Politicians' Toolkit

When people enter politics, they usually do so with a desire for public service: to make the world a better place. They aim to promote shared prosperity and a better life for all. Politicians differ vigorously on how best to achieve these aims, but the majority in all parties do share them.

But reality gets in the way. For many in politics, and more widely, the Global Financial Crisis challenged their view of how the world worked[1]. And in the decade after the Crisis and the Great Recession that followed in its wake, many countries have seen sub-par economic growth, falling wages and struggling public services.

In the UK, for example, real per capita GDP grew at 1.6% *per annum* from 1997 to 2010 (the period which included the Global Financial Crisis and the subsequent Great Recession) but has grown at only 0.7% *per annum* since then[2]. Median wages grew at 1.3% *per annum* from 1997 to 2010 and have been declining at -0.6% *per annum* since 2010[3]. Nobody wanted this.

And now, course, we are faced with Brexit. Many politicians find themselves in a state of utter confusion. It is clear that there are only three possibilities: no Brexit, soft Brexit and hard Brexit. And all of these seem, either politically or economically or both, to be disastrous.

Is there a way to think about the economy that helps to recapture that initial sense of purpose? That makes it possible to cut through the complexity of the competing viewpoints and to determine what *would* promote shared prosperity, and what *would* give a better life for all?

This note gives a simple toolkit for politicians who wish to recommit to the common good. It includes suggestions on:

- Key concepts and performance measures to focus on what really matters;

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1 (Greenspan, 2008)
2 (Office for National Statistics, 2019)
3 (Office for National Statistics, 2019)

- A policy framework for shared prosperity; and
- Using the framework to analyse and formulate policy.

Key concepts and performance measures

Perhaps the simplest and most important concept in 99% is *mass impoverishment*. I coined this phrase to describe the situation in which even as the economy continues to grow, most people find themselves getting poorer.

This is a deliberate move away from talking about inequality (even though rising inequality is the largest single driver of mass impoverishment) for the simple reason that there are powerful arguments *for* inequality but none *for* mass impoverishment. The opposite of inequality is equality; and there has never been a society with perfect equality – it is probably not feasible and may not even be desirable. But if equality is not the aim, then what level of inequality is the ideal? The discussion becomes very complex. Mass impoverishment is much simpler: it *is* happening, and it should *not* be happening. *The ideal level is zero*.

When politicians talk about the health of the economy, they tend to focus on two key measures of performance: 1) headline GDP growth (usually over a carefully selected timeframe) and 2) the state of public finances. The implication is that these are the two most important measures, that growth will solve all problems and that the state of public finances is so dire that everything (even growth) must be sacrificed to reduce the level of debt to GDP before disaster strikes.

As *99%* made clear, growth, especially headline GDP growth, does *not* solve all problems. In the US for example, GDP growth of almost 150% since 1980 has translated into virtually no growth in real median wages. Since 2000, they have in fact fallen. And in the UK, although we constantly hear about the dire state of government finances, the truth is that Government Debt:GDP remains below its average for the last 300 years[4].

4 (Bank of England, 2016)

If GDP and Debt:GDP are *not* the measures we should focus on if we want shared prosperity, what *are*? I suggest:

- the **impoverishment ratio**: the proportion of the population whose income has fallen in real terms (measured as segments rather than as individuals: there will always be some individuals whose incomes fall, but there is no reason why – for example – the bottom 25% of the population as a segment should see their incomes fall); and
- the **leave-behind ratio**: the proportion of the population whose real income has grown more slowly than real per capita GDP (again, measured as a segment).

An appropriate target for the impoverishment ratio in non-recessionary times is zero. Over the last 10 years, in the UK, the figure is around 90%. This represents an astonishing failure of governments to manage the economy. But it has gone largely unreported, and certainly not achieved the level of press coverage given to GDP growth and deficit containment.

For the leave-behind ratio, the target should be slightly greater than zero to allow for some progressive redistribution, but it should certainly not be over 95% as it is at the moment. Perhaps 20%, or even less, would be an appropriate target.

Policy to deliver against these measures

And if these two measures become established, the question naturally arises: what sorts of policy will improve performance on these measures? The answer is surprisingly simple: *the government should focus policy on growing the pie and sharing it fairly*. In this framing of the issues, '*the size of the pie'* is represented by real *per capita* GDP; and each budget will either improve the prospects for the size of the pie or fail to improve those prospects. The sharing of the pie is determined by the trends in the impoverishment and leave-behind ratios.

In this framing, there are only four types of policy (determined by whether they grow the pie or not and whether they share it fairly or not):

- **shared growth policies** which both grow the pie at a reasonable rate and share it fairly;
- **captured growth policies** which grow the pie but share it unfairly;

- **balancing policies** which do not grow the pie but improve the fairness of sharing; and
- **vulture policies** which neither grow the pie nor share it fairly.

Policy Framework for Shared Prosperity

	Sharing the pie unfairly	Sharing the pie fairly
Growing the pie	***Type I: Captured Growth Policies*** *Balance with types II & IV* Widespread automation Large scale immigration Free trade with low-cost countries Unfunded tax cuts	***Type II: Shared Growth Policies*** *Focus policy here* Investment in: • R&D • Infrastructure • Education • Healthcare Direct job-creation Supporting Private Sector investment
Not growing the pie	***Type III: Vulture policies*** *Avoid* Funding tax cuts by reducing benefits and public services Regressive tax changes	***Type IV*: Balancing Policies*** *Use to balance Type I policies* Raising the minimum wage Paying benefits to those in need Progressive tax changes

In fact, most politicians talk about the need for Type II policies – in 2017, all major parties' manifestos were full of Type II policies – but in recent years, they do not implement them (they are sacrificed to the supposed need to tackle the state of government finances).

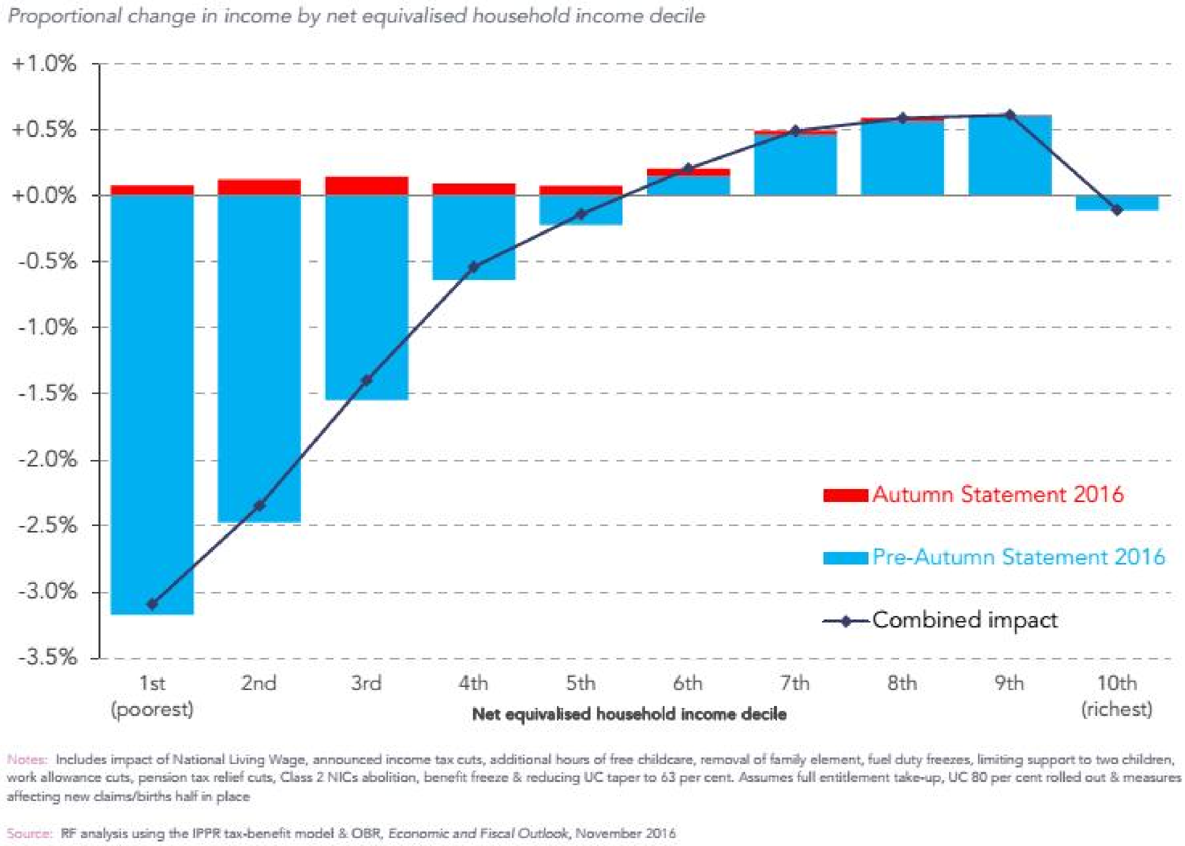
Using this toolkit to analyse policy

For a politician looking to decide how to vote, this form of analysis is relatively straightforward: each Budget is already assessed by the Office for Budget

Responsibility and the Institute for Fiscal Studies in such a way that data are available both on the impact of the budget on the economy as a whole (GDP) and on the different income segments.

The Resolution Foundation produces analysis like this:

Resolution Foundation analysis of impact of tax and benefit changes by income decile[5]



Since according to the Office for Budget Responsibility, growth was set to continue well below long-term trend levels, this means we were looking at a *Vulture Budget*. And so it has turned out.

Similarly, it is clear that Brexit will reduce the size of the pie (relative to staying in the EU) – virtually all economists and the government's own analysis[6] confirm this. A hard Brexit would be accompanied by widespread business failure and rising unemployment. Prices of businesses, property and land would fall significantly. Probably public spending would be cut further – but there would be excellent buying opportunities for anyone who had positioned

5 (Corlett, Finch, Gardiner, & Whittaker, 2016)
6 (House of Commons exiting the EU committee, 2018)

most of their wealth off-shore and denominated in a currency other than sterling. A hard Brexit is a vulture policy.

This toolkit has presented three simple ideas:

1. the idea of focusing on *mass impoverishment* rather than simply inequality;
2. the idea of measuring the performance of government by tracking the *impoverishment ratio* and the *leave behind ratio* rather than simply looking at short-term GDP growth and the level of debt:GDP;
3. the idea that there are only four basic types of policy, and that one of those – vulture policies – should at all times be avoided.

If you would like to explore these ideas, and to support the 99% movement, we would like to hear from you.

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