

Does inequality matter?

The new rich may worry about envy, but everyone should worry about poverty

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“IT'S the same the whole world over, It's the poor wot gets the blame. It's the rich wot gets the pleasure...”
What would the have-nots who penned this lament long ago make of today's world?

There are more rich people than ever before, including some 7m millionaires, and over 400 billionaires. From sipping champagne to taking trips into space, they are getting plenty of pleasure—though as our survey of the new rich in this issue shows, these sad souls have worries, too, not least about the damaging effect their wealth may have on their children. As for the poor, the gap between them and the rich is rising, even in the industrialised countries where for much of the 20th century the gap had narrowed. In America, between 1979 and 1997 the average income of the richest fifth of the population jumped from nine times the income of the poorest fifth to around 15 times. In 1999, British income inequality reached its widest level in 40 years.

That was then, you (or your financial adviser) might say, but this is now and the rich are getting a little poorer once more. Share prices have fallen and much of the industrialised world is heading either for recession or for slower growth. At such times, inequality of wealth tends to narrow, though not necessarily that of incomes. But such times also tend to be those when anger about inequality comes to the fore, and starts to have political and social consequences. For in good economic times, even the poor feel better off. In bad ones, the rich may lose the most money but the poor lose their jobs, their houses, even their families. And then their acceptance of the way the system works?

Questions of justice

That, certainly, is the danger. But how much should people (rich or not-rich) worry about it, these days? In the past, in many countries periods of the greatest widening of inequality coincided, more or less, with periods of democratic reform, as the franchise was extended and the discontented thus gained a channel

through which to express their ire. That is no longer necessary. Yet although democracy may well mean that a backlash by the less-well-off will not become literally explosive, there are still plenty of ways in which it could be harmful. Past backlashes have, for example, been bought off through trade protectionism, job-guarantee schemes, extending welfare benefits even to the middle classes and, most notoriously, draconian taxation of the wealthy. All such measures sap an economy's strength and make everyone worse off.

The first question to ask about inequality is this, however: If the have-nots are angry about it, are they right to be? In societies where advancement is on merit and seemingly open to everyone, regardless of class, race, creed or sex, unequal outcomes ought not to be a cause for concern. No one thinks it outrageous that Tiger Woods is the best golfer in the world and rich to boot (see [article](#)); we all had the chance to do what he did, but he had the skill and personality. Nor should it be thought outrageous that Bill Gates has made so much money. But where opportunities are not genuinely equal, governments must do what they can to make them so, chiefly by improving public education and ensuring it is open to all.

There is, though, a second way in which anger about inequality could be justified even if opportunities were equal and education were both universal and universally good. It is when power, even power initially gained in a meritocratic way, is abused to raise prices or exclude competitors. That, in a previous backlash, is what gave rise to antitrust laws in America and elsewhere, as governments sought to restrain monopolies and cartels. Difficult economic times, for companies and for consumers, often give rise to accusations of gouging. The temptation at such moments is for governments to be kinder to companies, for fear of job losses. When genuine abuse occurs, however, that is the wrong reaction.

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This issue of abuse of power could also apply to individuals. Resentment at “fat-cat” salaries for bosses has been strikingly muted during the boom years. Partly this reflected a new realism about capitalism, but it was also helped by the fact that everyone was becoming better off. In Britain, the poorest fifth enjoyed real annual income growth of 1.9% under John Major and 1.4% under Tony Blair. In America, the average real income of the poorest fifth fell by 3% during 1979-97, but it has since also moved into positive territory, jumping by 5.4% in 1999 alone. Yet during a recession, companies cut costs, which mainly means firing people.

As Hemingway might have said when Scott Fitzgerald said the very rich “are different from you and me”: “Yes, they get three years' salary and a protected pension and fully-compensated options when they lose their job. I get a month's notice and a black plastic bag.” There will be little that governments can do about resentment at the different treatment given to sacked bosses and to sacked workers, but companies themselves—especially their shareholders—should pay heed. Unjust and unequal treatment is poor corporate governance and, in the longer term, is likely to hurt productivity.

...but really of poverty

Liberal democracies and well-run companies ought to be able to find ways to deal with any justified grievances about inequality, and to win the argument against unjustified ones. There is, though, a bigger problem that exists regardless of the gap between rich and poor, but is made starker as a result of it: pure, sheer poverty. Unlike inequality between the few haves and the many have-lesses, this is not readily channelled and defused by democracy, for the truly poor, the underclass, are a small minority. Their interests risk having no democratic means of expression, and can easily be overlooked.

Helping the poor, the truly poor, is a much worthier goal than merely narrowing inequalities. If the rich get poorer thanks to high taxation, some people may feel pleased but few are better off. If the poor get richer, however, the whole country will benefit. Focusing resources and policy on poverty would be worthwhile simply on humanitarian grounds. But also, the disadvantages of growing up in extreme poverty pose a challenge to a belief in equality of opportunity. And helping the underclass rejoin society is in the interests of all.

The main task here is for governments: to provide a proper welfare safety net; to provide and protect public education in the poorest areas; to provide remedial training and schooling; to provide adequate incentives to help the poor get back into (or just get into) work through which they can support themselves. Yet today's many rich individuals can also play a role.

For if they are wise, the rich will behave in ways that help to reassure the rest of the population that rising inequality is not, by itself, a problem. The rich of Victorian Britain helped build great municipal buildings and galleries for art and science. The rich of early 20th-century America used philanthropy to distribute some of their wealth, salving their consciences as well as defusing some of the criticism. Today's rich would do well to follow that example. America's new rich are already beginning to do so, but mostly (with Mr Gates a notable exception) on a small scale. Their compatriots, and the rich elsewhere, ought now to do more. The more they give away to help the poor, the less anybody else will care that the rich have so much money in the first place. And, who knows, it might even turn out that philanthropy is wot gives the rich pleasure.