Among Equals

The Spirit Level Anniversary Edition

Spring 2014

The Equality Trust
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THE EQUALITY TRUST

Foreword

Five years ago last month *The Spirit Level* was published. One of the most influential and discussed books of the last decade, its message that inequality is the root cause of many of society's ills was described as an idea "big enough to change political thinking". Having sold over 250,000 copies in 24 countries since its publication, The Spirit Level didn't just highlight the dangerous effects of income inequality; it put the issue of inequality back on the map.

Since then a wealth of research into the effects of inequality has been undertaken, meaning today we have an even greater understanding of its pernicious effects on our health and wellbeing, and on our wealth and economic stability.

In the UK today, the gap between the rich and the rest remains worryingly high. The 100 wealthiest people now have as much wealth as the poorest 30 per cent of households. In the last year alone, the increase in their collective wealth was a staggering £25 billion, or £807 a second. If this was distributed evenly it would be the equivalent of £405 for every man, woman and child. Alternatively, this would pay for over 1.75 million Living Wage jobs for a year.

Even worse, the IFS has predicted that inequality is set to soar again this year and until 2015/16, as Government cuts begin to bite.

But there is encouraging news. In the months since our last Among Equals publication, key international figures from Barack Obama to the Pope have publicly decried the damaging effects of excessive inequality. Bill de Blasio, the new Mayor of New York, won election on a platform of reducing the huge gap between the city's rich and poor.

At home, both Ed Miliband and David Cameron have acknowledged inequality as a problem that must be solved, and other powerful voices have picked up the baton too. Oxfam in particular has made inequality reduction a focus of their recent work.

This edition of Among Equals outlines some of the new research that has underpinned this growing awareness and understanding of inequality, and draws together thoughts from prominent academics on the link between inequality, property, land ownership and economic growth and stability. It includes contributions from Professors Pickett and Wilkinson, Professor Danny Dorling (Oxford University), Stewart Lansley (economist and author of *The Cost of Inequality*) and Professor Charles Geisler and David Kay (Cornell University). The views of these authors are not necessarily representative of those of the Equality Trust (TET).

We also provide details of TET's plans for the coming months. With inequality set to increase in the coming months and years, our work, and the work of the equality local groups, is more vital than ever.

Duncan Exley
Director, The Equality Trust

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The Spirit Level – Five Years On

Professors Kate Pickett and **Richard Wilkinson** on *The Spirit Level* and new research on inequality

When we published our book *The Spirit Level*, the Government of the day was still famously relaxed about people becoming 'filthy rich'. They assumed that inequality only mattered if it increased poverty.

But the truth is that we have deep-seated psychological responses to inequality and social hierarchy. Inequality invokes feelings of superiority and inferiority, dominance and subordination – which affect the way we see, relate to, and treat each other.

We wrote the book because policy makers seemed indifferent to inequality and unaware that at least 200 research papers had been published in peer-reviewed journals analysing the relation between inequality and overall levels of health or violence. However, as we looked at the data we saw that almost all the problems more common at the bottom of the social ladder are more common in more unequal societies – including mental illness, drug addiction, obesity, loss of community life, imprisonment, unequal opportunities and poorer wellbeing for children. But the effects of inequality are not confined to the poor.

A growing body of research shows that inequality damages the social fabric of the whole society affecting the vast majority of the population. When he found how far up the income scale the health effects of inequality went, Harvard Professor Ichiro Kawachi, one of the foremost researchers in this field, described inequality as a social pollutant. The health and social problems we looked at are between twice and ten times as common in more unequal societies. The differences are so large simply because inequality affects such a large proportion of the population.

Predictably, the supporters of the political and economic institutions supporting inequality sharpened the knives and accused us of conjuring up the evidence. But research confirming both the basic pattern and the social mechanisms has mushroomed.

It's not just rich countries where greater equality is beneficial; it is also true in poorer countries. Even the more equal provinces of China do better than the less equal ones. Although life expectancy continues to rise in most places, increases or decreases in inequality have now been shown to make these background improvements in health a bit slower or faster, with the full impact of changes in inequality taking up to 12 years to come through. Still other studies have shown that these links cannot be explained away, for instance by ethnic mix, by poverty, by public service provision, or by a country's size.

Most important has been the rapid accumulation of evidence confirming the psychosocial processes through which inequality gets under the skin. When we were writing, evidence of causality often relied on psychological experiments that showed how extraordinarily sensitive people are to being looked down on and regarded as inferior. They demonstrated that social relationships, insecurities about social status and how others see us, have powerful effects on stress, cognitive performance and the emotions.

Almost absent were studies explicitly linking income inequality to these psychological states in whole societies. But that gap has now been filled by studies showing that people in more unequal societies feel more status anxiety, are less willing to help each other and are less agreeable. That inequality damages family life is shown by higher rates of child abuse, and increased status competition is likely to explain the higher rates of bullying confirmed in schools in more unequal countries.

We showed that mental illnesses are more prevalent in more unequal societies: that has now been confirmed by more specific studies of depression and schizophrenia as well as by evidence that people's income ranking is a better predictor of developing mental illness than absolute income.

Community life is weakened by the difficulty of breaking the social ice between people, but greater inequality thickens that ice: because people are seen as if some are worth so much more than others, we become more anxious about how we are seen and judged. Those overcome by lack of confidence and social anxiety find social contact an ordeal. Others respond in contrast by trying to bolster self-presentation and how they appear to others. International research now confirms that both self-enhancement and status anxieties are more common in more unequal societies. And US data also show that narcissism increased in line with inequality.

Inequality is now also known to be economically damaging: it amplifies the business cycle and makes economies more vulnerable to crisis. Lastly, inequality is becoming an environmental issue because, by intensifying status competition, it increases consumerism and personal debt. The financial crash led to a resurgence of public interest in inequality. We've now given over 700 seminars and conference lectures on inequality, talking to academics, religious groups, think tanks of both right and left, civil servants, professional associations, charities, political parties, trade unions, business groups and to international agencies such as the UN, WHO, OECD, EU and ILO.

One of signs of real progress in Britain are the Fairness Commissions set up by local government in many cities to recommend ways of reducing local inequalities. Partly as a result, many local authorities and companies now pay the Living Wage. In many instances, TET's local groups have been instrumental in the development of these Commissions.

Sadly, central government efforts have not been as effective, and the coalition government has so far failed to stop riches being hovered up by the wealthiest. At the same time we see just how hard the rest of society is being hit, with food banks opening all over the country, and many more struggling with household bills and basic necessities. If politicians want to build a happier and healthier society, they need to be serious about reducing inequality, and they need to start today.

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Tackling Inequality is an Economic Imperative

Stewart Lansley on the economic case for reducing inequality

In the last eighteen months a remarkable new consensus has emerged that tackling today's chronic inequality is a matter of urgency. The call for a narrowing of national income gaps embraces an alliance that stretches from President Obama and Pope Francis to the Economist magazine.

A few years ago, the broad consensus was that inequality was the price we would have to pay for economic success. It is better to have a bigger cake shared *less* equally, the argument ran, than more equality but a smaller economy. That theory is now being turned on its head. Far from inequality being a necessary condition for economic dynamism, the evidence is mounting that an excessive divide simply brings economic chaos. Not only was the income gap a critical factor in the 2008 crash, it also deepened and prolonged the crisis that followed and is now sowing the seeds of the next.

Driving the rise in inequality has been a 30 year shift in the way economic output is divided in favour of capital and away from labour. Across OECD nations, the share of output taken by wages has fallen by five percentage points since 1990. Yet far from improving economic performance, the shift from wages to profits has merely created a number of highly damaging distortions – fracturing demand, boosting debt-fuelled consumption and heightening economic risk.

Through the crisis years, corporate profitability reached new heights in what the Geneva-based International Labour Organisation (ILO) has called a 'dangerous gap between profits and people'. As a result, the world is awash with spare corporate and privately-owned capital, mostly the direct result of depressed wages. In the UK, corporate cash piles have climbed to a record £165 billion, more than a tenth of the size of the economy. American corporations are sitting on cash reserves of $1.45 trillion, up a remarkable 50 per cent since 2010.

During the crisis these surpluses could have been used to launch a sustained investment and job-creating boom and raise the world's sinking wage floor. Yet, instead, most of it stood idle – 'dead money` according to Mark Carney, the Bank of England Governor – fuelling the contraction of demand that deepened the recession.

Despite the final emergence of recovery, the risk is that these surpluses will not be used to fund investment, but to feed another round of high-risk but self-enriching financial activity. A new version of the lucrative collateralized debt obligation that wreaked so much havoc before 2008 is now being promoted. In the UK private equity groups now hold more cash than at the height of the leveraged buy-out boom before 2007, one that triggered a surge of wealth-destroying takeovers.

These deep-seated wage-profit imbalances have turned countries like the UK and the US into entrenched low-wage economies with rising levels of in-work poverty while also threatening the durability of the global economy. Nearly all large economies – including the UK and the US - are 'wage-led' not 'profit-led`. That is, they experience slower growth when an excessive share of output is colonised by profits. The IMF has also produced evidence that too much inequality is bad for economic growth.

Yet, despite the evidence, the ILO has shown that the income gap has continued to widen through the crisis years. Many commentators are also pessimistic about the chances of reversing what has become a ‘golden age for capital’. The American academic, Len Kenworthy, has argued that the way profits have outstripped wage growth is likely to be the ‘new normal` rather than a temporary blip. The American economist, Tyler Cowen, warns that societies are likely to become ever more polarised between the super-affluent and the poor. In his highly influential book, *Capital in the Twenty-First Century*, the French economist, Thomas Piketty argues that the four-decade long era of the ‘great narrowing` that began in the 1930s was unique, replaced by a ‘fundamental force for divergence`.

If these predictions are right, the world will face an area of prolonged instability. Larry Summers, the former White House advisor, has warned that the Anglo-Saxon economic model seems only able to achieve decent growth through short-lived asset bubbles, raising the risk that ‘secular stagnation` may become the new norm. Recovery across the world is now being engineered not by a sustained increase in demand coming from rising real wages and corporate investment, but by artificial stimuli - from rising personal credit levels to the boosting of asset values.

The risk of an era of slow growth and greater turbulence is one that is rooted in excessive inequality. Reducing that risk depends on rebalancing the wage-profit ratio in favour of wages. Achieving this requires a very different economic and business model, a shift in social and cultural norms, a more targeted intervention by the state, tougher boardroom constraints and the weakening of the economic grip still held by the City.

Yet despite the rising risk of continued turbulence, the undoubted constraints against radical change have led to a muted policy response, national and global. Wealth concentration – and the power that goes with it – is thus set to continue to grow. To date, attempts at even moderate reforms and to harness a more responsible capitalism have largely failed. In his previous job, Mark Carney urged corporate Canada to ‘put the dead-money to work`. He was shown the door. UK companies have turned their backs on similar pleas to use their hoarded money to finance investment. In the UK, the great majority of jobs created in the last two years are in low paid sectors intensifying the growing divide between top and bottom.

Global leaders – elected and appointed – are proving unable to engineer the change that majority opinion now accepts is critical to a more robust economic future. The mechanisms that might secure even modest change – the rich paying their due taxes, caps on corporate pay, tighter regulations on finance, a boost to labour’s bargaining power and a smaller finance sector doing its job – have and will continue to be bitterly resisted.

The sustained restructuring of the global economy in favour of big business, global finance and the new billionaire class is a trend that is fuelling a new era of instability and fragile growth. Rebalancing economies in favour of wages, with policies that ensure the gains from growth are more evenly shared is not just a matter of social justice, but an economic imperative. Economies built around poverty wages and huge corporate and private surpluses are unsustainable. Until a more equal distribution of the cake is secured, today’s artificially created recovery is likely to prove very short-lived.

Stewart Lansley is the author of *The Cost of Inequality,* 2011, and of *The Return of Mass Poverty* (with Joanna Mack) to be published by Oneworld.

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Sandcastles in the Sky

Danny Dorling explores how inequality is driving our housing crisis

What did you last worry about? Was it the children, or your job? Only likely if you have children and they are a worry. And slightly more people in Britain don't have a job as have one. More of us are retired or out of work, in education or even too young for that. We all tend to worry about one thing or another but we only have one thing in common that we can all worry about. That is housing.

Very different people in Britain have very different worries about housing. At the extreme the international investor buying a property for tens of millions of pounds should worry if he is buying something not quite worth the price ticket. He might well worry that the Chancellor has announced that he will be charging them Capital Gains tax after the next general election. Or they may worry about how they could circumvent the tax. Imagine you are that person. How do the tax officials find you once you have sold as you are based abroad? You can always create a fake company to buy for you. But then you might worry you'll be found out; even the very rich worry about money and housing.

At the other extreme people sleeping on the streets worry, as do those in hostels, as do those staying on a friend's sofa or surfing between various friends' sofas, as do those who are now behind on the rent because they cannot afford the bedroom tax or the woman who's partner has just left her in a flat which is too pricey for the new housing benefit limits. If she declares herself and her children homeless she will be housed in a series of B&Bs, the kids will lose their school places, their friends, and a large part of their sense of security.

But these worries are just a tiny fraction of our overall housing anxiety because these people, at the extremes of society, are just a very small proportion of the population. However, the numbers that are poor and precariously housed are growing rapidly – by many times the absolute increase in the number of super-rich immigrants. Despite only numbering a few thousand people, just a small proportion of all the recent profits made by super-rich immigrants would solve many of the problems of the housing poor. But there is no simple transfer mechanism.

If we could bottle all the worry in Britain over housing and label it, the vast majority would be the worry of the broad middle. It would be the worry that a housing bubble is about to burst, or that it will not burst and you'll never afford to buy a home. It would be the worry that rents in London will continue to rise by 10 per cent a year while wages don't, or that house prices in Wales don't recover their 2007 levels for dozens of years to come, or that interest rates rise by just a half percentage point at some time in the next year or two tipping those mortgaged to the hilt into financial purgatory…

Often housing advocates suggest that the solution to Britain's housing problems is simply to relax regulations on allowing much more home building. What they don't say is that those most in need of better housing have the least amount of money to pay for it. Income inequalities in Britain are currently so wide that if you were to allow a building free for all, shanty towns would spring up all around London and the South East. We would not have beds hidden in sheds in Slough, but shacks with corrugated iron roofs in Hyde Park!

Ultimately our housing crisis in Britain is a crisis caused by the increasingly unequal distribution of wealth, which is itself the result of income inequalities growing relentlessly since 1978. Until that is realised any solutions can only have piece-meal effects, although there are many things that can be done. What is the point of securing a living wage if you don't pay a living rent? Why is our property taxation not progressive? Why do the very rich pay the least tax as a proportion of the value of their land holdings?

A huge number of solutions to begin to curtail the housing crisis and prevent it turning into a disaster can be suggested and many are very laudable. But none will ultimately work unless they are accompanied by a desire and plan to begin to reduce income inequalities as they once were reduced all the way through from 1918 through to 1978. We became better housed as we became more equal. We will not become better housed in the future in the same way as we did in the past. History never repeats, but I would challenge anyone to try to imagine good prospects for the housing of the children of Britain in future if income inequality levels remain as high as they currently are.

Sao Paulo, Brazil, housing in a country with higher income inequalities than the UK.

Danny Dorling is Halford Mackinder Professor of Geography of the School of Geography and the Environment of the University of Oxford. His book *All That is Solid: The Great Housing Disaster* is published by Allen Lane.

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Carpe Terra

Cornell researchers Charles Geisler and David Kay look at the shocking extent of land ownership inequality

Since its invention in 1904 by Elizabeth Magie, the board game "Monopoly" has been played by an estimated billion people. In recent years, some have re-named the game and re-issued it under the name "Anti-Monopoly". Sadly, the monopolization of land and real estate, which so troubled Magie a century ago, has only gotten worse as the rip-tide of land financialisation and acquisition play out across the globe.

In fact, these recent versions of "Anti-Monopoly" could go much further. Entertainment value aside, they fall short in achieving their full educational potential. Monopoly in land, or the lop-sided control of wealth fostered by grossly unequal landownership, is socially devastating. After all, land supports life itself. To allow a tiny fraction of the planet's inhabitants to exclude others or dictate terms of access is no trifling matter. Mark Twain had it right in declaring that land monopoly "is a screw and lever all in one." Referencing Archimedes, he wrote, "Give me the private ownership of all the land, and…I will undertake to make slaves of all the human beings on the face of it".

It is all too easy to attribute gross land concentration to distant places in the Global South—Mugabe's Zimbabwe or Rousseff's Brazil—and fail to notice equally unjust distributions of land access and ownership in the Britain, Scotland, and the United States. The second Domesday Book of 1873 revealed that all land in Victorian Britain (England, Scotland, Wales and Ireland) was "owned" by just 4.5 per cent of the population. Though current data is sporadic (a political rather than a technical problem), the inconvenient truth of land concentration persists: 70% of UK land remains in the hands of one percent of the population and slightly over 1200 landowners hold 2/3's of Scotland's land.

In the United States, self-proclaimed as the "Ownership Society," land concentration is almost as startling. In 1978 (the last time such data were released!), the U.S. Department of Agriculture published landownership concentration findings with breathtaking results. The top 5% of landowners held 75% of private land and the top 0.5% held title to 40 %. There are numerous reasons to believe this. Very likely, the distribution of land ownership in America has only become more skewed over the past 35 years. There is an uptick today in U.S. land barons with holdings of between one and two million acres and an upswing in individual and corporate off-shore holdings. Media tycoon John Malone owns 2.2 million acres in the U.S., or more than twice as much land as Delaware.

Wealthy investors from the Global North and their counterparts abroad often combine their ownership in obscure and obfuscating ways. Yet Gini ratios, a widely-accepted index of asset concentration used by economists, point to the ubiquity of land monopolies. A landownership profile in 74 countries gathered by the FAO in 1990 shows highly-skewed distributions for 6 countries in Oceana, 9 countries in Asia, 5 countries in Africa, 21 countries in the Caribbean and Latin

America, and 12 countries in Europe. Were the same study repeated today, subsequent to the global land rush that commenced in 2008, the reported Gini ratios would almost certainly be higher.

The recondite nature of landownership concentration stands in contrast to its manifest effects on the public welfare. Historically, the World Bank tells us, no single factor has contributed more to societal inequality than land concentration. Since the early 1980s many countries have witnessed increased inequality across many indicators. These include the income held by the upper 20 percent of citizens, which is often joined at the hip with the advantages of landownership. Though land asset concentration is not the only source of social inequality, it is a steadfast companion. And though private ownership concentration is theoretically reversible, it often changes at a glacial pace.

Was Mark Twain merely ranting about a form of inequality that mattered in the nineteenth century but not today? Dwindling numbers of people on earth make their livings from the land, we are told, and as the majority scurries towards cities to make their fortunes. Such is the view of the "peak land" advocates, the idea that we've kicked the land habit and can get on with civilization. Take another look. Land-based survival remains the signature fact of human security and sustainability, whether people crowd into cities or, as is increasingly the case, have dual addresses, one in cities and another in the hinterlands for recreation and retreat.

Charles Geisler and **David Kay,** Department of Development Sociology, Cornell University

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The Equality Trust: Progress to date

Since the last edition of *Among Equals*, The Equality Trust has experienced a number of important changes. Most significantly, new staff and a new strategy have been introduced, allowing us to increase our research output and our ability to communicate.

As a result, in the last two months TET has conducted analysis on the scale of inequality, demonstrating that the combined wealth of just 100 people in Britain is greater than that of the poorest 30 per cent of households. We have also provided research on the estimated financial cost of inequality, conservatively estimating that inequality costs the UK the equivalent of £39 billion a year in poorer health, and worse crime rates.

TET research and comment has recently gained coverage in the Observer, the Independent, the Daily Mirror. Daily Express, the Daily Telegraph, the BBC and the New Statesman, as well as appearing on numerous radio and television outlets. This has allowed us to spread awareness and understanding of the scale and effects of inequality to a far wider audience.

Alongside this TET's new 'About Inequality' website section now provides a clear and succinct account of the scale, trends, drivers and effects of economic inequality. It has already become a highly visited and well-used resource.

But TET's work is not just about raising awareness and building understanding; it is also about influencing those who can bring about real policy change now. In recent weeks we have held a series of meetings with key politicians and policy makers across the political spectrum, to feed our policy proposals into the political parties' manifesto processes. This includes, as a basic fundamental ask, support for an Inequality Test – an explicit commitment in their manifestos that the net impact of their policies will be to reduce the gap between the richest and the rest. To write to your MP to ask them to support this test, please visit - http://www.equalitytrust.org.uk/get-involved/take-action/write-your-mp

Our affiliated groups continue to do an amazing amount of good work both in terms of awareness-raising around inequality generally and, more specifically, campaigning around issues such as the living wage and fairness commissions as well as many other issues affecting inequality such as welfare changes. This work will no doubt continue throughout 2014. To find your nearest local group please visit - http://www.equalitytrust.org.uk/get-involved/take-action/local-groups

Inequality is no longer a peripheral issue, but one recognised as a key battleground of the next election. We're proud of TET's role in this, and what has been achieved in the last six months. But there is a long way to go to help us build a society that benefits the many and not the few. To do that we will need your continued, and invaluable, support.

Duncan Exley
Director, The Equality Trust

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Get Involved

Campaign

If you don't like companies paying their CEOs millions while their frontline staff get less than Living Wage, you might want to take this quick action to ask your pension fund - which holds shares on your behalf - to vote for fairer pay policies when companions hold their annual meetings this spring: http://action.shareaction.org/page/content/fairpay/

Support

Donate to TET through our website - equalitytrust.org.uk/donate

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Join an affiliated local group or set one up yourself - for more details visit: equalitytrust.org.uk/get-involved/take-action/local-groups

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