8

Equality[1]

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Introduction

Progressive political movements of the twentieth century – whether liberal, social democratic or ethical socialist – characteristically aimed at the creation of an egalitarian society and, in particular, at a significant reduction in the economic inequality produced by unregulated capitalism. At the outset of the twenty-first century, should we still care about this long-standing progressive objective? Many people involved in politics today, even some associated with the Labour Party and the left, think that there is a straightforward answer to this question. There is no particular reason to object to inequality, they would reply, except for a mean-spirited envy of the successful, or perhaps a desire to hold onto old socialist or Tawneyesque dreams made utopian by fleet-footed global capital and the disappearance of the working class.

'Why do we care so much?' mused the journalist David Aaronovitch about the multi-million pound remuneration package awarded to Jean-Pierre Garnier of GlaxoSmithKline. 'What is it to me if Garnier does earn such an absurd amount? Were he to get half as much money, it would have no effect on my life whatsoever, and probably not a lot on the dividends of his shareholders or the jobs of his employees.'[2] This sentiment has been echoed in the pronouncements of certain senior Labour figures. The Labour Party is now 'intensely relaxed about people getting filthy rich', argued Peter Mandelson in a speech to Silicon Valley executives,[3] while Tony Blair famously refused to say that he cared about the gap between rich and poor when interviewed before the 2001 general election.[4] Bizarrely, self-styled advocates of a further dose of Blairism have even touted clichéd reactionary policies such as the abolition of inheritance tax as a bold new departure in centre-left policy-making.[5]

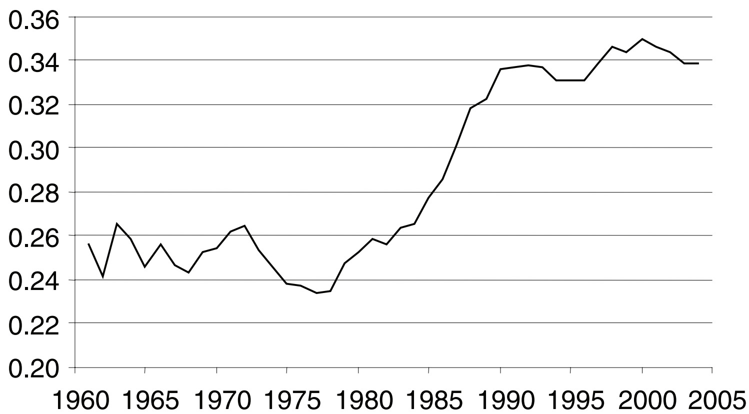
At some point during the revisions of Labour ideology and policy in the 1990s, economic inequality became a taboo subject, something embarrassing or excessively theoretical, perhaps even to be dismissed simply as an old Labour shibboleth. Mesmerised by the savage anti-egalitarian thrust of Thatcherism, and keen to secure the support of affluent floating voters, the party leadership labelled the pursuit of greater equality an objective that put an arbitrary cap on individuals' aspirations or that would signal a return to old left values and policies. Far better, it was argued, to pitch modernised social democracy as an effort to equalise opportunities rather than resources, and to improve the position of those at the bottom of the income and wealth distribution without making a fetish of how much was earned by those at the top.[6]

Yet although this narrative had some plausibility for the purposes of electoral manoeuvring in the late 1990s, it has significant flaws as a guide to policy-making in government, flaws which will in turn undermine Labour's efforts to portray itself as the architect of a fairer Britain. This is a point that is increasingly recognised in centre-left policy discussions and by perceptive government ministers. No less a figure than Gordon Brown has identified equality as 'the fundamental value that divides the Labour Party from the Conservative Party', arguing that Labour's egalitarianism must 'address wealth and income inequalities' (Brown 1999: 35 & 44).[7] As yet, such sentiments remain nascent, and their significance for Labour's political strategy and public discourse needs to be made explicit. However, one thing is clear: a substantial reassessment of Labour's attitude to inequality, and to its ethical socialist heritage more generally, is now overdue.[8]

Political discussion of inequality declined just as inequality was reaching record levels, and Britain entered the twenty-first century with a higher level of income inequality than at any time since the Second World War.[9] Until the 1980s Britain was among the more egalitarian European countries, comparable to France and Germany. In the 1960s and 1970s the Gini index of income inequality[10] fluctuated around 25 per cent. By 1990 it had risen to 34 per cent, an unprecedented rate of increase (see Figure 8.1). Today it remains at that elevated level and we are among the most unequal countries in the (pre-enlargement) EU, more equal only than Greece, Portugal and Spain (Dennis & Guio 2003: 4). Since 1980, the disposable incomes (income net of direct taxes and benefits) of families at the ninetieth percentile have grown twice as fast as incomes of families at the tenth percentile (Goodman & Shephard 2002). The after-tax share of income in the richest 1 per cent of households has doubled since 1978, standing at 10.4 per cent in 2000 (Atkinson 2004: 3). Inequality of wealth is even more dramatic: the wealthiest 10 per cent in Britain own 56 per cent of the country's total marketable wealth, an increase from 1990.[11] Between 1979 and 1996 the proportion of households owning no assets – those who have no savings, pensions, shares or property – doubled to 10 per cent.[12]

It is our contention that this dramatic rise in inequality does matter, and matters for a number of reasons directly relevant to the policy goals of the

Figure 8.1: Gini coefficient for the UK



Source: Institute for Fiscal Studies. Equalised per capita household income.

current Labour government. The government deserves enthusiastic support for pledging to reduce child poverty, and for its commitment to extend economic opportunity to all sections of the community. These goals, coupled with its efforts to invest in sustainable, high-quality public services fit for the twenty-first century, show the government at its ambitious best. But if it is to deliver on these objectives, then it must tackle inequality. It must focus not only on improving the absolute position of the least advantaged, but also on reducing the size of the gap between the disadvantaged and the better off.

Even as recently as fifteen years ago, it may well have seemed a statement of the obvious to make this point. Everyone on the left of British politics would have regarded the reduction of inequality as a central priority of any

Labour government, and as a crucial dividing line between Labour and the Conservatives. The fact that this point is no longer obvious says much about the extent to which social democratic priorities have been influenced by Thatcherism, and the degree to which important political arguments have been lost in the rush to modernise.

In our restatement of these arguments, we draw on a wide range of political and intellectual resources. We say something about the egalitarianism historically defended by the British left, and about the egalitarian social democracy found in the writings of important Labour figures such as R. H. Tawney or Anthony Crosland. But we complement this analysis by demonstrating that this tradition of ethical socialist thought powerfully resonates with the recent work of political theorists, economists and sociologists. A preference for greater equality is not just disguised envy of the rich, or a tribal political reflex out of kilter with the times. Rather, it is the product of hard-headed arguments of great political salience. Simply because the arguments have temporarily slipped out of the view of certain political journalists and government ministers does not diminish their relevance.

This chapter proceeds as follows. First, we argue that if you care about poverty, then you should care about inequality. We show that the two are closely connected empirically, and that by ignoring the growth of incomes at the top of the distribution the government is compromising its efforts at poverty reduction. Second, we show that inequality matters to social justice. Any realistic strategy aimed at promoting equality of opportunity and thus greater intergenerational mobility, as Tawney argued, will also require greater equality of condition. Furthermore, the large economic inequalities currently found in Britain are themselves unjust and cannot plausibly be defended, even as deserved rewards for varying talents. Finally, we respond to two common arguments against economic equality: that it impairs economic efficiency, and that it is the product of forces outside of the control of national governments.

Poverty

The desire to tackle poverty has long animated the left in Britain, ever since B. S. Rowntree's pioneering studies publicised the miseries suffered by the poor. The Labour government has declared that it aims to eliminate child poverty, and today even the Conservative Party supports this goal. But while few now deny that the government has a duty to reduce poverty, it is also commonly argued that as long as incomes at the bottom of the distribution are rising, then it does not matter what is happening at the top.

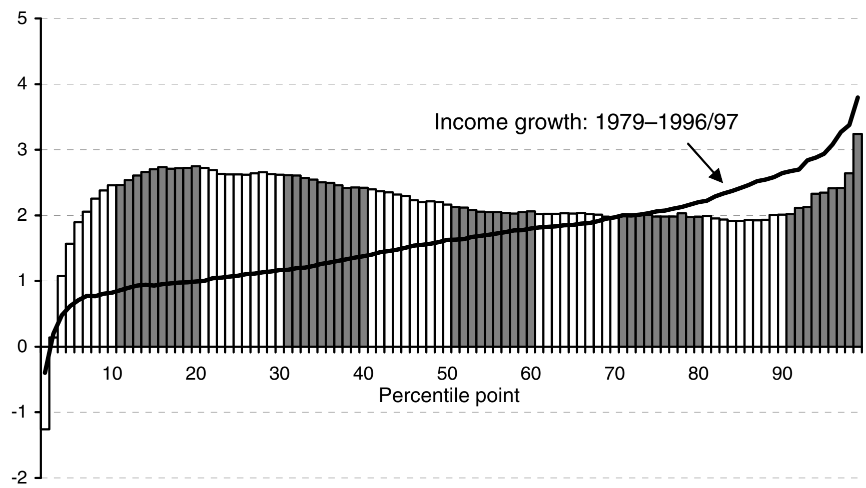
A serious attempt to abolish poverty must also tackle inequality. It is possible to raise the incomes of the poor without addressing incomes higher up the distribution in a growing economy. But poverty reduction is far more effective when growth-oriented policies are complemented by substantial redistribution from richer households to poor households – whether this be done through taxes and benefits, or through labour market policies and institutions that equalise the earnings distribution.

Inequality and poverty

So what is the Labour government's record on poverty? It has indeed had some success in raising incomes at the bottom. Incomes at the tenth percentile grew by an average of 2.6 per cent each year from 1996/7 to 2004/5, somewhat greater than the 2.2 per cent growth enjoyed by the ninetieth percentile over the same period. But the majority of those in the bottom 10 per cent saw far lower income growth, the bottom 2 per cent seeing their incomes actually fall, while the incomes of the top 1 per cent grew by more than 3 per cent per year. The bars in Figure 8.2 show the average yearly income growth at each percentile over the period 1996/7–2004/5, while the line shows the growth over the period 1979–1996/7. The large rise in inequality during the Conservative years was due to the fact that higher income levels enjoyed higher growth. Under the Blair government so far, the effect has been ambiguous: between the fifteenth and the eighty-fifth percentiles, lower-income earners have gained more. But at the extremes, within both the bottom and top 15 per cent, higher earners have enjoyed higher growth. The net effect on the Gini coefficient, as we saw in Figure 8.1, has been nil, with the value in 2004/5 exactly the same as in 1997, when the Blair government took power (Brewer et al. 2006: 21).

Labour's record on incomes at the bottom is better than that of the Thatcher or Major governments, as sustained economic growth and pro-poor public policies have facilitated rising incomes at almost all levels. But its lack of concern for the historically high shares of national income enjoyed by the rich means that the government has limited its ability to engender major poverty reduction. Put simply, egalitarian transfers of income from the rich to the poor could substantially increase the rate of poverty reduction. The poverty-reducing power of redistribution has been a theme of left-wing discourse at least since the nineteenth century. So why does it receive so little credit today?

Figure 8.2: Average annual real income growth by percentile point, 1996/7–2004/5



Source: Brewer et al. (2006: 21). The change in income at the first percentile is not shown in this graph; it is reported as an annual fall of 16.2 per cent (ibid.: 21, n.17).

The most common challenge to the proposition that we ought to tax the rich in order to lower poverty is that redistribution can be self-defeating. High taxes on the rich are taken to induce them to work less and save less, reducing total income in the economy; high benefits for the poor are taken to encourage the unemployed to stay unemployed, again compromising the economy. It is also often claimed that the rich save more than the poor, so that a more equal distribution of income will lead to a lower savings rate and therefore lower growth. If the economy suffers, goes the argument, then necessarily the poor will suffer too. As a rising tide lifts all boats, so the poor are best served by policies that focus on economic growth.

Is this argument correct? We will return to the broader issue of inequality and economic growth later, but first consider the following empirical question: does inequality in fact harm the poor? Comparable data sets are difficult to assemble, but a recent study compares thirteen rich countries in the late 1990s, ten in Western Europe plus the United States, Canada and Australia (Rainwater & Smeeding 2002). By using 'purchasing power parity' exchange rates it takes into account price differences across countries. At $33,800 the United States had the highest per capita GDP by some way – the UK, Sweden, France and Germany reached only about two-thirds of this figure, while the closest rival, Switzerland, achieved 85 per cent. The USA and the UK were the most unequal of these countries, with Gini coefficients of 37 per cent and 35 per cent respectively, compared to their nearest rival, Australia, with 31 per cent (see Table 8.1 and Figure 8.3).[13]

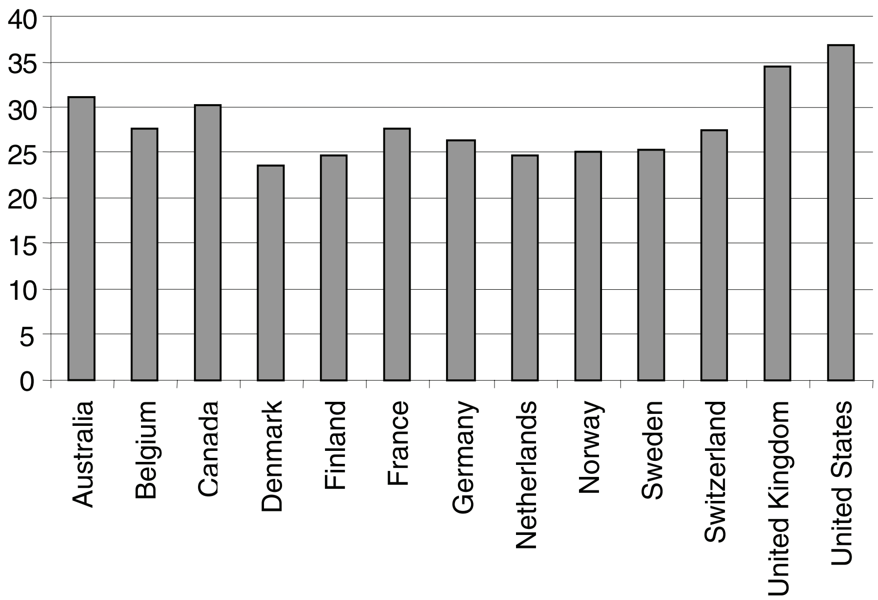
Table 8.1: National income and incomes of the poor across countries

	Real per capita GDP		*Disposable income at 10th percentile*	
	1999 $US	*Index (US=100)*	*1997 $US*	*Index (US=100)*
United States	33,836	100	10,922	100
Switzerland	28,672	85	15,403	141
Norway	28,133	83	14,003	128
Denmark	27,073	80	12,042	110
Canada	26,424	78	11,482	105
Netherlands	25,923	77	12,042	110
Australia	25,590	76	9,522	87
Belgium	24,845	73	13,162	121
Germany	23,819	70	12,322	113
Sweden	23,017	68	11,202	103
United Kingdom	22,861	68	9,242	85
Finland	22,723	67	11,482	105
France	22,067	65	12,042	110

Source: Rainwater and Smeeding (2002). Prices are quoted in US dollars using purchasing power parity exchange rates, so they take into account price differences across countries.

But what about the poor in these countries? Consider somebody at the tenth percentile – that is, the person who is richer than 10 per cent of people in the country and poorer than 90 per cent. If we think of 'the poor' as the bottom 20 per cent of the income distribution, or the poorest fifth, then the tenth percentile is the representative poor person. The study found that in the USA an individual at this point in the distribution lives on about $10,900 per year, in 1997 dollars. Whereas the per capita GDP of the USA is the highest by some way, at the tenth percentile it comes eleventh out of thirteen: the American is poorer than ten of his twelve counterparts in the other countries.[14] The Swiss at the tenth percentile is 41 per cent better off, the French and the German 10 per cent and 13 per cent better off, the Swede 3 per cent. The German figure is particularly striking given that it includes formerly communist East Germany. The Australian is 13 per cent poorer than the American while at the bottom of the pile comes the Briton, 15 per cent poorer than his or her American counterpart. This means that the poor person in Britain is some 25 per cent poorer than his or her counterpart in France and Germany, despite our similar levels of real per capita GDP. Incomes at the bottom may have risen in the UK, but our high level of inequality keeps them from achieving their European potential.

Figure 8.3: Inequality across countries, Gini coefficient



Source: Luxembourg Income Study, LIS Key Figures website, March 2004.
Equivalised per capita household income; comparable data sets are not available for all European countries. See also Table 8.1.

These figures address the living standards of those at the lower end of the distribution and answer the question: how poor are the poor? A similar picture emerges if we ask the question: how many people are poor? To answer this we refer to poverty head-counts – that is, the proportion of people living below the poverty line. Using the US poverty line of $11 a day, holding it constant across countries (at 1994 prices and taking into account price differences between countries), 13.6 per cent of the population were below the poverty line in the United States, compared to only 6.3 per cent in Sweden, 7.3 per cent in Germany and 9.9 per cent in France. Again the UK lags behind with 15.7 per cent.[15]

What do all these figures tell us? They show that for poverty in the developed world, distribution trumps national income. Countries with high inequality have high levels of poverty, and countries with low inequality have low levels of poverty. We saw above that the USA and the UK have the highest Gini coefficients of the developed nations. A more intuitive measure of inequality is the 10/50 ratio, comparing incomes at the tenth percentile with the median. In the US this 10/50 percentile ratio is 38 per cent, so the representative poor person has 38 per cent of the median income. The UK does better at 46 per cent. But in France and Germany the figure is 54 per cent while in Sweden it is 60 per cent (Rainwater & Smeeding 2002: Fig. 1). If Britain's 10/50 ratio rose to the level already reached in Sweden, the British poor would be nearly 30 per cent better off. If we care about poverty then we have to care about inequality.

Relative and absolute poverty

So far we have been discussing poverty in rich countries. But is there really such a thing? According to Keith Joseph and Jonathan Sumption, writing in 1979,

> a family is poor if it cannot afford to eat. It is not poor if it cannot afford endless smokes and it does not become poor by the mere fact that other people can afford them. A person who enjoys a standard of living equal to that of a medieval baron cannot be described as poor for the sole reason that he has chanced to be born into a society where the great majority can live like medieval kings. By any absolute standard there is very little poverty in Britain today. (Joseph & Sumption 1979: 27–8)

Few conservatives would express such an extreme view today. But the conception of poverty as a relative term, defined with reference to the average standard of living, is unpopular on the right. So why should we think of poverty as a relative standard? The usual argument for using a relative definition of poverty is that necessities vary according to the society one lives in. This view was famously propounded by Adam Smith, who wrote: 'By necessaries I understand, not only the commodities which are indispensably necessary for the support of life, but whatever the custom of the country renders it indecent for creditable people, even of the lowest order, to be without.' He cited a linen shirt and leather shoes as examples of such 'necessaries', observing that 'the poorest creditable person, of either sex, would be ashamed to appear in public without them' (Smith 1976: 351–2).

The Poverty and Social Exclusion (PSE) survey, supported by the Joseph Rowntree Foundation, has taken up this approach to poverty. They define as 'necessities' those items which at least 50 per cent of the British population believe 'all adults should be able to afford and which they should not have to do without'. These include 'celebrations on special occasions such as Christmas', 'presents for friends/family once a year', a 'warm, waterproof coat', 'two pairs of all-weather shoes' and numerous others (Gordon et al. 2000: 14–15).

The fact that 89 per cent of the population believe that no one should have to do without a refrigerator indicates that the public conception of poverty is indeed heavily influenced by average standards of living. This approach is therefore very valuable. However, collecting information on all of these individual items from year to year is not feasible. The British government follows the simpler relative definition used by the European Commission, according to which a household is poor if its income is below 60 per cent of the median. In 2004/5 16.1 per cent of people lived in poor households by this definition.[16] Many are employed, or working poor. Our representative poor person at the tenth percentile lies close to the middle of this group, and a couple with two children at this point of the distribution take home about £1,300 per month after taxes and benefits.[17] These people are not short of calories and are likely to have a television and a video recorder. So should they really be described as being in poverty?

In fact, it doesn't really matter whether we call them 'poor' or not: the fact is that people in low-income households suffer serious deprivations that are unnecessary and unacceptable in a country as rich as the United Kingdom. A study for the Department for Work and Pensions found that experiences of childhood poverty (using the government's relative definition) are associated with lower self-esteem and more truancy among adolescents, and poor educational achievements and unemployment later in life (Ermisch et al. 2001). A report for the Joseph Rowntree Foundation found, in addition to low educational achievement, that poverty in childhood is also associated with more contact with the police by age sixteen (Gregg et al. 1999). And adults in the poorest fifth of the population are twice as likely to develop mental illness as those on average incomes.[18] The poor and their children may be materially better off than many of their forebears, but it is hard to see why this fact makes such disadvantages acceptable.

Absolute poverty in the sense in which it is used in developing countries – such as the $1 and $2 a day poverty lines – is certainly a worse condition than relative poverty in developed countries. If we have a choice between giving £1 to a poor family in Britain living off £1,000 a month and giving it to a poor family in Uganda living off £100 a month, then surely we should give it to the Ugandans. Hence we would advocate increasing overseas aid to poor countries, along with other global pro-poor measures, and we applaud the rise in aid that has occurred under the Labour government. But this is not the primary choice we face in Britain today when we argue over tax rates, benefits, and labour market institutions. The choice we face today is whether we scale down the incomes of a rich British family at the ninetieth percentile, taking home about £5,000 a month, or at the ninety-fifth percentile, on more than £6,000, to raise the income of the poor British family on £1,300.[19]

In considering this choice we need to recall an economic argument of very long standing: that income has decreasing marginal returns to utility. As William Beveridge put it in 1936, 'I am one of those people who think that 1*s.* in a poor man's pocket usually buys more welfare than 1*s.* in a richer man's pocket; it meets more urgent needs' (Beveridge 1936: 66).[20] The poorer you are, the more good an extra pound (or shilling) does for you. One way to see this is to realise that people first buy the goods and services that they most desire. Once you have the things that are most important to you, subsequent expenditures are less and less important. A place to live is more important than a holiday, so those with tight budgets typically spend them on rent rather than package tours. Higher up the income scale, the increase in well-being that a family gains from its purchase of a second car is generally lower than the increase due to the first car.

When we apply this argument to the question of poverty and redistribution, our comparisons are starker. Is it more important that a rich family buys a second car or that a poor single mother can pay for daycare and household insurance? That the rich have two holidays per year, or that the poor can afford fresh fruit and vegetables? Put simply, money is more important to the poor than to the rich. In social terms – and therefore from the point of view of any ethical socialist or any government that cares about its citizens – extremely high levels of consumption by the rich are just a bad use of money that could instead be used to reduce serious deprivation among the poor. Even if the poor are richer now than they were five or ten or a hundred years ago, they still suffer major deprivations that could be alleviated by greater redistribution. The inconvenience that redistribution causes the rich can translate into a major increase in well-being for the poor. The decision to redistribute is just the decision to put scarce resources to better use.

We discuss the relationship between inequality and growth later, but an important point deserves mention here. There is little doubt that in some circumstances redistribution reduces the size of the economic pie, such as when the 'dead weight loss' of a tax reduces economic activity. But when our concern is people's well-being, then money – or the production of goods and services – is just a means to an end. So suppose that a new tax/transfer combination lowers the take-home pay of a rich family by £1,000 while increasing that of a poor family by £500. Such a transfer evokes the image of a 'leaky bucket', as the money taken from one place to another loses some of its value on the way. In terms of money, or production, or national income, this is clearly a net loss. But if the rich family would have spent the £1,000 upgrading a holiday villa, while the poor family spends the £500 on better food for the children, or if it allows a parent to work fewer hours and be at home when the children finish school, then in social terms the transfer is clearly a gain.

We do not claim that there is no limit to this. Attempting to redistribute away all unfair disadvantages may be unfeasible or undesirable for a variety of reasons. Moreover, it is possible that at some level of redistribution we would find that £1,000 redistributed away from a rich family would glean nothing for the poor family. But we are a long way from this point today. As we will see later, even countries far more egalitarian than Britain have suffered no identifiable economic loss through redistribution. If we are to make serious inroads towards eliminating poverty, inequality reduction must be at the top of the agenda.

Social justice

At the outset of the 1987 general election campaign, as another term of Thatcherism loomed, Neil Kinnock made one of his greatest speeches. Expressing the fundamental beliefs that draw so many people into the Labour Party, he provided eloquent testimony of the unfairness of Conservative policy:

> Why am I the first Kinnock in a thousand generations to be able to get to university? Why is Glenys the first woman in her family in a thousand generations to get to university? Was it because *all* our predecessors were 'thick'? Did they lack the talent – those people who could sing, and play, and recite and write poetry; those people who could make wonderful, beautiful things with their hands; those people who could dream dreams, see visions; those people who had such a sense of perception as to know in times so brutal, so oppressive, that they could win their way out of that by coming together? Were those people not university material? Couldn't they have knocked off their A-levels in an afternoon? But why didn't they get it? Was it because they were weak – those people who could work eight hours underground and then come up and play football? Weak? Those women who could survive eleven child bearings, were they weak? Those people who could stand with their backs and their legs straight and face the great – the people who had control over their lives, the ones that owned the workplaces and tried to own them – and tell them, 'No. I won't take your orders.' Were they weak? Does anybody really think that they didn't get what we had because they didn't have the talent, or the strength, or the endurance, or the commitment? Of course not. It was because there was no platform upon which they could stand; no arrangement for their neighbours to subscribe to their welfare; no method by which the community could translate its desires for those individuals into provision for those individuals.[21]

This speech evocatively illustrates that large economic inequalities matter because they are unjust: they prevent individuals from achieving their potential, and they signal that the lives of those who have been fortunate are worthy of greater attention and respect than the lives of those who have not been as lucky. This section examines these claims in more detail by exploring the relationship between inequality and social justice.

Social justice refers to a fair distribution of those goods (rights and freedoms, jobs, incomes, education etc.) that are allocated by major social institutions. In order to do further work in political arguments, though, it is necessary to say what is meant by a fair or just distribution. This can give rise to deep political and philosophical disagreements, since there are sharply contrasting views about the criteria that should guide a just distribution of social goods. Should, say, wealth and incomes be distributed on the basis of merit or according to some more egalitarian principle? In this section we argue, as do all ethical socialists, for an egalitarian view of social justice. However, we also argue that even meritocrats have strong reasons to see as unjust the inequalities of wealth and income that characterise Britain today.

Inequality and intergenerational mobility

Equality of opportunity is an idea that exerts a powerful grip on contemporary politics. It is a concept that can be understood in a variety of senses, but in public debate it usually expresses the idea that individuals should have the same chance of developing and being economically rewarded for their talents regardless of their social background. This objective is partly desirable in order to promote economic efficiency, since it ensures that jobs are performed by those best suited to undertake them, but it is also important as a matter of social justice. Whatever else justice demands, it would generally be agreed that a fair society is one that allows each citizen a similar chance to develop his or her talents and to get a job that suits his or her own abilities. It would be difficult to describe as just a country where individuals' life-chances were to a large extent determined by the social class into which they were born. A just society would have to be characterised by a significant amount of intergenerational mobility, both upwards by children born into the working class, and downwards by children of the middle and upper classes.

Equality of opportunity and social mobility have been staple ingredients of the modernised social democracy espoused by the Labour Party in recent years. For all the cynicism about the ideological thinness of New Labour, one thing seems clear: the current Labour government aspires to create a society where individuals can succeed on the basis of their potential, uninfluenced by the social class they are born into. As Peter Mandelson has put it, 'For me, the goal of social democracy is to create the sort of society in which the daughter of a Hartlepool shop assistant has as much chance of becoming a High Court judge as the daughter of a Harley Street doctor.'[22]

Labour's focus on equal opportunity has provoked a great deal of criticism and has been unfavourably compared with the more substantive egalitarianism that is said to have historically motivated the Labour Party.[23] Although there are indeed good reasons to be sceptical of this distributive goal as exhaustive of the demands of social justice, we think it would be wrong simply to dismiss equal opportunity as an impoverished or inadequate substitute for the more radical ideals pursued by previous Labour governments. Indeed, perhaps the greatest political virtue of this objective is that it is relatively uncontentious: nearly everyone would agree that justice demands that individuals should be able to get a job that reflects their own potential, rather than their parents' occupation or economic status. But it is hardly ever recognised in public debate that realising this objective will require a radical policy agenda that systematically tackles fundamental and deep-seated social and economic inequalities. That is, economic inequality matters because it distributes opportunities unequally.

The connection between inequality and intergenerational mobility can be illustrated by considering the following remark by Tony Blair. In a pamphlet written in the first flush of the Labour government, Blair wrote that the left 'has in the past too readily downplayed its duty to promote a wide range of opportunities for individuals to advance themselves and their families. At worst, it has stifled opportunity in the name of abstract equality' (Blair 1998: 3). This quote exemplifies some unfortunate but widespread misunderstandings, both about the politics of ethical socialism and about the relationship between equal opportunity and economic inequality.

First, consider the political objectives of egalitarian social democrats over the last century. Would it be fair to say that the left has historically 'downplayed its duty to promote a wide range of opportunities'? This seems like an unnecessary concession to traditional right-wing rhetoric, since social democrats have never simply argued that promoting greater intergenerational mobility was a less important goal than advancing greater equality of condition between social classes. Rather, they have always made the more sophisticated claim that these two distributive objectives are closely connected, and that the job of Labour governments is to promote both equal opportunity and greater economic equality at the same time. This point was forcefully made by R. H. Tawney in his 1931 work *Equality*, a book that influenced generations of Labour Party policy-makers:

> But opportunities to rise are not a substitute for a large measure of practical equality, nor do they make immaterial the existence of sharp disparities of income and social condition. On the contrary, it is only the presence of a high degree of practical equality which can diffuse and generalise opportunities to

> rise. Their existence in fact, and not merely in form, depends, not only upon an open road, but upon an equal start. (Tawney 1931: 143)

Tawney's important insight was that equal opportunities could not be provided to every citizen as long as significant material inequalities had the effect of placing citizens in different social classes and hence giving their children unequal starting positions. As long as privileged families were capable of greatly advantaging their children in terms of education, financial assets and general cultural resources, argued Tawney, then equality of opportunity would remain a sham. It would be 'the impertinent courtesy of an invitation offered to unwelcome guests, in the certainty that circumstances will prevent them from accepting it' (ibid.: 150).

Tawney's ideas about social justice were influential on the group of revisionist social democrats who rose to prominence in the Labour Party in the 1950s and 1960s. Politicians and academics such as Hugh Gaitskell, Anthony Crosland and Michael Young specifically argued that promoting equality of opportunity would require the simultaneous attainment of greater economic equality, precisely because significant advantages accrue to children born into higher social classes, giving them a head start over less fortunate children born into working-class families. As Crosland argued, for social democrats to describe equal opportunity as 'a narrow ladder up which only a few exceptional individuals, hauled out of their class by society's talent scouts, can ever climb' would be 'to concede the narrow, reactionary interpretation of their opponents'. In fact, the social democratic interpretation of equal opportunity should be seen as carrying much more radical connotations, since 'the achievement of truly equal opportunity would carry us a distinctly long way towards equality and a socialist society!'(Crosland 1962: 173–4).[24]

Social democrats have long argued, then, that 'inequality of outcome today is a cause of inequality of opportunity in the next generation' (Atkinson 1998: vi). Of course, as today's Labour politicians often remind us, political circumstances have changed since Tawney and Crosland wrote, and it is certainly legitimate to enquire how relevant the political ideas of earlier egalitarians are to the Britain of the twenty-first century. Should the writings of Tawney, Crosland et al. be seen as simply the dusty old texts of writers who had yet to confront the novel challenges that confront today's Labour politicians? Are they simply the thoughts of generations innocent of the powerful anti-egalitarian thrust of Thatcherite ideology or the fluid realities of post-industrial capitalism? In our view, subsequent developments have in fact vindicated the social democratic egalitarianism elaborated by Tawney and Crosland. Two points are of relevance here. First, the evidence indicates that Britain is today very far from attaining a level of intergenerational mobility consonant with equality of opportunity. Second, studies also show that improved intergenerational mobility goes hand in hand with reduced economic inequality.

Intergenerational mobility: some facts

So, is Britain characterised by a high level of intergenerational mobility? Are individuals able to access jobs and incomes on the basis of their own potential and regardless of their family background? Public and political opinion on this issue is heavily influenced by the mythical quality of the so-called liberal theory of social mobility, which imagines that as economies industrialise they are necessarily characterised by a progressively greater amount of social fluidity or openness. In fact, studies suggest that social mobility trends are much more complex than this. What sociologists term 'absolute' social mobility has undoubtedly increased in Britain over the twentieth century. As the economy matured, the occupational structure altered: the size of the middle class increased relative to the working class, and this has meant that many children born into working-class households were able to find middle-class jobs. There were simply too many middle-class jobs to be filled from the ranks of the middle class alone, and as a result members of the working class were called upon to fill the gaps.[25]

However, since the rise in absolute mobility is due primarily to the expansion of the middle class, it says nothing about the impact that parental class or income has on children's social destinations. And while this period saw greater upward mobility, downward mobility on the part of children from middle-class backgrounds actually declined, as an increasing proportion of children with middle-class parents remained in the middle class. For the generation born in the years 1900–9, 49 per cent of men from social classes I and II – those in managerial and professional positions – remained in the same social class as their father. For the generation born in the years 1950–9, this figure was 73 per cent (Heath & Payne 2000: 264).

A society characterised by equal opportunity loosens the connection between class origins and destinations, and would therefore exhibit both upward mobility by members of the working class and downward mobility by members of the middle class. So the core question underlying the analysis of intergenerational mobility is whether there is a strong link between the income or social class of parents and that of their children. We can answer this in three ways.

The first method of measuring intergenerational mobility takes fathers from different social classes and compares how likely their sons are to land in each class once they have grown up. Rather than simply giving the odds that a working-class child has of ending up in the middle class, it compares his chances with the chances of a child born into the middle class. First, consider the relative chances of ending up at the top of the social ladder. In Britain a man born into social class I or II is 2.7 times as likely to end up in social class I or II as a man born into social class IV or V – semi-skilled and unskilled workers. How about at the bottom? A man born into class IV or V is nearly four times as likely to end up in these bottom classes as a man born into class I or II (Johnson & Reed 1996, Table 4a).[26] There is limited upward mobility and very limited downward mobility.

A second method of understanding mobility measures income rather than class mobility, using 'transition matrices'. These show the extent to which the income group a child is born into determines the income group in which he or she ends up. We divide the population into four quartiles by income, from the poorest quarter of the population to the richest. Then for the families in each quartile we can find what proportion of their children ends up in each quartile. If we find that 100 per cent of the children whose parents are in the bottom quartile remain in the bottom quartile, then this would correspond to zero mobility for the poor. On the other hand, if 25 per cent of these children ended up in each of the four quartiles, with no bias towards one quartile or another, then this would correspond to perfect mobility – it would mean that coming from a poor family has no impact on a child's income once he or she has become an adult.

Table 8.2 is such a transition matrix for Britain. First consider fathers in the top quartile. Only 6 per cent of their sons ended up in the bottom quartile while over half – 52 per cent – remained at the top. Turning to fathers in the bottom group, 34 per cent of their sons remained in the bottom quartile, while only 13 per cent made their way up to the top quartile. Again, these figures indicate limited upward mobility, and very limited downward mobility. The same underlying data also reveal that men in the top 10 per cent of earnings are more than five times as likely to have fathers from the top 20 per cent as from the bottom 20 per cent (ibid.: 141).

The third method of analysing intergenerational mobility also uses income rather than class, and asks to what extent income differences are 'passed on' from parents to children. This does not require wealth to be literally given or bequeathed to children, but asks whether the advantages of having rich parents and the disadvantages of having poor parents show up in the incomes of children, once they have grown up. We ask the question: do children from a rich family end up better off than children from a poor family?

Table 8.2: Intergenerational transition matrix for Britain

		Son's quartile			
		Bottom	*2nd*	*3rd*	*Top*
	Bottom	33.8%	29.7%	23.8%	12.8%
Father's quartile	*2nd*	29.4%	31.2%	25.3%	14.0%
	3rd	30.4%	24.3%	24.3%	20.9%
	Top	6.4%	14.8%	26.6%	52.2%

Source: Dearden et al. (1997: 62).

The extent to which children of richer parents themselves end up richer is known as the elasticity of incomes across generations. An elasticity of zero means that, on average, a child from a richer family ends up no better off than a child from a poorer family. This corresponds to perfect mobility. Different children will end up at different points on the income scale for a variety of reasons, but parental income has no impact. An elasticity greater than zero means that richer parents have richer children, on average. An elasticity equal to one means that, on average, income differentials between parents are passed on entirely to their children. If your parents are twice as rich as the Joneses then you end up twice as rich as the Joneses' children. In this sense it measures the persistence of income differentials across generations.

So how mobile is Britain, according to this measure? Using data on a generation born in one week in 1958, the elasticity of a person's earnings with respect to his or her father's earnings (correcting for temporary shocks, age and a variety of other issues that can bias estimates) is 0.4–0.6 for sons and 0.45–0.7 for daughters (Dearden et al. 1997). That is, if Tony's father earns twice as much as Gordon's father, then Tony would be expected to end up earning between 40 per cent and 60 per cent more than Gordon; for their sisters the differential would be between 45 per cent and 70 per cent. Income differences persist across generations. Moreover, a study that compared the 1958 cohort with one of 1970 found even less mobility in the later cohort, as 'the economic status of the 1970 cohort is much more strongly connected to parental economic status than the 1958 cohort' (Blanden et al. 2002).

Intergenerational mobility in the United States is broadly comparable to that in Britain. The best estimates of the intergenerational income elasticity for sons and fathers in the USA put it at 0.4–0.5 (Solon 1992; Zimmerman 1992), compared to 0.4–0.6 in Britain. Transition matrices indicate that upward mobility in the USA is comparable to Britain's, but there appears to be slightly more downward mobility in the USA. We saw that 52 per cent of the sons of top quartile fathers were also in the top quartile; in the US the figure is 41 per cent – although it rises to 52 per cent if one uses hourly wages rather than total earnings (Zimmerman 1992).

But what about a low-inequality country? In contrast to both Britain and the United States, in Sweden the intergenerational income elasticity for fathers and sons is only 0.13 (Österberg 2000). This is directly comparable with the US estimate of 0.4, indicating that fathers in the United States and Britain pass on perhaps three times as much of their income as in Sweden.[27] Sweden, far more egalitarian than either the UK or the USA in its income distribution, also has far higher intergenerational mobility. It is not only fairer at each point in time, but over time as well.

The Swedish case can usefully be taken as an illustration of how egalitarian political interventions can promote a more open society. Under a sustained period of social democratic government from the 1930s to the 1970s, Sweden developed a relatively high level of intergenerational mobility when compared to other nations, a fact largely attributable to political interventions by the Swedish social democrats in government (Erikson & Goldthorpe 1992: 177–8 & 388).[28] For example, a number of studies have found that the Swedes succeeded in substantially reducing the inequality in educational attainment that exists between children from working-class and children from middle-class backgrounds, an inequality that plays an important role in determining the varying life-chances of different social classes. In Sweden in this period, the probability of children from working-class backgrounds progressing into non-compulsory secondary education and entering university became substantially closer to the probability that children from middle-class families would do so (Goldthorpe 2000: 179; Jonsson 1993; Erikson & Jonsson 1996).

What caused this progressive equalisation of educational attainment? The most plausible explanation is that it was driven by the egalitarian social reforms enacted by the Swedish social democrats over the course of the twentieth century, and in particular by policies designed to narrow the inequality of condition between social classes, both in terms of their incomes and in relation to the differential levels of economic security between manual workers and professionals. A generous welfare state, full employment and a reduction in income inequality all seem to play a role. Robert Erikson, for example, has calculated that class differences in income account for roughly 10 per cent of the variation in inequality of educational opportunity, so that as the income distribution is compressed, then the attainment gap between working-class and middle-class children also narrows (Erikson 1996; Jonsson 1993).

Why should this be so? For precisely the reasons foreseen by British social democrats such as Tawney and Crosland, namely that when families possess unequal levels of economic resources and economic security, they will differentially advantage their children in their education and their subsequent search for employment. By contrast, Sweden in the period that runs roughly from 1940 to 1980 'was exceptional with regard to the fairly massive decrease in income inequality coupled with a stable low rate of unemployment'. It is likely 'that it was many years of experience of this condition that caused the educational strategies of young people from different classes to come closer to each other' (Erikson 1996: 106).[29]

The claim here, then, is similar to that made by Tawney and Crosland, namely that 'children's mobility chances are already strongly conditioned prior to their first entry into employment' by 'inequalities in the economic, cultural and social resources of families' (Erikson & Goldthorpe 1992: 394).[30] Indeed, it has been argued that life-chances are substantially determined long before entry into the labour market and even before children enter school. One recent study goes so far as to claim that cognitive development tests sat by children at the age of twenty-two months serve as accurate predictors of educational attainment at the age of twenty-six years. The test results are related to the socio-economic status of the child's family, with children from more disadvantaged families scoring lower than their counterparts from wealthier backgrounds. The study also shows that when children from more advantaged social backgrounds do badly in these early tests, they improve their performance later on, whereas children from poorer families who score badly are unlikely to make up any ground (Feinstein 2003).

These are findings that are increasingly widely discussed in government and amongst social democratic policy networks, but their significance for the distributive objectives of the Labour Party has yet to be fully understood. The key implication of this research is that any serious attempt to equalise opportunities cannot be achieved by focusing solely on reforming the education system. While educational reform is important, a successful social mobility strategy will also require a reduction in economic inequality.[31] Indeed, this case has been strengthened by the most recent sociological studies, which argue that the role of education in promoting class mobility in Britain, Sweden and other industrialised nations has in fact weakened in the late twentieth century (Jackson et al. 2005). This suggests that factors other than educational attainment are increasingly important to loosening the connection between class origins and destinations, and that public policies aimed at widening social and economic opportunity must also look elsewhere, and specifically to reducing inequality of condition, in order to deliver significant results.

Of course, the causation of intergenerational mobility is a complex matter, and factors other than economic inequality certainly have an influence on mobility rates.[32] For example, as has been widely discussed by policy-makers in recent years, it may be possible to attenuate the unequal cultural resources possessed by families through the provision of universal state childcare. There is impressive evidence that universal childcare has played an important role in facilitating the greater social fluidity enjoyed in Scandinavian countries. This is a form of pre-school intervention that has had some success in equalising the cultural resources transmitted to children from their parents (as well as advancing women's participation in the labour market), and it certainly deserves enthusiastic support. However, universal childcare coupled with British levels of economic inequality will not yield Scandinavian levels of social mobility. As Gøsta Esping-Andersen has argued, Nordic social democracy has been successful at advancing equal opportunity because it has tackled both forms of advantage transmitted by parents to their children: culture and money (Esping-Andersen 2003: 111–13).[33] Greater economic equality remains a necessary condition of any attempt to make Britain a more open society.

Inequality and fair outcomes

So far we have argued that greater economic equality is instrumentally valuable because it increases equality of opportunity and reduces poverty. However, while equal opportunity to develop one's talents and to gain access to education and employment is an important component of a just society, it is not exhaustive of a social democratic view of social justice. Here we reach more contentious issues: we will now argue that the standard meritocratic defence of the inequalities generated by the capitalist system is misguided.

This defence maintains not only that it is just that individuals should be able to realise their talents and put them to productive use, but also that it is fair that individuals should receive unequal material rewards in proportion to the social value of their talents, as revealed by their value in the labour market.[34] Unequal economic rewards, so it is argued, represent a deserved recognition of the greater social contribution made by those who possess scarce talents and put them to productive use in the economy. In short, it is often argued that a just society would be a meritocracy, where the highest material rewards would be deserved by the most 'able'. At various times since 1997, this goal has been proposed as a key ambition of Labour in government. Before he became Prime Minister Tony Blair famously said that he wanted Britain to be 'a society based on meritocracy'.[35] Blair and some of his colleagues therefore seem to believe that economic inequality is just in so far as it reflects differences in individuals' talents. This emphasis on meritocracy has been the subject of vociferous criticism, and in this connection we make two points, one historical and one philosophical.

The birth of meritocracy

As is well known, the word 'meritocracy' was originally coined by the sociologist and revisionist socialist Michael Young in the 1950s, in the context of debates about the impact of the 1944 Education Act and the political goals of the Labour movement in an apparently new, affluent Britain. Young intended his term to illustrate the pernicious consequences of a society stratified according to meritocratic criteria, where material resources and social status were bestowed upon the section of the community who were fortunate enough to possess one particular kind of ability, namely marketable talents. The result, argued Young, would be the creation of a fresh class hierarchy, just as undesirable as the class divisions that characterised Britain in the 1950s, but without the consoling message that those in the lower classes were trapped in their subordinate position by the unfairness of the system. On the contrary, in terms of the dominant social morality, they would know that their inferior status was a product of their own lack of capacity. In such a society, 'the gap between the classes naturally becomes wider' and 'the eminent know that success is a just reward for their own capacity, for their own efforts, and for their own undeniable achievement. They deserve to belong to a superior class.' By contrast, were the 'meritless' 'not bound to recognise that they have an inferior status – not as in the past because they were denied opportunity; but because they *are* inferior' (Young 1961: 106–8)?

It is less frequently noted that in making this point, Young was simply reflecting a wide range of opinion on the British left at that time, and powerfully restating the traditional arguments about social justice associated with the Labour movement over the twentieth century. His sentiments were echoed by other leading Labour figures of the period, including revisionist politicians such as Crosland and Gaitskell, and influential academics like Richard Titmuss and A. H. Halsey. In turn, this scepticism about meritocracy drew on a lengthy tradition of British ethical socialism, stretching back to such writers as Tawney and G. D. H. Cole, and before that to the social liberalism of Leonard Hobhouse and John Hobson, all of whom argued that it was fairer to see economic production as a co-operative process, reflecting the inputs of many individuals and of society as a whole, rather than as something that individuals simply delivered on their own. As Hobhouse argued, what we often take to be 'the contribution of an individual' to economic production 'is not his contribution alone. He absorbs from his society, he comes into a capital of organised knowledge and skill; he adds something to it but does not create it. The most individual production is largely a social production' (Hobhouse 1922: 162). As a result, it would be unfair to say that talented individuals deserved an unequal share of the social product, since they are simply the beneficiaries of a variety of social and genetic good fortune. Instead, social justice was thought to demand that high incomes and large concentrations of wealth should be distributed more widely, in order to recognise the contribution made by all sections of the community.[36]

Arguments such as these were employed in the bitter political controversies aroused by the redistributive fiscal policy of the Edwardian Liberal governments. They served as important justifications for the introduction of higher taxation on the wealthy and for social welfare measures that benefited the poor.[37] This view of social justice also underpinned the work of the Attlee government. Labour's 1945 manifesto, *Let Us Face the Future*, endorsed 'fair shares for all who by their effort contribute to the wealth of their community'. That government's implementation of the welfare state and its use of highly progressive taxation aimed to recognise the just claim of the working class to a more equal share of wealth and economic security (Francis 1997: 169–70 & 192–3; Tomlinson 1997: 265–83). These ideals of social justice were the arguments that defined the greatest achievements of British social democracy.

Meritocracy and fairness

Second, though, these arguments are not simply historical relics of past political struggles. Political philosophers have recently written a great deal on this subject, articulating and refining our shared moral intuitions about social fairness. Much of this work on distributive ethics bears directly on the fundamental issues of political principle that confront Labour in government today.[38]

John Rawls's 1971 book *A Theory of Justice*, perhaps the most influential work of political philosophy of the twentieth century, provides the starting point for this discussion. Famously, Rawls argued that to see individuals as responsible for their social and economic position radically overestimates the extent to which individuals are able to exert control over their productive talents. The productive endowments that they bring to the market – their marketable skills – are determined by myriad factors, many of them clearly outside the control of the individual. 'Do people really think that they (morally) deserved to be born more gifted than others?' Rawls asked. 'Do they really think that they deserved to be born into a wealthier rather than a poorer family?' (Rawls 2001: 74–5.) It is hard to justify the claim that individuals deserve to be differentially rewarded for aspects of their life that are imposed upon them by circumstances, rather than chosen by themselves (Rawls 1999: 63–4).[39]

If we start from the relatively uncontroversial view that modern democratic societies are 'founded on the equal worth of each individual' (Blair 1998: 3), with every member of the community having equal interests in leading a rich and satisfying life, then social and economic life must be organised so as to express this basic ideal. Would it be just simply to let the market determine the well-being of free and equal humans, when we know that they have little chance of determining their economic fate without assistance from their fellow citizens? This question has been well put by Stuart White:

> Why treat the economy as a race for a prize, when you know that some of your fellow citizens will, through no fault of their own, have no chance of winning? How would that be to show them the regard they are due as equals, with opportunity interests no less weighty than your own? (White 2003: 41)[40]

To make this point more concrete, consider the fact that in Britain today having a high-status job and more money means that you will live longer: the life expectancy at birth of male unskilled manual workers is currently 71.1 years, while male professionals can expect to live for 78.5 years. In other words, economic and social inequality influences the most fundamental of all dimensions of well-being: being born into a lower social class will cost a man 7.4 years of life. For women, the social class difference is smaller, but still significant, at 5.7 years (Wanless 2003: 8).[41] We believe that a society that distributes life-chances so unequally is plainly unjust. These inequalities would only be justifiable if we had strong reason to think that equalising them would have such a detrimental impact on economic efficiency that it would actually make the least advantaged worse off. As Gordon Brown has argued, echoing Rawls, wealth and income inequalities 'can be justified only if they are in the interests of the least fortunate' (Brown 1999: 44).

Even if this analysis seems unconvincing, however, and it is maintained that individuals do deserve differential rewards as a matter of justice, two points should be remembered. First, even when economic inequality is thought to be deserved, certain goods or dimensions of human well-being would seem to demand an egalitarian distribution. While a meritocrat might argue that an individual deserves to be able to eat in fine restaurants or own a new car as a result of her superior productive contribution, it is harder to claim that an individual deserves to be healthier or to be better educated simply as a result of her (or her parents') talents. This suggests that meritocrats should support the provision of certain goods as the equal entitlement of every citizen, and endorse the use of redistributive taxation to fund them.

Secondly, the inequalities that characterise British capitalism bear little relationship to any plausible distributive principle grounded on the idea of merit. Top rates of pay are now so extravagant, and the gap between the top and the bottom so large, that such salaries cannot possibly reflect differential contributions. The share of after-tax income that accrues to the top 1 per cent of earners has doubled over the last two decades, standing at 10.4 per cent by the end of the twentieth century (Atkinson 2004: 3). Over the period 1992–2003 the median salary of FTSE-100 CEOs grew by 92 per cent to £579,000, while inflation rose by 25 per cent in this period and average earnings by 44 per cent (Isles 2003: 1–2). The mean pay of FTSE-100 CEOs grew by 40 per cent over the period 2005–6, now standing at an astonishing £3 million including pension contributions, while shares in the FTSE-100 index grew by just 7.5 per cent (Watts & Roberts 2006). Are such inequalities really deserved? Have CEOs really become 40 per cent more deserving over the last year?

In this vein, the political theorist David Miller, a prominent advocate of meritocratic ideals, has argued that 'differences in people's economic performance due to personal talents and efforts are not so great as to justify very large inequalities of reward on the scale that we now see'. Miller maintains that a genuinely meritocratic society would reduce such inequality, with the state taking a strong role in ensuring a far wider dispersion of productive assets, incomes and wealth than can currently be found in capitalist economies (Miller 1999: 201 & 248–50). In the medium term, then, meritocrats should ally themselves with egalitarians in opposing the vast economic inequality currently generated by capitalism, and in arguing for public policies that would reduce these inequalities to a range that is in closer conformity to principles of social justice.

Why not reduce inequality?

Egalitarian social and economic policies are frequently opposed on the grounds that they will undermine economic growth or are simply ineffective. These objections are either unfounded or misleading, and need to be strongly rebutted.

Inequality and the economy

We have argued that reducing inequality would reduce poverty, raise social mobility and create a fairer and more cohesive society. But we have so far assumed that inequality could be reduced without major costs to the economy. This assumption is contentious, to say the least.

The argument that inequality is good for the economy can be made in several ways. It has been claimed that the rich save a higher proportion of their incomes than the poor, so that higher inequality implies higher investment and therefore growth. High levels of taxation are taken to have negative incentive effects, inducing wealth creators to work less and create less wealth. In today's globalised world, high taxes are also thought to scare away investors and the talented. These and other claims are supposed to convince us that taxing the rich or otherwise reducing inequality would, in the long run, hurt everyone.

On the theoretical level, the first point to make is that there are also arguments for the proposition that high inequality can be bad for growth. First, the loss of human capital caused by inequality hurts the economy. We have seen that poverty lowers educational achievements. Evidence from the United States also shows that even among high-achieving children, rates of participation in higher education rise with family income (Choy 1999, Table 4). Every child who leaves school early, or achieves low grades, or fails to go to university because they grew up in a low-income household, represents a loss of human capital – and a barrier to Gordon Brown's goal of creating a 'knowledge economy' based on a 'knowledge society'.[42]

Second, many economists and politicians argue that entrepreneurship is important for growth. But poor people have great difficulty in getting credit for productive enterprises, as lenders are far more attracted to borrowers who start with some capital of their own. A lack of capital can therefore put paid to potentially wealth-creating ideas. This is the economic rationale for so-called asset egalitarianism (White 2003: 195–6; Bowles & Gintis 1998a), and is one of the arguments behind the government's 'baby bonds'. This bond comprises a trust fund of £250 given to each child at birth and topped up with a further £250 at age seven, with children in lower-income families receiving £500 at each stage. This is an important first step in addressing wealth inequality, but it is far from sufficient. The estimated £1,600 lump sum that even the larger fund will yield by the time the child reaches eighteen is far short of a reliable source of seed capital.[43]

The third argument refers to what economists call 'efficiency wages'.[44] Workers who are paid better often work better, for a variety of reasons. They feel more valued and may therefore work harder than the minimum required; there is a greater motivation to keep a higher-paid job, inducing greater effort; and people on very low wages often have to work very long hours on more than one job, and are too tired and worn out to work effectively.

There are also theoretical flaws in the arguments for greater inequality. First, the argument that inequality raises investment by raising the savings rate loses validity in a world of capital mobility. Nowadays savings from one country can be invested in another with little cost, so investment rates have less and less to do with domestic savings rates. So even if it were true that high inequality led to high domestic savings, this would tell us little about domestic investment. Second, economic theory is used to argue that taxes induce less work effort as workers feel the extra hour is 'not worth my time'. But economic theory is equally consistent with taxes inducing more work effort, as workers put in extra time in order to make up for lost income. A tax rise may induce a well-paid businessman to work less, or may induce him to work more to keep his children in private education. These two effects are known, respectively, as the substitution and income effects. Which one dominates for an individual depends on precisely how the tax change impacts on that individual, so a given tax change will affect different people in different ways.

The theoretical debate cannot be conclusive and the question can be resolved only by examining the evidence. So, is inequality good or bad for growth? According to the empirical evidence, neither. Perhaps disappointingly, the large quantity of research on the relationship comes to no clear conclusion. Different studies, using different methods, have widely differing results, and the most recent research has shown that this variability is due to inherent ambiguity in the data (Banerjee & Duflo 2003). Put another way, the evidence implies that there is just no robust relationship between inequality and growth.

Moreover, the best evidence on OECD countries indicates that welfare states are not bad for growth. Careful design of tax regimes that avoid the risk of strong disincentives, and social expenditures such as in-work benefits and public childcare that encourage work, result in no net loss to the economy (Lindert 2004, Ch. 10). Research on microeconomic data has also found, for instance, that the sweeping tax cuts of the 1980s in the United States had no impact on growth, despite the hopeful predictions of the Reagan administration (Bosworth & Burtless 1992).

These findings imply that those who wish to lower inequality need not fear negative consequences for the economy. Whether redistribution does have negative incentive effects, or does scare off marginal investors and some of the talented, remain open questions without uncontroversial answers. But if these effects do exist, then the positive effects of a more equal distribution of income counter-balance them. Overall, economic regimes that foster low levels of inequality suffer no adverse effects from doing so.

Again, we are not claiming that redistribution has no limits. It is highly plausible that marginal tax rates approaching 100 per cent would have strong negative economic effects, at least in modern capitalist economies. But these effects evidently do not bite at the level of equality attained by the most equal countries in the world. As long as Britain remains behind the more egalitarian European countries, whose top marginal tax rates reach 60 per cent and whose Gini coefficients remain around 0.24 or 0.25, we need not fear for the economy.

Can we reduce inequality?

One common response to rising inequality is to claim that it is inevitable: that, even if we regret it, we can do little to stop the forces of globalisation and technological change that are pushing up those Gini coefficients. Is inequality out of our hands?

Simply put, no. Government policies affect economic inequality in a variety of ways. Many retired and unemployed people live off state transfers in the form of unemployment insurance or pensions, financed by taxes. Minimum wage laws and in-work benefits, where they exist, largely determine the incomes of the working poor. Wages in the middle of the distribution are affected by wage councils, unions and other collective bargaining practices. Taxes come out of wages and investment returns; estate taxes can dramatically reduce inherited wealth. Laws and institutions help to determine market incomes and mediate how market incomes translate into disposable incomes. As the political philosopher Ronald Dworkin has put it, 'When government enacts or sustains one set of such laws rather than another, it is not only predictable that some citizens' lives will be worsened by its choice but also, to a considerable degree, which citizens these will be' (Dworkin 2000: 1).

First, consider the impact of fiscal policy on inequality. Britain's great explosion of inequality occurred in the 1980s. But fiscal policy did more than the market to produce this rise. In 1984 fiscal transfers – cash benefits and direct and indirect taxes – reduced market inequalities by 19 percentage points; in 1990, after a series of cuts in direct taxes that primarily benefited the rich, combined with real reductions in state benefits, this redistributive impact had declined to 12 points. Seven points of the rise in the Gini coefficient can therefore be attributed to fiscal changes; meanwhile, market income inequality rose by only 3 Gini points. Over a similar period Canada followed the opposite path, using fiscal redistribution to compensate for a 5-point rise in market inequality over the period 1980–94, achieving stable disposable-income inequality. The redistributive impact of the British fiscal system rose somewhat to 15 Gini points in 1997/8, and after a dip to only 12 points in 2000/1 it has now, at 15 points, returned to the level at which the Labour government found it.[45]

In reference to estimates of the revenue that would be raised by a 50 per cent tax rate for incomes over £100,000, Tony Blair asserted that 'every single piece of analysis that has ever been done indicates that . . . large numbers of those taxpayers – probably the wealthiest – would simply hire a whole lot of new accountants to do this and that. And actually your tax take would be a lot less.'[46] He produced no evidence to support this claim – which is scarcely surprising, as none exists. Britain's own experience, and the experience of other countries, demonstrates that taxes are effective tools for redistribution.

Second, consider poverty today. Data from the European Union shows that cash benefits have an enormous impact on the poverty rate. In 2003, 18 per cent of UK citizens were living in poverty; without benefits that figure would be 33 per cent (Guio 2005: 4).[47] In the EU15 income poverty stands at 16 per cent, which would rise to 39 per cent without benefits (ibid.). Inequality is not an inevitable outcome of market interactions, and greater redistribution lowers both inequality and poverty.

Turning to minimum wages, in April 1999 the Labour government introduced a £3.60 per hour minimum for those aged twenty-two and over, and a £3.00 minimum for those aged 18–21. These rates have steadily been raised faster than inflation and now stand at £5.35 and £4.45 respectively. When the legislation was introduced the wages of the bottom 6–7 per cent of wage earners rose to meet the new minimum, while the wages of those higher up the distribution were not affected (Dickens & Manning 2002). Contrary to the confident predictions of right-wing economists and politicians, the introduction of the minimum wage and its subsequent rises have had no effect on employment (Stewart 2003). It has therefore been an effective measure for reducing wage inequality and poverty – although it was brought in at too low a level to impact upon our representative poor wage-earner at the tenth percentile.

Conversely, in the United States in the 1980s the federal minimum wage was kept at a fixed nominal level and consequently declined in real terms – and this decline caused a rapid rise in inequality, particularly in the bottom half of the distribution (Teulings 2003). Again, changes in the minimum wage in the USA have not had the employment effects predicted by the right: those states that chose to implement a higher minimum wage suffered no negative impact on jobs.

The substantial impact of policies and labour market institutions on inequality gives the lie to the myth that governments are powerless in the face of disequalising forces, whether from globalisation or from technological change. Experiences of minimum wages show that government policies can affect market inequality. A comparison of fiscal policies across countries and over time shows that governments can affect the extent to which market inequality filters through to inequality between families and individuals. Governments play a large role in the determination of economic inequality and can choose to reduce it or increase it.

Conclusion

Recent political discussion on the left has stressed the complexity of social and economic deprivation, and has highlighted the profound constraints that are now said to narrow the scope for political action on these issues. While the rigour and clarity of this work may be variable, it has undoubtedly identified important questions for ethical socialists and social democrats. However, in so far as this quest for greater complexity neglects the importance of economic inequality, it should be seen as a displacement exercise, a distraction from the left's most important political goals that fixates on complexity for its own sake.

The distribution of income and wealth is a major determinant of the quality of life enjoyed by the citizens of a political community, and significantly influences the distribution of other goods that ethical socialists care about: freedom, educational opportunity, civic participation and so on. We have shown that economic inequality on the scale now present in Britain presents an enormous challenge to the core values and policy objectives held by even the most modern of social democrats. Inequality matters if Labour is to reduce poverty and to promote social mobility, and if it ultimately aspires to make the values of social justice and solidarity a reality in Britain.

While we have shown that Labour's own stated political objectives demand a greater focus on a substantive economic egalitarianism, we have not commented on two issues that are clearly of great political importance. First, we have largely concerned ourselves with political objectives rather than methods of realising those objectives and so have not proposed any concrete policy strategy for reducing inequality. We have demonstrated the redistributive potential of fiscal policy and minimum wage legislation; other labour market laws and institutions – unions and their regulation, wage councils, centralised bargaining – play important roles in the more egalitarian European countries. But each country has its own strategy, suited to its own history and circumstances, and economic models cannot be imported wholesale. Policy-makers need to broaden their ambitions and to think creatively about how such a strategy for Britain could be forged. The policy-maker's tool kit has been swelled in recent years by some important innovations, from in-work benefits to baby bonds; more systemic shifts, such as those proposed by advocates of 'stakeholder capitalism', must also be contemplated. Having argued that Britain must find a more egalitarian path, the task remains to debate and construct that path.

Second, we have not discussed the equally important question of public opinion and the extent to which egalitarian values resonate with the views of the electorate. We would argue that the kinds of argument recounted in this chapter appeal to a number of values shared by the public and are capable of winning political debates when articulated with conviction. Of course, this is not to say that there are no electoral difficulties raised by the politics of equality. But the attitude of the electorate to the distribution of wealth is open to debate. Although contributors to the media habitually assume a straightforward dislike of egalitarian politics on the part of the public, this may not correspond to what British voters in fact believe about inequality. To cite only one piece of evidence, the British Social Attitudes survey has consistently shown that a large majority agree with the proposition that the gap between the rich and the poor is too large, with over 80 per cent agreeing with this statement from the early 1990s onwards (Hills 2004: 32–6). The implications of this finding, and how it relates to public attitudes towards taxation and public spending, should be an important topic in debates about social democratic political strategy. But it should not be assumed from the outset that there is no popular support for the reduction of inequality.[48]

As Stuart White has argued, it may be that appeals to a strong form of economic reciprocity offer the most fruitful line of egalitarian argument today. The low paid make a massive contribution to the necessary work of society, and they should at least receive a more equal share than at present, a 'civic minimum', to recognise their contribution.[49] A similar idea underpinned Polly Toynbee's book *Hard Work*, which powerfully demonstrated that those who undertake vital but low-status work make extraordinary efforts and sacrifices in return for miserly wages and appalling working conditions.[50]

Perhaps, as some pundits have suggested, arguments against inequality are best couched in terms of appeals to 'fairness'. After all, even the 1945 government pursued egalitarian policies described as securing 'fair shares' for the working class. But any refinements to political language for sound-bites and media interviews should not make social democrats lose sight of their key political objective: an end to the gross economic inequality that scars our nation and wastes the lives of so many of our fellow citizens. The task ahead is to construct an egalitarian future for Britain.