

Written evidence submitted by Christopher Snowden, Institute of Economic Affairs

I would like to thank the Treasury committee for giving me opportunity to speak its members on Wednesday 15th September 2021. As were up against the clock, the committee asked for evidence on disabled people and ethnic minorities to be sent in writing.

I have not carried out any research on either of these topics, but the Office for National Statistics has some useful data. It shows disabled people have suffered more during the pandemic on just about every metric. The committee mentioned a figure of six in ten people who have died of Covid being disabled. This is a very striking statistic, although it should be remembered that the average age of a Covid death in the UK is 82 and so it should not be too surprising that many of them will have had some form of disability.

It is well known that some ethnic minorities have had a higher rate of death from Covid since March 2020. This is partly due to where ethnic minorities tend to live (i.e. cities and London in particular) and to living conditions. There may also be a biological/genetic component. This inequality is likely to grow larger as the pandemic plays out over the autumn and winter due to low rates of vaccination among some ethnic minorities.

I'd like to take this opportunity to clarify a few points that were discussed in the meeting.

Social mobility

The social mobility data is largely united in showing no change in relative mobility (or social fluidity) over several decades. Around 75 per cent of population move into a higher or lower social class by the time they are in their 30s. The exception is the data on income mobility used by Jo Blanden and colleagues which has been widely promoted by the Sutton Trust and the Social Mobility Commission. There are a number of problems with this dataset that have been discussed in the literature. As its findings are inconsistent with a range of other studies, I treat it as an outlier.

Although there has been no change in relative mobility, absolute mobility has slowed because the changes in the labour market seen in the late 20th century, in which the middle class grew enormously and the working class shrunk enormously, cannot be repeated. There is some evidence of an increase in downward mobility in the most recent dataset and - importantly - people born in the lowest classes remain unlikely to finish in the highest classes, and vice versa.

In terms of income, as opposed to class, there is no limit to absolute mobility. With strong economic growth, there is no reason why everybody cannot end up richer than their parents.

Covid and inequality

As discussed, income inequality has changed very little in Britain since 1990, with a Gini coefficient of 35 being typical. This puts it towards the higher end in Europe and at the lower end internationally (see: <https://www.cia.gov/the-world-factbook/field/gini-index-coefficient-distribution-of-family-income/country-comparison>).

Recessions have traditionally had either no impact on income inequality or have reduced income inequality. This is largely due to middle and higher earners seeing their incomes decline while people who receive a significant proportion of their income in benefits see little change. This, in turn, is due to benefits being linked to inflation rather than to earnings. Relative poverty and relative child poverty tend to decline in recessions for the same reason.

The 2020 recession was very different to a normal recession, however. Furlough was introduced for millions of workers and it came in the wake of some benefits being frozen. Nevertheless, I would not be confident in predicting a rise in inequality. A decline in inequality cannot be ruled out if large numbers of middle and higher income workers were furloughed on 80 per cent of their wages. At the top end of the distribution, many entrepreneurs were not able to make money (think of film making and the creative arts, for example). We will know soon enough what the impact was, but I do not expect a dramatic change in either income inequality or relative poverty.

Inequality and growth

An issue that was tabled for discussion but which did not come up at the meeting was the question of whether inequality harms or helps economic growth. The evidence here is highly conflicting. Some studies find that inequality harms growth, other find it benefits growth. Some studies have found that it harms growth in poor countries but benefits growth in rich countries.

My own view is that the literature is inconsistent because inequality *per se* does not cause anything. It is an outcome rather than a cause. Governments can introduce policies which stimulate growth but increase inequality, or policies which harm growth and reduce inequality. Nationalising industries and sharing the spoils with the population would reduce inequality but it would harm growth, for example. Ultimately, governments should focus on policies which will optimise the incomes of everybody, i.e. pro-growth policies, while keeping the cost of living down.

Britain is currently a high tax, high regulation and low growth economy. There have been a few times in British history when tax as a proportion of GDP has been as high as it is now, but they have been temporary aberrations. The current situation seems permanent and is set to get worse. The revenue from the new Health and Social Care Levy barely scratches the surface of what the government will require in the coming years. Net Zero alone will require at least £50 billion per annum. The idea that its spending commitments can be met by taxing the rich is fanciful. There are not enough rich people, they don't have enough money and they will leave the country if they are over-taxed.

As the government has made it clear that it will not touch the unearned housing wealth of the relatively wealthy and will not privatise either of the big ticket items in the government's budget - healthcare and pensions - it will have to continue taxing the incomes of working age people and taxing consumption. The former can be progressive (although the Health and Social Care Levy is not). The latter is nearly always regressive.

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