

Tax reform and redistribution for a better recovery

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Date of deposit	5 March 2021
Document version	Author's accepted manuscript
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Citation for published version	FitzRoy, F. R., & Jin, J. (2021). Tax reform and redistribution for a better recovery. <i>Journal of Poverty and Social Justice, First Online</i> .
Link to published version	https://doi.org/10.1332/175982721X16128667402177

Full metadata for this item is available in St Andrews Research Repository at: <https://research-repository.st-andrews.ac.uk/>



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Tax Reform and Redistribution for a Better Recovery

January 2021

Abstract

A regressive tax system and welfare cuts under ideological austerity have generated growing poverty and inequality in the UK and US. Failures in responding to the Covid-19 pandemic and the resulting deep recession have the greatest impact on the poorest and most vulnerable, exacerbating poverty and inequality. In contrast to this depressing history, we show in detail that a better recovery in the UK requires a radical tax reform and a universal basic income, combined with a green new deal for full employment and a low-carbon economy, employee self-determination and economic democracy to eliminate exploitation and establish social justice.

1. *Introduction*

According to the National Institute of Economic and Social Research (NIESR, 2020), the UK has been one of the worst affected major economies as a result of the Covid-19 pandemic, with the greatest impact on deprived areas and low-paid, front-line workers, predominantly women and minorities (Marmot et al, 2020; Wolf, 2020), while GDP fell more than in any other G7 country. The death rate has been three times the rate in Germany, where ‘Kurzarbeit’, or subsidised short-time working minimises full time job-loss, as after the financial crisis in 2009 when unemployment hardly increased, in contrast to other G7 countries, and the scheme will be extended to 2021 (IMF, 2020).

To achieve a speedy and healthy recovery and long-term social justice, we also need radical structural change in the UK economy, especially in the dysfunctional tax and welfare system. While headline income taxes still feature increasing marginal rates on higher incomes, these higher rates are undermined by numerous exemptions, while Cameron’s Conservative government imposed austerity on the majority from 2010. Incomes from the most unequal capital ownership and capital gains are taxed at lower rates, and indirect taxes such as VAT on consumption, have the largest proportional impact on the poor who consume most of their income. Economically justified duties on fossil fuels, tobacco and alcohol are only a small proportion of total indirect tax revenue. The details presented below, of just how regressive, un-coordinated, inefficient, and unjust the distribution of taxes and benefits really is, have received little attention, yet offer scope for radical simplification and reform.

Leading tax authorities Saez and Zucman (2019) castigate the US system as a ‘triumph of injustice’, with a lower overall tax rate on billionaires than on the poor and middle classes despite the most extreme inequality and poverty among advanced economies. Surprisingly, perhaps, taxation is even more unjust in the UK, where the *effective average tax rate* (EATR)

for the bottom decile of households is 44%, compared to the top decile's 40%, as further discussed below. Of course, the UK does provide a better – though still very far from adequate – social safety net in the form of direct cash transfers, and most importantly, free health care at the point of delivery. Yet cash benefits for the poorest decile are, paradoxically, *less* than benefits for the next four deciles. Poverty and child poverty were the highest in Western Europe even before the Covid-19 crisis (Alston, 2019; Taylor-Robinson, et al.). According the new Marmot et al (2020) Review, age-standardised mortality rates from Covid-19 in the most deprived areas of England, which have suffered the greatest cuts in welfare spending, are double the rate in the least deprived areas.

There is growing support for an emergency universal basic income or UBI (Nettle, 2020; Susskind, 2020) to cope with the recession and provide unconditional income support for all in place of current, conditional and inadequate 'universal credit' (UC)¹ and sickness benefits, when temporary furlough schemes to subsidise otherwise endangered employment are phased out. The TUC (2020) has called for a job guarantee, support for short time working and major increases of UC and sick pay. Average hours worked have declined in the UK, particularly for those who cannot work from home, but with no general compensation for reduced earnings or isolation, poverty has just been exacerbated among the lowest paid, for whom isolation often seems unaffordable. The long-abandoned macroeconomic goals of full employment and social justice in a new social contract need to replace the widespread 'debt delusion', welfare cuts and other neoliberal policies which have inflicted untold misery in the UK and southern Europe through ten years of austerity after the Great Recession (Dobbins, 2020; Weeks, 2020; Standing, 2020).

¹ D'Este and Harvey (2020) show that 'the worsening of benefit recipients' financial conditions' as UC was rolled out is the likely cause of 45,000 extra burglaries up to 2019, with many more expected as the system is extended.

After summarising the injustice inflicted by regressive taxation and inadequate welfare in the UK in section 2, we then present the case for radical tax reform in section 3, both for redistribution and an adequate welfare state. In section 4 we show how these measures, combined with flexible and shorter working hours, a public sector job guarantee and a modest UBI could simultaneously boost recovery from the Covid-19 crisis and ensure social justice. Moreover, only major fiscal expansion, as for a Green New Deal (GND) can generate full employment, which is essential to counteract post-pandemic recession, and facilitate rapid transition to a low carbon economy – globally necessary to avoid catastrophic climate change.

2. Injustice and Welfare under Neoliberal Policy

After decades of reducing regulation, declining unionisation, largely unconstrained profit maximising by employers with growing market power, and the ‘trickle up’ economics of neoliberal policies, the results for workers in the US and UK, and to some extent in most advanced economies have been dismal. As Stiglitz (2019) summarises, since about 1980, ‘the average income of the bottom 90% of Americans has hardly changed’, while the income of the top 1% more than doubled, and the income of the top 0.1% increased fourfold. Wealth inequality is even starker, with the top 1% holding about 40% of national wealth, compared to 20% of income, the highest shares since the ‘roaring twenties’. There is also a large educational divide: the median real income of white men without a bachelor’s degree declined by 13%, accompanied by an epidemic of opioid addiction, ‘deaths of despair’ and an unprecedented decline of life expectancy, while national income rose by 85% over this period (Case and Deaton, 2020), with similar developments in the UK discussed below.

Taxation does little to ameliorate inequality – the bottom half of the American income distribution pay total taxes amounting to about 25% of their income, although their average income is only \$18,500 per year. Even for the middle class and rich, taxes do not rise above

28%, while the 400 richest billionaires pay only 23%, as shown by Saez and Zucman (2019) in a path-breaking study aptly titled *The Triumph of Injustice*. Labour's share of total income, union membership and influence, and social mobility have all sharply declined over several decades, while the profit share, monopoly and monopsony power have significantly increased.²

Though not as extreme as in the US, UK income and wealth inequality have also risen dramatically since the 1980s, particularly when measured by shares of the top 1%, who now hold 20% of national wealth, while the top 10% hold more than 50%.³ Despite low official unemployment, average real wages declined from 2008 – 2018; only Greece and Mexico performed worse out of the 34 OECD countries. Cuts in welfare and related services have hit the poorest hardest. Most of the recent growth in UK employment has been in part time and solo self-employment, usually low-paid and precarious (Standing, 2020).

The debilitating effects of such extreme inequality on many aspects of social and political life in the UK and US have been eloquently and forcefully described by many prominent economists and social scientists, including Dorling (2018), Wilkinson and Pickett (2018), Case and Deaton (2020) and Stiglitz (2019). A further result of the prevailing neoliberal policy has been declining social capital, and life satisfaction or subjective well-being has failed to increase, or even declined, for most people over time (Rojas, 2019; FitzRoy and Nolan, 2018).⁴

² See Stansbury and Summers, 2020; Case and Deaton, 2020; Stiglitz, 2019; Banerjee and Duflo, 2019; *The Economist*, 2018.

³ See Dorling (2018); Wilkinson and Pickett (2018); Standing (2020). Of course, the wealth of the very rich does fluctuate with the stock market, since they own most privately held shares, as well as a large proportion of property wealth, and asset values have grown much faster than national income or wages since the financial crisis and Great Recession.

⁴ At any given time, there is a weak, positive correlation between income and happiness, after controlling for the health, work and social relationships that are more important, known as the Easterlin Paradox. This is at least partly explained by the important role of relative income or ranking, which only changes slowly over time, for SWB.

The UK tax and benefit system represents another ‘triumph of injustice’, regressive rather than progressive as often claimed on the basis of increasing marginal rates for higher incomes, mainly due to numerous reliefs and exemptions, indirect taxes, and lower rates on capital income. A detailed analysis has recently been presented by Advani and Summers (2020), who show ‘how much tax people actually pay as a share of the money they receive, the mean *effective average tax rate* (EATR) for those with over £100,000 income and/or capital gains actually declines to less than 30%, much lower than the ‘headline rate’. They do not consider indirect taxes, and cash benefits are negligible for the rich, but given the importance of cash transfers and indirect taxes for the poor, it is appropriate to extend mean EATR to include direct and indirect tax divided by original income plus cash benefits, or gross income, for all deciles.

The bottom decile of households received *smaller* average cash benefits than the next *four* deciles, about £6,800 in 2017/18 (ONS). Their original income was £7,600, so gross income was £14,400, direct tax payments were £1,840, and total indirect taxes amounted to £4,550, nearly one third of gross income. Total tax paid was thus £6,390, almost equal to cash transfers, so their mean EATR was 44%, which turns out to be higher than for all the richer deciles. With negligible savings, consumption for the poorest is thus essentially equal to post-tax income, or £8,400, only slightly more than original income, so reforming indirect taxes to fall mainly on the rich, as we discuss below, would raise the bottom decile’s consumption by about 50%.⁵

The 2nd decile pays only slightly more direct tax, about £2,400, on original income of £13,200 (nearly double the bottom decile’s), less indirect tax, £4,470, and larger cash benefits, £10,080

⁵ While regressive council tax has been frequently criticised, the equally regressive effect of other existing indirect taxes has been largely ignored. Thus, while Cobham (2020) focuses on inequality and illustrates the extreme impact of indirect taxes in a developing country, Brazil, he surprisingly neither mentions their effect in the UK, nor considers a luxury tax, as introduced in war-time Britain but abandoned in 1973 in favour of VAT. Similarly, Atkinson’s (2015) comprehensive review of inequality also neglects the regressive impact of current VAT, though Murphy (2011), whose work we extend and update here, did show in detail ‘why VAT is regressive’.

– resulting in gross income of £23,400. Their mean EATR was thus only 29%, much less than the bottom decile’s 44%. ‘Benefits in kind’, mainly education and health services, are valued at about £9,000 for the lowest decile, greater than income or cash benefits, and slightly more for the next three deciles, and are essentially the only effectively progressive feature of the UK system (ONS, 2019).

The top decile pays most direct tax, £56,000, as expected, and indirect tax of £13,000, on £171,000 gross income, so their mean EATR is only 40%, less than for the bottom decile, though more than the 30% for the highest incomes documented by Advani and Summers (2020). However, the true income for the rich, particularly from capital, is surely much higher, and the EATR therefore lower, due to widespread avoidance and evasion, including use of offshore tax havens tolerated by the UK government, and a realistic tax gap of £90 billion, much more than frequently questioned estimates by HMRC (Murphy, 2019; Cobham, 2020).

UK government expenditure is only about 38% of GDP, compared to over 50% in Finland and other Nordic economies with the best welfare systems and highest happiness rankings (Dorling and Koljonen, 2020). One of the results is that a record 25% of adults and 30% of children in England, the highest rate in Western Europe, are now officially below the poverty line of 60% of median income after a decade of austerity, with the largest welfare cuts affecting the poorest and most vulnerable. In particular, the poorest 5%, well below the poverty line, have suffered the largest, 15% decline in income since 2012 (Edmiston, 2020), a resulting decline in life expectancy and health in the most deprived regions, a large gradient between the most and least deprived regions including ‘a 19-year difference in healthy life expectancy for men and women between the most prosperous and most deprived areas’, and the highest infant mortality in

western Europe, four times the Nordic rate, with long-lasting negative consequences documented for adults who suffered childhood poverty.⁶

Injustice also extends to the workplace in terms of job satisfaction and working conditions. Workers in the UK appear to dislike what they are doing (when surveyed at random moments during their working time), more than any other voluntary activity (Bryson and MacKerron, 2017). More than a third of employees report having ‘poor quality jobs’, which are also associated with worse health (Tinson, 2020). Unpaid overtime affects nearly 20% of UK workers (Sellers, 2019), while a third of employees would prefer shorter hours (Bell and Blanchflower, 2018). Persistent poor working conditions and the low-pay can be attributed to lack of worker power and labour market regulation, especially in privatised care sector or Amazon warehouses, graphically documented by Bloodworth (2018).

Hyman (2018, p.22) presents compelling evidence for ‘Lack of control and growing despair over reduced autonomy among professionals’ in the UK. In contrast, such evidence is ignored in the Taylor Review of working practices (Taylor, 2017), which extols the ‘flexibility’ of the relatively unregulated UK labour market. The Review only mentions ‘an imbalance of power between individuals and employers’ as a potential rather than a ubiquitous problem, and while recognising the importance of employee ‘voice’, rejects more regulation, neglects the Nordic experience, and relies on frequently invoked but rarely observed ‘corporate responsibility’ for implementation. Wilkinson and Pickett (2018), on the other hand, show clearly that a legal framework for employee participation is essential to establish economic democracy in the workplace, and tax and welfare reform with a basic income are necessary to reverse the

⁶ See Alston, 2019; Taylor-Robinson, et al., 2019; Dorling and Koljonen, 2020; Marmot et al., 2020; Standing, 2020.

devastating effects of ever increasing inequality which they and others have documented in depressing detail (Dorling, 2018; Standing, 2020).

Though most extreme in the English-speaking countries, neoliberal policy influence reaches much further. For example, despite the generally recognised success of co-determination in Germany, and inclusion of the Social Democratic Party in the government coalition with the conservative Christian Democrats, the share of wealth held by the top 1% is even higher than in the UK, at about 24%. Scarcely noticed by the media, real household disposable income for the bottom decile has *declined* by almost 10% since 2000, and even the third decile experienced no income growth over the past two decades, a shocking increase in inequality and poverty under neoliberal policies far removed from social democracy, including substantial tax cuts for the rich and welfare reduction for the poor, enshrined in the notorious ‘Hartz 4’ reforms finalised under a social democrat Chancellor, Gerhard Schröder, in 2004/5. These problems have been compounded by ‘debt fetishism’ and austerity policy, with a huge trade surplus and zero net public investment or capital formation since the 1990s (Herrman, 2019; Tooze, 2019).

3. *Tax Reform, Redistribution and Welfare*

Though little noticed in much of the discussion about inequality, the regressive VAT and property (council) tax, (with greatest proportional impact on lower incomes as discussed above), raise £173 billion, more than half of income tax revenue of £340 billion. Total revenue from these indirect and direct taxes is £513 billion, less than a quarter of GDP, while Danish tax revenue is 45% of GDP. After leaving the EU, Britain could shift more VAT from ‘necessities’ to ‘luxury goods’ (as in wartime and post-war Britain until 1973), which are both inelastic in demand and disproportionately purchased by higher income households, and hence reduce the regressive impact of current VAT on the poor. A general discussion of taxation and social policy is offered by Ruane et al (2020).

Though progressive in overall impact, income tax is much less progressive than headline rates suggest due to numerous exemptions and reliefs, and as we argue next, should be made fairer and more progressive in combination with UBI. We present a series of measures for increasing redistribution and government revenue, for which the pandemic crisis has generated rapidly growing public support in response to the obvious and urgent need. There is also a strong case for a job guarantee to complement full employment policies and UBI (FitzRoy and Jin, 2018), which we discuss below.⁷

Leading tax economists have recommended top marginal rates of 65 – 70%, as well as unified tax rates for capital and labour income, and broadening the tax base by removing exemptions and reliefs.⁸ Following this and other related literature we will present a simple tax reform proposal without formal mathematical models on incentive responses to the tax reform. This simple approach can be justified when most full-time workers do not respond to marginal tax rates significantly as their working times are usually fixed. Though much less discussed in connection with tax reform, the personal income tax allowance (PA) of £12,500 mainly benefits higher earners, and could be replaced with a modest permanent UBI. Savings from abolishing the PA of about £110 billion and from income related benefits of about £20 billion could fund a ‘weekly allowance’ of £48.08 per week, or £2500 annually for adults, which would redistribute exclusively from the top to the lowest income deciles, while some existing categorical housing and disability benefits would still be required (NEF, 2019). It is important to note that with the PA abolished, UBI would be ‘clawed back’ from higher earners and mainly benefit the poor, contrary to frequent claims about UBI which neglect complementary tax reform.

⁷ A job guarantee is sometimes proposed as an alternative to UBI (TUC, 2020), but without realising the potential for combining these measures.

⁸ Saez and Zucman, 2019; Atkinson, 2015.

A slightly higher UBI of £60 weekly or £3,120 per year for working age adults, £40 for children, and £175 for pensioners in place of the state pension, but without work history conditions to provide a ‘basic income floor’ has been suggested by Lansley (2020) and Lansley and Reed (2019). Their proposal would require additional tax increase across the most of the working population. FitzRoy and Jin (2018) proposed a UBI of £80 weekly (£4,000 a year), combined with a job guarantee by local authorities for long term unemployed, which could effectively end poverty if combined with improved disability benefits, which are in any case urgently needed. Without a job guarantee, a much higher UBI would be required to end poverty. Public support for both an emergency and a permanent UBI in response to the Covid-19 crisis and recession has been growing rapidly and is likely to increase further as precarious-, under- and unemployment rise (Lansley, 2020; Nettle, 2020; Susskind, 2020).

To benefit a majority, we also need to abolish the highly regressive VAT and council tax, which would represent net savings of nearly £3,000 for the poorest decile, and nearly £4,600 for the fifth decile. A household of two in the poorest decile would gain almost £14,000, which is close to the poverty level for such a household. Hence we suggest a £4,000 UBI for working age adults, abolishing VAT, council tax, and the PA, and introducing a 1.2% wealth tax.

Abolishing VAT and council tax would cost £173 billion. The gross cost of £4,000 for 43 million working age adults would be £172 billion. The total cost is £345 billion. On the other hand, abolishing the PA and national insurance contribution thresholds would yield about £165 billion, and a progressive wealth tax (discussed in detail below), at an average rate of 1.2% on total wealth of £1.5 trillion would provide additional revenue of £180 billion. Together this £345 billion can cover the cost. This reform will transfer huge money from the rich to the poor and benefit a majority of the population.

This sketch of alternative UBI funding obviously neglects behavioural response, but also the opposing potential to raise revenue and narrow the tax gap by cracking down on tax havens, also a long-overdue reform. Such a modest UBI combined with a job guarantee, as well as full employment macro-policy with a GND, would be the ideal response to the pandemic induced slump which will of course be exacerbated by Brexit. Unfortunately, though, such policies still seem to be well beyond the political purview of even the opposition Labour Party.

Widerquist and Arendt (2020) suggest that poverty could be abolished with a UBI for adults of £7,706, which is half the poverty rate for couples, and half the adult level for children. However they only briefly mention the likely major reduction in labour supply under such a generous UBI and the required 50% marginal tax rate for all to pay for the scheme, which would be difficult to reconcile with increasing demand for labour to effect rapid transition to a zero- carbon economy with a GND. Such a generous UBI without abolishing VAT and council tax is thus self-defeating, and a job guarantee is a much more cost-effective complement to a modest UBI.

Independently of UBI, there is a strong case for another reform of the UK tax system, where the total cost of all the numerous tax reliefs and allowances is now about £425 billion (Baker and Murphy, 2020). Most of them incentivise savings and mainly benefit higher income and wealthier individuals with little economic justification, though VAT exemptions amounting to about £100 billion include food and children's clothes, but also many less justified items. Differing tax rates for capital and other income is generally agreed to be distortionary and unjustified, so there is a strong case for abolishing most exemptions and reliefs and tax capital and labour incomes at the same rates, to yield perhaps an additional £300 billion revenue, which could comfortably fund a more generous UBI and much other urgently needed public

expenditure, in contrast to frequent claims that a meaningful UBI would be ‘unaffordable’ (Portes et al, 2017). Huge political obstacles of course remain notwithstanding.

Following Saez and Zucman’s (2019) path-breaking US study, there is growing public and academic support for taxing wealth in the UK and US including a review by the Conservative government, though unsurprisingly, the wealthy are strongly opposed (Murphy, 2020). Arguably, a wealth tax would be an essential component of a fairer, simpler, and genuinely progressive tax system, and could remedy the current ‘triumph of injustice’ since wealth is even more unequally distributed than income⁹. Asset prices have risen much faster than national income or wages, at least partially due to ideologically driven policies favouring a disproportional financial sector and speculative property investment, and total real wealth has increased by more than 50% since 2012, and by 13% from 2014 to 2016.¹⁰ The top 1% of UK households owns 20% of total wealth, estimated at about £15 trillion in 2018-19, nearly nine times net national income of £1.7 trillion, with an average wealth of almost £20 million per household in the top 1%, which is surely an underestimate due to extensive, hidden offshore holdings in tax havens favoured by the rich and tolerated by successive governments (Cobham, 2020).

Like UBI, a wealth tax is not an entirely new idea, and was proposed by a UK Labour government in 1974, but blocked by powerful vested interests (Glennerster, 2012). The special case of a land value tax has long been favoured by economists. A common objection to more progressive taxation and a wealth tax at a national level is that the wealthy would emigrate, but this could be countered by following the US example, where tax liability depends on citizenship, as well as residency, together with an exit charge for renouncing citizenship. Other

⁹ Advani et al (2020) consider the case for a UK wealth tax. Landais et al (2020) discuss an EU -wide wealth tax to pay for the consequences of the Corvid-19 pandemic.

¹⁰ Blakely (2019); Ryan-Collins (2019).

issues, such as hard-to-value assets are shown by Saez and Zucman (2019) to be less common than often claimed, while liquidity problems can be solved by payment in the form of an equity share. The failure and abandonment of most European experiments with wealth taxes is due to obvious design flaws.

A 1.2% average, but progressive, wealth tax needs not hurt the poor significantly. Since the top 50% of households owns more than 90% of net wealth, the impact after exemption on the poorer half is likely to be minimal. Median wealth per adult is about £100,000, so with an exemption of, say, £50,000, the median individual would pay only £600 at 1.2%. Adding to the loss from the abolishing PA (£2,500) for most low-income earners, it is still lower than the £4,000 UBI. The savings from VAT will approximately represent the net gain. So a large majority would benefit by replacing VAT and council tax with such a progressive wealth tax.

Moreover we could consider a more ambitious plan to complement long-overdue income tax reform. Note that the top decile of households has total income of £476 billion and total household income is about £1.5 trillion. A uniform tax of 30% with no exemptions or reliefs would yield about £450 billion, and raising the average tax rate on the top decile to 50%, with higher rates for the richest would provide another £100 billion, thus a total income tax revenue of £550 billion. Adding to £180 billion from 1.2% wealth tax, the total is £730 billion. It can replace current revenue from VAT, income, council and capital taxes amounting to £541 billion, and fund £172 billion for the £4,000 UBI for working age adults, total £713 billion. Then it still leaves £17 billion additional revenue for the long-underfunded health and care services. Some means tested benefits, such as job seeker's allowance, tax and universal credits, could perhaps also be reduced, though sickness and disability benefits need to be raised to provide adequate support for the most vulnerable, particularly after the Covid-19 pandemic.

While such radical reform may first seem utopian, and can obviously only be the result of an extended reform process, the aftermath of the pandemic with a likely slow recovery after decades of underfunding public services and infrastructure, in the face of dysfunctional globalisation and ever more destructive climate change may well radically alter the political climate. Support for UBI has already increased dramatically, and with rising unemployment the immediate job-creation potential of a GND may well become increasingly attractive.

UBI could thus be complemented by macro-policy for full employment with a GND, and a job guarantee to augment local public services and provide jobs for all who want to work, as discussed by FitzRoy and Jin (2018), and developed below. The TUC (2020) has demanded radical reform of UC and statutory sick pay, as well as a job guarantee. It would be more effective to combine a job guarantee with the UBI and tax proposals above, together with a full employment policy.

4. Response to the Covid-19 Pandemic

The British government temporarily abandoned the most effective tracing, testing and isolation strategy in March 2020 and delayed masking and social distancing and local lockdowns far too long, resulting in one of the world's highest rate of deaths. Following best practice elsewhere could have avoided most of the infections and saved many thousands of lives (Freedland, 2020; Wolf, 2020). Moreover, the pandemic has hit the poorest hardest, as the TUC and Bell et al (2020) have emphasised. Deprived areas and low-paid workers in public services, with a high proportion of women and minorities, have experienced the highest infection rates and fatalities, due in part to lack of protective clothing and equipment. Health and social care staff real hourly earnings have declined by 7.5% since 2010, and even before the pandemic the NHS had an estimated staffing shortage of 100,000 (Sandher, 2020).

Economic policy response to Covid-19, recession and Brexit has been equally inadequate. Universal credit and sickness benefits are too meagre and help for stricken business is slow and bureaucratic, while countries like Denmark or Germany which provide job security and rely on subsidised work-sharing schemes with shorter work weeks instead of furloughs or redundancies have seen only slight increases in levels of unemployment.¹¹

Support for an emergency UBI as the simplest and most comprehensive response, has been rising from across the political spectrum. As Susskind, formerly a UBI sceptic, writes in the FT (2020): ‘A UBI could be affordable. For instance, handing out £1,000 cash per person per month would cost the government about £66bn a month — a fraction of the nearly £500bn bailout the UK needed to stay afloat during the 2008 financial crisis. It would only be a temporary’. Such a UBI would cover most vulnerable groups such as zero-hour contract holders and economically inactive people, who are left over by the furlough scheme.

Many businesses without customers or revenue face insolvency in prolonged recession, since rental, mortgage, other interest payments, rates and taxes are fixed costs for most. Current policy of government guarantees for loans to maintain business solvency over the crisis basically just postpones the day of reckoning when repayment becomes due after an extended period of nominal losses and missing revenue. Further unemployment is expected after the furlough schemes as Brexit takes effect.

¹¹ Western countries not only have 100-1000 times higher death rates than East Asia, though much farther away from the epicentre, but also much higher economic loss. The World Bank estimates the two regions’ 2020 growth rates as -7% vs +0.5%. The former relies largely on nationwide lockdown but is unable to enforce effective social distancing and face masks, while the latter does the opposite. <https://www.worldbank.org/en/news/feature/2020/06/08/the-global-economic-outlook-during-the-covid-19-pandemic-a-changed-world>

Government expenditure and national debt have risen substantially due to the pandemic but are partially offset by quantitative easing (QE). The ONS claim that national debt has risen to £2 trillion has been shown by Tax Research UK (2020) to be much exaggerated, and careful accounting shows the true figure to be only £1270 billion net of QE or government ownership of its own debt, an historically low share of GDP. As long as unemployment remains high there are no economic limits on further QE and urgently needed spending to avert growing poverty, reduce pollution and boost recovery with a GND, though ‘debt fetishist’ claims to the contrary still dominate media reporting and conservative commentary (Weeks, 2020).

There have also been growing calls for a ‘better recovery’, and numerous surveys reporting strong opposition to returning to the ‘old normal’ (Monbiot, 2020). Thousands of signatories in *The Guardian* (2020) supported economic democracy and extended employee rights including participation in management and a share of the surplus or profit which is ultimately produced by workers. There is no economic justification for capital owners’ historical claim to appropriate the entire surplus and control firms without participation in decision making by employees. On the contrary there is a long history of evidence that economic democracy as a basic human right, participation and employee ownership can all raise productivity and worker welfare but are resisted by managers and owners as threats to their controlling power¹².

As the Resolution Foundation has recently reported (Bell et al, 2020), low paid workers generally lack the most basic employment rights, and thus have suffered most from the pandemic and subsequent recession. Part time employees usually earn minimum wages (or less) and are most likely to be underemployed – needing longer hours or full-time work for an adequate income, but unable to find such employment. Individual rights to request longer hours will not solve this problem unless there is a full-employment, macroeconomic policy –

¹² Blasi et al, 2018; Michie et al, 2017; FitzRoy and Nolan, 2020.

a goal that has long been neglected by policy makers in favour of the economically illiterate and counterproductive ideology of deficit obsession and austerity (Weeks, 2020; Stiglitz, 2019).

This is even more ironic since the surest and most productive route to both full employment and a sustainable future is a GND – massive public and private investment in energy saving and renewable energy, which would also yield immense medium-term health benefits from reducing air pollution and the resulting 40,000 annual premature deaths (FitzRoy, 2019; Rifkin 2019). However there remain many who need both part-time employment to combine with home responsibilities, and a higher income to avoid poverty, and again a UBI provides the best response, with additional housing and disability benefits where needed. Minimum wages are frequently evaded and undermined (Standing, 2020), and obviously provide no help for the non-employed, while the combination of UBI with a public sector job guarantee for the few who will be left behind by even the best macroeconomic policies can provide a minimum welfare or utility floor for all (FitzRoy and Jin, 2018).

Nevertheless, there is also an urgent need for radical extension of individual employment rights. These should include the right to work at home, which has been feasible for about half the UK workforce during the pandemic crisis, though only 5% worked at home previously. While some employers have reported reduced productivity, which seems to have been mainly due to combining work with responsibility for children who are not at school, this problem would obviously be resolved when schools are reopened. In other cases, huge savings in commuting time, stress and fuel costs have raised productivity and life satisfaction, and reduced emissions and congestion, while long run benefits could include a residential movement away from overcrowded and overpriced south eastern England.

Another basic right would be choice of any reasonable working time schedule, including part time and full time, as well as advance notice and consultation on any changes, with employers required to organise work in response to requests by employees. These rights are most developed in The Netherlands which has the highest proportion of part-time skilled workers, and in Finland where extensive flexibility in the choice of work schedules enhances the quality of work and contributes to top ranking in international surveys of happiness and life satisfaction (Dorling and Koljonen, 2020). A four day week would have a strong employment creation effect, and improve the wellbeing and even productivity of those in work (Harper et al, 2020).

The most fundamental rights of democracy and self-determination at work in place of hierarchical and often despotic, top-down control in the interests of capital owners have never been developed in the UK and US, except in relatively rare examples of employee-owned co-operatives, in contrast to the Nordic economies. Only a strong legal framework for codetermination, including the right of employees to elect a works council with at least parity involvement in all decisions affecting work organisation, can securely establish these rights. In parallel, enhanced union and collective bargaining powers are needed to counter employer market power and ensure fair wages for all that rise with productivity.¹³

In the long term, the Covid-19 pandemic may well reshape the world economic order. Western countries may become less dependent on China for many basic and manufactured goods, and the second wave of globalization is likely to slow down for a sustained period, with the ratio of world trade to GDP not reaching its 2008, 30% peak even before the pandemic. Post-Brexit UK should less rely on its disproportional financial sector with many negative social

¹³ Blasi et al, 2018; Hyman, 2018; Wilkinson and Pickett, 2018; FitzRoy and Nolan, 2020; FitzRoy and Spencer, 2020

externalities, and reverse its long-term decline in manufacturing employment to reduce inequality and poverty (Blakely, 2019). A better recovery from the Covid-19 crisis should not aim to restore the status quo but must take a long-term view and reconstruct the economy for a better future. Only far-reaching economic reform can achieve this goal.

5. Conclusions

While there has been growing concern over poverty and inequality in the UK, and failure of welfare under universal credit, the injustice of the tax and welfare system revealed by our analysis of ONS data has been largely ignored in policy discussion. While removal of subsidies and reliefs for capital income and high earners has wide appeal and is supported by many economists, a substantial wealth tax is a radical policy idea which is only beginning to enter political discourse and gain support.

However, the chronic economic crisis likely to follow pandemic and Brexit will require a radical rethink of existing policies. During the pandemic saving rates have spiked and may remain high during initially slow recovery, which will be hampered by supply as well as demand side factors. But in contrast to the debt delusion which motivated misguided austerity policies in the past, an overwhelming majority of economists today support the major expansion of government expenditure needed to accelerate recovery, though with little attention to the need for fundamental changes in economic and political relationships (Bell, 2020; Dobbins, 2020; Weeks, 2020). Needless to say, more research and evidence are required beyond our simple suggestions regarding the tax reform. We hope the ideas presented here will stimulate rethinking and discussion and offer a constructive basis for much needed reform.

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