

‘Politicians need to be honest about what the *real* issues are. It’s not just about poster campaigns’

Brian, 71

WILL HUTTON

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The Economics of Poverty

Twenty years ago the argument for redistribution was too little challenged. Now it is too little made

Britain today boasts nearly 50,000 millionaires, and record levels of income inequality. Million-pound houses are not yet commonplace, but they will start to be within two or three years. Over the 1980s and 1990s, as income inequality in this country has reached American levels – the top 10 per cent of the working population in Britain now earns the equivalent of the bottom 50 per cent – so we are developing an American structure of house prices and neighbourhoods. Upmarket districts all over Britain, not only in the privileged parts of London where ordinary people could once expect to be able to buy a house, have become exclusive enclaves, mirroring the 40,000 or so ‘drawbridge communities’ in the US. Their occupants do not yet live behind steep fences and security cameras, though that is happening in some of the newer developments, but the invisible wall is real none-the-less.

It’s a situation which can only get worse. As house-price inflation in favoured districts reaches astronomic proportions, economics is reinforcing ancient prejudices. The stock of homes in so-called ‘good’ locations is finite – there is only one Hampstead, only one North Oxford; at the same time, the volume of cash chasing these luxury enclaves is growing exponentially, driven by today’s staggering salaries. The new super-rich, able to support mortgages of half a million pounds or more, buy into the rich neighbourhoods, leaving those on the outside with a choice: either they stay where they are, within affordable limits, in poor and middle-income neighbourhoods, and soon find themselves priced out of the higher property bracket; or they take the risk of borrowing to the hilt to buy into the rich neighbourhood as quickly as possible to ride the boom – and so increase the demand.

The results of this property chase are pernicious, and under-

mine every institution in which some notion of equal access or equal opportunity is important. The first casualty is education: comprehensive schools become the prisoners of their catchment areas. The comprehensives rising up the league tables are those in middle-class areas; those failing are the ones locked in areas of poverty, where there is zero chance of relief. Children from unstable or broken homes, where the parents are at their wits' end from lack of money, necessarily have lower expectations of themselves and perform less well at school than children from richer homes. Comprehensive education becomes a mockery.

So does good health. The poor are more at risk from heart disease, lung cancer and obesity, and as the poor tend to become ever more concentrated in disadvantaged areas, so all the factors which contribute to poor health are reinforced. For example, shops selling fresh vegetables, fruit, meat and fish – items which are more expensive than mass-produced tinned and processed food – tend not to prosper. So eating well, even if families have the income, becomes much more difficult. Drug use is pervasive, and drugs – or at least the need to find the cash to buy drugs – bring with them an increase in petty crime, and sometimes not so petty crime. It is this cycle of reinforcing adverse trends which causes the deprivation that blights both the inner city and the outlying social housing estates.

Here, too, is the incubation process that creates the giant pools of largely unemployable men; the young in poor neighbourhoods become isolated, dissociated from the wider community, while middle-aged men are locked out of the labour market through a lack of skills and/or opportunity. Even after five years of economic growth averaging at about three per cent and a fall in unemployment to 1.3 million, some 2.5 million people over 50 (but still of working age) in Britain sit idle or are economically inactive. A fifth of British households have nobody at work; in the river valleys of



the old industrial conurbations like Strathclyde, Merseyside and Tyneside this proportion rises to 30 per cent.

And so Britain's great industrial cities are declining. With their

Inequality not only divides our cities, it

inhabitants migrating to the suburbs or towards London and the South East, their populations have shrunk by more than 500,000 over the last 20 years; and the rate of loss is accelerating. Those who move away leave behind urban areas desolated by neglect and poverty. The argument that unemployment is soluble only by 'flexible labour markets', in which the unemployed price themselves into work by accepting lower wages, is at best a partial view of the solution and at worst callous and uncomprehending. The reality is that unemployment is a feature of geography. To invite Liverpool, Bradford or Sunderland to 'price themselves' into work is self-defeating. There is no work for these cities to price themselves into. Their entire urban fabric is decaying; demand is low; business is poor; the public sector is in retreat. They are locked into low wages, reducing demand and yet more decline.

Should we care? For those at the receiving end of this process

the reasons for concern are obvious, but why should the rest of society give a damn? In vain do economists and some politicians argue that inequality carries its own costs – in lost taxes, lost

also pollutes our minds and sensibilities

workers, lost lives and burgeoning public expenditure. For those enjoying the benefits of the house-price boom, executive share-options or once unaffordable luxuries this argument cuts little ice. They are all right, thank you.

The proper answer is that they are not all right. They may be enjoying high house prices, but only by requiring the next generation to borrow to the hilt to support them – and the next generation is their children. But there is a more subtle argument still. As Plato argued, there can be no friendship among unequals. Inequality not only divides our cities and undermines our neighbourhoods, it also, as the South Africans discovered with apartheid, colonises and pollutes our minds and sensibilities. We become coarsened by our growing inability to empathise with the circumstances and conditions of our poorer neighbours.

Social exchange is based on reciprocity; once the gulf grows

too large between the rich and the poor, or even between the middle-income groups and the poor, there is no basis for reciprocity. An unequal society shrinks the space in which human beings can interact and reciprocate each others' actions; the language and moral codes which underpin our collective consciousness balkanise and fragment. At the bottom of the pile, an opted-out underclass – as much as 10 per cent of the adult population – constructs its own culture, in which crime is seen as a legitimate source of income and work comes to be regarded as barely worthwhile; at the top, members of an opted-out super-class buy their own private education, health and transport and see no reason to share in the commonweal. As far as they are concerned, taxation is an insupportable burden and the public sector a second-class provider of last resort.

This social fragmentation is not a source of individual happiness for either the rich or the poor. The rich get locked in a lonely world of competitive consumption in which material acquisitions gradually replace human association. Nobody enjoys living in a city or urban space in which there are increasingly no-go areas. For the poor, there is not only the desolation of poverty, but the growing awareness that the capacity to close the gap between themselves and even those on average incomes is impossible. Living with inequality is not just morally insupportable; it cuts us all off from the well-springs of our own humanity.

What to do? First, a humanitarian concern about the *fact* of inequality – rather than just the problems it causes – must enter the national debate. This will require politicians of the Left to give a lead. There is always a tension in a democracy between those who argue for liberty and freedom, and those who argue for equality and public action to assert these values. It is true that a *wholly* equal society is a pipe-dream – only enforceable by a degree of social control and income redistribution that even most

of those on the Left would now regard as anathema; but a wholly free society, in which any social outcome is permissible, would be no less realistic or tolerable. The real argument is about degree. Twenty years ago the arguments for redistribution were too little challenged; now the argument for redistribution is too little made, and the pendulum has swung too far towards the Right.

New Labour, in this respect, is part of the problem rather than the solution. Although it has launched some innovative social programmes, and covertly found the resources from the rich, it has refused to explain that its objective is the reduction of inequality. Redistribution is the noun that dare not speak its name. For example, in its 1999 Poverty Audit, the Government committed itself to a list of measures aimed at combating poverty, but nowhere among these was there actually a target for narrowing the income gap to bring the living standards of the poor nearer to the average. Tony Blair, in his speech to the 1999 Labour Party conference, conspicuously committed himself to creating equality of *worth*; tackling equality of *outcome*, though, is still off the agenda.

If there is no political narrative in which to locate the sort of individual policies that will really address poverty, the pass is sold. So, although the Government's policy initiatives together represent a marked change of direction from the Conservatives, they have made little impact on the national debate. The combined effect of Sure Start (its programme for the under-threes), the Working Family Tax Credit, the New Deal and the targeted increases in welfare benefits, especially for children, will be significantly to reduce the poverty of families and children. But this is the social democratic programme that must stay in the closet. For New Labour is reluctant to argue that social deprivation or educational disadvantage are linked to poverty; rather, they are linked to weak work incentives or badly run schools. Socio-economic conditions, the Government argues, are no excuse for

poor performance, or indeed any explanation of it – a denial of reality which does it no credit, even if it is true that work incentives could be enhanced and schools better managed.

And nor, for much the same reasons, does New Labour want to argue that the rich have quite as many obligations as the poor. The Government's aim is to pull the jobless into the world of work, without reforming either the distribution of national income or the wider culture of the rich. Nothing must disturb Middle England.

Yet if the Left do not make this case, nobody else will. In the absence of any rallying call to reduce inequality, the political debate is becoming increasingly dominated by rival bids to lower taxes and roll back the state. There are limits to how far a political party can act Left while talking Right; ultimately the legitimacy of its action hangs on winning the argument and assembling a coalition to back it. New Labour is winning no arguments over inequality, nor assembling any coalition that might do anything about it. And without this sort of initiative, whole areas of policy are being left unexplored and undebated.

I would argue that, if we are to make any real impact on the inequality in Britain in the new Millennium, there are six key areas which need to be examined:

1. Taxation

Any programme to lower inequality must surely address the incomes and privileges of the rich. The marginal rates of both income tax and inheritance tax should be higher; everybody knows it, especially the rich. Property taxes are too low, and there should be a higher rate of VAT for luxuries, so that higher-value goods bought by the rich provide proportionally more tax. The upper earnings limit for National Insurance contributions should also be removed. At least £5 billion of extra tax could be paid each year by the rich.

2. Income at the top

The system for determining executive pay needs to be wholly overhauled; at the moment it is a case of 'You-scratch-my-back-and-I'll-scratch-yours'. British company law allows board members complete discretion over whom they appoint to the remuneration committees that determine both their salaries and share-options and those of senior management. The system should be opened up. Remuneration committees ought to be staffed by a majority of independent directors, and their recommendations made public and voted on by share-holders.

3. Income at the bottom

There needs to be a big boost to the incomes of the poor. British Income Support is extraordinarily mean – it is scarcely possible to live on what is paid to men and women out of work today. The basic presumption of social insurance should be restored; everyone pays in and everyone should get a liveable income out – though, of course, this entitlement should not be unqualified; there should be a reciprocal obligation on the part of the person receiving benefits to look for work after a certain period. The old-age pension should be restored as the basic building block in retirement – at present it is simply being allowed to wither on the vine. And so-called private or stakeholder pensions based on individual savings in the stock-market should be treated with caution; they automatically favour the rich who can make larger contributions, and they are in any case extremely vulnerable to changes in stock-market fortunes. There should be a massive investment in improving public health facilities in poorer areas.

4. Education

Improving the standards of 5- to 11-year-olds in primary schools is crucial. The aim should be for 100 per cent of 11-year-olds to



reach the basic literacy standards, not merely 80 per cent – this would bring vital educational returns as the children move up through the system. At a rough estimate it would cost about £2 billion a year to halve current state class sizes – and so bring them in line with those in the private sector. This, too, would yield the highest possible social returns; and, with public finances moving into a structural surplus of more than one per cent of GDP rising, the Government can no longer argue that such a programme is too expensive. Lowering secondary school class sizes, improving teacher training and teachers' pay could follow. In the meantime, the charitable status of private schools should be withdrawn, or at least made conditional on them opening their doors to more pupils from poorer homes. Selection procedures for university should be biased in favour of poorer kids in order to redress some of the advantage conferred by birth into richer homes.

5. Inner-city regeneration

We need to make an innovative attempt to reinvent our cities, especially in the North. The recommendations made by the Urban Task Force, chaired by Lord Rogers, are a useful beginning: cheap public transport; housing designed for users who do not drive cars; effective land taxation; devolving planning to local communities, and so on.

6. Employment

The core issue, though, in any programme to tackle deprivation, is employment. Here the entire support structure of the business world needs to be re-examined. British companies, trying to maximise 'shareholder value', are becoming more and more demanding as employers, insisting on short-term contracts, longer hours and lower pay. British company law, the structure of the financial system which demands high rates of return as the *quid*

pro quo for investment, the management culture of British business... all these things require an overhaul if Britain is to move towards a 'knowledge economy' with higher paid and more secure jobs.

And so the list goes on. Some policies will be more effective than others; some will need more consideration to be got right. But there is no point in even opening up a debate on the subject until there is a more widespread recognition that inequality is high and rising, and that this is doing none of us any good. We do not have to be hair-shirt egalitarians to make the case for lower inequality, nor to live like saints as exemplars of our philosophy. We simply need to protest about what is currently happening and argue for better. That at least would be a beginning.

Will Hutton is a contributing editor to the *Observer* and chief executive of the Industrial Society. His book, *The State We're In*, is available in paperback (Vintage, £7.99)