Why Inequality Matters: from economism to social integrity

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1. Introduction

Sociologists tend to assume inequality matters, while economists often assume it does not, saying inequality generates dynamic incentives in competitive markets. Alternatively, other economists say inequality does matter; this is but mainly because it affects economic growth, which they claim to be the foundation of social progress. Meanwhile, sociologists disagree over whether inequality matters due do its violation of social justice principles, of some notional social contract, or whether it is actually undermining the foundations of a coherent and functional human society. This paper suggests the latter provide more coherent explanations.

However, the lack of consensus over inequality contrasts with an apparent consensus (in aim if not method) on the need to eliminate poverty. This consensus has led to sustained efforts to chart poverty, even if the global data remains uncertain. Advocates of corporate globalisation (e.g. Norberg 2005) assert simply that open markets enhance growth and reduce poverty. The evidence does not really support that claim. World Bank data suggests a strong decline in world income poverty between 1984 and 2004 (from 64% to 48%), though much of this was due to the contribution of China. When China was removed the data showed a global decline from 59% to 52%, with extreme poverty falling from 30% to 21%. Yet in some regions poverty had risen, or had fallen little (Ferreira and Ravallion 2008). China's impressive economic growth, of course, has hardly been an example of open market philosophy. Further, the measurement of Chinese poverty reduction has been subject to some alarmingly precarious assumptions. That was shown by a 2008 World Bank revision of Chinese inflation and purchasing power parity, which suggested 'the Chinese economy to be about 40 percent smaller in PPP terms than previously thought' (World Bank 2008). Such radical data set revisions hardly engender confidence in the figures. National poverty figures are sometimes more credible, but may also be subject to weak, static assumptions (e.g. Jaque 2007: 3).

The area of economic inequality is even more poorly documented. While some economists call for a rethink of the way in which inequality is conceived and calculated, noting that 'no consensus [amongst economists] emerges concerning the direction of change in global inequality in the last twenty to thirty years' (Atkinson and Brandolini 2010: 31; Anand and Segal 2008), others chart 'a spectacular rise in inequality' since the 1980s (Piketty 2014: 24-25). The claims of these calculations to represent some sort of reliable social portrait certainly deserve scrutiny.

We can be sceptical of this narrow and shifting data, and the assumptions behind it. Nevertheless, there is something to the economic argument about an incentive-linked functionality of some degree of inequality. Yet grave inequality can be corrosive of social foundations. So which values and which logic should form the touch-stone of public policy? An initial problem is that many of the explanations of why inequality matters rest on previously prioritised assumptions and concerns, such as economists' demands for the policy centrality of economic growth. Such arguments tend to lack relevance and interest for those who do not share these assumptions.

Of course, inequality is studied for different reasons. A writer, observing that 'one of the classical concerns of sociology has been to identify the sources of social inequality', speaks of a 'long debate between functional and conflict theories of social inequality', which he says may be a fruitless dichotomy (Milner 1987: 1053). Social scientists have discussed the consequences, the varieties of inequality and what extent of inequality is desirable (Therborn 2013: 41-43), along with the dynamic links between inequality and poverty (Wedderburn 1974; Townsend 1974) and the great structural forces that drive contemporary inequality (Piketty 2014). Amartya Sen attempts an individual analysis of inequality, based on his capabilities ideas, but defers to Rawls for a more social critique (Sen 1995: 144-148). Very often little attention is given to the principal objection to inequality. Most of the economic explanations are even more opaque, often sharing quite different assumptions to those of the sociologists. For example Piketty, after his impressive empirical account of how and why contemporary inequality has 'exploded' in recent times, simply asserts that extreme inequality must, at some stage, become 'unsustainable … [and] potentially threatening to democratic societies' (Piketty 2014: 571), but without really explaining why. Yet slave societies, in the not too distant past, endured for centuries. So what might it be that makes highly unequal societies 'unsustainable'? Simple assertion does not make the case. With that in mind, this paper argues that the question of why inequality should be an important concern for public policy remains an important opening question.

The paper begins with these propositions: we should consider the wide range of difference in explanations, yet it is important to identify the distinct bases for public policy concern. The primary logic of those concerns should be highlighted, and greater attention should be paid to those which address the concern more directly. Explanations as to why 'grave inequality' is of public policy concern tend to be more convincing when they begin to explain its socially corrosive nature; however most explanations do not start there. So a brief review of the territory seems warranted. The paper reviews in four categories: the economic arguments, the dynamic poverty and human development explanations, the social contract and social justice theories, and finally the social integrity explanations. It suggests that the latter are generally more satisfactory as primary explanations as well as for their support for practical individual and collective self-determination.

1. Economic arguments

Not so long ago many influential western economists argued that 'poverty matters, but inequality does not' (e.g. World Bank 1990) saying that, while poverty was an incapacitating social problem, inequality was functional in creating incentives to participate in 'market society'. A revised argument said that inequality matters because it damaged economic growth, and destabilised investment. A third version has linked up to social justice ideas, saying that serious inequalities in wealth and income create wider social problems, including an 'unsustainable' society. Let's consider each in turn.

The World Bank's long standing acceptance of 'poverty' as social problem, kept its initial focus on 'absolute poverty', as opposed to 'relative poverty' or inequality. This peak international agency for the promotion of private investment called absolute poverty a condition 'beneath any reasonable definition of human decency', defining it as 'the inability to attain a minimal standard of living'. It was 'shameful' and its removal must be 'the fundamental objective of economic development' (World Bank

1990: 26, 32, 1, 24). There was some recognition that poverty was wider than income but, at the same time, a consistent assertion that driving economic growth (usually measured as average GDP per capita) was the principal *means* of reducing poverty. Furthermore, 'investing more in the human capital of the poor' contributes to economic growth (World Bank 1990: 32, 3). This was argued as a type of virtuous cycle. Yet poverty was distinguished from inequality: 'Poverty is not the same as inequality; the distinction needs to be stressed' (World Bank 1990: 26), as inequality was an important incentive to participate in markets and (according to neoclassical doctrine) distribution was said to be best determined by competitive markets. The view remains, amongst many economists, 'that poverty is a concern, but not inequality' (Atkinson and Brandolini 2010: 20). Others in corporate 'think tanks' maintain the older liberal line that freedom is more important than equality (Norberg 2005), drawing on the idea that attempts to regulate greater equality are 'tyranny' (Friedman and Friedman 1980).

This is an approach which seeks to quarantine poverty from inequality. Often linked to the 'neoliberal' project of corporate interest making selective use of liberal ideas, such ideas have been roundly criticised as ignoring both the social and the economic implications of serious inequality. Robert Wade, for example, pointed to weak evidence behind the neoliberal assertion that corporate globalisation is the best means of promoting growth, and therefore also for reducing inequality (Wade 2005: 17-20). He argues that inequality does indeed matter, but does not clearly explain why. Instead he cites the macro-economic argument that inequality 'drives inefficiency' (Wade 2005: 33). This was reference to a revised economic line where we see the acceptance, from a number of macro-economists and corporate advisers, that inequality does indeed matter because it damages economic growth and/or 'the risk of both financial and political instability' (Boeck 2014).

This revised line has it that weak lower incomes undermine the strong consumer demand necessary to drive markets. This in turn is linked to economic policy which, the macro-economists say, should stimulate mass consumption. Paul Krugman therefore says 'the really crucial role of inequality in economic calamity has been political', because it diverted attention from the need for government stimulus (Krugman 2013). That is, the political impact of the neoliberal-dominated inequality debates has been to undermine a growth oriented economic policy. In a similar vein, Joseph Stiglitz criticises high levels of inequality in the USA, arguing that, in place of incentives (such as tax cuts) for the rich, 'demand is needed to drive an economy' so as to create employment and opportunities. He adds a wider but very general warning that there is a 'high price for this inequality in terms of the democracy and nature of our society … [as] economic inequality inevitably translates into political inequality' (Stiglitz 2014).

There are multiple problems with both the original and the revised economic arguments. Their shared reliance on growth makes the question of inequality secondary to and dependent on the central commitment to what is, in effect, the indiscriminate expansion of formal economies. Yet the measurement of formal economies hardly ever accounts for the associated informal, subsistence, social and environmental displacement and destruction; and the livelihoods associated with or affected by these processes may well outweigh any benefits to be found in formal sector expansion. In any case, whether or not gross informal sector growth actually reduces inequality is another question, over which economists themselves are undecided (Atkinson and Brandolini 2010: 33-34).

A second important weakness in the economic arguments can be found in the narrow definitions of poverty and inequality, along with the artificial separation of the two. Income-based measures, more often than not, say little about access to clean water, education, critical infrastructure and a clean and sustainable environment. Such matters are obvious and notorious, especially in development debates, and are generally better addressed by social analysts with a wider perspective.

The third variation of the economic approach is one which alludes to supposed social and political consequences of extremes in economic inequality, but without any great elaboration of those consequences. We see this in Stiglitz (2014) and Piketty (2014), more as an evocative line at the end of their central economic preoccupation. Stiglitz, having focussed on aggregate demand and budgets, briefly and ominously alludes to the 'high price' of inequality on our social systems. Piketty, having explained the structural reasons for a 'spectacular rise in inequality' in recent decades (because the return on capital has remained much higher than the growth rate), briefly suggests this must be 'unsustainable' and 'potentially threatening to democratic societies and to the values of social justice on which they are based' (Piketty 2014: 571). However he does not explain why this must be so. Fair enough, that was not the main purpose of his work. Nevertheless, here as elsewhere in the economic arguments, it is difficult to find a satisfactory primary explanation of why inequality matters.

2. Dynamic Poverty and Human Development explanations

Some economic explanations have advanced by what could be called the dynamic poverty explanations, as also by the UNDP's human development ideas. The first developed the relationship between the more narrowly defined economic measures and broader social dynamics, while the second broadened the older idea of economic development to a notion more resonant with particular human capacities or 'capabilities'.

In the dynamic notions of poverty, persistent and grave inequality could be seen as constitutive of or in a dynamic relationship with poverty. These ideas are not new. Back in the 1970s Wedderburn questioned whether poverty could 'be discussed in isolation from the more general question of inequality?' What were 'the significant relational aspects of inequality?' he asked (Wedderburn 1974: 2). Townsend suggested that poverty could be 'defined objectively and applied consistently only in terms of the concept of relative deprivation'. This was because poverty had to be viewed more widely and because 'there [were] many sources of inequality which tend to be [proscribed] from public and even academic discourse' (Townsend 1974: 15, 36). That is, multiple forms of social exclusion were never properly calculated in simple dollar-income poverty measures.

Static definitions of poverty are inadequate. In highly unequal societies, like the Latin American, there can be great mobility between poverty and 'not poverty'. Large groups of vulnerable people may remain at the point of falling into poverty (Bravo 2001). A Chilean study, with a base in income poverty measures, showed that '54 percent of the poor in 1996 were not poor in 2001, while 48 percent of the poor in 2001 were not poor in 1996'. This meant that there was a 24% 'transient component' of poor people, across those years. No single 'snapshot' could capture the extent of people exposed to income poverty, even across relatively few years. Many households experienced transient poverty; and the researchers observed that 'the road out of poverty [was] fragile'. Most

vulnerable were those with health problems, those engaged in precarious work, those with large numbers of children and those with poor levels of education (Neilson, Contreras, Cooper and Hermann 2008: 270). A Chilean minister confirmed that the number of families who had been in poverty, over several years, was substantially higher than those caught in any one time frame (Jaque 2007: 3). Such calculations show up some of the problems in simple poverty measures and suggest a need to look for links with social exclusion and vulnerability. They generally do not, however, offer primary explanations of the import of inequality.

A recent report, adopted by the United Nations, recognised that poverty, broadly considered, is intimately linked to inequality. In its 'Report on the World Social Situation 2005' the UN General Assembly considered 'the traditional aspects of poverty' in income measures, but also the 'inequalities in health, education and opportunities for social and political participation'. Referring to the dynamic nature of poverty this report pointed out that a simple focus on 'economic growth and income generation does not acknowledge the intergenerational transmission of poverty'. It suggested a need to 'include social, economic and political dimensions, integrating improvements in health, education, economic development and representation', so as to break cycles of poverty (UNGA 2005: 12). To this way of thinking, then, the links between social exclusion, inequality and poverty are apparent.

In a parallel process, narrow ideas of 'economic development' were challenged at the United Nations Development Programme (UNDP) by the 'human development' project (UNDP 1990). These ideas, including the 'capabilities' theories of Amartya Sen, have been quite important in development debates, but less original in the inequality debates. Sen did apply his capabilities theory to inequality, focussing on inequalities of 'effective freedom', or 'the freedom to achieve' (Sen 1995: 5-6). However his focus remained on the individual, providing a wider and more human sense of 'achievement' than simple pleasure or 'utility' concept used by the neoclassical economists. Sen really staked out a position in between the older polemic of 'equality of outcomes' versus 'equality of opportunities'. In this way he distinguished himself from the more conservative economic liberals (e.g. Friedman and Friedman 1980), while paralleling their logic. As with Keynes, who distinguished 'effective demand' from theoretical demand, Sen distinguished theoretical from 'effective' freedoms. He called this 'freedom with real opportunity' (Sen 1995: 31, 64-66). While creating a framework for 'judging individual advantage' (Sen 1995: 143), Sen agreed that inequality (as relative deprivation) often had a dynamic relationship with poverty (as absolute deprivation). 'Relative deprivation in the space of incomes can yield absolute deprivation in the space of capabilities', as the bar for 'social functioning' is raised (Sen 1995: 115). It was intrinsic to this 'capabilities' approach that 'comparative deprivation ... cannot be adequately judged by looking at his or her income', as income may not readily be converted 'into the achievement he or she would value' (Sen 1995: 31, 28). While an individualistic method (see Stewart and Deneulin 2002), Sen's approach does touch on economic themes of 'aggregation'. However, in addressing social inequality Sen reverts to debates of social justice, influenced by Rawls (Sen 1995: 144-148).

As with the dynamic poverty explanations, human development ideas do begin to demonstrate the social character of inter-linked poverty and inequality, but typically revert to individual analysis. They may engage the social context of relative deprivation; but their method often remains individualist. Such explanations may miss the wider import of inequality through the erosion of public institutions (a necessary by-product

of hyper-commercialisation) and by environmental inequalities. For example, individualised relative deprivation analysis does not address the social dynamics of unequal access to infrastructure, such as clean water sources.

3. Theories of social contract and social justice

Notions of social function and dysfunction have contributed to the more normative theories of social contract and social justice, both of which tend to address inequality more directly than the ideas discussed above. While some inequality might be considered functional, for example in providing incentives or rewards, more grave levels are often considered illegitimate; but by which means and standards? An implicit agreement or 'social contract' has often been suggested in which, as Weber put it, legitimacy was defined and then required 'a certain minimum of voluntary submission … [and so] obedience' (Weber 1922: 214-216). Inequalities beyond implicit boundaries might then be regarded as 'illegitimate', in turn fomenting dysfunctional conflict and crime.

The sociological and criminological literature contains a great deal on this 'perceived illegitimate relative deprivation'. Combined with labour market instability, this is said to generate crime, violence and social insecurity (Vanneman and Pettigrew 1972; Braithwaite 1979; Blau and Blau 1982). While 'legitimate' resentment generates crime and security, class disadvantage may grow in key areas such as education and health and then, in turn, social cohesion is undermined. Inequality can be seen to breed social tensions where the less well-off feel dispossessed, 'leading them to seek compensation and satisfaction by all means' (Fajnzylber, Lederman and Loayza 2002: 2; Stack 1984: 229). In a study which looked at robbery and homicide as key crime indicators, crime rates and inequality positively correlated, within countries and between countries. Without identifying the mechanisms for this process, the analysis found that 'this correlation reflects causation from inequality to crime rates, even controlling for other crime determinants' (Fajnzylber, Lederman and Loayza 2002: 26). Another broad study made similar findings, as regards violent crime. 'Inequality [has] … a strong and robust impact on violent crime'. With violent crime rates the impact of inequality was large, 'even after controlling for the effects of poverty, race and family composition' (Kelly 2000: 530, 537). Notice, though, that the focus here has turned to the dysfunctional effects of inequality, rather than the foundational character of it.

Problems with the inclusion of functionality within a supposed social contract are that this approach may not help identify limits beyond which grave inequality becomes anti-social. Social conflict may well spring from 'perceived illegitimate relative deprivation', yet social ideology can 'massage' notions of legitimacy, through induced tolerance. Such may be the case in fatalistic cultures. In other words, there may be 'consent' and 'submission' (in Weber's terms) to any number of deeply unequal social regimes. Moreover, the consent or submission of social contract explanations may weaken important social bonds and social institutions.

Drawing on the 'social contract' idea, Rawls proposed an alternative theory of justice to that of utilitarianism, which had advocated 'the greatest good of the greatest number'. Rawls termed his approach 'justice as fairness'. Principles for justice had to be determined by rational choice but in fair circumstances. By this line of reasoning, inequalities were permissible only if they protected or improved the least advantaged members of society (Rawls 1971: 11-15). This idea required an equitable distribution of

goods and responsibilities, which could mean the 'full and equal participation of all groups in a society that is mutually shaped to meet their needs', and could also support the older idea of alienable rights. This social justice approach has also been suggested as meaning 'equity or fairness … an ethical concept grounded in principles of distributive justice' (Levy and Sidel 2006: 8-9). This is a popular approach, and its implications for inequality have been relied on by Sen (1995) and Therborn (2013), along with economists like Stiglitz (2014) and Piketty. The latter says that serious inequality means that 'the past devours this future', and this is 'potentially threatening to democratic societies and to the values of social justice on which they are based' (Piketty 2014: 571). Nevertheless, idealised social justice explanations often fail to address integral social function and agency. That is why I suggest we need to move one step further.

4. Social integrity explanations

When speaking of 'social integrity' explanations I refer to those approaches which emphasise the integrity of social systems, prioritising social inclusion and so making exclusion and serious inequality a matter of primary concern. In these approaches grave inequality undermines the central dynamic of popular self-determination, along with individual and social development. Inequality is seen as degrading social integrity, undermining 'virtuous cycles' of social construction, not least universal social, health and education systems. Such approaches engage well with the broader notions of social citizenship and social democracy (e.g. Marshall 1950), as well as with the more contemporary recognition that individual citizen rights requires support from an integral, accountable and independent body politic (HRC 1984). Social integrity explanations are best at demonstrating that grave inequality: denies the social identity, cohesion and agency necessary for realising the right to self-determination; blocks individual citizens' participation rights; excludes children as social beings and is constitutive of poverty and similarly incapacitating and exclusionary.

Many writers have spoken of serious inequality as socially corrosive (Polanyi 1944, Myrdal 1957, Wilkinson and Pickett 2010). Polanyi pointed out that, in traditional societies which relied on reciprocity, extreme individualism was not possible and 'the maintenance of social ties [was] crucial' for both individuals and society (Polanyi 1944: 48). By contrast, the individualism of notional 'self-regulating market' systems, promoted widely in Europe, would destroy 'the human and natural substance of society' (Polanyi 1944: 3). Myrdal (1957) touched on a similar idea when he spoke of vicious and virtuous cycles of social development and decay. To this way of thinking, neither social advances nor social regressions could be understood simply through individual initiatives or the atomised dynamics of markets; they had to consider the complex cross-linkages between communities, governance and industry. The exclusion of large groups of people through serious inequalities was necessarily damaging to core social functionality.

Wilkinson and Pickett, drawing on observations from public and private health systems, argue the wider benefits of more equal or 'collaborative' societies. Social equality, they say, benefits the entire society, not just the poorest groups. Focussing mainly on wealthy countries they downplay the overstated advantages of higher incomes, and instead show correlations between inequality and a range of health and social problems: lack of trust, mental illness, life expectancy, infant mortality, obesity, educational performance, teenage pregnancies, homicide, imprisonment rates, social mobility an even poorer environmental practice (Wilkinson and Pickett 2010: 19-21, 82-83, 232).

After considering other possible causes of these problems they conclude that 'inequality is the common denominator, and a hugely damaging force' (Wilkinson and Pickett 2010: 190-195). While other studies point to similar correlations with the broader concept of 'social economic status', they reinforce Wilkinson and Pickett through links to income disparities (Daly, Duncan, Kaplan and Lynch 1998: 315; also Duleep 1986).

Using wider concepts of citizenship, as well as notions of reciprocity or conditional fairness, Fabian socialists Horton and Gregory present another social integrity explanation. Pointing to a rise in relative poverty since the early 1980s, and the problems this raises for social welfare, they argue that participatory principles and universal social programs are more likely to maintain support than contributory or obligatory schemes (Horton and Gregory 2009: 5, 91, 212). Of course, this has important implications for the question of targeted versus universal social programs.

In their strong social approach, Wilkinson and Pickett assert that addressing inequality requires 'shifting the balance from divisive, self-interested consumerism driven by status competition, towards a more socially integrated and affiliative society … [so as to] develop the public ethos and commitment to working together … [necessary] to solve the problems which threaten us all' (Wilkinson and Pickett 2010: 233). Greater equality, they say, benefits not just the less well-off but the wealthy and the entire social organism. They say evidence shows 'people in each [income] category are healthier … [or more literate] if they are in a more equal society than people in the same category of income, education or class in a less equal society.' This leads them to the conclusion that 'when people in the same social class, at the same level of income or education, are compared across countries, those in more equal societies do better' (Wilkinson and Pickett 2010: 275-276). This evidence-based approach to the broader benefits of more equal societies constitutes a powerful intervention in the public policy of highly liberal or privatised societies, and represents an important example of the social integrity approach to inequality. Such cohesive social development is also at the root of an important report on the right to education (Tomasevski 2006).

Table 1 below summarises the four types of explanations which have been discussed. I suggest the social integrity approach is the most satisfactory, as it identifies more directly, with a more primary logic, the bases for public policy concern over serious inequality. The more socially centred explanations make stronger links to the organic processes of practical individual and social self-determination, so necessary for the survival and reproduction of human societies.

Table 1		
Explanations of Inequality	**Limiting factors**	**Primary logic**
Economic arguments	Inequality limited to and defined by income	Growth in income matters
Dynamic poverty and human development explanations	Problems of inequality defined by effective rights and/or social justice	Inequality linked to poverty; effective individual rights matter

Theories of social contract and social justice	Conflict defines the problem, 'consent' can mitigate it, idealised relations avoid it	Notional social agreements and/or idealised social justice matter
Social integrity explanations	Direct engagement; equitable participation is socially necessary	Inequality a basic problem; social exclusion obstructs individual and social self-determination

Concluding remarks

While there may be wide discussion of inequality there is little real consensus over the bases for public policy concern. This may not change anytime soon, but there are reasons why the matter should be discussed and criteria for such concern debated. Not the smallest reason for the lack of consensus is the influence of economic arguments, which tend to make inequality a derivative concern of growth in aggregate formal economies. As argued above, this is a weak and consequential logic which assumes a common and privileged public policy place for economic growth, while treating serious inequality either as functional to 'market society' or as having little broader dysfunctional logic of its own. Amongst the more social explanations we often also see a secondary logic, sometimes abstract or idealised, which often only partially engages with the question.

More satisfactory, I suggest, are those explanations those which link serious inequality, including relative poverty and social exclusion, more directly to both individual fulfilment and social self-determination. Social integrity explanations can best explain that grave inequality is not only constitutive of poverty, unjust and regarded as illegitimate, but also denies a necessary social identity, cohesion and agency. 'Social integrity' explanations tend to demonstrate with greater primary logic how serious inequality can undermine integral social agency and a coherent body politic, so necessary for both social advancement and individual citizen rights.

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