Tackling poverty requires an egalitarian agenda

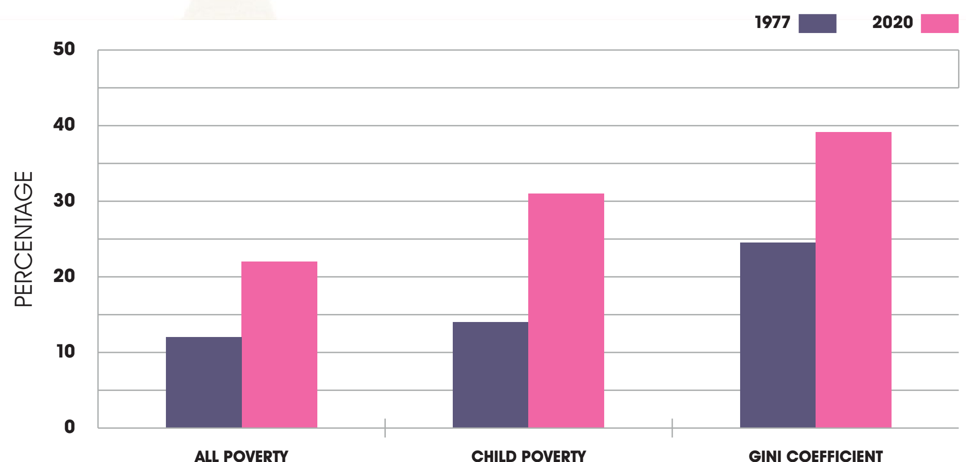
STEWART LANSLEY

Since the late 1970s the gap in income, wealth and opportunities has widened sharply in Britain while poverty levels have surged.

Are poverty and income inequality separate issues determined by different factors? Can low levels of poverty co-exist with high levels of inequality? For most of the last 200 years, these key measures of social fragility have been viewed as separate conditions, with anti-poverty policy focused on raising the income floor, largely ignoring what has been happening at the top. But what is the relationship between inequality and the anti-poverty agenda?

Since the birth of industrial capitalism, rates of poverty and income inequality have moved in line, creating a 200-year long high inequality, high poverty cycle. This cycle has only been broken once – in the post-war years when egalitarian thinkers finally won the long battle of ideas. The multiple reforms of that period contributed to the historic achievement, in the late 1970s, of both peak equality and a low point for poverty. While this egalitarian high water mark was a seminal moment in social history, it was short-lived. Over the next 45 years, the gap in income, wealth and opportunities widened sharply while poverty levels surged (Figure 1).

Figure 1: Trends in poverty and inequality, 1977–2020



Notes: poverty figures are relative poverty, measured as the proportion of individuals in households falling below 60 per cent of median net household income, after housing costs. The Gini coefficient is a summary measure of income inequality where 0 is complete equality and 1 is complete inequality.

Levels of poverty and inequality are ultimately rooted in the way the 'distribution question' – of how the 'cake is cut' – is resolved. As the Swedish economist Per Molander has put it, 'Without an active distribution policy, society moves relentlessly toward the inequality limit [where a small group control the entire economic surplus].'[1] Relative poverty occurs when sections of society have insufficient resources to afford a minimal acceptable contemporary living standard. Its scale depends on the outcome of the political and economic power games that play out between big business, the state and society. With the exception of the immediate post-war era, these struggles for share have been won by the richest sections of society, often with the state's compliance. Poverty levels soared during the 1980s largely because of the fall in the share of national income accruing to the poorest third of society.

'A problem of riches'

In a return to a version, if weaker, of the Victorian era's broad social and economic philosophy with its extreme gaps between top and bottom, the post-1980s saw the launch of a largely state-initiated experiment in high inequality capitalism. This move was driven by an ideology promoted by a small group of small-state, pro-market New Right thinkers who claimed that Britain's egalitarianism had gone too far. For them, poverty was an essentially absolute condition and an individualist rather than a structural problem, while a rise in rewards at the top, along with wider differentials and higher profits, were seen as necessary conditions for faster economic progress. As Sir Keith Joseph, a key adviser to Mrs Thatcher, put it bluntly in 1976: 'The pursuit of income equality will turn this country into a totalitarian slum.'[2]

This claim got a considerable boost from the mainstream American economist Arthur Okun who argued that, whatever the morality of a widening gap, you could have more equality or a bigger cake but not both.[3] This 'equity-efficiency trade-off' theory became a key tenet of mainstream economic thinking. It has been taught in universities and business schools, promoted in boardrooms and parts of Whitehall, and enacted by political leaders, with the distribution question marginalised in state policy-making. 'Of the tendencies that are harmful to sound economics,' wrote Robert E Lucas, the Chicago-based economist and one of the high priests of the post-1980s pro-market revolution in 2003, 'the most poisonous is to focus on questions of distribution.'[4]

All societies need to justify their inequalities, and a long line of social reformers have challenged the trade-off theory. For them, tackling poverty requires tackling inequality, with the process of fortune accumulation at the top too often coming at the expense of wages, living standards and wider opportunities. As the prominent social thinker, art critic and philanthropist John Ruskin argued in 1860, 'The art of making yourself rich is equally and necessarily the art of keeping your neighbour poor'.[5] The student of poverty needs to start 'much higher up the stream than the point he wishes to reach,' declared the eminent historian and egalitarian RH Tawney in 1913:

> *'What thoughtful people call the problem of poverty, thoughtful poor people call with equal justice, a problem of riches.'*[6]

We now have the evidence of the long post-1980s real-life experiment in inequality. That evidence is clear: the pro-inequality doctrine is a classic case of what the seventeenth century philosopher Francis Bacon called 'wishful science'. Instead of the promised economic renaissance, Britain has created an in-built bias to inequality in its social and economic system, resulting in a further upward twist in the long high poverty, high inequality cycle. The widening gap has delivered a second 'gilded age' for the few, but via a destructive trail of greater economic turbulence and social fragility with a dominant, self-serving economic and business model that has played havoc with ordinary life chances while contributing to Britain's low-growth, low-productivity, low-wage economy.[7]

Levelling up at the top by levelling down at the bottom

While Britain is wealthier than ever before, it has been the most vulnerable members of society who have borne the brunt of a succession of post-2008 economic shocks, from deindustrialisation and the 2008 financial crash to rolling austerity and Covid-19. Many indicators of progress have gone into reverse, resulting in today's extreme affluence alongside severe social scarcity. Modern Britain hosts more food banks than branches of Greggs. The long rise in life expectancy has stalled over the last decade and has fallen in some deprived communities.[8] Political alienation has soared, with a rising gap between the electoral turnout of the richest and poorest groups.[9] The 1970s dictum from the influential economist Fred Hirsch that 'So long as material privation is widespread, conquest of material scarcity is the dominant concern' has been discarded.[10]

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An important implication of the growing concentration of wealth and income at the top has been the return of an extreme form of luxury capitalism – similar to that of the late nineteenth century – with the pattern of economic activity skewed in favour of the demands of an increasingly profligate super-rich class.[11] Scarce resources have been used for 'conspicuous consumption': grand fortress developments, bigger cars and more private airports. The withdrawal of the state from meeting housing needs and the narrow market interests of a highly profitable housebuilding industry have squeezed housing opportunities, especially for the young. In London and other conurbations, scarce land, that could have been used to tackle a growing housing crisis, has been used to build a mass of expensive and exclusive houses and flats. Many of these, including those in super-prime areas of London and other urban areas, are bought for speculative purposes by the global super-rich and left empty for most of the year.

While Britain has badly under-invested in children's services, in young adult training and in social care, one in three new cars bought in inner London in 2020 were SUVs, one of the largest contributors to the rise in global carbon emissions. Even during the post-2010 austerity decade, demand for rare trophy assets – the top mansion, the private jet, the luxury yacht, the privately-owned island, even the mini-submarine – boomed. Luxury capitalism is a principal driver of climate change. The richest tenth of the global population emitted 48 per cent (and the top 1 per cent emitted 17 per cent) of all global emissions in 2019. The poorest half of the global population emitted 12 per cent.[12] A tenth of all flights from France in 2019 were on private jets. The superyacht is one of the highest polluting assets, while Jeff Bezos's 11-minute space flight was 'responsible for more carbon per passenger than the lifetime emissions of any one of the world's poorest billion people'.[13]

There has been a long stream of warnings of the dangers of the special privileges and entitlements demanded by elite classes. Adam Smith, the patron saint of economics, warned of the consequences of the love of quick money by 'the prodigals'.[14] In 1900, the *New York Post* issued a stark warning of the impact of the heavy concentration of wealth, and the immense power that came with it. 'Discontented multimillionaires', the newspaper editorial argued, form the 'greatest risk' to 'every republic'. They are, it continued, 'very rarely, if ever, content with a position of equality'.

Wealth creation versus wealth extraction

The pioneers of economics also drew an important distinction between wealth creation that can contribute to the common good and wealth extraction that merely serves the interests of a powerful few at the expense of weaker members of society. 'The efforts of men are utilized in two different ways', declared the influential Italian economist Wilfredo Pareto in 1896. 'They are directed to the production or transformation of economic goods, or else to the appropriation of goods produced by others.'[15] Such 'appropriation' or 'extraction' benefits those who 'have' rather than 'do', and can also 'crowd out' more productive activity that offers greater social value.

Extraction – a kind of private tax on the industry of others – has been a primary source of today's deep-seated inequality bias, and high rate of poverty. Although other factors have been at work, from the greater global mobility of capital and labour to the impact of new technology in industry, over-empowered financial and corporate elites have been able to secure a disproportionate share of the economic cake through business practices which have lowered wider life chances and community resilience.

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Contemporary examples of extraction – which reduce the resources available for wages, investment and innovation – include the rigging of financial markets, the manipulation of corporate balance sheets and the skimming of returns from financial transactions, a process City traders like to call 'the croupier's take'. Under extraction, the boost to profitability and rising corporate surpluses of recent times have been used to reward executives and investors rather than boost corporate durability and productivity. FTSE 100 companies generated net profits of £551 billion and returned £442 billion of this to shareholders in the four years from 2014, leaving much less for wages and private investment.

Far from delivering the promised market revolution, the consolidation of power amongst City financiers and corporate bosses through a blind eye state has driven a rise in market concentration through monopolistic and anti-competitive behaviour. Large parts of the economy are both narrowly owned and controlled by a handful of companies through a process the American heterodox economist Thorstein Veblen called, over a century ago, 'market sabotage'. The often ruthless destruction of rivals has given the mostly young tech founders membership of the global billionaires club. Google has bought 234 companies, while Facebook built what founder Mark Zuckerberg called a 'moat around itself' through the acquisition of competitors. While the big supermarkets have huge power over small suppliers and farmers, Amazon exerts immense muscle over authors, publishers and independent bookshops.

The post-millennium boom in private equity takeovers of public companies (registered on the stock market), from the AA to Morrisons, has brought outsized returns at the expense of the long-term viability of companies. Many retail names, from Top Shop to Debenhams, have failed to survive the asset extraction involved. Today many key public services, including adult social care and fostering, once carried out mostly by public agencies, are run by private equity companies whose owners demand excessive returns that squeeze the quality of service provided.

Raising the floor and lowering the ceiling

The key lesson from the post-war peak equality years was the construction of a set of new pro-equality measures. These included a free health system, a firmer income floor, universal family allowances (later child benefit), a progressive tax system that bore most heavily on those with the broadest shoulders, and a new, if shallow, pact with business to accept greater social responsibility and more moderate personal rewards. That three of William Beveridge's original 'five giants', 'want, ignorance and squalor', have yet to be banished eight decades on, is the product of the gradual weakening of these measures, the erosion of consensus and the tearing up of the business pact.

Luxury capitalism involves using scarce resources for 'conspicuous consumption': such as building expensive flats rather than more accessible housing, and buying luxury cars that are one of the largest contributors to the rise in global carbon emissions.

A homeless man pushing his belongings past an exclusive clothing shop in Mayfair, London. Levels of poverty and inequality are ultimately rooted in the way the 'distribution question' is resolved.

Such are the shockwaves from Britain's deep-seated divide, reversing the trends of the last four decades should be a political imperative. It's time to re-embrace the egalitarian goals that helped drive a more equal post-war society. This requires a set of pro-equality measures for modern times that raise the income and wealth share of the poorest third, while lowering the share of those at the top. This would require a more generous and secure income financed by a more progressive tax system along with the steady rebuilding of the social state, and reforms to tackle widespread corporate appropriation and financial extraction that strengthen the economy for all while lowering the ceiling. To narrow the wealth gap, part of Britain's towering private wealth mountain – much of it unearned – should be harnessed for the common good, with all given a stake in economic progress through a citizen-owned wealth fund. In this, the 80th anniversary of William Beveridge's 1942 blueprint for social reform, breaking the intertwined poverty and inequality cycle should be a central test of the growing calls for a better society.

Stewart Lansley is the author of The Richer, The Poorer, How Britain Enriched the Few and Failed the Poor, a 200-year history *(Bristol University Press). He is a visiting fellow at the University of Bristol and a Council member of the Progressive Economy Forum.*

Footnotes

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