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STOURTON: (*Applause*) Welcome to the Institute for Government, a think tank which aims to promote fresh thinking on the issues that really matter to government. Labour's leader, Ed Miliband, has over the past few days or so begun to sketch out in clearer lines the ambitions that his party will labour for us at the next election and our guest here is credited with some of the fresh thinking behind Labour's new agenda. Professor Jacob Hacker is a political scientist, the Director of the Institution for Social and Policy Studies at Yale in the United States. He is a champion of what is known as "Predistribution" - elegantly described by the Guardian as an "un-snappy name for an inspiring idea". Mr Miliband used the term in a speech last autumn, and indeed the Professor has just come hotfoot from a meeting with the Labour leader, I think. (*to Hacker*) I don't know whether you saw him for long enough, but do you have a sense that he's really serious about looking for new thinking in this area?

HACKER: Well the first thing he said is he apologised if he messed up the term for me, as if you know his talking about it would somehow take away from the originality or power of the term. I said, "You know that's the most attention I've ever received for any idea I've ever put out there. You can talk about it as much as you want." So, yes, I did have a chance to meet with him briefly and I do think he's still taken with the idea, if perhaps a little bit chagrined about the reception to the label.

STOURTON: Well you're in Britain as a guest of Policy Network and our audience here includes some very heavyweight policy thinkers and a large number of public servants with long experience of government. I'm going to ask all of you, as we discuss Professor Hacker's arguments, to help me test them by putting some questions. We are of course having this discussion at a time of austerity and the argument is sometimes made that it's difficult to see what a party like Labour is for when there's no money around to redistribute. The Blair-Brown Government could afford to be perhaps a bit more relaxed about the super rich and the big money paid in the City because all of that generated taxes which could top up the incomes of those at the other end. But of course all of that has changed and I suppose that context makes your critique of redistribution seem quite timely.

HACKER: Well I would like to think so, but I should say that the idea came actually out of *Winner-Take-All Politics* that I wrote with my co-author Paul Pierson. And when we were thinking about rising inequality in the United States ... Because the United States and Great Britain really stand out in terms of the just meteoric rise of incomes at the very, very top of the income ladder, and a lot of people say well this is all about market distribution; it's not government redistribution. And when we started to look at the data and the evidence and the history, we found that there were an enormous number of ways in which government had shaped the distribution of income - weakening the bargaining power, for example, of ordinary workers while allowing financial deregulation. So our point was simply that there are an enormous range of ways that government shapes the distribution of income that don't involve redistribution, but I think it has become timely because we're living in such a constrained era, one in which the kind of third way maxims, right - let markets be markets and we can mop up after the fact - no longer seem to be relevant. If the message is the market is rewarding those with talent, this is about transformation of the economy, skills are being prized by the market, but we'll come in and we'll help sort of lift up the bottom, that creates two political problems. One is that it's simply wrong about what's happened at the top - that this is a result, as I've said, of a lot of

policies that have actually increased financial instability, that have led to a lot of self-dealing at the top.

STOURTON: Just to be clear, that's how you would characterise the Blair-Brown years, is it - letting the markets do their thing and then tidying it up afterwards?

HACKER: Certainly in the financial world, that was the case. And there was a philosophy that may not have been expressed, but that was any job is basically a good job. If we're creating jobs, we can always top off those jobs. And let's be clear - if you're redistributing to try to sort of 'big up' the bottom, it creates resentment, particularly among the strained middle, right - people who are receiving some public benefits but are not wholly reliant on them. And if you look at why in Britain, why up to the last ten or fifteen years you didn't see the kind of wage stagnation that you do in the United States, it was mostly because the Blair Government was pretty good at providing transfers that would make up the difference. But I think that politically that is much harder to do in the long-term.

STOURTON: So are you saying that redistribution as a political philosophy is dead?

HACKER: No, I mean redistribution will always be a part of progressive governance, especially progressive taxation. If you look at what's happened over the last generation, market inequality has risen so much that even though the very well off are paying a larger share of total taxes in many rich countries, their tax rates, their effective tax rates have actually gone down and we know there's a lot of tax avoidance at the very top. And I think maybe something that's just sort of implicit in what I've said, but it's very important to emphasise, is that there is very little trust in government today. So redistribution relies heavily on this idea that we're in this together and government is the vehicle for achieving greater solidarity, greater equality.

STOURTON: Alright, well that's the critique of the past and how we got to where we are. Unpack this idea of redistribution. What does it mean?

HACKER: You have to ask what are the central ways in which government can stand on the side of ordinary workers that do not involve taxing and providing benefits, and I would say that there are three. One, it means getting the macro economy right. When we're closer to full employment as an economy - and this is the US and UK - we tend to get stronger wage growth across the board. It also means making sure that even if inequality's growing in the market, it matters less in terms of some vital public services - things like healthcare, childcare. And, finally, it means - and this is the hardest part - it means trying to make sure that in an era in which organised labour is weaker that labour still has a voice and a place. And whether that's supporting living wage campaigns, whether that means providing new opportunities for workers to have a voice outside of unions, whether it means if we privatise public services or contract out and allow all these low wage jobs to proliferate in and around the public sector, we're making our job much, much harder.

STOURTON: And is the objective equality, or is it simply to raise people's standards of living to an adequate level?

HACKER: Well I think the ultimate objective is to ensure that economic gains translate into broad social gains. So part of that is ensuring that income gains are broadly distributed, which is about equality; but part of it, as I was suggesting, is about trying to encourage preconditions of living a healthy, productive life or having the opportunity to rise up the economic ladder over the course of one's life are available. And so let me just give one example that I think will make this more concrete for people. Over the last generation, as our society has become more unequal, we've seen essentially a privatisation of opportunity in the United States. That is high income, affluent citizens are pouring more and more money into their children from college education to early childhood intervention at the beginning. And that means that inequality is becoming self-reproducing in these societies and so what we've seen over the last generation is that in countries with higher inequality, it looks as if inequality of opportunity has also increased. It is one thing to have a society where there's a gap between rich and poor and there's a high level of mobility, but another to have a society in which it looks increasingly as if the rich are able to have advantages for themselves and their children and those who are not in the pinnacles of the economy are really shut out.

STOURTON: So you are talking about a predistribution of opportunity as well as a change in the way the market works?

HACKER: Absolutely. Well one way to say it is a lot of the things that I'm talking about are providing better services and greater access to employment in the short-term, but greater opportunity in the long-term.

STOURTON: We talked in a jokey way about your meeting with Ed Miliband, but in a more serious way how much of that kind of thinking do you think is now feeding through into the Labour Party, the left here?

HACKER: Well I think it's a difficult challenge. The IMF has moved if you will to the left of the Labour Party. In their April 2012 world economic report, they very harshly criticised the austerity policies of Europe - and that includes those of Britain - in saying that it was actually a case in which austerity was self-defeating because it was reducing the economy so much that the deficit was actually increasing. And I think that the challenge for the Labour Party, for the left, is in a context in which it's clear that the public overall is very concerned about public spending and very concerned about taxation. In that context, can you credibly say look we want to do something in the short-term - whether it's investment in housing, right, public capital investment or infrastructure in the United States - to try to jumpstart the economy, but we're committing ourselves in the long-term to a budget that is responsible? I don't see, just as a political analyst, I don't see how the party can offer a credible alternative to the ruling coalition if it doesn't have at least some breathing room on this one issue. Now thinking more broadly, I think there's a struggle taking place over how exactly Labour can respond to the reality that there's been a decline in public support for welfare and for public benefits. What Ed Miliband's speech was trying to do was just say, look, we need to re-emphasise the contributory principle. We should say that people who receive welfare after a period of time should work, there should be some skills investment if you're receiving it while out of the labour force because you're caring for children, so let's re-emphasize that reciprocal commitment. I think that makes sense. At the same time, I think that is not a viable strategy unless you have a

real emphasis on how are we going to improve the number of and quality of jobs. The idea that that's going to occur in the absence of serious public investment, in the absence of some policies that really rebalance the private market, I think is fanciful, and that's really been the mistake of the last generation of progressives - is they said the market will figure out how to do this. We know now that that's not true. It requires a partnership between the public and private sectors.

STOURTON: For those of you who've just joined us, we are at the Institute for Government for a special edition of *Analysis*, Radio Four's programme of ideas. And our guest tonight is Professor Jacob Hacker of Yale University. He's been talking to us about predistribution. I'd like to take our first question from one of my colleagues, Mukul Devichand, who recently presented a special edition of *Analysis* on the subject of Labour's search for new ideas. Mukul?

DEVICHAND: Thanks Edward. Professor Hacker, on *Analysis* we've been speaking to leading Labour Party thinkers here who are questioning redistribution. But they do it for an additional reason, which is to do with culture. The argument there is that the way redistribution happens now has a negative effect on our culture. In the worst form, it can create perverse incentives, maybe encourage for example idleness. So I wondered is your promotion of predistribution for cultural reasons as well as simply for economic ones?

HACKER: Well it's a great question and I would say I already acknowledge that one of the reasons that I think this idea has gained credence in the United States and Great Britain, certainly in Great Britain, is that there has been declining public support for public benefits; and you can see that most notably in benefits that are explicitly talked about as being for the poor. And one of the interesting aspects of this is that in the United States our most effective anti-poverty programme, the Earned Income Tax Credit, is not actually widely viewed as negative. And why is that? Now one reason is it's hidden in our tax code. And I'm generally not a big fan of doing all these public benefits through the tax code - it tends to help those who have the highest tax rate, so it's usually regressive, and also when you do it through the tax code it's not very transparent. But the reason Earned Income Tax Credit is popular is also that it is a subsidy for work. So I think that this idea of emphasising work is not an old one - it's at the heart of actually the original conceptions of the New Deal and the Beveridge plan - but it's a very difficult one to implement in the current context. I don't think that there are a lot of people who are idle because they're somehow imbibed in a culture of dependency. There are not enough jobs out there and a lot of the jobs don't pay enough. It's very difficult for people to balance work and childcare in the current environment. But I'm supportive of the idea of having reciprocal obligations and there seems like sort of a hard and a soft way to move forward or a tough and a supportive way. The tough way would be just cut off benefits. The supportive way is to say how can we provide people with pathways into longer term employment? If we say that we can't do it because the private sector isn't producing enough jobs, then maybe we need to create public sector jobs at least on a temporary basis to do vital things for our society, but I think over the long-term it's really about figuring out how to create something closer to full employment in the 21st century economy and that's been tough for rich countries.

STOURTON: I'm going to take one more question in this section.

BEN-AMi: My name is Daniel Ben-Ami and I'm an economics writer. I'm just not clear what your primary motivation is for predistribution. You seem to have some notion of fairness. You've certainly said that predistribution will lead to (you hope) more innovation and productivity. You also clearly want to win support for centre left parties, such as the Labour Party or the Democrats. Are there any more than this (*Hacker laughs*) and are these in contradiction with each other?

HACKER: Well I think the most important is ... I wrote a short op-ed today. The title of the piece was *Making the Market Work Again from the Middle*. By that, I really mean the sort of broad middle 60th per cent of workers. At the core of predistribution is trying to figure out how you can have a market that is producing broadly distributed gains. Now in the US - I think that this has been somewhat less true in Britain, although it's becoming more true - we have seen almost no gain, for male workers essentially no gain; for female workers, a small gain in median wages even as the productivity of the economy overall has grown. So when people say well the economy isn't growing, they mean their wages aren't growing. This divorce I think is the fundamental problem to which predistribution responds. The case that has been made for greater inequality has been oh look, if we cut taxes at the top, then those benefits will trickle down to the rest. But we have not seen that happen. So I'm arguing basically what are the ways in which we can through strategies of investment, which are long-term oriented, strategies of say regulation or moral suasion, which are more short-term oriented, and macroeconomic strategies - what are the ways in which we can try to increase the degree to which broad economic gains translate into middle class economic gains and how do we increase over the long-term the growth of the economy. Growth that translates into broad social gains - that is the fundamental goal to which predistribution responds.

STOURTON: Alright, let's talk a bit more about implementing some of these ideas. You've talked about predistributing opportunity. We've had a comprehensive education system in this country for decades ...

HACKER: Yes, yeah.

STOURTON: ... almost everyone stays at school till they're 18; 50 per cent go to university. What would be different? We've tried that one for some time.

HACKER: Well, first of all, I think it's important to note that in the US as well we have led the world in the establishment of public education. What we've learned over the last twenty years or so is that you have to reach kids really early; that the most important period of development for children occurs very early in life. So in the United States, in particular, we have a very severe lack of universal access to pre-K education, and that seems to me a vital educational investment that needs to be made. The second point is college education. So if the college degree is increasingly what a high school degree used to be, the entry ticket into the middle class, I can say confidently that in the US we're failing to uphold the ability of everyone to have access to that entry ticket. So Britain may be doing better, but what I see in the US and I think we're seeing more and more across the world is that again that prerequisite

of opportunity is being privatised, more and more the cost of higher education being borne by loans. State universities in the United States are incredibly cash strapped and so what we're basically seeing is a stark disparity. The highest scoring students in the United States from low income families are less likely to complete college than the lowest scoring students from high income families. The last thing: it's not just about spending; it's about the quality of the education. If kids are going to really poor public schools, you're not providing them with quality public education. So I think there's a really important point here, which is that a redistribution agenda - one that says we're going to try to get things right at the input level and also create some bargaining power so that workers are getting more - that that puts a heavy onus on having the state run efficiently and effectively, and there is no excuse for poor public services.

STOURTON: All those things you said, not having failing schools - every political party would sign up to that in this country; probably the world over, I would imagine.

HACKER: (*over*) Well then let's pursue it. But I don't think that there's uni...

STOURTON: (*over*) And we've got to do all the things you're saying without spending money because we're in austerity.

HACKER: Ah! Well I don't think I've said that you don't want to spend money. I said that you overall, after an initial substantial investment to get the economy moving again, that you have to figure out how to reorder public priorities. But in some areas, yes you would want to spend more money and I would certainly invest more in early stages of people's lives.

STOURTON: You mentioned briefly redistribution of assets ...

HACKER: Yes.

STOURTON: ... and there is a school of thought that says if you're really serious about redistribution, what you actually mean is aggressive taxation of wealth.

HACKER: Yes.

STOURTON: Do you?

HACKER: Well you know I do think taxation of wealth could be part of it, but it's what you do with the receipts that matters. I mean to me ...

STOURTON: Well a lot of people would say it's the taxing that matters as well politically.

HACKER: It used to be that you could tax labour income and you would be touching most of people's compensation. Increasingly, people at the top are receiving their income in the form of capital gains. In the United States, we tax capital gains at a much lower rate than labour income and that should end. When you talk about taxing wealth, I mean some countries have very small wealth taxes and those, it seems to me, have worked relatively well. But to me what's really crucial is if you have any form of tax, it should be progressive, it should go all the way up the income ladder. People

who are super rich should pay a higher effective tax rate than people who are merely well to do. But crucial is what you do with it, right? Reducing inequality is not the end in itself. The end of this taxation is providing the funding for effective public services. One of the things that the public sector could do is encourage the development of assets for less advantaged citizens. And the numbers are truly staggering. In the United States, in particular, with the fall in housing values, we've seen a massive decline in the assets of the middle class. African American households, the typical black family has zero net worth. This is a problem we know from tons of research that not having basic assets means not being able to start businesses, not feeling the freedom to be able to change jobs. You know this was something that was actually eliminated the day that the coalition government came into power: they got rid of the baby bonds. And you know I do think this idea of providing people with assets was once a kind of left/right agreement, and I think what's politically difficult about it is it requires making long-term investments in people. And so we have a tendency in societies to eat our seed corn, and the minute there is a fiscal reversal we have a tendency to want to just suddenly use that for other purposes. But I do think that if we are going to be serious about remedying an equality of opportunity, we're going to have to think about assets like housing and educational savings and the like as well as income.

STOURTON: You also talked about living wage. You know the argument against that, which is that in a globalised world that's just not possible, it damages economic efficiency. What's your answer to that?

HACKER: Well there are two things to say. One is that the research on the minimum wage has come to the conclusion that modest increases in the minimum wage, certainly in the American context, have very little in the way of negative employment effects, and to be productive in the future we have to invest in skills, we have to invest in technology. The last point though, and perhaps the most important point, is the areas where the living wages and contracting requirements that would bring up wages and benefits matter most are the least traded sectors of our economy. You are not going to outsource the janitors who are cleaning up in the hospitals. They need to be there. So in a global economy, those are precisely the jobs that should pay a decent minimum and we should be willing as a society to pay a little bit more for those services so that the people who are providing them can have a decent standard of living.

STOURTON: I'm going to open this to more questions in a moment, but you talked in answer to one of the earlier questions about new ways of collective action, new ways of organising people to put pressure on companies and so forth.

HACKER: Yeah.

STOURTON: What's to suggest that that can work when all the experience of the past is that it hasn't really in this country? I mean the unions did extraordinary things and then were very badly tarnished by what happened here in the 1970s. Shareholder democracy doesn't seem to have controlled some of the excesses in boardrooms. Why do you think you can make that work?

HACKER: There are non-profit organisations and foundations in the US and in Great

Britain who are investing enormous sums in trying to deal with acute poverty and hardship to try to improve education with standards and the like. There's almost no investment in creating new kinds of collective political organisation. Unless we're going to give up on the idea that there are ties that bind us that are stronger than our link to each other as consumers or as occasional spectators at sporting events, we have to try to deepen and broaden civil society again. And the challenge is great, but we've done it in the past. And we are in a post-labour society in the sense that labour unions have lost enormous ground and if they're going to be rebuilt, they're going to be rebuilt slowly, it's going to take a long time. But we, I hope, are not in a post-civil society where there are both public and private organisations that link us together and allow us to solve problems together because the alternative, right, is that there's the Scylla and Charybdis of the state in the market. Civil society is the glue that makes public/private partnerships work.

STOURTON: A question right at the back. Yes?

LLOYD: Thank you. Hywel Lloyd, systems practitioner and policy implementer. We spend over £20 billion on housing benefit in this country. That could be worth three or four pence off income tax. Would you think that is a useful redistributive move? I've read and heard, but never found the evidence, that in 1973 in the three-day week, that's possibly the most productive time in British industry (*Hacker laughs*) and I wonder whether there's a redistributive device that's about the calendar? And then the very last one. If every primary school in Britain had a sort of predetermined place at Oxbridge and the other big institutions of higher education in Britain, would that be another redistributive device that would be useful? Thank you.

STOURTON: You don't have to answer all of those. You can choose.

HACKER: I couldn't if I wanted to, but I appreciate the ideas. So let me just say on the housing benefit. I came to the view that if there was an area that was crying out for public capital investment in Britain, it was housing, and that one of the sort of strange features of the current policy is that there's huge amounts being spent on housing but it's not actually providing people with equity, right? And so I would argue for rather than subsidising private housing alone, that there should be a combined strategy with a much greater emphasis on public investment. The three day week question, which I know you asked in jest, but you know there was a famous essay by Keynes where he suggested that by this time we would all be working you know fifteen hours a week because of productivity increases. And in the US, this is a particularly acute observation because if you count the increased work hours of women, we are the country that has seen the biggest overall increase or at least we've remained high in terms of overall work hours while many countries seem to have taken their increased productivity in the form of more leisure time. The one idea that I think fits in here quite well is the Germans' success with work sharing is something that I think has received much less attention than it should. In the US case, we actually have provisions under many state unemployment insurance programmes that would allow work sharing, and yet there's so little attention to this idea that it was never implemented; and it seems to me a tragedy when you have someone who's completely out of work in a context in which you actually could have kept people in the job for more limited periods of time. Flexibility in the labour force has been a kind of code word historically, right, for you know let's pay workers very little and give

them little job security. But I actually think the idea that workers are going to have much more unconventional career patterns as more older workers are moving into the workforce or as we're experiencing periods like today where there's actually a shortage of jobs, thinking creatively about flexibility there could be part of a predistribution strategy.

RUTTER: Jill Rutter, Institute for Government. I just wanted to ask you how predistribution would play out say in a bank. So you have a bank where an increasing share of income has gone to a elite cadre of workers, but actually what difference does predistribution make? They don't actually employ many of these lower paid workers that you're worried about, so what happens?

HACKER: Well, first of all, I think that this is a huge ... Jill, you're really highlighting a feature of the present economy in the US and Britain that makes predistribution more necessary, and that is the decentring of corporations. If you look at a company like Apple, right, very little of its workforce is in the United States; and those it employs in the US are pretty well treated, but most of its workforce is around the world. The reason I'm worried about pay at the top is not because I resent that there are people who are making millions and millions of dollars, but because it is distorting our overall economy. The kind of financial crises we faced are a direct result of a hands-off policy towards finance and a broken corporate governance system. The reason I'm worried about the middle is not because it's inevitable that when people do well that those in the middle do badly. It's because middle class workers aren't receiving a fair share of the gains of growth, and that fair share is something that's determined both by our economy and by our society. So we have to step back, I think, and ask a sort of fundamental question: what kind of society do we want to live in? Do we want to live in a society in which the very well off are cosmopolitans who can jet from one place to another; whereas more and more middle class workers are constrained, squeezed, worried, disenchanted spectators in the game of democracy that's increasingly played out with big dollars and broken political institutions? That's not the world that I think most Britons want to live in, it's not the world that most Americans want to live in, it's not the world I want to live in, and it's not the world that predistribution would create. Predistribution would really focus on creating a much fairer society before government even steps in.

STOURTON: That is probably a very good note to end it on. I'm sorry we've run out of time. There was a forest of hands up and my apologies to those of you who weren't able to ask your questions. Our thanks to our host, the Institute for Government, and my thanks to all of you who did ask questions because they were very pertinent ones. But, above all, thank you to our guest, Professor Jacob Hacker, Director of the Institution for Social and Policy Studies at Yale. Thank you.

HACKER: Thank you, Edward. (*Applause*)