

Poverty or inequality?

Poverty is not a certain small amount of goods, nor is it just a relation between means and ends; above all it is a relation between people. Poverty is a social status . . . It has grown . . . as an invidious distinction between classes . . .

Marshall Sahlins, *Stone Age Economics*

HOW MUCH INEQUALITY?

In the last chapter we saw that economic growth and increases in average incomes have ceased to contribute much to wellbeing in the rich countries. But we also saw that within societies health and social problems remain strongly associated with incomes. In this chapter we will see whether the amount of income inequality in a society makes any difference.

Figure 2.1 shows how the size of income differences varies from one developed country to another. At the top are the most equal countries and at the bottom are the most unequal. The length of the horizontal bars shows how much richer the richest 20 per cent of the population is in each country compared to the poorest 20 per cent. Within countries such as Japan and some of the Scandinavian countries at the top of the chart, the richest 20 per cent are less than four times as rich as the poorest 20 per cent. At the bottom of the chart are countries in which these differences are at least twice as big, including two in which the richest 20 per cent get about nine times as much as the poorest. Among the most unequal are Singapore, USA, Portugal and the United Kingdom. (The figures are



*'Miss Smith, buy up the rights to the Bible and get that
part changed about the rich man and the eye of the needle.'*

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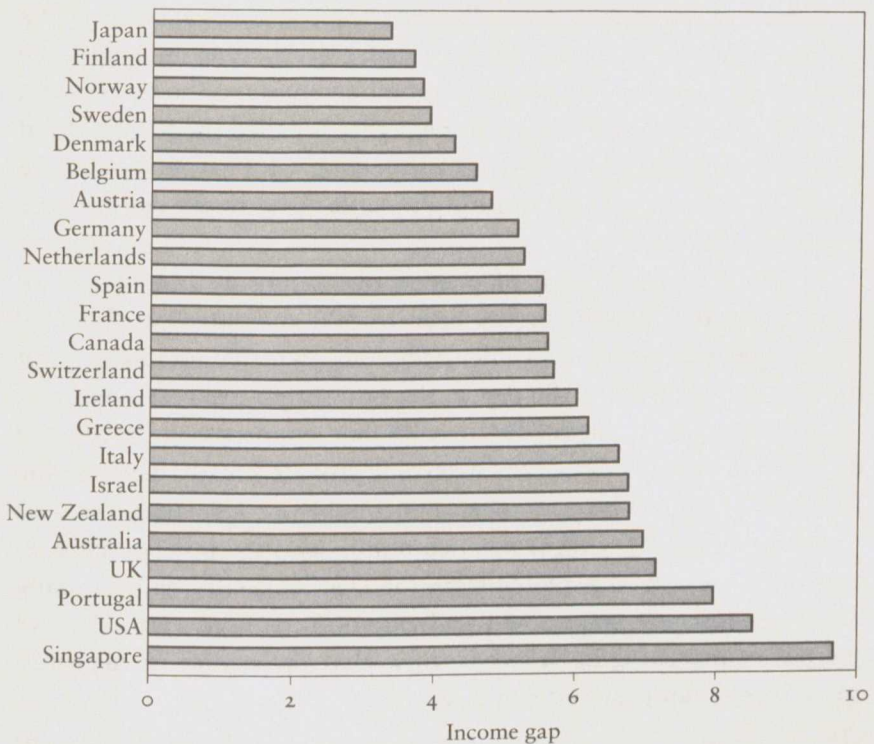


Figure 2.1 *How much richer are the richest 20 per cent than the poorest 20 per cent in each country?*²²

for household income, after taxes and benefits, adjusted for the number of people in each household.)

There are lots of ways of measuring income inequality and they are all so closely related to each other that it doesn't usually make much difference which you use. Instead of the top and bottom 20 per cent, we could compare the top and bottom 10 or 30 per cent. Or we could have looked at the proportion of all incomes which go to the poorer half of the population. Typically, the poorest half of the population get something like 20 or 25 per cent of all incomes and the richest half get the remaining 75 or 80 per cent. Other more sophisticated measures include one called the Gini coefficient. It measures inequality across the whole society rather than simply comparing the extremes. If all income went to one person (maximum inequality) and everyone else got nothing, the Gini coefficient would be equal

to 1. If income was shared equally and everyone got exactly the same (perfect equality), the Gini would equal 0. The lower its value, the more equal a society is. The most common values tend to be between 0.3 and 0.5. Another measure of inequality is called the Robin Hood Index because it tells you what proportion of a society's income would have to be taken from the rich and given to the poor to get complete equality.

To avoid being accused of picking and choosing our measures, our approach in this book has been to take measures provided by official agencies rather than calculating our own. We use the ratio of the income received by the top to the bottom 20 per cent whenever we are comparing inequality in different countries: it is easy to understand and it is one of the measures provided ready-made by the United Nations. When comparing inequality in US states, we use the Gini coefficient: it is the most common measure, it is favoured by economists and it is available from the US Census Bureau. In many academic research papers we and others have used two different inequality measures in order to show that the choice of measures rarely has a significant effect on results.

DOES THE AMOUNT OF INEQUALITY MAKE A DIFFERENCE?

Having got to the end of what economic growth can do for the quality of life and facing the problems of environmental damage, what difference do the inequalities shown in Figure 2.1 make?

It has been known for some years that poor health and violence are more common in more unequal societies. However, in the course of our research we became aware that almost all problems which are more common at the bottom of the social ladder are more common in more unequal societies. It is not just ill-health and violence, but also, as we will show in later chapters, a host of other social problems. Almost all of them contribute to the widespread concern that modern societies are, despite their affluence, social failures.

To see whether these problems were more common in more unequal countries, we collected internationally comparable data on

health and as many social problems as we could find reliable figures for. The list we ended up with included:

- level of trust
- mental illness (including drug and alcohol addiction)
- life expectancy and infant mortality
- obesity
- children's educational performance
- teenage births
- homicides
- imprisonment rates
- social mobility (not available for US states)

Occasionally what appear to be relationships between different things may arise spuriously or by chance. In order to be confident that our findings were sound we also collected data for the same health and social problems – or as near as we could get to the same – for each of the fifty states of the USA. This allowed us to check whether or not problems were consistently related to inequality in these two independent settings. As Lyndon Johnson said, 'America is not merely a nation, but a nation of nations.'

To present the overall picture, we have combined all the health and social problem data for each country, and separately for each US state, to form an Index of Health and Social Problems for each country and US state. Each item in the indexes carries the same weight – so, for example, the score for mental health has as much influence on a society's overall score as the homicide rate or the teenage birth rate. The result is an index showing how common all these health and social problems are in each country and each US state. Things such as life expectancy are reverse scored, so that on every measure higher scores reflect worse outcomes. When looking at the Figures, the higher the score on the Index of Health and Social Problems, the worse things are. (For information on how we selected countries shown in the graphs we present in this book, please see the Appendix.)

We start by showing, in Figure 2.2, that there is a very strong tendency for ill-health and social problems to occur less frequently in

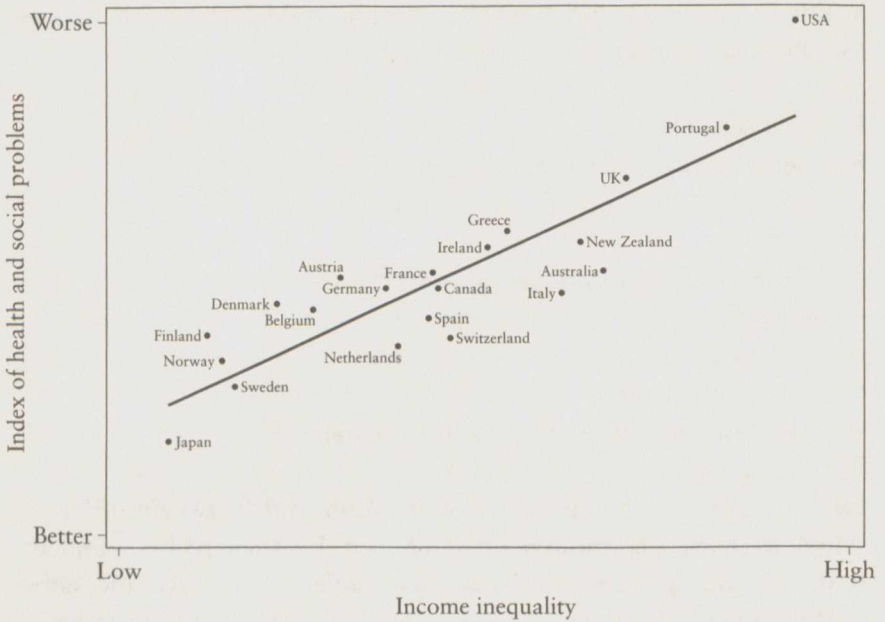


Figure 2.2 *Health and social problems are closely related to inequality among rich countries.*

the more equal countries. With increasing inequality (to the right on the horizontal axis), the higher is the score on our Index of Health and Social Problems. Health and social problems are indeed more common in countries with bigger income inequalities. The two are extraordinarily closely related – chance alone would almost never produce a scatter in which countries lined up like this.

To emphasize that the prevalence of poor health and social problems in whole societies really is related to inequality rather than to average living standards, we show in Figure 2.3 the same index of health and social problems but this time in relation to average incomes (National Income per person). It shows that there is no similarly clear trend towards better outcomes in richer countries. This confirms what we saw in Figures 1.1 and 1.2 in the first chapter. However, as well as knowing that health and social problems are more common among the less well-off within each society (as shown in Figure 1.4), we now know that the overall burden of these problems is much higher in more unequal societies.

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Figure 2.3 *Health and social problems are only weakly related to national average income among rich countries.*

To check whether these results are not just some odd fluke, let us see whether similar patterns also occur when we look at the fifty states of the USA. We were able to find data on almost exactly the same health and social problems for US states as we used in our international index. Figure 2.4 shows that the Index of Health and Social Problems is strongly related to the amount of inequality in each state, while Figure 2.5 shows that there is no clear relation between it and average income levels. The evidence from the USA confirms the international picture. The position of the US in the international graph (Figure 2.2) shows that the high average income level in the US as a whole does nothing to reduce its health and social problems relative to other countries.

We should note that part of the reason why our index combining data for ten different health and social problems is so closely related to inequality is that combining them tends to emphasize what they have in common and downplays what they do not. In Chapters 4–12 we will examine whether each problem – taken on its own – is

THE SPIRIT LEVEL

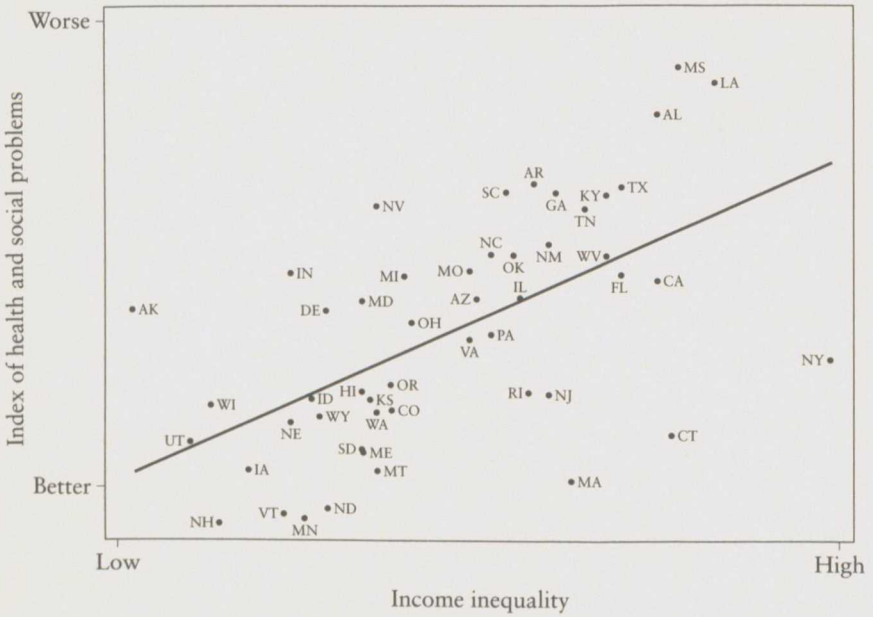


Figure 2.4 *Health and social problems are related to inequality in US states.*

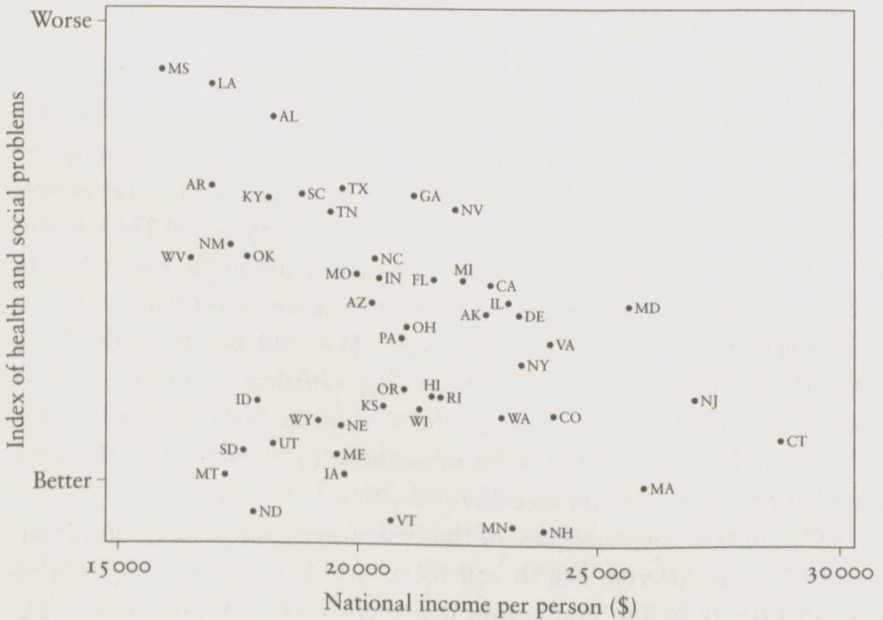


Figure 2.5 *Health and social problems are only weakly related to average income in US states.*

related to inequality and will discuss the various reasons why they might be caused by inequality.

This evidence cannot be dismissed as some statistical trick done with smoke and mirrors. What the close fit shown in Figure 2.2 suggests is that a common element related to the prevalence of all these health and social problems is indeed the amount of inequality in each country. All the data come from the most reputable sources – from the World Bank, the World Health Organization, the United Nations and the Organization for Economic Cooperation and Development (OECD), and others.

Could these relationships be the result of some unrepresentative selection of problems? To answer this we also used the 'Index of child wellbeing in rich countries' compiled by the United Nations Children's Fund (UNICEF). It combines forty different indicators covering many different aspects of child wellbeing. (We removed the measure of child relative poverty from it because it is, by definition, closely related to inequality.) Figure 2.6 shows that child wellbeing is

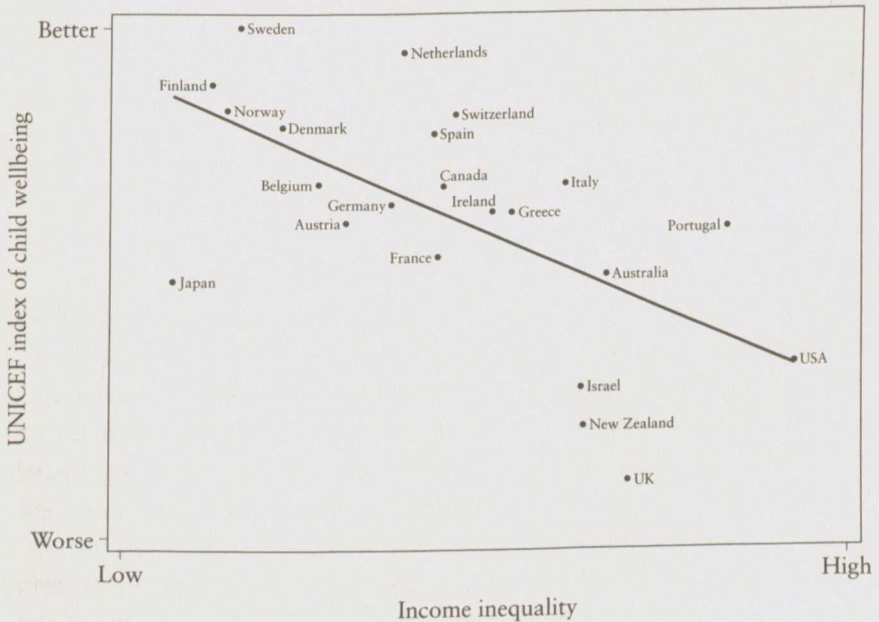


Figure 2.6 *The UNICEF index of child wellbeing in rich countries is related to inequality.*

THE SPIRIT LEVEL

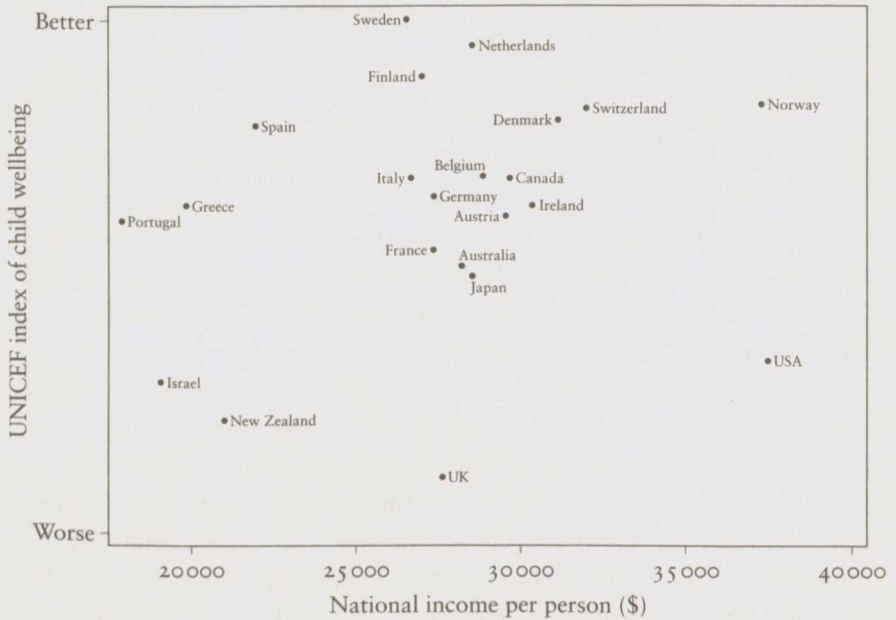


Figure 2.7 *The UNICEF index of child wellbeing is not related to Gross National Income per head in rich countries.*

strongly related to inequality, and Figure 2.7 shows that it is not at all related to average income in each country.

SOCIAL GRADIENTS

As we mentioned at the end of the last chapter, there are perhaps two widespread assumptions as to why people nearer the bottom of society suffer more problems. Either the circumstances people live in cause their problems, or people end up nearer the bottom of society because they are prone to problems which drag them down. The evidence we have seen in this chapter puts these issues in a new light.

Let's first consider the view that society is a great sorting system with people moving up or down the social ladder according to their personal characteristics and vulnerabilities. While things such as having poor health, doing badly at school or having a baby when

still a teenager all load the dice against your chances of getting up the social ladder, sorting alone does nothing to explain why more unequal societies have more of all these problems than less unequal ones. Social mobility may partly explain whether problems congregate at the bottom, but not why more unequal societies have more problems overall.

The view that social problems are caused directly by poor *material* conditions such as bad housing, poor diets, lack of educational opportunities and so on implies that richer developed societies would do better than the others. But this is a long way from the truth: some of the richest countries do worst.

It is remarkable that these measures of health and social problems in the two different settings, and of child wellbeing among rich countries, all tell so much the same story. The problems in rich countries are not caused by the society not being rich enough (or even by being too rich) but by the scale of material differences between people within each society being too big. What matters is where we stand in relation to others in our own society.

Of course a small proportion of the least well-off people even in the richest countries sometimes find themselves without enough money for food. However, surveys of the 12.6 per cent of Americans living below the federal poverty line (an absolute income level rather than a relative standard such as half the average income) show that 80 per cent of them have air-conditioning, almost 75 per cent own at least one car or truck and around 33 per cent have a computer, a dishwasher or a second car. What this means is that when people lack money for essentials such as food, it is usually a reflection of the strength of their desire to live up to the prevailing standards. You may, for instance, feel it more important to maintain appearances by spending on clothes while stinting on food. We knew of a young man who was unemployed and had spent a month's income on a new mobile phone because he said girls ignored people who hadn't got the right stuff. As Adam Smith emphasized, it is important to be able to present oneself creditably in society without the shame and stigma of apparent poverty.

However, just as the gradient in health ran right across society from top to bottom, the pressures of inequality and of wanting to

keep up are not confined to a small minority who are poor. Instead, the effects are – as we shall see – widespread in the population.

DIFFERENT PROBLEMS – COMMON ROOTS

The health and social problems which we have found to be related to inequality tend to be treated by policy makers as if they were quite separate from one another, each needing separate services and remedies. We pay doctors and nurses to treat ill-health, police and prisons to deal with crime, remedial teachers and educational psychologists to tackle educational problems, and social workers, drug rehabilitation units, psychiatric services and health promotion experts to deal with a host of other problems. These services are all expensive, and none of them is more than partially effective. For instance, differences in the quality of medical care have less effect on people's life expectancy than social differences in their risks of getting some life-threatening disease in the first place. And even when the various services are successful in stopping someone re-offending, in curing a cancer, getting someone off drugs or dealing with educational failure, we know that our societies are endlessly recreating these problems in each new generation. Meanwhile, all these problems are most common in the most deprived areas of our society and are many times more common in more unequal societies.

WHAT DOES INCOME INEQUALITY TELL US?

Before proceeding, in the following chapters, to look at how the scale of income differences may be related to other problems, we should say a few words about what we think income differences tell us about a society. Human beings have lived in every kind of society, from the most egalitarian prehistoric hunting and gathering societies, to the most plutocratic dictatorships. Although modern market democracies fall into neither of those extremes, it is

reasonable to assume that there are differences in how hierarchical they are. We believe that this is what income inequality is measuring. Where income differences are bigger, social distances are bigger and social stratification more important.

It would be nice to have lots of different indicators of the scale of hierarchy in different countries – to be able to compare inequalities not only in income, but also in wealth, education and power. It would also be interesting to see how they are related to social distances, to indicators of status like people's choice of clothes, music and films, or to the importance of hierarchy and position. While additional measures which can be compared between countries might become available in the future, at the moment we must rely simply on income inequality. But what is perhaps surprising is how much this measure tells us even on its own.

There are two important reasons for interpreting income inequality in this way. The first pointer is that only the health and social problems which have strong social class gradients – becoming more common further down the social hierarchy – are more common in more unequal societies. This seems to be a general phenomenon: the steeper the social gradient a problem has within society, the more strongly it will be related to inequality.⁸ This not only applies to each problem – to teenage birth rates or to children doing badly at school, for example – it looks as if it also applies to sex differences in the same problem. The reason why women's obesity rates turn out – as we shall see – to be more closely related to inequality than men's, seems to be that the social gradient in obesity is steeper among women than men. Health problems such as breast cancer, which are not usually more common among the less well off, are unrelated to inequality.⁹

The other pointer which suggests that income inequality reflects how hierarchical societies are, became clear when we reviewed nearly 170 academic papers reporting different pieces of research on the relationship between income inequality and health.¹⁰ The size of the areas over which researchers had measured inequality varied substantially. Some had calculated how much inequality there was in local neighbourhoods and looked to see if it was related to average death rates in those neighbourhoods. Others had used whole towns

and cities as the units in which inequality and health were measured. Still others had looked at regions and states, or done international studies comparing whole countries. When we reviewed all this research, a clear pattern emerged. While there was overwhelming evidence that inequality was related to health when both were measured in large areas (regions, states or whole countries), the findings were much more mixed when inequality was measured in small local areas.

This makes perfect sense if we think about why health tends to be worse in more deprived local areas. What marks out the neighbourhoods with poor health – where life expectancy may be as much as ten years shorter than in the healthiest neighbourhoods – is not of course the inequality within them. It is instead that they are unequal – or deprived – in relation to the rest of society. What matters is the extent of inequality right across society.

We concluded that, rather than telling us about some previously unknown influence on health (or social problems), the scale of income differences in a society was telling us about the social hierarchy across which gradients in so many social outcomes occur. Because gradients in health and social problems reflect social status differences in culture and behaviour, it looks as if material inequality is probably central to those differences.

We should perhaps regard the scale of material inequalities in a society as providing the skeleton, or framework, round which class and cultural differences are formed. Over time, crude differences in wealth gradually become overlaid by differences in clothing, aesthetic taste, education, sense of self and all the other markers of class identity. Think, for instance, of how the comparatively recent emergence of huge income differences in Russia will come to affect its class structure. When the children of the new Russian oligarchs have grown up in grand houses, attended private schools and travelled the world, they will have developed all the cultural trappings of an upper class. A British Conservative politician was famously described by another as someone who ‘had to buy his own furniture’. Although there has always been prejudice against the nouveau riche, wealth does not remain new for ever: once the furniture is inherited it becomes old money. Even as far back as the eighteenth century, when

people thought that birth and breeding were what defined the upper echelons of society, if you lost your fortune you might maintain status briefly as 'genteel poor', but after a generation or so there would be little to distinguish you from the rest of the poor. Moreover, as Jane Austen shows in both *Mansfield Park* and *Sense and Sensibility*, the consequences – whatever your birth – of marrying for love rather than money could be serious. Whether material wealth is made or lost, you cannot long remain 'a person of substance' without it. And it is surely because material differences provide the framework round which social distinctions develop that people have often regarded inequality as socially divisive.

QUALITY OF LIFE FOR ALL AND NATIONAL STANDARDS OF PERFORMANCE

Having come to the end of what higher material living standards can offer us, we are the first generation to have to find other ways of improving the real quality of life. The evidence shows that reducing inequality is the best way of improving the quality of the social environment, and so the real quality of life, for all of us. As we shall see in Chapter 13, this includes the better-off.

It is clear that greater equality, as well as improving the wellbeing of the whole population, is also the key to national standards of achievement and how countries perform in lots of different fields. When health inequalities first came to prominence on the public health agenda in the early 1980s, people would sometimes ask why there was so much fuss about inequalities. They argued that the task of people working in public health was to raise overall standards of health as fast as possible. In relation to that, it was suggested that health inequalities were a side issue of little relevance. We can now see that the situation may be almost the opposite of that. National standards of health, and of other important outcomes which we shall discuss in later chapters, are substantially determined by the amount of inequality in a society. If you want to know why one country does better or worse than another, the first thing to look

at is the extent of inequality. There is not one policy for reducing inequality in health or the educational performance of school children, and another for raising national standards of performance. Reducing inequality is the best way of doing both. And if, for instance, a country wants higher average levels of educational achievement among its school children, it must address the underlying inequality which creates a steeper social gradient in educational achievement.

DEVELOPING COUNTRIES

Before leaving this topic, we should emphasize that although inequality also matters in developing countries, it may do so for a different mix of reasons. In the rich countries, it is now the symbolic importance of wealth and possessions that matters. What purchases say about status and identity is often more important than the goods themselves. Put crudely, second-rate goods are assumed to reflect second-rate people.

Possessions are markers of status everywhere, but in poorer societies, where necessities are a much larger part of consumption, the reasons why more equal societies do better may have less to do with status issues and more to do with fewer people being denied access to food, clean water and shelter. It is only among the very richest countries that health and wellbeing are no longer related to Gross National Income per person. In poorer countries it is still essential to raise living standards and it is most important among the poorest. In those societies a more equal distribution of resources will mean fewer people will be living in shanty towns, with dirty water and food insecurity, or trying to scrape a living from inadequate land-holdings.

In the next chapter we will look in a little more detail at why people in the developed world are so sensitive to inequality that it can exert such a major effect on the psychological and social wellbeing of modern populations.