A little austerity for the rich could go a long way

Income disparity has increased massively in the last 30 years – an incremental reduction in inequality would make huge savings every year. This is what occurred in the UK between the mass unemployment of the 1930s and the near full employment that lasted into the 1970s. Cutting high wages would allow employers to take on many more employees.

Hundreds of thousands more jobs could be afforded if there were a little more austerity among the rich, a report just published by IPPR shows. It would not take a near-halving of top salaries – just a slight and gradual reduction of income inequalities would make huge savings every year. This is what occurred in the UK between the mass unemployment of the 1930s and the near full employment that lasted into the 1970s. Cutting high wages would allow employers to take on many more employees.

Over the last 30 years, pre-tax income inequality in the UK has increased massively, as it has in the US. Britain has seen massive rises in the
incomes of those at the very top of the income scale, leading to increased overall inequality, fewer people earning enough to survive without tax credits and far more young people having to live on benefits because there are fewer jobs than a slightly more evenly distributed payroll would deliver.

What happened is simple. From the early 1980s, income inequalities rose as the richest 1% took more pay for themselves. As they took more, their share of direct taxation also increased. But their increased contribution had nothing to do with tax rates – the top tax rates were reduced to 40% in 1988 by Nigel Lawson, and stayed the same throughout Gordon Brown's tenure as chancellor.

Had Lawson not reduced top taxes, the rich might have been less encouraged to become so greedy. If pay were a little more evenly spread, then far more people would know they were contributing to the common good, rather than being told they were to be taken out of paying income tax altogether because they were so poor.

There would be losers as well as winners if the rich were strongly encouraged to take home a little less and perhaps taxed a little more. The vast majority would be live in the south-east. Barclays Wealth's 2011 report showed that it was here that most wealth resides, house prices are highest and still rising (six times the national average number of properties are valued at more than £1m); luxury car dealerships are most commonly located (three times the national figure); day pupils in private schools are concentrated (twice the national figure); and most Michelin-starred restaurants are based (four times as many as elsewhere in the UK, with five times as many Michelin stars).
The very rich concentrate geographically more than almost any other group. Because of this, and their small numbers, their votes are particularly ineffective. Yet the potential and subsequent incentive for their money to buy political favours is huge. Consumption of the goods listed in the Barclays Wealth report would fall in a slightly more equitable society: there would be fewer luxury cars, fewer meals taken in Michelin restaurants and less of the most expensive of educations.

A little more austerity for the rich would have very concentrated geographical impacts. For example, there are 11 private secondary schools in the London borough of Kensington and Chelsea – seven more than the number of state secondary schools there. It would be nice to see that ratio fall for future generations, as we spend a little more evenly on our children.

If we were to have austerity for the rich, why wouldn’t our bankers just run off to Switzerland, or our best-paid industrialists move to the Netherlands? Well, on average, they would be moving for a pay cut. The top 1% in both countries receive far less than the top 1% in Britain. But if people who are greedy and selfish did leave Britain, shouldn’t we see that as a gain for those who stay?

• This article is based on a longer report available for free [here](http://www.ippr.org/publications/55/8917/the-case-for-austerity-among-the-rich)