An income to sustain life

Post-crisis there's an ever more urgent need to build a sustainable economy, argues **Prem Sikka**

THE CONCEPT of 'sustainability' is often invoked to signal debates about climate change and the environmental degradation brought about by excessive consumption, pollution, destruction of biodiversity and the depletion of natural resources. These are the inevitable consequences of relentless pursuit of profits and have become a major threat to the survival of the human race and planet earth. But we also need to think about sustainability of the economy, everyday life and social justice, so that all citizens can live fulfilling lives.

Ordinary people spend money on everyday things such as food, drink, travel, education and household essentials. This has a far greater multiplier-effect on the economy than that concentration of wealth in relatively few hands. Yet the disposable income of ordinary people has been under attack, and as a result a sustainable economy cannot be built.

The annual pre-tax median income of the UK, with considerable regional variations, is around £25,000. This is barely adequate to sustain family life, educate children, pay for housing and save for a decent pension. In 1976, 65.1% of the GDP went to wages and salaries. After the destruction of many skilled and semi-skilled jobs in manufacturing and other sectors and the rise of the new shelf-stacking economy, the workers' share of the GDP shrank to 52.6% by 1996. The introduction of the national minimum wage and huge investment in the public sector has raised it again slightly, to 53.1% in 2008. But the wages and salaries pie has been sliced unevenly, with the fat-cats grabbing the biggest share. As a result of the inequalities, nearly one-fifth of the population lies in households with incomes below the poverty line (60% of median income). Nearly 2.9 million children live in households below the official poverty line, a figure that rises to 3.9 million after taking account of housing costs. In the UNICEF child welfare league, the UK comes near the bottom.

With erosion of incomes, many have turned to debt, something also encouraged by the relentless expansion of credit. The UK is the debt capital of Europe and its economy has been fuelled by debt. Personal debt in the form of loans and credit cards is around £1.4 trillion, and is bigger than the UK gross domestic product. The 'buy now, pay later' culture cannot easily be sustained, especially as banks have responded to the current financial crisis by restricting credit.

Neither can people sustain the economy by dipping into some reservoir of wealth. The official UK statistics show that 50% of the UK population owns about 7% of the wealth. This figure includes the value of their dwellings. However, if the value of dwellings is taken out of the equation, 50% of the population owns only about 1% of the wealth. Looked at the other way, 1% of the population controls 34% of the wealth. Just before the current recession, the UK had a negative savings ratio. As people are now cutting back, the ratio has risen to around 4% but this has been accompanied by record business bankruptcies.

We cannot easily expect pensioners to sustain the economy as many face harsh choices between food and heating. With pension credits, the basic state pension adds up to less than 30% of average earnings, compared to the EU average of 60%. Two million pensioners live below the poverty line. With many employers withdrawing good pension schemes, future pensioners will be ever-worse off unless radical steps are taken to redistribute wealth.

Many rich people and corporations are opting out of taxation by using tax havens and complex tax avoidance schemes; though they are quite happy to accept the tax-funded benefits of security, policing, social infrastructure and massive public subsidies (eg. banks, agribusiness). The Treasury is estimated to lose nearly £100 billion a year through complex tax avoidance schemes. Under the weight of pressure from rich people and corporations, the UK government reduced capital gains tax from 40% to 18%. Corporation tax has been reduced from 52% to 28%. A National Audit Office report stated that almost one-third of the UK's largest 700 companies paid no corporation tax in 2006-7. Governments have found it easier to shift taxes on to labour, consumption and savings, which has inevitably eroded the purchasing power of ordinary people. Prior to the 2009 budget, the poorest 20% of the population paid nearly 40% of their total income in direct and indirect taxes, compared to 34.8% for the richest 20%.

Whichever way one looks there are enormous problems in building sustainability. We can't go back to a debt-fuelled economy. The unemployed won't have enough money to spend. There isn't a great reservoir of savings to sustain the economy. Building the spending power of ordinary people, especially the least well-off, should be a major priority. This can be done by increasing the national minimum wage. I have also advocated the idea of 'maximum wage'—say ten times the median wage in any company. That means that if directors want more they also have to pay other wealth creators—the employees—more. This would result in improved distribution of income.

Governments have to adopt progressive taxation policies to shift the tax burdens. No-one on the minimum wage should pay income tax. That would mean raising personal tax allowances. Since the wealthy would benefit from that too, the top rates of tax and higher income tax rate thresholds should be adjusted to claw back the benefits. The state pension should be raised to average EU levels. An immediate increase of 20% in the state pension would cost around £9 billion. That could be financed by removing the artificial upper limit on national insurance contributions: currently income above £844 a week does not attract any NIC.

The ending of the Iraq and Afghanistan wars would raise nearly £10 billion, providing resources to increase support for the unemployed, so that they too can help to build a sustained economy. Rather than subsidies to railway and agribusiness, the government should boost manufacturing, science, technology and green industries to build skilled and semi-skilled jobs.

Revenues for tax cuts and public projects can be found by clamping down on the £100 billion tax avoidance industry. The tax base should also be diversified. Alcohol and cigarettes are taxed because the products are harmful. Gambling is also taxed. These two elements are combined in financial products, such as derivatives, which are central to the current crisis. The global face value of derivatives is around $1,148 trillion: a modest 1% tax would yield nearly $11 trillion—a sizeable chunk of which would accrue to the UK.

None of the above would have an easy ride as vested interests used to getting their way would fight tooth-and-nail. But a vigorous debate is long overdue. The Welfare State alone cannot manage the consequences of inequalities arising from the maldistribution of wealth and income. How long before the deepening divide between the 'haves' and 'have nots' persuades some people to opt out of the system altogether, or lead to prolonged social unrest? This must worry even the most ardent of free-marketeers: sustainable economies require social stability and cannot entirely be built on debt. Without adequate disposable income people cannot spend and capitalists cannot make profits, which in turn has consequences for jobs and everything else that flows from that. **L&L**

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"As Chancellor Alistair Darling drafts his annual budget, he needs to give priority to putting cash in people's pockets. This is the only sustainable way of stimulating the economy.

"For far too long, people have been encouraged to borrow to keep the high street afloat. That is no longer possible. We should not be returning to the debt-fuelled economy—we should, instead, improve distribution of income and wealth.

"The government should broaden the tax base by levying tax on speculative financial instruments, such as derivates, and a Tobin tax on all currency and stock market gambling. A land value tax should be levied so that when house and office values increase due to adjacent road, rail and public investment some of the gains are shared with the taxpayer. Companies should not be able to abandon their pension commitments to employees. Thus any company making a payment of dividends to shareholders should also make good the underfunding of pension schemes..." **'It's time for a sustainable budget'**—Prem Sikka on guardian.co.uk, 4th April.

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