



A CATALYST WORKING PAPER

Why inequality matters

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Published in October 2004 by

Catalyst
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ISBN 1 904508 12 X

Distributed by
Central Books
99 Wallis Road,
London E9 5LN
Telephone 020 8986 4854

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Acknowledgements

We are very grateful to Tony Atkinson, John Goldthorpe, Graham Hobbs, Martin McIvor, Zofia Stemplowska, Stuart White and the Catalyst Research Associates group for reading and commenting on earlier drafts.

Executive summary

1. Introduction

- Many people, including some on the Left, express doubts about whether economic inequality matters to public policy. At the same time, Britain has become one of the most unequal countries in Europe. This pamphlet explains why this growth in economic inequality should remain a central political concern.

2. Inequality and poverty

- Inequality and poverty are closely connected: more equal countries have lower levels of poverty. Britain suffers from high levels of poverty, and poor people in Britain are substantially poorer than the worst off in more equal industrialised countries. In the developed world, inequality is more important than per capita GDP in determining the living standards of the poor. By ignoring inequality and the growth of incomes at the top of the distribution the government is compromising its efforts at poverty reduction.
- Poverty in rich countries is usually defined relative to average incomes. But despite being richer than in the past, low-income households in Britain today suffer from serious deprivations that are unnecessary and unacceptable in a country as rich as Britain. The decision to redistribute from the rich to the poor is just the decision to put scarce resources to better use.

3. Inequality and social justice

- The sharp contrast perceived by some between “equality of opportunity” and “equality of outcome” is misguided. Egalitarian social democrats have always argued that the promotion of equal opportunity will in fact require greater material equality: for individuals to realise their potential, they will have to enjoy roughly similar economic and social starting points.
- Empirical evidence shows that Britain is a long way from realising equal opportunity: the life chances of an individual in Britain today are significantly influenced by the economic and social position of his or her parents. But those countries which have succeeded in facilitating greater

intergenerational mobility, notably in Scandinavia, have only done so by promoting greater material equality.

- The large inequalities of wealth and income currently found in Britain are fundamentally unjust, whether one endorses an egalitarian or meritocratic view of social justice. They cannot plausibly be defended as deserved rewards for varying talents.

4. Inequality and social solidarity

- Inequality in Britain today undermines social cohesion and causes the disappearance of a shared public realm. Unequal societies suffer from lower levels of interpersonal trust, higher levels of violent crime, and the residential segregation of social classes. High inequality allows the wealthy to dominate political decision-making and to reduce political support and funding for public services.

5. Why not reduce inequality?

- It cannot be straightforwardly argued that reducing inequality is a threat to individual freedom. Economic inequality distributes individual freedom unequally: the richer you are, the greater ability you have to do as you want without interference from others.
- There are theoretical arguments both for and against the proposition that economic inequality is beneficial for economic growth, but the empirical evidence indicates that there is no relationship either way. Promoting equality is not bad for the economy.
- Governments are not powerless before inexorable anti-egalitarian forces. Many policy tools exist to promote greater equality, and the recent growth of inequality in Britain is largely due to policy decisions taken by government during the 1980s. Governments play a large role in the determination of economic inequality and can choose to reduce it or increase it.

6. Conclusion

- 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. The key political objective of social democrats must remain to end the gross economic inequality that scars Britain, and wastes the lives of so many of our fellow citizens.



Introduction

Should we care about economic inequality? 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 on to old socialist dreams made utopian by fleet-footed global capital and the disappearance of the working class.

“Why do we care so much?” mused 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.” (1) 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, while Tony Blair famously refused to say that he cared about the gap between rich and poor when interviewed before the 2001 general election (2).

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 (3).

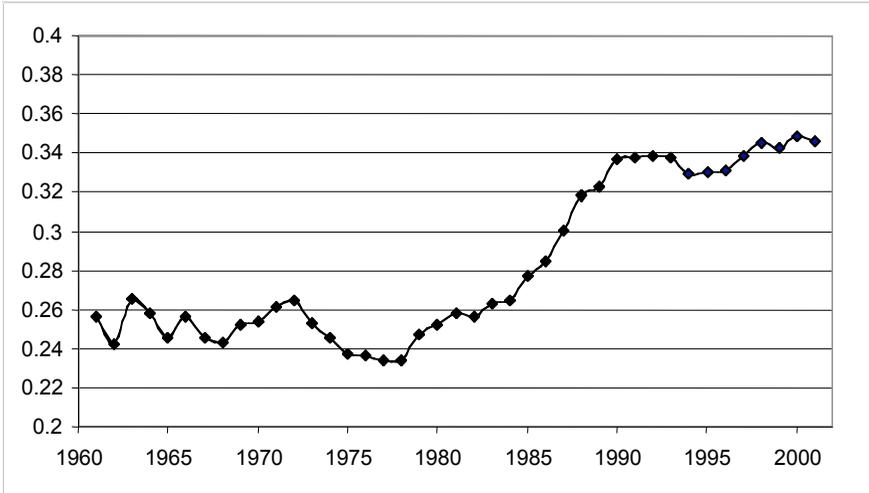
Yet while this narrative had some plausibility for the purposes of electoral manoeuvring in the late 1990s, it has significant flaws as a guide to policy-

making in government, flaws which will in turn undermine Labour's efforts to win further elections 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. 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." (4) The social exclusion minister, Yvette Cooper, recently argued that "inherited class injustices" must now be placed at the heart of Labour's agenda, requiring the government "to tackle inequality as well as exclusion." (5) As yet, these 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 is now overdue. In this pamphlet, we provide the first step in such a reassessment: a detailed exploration of the reasons for favouring greater economic equality (6).

Britain entered the 21st century with a higher level of income inequality than at any time since World War II (7). Until the 1980s we were among the more egalitarian European countries, comparable to France and Germany. In the 1960s and 1970s the Gini index of income inequality – which takes the value zero for perfect equality and 1 (or 100 percent) when one person has all the income – fluctuated around 25 percent (see box on measuring inequality). By 1990 it had risen to 34, an unprecedented rate of increase (Figure 1) (8). 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 (9). Since 1980, the disposable incomes (income net of direct taxes and benefits) of families at the 90th percentile have grown twice as fast as incomes of families at the 10th percentile (10). The after-tax share of the very richest 1 per cent of households has doubled since 1978, standing at 10.4 percent in 2000 (11). Inequality of wealth is even more dramatic: the wealthiest 10 per cent in Britain own 52 per cent of the country's total marketable wealth, an increase from the early 1980s (12). 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 (13).

Figure 1: Inequality in the UK

Gini coefficient 1960-2001



Source: Institute for Fiscal Studies

Note: Equivalised per capita household income.

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 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 21st 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, this pamphlet would not have been necessary, indeed may well have seemed a statement of the obvious. 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

Measuring inequality

Inequality can be measured with a wide variety of indexes. We often refer to the most common index, called the Gini coefficient, which takes the value 0 for perfect equality and 1 (or 100 percent) when one individual has all of the income. Other measures exist, such as the Theil and Atkinson indices, but for clarity we do not use them.

We also refer to percentiles of the income distribution, typically the 10th, 50th and 90th percentiles. The 10th percentile is the position of the individual or household where 10 percent of the population is poorer and 90 percent is richer. Similarly, the 50th percentile is the median income, with equal numbers richer and poorer, while the 90th percentile is richer than 90 percent of the population. Another inequality measure we do use, based on these, is the "10/50 ratio", which measures the ratio of incomes at the 10th and 50th percentiles, and is a measure of inequality at the bottom of the distribution. A value of 46 percent means that someone at the 10th percentile has 46 percent of median income. Some studies report income shares of the top or bottom ten percent of the income distribution. But measuring incomes at the very top of the distribution is extremely difficult, so what is recorded as the top ten percent will often exclude the very richest (14). For this reason the percentile figures we report are more reliable measures.

Not only are there many inequality indexes, but there are also a number of ways of defining income distributions. For instance, income might be before or after taxes and transfers. Some income surveys impute the implicit value of rent to those who own their own homes. The distribution might count the household as the unit of analysis, or the individual. Moreover, the meaning of "per capita household income" can also vary. The simplest concept is just the total income (however defined) of a household divided by the number of occupants. But the needs of children are typically cheaper than the needs of adults, so researchers often count children as some fraction of an adult. There are also economies of scale within households, since people can pool resources and share many goods. Each of these adjustments can be made using a variety of "equivalence scales", and different studies often use different equivalence scales.

This pamphlet refers to a variety of sources. Unless specified otherwise, estimates of inequality and poverty use "disposable income" as their income concept, which is income after direct taxes and cash benefits but before housing costs and other expenditures, and the unit of analysis is the individual person. But the equivalence scale used varies across different studies, and the underlying data are usually from different sources. Estimates from different studies are therefore usually not strictly comparable, and we make cross-country or over-time comparisons only on the basis of estimates using the same methodology.

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, 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 egalitarian 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 compelling, hard-headed arguments of crucial political importance. Simply because the arguments have temporarily slipped out of view of certain political journalists and government ministers does not diminish their relevance.

The pamphlet 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. Secondly, we show that inequality matters to social justice. Any realistic strategy aimed at promoting equality of opportunity and thus greater intergenerational mobility 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. Thirdly, we argue that greater social solidarity and social inclusion can only be fostered in an egalitarian society, where the community is not fragmented into separate and unequal social groups. Finally, we respond to three common arguments against economic equality: that it undermines freedom, that it impairs economic efficiency, and that it is the product of forces outside of the control of national governments.

2

Inequality and poverty

The desire to tackle poverty has long animated the Left in Britain, ever since B. S. Rowntree's pioneering studies publicized 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.

We argue in this section that a serious attempt to abolish poverty must also tackle inequality. It is certainly possible to raise the incomes of the poor to some degree without addressing incomes higher up the distribution. But major poverty reduction is possible only through substantial redistribution from richer households to poor households – whether this be done through taxes and benefits, or labour market policies and institutions that equalize the earnings distribution.

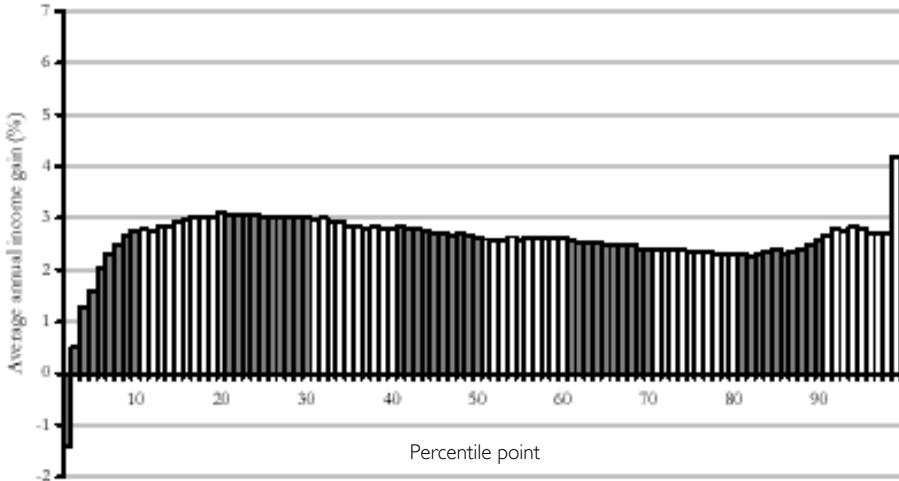
Inequality and poverty reduction

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 10th percentile grew by an average of 2.8 percent each year from 1996/97 to 2002/03. This is comparable to the 2.6 percent growth enjoyed by the 90th percentile over the same period.

But the majority of those in the bottom ten percent saw far lower income growth, the bottom 2 percent seeing their income actually *fall*, while the incomes of the top one percent grew by more than 4 percent per year (Figure 2). The very poorest have lagged behind the rest of the population while the very richest have surged ahead, leading to a rise in the Gini from 33.1 percent to 34.4 percent (15).

Figure 2: Income growth under New Labour

Average annual real income growth by percentile point, 1996/7 – 2002/3



Source: Brewer et al, (2004), Poverty and inequality in Britain: 2004, IFS, p18.

Note: The change in income at the 1st percentile is not shown in this graph; it is reported as an annual fall of 14 percent.

Labour's record on incomes at the bottom is better than that of the Thatcher or Major governments, as sustained economic growth has 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?

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

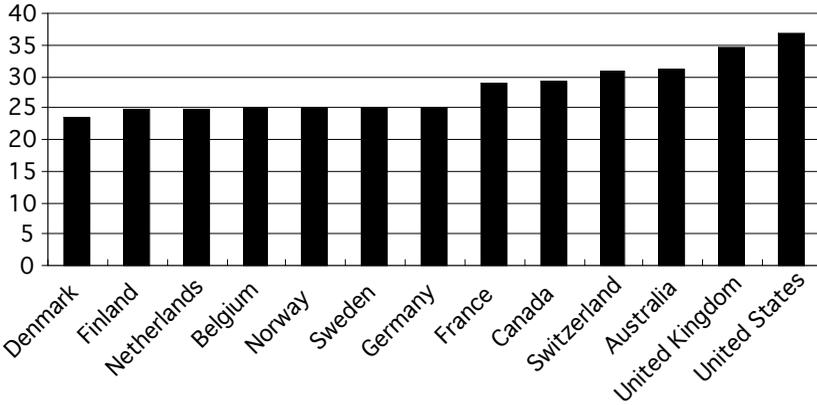
and therefore lower growth. If the economy suffers, goes the argument, then necessarily the poor will suffer too. As a rising tide lifts all boats, so the poor are best served by policies that focus on economic growth.

How well does this argument stand up? We will return to the broader issue of inequality and economic growth later, but most important is the following empirical question: does inequality in fact harm the poor?

Comparable data are difficult to assemble, but the most recent study compares 13 rich countries, 10 in Western Europe, plus the US, Canada, and Australia (16). By using “purchasing power parity” exchange rates it takes into account price differences across countries. At \$33,800 the US has the highest per capita GDP by some way – the UK, Sweden, France and Germany reach only about two thirds of this figure, while the closest rival Switzerland achieves 85 per cent. The US and the UK are 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 1 and Figure 3) (17).

But what about the poor in these countries? Consider the person at the 10th 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 10th percentile is the representative poor person. In the US 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 US is the highest by some way, at the 10th percentile the US comes 11th out of 13: the American is poorer than 10 of his 12 counterparts in the other countries. The Swiss at the 10th percentile is 41 per cent better off; the French and 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 Brit, 15 per cent poorer than his American counterpart. This means that the poor Briton 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 owing to our high level of inequality they remain far behind their European potential.

Figure 3: Inequality across countries (Gini coefficient)



Source: Luxembourg Income Study, 'LIS Key Figures' website, March 2004 (<http://www.lisproject.org/keyfigures/ineqtable.htm>).

Note: Equalised per capita household income; comparable data are not available for all European countries.

Table I: National prosperity and poverty 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), 'Comparing Living Standards Across Nations'.

* Purchasing Power Parity exchange rates

Perhaps more shocking are the figures for children. Poor American children are worse off than poor children in all the other countries, but for the UK. At the 10th percentile a French child is 26 per cent better off than an American child, the Swedish child 37 per cent, the German child 14 per cent. Even the Australian child is 3 per cent better off. The British child, sadly, is 11 per cent worse off even than the American, and nearly 30 per cent worse off than the French – at the bottom of the pile like her parents.

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), in 2001 13.6 per cent of the population were below the poverty line in the US, 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 (18).

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 US 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 10th percentile with the median (see box on measuring inequality). 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 (19). If Britain's 10/50 ratio rose to the level 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. (20)

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. Indeed, the indexing of benefits to prices rather than wages – so that those living on benefits keep up with inflation but fall further and further behind the average wage-earner – is justified by precisely the view that poverty should not be defined in relative terms.

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 necessities 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 “[t]he poorest creditable person, of either sex, would be ashamed to appear in public without them” (21). Somewhat later, in 1890, the economist Alfred Marshall echoed the sentiment when he wrote that “[e]very estimate of necessities must be relative to place and time”, including as necessities “some consumption of alcohol and tobacco and some indulgence in fashionable dress” (22).

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 percent 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 (23).

The fact that 89 percent 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 2001/02 17 per cent of people lived in poor households by this definition, although the figure rises to 21 per cent for children (24). Many are employed, or working poor. Our representative poor person at the 10th percentile therefore lies close to the middle of this group, and a couple with two children at this point of the distribution take home a little over £1,000 per month after taxes and benefits (25). These people are not short of calories and are likely to have a TV and VCR. So should they really be described as being in poverty?

While we certainly support the relative conception of poverty, the argument for redistribution does not rest on the use of a relative definition. 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 Great Britain. One third of the number officially in poverty, or 6 per cent of adults, cannot afford to keep their homes free of damp; nearly a quarter of the number in poverty – 4 per cent of adults – cannot afford fresh fruit and vegetables daily, and a similar number cannot afford a warm, waterproof coat (26). 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 (27). 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 16 (28). And adults in the poorest fifth of the population are twice as likely to develop mental illness as those on average incomes (29). 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 £1000 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 90th percent taking home over £4,000 a month, or at the 95th percentile on over £6,000, to raise the income of the poor British family on £1,000 a month (30). 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 1935,

I am one of those people who think that 1s. in a poor man's pocket usually buys more welfare than 1s. in a richer man's pocket; it meets more urgent needs. (31)

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 day-care 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 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 one 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 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, when we discuss inequality and economic performance, even countries far more egalitarian than Britain have suffered no identifiable economic loss through redistribution. If the government is to make serious inroads towards eliminating poverty, inequality reduction must be at the top of the agenda.

3

Inequality and social justice

At the outset of the 1987 general election campaign, as another term of Thatcherism loomed, Neil Kinnock gave one of his greatest speeches. Expressing the fundamental beliefs that draw so many people into the Labour Party, he provided eloquent testimony of the savage 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.” (32)

This speech illustrates more evocatively than we could possibly manage 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, including markets. 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 the following pages, we ultimately endorse an egalitarian view of social justice with respect to the distribution of economic resources. However, we also argue that whether you are pulled in a meritocratic or egalitarian direction at a philosophical level, both positions lead to the same political conclusion: the inequalities of wealth and income that characterise Britain today are unjust.

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 fitted 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 her talents and to get a job that suits her own abilities. If we lived in a country where individuals' life chances were to a large extent determined by the social class they were born into, then we would doubt whether such a society was just. This means that a just society would 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.

Economic and social inequality

Economic inequality and social inequality are distinct concepts and should not be conflated. Economic inequality, as we use it, refers to inequality between people of income, wealth, and other factors that directly lead to differences in consumption possibilities over time. From this point of view an accountant, construction worker, shop owner, or manager earning £25,000 per year are all equivalent. Allowance must in principle be made for consumption opportunities over a person's lifetime, so if at 30 years of age a construction worker and accountant earn the same income, but at 50 years of age the accountant earns more, then a complete description of economic inequality would take this into account. But it is only differences in real incomes and assets that matter to economic inequality.

Social inequality or class inequality, on the other hand, as understood by sociologists in studies of social mobility, refers to differences between people in their *economic relationships at work*. One influential definition of social class conceptualises economic relationships in two dimensions: the ease with which a worker can be monitored at work, and how specific are the skills needed for the job. Unskilled, routine workers are easy to monitor and do not require specific skills, and for this reason employers will want to pay such workers, and to hire and fire them, according to prevailing market conditions at a given moment. Professionals and managers, on the other hand, are harder to monitor and require more specific skills. These characteristics lead employers to reward good performance and the acquisition of skills through long-term contracts and the prospect of promotion. Such workers can therefore be expected to enjoy greater employment and wage stability, and numerous studies have shown that these predicted effects do obtain: social class, so defined, has a strong relationship with lifetime levels of income, variability of income, and the probability of becoming unemployed (33).

Social inequality and economic inequality are therefore closely related. In particular, the structure of social class inequality is a powerful explanatory factor in understanding economic inequality. For our purposes it is primarily this explanatory role that makes social class important, while economic inequality is more directly undesirable. Moreover, while it may not be possible to eliminate class differences in employment relations, it is certainly possible to reduce the economic implications of such differences. Labour market institutions and laws can reduce economic differences between social classes even while the class differences remain. We therefore take social class to be an important explanatory factor, but our core concept of interest is economic inequality.

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. (34)

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 (35). 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. Economic inequality matters because it distributes opportunities unequally.

The connection between inequality and intergenerational mobility can be illustrated by considering the following remark by the Prime Minister. In a pamphlet written in the first flush of the Labour government, Tony 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. (36)

This quote exemplifies some unfortunate but widespread misunderstandings, both about the politics of the Left, 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 straightforwardly contended 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. (37)

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.” (38) Tawney’s ideas were shared by many influential progressive theorists of the early twentieth century, including socialists like G. D. H. Cole and Harold Laski, and left liberals like Leonard Hobhouse and John Hobson.

Significantly, Tawney's model of egalitarian social justice was also influential on the group of revisionist social democrats who rose to prominence in the Labour Party in the 1950s and 60s. Politicians and academics such as Hugh Gaitskell, Tony Crosland, and Michael Young specifically argued that the promotion of 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!" (39)

Social democrats have long argued, then, that "inequality of outcome today is a cause of inequality of opportunity in the next generation." (40) 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 Britain of the 21st 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 characterized 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 and 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 has 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 (41).

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 1900-1909, 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 1950-1959, this figure was 73 percent (42).

A society characterised by equal opportunity loosens the connection between class origins and destinations. 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 4 times as likely to end up in these bottom classes as a man born into class I or II (43). 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 they end up. That is, 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 2 is a 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 over 5 times as likely to have fathers from the top 20 per cent as from the bottom 20 per cent (44).

Table 2: Measuring social mobility

Intergenerational transition matrix for Britain

		Son's quartile			
		Bottom	2nd	3rd	Top
Father's quartile	Bottom	33.8%	29.7%	23.8%	12.8%
	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, Machin and Reed, (1997), p62.

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 that wealth literally be 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?

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 to

0.6 for sons and 0.45 to 0.7 for daughters (45). That is, if Tony's father earns twice as much as Gordon's father, then Tony would be expected to end up earning 40 to 60 percent more than Gordon; for their sisters the differential would be 45 to 70 percent. Income differences persist across generations. Moreover, a study of changes in mobility over time finds that the generation born 12 years later, in 1970, enjoyed even less mobility than this 1958 generation (46).

Intergenerational mobility in the US is broadly comparable to that in Britain. The best estimates of the intergenerational income elasticity for sons and fathers in the US put it at 0.4 to 0.5 (47), compared to the 0.4 to 0.6 in Britain. Transition matrices indicate that upward mobility in the US is comparable to Britain, but there appears to be slightly more downward mobility in the US. We saw that 52 percent of the sons of top quartile fathers were also in the top quartile; in the US the figure is 41 percent – although it rises to 52 percent if one uses hourly wages rather than total earnings (48).

But what about a low-inequality country? In contrast to both Britain and the US, in Sweden the intergenerational income elasticity for fathers and sons is only 0.13 (49). This is directly comparable with the US estimate of 0.4, indicating that fathers in the US and Britain pass on perhaps three times as much of their income as in Sweden (50). Sweden, far more egalitarian than either the UK or the US 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.

Inequality and intergenerational mobility

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 (51). 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 (52).

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 (53).

Why should this be so? For precisely the reasons foreseen by British social democrats like 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. (54)

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.” (55) 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 22 months serve as accurate predictors of educational attainment at age 26. 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 (56).

These are findings that are increasingly widely discussed in government and amongst social democratic policy networks (57), 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. 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 (58). 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. Factors other than economic inequality certainly have an influence on mobility rates. However, other factors typically cited in this connection, such as varying levels of parental support and other parental cultural resources, may correlate to some extent with the wealth commanded by particular families (59).

It may be possible to attenuate the unequal cultural resources possessed by families separately, through the provision of universal state childcare, as has been widely discussed by social democratic policy-makers in recent months. 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 as a measure for Labour to implement in a third term.

However, universal childcare coupled with British levels of economic inequality will not yield Scandinavian levels of social mobility. As 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 (60). 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 suggested that greater economic equality is instrumentally valuable insofar as it contributes to realising equal opportunity and reducing 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 ideals of distributive justice. There are strong grounds for favouring greater economic equality because the differential economic rewards generated by contemporary capitalism unequally distribute well-being and the opportunity to live a fulfilling life on the basis of forces that disadvantaged citizens cannot control: social class inequalities and inequalities in marketable talents. Here we reach more contentious issues, bearing on ethical judgements that the current arbiters of political feasibility deem to be beyond the pale. Nonetheless, we regard the standard meritocratic defence of such inequalities to be misguided.

This defence has been well rehearsed in political discourse over the last

decade or two, and 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 (61). The measure of social value usually employed in this context is the scarcity value of individuals' productive skills as measured by market forces. 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" (62). Certain other commentators and policy-makers have agreed, urging that "the claims of merit" should be "taken seriously" by the Left (63). Tony Blair and some of his colleagues therefore seem to believe that economic inequality is just insofar as it reflects differences in individuals' talents. This emphasis on meritocracy has been the subject of vociferous criticism, and in this connection we would 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?” (64)

It is less frequently noted that in making this point, Young was simply reflecting a widely shared 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 egalitarian social democracy, stretching back to such writers as R. H. Tawney and G. D. H. Cole, and before that to the radical 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.” (65) As a result, it would be unfair to say that talented individuals *deserve* 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 (66).

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 (67). This view of social justice also underpinned the work of the Attlee government. Labour's 1945 manifesto 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 (68). These ideals of social justice were the arguments that defined the greatest achievements of British social democracy.

Meritocracy and fairness

Secondly, though, these arguments are not simply historical relics of past political struggles, but are statements about social justice that can be given a powerful philosophical defence. 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 today (69).

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 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?" (70) It seems excessively harsh to conclude that individuals deserve to be differentially rewarded for aspects of their life that are imposed upon them by circumstances, rather than chosen by themselves (71).

As a consequence, then, if we start from the relatively uncontroversial view that modern democratic societies are "founded on the equal worth of each individual" (72), 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 human beings, 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 the political theorist 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? (73)

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 you 7.4 years of life. For women, the social class difference is smaller, but still significant, at 5.7 years (74). 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." (75) We will return to the relationship between inequality and economic efficiency in more detail later.

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 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 actually existing British capitalism bear little relationship to any plausible sounding 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 century (75). The median salary of FTSE 100 CEOs has grown by 92 per cent in the last 10 years to £579,000 (inflation rose by 25 per cent in this period, average earnings by 44 per cent). In 2001, as the value of top companies fell by 16 per cent, top executives gave themselves a 12 per cent increase in pay, raising bonuses by 34 per cent (76). Are such inequalities *really* deserved? Have CEOs *really* become 92 per cent more deserving over the last decade?

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 (78). 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.

4

Inequality and social solidarity

Current levels of inequality are not only unjust; they also undermine social solidarity. Egalitarians have long argued that one of the most objectionable features of inequality is that it places individuals into separate social classes that are isolated from one another in their day to day lives, that are often locked into antagonistic economic conflict, and that lack any shared conception of the public good. It seems appropriate to reaffirm this objection to inequality at a time when centre-left policy is dominated by concern about “social exclusion” and by the effort to forge a new consensus around higher public spending on collective goods. Economic inequality, then, causes social exclusion and the disappearance of a shared public realm.

Appeals to principles of solidarity and community can of course be controversial (and illiberal), but at a minimum any government of the Left must defend the value of certain shared social experiences, as a means of ensuring that individuals view themselves as part of a common project and meet as equals in civic and social life (79). Although the politics of social democracy has therefore always involved some kind of critique of unlicensed individualism, the importance of the idea of community was powerfully reasserted in the late 1990s, as Labour Party leaders became increasingly attracted by aspects of so-called “communitarian” political philosophy. Appalled by the social fragmentation induced by almost two decades of neo-liberal economics, many social democrats welcomed this import of ideas pioneered by North American policy entrepreneurs. To some extent, this communitarian turn can be said to be simply restating the position of British social reformers from earlier in the twentieth century. Both the radical Edwardian new liberalism and Labour’s own Fabian socialism were staunchly communitarian in orientation, and were founded on the conviction that class-stratified societies failed to manifest adequate levels of social co-operation and public spirit (80). “The social friction set up by inequality of income is intense,” argued George Bernard Shaw, “society is like a machine designed to run smoothly with the oil of equality, into the bearings of which some malignant demon keeps pouring the sands of inequality.” (81)

Historically, then, while the Left has generally been interested in fostering greater social cohesion than unregulated capitalism will permit, it has always regarded greater economic equality as a necessary condition of any successful attempt to create such a less divided society. In the very different political environment of the late twentieth and early twenty-first centuries, it has certainly been argued that to secure the full flourishing of each individual would require strong support from the community. As the Prime Minister has said: “We all depend on collective goods for our independence; and all our lives are enriched – or impoverished – by the communities to which we belong.” (82) The concept of “social exclusion” was introduced to government policy as a way of articulating the complex, multi-faceted character of the deprivation suffered by the least advantaged, as they are systematically removed from the public realm and interaction with other groups in society (83). However, in contrast to the Left’s earlier communitarian discourse, discussion of economic inequality has been notable by its absence from these eloquent pleas for greater social inclusion.

Community

In fact, this exposes an ambiguity in contemporary communitarian thought. As David Miller has argued, communitarianism as a political movement has “nothing to say about increasing material equality”, and as a result “it avoids the crucial issue of how community can be sustained at all in the face of market-driven economic inequalities.” As Miller rightly argues, communitarians “must come off the fence” on this issue (84). This point has recently been acknowledged by perhaps the most influential American communitarian, Amitai Etzioni, who has now begun to argue that his vision of an integrated community can only be realised with some narrowing of economic inequality (85).

It is certainly sensible to admit that social deprivation is a complicated issue, and to attend as rigorously as possible to the varying causal mechanisms that drive it. However, it would be perverse to neglect the fact that large economic inequalities are important causal drivers of social exclusion: both of the poor, and of the rich. When the rich are very rich, and the poor are very poor, it is much harder for them to meet as equal citizens. Indeed, it is hard for them to meet at all. Large inequalities lead to radically divergent

consumption patterns and lifestyles, and to mutual incomprehension and lack of sympathy between individuals who are nominally members of the same civic community. As Brian Barry has argued, “a government professing itself concerned with social exclusion but indifferent to inequality is, to put it charitably, suffering from a certain amount of confusion.” (86)

Robert Putnam’s widely read study of social capital, *Bowling Alone*, has posited such a link between inequality and solidarity in the United States. “Community and equality are mutually reinforcing,” he argues, showing that his measure of “the high point of social connectedness and civic engagement” in the 1950s and 60s was also the period in which America had the most equal distribution of wealth. Conversely, Putnam argues that the growing inequality in the last three decades of the twentieth century coincided with a decline in social cohesion: “sometime around 1965-70 America reversed course and started becoming both less just economically and less well connected socially and politically.” (87)

More detailed empirical studies have shown that tangible social fragmentation is indeed associated with rising inequality. One illuminating measure of social cohesion is to gauge the level of trust that members of a community feel for one another. Greater interpersonal trust is thought to have a variety of beneficial social effects, including enhancing economic efficiency by lowering transaction costs, and improving the quality of democratic politics. But trust is hard to maintain in the presence of large economic inequalities. It has been shown that increasing income inequality contributed to the decline in the level of interpersonal trust in the United States (88). Comparative studies demonstrate that more economically equal countries are also those that exhibit the highest levels of trust between their citizens. When it comes to maintaining trust between members of a community, “what matters is not *how rich a country is, but how equitable is the dispersion of income.*” (89) Indeed, not only do members of unequal communities trust one another less, more unequal societies also suffer from higher rates of violent crime, and, in particular, higher homicide rates (90).

Crucially, political participation is linked to inequality. There are many ways in which the wealthy can wield greater political influence than their less advantaged compatriots: their financial and social resources grant them

access to decision-makers, and they are not prevented from engaging in political activity by the economic costs involved. The wealthy industrialist with the large public affairs staff will certainly find that her voice is more easily heard in political debates than her non-unionised employee living on the minimum wage. But even putting more elaborate forms of civic engagement to one side, the simplest form of political participation, voting in an election, varies according to social class. Members of more advantaged social classes are far more likely to turnout to vote than the disadvantaged. Statistics from the British Election Study show “the proportion of those in managerial and professional employment abstaining at the 1992 and 1997 general elections was only half as large as that among those in traditional manual jobs.” (91) Some studies suggest that the differential turnout between social classes may have actually increased since 1992 (92).

Segregation and social exclusion of the rich

Another indicator of social cohesion is the extent to which different social groups live together. Many commentators on social policy argue that residential segregation by social class has dramatically increased throughout the 1980s and 1990s, both in Britain and other industrialised nations (especially the United States). The most disadvantaged groups increasingly live together, concentrated in certain residential areas, and trapped in long-term unemployment or badly paid work. Such districts lack economic opportunity, and frequently play host to various forms of criminal activity, particularly drug-dealing (93). On the Clapham Park Estate in South London, for example, 40 per cent of residents live on less than £200 a week, while violent crime is double the national average (94). Meanwhile, the increasing physical and social isolation of the poorest members of the community is oddly mirrored by the efforts of the most advantaged to buy themselves into exclusive districts out of the reach of even middle income families. While the situation in Britain is by no means as bad as in the United States, where the super-rich shelter in their gated communities, the growing purchasing power of the wealthy has begun to move Britain some way down that road (95). Residential segregation by social class is at least partly a consequence of spiralling inequality, and leads to what Will Hutton has termed “the drawbridge community for the rich and the decaying housing estates locked in vicious circles of depopulation and poverty for the poor.” (96)

The increased social exclusion of the rich has serious consequences for social democratic politics and in particular for attempts to guarantee adequate funding for public services. Shared public services have an important role in social democratic thought: they aim to decommodify certain goods essential to the well-being of every citizen and thus to equalise access to such goods relative to a market distribution. They should also be a space in which all members of the community enjoy a basic equality as citizens, mixing together individuals from different social backgrounds who would otherwise never meet (97). But in a country with a high level of inequality, the rich can buy their way out of these services. Once the rich opt out of the public system, they are likely to be much less supportive of efforts to improve them and much more resistant to paying the levels of tax needed to fund them adequately. As Richard Titmuss famously argued, “services for poor people have always tended to be poor quality services.” (98)

This long-standing social democratic view has been supported by a recent empirical study of income inequality and levels of public expenditure across 17 industrialised nations. The authors found that countries with larger income inequalities between the rich and the rest of society (as measured by the ratio between the 90th and 50th percentiles) also had lower levels of spending on public programmes that provide income or goods and services directly to households. This is because “as the ‘rich’ become more distant from the middle and lower classes, they find it easier to opt out of public programs and to either self insure or to buy substitutes in the private market.” Over time, this erodes political support for collective goods, since the rich exert greater influence over policy-making than middle and low income groups (99). The government has recognised that one important means of arresting this process is to improve the quality of public services themselves (a strategy that might itself require higher taxes on the wealthy). But it should acknowledge that the very high levels of inequality in contemporary Britain will enable the wealthiest and most politically influential members of the community to continue to opt out of the collective goods that bind society together, and may in fact exacerbate the hostile public discourse about taxation that has crippled social democratic political strategy since the 1980s.

5

Why not reduce inequality?

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

Inequality and freedom

It is sometimes objected that efforts to reduce inequality will inevitably result in a loss of individual freedom, or perhaps even in the infringement of certain basic rights. Inspired by the libertarian political theory of writers such as Robert Nozick and F. A. Hayek, or by a misleading but very widespread interpretation of Isaiah Berlin's essay on two concepts of liberty, many on the Right see economic redistribution as an attack on what is sometimes called "negative" freedom: the ability to be able to act as one wants to without interference from others. This objection raises a number of complicated issues, which we do not have the space to discuss fully (100). But the core problem with it is that it ignores the fact that inequality in the possession of economic resources leads directly to an inequality in personal freedom, a point long recognised by the Left. As the future Labour Chancellor Hugh Dalton put it in 1935, inequality "makes a mockery of freedom" because "we have no freedom to spend money we have not got." While "the millionaire and the coal miner are equally free, in theory, to drink champagne or travel around the world" and their sons "equally free to go up to university or go down the pit", in practice "wealth opens the gates of freedom and opportunity, and poverty closes them." (101)

This insight has been put more precisely by political philosophers in recent years. Theorists such as G. A. Cohen and Jeremy Waldron have shown that since most (perhaps even all) forms of action require the use of some resource external to the individual, a society characterised by private ownership of external resources will place strict constraints on the activities of individuals who own few resources (102). An individual who owns no external resources will find that, "every time he tries to act, he must lay

claim to some external resource which belongs to some other person", with the result that the individual who lacks property rights can be forced "to desist from using this resource, and thus from performing the action that requires this resource. There is, therefore, no action he can perform which someone somewhere is not legally empowered to prevent or stop." (103) For example, if someone who is homeless tries to sleep in a vacant house, and the owner calls the police to eject him, then by enforcing the owner's property rights the state is coercively interfering with the homeless man's negative freedom.

In short, straightforward negative liberty, the ability to do as one wants without interference from others, is unequally distributed within the community, in direct proportion to the economic resources possessed by each individual. To have more money is to have more freedom. For anti-egalitarians to defend their position by invoking the ideal of liberty is therefore misleading, since they are simply defending an unequal distribution of freedom. Of course, societies must impose some restrictions on the kinds of activities individuals are free to pursue. The question is what is the fairest possible distribution of freedom that the state can secure? The idea of freedom on its own is insufficient to guide us on this, since we will also need a theory of social justice: namely, a theory about what would be the fairest distribution of burdens and benefits in our community. Our earlier remarks about social justice provide some reasons for believing that the character of such a theory should be broadly egalitarian, or, at least, should endorse a distribution substantially more egalitarian than that found in Britain today.

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 do 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 globalized 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.

The theoretical debate

Staying on the theoretical level for now, 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 (104). Every child who leaves school early, or achieves low grades, or fails to go to university because of poverty, represents a loss of human capital – and a barrier to Gordon Brown's goal of creating a "knowledge economy" based on a "knowledge society" (105).

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" (106), and is one of the arguments behind the government's "baby bonds", which give a trust fund of £250 to each child at birth – rising to £500 for children in households qualifying for full child tax credit. This is an important first step in addressing wealth inequality, but is far from sufficient. The estimated £1,600 lump sum that even the £500 fund will yield by the time the child reaches 18 is far short of a reliable source of seed capital.

The third argument refers to what economists call "efficiency wages" (107). Workers who are paid better work better. This is partly because there is a greater motivation to keep a higher-paid job, inducing greater effort, and

partly because 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, with rising international capital mobility, savings from one country can be invested in another with little cost. Investment rates therefore have less and less to do with domestic savings rates as domestic savings travel abroad and foreign savings are invested in Britain. 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 school. 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 evidence

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? 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 (108). According to the evidence across countries, 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 (109). And research on microeconomic data has also found, for

instance, that the sweeping tax cuts of the 1980s in the US had no impact on growth, despite the hopeful predictions of the Reagan Administration (110).

These results may lack drama, but they certainly 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 counterbalance 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 market forces of globalization 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. (111)

Fiscal measures

First, consider fiscal policy. 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. 7 points of the rise in the Gini 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 1980-1994, achieving stable disposable-income inequality. The Labour government has done little to reverse the decline of fiscal redistribution in Britain, and in 2001/02 taxes and cash benefits lowered market inequality by only 13 points (112).

In fact, while benefits have a progressive impact, taxes in Britain are regressive: as a proportion of their total incomes, the poor pay more in taxes than the rich. The poorest 20 per cent of household pay 42 per cent of their incomes in tax, while the richest 20 per cent pay only 34 per cent. For the very top and bottom 10 per cent of households the difference is even more extreme, the poorest paying 53 per cent and the richest 33 per cent (113). This is driven by regressive indirect taxes, which proportionately hit the poor much harder than the rich.

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 recently asserted that

[e]very 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. (114)

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 show that cash benefits have an enormous impact on the poverty rate. In 1999, 19 per cent of UK citizens were living in poverty; without benefits that figure would be 42 per cent (115). In Europe as a whole income poverty is at 15 per cent, which would rise to 40 per cent without benefits. Inequality is not an inevitable outcome of market interactions, and greater redistribution lowers both inequality and poverty.

Labour market interventions

Turning to minimum wages, in April 1999 the Labour government introduced a £3.60 per hour minimum for those aged 22 and over, and a £3.00 minimum for those aged 18-21; they now stand at £4.50 and £3.80. When the legislation was introduced the wages of the bottom 6 to 7 per cent of wage earners rose to meet the new minimum, while the wages of those higher up the distribution were not affected (116). Contrary to the confident predictions of right wing economists and politicians it had no effect on employment (117). It was therefore an effective, though mild, 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 10th percentile.

Conversely, in the US 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 (118). Again, changes in the minimum wage in the US 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 (119).

The substantial impact of policies and labour market institutions on inequality give the lie to the myth that governments are powerless in the face of disequalizing forces, whether from globalization or 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.

6

Conclusion

Recent political discussion on the Left has stressed the complexity of social and economic deprivation, and 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 contemporary social democrats. However, insofar as this quest for greater complexity neglects the importance of economic inequality, then 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 social democrats care about: freedom, educational opportunity, civic participation and so on. Any attempt to address these goods while ignoring inequality is as naïve as the caricatured old-Left view that efficiency considerations need never enter into redistributive calculations, and is what economists term “partial-equilibrium” thinking – fixating on one aspect of the problem while ignoring the broader consequences. 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 every part of 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.

Policy tools

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, centralized 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 "stake-holder capitalism", must also be contemplated. Having argued that Britain must find a more egalitarian path, the task remains to debate and construct that path.

Public attitudes

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 kind of arguments recounted in this pamphlet appeal to a number of values that are shared by the public, and that 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 (120). 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.

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 (121). 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 (122).

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.

Notes

- 1 Aaronovitch, D, (2003) 'Size Doesn't Matter', *The Observer*, 25 May.
- 2 Peter Mandelson, quoted in Rawnsley, A, (2001) *Servants of the People*, London, Penguin, p213; Tony Blair, interviewed by Jeremy Paxman (transcript at <http://news.bbc.co.uk/1/hi/events/newsnight/1372220.stm>).
- 3 This became most apparent in the celebrated exchange between Roy Hattersley and Gordon Brown in 1997, which was widely understood to indicate a contrast between an Old Labour egalitarianism focused on "outcomes" and a New Labour egalitarianism focused on "opportunities." In our view (and most likely also in the view of Hattersley and Brown) excessive attention has been focused on this contrast. As we argue below, "opportunities" and "outcomes" are closely connected, and current inequalities of income and wealth will certainly undermine any serious effort to equalise opportunities. See Hattersley, R, (1997) 'Why I'm No Longer Loyal to Labour', *The Guardian*, 26 July; Brown, G, (1997) 'Why Labour is Still Loyal to the Poor', *The Guardian*, 2 August; and, for helpful commentary, Cohen, G A, (1999) 'Socialism and Equality of Opportunity' in Rosen, M and Wolff, J (eds), *Political Thought*, Oxford, OUP.
- 4 Brown, G, (1999) 'Equality – Then and Now' in Leonard, D (ed), *Crosland and New Labour*, Basingstoke, MacMillan, p35, p44.
- 5 Cooper, Y, (2004) 'Left Out or Left Behind', *The Guardian*, 22 March; see too the Compass statement, (2003) 'A Vision for the Democratic Left', London, Compass, pp7-8; the founding statement of the "New Wave" group in Eagle, A, (2003) *A Deeper Democracy*, London, Catalyst; Toynbee, P, (2003) 'At Last Blair is Beginning to Grope Towards Jerusalem', *The Guardian*, 10 September; Alexander, D, (2002) 'A Radical Prescription', *Progress*, September/October.
- 6 We do not directly address gender and racial inequality in this pamphlet, though these also raise important and urgent political issues (and of course interact with the economic inequalities that we discuss). However, our purpose here is the limited one of highlighting the extent to which political debate on the Left has recently neglected economic inequality, and of spelling out the damaging political implications of this neglect. To that extent, we would echo a point made earlier by Anne Phillips: the advancement of gender, racial and political equality will be hindered if we do not also turn our attention to economic equality. See Phillips, A, (1999) *Which Equalities Matter?*, Cambridge, Polity.
- 7 Lindert, P, 'Three Centuries of Inequality in Britain and America' in Atkinson and Bourguignon (eds), (2000) *Handbook of Income Distribution Volume I*, Amsterdam, Elsevier; Brewer, M, Goodman, A, Myck, M, Shaw, J and Shephard, A, (2004) *Poverty and Inequality in Britain: 2004*, London, Institute for Fiscal

- Studies, p17.
- 8 Brewer et al, Poverty and Inequality in Britain, p17.
 - 9 Dennis, I and Guio, A, (2003), 'Poverty and Social Exclusion in the EU After Laeken – Part 1', Eurostat, Population and Social Conditions, p4.
 - 10 Goodman, A and Shephard, A, (2002) 'Inequality and Living Standards in Great Britain: Some Facts', Institute for Fiscal Studies, Briefing Note No. 19, dataset.
 - 11 Atkinson, AB, (2004) 'Measuring Top Incomes: Methodological Issues', mimeo, Nuffield College, p3.
 - 12 Inland Revenue, Inland Revenue Statistics 1999; quoted in Fabian Society Commission on Taxation and Citizenship, (2000) *Paying for Progress: A New Politics for Public Spending*, London, Fabian Society, pp271-2.
 - 13 Institute for Fiscal Studies calculation using 1978-1996 Family Expenditure Survey; quoted in Kelly, G and Lissauer, R, (2000) *Ownership for All*, London, IPPR, p6.
 - 14 Atkinson, 'Measuring Top Incomes: Methodological Issues' uses data chosen particularly because they do include the very richest households in Britain, and is therefore an exception to this.
 - 15 Brewer et al, Poverty and Inequality in Britain, p18.
 - 16 Smeeding, TM and Rainwater, L, (2002) 'Comparing Living Standards Across Nations: Real Incomes at the Top, the Bottom and the Middle', mimeo, Syracuse University.
 - 17 The definition and underlying data are different from those in Brewer *et al*, Poverty and Inequality in Britain: 2004, leading to a different estimate for the UK (see box on measuring inequality).
 - 18 United Nations Development Programme, (2003) *Human Development Report 2003*, New York, OUP, p248.
 - 19 Smeeding, TM, and Rainwater, L, 'Comparing Living Standards', Figure 1.
 - 20 Joseph, K and Sumption, J, (1979) *Equality*, London, John Murray, pp27-8.
 - 21 Smith, A, (1976) [1776] *An Inquiry into the Nature and Causes of the Wealth of Nations*, republished, Campbell, RH and Skinner, AS (eds), Oxford, Clarendon Press, pp351-2.
 - 22 Marshall, A, (1946) [1890] *Principles of Economics*, eighth edition, London, Macmillan, pp68-70, quoted in Townsend, P, (1962) 'The Meaning of Poverty', *British Journal of Sociology*, 13, pp210-227.
 - 23 Adelman, L, Ashworth, K, Bradshaw, J, Gordon, D, Levitas, R, Middleton, R, Pantazis, C, Patsios, D, Payne, S, Townsend, P and Williams, J, (2000) *Poverty and Social Exclusion in Britain*, York, Joseph Rowntree Foundation, pp14-15.
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“growing inequality in the 1980s and 1990s was driven by growth in market inequalities rather than by a reduction in the redistributive effect of taxes and benefits”. We disagree with this statement for two reasons. First, by using “disposable income” rather than “post-tax income” Hirsch does not account for the effect of indirect taxes, which became more regressive over the period. Second, the rise in post-tax inequality occurred only after 1984, despite market inequality having grown from 1980. Hence fiscal policy was successfully countering rising market inequality up until 1984. It was the massive reduction in redistribution after 1984 that caused post-tax inequality to rise, at which point it rose much faster than market inequality. This point can also be seen on Hirsch’s graph 3, p53.

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