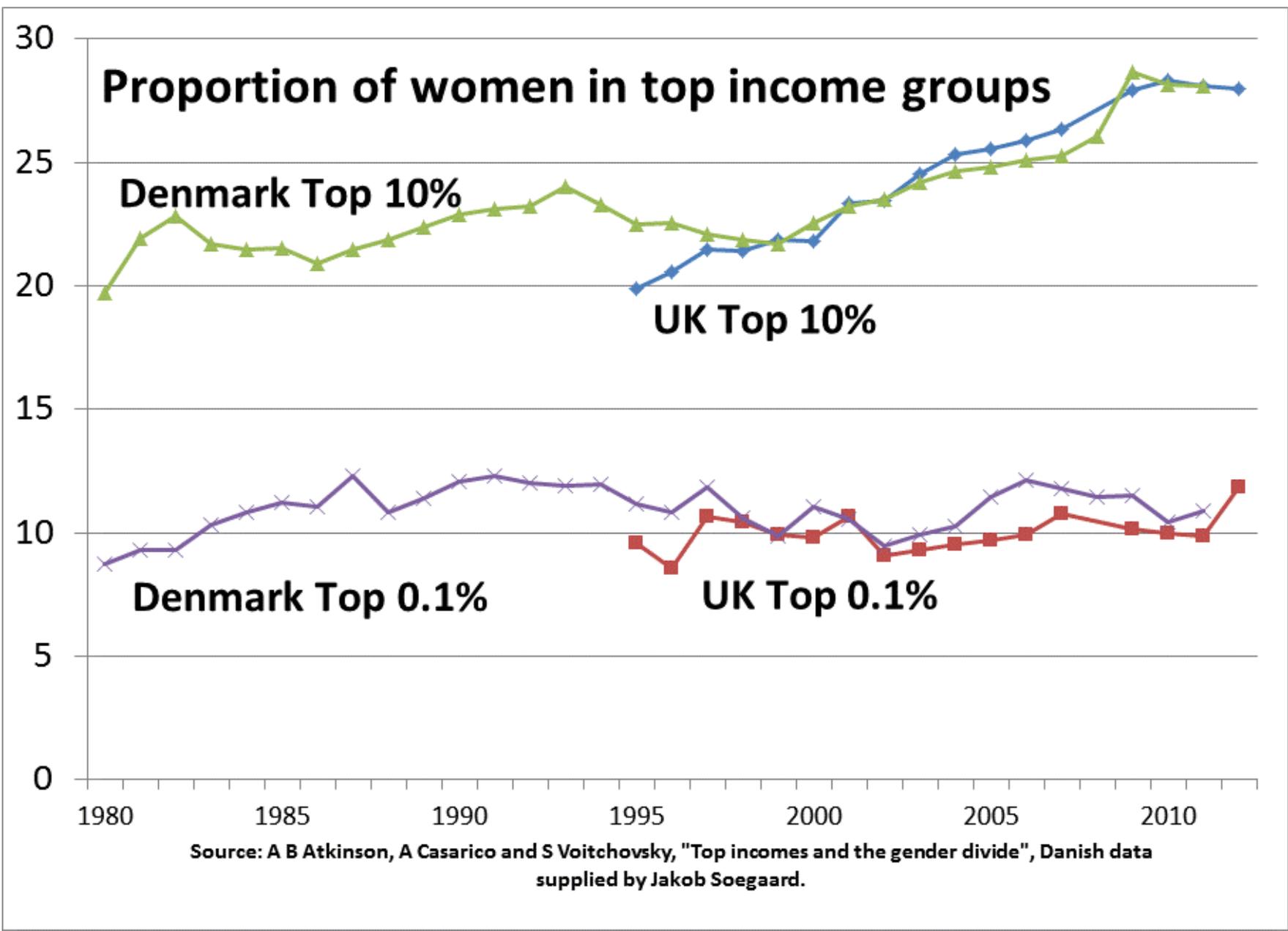
Gini coefficient 2010



Sweden ?



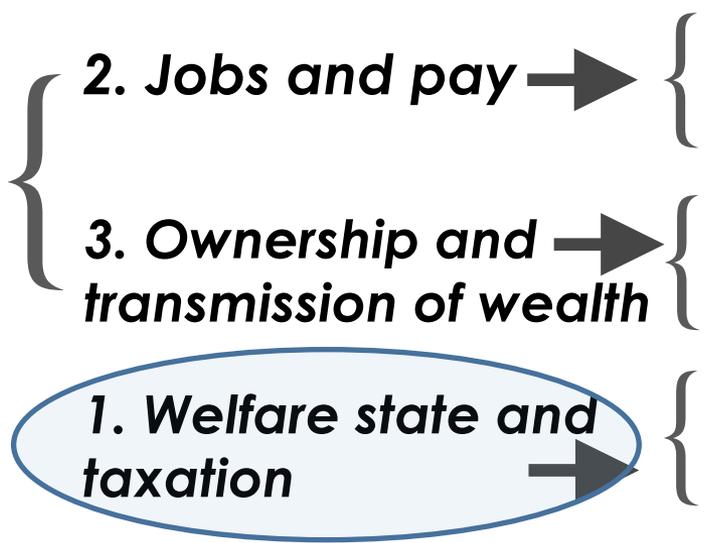
Sources: Statistics Sweden (SCB Gini and poverty rate), Roine and Waldenström (top 1% share of gross income and top 1% share in wealth), OECD Income Distribution Database (OECD Gini), and Chartbook of Economic Inequality (earnings).



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?*

# Many forces in operation

**MARKET INCOMES**



$$\begin{aligned} & \text{Earnings of Person 1} \\ & + \text{Earnings of Person 2} \\ & + \text{Income from Capital} \\ & + \text{Private transfers} \\ & + \text{State transfers} \\ & - \text{Direct taxes} \end{aligned}$$

=

Disposable income

/

Number of equivalent adults

=

**Household equivalent disposable income**

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?*

# 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.

# 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?

# 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.

# 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?

# 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.

# 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?**

# 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.*