Economic relationships and health inequalities: improving public health recommendations

Andrew Sayer[1], Gerry McCartney[2 *]

[1] Professor Emeritus, Department of Sociology, Faculty of Arts and Social Sciences, Lancaster University, Lancaster, United Kingdom, LA1 4YD. Email: a.sayer@lancaster.ac.uk.
[2] College of Social Sciences, University of Glasgow. Email: gerard.mccartney@phs.scot.

* Corresponding author

Abstract

Policy recommendations which aim to reduce health inequalities often focus upon improving the incomes, working conditions and physical environments of the most deprived groups in society. We agree with these recommendations but argue that they are insufficient to reduce health inequalities because they fail to address the economic *relationships* between social groups that lead to health inequalities and which perpetuate them over time. A comprehensive programme to reduce health inequalities will require policies that address the numerous ways in which economic resources flow from poorer groups to richer groups through the design of the economy. In this commentary we describe key economic relationships between social groups that lead to inequalities, namely rent, interest, capital gains, profit, monopoly and speculation. Addressing these causes of economic inequality in recommendations to reduce health inequalities should be considered by future research in this area.

Background

Health inequalities can be defined as "the systematic, avoidable and unfair differences in health outcomes that can be observed between populations, between social groups within the same population or as a gradient across a population ranked by social position".[1] These inequalities, most commonly measured across national populations ranked by area deprivation,[2 3] educational attainment or occupational social class, have remained high on most measures over the last 40 years across many European and North American countries.[4 5]

Although health inequalities are increasingly understood as being caused by inequalities in income, power and wealth,[6 7 8] the policy recommendations and (especially) government responses to these inequalities often fail to understand and address the social and economic relationships that underlie inequalities in income, power and wealth, and the ways in which economic resources systematically flow from poorer to richer groups through the design of the economy. In effect, they treat the incomes of different groups as independent of one-another. The economic relationships that we go onto describe below exist at different scales, from local to global. These economic relationships will also have intersectional implications as the myriad of social class mechanisms and discriminatory structures in society lead to different population subgroups disproportionately occupying different economic groupings.[9]

The lack of a relational understanding of inequality leads to policy recommendations and policies aimed at bolstering the incomes or wages of the poorest groups. The archetypal example of this in the UK was during the period 1997-2010 in which poverty rates on most measures fell substantially, yet income, wealth and power inequalities increased (as did health inequalities on many measures).[10 11 12 13] Another more recent example is the recommendations from the Health Foundation and Institution of Health Equity on 'Building Back Fairer' from the COVID-19 pandemic. Although these are otherwise commendable, they do not sufficiently address the economic *relationships* which reproduce economic inequalities.[14] Hence, any mitigation of economic and health inequalities produced by such policies would at best be modest and temporary.

In this commentary we describe the key economic and social relationships that lead to economic and health inequalities and suggest policy recommendations that would more sufficiently address them. We conclude by encouraging health inequality researchers to consider more closely how their policy and practice recommendations might address the relevant social and economic relationships.

A relational view of inequalities

In earlier work we have described the series of economic relationships between groups of people with more and fewer economic resources;[15] and more generally between groups with more or less power.[16]

Those who own assets that others lack but need, like land, buildings, money and the equipment needed to produce goods and services (e.g. computer software, machinery, etc.), can charge for their use and receive passive or unearned income as a result. Such payments are not made in return for the provision of new goods and services but are forms of economic rent based on minority ownership and control of existing assets. Mere ownership produces nothing, yet it can provide a source of unearned income at others' expense – mostly those who have to rely on earned income from producing goods and services. Of course, ownership of such assets varies across time and place, with many countries still maintaining public ownership of many economic sectors, whilst in others there are mixed economies in which workers and tenants have substantial ownership stakes. It is where the ownership of assets becomes concentrated that economic inequalities widen.

There are several ways in which economic rent – payment for things without any corresponding production costs – can be extracted.

1. The most familiar case is *rent on land and property*, where anything paid to the owner in excess of construction, maintenance and management costs is pure economic rent – a transfer of money from the propertyless to the propertied - reflecting power, not contribution. Similarly, rights to mineral and energy resources afford major opportunities for rent extraction.

2. In the case of debt, *interest* (money's rent) can be charged for the use of the asset. This results in net transfers of money from those who need to borrow to those who have spare money, and especially to banks, which are allowed to create money as credit.[17] In the UK, only households in the top decile of the income distribution receive as much or more interest than they pay out, while the rest pays out more than they get, so money is transferred from those at the bottom and the middle upwards to the affluent.[18] Furthermore, interest rates for the poor are much higher than for the well-off. As wages and salaries stagnated from the 1990s in Britain and many other countries, and labour received a declining share of total output, consumer debt was encouraged in order to boost demand. UK household debt rose from £600bn before the 2008 financial crash to £1,669bn at the start of 2020.[19] In the UK the total stock of household debt grew as a percentage of GDP from 62% in 2000 to 93% in 2007, then fell to 86% after the financial crash.[20] The UK government further assisted the transfer of money to the top by first imposing student fees and providing loans and then selling off the student loan book (worth £7.2 billion) to private investors – mainly pension funds and hedge funds – for £3.6 billion), so that it now serves as an asset providing a long-term stream of unearned income.[21]

Interest payments are the feedstock of the financial sector and as the 2008 financial crisis showed, any drop in debt repayment threatens its viability, and with it many of the pensions invested in the proceeds. These pensions mainly benefit better off pensioners. Since then, bailouts for banks and austerity policies have socialised the costs of the financial crash and reinforced debt-dependence.

3. Those who own appreciating assets can also benefit from *capital gains*. A house may increase in value even if no improvements are made to it. If the owner can realise these gains by selling it, this is another form of 'free lunch' obtained at the expense of others, for the money obtained in this way can only have value if there are goods and services it can buy, which others have to produce. The same goes for capital gains from other assets, such as shares.

   Together, rent and interest dominate the income of the financial sector. Most bank lending is for buying existing property in the expectation of rising property prices, and this itself fuels house price inflation, benefitting the propertied at the expense of the property-less. Coupled with the shrinking of the council housing stock, this has resulted in the rise of 'generation rent' and the promotion of buy-to-let housing – a form of rentiership in which the rent paid by the tenant covers the interest on the landlord's mortgage. Between 1995 and 2015 the ratio of housing costs to income rose from 14% to 17.5% for high income households, from 21% to 24% for low income households, and from 18.5% to 24% for benefit-reliant households.[22] In 2003-2013 the wealth of landlords (2% of the population) increased by £434bn.[23] Inclusive of benefits, private renters spent an average of 33% of their income on rental payments in 2018-19.[24]

4. Owners of businesses producing goods and services can extract *profit* from them even if they contribute nothing to running them, simply because their property rights include ownership of the revenue the

business earns, while the employees whose work generates that revenue have no say in what happens to it. So workers are required to produce goods and services whose total value exceeds their wages and other costs and thus yields the owner a profit. In the case of public companies, it provides shareholders with unearned income. (On the stock market, the vast majority of shares are bought from previous owners, and so the money the 'investor' pays goes not to the firm whose shares they are, but to the previous owner.) Such 'investors' are primarily rich individuals and businesses. The gains from dividends and from selling on the shares at a profit are again a 'free lunch' and presuppose the production of a surplus by others.

5. *Monopoly power* enables firms to charge economic rent. Intellectual property – patents, copyright, trademarks, and franchises - attached to anything from proprietary software to vaccines and fast food outlets - provides its owners with long term monopoly power, enabling them to collect rent. Firms like Airbnb, Amazon, eBay, Facebook, Google and Uber get most of their money from controlling internet platforms that have little or no competition and charging users for access (often business customers rather than final consumers, though many such businesses can pass on the costs to consumers). To be sure, the firms also provide goods and services, but the key to their enormous success is control of the assets required to access them.[25] Similarly, the privatization of public utilities like water supply and its infrastructure has delivered monopoly rents to companies and their shareholders.

6. *Speculation and financial engineering* also allow wealth extraction at the top with no reciprocal creation of goods and services; for example, firms may make more profit from buying up their own shares (which pushes up their value) than from productive investment. More generally, the financial sector has developed a host of practices that yield profit by buying and selling to exploit price differences between times and places, whose main effect is to concentrate wealth at the

top. Further, the more that rich individuals and corporations hide their money in *tax havens*, the more tax the rest of the population has to pay to compensate.

Solutions?

Like many other countries, the UK has increasingly become a rentier economy – that is, one in which the pursuit of economic rent in its many forms has expanded relative to productive enterprise – and this has widened inequalities markedly.[15 25 26] While the rise of neoliberalism has generally been associated with the promotion of markets as the default form of economic organization and a shift in power from labour to capital, it has been less noted that it is owners of assets, and not only owners of productive enterprises, who have been the major beneficiaries.[27] Privatisation of assets has extended into a wide range of public services, including health services, in many countries.[28]

Reversing this trend to limit the upward transfers of wealth it sustains is essential for reducing the economic inequalities that are the driving force behind health inequalities. In terms of basic economic strategy this requires ending economic austerity and the associated pursuit of debt-based growth and of assets that yield streams of unearned income for those at the top of the income distribution.

1. *Rent on land and property.* There are legal difficulties with bringing land into public ownership unless compensation is paid to owners. However, the transfer of land back to community or public sector ownership has gathered pace in Scotland[29] and as part of the work on inclusive economies more generally.[30] This process could be hastened by making land ownership less attractive through land value taxation – a policy which would also tax away gains in land values that do not result

from improvements made by the owner.[31] Rents also need to be regulated to protect tenants.

2. *Interest*. Legislation is needed to stop predatory lending and regulate interest rates on lending to households. Unearned income from interest could be taxed at rates equal to or above those for earned income. More radically, debt write-downs for household debt would both benefit the majority and help to wean the financial sector off its dependence on unproductive loans (i.e. loans that do not fund the creation of new goods and services).[20] Housing finance needs to be regulated to break the vicious circle of rising house prices and increased debt leverage. In addition, there is a need for increased provision of social and mutual housing where rent can be controlled democratically and limited to covering real costs.

3. *Capital gains,* including those on housing*,* need to be taxed at the same level as earned income, or higher.

4. *Profit.* Raising corporation tax rates is an obvious policy, but more radical responses would change property rights to support worker ownership or other forms of collective ownership, or at least require worker representation on boards.

5. *Monopoly power*, whether based on control of natural resources, intellectual property, internet platforms, or privatised public utilities, requires effective legal frameworks to break up monopolies and ensure competitive markets where appropriate or to (re-)nationalise or bring activities under community control.

6. The financial sector needs extensive regulation to block or limit *wealth-extracting financial engineering*; transaction taxes, such as the 'Tobin tax' would be an easy way of limiting speculation from churning of financial assets. Country-by-country reporting of company accounts is needed to prevent companies using tax havens to dodge tax, by

requiring them to report profits and costs generated in each jurisdiction in which they operate, and to pay the appropriate taxes.

These relationships are summarised in Table 1. An ongoing challenge for policymakers seeking to introduce measures to sufficiently address economic inequalities are the “complex, ambiguous and contradictory”[32] public attitudes towards such policies. These attitudes are in turn shaped by the portrayals of such policies, and as such as heavily influenced by the power inequalities that exist within the media.[16]

Table 1 – Summary of the economic relationships driving inequality and potential policy responses

Economic relationship	Policy responses
Rent on land and property	Public and community ownership; land value tax
Interest	Regulation of lending and interest rates; taxation of unearned income; debt write-downs; increased public sector housing provision
Capital gains	Taxation of capital gains at levels equal or greater than income tax
Profits	Raised corporation tax; increased collective or public ownership
Monopoly	Anti-monopoly legislation
Speculation and financial engineering	Expanded regulation of financial sector; transaction taxes; enforced payment of taxes where profits are generated

Conclusion

Until the underlying causes of health inequalities are changed, inequalities will be sustained despite the potential for effective actions on particular mechanisms.[33] The fundamental causes of health inequalities have been described as income, power and wealth/resources.[6] Although many health inequalities researchers have identified policy recommendations that might reduce inequalities in incomes, resources, and to a less extent power, across societies,[34 35] we argue that these recommendations for the most part are unlikely to sufficient to prevent the continued trend towards income inequality without a more fundamental understanding of the causes of economic inequality. We need to address the transfers of wealth up the income distribution.

Competing interests

We declare we have no competing interests.

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