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T7 Task Force Strengthening social cohesion

POLICY BRIEF

UNIVERSAL CONTRIBUTIONS

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Abstract

G7 countries will need to better align their tax systems with social protections to create the reciprocity necessary to support stronger social cohesion.

A combination of tax simplification and direct assignment of revenues from private taxes to universal protections creates a sustainable fiscal structure that enables stronger cohesion.

Amidst the rising cost of living, post-pandemic recovery and the urgent need to meet net zero requirements, our proposals for tax reform and implication provides a clear example of how such reforms using analysis from a G7 country such as the UK can foster greater social cohesion and solidarity. We argue that using a flat rate definition of incomes where both active (earned) and passive (unearned) incomes are treated equally forms the basis of a more socially just and equal society.

Challenge

The conflict between a need for more universally accessible social protections and the limited scope for fiscal expansion post-Covid for many developed countries means that tax reform is needed that supports a dramatic increase in the efficiency and efficacy of social protection systems.

The social protection systems of all advanced economies were already under strain from regional inequalities, de-industrialisation, and ageing demographics, and the transition to Net Zero requires additional investment. As governments continue to respond to the problems raised by the Covid-19 pandemic, they are challenged to address the rising cost of living caused by global supply chain issues, energy transition, rising energy and petrol prices and war in Ukraine, without restraining their fiscal capacity to fund social protection and climate adaptation. This is forcing governments to carefully prioritise their social spending.

Citizens of G7 countries on the lowest incomes are experiencing a rising cost of living, some of which is an expected consequence of adjusting to living within the planetary boundaries. Additional fiscal capacity will have to come from reforms that raise additional revenues without increasing the tax burden on ordinary working citizens with the lowest financial capacity.

The G7 goal of *Stronger Together* will require a stronger reciprocal connection between contributions and protections. New fiscal arrangements that engender reciprocity in the exchange of taxes for public goods are needed.

Proposals

Tax reform to finance and operationalise new versions of the welfare state, while protecting the poorest in society is the main purpose of our proposal. Transformation requires innovative fiscal arrangements that reinforce reciprocity and connect contributions to access to social protections. Without reforms to the contribution system, reforms of social protection will be politically unavailable.¹

The equal treatment of all forms of income and gain is essential to establishing the equality of citizenship and common purpose. Tax reforms that use a flat definition of incomes, treating active (e.g., wages) and passive (e.g., dividends) incomes equally, can reduce taxation on labour and establish the equality of treatment that is the foundation for stronger social cohesion.

Recent work from the Institute for Global Prosperity (IGP)² has shown that it is possible for a G7 country (report is based on UK analysis) to fund higher levels of universal social protection, and Net Zero commitments, without increasing the burden on ordinary workers, thereby providing a progressive policy tool to facilitate transition.

When the revenues from increased taxes are assigned to universal basic service protections, they can more than offset the lost income for the lower four fifths of the income distribution (see Figures 1 and 2 below).³

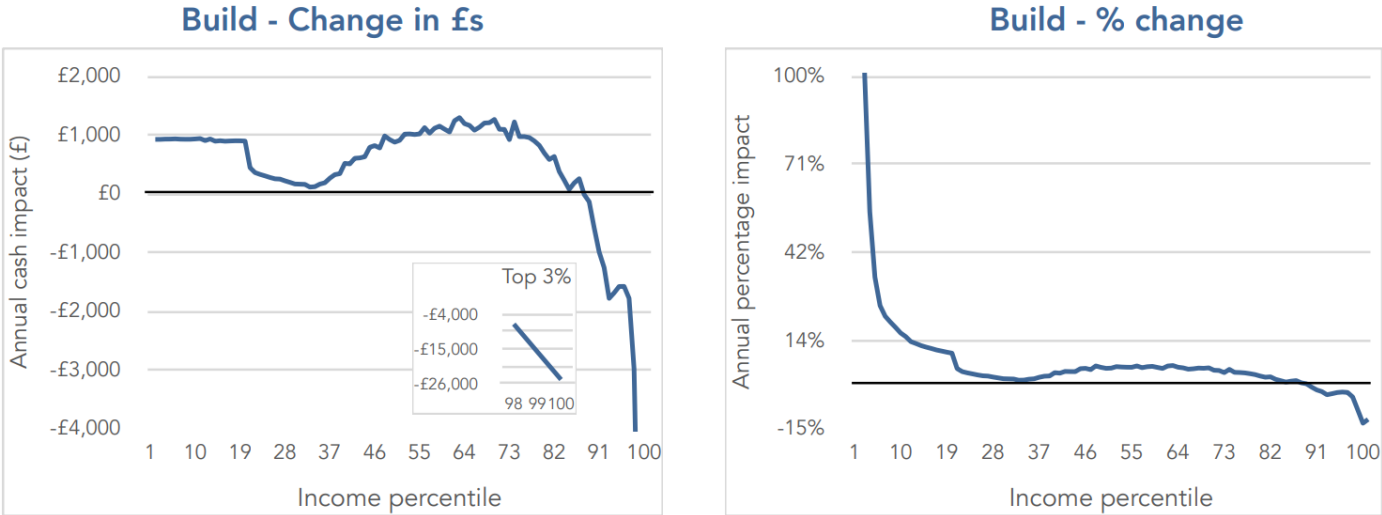


Figure 1 - Impact of Tax Reform (Percy, 2021)

Effects on incomes relative to current policy

The value of the Universal Basic Services offsets increased tax contributions up to the 86th percentile.

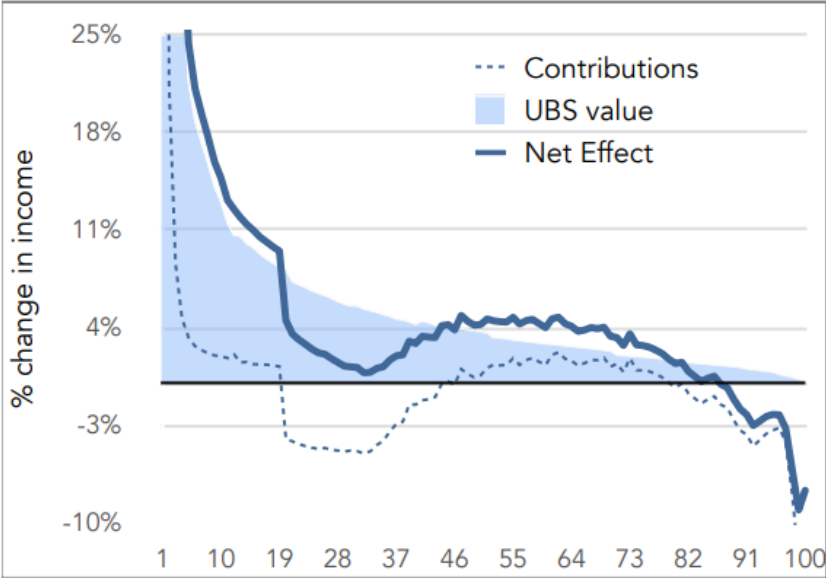


Figure 2 - Offsetting Impact of UBS (Percy, 2021)

Implementations

- i. Reform and simplify the taxation of incomes to equalize the treatment of active (earned) and passive (unearned) incomes, so as to build reciprocity and solidarity among citizens.
- ii. Assign revenues from the taxes paid by citizens to the provision of universal basic protections.⁴ The revenues from private taxes and expenditures on social protections of G7 countries are already closely aligned. Making an overt commitment linking taxes and protections cements the social reciprocity necessary to support cohesion.

Endnotes

¹ Percy, A., (2021).

² Percy, A., & Reed, H. (2021).

³ Percy, A., & Reed, H. (2021).

⁴ Percy, A., (2021). & Moore, H., Percy, A., Lorgat, R., and Moseley, K. (2022).

References

- Moore, H., Percy, A., Lorgat, R., and Moseley, K. (2022). *Universal Protections*. Think7: Germany.
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About the Authors

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Professor Henrietta L. Moore is the Founder and Director of the Institute for Global Prosperity and the Chair in Culture Philosophy and Design at University College London (UCL). A leading global thinker on prosperity, Professor Moore challenges traditional economic models of growth arguing that to flourish communities, businesses and governments need to engage with diversity and work within environmental limits. Her work crosses disciplines, from social science to the arts to business innovation and she applies these different perspectives to inform research and policy at all levels.

Her recent work has seen her transition beyond academia into the public sphere providing commentary on topics such as Universal Basic Services, Brexit, Artificial Intelligence, displaced people and the gender pay gap as a respected leading intellectual. She retains ongoing interests on issues of globalisation, mass migration, gender, social transformation and livelihood strategies, new technologies and agroecology which have shaped her career and her engagement with policy making. She is committed to involving grassroots communities in the production of new types of knowledge through citizen science.

Professor Moore is an Advisory Panel Member for the Dasgupta Review of the Economics of Biodiversity and part of the Rebuilding Macroeconomics Management Team. She serves as President of the British Institute in Eastern Africa and on the Scientific Advisory Council at DEFRA, UK Government. She is a Trustee at the Barbican Centre Trust, a Fellow of the British Academy, a Fellow of the Royal Society of Arts, an Academician of the Learned Societies for the Social Sciences, and a Member of the Institute of Directors.

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Andrew Percy is Co-Chair of the Social Prosperity Network at the Institute for Global Prosperity, UCL. He leads the IGP's work on 21st century welfare and was the lead author on the 2017 IGP report on Universal Basic Services.

Andrew joined the IGP in 2016 to launch the Social Prosperity Network, a cross discipline research collaboration focussed on the contribution of social safety to sustainability and prosperity.

Andrew has worked in cybersecurity in the UK and USA since the early '80s, as well as stints teaching in Egypt, producing UK's first hip hop album with Positive Beat Records, and in finance.

Current work: examining the political paralysis in developed societies to understand how we move forward in the face of parallel challenges of climate crisis, insecure livelihoods, and democratic participation.

Latest works:

Universal Basic Prosperity (2021): [<https://discovery.ucl.ac.uk/id/eprint/10138869/>]

National Contributions (2021): [<https://discovery.ucl.ac.uk/id/eprint/10138866/>]

The Case for Universal Basic Services (2020) - Polity Press, co-authored with Anna Coote, NEF.

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Rayhaan is a Research Assistant at the IGP, PROCOL UK team. He completed a MSc in Economics at University College London (UCL) in 2020 and also has a BSc in Economics from City University of London. He supports the Institutes work across various projects including the Rebuilding Prosperity Campaign, Rebuilding Macroeconomics and the portfolio of work the Institute undertakes in the UK.

Katrina Moseley – Institute for Global Prosperity, University College London



Katrina joined the IGP as a Research Associate in 2021, supporting the Institute’s portfolio of work on the UK economy. She holds a PhD in History from the University of Cambridge and has research interests in food systems, gender inequalities, and social injustice.



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