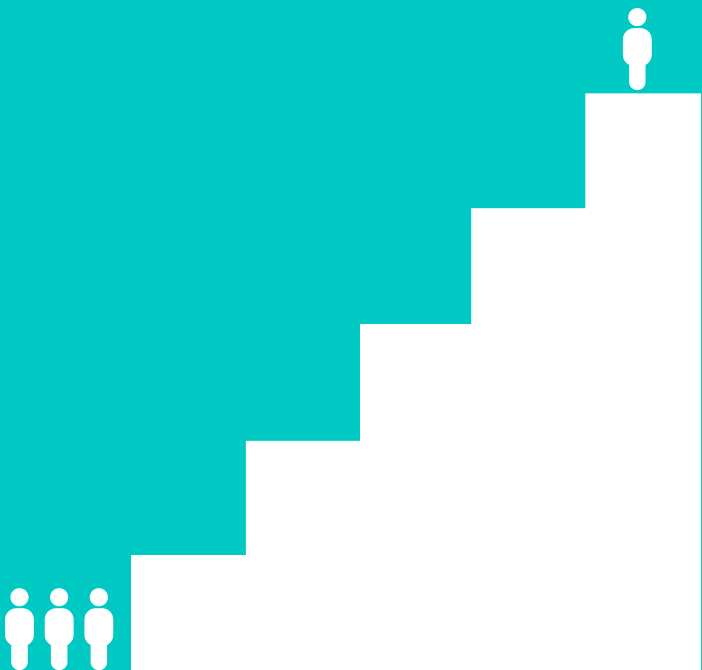
THE EQUALITY QUESTION

WHY LABOUR SHOULD RE-EMBRACE ITS EGALITARIAN ROOTS

STEWART LANSLEY



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SUMMARY

> *'What thoughtful people call the problem of poverty, thoughtful poor people call with equal justice a problem of riches.'*
> *Richard Tawney, 1913*[1]

> *'The reason for doing economics, ultimately, is to create humane and realistic policies to make the world a better place, especially for those people least able to defend themselves.'*
> *G C Harcourt*[2]

If Britain is to reduce today's extreme levels of poverty and economic inequality, it needs to re-embrace egalitarian politics. Britain has been a high inequality, high poverty country for most of the last 200 years, a deep-rooted cycle that has only been broken once – and then only briefly – in the immediate decades after 1945.

This pamphlet argues that poverty and inequality are interlinked, both determined by how the products of economic and social activity are shared. Just as the falls in poverty in the post-war years were the result of a more equal distribution of the economic cake, the doubling of poverty levels since the early 1980s has been driven by the shift in the way the gains of economic progress have been divided, with Britain returning to the heightened divisions of income, wealth and opportunity of the pre-war era.

The latest wave of this cycle, one that began in the early 1980s, is in large part the outcome of one of the central doctrines of a pro-market, small-state ideology – that larger rewards at the top and a weaker system of social protection are necessary to drive economic and social progress. Yet, instead of the promised economic renaissance, that experiment has delivered runaway and often unearned fortunes at the top along with widespread impoverishment and greater economic turbulence.

To break the long institutionalised inequality/poverty cycle, Labour needs to restate its historic goal of a more equal society, making this the central focus of its political message. It should embrace and promote a new

programme for radical change on a par with the pro-equality and anti-poverty measures implemented after 1945. That programme should include an improved and less punitive benefit system moving eventually to a guaranteed income floor funded by a more progressive system of income taxation. Also needed is a new, parallel system of progressive asset-redistribution designed to ensure a much more even distribution of Britain's growing and heavily concentrated mountain of private wealth. These measures need to be underpinned by a new philosophy of government and a transformed system of political economy. This would put greater emphasis on the meeting of unmet social needs and ensure that the gains from economic activity are more equally shared by ending the process of corporate wealth extraction that pervades large parts of the economy.

There is now a growing recognition that the predictions of the market theorists have failed, and that it is now time to bring an end to the neoliberal era and to build a better society. But this will not happen without a more progressive model of capitalism. It will require a reset of the goals of economic activity and an end to the bias to inequality currently baked into the practices of big business and the uneven division of economic and social progress. Without a package to build a more equal, fairer and higher wellbeing society, the inequality-driving and stability-sapping political and economic model of the pre-pandemic era is set to continue.

CHAPTER 1

WHY ARE THE MANY POOR?

The Fabian Society was founded in 1884. Its first tract, published in the same year, Why Are the Many Poor? sold 100,000 copies. "The few are very rich, some are well-off, MOST ARE IN POVERTY," it opened, "and a large number in misery. Is it a just and wise system, worthy of humanity? Can we or can we not alter it?"

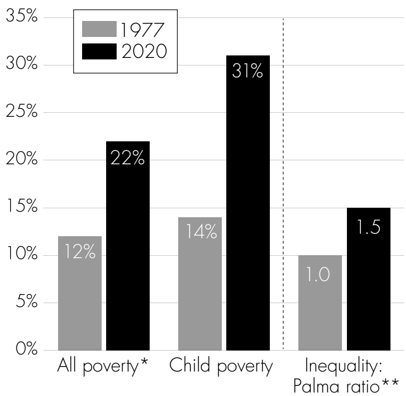
These questions are as valid today as they were a century and a half ago. Over the last four decades, Britain has moved from being one of the most equal of rich nations to the second most unequal (after the United States).[3] Over the same period, the child poverty rate, in relative terms, has more than doubled (figure 1).

So, why is Britain once again at the extreme end of two of the most important measures of social fragility? History cannot be clearer: poverty and inequality are distinct but interlocking concepts. Inequality describes the divide in resources, opportunities and assets across society. Poverty arises when sections of society are unable to afford a minimal acceptable living standard based on contemporary norms. Both are rooted in the way the 'distribution question' – of how the 'cake is cut' – is resolved. "What happens at the top of the distribution affects those at the bottom," wrote the distinguished economist and expert on inequality Sir Tony Atkinson. We must ask, he continued, "whether countries can achieve low rates of poverty at the same time as having high top income shares."[4] Levels of inequality and poverty are, ultimately, the product of the political and economic power games that play out between big business, state and society. With the exception of the immediate post-1945 era, the struggles for share since the birth of industrial capitalism have mostly been won by powerful elites, often with the compliance of the state.

Measured by the standards of a century ago, there has been unparalleled economic and social progress. Driven by a mix of capitalist innovation, state social and economic policies and popular pressure, the absolute material living standards of the poorest are much higher today than in the past. People live longer, are much better housed, and enjoy a much more varied mix of leisure activities. But measured in relation to contemporary standards rather than those of the past, little has changed. For a just society, as the early Fabians insisted, an acceptable minimum must move in line with the tide of progress.

In 1821, one of the pioneers of classical economics, David Ricardo, acknowledged that: "The principal problem in Political Economy" is to determine how "the produce of the earth … is divided among … the proprietor of the land, the owner of the stock of capital necessary for its cultivation and the labourers by whose industry it is cultivated".[5] Ricardo was referring to the pattern of 'factor shares', of how the spoils of economic activity are shared between wages and profits,

FIGURE 1: TRENDS IN POVERTY AND INEQUALITY, 1977–2020



** Relative poverty: the proportion falling below 60 per cent of the median income (after housing costs). ** The Palma ratio measures the ratio of the aggregate income of the top tenth over the bottom 40 per cent.*

a division that has a big impact on the scale of the income gap. Similar calls continued to be made. Is the way 'the products of industry are distributed between the various persons and classes of the community satisfactory?' it was asked in 1885.[6]

There have been three broad phases in the way the 'distribution question' has been settled over the last 200 years, each of them corresponding to separate waves of a long inequality/poverty cycle. The first high inequality, high poverty wave lasted a century and a half until the outbreak of war in 1939. There then followed a period of equalisation, a more forgiving wave, but one that lasted little longer than a single generation. This was short of a golden age, but it was the best Britain has been able to achieve. An apparently historic blip, this period then gave way to a wave of widening gaps and rising poverty, one that has already lasted four decades and shows no sign of abating. The two high inequality, high poverty waves have been strongly associated with the marginalisation of the distribution question in both mainstream economic thinking and state policy making. 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]."[7]

While the business cycle, a 'natural' pattern of economic expansion and contraction common across market-dominated economies, has tended to last for periods of up to 20 years, the waves of the inequality/

poverty cycle have proved much more enduring. Unlike ‘boom and bust’, this cycle is neither natural, nor universal. It is an artefact determined by the pattern and distribution of the structures of power, how that power is used and the ebb and flow of economic and social regulation and intervention.

CHAPTER 2

THE RISE OF EGALITARIANISM

The call for more equal societies grew louder during the 19th century. The explosion of productive power turned Britain into one of the world's leading economies, but came at devastating social costs for large sections of ordinary society. The Austrian-Hungarian political economist Karl Polanyi later described the process of transformation as 'an economic earthquake'.[8] The key winners from the 'earthquake' were the titled and the new financial and merchant classes.

Through much of the 19th century, wealth was synonymous with political power. Britain was a near-plutocracy, a society run by and mostly for the richest sections of society. Some concessions on working conditions and welfare were granted, if slowly and largely because of fear of the consequences of inaction. Help for the losers from economic change was considered by mainstream thinking to be a matter of conscience and of private benevolence, not of state intervention.

The great personal wealth boom of the Victorian era was built largely off the back of a cheap and weakly organised labour force. Each generation would pay the price for economic progress enjoyed disproportionately by those who ruled them. Unrestrained industrial capitalism, tempered eventually by the rise of trade unions, pressure from anti-poverty movements and investment in social infrastructure, did deliver improvements in wages and average living standards, but only with a long lag and at a huge cost to the first wave of factory workers crammed into congested and insanitary urban areas.[9] Social progress was slow and hard fought. The influential left-wing historian EP Thompson, in his account of the power of an industrial 'master-class', controversially dismissed the material improvements of the industrial revolution as "more potatoes, a few articles of cotton clothing for his family, soap and candles, some tea and sugar, and a great many articles in the Economic History Review".[10]

The dominant philosophy – a belief in individual liberty, free markets and limited democracy – showed little concern with the lot of the governed. For some, poverty was viewed, conveniently, as 'natural', as 'God's will' or a product of moral weakness. For others, it was necessary to provide labour and sustain elite power. "Poverty is a most necessary and indispensable ingredient in society," declared Patrick Colquhoun, the founder of the police force in England in 1800. "It is the source of wealth, since without poverty there would be no labour, and without labour there could be no riches, no refinement, no comfort, no benefits to those who may be possessed of wealth."[11]

The fundamental goal of the Poor Law Amendment Act of 1834 – more anti-poor than anti-poverty – was to promote the Victorian ideology of individual responsibility. The Act placed the workhouse at the centre of provision, with conditions deliberately worse than the lowest living standards available to a working labourer. The moral shame attached to seeking relief was a deliberate attempt at deterrence and minimising the cost of relief. Workhouse conditions were mostly draconian.

Industrial capitalism produced vast wealth, but only for the few. On the death of Queen Victoria in 1901, the top 1 per cent owned an estimated 70 per cent of all private property – land, property and financial assets – while the top tenth owned 93 per cent.[12] The vast majority owned more or less nothing. The gilded classes defended the lack of social progress on the grounds that it would undermine the natural laws of economics. Workers and bosses, it was claimed, simply received what each deserved, while tampering with free markets would inflict severe economic damage. According to the theory of 'marginal productivity' devised by the American economist John Bates Clark in 1899: "… the distribution of income to society is controlled by a natural law, and this law … would give to every agent of production the amount of wealth which that agent creates."[13] This idea that gaps in rewards reflect differences in merit has maintained a powerful hold over mainstream economic thinking, and is still used to justify extreme levels of inequality and poverty.

For centuries thinkers had warned of the corrosive impact of too great a divide between rulers and ruled. In the Victorian age, a generation of reformers challenged the rulers in their defence of the side effects of early industrialism – child labour, slums, sweatshops and early death – as the necessary birth pangs of eventual social progress. They argued that the model of unrestrained capitalism was incompatible with social justice and that progress could be achieved at a lower human cost. Poverty, they claimed, was driven by the structural forces of unemployment, intermittent and low-paid work and slum-induced ill health. They accepted the power of innovation and the wider gains from the power looms, steamships and railways, but disputed that the often inhuman conditions imposed on workers were necessary to economic success.

At the turn of the century, two pioneering and painstaking studies by wealthy industrialists, Charles Booth's survey of London and Seebohm Rowntree's of York, produced hard evidence about the scale of poverty. Using the most frugal of measures, based on the barest of subsistence standards, these pioneering studies found that around 30 per cent of the population in each city lived below this standard.

POLITICAL ECONOMY NEEDS SOME HUMAN WARMTH

The case against inequality was, initially, primarily ethical and humanitarian, but later took additional forms. For the moral critics, Britain had succumbed to a dehumanised model of political economy: why was a tiny class able to live such gilded lives while a significant minority were forced to live at, just above or below subsistence, largely because of the collective monopoly power of the plutocratic classes over wider society? For these critics, it was wrong to divorce the functioning of the economy from its impact on society, and economics needed to be humanised. Hunger, cold, disease and ignorance, were not, as widely claimed, a natural and inevitable phenomenon and could not be tackled by self-help, hard work and benevolence alone. As the novelist Charles Dickens put it: "Political economy is a mere skeleton, unless it has a little human covering… a little human bloom and a little human warmth in it."[14]

Despite their belief in free markets and competition, the early classical economists were highly critical of the privileges of excessive wealth, the abuse of concentrated power, and widespread profiteering. Was the sight of 'so much want' amidst 'so much wealth' merely a 'necessity of nature'? asked the Cambridge classical economist, and tutor of a young JM Keynes, Alfred Marshall.[15] For the historian and ethical socialist, Richard Tawney, society needed to 'rearrange its scale of values' with economic activity 'put in a subordination to the social purpose for which it is carried on'.[16]

Other critics argued that too great a divide threatened economic stability. The heterodox economist, John Hobson, challenged the conventional theory of natural adjustment by arguing that excessive wealth and income gaps made industrial capitalism more vulnerable to disequilibrium and boom and bust. Hobson, who had a big influence on Keynes, argued that growing economic turbulence, such as the deep depression that began in the 1870s, had been caused by a shortfall of demand stemming from 'under-consumption' and 'over-saving' triggered by an excessive concentration of spending on luxuries.[17]

The question of the destabilising impact of high inequality resurfaced in the crises of 1929 and 2008, with strong evidence that both were triggered in large part by the way excessive concentrations of resources distorted demand, created perverse productive and financial incentives and intensified economic volatility. As Marriner S Eccles, Federal Reserve chairman from 1934 to 1948, concluded: "A giant suction pump had by 1929–30 drawn into a few hands an increasing portion of currently produced wealth … as in a poker game where the chips are concentrated in fewer and fewer hands, the other fellows could stay in the game only by borrowing. When their credit ran out the game stopped."[18] A similar argument was used by the Labour prime minister, Clement Attlee, in 1946 to make the case for social insurance.[19]

Reformers also argued that some of the mechanisms that drove ever-growing fortunes at the top came at the cost of lowered living standards and opportunities for large sections of the working population. Tackling impoverishment therefore meant targeting these mechanisms. As the prominent social thinker and philanthropist John Ruskin argued in 1860: "The art of making yourself rich is equally and necessarily the art of keeping your neighbour poor."[20] For Tawney, the student of poverty needs to start "much higher up the stream than the point he wishes to reach …. What thoughtful people call the problem of poverty, thoughtful poor people call with equal justice, a problem of riches."[21] The immense divisions of Victorian society stemmed, the reformers claimed, from the way the governing and industrial classes were able to secure a disproportionate share of the economic gains from industrialism.

At the beginning of the 20th century, there was much political common ground between Labour's early leaders and a group of radical Liberals such as Charles Masterman and Leonard Hobhouse. Both groups pressed for far-reaching reforms, from the repeal of the Poor Laws and ways of breaking up deep concentrations of wealth to a legally enforceable minimum wage, a shorter working week, and a guaranteed 'social minimum'. In power from 1906, a newly radicalised Liberal government introduced a fledgling new social security system funded by bitterly opposed higher, if modest, taxes on top incomes. Although it took another four decades, these changes were the foundation stones for the much more comprehensive, if still flawed, welfare state created after the second world war.

As shown in chapter 5, egalitarianism was to have a big impact on the philosophy of the Labour party, founded in 1900. As Clement Attlee declared in his election address as the Labour candidate for Limehouse in the 1922 general election, his aim was to tackle "the exploitation of the mass of the people in the interests of a small rich class".[22] When Attlee won the post-war general election in 1945, the battle of ideas had largely been won by pro-equality thinkers, paving the way for a fundamental shift in governing philosophy. This post-war ideological turn had been born out of earlier struggles, the memories of the 1930s, the devastation of war and mass pressure for change.

From 1945, in a watershed moment in social and governing history, Attlee implemented a rolling programme of progressive policies aimed at relieving poverty and closing the wealth and income gap. These included a fuller and more comprehensive social security system, universal family allowances, a free and universal health service, a progressive tax system that bore most heavily on those with the broadest shoulders, and the application of Keynesian theories of demand management, including a new central goal of full employment and the need for buoyant wages. The measures were promoted to the public by Labour's leaders and were supported by a popular, if shallow, consensus. They were backed too by a new pact, if informal and unwritten, with business to accept greater social responsibility and more moderate personal rewards. A dramatic change in gear, the post-war reforms brought a softer edge to the British model of capitalism, while the distribution question became, for the first time, a central issue in the making of policy.

Despite their political differences, post-war governments of both colours through the 1950s, 1960s and 1970s took the question of poverty seriously and presided over steady improvements in social protection. Living standards for most moved broadly in line with wider improvements in prosperity.

The immediate post-war years, it seemed, had delivered an inequality turning point. The Belarusian-born Harvard economist Simon Kuznets theorised that growing prosperity would be associated first with rising and then with falling inequality, a pattern corresponding to an 'inverted U-curve'.[23] As an economy industrialises, Kuznets argued, new investment opportunities would increase the returns to those with capital, while the need for a 'reserve army' of the unemployed would keep wages down. As higher average incomes brought democratisation and a more developed welfare state, this process would reverse. The economist Alfred Marshall had made a similar argument 50 years earlier that poverty 'was a passing evil in the progress of man upwards'.[24] The theory fitted the trends of the previous 150 years. In the 1950s' decade of 'egalitarian optimism', it seemed to be borne out by the combination of planning to boost growth and employment, social policy to distribute the gains from growth more equitably and new restraints on the rate of return on capital.

Kuznets, however, was over-optimistic. The success of the post-war years was not to be maintained, while the political consensus on which it was based was to prove shallow and temporary. The new politics of sharing was slowly replaced during the 1980s by the priorities of the market. What had been initiated in 1945, it turned out, was a temporary truce between capital and labour and rich and poor. Concessions were made, but largely on capital's terms.

CHAPTER 3

THE COUNTER-REVOLUTION AGAINST EGALITARIANISM

As support for social democracy began to fade during the stagflation crisis of the 1970s, a small group of small-state, pro-market, but previously marginalised, New Right thinkers began to convert leading Conservatives to the pro-inequality arguments of the past. Poverty, it was claimed by these neoliberal evangelists, was an individualist not a structural problem and should be measured on absolute not relative criteria; a stiff dose of inequality was a necessary condition for economic success. On these views, allowing the rich to get richer would lift Britain out of its tepid entrepreneurial culture and expand the size of the economic cake; even if the wealth gap grew, it was claimed, all citizens would be better off through a 'trickle-down' effect. 'True' Conservatives need 'to make the case against egalitarianism' wrote Sir Keith Joseph, a close adviser to Margaret Thatcher. 'The pursuit of equality has done, and is doing, more harm, stunting the incentives and rewards that are essential to any successful economy."[25]

In 1975, this theory got a considerable boost from the mainstream American economist Arthur Okun. Whatever the morality of a widening gap, Okun claimed, you could have more equality or a bigger cake but not both.[26] This 'equity-efficiency trade-off' theory became a key tenet of mainstream economics. It was taught in universities, promoted in boardrooms and parts of Whitehall and enacted by political leaders.

It had taken a century of social pressure, economic turbulence and political reform to create greater equality. It took less than a decade to overturn these hard-fought gains, while the distribution question was again written out of the governing script. Here was a second, deep ideological turn since the war with the return of a second high inequality phase of the inequality, poverty cycle. Few have put the case for this turn quite as bluntly as Robert E Lucas, the Chicago-based economist and one of the high priests of the post-1980s market revolution. "Of the tendencies that are harmful to sound economics," he wrote in 2003, "the most poisonous is to focus on questions of distribution."[27]

In the UK, much of the impact of this pro-market, anti-equality shift came in the 1980s. Income and wealth gaps rose, as did the level of poverty. Although the gap across the broad sweep of society then stabilised at these high levels from the early 1990s,[28] the share of all income and wealth held by the top 1 per cent continued its upward climb. Although this continued rise stalled from around 2010, once allowance is made for the way high incomes are understated, the top income share is estimated to have continued to rise since the 2008 crisis.[29] As a result, the primary – if not the only – issue of inequality has, over the last four decades, become one of intense concentration at the top.

Today's high rates of poverty have been driven in large part by the state's lower commitment to tackling poverty, the steady erosion of parts of the post-war social and economic settlement, and the return of more cutthroat, and extractive, business methods. In the new post-1980, pro-rich political climate, owners of capital seized the initiative to end their post-war truce with social responsibility and the workforce. Although the pro-market theories were applied most forcefully in Anglo-Saxon nations, starting in the UK and the US, it was a counter-revolution that eventually spread across much of the rich world. Today most rich countries are more unequal than half a century ago, if less so than the UK.[30] With the earlier lessons forgotten, an audacious experiment in unequal market capitalism had been launched, with the promise that the great prize for a widening gap would be faster growth and a new economic dynamism.

We now have the evidence from this experiment. As shown in the next chapter, it has failed to deliver greater economic stability and accelerate social progress, while it has been the poorest sections of society who have ended up on the wrong side of the unending upheavals of the time. Poverty and inequality have again become institutionalised, built into an economic and social system which works heavily in the interests of a small financial elite and, to a lesser extent, the affluent professional classes. A significant minority has again had to make do with the proportion of the proceeds of economic activity consistent with the needs of capital, wider political expediency and the self-interest of the wealthiest classes.

Just as the winners have used multiple ways to justify their position at the top, post-1980 governments have turned to old explanations – or excuses – for inaction: that poverty is largely the product of individual failure; that a certain degree of poverty is necessary to encourage a work ethic; that the pattern of rewards matches differences in merit. There has been a return to many of the dominant theories of the 19th century: that markets know best; that intervention-free economies would adjust naturally to a stable equilibrium; that private ownership of property is preferable to social ownership. Yet, the tenets of neoliberal thinking are far from eternal truths written on tablets of stone, while many of these claims had already been shown to be suspect.

For most of the last 200 years, the economics discipline has been presented as providing value-free explanations of how the economy works. Yet how economies are run is not merely a technical issue, while different economic paradigms have very different implications for the way societies function. The neoliberal model, based on clear assumptions about how society works and its causal relationships, stresses the importance of individual preferences, largely dismissing the role of social groupings and co-operative behaviour. It dismisses the 'distribution question' yet how the cake is shared is a central determinant of who gains and loses from economic activity and has a critical impact on social wellbeing and economic performance.

Far from being value-free, the application of pro-market doctrines has been of greatest benefit to a super-rich class, many of whom have helped pay for its dissemination. By buying into these ideas, political leaders have become bag carriers for the powerful. Yet despite the scant evidence that the theories work in the real world, they have been presented, as in the 19th century, as fundamental laws of the way society functions. Studies – as well as history – have shown just how shallow such theories are. Okun's trade-off principle had effectively been applied in the 150 years up to the late 1930s, yet allowing the richest groups in society to capture large chunks of national income came with very mixed economic results and mostly negative social consequences. Far from raising productive efficiency, banking and financial deregulation has contributed to the misuse of capital and a hike in leveraged credit culminating in financial meltdown, while corporate tax cuts have failed to boost productive investment because the tax savings have been used to reward executives and shareholders. Lower top income tax rates have greatly benefited the rich but there is no evidence they have yielded faster growth.[31] The growing concentration of the institutional ownership – and control – of corporations has been associated with lower employment and wages.[32] The real-life experiment in inequality is a classic example of what the 17th century philosopher Francis Bacon called 'wishful science'. The American economist and Nobel laureate Paul Krugman has dismissed neoliberal claims as 'zombie economics'.[33]

The new philosophers of unregulated capitalism took a pick and mix approach to the advice of the pioneers of economics who had warned of the dangers of the impact of the special privileges demanded by elite classes, or as the patron saint of economics, Adam Smith put it, the consequences of the love of quick money by 'the prodigals'.[34] Smith also argued that social issues were equally vital to a good society, and that markets needed to be tempered by wider questions of morality.[35] In his immensely influential 1776 work The Wealth of Nations, he warned of the impact of excessive rates of return and profiteering by capital and property owners. "The landlords, like all other men love to reap where they never sowed, and demand a rent even for its natural produce," he wrote.[36] The Victorian philosopher

John Stuart Mill said, reproachfully, of landlords: "They grow rich in their sleep without working, risking or economising …. If some of us grow rich in our sleep, where do we think this wealth is coming from? It doesn't materialise out of thin air. It doesn't come without costing someone, another human being. It comes from the fruits of others' labours, which they don't receive."[37]

In 1900, the New York Post issued a similar caution about the heavy concentration of wealth and power. 'Discontented multimillionaires', its editorial argued, form the 'greatest risk' to 'every republic'. They are, it continued, 'very rarely, if ever, content with a position of equality'.[38] These warnings – that the wealthiest 'pocket that which they did not earn' – are as relevant today as in the Victorian era.[39]

The early economists also drew an important distinction between wealth creation that contributes to the common good, and wealth appropriation that serves the interests of a powerful few. "The efforts of men are utilized in two different ways," declared the influential Italian economist Vilfredo Pareto in 1896. "They are directed to the production or transformation of economic goods, or else to the appropriation of goods produced by others."[40] Such 'appropriation' or 'extraction' was widespread in the late 19th and early 20th centuries, and benefited those who 'have' rather than 'do', while 'crowding out' a more productive activity that offers greater social value.

One of the big contradictions of pro-market theories is the way weak regulation has, by greatly distorting the way markets work, actively discouraged market competition. As the heterodox American economist, Thorstein Veblen, warned at the time, far from creating a haven for free and vibrant competition, which could drive innovation and new skills, late Victorian industrialists used their unbounded power to rig markets to yield excess profits through a mix of deal making and price and market manipulation. These became the source of quick fortunes without the risks of traditional entrepreneurialism. Such 'market sabotage' fed an orgy of luxury spending that reached 'elephantine proportions' – while also depleting the level of ordinary, inadequate 'non-luxury' demand necessary to sustain the economy.[41] The Polish sociologist Ludwik Krzywicki called the late Victorian era one of 'industrial feudalism', in which the new industrial barons were able to maintain past hierarchical structures through cartels and other anti-competitive, devices. Given free rein by the lack of state regulation, these business practices came at the expense of business innovation and social advancement.[42]

EXTRACTIVE CAPITALISM: LEVELLING UP AT THE TOP BY LEVELLING DOWN AT THE BOTTOM

These arguments apply with equal force to elements of the current economic and business model. Although 'rentier capitalism' has sometimes been used to describe this model, a more embracing description, borrowing from Pareto, would be 'extractive capitalism', a form of levelling up at the top by levelling down at the bottom. This has been defined as "an economic model that is heavily geared to enrichment of the few via mechanisms that extract an excessive share of the gains from existing corporate and financial wealth, in ways which have significant negative economic, social and community side-effects".[43] Extraction of corporate wealth – a kind of private tax on the industry of others – is a dominant, if not the only, source of Britain's long bias to inequality. Some of today's towering personal fortunes have been secured through business practices which have profound implications both for economic dynamism and for the level of poverty and the life chances of the many. The wealth 'megashift' of the last 30 years is less a justified reward for promoting an innovative leap forward than a large windfall gain stemming from the new licence to get rich.

In a modern-day equivalent of the earlier distinctions between appropriation and productive activity, the former World Bank economist Branko Milanović has distinguished between 'good' and 'bad' inequality.[44] Part of the personal wealth boom of recent decades has been associated with 'good inequality', the product of wealth and job-creating entrepreneurial activity and innovation which harms no one and adds to job creation and the common good. Thousands of flourishing small companies started by local entrepreneurs – from London's Brompton Bikes to Stoke's Emma Bridgewater Pottery – have helped to boost local economies. The nationwide shoe repair and key-cutting specialist (and family-run) Timpson, with 5500 employees known as 'the family', is among the largest employers of ex-offenders.

But today's rich lists have plenty of examples of 'bad inequality' where personal fortunes are down to monopolisation, the manipulation of corporate balance sheets, the rigging of financial markets, and the skimming of returns from financial transactions, a process City traders like to call 'the croupier's take'. The growing concentration of personal wealth has been further fuelled by the monetisation of social need and the selling off of socially owned assets, tax avoidance through wealth concealment, and by ill-judged, and sometimes deliberate, national economic policies. Merryn Somerset Webb, the editor of the financial magazine MoneyWeek, hardly an enemy of markets, argues that too much personal wealth has accrued from "mismanaged monetary policy; politically unacceptable rent-seeking; corruption; asset bubbles; a failure of anti-trust laws; or some miserable mixture of the lot."[45]

Many modern business practices are a far cry from the culture of entrepreneurialism advocated by Margaret Thatcher and Tony Blair. Those acquiring fortunes via these methods have been City financiers, takeover, technology and property barons, hedge fund and private equity partners and investment bankers, as well as some traditional entrepreneurs. They include high-profile retailers and media magnates as well as those inheriting landed fortunes.

Far from the competitive market models of textbooks, the British – and global – economy is dominated by giant, supranational companies in key markets from energy supply and housebuilding to banking, accountancy and pharmaceuticals. The consolidation of corporate power, aided by a blind-eye state, has helped to drive a range of anti-competitive practices, and the return of Krzywicki's 'industrial feudalism' and Veblen's 'market sabotage'. From the millennium, there has been a great surge in corporate buyouts, a process that delivers huge sums to architects of the deals. The mostly hostile takeover boom merely flips the ownership of existing companies, while creating giant conglomerates with the monopoly power to exert new pressure on small suppliers, and becoming a key driver of worsening pay and staff conditions.[46] Because of the returns involved, money spent on acquisitions has overtaken that spent on R&D, thus sucking the lifeblood out of the wider economy. It has been the ruthless destruction of rivals and the hoovering up of smaller competitors that has given the mostly young, geek tech founders membership of the global multi-billionaire club. Google has bought over 200 companies, while Facebook built what founder Mark Zuckerberg called a 'moat around itself' through the acquisition of competitors.

The rush of private equity takeovers of publicly traded companies, from Bernard Matthews and Debenhams to Toys "R" Us and Morrisons, has delivered outsized returns often at the expense of staff and the local economy. In a long line of cases – from BHS to Debenhams – turning companies into cash cows for executives has contributed to company failure. Today many key public services, such as adult social care, once carried out by public agencies, have been taken over by private equity companies. Their owners demand above average rates of return that depend on a squeeze on the quality of service provided, resulting in significant sums of public funds supporting care being effectively siphoned off by the larger care providers.[47]

As the early economists warned, extraction steers economic resources into unproductive use, detached from the creation of new economic or social value, and too often limiting the resources available for wages, investment and innovation. The rising profits and corporate surpluses of recent times have been used to reward executives and investors rather than boost productivity. FTSE 100 companies generated net profits of £551bn and returned £442bn of this to shareholders in the four years from 2014, sums which greatly outstripped rises in wages and private investment.[48] "One could expect that companies would have prioritised corporate resilience following the significant injection of public money to prevent the near collapse of the financial system," declared Thales Panza de Paula of the World Economic Forum. Instead we have seen "a multi-decade trend, a continued increase in shareholder returns and buybacks, corporate indebtedness and a significant reduction in productive investment."[49]

CHAPTER 4

'IS IT A JUST AND WISE SYSTEM, WORTHY OF HUMANITY?'

As the French economist Thomas Piketty has written: "Every human society must justify its inequalities."[50] Key tests of a successful democracy must be the way it treats citizens across the income divide, how power and the fruits of progress are shared, and the strength of social wellbeing. Yet there is a large body of historical and contemporary evidence that highly unequal societies fail to deliver on these criteria.

There have been two key justifications for today's runaway fortunes and widening gaps. First, that they are necessary to drive innovation and prosperity. Yet growth, private investment rates and R&D and productivity levels have been lower under market capitalism than under the post-war era of welfare capitalism. The promised post-1980 entrepreneurial revolution has been patchy at best, with, for example, relatively few examples of successful high-tech British companies. Financial crises have become more frequent and more damaging.[51] Instead, the chase for personal enrichment has spawned a range of business methods that have contributed to Britain's low-growth, low-productivity, low-wage economy and its second wave of high poverty and inequality.

The pattern of incentives unleashed by the relaxing of business controls has enabled finance and business leaders to accumulate huge fortunes at speed by bypassing the need to build long-term durable businesses. Britain's low level of investment and declining rate of productivity growth, for example, has, according to the economist Andrew Smithers, been the result of a perverse system of incentives that makes it more attractive for executives to line their pockets than build for the future.[52]

It took the financial crisis of 2008 to expose the claim that high inequality was essential for economic progress. Studies by the International Monetary Fund (IMF) and the Organisation for Economic Co-operation and Development (OECD) have shown that high levels of inequality have been associated with brittle economies that are prone to crisis and weak growth.[53] These confirm other evidence that societies that serve the interests of small elites weaken social and economic resilience.[54] Key elements of Britain's economic model – of structural poverty, insecure employment and a low wage share – have created consumer societies with a limited capacity to consume. To tackle this inequality-induced problem of weak consumer demand, the economy was pumped full of private debt. Personal debt levels rose from 45 per cent of incomes in 1981 to an unsustainable 157 per cent in 2008.[55] While the IMF and the OECD had earlier championed market theories and effectively pro-inequality economic strategies, they now recognise that it is not possible to have sustained prosperity without sharing the gains from economic progress more equally. Once again, an economic case has been added to the social justice arguments for greater equality.

The second pro-inequality argument is that 'I am worth it.' Yet disparities in income and asset holdings remain weakly related to differences in effort and social contribution, and contain a large element of 'bad' inequality. Executive pay levels are poorly correlated with corporate performance.[56] Personal fortunes have been the product of inheritance, asset price inflation and extraction as much as new wealth creation. While some of those climbing up the wealth league have made significant contributions to wider progress, wealth accumulation is too often associated with negative economic and social consequences.

This is well illustrated by the 2008 financial crash, where the winners from financial capitalism had grown rich while creating the conditions for economic collapse that was paid for by redundant staff, bankrupt small business owners, taxpayers and a deepening of the regional divide. One of the important effects of Covid-19 has been the way it has highlighted the immense contribution made by the small army of the low-paid – delivery drivers, shop and hospitality workers, transport workers, cleaners and hospital porters – and the huge body of carers, volunteers and community activists, mostly women, without whom society would grind to a halt. This largely invisible and unrecognised part of the labour force – paid and unpaid – and typically giving a good deal more than they take, provides a vital economic and social function and more than fulfils the obligations of social membership, yet is widely short-changed for its role.

Excessive inequality is not just economically 'corrosive' as Christine Lagarde, former head of the IMF, put it in 2012.[57] It has also left a growing trail of social distress. In highly unequal societies, social progress rarely follows a conventional linear theory of history. Significant groups have been bypassed by the material gains of recent times, often resulting in a diminished quality of life, the loss of a place in society and a deepening sense of powerlessness.

Britain is a multi-speed economy, with a super-fast lane for a privileged few, a fast lane for the affluent, and a series of progressively slower lanes for almost everyone else. For those in the slowest lane, the rate of social progress has been capped and for some set in reverse. In contrast to near-stagnant living standards on average, the post-2008 era has proved to be another bonanza for large groups of the already rich and affluent, with the executive pay and bonus gravy train continuing to roll. The average pay of a FTSE 100 chief executive rose at four times that of employees in the decade from 2009, while 2021 proved another bumper year for City bonuses, in large part because of a wealth-extracting boom in corporate takeovers.[58]

As a result, asset holdings at the top, domestically and globally, have continued to race ahead. In the two years to 2021, Denise Coates, the chief executive of the privately owned online gambling firm Bet365, took 'pay' of over £800m, while 15 global hedge fund managers pocketed £17bn between them for betting correctly on the course of the global economy. The wealth of the world's 2,189 billionaires rose by over a quarter in the four months to July 2020, taking their joint wealth to a new peak. In contrast, ordinary households are facing a second prolonged fall in living standards.[59]

Today's return to extreme levels of economic inequality is associated with significant gaps in wellbeing.[60] Many indicators of progress have stalled or gone into reverse, resulting in a return of extreme affluence alongside severe social scarcity. The opening chapter of the Levelling Up White Paper, mostly written by the former chief economist to the Bank of England, Andrew Haldane, is, for a government document, a remarkably frank account of Britain's stark social fragility, even if the strategy to tackle it fails to live up to the scale of the problem identified. The document highlights, for example, how those in the most affluent areas have life expectancies almost a decade longer than those in the most deprived areas.[61] The long progress in rates of life expectancy has stalled over the last decade and has been falling in some deprived communities.[62] Political alienation is widespread, with a rising gap between the electoral turnout of the richest and poorest groups.[63]

We have seen the return of destitution, and deep poverty, sometimes visible, mostly not.[64] Pre-pandemic almost one-third of households with a disabled adult were in poverty, as were nearly half of families with three or more children, up from one-third in 2012/13.[65] Teachers report a steady rise in the number of children coming to school hungry, children stealing food, and parents unable to afford the bus fare to get them to school.[66]

The nature of poverty as well as its scale has also changed. In the 1980s, those on the lowest incomes were overwhelmingly the unemployed and the elderly. Since then the risk of poverty among pensioners has fallen as pensioner incomes have improved (even if it is still too high), while it has risen for those of working age, less because of unemployment than because of work insecurity and low pay. In 2018, around 60 per cent of those in poverty lived in households where at least one person was in work, up from a third in earlier decades.[67]

Great concentrations of wealth and income have brought the return of a form of Veblen's 'conspicuous consumption'. Contrast Britain's significant underinvestment in children's services, in young adult training, social care and in affordable homes with a surging demand for grand fortress developments, private jets, luxury yachts and even mini-submarines. Private airports are big business. Scarce land that could have been used to tackle a chronic shortage of affordable social housing has been swallowed up by top-end property investment that serves no social purpose. 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.[68]

Luxury capitalism is also a principal driver of global warming. The richest tenth of the global population emitted 48 per cent – and the top 1 per cent 17 per cent – of all global emissions in 2019, while the poorest half emitted 12 per cent.[69] 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'.[70] According to a recent study, such is the immense profitability of the oil and gas industry, the 60 largest private banks in the world have poured £3.8tn into fossil fuels since the 2015 Paris Climate Agreement. Barclays Bank invested £4.1bn in new fossil fuel projects in the 11 months to the COP26 summit in November 2021.[71]

Hirsch's warning was prescient but mostly ignored. Anticipating the problem of the misuse of scarce resources, he argued that the debate should not be about 'how much growth' or 'no growth' but about how the process of affluence creates social scarcity (with vital social needs left unmet). Part of the solution to inequality, and the environmental crisis it has helped to fuel, is to find ways of ending extraction and redistributing part of the towering column of personal wealth to meet fundamental social needs, a process that would simultaneously lower emissions.

VICTORIAN PARALLELS

While there have been dramatic and transformative changes for the better over time, there are also stark parallels between Victorian and contemporary society. Work, as in the 19th century, has, for many, stopped offering a guaranteed route out of poverty, in part because of the return of the casualised labour and contract insecurity of the past. The soup kitchens are back in the form of food banks. The Trussell Trust charity alone gave out 2.5 million emergency food parcels in 2020/2021, an increase from 1.9 million in 2019/20 and 40,000 in 2010.[72]

Between 2010/11 and 2019/20 central funding for local authorities fell by 55 per cent resulting in a 29 per cent real-term reduction in spending power, and the closure of children's centres, libraries and youth clubs.[73] As the squeeze on school budgets has tightened, some state school head teachers have appealed for donations to help fund salaries, buy textbooks and pay for essential repairs.[74] Some councils have launched 'jumble sales' of their assets – from former community centres to playgrounds – sites mostly bought, and too often on the cheap, by developers to turn into high-end housing.[75]

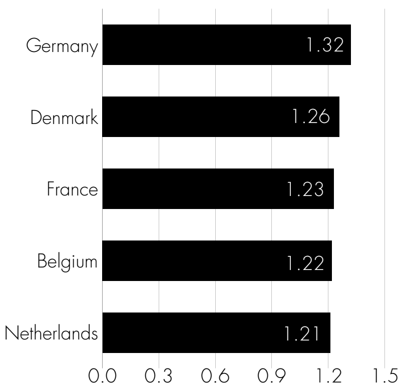
While pensioner living standards have improved on average, an estimated 1.3 million older people are at risk of malnutrition caused by social isolation and cuts to services such as meals-on-wheels.[76] By the end of the austerity decade, close to £40bn had been shorn from the annual working-age benefit budget,[77] while the level of child benefit has fallen by a quarter since 2010. Because of today's mean, patchy, heavily means-tested and highly punitive system of social support (UK unemployment benefits are the lowest in the entire OECD)[78], a plethora of charities and a small army of volunteers have emerged to prop up an enfeebled welfare system, taking on the role of what the 18th-century British politician and philosopher Edmund Burke once called the 'little platoons'.

Because of the impact of inequality, the poorest fifth of Britons are today much poorer than their counterparts in other, more equal, nations (figure 2). Germany's poorest, for example, are a third better off than those in Britain.

Rich and poor citizens have come to be judged, as in the past, by very different standards and expectations. Old distinctions between the 'deserving' and 'undeserving' poor have reappeared, dressed up in new language: 'workers and strivers' against 'shirkers and skivers'. New housing developments incorporate separate 'poor floors', 'poor doors' and even play areas to segregate buyers of luxury private flats and social housing tenants. Television programmes, such as Channel 4's controversial 2014 series Benefits Street, have treated poor families as entertainment. These stand in sharp contrast to the trenchant social and politically engaged content of earlier television drama, such as the BBC's 1970s' Play for Today series and Boys from the Black Stuff in the 1980s, which explicitly set out to 'rattle the cages of the establishment'.

The post-war benefit system was built around a strengthened social reciprocity – a system where rights come with duties. The principle of entitlement enshrined in the post-war national insurance reforms, for example, also came with a duty to seek work. Greater social mutuality based on

FIGURE 2: RATIO OF AVERAGE INCOMES OF POOREST FIFTH COMPARED WITH BRITAIN, 2018, BRITAIN=1



Calculated from OECD, Better Life Index, 2018. Incomes across countries have been adjusted to allow for differences in purchasing power.

communal obligations and benefits is a vital ingredient of effective social functioning, but it must be a mutualism that embraces all sections of society. What has evolved in recent decades has been closer to a politics of division than of inclusion. Rights and rewards for the rich and responsibilities and penalties for the poor, setting different groups on different paths, is not a politics of reciprocity. That principle is now applied in a heavily one-sided way taking Britain back to a pre-war system based on a hierarchy of rights and responsibilities. As George Orwell then warned, Britain is like a family, with "rich relations who have to be kow-towed to, and poor relations who are horribly sat upon."[79]

Those in receipt of benefits have come to be seen – once again – as an inconvenience and a drag on society. State institutions, including the network of jobcentres, have come to be viewed as alien by large numbers who seek their help. "Responsibility is an important element of citizenship," argues the social scientist and now Labour peer Ruth Lister, "but I am tired of constantly hearing about the responsibilities of 'the poor' and the need to change their behaviour and nothing about the responsibilities of the privileged."[80]

It seems that the principles of the Victorian Poor Law – that poverty is self-inflicted and that support should come on the harshest of terms – carry as much influence over social policy today as the more progressive value system laid down in the post-war years. In a return to the punitive policies of the distant past, the middle years of the 2010s saw more than five million state sanctions (essentially fines) imposed on benefit claimants, many of whom were left without an income.[81] Today's emphasis on coercion, and forcing claimants into unsuitable jobs, is not in the interest of the wider economy or of those without work. More severe sanctions have failed to bring better long-term employment prospects and mostly pushed the jobless into deeper poverty and ill-health.[82]

In contrast, the modern plutocracy holds a very limited sense of their own duty. They typically, if not always, see their self-interest and that of society as one and the same. The questions asked by leading economists in the 19th century about the way lowly taxed personal fortunes are often accumulated are being asked again today. Yet, lavishly paid and over-empowered corporate leaders and financiers mostly get a free ride from government, media and the public, leaving them able to leverage a share of national wealth out of proportion to their contribution.

Business makes a big contribution to jobs and prosperity but is supported in that role by significant and growing state support in grants, subsidies and tax breaks worth around £100bn annually (close to the total benefit bill excluding pensions).[83] This comes with virtually no strings attached to address tax dodging, employment practices, or social responsibility. Rights and duties have only come close to alignment for all in the post-war era. In those years, social, economic and civic rights, through a stronger safety net, the expansion of public goods, education and services and access to decent training, work and wages, were extended across society, while large sections of the business class mostly accepted that corporate leadership came with obligations to employees and the local and national community as well as shareholders.

CHAPTER 5

LABOUR AND EGALITARIANISM

From its earliest days, the Labour party, influenced by a range of radical thinkers such as Richard Tawney, Beatrice and Sidney Webb and GDH Cole, embraced the case for greater equality. Although they shared some of the critique of industrial capitalism mounted by Karl Marx, the most trenchant of the system's critics, Labour's early leaders owed as much to Methodism as to Marxism. Clement Attlee, who had witnessed the dehumanising effect of poverty working as a volunteer in the East End of London, was an early convert to greater equality. His aim was to tackle 'the exploitation of the mass of the people in the interests of a small rich class', he declared in his electoral address as the Labour candidate for Limehouse in the 1922 general election.[84] This was a bold promise, but, despite the calls from some sections of the left that the solution lay in an intensified 'class struggle', Attlee aligned himself with the reformist wing of the growing Labour movement, one that rejected what he later called 'vague utopian dreams'.[85]

Then, as now, the equality debate was about scale and strategy. Despite claims by its critics, the egalitarian movement has never promoted complete equality. It accepts that some inequalities are natural and desirable, that people have different gifts and skills and make different contributions, and that differentials are necessary to reward merit and initiative. In his 1931 book Equality, Tawney argued that egalitarians were not arguing for "equality of capacity or attainment, but of circumstances, institutions and manner of life. The inequality which they deplore is not inequality of personal gifts, but of the social and economic environment."[86] Clement Attlee's strategy was to work "steadily towards a greater equality. Not a dead level, but fewer great differences, more opportunities, and more social justice."[87]

At least up to 1997, the goal of greater equality was embraced by all wings of the Labour party – and its wider movement – from Clement Attlee to Nye Bevan, Hugh Gaitskell to Barbara Castle, Harold Wilson to Tony Benn, even if there were differences about the most effective means.

In the immediate post-war decades, via policy shifts and help from wider changes such as the global post-war boom, there were important strides towards the equality goal. Social reforms, redistribution and a booming economy raised lower incomes. Other measures, such as the continuation of high top taxes introduced during the war years and greater moderation amongst business leaders, put a new cap on top incomes. The mechanisms driving greater equality – full employment, private sector rent controls, subsidised social housing, buoyant wages and the rise in the proportion of women in work – also brought lower rates of poverty, even if it was still a long way from being eliminated. A critical pro-equality factor was the improvement in the bargaining power of labour. The share of national output going to wages settled at a consistently higher rate compared with the pre-war era. Businesses had to live with lower profits and a better-paid and more demanding workforce. Far from being damaging to capitalism, the boost to aggregate wages helped to sustain the demand that was central to growing prosperity.

In opposition during the 1950s, there was a continuing debate within Labour about whether the 1945–51 reforms had gone far enough. In New Fabian Essays published in 1952, an essay – The Transition from Capitalism – written by a 34-year-old MP, Anthony Crosland – questioned whether the pluralist society created from 1945 (a mix of private enterprise, neo-Keynesian economics and state welfare) went far enough to achieve 'a classless or egalitarian society'.[88] For Crosland, who acknowledged the persistence of social distress and an inequitable distribution of rewards, socialism was essentially about equality. He developed the argument that greater equality is a pre-eminent value in his influential 1956 social democratic tract The Future of Socialism.

For Crosland and other leading Labour figures, the inequality issue had yet to be finally settled, and it continued to play a central role in Labour's agenda. As Harold Wilson, Labour's third prime minister, put it in a 1963 speech in Birmingham, Labour opposes today's "closed society, in which birth and wealth have priority, in which master-and-servant, landlord and tenant mentality is predominant".[89] The equality goal was reiterated in Labour's 1964, 1966, 1970 manifestos. Its manifestos for the two general elections in 1974 called for "a fundamental and irreversible shift in the balance of power and wealth in favour of working people and their families."[90] This was some promise, with echoes of the 1945 manifesto's challenge to the way business elites acted like 'totalitarian oligarchies within our democratic state' without 'any responsibility to the nation'.[91]

The three post-war decades saw a steady strengthening of the welfare state and the benefit system (notably by higher social spending, raising benefit levels in line with earnings and creating some new benefits such as child benefit in the 1970s), even if some of these had to be wrestled out of ministers facing growing economic problems. As evidence emerged of persistent deprivation and the holes in the welfare state, Labour faced plenty of flak from critics for a lack of faster social progress. Even Crosland, the principal architect of the revisionist theory that greater equality could be achieved in a mixed, but largely market economy through redistributing the gains from growth, shared some disappointment over Labour's record in the 1960s and 1970s.

But that record needs to be judged against the economic convulsions of the time. Social spending rose as a share of national income until the mid-1970s, when the Wilson and Callaghan governments shifted priority to attempts to arrest Britain's relative economic decline. They faced a growing ideological critique both from a resurgent left's attack on the limitations of reformism and from the New Right's calls to roll back welfare. Although other factors were involved, the social reforms – built around wholly new principles of universalism, entitlement and collectivism – contributed to the historic achievement of peak (income) equality and a low point for poverty in the late 1970s. An egalitarian high water mark, the income gap between top and bottom has never been lower, though peak wealth equality came a little later in the early 1980s. As the hard data that charted the trends did not become available until later, Labour was unable to claim credit for this success, while the evidence that was available from academic studies suggested that the post-war shift to greater equality had largely petered out by the mid-1950s. The record of the time, patchy as it might have been, also turned out to be distinctly superior to that of the decades that followed. For all the upheavals, the 1970s was as good as it was going to get in terms of the scale of poverty and inequality. The historian David Edgerton has called the decade 'the highest point' for social democracy in the UK.[92]

AMBIGUITY

Despite the significant and hard-fought post-war gains, Labour's social policy agenda has also been dogged by ambiguity. Like 'socialism', the academic Ben Jackson has written, the search for equality has remained 'elusive and somewhat intractable', with a lack of clarity about what the commitment means in practice and the equality goal mostly subordinate to the less comprehensive and politically softer target of poverty.[93] As Tony Atkinson once warned: "The commitment of the Labour party to equality is rather like the singing of the Red Flag. All regard it as part of a cherished heritage, but those on the platform often seem to have forgotten the words."[94]

Post-war social and economic reformism was, as the sociologist TH Marshall put it, of 'mixed parentage'. Two of its key architects, William Beveridge and JM Keynes, were Liberals. The Liberal party was founded on a commitment to free markets and, despite their later commitment to tackling poverty, the party's stormtroopers of reform also wanted to protect private enterprise. For them, the post-war reforms were primarily about raising the income base and providing more equal access to vital services like schools and healthcare. Significantly, inequality was not one of Beveridge's 'five giants' that had to be conquered. He favoured using the power of the state to create a basic safety net, but his Social Insurance and Allied Services report said little about using that power to dismantle the structural sources of inequality.

The system of social insurance introduced after the war was funded largely by a flat-rate system of contributions that bore most heavily on the low-paid. It was a system of 'horizontal redistribution' covering unemployment, illness and retirement, in which income was redistributed between different stages of the life cycle. Although ensuring nearly everyone would benefit at some stage during their lives has been one of the system's great strengths, and the source of its sustained public support and middle-class buy-in, this construction has also meant a lower degree of 'vertical redistribution' from rich to poor.[95]

There have also been fundamental differences among social reformers about whether the primary goal has been to raise the income floor, while allowing the ceiling to keep on rising, or whether to tackle inequality from both ends. Tackling the coexistence of affluence and poverty was, as the social policy expert, David Donnison noted, 'rarely an objective in its own right for the founders of the welfare state'. The long list of the pioneers of social reform through and beyond the 19th century, from Octavia Hill and Joseph Chamberlain to Rowntree and Beveridge, were motivated mainly by 'a sense of shock at the squalor, pain and poverty they saw around them.'[96] Those who put greater emphasis on equality, such as Tawney and the leading, post-1950s social policy academics Richard Titmuss and Peter Townsend, were in a minority. Tawney, for example, saw the struggle against poverty as essentially one against privilege.[97]

The result of this ambiguity was that many of the structures of inequality from 1945 were left in place. Britain's experiment in humanising capitalism fell short of a wholesale root-and-branch makeover of society. Despite improvements in the 'safety net' through the 1950s, 1960s, and 1970s, there was little change in class gaps in health, school leaving ages and university entrance. The nation's long-standing and self-perpetuating 'cycle of privilege' – and one of the sources of the broader inequality/poverty cycle – was only lightly touched. Although the voluntary hospitals were abolished, private schools were unreformed.[98]As the historian Hugh Thomas wrote in 1959, 'the fusty establishment with its Victorian views' was left largely in place.[99] For all the panic from some sections of 'the fusty establishment', the pre-war hierarchy of economic power – embedded in the City and large company boardrooms, and muted for a while – remained remarkably durable, in part because Conservative governments from 1951 were committed to preserving large chunks of the past.

One of the most important drivers of inequality and opportunity, the politically sensitive question of the source, level and distribution of private wealth, proved to be too much of a hot potato for successive Labour governments.

The question of property ownership – of how much should be socially owned and how the gains from its use should be shared – has been an important preoccupation among reformers. Leonard Hobhouse, Britain's first professor of sociology and briefly a Liberal MP, argued that taxation should be used to break up the deep concentration of wealth and share the gains from that element of wealth creation which is the product of social effort by past generations. "Wealth cannot be created on a desert island," he argued. "Some forms of wealth 'are substantially the creation of society, and it is only through the misfeasance of government in times past that such wealth has been allowed to fall into private hands."[100] In their two brief periods of power in the 1920s, albeit as minority governments, two of the Labour party's goals, to raise more revenue from wealth taxation and secure greater social value from the development of land, came to nothing.[101]

The last century has seen various attempts to socialise part of the gains from asset holdings, especially from the hike in value from the development of land, through a mix of taxation and public ownership. These attempts, such as the 1947 Town and Country Planning Act and the 1967 Land Commission Act, were largely ineffective and were subsequently repealed.[102] Although around a quarter of the national asset base was publicly owned by the 1960s, that share has been sharply eroded over time. Britain's extraordinary concentration of land ownership has barely changed over the last 200 years.[103] It is today still possible to travel through the heartland of rural Britain and pass for mile after mile through land owned by a single family. Prioritising private over public wealth, and the erosion of the common wealth base, especially since 1979, has, arguably, been one of the most socially damaging state-sanctioned trends of the last half century. As a result, the returns from these assets have accrued heavily to a small minority rather than to society as a whole.

In the 1950s, Labour began to examine more radical ideas for spreading wealth, in part because it believed that more 'top down' state nationalisation was not the answer. Leading figures accepted that the post-war reforms were indispensable but not sufficient to build a permanently more equal society. Crosland argued that tackling the extreme concentration of property ownership should be a top priority, while Labour's leader Hugh Gaitskell convened a working party on the way forward on egalitarianism. Ideas to spread wealth more evenly included the diffusion of private property ownership and new forms of social ownership other than traditional nationalisation.[104]

One of the first to advocate a 'property-owning democracy' for all was a young economist, James Meade. "If private property were much more equally divided we should achieve the 'mixed' citizen – both worker and property owner at the same time," he wrote in a paper for the Labour party in 1948. It was a potentially transformative idea he was to expand on in later years.[105] Meade had worked with Keynes and was an adviser to the Wilson governments of the 1960s and later the SDP/Liberal alliance. He argued that a redistributive tax-benefit system alone would not be sufficient to achieve 'a really substantial equalisation', and that there needed to be a shift from individual property rights in favour of a greater emphasis on collective property ownership.[106] This was a very different vision from the model of state nationalisation implemented from 1945, and then the main instrument on the left for social ownership, and a private property owning democracy later advocated by Margaret Thatcher.

Pro-equality thinkers accepted that property rights were necessary to encourage security and reward merit, and that rent, interest and profits along with the savings of the rich play an important functional role in economic development, including as a reward for risk. But these returns, they claimed, were often excessive, while legitimate gains could be much more widely shared through the diffusion of private property and their returns.

Apart from the introduction of a capital gains tax in 1965 – which generated less revenue than predicted – none of these ideas were taken further by Labour in the 1960s, though they continued to be developed by others. Following other Liberal and Labour figures, Meade – later a Nobel laureate – argued for the spreading of capital ownership, not by the state buying up and managing private firms but by society establishing a growing stake in national assets through the creation of a publicly owned social fund. Returns on the fund could then be used to pay 'an equal social dividend to each citizen'. This was a variation on earlier ideas for a guaranteed basic income for all, including Beatrice and Sidney Webb's call for a guaranteed national minimum paid as of right to all citizens.[107]

In 1973, an opposition green paper – Capital and Equality – set out a new framework for socialising a proportion of private wealth.[108] The study group behind the green paper included Barbara Castle and Labour's leading economic adviser Sir Nicholas Kaldor. One of the proposals, drawing on Meade, was a national capital fund owned by all citizens. If implemented, even in part, it would have moved the debate on from the public ownership of industry and put some real meat on clause 4 of Labour's constitution. Drafted in 1917, this clause called on the party to "secure for the workers by hand or by brain the full fruits of their industry and the most equitable distribution thereof that may be possible upon the basis of the common ownership of the means of production, distribution and exchange". The fund, it was proposed, could have been financed by the compulsory annual issue of new shares – of the order of 1 per cent of the total equity – by all companies over a given size. A similar idea for a state investment fund, with estate tax paid in assets so that society would participate in the capital gains from rising asset values, had also been considered, but rejected, by Labour in the 1950s.[109]

If adopted, such a strategy would have lowered the concentrated ownership of capital. By locking in part of the gain from economic activity to be shared evenly across society, it would have taken the social reforms of 1945 to a significantly higher point. The Swedish Social Democratic government implemented one variant of the idea in 1982. Local 'wage-earner funds' were created by the gradual transfer of a small portion of corporate wealth and gave local trade unions considerable power over the assets transferred. Unpopular with business, and lacking much public support, in part because of the dominant role played by unions, the funds were axed by the incoming Conservatives in 1991, by which time they had grown to be worth some 7 per cent of the economy. In one sense the great ambitions of the 1970s that had given birth to this experiment in socialisation ended in defeat. While a sign of the political limits to the Swedish experiment in social democracy, the plan was implemented at a time when the right was seizing the intellectual ascendancy.[110]

Although Labour never pursued the idea for a capital fund, it maintained a commitment to higher taxes on wealth. Yet despite a 1974 Green Paper on wealth taxes – one that was vague on how this might be achieved – the idea was also dropped.[111] In 1975, Labour introduced a more comprehensive capital transfer tax to replace estate duty – introduced in 1894 – which, according to Healey, had become 'a laughing stock'.[112] Despite this, the take from all wealth taxes as a proportion of tax revenue halved between 1964/65 and 1976/77.[113] In his memoirs, Healey explained: "I found it impossible to draft [a wealth tax] that would yield enough revenue to be worth the administrative cost and political hassle."[114] At that time, British social democracy was unable to find a politically acceptable way of delivering a greater equalisation of the rising pool of privately owned wealth. Labour's leading thinkers had seen tackling wealth inequality as a largely moral issue, and had failed to foresee the way the power of capital would again come to be used to subvert wider social goals. From then, the debate on the issue of wealth concentration, even as the private wealth mountain grew at twice the rate of the size of the economy, making it an even more significant political issue, stayed largely on the sidelines, only to be renewed in the aftermath of the rolling shocks from 2008.

CHAPTER 6

NEW LABOUR, POVERTY AND EQUALITY

In March 1999, Tony Blair, prime minister for nearly two years since Labour's electoral triumph in 1997, was invited to give the 'Beveridge revisited' lecture at Toynbee Hall. Although expectations were muted, he used the occasion to announce a dramatic and unexpected new commitment: to halve child poverty within a decade and 'eradicate' it within 20 years.[115] To move towards its new goal, there was a raft of anti-poverty measures: from the introduction of the national minimum wage and a newly revamped and more generous, means-tested tax credit scheme to a range of supportive family policies.

These included the extension of free nursery places, new and well-used Sure Start centres giving more integrated support for families, and improved maternity and paternity rights. Labour's principal focus was on child poverty, but there were also new measures to help pensioners, including a new means-tested benefit to replace income support for pensioners, the winter fuel payment and free bus travel.

In the event, Labour fell well short of its target. While poverty rose slightly among single people, the proportion of children in relative poverty between 1997 and 2010 fell by just over a third to 17.5 per cent. Although this was significant progress, the initial success could not be sustained, and poverty had started rising again before Labour left office in 2010.[116] Nick Pearce, a former adviser to Tony Blair, later admitted that Labour's anti-poverty strategy 'had been running out of road even before 2008'.[117]

Despite the concerted attack on poverty, Labour simultaneously dropped its traditional goal of greater equality. Poverty could be cut, it was asserted, while ignoring what was happening at the top. Poverty was again being viewed as a stand-alone, one-dimensional condition that could be tackled by raising the floor while leaving the concentration of income and wealth at the top, and its mechanisms, untouched. "Child poverty," argued business and enterprise minister John Hutton, "can be abolished while people at the top are very wealthy. It is not only statistically possible – it is positively a good thing."[118]

Despite the welcome focus on relative poverty, there were few attempts to root relativity in the idea of creating a more equal society. "Both the Conservatives and New Labour tend to frame poverty as a discrete problem, or set of problems, rather than as part of the grossly unequal overall distribution of income and wealth that marks the UK," wrote Ruth Lister.[119] In his 80th birthday lecture in 2010, David Donnison reinforced the idea that tackling poverty had to focus on 'the rich as well as the poor' and "recognise that if we are not working to include our fellow citizens in society's mainstream we are probably helping to exclude them. The policy implications of a concern about inequality and the cast of mind they spring from are quite different from those associated with poverty."[120]

The strategy was, in essence, a consequence of Labour's overarching governing philosophy to maintain a deregulated model of capitalism, hoping that this would boost growth to pay for a higher income floor and social spending. A fairer society could be achieved, in essence, while leaving the structures of post-1980s capitalism, including the greater freedom enjoyed by finance, untouched. This approach raised plenty of eyebrows, even from unexpected quarters. "The recent Labour government suffered from not having a credible, alternative political economy to neo-liberalism," declared the millionaire Labour peer and former chair of J Sainsbury plc, David Sainsbury.[121] The veteran Financial Times columnist Samuel Brittan agreed: "Labour could have won the election on a much more anti-capitalist platform," he wrote on the day after the election.[122]

Inequality was the elephant in the room for Labour's anti-poverty goals. Implicit to the strategy was an acceptance that those at the top were largely deserving wealth creators who had reached that pinnacle through 'good inequality'. Yet to cut poverty on a sustained basis while allowing the process of top enrichment to continue apace was always going to be a tough ask. In the event, the richest 1 per cent saw a further boost to their share of the nation's income and wealth under Labour's watch.[123] Three-fifths of the rise in their income share – the product of record bonuses, pay and City fees, some of it accruing from debt repayments from ordinary households – went to a relatively small number of already highly-paid City traders and executives, a group who were also leading asset extractors.[124]

In 1997, the economist John Kay had coined the phrase 'redistributive market liberalism' (RML) – a mix of largely unregulated markets and limited state transfers – to describe the more minimalist approach to social protection implemented from the early 1980s.[125] In this way, poverty could be dealt with through essentially technocratic solutions such as Gordon Brown's strengthened tax credit system or later, Iain Duncan Smith's universal credit. Conservative governments from 1979 to 1997 tightened conditionality and further extended means testing. They also reduced the generosity of benefits and ended the progressive force of the tax system, twin measures that weakened the poverty- and inequality-reducing power of the tax-benefit system.[126]

Weakening Britain's post-war system of social support has left household and social resilience inadequate to resist the combination of rolling external shocks, the return of extractive business behaviour and a rising risk of poverty especially amongst those of working age.

Cash transfers are a vital and primary mechanism for cutting poverty, but they are not enough on their own to overcome the institutional structures that drive large-scale impoverishment.

New Labour softened the RML model, but remained dewy-eyed about the merits of markets. We might call New Labour's approach 'RML plus'. While it made short-run cuts in poverty, and gave a significant boost to social spending and public investment, these gains except in the case of pensioners were reversed in the harsher political and social climate that was to follow.

When Labour lost the election in 2010, summary measures of income and wealth inequality remained much higher than when it was last in office (in 1979), a significant hole in the social democratic promise.[127] The share of private assets held by the poorest half of the population – a key measure of economic and social progress – was lower than in the 1970s, and has still never exceeded a tenth.[128] That the poorest half of the UK population together hold a lower share of national privately owned assets – property, shares, pensions and savings – than their equivalents four decades earlier, and these holdings have become increasingly concentrated at the top, is surely at odds with the claim of universal progress.

IMMUNE TO INEQUALITY

From the millennium, the question of distribution – of how to share the national cake – came to be sidelined, and remained 'rather peripheral in economics.'[129] The 2003 report of the annual Survey of Social Attitudes asked if Britain had become 'immune to inequality'. "I get more letters from constituents about Spanish donkeys and circus elephants than on child poverty," explained Jim Murphy, minister for welfare reform, in 2007.[130] "The facts about the scale of inequality in Britain," wrote the economic journalist, Will Hutton, "still fail to ignite a popular outcry."[131] In contrast with 1945, the nation's collective blood pressure had evidently failed to rise over the yawning divide.

Warnings of the fallout from concentrated wealth were widely dismissed. "Why do we care so much?" asked the columnist David Aaronovitch about runaway pay.[132] New Labour sympathisers lined up to argue that the wealth gap did not hurt the poor. As explained by David Goodhart, editor of Prospect magazine: "Gap thinking is based on a defunct zero-sum idea of wealth creation… The poverty of the poor does not create the richness of the rich and vice versa. The point is that the rich and what, if anything, to do about them … is a separate issue from improving the conditions of the worst off."[133]

While the post-war reform agenda had recognised the need to tackle both equality of opportunity and outcome, New Labour's focus had narrowed to deliver a more meritocratic society. The key goal was now 'equality of opportunity', a partial objective that had long been rejected by scholars of the equality question, including Crosland.[134] Boosting opportunities for all depended 'not only on an open road, but upon an equal start', wrote Tawney in 1931.[135] "If we are concerned about equality of opportunity tomorrow, we need to be concerned about inequality of outcome today," argued Tony Atkinson.[136]

In 2012, firm evidence emerged that Tawney and Atkinson were right: the great wealth and income divide mattered for life opportunities. In that year, Alan Krueger, President Obama's chief economic adviser, threw significant new light on the debate. He produced a graph of the relationship between income inequality and the average chance of someone from a poor background rising up the income league over a generation for the world's most developed nations. This showed that high inequality was strongly associated with low mobility: the opportunity dice is much more heavily loaded in favour of the rich in unequal than in equal countries.[137] This was delicate political territory for Americans. The much-vaunted 'American dream' – that all had the possibility of rising from rags to riches – was one of the nation's most enduring beliefs, the ideological glue that united rich and poor alike behind the country's free-market philosophy. Yet it had long been short of reality, and had gradually been replaced for many by a new 'fear of falling'.

Krueger called the graph the 'Great Gatsby curve'. The name – taken from F Scott Fitzgerald's bestselling novel of the excess of the 'roaring 20s' – had been chosen by his researchers, who were offered a bottle of New Jersey wine if they could come up with a memorable title.

Gradually the inequality question has crept back onto the political agenda, in large part because of the impact of the post-2008 financial crisis, of the austerity decade and the pandemic crisis. Since 2010, successive gatherings at Davos, the Swiss ski resort that hosts an annual talking shop for the world's most powerful political, financial and corporate leaders, have repeatedly designated 'severe income disparity' as a top global risk.[138] Ed Miliband, Labour's new leader from 2010, attempted to steer his party gently away from its ambivalence towards inequality and attachment to markets. He argued that more needed to be done to make society more equal before tax and benefits – which would always hit political limits. He called for a greater emphasis on 'predistribution'. This aimed to tackle some of the structural causes of inequality by drawing a line between what he called 'predatory' and 'producer' capitalism, even if the distinction received short shrift from some shadow ministers as too anti-business.[139]

For a while, there were signs that the Conservatives might be intent on a softer line on social policy. In 2015, cabinet minister Michael Gove called on party members to be 'warriors for the dispossessed.'[140]After winning the 2015 general election David Cameron promised 'an all-out assault on poverty'. A year later, the new prime minister, Theresa May attacked Britain's 'burning injustices' of poverty and class.[141] Since 2020, public spending levels and taxes have risen, but only in response to the need to prevent an economic collapse from the Covid-19 outbreak. Although this has been been seen – by some – as a sign of a new interventionism, and the waning of neoliberalism, the City continues to play the vanguard role in the economy, there has been minimal action to make corporate and financial leaders share the burden of retrenchment, while there are limited signs that the new plutonomy is willing to acquiesce to anything other than a token erosion of its muscle, privileges and wealth. There is also no sign that the new prime minister will embrace this agenda, even if there may be temporary financial support to help with the cost of living crisis.

CHAPTER 7

'CAN WE OR CAN WE NOT ALTER IT?'

The 1945 and 1979 paradigm shifts had their roots in common factors: a severe external shock, focused and determined political leadership, the collapse of the existing model's intellectual credibility, a degree of consensus about how change should happen and a public losing faith with the system.

This year is the 80th anniversary of William Beveridge's call for sweeping social reform.[142] That eight decades on Britain is so socially fractured is the product of the erosion of consensus, the weakening of anti-poverty measures and the tearing up of the business pact in favour of much more self-serving and cutthroat business models. Achieving the much talked of better post-Covid society requires, as Beveridge put it in 1942, 'a time for revolution, not patching'. A better society depends on breaking the second long intertwined, high inequality, high poverty wave. This requires levelling up by raising the income floor and targeted levelling down by lowering the ceiling through a more even distribution of existing wealth and new mechanisms to ensure that the gains from progress are shared more evenly.

Abolishing poverty, as New Labour discovered, would be a daunting task, and one that has eluded even the most social democratic of nations. But it is possible to do much better than Britain's recent record. The lesson from both 1945 and 1997 is that to achieve significant reductions requires a revival of the post-1945 egalitarian spirit, and a new set of transformative and embedded pro-equality measures for modern times, including a major reset of today's economic model. Such measures would have significant and beneficial side effects over and above the relief of poverty and a strengthening of social resilience. They would achieve a better balance in the pattern of consumption away from luxury spending. By tackling speculative financial behaviour, they would contribute to greater economic stability, while lowering inequality would, as the academics Richard Wilkinson and Kate Pickett have shown, bring fewer social ills and better health outcomes.[143]

A strategy must set clearly stated goals and targets, along with realistic tests of progress. An initial target for poverty might be to lower it to the average achieved by those rich countries with lower poverty rates. The inequality target should be a lowering of a summary inequality index for both income and wealth. One of the best and clearest statistical measures of the scale of inequality is the Palma Ratio. This compares the income or wealth share of the richest tenth of the population to that of the poorest four tenths. It offers a straightforward message about the scale of the gap and is also a powerful guide for assessing the social strength of a society.[144]As the share of national income accruing to the poorest 40 per cent has fallen, the Palma ratio for incomes has risen from just below one in 1977 to 1.5 today.[145]

With wealth much more unequally distributed than incomes, the Palma ratio for wealth stands at 10, with the top tenth holding a remarkable 10 times more wealth in aggregate than the bottom 40 per cent.[146] As with incomes, it is difficult to see how this level of concentration can be justified, economically, ethically or socially. A feasible starting point for a new target-based approach might be to reduce the Palma ratio for incomes from 1.5 to 1.25 over a 10-year period. A comparable proportionate reduction could be set for the ratio for wealth.

The success of such a strategy should also be tested by progress on other fronts, from the narrowing of cross-class rates of child mortality, life expectancy and educational achievement to lower corporate and gender pay differentials. Progress could be monitored by an independent and permanent national commission, replacing the Social Mobility Commission, and extending its role, with members drawn from experts, practitioners and ordinary citizens. Its role should be to measure progress, assess the effectiveness of different strategies and improve our understanding of the mechanisms that link inequality and poverty. It could build wider feedback through the use of regular citizens' juries.

Also needed is a reappraisal of the role that growth, consumerism and the social realm play in improving the quality of life. This requires new and widely accepted measures of progress based on indicators other than average material gain. Other countries, such as Finland, Iceland and New Zealand, have begun to give priority to sustainability, wellbeing and social growth over traditional financial measures.[147]

To meet these poverty and inequality targets, the distribution question needs to become a central issue in policy determination aimed at countering the bias towards inequality. A new package should build on current pro-equality, inclusive and popular mechanisms such as the National Health Service, child benefit and the national minimum wage. These highly progressive measures were hard-won and highly controversial when introduced, but are now largely politically untouchable.

A new strategy needs to contain the following elements:

A HIGHER BENEFIT FLOOR

It should deliver a higher, less punitive and more complete benefit floor with less state coercion, aimed at restoring the principle of social entitlement. A first step should be a rise in child benefit and the restoration of the £20 top-up to universal credit introduced during lockdown but then withdrawn in October 2021. Existing benefit restrictions such as the two-child limit and the overall benefit cap which cut the incomes of larger families should also be withdrawn.[148] Such policies would start to bring benefit levels closer to those of other rich nations, while reducing the level of poverty.

For the medium term, serious thought should be given to the construction of a guaranteed, automatic and non-means-tested income floor below which no-one would fall.

Such a new universal floor would be grafted onto the existing system and would continue to pay extra through means-tested, circumstance related payments to those who need more, as now. The Beveridge and Attlee reforms introduced some steps towards such a guaranteed minimum, but the present system falls well short of such a guarantee. For the first time, such a model would create an 'income Plimsoll line' that would empower citizens by offering greater security and enhanced choice over key decisions on education, training and work. It would be non-judgmental and thus come without the need for current levels of conditionality. As after the war, it is time to accept as given the multiple unpaid contributions made by wider society through, for example, child care, volunteering and community support. Because it would automatically boost lower incomes, such a floor would, by steering resources towards poorer communities, inject new lifeblood to those areas, and thus strengthen the process of 'levelling up', while raising the incentive for social involvement. Although the idea remains controversial, support for a basic income has been gaining momentum, especially with the launch of the Welsh two-year pilot scheme for young people leaving social care.

A robust *social minimum* is not just a matter of guaranteeing an adequate income, but also requires improved access to vital social provision through a range of free and publicly provided services. This must include a programme of social reconstruction, through, for example, a rise in the supply of genuinely affordable social housing, perhaps through the return of municipalisation of privately rented properties.[149] This could be financed in part by long-term 50 or 100-year or perpetual (with no repayment) government reconstruction/recovery bonds, and in part by the revenue from higher taxation on wealth as set out below. Bonds were used to finance the building of the New Towns from the late 1940s, while their use has a long history in the United Kingdom and the United States.

RESTORING A PROGRESSIVE TAX SYSTEM

Higher benefits and a basic income scheme should be financed by the restoration of a progressive tax system. One study has shown that it is possible to devise a modest basic income scheme that would cut poverty to below the level achieved in 1977. Tax adjustments would claw back the payments from high-income households and restore some of the redistributive power of the pre-1980s tax/benefit system, while raising the additional revenue needed to finance the income floor.[150] The scheme could be introduced in steps, starting with the conversion, or partial conversion of the personal income tax allowance into a flat rate payment, a move that would itself be highly progressive.

Reform of the tax system also needs to be accompanied by much tougher action to tackle widespread and deeply damaging tax avoidance, evasion and fraud. Contemporary tax laws barely differ from the lax approach to tax collection from the wealthy applied by the Inland Revenue in the 1920s. Despite its impact on revenue, widespread avoidance by wealthy business magnates still carries only weak social stigma. Tackling avoidance also depends on a more concerted global effort to tackle tax havens.

A NEW, PARALLEL SYSTEM OF ASSET REDISTRIBUTION

An egalitarian strategy must mobilise Britain's private asset mountain for the common good, an area of policy where Labour has longstanding unfinished business. Alongside a more equalising tax/benefit system for incomes, it is time to build a system of asset redistribution aimed at sharing the rising pool of wealth more equally. Britain is asset-rich, yet these assets are a largely untapped resource. Even a small proportion of the mountain could be deployed to help fund social progress and environmental sustainability. UK private wealth holdings are worth around £15tn, nearly seven times the size of the economy, up from three times half a century ago.[151] Because the considerable returns from ownership (through profits, rents and dividends) accrue disproportionately to the already rich and most affluent, they are a primary driver of today's institutionalised inequality.

A large chunk of today's personal wealth piles are unearned, the product of inheritance, the exploitation of rolling privatisation and too often damaging economic activity. Some three-quarters of the growth in UK wealth holdings since 2008 has been the product of asset inflation, or 'passive accumulation', a classic example of Mill's 'getting rich while asleep.'[152] Yet despite the long acceptance that unearned wealth should be more highly taxed than earned income, the revenue from capital taxes raises only a fraction over 2 per cent of GDP,[153] while the full extent of wealth concentration is understated because of the way a large part of personal wealth is hidden and unreported.[154]

State economic policy has long contributed to rising wealth concentration. The post-2009 quantitative easing programmes and successive 'Help to

Buy' schemes for first time buyers have been primary sources of the boom in property and share prices. Tax breaks and subsidies for new buyers help a tiny group of lucky buyers but by boosting house prices, they raise the barrier to others, while arguably contributing to Britain's economic weakness.

Achieving a more even spread of capital ownership and its gains would require a review of the present system of property rights, but would cut the Palma ratio for wealth. One route to this goal would be through a reform of existing wealth taxation to raise the revenue take. Examples include a review of tax perks, equalising the rate of tax on capital gains and earned income, a lower threshold for inheritance tax and measures to prevent its avoidance. There is also a strong case for replacing council tax and stamp duty with a progressive tax on property values.[155] Another route, discussed below, would be to raise the share of wealth held in common.

Such is the size of the national wealth pool that even modest tax rises on assets could deliver potentially large yields. The Office of Tax Simplification, for example, has shown that changes to the taxation of capital gains could raise up to an extra £14bn annually, while a wealth tax commission found that a one-off tax of one per cent on all individual wealth over £2m could raise upwards of £80bn over five years (and over £200bn if raised on wealth over £500,000).[156] Galvanising part of the asset pool in this way would redistribute some of these unearned gains for all, while taking the post-war model of social democracy to a significantly higher level.

A NEW POLITICAL ECONOMY

These reforms would help to build a more equal and fairer society. But they would not deal directly with all the institutionalised sources of today's great divisions. To tackle these would require a new system of political economy, one that acknowledges the need to give greater priority to social over material needs – which is only a partial measure of advance – and that changes the balance between the public and private sphere in favour of social provision.

It is also time to end and reverse the process of privatisation and outsourcing, the key source of the depletion of the asset base once held in common. In recent decades, UK corporations have become increasingly owned by overseas institutional investors, notably giant US asset management firms such as BlackRock and Vanguard, displacing the share held by UK pension and insurance funds. Since 2000, asset managers' share of the FTSE350 has doubled to over 40 per cent.

Prioritising private over public wealth, and the erosion of the common wealth base, has turned Britain into an over-privatised, increasingly narrowly owned economy.[157] This has been among the most regressive and socially damaging state-driven trends of the last half century and one that has greatly weakened the public finances. Net *public* wealth (assets minus debt) has sunk from a half of national income to become negative today, in the process making the state 'significantly poorer.' A negative balance on the public accounts has undermined the state's capacity to tackle inequalities and other key issues aggravated by inequality such as climate change.[158]

One way of extending the spread of corporate ownership would be through the promotion of alternative but greatly underrepresented business models – from partnerships and co-operatives to mutually owned and social enterprises. These would distribute primary economic gains to worker/owners. A powerful way to encourage the greater common ownership of resources and return, over time, large chunks of natural and created wealth back to 'the commons', is to create national and local citizens' wealth funds, collectively-owned pools of wealth owned on an equal basis by citizens. Such funds would give all citizens a direct and equal stake in the economy and put flesh on Meade's call for a progressive 'property-owning democracy'. With such funds, at least part of the gains from economic activity would be shared, including across generations. While they would take time to build, they offer a vision for a much more secure social future, and one that could be financed from a mix of sources, from the issue of long-term government bonds to the transfer of several highly commercial state-owned enterprises.[159]

A new politics of reciprocity for all is needed that includes clearer rights and obligations across society and ends the current unequal treatment of rich and poor. In the case of big business, for example, there is a strong case for the state to take equity stakes in return for generous state financial and other support. What if the billions poured into supporting big companies over decades had come with much firmer conditions, including equity stakes paid into a citizens' fund to build greater social ownership? New policies are also needed to foster new small companies and to rebalance the division of power within the workplace. The latter requires improved employment rights, a strengthened minimum wage and opportunities for lifetime retraining, and greater involvement by workers, including workplace representation on boards.[160]

Concerted new measures are also needed to tackle predatory business methods and carefully concealed instruments of corporate wealth extraction. These should include tougher anti-competitive measures to tackle growing monopoly power, greater business transparency, new rules governing private equity activity, and a reformed pattern of financial incentives that end the bias to short-termism. New restraints are needed in the financial sector, especially over unrestrained 'shadow banking', so that lending practice is more closely geared to meeting social priorities, innovation and a sustainable ecosystem.[161] Tackling extraction also requires more effective international co-operation to control the emergence of immense global corporate power. While some progress can be made by tougher domestic policies, further advances would require a new age of global co-operation and common purpose, a Bretton Woods for the 21st century.

This mix of reforms includes a more progressive system of income transfers, a new system of wealth redistribution, an emphasis on social reconstruction, new policies to extend social ownership amongst workers and citizens, and targeted measures to end extraction and promote competition, while incentivising long-term business growth and more productive use of capital. Such reforms would ensure that the gains from growth are more equally shared – itself a contribution to a more sustainable ecosystem. They would bring a closer fit between economic activity and the common good, and help build greater security and a stronger economy more closely geared to wealth creation.

IS THE STRATEGY VIABLE?

Such a plan is ambitious and politically challenging, and would need to be implemented in stages over two parliaments. It would have to overcome opposition from big business, in part by building a national consensus for reform. The last decade of rolling upheaval has already helped to create a national momentum for change. The public have softened their attitudes towards benefits, are tired of political inertia and show significant support for a new annual wealth tax.[162] The case for higher taxes on wealth is even gaining support within Conservative party circles.[163] At least initially, Covid-19 had a galvanising impact on the national mood. "The present crisis seems destined again to change the face of Britain, unleashing demands for social, political and economic reform unprecedented in our memories," declared the former editor of the Daily Telegraph, Max Hastings. "The polo season, figuratively speaking, is over."[164] British Vogue, on its July, 2020 cover, featured not models but a train driver, a midwife and a supermarket shop assistant.[165]

These calls have been matched by a growing debate about whether history might be about to face another ideological sea-change, away from the four decade-long dominance of neoliberalism. The 2008 crash shattered the hubris of the pro-market school and its doctrine of rational and efficient markets while its theories were further undermined by the self-destructive and over-applied post-2010 programme of austerity. New questions about the nature and purpose of economic activity, the response to the pandemic and the need to tackle the environmental crisis have already triggered a significant step back from the small state doctrine and fiscal conservatism. There is now a plethora of proposals for change from a diversity of sources.[166]

That the current capitalist model is on trial has been acknowledged by at least some figures at the heart of the global business establishment. For Henry Blodget, a former leading Wall Street analyst, shareholder capitalism has turned America into a 'nation of overlords and serfs', while IMF staff have asked if neoliberalism has been 'oversold'.[167] Some global business leaders have signed up to new corporate goals that include 'improving our society' even if these commitments remain vague and non-formalised.[168] A coalition of businesses – including names such as Iceland, Anglian Water and Innocent – is calling for an amendment to Section 172 of the 2006 Companies Act to end the principle that companies must be run in the interests of shareholders and to introduce a set of new goals to 'benefit the members, wider society, and the environment'.[169] The enactment of such a principle would be an important step towards greater business responsibility to society, the workforce and the planet. The launch of the levelling up programme, albeit one that is poorly funded and narrowly targeted, is a clear acknowledgement of the need for change.

While some of the proposed reforms outlined in this pamphlet would be more controversial than others, none are utopian. They will take time, but the benefits would be immense. Cutting poverty and inequality will never be cost-free, and will require the targeting of resources, but the effect will be to relieve pressure on resources elsewhere. Via its impact on health and social spending, poverty at today's highs is estimated to carry a cost of over £70bn a year.[170] Most other rich nations have a much better record on inequality and limiting poverty, while giving priority to greater equality would bring significant social, political and economic gains.

With the tide finally turning against the anti-state, pro-inequality philosophy of recent decades, Labour should fill the political void with a new vision of a society that prioritises the repair of Britain's deeply fractured society and its failing institutions and offers new hope for a better future.

With mounting concern about the social and economic state of Britain, and a new public sympathy towards the need for radical change, there has rarely been a better opportunity to sell an egalitarian vision that raises life chances through guarantees of an equal share in social and economic progress. Without such a vision, and determined political leadership to deliver it, we will be stuck with the pre-Covid model of a failing, fragile and unequal capitalism rather than the better society that has now become a growing public demand.

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