Involuntary idleness represents a massive waste of economic resources

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As part of the ongoing Social State project, **Howard Reed** *reflects on the macroeconomic significance of involuntary idleness. He argues that it is a waste of economic resources but one rooted in complex underlying causes. Drawing on a recent paper, he outlines ideas for how reform could be enacted and these difficulties overcome.*

Idleness has been an unfortunate fact of life for far too many for far too long in the UK. My paper with Richard Murphy for the CLASS "Social State" series looks at the macroeconomic and microeconomic policies which currently prevent the UK from reducing idleness and achieving full employment. At a macroeconomic level, involuntary idleness represents a massive waste of economic resources, and the current government policies of austerity which have prolonged the high unemployment resulting from the 2008 crash (and which are additionally leading to a growing wave of disguised under-employment) make no economic sense. In the current state of the economy, spending on investment by the government pays for itself, at the very least, in the short term, while in the longer term it can generate the revenues needed to deliver deficit reduction. This is nothing more than a restatement of Keynes's argument from eighty years ago, which is that if the issue of unemployment is addressed then the budget looks after itself.

The paper also addresses the fact that at a microeconomic level the barriers to work are very real. When many on low levels of income face marginal deduction rates (MDRs – a measure which combines the impact of tax and National Insurance payments and benefit withdrawals) of over 70 percent (and in some cases over 90 percent) over relatively wide ranges of their possible earnings then the disincentive to work is, understandably, high. The government claims that the new Universal Credit system will reduce MDRs to a maximum 73 percent, but this calculation ignores the new localised system of Council Tax Benefit, which will operate as an additional taper on low incomes, pushing MDRs over 80 percent in many cases.

We face a conundrum. Overwhelmingly people want to work, and it is clear that it makes sound economic sense for the government to invest to get people back into work. However, there are sound and wholly economically rational reasons deep-rooted in the current tax and benefits system why for some people work quite literally cannot pay, even before their additional costs arising from being out of their homes (such as travel costs and paying for childcare) are taken into account. If idleness is to be tackled then there is an irrefutable case for broader reform of the tax, National Insurance and benefits system, than this government, or any since the current structure was created, has been willing to undertake.

We are not, of course, the first to suggest the merger of the tax and National Insurance systems. What we do in addition to this, however, is to integrate tax reform with a suggestion for radical reform of the benefits system. Our proposal embraces the idea of a "citizen's income" – a universal non-taxable payment to all families, without exception, of a weekly sum meant to ensure they have enough income to participate fully in society. The payment level we suggest for the Citizens Income is the Minimum Income Standard level calculated by researchers at Loughborough University. On current definitions of poverty this payment would, at a stroke, eliminate want from the UK economy.

The design of the payment we propose is important: it is simple and universal. Thus it avoids many of the problems of the current means-tested benefits system – in particular, stigmatisation of benefit claimants, and high MDRs. However, the payment would be expensive. We estimate a total cost of approximately £470 billion per year. To put this in context, the current total benefits budget is around £175 billion per year, including the old age pension that this payment would also replace. To raise the extra funds to pay the Citizens Income we suggest reform of the direct tax system, with a new Universal Income Tax which would replace the current Income Tax and National Insurance Contributons systems.

This new tax would have a different logic to some parts of the existing tax system. For example, because there would be a universal payment to all families every week, the need for a significant personal tax allowance would largely be eliminated; almost all earned and unearned income could, as a result, be taxed.

The tax structure should be progressive, starting at a rate of perhaps 25 percent, with a standard rate of 45 percent (similar to the current combined rates of income tax plus employee and employer NICs) and with higher rates up to (say) 70 percent on incomes in excess of £150,000 per year. Means-tested Housing Benefit would be retained but would be designed so that overall MDRs for low income families are no more than 60 percent.

While many of the details of the new tax-benefit system which we propose remain to be ironed out in further work, the broad outline is clear; the proposals would tackle one of the main impediments to work by ensuring that work really does pay. That has to be appropriate. But equally, our proposal also tackles want. And in the process tax abuse is tackled by simplifying the tax system while the outcome is a tax system that accords with the natural justice and economic logic of progressive taxation. Half measures will not work when tackling the current crisis. In 1942, Beveridge said the war provided a revolutionary moment and as he noted *“A revolutionary moment in the world’s history is a time for revolutions, not for patching”.* We agree: the global recession is now providing another revolutionary moment in which new thinking is required. That is what we have sought to offer in this paper.

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About the Author

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