HOUSE OF LORDS

Library Note

Debate on 27 March: Financial Inequality in the UK

This Library Note aims to provide background information for the debate to be held on Thursday 27 March:

“To call attention to financial inequality in the United Kingdom”

It summarises recent commentary on economic inequality in the UK, with particular reference to reports which have investigated evidence on trends in economic inequality over time.

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1. Introduction

The aim of this paper is to provide an overview of recent reports on the broad economic and social science aspects of the debate on income and wealth inequality in the UK. In particular, it summarises recent commentary on economic inequality in the UK, with particular reference to reports from the Institute of Fiscal Studies and the Joseph Rowntree Foundation, which have investigated evidence on trends in economic inequality over time. There are a number of different ways of measuring such inequality and a variety of data sources available. House of Commons Library Research Paper 04/70 *Income, Wealth and Inequality* (15th September 2004) describes the characteristics of the various measures and provides a summary of results from the key official publications. The data relating to income inequality has been updated in House of Commons Library Standard Note SN/EP/3870 *Income Inequality* (5th October 2007).

There has been concern expressed about what is sometimes referred to as the 'wealth gap' between the rich and the poor. To set the recent debates on the issue in context, it may be useful first to outline the Government's policy in this regard. Rather than focussing on reducing income or wealth inequality *per se*, Government policy has concentrated on measures to redress social exclusion and to tackle poverty, especially for children and the elderly, and on creating equality of opportunity. The Government have introduced a range of measures "to promote employment opportunity for all and a fair society in which everyone shares in rising national prosperity, including the introduction of the new deals, the national minimum wage and tax credits" (HC *Hansard*, 22nd February 2008, col. 1112W). An overview of Government policy since 1997 on social exclusion and child poverty can be found in House of Commons Standard Note SN/SP/4221 *Social Exclusion* (9th January 2007). John Hutton, the Secretary of State for Business, Enterprise and Regulatory Reform, in a recent speech to the Labour organisation Progress, set out his views on the wealth gap:

> So over the coming months and years, we must be enthusiastic – not pragmatic – about financial success. We are, for example, rightly renewing our historic pledge to eradicate child poverty in Britain. But tackling poverty is about bringing those at the bottom closer to those in the middle. It is statistically possible to have a society where no child lives in a family whose income is below the poverty line – 60 per cent of median average income – but where there are also people at the top who are very wealthy. In fact, not only is it statistically possible – it is positively a good thing.
>
> So rather than questioning whether high salaries are morally justified, we should celebrate the fact that people can be enormously successful in this country. Rather than placing a cap on that success, we should be questioning why it is not available to more people. It would be a good thing for our country if there were more millionaires in Britain not fewer. Our overarching goal that no-one should get left behind must not become translated into a stultifying sense that no-one should be allowed to get too far ahead.
>
> The debate between equality of outcome and equality of opportunity is not a new one of course, and you may think it had already been settled. I am not so sure. There are still many who say they are definitely in favour of equality of opportunity – but what they mean is the opportunity to advance only to a certain level. Get too successful, too rich, and you need to be held back for the good of society.
>
> So I believe a key challenge for New Labour over the coming years is to recognise that, far from strengthening social justice, a version of equality that only

> gives you the opportunity to climb so far, actually subverts the values we should be representing. Instead, any progressive party worth its name must enthusiastically advocate empowering people to climb without limits, free from any barrier holding them back – be it background, gender or outdated social attitudes.
>
> (‘The Progressive Challenge: Where next for New labour?’, 12th March 2008)

It is beyond the scope of this paper to address some of the more specific issues of inequality such as access to financial services but details of Government proposals in this regard can be found in House of Commons Library Standard Note SN/BT/3197 *Financial Inclusion (exclusion)* (21st December 2007).

2. Institute of Fiscal Studies *Poverty and inequality in the UK: 2007*

The Institute of Fiscal Studies (IFS), an independent economic research organisation, carries out an annual analysis of changes to living standards in its Poverty and Inequality series based on the official statistics published by the Department for Work and Pensions (Households Below Average Incomes). In *Poverty and inequality in the UK: 2007* (March 2007) the IFS set out how average incomes, income inequality and poverty have changed over time with particular reference to changes during the Labour administration.

The report contended that for the first time since Labour came to power, relative poverty had risen across the whole population as a “direct consequence of the weak growth in incomes at the bottom of the income distribution compared with that of the median” although this did not “offset the considerable fall in relative poverty since 1996–97” (*Poverty and inequality in the UK: 2007,* IFS Briefing Note No. 73, p. 2). The report stated that many measures of income inequality had increased between 2004/05 and 2005/06, and that according to the most common measure it had “reached its highest level since 2001/02, and is once again statistically significantly higher than that which the Labour Government inherited” (*ibid*, p. 1). However, other measures of inequality that do not take account of incomes at the extremes of the distribution were found to have fallen since 1996/97. The report indicated that the rise in inequality reflects the experience of people at the extremes of the income distribution, rather than the broad range of incomes in the middle.

To investigate the extremes in the income distribution, the authors looked at the growth in average annual income across the whole distribution from 1996/97 to 2005/06. They found that when looking at the bulk of the distribution (between the 15th and 90th percentile), it is generally the lower part of the distribution that has gained most over this period, which would be consistent with a fall in inequality. However:

> Below the 15th percentile point … income growth is progressively lower the lower the income percentile, with real income falls in the very lowest part of the income distribution. Beyond the 90th percentile point, income growth is generally increasing in income, with a spike at the 99th percentile point. In previous years, we have pointed to the growth in the very top incomes as one driver of continued income inequality growth in recent years.
>
> (*ibid*, p. 17)

Based on the on the most widely used summary measure of income inequality (the Gini coefficient) the report outlines the changes in income inequality over time (N.B. a value of zero corresponds to complete equality in which each person has the same income whereas a value of one corresponds to absolute inequality where one person receives all of a countries income):

> Inequality rose dramatically over the 1980s, with the Gini rising from a value of around 0.25 in 1979 and reaching a peak in the early 1990s of around 0.34. The scale of this rise in inequality has been shown elsewhere to be unparalleled both historically and compared with the changes taking place at the same time in most other developed countries.
>
> Since the early 1990s, the changes in income inequality have been less dramatic. After falling slightly over the early to mid-1990s, inequality rose again during Labour's first term, with the Gini coefficient reaching a new peak of 0.35 in 2000–01. During Labour's second term, however, the Gini fell, with the level of inequality in 2004–05 returning to that last seen in 1997–98. Over the first two terms of the Labour government, the net effect of these changes was to leave income inequality effectively unchanged and at historically high levels.
>
> The most recent year (between 2004–05 and 2005–06) has seen a small increase in the Gini coefficient again. Though this year-on-year change is small and not statistically significant, comparing the level of income inequality in 2005–06 with that inherited when Labour came to power in 1996–97 we find that the Gini coefficient was slightly higher (0.35 compared with 0.33) and that the increase over this period is statistically significant at the 5% level.
>
> (*ibid,* pp. 18–19)

In the IFS Post-Budget Briefing 2007 Mike Brewer set out how fiscal reforms since 1997 have affected household incomes and concluded that tax and benefit reforms introduced by the Government had been "clearly progressive, benefiting the less-well-off relative to the better off" (*ibid*, p. 21). The IFS modelled an alternative scenario to calculate what incomes would have been without the effect of benefit and tax changes since 1997 to assess the link between income inequality and the package of redistributive tax and benefit reforms introduced by the Government:

> Given the fact that Labour's tax and benefit reforms have tended to benefit poorer households at the expense of richer ones, it might seem surprising that income inequality is slightly higher on most measures than it was in 1996–97 …
>
> While the actual level of inequality as measured by the Gini coefficient is slightly higher in 2005–06 than it was nine years earlier … our simulations here suggest that the Gini coefficient would have increased considerably…if the tax and benefit system had remained unchanged. Our previous work has also tracked how the simulated 'no-policy-change' Gini coefficient would have evolved over time during each year of the Labour government; this has shown that from 1996–97 to 1999–2000, the tax and benefit reforms of the Labour government did little to affect inequality compared with what would have been observed if it had simply uprated the April 1997 system. However, since 2000–01, there has been a notable divergence between the actual pattern of inequality and the simulated pattern under the April 1997 system. This coincides with the introduction of large increases in means-tested benefits and tax credits, particularly those aimed at families with children and at pensioners …

> We can also use simulation methods to assess whether the small observed rise in inequality in the last year of the data has been policy-driven. Tax and benefit reforms affecting incomes in 2005–06 appear to have had very little impact on overall levels of inequality, but what effect they had was to reduce inequality slightly …
>
> (*ibid*, pp. 21–23)

3. Compass *Closer to Equality: Assessing New Labour's record on equality after 10 years in government*

In May 2007, Compass, a 'democratic left' pressure group, published a report examining the Government's progress on equality across a range of social policy areas. The report found that although improvements in equality have occurred in some areas, notably in relation to gay rights, parental rights and childcare, and child poverty, there have been enduring and even growing inequalities in key policy areas including health, wealth, workers, housing, and democracy.

The chapter on wealth, authored by Stewart Lansley, a former academic and journalist, concluded that based on the share of wealth owned by the top 1%, the last 15 years had seen a steady reversal in equality, with "the wealth share owned by the top one per cent rising from 17 per cent in 1991 to 24 per cent in 2002. In contrast, the share owned by the bottom 50 per cent has fallen from 8 to 6 per cent over the same period" (Compass *Closer to equality: Assessing New Labour's record on equality after 10 years in government*, 2007, p. 37); the figures that he quotes are those produced by HM Revenue and Customs in 'Distribution among the adult population of marketable wealth', March 2006. Stewart Lansley contends that these figures underestimate the increasing concentration of wealth over the last decade due to "the skill with which the super-rich are able to hide their real and growing wealth from the prying eyes of Government statisticians and tax collectors" and points out that since 1997, the 'super-rich' have "been accumulating wealth at close to four times the rate of the ordinary person" (*ibid*). He challenges the view that the 'wealth boom' is justified as a sign of exceptional levels of wealth creation which benefit all by creating jobs and opportunities, by arguing that such entrepreneurs are in the minority in the rich lists. He continues that such lists are:

> … dominated by property tycoons and financiers, those who have made fortunes through financial raiding, deal making and speculative share and property speculation – activities that involve less personal risk and mostly create less, if any, wealth. Runaway City bonuses, for example, are often associated with rising merger activity, which in the past has been shown to enrich the architects of the deals but is as likely to destroy wealth as create it. The evidence is also clear that the remarkable surge in the packages available to FTSE 100 chief executives – who now earn more than 100 times the average salary compared with twenty times in the 1980s – is not associated with an improvement in company performance …
>
> Some degree of inequality is necessary to create an opportunistic culture. But all societies ultimately only function effectively if the distribution of rewards is fair, in line with individual contributions to society. In the last decade and a half, rewards and merit have become increasingly decoupled at the very top.
>
> (*ibid*, pp. 38–39)

He argues that practical policies to build a "fairer system of rewards" could be introduced, including "a reversal of the trend towards a more regressive tax system, a more vigorous attack on tax avoidance [and] a tightening of the corporate governance rules". He concludes that:

> The strategy of indulging the rich while trying to tackle poverty does not square. Too many of the soaring fortunes of recent times have been accumulated at the expense of the rest of society. It is time to send out a new political signal that rewards based on merit are to be welcomed while those built at the expense of others are unacceptable. Without these wider political changes, and the introduction of new 'social norms`, Britain will be on course towards a new era of ever-widening inequality, one characterised by evermore extreme levels of wealth at the top.
>
> (*ibid*, p. 39)

4. Joseph Rowntree Foundation *Poverty and wealth across Britain 1968 to 2005*

In July 2007 the Joseph Rowntree Foundation (JRF), a social policy research and development charity, published a study to assess how poverty and wealth have changed overall and been geographically distributed in Britain over the last 40 years. The key findings of the report are given below:

- Since 1970, area rates of poverty and wealth in Britain have changed significantly. Britain is moving back towards levels of inequality in wealth and poverty last seen more than 40 years ago.

- Over the last 15 years, more households have become poor, but fewer are very poor. Even though there was less extreme poverty, the overall number of 'breadline poor' households increased – households where people live below the standard poverty line. This number has consistently been above 17 per cent, peaking at 27 per cent in 2001.

- Already-wealthy areas have tended to become disproportionately wealthier. There is evidence of increasing polarisation, where rich and poor now live further apart. In areas of some cities over half of all households are now breadline poor.

- There has been slower change in wealth patterns overall. The national percentage of 'asset wealthy' households fell slightly in the early 1990s but rose dramatically between 1999 and 2003 – 23 per cent of households are now wealthy in terms of housing assets.

- The general pattern is of increases in social equality during the 1970s, followed by rising inequality in the 1980s and 1990s. Changes since 2000 are less clear.

- Urban clustering of poverty has increased, while wealthy households have concentrated in the outskirts and surrounds of major cities, especially those classified as 'exclusive wealthy', which have been steadily concentrating around London.

- Both poor and wealthy households have become more and more geographically segregated from the rest of society.

- ‘Average’ households (neither poor nor wealthy) have been diminishing in number and gradually disappearing from London and the south east.

(JRF Findings Ref: 2077 *Poverty and Wealth Across Britain 1968 to 2005*, July 2007)

In response to the publication of the report, Sir Menzies Campbell MP asked the Prime Minister how he proposed to deal with the unfairness associated with the “gap between the rich and the poor [being] as wide as it has been for 40 years”. Gordon Brown responded:

> I do not accept this. What has happened in the past few years is that the number of people taken out of poverty as a result of the policies of this Government has risen very substantially. While child poverty trebled under the previous Conservative Government, it is coming down now. While pensioner poverty was very high, it is coming down now. I accept that in every advanced industrial country inequality is a major issue, but I have to read to the right hon. and learned Gentleman what Professor Danny Dorling, the co-author of the report said:
>
> > “we ... looked at the groups who were ... the poorest of the poor ... that group had actually reduced in size in the last ten years and it also became less geographically concentrated. And that almost certainly is due to Government policies.”
>
> (HC *Hansard*, 18th July 2007, col. 272)

In response to a similar question from the Conservative MP Francis Maude, Edward Miliband, the Minister for the Cabinet Office, stated that “on his specific question about inequality—yes, it is a problem in our society, and we should all read and acknowledge the Rowntree report…is a big challenge that we face in our society, but I believe that on the basis of long-term investment—Sure Start and other things that we are doing—we will start to tackle it, and we should all acknowledge that” (HC *Hansard*, 17th July 2007, col. 155).

There was a great deal of press coverage of the report. A *Guardian* leader commented on the findings, as follows:

> … looking across the country as a whole, Rowntree finds that in the last three decades of the 20th century, those below the breadline came to be clustered in pockets of deprivation; at the same time, rising property prices saw comfortable localities become exclusive.
>
> That matters ... [f]or economic apartheid works to entrench low expectations among poorer communities, undermining the social mobility that politicians of all stripes have been arguing is essential to ensure a strong economy …
>
> Whatever steps have been taken to close the gap at the bottom end … it is a different story at the top. With New Labour, it seems, the rich are always with us - and they are richer now than ever. Rowntree finds that since 2000 the wealthiest localities have seen annual incomes rise fastest. Runaway City pay has played a part here, as has the government’s failure to shift the tax burden significantly on to those best able to bear it. At least as important as what well-off

> families have coming in, however, is what they already own. Soaring house prices, especially around London, have ensured that the fortunate have thrived on this count, too. The trouble is, as the report concludes, that in much of the south-east expensive housing is now a barrier that keeps out the low-paid -and increasingly those of average means as well.
>
> (*Guardian*, ‘Inequality: Mind the Gap’, 18th July 2007)

However, in an article in the *Sunday Times*, the conclusions of the report are disputed, “the Joseph Rowntree research, while interesting, is a long way from proving that inequality is at its highest since the 1960s … [w]hat it does, using census data, is look at how poverty and wealth have shifted between geographical areas, and between rural and urban areas. Its strength is that it allows the researchers to drill down to local level. Whether it is appropriate to use this to make claims about national inequality is disputed by other researchers”. The article concedes that, although not at the level indicated by the report, inequality of income and wealth is high but argues that “it can only get worse, driven by inequality of skills. Efforts to redistribute income provide only a sticking plaster. Unless people are properly equipped with skills, there will be no place for them in the workforce of the future” (*Sunday Times*, ‘Our real poverty is in a lack of skills’, 22nd July 2007).

5. Joseph Rowntree Foundation *Public attitudes to economic inequality*

A second report published simultaneously by the JRF presented the findings from a review of the literature on public attitudes to economic inequality (economic inequality meaning the unequal distribution of income and financial assets in the population). The report found that over the last 20 years a large majority of people have considered the income gap to be too large and based on those with higher incomes being overpaid rather than those on lower incomes being underpaid. Attitudes to policy responses, such as redistribution of wealth, were found to be more contradictory with far more people considering the income gap to be too large than support the principle of redistribution. They also found that people’s knowledge of inequality was limited. The report concluded that there is considerable public concern regarding economic inequality and no evidence that people see the income gap in the UK in positive terms.

In the introduction, the report contends that:

> New Labour’s position regarding inequality is somewhat ambiguous. While it has certainly displayed a concern with some forms of inequality, e.g. the gender pay gap, and inequalities in health and education, there has been no explicit focus on economic inequality… Tony Blair has expressed his view as being:
>
> > [It’s] not that I don’t care about the gap [between high and low incomes], so much as I don’t care if there are people who earn a lot of money. They’re not my concern. I do care about people who are without opportunity, disadvantaged and poor.
>
> New Labour has not argued, as New Right commentators … did in the 1980s/90s, that wealth and inequality are necessary for the effective working of a market economy, but its approach has been more marked by the promotion of equality of opportunity rather than equality of outcome. This can be seen in terms of giving everyone a ‘fair chance’ rather than aiming to redistribute from rich to poor. Having said this, New Labour’s efforts to reduce poverty have involved

> some ‘redistribution by stealth’ without which levels of inequality are likely to have increased even further. So there has been some redistribution since 1997 but, if New Labour is to meet its commitment on the key issue of child poverty, for example, much greater redistribution is required.
>
> (JRF *Public attitudes to economic inequality*, July 2007, p. 2)

The report also concludes that economic inequality needs to be the focus of far greater policy attention as there is “growing interest in the potential effect of economic inequality on society, and emerging evidence that a high level of inequality may cause socio-economic problems” (JRF Findings Ref 2097 *Public attitudes to economic inequality*, July 2007). The report summarises the literature on the impacts of economic inequality on society as a whole and why it warrants further attention as a separate but linked measure to poverty. It argues that given that the “Government’s measure of poverty is a relative one (i.e. being below 60 per cent of median income) there is a very direct relationship between poverty and inequality” and quotes comparative research which has suggested that “both poverty in general and persistent poverty in particular are related to a country’s level of inequality” (JRF *Public attitudes to economic inequality*, July 2007, p. 3):

> While poverty is closely related to inequality (though in which precise ways remain unclear), there is also considerable and mounting evidence that inequality itself warrants further attention… For example, Wilkinson … has argued that it is inequality rather than absolute poverty that is related to poor health within a developed society:
>
> > … the extent of material inequality is a major determinant of psychosocial welfare in modern societies and its impact on health is but one of the social costs it carries with it.
>
> Wilkinson … also argues that inequality weakens social solidarity. For example, the social distance created by a large income gap may mean the rich have less sense of responsibility towards the poor than previously. And high levels of inequality may lead to a sense of fatalism and disengagement from political processes.
>
> Inequality may also be seen as a problem if the process by which some people become rich is unjust – for example, through luck of birth rather than effort and ability... High levels of inequality may also prevent genuine equality of opportunity.
>
> In a review of evidence about the effects of inequality on a range of socio-economic variables, Jencks … concludes that:
>
> > … the social consequences of economic inequality are sometimes negative, sometimes neutral but seldom – as far as I can discover – positive.
>
> In focusing on inequality, there are also arguments for looking particularly at the top of the economic distribution (wealth in the sense of ‘riches’) as well as poverty at the bottom. Giddens … for example, argues that high incomes should be a policy concern if they set the rich apart from the rest of society. And Layard … argues that, if money is transferred from a richer person to a poorer person, the poor person gains more happiness than the rich person loses. Therefore:

… a country will have a higher level of average happiness the more equally its income is distributed.

We have seen that there are reasons why inequality is a problem in relation not only to poverty but also beyond it. But, in raising the issue of inequality, it is the need to consider the broader socio-economic structure that is critical.

(*ibid*, pp. 3–4)

6. Institute of Fiscal Studies *Racing away? Income inequality and the evolution of high incomes*

In 2008 the IFS published a detailed analysis of the characteristics of high-income individuals and how their incomes have evolved over time using data from the Survey of Personal Incomes constructed from tax records in addition to the Households Below Average Incomes data-set which is used in their annual Poverty and Inequality series. A press release summarised the findings of the report:

> The outlook for inequality in Britain may depend more on the outlook for the stock market than on Government tax and benefit policies, a study by IFS researchers suggests today. Even though the current Government has increased taxes on people with high incomes, this has not prevented them from them racing further away from the average level of living standards across the country. In recent years, it is only in the wake of extended falls in the stock market that the incomes of the richest have fallen.
>
> (IFS Press Release 'High income individual: Racing away?', 17th January 2008)

The report reaches the following conclusions about the changes to high incomes over time:

> During the 1980s, those on high incomes saw their incomes rise by more than those on middle incomes, who in turn saw their incomes grow by more than those on low incomes. It is thus not surprising that this was also a period of rising income inequality. However, since Labour came to power in 1997, the poor have fared slightly better, seeing faster income growth than they did under the period of Conservative government. Moreover, between the 15th and 90th percentile points (the main bulk of the income distribution), those on lower incomes saw faster income growth than those on higher incomes. So why has income inequality remained at historically high levels? The main reason is that those on high incomes (about the top 10%) have seen still faster income growth and the very poor (about the poorest 15%) have seen weak income growth.
>
> In 2004–05, there were about 4.2 million adults in Great Britain with before-tax incomes between £35,000 and £100,000 in today's prices. There were a further 422,000 very rich adults with before-tax incomes between £100,000 and £350,000 in today's prices. There were also about 47,000 very, very rich individuals with incomes above £350,000 in today's prices – about 31 times the income received by the average taxpayer in Great Britain in 2004–05…
>
> When looking at either the Survey of Personal Incomes or the Households Below Average Income data-set, we see that high-income individuals have seen relatively fast growth in their incomes after tax since 1996–97. However, this

growth was not evenly spread. They experienced very strong growth indeed up to 2000–01, with the top 0.1% seeing their incomes grow by an average of over 8% each year, even after inflation. This was a much greater rate than that for the rest of the population. However, high-income individuals then experienced low or negative growth in the three years up to 2003–04 – almost certainly less than that for the rest of the adult population. These periods of relatively fast and then relatively slow income growth correspond quite neatly to periods of rising and then falling UK share prices respectively.

> In 2004–05, the incomes of the rich seem to have recovered somewhat, with income growth of a similar magnitude to that seen in the late 1990s. Whether this indicates that 2004–05 represents a return to the pattern of the late 1990s is an interesting question. If the performance of financial markets is the driving force behind income growth at the top of the income distribution, then one might expect that high-income individuals will have seen relatively fast income growth in the years after 2004–05 up until quite recently.
>
> (IFS *Racing away? Income inequality and the evolution of high incomes*, IFS Briefing Note No. 76, January 2008, pp. 29–30)

The publication of the report was commented on widely in the national press with the *Observer* reporting that "[t]he rich have prospered under New Labour, and the top 10 per cent of adults now take home 40 per cent of the all the income earned in Britain…[d]espite a battery of redistributive policies enacted by Gordon Brown in his decade as Chancellor to boost the incomes of the poorest in society, the bumper sums earned in the City as the equity markets boomed have helped to keep those at the top moving ahead (*Observer*, 'Rich pickings under Labour', 20th January 2008). The *Financial Times* noted that "the very rich have grown richer at double the pace of most Britons under Labour and their incomes may have accelerated even further in recent years on the back of a rising stock market... Using the most detailed analysis of tax return records to date, the think-tank showed that, in every 1,000 adults, the income of the very richest person rose on average by 4 per cent above inflation every year between 1996–97 and 2004–05. That compared with growth of about 2 per cent for those on middle incomes. The findings cast a fresh light on government policy, demonstrating that, despite Gordon Brown's redistributive drive funded by tax rises for the rich, the highest earners have prospered greatly under his stewardship" (*Financial Times*, 'Very rich get richer under Labour', 18th January 2008).

A leading article in the *Guardian* concluded that "the very rich have done very well under Labour since 1997. For the most part, they have raced away from average earners, with the gap only narrowing for a little while after the dotcom bust at the start of this decade". The article went on to look at the whether this mattered:

> The economists found that 47,000 UK taxpayers had annual incomes over £350,000, and observed that "income inequality is currently at its highest levels since the late 1940s". And they were looking at income alone, which is bound to understate the gap between the rich and the rest. Big salaries buy big assets: houses, lucrative investment funds and so on. As they grow in value, so the wealth gap widens.
>
> Does that matter? If Britain is more unequal, it is also better off, with incomes under Labour up across the board. Surely, ministers argue, that is what counts? That case falls down, however, when it comes to housing or education or other things termed "positional goods" by economists. Those are goods that one can only enjoy by depriving someone else of them. There are only so many houses

in Cornwall to go around, and there are not enough excellent state schools. Talking about choice or pointing out rising prosperity counts for less in these cases than simply having more money than the next person to get that house or buy into that catchment area.

Last week, Alistair Darling made a speech in which he attempted to sum up his philosophy, his…vision as a Labour chancellor. For him, the job could be summed up in a word: fairness. Everyone, he said, should have a “fair kick of the ball”. If he really wants to realise that ambition, he will need to address Britain’s widening wealth gap.

(*Guardian*, ‘The rich: Mind the gap’, 21st January 2008)

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