Outcomes for individuals: unskilled jobs automated or transferred overseas; Recession means fewer jobs available; tendency for low-paid, part-time, short-term jobs. Means-tested benefit claimants face severe disincentives-to-work-for-pay via MDRs; Personal debt increases. Much insecurity and fear for future. Gross inequality. Homes of ones' own beyond the reach of too large a proportion of population, and rents increase. Large increases in food and fuel prices. Food banks set up over the UK. Widespread poverty.

Outcome for economy: Credit Crunch, 2008.
Austerity measures – cuts in benefits and expenditure on public services.
Quantitative Easing, (printing money to stimulate the economy – inflationary).
Banks are trying to build up their reserves, therefore are not lending much.
Small firms find it difficult to get loans. Large firms await upturn in economy before investing; ie economy is **demand deficit**, - not a supply-side problem.

A baby-sitting group illustrates the situation: suppose one household does much baby-sitting but rarely goes out, and therefore builds up a store of credits. Other households may try desperately to earn baby-sitting credits from reduced pool, but activity reduces. Introducing more credits may help temporarily, depending on how they are distributed, but does not address the underlying problem. If credits are not redistributed, then the group will break up. (A household reneging by moving away without repaying the babysitting services (debits) has the opposite effect: bad debts are inflationary.)

SOLUTION: a generous Citizen's Income (CI) scheme, which is universal, individual, unconditional, and high enough for a life of dignity and participation, financed by a restructured, hypothecated, personal income tax system, without any tax loopholes.
CI + tax redistributes income from rich to poor, and Gini coefficient will decrease.
Poor people have a larger propensity to spend, so demand will increase.

CAN WE AFFORD IT? Define 'Cost':
Marginal Deduction Rates (income tax rates): these can, and should, be tailored to the objectives of the particular CI scheme. Examples of schemes based on a standard income tax rate of 32%, 40%, or even 50%, are available.
Sum of net transfers. This is the sum of all the taxes that are paid by the net taxpayers, and should equal all that is received by the net beneficiaries. The total is dependent on the degree of inequality of gross incomes. If everyone had the same income, the sum of net transfers would be zero.
Public debt / GDP: After WWII, the UK net debt / GDP ratio reached 240%, and by 1975 had been reduced to below 50%, with UK debt interest payments starting at 6% and reducing to 4% by 1950, to 3% by 1990, and 2% by 2000. In 2011, this ratio was 68%. Thus, the current national debt is not high by historical or international standards, and the cost of servicing it is manageable.

CAN WE AFFORD IT? YES, WE CAN!

Social Policy Association Annual Conference, Sheffield University
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"How a generous Citizen's Income scheme, financed by a restructured personal income tax system, could help to regenerate local demand, and hence the national economy."

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SUMMARY

Inequality increased markedly during the Thatcher government - Gini coefficient was 0.24 in 1979, 0.34 in 1991, and it rose again under New Labour to 0.36 by 2007.

A **market economy** has no inherent mechanism to redistribute income or wealth from rich to poor, and in fact tends to redistribute from poor to rich. Even the Neoclassical School's perfect competition model would merely maintain the *status quo* distribution. Markets need to be regulated.

The state should provide an instrument to **redistribute from rich to poor**:
* To counter-act the tendency of markets to redistribute from poor to rich;
* Government's first duty should be to protect all of its citizen's, not just the rich;
* Wilkinson & Pickett's *The Spirit Level*, 2009, reveals that more equal societies have been better for everyone;
* To regenerate run-down local economies, and hence boost demand in the national economy, reducing its dependence on global vicissitudes.

Most people in this country think that we have a democratic government, but the purpose of the government is to make marginal changes in favour of the wealthy. How have UK governments been complicit in this betrayal of the people?

1. GROWTH

Government opted out of the clauses on Social Protection for workers in the Maastricht Treaty, 1992, in favour of a flexible labour market for greater growth.
The purpose of growth is to protect the rich from having to share their income & wealth.
The rich get richer, and poor people get a little better off and stop making demands on rich people.
"Since 1975, practically all the gains in household income [*in the USA*] have gone to the top 20% of households." (www.cia.gov/library/publications/the-world-factbook/geos/us.html, 22/03/2013). In 2007, the CIA made a similar statement about growth in the UK over the previous three decades having gone to the top *40%* of households.
Those in the bottom 10% were either no better off, or were even worse off in real terms.
In a recession, suddenly, "we all are in this together, and so we (poor people) must all bear 'our share' of the burden", ie benefits and services cut.
Ratchet effect of growth – recession - growth, leads to widening inequality.

2. MONETARY POLICY

Governments have relaxed regulation of financial institutions: eg. 'Big Bang' 1986, - deregulation of the stock market, and privatisation of the London Stock Exchange;
Required lower amounts from banks reserves to be deposited with Bank of England;
Allowed investment banks to use savers' deposits, from their retail bank branches, for gambling on stock market, (following the USA's Gramm-Leach-Bliley Act, 1999, that weakened the Glass–Steagall Act, 1933, that separated banks, to protect savers);
Transferred weakened regulatory powers from Bank of England to under-funded Financial Services Authority, 1997;
Encouraged and relied on financial sector which accounted for 10% of the UK economy
Borrowed heavily to finance wars in Afghanistan (2001 -) and Iraq (2003 – 2011), rather than reduce public debt during boom years, as was normal practice.

3. HOUSING

Governments sold off Council Housing, but prevented Councils from using proceeds to replace housing stock.
Encouraged demutualization of Building Societies to become banks.
Encouraged inflationary property boom in UK, where realised capital gains were spent on consumption and helped to fuel economic demand.
Housing booms siphon wealth out of pockets of poorer aspirants, (first-time buyers), into pockets of current property owners, (if realised).
House-price slump led to bad debt and negative equity.
Pressure on rented properties - rents are high for poor people.

4. BANKS

Reckless lending in USA – sub-prime mortgages.
'Sophisticated' instruments were developed for inter-bank lending.
Reckless borrowing on international financial markets.
Credit Rating Agencies, (Fitch, Standard & Poor and Moody's), failed in their supposed role of rating the loan bundles, (ie. rating toxic loans as AAA).
Reckless lending by UK banks to people who would struggle to pay when interest rates rose, and on buy-to-let and commercial properties.
Lending 100%, or even 125%, mortgages, based on 5 times borrower's income.
Bubble burst when borrowers began to default here and in USA, and banks' borrowings were greater than their reserves, revealed when many savers withdrew their savings.
Banks (RBS, HBoS, Lloyds) were 'too big to fail' without risking currency / economy, so were bailed-out by UK government. Private profits, public losses!

Note: Neither Germany nor Canada suffered the property boom and the bank crashes. Germany has maintained its post-war level of inequality, but the USA, followed by Canada and the UK, has the highest inequality in the west.

5. BENEFIT LEVELS

National Insurance benefits have been reduced over the years, and are now less than the means-tested Social Assistance benefits, that were originally intended to provide a safety net for those who fell through the protection of National Insurance.
Benefit levels are below the governments' own poverty benchmarks.
The government has changed from using the Retail Price Index to the lower Consumer Price Index, to update benefit levels.
'Major reforms' in last 60 years have been mere tinkering at the edges.
Redistribution from the nearly-poor to the poorest, (in Norman Fowler's Review, 1985).

6. MARGINAL DEDUCTION RATES (MDRs)

Means-tested benefits have an inherent disincentive for a claimant to work-for-pay, because their taper or withdrawal rates are aggregated and added to the deductions of income tax (20%) and National Insurance contributions (12%) from his/her gross earnings, the total of which is the Marginal Deduction Rate (MDR).
Claimants, whether out-of-work or in-work, can face MDRs of **nearly 96%** when trying to earn their way out of poverty, and they are often labelled 'idle scroungers'.
The proposed Universal Credit aims to reduce the MDR to **65%** for those with incomes below the income tax threshold (£9,440), and **76%** for those above it.
Higher-rate taxpayers pay **42%** (40% income tax and 2% National Insurance) on gross incomes of £41,451 and above.
Additional-rate taxpayers will face **47%** (45% income tax and 2% National Insurance) on incomes of £159,441 and above, (reduced from 50% + 2% in 2012-13).
These MDRs comprise a highly regressive effective-tax system, where poor people pay a higher deduction from their gross incomes than higher income taxpayers, (even with Universal Credit), and this does much harm to poorer sections of society, both economically and emotionally.

7. TAX EXPENDITURES – SUBSIDIES FOR THE RICH.

The income tax system is full of personal allowances, tax exemptions and tax allowances.
These are the tax loopholes that governments have provided to enable wealthier people to avoid paying their fair share of income taxes legally (tax avoidance).
The UK is recognised by rich people as a tax haven.
The tax revenues that HMRC are not required to collect are called Tax Expenditures.
They can often profit the beneficiary in proportion to their income, eg. tax reliefs on contributions to private pension schemes are in proportion to the contribution.
Tax Expenditures reduce the tax base and lead to higher tax rates for those who cannot avoid them. These hidden subsidies to the wealthy are substantial. Estimates put their magnitude as between 30-40% of the subsidy to poorer people through Social Security.