

A purple, green and red new deal for equitable sustainable development in the UK

Özlem Onaran, Cem Oyvatt, Eurydice Fotopoulou

The Covid-19 crisis laid bare a massive deficit in the social care infrastructure in the UK. Public spending increased substantially to support the emergency measures to mitigate the effects of the crisis on household income and firms but fell short of linking the short-term emergency policy response to long-term rebuilding of the economy. The unprecedented rise in public debt/GDP increases further concerns that public spending cuts in the future may be perceived as inevitable at a time when social and environmental needs require a more substantial urgent mobilization of fiscal policy. While there is widespread recognition of the care and ecological deficits and class, race and gender inequalities which are exacerbated by the crisis, the budget deficit is conventionally seen as a binding constraint. As the Covid-19 crisis adds to the long-standing fiscal spending needs, we show that wealth taxation can ease the budgetary constraints on fiscal spending and facilitate a move towards a needs-based approach to fiscal policy, avoiding competition between urgent social and ecological requirements.

Public spending on education, childcare, health and social care has a high positive effect on productivity in the rest of the economy in the UK, directly and indirectly. A 1%-point increase in public social investment increases productivity in the rest of the economy by 3.3% percent, which provides supporting evidence that this spending functions as infrastructure investment, as it has long term benefits for the society as a whole, and it improves gender equality by socializing the unpaid invisible domestic labour of women.

Our research shows that a combination of 1) higher purple public social infrastructure spending in education, childcare, health and social care 2) higher public physical infrastructure investment in the green economy, 3) progressive taxation with higher tax rate on wealth and capital income and a decline in taxes on labour income, 4) labour market policies to increase pay and working conditions would increase in GDP, productivity (output per hour), employment of both men and women, equality and the budget balance. Social infrastructure investment would involve hiring more teachers, nurses, social care workers, paying them higher wage rates while closing gender gaps. Labour market policies would include an increase in the minimum wage or collective bargaining coverage, enforcing equal pay legislation and aiming at higher rates of pay rise in occupations at the bottom end of the pay scale.

We econometrically estimate a macroeconomic model, and analyse the effects of a 1%-point increase in public purple social spending and green physical investment as a ratio to GDP, a 2% increase in female hourly wage rate, a 1% increase in male wage rate, a 1%-point increase in the tax rate on wealth, a 1%-point increase in the tax rate on profit income, and a 1%-point decrease in the tax rate on wage income. As a result of this policy, we estimate that in the medium-run, GDP increases by 10.9%, women's employment increases by 9.6%, men's employment increases by 5.8%, and public debt/GDP decreases by 10.3%-point.

An increase in the tax rate on wealth decreases wealth inequality and has a particular high positive impact on private investment, output, employment and the budget. Our results for the UK indicate that taxation of wealth is a particularly effective policy to fund purple and green public investment, while tackling income, gender and wealth inequalities. An example of such a policy could be using inheritance tax revenue to fund public long-term elderly care.

Output in the UK increases with more equality in gender, income, and wealth; i.e. the UK is wage-led and gender equality-led, and hence equality-led.

These policies can provide the elements of a new social contract for a purple green red new deal after the Covid-19 crisis.

Contact:

Özlem Onaran, University of Greenwich, Prof. of Economics, Codirector of Institute of Political Economy, Governance, Finance and Accountability,

Email: o.onaran@gre.ac.uk,

Instagram: [ozlem.onaran](https://www.instagram.com/ozlem.onaran)

<http://www.gre.ac.uk/people/rep/faculty-of-business/ozlem-onaran>

Other related reports, briefs, blogs:

Technical paper:

Onaran, Ö, Oyvatt, C. and Fotopoulou, E. (2019) “[The effects of income, gender and wealth inequality and economic policies on macroeconomic performance in the UK](#)”, Greenwich Papers in Political Economy, No71.

Policy Report

Onaran, Ö, Oyvatt, C. and Fotopoulou, E. (2019) A policy mix for equitable sustainable development in the UK: The effects of gender equality, wages, wealth concentration and fiscal policy, [GPERC Policy Briefs, University of Greenwich, #PB25-2019](#).

Economic and Social Research Council (ESRC) Rebuilding Macroeconomics Network Plus Project summary:

[Effects of Gender Inequa, Income and Wea | Rebuild Macro \(rebuildingmacroeconomics.ac.uk\)](#)

Blog:

[Where are Women in Macroeconomic Models? \(rebuildingmacroeconomics.ac.uk\)](#)