



The Loaded Dice

Inequality, the economy and continuing crisis

Stewart Lansley

- 
- The state of the economy
 - Trends in inequality through the crisis
 - How they interact
 - The lessons

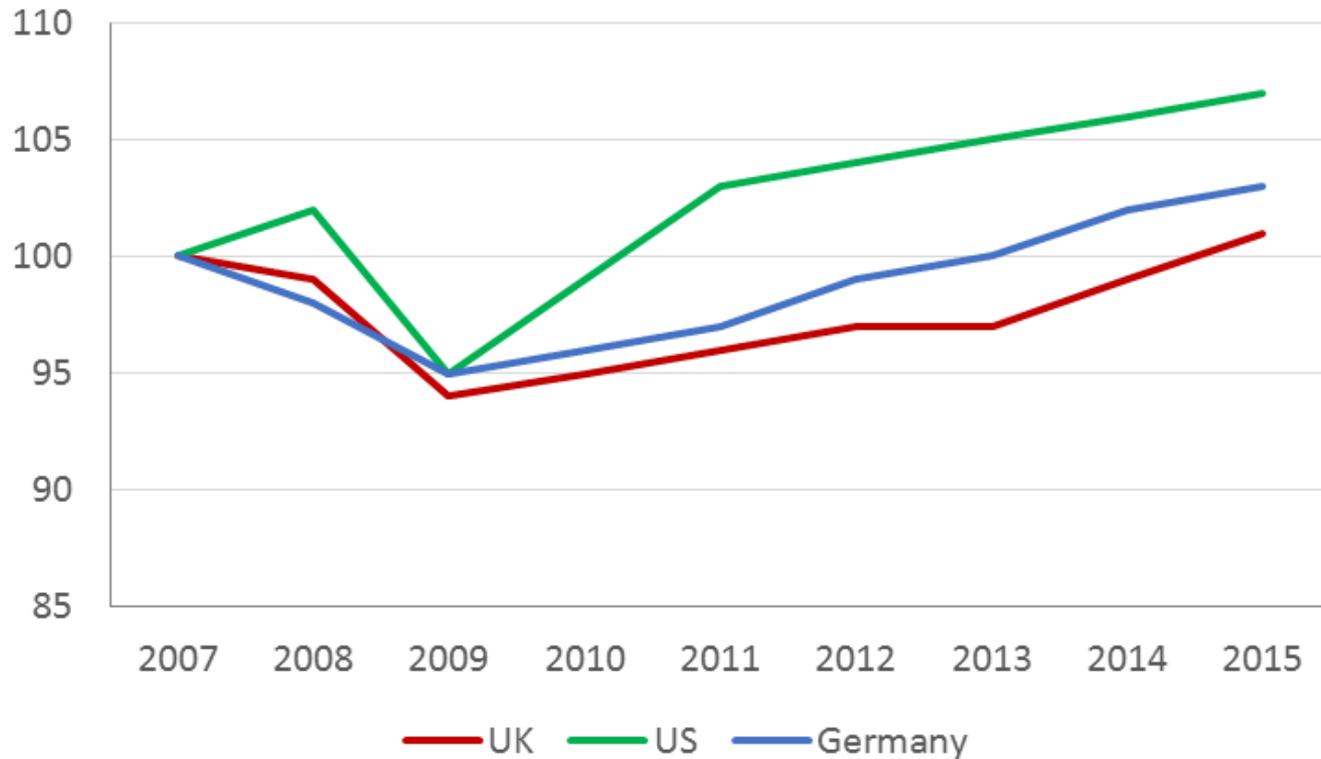


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The state of the economy

Trends in real GDP per head, UK

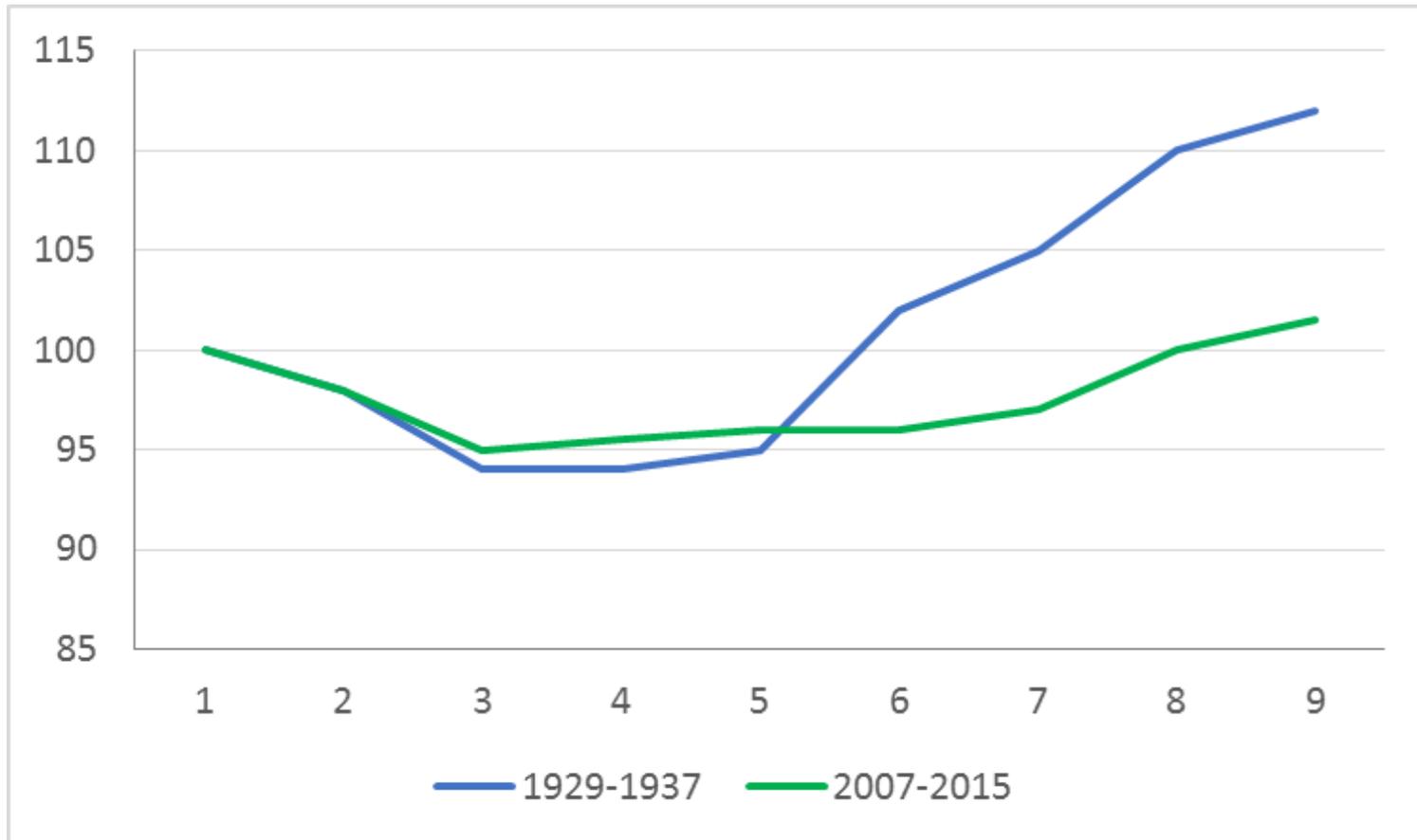
2007=100; 2015 is a forecast



Source: Maddison Project Database

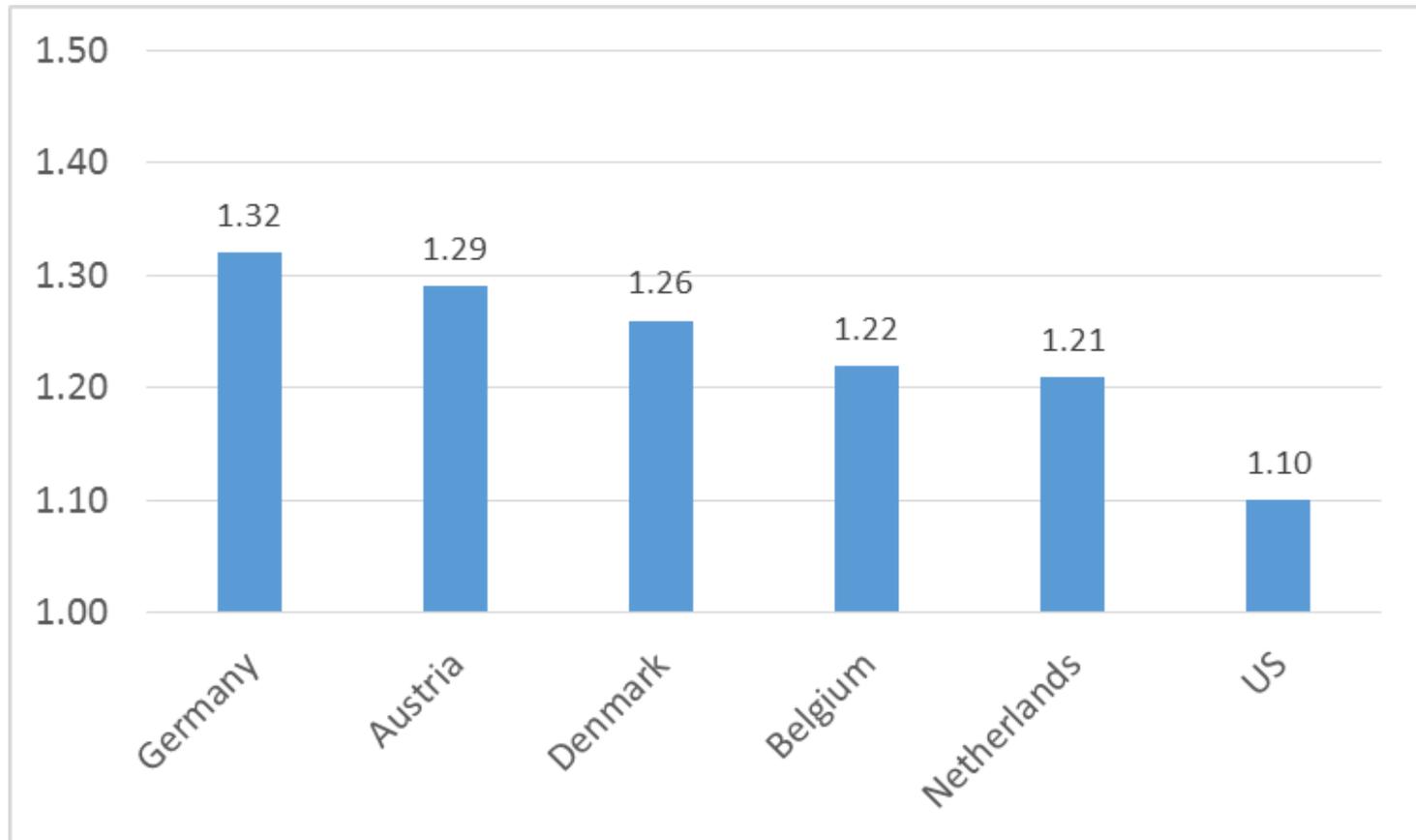
Recovery in Gt Depression v Gt Recession

Real GDP per head, UK



Source: Maddison Project Database

Comparative low incomes – poorest fifth



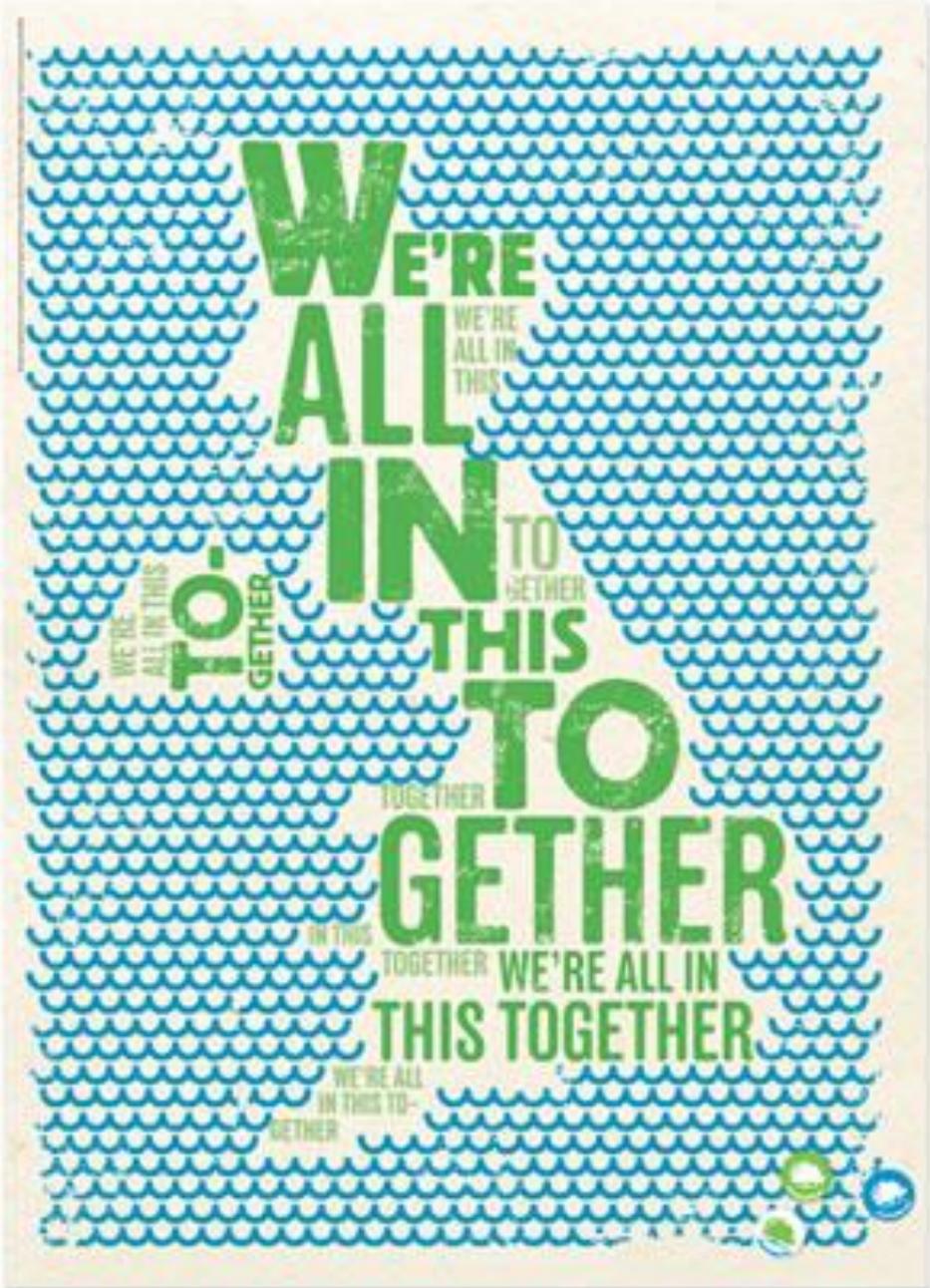
Ratio of poorest fifth by country compared with UK, UK=1

<http://www.oecdbetterlifeindex.org/topics/income/>



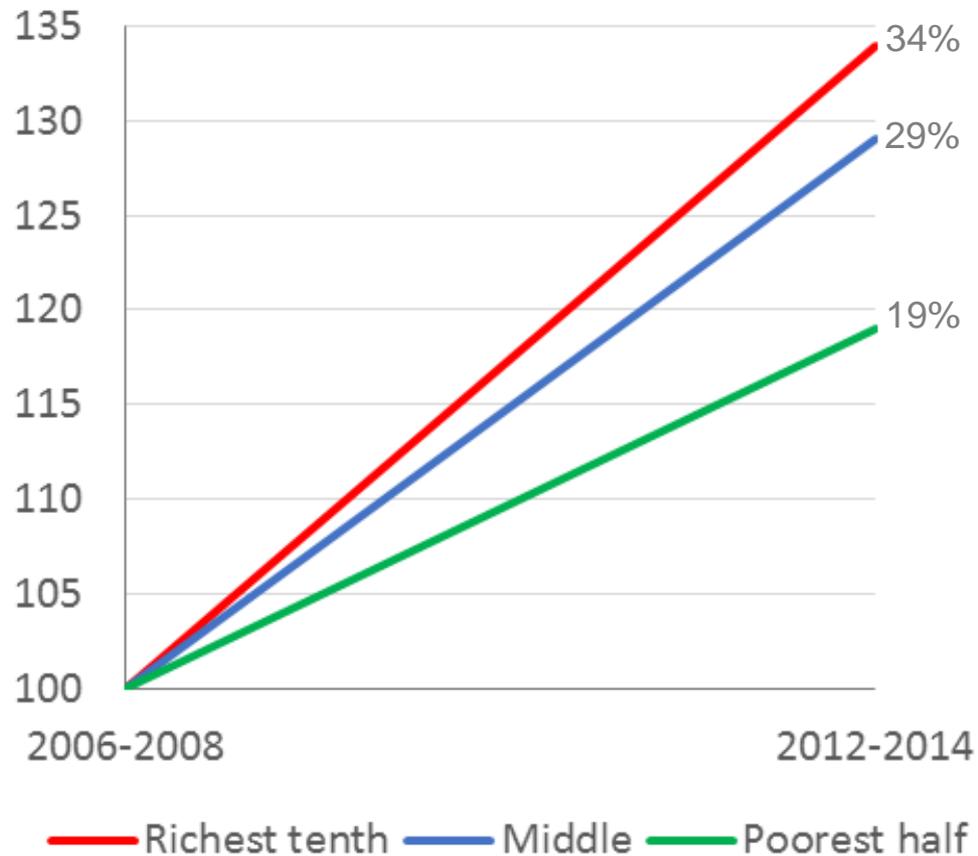
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Trends in inequality through the crisis



Trends in aggregate wealth, GB

2006-08 to 2012-14



Source: ONS Wealth and Assets Survey

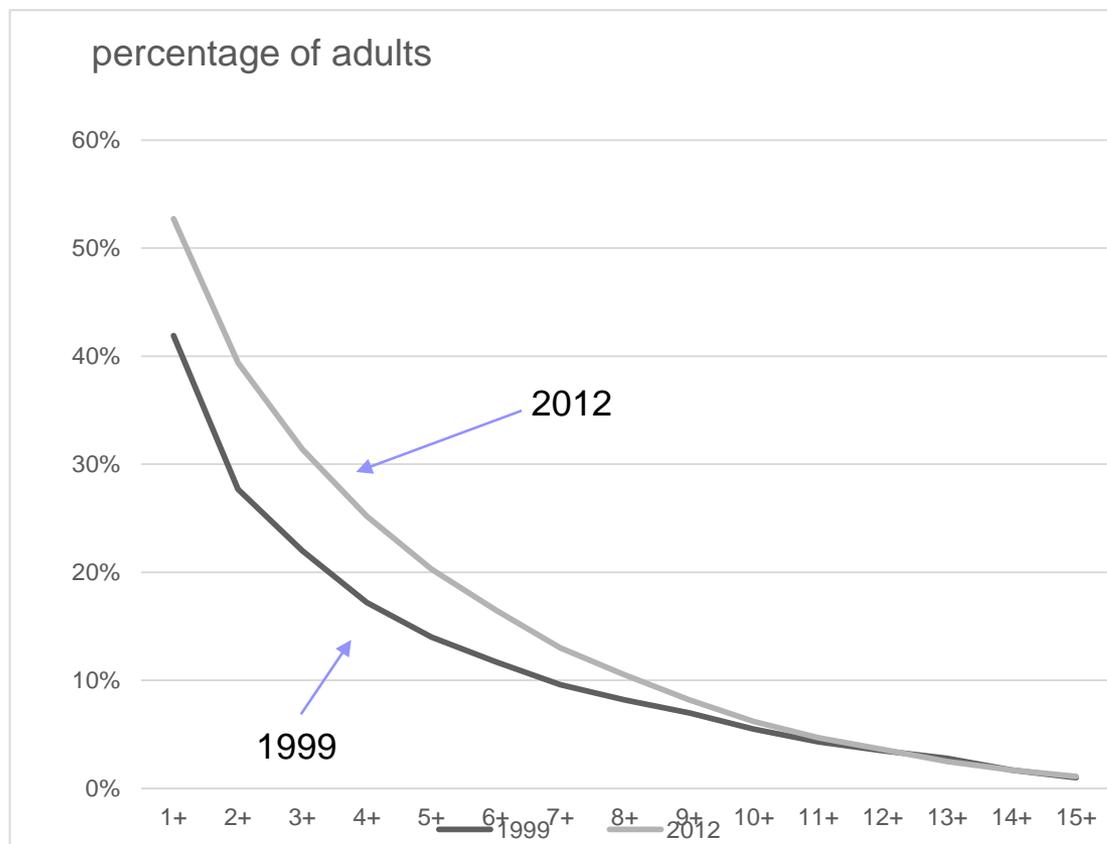
Top executive v mean pay (nominal), 2000-13

Index: 2000 = 100



Rising absolute deprivation

Percentage lacking 1999 list of necessities in 2012 and 1999



Source: S Lansley, J Mack, *Breadline Britain*

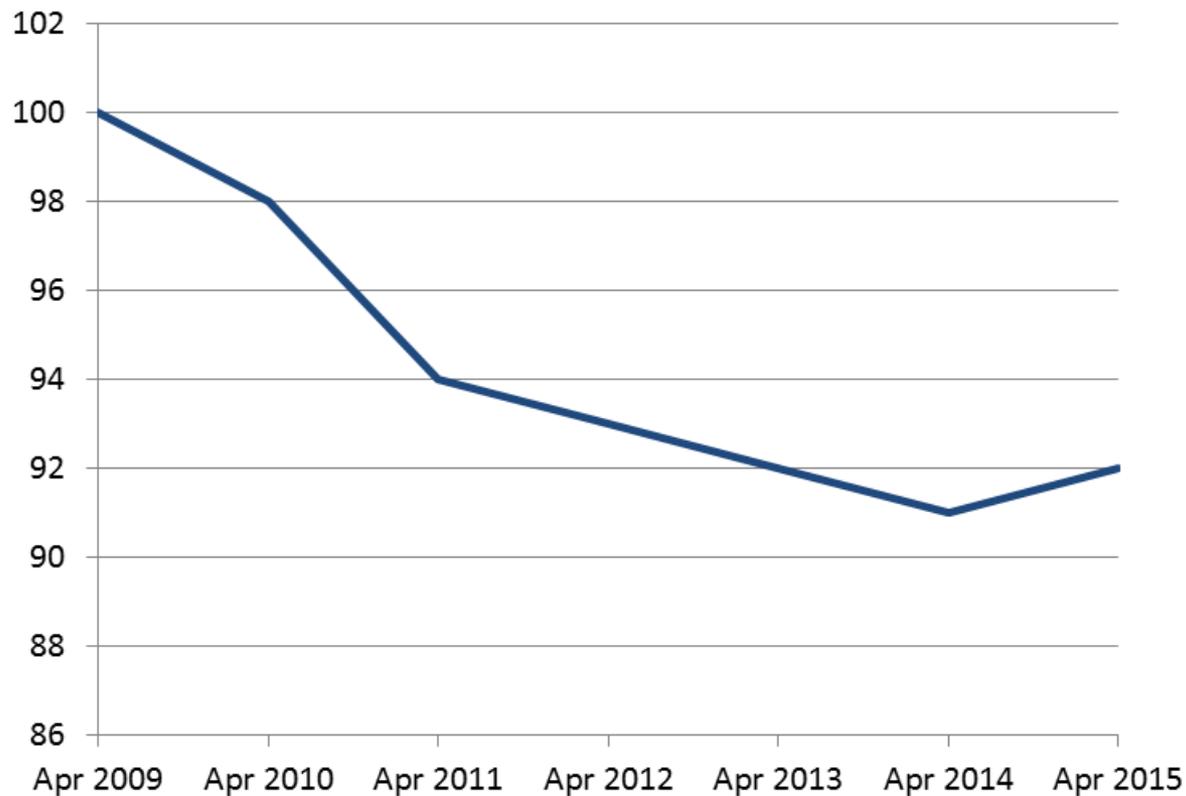


Why has inequality been rising?

- Wage/job shifts
- State policy
 - Macro-economic policy pro-rich
 - Social policy anti-poor

The wage squeeze

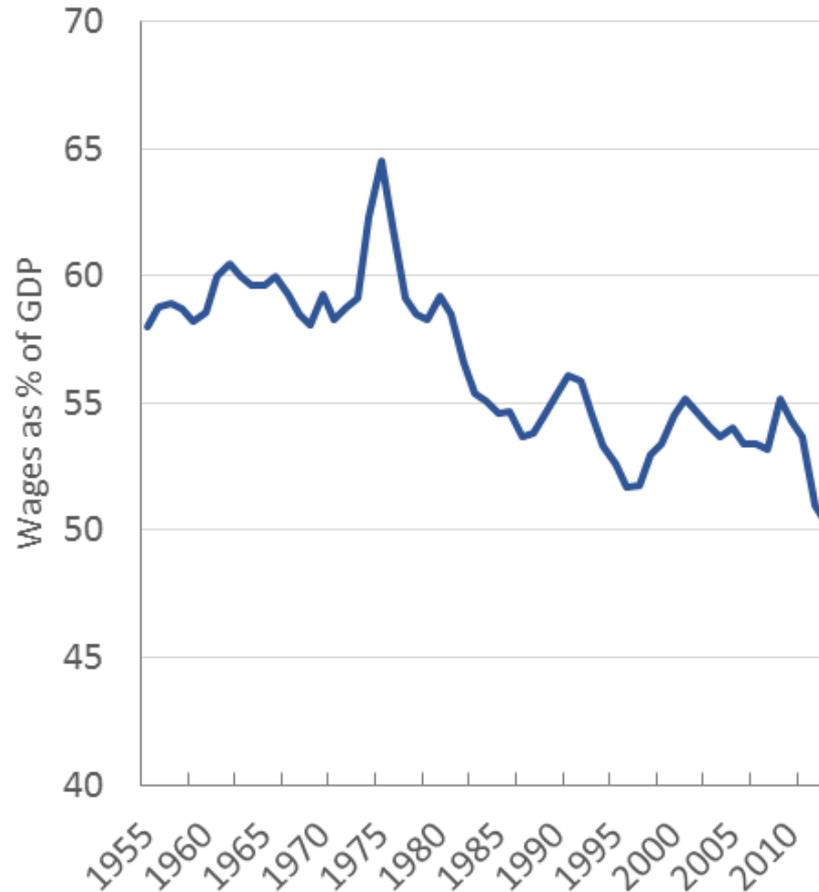
*Real hourly median earnings (adjusted by CPI),
index, April 2009 = 100*



Source: ONS Annual survey of hours and earnings

The falling wage share, UK

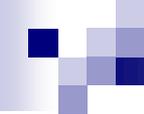
share of wages in GDP



Source: ONS National accounts

Jobs

- Unemployment fallen from over 9% to 5.2%
- But quality mixed: of 1.5m net jobs created since 2008:
 - 46% are self-employed (15% on avg)
 - 30% are p/t (22% on avg)



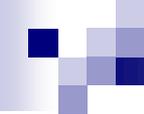
Economic policy pro-rich; social policy anti-poor

- QE
- Low interest rates
- Fiscal austerity
- Tax/benefit changes



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Inequality and the economy: the interaction



The orthodoxy: inequality is good for the economy

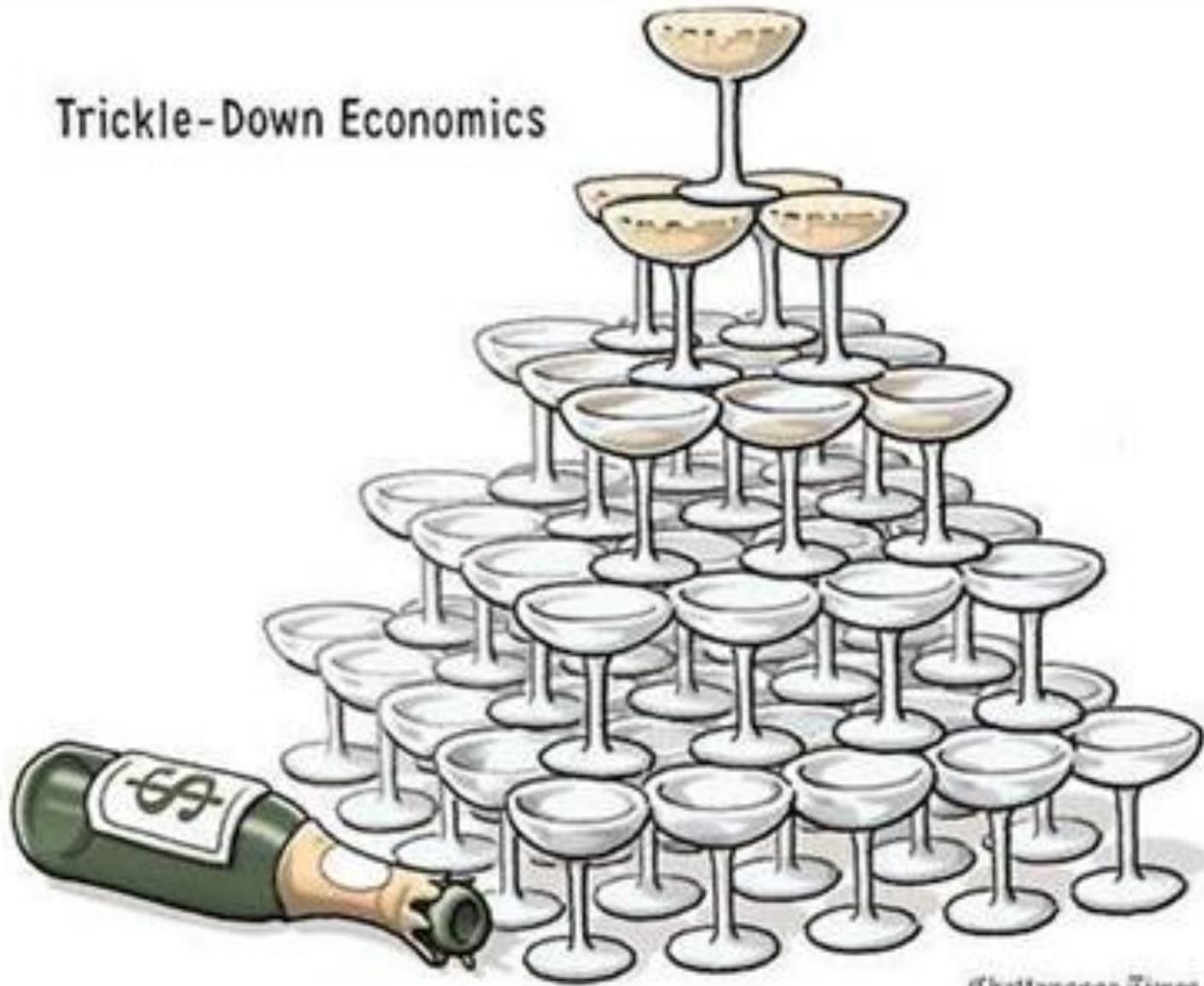
'Equality and Efficiency, The Great Trade-Off.'

Arthur Okun, 1975

"Of the tendencies that are harmful to sound economics, the most poisonous is to focus on questions of distribution."

Robert Lucas, 2003

Trickle-Down Economics



Effect of inequality on economic growth: *the evidence*

‘Lower net inequality is robustly correlated with faster and more durable growth ... redistribution appears generally benign in terms of its impact on growth.’

IMF

‘In Italy, the UK and the US, the cumulative growth rate would have been six to nine percentage points higher had income disparities not widened... greater equality helped increase GDP per capita in Spain, France and Ireland prior to the crisis.’

OECD

Nearly all large economies are ‘wage-led’ not ‘profit-led’. That is, they experience slower growth when an excessive share of output is colonised by profits, with less going in wages.

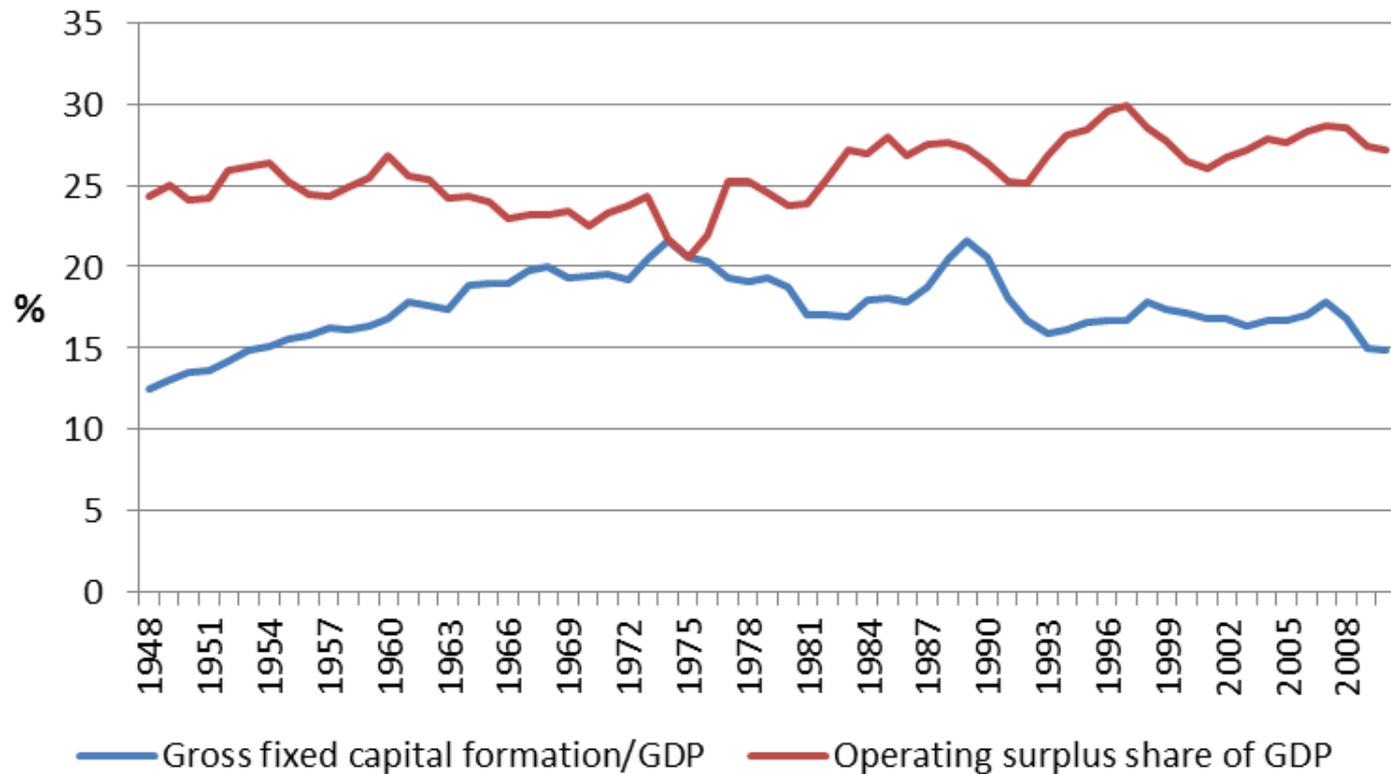
ILO



Effect of rising inequality on economy

- Stifles consumer demand
- Cuts investment
- Makes economies more dependent on unsustainable stimulants, including rising debt, that increase the likelihood of crises

The rising profit share and falling investment, 1948-2010





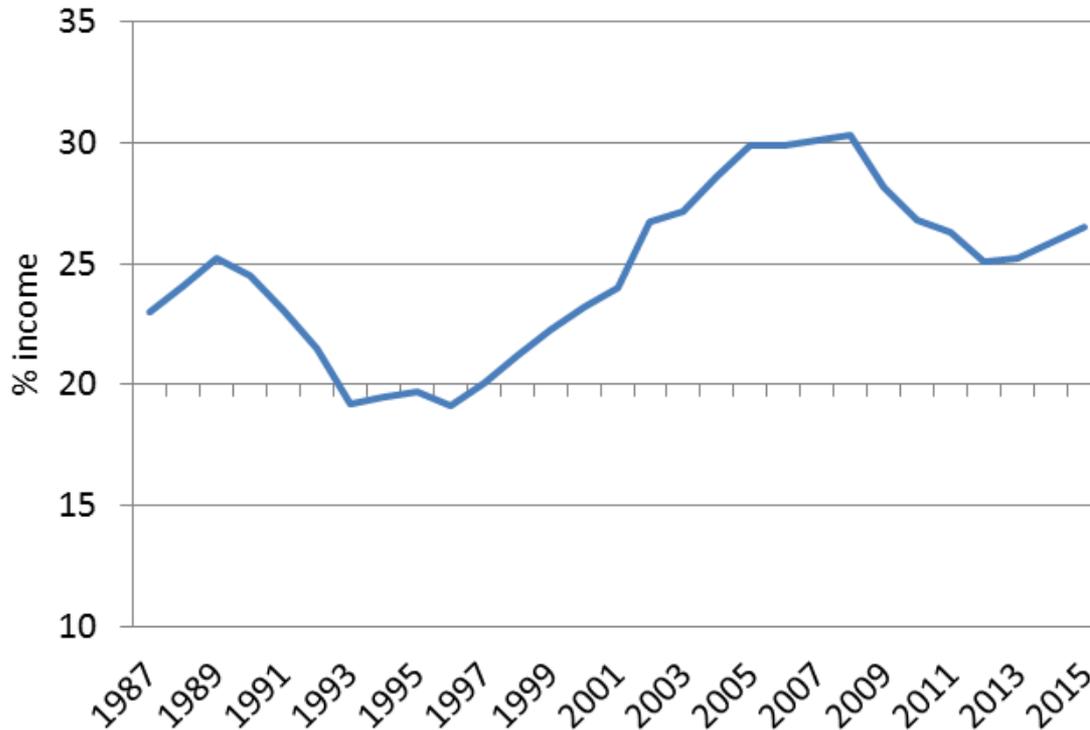
Artificial stimulants

- QE
- Property boom
- Share price boom
- Rise in personal borrowing

'Let them eat credit'

Household unsecured debt as % of income

Total loans (excluding mortgages)



Source: Bank of England

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The lessons

- Structural faults of pre-crash economy still there
- Vicious - inequality, demand stifling, debt, crash - cycle still at work
- Current policy mix – austerity, QE and lack of credit control – regressive and made Britain's structural problems worse

**The
Economist**

The 'global economy' of the world
is in a state of
collapse. The world is
in a state of
collapse.

THE WORLD ECONOMY

Out of ammo?



Debate:

building an alternative pro-poor, anti-inequality strategy

- rebalance from monetary to fiscal policy
- new forms of credit control that boost investment
- helicopter money/ 'people's QE'
- raise the wage-share
- socialise more economic activity (social wealth funds)
- building a robust income floor (citizen's income scheme)