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////Title: Increasing Income Equality During Slow or No Economic Growth

////Standfirst:

When the incomes of wealthy individuals and companies grow faster than the economy itself, income inequality rises in society. However, industrialised economies such as the UK and Germany have experienced sustained declines in growth, and policies to promote economic growth often clash with environmental sustainability. Therefore, economists are attempting to find solutions for decreasing income inequality without the need to stimulate economic growth. In a recent paper, Dr Tilman Hartley at the Autonomous University of Barcelona and his collaborators outline policy interventions that can improve income equality during periods of slow or no growth.

////Main text:

Renowned French economist, Thomas Piketty (Pick-ah-tee), brought widespread attention to the problem that when wealth is growing faster than the economy, income inequality rises. Piketty outlined that in recent decades, the share of income accrued by wealth holders has increased to levels last seen at the end of the nineteenth century.

Broadly speaking, income inequality refers to different people in an economy earning different amounts of money, and the extent to which this income is distributed unevenly. For example, in the United States, the income gap between the rich and everyone else has been growing by every major statistical measure over recent decades. Whereas Sweden, a social democracy, historically ranks low on income inequality indices, which can be attributed to the influence that their politics and institutions have had on income distribution.

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However, promoting economic growth ahead of wealth accumulation, as a method to reduce income inequality, is increasingly impractical, as the growth rates of industrial economies have recently been declining. Additionally, policies that promote economic activity are likely to damage the environment, while environmentally sustainable policies are likely to hinder economic growth.

Therefore, without government intervention, income inequality will continue to increase among industrialised populations, compounded by the economic devastation wrought by the COVID-19 crisis.

In their paper recently published in *Review of Political Economy*, Dr Tilman Hartley and his collaborators tackled this problem head on, and outlined a range of policy responses that can be used to prevent an inexorable increase in income inequality.

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Dr Hartley and his team outlined three policy interventions that will avoid rising income inequality. The first is to redistribute wealth so that declining economic growth does not lead to rising inequality. The logic of this strategy is to identify atypical scenarios where increasing income inequality can be avoided, despite slow or no economic growth.

The second strategy relies on decreasing rates of savings, either through encouraging more spending or implementing higher taxes on wealth. Finally, the third option involves decreasing the rates of returns to wealth, either as a deliberate policy intervention, or as the indirect result of providing a minimum standard of living for the worst off in society.

The team constructed a theoretical model that expands on Piketty's work, and inserted different values to evaluate the effectiveness of their proposed policies. They modelled the savings rate of an economy, the return to wealth and the economic growth rate.

Through their modelling work, the researchers found that any government that wants to prevent worsening income inequality must reduce growth in the incomes of the wealthy below that of economic growth. In zero-growth economies, several strategies may prevent an increase in income inequality.

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The researchers examined a broad range of policies, providing a clear picture of the limitations of each strategy. Policies to share wealth more equally include increased worker ownership and the creation of incentives for workers to obtain income through investing in shares. Income inequality may also be prevented from increasing if the rate of returns to wealth is sufficiently low. To keep the returns to wealth low, Dr Hartley and his team examine policies that cap interest rates, legislate for rent controls, or enact taxes on the income derived from wealth. Another strategy to keep wealth returns low is to prevent the income of the worst off from declining below a certain level.

For economies in which growth is slow or declining, the team outlines how worsening inequality can be avoided if the savings rate of the economy declines along with the rate of economic growth. They explain that this requires the wealthy to spend their wealth faster than they receive it. Alternatively, this can be achieved through a global wealth tax.

Another suggestion is to decrease the 'elasticity of substitution' between labour and capital – that is, how easily workers can be replaced with capital such as machinery, and vice versa. This can be achieved by investing in education, care and culture, where substitutes for workers, such as teachers and nurses, are either very expensive or very difficult to find. Taxes on rents and other wealth could be used to fund these sectors, thereby ensuring the wellbeing of the worst off.

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They also suggested other ways that different policies may complement each other in a policy mix, and identified countries in which these policies are used to some degree already. For example, worker-owned enterprises share income more equally. Indeed, large worker cooperatives are found in 28 countries, and smaller cooperatives are distributed even more widely.

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Progressive income taxes, especially on incomes from wealth, have been highly effective in preventing wealth accumulation during the mid-twentieth century in France, Germany, the US, and the UK. Taxes on immovable property are also widely in use.

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Dr Hartley and his team outline that these solutions, while effectively reducing income inequality, will inevitably reduce the income of the wealthy. Because the wealthy have a disproportionate amount of influence on political decision making, this creates a substantial obstacle to the implementation of these policies.

The COVID-19 crisis has highlighted the gap between the rich and poor, and in many countries, has worsened income inequality. As we begin rebuilding our economies, policymakers should focus on implementing reforms that will reduce inequality, towards achieving a fairer future for all.

This SciPod is a summary of the paper 'Policies for Equality Under Low or No Growth: A Model Inspired by Piketty', from *Review of Political Economy*.
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