

in brief...

## Spend it like Beckham

The gap in income between rich people and the average Briton has widened very markedly over the last three decades. **Andreas Georgiadis** and **Alan Manning** wonder why voters have not forced successive governments to increase taxes on the rich.



*'I warn you that there are going to be howls of anguish from those rich enough to pay over 75% on their last slice of earnings.'*

Denis Healey, Labour Party Shadow Chancellor, 1973.

*'The justice for me is concentrated on lifting incomes of those that don't have a decent income. It's not my burning ambition to make sure that David Beckham earns less money.'*

Tony Blair, Labour Party Leader, 2001 election campaign.

The gap in income between rich people and the average Briton has widened very markedly over the last three decades. In the early 1970s, the top 10% received about one quarter of total income but their proportion of total income now is more like one third. We might expect that the political response to this – at least from a Labour government – would take the form of more redistribution, including higher marginal tax rates for the rich. But this has not happened.

The simplest way to see it is that the top rate of income tax fell from 83% in the late 1970s to 40% in 1988 – since when it has not changed. There is now no major political party proposing substantial rises in the top marginal rate of income tax. Looking across the tax and benefit system, we can see that redistribution has not increased even as inequality has risen.

In a democracy, it is the voters in the middle (the median voter) who have the most influence since they are the 'swing' voters who determine the outcomes of elections. And as the median voter has a below average income (due to a handful of super-rich people), we might expect them to put pressure on the government to redistribute resources from the rich to themselves. According to this view, a rise in income inequality will lead to more redistribution as the median voter tries to get a slice of the extra pie going to the rich.

Of course, there is substantial redistribution: the share of the top 10% in final income is about one quarter, which is considerably lower than their one third share in original

income. But the prediction that more inequality will lead to more redistribution is not supported by the evidence. Not only has redistribution in the UK failed to keep pace with rising inequality, but there is also little evidence that it applies across other countries. Perhaps the starkest comparison is between the United States and Europe: the former has higher levels of inequality than the latter and less redistribution.

So why has the rise in inequality in the UK been met with so little demand for higher taxes on the rich? One view might be that our democracy is closer to 'one pound, one vote' instead of 'one person, one vote'. If this were so, then a rise in the share of income going to the rich would also lead to a rise in their share of political power, hence potentially explaining the lack of a redistributive response.

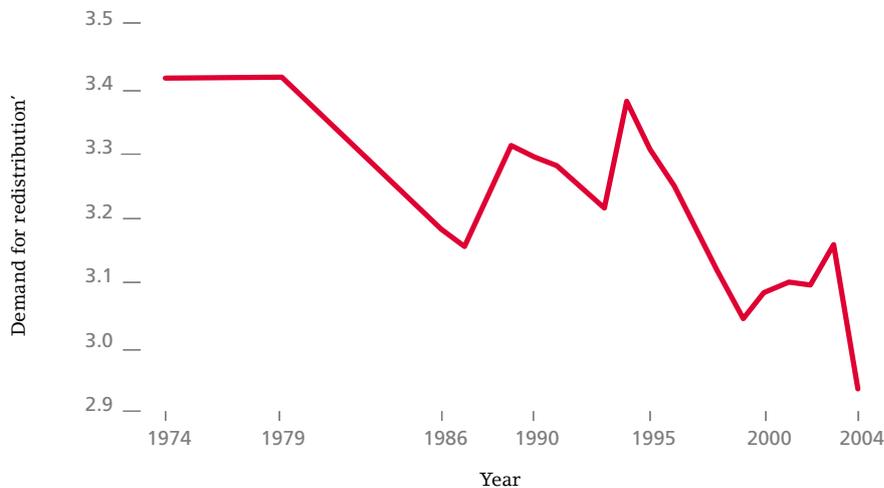
Our research has been considering other possible explanations. We analyse the British Social Attitudes Survey (BSAS) to see whether attitudes towards redistributive taxation have been changing.

The answer is that they have. Figure 1 shows the average response of individuals to the statement 'government should redistribute income from the better-off to those that are less well-off' from 1 ('strongly disagree') through to 5 ('strongly agree') – so that higher average values represent a greater demand for redistribution.

Figure 1 indicates that the demand for redistribution fell in the early 1980s but then rose from the mid-1980s to

Figure 1:

Agreement with the statement that 'government should redistribute income from the better off to those that are less well-off' (1=strongly disagree; 5=strongly agree)



This article summarises 'Spend It Like Beckham? Inequality and Redistribution in the UK, 1983-2004' by Andreas Georgiadis and Alan Manning, CEP Discussion Paper No. 816 (<http://cep.lse.ac.uk/pubs/download/dp0816.pdf>).

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## Voters seem to value redistribution less – and this is the main reason why it hasn't increased

the mid-1990s. This was the period in which inequality grew fastest and it seems likely that the lack of redistribution by the Thatcher and Major governments was not particularly popular.

Tony Blair inherited a large demand from voters for more redistribution in 1997. Since the election of New Labour, support for redistribution plummeted to a new low. One explanation might be that the Labour government succeeded in redistributing income so that voters' demand were met. But the data suggest that little has actually happened to inequality or redistribution since 1997.

There has been some redistribution towards children in poverty and poor pensioners. But these are relatively small deals in the big scheme – the underlying trends in inequality in the economy as a whole. We are left with the job of explaining the puzzle that inequality now is much higher than in the 1970s but the demand for redistribution is much lower.

What determines attitudes towards redistribution? Our analysis of the BSAS indicates a number of important factors, all in line with the theory of the median voter:

- First, your personal circumstances – the rich are markedly less in favour of redistribution than the poor.
- Second, if you care a lot about the poor or are very envious of the rich, it is quite likely that you support a lot of redistribution.
- Third, if you believe that high taxes discourage work,

then you are less likely to support redistribution.

- Finally, if you think the government cannot be trusted, then you are not likely to support as much redistribution.

The views of the British population have changed over time and our analysis attempts to link the fall in the demand for redistribution to changing attitudes. We find that we can do a pretty good job: changes in attitudes towards redistribution can explain almost two thirds of the decline in the demand for redistribution in the UK.

The single most important change is that many fewer people now seem to believe in the 'class war' – that there is one law for the poor and one for the rich, or that big business benefits owners at the expense of workers.

So people's beliefs are as important as their economic circumstances in explaining attitudes to political issues like redistribution. And these beliefs can change fast. That politics is a battle for 'hearts and minds' is not surprising, but why have the beliefs of British voters changed in this way?

It seems that British views are becoming more like the views of Americans: those in the middle are no longer envious of the rich – instead they aspire to be the rich. But as we enter a recession in which the average Briton is quite likely to feel the pinch, it may once again become an attractive political policy to seek to increase the share of taxes paid by the rich.