Why is economics important? (And what can pirate ships tell us about effective organisational structure?)

In this episode of Warwick Econ Sounds, we're meeting Dr Arun Advani, Assistant Professor of Economics and Impact Director of the CAGE Research Centre.

We'll be speaking with Arun about his involvement with the Discover Economics campaign, the benefits of economic thinking, what pirate-ships can tell us about effective organisational structure, how we have been measuring inequality wrong, his top tips for getting research in front of policy makers and why economists shouldn't work alone.

Dr Advani, thank you very much for joining us for the Econ Sounds Podcast. To start with, can you tell us a bit about Discover Economics? What's the campaign all about and why is it important?

The Discover Economics Campaign has two goals in mind. The first is, if you look around at the current set of people who are economists, we're not collectively a very diverse bunch. And that's true whether you look at people who are currently leading the field – either as academics or in a policy space or working in companies – or whether you look at our undergraduate gender and ethnicity breakdown, or the proportion of people coming from private-school versus state-school background. Noting that it doesn't look like things are naturally diversifying as time goes on, we thought that we ought to do something very active to try and change that.

We spent some time talking to school students from various backgrounds to try to understand a bit about what the barriers were. And that leads us to kind of the second goal for Discover [Economics]. We discovered that people have different ideas of what economics is really about, because economics is not on school curricula, so students don't tend to have a good idea what economics is. They think of it somehow relating to finance and money, some of them will tell us about inflation and say they don't really know inflation is, but they know that's a relevant word. And they don't really have a sense, actually, that what we are is an applied social science trying to understand the world, using data and quantitative methods, but to really think about all of the kind of problems and issues that affect peoples' lives.

For the campaign, firstly, we would be a success if we could firstly get people to understand what economics is really about, so they can have a better sense of how to engage with it and what kind of things we're doing. And then I think – because of the fact that currently economics isn't available to students from most schools, they don't have a sense for what they could do with it and therefore aren't currently going onto University to go and study it – it would be good, as a second step, to try to diversify the set of students who have heard about it and therefore can go onto study at University. That would be the other goal we'd have.

So you're finding in a way that people have a stereotype idea of what economics is all about. Is it also a challenge that people think it's just you know, endless maths and that's again something that perhaps puts off certain kinds of student? Is it really just more about not knowing what it is that economists actually do?

I think one of the difficulties again with the way that economics is probably taught in practice, is it's taught in a fairly mathematical way. And the maths and the numbers do help, and are useful in various kinds of ways. But a lot of what we do can be done without the math, and you can understand a lot of the issues without seeing any maths at all. So I think there's a bit of a risk because a lot of people who are economists now are very good at maths and understand how to do things mathematically, so teach it that way. And because mathematical thinking does help at certain points, it can sometimes be over mathematised, and it doesn't get across to people that really what the kind of questions were thinking about are much broader than just a kind of applied maths, and actually a lot of the thinking and the processes that you need to do to answer those questions can be done without any very heavy maths. If you want to go on to further research as an academic, you probably do need some of those more advanced levels of maths, but you can certainly do an undergraduate without being able to do kind of extremely complicated mathematics needed to understand all of the details. So it does also depend a bit also on what you want to go on to do. If you go onto a quantitative job which a lot of economic students do, but not that all future students ought to, but if you're going onto quite a quantitative job, that maths training can hold you in good stead. But the way of thinking that economics kind of provides is useful more broadly, even without the mathematics.

And what is that way of thinking? What's that unique sort of approach to problem-solving that you think economists have?

I really think fundamentally, economics sees that individuals (and other what we think of as economic agents, that can sometimes be companies), are making decisions, where they are making trade-offs. They're seeing the costs and benefits of the decisions they make, and they're making those in kind of a marginal way. So they're thinking, given the state of the world that I am in, given what's currently going on, what are the additional things I want to do is spend slightly more time on or slightly less time on.

We always think about money, so obviously slightly more money on this and less money on that. But also the way we choose to spend our time. And the way we choose to spend our attention; there's a recent behavioural kind of theme in economics trying to understand actually, given we have limited attention spans, how do people choose to allocate their attention to different kinds of things. That feels like how we think about our own world when we're trying to decide whether to watch a bit more TV or should we try and spend a bit more focus on some kind of essay that I have to write, or in my case an academic paper. But it is also relevant when you are a student going onto work, at some point, if you become the CEO of some organisation, you have to think of how to allocate your attention between all the different business units in your company or all the different competing interests. And so these are real practical problems: resource allocation is fundamentally a key part or an abstract way of thinking of what we're doing. We're trying to decide how to make these decisions and I think the economic helps you try to understand how you can get towards what seems like a better solution, from what might start as a fairly arbitrary place to be.

The other thing I think that economics gets across is it's really fundamentally about information. People have this idea that economists care a lot about markets, and the sense in which we care about markets is that we think of markets as a good way of solving really what is fundamentally is an information aggregation problem.

So think of a world in which I knew everyone's preferences were. If you become an undergraduate economist and you spend some time kind of constructing supply and demand curves. What you do is say, well, let's take a whole load of people and let's figure out what their utility function looks like - that is to say, what their preferences are - and then add up all of those preferences to understand at a given price how many apples would each of them buy. Then we'll look at all of the sellers and say, OK, yeah, at a given price, how many apples would they like to sell? And then we kind of supply curve and a demand curve and say OK well this is where the two things meet. And so what you could do if you were the government, is to kind of add all those things up and say OK, now I know what the price should be I'm just going to set that price. Now the thing is, you've had to go and figure out for all of the suppliers and all of the potential purchasers, what are their preferences? what do they look like? and assume they can even write them down and describe them to you in some way. And having done all that, you add all that stuff up to find the price - that's obviously a very complicated information problem, even for a single market. And clearly there are many markets, many goods, many things interact with each other, because actually, when I think how many apples I want to buy, I'm actually thinking how many of this kind of apples I want to buy compared to that kind of apple, depending on what the relative prices of them are. So, it's a very complicated thing for someone to kind of centrally plan. But the joy of the market is that you don't have to plan it, you can allow people to make their own individual choices and to think about what how they want to make these trade-offs, and information is aggregated by the price mechanism, so that you can see what it is that people prefer, and if something if there's something that people want a lot of, prices relatively speaking, go up. And that means that suppliers should, if they can, try and provide more of this if it's profitable for them.

Of course, that's not to say, the markets are perfect. I should just remind you some obvious caveats. There are externalities - there are things that the market won't price effectively - the obvious thing is carbon for example, which in the current environment is something we care a lot about. Another thing in actually, in the very current environment of coronavirus, that is a natural externality is when I want to go out and sit on the beach, I'm creating an exclusion zone around me, of 2 metres and all around that no one else ought to sit in because they might breathe near me. And that's kind of a risk at the moment, so I might not take that into account when I'm doing that. If you're in my drive to the beach, I'm taking up space on the road and that's creating congestion for other people as well. You're not **in** traffic, you **are** traffic, and so people don't take into account all of these externalities. So one potential solution to some of those things is to think about pricing them. In some cases, pricing them is too complicated, it's just too difficult of a problem. It would be too difficult to say well how much does everyone value sitting in a particular place on the beach probably in practice - so instead what we do say there's just a regulation that says you can't go to the beach right now, for example. (I'm not quite sure what the current regulation is, because it changes every week and by the time you hear this, it could be anything else, but fundamentally, there are these kinds of issues.) So one caveat certainly is externalities. Another is market power. An example of market power is that there it is only a small number of supermarkets. In my area there are two supermarkets nearby, and so when I have only those two competing against each other, they know if their prices go up it's not like there's space for a third supermarket, just to pop up and say I can undercut those other two and I can charge at a lower price, and so another reason the competitive market might fail is that they have the power to be able to increase prices beyond what it cost them to produce something, because they know that I'll kind of still have to buy from them because they're the only two places I can choose from.

And how do you get these potential students to think about these things? Is it sort of, do they have lectures, or is it sort of hands-on modelling or sort of games that you get them to do?

Yeah, kind of a mix of all of the above, so we – assuming that at some point social distancing ends – we were going into schools. Actually sending University students into schools, so if anyone listening to this is interested in getting involved, get in touch. Training up university students to go into schools and deliver kind of small classes, giving examples of what economists do. So, for example, you could fit into a maths class and one of the things you learn in GCSE maths is, what a quadratic function is; basically, a line that increasing but at a decreasing rate. So if that's what you're imagining, you could give that an economic example of that is that happiness is increasing with money, but it doesn't increase at constant rate, at some point you kind of more money doesn't give you that much more happiness, and so that's an example of something that economists also think about. And then you can broaden out to a wider discussion of why that matters, why economists think about it, what that means? I mean that that kind of function tells you that if giving more money rich person doesn't add to their happiness as much as giving more money to a poor person. If you're trying to maximize the welfare of everyone in society, and you're just trying to add up people’s happiness, then what you want to do to take some money away from the slightly richer person and give it to a slightly poorer person because taking it from a richer person doesn't cost them a lot of happiness but giving it to poorer person, gives them much more happiness. So that's one example.

Another is that you can go into say Business Studies lecture where people think about organisational structure and say OK, well here's an example of organisational structure, that is borrowed from the CORE-syllabus by the way, for anyone who’s used CORE. Organisational structure: think about pirate ships versus navy ships. Navy ships are very hierarchically organised. The captain of the ship, made many, many times what the lowest ranking person on the ship is paid. On a pirate ship the captain’s paid about twice what the lowest rank is essentially “paid”. “Paid” in quotes in terms of the bounty that they get. So what leads to those different structures? Well, what think about what the incentives are in a navy organisation versus in a pirate-ship type organisation. As we start having a discussion about the incentives and what might lead to this, we start realising well what's economics about. It’s that incentives matter, what ways you can use to affect the choices that people make? That's what economists are thinking about.

So really, really rooting in the real world and those kind of practical examples.

Yeah, we do some of that. We have kind of “Discover Economics” days where school students will come to a University and spend the day with us, and we have kind of fun games as well as a couple of lectures. Giving examples of things economists do, to try to give them a sense of where they can go. Talk about what kind of careers economists go on to have, and what kind of careers economists *could have* that we currently don't. So they could go and do if they wanted to. It might not be that the majority of students currently choose to take in their route out of economics but there’s obviously lots of things. If you do a quantitative social science degree, you have the skills to do all kinds of jobs. Currently, it's true that a lot of people do like to go into say, accounting or finance or business, but there are many, many other things you could go and do and so making it clear that you have the skills to and the ability to be employed in these other areas should you want to, is also an important part of what we get across. And then we have a website, a presence online to try to get the message out there - something more broadly and to create a kind of clearing hub for people to see what opportunities are out there, when are they going to be other kinds of taster of days or internship opportunities and so on, because these are all other useful things that we think is helpful to provide in the kind of single one-stop shop.

This sounds like a full-time job and you’re doing this on top of your own research as well. What sort of drives you to take this on and to put this effort into, you know, recruiting the next generation from a broader talent pool.

Well, I mean, I think of it as something I care a lot about. I also care a lot about public policy. Economist have really a powerful role in public policy. Even if you’re a person who thinks, well, I don't really like economists - I think they're not as good as - pick your other field, there is a government economic service. There is no government geographic service, government psychological service, government sociological service or whatever else you feel like should compete with us. So in practice, economists do have a special role in policy-making in this country. They also obviously are central at the Bank of England. They are also important all kinds of other organizations. So in practice economists have now and are going to continue to have an important role in British society. As long as that's true, it's important it should be important that economists reflect that society and can understand the issues that matter for that society. Letting it not obviously the case right now, but I think that that that provides a kind of very clear reason why we need to think about who economists are, because they're going to have such an important role in shaping what society looks like in the future.

Thinking about your own work on public policy, can you tell us a little bit about what you're working on and what challenges you're facing at the moment?

Yes, it is interesting because I often talk about kind of all the exciting things economists do how we think about happiness, and how one of my colleagues went into the files of the Latvian KGB to try and understand history of that and the incentives there, other colleagues of mine do all of these cool and crazy things. And then I'm as boring and standard an economist as you can think about, and yet I'll explain to you why I think it's still quite interesting.

So I work basically on tax. It's hard to get people excited about tax, but working on tax using tax data from the UK tax authority, I'm able to answer questions like what actually been happening to inequality in the UK. If you care about inequality in the UK, what's the best way to look at what's happening to incomes? Well it's actually the incomes that people have to report to the government. That's the best data you're going to find on what's been going on. And in our work on that, firstly we've been showing recently that actually the trends in inequality that people have seen previously, actually even just in straightforward income inequality, have been mis-measured because of some of some issues around the way the data was being constructed previously.

Then the other thing is nice with the with the tax data is we typically in the UK have been thinking about inequality and here what I mean is, in particular, concentrations of income. So we think about, let's say the top 1% share: that's the share of all income in the country that goes to the top 1% of people, and then you can think about even smaller groups like the share that goes to the top of 0.1% and so on. But we often think of those measures facing what we're caring about as income. Income when we define it in those contexts is typically fiscal income. That is to say, income that is assessable for income tax. So there's a set of people, particularly those towards the top of the distribution who actually get a lot of the money that they receive in practice, not in the form of taxable income, but in the form of capital gains. So let me give you an example. Suppose that I set up a small company and I instead of getting paid directly as a one-man-band, getting paid into a bank account and having to declare that income tax, I get paid into the company and I can pay myself through the company. Then instead of taking a salary out of that, what I could do is to take dividends. Dividends are taxed at lower rate, and so I can get a lower rate of tax by instead of paying myself as income, I get a relatively low employment income directly, but what I do get is income in the form of dividends that's got that has a lower tax rate. Or what I could do even further is not to get paid as dividends, but just keep money in the company and then leave it store in the company bank account for a few years. After a few years I decide OK, I'm done. I want to move on to the next thing I'm going to dissolve my company. That process of dissolving my company, well, I started company is worth nothing. It's now worth whatever it's worth. When I dissolve that company, the gain in value of that company is an asset that I own, I'm the only shareholder of this company. A gain in value is taxed, as capital gains. Capital gains have a separate tax rate system. The lowest rate is 10%, though the central rate is 20%. So I'm now getting paid either 10 or 20% depending whether I qualify for special kind of relief that gave me the 10% rate. And that's obviously much lower than the rates of income tax that I would have been paying where you on if I if I had a kind of normal-ish income, I'd be paying 20% plus the National Insurance contributions of 12%.

Is that partly to reward the risks that you would have taken on in setting up that company? Working for yourself as opposed to working for somebody else is that part of the logic of this lower tax rate?

It's hard to think about what the logic of the lower tax rate is. It is a difficult one, but I think that the, what we showed in our work is that more than half of all of the capital gains that are received are essentially repackaged income, that is to say stuff that would normally look like it's something that should be taxable under the income tax schedule, but what I've done is to move it into a form that gives me a lower tax rate. So that's clearly not something we want to become better at. I think what people imagine when they think about capital gains, they imagine someone who buys a second house owns it for a while, sells that later on and the change in value there is a capital gain – I mean actually even your own house is buying houses and selling it later is a capital gain, although we give complete relief on the capital gains tax, so there's no capital gains tax on your primary residence. Any further houses that at any point have owned as you buy and sell them, you pay capital gains tax on. People imagine that that's really kind of a substantial part of gains, it’s the example people often come up with. People imagine that substantial part of what capital gains is but it’s actually kind of tiny fraction of all gains that come in that form. And the kind of logic, I guess one of the logics for charging a different rate on capital gains is one thing you don't necessarily want to tax is inflation. Suppose I buy a house, and I hold it for 20 years and I sell it and all of the increase in value is just inflation, there was no real house price increase, it was just that inflation over time. The value of the house at the end is a is a larger number, but it's just an inflationary increase. We don't really want to tax people for inflation, but that’s not, that doesn't seem like a good reason. So what we used to have was a system, in 1988, Nigel Lawson introduced a system where we taxed capital gains at the same rate as income tax, but we have a rate of return allowance, basically a way, an indexation allowance, which is basically a way to kind of take out that inflationary effect first. But then through a series of reforms, there were kind of different, a bunch of different changes that were made to it and eventually it's been now taxed at a much lower rate. And then there is no then separate indexation type allowance. But it's not obvious that this is really kind of solving that problem because what it's doing in practice, as we've seen, is leading to lots of people using a way of substituting income where they can into a form where they can get taxed at capital gains tax rates which are much lower.

And so one of the things you've been highlighting with this research is that potentially a pool of available tax revenues for funding the recovery with is that right?

Well, I mean, there's certainly a lot of money that's there in principle. So in one of the pieces of work we did, we just show that not that this is necessarily what someone’s going to do, but if you were to increase the rate of tax on all gains to the same tax rate as headline tax rate. So because if you imagine all of the people who are receiving money in capital gains instead, you treat it as though it were equivalent to income instead. And there were no particular special relief on it. If you were to do, that and to do it also for dividends and to basically to remove all relief, you get about 20 billion pounds of revenue from doing that, assuming there are no behavioural effects. Now behavioural effects are obviously important. So you need to also think you were going to try and do a direct calculation, you’d need to think about exactly how people would respond to doing this and whether they would, for example, work less or whether we change some other behaviour they're doing. You also need to kind of take into account the fact you wouldn't necessarily want to do all reliefs because there are some reliefs that we think are there for particular reasons, but I think what it highlights is the extent to which there's lots of kind of money out there that's kind of, it's a 20 billion pounds equivalent to raising an amount of money is equivalent to raising the basic rate income tax from 20% to 24%. You'd get the same amount of cash in the static calculation, so it's sort of, given that we think of raising the basic rate of income tax, or equivalently, raising VAT from 20% to 24%. So, given we think of those kind of big, broad changes that would be raising lots of money, although they don't feel like lots of money in this new coronavirus era. There are kind of serious amounts of money there that are available so at least it means that there's an important case to answer if you think that reliefs or any of these other things are important and worth preserving. Given how much they're costing collectively it's worth spending some time actually calculating how much money there is. Kind of that's going to be spent right now by allowing these things to exist and deciding whether you really think that's worthwhile.

And obviously, there would be a very big political issue. That is at the end of the day. It's a political decision isn't it? Do you? Do you see your role as the as the economist as the researcher here in in just well not just? That's not right, is it? But you're doing the analysis and you're saying, look, here's what we've found over to you guys. You want to raise some money in a fairway? You are you sort of informing the politicians. Or do you see? Do you see yourself having more of an activist role?

There are definitely academics who do a bit more direct campaigning. I mean I see more of an informational role. I mean ultimately politicians will make whatever decisions they kind of want to. I think what I'd like to do is to be informing both them and also the public about the choices that we are making and what the implications of those choices are. Ultimately politicians don't have to decide and the public have to decide whether they think those are the right choices. Kind of like when we make decisions about what the kind of distribution of income is in the country and what we do to the different income tax rates. I don't think it's for me particularly, or that I have any special knowledge on what we ought to do in terms of how high the top rates of income tax should be in any fundamental sense because that's the political choice. What I can say is, here's what the effects are of making the choices we are making and here's what would happen if we were to make sort of the alternative decisions, and I think that then gives politicians and the public the information they need to hopefully then kind of weigh those things up, because in some cases we make choices without really knowing that we made a choice or what the impact of that choice was. So I think at least understanding that. Then give us the kind of information we need to make better choices potentially,

And what sort of channels do you, are you using to spread the word? You've been to party conference haven't you? Did you find that as an effective way of raising awareness among politicians?

Yeah, it certainly true that among academics – even as one is not an activist – I am fairly active in trying to communicate the work I'm doing. Last year I went to the Labour and Conservative Party conferences to present work I've been doing on tax audits. So again doesn't sound super exciting, but actually what we were working on was trying to understand the amount of money, about 35 billion pounds a year, of tax revenue that never gets collected. Now that's about 5 and 6% of all of the tax revenue that's owed and would make it equivalent - if there was like a kind of magic button you could press that brought in all of that tax money - it would make it equivalent to sort of the 4th or 5th largest tax in the country. So there's a serious amount of money, that's sort of worth spending some time thinking about.

Now obviously that comes, there's lots of different sources from which that money isn't arising, and so we have to think a bit about how you tackle each of those individually. The biggest source of both quantitatively in terms of the amount of cash and also in terms of the what share of all money is missing is from is from self-assessment tax where people have to fill in the form to say this is what their incomes were. So if you are an employee, you work for one organization, so I work for Warwick, then they pay me they send me a payslip and on the payslip it says here's how much money we didn't pay you because we've already directly transferred it to the government for you/ And the HMRC knows that's this is how much tax is paid offset against my salary. But if instead what I had was kind of business that I set up own organization, some people paying me directly, I have to report to HMRC this is how much money I got and this is how much tax I owe you and I have to send them a cheque, or an electronic cheque, presumably, of the money I owe.

So what we show is that actually, firstly that there is a substantial amount of non-compliance. About one in three people who fill this form in are actually under reporting their incomes. That most people, when they are under reporting, it's by a relatively small amount. It is actually just a small share of people, So about 6% of the people who are non-compliant or 2% of the entire self-assessment population, who owe more than half of all of the money that is not paid. So it's really the kind of this small slice of people that you really want to focus all of your kind of compliance work on to try and make them pay. Then the most obvious kind of channel that the tax authority has tried to make them pay is to engage in tax audits where effectively they write to them and say, could you tell us, could you confirm to us everything that's on your tax form? And then once you send us kind of paperwork to try and verify that if we look at it and we can't understand that exactly lines up with everything we need, maybe we will come out and talk to you and sit with you and look through your paper-work with you and try and make sure we're kind of happy with everything that you said here. And maybe it turns out there are some things you forgot to declare. Or, “forgot” in quotes at least. I mean, in many cases they are genuine mistakes, but there are lots of cases presumably that aren't. What I show is not only do you bring in a lot of money by doing that, but actually in future years those taxpayers behave better. They pay more money, for five to eight years afterwards. That means that audits are much more profitable than we previously thought. I then spent some time kind of talking to people about that. My work was in the newspapers a few times, and I went to party conferences to present this work, and that actually got it into the kind of sights of - within the Conservative government at the moment - got in to the sights of the Financial Secretary to the Treasury. And om the most recent budget they passed a measure to give more money to the tax authority so they can do more of these kinds of tax audits, because they've seen that there's kind of solid academic work showing these are very profitable from a governmental standpoint. And at the same point, it is getting money from people who already owed that money and weren't currently paying it, and so that's kind of a relatively easier win. It's sort of hard for a special group to stand up and say, oh, we really think it's important that we were not paying our taxes and we should be allowed to continue not paying taxes. And so I think there's a relatively easy win in that way. I mean, I'm surprised it took as long as it took, but it did happen.

But it must It must that but still be quite exciting to know that you've shaped a little bit of the rules and legislation that we all live by you know in a positive in a fair way.

Yeah, it was definitely very exciting I was very happy when it happened and then being able to see that the government scores four billion pounds in revenue and then come in as a result of my measure was definitely very exciting.

And you weren't able to get a sort of Commission on that were you

I was going to say (laughter) to have patented the idea and got 1% of four billion would be very nice..

Finder’s fee (laughter) so that's been actually positively, you you've done the research you've been able to see that research actually implemented into practice. Is there any sort of top tips you would give to colleagues who are trying to do the same trying to actually, you know, interact with it to try and get themselves heard by decision-makers?

Yeah, I think there's a couple of things. The first is, it takes a lot of time, so you have to be willing to engage a significant amount of time that you could otherwise be spending. You have to care about it because you're going to spend time going to events or talking to people when you could otherwise be doing whatever is your next piece of research and your next idea that you have, and so there's - I said economics is all about trade-offs - and there are clear trade-offs here. So if what you value most is just trying to publish another academic paper, then this is not going to be a useful thing to do because I think some people have the idea, Oh well I did the research and I sent people the academic paper I wrote and they didn't read it or didn't look enough details of it. So now I'm kind of done. It is not my fault. It does take a lot of time to actually engage with people, and it also does require writing different versions of the work you’ve done. As long as writing, it feels almost kind of almost pointless. Because it’s like I've written that and now I’m writing again in slightly different form and now another slightly different form. You know that the example I gave with my work on audits there’s an academic paper, then there’s a couple of different kind of short form versions that are policy brief type objects. Then there’s I wrote a couple of different newspaper articles for it and I think I must have written at least 1 blog post for it. But it was lots of different versions where you're writing essentially the same kind of thing but for slightly different audiences. And so you need to think about so what is this audience interested in and what amount of detail they're going to want and how do I pitch it for them? And that does take a lot of time and it feels almost wasteful when you could spend your time doing the next thing, but if you don't do that then it is not surprising that people aren't going to pick it up. They also are busy. They also have trade-offs, and then the idea of driving into a 50-page document paper with long appendices to try to figure out what the policy idea is just not very appealing. So you do need to spend the time doing that and then giving presentations to them and then them realizing that what they want to do is actually put you in touch with one of their colleagues who is more interested and can actually do something, and then you have to do a presentation to them and then they pass you on again. It is really an investment so you have to care.

And you say, time consuming when there are many other demands on the work that you are doing, what's the next mountain ahead? What's what are you working on that's at early stages?

Well, the kind of big Mountain is a project which I'm running with Andy Summers at the LSE and Emma Chamberlain, who’s a barrister, on whether or not the UK should have a wealth tax. So we genuinely very open to this Either way. a wealth tax would be a tax that says some percentage of all assets or some subset of assets will be paid every year to the government. There’s lots of issues firstly is like, economically, is that even a sensible way to design the tax. And then there's lots of practical things if you thought this was a good idea, if you thought the public were behind it. So we've got some work IPSOS MORI and an academic from Birmingham are doing, looking at the kind of public attitudes to it. Then what will the kind of practical things like- How would you value all of the assets and presumably you wouldn’t revalue everything completely every year, but what would you do in practice to do that? What do you do about enforcement mechanisms? What you do about the fact that people who have large amounts of wealth but relatively low income so they kind of proverbial Granny in who has a big house but has no longer got much of an income. And what do you do about her, and how many of those kind of people are there? And there's a whole lot of issues to think about, so I think it's both not obvious that in theory it’s good idea. And it's not obvious in practice it's possible, but there are reasons a lot of people who have been interested in it, and I've been thinking about it for a while now. In terms of promoting it, particularly US - when Elizabeth Warren was running for president, various Academics had written a proposal for her as to how a wealth tax could be structured. And the other extreme, Switzerland has a wealth tax which Rather than it being focused on the billionaires everyone pays on assets above 100,000 roughly 100,000 euros. So there are very different ways of designing wealth tax, so it doesn't have to be a soak the rich type of structure at all, and certainly if we if we come down thinking that a wealth tax is possible, we will be thinking about well what are the limits to wealth tax, but will also not intend to say if it is a good idea that it should be applied at this particular rate and only on the super-rich or anything like that or that it should be applied to everyone. I think our goal, as I said earlier, I think politicians make those kinds of choices for us, it's more I thinking what the space of things that are possible and reasonable. So it might be that we say well, you can't have a wealth tax that starts at only £20,000 because there's too many people who are covered by it and it's too complicated to value all of those assets and the amount of money you would get from it is too low. It would only make sense to start at some higher threshold, and that's the kind thing we might say if that's what we find when we're trying to do design work for it, but I think for us it's ultimately about trying to work out in principle is it of interest. How could it work? What would the issues be? And then to kind of deliver that against the politicians for to them think about what they want to do with in practice?

Great and very timely with either there's some big questions being asked now aren't there about how to fund the recovery, and so perhaps there will be a an open door or open ear perhaps the Treasury to hear those conclusions.

Yeah, I think it's sort of, it's a time in which people are starting to have these big ideas on tax and try to think what is going to be the solution? Right now, I think they haven't figured out how to pay for any of the additional spending that's been required around coronavirus and it's probably the right decision, not the not the time to start thinking about raising taxes when we're in the middle of an economic crisis. But ultimately we are going to have to start thinking at that If we're going to pay for the better public services and the levelling up, building back better that various politicians have been talking about. All of those things do require more cash at some point and so then thinking well what, what does that extra money look like and where are you thinking about getting it from? Are you thinking that it's going to be, raising say VAT or basic rate of income tax or higher rates of income tax? Those are kind of the classic options that people have come to normally, but I think there's a bit of a recognition that , those well firstly, I mean the Conservative government originally when it has its manifesto, had ruled those things out. Obviously, I'm not sure that anyone would feel like they needed to hold them to that manifesto in the current crisis, that I think wasn't particularly on anyone's mind at the time that manifesto was written, but they are open to thinking about alternative choices and focusing on other things that haven't necessarily taken as much, haven't had as much attention previously.

Great no, thank you, I think that's just really interesting, and it's a real example of where we came in of economics being that discipline that provides the details and addresses the questions and really helps people understand what choices are going to be ahead of us.

Yeah, I should say actually by the way, as part of that, economics - at the same time as being the place that can make those decisions - economists don't and shouldn't work alone. So my co-authors are both lawyers. On the project overall we have people who are in social policy, who are in law, who are in accountancy, who are in public attitudes, and Economists of course. it is kind of a broad range of people who are involved in this project, because it's only way you can impact and deliver these political kind of things. I think that's one of the risks sometimes is that Economists can come up with like here's an economically beautiful most sensible idea without, then also interacting with people in these other spaces who also have their own kind of points to make. For example, I mean one of the things that economics is not always great at doing at least academically is thinking about well fine this works ideally in principle, but what about all of the administrative hurdles that come from implementing this in practice. Those administrative hurdles create real cost. That means that, for example, you couldn't, I think genuinely you couldn't think of having wealth tax just after that, say 5000 pounds, because clearly there is way too many people who have assets about 5000 pounds. The administrative hurdles would will be far too large. Now I think that's so obvious that I don't think anyone needs to be told it but there are all kinds of other administrative hurdles that exist, and so even if you look further up for wealth tax or start looking at some other tax reform sometimes those things aren't fully considered, and those are important to take into account when you're trying to design public policy.

Great and if I if I'm going to put you on spot with one final question. If you were doing the interviewing, who you would want to have in the hot seat if there an economist living or dead that you would like, you would want to be talking to you about their work or about what their approach.

Now there’s a good question. So not at all in my field, but I think I would probably go to Frank Ramsey. He was an economist at Cambridge and he died in early 20s, so he basically wrote 2 papers that are related, that are theory. More theoretical than my work, but that are kind of major advances in thinking. One paper is on optimal growth and the other paper was thinking about how do you design taxes under particular constraints. It is that basically thinking about what's the right way to change prices for different kinds of goods, if you're trying to raise money while minimizing the substitution effect that created by people, by distorting prices. These are two kind of very amazing papers that that kind of fantastic and having said economist don’t have to do maths these are very mathematical papers, but they're both very beautiful and I always wonder, given how young he died, what he would have done? He died at the age that most of undergraduates are just about graduating and he’d written these two papers which are so fantastic? So I do wonder what would have happened if he’d had another 50 years of career. I’d be interested to know what else he would have been thinking about and what else he would have been working on.

Where his work might have gone. Wonderful, well thank you. Thank you very much. It's been really interesting and no it's been fascinating. Thank you very much for making time.

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