

9 | CREATING A MORE EQUAL FUTURE

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A political response adequate to the problems of future inequality must be about more than tweaks to the tax or welfare system. Just as the post-war Labour government was able to embed a new, more egalitarian settlement into the centre of our shared national life, so too in the 21st century the left must think about what kinds of public institutions would have to be brought into being in order to create a better, wealthier and more equal society.

Britain has long been a country riven by deep inequalities. Inequalities of income, wealth, prestige, and power; inequalities of opportunities, life chances and social class; inequalities between different ethnic groups, between generations, between regions and nations, and between men and women. The Thatcher governments, by reducing the power of trade unions and increasing the power of financial capital, super-charged British inequality, and while the New Labour governments were able to arrest this accelerating growth in economic inequality, they did not take the kinds of more ambitious steps that would have been necessary to reverse it. And now, following the financial crisis of 2008 – a crisis created by the failures of the financial sector – the Conservatives have brought Britain into a cruel new era of austerity politics, in which working people are hit by cuts to their public ser-

vices, supposedly to pay for a crisis for which they are not responsible and from which they did not benefit.

Things are bad now but, in the absence of radical political change, things are going to be far worse still by the middle of the 21st century. As Thomas Piketty shows in *Capital in the Twenty-First Century*, the trend both in the UK and in other wealthy countries since the breakdown of the post-war consensus has been both to see increasing divergence in market incomes between those at the top of the income distribution and those in the bottom 90 per cent. Alongside this, capital's share of total economic returns is rising, as labour's share of national income falls. With wealth inequality already significantly higher than income inequality, a shift in economic returns from labour to capital further increases overall economic inequality, as those with pre-existing financial or housing wealth continue to prosper in an economy in which the wages of ordinary people stagnate. Yet even within the category of returns to capital, we have a financial system of hedge-funds and elite 'wealth management' that can create lavish returns for the very wealthiest, whilst ordinary savers are ripped-off by a cartel of uncompetitive banks, thereby further stretching inequalities of wealth. On top of all this, a number of commentators have argued that we stand at the precipice of an era of runaway technological unemployment, as the mechanisation of many occupations will see millions of jobs destroyed: in a world of driverless cars, there will be powerful forces to create lengthening dole queues.

Setting aside these longer-term trends towards inequality, even the near future looks exceedingly bleak. Fabian Society research by Andrew Harrop and Howard Reed, in their *Inequality 2030* report, paints a distressing picture. On current trends, given cuts and benefit changes announced by the coalition government, we are likely to see an extra 3.6 million people falling into poverty by 2030, including

1.2 million children, with the incomes of high-income households rising 11 times faster over the period than the incomes of low-income households. All this is against a background where an undersupply of private housing, and a withdrawal of support for public housing, means that the cost of living will continue to rise for the millions of people who face a future of relentlessly rising rents, while the attractive returns that can come from home-ownership are reserved for a diminishing number of the already economically successful (or those who have the good fortune to inherit previous generations' gains).

As Tony Crosland argued 60 years ago, it is the defining mission of social democracy to create a more equal society. Crosland was writing during the high tide of the post-war consensus, when Britain was as equal a society as it had ever been; the mission of creating a more equal society is now both more urgent and more challenging. How might a future Labour government go about reversing these baleful recent trends in UK inequality, and creating a more equal society? Before considering what concrete steps could be taken, it's worth first giving some attention to *why* inequality is quite so troubling, and why its reduction should be a central goal for a future political programme on the left. Understanding the full range of ways in which inequality is damaging and destabilising is important as a precondition for seeing both the urgency of action, and the full range of interventions that such action might involve.

Why care about inequality?

In their well-known book *The Spirit Level*, subtitled *Why More Equal Societies Almost Always Do Better*, Richard Wilkinson and Kate Pickett show that there are a significant number of reasons to object to large inequalities, because of the consequences that such inequalities bring in their wake. High levels of inequality lead to higher rates of

mortality and morbidity, higher rates of violence, mental illness, obesity and teen pregnancy. More equal societies do better on a broad range of indicators, and avoid many of the pressing social problems that inequality helps to create. The argument made by Wilkinson and Pickett is persuasive and powerful, and would suffice on its own to show that we as a society ought to act to reduce economic inequality.

More recently, though, a different kind of argument has begun to be made against high levels of inequality, based not on its effects on health, social problems or social cohesion, but more directly in terms of its economic effects. In their 2015 report *In It Together: Why Less Inequality Benefits Us All*, the Organisation for Economic Cooperation and Development (OECD), which is hardly a bastion of left-wing thinking, makes the simple case that, above a certain level, inequality undermines economic growth. The OECD estimate that the rise in inequality observed between 1985 and 2005 in 19 OECD countries was responsible for knocking off something in the region of 5 per cent of cumulative growth. By allowing such high levels of inequality during the past 30 years, the world's richest countries have not only shifted wealth and income from most working people to a small economic elite, but they have also sabotaged their overall economic prospects, wantonly destroying hundreds of billions of pounds of wealth. The badly-off are more likely to spend their income than are the wealthy, and so shifts in income from the poor to the rich undercut aggregate demand, thereby cutting the legs from economic development. Moreover, economic inequality leads to under-investment in people's education and skills, as the badly-off have to live week-to-week instead of being able to invest in their own longer-run development. As the OECD put it, growing inequality "implies large amounts of wasted potential and lower social mobility".

The relationship between inequality and social mobility leads on to a further crucial element of the case for a more equal society. It was common in the past for debates within the Labour party to be conducted between stylised positions that were labelled 'equality of outcome' and 'equality of opportunity'. But as the relationship between inequality and social mobility has come to be better understood, the uselessness of that distinction has become clear. Social mobility and (even approximate) equality of opportunity are possible only when the range of overall economic inequality is reduced. As the economist Miles Corak has shown in his work on 'The Great Gatsby curve', there is a very strong correlation between more equal societies and greater social mobility. The countries that do best for social mobility are places such as Finland, Norway and Denmark, where levels of inequality are relatively low. In more unequal societies, such as the US and UK, social mobility has stalled to an alarming degree, with the UK having the bleakest prospects for social mobility of any EU country.

Lived experience in contemporary Britain bears out the social reality of these dispiriting statistics all too vividly. We live in a country where an absurd proportion of those entering our most prestigious universities (as high as 45 per cent at Oxford) are drawn from the small section of society (about 7 per cent) who are privately educated; and where seven in 10 senior judges, seven in 10 senior military officers, and around half of newspaper columnists are from that same, narrow public school section of society. It is difficult to think of the UK as a well-functioning democracy when, rather than using the talents and abilities of all of its population, we have a political system in which the prime minister and his main party rival were at school together, and where they and the current chancellor were, while at university, members of the same contemptuous gang of weirdly-dressed vandals. Just as worrying,

the effects of deep inequality seep into every pore of our political life, as when the prime minister and chancellor can think it appropriate to attend the Christmas party of Rupert Murdoch; the elected representatives of the British people genuflecting to a foreign billionaire whose newspapers and television stations had done their part in securing a Conservative victory in 2015.

The significance of inequality isn't about numbers. It isn't about wanting every individual to be equally well-off. It's not about uniformity, or envy, or levelling down. We care about equality because we want a decent and humane society. A society where every citizen is treated with equal respect, that rewards effort and talent and hard work instead of family connections or social class, and finds ways of using the tremendous potential of all of its people.

Our society now is one in which low wages and weak employment protection not only allow employers to short-change workers, but in which, because of an increasingly flexible labour market and the weak bargaining position of workers relative to their bosses, those workers come to be dominated by the power that others have over them. In the same way, the divide between the asset-rich and the asset-poor is not just a divide in pounds and pence, but a divide in terms of hope and confidence in the future, and in terms of the reasonableness of seeing oneself as someone with a firm and secure place within society. We care about inequality because, in a democratic society in which economic and political institutions should be justifiable to those who live under them, people's status and self-respect should be secured, and nobody should have to face demeaning forms of oppression caused by an economic or political system that is tilted against them from the start.

Our society is one that has descended to a level of inequality whereby the basic legitimacy of our institutions is coming under strain. When our economic and political

systems become a cascade of unearned and unfair privilege, with power flowing between interconnected elites while everyone else's life chances flounder, the time has come for a radical change of direction.

What To Do About It?

The goal of creating a better society, one less scarred by the destructive consequences of inequality, will require the pursuit of a variety of different strategies. It will require both the defence and development of the cherished egalitarian institutions that we still have – especially the NHS and our state school system – but it will also require the creation and growth of new egalitarian institutions fitted for the challenges of a different century.

The left has to think more expansively about what a political response adequate to the problems of future inequality would really look like. It has to be about more than just tweaks to the tax or welfare system, important though they are. Just as the post-war Labour government was able to embed a new, more egalitarian settlement into the centre of our shared national life, so too in the 21st century we have to think about what kinds of public institutions would have to be brought into being in order to create a better, wealthier and more equal society. Here are just three of the steps that could be taken as part of a radical and ambitious programme for a more equal society.

A National Childcare Service

One area where there is a pressing need for a better set of institutions is with regard to pre-school childcare. The lack of affordable childcare options forces many women out of the workforce, thereby increasing inequalities between men and women, and between parents and those without children, while also harming the economy by disrupting

the development and preservation of workplace skills, with many women finding that their careers stall once children arrive. It is no coincidence that the countries that do best for gender equality in terms of workplace participation – such as Iceland, Sweden and Denmark – are those that invest most in childcare provision. The Conservatives' solution to the crisis of childcare provision has been to promise to increase the number of free hours provision for children over three, but this kind of 'demand side' reform can fail in the absence of more fundamental change to the landscape of pre-school care provision. If the monetary value that government assigns to 'free' hours is too low, then this simply pressures nurseries to cut costs, keep wages low, and avoid investing in their staff's training and development; and, where there is a shortage of nursery places, private providers would simply be able to use higher income in nursery fees to drive up their profits rather than to drive up standards of care. Labour's Sure Start centres show what a different approach might look like: public sector childcare centres, embedded in their local communities, in which the aim of providing care and support, rather than the profit motive, would have the upper hand, and where the important job done by nursery caregivers could receive greater recognition and reward.

A 'public option' for pre-school childcare would be an approach that would learn from the successes of neighbouring countries, as in Denmark where three-quarters of childcare provision is in the public sector. Recent work by the Nobel Prize-winning economist James Heckman has shown the extraordinary effectiveness of investing in early-childhood care, to the extent that such programmes more than pay for themselves in terms of improving the long-run economic prospects of less-advantaged children, and increasing parents' participation in the economy. An optimistic and ambitious social democratic vision is one where these sorts of long-sighted investments in creating a

more equal society *and* a more prosperous economy could be made with confidence.

A National Education Service

One of the most intriguing ideas floated during Jeremy Corbyn's campaign for the Labour leadership last summer was for the idea of a lifelong "National Education Service", to provide ongoing opportunities for education and training beyond standard school age. In a fast-moving economy in which people often need to change jobs, inequalities in people's abilities to invest in their own skills and education can play out as further inequalities in employment opportunities and future prospects. We've not yet heard much of this idea, but it is exactly the kind of inventive, institution-building proposal that could help Labour to address inequality more profoundly, and create a basis for a 21st century centre-left politics that is alive to the challenges of a new kind of labour market.

As with a national childcare service, a national lifelong education service should not be seen as a drain on public resources, but as a way for the state to make long-run investments in the most valuable resource that a country possesses: its own people. It would short-circuit one of the most pernicious effects of inequality, as identified by the OECD: that is, the catch-22 situation that stops the less affluent from making the investments in their own long-run skills and education that could improve their economic situation. But it would also communicate something profound and important to the people who would benefit from such opportunities: that this is a society of equals, where nobody is thrown onto the scrapheap because of the vagaries of unpredictable economic change, but where citizens are given the help that they need, when they need it, to face the future with optimism and self-respect.

A British Sovereign Wealth Fund

In his 2015 book *Inequality: What Can Be Done?* the economist Sir Tony Atkinson, one of the world's leading experts on the changing face of economic inequality, has produced a compelling agenda of fifteen proposals, ranging across a range of areas of social, fiscal and industrial policy, for how to create a more equal society. All politicians on the left, especially in Britain, should read Atkinson's book, which is full of sound advice on practicable policies that could stop the onward rush to ever more inegalitarian outcomes, and restore a more decent economic settlement to the UK. All of Atkinson's proposals are worthy of careful discussion, but here I want to focus on just one of them: his call for the creation of a British sovereign wealth fund. In proposing such a fund, Atkinson is in effect resurrecting a proposal made half a century ago by his former teacher, the Nobel Prize-winning economist James Meade, who argued for the creation of a 'National Asset' of publicly held investment wealth. Atkinson argues that we should create a Public Investment Authority, operating a sovereign wealth fund with the aim of building up the net worth of the state by holding investments in companies and in property. Atkinson suggests that such a holding of public wealth could be used to fund a citizen's basic income, although it could of course be used in other ways.

Considering the long-run trends identified by Thomas Piketty, whereby we should expect capital's share of national income to grown in the future, as the share of national income going to wages reduces, it makes sense to think of ways in which returns to investment wealth could be used for the more general good rather than further contributing to inequality. Bringing in the prospect of future technological innovation, and the unemployment likely to come in its wake, makes things starker still: in an era where more and more income is generated by robotic rather than

human workers, the question of who will own the robots becomes urgent. A collective sovereign wealth fund would allow the state itself to build up a sustainable source of revenue distinct from its traditional fiscal base, and would allow the likely future growth of capital returns to be leveraged for egalitarian public purposes, rather than allowing such trends to drive inequality. Norway, for example, used a significant part of its North Sea oil revenue to build up the kind of sovereign wealth fund that Atkinson has in mind. By judicious, forward-looking public investment, the citizens of Norway now have an extraordinary public asset, which can be used for collective public ends. There could be many ways of building up such a fund, whether through capital taxation, share levies, the use of windfall returns, or even by the direct use of central bank funds through monetary finance.

Conclusion

An egalitarian agenda for the 21st century needs to be prepared to move beyond well-established ways of doing things and inadequate, weakly ameliorative measures, and instead bring back into life the kind of institutional innovation that served the left so well in the middle of the previous century. There were flashes of inspired policy in Labour's agenda coming into the 2015 election, such as the suggested reforms to corporate governance that would have put workers on remuneration committees, proposals for greater support for cooperatives and mutuals, enhanced investment in innovation and infrastructure, and a reduction in the cost to students of higher education. But these elements did not always feel as if they joined-up into a coherent plan for a more equal and successful society; there were many promising strands in Labour's thinking, but without the impression that they had been fully woven together.

For parties of the left, working out coherent and radical vision for a better, more egalitarian society is a daunting task, but it is an achievable one. Undertaking this task successfully will involve the left giving up its habit of seeking refuge in unhelpful dichotomies: we face not a choice *between* redistribution and predistribution, but the requirement to think about how the two can best be integrated. Neither do we face a choice *between* the power of the central state and the radical potential of local communities, but instead the task of seeing how the state can create institutions that take on a transformative role in people's real lives. In a society disfigured by the scourge of deep inequalities of wealth, power and prospects, parties of the left need to be able to paint a bolder picture, on a broad canvass, of a political project and a set of institutions that could liberate the potential of every citizen.

EUROPEAN PERSPECTIVE: INEQUALITY

Since the global financial crisis European economic policies have overwhelmingly focused on fiscal containment and debt reduction rather than promoting equitable growth and the creation of quality jobs. However, the pervasive negative effects of such a strategy are becoming increasingly evident. Several European economies are failing to return to pre-crisis levels of growth and employment and, more worryingly, inequalities are growing. In Europe, the GINI coefficient, which measures the extent to which the distribution of income among individuals deviates from a perfectly equal distribution, is on the rise. In the Euro area, for instance, the GINI coefficient increased from 29.4 in 2005 to 31 in 2014 and in some countries the increase has been very significant. In Spain for example the GINI coefficient increased from 31 to 34.7 over the same period.

However, it is not only inequality of income and wealth we need to be worried about. In Europe other types of inequality are also on the rise. It is becoming increasingly evident, for example, that European policy reforms are shifting the burden of debt and deficit adjustments onto women. Women have been significantly affected by cuts in public sector jobs. Furthermore, cut-backs to state-provided care services are also seeing women return to their traditional gender roles, stepping out of formal employment to take over caring responsibilities no longer funded by the state. All of this is negatively impacting on progress towards gender equality.

Europe needs an alternative strategy which puts people, sustainability and equality at centre stage rather than fiscal deficits and debt. We need a new strategy that focuses on greater investment in care, social infrastructure and the green economy and a serious reconsideration of austerity policies and their impact on equality and well-being.

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