Is inequality to blame for all social ills?

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There is a growing academic and even political consensus about how damaging inequality, not just poverty, can be. But things may not be as simple as they seem

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The Spirit Level
By Richard Wilkinson and Kate Pickett (Allen Lane, £20)

Unjust Rewards
By Polly Toynbee and David Walker (Granta, £7.99)

Francis Bacon once said that money is like muck: of no use unless it is equally spread. It's a view that would be wholly endorsed by all four of the authors under review, although for rather different reasons.

For Richard Wilkinson and Kate Pickett, whose *The Spirit Level* has been making policy waves on both sides of the Atlantic, the problem with inequality is not so much its unfairness as its effects on the wider society. They assert that greater income inequality is associated with a range of problems—including higher rates of mental and physical ill-health, poor educational performance, more teenage births, violence, imprisonment and less social mobility. And they demonstrate this with a range of graphs (although they do not supply the underlying statistical models).

But this raises an obvious question. Is inequality really the driving factor here—or are there other, underlying factors that contribute both to these problems and to growing inequality?

Wilkinson and Pickett are in no doubt. As they put it in their introduction, "The truth is that both the broken economy and the broken society resulted from the growth of inequality." The "broken economy" part of this assertion is nonsense. The current economic difficulties arise from information and regulatory failures in the financial markets—and the huge pay-outs to bankers and others, although indeed obscene, were a by-product. But what of the claim that both society and the economy are "broken"? As I have pointed out in Prospect before (July 2007), Britons are living longer and are better educated than ever. In 2008, Britain was richer (in terms of GDP per head at purchasing power parity rates) than Germany, France or Japan. Moreover, it is likely to remain so, even in the current recession. The allegation of declining social mobility in Britain, too, has been challenged. The Nuffield sociologists John Goldthorpe and Michelle Jackson have found no evidence of falls in mobility with respect to social position. And work by the economist Paul Gregg and colleagues at the University of Bristol shows that Britain has greater earnings mobility than Germany.

Even if one accepts the view that British society is broken, however, The Spirit Level's claim that income inequality is its sole cause seems over-strong. One possible alternative explanation for the phenomena it describes, for instance, rests on a broad set of cultural differences between Anglo-Saxon and Scandinavian societies. It is usually the former that are at the bottom of the various league tables and the latter that are at the top; their relative positions almost certainly drive a lot of the statistical results. (This could even contribute to some of the US results: several of the states that do well, such as Minnesota and Wisconsin, were heavily settled by Scandinavians). But Scandinavian countries are small: Sweden, the largest, has an economy smaller than Belgium's. They are relatively homogenous so they have neither the benefits nor the problems associated with more heterogeneous societies. Partly as a cause and partly as a consequence, they are also keener on social solidarity and less individualistic than Britain and US—as indeed are many other continental countries. All of these factors could contribute both to greater equality and to fewer social problems—without one necessarily creating the other.

Another possible alternative explanation for *The Spirit Level*'s results is more technical, and concerns the role of income. Wilkinson and Pickett are at pains to emphasise that most of the social problems they discuss are concentrated among the poor. Yet they also want to argue that it is not poverty as such that is the problem, but relative inequality. Accordingly, they present evidence drawn from a variety of places, including studies of primates in the wild, that show how distress due to relative position in the social scale exists—and that it can have dire consequences.

They also show, however, that the relationship between income and one of the more significant social indicators—health—shows "diminishing returns." What this means is that, at high levels of income, an extra pound of income produces a smaller increase in health than it does for someone with less income. Similarly, the loss of a pound's worth of income to the rich reduces their health by less than losing a pound's worth of income does for the poor.

All of which suggests that—although taking income off the rich and giving it to the poor will reduce the health of the rich and increase the health of the poor—it will reduce the health of the rich by less than it increases the health of the poor. And thus the nation's average health will also increase. In other words, more redistributive and more equal countries will automatically tend to have better average health than less equal ones.

If "diminishing returns" were true for other social problems as well as health (as seems quite likely), this could explain some at least of The Spirit Level's results without any need to invoke the distress caused by relative income position. This is an important point, for it means that some at least of the book's results may be the result of what is close to a statistical artefact.

This problem does not affect at least part of The Spirit Level's thesis: if diminishing returns are pervasive, unequal societies will still have more social problems than equal ones. It does, however, throw doubt on another key part of its argument: that it is inequality throughout a society that matters, not just poverty. For if the diminishing returns view is correct, we should draw the conclusion that focusing on the poor has the greatest impact on many social problems, and so that is where we should be concentrating our efforts, rather than on reducing inequality overall.

These are all important questions—and, happily, the publication of The Spirit Level coincides with the appearance in paperback of an important book from last year on the topic of inequality, Polly Toynbee and David Walker’s Unjust Rewards. As its title suggests, the authors’ principal concern about inequality is not so much the damage it causes the wider society as its fundamental injustice.

They are outraged at the incomes of the super-rich and also explore the appalling ignorance of the extent of their privilege that such people show. In an especially powerful chapter they describe how a group of the super-rich remain unrepentant when shown how abnormal their incomes are. The group claim that their high rewards are justified by how hard they work (true), by the competitive global labour market in which they work (untrue: most had worked for years in London and showed no signs of leaving), and by the trickle-down effect, boosting everyone’s prosperity (untrue, and now particularly ironic).

Unjust Rewards also counterpoises the world of the rich with the plight of the stragglers. Interestingly, though, the authors argue that a couple of New Labour innovations do seem to be making a difference here: New Deal and Sure Start. And, although they do not try to explain why we have seen this extraordinary explosion of inequality in recent years, they do venture specific proposals for dealing with it.

There is the usual call for higher rates of tax, including inheritance and capital gains tax, a higher minimum wage, and higher tax credits. But there are also novel ideas: a high pay commission to create guidelines for maximum pay, promotion of transparency through the publication of individual tax returns, and the hypothecation of tax revenues to a fund promoting greater opportunities for poor children.

I would like to take some of these proposals further. Here is one idea that combines hypothecation, transparency and the so-called “nudge” agenda. Suppose you could opt to pay, say, 1 per cent more income tax, on condition that the extra revenue went directly into the greater opportunities fund. Further, suppose this would happen automatically, unless you ticked a box in your tax return to opt out. This would permit those who say that they would willingly pay more tax than the system allows actually to do so. And the fact that the decision would be published would name and shame those who refused.

Another idea would be to hypothecate the revenues from inheritance tax to the new Child Trust Fund. In true Baconian fashion, the wealth of one generation would thus be used to fertilise the growth of the next. It might also make inheritance tax more popular, or at least less disliked.

Finally, it is worth noting that we are likely soon to be able to test some principal aspects of The Spirit Level’s and Unjust Rewards’s theses. In the two most recent recessions (the early 1980s and 1990s), inequality and relative poverty fell. This was because incomes at the top and the middle declined, while those at the bottom were preserved—ironically, because the benefits on which many of those at the bottom survived were tied to prices, not incomes. It is likely that the same will happen in the present recession. In which case, if these authors are correct, we should expect an increase in average health, better educational performance, fewer teenage births, less violence, more social mobility and less social injustice. So the recession may not be wholly bad after all. Watch this space.